

## The Deloitte Consumer Tracker Consumers end 2015 in buoyant mood

Deloitte's latest Consumer Tracker shows that consumers ended 2015 in a buoyant mood, with consumer confidence rising again to produce the strongest fourth quarter reading since the Tracker began.

Consumer confidence rose by one percentage point year-on-year in Q4 2015, with improvements seen in three of the six key components in the index compared to the same time last year. One component – level of debt – stayed flat, while two declined.

Consumers reported feeling more confident about their job security, job opportunities and career progression, and household disposable income. The biggest improvement has been in confidence in household disposable income, which is the highest it has ever been.

Confidence edged lower in the fourth quarter. The main driver of this decline was a six percentage point fall in consumers' general sense of health and wellbeing. Our data shows that this is an established seasonal effect that can be explained by consumers feeling less positive about their health following a period of excess in the run up to Christmas.

Consumers are spending less on essential items than they did last year, thanks, in part, to continued low inflation in key categories such as groceries and transport.

While lower commodity and consumer prices have put downward pressure on sales of grocery products, the supermarket sector had a better Christmas than many had expected. The big four grocers reported better results over the period than predicted as non-food categories performed particularly well.

While consumer confidence remains robust, retailers faced a difficult set of conditions over Christmas which was reflected in a mixed performance over the festive period. Spending rose in categories such as food and electrical appliances, but other categories suffered due to warm weather and heavy discounting, especially in clothing and footwear where sales fell by 5.3% as winter fashion lines proved hard to shift. Overall retail sales in December were down. Consumers were slow to get going over the rain-soaked Christmas period, and the poor weather helps to explain the strong performance of online as shoppers chose to stay at home and buy online instead of hitting the high street.

The leisure sector performed well with the wet weather in November and December having little effect on consumers appetite for eating and going out.

Overall, consumers are becoming less defensive. Cost-conscious, defensive spending behaviour is at the lowest level since the Tracker began. In particular, the Tracker shows consumers placing less emphasis on saving money by buying fewer items. This has coincided with a shift to more confident, expansionary behaviours, with consumers more willing to increase their volume of purchases.

The outlook for consumer activity in 2016 is positive with low inflation, low interest rates, rising wages and declining unemployment supporting consumer spending power. However, the consumer will have to navigate some significant uncertainties – not least the possibility of a referendum on EU membership taking place as early as June – that could rock the boat.

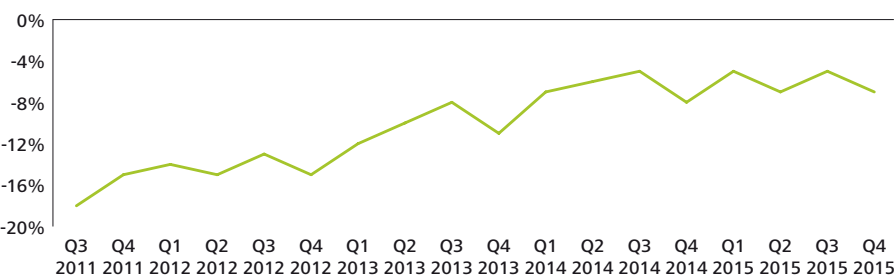
### Key Indicators

Overall consumer confidence (q/q)*	
Previous -5%	Latest -7%
Confidence in level of disposable income (q/q)*	
Previous -13%	Latest -11%
Essentials spending (y/y)*	
Previous +9%	Latest +5%
Discretionary spending (y/y)*	
Previous -2%	Latest 0%
ONS retail sales value growth Dec-15 (y/y)	
Previous +2.2%	Latest -0.3%
CPI inflation Dec-15 (y/y)	
Previous +0.5%	Latest +0.2%

