DISPOSABLE INCOME INDEX

Q3 2017

A commissioned report for Scottish Friendly

Scottish Friendly

Executive summary

The Scottish Friendly Disposable Income Index uses new survey data to provide a unique insight into the financial health of the UK population. Using detailed data on household income and expenditure as well as insights on public opinion on topical issues, we analyse how much cash households have left after buying the essentials needed to take part in modern society, and explore the implications for our financial wellbeing and security. Within this edition, we focus on households who have opted to delay the purchase of a big ticket item.

- The Scottish Friendly Disposable Income Index shows that the median household in the UK has £1,430 left to spend each month after paying for the absolute essentials of housing, energy and water.
- After paying for a broader basket of goods including groceries, transport, childcare and broadband internet – the goods required to play a full role in modern society – the median household has £1,078 left each month to pay for other necessaries like clothing and furniture, saving and luxuries like holidays[i].
- One in four of those aged 18-24 (27%) and around one in six of those aged 25-34 (16%) spend more than their income on essentials (such as housing, energy and water). A much lower proportion of those aged 55-64 (10%) and those aged over 65 (3%) are in the same position.
- Almost half of individuals (45%) are concerned about how leaving the EU will affect their family financially. One in four (26%) are worried that leaving the EU might affect their job.

£1,430

LEFT TO SPEND
IN THE AVERAGE HOUSEHOLD.

45%

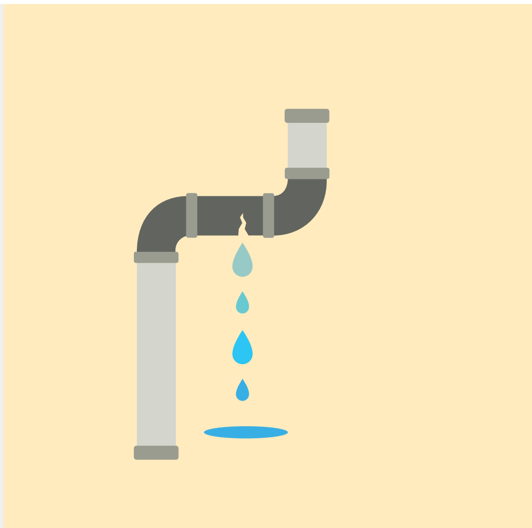
OF INDIVIDUALS ARE CONCERNED ABOUT HOW **LEAVING THE EU WILL AFFECT** THEIR FAMILY FINANCIALLY.

Visit Scottish Friendly's Insight Hub where you can interact with our Disposable Income Index Tool by comparing finances from a comprehensive range of demographics. Visit: **www.scottishfriendly.co.uk/my-insights**

- A third of households (33%) report delaying a purchase of a 'big ticket' item such as a car, home improvements, or household furniture, with men being less likely to do so (28%) than females (38%).
- Of those who delayed, the most commonly delayed purchase was a car (47%) or home improvements (43%).
- Eight in ten (79%) of households who delayed spending on a 'big ticket' item cited being unable to afford the purchase at the time as the main reason behind their decision to buy it later. However, one in five (20%) cited uncertainty regarding prices as the reason.
- Two thirds (65%) of households who did purchase a big-ticket item in the last 12 months did so by using personal savings or funds, whilst some households resorted to credit in order to make their purchase, with credit card (14%) and personal loan (8%) being the most common method of borrowing.

1/3

OF HOUSEHOLDS HAVE **DELAYED PURCHASING A 'BIG TICKET' ITEM** SUCH AS A CAR, HOME IMPROVEMENTS OR NEW FURNITURE.



Introduction

The Disposable Income Index for July to September of 2017 shows a third of UK households are delaying the purchase of a 'big ticket' item, such as a car or home improvements. Our sample of households cited being unable to afford the item as the main reason they delayed its purchase. Two thirds of the households that did purchase a big ticket item in the last twelve months did so using personal funds or drawing down on savings.

The Disposable Income Index

The Scottish Friendly Disposable Income Index uses new survey data to provide a unique insight into the financial health of the UK population. Using detailed data on household incomes and expenditure, we analyse how much cash households have left after buying the essentials needed to take part in modern society, and explore the implications for financial wellbeing and security.

