

## The Deloitte Consumer Tracker

### Discretionary spending hits three-year high

The latest Deloitte Consumer Tracker shows that an improving labour market and falling inflation are having a pronounced effect on consumer spending behaviours.

In Q4 2014 fewer people suffered a reduction or a loss of income and more people said they had received a pay rise than a year ago. These factors, coupled with low inflation, are underpinning consumers' confidence in their level of disposable income, which remained stable for the third consecutive quarter.

With the Consumer Price Index continuing to fall, reaching its lowest in 14 years in December, disinflation is providing a strong boost to consumers' finances. The Tracker shows that falling prices for essentials, including food, energy and petrol, are freeing more disposable income for discretionary and big ticket purchases.

Categories benefiting from the increase in discretionary spending, and which have registered the strongest increase in net spending this quarter, include hotels and restaurants, major household appliances and consumer technology. Net spending on utilities and groceries is growing more slowly than consumer spending overall, reflecting falling fuel prices at the pump and intense price competition in the grocery sector.

Overall consumer confidence in the fourth quarter was three points higher than a year ago. The long-term upward trend continued with a net improvement in confidence in 2014 compared to 2013.

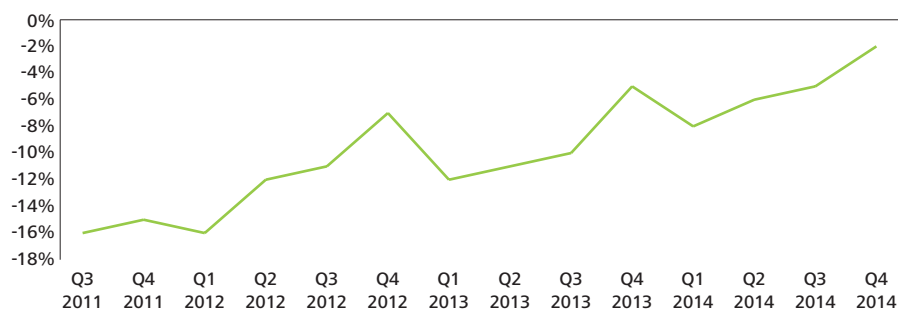
While the long-term trend in confidence is up, short-term uncertainties have mounted. In Q4 2014, confidence fell three points when compared with the previous quarter. This dip reflected weaker sentiment about health and wellbeing, and job security.

The impact of external factors depressing confidence is echoed in Deloitte's latest survey of chief financial officers. While CFOs expect 2015 to be a good year for their own businesses, they are concerned about external factors such as the UK General Election and economic uncertainty overseas.

Looking ahead there is likely to be more good news for consumers, as real wages are expected to continue to recover. Deloitte's survey of CFOs shows that they anticipate employee earnings in their businesses to rise significantly faster than inflation this year.

A recovery in disposable incomes in 2015 seems likely to shift consumers to more expansionary spending behaviours and to drive growth in more discretionary categories.

**Chart 1. Spending in discretionary categories over the past three months**  
Net % of UK consumers spending more by category



### Key indicators

<i>Previous</i>		<i>Latest</i>
-5%	▼	-8%
Overall consumer confidence (q/q)*		
-18%		-18%
Confidence in level of disposable income (q/q)*		
+15%		+9%
Spending on essentials (y/y)*		
-5%		-2%
Discretionary spending (y/y)*		
+4.8%		+2.5%
ONS retail sales value growth (exc. fuel) Dec-14 (y/y)		
+2%		+0.5%
CPI inflation Dec-14 (y/y)		
* Net balances		

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# Consumer confidence

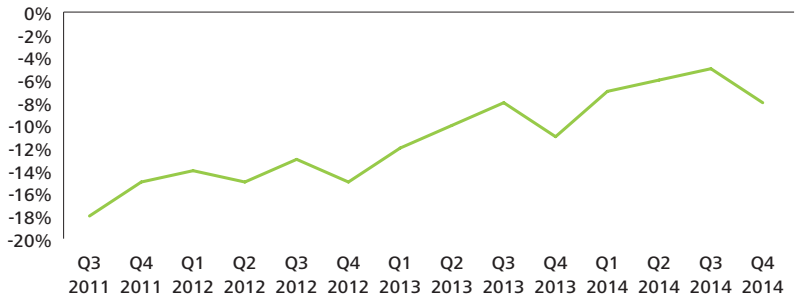
## Long-term upward trend despite a dip in Q4

Overall consumer confidence in the fourth quarter is three points higher than it was in the same period a year ago.