\* Net balances

**Chart 1. Deloitte Consumer Confidence**

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



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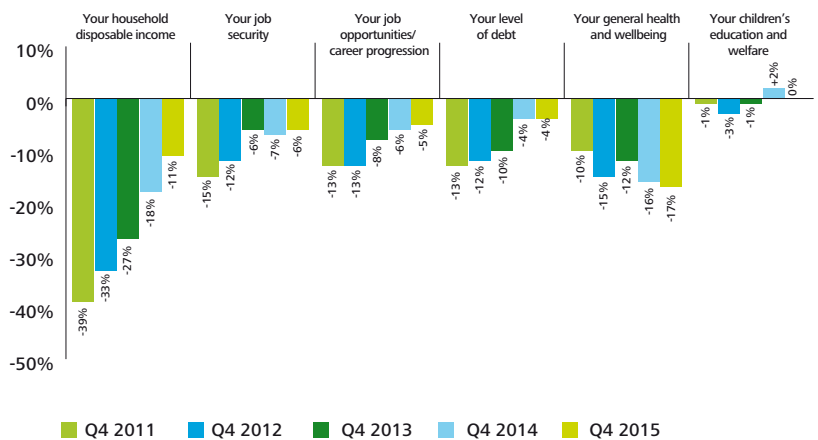
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# Consumer confidence

## Strongest January on record for consumer confidence

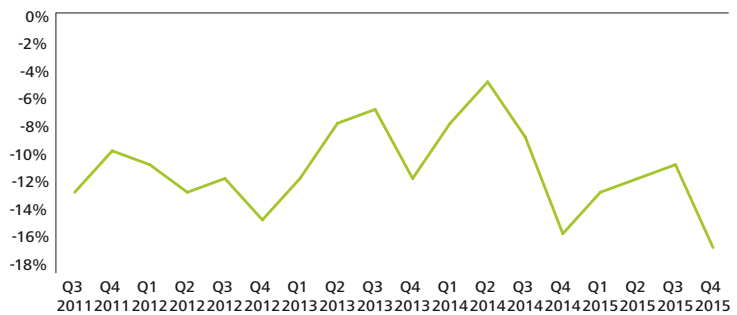
Three of the six key measures for the index rose compared to the same time last year. Consumers reported feeling more confident about their job security, job opportunities and career progression, and household disposable income.

**Chart 2. UK consumer sentiment about personal situation**  
Net % of consumers who said their level of confidence had improved in the past three months



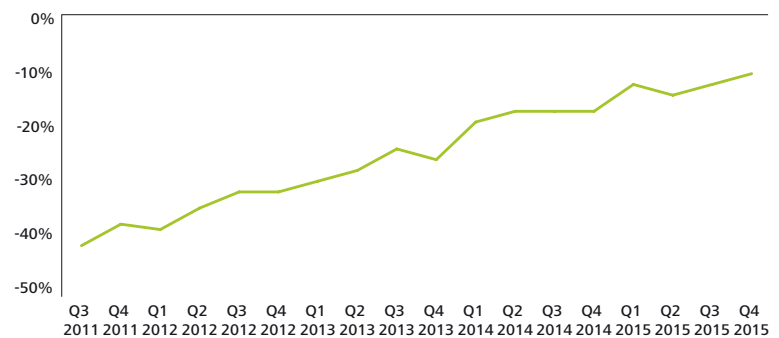
Quarter-on-quarter the index has fallen, with confidence dropping two points compared to Q3 2015. This was largely driven by a six percentage point fall in consumers' general sense of health and wellbeing, and represents a seasonal dip in line with previous years' data as consumers adjust to post-Christmas levels of consumption and the January blues.

**Chart 3. Consumer sentiment about general health and wellbeing**  
Net % of consumers who said their wellbeing has improved over the past three months



The biggest improvement has been in confidence in household disposable income, which is the highest it has ever been. The measure has climbed 7 points compared to a year ago and is now at -11.

**Chart 4. Consumer sentiment about household disposable income**  
Net % of UK consumers who said their level of confidence has improved over the past three months

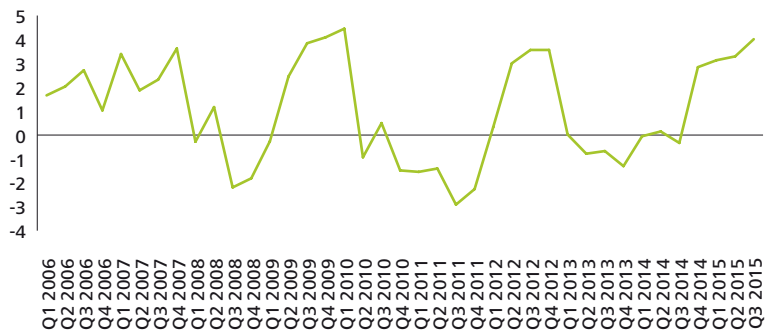


# Consumer confidence

## Disposable income rises as unemployment falls

Household disposable income has risen in the last year. This means consumers have more cash available for discretionary spending.

