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Rising cost of living in the UK

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Summary

The cost of living increased sharply across the UK during 2021 and 2022. The annual rate of inflation reached 11.1% in October 2022, a 41-year high, before easing in subsequent months. It rose gain, however, from 10.1% in January 2023 to 10.4% in February. High inflation affects the affordability of goods and services for households.

This briefing gives an overview of rising prices, particularly food, energy and fuel prices, including the effect of the conflict in Ukraine. It outlines Government support as well as how rising prices, interest rates and other policies are affecting household budgets.

Consumer goods, energy prices and food pushing inflation higher

Consumer prices, as measured by the Consumer Prices Index (CPI), were 10.4% higher in February 2023 than a year before.

Increases in the costs of consumer goods, underpinned by strong demand from consumers and supply chain bottlenecks, have been factors causing rising inflation in 2021 and 2022. Food prices have also been rising sharply over the past year and were 18.0% higher in February 2023 compared with a year before, a 45-year high.

Another important driver of inflation is energy prices, with household energy tariffs and road fuel costs increasing. From February 2022 to February 2023, domestic gas prices increased by 129% and domestic electricity prices by 67%. Gas prices increased to record levels after Russia launched its full-scale invasion of Ukraine and continued to rise during much of 2022 due to cuts in Russian supply. Electricity prices are linked to gas prices and have followed a similar trend.

On 8 September the then Prime Minister announced a new Energy Price Guarantee would be introduced on 1 October, to cap typical consumption at £2,500 a year. It was initially intended to last for two years, but the Chancellor announced on 17 October that it would only last sixth months. In the Autumn Statement 2022 he announced that the EPG would be increased in April 2023 to £3,000 for typical annual consumption and last to the end of March 2024. In the Spring Budget 2023 The Chancellor said that the increase to £3,000 would be put back from April to July 2023.

As well as the humanitarian, military and political impact of Russia's invasion of Ukraine, there are implications for the world economy. For the UK, a key economic effect of the conflict is higher energy prices. After rising following the invasion, gas prices on international markets have fallen steadily, and oil prices (in US dollars) have been falling since June 2022.

As a result, road fuel prices and household energy bills in the UK have increased. Energy bills for businesses have also increased and are expected to continue to rise. Details of new Government support for businesses, the Energy Bill Relief Scheme, were announced on 21 September.

Russia and Ukraine are also large producers and exporters of agricultural products, such as wheat, and some metals. These products became more expensive on international markets, leading to increases in food and materials prices in the UK, although global commodity prices have eased in recent months.

Rising inflation around the world

Consumer price inflation rose in many countries during 2021 and 2022. Pandemic-related supply shortages were a major factor. As the global economy recovered from its pandemic-related recession, there was increased demand for products and materials. The conflict in Ukraine also led to higher commodity prices (mainly in the first half of 2022), pushing up inflation around the world.

In February 2023, the UK's annual inflation rate of 10.4% was higher than in some comparable economies such as the Eurozone (8.5%), France (7.3%) and the US (5.3%).

Inflation rate expected to slow in 2023

The inflation rate is typically expressed as the percentage change in consumer prices compared with one year before. For example, the most recent data compares prices in February 2023 with prices in February 2022.

This means that changes to prices that occurred more than a year ago, before February 2022 in this example, "drop out" of the annual inflation rate. Economists expect this effect to lead to the inflation rate generally falling during 2023, as some past price increases "drop out" of the annual comparison.

There are also signs that some global price pressures are subsiding. For instance, supply bottlenecks have eased and wholesale gas prices have fallen on financial markets (though this will take time to pass through to bills for households and businesses).

Both the OBR and Bank of England expect the annual inflation rate to ease in 2023, as the steep rises in energy prices seen in 2022 fall out of the annual comparison. The OBR expects inflation to slow to 2.9% by Q4 2023, while the Bank expects it to slow to around 4%.

A slowing or falling inflation rate means that prices are rising more slowly than before; it does not mean that price levels are actually falling. For example, if the annual inflation rate drops from 10% to 4%, this means prices are still 4% higher compared with a year before.

Government policies

The Government announced the Energy Price Guarantee (EPG) on 8 September, which will cap the unit of cost of energy. A household's bill will continue to be influenced by how much energy they use, but a typical household could save around £1,500 between October 2022 and June 2023, according to the Government.

Estimates of the cost of the EPG have fallen over time due to a drop in the wholesale price of Energy. The latest official estimates put the cost of the EPG and the Energy Bill Relief Scheme (for non-domestic users) at around £21 billion for 2022/23 and 2023/24 combined.

Other Government support announced during 2022 includes:

- £400 off energy bills for all households
- £650 payments for households receiving means-tested benefits. Pensioner households will get an additional £300 and people receiving disability payments an additional £150
- a £150 council tax rebate for households in council tax band A to D
- a 5p cut to fuel duty
- an increase to the amount someone can earn before National Insurance Contributions (NICs) are charged

Impact on households

According to the Office for National Statistics, 93% of adults in Great Britain reported an increase in their cost of living in March 2023.

The OBR expects real post-tax household income to fall by 4.3% in 2022-23, the biggest fall since comparable records began in 1956.

The OBR forecasted in March 2023 that real household disposable income per person will fall by 3.2% in 2023, after a 3.1% fall in 2022. Food bank charities are reporting an increase in demand: the Trussell Trust reported that in April-September 2022 they provided almost 1.3 million emergency food parcels, a third more than in the same period in 2021 and 50% more than pre-pandemic levels.

The Bank of England has been raising interest rates to try and lower the inflation rate below its 2% target. This has led to higher borrowing costs for households, notably on mortgage interest rates. The reaction on financial markets to the mini Budget of 23 September led mortgage providers to further increase interest rates on the mortgages they offer. Since then, mortgage rates have come down again, though they remain well above their levels of mid-2022.

1 Inflation

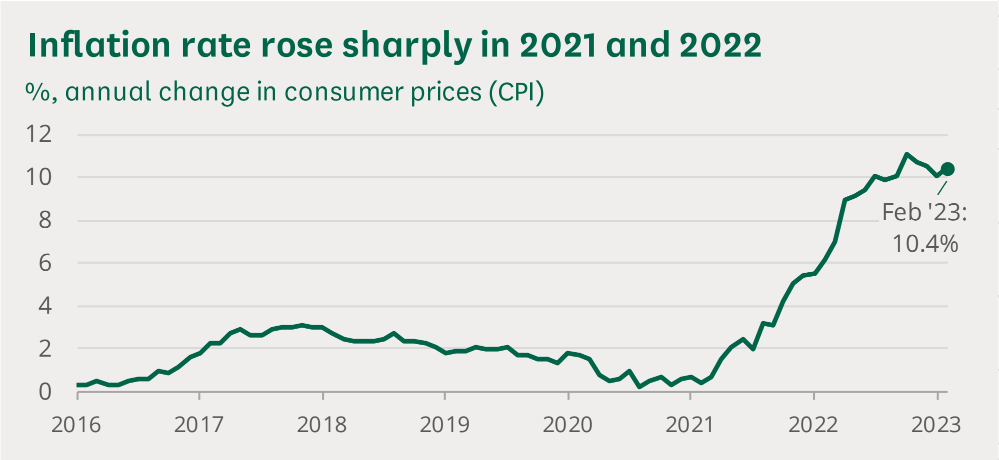
Inflation is measured by the rate that prices increase. This is commonly expressed as an annual percentage change. In this briefing, we concentrate on prices that consumers pay for goods and services, often described as part of the 'cost of living'. Inflation in this context means a rise in the cost of living.

1.1 Inflation since 2021

Inflation rose sharply during 2021 and most of 2022. Strong consumer demand for goods, rising energy prices and higher costs for businesses were reflected in higher prices.

UK consumer prices, as measured by the Consumer Prices Index (CPI), were 10.4% higher in February 2023 than a year before, up from 10.1% in January 2023.[1] This upward move followed three successive months where the inflation rate had slowed.

The recent peak of 11.1% in October 2022 was higher than at any time since October 1981, according to Office for National Statistics (ONS) estimates.[2] This compares to rates under 1% in the first few months of 2021.



Source: ONS, CPI annual inflation rate, series D7G7 (22 March 2023 update)

Further detail on the factors behind the rise in inflation, such as energy prices, are covered in section 2.

1 ONS, Consumer price inflation, UK: February 2023, 22 March 2023
2 ONS, Consumer price inflation, UK: November 2022, 14 December 2022; based on modelled data back to 1950 from the ONS as the CPI was introduced in 1997 (with consistent data back to 1989).

Figures for inflation in March 2023 are scheduled to be published by the Office for National Statistics (ONS) on 19 April.[3]

1 How is inflation measured?

The inflation figures cited in this briefing are based on the cost of a representative basket of goods and services for the average consumer in the UK, calculated by the Office for National Statistics (ONS).[4] It is produced by collecting prices of over 700 goods and services in many locations across the country, and online, every month. A total of approximately 180,000 individual prices are collected.[5]

Inflation rates for individuals will differ from these figures, depending on their spending patterns and prices they pay. For example, a relatively high proportion of spending among lower-income households is on food.

The goods measured matter

The ONS periodically publishes data showing inflation rates divided into 10 groups ordered by household income.[6] However, this is still based on the same products and services collected for the main inflation indicators.

In 2023, the ONS is planning to increase the number of prices it collects each month from 180,000 to many millions, by using prices sent to them by supermarkets. This will allow for more detailed inflation data to be produced (at first on an experimental basis).[7]

This does not, however, fully address the issue of knowing the spending patterns of specific groups of people, such as those on low incomes in specific areas of the country, or those that rely on specific products or supermarkets.

On 25 October 2022, the ONS published experimental analysis on the price changes since April 2021 of the lowest-cost products for 30 everyday items.[8]

Section 5.2 of this briefing looks at the effect of rising prices on low-income households.

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3 These, and subsequent releases, will be available in the ONS's monthly inflation bulletin.
4 For more, see ONS, Coronavirus (COVID-19) and Consumer Price Inflation weights and prices: 2021.
5 ONS blog post, Made to measure: how we estimate inflation across the UK, 17 November 2021
6 ONS, CPIH-consistent inflation rate estimates for UK household groups: November to December 2022, 15 February 2023
7 ONS blog post, Measuring the changing prices and costs faced by households, 26 January 2022
8 ONS, Tracking the price of the lowest-cost grocery items, UK, experimental analysis: April 2021 to September 2022, 25 October 2022

1.2 Impact of conflict in Ukraine

As well as the humanitarian, military and political impact of Russia's full-scale invasion of Ukraine, there have also been implications for the world economy.[9] For the UK, one of the main economic effects is higher energy prices.

Oil prices

Russia is one of the world's largest producers and exporters of oil and gas and an important supplier of gas to many European countries, though not directly to the UK.[10] Immediately following the full-scale invasion on 24 February 2022, oil prices went above $100 per barrel to their highest level since 2014.[11] They continued to increase reaching over $125, before falling back slightly. Prices gradually increased to almost $125 a barrel in mid-June before falling back over the following few months to below $100 a barrel from September and below $90 from mid-November onwards. The latest prices of just below $75 a barrel are the lowest since December 2021

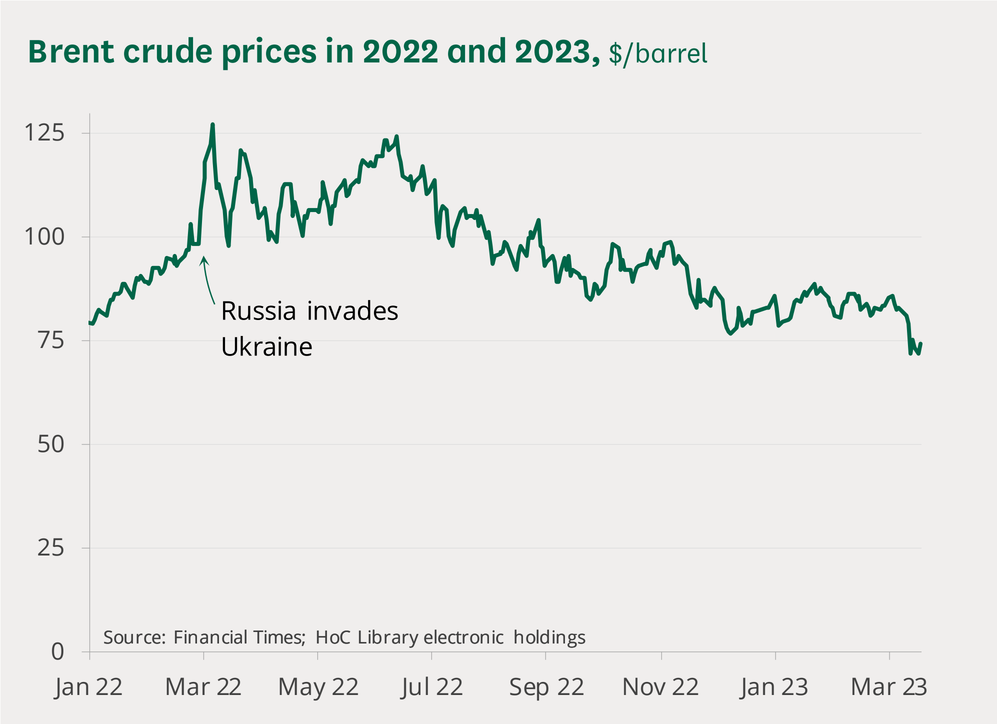
As explained in Box 2, the pound has generally become weaker against the US dollar, and other currencies, over the past eight years. As oil is traded in US dollars a weaker pound makes oil prices in the UK more expensive, other things remaining equal. Changes in Sterling prices for oil are a better indicator of the likely changes in prices of road fuel and heating oil in the UK. While the dollar price of oil in mid-February 2023 was the same as its mid-January 2022 level, the Sterling price was 13% higher.[12] The Library briefing Oil prices provides more detail.

