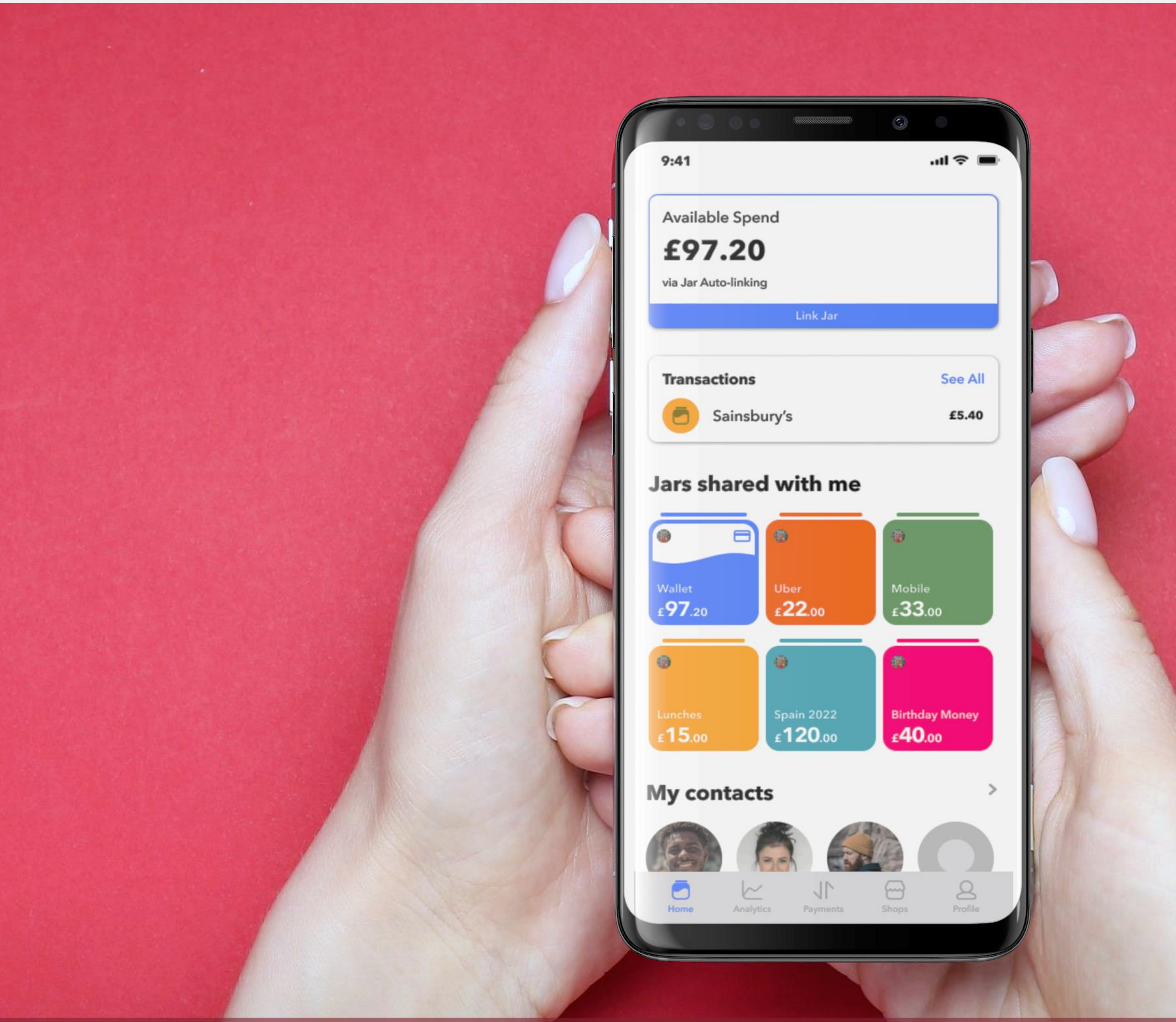
HyperJar

RetailEconomics



A life well spent?

Financial behaviour, the enablement gap & tools for better money management

March 2022

Exec summary

UK households are entering a new age of financial stress as economic uncertainty, rising inflation and rocketing energy prices drives the biggest cost of living crisis in 50 years.

This report, commissioned by digital wallet HyperJar, shows that least affluent households will be hit hardest, with their annual discretionary income set to plunge by 19.5% - almost £850 - in 2022.

Even average income households will see a 6.5% - £430 - fall in discretionary spending power.

As a result, this will wipe out over £12 billion of non-essential spending across the UK economy in 2022.

With many households already stretched, inflationary shocks will make it increasingly difficult to cover essentials and repay debt. Currently, around 13% of households say that they 'just about manage' to cover minimum repayments on credit card bills, and 6% say that they are unable to.

Two thirds of UK adults are worried about money (64%), rising to 70% for under 45s. Even among the highest income households, a third (30%) don't always pay off credit card or 'Buy Now, Pay Later' debt every month.

Almost a quarter (23%) of the richest households feel a lack of control of over their money and spending, with more than half (56%) admitting that money is a worry for them.

Over a quarter of adults have more than eight financial relationships to manage including debit/credit cards, BNPL providers and store loyalty cards.

As such, many traditional banking services are a source of frustration, felt most keenly among younger generations: one in four under 45s (and a third of Gen Zs) feel that their bank does not offer the appropriate tools for their budgeting and spending needs.

Many consumers struggle to achieve their financial goals, but often this is not for want of effort. Despite best intentions, average households overspend by £359 per month.

Lastly, as incomes are squeezed, recessionary behaviours will increase - from trading down to searching for deals and shopping around.

This presents huge opportunities for retailers and brands to strengthen and galvanise customer relationships by offering them the right tools to assist them in their hour of need.

Headline stats

£12bn
Of discretionary spending will be wiped out in 2022 by rising costs

-£850
the drop in discretionary spending among the least affluent households in 2022

-6.5%
average fall in discretionary spending for a typical household in 2022

23%
of highest income households feel a lack of control over their money

70%
of under 45s are worried about money

1 in 5
under 45s say their bank doesn't offer the right tools to help them manage their money

£12bn
average monthly overspend – the difference between what's budgeted for vs. what's spent

13%
of households say they 'just about manage' to cover minimum payments on credit card bills

85%
want better rewards for their loyalty from the places they spend most often.

Introduction

Squeeze on household finance

Introduction

UK households have stepped out of a global pandemic, straight into a cost-of-living crisis. This new era of financial anxiety comes at a time when consumers are adopting more complex approaches to their financial planning and spending behaviours.

Alongside rising interest rates and higher national insurance contributions, energy bills are skyrocketing. The price of everyday staples such as food and fuel are also soaring. The economic fallout from the tragic conflict in Ukraine is likely to add to this perfect storm of inflationary pressures.

Taken together, these factors mean that UK households are set to experience the worst financial squeeze since the 1970s.

Naturally, the impact will vary by household. Those on lower incomes, or burdened with debt will be most vulnerable to inflationary shocks. They are also less likely to have accumulated a savings buffer compared to more affluent households.

These pressures will impact most households but their implications extend beyond just financial. They ignite emotional strains too. Even in 'normal' times, financial lives are complex.

Despite best intentions, many consumers find it challenging to make informed decisions that balance both current and future financial needs.

Our report seeks to shine a light on this complex challenge, examining shifting attitudes, motivations and behaviours that shape consumers' saving and spending habits.

It looks at the challenges households face when striving to be more organised with money throughout 2022 and beyond.

And explores the role of digital budgeting tools in giving them the tools they need to control and manage their personal finances more effectively.

The report is divided into five main sections:

Financial Complexities – the myriad financial relationships, economic realities and social pressures faced by consumers

Cycle of Life – an analysis of saving and spending habits by generation and life stage

The Enablement Gap – how budgeting tools can help overcome barriers to being more organised with money, enabling consumers to spend and save as they intend

Financial personas – identifies four money mindsets

2022 goals – spending plans and saving intentions for 2022, and associated pressures

1. Financial complexities and challenges

The financial balancing act

1. Financial complexities and challenges

Consumers face a precarious balancing act when trying to intelligently manage their money. They are constantly juggling spending and saving goals against a backdrop of economic, social and psychological pressures. Additionally, they have to navigate an increasingly complex financial ecosystem, characterised by a myriad of financial products, services, and relationships.

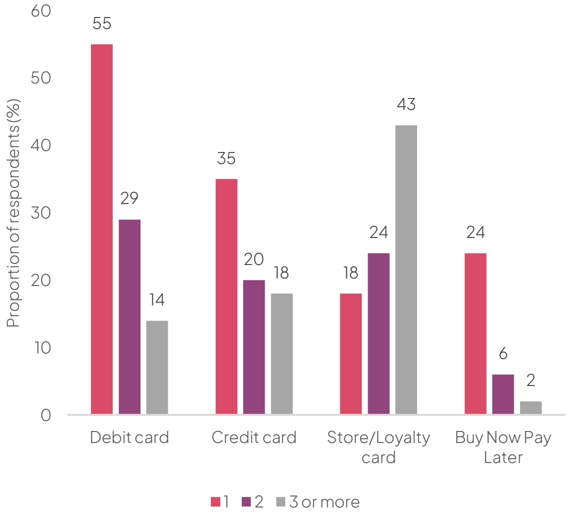
Digitalisation, credit, loyalty and the emergence of FinTech (financial technology) have disrupted the traditional bank-customer relationship, vastly expanding the number of interactions within the consumer financial services ecosystem.

While this has empowered consumers, providing greater choice, flexibility and convenience, it can also make the task of managing money more difficult.

Our survey shows most consumers (64%) have more than five financial accounts to manage, including multiple debit and credit cards, loyalty schemes and buy now pay later accounts.

