



BRIEFING

COST OF LIVING

How big is the living standards challenge facing Andy Burnham?

As the pressure of the cost of living crisis mounts, the Government has the opportunity to return incomes to growth for low- and middle-income households.

Published on: 6 October 2026

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Reading time: 15 minutes

Executive summary

Ahead of the Budget, Burnham's Government faces a challenge and a choice. The challenge is that living standards are projected to decline on their watch, with the lowest-income households bearing the worst of the impact. The choice is whether to act sufficiently or let that happen.

Beyond the serious human impact this is having on millions of people's lives, this presents two problems for the Government. First, there is a growing body of research that highlights the drag that economic insecurity is having on economic growth, by slowing improvements in productivity. Second, the worst parliament on modern record for real incomes is a tough record to defend at the ballot box.

However, there is a way forward. The Government can make the choice to implement direct fiscal and regulatory interventions to redistribute incomes and mechanically lower prices in a way that benefits the majority, funded by improvements in the fairness and efficiency of tax. The proposed mix of fully funded measures in this briefing — including an affordable energy guarantee, controls on rents and introducing a protected minimum floor in Universal Credit — would achieve the following impacts:

- on average, each of the poorest three quintiles (the bottom 60% of households) would see their real incomes grow over this parliament, more than offsetting the hit from conflict in the Middle East even in a more severe scenario, only the richest 20% of households would contribute more in tax

than they received in support on average — there would also be a one-off reduction in inflation of 0.5 percentage points, helping to reduce pressure for higher interest rates

- the package overall would be supportive of growth. Growing evidence shows that when people have greater ‘room to breathe’ it can lead to higher productivity, either within their current job or by making it easier to move to a better job — but for middle-income families, the direct boost to incomes from these measures is also 4 times faster compared with a plausible scenario for achieving growth by other means
- the package would also mean investment in new social policy architecture for the future — for example in the pricing of energy and private housing rents — which, once built, would equip the UK with the means to respond to future inflation shocks with greater precision, flexibility and effectiveness.

1. Rising housing costs and energy prices leave household incomes falling

Six months on from the beginning of the conflict in the Middle-East the full scale of the impact on living standards is still uncertain. The best-case scenario of a quick return to normality now seems less likely, but it is still unclear how bad things could get.

In July, the Bank of England (BoE) forecasted a 'central' and an 'adverse' scenario. In the central scenario energy prices follow the market expectations from mid-July, with moderate impacts of short-term inflation expectations. The adverse scenario models energy prices rising materially above the central projection and remaining there with a greater impact on long-term inflation expectations and hence wages and prices.

Since the BoE's projection, oil and gas prices have moved close to the adverse scenario projection with gas prices breaking 200 pence per therm, and oil prices above \$100 per barrel in mid-September. However, whether these elevated levels are persistent, and what the impact will be on inflation expectations, remains to be seen.

What is clear is that under both the central and the adverse scenarios,¹ households are left struggling. In the central scenario, incomes after housing costs next year (2027/28) are expected to be £180 (0.4%) lower than this year (Q3 2026 prices). In the adverse scenario, this fall jumps to £460 (11%).

Figure 1: Living standards are projected to decline, with a more severe fall in 2027/28 in an adverse energy price scenario

Household disposable income after housing costs (Q3 2026 prices), by scenario, from the Bank of England Monetary Policy Reports



