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Research Briefing

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Rising cost of living in the UK

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Summary

The cost of living has been increasing across the UK since early 2021. The annual rate of inflation reached 10.1% in September 2022, a joint 40 year high, affecting 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 will affect household budgets.

Consumer goods and energy prices pushing inflation higher

Consumer prices, as measured by the Consumer Prices Index (CPI), were **10.1%** higher in September 2022 than a year before.

Increases in the costs of consumer goods, underpinned by strong demand from consumers and supply chain bottlenecks, have been one factor causing rising inflation.

Another important driver of inflation is energy prices, with household energy tariffs and petrol costs increasing. From September 2021 to September 2022, domestic gas prices increased by 96% and domestic electricity prices by 54%. 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.

In February 2022 the regulator Ofgem announced the price cap would increase from 1 April 2022 by 54% to £1,971 for typical consumption across a year. On 26 August 2022 they announced that the cap would increase by a further 80% to £3,549 from 1 October 2022. However, on 8 September the Prime Minister announced a new Energy Price Guarantee would instead be introduced on 1 October. This would be set at £2,500, again for typical consumption across 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. There will be a Treasury-led review of how to support households and businesses after April 2023. The objective of the review would be to "..design a new approach that will cost the taxpayer significantly less than planned whilst ensuring enough support for those in need."

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.

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 have become more expensive on international markets, leading to increases in food and materials prices in the UK.

Rising inflation around the world

Consumer price inflation has been rising in many countries since 2021. Pandemic-related supply shortages are a main factor. As the global economy recovers from its recession, there has been increased demand for products – especially consumer goods – and materials. The conflict in Ukraine is also leading to higher commodity prices, pushing up inflation around the world.

In September 2022, the Eurostat reported the UK's annual inflation rate of 10.1% was higher than in some comparable economies such as France (6.2%) as well as the Eurozone's August 2022 average (9.1%).

The Energy Price Guarantee means inflation is likely to be lower than expected

The Government's Energy Price Guarantee (EPG) package caps energy bills, which means the inflation rate is likely to be lower than it would have been under Ofgem's household energy price cap (which was due to be higher). The Government has said that a range of external forecasts suggest that the EPG could reduce peak CPI levels by 4-5 percentage points.

Prior to the "mini budget" and subsequent fiscal policy announcements, the Bank of England in September forecast inflation to peak at just under 11% in October 2022 and stay above 10% for a few months before starting to fall back. This forecast was made before the mini budget on 23 September and subsequent events including the reaction of the currency and bond markets, as well as policy reversals.

Before the EPG was announced, in August 2022, the Bank of England expected inflation to reach 9.9% in Q3 2022 and to peak at 13.1% in Q4 2022. This was significantly higher than its May 2022 forecast: forecasters have been increasing their expectations of consumer price inflation since Russia's invasion of Ukraine.

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 will "save at least £1,000 a year (based on current prices from October)".

The EPG might cost the Government around £31 billion in 2022/23, while a similar scheme for non-domestic users of energy (businesses, charities, public sector, etc) might cost a further £29 billion.

Other Government support announced during 2022 includes:

- £400 off energy bills for all households
- £650 payments for households receiving means-tested benefits. Pensioners 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 August-September 2022.

Low-income households spend a larger proportion than average on energy and food, so are more affected by price increases. Government support is not targeted to low-income households: the Energy Price Guarantee is broad-based, and makes up over half of total support for incomes in 2022/23, which means overall, total government support for household incomes in 2022/23 is evenly spread across incomes.

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 has led mortgage providers to further increase interest rates on the mortgages they offer.

Food bank charities are reporting an increase in demand: in August 2022, nearly 90% of food banks in the Independent Food Aid Network reported an increase in demand since April, and 19% reported having to reduce their parcel size because of increasing demand and reduced donations.

1 Inflation rising

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.

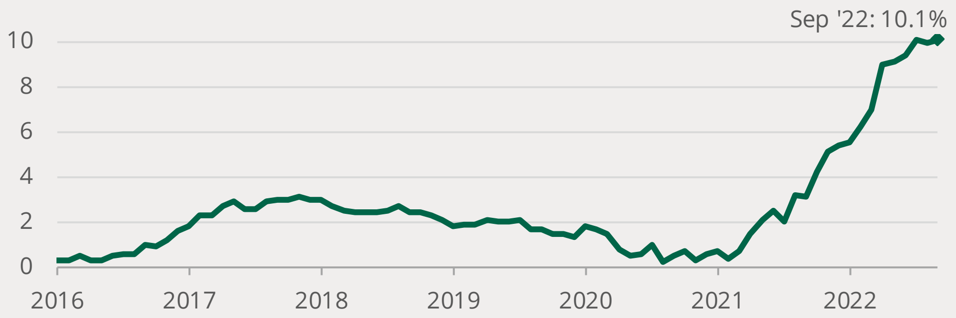
1.1 Inflation in 2021 and 2022

Inflation has been rising since early 2021. Strong consumer demand for goods, rising energy prices and higher costs for businesses are reflected in higher prices.

Consumer prices, as measured by the Consumer Prices Index (CPI), were 10.1% higher in September 2022 than a year before. Along with July 2022's rate, this is the joint highest recorded inflation rate since CPI records began in 1989, and the Office for National Statistics (ONS) estimate it was higher than at any time since 1982.[1] This compares to rates under 1% in the first few months of 2021 and 5.5% in January 2022.

Inflation rose during 2021 and 2022

%, annual change in consumer prices (CPI)



Source: ONS, CPI annual inflation rate, series D7G7 [19 October 2022 update]

Goods prices were up by 13.2% in September 2022 compared to a year ago. Inflation in services was lower at 6.1% but has been rising in recent months. So-called "core inflation" which excludes the volatile energy and food components of the CPI was 6.5% in September, up from 6.3% in August.[2]

1 ONS, Consumer price inflation, UK: September 2022, 19 October 2022; this is based on modelled data back to 1950 from the ONS as the CPI was only introduced in 1997.

2 ONS, Consumer price inflation, UK: September 2022, 19 October 2022, table 28 of dataset

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

Figures for inflation in October 2022 are scheduled to be published by the Office for National Statistics (ONS) on 16 November.[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, the ONS will publish 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, CPI-consistent inflation rate estimates for UK household groups: 2005 to 2021, 28 January 2022
7 ONS blog post, Measuring the changing prices and costs faced by households, 26 January 2022
8 Will be available at: ONS, Tracking the price of the lowest-cost grocery items, UK, experimental analysis: April 2021 to September 2022

1.2 Impact of conflict in Ukraine

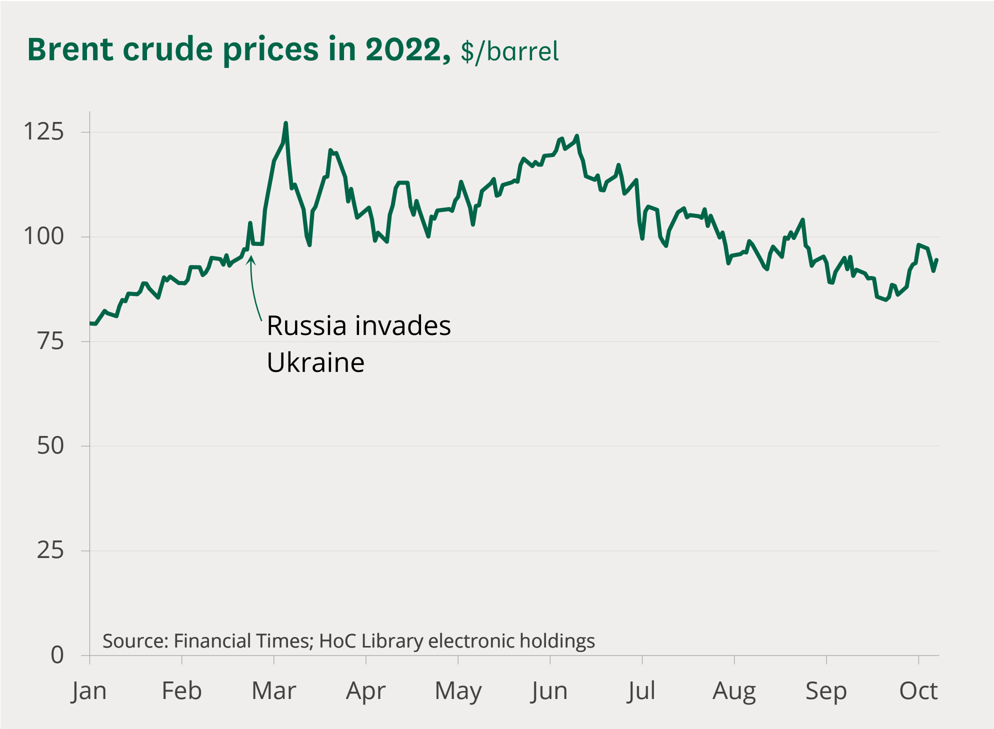
As well as the humanitarian, military and political impact of Russia's full-scale invasion of Ukraine, there are also implications for the world economy.[9] For the UK, one of the main economic effects is higher energy prices.[10]

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.[11] Immediately following the invasion on 24 February 2022, oil prices went above $100 per barrel to their highest level since 2014.[12] They subsequently 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 just below $100 a barrel.

