BRIEFING | COST OF LIVING | SOCIAL SECURITY

Autumn Statement 2023: addressing an evolving crisis

Millions of people are still in the grip of high and rising prices, a rapid rise in interest rates, and a deteriorating job market. This remains a dangerously evolving crisis. The Autumn Statement must address the breadth and depth of hardship in the UK - anything less will be a failure.

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Written by: Alfie Stirling, Rachelle Earwaker and Maudie Johnson-Hunter

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Summary

All the key parts of the Bank of England's November economic forecast moved in the wrong direction. Compared with the previous forecast in August, inflation and unemployment are both now expected to be higher for longer, national income is lower for longer, and the odds of a technical recession before the end of 2024 are now thought to be around 50:50.

Destitution in the UK – when someone has been unable to afford two of six basic physical needs across a month, such as staying warm, dry and clean – rose to nearly 4 million people in 2022 (https://www.jrf.org.uk/report/destitution-uk-2023), including around 1 million children. Both those numbers have more than doubled since 2017.

Fast forward to autumn 2023, and the situation has deteriorated further. Families are now in the grip of a suffocating squeeze from three sides: high and rising prices yet to stabilise; a rapid increase in interest rates that is still feeding through to mortgages and loans; and most recently a deteriorating labour market, with jobs increasingly put at risk as spending and investment in the wider economy continues to slow.

The JRF cost of living tracker survey reveals the imprints of all three pressures on the 11.7 million poorest 40% of families in the country with grim precision and detail, and is now updated with a new wave of data from October 2023. Those going without

essential items – a longer list of 12 items that include adequate clothing, being unable to heat their home or eat enough – remain at the survey high of 7.3 million families seen during the first half of 2023 (see the methodology annex for full details). The lack of progress in bringing that figure down is all the more troubling given that benefits saw some modest catch-up with inflation last April and real earnings returned to positive growth in the second half of 2023.

One reason these numbers haven't come down is that high interest rates appear to be reducing a vital coping mechanism of last resort for low-income families seeking to avoid making unbearable sacrifices, with the number of families rejected for an unsecured loan (excluding mortgages) rising to 2.1 million. And this is now being compounded for low-income families by a growing risk of job losses. As of October, our survey reveals for the very first time that in a quarter (25.5%) of low-income families someone is currently worried about losing their job in the next 12 months, almost double the rates from previous years for this group from broadly comparable data in other national surveys.

It is against this backdrop that the Chancellor must prepare his 2023 Autumn Statement. But aside from the three pressures building in the economy, the greatest danger for low-income families is complacency from politicians. It is vital that parties of all colours recognise that, far from subsiding, this crisis remains at an extended peak and continues to evolve dangerously. Above all, the breadth and depth of material hardship in this country is currently unacceptable and must be addressed at the fiscal event this month. Anything short of a significant move in this should be seen

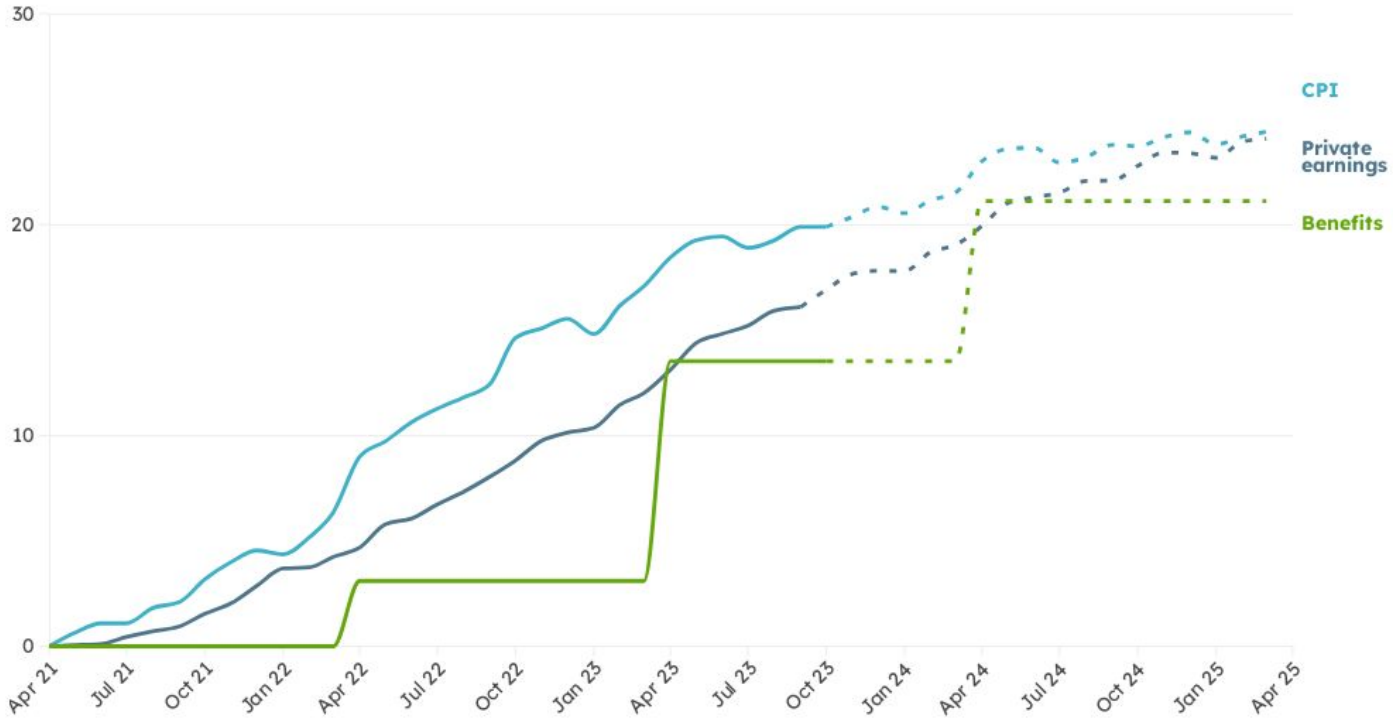
as a failure.

Most immediately this means ensuring existing benefits and support retain their real terms value over the coming months. But beyond this it means looking to rebuild deeper economic security for the long term, including through a new protected minimum floor into Universal Credit (UC) that guarantees everyone can at least afford basic essentials, while also looking towards longer-term reform to housing, employment, savings and care.

Benefits, earnings and prices – accumulated pain

At the core of the cost-of-living crisis is the interaction between earnings, benefits and prices – or more precisely, the extent to which increases in the first two have failed to keep pace with the latter. Figure 1 below gives one illustration of the extent to which the UK's recent terms of trade shock has reduced real living standards. Between April 2021 and September 2023, prices are thought to have risen almost 50% faster than most working age benefits (19.9% growth compared with 13.5%), and around 22% faster than regular pay in the private sector (19.9% compared with 16.3%). The latest estimates from the Bank of England suggest that the gap between price increases and wages won't close until the second half of 2024, and a sizeable gap between prices and benefits will remain until at least 2026.

