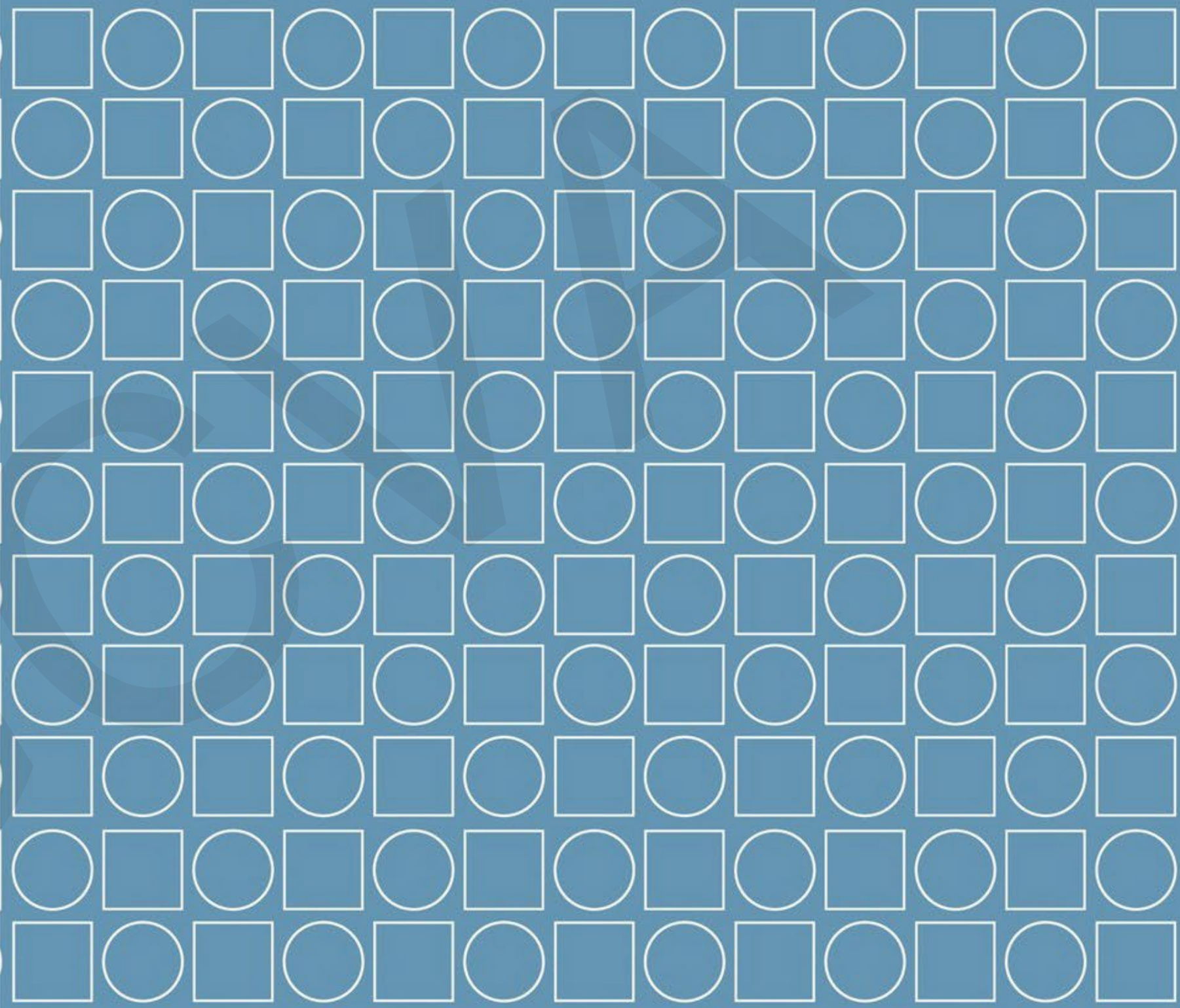


Cost-of-Living Review One Year On

**Report from GCVA
July 2023**



Introduction

It's been 12 months since GCVA's first report on the 'Cost of Living' crisis which revealed how our sector was being affected by the squeeze on personal finances.

It revealed that while gift cards were not immune to these changes, the sector is in a unique position of being able to help many people adapt and evolve their spending habits, as well as offering a solution for employers and businesses seeking to ease the burden on employees and customers alike.

At the time we anticipated that things may get worse before they got better. This has proven to be the case.

As revealed by this 'One Year On' report we can see the impact of a winter of high fuel prices, continued price inflation and higher interest rates on mortgages and rent costs.

In this report we look at how the situation has evolved, what this means for our businesses. We also consider the role gift cards can play in helping the public and businesses respond to the crisis.

** Data in this report comes from a nationally representative survey of 1,012 UK adults. This was an online survey carried out in June 2022 by Sensu Insight.*

Results are compared to a previous survey of 1,043 UK adults carried out in June 2022.



Key events since the last report

July 2022: British Retail Consortium reports third successive drop in spending.

August 2022: Bank of England rate increased to 1.75%

October 2022: Cost of Living protests take place in 50 UK cities.

November 2022: Bank of England rate hits to 3% (highest since 2008). Government announces Warm Home Discount and extends Energy Price Guarantee until April 2024.

December 2022: Increase in UK inflation 'eases' but still hits 10.7% (the highest rate of annual inflation since the 1980s).

January 2023: Reports that UK credit card borrowing reaches £1.2 billion (highest monthly level since 2004).

February 2023: Office for National Statistics reports food inflation running at 16.7% and cost of gas nearly 130% higher than a year ago.

March 2023: British Retail Consortium warns that rise in sales of 5.2% is the result of price inflation and masks weaker sales volumes.

April 2023: Energy Bills Support Scheme ends, increasing average household energy bill to £2,500 p.a.

May 2023: Which? estimates 2 million UK households missed or defaulted on bills last month (700,000 on rent or mortgage payments).

June 2023: Bank of England rate hits to 5% (highest since 2008)

UK retailers hit by sharp drop in spending as inflation soars

How much market chaos did the mini-budget cause?

UK inflation eases to 10.7% as annual rate of price increases slows

Drop in consumer prices index had been forecast but costs continue to rise, adding to pressure on ministers to raise pay

UK credit card borrowing soars to highest monthly level since 2004

Revealed: record number of households in UK depending on food banks

UK shoppers slash spending as price rises and energy bills bite

February figures from BRC highlight impact of cost of living crisis on British economy before budget

About 700,000 UK households missed rent or mortgage payment last month

Who is most affected by the cost of living crisis?

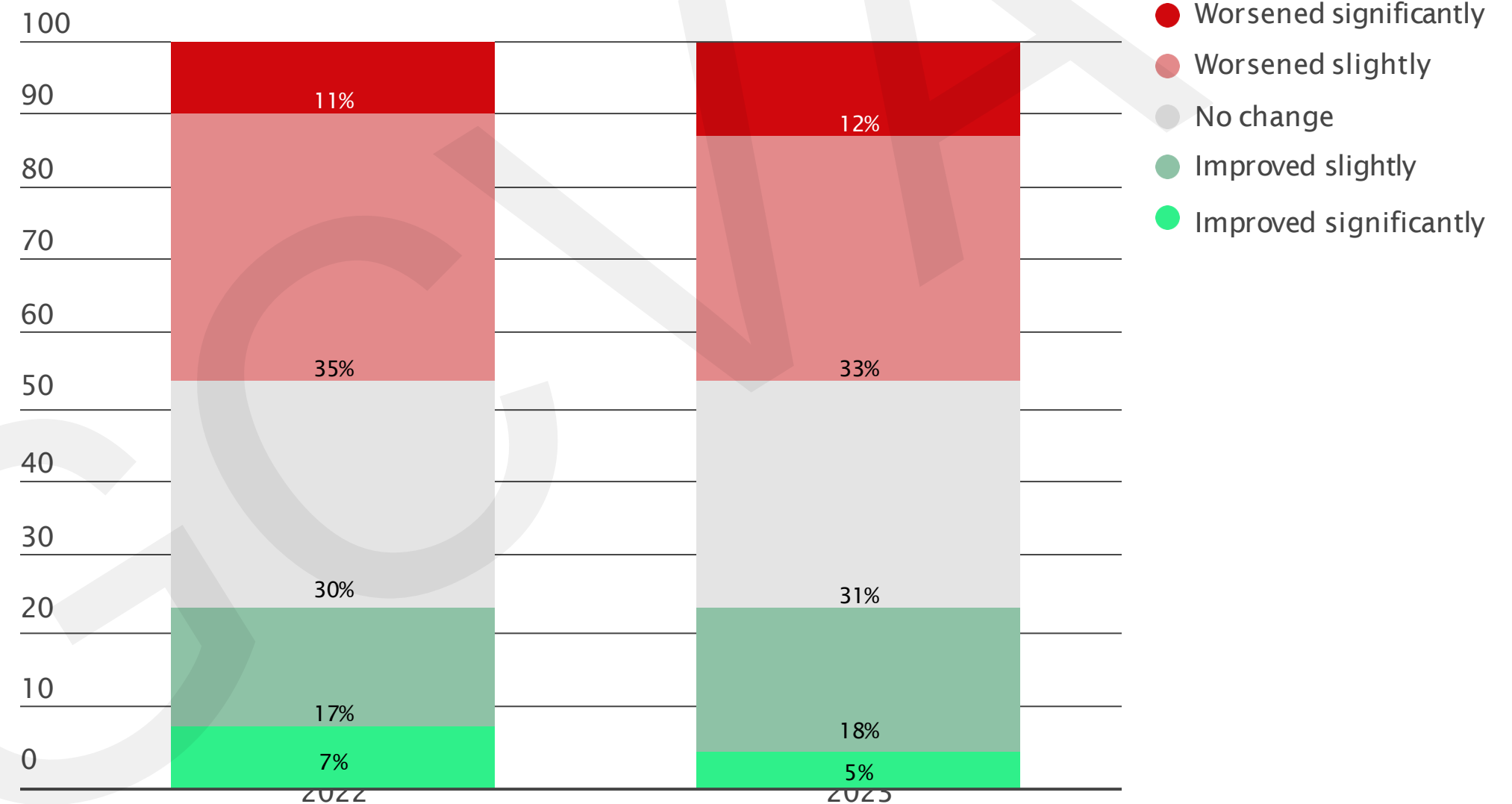
Overall the picture looks much the same as a year ago.

Since the start July 2022, 45% of the UK population say they are either slightly (33%) or significantly (12%) worse off.