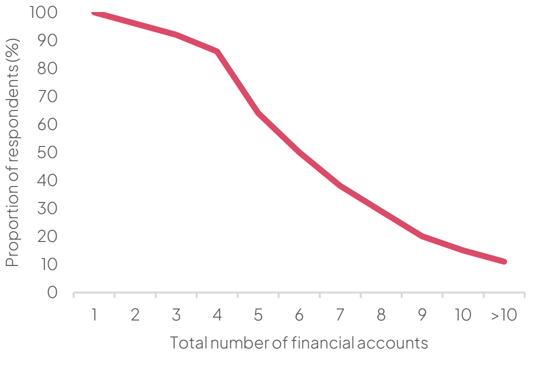
More than a quarter (29%) have eight or more financial relationships to manage. This is even before accounting for additional shadow financial products such as mortgages, pensions, insurance, payday loans, cryptocurrencies, or investment/share portfolios.

Fig 1: Number of accounts by type



Source: Retail Economics/HyperJar

Fig 2: Financial complexities: a fifth of consumers have nine or more financial relationships to manage (credit cards, store card, debit cards, BNPL)



Source: Retail Economics/HyperJar

Economic realities and the rising cost of living

For many households, lack of disposable income adds to the complexity of managing personal finances, hindering their ability to save. People feel that they can only save if they have spare money left over after monthly outgoings, whether by default or careful budgeting.

UK adults on average have only £518 per month left over after paying essential bills (e.g. mortgage/rent, council tax, utilities and any loan/debt repayments). This means there is little residual money to support the habitual saving behaviour required to build up a buffer for financial shocks – at least not without strong budgeting skills and willpower to limit spending.

For those on lower incomes, the challenge is more acute. With just £258 per month left over after essential bills, one in two (55%) low-income households [1] are not able to save regularly. With many households already living beyond their means, the inflationary shock will push them into the red, making it increasingly difficult to cover essentials and repay debt.

Around 13% of households say that they currently 'just about manage' to cover minimum repayments on their credit card bills and 6% say that they are unable to.

What's more, inflation is forecast to reach over 8.7 per cent [2] in Autumn 2022, driven by soaring commodity prices and ongoing supply chain issues. Most consumers would not have experienced inflation like this during their working lives.

Against a backdrop of rising living costs, economic barriers are squeezing the ability of households to meet their financial goals, whether planning for a big purchase or putting money aside for a rainy day.

Social and psychological toll of the "spend now" economy

The complexities of managing money doesn't just affect financial health; it's linked to mental and social wellbeing too. Our research shows almost two thirds (64%) of consumers regularly experience money worries.

Money is a source of anxiety for all age groups, but younger generations in particular feel less confident and in control of their finances. Under 45s are twice as likely to find themselves struggling to meet their financial goals compared to older generations.

Heightened money worries among young adults can partly be explained by situational factors such as student debt, job insecurity, high rents and property prices. However, social pressures also weigh more heavily on younger generations.

[1] Social grade DE or under £25,000
[2] Office for Budget Responsibility (OBR)

Having grown up in a world of instant gratification, Gen Z and Millennials have become acquainted with 'spending without thinking'.

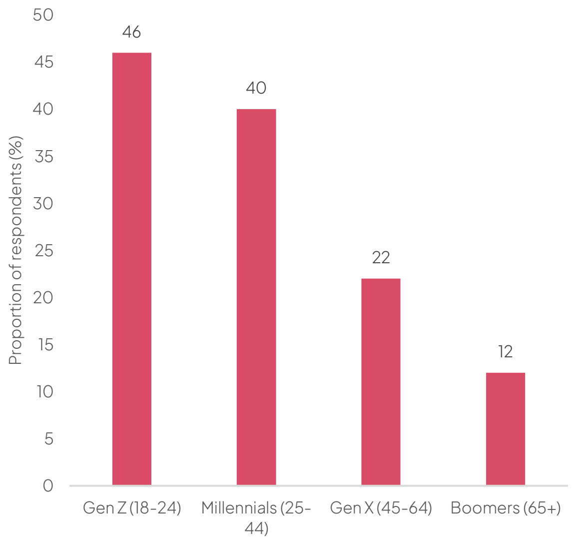
Half of them often make impulse purchases, while one in four feel pressure to spend on the latest fashion or technology.

Much of the pressure felt by Gen Z and Millennials to conform to the spending habits of their peers come from social media, where financial milestones or adventures can be posted for all to envy.

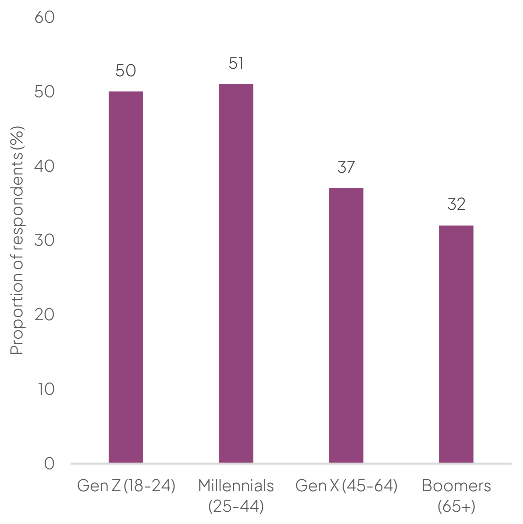
Social pressures and FOMO ('fear of missing out') can encourage people to spend beyond their means, increasing reliance on credit and making it harder to meet financial goals.

Figs 3 & 4: Younger generations spend more impulsively and find it hard to meet their financial goals

"I find it difficult to meet my financial goals"



"I often make impulse purchases"



Source: Retail Economics/HyperJar

2. Cycle of life: spending & saving by generation

Attitudes, motivations and behaviours

2. Cycle of life: spending and saving by generation

Attitudes, motivations and behaviours vary by generation or life stage. This results in shifting spending and saving goals that translate into different approaches to managing money.

Different life circumstances clearly play a role in shaping consumer behaviour. These include such things as: progressing through education, forging careers, making more responsible choices about where to spend, buying a first home, and settling down with a partner or experiencing parenthood.

Younger generations (e.g. Gen Z & Millennials) are almost twice as likely to be motivated by planning for a big event/future goal; and over a third manage money for investment purposes, compared to just 18% for older age groups.

Conversely, older generations (e.g. Gen X & Boomers) are more risk-averse. Their motivations to save and organise money are driven by financial security needs and avoiding debt.

Two-thirds (67%) of boomers are primarily motivated by having a safety net for an emergency.

While some of these motivations reflect pivotal moments within life stages, each generation also has their own unique traits and circumstances.

For example, student debt, inflated property prices, and 'technology as necessity' are symptomatic of Gen Z and Millennial experiences that will have lasting effects on their financial behaviours in later life.

Fig 5: Spending and saving behavioural definitions

Routine – I regularly spend as part of a weekly or monthly routine

Setting aside – I regularly put money aside in case I need it

Impulse – I spend impulsively without too much though

Budgeting – I regularly budget and usually stick to it

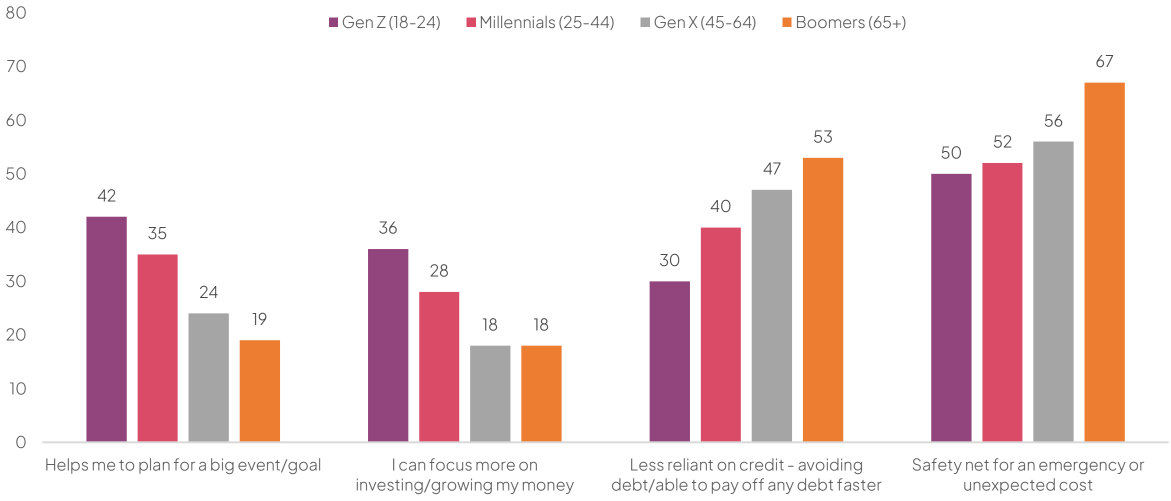
Gifting – I often spend on gifts or treats for friends and family

Loyalty – I tend to spend in the same places rather than shop around

Bargain hunting – I often look for the best deal or a discount before deciding where I spend

Fig 6: Younger generations are less risk averse, motivated more by future plans and investments

"What do you think are the main benefits of being organised in the way you spend and save your money?"



Source: Retail Economics/HyperJar

Gen Z: Young, wild, and free (for now)

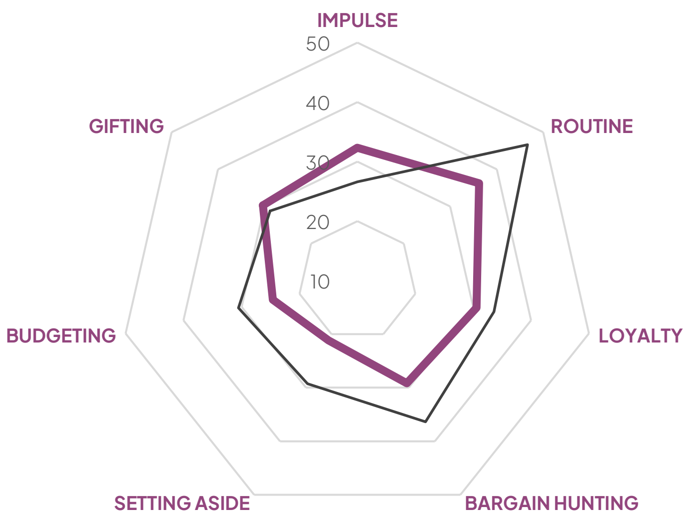
18–24 years olds

36% of Gen Zs struggle with willpower and find it too easy to spend

55% of Gen Zs use Buy Now Pay Later accounts to make purchases

Gen Zs budget £1,680 a year to spend on new technology, the highest of any age group

Fig 7: Gen Z spending behaviour is more impulse driven. Purple = Gen Z behaviour, Black = typical consumer behaviour.