Figure 1: Cumulative percent change in prices (CPI), private earnings (regular pay) and benefits from Apr 2021 to May 2025 (forecasts denoted by dotted line)

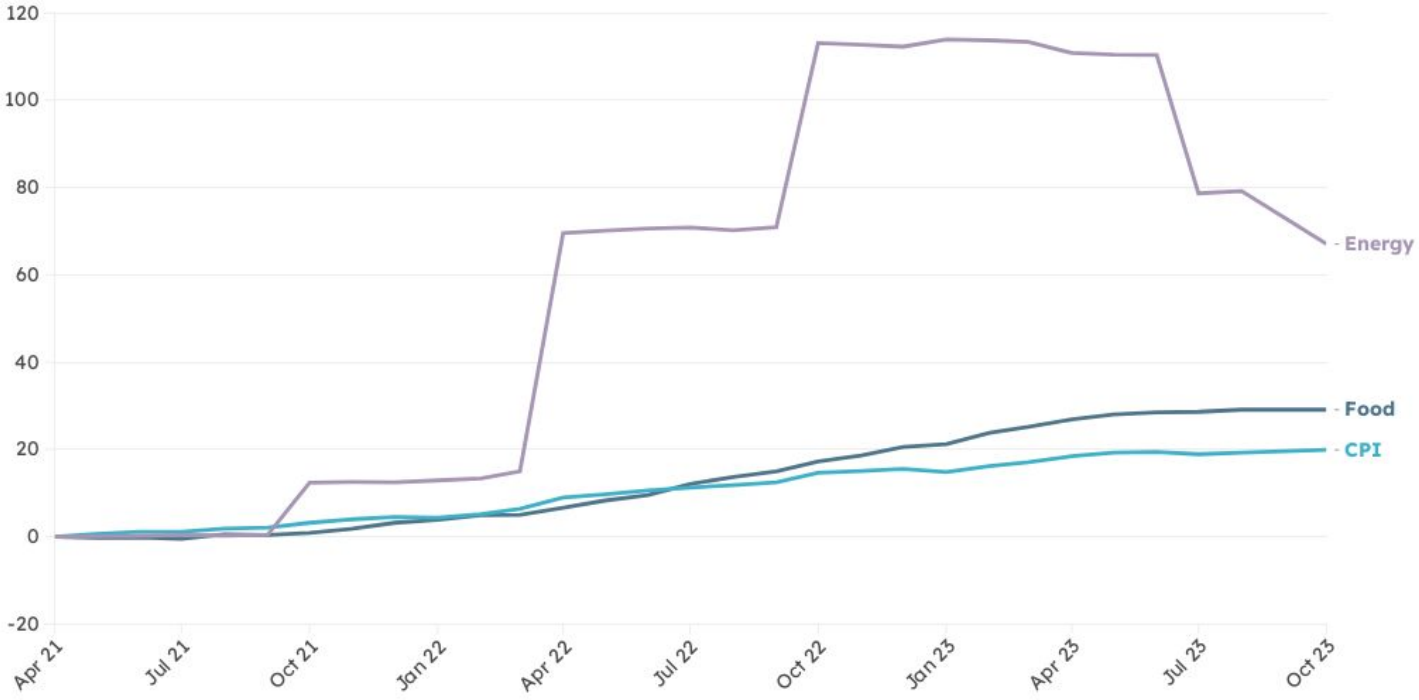


Source: JRF analysis of ONS, DWP and Bank of England data. Monthly data points for forecast data have been interpolated from quarterly estimates.

But not all goods and services have seen their prices move in line with the average for CPI (see Figure 2 below). Food and energy in particular have risen much faster, with food prices growing nearly half as fast again compared with the CPI basket as a whole (29.1% compared with 19.9%) and net growth in energy prices sitting more than three times higher (67.0% compared with 19.9%). This has important implications for the distributional effects of inflation. Given that lower-income households see a greater proportion of their consumption on essentials like food and energy, the

average rate of inflation experienced by these family has been larger than for higher-income families.

Figure 2: Cumulative percent change in average prices (CPI), food ('food and non-alcoholic beverages') and energy ('electricity, gas and other fuels') from Apr 2021 to September 2023

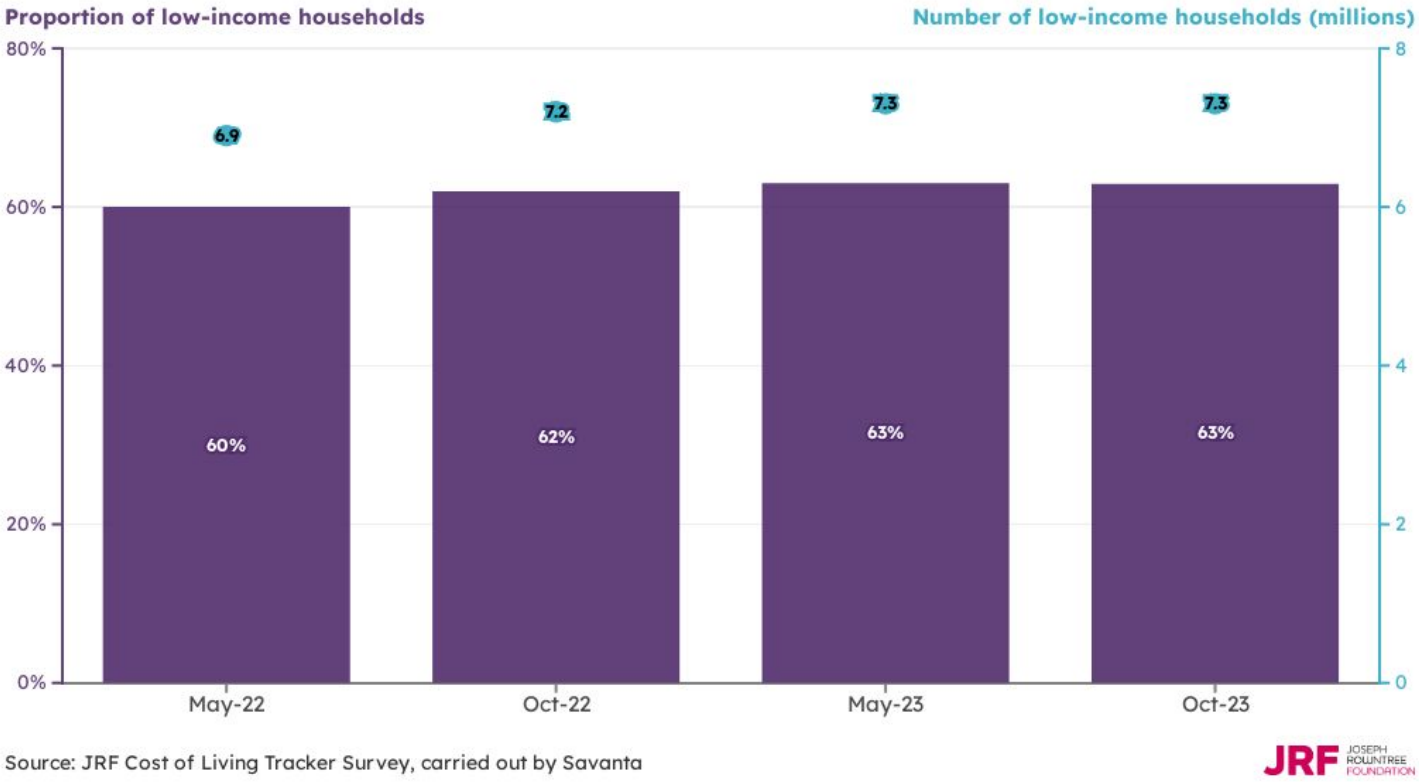


Source: JRF analysis of NOS and DWP data.