However, while the long-term trend in confidence is up, short-term uncertainties have mounted. In Q4 2014, confidence fell three points when compared with the previous quarter.

**Chart 2. Overall consumer confidence**

Net % of UK consumers who said that their level of confidence has improved over the past three months

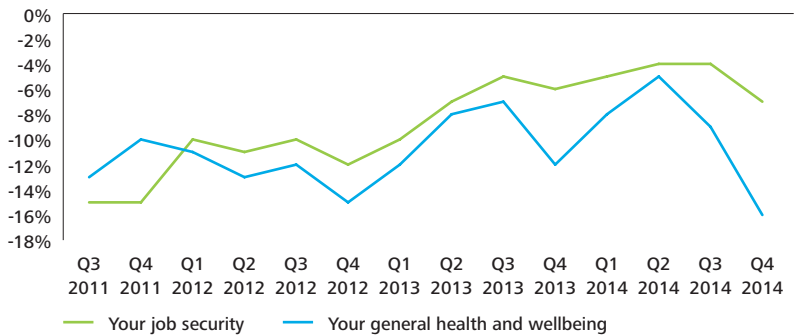


Note: This measure is an average of the six measures of consumer confidence tracked by the Deloitte Consumer Tracker

The dip in confidence in the fourth quarter of 2014 reflects weaker sentiment regarding health and wellbeing, and job security.

**Chart 3. Consumer sentiment about household disposable income**

Net % of consumers who said that their level of confidence has improved over the past three months

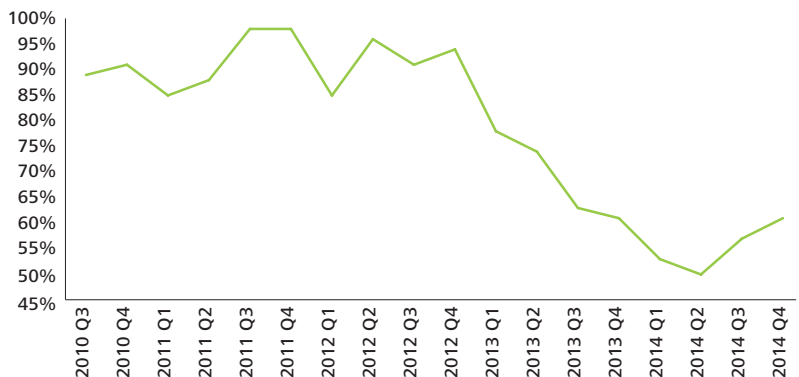


The impact of external factors depressing confidence is echoed in Deloitte's latest survey of chief financial officers.

CFO perceptions of economic and financial uncertainty rose for the second quarter in a row in the fourth quarter of 2014.

**Chart 4. CFO perceptions of economic and financial uncertainty**

% of CFOs who rate the level of external financial and economic uncertainty facing their business as above normal, high or very high



