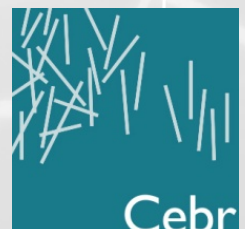




Consumer spending key trends among the over 50s

A report for Saga

February 2014



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Introduction

We would like to express our thanks to Cebr for the insightful analysis that demonstrates the valuable contribution made by the Saga generations and their part in driving the UK economy out of recession.

With the over 50s estimated to account for more than 50% of the UK's incomes ¹, 68% of the UK's wealth and 76% of the UK's financial wealth ², this segment of the population provides an attractive opportunity for retailers and other consumer-focused industries. While the over 50s were undoubtedly hit by the financial crisis in absolute terms, this report shows that the value of their expenditure has now risen above their pre-crisis levels. Moreover, the over 50s are now responsible for almost half of consumer spending and this share is increasing.

There is a qualitative difference between those entering the over 50s category today and those that have occupied this space in the past which adds to current over 50s attractiveness as a consumer target group. Today's over 50s generation has been raised to think of itself as consumers in a market of branded products. It is important for retailers and other consumer-focused industries to pay ever more attention to the demands of this age group over the coming years.

Looking forward, the importance of the 'silver pound' for the UK economy is expected to become even greater in the future: the over 50s are the fastest-growing demographic in the UK, according to the Office for National Statistics' population projections. Increasing life expectancy and the response by policymakers in the form of raising the retirement age are further expected to boost the incomes and hence spending power of over 50s consumers.

Tim Pethick
Director of Strategy, Saga Group

¹ Office for National Statistics, Family Spending Survey, 2012

² Cebr analysis based on Office for National Statistics, Wealth and Assets Survey, 2010

Key Findings

The key historical findings of the analysis are as follows:

- The over 50s accounted for £320 billion (47.6%) of UK household expenditure in 2012.
- The ‘silver pound’ has become relatively more important since the financial crisis, with expenditure among households of the over 50s making up a growing share of overall UK household expenditure.
- The over 50s account for over half of UK household expenditure on health, recreation and culture, alcoholic beverages, restaurants and hotels.
- Their share of total UK expenditure in the alcohol and tobacco, clothing and footwear, and restaurant and hotel sectors has risen by over eight percentage points in the past decade.
- Sectors such as recreation culture, household goods & services, and miscellaneous goods & services, health, transport and communications have also seen the share of the over 50s of total expenditure rise by over 6 percentage points.³

For the period until 2018, the key forecast-based findings of the analysis are as follows:

- Over 2003-12, over-50s expenditure on health rose at an average rate 5.4% per year, increasing from £3.5 billion to £5.7 billion. Over 2013-18, this is forecast to accelerate to 6.4% per year, with expenditure reaching £7.8 billion in 2018.
- By contrast, over 2003-12, over-50s expenditure on housing rose at an average rate 7.7% per year, increasing from £20.0 billion to £39.0 billion. Over 2013-18, this is forecast to decelerate to 5.9% per year, with expenditure reaching £53.4 billion in 2018.
- Consumer spending by the over 50s is so economically significant that the UK’s GDP would be noticeably lower in each year of the forecast period if, since 2003, over 50s spending had only grown at the same rate as under 50s spending – i.e. at 1.2% per year as opposed to 4.4% per year.
- If, as of 2003, over 50s consumer spending had only grown at the same rate as under-50s spending, by 2013 UK GDP would have been depressed by 4.2% or £6.8 billion, and by 2018, UK GDP as forecast would be depressed by 6.8%.