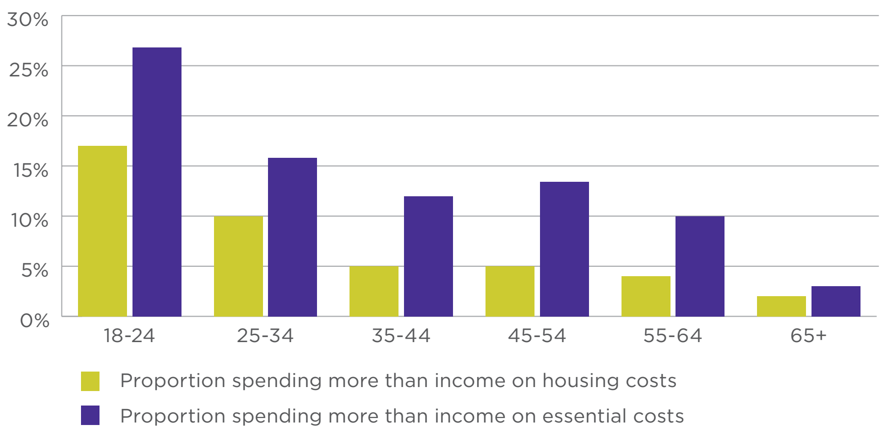
The median household in the UK has £1,430 left to spend each month, after paying for somewhere to live[ii]. On average[iii], £1,078 is left over once households have paid for other necessities needed to take part in modern life – childcare, transport, groceries, mobile phones, television service, internet and telephone calls. This money needs to pay for everything else the family requires: clothes, furniture, going out, hobbies, holidays and savings.

As we have reported in the past the median disposable income is much lower among younger age groups than older age groups. Those aged over 65 have the highest level of disposable income amongst all the age groups at £1,807. This compares to a disposable income of £964 for those aged 18-24.

Younger age groups remain less confident in their ability to cope with an unexpected bill (for example, if the car or washing machine broke): 63% of 18-24 year olds and seven in ten (70%) of those aged 25-34 reported some concern over being able to cover a big unplanned expenditure. In contrast, just a quarter (25%) of those aged 65 and over are worried about how they would cope.

Younger respondents also tend to spend more than their income on housing costs and essentials such as childcare, transport, and groceries. One in four (27%) of 18-24 year-olds and one in six (16%) of those aged 25-34 spend more on housing costs and essentials than they earn. In comparison, only one in ten (10%) of individuals aged 55-64 and just 3% of individuals over 65 tend to do so. This could be explained by younger age groups facing higher housing costs due to either renting or paying off a mortgage.

Figure 1: Proportion spending more than their income on housing and other essentials, by age



66%

OF 25-34 YEAR OLDS ARE CONCERNED OVER BEING ABLE TO COVER A BIG UNPLANNED EXPENDITURE.

Income after housing

Income after housing shows the amount of cash households have left after paying for housing and related costs - council tax, water, energy bills, ground rent, service charges, buildings and contents insurance. This is similar to the government measure of income after housing used to measure official poverty lines.

Income after essentials

This measure shows cash left over after households have purchased a basket of essentials considered necessary to participate in day-to-day life in modern society. It includes: childcare, transport (fuel or public transport fares), groceries, broadband internet, mobile phone tariffs and subscription television.

Mixed signals for the UK economy

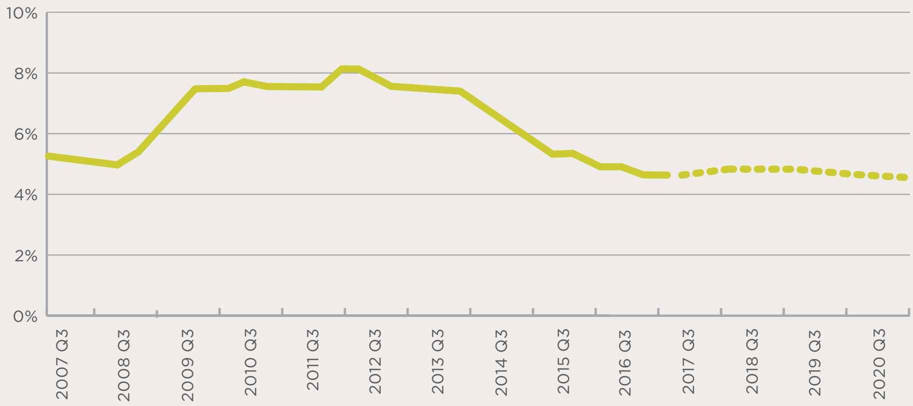
Following weak economic performance in the first quarter of 2017, the IMF has revised down its growth forecast to 1.7% for the year. This represents a 0.3 percentage points decrease from its previous projection. However, growth rate expectations for 2018 remain unchanged, at 1.5%. The IMF named the potential failure of Brexit negotiations as a key risk facing the UK, as well as the global, economy.

Employment levels continued to rise in the period April to June 2017, reaching a peak of 75.1%, a 0.3 percentage point rise since the last quarter. Unemployment fell further to 4.4%.

4.4%

UNEMPLOYMENT FELL FURTHER FROM THE LAST QUARTER TO 4.4%

Figure 2: UK unemployment rate Q3 2007-Q3 2020.
Source: Office for National Statistics, Bank of England forecast



Strong labour market participation led the Bank of England to lower its unemployment rate forecast yet again. The latest Inflation Report (August 2017) predicts a peak of 4.5% throughout 2018 and 2019, before returning to the current level (4.4%) for the first three quarters of 2020.

