

The impact of the energy crisis on living standards

National Energy Action Conference

Nye Cominetti, Senior Economist, Resolution Foundation

Today

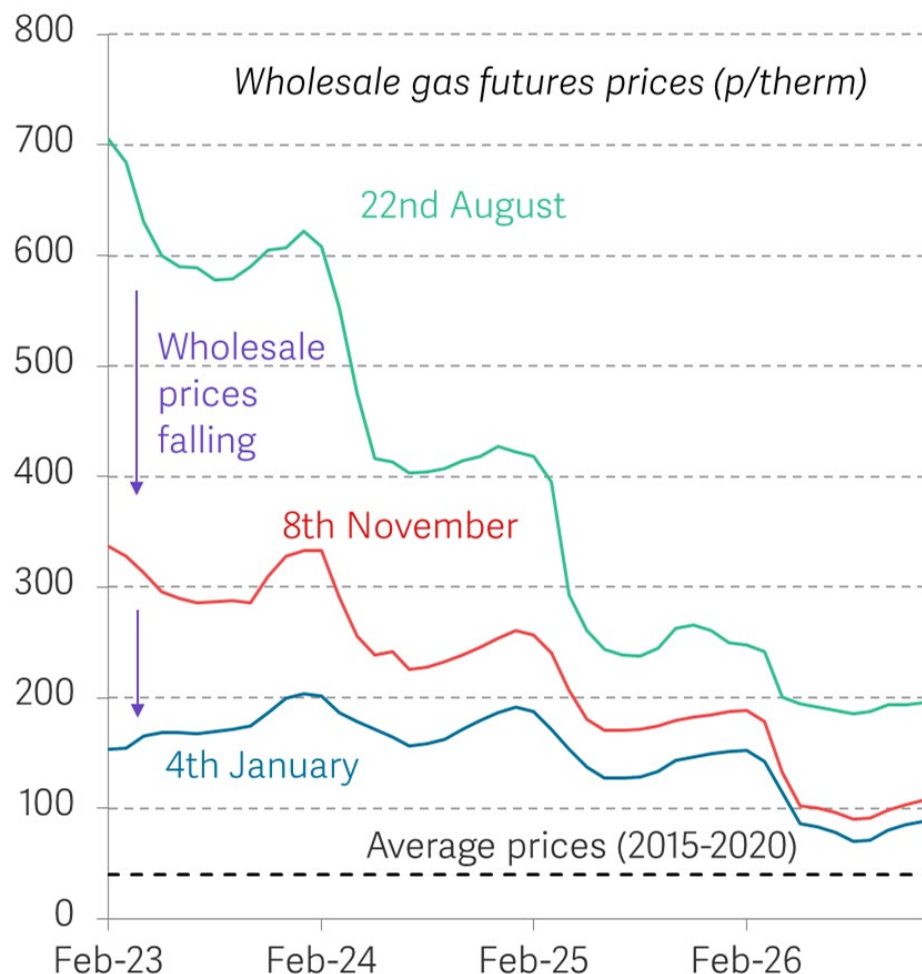
- We are only partway through this crisis
- An unequal impact
- A lasting impact
- Leaky walls

It's far from
over



Wholesale gas prices are falling

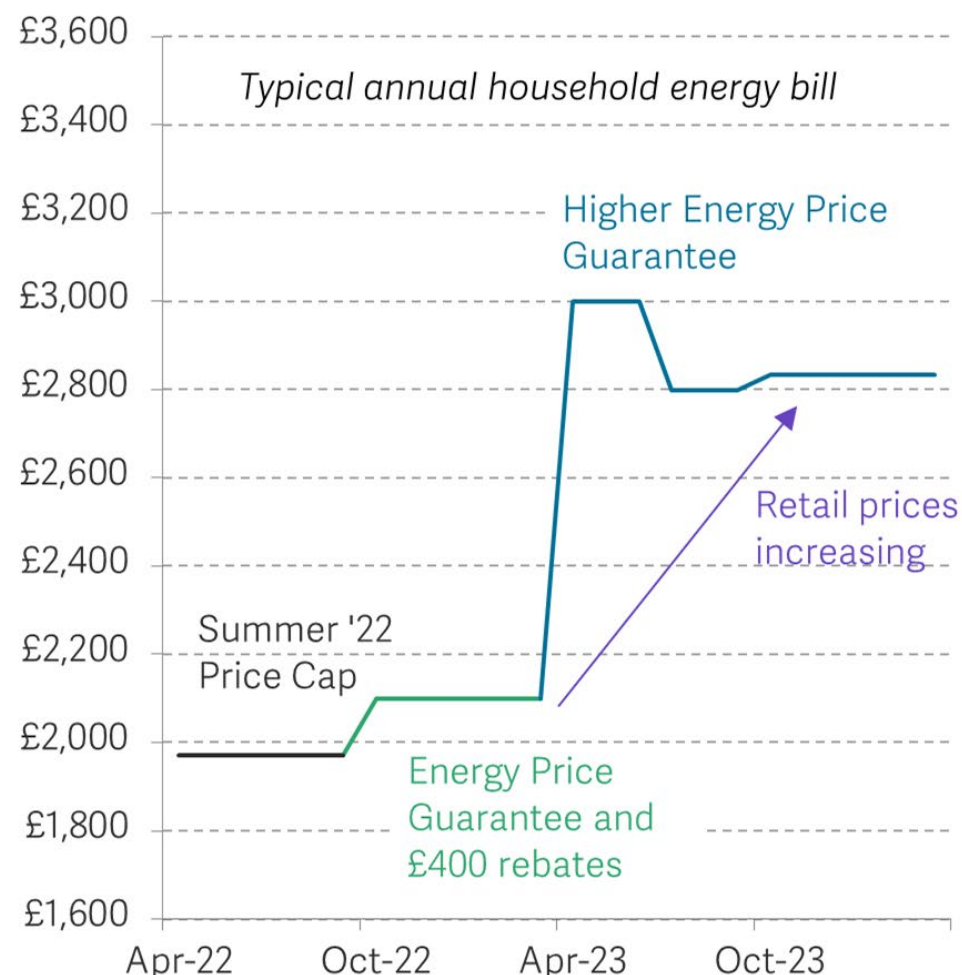
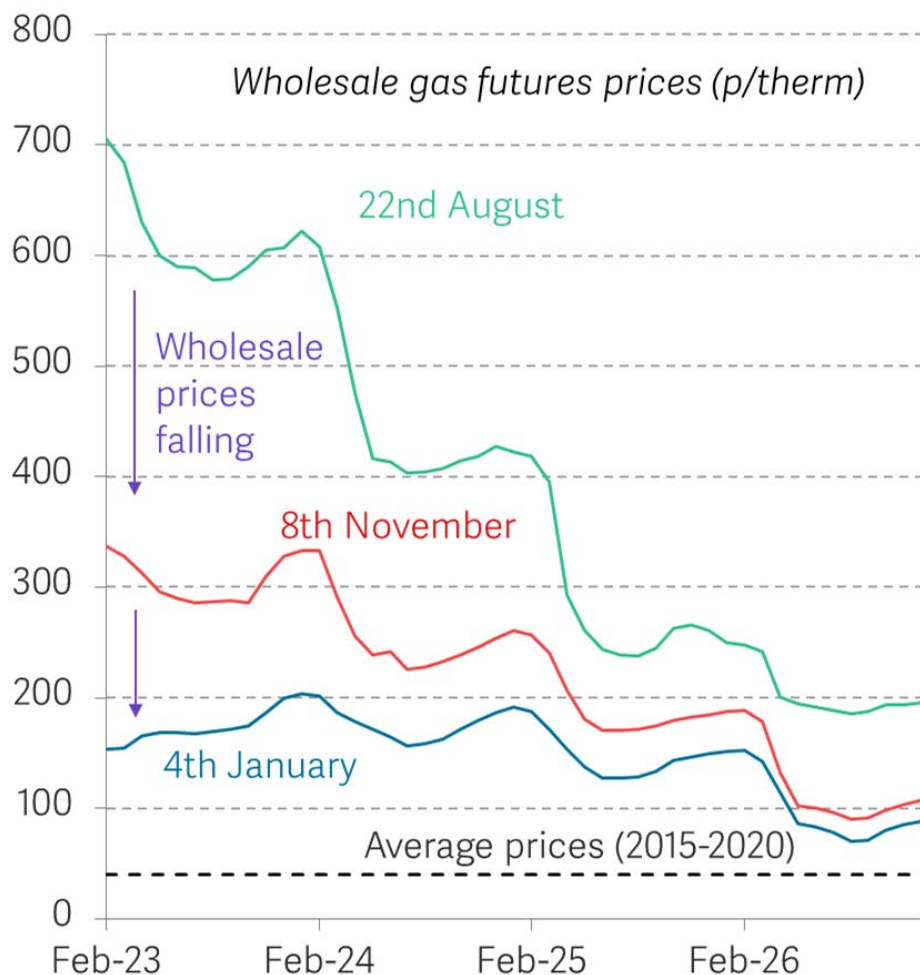
Wholesale gas futures prices, by date (left panel) and historical and forecast annual energy bills for a typical household paying via direct debit (right panel): UK