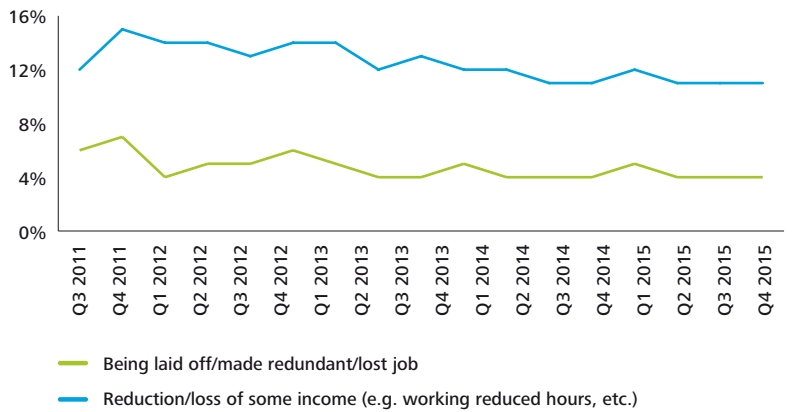
**Chart 5. Household disposable income**  
% change y-on-y UK household disposable income



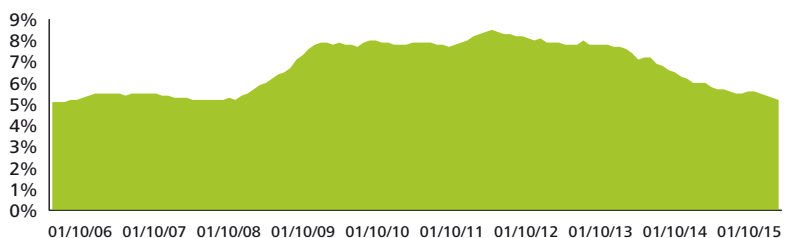
Source: Office for National Statistics (ONS)

The proportion of consumers reporting redundancies and reduction or loss of income in their household has remained flat compared to a year ago.

**Chart 6. Changes in household circumstances**  
People who said they had been laid off, experienced loss in income, or started a new job



**Chart 7. Unemployment rate**  
UK LFS: Unemployment rate, all aged 16 and over, seasonally adjusted



Falling unemployment has helped boost consumer confidence by improving job security and job opportunities.

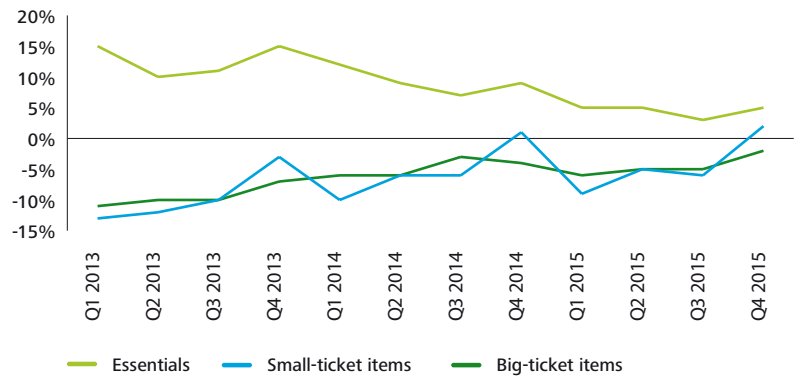
Source: ONS

# Consumer spending

## Spending power continues to rise

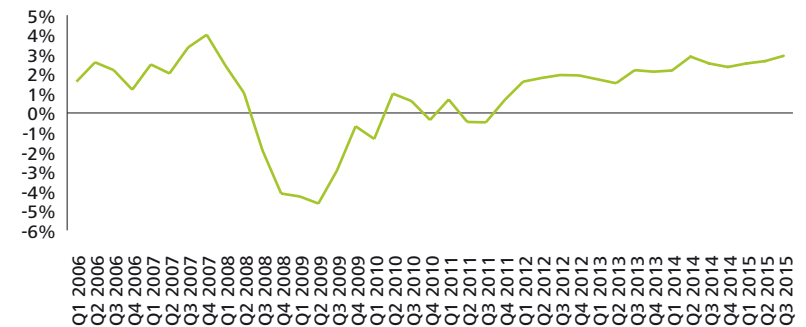
The falling costs of essential items have enabled consumers to spend more on discretionary, big ticket items.

