

Retail Economics Cost of Living Tracker

1 in 3 switching between shopping channels as double-digit inflation persists

Overview



Inflation rate



Earnings growth



Change in discretionary income

	Inflation rate	Earnings growth	Change in discretionary income
🏠 least affluent	+16.5%	+7.2%	-8.3%
🏠 middle income	+13.5%	+7.8%	-3.7%
🏠 most affluent	+13.5%	+7.7%	+0.8%

Executive summary

- The biggest annual jump in food prices since 1977 kept pressure on households amid the cost of living crisis.
- This put most pressure on lower-income households who spend a larger share of their income on essentials than more affluent households.
- The overall impact on discretionary budgets was softened by winter fuel payments and ongoing subsidies on energy bills, as well as historically strong earnings growth across households.
- As a recession looms, consumers expect to cut back spending across non-essential categories in 2023.
- Compared to 2022, 31.2% of consumers expect to switch between shopping channels over the next year.
- Those that expect to shop more in-store are typically lower affluence households, and are more likely to be reducing their discretionary retail spending than more affluent shoppers who are spending more online.

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Household cash flow overview

- Deteriorating budgets are leading 1 in 3 shoppers to reconsider their typical shopping journeys, with those expecting to shop more in-store in 2023 under the most financial pressure.
- Double-digit inflation including the biggest annual jump in food prices since 1977 kept pressure on household budgets in December.
- Budgets for non-essential spending are under the most pressure as consumers look to cut back on discretionary spending.
- Most consumers are feeling the pinch and expect to cut back across non-essential spending in 2023, making shoppers reconsider their typical shopping journeys.
- Compared to last year, almost a third (31.2%) of consumers expect to adapt their shopping behaviour over the next year – either doing more shopping online or more in-store.
- Those who expect to shop more in-store over the next year are more likely to reduce their spending than those who intend to shop more online.
- Lower affluence households are having to scrutinise spending and are looking to avoid the cost of online, including delivery and returns fees which have been on the rise among online players.
- This distinction matters when considering the impact on retail spending and how retailers may leverage certain channels to target different cohorts of consumers.
- Across non-essential categories, those who are looking to shop more in-store over the next year are more likely to reduce their spending than those who intend to shop more online.
- A high net balance of half of those intending to shop more in-store, expect to cut spending on Clothing & Footwear.


Inflation

Annual inflation rate by household




Least affluent
+16.5%

Inflation facing the least affluent households rose by 16.5% in December



Middle income
+13.3%

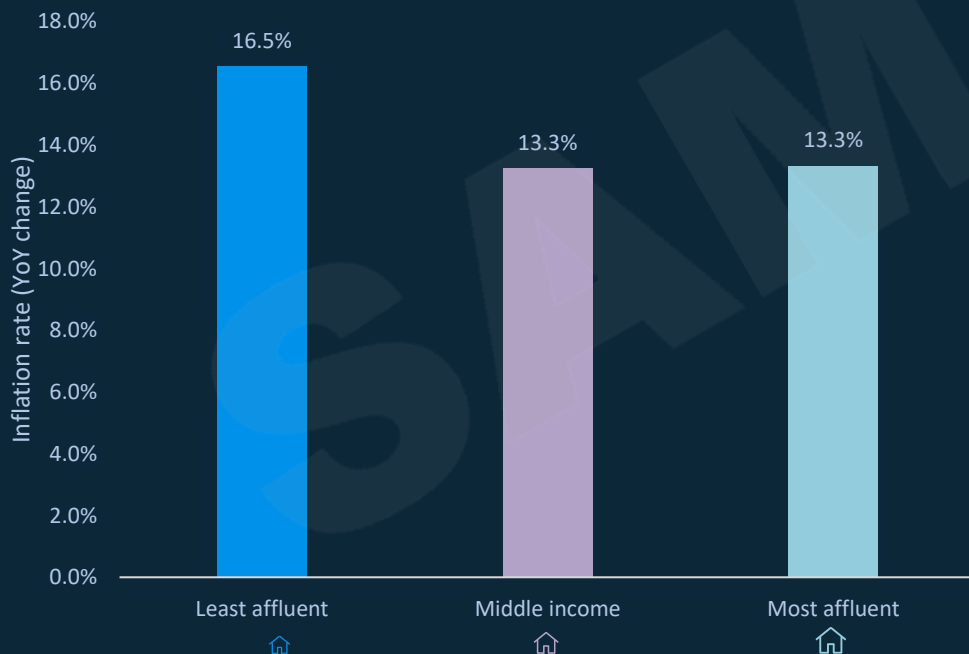
Inflation facing middle income households rose by 13.3% in December