Notes: Average wholesales prices from 2015-2020 refer to prices of average day ahead contracts. Figures net of £400 Energy Bills Support Scheme rebates but no other cost of living payments such as those delivered through the benefits or council tax system. Costs based on forecasts for Cornwall Insight in January 2023 resulting in a typical energy bill of £2,850 in 2023-24, rather than the £3,500 assumed by Government. Source: RF analysis of Ofgem price cap methodology, Government Energy Price Guarantee, Cornwall Insight, UCL SERL data., Ofgem datahub, ICE Futures Europe.

Wholesale gas prices are falling but retail prices will rise

Wholesale gas futures prices, by date (left panel) and historical and forecast annual energy bills for a typical household paying via direct debit (right panel): UK



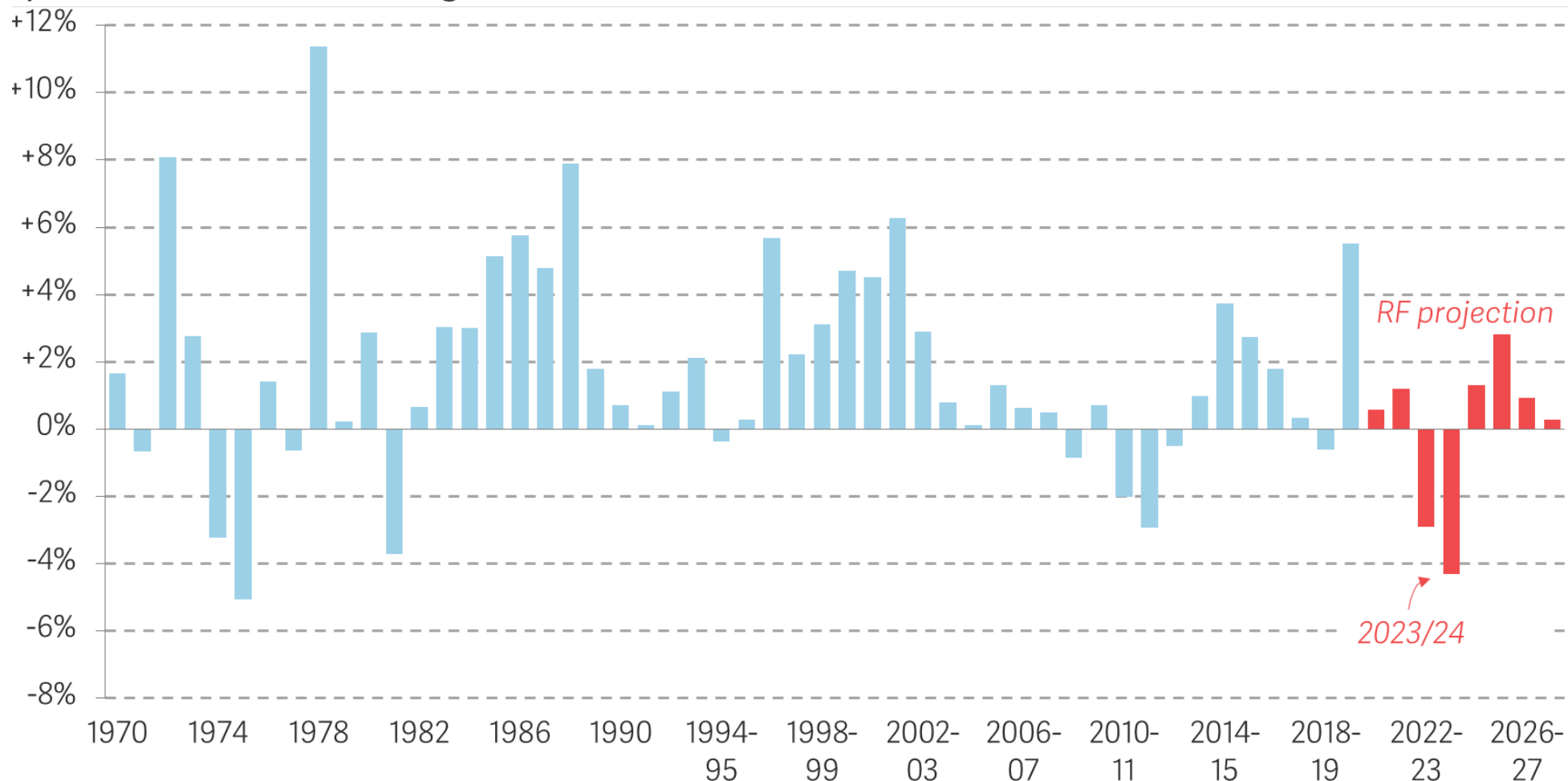
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It's not just energy - other factors contributing to falling incomes this year

- Overall cost pressure
 - Inflation falling but still high in 2023-24
- Rising housing costs across all tenures
 - Mortgages: 67% up in 2023-24
 - Social rents: 7% up in 2023-24
 - Private rents: 3.5% up in 2023-24
- Rising taxes
 - Personal tax thresholds frozen: £700 hit for median household in 2023-24

This year will be worse for incomes than last year

Annual real growth in median equivalised household disposable income for non-pensioners, after housing costs: GB/UK



Median incomes are set to fall by **4 per cent** in 2023-24 (vs 3 per cent fall in 2022-23)

