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Counting the cost

The impact of five years of high inflation on living standards

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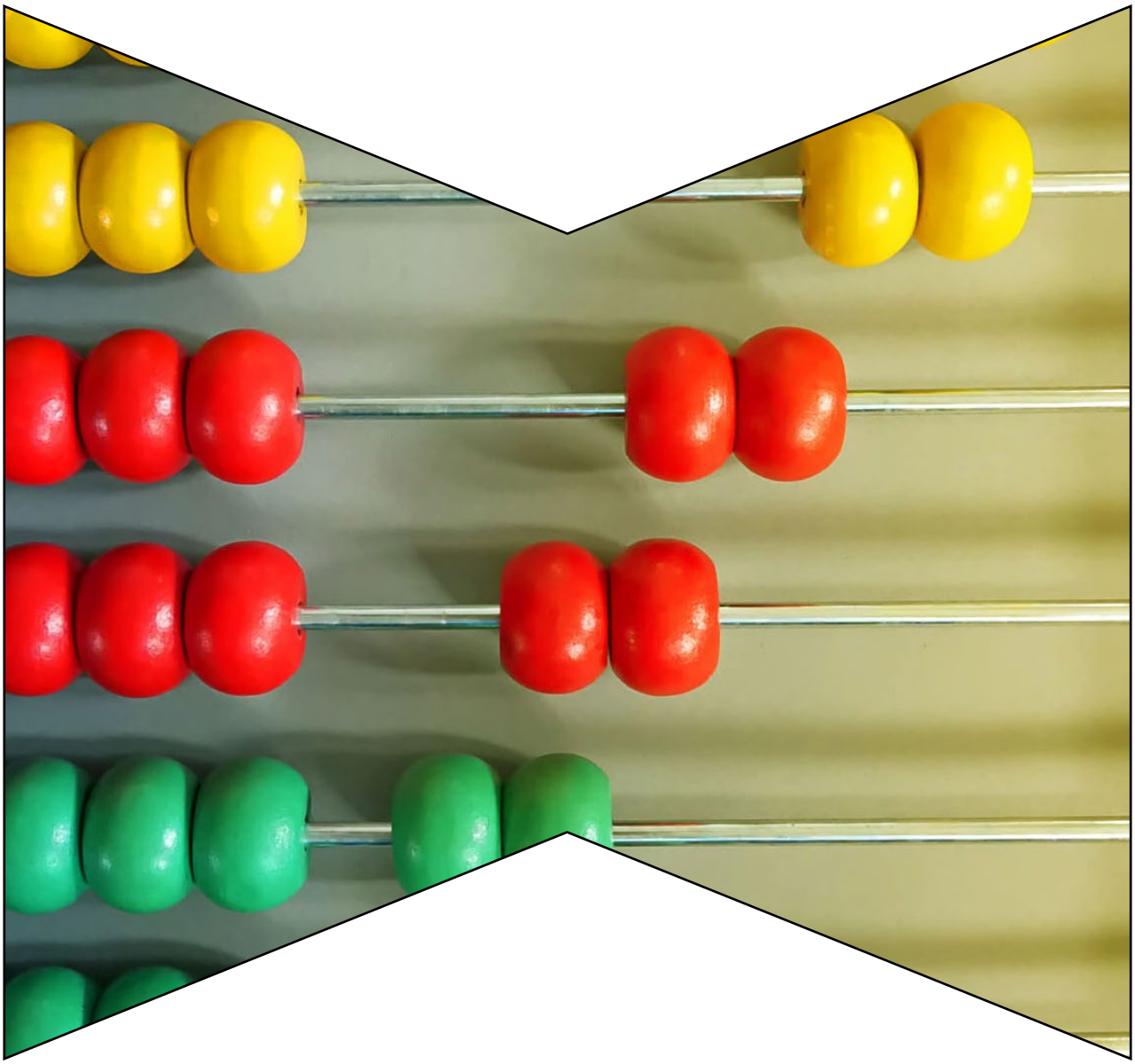

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Summary

A pandemic that most people would like to banish from their memory has given way to a cost of living crisis that won't end. Supply-chain disruptions connected to the Covid-19 emergency first pushed inflation decisively above its 2 per cent target in July 2021, after which it soared – peaking at 11.1 per cent in 2022, the highest in over 40 years. A return to target had been forecast for this spring, but conflict in the Middle East sparked another energy crunch, pushing inflation to around 3 per cent this summer. Five years after inflation went above target, prices are nearly 30 per cent higher, meaning we've effectively had 13 years of 'normal' inflation in five. With ongoing uncertainty and no sign of peace in Iran any time soon, inflation is now widely expected to hit over 4 per cent early next year.

Despite beginning in the aftermath of the pandemic, the epicentre of the cost of living crisis is the huge rise in the cost of energy on global markets. Oil prices doubled in the year following Russia's invasion of Ukraine (hitting their post-invasion peak), and wholesale gas prices more than tripled. By the autumn of 2022, household energy bills had also more than doubled. The effects seeped across the economy, with food inflation peaking at nearly 20 per cent in March 2023; and even inflation in services, which is less susceptible to the influence of energy prices, hitting 7.4 per cent by July 2023, its highest rate in decades. Incomes did not keep pace. Using pre-pandemic forecasts, we estimate that real median non-pensioner household income would have risen by 7.2 per cent (£2,500 in 2026-27 prices) between 2020-21 and 2026-27 in the absence of the cost of living crisis; instead, it fell by 1.3 per cent (£450). What's worse is that this inflationary squeeze fell more severely on those least-well-placed to manage it: by mid-2026, costs had risen by one-sixth more for those in the bottom tenth of the income distribution than in the top, compared with pre-pandemic levels.

The response: an expensive and poorly-targeted splurge

Successive governments have been panicked into action. Faced with the prospect of energy costs being three-times their pre-pandemic level, Liz Truss's Government probably had no choice but to introduce universal support. The Energy Price Guarantee capped the rise in bills at £2,500 but, with no effort to clawback support from better-off families, this came with an eye-watering price tag of £24 billion. Support later became more targeted with Rishi Sunak's direct Cost of Living Payments: time-limited cash payments for those on means-tested benefits, costing around £11 billion.

Since the election, the Government has introduced new blanket support measures aimed at tackling the cost of living, albeit on a smaller scale. This took the form of removing some policy costs from energy bills under Keir Starmer, reducing bills by

around £150, on average, at a cost of nearly £7 billion; and the move to a zero rate of VAT on electricity bills under Andy Burnham. A quarter (£213 million) of the cost of cutting VAT flows to the richest fifth of British households, against just 16 per cent (£136 million) for the poorest.

Taken together, these interventions have been broad and expensive. So, when they have been unfunded, they've added more to our debt pile than was necessary and pushed up inflation and interest rates by more too, adding pressure to family finances in other ways.

Despite the giveaways, families have felt the pinch

Families have been forced to adopt a variety of painful coping strategies in the face of surging costs. They have bought less of the things that have rocketed in price. But when the sharpest rises have hit essentials like food and energy (which, together, account for around a quarter of the cumulative rise in prices since inflation rose decisively above 2 per cent in July 2021), the result is hardship. We have seen families run down savings, and others take on debt to maintain the basics. But we have also seen worrying reductions in outlays on heating and food.

Domestic energy consumption has reduced, in a dramatic acceleration of a gentle efficiency-driven decline over the past 20 years. In 2022 and 2023, families' gas and electricity consumption sank by 13 per cent, around two-thirds of the 18 per cent decline notched up over the whole of the preceding 15 years. Even so, families have had to pay more to get less: at the peak of the crisis (the year to Q1 2023) they were spending 57 per cent more on gas and electricity in real terms than before the pandemic, despite the support provided by the Energy Price Guarantee. It is the harder pressed who have been turning the thermostat down most: the poorest tenth of neighbourhoods cut energy use by 15 per cent more than the very richest. And it is not just heating that has been affected, it's also eating: the number of food parcels handed out by the Trussell Trust has risen almost four-fifths (77 per cent) between 2019 and the peak of the crisis in 2023.

Even after all these sacrifices on the basics, household balance sheets have also taken a hit. During the pandemic many people saved to give themselves more of a buffer against shocks: the proportion of lower-income families with less than £1,000 in real-terms savings dipped by 8 points, from 67 to 59 per cent between 2019-20 and 2020-21. But the inflationary years that followed wiped out some of this progress, with the same proportion bumping back up to 62 per cent by 2024-25. Conversely, after years of welcome falls, formal consumer debt (credit cards, overdrafts, personal loans and car finance) has started climbing again, rising by 7 per cent in real terms from an average of £3,460 per person in late 2022 to £3,680 in mid-2026.

More worrying is the growing tendency to fall behind on 'priority bills' (energy, water, Council Tax, rent and similar). Back in September 2020, just one-in-ten households in the poorer half were behind on utility and household bills. Two years later, that had nearly doubled to two-in-ten. This ratio eased off in 2025, but more recently it started rising again, rebounding to 18 per cent in March 2026. Further, an extra 1.7 million households were unable to keep their homes adequately warm in 2022-23 compared with 2021-22, of which 950,000 were among the poorest 40 per cent of families. The combined amount owed to energy suppliers has more than tripled in real terms, between 2018 and 2026. Arrears in England reached £7.5 billion in 2025-26, 60 per cent higher in real terms than in 2019-20. Rent arrears have followed a similar path: the share of lower-income renters falling behind doubled, from 11 per cent in September 2020 to peak at 24 per cent in September 2024. As of March 2026, it remains close to that peak – at 22 per cent.

Now ripples emanating from the Middle East will hit living standards again

The years since 2021-22 have been disastrous for living standards. Barring pensioners, there's been virtually no real growth at any point along the income distribution. Cumulatively, it's been just one more chapter in the long story of stagnation since the mid-2000s. Year-by-year, however, the experience has been varied, and something of a rollercoaster. Poorer households were hit particularly hard amid the inflationary peak of 2022-23, as the cost of many essentials spiked. Eventually however, particularly as benefit uprating caught up, there was some relief at the bottom. In the middle of the distribution, by contrast, the sharpest squeeze came a bit later, in 2023-24, as wages lagged prices and mortgage costs increased. Things were brighter in 2024-25: as inflation fell back, wage growth recovered and employee National Insurance was cut. But that was followed by another up-tick in inflation.

Ripples from the US-Iran conflict will now compound the effect, and partly offset the important average gains for poorer families from the repeal of the two-child limit in April 2026. While the positive benefit change will still be dominant for poorer families with three or more children, they are a minority. Very many others in the bottom half are absorbing painful inflation with little to compensate them. Meanwhile, typical families with above average incomes look set to see incomes fall outright this financial year.

Compared to a counterfactual in which inflation had averaged its 2 per cent target, the cost of living crisis has dealt a crushing blow to all families. Non-pensioners' typical disposable incomes in 2026-27 stand some £2,900 lower (7.9 per cent) than they would have been without the crisis. The lower real-terms value of earnings, due to the huge price shock, is the biggest single factor in accounting for this miserable position. The impact has been broadly proportional across the distribution, at 7.1 per cent for the

bottom half and 7.0 per cent for the top half, although the top inevitably sees the more dramatic effects when they are examined in cash terms.

Lower real wages should, in principle, fall hardest on higher-income households (who overwhelmingly work, and mostly full time), while poorer households should be more protected by the tax and benefit system. That the proportional hit, relative to a growing economy, is the same for households in the top and bottom half of the distribution reflects the distinctive way in which this shock disproportionately bore down on lower-income households. The standard uprating of benefits with general inflation has provided some protection for poorer families, but because these families spend a larger share of their budgets on essentials, they have faced higher inflation than aggregate CPI. All told, real benefit income for non-pensioners in the bottom half of the distribution is down by an average of £1,400 a year compared to what it would have been without the crisis.

The urgent priority: A laser-like focus on families facing the greatest hardship

Fresh support for the families facing the worst crunch is an imperative, but with no way for Britain to borrow its way out of another hit to living standards, it will have to be selective. The Government cannot shelter everyone from the shock – the country is poorer, and higher borrowing simply displaces the costs into higher interest rates. The proper priority is to protect those most vulnerable: poorer families who have been cutting back more aggressively on their energy use, taking on more debt and falling into arrears on their bills. As the war in Iran writes a new chapter in the cost of living crisis, targeted support with energy bills is the first place to focus. We have previously argued that support should be targeted based on the highest income of the resident individuals, and that a £2 billion scheme could provide an average of £175 per eligible household if this were restricted to those with incomes under £24,000 a year.

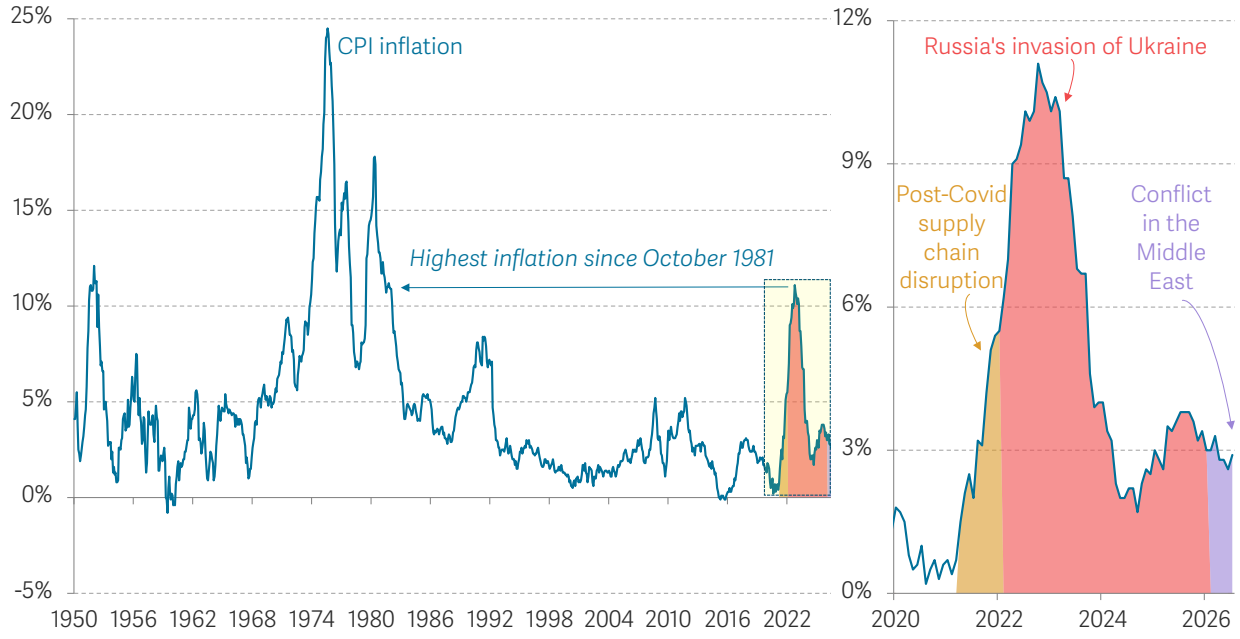
We've had 13 years of 'normal' inflation in five

The years since the pandemic have been a period of seemingly relentless increases in the cost of living. Inflation picked up sharply in 2021 as the global trading system struggled to cope with disruption to key global supply chains. This acceleration in price changes was turbocharged in 2022 when Russia invaded Ukraine, triggering a sudden stop in the gas supplies that had underpinned European energy markets for years. CPI inflation peaked at 11.1 per cent in October 2022, the highest in more than 40 years, and by far the highest inflation rate since the Bank of England was given operational independence in 1997. Successive governments responded with a myriad of expensive policies to help families cope – including reductions in energy bills, tax cuts and lower administered or regulated prices.

By spring 2026, inflation had been forecast to return sustainably to the Bank of England's 2 per cent target, drawing a line under a period in which the cost of living had been rising more rapidly than at any time since the 1970s. Instead, conflict in the Middle East has sparked another sharp rise in global energy prices, pushing CPI inflation to around 3 per cent over the summer. It is now widely expected to peak at over 4 per cent early next year, adding to the cost of living pressures of recent years. Each of these three distinct phases of the crisis – depicted by the shaded areas in Figure 1 – has delivered a new impetus to inflation and compounded pressure on families, with prices up 28.4 per cent in the five years since inflation first moved decisively above the 2 per cent target in July 2021.

FIGURE 1: **We've had the highest inflation in more than 40 years**

CPI inflation: UK

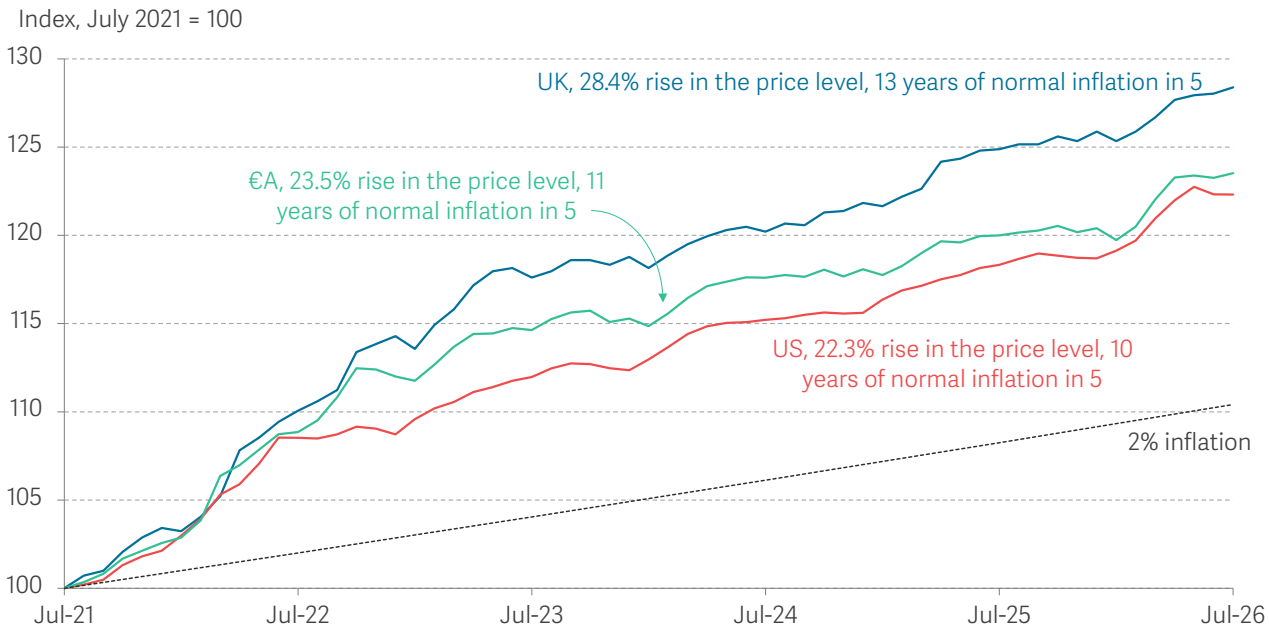


SOURCE: RF analysis of ONS, Consumer price inflation time series; ONS, Consumer price inflation.

