

Hitachi Capital (UK) PLC

The Economic Impact of the Silver Pound

May 2017

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In association with



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Executive Summary

The 24 million over 50s in the UK are becoming an increasingly important demographic in society and the economy

- Driven by increasing life expectancy, the number of the over 50s living in the UK has increased substantially over the past 15 years and is set to continue to rise further. In 2015 there were 23.6 million over 50s living in the UK, up from 19.8 million in 2002.
- Better medical services and improving health of older people have led to an increase in labour market participation rates. The number of 50 to 64-year-olds in work rose from 6.8 million in 2005 to 8.7 million at the end of 2016.
- The share of the over 50s who are business owners or otherwise self-employed has increased from 7.8% in 2011 to 9.0% in 2016. In absolute terms, this means that over 2.1 million over 50s are self-employed.
- 2015 was the first year in which the over 50s have outspent their younger counterparts. With £376 billion they accounted for just over 50% of household spending.

The discretionary spending of over 50s supports almost £120 billion in economic activity and 2 million jobs along the supply chains in a number of sectors

- Discretionary spending of the over 50s supports up to £119 billion of GDP across the economy – more than the £113 billion of the under 50s.
- The GDP supported by the silver pound has increased by 30% since 2011 and is expected to rise by another 57% to £187 billion in ten years' time.
- These figures include indirect and induced effects along the supply chains of the businesses providing the goods and services bought by the over 50s.
- Furthermore, up to 1.9 million jobs are supported by the over 50s discretionary spending when accounting for direct, indirect and induced effects – a number that is forecast to rise to 2.9 million by 2027.
- Looking at services, food and beverage services as well as hotels, holiday homes and other accommodation services are among the industries benefitting most from the over 50s spending. In terms of manufacturing, producers of motor vehicles and furniture benefit the most from the silver pound.

45% of the over 50s are self-employed, directly providing jobs for almost 10 million people

- In 2016, businesses owned by over 50 year-olds have employed more people than those run by younger individuals for the first time. Self-employed over 50s created close to 9.8 million jobs in 2016, compared with 8.0 million jobs in companies in which the owner is under the age of 50.
- The large majority of businesses owned, both by over and under 50s, are small businesses with less than 10 employees. However, business owners over 50 have a slight lead over their younger counterparts when it comes to leading larger firms with more than 250 employees.

1 Introduction

The intergenerational divide in economic weight has widened substantially on almost every metric in recent years. No matter whether looking at household wealth, employment prospects and in recent times even income growth – the UK's over 50s are gaining in relative importance. A demographic shift leads to a rebalancing of the economy away from younger and middle-aged generations and towards the 'silver pound' – the discretionary spending of the over 50s.

This report delivers new insights into the economic contribution of the UK's over 50s. In the first section the report aims to describe and quantify the growing economic importance through a number of channels. We will analyse the growing role of older households in the economy by looking at their spending and income patterns and how they have changed over time as well as their employment status and the jobs created by businesses headed by the over 50s.

The economic impact of the over 50s will then be analysed on the basis of the discretionary spending of this generation and the supply-chain effects to the economy triggered by this spending. Our suite of input-output models allows us to estimate the effect on Gross Domestic Product (GDP) as well as employment effects. Another way to measure the economic contribution of the over 50s is to look at the jobs they create directly as business owners. Data from the Office for National Statistics' (ONS) Labour Force Survey (LFS) allows us to gauge the number of jobs created by the older generation.

The report is structured as follows.

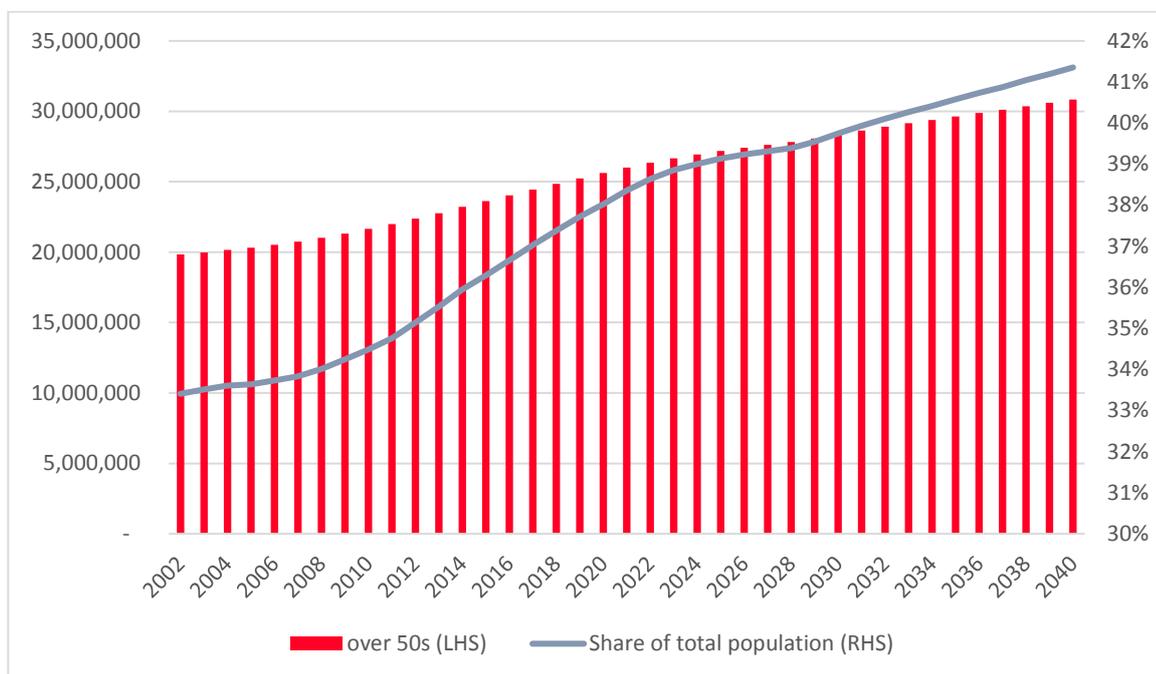
- **Chapter 2** of the report examines the increasing economic importance of the over 50s by looking at a wide array of indicators, from population growth to business ownership;
- **Section 3** analysis the economic contribution of the over 50s by demonstrating the economic impact generated by the 'silver pound', the discretionary spending of the older generations;
- **Section 4** examines the role of the over 50s as business owners more closely, looking at the number of people employed in their businesses. We compare this to businesses owned by the under 50s
- **Section 5** summarises results and concludes.

2 Profiling the over 50s in the UK

2.1 The demographic shift in the UK

This first section in the analysis of the over 50s demographic in the UK begins by looking at the raw numbers of people in that age group. Demographic changes propelled by an ageing population mean that there is a rapidly growing number of the over 50s living in the UK. Figure 1 shows that there were around 19.8 million over 50s living in the UK in 2002, a number that reached 23.6 million by 2015.

Figure 1: Number of over50s in the UK and share of total population



Source: Mid-year population estimates, ONS, Cebr analysis

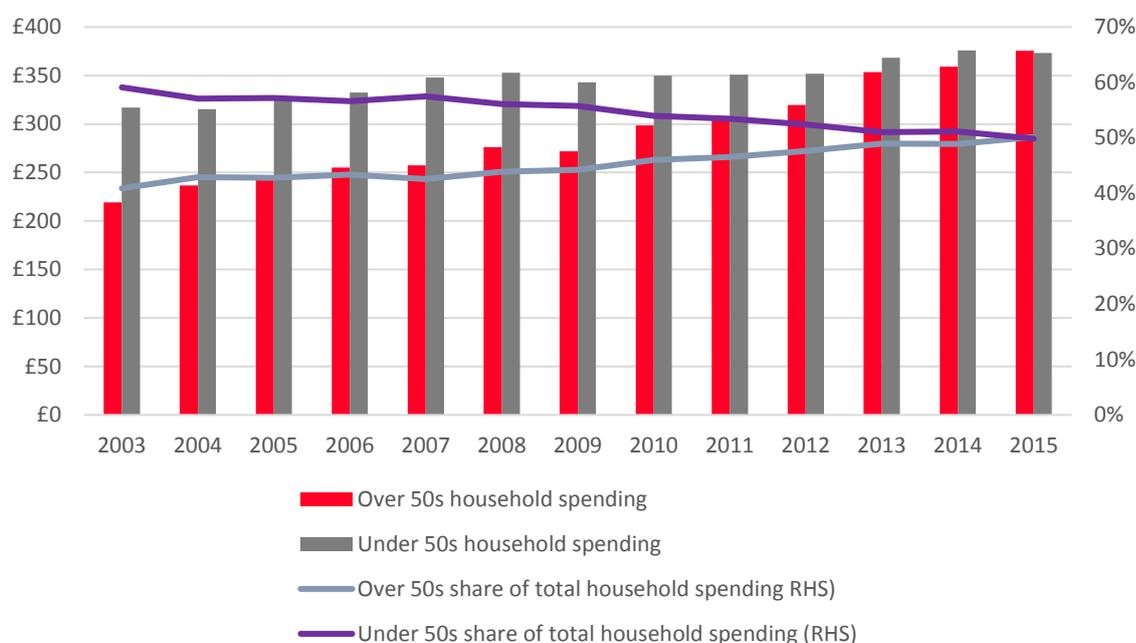
While the surge in numbers is impressive in itself it is also worthwhile to look at the change in the proportion of over 50s among the total population. This share has risen from 33.4% in 2002 to 36.3% in 2015, meaning that the number of older UK residents is increasing faster than the number of people of younger age. This is especially striking when considering that a substantial part of the population increase in the UK in recent years has come from net migration, typically of younger individuals.¹ Further factors that will lead to future increases in the share of the over 50s in the overall population are rising life expectancy and falling fertility rates. Looking beyond 2017, the number of over 50 year-olds is projected to continue to increase rapidly throughout the early 2020s until growth slows somewhat in from 2026 on. In 2040 there will be close to £31 million over 50s in the UK, equivalent to 41% of the population.

