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Research Briefing

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Rising cost of living in the UK

Summary

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Contents

Summary

The cost of living has been increasing across the UK since early 2021. The annual rate of inflation was the highest it has been since 1982 in July 2022, 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 **10.14%** higher in July 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 increasing and petrol costs going up. From July 2021 to July 2022, domestic gas prices increased by 96% and domestic electricity prices by 54%. This was partly due to a return of global gas demand as pandemic restrictions were lifted and the lower than normal production of natural gas.

On 1 April 2022, the new price cap came into force. The regulator Ofgem announced the cap would increase from its current equivalent annual level of £1,277 per year to £1,971; a 54% increase. The latest Cornwall Insight forecast is that the energy price cap will increase by a further 65% to around **£3,245 in October 2022**.

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, while oil prices have remained high.

As a result, road fuel prices in the UK have increased and energy bills are expected to rise in the future (for businesses, as well as households).

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 July 2022, the Eurostat reported the UK's annual inflation rate of 10.1% was higher than in some comparable economies such as France (6.8%), Germany (8.5%) and the Eurozone average (8.6%).

Inflation forecasts raised after Russian invasion of Ukraine

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.

Forecasters have been increasing their expectations of consumer price inflation since Russia's invasion of Ukraine:

- In early February 2022, the Bank of England was forecasting the CPI inflation rate to peak at 7.25% in April 2022. The inflation rate had been expected to ease somewhat during 2022.
- In forecasts published on 23 March 2022, the Office for Budget Responsibility (OBR) forecast CPI inflation to peak at 8.7% in Q4 2022 and be above 7% in each quarter from Q2 2022 to Q1 2023.
- On 5 May, the Bank of England forecasted inflation to peak "at slightly over 10% in 2022 Q4, which would be the highest rate since 1982".

Consumer price inflation was 10.1% in July 2022, so its peak will almost certainly surpass the forecasts made in February-May.

Government policies

Measures to support households were announced by the then Chancellor in February, March and May 2022. The support, estimated at £37 billion, 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 toD
- a 5p cut to fuel duty
- an increase to the amount someone can earn before National Insurance Contributions (NICs) are charged

In April 2022, the Government also brought in tax rises, for both income tax and NICs. Once these changes are included, the net level of government support is worth around £14 billion in 2022/23.

Impact on households

According to the Office for National Statistics, 89% of adults in Great Britain reported an increase in their cost of living in July 2022.

Real household incomes are expected to fall in 2022. In August, the Bank of England expected post-tax household income to fall by 1.5% in 2022, then fall by 2.25% in 2023, before rising by 0.75% in 2024.

Low-income households spend a larger proportion than average on energy and food, so are affected by price increases.

The Resolution Foundation estimated that to afford the increase in energy bills in January-March 2023, the poorest fifth of households will have to cut back 24% of non-essential spending.

Overall, recent Government support for households benefits low-income households the most, but think tanks, charities and opposition parties are calling on the Government to provide more support for households this winter.

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.

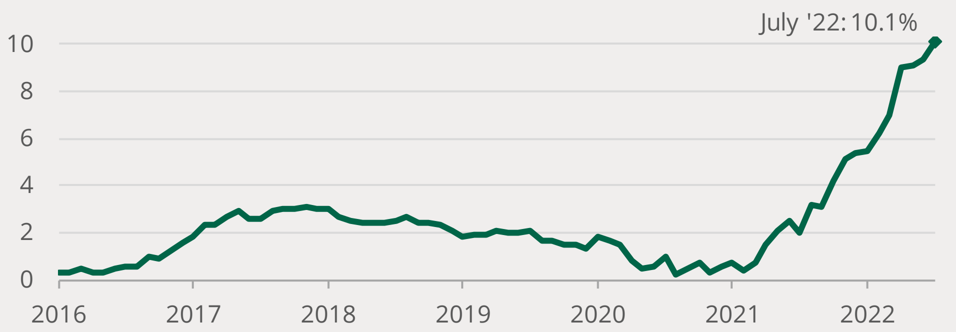
1.1 Inflation in 2021 and 2022

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 July 2022 than a year before. This is the highest recorded inflation rate since CPI records began in 1989, with the Office for National Statistics (ONS) estimating it is higher than at any time since 1982.[1] This compares to 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)



Sources: ONS, CPI annual inflation rate, series D7G7 [17 August 2022 update]

Goods prices were up by 13.5% in July 2022 compared to a year ago. Inflation in services is lower at 5.7% but has been rising in recent months. So-called "core inflation" which excludes the volatile energy and food components of

[1] ONS, Consumer price inflation, UK: May 2022, 22 June 2022; this is based on modelled data back to 1950 from the ONS as the CPI was only introduced in 1997

the CPI was 6.2% in July, up from, 5.8% in June.[2] Further detail on the factors driving up inflation, such as energy prices, are covered in section 2.

Figures for inflation in August 2022 are scheduled to be published by the Office for National Statistics (ONS) on 14 September.[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

Differences in the prices people face came to prominence in early 2022. Discussions focused on the varying availability of low-priced food ranges in supermarkets, how that would disproportionally affect low-income households, and limitations of official inflation measures in picking this up.[6]

The ONS periodically publishes data showing inflation rates divided into 10 groups ordered by household income.[7] 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).[8]

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.

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2 ONS, Consumer price inflation, UK: May 2022, 20 July 2022, table 28 of dataset
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 Jack Monroe (@BootstrapCook), Twitter thread, 19 January 2022, 12:30pm; summarised in Independent, Viral Twitter thread says inflation figures 'ignore the reality' of cost of living crisis, 21 January 2021; Also see NIESR blog post, Take it from an economist, Jack Monroe's argument is a fair one, 14 June 2022
7 ONS, CPI-consistent inflation rate estimates for UK household groups: 2005 to 2021, 28 January 2022
8 ONS blog post, Measuring the changing prices and costs faced by households, 26 January 2022

Section 4.3 of this briefing looks at the effect of rising prices on low-income households.

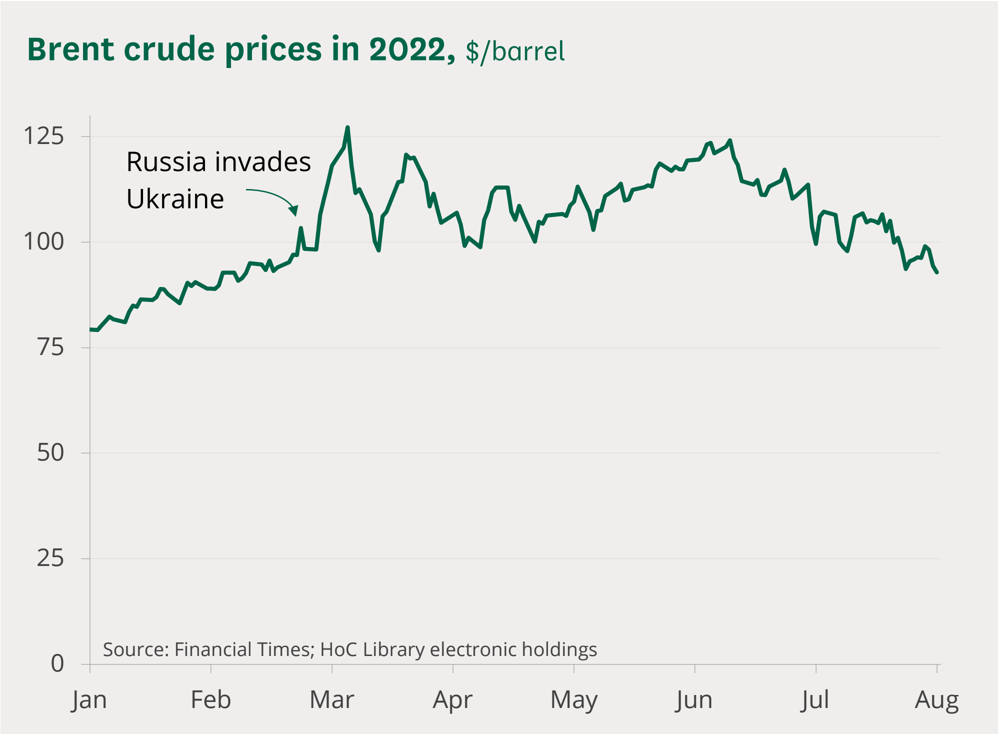
1.2 Impact of conflict in Ukraine

As well as the humanitarian, military and political impact of Russia's 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 two months to just below $100 a barrel. 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