As explained in Box 2, the pound has generally become weaker against the US dollar, and other currencies, over the past eight years. Between 1 January and the end of September 2022 the pound lost 21% of its value against the dollar. As oil is traded in US dollars a weaker pound makes oil prices in the UK more expensive, other things remaining equal. Changes in pound 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-October 2022 was 9% above its mid-January level, the pound sterling price was 33% higher.[13] The Library briefing Oil prices provides more detail.

9 Library briefings on the conflict are on our Ukraine crisis page.
10 For more on the economic impact of the conflict see section 2.2 of Library briefing, Background to Spring Statement 2022
11 IEA, World top crude and NGL exporters, 1997-2019, August 2021; BEIS, Russia-Ukraine and UK energy: factsheet, 25 February 2022
12 Financial Times Markets Data, ICE Brent Crude Oil Front Month
13 Financial Times; HoC Library electronic holdings



Gas prices

As discussed in section 2.2, 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.[14] The daily price peaked at just over 17 p/kWh in early March, fell back to 3-4 p/kWh in May before increasing rapidly over the next three months to between 10 and 12 p/kWh in early August. It spiked in late august reaching multiple new records before falling back to below 10p/kWh at times in September.

Wholesale prices have been increasing for around 18 months and have 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 have also risen, 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

14 IEA, Gas Market and Russian Supply (accessed 4 March 2022)
15 See for example data from the UN's FAO, FAOSTAT Exports (accessed 3 March 2022)

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

1.3 Inflation forecasts

Forecasts since the Energy Price Guarantee was announced in September 2022

The forecasts included in this section were made before the then Chancellor's fiscal statement or "mini budget" on 23 September, and the subsequent reaction of the currency and bond markets.[18]

As discussed in section 3.1, the Prime Minister announced an energy support package on 8 September, including the Energy Price Guarantee (EPG), which caps energy bills (this was amended by the Chancellor on 17 October).[19] Capping energy bills means the inflation rate is likely to be lower than it would have been (Ofgem's household energy price cap was due to be higher than under the EPG).[20]

On 22 September, the Bank of England forecast inflation to peak at just under 11% in October 2022 and stay above 10% for a few months before starting to fall back.[21]

The Resolution Foundation estimated that the EPG means the expected peak of inflation falls from around 14% to slightly above 10.1% in early 2023.[22]

Oxford Economics estimated that inflation will peak at 10.5% in January 2023 and average at 5.4% over the next year.[23] Capital Economics estimated on 14 September that inflation will rise to 11.0% by the end of 2022.[24]

Please note these forecasts do not include the impact of the mini budget of 23 September 2022 and its aftermath, including limiting the universal application of the EPG for six months to March 2023. This potentially will result in inflation in subsequent months being higher than under previous plans for the EPG to last two years, though there are a number of other

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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 "Kwarteng and Truss hit the pound running", Financial Times, 23 September 2022

19 HM Treasury, Chancellor brings forward further Medium-Term Fiscal Plan measures, 17 October 2022

20 Library briefing, Domestic energy prices (5 September 2022)

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

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

23 "Will Liz Truss's energy price cap freeze bring down inflation and keep a lid on interest rate rises?", This is Money, 13 September 2022

24 Capital Economics, Consumer Prices (Aug.), 14 September 2022

factors to consider as well (for example, what replaces the EPG, economic growth and interest rates).

Previous forecasts

Forecasts made before September 2022 do not take into account the EPG, so predicted a higher peak for inflation than more recent forecasts.

In August 2022, the Bank of England expected inflation to reach 9.9% in Q3 2022 and to peak at 13.1% in Q4 2022. This is significantly higher than its May forecast and reflects the sharp increase in gas prices since May, caused by Russia, as well as the changes to the price cap announced by Ofgem. As mentioned, these forecasts due not include the impact of the Government's Energy Price Guarantee which will lower the inflation rate over the winter of 2022/23 compared to what it would otherwise have been. It also does not include the effects of the mini budget and its aftermath.

Expectations of when and how high inflation will peak rose rapidly from the beginning of 2022. In early February 2022, prior to the conflict in Ukraine, the Bank of England's Monetary Policy Committee forecast the CPI inflation rate to peak at 7.25% in April 2022 and fall to 5.8% in Q4 2022.[25]

Since the Russian invasion of Ukraine, price rises in many commodity markets – such as food, energy and metals – led economic forecasters to raise their expectations for consumer price inflation, not just in the near term but also that it will be higher for longer.

On 5 May 2022, the Bank of England forecasted inflation to peak "at slightly over 10% in 2022 Q4", before easing to 3.6% by the end of 2023 and then below its 2% target during 2024.[26] In mid-June 2022, the Bank of England's Monetary Policy Committee said it expected inflation to "rise to slightly above 11% in October".[27]

Office for Budget Responsibility (OBR) forecasts

At the time of writing, the OBR last published forecasts on 23 March 2022, based on CPI data for January 2022, so these forecasts predict a lower peak to inflation than more recent forecasts. Inflation has already surpassed the forecasted peak.

The OBR expected CPI inflation to rise to 7.7% in Q2 2022 and peak at 8.7% in Q4 2022 and be above 7% in each quarter from Q2 2022 to Q1 2023. This is much higher than the peak of 4.4% that it forecast in October 2021.

25 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

26 Bank of England, Monetary Policy Report - May 2022, 5 May 2022

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

The OBR's forecasts assumed a further 40% increase in the household energy price cap in October 2022 but did not include possible effects from the conflict in Ukraine on other commodity prices, such as food.[28]

The OBR's next forecasts are scheduled to be published alongside the Government's Medium-Term Fiscal Plan on 31 October 2022.[29]

1.4 International comparisons

Consumer price inflation has been rising in many countries since 2021. Pandemic-related supply shortages are a main factor.[30] As the global economy recovers from its pandemic-related recession, there has been increased demand for products – especially consumer goods – and materials.[31]

The imbalance of (strong) demand and (disrupted) supply has led to rising prices and higher transportation costs around the world. Many global commodity prices have also risen. These pressures have caused rising consumer prices.

The conflict in Ukraine is also leading to higher commodity prices globally, pushing up inflation.[32] On 13 April 2022, the heads of the World Bank Group, International Monetary Fund, World Food Program and Worth Trade Organization called for urgent coordinated action on food supplies to support vulnerable countries.[33] They warned that higher food prices caused by the invasion of Ukraine could lead to millions more people around the world being in poverty.[34]

In September 2022, the UK's annual inflation rate of 10.1% was higher than in some comparable economies such as France (6.2%), as well as the Eurozone's August 2022 (9.1%).[35]

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28 OBR, Economic and fiscal outlook – March 2022, 23 March 2022, Box 2.2 and para 2.24

29 OBR, Forecast timetable to 31 October published, 13 October 2022

30 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.

