Confidence near record low as rising cost of living takes hold

The Deloitte Consumer Tracker

Q1 2022

Contents

Q1 2022 at a glance

Overall consumer confidence (q/q)*

Previous -11.3%

-16.6% ***Latest***

Confidence in job security (q/q)*

Previous -2.3%

-4.8% ***Latest***

Confidence in levels of disposable income (q/q)*

Previous -25.7%

-48.7% ***Latest***

Confidence in job opportunities (q/q)*

Previous -2.7%

-4.7% ***Latest***

Confidence in levels of debt (q/q)*

Previous -4.2%

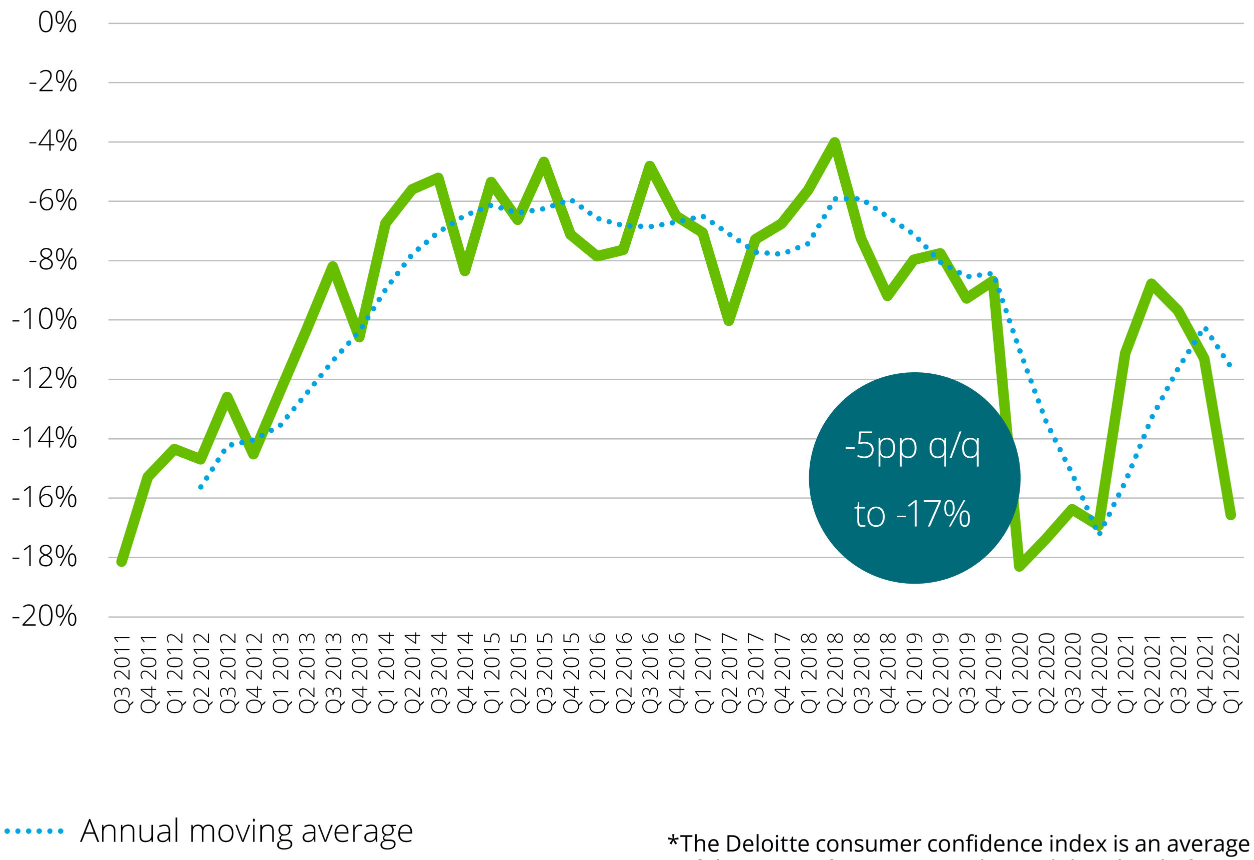
-10.5% ***Latest***

*Net balances

Consumer confidence

Deloitte consumer confidence index *

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



Source: The Deloitte Consumer Tracker

*The Deloitte consumer confidence index is an average of the net % of consumers who said their level of confidence improved in the past three months for six individual measures of confidence (see next slide).

Confidence near record low as rising cost of living takes hold

Consumer confidence fell for the third consecutive quarter in Q1 2022. Inflation increased at a faster rate than earnings, interest rates also rose and, combined with the impact of the pandemic and the Russian invasion of Ukraine, led to a significant deterioration of consumer confidence.

The Deloitte Consumer Confidence Index declined by five percentage points to -17% compared to Q4 2021 representing our Tracker's largest fall since Q1 2020 when the UK entered its first lockdown at the start of the pandemic.

Individual measures of consumer confidence

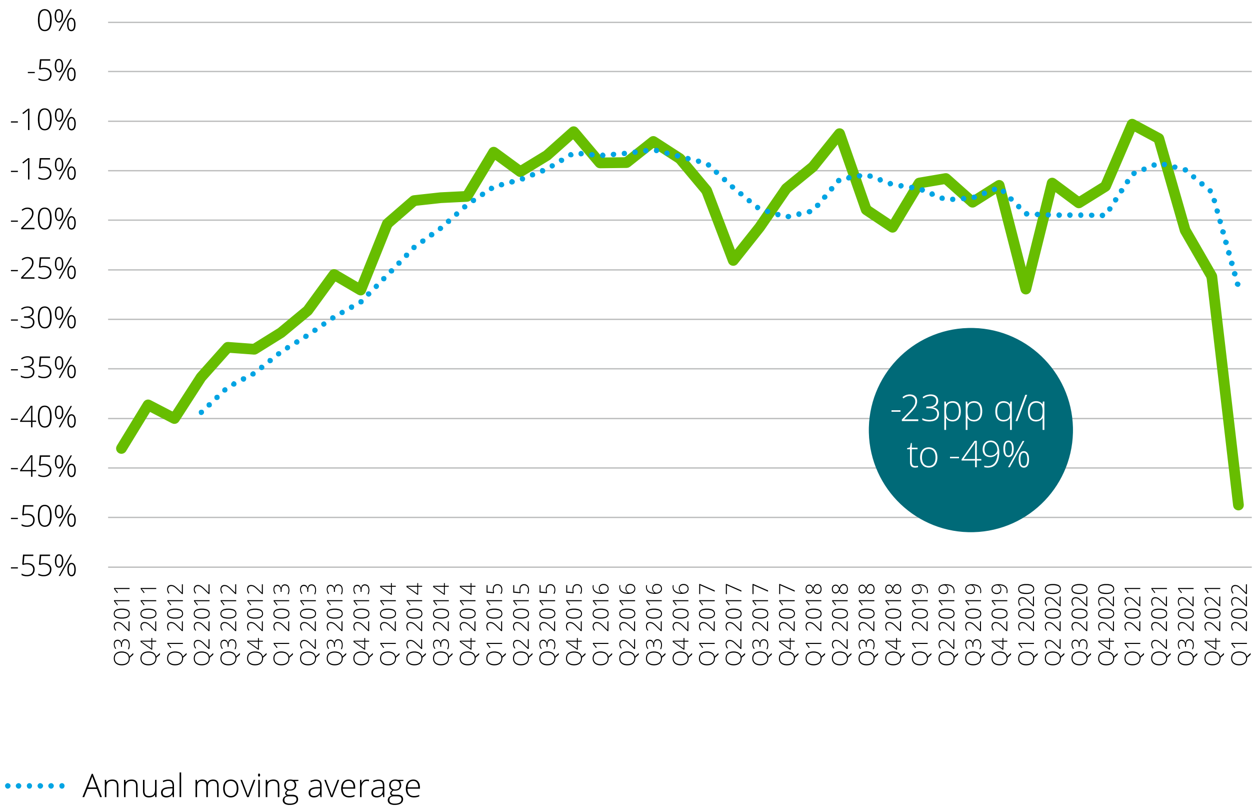
Our overall confidence index is based on six individual measures of confidence

	Q1 2022 net balances	% point change quarter on quarter	% point change year on year
Your job security	-5%	-3	+4
Your job opportunities/career progression	-5%	-2	+8
Your children's education and welfare	-6%	+1	+5
Your level of debt	-10%	-6	-12
Your general health and wellbeing	-25%	+1	+1
Your household disposable income	-49%	-23	-38
NEW MEASURE The state of the UK economy*	-73%	-20	-12

Source: The Deloitte Consumer Tracker
*Please note this measure is not included in the overall index

Consumer confidence about their levels of household disposable income

Net % of consumers who said that their confidence in their levels of household disposable income has improved in the past three months



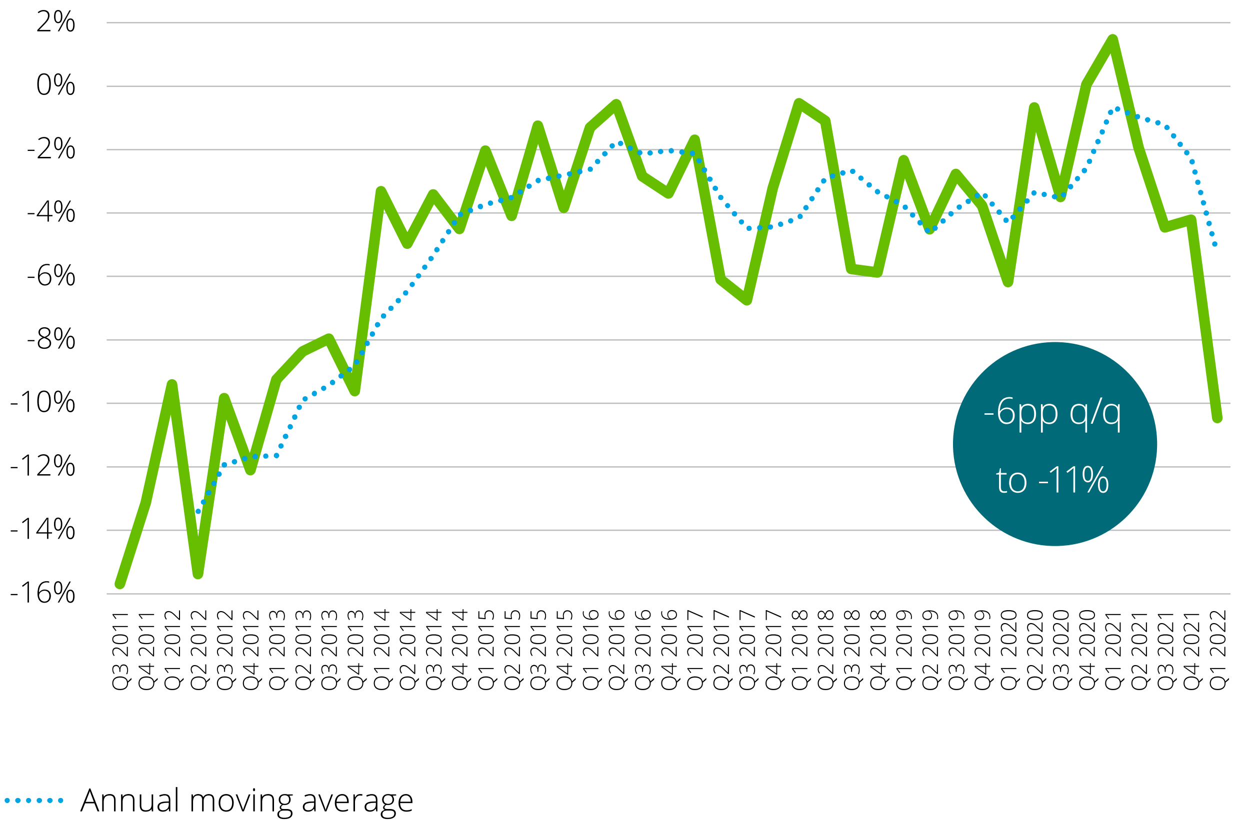
Source: The Deloitte Consumer Tracker

Deteriorating sentiment around personal finances drives a decline in overall confidence

Our measure of consumer confidence in levels of disposable income fell by 23 percentage points, to -49%, its sharpest quarter-on-quarter fall, reaching its lowest level since the Deloitte Consumer Tracker began in 2011.

Consumer confidence about their levels of debt

Net % of consumers who said that their confidence in their levels of debt has improved in the past three months



Source: The Deloitte Consumer Tracker

Confidence in levels of debt worsened in Q1 2022

With costs surging many consumers have been using their savings or taken on debt to finance their spending and maintain similar living standards.

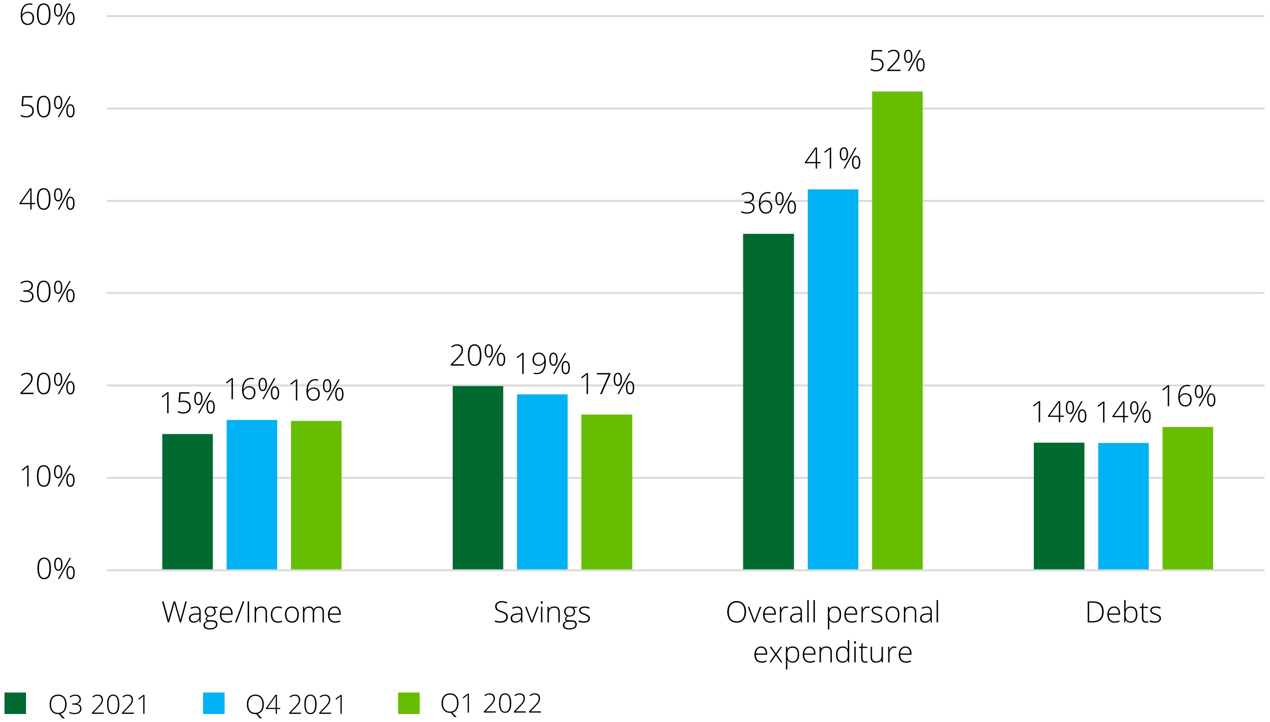
As a result, sentiment about levels of debt also worsened losing six percentage points to -11% its lowest level in nine years.

The deterioration of consumers' sentiment around their levels of disposable income and debt is a major concern for the UK economy given that consumer spending accounts for half to two-thirds of all economic activity.

Personal finances sentiment – Last 3 months

In the LAST three months (i.e., since December 2021)...Would you say you have seen an increase or decrease in each of the following aspects of your personal finances, or has it remained about the same?

