Where’s Britain spending?
The Barclaycard Consumer Spending Report Q3 2014

Is the recovery real?
Consumer spending sees biggest rise since 2011, but concerns remain

UK consumers in the “new normal”
How the financial crisis changed the way we shop

Better together
Scottish referendum boosts confidence on both sides of the border

Find your spending type
Confident and affluent or financially fragile?
Welcome to Where's Britain Spending?, the first in a regular series of Barclaycard reports in which we take a detailed look at spending patterns across the UK and report on consumers’ sentiment, concerns and aspirations both now and for the next quarter.

Barclaycard processes nearly half of all credit and debit card transactions in the UK, so we have a wealth of data that provides a unique perspective on where, what and how British consumers are spending. In this report, we take a look at spending patterns in the three months to the end of September. We also explore consumer confidence, spending expectations for the coming quarter, and developments in key sectors, such as entertainment, travel and clothing.

This first report finds that the economic recovery in the UK rests on fragile foundations. Although economic indicators clearly show growth returning, our own data sounds a note of caution about the outlook for consumer spending in the UK. Higher-income earners are leading the recovery, with many consumers remaining under considerable financial pressure. The “new normal” for many UK consumers involves continued high indebtedness and stagnant income growth, concerns about the long-term outlook and, as a result, caution on spending.

We hope this report will become a valuable resource for anyone with an interest in consumer habits and spending trends. It is our privilege to share the insights we have gathered.

Valerie Soranno Keating
CEO, Barclaycard
Barclaycard processes nearly half of all credit and debit card transactions in the UK, through our UK credit card business, UK payment acceptance business, and spending on Barclays debit cards. This report draws on that data.

The report also includes an extensive survey of UK consumers conducted by Longitude Research, our research partner for this report, in September 2014. There were 2,001 respondents to the survey, providing a representative sample of UK consumers by age, gender, region, income group, professional status and family situation.

The spending data and survey were supplemented by in-depth interviews with a number of experts on UK consumer spending and senior representatives of companies with a large presence across the UK consumer market. These interviews were used, along with the quantitative spending and survey data, to provide additional insight and detail to the findings.

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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.

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Spending is up, but not across the board

Consumer spending grew by 4.2% year-on-year in Q3 2014, according to Barclaycard data. This marks the biggest year-on-year rise since 2011.

While this growth points to an increase in consumer confidence, not everyone is taking part in the recovery. Spending is being led by more affluent consumers, while continued increases in the cost of living also contribute to overall growth. Many households continue to feel squeezed by rising prices and stagnant incomes.

See page 9: Britain’s four main types of spenders

Confidence is returning, but caution remains

Looking ahead to the next quarter, 42% of the 2,001 consumers surveyed for this report expect to increase their spending. A majority of 57% feel confident about their financial situation, and more than one-third expect their confidence to grow over the next three months.

Almost two-thirds of survey respondents said that, since the crisis, they have become more careful to seek out value for money. Compared with previous cycles, they are now less inclined to spend in response to a resurgent property market. And despite persistently low interest rates, they also aspire to save more – although stagnant wages and the rising cost of some items make that difficult.

See page 10: A new era of financial responsibility

This caution is becoming ingrained as the “new normal”

Barclaycard sees strong evidence of a new era of financial awareness among consumers. In the wake of the financial crisis, the search for value appears to be entrenched.

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See page 10: A new era of financial responsibility

Inflation is falling, but shoppers still think everything costs more

Six out of 10 agree that, compared with three months ago, they get less for the money they spend. The majority of people expect a rise in the cost of public transport, petrol and groceries over the next three months.

However, this perception doesn’t always match reality. The headline rate of inflation has fallen in recent months, with the cost of many items, including petrol (which has reached a three-year low) and some groceries, dropping as supermarkets engage in a sustained price war. This suggests that low inflation and the falling cost of some essential items are not enough to offset the decline in real wages. It is clear that most consumers are still feeling the pinch.

See page 16: The cost of living remains a key concern

In the search for value, shoppers are spending “little and often”

According to Barclaycard’s data, the Average Transaction Value (ATV) for food and drink fell by 6.2% in Q3. Our data also shows a similar pattern in travel, where the ATV fell by 6.4%, and entertainment, where it dropped by 4.7%. Overall, consumers are making more frequent purchases, but are reducing the amount they spend each time. When shopping for groceries, for example, they’re only buying what they need, and are changing their habits to seek out the best value.

