



BRIEFING

INCOME, SAVINGS AND DEBT

COST OF LIVING

Weak income growth leaves people with little resilience to shocks

With the local elections in England, and elections in Scotland and Wales around the corner, this briefing provides a reminder of the need to prioritise increasing living standards across the UK.

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1. Introduction

Recent income growth has been weak and varied across the UK, significantly post-pandemic, with London seeing the sharpest fall, and the North East and Wales seeing the biggest growth.

Economic forecasts prior to the increased conflict in the Middle East imply low average growth in household income across the 2020s. This represents a poor prospect for households, but has particularly severe implications for those falling below the average forecast. The lowest-income third of households are expected to have lower incomes in 2029 than in 2019. If the conflict in the Middle East increases prices or reduces growth, incomes could fall across the country.

2. Macroeconomic context

The projections quoted in this briefing were made at a time when the macroeconomic context appeared stable but weak. Inflation was forecast to return to target in the middle of 2026, unemployment was projected to rise modestly (peaking in 2026), and real wage growth was projected to be positive but low.

However, since then the conflict in the Middle East has caused oil and gas to spike. Energy and motoring costs have already risen for some, with Government intervening on heating costs which aren't covered by the energy price cap ([HM Treasury, 2026](https://www.gov.uk/government/news/over-50-million-to-help-families-struggling-with-soaring-heating-oil-costs)) (<https://www.gov.uk/government/news/over-50-million-to-help-families-struggling-with-soaring-heating-oil-costs>). A prolonged conflict or one that causes a persistent reduction in global energy supply will result in a higher cap come July, with the Bank of England also suggesting businesses will increase prices because of higher input costs ([Bank of England, 2026](https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2026/march-2026) (<https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2026/march-2026>)).

Where the Bank previously estimated inflation to return to target in April, they now estimate Q2 inflation of around 3%, and warn it could reach 3.5% in Q3. As a result, the Bank rate was held in March, and may now rise over the year, with higher unemployment a potential outcome. In their March report the OECD downgraded their projection for UK growth in 2026 by 0.5 percentage points ([OECD, 2026](https://www.oecd.org/content/dam/oecd/en/publications/reports/2026/03/oecd-economic-outlook-interim-report-march-2026_254a8d56/d4623013-en.pdf)) (https://www.oecd.org/content/dam/oecd/en/publications/reports/2026/03/oecd-economic-outlook-interim-report-march-2026_254a8d56/d4623013-en.pdf)).

These developments, especially if persistent, suggest that the fall in disposable income we estimate from this April onwards may be a best-case scenario. The same is true of the OBR's estimate of real household disposable income.

