MILLENNIAL GROWTH

Spending Power Index 2019

Foreword:

The UK's economy is rapidly evolving. As demographic changes influence what individuals demand and expect from organisations, businesses more than ever need better and more granular insights to deliver the products and services that are most useful to and relevant for their customers.

At Experian, we are specialists in handling and interpreting data which can be used to better inform businesses about consumer trends.

Last year, we launched our first Spending Power Index, painting a picture of earning and spending patterns across the UK, and predicting how we believe these trends may change in the future.

Now I'm delighted to present the 2019 Spending Power Index. In the coming pages you'll be able to see where these trends have consolidated, where there have been new developments, and how we expect the income and spending landscape to look in the next twelve months.

There are many positives. Our research highlights three areas of interest:

- The strengthening of the Millennial pound, as those in the group make their way up the career ladder
- The continued surge of the valuing of experiences over possessions
- The consolidation of the UK's forty-somethings as the county's most powerful earners, spenders and savers

But there are uncertainties too. Firmer inflationary pressures, escalating energy costs and a growing squeeze on household spending indicate a mixed picture for consumers, businesses and the broader economy.

With this report, our intention is to help businesses to take a step back from their usual market segments, identify new potential opportunities and consider the best ways of adapting to new challenges.

For decision-makers, meanwhile, we aim to provide insight into ways they can adapt for success in a changing and complex landscape.

And finally, for the public, we hope that providing companies and decision makers with a better understanding of preferences we will help ensure the delivery of products and services that meet peoples' changing needs.

Put simply, we hope that anyone reading will find these insights on the UK's vast data landscape just as fascinating as we do.

Amir Goshtai
Managing Director
Experian Marketplace

What is the Spending Power Index?

We've defined 'Spending Power' as a combination of three key factors:

1. Average income growth over time
2. Levels of spending for one demographic group when compared to another
3. Levels of spending as a proportion of incomes

These combined factors reveal fascinating insights into people's evolving preferences, according to their life stage and income levels, over the eight years covered in the report.

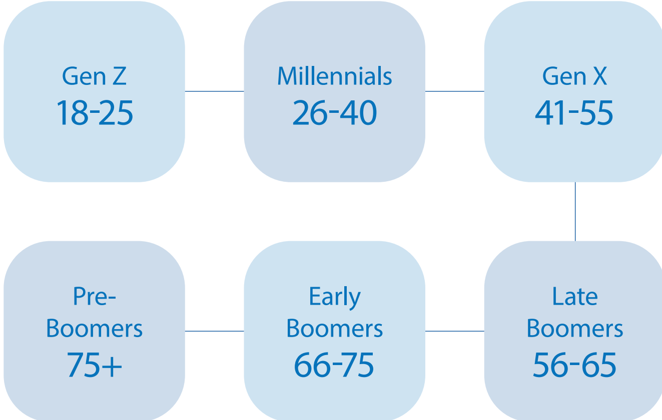
What does the report show?

Income and spending levels are provided in both absolute and annual growth rate terms, including historical data from 2013-2019, and predicted data for 2020.

Absolute figures refer to amounts in GBP per week, unless otherwise stated. These are per household figures, representing a typical household of that type, and are nominal (i.e. not adjusted for inflation).

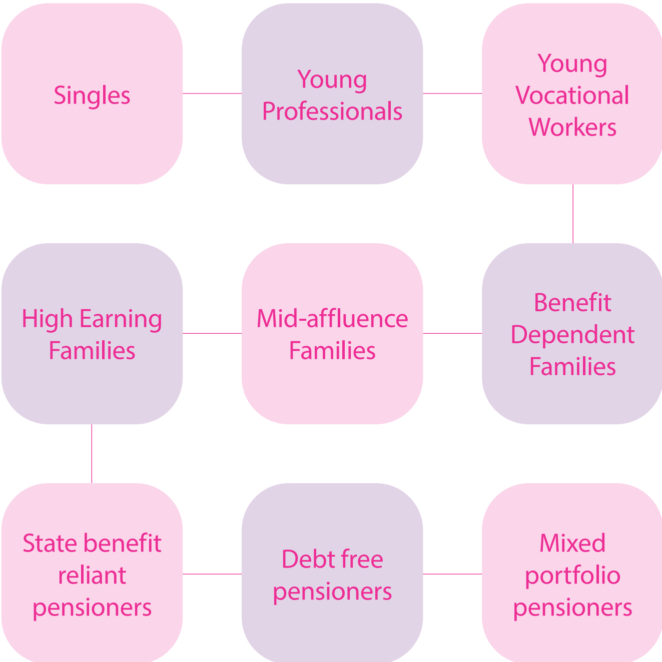
The most recent data provides the most current view of today's consumer spending trends. The historical figures, meanwhile, serve both to benchmark these trends over time, and to contextualize areas of specific interest.