Source: Retail Economics/HyperJar

This generation is unaware of life before the internet – many are 'technoholics' with high expectations and strong entrepreneurial characteristics.

Gen Zs are driven more by impulse than routine. With fewer family commitments and domestic responsibilities, their spending habits are more varied compared to later life. This reflects a diverse range of hobbies and interests, from fitness and fashion, to travel and technology.

Gen Zs are social trendsetters and health conscious; this is the only generational life stage where Clothing and Health & Beauty (e.g. gym memberships, skincare) appear in the top five saving categories.

For recent graduates or school leavers starting a career path, earning and having significant disposable income is a novelty for most.

Spending money overrides saving it, with actual saving intentions motivated more by risk-taking than risk aversion.

This doesn't mean Gen Zs are not financially savvy. Determined to build a healthy financial foundation, and with time on their side, they are prepared to capitalise on the power of compound interest.

An advantage for this generation is familiarity with digital banking and alternative payment and investment options (e.g. buy now pay later, cryptocurrencies).

Millennials: Settling down in search of domestic bliss

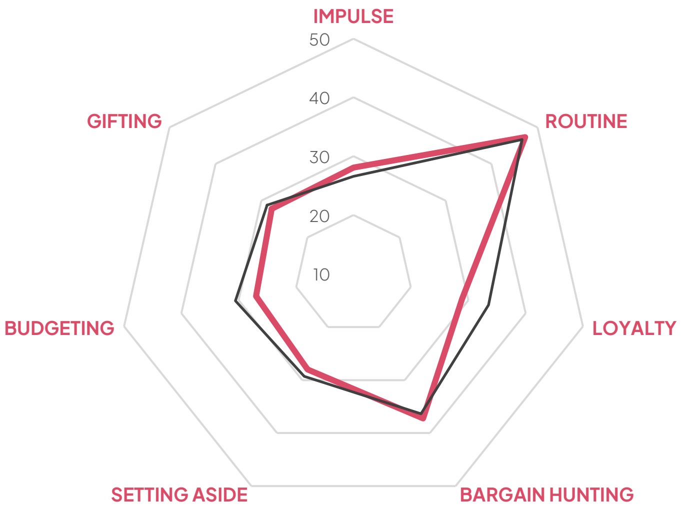
25–44 years olds

Putting aside £306 a month on average towards a deposit on a property (taking approximately 15 years to achieve a typical deposit [3])

About a third of Millennials find it difficult to make time to get organised with their finances

Half of Millennials struggle to teach their kids about the value of saving

Fig 8: Millennials strive for balance across spending and savings behaviours. Pink = Millennial behaviour, Black = typical consumer behaviour.



Source: Retail Economics/HyperJar

The financial crisis of 2008 shaped the attitudes and behaviours of millennials.

The recession arrived just as they were leaving school, graduating from university, or venturing into the workplace. Job insecurity, student debt, higher relative living costs, poor pension provisions and difficulties stepping onto the housing ladder are all influencing factors.

Saving intentions are high at this life stage, driven by desires to have a safety net as well as planning for future goals and key milestones (e.g. weddings, house moves, child's education).

Many millennials are comfortable making short term sacrifices for long term gain. Bargain hunting and shopping around are prevalent behaviours, and this translates into weaker brand loyalty compared to older generations. These consumers strive for work-life balance, with most households dual income, early-to-mid-career, and juggling time constraints to raise children.

Millennials have a reputation for preferring 'experience-driven' lifestyles to acquiring assets. While restaurants and bars are in top routine spending categories, home-centricity is also important, with furniture and home improvement dominating saving behaviours.

[3] Halifax

Gen X: Empty nesters seeking value and satisfaction

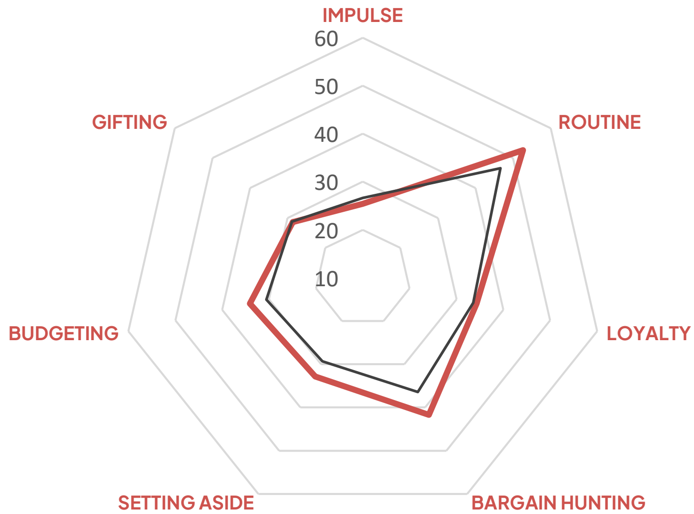
45-64 years olds

40% of Gen X
look for the best deal or a discount before spending

30% of Gen X
have eight or more financial accounts to manage

More than a third
(36%) routinely spend on their pets - the highest of all generations

Fig 9: Gen X are routine oriented and . like to sniff out a bargain. Brown = Gen X behaviour, Black = typical consumer behaviour.



Source: Retail Economics/HyperJar

For the fortunate in this generation, financial pressures are easing and spending involves less guilt. Many Gen Xs have made inroads into paying off mortgages and are contemplating downsizing as children start to flee the nest.

This frees up disposable income to spend on 'guilty pleasures' such as wine, pedigree pets and overdue home improvement projects.

However, financial planning is still important for this age group, as they look towards retirement plans, with the desire to budget and put money aside still strong. Beyond topping up pension pots, saving intentions are influenced by the need to support elderly parents and possibly rehoming 'boomerang children' who come back to live at home with mum and dad in their twenties.

Gen X are also highly routine-driven, regularly shop around for deals, and have strong uptake for store reward schemes and show brand loyalty.

This generation owns multiple debit and credit cards, averaging 3.2 accounts – the highest of all age groups.

They grew up in a period when credit card invitations were mailed to them monthly, and card purchases were widely used for different purposes.

Many are also well disciplined in paying off their full monthly debt – so by nature, they are more debt averse.

Boomers: Retirement years driven by security & loyalty

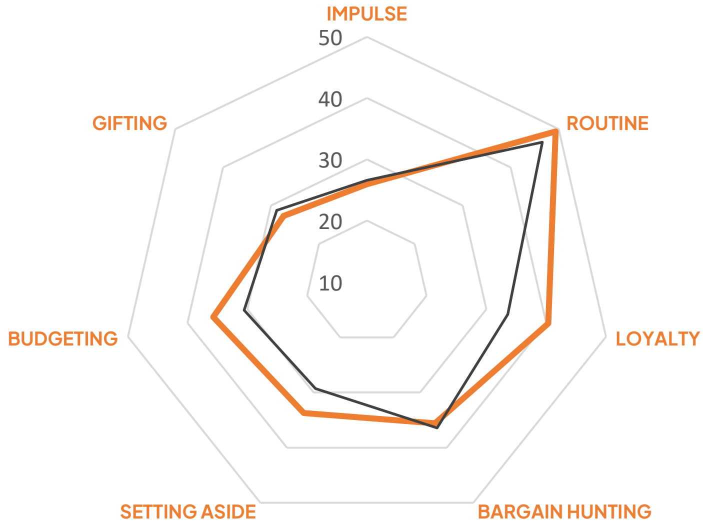
65+ years olds

67% of Boomers are motivated by the need to have a safety net

Boomers save up to £1600 a year on average to spend on holidays

40% of Boomers tend to spend in the same places rather than shop around - they are more loyal than any other generation

Fig 10: Budgeting and setting money aside are important to Boomers. Orange = Boomer behaviour, Black = typical consumer behaviour.



Source: Retail Economics/HyperJar

Having spent years accumulating savings and perfecting budgeting skills, Boomers generally have fewer money worries than younger generations.

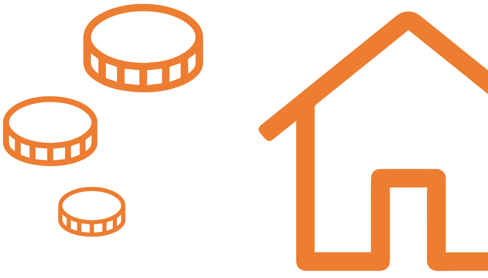
Furthermore, this generation was raised just after the Second World War, so frugal attitudes remain in their blood, passed on by a war-struck generation who experienced food rationing.

But they also enjoy the 'finer things in life'. Boomers are twice as likely to set aside money for a holiday or new car compared to younger generations.

They are extremely loyal regarding spending and investing their money - and are less likely to make impulse purchases, with highly routine-oriented behaviours.

Boomers are also more reluctant to use digital tools or alternative payment methods such as mobile wallets.

That said, the pandemic has accelerated the shift to online for older generations, helping to overcome issues of trust and support future engagement with online platforms.



3. The Enablement Gap: The power of digital budgeting tools

Right tools for the right job

3. The Enablement Gap: The power of digital budgeting tools

People trying to reach saving and spending goals face a disconnect between knowing what they need to do and being able to do it in practice – 'The Enablement Gap'.