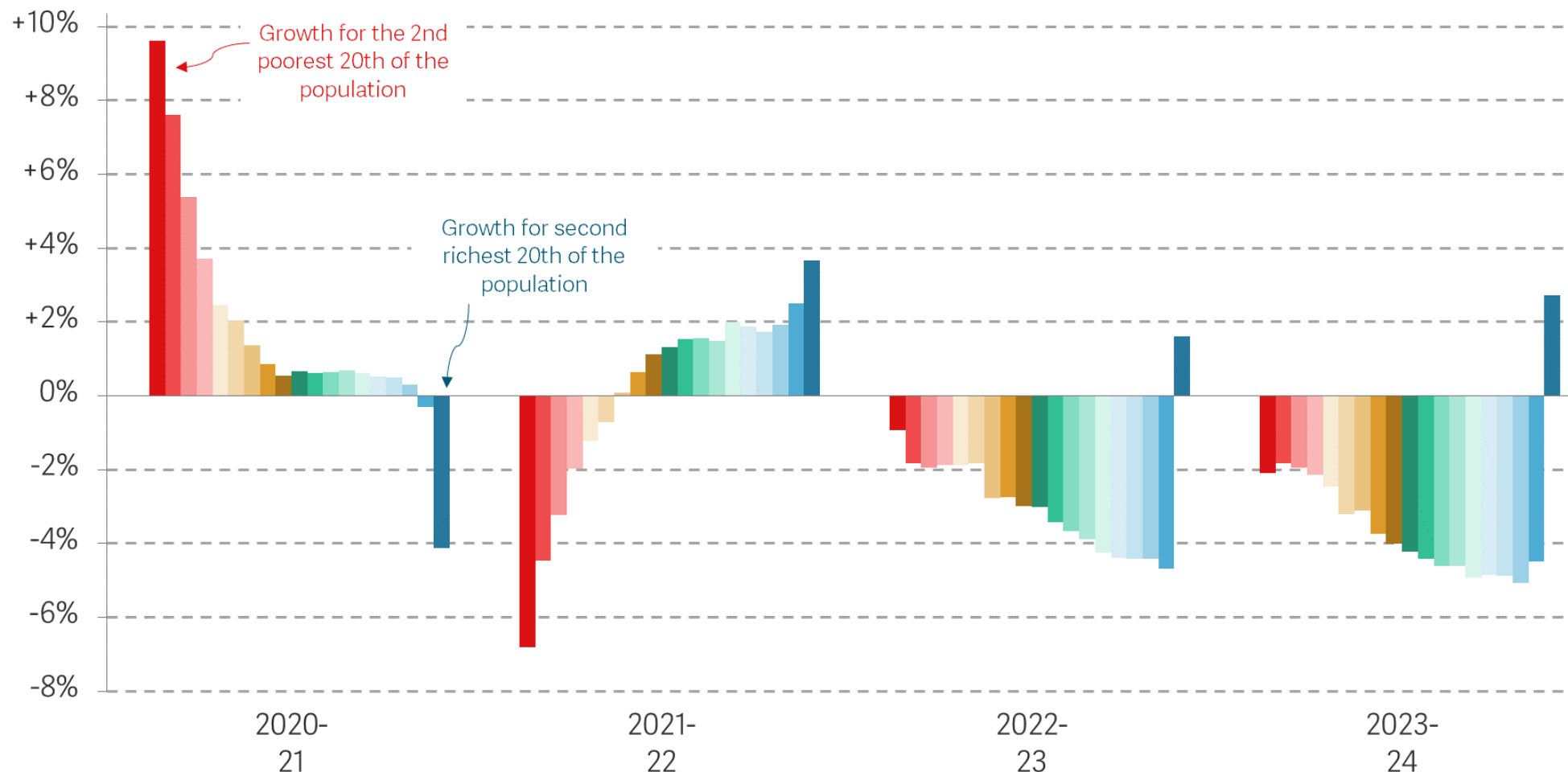
Notes: Projections after 2019-20. RHDI figures are means, and calendar years throughout. Non-pensioner median figures are GB from 1994-95 to 2001-02.
Source: RF analysis of DWP & IFS, Households Below Average Income; RF projection including use of the IPPR Tax Benefit Model, ONS data, and Bank of England and OBR forecasts; and RF analysis of Bank of England, A millennium of macroeconomic data.

An unequal impact



Larger income falls for richer households this year

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



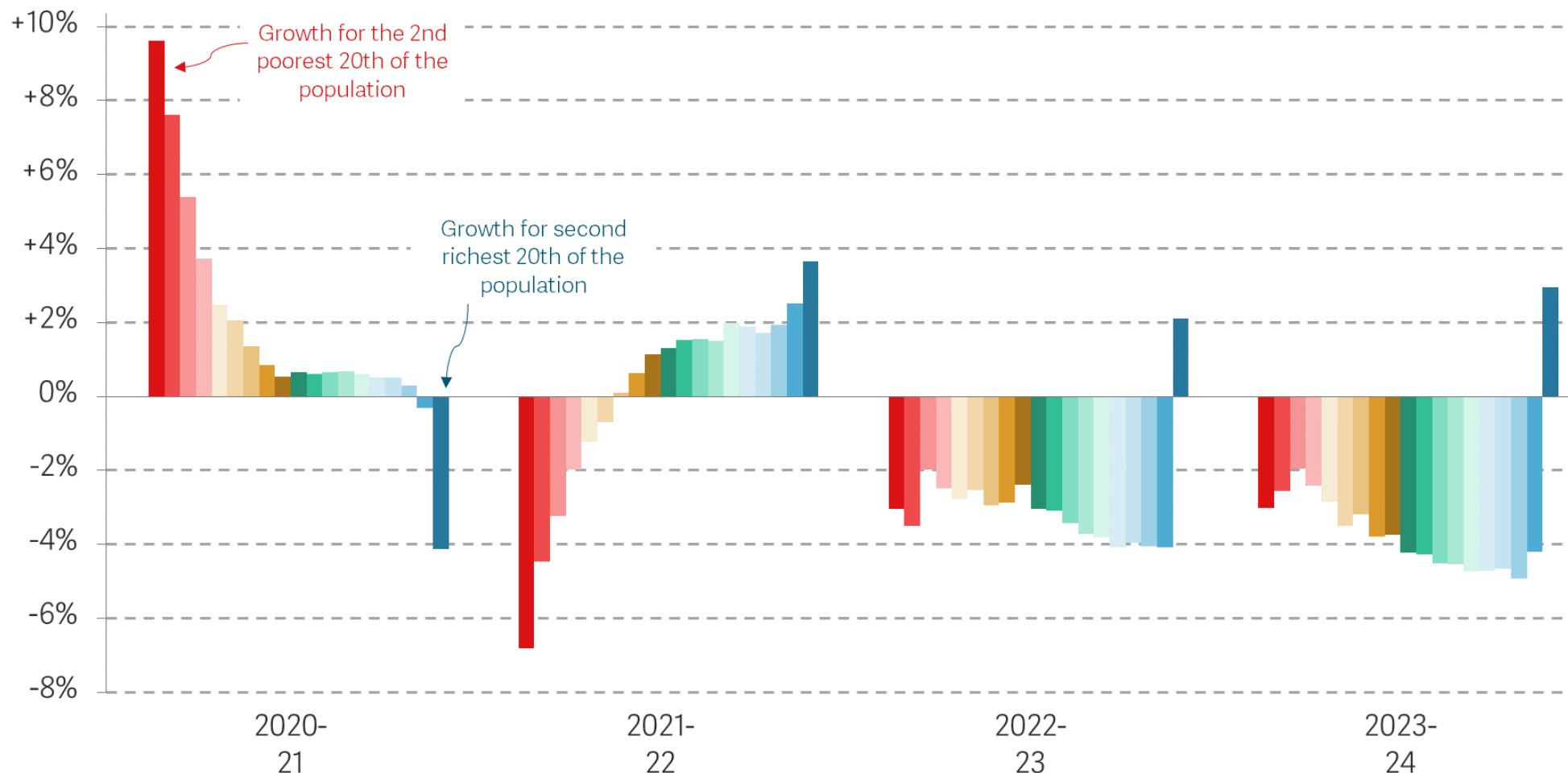
Cost of living payments in 2022-23 & 2023-24 are protecting poorer HHs – but incomes still falling

Notes: We exclude the bottom 5 per cent, due to concerns about the reliability of data for this group. This analysis does not account for differential inflation rates faced by different income groups.

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.

