



BRIEFING

COST OF LIVING

CHILD POVERTY

A decade of falling incomes? JRF's pre-budget assessment of living standards

Average incomes are expected to fall by £550 over this parliament, meaning the Government risks having the worst living standards performance of any parliament on record.

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1. Introduction

Household disposable incomes have not yet recovered to pre-pandemic levels and families are already struggling, but latest economic data and projections imply the worst is yet to come. Incomes are expected to fall over this parliament, meaning that on latest projections Labour risks having the worse living standards performance of any parliament on record.

2. Economic context for households

Labour's mission for economic growth commits them to 'raising living standards in every region of the United Kingdom'. This is more than a welcome target, it is a necessity; both for the livelihoods of households and therefore, ultimately, the electoral prospects for government.

As of September 2025, average household income after housing costs stands at £42,830 per year, still below pre-COVID levels. And the story is worse for those on low incomes. In the latest published data, the average (median) income amongst the poorest fifth of households was no higher in 2023/24 than it was 19 years previously. A stretch of time without income growth that is unprecedented since detailed income data began to be collected in 1961 (Institute for Fiscal Studies, 2025).

Inflation has subsided from the peaks of 2022/23 but that doesn't mean prices have come down, only that the rate of increase has slowed. It leaves the cost of food, rent and heating significantly higher than pre-energy crisis and low-income households are struggling to foot the bill: in May 2025, over 7 million low-income households went without essentials in the past 6 months, nearly 4.5 million went into arrears on bills, and around 4 million took out a loan to cover the cost of essentials.

Since the OBR's forecast in March 2025, a host of economic data and policy reforms shed light on how the outlook for household finances might be evolving:

- Wages have stagnated, with virtually no real wage growth recorded since September 2024 (ONS, 2025a).
- Inflation has started to increase again, reaching 3.8% in both July and August 2025, driven in part by rising food prices (ONS, 2025b).
- Unemployment has increased to 4.7% for the quarter May to July 2025 as the labour market has weakened. External projections suggest further increases are likely, with unemployment potentially having reached 5.0% towards the end of the summer (ONS, 2025a; Thwaites, Cominetti, and Slaughter, 2025).
- Inactivity has fallen as fewer people report being out of the labour market studying or looking after family, meaning that overall employment rates have risen despite increases in unemployment. However, there remains uncertainty around official statistics (ONS, 2025a).
- Expectations for the Bank Rate have fallen back to the forecasted levels from last summer following actual cuts in May and August which will, over time, feed into lower housing costs for households with a mortgage (Bank of England, 2025).
- The partial reversal of the cuts to Winter Fuel Payments means it will now again be available for all individuals with incomes under £35,000 per year.
- The partial reversal of the cuts to health-related benefits means there will be no loss of support in the near-term for disabled people receiving Personal Independence Payments (PIP), with the long-term role of the PIP assessment instead included in the Timms review (Department for Work and Pensions, 2025). Most new claimants of the Universal Credit health element

(UC-H) will however still see their support reduced.

In this briefing, we show what the combination of these changes means for the outlook for household finances. In doing so, we attempt to approximate what the Office for Budget Responsibility (OBR) might say about the economy, and therefore household incomes, over the rest of the parliament. We apply official outturns from the Office for National Statistics and the latest macroeconomic projections from the Bank of England to the Institute for Public Policy Research (IPPR) Tax-Benefit Microsimulation Model.

The modelling is conducted at the level of households, taking into account both macroeconomic variables such as earnings growth, inflation, and interest rates as well as policy variables such as the schedules for tax and benefits. It should be noted that while this briefing focuses on incomes as our key indicator for living standards, the breadth and quality of public services, among other things, also contributes to living standards beyond incomes. A full description of our methodology can be found at the end of this briefing.

3. Impact on household incomes

Having remained broadly flat since last September, real average household disposable income after housing costs (hereafter referred to as disposable income) is projected to decline over the remainder of the parliament. By September 2029, disposable income will be £550 (1.3%) lower than in September 2024, and £570 (1.3%) lower than today (Figure 1).