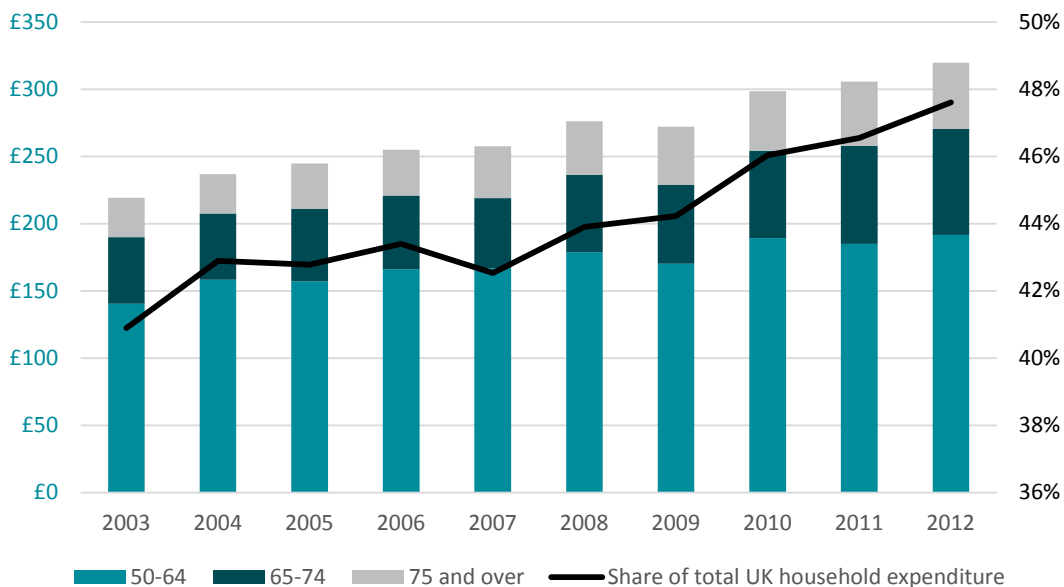
³ Miscellaneous goods & services is an expenditure category used by the Office for National Statistics. It contains: (i) personal care (-hairdressing, beauty treatments, baby toiletries and accessories), (ii) personal effects, (iii) social protection, (iv) insurance, (v) other services (e.g. moving house; bank, building society, post office and credit card charges).

Over 50s spending: Aggregate historical findings

Data from the Office for National Statistics' Family Expenditure Survey highlights the growing importance of the over 50s to the UK consumer market. This is due to the increasing number of over 50s as demographics change – e.g. the number of over 50s households has risen from 12 million in 2003 to 14 million in 2012.⁴

Figure 1 illustrates the outcomes of the analysis of data from the Office for National Statistics' Family Expenditure Survey. Over 50s households spent £320 billion in total in 2012, £100 billion more than in 2003. This increase in absolute levels of expenditure has also granted the over 50s a larger share of consumption than before the crisis, with the £320 billion from 2012 constituting some 47.6% of total household expenditure in the UK that year. This is markedly up from 42.5% in 2007 and 40.9% in 2003, again highlighting the growing role of the 'silver pound' as a driver of the consumer economy.

Figure 1: Household expenditure of over 50s households (£ billions) and as a share of total UK household expenditure (2003-2012)



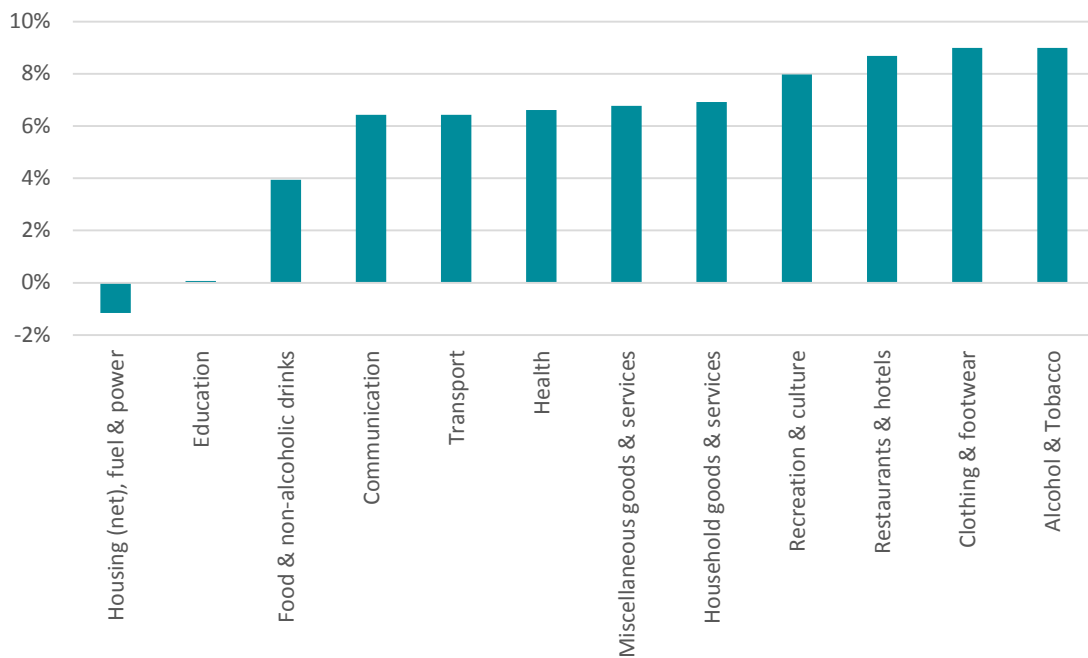
Source: ONS, Cebr Analysis

⁴ Office for National Statistics, Family Spending Survey, 2003 and Office for National Statistics, Family Spending Survey, 2012. An over 50s household is defined as one where the household reference person is aged over 50.