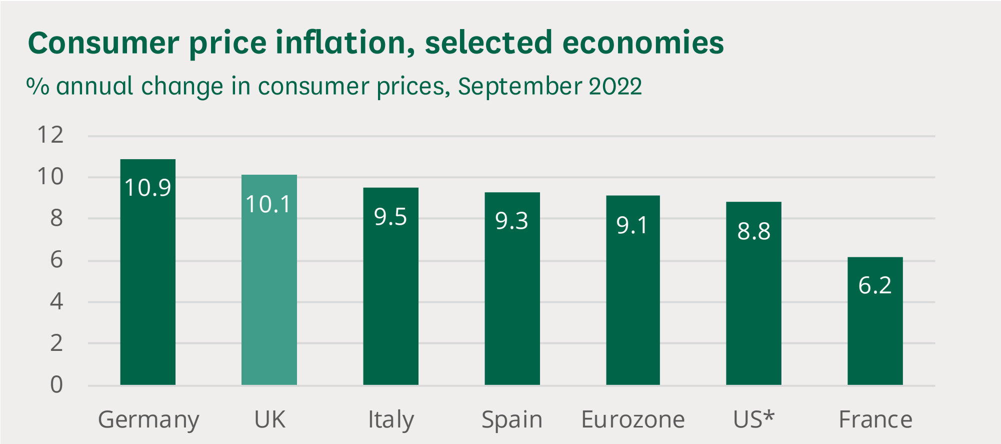
31 "Trade secrets: High demand is the oft-neglected aspect of supply-side shortages", Financial Times, 15 September 2021

32 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

33 IMF press release, Joint Statement: The Heads of the World Bank Group, IMF, WFP and WTO Call for Urgent Coordinated Action on Food Security, 13 April 2022

34 The World Bank provides an overview of global poverty on its Understanding poverty webpage (accessed 17 August 2022)

35 ONS, series D7G7 & Eurostat, HICP – all items, % change on year ago (retrieved 20 September 2022)



Note: * US data for April
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 20 September 2022]

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

As discussed in section 1, a main driver of inflation has been **energy prices**, with household energy tariffs increasing and petrol costs going up. The Bank of England estimated that half of the increase in inflation during 2021 was due to higher energy prices.[36]

Rising **consumer goods prices** have also contributed to rising inflation.[37] Strong demand from consumers for goods and higher costs for businesses – partly reflecting supply chain bottlenecks – are being reflected in higher prices. This is largely a global phenomenon resulting from the pandemic.[38]

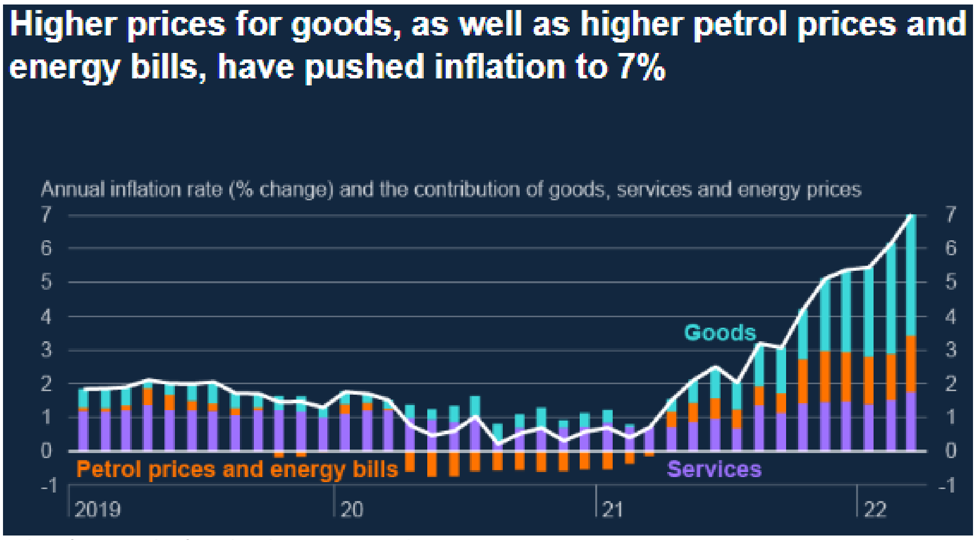
In May 2022, Governor of the Bank of England Andrew Bailey said 80% of the overshoot in inflation over the 2% target was due to energy and traded goods, adding this was largely outside the control of the Bank and its monetary policy.[39] The chart below is taken from the Bank of England Monetary Policy Report of May 2022, prior to the latest inflation data and the large increase in energy prices in April. It shows goods and energy prices have been driving inflation.

36 Bank of England, Monetary Policy Report February 2022, 3 Feb 2022, pp31-33, Box C

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

38 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

39 Andrew Bailey oral evidence to Treasury Committee, 16 May 2022, Q419 and Q441



Taken from Bank of England, Monetary Policy Report, 5 May 2022

The increase in trade barriers with the EU following Brexit may also be a factor in rising inflation (for example, on hiring HGV drivers from the EU), though it is hard to pinpoint how big an effect this has had on prices.[40] As shown in section 1.4, rising inflation has also been a feature in the EU and US.

One example of a surge in prices is the rapid increase in the cost of second-hand cars. A variety of reasons, including the limited availability of new cars pushing consumers to second-hand ones, led to used car prices rising by over around one-third during the second half of 2021 (they have eased back a little since then).[41]

2 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, most notably in the days after the fiscal statement, or "mini budget", of 23 September 2022. As of 20 October, the pound has recovered most of the initial decline in value since then, though remains about 7% lower than it was in early 2022 (compared with a basket of currencies).[42]

40 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

41 ONS, Consumer price inflation, UK: May 2022, 22 June 2022, ONS series D7E9

42 Bank of England, Broad effective exchange rate index, sterling [accessed 20 October 2022]

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.

2.2 Energy prices

In the year to September 2022, domestic gas prices increased by **96%** and domestic electricity prices by **54%**.[43]

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 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. There will be a Treasury-led review of how to support

43 ONS series D7DU and D7DT

households and businesses after April 2023. The objective of the review would be to "..design a new approach that will cost the taxpayer significantly less than planned whilst ensuring enough support for those in need."[44]

The Government will pay energy suppliers the difference between the EPG level and what they would have otherwise charged customers.[45] 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.[46]

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.[47]

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 Ofcom. 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.

The Library briefings Domestic energy prices and Energy bills and the price cap, 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.

44 HM Treasury, Chancellor brings forward further Medium-Term Fiscal Plan measures (17 October 2022)

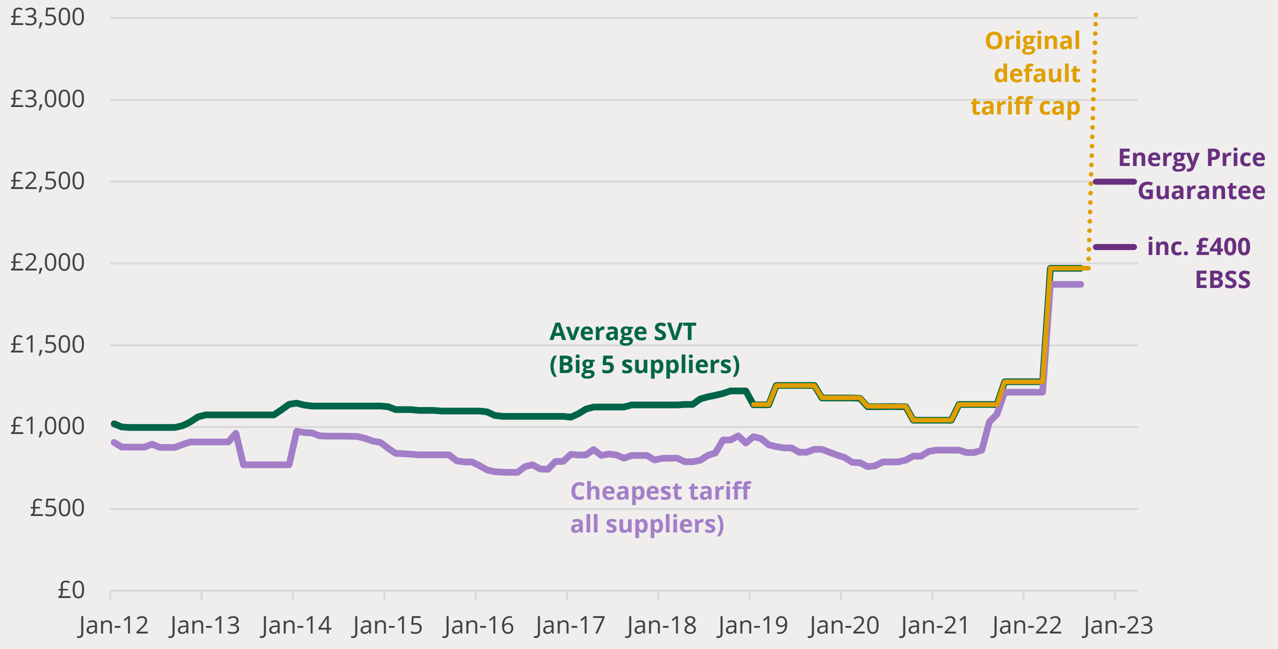
45 In effect the difference between the £2,500 Energy Price Guarantee and the default tariff cap (were it still in place).

