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 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.

Authors
Ben Perkins
Head of Research
Consumer Business
020 7307 2207
beperkins@deloitte.co.uk

Aino Tan
Research Manager
Consumer Business
020 7007 4406
aintan@deloitte.co.uk

Rebecca Thomson
Research Manager
Consumer Business
020 7007 0891
rebthomson@deloitte.co.uk

Chart 1. Deloitte Consumer Confidence
Net % of UK consumers who said their level of confidence has improved over the past three months

<table>
<thead>
<tr>
<th>Year</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Net balances

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>-7%</td>
</tr>
<tr>
<td>Confidence in level of disposable income (q/q)*</td>
<td>-13%</td>
<td>-11%</td>
</tr>
<tr>
<td>Essentials spending (y/y)*</td>
<td>+9%</td>
<td>+5%</td>
</tr>
<tr>
<td>Discretionary spending (y/y)*</td>
<td>-2%</td>
<td>0%</td>
</tr>
<tr>
<td>ONS retail sales value growth Dec-15 (y/y)</td>
<td>+2.2%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>CPI inflation Dec-15 (y/y)</td>
<td>+0.5%</td>
<td>+0.2%</td>
</tr>
</tbody>
</table>

Deloitte Insight
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.

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.

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.
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.

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

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

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

Source: Office for National Statistics (ONS)

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

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

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

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.
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.

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.

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.
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.

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

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

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.

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.
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.