House of Commons Library

Research Briefing

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Rising cost of living in the UK

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Summary

The cost of living has been increasing across the UK since early 2021. The annual rate of inflation reached 11.1% in October 2022, a 41-year high, affecting the affordability of goods and services for households.

This briefing gives an overview of rising prices, particularly food, energy and fuel prices, including the effect of the conflict in Ukraine. It outlines Government support as well as how rising prices, interest rates and other policies will affect household budgets.

Consumer goods, energy prices and food pushing inflation higher

Consumer prices, as measured by the Consumer Prices Index (CPI), were **11.1%** higher in October 2022 than a year before.

Increases in the costs of consumer goods, underpinned by strong demand from consumers and supply chain bottlenecks, have been factors causing rising inflation. Food prices have also been rising sharply over the past year.

Another important driver of inflation is energy prices, with household energy tariffs and petrol costs increasing. From October 2021 to October 2022, domestic gas prices increased by 129% and domestic electricity prices by 66%. Gas prices increased to record levels after Russia launched its full-scale invasion of Ukraine and continued to rise during much of 2022 due to cuts in Russian supply. Electricity prices are linked to gas prices and have followed a similar trend.

On 8 September the then Prime Minister announced a new Energy Price Guarantee would be introduced on 1 October, to cap typical consumption at £2,500 a year. It was initially intended to last for two years, but the Chancellor announced on 17 October that it would only last sixth months. In the Autumn Statement 2022 he announced that the EPG would be increased in April 2023 to £3,000 for typical annual consumption and last to the end of March 2024.

As well as the humanitarian, military and political impact of Russia's invasion of Ukraine, there are implications for the world economy. For the UK, a key economic effect of the conflict is higher energy prices. After rising following the invasion, gas prices on international markets have fallen steadily, and oil prices (in US dollars) have been falling since June.

As a result, road fuel prices and household energy bills in the UK have increased. Energy bills for businesses have also increased and are expected to continue to rise. Details of new Government support for businesses, the Energy Bill Relief Scheme, were announced on 21 September.

Russia and Ukraine are also large producers and exporters of agricultural products, such as wheat, and some metals. These products have become more expensive on international markets, leading to increases in food and materials prices in the UK.

Rising inflation around the world

Consumer price inflation has been rising in many countries since 2021. Pandemic-related supply shortages are a main factor. As the global economy recovers from its recession, there has been increased demand for products – especially consumer goods – and materials. The conflict in Ukraine is also leading to higher commodity prices, pushing up inflation around the world.

In October 2022, the Eurostat reported the UK's annual inflation rate of 11.1% was higher than in some comparable economies such as France (7.1%) but similar to the Eurozone average (10.6%) and Germany (11.6%).

Inflation rate expected to slow in 2023

The Government's Energy Price Guarantee (EPG) package caps the unit price of household energy, which means the inflation rate is likely to be lower than it would have been under Ofgem's household energy price cap (which was due to be higher than the EPG).

The Office for Budget Responsibility (OBR) estimates that without the EPG inflation would have peaked at 13.6% in early 2023, 2.5 percentage points higher than its forecast with the EPG.

In forecasts published 17 November 2022, the OBR expects CPI inflation to peak at 11.1% in Q4 2022. This is similar to the Bank of England's forecast of a peak of 10.9% on average in Q4 2022.

Both the OBR and Bank of England expect the annual inflation rate to ease in 2023, as the steep rises in energy prices seen in 2022 fall out of the annual comparison. The OBR expects inflation to slow to 3.8% by Q4 2023, while the Bank forecasts a rate of 5.2% for the same period, partly due to the expectation that domestic inflationary pressures "remain strong".

Government policies

The Government announced the Energy Price Guarantee (EPG) on 8 September, which will cap the unit of cost of energy. A household's bill will continue to be influenced by how much energy they use, but a typical household will save £900 this winter, according to the Government.

The EPG might cost the Government around £25 billion in 2022/23, while a similar scheme for non-domestic users of energy (businesses, charities, public sector, etc) might cost a further £18 billion.

Other Government support announced during 2022 includes:

- £400 off energy bills for all households
- £650 payments for households receiving means-tested benefits. Pensioners will get an additional £300 and people receiving disability payments an additional £150
- a £150 council tax rebate for households in council tax band A to D
- a 5p cut to fuel duty
- an increase to the amount someone can earn before National Insurance Contributions (NICs) are charged

Impact on households

According to the Office for National Statistics, 91% of adults in Great Britain reported an increase in their cost of living in October-November 2022.

The OBR expects real post-tax household income to fall by 4.3% in 2022-23, the biggest fall since comparable records began in 1956.

Low-income households spend a larger proportion than average on energy and food, so are more affected by price increases. Food bank charities are reporting an increase in demand: the Trussell Trust reported that in April-September 2022 they provided almost 1.3 million emergency food parcels, a third more than in the same period in 2021 and 50% more than pre-pandemic levels.

The Bank of England has been raising interest rates to try and lower the inflation rate below its 2% target. This has led to higher borrowing costs for households, notably on mortgage interest rates. The reaction on financial markets to the mini Budget of 23 September has led mortgage providers to further increase interest rates on the mortgages they offer.

1 Inflation rising

Inflation is measured by the rate that prices increase. This is commonly expressed as an annual percentage change. In this briefing, we concentrate on prices that consumers pay for goods and services, often described as part of 'the cost of living'. Inflation in this context means a rise in the cost of living.

1.1 Inflation in 2021 and 2022

Inflation has been rising since early 2021. Strong consumer demand for goods, rising energy prices and higher costs for businesses are reflected in higher prices.

Consumer prices, as measured by the Consumer Prices Index (CPI), were 11.1% higher in October 2022 than a year before. This is the highest recorded inflation rate since CPI records began in 1989, and the Office for National Statistics (ONS) estimate it was higher than at any time since October 1981.[1] This compares to rates under 1% in the first few months of 2021 and 5.5% in January 2022.

Inflation has risen sharply during 2021 and 2022

%, annual change in consumer prices (CPI)

Source: ONS, CPI annual inflation rate, series D7G7 (16 November 2022 update)

Further detail on the factors driving up inflation, such as energy prices, are covered in section 2.

[1] ONS, Consumer price inflation, UK: October 2022, 16 November 2022; based on modelled data back to 1950 from the ONS as the CPI was only introduced in 1997 (with consistent data back to 1989).

Figures for inflation in November 2022 are scheduled to be published by the Office for National Statistics (ONS) on 14 December.[2]

1 How is inflation measured?

The inflation figures cited in this briefing are based on the cost of a representative basket of goods and services for the average consumer in the UK, calculated by the Office for National Statistics (ONS).[3] It is produced by collecting prices of over 700 goods and services in many locations across the country, and online, every month. A total of approximately 180,000 individual prices are collected.[4]

Inflation rates for individuals will differ from these figures, depending on their spending patterns and prices they pay. For example, a relatively high proportion of spending among lower-income households is on food.

The goods measured matter

The ONS periodically publishes data showing inflation rates divided into 10 groups ordered by household income.[5] However, this is still based on the same products and services collected for the main inflation indicators.

In 2023, the ONS is planning to increase the number of prices it collects each month from 180,000 to many millions, by using prices sent to them by supermarkets. This will allow for more detailed inflation data to be produced (at first on an experimental basis).[6]

This does not, however, fully address the issue of knowing the spending patterns of specific groups of people, such as those on low incomes in specific areas of the country, or those that rely on specific products or supermarkets.

On 25 October 2022, the ONS published experimental analysis on the price changes since April 2021 of the lowest-cost products for 30 everyday items.[7]

Section 5.2 of this briefing looks at the effect of rising prices on low-income households.

2 These, and subsequent releases, will be available in the ONS's monthly inflation bulletin.
3 For more, see ONS, Coronavirus (COVID-19) and Consumer Price Inflation weights and prices: 2021.
4 ONS blog post, Made to measure: how we estimate inflation across the UK, 17 November 2021
5 ONS, Inflation and cost of living for household groups, UK: October 2022, 28 January 2022
6 ONS blog post, Measuring the changing prices and costs faced by households, 26 January 2022
7 ONS, Tracking the price of the lowest-cost grocery items, UK, experimental analysis: April 2021 to September 2022, 25 October 2022

1.2 Impact of conflict in Ukraine

As well as the humanitarian, military and political impact of Russia's full-scale invasion of Ukraine, there have also been implications for the world economy.[8] For the UK, one of the main economic effects is higher energy prices.[9]

Oil prices

Russia is one of the world's largest producers and exporters of oil and gas and an important supplier of gas to many European countries, though not directly to the UK.[10] Immediately following the invasion on 24 February 2022, oil prices went above $100 per barrel to their highest level since 2014.[11] They subsequently continued to increase reaching over $125, before falling back slightly. Prices gradually increased to almost $125 a barrel in mid-June before falling back over the following few months to just below $100 a barrel.

As explained in Box 2, the pound has generally become weaker against the US dollar, and other currencies, over the past eight years. Between 1 January and the start of November 2022 the pound lost 16% of its value against the dollar. As oil is traded in US dollars a weaker pound makes oil prices in the UK more expensive, other things remaining equal. Changes in Sterling prices for oil are a better indicator of the likely changes in prices of road fuel and heating oil in the UK. While the dollar price of oil in mid-November 2022 was 4% above its mid-January level, the Sterling price was 21% higher.[12] The Library briefing Oil prices provides more detail.

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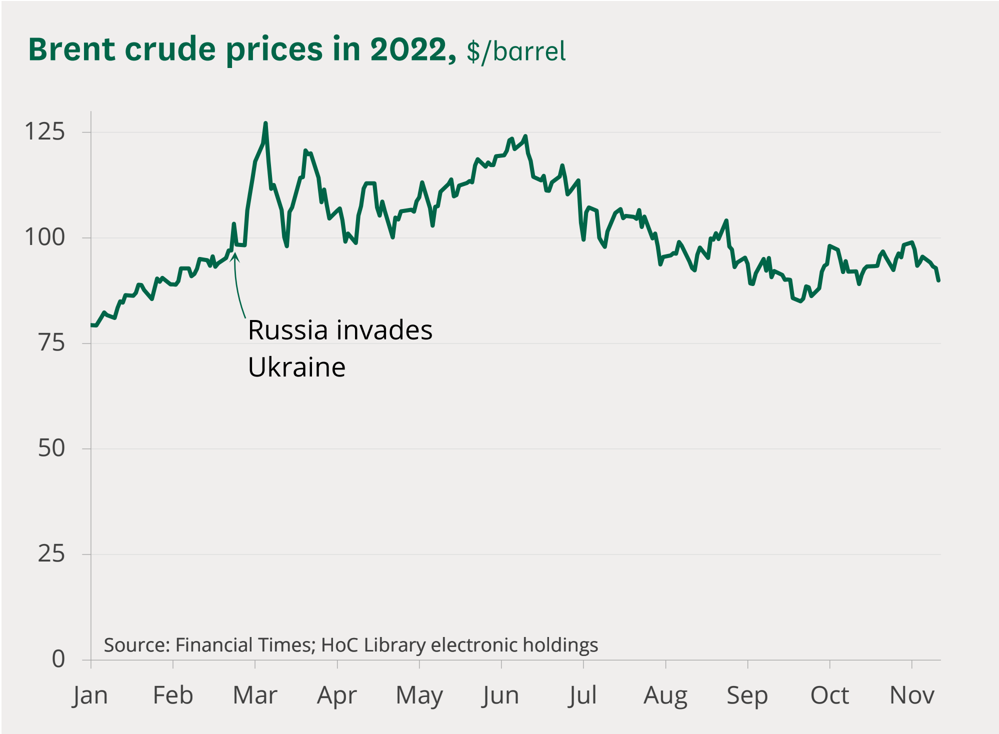
8 Library briefings on the conflict are on our Ukraine crisis page.

9 For more on the economic impact of the conflict see section 2.2 of Library briefing, Background to Spring Statement 2022

10 IEA, World top crude and NGL exporters, 1997-2019, August 2021; BEIS, Russia-Ukraine and UK energy: factsheet, 25 February 2022

11 Financial Times Markets Data, ICE Brent Crude Oil Front Month

12 Financial Times; HoC Library electronic holdings



Gas prices

As discussed in section 2.2, gas prices in Europe increased by 50% on 24 February to $44 per million therms (around 11 p/kWh). Prices increased by 30% on Asian markets on the same day.[13] The daily price peaked at just over 17 p/kWh in early March, fell back to 3-4 p/kWh in May before increasing rapidly over the next three months to between 10 and 12 p/kWh in early August. It spiked in late August reaching multiple new records before falling back to below 5p/kWh from mid-October.

Wholesale prices have been increasing for around 18 months and have led to substantial increases energy bills for businesses as well as households. For more on petrol and energy prices see sections 2.2 and 2.3 respectively.

