

The background features a dark blue gradient with glowing teal and orange lines. Overlaid on this are various data visualization elements: a bar chart with teal bars, a line graph with a red line, and a grid of binary code (0s and 1s) in a light blue color. The overall aesthetic is futuristic and data-driven.

# The Autumn Budget and its long-term impact on the UK consumer and economy

H2 2024 UK Economic and Consumer Forecast

November 2024

## Contents and authors



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01	<b>Executive summary</b>	03
02	<b>Labour’s inherited economy has short-term ‘green shoots’ but long-term structural challenges</b>	06
03	<b>Consumer sentiment is improving, but spending growth remains modest, posing medium-term risk</b>	13
04	<b>The Autumn Budget focuses on increasing long-term strategic investment to stimulate growth; will it pay off for the UK consumer?</b>	24

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Section 01

# Executive summary

## Executive summary

This week, Chancellor Rachel Reeves delivered Labour's first budget in 14 years, kickstarting the age of big spending by government.



**Gee Lefevre**  
Senior Managing Director  
*Consumer and Economics Lead*

**The Labour Government embarked on a bold new strategy in this week's Budget. Against a backdrop of low growth and lower fiscal revenues, Chancellor Rachel Reeves set out a Budget that significantly increases the tax burden on all businesses and many workers. However, her Budget lives or dies by whether her tax raid can be strategically invested to end the UK's growth deadlock and stimulate long-term economic progress. Crucially, will this gamble pay off for workers and consumers?**

After a turbulent few years, the UK economy began to show some signs of improvement in H1 2024. The UK demonstrated better-than-expected growth in Q2'24 (0.6% QoQ), UK inflation continued to fall – reaching 3.1% in July '24 – and interest rates began to decrease, albeit slowly. But these short-term trends mask long-term structural challenges that the UK faces. UK GDP continues to remain stubbornly stagnant, there is persistent inflationary pressure in the services sectors and limited economic growth. An unexpected pandemic and supply chain shortages have led to a significant increase in public debt in the last five years, while Brexit left the UK less prepared than comparable countries to accelerate out of the 'Covid-years.' This has all continued to stifle consumer sentiment and spending growth.

Labour has responded to its challenging fiscal and economic inheritance by flexing its natural instincts – higher taxes, higher borrowing and higher public spending. In the short-term, these actions are unlikely to affect consumers, whose household disposable income will continue to grow, at least very gradually, due to wage and benefit rises alongside curbed inflation. Businesses will feel a more immediate pinch when employer NICs increases to 15% in April 2025, and these costs will filter down to employees and consumers over the longer term. Labour will be banking on their gamble to amend the net debt definition – which allows them to borrow more to fund capital investment – to enable the UK to turn an economic corner and move towards sustainable growth. For that to work, three things must happen.

**First**, the government must invest in the right areas. On the demand-side, it will need to select high-growth markets where the UK is well-positioned to be a word leader. On the supply-side, it will need to invest in public services to build a large, highly skilled, highly connected workforce. But previous large public sector investments have often not yielded economic improvements. Therefore, 'how' Labour executes these investments is as important as 'what' investments it selects. **Secondly**, the government hopes its capital investments create a virtuous circle of long-term productivity gains, higher growth and increased fiscal revenues – this will require not just investment, but effective and efficient spending by government. **Finally**, Labour hopes that these economic improvements filter down to consumers to grow household income long-term.

This Budget marks the start of ***the age of big spending by government***. But consumers will not feel wealthier tonight and employers will feel the pain of higher NICs. The government's areas of spending appear sensible to stimulate growth, but whether it will pay off for consumers will come down to Labour's ability to execute.

# The Autumn Budget sets out a combination of tax increases and investments

Chancellor Rachel Reeves has presented a plan that raises £40bn primarily from business taxes, especially targeting employer National Insurance contributions (NICs), and promises £100bn in capital investment over the next 5 years.

Key Autumn Budget 2024 announcements (non-exhaustive)



## Taxes and duties

- Current income tax thresholds will be frozen until 2028/2029
- Employer NICs will increase to 15%
- Capital gains tax, windfall tax, stamp duty on second homes and air passenger duties will see uplifts



## Employment and welfare

- The minimum wage for adult workers will rise by 6.7% to £12.21 per hour
- State pension spending will increase by 4.1% in 2025-26, worth up to £470 more, with the pension credit minimum guarantee also increasing



## Energy

- Multi-year funding for carbon capture and storage and 11 green hydrogen projects across the UK
- Funding is provided to establish GB Energy in Aberdeen as part of the commitment to make the UK a clean energy leader



## Transport

- Incentives for electric vehicles through company car tax schemes will continue beyond 2028
- Funding is secured to extend HS2 to Euston Station
- £500m increase for road maintenance to help fix potholes



## Education

- Schools will receive a 19% real-terms funding uplift, with £6.7bn allocated to the DoE, £1.4bn for rebuilding 500 schools and £2.1bn for maintenance
- Funding for special needs and disabilities will increase by £1bn



## Healthcare

- NHS funding increase of £22.6bn over two years for service expansion and reduced wait times
- Investment of £3.1 billion for NHS capital projects, including diagnostic hubs, equipment and maintenance



## Housing

- Investments worth £5bn in housing, expanding the Affordable Homes Programme to £3.1bn and supporting builders with £3bn in guarantees
- Right to Buy discounts will be reduced and local authorities can retain receipts to reinvest in housing



## Industrial strategy

- Strategic investments of £1bn to aerospace, £2bn to automotive and £520m to the Life Sciences Innovative Manufacturing fund
- More than £20bn to support R&D, including £6.1bn for core research areas such as biotechnology





Section 02

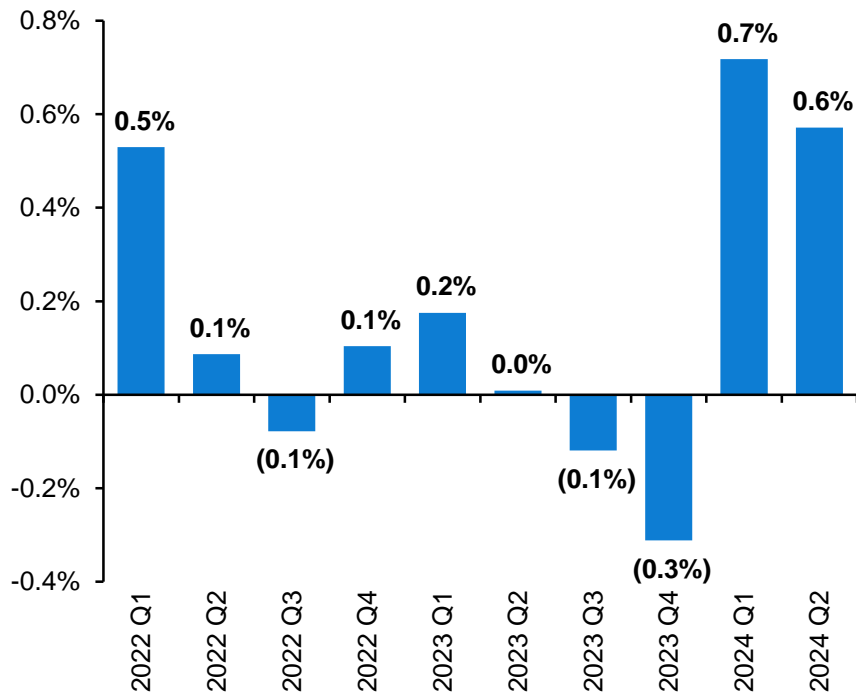
**Labour's inherited economy has short-term 'green shoots' but long-term structural challenges**

# UK GDP has rebounded modestly

Following a technical recession in Q4'23, the UK economy demonstrated better-than-expected growth in Q2'24, driven by greater services output.

## UK economy expanded by more than expected in Q2'24

UK GDP growth, 2022-2024, QoQ



GDP Driver	Q2'24 Growth	Q2'24 Contribution	Description
Services	0.8%	↑	<ul style="list-style-type: none"> <li>Services output was the key contributor to Q2'24 GDP growth, expanding by 0.8% in the three months to June 2024</li> <li>Output improved in 11 out of 14 subsectors for both business-facing and consumer-facing services, driven by a 1.0% increase in business-facing services</li> <li>However, consumer-facing services fell by 0.1% overall, driven by a 1.4% decline in services related to motor vehicles and motorcycles</li> </ul>
Production	(0.1%)	↓	<ul style="list-style-type: none"> <li>Production output dropped in Q2'24 compared to Q1'24, falling by 0.1%</li> <li>The decrease was primarily driven by a 0.6% decline in manufacturing output, with 9 out of 13 subsectors showing falls in Q2'24</li> </ul>
Construction	(0.1%)	↓	<ul style="list-style-type: none"> <li>Construction output is estimated to have fallen 0.1% in the three months to June 2024</li> <li>The Bank of England reports that the rate of annual decline in construction output is easing and the industry's sentiment is improving due to stabilising costs and a reduction in the Bank of England's base rate</li> </ul>

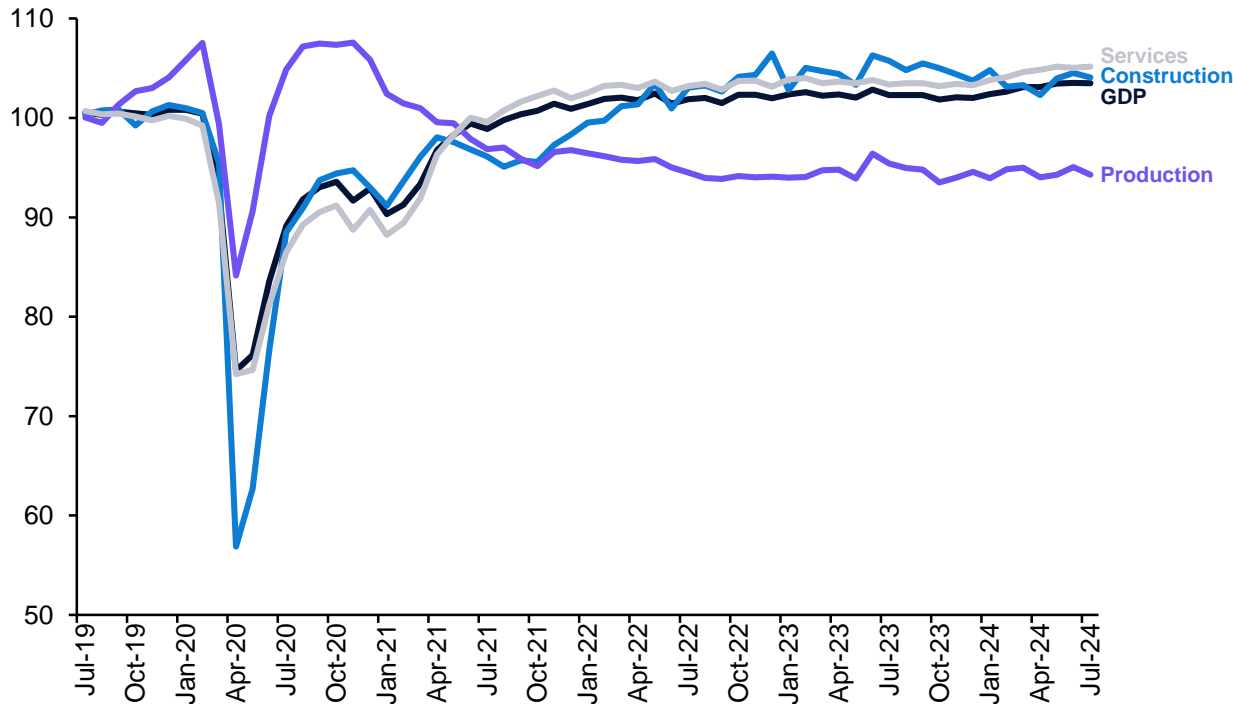
Source(s): ONS; The Guardian; FT; Bank of England; Teneo research and analysis

# However, UK GDP is showing signs of stagnation

Despite strong growth in Q1 and Q2, the UK economy unexpectedly stagnated for a second consecutive month in July, driven by drops in construction and manufacturing and weak growth in services.