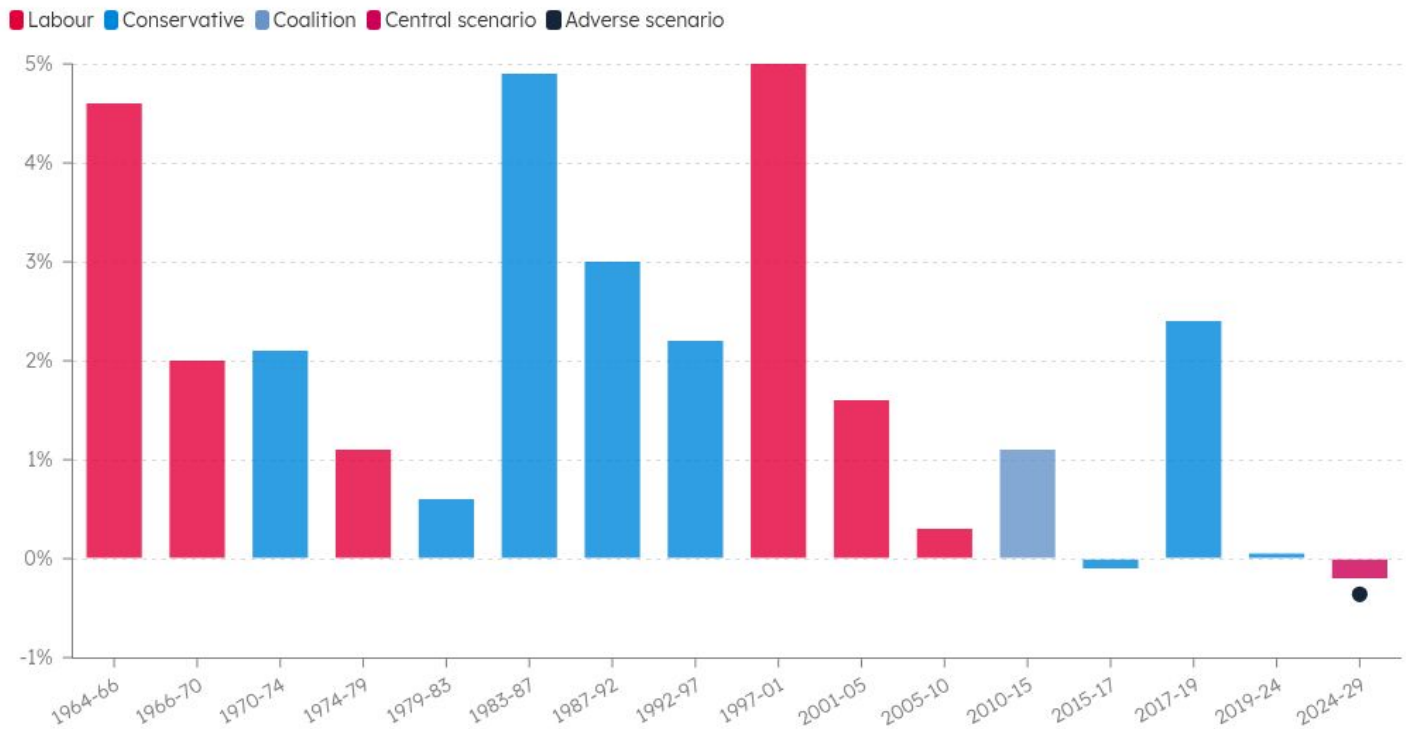
Source: JRF analysis of Department for Work and Pensions, 2024/25 Family Resources Survey using v02_99 of the IPPR Tax Benefit Model (IPPR-TBM). Projections estimated using data from Office for Budget Responsibility, Economic and Fiscal Outlooks (EFO); Bank of England, Monetary Policy Reports (MPR).

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Figure 2: Under current projections this is set to be the worst parliament on record for living standards

Average annual change in real disposable income after housing costs, by parliament



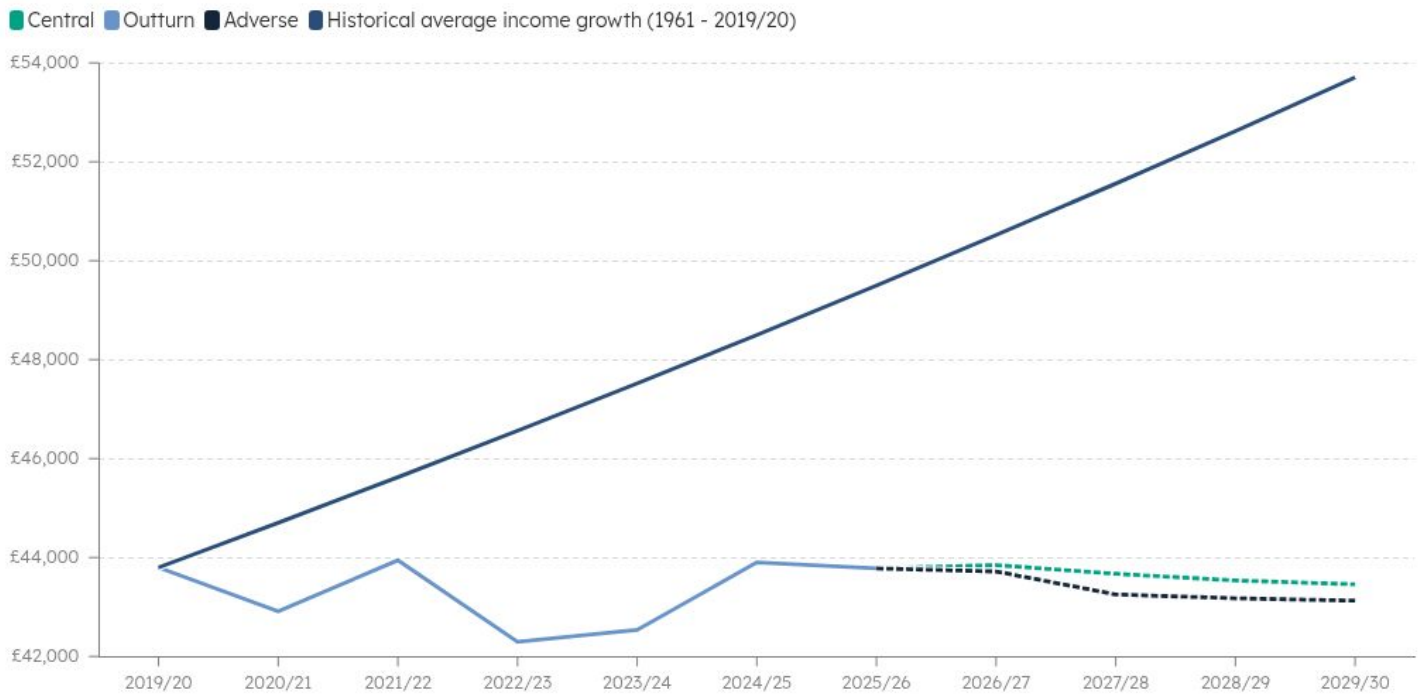
Source: JRF analysis of Department for Work and Pensions, 2024/25 Family Resources Survey using v02_99 of the IPPR Tax Benefit Model (IPPR-TBM). Projections estimated using data from Office for Budget Responsibility, Economic and Fiscal Outlooks (EFO); Bank of England, Monetary Policy Reports (MPR).

