

RISING PRICES OF ESSENTIAL GOODS WIPE OUT GAINS IN LIVING STANDARDS

New analysis shows that the rising cost of essentials had already wiped out most of the gains in living standards made in the early 2000s by families on low and modest incomes, even before the recession began. The new report, from independent think-tank the Resolution Foundation, shows that increases in the price of food, fuel and other basics have greatly outstripped general inflation in recent years.

The analysis is based on the commonly accepted essential basket of goods needed for a minimum standard of living, which includes food, fuel, public transport and very occasional treats for families with children. In the 2000s, the cost of the essential basket of goods went up by 43%, significantly more than either measure of inflation (RPI 35% or CPI 27%). As a result, the report reveals that the real squeeze on living standards for households on a low or modest income has been much more severe – and much longer – than previously recognised.

Some key living costs increased dramatically - household fuel more than doubled in price during the 2000s. Food inflation was twice as high in the 2000s than it was in the 1990s. The price rise of household water bills rose by 63% in the 2000s.

30% of working-age households now have incomes too low to afford the essential basket of goods. Families on low and modest incomes spend a higher proportion of their earnings on essentials so rises in the price of this basket have a big impact.

The research estimates that if the price of these essentials keeps rising, even if overall inflation falls, by 2020 households on low and modest incomes will be less able to afford the minimum basket of goods than they were in 2000.

Donald Hirsch said:

'This research shows the dramatic impact recent price increases have had on the ability of households to afford a minimum standard of living. Of course, global pressures on prices are largely beyond our control. But that

makes it all the more important that we do all we can to reduce pressures in areas where we can make a difference, such as transport costs, council tax and energy prices.'

Gavin Kelly, Chief Executive of the Resolution Foundation said:

'The fact that the rising cost of essential goods and services has outstripped official measures of inflation helps explain the disconnect many hard-pressed households have long felt between their own stagnating living standards and the growing affluence they see around them.

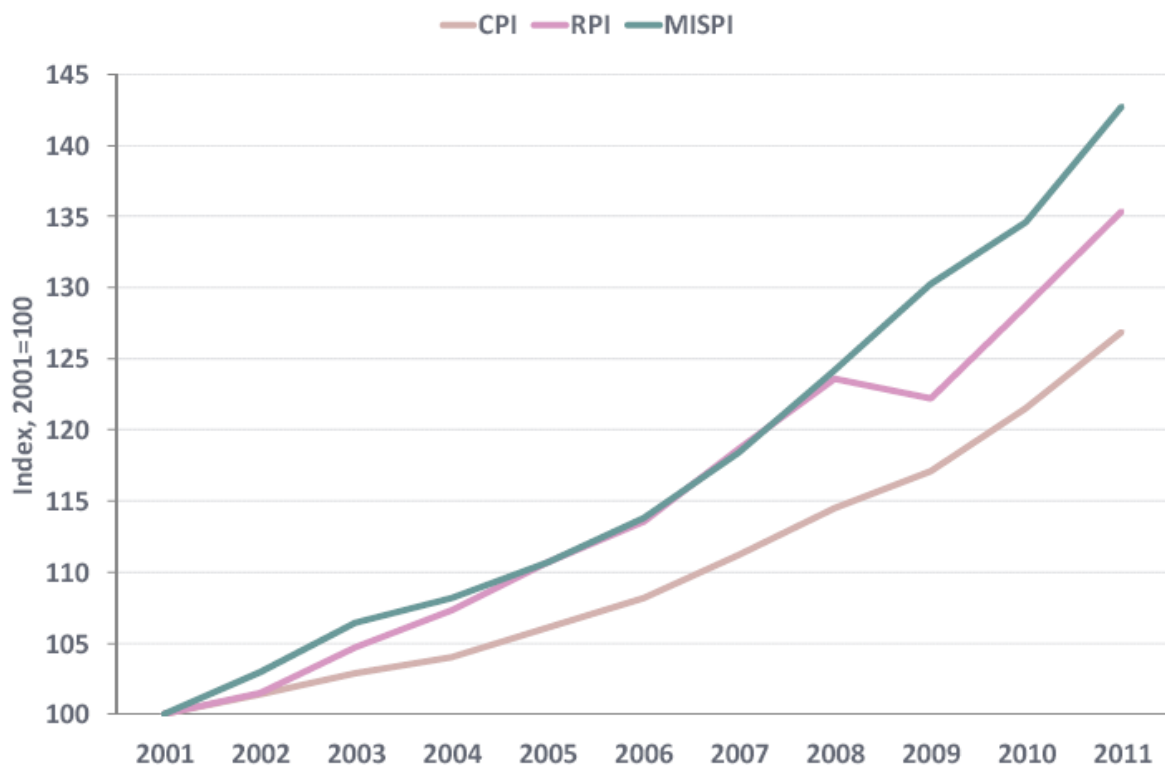
'The recent decisions to freeze tax credits, or link them and other benefits to CPI, a lower index of inflation than has been used in the past, will only make this problem worse.'