46 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)

47 Ofgem, Ofgem updates price cap level and tightens up rules on suppliers (accessed 26 August 2022)

Price cap jumps in April 2022, Energy Price Guarantee limits increase in October 2022

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.[48] In mid-August 2022, it was around 79 pence per litre.[49]

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 £100 payment this winter. This amount has been calculated to ensure typical customer using oil to heat their home does

48 BEIS, Monthly and annual prices of road fuels and petroleum products (Table 4.1.1)
49 www.boilerjuice.com/heating-oil-prices/ (accessed 16 May 2022)

not face a larger increase in their heating costs than those on gas who are supported by the EPG.[50]

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.[51]

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 and to 99 pence per litre in mid-June before falling back to 86 pence per litre in September.[52]

The official data give mid-month averages. Daily data from boilerjuice.com, an oil price comparison service, illustrate the sharp increase in prices following the Russian invasion of Ukraine. These show that average UK prices increased from 67 pence per litre just before the invasion to 81 pence per litre at the end of February and a peak of 160 pence per litre on 10 March. This peak was short-lived and average prices were generally in the 95-105 pence per litre range from late March to mid-October, with a short period in August when prices were below 90 pence per litre.[53]

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.[54]

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

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 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.[55]

50 BEIS, Energy bills support factsheet (Updated 12 October 2022)

51 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)

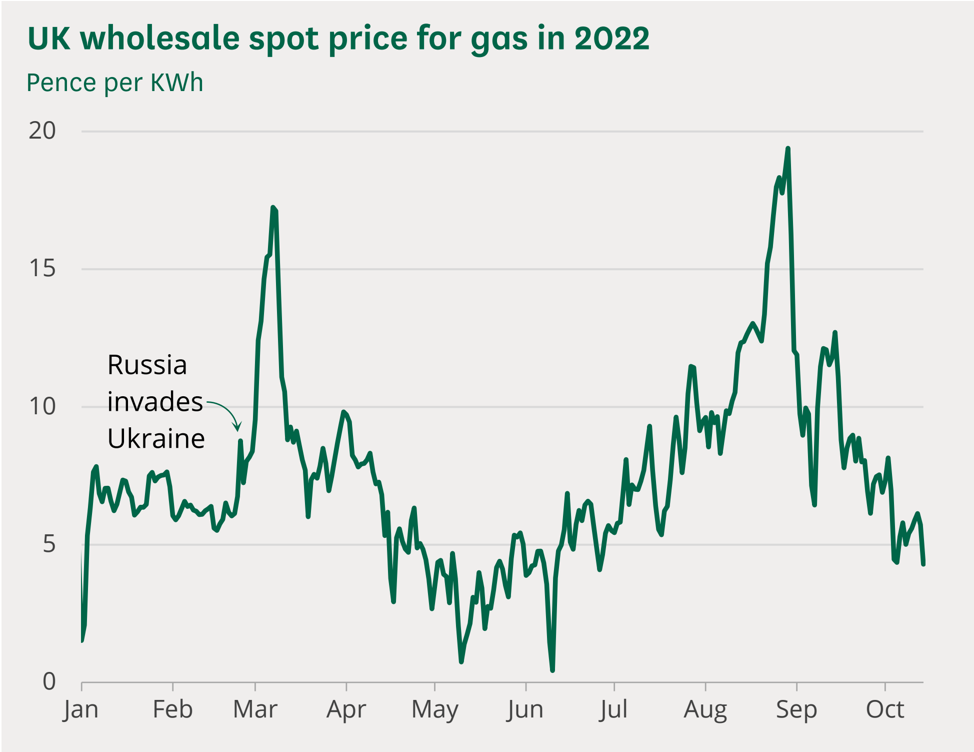
52 BEIS, Monthly and annual prices of road fuels and petroleum products (Table 4.1.1)

53 www.boilerjuice.com/heating-oil-prices/ (accessed 17 August 2022)

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

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

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 again to levels below those at the start of the year.



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

Further increases in the price cap were expected from January 2023, due to further increases in wholesale prices. Under the Energy Price Guarantee these will no longer be 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.

Wholesale prices continued to increase after the period used by Ofgem to set its original cap for Q4 2022. On 26 August 2022 Cornwall Insight estimated that, based on current wholesale prices, the Q1 2023 cap could increase to by 52% to £5,387. They forecast a further increase to £6,616 in Q2 2023 followed by falls to £5,897 in Q3 2023 and £5,887 in Q4 2023.[56] On 8 September they revised these forecasts in down "Due to announcements by European policymakers and a currently well supplied GB energy system" to £4,586 in Q1 2023 and £5,015 in Q2 2023. These levels would still have represented a large increase in the cap and are clearly well above the Energy Price Guarantee level.

56 Cornwall Insight, Cornwall Insight comments on the announcement of the October price cap (26 August 2022)

2.3 Road fuel prices

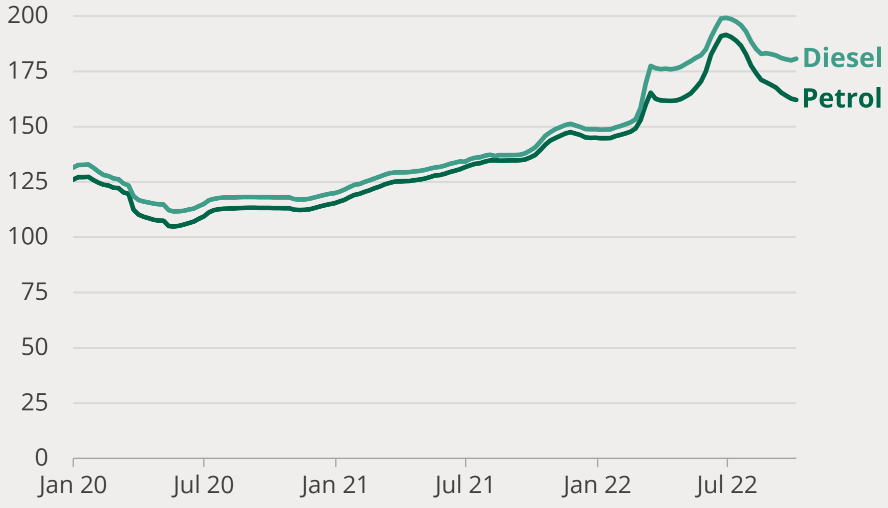
Petrol and diesel prices fell over the first two months of the first lockdown in March 2020.

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 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 prices have fallen back somewhat since then.[57]

Road fuel prices jump in March, May and June 2022 after many months of steady increases

Average UK weekly price, pence per litre



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

[57] Weekly road fuel prices, Department for Business, Energy and Industrial Strategy

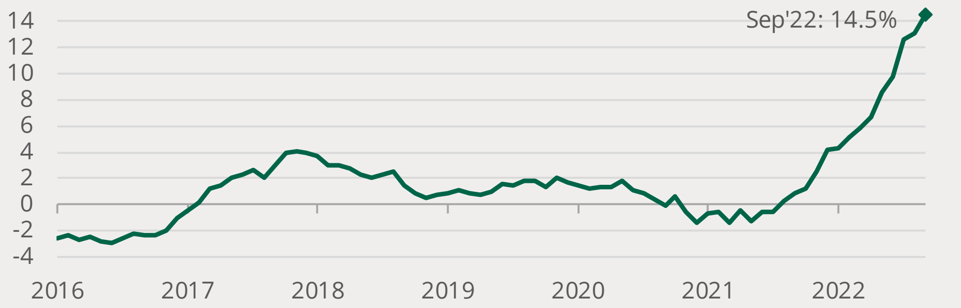
2.4 Food prices

Food and non-alcoholic drink prices were 14.5% higher in September 2022 compared to the previous year, based on the official CPI measure of inflation. This is up from 13.1% in August 2022 and the highest rate of increase since comparable records began in 1989.[58]

Prices have been increasing following declining prices in the second half of 2020 and first half of 2021, as the chart below shows. This measure does not include prices in restaurants or pubs and bars.

Food and drink price inflation rising since mid-2021

%, annual change in food & drink prices component of CPI



Source: ONS, Food and non-alcoholic drink component of CPI, series D7G8 [14 September 2022 update]

Analysis by the ONS noted supply chain challenges, rising costs like energy costs and increased transport costs, and labour shortages have led to rising food and drink prices.[59]

In their 2 September bulletin, the Institute of Grocery Distribution, a trade body, anticipated food price inflation to peak at 15% in the autumn.[60] In mid-August, Kantar, a research firm, forecast that the average annual grocery bill in Great Britain would rise by £533.[61]

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

Following the Russian invasion of Ukraine, food prices on international markets have risen as Russia and Ukraine are important producers of various agricultural products, such as wheat.[62] An index of world food prices compiled by the UN Food and Agriculture Organization hit a record high in March.[63] Since then it has been declining each month, declining for the fifth

58 ONS, Food and non-alcoholic drink component of CPI, annual rate of change, series D7G8
59 ONS, Recent challenges faced by food and drink businesses and their impact on prices, 4 April 2022
60 IGD, Economics bulletin 2 September, 2 September 2022
61 The Guardian, Annual grocery bills in Great Britain will soar by £533, experts predict, 16 August 2022
62 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)
63 UN FAO, FAO Food Price Index posts significant leap in March, 8 April 2022

consecutive month in August. Nevertheless, it remains 10.1% higher than August 2021.[64]

The conflict may lead to Ukrainian farmers being unable to spread fertilisers and pesticides and plant seeds for the spring crop due to be harvested in the summer.[65] In addition, Ukraine's Black Sea ports are transportation hubs for exporting certain commodities, including grains. They have mostly been shut since the invasion.[66] A surge in fertiliser prices may also lead to higher costs. Russia is a major exporter of fertilisers and has put restrictions on exports, with supplies also disrupted.[67]

In March 2022, the UK National Farmers' Union warned that the disruption to food output caused by the conflict may last for years.[68]

In May, Bank of England Governor Andrew Bailey highlighted the risk of even higher food prices as result of the conflict in Ukraine, prefacing his remarks by saying he might sound "rather apocalyptic".[69] He noted the worries over the ability of Ukraine to export its crops.

