Royal Bank of Scotland

Retail and Leisure Outlook Report 2024

Tomorrow Begins Today

Contents

Foreword

Applying crucial lessons learnt over the past four years with a deep understanding of this year's megatrends will be pivotal in securing success in 2024.

This retail and leisure outlook report provides critical insights to help businesses capitalise on emerging opportunities from a more complex landscape amidst ongoing crises.

In a world where disruption has become the norm, the retail, leisure and hospitality sectors stand as testaments to resilience. Yet, beneath this veneer of strength, today's cost-of-living challenges have become more nuanced and multifaceted.

On the current trajectory, 2024 is likely to be a dichotomous year: persistent inflation in the first half, followed by a notable easing in the latter. This will potentially lead to more relaxed monetary policy and strengthening consumer confidence in Q3 and Q4. However, there's a disconnect between official projections and consumer expectations. Households anticipate a faster decline in earnings relative to inflation, indicating prolonged spending restraint.

Less affluent consumers are particularly affected, grappling with disproportionate expenditure on essentials like food, energy, and transport. This is further compounded by the cessation of ultra-low interest rates, significantly impacting middle-income and younger demographics burdened with hefty mortgages.

Despite these conditions, consumers have adapted impressively. They have skilfully navigated the financial squeeze by trading down, seeking promotions, and leveraging multi-channel shopping. Similarly, businesses have responded swiftly, although their adaptability constrained by heightened operating costs such as labour, utilities, and interest rates.

This report analyses the outlook impacting consumer spending in 2024, including short term drivers, structural changes, and strategic priorities for businesses to focus on when developing greater resilience. The report features three main sections:

Section 1 – The big picture: Provides an assessment of the UK economy and key drivers
Section 2 – The consumer outlook for 2024: Explores factors shaping household finances and spending
Section 3 – Megatrends: Outlines five critical trends that will significantly influence the industry over the next 12 months

The research uses Retail Economics' proprietary data and modelling to extract insights from a UK nationally representative survey and official statistics.

David Scott
Head of Consumer Industries

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The big picture

A more complex landscape

Section one: the big picture

At a glance

Five critical themes impacting consumer spending in 2024

Financial pressure is shifting as inflation persists and interest rates remain elevated, forecast to lead to only flat to modest growth in 2024. Here are five critical themes impacting consumer spending in 2024:

1. **Wages and inflation rebalance**: Despite inflation easing, household finances are not set to recover to pre-pandemic levels in 2024 as average real incomes remain below 1%. High interest rates are also hampering hiring prospects, limiting spending.
2. **Housing costs escalation**: Elevated mortgage rates are locking many homeowners into a period of prolonged depressed finances. Mortgagors exiting fixed rate deals in 2024 will on average need to pay an extra £218 per month in repayments, having an acute impact on middle income households.
3. **Savings returns vs. borrowing costs**: While higher interest rates favour older and more affluent savers less affected by rising living costs, those with mortgages and loans are likely to cut consumption due to increasing borrowing, impacting the economy more significantly.
4. **Fiscal drag on higher earnings**: National Insurance contribution cuts marginally benefit lower to middle-income workers, but frozen thresholds are leading to fiscal drag as inflation-driven pay rises see more people fall into higher rate bands, contributing to the biggest tax-raising parliament since records began.
5. **Weak consumer confidence**: The economic outlook is heavily reliant on consumer reactions to a backdrop of persistent inflation, geopolitical uncertainties, and the end of ultra-low interest rates, denting confidence and impacting spending intentions in the first half of 2024.

Considerations for consumer-facing businesses

- **Evolve pricing strategies**: Evaluate pricing strategies throughout 2024, as easing cost inflation and hesitancy in consumer spending is putting pressure on businesses to pass on softening input costs to lower prices and drive sales.
- **Diversify**: Evaluate new revenue streams to support sales and profitability, including new product lines, services and international expansion to drive new relevance and support market share.
- **Ease payments**: Focus on competitive finance offers to support spending amid rising borrowing costs.
- **Manage pay increase requests**: Pressure on staff costs above historic rates is likely to continue while unemployment is low, vacancies are historically high, and inflation is above target. Financial remuneration can be supplemented with other benefits such as wellbeing and flexible working to support retention in retail, leisure and hospitality.

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Section one: the big picture

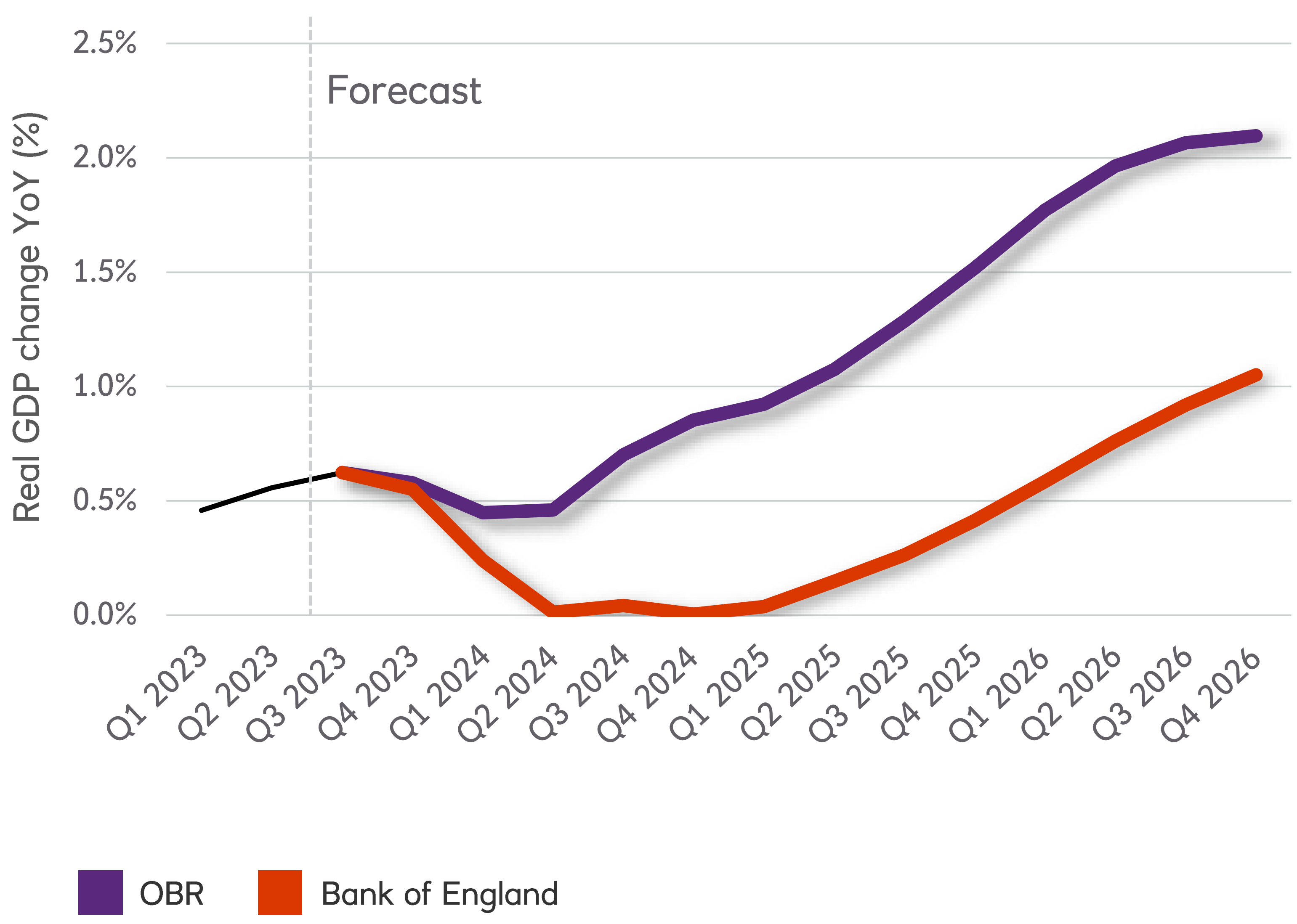
The UK economy staged a remarkable comeback having emerged from the shadows of a global pandemic and energy crisis. This rebound was particularly impressive given the myriad of complex challenges faced by both consumers and businesses such as supply chain disruptions, acute labour shortages, and unrelenting inflation. The economy not only avoided a recession in 2023, but real GDP was nearly 2% above its pre-pandemic level by the middle of the year.

However, the rapid recovery that was driven by strong demand, sturdy wage growth and energy bills support, has reshaped cost of living pressures. Entering 2024, inflation persists above its 2% target, and consumers and businesses are adjusting to the end of decade-long, ultra-low interest rates. As such, the outlook for economic growth in 2024 varies from flat to modest growth (Bank of England, Office for Budget Responsibility).

UK living standards are likely to fall by 3.5% in 2024/25 (measured by real household disposable income), compared to pre-pandemic levels (Office for Budget Responsibility). This represents the largest reduction since ONS records began in the 1950s. Therefore, household finances are not set to recover to pre-pandemic levels until 2027/28.

"The economy not only avoided a recession in 2023, but real GDP was nearly 2% above its pre-pandemic level by the middle of the year."

(1) Flat to modest economic growth expected in 2024



Source: ONS, OBR, BoE, Retail Economics analysis

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Section one: the big picture

The following section identifies five critical themes that will impact consumer spending throughout 2024:

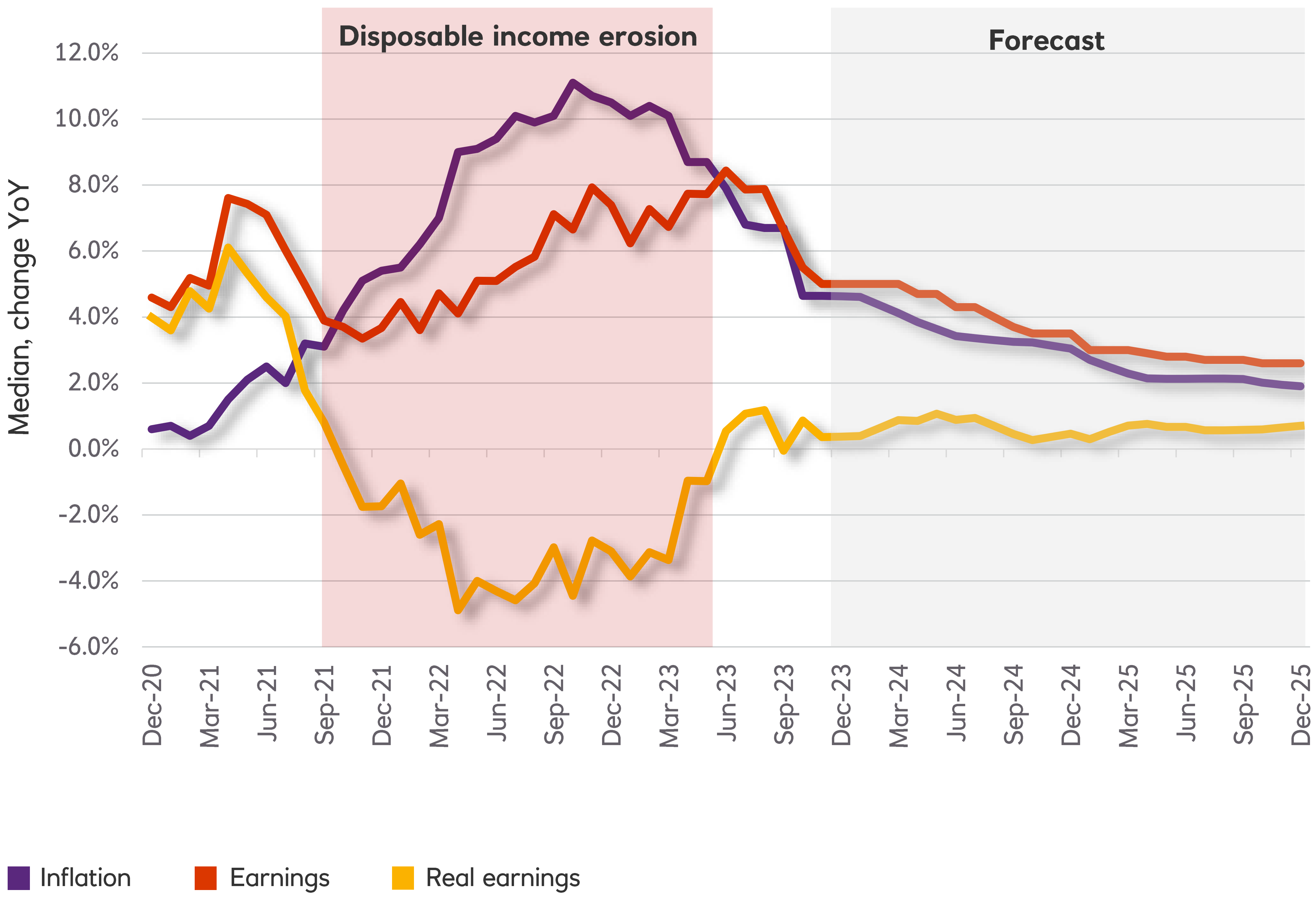
1: Wages and inflation rebalance

A notable decrease in household disposable income has occurred from the ongoing cost-of-living crisis, characterised by significant double-digit inflation in critical sectors like food and energy. As inflation eases from recent highs and earnings remain resilient, 2024 is set to bring a slight improvement to household finances. However, following a year and a half of real income declines, household finances are not set to recover to pre-pandemic levels for some time, as inflation is not likely to reach its 2% target until late 2025.

A sharp drop in energy and food prices, coupled with a tight labour market, is shifting inflation drivers from external to domestic factors – especially from nominal earnings. Workers are leveraging abundant job openings to negotiate pay hikes to partially offset rising living costs.

Nonetheless, hiring prospects in 2024 are being tempered by high interest rates, leading to slower earnings growth and a rise in unemployment over the next year. While we anticipate a modest increase in real income for the average household (remaining below 1% through 2024/25), this marginal growth is unlikely to supercharge a consumer-led recovery. Factors such as fragile confidence, concerns over rising unemployment, and varying spending patterns across different life stages may restrain the willingness of consumers to spend their limited additional earnings.

(2) Real earnings are expected to remain weak throughout 2024 following £49bn cost-of-living hit to household spending power



Source: ONS, OBR, BoE, Retail Economics analysis

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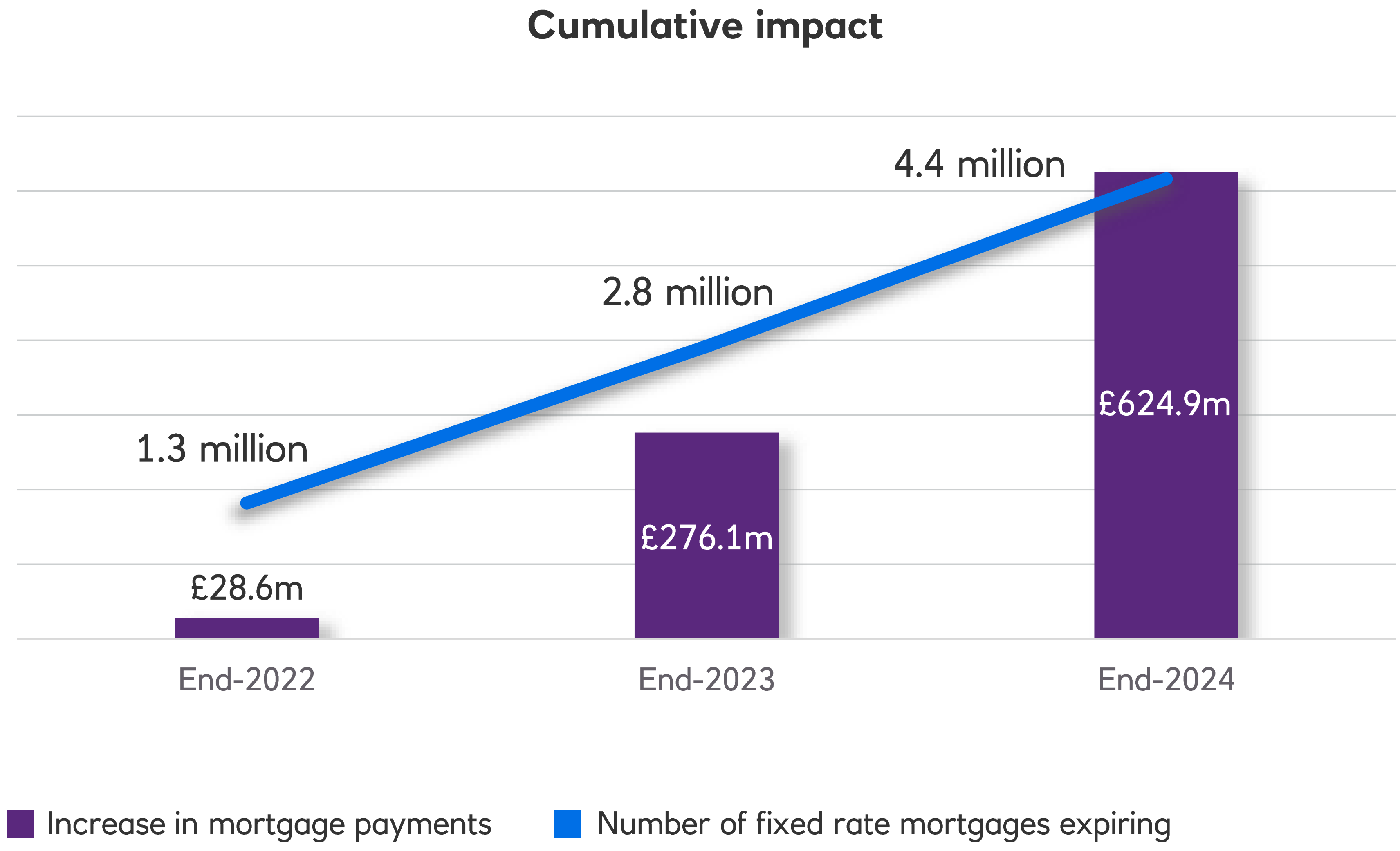
2: Housing costs step up as interest rates remain elevated

In 2023, interest rates escalated to a post-Global Financial Crisis peak of over 5%. However, market expectations suggest this cycle of rate increases has ended. As such, past interest rate hikes will continue to bite throughout 2024 as households renew fixed rate mortgages (around 80% of total mortgages) and private landlords pass on additional costs to their tenants, cooling domestically-generated inflation.