¹ See for example The Fiscal Effects of Immigration to the UK – Dustmann, C., Frattini, T. – Centre for Research and Analysis of Migration, University College London

2.2 Spending of the over 50s

After establishing the increasing importance of the over 50s just by virtue of their number and relative share of the overall population we now move on to measure the economic footprint of this age cohort. One of the most straight-forward ways of measuring how the importance of the over 50s economic contribution has changed in recent years is to look at spending by different age groups. Older generations have benefitted from a range of favourable economic circumstances and a rapidly expanding economy in the second half of the 20th century. This has led to impressive wealth accumulation resulting in higher spending power. Homeownership rates for example have fallen for all age groups expect for those aged 65 and above, according to the English Housing Survey. The ageing population in the UK further leads to an increase in the sheer volume of over 50s spending.

Figure 2: Annual household spending by age (in £ billion, LHS), and share of total household spending (in %, RHS)



Source: ONS, Cebr analysis

Figure 2 shows household spending in absolute terms (left-hand side) and as a share of total household spending (right-hand side). Between 2003 and 2015, spending by the over 50s has on average increased by 4.6% annually, rising from £219 billion per year to £376 billion. In the same time, spending by under 50s has increased by on average only 1.4% per annum. The faster growth in the over 50s spending means that older people now account for a much larger share of total household spending. In fact, the data show that in 2015, the over 50s have for the first time outspent their younger counterparts. With £376 billion they accounted for just over 50% of total household spending, up from 41% in 2003. With the projected continuation of anaemic wage growth for working households and the increasing wealth concentration among older households, we expect this trend to continue. The demographic shift in the UK's ageing population analysed above further support our projection of the over 50s' increasing their share of total household spending. This has immense implications for the economy and society as a whole. With most spending coming from the over 50s, more and more businesses will want to benefit from this affluent market segment shaping the products and services that they offer. The rise of SUVs in

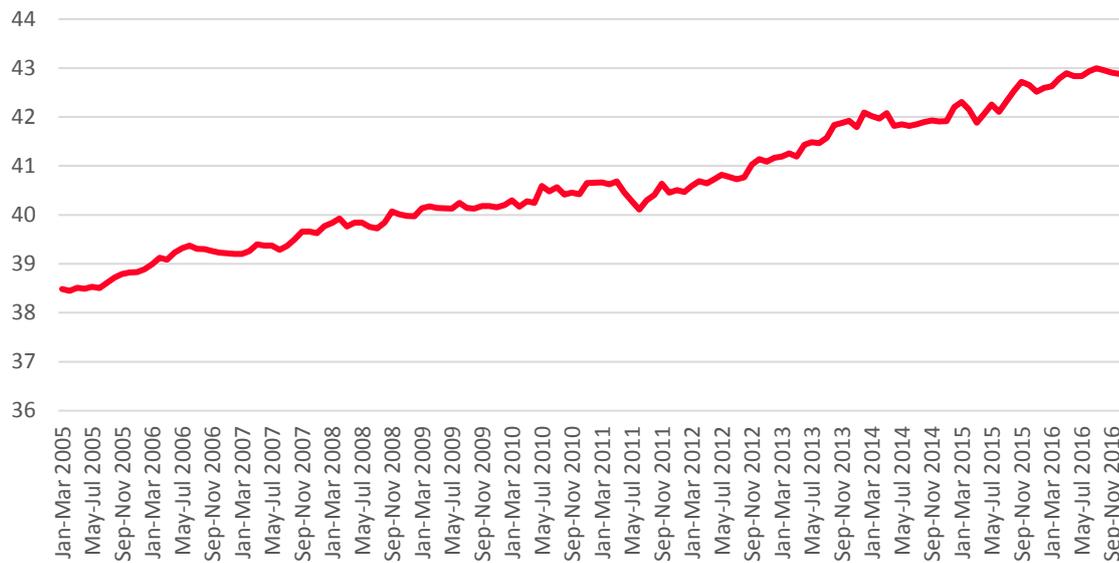
the automotive sector is one such example where demand from the well-off, older generations is driving a broader shift in preferences and market structures.²

2.3 Employment of the over 50s

The previous sections have established that the number of people aged 50 and above is rising faster than the population average and that the over 50s are also increasing their spending. In this section we will analyse how employment trends by age have contributed to the rising economic importance of the older generations.

With rising life expectancy and more people staying healthy until late in life, the economic activity rate has substantially increased over the past decade. As shown in Figure 3, the share of the over 50s who are economically active (i.e. working or actively looking for work) has increased from just under 39% in 2005 to around 43% in 2016. A large share of this increase is due to the rise in the State Pension Age for women. From 2010 on the state pension age for women has been gradually increased to be equalised with the male state pension age by 2018.³

Figure 3: Economic activity rate, over 50s, in %



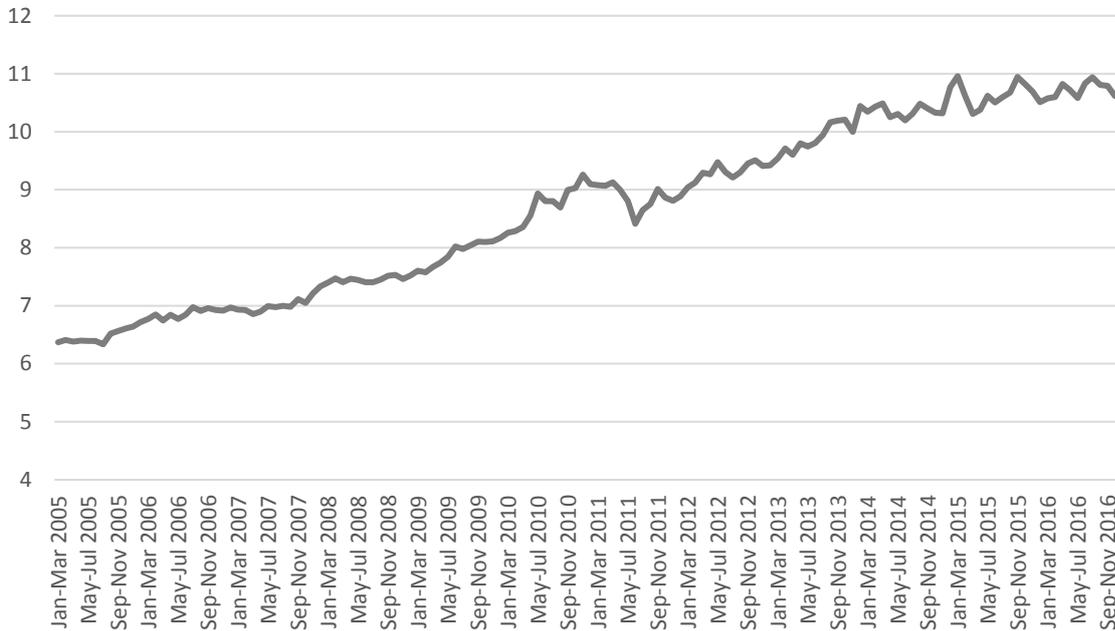
Source: ONS, Cebr analysis

This effect is even more pronounced when looking at those, who are eligible for retirement. Among the over 65s more and more decide to stay active and work for a variety of reasons. Between 2005 and 2016 the activity rate has increased from 6.4 percent to 10.6 percent.