**Chart 8. Category spending over the past three months**  
Net % UK consumers spending more by category



Overall, consumer expenditure has risen as low inflation and low interest rates continue to help boost consumer spending power.

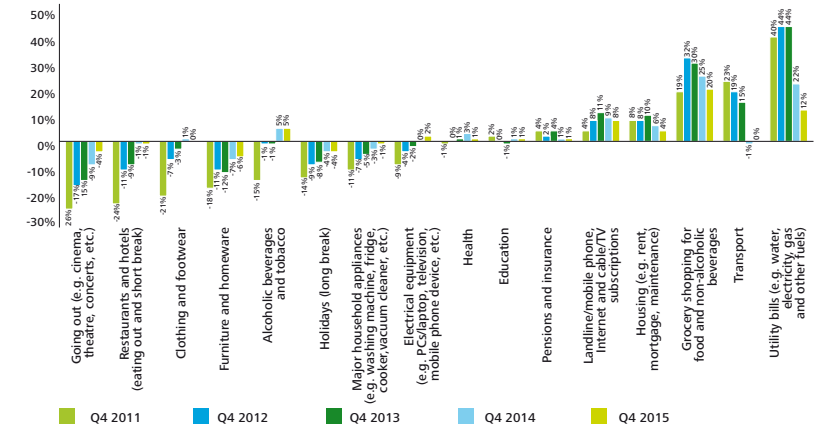
**Chart 9. Consumer expenditure, constant prices, seasonally adjusted**  
% change year-on-year



Source: ONS

Spending on discretionary categories such as furniture and homewares, going out and electrical appliances continue to improve year-on-year, but spending in categories such as holidays, eating out and short breaks are stagnating at a similar level to this time last year.

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

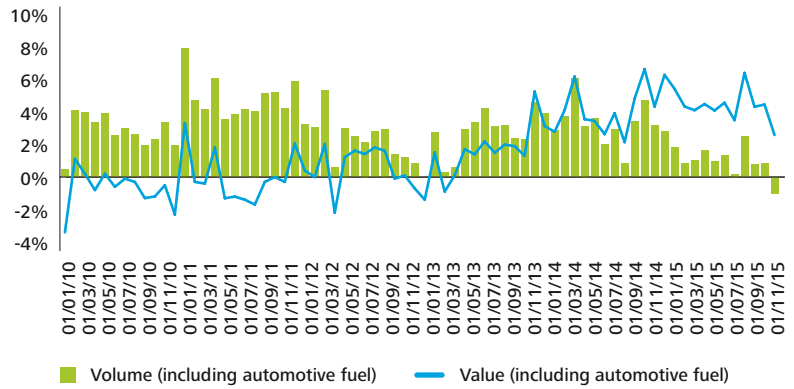


# Consumer spending

## Retail sales record a surprise drop in December

Retail sales declined in December 2015 as an unprecedented level of discounting took its toll.

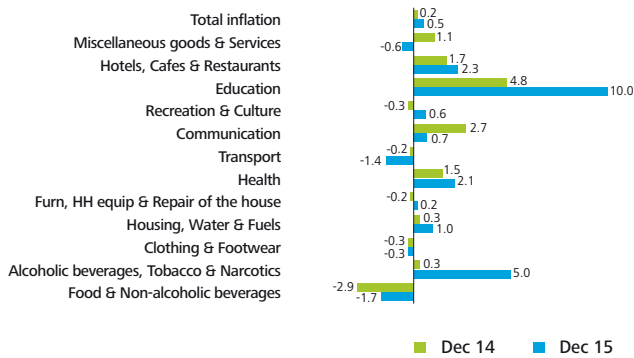
**Chart 11. Retail sales**  
% change year-on-year



Source: ONS

Although inflation has started to rise gradually, it remains at historically low levels, helping to boost consumer spending power and reduce the amount people are spending on essentials.