Although the cost of living crisis has been a global phenomenon, the UK has been affected worse than elsewhere. Indeed, as Figure 2 shows, in the five years since inflation was last at the 2 per cent target in July 2021, the UK has experienced the equivalent of 13 years' worth of 'normal' (that is, 2 per cent) inflation. The UK started this period with a relatively tight labour market – with unemployment bottoming out at just 3.6 per cent in July 2022 – which has compounded the inflationary pressure from overseas. And when gas prices spiked following the Russian invasion, the UK was once again particularly exposed given its reliance on gas imported from European markets. This 'double whammy' of domestic and imported price pressures conspired to deliver levels of inflation that many thought were behind us, and much of the population had never experienced.

FIGURE 2: **The UK has been hit harder by the cost of living crisis than elsewhere**

Headline consumer prices index: UK, US and euro area (July 2021=100)

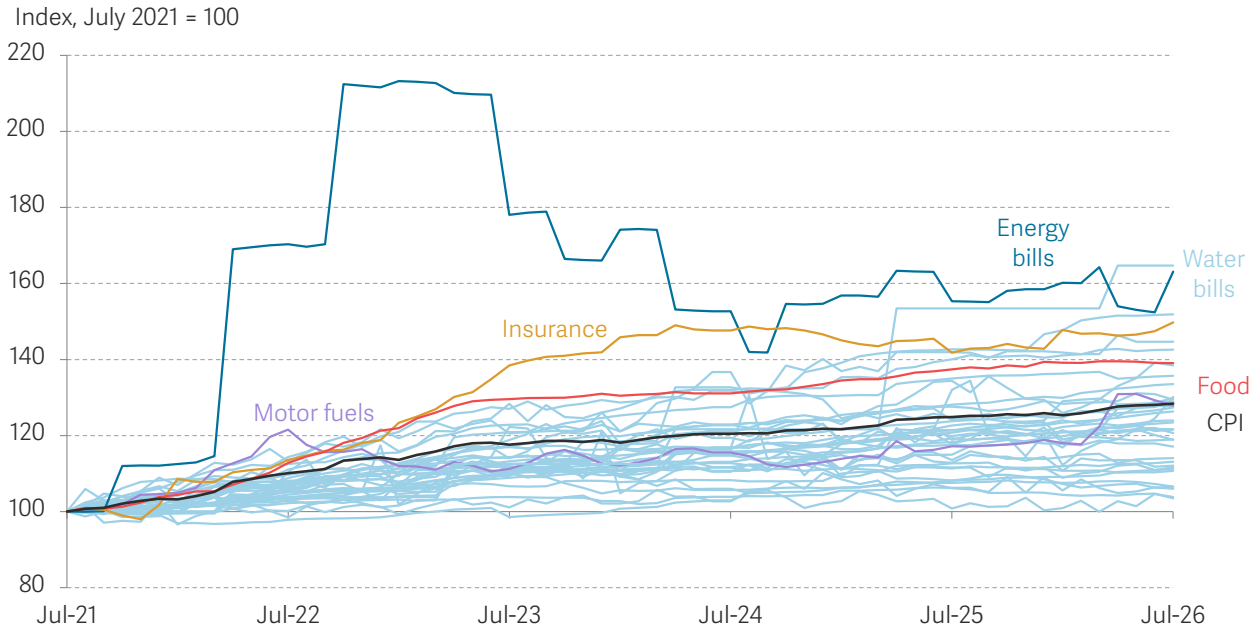


SOURCE: RF analysis of ONS, Consumer price inflation; BLS, Consumer Price Index for All Urban Consumers: All Items in US City Average; Eurostat, Euro area (changing composition) – HICP – Overall index.

Inflation was rising in the run-up to Russia's invasion of Ukraine, but the big acceleration came afterwards, and the underlying pressures pivoted to energy. Oil prices doubled in the year to their post invasion peak; and wholesale gas prices more than tripled over the same period. As shown in Figure 3, retail motor fuel prices increased by around a third as a result, and household energy bills more than doubled. By the time of the CPI inflation peak in October 2022, energy components accounted for more than two-thirds of the change in prices compared to a year earlier.

FIGURE 3: **Energy has been the epicentre of the cost of living crisis**

Components of the Consumer Prices Index: UK



NOTES: All components are shown but only a select few are labelled.
SOURCE: RF analysis of ONS, Consumer Price Inflation.

But this direct effect of energy was just the start. Because almost all goods and services use energy in their production, at least to some degree, other prices increased with a lag as firms passed on the higher costs of production to consumers (this is known as the 'indirect effects' of energy). In this context, the cost of food is particularly sensitive to energy prices, as explained in Box 1. These direct and indirect effects of energy were followed by 'second-round' effects in which higher inflation bled into higher wages and prices as workers and firms resist declines in the real value of earnings and profits. All this meant that the rise in energy inflation spread to the rest of the economy over time. Inflation on motor fuels peaked in July 2022; that was followed by energy bills in October 2022; then food in March 2023; and finally, services in July 2023, a full two years after aggregate inflation started rising above 2 per cent. Whether directly or indirectly, energy price rises have been the epicentre of the cost of living crisis.

BOX 1: **Prospects for food prices in the months ahead**

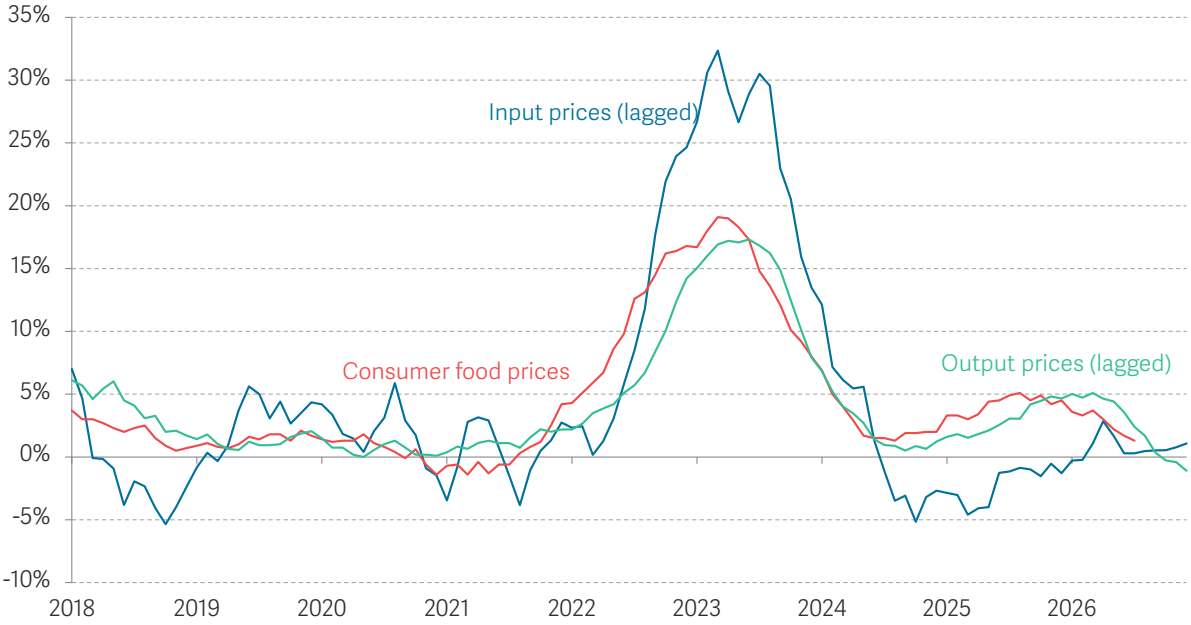
Food-price inflation is particularly important for low-income families; for those in the lowest-income decile, food accounts for nearly two-thirds (64 per cent) more spending as a proportion of all household costs, than for those in

the top.[1] Back in April, shortly after the outbreak of hostilities in the Middle East, the Bank of England forecast that food inflation would pick up to around 4 per cent by the summer, and raised the prospect of it rising further after that.[2] But, in the event, it has fallen, hitting just 1.3 per cent in August, the lowest rate since September 2021.

Moreover, short-term indicators of prospects for prices show few signs of picking up: as shown in Figure 4, food producers' output prices are falling and there are only limited signs that input prices – a measure of the costs facing food producers along the supply chain – are picking up.

FIGURE 4: **Food-price inflation has fallen since the outbreak of conflict in the Middle East**

Inflation rates for consumer food prices, food input prices and food output prices: UK



NOTES: Input and output price inflation are lagged by five months.
SOURCE: RF analysis of ONS, Consumer Price Inflation; ONS, Producer Price inflation.

Unfortunately, these relatively positive developments are likely to prove short lived. As with other goods and services, food inflation is affected by higher energy prices in multiple ways. Most obviously, food needs to be transported from producers to consumers, and so costs are affected by the price of motor fuels. Oil also plays a key role in the production of fertilisers.

But, although higher food prices are yet to add to the cost of living pressures facing families in recent

1 RF analysis of ONS, Living Cost and Food Survey.
2 Bank of England, Monetary Policy Report, April 2026.

months, it is likely that inflation will rise in the months ahead. This is partly the natural lag: we estimate that it takes around a year for energy prices to have their peak impact on food inflation. On top of that, recent drought conditions in the UK will reduce agricultural output, eventually pushing up prices.[3] As a result, the Bank of England is now forecasting a pickup of food inflation in the coming months.

The rise in the cost of essentials hits poorer families harder

Shocks to the cost of such essential goods do not affect all families in the same way; these goods make up a larger share of the weekly budgets of poorer families.[4] Using data from the Household Cost Indices (HCIs) – which combine data on the spending patterns of different parts of the population with detailed price indices to calculate a representative inflation rate for different income groups – we can see that the weight of food and energy bills for those in the first income decile is nearly 80 per cent larger than that for the tenth (22 per cent of the costs facing households in the first income decile versus 12 per cent for the tenth).[5] Indeed, after removing the impact of housing costs, between December 2019 and June 2026, the average annual inflation rate experienced by the poorest tenth of households was 4.9 per cent, 0.7 percentage points higher than the inflation rate experienced by the richest tenth, around 16 per cent higher, roughly one sixth more (Figure 5). Over the full six-year period, this represented an extra 5.3 per cent drag on living standards.

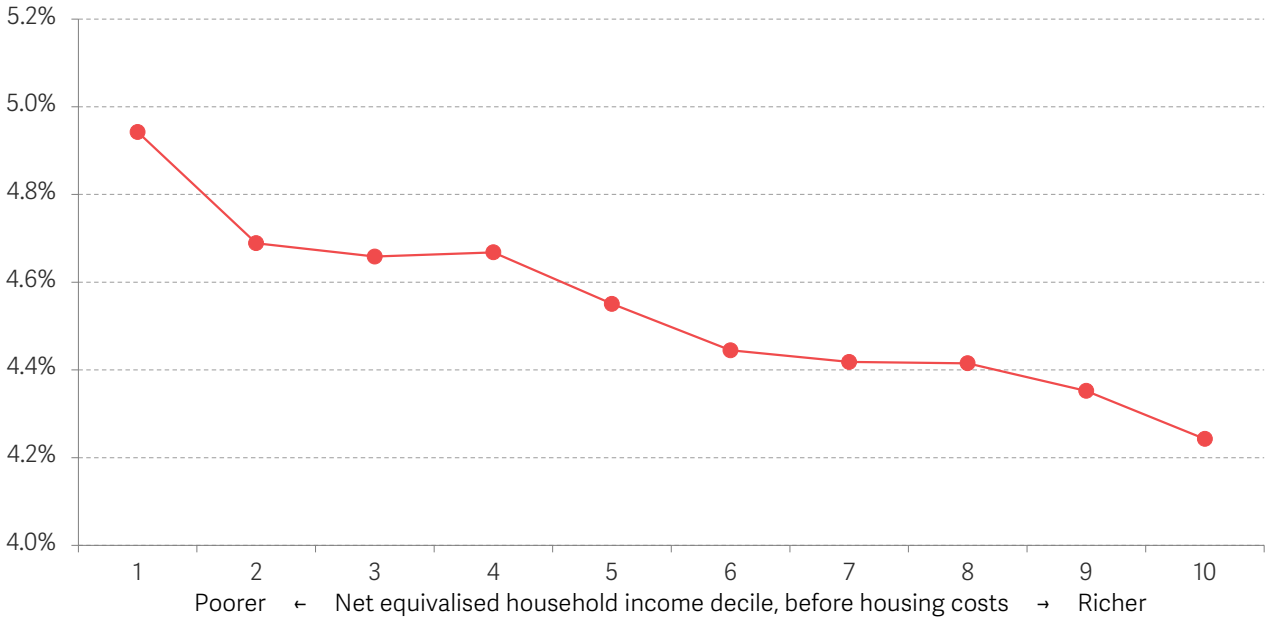
3 Agricultural output makes up around a tenth of value of the output of the food sector, see: Z Leather & J Marshall, Green your eats: A living-standards-first approach to cutting emissions from agriculture and land use, Resolution Foundation, February 2026, https://doi.org/10.63492/wjo3150.

4 S Pittaway & L Try, The bare necessities: Unpacking the rising cost of essentials for low-to-middle income Britain, Resolution Foundation, June 2025, https://doi.org/10.63492/twg315.

5 ONS, Household Costs Indices for UK household groups: April to June 2026, August 2026.

FIGURE 5: **The rise in the cost of essentials has hit poorer families harder**

Average annual change in ONS Household Cost Index excluding housing costs, by equivalised income decile: UK, December 2019 to June 2026



NOTES: Household income is measured as net equivalised income, before housing costs. Income deciles include pensioner households as well as those of working age. From the overall HCI for each income group, we remove an expenditure weighted average of private rentals, social and other rentals, mortgage interest payments, Stamp Duty, and "other" owner occupier housing payments.
SOURCE: RF analysis of ONS, Household Cost Indices.

Conflict in the Middle East has delivered a renewed impetus to the rise in the cost of living

In this briefing note, then, we take a deep dive into the impact on families' living standards of this huge and ongoing rise in prices. Our aim in this and a companion paper is to help policy makers decide whether – or how – to intervene to ease the impact of the crisis on families. Learning from the impact of past policy changes is key, so we first set out the response so far. We then turn to how households have responded, and how they have been affected – both over time and relative to a counterfactual in which inflation remained at its 2 per cent target. Finally, we consider what the latest rise in the cost of living, driven by conflict in the Middle East, is likely to add to the challenges they face.

The policy response has been expensive and poorly targeted

The UK's cost of living response has been dominated by universal interventions. Box 2 details the most important measures to support households. Chief among these was the Energy Price Guarantee (EPG) which capped the unit price of electricity when wholesale gas prices rose sharply such that the typical household bill was £2,500 a year from

October 2022 to June 2023 and £3,000 from July 2023 to March 2024. This was an open-ended commitment from the Government in which taxpayers were on the hook for the difference between the capped price and the market price; it ended up costing nearly £24 billion. Alongside it, the Energy Bills Support Scheme (EBSS) automatically paid every household £400 via six monthly instalments. The previous Conservative Government also introduced Cost of Living Payments. These were significant but temporary cash transfers of £650 in 2022-23 and £900 in 2023-24 to those on means-tested benefits (with smaller amounts for those on disability benefits and for pensioners). This more targeted intervention was closer to the exception than the rule, however.[6] Since the election, the Labour Government has continued to provide support that is almost entirely universal in nature, by cutting policy costs from energy bills and reducing VAT on electricity bills to zero (these provide support to all families with much of the money going to richer families that use more energy).[7]

BOX 2: **Key policy measures to support households during the cost of living crisis**

Table 1 summarises the key policy measures put in place by successive governments to support families through the cost of living crisis along with their dates of operation and estimates of their total cost.

6 Of course, the various 'automatic stabilisers' kicked in, too: benefits were indexed to prices throughout, the triple lock was applied each year (and the National Living Wage saw a large increase in April 2023). On the other hand, many personal tax thresholds were frozen, in part to raise revenues.

7 We are not including smaller measures announced by the Starmer-Reeves government intended to help with the cost of living, including freezes to prescription charges and regulated rail fares, and VAT cuts on some attractions and children's food this summer. Expansions to the Warm Home Discount in 2022 and 2025, which made an additional 750,000 and then 2.7 million households eligible, were funded by billpayers rather than taxpayers, and so are not included. The Universal Credit standard allowance was increased considerably above inflation in April 2026, but this was originally proposed as part of a rebalancing of Universal Credit away from the health-related element, rather than a response to the rising cost of living.