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.[13] 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's uncertain how sustained these and any further energy price increases may be, but higher prices have already been seen in the UK (and elsewhere). Petrol prices have increased and energy bills are also likely to rise (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).[14]

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 See for example data from the UN's FAO, FAOSTAT Exports [accessed 3 March 2022]

began.[15] For example, Russia is a major producer of palladium which is used to make catalytic converters in car exhausts.[16]

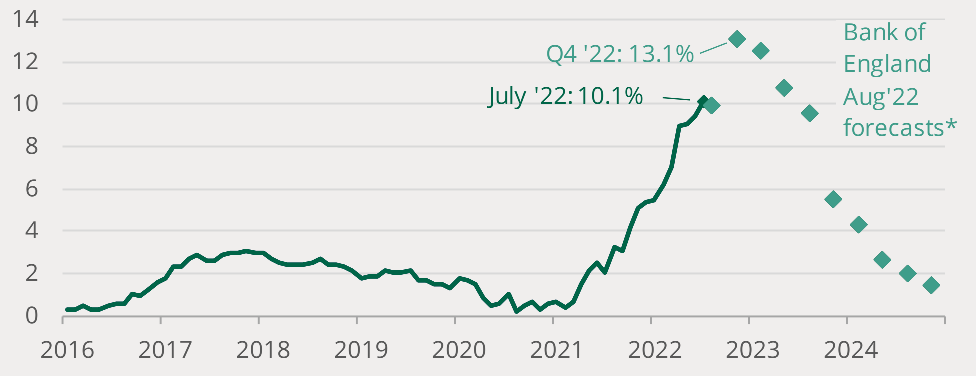
The Office for Budget Responsibility provided analysis of the potential impact on the UK economy in Box 2.2 of its Economic and fiscal outlook, March 2022 edition. For a more international scope, see What might be the macroeconomic cost of the war in Ukraine?, published 27 May 2022, on the Economics Observatory website.

1.3 Inflation 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.

Inflation forecast to peak at 13.1% in Q4 2022

%, annual change in consumer prices (CPI)



Notes: *Bank of England (BoE) quarterly forecasts made in August 2022, ONS monthly outturn data up to July 2022

Sources: ONS, CPI annual inflation rate, series D7G7 [17 August 2022 update]; BoE, Monetary Policy Report-August 20222 (quarterly forecasts)

The Bank of England also published monthly projections to the end of 2022: they predict inflation will be 9.9% in August, 10.0% in September, 13.3% in October, 13.1% in November and 12.9% in December.[17]

The EY ITEM Club (a UK economic forecasting group) published forecasts on 20 July and also expects inflation to peak at 11% in October and average 8.7%

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

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

17 Bank of England, Monetary Policy Report-August 2022, 4 August 2022, chart 2.16

over 2022 as a whole. [18] The National Institute for Economic and Social Research think tank forecasts inflation to peak close to 13% in January 2023.[19]

Previous forecasts

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.[20] The inflation rate had been expected to ease somewhat over the course of 2022. The Bank of England had forecast CPI inflation forecast to be 5.8% in Q4 2022.[21]

Since the Russian invasion of Ukraine, price rises in many commodity markets – such as food, energy and metals – have 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, the Bank of England forecasted inflation to peak "at slightly over 10% in 2022 Q4, which would be the highest rate since 1982".[22] The Bank forecast inflation to remain above 9% up to and including Q1 2023, before easing to 3.6% by the end of 2023 and then below its 2% target during 2024.[23] These forecasts are based on financial markets' expectations in April of interest rates rising to 2.5% by mid-2023.

In mid-June, the Bank of England's Monetary Policy Committee said it expected inflation to "rise to slightly above 11% in October".[24] Although the Bank didn't fully update its May set of forecasts, it noted that oil prices were one factor behind it lifting its October inflation expectations.

Office for Budget Responsibility (OBR) forecasts

In its latest forecasts, published 23 March 2022, the OBR noted most of the economic impact from the Ukraine conflict will be felt in the UK through energy prices.[25] These forecasts were made based on CPI data for January 2022, so predict a much lower peak to inflation and a faster recover than more recent forecasts.

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. Inflation

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18 EY ITEM Club, Summer Forecast, 20 July 2022

19 NIESR, No respite for UK consumers as UK inflation surges to 10.1 per cent, 3 August 2022

20 Bank of England, Bank Rate increased to 0.5% - February 2022, 3 February 2022

21 Bank of England, Quarterly CPI inflation projections based on market expectations of interest rates, Monetary Policy Report, 3 February 2022

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

23 Bank of England, Monetary Policy Report - May 2022, 5 May 2022, 'Current fan chart data'

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

25 OBR, Economic and fiscal outlook – March 2022, 23 March 2022

reached 9.1% in May 2022, which indicates that inflation for Q2 2022 will almost certainly surpass the OBR's forecast.

For the fiscal year 2022/23, the OBR forecast CPI inflation to average 8.0%, more than double its previous forecast of 3.7%. Using market expectations of wholesale gas prices, the OBR then expected a large fall in utility bills in 2023, resulting in inflation easing below the Bank of England's 2% target by late 2023 and into 2024.

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.[26]

1.4 International comparisons

Consumer price inflation has been rising in many countries since 2021. Pandemic-related supply shortages are a main factor.[27] As the global economy recovers from its recession, there has been increased demand for products – especially consumer goods – and materials.[28]

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.[29] 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.[30] They warn that higher food prices caused by the invasion of Ukraine could lead to millions more people around the world being in poverty.[31]

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

27 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.

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

29 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

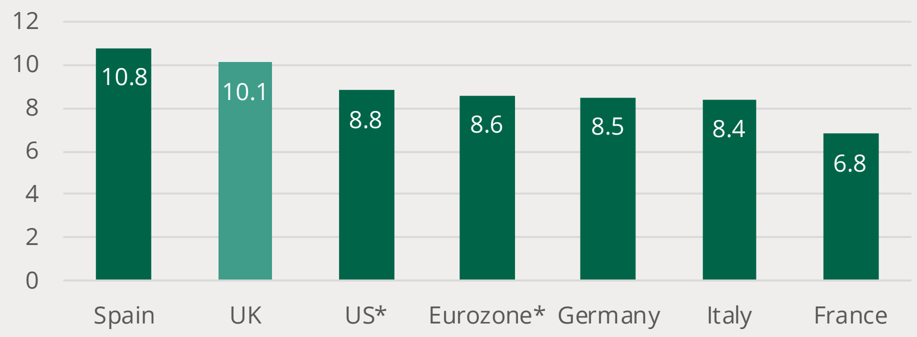
30 IMF press release, Joint Statement: The Heads of the World Bank Group, IMF, WFP and WTO Call for Urgent Coordinated Action on Food Security, 13 April 2022

31 The World Bank provides an overview of global poverty on its Understanding poverty webpage [accessed 17 August 2022]

In July 2022, the UK's annual inflation rate of 10.1% was higher than in some comparable economies such as France (6.8%), Germany (8.5%) and June's Eurozone average (8.6%).[32]

Consumer price inflation, selected economies

% annual change in consumer prices, July 2022



Note: * US data for April; Eurozone data is for June
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 17 August 2022]

32 ONS, series D7G7 & Eurostat, HICP – all items, % change on year ago [retrieved 17 August 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.[33]

Rising **consumer goods prices** have also contributed to rising inflation.[34] 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.[35]

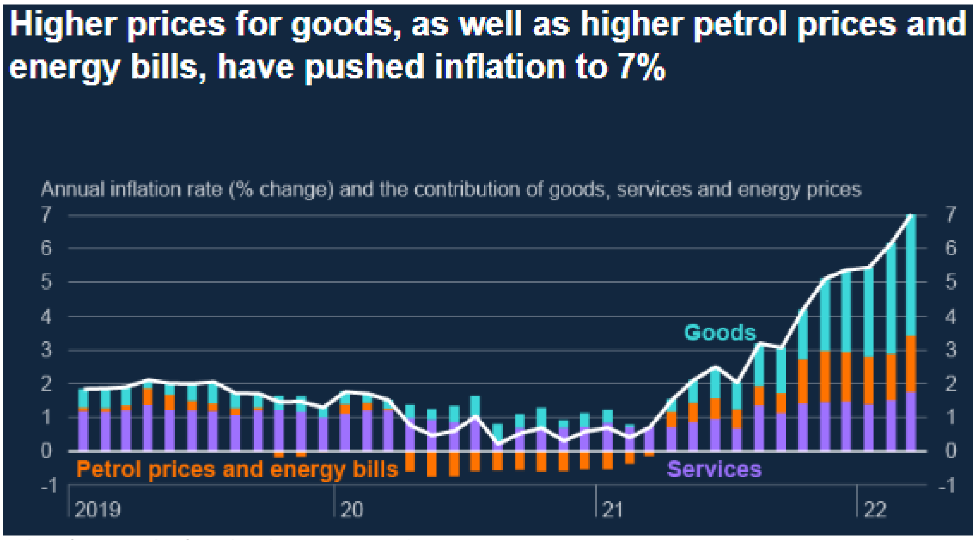
In May 2022, Governor of the Bank of England Andrew Bailey said 80% of the overshoot in inflation over the 2% target was due to energy and traded goods, adding this was largely outside the control of the Bank and its monetary policy.[36] The chart below is taken from the Bank of England Monetary Policy 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.