Only 5% of the population have seen a significant improvement in their personal circumstances (e.g. through a promotion or starting work) meaning that financial confidence across the whole country remains at a very low level.

It must be remembered that these falls come on top of the impact of 2022's cost of living crisis.

The true extent of where this additional impact is being felt can be seen by looking at the demographic changes (see following pages).

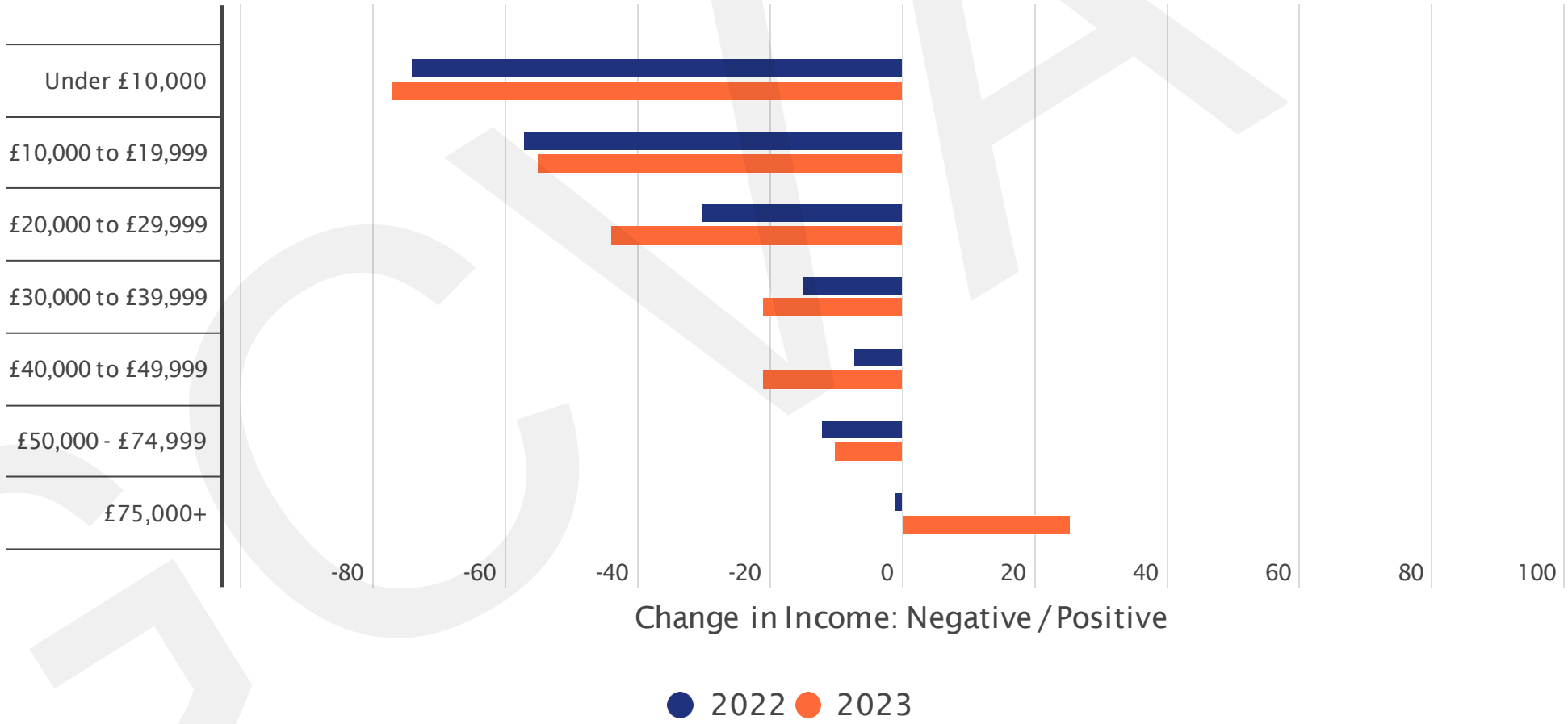


Who is most affected by the cost of living crisis?

By income

The impact over the last year has squeezed those on middle incomes, with the biggest, additional falls in disposable income seen in those with a household income of between £20,000 and £49,999.

Those with high household incomes have actually reported a net increase in disposable income. Possibly with rising interest rates helping those more likely to be net 'savers' and 'investors' rather than borrowers.



This weighted index factors takes account of the percentage of people reporting "significant change". The percentage of those reporting "significant change" (+ or -) are multiplied by two. Those reporting "slight change" are multiplied by one. Those reporting "No change" are scored at zero. This provides an index score to show the overall effect on the group's financial status. Results are shown by gender, age, household income and woking status, with the UK average shown for comparison.

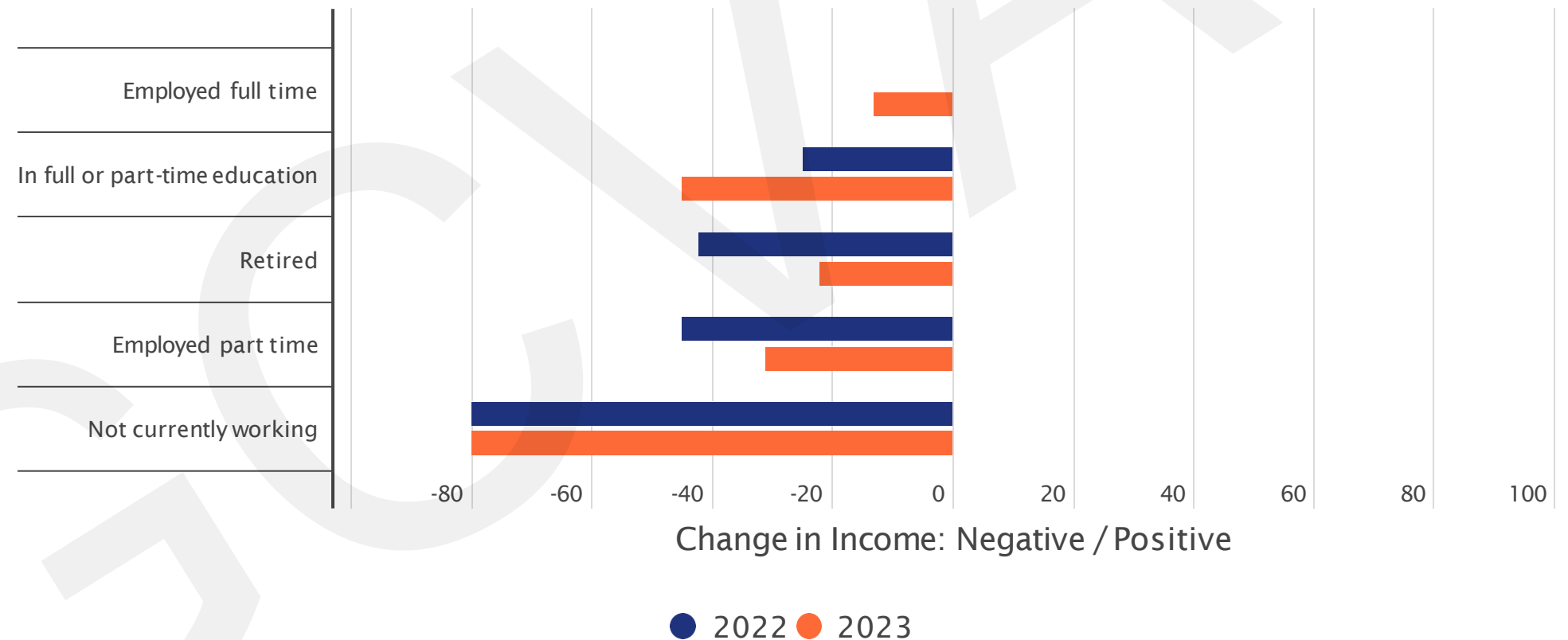
Who is most affected by the cost of living crisis?

By employment status

The same effect can be seen when comparing people by employment status.

While in July 2022, those employed full time saw a equal number of those experiencing a rise and fall in income, this year we can see a net fall amongst this group.

Students are also being hit with rising cost of living and rent prices.



This weighted index factors takes account of the percentage of people reporting "significant change". The percentage of those reporting "significant change" (+ or -) are multiplied by two. Those reporting "slight change" are multiplied by one. Those reporting "No change" are scored at zero. This provides an index score to show the overall effect on the group's financial status. Results are shown by gender, age, household income and woking status, with the UK average shown for comparison.

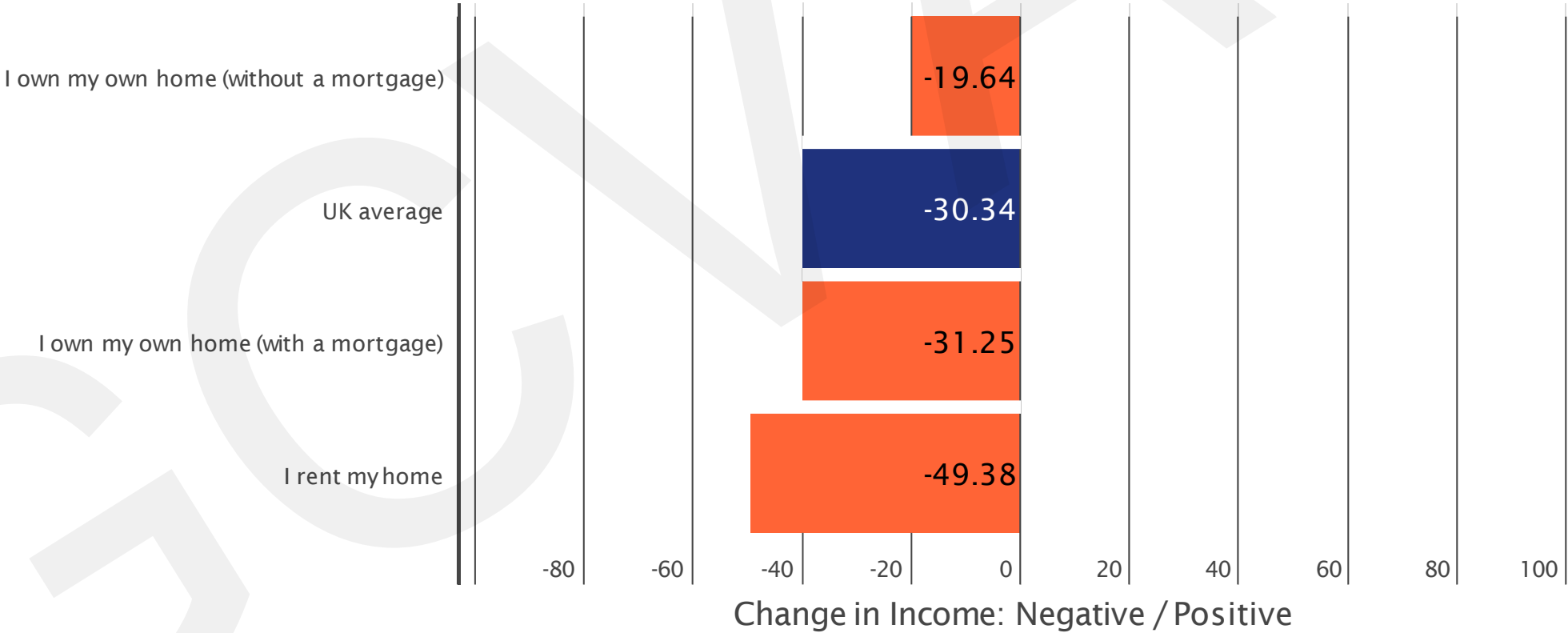
Who is most affected by the cost of living crisis?