² According to the Society of Motor Manufacturers and Traders, registrations of SUVs have grown by 140% between 2016 and 2006: <https://www.smmmt.co.uk/2016/04/10-facts-about-the-new-car-market-in-march/>

³ <https://www.pensionsadvisoryservice.org.uk/about-pensions/the-state-pension/know-your-state-pension-age>

Figure 4: Economic activity rate, over 65s, in %

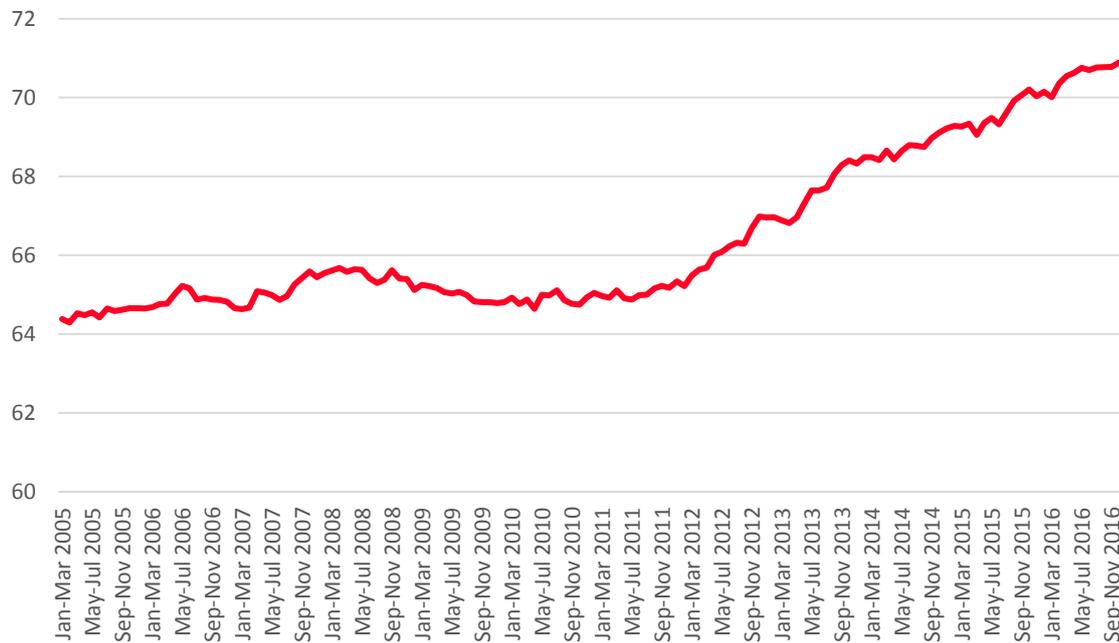


Source: ONS, Cebr analysis

It is worthwhile noting that the above data also contain the economic activity status of the very old who are well past retirement age. A more relevant picture of the share of the over 50s in work can be obtained when focussing on the age group from 50 to 64. For this age group, economic activity levels are much higher to begin with. However, even from that higher level - 66% of individuals aged between 50 and 64 were economically active in 2005 - we can observe significant growth. By the end of 2016, the share of economically active had increased to 73%.

The data so far suggest that an increasing share of older aged individuals choose not to retire and to stay active in the labour market. Following this finding, we can also look at the share of older people who manage to successfully stay in the labour market in the sense that they are in work rather than unemployed. The employment rate measures the share of the population who are in work and is shown in Figure 5.

Figure 5: Employment rate, 50-64s, in %



Source: ONS, Cebr analysis

We see that employment growth has been relatively flat until 2012 when it began to rise significantly for the age cohort of 50 to 64-year-olds, from around 65% to 71% in 2016. In absolute numbers this means the number of 50 to 64-year-olds in work rose from 6.8 million in 2005 to 8.7 million at the end of 2016.

Our projections show that this figure will surpass 9 million before the end of 2018 and reach 10 million in late 2021. Better health and a rising number of over 50s are the main drivers behind the increasing number of over 50s in work.

2.4 Incomes of the over 50s

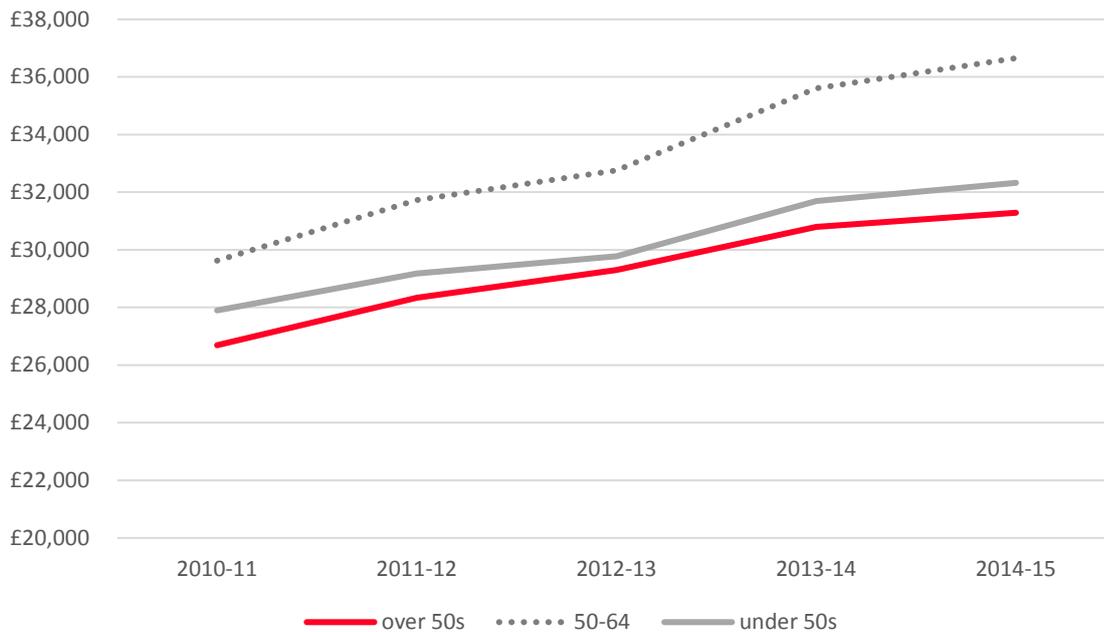
After demonstrating the remarkable rise in the number of the over 50s and their increased economic activity we now turn to the analysis of the over 50s' incomes. The data source for this analysis are the personal income statistics by tax year, collected by HMRC. The data include income from employment as well as other sources such as investments or state benefits.

Figure 6 shows the evolution of mean incomes before tax for three age groups: the under 50s, the over 50s and individuals aged 50-64. Of those three groups, the over 50s have the lowest reported mean income in each year, ranging from £26,700 in 2010-11 to £31,300 in 2014-15. Looking at those aged under 50 we see that their mean income ranges from £27,900 in 2010-11 to £32,300 in 2014-15. This is in line with expectations, given that the group of over 50s also includes the very old who no longer work and receive most of their income from private and state pensions. An analysis of earnings data from the ONS shows that average earnings peak in 2013 was at the age of 38, although the data suggest that the age when this earnings peak is reached is rising.⁴ In order to see how the over 50s who are most likely to still be in work are faring in terms of their salaries, we looked at this age bracket separately. We find that

⁴ Office for National Statistics - UK Wages Over the Past Four Decades - 2014

the group aged 50 to 64 shows by far the highest mean income before tax, standing at £36,700 in 2014-15, more than £4,000 more per year than the income of the under 50s. Moreover, the 50 to 64 year-olds have increased their lead on the younger group. While their mean income was only 6% higher than those of under 50s in 2010/11, this lead increased to 17% by 2014/15, suggesting that incomes for the 50 to 64 year-olds have risen much faster than those of the under 50s.

Figure 6: Change in mean income before tax by age group and tax year



Source: HMRC, Cebr analysis

Although only a sub-group of the over 50s have reached their state pension age, the recent growth in pension payments is another factor adding to the income growth of the entire over 50s population. One driver behind the strong increase pensioner incomes is the “triple lock”, introduced in 2010, which dictates that state pensions are to increase by the highest of inflation, wage growth, or 2.5% each year. A further factor for increasing incomes are generous Defined Benefit (DB) pension schemes, which guarantee pension payments at a certain level of past salaries. This has led to the novel situation that pensioner incomes are actually rising faster than those of working households. The Institute for Fiscal Studies found that pensioners’ median equivalised household income rose from around 75% of median non-pensioner income in the 1990s to over 100% by 2013/14, after accounting for housing costs. In other words, median incomes of pensioners are higher than those of non-pensioners after accounting for housing costs.⁵

Overall, a number of factors, which benefit the incomes of older people are at play. This is true both for the working part of the population with rising labour market participation rates as well as for the retired, who benefit from well-paying DB schemes and the ‘triple lock’ on state pensions.