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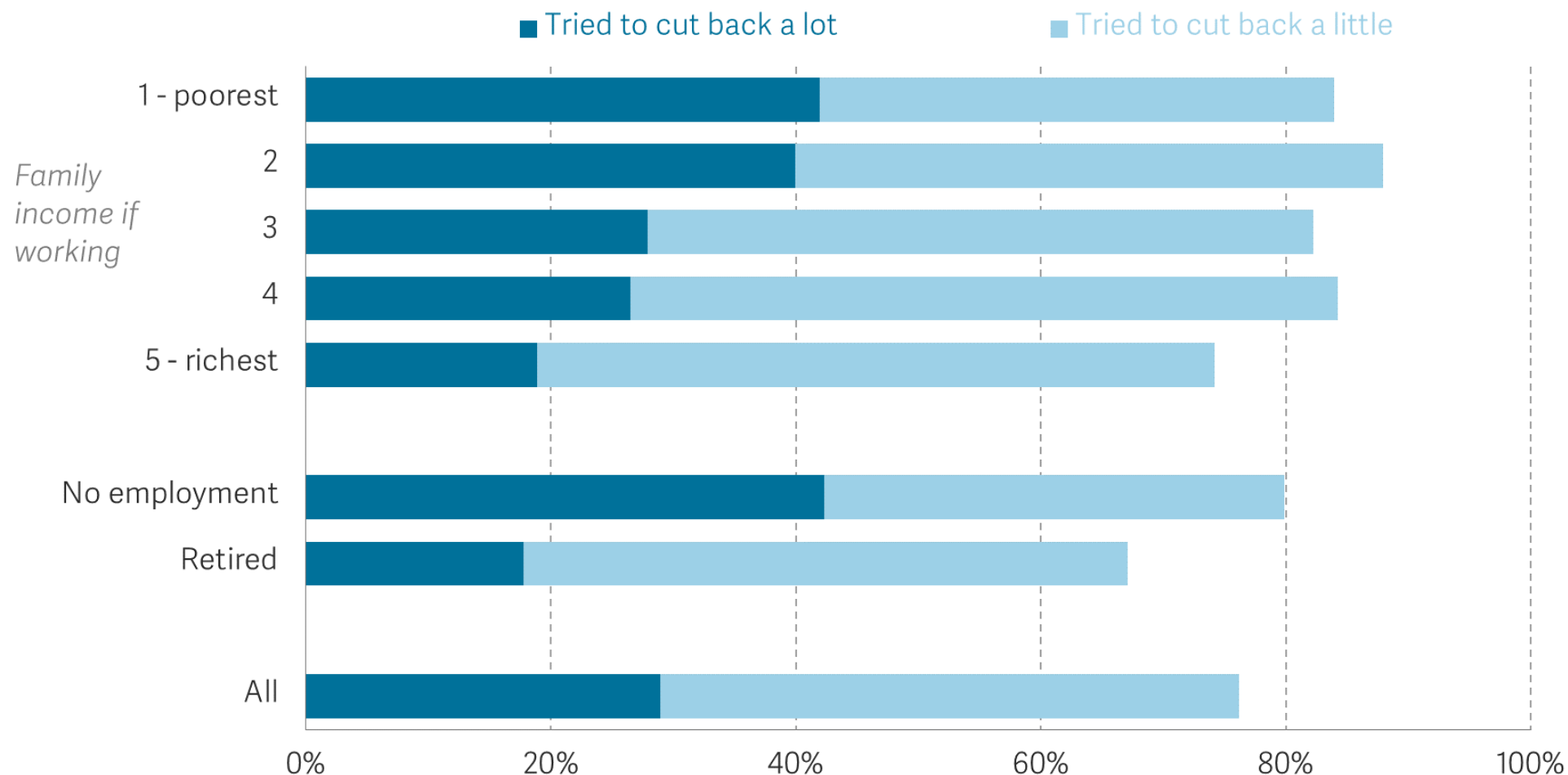


Cost of living payments in 2022-23 & 2023-24 are protecting poorer HHs – but incomes still falling

The picture is worse if we account for higher inflation faced by poorer households

Everyone is cutting back, but some more than others

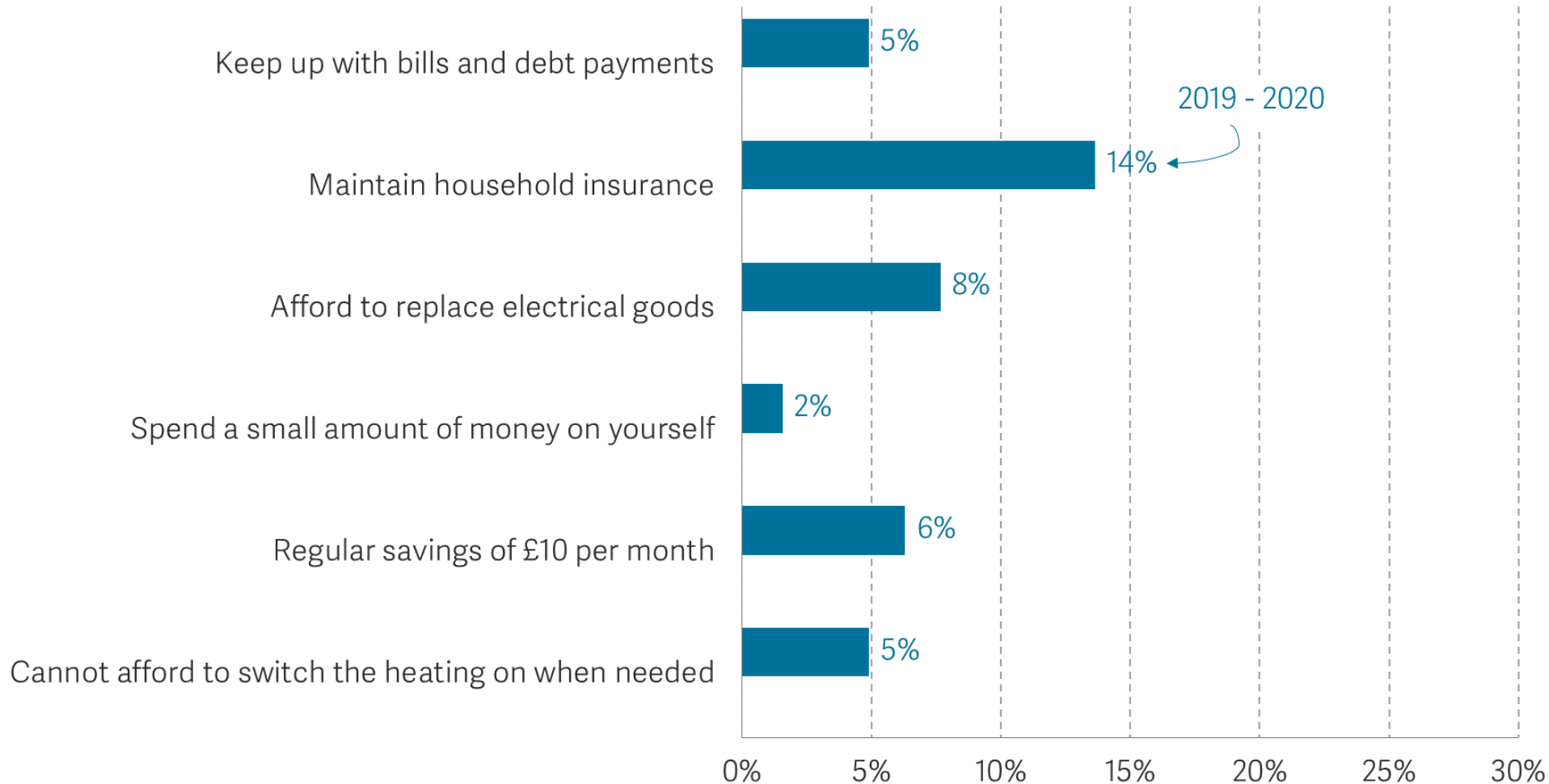
Percentage of respondents reporting they tried to cut back on overall spending in the past 3 months: UK, 23-30 November 2022



Notes: Income is equivalised and bracketed using uprated HBAI data from 2019-20. All (n=10,470), 18-24 (n=865), 25-34 (n=1,480), 35-44 (n=1,999), 45-54 (n=1,625), 55-64 (n=1,750), and 65+ (n=2,751). Lowest income quintile (n=988), q2 (n=740), q3 (n=897), q4 (n=703) and highest income quintile (n=1128). No employment (n=1631), Retired (n=2,824). PPM (n=1366), Direct Debit (n=7540). These figures have been analysed independently by the Resolution Foundation.
Source: RF analysis of YouGov, adults age 18+ Cost of Living Crisis November 2022 wave.

