

Resolution Foundation

SQUEEZED BRITAIN

Report reveals low-to-middle earners face £720 earnings squeeze

Today a major new report from the Resolution Foundation reveals that 2011 will bring a new squeeze to the living standards of Britain's 11 million low-to-middle earners.ⁱ

As the first year of major spending cuts overlaps with a fragile jobs market, 2011 will be a difficult year for everyone. But those in the middle will face an acute set of pressures, the report reveals. By 2012, the wages of households on incomes of £12k-£30k will be on average £720 *lower* than they were in 2009 – in real terms.

2011 itself will be a particularly anxious year for low-to-middle income working households – many of whom are already living on the edge – with a powerful 'triple crunch' on family budgets:

1. **Stagnating pay** – with nominal wage growth forecast by the OBR at just 1.9% – less than half the 2001-2008 average of 4.0 percent – and likely to be even lower for those on low-to-middle incomes.
2. **Rising costs** – with RPI currently at 4.5% and CPI at 3.2%, and forecast to remain above 2% throughout the year, as the January VAT rise adds to pressure from rising fuel costs and import prices.
3. **Losses to many family budgets as different tax and spending changes kick in** – while the average low-to-middle earner household will benefit by around £340 from forthcoming changes to both Income Tax and National Insurance allowances, some

households will lose as much as £900 in support for childcare in 2011, as wider plans to reduce spending on tax-credits by £6.2 billion in the period to 2014/15 begin to bite.

The report focuses on the 11 million working-age people in Britain in households earning £12k-£30k, who do not rely heavily on means-tested support from the state. It reveals that this group – one in three of the working age population – are already financially vulnerable as they enter this turbulent period:

- Average gross household income of the group is £25k; average net income is £20k.
- Over half already struggle to meet day-to-day household bills.
- Over half have less than a month's income in savings, and two thirds have less than £1,500.
- Two-thirds do not contribute to a pension.
- One fifth of the group are 'materially deprived', too poor to engage in activities that most take for granted.

The landmark 150 page report also sets out in detail the pressures that these households have endured in the past year. It shows that this group has:

- Been more likely than any other group, above or below them, to lose their jobs, with unemployment for those with low-to-mid level skills up 2.4 percentage points, compared to 0.9 percentage points for those with degrees.
- Seen smaller rises in net income over the last year than those reliant on benefits, with a quarter of the group seeing a fall in their income in 2008-09. Despite making up one third of the

working population, the group's share of national income has now fallen to 22 percent, down from 30 percent in 1977.

- Benefited less than higher earners from historically low interest rates (more than half of low-to-middle earners are on fixed-rate mortgages).
- Faced higher levels of inflation since 2000 than those on higher incomes – reducing the purchasing power of low-to-middle earners in 2009 by £300 a year relative to higher earning households.
- Seen home ownership move increasingly out of reach, with average house prices for first time buyers now 7.6 times the average net income for low-to-middle earners – a typical low-to-middle earner would now have to save for 45 years to build up the deposit needed for their first home.ⁱⁱ
- Seen the cost of credit soar – average rates for personal loans have risen to 10.2 percent, up from 7.2 percent at the start of 2007; and 43 percent have found it harder than in 2008 to borrow to finance spending.
- Been more likely to fall into negative equity, with 8 percent of home owners in the group affected, compared with 5 percent of higher earner home owners.
- Had to adapt to a transformation in working patterns, with 21 percent of those on low-to-middle incomes now part-time workers, compared to a 15 percent national average.

These changes mean that many on low-to-middle incomes are already highly exposed, even before the coming earnings squeeze. In the next year, they are likely to see a noticeable decline in their standard of living.

Quotes:

Matthew Whittaker, report author and Senior Economist

“This report gives us the clearest picture yet of the pressures facing low-to-middle earners. It reveals that many in this group entered the recession in an already exposed position, and from this shaky starting point, the downturn has really hit them hard. Their jobs have become less secure and many have seen their hours and pay reduced. Yet prices continue to rise faster for this group than for higher earners.”

“As well as highlighting the struggles of daily life the report also shows that long-term goals like buying your first home and saving for a pension are out of reach for the majority of people in the group.”

Gavin Kelly, Chief Executive

“*Squeezed Britain* shows that even though the recession itself is behind us, the living standards of those on low-to-middle incomes are likely to fall further in the years ahead – stagnant wages, higher prices, reduced tax-credits, and restricted access to credit will all play their part. Setting out a new agenda that helps hard-pressed households raise their incomes should be a priority for all political parties.”

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Notes to editors

1. *Squeezed Britain: The 2010 Audit of Low-to-Middle Earners* is published on Thursday 25th November, and will be available to download from the Resolution Foundation website, www.resolutionfoundation.org
2. The Resolution Foundation is an independent research and policy organisation working to improve the lives of low-to-middle earnersⁱⁱⁱ – a group that is below median income, but not heavily reliant on state support. There are six million low-to-middle earning households in Britain, containing 11 million adults. Though not the poorest in society, this group experiences a unique set of pressures, including many of the problems more commonly associated with poverty, from financial insecurity to a struggle to keep up with day-to-day living costs.

ⁱ Low-to-middle earners are defined as working age adults in income deciles two to five, who receive less than 20% of their income in means-tested benefits.

ⁱⁱ This presumes a savings rate of 5% of net household income each year, and is based on the average deposit for first time buyers.