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 3.6% over the year to September 2022. This is the largest annual growth recorded for the UK in the ONS' series, which goes back to January 2016. Growth was highest in the East Midlands (4.7%), South West (4.4%) and North West (4.3%) and lowest in London (2.8%).[70]

64 UN FAO, FAO Food Price Index, 2 September 2022

65 "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

66 "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

67 "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

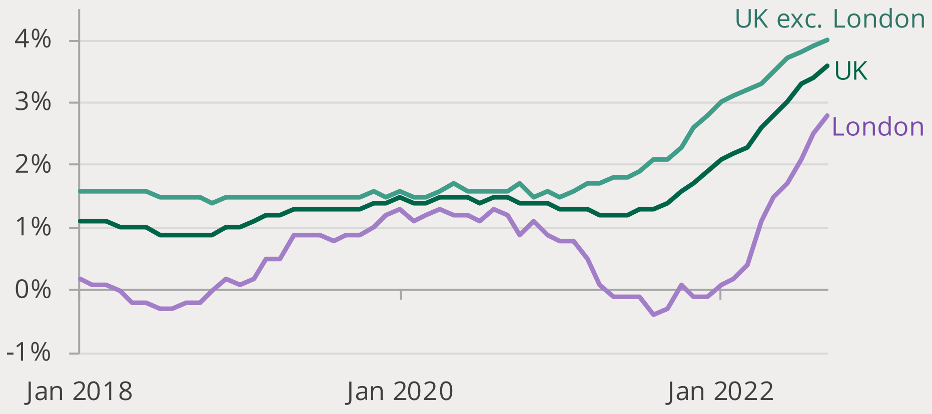
68 "Farmers warn Ukraine war will hit UK food prices", BBC News, 10 March 2022 and "Ukraine crisis: the risks and mitigations for UK food security", NFU, 9 March 2022

69 Andrew Bailey oral evidence to Treasury Committee, 16 May 2022, Q437

70 ONS, Index of Private Housing Rental Prices: September 2022, 19 October 2022

Rental prices are growing more steeply in 2022

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



Source: ONS, Index of Private Housing Rental Prices: September 2022, 19 October 2022

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

As the chart above shows, average rental price growth across the UK was around 1.0% to 1.5% between the start of 2019 and late 2021. Rental price growth began to slow down in London in late 2020 and fell during the summer of 2021. Rental price growth outside of London began to increase in the latter half of 2021, with growth in London beginning to increase from spring 2022 onwards.

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

3 Government support announced during 2022

Various measures to support households with the cost of living have been announced throughout 2022. The largest amongst these is the cap on energy prices, which will be 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

The Energy Price Guarantee will run until April

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 April 2023, capping the unit cost of energy for households.[71] It means that a household in Great Britain with 'typical' energy use will pay an average of £2,500 per year for six months. A typical household will "save at least £1,000 a year (based on current prices from October)", according to the Government. £150 of this saving will come from suspending green levies.

The Energy Price Guarantee will "replace" 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.[72]

Non-domestic energy users, such as businesses, charities and public sector organisations will receive support for six months through the Energy Bill Relief Scheme (EBRS). After this initial six-month scheme, the Government will provide ongoing, support for vulnerable industries.

A Government press release and a factsheet on the new energy support measures give more information on the scheme.

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 Government estimates that it will cost

71 Gov.uk, Chancellor brings forward further Medium-Term Fiscal Plan measures, 17 October 2022
72 Gov.uk, Energy bills support factsheet: 8 September 2022, 9 September 2022

around £31 billion over sixth months. The EBRS for non-domestic users will cost around £29 billion over six months.[73] The Government had said that the original EPG duration of two years would cost around £95 billion.[74]

The Institute for Fiscal Studies estimated that the EPG could cost around £60 billion in its first 12 months, with support for businesses taking the total to over £100 billion.[75] The Resolution Foundation estimate that the EPG alone could cost £57 billion in the next 6 months.[76]

Energy consultancy Cornwall Insight estimated the cost of the EBRS at around £25 billion.[77] It calculated the two year costs of the EPG under four different scenarios which reflect the considerable uncertainty about various factors which could affect prices. These vary from £72 billion to £140 billion.[78]

3.2 Other policies announced during 2022

The EPG is the largest support policy. Below is a list of other support being provided to households. All were announced during 2022:[79]

- **Energy Bill Support Scheme**: a £400 grant for all households which will be 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. The ONS have decided to treat this grant as household income rather than reduced household spending, so this will not affect inflation.[80]
- **Cost of living payments:** of varying sizes to different recipients: [81]
  - £650 payment in 2022 – paid in two instalments – for over 8 million households on means tested benefits.[82] For most, the first payment was made in July, the second will be in autumn.

73 HM Treasury. The Growth Plan 2022, 23 September, Table 4.1
74 BEIS, Energy Prices Bill, Explanatory Notes, p.24
75 IFS, Response to the Energy Price Guarantee, 8 September 2022
76 Resolution Foundation, A blank cheque: An analysis of the new cap on energy prices, 13 September 2022
77 Cornwall Insight, Energy Bill Relief Scheme – the devil is in the detail, 21 September 2022
78 Cornwall Insight, Energy Price Guarantee – Counting the Costs 5 October 2022
79 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)
80 ONS, Energy Bills Support Scheme classification, 31 August 2022
81 DWP. Guidance: Cost of Living Payment, 26 May 2022 [accessed on 27 September 2022]
82 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.

- an additional £300 payment to over 8 million pensioners who receive the Winter Fuel Payment, from November 2022.

- an additional £150 payment to around 6 million people receiving disability benefits. Most will have 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.[83] 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.[84]

- **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.[85]

  - in November 2022, the Government will reverse a 1.25%-points increase in NICs rates, which come into effect in April 2022.

- **Fuel duty** is temporarily reduced by 5p per litre from 23 March 2022 until March 2023. 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. [86]

- 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

[83] HC Deb 23 March 2022 cc337-373
[84] HM Treasury. Cost of living support factsheet: 26 May 2022, 15 June 2022
[85] HM Treasury. Spring Statement 2022, Table 3.1
[86] HM Treasury. Spring Statement 2022, Table 3.1

devolved administrations can spend the funding on their priorities. Schemes similar to England's Council tax rebate are operating in Scotland and Wales.[87]

- **The Warm Home Discount:** for winter 2022/23, the discount (for vulnerable households) will rise from £140 to £150 and eligibility will expand 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.

The Government is spending around £60 billion on capping the unit cost of energy this year

2022/23, £ billion

Sources: 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

The 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. [88] The Energy Profits Levy, announced in May, will raise revenues "to help with cost of

[87] 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

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

living".[89] The Treasury's latest estimate is that the Levy will raise around £7.7 billion in 2022/23 and £10.4 billion in 2023/24.[90]

The Levy will charge an additional 25% on UK oil and gas profits 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. This means that for every £1 businesses invest they will get a 91p tax saving.