Taking the parliament as a whole, incomes after housing costs in 2029/30 are now expected to be between £440 and £770 a year lower than they were in 2024/25. Either scenario would represent the worst parliament for living standards since modern records began in 1961.

Income in 2029/30 is also projected to be below the level of a decade previously in either scenario. A decade of no growth in living standards is a disaster. We would typically expect average incomes to have grown by £10,000 over the period.

Figure 3: A decade of declining incomes will leave living standards far below levels under historical average growth

Household disposable income after housing costs (Q3 2026 prices), by scenario, compared to growth in incomes under the average rate between 1961 and 2019/20



Source: JRF analysis of Department for Work and Pensions, 2024/25 Family Resources Survey using v02_99 of the IPPR Tax Benefit Model (IPPR-TBM). Projections estimated using data from Office for Budget Responsibility, Economic and Fiscal Outlooks (EFO); Bank of England, Monetary Policy Reports (MPR).

This poor performance is the product of slow growth in nominal earnings, combined with high inflation, which is driven by housing and energy costs, in particular. High inflation and weak earnings have meant the real value of households' gross earnings is only expected to increase by £1,020 (2.2%) in the central scenario between 2024/25 and 2029/30, but this is entirely taken up by £1,050 being eaten by rising housing costs. On top of this, taxes on incomes have had to rise to fund public services.

Figure 4: Rising housing costs are continuing to weigh on incomes

Decomposition of the change in annualised household disposable income compared to 2024/25 (Q3 2026 prices)