9 Library briefings on the conflict are on our Ukraine crisis page.

10 IEA, World top crude and NGL exporters, 1997-2019, August 2021; BEIS, Russia-Ukraine and UK energy: factsheet, 25 February 2022

11 Financial Times Markets Data, ICE Brent Crude Oil Front Month

12 Financial Times; HoC Library electronic holdings



Gas prices

As discussed in section 2.2, gas prices in Europe increased by 50% on 24 February 2022 to around 11 p/kWh.[13] The daily price peaked at just over 17 p/kWh in early March, fell back in April and May before increasing rapidly again over the summer, reaching multiple new records in late August. Prices fell sharply afterwards and have been below 5p/kWh from early February and below 4p/kWh in recent days.[14]

Wholesale prices had been increasing from Spring 2021 which led to substantial increases energy bills for businesses as well as households. For more on petrol and energy prices see sections 2.2 and 2.3 respectively.

Food and metals

Food prices also rose, as Russia and Ukraine are important producers of various agricultural products, such as wheat (see section 2.4 for more).[15]

In addition, Russia and Ukraine are large producers of various metals, and these prices have also risen in international markets since the invasion

13 IEA, Gas Market and Russian Supply (accessed 4 March 2022)
14 nationalgrid.com Prevailing View tool (system average price)
15 See for example data from the UN's FAO, FAOSTAT Exports (accessed 19 December 2022)

began.[16] For example, Russia is a major producer of palladium which is used to make catalytic converters in car exhausts.[17]

World agricultural and metals prices peaked in the months following the invasion and subsequently fell back. In early February 2023, the Bank of England noted that agricultural commodity prices have been broadly flat since summer 2022, while industrial metals prices had picked up in late 2022 and early 2023, back to a similar level as before the invasion.[18]

1.3 Inflation forecasts

Economists' expectations of how high inflation would peak increased rapidly throughout 2022.

In early February 2022, before the Russia's full-scale invasion of Ukraine, the Bank of England's Monetary Policy Committee (MPC) forecast the CPI inflation rate would peak at 7.25% in April 2022.[19] By June, the MPC said it expected inflation to "rise to slightly above 11% in October".[20]

As wholesale natural gas prices rose during summer 2022, CPI forecasts were raised further.

Energy Price Guarantee

On 8 September 2022, the then Prime Minister Liz Truss announced an energy support package, including the Energy Price Guarantee, which capped the unit cost of gas and electricity for households from October 2022.

Before the announcement, with higher energy bills anticipated, the Bank of England in August had forecast inflation to peak at 13.3% in October 2022.[21] Following the unveiling of the Energy Price Guarantee, and before the mini budget, the Bank forecast inflation to peak at just under 11% in October 2022.[22]

As a result of the EPG, the inflation rate will be lower than it would otherwise have been during the autumn and winter of 2022/23 and likely beyond

16 For example, see S&P Global, Daily Update: March 4, 2022, 4 March 2022, and "Gas prices hit new record sparking fears over bill rises", BBC News 4 March 2022

17 Oilprice.com via Yahoo! Finance, Palladium Prices Are Soaring As Russian Sanctions Sting, 10 March 2022

18 Bank of England, Monetary Policy Report – February 2023, pages 35-36 and chart 2.4

19 Bank of England, Bank Rate increased to 0.5% - February 2022, 3 February 2022, Bank of England, Quarterly CPI inflation projections based on market expectations of interest rates, Monetary Policy Report, 3 February 2022

20 Bank of England, Bank Rate increased to 1.25% - June 2022, 16 June 2022, para 24

21 Bank of England, Monetary Policy Report-August 2022, Chart 2.16

22 Bank of England, Bank Rate increased to 2.25% - September 2022, 22 September 2022

(depending on what happens to the price of gas on markets).[23] The Office for Budget Responsibility (OBR) estimated that without the EPG, inflation would have peaked at 13.6% in early 2023, 2.5 percentage points higher than its forecast with the EPG.[24]

As described in more detail in sections 2.2 and 3.1, Chancellor Jeremy Hunt announced in Autumn Statement 2022 that the EPG would continue in a less generous form from April 2023 until March 2024.[25] At the Spring Budget 2023, the Chancellor revised the policy so that the point at which the EPG became less generous was delayed until July 2023.[26]

Inflation rate expected to fall in 2023

The combination of statistical effects, falling energy prices, and other factors like easing global cost pressures, are forecast to reduce the UK's annual inflation rate during 2023.

The average forecast among economists surveyed by the Treasury in the first half of March 2023 was for inflation to be 3.7% in the final quarter of 2023 and 2.5% in the final quarter of 2024.[27]

Statistical effects

The inflation rate is typically expressed as the percentage change in consumer prices in one month compared with the same month a year before. For example, the most recent data compares prices in February 2023 with prices in February 2022.

This means that changes to prices that occurred more than a year ago, before February 2022 in this example, "drop out" of the annual inflation rate. Take an extreme example: if all prices suddenly remained unchanged over the next 12 months, the overall inflation rate would eventually fall to 0% in a year's time.[28]

In the real world, economists expect this effect to lead to the inflation rate generally falling during 2023, as some past price increases – notably the steep hikes in energy bills in 2022 - "drop out" of the annual comparison.[29]

A slowing or falling inflation rate means that prices are rising more slowly than before; it does not mean that price levels are actually falling. For

23 Ofgem's household energy price cap is likely to be higher than under the EPG; Library briefing, Domestic energy prices
24 OBR, Economic and fiscal outlook - November 2022, 17 November 2022, paras 2 and 14
25 HM Treasury, Autumn Statement 2022, 17 November 2022
26 HM Treasury, Spring Budget 2023, 15 March 2023
27 HM Treasury, A comparison of independent forecasts for the UK economy in March 2023, 15 March 2023
28 For more see David Smith, Sunday Times economics editor, Put this on your T-shirt — falling inflation doesn't mean falling prices, 31 August 2022
29 Huw Dixon, NIESR blog post, Rate of Inflation Set to Return to Historic Averages in 2023, 15 February 2023

example, if the annual inflation rate is 4%, this means prices are rising by 4% compared with a year before.

Wholesale gas prices have fallen

Wholesale energy prices have fallen sharply in recent months (see section.2.2). If sustained, this will lead to lower energy bills later in 2023. Combined with the statistical effects of past steep increases in energy costs dropping out of the year-on-year inflation rate, this will lower overall inflation.

In its February 2023 assessment of the economy, the Bank of England anticipated that the direct contribution of energy to the overall inflation rate would fall steadily towards zero throughout 2023.[30]

Global supply pressures easing

There are also signs that some global price pressures are subsiding. For instance, supply bottlenecks are easing, partly due to weaker global economic activity. In addition, the cost of shipping, which soared during the pandemic, has come down noticeably.[31]

OBR forecasts

The Office for Budget Responsibility (OBR) published its most recent set of forecasts for the economy and public finances alongside Spring Budget 2023 on 15 March 2023.[32]

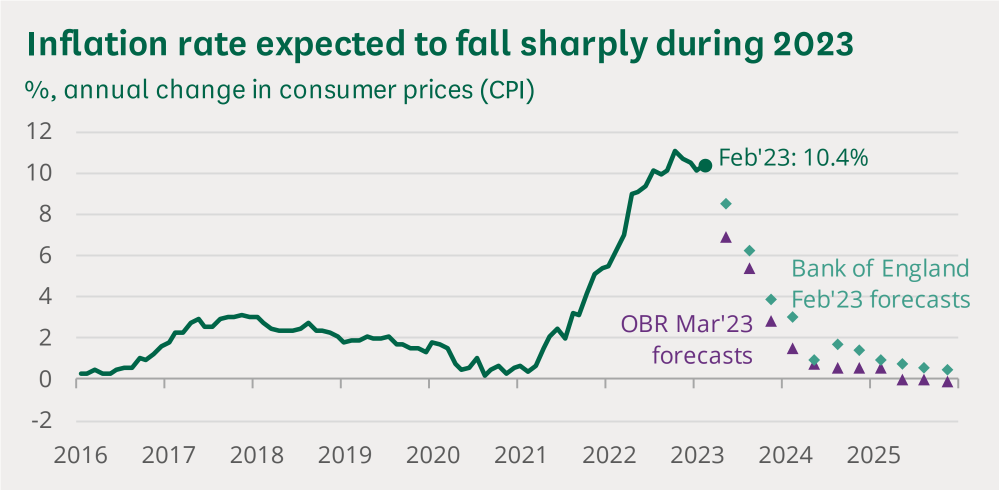
Due mostly to the statistical factors mentioned above and the fall in wholesale gas prices, which is expected to lead to lower household energy bills later in 2023, the OBR forecasts the inflation rate to come down quickly during this year, falling to 2.9% in the final quarter of 2023.

The OBR expects the inflation rate to continue falling in 2024 and 2025, down to 0% during most of 2025 (meaning consumer prices remain unchanged compared with a year before).

30 Bank of England, Monetary Policy Report – February 2023, 2 February 2023, p20 of PDF

31 For example see Drewry, World Container Index (accessed 24 Mar 2023) and Bank of England, Monetary Policy Report - February 2023, 2 February 2023, pages 37-38 of PDF

32 OBR, Economic and fiscal outlook – March 2023, 15 March 2023 and summarised in Commons Library briefing, Spring Budget 2023: A summary



Note: Quarterly forecasts based on market expectations of interest rates at the time forecasts were made.
Sources: ONS monthly outturn data up to Feb 2023, then quarterly forecasts from OBR, Economic and fiscal outlook – Mar 2023, and Bank of England Monetary Policy Report, Feb 2023

Bank of England forecasts

The Bank of England's most recent forecasts were published on 2 February 2023 as part of its quarterly Monetary Policy Report.[33]

The Bank forecasts that the CPI inflation rate peaked in late 2022. It expects inflation to ease in 2023, gradually at first, but then more sharply as the steep rises in energy prices seen in 2022 fall out of the annual comparison. However, inflation is expected to remain well above the Bank's 2% target throughout the year, partly due to the expectation that domestic inflationary pressures "remain strong".[34]

The Bank expects the CPI inflation rate to slow to around 4% by the end of 2023.[35] The Bank also notes there are considerable uncertainties surrounding the economic and inflation outlook.

1.4 International comparisons

Consumer price inflation rose in many countries during 2021 and 2022. Pandemic-related supply shortages were a major factor.[36] As the global

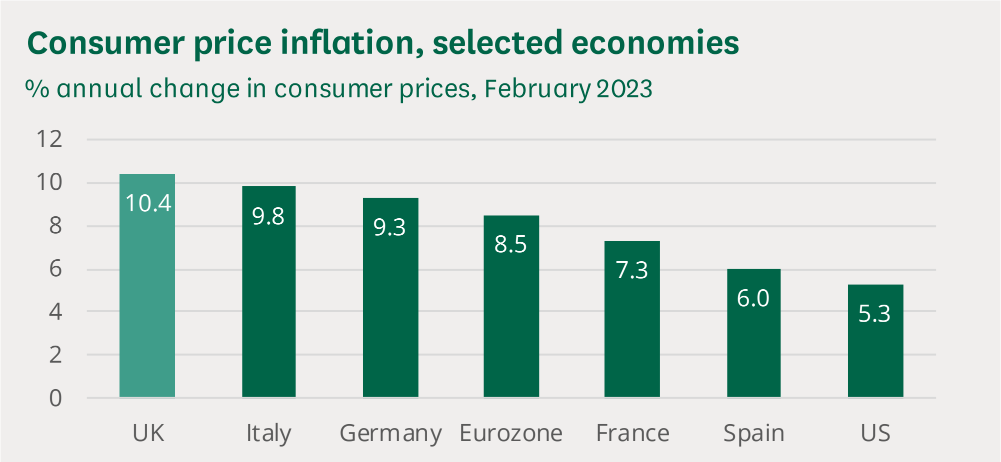
33 Bank of England, Monetary Policy Report, February 2023, 2 February 2023
34 Bank of England, Monetary Policy Report – February 2023, 2 February 2023, Table 1.c and p20 of PDF, this assumes interest rates will follow the path implied by financial markets
35 Bank of England Monetary Policy Report, February 2023, 2 February 2023, Table 1.C, p23
36 These are based on comparable figures, namely the EU's Harmonised Index of Consumer Prices (HICP), and not necessarily more-prominent national figures, e.g. for the US. UK data for this are the same as the main national measure, the CPI.

economy recovered from its pandemic-related recession, there was increased demand for products, especially consumer goods, and materials.[37]

The imbalance of (strong) demand and (disrupted) supply led to rising prices and higher transportation costs around the world. Many global commodity prices also rose in 2021 and into 2022. These pressures caused consumer prices to raise more quickly. The conflict in Ukraine also led to higher commodity prices globally (mainly in the first half of 2022), pushing up inflation worldwide.[38]

Inflation rates seem to have peaked in many economies in late 2022, with a decline in the annual rate of inflation evident in early 2023.[39]

In February 2023, the UK's annual inflation rate of 10.4% was higher than in comparable economies such as the Eurozone average (8.5%), France (7.3%) and the US (5.3%).[40]



Figures based on the EU's harmonised measure of inflation (HICP), in the UK this is the CPI
Sources: ONS, series D7G7 & Eurostat, HICP – all items, % change on year ago (retrieved 24 Mar 2023)

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37 "Trade secrets: High demand is the oft-neglected aspect of supply-side shortages", Financial Times, 15 September 2021

38 World Bank, Food security update, 15 August 2022, OECD, OECD Economic Outlook: The Price of War, 8 Jun 2022, and World Economic Forum, How the Ukraine war is driving up food and energy prices for the world, 25 Mar 2022

39 OECD, Consumer Prices, OECD - Updated: 7 March 2023

40 ONS, series D7G7 & Eurostat, HICP – all items, % change on year ago (retrieved 24 March 2023)

2 Drivers of inflation: Energy, food and consumer goods

This section takes a closer look what is contributing to high inflation.

2.1 Factors causing rising inflation

The inflation rate rose almost continuously from early 2021, when it was under 1%, until late 2022 when it reached 11.1%.

Global factors

The initial phase of this increase in inflation was mainly due to international factors. These included:

- strong global demand for consumer goods – a consequence of the Covid-19 pandemic[41];
- related supply chain disruption[42]; and
- soaring energy and fuel prices – particularly, but not exclusively, due to Russia's full-scale invasion of Ukraine in February 2022.[43]

The combination of strong demand from consumers for goods and higher costs for businesses, partly reflecting supply chain bottlenecks, were reflected in higher prices for goods. As the UK is a large net importer of goods (including energy), these global factors affected consumer prices in the UK.