Income squeeze

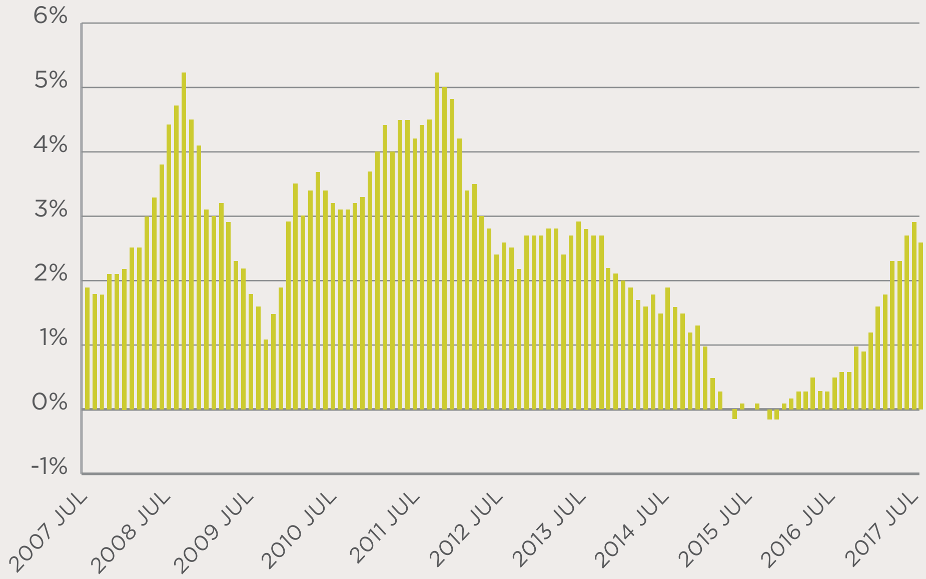
Lower fuel prices curbed CPI inflation to 2.6% in June, and helped hold down this rate in July despite rising prices of clothes, food, and utilities.[iv]

Quarterly CPI is projected to remain around 2.6% – 2.7% until late 2018, with monthly fluctuations peaking at around 3% in October this year. Expectations for inflation then reduce to 2.2% in the third quarters of 2019 and 2020[v]. The Bank of England cites the fall in the value of the pound, and the resulting hike in import prices, as the key reason for high inflation.

For a second quarter in a row, CPI inflation outgrew wages, indicating that the income squeeze experienced in the first half of the 2010s is back. Nominal employee pay growth increased by 2.1% in the three months to June 2017, which represents a 0.5 percentage point fall compared to the same period in 2016.[vi]

Figure 3: CPI inflation, July 2007 – July 2017

Source: Office for National Statistics



Anxieties remain

Younger generations are also more likely to be worried about their debt. Over a half (53%) of Millennials (those born between 1981 and 1998) and 45% of members of Generation X (born between 1965 and 1980) report some worries regarding money they owe. In comparison, just under a quarter (24%) of Baby Boomers (born between 1946 and 1965) agree with the statement.

18% of households report that they have more money left over after paying for essentials than they did 12 months ago. The remaining households do not feel like their financial situation is improving.

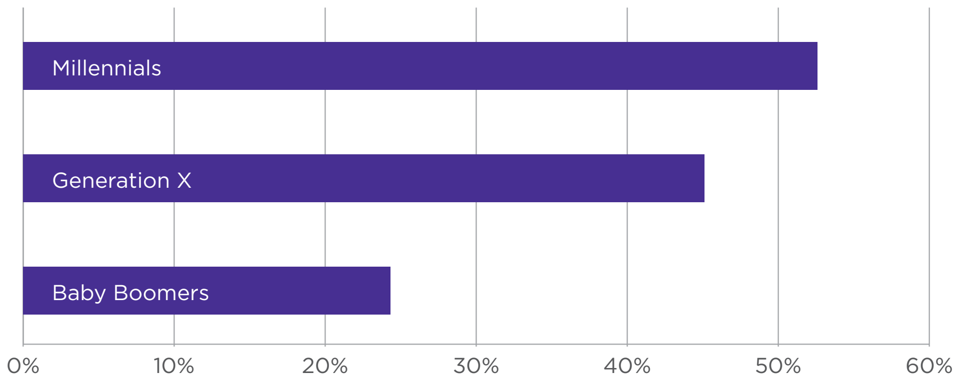
After paying for essentials, 42% believe that they are worse off than 12 months ago. This may be attributable to rises in the cost of living. Meanwhile, two in five believe that there has not been any significant change.

Households' perception about their future financial position remains unchanged with only a minority (35%) of individuals believing that they will be financially better off in 12 months' time.

Just over a half (52%) of households save or invest regularly each month.