Going without essentials – the breadth and depth of current hardship

It is the above trends and dynamics in prices and incomes that have driven the breadth and depth of material suffering among low-income families over the past two years. Those going without at least one essential item in the past six months – such as putting food on the table, heating their home or being able to wash – was estimated at 6.9 million low-income families in May 2022, rising to 7.3 million (63%) in May 2023 where it has also stayed for the latest wave in Oct 2023 (Figure 3 below).

Figure 3: Proportion and number (millions) of low-income households in the UK going without the essentials since May 2022



Source: JRF Cost of Living Tracker Survey, carried out by Savanta

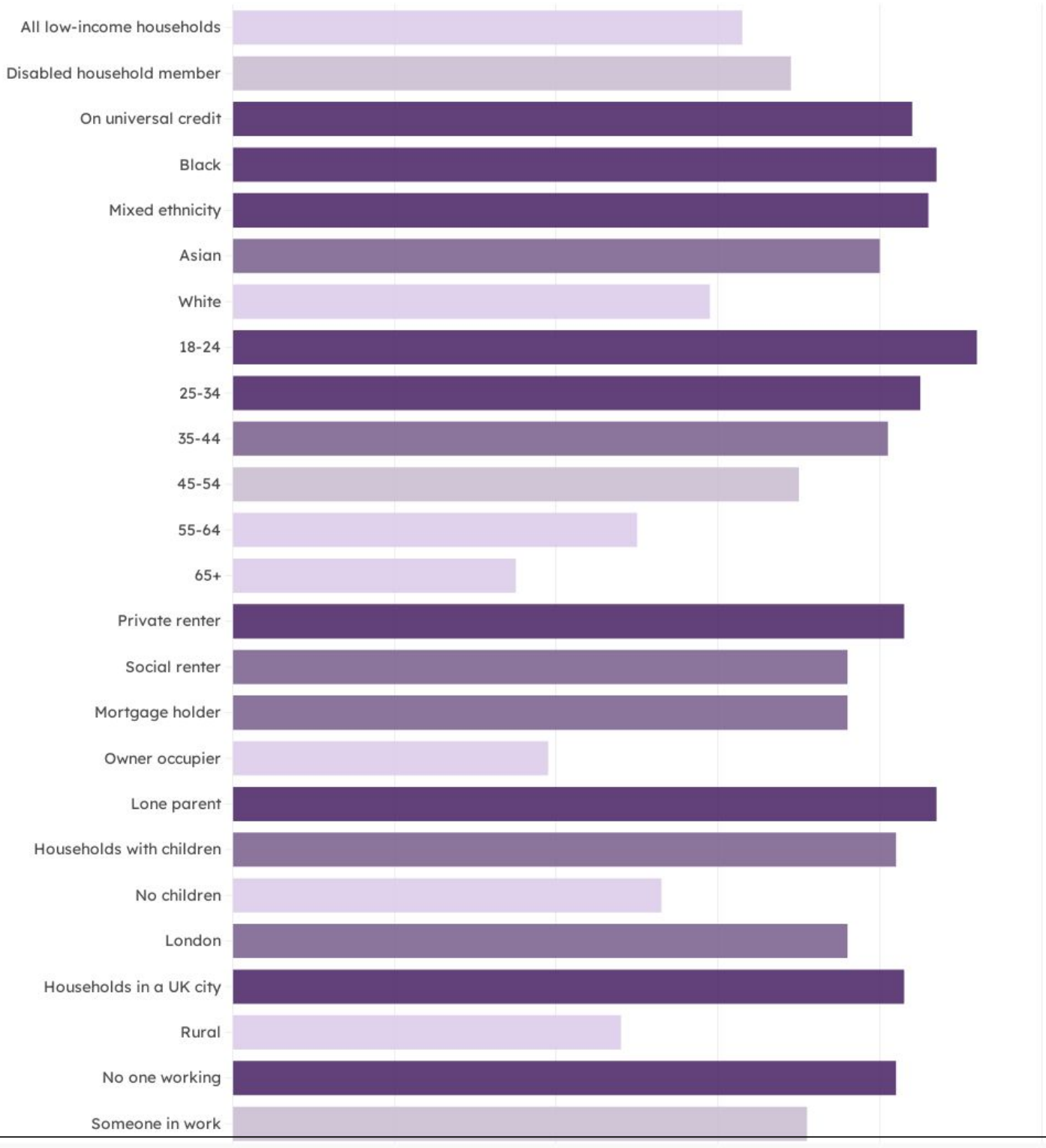
Forgoing food has been the most common sacrifice among those going without essentials, with food insecurity – defined as reducing meals, skipping meals or going hungry in the previous 30 days – rising from 5.2 million households in May 2022 to 5.9 million in Oct 2023. Meanwhile the depth of sacrifice overall is also sobering: around three in ten of all low-income families (33%) have gone without three or more different essentials in the past six months. And families are resorting to desperate

measures to avoid things getting worse: for example new data from October found that one in six families (1.9 million in total) have turned off their fridge or freezer since April 2021 in order to reduce their energy costs. Perhaps more shocking still is that almost half of these families said they did so for the first time in the past six months.

But the experience of hardship does not come evenly. While in total around two thirds (63%) of low-income families are currently going without essentials, the proportions are far higher for families on Universal Credit (84%), families with respondents aged 18-34 (87%), households with survey respondents who are black (87%), mixed-ethnicity (86%) or Asian (80%), households in cities (83%), families with children (82%), families with a disabled member (69%) and private renters (83%). Clearly, many of these factors either overlap with, or compound, one another – and where they cluster, families are even more likely to be going without essentials (see Figure 4 below).

