

Rising to the cost of living challenge

Public Finance Live 2023

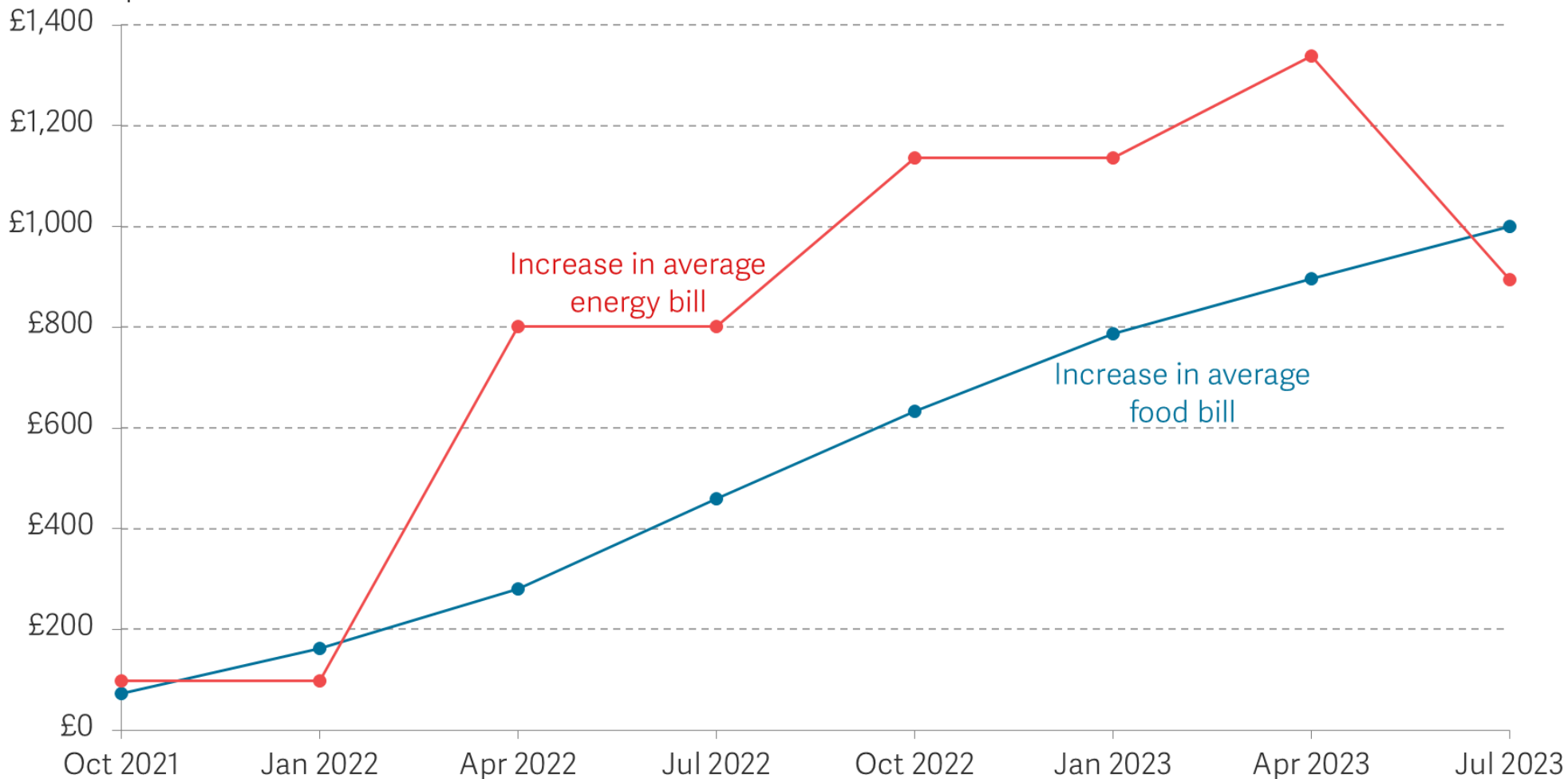
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The problem

- Short term
 - Energy
 - Food
 - Interest rates
- Long term
 - Slow growth
 - High inequality

Food is about to overtake energy as crisis epicentre

Average increase in annual household consumption on food and energy since 2019-20 at prices in each quarter: UK

