

Confident consumers drive highest quarterly spending growth in three years

4.5%

Growth in overall spending – the highest in three years

6.8%

Growth in discretionary spending – the highest in three years

8.4%

Growth in travel spending – the highest in two years

12.1%

Growth in spending in pubs – up from 7.8% in 2014

31%

Nearly a third of consumers expect their finances to improve further in Q3

- Consumer spend more time and money in restaurants, pubs and hotels
- Increasing confidence persuades consumers to splash out
- Decisive General Election result improves households' confidence in their finances

Barclaycard's latest quarterly consumer spending analysis shows that retail spending grew by 4.5 per cent in Q2 2015 as Britons, buoyed by a bright economic outlook, continued to make more non-essential lifestyle expenditure.

Year-on-year, consumers spent more on big-ticket items such as travel and furniture, which grew 8.4 per cent and 7.4 per cent respectively – the highest level of spending growth in three years. Spending in restaurants and pubs meanwhile saw double-digit growth of 14.8 per cent and 12.1 per cent respectively. This comes on the back of Barclaycard's latest confidence research showing that nearly two-fifths (36 per cent) of British consumers now feel comfortable splashing out on major purchases.

A mix of rising average earnings and low inflation is likely to have boosted consumers' confidence. In June, the Office for National Statistics announced annual average earnings growth of 2.7 per cent – the highest since 2008. Inflation has also remained low – rising by just 0.1 per cent in May – which, when combined with rising wages and rising levels of employment, is boosting households' spending power. The improved economic situation is reflected in our confidence research, which shows a majority of people (56 per cent) feel confident about their ability to spend more on non-essential items – albeit a slight dip from the 59 per cent who felt so in Q1.

The decisive outcome of the General Election has also had a significant impact, with almost a third (32 per cent) of consumers saying that they felt more certain about the future now any uncertainty had been removed. Furthermore, confidence in the UK, European and global economies grew in the second quarter of the year – though this has fallen in the past week as the uncertainty around Greece dominates the headlines.

“ Consumers are in a bit of a sweet spot at the moment. Inflation eased to zero. Wages have been picking up. The Bank of England looks set to keep interest rates on hold this year. All the signs are that we are going to continue to see a good year for consumer spending.

”

Samuel Tombs, Senior UK Economist, Capital Economics

Despite official projections that inflation is expected to remain relatively unchanged for the remainder of the year, 44 per cent expect to be spending more by the end of the next quarter, 57 per cent of those put the increase down to rising prices.

In this report, we explore where and why consumers are spending and how improved financial confidence is influencing spending patterns and leading to an increase in spending on big-ticket items. We also take an in-depth look at evolving habits around booking, planning and spending on holidays, as Britons invest more time, effort and money in making the most of their holidays.

Growth over the last three months

April 2015**4.5%**May 2015**4.2%**June 2015**4.9%**



At home: Luxury and lifestyle spending on the rise as consumer confidence receives a boost

In the second quarter of 2015 overall consumer spending grew by 4.5 per cent year-on-year, the highest level in three years, as continued improvements in the country's economic prospects led to higher spending on big-ticket and lifestyle items.

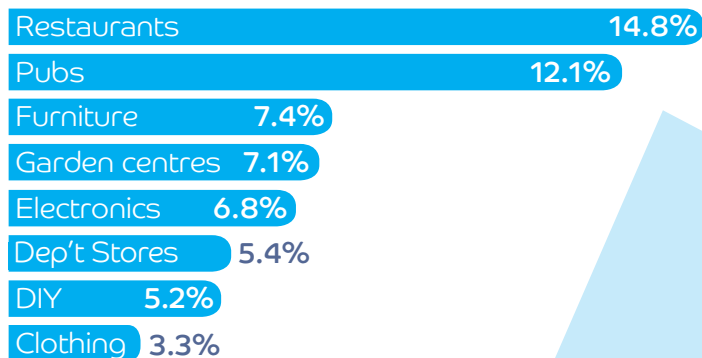
Barclaycard data shows that consumer spending on everything from department stores to electronics and furniture grew significantly in the second quarter of the year compared to 2014, as households demonstrated both increased desire and ability to spend more on non-essential items. Furthermore, a jump in spending on luxury brands by 8.3 per cent, almost double the level seen in Q2 2014 (4.6 per cent), and a big slowdown in spending on value items and in discount stores from 25.4 per cent in Q2 last year to 13.9 per cent last quarter, indicate that consumers have begun to relax their fiscal frugality a little.