Figure 1: Disposable income is projected to fall throughout the remainder of the parliament

Annualised household disposable income after housing costs (April 2025 prices), September 2019 to September 2029

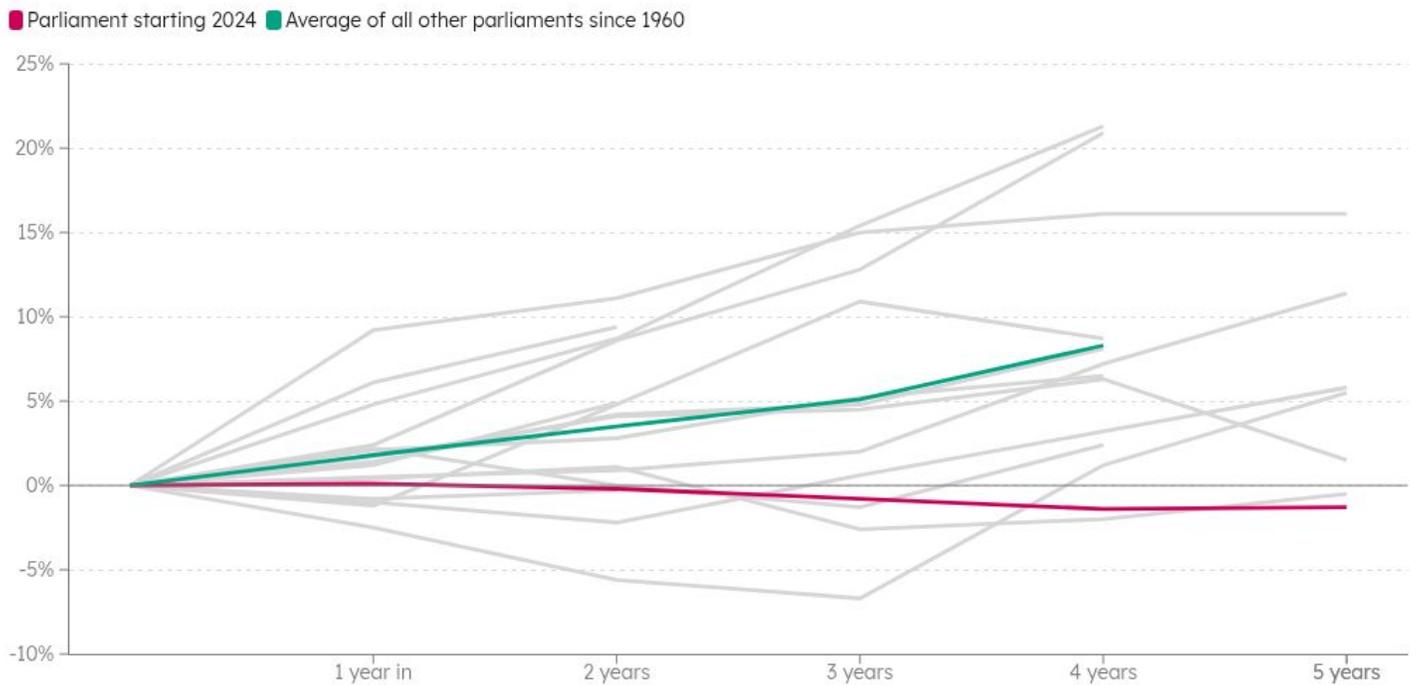


Source: JRF analysis of DWP, 2023/24 Family Resources Survey using v02_85 of the IPPR Tax Benefit Microsimulation model. Projections estimated using data from OBR, March 2025 EFO; Bank of England Autumn 2025 MPR.

This fall of 1.3% over the parliament would represent the worst outcome for living standards of any parliament since records began in 1961 (Figure 2). This is particularly painful for households as it comes on the back of the previous worst record 5-year parliament – with a real fall of 0.5% – leaving households facing over a decade with no real-terms increase in disposable incomes.

Figure 2: Labour risks having the worst living standards performance of any parliament on record

Cumulative percentage change in average household disposable income after housing costs, by parliament