Grouping age demographics



Our raw data gives statistics for 12 age categories, ranging from the 18-25s to the 75 and overs. We've put these into groups that are loosely based on traditional naming conventions. Where we're talking about specific data points, we also state the smaller age bracket.

Grouping household types



Throughout the report, you will see reference to various household types, based on factors such as income and age. However, breaking the population down into distinct groups to reveal such a granular level of insight, can be complex. As a result, we have had to use specific guidelines and data points to categorise them. These are outlined in the following table:

Household Type	Income min	Income max	Age min	Age max
Singles	14,033	84,866	38	54
Young professionals	35,777	36,013	33	34
Young vocational workers	17,607	17,607	31	31
Benefit dependent families	7,082	25,591	35	60
Mid-affluence families	20,324	54,931	29	59
High earning families	54,954	175,132	39	57
State benefit reliant pensioners	6,760	20,430	72	79
Debt free pensioners	25,302	27,156	62	73
Mixed portfolio pensioners	33,314	50,498	71	72

Millennial pound growing in influence

The generation that came of age at the outset of a global financial crisis is continuing to disrupt traditional spending and employment models.

Millennials now make up a third of the UK population. Their decisions over the businesses and services they use has a significant impact on the economy and organisations must be ready to meet their specific needs.

Swelling spending power, with a focus on skills development

Older Millennials are no longer youngsters taking their first steps on their career path. In fact, if you take the definition of the age group as those being born between 1981 and 1996, the oldest Millennials are now 37 years old.

Many Millennials are now homeowners, starting their own families, and moving towards senior positions in work. As a result, the millennial pound is strengthening.

This year we expect Young Professionals and Young Vocational Workers to see the biggest increase in total spending growth by 2.8% and 2.6% respectively. In 2020, the pattern is repeated with predicted growth of 2.9% for vocational and 2.7% for professionals.

Millennials' spending overall is forecast to grow at a slightly higher rate than other age groups (2.6% versus an average of 2.5%) in 2020. This reflects a growing spending power as they assume more senior roles.

Whilst retail spending is set to remain relatively flat in 2020 (1.5% growth), the age group which includes Millennials, 26-40 year olds, are expected to spend 3.8% more on lifestyle activities (versus an average of 3.5%) and 5.0% on holidays (versus 4.4%). We will address the implications of these spending patterns in the following chapter.

26-40 year olds tend to have additional expenditure pressures as well. Firstly, this cohort's spend on travel is set to increase more than any other group in 2020 (2.9% versus an average of 2.0%) – explained by the fact that vocational roles are amongst the most transport-reliant, and tend to be temporary or part-time.

Secondly, and encouragingly for the economy at large, millennial vocational workers are continuing to invest significantly more in their ongoing skills development (7.6% increase compared to an average of 3.9% for all groups) as they look to progress.

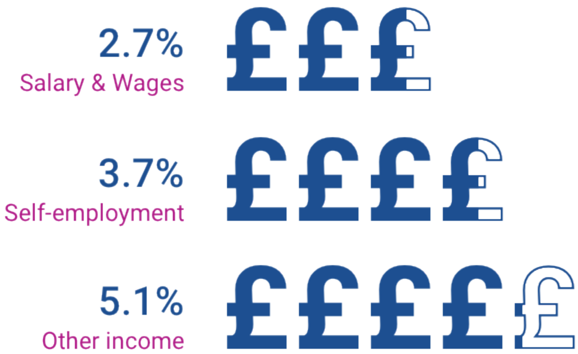
Predicted Millennial Spending Growth 2020

Spending type	2020 predicted growth rate (total population)	2020 predicted growth rate (all Millennial age groups)	2020 predicted growth rate (young vocational workers)
Total	2.5%	2.6%	2.9%
Retail	1.5%	1.5%	1.6%
Lifestyle	3.5%	3.8%	3.3%
Holiday	4.4%	5.0%	4.7%
Transport	2.0%	2.1%	2.9%
Education	2.0%	2.1%	7.6%

Employers take note!