By home ownership

We can also start to see the impact of interest rate rises on property costs.

Homeowners without a mortgage appear more insulated than those with a current mortgage.

However, it is renters who are feeling the brunt of cost of living rises as landlords seek to pass on their increased costs to their tenants.



This weighted index factors takes account of the percentage of people reporting "significant change". The percentage of those reporting "significant change" (+ or -) are multiplied by two. Those reporting "slight change" are multiplied by one. Those reporting "No change" are scored at zero. This provides an index score to show the overall effect on the group's financial status. Results are shown by gender, age, household income and working status, with the UK average shown for comparison.

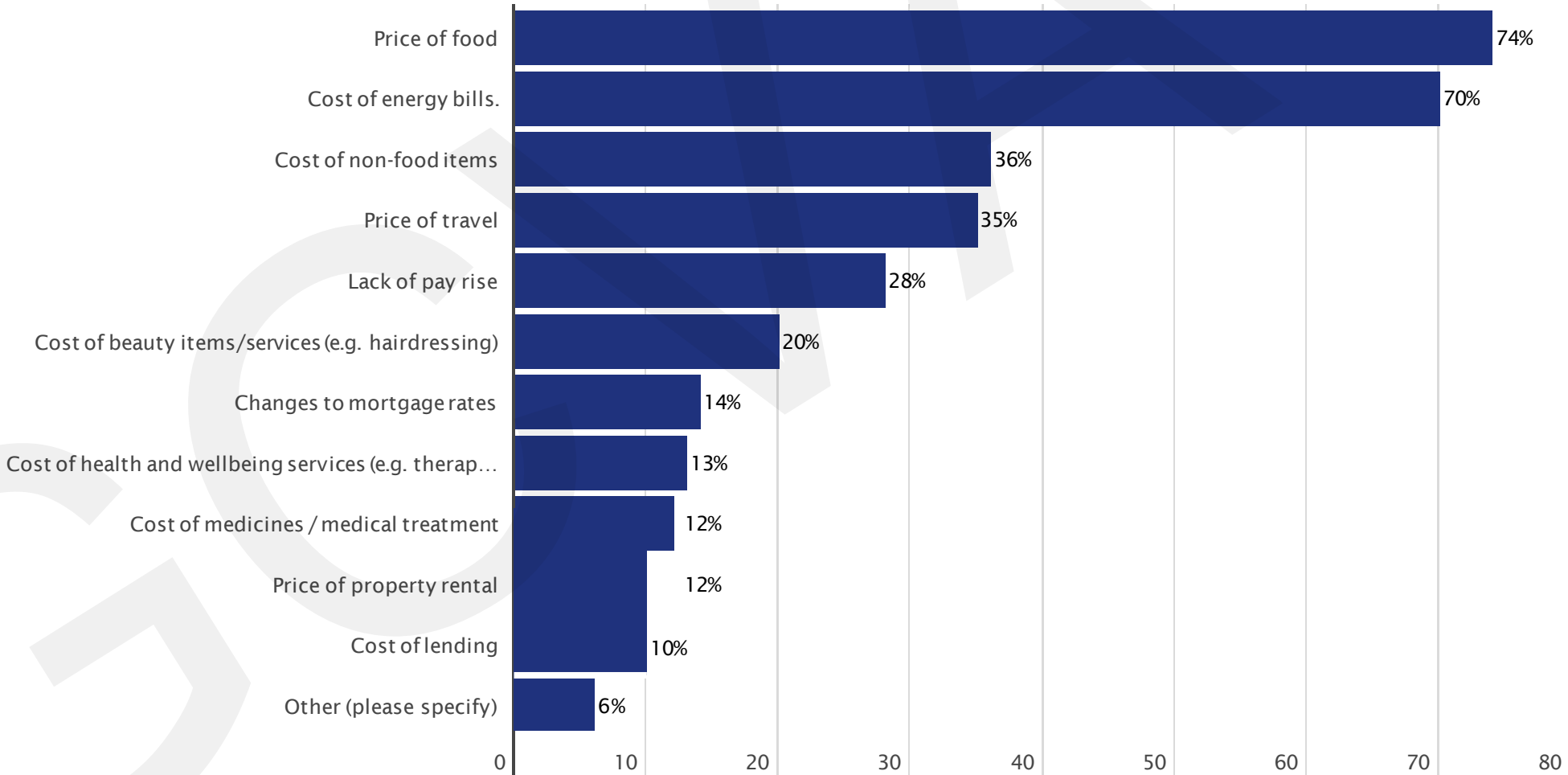
What is causing most pressure on consumers?

It is still the rising prices for everyday goods and services that are causing most pressure on people's budgets.

Items such as food, heating, clothing and travel are reported as being the biggest drain on resources.

What's noticeable is that the true impact of rate rises on mortgages are perhaps yet to bite as people enjoy the relative security of fixed rate deals.

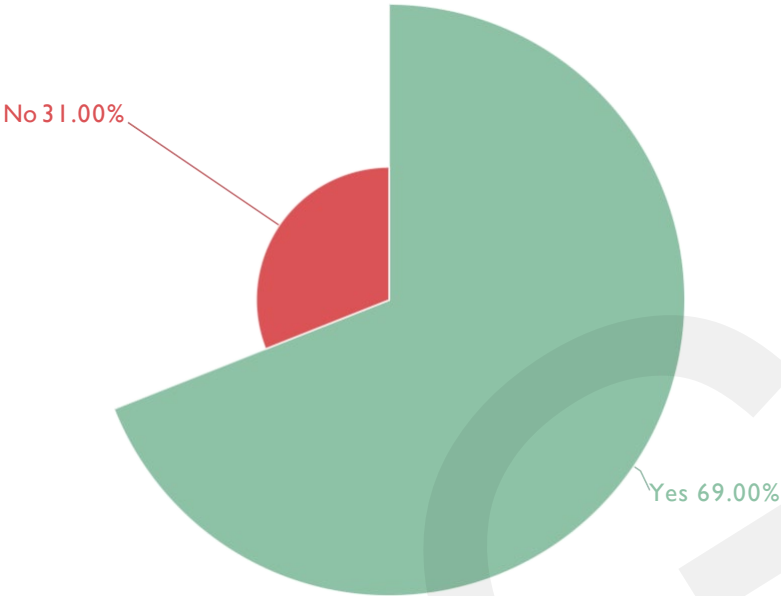
However, as these begin to come up for renewal a new wave of increased costs could hit many more households.



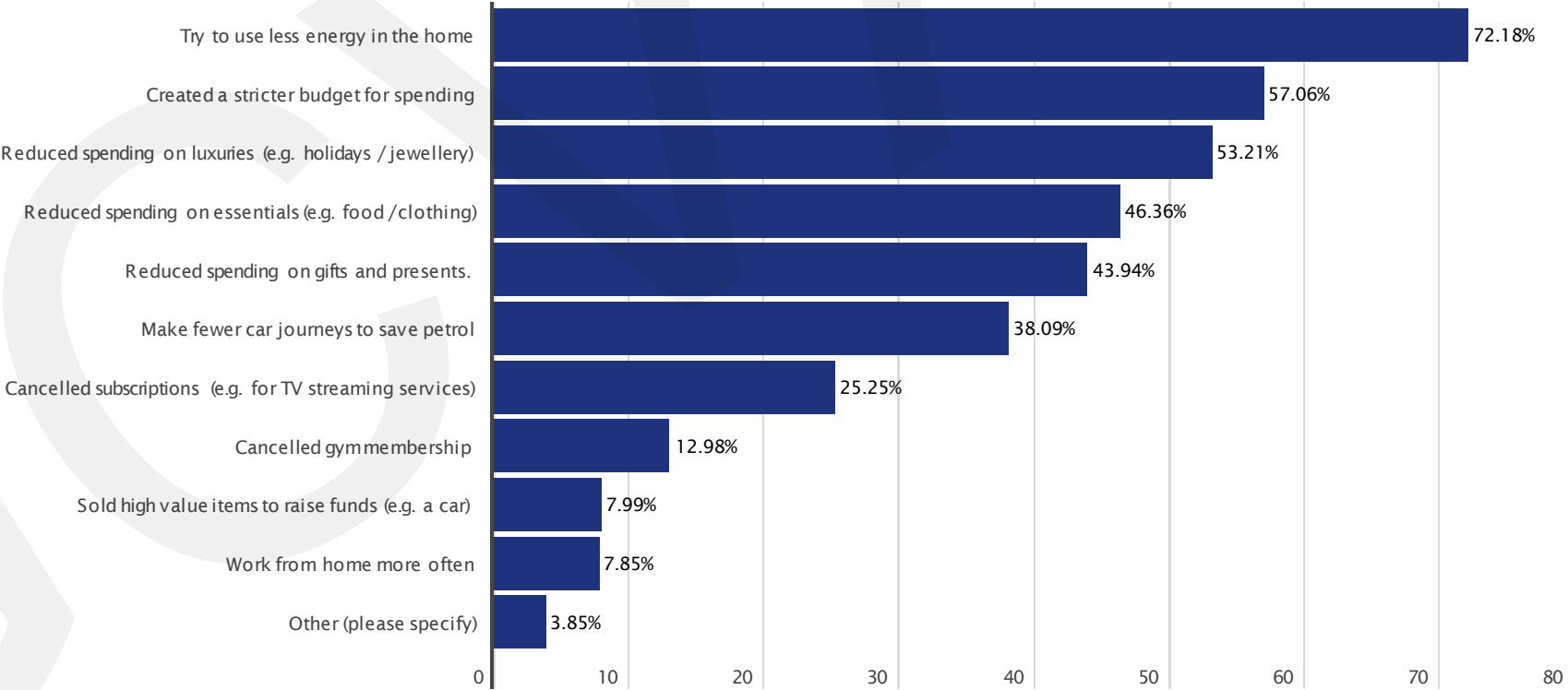
Which of the impacts of the cost of living crisis are having a material effect on your spending habits? (Please select all that apply).

