DISPOSABLE INCOME INDEX

Q4 2017

A commissioned report for 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' attitudes and spending decisions in the run up to Christmas.

- The Scottish Friendly Disposable Income Index shows that the median household in the UK has £1,480 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 £1,126 left each month to pay for other necessaries like clothing and furniture, saving and luxuries like holidays.[i]
- Three in ten of those aged 18-24 (28%) and around one in eight of those aged 25-34 (12%) 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 (4%) are in the same position.
- Almost half of individuals (47%) are concerned about how leaving the EU will affect their family financially. Three in ten (28%) are worried that leaving the EU might affect their job. Both of these figures have remained relatively consistent since Q3 2016.

£1,480

LEFT TO SPEND
IN THE AVERAGE HOUSEHOLD.

1 in 8

OF 25-34 YEAR OLDS SPEND **MORE THAN THEIR INCOME** ON ESSENTIALS.

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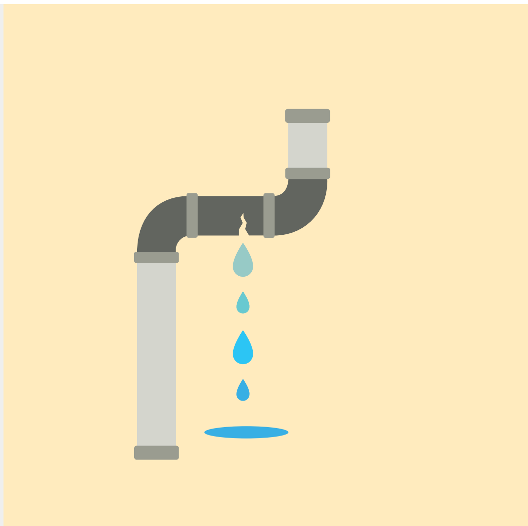
- Focusing on the impact of Christmas on family finances, one in three report being under pressure to have the perfect Christmas. When focusing on those who have children in their household this increases to over half.
- Pressure is often felt from family and friends; however, of those who felt pressure, one-third of individuals cite television advertising as a source of pressure. 27% of people feel pressure from social media, this increases to 45% for those aged 18-24.
- Our results show that men and women start shopping for Christmas at various times. Half (49%) of men state that they start Christmas shopping in the period from the start of December until Christmas Eve, compared to only a third (33%) of women – who tend to start earlier.
- On average households report spending £342 on Christmas presents, households with children spend on average £113 more than those without.
- More than three-quarters of Millennials state that they make sacrifices to buy Christmas presents, this compares to fewer than two in five of Baby Boomers.
- Four in ten (44%) of individuals expect to buy gifts on their credit card this Christmas. The average amount put on their credit card is anticipated to be £303.
- On average, it takes four and a half months to pay back the money borrowed for Christmas. This means that households are on average likely to pay off the cost of Christmas on April 23rd.

1/3

OF INDIVIDUALS EXPECT TO BUY GIFTS ON **CREDIT CARDS** THE CHRISTMAS

Introduction

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 Disposable Income Index

The Disposable Income Index for October to December 2017 shows that the median household in the UK has £1,480 left to spend each month, after paying for somewhere to live.[ii] On average,[iii] £1,126 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. The Office for Budget Responsibility (OBR) expects real household disposable incomes to fall in 2017, before rising in 2018.[iv]

This edition of the DII has additional questions focusing on the financial impact of Christmas on households.

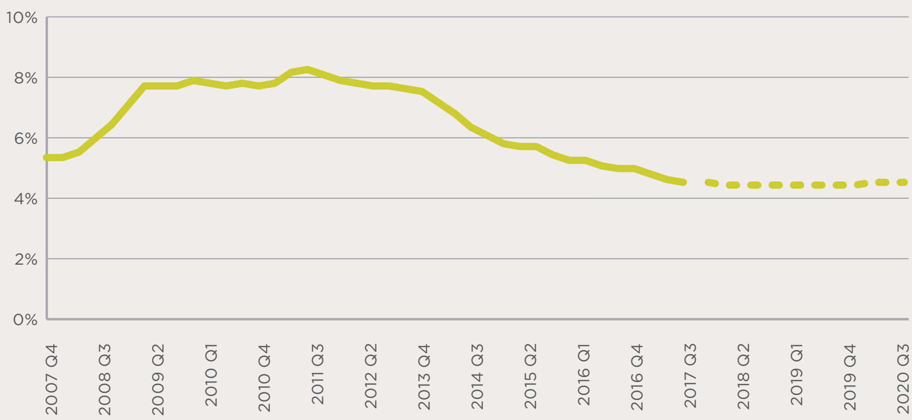
Some optimism for the UK economy

The International Monetary Fund continues to be wary of the effect the process of leaving the European Union will have on the UK economy. However, the Fund did not make any revisions to its growth forecast in its latest WEO projections: the UK economy is still expected to grow by 1.7% in 2017 and 1.5% in 2018.

In the third quarter of 2017, the rate of employment fell very slightly to 75%, down from 75.1%. However, unemployment decreased again to 4.3%, a 0.1 percentage point fall from the previous quarter, indicating that the number of people who are economically inactive has risen marginally.

Figure 1: UK unemployment rate Q4 2007-Q4 2020

Office for National Statistics, Bank of England forecast



The Bank of England remains optimistic about future labour market participation. The November Inflation Report revised down the expected unemployment rate to 4.2% throughout 2018 and 2019, before picking up slightly at 4.3% in early 2020.