Most affluent
+13.3%

Inflation facing the most affluent households rose by 13.3% in December

Inflation rate by household



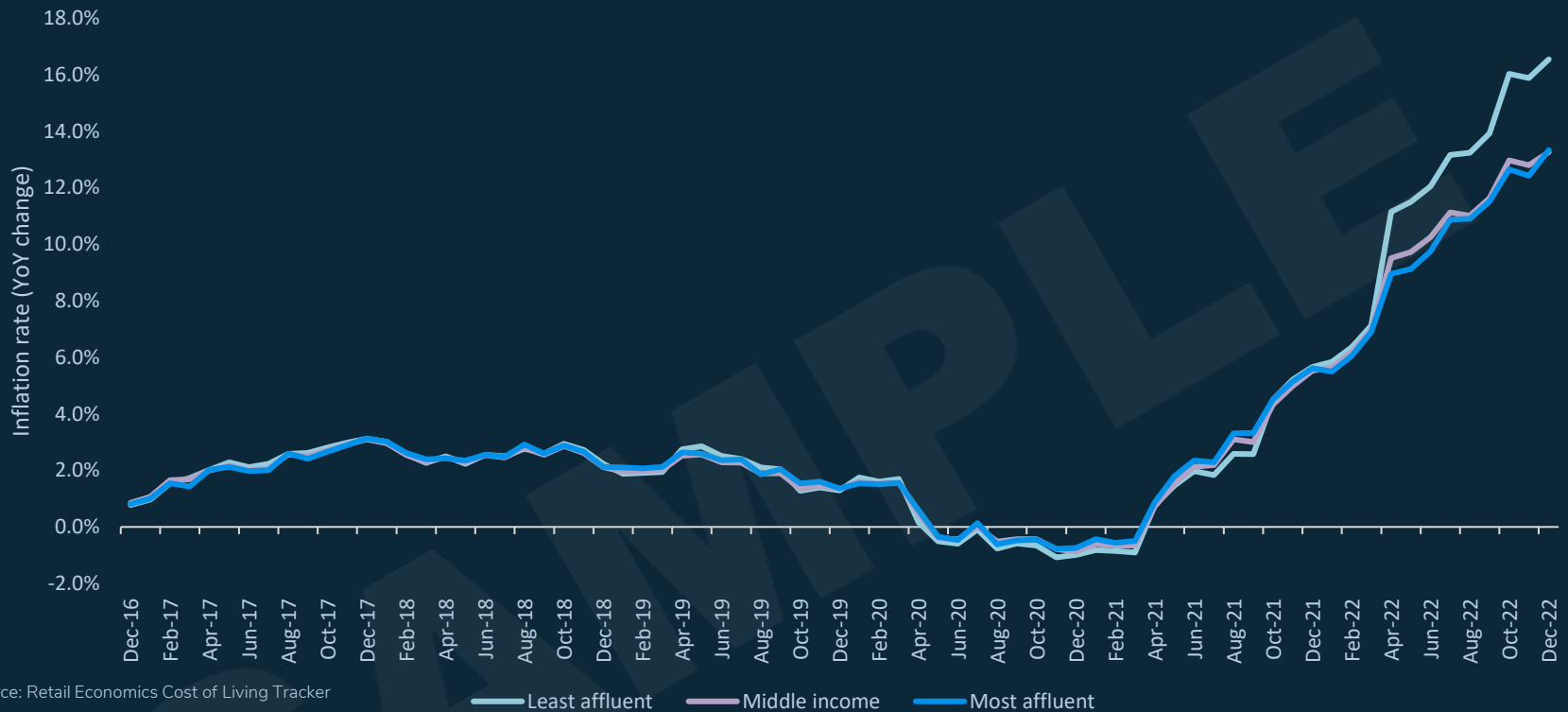
Analysis

- Inflation across households in December remains in double-digits.
- 'Inflation rate by household' reflects the relative composition of spending by different households.
- The least affluent faced the largest jump in inflation, while high income households were relatively less affected.
- Inflation was also strong in the services sector, impacting more affluent households, with restaurants and hotels driving upward contributions to inflation, recording its highest annual rate since August 1991 (11.3%).