% of consumers who said they saw an increase in the last three months



Source: The Deloitte Consumer Tracker

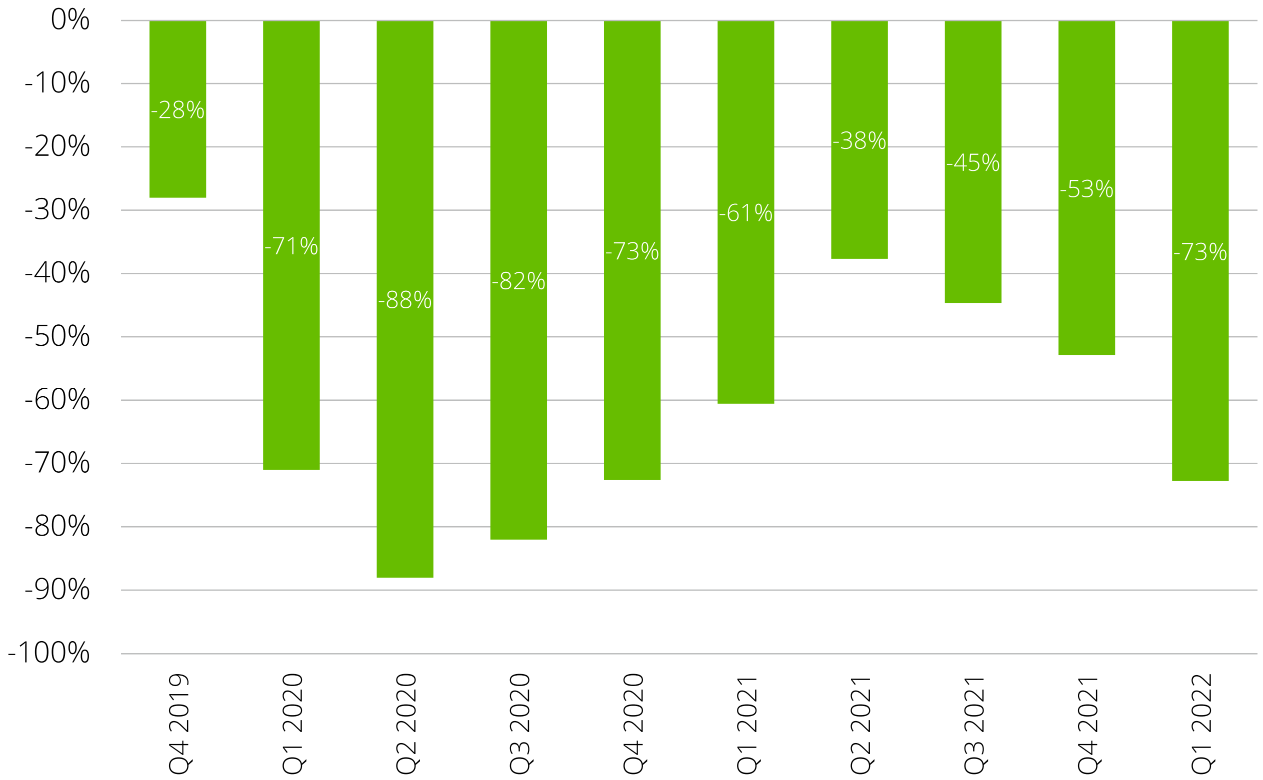
Rising cost of living increased pressures on personal finances

In a sign of inflation rapidly feeding through to consumers, our research shows that the number of consumers indicating their overall personal expenditure had gone up in the last quarter has increased by 11 percentage points from 41% in Q4 2021 to 52% in Q1 2022.

When asked why, 83% of consumers who said they spent more in Q1 2022 indicated it was because prices were going up, a sharp rise from the 74% seen in Q4 2021.

Consumer confidence about the state of the UK economy

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



Source: The Deloitte Consumer Tracker

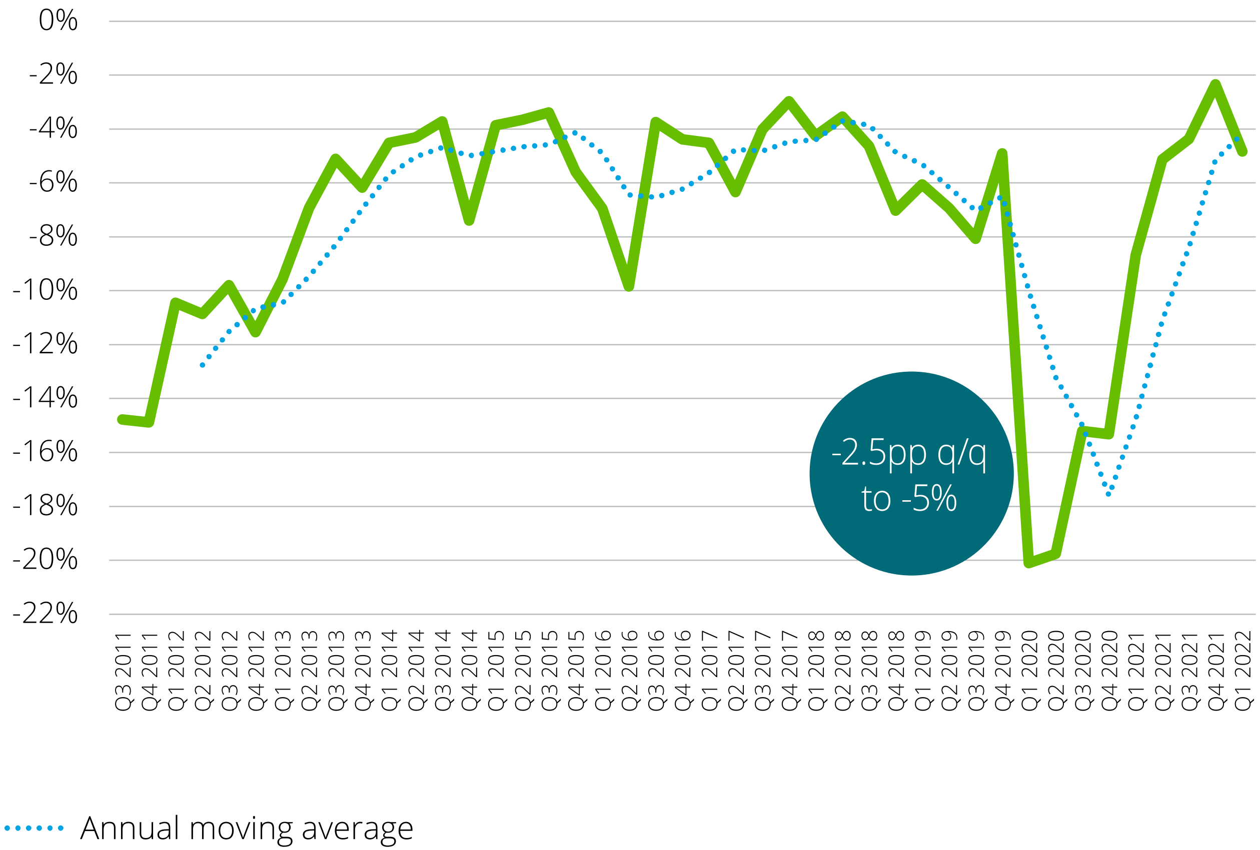
Surging inflation impacts consumer confidence in the state of the economy

Household consumption has been the driver of the economic rebound in the last year but with inflation running at a 30-year high of 7%, and outpacing wage growth since November last year, consumers are being hit hard.

As a result, consumer sentiment on the state of the economy has dropped by 20 percentage points this quarter, to -73% – lower than when COVID restrictions were introduced in the UK back in Q1 2020.

Consumer confidence about job security

Net % of consumers who said that their confidence in their job security has improved in the past three months



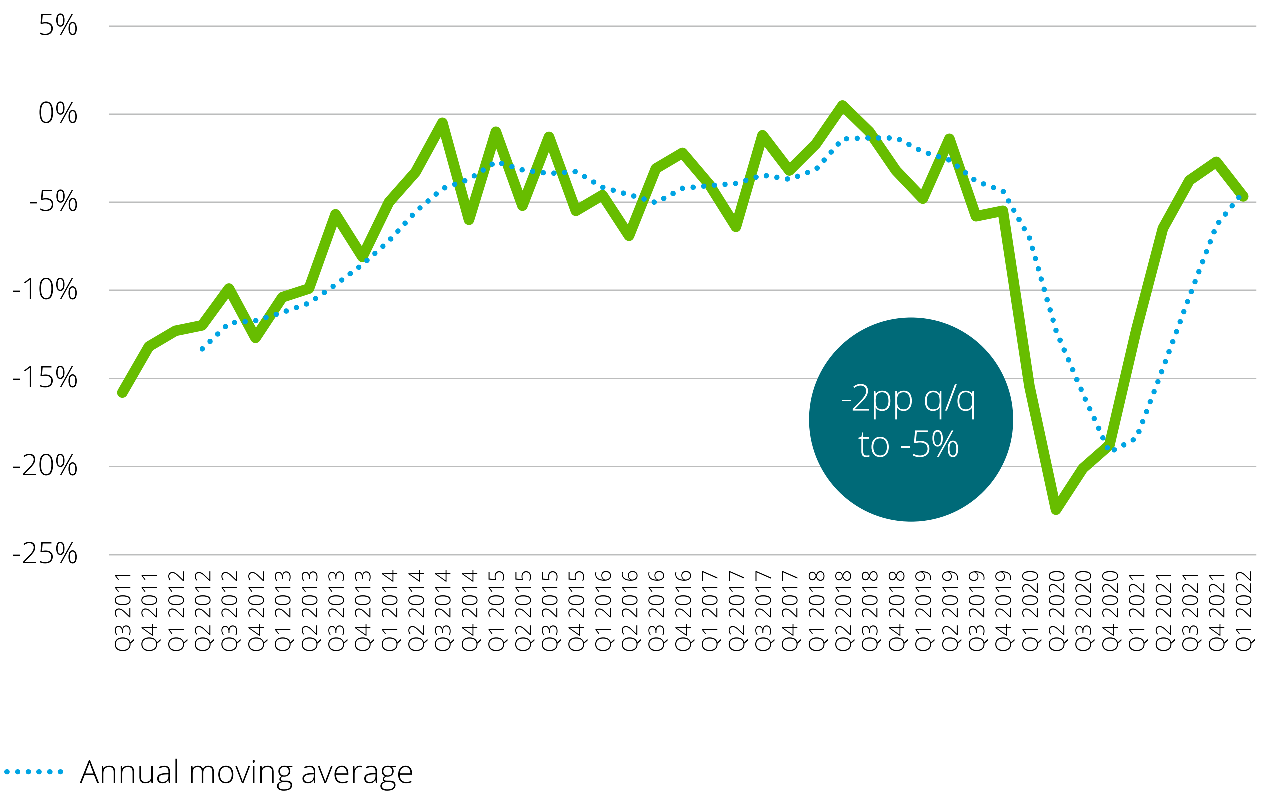
Source: The Deloitte Consumer Tracker

Sentiment around job security deteriorates for the first time since the start of the pandemic in Q1 2020

While the job market has shown resilience throughout the pandemic and continued to remain strong since the end of government support, our survey also points to consumers starting to anticipate a change in their job prospects, as sentiments around job security declined by three percentage points.

Consumer confidence about job opportunities

Net % of consumers who said that their confidence in their job opportunities and their career progression has improved in the past three months



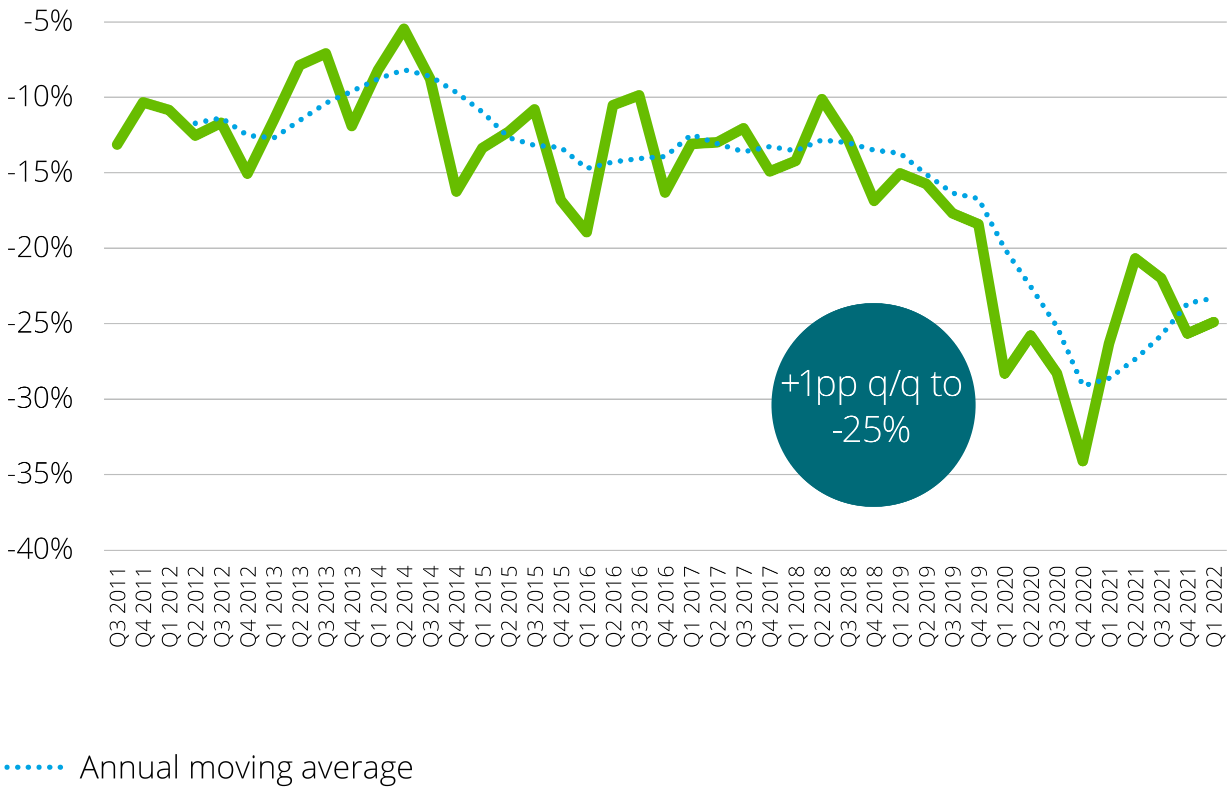
Source: The Deloitte Consumer Tracker

Despite high level of vacancies job prospects sentiment is down in Q1 2022

Sentiment around job opportunities and career progression also declined for the first time since Q2 2020, losing two percentage points to -5% compared with Q4 2021, but remains eight percentage points higher than on Q1 2021.

Consumer confidence about their general health and wellbeing

Net % of consumers who said that their confidence in their general health and wellbeing has improved in the past three months



Source: The Deloitte Consumer Tracker

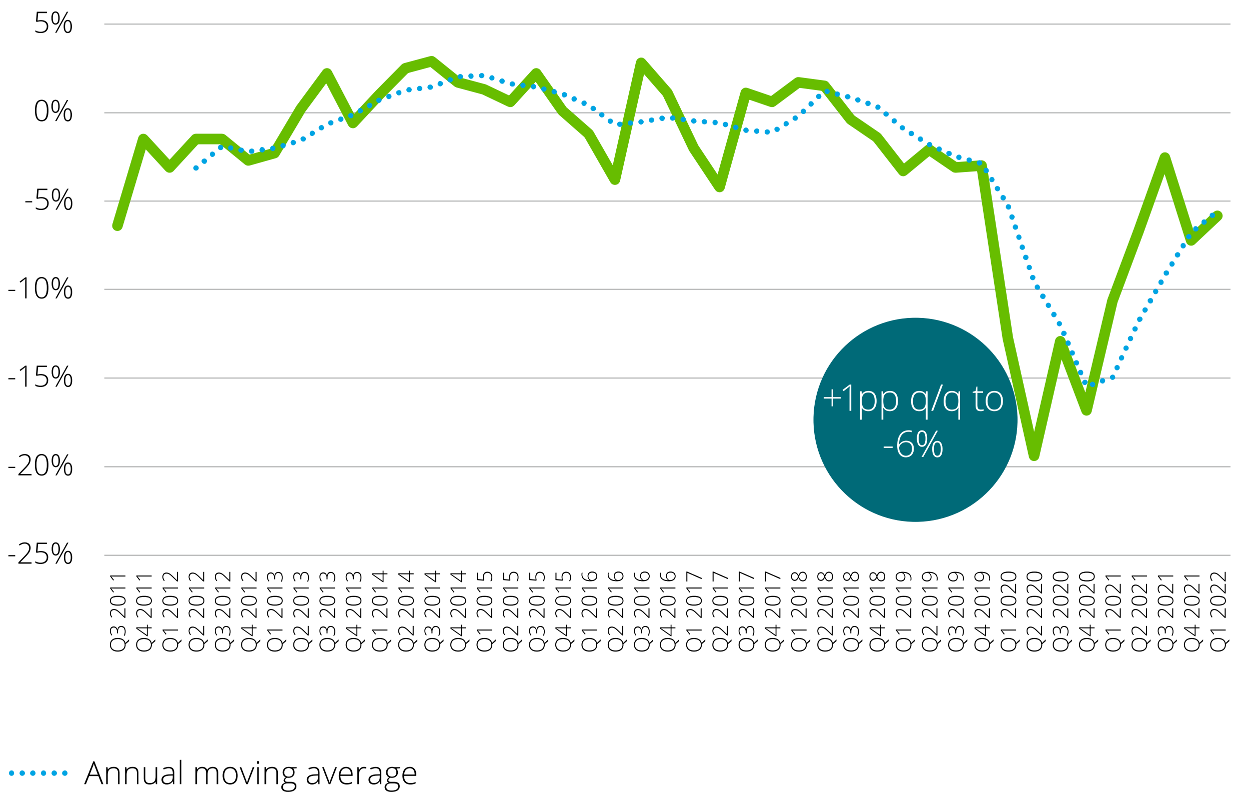
Confidence in health and wellbeing continues to improve

Confidence about health and wellbeing remains correlated to the direction of the pandemic.