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

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

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

36 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.[37] 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).[38]

2.2 Energy prices

In the year to July 2022, domestic gas prices increased by **96%** and domestic electricity prices by **54%**.[39]

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

On 1 April 2022, the new price cap came into force. 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.

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. This is the default cap level for those with 'typical' levels of consumption on dual fuel tariffs paying by direct debit. The caps for other payment methods are

37 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

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

39 ONS series D7DU and D7DT

somewhat higher. Ofgem has said the price cap increase will affect around 22 million customers who are on variable tariffs covered by the different caps.[40]

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 more than doubled from £528 in the winter 2021/22 cap to £1,077 from April 2022.

The other main cost element of the cap to increase is network costs. These increased by almost 40% from £268 to £371 in April. Much of this increase is to cover 'Supplier of Last Resort' costs. These are costs faced by suppliers who have taken on customers from the many smaller suppliers that have gone out of business in recent months. The costs associated with government policy, which support renewable and low carbon power, energy efficiency and fund the Warm Homes Discount, fell from £159 to £153 October 2021 to March 2022 and April 2022.[41]

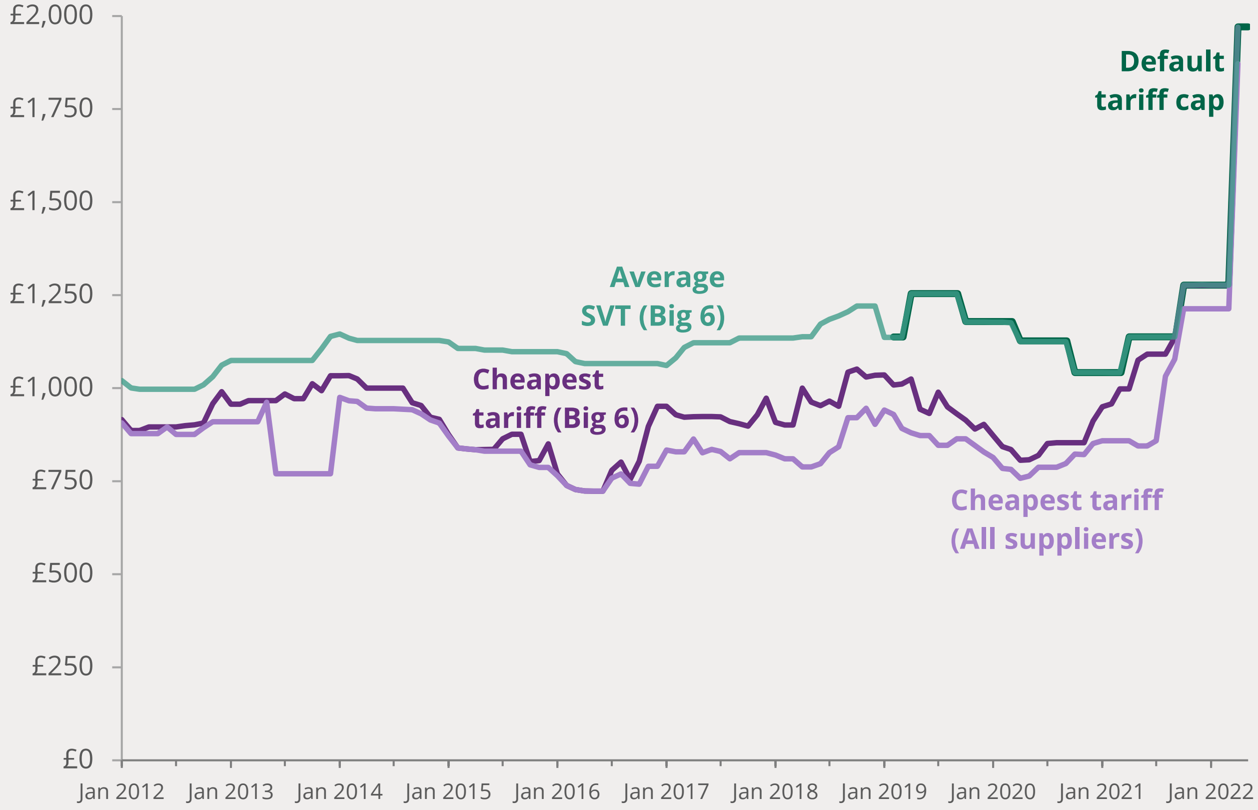
The Library briefings Domestic energy prices and The energy price crunch, provide more detail.

Trends in the level of the price cap, the Standard Variable Tariff (SVT) of the largest suppliers and the cheapest available tariff are shown in the chart below.

40 Price cap to increase by £693 from April, Ofgem, 3 February 2022
41 Price cap to increase by £693 from April, Ofgem, 3 February 2022

The gap between the price cap and the cheapest tariffs narrrowed rapidly in 2021, price cap increased by 54% in April 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

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.

On 16 May 2022, Ofgem published a consultation on the price cap methodology which included a proposal to change the price cap quarterly rather than every sixth months. On 4 August 2022 they published their decision to go ahead with three-month caps from October 2022 and other changes to the price cap methodology.[42]

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.

[42] Ofgem, Price cap - Decision on changes to the wholesale methodology (4 August 2022)

Heating oil prices

In mid-May 2020, UK heating oil cost just over 20 pence.[43] In mid-July 2022, it was around 98 pence per litre.[44]

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 extremely large price rise.

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.[45]

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 85 pence per litre in July.[46]

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 have generally been in the 95-105 pence per litre range from late March to mid-July before falling to around 88 pence per litre in mid-August.[47]

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.[48]

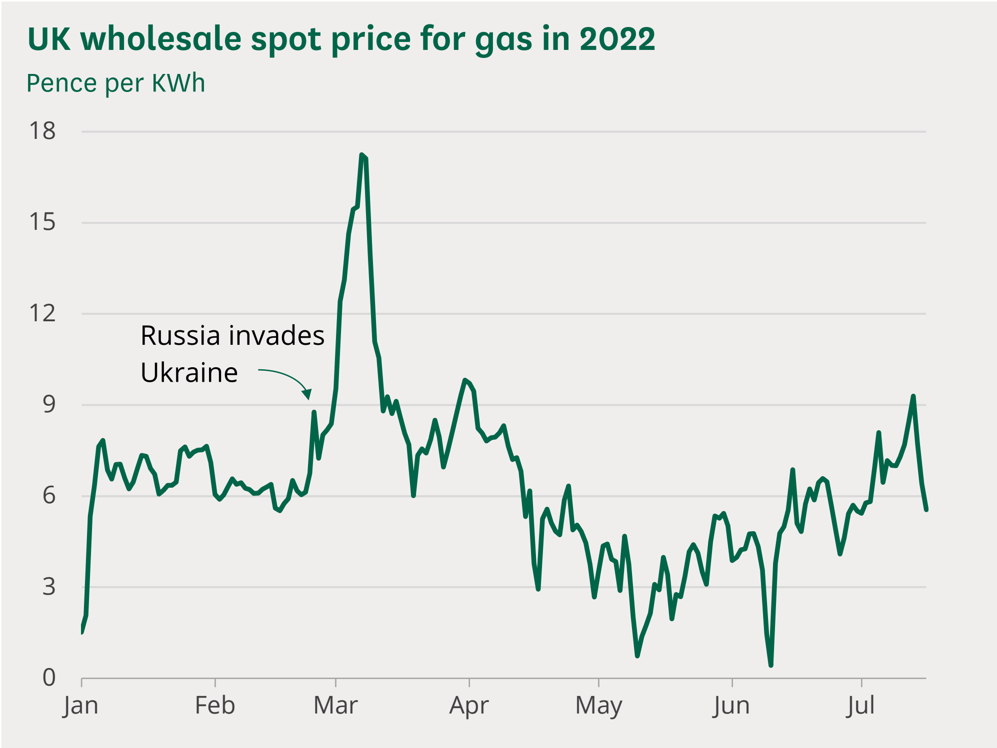
The following chart shows recent data on UK spot prices, which reflect prices on the wider European market.

