

# 3. The outlook for consumer spending and online retail<sup>1</sup>

## Key points

- Consumer spending growth is estimated to have slowed for a second consecutive year in 2018, but is still expected to have grown at an average of 2.2% a year faster than inflation since 2012. This spending has aided the economy's recovery from the financial crisis and supported it during the more recent period of Brexit-related uncertainty.
- Factors driving continued consumer spending growth include rising employment levels, accelerating real wage growth, a prolonged period of very low interest rates and consumers' willingness to reduce their savings rate.
- Assuming an orderly Brexit, we project real household disposable income growth to accelerate mildly in 2019 and 2020, reaching 2% in the latter year. This will reflect further upward pressure on wages thanks to the tight labour market.
- Despite higher income growth, we expect real household expenditure growth to slow in 2019 as a result of temporary uncertainty around the outcome of the Brexit process. Growth should then be able to pick up later in 2019 and into 2020 assuming an orderly Brexit is achieved. Given the acceleration in income growth and the slowdown in spending growth, the household saving ratio is likely to begin to rise again gradually in 2019 and reach 2% in 2020.
- Housing and utilities will continue to represent the largest share of total household spending in the long run, with the proportion rising to more than 30% by 2030.

Spending on discretionary services will also increase in proportional terms over this period, while the share spent on more basic goods, such as food, clothing and alcohol, will continue to decline.

- The disruption to consumer spending patterns caused by growth in online shopping will continue. The online share of total retail spending could rise between 2018 and 2030 from 5% to 8% for food, from 10% to 22% for furnishings and from 18% to 32% for clothing.

## Introduction

Consumer spending accounts for more than two-thirds of UK GDP and is therefore the most important driver of economic growth. And it has been strong consumer spending growth that has powered the recovery of the economy since 2012. But how sustainable is this spending in 2019 and 2020? Looking further ahead, which areas of consumer expenditure might grow the fastest over the next decade?

To answer these questions, we have looked at past trends and future prospects for the two main determinants of household spending growth:

- **Real household disposable income (RHDl) growth**, which is driven by trends in real employment, state benefits and pensions and other private income such as share dividends; and
- **Changes in the household savings ratio**, which are particularly influenced by the relative indebtedness of households and wealth effects (e.g. from changes in house prices).

We also consider the outlook for growth in online retail and consider what proportion of several of the main consumer spending categories could be generated by online sales in the coming years.

The discussion is structured as follows:

- Section 3.1 provides an overview of recent trends in each of the key determinants of RHDl growth;
- Section 3.2 looks at potential future trends in household disposable income growth;
- Section 3.3 examines past trends and future prospects for the household savings ratio;
- Section 3.4 brings these analyses together to set out our main scenario for future consumer spending growth and assess risks around this as captured in alternative scenarios;
- Section 3.5 considers how consumer spending growth might vary by expenditure category over the period to 2030;
- Section 3.6 focuses on growth in online retail and projects the proportion of sales that may be accounted for by online shopping in the future; and
- Section 3.7 summarises key findings from the research.

<sup>1</sup> This section was written by Mike Jakeman.

### 3.1 – Recent trends in household disposable income

The ONS defines household disposable income as the sum of earnings, state transfers (e.g. benefits) minus direct taxes (such as income tax and national insurance) and other net income accruing to households (e.g. from interest, dividends and rents).

Table 3.1 shows how the most important elements of household disposable income have changed over the six years to Q3 2018. During this period the economy recovered on a more sustained basis from the global financial crisis. By the final quarters of this period, the unemployment rate was down to multi-decade lows of around 4% and nominal wage growth had begun to accelerate in response. Real growth rates in the final column of the table have been calculated by deflating the nominal growth rates using the household expenditure deflator (which averaged 1.7% a year in the six years to Q3 2018).

The most notable feature of this analysis is that RHDl growth stood at around 1.5% a year on average, while household expenditure grew 0.7 percentage points faster, at 2.2% a year. The difference between income and expenditure is savings; and when expenditure grows faster than income this difference diminishes, manifested in a lower ratio of savings to income. Accordingly, the household saving ratio (adjusted to exclude changes in pension entitlements) fell from around 5% of household disposable income in Q3 2012 to 1.5% in Q3 2018.