Inflation high, wages lagging behind

CPI inflation reached 3% in September 2017 and remained at that level in October 2017 after a sharp increase in food prices.[v]

In response to higher inflationary pressures, the Bank of England raised its interest rate in November 2017 by 0.25 percentage points to 0.5%. The Bank of England expects CPI inflation to remain at 3% until the end of the year, and then gradually decrease to 2.4% in the last quarter of 2018. The forecast warns that inflation will remain above its 2% target rate until at least the end of 2020.[vi]

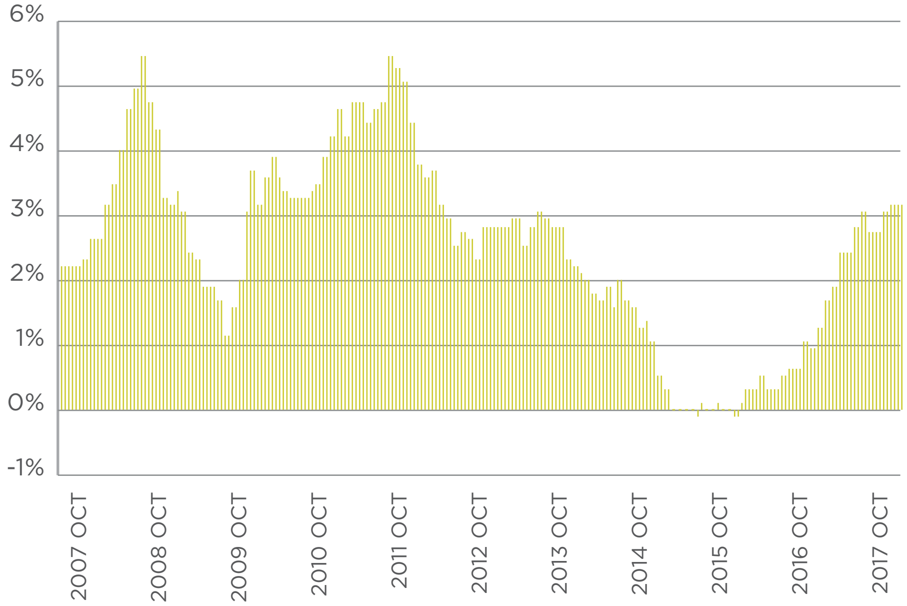
For a third quarter in a row, wages rose more slowly than prices, with average weekly earnings growing by 2.2% from July to September.[vii] The income squeeze is likely to remain persistent in the near future, given the latest inflation expectations and the downward revision in productivity projections.

2020

INFLATION WILL REMAIN ABOVE ITS 2% TARGET RATE UNTIL AT LEAST THE END OF 2020

Figure 2: CPI inflation, October 2007 – October 2017.

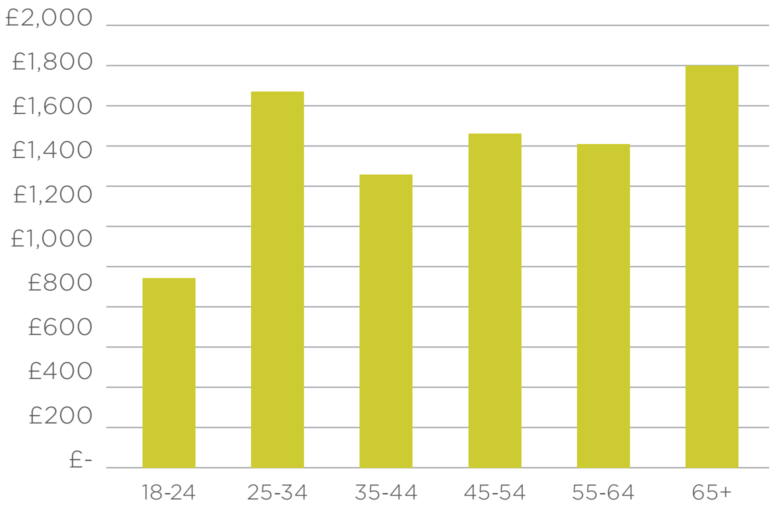
Source: Office for National Statistics



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 £1,816 after housing costs. This compares to a disposable income of £870 for those aged 18-24.

Figure 3: Median disposable income by age.

Source: Office for National Statistics

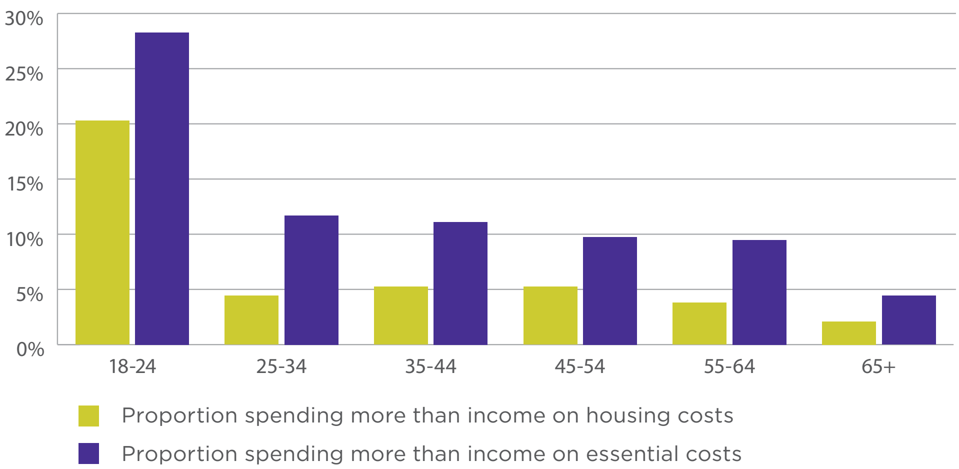


Those who are retired have a disposable income of £1,802 compared to £1,604 for those who are employed full-time.