The daily price 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

43 BEIS, Monthly and annual prices of road fuels and petroleum products (Table 4.1.1)
44 www.boilerjuice.com/heating-oil-prices/ (accessed 16 May 2022)
45 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)
46 BEIS, Monthly and annual prices of road fuels and petroleum products (Table 4.1.1)
47 www.boilerjuice.com/heating-oil-prices/ (accessed 17 August 2022)
48 IEA, Gas Market and Russian Supply (accessed 4 March 2022)

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.[49] The spot price has increased since March and is now back to around the level it was immediately before Russia invaded Ukraine.



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

Further price increases from October 2022

Energy prices have continued to rise since the decision to raise the cap was made, particularly after Russia invaded Ukraine. This has led to speculation the price cap will increase in October 2022. Ofgem is currently expected to announce the level of the new cap on 26 August 2022.

On 24 May, Jonathan Brearley, Ofgem's Chief Executive, said he expected the price cap to increase to around **£2,800** in October 2022, an increase of around 40%. Since then, each new set of forecasts for October have been higher still, reflecting the higher wholesale prices in June and July and changes to Ofgem's price cap methodology.

Cornwall Insight's latest forecasts, published on 7 August were their highest yet at £3,582 from October 2022 increasing to £4,266 in January 2023 and

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

£4,427 in April 2023. Their forecasts for October are more certain as Ofgem is expected to announce the new cap on 26 August.[50]

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 invaded Ukraine on 24 February.

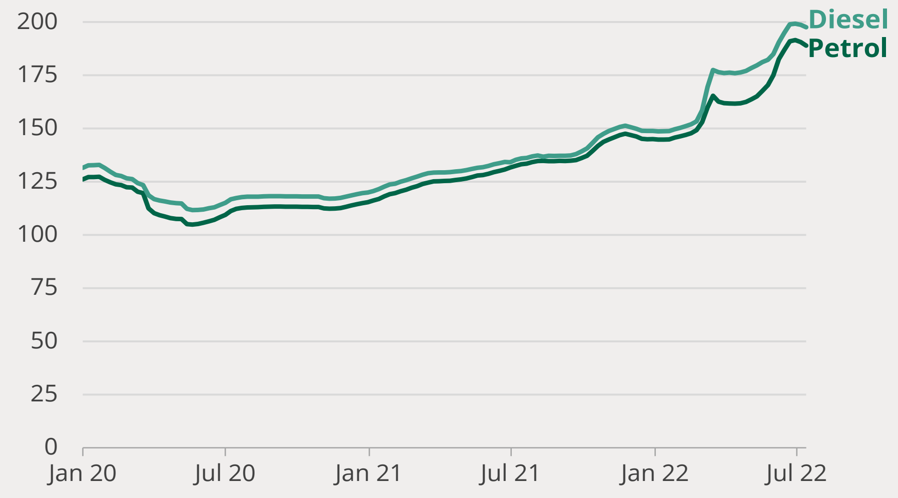
Petrol reached another weekly record price of 165.4 pence per litre on 21 March 2022. Diesel reached a weekly record price of 177.5 pence per litre on the same day. The 5 pence cut in duty announced in the Spring Statement came into force at 6pm on 23 March. Pump prices fell back slightly after the duty 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 slightly since then.[51]

[50] Cornwall Insight, Price cap forecasts for January rise to over £4,200 as wholesale prices surge again and Ofgem revises cap methodology (9 August 2022)

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

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

2.4 Food prices

Food and non-alcoholic drink prices were 12.6% higher in the year to July 2022 based on the official CPI measure of inflation. This is up from 9.8% in June 2022 and the highest rate of increase since August 2008.[52]

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 [27 August 2022 update]

52 ONS, Food and non-alcoholic drink component of CPI, annual rate of change, series D7G8

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.[53]

In a mid-June report, the Institute of Grocery Distribution, a trade body, anticipated annual food price inflation to be around 11% in 2022, peaking at 15% the summer.[54] Also in mid-June, Kantar, a research firm, forecast that the average annual grocery bill will rise by £380.[55]

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.[56] An index of world food prices compiled by the UN Food and Agriculture Organization hit a record high in March.[57] Since then it has been declining each month, and July saw the steepest monthly fall in the index since October 2008. Nevertheless, it remains 13.1% higher than July 2021.[58]

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.[59] In addition, Ukraine's Black Sea ports are transportation hubs for exporting certain commodities, including grains. They have mostly been shut since the invasion.[60] 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.[61]

In March, the UK National Farmers' Union warned that the disruption to food output caused by the conflict may last for years.[62]

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

53 ONS, Recent challenges faced by food and drink businesses and their impact on prices, 4 April 2022

54 IGD, Economics bulletin 17 June, 16 June 2022; BBC News, Warning food prices to rise quickly over summer, 16 June 2022; The Times, UK food prices may rise 15 per cent this summer, 16 June 2022

55 BBC News, Food bills are set to soar by £380 this year, 21 June 2022

56 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]

57 UN FAO, FAO Food Price Index posts significant leap in March, 8 April 2022

58 UN FAO, FAO Food Price Index, 5 August May 2022

59 Guardian, Global food price fears as Ukraine farmers forced to reduce crop planting, 2 April 2022 and Financial Times, Food crisis looms as Ukrainian wheat shipments grind to halt, 6 March 2022

60 BBC News, How can Ukraine export its harvest to the world?, 26 May 2022; BBC News, Ukraine war 'catastrophic for global food', 7 March 2022; Financial Times, Russia's invasion to have 'enormous impact' on world food supplies, 13 March 2022, Reuters, Ship carrying first Ukraine grain cargo nears Syria, 14 August 2022

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

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

saying he might sound “rather apocalyptic”.[63] 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.

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

3 New policies affecting household budgets

As well as likely higher inflation, household budgets may be squeezed by increases to income tax and National Insurance Contributions (NICs), higher interest rates, and changes to Universal Credit.

The Government is providing support for households, including £650 payments to those on means-tested benefits and a £400 energy grant for all households.

The Institute for Fiscal Studies (IFS) says the net level of government support is worth around £14 billion in 2022/23. Total support of £37 billion is offset by tax rises, including to income tax and NICs.[64]

3.1 Government support announced during 2022

May 2022 cost of living package

In May, the then Chancellor announced around £15 billion of support for households. He also announced an Energy Profits Levy on the profits of the oil and gas sector, which is estimated to raise £5 billion in its first 12 months.[65] This built upon previously announced support in February 2022, discussed below.

The support includes:

- a £400 grant for all households which will be taken off their energy bills in autumn 2022, called the Energy Bills Support Scheme (EBSS). Unlike the £200 'rebate' announced in February that this scheme replaces, households will not have to make repayments. The scheme is Great Britain wide – Northern Ireland will receive funding through the Barnett formula.

[64] IFS. IFS response to government cost of living support package, 26 May 2022

[65] HM Treasury. Cost of Living Support, 26 May 2022

- a £650 payment n 2022 – paid in two instalments – for over 8 million households on means tested benefits.[66] For most, the first payment will have been made in July, the second in autumn.[67]
- an additional £300 payment to over 8 million pensioners who receive the Winter Fuel Payment.
- an additional £150 payment to around 6 million people receiving disability benefits.[68]
- £500 million more for the Household Support Fund. The Fund will also be extended from October to March 2023. The fund helps vulnerable households meet daily needs such as food, clothing and utilities. It is distributed by councils in England. This is in addition to the funding provided for the Fund at Spring Statement 2022. The devolved administrations in Scotland, Wales and Northern Ireland will receive funding through the Barnett formula.[69]

The UK Government is exploring how to ensure the people of Northern Ireland receive support equivalent to the EBSS. Energy is devolved in Northern Ireland, so the collapse of power sharing in the Northern Ireland executive is a problem.[70]

The Library briefing The Social Security (Additional Payments) Bill 2022-23 focuses on payments made to those on means tested benefits and non-means-tested disability benefits. But it also looks more broadly at the impact of the May 2022 support on households across the income spectrum.