Many people find it difficult to manage their money and achieve their saving goals, but it is not for want of trying. The majority of consumers (80%) set a monthly budget, shop around for the best deals (83%) and try to put money aside to cover emergencies or unexpected costs (79%).

Money struggles cannot simply be attributed to a lack of knowledge or financial literacy.

Our research shows most people are aware of the risks involved in debt creation in terms of raising the cost of repayment, curbing saving power, and fuelling money worries.

> The majority of consumers (80%) set a monthly budget, shop around for the best deals (83%) and try to put money aside to cover emergencies or unexpected costs (79%).

Three quarters of consumers recognise that credit card debt, overdrafts, or Buy Now Pay Later schemes cause stress and lead to increased costs in the long term.

Despite this, almost half (44%) of UK consumers fail to pay off their credit card debt in full each month.

Consumers often try their best to behave responsibly with money, but there is a clear mismatch between intentions and action.

This gap arises because any financial decision involves trade-offs between the present and the future; and consumers are prone to spending in ways that appear to provide short term satisfaction, rather than long-term financial wellbeing.

As Fig 11 shows, households regularly end up spending more than they originally budgeted or set money aside for across key spending categories. There are many potential reasons for this overspend, such as an impulse purchase, a lack of planning or an unexpected cost.

Financial savviness requires more than desire and knowhow. Consumers need effective budgeting tools that give them greater confidence and self-control in managing their spending habits.

Fig 11: Households regularly spend more than they budget for

Source: Retail Economics/HyperJar

Fig 12: Budgeting in routine categories does not match actual spend

Source: Retail Economics/HyperJar/ONS

Banks may not offer the right tools

There is a perceived lack of budgeting tools available. Only a third of UK consumers are regularly using financial apps or spreadsheets to help record and manage their money.

Frustration is concentrated among younger generations, with one in four under 45s (and a third of Gen Z) finding it difficult to manage expenditure as their bank does not offer the appropriate tools for their needs.

Rather than relying on traditional banks, many under 45s (41%) turn to offline DIY methods of budgeting, such as spreadsheets, while nearly half have no determined method of budgeting.

However, there are clear incentives for those that do.

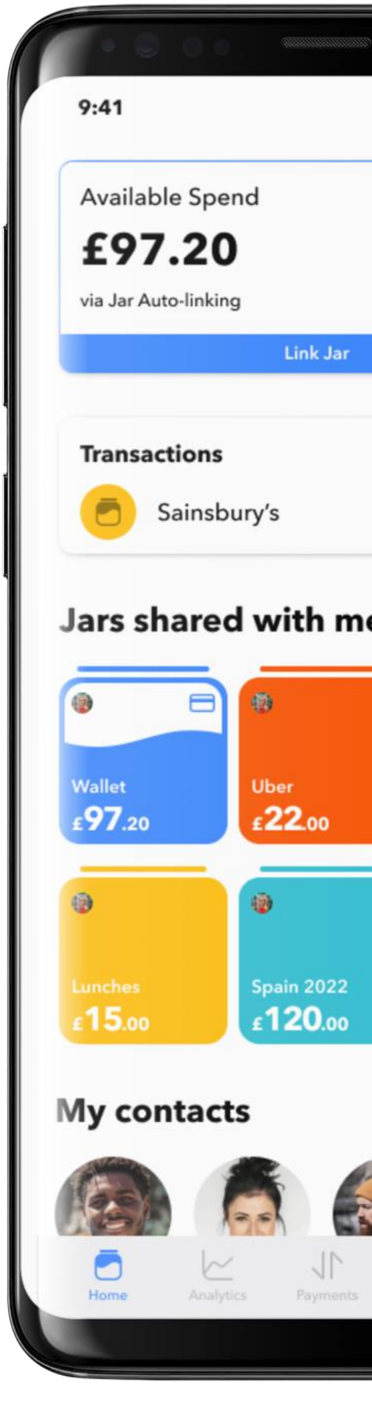
Across all income groups, consumers that regularly use a budgeting tool have more money left over each month after paying for essentials, such as mortgage, rent, utilities (Fig 13).

On average, budgeting tools help households save 11% more a year (additional £672/year) to put towards meeting their financial goals.

Fig 13: Budgeting tools help manage money to reach saving goals more quickly

"How much money do you have left over each month after paying for essentials?"

Source: Retail Economics/HyperJar



Below we explore some of the demographics that struggle the most with the enablement gap and need better budgeting tools to help manage their finances.

Parents and kids crying out for better ways to budget

Households with school-aged children are twice as likely to think that their bank does not offer the right budgeting tools to help them meet their goals. Parents with young children find it more difficult to budget and plan their finances than those without. The high costs and additional commitments involved in raising children mean that many young families struggle to plan ahead and make the time to budget. Over half of young families suggest that it is difficult to teach children about the value of saving and managing money.

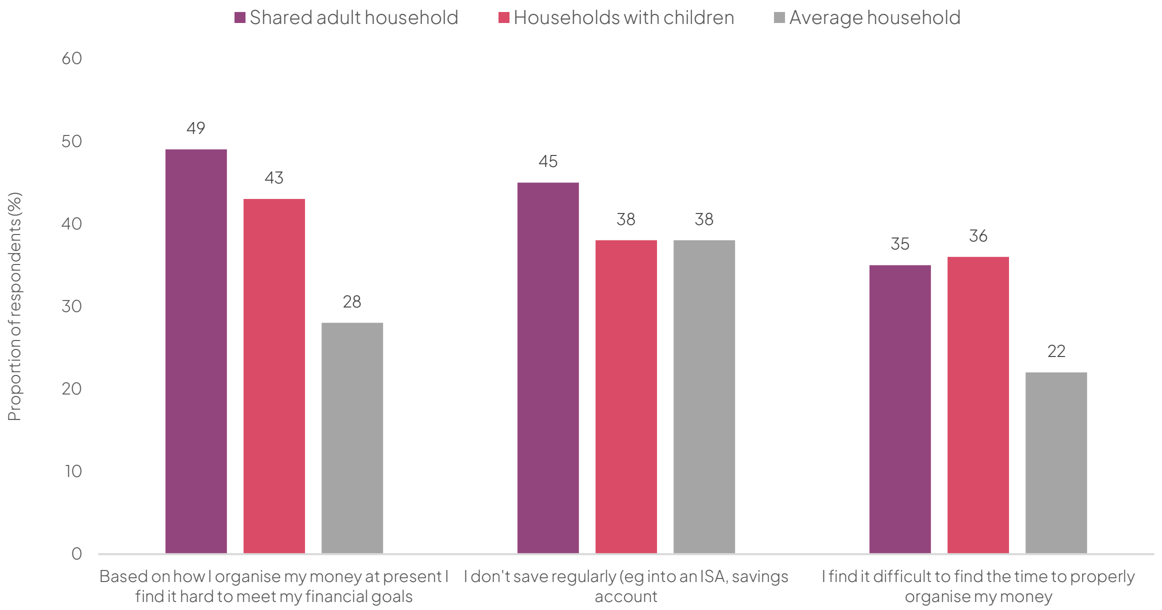
Parents and kids crying out for better ways to budget

Half (49%) of shared adult households find jointly managing money and sharing expenses a hassle, making it harder to meet their financial goals. These group households of students and young flat sharers face unique money management challenges such as splitting bills and expenses among multiple individuals. Traditional joint bank accounts are cumbersome to set up and not geared towards these kinds of living arrangements for a number of reasons including linked credit histories.

Bridging the gap using next generation apps

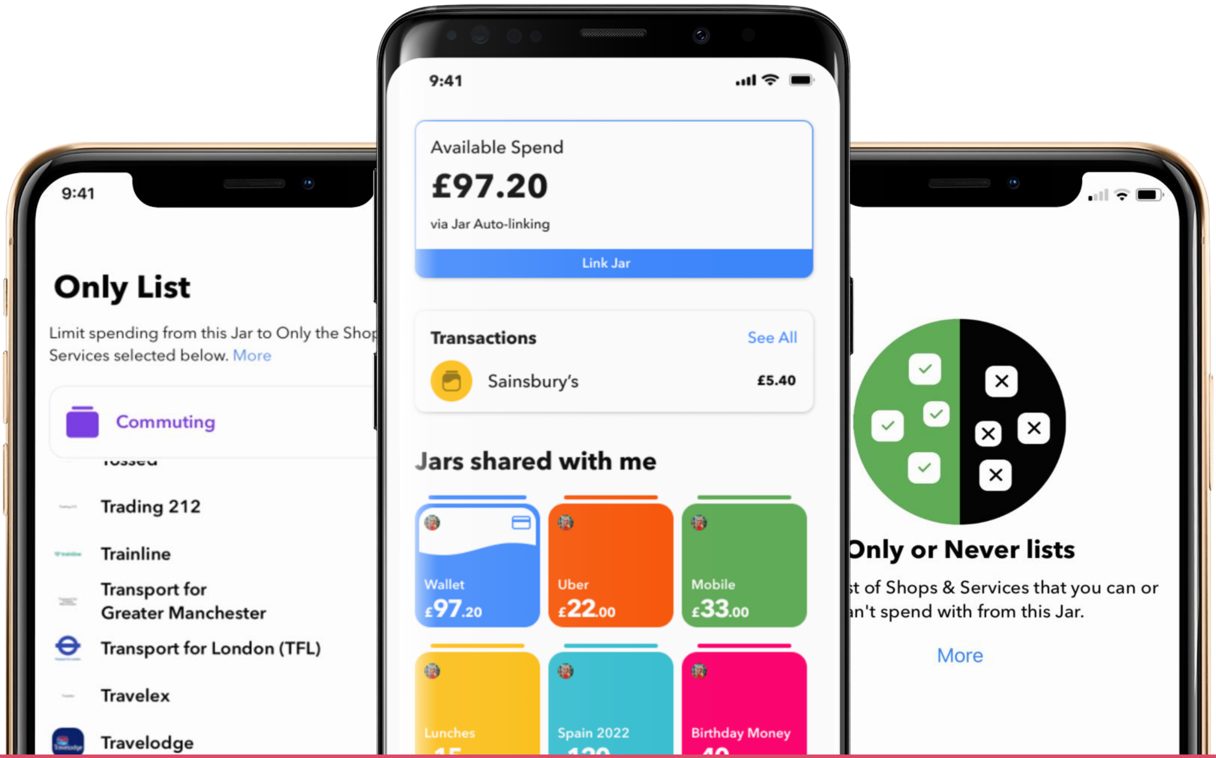
Digital tools make it easier for consumers to control their spending and saving goals. The results indicate consumers' growing preference for apps to help organise their personal finances. Interest in digital budgeting tools is high among all age groups, but most notably under 45s. These digital native generations are the most receptive to experimenting with 'FinTech' compared to older generations, where more education and encouragement to engage with digital money tools might be required.