With the UK recording lower infection rates since early April, consumers' optimism around health and wellbeing grew by one percentage point to -25% compared with Q4 2021.

Consumer confidence about their children's education and welfare

Net % of consumers who said that their confidence in their children's education and welfare has improved in the past three months



Source: The Deloitte Consumer Tracker

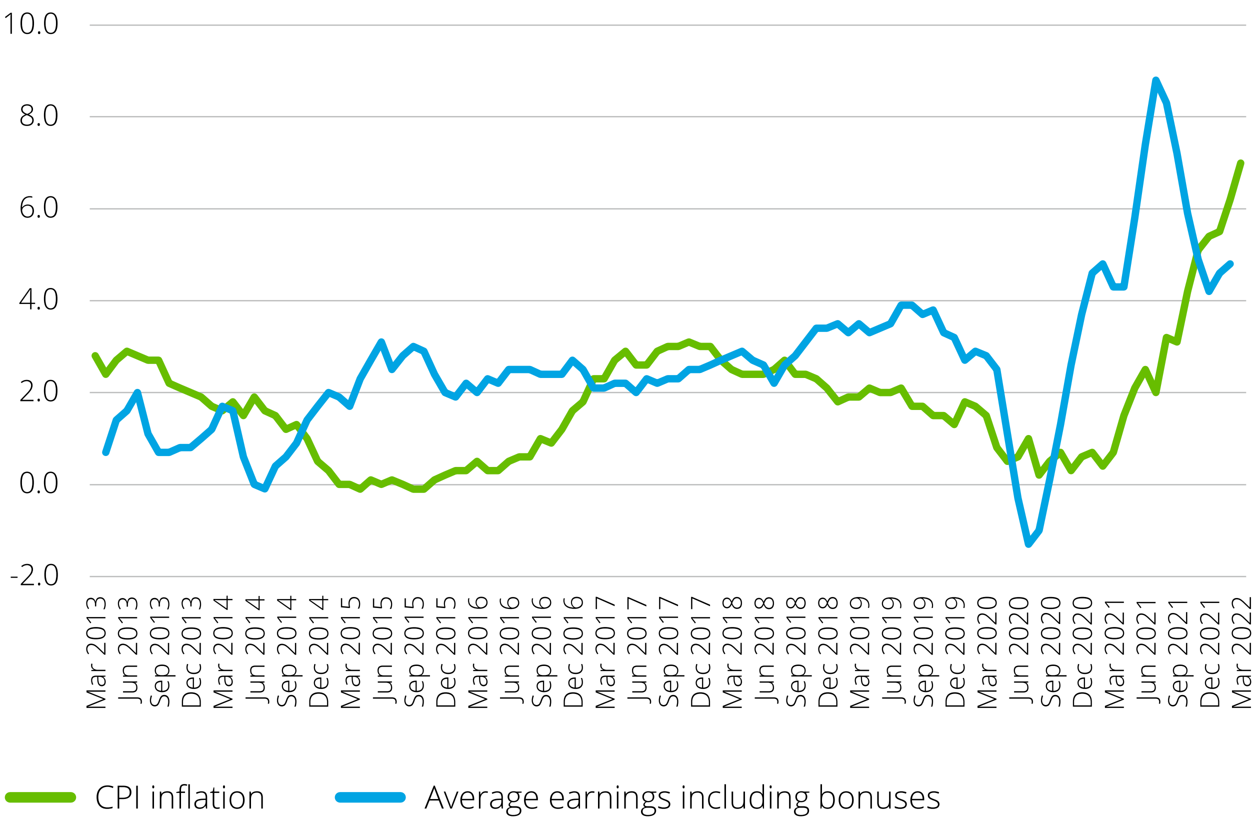
Children's education and welfare sentiment climbs up

With the approval and launch of the vaccination programme to children aged 5 to 11, confidence in children's education and welfare was up by one percentage points to -6% in Q1 2022 compared to the previous three months.

The wider economy

UK inflation jumps to highest level in 30 years

CPI inflation vs average earnings (incl. bonuses) (year-on-year % growth)



Source: Refinitiv Datastream

UK inflation jumped to 7% in March

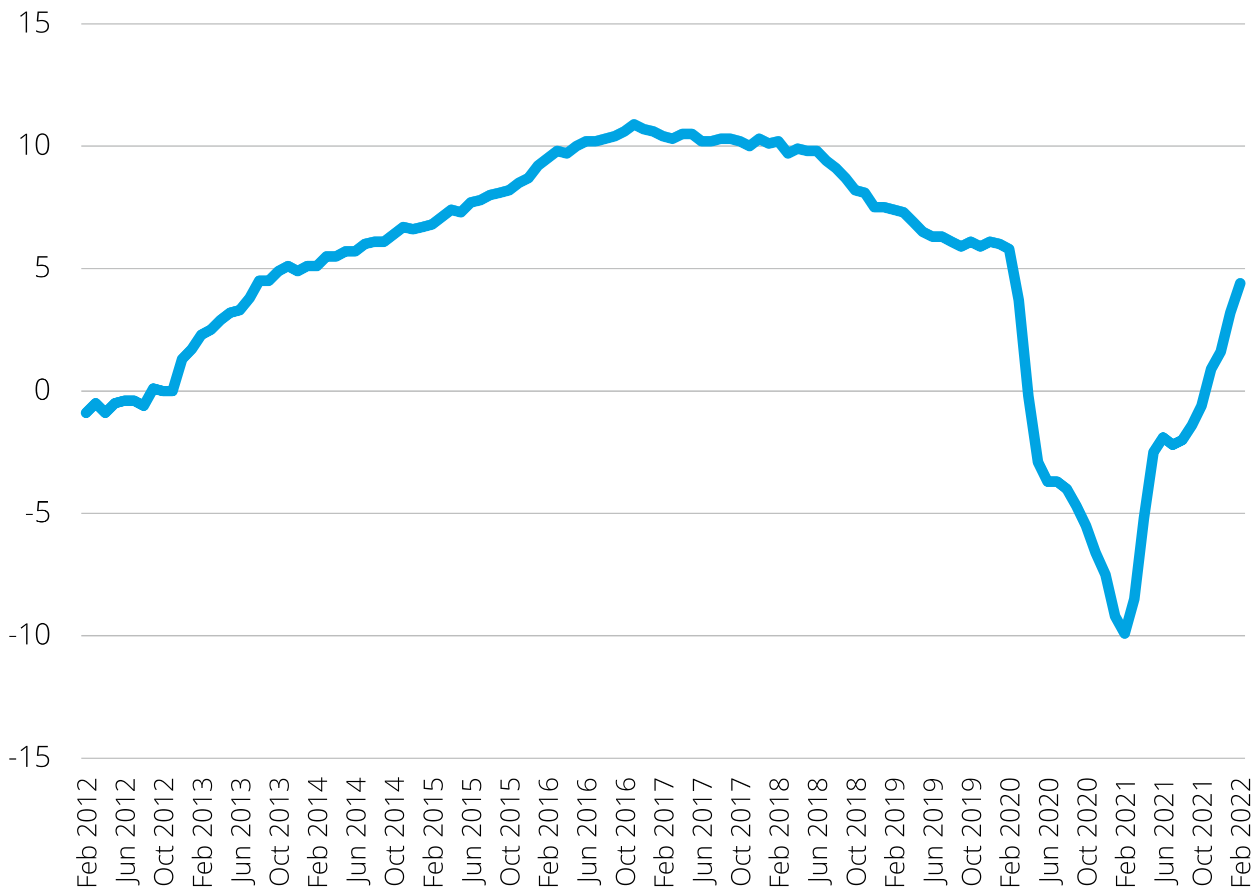
Inflationary pressures that resulted from exceptional levels of consumer and corporate spending following the reopening of the economy, have been exacerbated by rising energy prices, labour shortages and global supply chain disruptions that have triggered higher shipping and distribution costs.

Inflation is likely to continue to increase to levels close to 10% in the first half of this year with a further rise in household energy bills expected in the Autumn.

Meanwhile real average earnings fell 1.0% over the year when accounting for inflation.

Household borrowing back to pre-pandemic levels

Net lending to individuals (year-on-year % growth)



Source: Refinitiv Datastream

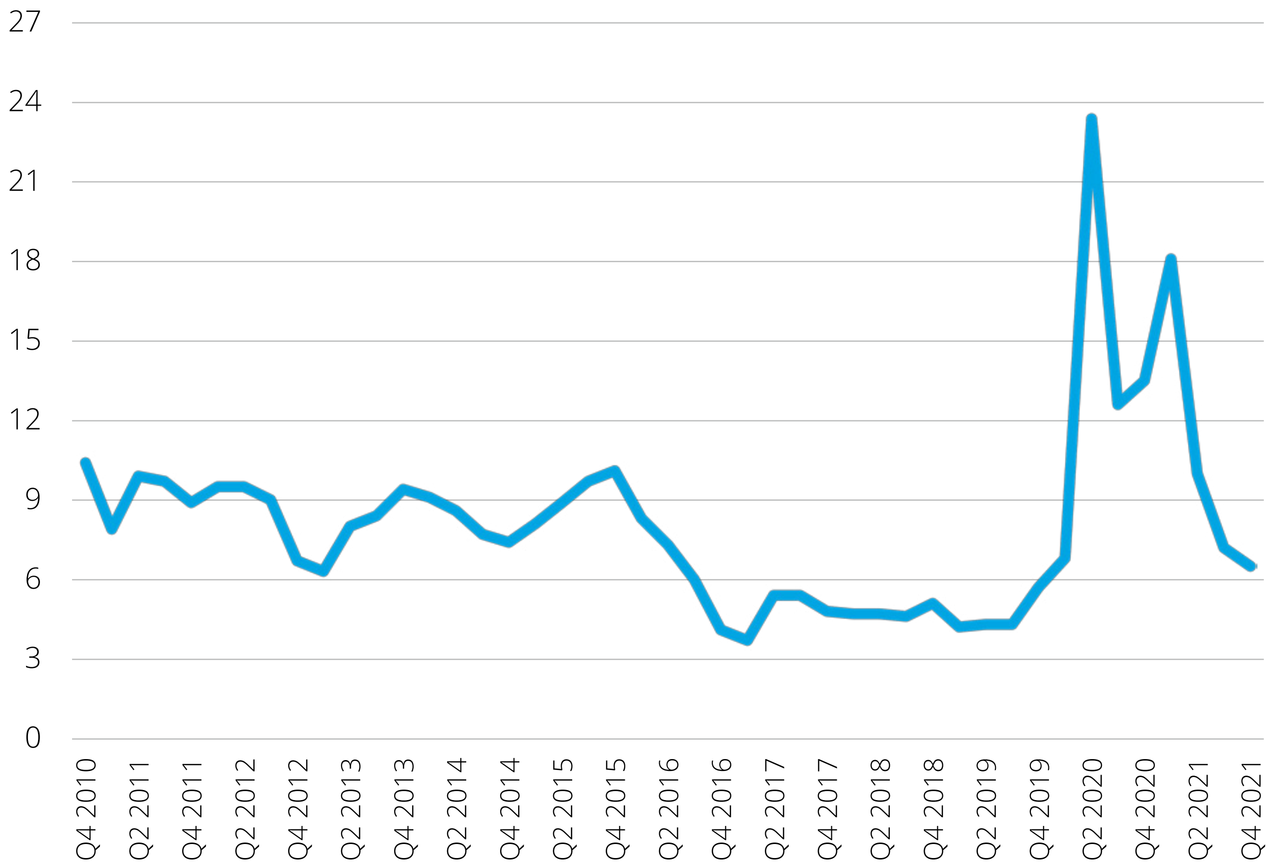
Borrowing jumps in March as inflation hits household finances

Households borrowed to support their current level of expenditure while their real disposable incomes are being impacted by high inflation.

According to the Bank of England consumer credit, which includes borrowing on credit cards, car dealership finance, personal loans and overdrafts, increased by 5.2% annually in March 2022, accelerating from 1.6% in December. As a result, net consumer borrowing is now back to levels seen before the pandemic in February 2020.

UK consumers save less

UK households' savings ratio



Source: Refinitiv Datastream

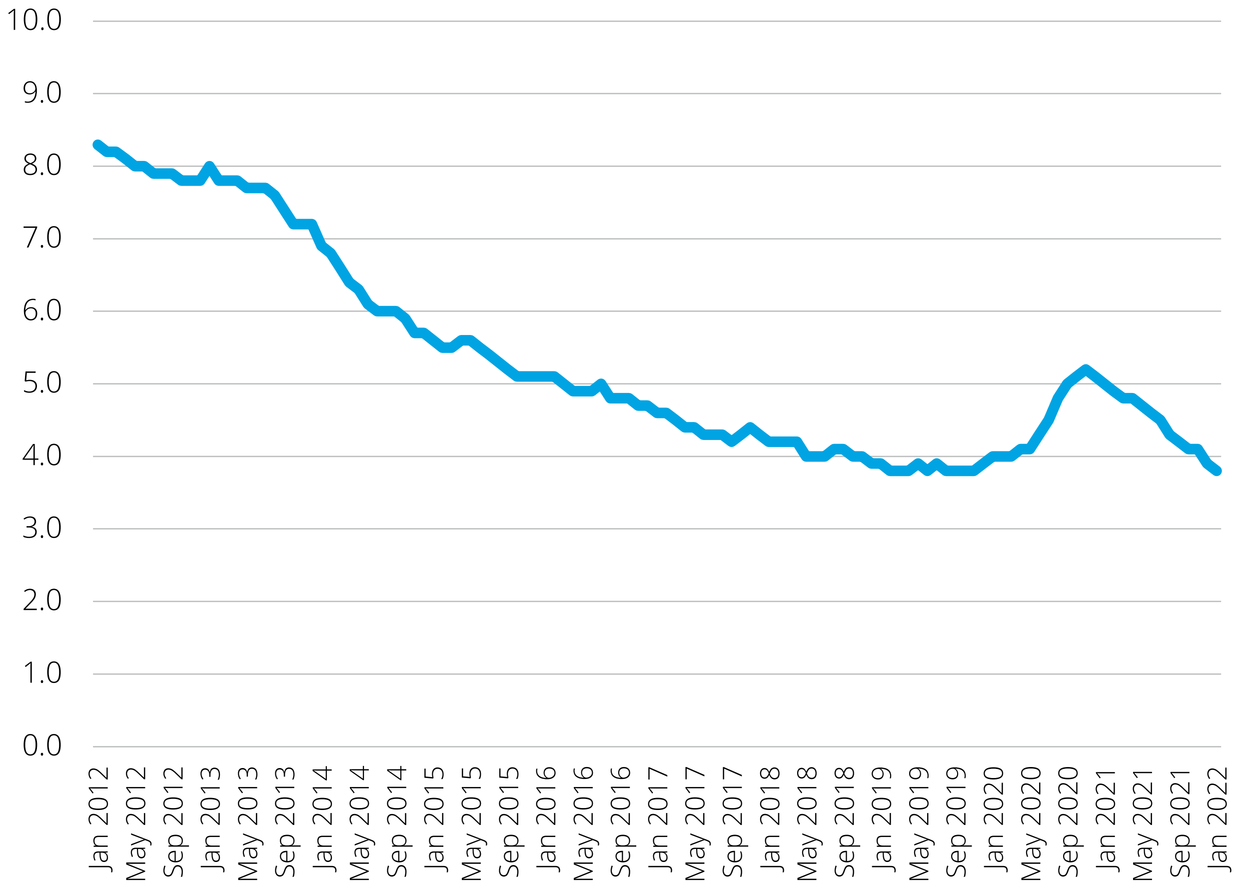
Savings ratio growth slows as consumer spending rises

A fall in the savings ratio coincides with a strong rise in household spending for the period.

