Deloitte.

Q1 2017

The Deloitte Consumer Tracker

Confidence softens

The latest Deloitte Consumer Tracker shows a fall in consumer confidence in the first quarter of 2017, a sign of the rising cost pressures emerging in the consumer economy. Despite a quarter-on-quarter drop of one percentage point in overall consumer confidence in Q1 at -7 it remains in line with the three-year average.

This softening in overall consumer confidence is driven by a quarterly drop across four of the six measures which make up the confidence index. Confidence in disposable income in particular fell by three percentage points this quarter to reach its lowest level in over two years.

Since the EU referendum, consumer spending has been holding up well, but with inflation rising and nominal wage growth starting to slow, consumers are beginning to feel a squeeze on their disposable income. Food prices in March were up for the second consecutive month, while transport costs increased by 4.7%. Overall, the rate of inflation stood at 2.3%, above the Bank of England's 2% target, for the first time since 2013.

There are already some signs that these pressures are contributing to a slowdown in spending growth. While spending on essentials remained unchanged this quarter, discretionary spending fell by four points (0 to -4) compared to Q4 2016.

When considering how confidence fared among the different demographic groups, it is the lower socioeconomic groups that saw the most significant drop in overall confidence. The C2 socioeconomic group in particular has been disproportionately affected by inflationary pressures. They reported an 11 percentage point drop in their level of disposable income compared to Q4 2016 (-8 to -19).

With less disposable income consumers will have to consider whether to trade down, buy less or borrow more. The latter may not be that feasible as consumers have already been tapping into their savings. The latest data on the household savings ratio for Q4 2016 shows it is at its lowest level in over 50 years. However, with interest rates remaining low, debt is relatively cheap to manage.

Our survey shows that consumers remain broadly confident, and record levels of employment should ensure a modest slowdown in consumer spending rather than a collapse during 2017. However, it is clear that consumer businesses can only absorb so much of the cost pressures caused by rising inflation: if inflation continues on its current trajectory, it is inevitable that consumers will see a sharp rise in prices.

Key indicators

Indicator	Previous	Latest
Overall consumer confidence (q/q)*	-6%	-7%
Confidence in level of disposable income (q/q)*	-14%	-17%
Essentials spending (q/q)*	+12%	+12%
Discretionary spending (q/q)*	0%	-4%
ONS retail sales value growth Feb-17 (y/y)	+1.7%	+4.7%
CPI inflation Mar-17 (y/y)	+0.5%	+2.3%

* Net balances

Authors

Ben Perkins
Head of Research
Consumer & Industrial Products
020 7307 2207
beperkins@deloitte.co.uk

Céline Fenech
Research Manager
Consumer & Industrial Products
020 7303 2064
cfenech@deloitte.co.uk

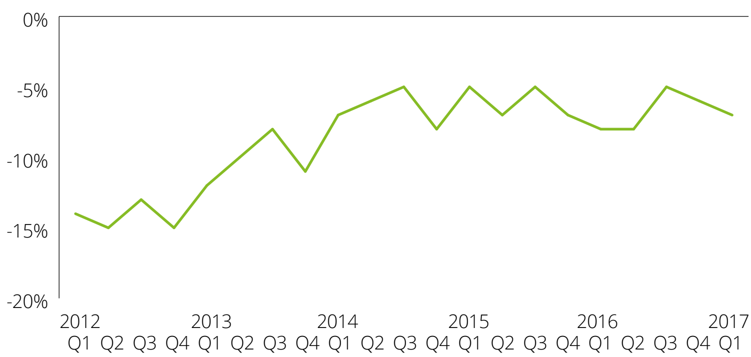
Consumer confidence

Confidence falls

The latest Deloitte Consumer Tracker shows a fall in consumer confidence in the first quarter of 2017, a sign of rising cost pressures emerging in the consumer economy. Despite a quarter-on-quarter drop of one percentage point in overall consumer confidence in Q1, at -7 it remains in line with the three-year average.