Younger age groups remain less confident in their ability to cope with an unexpected bill (for example, if the car or washing machine broke): seven in ten (68%) of 18-24 year olds and 64% of those aged 25-34 reported concern over being able to cover a big unplanned expenditure. In contrast, only 27% 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 (28%) of 18-24 year-olds and one in eight (12%) 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 4% of individuals over 65 tend to do so. This could be explained by older age groups facing lower housing costs due to having repaid their mortgage and living in their own homes rather than renting.

Figure 4: Proportion spending more than their income on housing and other essentials, by age.



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.

Financial worries

Younger generations are also more likely to be worried about their debt. Over a half (54%) of Millennials (those born between 1981 and 1998) and 42% 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.

Unsurprisingly, households with children in them are more anxious about debts: over a half (54%) report some worry, compared to three in ten (29%) of households with no children.

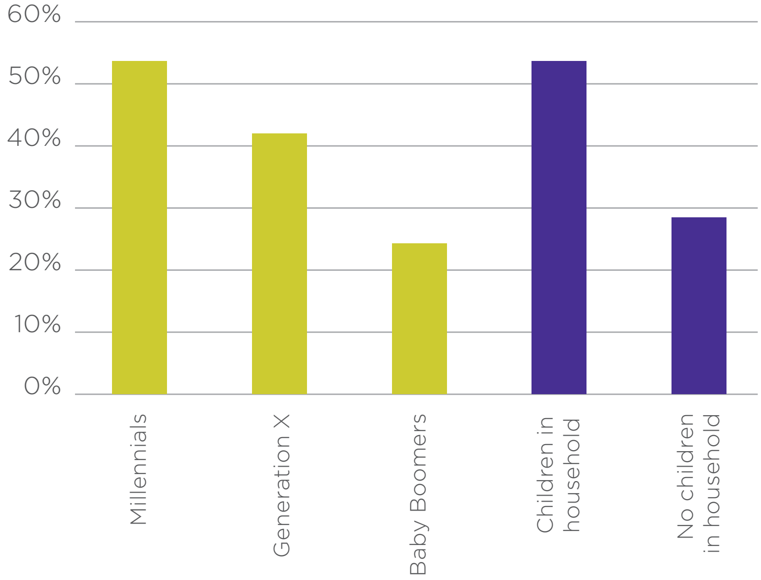
Only one in five (19%) households report that they have more money left over after paying for essentials than they did 12 months ago. After paying for essentials, 42% of households believe that they are worse off than 12 months ago. This figure has remained consistent since Q2 2017. Meanwhile, two in five believe that their financial situation is about the same as it was last year.

Households' perception about their future financial position remains unchanged with only a minority (36%) of individuals believing that they will be financially better off in 12 months' time. Just over a half (51%) of households save or invest regularly each month.