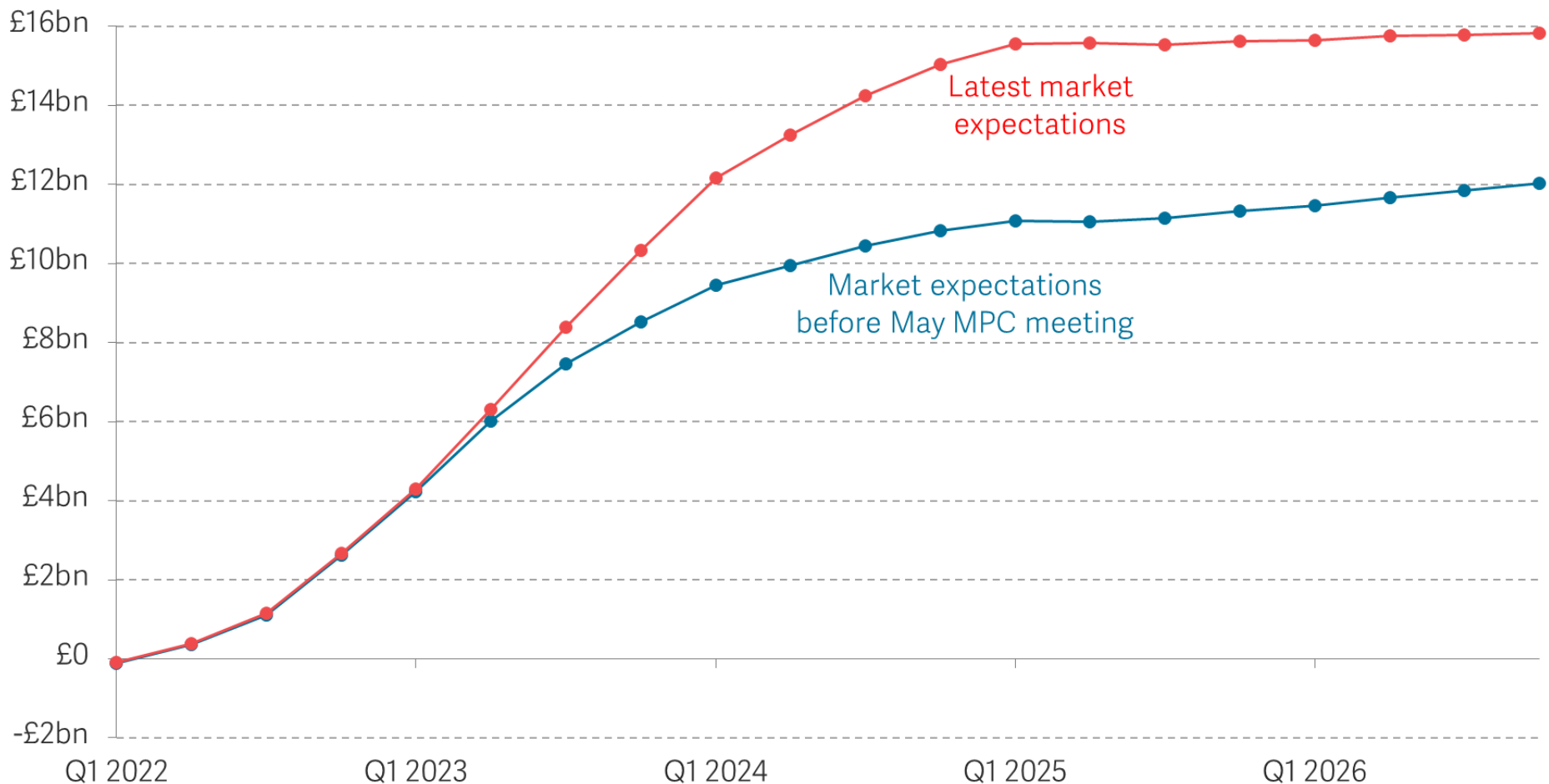


Notes: Q4 2022 and Q1 2023 data include £400 energy bill discount. The Bank of England forecast for food and non-alcoholic beverage inflation used in this analysis is inferred rounded estimates of the contributions to CPI inflation taken from Bank of England staff projections. Data is for annual household consumption, using the prices in each quarter. Consumption baskets are held fixed from 2019-20.

Source: RF analysis of ONS, Living Costs and Food Survey; OBR, Economic and Fiscal Outlook, March 2023; Bank of England, Monetary Policy Report, May 2023; ONS, Consumer Price Inflation; Cornwall Insight, Energy Price Cap forecast.

Vast majority of higher mortgage rates is still to come

Estimated increase in aggregate annual owner-occupier mortgage repayments relative to Q4 2021: GB, Q4 2021-Q4 2026