Another area, which sets this cohort apart are the shifts in their income streams. Continuing the trend we highlighted last year, Millennials are moving away from traditional models of salaried employment in favour of self-employment that offers increased freedom and opportunities.

Predicted Millennial Income Growth - 2019



As these figures show, whilst traditional wages and salaries remain consistent for Millennials in absolute terms, growth (at 2.7% in 2020 versus 3.0% in 2019) is in decline for the second consecutive year. Over the same period, however, we forecast that millennial age brackets will see an average 3.7% growth in self-employment income, with the increase most marked at the older end of the age bracket. Those aged 36-40 are predicted to make £153.81 per week from this source in 2020, compared to just £121.44 in 2013.

This trend toward self-employment supports the idea that younger Millennials hold no concerns about moving roles and, are on the whole, less settled in their careers. More than a fifth of Millennials have said they've changed jobs in the last 12 months, more than three times the number of other age groups who have also taken a new role.[1]

But this in large part could be due to their age and the transient nature of early careers, and that Millennials are, perhaps, more willing, to try something else if it offers the right levels of personal freedom. With more than a third of the workforce now made up of Millennials[2], companies seeking team stability would be advised to consider changes in their working practices to introduce more flexible working solutions.

1 https://www.theguardian.com/business/2016/jan/18/weve-hit-peak-home-furnishings-says-ikea-boss-consumerism
2 Gallup, The Job-hopping Generation

Experience spending continues to soar

British shoppers increasingly replace buying with doing.

Our 2020 forecasts point towards a continued growth in "experience spending". Whilst the former category still accounts for the largest portion of people's outgoings, it is growing at a significantly slower rate than spending on lifestyle (including meals out, mobile phones and entertainment) and holidays.

Retail spending - the amount of money Brits are spending on buying goods – is estimated to grow by an average of 1.6% in 2020 year-on-year, which is slightly down on 2019 (1.8%). In comparison, lifestyle spending is projected to grow by 3.4% (up from 2.6%), and spending on holidays is expected to increase by 4.9% (compared to 3.3% in 2019).

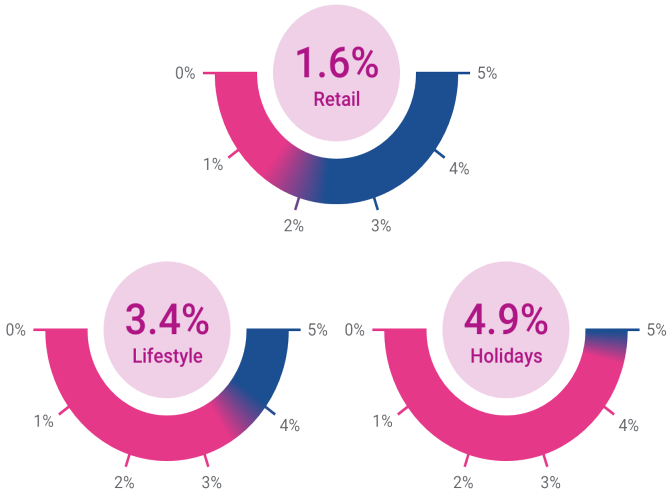
By 2020, our model suggests retail spending will have seen three consecutive years of slowing growth, at an average of 2.2%, while holiday spending will have grown 3% per year over the same period.

This trend is most marked for high earning families, whose lifestyle spending has exceeded retail spending consistently over the 8 years covered in the report.

These changes reflect a gradual societal shift from materialism to experientialism. Some might say this represents what an IKEA spokesperson famously termed 'peak stuff'.[1] It also suggests a growing penchant for a more minimalist way of life, showcased most recently by the success of the Marie Kondo philosophy.

And once again, while it would be natural to assume that this change is being driven primarily by the young, the data doesn't support this. Yes, Millennials are very much a part of this trend, but all generations appear to be changing their buying habits - opting out of accumulating things in favour of exploring experiences.

2020 spending forecasts (all households)



1 https://www.theguardian.com/business/2016/jan/18/weve-hit-peak-home-furnishings-says-ikea-boss-consumerism

We're all going on a summer holiday!