## GDP stagnated in July 2024, especially in construction and manufacturing

Indexation of monthly GDP and main sectors, July 2019-July 2024



### Historic

The largest contribution to July's unexpected GDP flatline was a **1% drop for manufacturing**, driven in turn by a **3.5% decrease for the automotive sector** and a **4.7% decrease in machinery and equipment manufacture**



### Forecast

The Bank of England **had expected quarterly GDP growth to fall** to 0.2% in Q4; the OBR now anticipates an uplift due to increased government spending, with 0.3% and 0.5% average quarterly growth in 2024 and 2025, respectively

Source(s): ONS; The Guardian; FT; Bank of England; Teneo research and analysis

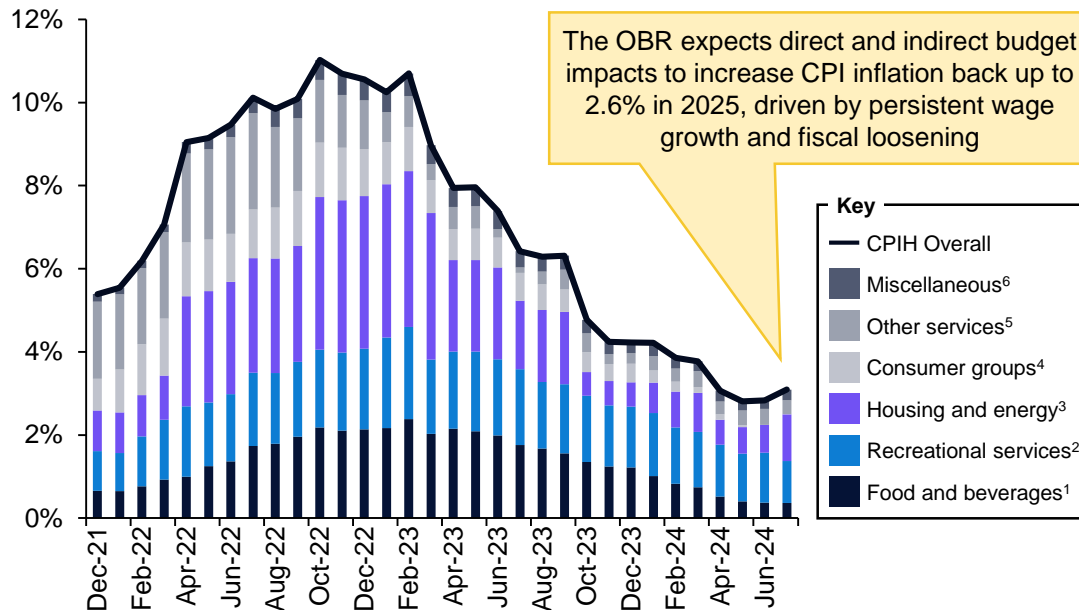


# Inflation appears under control on the surface, but this hides the reality for consumers

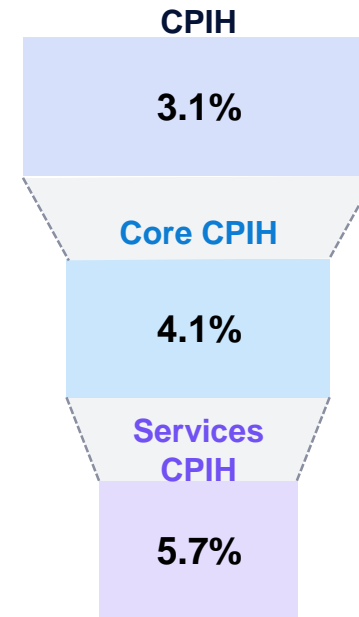
UK inflation continued to fall in the first half of 2024, driven by reduced prices for consumer goods, food and beverages, which benefit from easing energy and input costs; however, persistent inflationary pressures remain in consumer-facing services.

## UK inflation has continued its downward trajectory, reaching 3.1% in July'24

UK CPIH by category, Dec 2021-July 2024



## Underneath the headline figures, there is persistent inflationary pressure in the services sectors



UK CPIH rose to 3.1% in July 2024, driven by an increase in the cost of housing and household services

Excluding food, energy, tobacco and alcohol, the UK's core inflation rate **only fell from 4.2% to 4.1%**, which is still significantly higher than BoE targets

Services inflation has **only dropped from 6% in June to 5.7% in July**, a lower decrease than initially projected by the BoE

Source(s): ONS; British Retail Consortium; Bank of England; Teneo research and analysis

Note(s): 1. Food and non-alcoholic beverages, alcoholic beverages and tobacco; 2. Recreation and culture, restaurants and hotels; 3. Housing, water, electricity, gas and other fuels; 4. Clothing and footwear, furniture, household equipment and maintenance; 5. Health, transport, communication and education; 6. Miscellaneous goods and services

# Services inflation remains (and will remain) high

The slower inflation decline in the consumer-facing services sectors is primarily driven by wage growth and labour shortages, which may present structural inflationary risks to the UK economy.

There are three main factors currently contributing to services inflation in the UK:

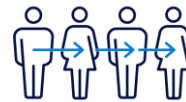


## Wage growth

As labour costs are a key component of the services sectors, the **continued wage growth in the UK** (6.0% growth in April) and the **c. 10% April 2024 increase in the National Living Wage (NLW)** have put significant inflationary pressure on the economy.

*“Over the spring, early summer, what you should get is a pretty helpful base effect pushing the pay growth numbers down, but you’ve got less of that happening in April because of the effects of the NLW hike.”*

– Philip Shaw  
Chief economist at Investec



## Labour shortages

The UK's **vacancy and economic inactivity rates remain above pre-pandemic levels**, keeping the labour market tight. In addition, the proposed **immigration initiatives** in the UK will likely put **further pressure** across almost all services sectors.

*“We’ve been saying for some time that we thought services inflation would be a lot harder to get down...particularly with the backdrop of the UK labour market which has loosened but is still very, very tight.”*

– Cathal Kennedy,  
Senior UK economist at RBC  
Capital Markets



## Lack of resilience in hospitality

Unlike retail trading businesses, the hospitality industry has more **complex operating models** and is **not able to quickly adjust to changes in energy and commodity prices**, leading to prolonged periods of inflationary pressure across the sector.

*“Times are tough at the moment. We’ve really been hit by the aftermath of the pandemic, by Brexit, by the cost of living crisis...these factors have made the industry really difficult to navigate.”*

– Adam Quayle,  
Joint director at Box of Tricks

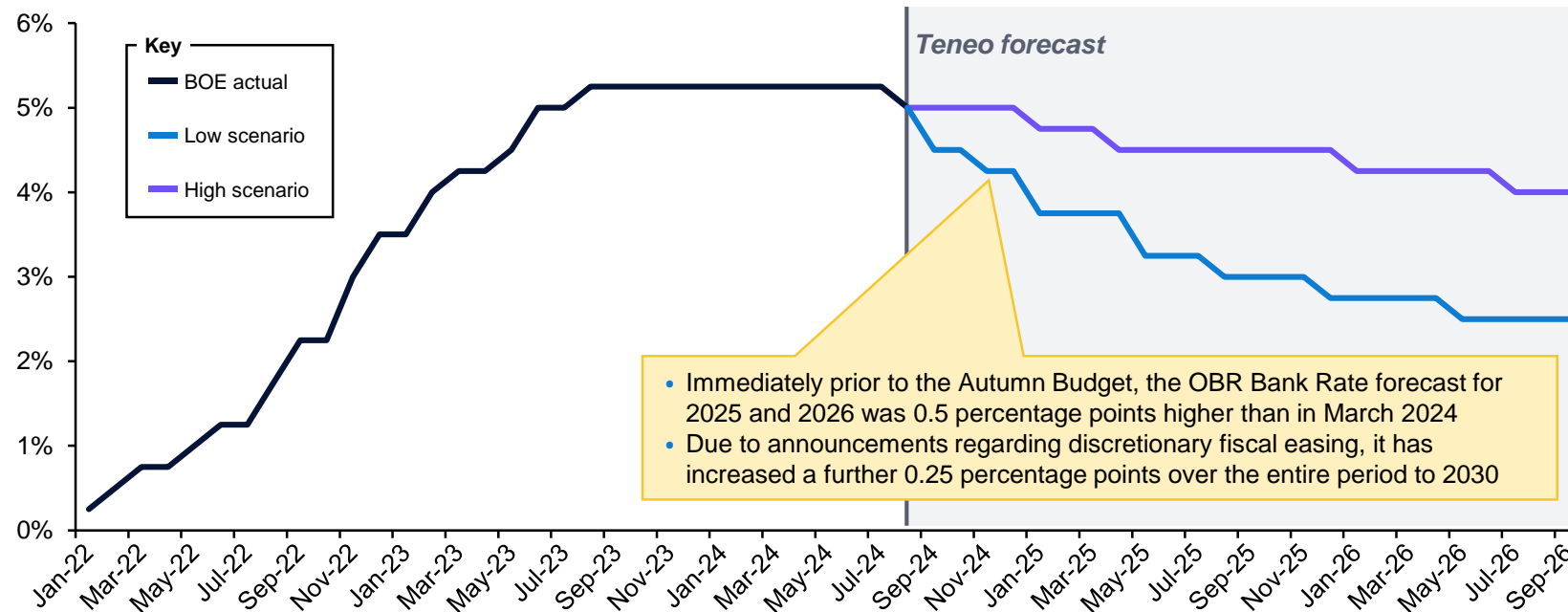
Source(s): Financial Times; Bloomberg; Guardian; ONS; Reuters; BBC; Gov.UK; Teneo research and analysis

# Interest rates are likely to decline very slowly

Falling inflation has increased the pressure on the BoE to reduce interest rates; however, this will likely only come when they are content that services inflation has fallen further.

The risk of persistent services inflation will likely lead to a more gradual interest rate reduction by the BoE

BoE interest rate projection, 2022-2026F



Following a sustained reduction in inflation, the Monetary Policy Committee **cut its Bank Rate by 0.25 percentage points to 5%** on 31 July 2024, followed by no change in September



This is anticipated to have a knock-on effect on interest rates for mortgage holders, affecting 1.6m expiring fixed rate mortgage deals in 2024



These reductions have already started happening – the average rate for a new two-year deal is now 5.5% according to Moneyfacts, the lowest for more than a year

Source(s): ONS; BBC; The Guardian; FT; Bank of England; Teneo research and analysis

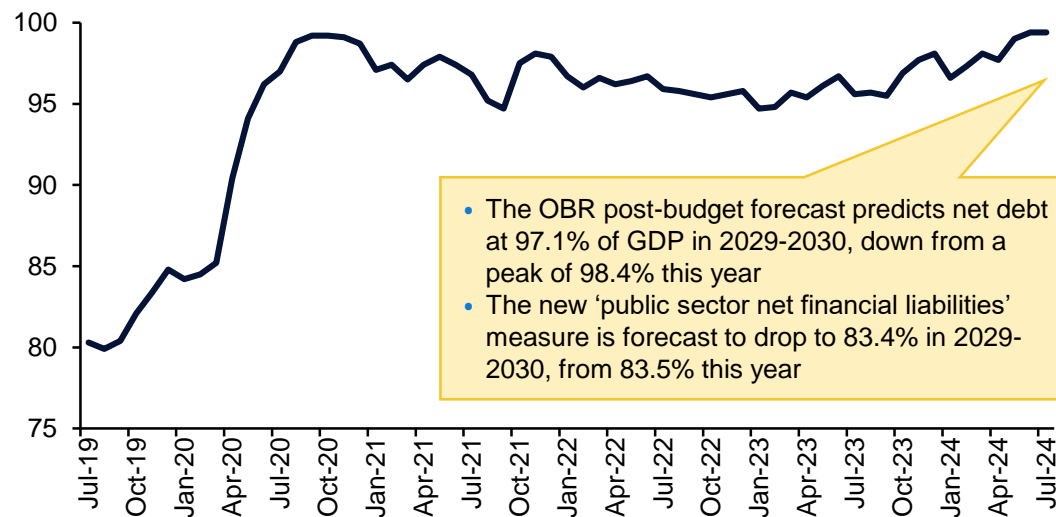


# Net debt remains high

Limited economic growth, an unexpected pandemic that required significant fiscal stimulus and supply chain shortages have led to a significant increase in public debt in the last five years.