See page 17: Key spend categories in focus

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See page 17: Key spend categories in focus
Total spending is increasing as consumer confidence recovers

According to Barclaycard data, spending in the third quarter of 2014 has grown at the fastest rate since 2011, rising by 4.2% year on year, compared with just 2.9% in the previous quarter (see figure 1). Moreover, in our survey of 2,001 consumers from across the UK, 43.4% of respondents expect to increase the amount they spend over the next three months (see figure 2).

Changes in overall spending by quarter, year on year

Overall, what change do you expect to the amount that you will spend in the next three months?

- 38.4% No change
- 18.1% Decrease
- 43.4% Increase
- 1.4% inflation
- 2.8% inflation

Figure 1
Figure 2
This recovery in spending suggests growing confidence among UK consumers. Other evidence seems to back up this trend. A survey by the Confederation of British Industry (CBI) found that retailers were more optimistic about their business situation for the next quarter than at any time since May 2002. "Retailers looking forward to stronger growth in September are keeping their shelves well-stocked in anticipation," said Katja Hall, Deputy Director-General of the CBI.

Yet at the same time, many consumers are still feeling the pinch. Although spending is increasing overall, few households are confident about buying big-ticket items. Just a fifth (20%) think that now is a good time to spend on major purchases, such as a new car or family holiday, and less than a quarter (23%) are confident about doing so.

"The UK economy is not really booming. It’s much better than we have seen in recent years, and we think it is gaining momentum, but it is still fragile."

Peter Fankhauser
COO
Thomas Cook

1CBI Quarterly Distributive Trades Survey, August 2014
Overall, our research suggests that much of the recovery in spending is being driven by more affluent households. Consumers on lower incomes are the least likely to say that they will increase their level of spending over the next three months, while those on higher incomes expect to increase spending the most.

Among low-income consumers (earning less than £15,000), 37% expect to increase their spending over the next three months. Among those earning in excess of £45,000 (high-income) this figure climbs to 54%.

**37% on a low income will increase their spend over the next 3 months**

**45% on a medium income will increase their spend over the next 3 months**

**54% on a high income will increase their spend over the next 3 months**

Consumers on higher incomes are also much more likely to increase their spending on discretionary items and treats. For example, only a sixth of consumers in the low-income band agree that compared with three months ago they are more willing to spend more on luxuries and treats. For those in the highest income band the figure increases to 37%, well over a third.

“
The UK economy is by no means uniform or consistent.

For homeowners with affordable mortgages, reliable employment and so on, the past few years have been relatively easy in terms of household income and expenditure. But for households without reliable well-paid employment, with relatively high levels of personal household debt and less affordable mortgages, or who are renting, the current economic climate probably still feels harsh and will continue to do so.

James Fitchett
Professor of Marketing and Consumer Research
Leicester University
Where do you fit?  
Britain’s four main types of spenders

Beneath the headline figure of a modest increase in consumer spending, there is significant variation. Our research suggests that, among UK consumers today, there are four broad groups of spenders.

Confident and affluent  
(13% of the total)
- Average age of 33, often couples with young children
- 80% are confident about their overall situation
- Living costs are rising, but so is their income
- 86% expect to increase their spending in the next three months

Cautiously optimistic  
(44% of the total)
- Middle-income and middle-aged, 44 on average
- Relatively confident about their current financial situation
- Expect a small improvement in their incomes
- 41% expect to increase their spending in the next three months, while 54% think it will remain unchanged

Financially fragile  
(30% of the total)
- Middle aged and lower-income, 45 on average
- Relatively less confident about their current financial situation
- Concerned about the economy and job security
- Over past 12 months they have cut back on spending and expect this trend to continue

Stressed and cash strapped  
(13% of the total)
- Older, 48 on average and lower-income
- Just 21% are confident in their overall situation
- Expect living costs to increase and think they will struggle
- 26% expect to decrease significantly their spending in the next three months
UK economic output has now returned to pre-crisis levels. According to preliminary readings from the Office of National Statistics (ONS), Gross Domestic Product (GDP) was up by 0.7% in the third quarter of the year, or 3.0% on an annualised basis. While this is lower than the 0.9% growth seen in Q2, and supports our view that the economic recovery is still uneven, these figures mean that the UK economy is now one of the fastest growing in the developed world.