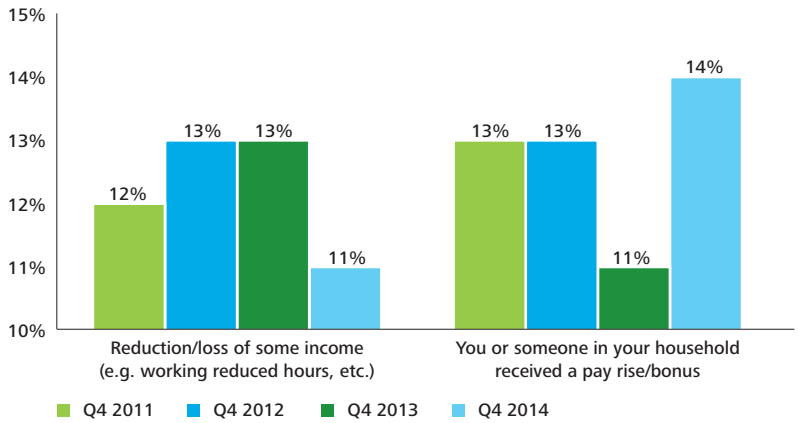
Source: Deloitte CFO Survey Q4 2014

# Consumer confidence

## Consumers more positive on income growth

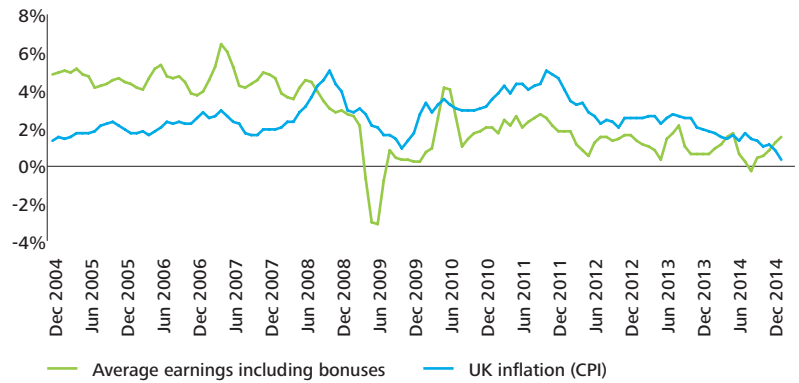
In Q4 2014 fewer people suffered a reduction or a loss of income, and more people said they had received a pay rise or a bonus than a year ago.

**Chart 5. Changes in personal household circumstances over the past three months**  
% of UK consumers



UK inflation has fallen to its lowest level in more than a decade, delivering a boost to consumers' spending power as they recover from a long period of falling real wages.

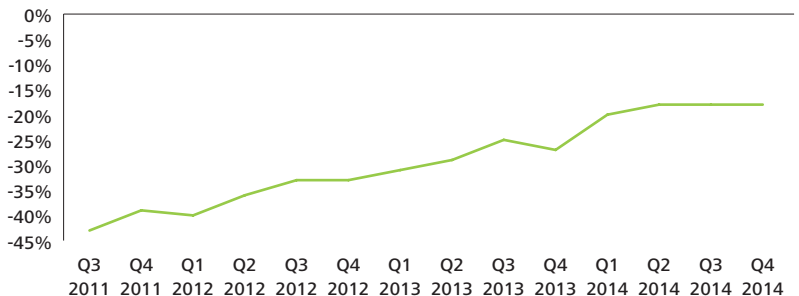
**Chart 6. Average earnings growth and UK national inflation**



Source: Office for National Statistics (ONS)

These factors, coupled with low inflation, are underpinning consumers' confidence in their level of disposable income, which remained stable for the third consecutive quarter.

**Chart 7. Consumer sentiment about household disposable income**  
Net % of consumers who said that their level of confidence has improved over the past three months

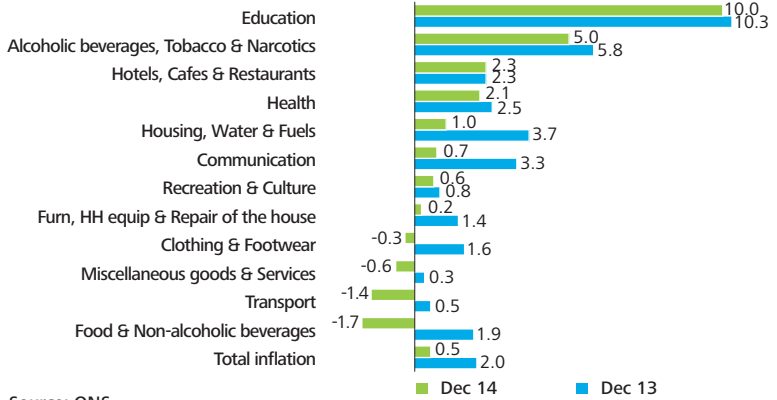


# Consumer spending

## Discretionary spending hits a three-year high

Combined with cheaper energy bills this winter and falling food prices, lower oil prices ensured that inflation eased to just 0.5% in December.