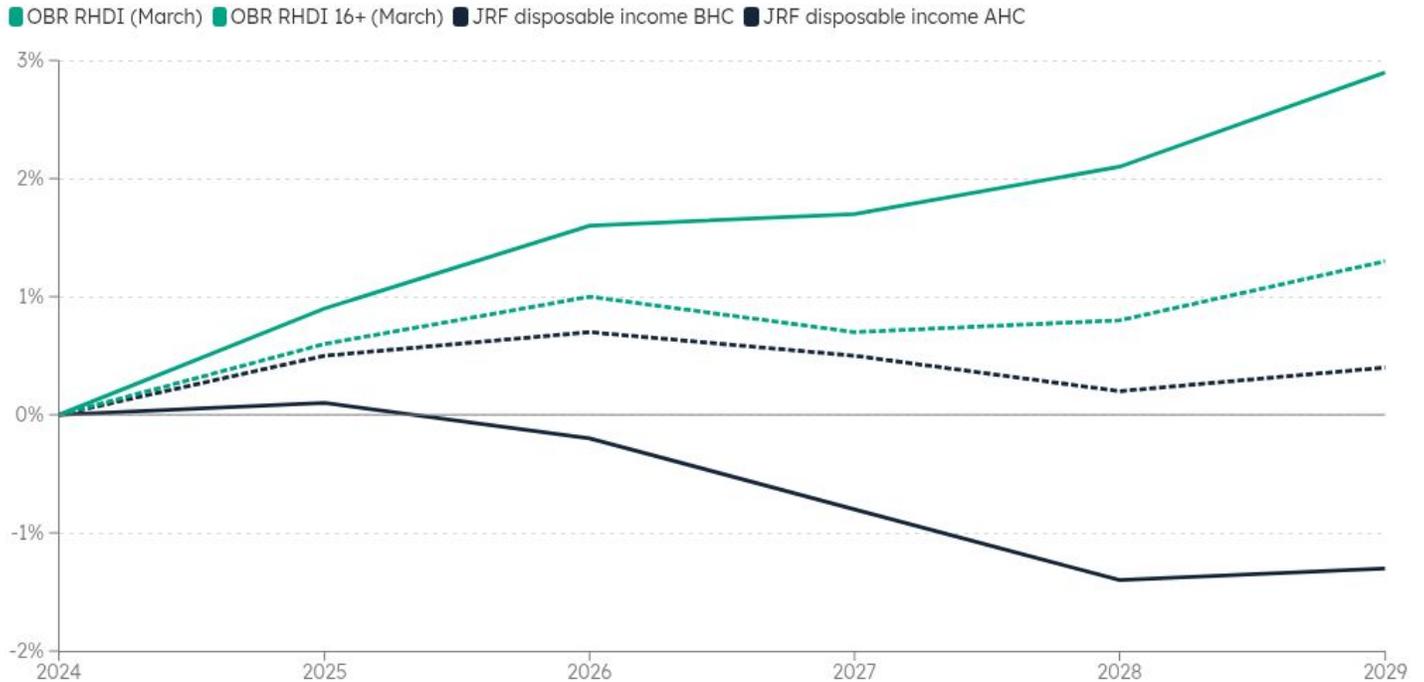


Source: JRF analysis of IFS, Living Standards, Inequality and Poverty Spreadsheet.

The figures in this briefing differ to the official real household disposable income (RHDI) per head series, published at fiscal events. Our approach is more comprehensive and will more closely reflect the actual experience of households' living standards. The latest available RHDI per head projections from March show an increase of 2.9% over the parliament. This is already slow by historical comparisons, the average 5-year growth in RHDI since 1955 has been around 11%. Our more comprehensive measure shows a decline over the parliament.

The difference in outlook is not driven by recent shifts in the economic or policy landscapes, but rather by methodological differences. Some of the key differences that result in our more comprehensive approach are that we account for actual housing costs, we consider income at a household level, and we use the CPI deflator instead of the National Accounts measure of consumption. See Matejic, 2025 for a fuller comparison of the approaches to projections.

Figure 3: Accounting for housing costs shows a negative outlook for living standards
Percentage change in JRF and OBR measures of average disposable household income relative to September 2024, September 2024 to September 2029



Source: OBR, March 2025 EFO; JRF analysis of DWP, 2023/24 Family Resources Survey using v02_85 of the IPPR Tax Benefit Microsimulation model. Projections estimated using data from OBR, March 2025 EFO; Bank of England Autumn 2025 MPR.
Note: Housing costs includes Council Tax. Data from the OBR is for Q3 of the relevant year.

Drivers of changing incomes

Income measured before housing costs are deducted is essentially flat over the parliament, but housing costs continue to be a drag on disposable incomes. Despite falling market expectations of future bank rates, paired with the recent 25 basis point reduction feeding through to slightly lower housing costs over this period than

otherwise, we expect official forecasts to show housing costs continuing to outstrip inflation, thereby reducing disposable incomes by £770 per year for the average household in September 2029 (Figure 4).

Current projections suggest there will be little real wage growth over the course of the parliament, with increases in average earnings initially the result of increased labour market participation. If this lack of wage growth becomes a reality, this will extend the historically long period of no or low growth in real wages. Real wages in 2029 will have risen by less than 6% since 2007, 22 years previously (ONS 2025a).