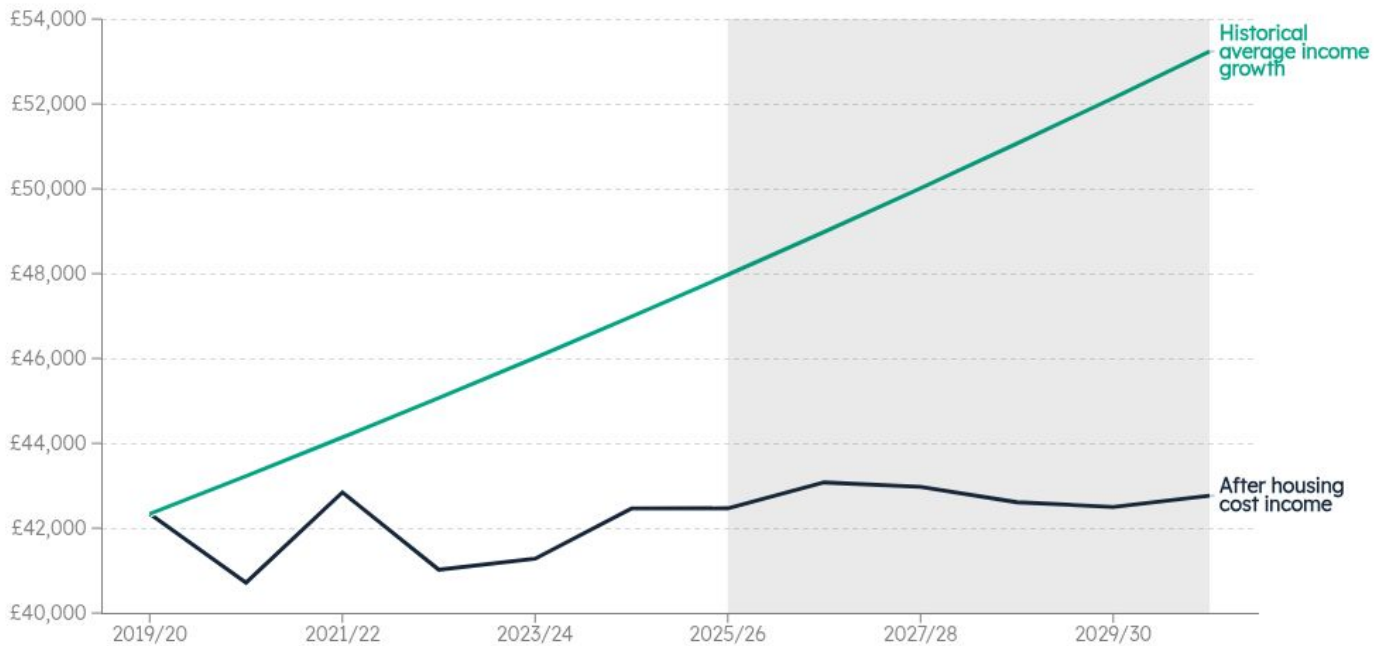
3. UK income growth in the 2020s

Using the latest projections from the OBR (made prior to the conflict in Iran), we estimate that average household annual income after housing costs – hereafter referred to as disposable income – in 2029/30 will only be £160 higher than a decade earlier, a rise of just 0.4% (all prices are 2025/26 prices here and henceforth).¹ Over the typical 10-year period between 1961 and 2019/20 incomes grew by 24% – equivalent to an increase of nearly £10,000 per year today.

April 2026 is projected to be the high point of the decade with annual incomes falling by £580 over the remaining 3 years.

Figure 1: Disposable incomes were projected to be just £160 higher at the end of this Parliament compared to a decade earlier

Annual household disposable income after housing costs (2025/26 prices), April 2019 to April 2029



Source: JRF analysis of DWP, 2023/24 Family Resources Survey using v02_92 of the IPPR Tax Benefit Microsimulation (IPPR TBM) model. Projections estimated using data from OBR, Spring 2026 Economic and Fiscal Outlook (EFO). Note: The shaded region is modelled income based on forecast data from the OBR, unshaded is modelled using historical data.

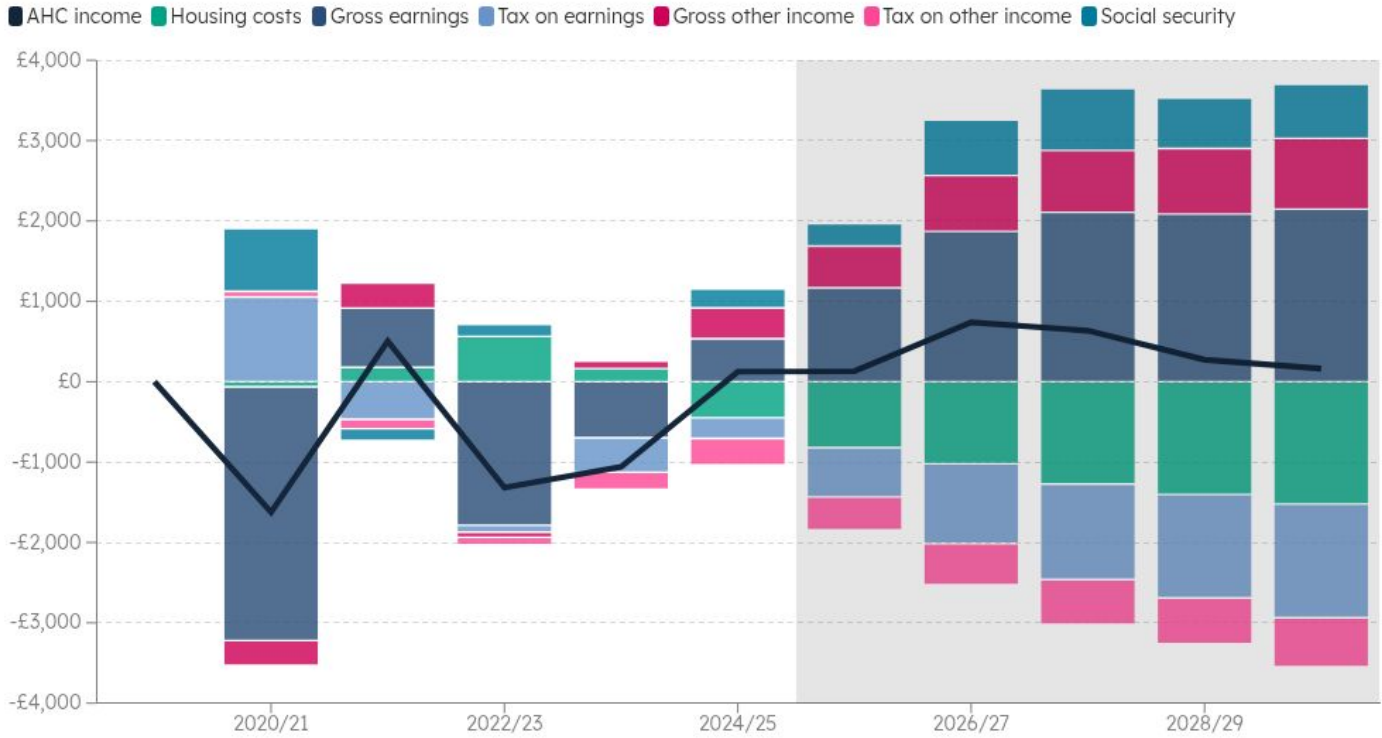
Figure 2 highlights 3 clear drivers of this slow income growth: slow growth in real earnings, rising housing costs and a greater share of incomes paid in tax.