Chart 1. Deloitte consumer confidence

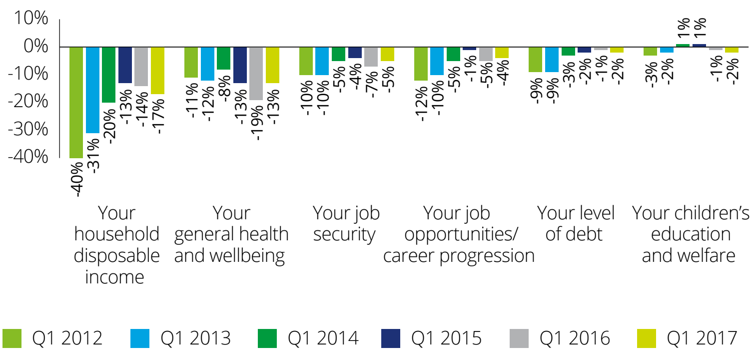
Net % of UK consumers who said their level of confidence has improved in the past three months



This softening in overall consumer confidence is driven by a quarterly drop across four of the six measures which make up the confidence index. Confidence in disposable income in particular fell by three percentage points this quarter to reach its lowest level in over two years.

Chart 2. Consumer sentiment about personal situation

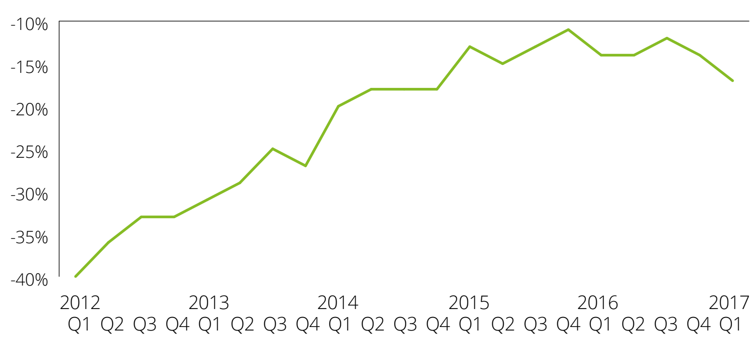
Net % of UK consumers who said their level of confidence has improved in the past three months



Since the EU referendum, consumer spending has been holding up well, but with inflation rising and nominal wage growth starting to slow, consumers are beginning to feel a squeeze on their disposable income.

Chart 3. Consumer confidence about level of disposable income

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



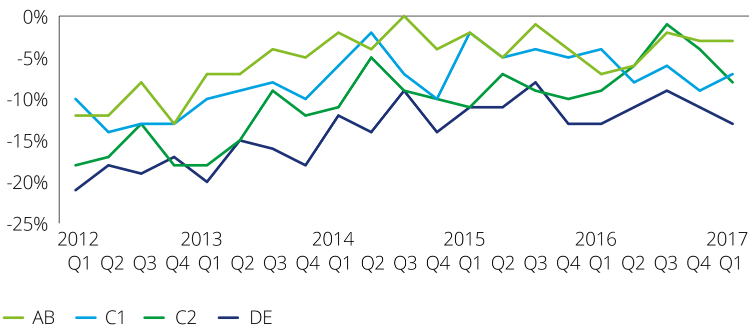
Consumer confidence

Inflationary pressures hit the lower socioeconomic groups' confidence

When considering how confidence fared among the different demographic groups, it is the lower socioeconomic groups that saw the most significant drop in overall confidence.

Chart 4. Consumer confidence by socioeconomic group

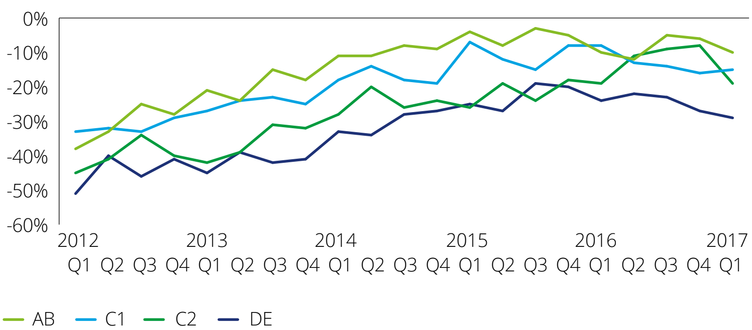
Net % of UK consumers who said their level of confidence has improved over the past three months



The C2 socioeconomic group in particular has been disproportionately affected by inflationary pressures. They reported an 11 percentage point drop in their level of disposable income compared to Q4 2016 (-8 to -19).