Table 3.1: Key drivers of real household disposable income (RHDl)

	£ billion		Average growth rates per year		
	2012 Q3	2018 Q3	Nominal	Deflator	Real
Wages and salaries	175	218	3.6%	1.7%	1.8%
Household share of gross operating profits	63	81	4.4%	1.7%	2.6%
<b>Pre-tax earnings</b>	<b>238</b>	<b>299</b>	<b>3.8%</b>	<b>1.7%</b>	<b>2.0%</b>
Income tax paid	-47	-61	4.2%	1.7%	2.4%
National insurance contribution by workers	-32	-40	3.5%	1.7%	1.7%
<b>Post-tax earnings</b>	<b>159</b>	<b>198</b>	<b>3.8%</b>	<b>1.7%</b>	<b>2%</b>
Social security benefits	81	90	1.9%	1.7%	0.0%
<b>Post-tax earnings and benefits</b>	<b>240</b>	<b>289</b>	<b>3.2%</b>	<b>1.7%</b>	<b>1.4%</b>
Net property income received (interest, dividends, rent etc.)	40	53	4.6%	1.7%	2.8%
Net current transfers	13	15	1.7%	1.7%	-0.1%
<b>Household disposable income</b>	<b>293</b>	<b>356</b>	<b>3.3%</b>	<b>1.7%</b>	<b>1.5%</b>
Adjustment for change in pensions entitlements	15	11	-5.3%	1.7%	-7.1%
<b>Available household resources</b>	<b>308</b>	<b>367</b>	<b>3.0%</b>	<b>1.7%</b>	<b>1.2%</b>
<b>Memo: Household expenditure</b>	<b>277</b>	<b>352</b>	<b>4.0%</b>	<b>1.7%</b>	<b>2.2%</b>

Source: PwC analysis of ONS data

Note: Totals may not round exactly to the sum of the sub-categories owing to rounding

Table 3.1 shows that wages and salaries grew by 1.8% a year in real terms over the period, supported by a fall in the unemployment rate from 7.9% to 4.1% in this time. However, this was outstripped by the profits earned by self-employed workers and business owners, which rose at an annual average rate of 2.6% during the six years.

Within this period there was a pronounced shift towards self-employment and small business creation in 2012-14, when self-employment grew by 10% and regular employment by 5%. This divergence was encouraged by the greater ability of small firms to compete through the internet and mobile technology, the rise of the 'gig economy', generally lower national insurance rates paid by the self-employed and a broader push to boost entrepreneurship by successive governments. By contrast, between 2015 and 2018, regular employment has grown by 5%, while self-employment has been flat, perhaps because an underlying preference for regular employment remained and this reasserted itself as the labour market tightened and wages increased. These shifting trends have resulted in slightly slower growth in national insurance contributions relative to wage growth and slightly faster growth in income tax payments.

Table 3.1 also shows areas that have dampened growth in RHDl over the period:

- **Social security benefits:** this category has shown no growth at all in real terms since 2012. Although total state pension expenditure has grown relatively strongly at a real annual average rate of 2.3% during 2012-18, there has been a freeze on working-age benefits in nominal terms<sup>2</sup>.
- **Net current transfers:** this income category includes transfers to and from UK households in the form of financial gifts (e.g. to and from overseas family members) and some insurance claims, but excludes government transfers. The data in this category are volatile with no apparent trend. Transfers are also a comparatively small component of household income (around 4%), so the effect on overall growth is small.

The final row in Table 3.1 shows that total real household resources grew by 1.2% a year after taking into account the change in pension fund entitlements (referred to as 'net equity' in pension funds in the national accounts). However, such changes in pension values are unlikely to be perceived by most households as income that can be spent, so we prefer to remove this from our analysis and instead focus on an 'adjusted household saving ratio' defined as the difference between household disposable income and household expenditure, expressed as a percentage of disposable income. This is lower than the standard ONS definition based on household resources rather than disposable income, but provides a more realistic indication of the difference between household income and spending.

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<sup>2</sup> Department for Work & Pensions Expenditure Caseload forecasts (2018).