JUST OVER A HALF (52%) OF **HOUSEHOLDS SAVE OR INVEST REGULARLY EACH MONTH.**

Figure 4: Proportion worried about debts

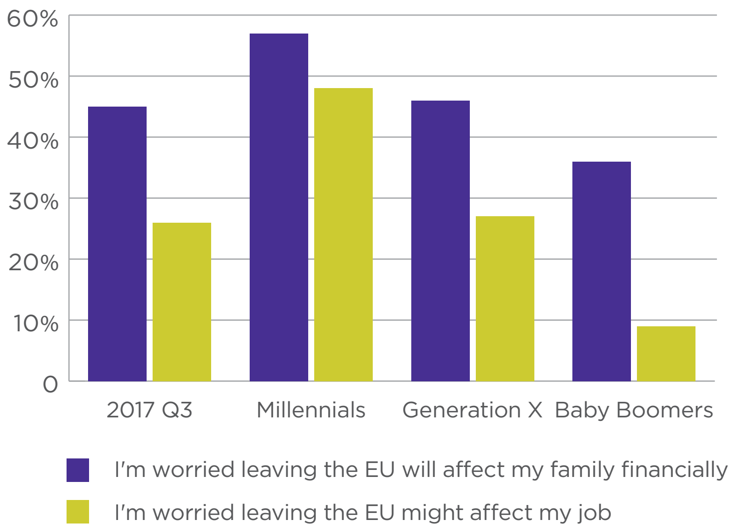


Generational divide over Brexit

The previous quarter saw a modest spike in concerns regarding the effect that leaving the European Union could have on respondents' jobs. Overcoming election uncertainty has caused the results for this quarter to return to trend: 45% of respondents reported some worries about how leaving the EU will affect their family financially, and one in four (26%) are concerned that Brexit might affect their job.

We observe a generational divide over these concerns. Millennials are the most pessimistic, with almost six in ten (57%) expecting Brexit to have a negative impact on family finances, whereas just under a half (48%) are reporting some concern in regard to their job. This may reflect their less established position in the labour market and / or different attitudes to the benefits of membership of the EU.

Figure 5: Concerns about leaving the EU



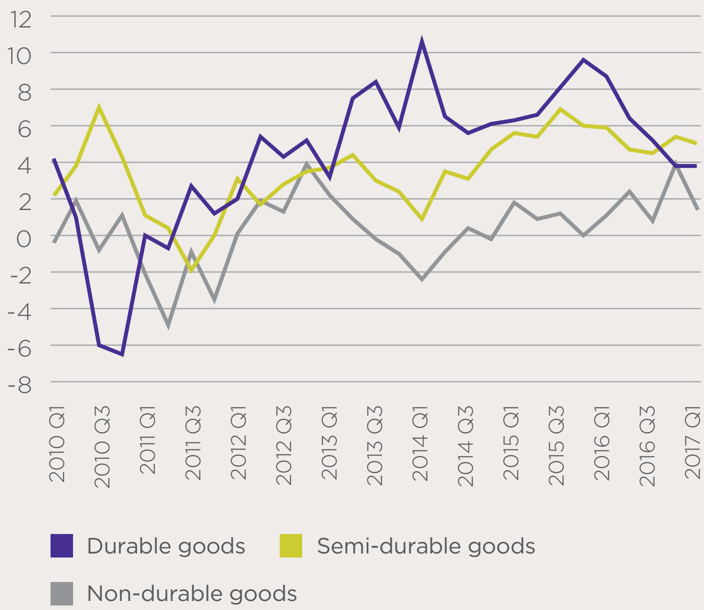
Household Spending

The pay squeeze on household finances has hindered the growth in private consumption, which has been the principal driver of economic growth in recent years. In the period between April and June, household spending increased by only 0.1%, which is half the rate for the first quarter[vii].

The ONS cites delayed expenditure on 'big ticket' household items as a key reason behind the fall in private consumption. Official statistics illustrate a sharp fall in the consumption of durable goods such as household goods and cars since the end of 2015. Simultaneously, expenditure on 'softer' semi-durable and non-durable goods such as clothing and groceries has fluctuated, but ultimately remained flat over the past two years.[viii]

Figure 6: Household consumption, volume

Source: ONS



Delayed expenditure

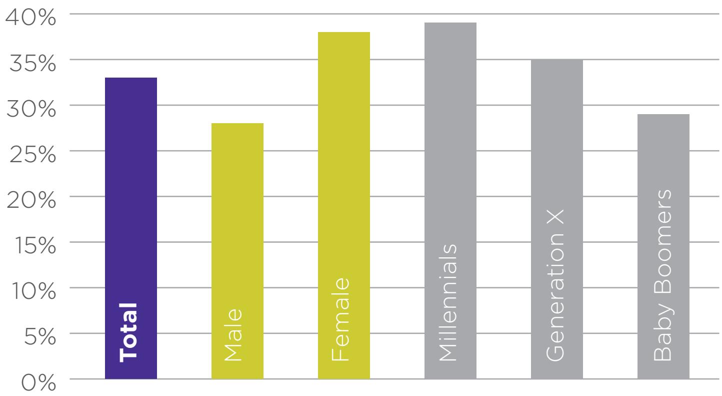
As noted above, the ONS has identified households delaying expenditure on 'big ticket' items as a factor contributing to the fall in private consumption. In our latest survey of consumers, we asked respondents whether they had postponed purchases and if so what and why.