Household savings ratio decreased to 6.5%, compared with 18.1% in Q1 2021 indicating that households are drawing down the savings they accumulated during the pandemic.

Labour market tightening intensifies

UK unemployment rate (all aged 16 and over)



Source: Refinitiv Datastream

UK labour market continues to tighten

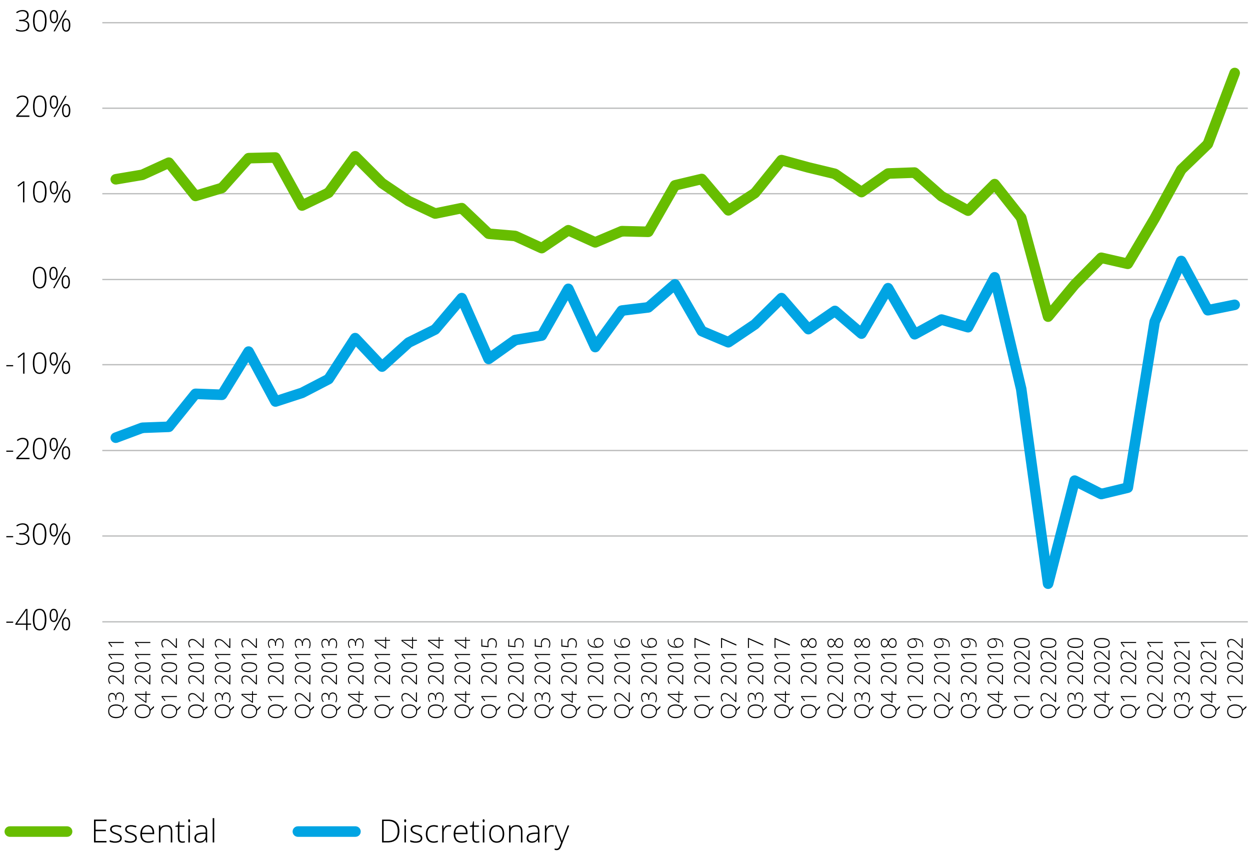
The UK unemployment rate fell to 3.8% in the three months to February 2022 returning to lows last seen in 2019 and the number of vacancies reached a fresh high of 1.29m.

These results also highlight the difficult hiring conditions for businesses and the impact this could have on growth, as well as pushing costs higher.

Consumer spending

Consumer spending in the last three months – essential vs discretionary spending

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



Note: New categories were added to Essential spending in Q2 2020

Source: The Deloitte Consumer Tracker

Day-to-day spending rises to its highest level since the Tracker began

Our spending sentiment data shows record levels of overall expenditure in the day-to-day categories. Overall essential spending in Q1 2022 was twice as high as pre-pandemic levels in Q1 2019. Meanwhile discretionary spending also increased following the end of all restrictions with higher levels of expenditure in the socialising and travel categories.

However, while total expenditure is growing, it does not necessarily mean that everyone is spending. Our data also points to a widening gap between the lower-income and more affluent households.

Consumer spending in the last three months by category

	Q1 2022 net balances	% point change quarter on quarter	% point change year on year	% point change vs Q1 2019
Essential	+24%	+8	+22	+12
Utility bills	+64%	+10	+28	+32
Grocery shopping	+52%	+8	+26	+32
Everyday household items	+37%	+14	+32	N/A
Transport	+36%	+27	+78	+25
Landline/mobile phone, Internet and cable/TV	+20%	+12	+11	+10
Housing	+19%	+9	+15	+7
Health	+8%	+1	+8	+2
Pensions and insurance	+6%	+1	+7	-1
Education	+2%	+1	+2	+1
Beauty and personal care products	-3%	+1	+17	N/A

	Q1 2022 net balances	% point change quarter on quarter	% point change year on year	% point change vs Q1 2019
Discretionary	-3%	+1	+21	+3
Holidays & Hotels	+1%	+13	+39	0
Major household appliances	-1%	-2	+5	+3
Alcoholic beverages and tobacco	-1%	-9	+4	+11
Electrical equipment	-2%	-2	+3	+3
Restaurants	-2%	+9	+46	+5
Furniture and homeware	-6%	-3	+5	-1
Clothing and footwear	-6%	-6	+27	+2
Going out	-8%	+5	+41	+5

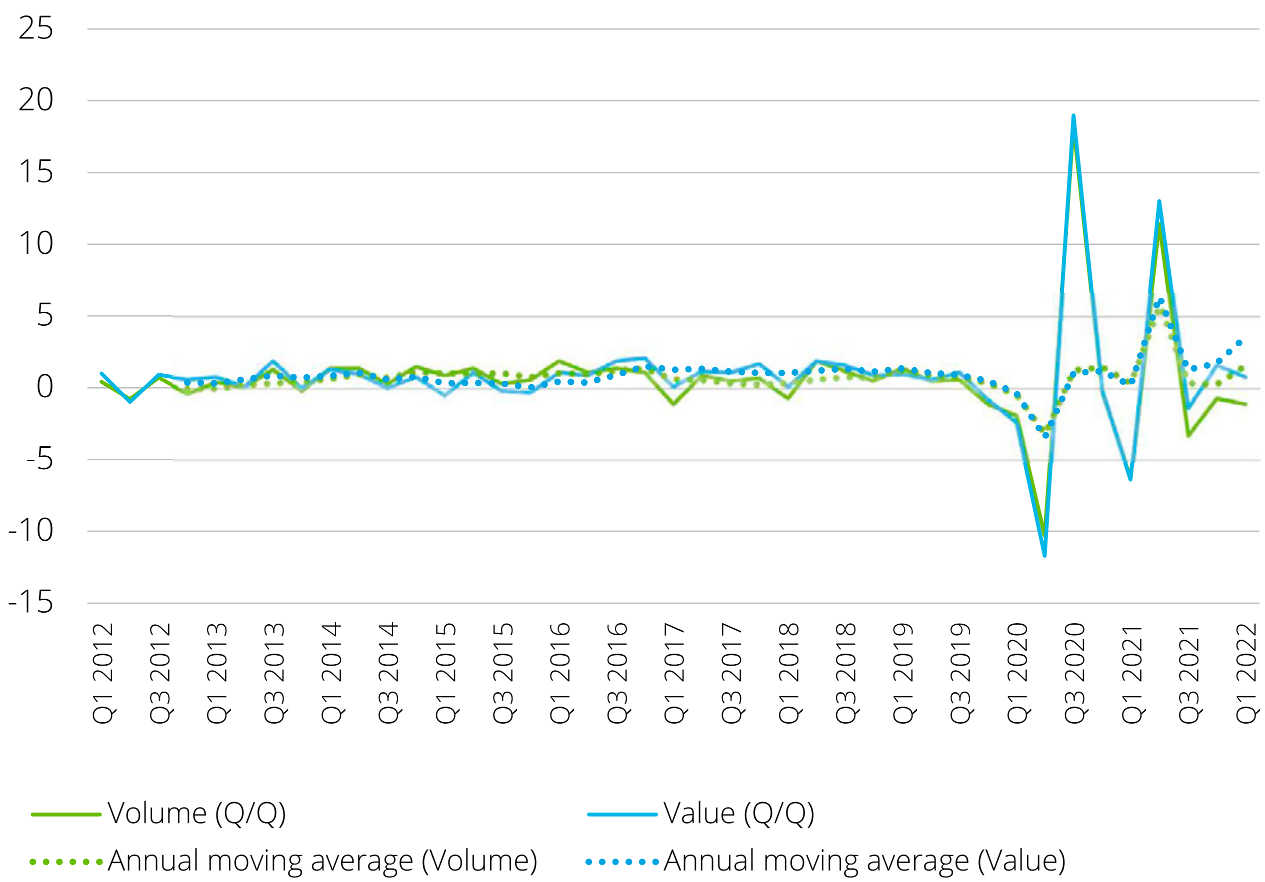
Source: The Deloitte Consumer Tracker

Retail


HERITAGE
TOMATO SAUCE
BROWN SAUCE
SALAD CREAM
BUY ANY TWO
FOR ONLY
£1.80

Retail sales (incl. fuel SA)

% change in volume and value quarter on quarter



Source: Refinitiv Datastream

Retail sales fell unexpectedly in Q1 2022

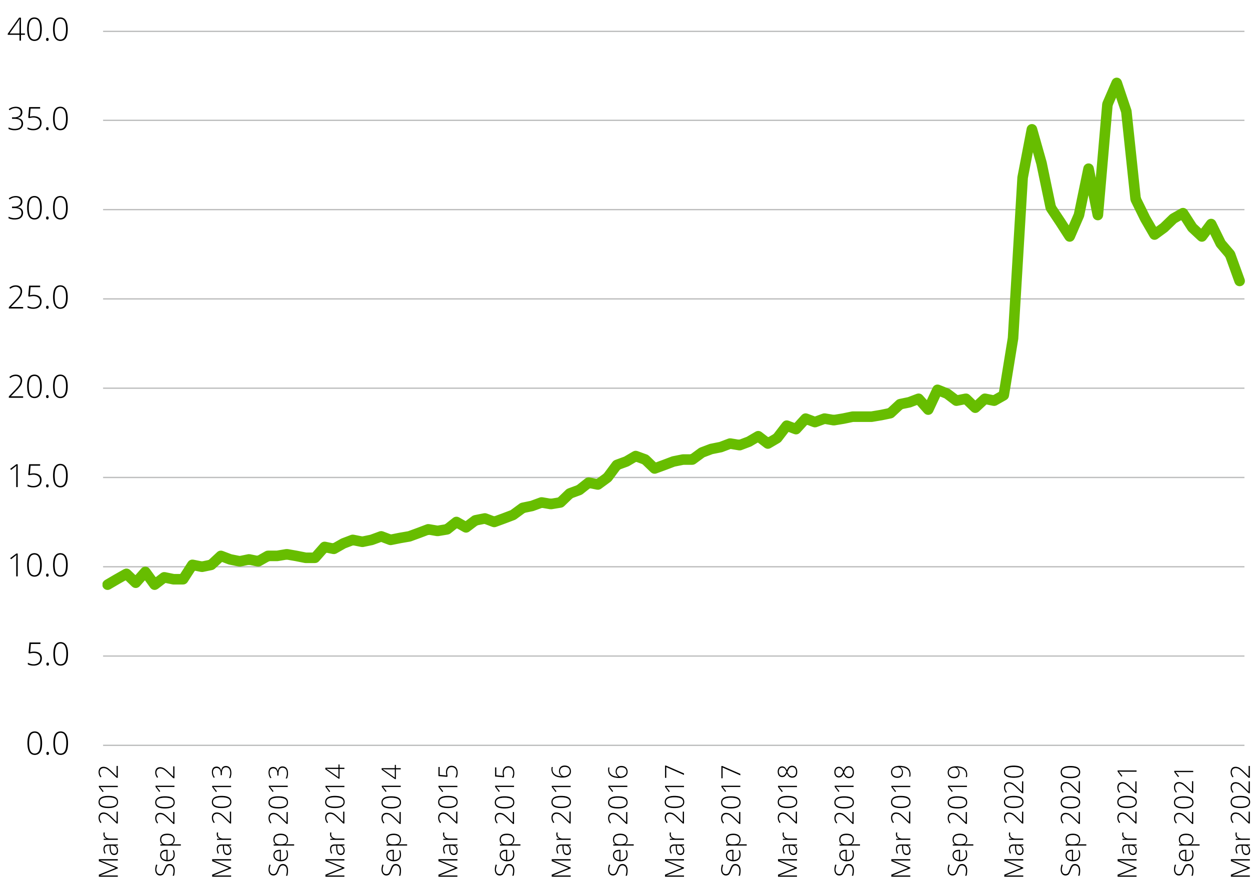
Retail sales have fallen by more than expected in Q1 2022 amid weakening demand and soaring inflation. The ONS reported that in Q1 2022 retail sales volumes were down by -1.1% while retail sales values increased by 0.8% compared with Q4 2021.

Rising costs are threatening the retail sector as people have no choice but to cut back on how much and what they buy. Our data shows that of those spending less, 35% are choosing cheaper brands or stores and 25% are taking advantage of sales.

Retailers are also faced with greater competition from a resurgence in tourism, eating out, live sport and music events.

Online sales

UK Internet sales as a % of total retail sales (exc. Fuel)



Source: Refinitiv Datastream

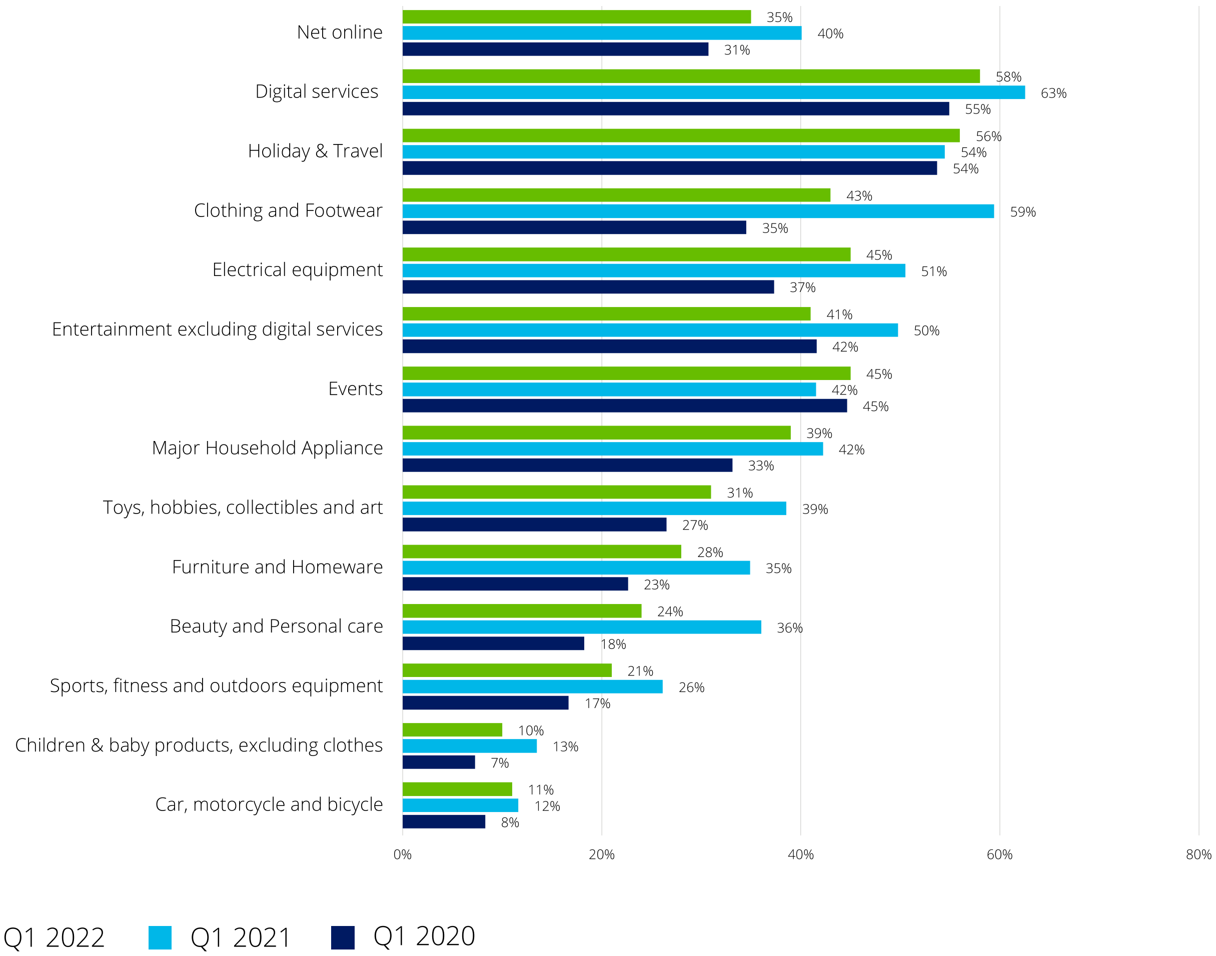
Online channel hit the hardest by falling retail sales

The ONS retail sales data showed that online sales slipped 6% in March compared with the previous month as the channel has been particularly hard hit by households cutting back on discretionary spending.