The recent peak of the inflation rate for goods was 14.8% in October 2022.[44] It had dropped to 13.4% in February 2023 (although this was up from 13.3% in January) and there are indications that global supply chain pressures have eased.[45]

41 For example, "Inflation: Seven reasons why the cost of living is going up around the world", BBC News, 19 Jan 2022, and "How the supply chain crisis is affecting six big economies", The Guardian, 2 Oct 2021

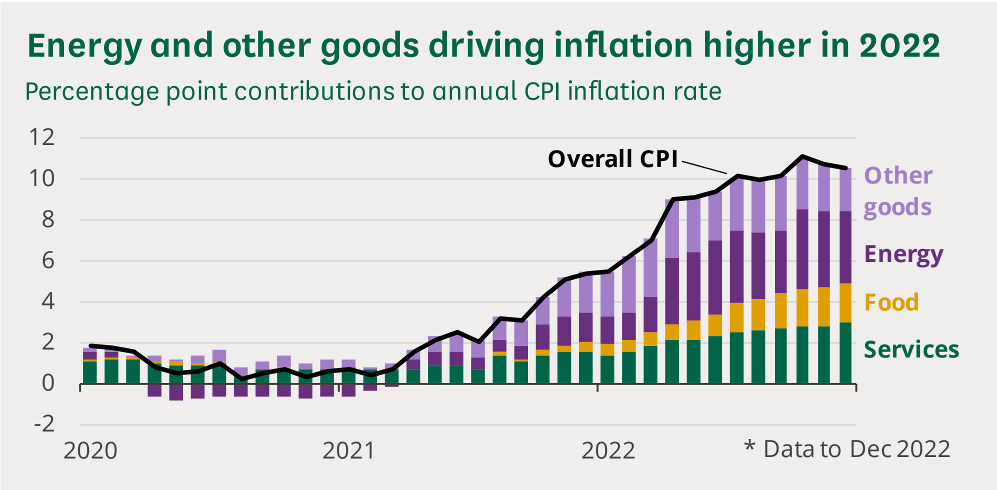
42 ONS, Recent drivers of UK consumer price inflation: March 2022, 23 March 2022

43 Inflation was already at a 30-year high at the beginning of 2022, prior to the invasion of Ukraine

44 ONS, Consumer price inflation, UK: February 2023, 22 March 2023, table 28 of dataset

45 Federal Reserve Bank of New York blog post, Global Supply Chain Pressure Index: The China Factor, 6 January 2023 and Bank of England, Monetary Policy Report – February 2023, 2 February 2023, pages 36-37 of PDF and Chart 2.5

The chart below is reproduced from the Bank of England includes data up to December 2022. It shows goods and energy prices, and more recently food and services prices, pushing the inflation rate higher. For example, it shows that energy prices contributed 3.5 percentage points of the overall 10.5% inflation rate in December 2022.



Note: Food includes non-alcoholic drinks
Source: Reproduced from Bank of England, Monetary Policy Report – February 2023, Chart 2.6 (p38)

The increase in trade barriers with the EU following Brexit may also be a factor in rising inflation (for example, on food prices), though it is hard to pinpoint how big an effect, if any, this has had.[46] As shown in section 1.4, rising inflation has also been a feature in other economies such as in the EU and US.

The annual rate of so-called "core inflation", which excludes the volatile energy and food components of the CPI, was 6.2% in February 2023. This compares with 5.8% in January 2023, but is similar to rates seen at the end of 2022.[47]

Import prices and the value of the pound

Most commodities, including oil, are traded on world markets and priced in US dollars. This means a fall in the value of the pound leads to higher imported commodity prices in pounds.

The pound fell against other currencies in the days after the fiscal statement, or "mini budget", of 23 September 2022. Following the reversals of the majority of the mini budget's policies (and other factors), sterling has recovered all of the decline in value since then. However, sterling is lower

[46] UK in a Changing Europe, Post-Brexit imports, supply chains, and the effect on consumer prices, April 2022; OBR, Economic and fiscal outlook – March 2022, 23 March 2022, Box 2.1 The impact of bottlenecks in global product markets

[47] ONS, Consumer price inflation, UK: February 2023, 15 March 2023, table 28 of dataset

over the past year or so, around 5% lower as of 24 March 2023 than it was at the beginning of 2022 (compared with a basket of currencies).[48]

A weaker pound means it takes more pounds to buy the same amount of imported goods and services – in short, imports to the UK become more expensive.

This raises business costs and may result in firms lifting their prices, adding to the overall inflation rate.

The full impact of higher import prices will not be immediate as some firms will have agreed contracts to pay a fixed price for their imports; only when those contracts expire and new contracts are negotiated will the full impact be felt. Businesses may also protect against short-term movements in the exchange rate by hedging their exposure to such changes via financial products.

Not all businesses purchase imports. And some of those that do import may not pass on the full impact of their rising import costs to businesses or consumers. However, a falling currency, if sustained, usually leads to higher consumer price inflation. This happened, for example, when the pound fell in value after the Brexit referendum of June 2016.

Domestic inflationary pressures

While global factors were the original drivers of high inflation, price rises in many areas of the domestic economy have also accelerated.

The annual inflation rate of services prices rose during 2022, from 3.2% in January to 6.8% in December – a 30-year high.[49] After dipping to 6.0% in January 2023, they picked up again to 6.6% in February.

Services prices are seen as being less exposed to global factors. Inflation in services is also considered to be more persistent than inflation in goods.[50]

Labour costs make up a large proportion of costs to services firms. With low unemployment and a high level of job vacancies, the labour market remains tight.

Annual growth in average earnings excluding bonuses has accelerated, rising to 6.5% in the three months to January 2023, well below the rate of inflation. However, it is higher than it has been for decades (excluding the statistically-

48 Bank of England, Broad effective exchange rate index, sterling (accessed 27 March 2023)

49 ONS, Annual inflation rate of services prices in CPI, series D7NN

50 Bank of England, The inflationary consequences of real shocks – speech by Ben Broadbent, 20 October 2022, p6

distorted pandemic period). Average private sector pay growth on the same measure was 7.0%, while it was 4.8% for the public sector.[51]

Also important is the ability and willingness of firms to pass on higher costs by raising their prices. This depends on several factors, including the strength of consumer demand, the degree of competition, current input costs and future expectations of costs.

Reports received by Bank of England officials from businesses in the six weeks to mid-January suggested that "many firms are passing through higher costs to prices in order to limit the erosion of margins".[52]

How domestically-orientated inflation and services prices evolve over 2023 will play a role in determining how much the overall inflation rate falls this year.

2.2 Energy prices

In the year to February 2023, domestic gas prices increased by **129%** and domestic electricity prices by **67%**.[53]

The energy price cap set by Ofgem sets maximum prices for a unit of energy and standing charges.

On 1 April 2022, a new higher price cap came into force and a further large increase in the cap was due to come in on 1 October 2022. The cap sets maximum prices for a unit of energy and standing charges. It does not cap maximum annual bills. These capped unit prices for gas and electricity are multiplied by typical consumption levels and added to standing charges to arrive at the illustrative annual amount.

Early in 2022 the regulator, Ofgem, announced the cap would increase from its previous equivalent annual level of £1,277 per year to £1,971; a 54% increase. At the end of August 2022 they announced that the cap would increase by a further 80% to £3,549 from 1 October 2022. This would have been a combined increase of 178% in sixth months. However, on 8 September the Prime Minister announced the new Energy Price Guarantee (EPG) would instead be introduced from 1 October and last two years. This would mean typical annual bills for direct debit customers should be no more than an average of £2,500.

The Chancellor announced on 17 October that the EPG will now only last for sixth months.[54] In the Autumn Statement 2022 he announced that the EPG would be increased in April 2023 to £3,000 for typical annual consumption

51 Excluding a statistically-distorted period during the pandemic; Library, The UK economy: a dashboard and ONS, Average weekly earnings in Great Britain: March 2023, 14 March 2023
52 Bank of England, Monetary Policy Report – February 2023, 2 February 2023, Box C and p59 of PDF
53 ONS series D7DU and D7DT
54 HM Treasury, Chancellor brings forward further Medium-Term Fiscal Plan measures (17 October 2022)

and last to the end of March 2024.[55] In the Spring Budget 2023 he said that the increase in the EPG to £3,000 would be delayed until July 2023. The latest forecasts of the energy price cap for the second half of 2023 are well below the EPG level.[56] If these forecasts are accurate, then consumer prices would fall in July.

The Government will pay energy suppliers the difference between the EPG level and what they would have otherwise charged customers.[57] Households will still get the £400 Energy Bills Support Scheme payment over the six months from October 2022 to March 2023. There will also be a new support funds for households not on mains gas or electricity, 'equivalent support' for businesses and support for households on fixed tariffs above the EPG level.[58]

The figures given for cap/EPG bills are the illustrative annual mounts for households with 'typical' (median) levels of consumption on dual fuel tariffs paying by direct debit. The caps for other payment methods are somewhat higher. Ofgem said the October 2022 price cap increase would have affected around 24 million customers on tariffs covered by the different caps.[59]

The record wholesale gas prices and knock-on effect on electricity prices, are largely responsible for the size of the increase in the price cap according to Ofgem. The wholesale energy cost element of the cap increased from £528 in the winter 2021-22 cap to £1,077 from April 2022. It would have increased further to £2,468 under the original Q4 2022 cap and to £3,137 in Q1 2023.[60]

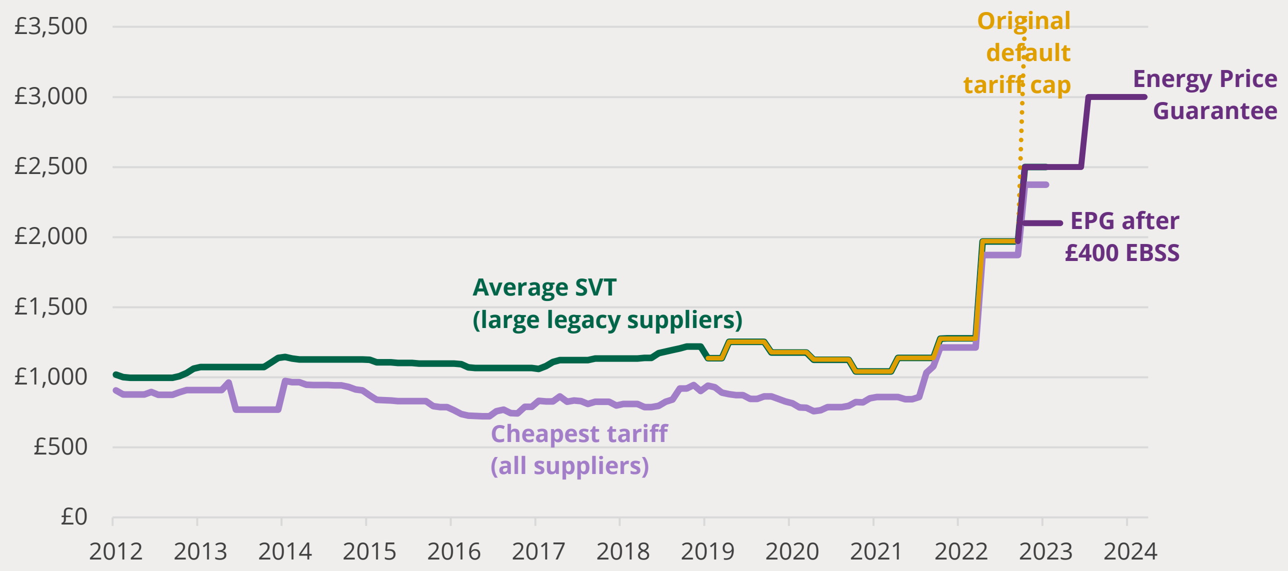
The Library briefings Domestic energy prices and Gas and electricity prices under the Energy Price Guarantee and beyond provide more detail.

The following chart looks at trends in the Standard Variable Tariff (SVT) of the largest suppliers and the cheapest available tariff on the market, alongside the price cap and the Energy Price Guarantee before and after the Energy Bills Support Scheme (EBSS) support is included.

55 HM Treasury, Autumn Statement 2022
56 Cornwall Insight, Cornwall Insight responds to the Spring Budget (15 March 2022)
57 In effect the difference between the Energy Price Guarantee and the default tariff cap (were it still in place).
58 BEIS, Government announces Energy Price Guarantee for families and businesses while urgently taking action to reform broken energy market (accessed 8 September 2022),BEIS, Energy bills support factsheet: 8 September 2022 (Updated 9 September)
59 Ofgem, Ofgem updates price cap level and tightens up rules on suppliers (accessed 26 August 2022)
60 Ofgem, Latest energy price cap announced by Ofgem (24 November 2022)

Price cap up by 54% in April 2022, Energy Price Guarantee limits increase in October 2022, but planned to rise to £3,000 from July 2023

Average annual direct debit dual fuel bill for typical levels of consumption, cash prices, Great Britain



Source: Retail market indicators (prices and profits), Ofgem

A customer's annual bill will largely depend on how much energy they use. The cap applies where a customer has not signed up for a fixed-term contract with their supplier (they are on a 'standard variable tariff'). Some customers coming to the end of their (cheaper) fixed-term deals are likely to face even larger price increases as suppliers are not currently offering fixed-term contracts and they would move onto the higher price cap level.

Prices for non-domestic consumers like businesses are not capped and increases in these are likely to be passed on to consumers through higher prices for goods and services.

Heating oil prices

In mid-May 2020, UK heating oil cost just over 20 pence.[61] The pandemic and resulting lockdowns led to a sharp drop in crude oil prices which affected heating oil. Prices generally increased through the rest of 2020 and most of 2021 reaching almost 60 pence a litre in mid-October. They increased sharply to 85 pence per litre in mid-March 2022 and to 99 pence per litre in mid-June before falling back to 75 pence per litre in February 2023.[62]

There is no price cap for heating oil and there is concern that households which rely on it for heating will be affected by the large price rise. The Government has said that households not on mains gas and using other fuels such as oil or LPG will receive a £200 Alternative Fuels Payment this winter.

61 BEIS, Monthly and annual prices of road fuels and petroleum products (Table 4.1.1)
62 BEIS, Monthly and annual prices of road fuels and petroleum products (Table 4.1.1)

This was increased in the Autumn Statement 2022 from its original level of £100.