Confidence among consumers is also recovering gradually. Some 57% of the 2,001 consumers that Barclaycard surveyed for this research are confident about their financial situation, and more than one-third expect that confidence to grow over the next three months. Almost two-thirds of respondents are confident in their ability to live within their means each month.

57% are confident in their personal financial situation

65% are confident in their ability to live within their means each month
Better together: How the Scottish Referendum affected consumer confidence and spending

Consumers in both Scotland and England are more confident about their personal financial situation and the UK economy following Scottish voters’ decision to reject independence.

**Scotland**

- **Overall confidence in finances, health, family and relationship with the UK economy**
  - Before: 60%
  - After: 62%

- **Confidence in personal financial situation**
  - Before: 55%
  - After: 64%

**England**

- **Overall confidence in finances, health, family and relationship with the UK economy**
  - Before: 62%
  - After: 71%

- **Confidence in personal financial situation**
  - Before: 58%
  - After: 65%
Confidence remains fragile

As confidence returns, so does this suggest that the economic recovery is now fully in place, and that the UK can now put the dark days of the downturn behind it? Unfortunately, the evidence from our research does not support that. Despite rising confidence in their own personal financial situation and their ability to live within their means, consumers feel only limited confidence about the broader economy. Just 39% feel confident about the outlook for the UK economy, and they are even less optimistic about the global and European economies.

This suggests that confidence is not particularly resilient.

“General public perceptions about the economy are very fragile. In some months, there are slight signs of green shoots, with the prospect of modest growth being sustained, but then this optimism seems to diminish very quickly, or even disappear, as consumers get anxious about likely future economic conditions.”

James Fitchett
Professor of Marketing and Consumer Research
Leicester University

An example of this fragile confidence was seen in August in the weeks leading up to Scotland’s vote on independence. When the poll results came in and it was clear that Scotland had voted to stay in the union, confidence rallied significantly in relation to overall finances, health, family and relationship with the UK economy; particularly in England, where it rose from 62% to 71%.

39% are confident in the UK economy

19% are confident in the European economy

23% are confident in the global economy

UK consumers in the “new normal”
A mixed employment picture

Consumers also clearly worry about employment. Less than half of respondents feel confident about their job security and only four in ten feel the same about their career prospects. At first glance, this seems surprising. September data from the Office of National Statistics (ONS) showed that the number of people in work had risen by 736,000 over the past year. At 6.2%, the unemployment rate is now at its lowest since October 2008. By some measures, the job market is at its strongest since prior to the recession.

Yet there is another side to the story. As many economists have observed, a large proportion of this employment growth stems from a rise in the numbers of self-employed, and those in part-time work, who inherently have less job security than those in full-time employment.

Moreover, although there may be more people in some form of employment, earnings remain stagnant. The latest ONS data found that wages, including bonuses, fell by 0.2% over the three months to June, compared with a year earlier. Among our survey respondents, most expect their incomes to remain the same in the short term — only around one in five expects to have more personal disposable income over the next three months. So, although the economy is growing, income per capita has stalled. This means that, for many consumers, the economic recovery has yet to be felt in their own pockets.

48% are confident in their job security

40% are confident in their career prospects

Consumers are still burdened by debt

UK consumers today inhabit a “new normal” that involves continued financial constraints and concerns about the long-term outlook. They are adjusting their spending patterns to align with a post-crisis environment of moderate economic expansion and flat wage growth. A focus on value has become entrenched, consumers on lower incomes are continuing to scale back their expenditure, and only those on the highest incomes feel really confident about spending.

Another reason for continued caution is that the debt burden remains high. The May 2014 Verum Consumer Credit Trends Report found that total household debt more than quadrupled from £347bn in 1990 to £1,437bn in 2013, of which 89% was mortgage debt. Verum calculates that every 0.5% increase in the Bank of England base rate will result in a £4.8bn reduction in household spending, and that if the base rate increases to 3%, it will tip the UK economy back into recession. No wonder that 43% of respondents to our survey worry that a rise in interest rates would significantly affect their disposable incomes.

This raises doubts about the sustainability of the economic upturn. As we see wages rise and fuller employment, then we would expect that to feed through into increased spending. If, as interest rates rise, more and more disposable income is being allocated to service mortgage debt, then it’s unlikely that we’ll see that bounce.