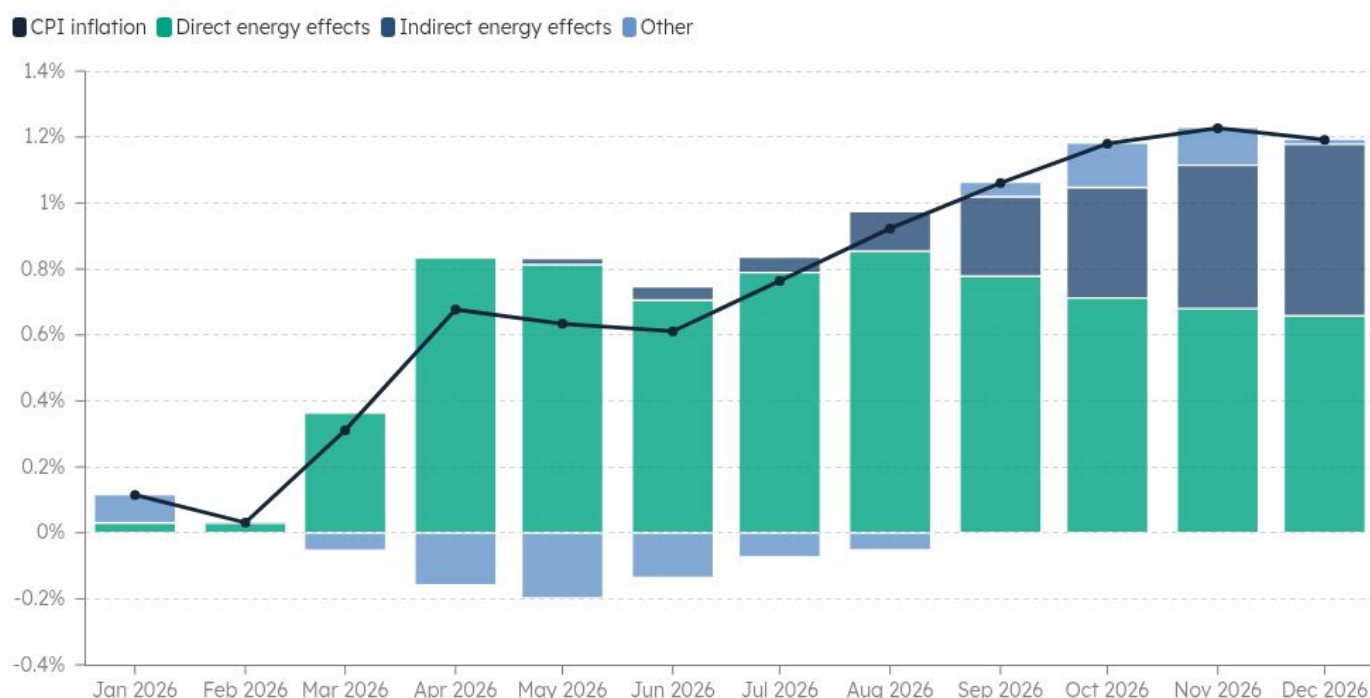
Source: JRF analysis of Department for Work and Pensions, 2024/25 Family Resources Survey using v02_99 of the IPPR Tax Benefit Model (IPPR-TBM). Projections estimated using data from Office for Budget Responsibility, Economic and Fiscal Outlooks (EFO); Bank of England, Monetary Policy Reports (MPR).

Within the wider Consumer Price Index (CPI), the role of energy costs is particularly important. The inflation forecast for 2026 is notably higher than it was in Spring, and as shown in Figure 5 (reproduced from the Bank of England July Monetary Policy Report (MPR) this is entirely a result of higher energy prices — adding 1 percentage point to the rate of inflation in the second half of 2026.

This 1 percentage point of faster growth in prices reduces the real value of incomes in 2026/27 by roughly £440 for the average household. The rise in energy costs will be particularly acutely felt amongst those with low-incomes, as the lowest-income fifth of households spent 10% of their disposable income on energy costs, compared to just 2% in the richest fifth of households.²

Figure 5: Energy drives all the increase in Bank of England inflation forecasts for 2026 between their February and July reports

Bank of England analysis of Consumer Price Index (CPI) inflation relative to their projection in the February Report



Source: JRF analysis of Bank of England Monetary Policy Reports.

2. Worse outlook also likely to be reflected in Real Household Disposable Income (RHDI)

Living standards have, rightly, been a focus of this Government. Alongside the 2026 Spring Forecast in March, the Government quoted the increase in RHDI per person stating, people were ‘set to be £1,000 better off’ per year at the end of the parliament compared to the beginning (HM Treasury, 2026).

At the time, we highlighted the difference between the official RHDI statistics and our figures was largely explained by the treatment of children and housing costs (Tims et al., 2026).