42%

OF HOUSEHOLDS BELIEVE THAT THEY ARE WORSE OFF THAN 12 MONTHS AGO

Figure 5: Proportion worried about debts

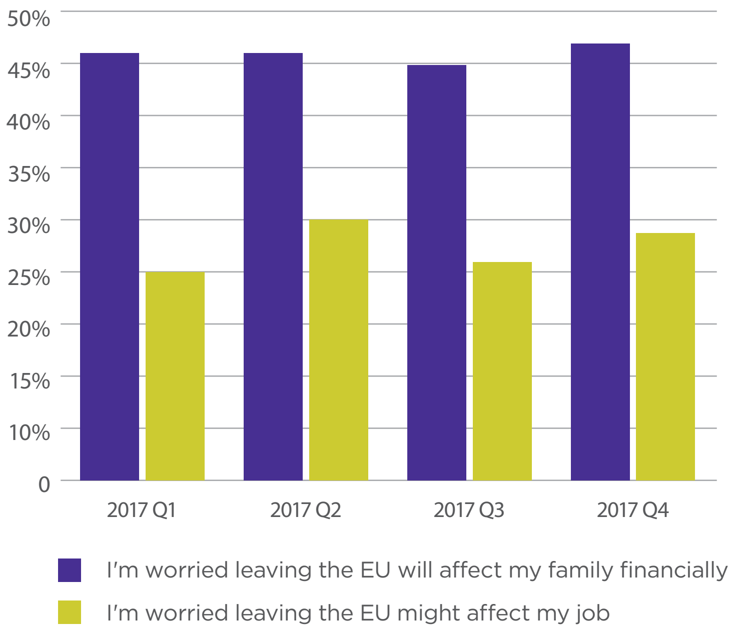


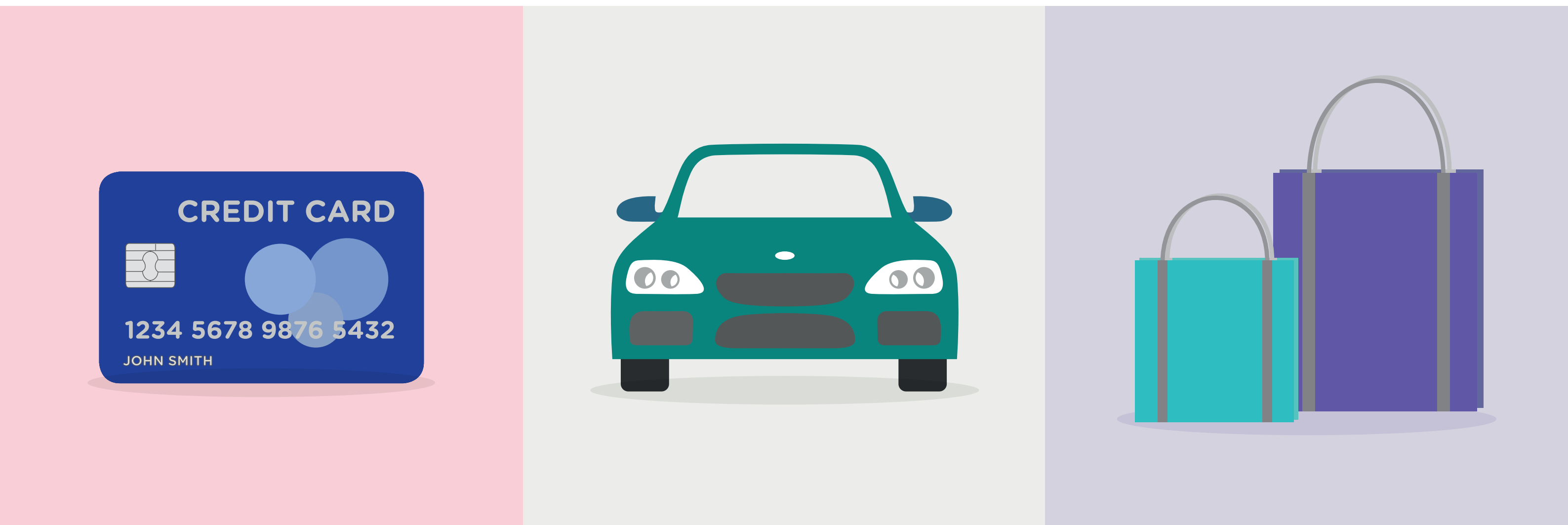
Brexit woes stable

Looking back at 2017 shows that, on average, 46% of households were worried that leaving the European Union will affect their family financially. The results of this question have been relatively stable since the results of the referendum.

Throughout the year, on average, 27% of surveyed households reported some concern that leaving the EU might affect their job. Other than the rise seen in Q2, there has been no major change in responses to his question in 2017. Focusing only on full-time employees, in the last quarter of 2017, 42% reported being worried about what Brexit could mean for their job.

Figure 6: Concerns about leaving the EU



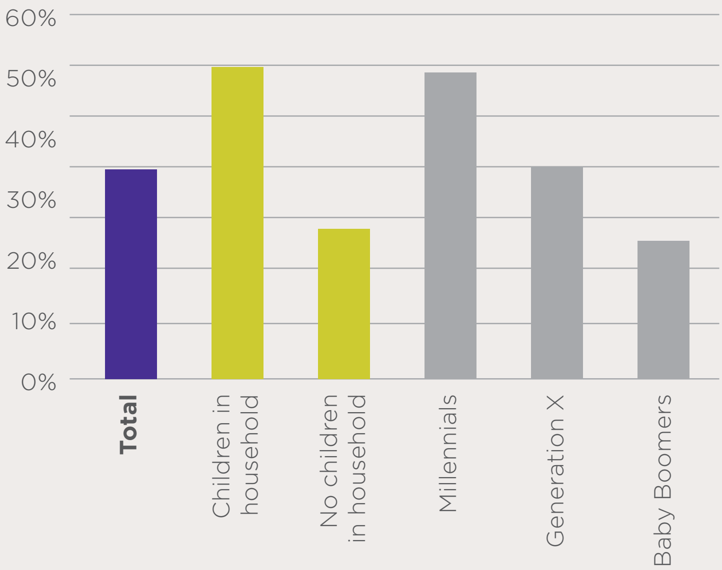


Financial impact of Christmas

This year, the Disposable Income Index has discussed the ways in which households are bolstering their income, attitudes toward debt and spending on big-ticket items. Previous quarters have signified that many households are concerned about their levels of debt and their ability to make ends meet in the future. This quarter, the DII focuses on Christmas spending. The following figures and statistics only relate to those who state they celebrate Christmas.

Our survey suggests that one in three individuals are under pressure to have a perfect Christmas; this increases to more than half of individuals when focusing on those who have children in their household.

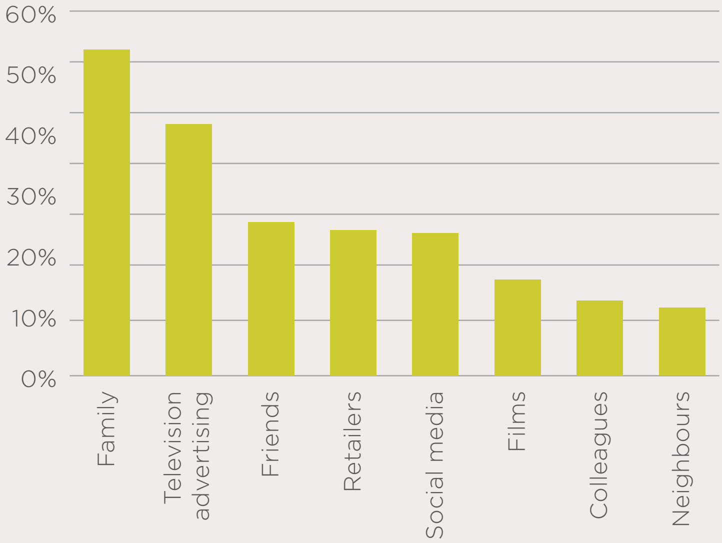
Figure 7: Proportion reporting they feel pressure to have the perfect Christmas



The sources of this pressure appear to be from family, friends, television advertising, retailers and social media.

Pressures from family and children is unlikely to be new when it comes to Christmas, however over one-third of individuals report that television advertising is a source of pressure. Forecasts show that a record £6bn will be spent on Christmas advertising in 2017, representing a 40% increase in seven years.[viii] Whilst 27% of people feel pressure from social media, unsurprisingly this figure increases to 45% for those aged 18-24.

Figure 8: Figure 8: Proportion citing pressure coming from the following sources, of those who feel pressure



Households may consider buying presents throughout the year if they wish to spread the cost of Christmas, seek out better deals or if they want to avoid the December rush. Our survey suggests that by the start of December most individuals have started their Christmas shopping. 15% of individuals report starting their Christmas shopping between the January sales and summer. Three in ten individuals (29%) report starting their shopping in the Autumn, the same number start their shopping at the beginning of December.