## Net debt is currently at an all-time high

Net debt (excluding public sector banks) as a % of GDP, July 2019-July 2024



## It is likely that the UK's debt levels will remain high



### Defence

Labour has committed to spending 2.5% of the UK's GDP on defence due to increased global tensions, up from 2.3% in 2023



### Transition to Net Zero

Labour has committed to decarbonising electricity in the UK by 2030 and has now announced significant investment into green energy



### Ageing population

An ageing population will increase health and social care costs. Pension costs will also continue to rise due to the 'triple lock' and an increased number of pensioners



### New debt rules

However, the UK Government will change the debt rules to facilitate capital investment – offsetting public assets is expected to release up to £50bn

**While the new Labour Government is committed to reducing net debt, its changes to the net debt rules will increase its room to manoeuvre and invest to stimulate growth**

Source(s): ONS; The Labour Party; UK Parliament; NATO; Teneo research and analysis

The background of the slide is a photograph of a row of terraced houses. The houses are built of light-colored brick and have white-framed windows. The sky is a clear, bright blue. A vertical light gradient is applied to the image, fading from a darker blue on the left to a lighter blue on the right. The text is overlaid on the left side of the image.

Section 03

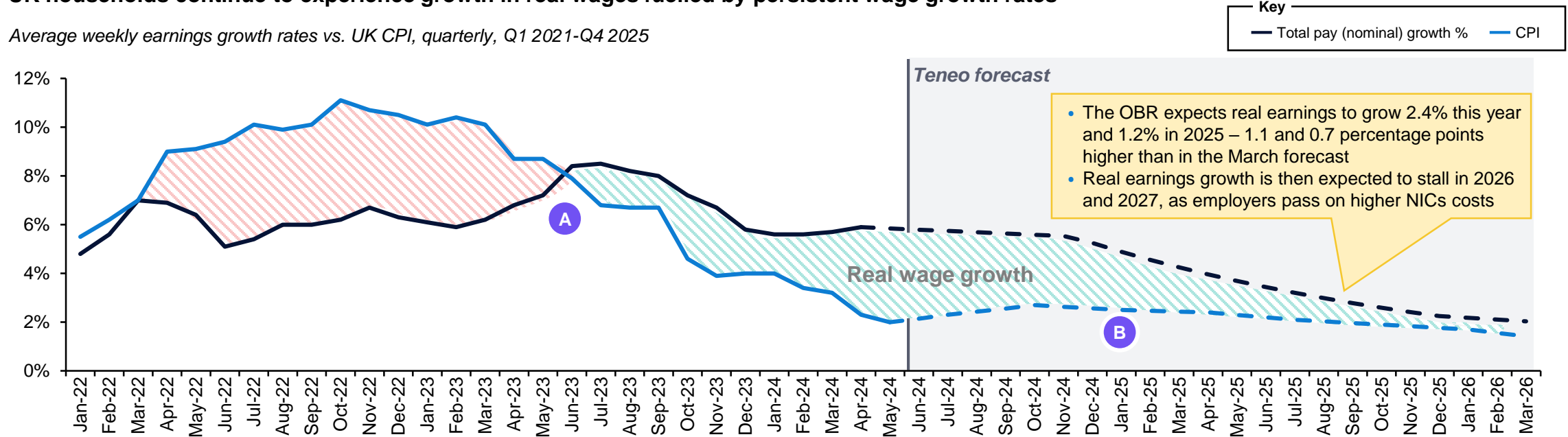
**Consumer sentiment is improving, but spending growth remains modest, posing medium-term risk**

# Real wages are recovering

The continued growth of wages and declining inflation have resulted in a prolonged improvement in real wages since July 2023, which is expected to continue throughout the remainder of 2024 and 2025, leading to higher levels of disposable income.

## UK households continue to experience growth in real wages fuelled by persistent wage growth rates

Average weekly earnings growth rates vs. UK CPI, quarterly, Q1 2021-Q4 2025



**A** As inflation started to decline in early 2023 and labour market tightness pushed wage growth higher, **real wages started to recover from the contraction** of the previous c. 18 months

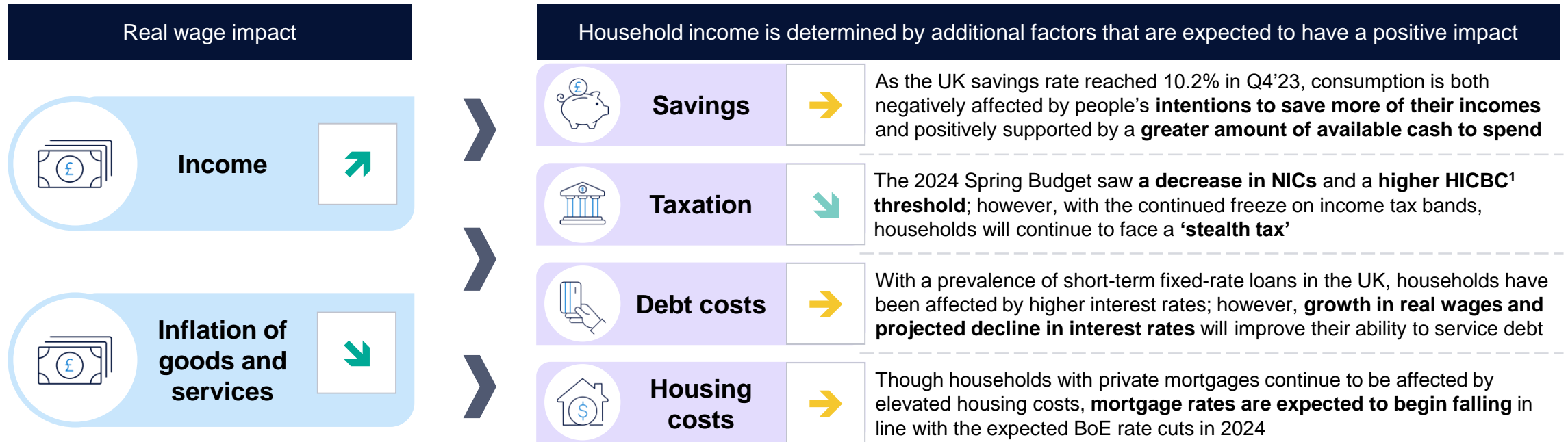
**B** This recovery in real wages to 2021 levels is not expected to occur until **early 2025** at the very earliest, **despite persistent real wage growth** throughout the coming year

Source(s): ONS; OECD; RSM; Teneo research and analysis



# The household income picture has been more complex so far this year

In addition to growing real wages, overall household wealth levels were further supported by the Spring Budget's tax decreases and stabilised debt servicing and housing costs.



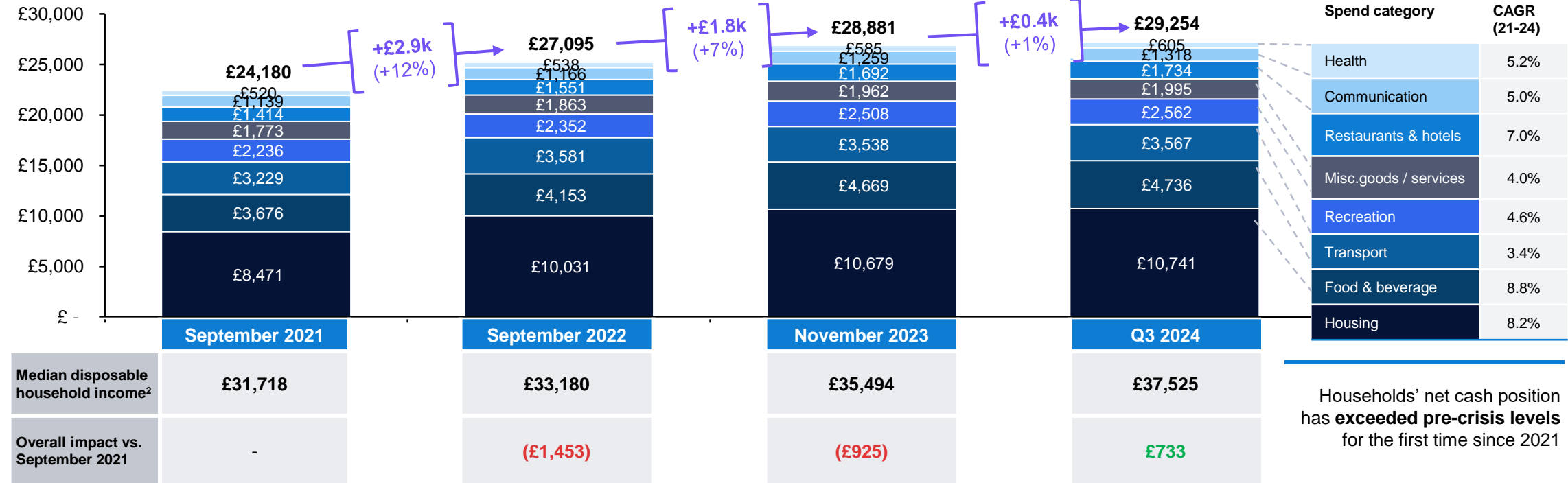
Source(s): ONS; Fitch Ratings; Teneo research and analysis  
 Note(s): 1. HICBC = High Income Child Benefit Charge

# Household net cashflow reached 2021 levels for first time

With the continued growth of real wages, households' cash position has improved above 2021 levels due to a substantial decrease in spending growth across all categories and higher disposable income due to wage growth and recent tax cuts.