⁵ Institute for Fiscal Studies – Living Standards, Poverty and Inequality in the UK: 2015

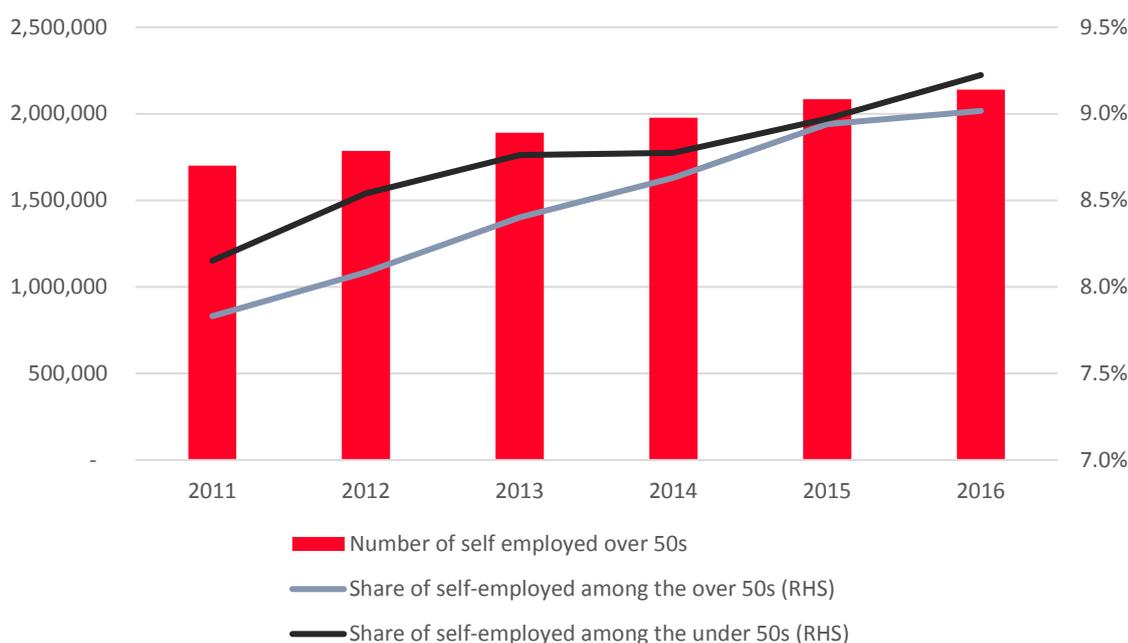
2.5 Over 50s as business owners

Older generations are not only frequently in employment, they also have an impact on the economy as entrepreneurs and business owners. In the course of their professional careers, the over 50s have often accumulated valuable experience and established professional networks which are important for the successful running of a business. Among the self-employed individuals are founders who want to realise a business idea as well as those who have worked their way up the career ladder in an existing company to the very top.

Those who decide to start a business later in life find that a number of factors benefit the older generations: in many cases, their children are out of the house and financially no longer reliant on the 'bank of mum and dad' for their daily needs. This gives more financial independence and might lead them to take on risks that they would have not taken earlier in life when they still felt the responsibility of putting their children through school and university.

The numbers show that an increasing number of the over 50s take on the challenge of self-employment. Figure 7 demonstrates that the number of the over 50s who work for themselves has increased steadily, from around 1.7 million in 2011 up to 2.1 million in 2016.

Figure 7: Number and share of the over 50s who are self employed



Source: ONS Labour Force Survey, Cebr analysis

While some of this increase is due to the fact that the number of people in this age group has increased as well, the data also show that the share of the over 50s in self-employment among the entire age cohort has increased, from around 7.8% in 2011 to 9.0% in 2016. The under 50s, however, have also increasingly opted for self-employment, with the share rising from 8.2% to 9.2% over the same period. This suggests that the number of self-employed in this age group has risen faster than the population in this age cohort as a whole. Looking at the entire population of self-employed, the share of the over 50s has risen from 41% to 45% from 2011 to 2016.

Extrapolating the trends from the previous 5 years, we estimate how both the numbers of self-employed over 50 and under 50 develop over the coming years. Self-employment among the over 50s has risen

much more quickly than for younger cohorts, driven by demographic factors (i.e. the rising average age of UK workers) as well as due to structural changes in the labour market. For example, the data suggests that nowadays, older workers more often end their careers in self-employment instead of retiring directly. This sometimes involves a change in occupation, but quite often people decide to stick with their industry but prefer to work more autonomously.

If the over 50s demographic maintains their lead in the growth rate over the under 50s, they will represent more than 50% of all self-employed in the UK from 2024 onwards.

This increase assumes a continuation of the positive employment situation in the UK and an economy strong enough to support people switching into self-employment. Should aggregate demand significantly drop and unemployment rise, it is likely that fewer older workers would switch careers and work as self-employed before retiring.

An economic downturn would also likely have negative effects on the participation rate of older workers as it becomes more difficult for them to get a job or find clients if they choose self-employment. Older people might therefore rather retire than trying their luck in the labour market during an economic downturn. Through lower labour market participation, we would further expect the number of older self-employed workers to decline.

3 Over 50s spending and the additional impact on GDP and employment – Impact Analysis

After showing the increasing role that the over 50s play in the economy through their spending, employment and their role as business owners, we now take the analysis one step further. The following section sets out an impact analysis of the ‘silver pound’, the discretionary spending of the over 50s generation. As we have seen, this generation is becoming increasingly wealthy. This has obvious knock-on effects for the economy – the so-called direct effects of this spending are increased revenues for business who offer the services and products bought by the over 50s. However, the spending on goods and services has further, secondary effects on the economy as also the supplier firms to the industries that the over 50s spend their money on will notice increased demand for their goods and services. These secondary effects are called indirect effects. Furthermore, the business offering products and services to the over 50s as well as their supplier firms will be able to hire more workers or pay higher salaries to existing staff who will in turn spend some of their wages in the economy. These third-round effects are the so-called induced effects. Economic impact analysis offers the possibility to quantify each of these effects and thereby give an estimation of the contribution of the over 50s’ discretionary spending on the economy.

In order to better understand the distinction between direct, indirect and induced effects it is helpful to go through an example.

Say over 50s in the UK spend a substantial amount of their increasing incomes on dining out in restaurant. At the end of a meal they settle the bill and continue their evening.

The **direct effect** is the profit the restaurant makes on the dinner, which is the price of the meal less the costs for the groceries and labour cost.

Moving down the supply chain, the effect of the increased spending of over 50s on meals in restaurants will lead to higher orders from restaurants with their suppliers – grocers, butchers, fish mongers etc. The increased revenues of this group of suppliers are the **indirect effects** of the additional spending of over 50s in restaurants.

Finally, both the restaurants and the suppliers will need to hire more waiters, chefs, butchers, drivers and others in order to serve all those dinners. This increases the wage bill in all businesses related to restaurants and the supply chains. The **induced effects** refer to the increase in spending thanks to higher wages and more people on the payroll.