Fig 14: Shared households & young families face greater barriers to saving up & being organised with money



Source: Retail Economics/HyperJar

A new generation of digital money tools are less like typical banking products (which are focused on taking in deposits and lending) and more about building customer-centric solutions to a range of personal finance challenges. These include instant notifications after every payment, fee-free spending abroad and category analytics. They make it easier to maintain multiple financial relationships with a single digital interface.



4. Financial personas: How different mindsets shape money habits

Behavioural characteristics

4. Financial personas: How different mindsets shape money habits

The research identifies four financial archetypes, which define characteristics reflecting consumer goals, attitudes, motivations and mindsets regarding money management.

Broad demographic features such as age, income or gender provide only limited insight about consumers' approach to money. Consumers' saving and spending habits are best understood through the lens of individual personas or mindsets. These archetypes are not one-size-fits-all, but some consumers will have overlapping characteristics. Consumers can also transition from one persona to another, based on life stage, changes to their financial situation, and the support of effective budgeting tools.

Our research shows that UK consumers are aligned to one of the four personas:

Saver 29%

"I try to save as much as I can and avoid spending on unnecessary things."

- *Typically <45*
- *Always keep money aside*
- *Shop around for the best deals*
- *High shared expenditure*
- *Committed to savings goals*

Struggler 18%

"Money is tight and I lack confidence in organising finances."

- *Mix of ages*
- *Low income*
- *Renters or live with family*
- *Time poor*
- *Rely on credit for big purchases*
- *Eager for financial tools and want support to build a safety net*

Strategist 33%

"I am good at budgeting and organising my finances."

- *Typically > 55*
- *Homeowners*
- *Financially secure*
- *Regularly use budgeting tools*
- *Manage 5+ financial accounts*
- *Confident about meeting savings goals*

Splurger 20%

"Life is there to be enjoyed and I don't keep tabs on what I spend."

- *Students or early career*
- *More likely to be male*
- *Fewer family commitments*
- *Impulse driven*
- *Struggle with willpower*
- *Enjoy gifting and treating others*

Savers take great pride in seeing their money grow in their bank accounts and always set aside money for a rainy day. 92% of Savers say they always keep money aside to cover emergencies or unexpected costs, compared to just 45% of Strugglers.

Cost-cutters by nature, they seek ways to reduce monthly expenses and shop around to find the best prices.

Savers try to avoid impulse purchases and indulging in the latest trends; they get more satisfaction from bargain-hunting or negotiating a good deal. 86% of Savers will often look for the best deal or a discount before deciding where to spend.

Splitting bills and expenses with others is seen as an important way for Savers to keep control of costs and meet their saving commitments. Typically under 45, Savers are busy and socially-active: shared costs with family, friends or flatmates are a big proportion of their monthly expenditure.

Savers therefore place great value on digital banking or budgeting apps that enable them to quickly and easily share expenditure with friends and family. Almost three quarters (73%) of Savers regularly share expenditure with family and friends.

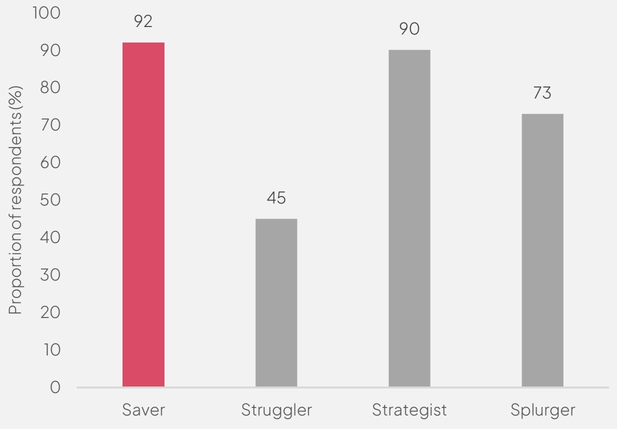
Savers usually have clear long-term goals in mind when managing money and take great interest in planning their personal finances to fulfil these aspirations.

Planning for a future event or goal is a primary motivation for saving for this cohort. This may include saving up for a wedding, mortgage deposit, children's education, or making shrewd pension choices in preparation for retirement, even if it's still many years away.

By organising money, cost-cutting and regular saving, most Savers feel confident and in control of their personal finances (Figs 15 & 16).

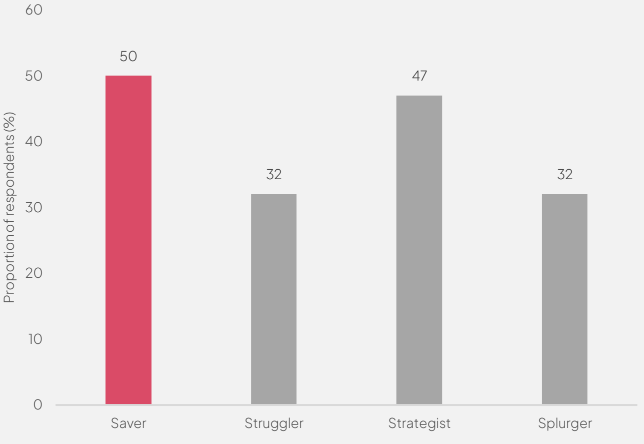
Figs 15 & 16: Savers are focused on the future and always keep money aside.

"I always keep money aside to cover emergencies or unexpected costs"



Source: Retail Economics/HyperJar

"Saving helps me plan for a future event or long term goal"



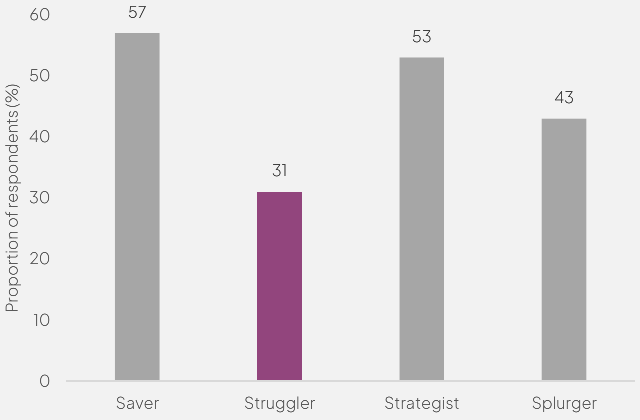
Source: Retail Economics/HyperJar

Figs 17 & 18: Strugglers are susceptible to falling into debt

In a typical month, after you have paid your mortgage/rent and essential bills, how much do you have left over?

Source: Retail Economics/HyperJar

Able to afford a big purchase without getting into debt



Source: Retail Economics/HyperJar

Strugglers are under significant financial stress and their circumstances make saving and managing money effectively feel overwhelming.

Many have suffered a financial setback caused by life events that have increased debt and/or depleted savings. Job loss, divorce or other changes in personal circumstances (e.g. caring for children or elderly, poor health) are often at the root of money worries, fuelling financial insecurities.

Consequently, 41% of Strugglers find it difficult to make time to properly budget and organise their money.

To make things worse, Strugglers often lack any kind of financial safety net to fall back on, as low disposable incomes inhibit their ability to save money on a regular basis.

After paying rent, food and other essential bills, Strugglers only have £186 per month left over – below the national average.

Strugglers rely on credit to afford big purchases. Increasingly, this is in the form of alternative lending, perhaps due to poor credit histories or limits with traditional lenders. 47% of Strugglers don't have a credit card, but use BNPL accounts instead.

The burden of relying on debt to satisfy spending habits often carries mental health consequences. Over two thirds of Strugglers find it stressful having credit card, overdraft or buy now pay later debt.

This group is eager to alleviate money worries and are open to enhancing their financial literacy for improved money management.

They like to be able to track spending, set budgets and reconcile accounts where possible – all factors that increase perceived control.

However, many lack the knowhow in this area, overlook tools for self-help, regularly overspend on budgets, and ultimately fail to plan for long-term goal achievement.

Strategists are characterised by strong budgeting skills, low debt, and a desire to proactively control their personal finances by monitoring spending activity, setting goals and reaching them.

They are committed to financial stability, preferring to take a considered approach to spending rather than act impulsively. Major purchasing decisions involve considerable research, influenced by an established monthly budget.

Because strategists are proactive, they are more comfortable managing a high number of financial products as a result. Most strategists have five or more bank accounts, including multiple debit and credit cards. However, the goal is to accumulate rewards opportunistically, not to maintain high revolving balances or overdrafts. Strategists are generally debt averse.