From the start of the Bank of England's rate-hiking cycle (end of 2021) to the end of 2024, over four million households are expected to exit fixed deals at average mortgage rates of 2%. As a result, an additional £624.9m in cumulative repayments will be made between 2022 and the end of 2024. The average household moving onto mortgage rates of more than 5% will now need to pay an extra £218 per month in repayments in 2024.

Note: Number of fixed-rate residential mortgages expiring by year, cumulative since January 2022. Additional repayments in 2024 assumes households renew at average mortgage rates of 5.2%.

(3) 4.4 million households expected to pay an extra £625m in mortgage payments by 2025



Source: Bank of England, UK Finance, Retail Economics analysis

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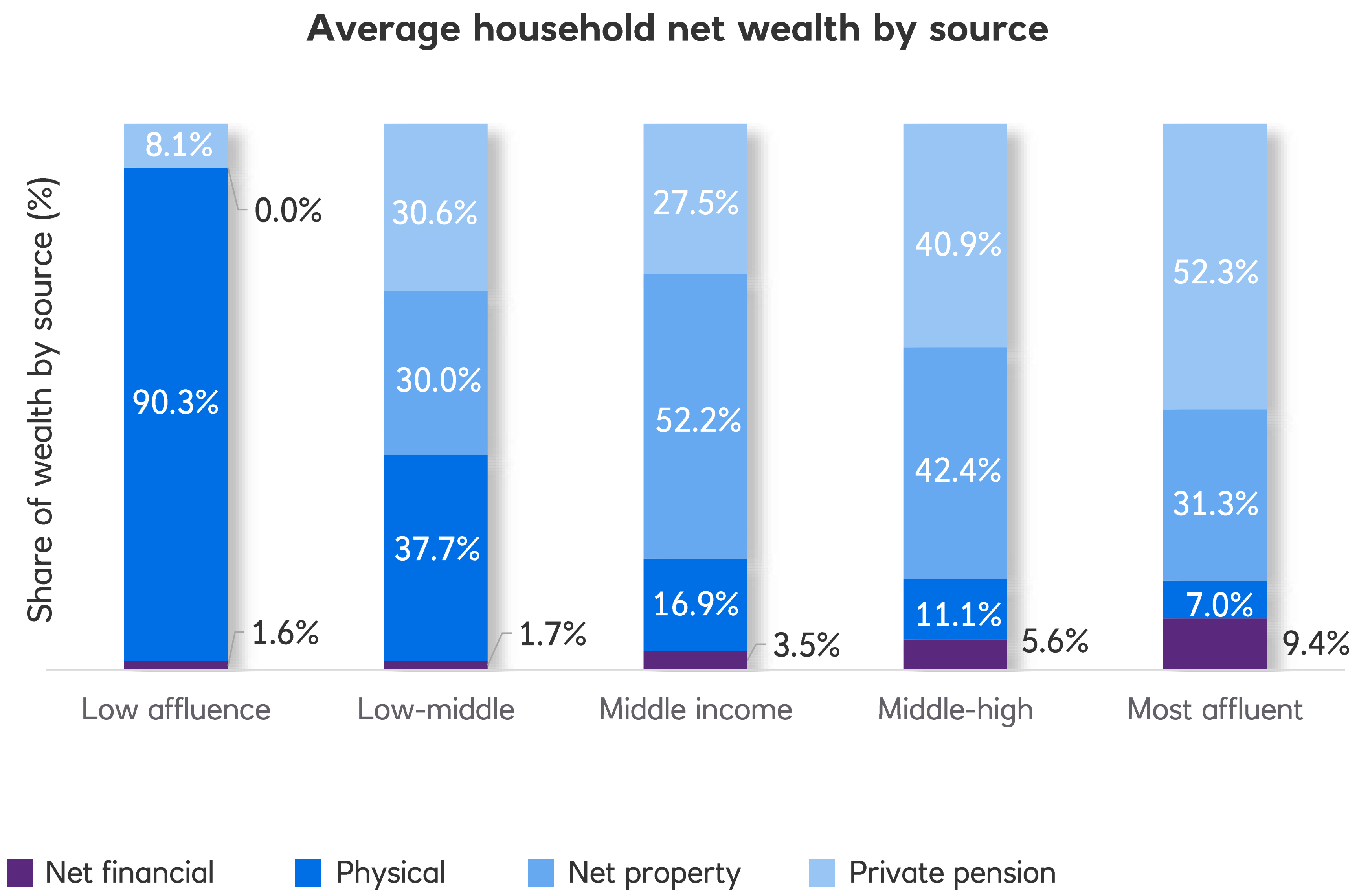
(4) Property as a source of wealth matters most to middle-income households



Source: ONS Wealth and Assets Survey, Retail Economics analysis

Note: 'net property' = value of residences minus mortgage debt; 'physical' includes household contents and vehicles; 'net financial' = savings/investments minus financial liabilities

The end of ultra-low mortgage rates has seen property prices flatline. This has impacted the wealth effect of homeowners and has reduced available assets for borrowing potential. Property constitutes the primary source of wealth for middle-income households, representing over half of their total assets.

Although only around one in seven low-to-middle income households own a home with a mortgage, ONS data shows those that do, tend to spend a larger share of their income on repayments compared to more affluent households. Consequently, between Q4 2021 and Q4 2026, mortgage repayments are expected to increase by around 6% of income for mortgagors in the second-income quintile – double that of those in the top quintile (the Resolution Foundation). By comparison, the most affluent are more diversified, with more secure pensions being a key component of wealth.

Furthermore, with approximately 5.5 million rental properties on the market (National Institute of Economic and Social Research), nearly 3.5 million are mortgaged; and the complete effect of base rate increases on rents is projected to unfold over 2.5 years (Liu and Pepper, 2023). Our data indicates a significant proportion of private renters are middle-income and younger consumers, with 30.9% of Gen Z and 23.0% of Millennials opting for private rentals.

These factors combined will have an acute impact on those targeting spending among low-middle-income and middle-income homeowners.

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3: Higher returns on savings unlikely to offset cost of living

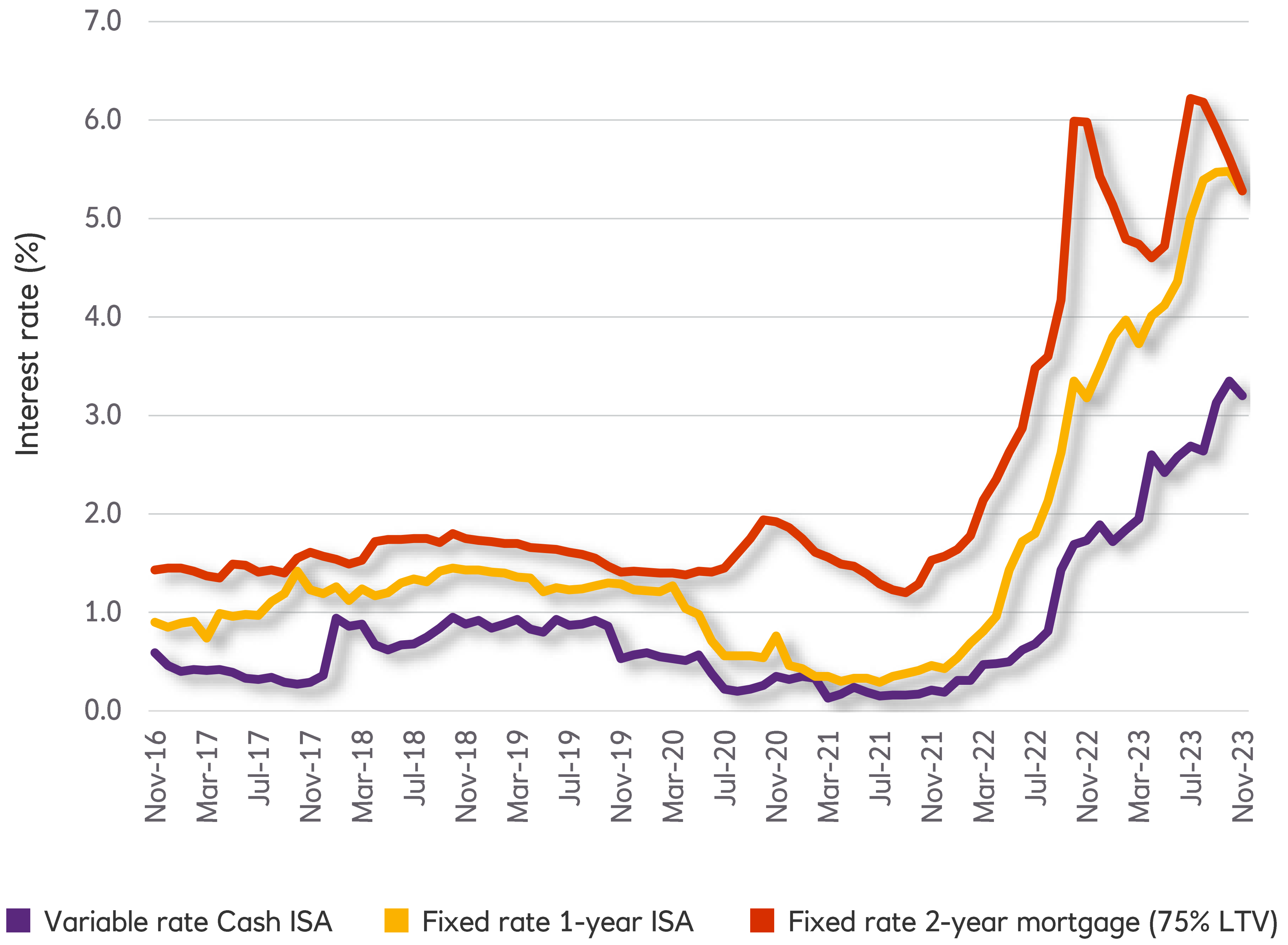
Higher interest rates have ushered in returns on savings not seen in a decade. Yet, the benefits are unevenly distributed and vary significantly by household affluence.

While total household savings (£1.7 trillion) surpass mortgage liabilities (£1.5 trillion) according to the Bank of England, those enjoying these higher rates often have a lower propensity to consume, being typically higher income, older and financially liquid individuals, who have been less impacted by rising livings costs and have been less likely to dip into savings to support lifestyles. Conversely, individuals with mortgages and loans are likely to curtail consumption due to rising costs.

Notably, as businesses face dwindling spending and stagnant house prices, a trend towards cautious financial behaviour will emerge. Here, households will aim to maintain (or even boost) their precautionary savings. This trend is particularly pronounced among older consumers who are often mortgage-free with a different lifestyle focus. This group may contribute to a lower overall cost of living increase, but will influence consumption patterns nonetheless.

Ultimately, different risks among savers and borrowers means savings rates have typically failed to keep pace with rising borrowing costs. This has a disproportionate burden on those with mortgages.

(5) Interest charged on mortgages typically outpaces rates on savings



Source: Bank of England, Retail Economics analysis

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Section one: the big picture

4: Fiscal drag on higher earnings

Regarding National Insurance (NI) contributions, lower to middle income workers will benefit marginally over higher earners. The level of NI paid by workers was cut from 12% to 10% on 6 January 2024, impacting earnings between £12,571 and £50,271. This equates to a maximum potential benefit of just under £63 per month.

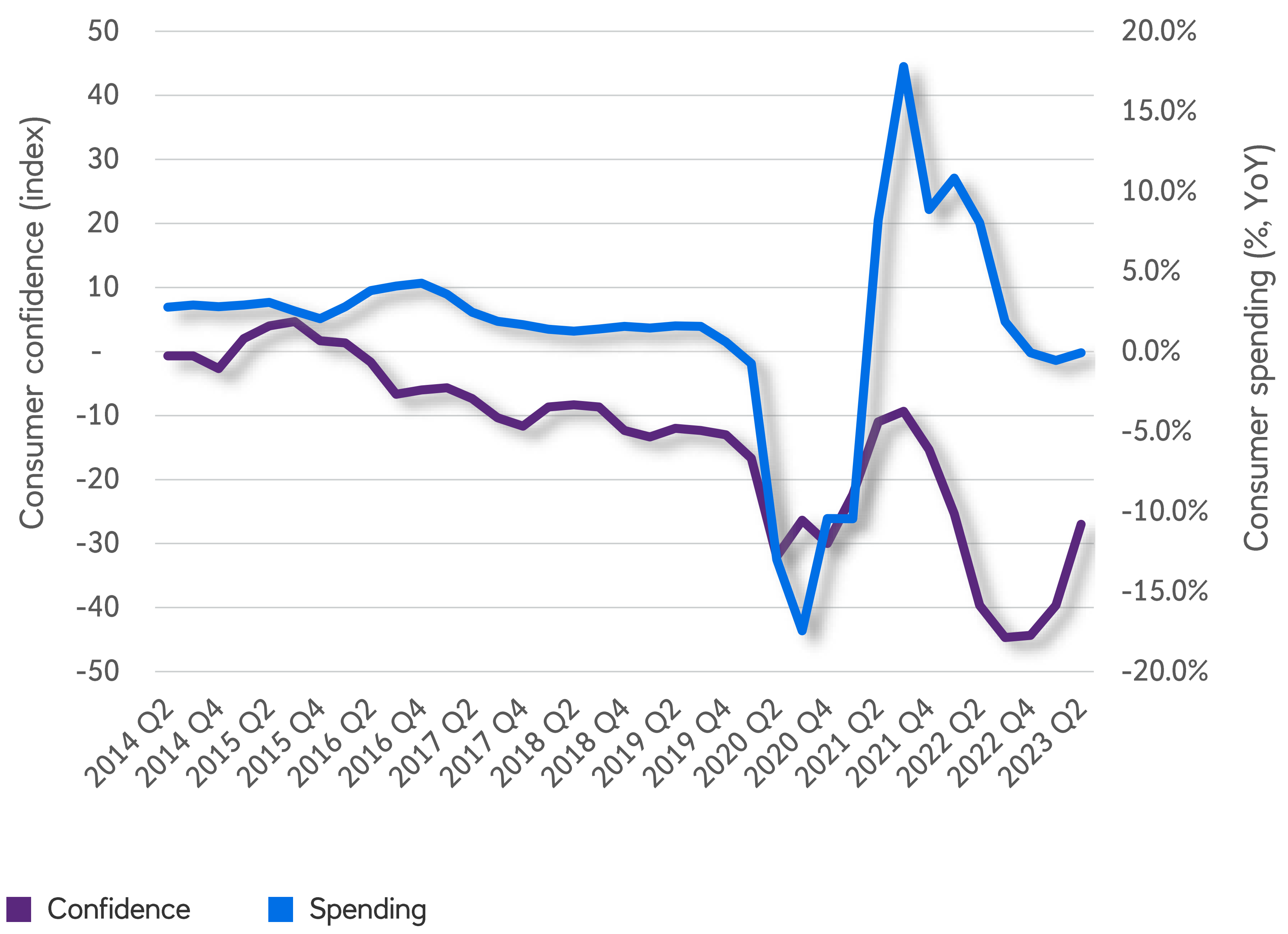
However, thresholds for NI and income tax remain frozen until 2028 at £12,570. This means inflation-driven pay rises are creating fiscal drag as more people fall into higher rate bands. Some 2.2 million more workers now pay the basic rate income tax of 20% compared with three years ago, while 1.6 million more people find themselves in the 40% tax bracket. As a result, this will see the biggest tax-raising parliament since records began.

5: Weak consumer confidence restrains spending

Consumer spending is intrinsically linked to their expectations around personal finances and the general health of the economy. Considering that consumer spending accounts for two thirds of the total economy, the economic outlook is heavily reliant on consumer reactions to the environment.

Persistent inflation, geopolitical instability and the end of ultra-low interest rates marred confidence throughout 2022/23. Although levels have recovered from record lows, it still remains negative into 2024. Notably, the impact of consumer confidence on spending typically lags by around three to six months, hence the depressed backdrop has materially weakened spending intentions in Q1 and Q2 2024.

(6) Spending is intrinsically linked to consumer confidence



Source: ONS (domestic consumer spending, non-seasonally adjusted), GfK Consumer confidence index, Retail Economics analysis

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The consumer outlook for 2024

Adapted spending amid ongoing pressures

Section two: the consumer outlook for 2024

At a glance

Key factors shaping the consumer outlook

- **Consumer outlook:** Households are adjusting spending within retail, hospitality and leisure to navigate intense inflation and uneven financial pressures from rising borrowing costs. They are less pessimistic than in 2023 yet anticipate a persistent decline in spending power constraining 2024 expenditure.
- **Competing middle and high income spenders**: Mortgage free households are the most optimistic (skewed towards over 60s, retired), while mortgaged households (typically middle aged and more affluent – a key cohort for consumer spending) and private renters (middle and low-middle income) express greater pessimism.
- **Timing shapes expectations**: Those that face mortgage or rent renewal over the next year are bracing for a more severe weakening of personal finances.
- **Adjustments to mortgage agreements**: 69.6% of mortgagors have made (or expect to make) adjustments to mortgage agreements to manage interest burdens, including changes in length, payments, and equity. Middle income households are showing greater distress than more affluent households.
- **Polarised spending**: Expected year-on-year improvements in sales volumes across goods and services is being driven by the most affluent, with low-middle- and middle-income households under greater pressure. Spending is set to be focussed on essentials, holidays and tradesmen.
- **Evolving behaviours**: Compared to 'normal' spending (i.e. pre-cost-of-living crisis), consumers have rationalised spending to manage finances. Fewer households expect to cut back in 2024 compared to 2023 and are likely to remain value-driven amid weak real earnings.
- **Mortgage and rent renewers trading down**: Elevated interest rates widening the scope of households under pressure is seeing those who recently renewed mortgages or rent more likely to seek cheaper alternatives than the average to manage budgets.