The stereotype that men tend to leave their Christmas shopping to the last minute is partially supported by our analysis. Most striking is the proportion of men who do their Christmas shopping in the period from the start of December until Christmas Eve, 49% of men state that this is when they start shopping compared to only 33% of women. Very few individuals leave their Christmas shopping until Christmas Eve, with less than 1% stating this is when they start shopping.

Inflation and Christmas spending

According to the Bank of England, the typical household spends an extra 10% on food, 20% on alcohol and 35% on books during December compared to the average month.[ix]

With inflation currently at 3%, this will likely impact consumers this Christmas. Food and non-alcoholic beverages made the largest upward contribution to change in the rate of inflation between September and October. Increased costs may result in larger Christmas expenditure as individuals still feel the pressure to have the perfect Christmas.

10%

HOUSEHOLDS SPEND AN EXTRA 10% ON FOOD DURING CHRISTMAS

Figure 9: Contribution to CPIH 12-month rate

Source: ONS

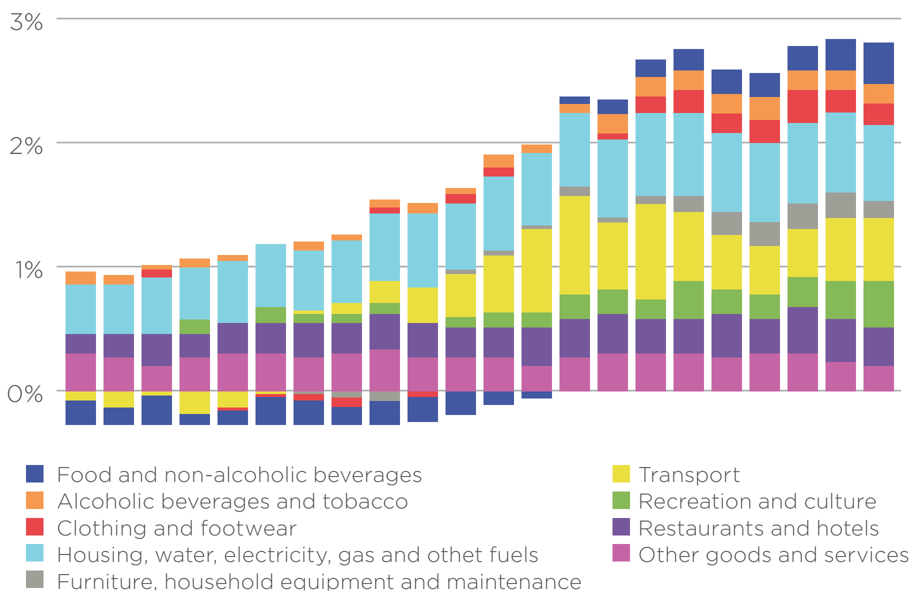


Figure 10: When do you start buying your Christmas presents?

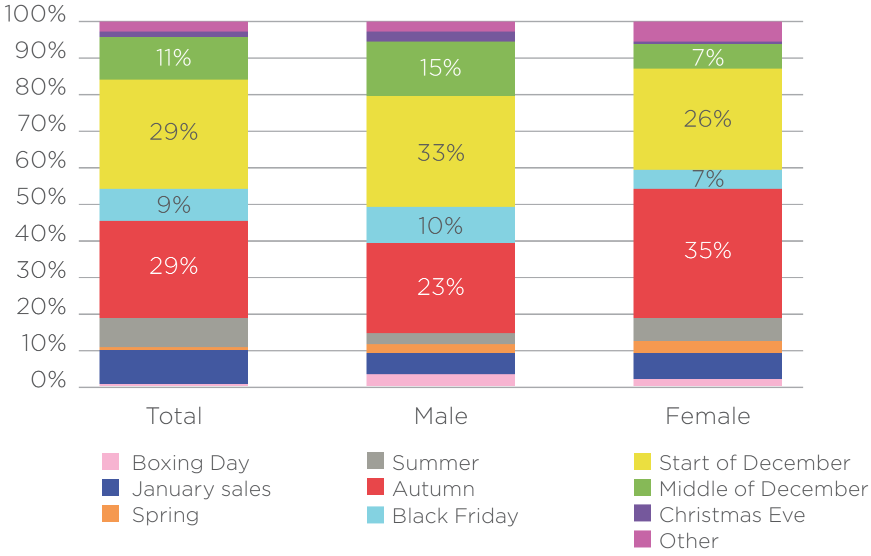
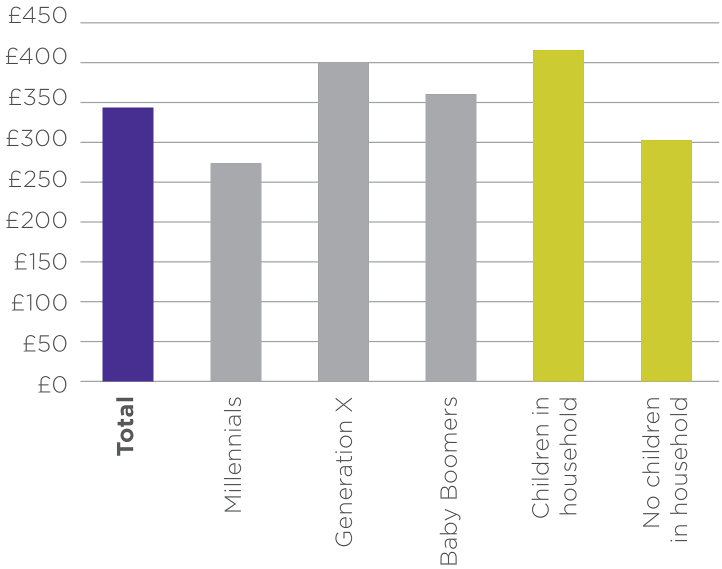


