

The Deloitte Consumer Tracker

Confidence suffers a setback



Q4 2013

A Deloitte Insight Report

Contents

The Deloitte Consumer Tracker	1
Confidence suffers a setback	2
Downward pressure on discretionary spending continues to ease	4
The outlook remains positive	7
Contacts	9

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 3 and 5 January 2014.

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.

The Deloitte Consumer Tracker

Q4 2013

Key findings:

- All measures of confidence slowed in the fourth quarter, following a 12-month upward trend, highlighting that there are still some headwinds facing the consumer recovery.
- In an illustration of the uneven nature of the recovery the Tracker shows that downward pressure on discretionary spending continued to ease, with categories such as going out, clothing and electricals seeing a net improvement year-on-year.
- Our data also shows that both expansionary and defensive behaviours have been growing simultaneously, as consumers continue to trade selectively at both the premium and value end of the market.
- Entering 2014, we would expect consumer confidence to return to an upwards trajectory, as lower inflation and an improving labour market combine to help lift real incomes and provide the conditions for sustained growth in the consumer market.

UK consumer confidence suffered a setback in the fourth quarter of 2013 according to the latest edition of the Deloitte Consumer Tracker.

The Tracker shows that consumer confidence slowed in Q4, halting 2013's upward trajectory. Consumers were less optimistic about their level of disposable income, their job and their level of debt in the fourth quarter, highlighting some of the headwinds still facing the consumer recovery.

Household budgets remain under pressure, with real disposable income remaining flat since 2009. In fact, recent gains in consumer spending have been largely fuelled by a mixture of historically low interest rates, consumers dipping into their savings, easier access to credit and lower inflation.

The Tracker also shows that consumers have been reducing their spending in essential categories as a result of lower inflation, which has allowed them to increase spending in more discretionary areas. Categories such as going out, clothing and electricals saw a net improvement year-on-year.

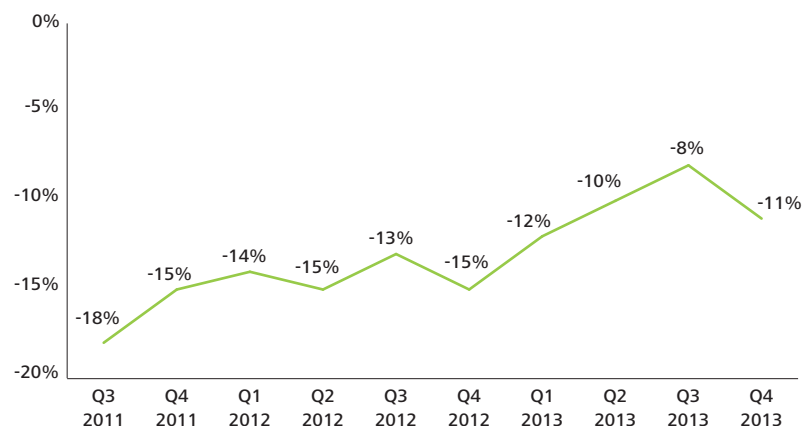
In addition, the data highlights that both expansionary behaviours such as trading up and buying more, and defensive behaviours such as trading down have been growing simultaneously, although expansionary behaviours are growing at a faster rate.

The example of the retail market can explain this paradox where we have seen growth at both the premium and value end of the market, often with the same consumers shopping at both ends. The net effect is that the middle has been squeezed.

Entering 2014, we would expect consumer confidence to return to an upwards trajectory, as lower inflation and an improving labour market combine to help lift real incomes and provide the conditions for sustained growth in the consumer market.