Over 50s spending: Detailed historical findings

The overall figure of a rising share of total expenditure by the over 50s represents a rise across most of the underlying specific spending categories: the share of the over 50s in the consumption of 9 out of the 12 major spending categories rose by between 6-9 percentage points between 2003 and 2012, as illustrated in Figure 2.

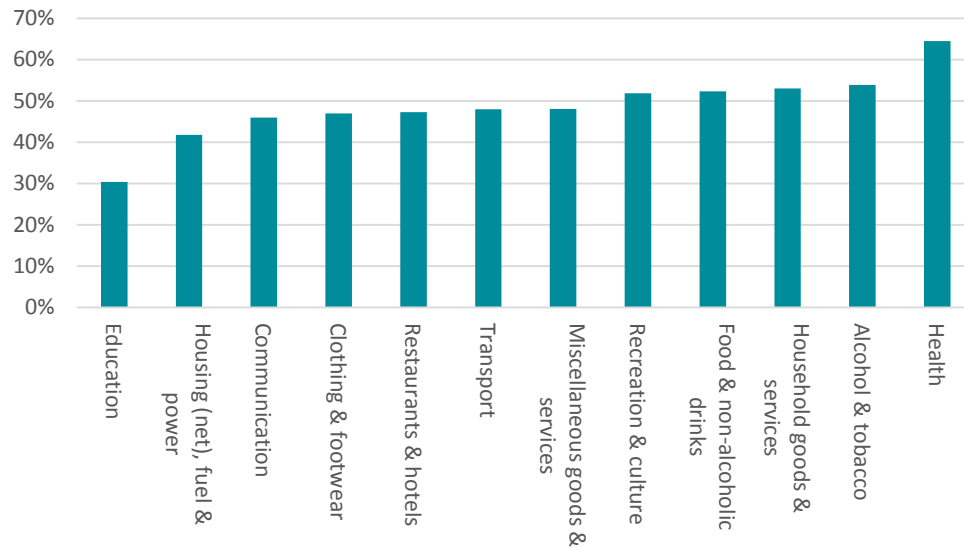
Figure 2: Change in over 50s share of total UK expenditure between 2003 and 2012, selected expenditure categories (percentage points)



Source: ONS, Cebr Analysis

The greatest rises occurred in the share of the alcoholic drink and tobacco category, and the clothing category (9 percentage points). These are categories where the over 50s enjoyed a relatively high share in 2012, as shown in Figure 3 which illustrates the over 50s contribution to total UK expenditure on a range of goods and services in the UK in 2012. Specifically, the data shows that the over 50s account for over half of all expenditure on five out of the UK's twelve main spending categories, namely health, alcohol and tobacco, household goods, food and drinks, and recreation and culture.

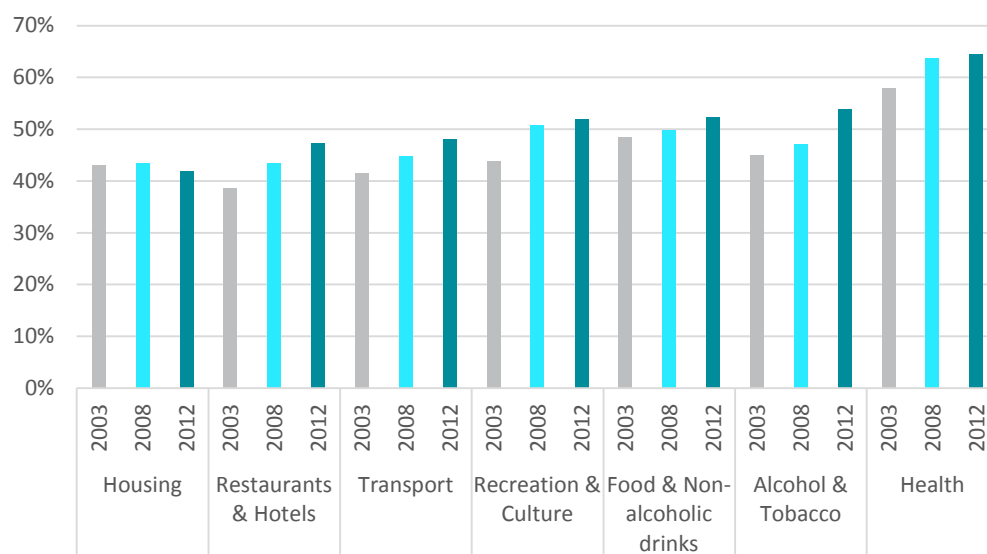
Figure 3: Over 50s share of total UK expenditure, selected goods and services (2012)