Chris Wood
Managing Director
Barclaycard

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Value-for-money is here to stay

Consumers are also showing restraint in their spending patterns, with the search for value now firmly embedded in shopper behaviour. Almost two-thirds of respondents say that, since the financial crisis, they have become more focused on seeking out value-for-money in their purchases. And this mentality is likely to remain: 69% agree that, even if the economy recovers significantly, value-for-money will remain a key factor for them when making purchases.

The rise of discount supermarkets provides further evidence of the shift towards value. According to IGD, a retail consultancy, 51% of consumers visited discount supermarkets in June 2014, compared with 37% in 2011. IGD also expects sales at Aldi and Lidl to double in the next five years as more and more consumers, including those on higher incomes, migrate to low-cost retail formats or include them as part of their shopping mix.4

69%
agree that, even if the economy recovers significantly, value-for-money will remain a key factor when making purchases

63%
agree that, since the financial crisis, they have become much more careful to seek out value-for-money in the purchases they make

The cost of living remains a key concern

Consumers remain worried about the cost of living. Among our respondents, 60% agree that, compared with three months ago, they get less for the money they spend. Consumers also perceive that the cost of most items will increase over the next three months. For example, 65% expect a rise in the cost of public transport, while 61% say the same about both groceries and petrol (see figure 3).

The widespread perception that the price of everything is constantly rising has become a key part of the “new normal”. In its recent Inflation Attitudes Survey the Bank of England found that, on average, respondents believe that prices rose by 3.4% in the year to September, whereas inflation actually fell to 1.2% in September, its lowest level since September 2009. And, despite falling prices at supermarkets and petrol stations, 25% of people thought that prices had increased by 5% or more in the past 12 months.

The key challenge for most consumers is that wages are not keeping pace with the rising cost of living. Since 2008, the real wages of the typical worker have fallen by between 8% and 10%. These falls have taken place across most incomes, with only the very highest earners escaping the squeeze. With wage growth failing to keep up with today’s modest rate of inflation, even the fiercest supermarket price wars are unlikely to do enough to reduce the cost of living and take the pressure off disposable incomes.

![Figure 3: Percentage of respondents expecting prices to rise over the next three months (by sector)](chart)

60% agree that, compared with three months ago, they feel they get less for the money that they spend

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1http://www.bankofengland.co.uk/publications/Pages/news/2014/015.aspx
2http://cep.lse.ac.uk/pubs/download/cp422.pdf
Warm weather and a gradually recovering economy have helped to nudge up spending on key categories, including entertainment and travel. There are signs that some consumers are now more willing to treat themselves, with hotels and restaurants performing well as people took advantage of the driest September on record. Our survey suggests, however, that the rise in non-essential spending, such as entertainment and travel, stems primarily from those on higher incomes. Those on lower incomes continue to feel the squeeze.

Where consumers are spending on entertainment and travel, the theme seems to be “little and often”. Although the absolute amounts spent on travel are growing, Barclaycard data shows the Average Transaction Value (ATV) fell by 6.4% in the third quarter. This suggests that consumers are spending more often, but in smaller amounts (see figure 4). We see a similar pattern with entertainment, where ATV values fell by 4.7%.

Food and drink (a category made up primarily of supermarkets) performed less strongly. Consumers visiting supermarkets and other retailers more frequently may be one reason for this, but falling prices at the tills are also likely to be a factor.

Key spend categories in focus

Consumers are making more frequent visits to supermarkets and other retailers but their baskets are smaller. They are only buying what they need, and they are changing their habits and looking constantly for the best value.

Chris Wood
Managing Director
Barclaycard

Figure 4: Monthly and quarterly spend data by category

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<th>Sep 2014</th>
<th>Q3 Total</th>
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<td>14.1%</td>
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<td>9.6%</td>
<td>3.5%</td>
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<tr>
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<td>5.7%</td>
<td>9.3%</td>
<td>7%</td>
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<tr>
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<td>3.9%</td>
<td>5.3%</td>
<td>8.3%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Food and drink</td>
<td>0.8%</td>
<td>3.1%</td>
<td>2.8%</td>
<td>2.2%</td>
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<td>Overall spending</td>
<td>3.5%</td>
<td>4.2%</td>
<td>4.8%</td>
<td>4.2%</td>
</tr>
</tbody>
</table>

Average transaction values by category for Q3 2014
In focus: Entertainment

Spending on entertainment is picking up strongly as improved confidence means consumers on higher incomes in particular are more comfortable spending on ‘experiences’. Overall spending on leisure and entertainment grew by 13.5% in the third quarter of 2014; spending in restaurants grew by 15.8%.