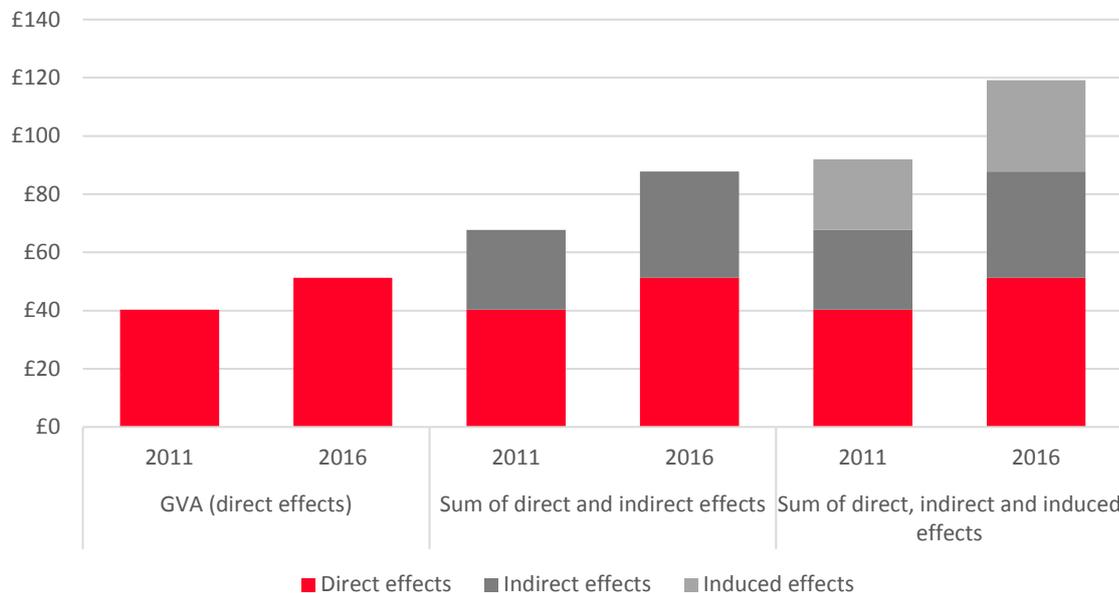
The analysis excludes spending that is deemed essential or necessary such as spending on food and housing in order to focus on the effects of the increased discretionary spending power of the over 50s as opposed to spending that would take place in any case. Discretionary spending includes a range of goods and services selected from the ONS’s basket of goods, including non-essential food items, alcohol and

tobacco products, household goods and services, spending on restaurant and hotels as well as most recreational spending items.⁶ Unless otherwise stated all values are in current prices.

3.1 The economic contribution of the silver pound

Our analysis has found that the direct effect in terms of Gross Domestic Product (GDP) of the discretionary spending of the over 50s was around £51 billion in 2016. When including indirect effects this sum increases to £88 billion. Adding in induced effects from higher wages bills in the businesses supplying products and services to the over 50s as well as their suppliers takes the figure to an impressive £119 billion.

Figure 8: Contribution of discretionary spending of the over 50s, in £ billion



Source: Cebr analysis

Comparing this to 2011 figures, we see that the contribution of the silver pound has risen considerably. Direct effects from discretionary spending of older cohorts stood at around £40 billion in 2011, rising to £92 million when adding indirect and induced effects – around 23% less than in 2016.

Most of the GDP associated with the discretionary spending of the over 50s is generated in the accommodation and food services industry (29%), followed by manufacturing (24%) and financial and insurance industries (12%).⁷ This pattern largely follows our expectations for discretionary spending of this age cohort. A substantial part of spending goes towards restaurants and hotel stays as older generations make use of their money to enjoy more vacations and a more leisurely pace of life. The large contribution to manufacturing shows that the over 50s support key sectors in the economy. Manufacturing is the biggest contributor to industrial production and accounts for around 10% of output generated in the UK. Much of the discretionary spending of over 50s in this industry sector supports for

⁶ For a complete list of items regarded as discretionary spending, please contact the authors of the report.

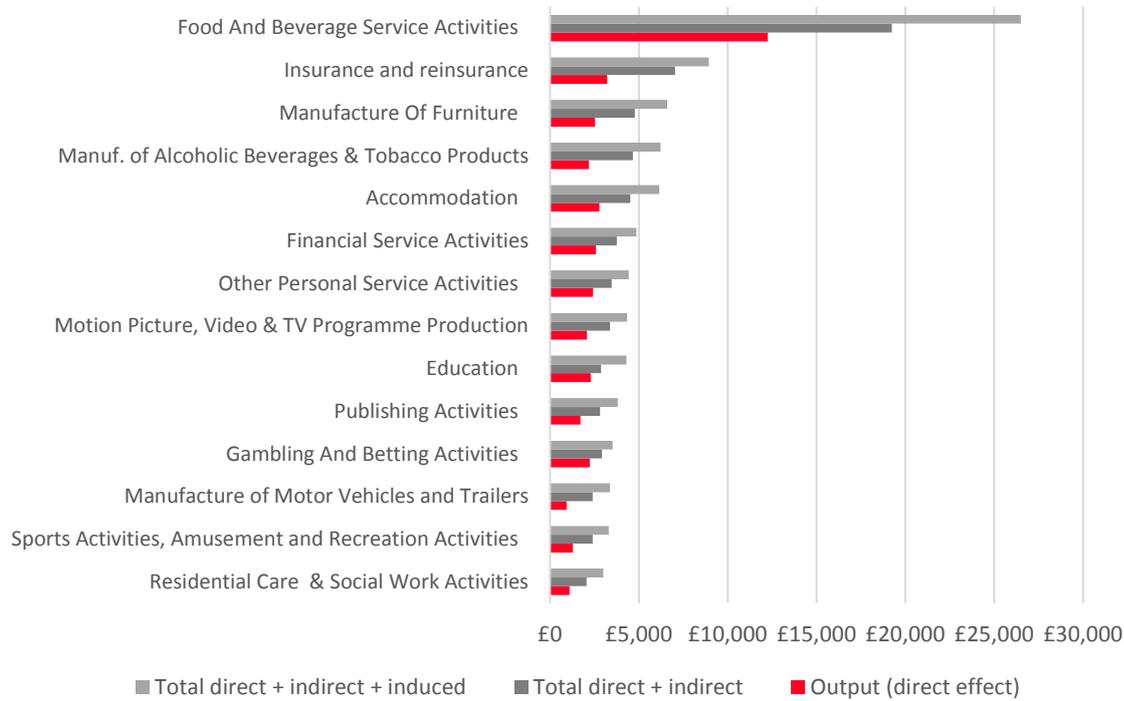
⁷ These shares are broadly similar when including indirect and induced effects.

example businesses in car manufacturing, where their spending generates up to £3.4 billion additional output in the sector when summing up direct, indirect and induced effects. Further manufacturing businesses benefitting from the silver pound can be found in the production of computers and electrical equipment but also companies working to the production of alcoholic beverages and tobacco feel the backing of the over 50s.

Figure 9 shows the sub-industries benefitting the most from the silver pound. Reflecting the results from the analysis among broad industry classifications, food and beverage service activities lead the table by a large margin. The direct effect of the silver spending for this industry stands at around £12 billion, rising to almost £27 billion when considering indirect and induced effects along the supply chain of these activities. Further entries near the top of the list are insurance and reinsurance and accommodation services, such as hotels and other holiday stays, underlining the importance of the wider services industry to the economy and especially to the over 50s. However, some of the money of the older generations still flows into the pockets of more traditional trades. Over £2.5 billion of output is added to the economy by furniture manufacturers due to the effects of the over 50s spending, rising to £6.6 billion when adding indirect and induced effects.

Further entries in the table show the wide range of activities, services and product groups supported by the silver pound. Betting and gambling activities as well as sports, amusement and recreation reflect the increase of the over 50s spending in more leisurely activities. As life expectancy across the population increases, older people increase their spending on health related services and activities. As seen in the section above, the over 50s are increasing their participation in the workforce – whether it be as employees or self-employed – and stay active for longer, meaning that investing in good health in old age pays-off. On the other hand, an ageing population also has an increased need for residential homes and care. Spending of over 50s for care at home or at specialised nursing homes, assisted living as well as social work activities, such as visiting services and day-care activities adds up to £3.0 billion in additional GDP to these sectors. Again, it is worth noting that the analysis excludes essential spending including most medical expenses and inpatient services.

Figure 9: Economic contribution of the over 50s discretionary spending by sub-industry, in £ million