Source: ONS, Cebr Analysis

Figure 4 shows that the over 50s share of total expenditure has risen for most of the main goods and services categories since 2003. The category of housing, fuel and power represents an exception here as the over 50s have seen their share decrease marginally from 42.9% in 2003 to 41.8% in 2012.

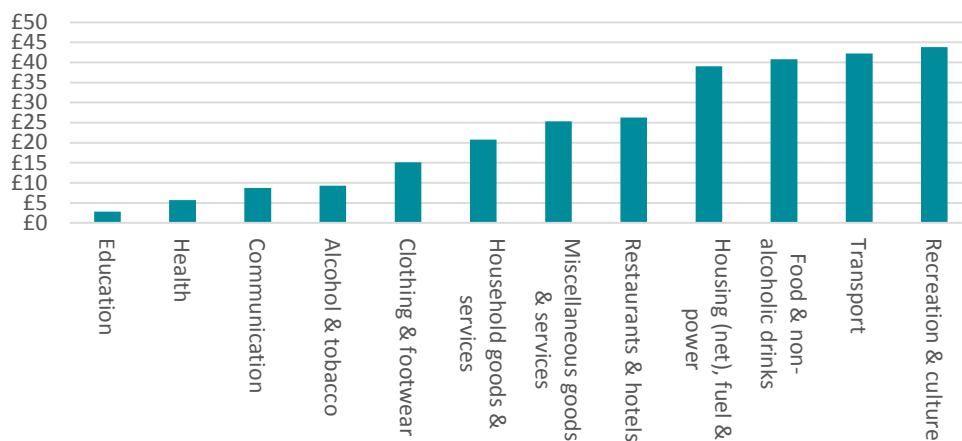
Figure 4: over 50s share of total expenditure, selected goods and services (2003, 2008, 2012)



Source: ONS, Cebr Analysis

In absolute terms, the main sectors that attract spending by the over 50s are those of recreation and culture, transport, and food and non-alcoholic drinks. In particular, households aged over 50-years spent over £40 billion on each of these sectors in 2012. Figure 5 below provides a more detailed breakdown of the over 50s expenditure on the UK's main spending categories.

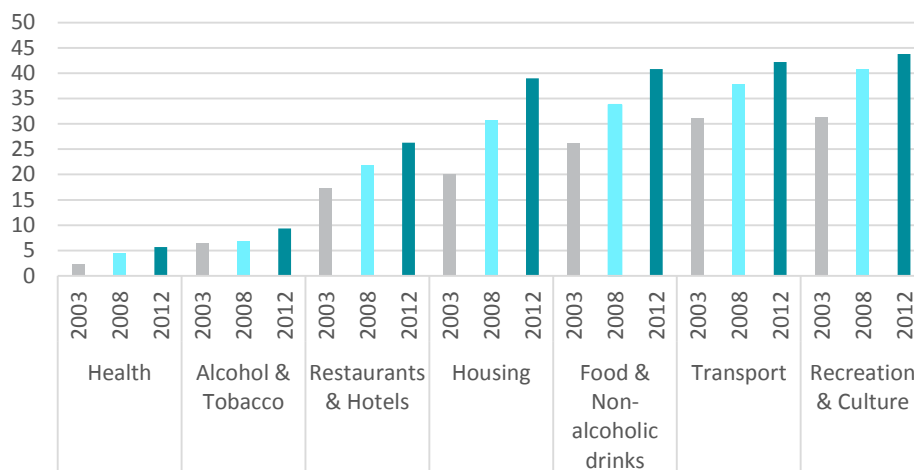
Figure 5: over 50s expenditure, selected goods and services, £ billions (2012)



Source: ONS, Cebr Analysis

Again, reviewing this across time reflects the growing contribution of the 'silver pound' to retail sales. As Figure 6 shows, the absolute level of expenditure has been on an upwards trajectory between 2003 and 2012 for the main expenditure categories.