TABLE 1: **Support with the cost of living has largely been universal and in some cases very expensive**

Key measures to support household during the cost of living crisis: UK, 2021-2026

Measure	Date of implementation	Description	Universal or targeted?	Cost
Energy Price Guarantee	October 2022 to March 2024	Capped unit price of energy such that a typical bill was £2,500 from October 2022 to June 2023 and £3,000 from July 2023 to March 2024	Universal	£24bn
Energy Bill Support Scheme	October 2022 to March 2023	Provided £400 of energy-bill discounts in six monthly instalments	Universal	£11.7bn
Cost of Living Payments	July 2022 to February 2024	Payments in tranches of around £300 to means-tested benefits recipients (5 times); £150 to disability benefits recipients (twice); and £130/£300 for pensioners (twice)	Targeted	£11.1bn
Council Tax rebate	April 2022	A £150 council tax rebate, to be paid to most households in April 2022	Partially targeted	£2.9bn
Fuel Duty cut	April 2023-on-going	A 5p cut to the rate of Fuel Duty	Universal	£2.5bn a year
Household Support Fund/ Crisis Resilience Fund	October 2021-on-going	Funds made available to local authorities to support low-income households with the cost of living	Targeted	£1bn a year
Cut policy costs from energy bills	April 2026 to March 2029	Cancelling the Energy Company Obligation and funding 75% of the domestic cost of the Renewables Obligation scheme for 3 years.	Universal	£6.9bn
VAT cut	October 2026 to March 2027	Zero rate of VAT on electricity	Universal	£0.9bn

NOTES: Excludes measures with a financial cost to the Government of less than £0.9 billion.
SOURCE: RF analysis of National Audit Office, Energy bills support: an update, November 2024; DWP, Cost of Living Payment 2023 to 2024 management information, February 2024; OBR, Forecast evaluation report, October 2023; HM Treasury, Budget 2025, November 2025; Department for Work & Pensions, Crisis and Resilience Fund: Guidance for local authorities in England (1 April 2026 to 31 March 2029), April 2026.

There was also support for businesses which helped keep down a broader range of prices for consumers. Here the largest single measure was the Energy Bills Relief Scheme (EBRS), which provided a discount on unit energy prices for businesses in a similar way to the EPG from October 2022 to March 2023. The scheme cost £7.5 billion and was eventually scaled down in the form of the Energy Bills Discount Scheme (EBDS) in April 2023, lasting until March the following year.

An important feature of many of these measures is that, helpfully, they were set up to be temporary, particularly the big three energy schemes. On the other hand, the supposedly temporary 5p Fuel Duty cut announced in March 2022 has still not expired. But it is also striking that the majority of the support measures have been universal in nature, meaning that much of the support has gone to richer families. The EPG and EBSS provided blanket support with no means test (and no offsetting increase in taxes), effectively writing a blank cheque where the final cost was at the whim of global energy markets. The Cost of Living Payments were focused on those receiving benefits, an approach to targeting that comes with the practical advantage that payments can be tied to existing transfers in the social safety net system. But it also creates cliff edges by increasing the cost of losing benefits. The mechanism also misses the roughly 7 million low-income families in the bottom two income quintiles not in receipt of benefits. Since the election, support has once again reverted to being blanket in nature. Removing policy costs from energy bills under Keir Starmer and VAT on electricity bills under Andy Burnham are both policies that provide significant support to families with little need of it. For example, of the £850 million cost of cutting VAT, 25 per cent (£213 million) will flow to the richest fifth of UK households, against just 16 per cent (£136 million) for the poorest fifth.

The key message from all this is that these policy interventions have generally been universal and have certainly been very costly for the public purse. That means they have added to the UK's outstanding stock of debt. But it also means that fiscal policy has been looser than necessary and so they have put pressures on both inflation and interest rates too. This compounds the impact of increasing the stock of debt on the cost of government borrowing by also pushing up expectations for the Bank of England policy rate, further intensifying worries about the UK's fiscal position.

Families have adjusted by heating their homes less and by taking on more debt

Despite this generous policy support, families have been forced to adopt a variety of coping strategies in the face of surging living costs. This includes cutting back on spending on the things that have rocketed in price. It also includes running down savings (or saving less for the future) or even falling into debt. Below we trace out what the most recent data tell us

about the extent to which families have adopted these strategies. We start at the centre of the crisis with how families have responded to the skyrocketing cost of energy.

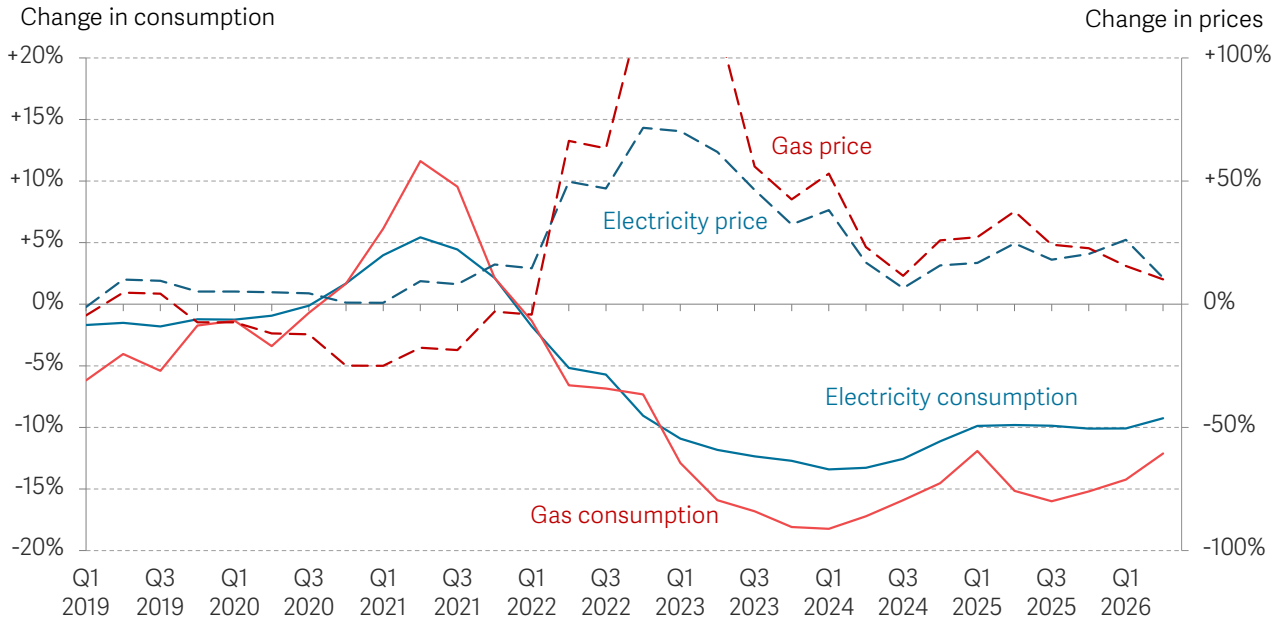
Families have substantially reduced the amount of energy they use

The amount of energy used in the home has long been on a downward trend, as improved product efficiencies have allowed households to get more light and warmth from each kilowatt hour of gas or electricity consumed.[8] Indeed, domestic gas consumption peaked in 2004 and electricity in 2005, and by 2019 had fallen by 27 per cent and 18 per cent respectively.[9]

However, the huge rise in the price of energy since Russia's invasion of Ukraine has led to a much steeper decline. Following an increase in consumption during the pandemic when people spent more time in their homes, in the two years from Q1 2022 to Q1 2024, household gas and electricity consumption fell by around two-thirds as much as it had in the past fifteen: down 18 per cent and 13 per cent, respectively, on pre-pandemic averages (as Figure 6 shows). And, unlike commercial and public energy consumption which rebounded rapidly, there has only been a partial recovery since this low point.[10]

FIGURE 6: **Household gas and electricity use has fallen sharply since early 2022**

Change in rolling four-quarter average household energy consumption (left axis) and in real energy unit prices (right axis) relative to 2017-2019 average, by fuel: UK



NOTES: Electricity and gas prices refer to the unit prices under the Ofgem Price Cap. Q2 2026 consumption values are provisional. Data is not weather corrected. Prices include caps under the Energy Price Guarantee.
SOURCE: RF analysis of DESNZ Energy Trends, DESNZ, Ofgem Price Cap.

8 DESNZ, Energy Consumption in the UK (ECUK) 2025, April 2025; N Eyre, The story of boiler market transformation – a briefing note for BEIS, Centre for the Reduction of Energy Demand, October 2020.
9 RF analysis of DESNZ Energy Trends.
10 This data is not weather corrected. Q2 2026 figures are provisional.

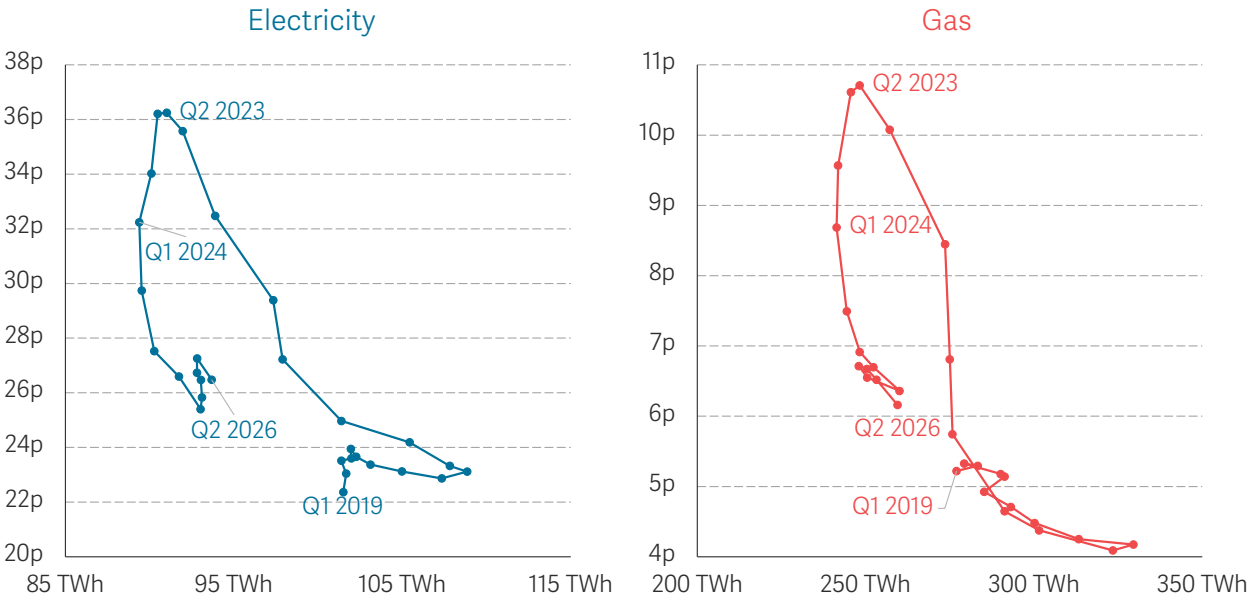
BOX 3: **Since the pandemic, household energy demand has been shaped by prices**

In Figure 7 we show the price-quantity relationship for aggregate household gas and electricity over time, plotting electricity and gas use against what each unit cost in real terms, quarter by quarter, from early 2019 to mid-2026. Differing demands at similar prices indicate shifts in the demand curves. It shows the effect of the biggest energy price shock in a generation: use fell sharply as prices spiked, but has stayed lower even as prices have eased.

The two fuels follow a similar path. From Q1 2020 to Q1 2022 electricity and gas demand rose before falling back to their pre-pandemic levels (the initial rise reflects people spending more time at home during the pandemic, rather than a price response). But as prices rose rapidly during the energy crisis (increasing around 60 per cent for electricity and more than doubling for gas in real terms) there is a clear consumption impact. Prices, thankfully, have eased from these highs, but – echoing findings from Figure 6 above – consumption has not rebounded.

FIGURE 7: **Household energy use fell sharply as prices spiked, and has only partly recovered as they have eased**

Rolling four-quarter domestic energy consumption and average real unit price, by fuel: UK, Q1 2019 to Q2 2026



NOTES: Data is not weather corrected. Prices are unit prices and therefore inclusive of the Energy Price Guarantee but not the £400 Energy Bills Support Scheme. Pre-2019 prices used in the baseline are back-cast from 2019 using ONS CPI energy indices. Q2 2026 data is provisional.
SOURCE: RF analysis of DESNZ, Energy Trends; Ofgem, Energy price cap (default tariff) levels; DESNZ, Energy Price Guarantee regional rates; ONS, Consumer price inflation.

But there are key differences in how the demand curves have changed for each fuel. Swings in gas demand have been larger than for electricity, with gas consumption rising by a fifth during the pandemic compared to a 7 per cent uptick for electricity. Gas use then fell by a quarter (27 per cent) from its peak, reflecting that it is easier for households to adapt to higher prices by heating their homes less than it is to cut the use of lighting and electrical appliances.

But lower consumption has not meant lower bills. At the peak of the crisis, in the year to Q1 2023, households spent £64.5 billion on gas and electricity – 57 per cent more in real terms (that is, relative to the broader price level measured by the overall CPIH index) than their pre-pandemic (2017-2019) average – despite using less energy, and even after government support via the Energy Price Guarantee.[11] Even now, with much lower consumption, households are spending about as much in real terms as they did before the pandemic (£42.7 billion in the year to Q1 2026, 4 per cent above the 2017-2019 average) – thanks to a 26 per cent real-terms increase in the price cap.[12]

There is evidence that poorer areas have cut their energy spending disproportionately

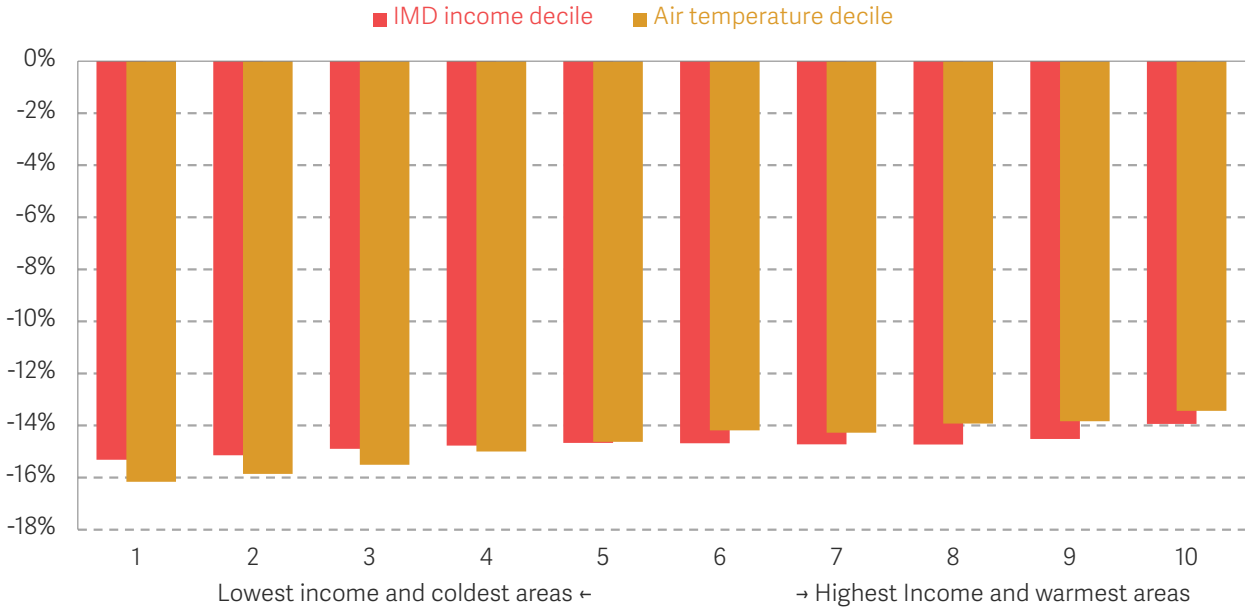
Households have responded to the shock in different ways, with higher prices proving a greater threat to wellbeing the poorer you are. We can see this first in the wide variation of consumption responses. The overwhelming majority of households (87 per cent) reduced either electricity or gas use during the crisis, but the depth of that cut varied widely. Over two-fifths of households cut their use of each fuel by at least a fifth between 2019 and 2024, and over a tenth cut back to half or less of their previous consumption of each.[13]

Looking at how gas use changed across neighbourhoods (that is, Lower layer Super Output Area, or LSOAs, small areas containing roughly 800-1,200 households) it is poorer and colder places where gas use fell most.[14] Figure 8 shows the change in median gas consumption between 2022 and 2023 – the peak of the gas crisis – by decile of average air temperature and income decile. While energy use fell across the board, the poorest tenth of places cut energy use by one-tenth more than the very richest, while the coldest places cut gas use one-sixth more than the warmest. The biggest adjustment happened in exactly the places where those most vulnerable to a gas price shock live.

11 The Energy Price Guarantee capped at an average of 34p per kilowatt hour for electricity and 10.3p for gas, with daily standing charges limited to 46p and 28p respectively.
12 RF analysis of ONS consumer trends, ONS consumer prices. CPIH deflator
13 RF analysis of DESNZ, National Energy Efficiency Data-Framework (NEED), anonymised sample.
14 This dataset is a complete sample of all neighbourhoods in the UK. Similarly reliable and timely consumption data that can be matched to household income or local temperature is not available, so we have preferred to rely on LSOA data than the LCFS, which had reliability issues during the period of interest, collects data on energy expenditure rather than consumption, and misses the geographic nature of vulnerability to heating costs.

