

A horizontal bar with a dark green segment on the left and a yellow segment on the right.

**10 trends**

# UK consumer finances



# Overview

The situation of the UK consumer finances reflect and mutually-interdependent with our collective social and economic trends as a nation. Overall, Britain diverged from the advancing prosperity of advanced nations since the crash in 2008, with the impact thus-far somewhat mitigated by substantial government borrowing.

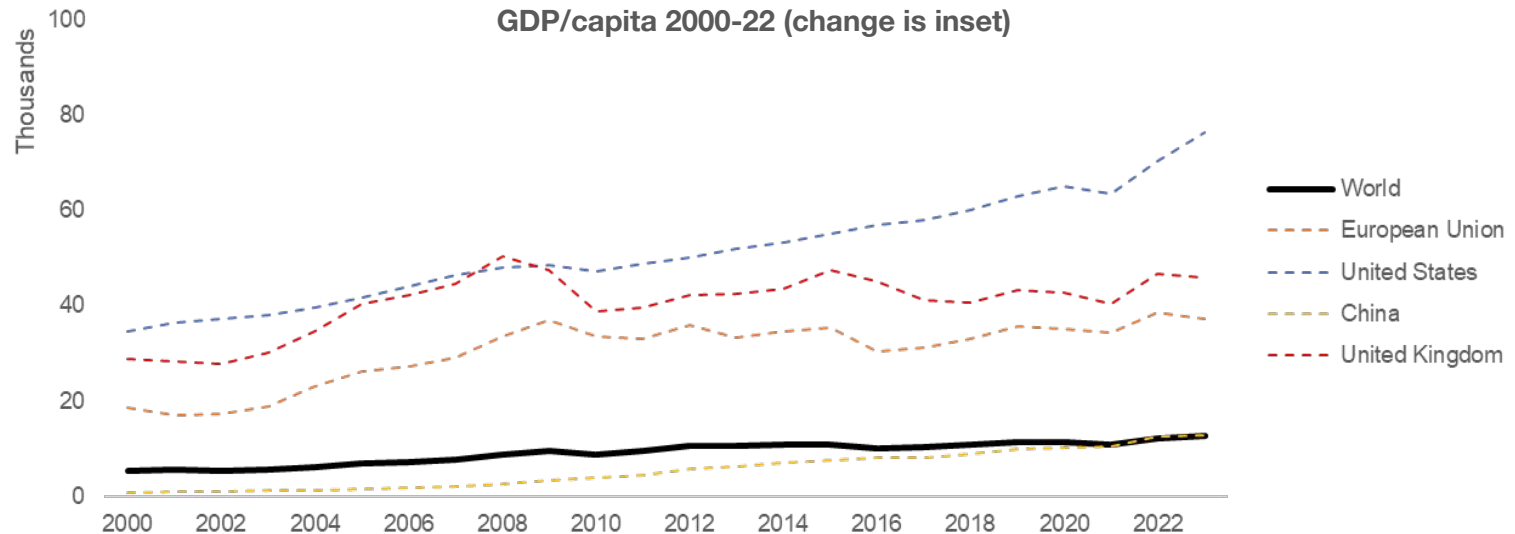
In recent times, COVID has also had a significant impact on consumers' finances and buying behaviours. With underlying structural weaknesses to the economy, it remains unclear that Britain will return to prosperity seen in times past. The younger generation are also adopting increasing amounts of the future debt burden.

Inequality remains stark across the population: the wealthiest 1% of Britons own more than the bottom 70%.



# Global context

GDP per capita is an important measure that captures the value of the goods and services produced by a region per head of population. It can reflect on economic well-being, living standards, and policy effectiveness. The UK discernibly suffered during the 2008 financial crash and struggled thereafter, while the world continued to improve. Since then, the UK's value declined by 3% while the world's improved by 34% and US's by 57%.



# 10 UK trends



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# Wage decline

## 01



Photo by Ehimetalor Akhere Unuabona on Unsplash

**About:** Growth in pay fell in real terms (adjusted for inflation) fell by the fastest rate for 20 years in 2023. Even before then, the average annual change in real earnings from 2005/6 to 2021/22 had been -1.4% per year (ONS).