Figure 6: over 50s expenditure, selected goods and services, £ billions (2003, 2008, 2012)



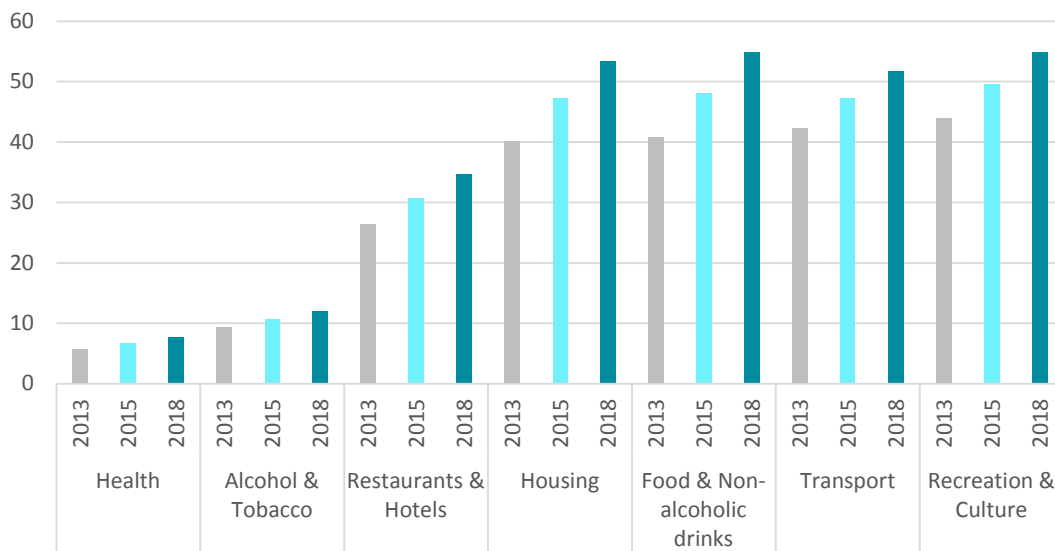
Source: ONS, Cebr Analysis

Over 50s spending: Forecasts

Expenditure by the over 50s for the seven expenditure categories considered earlier has been projected forward to 2018. The forecasts estimate that spending by the over 50s will continue on an upward trajectory for all expenditure categories over 2013-18. As Figure 7 shows, some interesting trends are expected to emerge over the forecast period. Over 50s expenditure growth on several goods and services is forecast to accelerate over 2013-18, compared with the average rate of expenditure growth seen over 2003-12 (e.g. health). The opposite is true for other goods and services (e.g. housing).⁵

- Over 2003-12, over 50s expenditure on food and non-alcoholic drinks rose at an average rate 5.1% per year, increasing from £26.2 billion to £40.8 billion. From 2013 to 2018, this is forecast to accelerate to 6.0% per year, with expenditure reaching £54.8 billion in 2018.
- Over 2003-12, over 50s expenditure on health rose at an average rate 5.4% per year, increasing from £3.5 billion to £5.7 billion. Over 2013-18, this is forecast to accelerate to 6.4% per year, with expenditure reaching £7.8 billion in 2018.
- By contrast, over 2003-12, over 50s expenditure on housing rose at an average rate 7.7% per year, increasing from £20.0 billion to £39.0 billion. Over 2013-18, this is forecast to decelerate to 5.9% per year, with expenditure reaching £53.4 billion in 2018.

Figure 7: over 50s expenditure, selected goods and services, £ billions (2013, 2015, 2018)



Source: ONS, Cebr Analysis

⁵ These projections were computed by relating historical expenditure growth by the over 50s for each of the seven expenditure categories to historical household disposable income growth. Cebr's in-house projections for household disposable income growth were then applied to these relationships. This yielded projections for expenditure growth by the over 50s for each of the seven expenditure categories.

Conclusions

Overall, the analysis undertaken in this report demonstrates the growing importance of the over 50s demographic as a driver of consumer spending. Not only have the over 50s enjoyed growing levels of expenditure in a number of sectors as well as a growing share of the UK's total expenditure in recent years, but this trend is also expected to continue going forwards as demographic and policy changes are likely to boost the total aggregate income of the over 50s group.

