The consumer spending paradox

Consumers are still going out to eat, drink, shop, and travel. How long can it last?

Despite the negative headlines, shoppers are still spending, which is a relief for operators and those who serve and supply them. Making money is a different challenge. Here, we'll set out why consumer demand is holding up and also what challenges the sector might face over the coming months.

Consumer balance sheets

- Consumer debt is still 7% lower than pre-Covid, or £15.8bn, suggesting the consumer has a greater debt capacity, according to the Bank of England.
- Households are still sitting on c£200bn of excess savings, according to the Bank of England.
- The UK is still in full employment. The unemployment rate is still hovering below 4%, which is near record lows.
- While mortgage rates have increased significantly due to rising interest rates, only c.5% of households will see their fixed rates expire in 2023.

Consumer behaviour

- UK Dinner reservations according to OpenTable for the first 2 months of 2023, are +20% higher than that of pre-Covid.
- Pub, bar, and restaurant groups achieved like-for-like sales growth of +10.9% in January 2023.
- Credit card data suggests spending on Entertainment grew +14.5% in February 2023, the fourth consecutive month of positive growth.
- Hotel occupancy across England is now on par with pre-Covid levels at 71%, according to Visit Britain.
- Footfall across the UK high-street, Retail Park and Shopping Centres are currently down -7.7%, -2.7%, and -23.3% down respectively on 2019 according to the British Retail Consortium.
- Air travel is only -10.1% behind pre-Covid levels according to Heathrow data.

Operator headwinds

- The cost of online marketing has skyrocketed since Covid. Analysis of Meta's (Instagram and Facebook) cost per click, is c.250% above 2019 levels.
- Energy costs are still significantly above historic levels and with the demise of the Energy Bills Relief Scheme, and soon to be implemented Energy Bills Discount Scheme, despite lower wholesale energy prices of late the cost of energy isn't set to return to historic levels for some time.
- Inflation is a broad-based issue. Whilst most commodity prices are stabilising, wage inflation persists (national living wage increase of +10%, due 1 April), food inflation is still extremely elevated, energy intensive manufactured products similarly will take time to normalise.
- Business rates are a headwind for some but a tailwind for others. Most online retailers will be expecting to pay more. For many high-street retailers, the inverse is true.

Operator tailwinds

- Business rates (see above).
- Freight rates have collapsed back to pre-pandemic levels at <c$2k (c$20k at peak). This is a significant coup for retailers.
- China reopening: excess savings now exceed 13trn yuan (£1.5trn). This is equal to 1-1.5% of global GDP. As and when the Chinese population can travel without restriction, it's predicted, the world will feel the impact of revenge tourism/spending.

Closing thoughts

There's definitely reason to be cautiously optimistic when it comes to the health of the consumer. However, we must remain alert and acutely aware of some of the vulnerabilities businesses will experience over the course of 2023, specifically around rising and unmitigated costs.

James Sawley
Head of Retail & Leisure Sector
Corporate, HSBC UK
April 2023

HSBC UK