As a result, the share of online sales as a proportion of total retail sales fell in March (to 26%) from its peak in February 2021 (37%), although it still remains six percentage points higher than in February 2020. As retailers adjust to a post-COVID world, a question remains whether they need to scale back some of the large investments made in their online channels during the coronavirus pandemic to avoid being left with too much excess capacity.

Purchases of product and service categories by channel

% consumers who last bought **online** in the category



Source: The Deloitte Consumer Tracker

Online trends reverting back to pre COVID?

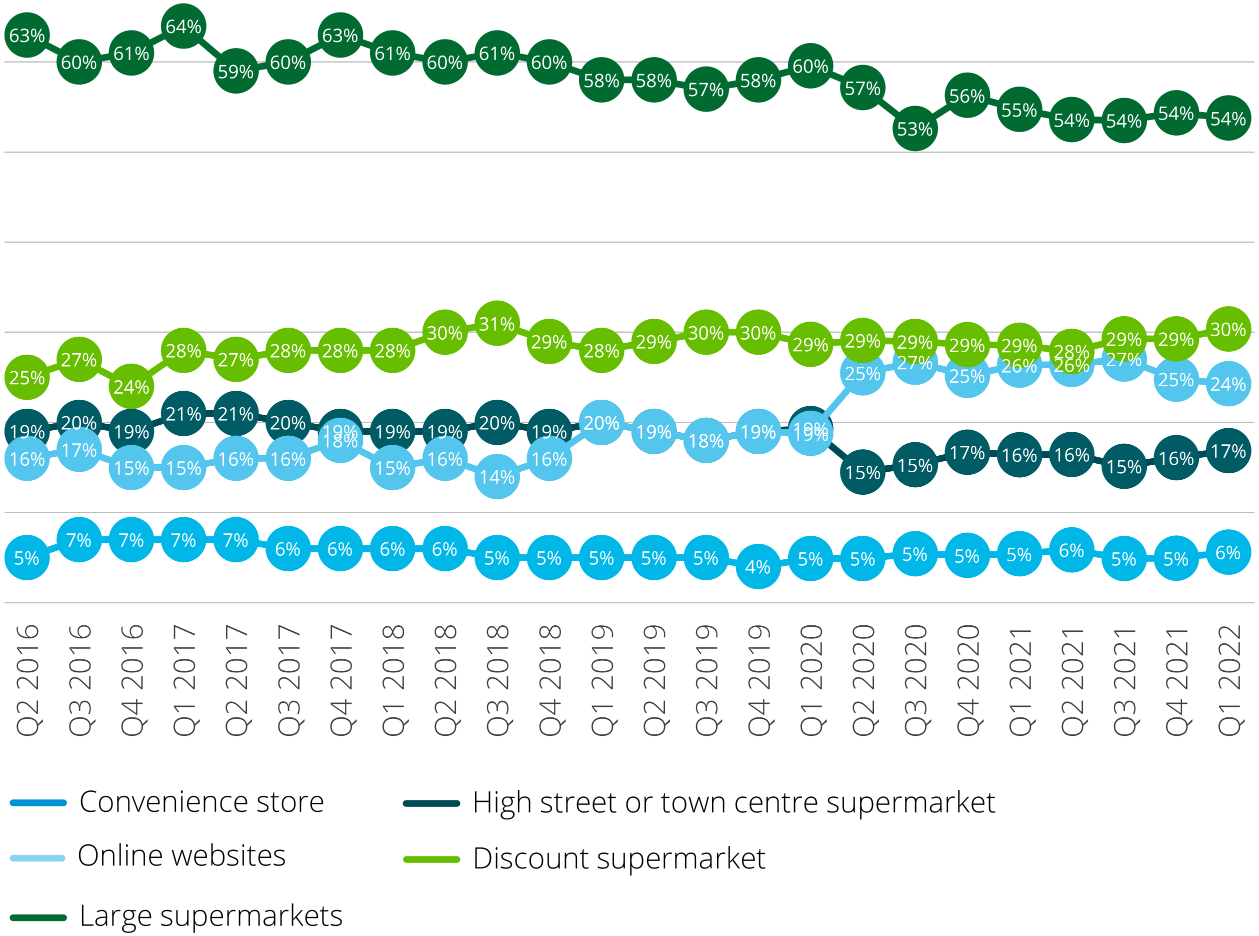
On average 35% of consumers made their last purchase online across all non-food categories in Q1 2022. This represents a five-percentage point fall compared with Q4 2021 but remains higher than in the pre-COVID Q1 2020 period (31%).

The data has also revealed which categories were most likely to retain the gains made during the pandemic.

This could undermine the premise that the pandemic has permanently shifted consumer buying habits towards online.

Grocery shopping by channel

Channel usage for main grocery shop



Source: The Deloitte Consumer Tracker

Food sales continue to fall

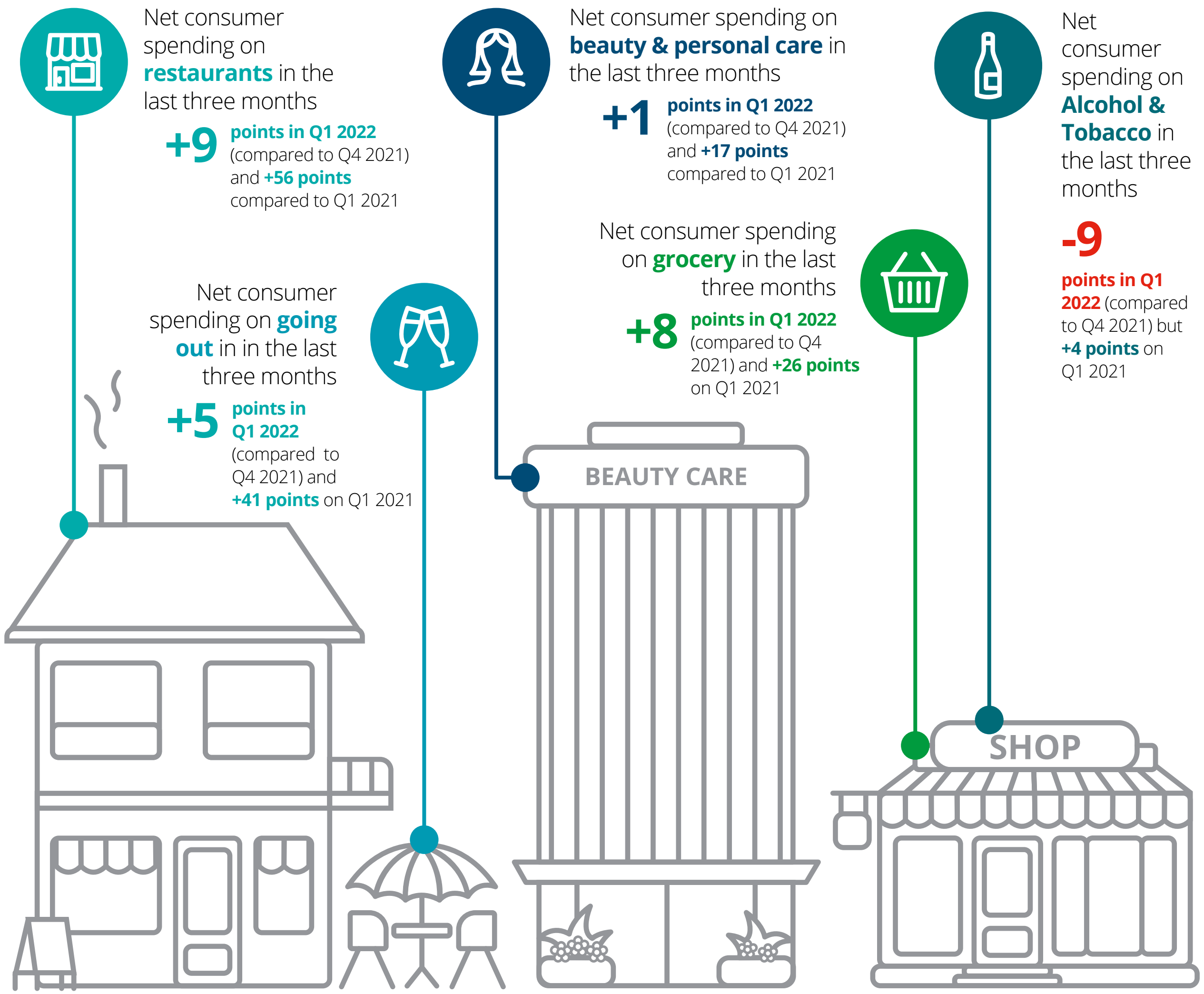
According to the ONS, food sales volumes were down 2.8% in Q1 2022 and have fallen every quarter since Q2 2021. While this is in part because people are eating less at home as offices and restaurants reopened, it also points to the impact of rising food prices on the cost of living.

Grocery prices rose 5.9% in the three months to 17 April compared with the same period a year earlier, the highest level since December 2011*.

In a sign of hard-pressed consumers starting to switch brands to ease pressures on their household budgets, our data shows that discounters increased their market share in Q1 2022.

Consumer Products

Inflation drives consumer spending growth



Source: The Deloitte Consumer Tracker

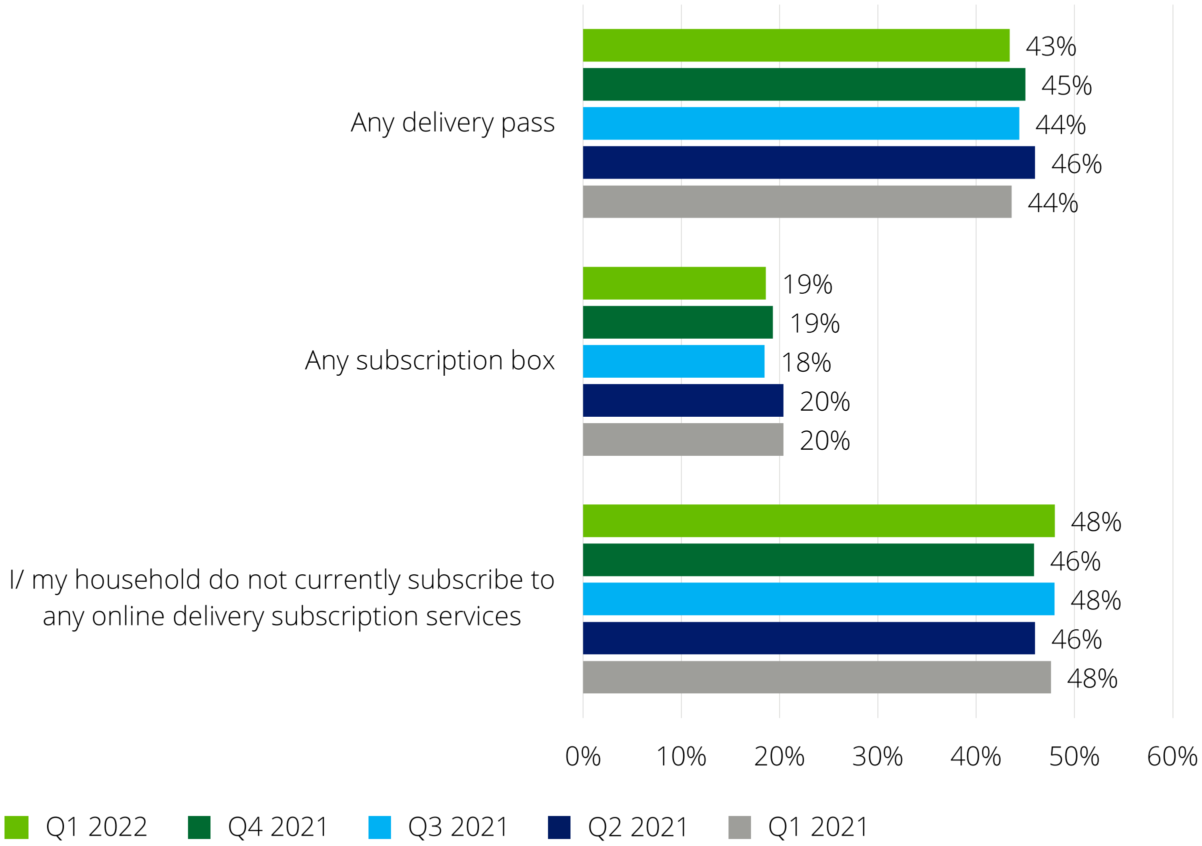
Surging inflation dictates consumer spending

In a sign of surging inflation and the removal of all restrictions both driving an increase in consumer spending, net spending on grocery grew in Q1 compared with Q4 2021 while spending on alcohol and tobacco declined as consumers spent more on going out and socialising this quarter. Indeed, the on-trade categories grew in Q1, with net consumer spending in the restaurant and going out categories both up. However, there was a notable decline in spending in other discretionary categories in Q1 compared with Q4 2021.

Spending on large ticket items goods such as household appliances declined due to the financial pressures causing a squeeze on the cost of living.