Some families are less able to afford key items ...

Percentage of respondents reporting being unable to afford certain essentials: UK, 2019-20 and 23-30
November 2022

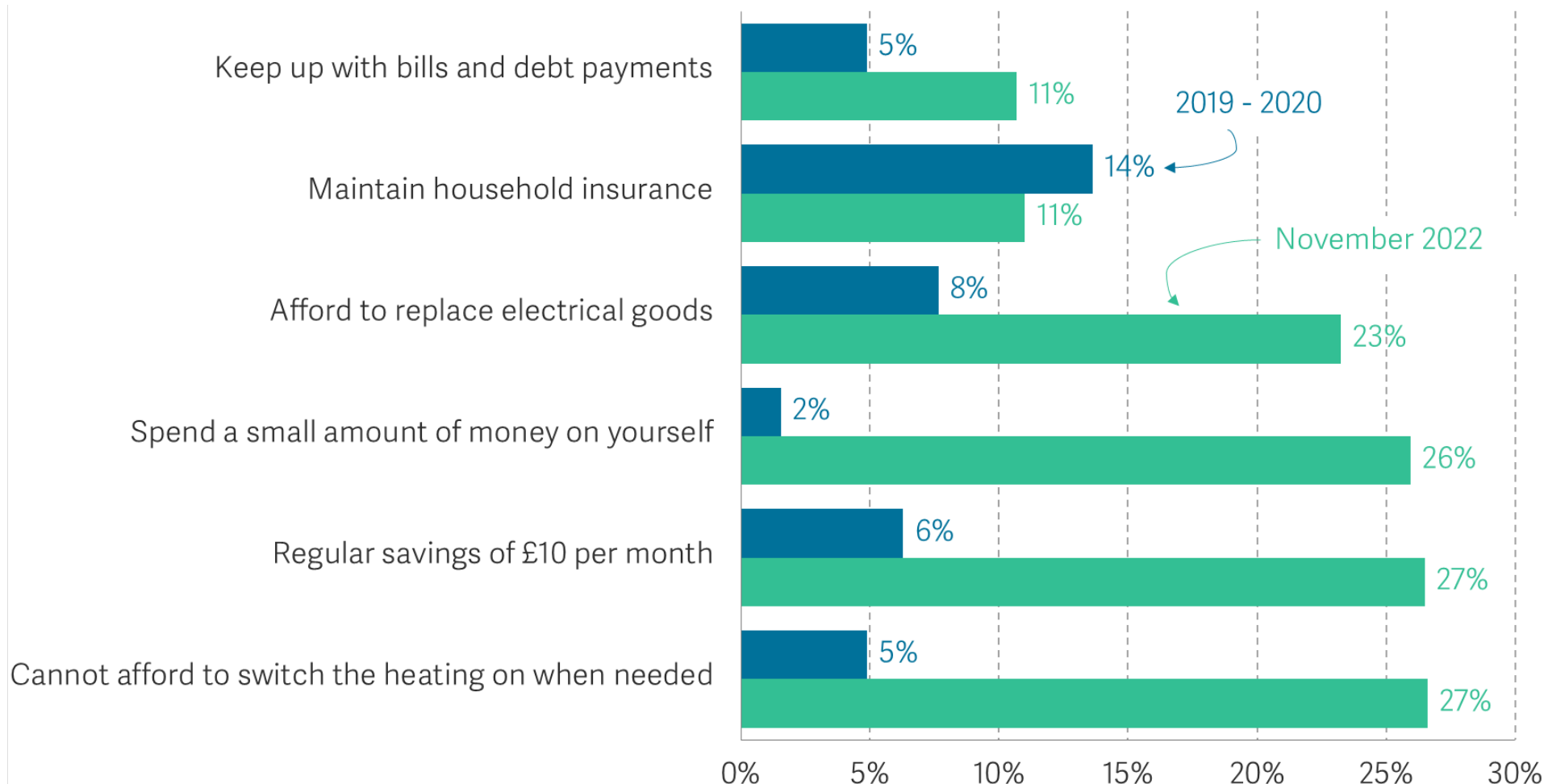


Notes: Responses shown for all adults aged 18+. Base (n=10,470). These figures have been analysed independently by the Resolution Foundation.

Source: RF analysis of YouGov, adults age 18+ Cost of Living Crisis November 2022 wave; DWP, Households Below Average Income, HBAI, 2019-20, DWP, Family Resources Survey, FRS, 2019-20.

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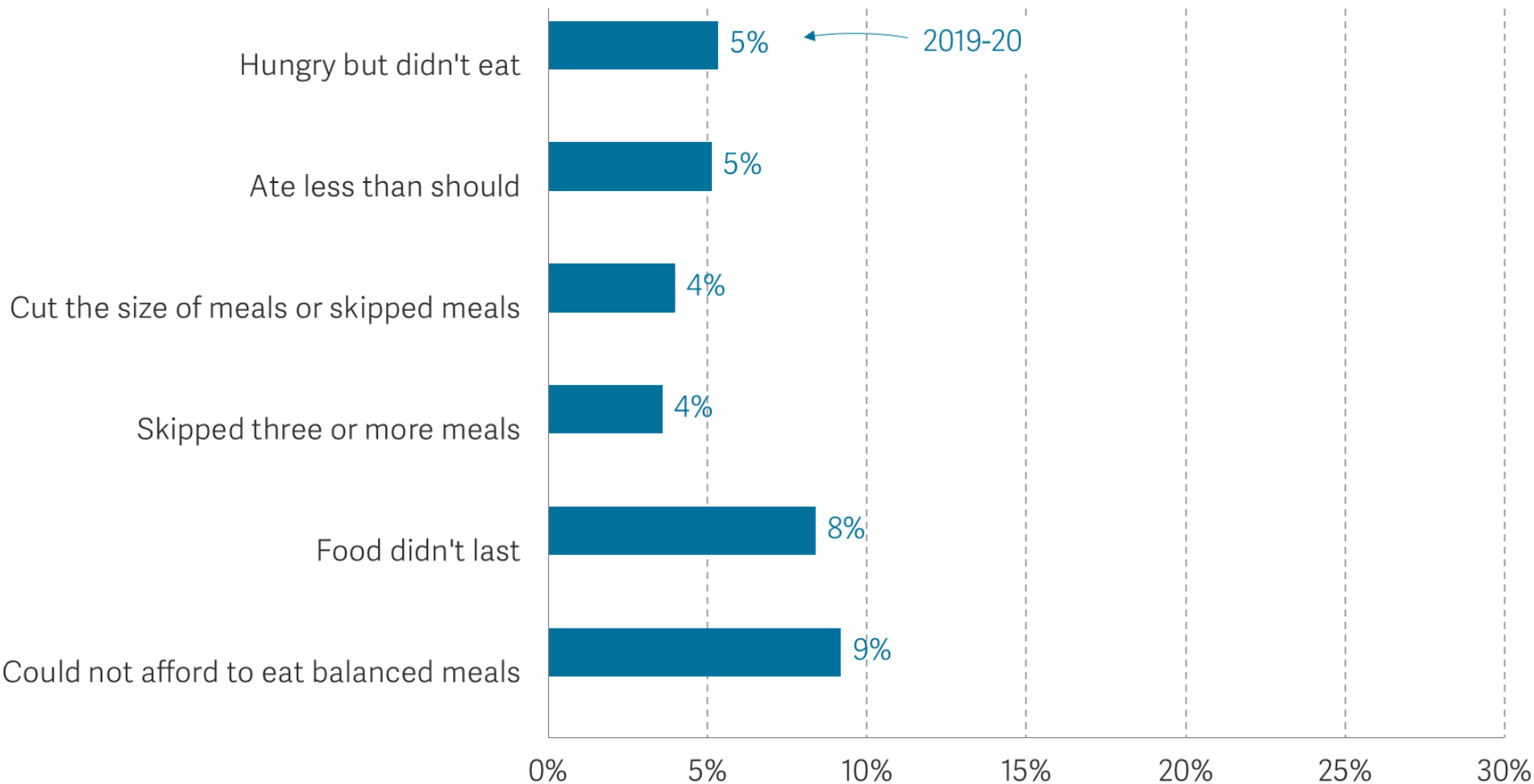