## 3.2 – Future trends in household disposable income

How will household disposable incomes fare in the future? There are many uncertainties here, but Table 3.2 sets out what, assuming a reasonably orderly Brexit, we consider to be a plausible main scenario for real growth to 2020 for each of the main elements of household disposable income growth. In particular we assume that:

- **Total income from wages and salaries** will grow at a reasonable real rate of 3% in 2019 and 2.9% in 2020, owing to a tight labour market that will put upward pressure on remuneration and slower inflation that will be roughly in line with the Bank of England's 2% year-on-year target (as discussed further in Section 2 above).
- **Income of households from gross operating profits** will struggle to match the growth in salaries, as the demand for workers from companies will continue to draw potential employees away from self-employment.
- **Income tax receipts** will grow broadly in line with wages and salaries.
- **Social security benefits** will rise by just 0.3% in 2019 and 0.2% in 2020 owing to the government's continued welfare cap for working age benefits. In the medium and long term we expect the average rate of benefits growth to be a little stronger, driven by the expanding number of people accessing the state pension (offset in part by planned rises in the state pension age). But even then growth is likely to be relatively modest in real terms as welfare reform programmes continue.

Table 3.2: Main scenario projections of RHDl growth

	2017	2018e	2019p	2020p
Wages and salaries	1.8%	2.2%	3.0%	2.9%
Household share of gross operating profits	-0.9%	2.3%	3.1%	2.3%
<b>Pre-tax earnings</b>	<b>1.0%</b>	<b>2.3%</b>	<b>3.0%</b>	<b>2.7%</b>
Income tax paid	2.9%	2.4%	3.7%	2.4%
National insurance contribution by workers	1.2%	2.7%	3.6%	3.0%
<b>Post-tax earnings</b>	<b>0.5%</b>	<b>2.1%</b>	<b>2.7%</b>	<b>2.8%</b>
Social security benefits	0.0%	-0.6%	0.3%	0.2%
<b>Post-tax earnings and benefits</b>	<b>0.3%</b>	<b>1.3%</b>	<b>2.0%</b>	<b>2.0%</b>
Net property income received (interest, dividends, rent etc.)	-3.9%	3.1%	0.7%	2.0%
Net current transfers	24.7%	5.6%	3.5%	1.6%
<b>Household disposable income</b>	<b>0.5%</b>	<b>1.7%</b>	<b>1.8%</b>	<b>2.0%</b>

Source: PwC analysis of ONS data for 2017-18 and PwC projections for 2019-20 – all growth rates are expressed in real terms

- **Net property income** growth will be particularly sluggish in 2019 as the housing market loses momentum. Faster growth is possible thereafter, but this will be constrained by the Bank of England gradually increasing its policy rate, which will result in more expensive mortgage repayments.

Based on these assumptions, we project that RHDl growth will accelerate slightly to 1.8% in 2019 and 2% in 2020, up from 1.7% in 2018 and just 0.5% in 2017.

This mostly reflects the continued strong labour market in our main scenario. In the long term we expect RHDl growth to settle between around 1.5% and 2% a year, weaker than in the period before the global financial crisis, but also significantly stronger than in the years immediately afterwards.

### 3.3 – Household saving ratio: trends and projections

The official household savings ratio is defined by the ONS as the difference between available household resources (household disposable income plus an adjustment for the change in pension entitlements as measured by net equity in pension funds) and household expenditure, expressed as a proportion of household resources.

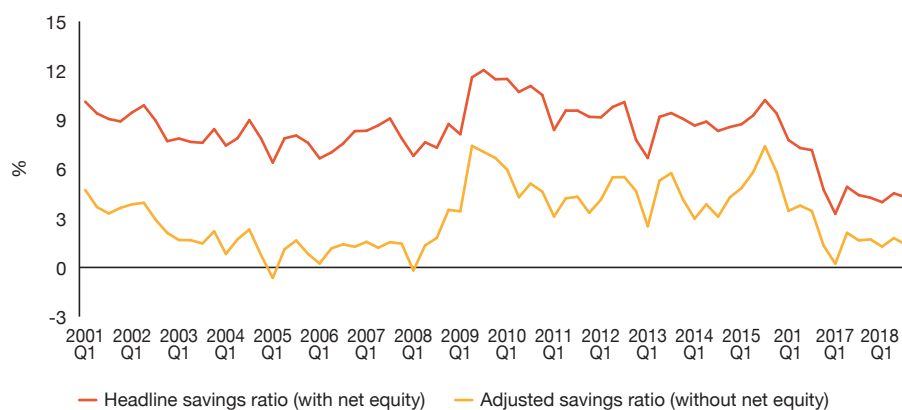
As noted above, we prefer to focus on an adjusted savings ratio that excludes changes in net equity in pension funds. Figure 3.1 shows how this adjusted ratio compares to the standard ONS headline measure.