Among our survey respondents, 22% say that, compared with a year ago, they are spending more on eating and drinking out. But as in other sectors, there is still a definite trend towards value. “What consumers are after is value-for-money, which doesn’t necessarily mean cheap,” says Andy Slee, Director of External Affairs at Punch Taverns, which owns around 4,000 leased and tenanted pubs in the UK. “Food, for example, can range from community pubs offering good old-fashioned pub favourites like sausages and mash, to pubs that offer very ‘à la carte’ menus. But irrespective of where they’re operating people need to feel that the whole experience which includes food and drink is value for money.”

Overall, the trend for higher leisure spending looks set to continue. Some 22% of respondents to our survey say that, over the next three months, they plan to spend more on entertainment. Leisure spenders will be looking to spend more on: restaurants (19.3%), airlines (17%), cinema/theatre (15%) and hotels (15%).

Figure 4: Monthly and quarterly spend data by category

Next year, we’ll invest £40m in launching around 400 new pub businesses in communities across the UK. We would only do that if we had confidence in the customer demand. It’s still a challenging environment but wherever I look there’s room for optimism and growth.

Andy Slee
Director of External Affairs
Punch Taverns
In focus: Clothing

It has been a mixed quarter for clothing retailers. Overall, spending on clothing increased by 6.4% in the third quarter of 2014, but this is considerably lower than the 11.5% year-on-year growth seen in the second quarter of the year, and 9% in the first quarter. This quarter, the average amount spent per clothing transaction is down by 1.2% compared with the previous year. This is partly because retailers have responded to years of stagnant growth by reducing prices and prolonging sales, but also reflects seasonal factors.

Changes in spending vary significantly across categories. As parents turned their attention to kitting kids out for the new school year, family clothing, which includes spending at retailers that cater for the entire household, accounted for nearly two-thirds of all clothing spend and grew by 12% over the quarter. By contrast, spending on men’s clothing fell by 2.1%.

There have also been wide seasonal variations across the quarter. Although August was a strong month for many fashion retailers, September saw a dramatic slump in sales as warm weather encouraged consumers to postpone purchases of new-season winter clothing. Next issued a profit warning in September after unseasonably warm weather hit sales. John Lewis, Britain’s largest department store chain, has also reported that shoppers were delaying purchases of winter coats, hats and boots.

Looking ahead to the next quarter, however, there are signs that retailers can expect stronger sales on clothing. Among our respondents, one-quarter think that they will increase their spend on clothing over the next three months. This is likely to be driven in part by purchasing for Christmas, and in part by purchases of winter clothing that have been postponed.

The unseasonably warm start to autumn has impacted fashion retailers. Also, a lot of retailers delayed their summer sales because shoppers are suffering from promotion fatigue, and stores are trying to wean shoppers off discounts and constant promotions. That’s a broader challenge in the sector, which would have shifted some of the spending and had an impact on the figures.

Natalie Berg
Global Research Director
Planet Retail
In focus: Household

In the third quarter of 2014, consumer spending on the household increased by 7%. Electronics stores performed particularly strongly, with spending growing by 20.9% year-on-year in September – its best performance in three years. The launch of the Apple iPhone 6 in mid-September is likely to be one of the key drivers of this spending increase. In the three weeks prior to the iPhone launch, spend at electronic stores went up 12.3% year-on-year; during the launch week it reached a peak of 24.9%.

Spend at DIY stores has also performed well across the quarter, with year-on-year growth of 7.3% overall. “There does seem to be an improvement, running at around 5% for our sector on a like-for-like basis for the past eight to 12 months,” says Paul Roy, Director of Operational Finance at Screwfix, the UK in-store, direct and online supplier of trade tools, accessories and hardware products.

Mr Roy identifies two key drivers. One is pent-up demand being released as confidence returns. “Although I don’t think that the overall standard of living nor people’s wage packets have increased, confidence has grown. So consumers are willing to spend some money doing the built-up maintenance and improvements to their home that they’ve been looking to do for some time.”

The second driver is renewed activity in the housing market. According to UK government statistics, the seasonally adjusted estimate of the number of residential property transactions was 8.4% higher between July and August 2014 compared to the same period last year. More housing transactions inevitably means higher spending at DIY stores as new homeowners update and decorate their properties.