Figure 1. UK consumer confidence

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



Confidence suffers a setback

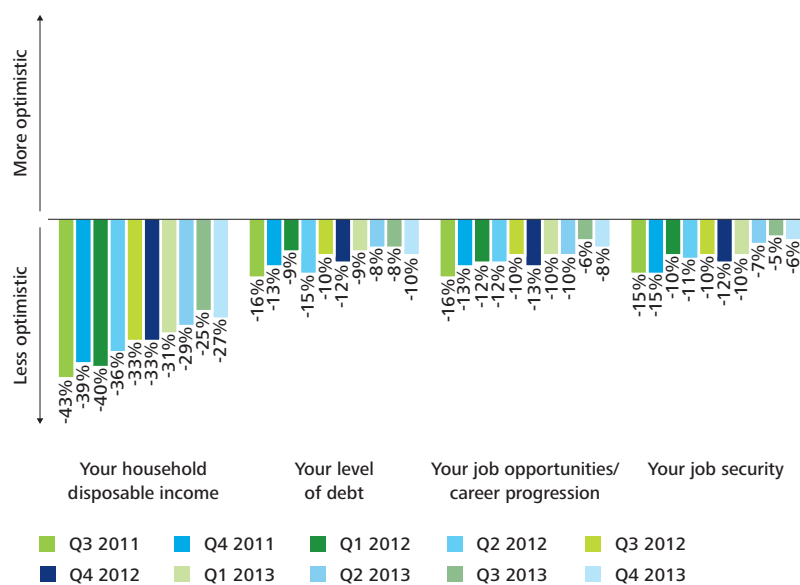
All measures of confidence slowed in the fourth quarter of 2013.

- In a sign of the headwinds facing the consumer sector, the number of pessimists continues to outnumber the optimists across all the measures of confidence in our survey.
- The 18-month uptrend in consumer sentiment around disposable income suffered a setback in the fourth quarter.

Figure 2. UK consumer sentiment about personal situation

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

Question: Thinking about the following aspects of your life...over the past three months would you say that your level of optimism/confidence in each area is better, the same or worse?



- This is in line with the GfK consumer confidence index which fell for the third straight month in December, its longest decline since 2010.

Figure 3. GfK UK consumer confidence



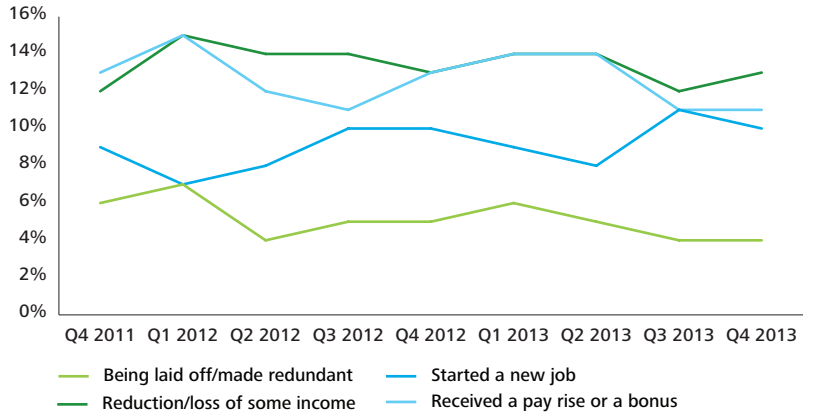
Source: GfK

- The Tracker results also show that there was a slight increase in the number of people reporting a reduction or loss of income, while fewer started a new job in the fourth quarter.

Figure 4. Changes in personal household circumstances in the past three months

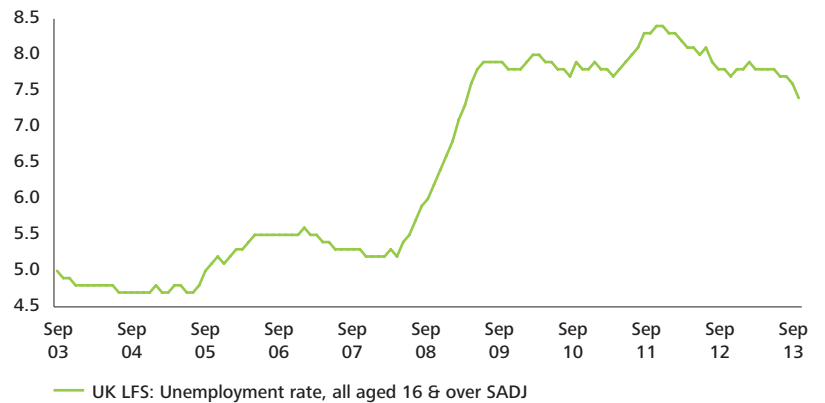
% of UK consumers

Question: Thinking about your household circumstances in the past three months, which of the following apply to you or someone in your household?