Source: Retail Economics Cost of Living Tracker

Inflation

YoY inflation rate by household



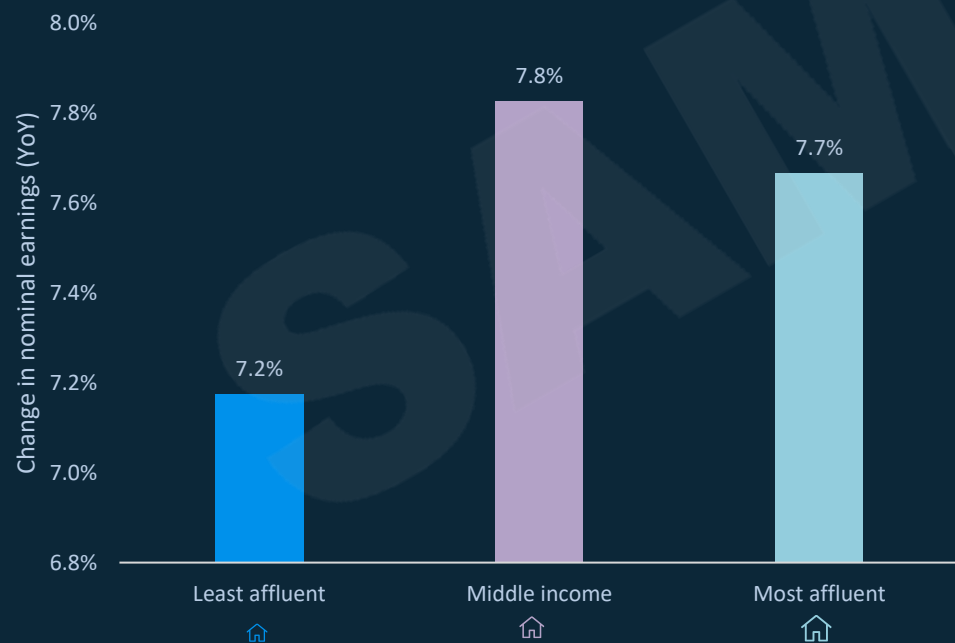
- Recent high inflation comes on the back of: (1) pressure on supply chains from Covid restrictions and recovery; (2) Russia-Ukraine war intensifying energy and food shocks; and (3) shrinkage in the labour force.
- However, increasing cost-push inflation over the past year has seen inflation rates soar, including essentials which poorer households spend a disproportionate amount of income on.
- The pressure on commodity prices exacerbated by the Russia-Ukraine war is feeding through to higher consumer prices.
- The Bank of England has warned that the labour market is expected to remain tight throughout much of 2023, which could see current higher price levels persist as wages step up.
- But the government's energy price freeze package is curbing inflation by up to five percentage points in the short term.
- The Bank of England expects inflation to fall to 9.5% by Q3 2023, before softening to 0.8% in Q3 2025 as external and domestic pressures weaken.

Earnings

Change in weekly earnings by household

Household Type	Change in Weekly Earnings
Least affluent	+7.2%
Middle income	+7.8%
Most affluent	+7.7%