FIGURE 8: **Colder and poorer places have responded more to the post-Ukraine energy price shock**

Change in median gas use between 2022 and 2023, by decile of LSOA-level average air temperature and income: England

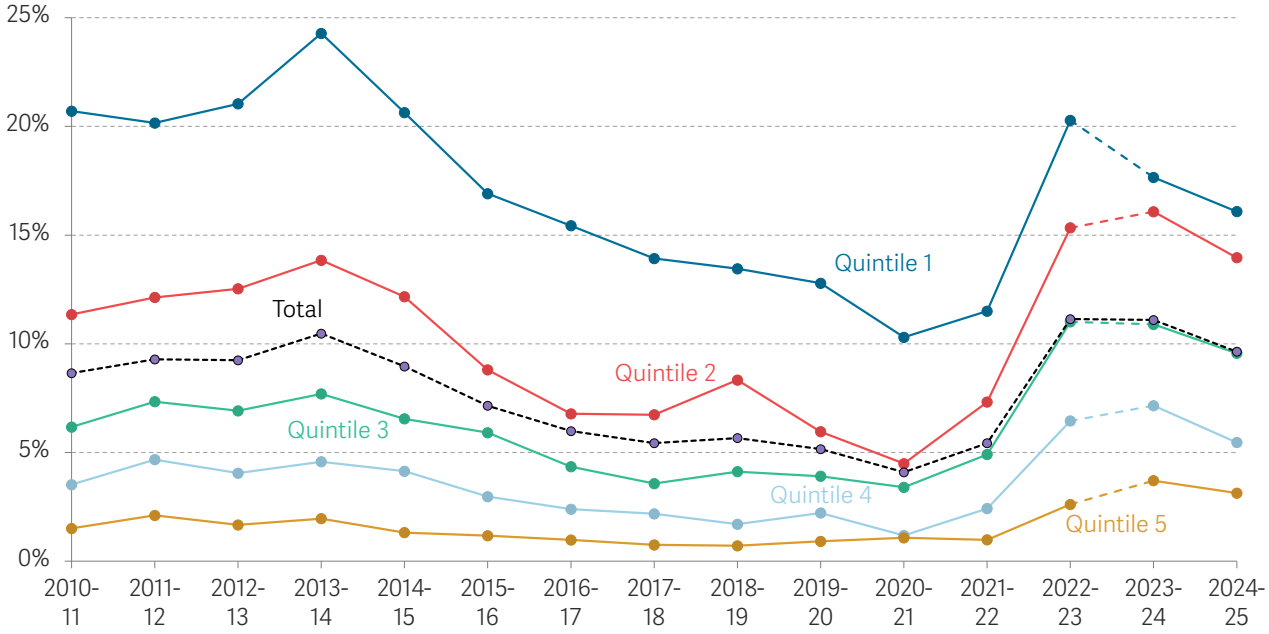


NOTES: Gas consumption is temperature adjusted and covers mid-May to mid-May. Income decile is based on the income component of the Index of Multiple Deprivation. Air temperature is based on the average temperature by LSOA in the last decade of available weather data.
SOURCE: DESNZ, Subnational electricity and gas consumption, 2026; MHCLG, Index of multiple deprivation; Met Office, Average air temperature.

The combination of rises in price and reductions in use is having real impacts on families' ability to heat their homes. Figure 9 shows the proportion of households who say they cannot afford to keep their home adequately warm. Unsurprisingly, this measure is substantially higher for the poorest two income quintiles. But, following steep price hikes in 2022-23, this proportion rose sharply across the board. The size of the rise was largest among the poorest – an increase of 8 percentage points in quintiles 1 and 2, compared to 2 percentage points among the richest fifth. This is equivalent to 1.7 million more households unable to afford to adequately heat their home in 2022-23 than in 2021-22, of which 950,000 are among the poorest 40 per cent of households.

FIGURE 9: **Households in the bottom two income quintiles are most likely to be unable to afford high energy bills**

Proportion of households that say they cannot afford to keep their home warm enough, by income quintile: GB

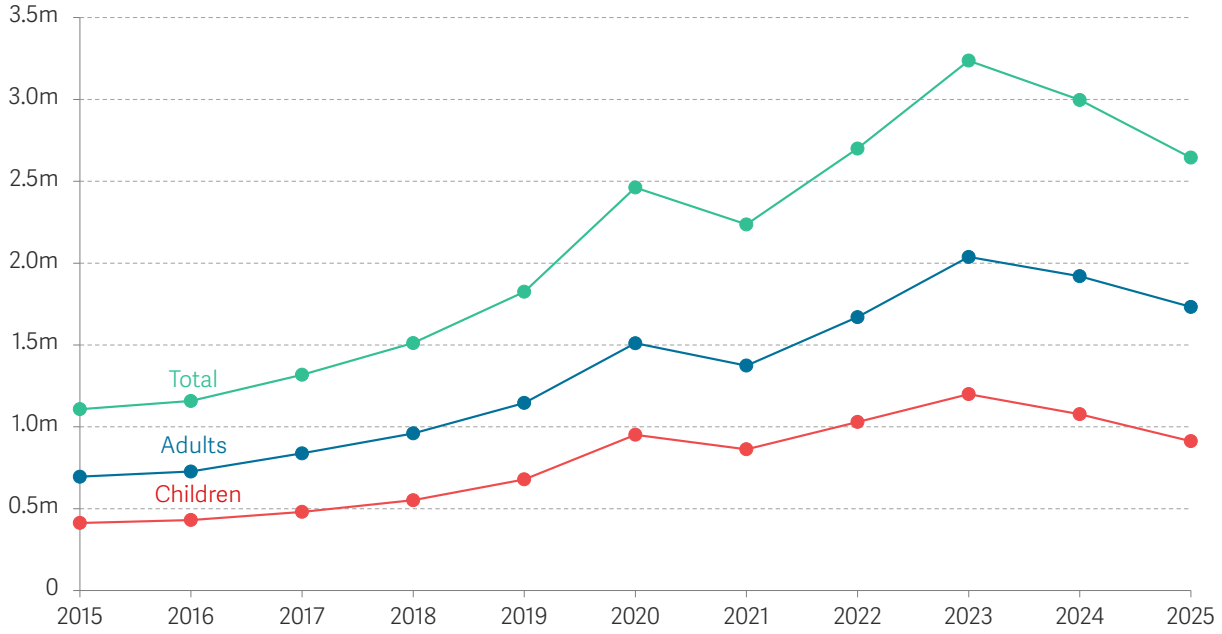


NOTES: Revised material deprivation questions from 2023-24 create a break in the series; estimates either side of the dashed line are not directly comparable. Includes pensioner and working-age households. Pensioners are asked different material deprivation questions to non-pensioners, but the question about heating affordability is similar. Income quintiles are based on net equivalised after housing costs household income.
SOURCE: RF analysis of DWP, Households Below Average Income

And with food prices a key flashpoint of the latest round of inflation (see Figure 3), food bank statistics show the hardship poorer households are feeling. Figure 10 shows the number of food parcels handed out by the Trussell Trust rose by almost four-fifths (77 per cent) between 2019 and the peak of the crisis in 2023. Food bank usage has now abated somewhat (down 18 per cent between 2023 and 2025) but is still higher than any year on record before the cost of living crisis began.

FIGURE 10: **Food bank use rose sharply during the cost of living crisis**

Number of food parcels distributed by Trussell Trust food banks, total and by age of recipient: UK



SOURCE: Trussell Trust, End of year statistics.

More recently, higher crude oil prices, reduced refinery output and export controls have seen a sizeable increase in the price of motoring fuels, particularly diesel, which (at the time of writing) has breached £2 per litre.[15] Despite the rapid increase, traffic statistics suggest that consumers are barely responding, perhaps reflecting the fact that prices are not necessarily high on a historical basis. In real terms, petrol was more expensive as recently as December 2022, and before that in late 2021, 2018 and for most of 2008–2014. Diesel was more expensive as recently as January 2023, and before that in 2008 and 2010–2014. Both remain well below their real-terms peaks of summer 2022, when petrol was 30 per cent and diesel 19 per cent dearer than today.[16] In any case, this is one price rise that hits richer families more: they use 2.2 times as much motoring fuels as those in the poorest fifth.[17]

Families are running down their savings

So, for both energy and road fuels, UK households have not been able to absorb higher energy prices solely by using less; so something else has had to give.

Savings are the first line of defence against a financial shock and, fortunately, many poorer families went into the crisis with a thicker cushion than in the past. Between

15 RAC Foundation, Diesel pushes through £2 a litre mark, September 2026.
16 Figures correct as of the week of 28 September 2026. RF analysis of DESNZ weekly road fuel prices; ONS consumer prices.
17 RF analysis of ONS Living Costs and Food Survey.

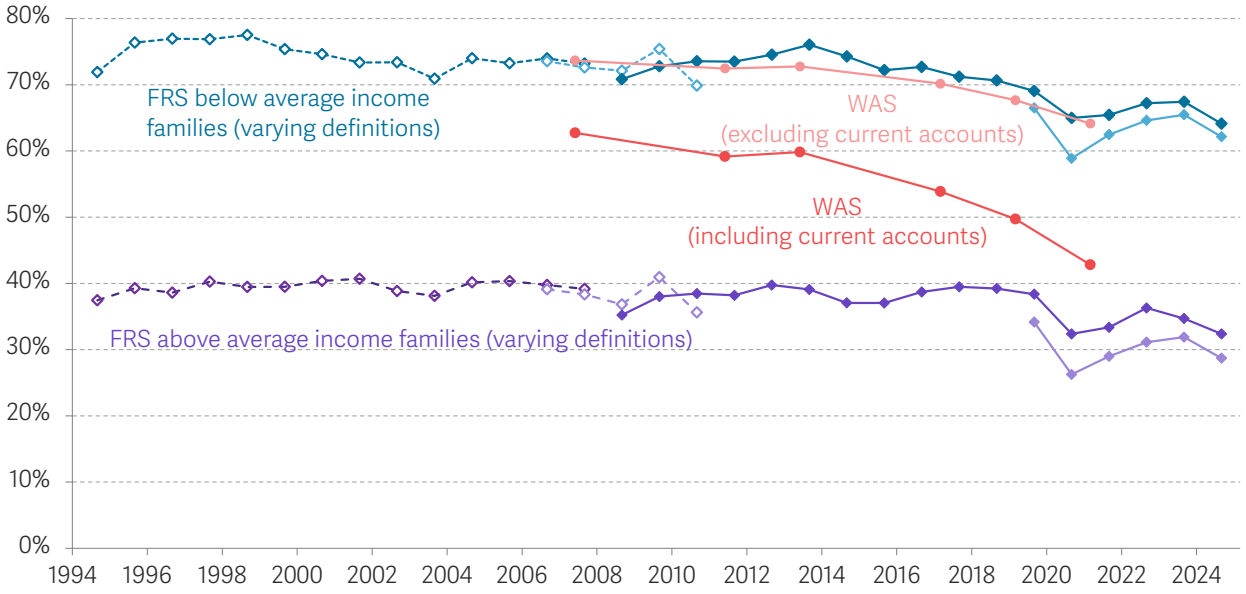
2006-08 and 2020-22, the proportion of low-to-middle income families with less than £1,000 in liquid savings fell from around three-in-five (63 per cent) to around two-in-five (43 per cent).[18] Most of that improvement came during the 2010s. The pandemic then extended it: lockdowns meant that many families could not maintain their normal spending patterns, allowing even some poorer households to put money aside.

Attempts to unpick what the cost of living crisis has meant for poorer families' financial health is hampered by data limitations. The Wealth and Assets Survey (WAS), the most comprehensive source of data on family finances only covers the period to March 2022. So, for more recent years we rely on the Family Resources Survey (FRS), which is plotted alongside WAS in Figure 11. On that basis, among individuals in working-age families in the poorer half of the income distribution, the share with less than £1,000 in real-terms savings fell by 8 percentage points during the first year of the pandemic, from 67 per cent in 2019-20 to 59 per cent in 2020-21. And data from the Bank of England's NMG survey backs up this trend. But, as prices surged, that improvement was largely reversed: the share rose by 6 percentage points to 65 per cent in 2022-23 and stayed there in 2023-24, almost back to where it was before the pandemic. The latest data, for 2024-25, shows some improvement, with the share falling back to 62 per cent. Nonetheless, it's clear that the energy shocks of recent years have seen the prevalence of low savings increase once again with around three-in-five people in the poorer half of working-age Britain living in families with less than £1,000 in savings.

18 F Odamtten & S Pittaway, Money on my mind, Resolution Foundation, September 2025, https://doi.org/10.63492/xsa802.

FIGURE 11: **Most households with below-average incomes have less than £1,000 in savings**

Proportion of below-average income non-pensioner families (WAS) and individuals living in non-pensioner families (FRS) with real-terms savings of less than £1,000: GB



NOTES: For comparability between surveys data is plotted at the mid-point of each survey wave. Below-average income families are those where nobody is at or above State Pension age and in the bottom half of the before-housing-costs (WAS) or after-housing-costs (FRS) equivalised household income distribution. Savings are summed within benefit units or households and are expressed in May 2025 prices using a CPI deflator. The FRS has changed the way it imputes or estimates the value of liquid financial assets, and so we show estimates from different series, not all of which are available in every year. SOURCE: RF analysis of ONS, Wealth and Assets Survey & Consumer prices; DWP, Family Resources Survey; Bank of England, NMG Survey.

Although the prevalence of low saving remains close to historic lows, it is clear that the cost of living crisis has put a strain on families' finances, and that this has partly been absorbed by running down savings. The trends shown in Figure 11 are corroborated by separate data on who can afford to make savings each month: the proportion of people in below-average-income families where at least one adult is saving £10 or more a month has fallen from a high of 58 per cent in 2020-21, boosted by lockdowns, to 52 per cent in 2023-24.[19] That is still above its typical level through the 2010s, but it means almost half of people in the poorer half of working-age Britain live in families where nobody is saving regularly.

And this matters for more than just the size of families' savings buffers. A family that cannot set aside even £10 a month has almost no way of rebuilding a buffer once it has been used, and each new shock is more likely to be met by falling behind on bills or going without. As we show below, that is increasingly what has happened.

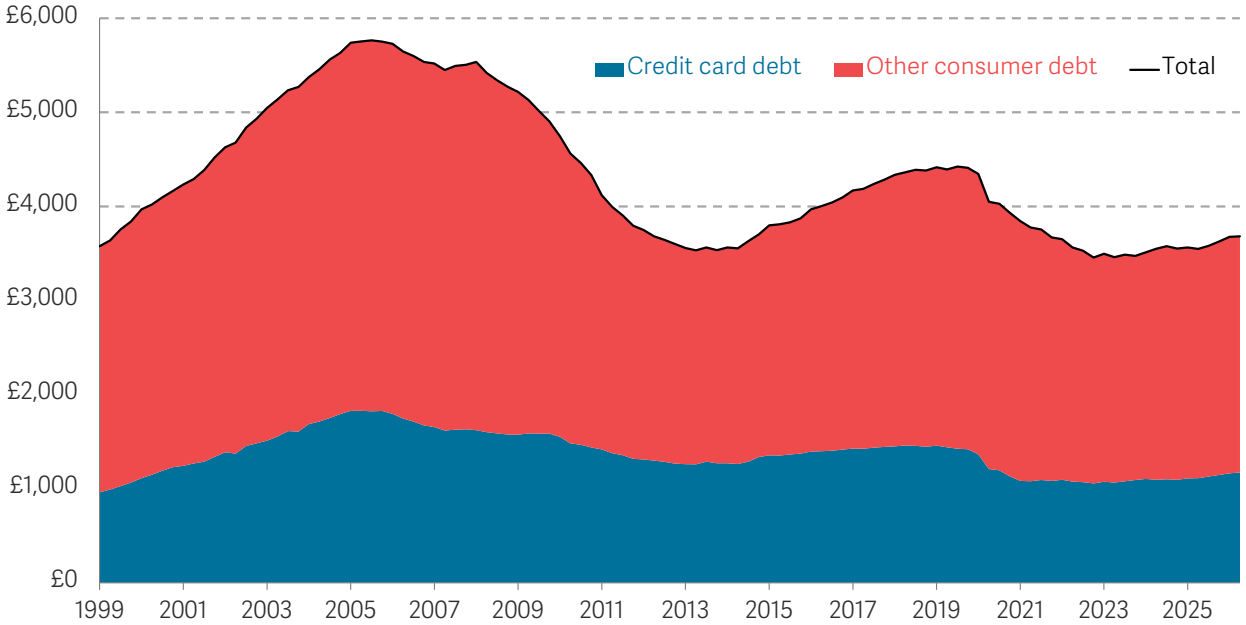
19 F Odamtten & S Pittaway, Money on my mind, Resolution Foundation, September 2025, https://doi.org/10.63492/xsa802. The question has always asked about an amount of £10, so the high inflation over this period would have, other things equal, made it easier to save a cash value of £10.

Formal debt is rising slightly, but remains below pre-pandemic levels

Where families cannot reduce savings, then money to cover shortfalls will need to be borrowed. Before the financial crisis, consumer borrowing (credit cards, overdrafts, personal loans and car finance) was booming. It peaked at £5,760 per person in today's prices in Q3 2005, before falling sharply after 2008. By the end of 2013 it was around two-fifths (39 per cent) lower, at £3,540.[20] But Figure 12 shows that debt rose again through the 2010s, driven in large part by the growth of car finance, climbing by a quarter to £4,420 by Q3 2019. It then fell steeply during the pandemic and the first year of the cost of living crisis, reaching its lowest level since at least 1999 (£3,460 per person), at the end of 2022. But after these welcome falls, debt has since begun to edge back up. Consumer debt per person has risen by 7 per cent in real terms, to £3,680 in Q2 2026, with credit card balances up by 11 per cent. These rises are small, and debt remains 16 per cent below its pre-pandemic level. But this should not be read as a sign that families' finances are in good health. As we have argued previously, the lack of a larger rise in borrowing more likely reflects tighter credit conditions than greater financial security.[21]

FIGURE 12: **Consumer debt remains below its pre-pandemic levels**

Real outstanding consumer debt per person: UK



NOTES: Historic data has been manually break-adjusted to reflect significant changes to the basis of preparation. Balances for quarter-end and are expressed in June 2026 prices using a CPIH deflator.
SOURCE: RF analysis of Bank of England, Bankstats; ONS, Consumer prices and UK resident population: mid-year estimates.

20 F Odamtten & S Pittaway, Money on my mind, Resolution Foundation, September 2025, https://doi.org/10.63492/xsa802.
21 F Odamtten & S Pittaway, Money on my mind, Resolution Foundation, September 2025, https://doi.org/10.63492/xsa802.