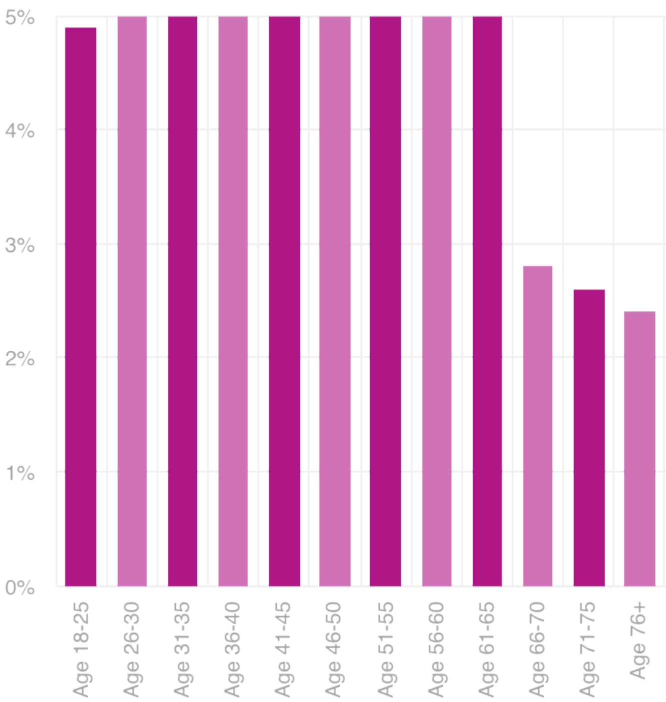
Travel sphere thrives in experience economy boom.

In our experience-dominated world, our research reflects that people from all sections of society place great value on their annual getaway, with spending on holidays predicted to increase for all groups in 2020.

Looking at the age breakdown, holiday spending is set to grow at a similar rate (4.4% on average) across all generations in 2020, except those aged 66 and above (who will spend only 2.6% on average more). This still represents a substantial year-on-year percentage increase for these older consumers (those aged 66+) – all of whom are spending the highest proportion of their incomes on holidays across the entire data set (5.5% of net income, compared to an average of 3.9% for younger groups).

Beyond a compulsion to seek new experiences, this increase in holiday outgoings could be due in part to the proliferation of budget airlines and peer-to-peer rental services over the last decade, making flights, package holidays and accommodation more affordable.

Holiday spending growth 2020



What does this increasing shift towards the experiential mean for the business world?

CX is the new black for all industry types.

The rise of the experience economy brings both challenges and opportunities for businesses. As shoppers devote a declining share of wallet to products, retailers must find new ways to build meaningful, personalised connections.

For brick-and-mortar stores, the difficulties encountered by some on the High Street (the result of this diminishing spend and the explosion in online shopping) means that to survive they need to put experience at the very heart of their in-store philosophy. The more progressive retailers are investing in innovative in-store experiences and standout customer service, aided by the emergence of virtual reality, augmented reality, and improved mobile technology.

Sephora, for example, have rethought their stores by combining traditional elements with mobile apps and activities that are unrelated to making a purchase. John Lewis, meanwhile, has created "style studios", where shoppers can access personal stylists as well as attend daily fashion talks. The House of Vans even built a skate park on the bottom floor of their London store.

To win and retain customers online, digital retailers likewise must ensure they provide a consistently fantastic customer experience throughout the customer journey. Companies are no longer just competing with others in their sector, they're being benchmarked against the best online experience someone has ever had.

Even in the burgeoning travel sector, success isn't a given, particularly if sterling shifts continue to push up holiday costs. For survival, it is critical that operators continue to innovate. Again, unusual, authentic and customised experiences will be important ways to attract consumers.

Sustained housing squeeze

In 2020, housing (including the cost of rent, mortgage and energy bills) is set to account for the largest proportion of spending across all generations, as it has done throughout the eight years of our data set. On average, this category accounts for almost 20 percent (19.98%) of predicted total spending – a proportion which has risen consistently over the past four years for all age groups. It is followed by retail spending and then lifestyle – a pattern visible throughout the data set.

This escalating pressure on family budgets can primarily be attributed to consistent growth in private rental prices, as well as spiralling energy bills. This latter contributor to household outgoings has been exacerbated for many UK households by Ofgem's recent price cap hike.[3]

As a reflection of their own spending power, taking into account sizeable mortgage and rental payments, those in their late 30s and 40s have the most significant housing costs. This year, the 41-45 age group spends £156.34 a week on housing, followed by 36-40s (£154.42 a week) and 46-50 (£148.98).