**Responses:** Organisations face challenges to retain staff morale and engagement. Unable to keep track with wage demands, some are striving to make use of “softer” incentives such as reward schemes, engagement programmes, flexible working options and training opportunities.

**Future business opportunities & challenges:** Calls have been made over recent years for company profits to be split more equitably with staff, particularly in the US. The growth of Asia and Africa will also place greater challenges on UK companies with low cost imports, while consumer spending power will also remain constrained without much faster innovation to tackle the UK’s slow productivity growth.

# Personal debt

## 02



Photo by Ruth Enyedi on Unsplash

**About:** Average personal debt in the UK is c£35k/person. Over the longer term, however, personal debt is gradually declining as a % of household disposable income from 155% in Q32008 to 129% in Q12023. 12% of the UK population having used Buy Now Pay Later options, which have grown rapidly of late (Money and Pensions Service). While debt is declining overall, however, the fraction of people entering insolvency each year remains stable at c1 in 400 (ONS), and more consumers report falling behind on various repayments like mortgages and energy bills.

**Responses:** Company responses to consumer debt have been broad: partnering with debt charities or credit counselling services (e.g. StepChange), or offering various interest-free or flexible repayment schemes. Larger financial institutions and utilities are helping consumers with debt challenges, such as Paypal who offer a free debt management service.

**Future business opportunities & challenges:** Businesses will need to mitigate the impact of consumer debt through a basket of approaches. Definitions of poverty will continue to expand, as well the onus on the public sector to offer part of the solutions to alleviate it.

# Growth in welfare

## 03



Photo by CardMapr.nl on Unsplash

**About:** In 2022/23 the UK government is expected to spend approximately £231.4bn on benefits, with numbers gradually declining after the peak during COVID. This amount has, however, increased over time, doubling since 1991 (Statista). About 5.5m now claim Universal Credit in the UK,

**Responses:** Both Government and employers have provided schemes to get people back to work after unemployment e.g. the Government announced a package of measures for over 50s in mid 2022 called the Restart Scheme, following the Kickstart scheme for 16-24 year olds.

**Future business opportunities & challenges:** In a more volatile labour market, employers will benefit from offering transition programmes back into the workplace for those who have been on welfare, including but transcending apprenticeships.



# The top 1%

## 04



Photo by Pierre Gui on Unsplash

**About:** The wealthiest 1% of Britons - owning at least £3.6m each - own more than the bottom 70%. This has created a decade-high gap between the wealthy and poor (Oxfam, Credit Suisse). The top 10% own 43% (ONS)

**Responses:** To date, larger corporations have been rewarding directors far more than average staff, by an increasing amount over time; Chief executives of FTSE 100 companies are paid a median average of £3.6m a year, which works out at 115 times the £31,461 collected by average full-time UK workers. Estimates suggest it was around 50 times at the turn of the millennium or 20 times in the early 1980s. (High Pay Centre)

**Future business opportunities & challenges:** Organisations will face increasing scrutiny from the different salaries between boards and top earners and the average member of staff.

# Sources of wealth

## 05



Photo by Phil Hearing on Unsplash

**About:** Median household wealth is c£302k. Sources of wealth vary from the least to most wealthy parts of society. The biggest contribution to the most wealthy are private pensions, for those in the mid-groups it is formed of property wealth and for those with the lowest income, it is physical wealth.

**Responses:** Many businesses continue to focus on catering to the tastes of their most valuable consumers. Brands like Louis Vuitton, Gucci, and Hermès offer personalized customization options for their products, such as monogramming or bespoke tailoring. Brands for more ‘every day’ categories, from banking to house cleaning, make use of premium or platinum level services to provide additional tiers of service.

**Future business opportunities & challenges:** Because of the distribution of spending power across the consumer base, organisations may face trade-off decisions between their socially-orientated brand values and commercial objectives on whether to provide ‘platinum’ service options for wealthier consumers.