Within our research one-third (33%) of households reported delaying purchasing a 'big-ticket' item in the last twelve months; such 'big ticket' items include cars, home improvements and television sets.

33%

OF HOUSEHOLDS REPORTED **DELAYING A 'BIG TICKET' ITEM PURCHASE.**

Figure 7: Proportion of households who have delayed purchasing a 'big-ticket' item in the last twelve months (of those applicable)

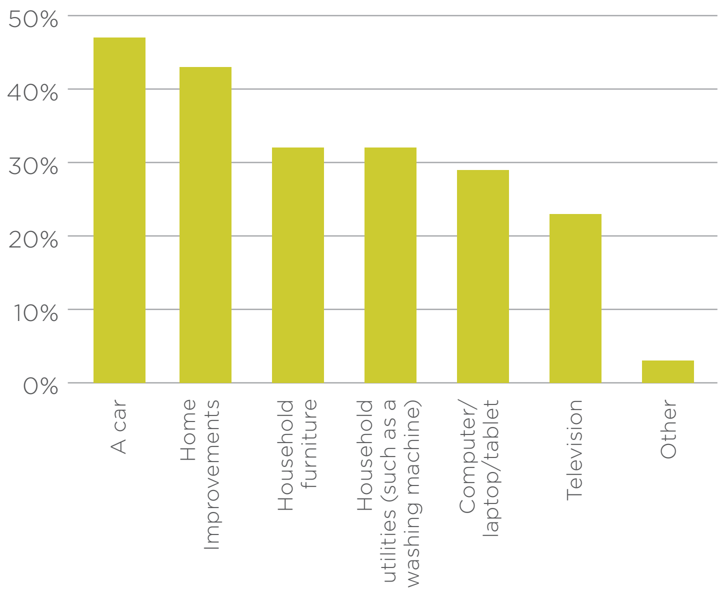


There are significant differences between the purchasing habits of genders and generations. There is a ten-percentage point difference between the two genders; females are much more likely to report delaying their purchase (38%) compared to men (28%).

The difference between the genders is equivalent to the difference between the youngest and oldest generations, 39% of Millennials have delayed the purchase of a big-ticket item in the last twelve months compared to 29% of Baby Boomers.

As Figure 8 shows, when asked which items households had delayed purchasing the most common response was a car (47%), followed closely by home improvements (43%).

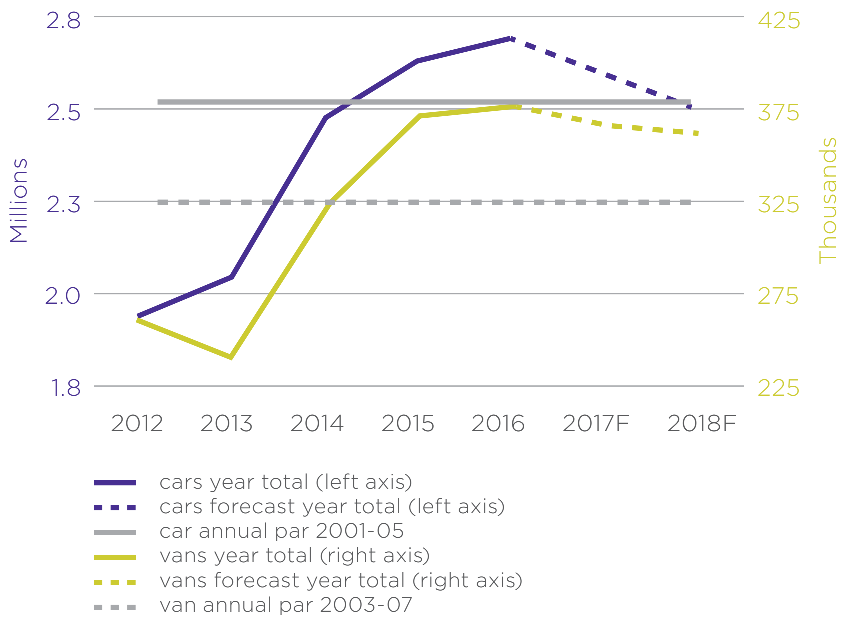
Figure 8: Proportion of household who delayed purchasing the following items (of those who delayed)



The choice of households to delay their car purchase is consistent with forecasts from the Society of Motor Manufacturers and Traders (SMMT) who are forecasting a decline in new car registrations in 2017 and 2018.

