Confidence remains undented

In a sign that consumer sentiment has remained resilient following the Brexit vote, the latest Deloitte Consumer Tracker shows that despite a drop of one percentage point in overall consumer confidence in Q4 2016 compared to Q3, consumer confidence is now higher than it was in Q4 2015.

Five out of the six measures which make up the confidence index rose in the last year. So far Brexit has not dented consumers’ confidence about the outlook for jobs with sentiment about job opportunities and career progression improving and views on job security unchanged.

Confidence among 18- to 34-year olds is at its highest since the Tracker began six years ago and is in positive territory. This recovery has been driven by growing confidence about disposable income and debt, and their sentiment regarding job security, job opportunities and career progression.

Consumers have not reined in their spending either, with both essential and discretionary spending growing in Q4 2016. Net spending on essentials rose significantly (7 percentage points) while net spending on discretionary categories rose by two percentage points compared to Q3 2016.

The growth in spending on essentials was driven mainly by increased spending on groceries and utilities. With the grocery sector still experiencing deflation this might indicate genuine volume growth in grocery retail. Indeed, the supermarkets had a good Christmas as a result. Not only did the overall retail sector have a bumper fourth quarter, the leisure sector also continued its upward trend with restaurant and hotel net spending growth entering positive territory for the first time since the Tracker began.

However, these upbeat results might not continue in 2017. Consumer confidence in disposable income fell marginally this quarter compared to Q3 2016 (-12 to -14) and is three percentage points lower than it was in Q4 2015. This could mark the beginning of a squeeze on consumers’ ability to spend. Moreover higher inflation, driven by a weaker pound, is likely to put pressure on consumer spending growth.

The latest Deloitte Survey of UK Chief Financial Officers shows that in the wake of the Brexit vote corporate perceptions of uncertainty remain high and risk appetite is depressed. CFOs enter 2017 with a focus on defensive strategies including cost reduction and building up cash as a matter of priority. With the start of the formal Brexit process by the end of March and higher inflation expected to impact purchasing power, UK consumers will face headwinds in 2017. The question remains how much this will weigh on their confidence and their spending.

Key indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Previous</th>
<th>Latest</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall consumer confidence (q/q)*</td>
<td>-5%</td>
<td>-6%</td>
</tr>
<tr>
<td>Confidence in level of job security (q/q)*</td>
<td>-4%</td>
<td>-4%</td>
</tr>
<tr>
<td>Essentials spending (q/q)*</td>
<td>-2%</td>
<td>0%</td>
</tr>
<tr>
<td>Discretionary spending (q/q)*</td>
<td>-1.1%</td>
<td>+7.1%</td>
</tr>
<tr>
<td>ONS retail sales value growth Dec-16 (y/y)</td>
<td>+0.2%</td>
<td>+1.6%</td>
</tr>
</tbody>
</table>

* Net balances

Authors

Ben Perkins  
Head of Research  
Consumer & Industrial Products  
020 7307 2207  
beperkins@deloitte.co.uk

Céline Fenech  
Research Manager  
Consumer & Industrial Products  
020 7303 2064  
cfenech@deloitte.co.uk

Rebecca Thomson  
Research Manager  
Consumer & Industrial Products  
020 7007 0891  
rebthomson@deloitte.co.uk
The latest Deloitte Consumer Tracker shows that, despite a drop of one percentage point in overall consumer confidence in Q4 2016 compared to Q3 2016, consumer confidence – at minus six percentage points – is now higher than it was in Q4 2015.

Five out of the six measures which make up the confidence index rose in the last year.

So far Brexit has not dented consumers’ confidence about their outlook for jobs. Sentiment about job opportunities and career progression have improved and views on job security are unchanged.
Consumer confidence
Confidence among 18- to 34-year olds’ is at its highest since the Tracker began

Confidence among the 18- to 34-year old group is at its highest since the Tracker began and is in positive territory.

This recovery has been driven by their growing confidence about disposable income and debt.

Another contributing factor is that 18- to 34-year olds’ sentiment about job security, job opportunities and career progression has improved for two consecutive quarters.