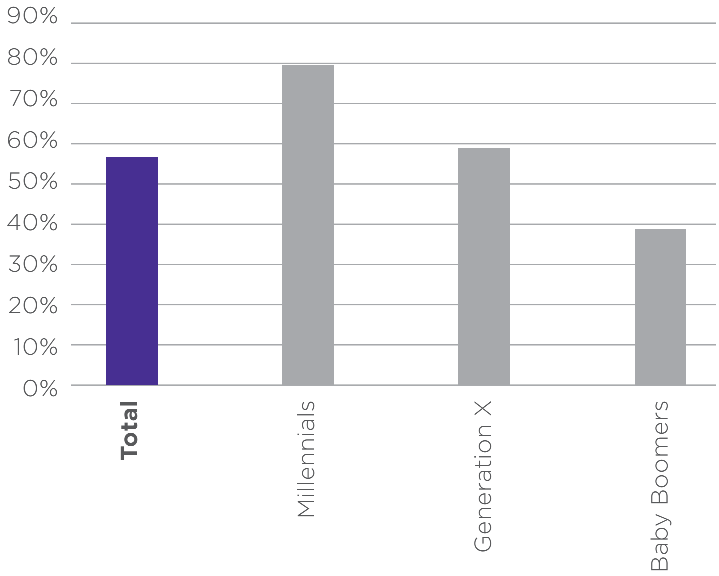
Figure 11: Average amount spend on Christmas gifts overall



On average households report spending £342 on Christmas gifts; households with children spend on average £113 more than those without. At the upper end of the spending scale, 17% report spending more than £500 on gifts and 5% spend more than £1,000.[x]

Given the amounts being spent on Christmas it is unsurprising that more than half of individuals state making sacrifices in order to buy Christmas presents. There is a clear generational divide in the proportion of individuals who report making sacrifices.

Figure 12: Proportion stating they make sacrifices to buy Christmas presents



More than three-quarters of Millennials state that they make sacrifices in order to buy Christmas presents, this compared to less than two in five of Baby Boomers.

The most common sacrifices made my individuals are cutting back expenditure on clothes and socialising (42% and 41% respectively).