It is worth highlighting that estimates of the labour market, including those used in this modelling, make use of the Labour Force Survey (LFS) which has become less reliable since the pandemic (McIntyre, 2025). While efforts have been made to improve the accuracy of this data — which feeds into decision makers' thinking at both the Bank of England and the Treasury — concerns still remain.

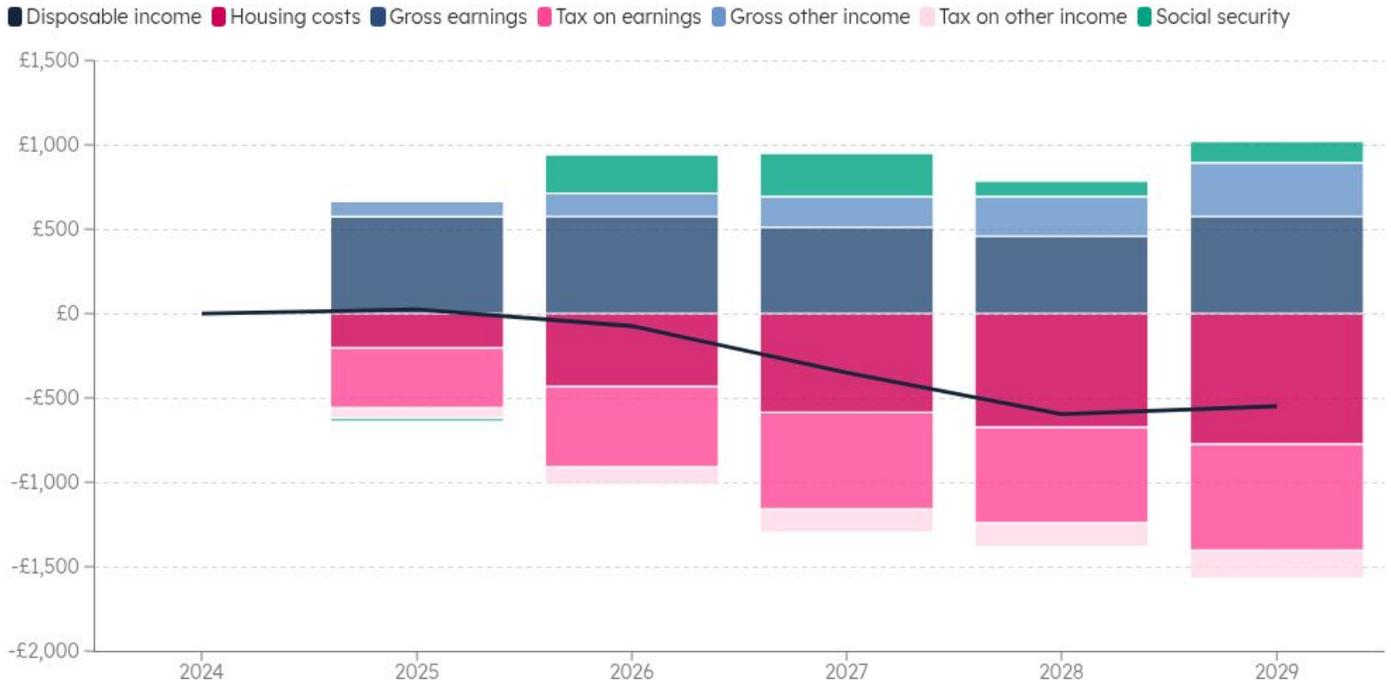
Most recently, estimates of the labour market using alternate data sources show that while the LFS aligns with modelled levels of unemployment, it is potentially showing the wrong trajectory for employment and economic inactivity (Thwaites, Cominetti and Slaughter, 2025). Should these alternate estimates prove to be correct, our estimates will almost certainly be overestimating both earnings growth (from higher employment suggested by the LFS) and disposable income.

Despite the weak outlook for real earnings, tax paid on those earnings is expected to increase by around £630 per year by the end of the parliament, as tax thresholds

remain frozen in cash terms until April 2028. This increase in tax represents a meaningful cost to households, but it is important to note the revenue raised from this tax funds public services that benefit household living standards in ways which are not captured by focusing solely on a measure of incomes — for example, through the provision of healthcare or education.

The tax burden impact is smaller on the lowest income tertile paying £310 per year more in tax compared to the £850 increase for the highest income tertile. But this increase highlights the importance of finding ways to raise tax revenue fairly and efficiently, which we discuss in the final section. Indeed, income from other sources, such as rents or capital gains, is expected to increase in real terms throughout the parliament.