Household's net cash position has improved due to growth in real wages, returning to pre-crisis levels

Median<sup>1</sup> household spending in £, 2021-2024



Households' net cash position has **exceeded pre-crisis levels** for the first time since 2021

Source(s): ONS; Bank of England; Teneo research and analysis

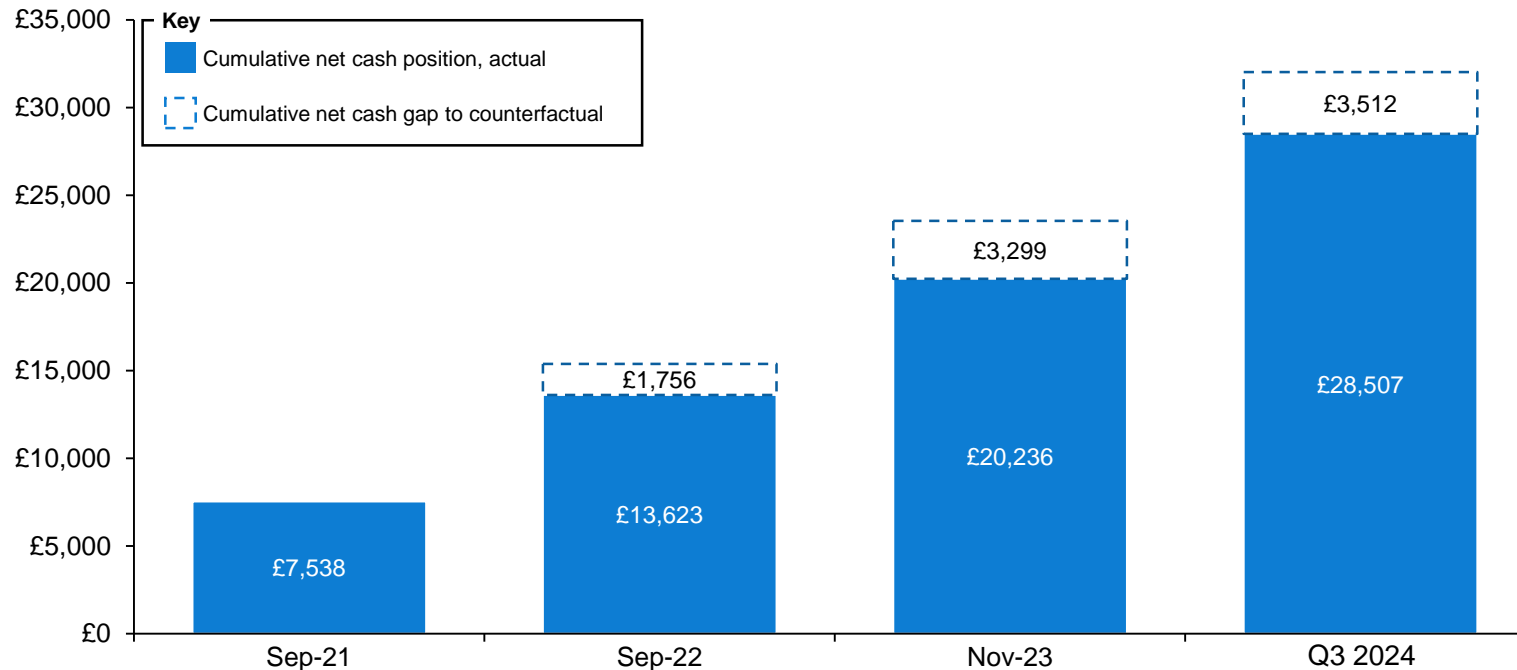
Note(s): 1. Education, consumer debt and clothing spend omitted from graph, but included in total (to aid legibility); 2. Median disposable income is after tax

# Consumers are overall £3,500 worse off due to the cost of living crisis

Despite recent improvements, on a cumulative basis, households are still significantly worse off in cash terms due to the prolonged period of falling household cashflow between 2021 and 2023, which will likely take several years to rebound.

## UK consumers lost two years of net cash growth due to the cost-of-living crisis

Cumulative median household net cash position<sup>1</sup>, 2021-2024, actual vs. counterfactual<sup>2</sup>



Even though the net cash position exceeds 2021 levels, cumulatively, **households in the UK are c. £3,500 worse off** because of the cost of living crisis



We project **it may take up to four years for consumers to fully mitigate the net cash gap**, assuming the return to pre-crisis growth rate of 4%



Overall, **UK consumers are one of the worst impacted** by the cost of living crisis in Europe, behind Germany, France and Italy, and on par with the Netherlands

Source(s): ONS; Bank of England; GreenMatch; Teneo research and analysis

Note(s): 1. Calculated as median household spending minus median household disposable income after tax; 2. Counterfactual is calculated using the household net cash 2015-2019 CAGR of 4%



# The cost of living crisis has hit certain groups harder than others so far

Older and more wealthy households have been better shielded to date from economic uncertainty than other demographics.

## Demographic groups least impacted by cost-of-living challenges



65 – 74 age group



Private homeowners  
(no mortgage)



High-income  
households



Social housing (*relative to low-income households privately renting*)



## Demographic groups most impacted by cost-of-living challenges



Families



Low-income groups  
(*due to lack of spending buffer*)



30-49 age group



Upper-middle and  
middle-income  
households



Homeowners  
(with a mortgage)

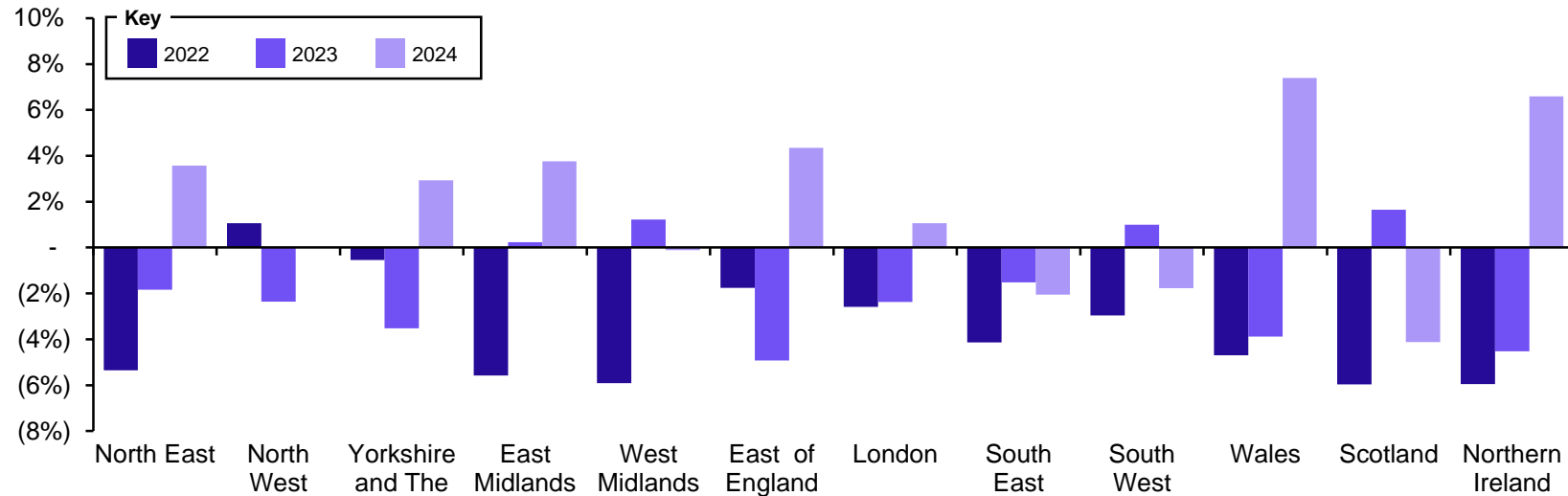


# The cost of living crisis has been felt most heavily in Scotland and the South East

Since the start of 2022, real wages have fallen most in Scotland and the South East; regions such as the East of England, the East Midlands and the North West have seen increases.

## Real wages are rising across most regions in 2024

Real YoY wage inflation, by region, 2022-2024



In 2022, regions like the **North East, East Midlands and Northern Ireland** were hit hardest, with real wages falling as low as (5.95%) in Northern Ireland

However, these regions have also seen the **biggest rise in real wages in 2024**

In contrast, **London and the South East**, which were least impacted in 2022, have seen the **smallest growth in real wages in 2024**, with real wages falling by 7.34% in the South East

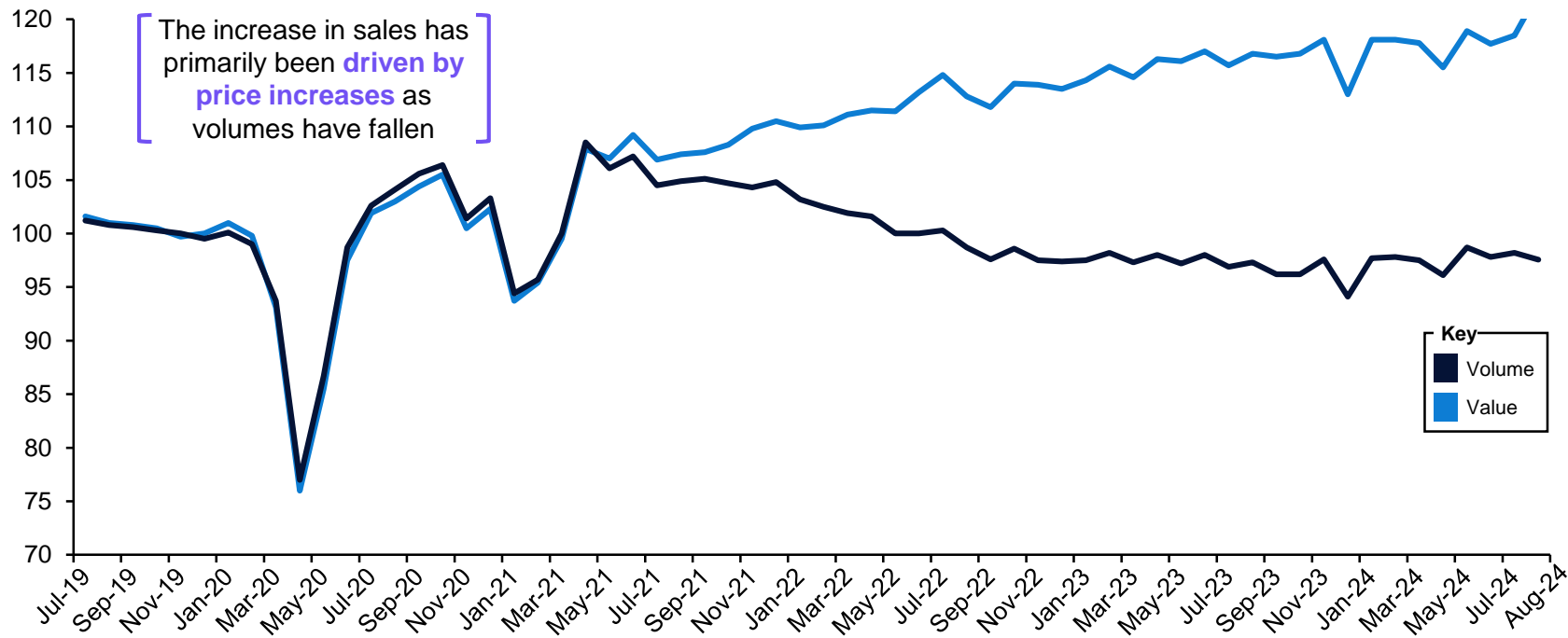
Total impact	(2.81%)	(0.34%)	(0.08%)	(0.58%)	(4.21%)	(1.44%)	(3.10%)	(7.34%)	(3.06%)	(0.23%)	(8.32%)	(3.22%)
Avg, weekly wage <sup>1</sup>	£678	£727	£710	£731	£726	£838	£998	£856	£752	£725	£728	£669

Source(s): ONS  
 Note(s): 1. YTD average weekly wage from Jan 2024 – Jun 2024

# Retail activity remains below pre-pandemic levels

While retail sales from a volume perspective have reached their highest levels since August 2022 in the last three months, they still remain below 2019 levels.

Volume and value sales, seasonally adjusted, Great Britain, July 2019 – July 2024 (2019=100)



Retail sales increased by **0.5% year on year in July 2024**, a recovery from the **washout month of June** when colder weather deterred shoppers from spending on the high street



Consumers bought **summer clothes and health and beauty products** in preparation for holidays, however, they **cut back on furniture and household appliances**



The **uncertainty and warning signs** presented by the new government regarding the **Autumn Statement** means households likely **delayed some purchasing** where possible


Source(s): ONS; Teneo research and analysis





# Consumer summer spending bolstered GDP performance


Consumer spending was strong in the summer of 2024; the Office for Budget Responsibility forecasts that the new Autumn Budget measures will generate further improvements over subsequent periods.