Food and metals

Food prices have also risen, as Russia and Ukraine are important producers of various agricultural products, such as wheat (see section 2.4 for more).[14]

In addition, Russia and Ukraine are large producers of various metals, and these prices have also risen in international markets since the invasion

[13] IEA, Gas Market and Russian Supply (accessed 4 March 2022)

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

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

In recent months, global commodity prices have fallen back compared with in the first half of 2022. For example, the Bank of England noted in early November 2022 that metals prices had fallen since August, partly due to weaker economic conditions reducing demand. It also stated observed that agricultural prices had declined by around 20% from their peak in Q2 2022.[17]

1.3 Inflation forecasts

Economists' expectations of how high inflation would peak increased rapidly throughout 2022.

In early February 2022, before the Russian invasion of Ukraine, the Bank of England's Monetary Policy Committee (MPC) forecast the CPI inflation rate would peak at 7.25% in April 2022.[18] By June, the MPC said it expected inflation to "rise to slightly above 11% in October".[19]

As wholesale natural gas prices rose during the summer, CPI forecasts were raised further.

Energy Price Guarantee

On 8 September 2022, the then Prime Minister Liz Truss announced an energy support package, including the Energy Price Guarantee, which capped the unit cost of gas and electricity for households from October 2022.

Before the announcement, with higher energy bills anticipated, the Bank of England in August had forecast inflation to peak at 13.3% in October 2022.[20] Following the unveiling of the Energy Price Guarantee, and before the mini budget, the Bank forecast inflation to peak at just under 11% in October 2022.[21]

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

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

17 Bank of England, Monetary Policy Report – November 2022, pages 44-45 and chart 2.5

18 Bank of England, Bank Rate increased to 0.5% - February 2022, 3 February 2022, Bank of England, Quarterly CPI inflation projections based on market expectations of interest rates, Monetary Policy Report, 3 February 2022

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

20 Bank of England, Monetary Policy Report-August 2022, Chart 2.16

21 Bank of England, Bank Rate increased to 2.25% - September 2022, 22 September 2022

As described in more detail in section 2.2, Chancellor Jeremy Hunt announced in Autumn Statement 2022 that the EPG would continue in a less generous form from April 2023 until March 2024.[22]

As a result of the EPG, the inflation rate will be lower than it would otherwise have been during the autumn and winter of 2022/23 and likely beyond (depending on what happens to the price of gas on markets).[23] The Office for Budget Responsibility (OBR) estimates that without the EPG, inflation would have peaked at 13.6% in early 2023, 2.5 percentage points higher than its forecast with the EPG.[24]

Inflation rate expected to fall in 2023

The inflation rate is typically expressed as the percentage change in consumer prices compared with one year before. For example, the most recent data compares prices in October 2022 with prices in October 2021.

This means that changes to prices that occurred more than a year ago, before October 2021 in this example, "drop out" of the annual inflation rate. Take an extreme example: if all prices suddenly remained unchanged over the next 12 months, the overall inflation rate would eventually fall to 0% in a year's time.[25]

In the real world, economists expect this effect to lead to the inflation rate generally falling during 2023, as some past price increases "drop out" of the annual comparison.[26]

There are also signs that some global price pressures are subsiding. For instance, supply bottlenecks are easing, partly due to weaker global economic activity.[27] In addition, the cost of shipping, which soared during the pandemic, has come down noticeably in recent months.[28]

OBR and Bank of England forecasts

The Office for Budget Responsibility (OBR) published new forecasts for the economy and public finances alongside Autumn Statement 2022 on 17 November 2022.[29]

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22 HM Treasury, Autumn Statement 2022, 17 November 2022

23 Ofgem's household energy price cap is likely to be higher than under the EPG; Library briefing, Domestic energy prices

24 OBR, Economic and fiscal outlook - November 2022, 17 November 2022, paras 2 and 14

25 For more see David Smith, Sunday Times economics editor, Put this on your T-shirt — falling inflation doesn't mean falling prices, 31 August 2022

26 NIESR, Food and Energy Continue to Drive UK Underlying Inflation, 19 October 2022

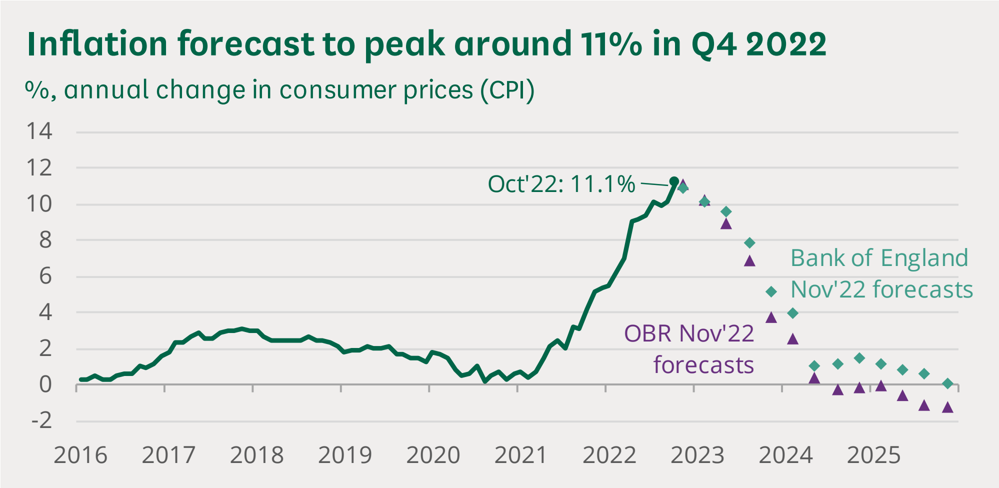
27 Bank of England, Monetary Policy Report – November 2022, 3 November 2022, p44, p80

28 Bank of England, Monetary policy: an anchor in challenging times - speech by Huw Pill, 12 October 2022, p11

29 OBR, Economic and fiscal outlook – November 2022, 17 November 2022

The OBR now expects inflation to peak at 11.1% in Q4 2022, up on its previous forecast from March 2022 for a peak of 8.7%.

Due to anticipated falling gas prices, lower market expectations of higher interest rates, and tighter fiscal policy – of spending cuts and tax rises – the OBR forecasts the inflation rate to come down quickly during 2023 and 2024.



Sources: ONS monthly outturn data up to Oct 2022, then quarterly forecasts from OBR, Economic and fiscal outlook – Nov 2022, and Bank of England Monetary Policy Report, Nov 2022
Note: Quarterly forecasts based on market expectations of interest rates

The Bank of England's most recent forecasts were published on 3 November 2022 as part of its quarterly Monetary Policy Report.[30]

The Bank expects the CPI inflation rate to peak at 10.9% in the final quarter of 2022, reflecting the rise in energy bills (to the level set by the government's Energy Price Guarantee).[31]

The annual inflation rate is expected to ease in 2023, gradually at first, but then more sharply as the steep rises in energy prices seen in 2022 fall out of the annual comparison. However, inflation is expected to remain well above the Bank's 2% target throughout the year, partly due to the expectation that domestic inflationary pressures "remain strong".[32]

30 Bank of England, Monetary Policy Report – November 2022, 3 November 2022

31 The Bank's forecasts were published prior to Autumn Statement 2022 and the extension of the EPG, however, the Bank did include an assumption that the EPG would continue in some form.

32 Bank of England, Monetary Policy Report – November 2022, 3 November 2022, p8, p20 and Table 1.A (p22), this assumes interest rates will follow the path implied by financial markets

1.4 International comparisons

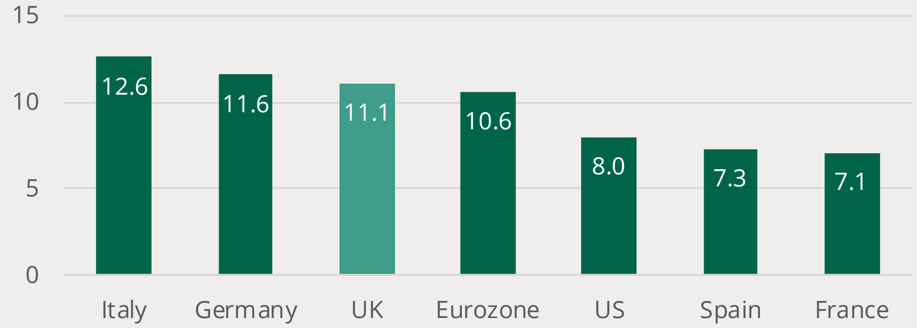
Consumer price inflation has been rising in many countries since 2021. Pandemic-related supply shortages are a main factor.[33] As the global economy recovers from its pandemic-related recession, there has been increased demand for products – especially consumer goods – and materials.[34]

The imbalance of (strong) demand and (disrupted) supply has led to rising prices and higher transportation costs around the world. Many global commodity prices have also risen. These pressures have caused rising consumer prices. The conflict in Ukraine is also leading to higher commodity prices globally, pushing up inflation.[35]

In October 2022, the UK's annual inflation rate of 11.1% was higher than in some comparable economies such as France (7.1%), but similar to the Eurozone average (10.6%) and Germany (11.6%).[36]

Consumer price inflation, selected economies

% annual change in consumer prices, October 2022



Figures based on the EU's harmonised measure of inflation (HICP), in the UK this is the CPI
Sources: ONS, series D7G7 & Eurostat, HICP – all items, % change on year ago (retrieved 18 Nov 2022)

33 These are based on comparable figures, namely the EU's Harmonised Index of Consumer Prices (HICP), and not necessarily more-prominent national figures, e.g. for the US. UK data for this are the same as the main national measure, the CPI.

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

35 World Bank, Food security update, 15 August 2022, OECD, OECD Economic Outlook: The Price of War, 8 Jun 2022, and World Economic Forum, How the Ukraine war is driving up food and energy prices for the world, 25 Mar 2022

36 ONS, series D7G7 & Eurostat, HICP – all items, % change on year ago (retrieved 18 November 2022)

2 Drivers of inflation: Energy, food and consumer goods

This section takes a closer look what is contributing to high inflation.

2.1 Factors causing rising inflation

Initial rise in prices was due to external factors

The inflation rate has been rising almost continuously since early 2021, when it was under 1%. Key factors behind this increase include:

- strong global demand for consumer goods – a consequence of the Covid-19 pandemic[37];
- related supply chain disruption[38]; and
- soaring energy and fuel prices – particularly, but not exclusively, due to Russia's invasion of Ukraine.[39] The Bank of England notes that net imports of gas have increased from about £10 billion per year before the pandemic to around £70 billion recently.[40]

The combination of strong demand from consumers for goods and higher costs for businesses – partly reflecting supply chain bottlenecks – are being reflected in higher prices for goods, which were up by 14.8% in October 2022 compared with a year before.[41] The UK is a large net importer of goods and global factors can be blamed for a lot of this increase.

In May 2022, Governor of the Bank of England Andrew Bailey said 80% of the overshoot in inflation over the 2% target was due to energy and traded goods, adding this was largely outside the control of the Bank and its monetary policy.[42]

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

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

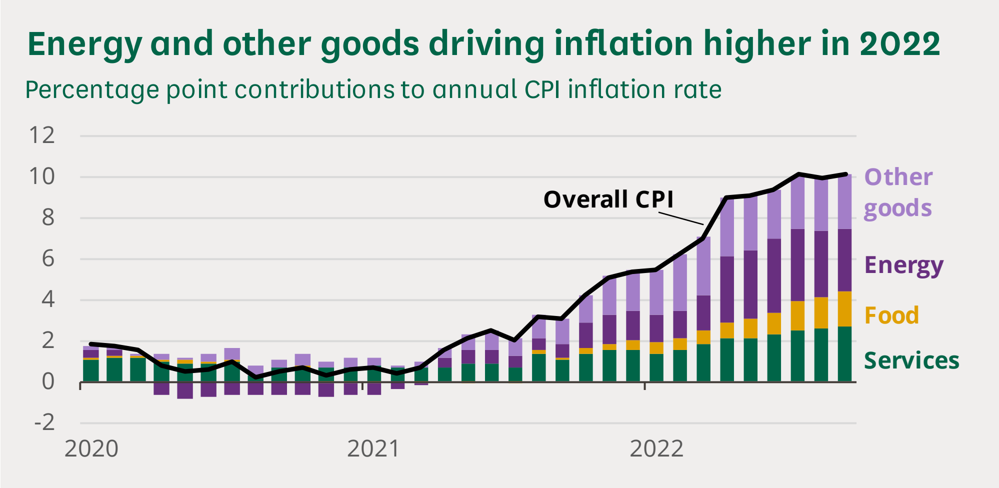
39 Inflation was already at a 30-year high at the beginning of 2022, prior to the invasion of Ukraine

40 Bank of England, Monetary Policy Report – November 2022, 3 November 2022, p75

41 ONS, Consumer price inflation, UK: October 2022, 16 November 2022, table 28 of dataset

42 Andrew Bailey oral evidence to Treasury Committee, 16 May 2022, Q419 and Q441

The chart below is taken from the Bank of England Monetary Policy Report of November 2022 and includes data up to September 2022. It shows goods and energy prices, and more recently food prices, have been driving inflation higher.