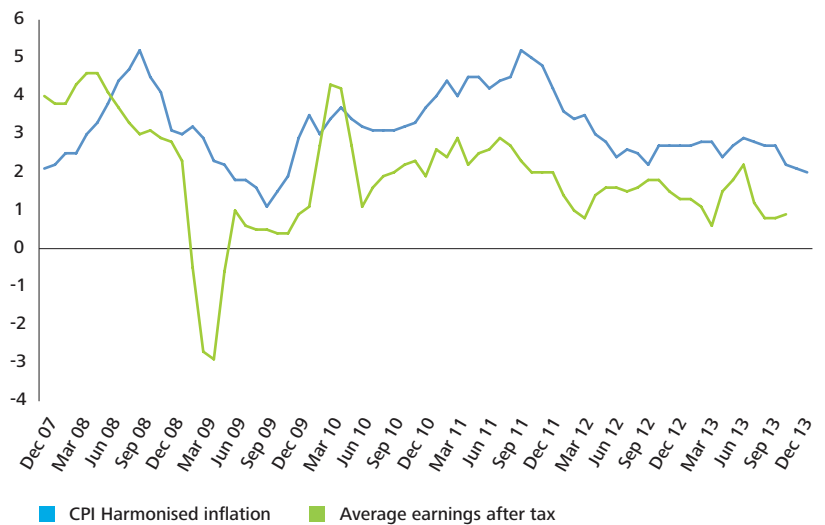
- Official employment figures improved in the last two years.

Figure 5. UK unemployment rate (16 and over)



- Despite the recent growth in employment, economic commentators agree that much of the weakness in household incomes is attributable to low real wage growth since the onset of the economic downturn.

Figure 6. Average earnings growth and UK national inflation



Source: ONS

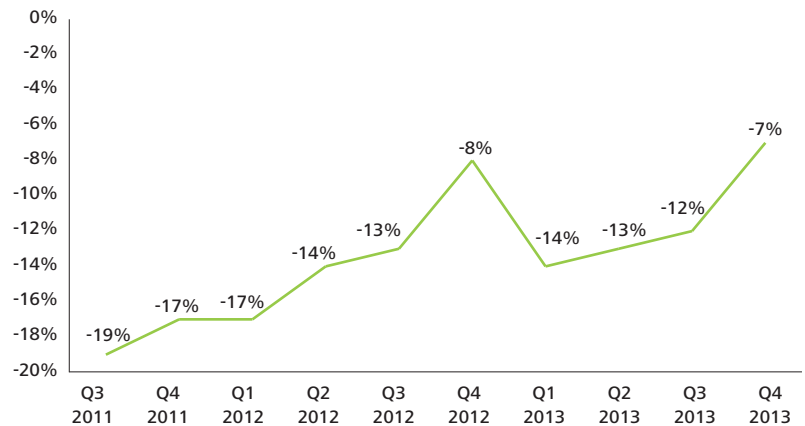
Downward pressure on discretionary spending continues to ease

Spending in categories such as going out, clothing and electricals saw a net improvement year-on-year.

- The Tracker data shows that downward pressure on discretionary spending continues to ease.

Figure 7. Discretionary spending in the past three months

Net % of UK consumers spending more on discretionary categories over the past three months