NOTES TO EDITORS

The analysis is based on the 'minimum income standard' project, which has used focus groups to identify the basket of goods that is widely considered to provide a minimum standard of living in modern Britain. The basket varies for different household types. For a couple with two children it includes items such as £104 spent on food each week, travel by bus (but not car), and very occasional treats for children amounting to £15 a month. The 'minimum income standard' project is run by the Centre for Research in Social Policy (CRSP) at Loughborough University, having been developed in partnership between CRSP and the Family Budget Unit at York University.

The report focuses on households on 'low and modest incomes'; for the low income group this means households on incomes around the 20th percentile (richer than 20% of the population), and for the modest income group those around the 40th percentile (richer than 40% of the population).

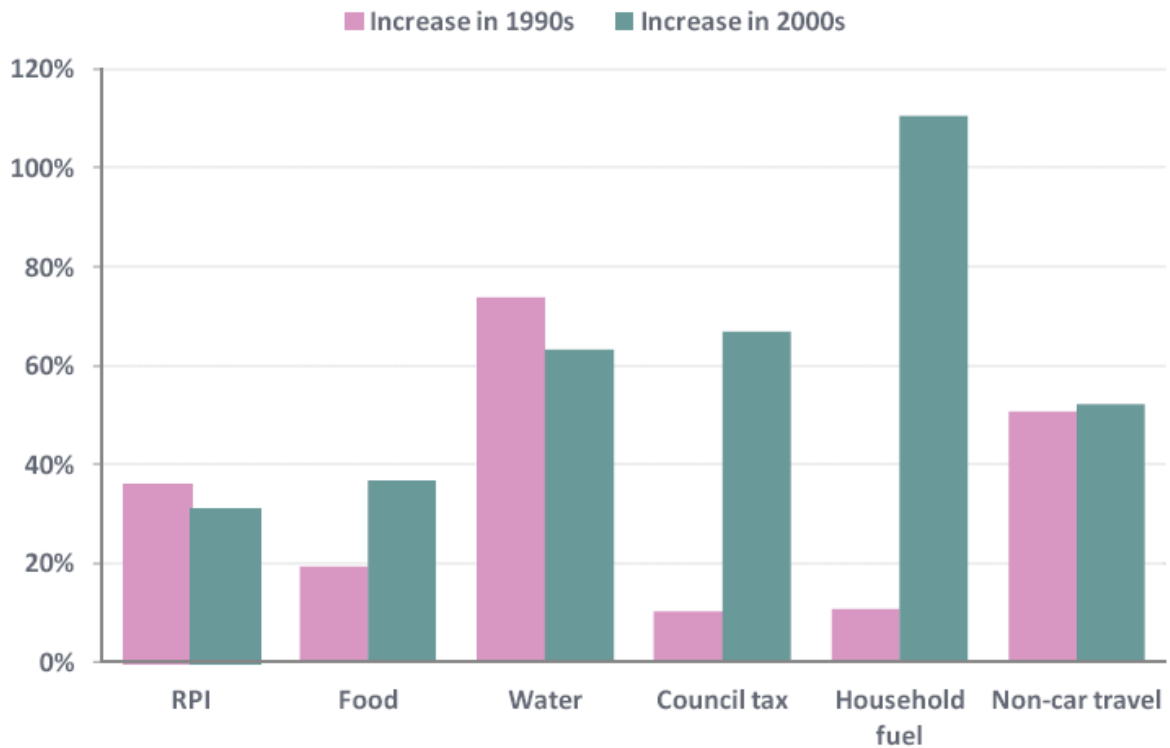
Growth in the price of an essential basket of goods compared to average measures of inflation, 2001-2011