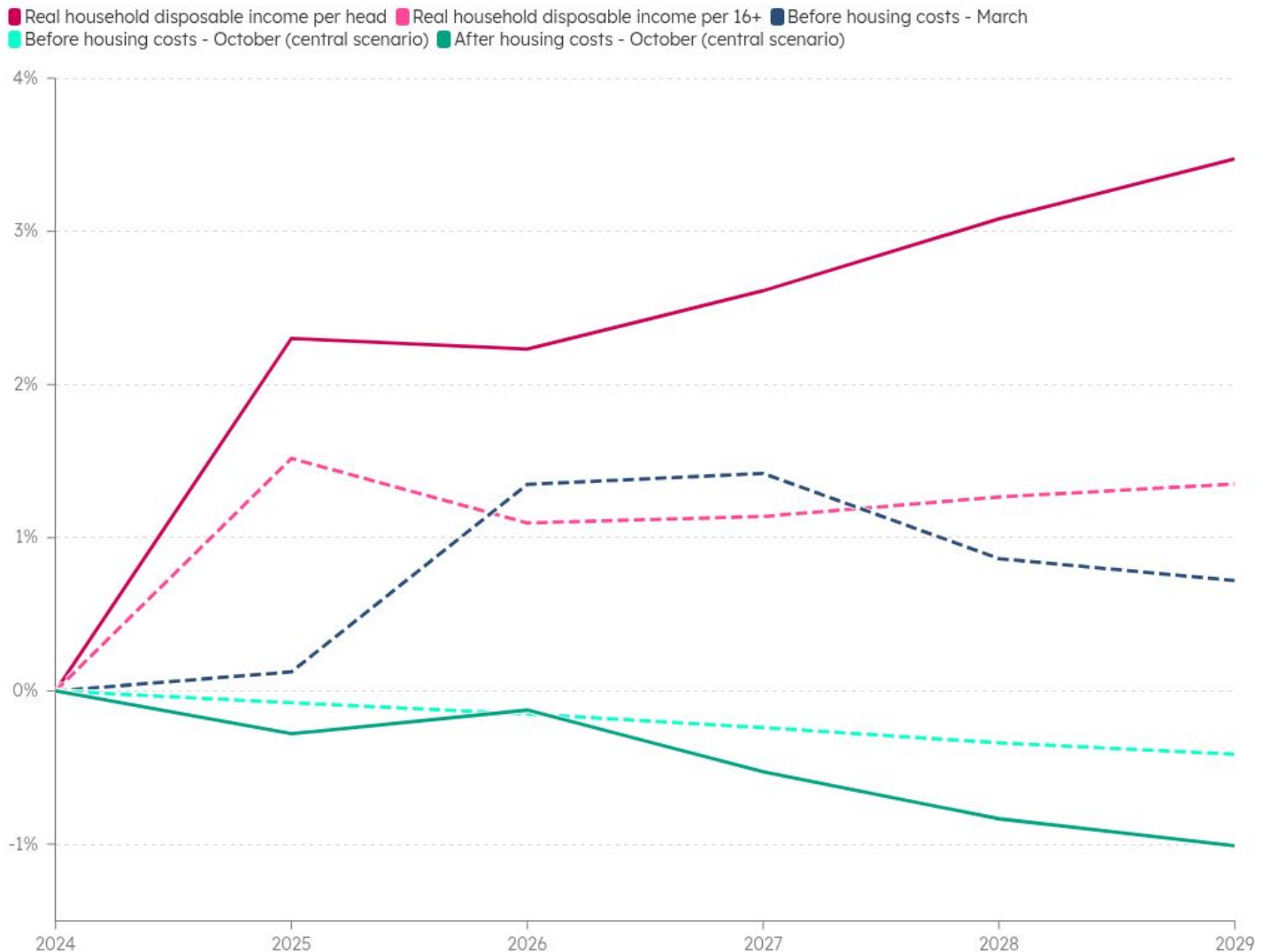
The Government figures quote the RHDI per person series, whereas the JRF series defines income at a household level (in line with the Government’s own approach to measuring distributions of household income). The Office for Budget Responsibility (OBR) also produce an RHDI per 16+ person series, which is more comparable with the number of households. As shown in Figure 6, due to a falling birth rate and projected number of children, this series presents a less positive picture: incomes per 16+ person only rise by £830 over the period 2023/24 to 2029/30 compared to £1,260 per person (2023 prices).

The treatment of housing costs also differs. Both measures adjust for housing costs in different ways. The RHDI measure adjusts for housing costs as the measure of inflation used to convert incomes to real-terms includes the cost of housing, whereas the JRF series deducts the actual housing costs people face.

One fundamental difference is that the RHDI series adds a component of income called ‘imputed rents’. This is the estimated value of the rent a homeowner would have had to pay to live in their home if they hadn’t owned it. It is added to income to account for this saving; however, it is not actual income the household received. One consequence of this is that as housing costs increase, the ‘imputed rent’ increases, raising the measured ‘income’ for these households, even though the actual household is no better or worse off.

The latest projection for incomes measured before housing costs in the central scenario is now over 1% worse in 2029/30 (around £590 per year) than the equivalent projection in Spring and — all else equal — this deterioration is likely to be reflected in the OBR’s new RHDI forecast too.

Figure 6: Worsening outlook likely to be reflected into other income measures
 Percentage change in JRF and Office for Budget Responsibility measures of average disposable household income relative to 2024/25



Source: JRF analysis of Department for Work and Pensions, 2024/25 Family Resources Survey using v02_99 of the IPPR Tax Benefit Model (IPPR-TBM). Projections estimated using data from Office for Budget Responsibility, Economic and Fiscal Outlooks (EFO); Bank of England, Monetary Policy Reports (MPR).