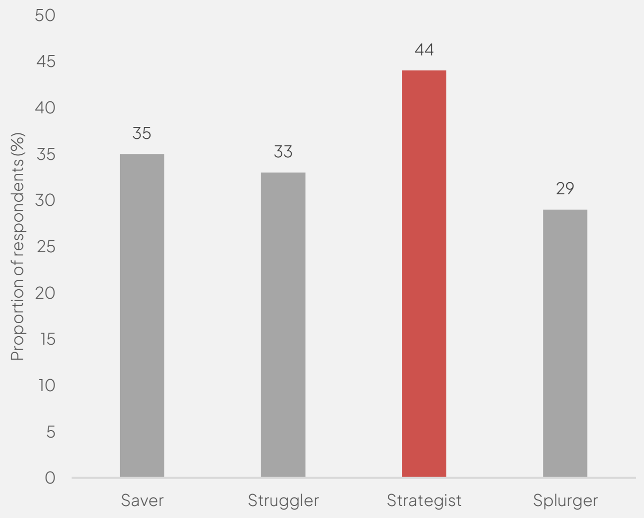
While a large number of financial relationships makes for a complex financial ecosystem, Strategists can manage their money even more effectively if supported by the right tools.

Nearly half (44%) of Strategists regularly use a budgeting app or spreadsheet to record their spending, significantly higher than other personas (Fig 19).

These tools provide the confidence and control that Strategists seek, helping to fulfil their aspirations. 4 in 5 Strategists say they always meet their financial goals based on how they organise their money.

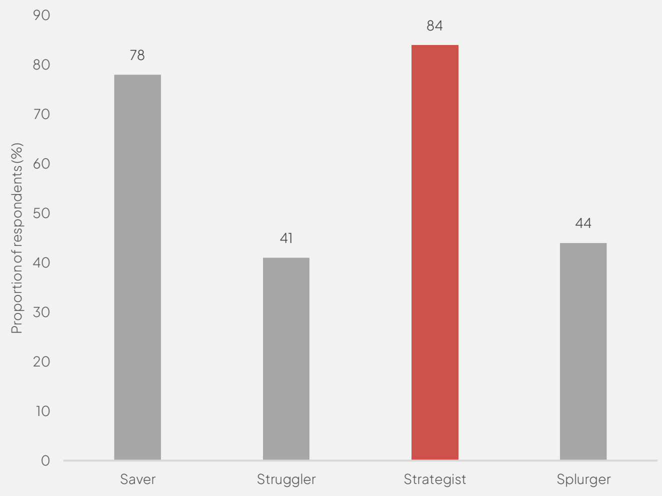
Figs 19 & 20: Strategists use budgeting tools to help them meet their financial goals

"I regularly use a budgeting app or spreadsheet to record my spending"



Source: Retail Economics/HyperJar

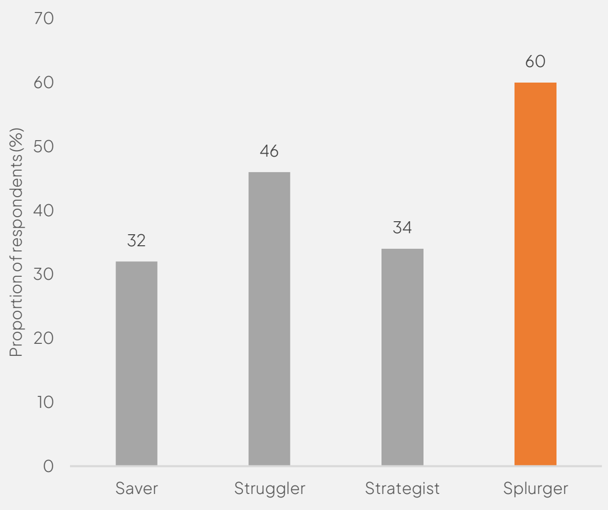
"Based on how I organise my money at present, I always meet my financial goals"



Source: Retail Economics/HyperJar

Fig 21: Splurgers are twice as likely to make impulse purchases.

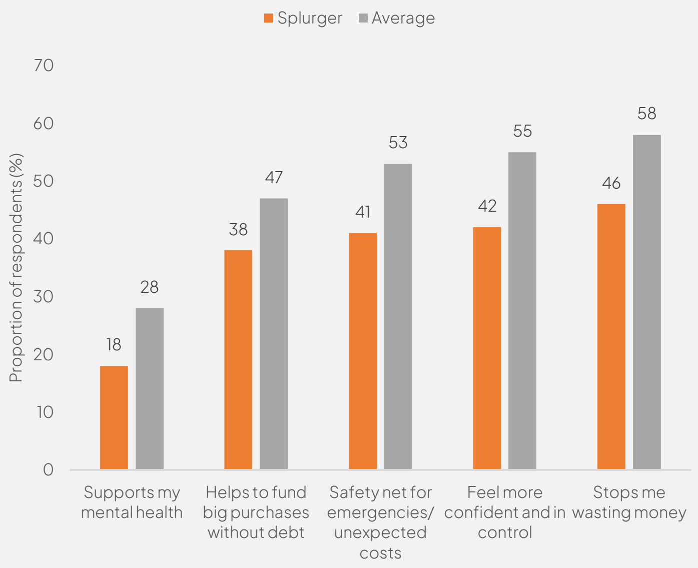
"I often make impulse purchases"



Source: Retail Economics/HyperJar

Fig 22: Splurgers find it harder to see the benefits of saving and being organised with money.

"What do you think are the benefits of saving and being organised with money?"



Source: Retail Economics/HyperJar

Splurgers live life to the full and gain great emotional satisfaction from spending money.

Splurgers encompass different types of people. Some are 'bury your head' types who don't want to face economic realities, preferring to ignore their personal finances and even taking risks through debt creation. Others don't keep tabs on what they spend simply because they are financially comfortable and have few money worries.

They are carefree when it comes to money and often can't resist spending, even on items they don't need. Indeed, Splurgers are twice as likely (60%) to make impulse purchases than the average consumer.

Reflecting their carefree attitude to money, Splurgers fail to recognise the perceived benefits of saving and being financially organised compared to other financial types (Fig 22).

They have less concern for squandering money and are comfortable with the prospect of getting into debt to fund major purchases, possessing 3.3 personal debit or credit cards on average - the highest among the personas.

Putting money aside and having a financial safety net is not a priority for this cohort. Any disposable income is usually spent on the latest fashion, technology or social occasion instead. A lack of willpower is cited by this cohort as the main barrier to saving more regularly. Splurgers are not typically bargain hunters, but are more image and status conscious as they seek to externalise their identities with purchases. As a result, one in four Splurgers say they never look for the best deal or discount before deciding where to spend.

They also find fulfilment in being generous to others and are more likely to spend on gifts and treats for family and friends compared to other financial types (63%).

5. 2022: Saving in the year of the squeeze

Recessionary behaviours

5. 2022: Saving in the year of the squeeze

Consumers will be put to the test in 2022 when it comes to meeting their saving and spending goals. As desires for a post lockdown spending spree come up against sharp rises in living costs, households will need to manage their budgets skilfully, control spending impulses, and shop around for the best deals.

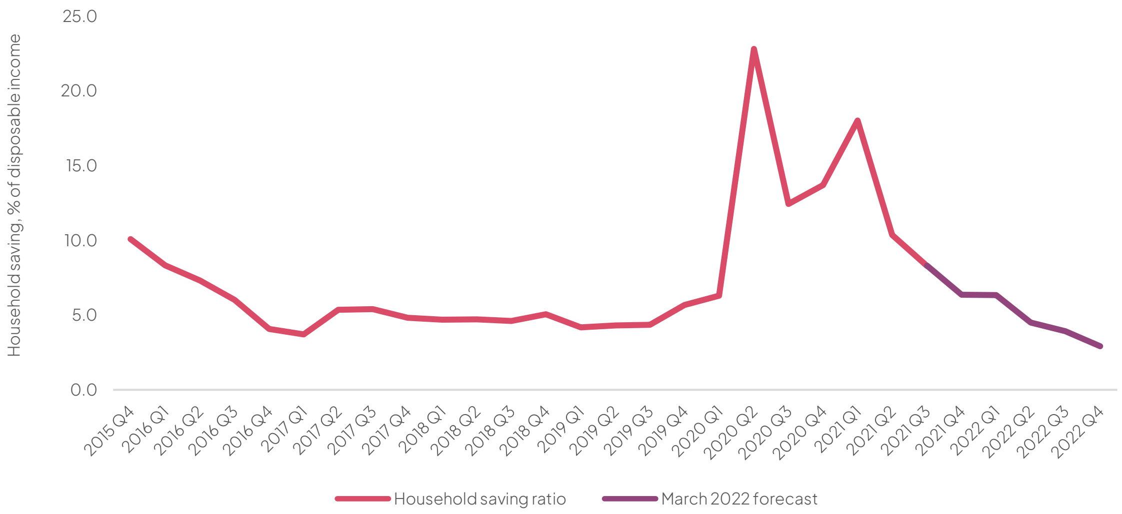
Savings under pressure

Although pandemic impacts are receding and the UK economy is in recovery mode, economic and social uncertainties will continue to play out in consumer saving behaviours.

There will be a dramatic shift in the UK household savings rate over 2022. Lockdown restrictions at the start of the pandemic postponed consumers' spending opportunities, lifting the household saving ratio to a record high of c.24% of average disposable incomes in Q2 2020.

However, a combination of strong demand post-covid-restrictions, high inflation and rising interest rates will bring household saving rates tumbling quicker than expected, forecast to drop to 2.9% in 2022. While this is a sign of economic activity normalising, as social activities return and spending bounces back, it is concerning that the saving rate is set to drop below pre-pandemic levels by the end of the year. This reflects the impact of inflationary pressures and higher living costs, with significant increases to energy bills in April and October, alongside interest rates rises.

Fig 23: Household savings to fall sharply over 2022



Source: Retail Economics/HyperJar/OBR

The cost of living crisis will see the least affluent households hit hardest: their annual discretionary income (what is left after paying for essentials) will plunge by 19.5% - or almost £850 per household - in 2022. A typical household will see a 6.5% (£430) fall in discretionary spending power - even accounting for the measures announced in the Spring Statement, notably the increase in national insurance tax threshold.

As a result of squeezed incomes, over £12 billion of non-essential spending will be wiped out across the UK economy in 2022 – equivalent to about the whole of the DIY & Gardening sector.