## Several factors bolstered consumer spending in the summer


- 

**1. Wage growth and low unemployment**  
Wages continued to grow, with average earnings rising by 5.1% in the three months to July 2024, while unemployment remained low at 4.1%
- 

**2. Energy price cap drop**  
With the energy price cap at its lowest level, gas and electricity bills fell by an average of £20 a month for c. 29 million households
- 

**3. Summer events**  
Summer events such as the Euros and the Olympics likely fuelled some spending, with a range of beneficiaries
- 

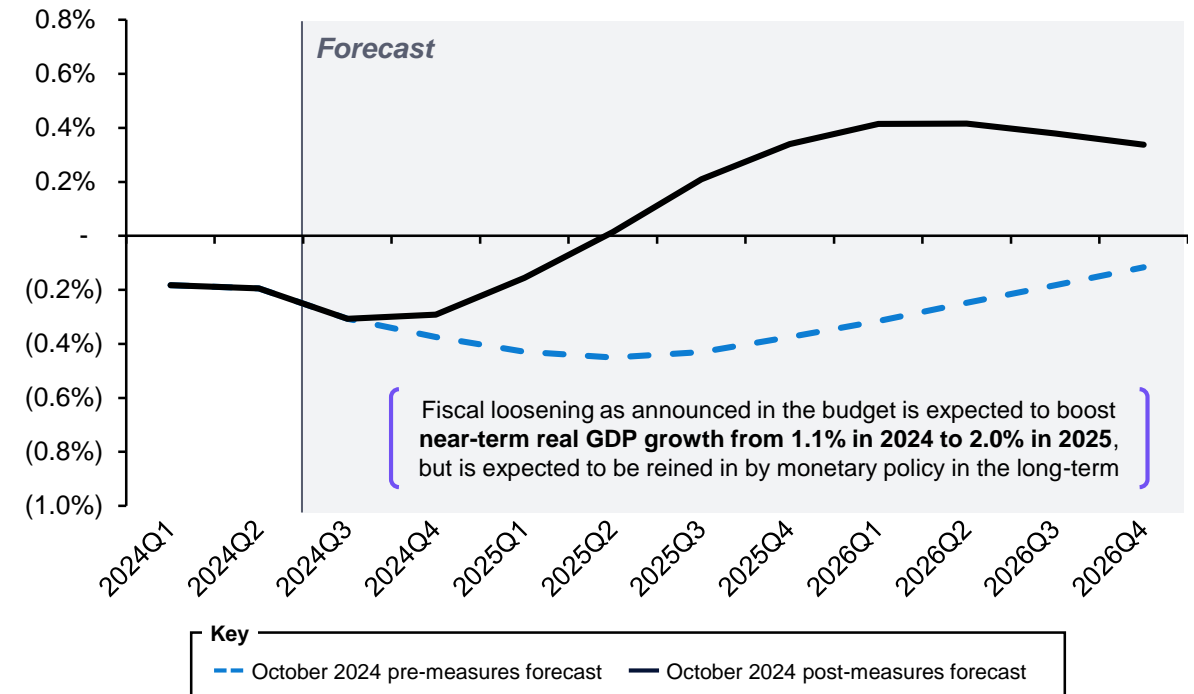
**4. Good weather in July and August**  
Good summer weather boosted spending by encouraging more outdoor activities, events and domestic travel
- 

**5. Rising consumer confidence**  
Consumer confidence was at its highest level since Q3 '21 amid easing inflation and rate cuts, especially among younger consumers
- 

**6. Experience spending**  
43% of UK consumers indicate they are 'living in the moment' rather than planning for the long-term, indicating growing experiences demand

## In the near term, real GDP is set to recover as Budget measures take effect

% difference between actual and potential GDP (output gap), Quarterly, Q1 2024 – Q4 2026



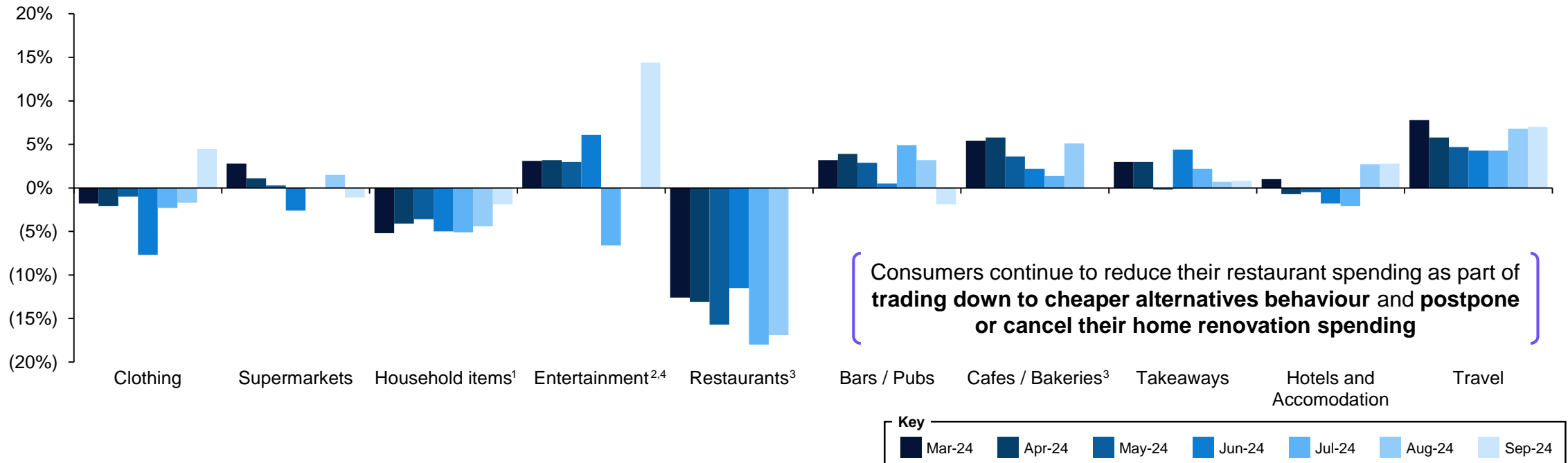
Source(s): OBR; PwC Spring 2024 Consumer Sentiment Survey; Deloitte Consumer Tracker; Teneo research and analysis

# Consumer spending is not recovering evenly

Consumer spending has demonstrated modest growth over the last six months when compared to 2023, which is partially driven by a rise in prices, with Britons still reducing consumption across some discretionary items.

Despite improving sentiment, consumer spending has shown limited growth in 2024 so far

Change in spend by category, cash, Mar 2024-Sep 2024



Source(s): ONS; GfK; Deloitte; Barclays; Teneo research and analysis

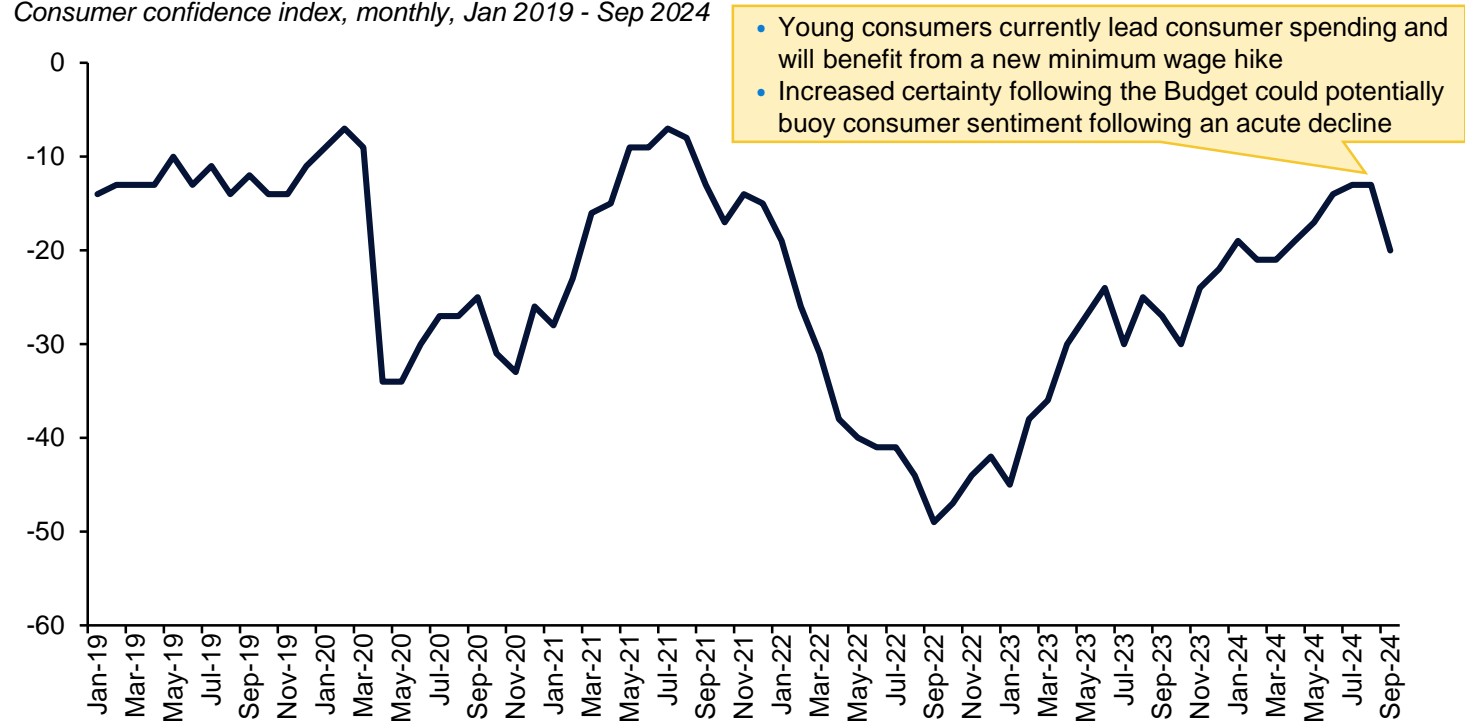
Notes(s): 1. Household items include home improvements and DIY products, electronics, and furniture; 2. Entertainment includes gym memberships and leisure activities such as cinema, family days out, sports and theatre; 3. Comparable data for Sep-24 is not available for these categories, as they are combined in the latest report 4. The Sep-24 Entertainment uplift is due to large-scale sales of one-off events

# Consumer sentiment has fallen sharply

While consumer confidence was increasing relatively consistently since September 2022, there has been a sharp decline in September 2024, driven by concerns over personal finances and the economy, with businesses expressing the same sentiment.

## Consumer confidence experiences steepest decline since April 2022

Consumer confidence index, monthly, Jan 2019 - Sep 2024



- Young consumers currently lead consumer spending and will benefit from a new minimum wage hike
- Increased certainty following the Budget could potentially buoy consumer sentiment following an acute decline



The **-7 drop in consumer confidence** marks the steepest decline since April 2022



The decline is largely fuelled by **growing concerns over personal finances** and a **bleak outlook for the general economy** in the coming year



This sentiment extends to **business confidence**, with a notable **16-point swing from August**, as more manufacturers now **expect output to decrease** over the next three months than those anticipating growth

Source(s): GfK, PwC



An aerial, high-angle photograph of a large, diverse crowd of people walking across a wide, paved area. The pavement is composed of large, light-colored square tiles arranged in a grid pattern. The people are seen from above, moving in various directions, some in groups and some alone. The lighting is bright, suggesting a sunny day, and the overall scene conveys a sense of a busy public space or a large gathering.