How are consumers responding?

Over two-thirds of households (69%) have amended their spending habits as a result of the cost of living crisis. Of this group over half (57%) are limiting their monthly spending and 44% have cut their budget for gifts and presents.



Have you amended your spending habits and financial arrangements in response to the cost of living crisis?



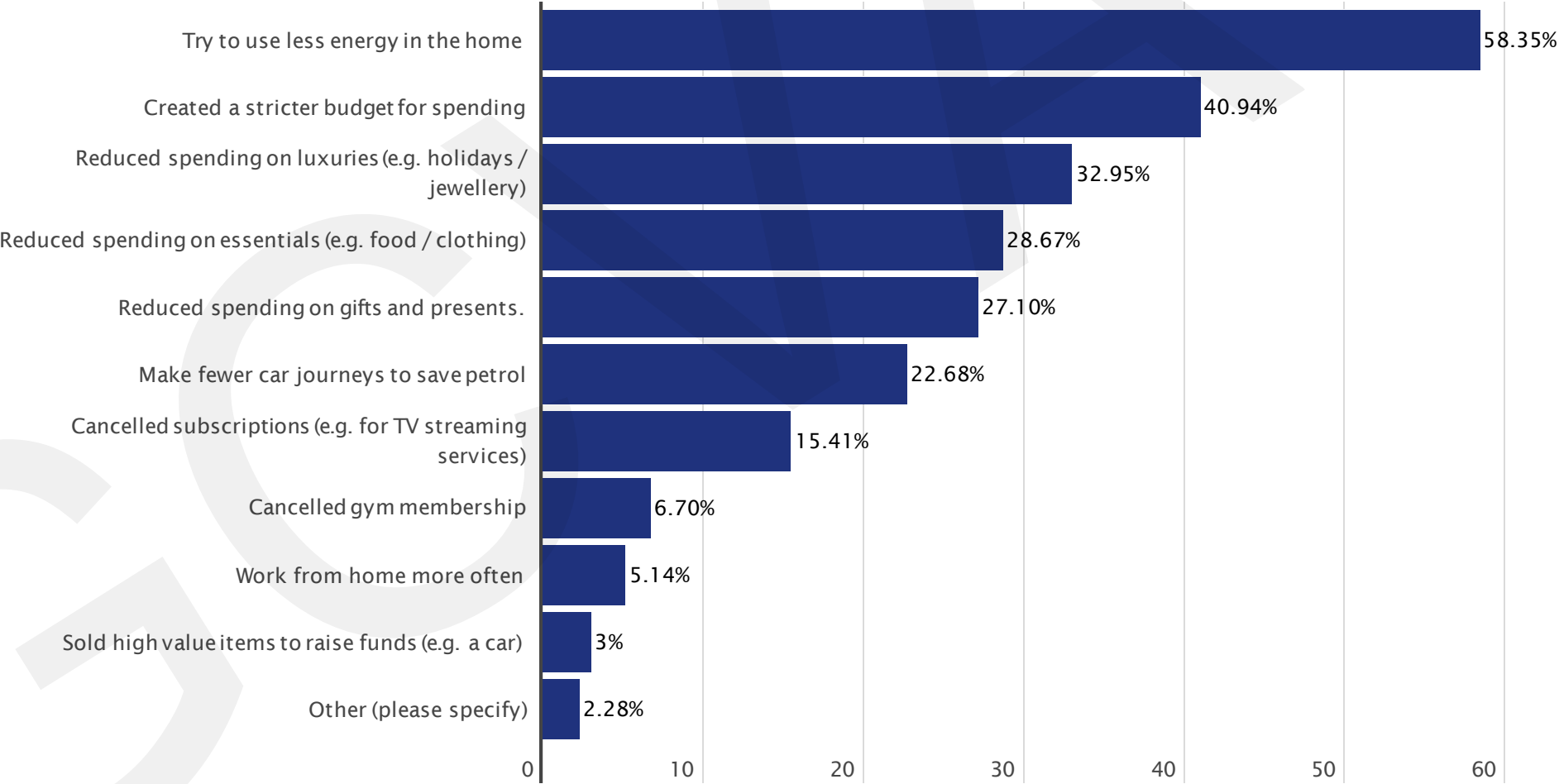
What changes have you made (please select all that apply)?

The new normal?

For many these changes to spending habits are likely to become permanent changes even after pressure on household budgets eases.

Many have identified ways in which they can live more frugally through use of spending plans and reducing energy use.

Over half of those currently cutting back on spending on gifts and presents intend to make that change permanent.

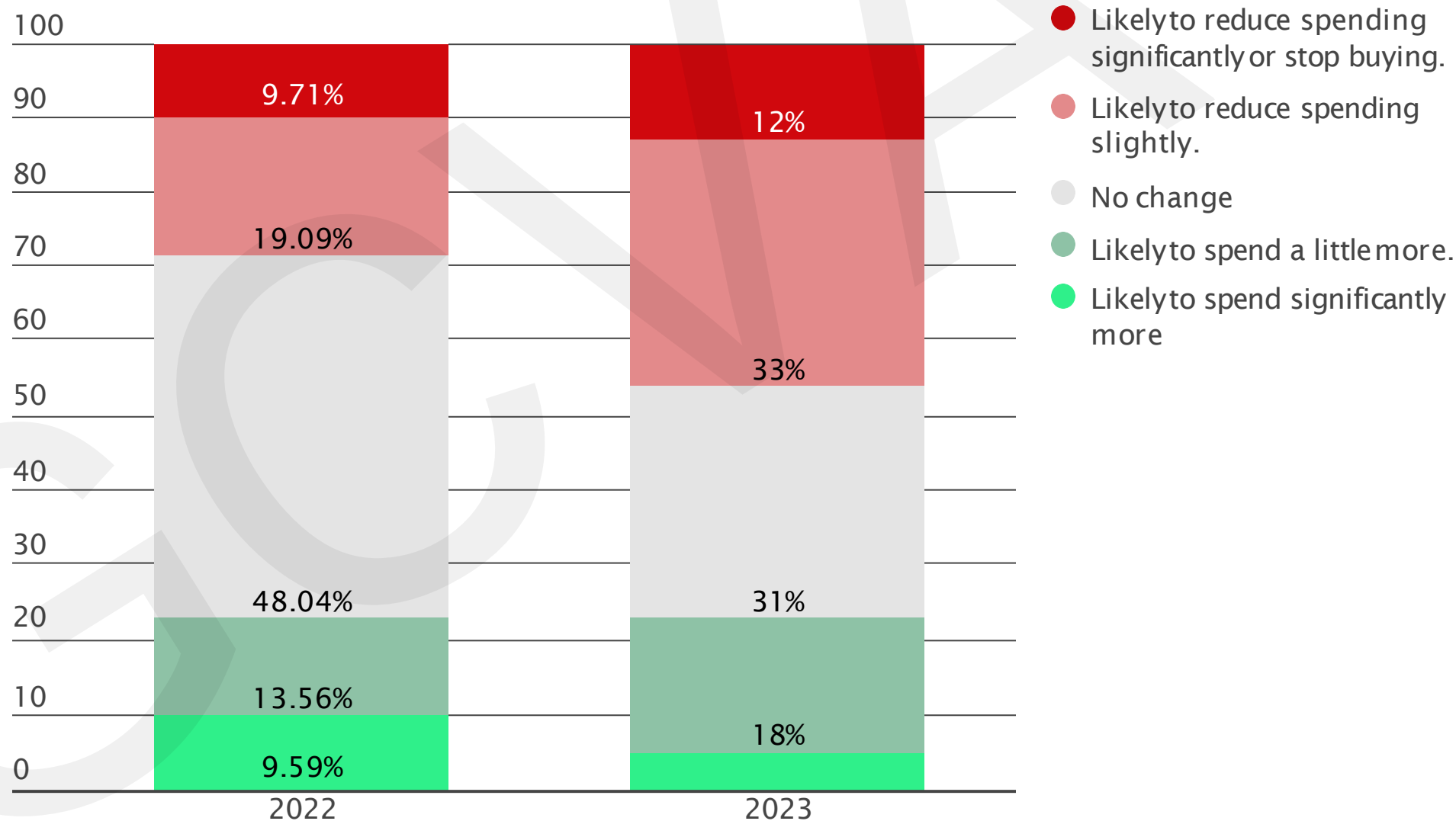


Which of these efforts to save money do you think you will maintain when the cost of living crisis improves?

How is this affecting the gifting sector?

We can see the impact of this stricter budgeting on planned spending for gifts and presents.

45% of people intend to reduce spending in this area, compared to 29% this time last year.



How will the use of gift cards be affected?