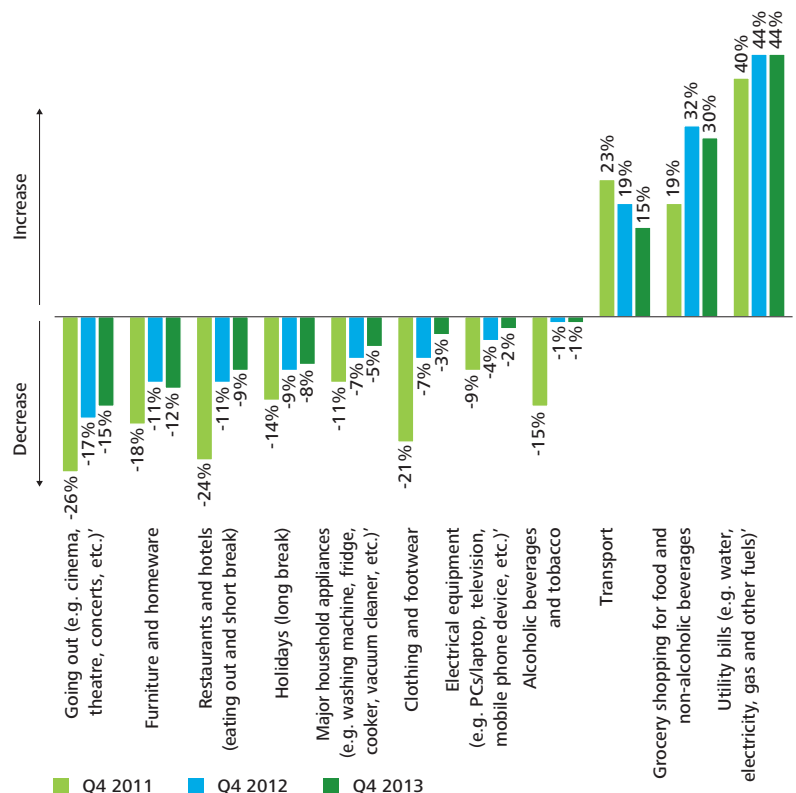


- Spending in categories such as going out, clothing and electricals saw a net improvement year-on-year.
- Retailers who reported strong Christmas results said that sales were driven by the demand for technology and fashion.

Figure 8. Category spending in the past three months

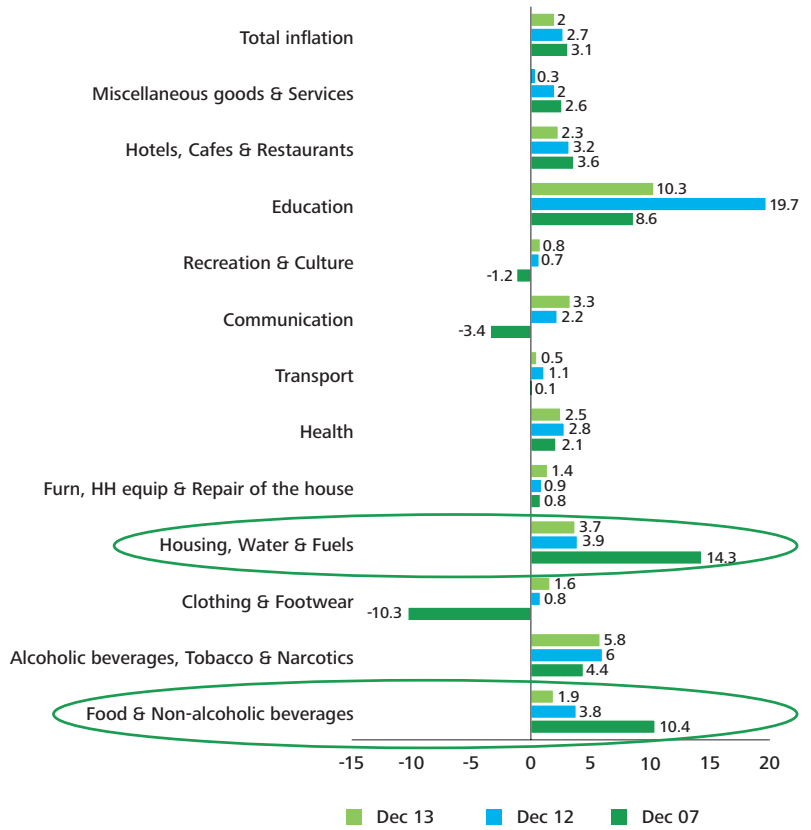
Net % of UK consumers spending more by category over the past three months

Question: Thinking about all the expenses in your household, for each of the following, would you say you have spent more, less or the same in the past three months?