A windfall tax

The profits of UK oil and gas producers have risen significantly recently, due to substantial increases in oil and gas prices. This has led to calls for a windfall tax to be levied on these profits. [71] In May, the then Chancellor announced the Energy Profits Levy which "will raise around £5 billion over the next year to help with cost of living".[72]

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

66 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

67 Payments for those on tax credits only will follow shortly afterwards.

68 Including people receiving: Disability Living Allowance; Personal Independence Payment; Attendance Allowance; Scottish Disability Benefits; Armed Forces Independence Payment; Constant Attendance Allowance; War Pension Mobility Supplement

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

70 PQ 36910 [on Cost of Living Payments: Northern Ireland], 14 July 2022

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

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

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.

Government support announced in the March 2022 Spring Statement

The Spring Statement on 23 March 2022 included policies to support household budgets

National Insurance Contributions

There were several announcements about National Insurance. The most significant of these increased the point at which people start to pay the main rate of National Insurance contributions (NICs) on their earnings, or their profits.

The announcement means the annual NICs thresholds rose from £9,880 to £12,570 in July 2022. The rise aligns the NICs thresholds (the primary threshold for employees and lower profits limit for the self-employed) with the point at which people begin paying income tax on their income (the income tax personal allowance). The policy costs the Treasury around £6.3 billion in 2022/23.[73]

Fuel and energy saving materials

Fuel duty will temporarily be reduced by 5p per litre 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. [74]

The VAT on energy saving materials (such as solar panels) has been reduced from 5% to 0% until March 2027. Wind turbines and water turbines will be added to the list of energy savings materials.

Household Support Fund

£500 million is being made available through the Household Support Fund during April to September 2022. The fund helps vulnerable households meet daily needs such as food, clothing and utilities. It is distributed by councils in England. Subsequently, in May 2022, the Chancellor gave the Household Support Fund more funding, and extended it to March 2023. The devolved administrations in Scotland, Wales and Northern Ireland are receiving funding through the Barnett formula.[75]

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73 HM Treasury. Spring Statement 2022, Table 3.1

74 HM Treasury. Spring Statement 2022, Table 3.1

75 DWP Press Release, Government launches £500m support for vulnerable households over winter, 30 September 2021

The Library briefing Spring Statement 2022: A summary provides more detail.

Government support for energy bills announced in February 2022

On 3 February 2022, the then Chancellor announced Government support in the context of rising energy costs, including:

- A £150 non-repayable Council Tax rebate in April for households in Bands A to D in England, which covers 80% of homes in England. There is 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.[76]

- The Warm Homes Discount (for vulnerable households) is being increased from £140 to £150 and eligibility 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.

A £200 energy 'rebate' was also announced for all customers. It was to be taken off household bills in autumn 2022 and paid back by over the following five years. This rebate will no longer happen. In May 2022 it was replaced with a £400 non-repayable grant for households, as discussed above.

The Library briefing Help with energy efficiency, heating and renewable energy in homes provides more detail.

Analysis of how the support will be distributed

The support announced during 2022 is broadly progressive, but households across the income distribution will benefit.

A substantial amount of the May 2022 cost of living support is going to recipients of means tested benefits, who are generally on low incomes. This spending, therefore, benefits lower income households more than higher income groups.

Previous cost of living support announced in February 2022 and the 2022 Spring Statement had not been so progressive. February's package

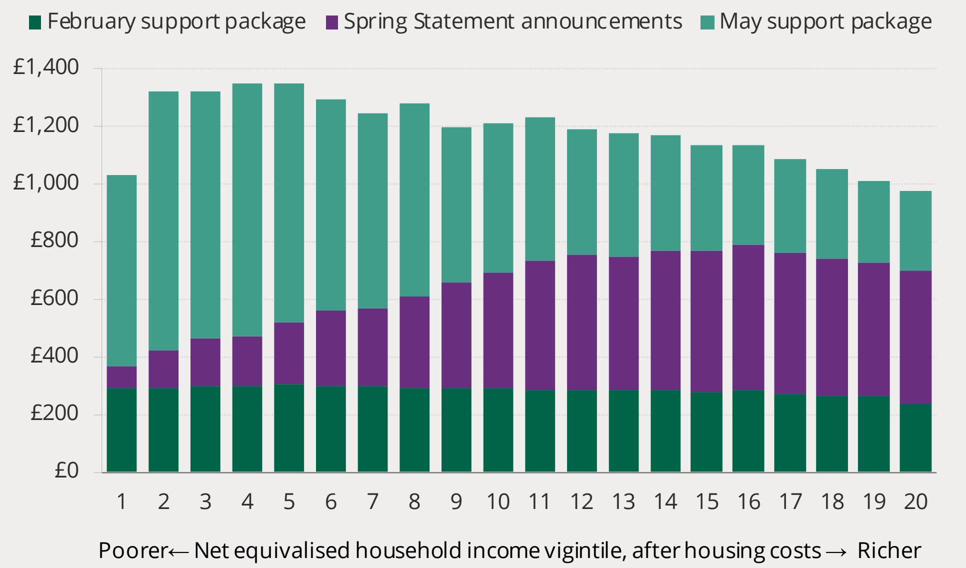
76 Scottish Government. Local government finance circular 2/2022 – Cost Of Living Award April 2022: guidance to local authorities, 22 April 2022. Welsh Government Press Release. £150 cost of living payments arrive with more than 330,000 households, 12 May 2022

comprised support for energy bills paid at the same level to all households and Council Tax rebates for around 80% of households.[77]

The Spring Statement included policies such as the fuel duty cut and increasing the National Insurance Contribution threshold, that were more beneficial to middle and high earning households. With this context, the Resolution Foundation described the May package as offsetting "the poor targeting of previous announcements."

The progressive nature of recent measures helps target support towards poorer households

Annual gains from all measures announced in 2022 by equivalised after housing cost household income vigintile: 2022-23



Notes: Includes May 2022 cost of living support package, 5p Fuel Duty cut, higher National Insurance thresholds, £150 Council Tax rebate and £200 through Energy Bills Support Scheme. One vigintile = 5% of households.
Source: Figure 2 from Resolution Foundation Back on Target, 27 May 2022. Adapted to HC Library style with kind permission of authors.

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

2. How much will the support for the rising cost of living cost the Government?

According to the Treasury, its May 2022 package was **worth £15.3 billion in 2022/23.** The Treasury says this takes the total value of Government support for the cost of living to over **£37 billion.**[78]

The gross cost of the latest support package is £21.3 billion as it converts £6.0 billion of earlier support from a loan to a grant. This extra spending will be partly supported by a new windfall tax the 'Energy Profits Levy' which the Government expects to raise £5 billion in its first year.

3.2 Calls for more Government support for low-income households

As outlined in section 3.1, recent Government policy changes benefit low-income households the most. The IFS says if everything had played out as was expected in May, real incomes of low-income households would have been broadly maintained by Government support.[79]

However, further increases in prices, particularly energy prices, will put further pressure on household budgets, especially for low-income households.[80]

Think tanks and charities are calling for more support for low-income households this winter.