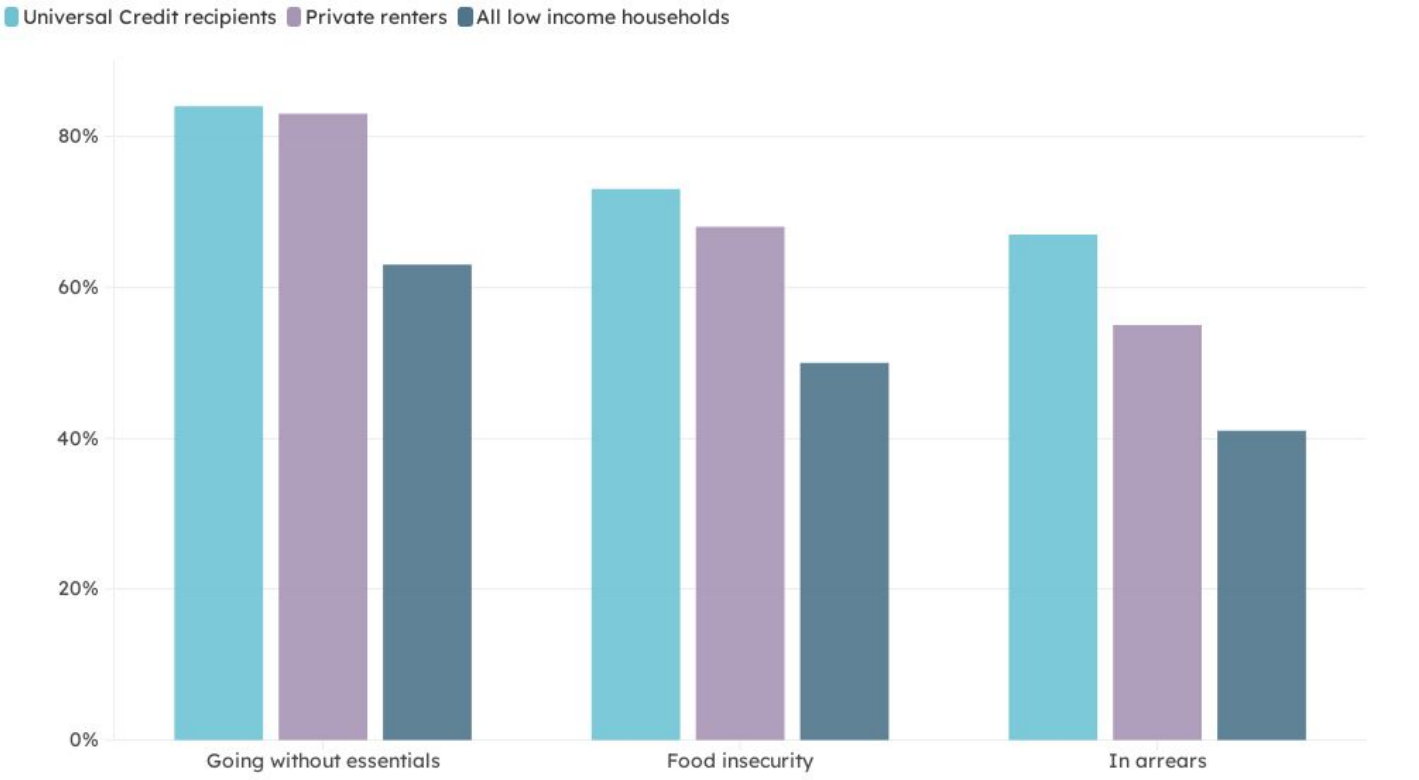
Perhaps counterintuitively, whether a low-income family is in or out of work appears to have only a small impact on the risk of having to forgo essentials. But in fact this is not surprising given it is the level of overall income, rather than its source, that is likely to be the dominant predictor of hardship.

Figure 4: Proportion of low-income households who have gone without essentials in the last six months or experienced food insecurity in the last 30 days, by demographic, October 2023



The situation facing households on Universal Credit is particularly dire, with over 8 in 10 (84%) of households going without the essentials and over 7 in 10 (73%) experiencing food insecurity specifically in the 30 days prior to the survey (see Figure 5 below). Nearly 7 in 10 (67%) households on UC are in arrears, with around half of those in arrears behind on three or more bills. For these households, uprating benefits in line with inflation is vital to prevent already unacceptably high rates of hardship from getting even worse.

Figure 5: Proportion of low-income households experiencing hardship, October 2023



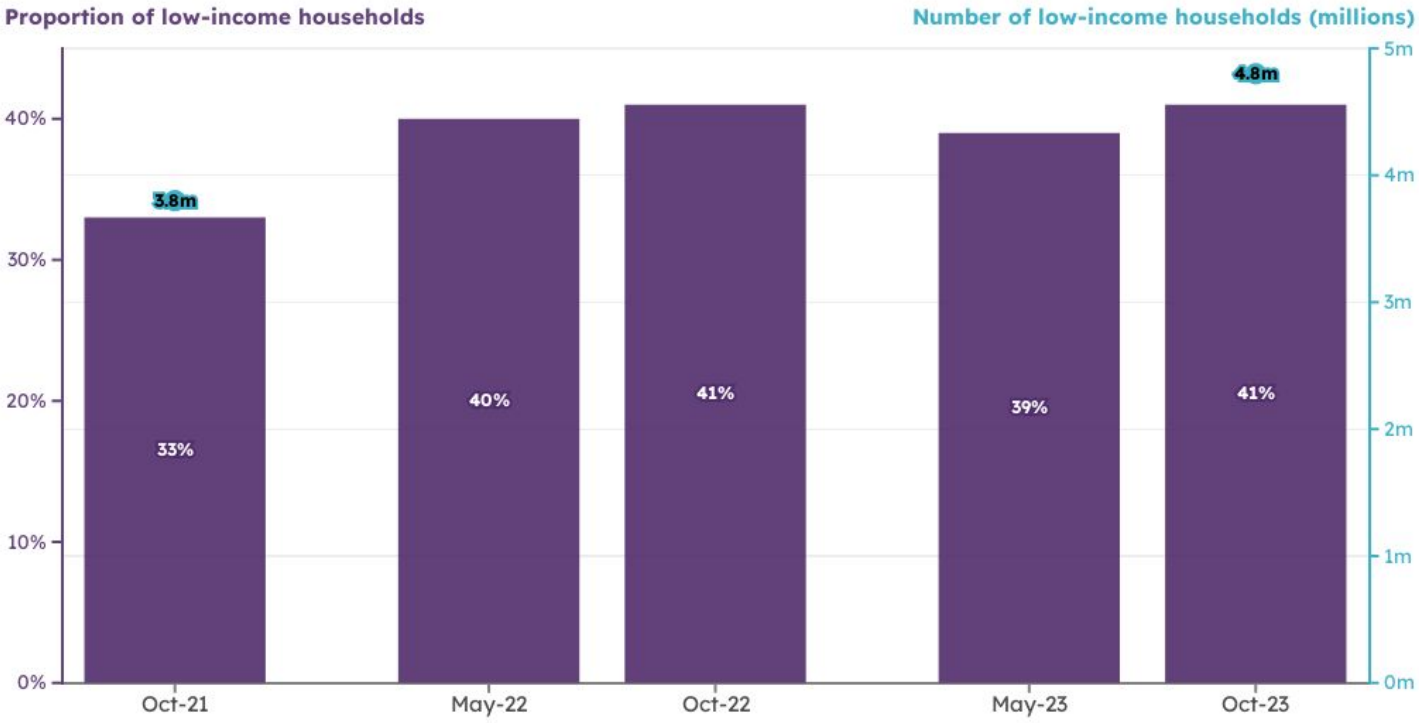
Source: JRF Cost of Living Tracker Survey, carried out by Savanta

Low-income private renters have also struggled disproportionately throughout the cost of living crisis, and this appears to have worsened further. A total of 83% of low-income households who are private renters were going without the essentials in October 2023, up from 79% in May 2023. Food insecurity for this group is also on the rise, with nearly 7 in 10 (67%) private renter households not having enough food, up from 63% in May 2023. Over half (55%) of low-income private renters are in arrears, with 43% of these households behind on three or more bills. These figures are not surprising given the record rent rises we are seeing month on month across the country. Unfreezing and increasing Local Housing Allowance is vital to improving the level of support in the private rented sector that is so badly needed.

