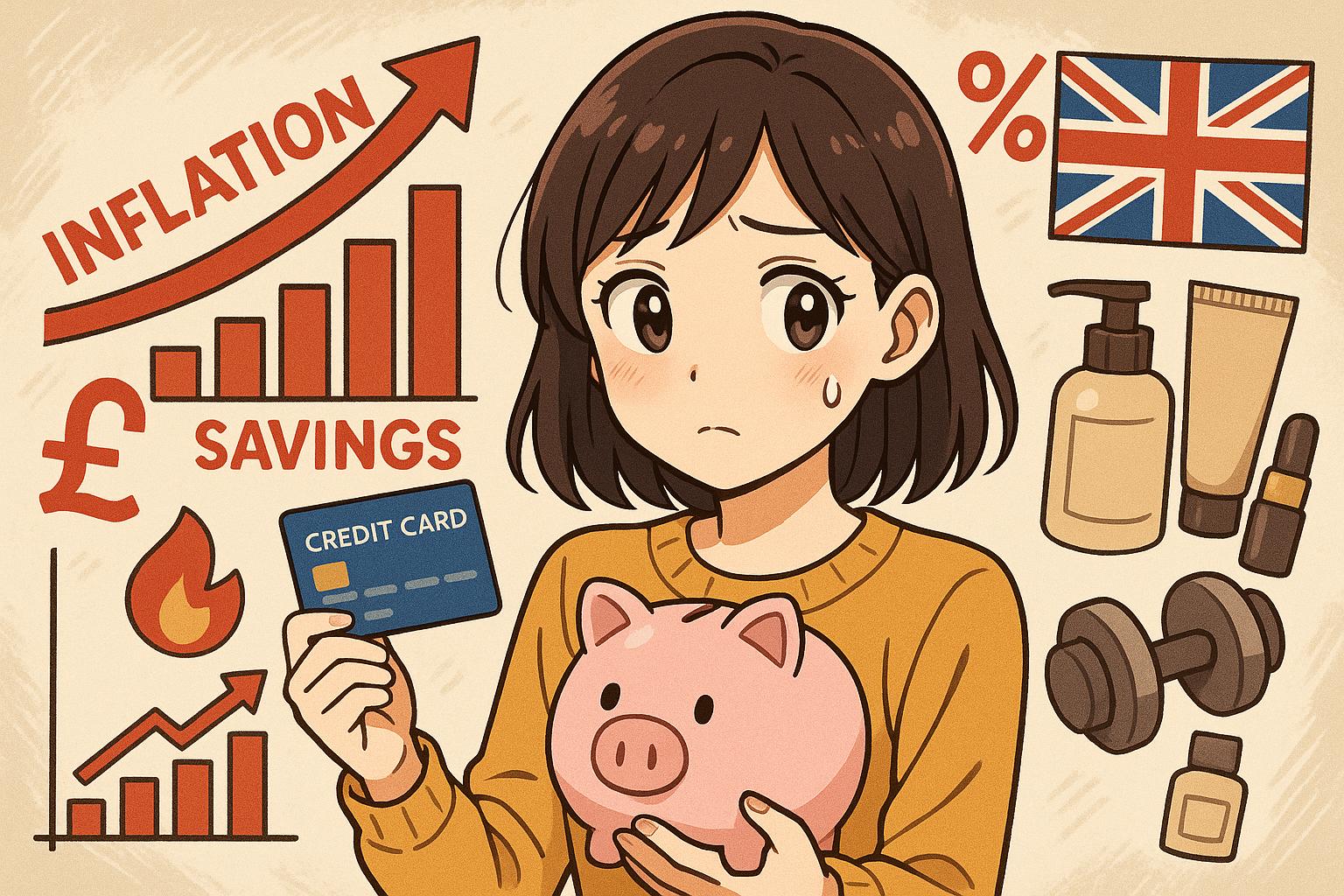
# UK consumers save more but favour discretionary spending amid economic uncertainty



The current economic landscape in the UK presents a complex picture for both consumers and brands, marked by an increase in disposable income paired with a palpable reluctance to spend. Recent assessments indicate that UK consumers have benefitted from a two-year trend where wage growth has surpassed inflation, leading to a higher savings rate—an encouraging 11% at the beginning of this year. Despite this financial cushion, consumer behaviour suggests a cautious approach to spending.