8.3%

increase in spending on luxury items, which has almost doubled year-on-year

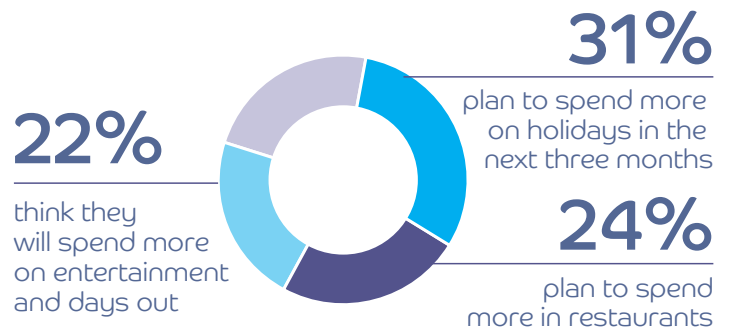
Spending in furniture stores reached a three-year high of 7.4 per cent, whilst spending in garden centres and DIY stores increased by 7.1 per cent and 5.2 per cent respectively. Outside of the home, the high street continued to show strong growth, with spending on electronics rising 6.8 per cent, in department stores 5.4 per cent, and on clothing 3.3 per cent. Restaurants and pubs also stayed full: restaurant spending grew by 14.8 per cent year-on-year, and spending in pubs swelled by 12.1 per cent in a clear sign that consumers, as reported in Barclaycard's Q1 report, are continuing to increase their expenditure on non-essential items and experiences.



Consumers have confidence buoyed by decisive election result...

In Q1, a significant number of consumers were concerned about the upcoming General Election, with more than half worried about the impact the outcome would have on their finances. However, the surprise result in May stabilised those jitters and a third (32 per cent) now say the decisive outcome has made them feel more confident about the future.

Overall, the rising trend looks set to continue into the second half of 2015. Nearly a third (31 per cent) of consumers say they plan to spend more on holidays in the next three months; a quarter (24 per cent) expect to spend more in restaurants; and over a fifth (22 per cent) think they will spend more on entertainment and days out, indicating consumers are anticipating a sustained economic recovery through the summer months.



...but hold their breath for higher costs and uncertainty in Europe

Although consumers may feel more positive about the Election result, over a quarter (27 per cent) expect spending on essentials, such as groceries and petrol, to rise as a result of the change in Government. Six in ten (60 per cent) expect a rise in petrol costs in the next three months – up from 49 per cent in Q1 – despite the Government announcing in this month's budget that fuel duty will remain frozen this year.

The uncertainty surrounding Greece and the future of the euro is also having a clear impact on consumers' confidence in the UK and European economies. In separate research conducted on 8 July – just days after the Greek people voted against proposed austerity proposals in a referendum – just 18 per cent of consumers said they felt confident in the strength of the European economy – a fall from the 21 per cent earlier in June. Furthermore, half said they expect the strength of the European economy to actively deteriorate over the next three months.

Conversely, the Greece crisis may be making some feel more confident about the UK economy, with half of those asked in our July research saying they feel confident in the strength of the UK economy – a notable increase on the 46 per cent who said the same thing in June. Almost half (47 per cent) also expect the UK economy to improve in the next three months.

“ The decisive election result has certainly eased some short-term uncertainty. Inflation is still very low. Earnings are picking up. Employment is continuing to rise. The outlook for consumers is pretty decent. ”

Howard Archer, Chief UK and European Economist, IHS Global Insight



Abroad: Consumers splash out on summer holidays, but fears about Greece keep holiday makers away

Consumers are now spending more on travel as well as investing more time, effort and money in their trips away. In Q2, spending on hotels rose by 6.9 per cent on last year. While this is 1.8 percentage points down on the first quarter, it is significantly up on the 4.9 per cent and 4.8 per cent growth seen in Q2 2014 and Q2 2013 respectively. Airline spending saw an uplift of 4.1 per cent, up on the weak 1.1 per cent growth seen last year.

Travel and spend growth



A fifth of consumers expect holidays to be the second biggest area of expenditure increase over the next three months, and a quarter (26 per cent) say they are spending more on holidays now than they were two years ago, while just over half (53 per cent) have maintained their spending levels. Two years ago, 30 per cent of people took an overseas holiday lasting more than a week; now it's 34 per cent.