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

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 reduced 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.[91]

The cost of living payments particularly help households lower income households.[92]

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

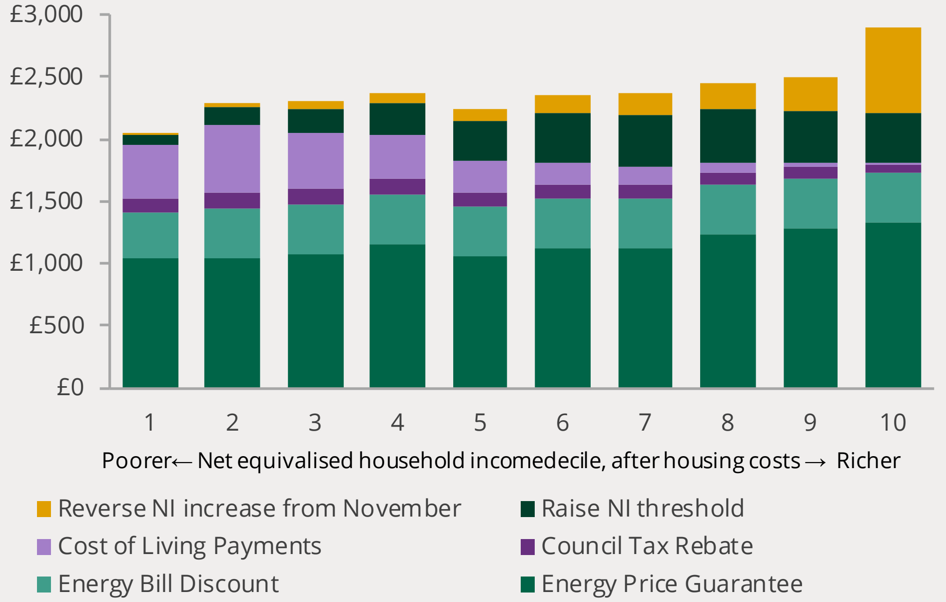
90 HM Treasury. Growth Plan 2022, Table 4.2

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

92 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.

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 2026.

Inflation has been higher than it was forecast to be when the policy was first announced, in March 2021.[93] The higher that inflation is, the more the freeze costs income taxpayers and the more it raises for the Treasury. This is because, in the absence of the freeze, the thresholds would have increased by inflation and people could have earned more before paying income tax.

Together, the freezes are forecast to raise the Treasury an estimated £2.9 billion in 2022/23, rising to £18 billion in 2025/26.[94] These estimates do not include the pre-announced reduction in the basic rate of income tax from 20% to 19% in April 2024. The Chancellor announced on 17 October that this rate reduction will no longer be happening.[95]

Personal allowance freeze

The personal allowance is frozen at the current level of £12,570 until April 2026. The allowance would normally rise by inflation, which means people could earn more without being taxed on it.

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93 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.

94 OBR, Economic and fiscal outlook – March 2022, 23 March 2022, Table A.5

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

The freeze also means that more people, with lower incomes, will pay income tax. In 2022/23, the freeze may mean around 0.6 million more people pay income tax.[96]

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 2026.[97] 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 may bring around 0.4 million people into the higher rate of income tax.[98]

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 is being reversed in November 2022 and NICs rates will return to their 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.[99]

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

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

97 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.

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

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

is projected to be lower in April 2023, this means a real increase in the value of benefits.[100]

However, it has been reported that the Government are considering uprating benefits in line with recent earnings growth (5.5%) instead of inflation. The Resolution Foundation say this could save the Government around £3 billion a year but would affect 9 million households containing 30 million people. This policy would mean losses for households ranging from £50-£1000+ a year, and 600,000 extra people in absolute poverty.[101]

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.[102] 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.[103]

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%.[104]

100 Institute for Fiscal Studies, Spring Statement 2022 24 March 2022
101 Resolution Foundation, The Long Squeeze, Benefit uprating policy for April 2023, 13 October 2023
102 Increased by 4.5% using the increase in average annual earnings in the year to March 2021
103 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.
104 ONS, CPI annual inflation rate, series D7G7. Annual inflation to Q1 2022, the mid-point of the academic year.

Maintenance loan amounts will be increased by 2.3% in the academic year 2022/23 compared to the latest forecast of CPI inflation of 8.1%.[105] The Library briefing The value of student maintenance support shows the real cut in maintenance support is expected to be just over 11% between 2021/22 and 2022/23, or around £1,100 for those from the poorest households.

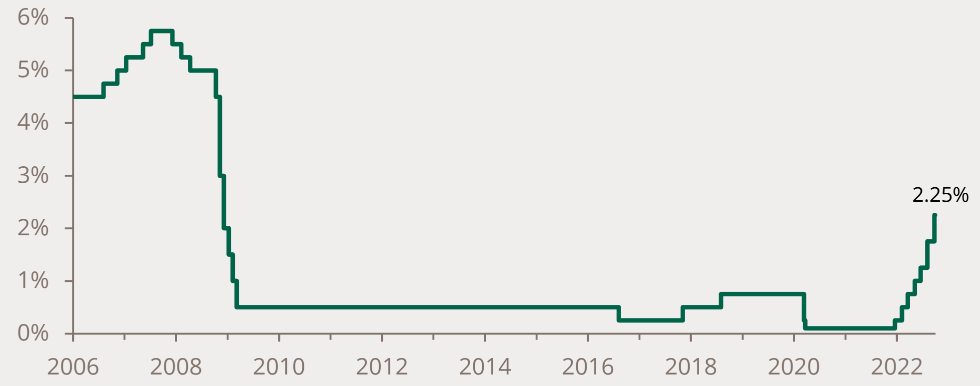
The annual uprating for maintenance support is based on forecast inflation. This means that, unlike benefit uprating, these cuts will not automatically be caught up for in future increases. The Institute for Fiscal Studies recently examined this issue and proposed possible remedies.[106]

4.4 Interest rates

In response to higher inflation, the Bank of England's Monetary Policy Committee (MPC) raised interest rates at seven consecutive policy meetings (as of mid-October).

From an all-time low of 0.1%, rates were first increased to 0.25% in December 2021, then increased by 0.25 of a percentage point in each the subsequent four meetings. This took the main interest rate to 1.25% on 16 June. Rates increased by half a percentage point on 4 August and 22 September, to 2.25% - the highest it's been since late 2008 (in the wake of the global financial crisis).[107] The chart below tracks the change in the UK's interest rate from 2006, showing an increase since the start of 2022.

UK official interest rate



Source: Bank of England

[105] OBR, Economic and fiscal outlook – March 2022, 23 March 2022, Supplementary economy table 1.7. Annual CPI inflation to Q1 2023

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

[107] 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 August 2022, Bank Rate increased to 2.25% - September 2022, 22 September 2022

The MPC has raised rates to lower the risk that inflation remains persistently above its 2% target.[108] Higher interest rates increase the cost of borrowing for companies and individuals, typically reducing demand in the economy. In turn, this reduces pressure on firms to raise prices, keeping inflation down.

Further increases later this year are expected. The fall in the value of the pound and rise in inflation expectations[109] after the Government's financial statement, or "mini budget", on 23 September means the Bank of England are under pressure to increase interest rates sooner and further than they planned.[110] In a statement on 26 September, the Bank's Governor, Andrew Bailey, said that the Monetary Policy Committee will make an assessment at its next scheduled meeting (3 November), but they "will not hesitate to change interest rates as necessary to return inflation to the 2% target sustainably in the medium term".[111]

In September, the Bank of England estimated that consumer spending peaked in Q3 (July to September) 2022 and is now slowing. Consumer spending makes up over 60% of GDP. Slower or negative economic growth may reduce inflationary pressures.[112] Higher interest rates may also contribute to lower economic activity, worsening any downturn.

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

The impact of rising interest rates on households is discussed further in section 5.3.

108 See for example, "Traders brace for interest rates to hit 2pc as UK economy outstrips France and Germany", Daily Telegraph, 11 February 2022

109 For example, see NIESR, An Independent Assessment of the Mini-Budget, 23 September 2022

110 "Traders bet on emergency interest rate rise after pound hits record low", Financial Times, 26 September 2022

111 Bank of England, Statement from the Governor of the Bank of England, 26 September 2022

112 Bank of England, Bank Rate increased to 2.25% - September 2022, 22 September 2022
Library briefing, Background to the September 2022 fiscal statement explains recession definitions on p12 in Box 1 'What is a recession?'

5 Impact on households

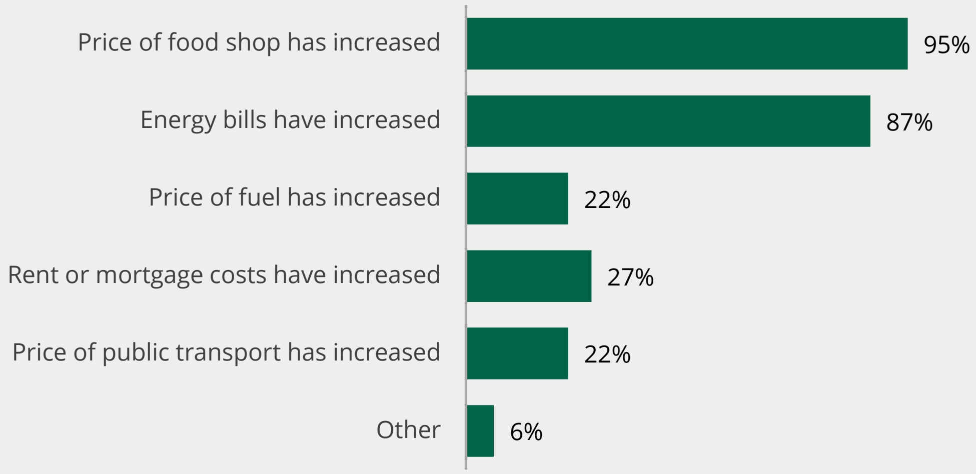
5.1 UK adults are seeing their cost of living rise

93% of adults in Great Britain reported an increase in their cost of living in September-October 2022 since the same period in 2021.[113]

Of those who reported an increase in the cost of living in this period, 95% said which was because of an increased price of food shopping, while 87% cited an increase in gas and electricity.