Both saving ratios show broadly similar trends over time, but at much lower levels for the adjusted savings rate. The latter fell from around 5% at the turn of the millennium to as low as -0.2% before the onset of the financial crisis. This period saw consistent economic growth and easy credit conditions, which allowed house prices and household debt levels to rise.

Following the shock of the post-crisis recession, household confidence and borrowing slumped and the adjusted savings ratio jumped to more than 6% on average in 2009. Since the end of the recession, however, the ratio has fallen back again as confidence and consumer borrowing have revived, although it has been volatile from quarter to quarter. The latest adjusted savings ratio for Q3 2018 is estimated to be around 1.4%, which is still some way above pre-crisis lows, but also well below post-crisis highs.

So what might be the future direction of the household savings ratio?

Figure 3.1 – Historical trends in headline and adjusted UK household savings ratios



Source: PwC analysis of ONS data

Table 3.3: Projections of the adjusted household savings ratio in alternative PwC scenarios (% of household disposable income)

	2017	2018e	2019p	2020p
Lower savings ratio	1.4%	1.1%	0.6%	0.6%
Main scenario	1.4%	1.3%	1.7%	2.0%
Higher savings ratio	1.4%	1.5%	2.8%	3.5%

Source: PwC analysis based on ONS data for 2017-2018 Q3

Projecting forward the savings ratio is subject to considerable uncertainties, reflecting the fact that it is determined by the difference between two much larger numbers: gross disposable income and consumer spending. To address this issue we generated two additional scenarios in addition to our main scenario projections. In our main scenario, a combination of faster nominal wage growth, slightly lower inflation, a softer housing market and some Brexit-related consumer caution push up the savings rate to around 2% by 2020, from an estimated 1.3% in 2018.

### 3.4 – Alternative scenarios for consumer spending growth to 2030

We now combine our household disposable income projections from Table 3.2 with our alternative savings ratio scenarios from Table 3.3 to derive scenarios for real consumer spending growth to 2020. We also make illustrative further assumptions on longer growth in spending to 2030. Specifically, as set out in Tables 3.4-3.6:

- Our **main scenario** projects real household consumer spending growth to slow down from 1.9% in 2018 to 1.4% in 2019, followed by a mild acceleration to 1.7% in 2020. The main factor behind the moderation in growth in 2019 is weakening consumer confidence in the first half of the year owing to broader worries about how Brexit will affect the economy. So far, household spending growth has been remarkably resilient to political turmoil, but we believe that this has become sufficiently acute in early 2019 to trigger more cautious expenditure. Data from our 2019 Retail Outlook report supports this argument, with the proportion of consumers reporting that Brexit will affect their spending rising to 40%, from 27% in 2018<sup>3</sup>. Yet on the assumption that an orderly withdrawal from the EU is achieved, spending growth ought to be stronger in the second half of the year and in 2020. We note that RHD growth is likely to accelerate in 2018-19, and that this contributes to a slightly higher savings rate. In the longer term, consumer spending growth is likely to return to around 1.8% a year in the 2020s. This is consistent with our estimate for longer term economic growth.

**Table 3.4: Main scenario projections of growth in real household expenditure (% per year)**

	2017	2018e	2019p	2020p	Average 2021-30p
Real household expenditure	2.1%	1.9%	1.4%	1.7%	1.8%
Real household disposable income	0.5%	1.7%	1.8%	2.0%	
Adjusted savings ratio	1.4%	1.3%	1.7%	2.0%	

Sources: ONS for 2017-2018 Q3. PwC estimates and projections for later periods. The figures for 2021-30 are illustrative assumptions for consumer spending only based on alternative views of long-term trends in GDP growth

**Table 3.5: Optimistic scenario projections of growth in real household expenditure (% per year)**

	2017	2018e	2019p	2020p	Average 2021-30p
Real household expenditure	2.1%	2.1%	2.4%	2.4%	2.3%
Real household disposable income	0.5%	1.7%	2.0%	2.3%	
Adjusted savings ratio	1.4%	1.1%	0.6%	0.6%	

Sources: ONS for 2017-2018 Q3. PwC estimates and projections for later periods. The figures for 2021-30 are illustrative assumptions for consumer spending only based on alternative views of long-term trends in GDP growth