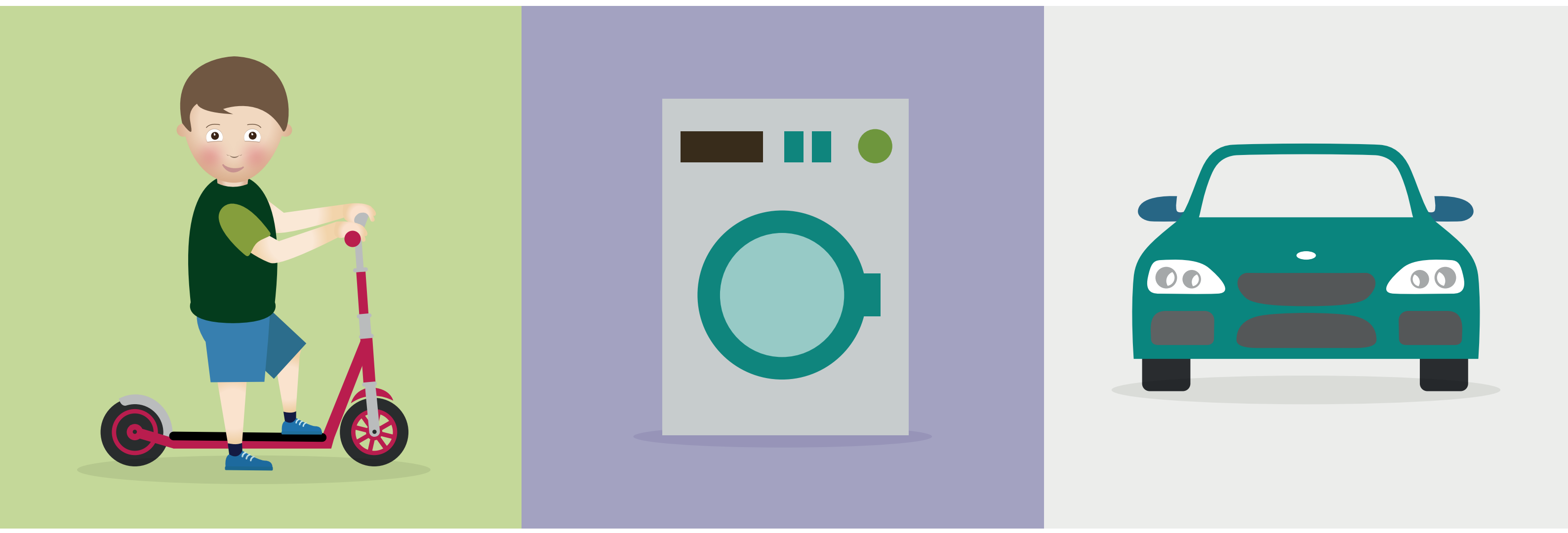
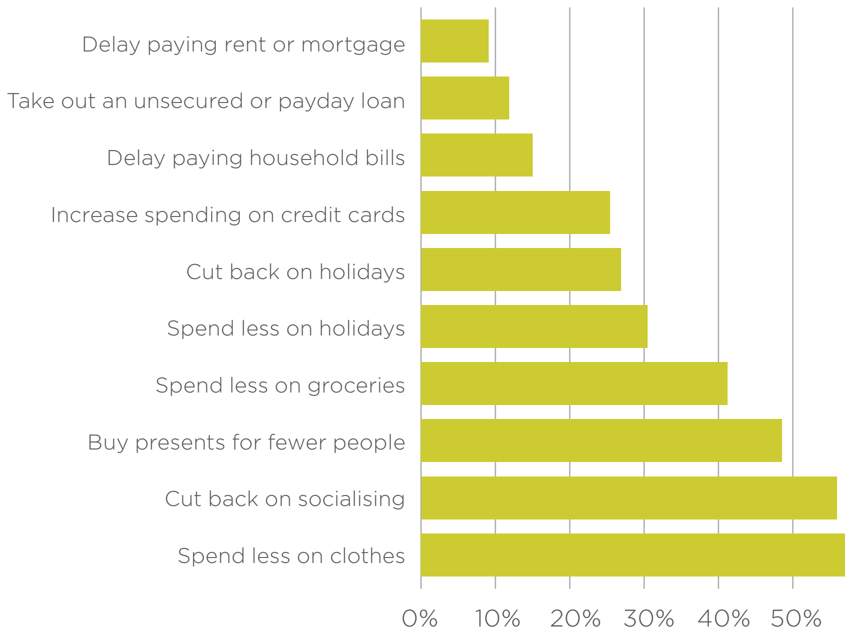
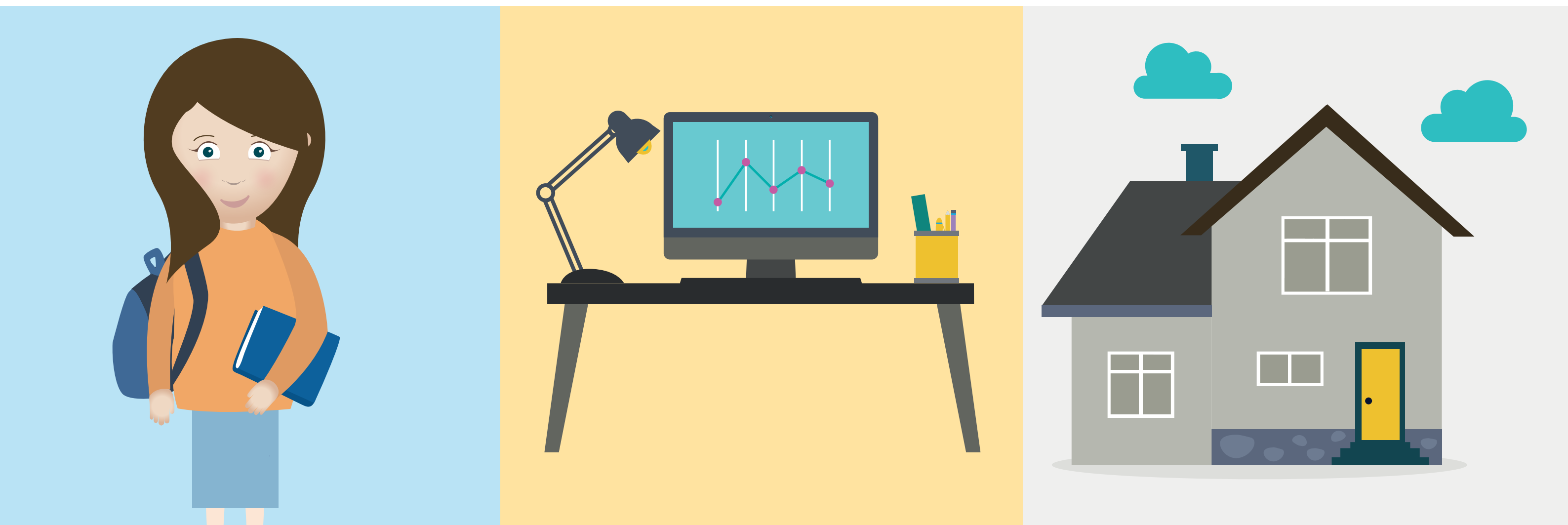


Figure 13: Proportion citing each sacrifice, of those who make sacrifices



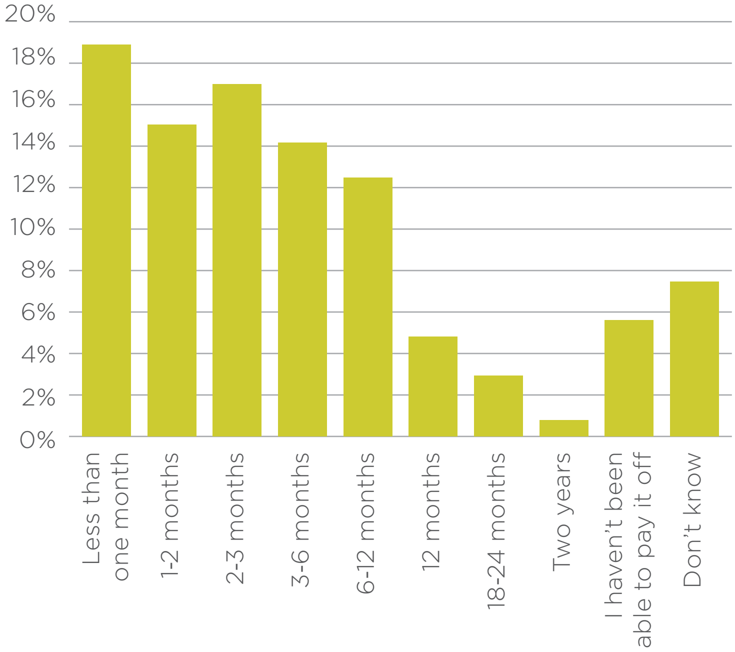
We have shown that millennials are the most likely to make sacrifices in order to buy for Christmas presents, it is also true that the sacrifices they make appear to be different to the other generations. They are more likely to increase spending on their credit card (20%) and to take out an unsecured or payday loan (14%).