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Source: RF analysis of YouGov, adults age 18+ Cost of Living Crisis November 2022 wave; DWP, Households Below Average Income, HBAI, 2019-20, DWP, Family Resources Survey, FRS, 2019-20.

..and some families are going hungry

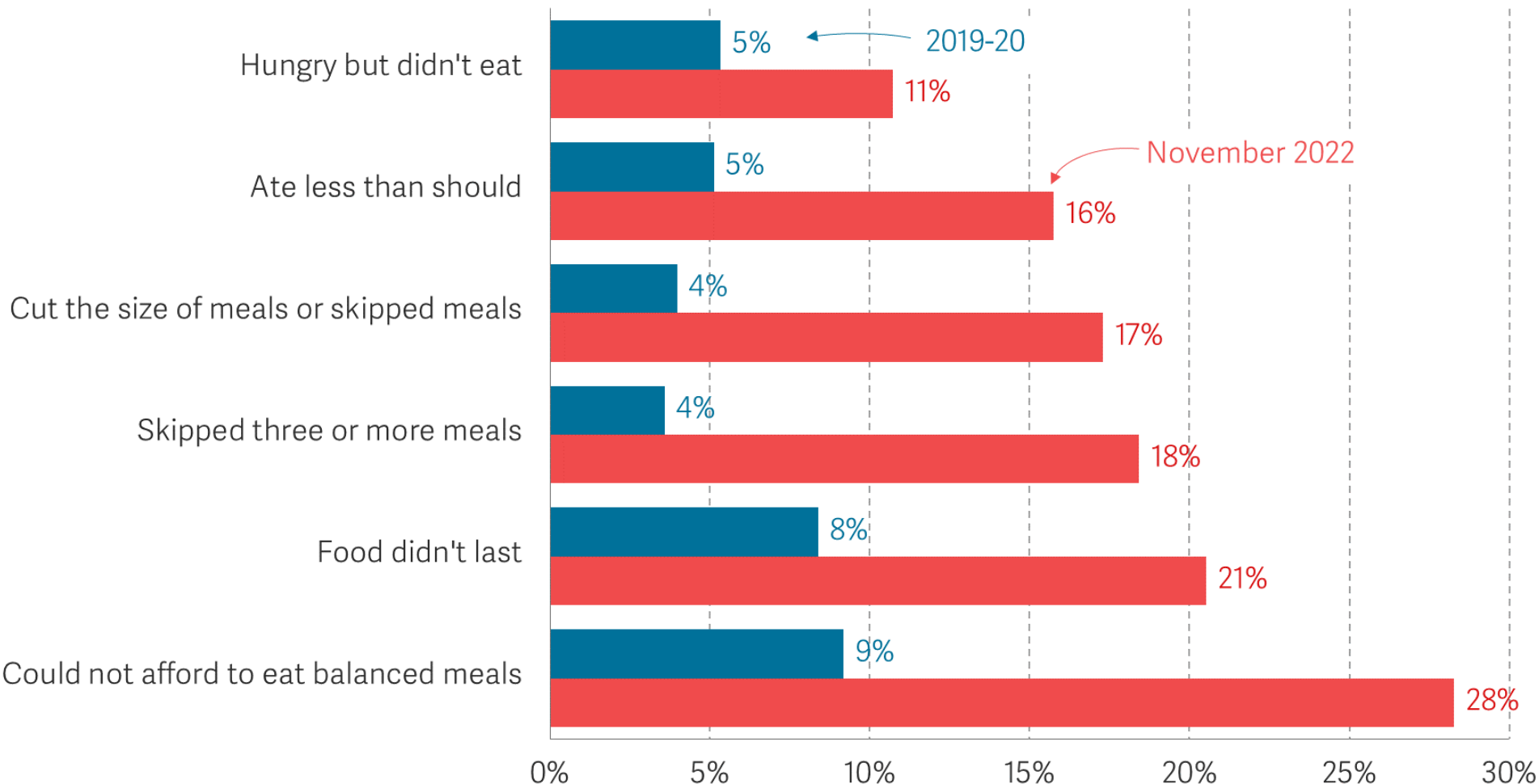
Percentage of respondents reporting being unable to afford sufficient food in the last 30 days, across different indicators: UK, 2019-20 and 23-30 November 2022



Notes: Responses shown for all adults aged 18+. Base (n=10,470). These figures have been analysed independently by the Resolution Foundation.
Source: RF analysis of YouGov, adults age 18+ Cost of Living Crisis November 2022 wave; DWP, Households Below Average Income, HBAI, 2019-20, DWP, Family Resources Survey, FRS, 2019-20.