This squeeze is particularly marked for the 61-65s (for whom housing accounts for 21.22% of all spending in 2020 vs an average of 19.98% for other age groups). This weighting towards the older end of society is even more visible when analysing expenditure per income group, where housing spending across all retired households is set to grow most rapidly (4.2% versus an average of 3.2%).

The Formidable 40s continue to out-earn, out-spend and out-save the rest

The youngest Generation X-ers consolidate their position as the driving force of the British economy.

In our 2018 report, we noted that the 41-45 age bracket earned, spent, and contributed more than any other – signaling the arrival of the 'Formidable 40s' as by far the most financially influential sub-section of UK consumers. This year's data shows a consolidation in this position, with the gap between this group and others broadening across several of our indicators.

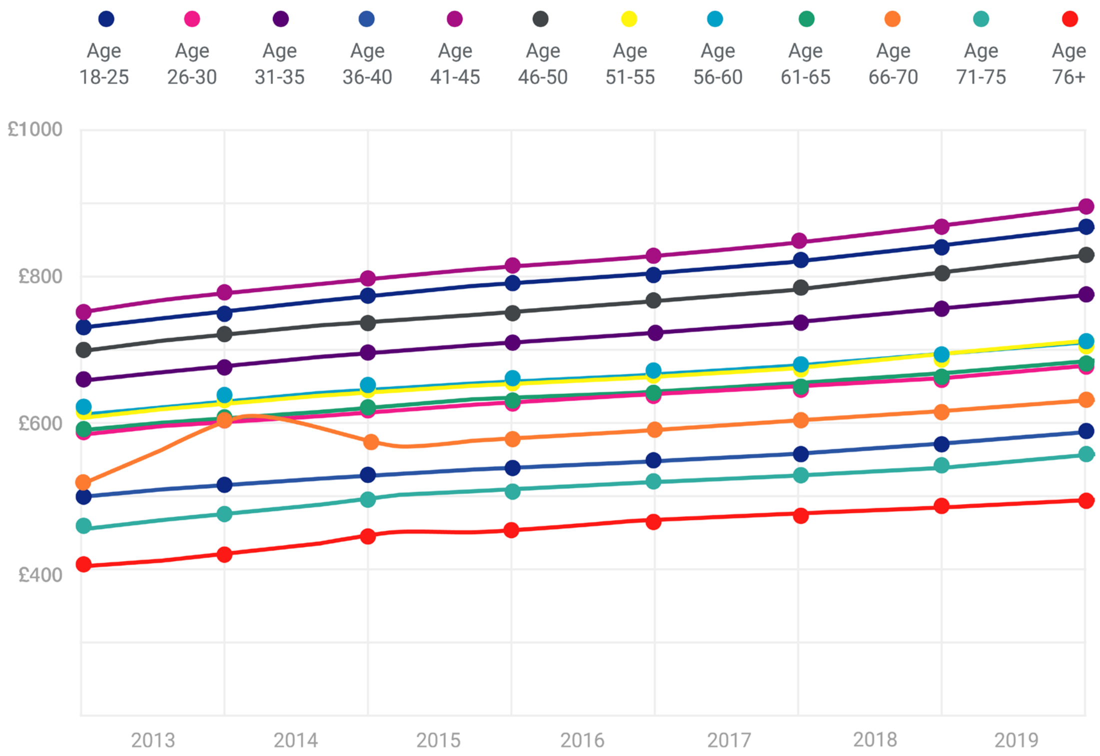
Formidable 40s: Widening their income lead

Once again, the Formidable 40s are predicted to be the highest earners in 2020 – both in gross and net terms - making an average of £1,191.47 and £943.26 per household per week respectively. In fact, this cohort has represented the highest earning segment for every single year in our data set (from 2013 until 2020). Their net income is also expected to grow by 3.5% in 2020, the highest percentage of all the age groups.