Millennials are not the only individuals to increase their spending on their credit card during the Christmas period, our research shows that 44% of individuals will spend on their credit card this Christmas. Of those who will be putting some of the costs associated with Christmas on their credit card the average amount anticipated is £303. Again, we find a generational divide, 54% of Millennials plan to spend on their credit card and they anticipate this to amount to £331.



Historically it has taken households an average of four and a half months to pay back the money borrowed for Christmas. This means that households are likely to pay off the cost of Christmas on April 23rd.[xi]

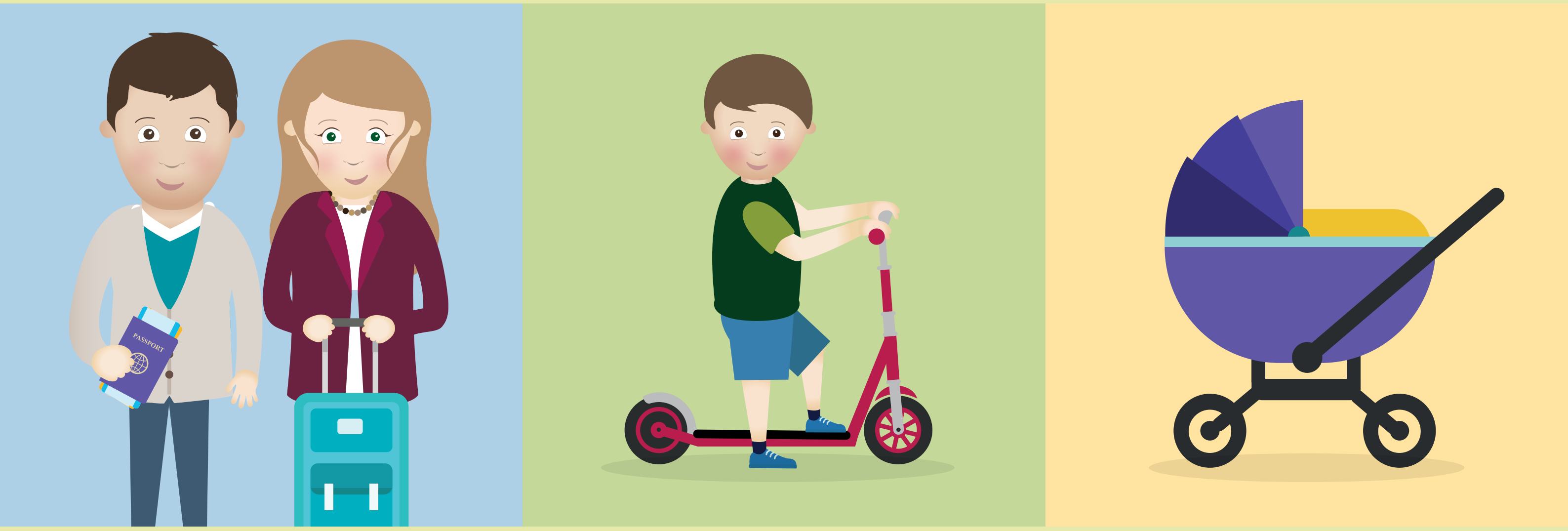
Figure 14: Length of time it has taken to pay off the money borrowed for Christmas, *of those who have Christmas debts*



Conclusions

Within this edition of the Disposable Income Index we find that households have £1,480 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 £1,126 left each month to pay for other necessaries like clothing and furniture, saving and luxuries like holidays.

With household finances being squeezed, this edition of the Disposable Income Index focuses on the financial implications of Christmas. A third of individuals feel pressure to have the perfect Christmas, with family, television advertising and social media being cited as sources of pressure. The average individual is reported as spending £342 on Christmas presents. Christmas can be an expensive time of year, 44% of individuals report putting some of the cost of Christmas on their credit card, the average amount put on the credit card is £303. On average it takes 4 and a half months to pay off this debt, meaning households will still be paying of this debt in April.



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 October 26th and November 3rd 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 OBR, Economic and Fiscal Outlook: November 2017 (2017)

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

vi Bank of England, Inflation Report, November 2017 (2017)

vii ONS, Analysis of real earnings: October 2017 Analyses of the Average Weekly Earnings (AWE) figures (2017)

viii http://www.bbc.co.uk/news/business-41933877

ix http://edu.bankofengland.co.uk/knowledgebank/how-much-do-we-spend-at-christmas/

x This is the mean figure which has been calculated using midpoints of spending bands. Those who report spending over £1,000 were given a value of £1,250.

xi This is based on the mean average of how long it has previously taken households to pay off the credit card debt associated with Christmas.

	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	£1,522	£1,242	9%	14%
Northern Ireland	£1,621	£1,066	2%	7%
Wales	£1,251	£1,068	10%	14%
South West	£1,304	£1,061	5%	12%
West Midlands	£1,523	£1,146	4%	8%
North West	£1,502	£1,131	4%	9%
North East	£1,178	£852	4%	14%
Yorkshire	£1,464	£1,097	6%	13%
East Midlands	£1,352	£1,016	4%	7%
East England	£1,363	£980	5%	12%
South East	£1,515	£1,149	6%	12%
London	£1,916	£1,495	9%	13%
AGE GROUP				
18-24	£870	£578	20%	28%
25-34	£1,699	£1,329	5%	12%
35-44	£1,324	£879	5%	11%
45-54	£1,510	£1,104	5%	10%
55-64	£1,462	£1,141	4%	10%
65+	£1,816	£1,561	2%	4%
EMPLOYMENT STATUS				
Employed full-time	£1,604	£1,198	4%	9%
Employed part-time	£1,214	£927	11%	17%
Self-employed	£1,544	£1,204	6%	12%
Unemployed	£1,071	£758	7%	17%
Student	£716	£528	30%	32%
Retired	£1,802	£1,534	3%	5%
UK MEDIAN				
	£1,480	£1,126	6%	11%

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**

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