Chart 4. Consumer confidence by age group
Net % of UK consumers who said their level of confidence has improved over the past three months

Chart 5. 18- to 34-year olds’ confidence in level of debt and household disposable income
Net % of UK consumers who said their level of confidence has improved over the past three months

Chart 6. 18- to 34-year olds’ confidence in job security, job opportunities and career progression
Net % of UK consumers who said their level of confidence has improved over the past three months
Consumer spending
Both essential and discretionary spending were up in Q4 2016

Consumers have not reined in their spending either, with both essential and discretionary spending growing in Q4 2016. Net spending on essentials rose significantly (7 percentage points) while net spending on discretionary categories rose by two percentage points compared to Q3 2016.

GfK measures of major purchases rose by 7 points in December, suggesting households’ appetite for large purchases was still high. Perhaps this is a sign of consumers wanting to take advantage of the large discounts available in the run up to Christmas and of their anticipation of higher retail prices in 2017.

Two out of the three measures making up leisure spending continued their upward trends this quarter. With consumers going out to celebrate in Q4 2016, restaurant and hotel net spending growth entered positive territory for the first time since the Tracker began in 2011.
Consumer spending
Strong consumer spending in the grocery sector

Spending rose in most of the discretionary categories. There was also significant spending growth in grocery and utilities.

The growth in spending on essentials was driven mainly by increased spending on groceries and utilities. With the grocery sector still experiencing deflation, albeit at a slower rate, this could indicate genuine volume growth in grocery retail. Indeed, the supermarkets had a good Christmas.

Overall the retail sector ended the year on a positive note with many retailers having a bumper fourth quarter.
There are growing signs that the weak pound is starting to push up prices. With real wage growth expected to slow next year consumers might find it more difficult to keep up with living costs.

Unsecured consumer credit, which includes credit cards, car loans and second mortgages, grew by 10.8 per cent in the year to November, its fastest rate in more than 11 years.

The unemployment rate has continued to decline and stood at 4.8 per cent in the three months to October 2016, putting it at an 11-year low. However, the Bank of England forecasts that unemployment will rise gradually to about 5.4 per cent this year as a result of slower growth after the Brexit vote.
**Outlook**

Upbeat results might not continue in 2017

Consumers in our survey expect to spend more on essentials in the next three months but less on discretionary goods.

Consumer confidence in disposable income fell marginally this quarter compared to Q3 2016 (-12 to -14) and is three percentage points lower than it was in Q4 2015. This could mark the beginning of a squeeze on consumers’ ability to spend.

With the start of the formal Brexit process in March and higher inflation expected to impact purchasing power, UK consumers will face headwinds in 2017. The question remains how much this will weigh on their confidence and their spending.
About this research
The Deloitte Consumer Tracker is based on a consumer survey carried out by independent market research agency, YouGov, on our behalf. This survey was conducted online with a nationally representative sample of over 3,000 UK adults aged 18+ between 31 December 2016 and 2 January 2017.

A note on the methodology
Some of the figures in this research show the results in the form of a net balance. This means that in a survey of 100 respondents, assume that 30 reported they are spending more, 50 reported no change and 20 reported they are spending less. The net balance is calculated by subtracting the number that reported they spent less from the number that reported they spent more, i.e. 30 – 20 = 10. This means 10% of consumers reported that they spent more rather than less.

Contacts

Nigel Wixcey
Industry Leader, Consumer & Industrial Products
020 7303 5007
nigelwixcey@deloitte.co.uk

Ian Geddes
Lead Partner, UK Retail
020 7303 6519
igeddes@deloitte.co.uk

Graham Pickett
Lead Partner, UK Travel, Hospitality and Leisure
01293 761232
gcpickett@deloitte.co.uk

Deloitte.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte LLP is the United Kingdom member firm of DTTL.

This publication has been written in general terms and therefore cannot be relied on to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from acting on any of the contents of this publication. Deloitte LLP would be pleased to advise readers on how to apply the principles set out in this publication to their specific circumstances. Deloitte LLP accepts no duty of care or liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

© 2017 Deloitte LLP. All rights reserved.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 38Z, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London, J10515