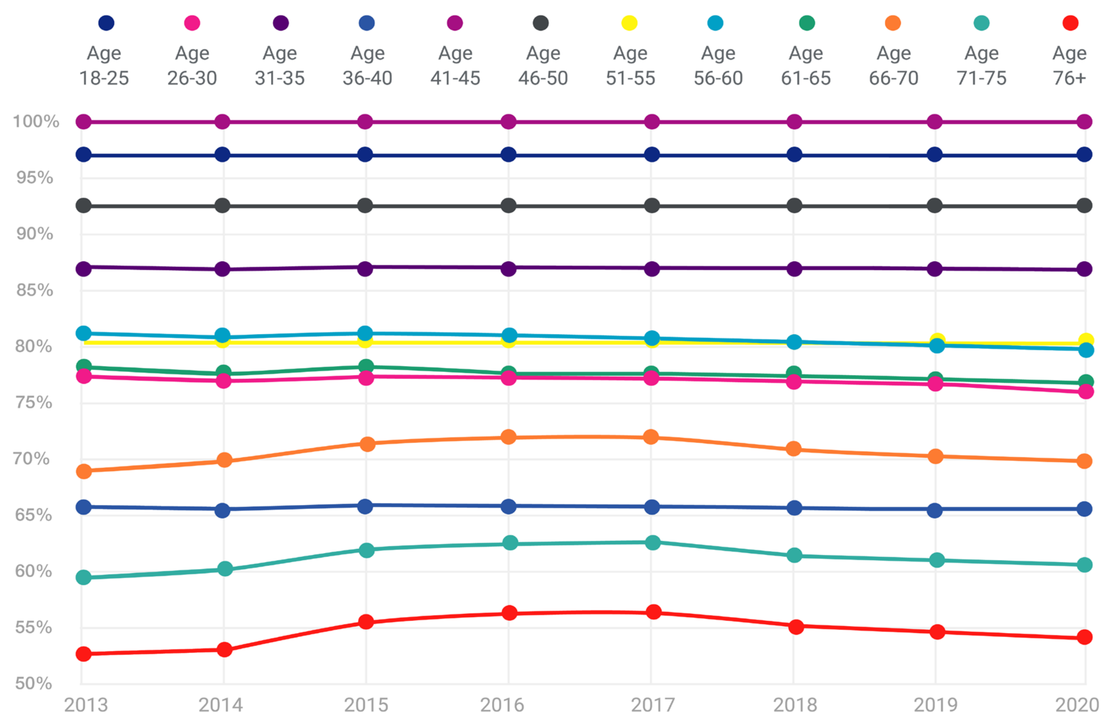
Meanwhile, the 40 to 50 bracket is the only group making more than the entrepreneurial Millennials in terms of 'other' income. The 41-45s and 45s to 50s are expected to make an average of 6.9% more per week from 'other income', compared to an average growth of 4.3% for all other age ranges in 2020.

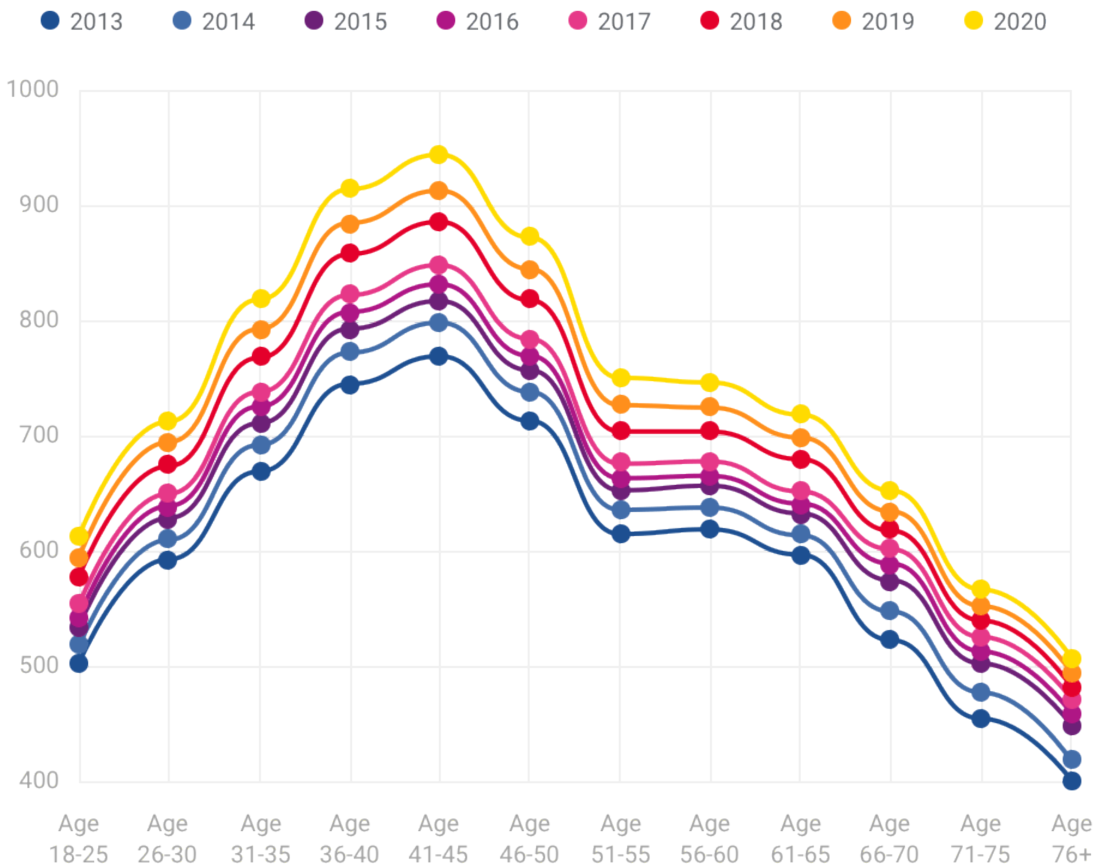
3 https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/march2019