Reasons for increased cost of living

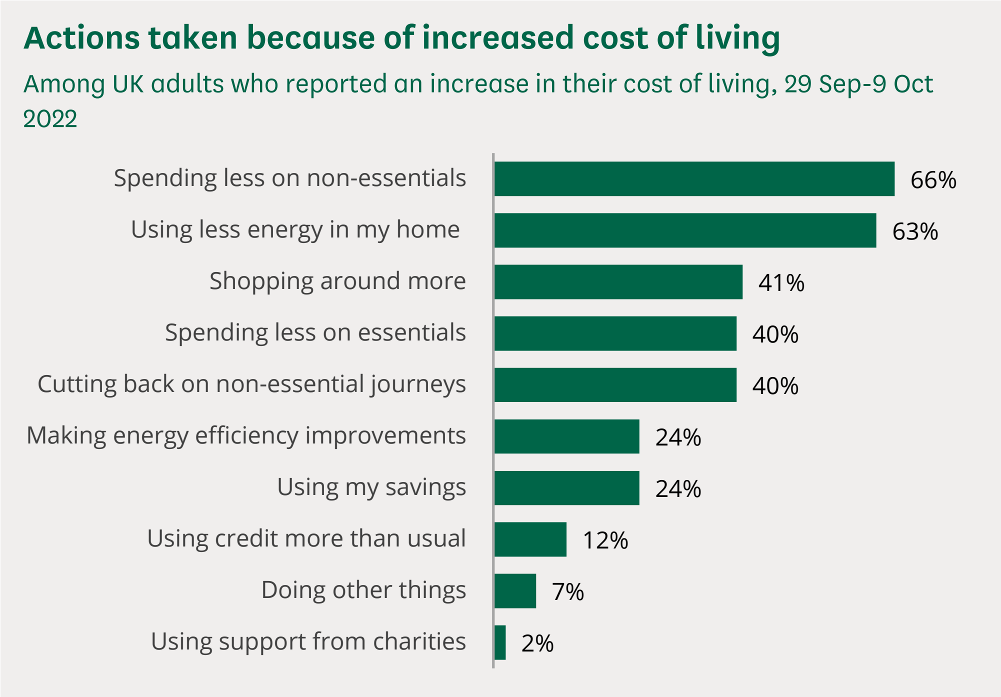
Among UK adults who reported an increase in their cost of living, 29 Sep-9 Oct 2022



Source: ONS, Public opinions and social trends, Great Britain: household finances, 14 October 2022

66% of those who reported a rise in the cost of living between 29 September and 9 October 2022 say they are spending less on non-essentials as a result, while 63% report using less energy at home, and 40% report cutting back on essentials like food shopping and non-essential journeys in their vehicle. 2% were being supported by a charity, including food banks.

[113] 29 September-9 October 2022, compared to the previous month; ONS, Public opinions and social trends, Great Britain, 14 October 2022



Source: ONS, Public opinions and social trends, Great Britain: household finances, 16 September 2022

From 30 March to 19 June 2022, 41% of people reported buying less food than usual in the previous two weeks. This percentage increased to 51% among parents with dependent children, 51% among renters, and 49% among households in the most deprived areas in England (top fifth most deprived).

In the same period, 4% of people reported being behind on energy bills. This rose to 8% among renters and 8% among households in the most deprived areas in England.[114]

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.

Real household incomes are expected to fall in 2022.The Resolution Foundation projected that, even if benefits are uprated with inflation in April 2023, real average non-pensioner household income will fall by 4% in 2022-23 and 7% in 2023-24. Households in the bottom fifth of the income distribution are expected to see a real fall of 11% in 2023/24 if benefits are uprated in line with inflation and a 14% fall if benefits are uprated with average earnings (see section 4.2).[115]

114 ONS, Impact of increased cost of living on adults across Great Britain, 5 August 2022
115 Resolution Foundation, The Long Squeeze, Benefit uprating policy for April 2023, 13 October 2023

5.3 Low-income households are particularly affected by rising prices

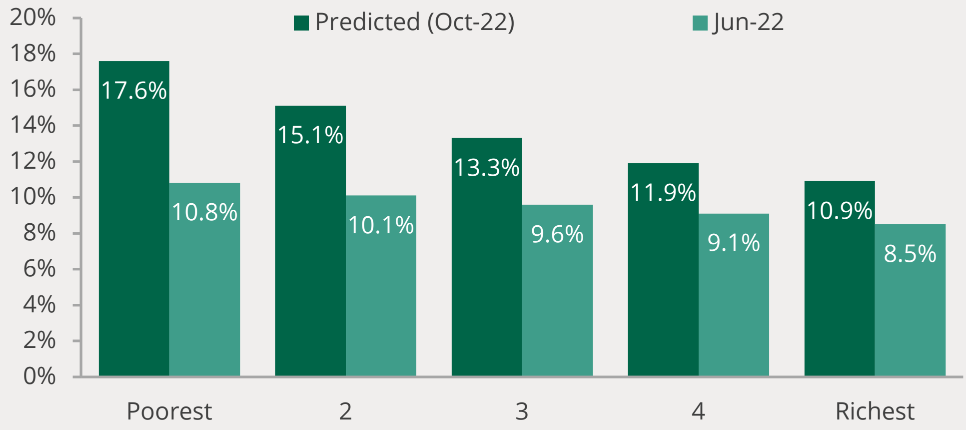
Low-income households are most affected by rising prices.

The Institute for Fiscal Studies found that people in different income deciles faced a similar level of inflation up until April 2022.[116] However, in April it estimated the lowest income decile faced an inflation rate of 10.9%, 3 percentage points higher than inflation faced by the highest income decile.[117]

As shown in the chart below, by June, the poorest quintile faced a rate of 10.8% and are expected to face a rate of 17.6% by October 2022 (note that this forecast was made before the EPG was announced, so inflation rates are likely to be lower than expected).[118] Most of this difference is because more of low-income households' spending goes on energy.

Expected inflation by income in October 2022

CPI, by income quintile



Source: Institute for Fiscal Studies, The long squeeze: rising inflation and the current government support package, 15 August 2022