Figure 4: More needs to be done to increase income from work and social security
 Decomposition of the change in annualised household disposable income (April 2025 prices) compared to September 2024, September 2024 to September 2029



Source: JRF analysis of DWP, 2023/24 Family Resources Survey using v02_85 of the IPPR Tax Benefit Microsimulation model. Projections estimated using data from OBR, March 2025 EFO; Bank of England Autumn 2025 MPR.
 Note: Housing costs includes Council Tax.

Finally, over the parliament, average income from social security will increase by £120 per year. Yet this masks unequal impacts over the age distribution, including the effects of the remaining cuts to working-age health-related benefits (Crerar, Stacey, and Elgot, 2025). In real-terms, pension-aged households will receive £270 more in September 2029 from the State Pension and other benefits, like Attendance Allowance and Pension Credit, than they do today.¹ On the other hand, ‘middle-aged’

households (households headed by someone aged 35–64) receive £150 per year less income from social security, with younger households receiving £240 less (where the main respondent in the survey data was under the age of 35).

These decreases are particularly worrying given the persistence of higher than desired inflation, driven in part by increased food prices, is once again having a greater impact on low-income households than their higher-income counterparts (ONS, 2025b).

4. How the impact is distributed

Income level

It is the lowest-income families who are expected to be hit hardest by the projected fall in incomes, and this is sustained over a longer-term horizon (Figure 5). Families in the lowest tertile will be £1,110 per year (6.2%) worse off in September 2029 compared to September 2019, with £470 (2.7%) of this fall coming in this parliament. For middle- and high-income households the percentage reductions over the decade will be smaller, at 1.1% and 1.3% respectively.

The decline in real-terms income for low-income households is driven in part by a reduction in support from social security, which begins in earnest in the latter half of the parliament. This, paired with increased housing costs — experienced across the income spectrum but by slightly less than previously expected as set out above — forces disposable income into a rapid decline for the poorest third of households after September 2026.

Middle- and high-income households are also projected to experience a real-terms reduction in income over the decade to 2029. However, falls are smaller and, unlike low-income families, these households will be more likely to have some savings to cushion the effects of a negative change in income. For low-income households, the inevitable result will be further hardship, with more families unable to afford to fill the fridge, keep their home warm, or to keep on top of their bills.

Figure 5: Low-income households will be over £1,000 per year worse off without intervention

Change in household disposable income after housing costs (Apr 2025 prices) relative to September 2024, September 2019 to September 2029 by disposable income tertile



Source: JRF analysis of DWP, 2023/24 Family Resources Survey using v02_85 of the IPPR Tax Benefit Microsimulation model. Projections estimated using data from OBR, March 2025 EFO; Bank of England Autumn 2025 MPR.