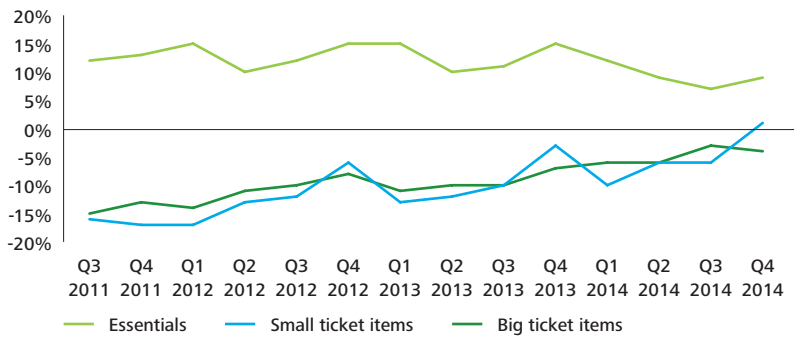
**Chart 8. Inflation (CPI)**  
% change year-on-year



Source: ONS

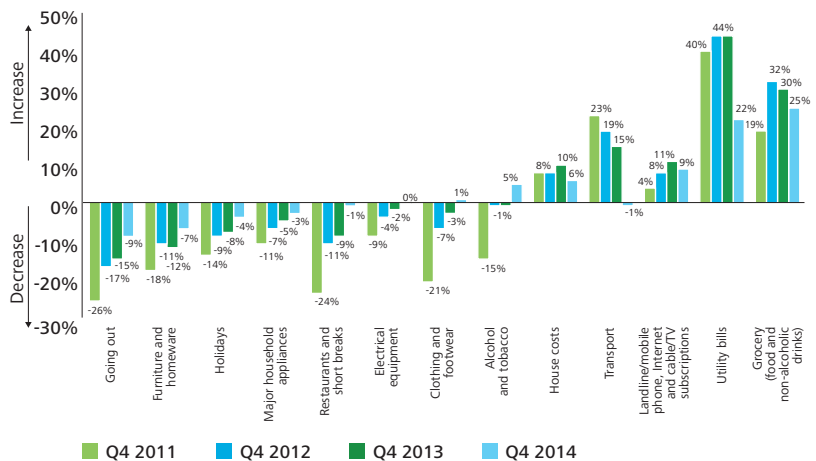
The Tracker shows that falling prices for essentials, including food, energy and petrol, are freeing more disposable income for discretionary and big ticket purchases.

**Chart 9. Category spending in the past three months**  
Net % of UK consumers spending more by category



Spending on essentials is down six points in Q4 2014 while average discretionary spending is up three points compared to the same period a year ago.

**Chart 10. Category spending in the past three months**  
Net % of UK consumers spending more by category



Categories benefiting from the increase in discretionary spending, and which have registered the strongest increase in net spending this quarter, include hotels and restaurants, major household appliances and consumer technology.

Net spending on utilities and groceries is growing more slowly than consumer spending overall, reflecting falling fuel prices at the pump and intense price competition in the grocery sector.

# Consumer spending

## Falling fuel and food prices provide a boost

The price of a barrel of Brent crude oil fell almost 40% in the three months to end-December, providing a boost to consumers' finances.

With households spending around 5% of their annual incomes on petrol, the fall in petrol prices is increasing the amount which they have left to spend on other items by nearly 1%.

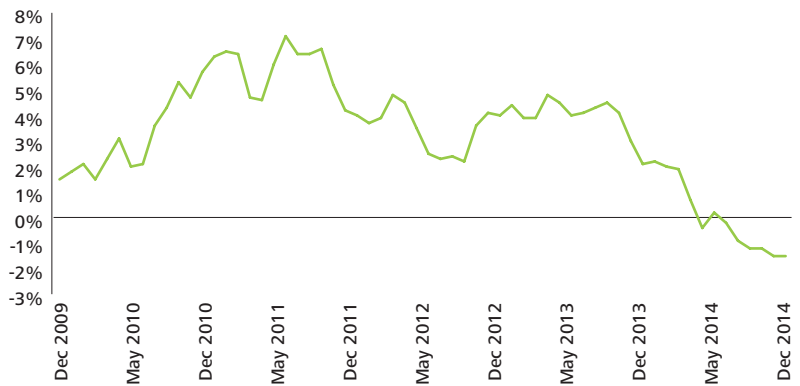
**Chart 11. Prices for Brent Crude in price per barrel**  
Monthly % change



Source: Thomson Reuters Datastream

Falling commodity prices and intensifying competition in the grocery retail sector continue to contribute to food price deflation. Prices for food and non-alcoholic beverages fell by 1.7% in December, the sixth consecutive month.