The sustained and elevated levels of hardship now confirmed throughout 2023 are particularly concerning given they coincide with a period when a number of factors might have otherwise helped to bring these numbers down. This includes benefit payments seeing some modest catch-up with inflation in April 2023 with uprating (https://www.gov.uk/government/publications/benefit-and-pension-rates-2023-to-2024/benefit-and-pension-rates-2023-to-2024) of 10.1%, inflation falling by around a third (https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/d7g7/mm23) between its peak in Oct 2022 and September 2023, and in the second half of 2023 average pay growth beginning to rise faster than prices (https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/tim for the first time in more than a year. Material hardship is also extremely high in absolute terms given the more than £12 billion (https://www.gov.uk/government/publications/autumn-statement-2022-documents)

in targeted support for the cost-of-living crisis during 2023. With much of this temporary support from the Government scheduled to expire in 2024, and with economic risks and pressures beyond inflation still building, there is a considerable risk that these unacceptable levels of hardship will not come down quickly enough – if at all – without a renewed and concerted strategy from the Government.

Figure 6: Proportion of low-income households in arrears with at least one bill or credit commitment



Source: JRF Cost of Living Tracker Survey, carried out by Savanta

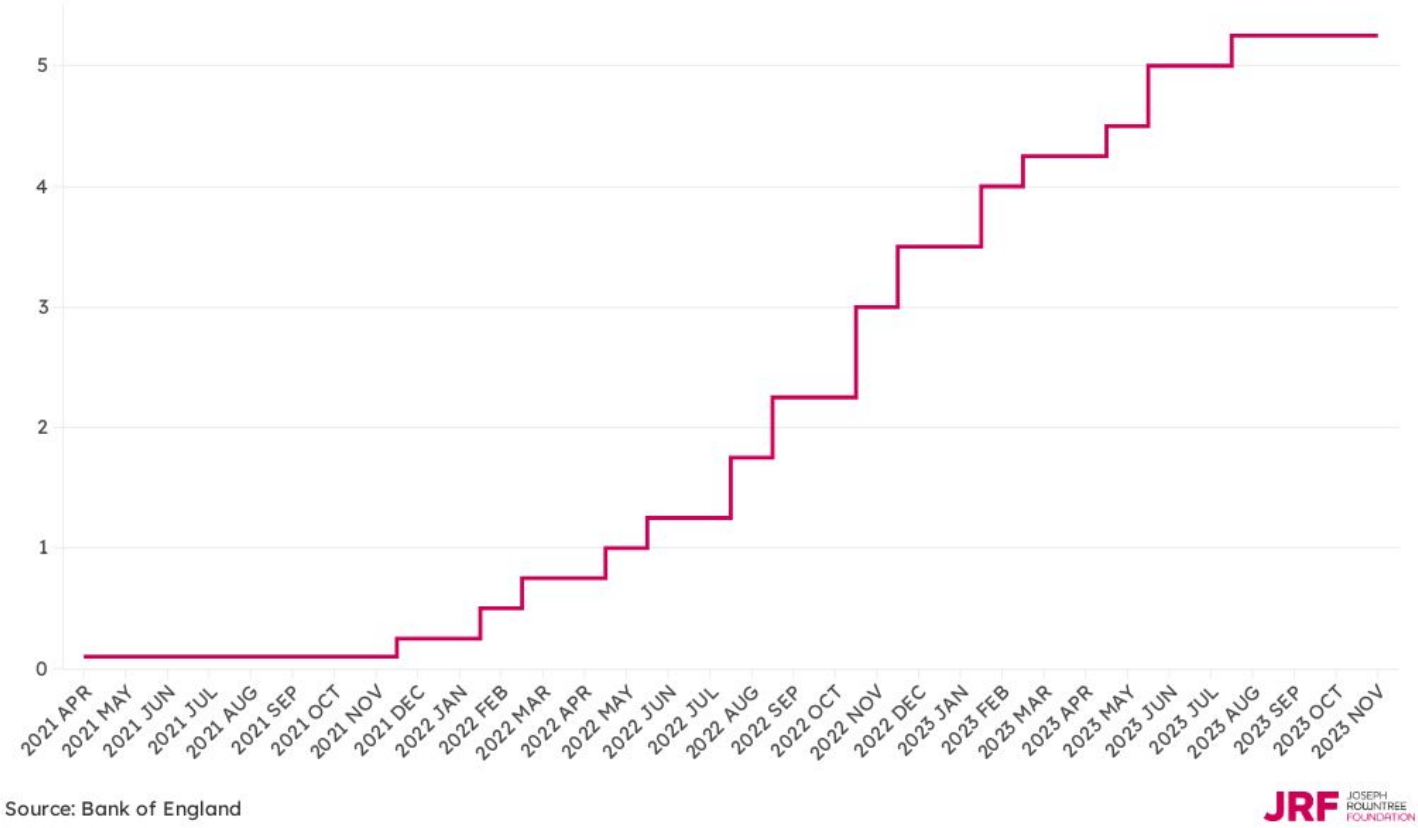
Debt distress – eroded strategies of last resort

Part of the reason why material hardship has failed to come down from such intolerable levels – and especially despite the support provided so far and with the beginnings of a recovery in real earnings – is due to the **accumulation** of price pressures over time. This has seen more and more families increasingly exhaust their potential coping mechanisms (https://www.resolutionfoundation.org/publications/living-standards-outlook-summer-2023/), such as spending down savings, receiving help from family or going into arrears on bills. Figure 6, for example, shows how arrears rose sharply in the early part of the crisis but have broadly settled at around 4 in 10 (41%) low-income families being behind on their bills at one given point in time – nonetheless this is an increase of around one million compared with October 2021, and is over four times higher than broadly comparable findings in the Family Resources Survey pre-Covid pandemic, of 11%.