Household nominal earnings YoY change

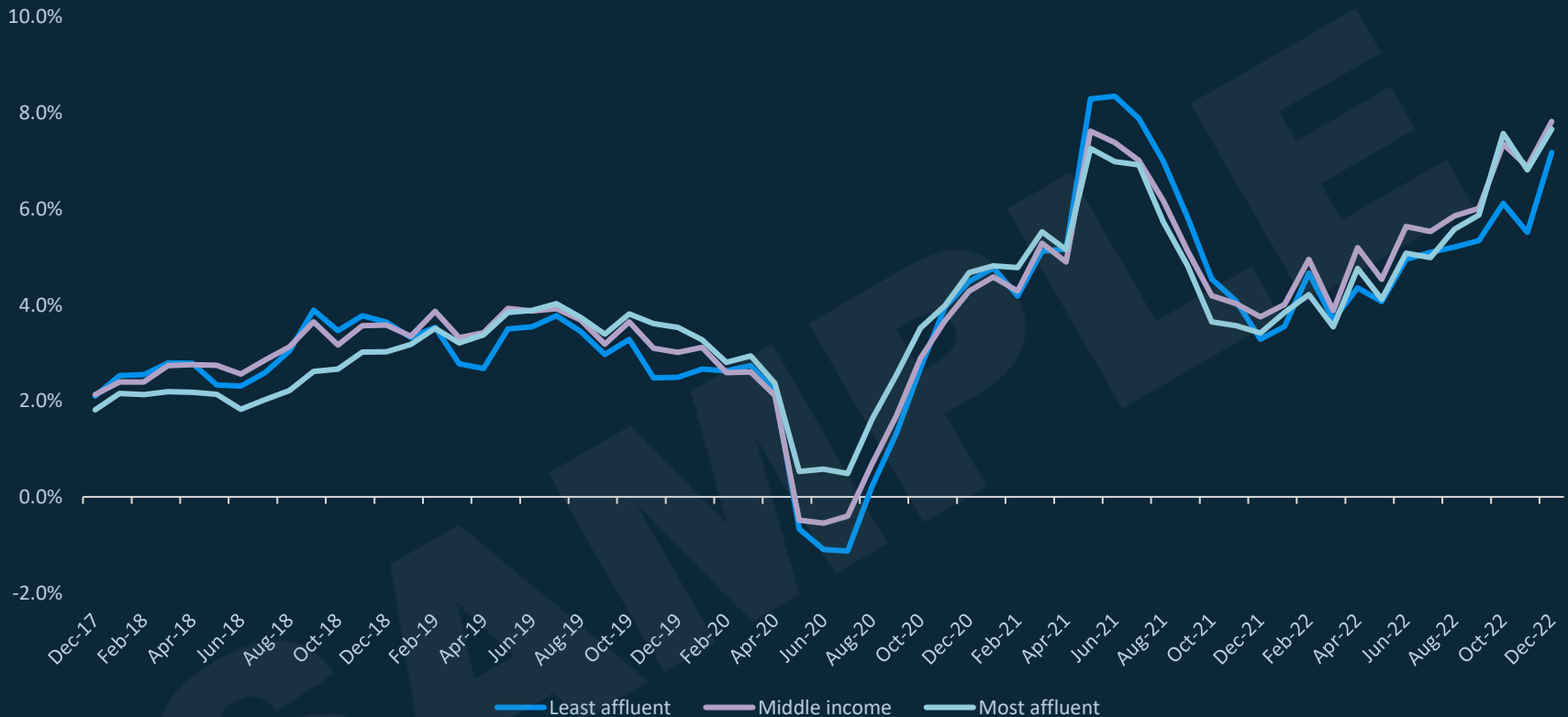


Analysis

- Earnings across households stepped up at the end of 2022 at record rates – however, the rate of earnings growth continues to lag inflation, particularly for the least affluent households.
- The composition of jobs differs by household affluence, with earnings growth by household being supported by different areas of the economy.
- The most affluent households continue to experience the strongest earnings growth. This is being supported by double-digit earnings increases across professional, scientific and technical activities.
- Middle income households were supported by double-digit annual increases across education.