- The steady growth in discretionary spending has been partly fuelled by falling inflation in utility and food prices.

Figure 9. UK CPI categories



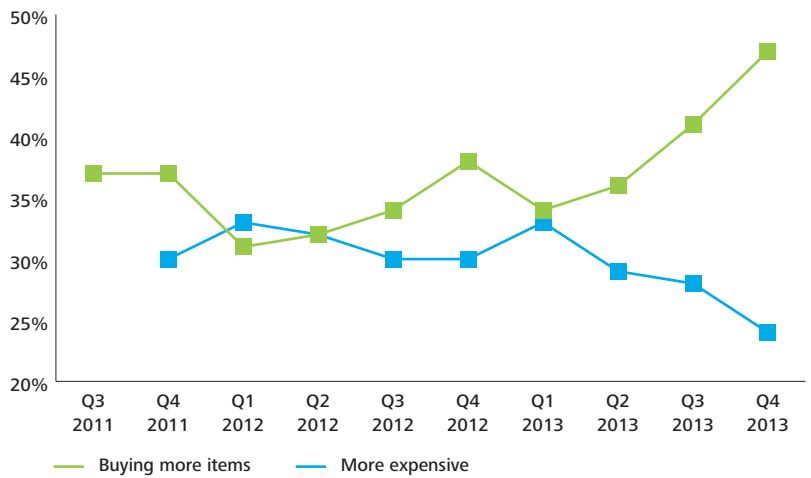
Source: ONS

- Our research also shows that this increase in spending was driven by growth in volume rather than by price inflation.

Figure 10. Reasons consumers spent less in the past three months

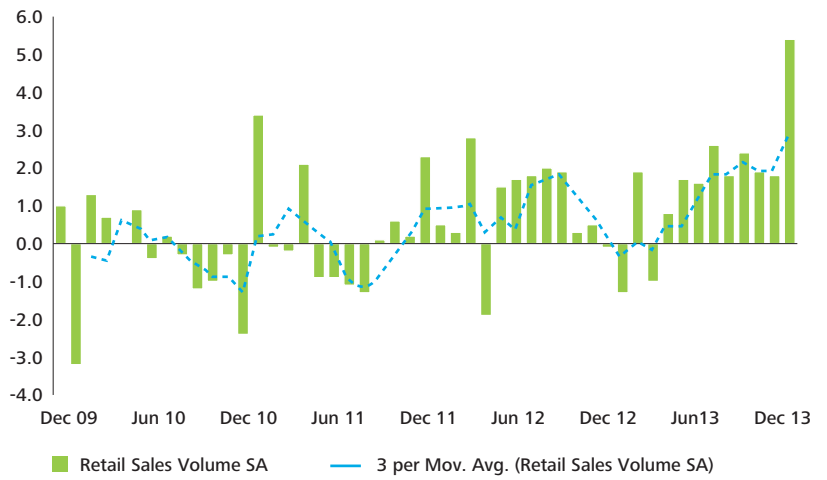
% of UK consumers spending more

Question: You just mentioned you spent more in the last three months, which of the following reasons apply to you?



- This resulted in strong retail sales growth for the fourth quarter, with sales up by 3.2 per cent in volume compared to the same period a year ago.