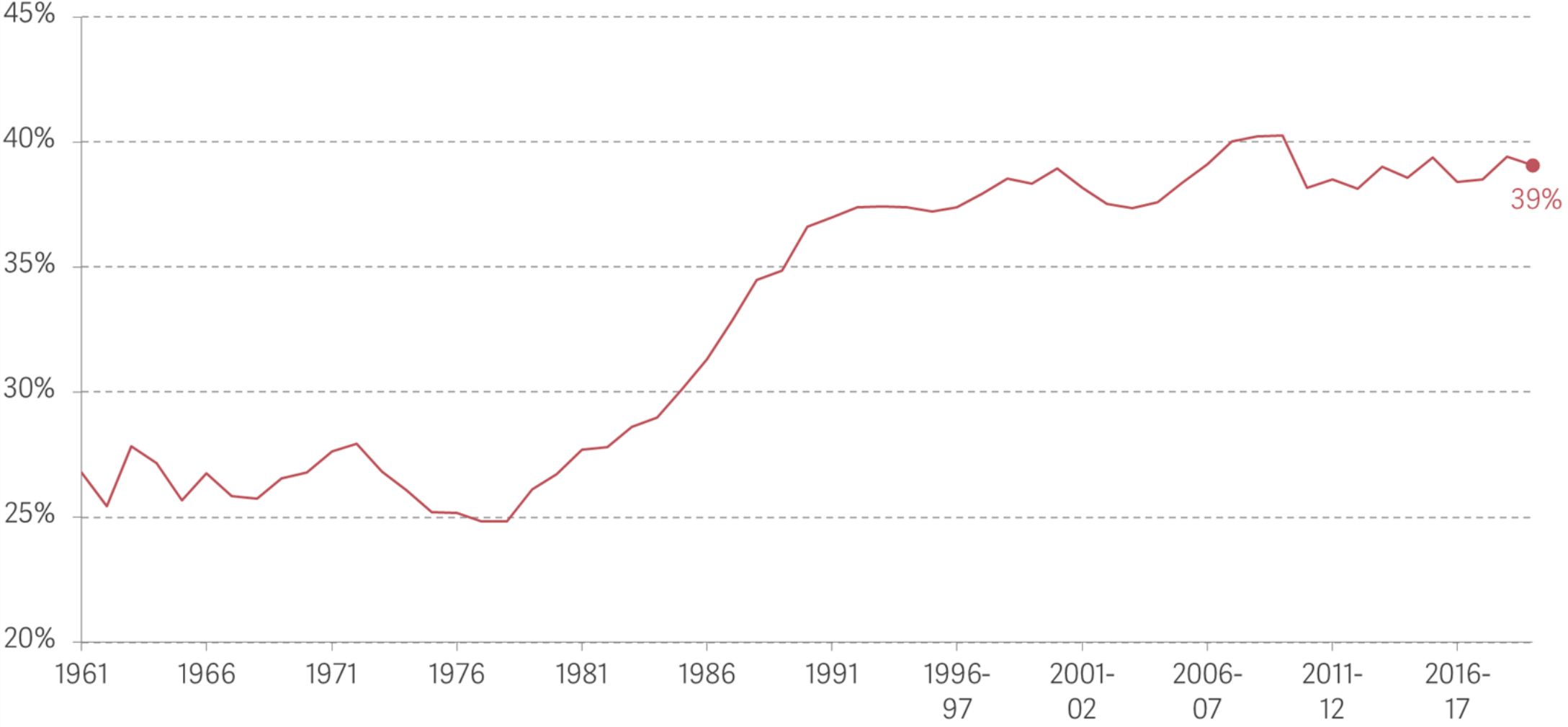
Notes: Only includes one owner-occupier mortgage per household, additional mortgages (where applicable) are excluded. Some households with a variable rate in Q4 2021 may have switched to a fixed-rate deal, and vice versa, but this is not captured here. Repayments include interest costs and capital repayments, and are calculated assuming that all households have a capital repayment mortgage.

Source: RF analysis of ONS, Wealth and Assets Survey; Bank of England, Bankstats and Yield curve.

We're living with the inequality of the 1980s...



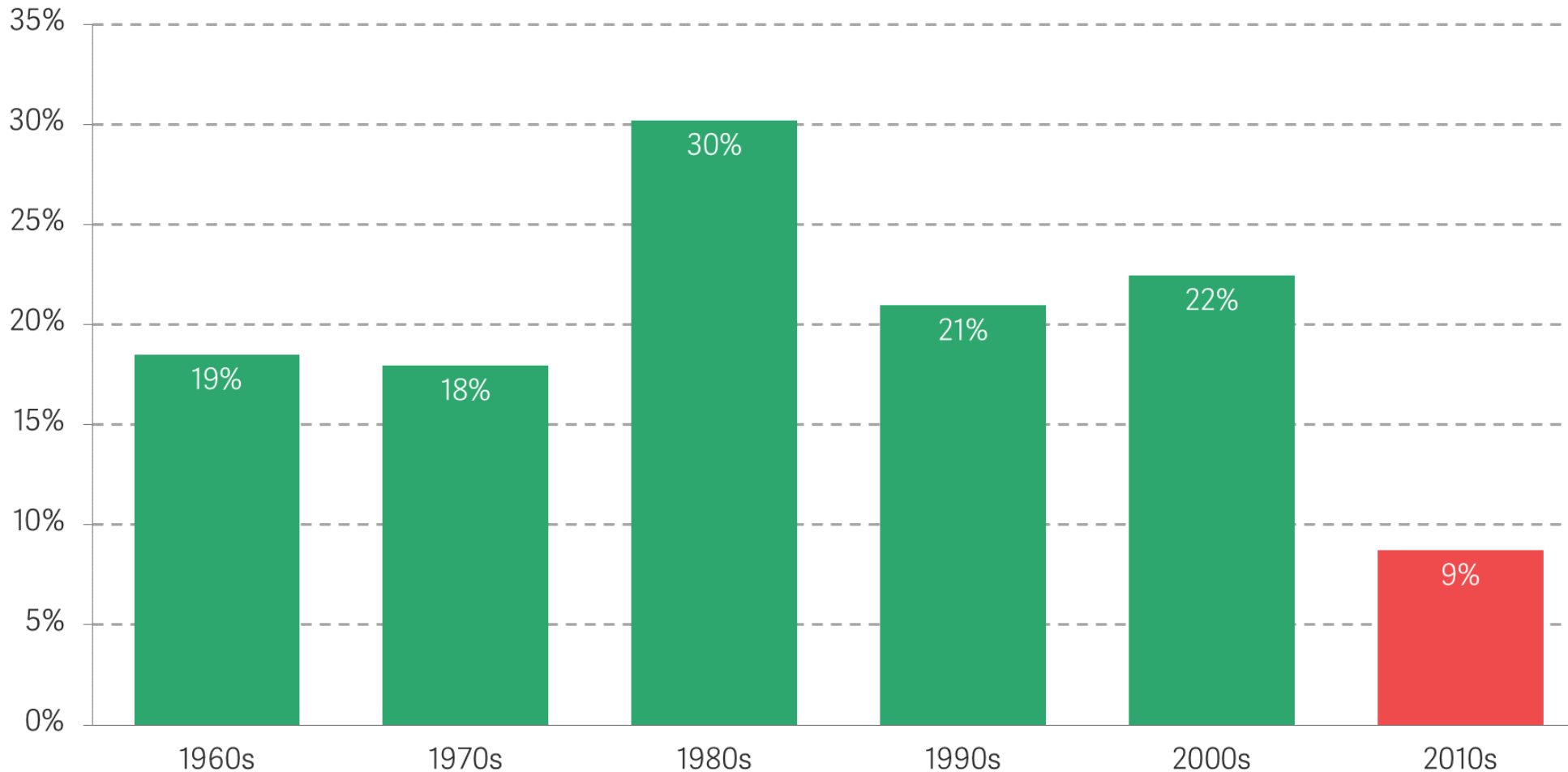
Gini coefficient for equivalised disposable household income (after housing costs): UK