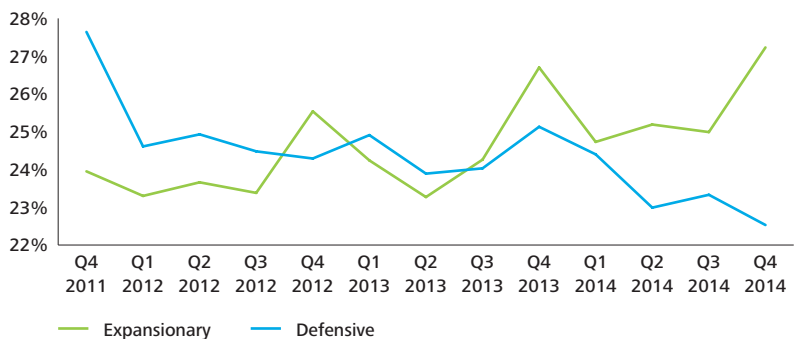
**Chart 12. Inflation (CPI) for food and non-alcoholic beverages**  
% change year-on-year



Source: ONS

As pressures on their finances ease consumers are shifting away from defensive behaviours in favour of expansionary ones.

**Chart 13. Expansionary and defensive behaviours**  
% UK consumers spending more or less



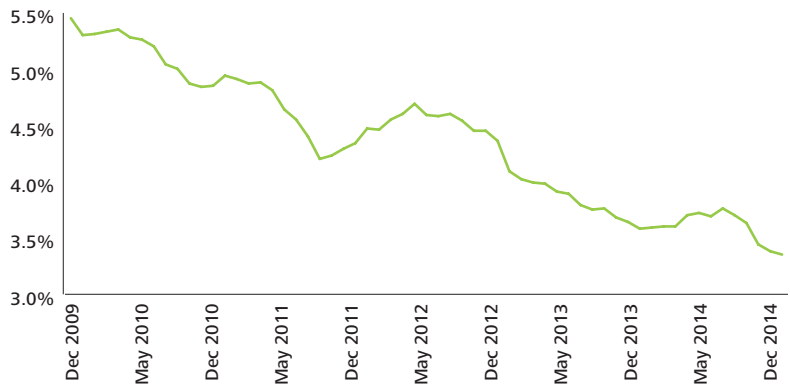
# Consumer spending

## Cheaper access to credit

Record low mortgage rates have also supported the revival of consumers' spending power.

Moreover, low inflation will allow the Bank of England to wait before raising interest rates.

**Chart 14. UK mortgage rates**  
Average of fixed and tracker rates

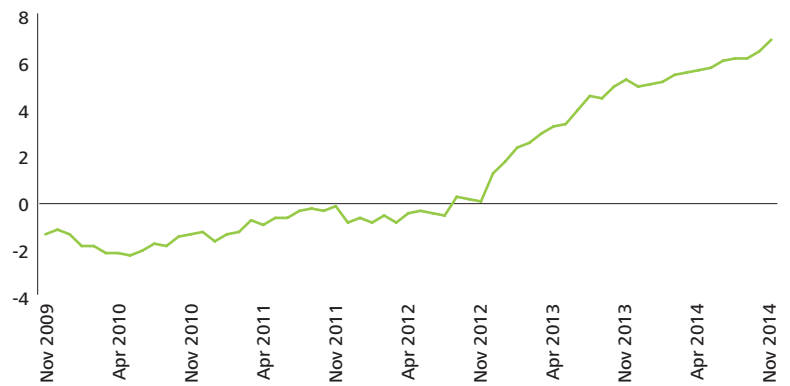


Source: Thomson Reuters Datastream

Stronger consumer confidence in their level of disposable income and low interest rates also mean consumers are more likely to borrow.

Credit growth accelerated to 6.9% in the 12 months to November, the fastest pace in eight years.