3. Lowest-income households are hardest hit

Even if the fall in income was distributed evenly, real-world effects would be worse for those with the lowest incomes. Those with the tightest budgets have the least means and room for manoeuvre. For some households falling income means cutting back on luxuries — eating out less often or switching to cheaper brands, but for the lowest-income households it is too often a case of which essential good they are made to go without. The JRF cost of living tracker in May showed a record 7.4 million low-income families went without at least one essential good such as food, heating or basic toiletries in the previous 6 months (Belfield and Percival, 2026).

Unfortunately, the anticipated fall in incomes is not evenly distributed, and is sharpest amongst the lowest-income households. In the central scenario, the lowest-income fifth are projected to have incomes 4.3% lower in 2029/30 than in 2024/25 compared to smaller falls for those on middle and high incomes. This is despite the reversal of the two-child limit boosting the incomes of lower-income families with children this year.

This is, again, primarily due to housing costs — and in the short-term energy costs too (as discussed above). The lowest-income households are actually expected to experience the fastest growth in earnings between 2024/25 and 2029/30, likely in part as a result of recent increases in the national living wage and increasing

employment rates. However, housing costs are growing faster still. And because housing costs take up more than 40% of income in the poorest fifth (compared to less than one-tenth in the richest fifth) the impact is felt so much harder.

On average in the central scenario, amongst the lowest-income households, between 2024/25 and 2029/30 real post-tax earnings are projected to grow by £550, but housing costs are projected to grow by £1,220. For too many households this simply will not add up.

In the lowest-income fifth, people are working more and earning more, but their income left after housing cost is set to fall.

Incomes in lower and middle part of the distribution grow slightly in the ‘central’ scenario — although growth of less than 1% remains stagnant in historical terms. This is driven by growing net earnings and an uplift in income from social security with the reversal of the two-child limit, and because the growth in housing costs takes up a smaller share of their income. However, this growth is wiped out in the ‘adverse’ scenario.

Figure 7: Lowest income households expected to bear the brunt of the income hit

4. Policy reform can return incomes to growth for the majority of households

The above modelling sets out the size of the challenge. The good news is that there is a solution.

As set out by JRF in the summer, bold action on housing, energy, social security and insecure work — funded through tax reform — can increase disposable incomes for the majority of households, with the greatest gains for those on lower incomes (Belfield et al., 2026). The package is also designed to not just deliver positive outcomes today, but also represents an investment in new social policy architecture for the future — for example, in the pricing of energy and private housing rents — which, once built, would equip the UK with the means to respond to future inflation shocks with greater precision, flexibility and effectiveness.

This illustrative policy mix includes 4 key components (for further details on all these components, their costs and their modelled effects, please see Belfield et al., 2026):

- introduce the Affordable Energy Guarantee to provide a portion of cheaper energy to all households, designed to cover a typical household's basic energy use, with larger amounts for families based on need and means — this would be a lasting reform to the energy price cap, making Government better prepared to limit the risks to household economic security, and prices,

that may result from future energy shocks

- directly address the growth in housing cost which disproportionately weighs on low-income households by controlling the growth of private rents and re-linking Local Housing Allowance (LHA) to the 30th percentile
- move towards an Essentials Guarantee in Universal Credit (UC) — where the basic rate is always at least enough to cover the cost of life's essentials — by uplifting the standard allowance of Universal Credit and limiting the deepest hardship caused by deductions and the benefit cap by introducing a Protected Minimum Floor (PMF)
- strengthen the in-work safety net against life shocks, through stronger pay protections against parenthood and sickness.

These policies can be fully funded by 2 tax reforms that improve the efficiency and fairness of the system:

- equalising Capital Gains Tax (CGT) rates with rates of income tax, while closing loopholes that allow people to avoid paying Capital Gains Tax entirely, (by holding onto an asset until death or emigrating from the UK) and introducing an investment allowance — so that capital gains are only paid on returns above the risk-free rate of return
- equalising the tax rate on rents, savings and dividends with the effective tax rate on work.