Considerations for consumer-facing businesses

- **Deliver value**: Focus on value propositions, as finances among key spenders such as aspiring middle classes ladened with high loan-to-value mortgages is coming under greater pressure compared to mortgage-free households. Beyond discounting, this includes lower entry price points to support spending and loyalty programmes to enhance customer lifetime value.
- **Support payments**: Provide flexible payment options to support spending.
- **Personalise**: Tailor messaging, promotional activity and loyalty offers to evolving consumer behaviours; necessitating speed and agility of operations based on behavioural analytics around browsing, spending and aftersales patterns.
- **Control inventory**: Investment in supply chains to support flexibility in inventory management and avoid excess stock.
- **Manage costs**: Even as sales recover from recent lows, cost reduction and rationalisation will be a strategic pillar as labour costs, business rates and the cost of finance remains elevated.

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The cost-of-living crisis has seen consumers adapt behaviours to counteract increased household costs – this will continue throughout 2024.

Shoppers have demonstrated increased savviness by cutting back, trading down and leveraging multi-channel propositions, all in attempts to manage budgets during an intense period of high inflation.

However, although inflation has passed its peak, the pressure on household finances continues due to rising borrowing costs. This impact will be felt unevenly with many battling higher mortgage repayments and rising rents, while others benefit from higher returns on savings.

Importantly, expectations and confidence play critical roles in determining the strength of consumer spending. Despite the cost of living falling sharply during 2023, our research shows that households expect ongoing erosion of spending power in 2024. Consumers expect inflation to persist above target at around 3.5% in the second half of 2024, and for earnings to moderate to around 3% in the period. This marks a fall from recent peaks of 11.1% for inflation in October 2022 and 7.8% for earnings in Q3 2023.

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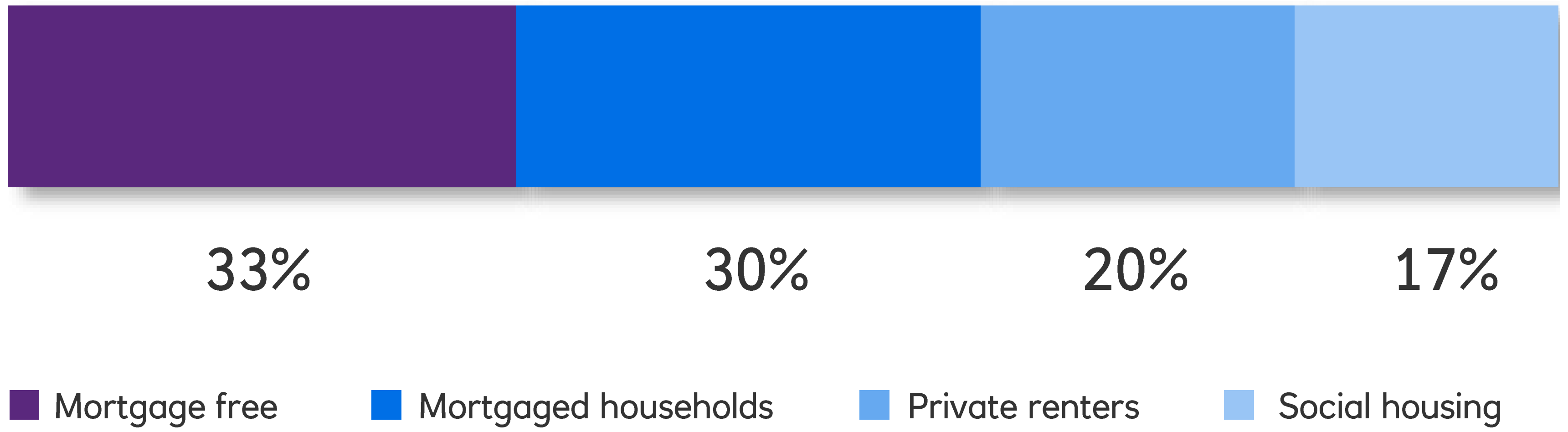
Competing middle and high income spenders

Expectations naturally differ across households. The more affluent expect higher earnings in 2024, while having expectations of lower inflation. Hence, they're the least likely to expect a weakening in finances. This is critical because the most affluent 20% are responsible for over a third of consumer spending.

By comparison, mortgaged households and private renters (representing half of households) feel more downbeat about 2024 in general. They expect their personal finances to be weaker by the end of the year. A smaller cohort of households in social housing are extremely pessimistic, reflecting some of the most economically vulnerable individuals. Although consumers are generally less pessimistic than in 2023, it ultimately follows a weakening of finances over the past 12 months.

(7) Household by type of tenure (proportion of consumers)



Source: Bank of England

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(8) Mortgaged households include aspiring middle classes critical for consumer spending

Mortgage free

Households that own their home outright or live with friends/family. Skewed towards those aged over 60. Around half (53.5%) are employed, while around a quarter (22.8%) are retired. They have the highest inflation concerns in 2024.

Mortgaged households

Skewed towards middle aged and more affluent consumers, representing a key cohort for consumer spending. A high 84.9% are employed.

Private renters

Typically, middle income and low-middle affluence households. Three quarters (74.2%) are employed, while 8.4% are retired.

Social housing

The most economically vulnerable cohort, with almost a third (29.6%) among the least affluent. Less than half (44.2%) are employed.

Affluence	Mortgage free	Mortgaged households	Private renters	Social housing
Least affluent	21.0%	2.9%	11.8%	29.6%
Low-middle	25.3%	11.6%	30.1%	41.7%
Middle income	23.4%	26.7%	31.7%	18.2%
Middle-high	20.1%	33.7%	17.4%	8.4%
Most affluent	10.2%	25.1%	9.0%	2.1%

Generation	Mortgage free	Mortgaged households	Private renters	Social housing
Gen Z	30.5%	6.0%	27.5%	21.0%
Millennials	18.2%	36.4%	33.1%	29.4%
Gen X	16.5%	42.4%	23.0%	26.0%
Baby Boomers	29.5%	14.5%	15.2%	20.0%
Silent Gen	5.5%	0.7%	1.1%	3.6%

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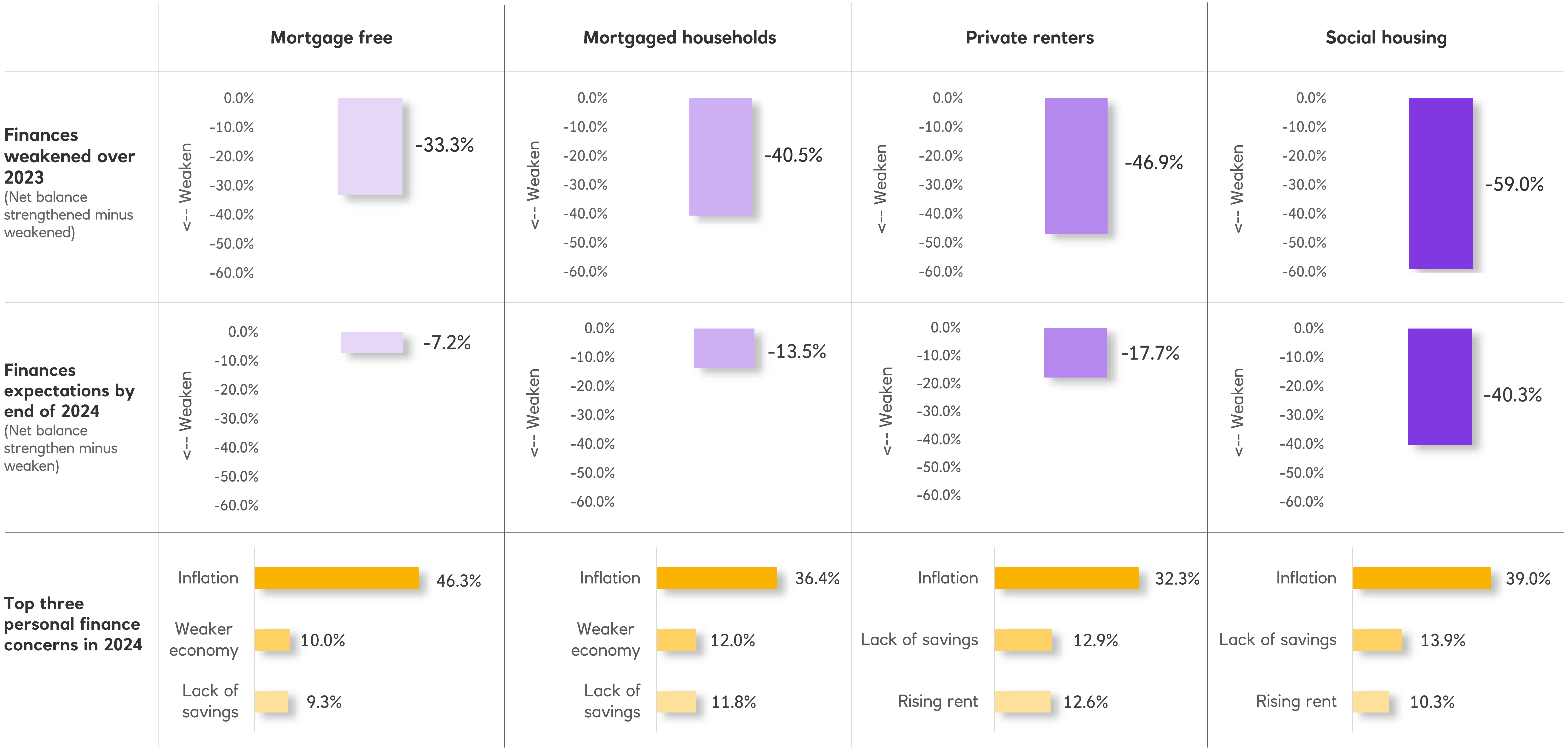
(9) Mortgagors and renters are more downbeat about finances than mortgage-free homeowners



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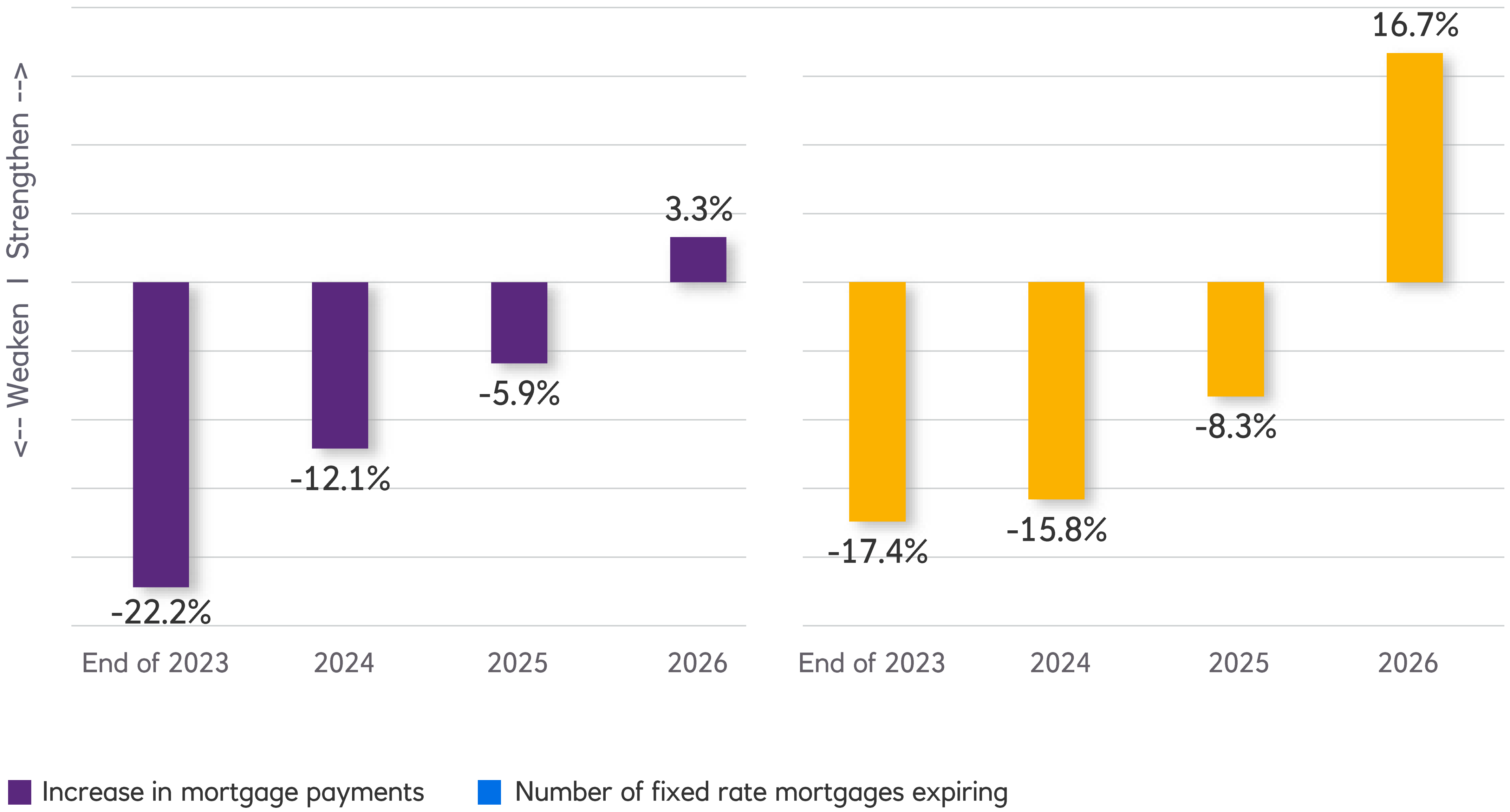
Those facing mortgage or rent renewals over the next year are particularly pessimistic, skewed towards younger, middle-income households. Although earnings are expected to increase among these groups in 2024, higher interest rates are likely to hit household consumption via higher mortgage and rental costs.

Our research also highlights a strong correlation between expectations of weaker finances and the length of time before mortgage and rent renewals. A net balance of around a quarter of consumers that remortgaged or renewed rental contracts at the end of 2023, expect their personal finances to weaken by the end of 2024, compared to the start of the year.

A third of those that faced mortgage renewals at the end of 2023 were typically middle income, while a quarter were lower-middle income who already spend a higher proportion on housing compared to more affluent groups. Meanwhile, half of those that faced rent renewals were middle-low income and around a quarter middle income.

(10) Timing of mortgage and rent renewal shapes personal finance expectations in 2024



Source: Retail Economics

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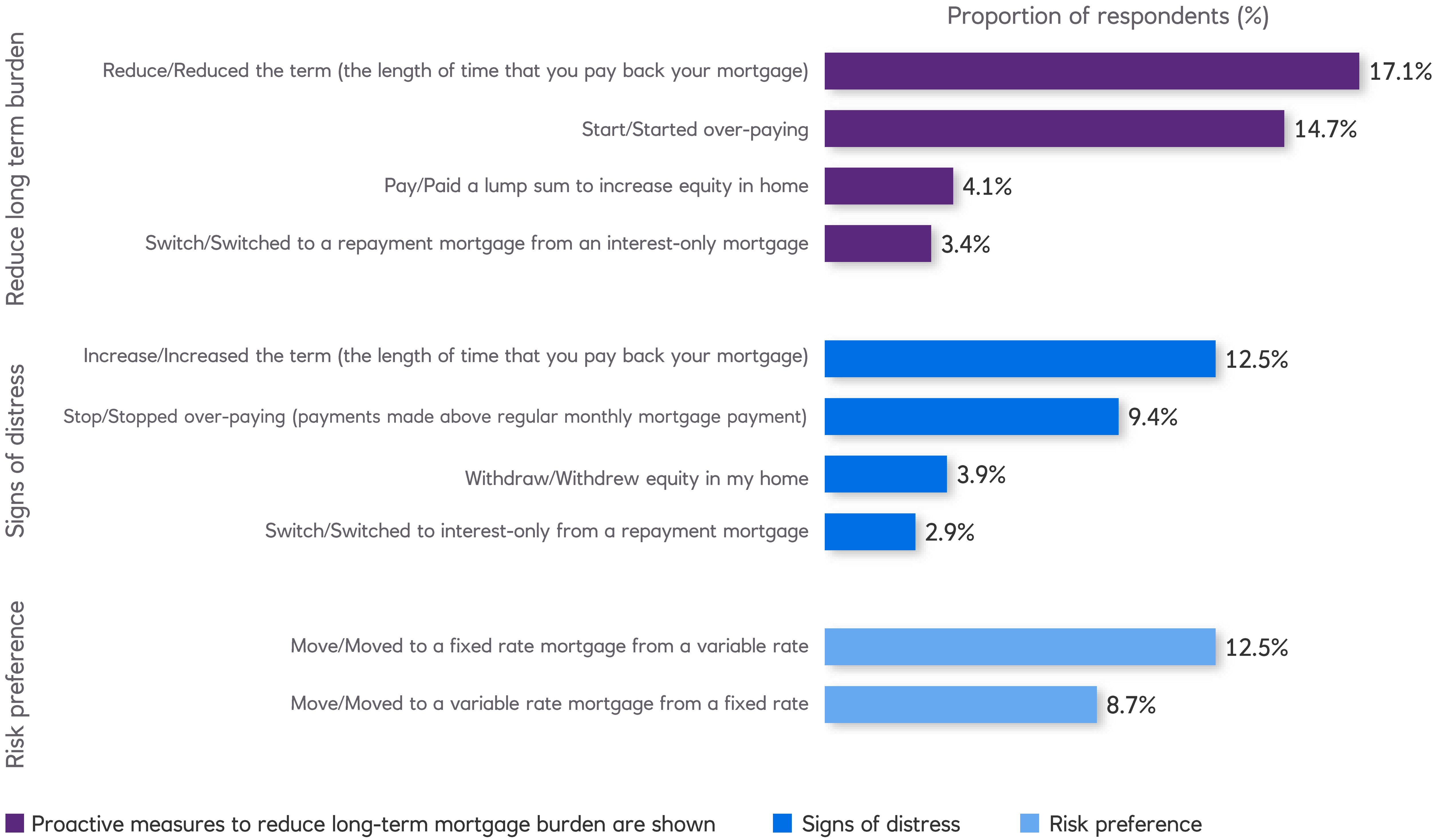
(11) 70% of mortgagors are adjusting agreements across length, payments and equity



Source: Retail Economics

For those with mortgages trying to manage the interest burden, 69.6% have made (or expect to make) adjustments to their mortgage agreement. This could be in terms of length, payment values, or equity – often in opposing directions depending on individual circumstances.