A recent Consumer Pulse survey reveals that while 55% of respondents feel financially secure, a significant three in five express concerns about the deteriorating state of the UK economy. This anxiety is prompting many to cut back on everyday expenses and defer larger purchases, suggesting a hesitancy that diverges from the positive indicators presented by rising incomes and savings.

Despite this general trend, spending data from over 100,000 UK consumers using the Snoop platform illustrates a curious contradiction. Data indicates a burgeoning willingness to indulge in non-essential categories: spending on health and beauty has risen by 13%, fitness by 12%, and pre-prepped, healthy meal boxes by 10% compared to the previous year. This raises the pressing question for brands and retailers: how can they effectively tap into the motivations underlying these consumer choices?

To better understand this dynamic, it is essential to consider broader economic factors that influence consumer behaviour. The aftermath of the COVID-19 pandemic, coupled with heightened energy prices and global events such as the Russia-Ukraine war, has created a unique consumption environment. While the European economy is gradually recovering, with the European Central Bank’s rate cuts aiming to stimulate consumer spending, higher interest rates continue to exert pressure on lower-income households. This discrepancy underscores a 'consumption conundrum' in the UK, where increases in real incomes and consumer confidence have yet to translate into robust consumption growth.

Furthermore, Catherine Mann, a senior policymaker at the Bank of England, has noted that the spending habits of wealthier consumers, who continue indulging in discretionary spending despite rising costs, impede efforts to control inflation. This is particularly evident in service sectors that have not seen the same curtailment in demand, creating a challenge for policymakers striving to reach inflation targets.

The economic backdrop also highlights an unexpected trend in household savings, which has soared since the pandemic. Data suggests that in the first quarter of 2024, UK households saved 11.1% of their disposable income, up from 5.8% at the end of 2019. This trend points to a cautious consumer mindset, with many prioritising savings amid economic uncertainty.

As the Bank of England grapples with decisions around interest rates—currently the highest in the G-7—current inflation figures reveal a gradual decline, dropping to 6.8% in July. However, core inflation remains stubbornly high, prompting fears that any economic recovery could be stymied by rising costs.

In summary, UK consumers are in a tricky position where increased incomes and savings create potential for spending, yet caution prevails due to broader economic concerns. Brands seeking to engage this cautious consumer base must navigate these complexities, ensuring they understand the motivations behind spending behaviours while also adapting to a fluctuating economic backdrop. With a delicate balance between consumer confidence and economic anxiety, the path forward for both consumers and brands will require a keen awareness of shifting dynamics in the marketplace.

## Reference Map:

* Paragraph 1 – [[1]](https://kpmg.com/uk/en/insights/strategy/nestle-on-how-to-trigger-consumer-spend.html), [[6]](https://www.reuters.com/world/uk/four-years-after-pandemic-shock-uk-household-saving-stays-high-2024-07-22/)
* Paragraph 2 – [[1]](https://kpmg.com/uk/en/insights/strategy/nestle-on-how-to-trigger-consumer-spend.html), [[2]](https://www.ft.com/content/fa206859-2214-4d07-a0dd-71f3593f8d92)
* Paragraph 3 – [[3]](https://www.ft.com/content/35845d93-11e4-4387-b5e7-0ccfc9218ce6), [[5]](https://www.ft.com/content/c8f3fe50-ad81-49eb-8d64-fd1dae4bfcb2)
* Paragraph 4 – [[4]](https://www.ft.com/content/7fdf6004-4e3e-4e5e-b8fc-213a19f77178), [[7]](https://apnews.com/article/634b4b55bb0ac37a6e7941eae5b5ab66)
* Paragraph 5 – [[6]](https://www.reuters.com/world/uk/four-years-after-pandemic-shock-uk-household-saving-stays-high-2024-07-22/)