Compared with last year, around 20% of consumers say they are spending more on home improvements. 19% have spent more over the past three months on DIY; 15% say they expect to spend more on this over the next three months. Well over a quarter of respondents (29%) expect to spend more on the household over the next three months.

Compared with last year, around 20% of consumers say they are spending more on home improvements. 19% have spent more over the past three months on DIY; 15% say they expect to spend more on this over the next three months. Well over a quarter of respondents (29%) expect to spend more on the household over the next three months.

In focus: Travel

Spend on travel is increasing at a fairly strong pace. In the third quarter, consumer spending on travel rose by 5.8% year-on-year, with airline spending up 4.8% and an increase of 9.4% on hotels. This is directly related to improved consumer confidence.

Among our survey respondents, 25% say that, in comparison to last year, they are spending more on holiday costs, such as airfares, ferry and car hire. Thomas Cook has reported strong sales in the UK this year, and expects earnings growth in the financial year to November of between 39% and 48%. As of mid-September it had already sold 29% of its winter 2014-15 holidays, with average prices higher than last year. “We have very good bookings into the next winter season, and as well into the following summer season,” says Mr Fankhauser.

The rise in UK travel spending therefore looks set to continue. Among our respondents, 23% said they would increase spending on travel in the next three months, with 17% set to spend more on airlines and 15% more on hotels. The recent Consumer Holiday Survey from the Association of British Travel Agents (ABTA) found that 20% of people anticipate they will spend more on holidays in 2015.

Yet we also see evidence of the polarisation in incomes that is apparent elsewhere. Although overall spending on holidays is increasing, this is again being driven by those on higher incomes. “The number of people who didn’t take a holiday actually grew slightly this year,” says Mark Tanzer, CEO of ABTA. “Last year 83% took a holiday and this year it is down to 80%.”

In another sign that consumers are still careful with their spending, the popularity of all-inclusive holidays is growing. “All-inclusive means that people don’t have to worry about the cost escalating,” says Mr Tanzer. “They know exactly what they’ve spent before they go away, so it’s much easier to relax. I think that area of the market will continue to grow for the foreseeable future.”

Overall holiday spend in foreign countries continued to display a robust performance, growing 5.2% year-on-year between May and August 2014. The top destinations were still dominated by European countries, with Spain taking the lead, followed by France. The USA ranked third during the summer period. Consumers who went overseas, on average, spent £399 in foreign countries during this time period.

Unsurprisingly, the World Cup boosted spend in Brazil, where spending by visiting UK consumers rose by 84% year-on-year. Consumers in London and the South East spent the most on international holidays, accounting for 31% and 20% of total foreign spend, respectively. London (8.9%) also witnessed the highest year-on-year foreign holiday spend growth followed by Northern Ireland (7.8%).

We have a product most clients are buying once a year. It is not just a short-term decision, and that’s why confidence and spending go almost hand in hand. You have to be confident to make a big spend, and a holiday is a big spend.

Peter Fankhauser
COO
Thomas Cook
In focus: Food and drink

In the third quarter of 2014, spending on food and drink was largely flat, with 2.2% growth year-on-year. Performance at supermarkets was largely similar, at 2.1% growth. One key factor constraining spend growth has been the downward pressure on prices caused by a period of intense supermarket price wars. The big four – Sainsbury’s, Tesco, WM Morrison, and Asda – have all been engaged in a concerted effort to compete on price, partly in response to the challenge from fast-growing discount stores, such as Aldi and Lidl.

The struggles of the big four also reflect consumers’ continued caution. As more and more consumers shift to discount stores for at least part of their weekly shop, the result is that the absolute value spent at supermarkets has been falling. According to the retail consultancy IGD, shoppers are on average buying from four different grocery shops each month, using savvy shopping techniques they refined during the recession\(^8\).

In the third quarter of 2014, average transaction values at supermarkets fell by 6.1% year-on-year, following a similar dip of 6% in the second quarter. As consumers buy only what they need and shop around for value, the result is that basket sales – and sales growth overall in supermarkets – are unlikely to improve significantly over the long term.

Seasonal factors do have an influence. Among consumers surveyed for this report, 39% expect to increase the amount they spend at supermarkets, and 34% expect to spend more on food and drink overall. Most will indeed increase their spending in the run-up to Christmas – for almost all food and drink retailers, this is the most important period of the year.