Note: Food includes non-alcoholic drinks
Source: Reproduced from Bank of England, Monetary Policy Report – November 2022, Chart 2.4 (p44)

The increase in trade barriers with the EU following Brexit may also be a factor in rising inflation (for example, potentially on food prices), though it is hard to pinpoint how big an effect this has had on prices.[43] As shown in section 1.4, rising inflation has also been a feature in the EU and US.

Domestic inflation is also picking up

While global factors were the original drivers of high inflation, price rises in many areas of the domestic economy have also accelerated.

Although inflation in services was lower at 6.3% in October 2022 it has been rising in recent months – it was 3.2% in January. Services prices are seen as being less exposed to global factors.[44] Inflation in services is also considered to be more persistent than inflation in goods.[45]

Labour costs make up a large proportion of services firms' costs. With low unemployment generally and a high level of job vacancies, the labour market remains tight. Annual growth in average earnings excluding bonuses has accelerated, rising to 5.7% in the three months to September 2022, well below the rate of inflation, but higher than it has been for decades.[46]

[43] UK in a Changing Europe, Post-Brexit imports, supply chains, and the effect on consumer prices, April 2022; OBR, Economic and fiscal outlook – March 2022, 23 March 2022, Box 2.1 The impact of bottlenecks in global product markets

[44] ONS, Consumer price inflation, UK: October 2022, 16 November 2022, table 28 of dataset

[45] Bank of England, The inflationary consequences of real shocks – speech by Ben Broadbent, 20 October 2022, p6

[46] Excluding a statistically-distorted period during the pandemic; Library, The UK economy: a dashboard and ONS, Average weekly earnings in Great Britain: November 2022, 15 November 2022

The annual rate of so-called "core inflation", which excludes the volatile energy and food components of the CPI, was 6.5% in October 2022, unchanged from September.[47]

2 Import prices and the value of the pound

Most commodities, including oil, are traded on world markets and priced in US dollars. This means a fall in the value of the pound leads to higher imported commodity prices in pounds.

The pound fell against other currencies in the days after the fiscal statement, or "mini budget", of 23 September 2022. Following the reversals of the majority of the mini budget's policies, sterling has recovered all of the decline in value since then. However, sterling is lower over the year to date, about 6% lower as of 17 November than it was in early 2022 (compared with a basket of currencies).[48]

A weaker pound means it takes more pounds to buy the same amount of imported goods and services – in short, imports to the UK become more expensive.

This raises business costs and may result in firms lifting their prices, adding to the overall inflation rate.

The full impact of higher import prices will not be immediate as some firms will have agreed contracts to pay a fixed price for their imports; only when those contracts expire and new contracts are negotiated will the full impact be felt. Businesses may also protect against short-term movements in the exchange rate by hedging their exposure to such changes via financial products.

Not all businesses purchase imports. And some of those that do import may not pass on the full impact of their rising import costs to businesses or consumers. However, a falling currency, if sustained, usually leads to higher consumer price inflation. This happened, for example, when the pound fell in value after the Brexit referendum of June 2016.

47 ONS, Consumer price inflation, UK: October 2022, 16 November 2022, table 28 of dataset

48 Bank of England, Broad effective exchange rate index, sterling (accessed 18 November 2022)

2.2 Energy prices

In the year to October 2022, domestic gas prices increased by **129%** and domestic electricity prices by **66%.**[49]

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

On 1 April 2022, a new higher price cap came into force and a further large increase in the cap was due to come in on 1 October 2022. The cap sets maximum prices for a unit of energy and standing charges. It does not cap maximum annual bills. These capped unit prices for gas and electricity are multiplied by typical consumption levels and added to standing charges to arrive at the illustrative annual amount.

Early in 2022 the regulator, Ofgem, announced the cap would increase from its previous equivalent annual level of £1,277 per year to £1,971; a 54% increase. At the end of August 2022 they announced that the cap would increase by a further 80% to £3,549 from 1 October 2022. This would have been a combined increase of 178% in sixth months. However, on 8 September the Prime Minister announced the new Energy Price Guarantee (EPG) would instead be introduced from 1 October and last two years. This would mean typical annual bills for direct debit customers should be no more than an average of £2,500.

The Chancellor announced on 17 October that the EPG will now only last for sixth months.[50] In the Autumn Statement 2022 he announced that the EPG would be increased in April 2023 to £3,000 for typical annual consumption and last to the end of March 2024.[51]

The Government will pay energy suppliers the difference between the EPG level and what they would have otherwise charged customers.[52] Households will still get the £400 Energy Bills Support Scheme payment over the six months from October 2022 to March 2023. There will also be a new support funds for households not on mains gas or electricity, 'equivalent support' for businesses and support for households on fixed tariffs above the EPG level.[53]

The figures given for cap/EPG bills are the illustrative annual mounts for households with 'typical' (median) levels of consumption on dual fuel tariffs paying by direct debit. The caps for other payment methods are somewhat

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49 ONS series D7DU and D7DT

50 HM Treasury, Chancellor brings forward further Medium-Term Fiscal Plan measures (17 October 2022)

51 HM Treasury, Autumn Statement 2022

52 In effect the difference between the Energy Price Guarantee and the default tariff cap (were it still in place).

53 BEIS, Government announces Energy Price Guarantee for families and businesses while urgently taking action to reform broken energy market (accessed 8 September 2022),BEIS, Energy bills support factsheet: 8 September 2022 (Updated 9 September)

higher. Ofgem said the October 2022 price cap increase would have affected around 24 million customers on tariffs covered by the different caps.[54]

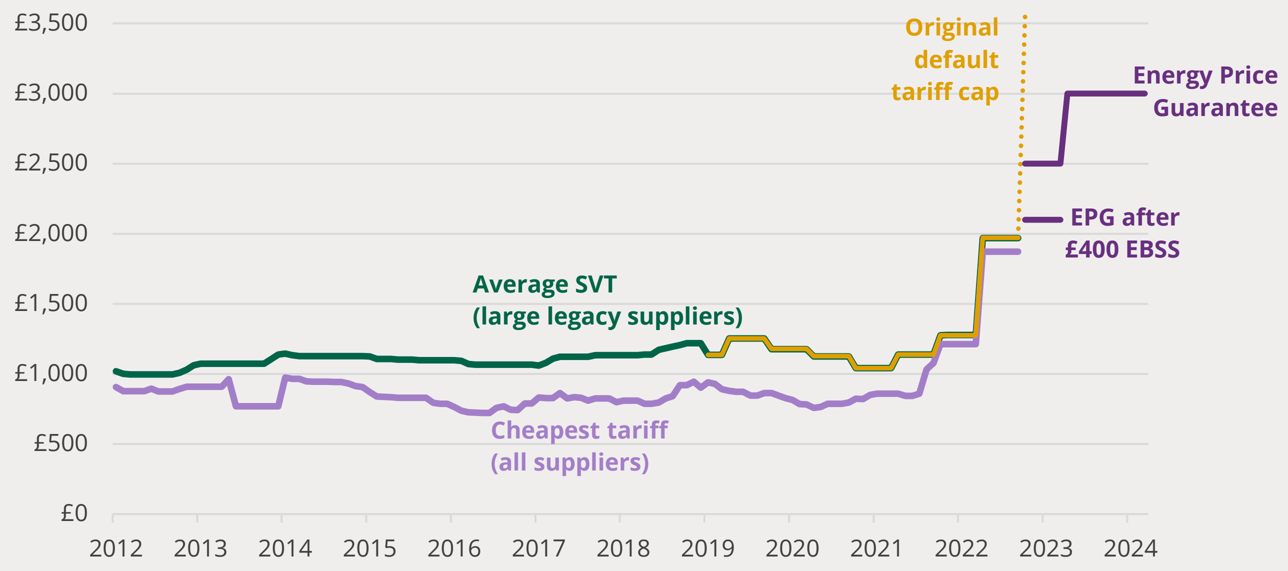
The record wholesale gas prices and knock-on effect on electricity prices, are largely responsible for the size of the increase in the price cap according to Ofgem. The wholesale energy cost element of the cap increased from £528 in the winter 2021-22 cap to £1,077 from April 2022. It would have increased further to £2,468 under the original Q4 2022 cap.

The Library briefings Domestic energy prices and Energy bills and the price cap, provide more detail.

The following chart looks at trends in the Standard Variable Tariff (SVT) of the largest suppliers and the cheapest available tariff on the market, alongside the price cap and the Energy Price Guarantee before and after the Energy Bills Support Scheme (EBSS) support is included.

Price cap up by 54% in April 2022, Energy Price Guarantee limits increase in October 2022, but increases to £3,000 from April 2023

Average annual direct debit dual fuel bill for typical levels of consumption, cash prices, Great Britain



Source: Retail market indicators (prices and profits), Ofgem

A customer's annual bill will largely depend on how much energy they use. The cap applies where a customer has not signed up for a fixed-term contract with their supplier (they are on a 'standard variable tariff'). Some customers coming to the end of their (cheaper) fixed-term deals are likely to face even larger price increases as suppliers are not currently offering fixed-term contracts and they would move onto the higher price cap level.

54 Ofgem, Ofgem updates price cap level and tightens up rules on suppliers (accessed 26 August 2022)

Prices for non-domestic consumers like businesses are not capped and increases in these are likely to be passed on to consumers through higher prices for goods and services.

Heating oil prices

In mid-May 2020, UK heating oil cost just over 20 pence.[55] In mid-October 2022, it was around 88 pence per litre.[56]

There is no price cap for heating oil and there is concern that households which rely on it for heating will be affected by the large price rise. The Government has said that households not on mains gas and using other fuels such as oil or LPG will receive a £200 Alternative Fuels Payment this winter. This was increased in the Autumn Statement 2022 from its original level of £100.

The latest data suggest around 1.6 million homes across the UK use heating oil. Northern Ireland had by far the highest rate of homes using heating oil, with 67.5% of homes in 2016.[57]

The pandemic and resulting lockdowns led to a sharp drop in crude oil prices which affected heating oil. Prices generally increased through the rest of 2020 and most of 2021 reaching almost 60 pence a litre in mid-October. They increased sharply to 85 pence per litre in mid-March and to 99 pence per litre in mid-June before falling back to 88 pence per litre in October.[58]

The official data give mid-month averages. Daily data from boilerjuice.com, an oil price comparison service, illustrate the sharp increase in prices following the Russian invasion of Ukraine. These show that average UK prices increased from 67 pence per litre just before the invasion to 81 pence per litre at the end of February and a peak of 160 pence per litre on 10 March. This peak was short-lived and average prices were generally in the 95-105 pence per litre range from late March to mid-October before falling to around 90 pence per litre during the first half of November.[59]

Wholesale gas prices since the invasion of Ukraine

Trends in wholesale gas prices on international markets give an indication of future increases in gas and electricity prices for UK consumers. Gas prices in

55 BEIS, Monthly and annual prices of road fuels and petroleum products (Table 4.1.1)

56 www.boilerjuice.com/heating-oil-prices/ (accessed 16 May 2022)

57 Department for Communities (NI), Northern Ireland Housing Statistics 2020-21 (section 2 tables). Statistics for Wales, Welsh Housing Conditions Survey (energy efficiency of dwellings): April 2017 to March 2018. Housing and Social Justice Directorate, Scottish house condition survey: 2019 key findings. DLUHC, English Housing Survey data on energy performance (Table DA6101)