Figure 11 shows recent mortgage agreement adjustments. Overall, households have taken proactive measures to reduce their mortgage burden. Three in every five changes to mortgages can be considered proactive, rather than acts of distress. Unsurprisingly, lower income households have been squeezed more than higher income homeowners.

The most affluent households are three times more likely to pay off a lump sum of their mortgage than middle income households. Instead, middle income mortgagors are twice as likely to have withdrawn equity compared to the most affluent, and are twice as likely to have increased their mortgage term.

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Polarised spending

From the many challenges households face due to the cost-of-living crisis, there's a prevailing consumer sentiment that the toughest phase has passed. Granted, while differing fortunes are set to polarise spending across categories, our research shows a likely improvement in sales volumes across goods and services compared to recent lows. However, this is being driven by the most affluent, with low-middle- and middle-income households under greater pressure.

Relative to last year's subdued activity, households are poised to boost spending on essentials like energy, home-cooked food, and transport, as well as on holidays and tradesmen services which suffered pandemic-induced lockdowns and shortages. Conversely, sectors that thrived during the pandemic such as takeaways, electronics, and furniture, are shifting down the priority list.

"Relative to last year's subdued activity, households are poised to boost spending on essentials like energy, home-cooked food, and transport, as well as on holidays and tradesmen services."

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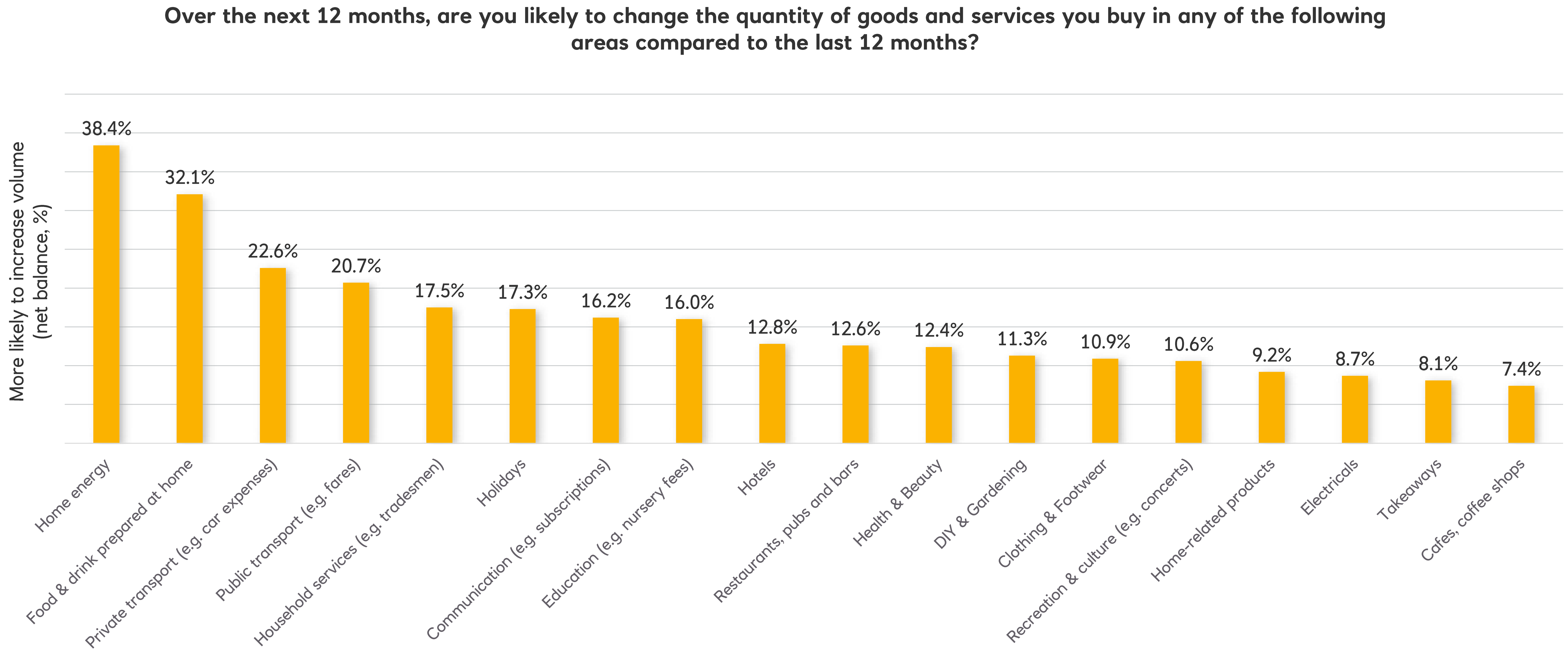
(**12**) Households are prioritising spending on essentials in 2024



Source: Retail Economics

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There is also reduced intention to drive year-on-year spending volumes across non-essentials, with stark differences across affluence groups. Middle and low-middle income households who are most likely to be grappling greater housing expenses in 2024 are consequently the least likely to drive volume spending across non-food retail, leisure and hospitality.

(13) Non-essential spending under greater pressure across middle income households

Q: ***Year-on-year change***: *Over the next 12 months, are you likely to change the quantity of goods and services you buy compared to the last 12 months?*

	Essentials			Non-essentials					
	Home energy	Food retail	Transport	Holidays	Other services	Home related	Non-food retail exc. home	Leisure	Hospitality
Least affluent	37.9%	23.9%	21.4%	18.9%	19.9%	16.6%	13.2%	9.6%	12.3%
Low-middle	34.4%	32.0%	17.7%	7.0%	10.3%	7.2%	6.0%	7.7%	7.3%
Middle income	38.2%	29.9%	22.3%	13.6%	15.0%	8.8%	4.9%	5.8%	4.9%
Middle-high	43.5%	35.3%	22.7%	24.9%	17.4%	14.4%	13.0%	14.9%	12.4%
Most-affluent	39.4%	40.2%	27.4%	32.7%	24.4%	24.8%	25.9%	20.9%	21.5%

Declining intentions to increase spending volumes →

Notes: Table shows the net balance of consumers increasing, rather than decreasing, spending volumes (it does not capture magnitude of increases or imply level of sales increase). 'Other services' include Communication and Education

Source: Retail Economics

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Evolving behaviours

As an upside for 2024, fewer consumers intend to cut back spending compared to 2023. However, their spending behaviours are still evolving compared to periods with greater stability (Fig. 14).

Since the financial crisis, increased competition and wider choice (especially in discount retail) have enabled households to partially mitigate financial strains. They can trade down or spread costs, rather than cancelling spend altogether. The severe cost-of-living crisis of 2022/23 led to notable shifts in market share as consumers shopped with alternative retailers for the first time to save money.

However, heading into 2024, there's likely to be a decrease in the rate of consumers switching retailers, compared to the peak crisis period. Although inflation will ease, there will be a continued focus on value from subdued real earnings.

"Since the financial crisis, increased competition and wider choice (especially in discount retail) have enabled households to partially mitigate financial strains."

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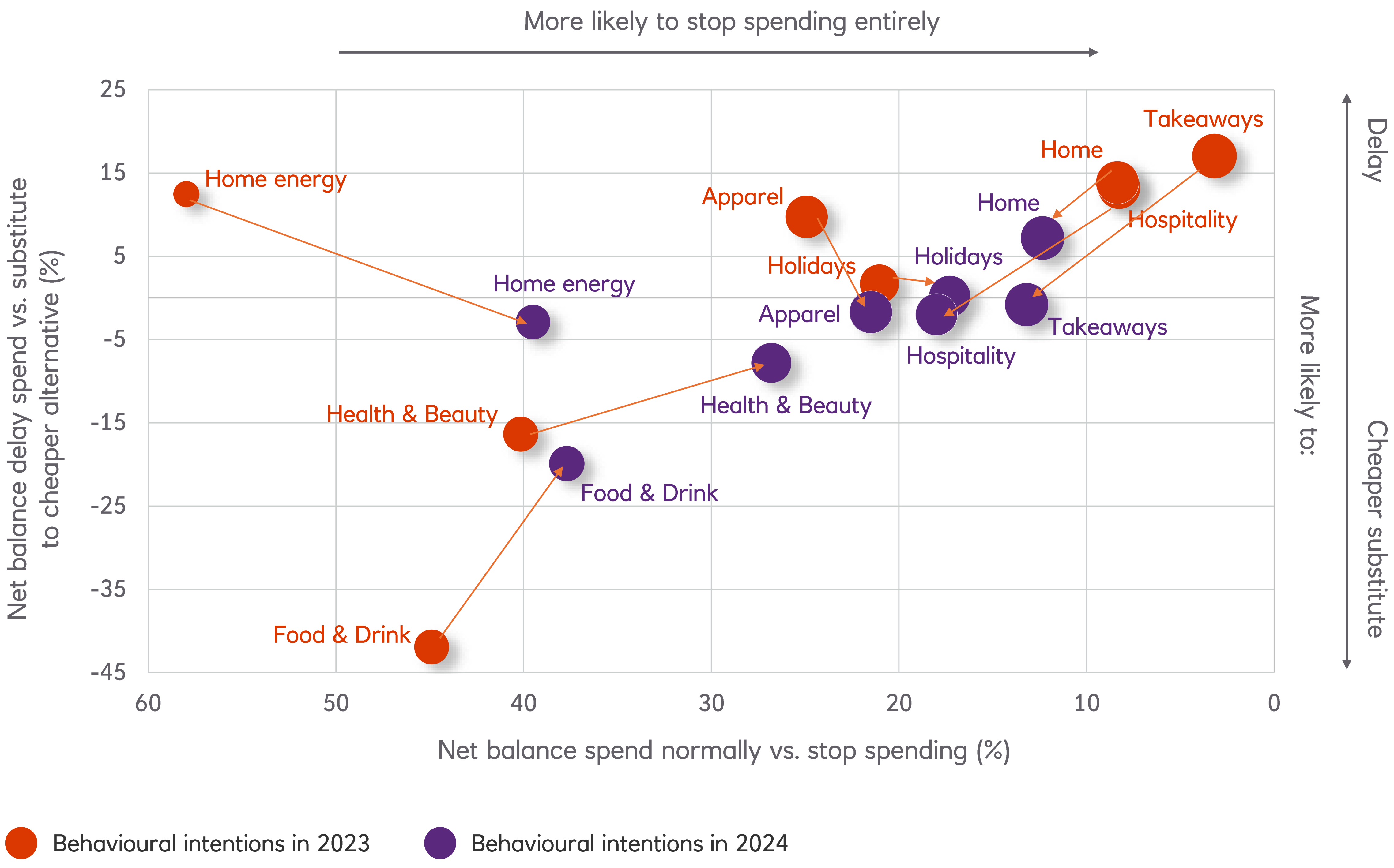
(**14**) How spending behaviours have rationalised since the cost-of-living crisis in 2023 vs. 2024



Source: Retail Economics

How to read this chart:

- Size of bubble = proportion of consumers disrupting normal spend in that category
- X-axis plots the net balance of those intending to spend as normal in the category in 2024 against those that intend to stop almost all spending in the category (with bubbles on the right most at risk of consumers stopping spending).
- Y-axis plots the net balance of those intending to delay spending in a category against those looking to find cheaper alternatives instead (bubbles above 0 on the Y-axis more at risk of delayed spending).

Example insight

Food & Drink bubbles: Consumers feel less pressure to switch to cheaper alternatives in 2024 compared to 2023 (red 2024 bubble shifting up), but some may reduce spending on food at home as hospitality spending intentions improve (red 2024 bubble moving right).

Figure 14 shows distinct variations in spending behaviours between essential and non-essential categories. Our analysis here shows that essentials exhibit greater resilience over discretionary items, prompting consumers to seek substitutes rather than forgo spending entirely. This could result in consumers increasing the quantity of purchased items compared to last year, but across cheaper alternatives.

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Section two: the consumer outlook for 2024

As a general summary, there are notable differences in spending intentions for 2024 versus 2023 (Fig. 15).

Naturally, the rate of cut back will vary by consumer cohort. In 2023, there was a greater burden on lower income consumers due to high inflation across essentials such as food, energy and transport. While pressure remains, it is now more nuanced. Heightened interest rates have widened the scope (and type) of households being impacted. For example, least affluent shoppers are still most likely to trade down, while the most affluent are more likely just to delay purchases now.

Rising housing costs have significantly altered many spending patterns too, particularly for those renewing mortgages or rental agreements since July 2022 (amidst surging average mortgage rates above the stable 2% mark). Analysing recent mortgage renewals provides insight into consumer behaviours for those facing renewals going forward (Fig. 16). Findings reveal that mortgage renewers are more inclined to trade down compared to the average; whereas renters, especially from lower affluence groups, tend to delay and trade down more frequently.

(15) Spending intentions for 2024 versus 2023 by general category

Category	Spending intentions in 2024 versus 2023
Food	• Easing food inflation sees less pressure for consumers to seek out cheaper alternatives, although households are still likely to trade down. • Some displacement of spending from food at home to hospitality.
Non-food exc. home	• Apparel is less likely to see consumers delay, but more likely to trade down. • Following a robust post-pandemic recovery, consumers are more likely to stop spending on Health & Beauty, but when they do spend they are less likely to trade down.
Home-related	• After strong pandemic sales, home categories remain under pressure from delayed spending, but there is improvement on last year.
Home energy	• Fixed deals are beginning to make a return to the market and households are looking for cheaper deals as competition recovers. • Cut back intentions most prevalent among least affluent.
Hospitality	• Takeaways, cafés and restaurants remain vulnerable to cut backs in 2024, but pressure has eased on 2023. • Rather than delay spending, consumers are more likely to look for cheaper alternatives.
Holidays	• Broadly similar intentions to 2023. • Gen Z and Millennials are most likely to cut back spending on holidays.

Source: Retail Economics

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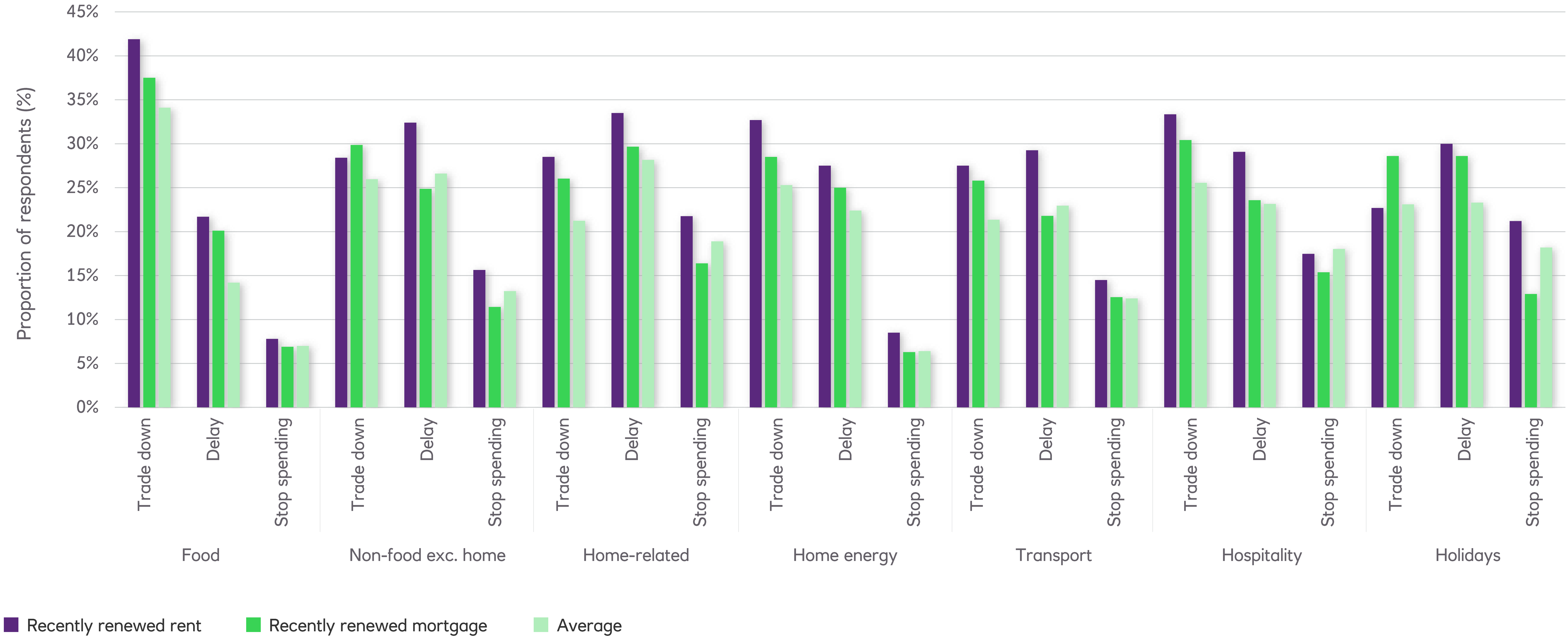
Section two: the consumer outlook for 2024

(16) Recent mortgage and rent renewers are under pressure to trade down



Source: Retail Economics

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Megatrends for 2024

Section three: megatrends

The past four years have been defined by unprecedented challenges. Throughout 2024, retail, leisure and hospitality businesses must continue to recalibrate operations despite the weak economic backdrop, investing where necessary to remain relevant.