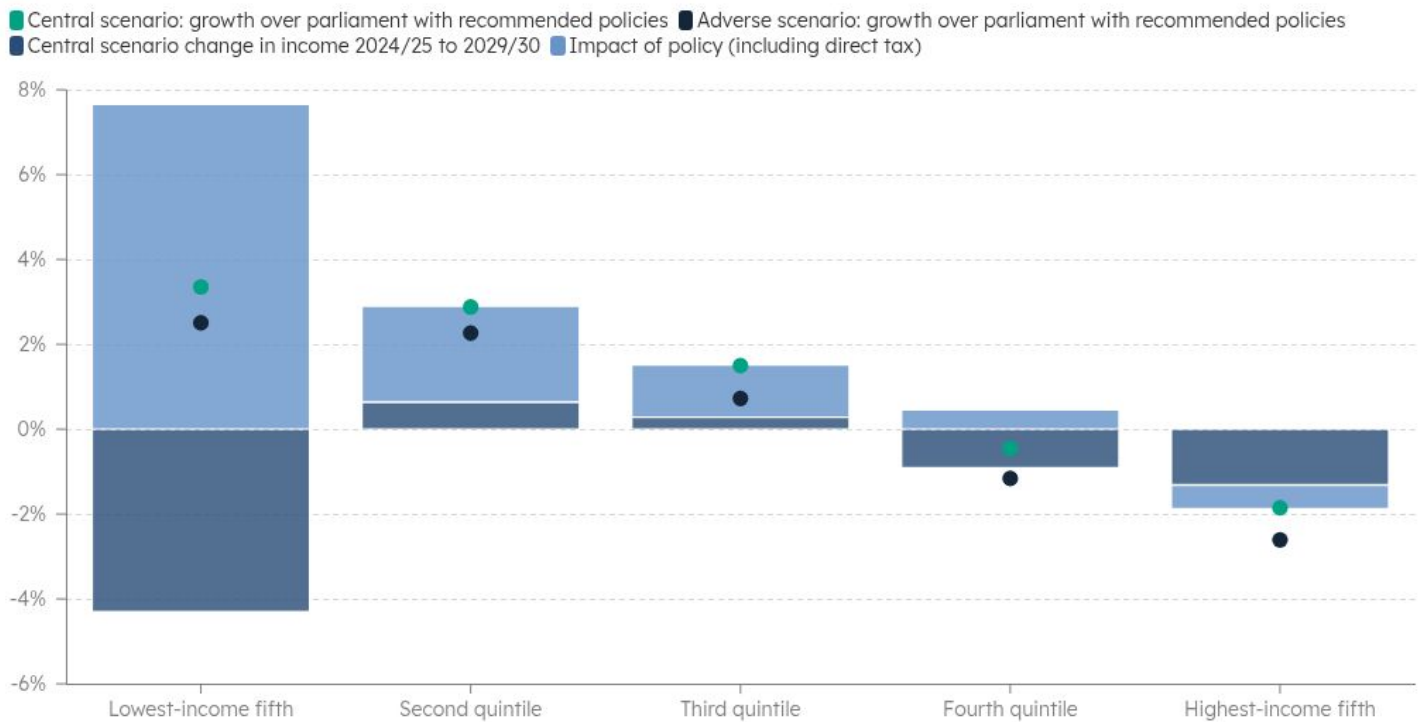
These policies increase incomes in the lowest-income quintile by £1,020 per year (in Q3 2026 prices), an increase worth 7.6% of income in 2029/30. Those in the middle of

the income distribution are £450 (1.2% of income) per year better off. On average, only the richest fifth of households are materially worse off as a consequence of the policies.

Figure 8 shows how these policies stack up against the latest estimates of the cost of living challenge. On average, the bottom 60% of households would see their real incomes return to growth this parliament, more than offsetting the hit from conflict in the Middle East, in either the central or adverse scenario. Only the richest 20% of households would contribute more in tax than they received in support.

Figure 8: Taking forward recommended policies would see real incomes rise on average across the lowest income 60% of households under either scenario

Percentage change in household disposable income after housing costs (Q3 2026 prices) between Q2 2024 and Q2 2029, before and after recommended policies



Source: JRF analysis of Department for Work and Pensions, 2024/25 Family Resources Survey using v02_99 of the IPPR Tax Benefit Model (IPPR-TBM). Projections estimated using data from Office for Budget Responsibility, Economic and Fiscal Outlooks (EFO); Bank of England, Monetary Policy Reports (MPR).

These sorts of interventions are not in tension with wider efforts to increase economic growth. In fact, they support it. Growing evidence shows that when people have greater ‘room to breathe’ it can lead to higher productivity, either within their current job or by making it easier to move to a better job (Tzivanakis et al., 2026). But these measures also deliver an immediate effect for living standards that is not possible

through growth alone over a similar time frame.

For middle-income families, the direct boost to incomes from these measures is four times faster compared with a plausible scenario³ for achieving growth by other means (Belfield et al., 2026). The package would also bring a one-off reduction in inflation of 0.5 percentage points, helping to lower the coming peak in inflation from imported prices, and dampening pressure for higher interest rates.