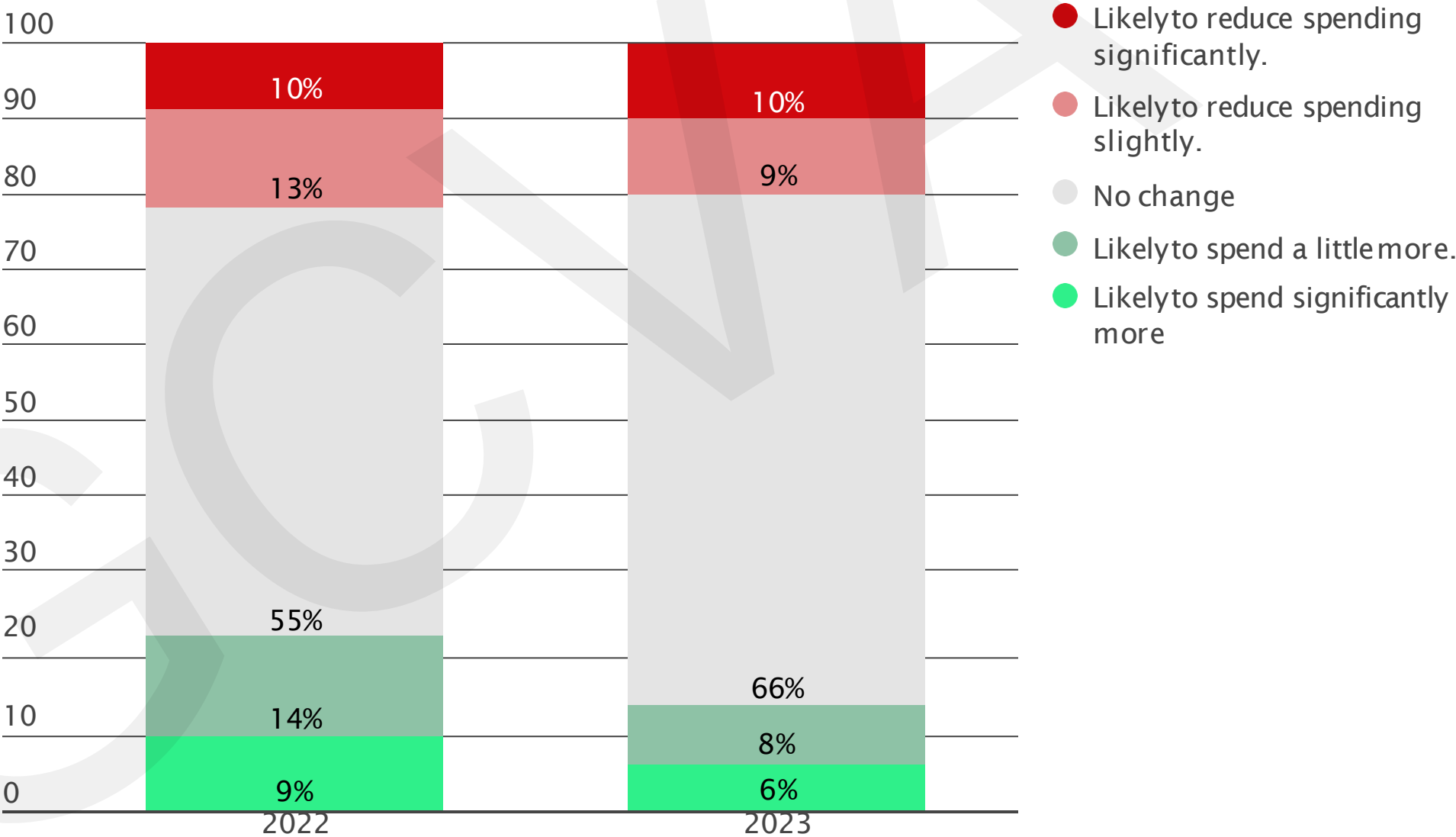
In comparison, the situation for gift cards looks much more positive.

The percentage of people looking to reduce spending as actually decreased (19% compared to 23%).

However, so has the number of people looking to increase spending (from 23% to just 14%).

This indicates that overall sales may decrease or (at best) remain flat and that growth is going to get harder to achieve.

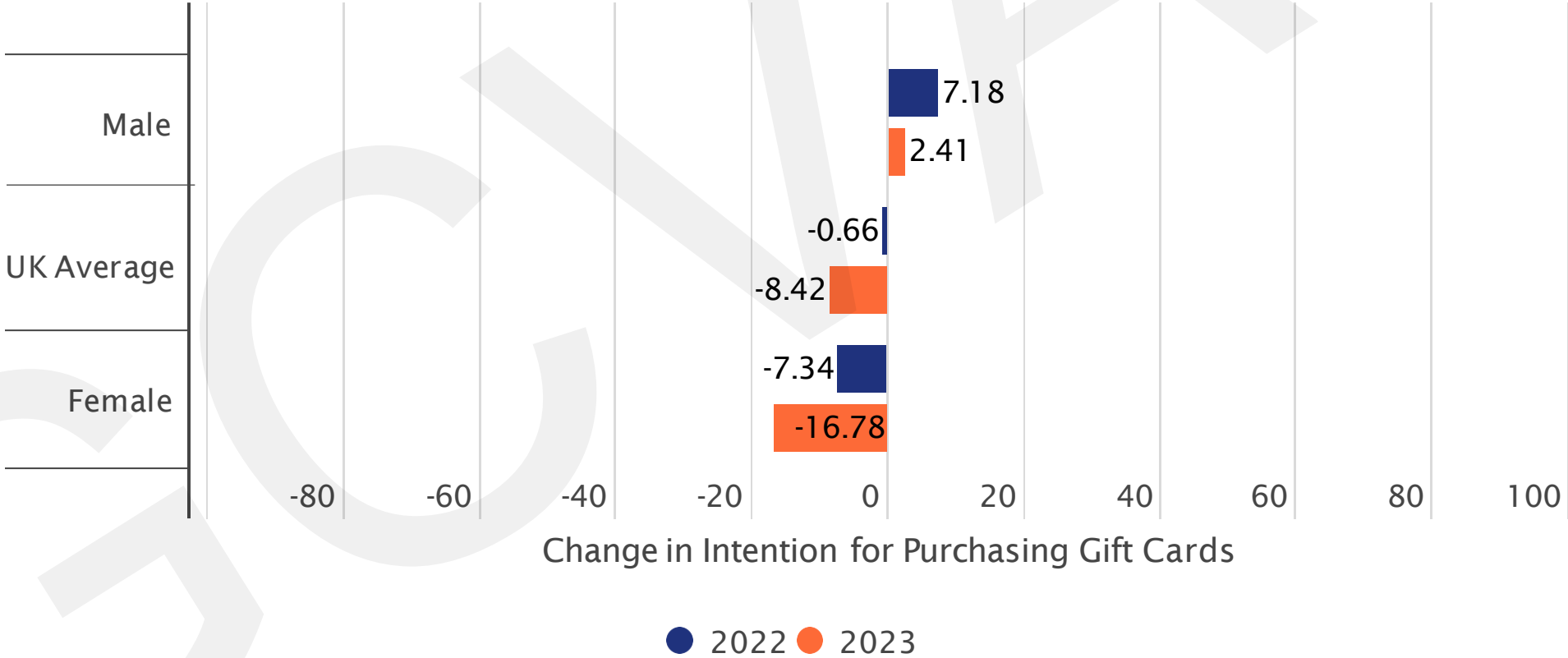
However, it does suggest that gift cards are protected against the falls seen in other forms of gift buying.



Who will buy more or fewer gift cards?

UK average and by gender

We can see that overall spending is likely to decrease, with significant falls amongst female customers (traditionally a strong market for those buying gift cards as presents).

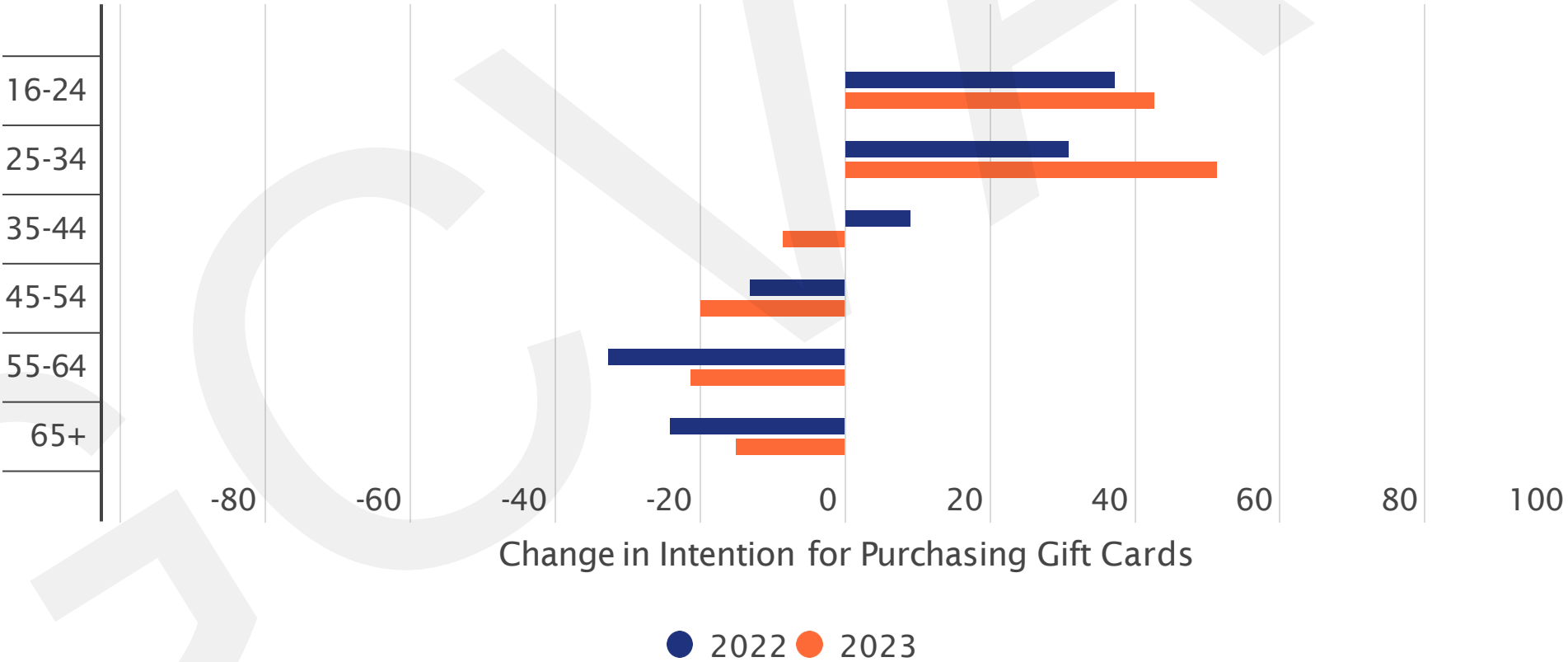


This weighted index factors takes account of the percentage of people reporting "significant change". The percentage of those reporting "significant change" (+ or -) are multiplied by two. Those reporting "slight change" are multiplied by one. Those reporting "No change" are scored at zero. This provides an index score.

Who will buy more or fewer gift cards?

By age

However, there are clear opportunities for growth amongst younger demographics with the appetite for gift cards amongst Gen Z and Millenials increasing.