Following 2 years of growth above 2.5% between 2023 and 2025, real earnings have begun to stagnate and the OBR project this stagnation to continue: only projecting 0.5% real wage growth per year in the medium term. Housing costs have been

growing faster than general inflation since 2022/23, initially driven by rising interest rates pushing up mortgage costs, and more recently by rapid increases in the real rents.

The share of income paid in taxes is also projected to continue rising, due in part to the ‘fiscal drag’ of frozen personal tax thresholds. However, focusing unduly on taxes paid, without accounting for the benefits of the public services these taxes fund, presents a misleading picture of living standards. It is estimated that English households will receive £13,000 of ‘in kind’ benefits from government in 2025-26 (with a larger amount, £15,900, for the poorest fifth of households) (Resolution Foundation, 2025).

Figure 2: Investment in social security this April will boost average incomes
 Decomposition of the change in annual household disposable income after housing costs (AHC) (2025/26 prices), April 2019 to April 2029



Source: JRF analysis of DWP, 2023/24 Family Resources Survey using v02_92 of the IPPR Tax Benefit Microsimulation (IPPR-TBM) model. Projections estimated using data from OBR, Spring 2026 Economic and Fiscal Outlook (EFO).
 Note: The shaded region is modelled income based on forecast data from the OBR, unshaded is modelled using historical data.

Not all households have experienced this income growth equally, as shown in Figure 3. Despite little change in average incomes over the UK parliament, incomes in the lowest-income third of households are expected to end the decade 2% (or £350 per year) lower than they began. This is largely due to their greater exposure to rising housing costs. Housing costs take up about a third of household income for this

group (compared to a sixth in the middle third, and a tenth for the richest households), meaning increasing household costs is a bigger hit to their disposable income.

They also benefited less from the real earnings growth due to lower employment rates. Combined, this more than offsets the increased social security income from scrapping the two-child limit, and the above inflationary increase in the standard element of Universal Credit in April 2026.

Figure 3: Lowest-income households expected to be 2% worse off in 2029/30 than 2019/20

Percentage change in household disposable income after housing costs (2025/26 prices) by income tertile, April 2019 to April 2029



Source: JRF analysis of DWP, 2023/24 Family Resources Survey using v02_92 of the IPPR Tax Benefit Microsimulation (IPPR-TBM) model. Projections estimated using data from OBR, Spring 2026 Economic and Fiscal Outlook (EFO). Note: The shaded region is modelled income based on forecast data from the OBR, unshaded is modelled using historical data. What could this mean for the four nations over this parliament.

Differences to Real Household Disposable Income (RHDI) explained by treatment of housing costs and children

The figures in this briefing differ from the official 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 figures differ in 3 important

ways:

Housing costs

Both measures adjust for housing costs in different ways. The RHDI measure adjusts for housing costs in the deflator then accounts for rising prices, 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.