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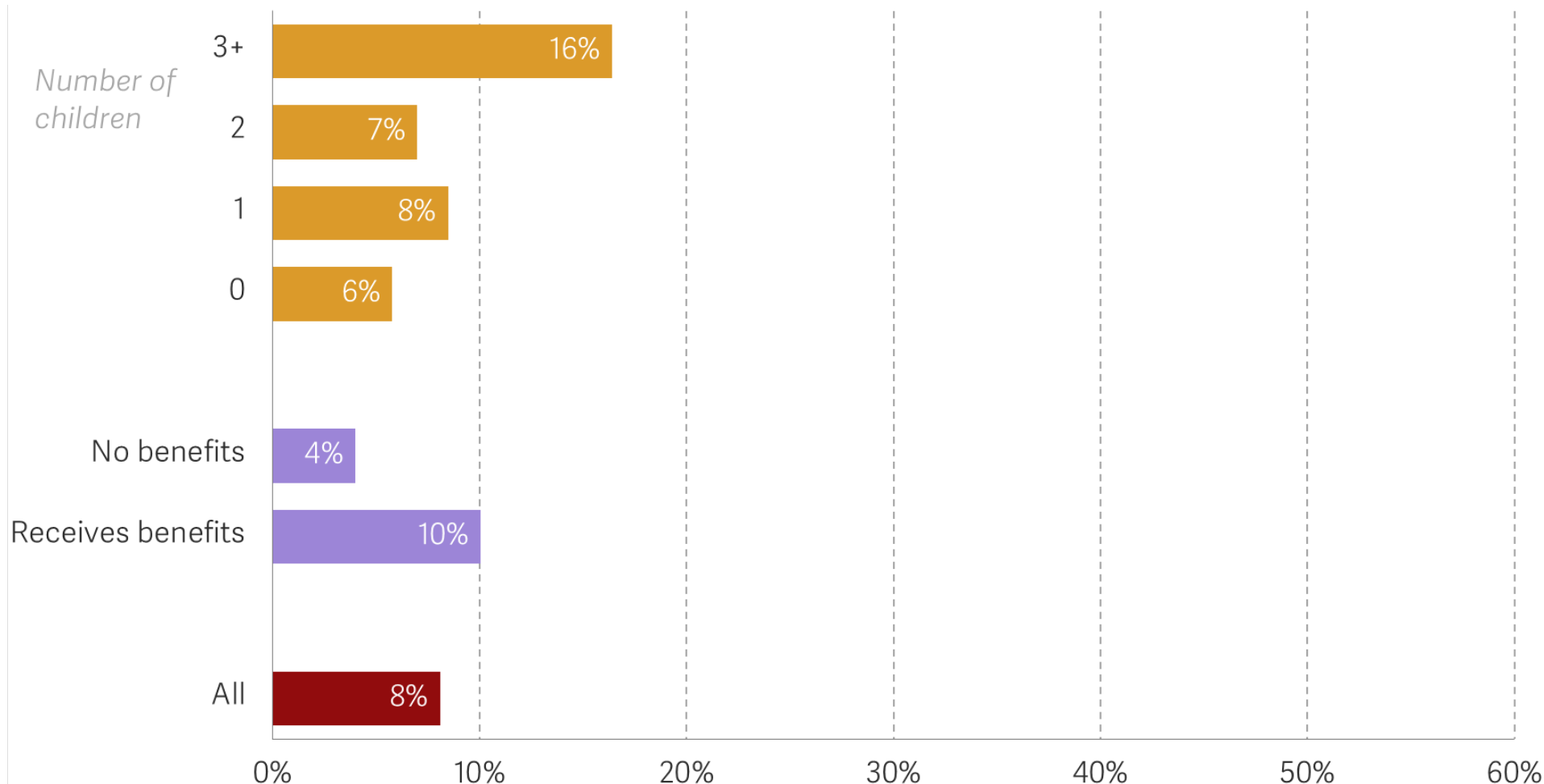
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The crisis is affecting largest families the most

Percentage of respondents in moderate food insecurity: UK, 2019-20 (pre-crisis)

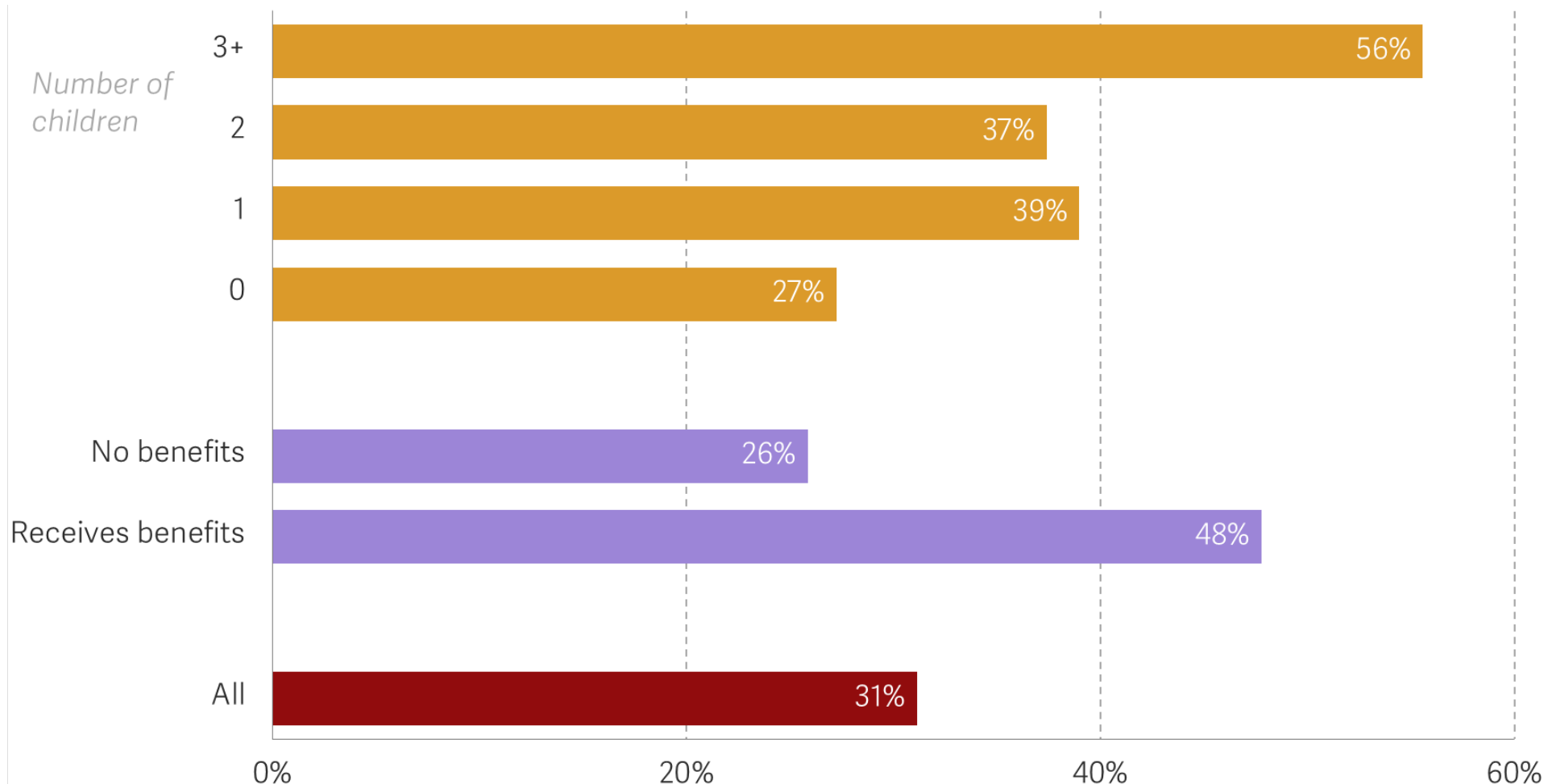


Moderate food insecurity defined as answering 'yes' to 2+ of the questions listed on previous slide

Notes: Responses shown for all adults aged 18+. Base (n=10,470). These figures have been analysed independently by the Resolution Foundation.
Source: RF analysis of YouGov, adults age 18+ Cost of Living Crisis November 2022 wave; DWP, Households Below Average Income, 2019-20, DWP, Family Resources Survey, FRS, 2019-20.