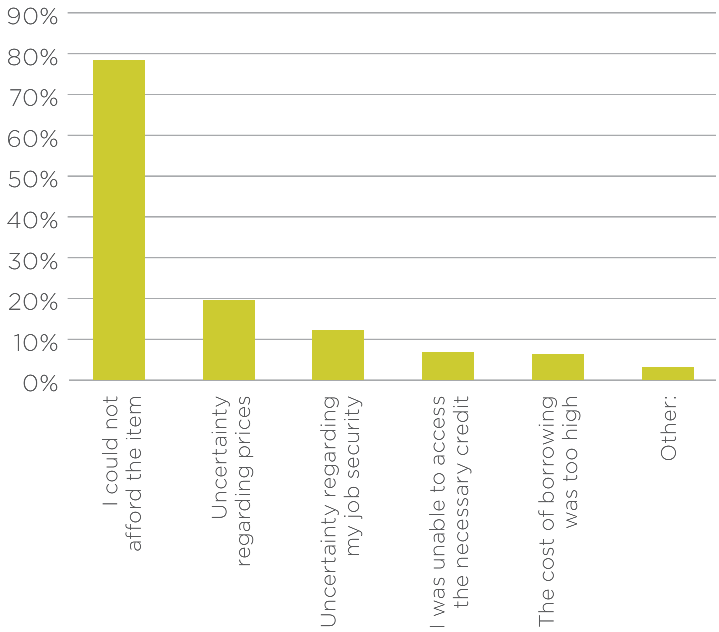
Figure 9: UK new light vehicles rolling year trends and SMMT (average) forecast to 2018

Source: SMMT; Forecasts at 07 2017 Panel Survey



The product which men were most likely to have delayed the purchase of was a car (53%) whereas females were most likely to delay a home improvement purchase (45%). The most common reason for choosing to delay the purchase of a big-ticket item is that households cannot afford the item (79%). However, the next highest reason for delaying a purchase – cited by one in five respondents (20%) – was uncertainty regarding prices.

Figure 10: Reason cited for delaying purchase (proportion of those who have delayed)



Among those who *did not* delay the purchase of a big-ticket item, two thirds used personal funds or savings. Some households resorted to credit in order to make their purchase, with credit card (14%) and personal loan (8%) being the most common method of borrowing.