Section 04

**The Autumn Budget focuses on increasing long-term strategic investment to stimulate growth; will it pay off for the UK consumer?**



# Budget announcements aimed at household income are reasonably limited

Against a backdrop of low growth and low fiscal revenues, the Labour Government has announced limited changes to the policies affecting consumers' household income.<sup>1</sup>



## Increased minimum wage

National Living Wage to increase by 6.7% in April 2024 – from £11.44 to £12.21 – with the Minimum Wage for those aged 18-20 rising from £8.60 to £10



## Income tax thresholds

Current income tax thresholds will remain frozen through to 2028-29 after which they will rise yearly with inflation



## Housing investment

The government will invest £5bn in housing, expanding the Affordable Homes Programme to £3.1bn and supporting small builders with £3bn in guarantees

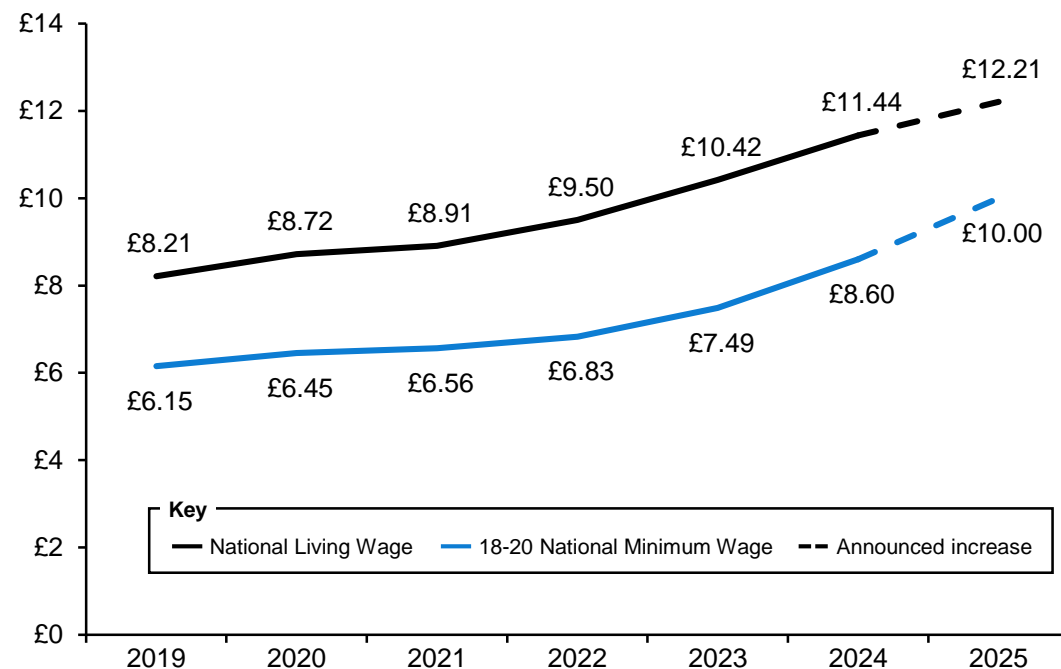


## Freeze on fuel duty

Fuel duty will be frozen through 2025, maintaining the previous government's 5p per litre cut for another year

## Minimum wages will continue increasing under the Labour Government

National Living Wage and 18-20 National Minimum Wage, 2019-2025



Source(s): Low Pay Commission

Note(s): 1. These are the most relevant budget announcements affecting the UK economic and consumer outlook and are non-exhaustive

# Budget announcements aimed at businesses are substantial

The Labour Government has announced increases to business taxes but also changed funding rules to enable it to free up funds for investment to stimulate economic growth.<sup>1</sup>



## Increased employer NICs

Employer NICs will increase from 13.8% to 15% in April 2025, while the threshold for payment will decrease from £9.1k to £5k



## Strategic industrial investments

£1bn will be invested in aerospace, over £2bn in automotive, £520m in life sciences and £20bn in R&D funding; a National Wealth Fund will be established to invest in 'industries of the future'



## Public sector productivity investments

£22.6bn additional NHS funding by 2025-26 and significant investment in transport to drive public health improvements and enhanced multi-modal connectivity



## £100bn capital spending

The government's new investment rule will redefine debt as 'public sector net financial liabilities,' helping to fund £100bn of capital investment and 1.4% long-term GDP increase per the OBR



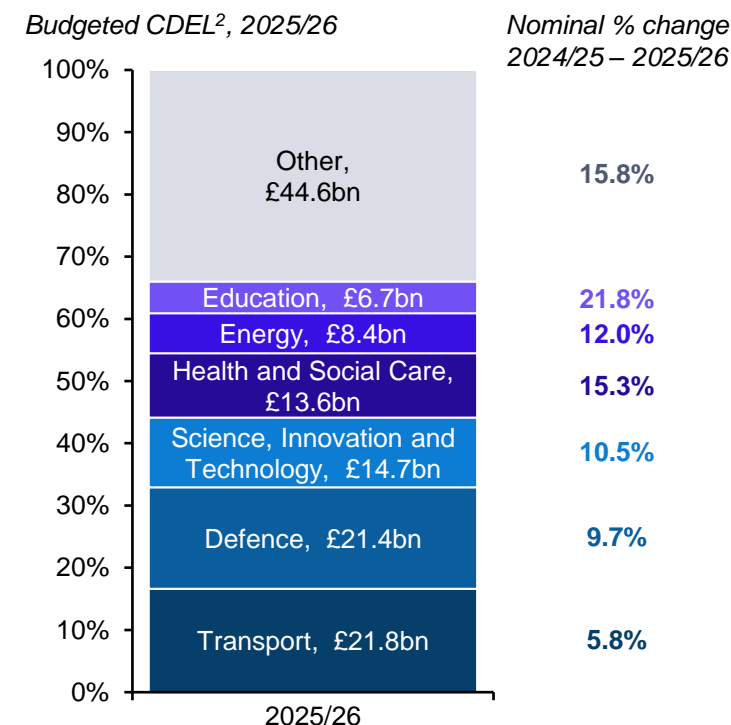
## Continuation of business rates relief

The current 75% business rates relief for retail and hospitality will be replaced by a 40% relief upon expiry in March 2025; Labour intends to introduce permanently lower rates from 2026



## Oil & gas tax changes

The windfall tax on oil and gas profits will increase to 38% and will remain until March 2030; the investment allowance will be removed

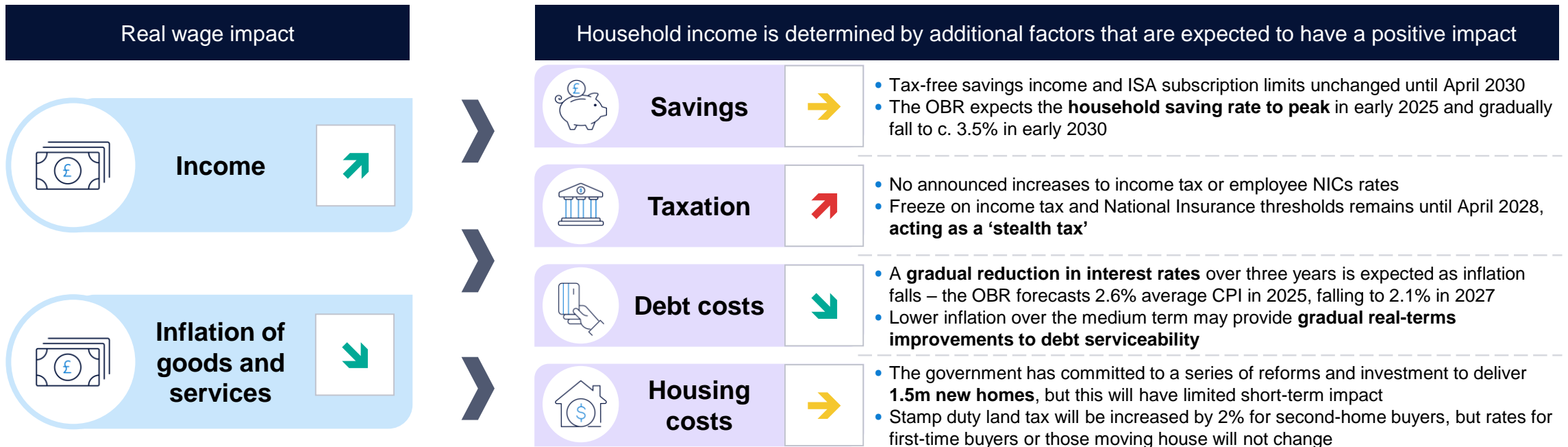


Source(s): Autumn Budget 2024

Note(s): 1. These are the most relevant budget announcements affecting the UK economic and consumer outlook and are non-exhaustive; 2. Capital Departmental Expenditure Limit (CDEL) refers to the limit each department is permitted to spend on capital purchases

# Short-term household income will likely continue to show gradual growth

The net household position will likely continue to gradually improve over the coming quarters as interest rates continue to decrease, supporting the recovery from the cost-of-living crisis' financial impact.



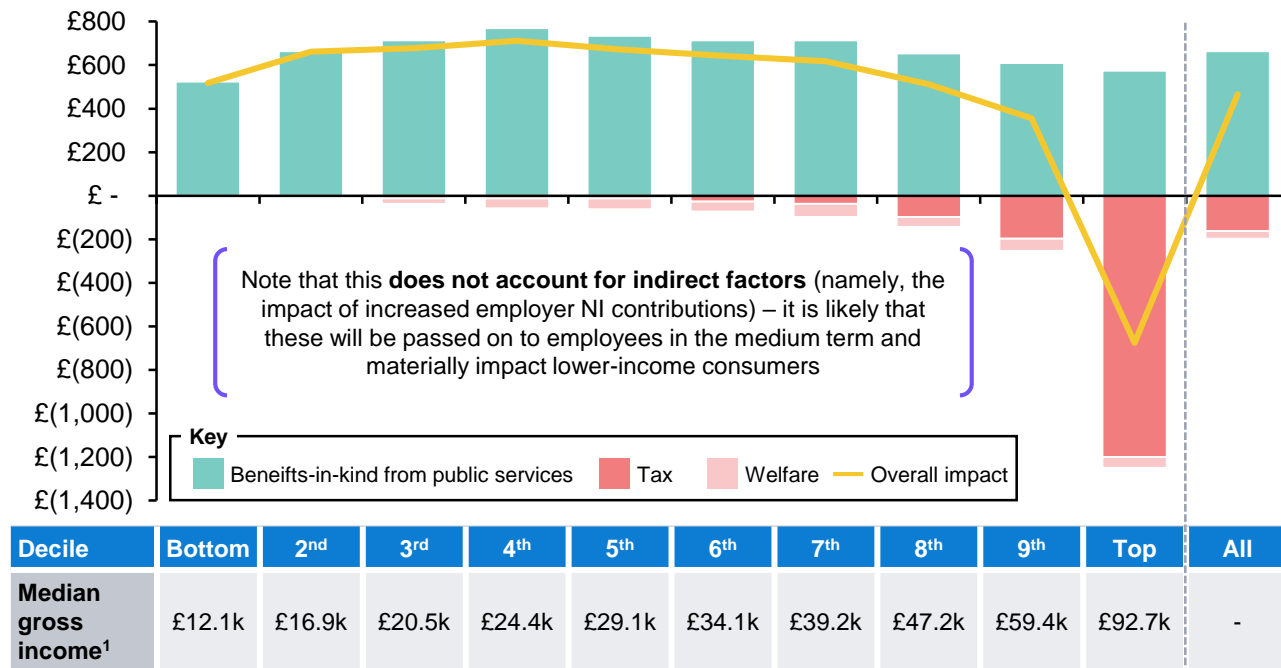
The Autumn Budget is unlikely to translate into immediate improvements to household income for most consumers – except those on minimum wage – with most of the previous administration's key policies being extended

# Increases to tax in the Budget will hit certain groups harder than others

The most vulnerable households will be most shielded from tax increases in the Budget, but all other groups will likely see some form of squeeze to income over the next 3-5 years.