The illustrative package above could be set out in a single fiscal event. However, if the Government was looking to announce a smaller subset of these policies for speed, it should look to:

- deliver an interim energy affordability package at the start of January, designed to proxy the key features of the Affordable Energy Guarantee — this package could include removing levies from electricity bills for a universal portion of subsidised energy, supplemented further with cash support according to historic consumption (to proxy the size of households, in line with Germany’s 2023 crisis support) and with additional top ups based on eligibility for means-tested and disability benefits
- introduce a Protected Minimum Floor in Universal Credit limiting deductions arising from the benefits cap and debt deductions to 15% of the standard allowance, to create a legal minimum below which support cannot fall
- relink the Local Housing Allowance (LHA) to the 30th percentile of local rents — combining this at the earliest point possible with introducing a rent control would also slow the growth of rents and reduce the cost of future annual

uplifts.

5. Conclusion

This picture of household finances shows living standards not just failing to grow but actually getting worse. And getting worse fastest amongst the lowest-income households who can least afford it.

A government that is serious about growing the economy needs to address this living standards crisis. There is a growing body of evidence that the economic circumstances of households directly impact growth in productivity. Work published this year by Nuffield Politics Research Centre shows that economically insecure households are more likely to face future economic shocks, which in turn increase their economic insecurity and traps them in an insecurity cycle.

In addition, research by Tzivanakis et al., (2026) shows that ‘livelihood insecurity’ carries an earnings penalty comparable to the gender pay gap and graduate premium, reducing hours worked and wages earned, with the scarring effects growing over time.

And a government that is serious about addressing the living standards crisis need to address the cost of living directly. Waiting for a better economy or supply-side reform to deliver growth in living standards is too little too late, and ignores the barrier low living standards place on achieving that growth to begin with.

By directly addressing rising energy and housing costs, moving towards a social security system that ensures everyone has a protected minimum amount of support

to afford essentials, and improving the in-work safety net, the Government can return incomes to growth for the majority and rebuild economic security that can be the foundation of future productivity growth.

Method

The new analysis in this report takes household data from the Department for Work and Pension’s 2024/25 Family Resources Survey, and creates a representative picture of household incomes in the UK between 2019 and 2030. We do this using version v02_99 of the IPPR Tax Benefit Model (TBM) and economic forecasts from the OBR’s March 2026 Economic and Fiscal Outlook (EFO) and the Bank of England’s Monetary Policy Reports (MPR) from February and July 2026.

We present two pictures of household income change between 2026 and 2030: a central projection, and an adverse scenario driven by increasing energy costs (as estimated in the Bank of England’s July 2026 MPR). See table 1 below for the specific parameters used in each scenario.

Table 1: Input parameters for central and adverse scenario

Parameter	Method	Scenario	2027/28 (Q2)	2028/29 (Q2)	2029/30 (Q2)
Inflation	EFO forecast adjusted for change in Bank forecast between Feb and July	Central	3.1%	1.7%	1.9%
		Adverse	4.0%	2.5%	2.3%

Parameter	Method	Scenario	2027/28 (Q2)	2028/29 (Q2)	2029/30 (Q2)
Earnings Growth	EFO forecast adjusted for change in Bank forecast between Feb and July (adjusted adverse scenario for Bank Rate response)	Central	2.9%	2.4%	2.2%
		Adverse	3.3%	3.2%	2.7%
Employment (16-64)	EFO forecast adjusted for change in Bank forecast between Feb and July	Central	75.2%	75.4%	75.6%
		Adverse	75.3%	75.5%	75.7%
Bank Rate	July MPR forecast	Central	4.1%	4.2%	4.1%
		Adverse	4.8%	4.7%	4.5%
Mortgage Interest Growth	EFO forecast	Central + Adverse	11.4%	5.2%	4.2%

Parameter	Method	Scenario	2027/28 (Q2)	2028/29 (Q2)	2029/30 (Q2)
Private Rent Growth	EFO forecast adjusted using the Bank's change in forecasts for CPI between Feb and July	Central	4.1%	2.0%	2.4%
		Adverse	5.0%	2.8%	2.7%

Notes

1. We model an adapted version of the adverse scenario to account for the potential response in bank rate. A higher bank rate leads to lower expected inflation as per Bank of England forecasts, and a larger output gap. Nominal earnings growth is adjusted such that the deviation in real earnings from the central scenario reflects the projected output gap.
2. JRF analysis of Office for National Statistics (ONS) — Family spending in the UK: April 2024 to March 2025.
3. Reversion of the OBR's 2025 productivity downgrade.

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How to cite this briefing

If you are using this document in your own writing, our preferred citation is:

Belfield, C. Milne, B. Hamdan, N. (2026) How big is the living standards challenge facing Andy Burnham? York: Joseph Rowntree Foundation