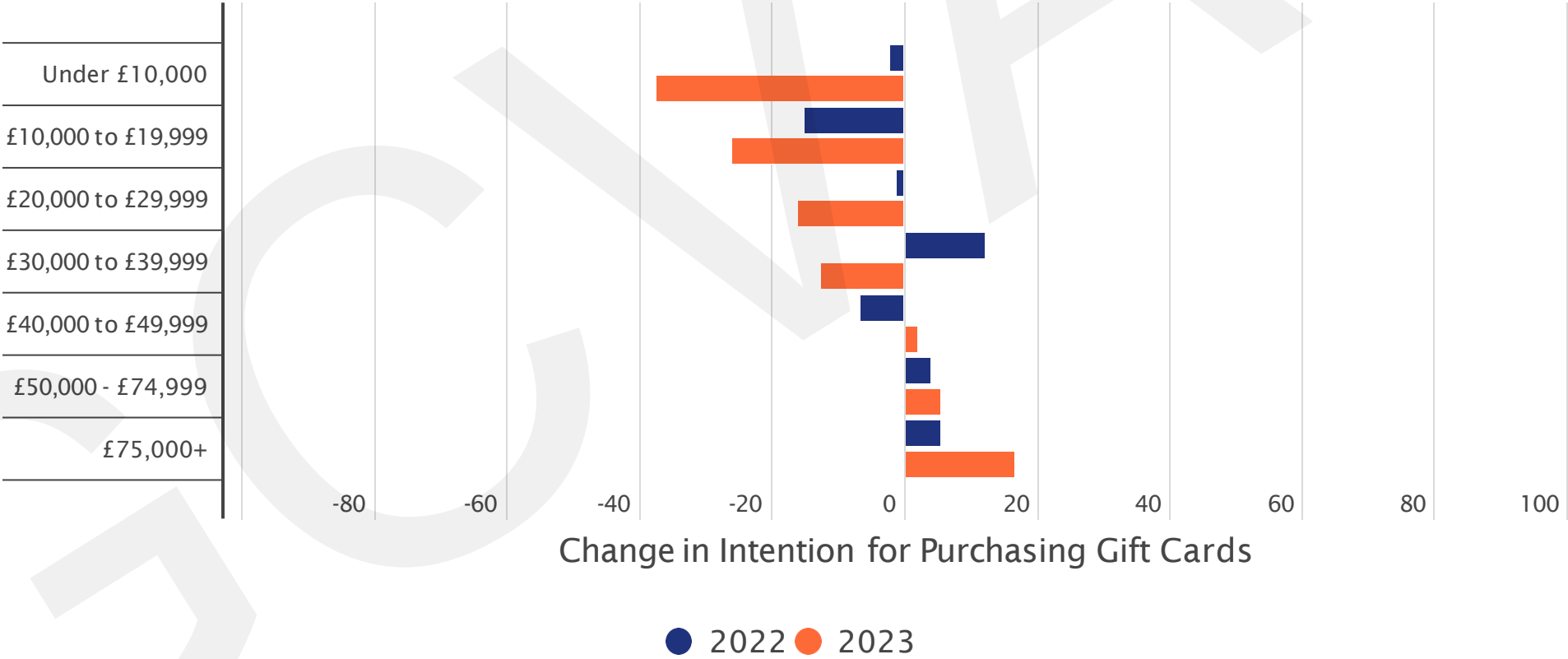


This weighted index factors takes account of the percentage of people reporting "significant change". The percentage of those reporting "significant change" (+ or -) are multiplied by two. Those reporting "slight change" are multiplied by one. Those reporting "No change" are scored at zero. This provides an index score.

Who will buy more or fewer gift cards?

By income

Similarly there are opportunities with those on higher incomes (household incomes of £40,000 and above)



This weighted index factors takes account of the percentage of people reporting "significant change". The percentage of those reporting "significant change" (+ or -) are multiplied by two. Those reporting "slight change" are multiplied by one. Those reporting "No change" are scored at zero. This provides an index score.

What factors are driving increased use of gift cards?

We asked respondents to tell us what factors increased their likelihood of purchasing gift cards. We then used AI to pick out the most common themes from all answers.

Cost issues are clearly important with cost-effectiveness and avoidance of waste featuring strongly.

AI analysis of reasons given:

1. **Convenience:** Many respondents mentioned the ease and convenience of purchasing and sending gift cards. They found it easier than trying to decide on a specific present or physically posting one. This was especially helpful when the recipient lived at a distance, making it hard to deliver a physical gift. Gift cards are also convenient as a last-minute gift.
2. **Freedom of Choice for the Recipient:** This is a key reason for many people. The recipient can choose exactly what they want, reducing the risk of unwanted or inappropriate gifts. The recipient has the freedom to select the perfect gift for themselves. This is particularly useful when the gift giver is unsure of the recipient's preferences.
3. **Cost-effectiveness:** Some people saw gift cards as a cheaper option since they could select the amount they wanted to give. Additionally, some gift cards came with discounts or cashback incentives, making them more appealing to purchase.
4. **Suitability for All Occasions:** Some respondents indicated that they would buy more gift cards because they were appropriate for many occasions, such as birthdays, weddings, or simply to show appreciation or cheer someone up. Gift cards also give the recipient flexibility to save them for when they really need or want something.
5. **Reduction of Waste:** Respondents felt that gift cards could help reduce waste as it ensures that the recipient gets something they really want or need. This also means the gift is well-received and valued.

What factors are driving increased use of gift cards?

Sample quotes from respondents:

"Ease if buying. Better than giving cash and they can buy what they want"

"So they can choose what they want to buy instead of wasting money on something they don't want or need"

Cashback incentive. Cheaper as you can chose the amount you put onto it"

"Cheaper cost. Can buy using a credit card."

"Cost-effective. Better than buying a product then thinking should get something to go with it. End up spending more than was going to."

"Cheaper as you can chose the amount you put onto it. Discounts and cashback incentive."

"So as not to waste money. The recipient can select the gift of their choice."

"So that they can choose their own gift - I don't want to spend money on something that they won't use."

"Allows them to choose and ensures money is not wasted."

How will purchases of ‘self-use’ gift cards be affected?

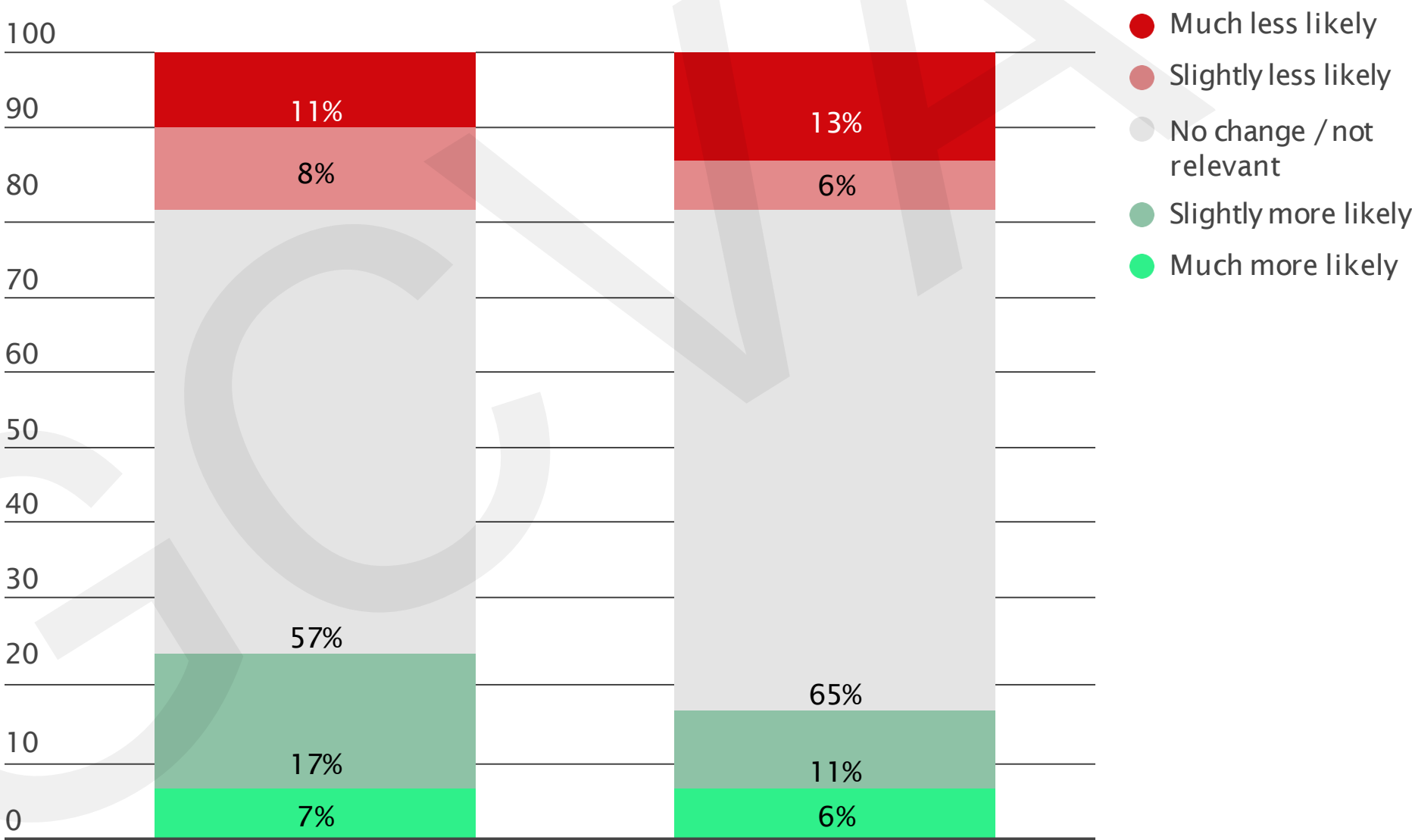
There is a similar picture with gift cards purchased for self-use.

Overall, the same percentage as in 2022 report that they are likely to spend less (19%) although the percentage planning a significant decrease rose (from 11% to 13%).

In addition, fewer people are looking to increase spending.

Overall, this suggests that spending on cards for self-use is likely to decline or remain flat.

However, this is still a much healthier picture compared to the intended purchase of physical gifts.



What factors are driving self-use of gift cards?

A reason for the is relative robustness can be seen in the analysis of people's reasons for purchase.

Many people's self-use is driven by a desire to save money or budget more effectively, showing why such purchases are likely to be relatively insulated from the current squeeze on finances.