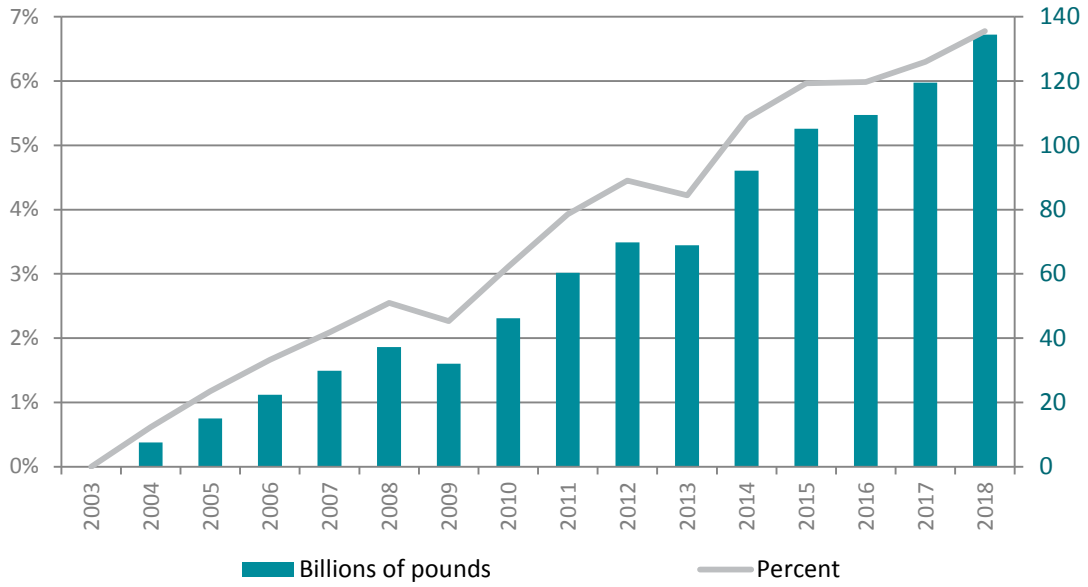
Consumer spending by the over 50s is so economically significant that it has an appreciable impact on headline GDP numbers. Over 2003-12, over 50s nominal consumer spending grew at an average rate of 4.4% per year as under 50s spending grew by 1.2% per year. If, since 2003, over 50s spending had only grown at the same rate as under 50s spending – i.e. at 1.2% per year as opposed to 4.4% per year – the UK's GDP would have been materially subdued.

If, as of 2003, over 50s consumer spending growth had been slower than it actually was – only growing at the same rate as under 50s spending – by 2008 UK nominal GDP would have been depressed by 2.5% or £37.2 billion (versus what 2008 UK GDP actually was). By 2013, UK GDP would have been depressed by 4.2% or £68.9 billion.⁶

As Figure 8 shows, looking ahead, the same is true. If, as of 2003, over 50s consumer spending had only grown at the same rate as under 50s spending, by 2015 UK GDP would be depressed by 6.0% or £105.2 billion (versus what 2015 UK GDP is actually forecast to be). By 2018, UK GDP would be depressed by 6.8% or £134.4 billion.

⁶ Cebri analysed the GDP impact of the scenario where, since 2003, over 50s spending had only grown at the same rate as under-50s spending – i.e. at 1.2% per year as opposed to 4.4% per year – holding all other things constant. No allowance was made for the possibility that the money the over 50s did not spend (by raising their spending at only the same rate as the under 50s as of 2003) would impact GDP in some other way – e.g. through increased investment. In essence, the money they did not spend (by raising their spending at only the same rate as the under 50s as of 2003) was assumed to have been 'burned'. The estimates given here are annual, not cumulative.

Figure 8: Nominal GDP loss if over 50s consumer spending had grown at the same rate as under 50s spending since 2003, percent and billions of pounds (2003-18)



Source: ONS, Cebr Analysis

Disclaimer

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Authorship and acknowledgements

This report has been produced by Cebr, an independent economics and business research consultancy established in 1992. The main authors of this report were Danae Kyriakopoulou, a Cebr Economist and Daniel Solomon, also a Cebr Economist. The research was overseen by Scott Corfe, a Cebr Managing Economist.

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