The highest income households will be most immediately hit by tax increases, but this excludes NICs considerations

Cash-terms impact of Autumn Budget 2024 on households by income decile, 2025-26



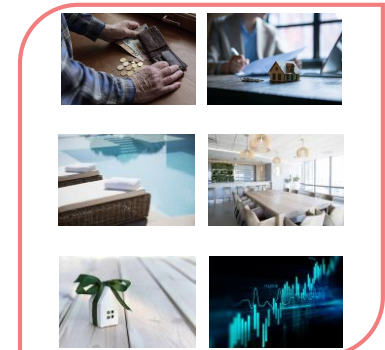
## Demographic groups least impacted by the Budget

- Lowest- & youngest-earners (typically aged under 40)
- Social housing



## Demographic groups most impacted by the Budget

- Low earners
- High- and middle-earners (typically aged 40-49)
- Second homeowners



Source(s): HM Treasury

Note(s): 1. Median gross income is defined as pre-tax private income including earnings, private pensions, savings and investments, and benefits income for a single adult household



## Long-term household income remains uncertain

Long-term growth in household incomes hinges on whether the Labour Government can address the long-term structural challenges affecting the UK economy, for which it has chosen a strategy of capital investment to stimulate growth.



### The government will invest to improve healthcare, education and science

- The NHS and schools will receive real-terms funding increases, with productivity initiatives planned across government
  - This funding will disproportionately target new opportunities to improve productivity, particularly through technology
- Additional investment will be targeted across key industries in clean energy and science, with the OBR conservatively estimating a 0.4% increase in GDP after 10 years and a 1.4% increase longer-term



### The Government hopes these investments drive productivity gains

- Through improved public services and targeted investment, these efforts by the government aim to create a virtuous circle of improved productivity, higher growth and increased fiscal revenues
- Success will require not just investment, but effective and efficient spending by the government



### Labour believes productivity gains will grow household income long-term

- If these ambitious growth targets are achieved, those currently in work should see real-terms income growth
- Efforts to create new jobs and improve health and social care will also, if successful, reduce the levels of economic inactivity – increasing disposable incomes by getting people back to work

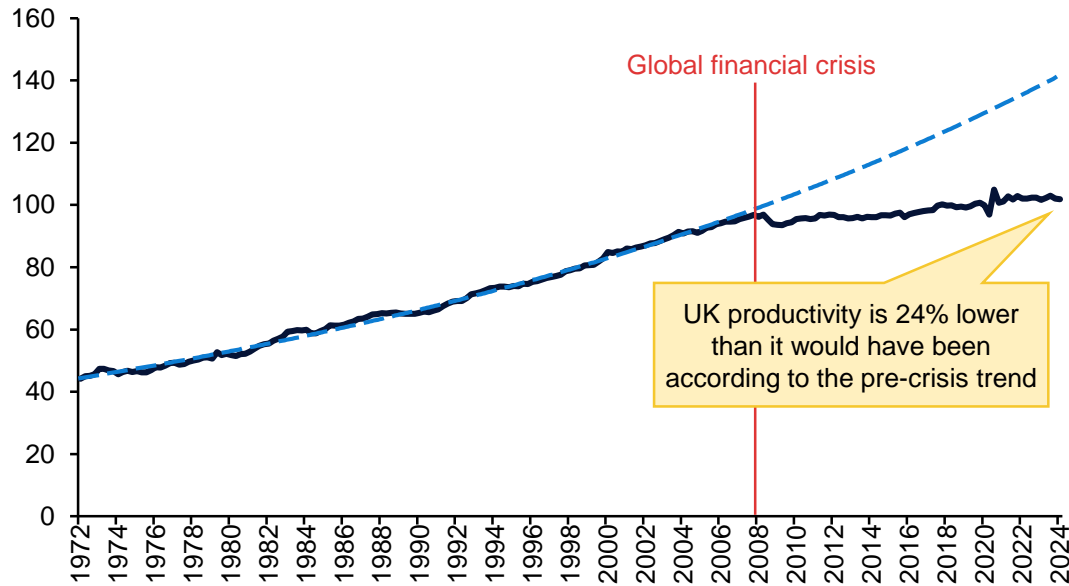
Household income growth is highly contingent on the government's proposed capital investments translating into new jobs, higher wages and productivity gains in high-growth industries

# Labour hopes to reignite sustainable productivity growth

The UK economy has struggled to improve its productivity since the 2008 global financial crisis – in part due to underinvestment by both the private and public sectors – with this being especially felt outside of London.

## Underinvestment in structural economic drivers and the public sector has resulted in sluggish productivity

Output per hour worked indexation, UK whole economy, 1972 – 2024 (2019=100)



UK productivity is 24% lower than it would have been according to the pre-crisis trend



**Public sector productivity has weakened** since the financial crisis – NHS England suggests that productivity in 2023/24 was still 11% lower than pre-pandemic levels primarily due to underinvestment



'Brexit' created trade barriers and a loss of jobs in the UK – the OBR estimates that this will **reduce the UK's long-term productivity by 4%** by 2030 based on a decline in imports and exports of 15%



Despite high productivity in London, **regional inequality is high** – London competes strongly with other European capitals, but average UK city productivity is below the European average



The Labour Government is betting that the benefits from its **investment in public services will lead to productivity gains** that will offset the taxes used to pay for them, and that this will also **attract private investment** to regenerate productivity growth

**Labour's proposed increases to public spending carry considerable risk and uncertainty about their ability to reinvigorate productivity gains across the UK's economy**

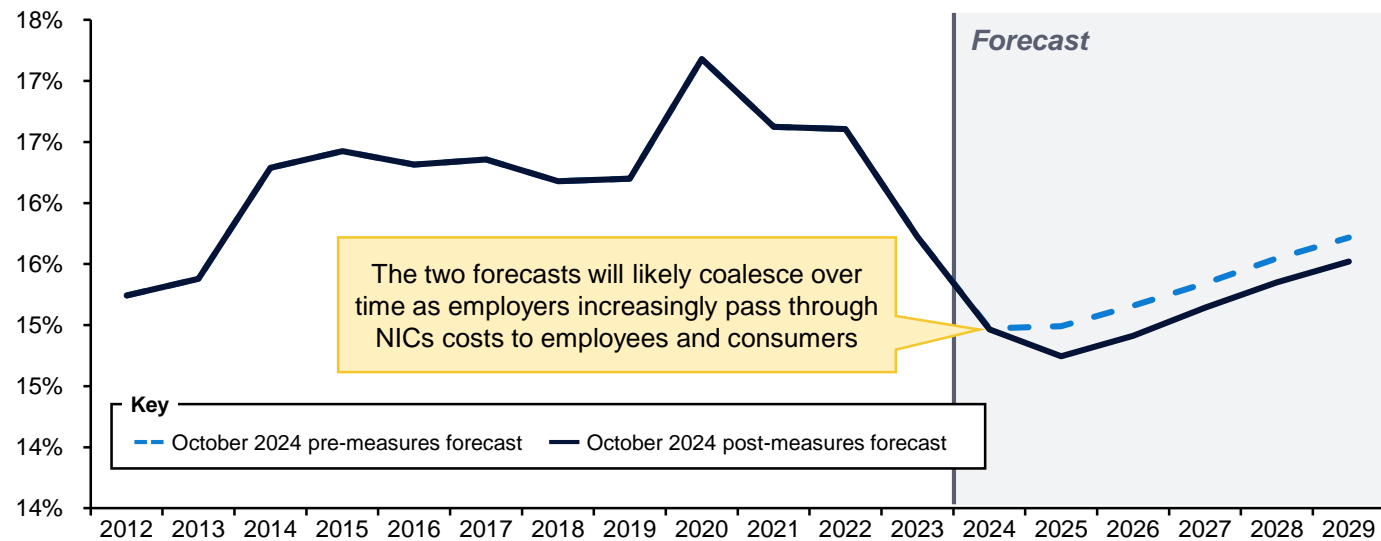
Source(s): ONS, LSE, NHS England, OBR, Centre for Cities

# In the short-term, UK industry will feel additional cost pressure from tax increases

Employers are likely to be negatively impacted in the short term by the rise in employer NICs, which the OBR estimates will increase business' payroll costs by c. 2% on average.

Corporate profits are expected to be significantly impacted as the employer NIC rises immediately hit the bottom-line

Corporate profits as a % of GDP, OBR forecast, 2012 – 2029



Source(s): OBR



The government is **increasing the rate of employer NICs** from 13.8% to 15% and reducing the per-employee threshold at which employers are liable to pay NICs to £5,000 – together the OBR estimates that this will lead to a **c. 2% increase in employers' payroll costs**



The higher labour costs will lower corporate profits, but over time will likely be passed through to workers in the form of **lower wage growth** and **fewer vacancies**, reducing labour supply by 50,000 average-hours equivalents



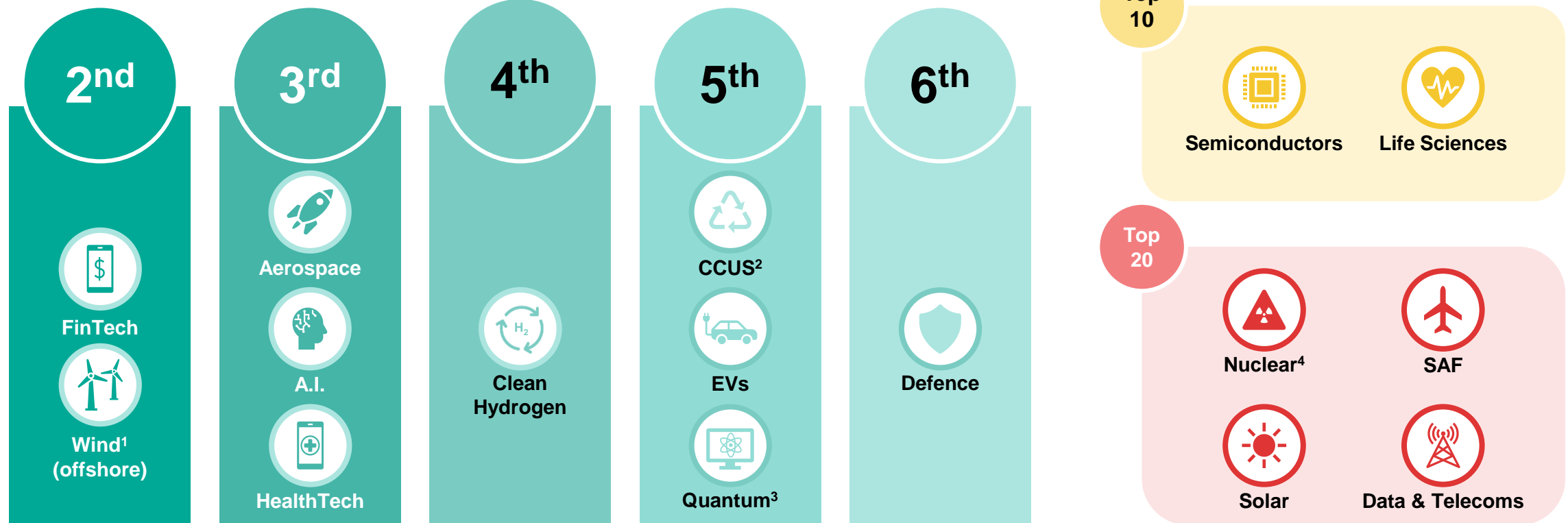
Altogether, these measures are forecast to lower real GDP by c. 0.1% reduction to real GDP each year until 2030

Over time, we expect that corporate profits will partially recover as employers passthrough NICs costs to employees and consumers through lower wage growth, lower labour demand and increased prices

# Long-term growth needs investment in sectors where the UK is comparatively strong

The UK performs well in ten out of sixteen explored sectors, with the most notable in Wind (offshore) and FinTech, followed by Aerospace, A.I., HealthTech and Clean Hydrogen.