**Table 3.6: Pessimistic scenario projections of growth in real household expenditure (% per year)**

	2017	2018e	2019p	2020p	Average 2021-30p
Real household expenditure	2.1%	1.6%	0.2%	0.6%	1.3%
Real household disposable income	0.5%	1.7%	1.6%	1.3%	
Adjusted savings ratio	1.4%	1.5%	2.8%	3.5%	

Sources: ONS for 2017-2018 Q3. PwC estimates and projections for later periods. The figures for 2021-30 are illustrative assumptions for consumer spending only based on alternative views of long-term trends in GDP growth

- Our **optimistic scenario** assumes that households enjoy the benefit of faster wage growth and that Brexit-related developments do not alter their spending decisions. This acceleration of the existing trend lowers the adjusted savings rate to an annual average of 0.6% in 2019-20, which would be a record low in the modern era. In the long term, we assume that RHD grows faster than the main scenario due to higher UK productivity growth and so supports average real household expenditure growth of around 2.5% a year in the 2020s.
- Our **pessimistic scenario** assumes that the saving ratio rises to 2.8% in 2019 and then increases further in 2020 while disposable income growth is unimpressive. This type of scenario could be associated with UK consumers being less confident owing to a deteriorating global economy and an unsatisfactory conclusion to the Brexit negotiations, together with weak UK productivity growth in the long term, beyond 2021.

### 3.5 – Projected consumer spending growth by category

Aside from a sentiment-related blip in 2019, total consumer spending is projected to grow reasonably steadily in our main scenario, but from a business perspective it is important to understand which sectors are likely to see the most impressive growth rates. To make these projections, we have updated our in-house longer term consumer spending model, results from which were last published in March 2018.

This econometric model uses factors such as real income levels, relative price levels, demographics and income distribution to project how future consumer spending growth could vary across the main spending categories. We project these forward to 2020 on an annual basis and then provide some more illustrative, long-term projections to 2025 and 2030. In these projections, as summarised in Figure 3.2 and Table 3.7, we have assumed that:

- total UK household expenditure grows at the rates set out in the main scenario in Table 3.4;
- income inequality remains at the latest level set by the ONS; and
- population shares by age group evolve according to the latest ONS forecasts, which imply a steady rise in the proportion of people above the age of 65.

Figure 3.2: Historical data and main scenario projections for household spending budget shares to 2030

1985 rank		% Share	2018 rank		% Share	2030 rank		% Share
1	Housing & utilities	27.5%	1	Housing & utilities	26.6%	1	Housing & utilities	30.5%
2	Transport	12.4%	2	Transport	13.3%	2	Miscellaneous services	14.4%
3	Food	12.0%	3	Miscellaneous services	13.0%	3	Transport	11.9%
4	Miscellaneous services	9.3%	4	Recreation and culture	9.8%	4	Recreation and culture	10.0%
5	Hotels and restaurants	8.7%	5	Hotels and restaurants	9.1%	5	Hotels and restaurants	9.1%
6	Recreation and culture	7.8%	6	Food	8.2%	6	Food	5.9%
7	Clothing and footwear	5.9%	7	Clothing and footwear	5.5%	7	Furnishing	5.3%
8	Alcohol and tobacco	5.4%	8	Furnishing	5.5%	8	Clothing and footwear	4.2%
9	Furnishing	5.2%	9	Alcohol and tobacco	3.4%	9	Alcohol and tobacco	2.8%
10	Health	3.5%	10	Health	2.0%	10	Health	2.1%
11	Communication	1.6%	11	Communication	1.9%	11	Communication	1.9%
12	Education	0.8%	12	Education	1.8%	12	Education	1.8%

Source: ONS for historical data, PwC for main scenario projections

**Table 3.7: Household budget share projections to 2030 and implied average annual real growth rates by household spending category in our main scenario**