Earnings

YoY change in weekly earnings by household

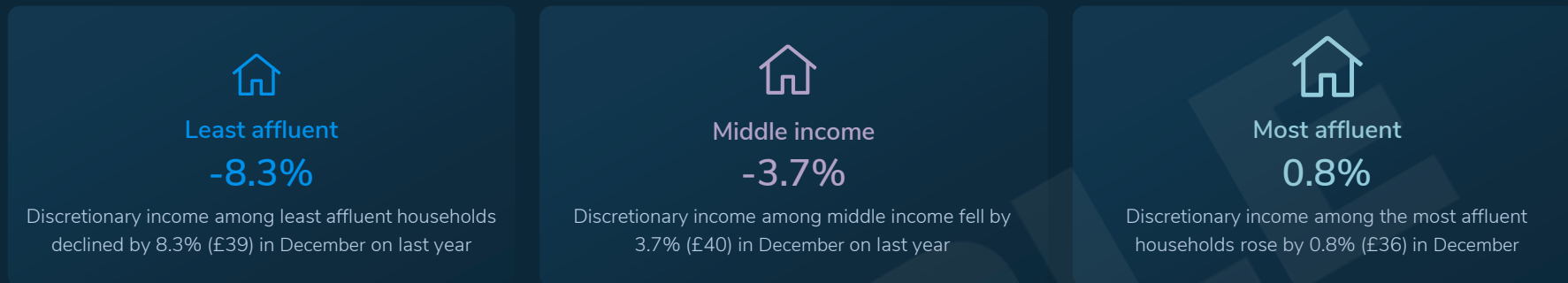


Source: Retail Economics Cost of Living Tracker

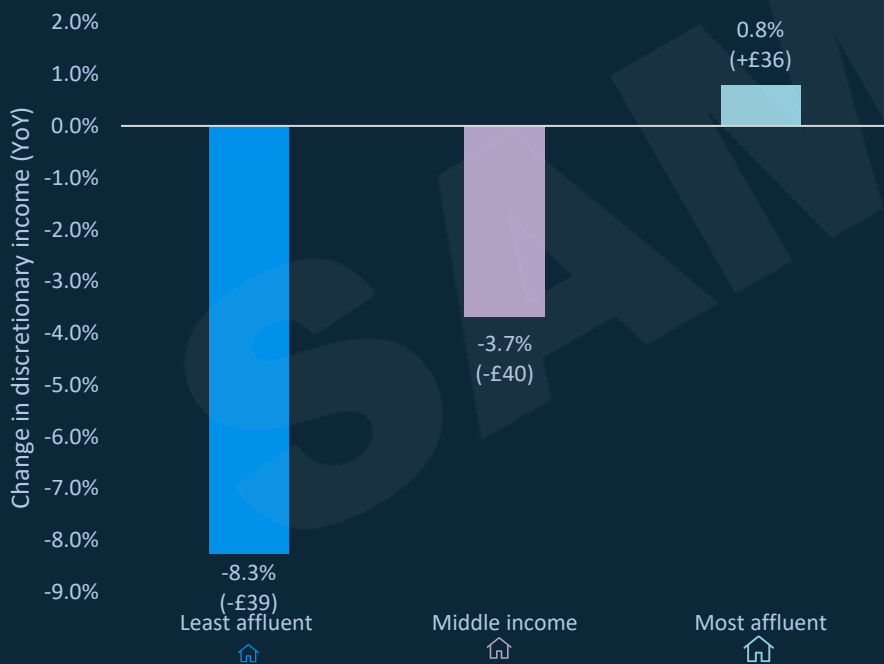
- Earnings growth during 2021 was upwardly impacted by weak comparisons during the UK's first lockdown.
- Wages for the least affluent households were disproportionately hit during the initial outbreak of Covid-19, as typically lower paid sector workers with less opportunity to work from home (including retail and hospitality) faced mandated closures. A recovery in demand for services during summer 2021 saw strong wage growth for the least affluent.
- However, public sector pay increases remain soft, disproportionately impacting low-to-middle affluence households. Meanwhile, private sector pay is being supported by industries such as real estate and finance.
- The Bank of England has warned that unemployment could edge up from late-2023 to tip 6.25% by Q3 2025 as the economy faces a recession.