But a further factor offsetting the recovery in real earnings has been monetary tightening. Interest rates have seen an unprecedented 14 consecutive increases (https://www.bankofengland.co.uk/boeapps/database/Bank-Rate.asp) across just 20 months, rising from 0.1% at the end of 2021 to 5.25% in August 2023 (see Figure 7 below). This has seen a crisis in the cost of essentials increasingly being compounded

by a crisis in the cost of money itself. For the 1.7 million households locked into the long-term debt of a mortgage, this has posed the risk (and reality) of higher and (largely) inescapable debt repayments. In October 2023, low-income mortgage holders reported an average increase in mortgage costs of around £330 a month, or 13% of disposable income, increasing mortgage payments to a total of 37% of household income on average. Low-income mortgage holders are seeing increasing levels of hardship, with the proportion in arrears increasing to 6 in 10 (58%) and three quarters going without essentials. But for millions more families, it has pushed a coping mechanism of last resort – the ability to pay a premium to smooth your income – completely out of reach.

Figure 7: Bank of England base rate, April 2021 to November 2023



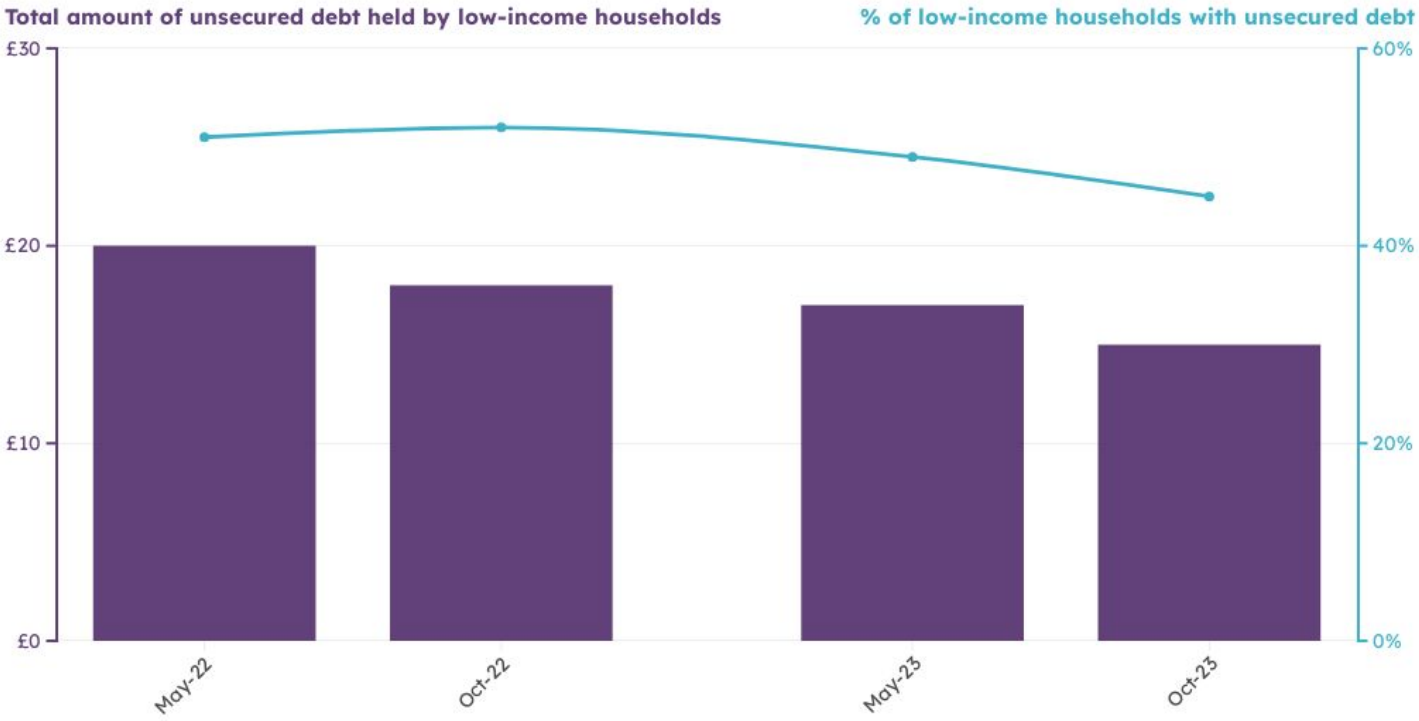
Source: Bank of England

We know from new questions in the latest wave of the cost-of-living tracker survey that as of October 2023, 4 million families (34% of all those on low incomes) are currently sitting on debts used explicitly to help pay for food, housing costs and other household bills. It means that in most cases families are paying interest on these bills. It is a perilous and expensive strategy of last resort, which holds the risk of spiralling into ever greater financial distress long-term. But in some cases it is also the only

thing preventing the breadth and depth of material hardship from growing even further right now.

However, the circumstantial evidence is growing that access by low-income families to credit is diminishing. Alongside 20 months of rising interest rates, the total amount of debt held by low-income families across unsecured personal loans (bank loans, credit cards, overdraft facilities, pay-day lenders and licensed doorstep loans) had been gradually falling, from around £20 billion in May 2022 to £14.6 billion in October 2023 (see Figure 8 below). Alongside this, we've seen the number of families in the survey turned down for a loan rise by 300,000 families between May 2023 and October 2023.

Figure 8: Proportion of low-income households holding an unsecured debt, and the total amount of debt held across all low-income households, May 2022 to October 2022