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

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

116 All households are placed into 10 groups ('deciles') based on their incomes, from lowest to highest.

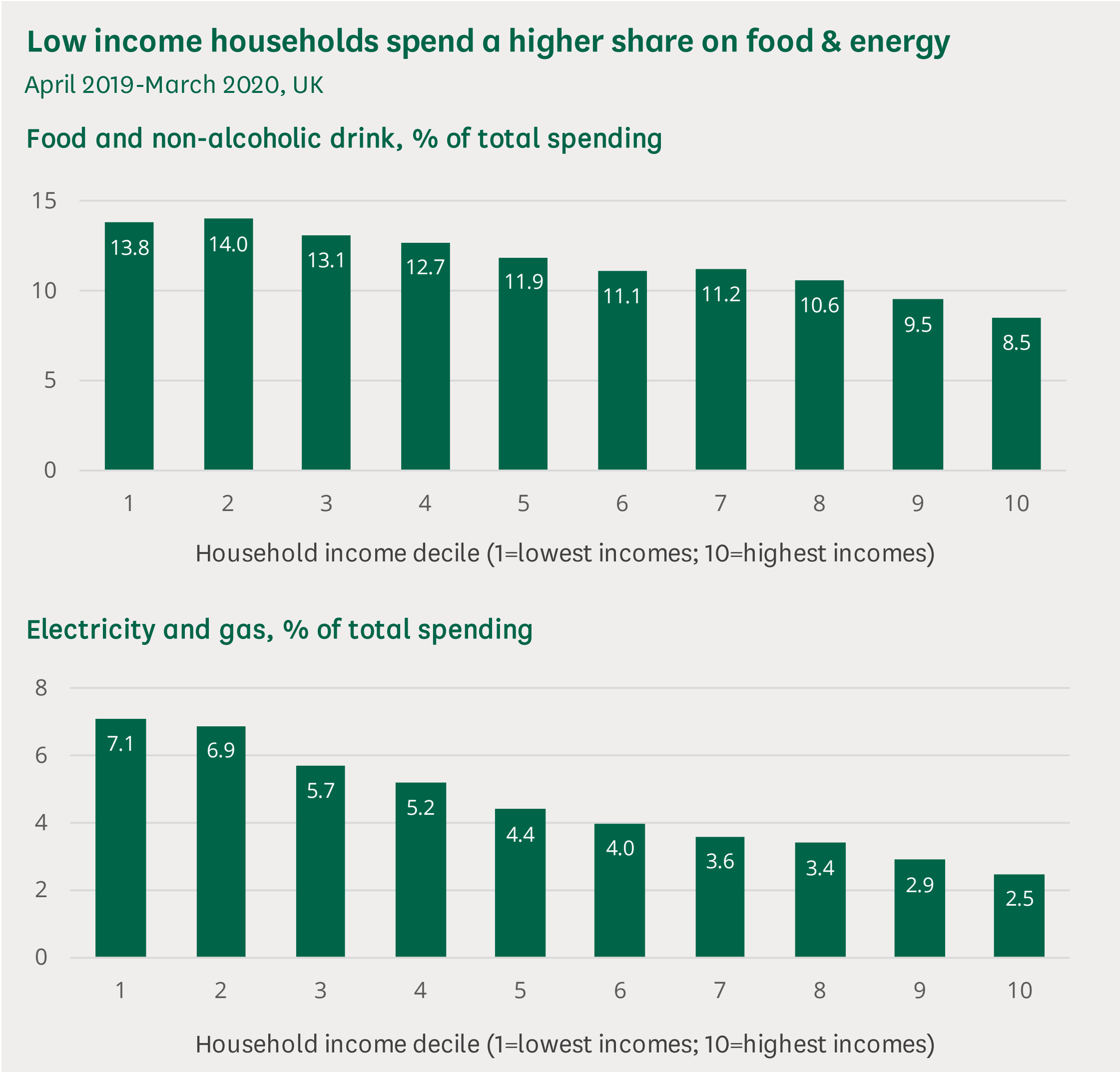
117 Institute for Fiscal Studies, Inflation hits 9% with poorest households facing even higher rates, 18 May 2022

118 Institute for Fiscal Studies, The long squeeze: rising inflation and the current government support package, 15 August 2022

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.[119]

The chart below shows how much of household spending in each income decile goes on food and energy. Note this spending data is from 2019/20 so do not reflect any recent changes in spending patterns and inflation.



Source: ONS, Family spending 2019/20, March 2021 - data: workbook 1 - table 3.2

119 ONS, Living Costs and Food Survey, 16 March 2021

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 7.1% of their overall spending on electricity and gas in 2019/20, compared to 2.5% for households in the highest income group. Because energy prices are rising particularly quickly, low-income households are facing higher inflation.[120]

'Fuel stress', defined by The Resolution Foundation as spending more than a tenth of household income on energy, has been increasing.[121] The Library briefing on fuel poverty provides more information and statistics.

Citizen's Advice reported in October that they helped more people with energy issues in January-September 2022 than the whole of 2021.[122]

Poverty and food bank use are growing

The chart above shows that in 2019/20, among households in the bottom tenth of incomes, 13.8% of spending was on food and non-alcoholic drink. This compared to 8.5% of households with incomes in the top tenth.[123] 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% to 21%.[124]

According to a survey by the Food Foundation, in September 2022 9.7 million adults experienced food insecurity, 18.4% of households compared to 13.4% in April 2022. Among those receiving Universal Credit, 53.8% experienced food insecurity.[125]

A Trussell Trust survey found that food banks in its network provided 50% more parcels in the UK during summer 2022 compared to the summer before the pandemic. Around two fifths of Universal Credit recipients had more than one day in the previous month where they didn't eat at all or only had one meal, and around one fifth had not been able to afford to use their cooker to cook hot food in June-August 2022.[126]

The Independent Food Aid Network said in October 2022, 91% of its food banks reported an increase in demand since July 2022, and nearly a quarter

[120] Resolution Foundation, Cap off, Understanding the April 2022 inflation release, 18 May 2022
[121] Resolution Foundation, Higher and higher, Averting a looming energy bill crisis, 17 January 2022
[122] Citizens Advice cost of living data dashboard, p5, (accessed 19 October 2022)
[123] Income deciles are based on disposable household income
[124] Resolution Foundation, The Long Squeeze, Benefit uprating policy for April 2023, 13 October. Absolute poverty the number if people with household income less than 60%of the median in 2010/11 (updated for inflation).
[125] Food Foundation, Food insecurity tracking, Round 11, October 2022
[126] Trussell Trust, Forty percent of people claiming universal credit skipping meals to survive, new research from the Trussell Trust reveals, 7 September 2022

have reduced the size of their parcel.[127] 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.[128]

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 there was large variation between the items, with, for example, the price of low-cost pasta increasing by around 50% and the price of low-cost potatoes falling by around 15% during the year to April 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."[129] 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".[130]

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 focuses on

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127 Independent Food Aid Network, Struggling to cope with the number of people seeking their support, independent food banks say the Government must act immediately to uprate benefit payments in line with inflation (PDF), 12 October 2022

128 ONS, Tracking the price of the lowest-cost grocery items, UK, experimental analysis: April 2021 to April 2022, 30 May 2022

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

130 As above.

the introduction of a rent ceiling from 1 April 2023 to 31 March 2024.[131] Consultation closes on 12 October 2022.

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

5.4 Rising interest rates make borrowing more expensive

Rising interest rates, discussed in section 4.4, means higher borrowing costs on mortgages and other loans. Interest rates for these loans will not necessarily rigidly follow changes in the official Bank of England interest rate, which rose from 0.1% in December 2021 to 2.25% in September. Instead, it will depend 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.

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. The Bank of England has said that 80% of the value of all mortgages are on a fixed-term basis.[132]

Those with fixed-term mortgages will not see changes to their mortgage payments immediately. However, they will almost certainly face higher interest rates when they remortgage, due to rising mortgage rates offered by lenders. This reflects rising interest rates on financial markets, including in the weeks following the Chancellors fiscal statement, or "mini budget", of 23 September 2022.

Moneyfacts, a personal finance news service, reported that the interest rate on an average two-year fixed rate mortgage available on 20 October 2022 was 6.65%, a 14-year high.[133] It has risen from 4.74% on 23 September and from 2.34% on 1 December 2021.[134] Moneyfacts reported the average five-year mortgage rate was 6.51% on 20 October 2022.[135]

Even prior to the mini budget, there were large upward moves in interest rates since August 2021, when average 2-year fixed mortgage interest rates were a little above 1%.[136] With the Bank of England raising interest rates since

131 DLUHC, Social housing rents consultation, 31 August 2022
132 Bank of England, Monetary Policy Report February 2022, 3 Feb 2022, pp31-33, Box C
133 BBC News, Mortgage rates hit fresh 14-year highs, 20 October 2022
134 BBC News, Mortgage rates rise sharply as squeeze tightens, 3 October 2022
135 BBC News, Mortgage rates hit fresh 14-year highs, 20 October 2022
136 Bank of England, Quoted household interest rates (accessed 20 October 2022), at 75% LTV

December 2021 (see section 4.4), mortgage providers have raised the interest rates on the mortgages they offer.[137]

Those on variable rates mortgages will also see increases in their mortgage payments, as these move in line with the Bank of England interest rate. New loans, whether mortgages or other loans, also higher interest rates associated with them. For further information and analysis see Box C (p36) of the Bank of England's Monetary Policy Report February 2022 (PDF).

137 "Average SVR paid by UK mortgage borrowers hits highest level in 13 years", The Guardian, 20 June 2022 and "UK lenders raise mortgage rates ahead of further anticipated BoE hikes", The Financial Times, 17 June 2022

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.

The 17 October 2022 fiscal statement: Summary and background
17 October | House of Commons Library

Economic update: Much for the new Chancellor to consider
23 September 2022 | House of Commons Library

Domestic energy prices
17 October 2022 | House of Commons Library

September 2022 fiscal statement: A summary
3 October 2022 | House of Commons Library

Background to the September 2022 fiscal statement
20 September 2022 | House of Commons Library

Inflation: Key Economic Indicators
18 August 2022 | House of Commons Library

Think tank reports

Interesting times
15 October 2022 | Resolution Foundation

Even with inflation uprating, benefits next year are on course to be 6% below their pre-pandemic levels
19 October 2022 | Institute for Fiscal Studies

Citizens Advice cost of living data dashboard
17 August 2022 | Citizens Advice

Monetary Policy Report - August 2022,
4 August 2022 | Bank of England

Public opinions and social trends, Great Britain: household finances,
16 September 2022 | Office for National Statistics