Our report identifies five key megatrends. These trends will demand attention from businesses striving to develop greater resilience in a more complex trading environment; they are:

1. Sustainability
2. AI and tech revolution
3. Omnichannel reality
4. Disruptive business models
5. Permacrisis

"Throughout 2024, retail, leisure and hospitality businesses must continue to recalibrate operations despite the weak economic backdrop."

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Section three: megatrends

Megatrend 1: sustainability and ethical consumption

Key takeaways

Consumers	Businesses
• **Personal responsibility**: Younger consumers exhibit stronger personal responsibility to sustainable practices compared to their seniors. • **Cost barrier**: Across sectors, more than two-fifths of consumers say cost is the main barrier to sustainable alternatives. • **Essentials under pressure**: Consumers express greater concern over sustainability across essentials (e.g. energy and waste) than retail products. • **Willingness to pay**: Generally, intentions to pay a premium for sustainable practices are low.	• **Unification needed**: Cross-sector investment is needed to tackle sustainability, but remains challenged by an uneven political backdrop. • **Investor pressure**: Green funds will necessitate sustainable practices if consumer businesses want access to preferential lending. • **Market range of benefits**: To drive spending towards sustainable alternatives, lower-order factors such as price, availability and convenience must be satisfied.

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UK businesses are rapidly approaching a critical juncture where adapting to sustainability will no longer be an option, but a necessity. This requires a deep understanding of consumer values and expectations across different age groups and sectors to implement effective strategies at cost.

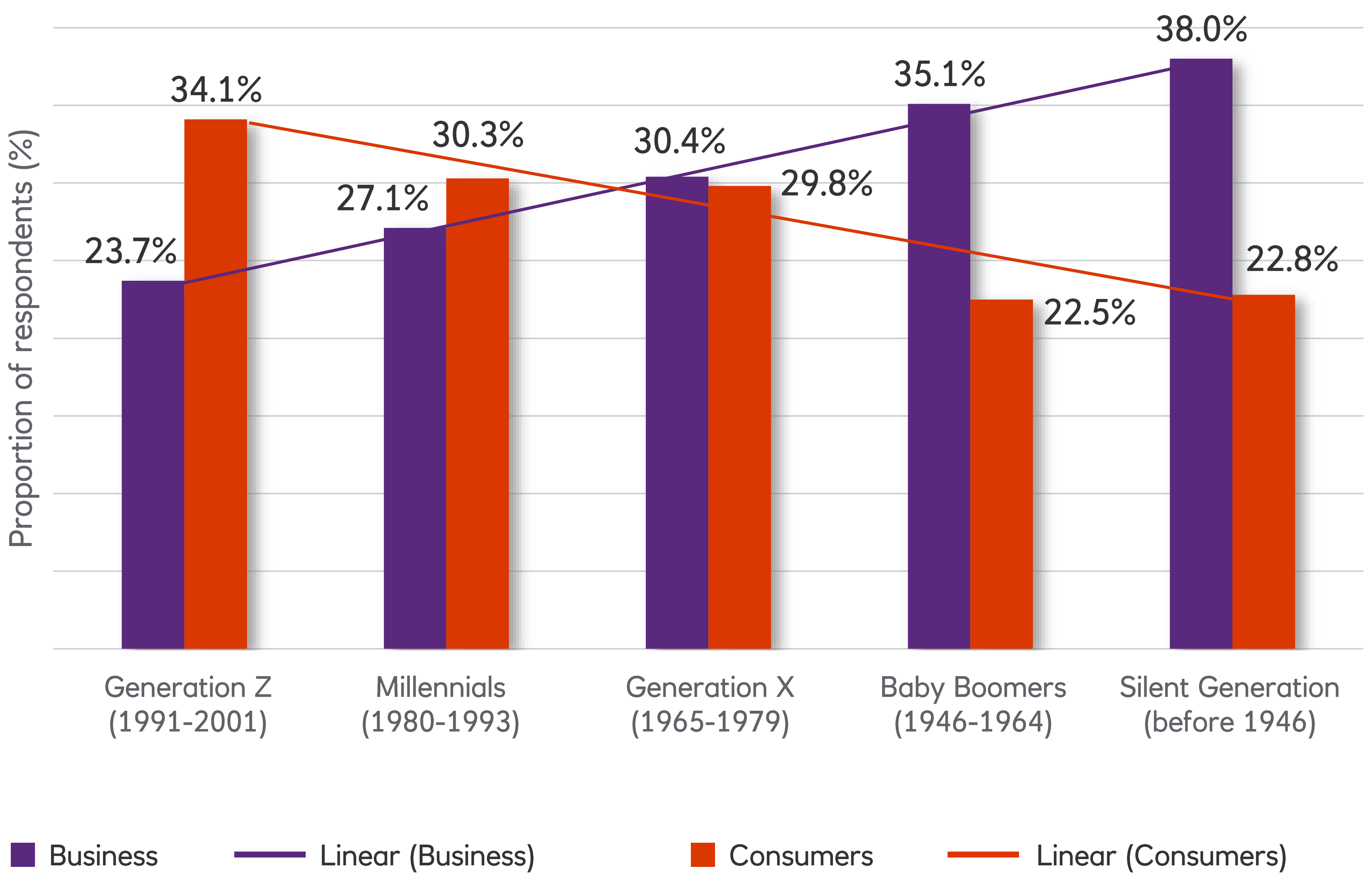
Notably, two-fifths of consumers hold the government most responsible for reducing emissions related to consumption. This is broadly consistent across age groups. However, there are clear generational divides concerning opinions on whether businesses or consumers are more responsible, with younger consumers suggesting greater personal commitment to sustainable practices, compared to their older counterparts. This is likely the result of greater awareness of environmental damage associated with business and global corporations.

Many younger consumers view implementing governmental and business net zero practices as key opportunities for individual action. Younger consumers also show greater intention to actively seek out brands that align with their values, including eco-friendly products and services. Nevertheless, there are still problematic issues around education and making informed decisions, versus cost and convenience.

Many businesses still remain far behind industry-leaders on their emission reduction targets. As a result, significant investment is required to seriously tackle sustainability. Key challenges lie with cost, incentives, and capacity to invest in low carbon alternatives or abatement measures. This is further exacerbated by an uneven political landscape with differing regulations across countries. Nonetheless, for UK businesses, the emergence of green funds will continue to rise in importance when accessing preferential terms with lenders.

(17) Younger consumers have stronger personal responsibility to sustainable practices

Q: *Which of the following groups do you believe has the greatest impact in reducing carbon emissions from the consumption of products and services? Ranked First*



Source: Retail Economics

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In the near term, challenges lie in passing on the cost of decarbonisation to consumers. Consistently across sectors, including energy, retail and transport, more than two-fifths (42.7%) of consumers say cost is the main barrier to sustainable and ethical options. This is followed by lack of information (14.0%), limited choice (10.3%) and lack of trust in green claims (9.3%).

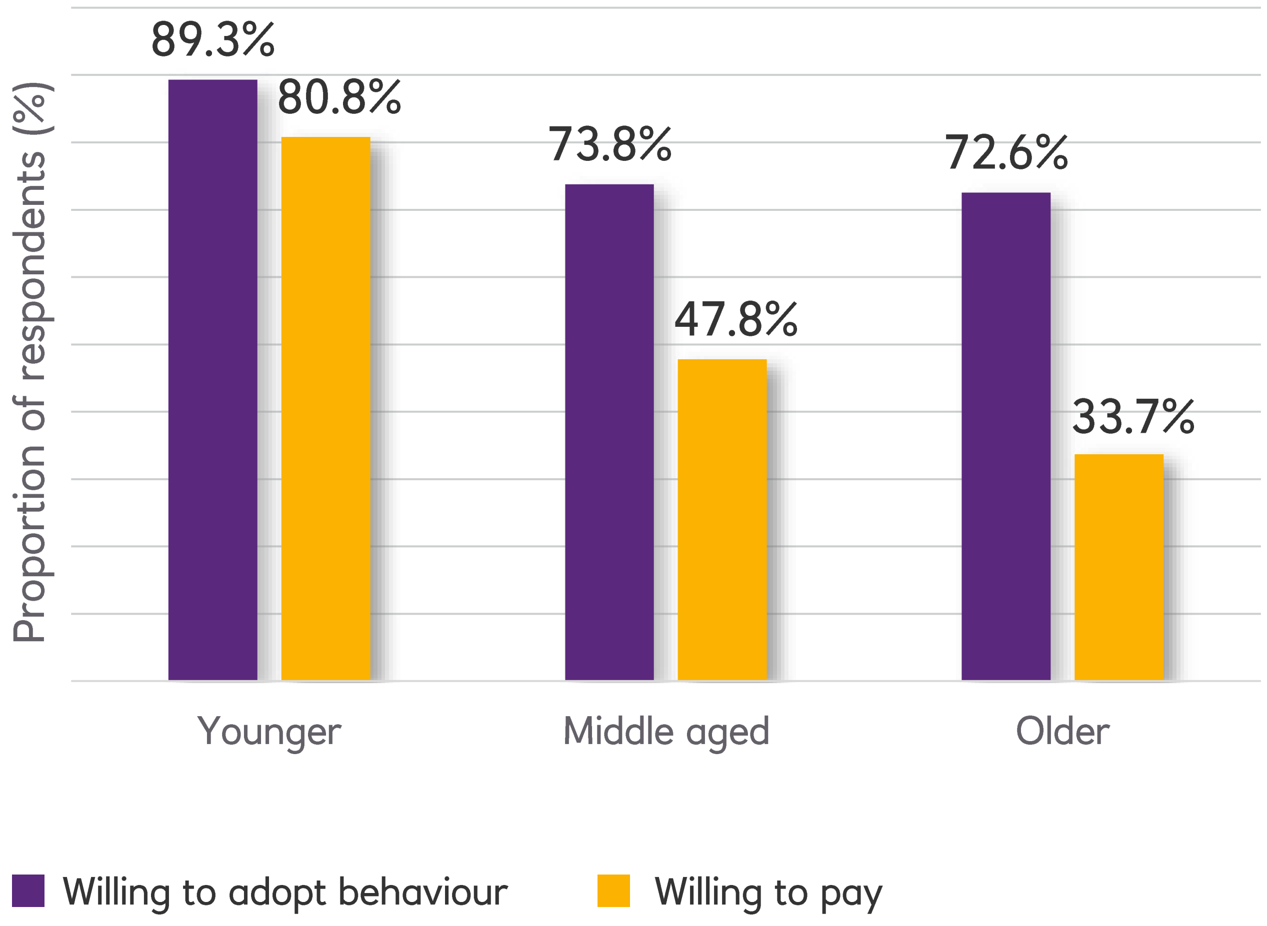
This is highlighted by the 'intention-behaviour gap'. Our research identifies four key stages in the gap between intentions to be sustainable, and actual action; these include:

- **Concern**: level of worry about sustainability across different categories
- **Inform**: desire to educate yourself about sustainable practices
- **Action**: efforts to live more sustainably, including switching to sustainable products and services (at no premium)
- **Pay**: willingness to pay a premium for sustainable products and services

The most significant gap lies between a willingness to adapt behaviour ('Action', e.g. buy second hand or reduce single-use plastic consumption) and willingness to pay for sustainable alternatives ('Pay', e.g. pay more for sustainably produced clothing or pay for premium recycling services). Here, there are clear differences by age. Nine in 10 consumers aged under 30 claim they are adopting sustainable behaviours in at least one major sector in a typical household's financial basket, and eight in 10 say they would pay extra. This compares to three quarters (72.6%) among those aged over 60 who are willing to adapt their behaviour, but only a third (33.7%) would actually pay more.

"Nine in 10 consumers aged under 30 claim they are adopting sustainable behaviours in at least one major sector in a typical household's financial basket, and eight in 10 say they would pay extra."

(18) Older consumers least likely to pay for sustainability



Note: Responses show the proportion of consumers willing to adapt behaviour and willing to pay extra for sustainable options in at least one of the following sectors: Energy, Food, Waste and recycling, Water use, Transport, Retail products, Holidays, and Banking.

Source: Retail Economics

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The degree of concern about sustainable consumption and willingness to pay varies widely by sector (Figure 19). Understanding these differences is pivotal for targeting strategies. Consumers express greater concern over sustainability across essential categories including energy, food and waste, compared to other sectors such as retail.

While concerns are high among essentials, energy, food and waste management businesses face a sharp drop off in intentions to pay a premium for sustainable practices.

Frequency and visibility of essential day-to-day purchases drives engagement in sustainability. By comparison, less frequent (or habitual) decisions, including those related to holidays or banking, do not prompt the same level of ethical consideration. Less concern also likely stems from the indirect impact of many actions. That said, retail is an area of spending where consumers feel businesses are taking sustainability seriously.

Furthermore, green intentions are constrained by immediate and lower order considerations for essential purchases such as price, availability and convenience. Therefore, to appeal to a wide range of consumers, encouraging sustainable consumption requires a complementary approach across a range of benefits.

(19) Intentions-behaviour gap most prevalent across essentials

	Energy use	Food	Waste & recycling	Water use	Transport	Retail products	Holidays	Banking
Concern	48.7%	35.1%	32.7%	26.7%	25.5%	17.1%	13.2%	13.1%
Inform	34.8%	30.9%	29.5%	22.2%	17.0%	18.0%	14.3%	16.6%
Action	33.6%	38.4%	38.0%	23.3%	14.4%	20.1%	14.7%	12.6%
Pay	18.5%	23.0%	16.5%	16.4%	12.4%	14.9%	13.1%	11.8%

← Increasing concern

Source: Retail Economics

“Green intentions are constrained by immediate and lower order considerations for essential purchases such as price, availability and convenience.”

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Megatrend 2: generative AI and the tech revolution

Key takeaways

Consumers

- **AI adoption is polarised**: Consumer adoption towards AI tools (e.g. ChatGPT) can be considered across four key personas: 'AI Pioneers', 'AI Dabblers', 'AI Observers' and 'AI Unaware'.
- **Growing value**: Consumers increasingly value AI experiences, as more try out consumer-facing AI services.
- **Supporting purchases**: Perceived benefits include price comparison, speed of delivery and helping to make purchases easier.

Businesses

- **Seamless benefits**: AI is permeating across operations to provide more efficient and seamless experiences.
- **Low barriers**: The democratisation of digital infrastructure means even small businesses can leverage AI.
- **AI users are commercially significant**: AI Pioneers are a key cohort to target for consumer spending – typically younger consumers across a spread of income groups, including the most affluent.
- **Tech vs. human touch**: Striking a balance between technology and human elements remains critical.

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As the technological revolution gains momentum, artificial intelligence (AI) and machine learning (ML) heralds a new era of consumer engagement and efficiency. It not only addresses existing challenges, but enables organisations to achieve heightened efficiencies and consumer-centricity.

By leveraging customer data, AI can calculate effective next best actions to help forge deeper relationships with customers and improve visibility across the value chain. However, consumer sentiments vary widely regarding the acceptance and adoption of AI. Here, our research identifies four main consumer personas (Fig. 20), highlighting their different characteristics and interaction with AI tools.

Critically, 'AI Pioneers' who regularly use AI services are skewed towards younger and more affluent consumers, representing a commercially significant cohort. Their adoption offers key opportunities for businesses to differentiate themselves by leveraging AI to target this group.