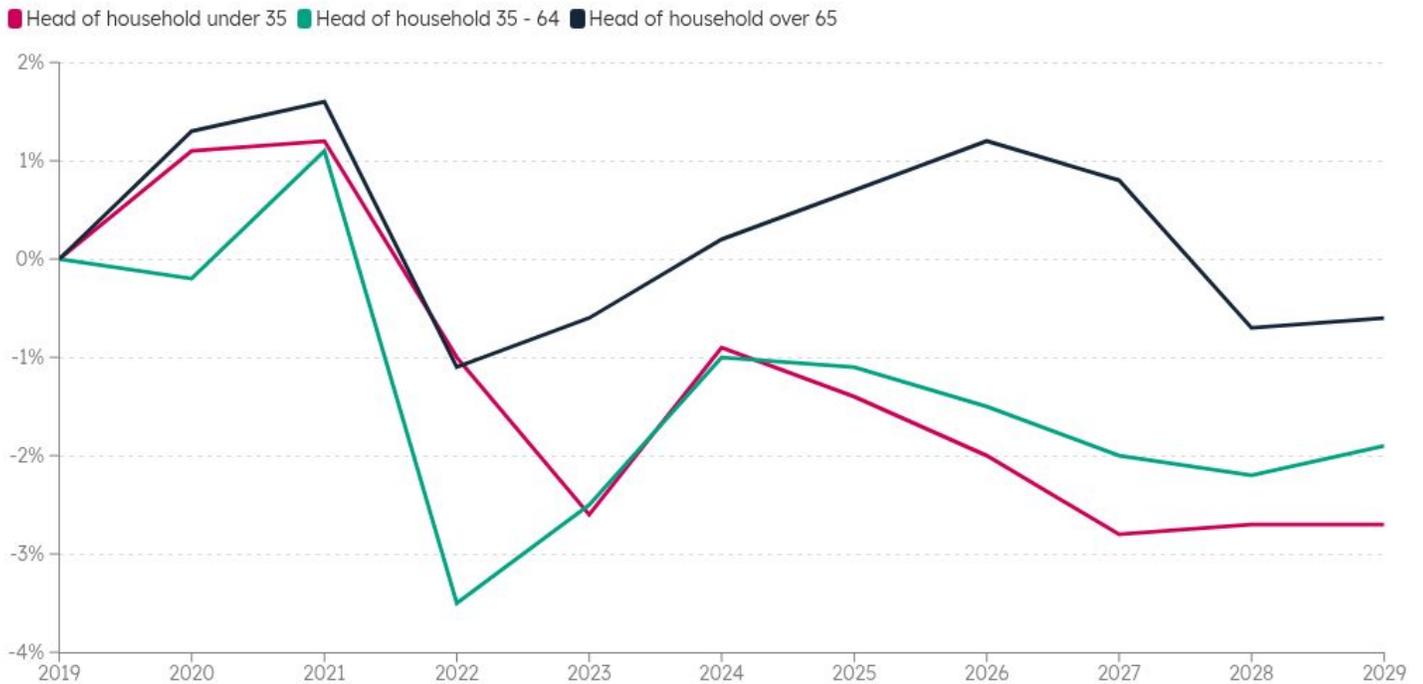
Age

The contrast in the projected outlook for disposable income remains stark for different generations. In line with the varying gain and loss of income from social security outlined above, the average pensioner household (a household headed by someone 65 or over) will be 0.6% worse off (£170 per year) in September 2029 compared to September 2019 (Figure 6). The meagre outlook for pensioners is

however better than for working-age households. By September 2029, 'middle-aged' households will be £870 (1.9%) worse off per year compared with a decade earlier, and younger households under the age of 35 will be £930 (2.7%) worse off.

Figure 6: Disposable income is projected to fall faster for working-age households than pensioners

Change in household disposable income after housing costs (Apr 2025 prices) relative to September 2019, September 2019 to September 2029 by age of head of household



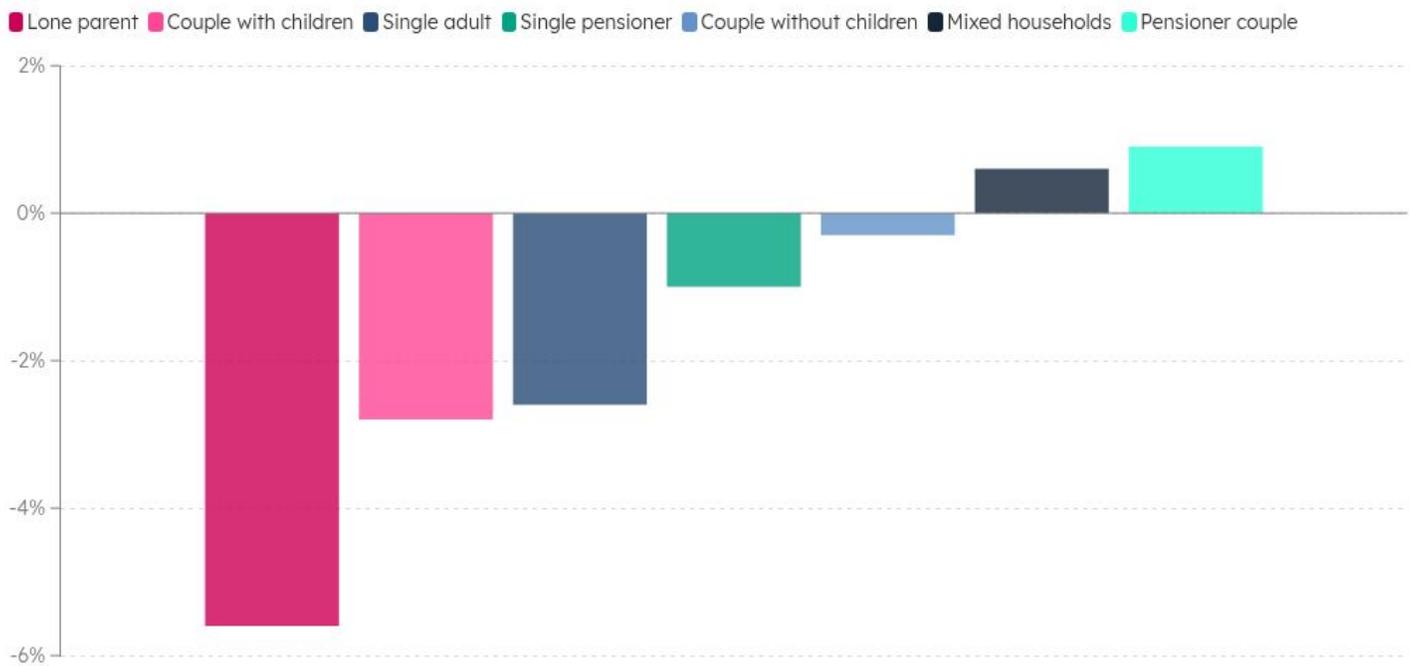
Source: JRF analysis of DWP, 2023/24 Family Resources Survey (FRS) using v02_85 of the IPPR Tax Benefit Microsimulation model. Projections estimated using data from OBR, March 2025 EFO; Bank of England Autumn 2025 MPR.