Ongoing subscription delivery services (1/2)

% of UK consumers paying for subscription and/or delivery pass services



Source: The Deloitte Consumer Tracker

Little change in the uptake of the subscription model

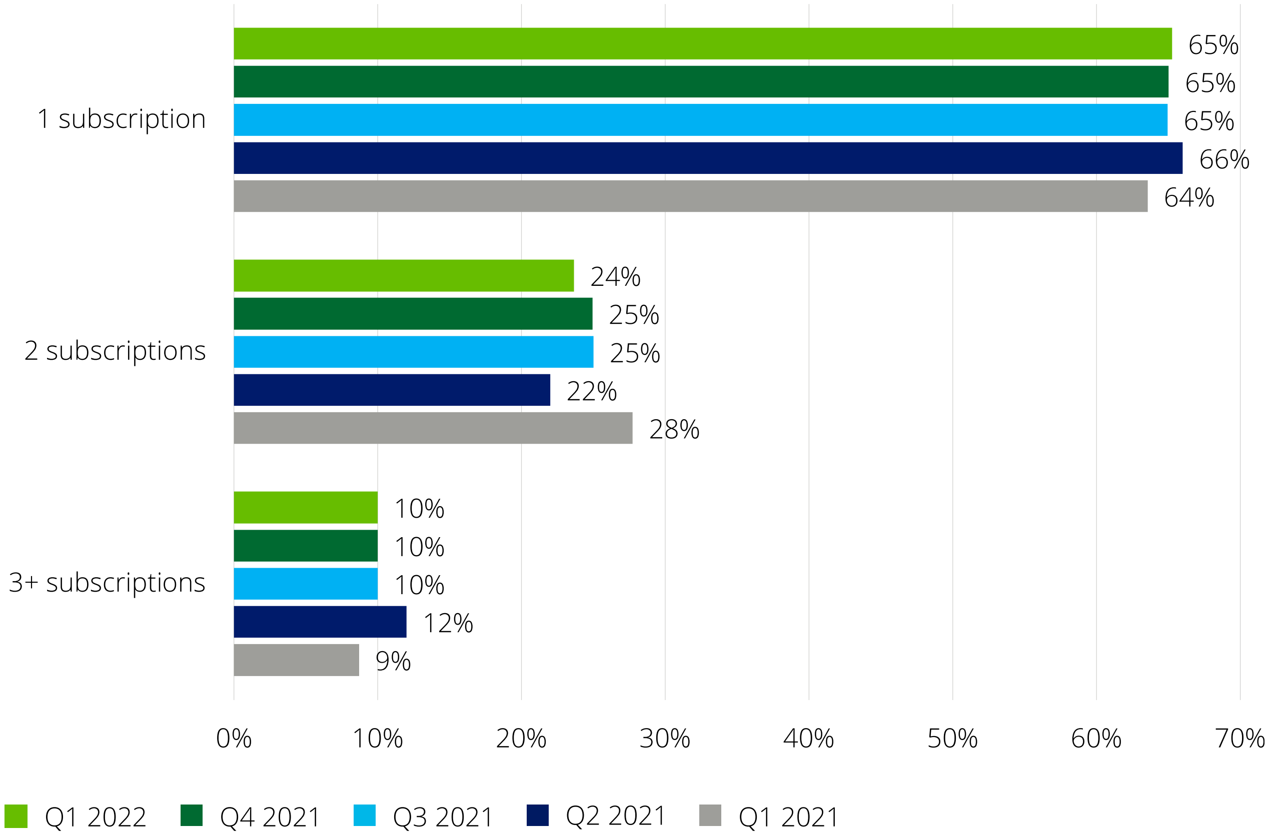
During the pandemic many consumers were tempted by the convenience of Direct to Consumer (DTC), but in a sign that adoption of DTC services might be reaching a plateau, our data shows that in Q1 2022 there was little change in the total percentage of consumers paying for delivery passes (43%) compared with the same period in 2021 (44%).

The number of consumers paying for subscription boxes was down by one percentage point to 19% in Q1 compared with Q1 2021.

Ongoing subscription delivery services (2/2)

Number of subscriptions

% of UK consumers paying for subscription and/or delivery pass services



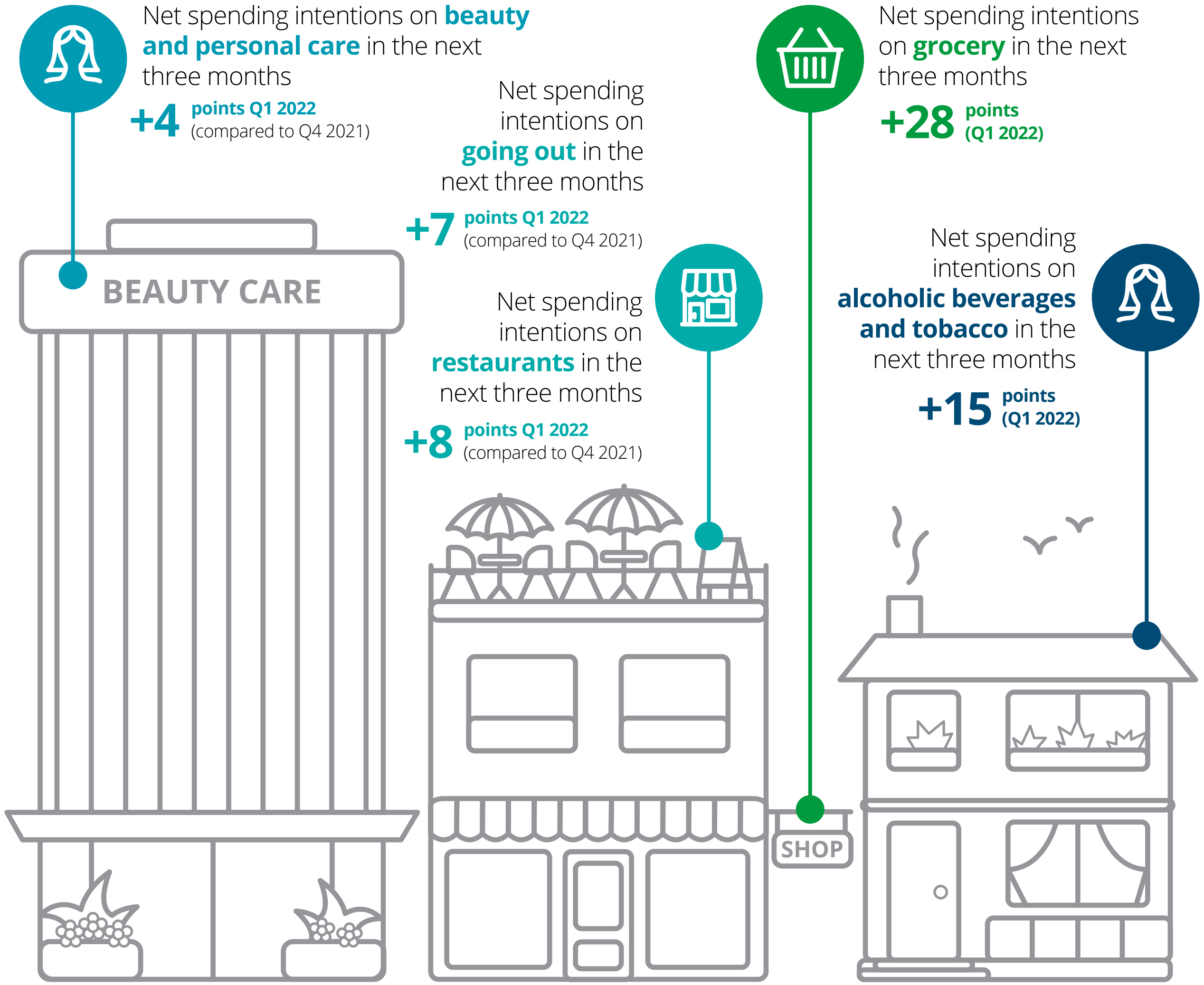
Source: The Deloitte Consumer Tracker

Number of subscription per people remains stable

Our research also shows that in Q1 2022 of those paying for a subscription or delivery pass, two-thirds (65%) paid for one subscription and/or delivery pass service, while 34% paid for two subscriptions or more, compared with 38% in Q1 2021.

This suggests that consumers who subscribed to a service during the lockdown want to keep using the service despite the economy reopening. However, with inflation rate rising faster than wages, consumers may be forced to weigh the cost of multiple subscriptions or delivery passes against their ability to buy essential items.

Spending expected to grow driven by inflation



Source: The Deloitte Consumer Tracker

Spending intentions grow across all categories.

Despite a decline in consumer confidence in Q1, spending shows no sign of slowing down.

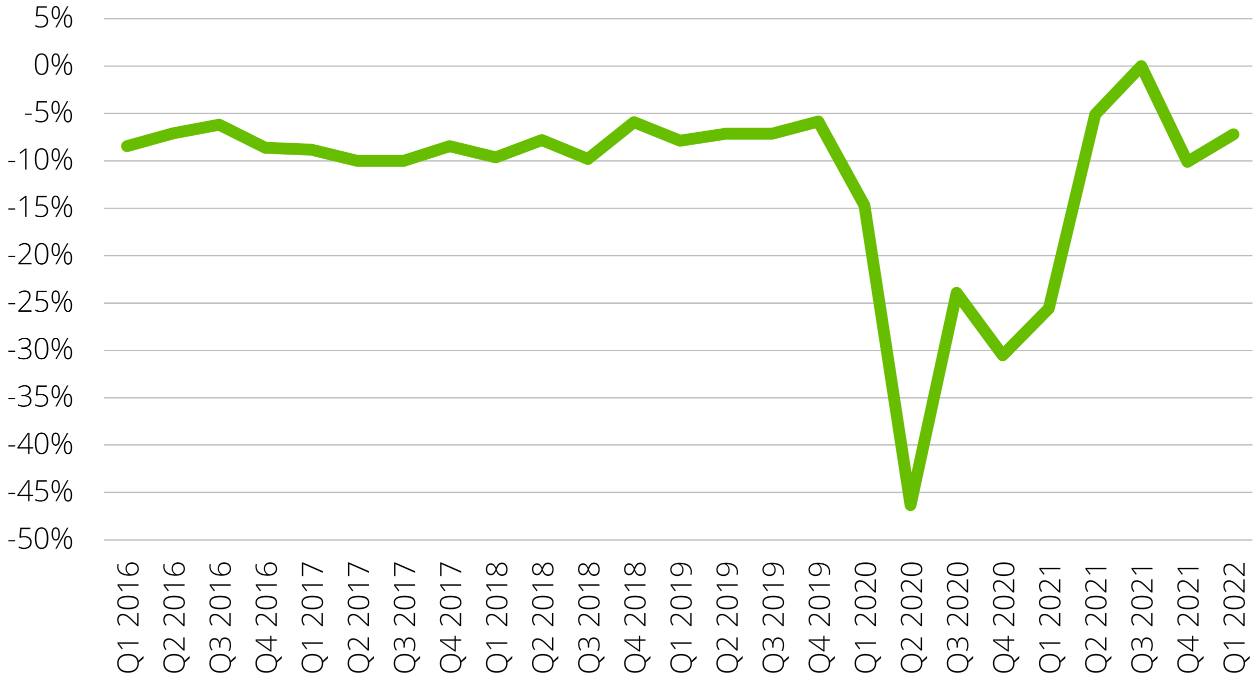
Net spending intentions on a number of categories are expected to rise in Q2 and at a higher rate than last quarter. Much of this increase in consumer spending will be driven by inflation.

Rising costs mean that prices will continue to rise in the consumer products sector. While some companies will keep prices down, others simply will not be able absorb the rising costs and must pass some of the increases on to the consumer. Consumers ability to accept higher prices will be determined by their finances. Offering prices across the range will be key to retain consumers.

Leisure

Total net leisure spending in the last three months

Net % of UK consumers spending more in all leisure categories over the last three months



Source: The Deloitte Consumer Tracker

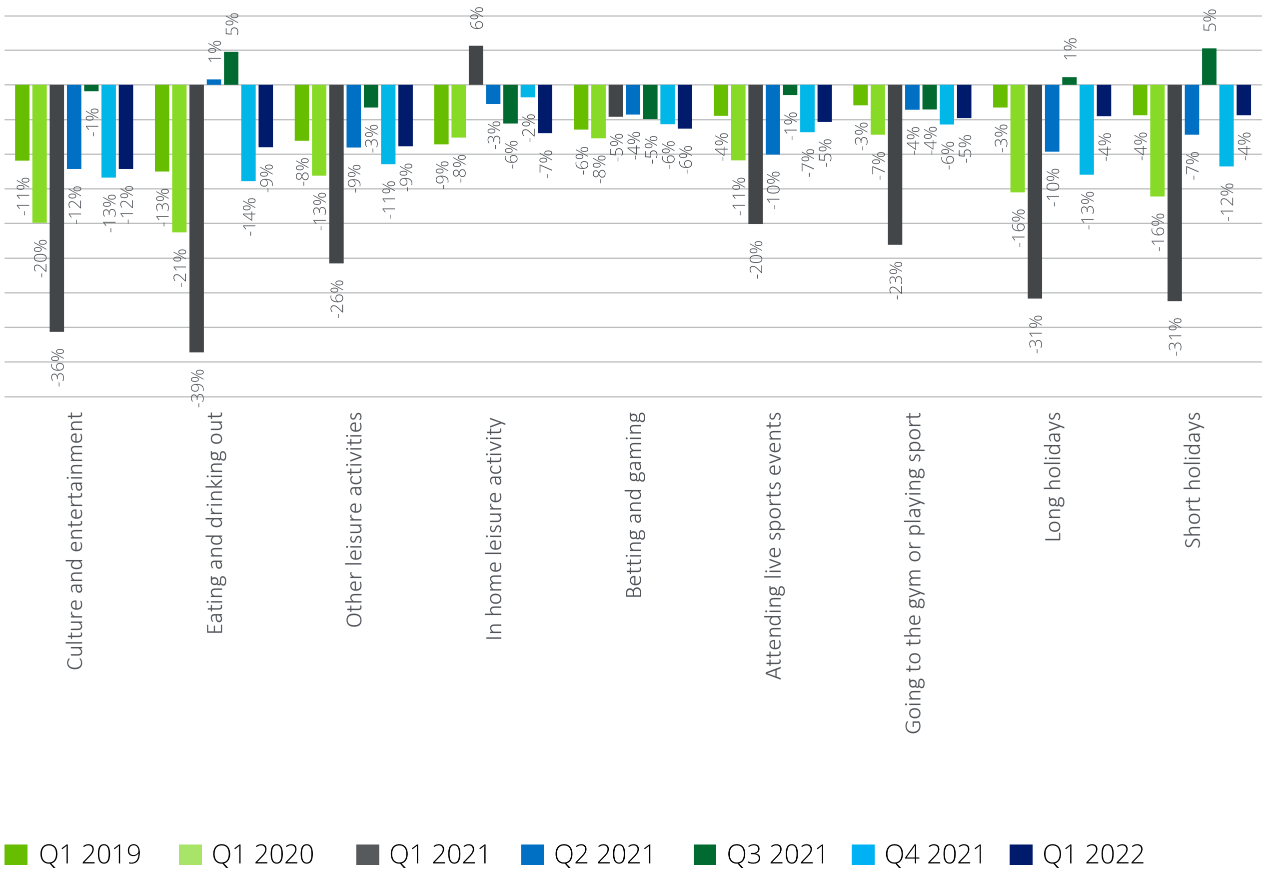
Leisure spending unlocked as restrictions lifted

Total net leisure spending jumped three percentage points to -7% in Q1 2022 compared to -10% in Q4 2021. In Q4 2021 the emergence of the Omicron variant meant that the leisure sector was faced with consumers weary of all public gatherings or socialising and unable to go abroad due to strict travel restrictions and bans.

The uptick in consumer spending this quarter coincided with the lifting of all COVID restrictions in the UK and a loosening of travel restrictions in some key tourist destinations.

UK consumer leisure spending in the last three months

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



Source: The Deloitte Consumer Tracker

At last recovery for the leisure sector

Compared with the previous quarter, in Q1 2022 net spending was up in 9 out of the 11 leisure categories tracked in our survey. While the nine categories also experienced growth compared with the same period a year ago, that was when the UK was in a strict lockdown and the ability of consumers to engage in any leisure activities outside of their home was extremely limited. The results reflect consumers' desire to get out and enjoy socialising following the end of all restrictions.

For those consumers that can afford it, holiday bookings were high up the agenda, driven by school half-term breaks but also by the removal, of COVID-19 entry requirements in many popular international destinations.