There are more ways to shop than ever before but shoppers are still being careful with their spending.

Retailers must have a clearly defined proposition and brand. As a shopper, you know exactly what you’re going to get if you walk into an Aldi or Waitrose, whereas if you look at some of the midmarket retailers the experience is inconsistent between stores.

Natalie Berg
Global Research Director
Planet Retail

In focus: The great online migration

Online shopping continues to rise at a faster pace than overall spending as consumers gradually migrate away from in-store purchases.

Online saw 10.4% year-on-year growth in August 2014 and grew from 16.1% in 2010 to 21.4% in Q3 2014, increasing the amount of spend made online by around 33% over that period. Clothing enjoyed particularly strong growth of 24.8%, with household close behind on 24% and travel on 13.5%. The UK is one of the world’s most established markets for online retail. According to IMRG, e-retail now accounts for 21% of the total retail market, with £91bn spent online in 2013 and £107bn forecast for 20149.

Figure 5: Approximately what percentage of your spending do you currently make across the following channels, and what do you expect that percentage to be in three months’ time?

<table>
<thead>
<tr>
<th>Category</th>
<th>Now</th>
<th>Three months’ time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional retail</td>
<td>55.4%</td>
<td>54.4%</td>
</tr>
<tr>
<td>Online</td>
<td>35.7%</td>
<td>37.6%</td>
</tr>
<tr>
<td>Mail order/catalogues</td>
<td>8.8%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

Consumers in our survey say that they expect to increase the proportion that they buy online: they say that 35.7% of their purchases by value are currently made online, and this will rise to 37.6% in three months’ time (see figure 5).

Beyond the shift to online, consumer habits continue to evolve in new ways. One trend is for shoppers to buy products online and then top up at smaller stores closer to home. Online and offline are also converging with the rise of ‘click and collect’. “Our research shows that, as of April, 35% of online shoppers in the UK order online and self-collect; we’re predicting by 2017 that number will jump to 76%,” says Natalie Berg.

One of the drivers behind the growth in ‘click and collect’ is the rise of alternative collection points, for example Amazon Lockers, as well as points at train stations, schools, post offices and libraries. “Five years ago, the idea of ordering something online and having to drive to a store would seem crazy, but now shoppers are recognising that they want the convenience of buying online with the ability to collect on their own terms,” says Ms Berg.
Although all regions are seeing modest spending growth, there are significant differences. Northern Ireland is enjoying the strongest growth, at 5.9% for the third quarter. This reflects growing confidence among consumers in the region after a protracted downturn and a spillover of the property crash from across the border in Ireland.

Elsewhere in the UK, London and the South East are leading the recovery, with growth of 5% and 4.5% in the third quarter. This reflects a relatively high concentration of the higher-income groups that are driving the nationwide upturn in consumer spending. The East of England (with growth of 3.7% in the third quarter), the East Midlands (3.6%) and Wales (3.3%) are seeing the slowest rates of growth.

Our survey suggests that Northern Ireland may slip back in terms of spending growth in the next few months: just 5.2% of consumers there expect to significantly increase their spending, lower than in most regions. Consumers in the South East are also relatively downbeat about their spending plans, with just 5% saying they plan a significant increase in spending. In London, however, 13.7% of consumers expect to raise their spending significantly.
Overall, what change do you expect to the amount that you will spend in the next three months? (Chart shows percentage that expects to increase their spending)

<table>
<thead>
<tr>
<th>Region</th>
<th>Change Expected to Increase Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>57.3%</td>
</tr>
<tr>
<td>North East</td>
<td>46.7%</td>
</tr>
<tr>
<td>East Midlands</td>
<td>44.1%</td>
</tr>
<tr>
<td>East of England</td>
<td>43.9%</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>43.8%</td>
</tr>
<tr>
<td>West Midlands</td>
<td>43.8%</td>
</tr>
<tr>
<td>North West</td>
<td>43.4%</td>
</tr>
<tr>
<td>South West</td>
<td>43.4%</td>
</tr>
<tr>
<td>Scotland</td>
<td>39.6%</td>
</tr>
<tr>
<td>Yorkshire Humber</td>
<td>39.4%</td>
</tr>
<tr>
<td>South East</td>
<td>39.0%</td>
</tr>
<tr>
<td>Wales</td>
<td>34.0%</td>
</tr>
</tbody>
</table>

The financially fragile are the largest consumer group in every region of the UK.