Income growth per household per week



Net income of all age groups vs Formidable 40s age band





Formidable 40s: Still splashing their cash, but not quite so fast

41-45s are expected to be the highest absolute spenders of any age group again in 2020, with an average spend of £803.91 per week. However, their expected rate of spending growth, at 2.5%, is at the same level as the average increase predicted for all age groups.

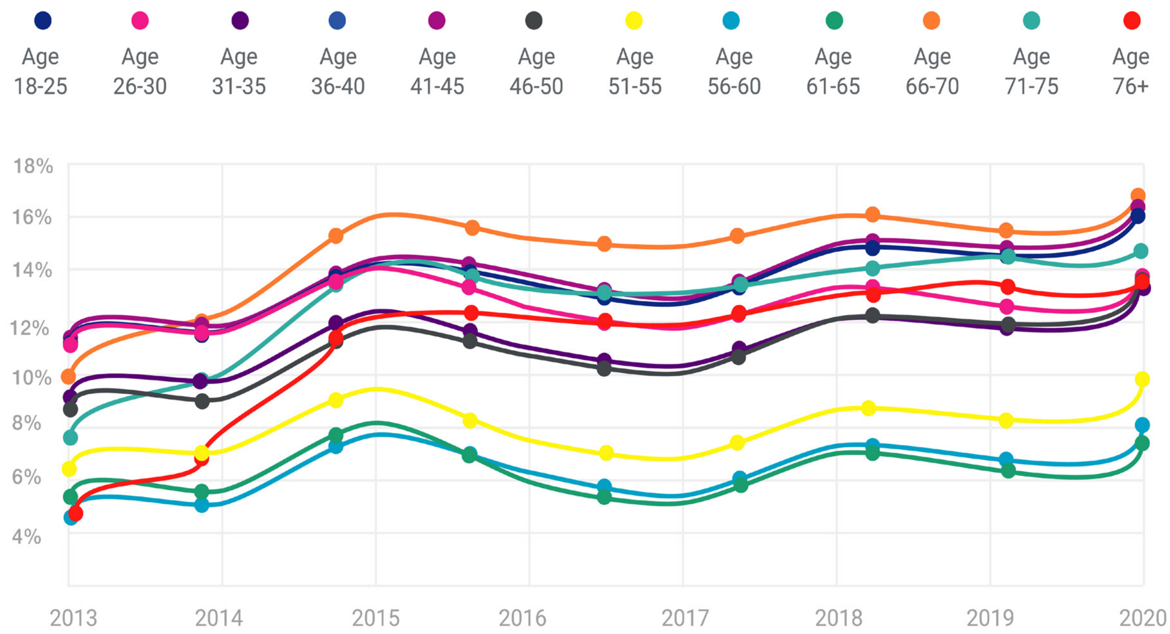
This growth extends beyond 'luxury' experience categories. This group also spends more than any other group on necessities such as transport, housing and education, suggesting that they continue to be a motor for the economy as a whole. In fact, 41-45 year olds spend more on all categories than anyone else, with the exception of health, where they are outspent by the older age bracket (those aged 46+ spend almost 50% more on average).

