

Economic and political uncertainty results in a year of two halves for consumer spending

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Consumer spending shifted in response to the changing economic and political environment, resulting in a year of two halves, according to the annual analysis of UK consumer spending by Barclaycard, which processes nearly half of all credit and debit card transactions in the UK.

Britain responds to Brexit

Consumer spending got off to a mixed start in 2016, with January and February seeing growth of 3.8 per cent and 3.4 per cent respectively – before it dropped sharply as concerns about the EU referendum took hold. With warnings about the economic impact of leaving the EU prominent in early campaigning, spending growth fell to 1.6 per cent in March (a two-year low) and 1.9 per cent in April.

March and April's slump saw consumers rein in spending across nearly all categories, but most notably on family clothing, which flatlined at 0 per cent in March before dropping into negative territory of -4.1 per cent in April, and supermarket spending which recorded an all-time low of -6.1 per cent in April.

Consumer confidence was also on a journey in 2016, with the proportion of those confident in the UK economy ranging from 38 per cent (January) down to 30 per cent (May) during the first six months of the year.

The announcement of the EU referendum result on 24 June ended months of uncertainty, and confidence rose 5 per cent to 35 per cent between May and June, starting a steady climb through the summer to a record high in September of 48 per cent. This suggested that – with no short-term impact felt on household finances as a result of the vote – it was a return to a 'business-as-usual' approach for many. However, as concerns about inflation crept in, the pound weakened and other economic indicators deteriorated, by October just a third (32 per cent) of consumers were confident in the UK economy – a proportion that held steady in November (33 per cent).

A narrowing between essential and non-essential spending

Barclaycard recorded a steady increase in overall spend growth in the second half of the year, peaking at a record high of 5.5 per cent in October – but this was accompanied by a sharp narrowing in the gap between essential and non-essential spending. Between January and June, the differential between the two categories was 5.1 per cent, but narrowed to just 2.2 per cent between July and November.

The shrinking of this gap was driven by a mix of increased spend in some categories and rising prices in others. Hotel spending growth hit double digits in July and remained at an average of 12.5 per cent in the five months to November, as unfavourable exchange rates forced consumers to pay more for overseas accommodation. Similarly, higher prices in the forecourt boosted petrol spend growth to 11.7 per cent in November. This marked only its fourth increase in 27 months – and the highest figure since Barclaycard began issuing data.

2016: The year of the 'experience economy'

The experience economy proved a clear winner when looking at discretionary spend that saw strong growth. Entertainment spend – which includes pubs, restaurants, cinemas and concerts – increased by a record 11.5 per cent across the year, partially boosted by a record-high cinema growth figure of 20.9 per cent in October, as highly anticipated releases of *The Girl on the Train*, *Inferno* and *Trolls* made the cinema a key destination for every member of the family. Spending in pubs and restaurants also saw double digit increases of 13 per cent and 12.7 per cent respectively across 2016.

Paul Lockstone, Managing Director at Barclaycard, said:

“Consumer spending grew 3.6 per cent in 2016, a healthy figure given that the backdrop of Brexit and other high profile economic and political issues caused uncertainty for many. When digging a bit deeper, however, it’s clear that at least some of this growth was driven not only by increased spending on the ‘experience economy’, but also by rising prices in key sectors.

“As the year came to a close, this boosted spending on essentials, compared to items families may deem ‘nice-to-have’. As we enter 2017, it seems likely that consumers will continue to watch the external environment before deciding how to allocate their cash over the next 12 months.”

Spending in detail in 2016 (2015 figures in brackets)

	Level of spending growth		Change in volume of transactions (no. of purchases)	Change in amount spent per transaction
Total retail spending	3.6% (3.9%)		9.0% (8.3%)	-5.0% (-4.1%)
Core categories				
Clothing	2.1%	0.3%	1.7%	
Entertainment	11.5%	18.9%	-6.2%	
Food & Drink	0.9%	6.7%	-5.4%	
Household	2.3%	3.8%	-1.5%	
Travel	3.4%	22.3%	-15.3%	
Detailed categories				
Airlines	3.4%	8.5%	-4.7%	
Cinema and Theatre	11.0%	8.7%	3.0%	
Department stores	4.0%	8.5%	-3.3%	
Discount stores	7.6%	22.9%	-12.5%	

DIY stores	2.8%	4.5%	-2.0%
Electronic stores	-0.3%	-1.7%	1.9%
Family clothing	2.5%	-0.5%	2.5%
Furniture stores	3.7%	3.1%	0.1%
Garden centres	1.8%	1.4%	0.0%
Hotels	9.5%	5.1%	4.2%
Men's clothing	6.8%	9.1%	-1.1%
Petrol	-0.4%	4.0%	-4.8%
Pubs	13.0%	22.7%	-8.0%
Restaurants	12.7%	19.4%	-5.9%
Supermarkets	-0.1%	5.6%	-5.4%
Women's clothing	0.8%	1.9%	-1.3%
Online	14.3%	14.5%	-0.1%
In-store	0.3%	7.6%	-6.8%
Essential	0.8%	6.4%	-5.2%
Non-essential	4.5%	10.8%	-5.6%

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