Denominator

The JRF income series is measured at the household level, while the OBR publish an alternative series which focusses on real disposable household income per person, and real disposable household income per person aged 16 or over. There is a forecast reduction in the number of children in the population and so the ‘per person’ series presents a more positive picture. The income per individual aged 16 or over is probably the closest to the JRF analysis, given the falling number of children is unlikely to lead to a proportionate reduction in the number of households, and as shown in Figure 4 this significantly reduces the difference between the series.

Deflator

RHDI is deflated using the household consumption deflator in the National Accounts, whereas our income measure is deflated using the Consumer Price Index (CPI) deflator (adjusted to be after housing costs) which is much more commonly used in considered living standards.

Data source

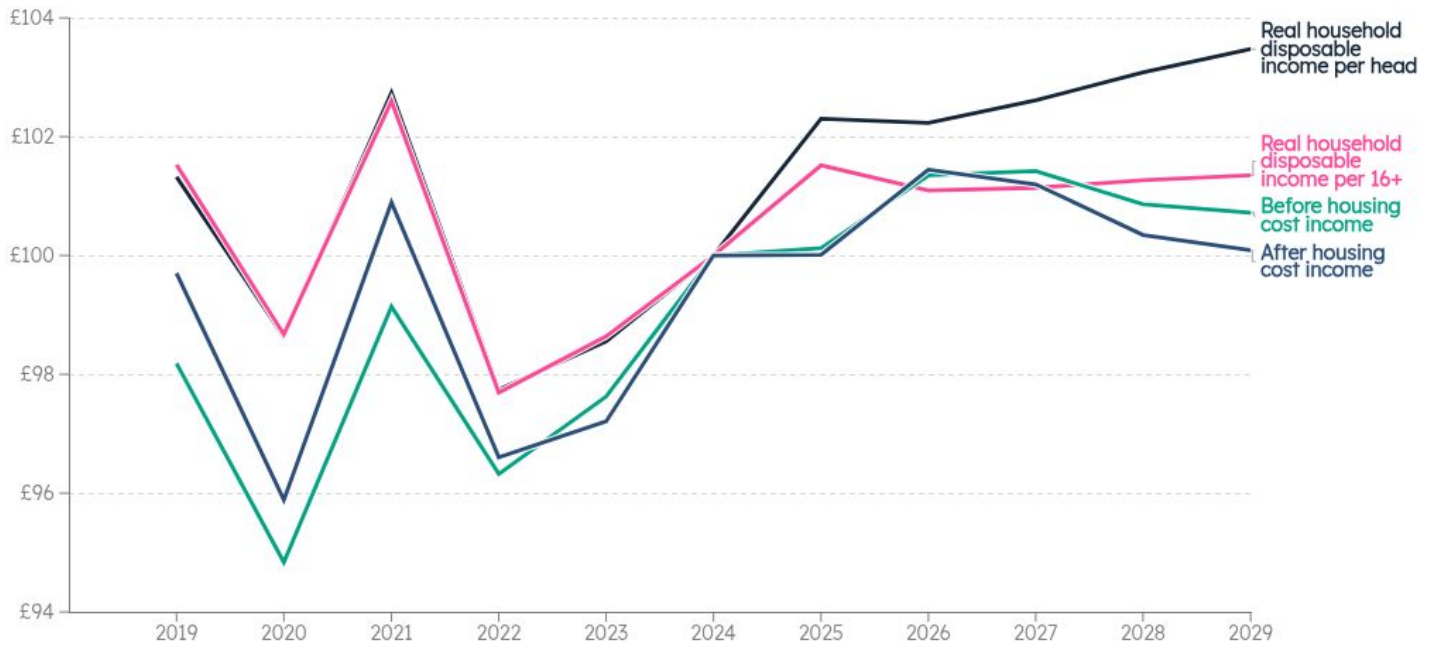
JRF analysis is based on the Family Resources Survey, while the RHDI is based on National Accounts data.

The chart below compares JRF and OBR income forecasts. Reassuringly, all income measures show somewhat of a consistent picture, with a fall then rise in incomes around the pandemic year of 2020/21, followed by a further fall driven by very high inflation in 2022/23. There is then fairly robust income growth to 2024/25 or 2025/26, before a slowing down or stalling of growth from then to 2029/30.

There are some differences, with RHDI per person showing a rise over the period 2026/27 to 2029/30, with the other series showing a static or falling profile over the period. The more positive profile for RHDI per person compared to RHDI per 16+ person is driven by the population projections underlying the OBR forecasts, which show a falling number of children. This in turn is still slightly more positive than the before housing costs JRF estimate. The JRF after housing costs measure shows the greatest fall, with this being driven by rising housing costs over the period, which are deducted from incomes.