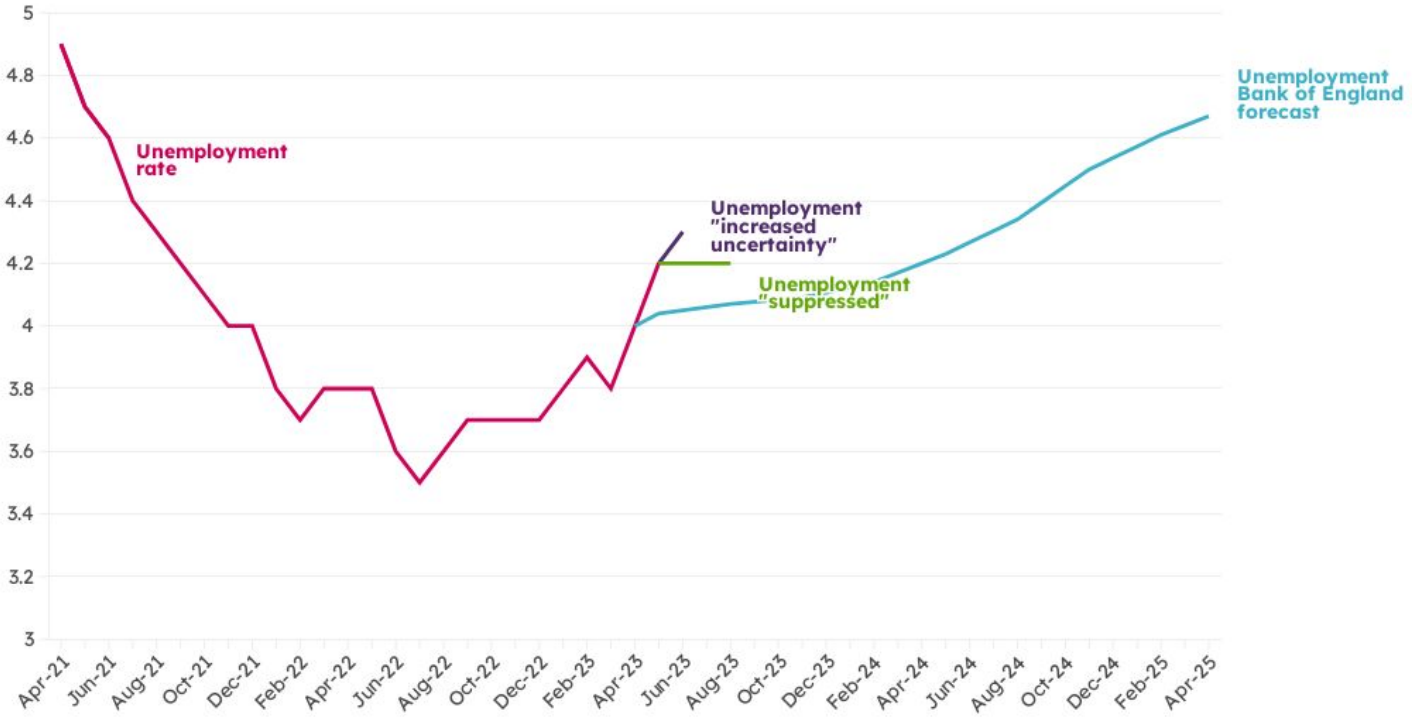


Source: JRF Cost of Living Tracker Survey, carried out by Savanta

Those families in debt have consistently been more likely to be in arrears and making forced sacrifices on essentials. It is therefore unlikely that the fall in debt is solely due to this group voluntarily paying loans off. The persistent falls are far more likely to be because families with existing debt are unable to roll over their loans with regulated lenders. This means families either being forced to make greater material sacrifices to pay them off, or else turning to unregulated lenders like loan sharks or family and friends. In addition, it may mean increasing numbers of people who would have

taken out new loans for the first time are being rejected, as the banks tighten their risk assessments for a higher interest rate environment.

Figure 9: Monthly unemployment rate (%) across various estimates and the Bank of England's August forecast, April 2021 to Dec 2024



Source: JRF calculations based on ONS and Bank of England data. Monthly data points for forecast data have been interpolated from quarterly estimates. For more detail on various recent ONS estimates and adjustments see link, here

A weakening labour market – heightened risks for workers

In addition to the microeconomic effects of higher interest rates on individuals either holding debt or seeking to take it out, higher interest rates also add to the pressure on families through macroeconomic effects. It is through these effects – primarily lower economy-wide spending relative to the supply of goods and services – that higher interest rates are used to put downward pressure on inflation.

One of the most important indicators that higher interest rates are indeed having this impact is a loosening in the labour market – where the number of people seeking work rises relative to the number of jobs available. As demand for goods and services falls, firms reduce their supply and input costs, including reducing jobs and working hours. Despite elevated uncertainty due to data concerns (https://www.resolutionfoundation.org/comment/flying-blind/), there is nonetheless growing evidence that the UK labour market is weakening. Job vacancies continue to fall (https://www.resolutionfoundation.org/publications/preparing-the-pitch/) from their post-pandemic peak and payroll employment has seen three consecutive months without growth and may be falling (https://www.resolutionfoundation.org/publications/preparing-the-pitch/). Even after the ONS' experimental corrections (https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetype to the official labour market data, unemployment is still much higher than the Bank of England was forecasting as recently as August (see Figure 9 below).

Whenever the labour market begins to weaken in this way, low-income families either in work or looking for work, are likely to be disproportionately affected. This is because these families are more likely to rely on insecure job contracts in more vulnerable sectors of the economy. Evidence from new questions in our cost-of-living tracker survey appears to corroborate this picture of growing labour market pressure on working families among the lowest income 40% of households. In a quarter (25.5%) of low-income working families someone thinks it is likely they will lose their job in the next 12 months, double the rate found in recent years for the same group in other broadly comparable national surveys. Nearly four in ten low-income households think it likely someone in their households will face having their hours reduced at work.

Current political economy – a narrowing space

While the macroeconomic outlook since August has deteriorated – according to the Bank of England – the picture since the last round of forecasts from the Office of Budget Responsibility (OBR) in March is likely to be more mixed. On the downside, inflation has fallen more slowly, and consequently interest rates have risen higher than the OBR was previously anticipating. Both reduce the room for sustained growth in **real** incomes, while at the same time adding unwanted pressure on the public finances, especially over the longer run.

Set against this on the upside, higher inflation has also meant higher **nominal** incomes over the near term. As a result, nominal profits and earnings have grown faster than expected, and employment has started to fall later than the OBR initially feared. Stubbornly high inflation has muted the extent to which higher earnings and employment have meaningfully improved living standards in real terms for ordinary families. However, a larger economy in nominal terms has helped to flatter the public finances in the short-term in two ways: first, higher taxes from higher employment and incomes are likely to more than offset the increased borrowing caused by higher interest rates and inflation. Secondly, higher than expected GDP has improved the ratio between the size of the economy overall and total public debt.

Unfortunately this rosier outlook for public finances is in part the product of a mirage. The Government is currently rolling forward a plan on paper that prevents day-to-day spending on public services, outside of 'protected' areas, from rising with higher inflation over the coming years. If this plan were to remain in place, it would see real cuts over the next five years to services like policing, employment support, transport and parts of local government at a similar scale and pace to that seen during the early 2010s under the coalition Government.

Given the current state of resourcing need for these services, following both the austerity years themselves but also the disruption and backlogs created during the Covid pandemic, commentators have pointed out that further cuts on this scale are a 'fiscal fiction (https://www.resolutionfoundation.org/publications/preparing-the-pitch/)' and undeliverable in practice. But if spending in these areas were to rise at, or closer to, the rate of inflation, much of the short-term windfall from higher (inflation induced) tax receipts would disappear. The remainder is then more than wiped out by tax cuts that the Government has already committed to politically – like making permanent the full expensing in corporation tax (https://ifs.org.uk/publications/full-expensing-and-corporation-tax-base#:~:text=In%20the%202023%20Spring%20Budget,some%20problems%20while%20alleviating%20 – but still need to be registered in the public finances at a future fiscal event.

Because of this, the scope to increase spending this autumn without increasing taxes or breaching the rules for debt and borrowing that the Government have set themselves, is likely to be limited. This has seen ministers seemingly look for alternative and further ways to reduce public spending at the Autumn Statement next

week, with the failure in recent months (https://www.theguardian.com/society/2023/sep/17/increase-benefits-by-inflation-top-tory-urges-rishi-sunak) to confirm that benefits will be uprated by inflation next year particularly conspicuous.