The IFS estimated that to cover three quarters of the increase in energy costs for households (the £24 billion May 2022 package was expected to cover three quarters of the increase in energy costs, before prices rose more rapidly than expected), the Government would need to add another £12 billion.[81]

In August 2022, Citizens Advice called on the Government to increase benefits to "keep pace with the cost of living". Charities including the Joseph Rowntree Foundation, Save the Children and the Trussell Trust wrote to both candidates in the Conservative leadership election, Liz Truss and Rishi Sunak, to say the

78 HM Treasury, Government support for the cost of living: factsheet (23 March 2022); HM Treasury, Autumn Budget and Spending Review 2021 (Table 3.1)
79 IFS, The long squeeze: rising inflation and the current government support package, 15 August 2022
80 Resolution Foundation, In the dread of winter, Prospects for inflation in the coming months ahead of the Bank of England's Monetary Policy Report, 3 August 2022
81 IFS, The long squeeze: rising inflation and the current government support package, 15 August 2022

Government should at least double its support for low-income households, what they describe as a "national emergency".[82]

The Labour Party said they would spend £29bn on a) a freeze in energy bills for all domestic energy customers, b) support for customers not protected by the price cap and c) a reduction of the price cap for prepayment energy meters . The prepayment cap is currently around 2% higher.[83]

Martin Lewis, founder of the Money Saving Expert website, has asked both candidates in the Conservative leadership election to set out detailed plans for helping with rising energy bills. [84]

3 Previous calls for Government cost of living support for low-income households

Before the May 2022 support package was announced, campaign groups, think tanks and opposition parties called for more support for low-income households.

After the Government's February support package, The Resolution Foundation estimated that while support would stop 1 million families experiencing fuel stress, it would still double.[1]

In March, the IFS described the measures announced in the Spring Statement as progressive, but "not enough to protect poorer households from a significant hit to their living standards".[1] The Resolution Foundation said only a third of the measures went to those with lower incomes (the bottom half of income distribution).[1]

Poverty charities campaigned for benefits to be uprated in line with the latest inflation rates. In March, the Joseph Rowntree Foundation estimated that families in poverty will be £446 per year worse off in 2022/23 than they would have been if benefits had been uprated in line with the latest inflation levels.[1]

Prior to the then Chancellor's May 2022 statement, The Resolution Foundation projected relative poverty to rise to the highest levels since the 1990s, with a third of children in relative poverty by 2026/27.[1]

82 Citizens Advice press release, Latest price cap forecasts prove there is "no time to waste" on further support for struggling families, say Citizens Advice, 9 August 2022, Joseph Rowntree Foundation press release, Rising energy prices a "national emergency" and more support needed to tackle gravest issue UK faces, say charities, 14 August 2022

83 Labour Party press release, Keir Starmer sets out Labour's plan to address the Tory cost of living crisis, 14 August 2022, Guardian, Labour pledges to scrap 'outrageous' premium for energy prepayment meters, 12 August 2022

84 BBC News, Martin Lewis: Rishi Sunak and Liz Truss must set out energy bill plans, 10 August 2022

The Labour Party called for a windfall tax on oil and gas producers to fund support for household energy bills.[1] The Government announced the Energy Profits Levy in May.[1]

The SNP and Liberal Democrats also called on the Government to make policy changes to support households.[1,1]

3.3 Other tax changes which affect household incomes

In April 2022, NICs increased by 1.25 percentage points and income tax thresholds were frozen. Taken together, the policies announced during 2021 are set to increase government revenues by around £20 billion in 2022/23.[85]

National Insurance Contributions increase

NICs for employees, employers and the self-employed rose by 1.25 percentage points in April 2022. This temporary increase will be replaced by the 1.25% Health and Social Care Levy from April 2023, which will also be paid by those in employment over state pension age. Pensioners are not liable to pay NICs on any earnings they receive from employment. The income raised from the levy will fund increases to health and social care.

The change is forecast to increase Government revenues by around £17 billion a year.[86] The Library briefing Health and Social Care Levy Bill 2021-22 provides more detail.

As discussed in section 3.1, the point at which individuals start to pay the main rate of National Insurance Contributions on their earnings, or their profits, increased in July 2022. Raising the thresholds is forecast to cost Government revenues around £6 billion in 2022/23. The Library briefing National Insurance Contributions (Increase of Thresholds) Bill 2021-22 has more detail and links to further information.

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.

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

86 This estimate includes an adjustment for the NICs thresholds rising to £12,570 from July 2022. Source: OBR. Economic and fiscal outlook – March 2022, 23 March 2022, Table A.5

Inflation has been higher than it was forecast to be when the policy was first announced, in March 2021.[87] 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.[88] These estimates do not include the pre-announced reduction in the basic rate of income tax from 20% to 19% in April 2024. The rate cut will cost the Treasury around £6 billion in 2025/26.[89]

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.

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.[90]

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.[91] 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.[92]

Who will pay more tax on their earnings in 2022/23?

The Institute for Fiscal Studies (IFS) estimates those earning between around £10,000 and £25,000 will pay less tax on their earnings due to the three main changes being made to personal taxes in 2022/23. Those earnings more than £25,000 will pay more tax in 2022/23, compared with a world in which the

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87 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.

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

89 OBR, Economic and fiscal outlook – March 2022, 23 March 2022, Table A.55

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

91 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.

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

personal tax changes weren't happening.[93] The changes include the 1.25%-point increases in NICs rates, freezing the income tax thresholds and, from July, increasing the NICs threshold.

The Government says that, because of the NICs threshold rising, "from July, around 70% of NICs payers will pay less NICs" even after accounting for the 1.25%-point increase in NICs rates.[94] Across 2022/23, those earning more than around £31,400 will pay more NICs following the increase in NICs rates and the threshold. Those earning less than £31,400 will pay less NICs.

3.4 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 the Office for Budget Responsibility (OBR) forecast for 2022/23 (8.0%) so recipients will see a real-terms fall in their income.[95]

Think thanks, 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 (this was confirmed in May 2022), which is projected to be high. As inflation is projected to be lower in April 2023, this means a real increase in the value of benefits.[96] This still means a prolonged period where benefits income fails to keep up with the rising cost of essentials.[97]

3.5 Other changes in benefits

Removal of £20 per week Universal Credit uplift

The £20 a week Universal Credit increase (called the uplift), announced in March 2020 to "strengthen the safety net" during the pandemic, was withdrawn on 5 October 2021.[98] This meant a fall in income of £20 per week for

93 Institute for Fiscal Studies, Spring Statement 2022, 24 March 2022. If the NI threshold had fallen in April, this cut-off point would have been £32,000 not £25,000

94 HMRC. National Insurance: Increase to Primary Threshold and the Lower Profits Limit and reduction in Class 2 liability of those earning between the Small Profits Threshold and Lower Profits Limit, 23 March 2022

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

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

97 Resolution Foundation, Living Standards Outlook 2022, 8 March 2022

98 HM Treasury press release, The Chancellor Rishi Sunak provides an updated statement on coronavirus, 20 March 2020

over 4 million families. [99] A Library debate pack on Universal Credit and Working Tax Credits provides more information about the withdrawal.

Universal Credit taper

The reduction in the taper rate from 63% to 55%, and increase in the work allowance by £500 a year offsets the removal of the £20 a week uplift for low-income working households. The Resolution Foundation found that the combination of this and the reversal of the £20 per week uplift will mean 73% of families receiving Universal Credit in 2022/23 will be worse off, with 27% better off.[100]

The Library Insight Reducing the Universal Credit taper rate and the effect on incomes explains the taper rate and how this affects household incomes.

3.6 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 affected 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.[101] 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.[102]

99 Of the 4.98 million households on UC in May 2021, 4.25 million (85%) received a payment in that month, and 0.73 million (15%) did not. All those who received a payment benefited from the £20 uplift to the UC standard allowance. (DWP, Stat-Xplore Households on Universal Credit dataset)

100 Resolution Foundation, Taper cut, Analysis of the Autumn Budget changes to Universal Credit, 6 November 2021

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

102 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.

3.7 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%.[103]

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%.[104] 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.[105]

3.8 Interest rates

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

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 all the subsequent four meetings. This took the main interest rate to 1.25% on 16 June. On 4 August, the Bank raised the rate by a further 0.50 percentage points to 1.75% - the highest it's been since early 2009 (in the wake of the global financial crisis).[106] The chart below tracks the change in the UK's interest rate from 2006, showing an increase since the start of 2022.