58 BEIS, Monthly and annual prices of road fuels and petroleum products (Table 4.1.1)

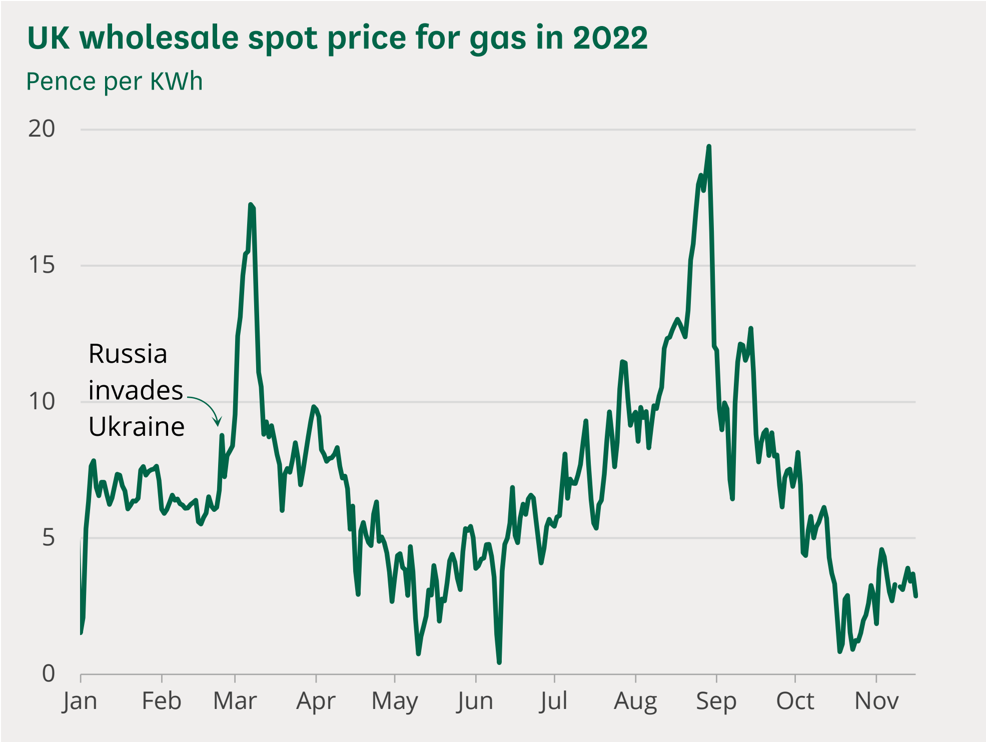
59 www.boilerjuice.com/heating-oil-prices/ (accessed 17 August 2022)

Europe increased by 50% on 24 February to $44 per million therms (around 11 p/kWh). Prices increased by 30% on Asian markets on the same day.[60]

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

The daily price initially peaked at just over 17 p/kWh in early March. It soon fell back to levels similar to those just before the invasion. Prices continued to fall during April and May before stabilising somewhat at levels generally below what they were just before the invasion.

The downward trend was due in part to the falling demand for gas for heating during warmer months and a 'glut' of gas in the UK market at the same time. These are spot prices for immediate delivery. Forward prices, which feed into the calculations for the price cap, do not show the same downward trend.[61] The spot price increased steadily from mid-May to mid-August to reach around 10 p/kWh. It then spiked in late August to reach a new record of more than 19 p/kWh before falling back sharply over the next two months to below their pre-invasion level. Prices have falling due to a combination of factors: Storage facilities on the continent were nearly full, warm autumn weather reduced demand and there were ample supplies of liquefied natural gas arriving in tankers to various facilities.



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

Further increases in the price cap were expected from January 2023, due to continued high in wholesale prices. Under the Energy Price Guarantee these

[60] IEA, Gas Market and Russian Supply (accessed 4 March 2022)
[61] "The surreal, but also real, problem of Britain's gas glut", Sky News ,17 May 2022

will no longer be passed on directly to households through energy bills. However, any increases in wholesale costs increases the cost to Government of this support scheme and vice versa.

2.3 Road fuel prices

Petrol and diesel prices fell over the first two months of the first lockdown in March 2020.

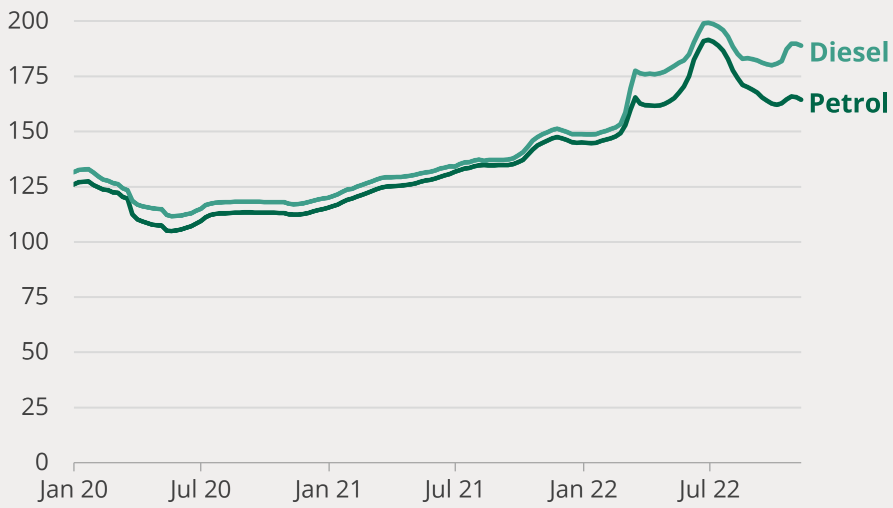
At the end of May 2020, they were at their lowest level for around five years: the UK average was 104.9 pence for a litre of petrol and 111.7 pence for diesel. Prices increased steadily during most of 2021 and particularly rapidly in autumn 2021. After stabilising for a short period around the turn of the year, prices have increased from mid-January onwards as tensions between Russian and Ukraine increased. Prices jumped again after Russia launched its full-scale invasion of Ukraine on 24 February.

Petrol reached another weekly record price of 165.4 pence per litre on 21 March 2022. Diesel reached a weekly record price of 177.5 pence per litre on the same day. The 5 pence cut in duty announced in the Spring Statement came into force at 6pm on 23 March. Pump prices fell back slightly after the duty cut but increased in early May and more rapidly in late May and June to set multiple new record levels. On 4 July, petrol was an average of 191.6 pence per litre and diesel 199.2 pence per litre. These were both new records and prices have fallen back somewhat since then, although diesel prices increased again in late October.[62]

62 Weekly road fuel prices, Department for Business, Energy and Industrial Strategy

Road fuel prices jump in March, May and June 2022 after many months of steady increases

Average UK weekly price, pence per litre



Source: Department for Business, Energy and Industrial Strategy, Weekly road fuel prices

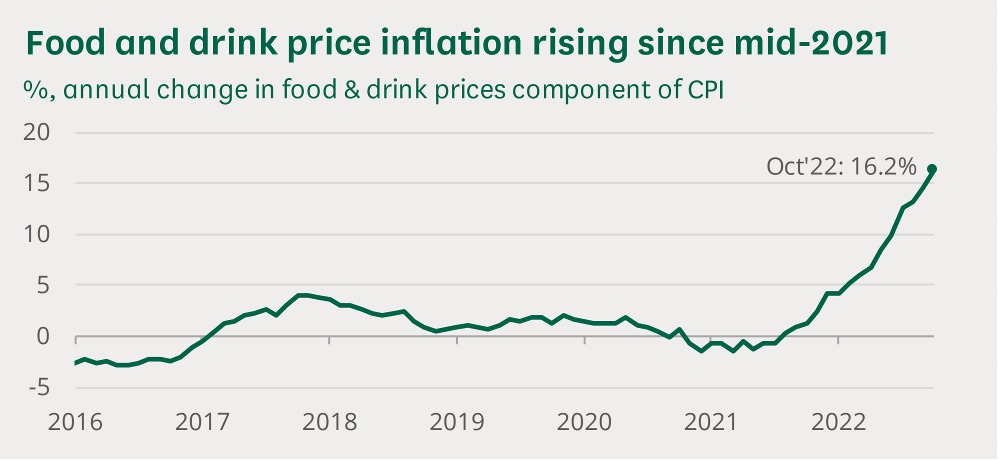
2.4 Food prices

Food and non-alcoholic drink prices were 16.2% higher in October 2022 compared to the previous year, based on the official CPI measure of inflation. This is up from 14.5% in September 2022, the 15th consecutive monthly acceleration in the annual inflation rate.[63] It also represents the highest rate of increase in food prices since 1977 according to the ONS.[64]

Prices have been increasing following declining prices in the second half of 2020 and first half of 2021, as the chart below shows. This measure does not include prices in restaurants or pubs and bars.

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

64 ONS estimates (ONS, Consumer price inflation, UK: October 2022) based on modelled ONS, extended historic inflation series (Consumer price inflation, historical estimates and recent trends, UK: 1950 to 2022, May 2022)



Source: ONS, Food and non-alcoholic drink component of CPI, series D7G8 (16 November 2022 update)

Analysis by the ONS in April 2022 noted supply chain challenges, rising costs like energy costs and increased transport costs, and labour shortages have led to rising food and drink prices.[65]

The effect of Russia's invasion of Ukraine on food prices

Following the Russian invasion of Ukraine, food prices on international markets have risen as Russia and Ukraine are important producers of various agricultural products, such as wheat.[66] An index of world food prices compiled by the UN Food and Agriculture Organization hit a record high in March.[67] Since then it has been declining each month, declining for the seventh consecutive month in October, to around the level of January 2022. Nevertheless, the index remains well above prices seen in the years prior to the pandemic.[68]

The conflict led to some Ukrainian farmers being unable to spread fertilisers and pesticides and plant seeds for the spring crop due to be harvested in the summer.[69] In addition, Ukraine's Black Sea ports are transportation hubs for exporting certain commodities, including grains. They were mostly shut in the after the invasion.[70] During summer 2022 a deal was brokered by the UN and

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

66 UN FAO Information Note, The importance of Ukraine and the Russian Federation for global agricultural markets and the risks associated with the current conflict (11 March 2022 update)

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

68 UN FAO, FAO Food Price Index, 4 November 2022

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

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

Turkey to allow Ukraine and Russia to export some food from its Black Seas ports. The agreement is limited and has been interrupted in spells.[71]

A surge in fertiliser prices has also led to higher costs. Russia is a major exporter of fertilisers and has put restrictions on exports, with supplies also disrupted.[72]

In March 2022, the UK National Farmers' Union warned that the disruption to food output caused by the conflict may last for years.[73]

In May, Bank of England Governor Andrew Bailey highlighted the risk of even higher food prices as result of the conflict in Ukraine, prefacing his remarks by saying he might sound "rather apocalyptic".[74] He noted the worries over the ability of Ukraine to export its crops.

The Library briefing The effect of the war in Ukraine on UK farming and food production provides detail on the impact of the Ukraine conflict on food prices.

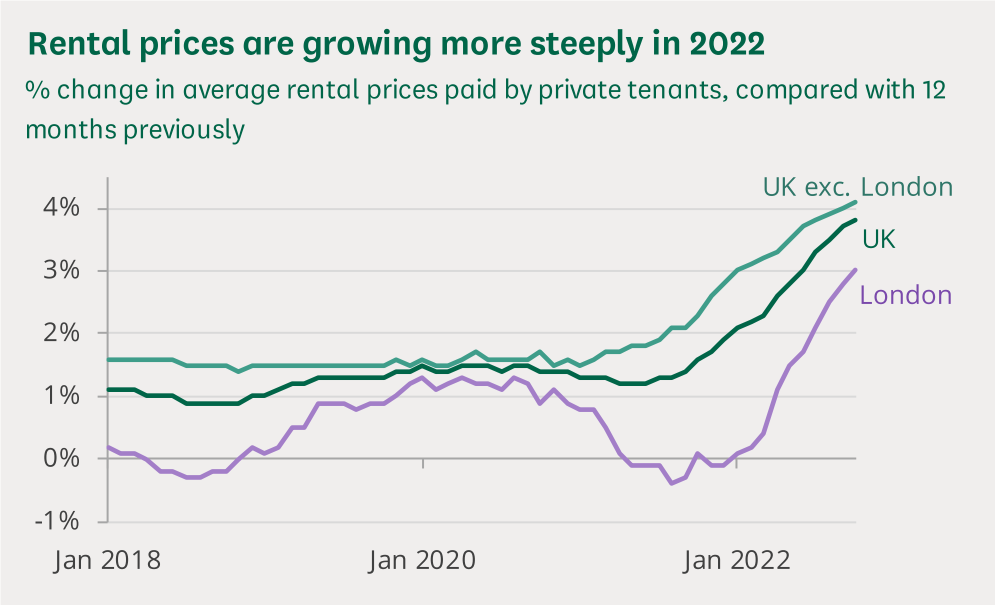
2.5 Other price rises affecting households

Rent

The ONS publishes a monthly Index of Private Housing Rental Prices, which tracks changes in the price paid by private tenants in the UK.