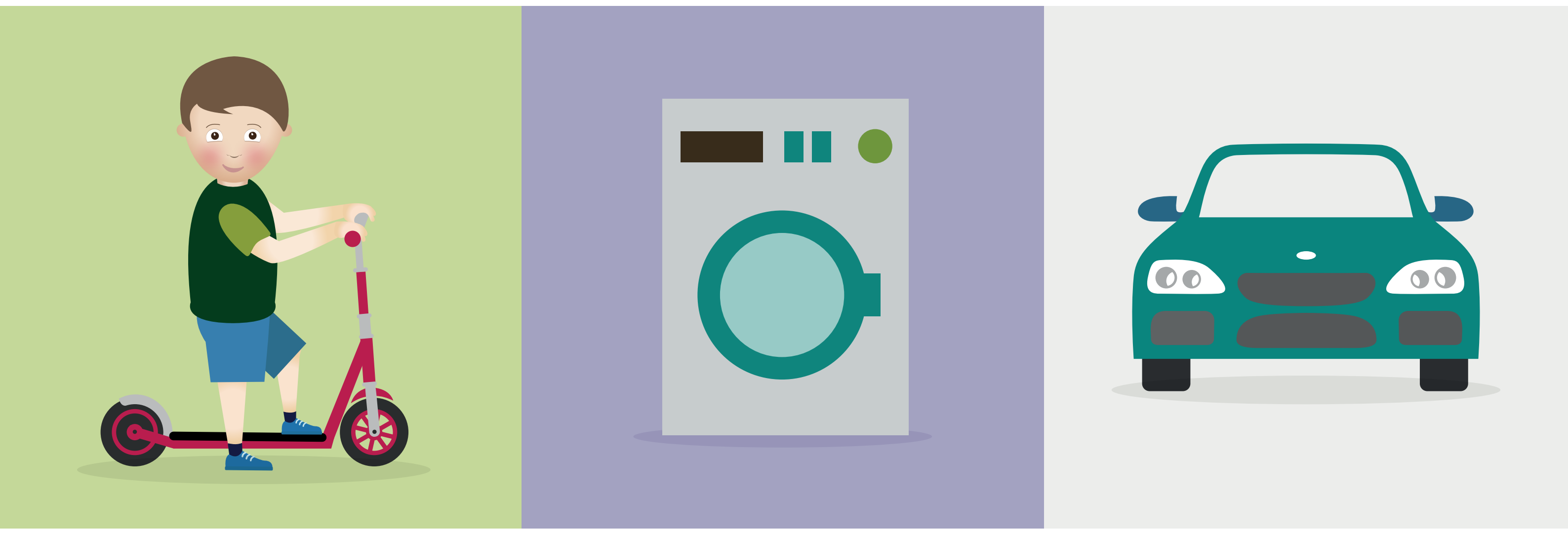
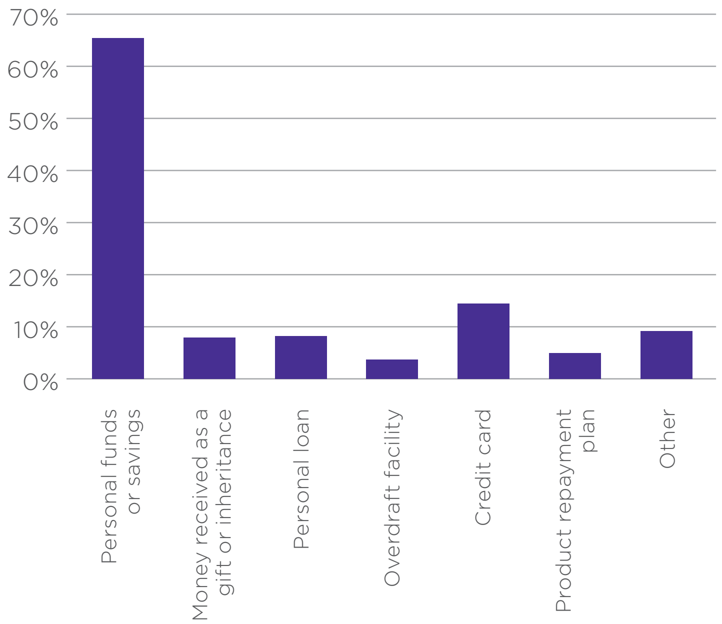
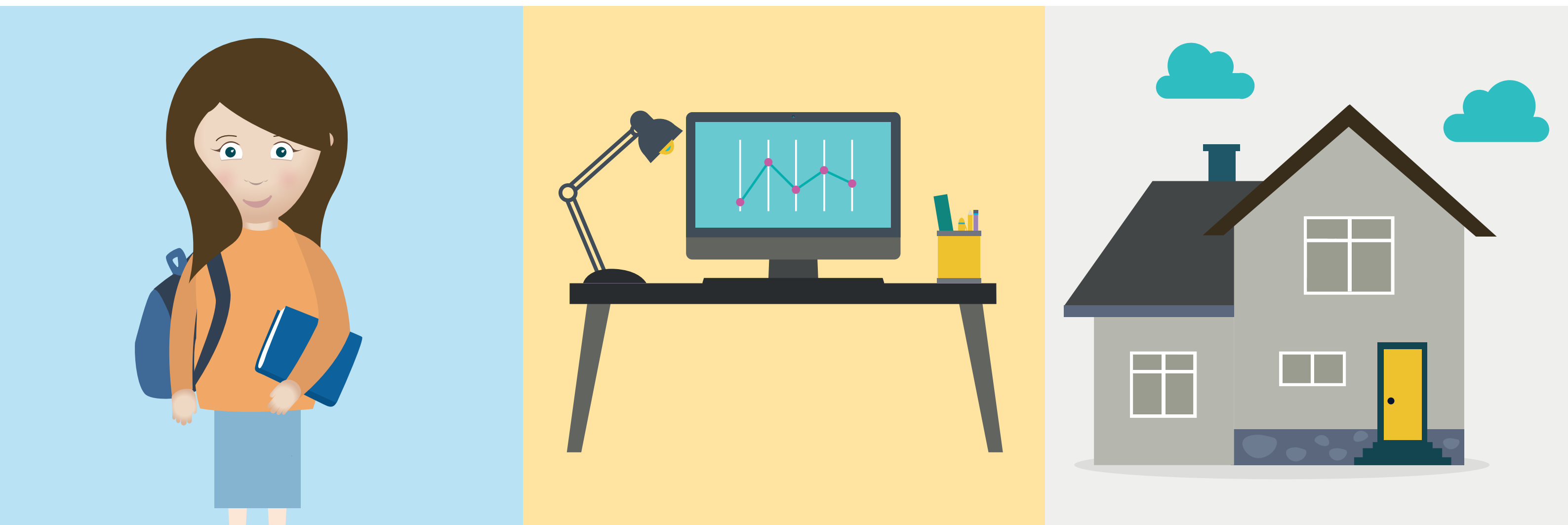


Figure 11: Proportion of households using each funding method for purchase (given that they did not delay purchase)

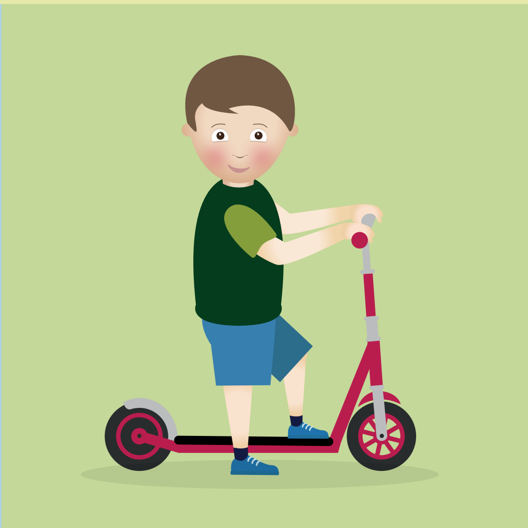


Millennials are more likely than the other generations to use money received as a gift or inheritance (17%), however their use of credit for big ticket purchases remains consistent with the average. One in five (20%) of those who are employed full time reported using a credit card to pay for the purchase, compared to an average of 14% amongst the entire survey population.