However, the uncertainty of the situation in Greece is having a significant impact on peoples' choice of destination. The majority of people (52 per cent) say they would be less likely to choose the country as a holiday destination. A quarter (26 per cent) say they will take a 'staycation' and holiday in the UK, while others are changing plans and heading instead to Spain (23 per cent), the USA (12 per cent) or Italy (9 per cent).

However, the economic uncertainty in Europe is also encouraging UK consumers to travel more in the continent, with 43 per cent saying that they are more likely to go on holiday in Europe this year to benefit from the strong pound against the euro. "The stronger pound will support extra spending on holidays," says Samuel Tombs of Capital Economics. "Sterling has appreciated quite a long way against the Euro over the last year and that will persuade more holidaymakers to go overseas."

Holiday spending trends: Consumers use digital services to upgrade their holiday experiences

Internet explorers

As well as being willing to spend more money on travel, consumers are also investing more time in planning and booking their trips. Holiday planning has migrated from being a task for a travel agent to one families are increasingly taking on themselves; half (49 per cent) now prefer to book their flight and accommodation themselves individually, rather than together as a package (18 per cent).

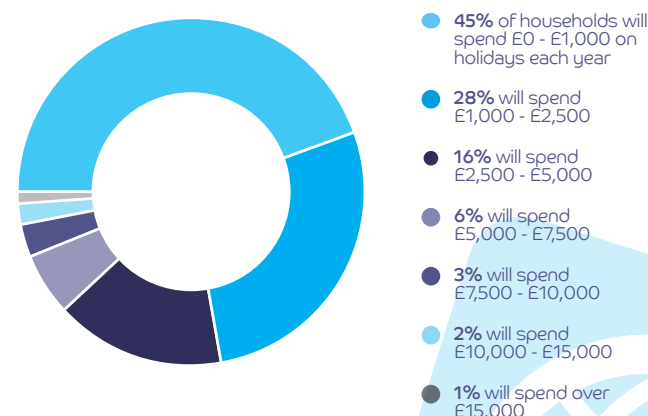
The growth in self-booked holidays comes down to a number of reasons: the desire to tailor a break to meet specific demands; the

search for more authentic holiday experiences; maximising their expenditure and ensuring they're getting best value for money; and wanting to make their holidays work harder to ensure they make the most of their leisure time.

“Until recently Greece was doing fairly well [as a travel destination]. But, the more crises on the news, the more there's doubt in people's minds. Stories that the ATMs are running out of money put people off.”

Alistair Rowland, General Manager of Travel Services, Co-op Travel

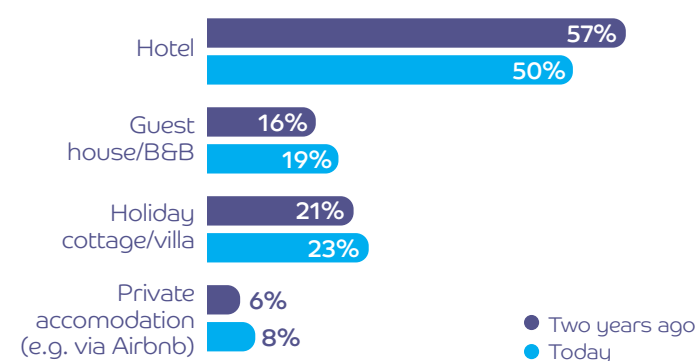
Annual holiday spend: As a household, roughly how much do you spend on holidays each year?



In their Travel Trends Report 2015, travel association ABTA highlight how 'living like a local' has become an essential of a holiday for many travellers who increasingly want to 'get under the skin of a destination'. Similarly, the 'hard working holiday' – characterised by holidaymakers combining elements such as events, shows or experiences with their holiday as well as multi-centre holidays, challenge holidays and activity holidays – is a by-product of consumers' search for value in every penny they spend.

This in turn might be explained by the growth of the sharing economy. Two years ago, 57 per cent of consumers say they would have chosen to stay in a hotel – today, that figure drops to

Which type of holiday accommodation do you prefer?