There are signs, however, that this dynamic cohort might be slowing down. While their spending on lifestyle and holidays is keeping pace with, or exceeding, the other groups, growth in their outgoings on the more 'everyday' categories, such as housing and health, is below that of some other age brackets – particularly 18-25 year olds and Generation Z.

Formidable 40s: Putting more away for a rainy day

The Formidable 40s stand out as having the greatest, and most rapidly growing, savings power. Our outlook predicts this cohort will save 15% more in 2020 than in 2019, compared to an average of 11% for the other generations. The proportion of their income set aside has increased consistently for the past four years, showing the 41-45s are at the peak of both their earning and their savings potential.

Savings as % of net income



What does this mean for the economy as a whole?

In 2020, as in 2019, the 41-45s and their fellow Generation Xers look set to retain their place in the driving seat of the UK economy. Their levels of income, taxation contributions and spending in almost all areas are higher than every other age group. And, given their superior savings potential, they look set to continue in this role for some time

Over time, it will be interesting to observe whether, as this group moves up into the older age brackets, these trends continue, as well as how patterns change when the oldest group of Millennials hit their forties.

And of course, the great unknown remains the potential consequences on the economy of Brexit, with the UK set to leave the European Union on October 31.

Conclusion:

Our second annual Spending Power Index paints a fascinating and varied picture of earning and spending patterns across the UK - for all age and income groups.

As the Millennial cohort continue to make their way up the career ladder, their earning and spending figures are growing exponentially. This has implications for employers seeking to attract and retain these increasingly senior workers; for companies in terms of their marketing approach; and for businesses who consider their next steps as this sizeable group progress and age.

The shift towards experience spending over retail, meanwhile, has strengthened, not only amongst Millennials who originated the trend, but across all groups. This now mainstream movement is shaking up all industries, for whom a compelling customer experience is key to long-term survival.

The 'Formidable 40s' continue to consolidate their position as the most powerful drivers of the UK economy. They are continuing to earn, spend, and indeed save more than any other age bracket across every relevant metric.

But alongside these broadly positive trends, there are challenges. These include a growing squeeze on household budgets, driven by increasing mortgage, rental and energy costs, casting a shadow of uncertainty across income and expenditure patterns in the years to come.

The shifts we've identified help enhance our visibility and understanding of the billions of pixels of information illustrating our lives. It's a complex and ever-evolving picture, but one which adds enormous value to organisations seeking to identify new opportunities, solve potential challenges and prepare themselves for the future. Those businesses and societies who succeed in unravelling the detailed data flows to which they have access are the ones best positioned to prosper in the years to come.

Appendix:

How has the Index been built?

These insights have been drawn from Experian's modelled data using secondary sources, built-up over 20 years of working in the UK market, such as our 'Financial Strategy Segmentation' (FSS) tool.[4]

The data for this comes from a range of publicly and commercially available sources, such as the edited Electoral Roll, the UK Census and permission-based market research data - taken, for example, from the lifestyle questionnaires many of us complete.

The income and spending statistics have then been broken down into more detail by Experian's expert team of accredited/award winning in-house economists, and overlaid onto our UK Macro model and the Office of National Statistics (ONS) Living Costs and Food Survey to deliver the analysis in this report.

Further information on the methodology

Experian's proprietary UK Macro model includes income forecasts by component of income (e.g. wages and salaries) and expenditure forecasts by detailed Classification of Individual Consumption by Purpose, (COICOP). This is a standardised classification system published by the United Nations (UN) Statistics Division that includes categories such as Health, Transport, and Communication spending, among others.

This model was used to drive forecasts of income by component and detailed COICOP expenditure in GBP per household, per week, split by gross income decile. The income and expenditure data by gross income decile is taken from the ONS Living Costs and Food Survey (for both retired and non-retired households).

The income and expenditure forecasts by decile were then converted to income and expenditure forecasts by FSS type, using household gross income bands by FSS type in the FSS segmentation.

4 FSS is a proprietary consumer insight system that uses data from a range of publicly and commercially available sources to split the UK population into 15 broad groups (FSS Groups), and 55 more detailed groups (FSS Types) based on likely shared characteristics.

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