Borrowing has become considerably more expensive: since the Bank of England started raising interest rates in December 2021, average credit card rates have risen by 3.6 percentage points and personal loan rates by 2 percentage points. Lenders also tightened credit through the peak of the cost of living crisis, with some evidence that this disproportionately reduced poorer households' access to credit.[22] Survey data on poorer households tells a similar story. The proportion of households in the bottom half of the income distribution with consumer debt has been broadly flat, and the typical amounts they owe fell in real terms during the pandemic.[23]

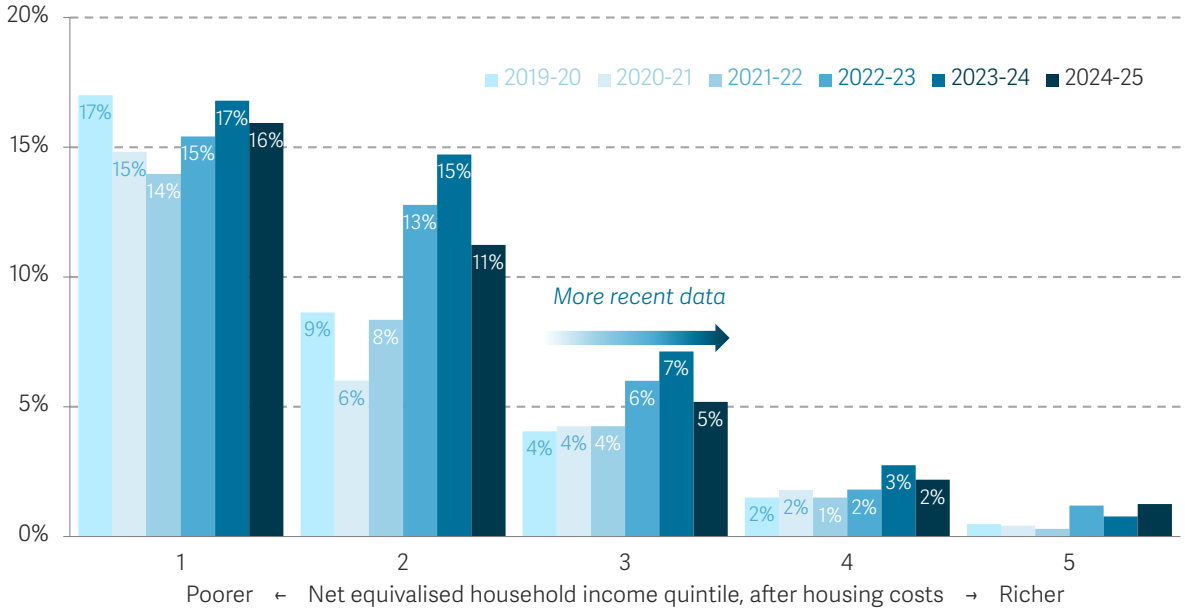
There is a growing problem on priority debts

Rather than reach for the credit card, many families appear to have fallen behind on bills instead. In this context, arrears on so-called 'priority' bills (energy, water, Council Tax, rent and similar) matter more than most debts. [24] That is because falling behind here can have consequences well beyond extra interest or a damaged credit score: a forced prepayment meter or (more recently) high non-payment charges, eviction or, for Council Tax in England, even a prison sentence. That is why the rise in these arrears since the pandemic, especially the spread up the income distribution – more than doubling in quintile two between 2020-21 and 2023-24 (see Figure 13) should worry policy makers.

22 F Odamtten & S Pittaway, In too deep?, Resolution Foundation, February 2024, https://doi.org/10.63492/ppk8951.
23 F Odamtten & S Pittaway, Money on my mind, Resolution Foundation, September 2025, https://doi.org/10.63492/xsa802.
24 This section expands and updates: F Odamtten & S Pittaway, Money on my mind, Resolution Foundation, September 2025, https://doi.org/10.63492/xsa802.

FIGURE 13: **Being behind on priority bills is spreading up the income distribution**

Proportion of individuals living in families behind on at least one priority household bill, by income group: UK

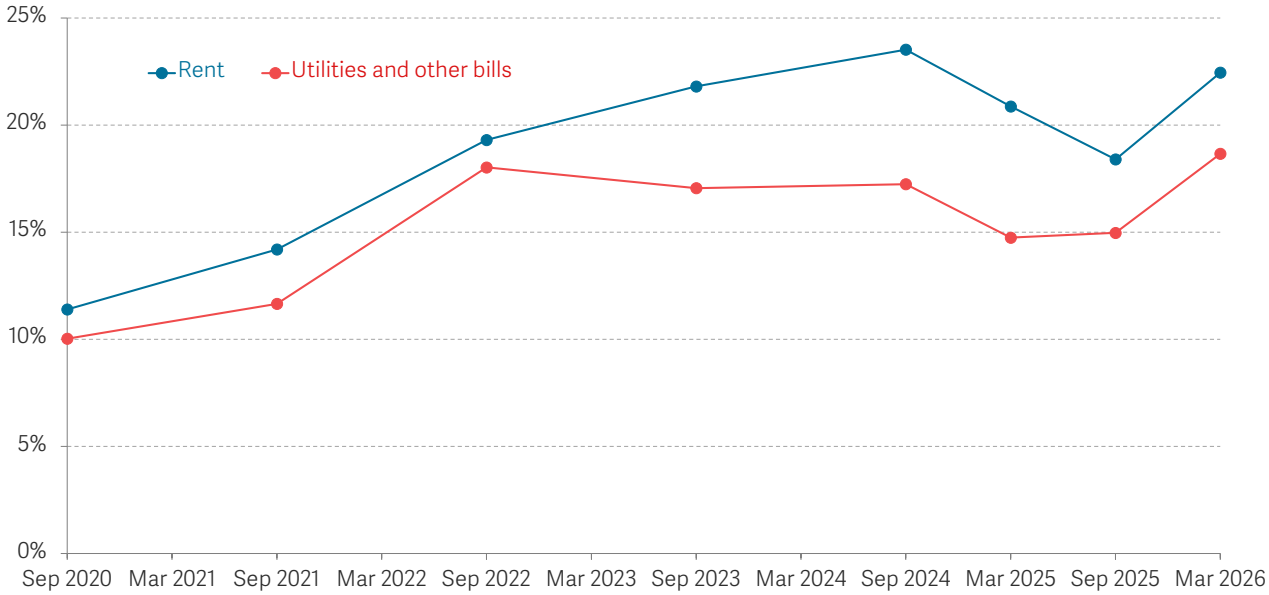


NOTES: Priority household bills consist of electricity, gas, other fuels, water, telephone, insurance, Council Tax and rent.
SOURCE: RF analysis of DWP, Family Resources Survey.

A different data source with more recent data confirms this trend: as Figure 14 shows, one-in-ten (10 per cent) of the poorer half of households were behind on their utility and other household bills in September 2020; by September 2022, as energy prices surged, that had nearly doubled to one-in-five (18 per cent). After easing slightly in 2025, it has risen again in March 2026. Rent arrears have followed a similar path: the share behind on rent has doubled, from 11 per cent in September 2020 to a peak of 24 per cent in September 2024, and at 22 per cent in March 2026 remains close to that peak. These trends reflect a worrying shift in the nature of the debt problem faced by poorer families.

FIGURE 14: **The number of households with arrears on bills ticked up again in early 2026**

Proportion of working-age families with below average incomes who are behind on priority bills: GB

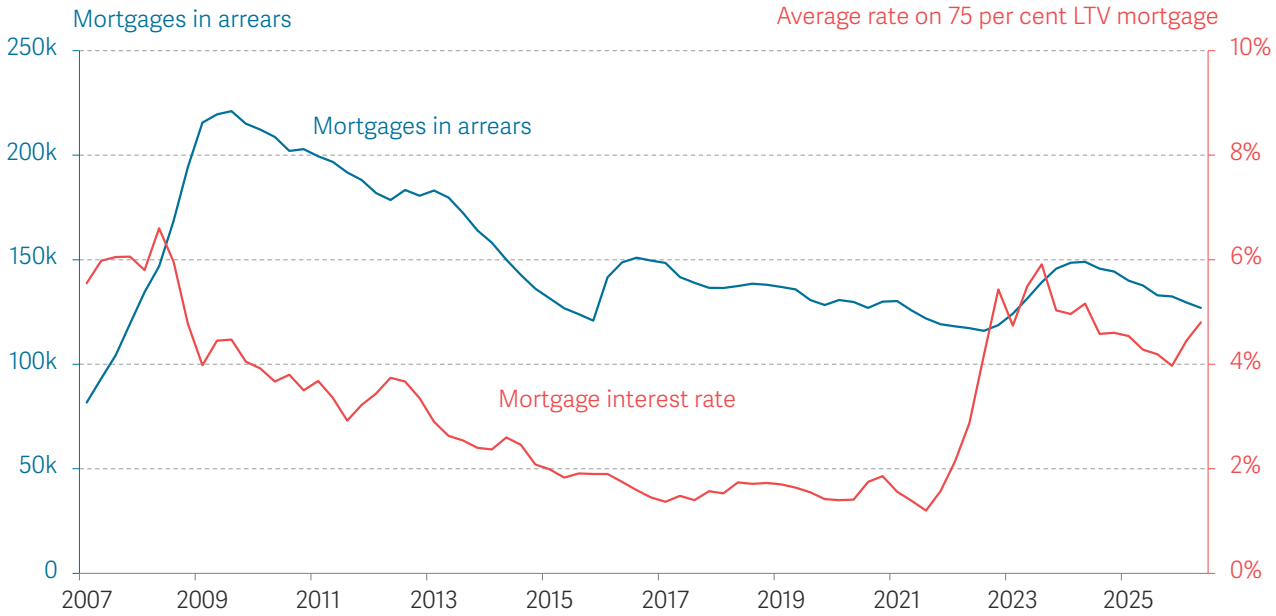


NOTES: The share of household behind on rent is for renters only.
SOURCE: RF analysis of Bank of England, NMG Survey.

In comparison, mortgagors appear to be more resilient despite the challenges posed by the sharp increase in interest rates since 2022. As Figure 15 shows, the number of mortgages in arrears began to rise after rates increased, from 116,000 in mid-2022 to almost 150,000 in early 2024. But even though the average interest rate for a 75 per cent loan-to-value mortgage remains above 4 per cent, the number of mortgages in arrears has fallen back to reach 127,000 this year (Q2 2026), below the 2019 average (133,000) and a fraction of the highs seen during the fallout of the financial crisis. Mortgagors seem to be in no more financial distress than they were pre-pandemic and the trendline is improving.

FIGURE 15: **The number of mortgagors in arrears has fallen every quarter since mid-2024**

Number of owner-occupier mortgages in arrears of 1.5 per cent (left-axis) and average interest rate on a 75 per cent loan-to-value mortgage (right-axis)

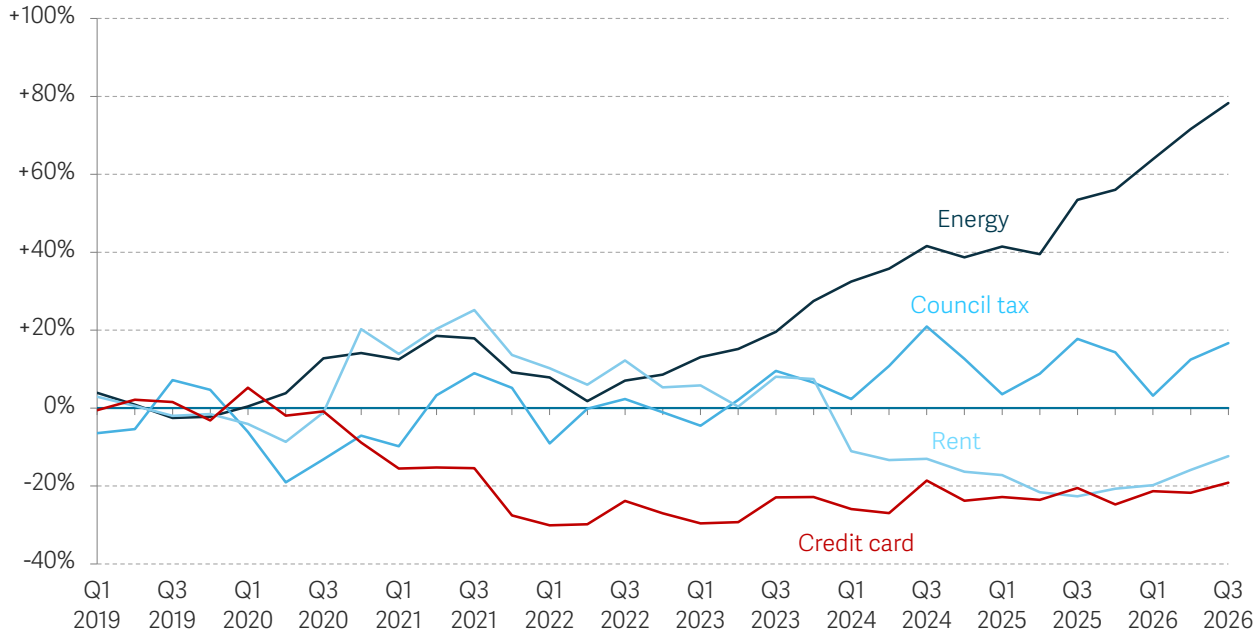


NOTES: We use regulated residential loans to individuals as our proxy of owner-occupier mortgages. Mortgages in arrears are those in arrears of at least 1.5 per cent
SOURCE: RF analysis of FCA, Mortgage lending statistics; Bank of England, Bankstats.

The financial problems that people bring to advice services have changed in the same way. Figure 16 shows how the average debts of Citizens Advice clients have changed since 2019. Energy arrears stand out: the average client with energy debt owed £1,980 in Q3 2026, 78 per cent more than the 2019 average after adjusting for inflation). Concerningly, this rise has been accelerating even as energy prices have fallen from their peak. In real terms, average energy arrears in mid-2025 were 40 per cent above their 2019 level in mid-2025 , and are now close to 80 per cent above it. Council Tax arrears are also higher, up 17 per cent in real terms. Meanwhile, credit card debts are a fifth (19 per cent) lower in real terms today than in 2019, having been almost a third (30 per cent) lower at their low point in early 2022. Rent arrears are also lower in real terms (down 12 per cent), though they have risen since mid-2025.

FIGURE 16: **Households seeking debt advice are increasingly doing so for energy arrears**

Average debt levels of Citizens Advice clients relative to 2019 levels, by debt category: UK



NOTES: Deflated by CPIH.
SOURCE: RF analysis of Citizens Advice debt data, ONS consumer prices.

Households owing more to their energy suppliers is a trend seen among the wider population, as well as those seeking debt advice. Across Great Britain, Ofgem estimates that the combined amount owed to energy suppliers has more than tripled in real terms, from £1.5 billion in Q1 2018 to £5.0 billion in Q2 2026 (in Q2 2026 prices[25]. After slowing through 2025, these numbers picked up again in the first half of 2026: the total rose by 5 per cent in real terms in Q1 alone, and by a further 3 per cent in Q2.

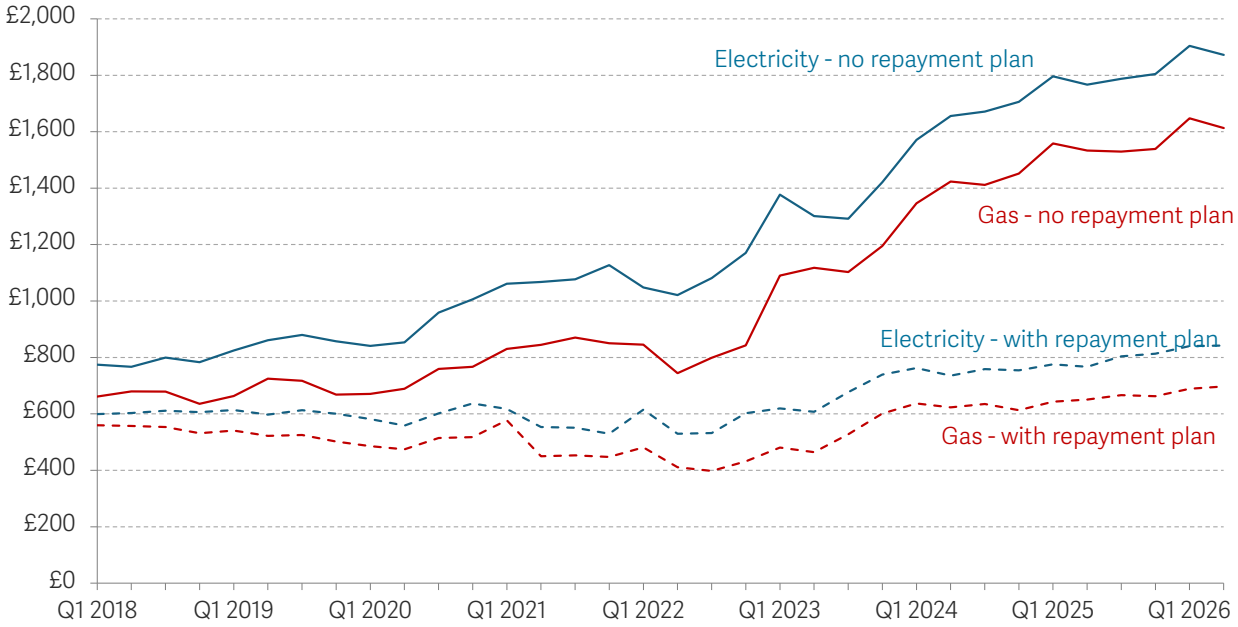
What matters is not just the size of this debt pile but its nature. Ofgem distinguishes between 'debt', where customers are repaying what they owe under an agreed repayment plan (often referred to as 'managed debt'), and 'arrears', where no repayment plan is in place. Most of the growth has been in arrears, which account for around 85 per cent of the increase since 2018. Between Q1 2018 and Q1 2026, real arrears grew almost five-fold, from £0.8 billion to £3.7 billion.[26] Over the same period, managed debt grew by around 70 per cent, from £0.7 billion to £1.2 billion. In 2018 the two were roughly the same size, but arrears are now three-times as large as managed debt. This trend, reflecting both more households falling behind and each household owing more, is storing up problems for the future (the number of electricity accounts in arrears with no repayment plan has doubled, from 600,000 in Q1 2018 to 1.2 million in Q2 2026, and gas accounts have risen from

25 RF analysis of Ofgem debt and arrears indicators, ONS consumer prices.
26 RF analysis of Ofgem debt and arrears indicators, ONS consumer prices.