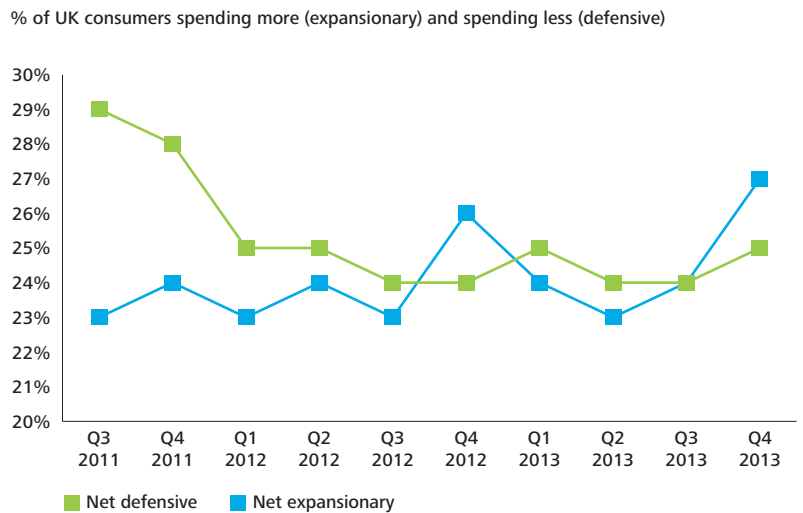
Figure 11. UK retail sales



Source: ONS

- Expansionary and defensive behaviours are growing simultaneously, although expansionary behaviours are growing at a faster rate and are at their highest since the Tracker began.
- With continuing financial constraints, consumers have learnt to do more with their budget by reducing spending in some categories and increasing it in others.
- This is illustrated by the polarised retail sector with growth occurring at both ends of the spectrum. This is particularly the case in the grocery sector, where retailers at both the top and bottom are growing strongly. For example, Waitrose, reported strong Christmas sales growth as did the hard discounters Aldi and Lidl.

Figure 12. Expansionary vs defensive behaviours in the past three months



The outlook remains positive

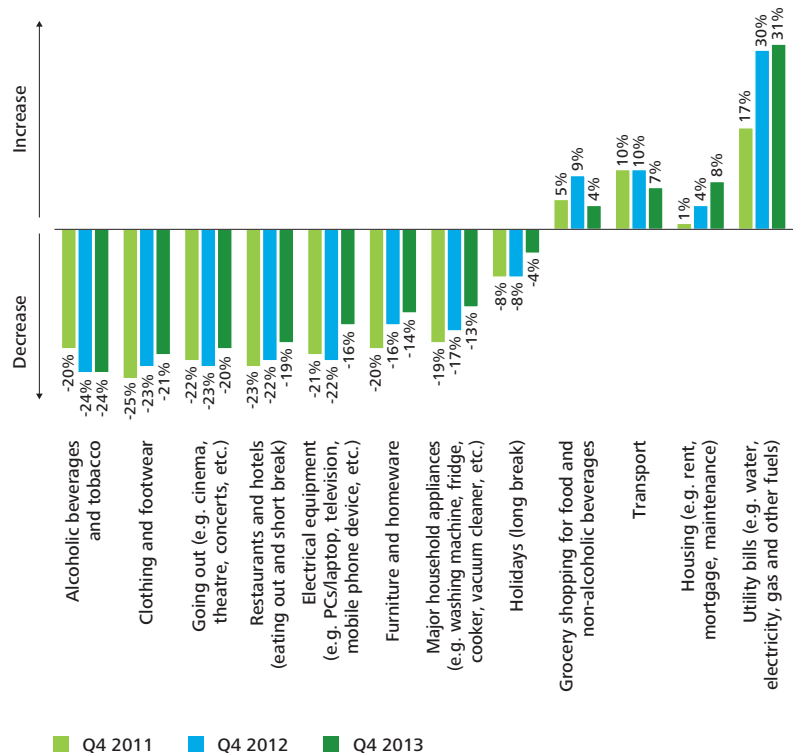
Further growth in consumer spending expected as conditions continue to improve in the consumer market.

- While our data shows that consumers are expecting to spend less in the grocery and transport categories in the first quarter of this year, the trend towards increasing discretionary spending is expected to continue.