Private rental prices grew by 3.8% over the year to October 2022. This is the largest annual growth recorded for the UK in the ONS' series, which goes back to January 2016. Growth was highest in the East Midlands (4.8%), North West (4.5%), and South West (4.3%) and lowest in London (3.0%).[75]

71 UN, Black Sea Grain Initiative Joint Coordination Centre, (accessed 21 November 2022) and "Ukraine's Black Sea grain export lifeline extended for 4 months" , Politico EU, 17 November 2022
72 "Food shortage warning as fertiliser rationed", The Times, 14 March 2022; "Surge in fertiliser prices from Russia-Ukraine war adds to pressure on UK farmers", The Guardian, 8 March 2022
73 "Farmers warn Ukraine war will hit UK food prices", BBC News, 10 March 2022 and "Ukraine crisis: the risks and mitigations for UK food security", NFU, 9 March 2022
74 Andrew Bailey oral evidence to Treasury Committee, 16 May 2022, Q437
75 ONS, Index of Private Housing Rental Prices: October 2022, 16 November 2022



Source: ONS, Index of Private Housing Rental Prices: October 2022, 16 November 2022

Note: These figures are classed as 'Experimental Statistics' and may be revised if methodology changes in future.

As the chart above shows, average rental price growth across the UK was around 1.0% to 1.5% between the start of 2019 and late 2021. Rental price growth began to slow down in London in late 2020 and fell during the summer of 2021. Rental price growth outside of London began to increase in the latter half of 2021, with growth in London beginning to increase from spring 2022 onwards.

Section 5.3 provides more detail about rent affordability. The Library briefing Housing and the cost of living provides more information.

3 Government support announced during 2022

Various measures to support households with the cost of living have been announced throughout 2022. The largest amongst these is the cap on energy prices, which will be received by most households and non-domestic energy users. Other support has been more targeted – such as the cost of living payments going to those on means tested benefits, disability benefits and pensioners receiving winter fuel payments.

3.1 Energy Price Guarantee

The Energy Price Guarantee will run until April

Announced on 8 September 2022, the Energy Price Guarantee (EPG) will provide significant support for households and businesses facing rising energy bills.

October 2022 – March 2023

The EPG was introduced from 1 October 2022 and will run until the end of March 2023, capping the unit cost of energy for households.[76] It means that a household in Great Britain with 'typical' energy use will pay an average of £2,500 per year for six months. A typical household will save £900 this winter, according to the Government.[77]

The Energy Price Guarantee will "replace" the existing energy price cap (also known as the default tariff cap), and it will apply to the unit cost of energy, so a household's exact bill will continue to be influenced by how much energy they use.[78]

Non-domestic energy users, such as businesses, charities and public sector organisations will receive support for six months through the Energy Bill Relief Scheme (EBRS). A Treasury-led review of the EBRS will determine support for non-domestic energy consumers, excluding public sector organisations, beyond 31 March 2023. The Government says that the support will become less generous and targeted at those most affected.[79]

76 Gov.uk, Chancellor brings forward further Medium-Term Fiscal Plan measures, 17 October 2022
77 HM Treasury. Cost of living support Factsheet, 17 November 2022
78 Gov.uk, Energy bills support factsheet: 8 September 2022, 9 September 2022
79 HM Treasury. Autumn Statement 2022. 17 November, para 5.4

A Government press release and a factsheet on the new energy support measures give more information on the scheme.

April 2023 – March 2024

The EPG will become less generous from April 2023. The cap on the unit cost of gas and electricity will be increased from £2,500 to £3,000 for a household in Great Britain with 'typical' energy use. A typical household will save £500 a year from this phase of the EPG, which will begin in April 2023 and last for one year.

The cost of the EPG is uncertain

The EPG's cost is very uncertain as it largely depends on volatile wholesale energy prices and energy usage. The Government estimates that it will cost around £25 billion in the sixth months of 2022-23 it operates for and around £13 billion in 2023-24.[80] The Government's first estimate of the cost of the EPG in 2022-23 was £31 billion.[81] The lower estimated costs reflect changes in wholesale prices between the two estimates.

In their November 2022 Economic and Fiscal Outlook the OBR said that as gas prices it has used for its fiscal forecasts were close to their three month lows it has only calculated costs of the EPG in a higher gas price scenario. This is based on peak prices from the end of August and show that under these prices the cost of the EPG would increase to £30 billion in 2022-23 and £84 billion in 2023-24.[82]

3.2 Other policies announced during 2022

Support for 2022/23

The EPG is the largest support policy. Below is a list of other support being provided to households. All were announced during 2022:[83]

- **Energy Bill Support Scheme**: a £400 grant for all households which will be taken off their energy bills over 6 months, starting in October 2022. The scheme is Great Britain wide – Northern Ireland will receive funding through the Barnett formula. The ONS have decided to treat this grant as household income rather than reduced household spending, so this will not affect inflation.[84]

80 HM Treasury, Autumn Statement 2022, Table 5.1

81 HM Treasury. The Growth Plan 2022, 23 September, Table 4.1

82 OBR, Economic and Fiscal Outlook November 2022, Box 4

83 Announcements were made in May 2022 (see HM Treasury, Cost of Living Support, 26 May 2022); March 2022 (see HM Treasury. Spring Statement 2022); and, February 2022 (see HM Treasury Press Release. Millions to receive £350 boost to help with rising energy costs, 3 February 2022)

84 ONS, Energy Bills Support Scheme classification, 31 August 2022

- **Cost of living payments:** of varying sizes to different recipients: [85]
  - £650 payment in 2022 – paid in two instalments – for over 8 million households on means tested benefits.[86] For most, the first payment was made in July, the second will be in autumn.
  - an additional £300 payment to over 8 million pensioners who receive the Winter Fuel Payment, from November 2022.
  - an additional £150 payment to around 6 million people receiving disability benefits. Most will have received their payment by the beginning of October 2022.

  The Library briefing Cost of Living Payments: Overview and FAQs outlines the rules and payment arrangements for cost of living payments.
- **Household Support Fund**. The Household Support Fund, which was first established in September 2021, helps vulnerable households meet daily needs such as food, clothing and utilities and is distributed by councils in England. The Fund was allocated £500 million for the period 1 April 2022 to 30 September 2022.[87] A further £500 million has been allocated for the period 1 October 2022 to March 2023. The devolved administrations in Scotland, Wales and Northern Ireland will receive funding through the Barnett formula.[88]
- **National Insurance contributions (NICs)**: NICs has changed during the year:
  - in July 2022, the point at which employees and self-employed start to pay the main rate of National Insurance contributions (NICs) on their earnings or profits was increased. The annual NICs thresholds rose from £9,880 to £12,570 in July 2022. The policy costs the Treasury around £6.3 billion in 2022/23.[89]
  - in November 2022, the Government will reverse a 1.25%-points increase in NICs rates, which come into effect in April 2022.
- **Fuel duty** is temporarily reduced by 5p per litre from 23 March 2022 until March 2023. Fuel duty had already been frozen in 2022/23 at Autumn Budget 2021. The reduction costs the Treasury around £2.4 billion in 2022/23. [90]

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85 DWP. Guidance: Cost of Living Payment, 26 May 2022 [accessed on 27 September 2022]

86 Including households receiving: Universal Credit; Income-based Jobseekers Allowance; Income-related Employment and Support Allowance; Income Support; Working Tax Credit; Child Tax Credit; Pension Credit.

87 HC Deb 23 March 2022 cc337-373

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

89 HM Treasury. Spring Statement 2022, Table 3.1

90 HM Treasury. Spring Statement 2022, Table 3.1

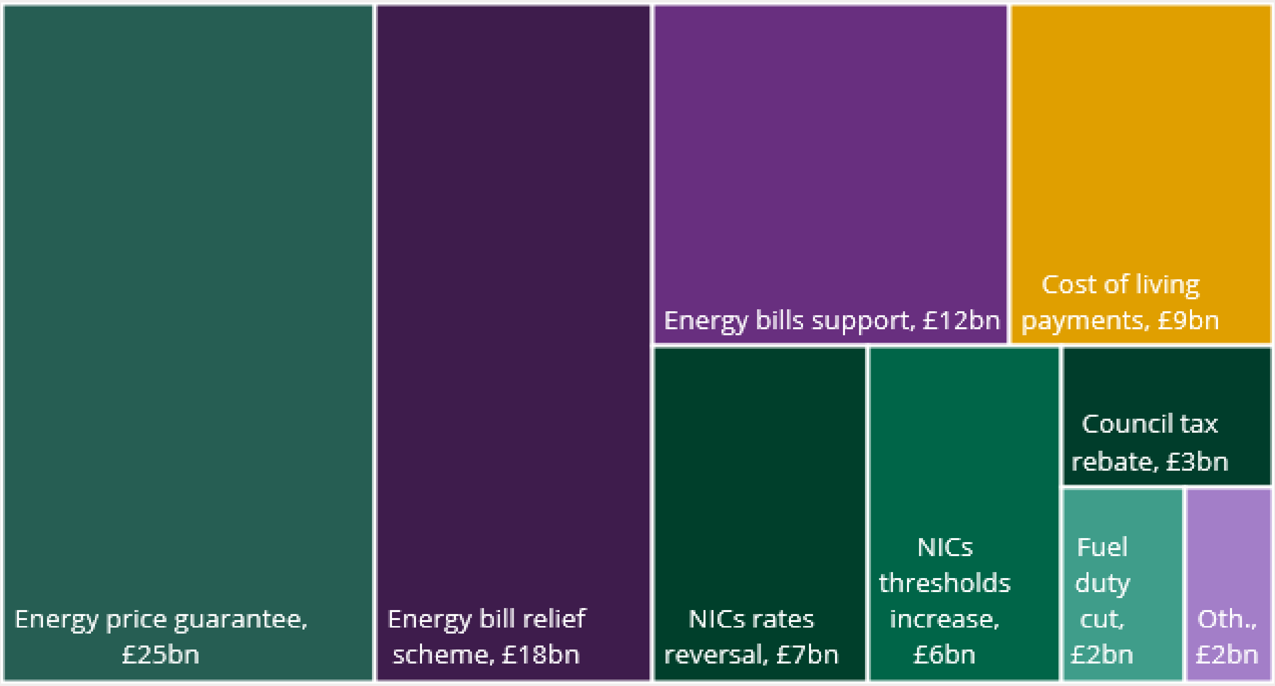
- The **VAT on energy saving materials** (such as solar panels) is reduced from 5% to 0% until March 2027. Wind turbines and water turbines will be added to the list of energy savings materials.

- **Council tax rebate:** from April 2022, households in Band A to D in England (which covers 80% of homes) received a £150 non-repayable Council Tax rebate. Local authorities received additional discretionary funding for some households who do not meet these criteria. Council tax is devolved, so the devolved administrations in Scotland, Wales and Northern Ireland are receiving funding through the Barnett formula. The devolved administrations can spend the funding on their priorities. Schemes similar to England's Council tax rebate are operating in Scotland and Wales.[91]

- **The Warm Home Discount:** for winter 2022/23, the discount (for vulnerable households) will rise from £140 to £150 and eligibility will expand by a third. This support is funded through a levy on all energy bills. More detail of the support is given in the briefing paper Energy price rises and the Energy Bills Rebate.

The Government is spending around £43 billion on capping the unit cost of energy this year

2022/23, £ billion



Sources: HM Treasury. Autumn Statement 2022, Table 5.1; HM Treasury. The Growth Plan 2022, Table 4.1 and Table 4.2; HM Treasury. Spring Statement 2022, OBR. Economic and fiscal outlook – March 2022; supplementary table 3.11; Table 3.1; OBR. Fiscal risks and sustainability – July 2022, Box 3.3

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

Analysis of how the support will be distributed

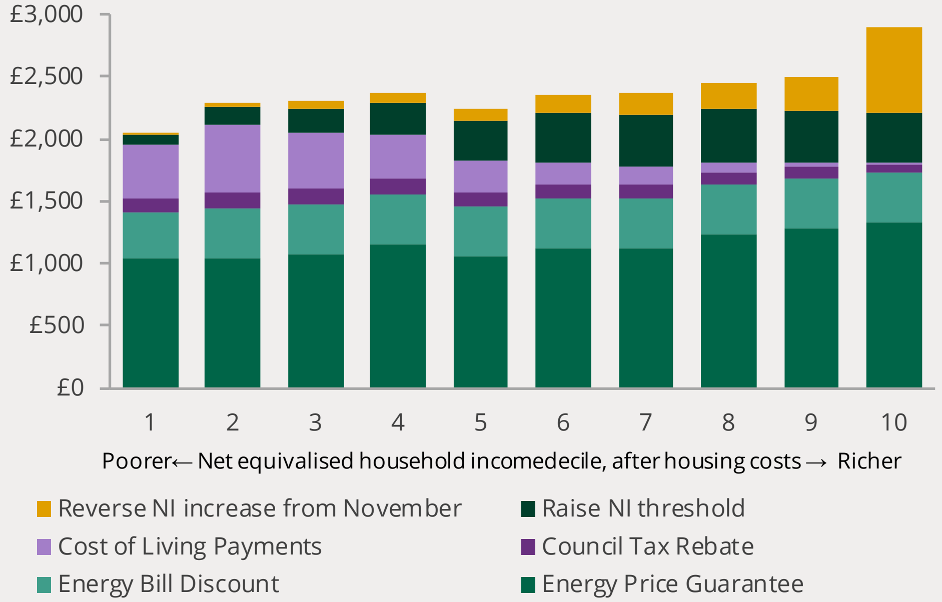
Government support is shared relatively evenly across the household income distribution. The outlier is the highest 10% of households, who benefit most greatly from the decision to reduced NICs rates in November 2022.