Discretionary income

Change in weekly discretionary income by household



Change in Discretionary Income YoY

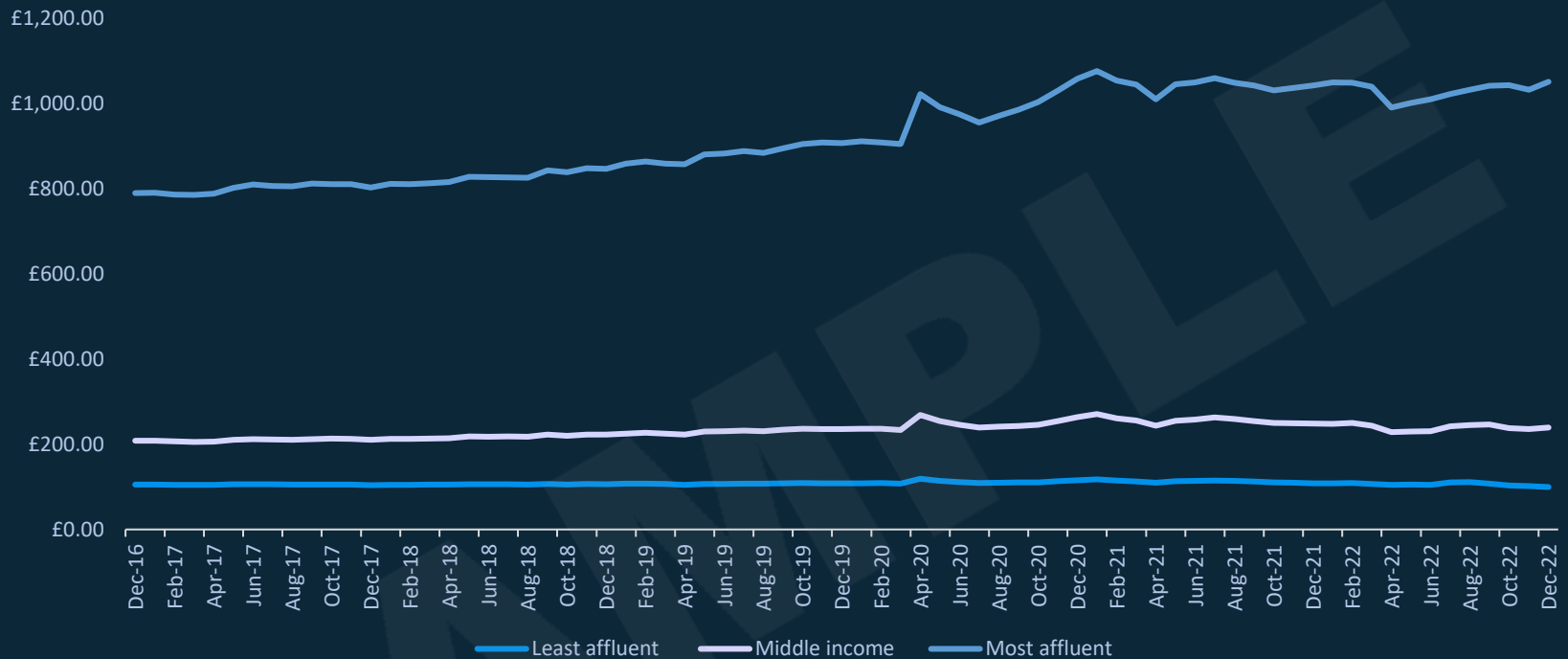


Analysis

- Double-digit price rises are having an uneven impact to discretionary income across households.
- Although the majority of households are suffering from declining discretionary budgets, government support from winter fuel payments and ongoing subsidies on energy bills has softened the impact on discretionary income.
- After paying for all essentials, middle income households saw their spare cash fall by 3.7% YoY in December and the least affluent faced an 8.3% decline, leaving these households with around £40 less cash to spend on non-essential items.
- The least affluent faced deeper declines as accelerating food and energy prices erode their lower earnings growth.
- The most affluent have been able to offset price increases across essentials by benefiting from historically strong earnings growth. This saw discretionary income among the most affluent tick up slightly in December.

Discretionary income

Weekly discretionary income by household



Source: Retail Economics Cost of Living Tracker

- The first UK lockdown from late March 2020 brought a sharp rise in discretionary income, as consumers significantly cut back on travel and commuting. The boost began to soften as restrictions lifted and earnings eased into the summer.
- The second and third lockdowns saw discretionary income rise as consumers yet again cut back on expenses, which eased as restrictions lifted over spring 2021.
- Strong earnings growth supported discretionary income over summer 2021. But inflation began to bite as global economies reopened and work-related expenses increased, putting discretionary income under pressure.
- Downside pressure across the majority of households is expected to persist into 2023 as essential prices continue to rise – only partly offset by government grants and the reversal of additional NIC contributions.

1 in 3 shifting spend across channels as recession looms in 2023

Overview



Shopping behaviour

1 in 3

Expect to shift spending between typical shopping channels in 2023



Affluence differs by channel

33%

Of consumers who are looking to spend more in-store in 2023 are low-middle income households



Category impact

50%

Among those intending to shop more in-store, a net balance of half expect to cut spending on Clothing & Footwear

Executive summary

- Compared to 2022, 31.2% of consumers expect to either shop more shopping online, or more in-store, in 2023 as shoppers look to reduce their non-essential retail spending.
- Those that expect to shop more in-store are typically lower affluence households, while those looking to shop more online over the next year are typically more affluent consumers.
- This is impacting spending intentions by channel. Across non-essential categories, those who are looking to shop more in-store over the next year are more likely to reduce their spending than those who intend to shop more online.
- Similarly, spending intentions across Food & Drink are softer among consumers looking to spend more in-store.