(20) Intentions-behaviour gap most prevalent across essentials (proportion of consumers)

		AI Pioneers (15.4%)	AI Dabblers (24%)	AI Observers (25.5%)	AI Unaware (35.3%)
		These consumers regularly use AI services such as ChatGPT. A key cohort for consumer spending. Nearly three quarters (71.7%) are Gen Zs and Millennials. Captures a spread of incomes, including the most affluent. Around three quarters (72.4%) are employed, while 11.4% are students.	Consumers who are aware of AI services but do not regularly use AI. Compared to AI Pioneers, this group has a higher prevalence of lower-middle income and older cohorts. Importantly, three quarters (75.9%) are in employment.	AI Observers are aware of AI services such as ChatGPT, but have not tried them. Typically, this cohort are middle aged and middle income consumers. Three in five (57.7%) are employed, while one in five (21.8%) are retired.	This cohort have never used and not heard of AI services such as Google's Bard chatbot. More than half are aged 60+ and over a third (34.2%) are retired. Skewed towards low-middle income households.
Affluence	Least affluent	20.2%	10.9%	12.6%	14.5%
	Low-middle	18.6%	25.3%	27.1%	32.2%
	Middle income	19.5%	26.3%	27.7%	27.5%
	Middle-high	21.2%	21.1%	20.6%	18.6%
	Most affluent	20.5%	16.5%	12.0%	7.2%
Generation	Gen Z	31.6%	23.2%	11.2%	7.4%
	Millennials	40.1%	37.8%	20.4%	14.8%
	Gen X	20.5%	22.5%	30.6%	24.5%
	Baby Boomers	7.8%	14.8%	34.2%	44.0%
	Silent Gen	-	1.7%	3.5%	9.4%

Source: Retail Economics

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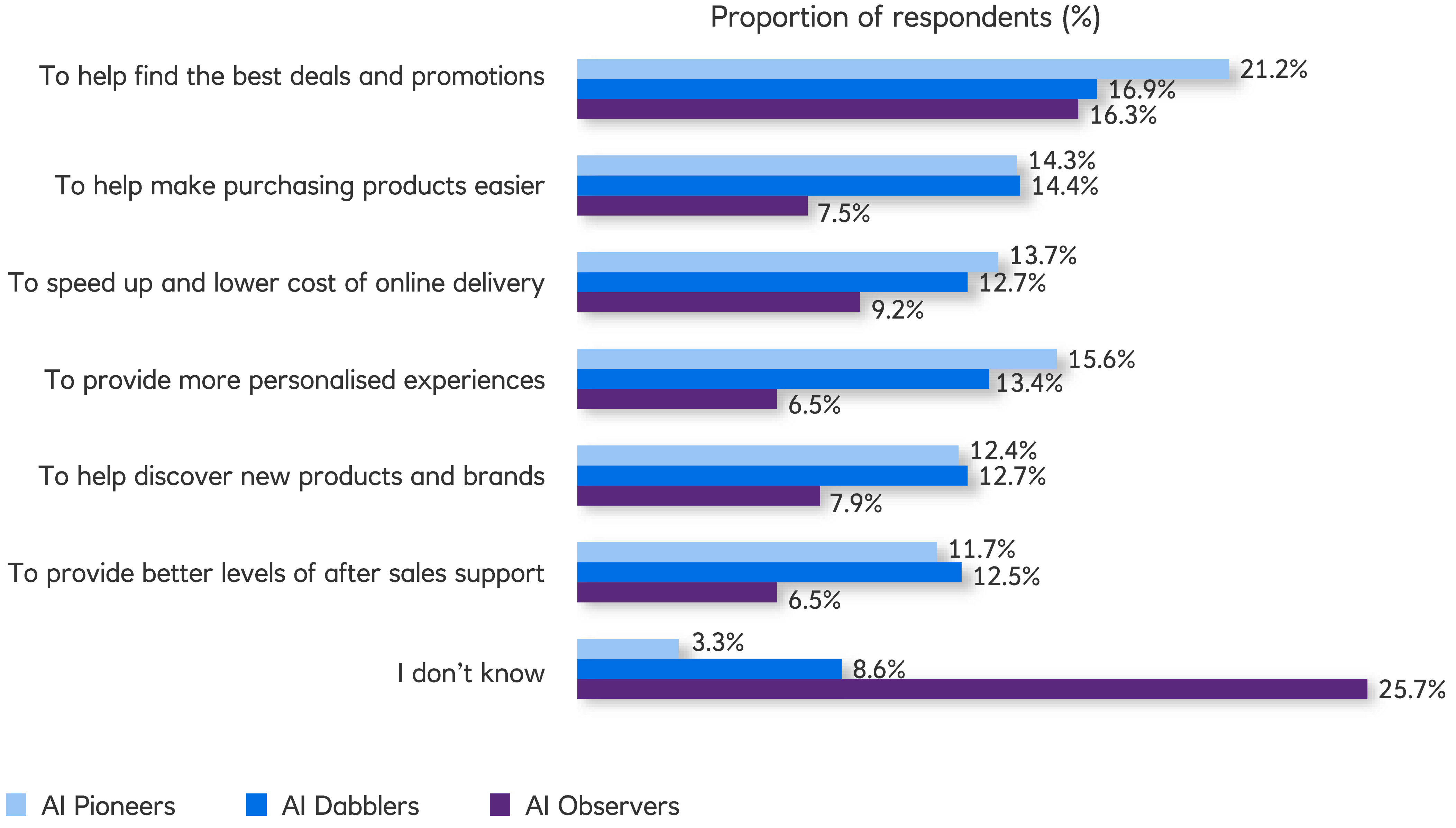
(**21**) Consumers who try AI services are more likely to appreciate the benefits for shopping

Q: *Based on your experience/awareness of AI, what part of the purchase journey for products and brands do you think AI could most impact for you?*



Source: Retail Economics

Figure 21 illustrates that consumers are growing to appreciate AI as a facilitator of smooth, integrated experiences within the customer journey, driven by their rising exposure to, and experimentation with, new services.

AI Pioneers, more likely to have been born into the digital age, better perceive the benefits of AI for purchases compared to AI dabblers (who do not regularly use AI) and AI observers (who are aware of services but have not tried them). AI Pioneers see benefits from supporting deal comparison, speed of delivery and to help make purchases easier. As first movers, the behaviours of AI Pioneers highlight emerging areas where consumers are turning to AI to support purchasing decisions, indicating key investment opportunities for AI integration as adoption grows.

"Consumers are growing to appreciate AI as a facilitator of smooth, integrated experiences within the customer journey."

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Ultimately, the impact of AI within the retail value chain (RVC) is substantial for both businesses and consumers (Fig. 22). Today, AI has permeated nearly all areas of operation; and the democratisation of digital infrastructure has also now empowered smaller companies to leverage its benefits.

It remains critical to maintain a balance between technology and the human element in customer experiences. Therefore, the use of AI (combined with data science) should be tempered accordingly with a continual focus on data handling, cyber security, and ethical use.

(22) Key applications of AI within the retail value chain

RVC	Product development	Sourcing	Logistics	Marketing and sales	Retail operations	Customer service
AI impact for businesses	• Predictive analytics for trend forecasting and consumer insights, e.g. H&M uses AI to determine if popular merchandise should be restocked. • Tools for sustainable and ethical practice monitoring. • AI-enabled local sourcing and supplier evaluation.	• Improved supply chain transparency. • Manufacturing automation and predictive maintenance, e.g. Pepsi and Colgate use AI to monitor machinery for early problem detection. • Optimisation for balancing cost, quality and speed.	• Forecasting in logistics, e.g. McDonald's uses route optimisation for last-mile delivery. • Fleet management for carbon footprint reduction. • Tools for Brexit-related trade compliance.	• Targeted advertising, customer segmentation and pricing, e.g. Sainsbury's uses AI to monitor its Aldi Price Match commitment. • Analytics for omnichannel optimisation. • Feedback analysis.	• Inventory management, workforce scheduling and energy optimisation. • Enabler of cross-channel tools, e.g. smart mirrors in-store.	• Sophisticated chatbots for query resolution at scale, e.g. Kingfisher uses AI to support DIY projects. • Learning systems for training.
AI impact for consumers	• Access to personalised product options. • Awareness of ethical and sustainable practices.	• Visibility of ethical practices and sustainable manufacturing	• Faster, reliable delivery options, including timely food deliveries.	• Discovery of products and services tailored to preferences. • Personalised shopping experiences. • Access to tailored offers.	• Connected online and store interactions based on preferences and purchases across channels.	• Faster customer support for typical enquiries. • Personalised experiences based on history.

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Megatrend 3: omnichannel reality

Key takeaways

Consumers

- **Going beyond transaction**: Consumers demand compelling reasons to engage with a particular channel beyond transaction, typically based on convenience and experiences.
- **Digital dependence varies**: Consumers increasingly rely on digital assets for discovery, transaction and aftersales, but the extent significantly varies by category.
- **Smartphone reliance**: Younger shoppers integrate smartphones more broadly for shopping for comparing products, transaction and loyalty.

Businesses

- **Digital transformation**: Digital investment underpins the ability to drive new relevance to attract consumers across channels.
- **Enabler**: Smartphones are a key enabler to seamless experiences across channels.
- **Store renaissance**: The switch to online during the pandemic proved a blip, with consumers set to shop more in-store across food, home-related and cosmetics in 2024.
- **Payment shift**: Digital wallets are expected to dominate payment preferences in the next decade, marking the demise of cash and accelerating the fall of debit and credit card use.

"Digital wallets are expected to dominate payment preferences in the next decade."

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In the fiercely competitive worlds of retail, leisure and hospitality, customer journeys have evolved into complex webs of online and offline touchpoints. With attention at a premium, consumers are demanding more. They need compelling reasons to engage with a particular channel – beyond transaction – typically based on convenience and experience. Success now hinges on the ability to seamlessly integrate these channels without causing unnecessary friction or frustration.

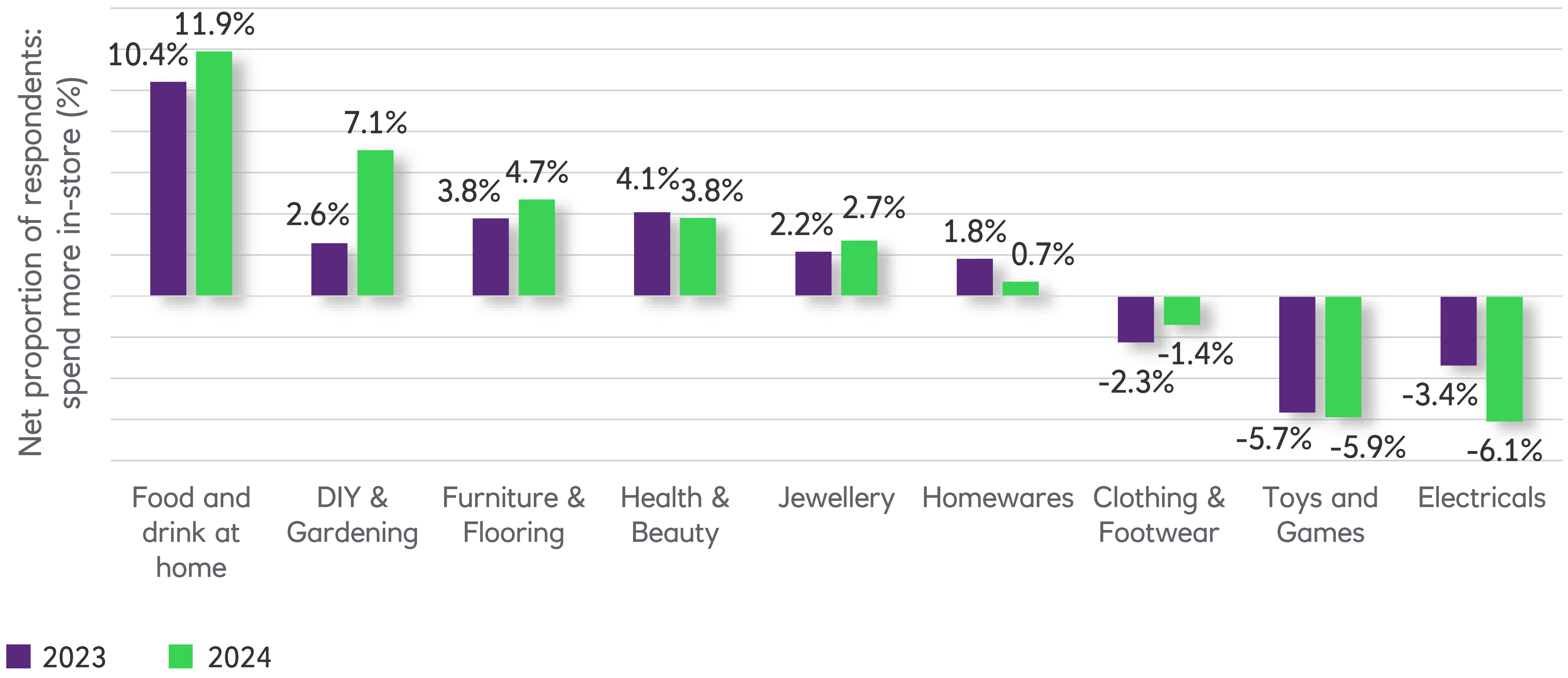
In 2024, spending readjustments will impact channels unevenly. Despite growing digital reliance, its role in discovery, transactions, and aftersales varies by category. Electricals and apparel see higher online activity, whereas health, beauty, and food maintain smaller online baskets and rely more on physical engagement for sales conversion.

The pandemic-induced surge in online shopping proved temporary for many categories, with overall online sales reverting to pre-pandemic growth rates. This shift, fuelled by changing behaviours, has accelerated a return to in-store shopping post-pandemic. In the food sector, for instance, budget-conscious households are opting for smaller basket sizes, hunting for the best deals, and preferring cash transactions, all factors boosting in-store sales in 2024.

> **"In the fiercely competitive worlds of retail, leisure and hospitality, customer journeys have evolved into complex webs of online and offline touchpoints."**

(**23**) Intentions to switch channels

Q: *Thinking about your shopping habits in 2024, will the proportion you will spend in-store or online change compared to 2023?*



Source: Retail Economics

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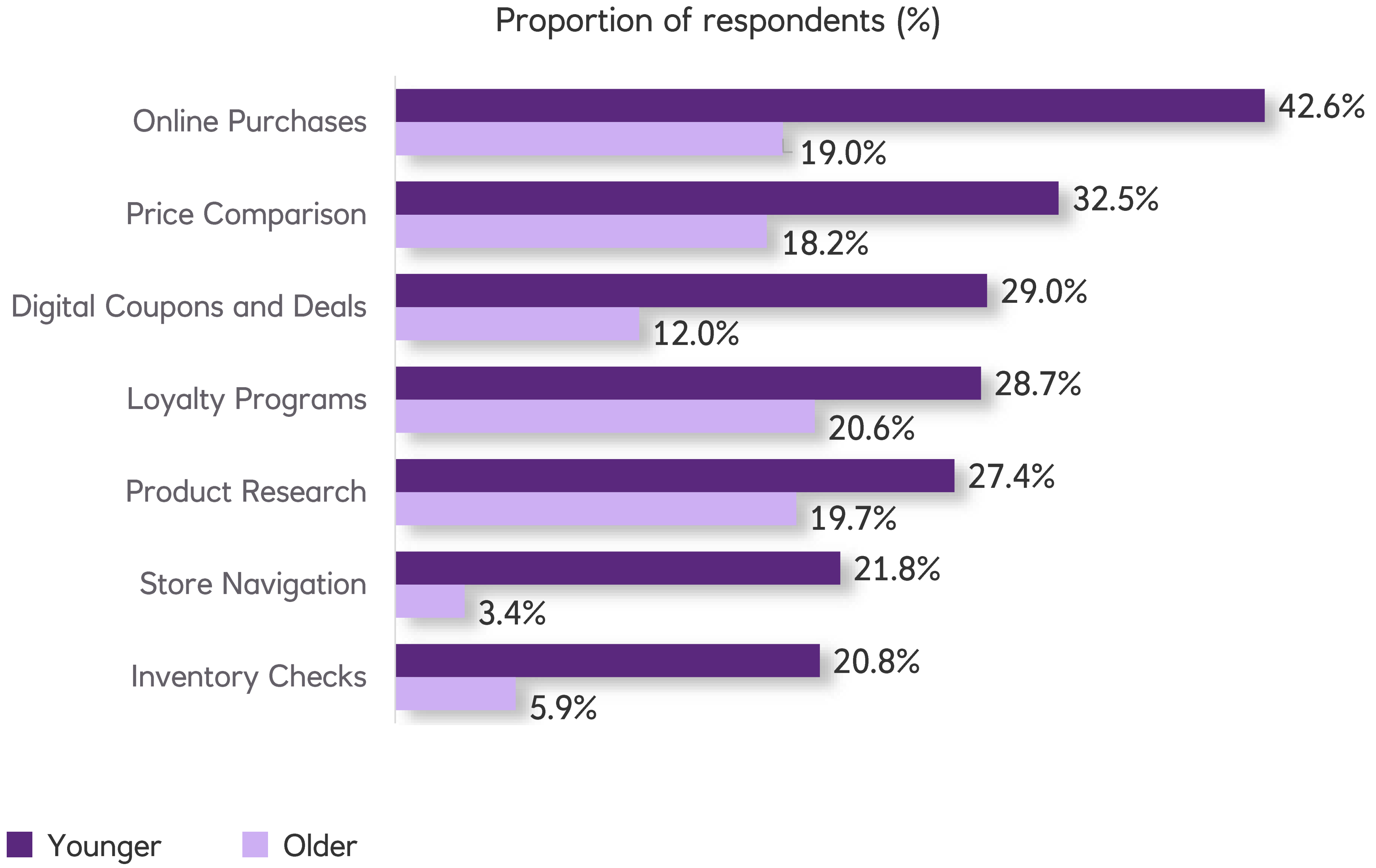
(24) Younger consumers integrate smartphones more broadly for shopping

Q: *How do you use your smartphone (i.e. a mobile phone with Internet access) in your shopping journey?*



Note: Younger = aged 22-29 years old; Older = aged 59+.

Source: Retail Economics

Digital investment is key to maintaining relevance across channels, encompassing strategies from leveraging social influencers for product discovery, to offering real-time stock updates and using physical stores as return hubs. The role of digital transition and systems innovation is critical.

Going forward, smartphones and wearable devices will take centre stage in joining up consumer experiences across channels and product categories. They offer considerable potential to unlock new levels of convenience and personalisation. Our research shows nine in 10 Gen Zs (92.7%) are dependent on smartphones in shopping journeys, compared to half (53.2%) among those aged 59 and over.

Younger shoppers use smartphones for a broader spectrum of shopping activities, in contrast to older consumers who primarily employ them for loyalty programs, research, and transactions (Figure 24). Consequently, when targeting younger consumers, businesses should consider offering connected experiences across a suite of mobile applications – including payments.