Chart 5. Consumer confidence about level of disposable income by socioeconomic group

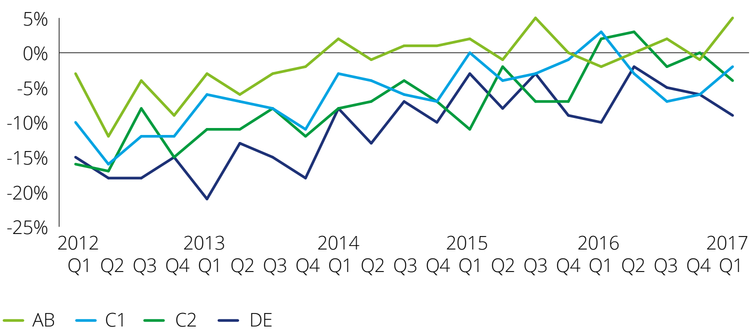
Net % of UK consumers who said their level of confidence has improved over the past three months



Another contributing factor to the drop in consumer confidence is that sentiment about debt level has deteriorated over the last quarter among the two lower socioeconomic groups (C2DE).

Chart 6. Confidence in level of debt by socioeconomic group

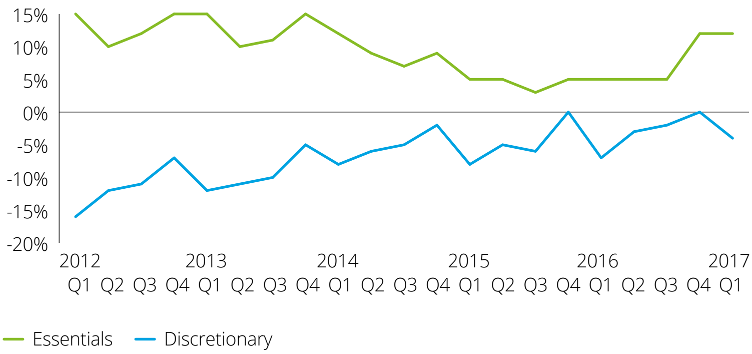
Net % of UK consumers who said their level of confidence has improved over the past three months



Consumer spending
Holding their breath?

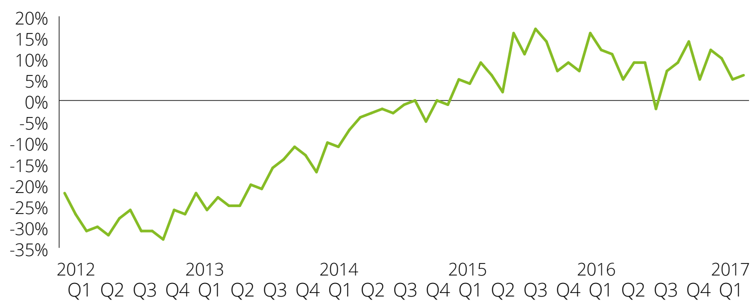
There are some signs of a slowdown in spending on a quarterly basis. After a significant jump in essential spending in Q4 2016, spending on essentials was unchanged this quarter. Meanwhile discretionary spending returned to negative territory falling by four points (0 to -4) this quarter compared to Q4 2016.

Chart 7. Essentials vs discretionary spending
Net % UK consumers spending more by category



With less disposable income consumers will have to consider whether to trade down, buy less or borrow more. Already GfK's monthly Consumer Confidence Index shows that British consumers are moving away from making major purchases, with the Index five points lower than in March last year.