The Energy Price Guarantee (EPG) is broad-based support and not targeted to low-income households. The EPG makes up just over half of total support for incomes in 2022/23, which means overall, total government support for household incomes in 2022/23 is spread equally across incomes.[92]

The cost of living payments particularly help lower income households.[93]

The price cap is the most significant intervention for 2022/23. The NI rate reversal benefits higher income households more than lower income households

Average policy impacts by decile of equivalised household income, after housing costs, UK



Notes: EPG savings relative to pre-announced Q4 price cap, and Cornwall Insight forecast for Q1 and Q2 2023 released 8 September, and RF assumptions up to Q1 2024 based on earlier Cornwall Insight forecasts

Source: Figure 20 from Resolution Foundation. Blowing the budget. Assessing the implications of the September 2022 fiscal statement, 14 September 2022. Adapted to HC Library style with kind permission of authors.

92 Resolution Foundation, A blank cheque. An analysis of the new cap on energy prices, 13 September 2022

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

Support for 2023/24

As discussed above, the EPG will operate in 2023/24. It will provide support to UK households but will be less generous than currently.

Targeted cost of living payments will also be provided to people who receive certain benefits and tax credits in 2023/24. Those eligible include:[94]

- households on means tested benefits who will receive a £900 payment
- pensioner households who will receive a £300 payment
- households on non-means-tested disability benefits who will receive a £150 payment

The Household Support Fund will receive an extra £1 billion of funding from April 2023. The fund allows local authorities in England to make discretionary payments to people most in need to help with the rising cost of food, energy, and water bills.

Energy levies

Energy Profits Levy

The profits of UK oil and gas producers have risen significantly recently, due to substantial increases in oil and gas prices. Throughout much of 2022, there have been calls for a windfall tax to be levied on these profits. [95]

The Energy Profits Levy, announced in May, will raise revenues "to help with cost of living".[96] The Treasury's latest estimate is that the Levy will raise around £7.2 billion in 2022/23, £10.8 billion in 2023/24, falling to £4 billion in 2027/28.[97]

The Levy will charge an additional 25% on UK oil and gas profits, until 1 January 2023. The rate will then rise to 35%. It will remain in place until March 2028.

The levy is charged on top of the already existing 30% Ring Fence Corporation Tax and 10% Supplementary Charge. An 80% investment allowance has been introduced alongside the Levy.

The Library briefing Energy (Oil and Gas) Profits Levy Bill 2022-23 explains how the Levy will work.

94 Further information is available in HM Treasury's Cost of living support Factsheet

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

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

97 HM Treasury. Autumn Statement 2022, 17 November, Table 5.1

Electricity Generator Levy

The structure of the electricity market means the price of electricity is tied to the wholesale gas price. As a result, many electricity generators are "seeing extraordinary returns by the unprecedented increase in gas prices."[98]

The Government is introducing the Electricity Generator Levy from 1 January 2023. It will introduce a temporary 45% tax on "extraordinary" returns from low carbon UK electricity generation. The levy will remain in place until 31 March 2028.

Unlike the Energy Profits Levy which applies to all profits, only returns deemed to be "extraordinary" will be charged.[99]

The Treasury estimate that the Levy will raise around £1 billion in 2022/23, £4.1 billion in 2023/24, falling to £1.5 billion in 2027/28.[100]

The Treasury's Energy Taxes Factsheet has further information on both the Energy Profits Levy and the Electricity Generator Levy.[101]

98 HM Treasury. Energy Taxes Factsheet, 17 November 2022
99 Extraordinary returns are defined as electricity sold above £75MWh
100 HM Treasury. Autumn Statement 2022, 17 November, Table 5.1
101 HM Treasury. Energy Taxes Factsheet, 17 November 2022

4 Other policies affecting household budgets

As well as support for households, new Government policies on personal taxes, uprating benefits and pensions, and student loan repayments and maintenance support, as well as the Bank of England's interest rate will affect household budgets.

4.1 Personal taxes

Income tax

The Government has frozen both the income tax-free allowance (known as the personal allowance) and the point at which people start paying the 40% higher rate of income tax (the higher rate threshold). Normally, both would rise by inflation, but they will be frozen from April 2022 until April 2028.

Inflation has been higher than it was forecast to be when the policy was first announced, in March 2021.[102] The higher that inflation is, the more the freeze costs income taxpayers and the more it raises for the Treasury. This is because, in the absence of the freeze, the thresholds would have increased by inflation and people could have earned more before paying income tax.

Together, the freezes are forecast to raise the Treasury an estimated £26 billion a year by 2027/28.[103]

Personal allowance freeze

The personal allowance is frozen at the current level of £12,570 until April 2028. The allowance would normally rise by inflation, which means people could earn more without being taxed on it.

The freeze also means that more people, with lower incomes, will pay income tax. In 2022/23, the freeze might mean around 0.6 million more people pay

102 If the freeze was not in place, then September 2021's CPI inflation would have been used to uprate the income tax thresholds for April 2022. When the policy was first announced, inflation in September 2021 was forecast to be around 1.6%. Inflation was actually 3.1% in September 2021.

103 OBR. Economic and Fiscal Outlook - November 2022, para 38

income tax.[104] By the end of the six-year freeze, around 3.2 million more people might be brought into income tax.[105]

Higher rate threshold freeze

The higher rate threshold (the point at which people start paying the 40% higher rate of income tax) will also be frozen at its current level of £50,270 from April 2022 until April 2028.[106] This means that higher rate taxpayers will pay 40% on more of their income than if the threshold rose with inflation. It also means that more people will pay the higher rate of income tax.

In 2022/23, the freeze might bring around 0.4 million people into the higher rate of income tax.[107] By the end of the six-year freeze, around 2.6 million more people might be brought into paying the higher rate of income tax.[108]

National Insurance Contributions increase

NICs for employees, employers and the self-employed rose by 1.25 percentage points in April 2022, so people paid more NICs on their earnings. The rise is being reversed in November 2022 and NICs rates will return to their levels of the previous financial year.

As discussed in section 4.1, the point at which individuals start to pay the main rate of National Insurance Contributions on their earnings or profits increased in July 2022. The Library briefing National Insurance Contributions (Increase of Thresholds) Bill 2021-22 has more detail and links to further information.

4.2 Uprating benefits and pensions

Benefits increased in April 2022 by less than the current level – or the expected level – of inflation, which will put further pressure on incomes.

In April 2022, benefits and state pensions were uprated using inflation figures from September 2021. Inflation in September (3.1%) was much lower than inflation so far since April so recipients are experiencing a real-terms fall in their income.[109]

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

105 OBR. Economic and fiscal outlook – November 2022, para 38

106 As long as an individual has an income below £100,000, they receive a personal allowance of £12,570 in 2021/22. They then pay the 20% basic rate on incomes up to the basic rate limit of £37,700 from 2022/23. The higher rate threshold is the sum of the personal allowance and the basic rate limit.

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

108 OBR. Economic and fiscal outlook – November 2022, para 38

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

Think tanks, such as the Institute for Fiscal Studies, note the real fall in the value of benefits will be mostly undone in April 2023. This is because benefits will be uprated by the inflation figure for September 2022 (10.1%). As inflation is projected to be lower in April 2023, this means a real increase in the value of benefits.[110]

4.3 Student loan repayments and maintenance support

Student loan repayments

The Government has frozen the threshold that borrowers need to repay their student loans from at £27,295 in 2022-23. This affects borrowers from England. It has previously been increased annually in line with average earnings.

If the threshold had been increased by average earnings again, it would have been £28,525 in 2022-23.[111] This means that borrowers making repayments will pay around £110 more in the 2022-23 financial year.

Existing borrowers will also pay more in future years as the threshold will be frozen again in 2023-24 and then increased annually by the Retail Price Index, which is normally lower than increases in average earnings. There are wider reforms to student finance for new students from England starting in 2023-24 and later.[112]

Student maintenance support

The Government increased the maximum maintenance loan amount for undergraduate students in England by 3.1% for the academic year 2021/22. This was substantially lower than CPI inflation of 6.2%.[113]

Maintenance loan amounts will be increased by 2.3% in the academic year 2022/23 compared to the latest forecast of CPI inflation of 8.1%.[114] The Library briefing The value of student maintenance support shows the real cut in maintenance support is expected to be just over 11% between 2021/22 and 2022/23, or around £1,100 for those from the poorest households.

110 Institute for Fiscal Studies, Spring Statement 2022 24 March 2022
111 Increased by 4.5% using the increase in average annual earnings in the year to March 2021
112 See The Post-18 Education and Funding Review: Government conclusion for more details and the Library Insight What could reforms to student finance mean for teachers and nurses? for analysis of the impact on these groups.
113 ONS, CPI annual inflation rate, series D7G7. Annual inflation to Q1 2022, the mid-point of the academic year.
114 OBR, Economic and fiscal outlook – March 2022, 23 March 2022, Supplementary economy table 1.7. Annual CPI inflation to Q1 2023

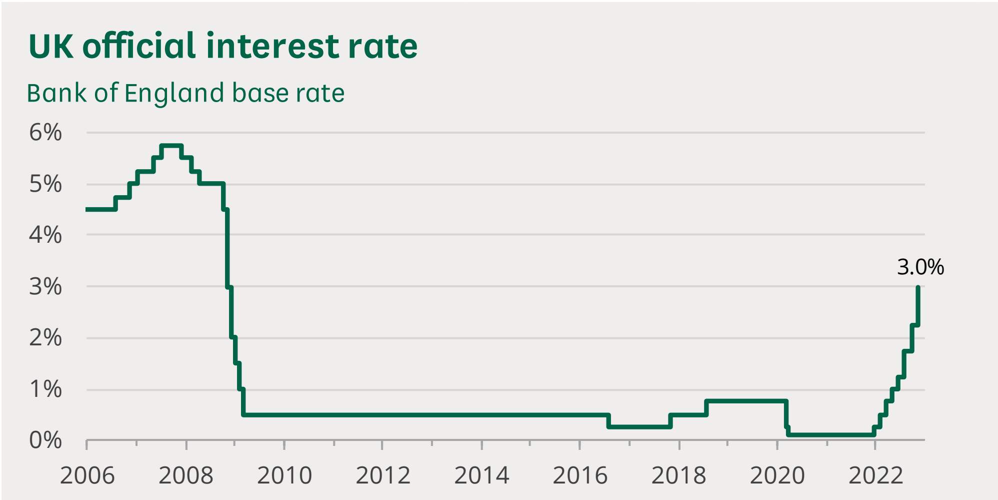
The annual uprating for maintenance support is based on forecast inflation. This means that, unlike benefit uprating, these cuts will not automatically be caught up for in future increases. The Institute for Fiscal Studies recently examined this issue and proposed possible remedies.[115]

4.4 Interest rates

In response to higher inflation, the Bank of England's Monetary Policy Committee (MPC) raised interest rates at eight consecutive policy meetings since December 2021 (at the time of writing in mid-November).

From an all-time low of 0.1%, rates were first increased in December 2021. They were gradually increased to reach 1.25% in June 2022. The MPC then began raising rates in larger increments, including a 0.75 percentage point hike on 3 November. This took the main rate to 3.0% - the highest it's been since late 2008 (during the global financial crisis).[116]

The chart below tracks the change in the UK's interest rate from 2006, showing how fast it has increased.



Source: Bank of England

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

In theory, higher interest rates work to lower inflation by raising the cost of borrowing. In turn, as people and businesses have less money to spend on other things and more incentives to save, demand for goods and services in

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

116 Bank of England, Bank Rate increased to 0.25% - December 2021, 16 Dec 2021; Bank Rate increased to 0.5% - February 2022, 3 Feb 2022; Bank Rate increased to 0.75% - March 2022, 17 Mar 2022; Bank Rate increased to 1% - May 2022, 5 May 2022; Bank Rate increased to 1.25% - June 2022, 16 Jun 2022, Bank Rate increased to 1.75% - August 2022, 4 Aug 2022, Bank Rate increased to 2.25% - September 2022, 22 Sep 2022; Bank Rate increased to 3% - November 2022, 3 Nov 2022

the economy – that is, consumer and business spending and investment – is diminished. Lower demand reduces the pressure on firms to raise prices and on workers to get higher pay rises (often because unemployment increases).

Further rate increases expected

The Bank of England is expected to continue to raise interest rates in an effort to bring down inflation to its 2% target.