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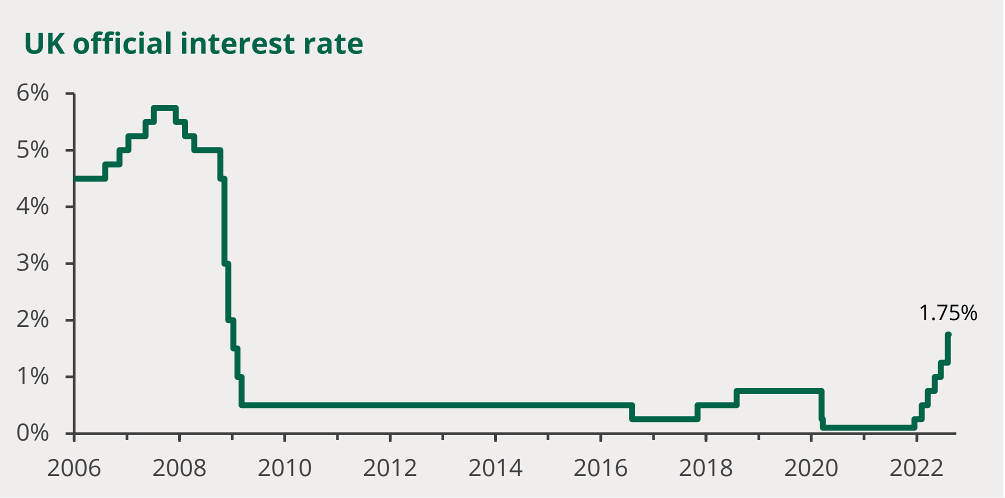
[103] ONS, CPI annual inflation rate, series D7G7. Annual inflation to Q1 2022, the mid=point of the academic year.

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

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

[106] 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



Source: Bank of England

The MPC has raised rates to lower the risk that inflation remains persistently above its 2% target.[107] 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.

At the time of writing, markets are expecting interest rates to rise to around 3% by Q2 2023.[108] However, the Bank of England (and others) expect higher inflation to slow consumer spending and, in turn, weaken economic growth over the rest of 2022 and enter recession from Q4 2022.[109] Slower or negative growth may reduce inflationary pressures. Higher interest rates may also contribute to lower economic activity, worsening any downturn.

The Bank's Governor, Andrew Bailey, said in May the Monetary Policy Committee must "navigate a narrow path" between higher inflation on the one hand and weaker demand from squeezed incomes on the other.[110]

The Library briefing Interest rates and monetary policy provides up-to-date information on changes to monetary policy. The results of the MPC's next scheduled policy meeting will be announced on 15 September.

The impact of rising interest rates on households is discussed further in section 4.4.

107 See for example, Daily Telegraph, Traders brace for interest rates to hit 2pc as UK economy outstrips France and Germany, 11 February 2022
108 Bank of England, Monetary Policy Report - August 2022, 4 August 2022, p7
109 Bank of England, Monetary Policy Report - August 2022, 4 August 2022, p7
110 Bank of England Monetary Policy Report press conference, Andrew Bailey opening remarks, 5 May 2022

4 Impact on households

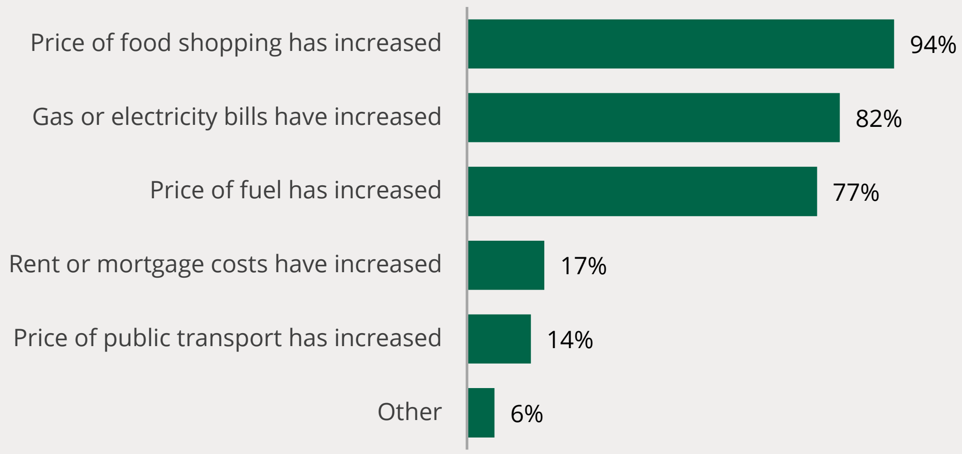
4.1 UK adults are seeing their cost of living rise

89% of adults in Great Britain reported an increase in their cost of living in July 2022.[111]

Of those who reported an increase in the cost of living in this period, 94% said which was because of an increased price of food shopping, while 82% cited an increase in gas and energy.

Reasons for increased cost of living

Among UK adults who reported an increase in their cost of living, 20-31 July 2022



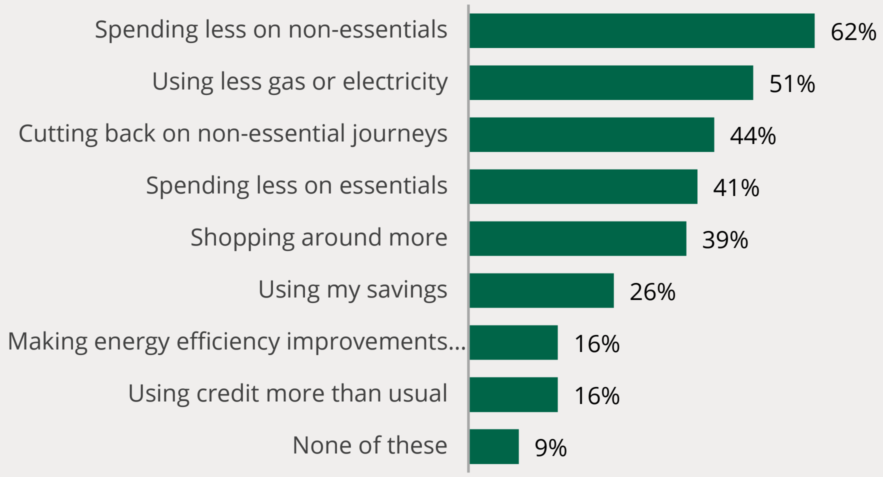
Source: ONS, Public opinions and social trends, Great Britain: household finances, 5 August 2022

62% of those who reported a rise in the cost of living between 20 and 31 July 2022 say they are spending less on non-essentials as a result, while 51% report using less energy at home, and 44% report cutting back on non-essential journeys in their vehicle.

[111] 20-31 July 2022, compared to the previous month; ONS, Public opinions and social trends, Great Britain: household finances, 5 August 2022

Actions taken because of increased cost of living

Among UK adults who reported an increase in their cost of living, 20-31 July 2022



Source: ONS, Public opinions and social trends, Great Britain: household finances, 5 August 2022

From 30 March to19 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.[112]

4.2 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, despite the support announced by the Chancellor during 2022 and low unemployment.

The Treasury surveys economic forecasters, and forecasts published by them after May 2022 estimate a fall in disposable income adjusted for inflation of between 1.3% and 3.7% in 2022.[113]

In August, the Bank of England expected post-tax household income to fall by 1.5% in 2022 then fall by 2.25% in 2023 and rise by 0.75% in 2024.[114] This

112 ONS, Impact of increased cost of living on adults across Great Britain, 5 August 2022

113 HM Treasury, Forecasts for the UK economy: a comparison of independent forecasts, July 2022 Table 3

114 Bank of England, Monetary Policy Report - August 2022, 4 August 2022, p 17

means a fall of 3.7% over the course of 2022-23, the largest fall since records began in 1963. The Resolution Foundation calculated that this means a £2,000 fall in average income for households in 2022 and 2023.[115]

4.3 Low-income households are particularly affected by rising prices

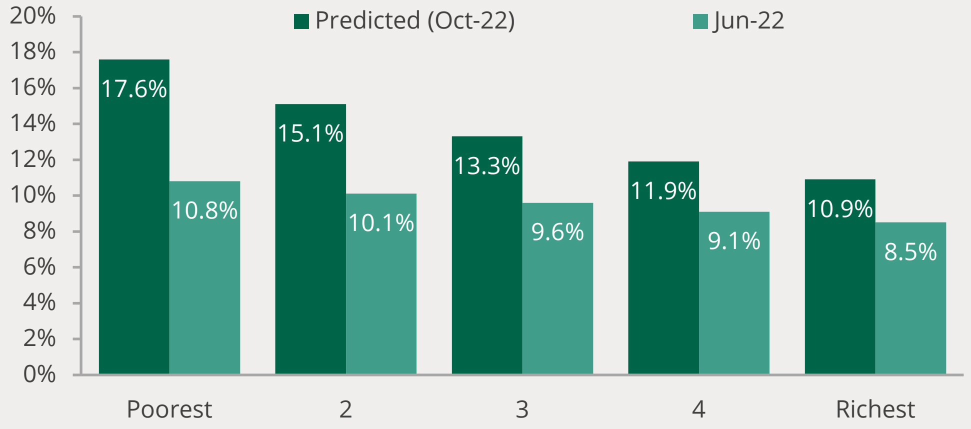
Low-income households are most affected by rising prices. As discussed in section 3.1, they also benefit most from Government support.