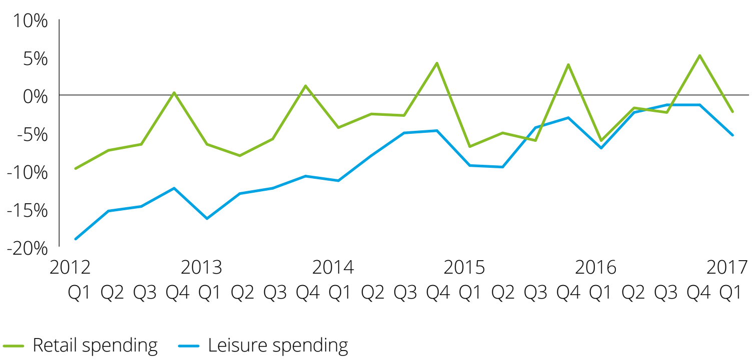
Chart 8. Major purchases
% change year-on-year



Source: GfK

Despite a seasonal dip consumer spending on retail and leisure remains in line with the recent trend. A sign that if consumers carry on spending, fears of a slowdown following the triggering of Article 50 might be unfounded.

Chart 9. Category spending in the last three months
Net % UK consumers spending more by category



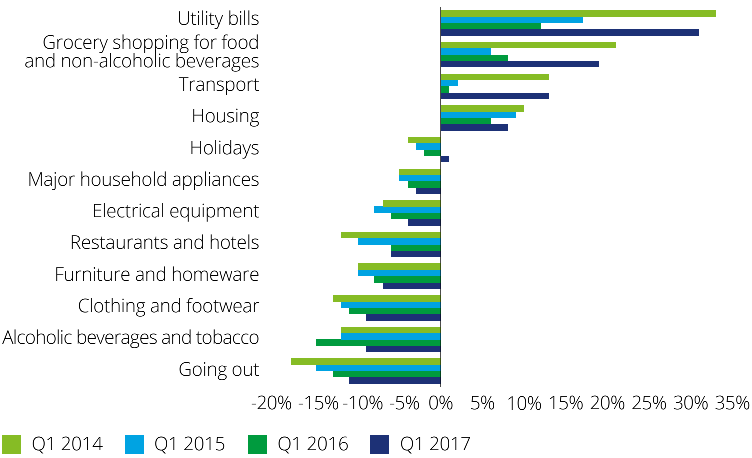
Consumer spending

Keep calm and carry on spending

Year-on-year there was significant spending growth in all the essential categories including transport, grocery and utilities. Spending in discretionary categories also continued to grow compared to a year ago, including in categories such as clothing, going out or electrical equipment.

Chart 10. Category spending in the last three months

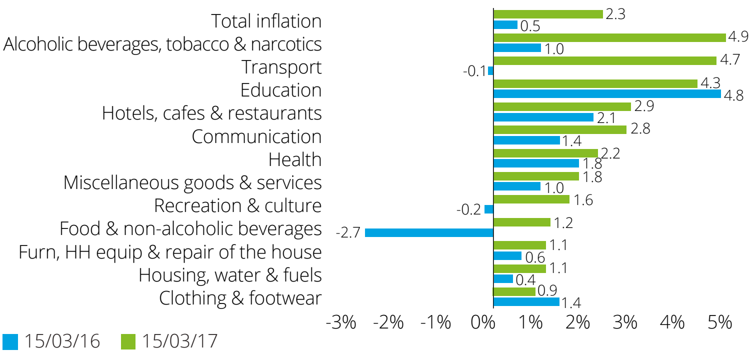
Net % UK consumers spending more by category



Food prices in March were up for the second consecutive month, while transport costs increased by 4.7%. Overall inflation stood at 2.3%, above the Bank of England's 2% target, for the first time since 2013.

Chart 11. Inflation

% change year-on-year

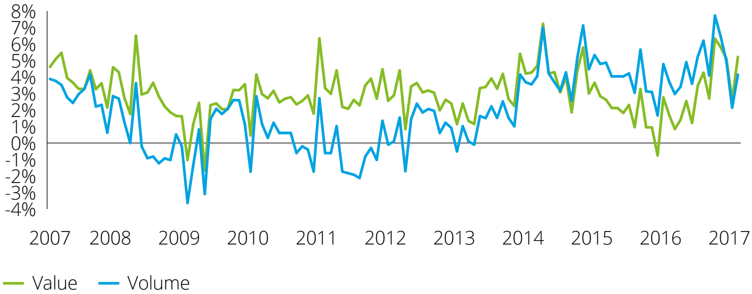


Source: The Office for National Statistics (ONS)

Despite inflationary pressures mounting, retailers received a respite from two months of falling retail sales in February. Retail sales volumes were up by 4.1% while value was up by 5.2% compared to a year ago. However, the underlying three-month numbers – considered a better guide to the underlying trend than the monthly figure alone – show lower sales than in the quarter ending in November.