Notes: Head of household defined as primary respondent in the FRS. Mixed household types are excluded from this analysis.

Looking at family type in more detail it is clear to see how difficult this decade will be on families with children.² The average income of both couples with children and lone parents is set to be £1,500 lower in September 2029 than a decade earlier, with around half this loss occurring during this parliament. This represents a 2.8% reduction in income for couples with children, and a loss for 5.6% for lone parents.

Figure 7: Families with children are projected to experience large reductions in disposable income

Change in household disposable income after housing costs (Apr 2025 prices) between September 2019 to September 2029, by family type



Source: JRF analysis of DWP, 2023/24 Family Resources Survey (FRS) using v02_85 of the IPPR Tax Benefit Microsimulation model. Projections estimated using data from OBR, March 2025 EFO; Bank of England Autumn 2025 MPR.
Note: Head of household defined as primary respondent in the FRS. Mixed household types are excluded from this analysis.

5. Action on living standards in a constrained fiscal context

Discussion has already begun to turn to how the Chancellor will meet her fiscal rules in the Autumn Budget. Increases in the cost of borrowing and the partial reversals of previous cuts to winter fuel payment and health related benefits need to be funded.

But the Government risks being caught between a rock and a hard place. The fiscal rules leave little room for further borrowing and our projections show average household incomes are already expected to fall by £550 over the parliament, with the poorest third of households facing the biggest proportionate loss.

Households cannot afford this financially and the Government cannot afford it politically. A recent study found that 18.5 million adults in the UK felt 'economically insecure' and that this appears to be driving voting patterns (Nuffield Politics Research Centre, 2025). By October 2024, Labour had lost almost half of their economically insecure voters compared to only 3 in 10 of its economically secure voters.

But there is a way forward for this Government: improve the fairness of the tax system while raising additional revenue, and implement reforms that secure household living standards:

- Fund targeted improvement in household living standards. The priority step within this is an immediate plan to address hardship (Schmuecker et al, 2025), including: removing the two-child limit, reversing the remaining cuts to health-related benefits in Universal Credit, creating a new 'minimum floor' in Universal Credit so there is a line below which no one's payment can fall as a result of the benefit cap, permanently unfreezing LHA, increasing targeted support for low-income households on energy bills (beyond the current expansion in the warm homes discount), reforming no recourse to public funds and reforming the Household Support Fund to create a sustainable ecosystem of support for people when they experience financial hardship.
- Rebuild the foundations of a stronger social settlement that can provide greater financial resilience and living standards to families both now and for the long-term. This would include a commitment to an Essentials Guarantee in Universal Credit, to ensure everyone has a protected minimum amount of support to afford life's essentials. It would also mean reform to the housing and energy markets to reflect greater prioritisation of affordability where it is 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, it would mean 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 people who need to temporarily step away from work to help care for a loved one.
- Raise tax revenue fairly to support a direct boost to living standards. Currently, income from investment and the profits from selling capital assets

receive more favourable tax treatment than earnings from employment. Bringing effective tax rates on capital gains more closely into line with income tax, including an increase to headline rates, re-introducing an investment allowance, removing the death uplift, and implementing an exit tax so that those emigrating from the UK do not avoid paying tax on their capital gains, could raise more than £13 billion per year by 2029/30. While applying National Insurance Contributions to investment income (for example dividends, rents and savings), would likely raise in excess of £10 billion a year by 2029/30 see (Earwaker et al, 2025) for further details.