Conclusions

With the backdrop of an emerging squeeze on wage growth, this edition of the Disposable Income Index describes how households are making decisions on major purchases. Many are delaying buying a bit-ticket item such as cars and home improvements, with affordability and uncertainty over prices being the principal reasons. While many of those who did purchase a bit-ticket items used personal funds or savings, some relied on credit such as credit cards and personal loans.


Methodology

The Scottish Friendly Disposable Income Index is based on a quarterly online nationally-representative survey of 2,000 UK adults, carried out by 3Gem. Survey data was collected between 15th and 22nd August 2017.

Within the survey, respondents are asked for details of four components of income:

- Post-tax income from work
- Income from benefits or tax credits
- Income from investments
- Income from private or occupational pensions.

In each case, respondents are asked for monthly data as this is basis on which most income will be paid. Where reasonable, they are prompted to think of sources of this information, for example pay slips.

These data are aggregated to provide an accurate picture of income at a household level. Asking questions about specific components of income allows us to build a more complete picture.

Respondents are then asked about essential bills, including:

- Housing costs: rent or mortgage costs
- Council tax
- Water
- Gas, electricity, solid fuel (including a dual fuel option)
- Buildings & contents insurance
- Ground rent and service charges.

We ask both how often bills are paid, and how much they are, allowing respondents to provide information in the form that is most familiar to them and removing as far as possible the need for bills to be estimated. The data is then cleaned to provide a monthly estimate of total essential costs for each household.

We also consider a set of costs which are not absolutely essential for human life, but are nonetheless necessary to play a full and active role in modern society, including:

- Groceries
- Broadband or other internet services, telephone calls and television subscriptions
- Mobile phone bills
- Childcare
- Transport (petrol, public transport fares).

These costs are subtracted from reported income at each household, to create an estimate of disposable and discretionary income – here defined as income after housing costs, and after a basket of essentials needed to participate fully in modern society are purchased.

Data is not equivalised for household size, but we do check median household size across sub-groups to ensure any significant differences are flagged to the reader.

i We report the disposable income findings from our survey on a quarterly basis. We do not draw conclusions here about variation over time due to challenges associated with sample size which mean that in many cases we may not be confident that the change is statistically significant from zero.

ii Housing includes mortgage or rent costs, council tax, ground rent, service charges, building and contents insurance, energy and water bills.

iii "Average" throughout this report refers to the median. We use the median to avoid results distorted by extreme values, particularly given the self-reported nature of our survey data.

iv ONS, UK consumer price inflation: July 2017 Price indices, percentage changes and weights for the different measures of consumer price inflation (2017)

v Bank of England, Inflation Report, May 2017 (2017)

vi ONS, Analysis of real earnings: August 2017 Analyses of the Average Weekly Earnings (AWE) figures (2011)

vii ONS, Second estimate of GDP: April to June 2017 (2017)

viii ONS, Monthly economic commentary: August 2017 (2017)

	Income after housing costs	Income after essentials	Proportion spending more than income on housing costs	Proportion spending more than income on essential costs
REGION				
Scotland	£1,502	£1,158	6%	13%
Northern Ireland	£1,459	£870	8%	19%
Wales	£1,391	£967	9%	18%
South West	£1,411	£1,073	5%	14%
West Midlands	£1,307	£952	4%	10%
North West	£1,322	£976	3%	10%
North East	£1,159	£844	5%	10%
Yorkshire	£1,557	£1,164	5%	10%
East Midlands	£1,442	£1,123	2%	7%
East England	£1,487	£1,135	7%	12%
South East	£1,431	£1,045	9%	14%
London	£1,683	£1,316	12%	17%
AGE GROUP				
18-24	£964	£594	17%	27%
25-34	£1,624	£1,205	10%	16%
35-44	£1,415	£991	5%	12%
45-54	£1,317	£952	5%	13%
55-64	£1,410	£1,084	4%	10%
65+	£1,807	£1,447	2%	3%
EMPLOYMENT STATUS				
Employed full-time	£1,591	£1,172	7%	12%
Employed part-time	£1,126	£682	9%	20%
Self-employed	£1,538	£1,267	5%	10%
Unemployed	£906	£621	9%	18%
Student	£670	£484	18%	31%
Retired	£1,807	£1,478	1%	4%
UK MEDIAN				
	£1,430	£1,078	6%	12%

Visit Scottish Friendly's Insight Hub where you can interact with our Disposable Income Index Tool by comparing finances from a comprehensive range of demographics.
Visit: **www.scottishfriendly.co.uk/my-insights**

Scottish Friendly Assurance Society Limited
Head Office: Scottish Friendly House,
16 Blythswood Square, Glasgow G2 4HJ
Telephone: 0333 323 5433
Email: enquiries@scottishfriendly.co.uk
Web: www.scottishfriendly.co.uk
Social Media: @scotfriendly

In association with Social Market Foundation.
The Social Market Foundation is a non-partisan think tank.
It believes that fair markets, complemented by open public services, increase prosperity and help people to live well.

www.smf.co.uk @SMFthinktank

Scottish Friendly