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://kpmg.com/uk/en/insights/strategy/nestle-on-how-to-trigger-consumer-spend.html> - Please view link - unable to able to access data
2. <https://www.ft.com/content/fa206859-2214-4d07-a0dd-71f3593f8d92> - This article discusses the recovery of the European consumer market, highlighting the impact of the COVID-19 pandemic, the Russia-Ukraine war, rising energy prices, and inflation. It notes that while real incomes and consumer confidence are improving, high interest rates are affecting lower-end consumer spending. The European Central Bank's rate cuts are seen as crucial for stimulating spending on goods, particularly in economies like the UK, Spain, and Scandinavia. Increased housing activity and government initiatives are also expected to support this recovery.
3. <https://www.ft.com/content/35845d93-11e4-4387-b5e7-0ccfc9218ce6> - The UK faces a 'consumption conundrum' with consumption growth lagging behind other developed economies. Despite rising real incomes, stable inflation expectations, and improved consumer confidence, UK consumption remains weak, while the savings rate is high. Factors contributing to this include increased precautionary savings due to economic shocks from the pandemic and the war in Ukraine, restrictive monetary policy leading to higher interest rates and decreased borrowing, and changes in overall household income from interest.
4. <https://www.ft.com/content/7fdf6004-4e3e-4e5e-b8fc-213a19f77178> - UK wage growth remains strong despite economic stagnation and productivity decline since 2023. Inflation, labor shortages, and public sector strikes have contributed to a record high of 8.3% in mid-2023. Although the economy has stalled and hiring slowed, earnings growth continued, surpassing inflation for over 18 months. The Bank of England is concerned that this wage growth could fuel inflation without corresponding improvements in productivity. Forecasts suggest a slowdown, with wage increases dropping to 3-4% in 2025.
5. <https://www.ft.com/content/c8f3fe50-ad81-49eb-8d64-fd1dae4bfcb2> - Catherine Mann, a senior policymaker at the Bank of England, highlighted difficulties in reducing inflation due to spending habits of wealthier Britons. These individuals continue discretionary spending, such as travel and entertainment, despite higher mortgage costs, which prevents services inflation from falling adequately. This contrasts with households on lower incomes, who are struggling to make ends meet and adjust their spending significantly. Mann emphasized that this spending behavior limits consumer discipline in services, posing a challenge for the BoE's Monetary Policy Committee to sustainably bring inflation back to the 2% target.
6. <https://www.reuters.com/world/uk/four-years-after-pandemic-shock-uk-household-saving-stays-high-2024-07-22/> - Since the COVID-19 pandemic, UK households have significantly increased their savings rate, which has remained high without being fully explained by higher interest rates or unemployment fears. In the first quarter of 2024, UK households saved 11.1% of their income, a considerable increase from 5.8% in the last quarter of 2019. This level of saving is the highest since 2010, aside from the peak of 27.4% at the start of the pandemic. The Office for National Statistics suggests that this saving trend could be a response to economic instability and other factors beyond unemployment and interest rates.
7. <https://apnews.com/article/634b4b55bb0ac37a6e7941eae5b5ab66> - The UK's inflation rate fell to 6.8% in July, its lowest level in 17 months, primarily due to decreasing energy prices. This improvement aligns with economists' expectations. However, despite this decline, the Bank of England is expected to raise interest rates again next month due to persistent core inflation and rising wages. Compared to other G-7 countries, the UK still faces the highest inflation rate and has yet to recover the output lost during the pandemic. Central banks worldwide have been increasing borrowing costs to combat inflation, which spiked after Russia's invasion of Ukraine and supply chain issues.