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.[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

115 Resolution Foundation, Slower for longer, The Bank of England tightens monetary policy again and warns that the outlook is bleak, 4 August 2022
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

The Resolution Foundation estimated that the average low-income household paying their energy costs by Direct Debit will need an extra £418 to pay their energy bills in January-March 2023, compared to what was expected in May. To afford this the poorest fifth of households will have to cut back 24% of non-essential spending. In comparison, the richest tenth will have to cut back 8% of their non essential spending. [119]

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

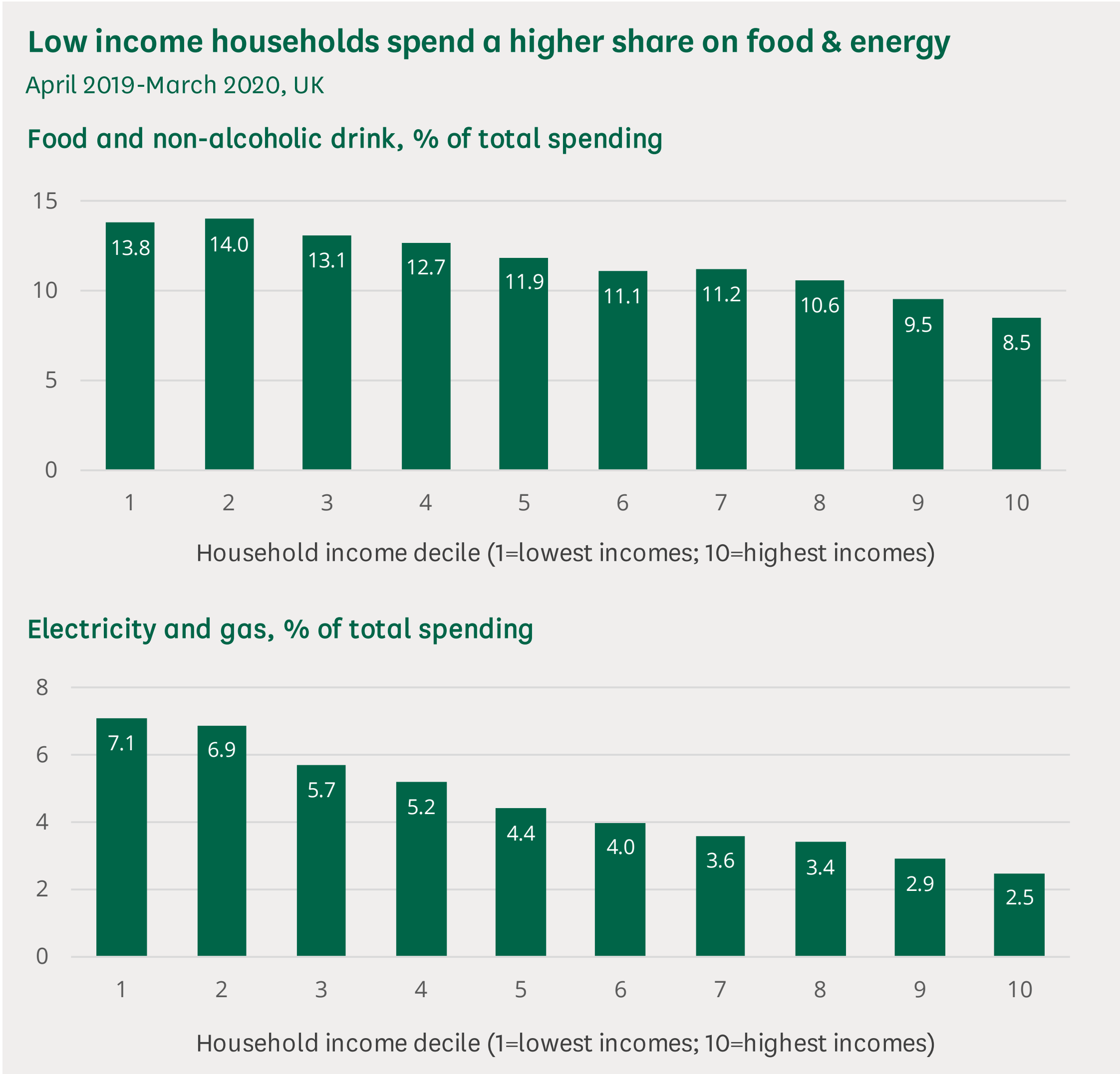
Food and energy spending

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.[120]

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.

119 Resolution Foundation, Cutting back to keep warm. Why low-income households will have to cut back on spending by three times as much as high-income households this winter, 15 August 2022

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



Source: ONS, Family spending 2019/20, March 2021 - 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 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.[121]

'Fuel stress', defined by The Resolution Foundation as spending more than a tenth of household income on energy, has been increasing.[122] The Library briefing on fuel poverty provides more information and statistics.

Citizen's Advice reported that by the end of June 2022, it had already provided more advice to people with energy issues compared to any year on record.[123] A January 2022 YouGov poll found 49% of people from households with an

121 Resolution Foundation, Cap off, Understanding the April 2022 inflation release, 18 May 2022
122 Resolution Foundation, Higher and higher, Averting a looming energy bill crisis, 17 January 2022
123 Citizens Advice cost of living data dashboard, p5, [accessed 17 August 2022]

income of less than £15,000 a year say they cannot afford to heat their home to a comfortable temperature when it is very cold outside.[124]

Demand for food banks

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.[125] It does not include spending in restaurants or in pubs and bars.

The Trussell Trust, a food bank charity, saw a 22% increase in demand for food parcels in January to February 2022 compared to the same period in 2020.[126] A Trussell Trust survey found that 17% of people receiving Universal Credit needed to visit a food bank between December 2021 and March 2022. A third 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 a third had not been able to afford to heat their home for more than four days across the last month.[127]

The Independent Food Aid Network said in May 2022 that 93% of its food banks had reported an increase in demand since the start of the year.[128] 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.[129]

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.

124 YouGov, More than a third of Britons cannot afford to heat their home to a comfortable level, 26 January 2022

125 Income deciles are based on disposable household income

126 Trussell Trust, End of year stats 2022

127 Trussell Trust, Two in five Brits receiving Universal Credit forced into debt this winter as payments failed to cover soaring cost of living, says the Trussell Trust, 17 March 2022

128 Independent, Rising cost of food will push more families to food banks, say charities, 30 May 2022

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

4.4 Rising interest rates make borrowing more expensive

Rising interest rates, discussed in section 3.8, 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 1.75% in August. 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 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.[130]

Those with fixed-term mortgages, will likely face higher interest rates when they remortgage, compared to before the Bank of England started raising rates. However, this may not necessarily be higher than what they were paying during their original fixed term (that depends on what the rates were when they took out that mortgage, a few years before).

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

In recent months, mortgage providers have been raising the interest rates on the mortgages they offer.[131] It has been reported that two- and five-year fixed mortgage rates are at their higher average rate since 2013 and 2014, respectively.[132] With the Bank of England expected to raise interest rates further, mortgage rates may also continue to rise.

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

131 "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

132 "Mortgage shock for millions as rates soar", The Times, 16 July 2022

5 Further reading

Library briefings

Economic update: Records broken as prices rise
26 July 2022 | House of Commons Library

Domestic energy prices
9 August 2022 | House of Commons Library

Spending of the Department for Work and Pensions on the cost of living measures
4 July 2022 | House of Commons Library

Inflation: Key Economic Indicators
23 March 2022 | House of Commons Library

Food banks in the UK
14 July 2022 | House of Commons Library

Spring Statement 2022: A summary
24 March 2022 | House of Commons Library

Think tank reports

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

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

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

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

Cutting back to keep warm
15 August | Resolution Foundation

Economic and fiscal outlook
23 March 2022 | Office for Budget Responsibility