Market expectations of how high the Bank of England will raise interest rates surged to above 6% during the height of the market turmoil following the mini budget.[117]

Following policy reversals, markets lowered their expectations of the peak in interest rates set by the Bank of England.[118] On average, in the seven working days to 25 October, that rate was expected to be around 5.25% during Q3 2023. This is the peak rate the Bank of England used in its most recent set of economic forecasts published in its Monetary Policy Report on 3 November.[119]

The Bank's Monetary Policy Committee stressed that it thinks rates will not rise as high as markets expect.[120] Many economists agree. A survey conducted between 19-21 October showed on average a peak of 4.5% is expected.[121]

Subsequently, market expectations of the peak interest rate fell somewhat and were around 4.75% on 18 November.[122]

The Library briefing Interest rates and monetary policy provides up-to-date information on changes to monetary policy.

The impact of rising interest rates on households is discussed further in section 5.4.

Interest rates are rising around the world

Central banks around the world have also been raising interest rates due to high inflation. For example, the US central bank, the Federal Reserve, has lifted interest rates from a range of 0-0.25% to 3.75-4.0% so far this year.

117 Ed Conway, Sky News economics and data editor, Twitter, 27 September 2022, 4.33pm
118 Ed Conway, Sky News economics and data editor, Twitter, 24 October 2022, 8.18am
119 Bank of England, Monetary Policy Report – November 2022, 3 November 2022, p47
120 Bank of England, Monetary Policy Report press conference, Opening Remarks by Andrew Bailey, Governor (PDF), 3 November 2022, p5 of PDF
121 Bank of England, Monetary Policy Summary and minutes of the Monetary Policy Committee meeting, 3 November 2022, para 16 of the minutes
122 Ed Conway, Sky News economics and data editor, Twitter, 18 Nov 2022, 12.05pm, based on Bloomberg data

Meanwhile, the Eurozone's European Central Bank (ECB) started raising rates this summer and continued to do so in the autumn. Both the Fed and ECB are expected to increase rates further.[123]

[123] Library economic indicators page, Interest Rates and Monetary Policy

5 Impact on households

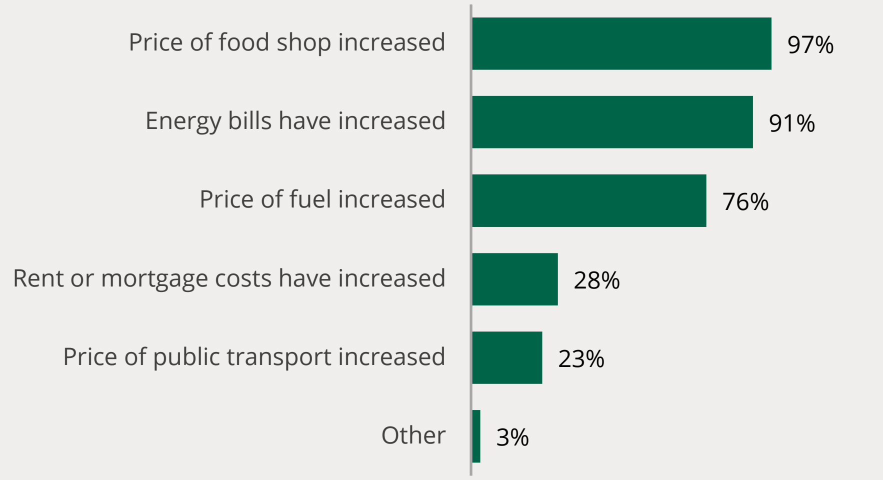
5.1 UK adults are seeing their cost of living rise

91% of adults in Great Britain reported an increase in their cost of living in October-November 2022 since the same period in 2021.[124]

Of those who reported an increase in the cost of living in this period, 97% said which was because of an increased price of food shopping, while 91% cited an increase in gas and electricity.

Reasons for increased cost of living

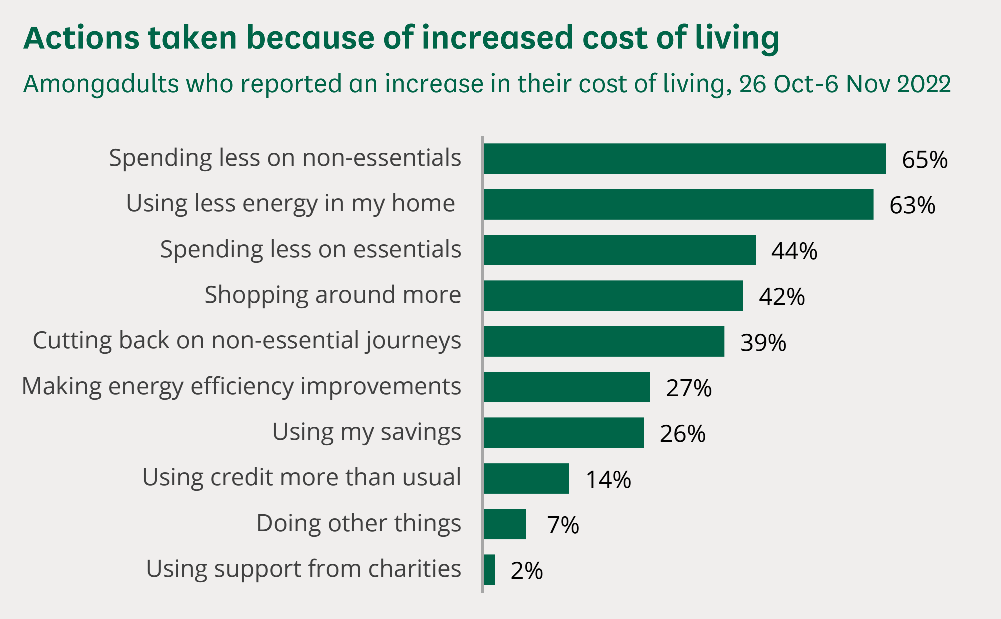
Among adults who reported an increase in their cost of living, 26 Oct-6 Nov 2022



Source: ONS, Public opinions and social trends, Great Britain: household finances, 11 November 2022

65% of those who reported a rise in the cost of living between 26 October- 6 November 2022 say they are spending less on non-essentials as a result, while 63% report using less energy at home and 44% report cutting back on essentials like food shopping. 2% were being supported by a charity, including food banks.

[124] 26 October-6 November 2022; ONS, Public opinions and social trends, Great Britain, 11 November 2022



Source: ONS, Public opinions and social trends, Great Britain: household finances, 11 November 2022

In June-September 2022 5% of people reported being behind on energy bill payments. This rose to 9% in the North East and London, 11% among renters and 12% among unemployed people. [125]

5.2 Real post-tax household income is set to fall

Real household disposable income is the amount of money that households have available for spending after tax and social contributions (such as National Insurance Contributions) have been deducted. It's a measure of after-tax income across all households, in aggregate, adjusted for inflation.

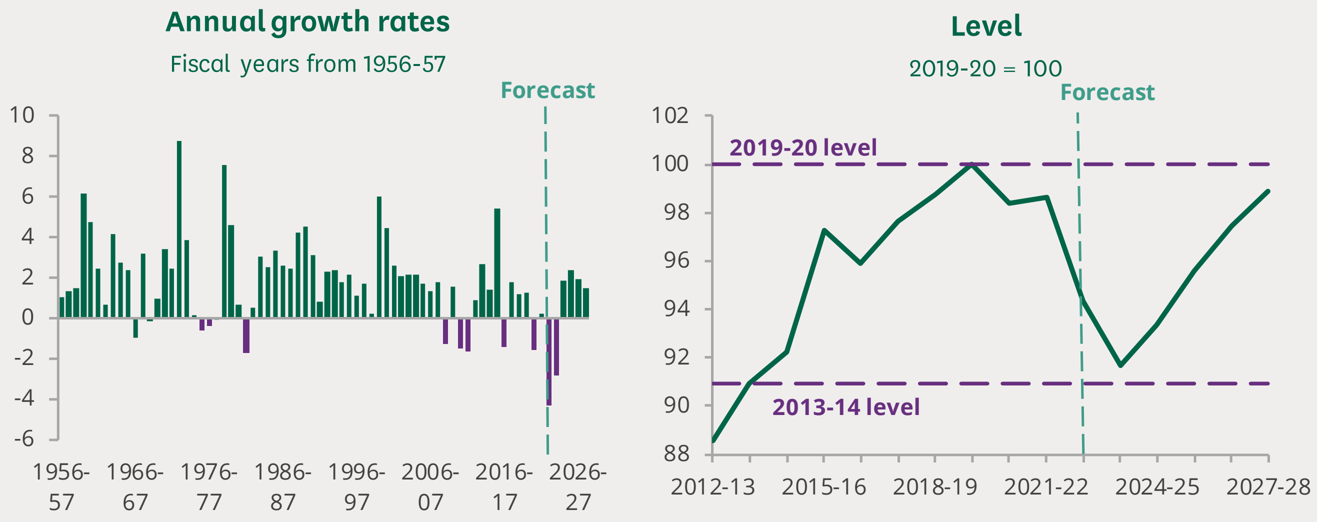
The OBR forecasted in November 2022 that real household disposable income will fall by 4.3% in 2022-23, the largest fall since comparable records began in 1956-57, and then fall by 2.8% in 2023-24, the second largest fall on record. This is the first time real household disposable income has fallen for two consecutive fiscal years as shown in the chart below.

The chart below also shows that the OBR expect that by 2027-28, real household disposable income will still be below pre-pandemic levels.[126]

[125] 22 June-11 September; ONS, Impact of increased cost of living on adults across Great Britain, 25 October 2022

[126] Office for Budget Responsibility, Economic and fiscal outlook November 2022, 17 November 2022, Box 2

Real household disposable income per person



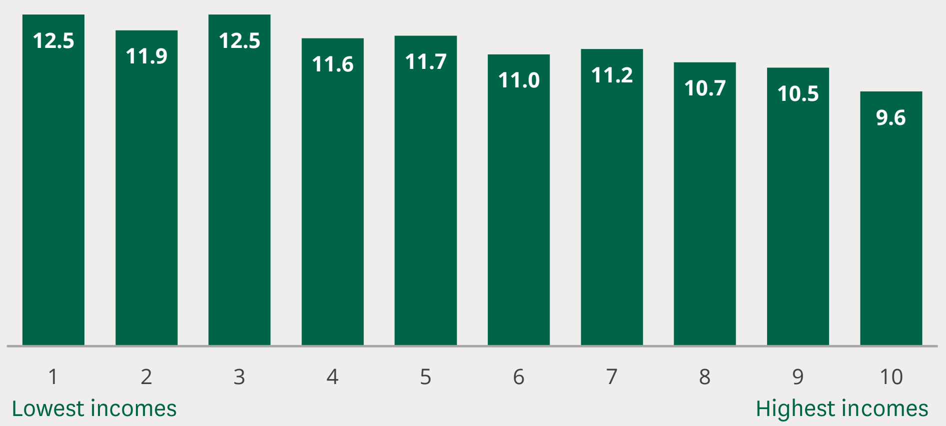
Source: Office for Budget Responsibility, Economic and fiscal outlook November 2022, 17 November 2022, Chart B

5.3 Low-income households are particularly affected by rising prices

Low-income households are most affected by rising prices. ONS data shows that households with the lowest incomes experienced a higher than average inflation rate in October 2022, while the richest households experienced lower than average inflation. As discussed below, this disparity is due to low income households are more affected by high food and energy prices.[127]

Inflation is highest for households with the bottom 30% of incomes

CPI by income deciles, October 2022, %



Source: ONS, Inflation and cost of living for household groups, UK: October 2022, 16 November 2022, Figure 1

[127] ONS, Inflation and cost of living for household groups, UK: October 2022, 16 November 2022, Figure 1