Notes: Gini coefficient calculated using income after housing costs. UK from 2003-04, Great Britain from 1961 to 2002-03. Source: Analysis of IFS, Living Standards, Poverty and Inequality 2020; DWP, Households Below Average Incomes, 2021.

...and the stagnation of the 2010s

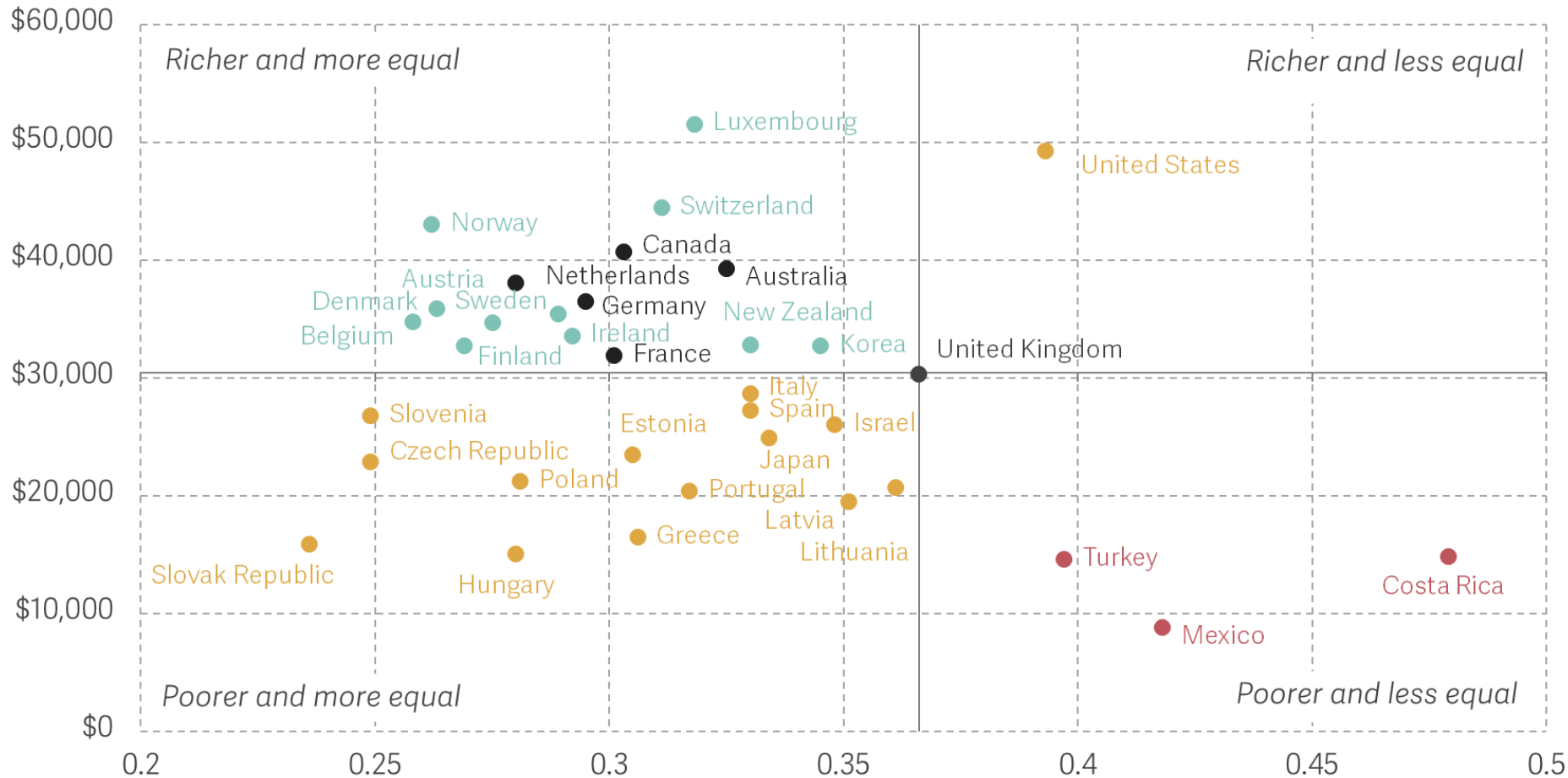
Real growth (CPI-adjusted) in median equivalised household income (after housing costs): GB, UK



Notes: 1960s refers to growth since 1961. UK growth from 2003-04, GB before.
Source: IFS Living Standards, Poverty and Inequality 2020; DWP, Households Below Average Incomes, 2021.