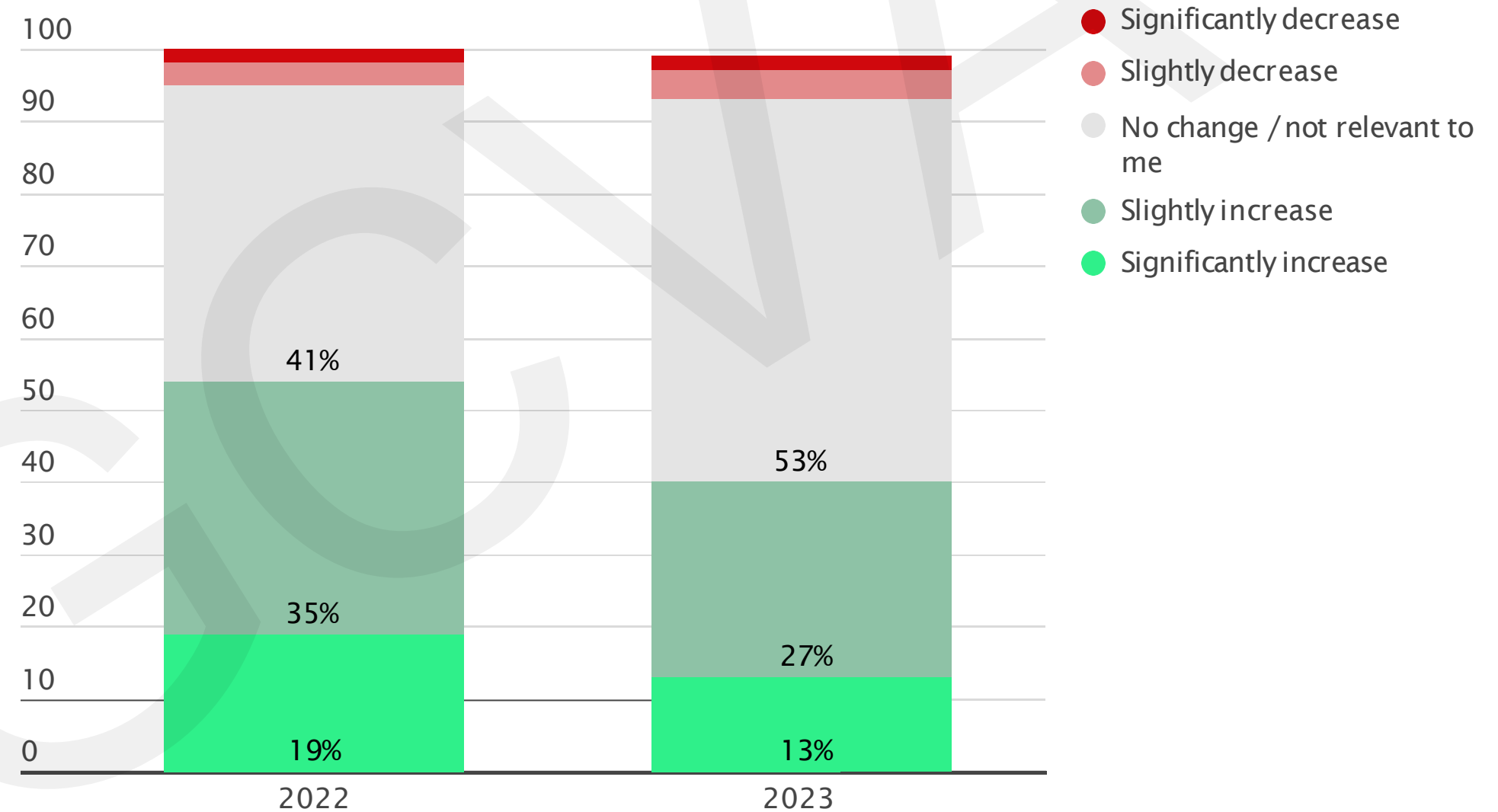
AI analysis of reasons given:

1. **Discounts and Deals:** Many customers bought gift cards for themselves because they could obtain them at a discount, get cashback, or leverage a special offer or promotion. This made purchasing the gift card a more cost-effective option than direct buying. For instance, they received incentives like "an extra bonus," "a 5% saving," or "20% off" a meal out.
2. **Budgeting and Saving:** Some consumers used gift cards as a tool to manage their finances better. They could spread the cost of their purchases, save in increments for high-priced items, or put aside money for future spending. Some even used the gift cards to ensure they spent money on what they needed.
3. **Security and Convenience:** Others chose gift cards to avoid carrying too much cash or using their bank cards every time. This method offered more control over their spending, and it also prevented them from having to share their bank details with the companies they bought from. It also facilitated online purchases when they didn't have their bank cards or couldn't spend money on certain platforms.
4. **Delayed Purchases and Stock Issues:** Some customers bought gift cards to secure a product or service they wanted but was out of stock at the time. They saw it as a form of assurance for their future purchases.
5. **Entertainment and Subscriptions:** Lastly, some people bought gift cards to use on gaming, streaming subscriptions, or TV services, often as a treat or when they received some extra money.

The opportunities for rewards and incentives

The impact of gift cards when used as rewards and incentives remains strong.

Although reduced slightly on last year, 40% of people say that their loyalty would be increased with a reasonably modest reward and incentive (in the case of this question a £50 gift card).

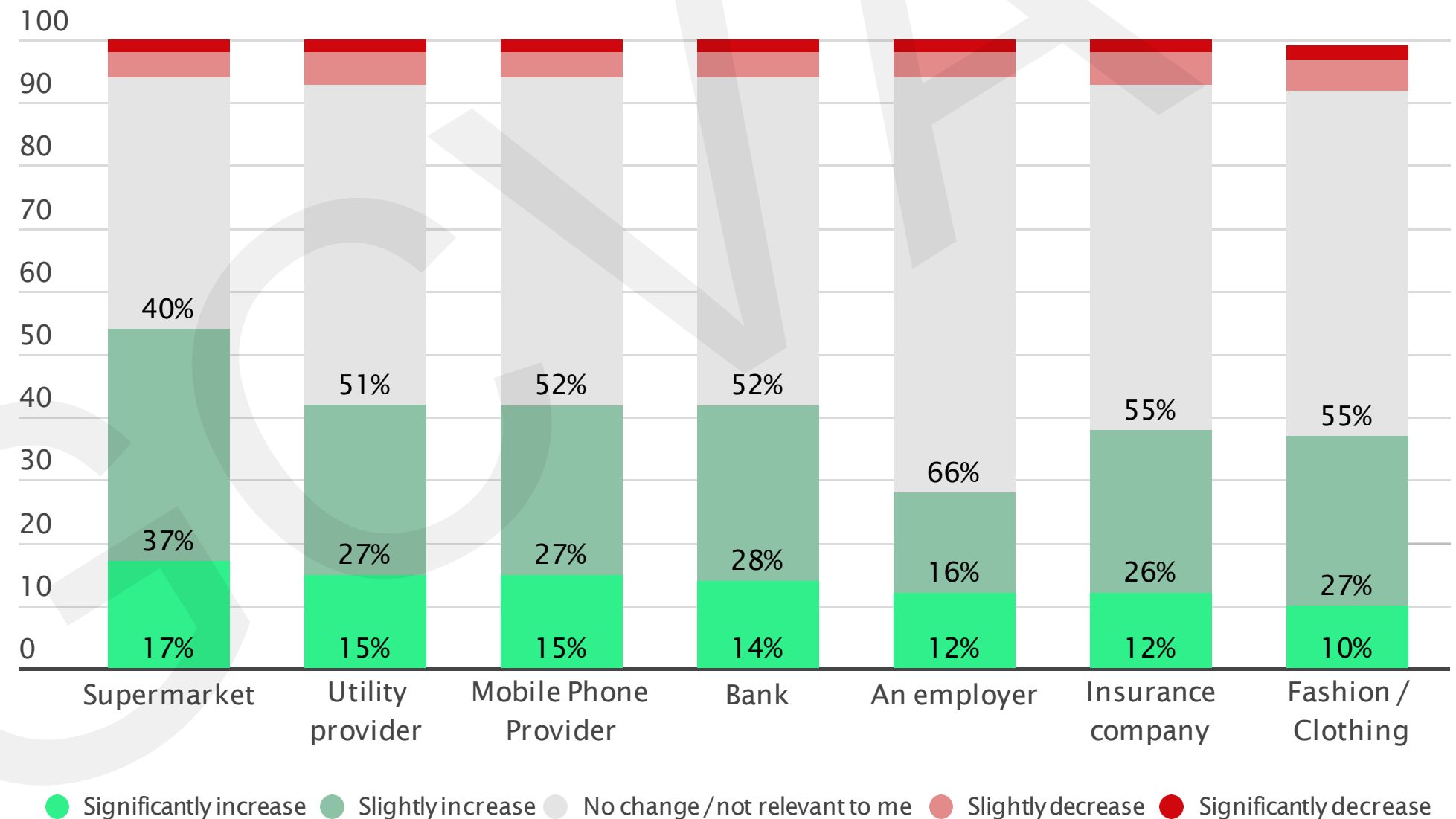


The opportunities for rewards and incentives

Rewards and incentives are effective across all use cases.