The latest data suggest around 1.6 million homes across the UK use heating oil. Northern Ireland had by far the highest rate of homes using heating oil, with 67.5% of homes in 2016.[63]

Wholesale gas prices since the invasion of Ukraine

Trends in wholesale gas prices on international markets give an indication of future increases in gas and electricity prices for UK consumers. Gas prices in Europe increased by 50% on 24 February to $44 per million therms (around 11 p/kWh). Prices increased by 30% on Asian markets on the same day.[64]

The following chart shows recent data on UK spot prices, which reflect prices on the wider European market.

UK wholesale spot price for gas in 2022 and 2023

Pence per KWh

Source: nationalgrid.com Prevailing View tool (system average price)

The daily price initially peaked at just over 17 p/kWh in early March. It soon fell back to levels similar to those just before the invasion. Prices continued to fall during April and May before stabilising somewhat at levels generally below what they were just before the invasion. The downward trend was due

63 Department for Communities (NI), Northern Ireland Housing Statistics 2020-21 (section 2 tables). Statistics for Wales, Welsh Housing Conditions Survey (energy efficiency of dwellings): April 2017 to March 2018. Housing and Social Justice Directorate, Scottish house condition survey: 2019 key findings. DLUHC, English Housing Survey data on energy performance (Table DA6101)

64 IEA, Gas Market and Russian Supply (accessed 4 March 2022)

in part to the falling demand for gas for heating during warmer months and a 'glut' of gas in the UK market at the same time. These are spot prices for immediate delivery. Forward prices, which feed into the calculations for the price cap, do not show the same downward trend.[65]

The spot price increased steadily from mid-May to mid-August to reach around 10 p/kWh. It then spiked in late August to reach a new record of more than 19 p/kWh before falling back sharply over the next two months to below their pre-invasion level. Prices fell due to a combination of factors: Storage facilities on the continent were nearly full, warm autumn weather reduced demand and there were ample supplies of liquefied natural gas arriving in tankers to various facilities.

The lower prices ended towards the end of November when a period of prolonged cold and still weather increased demand for gas for heating and power and led to a sharp spike in wholesale prices. Prices returned to around 5 p/kWh in late December. They have continued to gradually fall and have been less than 5 p/kWh from early February 2023 and below 4p/kWh in recent days. This general fall in prices led some observers to forecast that the price cap could be well below the EPG in the second half of 2023 which would mean lower bills for domestic customers.[66]

Further increases in the price cap were expected from January 2023, due to continued high in wholesale prices. Under the Energy Price Guarantee these were not passed on directly to households through energy bills. However, any increases in wholesale costs increases the cost to Government of this support scheme and vice versa.

2.3 Road fuel prices

Petrol and diesel prices fell over the first two months of the first lockdown in March 2020.

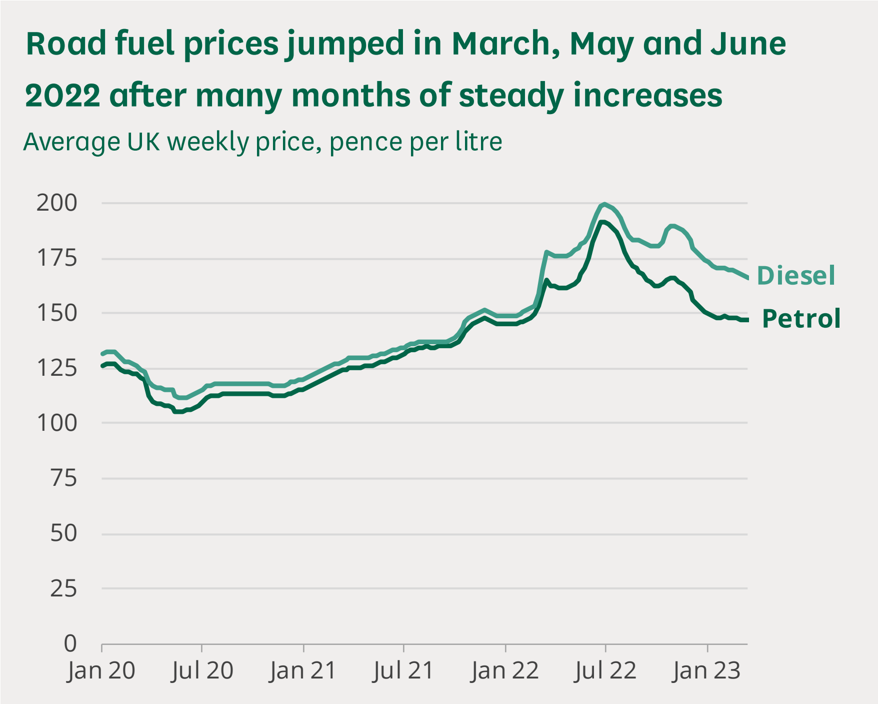
At the end of May 2020, they were at their lowest level for around five years: the UK average was 104.9 pence for a litre of petrol and 111.7 pence for diesel. Prices increased steadily during most of 2021 and particularly rapidly in autumn 2021. After stabilising for a short period around the turn of the year, prices have increased from mid-January onwards as tensions between Russian and Ukraine increased. Prices jumped again after Russia launched its full-scale invasion of Ukraine on 24 February.

Petrol reached another weekly record price of 165.4 pence per litre on 21 March 2022. Diesel reached a weekly record price of 177.5 pence per litre on the same day. The 5 pence cut in duty announced in the Spring Statement

65 "The surreal, but also real, problem of Britain's gas glut", Sky News ,17 May 2022

66 Cornwall Insight, Cornwall Insight responds to the government's announcement on the EPG (15 March 2022)

came into force at 6pm on 23 March. Pump prices fell back slightly after the duty cut but increased in early May and more rapidly in late May and June to set multiple new record levels. On 4 July, petrol was an average of 191.6 pence per litre and diesel 199.2 pence per litre. These were both new records and, other than a brief increase in late October, prices have fallen since then.[67]



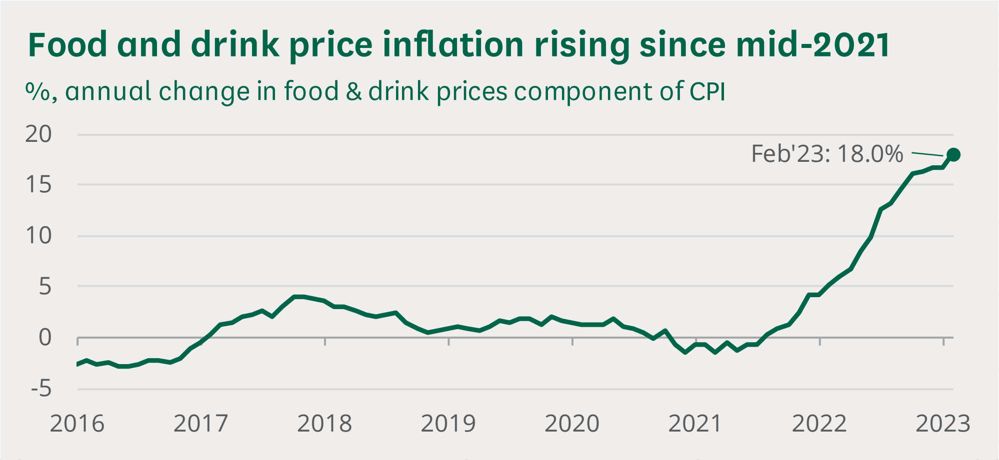
Source: Department for Business, Energy and Industrial Strategy, Weekly road fuel prices

2.4 Food prices

Food and non-alcoholic drink prices were 18.0% higher in February 2023 compared to the previous year, based on the official CPI measure of inflation.[68] This is the highest rate of increase in food prices since 1977 according to the ONS.[69] The food inflation rate has accelerated in 18 of the past 19 months.[70]

Prices began to rise after a period in the second half of 2020 and first half of 2021 when food prices fell, as the chart below shows. This measure does not include prices in restaurants or pubs and bars.

67 Weekly road fuel prices, Department for Business, Energy and Industrial Strategy
68 ONS, Consumer price inflation, UK: February 2023, 15 March 2023, Table 3
69 ONS estimates (ONS, Consumer price inflation, UK: February 2023) based on ONS extended historical inflation series (Consumer price inflation, historical estimates and recent trends, UK: 1950 to 2022, May 2022)
70 ONS, Food and non-alcoholic drink component of CPI, annual rate of change, series D7G8



Source: ONS, Food and non-alcoholic drink component of CPI, series D7G8 (15 March 2023 update)

The Bank of England observed in early February 2023 that higher input costs seem to have been passed on to food prices faster than is usually the case.[71]

Analysis by the ONS in April 2022 noted supply chain challenges, rising costs like energy costs and increased transport costs, and labour shortages led to rising food and drink prices.[72]

The effect of Russia's invasion of Ukraine on food prices

The rise in UK food prices largely reflects global factors. Following the Russian invasion of Ukraine, food prices on international markets rose as Russia and Ukraine are important producers of various agricultural products, such as wheat.[73] An index of world food prices compiled by the UN Food and Agriculture Organization hit a record high in March 2022.[74] Since then it has been declining each month, declining for the 11th consecutive month in February 2023, to below the level of January 2022. Nevertheless, the index remains well above prices seen in the years prior to the pandemic.[75]

The conflict led to some Ukrainian farmers being unable to spread fertilisers and pesticides and plant seeds for the spring crop due to be harvested in the summer.[76] In addition, Ukraine's Black Sea ports are transportation hubs for exporting certain commodities, including grains. They were mostly shut in the after the invasion.[77] During summer 2022 a deal was brokered by the UN and

71 Bank of England, Monetary Policy Report – February 2023, 2 February 2023, p54 of PDF
72 ONS, Recent challenges faced by food and drink businesses and their impact on prices, 4 April 2022
73 UN FAO Information Note, The importance of Ukraine and the Russian Federation for global agricultural markets and the risks associated with the current conflict (11 March 2022 update)
74 UN FAO, FAO Food Price Index posts significant leap in March, 8 April 2022
75 UN FAO, FAO Food Price Index (last update 3 March 2023)
76 "Global food price fears as Ukraine farmers forced to reduce crop planting", The Guardian, 2 April 2022 and "Food crisis looms as Ukrainian wheat shipments grind to halt", Financial Times, 6 March 2022
77 "How can Ukraine export its harvest to the world?", BBC News, 26 May 2022; "Ukraine war 'catastrophic for global food'", BBC News, 7 March 2022; "Russia's invasion to have 'enormous impact' on world food supplies", Financial Times, 13 March 2022; "Ship carrying first Ukraine grain cargo nears Syria", Reuters, 14 August 2022

Turkey to allow Ukraine and Russia to export some food from its Black Seas ports. The agreement is limited and has been interrupted in spells.[78] A surge in fertiliser prices also led to higher costs in 2022. Russia is a major exporter of fertilisers and has put restrictions on exports, with supplies also disrupted.[79]

The Library briefing The effect of the war in Ukraine on UK farming and food production provides detail on the impact of the Ukraine conflict on food prices.

2.5 Other price rises affecting households

Rent

The ONS publishes a monthly Index of Private Housing Rental Prices, which tracks changes in the price paid by private tenants in the UK.

Private rental prices grew by 4.7% over the year to February 2023. This is the largest annual growth recorded for the UK in the ONS' series, which goes back to January 2016. Growth was highest in Northern Ireland (9.5%)[80], the East Midlands (4.9%), and the North West of England (4.8%) and lowest in the West Midlands (4.0%).[81]

As the chart overleaf shows, average rental price growth across the UK was around 1.0% to 1.5% between the start of 2019 and mid-2021. Growth has been increasing steadily since late 2021.

The second chart shows that the extent of rental price growth varies across the UK. Rental price growth has been consistently higher in Northern Ireland than the rest of the UK since late 2020. Rental price growth in London has also behaved differently from the rest of the UK. Price growth began to slow down in London in late 2020 and fell during the summer of 2021, and only reached higher-than-usual levels from summer 2022 onwards.

78 UN, Black Sea Grain Initiative Joint Coordination Centre, (accessed 21 November 2022) and "Ukraine's Black Sea grain export lifeline extended for 4 months" , Politico EU, 17 November 2022

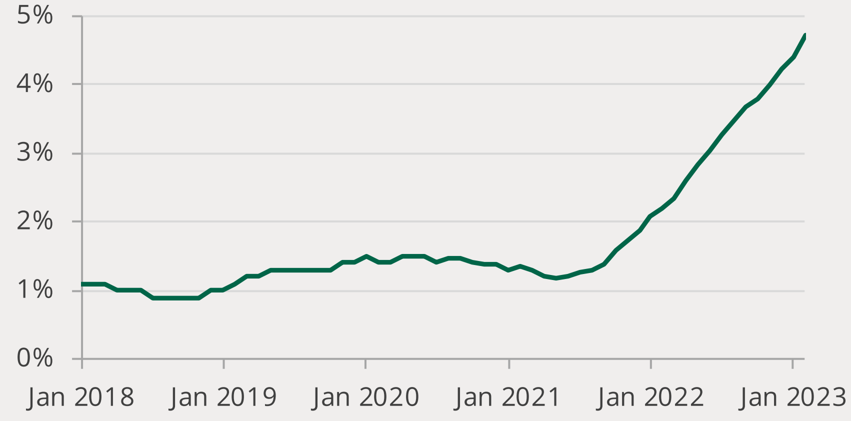
79 "Food shortage warning as fertiliser rationed", The Times, 14 March 2022; "Surge in fertiliser prices from Russia-Ukraine war adds to pressure on UK farmers", The Guardian, 8 March 2022

80 This figure has been rolled forward from December 2022, because data for subsequent months are not yet available. This will be revised in the ONS' next edition of the Index.