450,000 to 950,000).[27] And as Figure 17 shows, the amount owed on each energy account has risen even faster. Average arrears on electricity accounts with no repayment plan have risen by 150 per cent in real terms, from £770 to £1,870; on gas accounts, they have risen from £660 to £1,610. That is more than double the average balance of customers on a repayment plan (£840 for electricity and £700 for gas). And there is no sign of this rise slowing: average arrears rose by a further 6 per cent in real terms in the year to Q2 2026.

FIGURE 17: **Unmanaged debt on energy bills is increasing rapidly**

Average outstanding balance per domestic customer in debt or arrears, by fuel and repayment status: GB



NOTES: Arrears are balances owed by customers who are not on a repayment plan; debt refers to balances being repaid under agreed arrangements.
SOURCE: RF analysis of Ofgem, Domestic energy debt and arrears indicators, Q1 2026; ONS Consumer Prices.

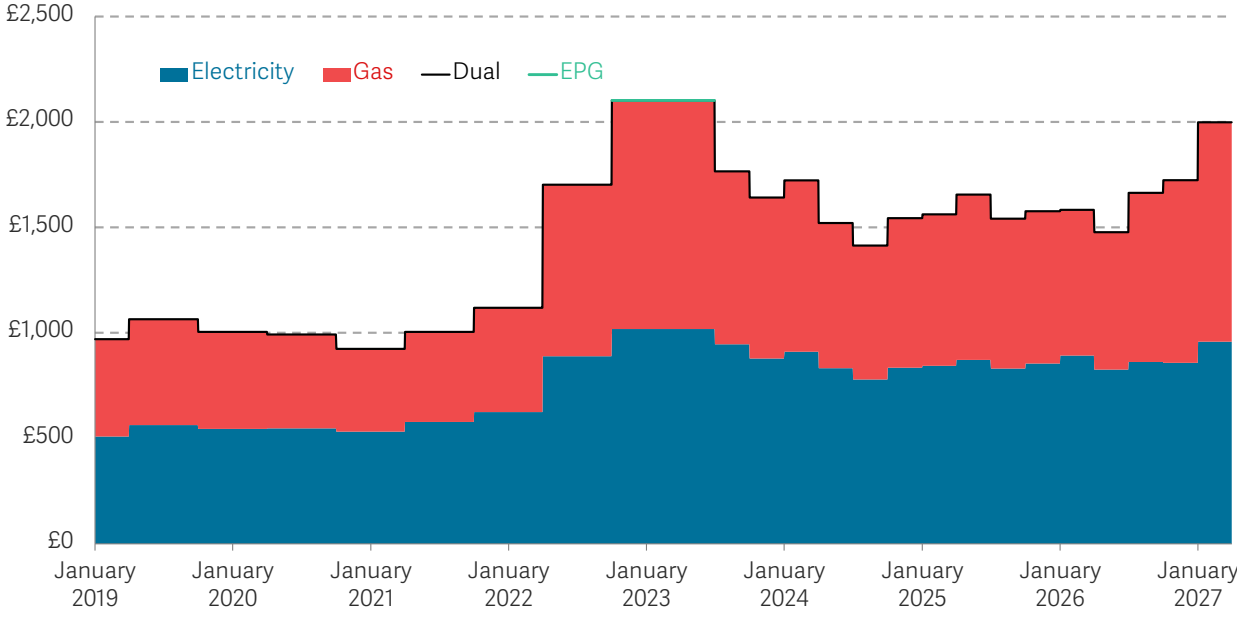
Negative account balances of this sizes are hard to clear through typical repayment plans. During the crisis, suppliers leaned heavily on prepayment meters to recover debt: the share of indebted customers repaying through a prepayment meter rose from around a third before the pandemic to a peak of 58 per cent for electricity and 56 per cent for gas in 2023-24. But following the scandal over forced prepayment meter installations and tighter Ofgem rules, that share has fallen back, to 40 per cent and 36 per cent respectively in Q2 2026. And where plans do exist, they have very long terms: at some suppliers, repayment plans run for more than a decade. [28] The consequences of higher energy debt are not solely felt by those in the red. When customers in debt or arrears don't repay, suppliers recover the cost from their other customers. Suppliers'

27 RF analysis of Ofgem debt and arrears indicators. A household in arrears on both an electricity and a gas account would appear in both counts.
28 Ofgem debt and arrears indicators

debt-related costs (i.e. the bad debt they don't expect to recover, plus the cost of chasing and administering debt) quadrupled during the crisis, rising from £137 million in July-September 2022 to a peak of £575 million in October-December 2023, and averaging around £400 million a quarter since, or £1.6 billion in the year to March 2026. [29] The energy price cap now includes a specific debt-related-cost allowance; in April-June 2026, this added £49 a year to the price cap for a typical dual fuel bill, around 3 per cent of the total to direct debit bills and £139 a year, around 8 per cent of the total, to the bills of those paying by standard credit.[30] And the problem is still growing. Energy UK estimates that debt and arrears unpaid after 30 days reached £6 billion in the first half of 2026, spread across more than 3 million customers owing an average of around £1,800. It warns the total could reach £7 billion by the end of the year, adding a further £10 to £15 to typical bills, which are already set to jump into Q1 2027. Indeed, Figure 18 shows that the latest forecasts for the Q1 2027 Price Cap are set to be 16 per cent higher on the quarter, closing in on highs faced by families when prices were capped in 2022 and 2023.[31]

FIGURE 18: **Energy bills are forecast to jump again in early 2027**

Historical and forecast annualised default tariff cap levels, dual fuel direct debit customers with typical consumption: GB



NOTES: Assumed typical domestic consumption values in line with Ofgem's July 2026 update. Q1 2027 data is based on forecasts made at the end of September 2026.
SOURCE: RF analysis of Ofgem; BEIS; Cornwall Insight.

29 RF analysis of Ofgem, Energy debt-related costs data: October 2018 to March 2026.
30 The debt-related cost allowance in the price cap applies only to customers on default tariffs. In setting it, Ofgem assumes debt-related costs are shared equally between default and fixed-tariff customers, leaving suppliers to recover the fixed-tariff share through the prices of fixed-term deals, which are set commercially and are not capped. Customers on deals fixed before debt costs rose will not contribute until their deal ends, so in the meantime these costs fall on suppliers.
31 Energy UK, Energy debt hits £6 billion, August 2026. Energy UK's estimate measures debt and arrears unpaid after 30 days and so differs from Ofgem's measure of debt and arrears used earlier in this section.

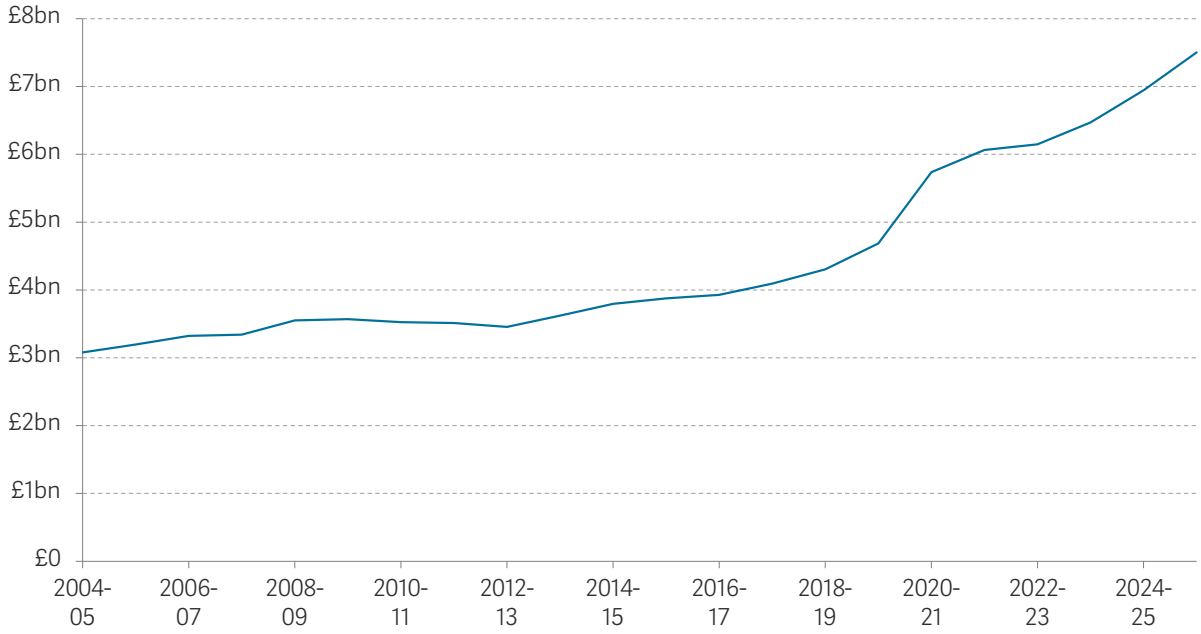
The consequences of falling behind have also changed shape. In the late 2000s, suppliers disconnected between 500 and 1,000 customers a year for non-payment. There has not been a single disconnection for non-payment since the start of 2023. But that does not mean nobody is going without energy. Formal disconnection has been replaced by self-disconnection: prepayment customers are left without supply because they cannot afford to top up. Some short interruptions are accidental, such as a meter running out overnight. But a growing share last more than three hours, which is more likely to reflect households choosing, or being forced, to go without. Between Q2 2022 and Q2 2026, the share of smart prepayment customers who went without supply for more than three hours rose from 38 per cent to 65 per cent for electricity and from 58 per cent to 80 per cent for gas.[32] As such, households are cutting themselves off rather than being cut off by someone else.

Away from energy, the other main bill families are falling behind on is Council Tax. Arrears in England reached £7.5 billion in 2025-26, 60 per cent higher in real terms than in 2019-20 and more than double (117 per cent) their 2012-13 level (see Figure 19). Arrears have risen every year since 2013, when national Council Tax Benefit was replaced in England by less generous local schemes, but in 2024-25 alone, around £460 million was added to the stock. [33] Some of this rise might have been expected as Council Tax bills rise, but the average Band D Council Tax bill in England is barely higher in real terms than before the pandemic (up 0.5 per cent since 2019-20), while arrears have risen by 60 per cent.[34]

32 RF analysis of Ofgem debt and arrears indicators.
33 F Odamtten & S Pittaway, Money on my mind, Resolution Foundation, September 2025, https://doi.org/10.63492/xsa802; A Clegg, The localisation era, Resolution Foundation, November 2025, https://doi.org/10.63492/ndxb35.
34 Council tax increased are typically limited to 5 per cent per year.

FIGURE 19: **The stock of Council Tax arrears is growing rapidly**

Real-terms stock of Council Tax arrears at fiscal year-end: England



NOTES: Amounts have been converted to June 2026 prices using a CPIH deflator. Figures are before any Council Tax reduction schemes.
SOURCE: RF analysis of MHCLG, Collection rates for Council Tax and non-domestic rates in England; ONS, Consumer prices.

Overall, then, it's clear that families have relied on a broad range of coping strategies to deal with the huge rise in the cost of essentials. The bout of inflation since 2021 has led to significant hardship in the form of lower use of essentials themselves – particularly when it comes to heating and eating – but also slightly higher formal debts and a more worrying shift in the nature of the debt problem towards arrears on priority bills. These pressures seem certain to grow. Jumps in wholesale gas prices have led to expectations that the energy price cap will increase by a fifth in January, when consumption levels are highest and underheating has the biggest welfare risk (see Figure 18). And Council Tax bills are set to rise by 5 per cent a year, which will surely feed through to increased levels of non-payment.

The cost of living crisis has hit everyone's incomes hard

In the final section, we first look at what the renewed pressures from the conflict in the Middle East is likely to do for British families in the current financial year, and what this means for the overall story of changes in household living standards since the Covid pandemic. But we also compare what has happened to households' income to our new assessment of what might have happened had we not seen five years of acute cost of living pressures.

Year-on-year household income growth has been turbulent since the pandemic, but incomes have been stagnant across the period as a whole

Our forecast of income growth in 2026-27 (see Box 3 for details) largely reflects the anticipated impact of the US-Iran conflict and its impact on global energy prices and overall inflation. In the bottom half, the gains from the above-inflation increase in Universal Credit and the repeal of the two-child limit are being partly offset by rising prices; in the top half, incomes after housing costs look set to fall over the year. Median incomes are set to be £60 (0.2 per cent) lower this year than in 2024-25, and those at the 75th percentile are expected to be £360 (0.7 per cent) lower. Incomes at the 25th percentile are set to rise by £520 (2.3 per cent), primarily due to the repeal of the two-child limit. Families with fewer than three children or those not previously impacted by this policy are likely to have seen their real incomes stagnate or fall.

Taken as a whole, the period since 2020-21 has seen virtually no growth in real household incomes for non-pensioners anywhere in the income distribution, extending and worsening the story of stagnation since the mid-2000s.[35] If we include our own nowcasts and forecasts for 2025-26 and 2026-27, then real median income after housing costs for non-pensioners looks set to fall by 1.3 per cent (£450) between 2020-21 and 2026-27; incomes at the 25th percentile are set to fall by 1.2 per cent (£270); while 75th percentile incomes are set to grow but only by 0.3 per cent (£130).[36] The story for pensioners has been similar: real median pensioner income is set to fall by 1.3 per cent (£470), while top half pensioner incomes are no course to be practically identical in 2026-27 and 2020-21. Only pensioners in the bottom half of the distribution have bucked the trend – their incomes look set to grow by 3.2 per cent (£790) between 2020-21 and 2026-27.

But, as Figure 20 shows, this stagnation masks a rollercoaster of year-on-year changes. Poorer non-pensioner households were hit particularly hard in 2022-23, when inflation peaked: this is largely because benefits are uprated each April in line with the previous September's inflation, so they did not catch up with rapidly rising prices until April 2023; rents were also growing quickly as the rental market recovered from the pandemic. Households in the top half of the distribution also saw large falls in real incomes in 2022-23, and especially in 2023-24, as nominal wage growth failed to offset the drag on real living standards caused by high inflation, rising mortgage interest costs, and fiscal drag from frozen Income Tax thresholds. Incomes then recovered strongly across the distribution in 2024-25 – growing by more than 4 per cent in real terms for all but the

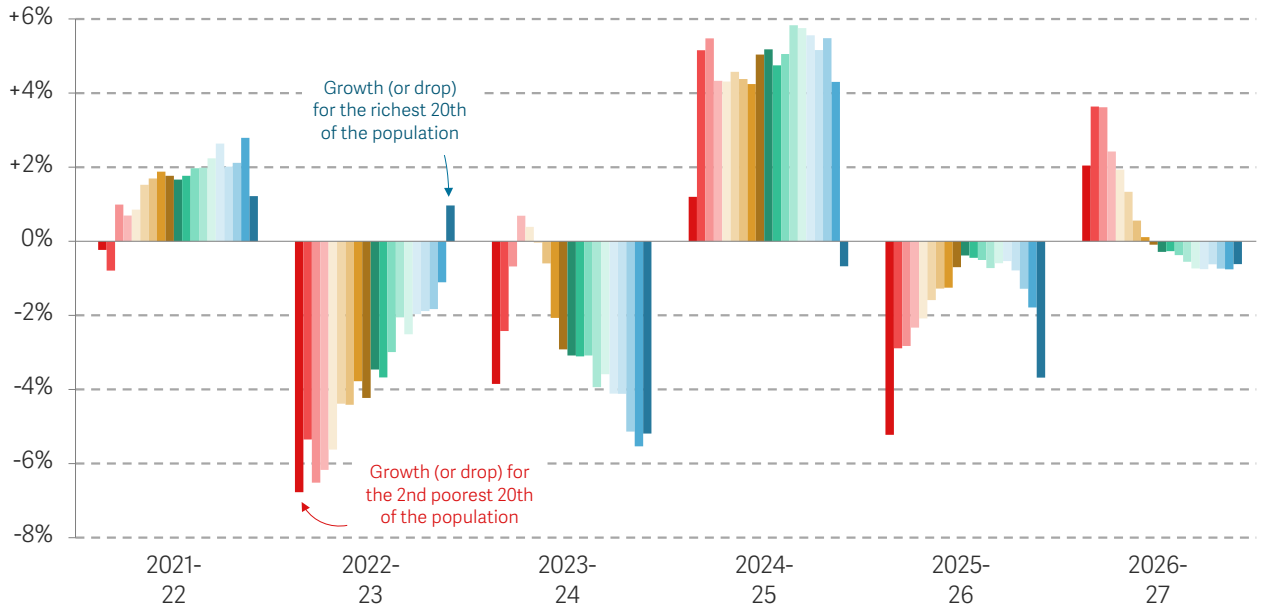
35 R Curtice et al., The Resolution Foundation at 20: two decades of analysis, policy and change, Resolution Foundation, September 2025. https://doi.org/10.63492/yjk797

36 We convert household incomes from DWP's Households Below Average Income (HBAI) dataset into real terms using a measure of inflation derived from ONS Household Cost Indices. Unlike CPI, this measure varies across the income distribution, capturing the fact that the sharp rise in the cost of essentials has fallen harder on lower-income households. The most recent HBAI data is for 2024-25, so we use microsimulation methods to 'nowcast' household incomes to 2026-27 (see Annex for details of our methodology).

very poorest and very richest households – reflecting both economic and policy factors. This is because inflation fell back sharply, allowing benefit uprating to catch up with the cumulative price shock and real wage growth to return, while cuts to employee National Insurance contributions boosted take-home pay. The recovery was short-lived, however. In 2025-26, CPI inflation rose back above the Bank of England's 2 per cent target, peaking at 3.8 per cent, driven by high global energy prices as well as policy choices such as the increase in employer National Insurance contributions, which partly passed through to prices. As a result, real incomes fell across the distribution, particularly at the bottom.

FIGURE 20: **Real household income growth has been turbulent over the cost of living crisis**

Annual real growth in average equivalised household disposable income for non-pensioners, after housing costs, by income vigintile: UK



NOTES: We exclude the bottom 5 per cent, due to concerns about the reliability of data for this group.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF projection including use of the IPPR Tax Benefit Model, ONS data, and OBR forecasts.