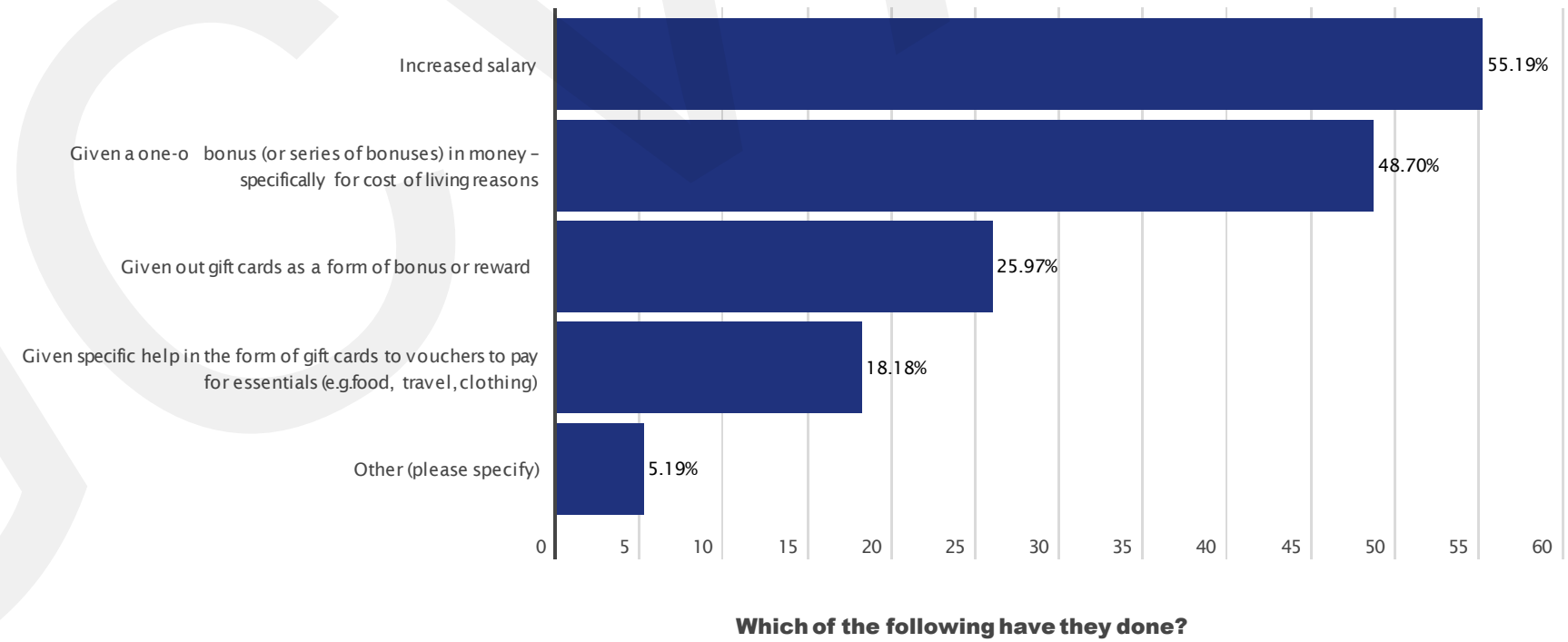
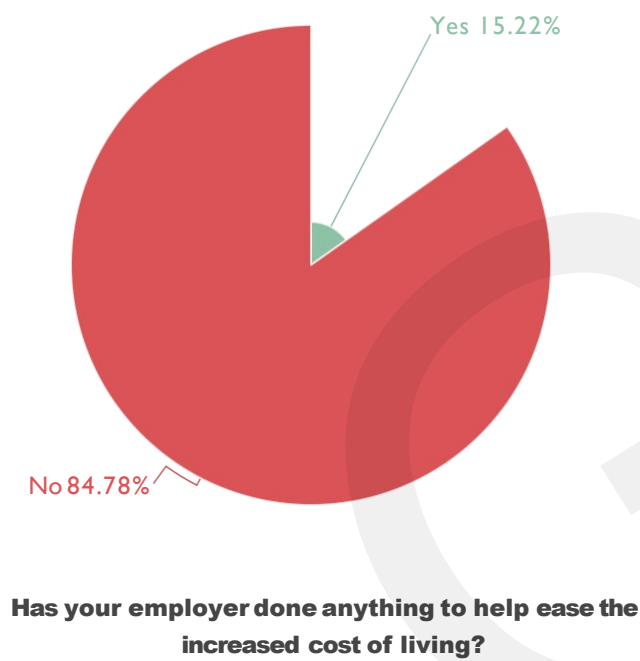
However, their attractiveness in relation to supermarkets and utility providers shows how much these everyday costs are a factor for people's household budgets after continued price rises.

A supermarket reward card is seen as having most impact on loyalty. 54% said that they were more likely to be positively influenced. 17% significantly more so.



Are employers taking this opportunity?

Despite the opportunity for increased retention, few employers have done anything to help ease the impact of increased cost of living. Of those that have, the most common measure has been to increase salary. Such measures are likely to be hard to repeat, increasing a businesses costs when they too are under financial pressures. There seems to be an opportunity for employers to make more use of gift cards to say "thank you" or help give a quick cash boost to employees. There is also a case to be made for increasing allowances for businesses to encourage more of this type of company giving at such a challenging time.



Conclusions

The costs of living crisis has increased and its impacts deepened over the last 12 months.

The price inflation of everyday goods is changing consumer behaviour significantly, with the vast majority of households cutting back spending.

This research suggests that some of this change may be permanent as consumers get used to living more frugally and being more careful about what they spend.

In the short-term at least, these changes will significantly alter gift buying habits.

However, gift cards enjoy a special position. Being seen by many as a means to 'spend better', avoid waste and access discounts.

There is an opportunity to increase education (amongst both consumers and business partners) about the importance of this role. As growth gets harder to come by, this positioning of the sector may provide a way to increase its relevance to those groups yet to wake up to these benefits.

There is also an opportunity with rewards and incentives. Providing evidence that gift cards can be used to significantly increase loyalty and retention.



Summary of Findings

- Since July 2022, 45% of the UK population reports being slightly (33%) or significantly (12%) worse off financially.
- Only 5% of the population have seen a significant improvement in their circumstances, indicating very low financial confidence nationwide.
- Middle-income earners with household incomes between £20,000 and £49,999 experienced the most significant drops in disposable income over the last year.
- High income earners reported a net increase in disposable income, likely due to rising interest rates benefiting savers and investors more than borrowers.
- There has been a net income decrease among full-time employees compared to last year when income increases and decreases were balanced.
- Students are significantly impacted by rising costs of living and rent.
- Homeowners without a mortgage are more financially insulated than those with a mortgage, while renters are experiencing the most significant impact from cost of living increases.
- Rising prices for everyday goods and services, including food, heating, clothing, and travel, are significantly straining budgets.
- The impact of interest rate rises on mortgages is not yet fully realized due to fixed-rate deals, but could cause increased costs as those deals end.
- In response to the cost of living crisis, 69% of households have changed their spending habits. Over half (57%) are limiting monthly spending, and 44% have reduced their budgets for gifts.

Continued....

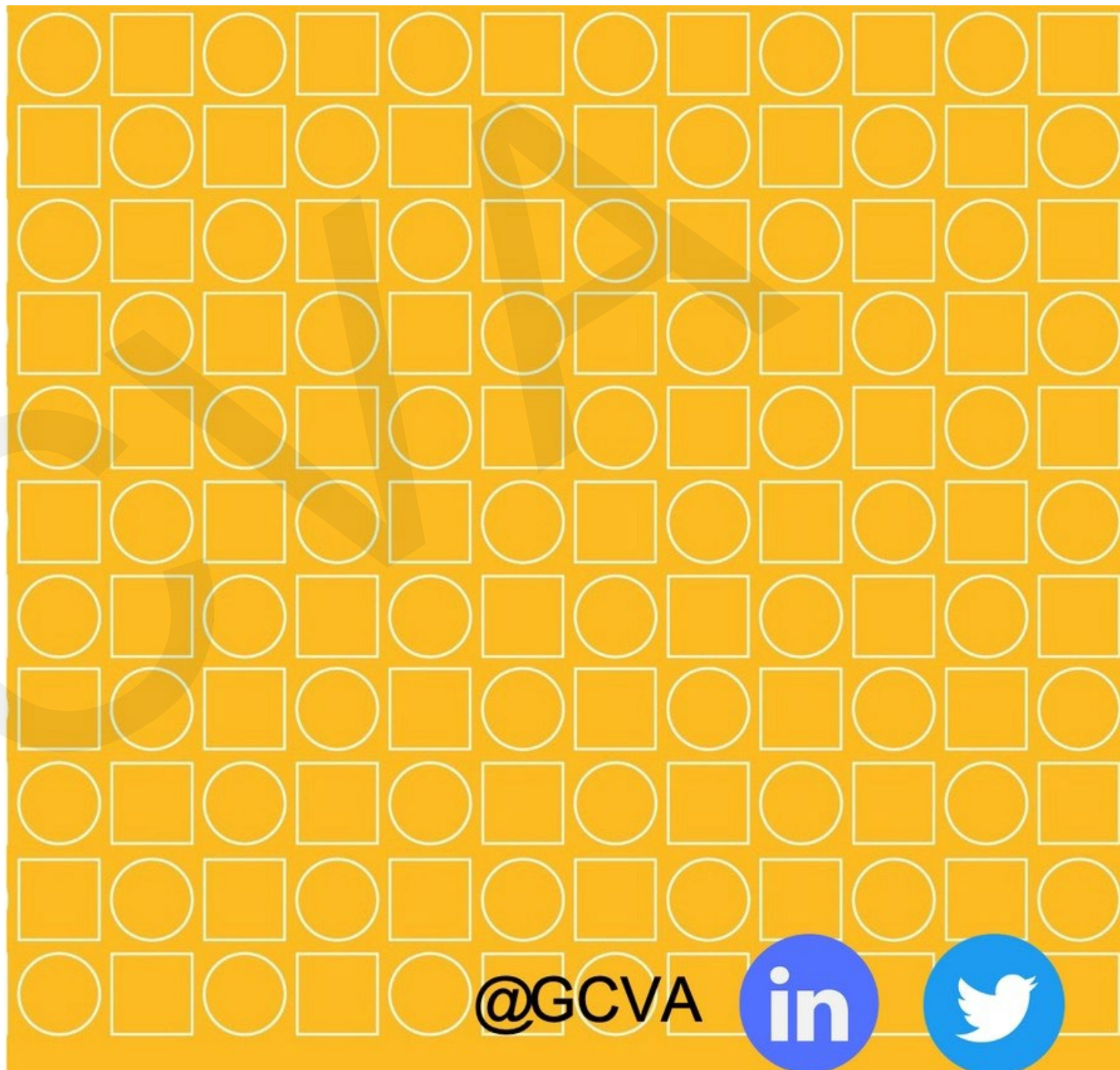


Summary of Findings

- Many of these changes are likely to become permanent as people adapt to more frugal lifestyles, with more than half of those cutting back on gifts planning to make that change permanent.
- 45% of people intend to reduce spending on gifts, up from 29% last year.
- The market for gift cards seems more positive, with fewer people planning to reduce spending in this area (19% compared to 23%), and these are seen as protected from the spending cuts affecting other types of gifts.
- Despite overall spending likely to decrease, there are growth opportunities among younger demographics (Gen Z and Millennials) and higher income groups (£40,000 and above) in the gift card market.
- Spending on gift cards for self-use is likely to decrease or remain flat, although the situation is more positive compared to the planned purchase of physical gifts.
- 40% of people say their loyalty would increase with a modest reward or incentive, like a £50 gift card, particularly in relation to supermarkets and utility providers due to rising everyday costs. Supermarket reward cards have the most significant impact on loyalty, with 54% of respondents more likely to be positively influenced.



G



@GCVA