81 ONS, Index of Private Housing Rental Prices: February 2023, 22 March 2023

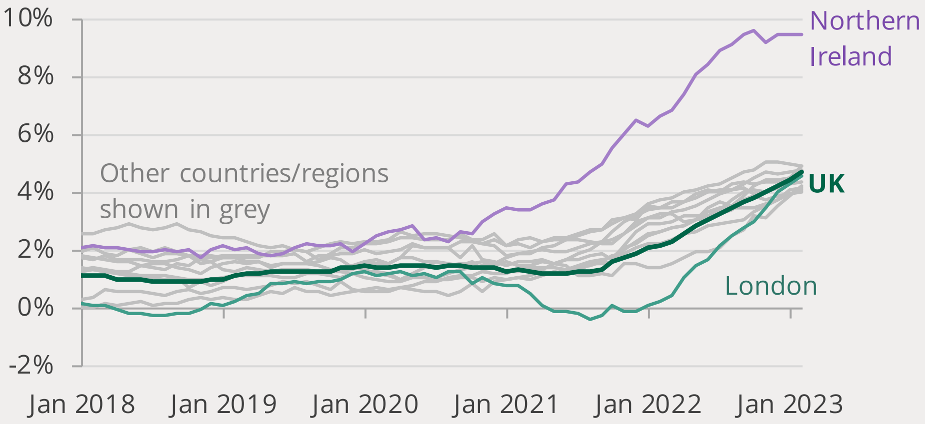
Rental prices have been growing more steeply since 2021

% change in average rental prices paid by private tenants in the UK, compared with 12 months previously



Rental price growth varies across the UK

% change in average rental prices paid by private tenants, compared with 12 months previously, UK countries and regions



Source: ONS, Index of Private Housing Rental Prices: February 2023, Monthly estimates data: Table 2, 22 March 2023

Notes: These figures are classed as 'Experimental Statistics' and may be revised if methodology changes in future.

Figures for Northern Ireland are rolled forward from December 2022 because of data availability issues. They will be updated in upcoming statistical releases from ONS.

Section 5.3 provides more detail about rent affordability. The Library briefing Housing and the cost of living provides more information.

3 Government support

Various measures to support households with the cost of living have been announced since early 2022. The largest is the cap on energy prices, which is being received by most households and non-domestic energy users. Other support has been more targeted – such as the cost of living payments going to those on means tested benefits, disability benefits and pensioners receiving winter fuel payments.

3.1 Energy Price Guarantee

Announced on 8 September 2022, the Energy Price Guarantee (EPG) will provide significant support for households and businesses facing rising energy bills.

The EPG was introduced from 1 October 2022 and will run until the end of March 2024, capping the unit cost of energy for households.[82]

The EPG "replaces" the existing energy price cap (also known as the default tariff cap), and it will apply to the unit cost of energy, so a household's exact bill will continue to be influenced by how much energy they use.[83]

The level of the EPG limit is set as follows:

- Between 1 October 2022 to 30 June 2023 the EPG is set at a level equivalent to an annual bill of £2,500 for a "typical" household in Great Britain.[84]
- Between 1 July 2023 to 31 March 2024 the EPG will be increased so that a typical household in Great Britain will pay £3,000 per year.[85]

Plans laid out in the 2022 Autumn Statement would have seen the EPG rise from £2,500 to £3,000 on 1 April 2023. The Chancellor announced he would extend the EPG by three months, to 30 June 2023, in the 2023 Spring Budget as falling gas prices cut the cost of the scheme.

82 Gov.uk, Chancellor brings forward further Medium-Term Fiscal Plan measures, 17 October 2022

83 Gov.uk, Energy bills support factsheet: 8 September 2022, 9 September 2022

84 HM Treasury (HMT), Cost of living support Factsheet, GOV.UK, 21 November 2022; HMT, Energy bills support extended for an extra three months, 15 March 2023

85 HMT, Cost of living support Factsheet, GOV.UK, 21 November 2022

A typical household will save £900 during the 2022-2023 winter, according to the Government.[86]

The cost of the EPG is uncertain

The EPG's cost is very uncertain as it largely depends on volatile wholesale energy prices and energy usage. The Office for Budget Responsibility estimates that it will cost around £23 billion in the sixth months of 2022/23 it operates and around £4 billion in 2023-24.[87] Observing how estimates of the EPG's cost have changed between forecasts reveals how uncertain the EPG's cost is.

In November 2022, the OBR estimated that the EPG would cost around £13 billion in 2023/24, rather than the £4 billion now estimated. The cost is estimated to be lower now because wholesale prices are much lower than in November 2022. The effect of lower wholesale prices more than outweighs the fact that the EPG will be more generous in April-June 2023 than was expected in November 2022.[88]

Non-domestic users

Non-domestic energy users, such as businesses, charities and public sector organisations are receiving support for six months through the Energy Bill Relief Scheme (EBRS), running to 31 March 2023.[89] The Government's guidance has further information on the schemes for non-domestic users.[90]

For non-domestic users, the Energy Bill Discount Scheme (EBDS) will replace the EBRS and will apply from 1 April 2023 to 31 March 2024. The EBDS will provide a discount on non-domestic electricity and gas unit prices from 1 April 2023 to 31 March 2024. The discounts available under the EBDS will be lower than those currently available under the EBRS. The Government's guidance has further information on the schemes for non-domestic users.[91]

86 HM Treasury. Cost of living support Factsheet, 17 November 2022

87 Office for Budget Responsibility, Economic and Fiscal Outlook – March 2023, para 4.56

88 The cap for a typical household will be maintained at £2,500 during April-June 2023. It was set to rise to £3,000 from April 2023, before the Chancellor made the change at Spring Budget 2023.

89 HM Treasury. Autumn Statement 2022. 17 November, para 5.4

90 BEIS, Energy Bill Relief Scheme: help for businesses and other non-domestic customers, 9 January 2023

91 BEIS, Energy Bill Relief Scheme: help for businesses and other non-domestic customers, 9 January 2023

3.2 Other policies announced during 2022

Support for 2022/23

The EPG is the largest support policy. Below is a list of other household support announced during 2022:[92]

- **Energy Bill Support Scheme**: a £400 grant for all households taken off their energy bills over 6 months, starting in October 2022. The scheme is Great Britain wide – Northern Ireland will receive funding through the Barnett formula.[93]
- **Cost of living payments:** of varying sizes to different recipients:[94]
  - £650 payment in 2022 – paid in two payments – for over 8 million households on means tested benefits.[95] For most, the first payment was made in July, the second in autumn.
  - an additional £300 payment to over 8 million pensioner households who receive the Winter Fuel Payment, from November 2022.
  - an additional £150 payment to around 6 million people receiving disability benefits. Most received their payment by the beginning of October 2022.

  The Library briefing Cost of Living Payments: Overview and FAQs outlines the rules and payment arrangements for cost of living payments.
- **Household Support Fund**. The Household Support Fund, which was first established in September 2021, helps vulnerable households meet daily needs such as food, clothing and utilities and is distributed by councils in England. The Fund was allocated £500 million for the period 1 April 2022 to 30 September 2022.[96] A further £500 million has been allocated for the period 1 October 2022 to March 2023. The devolved administrations in Scotland, Wales and Northern Ireland will receive funding through the Barnett formula.[97]

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92 Announcements were made in May 2022 (see HM Treasury, Cost of Living Support, 26 May 2022); March 2022 (see HM Treasury. Spring Statement 2022); and February 2022 (see HM Treasury Press Release. Millions to receive £350 boost to help with rising energy costs, 3 February 2022)

93 The ONS have decided to treat the £400 grant as household income rather than reduced household spending, so this will not affect inflation -ONS, Energy Bills Support Scheme classification, 31 August 2022

94 DWP. Guidance: Cost of Living Payment, 26 May 2022 [accessed on 27 September 2022]

95 Including households receiving: Universal Credit; Income-based Jobseekers Allowance; Income-related Employment and Support Allowance; Income Support; Working Tax Credit; Child Tax Credit; Pension Credit.

96 HC Deb 23 March 2022 cc337-373

97 HM Treasury. Cost of living support factsheet: 26 May 2022, 15 June 2022

- **National Insurance contributions (NICs)**: NICs has changed during the year:
  - in July 2022, the point at which employees and self-employed start to pay the main rate of National Insurance contributions (NICs) on their earnings or profits was increased. The annual NICs thresholds rose from £9,880 to £12,570 in July 2022. The policy costs the Treasury around £6.3 billion in 2022/23.[98]
  - in November 2022, the Government reversed a 1.25%-points increase in NICs rates. The increase had come into effect in April 2022.
- **Fuel duty** is temporarily reduced by 5p per litre from 23 March 2022 until March 2024. Fuel duty had already been frozen in 2022/23 at Autumn Budget 2021. The reduction costs the Treasury around £2.4 billion in 2022/23. [99] The temporary 5p reduction was due to end in March 2023 but fuel duty has now been frozen until March 2024.[100]
- The **VAT on energy saving materials** (such as solar panels) is reduced from 5% to 0% until March 2027. Wind turbines and water turbines will be added to the list of energy savings materials.
- **Council tax rebate:** from April 2022, households in Band A to D in England (which covers 80% of homes) received a £150 non-repayable Council Tax rebate. Local authorities received additional discretionary funding for some households who do not meet these criteria. Council tax is devolved, so the devolved administrations in Scotland, Wales and Northern Ireland are receiving funding through the Barnett formula. The devolved administrations can spend the funding on their priorities. Schemes similar to England's Council tax rebate are operating in Scotland and Wales.[101]
- **The Warm Home Discount:** for winter 2022/23, the discount (for vulnerable households) rose from £140 to £150 and eligibility was expanded by a third. This support is funded through a levy on all energy bills. More detail of the support is given in the briefing paper Energy price rises and the Energy Bills Rebate.

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98 HM Treasury. Spring Statement 2022, Table 3.1

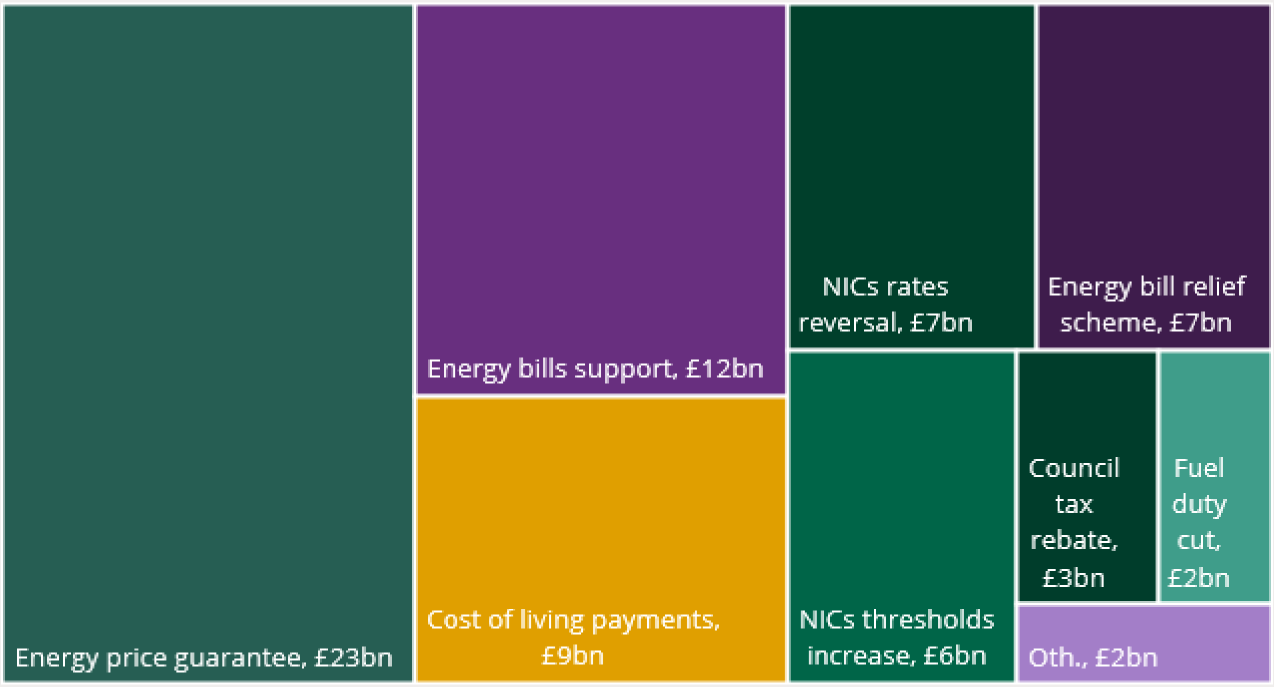
99 HM Treasury. Spring Statement 2022, Table 3.1

100 HM Treasury, Spring Budget 2023, 15 March 2023

101 Scottish Government. Local government finance circular 2/2022 – Cost Of Living Award April 2022: guidance to local authorities, 22 April 2022. Welsh Government Press Release. £150 cost of living payments arrive with more than 330,000 households, 12 May 2022

The Government is spending around £30 billion on capping the unit cost of energy for households and non-domestic users, in 2022/23

2022/23, £ billion



Sources: HM Treasury. Autumn Statement 2022, Table 5.1; HM Treasury. The Growth Plan 2022, Table 4.1 and Table 4.2; HM Treasury. Spring Statement 2022, OBR. Economic and fiscal outlook – March 2022; supplementary table 3.11; Table 3.1; OBR. Fiscal risks and sustainability – July 2022, Box 3.3; OBR, Economic and fiscal outlook – March 2023, 15 March 2023, Table 4.11 and para 4.59

Analysis of how the support will be distributed

Government support is shared relatively evenly across the household income distribution. The outlier is the highest 10% of households, who benefit most greatly from the decision to reduce NICs rates in November 2022.