Consumers are acutely aware of the prospect of a squeeze on incomes over 2022, with inflation seen as the biggest barrier to saving and managing personal finances this year.

A typical household will see a 6.5% (£430) fall in discretionary spending power.

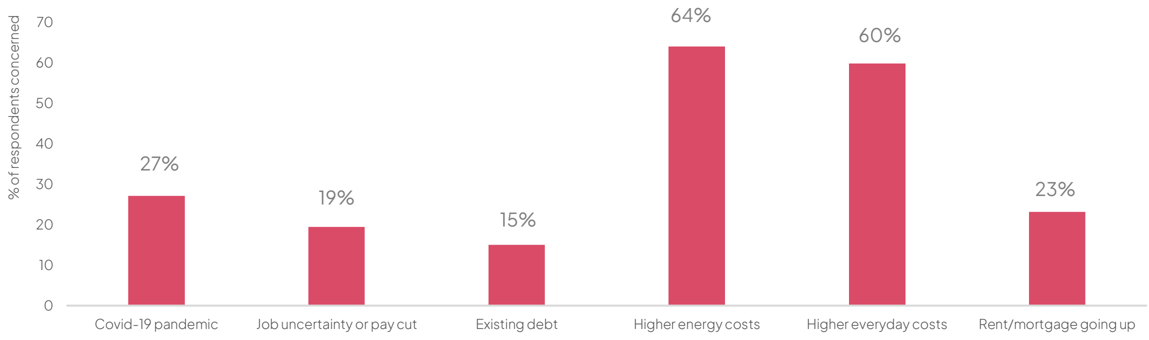
Spiralling energy costs are the main concern, followed by higher food prices and everyday items (Fig 24).

A typical energy bill will go up by 54% in April, followed by an expected further rise of 29% in October.

The cost-of-living crisis will hit low-income families the hardest, given that they spend a disproportionate amount on essentials.

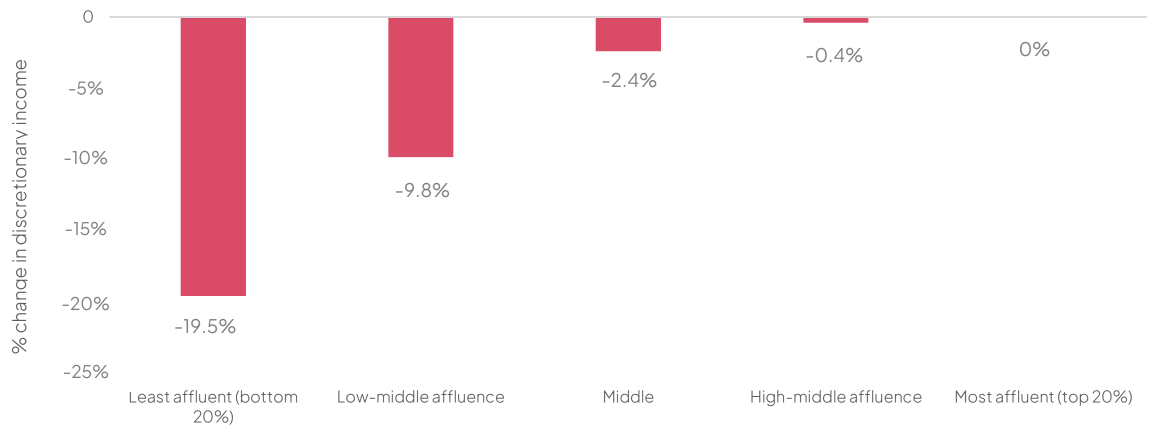
Indeed, their share of income spent on energy bills is set to rise from 8.5% to 12% – three times as high as the share spent by the most affluent households.

Fig 24: Rising energy costs the top concern for household finances in 2022



Source: Retail Economics/HyperJar

Fig 25: The least affluent households expected to see a 19.5% decline in discretionary income in 2022



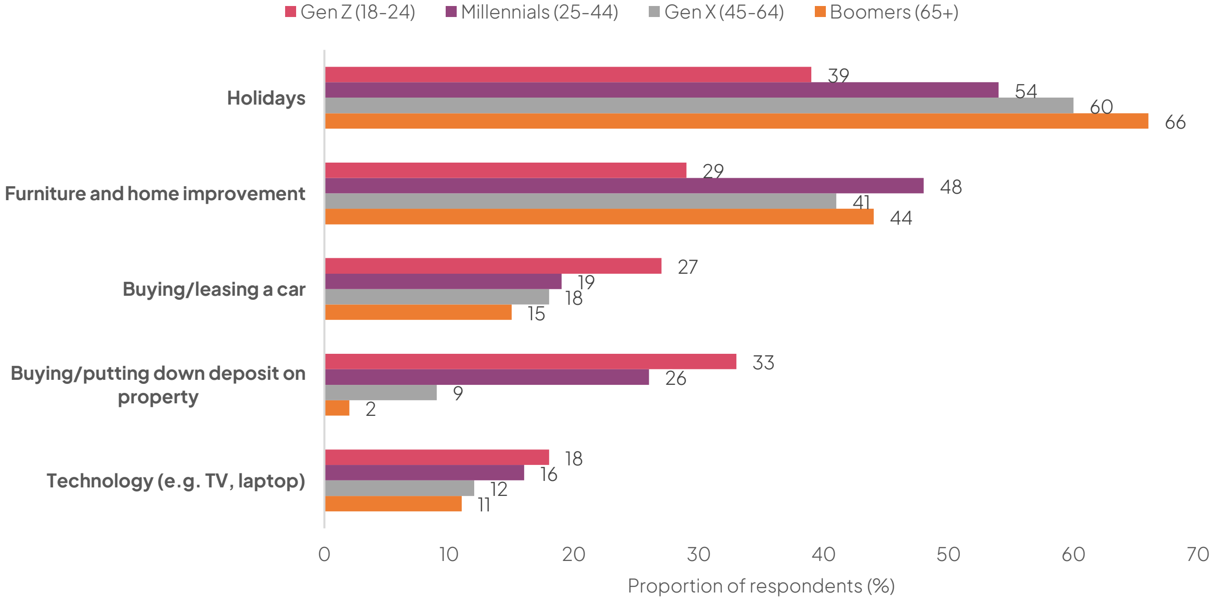
Source: Retail Economics/HyperJar

Plans for 2022: Holidays and home improvement

Despite the squeeze on disposable incomes, the desire to save on a regular basis remains strong. 81% of consumers aim to save more, or at least the same, as they did last year.

Intuitively, there is strong pent-up demand for holidays after nearly two years of travel restrictions. Demand is strong amongst all age groups, but notably for the over 65s (66%) who are now more confident to travel with more relaxed Covid-restrictions.

Fig 26: Saving and spending intentions for 2022. Over half (54%) of households are saving up to go on holiday this year.



Source: Retail Economics/HyperJar

Home improvements are also a priority for many, with 40% planning to save to invest in their homes in 2022.

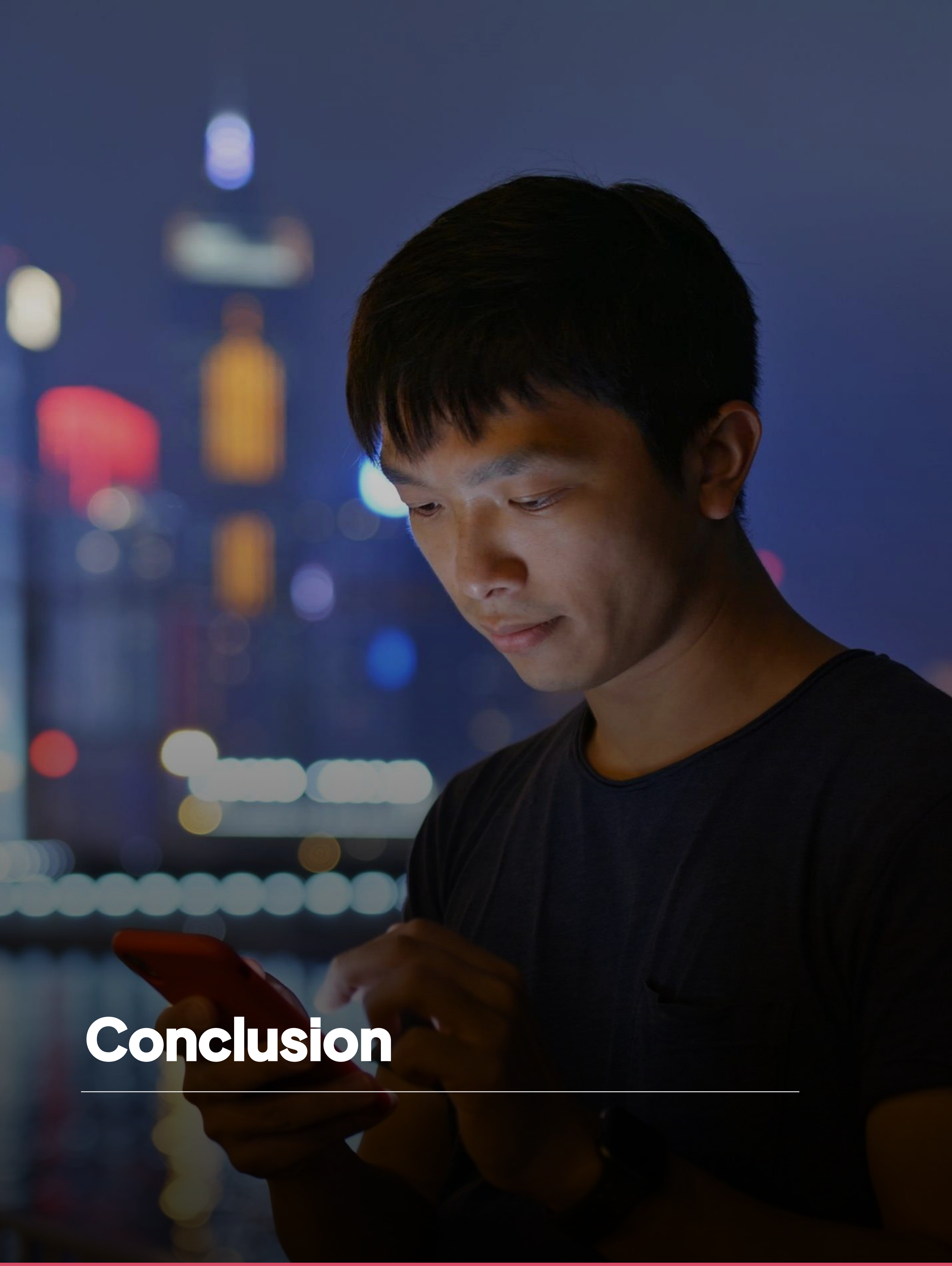
Lockdown highlighted the importance of domestic environments with many timid DIYers finding success and gaining confidence to continue investing in home improvements. This is likely to translate into increased DIY or renovation projects, or simple cosmetic changes with new furniture or homewares. Greater focus on home centricity and an 'improve, not move' mentality continues to underpin consumer saving intentions.