Chart 12. Retail sales (excl. fuel SA)

% change in volume and value year-on-year



Source: ONS

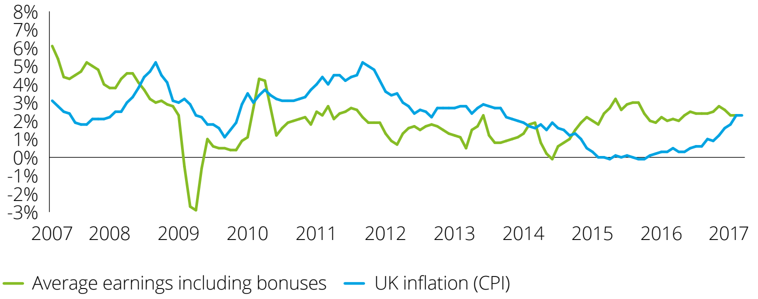
Consumer finance

Inflation might start to bite soon

There are growing signs that the spike in inflation will soon start to bite. Inflation and wage growth are now running at the same 2.3% rate, and given that inflation is expected to be above 3% later this year, real incomes are set to fall.

Chart 13. % Growth in average wages vs CPI Inflation

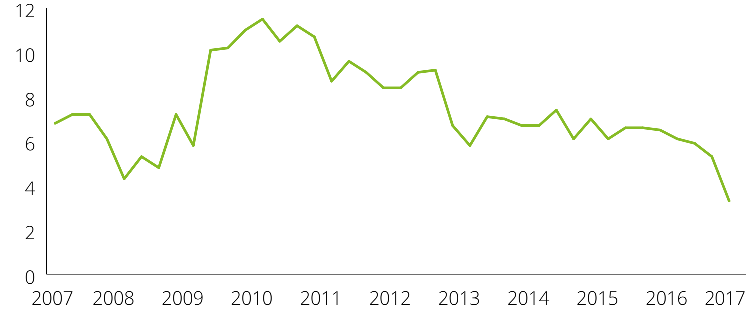
% change year-on-year



Source: Thomson Reuters DataStream

Consumers have also been tapping into their savings. The latest data on the household savings ratio for Q4 2016 shows it at its lowest level in over 50 years. However, with interest rates remaining low, debt is relatively cheap to manage.

Chart 14. Savings Ratio

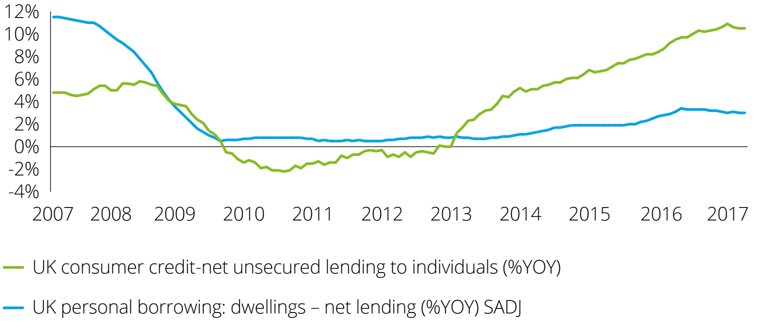


Source: Thomson Reuters DataStream

Unsecured consumer credit, which includes credit cards, car loans and second mortgages, grew by 10.5% in the year to February. Growing credit card debt drove the increase, with the year-on-year growth rate in credit card spending jumping to 9.3%, offsetting a slight decline in other loans.