# Investors widen

## 06



Photo by Pierre Gui on Unsplash

**About:** About 42% of Britons invest with around 20%-30% investing in the stock market, depending on the source. Younger generations are investing more than older, while the ratio of male to female investors is c2:1. Just under 1 in 10 also now make ethical investments (Flinder). Over the longer term, UK residents now own

**Responses:** Some newer companies are striving to increase the accessibility of stock trading such as Robinhood or E-Trade. The popularity is increasing in alternative investments, particularly ethical investments, managed by companies like Triodos. Crowdfunding is also increasing as a way for companies to raise money.

**Future business opportunities & challenges:** SMEs can benefit in different ways from alternative financing vehicles, such as crowdfunding, by attractive ethical investors, directly engaging with investors, and by diversifying funding sources.

# Long-term gaps

## 07



Photo by Pierre Gui on Unsplash

**About:** Over the last 14 years the proportion of wealth held in private pensions has increased slightly. This category is now the largest component of total wealth at 42%. However it is also only a very small part of the wealth of many mid- or lower-wealth households (ONS). 6 in 10 over 50s are now worried about their pension (tpt)

**Responses:** Employers now routinely provide private pensions, which have achieved a take-up of 79% (from 40% in 2012).

**Future business opportunities & challenges:** Pension costs for companies will increase, as more reach closer to retirement with shortfalls in their plans. More businesses will be pushed to accommodate older workers who cannot afford to retire completely, particularly if/when the pension age continues to rise.

# Cashless habits

## 08



Photo by rupixen.com on Unsplash

**About:** Fewer Britons now choose cash as their preferred method of payment (17%). 2 in 3 of the UK's 30bn annual payments are cashless with the majority being debit card payments. (Business Comparison). Contactless payments have increased by x5 from 2016-23 and are used by 1 in 3, while 1 in 6 using digital payments which are particularly popular with younger consumers (Pay.com). 6.2% in the UK now also own cryptocurrency (FCA).

**Responses:** Businesses have adapted their payment methods to accept a wider range of alternatives. Moreover, some see this as an opportunity to reduce friction during the buying journey. Innovative companies have created further “frictionless solutions” that use wearables (Fly Wallet), biometrics (e.g. BioCatch) or facial recognition (Payface) to process payments.

**Future business opportunities & challenges:** SMEs will face both the opportunity and challenge of integrating faster and more convenient payment methods, using methods to avoid late payment, while also facing increasing challenges to remain secure.

# Tax peaks

## 09



Photo by Jordhan Madec on Unsplash

**About:** Tax-to-GDP ratios have also been rising in most advanced economies over the past half-century. The UK has relatively lower taxes compared to EU nations, but tax-rate as a % of GDP has been gradually rising from 29% in 1992 to 33.5% today (OBR). Since the pandemic, OECD analysis shows taxes have risen by 40% and a 40 year high - some of the biggest relative rises have been seen in inheritance tax and capital gains. The UK public continue to support higher taxation, particularly on wealth..

**Responses:** Compounded by interest rates, SMEs in the UK continue to be reluctant to invest and expand, or hire staff, as growth prospects are suppressed (Simply Business, 2023). Complex tax regimes are also pushing more SMEs to consider tax planning services.

**Future business opportunities & challenges:** SMEs will face greater different benefits or costs for future failures to consider tax, such as by optimising director salaries, using R&D credits or timing capital expenditure.

# Burdens of tomorrow

## 10



Photo by Jordhan Madec on Unsplash

**About:** Over the past c20 years, the UK's debt burden has tripled to 100% of GDP, while the UK has also committed itself to a c£1.5trillion investment in Net Zero. Meanwhile, tertiary education costs have increased as well as the costs of homes. These collective trends are placing increasing personal and collective debt burdens on the generation of tomorrow, with the UK's annual interest debt repayment already reaching c£115bn/year.

**Responses:** Organisations use a range of vehicles to support staff with debt burdens, including offering financial counselling, loan repayment assistance programmes, flexible work arrangements (to reduce travel costs), employee assistance programmes and using employee discount schemes to secure deals (e.g. Edenred, Avantis)

**Future business opportunities & challenges:** Companies will need to innovate to retain staff, particularly where pay rises are not affordable. B2C companies can also take advantage of offering their services through staff discount schemes. However, organisations can also offer “currency” to their younger staff by giving greater training, more access to progression opportunities and by demonstrating commitment to the causes that the generation supports.