Figure 13. UK consumer sentiment about disposable income by income groups

Net % of UK consumers spending more by category over the next three months

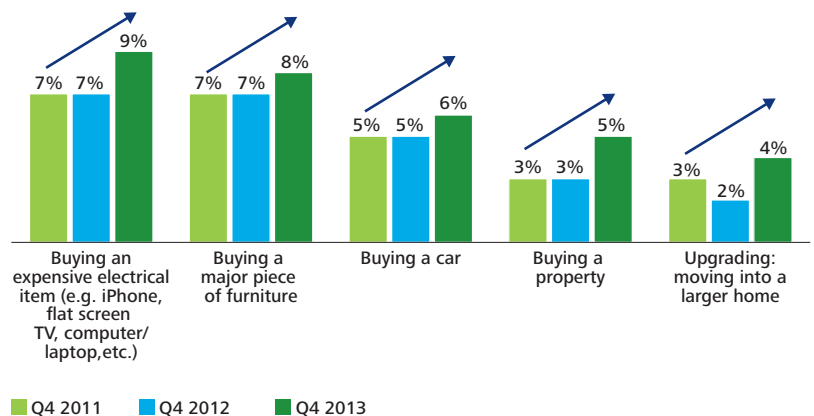
Question: And now thinking about all the expenses in your household in the next three months, for each of the following, would you say you will spend more, less or the same compared to four to six months ago?



- Compared to the same time last year more consumers are planning major purchases such as buying a car or a property this quarter.

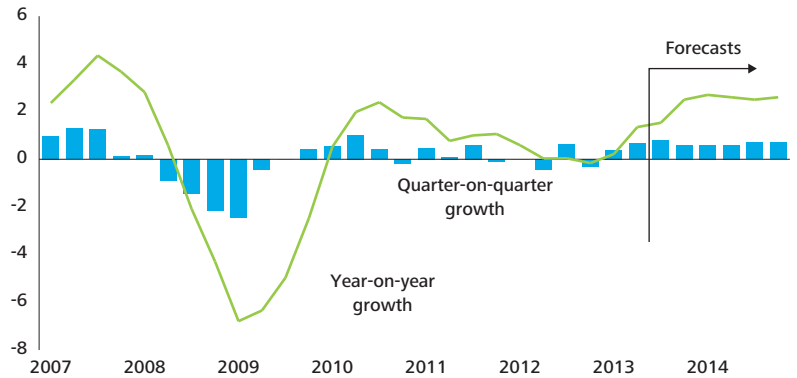
Figure 14. UK consumer planning major purchases in the next three months

% of UK consumers



- Economists expect UK growth to accelerate in 2014.

Figure 15. UK GDP growth: Actual and forecast (%)



Source: ONS, consensus forecasts from *The Economist* and Deloitte calculations

- The latest Deloitte UK survey of Chief Financial Officers shows that expansion is the top priority for CFOs in 2014. They are also placing greater emphasis on capital spending and expect M&A activity to increase over the next 12 months.

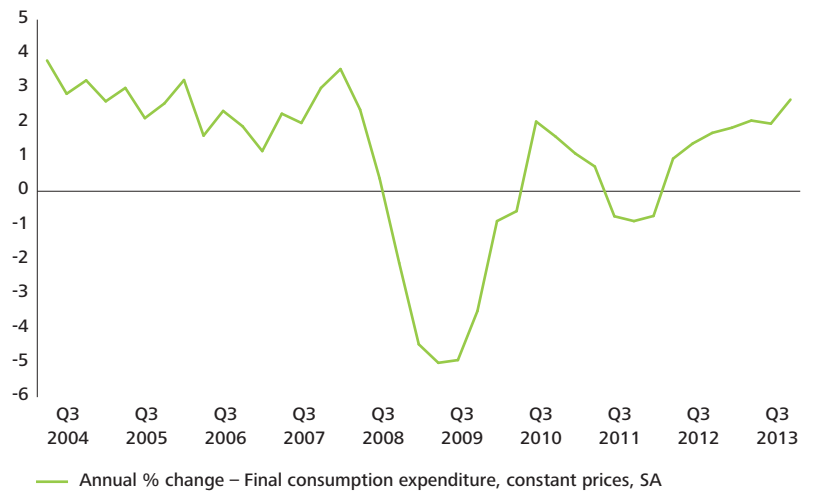
Figure 16. CFO priorities: Expansionary vs defensive strategies



Source: Deloitte CFO Survey Q4 2013

- Strong growth in consumer spending was a key driver of the economic recovery last year. For a continued rise in consumer expenditure, real wages must start to grow in 2014.

Figure 17. UK consumer spending annual % growth



Source: ONS

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