Household incomes are significantly lower than they would have been without the cost of living crisis

After the sequence of global economic shocks or crises since 2020-21, one might feel some reassurance from the fact that typical household incomes have not collapsed. But, nor have they held up, with real-terms falls for both the middle and bottom half of the distribution. And we should not forget that, under 'normal' economic conditions, we would expect household incomes to grow steadily. To understand the full impact of the cost of living crisis on household incomes, we can compare (our nowcast of) household incomes in 2026-27 with a counterfactual in which inflation had stayed at its 2 per cent

target, earnings growth followed its pre-crisis forecasted path, and interest rates rose at a slightly slower rate (in ways that we explain in Box 4). Put another way, what would it look like if we'd had five years of 'normal' inflation, instead of thirteen in five?

To do this, we use microsimulation methods. We explain our methods more in Box 4, but the main one is that our aim is to capture the impact of the inflationary shock itself, rather than of subsequent policy decisions. [37] For this reason, permanent changes to policy made since the crisis are included in both scenarios.[38] In particular, we adopt the following approaches to specific policy changes:

- Benefits and the State Pension are uprated annually in their conventional way in each scenario. This means that those non-pensioner benefits that are uprated in line with the CPI rate from the previous September end up, in 2026-27, with approximately the same real-terms value in both scenarios. For the State Pension, however, our counterfactual scenario sees the State Pension rise each year in line with average earnings, but the base scenario follows reality, where the State Pension was uprated in line with CPI instead of earnings growth in 2022-23, as earnings growth was distorted due to post-pandemic wage rebounds, and again in 2023-24 (when CPI of 10.1 per cent was higher than earnings growth), before tracking earnings growth for the remainder of the period. Our view is that this extra boost to the value of the State Pension arose entirely because of the volatility experienced during the period, and so can be attributed to the cost of living shock.
- One policy that had a major impact on typical incomes over this period is the freeze in various Income Tax and National Insurance thresholds. As many have noted, compared to the standard default of indexing thresholds to inflation, the revenue raised (and the fall in household incomes) from the decision to freeze these was far greater than originally anticipated, thanks to inflation being much higher than expected.[39] It is possible to argue that this should be considered as part of the impact of the cost of living crisis on incomes, but here we take a different view. In other words, we assume that the large real-terms declines in many tax thresholds were a specific policy choice (after all, the Government could at any point have changed its mind on freezing the tax thresholds), and we apply them in

37 This includes: various changes to Universal Credit in 2021 (the end of the £20 per week uplift, the reduction in the taper rate from 63 per cent to 55 per cent, and the increase in work allowances); the cuts to the main rate of employee National Insurance contributions from 12 per cent to 8 per cent in 2024; the rebasing of Local Housing Allowance rates in April 2024; and, from April 2026, the above-inflation increase in the Universal Credit standard allowance, the reduction in the health element for new claimants and the removal of the two-child limit. Temporary measures introduced in response to the crisis, such as the Cost of Living Payments, are included only in the outturn scenario but are not relevant for 2026-27.

38 This also reflects our judgement that, in stark contrast to the temporary changes, the majority of the permanent changes to policy made since the crisis were not direct responses to the crisis. It is possible that some of those changes were only made due to a need for a fiscal adjustment that may have been less in the absence of the crisis and the money spent providing support. To the extent that is true our scenarios will understate the overall impact of the shock on household incomes

39 See T Waters & T Wernham, Reforms, roll-outs and freezes in the tax and benefit system: Green Budget 2022 – Chapter 5, Institute for Fiscal Studies, October 2022.

both scenarios (i.e. the larger-than-planned real-terms cuts to thresholds do not contribute to the differences in incomes between our scenarios). If instead we had treated the additional tax paid because of inflation-driven fiscal drag as part of the impact of the cost of living crisis, then this would have shown as an additional hit skewed towards households in the middle and upper parts of the income distribution.

Finally, as explained in Box 4, we assume that most of the actual rise in interest rates would have happened anyway, reflecting a normalisation after a period of ultra-low interest rates. And Inflation in our counterfactual scenario is assumed to affect households equally across the income distribution.

BOX 4: **Income modelling methodology and assumptions in our base and counterfactual scenarios**

Outturn data combined with our nowcast/forecast to the end of 2026-27 allows us to see how incomes have changed over the cost of living crisis period, but it does not show us the direct impact of the crisis on household incomes. So, we use microsimulation methods to compare our nowcast of incomes in 2026-27 with modelled incomes under a counterfactual scenario in which inflation and earnings growth track their pre-crisis forecasts since 2021-22.

The first step in doing this was to project outturn data from DWP's Households Below Average Income dataset to 2026-27 using the 2024-25 Family Resources Survey and the IPPR tax benefit model (see Annex for full methodology of our projections). We converted these incomes into real terms using a measure of inflation derived from the ONS' Household Cost Indices. This measure takes account of differential impacts of inflation across the income distribution (we strip out housing costs from this measure so that it can be used to deflate after-housing-costs incomes accurately). As Figure 5 above shows, costs have risen faster for poorer households – by 5.3 per cent for households in the poorest decile than for those in the richest decile between 2019-20 and 2026-27. Most of this gap opened up during the big spike in energy prices in 2022-23. Since then, inflation has been broadly similar across the distribution.

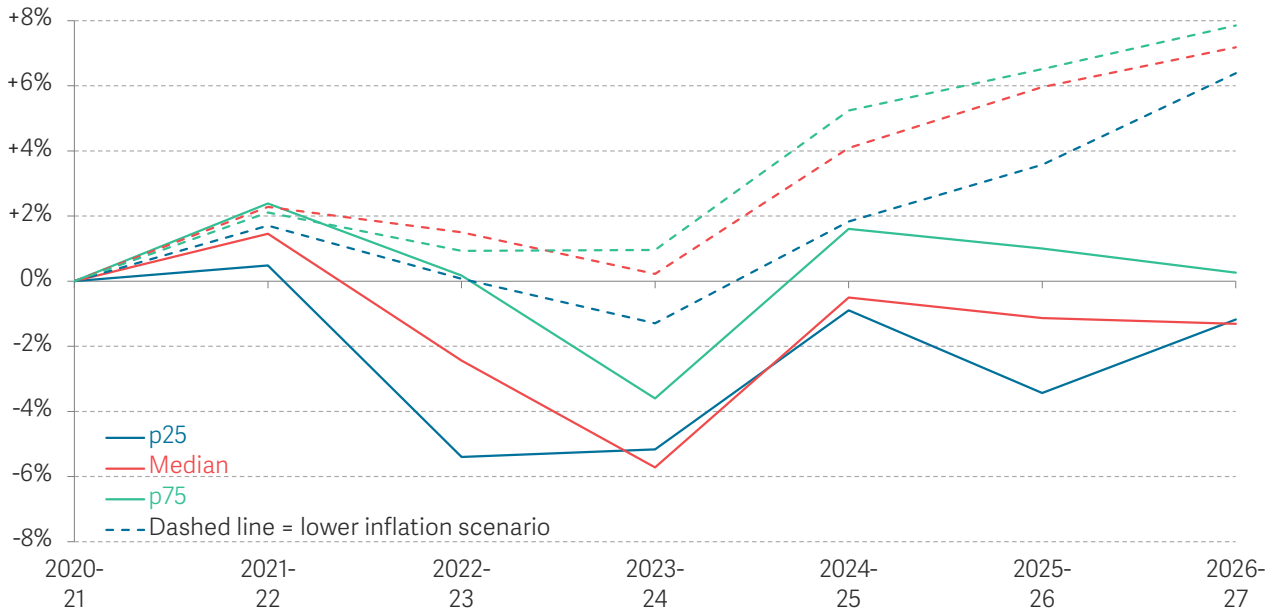
We then compared this 'nowcast' of incomes to a modelled counterfactual based largely on the OBR's pre-pandemic forecast from March 2020. In this counterfactual, CPI inflation stays at 2 per cent from 2021-22 and applies uniformly across the income distribution. Growth in nominal

average weekly earnings is 3.1 per cent in 2021-22, rises steadily to 3.7 per cent in 2024-25, then settles at 3.5 per cent a year. We assume that private rents grow in line with average weekly earnings, lagged by 12 months. This means that real rents grow faster in our counterfactual than in our base scenario. Finally, interest rates, which affect incomes through mortgage payment and returns on savings, are assumed to rise from 0.8 per cent in 2021-22 to 4.2 per cent from 2023-24 in our counterfactual. This effectively means we are treating some (but not all) of the rise in interest rates over this period as reflecting a normalisation after a period of ultra-low interest rates. This also means our exercise focuses on the rise in the cost of living and its knock-on effects to wages and incomes.

In this counterfactual, five years in which income from social security benefits at best keeps up with inflation but earnings grow in real terms would have seen incomes rise across the distribution. However, richer households would have seen faster growth than poorer ones, slightly widening inequality. As shown by the dashed lines in Figure 21, we estimate that the real median incomes of non-pensioners after housing costs would have grown by 7.2 per cent (£2,500 in 2026-27 prices) between 2020-21 and 2026-27. Instead, it is set to be 1.3 per cent (£450) lower than in 2020-21. Incomes at the 75th percentile were on course to grow by 7.9 per cent (£3,800) but are instead set to grow by just 0.3 per cent (£130), while incomes at the 25th percentile were on course to grow by 6.4 per cent (£1,500) but are set to fall by 1.2 per cent (£270).

FIGURE 21: **Incomes across the distribution have stagnated since the pandemic**

Estimated real equivalised net non-pensioner household income growth after housing costs by income percentile, outturn/nowcast and lower inflation scenario: UK



NOTES: Base scenario incomes deflated using RF-derived Household Costs Indices excluding housing costs. Lower inflation scenario assumes CPI inflation stays at 2 per cent from 2021-22 and applies uniformly across the income distribution; growth in nominal average weekly earnings rises from 3.1 per cent in 2021-22 to 3.7 per cent in 2024-25, then settles at 3.5 per cent a year; short-term interest rates (or Bank Rate) rise from 0.8 per cent in 2021-22 to 4.2 per cent from 2023-24.
SOURCE: RF analysis of DWP, Households Below Average Income; RF projections including use of the IPPR Tax Benefit Model; DWP, Family Resources Survey; ONS, various; and OBR, Economic and Fiscal Outlook, March 2020 and March 2026.

Figure 22 directly plots the difference between these two income trajectories, showing that the cost of living crisis has dealt a substantial blow to non-pensioner household incomes at every income level. We estimate that median non-pensioner household income after housing costs is £2,900 (7.9 per cent) lower in 2026-27 than it would have been without the crisis.

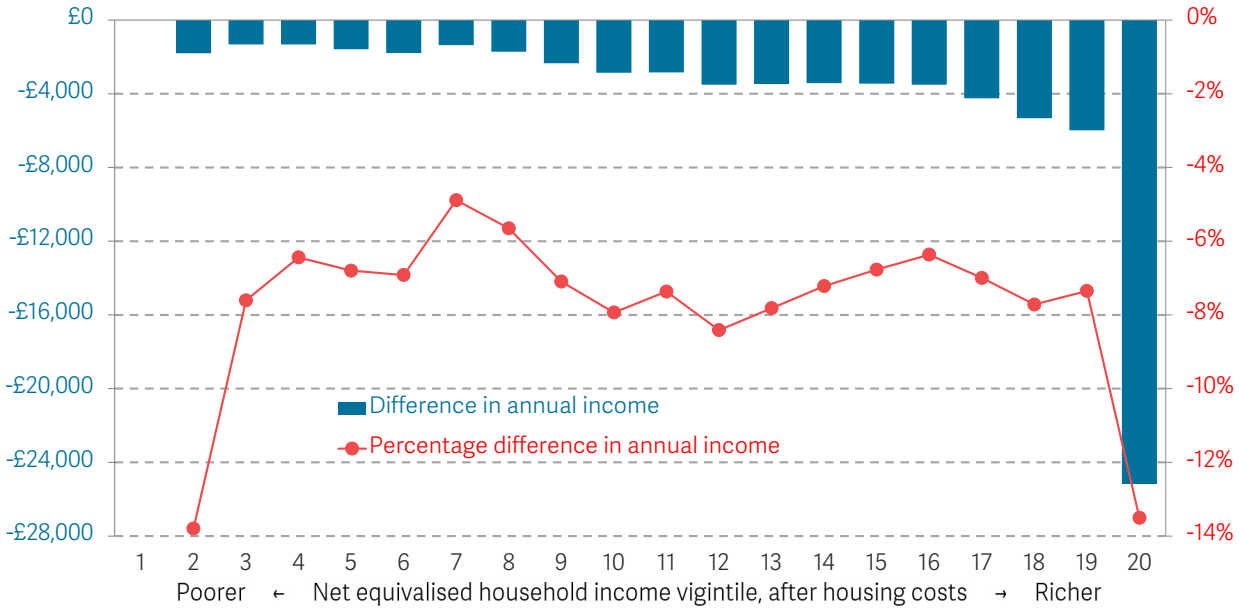
Relative to our counterfactual, richer households have lost more in cash terms, but as a proportion of income, the loss has been broadly flat across the income distribution. Although the average cash loss for those in the top half (£3,700) is more than twice that for those in the bottom half (£1,700), the proportional hit is very similar, at 7.0 and 7.1 per cent respectively. The picture is similar at a more granular level: non-pensioner incomes in every vigintile of the distribution except those at the very top and very bottom are between 5 and 8 per cent lower as a result of the crisis.

This is somewhat surprising. Given that we have a social security system that is intended to protect households from inflationary shocks, we might have expected a simulated impact of the crisis that was more significant for higher-income households

than poorer ones. But the cost of living crisis has not worked like that, meaning the system has provided little of its usual cushioning.

FIGURE 22: **The cost of living crisis has hit household incomes substantially across the distribution**

Difference in real annual equivalised net non-pensioner household income after housing costs by income vigintile compared to pre-cost of living crisis economic forecasts: UK, 2026-27



NOTES: Base scenario incomes deflated using RF-derived Household Costs Indices excluding housing costs. Lower inflation scenario assumes CPI inflation stays at 2 per cent from 2021-22 and applies uniformly across the income distribution; growth in nominal average weekly earnings rises from 3.1 per cent in 2021-22 to 3.7 per cent in 2024-25, then settles at 3.5 per cent a year; short-term interest rates (or Bank Rate) rise from 0.8 per cent in 2021-22 to 4.2 per cent from 2023-24.
SOURCE: RF analysis of DWP, Households Below Average Income; RF projections including use of the IPPR Tax Benefit Model; DWP, Family Resources Survey; ONS, various; and OBR, Economic and Fiscal Outlook, March 2020 and March 2026.

To understand what is behind the overall pattern of losses, it helps to look at how different sources of income have contributed to the changes in Figure 22; we do this in Figure 23.

It is important to note that this next chart does not show "higher prices" as an explanatory factor; instead, it considers by how much different income sources changed in real terms in the two scenarios, and then shows the difference. For example, most social security benefits are increased in line with inflation (as we discussed above), so, in the medium-term, a cost of living shock should have minimal impact on the real value of income from benefits. As it turns out, this was not quite the case over the past five years: Figure 23 shows that falls in the real-terms value of

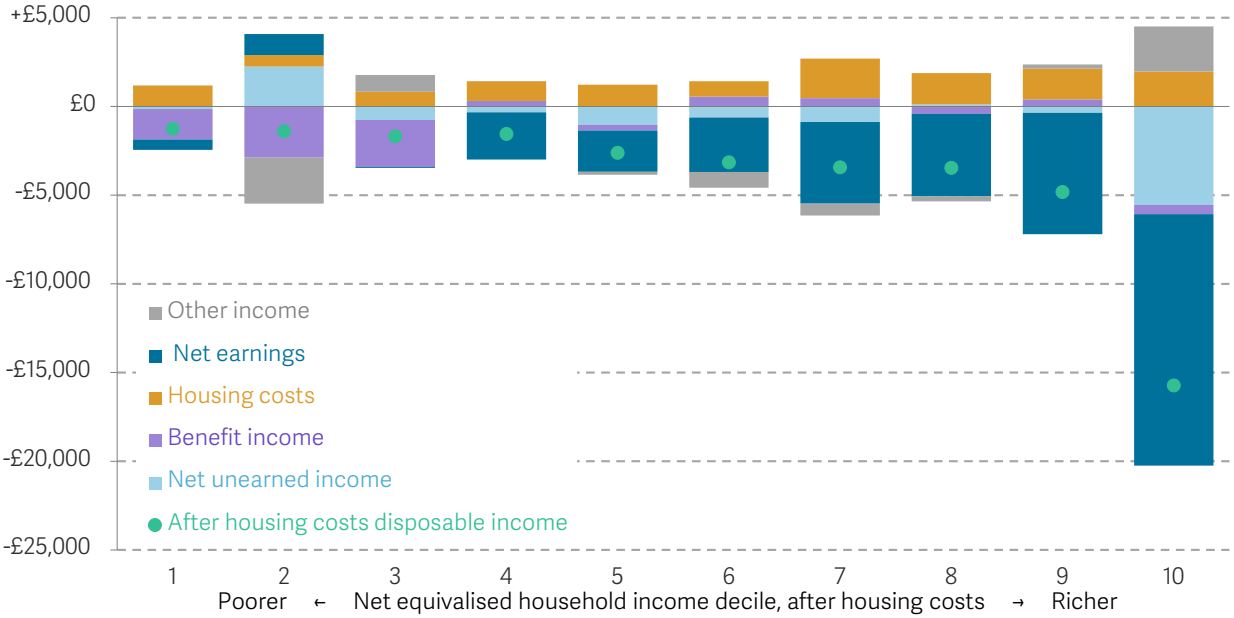
income from benefits have contributed to the overall hit from the cost of living crisis at the bottom of the income distribution (among poorer households, real benefit income is, on average, £1,400 lower compared with our counterfactual). This is partly because not all aspects of the benefit system are by default linked to inflation (most notably, Local Housing Allowance) and because annual uprating lags price increases. But it also reflects that the inflation shock has hit poorer households harder, since they spend a greater proportion of their incomes on essentials like energy, and this means that even benefit incomes that tracked CPI inflation have fallen in (adjusted) real terms for poorer households.[40]

But the fall in the real-terms value of income from benefits is outweighed by the hit to the real-terms value of earnings, which are the single biggest driver of the fall in household incomes from the cost of living crisis. On average, real net household earnings for the middle income quintile are £2,700 (8.2 per cent) lower this year than they would have been in the absence of the cost of living crisis. Because richer households earn more and receive a higher proportion of their incomes from earnings, they have lost the most in cash terms: households in the top half are £6,500 worse off from lower net earnings alone, rising to £14,200 for the richest tenth. Other changes include richer households losing out from lower real unearned income, such as income from savings and dividends, and gains across the distribution from lower housing costs, largely a result of slower real-terms rent growth than anticipated.[41]

40 Cost of Living Payments for benefit recipients and pensioners temporarily protected poorer households between 2022 and 2024, but their temporary nature means they do not show up in this analysis of income differences in 2026-27.
41 We assume that private rents grow in line with average weekly earnings, lagged by 12 months. This means that real rents grow faster in our counterfactual than in our base scenario.