# Factors affecting the future







Perspectives on the future: UK team, IMF European Department (July 2023)

“Prior to the 2008 global financial crisis, the UK had been a strong performer among the Group of Seven countries. But this momentum was lost in the middle of the last decade.....the United Kingdom’s long-run prosperity hinges on ambitious reforms”

# Key factors affecting the future UK trajectory

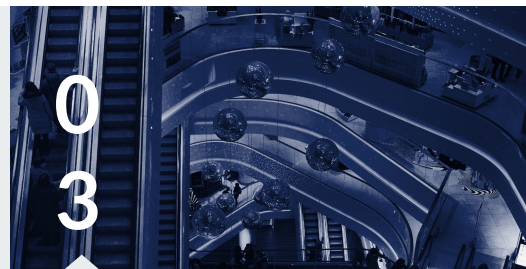


## Decline vs reform

Turning around Britain's declining economic standing will require reform, to re-incentivise business investment, particularly in high growth sectors and productivity gains..

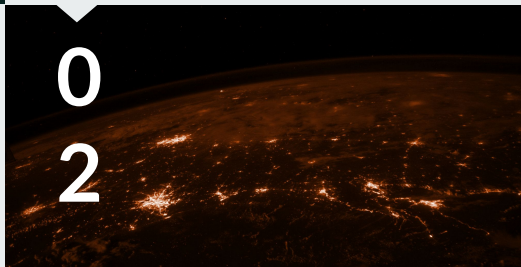
## Growth vs equality

Governments will face successive and nuanced dilemmas to grow the economy or prioritise inequalities with welfare and increasingly radical redistributive tax.



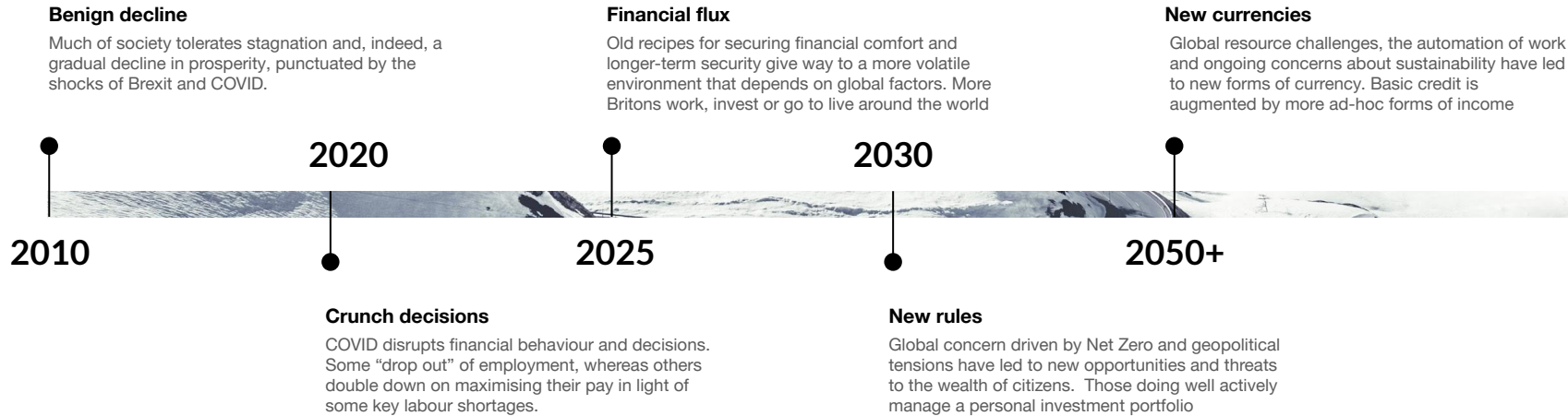
## Burdens of aging


Poor health amongst older workers, as well as well-publicised discrimination, are costly to the economy. Meanwhile, more older workers will need to remain employed.



# Timeline

Various scenarios are plausible. The timeline below sees a trajectory toward universal global currencies by 2050, drive by resource constraints and less work.





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