"Nine in 10 Gen Zs (92.7%) are dependent on smartphones in shopping journeys, compared to half (53.2%) among those aged 59 and over."

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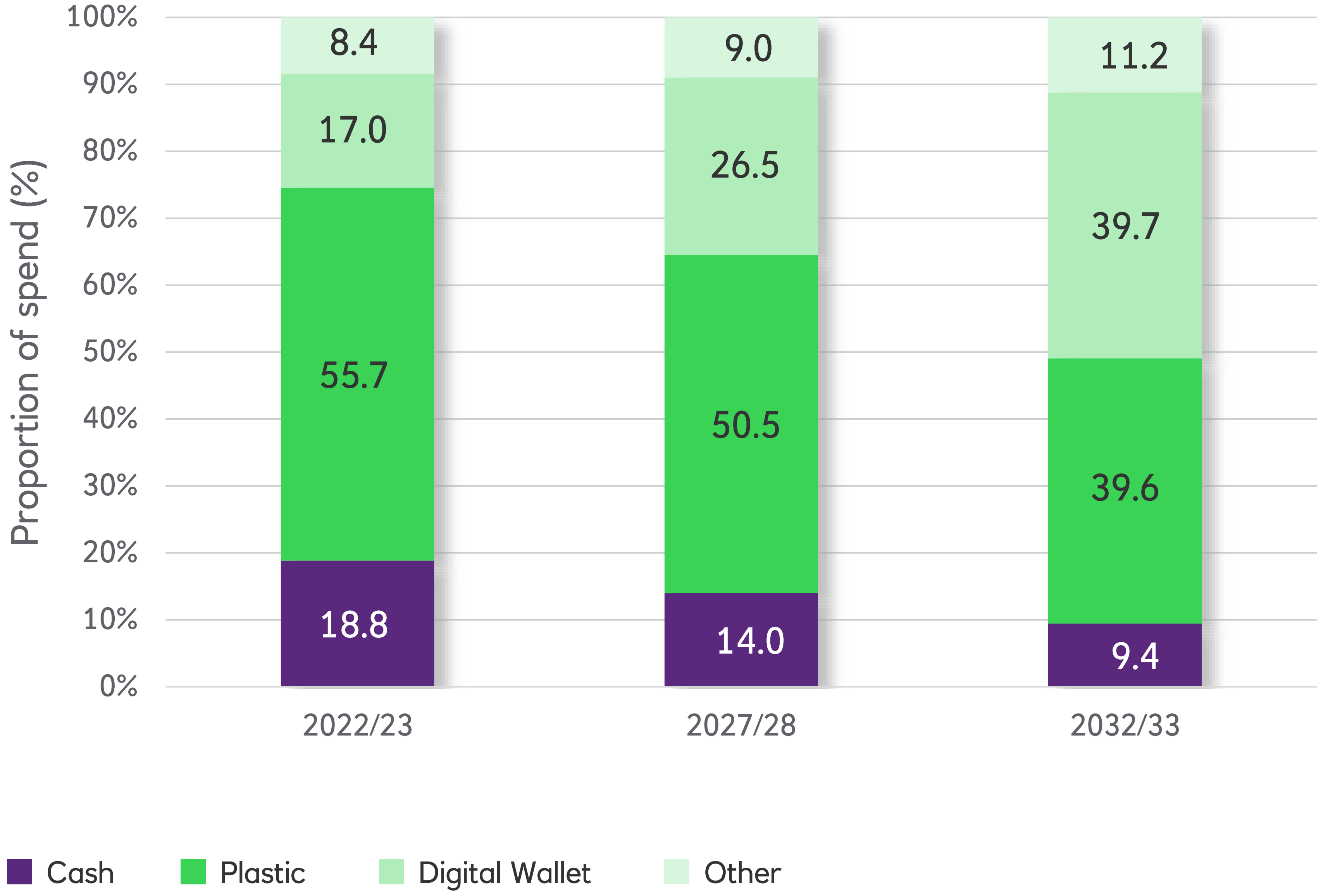
Our research suggests that within the next decade, digital wallets will dominate payment preferences. This will accelerate the demise of cash, debit and credit card use.

Uptake is primarily driven by acceptance across retail and hospitality as consumers discover new levels of convenience. Over the next decade, the share of digital wallet payments in retail, leisure and hospitality is set to more than double to 39.7%. This equates to £210bn of retail, leisure and hospitality spending being made through digital wallets in 2032/33, rising rapidly from £72.5bn currently.

Again, rates of adoption vary dramatically by demographic. Early adoption of digital wallets has been prominent among younger and more affluent consumers who readily embrace digital advancement. However, there is a cohort of typically older and lower income consumers who show no intention of using digital wallets in the near future, slowing the overall pace.

(25) Digital wallet spending to overtake plastics within a decade



Source: Retail Economics

“Over the next decade, the share of digital wallet payments in retail, leisure and hospitality is set to more than double to 39.7%.”

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Section three: megatrends

Megatrend 4: disruptive business models

Key takeaways

Consumers	Businesses
• **High expectations**: Greater competition across consumer industries means consumers demand higher rewards to support lifetime value. • **Membership pricing**: Loyalty is becoming a battleground for spending and customer data is valuable to businesses. Customers are most likely to exchange data for direct rewards such as excusive prices. • **Dynamic pricing**: Consumer are more open to dynamic prices for non-essentials (e.g. hotels, airlines and recreation), rather than essentials (e.g. energy and groceries) where stability is valued. • **Direct to consumer**: Two-thirds of Gen Zs and Millennials have bought direct from brands and manufacturers in the past year.	• **Diversification**: Low profit margins are putting pressure on retailers to diversify revenue streams and drive efficiency. • **Retail media**: Firms are leveraging customer data to offer retail media services to third parties. • **Dynamic pricing**: Machine learning is supporting sophisticated pricing strategies based on demand, inventory levels and competitor pricing. • **Direct to consumer**: Declining barriers to entry in recent years provides brands and manufacturers with a direct route to market. Firms can leapfrog their capacity and capability through partnerships.

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In 2024, many traditional retail and leisure business models are no longer fit for purpose. Trading conditions, consumer trends, technology and the squeeze on profitability demand more from businesses to remain relevant now.

Over the past decade, the explosion of competition, technological innovation and alternative operations has necessitated a shift towards new revenue streams. This often requires deeper relationships with customers to secure engagement and enhanced lifetime value. Here, access to consumer data is paramount.

Today, the diversity of business models taking shape suggests that many organisations are unlikely to rely on just one model to drive greater relevance. There may be a mix of models operating simultaneously to capture a wider range of opportunities.

The research highlights three key business models gaining traction: (1) retail media; (2) dynamic pricing; and (3) direct to consumer.

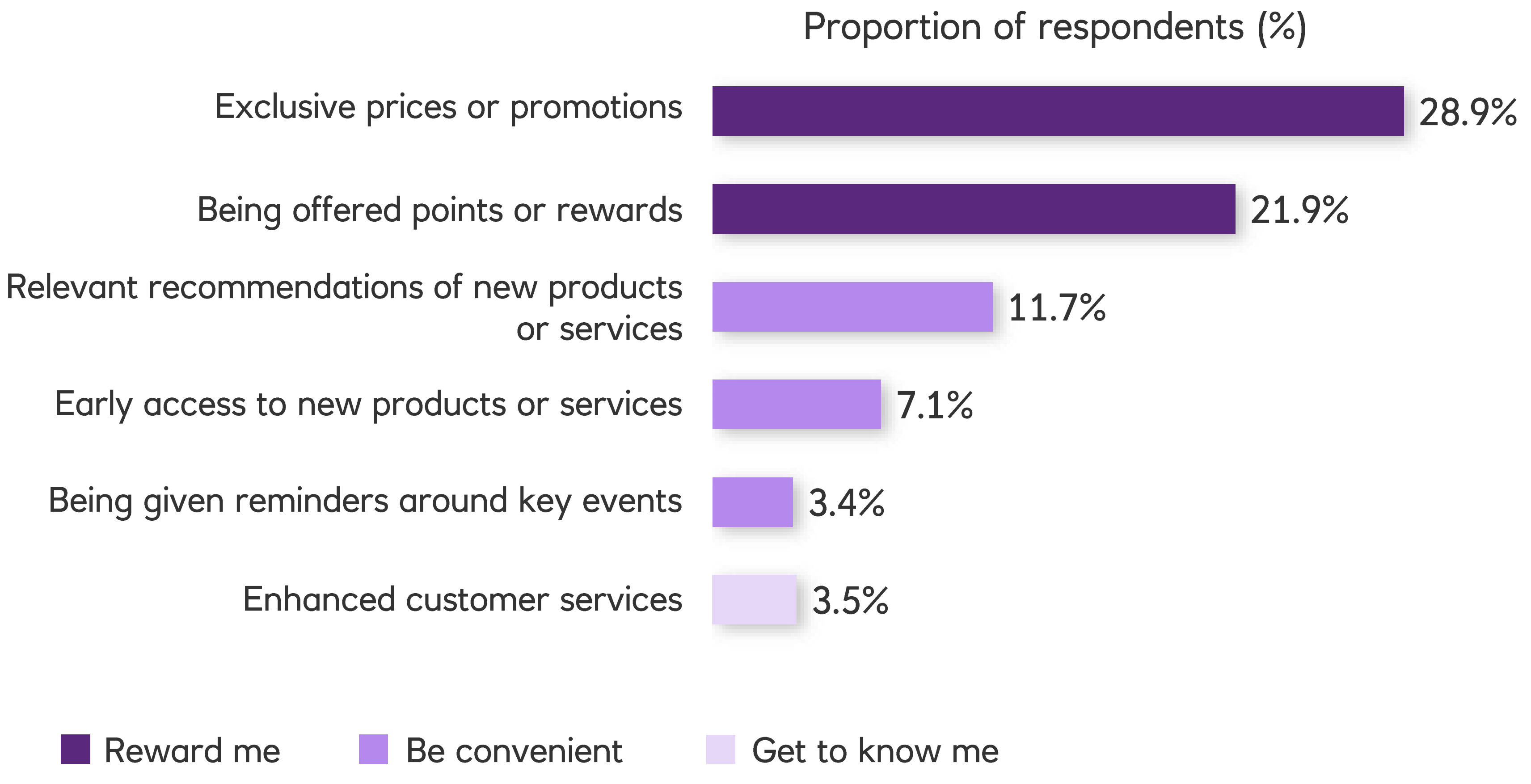
Retail media

Businesses with access to customer data are now able to sell this information to media firms for real-time targeting across digital channels. Grocers Tesco and Sainsbury's are estimated to be generating £300m annually (GroupM) by selling customer behaviour data harvested from loyalty cards to media giants including ITV and Channel 4. This strategy leverages 'data cleaning rooms' to skilfully navigate privacy concerns by stripping personal details, enabling the matching of shopper habits with online streaming profiles for more targeted advertising.

With customer data commanding such value, retailers are increasingly encouraging shoppers to sign up to loyalty schemes. Consumers are often motivated to exchange data when benefits are direct, tangible and offer immediate value. Our research shows consistently across categories, the most important benefit for customers to sign up to loyalty schemes is rewards (e.g. exclusive prices, promotions and loyalty points). This is followed by incentives that help businesses get to know their customers better (e.g. recommendations, access to new products and reminders); the least important was enhanced customer service.

(26) Customers most likely to exchange data for direct rewards

Q: *Which benefit would encourage you to sign up to a loyalty scheme and share your personal data with a company?*



Source: Retail Economics

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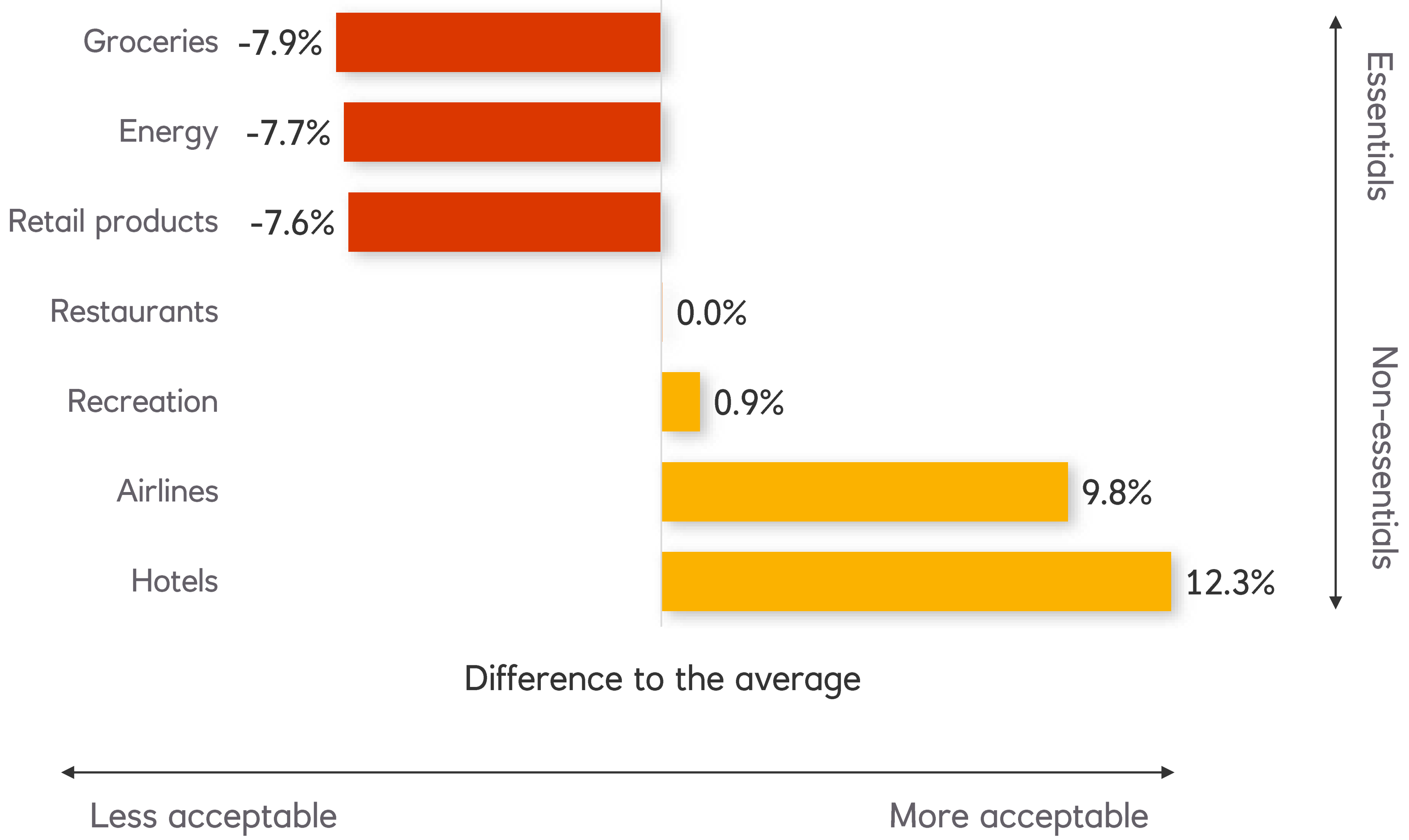
(27) Dynamic pricing is least accepted for essentials

Q: To what extent do you feel it is acceptable for prices to change in near real time depending on the level of demand for the following areas of spending?



Source: Retail Economics

Dynamic pricing

Digital technologies are enabling more sophisticated pricing strategies like dynamic pricing. Here, businesses use machine learning to analyse customer data to optimise pricing based on factors such as demand, inventory levels and competitor pricing.

Although shoppers generally dislike dynamic pricing (preferring the predictability of known costs), our research shows that dynamic pricing is more acceptable for non-essentials (e.g. hotels, airlines and recreation), and least acceptable across essentials (e.g. energy and groceries) (Fig.27).

This reflects expectations of stable and transparent prices for essentials in order to manage budgets, whereas households have become accustomed to variable pricing based on seasonality, demand and booking times for discretionary purchases like airline tickets. Here, supply is limited, and premiums are accepted for high-demand occasions.

Implementing a dynamic pricing strategy should be conducted cautiously with a degree of transparency to maintain customer trust and loyalty.

"Our research shows that dynamic pricing is more acceptable for non-essentials and least acceptable across essentials."

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Direct to consumer (DTC)

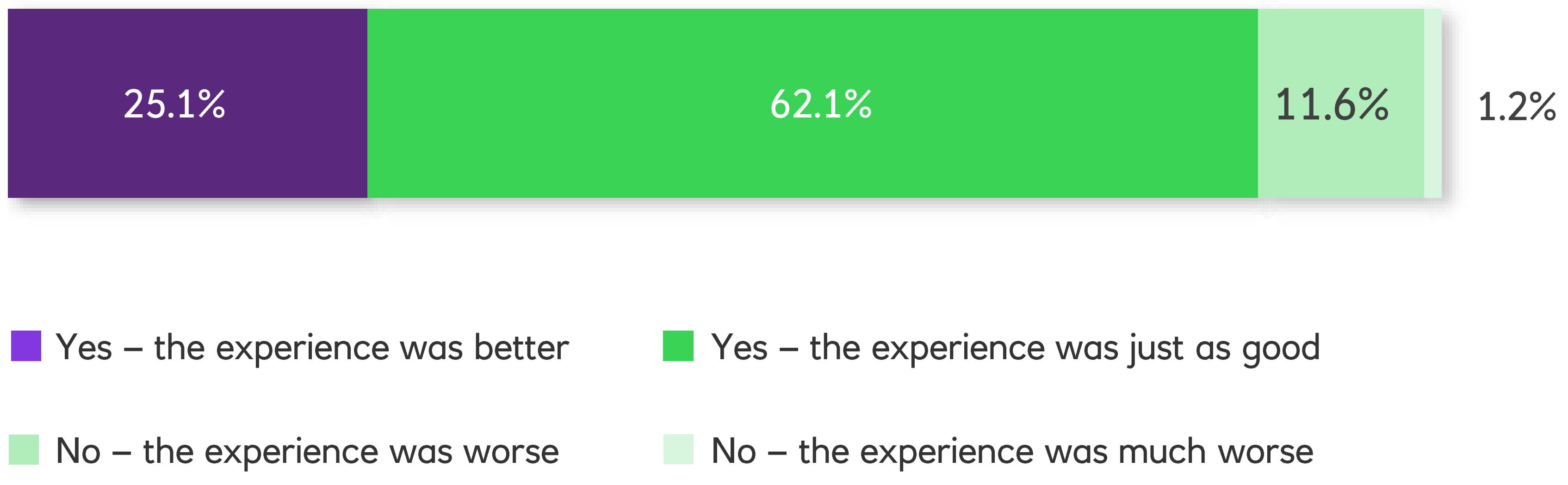
The democratisation of technology and rise of online has lowered barriers to entry within the retail and leisure industries, providing brands and manufacturers a direct route to market.

