

## Impact of the Budget on consumers and retailers

**Professor Isabelle Szmigin**



The weekend before the Budget, the consumer organization 'Which?' released results from their survey that showed households had reduced their spending, on average, by more than £3,000 each year since 2007. Many people would say that without consumer spending the economy is unlikely to recover but we already have evidence that consumers are retrenching further, and when they do, this has a huge impact on business.

Consider another example from Moneysupermarket.com. Their more detailed analysis showed people were reducing spending on heating, takeaway meals, forgoing gym membership, giving up a car if they were a two car family, and reducing treats like a coffee before work. The measures taken by poorer consumers are more drastic and include going without food and switching off the heating despite severe weather. All these cutbacks impact businesses large and small.

So what does this mean for the Budget? Consumers learn from the past and predict into the future, and most see the future as pretty bleak. They will economize even more if they do not see any light at the end of the tunnel. What the Chancellor could do in this budget is try to give people some hope that things may get better. I would even suggest he gives certain promises for the future even if he does not feel able to deliver them on Wednesday. If he were to give a date when VAT might be reduced, say by Christmas, consumers may actually respond by seeing a brighter future. Also he needs to balance luxuries and necessities. Most people need their car to get to work, so a promise of no fuel tax increase could be balanced by more tax on alcohol, especially since the minimum price proposal is unlikely to be taken up. What consumers need now is a little bit of help and a little bit of hope. It might be time for the Chancellor to use a bit of psychology alongside economics.

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