Methodology

The modelling analysis in this report uses the Family Resources Survey (2023/24) and the IPPR Tax-Benefit Model (version v02_85) to estimate household income and housing costs for September of each forecast year. The model takes the base survey data to a given month (September in this instance) and then applies inflation and the known or anticipated tax and benefit policy regimes to project household incomes and tax liabilities in future years. All projected household income and expenditure is converted into 2025 Q3 prices.

Income and tax categories

Earnings from work is any income earned through employment including self-employment (and via the furlough scheme during the period between March 2020 and September 2021).

'Other' income is predominantly made up of income from private pensions, returns on investments and savings interest, but also includes income from a range of other sources including (but not limited to) royalties, child maintenance, grants, private insurance payments and statutory pay. A full list is available on request.

Income tax is calculated for each individual and then separated into 'earnings tax' and 'other tax'. Where someone may have taken advantage of tax optimisation opportunities, this reduction would show up in the 'other tax' category.

Income from social security includes all cash payments received directly to households from local or national government. This includes means-tested benefits (such as Universal Credit), non-means tested benefits (such as Personal Independence Allowance and Child Benefit), the state pension and additional 'one-off' payments (like the previous cost of living and energy payments).

Housing costs include rent, mortgage interest payments, council tax, water payments, ground rents and service charges.

Uprating indices

The IPPR Tax-Benefit Model uses the latest outturn data and published forecast data for consumer price index (CPI), average weekly earnings (AWE), housing costs growth and the employment rate to uprate 2023/24 survey data to future years. At the time of writing, the latest OBR estimates of these were published in March 2025. We have used more recent data from the Bank of England, to update the OBR forecasts, as described in the table below.

OBR forecasts

Data set	JRF projection
CPI inflation	Outturn to quarter 2 2025, then alters the OBR forecast from March by the percentage point change in the Bank of England inflation forecast between their February 2025 and August 2025 Monetary Policy Reports.

Data set	JRF projection
AWE growth	<p>Outturn to quarter 2 2025, then alters the OBR forecast from March by the percentage point change in the Bank of England's average regular earnings growth for the private sector between their February 2025 and August 2025 Monetary Policy Reports. These are only available for annual increases that have been interpolated to generate revised quarterly projections.</p>
Mortgage interest rates	<p>Outturn to quarter 2 2025, then uses the October 2024 OBR estimates as the Bank of England's market profile for interest rates is similar in their August 2025 Monetary Policy Report to the October 2024 OBR projections.</p>
Private and social rents growth	<p>Outturn to quarter 2 2025, then alters the OBR forecast from March by the percentage point change in the Bank of England inflation forecast between their February 2025 and August 2025 Monetary Policy Reports.</p>
Employment rate	<p>Outturn to quarter 1 2025. We then calculate an annual unemployment projection (based on altering the OBR forecast from March by the percentage point change in the Bank of England unemployment forecast between their February 2025 and August 2025 Monetary Policy Reports) and look at the change in participation projections (in the Bank of England forecast between their February 2025 and August 2025 Monetary Policy Reports). Combining these allows us to derive a 16+ employment rate. We then look at the latest employment rate of people aged 65 plus and population projections to derive a 16-64 employment rate. We leave the 65+ employment rate constant at the model default level.</p>

Data set	JRF projection
Bank of England interest rate	Outturn to quarter 2 2025, then alters the OBR forecast from March by the percentage point change in the Bank of England market profile forecast between their February 2025 and August 2025 Monetary Policy Reports.
National Living Wage	Uses latest suggested rate for 2026/27 and then updates this by earnings growth derived above.

Further notes

We base our tertiles on equivalised household income after housing costs. Tertiles are set at person level, meaning a third of people are in each tertile. Average income is calculated at household level.

After earnings uprating has been applied for each year, an additional step involves ensuring no adult earns less than the National Living Wage (NLW). Due to limitations of the survey data, the Family Resources Survey over estimates the number of workers currently working for less than the NLW. By moving adults onto the minimum wage, we over estimate the number of adults paid the minimum wage, so the impact of NLW increases will be over estimated slightly in our analysis.

Notes

1. Here we base the age of the household on the 'head' of the household, which we define as the main respondent to the FRS. Mixed households — those containing more than one benefit unit — are dropped.
2. Family type uses the default decomposition given by the FRS, rather than the head of household approach used above.

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