Shifting spending across channels

Intended shopping behaviours by affluence

- The erosion of discretionary budgets is leading to shoppers to reconsider their typical shopping journeys.
- Compared to 2022, 31.2% of consumers expect to adapt their shopping behaviour over the next year – either doing more shopping online or more in-store – as shoppers look to reduce their non-essential retail spending.
- Cash-strapped shoppers are having to scrutinise spending and are looking to avoid the cost of shopping online, including delivery and returns fees. When breaking down those that expect to shop more in-store by affluence, it's typically lower income households.
- By comparison, those looking to shop more online over the next year are typically more affluent consumers.

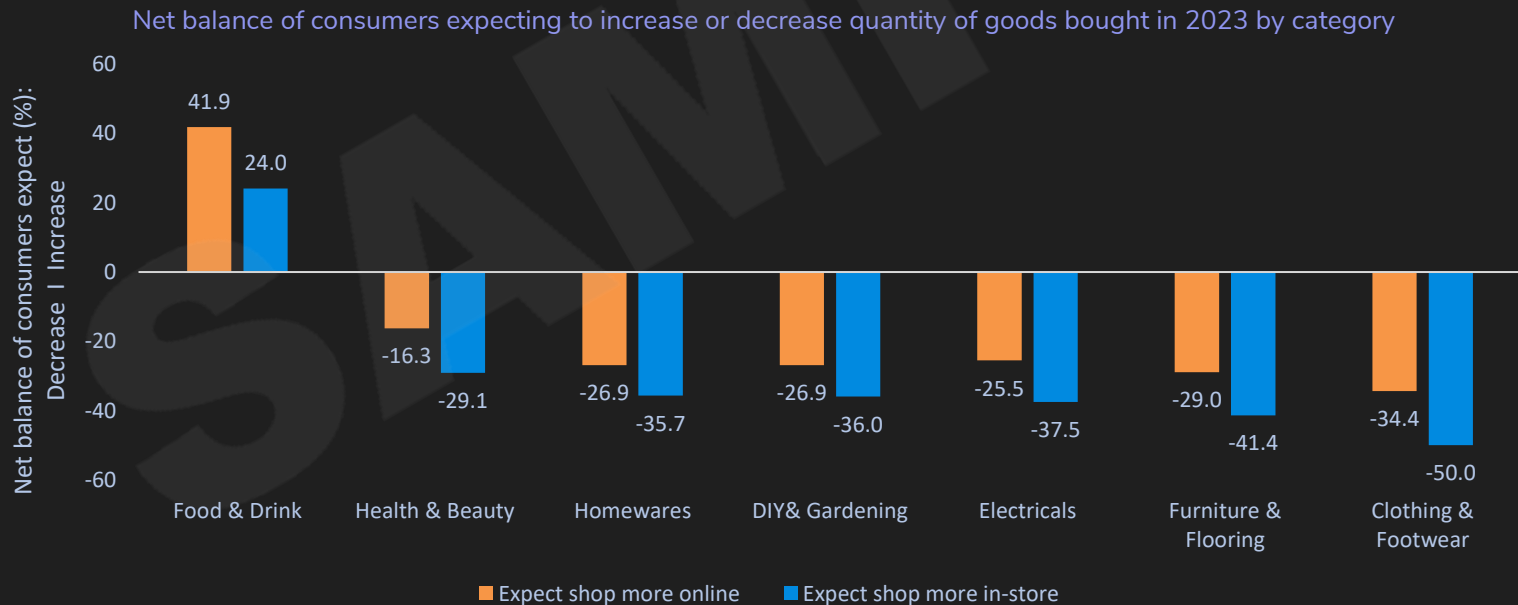
Those looking to spend more online in 2023 are typically more affluent consumers



Spending expectations

Spending intentions in 2023 by category

- Distinguishing affluence groups across channel intentions matters when considering the impact on retail spending and how retailers may leverage certain channels to target different cohorts of consumers.
- But the uplift in spending across Food & Drink is softer among consumers looking to spend more in-store in 2023, as they're more likely to be lower affluence shoppers who are under most pressure to trade down on essential purchases.
- Across non-essential categories those who are looking to shop more in-store over the next year are more likely to reduce their spending than those who intend to shop more online.



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Retail Economics Cost of Living Tracker


The Retail Economics Cost of Living Tracker is a monthly measure of the impact of earnings growth and inflation on discretionary income across the least affluent, middle income and most affluent households in the UK. Click [here](#) for information about the methodology.

Retail Economics is an independent economics research consultancy focused on the UK consumer and retail industry. It analyses the complex retail economic landscape and draws out actionable insight for its clients.

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