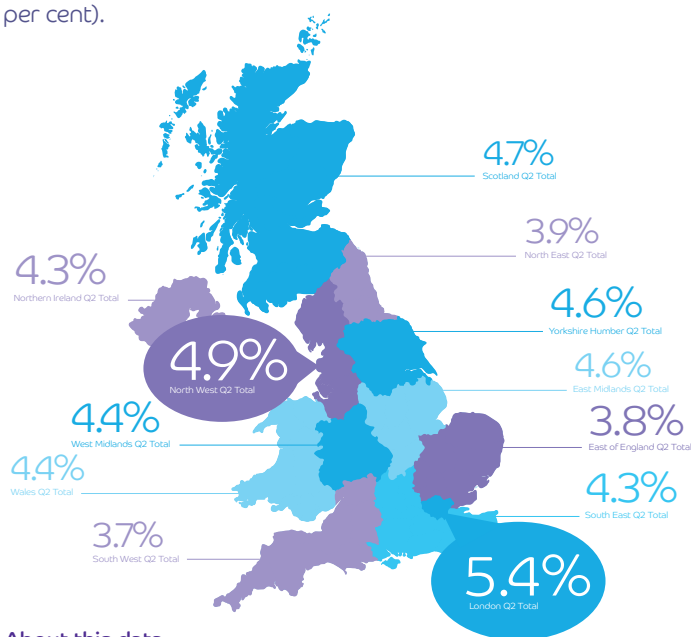


Which of the following do you most take into consideration when choosing a place to stay?



Consumer confidence spread across UK regions

In the second quarter of 2015, spending rose year-on-year in every region in the UK, with the biggest rises in London (5.4 per cent), the North West (4.9 per cent) and Scotland (4.7 per cent). All regions in the UK, with the exception of Northern Ireland, also saw travel spending grow substantially. West Midlands posted the highest level of growth (9.6 per cent), followed by London (9.4 per cent), the North West (9.2 per cent) and the East Midlands (9.0 per cent).



About this data

Barclaycard processes nearly half of all credit and debit card transactions in the UK through our UK credit card operations, our UK payment acceptance business and spending on Barclays debit cards.

In this report, data for Q2 2015 refers to the period from 29th March 2015 to 27th June 2015 inclusive and compares it to the period from 30th March 2014 to 28th June 2014 inclusive.

The report also includes an extensive survey of UK consumers conducted by Longitude Research, our research partner for this report, in June 2015. There were 2,000 respondents, providing a representative sample of UK consumers by age, gender, region, income group, professional status and family situation. Further research was conducted amongst 1,000 respondents in July to ascertain the impact of the developing economic situation in Greece on consumers' confidence and holiday booking behaviours.

This follows on from our Q4 2014 and Q1 2015 consumer spend surveys.

References

- 1 ONS: Labour Market Statistics, May 2015
- 2 ONS: Consumer Price Inflation, May 2015

For more information, please contact:

Tom Foxton
Media Relations
Barclaycard
020 711 67285 / 07880 184381

Intrepid travellers

Confident consumers want autonomy around travel plans: Half (49 per cent) say they prefer to book their accommodation and flights directly, rather than using a travel agent.

Hotels become less popular as tourists benefit from the shared economy: Two years ago, 57 per cent of consumers say they would have chosen to stay in a hotel – today, that figure drops to 50 per cent. Travellers increasingly stay in guesthouses, holiday cottages and private accommodation sourced through sites like Airbnb, 16 per cent of consumers believe the growth of websites has enabled them to go on holiday more often.

The younger generation spend more on short breaks: 29 per cent of 25-34 year olds say they have increased spend in this area over the last two years – higher than the 13 per cent of 55-64 year olds and 8 per cent of people over 65 who say the same.



"A decisive General Election, low inflation, an uptick in earnings and improving job security all contributed to a sense of financial wellbeing among consumers in the second quarter, which in turn led to record growth in both overall and discretionary spending.

"With the UK's economic prospects continuing to improve, and as consumers look forward to the summer ahead, spending on entertainment and leisure, large household purchases and overseas holidays was up strongly. With the strength of sterling against the euro making everything from short city breaks to two-week beach getaways more cost-effective we expect this trend to continue into the third quarter.

"Rather than a fleeting trend, consumer spending has been growing steadily since last summer as more and more people started to believe that improvements in the macro environment were here to stay. With the UK's economic recovery appearing now to be firmly established households are likely increasingly to spend more on themselves and their families."

Chris Wood, Chief Operating Officer, Barclaycard

About Barclaycard

Barclaycard, part of Barclays Bank PLC, is a leading global payment business that helps consumers, retailers and businesses to make and take payments flexibly, and to access short-term credit and point-of-sale finance. In 2014 we processed over £250bn in transactions globally. Barclaycard is a pioneer of new forms of payment and is at the forefront of developing viable contactless and mobile payment schemes for today and cutting-edge forms of payment for the future. We also partner with a wide range of organisations across the globe to offer their customers or members payment options and credit.

www.barclaycard.com
Follow us on Twitter at
@BarclaycardNews