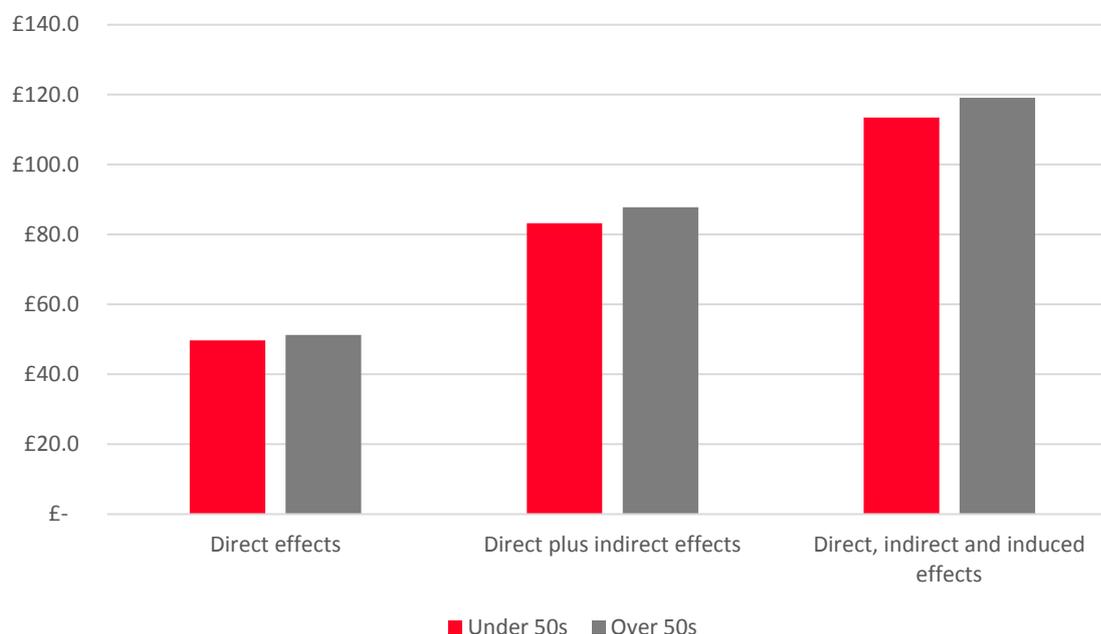
Source: Cebr analysis

3.2 Comparing the over 50s spending impact with younger generations

This section compares the contribution of the over 50s spending with that of younger generations. While the absolute figures already give an idea about the scale and the economic weight of the older generations, only a comparison with the impact of people under 50 gives context to the figures arrived at in the previous section. For the younger generations, we assume the same list of essential spending items that are excluded from the analysis as they cannot be considered to have an “additional” effect on the economy since this spending would take place in any case.

The analysis shows that the contribution of under 50s is slightly smaller than those of the over 50s for each aggregation. The direct effect of discretionary spending by under 50s is £49.8 billion compared to the £51.2 billion of the over 50s. The gap widens when the multipliers for indirect and induced effects come into play. Looking at the right-most columns in Figure 10, we see that the total contribution to the economy including effects along the supply chain stand around £113.4 billion for under 50s compared to the £119.2 billion for the over 50s, around 5% less than their older counterparts.

Figure 10: Comparison between economic contribution of the over 50s and under 50s, 2016, in £ billion



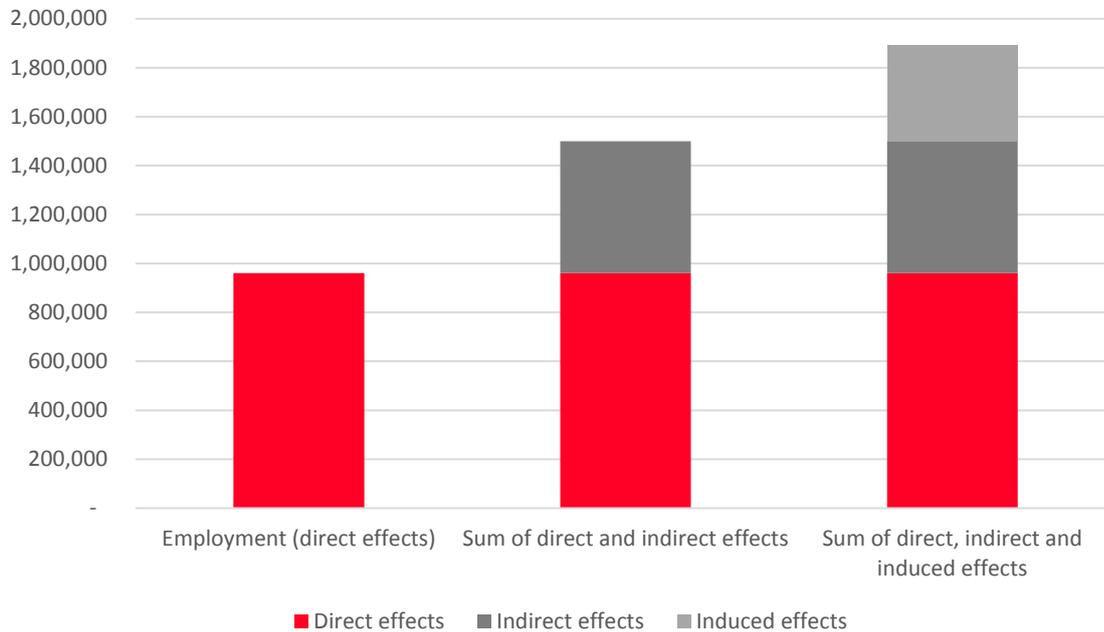
Given that the analysis includes the same products and services for both age cohorts, the relative importance of the discretionary spending to each sub-industry is quite similar. Also for the under 50s, food and beverage service activities benefit the most with the effect of their discretionary spending summing up to £25.3 billion when including indirect and induced effects, compared to the £26.5 billion of the over 50s. Education benefits more from spending among the younger generations with up to £9.6 billion of direct, indirect and induced effects compared to £4.3 billion for the over 50s.

It is worth noting that the spending figures are based on the ONS's Family Expenditure Survey which looks at spending by households. While in the previous chapter we found that the over 50s make up about 36% of the UK population their share among household heads is much higher. In fact, in around 55% of the 27 million households in the UK the main income earner is aged 50 and over. The higher number of over 50s households is one of the reasons for the slightly higher total spending by the older generations, as seen in the figure above.

3.3 Employment effects

In the introduction of this chapter, we briefly mentioned the effects of additional discretionary spending on employment. Apart from enjoying higher revenue and profits, businesses that offer products and services demanded by the over 50s as well the firms along those supply chains will also employ additional staff. Similar to the impact of discretionary spending on GDP, we can also calculate the direct, indirect and induced effects of employment. Direct employment effects are those felt by the companies selling the goods and services to the over 50s. Secondary employment effects are those experienced by companies who supply the initial companies with goods and materials in order to be able to serve consumers. Finally, the increase in economic activity caused by the discretionary spending of the over 50s can lead to further induced demand for labour, causing firms to hire more staff.

Figure 11: Employment effects of the over 50s discretionary spending, 2016

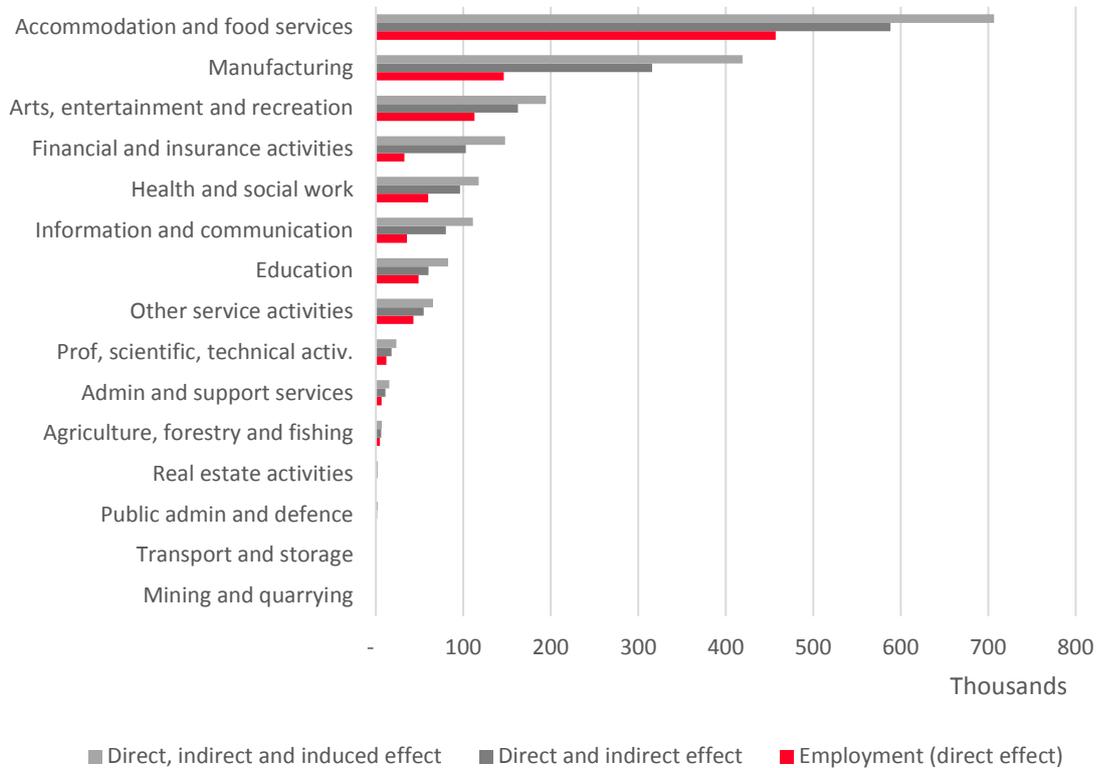


Source: Cebr analysis

Figure 11 shows the three different effects and how they sum up to give a total figure. Over 50s discretionary spending supports almost 1 million jobs directly. Adding indirect and induced effects along the supply chains yields a total employment effect of close to 1.9 million jobs. For comparison, this is higher than the number of people employed in the accommodation and food services industries (1.6 million) and almost as much as those working in the construction sector (2.3 million).

