

CONSUMER SPENDING TRENDS TO 2030 THAT BUSINESSES NEED TO CONSIDER

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Businesses need to take long term trends into account when planning ahead. The key questions for companies operating in retail and consumer markets would include: How well do you understand the sensitivity of demand in your markets to relative price, income movements and internet penetration?, How might factors such as an ageing population affect demand patterns in your markets in the future?, Do you have models that allow you to capture these effects in a rigorous way and project forward demand in alternative macroeconomic scenarios?, Do you have not just a digital strategy, but a business strategy for the digital age?

The most notable changes since 1963 are that basic goods such as food, alcohol, clothing and furnishing saw a marked decline in their budget share. Most dramatically, food declined from 24% of total spending in 1963 to less than 10% in 2012.

In contrast, the largest rises were recorded in the housing and utilities, transport and miscellaneous spending categories. Most importantly, 2011 marked the first year when the spending share on housing and utilities broke the 25% barrier.

Spending in other categories like recreation and culture, communication, education and health have not changed materially as a proportion of total spending.

Trends since the financial crisis (2007-2012). This period is notable for two reasons. First, it covers a period where the UK economy experienced its sharpest post-war recession. Second, it is a period in which household finances have come under significant pressure with price inflation rates outstripping wage growth (as discussed in Section 2 above) with an associated average decrease in real consumption of 0.6% per annum since 2007. So our analysis offers a guide to how households have behaved in a period of considerable stress.

- The share of spending on housing and utilities rose from 21% in 2007 to 26% in 2012. This reflects sharp rises in real rent levels and utility bills, which has squeezed spending in other more discretionary areas.

- The main impact of this has been reduced spending in the miscellaneous, recreation and culture and, furnishing categories. Around 50% of the spending in the miscellaneous category is made up of financial and insurance services, which took a particular hit in the crisis as households reduced their debt position (e.g. on credit cards and other forms of unsecured loans).

- The share of spending on food increased marginally from 8.5% in 2007 to 9.2% in 2012. Although this is a small change, it is worth noting that 2008 was the first time since 1973 when the share of household spending on food has increased. This reflects rising prices of food that year.

Challenging economic conditions have changed consumer spending patterns and habits. The most notable change is that households are now spending a greater proportion of their

budget share on essentials like food and household goods. As a result, consumers have become more sensitive to the prices of essential items and are focused on reducing wasteful spending. In contrast to the pre-crisis decades, a cultural threshold seems to have been crossed — a consumer who looks out for low cost deals and reduces waste (particularly but not only for essential items) is now considered ‘smart’.

The emergence of the ‘smart’ consumer has affected how businesses compete in the marketplace.

We have also seen a gradual increase in the role of the internet in retail transactions (including online trading sites such as eBay). Internet transactions now make up about 10% of total retail sales, up from just 3% in 2007. One in ten pounds that is spent on clothing and footwear is now through online sales, compared to around 6% in 2010. Total consumer spending could grow by around 2% per annum in real terms on average to 2030, but this could vary from around zero real growth for food, clothing and alcohol & tobacco to around 2.5-3% for housing and utilities, health and recreation and culture.

Housing and utilities now account for around a quarter of total household spending, up from just over 20% before the financial crisis. This could rise to around 30% by 2030 as real utility prices continue to increase and the housing market picks up.

Spending on financial services, overseas holidays and other discretionary spending has decreased since the crisis, but should show some recovery in the longer term as the economy picks up. Consumers will, however, remain more price-conscious as on-line retailers and high street discount stores continue to take an increasing share of the market even after the economy recovers.

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