High inequality + low growth = a toxic combination

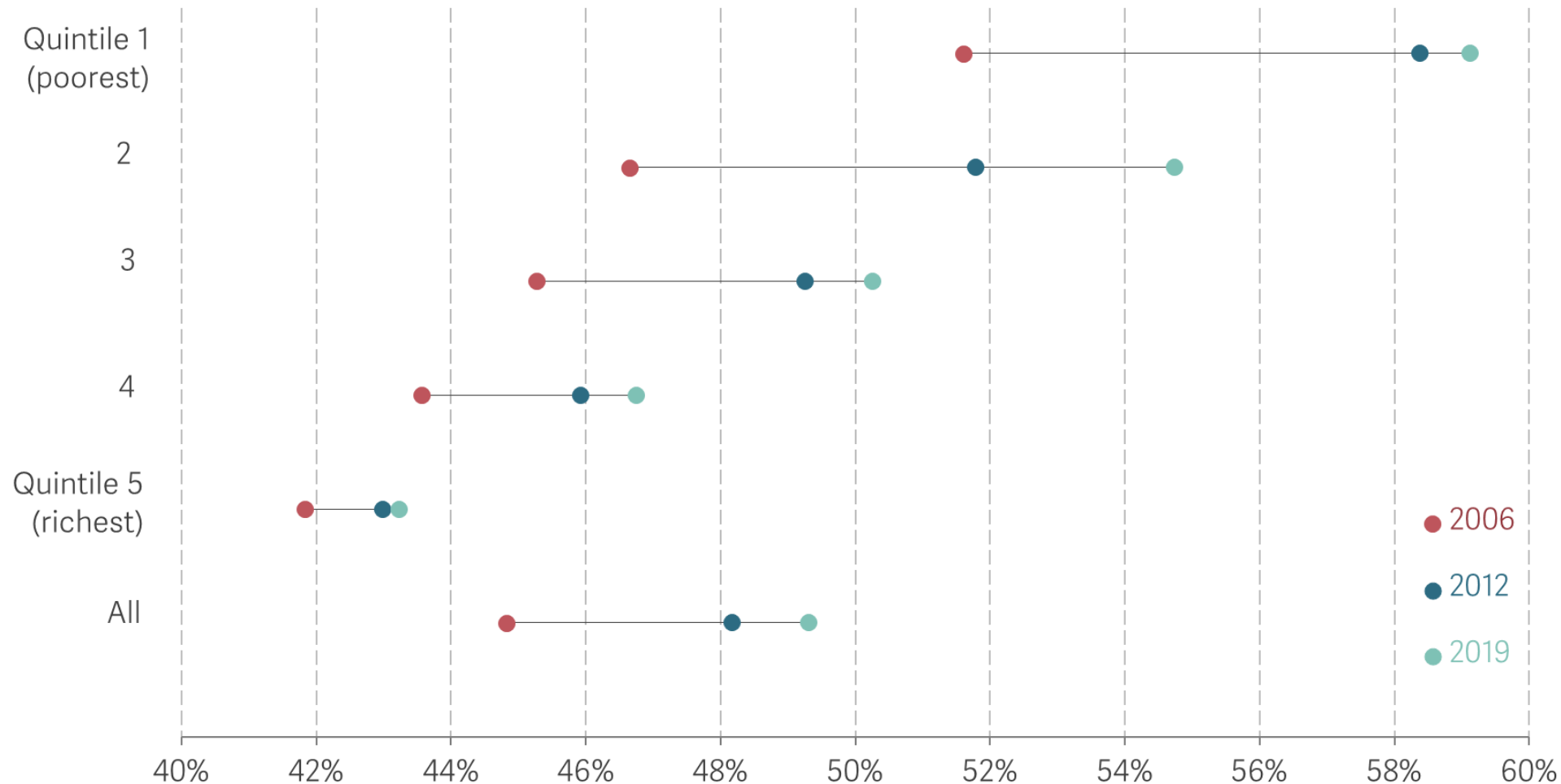
Gini coefficient and average disposable income per capita: OECD countries, 2018



Notes: Income is equivalised and PPP adjusted.
Source: OECD, Income Inequality Database.

Those on low and middle incomes are paying for national failure

Proportion of equivalised non-housing household consumption spent on 'essentials', by quintile of the working age equivalised net household income distribution: UK