FIGURE 23: **The biggest hit to disposable incomes from the cost of living crisis has come from lower real-terms earnings**

Difference in mean real annual equivalised net non-pensioner household income after housing costs, by decile and income source compared to pre-cost of living crisis economic forecasts: UK, 2026-27



NOTES: Base scenario incomes deflated using RF-derived Household Costs Indices excluding housing costs. Lower inflation scenario assumes CPI inflation stays at 2 per cent from 2021-22 and applies uniformly across the income distribution; growth in nominal average weekly earnings rises from 3.1 per cent in 2021-22 to 3.7 per cent in 2024-25, then settles at 3.5 per cent a year; short-term interest rates (or Bank Rate) rise from 0.8 per cent in 2021-22 to 4.2 per cent from 2023-24.
SOURCE: RF analysis of DWP, Households Below Average Income; RF projections including use of the IPPR Tax Benefit Model; DWP, Family Resources Survey; ONS, various; and OBR, Economic and Fiscal Outlook, March 2020 and March 2026.

So the cost of living crisis has dealt a large blow to living standards, and no group has escaped it. Even where social security benefits were supposed to offer some protection against rising prices, they have not been enough to shield households from a rise in the cost of essentials that disproportionately affects poorer households.

Incomes for low and middle income households fell between 2020-21 and 2026-27 in real terms, while incomes for richer households stagnated. Relative to a counterfactual in which the cost of living crisis didn't happen, richer households have taken a larger hit than poorer ones in cash terms, but the proportional impact in 2026-27 for the top and bottom halves of the distribution is almost identical.

A shock that works mainly through falling real wages should, in principle, fall hardest on higher-income households. They receive a larger share of their income from earnings and are more likely to have a mortgage, while the tax and benefit system should cushion those at the bottom: benefits are uprated in line with prices, and lower real earnings mean lower tax bills. The fact that the proportional hit, relative to a growing economy, is

the same for households in the top and bottom half of the distribution reflects the ways in which this shock bore down on lower-income households in particular. This is driven by the steep rise in the cost of essentials, which make up a larger share of their spending. And, as the previous section showed, it is lower-income families who have felt the effects of the crisis most acutely.

Looking ahead, the priority should be providing targeted support to poorer families facing the greatest hardship

What should policy makers take away from all this? First, the hit from the past five years of high inflation has been both large and universal: families across the income distribution have seen their incomes fall sharply. Little wonder, then, that so many households are struggling, and that polls consistently rank the cost of living as the number one issue facing voters.[42]

But it is the nature of the shock to the cost of essentials that makes the policy response so difficult. The prices of the things that we import have risen and are likely to stay high for the foreseeable future, which means we are poorer as a country. Anyone who pretends that this can be magicked away is not serious about the challenge this presents. With the winners from the cost of living crisis by and large located abroad, there are limits to the extent to which they can be taxed to pay for help for those struggling with higher prices. The only choice open to policy makers is to share the losses between different groups. Providing more blanket support for all would be – at best – a temporary sticking plaster, and one that would drive up interest rates and deliver a further hit to the already parlous state of the country's public finances.

Given this, the priority should be to shield those most vulnerable from a hardship they could not have foreseen and lack the means to adjust to. The analysis above makes clear that it is poorer families that have faced the greatest hardship, in terms of reduction in energy use, a running down of their savings, and a rise in arrears on priority bills, including energy, Council Tax and rent. Crucially, the damaging impacts are not just limited to the poorest in society, but seen more widely across low and middle income families, and going beyond those receiving means-tested benefits.

As conflict in the Middle East pushes us into a new phase of the cost of living crisis, two lessons are clear. First, energy bills remain the epicentre of this crisis, so that is where support should be concentrated. Second, poorer families have suffered the greatest hardship and remain most exposed to further rises in the cost of living, so it is this group that policy should target. We have previously argued that support should be targeted

42 ONS, Public opinions and social trends, Great Britain: May 2026; Ipsos, "Cost of Living" the top concern driving voters to the polls in English Local elections, April 2026; Energy and Climate Intelligence Unit/More in Common, England election poll – how energy bills, net zero and climate featured in voters' minds as they cast their ballots, May 2026.

based on the highest income of the resident individuals.[43] A threshold of £24,000 per year would reach around 40 per cent of households, and cover 75 per cent of those in the poorest four income deciles, and a £2 billion scheme could provide an average of £175 per eligible household, or be tiered – paying around £220 to those with incomes below £18,000, and £85 above – to favour the poorest. Automatic enrolment via HMRC data should be the destination; for this winter, self-declaration verified by HMRC after the fact is imperfect but should be deliverable.

43 M Brewer, A Clegg & J Marshall, Billing me softly: How to design targeted energy discounts, August 2026, https://doi.org/10.63492/acb5514.

Annex 1: Nowcasting and counterfactual methodology

The modelling in this report involves 'nowcasting' outturn 2024-25 household income data to 2025-26 and 2026-27 (our base scenario), as well as modelling a counterfactual scenario in which CPI inflation, average earnings growth and interest rates. First, we project outturn data from DWP's Households Below Average Income dataset to 2026-27 using the 2024-25 Family Resources Survey and the IPPR tax-benefit model. We convert these incomes into real terms using a measure of inflation derived from the ONS' Household Cost Indices. This measure takes account of differential impacts of inflation across the income distribution; we strip out housing costs from this measure so that it can be used to deflate after-housing-costs incomes accurately.

We then compared this 'nowcast' of incomes to a modelled counterfactual based on the OBR's pre-pandemic forecast from March 2020. In this counterfactual, CPI inflation stays at 2 per cent from 2021-22 and applies uniformly across the income distribution. Growth in nominal average weekly earnings is 3.1 per cent in 2021-22, rises steadily to 3.7 per cent in 2024-25, then settles at 3.5 per cent a year until the end of the forecast. Short-term interest rates (or Bank Rate) rise from 0.8 per cent in 2021-22 to 4.2 per cent from 2023-24. The counterfactual is projected forward from 2020-21 onwards using 2019-20 Family Resources Survey data, using the same method as for our nowcast.

There are many factors that influence household disposable incomes and therefore need to be modelled when nowcasting the latest household income data (DWP's Family Resources Survey and Households Below Average Income statistics, 2024-25) as well as modelling our counterfactual. Our approach is as follows.

Projecting underlying demographic change and employment

Part of our modelling relies on simply altering the composition of the population in the data, in line with actual or projected changes.[44]

- We reweight the population to match ONS forecasts for demographic change by age and sex.[45] This includes modelling changes in the numbers of dependent children of each age.
- We adjust the overall labour force participation rate using the OBR's March 2026 outlook, and in our central scenario also use their unemployment forecast.

44 We primarily do this using the 'reweight2' command in Stata: see J Browne, Reweight2: Stata module to reweight survey data to user-defined control totals, IFS, July 2012.
45 ONS, National population projections: 2022-based, January 2025. We use the migration category variant.

- The proportion of women aged 70+ who have private pension income is also adjusted each year, rising in line with past Family Resources Survey trends (note that there has been broadly no change among men in recent years).
- We model receipt of Personal Independence Payment based on current caseload projections, as this is a significant change in benefit incomes. Caseloads are split based on daily or mobility element receipt.
- We do not account for detailed changes in migration patterns (beyond the overall impact on demographics and participation), or housing tenure (the share of which we hold constant over time), including the number of people living with their parents.

Market incomes

Projecting wages and other forms of market income into the present and in our counterfactual is a key part of our modelling, and is done largely through the IPPR Tax-Benefit Model.

- In every year, we model the wage floor, ensuring that no-one in our data falls below their age-appropriate minimum wage. We include some 'spillover effect' for those just above the wage floor. We also model the extension of the National Living Wage to those aged 21-22 in 2024-25 and (provisionally) to those aged 18-20 by 2029-30. We assume that the wage floor beyond 2025-26 rises in line with average earnings. In our counterfactual, National Living Wage rates are held the same in real terms as they are in our base scenario.
- Beyond these changes, all employee and self-employed earnings are uprated equally in each year. Overall wage growth is constrained to match ONS figures for the outturn period and OBR figures for the nowcast period, taking into account the effects of the wage floor and compositional changes.
- Private pension incomes are uprated using the previous September's RPI inflation, taken from the last OBR forecasts (but see also: Projecting underlying demographic change, above). We cap this growth at 5 per cent.
- Private pension contributions are increased in line with average earnings. We assume no changes to auto-enrolment, despite frozen thresholds that will in practice affect effective contribution rates.
- We allow for student loan repayments (which are deducted from disposable income in HBAI).

- Given the rapid and significant rise in savings income since 2022-23, and its likely under-reporting in the data that lies behind HBAI, we model this separately: savings interest is modelled in the Wealth and Assets Survey – using interest projections from mid-June 2025 – and then imputed into the HBAI data. [46]
- Dividend and property income follow the OBR's assumptions (but note that levels of investment income are known to be under-estimated in HBAI).[47]

Projecting prices and housing spending

As our focus is on real disposable incomes after housing costs, we must also account for changes in prices and housing costs.

- Our starting point in accounting for inflation is the OBR's March 2026 CPI forecast. However, we create a specific deflator for 'after housing costs' income, derived from the ONS' Household Costs Indices (HCI) so as to take account of how price changes have affected household across the income distribution differently. This measure removes any housing costs from HCI, in order to avoid double counting their impact. In our counterfactual, an 'after housing costs' deflator is created based on CPI inflation of 2 per cent throughout the period, and is applied uniformly across the income distribution.
- Mortgage interest costs are uprated uniformly using OBR projections.
- The ONS's Price Index of Private Rents, which includes variation in rent growth by region, is used in our nowcasting. In our counterfactual, private rents are assumed to rise in line with average earnings, with a 12-month lag. Ground rents and service charges are assumed to do the same.
- Social rents are uprated based on the OBR's inflation forecast and the CPI + 1 per cent policy.
- Future water and sewage service costs are projected using the OBR's CPIH forecast plus proposed additional increases.[48] We assume equal relative price rises across all households, and we are not able to model any changes in social tariffs.
- Other housing costs (including home insurance) are uprated using the OBR's CPI forecast.

Modelling taxes and benefits

We model the tax and benefit system in future years using stated government policy (e.g.

46 See Box 1 in: A Corlett, The Living Standards Outlook – Summer 2023 Update, Resolution Foundation, September 2023.
47 A Advani, T Ohms & A Summers, Missing Incomes in the UK: Evidence and Policy Implications, Journal of Social Policy, April 2022.
48 CCW, Breakdown of water companies' bill increases 2025-30, accessed June 2025.

2026-27 benefit rates) and default policy (e.g. CPI uprating in many cases). But there are a number of choices to note:

- We model a mix of Universal Credit and legacy benefit systems, with roll-out estimated using DWP projections and other figures. We assume that full roll-out of Universal Credit is completed in 2026-27.
- We model incomplete take-up of the main means-tested benefits. For example, we assume 80 per cent take-up of Universal Credit. For the most part, we assume that these figures do not change between years (or scenarios), but we assume a rise in Pension Credit take-up from 65 per cent to 70 per cent following Winter Fuel Payment reform.
- We model the means-testing of Winter Fuel Payments, first through Pension Credit in 2024-25 and then via an individual income limit from 2025-26 onwards.
- The two-child limit is applied to children born from April 2017, and so affects a growing proportion of the caseload each year. It is removed from April 2026 in line with Government policy. The abolition of the family element of Tax Credits and Universal Credit is applied in the same way.
- The change in the eligibility of mixed-age couples for Pension Credit in 2019 – with newly-claiming mixed-age couples now receiving (less generous) Universal Credit instead, but existing claims protected – is not modelled. We instead use the new eligibility rules for everyone, in every year.
- The introduction of the new State Pension for younger cohorts is modelled.
- Council Tax is assumed to rise in line with OBR forecasts by nation. Variation in Council Tax Support by nation and local authority are not modelled.
- We are not able to model the effects of benefit sanctions. Benefit deductions are modelled, such as those to repay debts and benefit advances, and this modelling is consistent with the 2025 Fair Repayment Rate reform.[49]

Imputing income from household wealth and savings

Due to known inaccuracies of household wealth and savings data in HBAI, we impute information on income from wealth and savings into our modelling using ONS, Wealth and Assets Survey. We do so by assigning income from wealth and savings in the Wealth and Assets Survey onto households in HBAI by income decile and household characteristics.

49 The Fair Repayment Rate, introduced in April 2025, caps deductions from Universal Credit at 15 per cent of the standard allowance, down from the previous cap of 25 per cent.

Projecting changes rather than levels

Using all of the above, we model incomes in the years 2025-26 and 2026-27 in our base scenario, and 2020-21 through to 2026-27 in our counterfactual scenario. However, as our modelled estimates can systematically differ from survey data – e.g. due to survey data underestimating benefit incomes – we apply income growth rates (and absolute changes in poverty and inequality metrics) from our modelling to the 2024-25 outturn data, rather than directly using the projected levels. This does mean that any random or systematic error in the 2024-25 data will also affect our projected levels.

Incomes in our counterfactual scenario were pegged to the level of incomes in our base in 2020-21. However, for this base, we modelled 2020-21 incomes using Family Resources Survey data from 2021-22 rather than using HBAI outturn data from 2020-21 and calculated the change from the 2021-22 outturn. This is to get around the issue of records in the FRS being linked to benefit administration data back to 2021-22 only, which creates a data break with years before that.[50]

50 See A Clegg, A clearer picture of household incomes – but no cause for complacency on poverty, Resolution Foundation, March 2026.

Annex 2 Data citations

- Labour Force Survey (series page here):
  - Office for National Statistics. (2024). Labour Force Survey. [data series]. 11th Release. UK Data Service. SN: 2000026, DOI: http://doi.org/10.5255/UKDA-Series-2000026
- Family Resources Survey (series page here):
  - Department for Work and Pensions, NatCen Social Research. (2021). Family Resources Survey. [data series]. 4th Release. UK Data Service. SN: 200017, DOI: http://doi.org/10.5255/UKDA-Series-200017
- Households Below Average Income (series page here):
  - Department for Work and Pensions. (2021). Households Below Average Income. [data series]. 3rd Release. UK Data Service. SN: 2000022, DOI: http://doi.org/10.5255/UKDA-Series-2000022
- Wealth and Assets Survey (series page here):
  - Office for National Statistics. (2019). Wealth and Assets Survey . [data series]. 2nd Release. UK Data Service. SN: 2000056, DOI: http://doi.org/10.5255/UKDA-Series-2000056

The Resolution Foundation is an independent think-tank dedicated to lifting living standards in the UK. We focus particularly on households with low and middle incomes; those on low pay or in precarious work; and those vulnerable to financial shocks. We also investigate fairness between the generations in our Intergenerational Centre.

We aim to provide rigorous analytical work, develop effective policy proposals, and use our expertise to affect direct change. We analyse the trends and outlook for living standards, including for different age groups, family types, and levels of household income and wealth, and seek to promote greater understanding of these. Our research focuses both on the specific areas of the economy that matter most for people's living standards, including work and housing; and on economic growth and productivity as the route to sustainably higher living standards. We also examine the role of government in improving living standards including through taxes, social security and public services.

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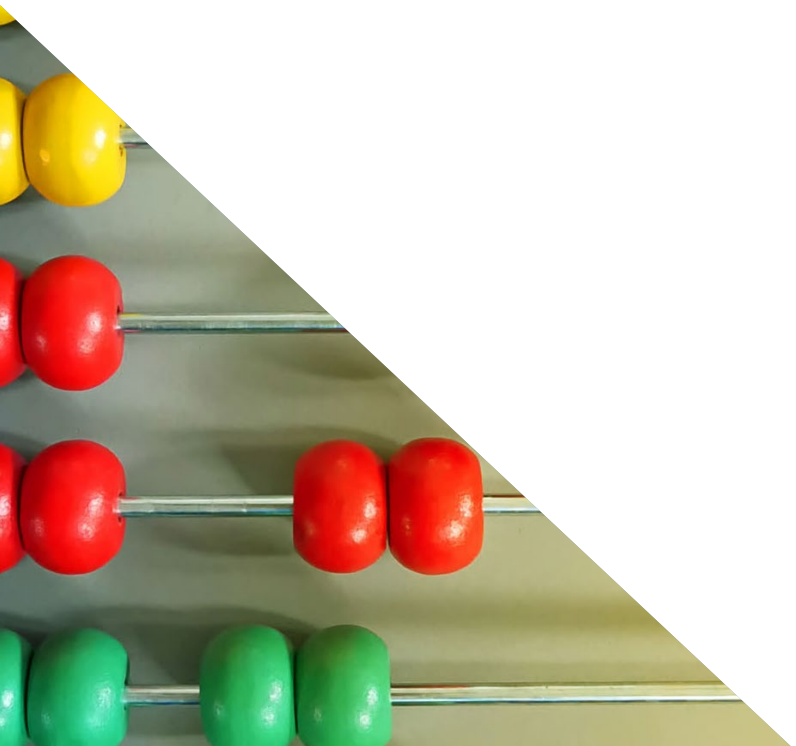

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