UK ranking in global league tables, by sector



Source(s): Oxford Insights, EY, Deloitte, Department for Science, Innovation & Technology, Statista, McKinsey, Global CCS Institute, Teneo research and analysis

Note(s): 1. Ranked 6th for total wind energy capacity, 2. The UK currently ranks 5th in the readiness for CCUS according to a study by The London School of Economics, since the technology is not yet mature enough to measure competitiveness or capacity, 3. Quantum computing, 4. Top 10 rank is in reference to nuclear fission (or standard nuclear power); the UK ranks 2nd for nuclear fusion

# The Budget included a series of sector-specific capital investments [1/3]

The government has pledged investments across a series of innovation-led industries to help enable tech transfer and reinvigoration of private investment.

Industry	Investment rationale	Autumn Budget 2024	
		Announcements	Long-term implications
<b>AI &amp; ML and Quantum Computing</b>	<ul style="list-style-type: none"> <li>The UK can credibly address these opportunities, given it ranks 3<sup>rd</sup> and 5<sup>th</sup> globally in these sectors</li> <li>It is a fundamental enabler of other industry sectors, making investment particularly important</li> </ul>	<ul style="list-style-type: none"> <li>The government will shortly publish a roadmap for enhancing growth and productivity through AI</li> </ul>	<ul style="list-style-type: none"> <li>Integration of AI into the UK economy offers a potentially significant lever for driving productivity gains across multiple industries</li> </ul>
<b>FinTech &amp; HealthTech</b>	<ul style="list-style-type: none"> <li>FinTech and HealthTech are major UK strengths, ranking second and third in the world respectively</li> <li>The NHS confers a huge advantage with a wealth of historical health data, which could be utilised to drive AI and ML models</li> <li>The UK's regulatory landscape will play a key role, for example, in facilitating optimal use of NHS data</li> </ul>	<ul style="list-style-type: none"> <li>Rachel Reeves has announced £6.1bn of funding in sectors such as engineering, biotechnology and medical science</li> <li>More than £2bn will be invested in NHS technology and digital to improve productivity, cyber security and data access</li> </ul>	<ul style="list-style-type: none"> <li>Announced pledges towards healthcare will remain critical for proving the government's budget delivers dividends in the form of improved public health and knock-on productivity gains for businesses; this remains a key uncertainty for this Budget</li> </ul>
<b>Life Sciences</b>	<ul style="list-style-type: none"> <li>The UK ranks within the top 10 globally in the Life Sciences sector, with a strong research base (especially in Oxford, Cambridge and London)                             <ul style="list-style-type: none"> <li>Additionally, pharma giants, such as GSK, AstraZeneca and Merck are either based in or have substantial operations in the UK</li> </ul> </li> <li>The UK Government identifies this as a key growth sector, and post-Brexit independence could support new policies to drive growth and innovation</li> </ul>	<ul style="list-style-type: none"> <li>More than £2bn will be invested into life sciences and healthcare research and development</li> <li>Up to £520m in funding for a new Life Sciences Innovative Manufacturing Fund to build resilience for future health emergencies</li> </ul>	<ul style="list-style-type: none"> <li>The new announcements will help return the UK to its recently competitive nature in this space; it has historically been a world-leader, but has experienced more tepid growth in recent years due to Brexit and increasing bureaucracy challenges</li> <li>Whilst the new funding will be welcome, changes to regulation and policies will likely also be required to maximise the UK's competitiveness</li> </ul>



# The Budget included a series of sector-specific capital investments [2/3]

The government has pledged investments across a series of innovation-led industries to help enable tech transfer and reinvigoration of private investment.

Industry	Investment rationale	Autumn Budget 2024	
		Announcements	Long-term implications
<b>Wind</b>	<ul style="list-style-type: none"> <li>The UK holds a leading position in both manufacturing capabilities and IP, particularly given the U.S. will take time to build-up their own domestic capabilities</li> <li>Additionally, the UK's expertise and IP (particularly in offshore wind) could be transformed into services which can be managed outside of the UK</li> </ul>	<ul style="list-style-type: none"> <li>£134m will be provided to support port infrastructure for floating offshore wind</li> <li>The de facto ban on onshore wind in England will be reversed</li> </ul>	<ul style="list-style-type: none"> <li>Green energy is regarded as a long-term high-growth sector that will become increasingly critical to national infrastructure – the UK industry grew 9% in 2023, compared to 0.1% for the wider economy                             <ul style="list-style-type: none"> <li>The sector can supply significant new and well-paid jobs</li> </ul> </li> </ul>
<b>CCUS<sup>1</sup> &amp; GHG<sup>2</sup> Reduction</b>	<ul style="list-style-type: none"> <li>The UK is well-positioned to lead, currently ranked 5<sup>th</sup> globally in terms of readiness, and geographically primed with ample offshore storage</li> <li>CCUS will be a key enabler of heavy industry, thus any investment in this sector is likely to have a multiplier effect on enabling future industry</li> <li>Advancing these technologies would facilitate direct air capture CO<sub>2</sub> on behalf of other nations</li> </ul>	<ul style="list-style-type: none"> <li>The UK Government will fund Track-1 CCUS projects across the country, representing the “first commercial scale projects in the world” according to Labour</li> <li>£3.9bn funding for CCUS and green hydrogen follows on from the £21.7bn announced earlier this month for CCUS projects in England</li> </ul>	<ul style="list-style-type: none"> <li>Wind power remains a key technology in green energy; however, new investment announcements remain relatively tepid compared to other industries and therefore their incremental impact is unlikely to be significant at this stage</li> <li>CCUS &amp; GHG reduction as well as clean hydrogen are still nascent technologies with unproven returns on investment; these therefore carry a level of risk of not driving economic growth and household income gains</li> </ul>
<b>Clean Hydrogen</b>	<ul style="list-style-type: none"> <li>The UK has some of the most advanced hydrogen projects in the world</li> <li>Slow government action threatens the UK's lead; accelerated clarity is required for business models</li> </ul>	<ul style="list-style-type: none"> <li>The government will provide support for electrolytic hydrogen production contracts, harnessing renewable energy to decarbonise the UK industry</li> </ul>	

Note(s): 1. CCUS = Carbon Capture, Use, and Storage; 2. CHG = Greenhouse gases

## The Budget included a series of sector-specific capital investments [3/3]

The government has pledged investments across a series of innovation-led industries to help enable tech transfer and reinvigoration of private investment.

Industry	Investment rationale	Autumn Budget 2024	
		Announcements	Long-term implications
<b>Nuclear</b>	<ul style="list-style-type: none"> <li>The UK has a strong knowledge base in nuclear:                             <ul style="list-style-type: none"> <li>Projects (e.g. Hinkley Point C, Springfields) are underway to support key parts of the supply chain</li> <li>The UK is a global leader in fusion research</li> </ul> </li> <li>The UK is no longer limited by the EU and the anti-nuclear leanings of various member nations</li> </ul>	<ul style="list-style-type: none"> <li>Great British Nuclear's Small Modular Reactor (SMR) competition has entered the negotiation phase, with final decisions on shortlisted vendors to be taken in spring 2025</li> <li>Significant R&amp;D support will be provided for UK fusion energy research</li> </ul>	<ul style="list-style-type: none"> <li>A consortium of government partners believe that a UK SMR programme could support up to 40,000 jobs and power 450,000 homes</li> <li>However, it remains unclear whether the UK can remain a key player in the global fusion energy market and the scale of future benefits remain uncertain</li> </ul>
<b>Defence</b>	<ul style="list-style-type: none"> <li>Defence has been identified as a growth-driving sector in the government's upcoming Industrial Strategy</li> <li>The MoD is expected to spend over £20bn with UK industry next year, supporting over 400,000 direct and indirect jobs throughout the UK</li> <li>67% of MoD spending goes to areas outside London and the South-East, providing vital support for regional industries</li> </ul>	<ul style="list-style-type: none"> <li>£2.9bn of additional funding will grow the defence budget in line with the economy in 2025-27, setting a path towards spending 2.5% of GDP on defence</li> <li>These funds will enable modernisation of the Armed Forces, including the nuclear deterrent, combat and surveillance aircraft, and cyber and space capabilities</li> <li>Of the £56.9bn annual 2024-25 defence budget, £25bn will be spent on UK industry, supporting advanced manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>The new investment addresses historic shortfalls in defence funding which have weakened the UK's global positioning, while other countries such as China have accelerated ahead</li> <li>New funding will therefore only serve to maintain – rather than improve – the UK's competitiveness in this space</li> </ul>

# In summary, consumers will not feel wealthier from this Budget over the medium-term

The Labour Government has a narrow time window to successfully invest funds into key programmes that will deliver significant returns on investment and reinvigorate economic growth across all parts of the UK.



### NHS investment

Labour will need to make the right choices to quickly improve the UK labour participation rate through improved workforce health, but previous governments have tried and failed to successfully do this



### Investment in tech transfer

Labour will invest in innovation hubs to enable the UK to expand its pipeline of high-growth businesses; this poses one of the most obvious and exciting areas for strategic investment to drive growth



### Wider infrastructure investment

Labour will invest in other public sector areas (e.g. transport, education) to catalyse wider economic growth and improve consumer spending, but it remains uncertain how material their impact will be

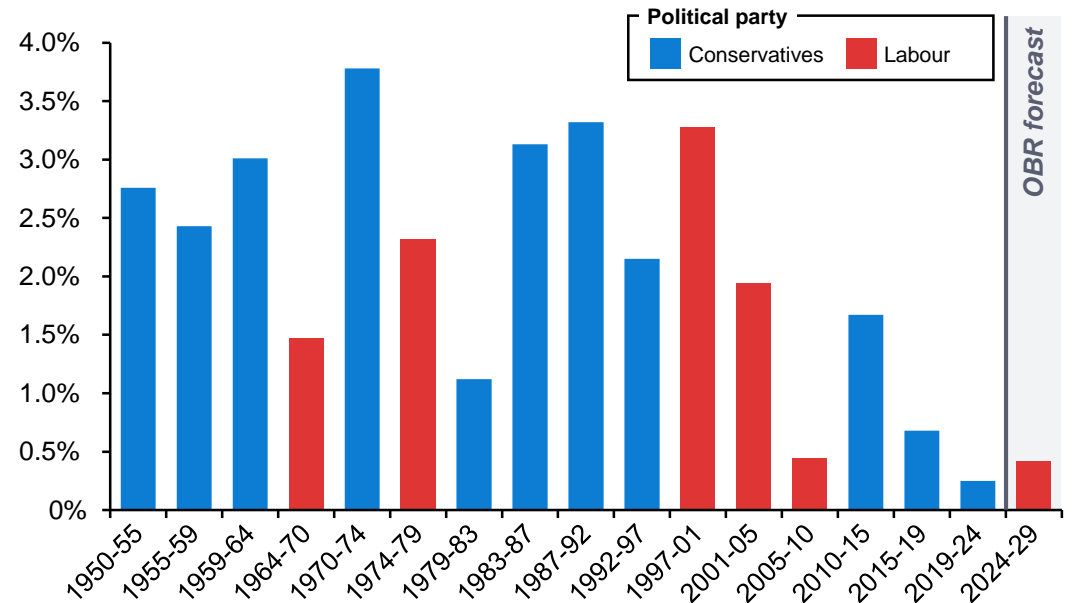


### Investment plan and execution

Labour must identify, validate and execute priority capital investments to maximise their benefits; this is the big unknown for delivering its growth ambitions and increasing consumers' wealth

## The OBR anticipates the second worst parliament on record for household disposable income growth

Average annual change in real household disposable income by parliament, 1950 – 2030



The government's areas for investment appear sensible to stimulate growth, but whether it will pay off for consumers will come down to Labour's ability to execute across a series of complex programmes

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