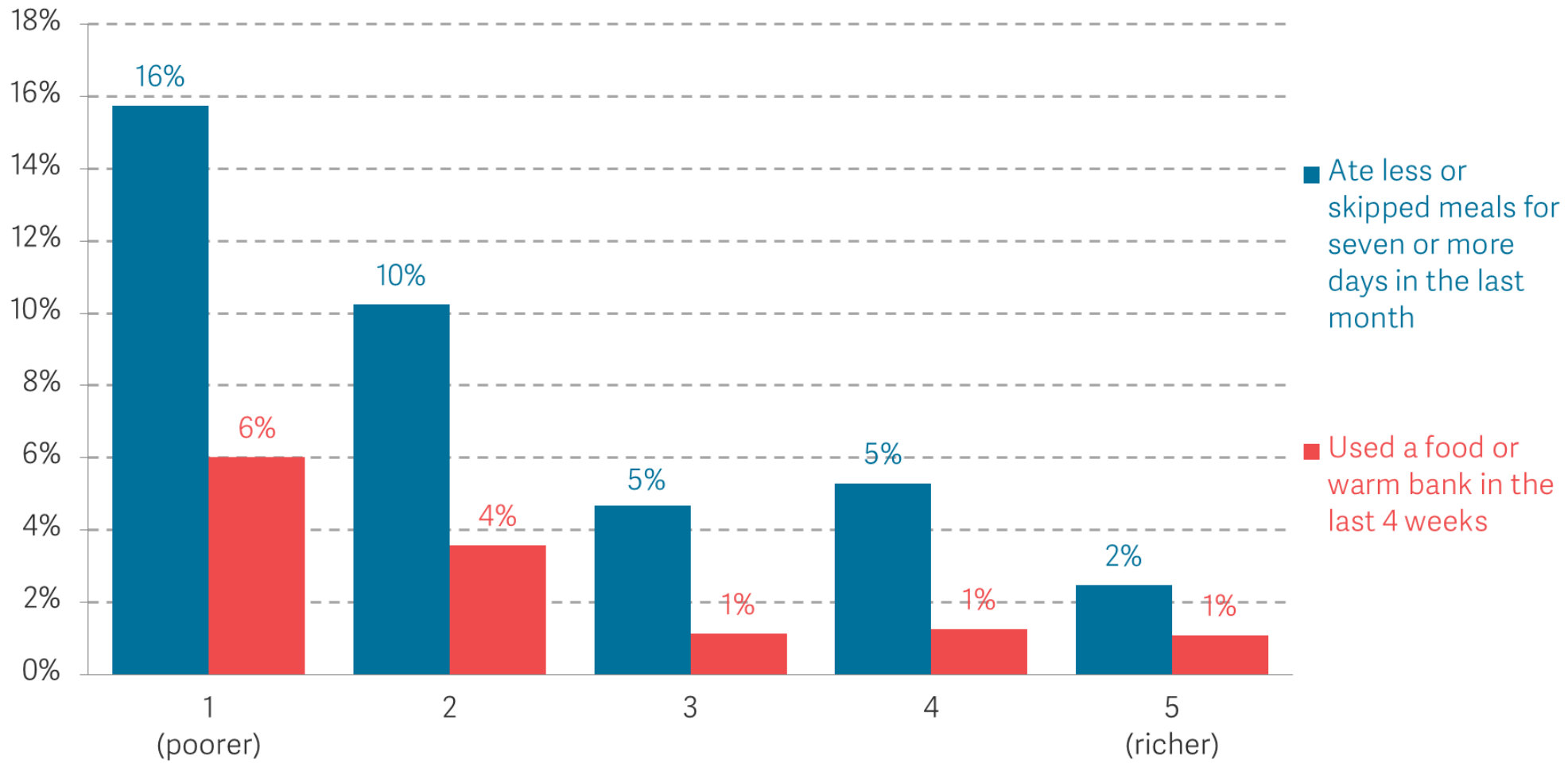
Notes: 'Essentials' covers food, fuel, clothing and transport. Distribution calculated on the basis of income after housing costs. We present trends in consumption for each individual, rather than just for the head of the household.

Source: Analysis of ONS, Living Costs and Food Survey.

The result is terrible outcomes at the bottom



Percentage of respondents skipping meals due to not having enough money and using a food or warm bank in the past month, by age group and equivalised income quintile: UK, 6-13 March 2023