**Chart 15. Consumer credit**  
Net unsecured lending to individuals (% change year-on-year)

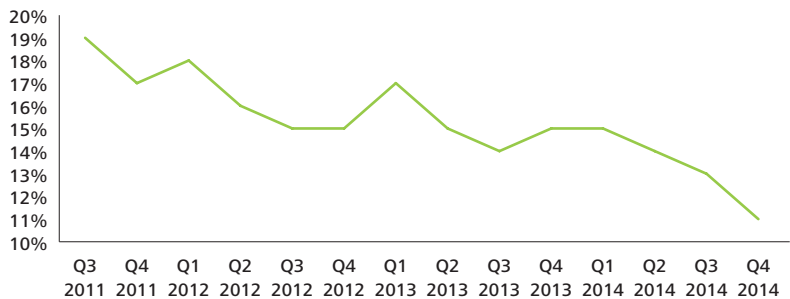


Source: Thomson Reuters Datastream

However, there continues to be a marked change in behaviour as the economy recovers.

Fewer consumers are reducing the amount of money they are paying into savings accounts than at any time since the Tracker began in Q3 2011.

**Chart 16. UK consumers attitude to savings**  
% of UK consumers reducing paying money into a savings account



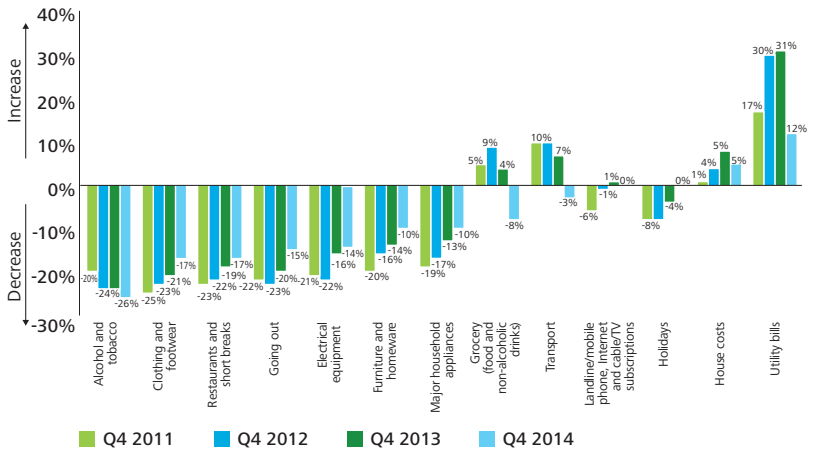
# Outlook

## Is this the end of the real earnings squeeze?

In Q1 2015 consumers plan to spend more on discretionary categories than a year ago.

Consumers also expect to spend significantly less on essentials such as grocery, transport and utility bills than a year ago.

**Chart 17. Category spending over the next three months**  
Net % of UK consumers spending more by category

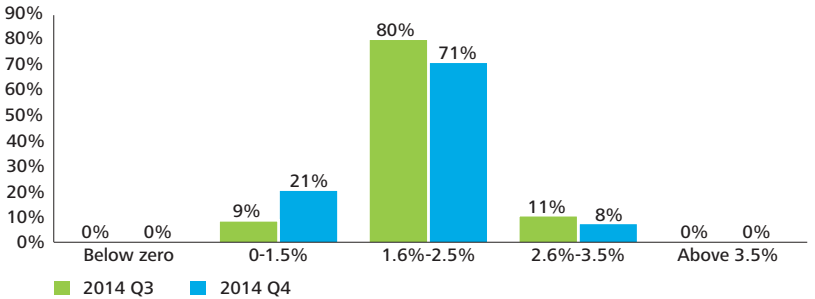


UK corporates expect inflation to remain below the Bank of England's 2% target this year.

With economists forecasting inflation to run at the 1.3% mark this year, real earnings look set to register the first annual increase in eight years.

**Chart 18. Inflation expectations**

% of CFOs who expect consumer price inflation in the UK to lie between the following ranges in two years' time



Source: Deloitte CFO Survey Q4 2014

The UK is also seeing a continued rebalancing of growth from consumption towards business investment. More good news for consumers comes from CFOs who expect wages in their businesses to rise by 2.9%, on average, in 2015.

A recovery in disposable incomes in 2015 seems likely to shift consumers to more expansionary spending behaviours and to drive growth in more discretionary categories.

**Chart 19. Business investment**

Business investment as a percentage of UK GDP



Source: Thomson Reuters Datastream

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For current and past copies of the Deloitte Consumer Tracker please visit: [www.deloitte.co.uk/consumertracker](http://www.deloitte.co.uk/consumertracker)

**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 2 and 4 January 2015.

**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 per cent of consumers reported that they spent more rather than less.

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