The Energy Price Guarantee (EPG) is broad-based support and not targeted to low-income households. The EPG makes up just over half of total support for incomes in 2022/23, which means overall, total government support for household incomes in 2022/23 is spread equally across incomes.[102]

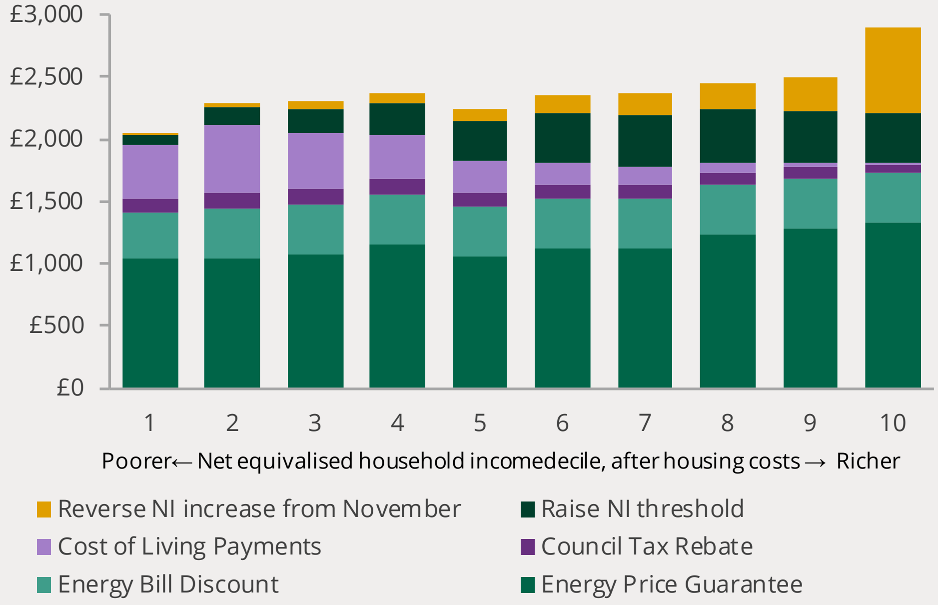
The cost of living payments particularly help lower income households.[103]

102 Resolution Foundation, A blank cheque. An analysis of the new cap on energy prices, 13 September 2022

103 DLUHC, Council tax energy rebate: information leaflet for households in council tax bands A-D, 24 February 2022

The price cap is the most significant intervention for 2022/23. The NI rate reversal benefits higher income households more than lower income households

Average policy impacts by decile of equivalised household income, after housing costs, UK



Notes: EPG savings relative to pre-announced Q4 price cap, and Cornwall Insight forecast for Q1 and Q2 2023 released 8 September, and RF assumptions up to Q1 2024 based on earlier Cornwall Insight forecasts

Source: Figure 20 from Resolution Foundation. Blowing the budget. Assessing the implications of the September 2022 fiscal statement, 14 September 2022. Adapted to HC Library style with kind permission of authors.

Support for 2023/24

As discussed above, the EPG will operate in 2023/24. It will provide support to UK households but will be less generous from 1 July 2023.

Targeted cost of living payments will also be provided to people who receive certain benefits and tax credits in 2023/24. Those eligible include:[104]

- households on means tested benefits who will receive a £900 payment
- pensioner households who will receive a £300 payment
- households on non-means-tested disability benefits who will receive a £150 payment

104 Further information is available in HM Treasury's Cost of living support Factsheet

The Household Support Fund will receive an extra £1 billion of funding from April 2023. The fund allows local authorities in England to make discretionary payments to people most in need to help with the rising cost of food, energy, and water bills.

Fuel duty will be frozen at its March 2023 rate. This means that the temporary 5p reduction, introduced in March 2022, will continue until March 2024 and there will be no inflationary increase.[105]

Energy levies

Energy Profits Levy

The profits of UK oil and gas producers have risen significantly recently, due to substantial increases in oil and gas prices. Throughout much of 2022, there have been calls for a windfall tax to be levied on these profits. [106]

The Energy Profits Levy, announced in May 2022, will raise revenues "to help with cost of living".[107] The Office for Budget Responsibility forecast that the Levy will raise around £5.1 billion in 2022/23, £5.6 billion in 2023/24, falling to £2.7 billion in 2027/28.[108]

The Levy will charge an additional 25% on UK oil and gas profits, until 1 January 2023. The rate will then rise to 35%. It will remain in place until March 2028.

The levy is charged on top of the already existing 30% Ring Fence Corporation Tax and 10% Supplementary Charge. An 80% investment allowance has been introduced alongside the Levy.

The Library briefing Energy (Oil and Gas) Profits Levy Bill 2022-23 explains how the Levy will work.

Electricity Generator Levy

The structure of the electricity market means the price of electricity is tied to the wholesale gas price. As a result, many electricity generators are "seeing extraordinary returns by the unprecedented increase in gas prices."[109]

The Government is introducing the Electricity Generator Levy from 1 January 2023. It will introduce a temporary 45% tax on "extraordinary" returns from low carbon UK electricity generation. The levy will remain in place until 31 March 2028.

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105 HM Treasury, Spring Budget 2023, 15 March 2023

106 For instance, see "BP profits soar as calls for windfall tax grow", BBC (online) 3 May 2022 (accessed on 27 May 2022)

107 HM Treasury Press Release. Millions of most vulnerable households will receive £1,200 of help with cost of living, 26 May 2022

108 OBR, Economic and Fiscal Outlook – March 2023, Table A.5

109 HM Treasury. Energy Taxes Factsheet, 17 November 2022

Unlike the Energy Profits Levy which applies to all profits, only returns deemed to be "extraordinary" will be charged.[110]

The Office for Budget Responsibility forecast that the Levy will raise around £0.8 billion in 2022/23, £3.3 billion in 2023/24, falling to £2.4 billion in 2027/28.[111]

The Treasury's Energy Taxes Factsheet has further information on both the Energy Profits Levy and the Electricity Generator Levy.[112]

110 Extraordinary returns are defined as electricity sold above £75MWh

111 OBR, Economic and Fiscal Outlook – March 2023, Table A.5

112 HM Treasury. Energy Taxes Factsheet, 17 November 2022

4 Other policies affecting household budgets

As well as support for households, new Government policies on personal taxes, uprating benefits and pensions, and student loan repayments and maintenance support, as well as the Bank of England's interest rate will affect household budgets.

4.1 Personal taxes

Income tax

The Government has frozen both the income tax-free allowance (known as the personal allowance) and the point at which people start paying the 40% higher rate of income tax (the higher rate threshold). Normally, both would rise by inflation, but they will be frozen from April 2022 until April 2028.

Inflation has been higher than was forecast when the policy was first announced, in March 2021.[113] The higher inflation is, the more the freeze costs income taxpayers and the more it raises for the Treasury. This is because if there was no freeze, the thresholds would increase by inflation and more of peoples' earnings would fall into lower tax bands.

Together, the freezes are forecast to raise the Treasury an estimated £25 billion a year by 2027/28.[114]

Personal allowance freeze

The personal allowance is frozen at the current level of £12,570 until April 2028. The allowance would normally rise by inflation, which means people could earn more without being taxed on it.

The freeze also means that more people, with lower incomes, will pay income tax. In 2022/23, the freeze might mean around 0.5 million more people pay income tax. By the end of the six-year freeze, around 3.2 million more people might be brought into income tax.[115]

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[113] If the freeze was not in place, then September 2021's CPI inflation would have been used to uprate the income tax thresholds for April 2022. When the policy was first announced, inflation in September 2021 was forecast to be around 1.6%. Inflation was actually 3.1% in September 2021.

[114] OBR, Economic and Fiscal Outlook - March 2023, Box 3.2

[115] OBR, Economic and Fiscal Outlook - March 2023, Box 3.2

Higher rate threshold freeze

The higher rate threshold (the point at which people start paying the 40% higher rate of income tax) will also be frozen at its current level of £50,270 from April 2022 until April 2028.[116] This means that higher rate taxpayers will pay 40% on more of their income than if the threshold rose with inflation. It also means that more people will pay the higher rate of income tax.

In 2022/23, the freeze might bring around 0.4 million people into the higher rate of income tax. By the end of the six-year freeze, around 2.1 million more people might be brought into paying the higher rate of income tax.[117]

National Insurance Contributions increase

NICs for employees, employers and the self-employed rose by 1.25 percentage points in April 2022, so people paid more NICs on their earnings. The rise was reversed in November 2022 and NICs rates returned to the levels of the previous financial year.

As discussed in section 4.1, the point at which individuals start to pay the main rate of National Insurance Contributions on their earnings or profits increased in July 2022. The Library briefing National Insurance Contributions (Increase of Thresholds) Bill 2021-22 has more detail and links to further information.

4.2 Uprating benefits and pensions

Benefits increased in April 2022 by less than the current level – or the expected level – of inflation, which will put further pressure on incomes.

In April 2022, benefits and state pensions were uprated using inflation figures from September 2021. Inflation in September (3.1%) was much lower than inflation so far since April so recipients are experiencing a real-terms fall in their income.[118]

Think tanks, such as the Institute for Fiscal Studies, note the real fall in the value of benefits will be mostly undone in April 2023. This is because benefits will be uprated by the inflation figure for September 2022 (10.1%). As inflation is projected to be lower in April 2023, this means a real increase in the value of benefits.[119]

---

116 As long as an individual has an income below £100,000, they receive a personal allowance of £12,570 in 2021/22. They then pay the 20% basic rate on incomes up to the basic rate limit of £37,700 from 2022/23. The higher rate threshold is the sum of the personal allowance and the basic rate limit.

117 OBR, Economic and Fiscal Outlook - March 2023, Box 3.2

118 OBR, Economic and fiscal outlook – March 2022, 23 March 2022, Table B

119 Institute for Fiscal Studies, Spring Statement 2022 24 March 2022

4.3 Student loan repayments and maintenance support

Student loan repayments

The Government has frozen the threshold that borrowers need to repay their student loans from at £27,295 in 2022-23. This affects borrowers from England. It has previously been increased annually in line with average earnings.

If the threshold had been increased by average earnings again, it would have been £28,525 in 2022-23.[120] This means that borrowers making repayments will pay around £110 more in the 2022-23 financial year.

Existing borrowers will also pay more in future years as the threshold will be frozen again in 2023-24 and then increased annually by the Retail Price Index, which is normally lower than increases in average earnings. There are wider reforms to student finance for new students from England starting in 2023-24 and later.[121]

Student maintenance support

The Government increased the maximum maintenance loan amount for undergraduate students in England by 3.1% for the academic year 2021/22. This was substantially lower than CPI inflation of 6.2%.[122]

Maintenance loan amounts were increased by 2.3% in the academic year 2022/23 compared to the latest forecast of CPI inflation of 10.2%.[123] The increase in 2023/24 will be 2.8% which is just above forecast inflation of 2.5%,[124] but this does not make up for the below inflation increases in the previous two years. The Library briefing The value of student maintenance support shows the real cut in maintenance support is expected to be 11% between 2021/22 and 2023/24, or around £1,100 a year for those from the poorest households.

The annual uprating for maintenance support is based on forecast inflation. This means that, unlike benefit uprating, these cuts will not automatically be

120 Increased by 4.5% using the increase in average annual earnings in the year to March 2021

121 See The Post-18 Education and Funding Review: Government conclusion for more details and the Library Insight What could reforms to student finance mean for teachers and nurses? for analysis of the impact on these groups.

122 ONS, CPI annual inflation rate, series D7G7. Annual inflation to Q1 2022, the mid-point of the academic year.

123 OBR, Economic and fiscal outlook – November 2022, 17 November 2022, Supplementary economy table 1.7. Annual CPI inflation to Q1 2023

124 OBR, Economic and fiscal outlook – November 2022, 17 November 2022, Supplementary economy table 1.7. Annual CPI inflation to Q1 2024

caught up for in future increases. The Institute for Fiscal Studies has examined this issue and proposed possible remedies.[125]

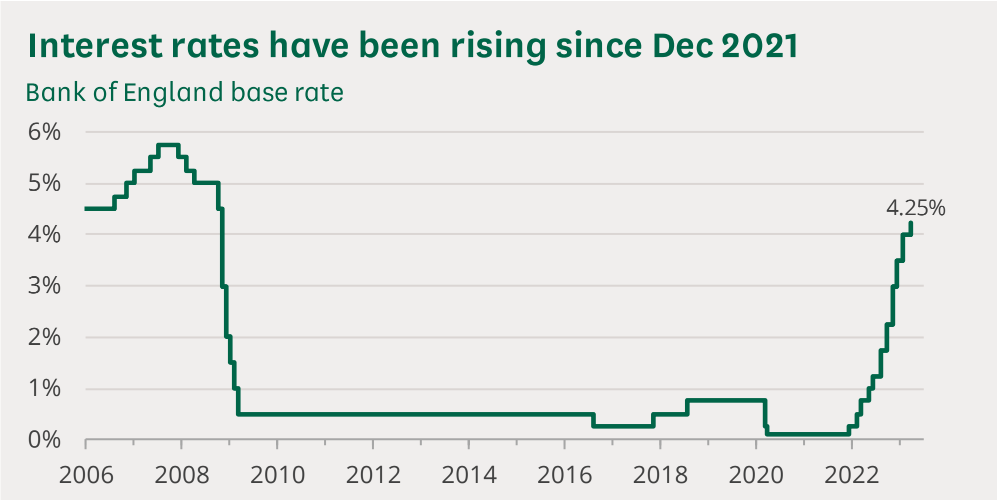
4.4 Interest rates

In response to higher inflation, the Bank of England's Monetary Policy Committee (MPC) raised interest rates at 11 consecutive policy meetings since December 2021 (at the time of writing in late March).

From an all-time low of 0.1%, rates were first increased in December 2021. They were gradually increased to reach 1.25% in June 2022. The MPC then began raising rates in larger increments.

In March 2023, rates were raised by 0.25 percentage points to 4.25% - the highest it's been since late 2008 (during the global financial crisis).[126]

The chart below tracks the change in the UK's interest rate from 2006, showing the relatively fast pace at which rates have gone up recently.



Source: Bank of England, Interest rates and Bank Rate (as of 27 March 2023)

The MPC has raised rates to lower the risk that inflation remains persistently above its 2% target.

In theory, higher interest rates work to lower inflation by raising the cost of borrowing. In turn, as people and businesses have less money to spend on

125 Institute for Fiscal Studies, Student living cost support cut to lowest level in seven years, 15 June 2022

126 Bank of England, Bank Rate increased to 0.25% - December 2021, 16 Dec 2021; Bank Rate increased to 0.5% - February 2022, 3 Feb 2022; Bank Rate increased to 0.75% - March 2022, 17 Mar 2022; Bank Rate increased to 1% - May 2022, 5 May 2022; Bank Rate increased to 1.25% - June 2022, 16 Jun 2022, Bank Rate increased to 1.75% - August 2022, 4 Aug 2022, Bank Rate increased to 2.25% - September 2022, 22 Sep 2022; Bank Rate increased to 3% - November 2022, 3 Nov 2022; Bank Rate increased to 3.5% - December 2022, 15 Dec 2022; Bank Rate increased to 4% - February 2023, 2 Feb 2023; Bank Rate increased to 4.25% - March 2023, 23 Mar 2023

other things and more incentive to save, demand for goods and services in the economy is diminished. Lower demand reduces the pressure on firms to raise prices and on workers to get higher pay rises (often because unemployment increases).