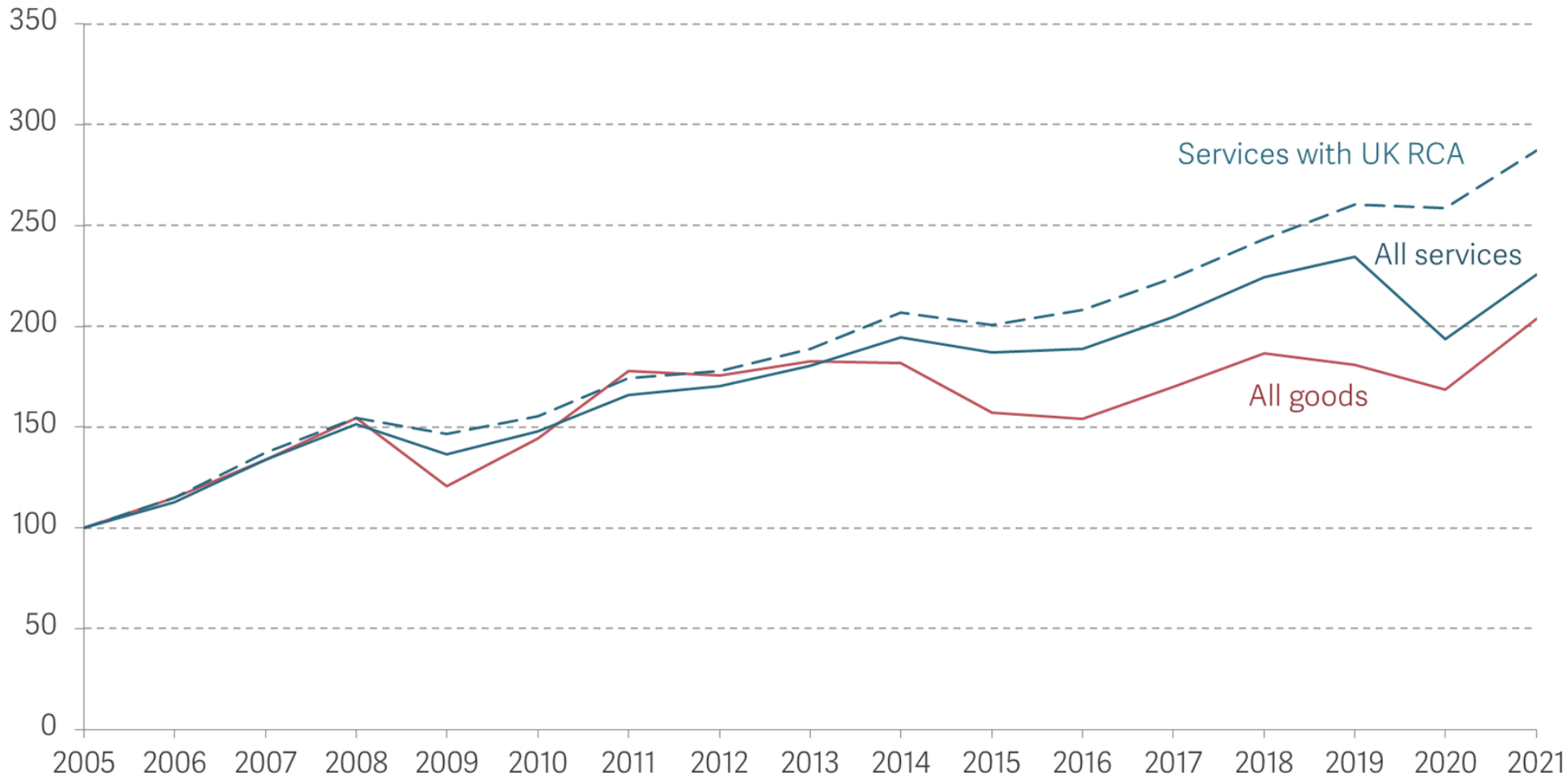
Notes: All respondents (n= 10122), 18-24 (n= 1053), 25-34 (n= 1487), 35-44 (n= 1921), 45-54 (n= 1441), 55-64 (n= 1636), 65-74 (n= 1831), 75+ (n=753), lowest income quintile (n=950), q2 (n=1251), q3 (n=1215), q4 (n=1018), highest income quintile (n=1138).
Source: RF analysis of YouGov, adults age 18+ Cost of Living Crisis March 2023 wave.

The solution

- A new economic strategy to increase growth and reduce inequality, covering
 - Planning
 - Pensions
 - Regions
 - Trade
 - Tax & benefits
 - Skills
 - etc

Worry less about the UK being a service economy

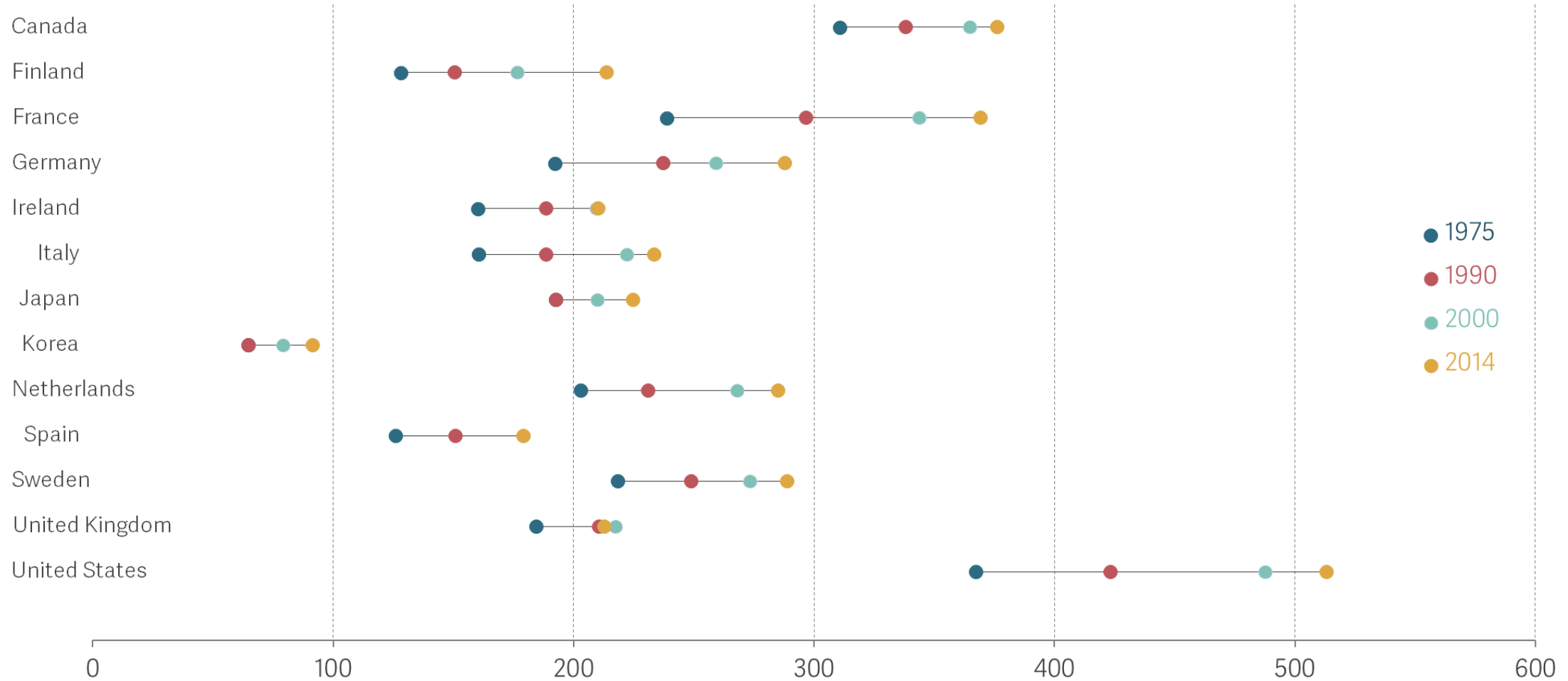
Index of global exports of goods, services, and services with UK RCA (2005 = 100)