	Shares of total spending			Implied average real growth rates	
	2018e	2025p	2030p	2018-25p	2026-30p
Housing and utilities	26.6%	28.5%	30.5%	2.2%	2.6%
Transport	13.3%	12.6%	11.9%	1.0%	0.5%
Miscellaneous services	13.0%	13.9%	14.4%	2.3%	1.9%
Recreation and culture	9.8%	10.0%	10.0%	1.8%	1.4%
Hotels and restaurants	9.1%	9.1%	9.1%	1.5%	1.5%
Food	8.2%	6.9%	5.9%	-0.4%	-1.0%
Clothing and footwear	5.5%	4.7%	4.2%	-0.1%	-0.4%
Furnishings	5.5%	5.4%	5.3%	1.5%	1.0%
Alcohol and tobacco	3.4%	3.0%	2.8%	0.4%	0.2%
Health	2.0%	2.0%	2.1%	1.7%	2.0%
Communications	1.9%	1.9%	1.9%	1.8%	1.5%
Education	1.8%	1.8%	1.8%	1.5%	1.4%
<b>Total spending</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>1.7%</b>	<b>1.8%</b>

Source: PwC analysis of ONS data for 2017-18 and PwC projections for 2019-20 – all growth rates are expressed in real terms

Figure 3.2 shows that, by 2030, we estimate that households will need to allocate over 30% of their spending to housing and utilities, compared with around 27% at present. This reflects our expectation, based on past research, that supply shortages will keep house prices and rents rising relatively rapidly in real terms. Indeed, the average real growth rate of housing and utilities spending in both 2019-25 and 2026-30 is expected to be the fastest of all categories in Table 3.7.

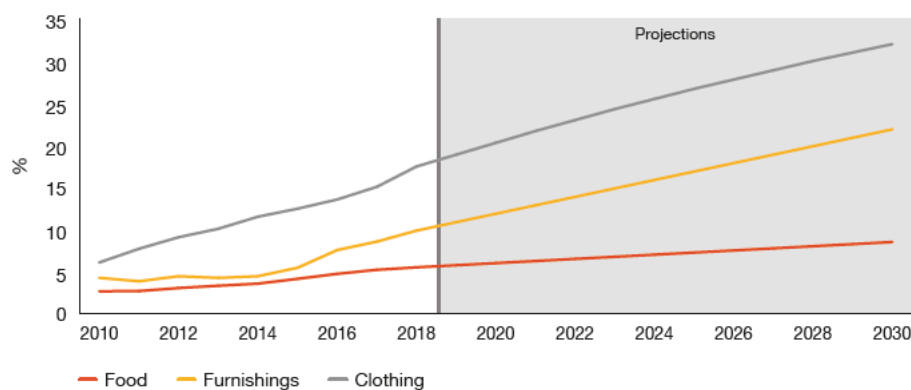
The miscellaneous services category, which includes financial services (such as credit cards and insurance) and personal care, is expected to become the second largest expenditure category in the period between 2018 and 2025, displacing transport. We expect its share to continue to rise in the years to 2030, so that it accounts for around 14% of total spending by that year. This is intuitive as we expect the Bank of England to raise interest rates gradually in the medium term in our main scenario, and insurance premiums, including tax, may also tend to increase.

Reflecting the UK's status as a high-income economy, the two leisure categories—recreation and culture and hotels and restaurants—are also relatively income-elastic, and so tend to increase their share of total spending as RDHI grows over time. In contrast, necessities such as food and clothing will tend to see their spending shares decline in the long run, continuing the historic trends shown in Figure 3.2. These are also industries where prices have fallen owing to the development of highly efficient and sophisticated supply chains. Particularly in the case of food, however, there could be some volatility around this declining trend owing to fluctuations in harvest size and exchange rates.

The transport sector is also expected to see a fall in its budgetary share in the long term, although it may still see some modest growth in real terms. The decline reflects both an ageing population and a fall in the proportion of younger adults with driving licences, coupled with the growth of internet shopping (see Section 3.6), food delivery companies and disruptive entrants into the transport sector (such as Uber) which are expected to impact on transport spend per person.



Figure 3.3 – Proportion of total retail sales made online by segment



Source: ONS data and PwC calculations

Note: Figures from 2019 onwards are PwC projections

### 3.6 – Potential growth in online consumer spending

Consumer spending has grown steadily in the recovery period since the financial crisis, but there has been considerable disruption in terms of where consumers are spending. Online sales accounted for more than 20% of total retail sales for the first time ever in November 2018, thanks to Black Friday promotions. Even without one-off events, the share accounted for by online is growing steadily.

How far could this trend go? To consider this question, we mapped ONS data on the proportion of total sales that were made online for three of our consumer spending categories that make up a significant proportion of retail sales — food, clothing and furnishings — onto our projections of how these categories would perform in the years to 2030.