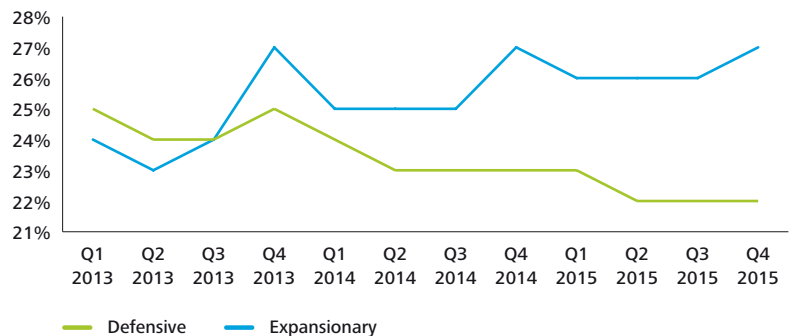
**Chart 12. Inflation (CPI)**  
% change year-on-year



Source: ONS

Overall consumers continue to move away from defensive spending behaviour, while expansionary behaviour returned to a three-year high. Fewer consumers reported buying fewer items and saving, while more consumers reported buying more items.

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

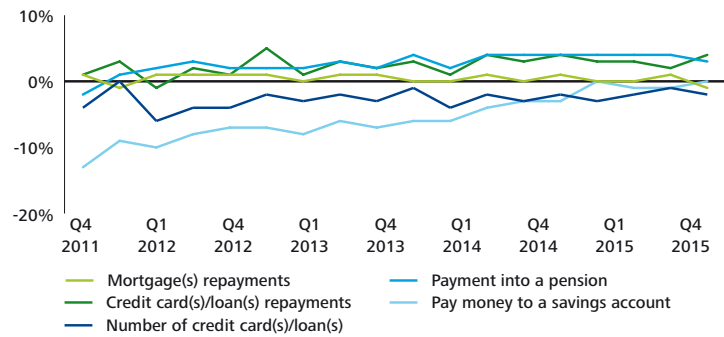


# Consumer finance

## Saving and borrowing both rise again

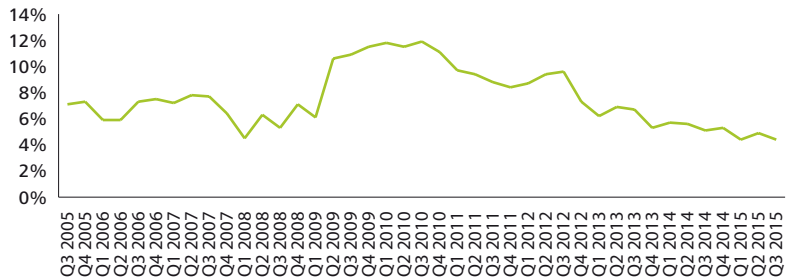
More customers claim to be paying more money into a savings account than this time last year.

**Chart 14. Changes in financial commitments in the last three months**  
Net % of UK consumers



The UK household savings ratio is, however, still at a historical low.

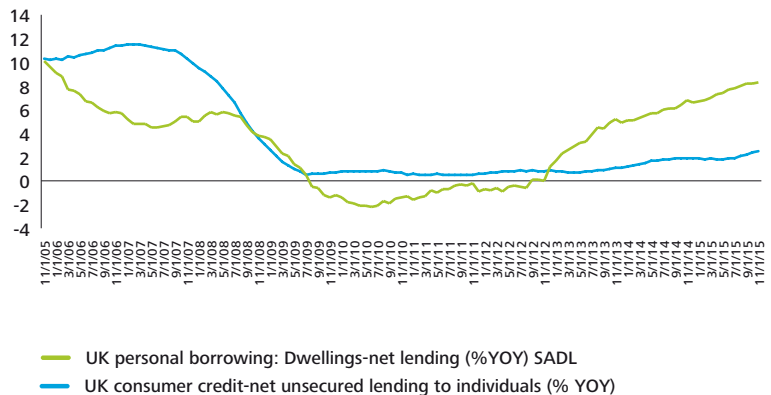
**Chart 15. UK household savings ratio**



Source: ONS

Consumer borrowing also continues to rise. This helped to boost spending in the final quarter of 2015.