Forecasts

Market expectations of how high the Bank of England will raise interest rates surged to above 6% during the height of the market turmoil following the "mini budget" of 23 September 2022.[127]

Following the reversal of most of the mini budget's policies, markets lowered their expectations of the peak in interest rates set by the Bank of England.[128] On average, in the seven working days to 25 October, that rate was expected to be around 5.25% during the third quarter of 2023. [129]

Expectations of the peak interest rate continued to fall heading into 2023, partly a result of forecasts for inflation stabilising (see section 1.3). In mid-February 2023, the market-implied peak in rates was expected in mid-2023 between 4.25 and 4.5%.[130] This was a little higher than a survey of market participants conducted by the Bank of England between 18-20 January that showed the median forecast was for a peak of 4.25%.[131]

In March 2023, the high-profile demise of Silicon Valley Bank in the US and the hasty-arranged takeover of Credit Suisse by UBS, raised fears of further, more widespread, instability in the banking system.[132]

Some analysts think central banks, including the Bank of England, may be less likely to continue raising rates in the face of these risks and the possibility that banks will restrict credit to businesses and consumers on their own (making it less necessary for central banks to raise rates).[133]

Despite these concerns, the Bank of England raised interest rates by 0.25 percentage points to 4.25% on 22 March. As of late March, there is uncertainty over whether the Bank will increase them again in coming months, but most observers think that they will peak at or slightly higher than the current rate.

The Library briefing Interest rates and monetary policy provides up-to-date information on changes to monetary policy.

127 Ed Conway, Sky News economics and data editor, Twitter, 27 September 2022, 4.33pm
128 For more on the mini budget and subsequent events see Library briefings, Background to Autumn Statement 2022 and Autumn Statement 2022: A summary
129 Bank of England, Monetary Policy Report – November 2022, 3 November 2022, p47
130 Bloomberg data on 16 February 2023
131 Bank of England, Market Participants Survey results – February 2023, 3 February 2023
132 For an overview, see "Explainer: are we in a banking crisis?", Guardian, 20 March 2023
133 "Analysis: End of central bank rate hikes now firmly on the horizon", Reuters, 24 March 2023

The impact of rising interest rates on households is discussed further in section 5.5.

Interest rates are rising around the world

Central banks around the world have also been raising interest rates due to high inflation. For example, the US central bank, the Federal Reserve, has lifted interest rates from a range of 0-0.25% to 4.75-5.00% as of late March.[134]

Meanwhile, the Eurozone's European Central Bank (ECB) started raising rates in summer 2022 and has continued to do so since. The ECB's deposit rate is 3.0% (as of late March).

[134] Library economic indicators page, Interest Rates and Monetary Policy (accessed 27 Mar 2023)

5 Impact on households

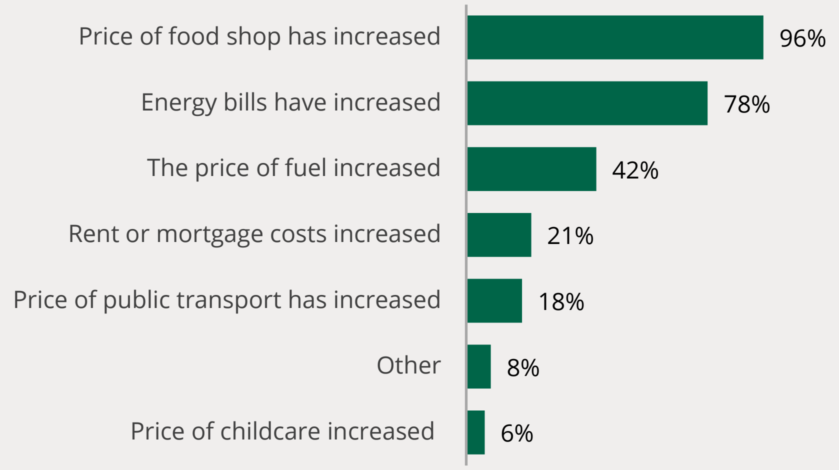
5.1 UK adults are seeing their cost of living rise

93% of adults in Great Britain reported an increase in their cost of living in March 2023 since the same period a year before.[135]

Of those who reported an increase in the cost of living in this period, 96% said which was because of an increased price of food shopping, while 78% cited an increase in gas and electricity.

Reasons for increased cost of living

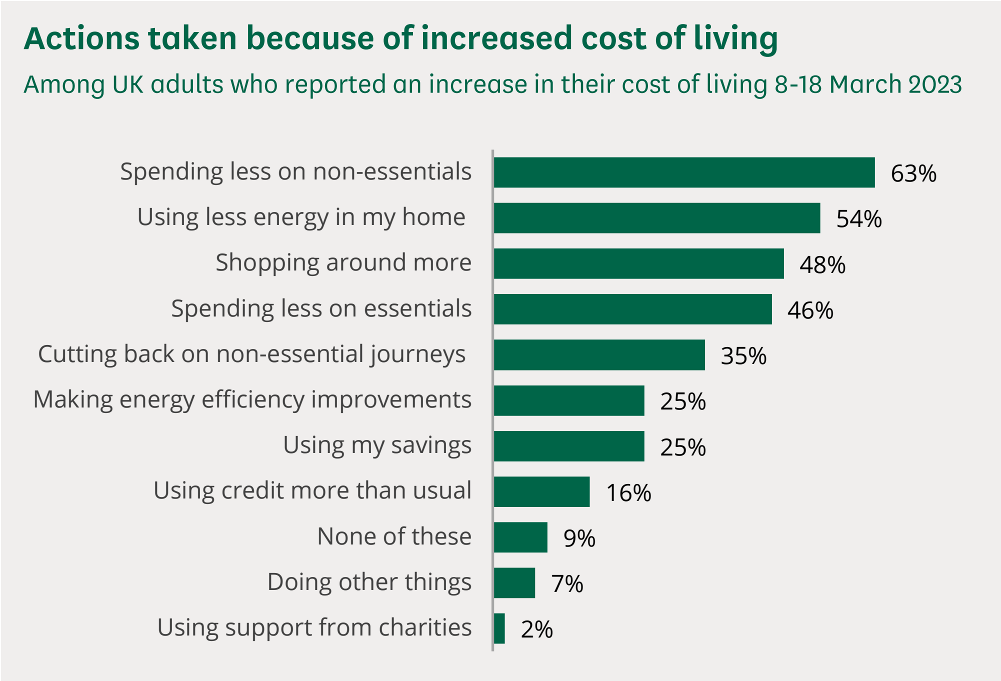
Among UK adults who reported an increase in their cost of living, 8-18 March 2023



Source: ONS, Public opinions and social trends, Great Britain: household finances, 24 March 2023

63% of those who reported a rise in the cost of living between 8 and 18 March 2023 say they are spending less on non-essentials as a result, while 54% report using less energy at home and 46% report cutting back on essentials like food shopping. 2% were being supported by a charity, including food banks.

135 8-18 March 2023; ONS, Public opinions and social trends, Great Britain, 24 March 2023



Source: ONS, Public opinions and social trends, Great Britain: household finances, 24 March 2023

2 Disabled people are more likely to affected by high energy costs

Disability charities and campaign groups have pointed out that disabled people often face higher energy costs, as many need more heating to stay warm and others have to use extra electricity to charge assistive technology.[136]

As well as this, the disabled people have lower income than average: the Resolution Foundation found in January 2023 that the gap in household income between adults with and without a disability was around 30% including disability benefits and 44% excluding disability benefits in 2020-21. A third of adults in the lowest household income decile have a disability.

41% of disabled adults responding to a Resolutions Foundation survey in November 2022 said they couldn't afford to keep their homes warm, compared to 23% of non-disabled adults. 19% were in moderate or severe food insecurity, compared to 5% of non-disabled adults.[137]

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136 Scope, Disability price tag policy report 2019, February 2019 (note that this report uses data from 2016/17), Disability Rights UK, One-off payment not enough to end cost of living crisis – DR UK, 26 May 2022

137 Resolution Foundation, Costly differences, Living standards for working-age people with disabilities, 4 January 2023

5.2 Real post-tax household income is set to fall

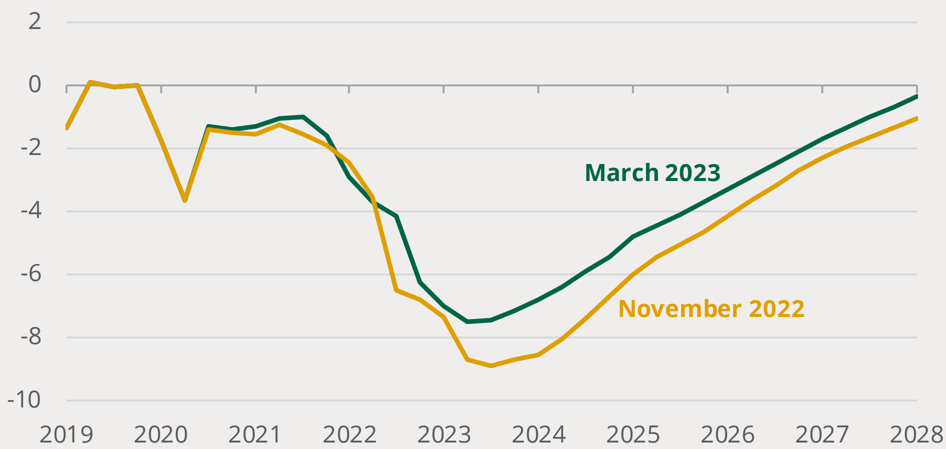
Real household disposable income is the amount of money that households have available for spending after tax and social contributions (such as National Insurance Contributions) have been deducted. It's a measure of after-tax income across all households, in aggregate, adjusted for inflation.

The OBR forecasted in March 2023 that real household disposable income per person will fall by 3.2% in 2023, after a 3.1% fall in 2022. This is a smaller fall than the OBR forecasted in November, when it expected a 3.8% fall in 2023, but still the largest fall in real disposable income since comparable records began.

The chart below also shows that the OBR expect that by 2028, real household disposable income per person will still be below pre-pandemic levels.[138]

OBR forecasts of real household disposable income per head

% change in income level from Q4 2019, comparison of quarterly OBR forecasts



Source: OBR, Economic and fiscal outlook – March 2023, 15 March 2023

5.3 Low-income households are particularly affected by rising prices

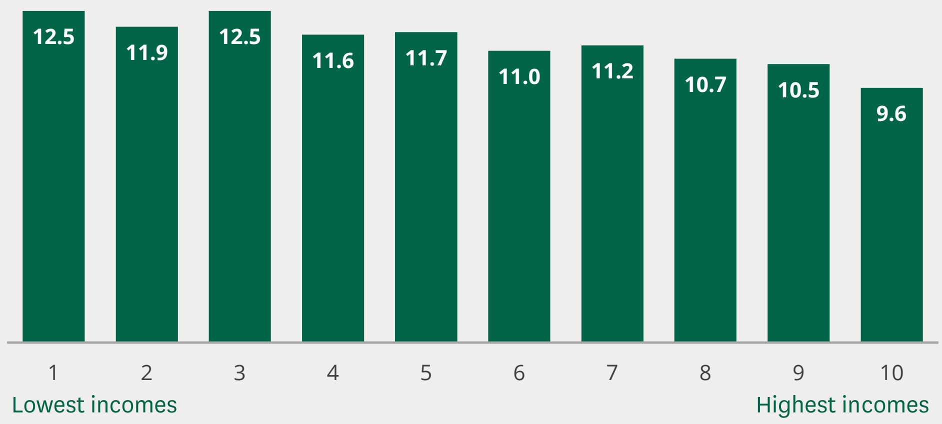
Low-income households are most affected by rising prices. ONS data shows that households with the lowest incomes experienced a higher than average inflation rate in October 2022, while the richest households experienced lower

138 Office for Budget Responsibility, Economic and fiscal outlook March 2023, 15 March 2023, Chart 2.17

than average inflation. As discussed below, this disparity is due to low income households are more affected by high food and energy prices.[139]

Inflation is highest for households with the bottom 30% of incomes

CPI by income deciles, October 2022, %



Source: ONS, Inflation and cost of living for household groups, UK: October 2022, 16 November 2022, Figure 1

Box 1 in section 1 discusses how inflation is measured and what this means for low-income households.

A Resolution Foundation survey found that in November 2022, 42% of workers in the bottom fifth of incomes reported trying to cut back a lot on spending, double the number of workers in the top fifth.[140]

The Joseph Rowntree Foundation estimate that 62% of households in the bottom 40% of income have reported going without essentials like food, showers, or adequate clothing in October-November 2022. 41% were in arrears with at least one household bill and 21% had taken on a loan or used a credit card to pay bills.[141]

The Library Insight Impact of inflation on benefit claimants provides more analysis.