Figure 4: RHDI-based and JRF income trends follow similar patterns, with differences driven by housing costs and variations in population projections

A comparison of income trends from 2019/20 to 2029/30



Source: JRF analysis of FRS and OBR data.

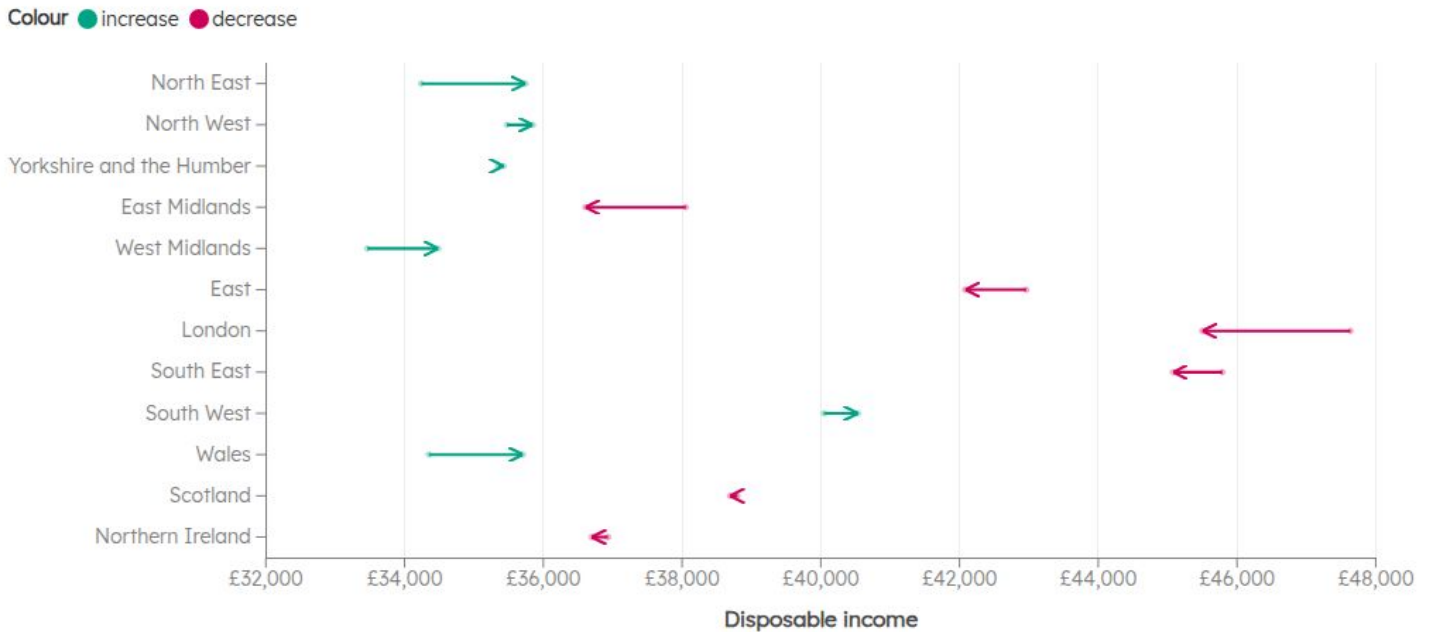
4. Subnational income growth

Between 2021/23 and 2022/25² average incomes across the UK fell by 0.8%. However, this masks stark variation across regions and nations of the UK.

As shown in Figure 5, disposable income in London has fallen by 4.5%, amounting to a fall of £2,150 annually for the average household in England's capital. This sharp fall in disposable income has not been confined to London alone, with annual falls of 3.8% in East Midlands, 2% in the East of England and 1.5% in the South East. Set against this, 5 places have seen positive growth in disposable income since the pandemic, as highlighted in Figure 5. The North East and Wales have seen the biggest increases of 4.4% and 3.9% respectively, which amounts to increases in annual disposable income of £1,500 and £1,350 respectively for each place.

Figure 5: London has seen a sharp drop in disposable income post-pandemic, while the North East and Wales have seen significant growth

Change in real disposable income by place in the UK, 2021/23 to 2022/25



Notes: 3-year averages are taken in line with DWP guidance. In the absence of data during 2020-21 due to the pandemic, a 2-year average is taken for 2022-23 in line with DWP guidance, and hence the labels are 2021-23 to 2022-25.
 Source: JRF analysis of DWP, Households Below Average Income.