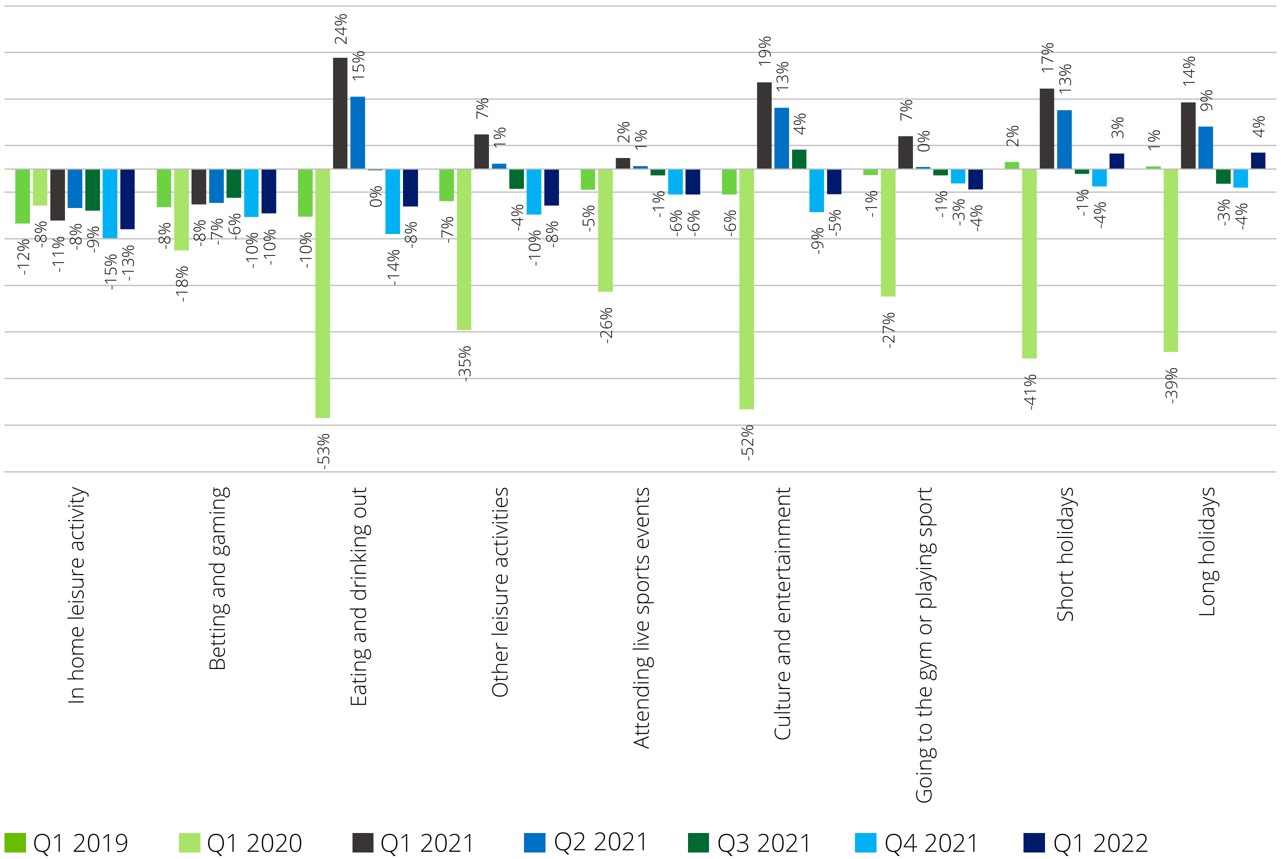
Leisure spending in the last three months by category

	Q1 2022 net balances	% point change quarter on quarter	% point change year on year	% point change vs Q1 2019
Short holidays	-4%	+7	+27	0
Long holidays	-4%	+8	+26	-1
Eating out	-5%	+8	+39	+5
Going to the gym or playing sport	-5%	+1	+18	-2
Attending live sports events	-5%	+1	+15	-1
Betting and gaming	-6%	-1	-2	0
In-home leisure activity	-7%	-5	-13	+2
Other leisure activities	-9%	+3	+17	-1
Drinking in pubs and bars	-9%	+4	+28	+4
Drinking in coffee houses and sandwich shops	-12%	+4	+24	+2
Culture and entertainment	-12%	+1	+24	-1

Source: The Deloitte Consumer Tracker

UK consumer leisure spending in the next three months

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



Source: The Deloitte Consumer Tracker

Encouraging prospects for consumer leisure spending but a fragile recovery

While overall consumer confidence fell this quarter, some of the still strong fundamentals such as rising employment, house prices and low interest rates, suggest that overall leisure spending will continue to increase, even as real earnings decline. Although the prospects for the sector look good, the recovery is fragile especially if significant travel disruption on the roads, at airports or seaports continue.

Spending on foreign travel is also still at the mercy of local COVID restrictions which can be changed at short notice. Economic uncertainty could also supress consumer spending on leisure. Inflationary pressures will also drive an increase in operating costs.

Leisure spending in the next three months by category

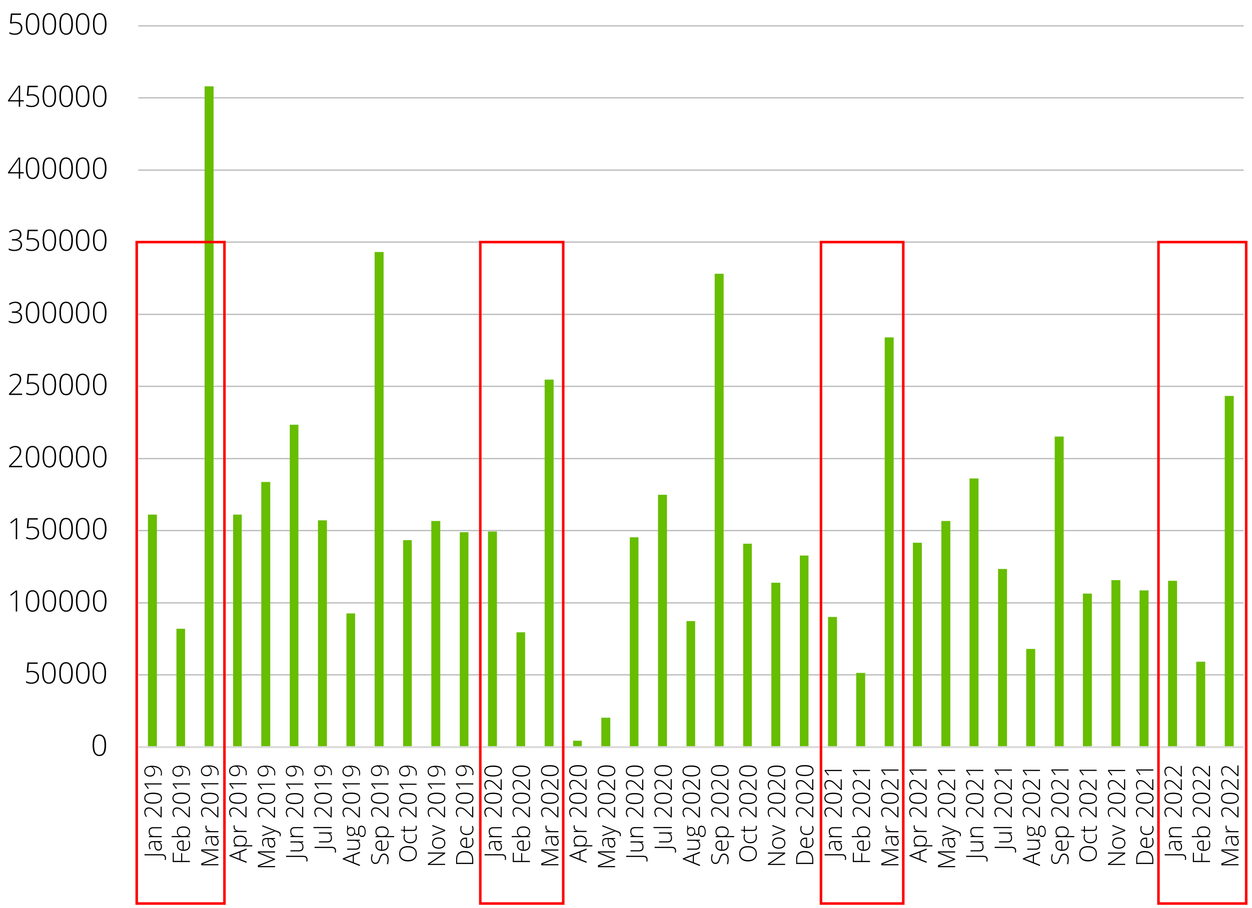
	Q1 2022 net balances	% point change quarter on quarter	% point change year on year	% point change vs Q1 2019
Long holidays	+4%	+8	-11	+3
Short holidays	+3%	+7	-14	+2
Going to the gym or playing sport	-4%	-1	-11	-3
Eating out	-5%	+8	-36	+4
Culture and entertainment	-5%	+4	-24	0
Attending live sports events	-6%	0	-8	-1
Other leisure activities	-8%	+2	-15	-1
Drinking in pubs and bars	-9%	+7	-31	+1
Betting and gaming	-10%	+1	-2	-1
Drinking in coffee houses and sandwich shops	-11%	+3	-29	+1
In-home leisure activity	-13%	+2	-2	-1

Source: The Deloitte Consumer Tracker

Automotive

UK car registrations (1/2)

UK car registrations monthly (Volume)



Source: The Society of Motor Manufacturers and Traders (SMMT)

A year-on-year double digit decline in new car sales for March saw overall Q1 2022 sales fall 2% compared with Q1 2021

After year-on-year gains in January (28%) and February (15%), new car sales in March fell by -14% compared with March 2021.

The year-on-year decline in sales reported in March is cause for concern, given that it is calculated against a comparable period in 2021 when sales were negatively impacted by the effect of showroom closures as a result of COVID-19 restrictions.

Moreover, March 2022 sales lag even further behind pre-pandemic averages and could be symptomatic of a wider malaise across the sector as pent-up demand built up over the last two years begins to dissipate.

UK car registrations (2/2)

UK car registrations – 2021

	YTD 2022	YTD 2021	% change	Market share YTD 2022	Market share YTD 2021
Diesel	23,686	48,574	-51.2%	5.7%	11.4%
MHEV diesel	19,183	32,252	-40.5%	4.6%	7.6%
Petrol	177,769	209,212	-15.0%	42.6%	49.2%
MHEV petrol	54,884	45,491	20.6%	13.1%	10.7%
BEV	64,165	31,779	101.9%	15.4%	7.5%
PHEV	29,761	26,613	11.8%	7.1%	6.3%
HEV	48,112	31,604	52.2%	11.5%	7.4%
Total	**417,560**	**425,525**	**-1.9%**		

BEV – Battery Electric Vehicle; **PHEV** – Plug-in Hybrid Electric Vehicle; **HEV** – Hybrid Electric Vehicle; **MHEV** – Mild Hybrid Electric Vehicle

Source: The Society of Motor Manufacturers and Traders (SMMT)

Important milestones on the road to an all-electric future

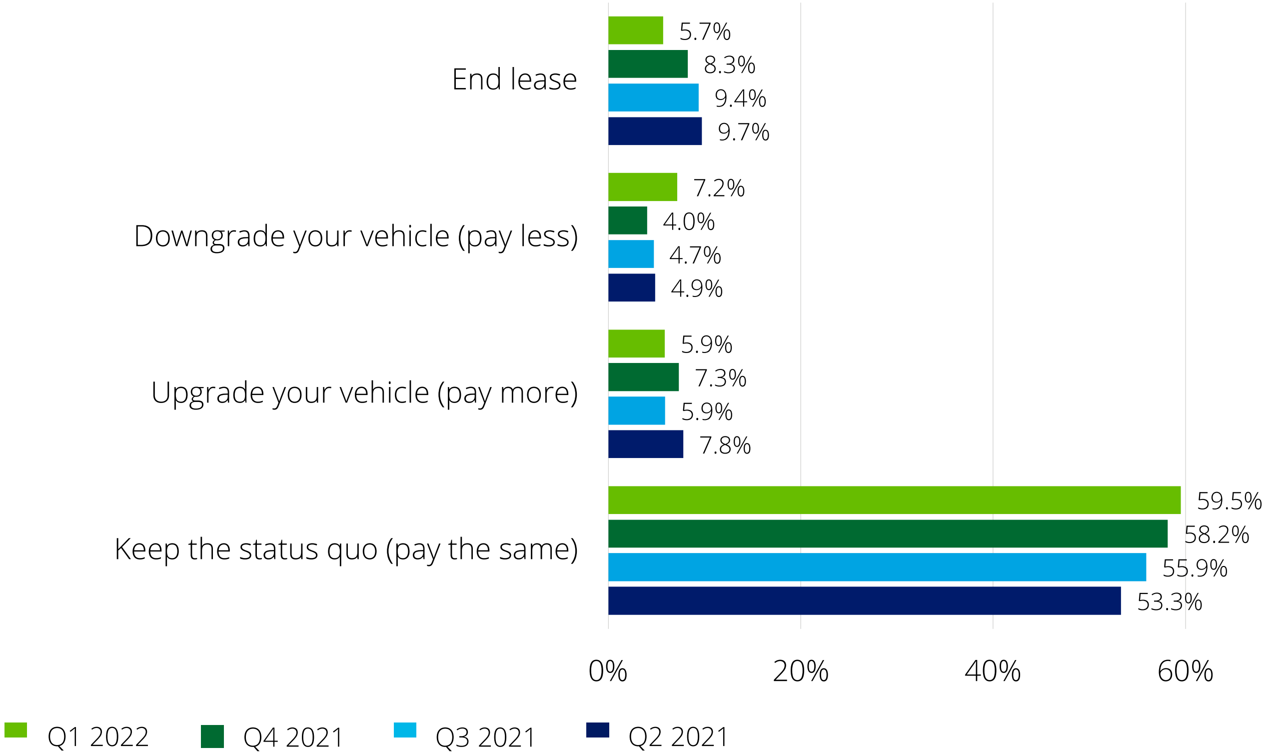
Electric vehicles continue to perform above expectations. In Q1 2022, sales of new battery electric vehicles (BEVs) more than doubled (+102%) compared to with 2021. Meanwhile new plug-in-hybrid electric vehicles (PHEVs) saw double digit growth (12%). Across the first three months of the year, BEV and PHEV combined sales accounted for almost a quarter (23%) of all new car sales, compared with 18% in the same period last year.

The government's Electric Vehicle Infrastructure Strategy announced in March adds important momentum towards achieving an all-electric future.

Affordability of car repayments

Thinking about your current financial situation, if you were offered the chance to change the terms of your finance/lease plan of your car(s) with no penalty which of the following would apply to you?

% of consumers who own a car on finance



Source: The Deloitte Consumer Tracker

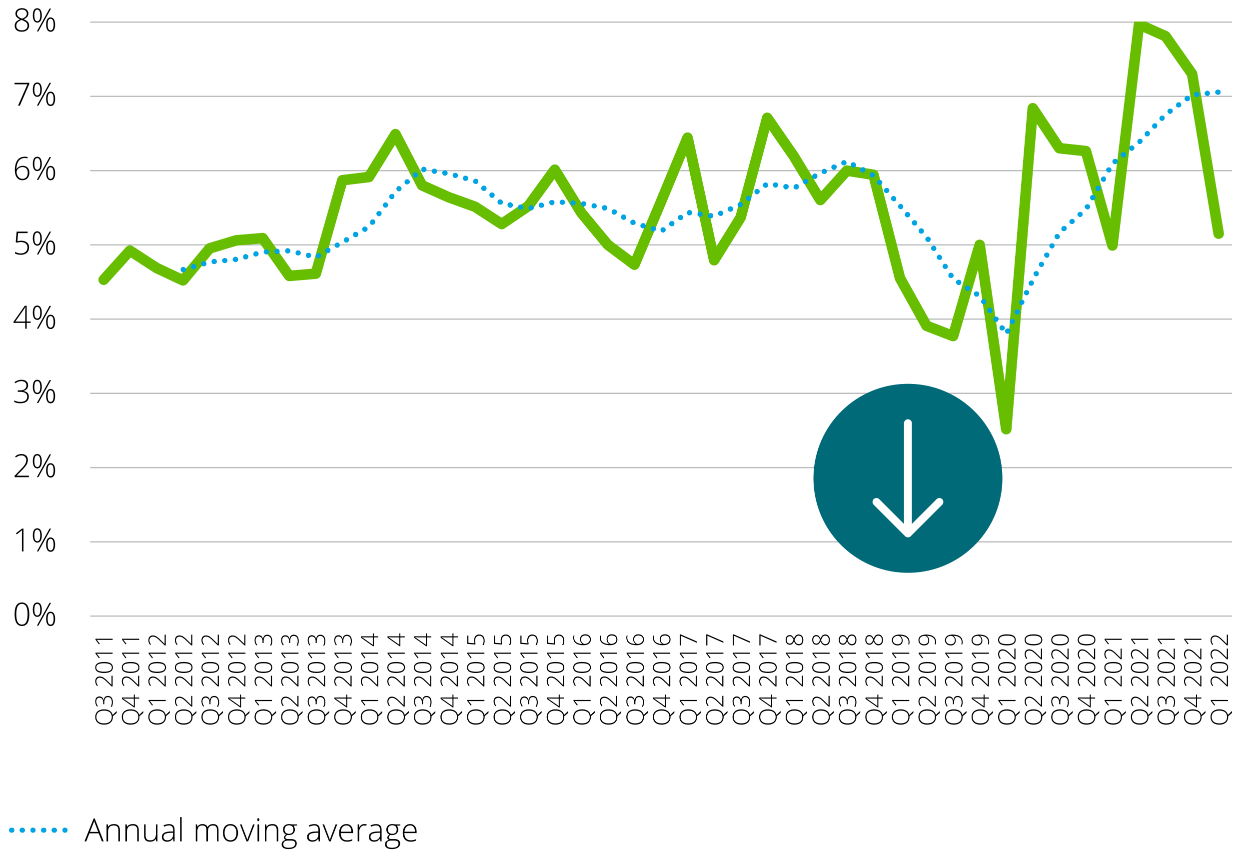
Growing pressure on car payments

Falling consumer confidence has driven some consumers to consider the affordability of their car repayments. According to our Tracker, compared with Q4 2021, there was a higher proportion of consumers wanting to downgrade their vehicles (+ 3 percentage points to 7%).