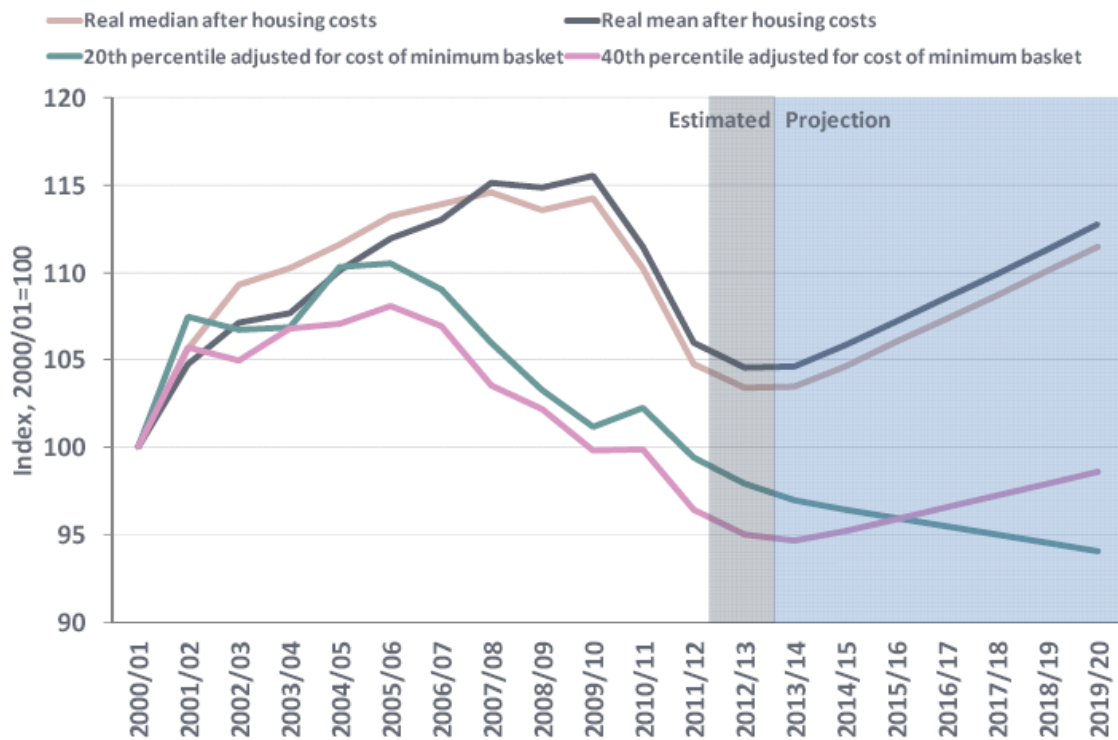
MISPI=Minimum Income Standard price index described above

The divergence of the MISPI and RPI measures in 2009 is explained by a sharp fall in interest rates – mortgage interest payments are included in the RPI but not the MISPI.

The rising cost of essential goods in the 1990s and 2000s



Changes in the real value of incomes if recent trends in value of essential goods continue



Incomes of low and modest income households have been adjusted for changes in the price of an essential basket of goods, which more closely reflects their spending habits.

Donald Hirsch, is an independent consultant and writer on social policy and is Head of Income Studies for the Centre for Research in Social Policy at Loughborough University.

James Plunkett is Secretary to the Commission on Living Standards, hosted by the Resolution Foundation. For more information visit:

www.livingstandards.org

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The Resolution Foundation is an independent think tank focused on improving the lives of families on low to middle incomes www.resolutionfoundation.org

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