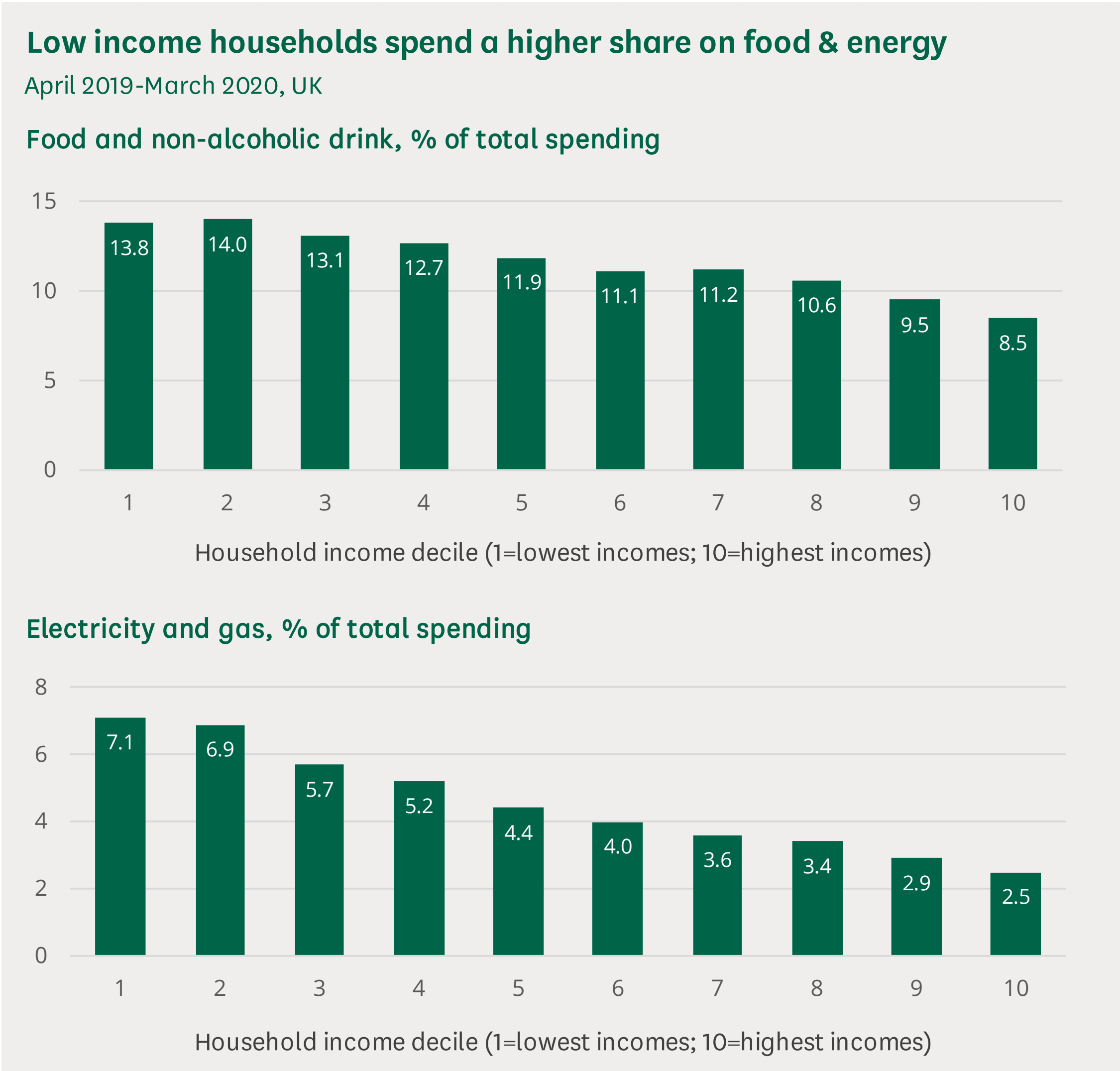
Box 1 in section 1 discusses how inflation is measured and what this means for low-income households.

The Library Insight Impact of inflation on benefit claimants provides more analysis.

Food and energy spending

Low-income households spend a larger proportion than average on energy and food and will therefore be relatively more affected by increases in their prices.[128]

The chart below shows how much of household spending in each income decile goes on food and energy. Note this spending data is from 2019/20 so do not reflect any recent changes in spending patterns and inflation.



Source: ONS, Family spending 2019/20, March 2021 - data: workbook 1 - table 3.2

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

Energy and 'fuel stress'

Definitions of 'fuel stress' and fuel poverty differ. The Library briefing on fuel poverty discusses definitions further.

The chart above shows that households in the lowest income group spent 7.1% of their overall spending on electricity and gas in 2019-20, compared to 2.5% for households in the highest income group. Because energy prices are rising particularly quickly, low-income households are facing higher inflation.[129]

'Fuel stress', defined by The Resolution Foundation as spending more than a tenth of household income on energy, has been increasing.[130] The Library briefing on fuel poverty provides more information and statistics.

Citizen's Advice predict they will help more people with energy issues in 2022 than in the previous two years combined.[131]

Poverty and food bank use are growing

The chart above shows that in 2019-20, among households in the bottom tenth of incomes, 13.8% of spending was on food and non-alcoholic drink. This compared to 8.5% of households with incomes in the top tenth.[132] It does not include spending in restaurants or in pubs and bars.

The Resolution Foundation expects absolute poverty to increase by 2.9 million people between 2021-22 and 2023-24, from 17% to 21%.[133]

According to a survey by the Food Foundation, in September 2022 9.7 million adults experienced food insecurity, 18.4% of households compared to 13.4% in April 2022. Among those receiving Universal Credit, 53.8% experienced food insecurity.[134]

The Trussell Trust reported that in April-September 2022 they provided almost 1.3 million emergency food parcels, a third more than in the same period in 2021 and 50% more than pre-pandemic levels. 320,000 people used a Trussell Trust food bank for the first time in the six months to September 2022, a 40% increase compared to 2021.[135]

In June-August 2022, around two fifths of Universal Credit recipients had more than one day in the previous month where they didn't eat at all or only

129 Resolution Foundation, Cap off, Understanding the April 2022 inflation release, 18 May 2022
130 Resolution Foundation, Higher and higher, Averting a looming energy bill crisis, 17 January 2022
131 Citizens Advice cost of living data dashboard, p6, (accessed 18 November 2022)
132 Income deciles are based on disposable household income
133 Resolution Foundation, The Long Squeeze, Benefit uprating policy for April 2023, 13 October 2022 Absolute poverty the number if people with household income less than 60% of the median in 2010/11 (updated for inflation).
134 Food Foundation, Food insecurity tracking, Round 11, October 2022
135 Trussell Trust, Almost 1.3 million emergency parcels provided in the last 6 months, 10 November 2022

had one meal, and around one fifth had not been able to afford to use their cooker to cook hot food.[136]

The Independent Food Aid Network said in October 2022, 91% of its food banks reported an increase in demand since July 2022, and nearly a quarter have reduced the size of their parcel.[137] The Library briefing Food banks in the UK provides more detail.

Low-cost food items

The ONS has released what it describes as "highly experimental" data on the prices of lowest-cost grocery items, to help estimate inflation levels faced by the lowest-income households.[138]

This data shows the lowest-priced items have increased by around the same amount as average food and non-alcoholic drinks.

However, the ONS noted large variation between the items, with, for example, the price vegetable oil increasing by 65% and low-cost pasta increasing by 60%, while the price of low-cost orange juice fell by 9% in the year to September 2022.

Rent

Renting in the private sector is becoming more unaffordable to people receiving benefits

Growth in private rents is increasing, as discussed in section 2.5.

There are several reports on the unaffordability of private sector rents in London for those reliant on benefit assistance. For example, research conducted for Capital Letters by Savills reportedly found: "In 2021-2022 only 8.8% of all properties listed for rent in London were affordable in the LHA, a reduction from 12.9% in 2020-2021."[139] London Councils has said 125,000 households in London are "at heightened risk of homelessness due to the cost-of-living crisis and drastic increases in private rents".[140]

Social housing rents are rising

In England, increases to social housing rents have been limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020. Most social housing

136 Trussell Trust, Forty percent of people claiming universal credit skipping meals to survive, new research from the Trussell Trust reveals, 7 September 2022

137 Independent Food Aid Network, Struggling to cope with the number of people seeking their support, independent food banks say the Government must act immediately to uprate benefit payments in line with inflation (PDF), 12 October 2022

138 ONS, Tracking the price of the lowest-cost grocery items, UK, experimental analysis: April 2021 to September 2022, 25 October2022

139 Local Government Chronical, "Urgent action' needed to tackle housing crisis in London, councils warn" 26 August 2022

140 As above.

tenants faced a rent increase of 4.1% in April 2022. The Resolution Foundation's Housing Outlook for Q4 2021 (PDF) observed that this would be "the largest rise for a decade."

On 31 August 2022, the Government opened a consultation exercise seeking views on a new Direction from the Secretary of State to the Regulator of Social Housing in relation to social housing rent policy. The consultation focuses on the introduction of a rent ceiling from 1 April 2023 to 31 March 2024.[141] Consultation closes on 12 October 2022.

The Library briefing Housing and the cost of living provides more information.

5.4 Rising interest rates make borrowing more expensive

Rising interest rates, discussed in section 4.4, means higher borrowing costs on mortgages and other loans. Although interest rates for these loans have increased, they are not necessarily rigidly following changes in the official Bank of England interest rate, which rose from 0.1% in December 2021 to 3.0% in November. it depends on a number of factors, including how much of the rate increase banks decide to pass on to consumers; banks' funding costs; and competition in the market.[142]

The effect of interest rates on mortgages

Interest rates on many loans, most notably for most mortgages, are fixed at the time they are taken out. For instance, most mortgage interest rates are fixed for a period of, typically, two or five years.

Rising yields (borrowing costs) on government bonds following the mini budget led to higher interest rates for mortgage providers on financial markets.[143] This was subsequentially passed on to customers in the form of higher interest rates on the mortgage products being offered.

Moneyfacts, a personal finance news service, reported that the interest rate on an average two-year fixed rate mortgage available on 20 October 2022 was 6.65%, a 14-year high.[144] This compared to 4.74% on 23 September and

141 DLUHC, Social housing rents consultation, 31 August 2022

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

143 Particularly important are interest rates on financial products called "swaps" which play an important part in mortgage providers' funding costs and, thus, play a key role in the fixed-rate mortgages offered to consumers

144 BBC News, Mortgage rates hit fresh 14-year highs, 20 October 2022

from 2.34% on 1 December 2021.[145] Moneyfacts reported the average five-year mortgage rate peaked at 6.51% on 20 October 2022.[146]

Since then, average rates have declined a little, to 6.45% for two-year and 6.28% for five-year fixes on 4 November, but they remain high compared to interest rates on financial markets that influence mortgage rates.[147] For example, the two-year swap rate (long-term interest rate predictions) which peaked at 6% fell back to around 4.5% in early November, but this mostly hasn't fed through to mortgage rates at the time of writing.[148]

Even before the mini budget, there were large upward moves in interest rates since August 2021, when average two-year fixed mortgage interest rates were a little above 1%.[149] With the Bank of England raising interest rates since December 2021, mortgage providers have raised the interest rates on the mortgages they offer.[150]

Around 30% of households have a mortgage (the rest own their property outright, privately rent or are in social housing). An estimated 20% of mortgages are on floating rates, which track rising Bank of England rates. The 80% of mortgages on a fixed-term basis (mostly for two and five years) will face a rise in mortgage repayments once the fixed term expires.[151]

Approximately two million households will come off their fixed rates by the end of 2023 and will need to remortgage at higher – sometimes much higher – rates than they are currently paying.[152] The Bank of England estimates that for a median outstanding balance of £130,000 with a term of 20 years remaining, an increase in interest rate from 2.0% to 5.5% will result in a £3,000 increase in annual interest payments.[153]

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145 BBC News, Mortgage rates rise sharply as squeeze tightens, 3 October 2022

146 BBC News, Mortgage rates hit fresh 14-year highs, 20 October 2022

147 Moneyfacts.co.uk via The Times, 7 pieces of advice for when house prices are falling, 6 November 2022

148 Bank of England, Monetary Policy Report Press Conference, 3 November 2022, Dave Ramsden (p2)

149 Bank of England, Quoted household interest rates (accessed 8 November 2022), at 75% LTV

150 "Average SVR paid by UK mortgage borrowers hits highest level in 13 years", Guardian, 20 June 2022 and "UK lenders raise mortgage rates ahead of further anticipated BoE hikes", Financial Times, 17 June 2022

151 Bank of England, Monetary Policy Report – November 2022, 3 November 2022, p52

152 Bank of England, Monetary Policy Report – November 2022, 3 November 2022, pp53-54, chart 2.13

153 Bank of England, Monetary Policy Report – November 2022, 3 November 2022, p53

6 Further reading

Library briefings

The Library's cost of living landing page provides links to Library products with more detail on different aspects of the current cost of living situation.

Autumn Statement 2022: A summary
17 November | House of Commons Library

Background to Autumn Statement 2022
11 November | House of Commons Library

Domestic energy prices
9 November 2022 | House of Commons Library

Household debt: statistics and impact on economy
14 November 2022 | House of Commons Library

Background to the September 2022 fiscal statement
20 September 2022 | House of Commons Library

Inflation: Key Economic Indicators
18 August 2022 | House of Commons Library

Think tank reports

Economic and fiscal outlook – November 2022
17 November 2022 | Office for Budget Responsibility

Autumn Statement 2022 collection
17 November 2022 | Institute for Fiscal Studies

Help today, squeeze tomorrow. Putting the 2022 Autumn Statement in context
18 October 2022 | Resolution Foundation

Citizens Advice cost of living data dashboard
November 2022 | Citizens Advice

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

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