As with the GDP contribution, the employment effect is to a great part driven by the discretionary spending in hotels and restaurants. Accommodation and food services is by far the industry benefitting most in terms of employment from the over 50s' spending, with a total of 706,000 jobs added followed by manufacturing with 419,000. The next biggest employment effect can be found in the arts, entertainment and recreation industry with 194,000 jobs, as shown in Figure 12.

Figure 12: Employment effects from over 50s discretionary spending by broad industry group, 2016

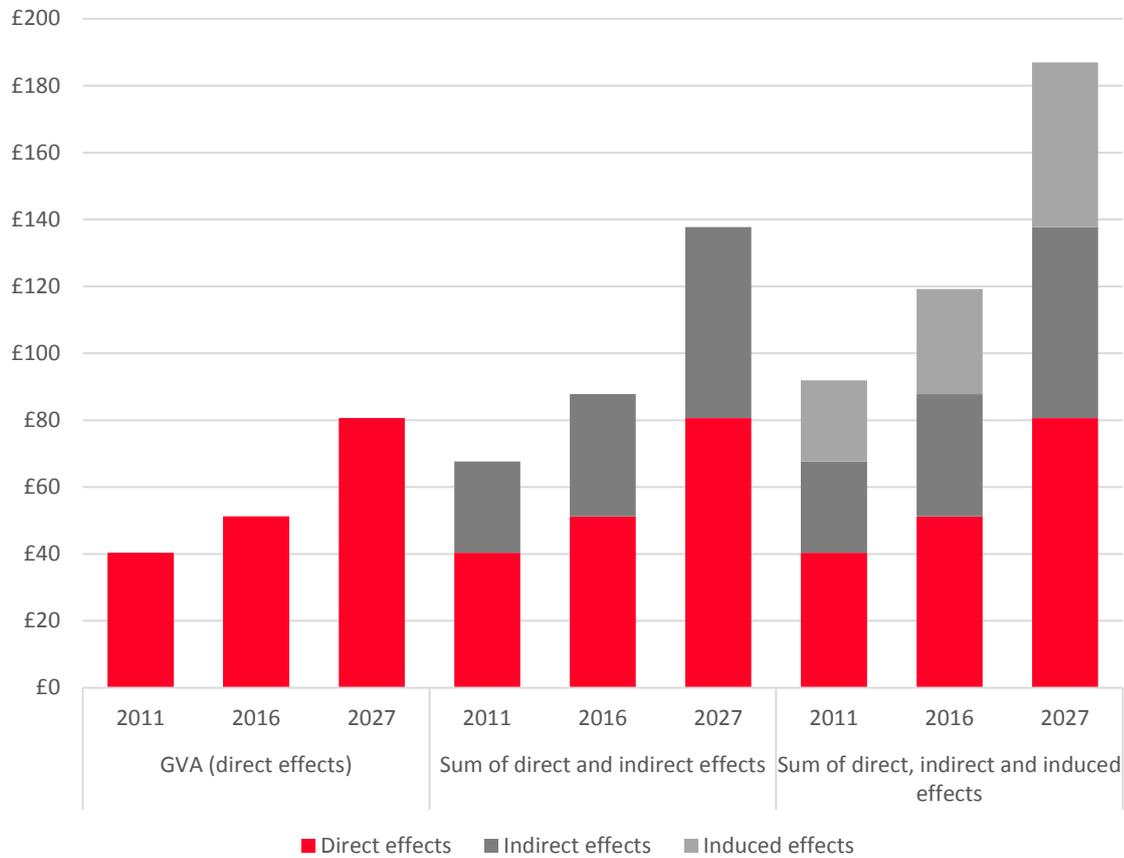


3.4 Forecast: economic importance of silver pound over next 10 years

To conclude the chapter about the economic contribution of discretionary spending of the over 50s we present a forecast of the future development of the impact of the silver pound. Looking at the trends from chapter 2 it can be expected that the economic importance of the over 50s will further increase. The demographic transition has not yet concluded meaning that the number of older people will continue to rise faster than the population average. Improving health conditions of older people and the increase in the women’s State Pension Age will result in higher labour market participation rates of older generations. And if the last five years are somewhat indicative of the near future it is also probable that we will see further increases in the number of self-employed over 50s. All this should lead to higher income growth, resulting in higher spending power.

In our forecast we combine historic data on spending growth trends for the over 50s since the early 2000s with our projections for the future trajectory of disposable income growth. This method accounts for the fact that the over 50s spending – and therefore their contribution to the economy – is projected to grow faster than average spending in the UK.

Figure 13: Contribution of discretionary spending of the over 50s, 2016-2027, in £ billion

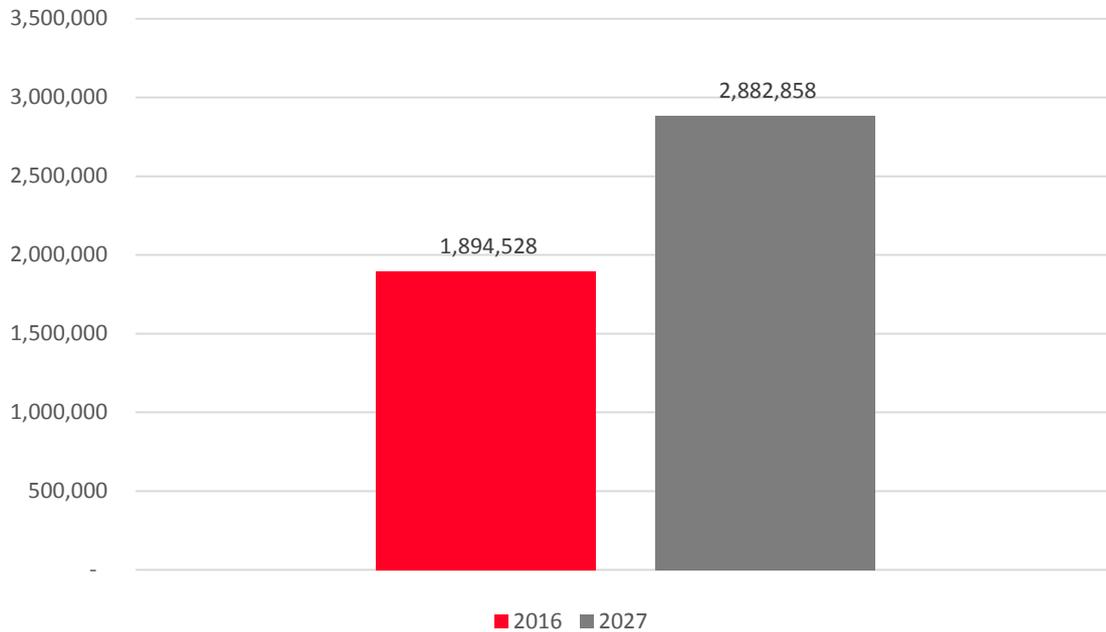


Source: Cebr analysis

Figure 13 shows the growth trajectory for the economic contribution of the over 50s spending over the next ten years. The direct, indirect and induced effects are set to increase by around 57% each over the forecast horizon. For comparison, total GDP in current prices is projected to increase by 49% over the same period. This pushes the total effect of the silver pound – the discretionary spending over the over 50s - in 2027 to almost £187 billion, equivalent to around 38% of UK GDP of £493 billion⁸.

⁸ Seasonally adjusted, in current prices

Figure 14: Employment effects of the over 50s discretionary spending, 2016-2027



Source: Cebr analysis

Assuming productivity growth of on average 1% per year in the coming decade⁹ we can also estimate the future employment effect of discretionary spending of the over 50s in 2027. Figure 14 shows that total employment effects are expected to increase by 52%, from around 1.9 million in 2016 to 2.9 million in 2027.

⁹ Average annual productivity growth since 2010 has been around 0.7% but improvements in productivity growth are expected in the medium term.