Chart 15. Consumer credit

Secured and unsecured lending to individuals (% change year-on-year)



Source: Thomson Reuters DataStream

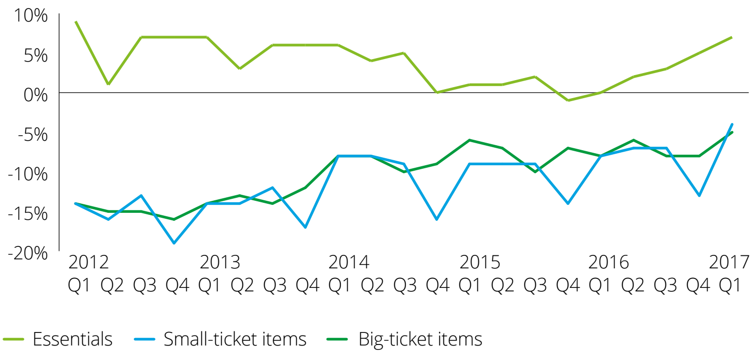
Outlook

Modest slowdown in consumer spending expected

Looking ahead, consumers are continuing to focus on spending. According to our survey, they expect to spend more on both essentials and discretionary goods in the next three months.

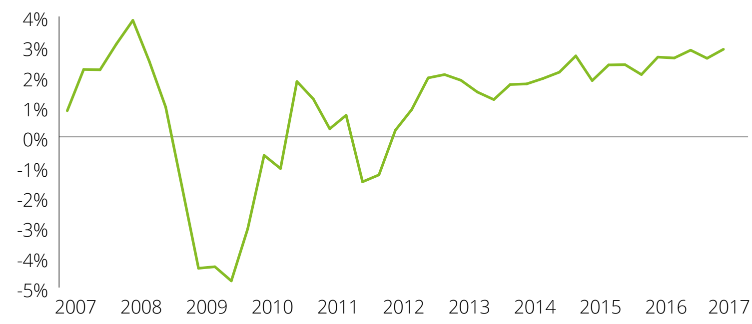
Chart 16. Category spending over the next three months

Net % UK consumers spending more by category



Consumers remain broadly confident, and record levels of employment should ensure a modest slowdown in consumer spending rather than a collapse during 2017.

Chart 17. Consumer expenditure (annual % change)



Source: Thomson Reuters DataStream

However, it is clear that consumer businesses can only absorb so much of the cost pressures caused by rising inflation as selling prices are likely to increase at a much slower rate than input costs. If inflation continues on its current trajectory, it is inevitable that consumers will see a sharp rise in prices.

Chart 18. Consumers expectations over the next 12 months

Now thinking about 2017...What, if anything, do you think will change compared to 2016? Please indicate whether each of the following areas are likely to increase, decrease or remain the same?	**Net % of UK consumers who expect an increase (increase minus decrease)**			**Difference since 2015**
	Q1 2014	**Q1 2015**	**Q1 2017**	
Prices of goods in supermarkets	63%	38%	70%	32 points
Your spending on utilities	43%	23%	43%	20 points
The taxes you pay	13%	9%	26%	17 points
Your spending on grocery shopping for food and non-alcoholic beverages	29%	15%	30%	15 points
The UK interest rates	29%	18%	26%	8 points
Your spending on transport	23%	13%	21%	8 points
Your housing expenditure	22%	19%	22%	3 points
Your level of debt	-12%	-15%	-14%	1 point
Your spending on non-essential categories	-7%	-2%	-3%	-1 point
The value of your property	30%	29%	27%	-2 points
Your income before tax	9%	9%	5%	-4 points
Your savings/investments	2%	10%	2%	-8 points
Your job security	NA	NA	-11%	NA

Contacts

Nigel Wixcey
Industry Leader, UK Consumer & Industrial Products
020 7303 5007
nigelwixcey@deloitte.co.uk

Ian Geddes
Lead Partner, UK Retail
020 7303 6519
igeddes@deloitte.co.uk

Simon Oaten
Partner, UK Travel, Hospitality and Leisure
020 7007 7647
soaten@deloitte.co.uk

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 17 March 2017 and 20 March 2017.

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% of consumers reported that they spent more rather than less.

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Tel: +44 (0) 20 7936 3000 Fax: +44 (0) 20 7583 1198.

Designed and produced by The Creative Studio at Deloitte, London. J11792