The rising cost of owning a car is a major contributing factor in the current squeeze on the cost of living. Not only do car repayments make up a major proportion of many consumers' household bills, but the cost of running a petrol or diesel car has increased substantially this quarter.

Planned car purchases

% of UK consumers planning to purchase a car in the next three months



Note: This question was changed in Q2 2020

Source: The Deloitte Consumer Tracker

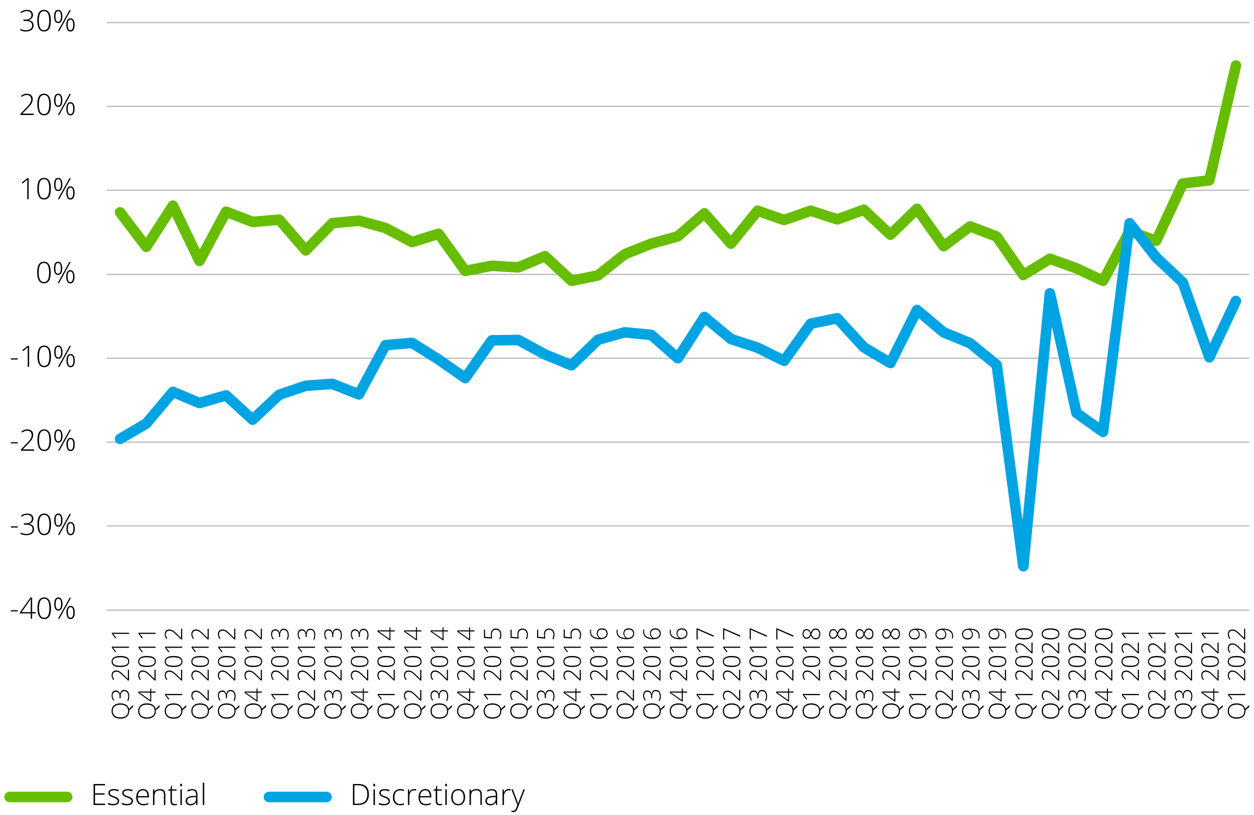
Consumer demand drops

The rising cost of car ownership has also contributed to a decline in demand. With consumers feeling additional financial pressure this quarter, the percentage of consumers planning to purchase a car in the next three months fell to 5% from 7% in Q4 2021 and a high of 8% in Q2 2021. This decline also signifies that any pent-up demand in the sector has started to dissipate.

Outlook

Outlook for consumer spending – essential vs discretionary spending

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



Note: New categories were added to Essential spending in Q2 2020

Source: The Deloitte Consumer Tracker

Spending expected to continue to grow

The lifting of all remaining COVID-19 restrictions combined with lower rates of infection will continue to drive consumer spending in the hospitality and travel sectors in the quarter ahead, despite continuing geopolitical concerns.

Overall, although wages are unlikely to keep pace with inflation and economic sentiment has fallen this quarter, our data shows that consumer spending will continue to increase in Q2 2022.

Our spending intention data points to growth in both essential and discretionary categories in the next quarter, a sign of the split between the wealthier and the less well off.

Consumer spending in the next three months by category

	Q1 2022 net balances	% point change quarter on quarter	% point change year on year	% point change vs Q1 2019
Essential	+25%	+14	+20	+18
Utility bills	+71%	+20	+63	+51
Grocery shopping	+51%	+28	+44	+41
Transport	+38%	+29	+19	+30
Everyday household items	+31%	+18	+29	N/A
Landline/mobile phone, Internet and cable/TV	+25%	+20	+22	+21
Housing	+24%	+13	+17	+15
Pensions and insurance	+9%	+4	+7	+3
Health	+4%	0	-1	+3
Education	0%	0	+1	0
Beauty and personal care products	-4%	+4	-5	N/A

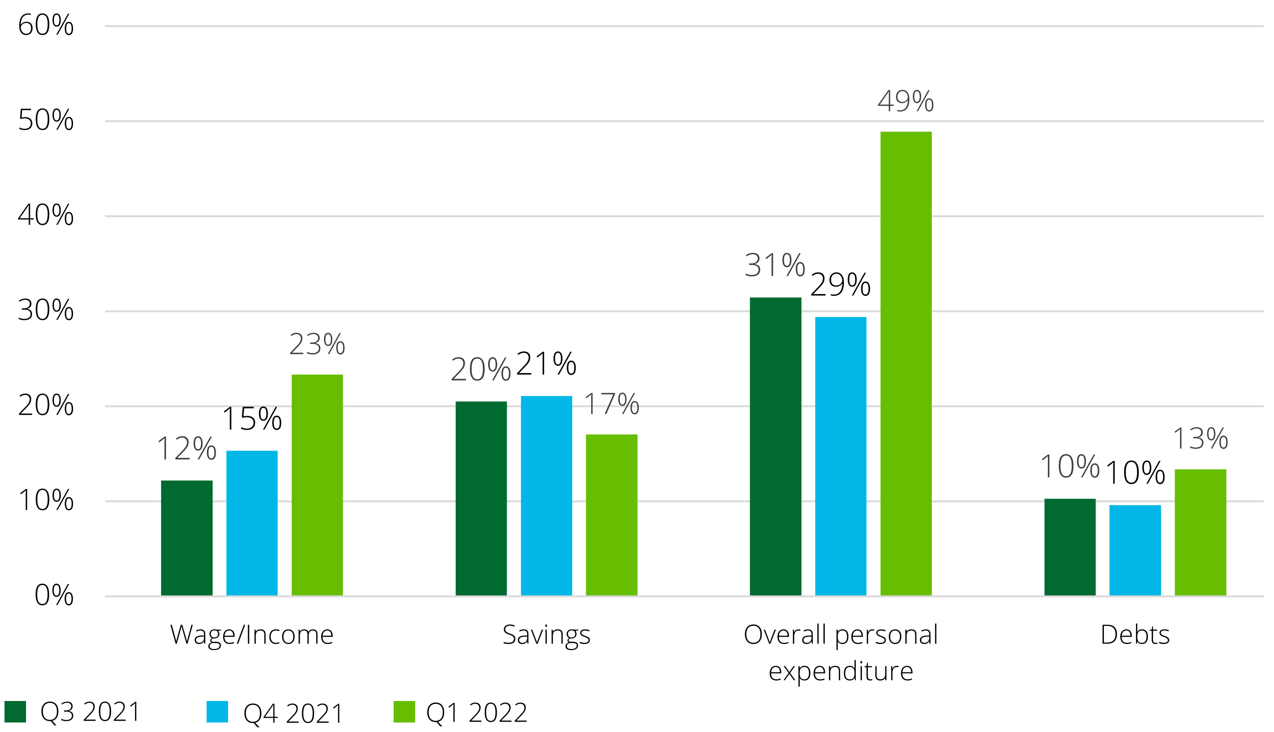
	Q1 2022 net balances	% point change quarter on quarter	% point change year on year	% point change vs Q1 2019
Discretionary	-3%	+7	-9	+2
Holidays & Hotels	+8%	+9	-5	+2
Alcoholic beverages and tobacco	-2%	+15	-5	+5
Clothing and footwear	-3%	+8	-12	+4
Restaurants	-4%	+8	-29	0
Major household appliances	-5%	+2	+2	+2
Going out	-6%	+7	-25	+2
Electrical equipment	-6%	+4	+4	+2
Furniture and homeware	-7%	+1	-3	0

Source: The Deloitte Consumer Tracker

Personal finances sentiment – Next 3 months

In the NEXT three months (i.e., up to mid-June 2022)… Do you expect to see an increase or decrease in each of the following aspects of your personal finances, or will it remain about the same?

% of consumers who said they expect an increase in the next three months



Source: The Deloitte Consumer Tracker

One in two expect their overall personal expenditure to increase in Q2 2022

Given the current forecast that inflationary pressures are expected to continue beyond Q2 2022, consumers are right to expect an increase in the their overall personal expenditure.

Meanwhile, expectations of wage increases will not compensate for the sheer increase in overall expenditure and therefore on balance consumers are also anticipating a reduction of their savings.

Wages are very unlikely to keep pace with inflation this year, pointing to a severe squeeze on consumer spending power and with consumer spending accounting for 60% of GDP this will impact the whole economy.

The last word

Consumer confidence fell for the third consecutive quarter in Q1 2022. Inflation increased at a faster rate than earnings, interest rates also rose and, combined with the impact of the pandemic and the Russian invasion of Ukraine, led to a significant deterioration of consumer confidence. The Deloitte Consumer Confidence Index declined by five percentage points to -17% compared to Q4 2021 representing our Tracker's largest fall since Q1 2020 when the UK entered its first lockdown at the start of the pandemic.

Takeaway 1

Deteriorating sentiment around personal finances drives a decline in overall confidence

The fall in consumer confidence in Q1 2022, takes the index back to levels last seen at the start of 2021 when the UK was entering its third lockdown. With costs surging many consumers have been using their savings or taken on debt to spend and maintain living standards. Our measure of consumer confidence in levels of disposable income fell by 23 percentage points, to -49%, its sharpest quarter-on-quarter fall, reaching its lowest level since the Tracker began in 2011. Meanwhile, sentiment about levels of debt also worsened losing six percentage points to -11% its lowest level in nine years.

Takeaway 2

Day-to-day spending rises to its highest level since the Tracker began

In a sign of inflation rapidly feeding through to consumers, this quarter one in two consumers indicated their overall personal expenditure had gone up compared to one in three in Q4 2021. Indeed, our spending sentiment data shows record levels of overall expenditure in the day-to-day categories which include grocery, transport and utilities. Overall essential spending in Q1 2022 was twice as high as pre-pandemic levels in Q1 2019.

Takeaway 3

A widening gap between the lower-income and more affluent households

There is an apparent disconnect between real earnings and overall spending. A reason is that the more affluent consumers account for a disproportionate share of spending. Savings accumulated during the pandemic, rising house prices and borrowing power have provided higher earners with a cushion against inflation that lower earners do not have. Also, lower-income households spend a greater proportion of their income on food and fuel where inflation has increased the most.

Takeaway 4

Cautiously confident

The lifting of all remaining COVID-19 restrictions combined with lower rates of infection will continue to drive consumer spending in the hospitality and travel sectors in the quarter ahead, despite continuing geopolitical concerns. Overall, although wages are unlikely to keep pace with inflation and economic sentiment has fallen this quarter, our data shows that consumer spending will continue to increase in Q2 2022. Businesses will need to cater for all consumers whether it is serving the more affluent with continued premium offerings or helping those on lower incomes by delivering more value ranges and competitive prices.

The Economist's view

Ian Stewart
Chief Economist, Deloitte UK

"While economic sentiment this quarter has fallen, a number of factors suggest that overall consumer spending will continue to increase, even as real earnings decline.

Rising employment and higher asset prices are supportive of spending and not all consumers rely on earned income to finance spending. Some can draw on built-up savings, or can fund spending by borrowing, having paid down credit card and other consumer debt over the last two years. With interest rates at still-low levels, they are well placed to do so.

However, just because overall spending is rising doesn't mean that everyone's is. Higher income households are likely to account for a disproportionate share of spending this year."

The last, last word

Oliver Vernon-Harcourt
Retail lead partner

Higher inflation is not only reducing consumer demand, it is also increasing business costs including those associated with labour shortages and rising input costs. To counter those costs, retailers need to look for savings elsewhere including reducing operating costs and scaling automation across their organisations. Retailers, like manufacturers, have also started to increase their prices which has already led to some falls in sales volume, a sign that consumers could be either opting for cheaper brands or simply buying less. Trends such as eating out more, a return to the office and increased travel could also be tempered by households trying to save money by working from home, eating in and cutting their holiday budgets. It will be important for retailers to discern what consumer behaviours are being driven by the lifting of restrictions, and what behaviours are starting to emerge as cost and energy price increases begin to bite.

Craig Turnbull
Consumer Products lead partner

Despite lower consumer confidence, consumer spending shows no sign of slowing down. Much of this increase in consumer spending will be driven by inflation. Rising input costs, packaging, labour and transport mean that prices will continue to rise in the consumer products sector. While some companies will make significant investments to keep prices down, others simply will not be able absorb the rising costs and must pass some of the increases on to the consumer. However, some consumers will not have the same level of financial resilience as others and will have to cut back on the volume of goods they buy, trade down to own label products and to goods at lower prices, or even switch to the more value retailers. One way for consumer businesses to mitigate against this risk would be to offer a wide range of premium and value products under the same brand giving them more opportunity to retain consumers.

Simon Oaten
Hospitality and Leisure lead partner

In the quarter ahead, consumer spending on leisure will continue to increase, even as real earnings decline. Given their ability to save more during the pandemic, higher income households are likely to account for a disproportionate share of leisure spending. Holidays are high up the agenda, and June's Diamond Jubilee bank holiday weekend will be a welcome uplift for domestic tourism. However, the recovery is fragile, possible new COVID restrictions and economic uncertainty could supress consumer spending. Compounding a difficult two years for the sector's operating margins, inflationary pressures will also drive an increase in operating costs. At the same time, the sector has been grappling with supply issues, staff shortages, the withdrawal of government support schemes and had to start paying business rates again and VAT at the full rate. As a result, some price rises will inevitably be passed on to the consumer.

Peter Gallimore
Automotive lead partner

The cost of owning a car is rising, perpetuated by record-high fuel prices at the pumps. For consumers who lease their vehicles, car repayments already make up a major proportion of their household bills. Therefore, with consumers feeling additional financial pressures, the automotive sector must brace itself for a further drop in demand. However, not all segments of the industry will be affected equally. There is a divergence in consumer spending patterns emerging, and those with higher disposable incomes and savings accumulated over lockdown, are still able to spend. One consequence of the rising cost of living crisis is that many dealers are now reporting greater EV enquiries as the cost of fuel increases. With petrol and diesel prices unlikely to fall any time soon, we could see faster-than-expected take up of electric vehicles next quarter.

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A note on the methodology

Some of the figures in this research show the results in the form of a net balance. This is calculated by subtracting the proportion of respondents that reported feeling more negative from the proportion that reported feeling more positive. For instance, assume that 30% of respondents reported they are spending more, 50% reported no change and 20% reported they are spending less. The net balance is calculated as 30% – 20% = 10%. This means 10% of consumers reported that they spent more rather than less.

The Deloitte Consumer Tracker is based on a consumer survey carried out by independent market research agency, YouGov, on Deloitte's behalf.

This survey was conducted online with a nationally representative sample of more than 3,000 UK adults aged 18+ between 18th–21st March 2022.

Deloitte.

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