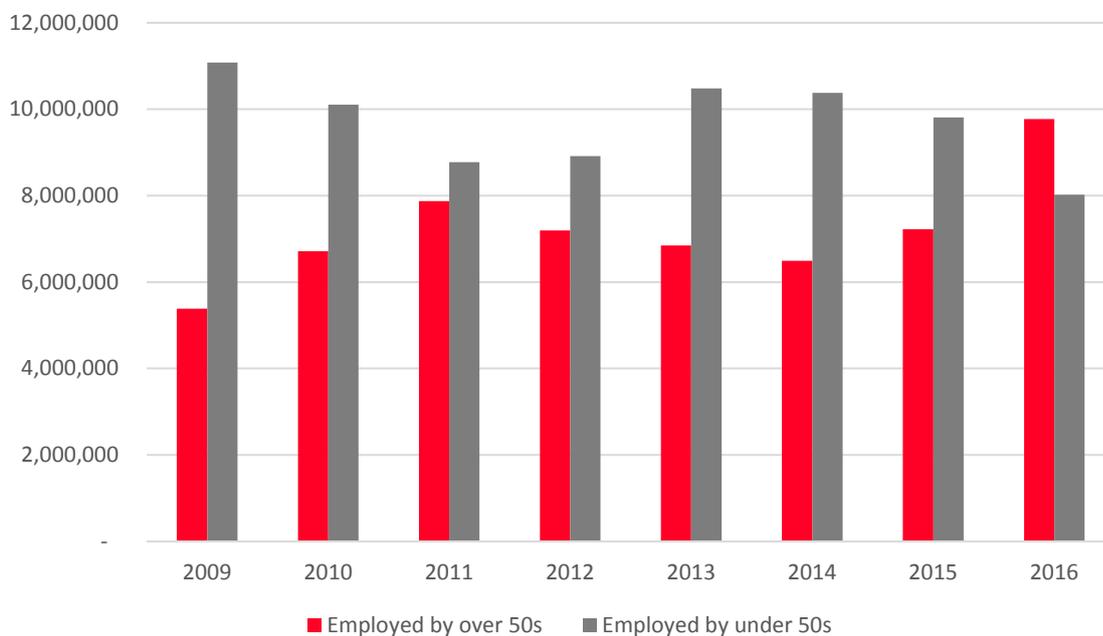
4 Analysis of businesses owned by the over 50s

Apart from the analysis of the direct, indirect and induced effects of the silver pound to GDP and employment, it is also worthwhile to look at another impact of the over 50s in the economy. In previous chapters this report already looked at some of the aspects of self-employment of the over 50s. Building on this, the analysis now turns to the employment opportunities generated by self-employed over 50s.

4.1 Employment generated in businesses owned by the over 50s

To estimate the number of jobs created by older entrepreneurs, the analysis uses data from the ONS' Labour Force Survey (LFS), a quarterly representative survey of about 60,000 UK households, which focusses primarily on indicators related to individuals' employment status. Apart from capturing whether an individual is self-employed or not, the LFS also asks the self-employed about the number of employees in their business. To account for seasonal effects and minimize measurement error our analysis pools the data of the second and fourth quarter of each year.

Figure 15: Employment by self-employed, 2009-2016



Source: Labour Force Survey, multiple years, Cebr analysis

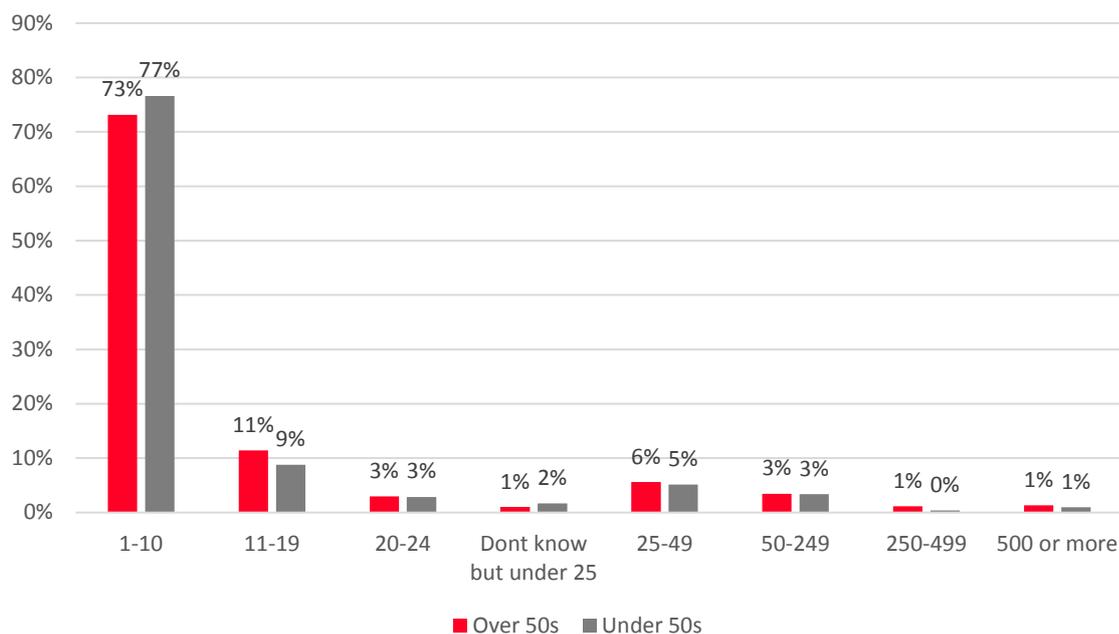
Figure 15 shows the change in the number of people employed by self-employed over 50s and under 50s. In other words, the data show how many jobs are created by businesses owned by the two age groups. While the data suggest some variability in the employment figures, some trends are clearly discernible. The overall number working for the self-employed has increased over the period analysed,

but only slightly so from 16.5 million to 17.8 million. To put this figure into context, this is more than three times as many people as currently working in the public sector (ca. 5.4 million).

Looking at the split between older and younger business owners, we see that in 2009, under 50s employed more than twice the number of people compared to the over 50s (11.1 million compared to 5.4 million). In the following years, the number of those employed by older business owners increased to a temporary peak in 2011 at 7.9 million before falling back to 6.5 million in 2014. Since then, however, the number of people employed by over 50s entrepreneurs has risen steeply to 9.8 million in 2016, surpassing the number of individuals working for younger entrepreneurs. This recent increase reflects the findings from previous chapters of the report, showing that an increasing share of the over 50s choose self-employment and provide employment opportunities for a large number of people.

The data also allow us to have a look at the size of the businesses owned by individuals. Although the differences are not large, what Figure 16 tells us is that under 50s are slightly more likely to be small business owners than the over 50s. 77% of business owners under 50 employ less than 10 people compared to 73% of the over 50s. Older generations are therefore somewhat more likely to own larger businesses employing more people.

Figure 16: Distribution businesses owned by the over 50s and the under 50s by number of employees, 2016



Source: LFS, 2016, Cebr analysis

5 Conclusions

This report has demonstrated the increasing economic importance of the over 50s in a number of ways. Much has been written about the ageing populations in developed countries and their growing influence on various aspects of society. The analysis in this report enriches the discussion by demonstrating this influence on a number of dimensions. Just by looking at the numbers of over 50s in the population, their growing spending power – in 2016 the over 50s outspent their younger counterparts for the first time – and increased activity in the labour market even after they have reached their pension age gives a first idea of how important this cohort is for the wider economy. Our analysis has shown that the discretionary spending of over 50s – the silver pound – is making a sizeable contribution to GDP in the economy. The direct effects, related to businesses directly selling to the over 50s, gain around £45 billion in economic activity from their discretionary spending. This contribution rises by a further £31 billion when considering the businesses in the supply chain of the aforementioned companies. Going another step further, we also considered the induced effects on the economy resulting from the additional spending of workers along the supply chains. In total, the silver pound has knock-on effects of around £105 billion to the economy – more than the £101 billion of the under 50s.

Although the specific analysis of one age group lends itself to comparison, it is worth stressing that this is not a zero-sum-game or a competition in the classical sense. Over 50s discretionary spending has a number of beneficial effects not only for businesses but also on employment for both younger and older generations. Economic impact analysis has shown that the employment effect of the silver pound support up to 1.9 million jobs in the UK economy. Considering future growth in the spending power of over 50s this number is expected to rise to 2.8 million by 2027.

Ultimately, we expanded the analysis by looking at the over 50s not only from a consumer angle, but rather as employers and entrepreneurs. Approximately 45% of all self-employed are over the age of 50, a share that has been rising in recent years. Our analysis has found that business owners over the age of 50 provide employment to 9.8 million people. While many of those jobs can be found in small and medium-sized companies, the over 50s are more likely to be in command of large companies than under 50s.

The findings of this report point in a clear direction: the over 50s are becoming increasingly important to the UK economy whether it be as consumers, employees or business owners. Businesses are already embracing the growing role of over 50s and we should expect more companies to follow this trend as the economic contribution of the silver pound is expected to grow substantially in the coming years.