Setting the bar – tests for the Autumn Statement

The current moment is one of a dangerous and evolving living standards crisis. Material hardship is at unprecedented levels and high interest rates are adding to financial pressure directly, while also restricting access for low-income families to coping mechanisms of last resort. In addition, there are signs that we are now looking over the edge of a 2024 recession with elevated unemployment and job losses. In view of these urgent challenges, we need decisive and innovative policy intervention, carried through with political conviction. Yet the features of current political economy described above – of limited first order policy space and a political preoccupation with tax cuts – bode poorly for the UK going into next year.

But many of these challenges are the product of political choices, as opposed to insurmountable economic realities, and they could turn on a good Autumn Statement on the 22 November. The test of this would be twofold:

First - there is a need to ramp up immediate targeted welfare for families, through existing channels of support. This should include things like:

- committing to uprate working-age benefits for inflation in full,
- increasing support for private renters through increases to Local Housing Allowance,

- increasing the value of Support for Mortgage Interest',
- better protecting spending on public services in real terms,
- pushing the increase in the National Living Wage as far as possible.

Second - we must start to build the foundations for a much stronger social settlement that can provide proper economic security to families both now and for the long-term. This would mean rejuvenated effort and attention from all political parties on areas like increasing the adequacy of Universal Credit, beginning with the basic rate so that it explicitly provides a protected minimum level of income that is sufficient for families to at least afford life's essentials. It would also mean reform to the housing market to ensure more affordable and secure tenures are available where they are needed most. It would mean a redesign of employment services with an emphasis away from monitoring and compliance and towards engagement and supporting people back into the right type of work. And finally, a rethink of our care infrastructure so that parents have access to the right kind of childcare that allows them to work if they want to, as well as proper financial support for those who need to temporarily step away from work to help care for a loved one.

Focusing political energy and policy innovation at lasting solutions is needed now to prevent the situation getting worse. Government needs to chart a course for a sustained recovery in living standards for people who need it most, and to rebuild the kind of lasting economic security in the UK that can prevent such levels of suffering from ever happening again. It is perhaps an ambitious agenda, but given the level and urgency of need, anything short of this on the 22 November should be considered a failure.

Methodology

Savanta surveyed 4,053 UK adults aged 18+ in households in the lowest 40% of equivalised household income (https://jrf-jrht-brand.frontify.com/share/sCDJ64F6omeWLdQ8m3Pe) online between 12–31 October 2023. Data was weighted to be representative by age, gender, region, ethnicity and housing tenure. The data tables are available on Savanta's website.

The sample is representative of low-income households across the UK, and our low-income threshold is based on figures from the Households Below Average Income Survey (HBAI) 2021–22. When analysing the data, we use weighted data so that it is representative.

Definition of low income

Our definition of low-income households for our cost of living trackers is households in the bottom 40% of incomes across the UK, using a Before Housing Costs (BHC) equivalised household income. This income definition includes earnings and benefits, as well as other income sources. Households had to have a BHC equivalised household annual income of under £25,933 to participate in the survey (up from £24,752 in the October 2021 and May 2022 waves, and down from £26,570 in the October 2022 wave, due to new income data in 2020–21 and 2021–22 HBAI).

Scaling-up findings to population level

Where we have scaled up the survey findings to population level, this has been done by JRF, and uses population numbers based on the HBAI 2021–22 survey. We have continued to use this survey as the basis for the population for consistency with earlier cost of living surveys. HBAI analysis found that the UK had 11.7 million households under this income threshold. Where we have grossed numbers up to population level, we have used this number of households to do so.

Where we have estimated the amount of arrears held by type of bill, and the amount of lending by type of borrowing, we have taken the following approach:

- respondents were asked to choose a band that reflected the amount of arrears / lending / savings held, for example £700–749
- we used the midpoint of these bands (for example, £724.50) and multiplied it by the number of responses in each band, taken the total for each type of arrears / lending and divided it by the number of households in arrears
- this gave us with the average amount of arrears or savings or debt using the mean, and then we multiplied this by the number of households experiencing it and scaled up to population level using HBAI household figures
- for the highest band, we have usually taken its lower bound – this is a conservative estimate
- broadly, where there are amounts involved in a question, we have excluded those who ‘don’t know’ the answer in order to calculate the average, and so on.

Further tables can be provided on request.

Revised methodology for calculating debt levels

When analysing data in the May 2023 wave of our cost of living tracker, we observed that for credit cards and personal loans, many households were reporting lending in the highest band we asked about - £4,000 and over. As such, we revised our October 2023 survey to reflect this, and increased the bands so the top band is instead £10,000 and over. This allowed us to assess who has the higher levels of debt. Based on sample sizes in the top bands, we amended the assumed average debt amounts for the top band to the values in the table below to derive statistics for October 2023. For earlier waves, we used the average amount of debt held for each loan above £4,000 calculated using the October 2023 survey responses so that we could improve previous waves' debt analysis.

Assumed average debt values for top bands, based on October 2023 data

Loan Type	Top Band Maximum	Amount To Use When Re-Analysing Previous Waves
Personal loan	£12,500	£8,800
Payday loan	£12,500	£8,900
Unregulated lender (loan shark)	£7,500	£6,400

Loan Type	Top Band Maximum	Amount To Use When Re-Analysing Previous Waves
Overdraft	£12,500	£8,400
Credit card	£12,500	£8,200
Buy now, pay later	£12,500	£8,000
Doorstep loan	£12,500	£8,800
Loan from a credit union	£7,500	£6,900
Loan from family / friends	£12,500	£7,700
Pawnshop loan	£12,500	£8,500
Catalogue credit loan	£7,500	£7,000

Where we have discussed households going without essentials in October 2023, or experiencing food insecurity in the last 30 days, we have used the following methodology:

If the respondent selected ‘Often’ or ‘Sometimes’ to either of the following questions where at least one household member in the last 30 days has either:

- cut down the size of meals or skipped meals because there was not enough money for food

- been hungry but did not have enough money for food.

If a respondent selected 'Yes' to at least one household member experiencing any of the following because of lack of adequate resources at any point since May 2023 (in the last six months):

- not dressed appropriately for the weather (suitable clothes or shoes)
- not replaced or repaired major electrical goods like a refrigerator, TV, washing machine when broken
- gone without a shower or a bath
- gone without basic toiletries like soap, shampoo, toothbrush or sanitary items
- not been able to keep their home warm
- not been able to adequately furnish their home
- not had essential dental treatment done
- not got prescriptions, pain relief or over the counter medication
- not made an essential journey
- has visited a food bank.

Where we have discussed the ethnicity of households: this is based on the ethnicity of the survey respondent. For example, a 'Black household' means a household where the survey respondent identifies as Black. There may be adults who identify as other ethnicities within the household, which are not captured.

Where we have discussed the age of households: this is based on the age of the survey respondent. For example, a household aged 18–24 years means a household

where the respondent was aged 18–24 years. There may be adults of other ages within the household, which are not captured.

Households and families: the terms 'households' and 'families' are used interchangeably throughout, and should be taken to refer to households. We have specifically mentioned children if discussing 'families with children'.