Shoppers are increasingly accepting DTC options. Two-thirds (66.3%) of Gen Zs and Millennials have bought direct from brands and manufacturers in the past year, compared to just 28.5% of Baby Boomers. Among those that use DTC services, the majority find the experience as good – or better – than retailers. This highlights the need for retailers to engage customers with outstanding experiences in order to compete with leading brands.

The growing trend of brands and manufacturers directly entering the market is prompting large-scale retailers to offer business-to-business retail services. A prime example is Next's Total Platform, which empowers brands like Victoria's Secret and Joules to rapidly enhance their capabilities by accessing Next's top-tier fulfilment, contact centres, and online operations.

(28) Shoppers find DTC experiences as good as retailers'

Q: *Did you feel that the buying experience when buying direct from a brand/manufacturer was as good as you'd receive from a retailer?*



Source: Retail Economics

"Two-thirds (66.3%) of Gen Zs and Millennials have bought direct from brands and manufacturers in the past year, compared to just 28.5% of Baby Boomers."

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Megatrend 5: permacrisis

Key takeaways

Consumers	Businesses
• **Elections shape global outlook**: In 2024, more than half of the world's economic output will be influenced by critical elections across countries, creating further uncertainty and instability. • **Top concerns**: Consumers are most worried about the UK economic outlook, climate change and the UK political outlook, while inflation is a key concern for personal finances.	• **Derisk**: Geopolitical turbulence has spurred trends including "derisking" and "friendshoring". • **Disruptive tech**: Firms are grappling challenges from the tech revolution, including the protection of customer data from cybercriminals. • **Adaptation**: Consumer pessimism is disrupting consumption patterns of households, with agility and cost management key strategic priorities.

"Consumers are most worried about the UK economic outlook, climate change and the UK political outlook."

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In 2024, businesses are having to adapt to a new state of 'permacrisis' to overcome successive waves of disruption. Just in the last few years, companies have had to skilfully navigate Brexit, a global pandemic, supply chain breakdowns, an energy crisis, and a much more volatile geo-political backdrop.

Among UK consumers in 2024, concerns centre around the UK economic outlook, climate change and the political landscape with an upcoming election. Regarding personal finances, consumers are predominantly worried about inflation, followed by lack of savings and a weaker economy.

This year, critical elections in countries that impact over half the world's economic output will influence an increasingly fragile global landscape, geopolitically and economically. Voting will occur amidst escalating tensions between major blocs, driven by the China-West rivalry, Russia's invasion of Ukraine, Middle East conflicts, and the bold positions of non-aligned nations.

These dynamics have spurred on trends like "derisking" and "friendshoring" that complicate efforts in achieving secure supply chains. Risks here are particularly acute for businesses with high exposure to international trade and limited options to diversify.

A significant threat that has ramped up in recent year is undoubtedly cybercrime. Attacks and data breaches are becoming much more prevalent (e.g. ransomware), exposing key vulnerabilities with increasing sophistication. Risks have heightened over the protection of customer data and within supply chains. Organisations will likely have to consider partnerships with cyber-savvy businesses including banks with strong fraud detection, as well as the use of AI for increased resilience for cyber security.

Importantly, overall sentiment impacts willingness to spend. Therefore, businesses need to be aware of 'persistent pessimism' and the evolving consumption patterns of households. However, this presents opportunities to forge new and deeper relationships with customers as needs evolve across consumer groups seeking support in challenging times.

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Additionally, businesses facing the increased cost of finance need to manage corporate distress, debt bubbles, and should work towards improved financial resilience. To successfully navigate the permacrisis, our report identifies the following areas for businesses to focus on:

Adapting to weak confidence: Adjusting to constrained willingness to spend, particularly among those that target low-middle income households. This includes enhancing value propositions and rewarding loyalty.

Digital investment: Digital transformation and AI will result in more sophisticated engagement with consumers. Such heightened experiences and personalised efforts rapidly become expectations, with those unable to maintain pace potentially losing relevance.

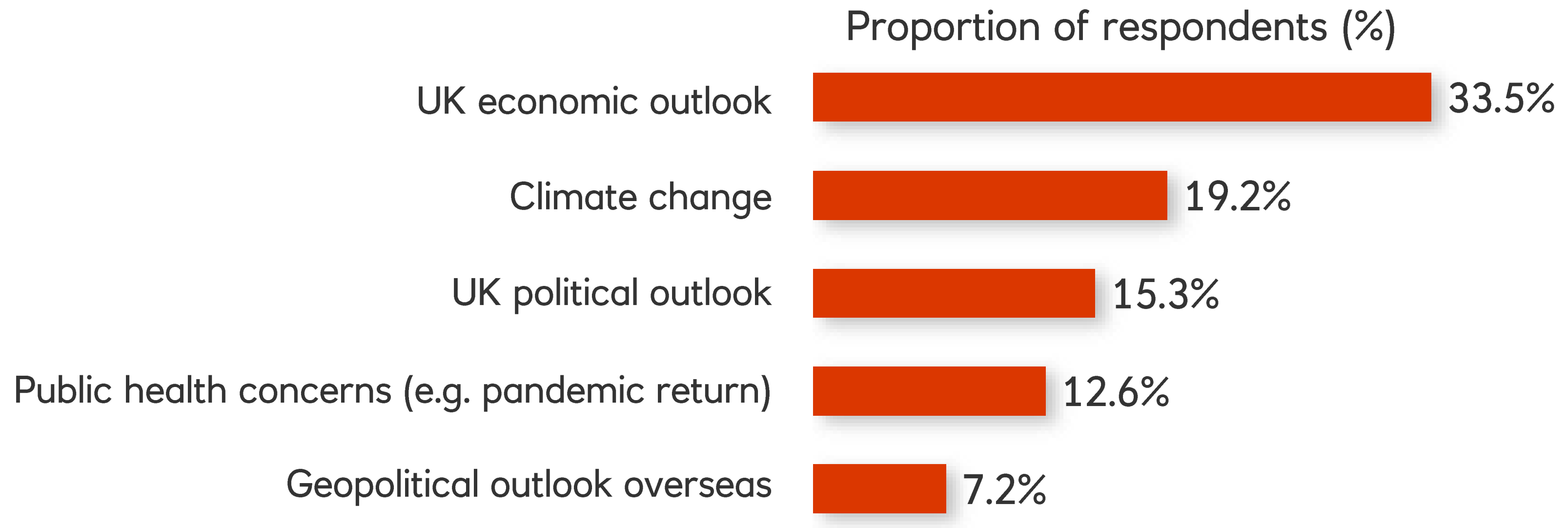
Sustainability: Climate change is a key concern, particularly among Gen Zs who are forging relationships with businesses as they become commercially significant. Regardless of the UK election, eco-friendly practices and commitments will become a minimum standard demanded by consumers.

Cost management: The threat of elevated debt costs and needing to pass on savings to consumers will see a continuation of cost cutting activity, including streamlining processes and reducing waste.

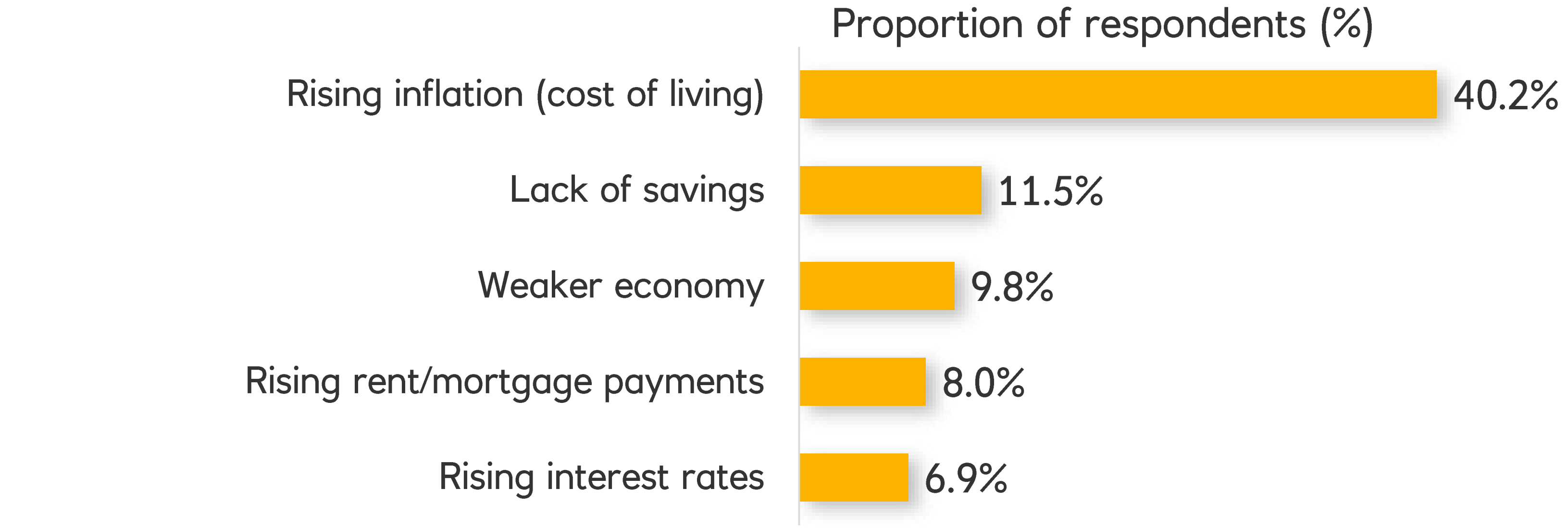
Agility: To navigate uncertainties unfolding in 2024, operational flexibility and agility continue to be of utmost importance when adapting to changing macroeconomic conditions, regulations and consumer sentiment.

(29) Top five concerns about the outlook and personal finances in 2024

Q: *When thinking about the outlook in 2024, which of the following do you find most concerning?*



Q: *When thinking about your personal finances in 2024, which of the following do you find most concerning?*



Source: Retail Economics

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Conclusion

Successfully navigating the retail, hospitality and leisure industries in 2024 requires deep insight into the megatrends currently impacting these sectors. Businesses will need to continue strategically manoeuvring towards greater resilience in an era of permacrisis.

As cost-of-living pressures evolve, recovery in consumer spending is set to be spearheaded by the most affluent, as low-middle and middle-income households face increasing housing costs impacting discretionary purchases.

Nevertheless, consumers still remain susceptible to cutting back. As inflation eases towards the latter half of the year, there will be less pressure on shoppers to switch and trade down, compared to 2022/23. The resilience of earnings growth will be a key determinant of spending and monetary policy in the second half of 2024 also. While official forecasts expect marginal real earnings growth, consumers are more pessimistic and expect a modest decline.

As sales performances recover from recent lows, businesses will need to adapt to higher interest on servicing debt. Although supply chain pressures have eased since 2023, the environment for operating costs remains tough. Labour costs, business rates and utilities continue to squeeze profitability. Without effective cost reduction strategies in place, robust growth and continued investment will likely be very challenging. Businesses must also strive towards operating more sustainably, adapt to omnichannel behaviours, and explore new technologies to better engage customers.

Careful deployment of AI across operations could prove advantageous in achieving tighter cost control, improved visibility into sustainable practices, and delivery of hyper-personalisation within the customer journey. Partnerships will also be critical to keep pace with development and manage otherwise high capital investment.

Despite 2024 presenting an intricate tapestry of ongoing challenges, opportunities abound. Overall, the year will demand a delicate balance of cost management, adaptability, and a deep understanding of evolving trends to quickly seize emerging opportunities.

Recent years which included the onslaught of the pandemic and cost-of-living crisis have proved consumers adapt quickly to shore up spending. They're able to navigate financial pressure by leveraging intense competition to trade down, wait for promotions, and shop across channels.

Success in 2024 will demand that businesses acquire a deeper understanding of a more complex trading environment, enabling them to anticipate market shifts and strategically position themselves for greater resilience within the evolving consumer landscape.

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About Retail Economics

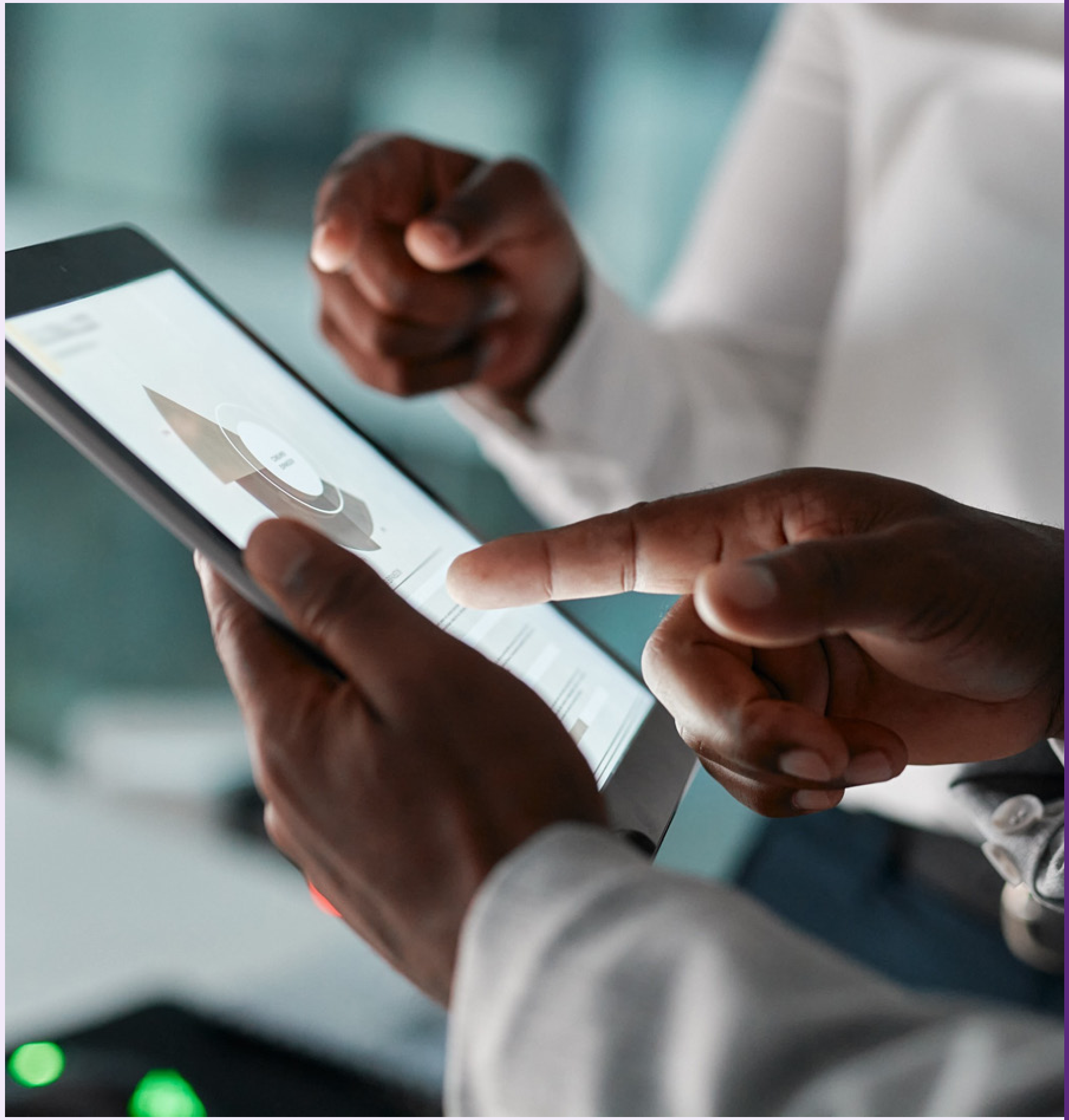
Retail Economics is an independent economics research consultancy focused on the consumer and retail industry. We analyse the complex retail economic landscape and draw out actionable insight for our clients. Leveraging our own proprietary retail data and applying rigorous economic analysis, we transform information into points of action.

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

Once again, we're delighted to be partnering with NatWest to produce our outlook report for the retail, hospitality and leisure sector. The report provides critical insight into the key factors impacting consumer spending, and how businesses can improve strategies for greater resilience.

Due to a more complex trading environment, retailers will continue to face challenges throughout 2024. With continuous evolution in the sector, brands must adapt and leverage new technologies to maintain relevance. Those who understand and effectively react to these industry changes will be more adept at navigating further disruption and achieving growth.

Richard Lim
CEO, Retail Economics



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Important information

Methodology

Modelling and analysis undertaken by Retail Economics. It uses a nationally representative survey across 2,000 consumers undertaken in December 2023 and draws on third-party sources including national statistics.

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Further information

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