For many Gen Z and younger Millennials, getting a foothold on the property ladder is a priority in 2022. Housing affordability remains a real challenge for first time buyers, partially because house price growth has outstripped earnings growth by a wide margin since Covid- 19.

There may be disappointment on the horizon for many households in 2022 as the challenge for meeting financial goals grates against a harsher macro environment.

However, with the right approach, strong will and engaging with financial tools, many will still be able to treat themselves, albeit to a lesser degree, while achieving their financial goals.

Home improvements are also a priority for many, with 40% planning to save to invest in their homes in 2022.



Conclusion

Conclusion

As households step further away from a global pandemic, they find themselves walking towards a different crisis – one which will likely impact their purse over their person.

The macroeconomic backdrop is beginning to show its teeth in the form of rising interest rates, higher national insurance contributions, spiking energy costs and now an international conflict that is causing political instability with supply chain concerns and inflated fuel prices. The coalescing of these factors mean that UK households are set to experience the worst financial squeeze since the 1970s.

The implications are highly concerning. Financial pressures affect people on many levels, particularly mentally from associated stress with debt repayment, reduced expendable income and having to shift expectations. Naturally, the impact to household finances will be felt unevenly. Lower income households will be hit hardest, irrespective of the household member's age or life stage.

This research identifies four principle financial types or personas ('Savers', 'Splurgers', 'Strugglers' and 'Strategists') based on life stage, changes to financial situation, and the support of effective budgeting tools. Although personal attributes are important, the use of financial technology in the form of budgeting apps can hugely aid in managing personal and household finances, especially in light of the current economic situation with rising costs. An 'enablement gap' is recognised within the research, whereby consumers theoretically know what to do to better manage their finances, but are unsure, or do not actually implement appropriate actions. This is where technology and money management apps can help.

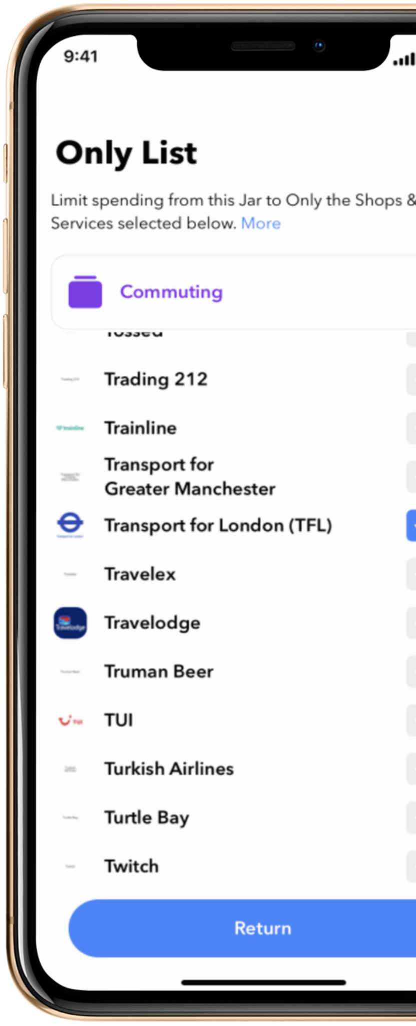
Digital apps can offer features which go beyond most current online banking apps, enabling consumers to improve the way they see, manage and understand their money.

As 2022 is set to present additional financial pressures for most households, managing budgets, achieving financial goals, and setting aside money for added security, will become increasingly difficult.

Although (involuntary) savings were achieved during lockdowns from restricted travel, these will partially be offset by increasing costs (e.g. higher energy bills and rising inflation).

As such, more scrutiny on personal spending, and a greater awareness of money saving opportunities are required.

With ongoing supply chain issues, and now an international conflict in Ukraine, heading further into 2022 will require a more sophisticated approach in managing household finances if consumers want to achieve their financial goals.



HyperJar

HyperJar Limited is a UK-based tech company. Its multi award-winning HyperJar digital wallet is a 'Save Now, Buy Later' tool, designed to help households take control of their everyday money.

Its proprietary technical innovations include:

- Direct card payments from unlimited multiple individual Jars (sub-accounts)
- Shared Jars: instant digital kitties
- Auto-linking retailers to specific Jars within the app for routed payments
- Blocking, Only and Never spending control options
- Exclusive rewards - including a flagship dynamic Annual Growth Rate - on money committed to retail partners featured on the app.

Contact: tricia.beaumont@hyperjar.com

RetailEconomics

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

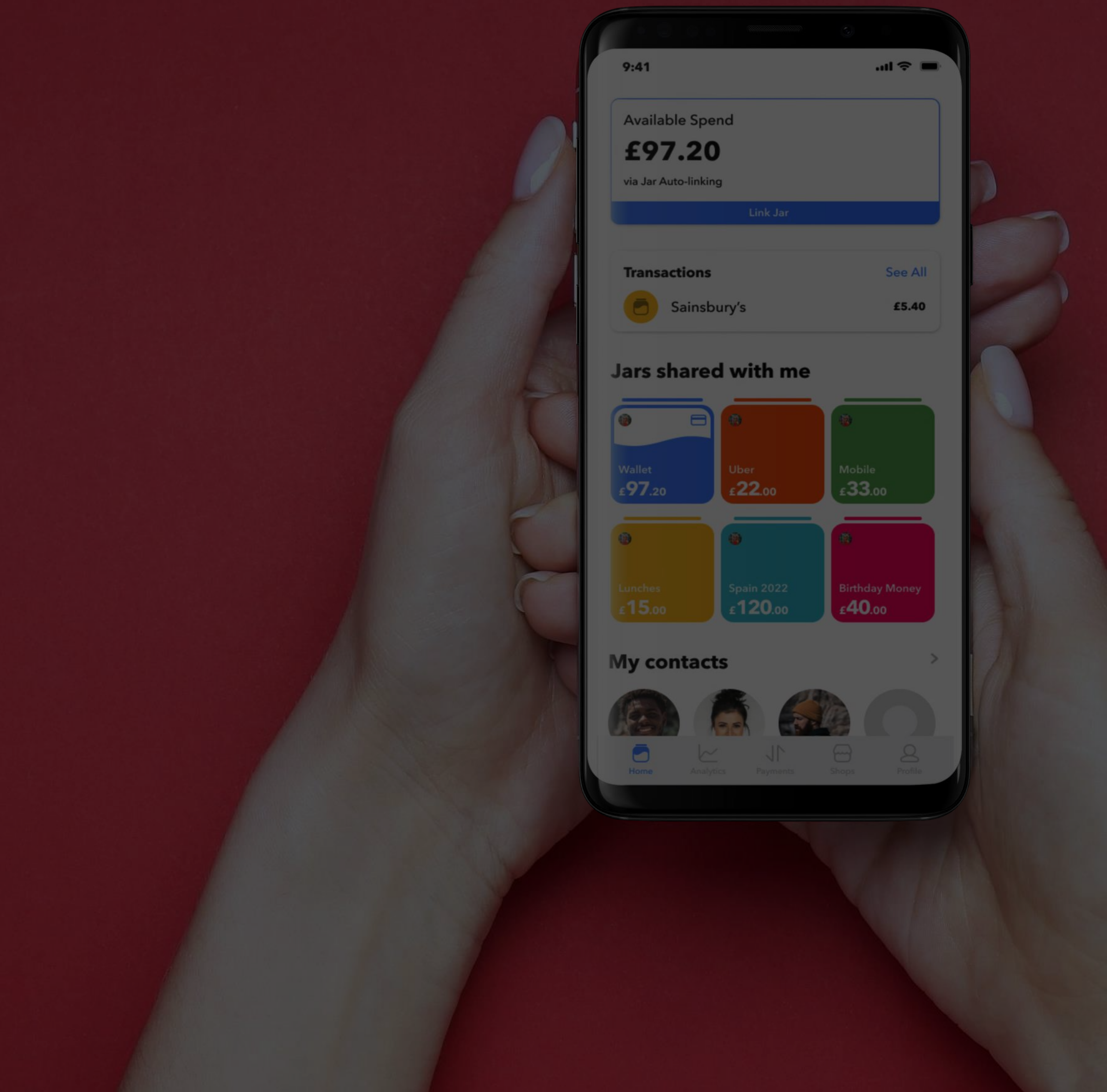
Leveraging its own proprietary retail data and applying rigorous economic analysis, Retail Economics transforms information into points of action.

Its subscription service provides unbiased research and analysis on the key economic and social drivers behind the UK retail sector, helping to inform critical business decisions and giving you a competitive edge through deeper insights.

Contact: richard.lim@retaileconomics.co.uk

HyperJar

RetailEconomics



A life well spent?

Financial behaviour, the enablement gap
& tools for better money management