For food and furnishing we assumed that online sales would continue to grow at the same annual average pace as in recent years. This therefore assumes no structural changes in the online retail segments that accelerates the rate of growth (such as the introduction of retailers' apps for mobile phones several years ago) or major cyber security or other concerns that could trigger a renewed preference for shopping in-person. For clothing, we believe the online market is more mature and therefore we have factored in a gradual moderation in growth in the 2020s.

Of the three categories, online sales accounted for the lowest proportion of total food sales in 2018 and growth has been slowest in this category (see Figure 3.3). Consequently, we see the proportion of online food sales rising relatively modestly, from around 5.5% in 2018 to around 8.5% by 2030. Although home delivery charges for online food shopping have fallen, the short shelf-life of fresh food products and preferences for picking their own groceries remain deterrents to online food shopping for consumers that will be challenging to overcome.

In the furnishings category, the shift to online shopping has been more marked, with such sales accounting for just under 10% of the total in 2018. Our projections suggest that this could rise to around 22% by 2030.

Bricks-and-mortar clothes retailers have seen the greatest disruption from online sales: around 18% of clothes were bought online in 2018, compared with 6% in 2010. If the current rates of growth continue, we project that online clothing sales could be almost one-third of total sales by 2030, at 32%.

These trends are already having an effect on business strategy. In conjunction with the Local Data Company, PwC tracks shop openings and closures in the top 500 high streets in England, Scotland and Wales<sup>5</sup>. In the first half of 2018, the most recent period for which data is available, a net 1,123 stores closed, up from 222 in the year-earlier period. The category that suffered the largest absolute fall in shops was clothes retailing, an outcome the analysis linked to the rise in online sales of fashion. (Higher business rates since 2017 may also have been a factor here.)

Interestingly, over the past five years, the number of new store openings across the retail sector has fallen by half while the number of closures has been relatively static, suggesting that firms have become much more cautious about investing in bricks-and-mortar retail, given the expanding role of online sales.

5 For details of this analysis see: <https://www.pwc.co.uk/industries/retail-consumer/insights/store-openings-and-closures-report-h1-2018.html>

### 3.7 – Summary and conclusions

Over the past six years, household spending has tended to outpace consumer price inflation and support the UK's recovery from the global financial crisis, helped by continued low interest rates, strong employment growth and a willingness of households to borrow more. However, growth in consumer spending has also slowed since 2016 because of the effects of a weaker pound and rising inflation on real wage growth. These effects are beginning to fade, but we expect more subdued growth in house prices and uncertainties about the Brexit process to mean that household spending growth slows for another year in 2019.

At the same time, assuming a reasonably orderly Brexit, the labour market is likely to continue to tighten, with firms having to pay ever higher wages to attract new employees. This means that RDHI growth should accelerate in 2019 and again in 2020. Slower growth in spending and faster growth in income means that the adjusted saving ratio—which had been in long-term decline—could receive at least a temporary boost in these years.

In our main scenario, we therefore project that real consumer spending will slow from around 1.9% in 2018 to 1.4% in 2019, before returning to its trend growth of around 1.8% on average in the 2020s. Other scenarios show long-term real consumer spending growth of between around 1.3% and 2.3% a year over the period to 2030.

We expect that housing and utilities will absorb a larger and larger share of household spending, rising above the 30% threshold by 2030, from less than 27% in 2018. We also expect to see financial services and personal care account for a greater proportion of spending in the same period, while more basic categories, such as food, clothing and alcohol will see their shares decline.

Social and industrial changes are likely to drive particular disruption in the transport category. Where transport was once accounting for a rising share of spending in the 30 years to 2018, this trend is projected to reverse in the years to 2030.

Online sales are likely to become an even more important part of consumer spending in the long term. The proportion of sales conducted online doubled in each of the food, furnishing and clothing categories between 2010 and 2018. Assuming no structural change that accelerates the rate of growth from recent levels (or major cyber security or other concerns that trigger a significant slowdown or decline), we estimate that the online proportion of retail spending in each of these segments could rise between 2018 and 2030 from 5% to 8% for food, from 10% to 22% for furnishings and from 18% to 32% for clothing.

[www.pwc.co.uk/economics](http://www.pwc.co.uk/economics)

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