**Chart 16. Consumer credit**  
Net secured and unsecured lending to individuals (% change year-on-year)



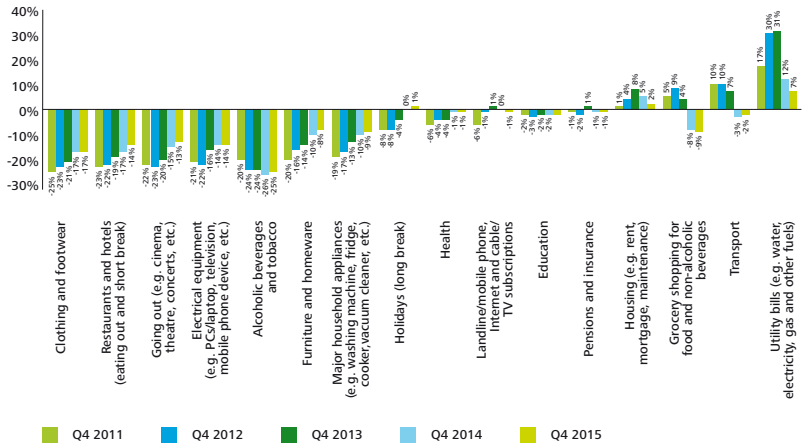
Source: Thomson Reuters Datastream

# Outlook

## Potential hurdles in the coming months

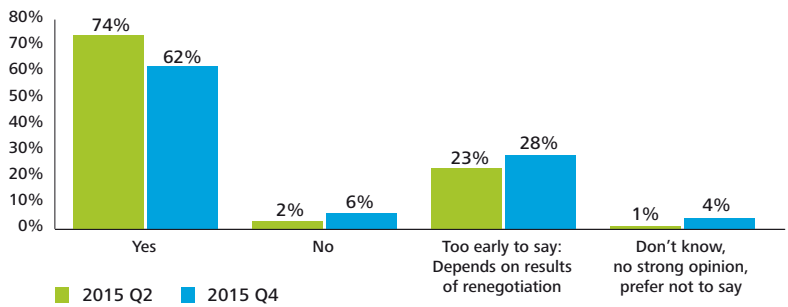
In the coming months, consumers expect to continue to spend less on essentials such as groceries and utilities, allowing them to spend more on discretionary items.

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



While many indicators suggest consumer confidence is set to keep rising, there are some hurdles to overcome in the next few months. The Brexit vote, for instance, will cause some uncertainty over interest rates. The latest edition of the Deloitte CFO Survey shows that nearly a third of UK CFOs remain undecided.

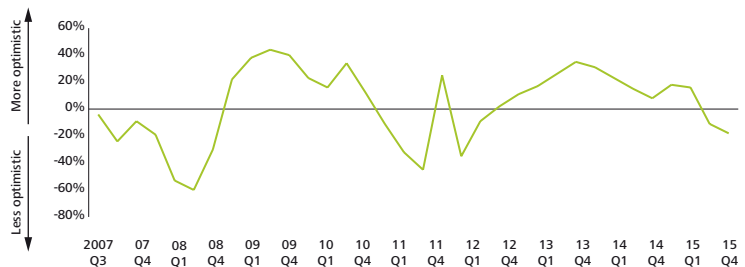
**Chart 18. CFO attitudes to EU membership**  
% of CFOs who gave the following responses when asked whether it is in the interests of UK businesses for the UK to remain a member of the EU



Source: Deloitte CFO survey Q4 2015

In addition, the latest survey also showed a decline in CFO confidence and appetite for risk has declined for the third consecutive quarter, putting greater emphasis on the consumer sector to generate further growth.

**Chart 19. Business confidence**  
Net % of CFOs who are more optimistic about financial prospects for their company now than three months ago



Source: Deloitte CFO survey Q4 2015

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**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 4 and 6 January 2016.

**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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