Notes: Services with UK RCA includes the sectors where the UK has a revealed comparative advantage in 2019 which includes Government goods and services, Charges for the use of intellectual property, Personal, cultural, and recreational services, Other business services, Financial services, Insurance and pension services.
Source: Analysis of Harvard Growth Lab, Atlas of Economic Complexity (HS version) and OECD-WTO, Balanced Trade in Services.

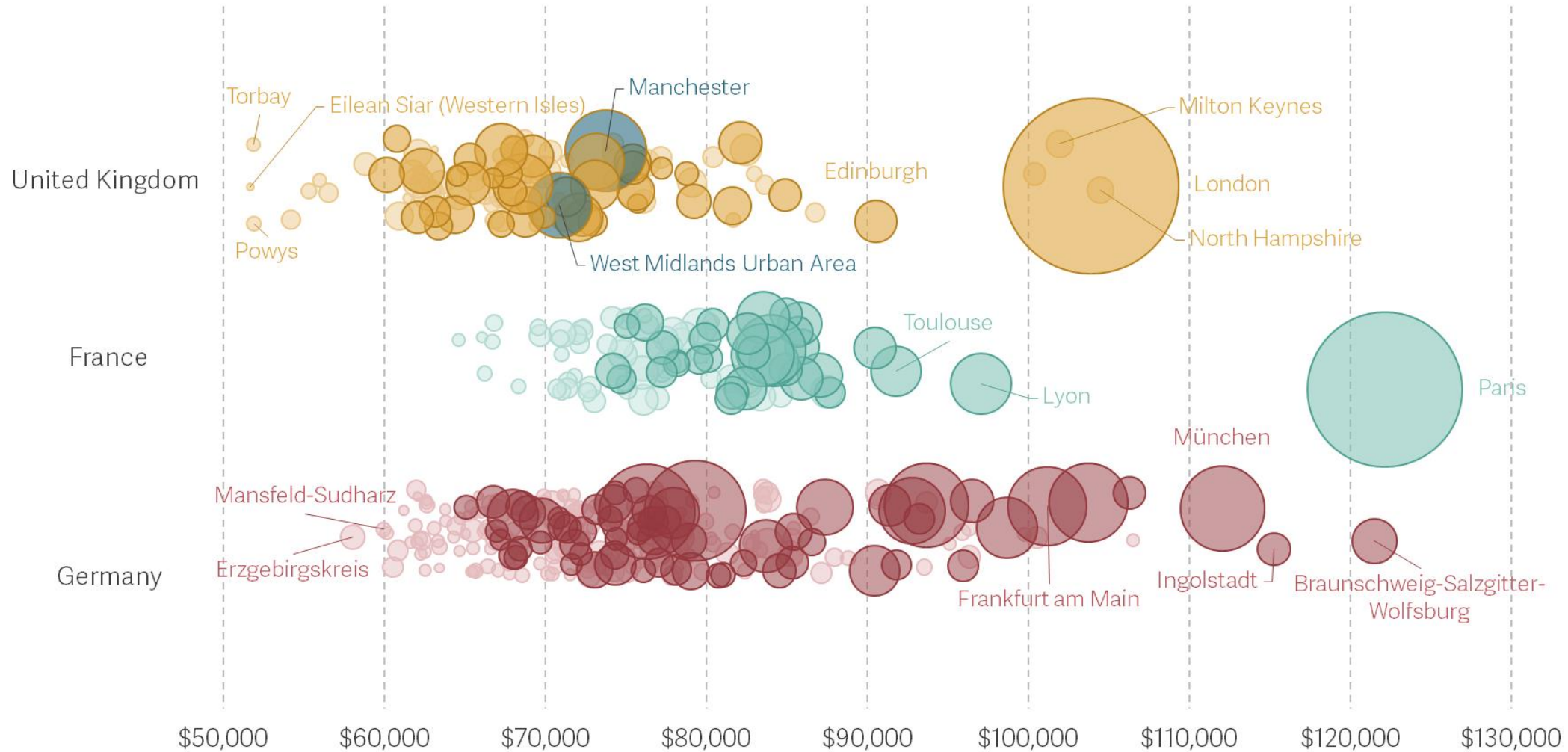
Worry more about the ability to build

Square meters of built up land per capita, by country: 1975-2014



Plausible levelling up = Birmingham + Manchester

Gross value added per filled job, by region: UK and France, 2018



Notes: GVA per job calculated as regional gross value added divided by regional employment by workplace. Spatial units are a combination of OECD metro areas and NUTS 3 for non-metro areas. Bubbles are proportional to number of jobs in each region. Metro areas are shown by darker bubbles. Source: Analysis of OECD, Regional Economic Database.