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**BRITS INCREASINGLY TURNING TO CREDIT TO MAKE ENDS MEET AS FINANCES STRETCH
AND ECONOMIC PESSIMISM GROWS IN UK HOUSEHOLDS**

- *Three quarters of Brits use credit to make ends meet and more than a third of households are worried about their level of debt*
- *More than four in ten households unaware of the level of interest they are paying on their debt*
- *Median UK household has £1,067 left each month after paying for essentials*

The latest [Disposable Income Index \(DII\)](#) published today by ISA provider Scottish Friendly reveals that three quarters (76%) of British households are reliant on credit to make ends meet. Nearly one in five (17%) Brits who are credit dependent found themselves short of money on more than five occasions in the last 12 months and needed credit to support themselves until their next pay cheque.

Moreover, a third (36%) of Brits are worried about their level of indebtedness, while 49% of households with children are concerned about the amount they borrow. Alarming, more than four in ten (44%) Brits said they did not know how much interest they were paying on their most recent line of credit.

The quarterly report has been compiled in conjunction with leading think-tank the [Social Market Foundation](#) and it shows that the median UK household has £1,067 left each month after paying for absolute essentials of housing, energy, water and a broader basket of goods including groceries, transport, childcare and broadband internet. These goods are required to play a full role in modern society. The money left at the end of the month is available for other key items like clothing, furniture and savings as well as luxuries like holidays.

The majority of households are downbeat about their financial outlook, with nearly one in five (18%) saying they are currently better off than 12 months ago and 42% saying they have less cash now than a year ago. Furthermore, with inflation rising, real wages contracting and an increasing number of households worrying about their job prospects post-Brexit (30% in Q2 2017 compared to 25% in Q1 2017) it is unsurprising that only a minority (35%) of individuals believe they will be financially better off in 12 months' time.

Worryingly, 58% of 18-24 year olds and two-thirds (66%) of those aged 25-34 are anxious about their ability to cover an unexpected bill (for example, if the car or washing machine broke). The pressure younger people are under to make ends meet becomes clear when you consider that one in five (20%) 18-24 year olds and one seven (14%) aged between 25-34 spend more than they earn on housing costs and essentials, compared to just 4% of over 65s.

The findings also illustrate a clear generational divide when it comes to credit. When asked if households were using credit more or less often than 12 months ago, millennials were the most likely to be using it more often: one in five (20%) reported this, compared to one in six (17%) of Generation X (those born between 1965 and 1980) and one in ten (11%) of Baby boomers (born between 1946 and 1965).

Prices accelerating

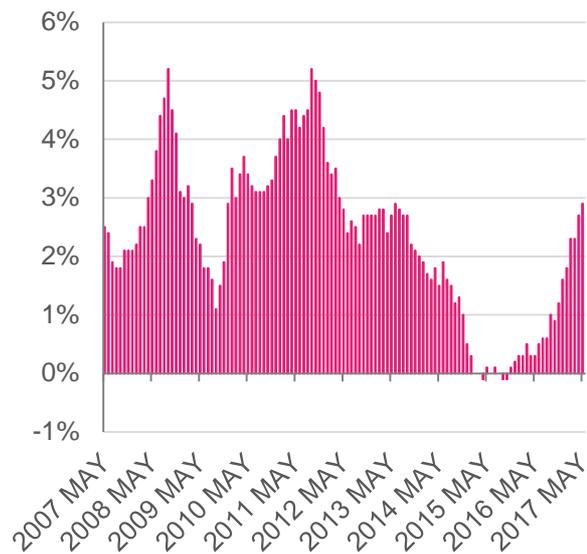
Increases in fuel prices and airfares during the Easter holidays pushed CPI inflation to 2.9%; this is the highest level of change since summer 2013 when the rate was also 2.9%.ⁱ

The CPI forecast for mid-2018 is 2.8%; this should reduce to 2.2% in mid-2020.ⁱⁱ The Bank of England cites the depreciation in the value of the pound as the key reason for the growth in prices that it predicts.

Despite high levels of employment, CPI inflation grew quicker than wages, rendering real wage growth negative for the first time in over two years. Employees felt the squeeze on their finances as the average weekly earnings grew by 2.4% in the three months to March 2017, a 0.2 percentage point fall compared to the same period in 2016.ⁱⁱⁱ

The Bank of England forecasts real wage growth to turn positive again over the course of the next few years.^v

Figure 2: CPI inflation, May 2007 – May 2017





Calum Bennie, savings expert at Scottish Friendly, said:

“The findings of our latest Index put into context the real-life impact of rising inflation and poor wage growth. Many households are finding managing their money hard going and are under pressure to make ends meet on a monthly basis. But with Brexit undeniably beginning to bite, it’s Brits on lower incomes who will really feel the pinch over the next year.

“Alongside this, we’ve found that younger people and households with children are also struggling and are most likely to become over-reliant on credit. Whether it’s a credit card, overdraft, loan or cash from friends and family, Brits are becoming increasingly dependent on credit just to get by. The knock-on effect is that as debts pile up, the likelihood of these people setting any money aside for savings becomes very low. The Government and the Bank of England are rightly keeping a close eye on the growth in consumer credit and together they must focus on protecting the families that are being squeezed the most to ensure they do not carry the long-term financial burden of Brexit.”

Data appendix:

	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	£1,429	£1,143	5%	10%
Northern Ireland	£1,727	£1,124	0%	3%
Wales	£1,255	£949	7%	12%
South West	£1,383	£1,024	5%	13%
West Midlands	£1,338	£970	3%	8%
North West	£1,427	£1,123	6%	12%
North East	£1,086	£828	5%	8%
Yorkshire	£1,578	£1,122	3%	8%
East Midlands	£1,398	£1,011	1%	7%
East England	£1,539	£1,077	7%	13%
South East	£1,281	£985	6%	12%
London	£1,685	£1,403	9%	14%
AGE GROUP				
18-24	£1,038	£787	13%	20%
25-34	£1,576	£1,185	8%	14%
35-44	£1,308	£911	7%	16%
45-54	£1,375	£943	3%	8%
55-64	£1,438	£1,134	3%	7%
65+	£1,784	£1,529	1%	4%

EMPLOYMENT STATUS				
Employed full-time	£1,537	£1,128	5%	11%
Employed part-time	£1,201	£868	10%	14%
Self-employed	£1,396	£1,031	4%	12%
Unemployed	£948	£606	8%	16%
Student	£1,144	£953	13%	20%
Retired	£1,781	£1,529	1%	4%
UK MEDIAN				
	£1,426	£1,067	5%	11%

-ENDS-

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About the Disposable Income Index

This quarterly report is compiled along with leading think-tank the Social Market Foundation and provides a unique insight into the financial health of the UK population. It analyses consumer sentiment, current economic data and trends to chart UK consumers' saving and spending habits and the consequent impact on disposable income.

For more information visit <http://www.scottishfriendly.co.uk/my-insights>

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 May 19th and May 30th 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.

Scottish Friendly

Scottish Friendly is a leading UK mutual life and investments organisation. It provides investors and their families with a wide range of investment solutions and provides administration of life and investment products to other financial organisations.

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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.

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

ⁱⁱ Bank of England, *Inflation Report*, May 2017 (2017)

ⁱⁱⁱ ONS, *Analysis of real earnings: May 2017 Analyses of the Average Weekly Earnings (AWE) figures* (2011)