Food and energy spending

Low-income households spend a larger proportion than average on energy and food and will therefore be relatively more affected by increases in their prices.[142]

139 ONS, Inflation and cost of living for household groups, UK: October 2022, 16 November 2022, Figure 1

140 Resolution Foundation, The Living Standards Outlook 2023, 9 January 2023

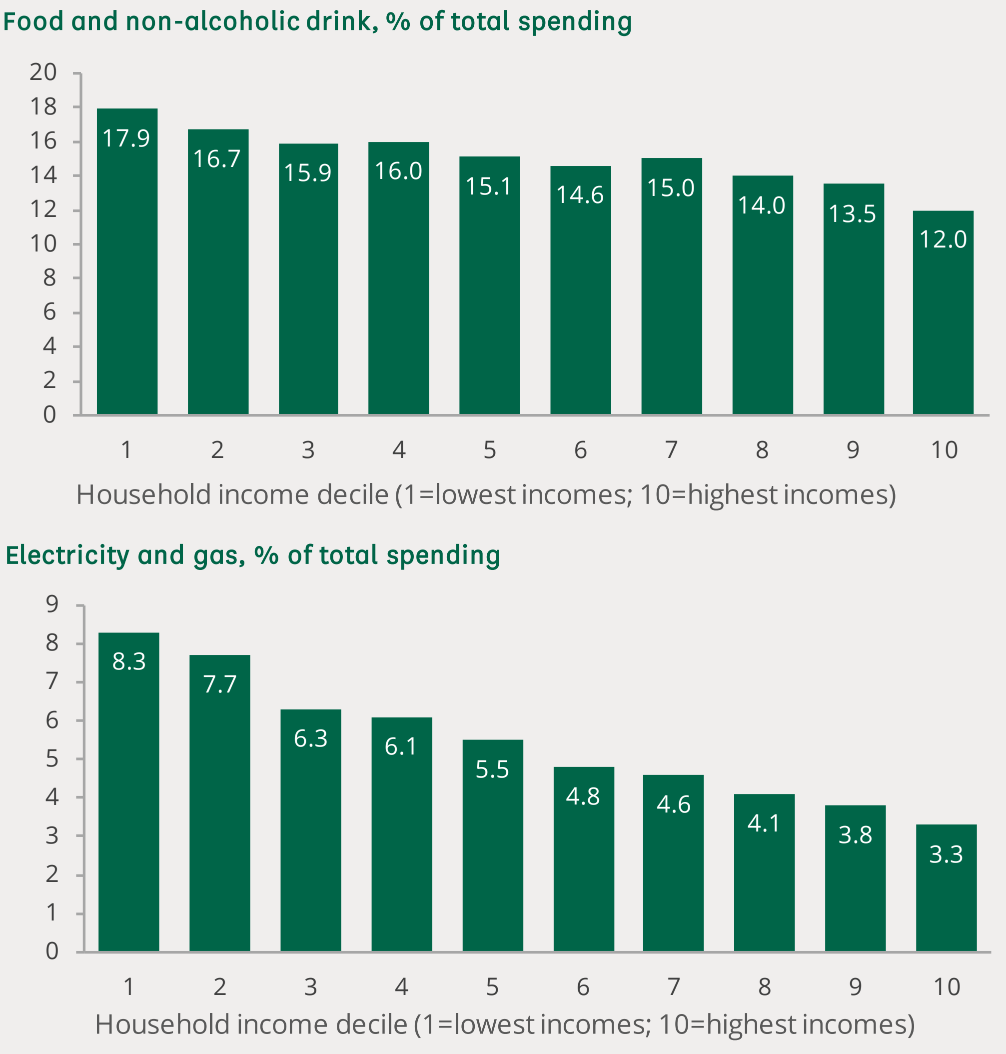
141 Joseph Rowntree Foundation, Going under and without: JRF's cost of living tracker, winter 2022/23, 14 December 2022

142 ONS, Living Costs and Food Survey, 18 July 2022

The chart below shows how much of household spending in each income decile goes on food and energy. Note this spending data is from 2020/21 so do not reflect any recent changes in spending patterns and inflation.

Low income households spend a higher share on food and energy

April 2020-March 2021, UK



Source: ONS, Family spending 2020/21, July 2022 - data: workbook 1 - table 3.2

Energy and 'fuel stress'

Definitions of 'fuel stress' and fuel poverty differ. The Library briefing on fuel poverty discusses definitions further.

The chart above shows that households in the lowest income group spent 8.3% of their overall spending on electricity and gas in 2020-21, compared to 3.3% for households in the highest income group. Because energy prices are rising particularly quickly, low-income households are facing higher inflation.[143]

'Fuel stress', defined by The Resolution Foundation as spending more than a tenth of household income on energy, has been increasing.[144] The Library briefing on fuel poverty provides more information and statistics.

Citizen's Advice predict they will help more people with energy issues in 2022 than in the previous two years combined.[145]

Poverty and food bank use

The chart above shows that in 2020-21, among households in the bottom tenth of incomes, 17.9% of spending was on food and non-alcoholic drink. This compared to 12.0% of households with incomes in the top tenth.[146] It does not include spending in restaurants or in pubs and bars.

The Resolution Foundation expects absolute poverty to increase by 2.9 million people between 2021-22 and 2023-24, from 17.2% to 18.3%.[147]

New data from the DWP's Households Below Average Income survey shows that in 2021-22, 4.7% of people in the UK were food insecure, and 2.1% had used a food bank in the previous 12 months. [148]

According to a survey by the Food Foundation, in January 2023 9.3 million adults experienced food insecurity, 17.7% of households compared to 8.8% in January 2022. Among those receiving Universal Credit, 49.0% experienced food insecurity.[149]

The Trussell Trust reported that in April-September 2022 they provided almost 1.3 million emergency food parcels, a third more than in the same period in 2021 and 50% more than pre-pandemic levels. 320,000 people used a Trussell Trust food bank for the first time in the six months to September 2022, a 40% increase compared to 2021.[150]

143 Resolution Foundation, Cap off, Understanding the April 2022 inflation release, 18 May 2022
144 Resolution Foundation, Higher and higher, Averting a looming energy bill crisis, 17 January 2022
145 Citizens Advice cost of living data dashboard, p6, (accessed 18 November 2022)
146 Income deciles are based on disposable household income
147 Resolution Foundation, The Living Standards Outlook 2023, 9 January 2023 Absolute poverty the number if people with household income less than 60% of the median in 2010/11 (adjusted for inflation).
148 DWP, Households Below Average Income 2021/22, 23 March 2023, Table 9.1
149 Food Foundation, Food insecurity tracking, Round 12, February 2023
150 Trussell Trust, Almost 1.3 million emergency parcels provided in the last 6 months, 10 November 2022

In February 2023 89% of Independent Food Aid Network food banks reported an increase in demand since December 2021/January 2022, and half concerned about their capacity to support people if demand increased.[151] The Library briefing Food banks in the UK provides more detail.

Low-cost food items

The ONS has released what it describes as "highly experimental" data on the prices of lowest-cost grocery items, to help estimate inflation levels faced by the lowest-income households.[152]

This data shows the lowest-priced items have increased by around the same amount as average food and non-alcoholic drinks.

However, the ONS noted large variation between the items, with, for example, the price vegetable oil increasing by 65% and low-cost pasta increasing by 60%, while the price of low-cost orange juice fell by 9% in the year to September 2022.

Rent

Renting in the private sector is becoming more unaffordable to people receiving benefits

Growth in private rents is increasing, as discussed in section 2.5.

There are several reports on the unaffordability of private sector rents in London for those reliant on benefit assistance. For example, research conducted for Capital Letters by Savills reportedly found: "In 2021-2022 only 8.8% of all properties listed for rent in London were affordable in the LHA, a reduction from 12.9% in 2020-2021."[153] London Councils has said 125,000 households in London are "at heightened risk of homelessness due to the cost-of-living crisis and drastic increases in private rents".[154]

Social housing rents are rising

In England, increases to social housing rents have been limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020. Most social housing tenants faced a rent increase of 4.1% in April 2022. The Resolution Foundation's Housing Outlook for Q4 2021 (PDF) observed that this would be "the largest rise for a decade."

On 31 August 2022, the Government opened a consultation exercise seeking views on a new Direction from the Secretary of State to the Regulator of Social Housing in relation to social housing rent policy. The consultation focused on

151 Independent Food Aid Network, IFAN data (accessed 27 March 2023)

152 ONS, Tracking the price of the lowest-cost grocery items, UK, experimental analysis: April 2021 to September 2022, 25 October 2022

153 Local Government Chronical, "Urgent action' needed to tackle housing crisis in London, councils warn" 26 August 2022

154 As above.

the introduction of a rent ceiling from 1 April 2023 to 31 March 2024.[155] The consultation closed on 12 October 2022. Social rents will be capped in 2023/24 with a maximum increase of 7%.[156]

The Library briefing Housing and the cost of living provides more information.

5.4 Some households are increasing debt and falling behind on bills

11% of respondents to a Resolution Foundation survey in November 2022 reported their debt had increased in the last three months, compared to 7% who saw their debt rise during the pandemic. 10% of workers had missed at least one bill payment during this time and 24% of workers in the bottom income fifth were behind on at least one bill.

People are also using their savings for daily expenses, which diminishes their future financial resilience: 27% of adults reported using savings for their daily expenses, including 34% in the bottom income fifth.[157]

Citizens Advice reported helping 42,209 people with debt issues in February 2023. This compared to 37,046 people in February 2022.[158]

The Library briefing Household debt: statistics and impact on economy provides more information on household debt and financial resilience.

5.5 Rising interest rates make borrowing more expensive

Rising interest rates, discussed in section 4.4, means higher borrowing costs on mortgages and other loans. Although interest rates for these loans have increased, they are not necessarily rigidly following changes in the official Bank of England interest rate, which rose from 0.1% in December 2021 to 4.25% in March2023. It depends on a number of factors, including how much of the rate increase banks decide to pass on to consumers; banks' funding costs; and competition in the market.[159]

155 DLUHC, Social housing rents consultation, 31 August 2022
156 HM Treasury, Autumn Statement 2022, CP 751, para 2.50
157 Resolution Foundation, The Living Standards Outlook 2023, 9 January 2023
158 Citizens Advice, Debt dashboard (accessed 27 March 2023)
159 Bank of England, Monetary Policy Report February 2022, 3 Feb 2022, pp31-33, Box C

The effect of interest rates on mortgages

Interest rates on many loans, most notably for most mortgages, are fixed at the time they are taken out. For instance, most mortgage interest rates are fixed for a period of, typically, two or five years.

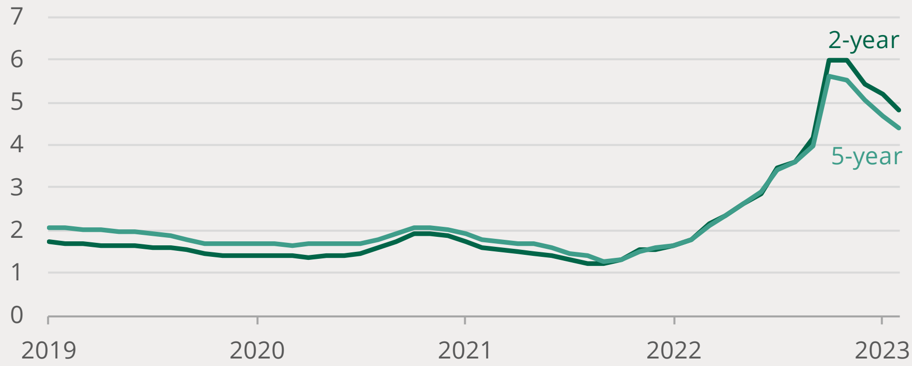
Mortgage interest rates started increasing from around September 2021, when average two-year fixed mortgage interest rates were around 1.2% and five-year fixes were around 1.3%.[160] As the Bank of England increased interest rates, mortgage rates being offered also moved higher.

Rising yields (borrowing costs) on government bonds following the "mini budget" of 23 September 2022 led to another surge in interest rates for mortgage providers on financial markets.[161] This was then passed on to customers in the form of higher interest rates on the mortgage products offered.

After peaking in October, mortgage rates have since declined.[162] Bank of England data show the average five-year fixed rate mortgage rose from 3.6% at the end of August 2022 to 5.6% at the end of October, before easing back to 4.4% at the end of February.[163] However, there are mortgage providers offering lower rates.[164]

Average rate on fixed-term mortgages rose in 2022

Interest rate (%), based on 75% loan-to-value mortgages



Source: Bank of England, Quoted household interest rates (accessed 24 March 2023), at 75% LTV

[160] Bank of England, Quoted household interest rates (accessed 3 March 2023), at 75% LTV

[161] Particularly important are interest rates on financial products called "swaps" which play an important part in mortgage providers' funding costs and, therefore, play a key role in the fixed-rate mortgages offered to consumers

[162] "Mortgage rates hit fresh 14-year highs", BBC News, 20 October 2022

[163] Bank of England, Quoted household interest rates (accessed 3 March 2023), at 75% LTV

[164] Moneyfacts.co.uk, The best UK residential mortgage rates this week (accessed 27 March 2023)

4 million households face higher mortgage costs in 2023

Around 30% of households have a mortgage (the rest own their property outright, privately rent or are in social housing). An estimated 20% of mortgages are on floating rates, which track rising Bank of England rates. The 80% of mortgages on a fixed-term basis (mostly for two and five years) will face a rise in mortgage repayments once the fixed term expires.[165]

Approximately 1.7 million households will come off their fixed rates during 2023 and will need to remortgage at higher – sometimes much higher – rates than they are currently paying.[166]

Overall, the Bank of England estimates that around half of mortgages held by owners who live in their properties (4 million) will be exposed to higher rates in 2023 (this includes those on variable rate mortgages as well as those whose fixed rates expire).[167] It estimates that around one third of those with a mortgage (2.7 million households) – approximately 1 in 10 households overall – will face an increase in monthly payments of at least £100 by the end of 2023.[168]

The Bank of England estimates that for a median outstanding balance of £130,000 with a term of 20 years remaining, there will be a £3,000 increase in annual interest payments, based on interest rates rising from 2.0% to 5.5%.[169]

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165 Bank of England, Monetary Policy Report – November 2022, 3 November 2022, p52

166 Bank of England, Monetary Policy Report – November 2022, 2 February 2023, p49

167 Bank of England, Financial Stability Report - December 2022, 13 December 2022, p6 and p54

168 Bank of England, Financial Stability Report - December 2022, 13 December 2022, Box B, p54

169 Bank of England, Monetary Policy Report – November 2022, 3 November 2022, p53

6 Further reading

Library briefings

The Library's cost of living landing page provides links to Library products with more detail on different aspects of the current cost of living situation.

Spring Budget 2023: A summary
16 March | House of Commons Library

Background to Spring Budget 2023
9 March 2023 | House of Commons Library

Domestic energy prices
13 March 2023 | House of Commons Library

Inflation: Key Economic Indicators
22 March 2023 | House of Commons Library

Think tank reports

Economic and fiscal outlook – March 2023
15 March 2023 | Office for Budget Responsibility

Spring Budget 2023 collection
15 March 2023 | Institute for Fiscal Studies

We're going on a growth Hunt, Putting the 2023 Spring Budget in context

16 March 2023 | Resolution Foundation

The Living Standards Outlook 2023
9 January 2023 | Resolution Foundation

Going under and without: JRF's cost of living tracker, winter 2022/23
14 December 2022 | Joseph Rowntree Foundation

Citizens Advice cost of living data dashboard
21 March 2023 | Citizens Advice

Public opinions and social trends, Great Britain: household finances
24 March 2023 | Office for National Statistics

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