These differences are driven by patterns in employment, earnings and housing costs, as shown in Table 1. The 3 places with the largest increase in disposable income saw the biggest increases in the share of households with at least 1 adult in work, while London saw the biggest fall. All the places which experienced a fall in disposable income, with the exception of Northern Ireland and East Midlands, had lower PAYE earnings growth than the UK average. East Midlands and London – with the largest falls in income – saw the largest increases in housing costs.

Table 1: Change between 2022/23 and 2024/25 on selected metrics by place

Place	Disposable income (percentage change)	Employment (percentage point change)	Housing costs (percentage change)	PAYE earnings (percentage change)
North East	4.4%	2.4ppts	-1.2%	5.6%
North West	1.0%	0.2ppts	-3.0%	5.8%
Yorkshire and the Humber	0.2%	0.3ppts	-3.4%	5.4%
East Midlands	-3.8%	0.1ppts	5.3%	5.6%
West Midlands	3.1%	2.2ppts	-0.8%	5.3%
East	-2.0%	-0.5ppts	-1.9%	4.3%
London	-4.5%	-1.9ppts	4.2%	3.1%
South East	-1.5%	0.0ppts	0.3%	3.7%

Place	Disposable income (percentage change)	Employment (percentage point change)	Housing costs (percentage change)	PAYE earnings (percentage change)
South West	1.2%	-0.3ppts	-3.0%	5.2%
Wales	3.9%	1.7ppts	-0.6%	5.2%
Scotland	-0.3%	0.5ppts	-1.4%	2.9%
Northern Ireland	-0.6%	0.0ppts	-4.1%	8.6%

Notes: Disposable income, employment, housing costs changes are 3-year averages as described in notes in Figure 5, so are in effect comparing 2021/23 with 2022/25. PAYE earnings look at the change between April 2023 and April 2025. Disposable income, PAYE earnings and housing costs are real changes.

Source: JRF analysis of DWP, Households Below Average Income, Earnings and employment from Pay As You Earn Real Time Information, UK: March 2026.

Going forwards, incomes will not grow at the same pace in each of the nations in the UK. With the Welsh and Scottish elections just a few weeks away, our analysis shows the importance of policies put forward by all the parties standing. In particular,

voters will be looking at what these parties propose to do to reduce essential household costs — especially housing, which remains a pressing concern. In Scotland, there will also be a strong focus on social security investment and income tax, and how both could affect households.

At the same time, the UK Government continues to play a significant role in shaping people's incomes in both Scotland and Wales, as well as across the wider UK. Its decisions on employment rights, the social security system, capital investment, economic development, and the broader tax system, will all be crucial in determining financial outcomes for households over the remainder of the UK parliament.

5. Conclusion

The baseline outlook for income growth in the UK is weak, with incomes at end of the decade expected to be little higher than they were at the beginning. This weak baseline outlook means there is little resilience to external shocks or groups that underperform this average projection.

Post-pandemic disposable income growth has varied substantially across the country so far with London seeing the sharpest fall, and the North East and Wales seeing the biggest growth. Meanwhile, the lowest-income third of households are more exposed to rising housing costs and, as a result, are expected to have lower incomes in 2029/30 than in 2019/20. And if the conflict in the Middle East should worsen the outlook for inflation, employment or earnings, household incomes may fall across the country.

Governments at all levels — the UK parliament, Scottish parliament, Senedd, Northern Ireland Assembly, and local councils, need to do more to ensure robust growth in living standards, and address more directly the distributional outcomes presented by income and geography. There are a number of forms of intervention that would increase resilience, including the introduction of a universal discounted block of essential energy to reduce costs and reforming the social security system to ensure that everyone can meet the essentials. It is against this backdrop that the local elections in England and the elections in Wales and Scotland take place in May.

Notes

1. 3-year averages are taken for this analysis of places in the UK in line with DWP guidance. In the absence of data during 2020-21 due to the pandemic, a 2-year average is taken for 2022-23 in line with DWP guidance, and hence the groupings compared change over 2021-23 to 2022-25.
2. The UK-wide modelling analysis in this report uses the Family Resources Survey (2023/24) and the IPPR Tax-Benefit Model (version v02_92) to estimate household income and housing costs for April of each year. The model takes the base survey data to a given month (April 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 2025/26 prices.

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