The crisis is affecting largest families the most

Percentage of respondents in moderate food insecurity: UK, November 2022



Linked to policy choices:

- Two-child limit in benefits system
- Lack of targeting of cost of living payments. Same flat payments given to HHs on benefits, not based on household size)

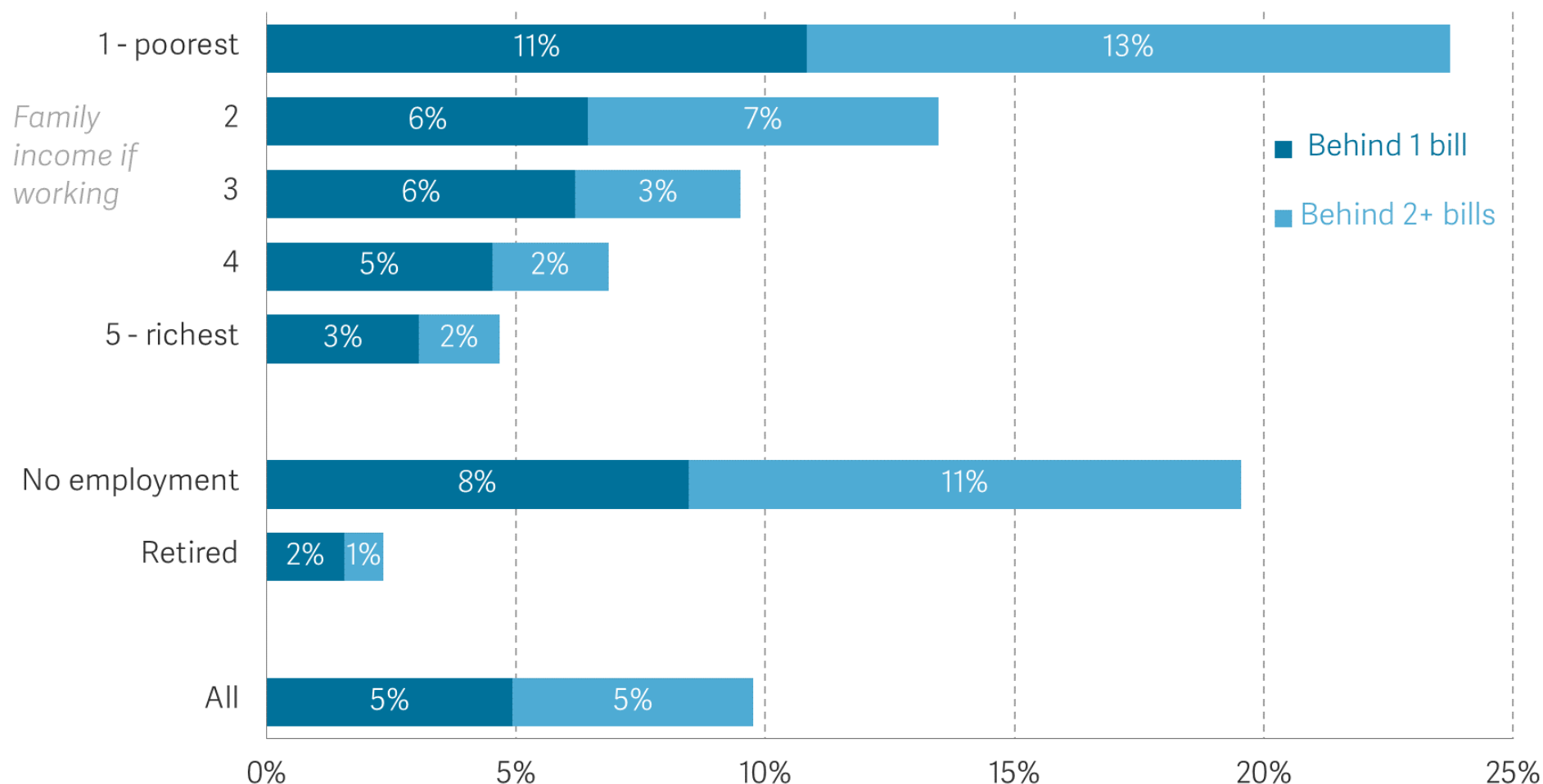
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A lasting impact



Some families are coping by building up debts

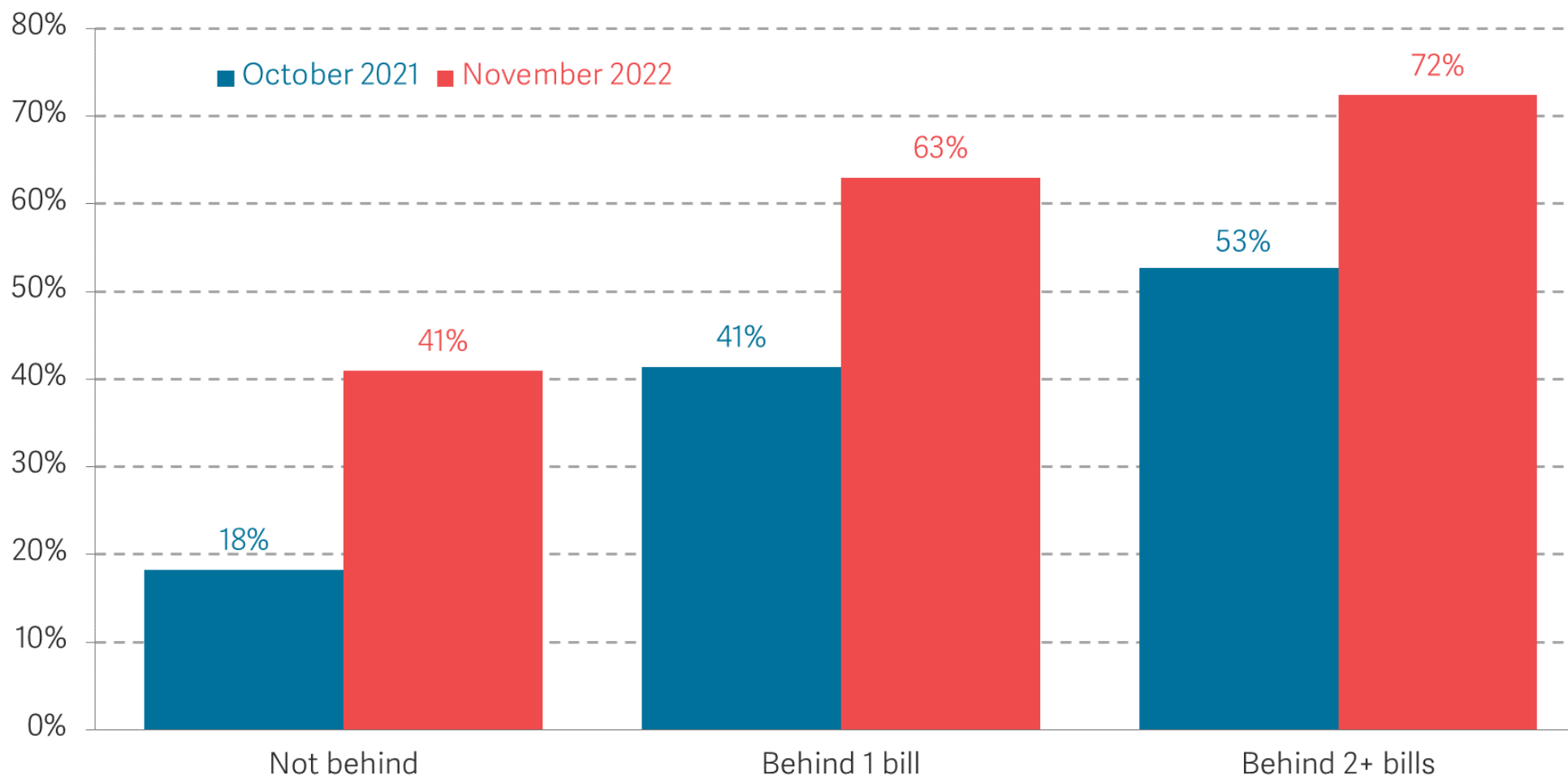
Percentage of respondents reporting missing one or more payments of priority bill: UK, 23-30 November 2022



Notes: All adults aged 18+. Base is (n=10,470). Receives benefits (n= 2,507) No benefits (n= 7,963). Lowest income quintile (n=988), q2 (n=740), q3 (n=897), q4 (n=703) and highest income quintile (n=1128). No employment (n=1631), Retired (n=2,824). These figures have been analysed independently by the Resolution Foundation.
Source: RF analysis of YouGov, adults age 18+ Cost of Living Crisis November 2022 wave.

...with serious consequences for their health

Percentage of respondents feeling that they were **constantly under strain** (more than usual), by the number of bills the respondent has fallen behind on: UK, October 2021 (left) and November 2022 (right)



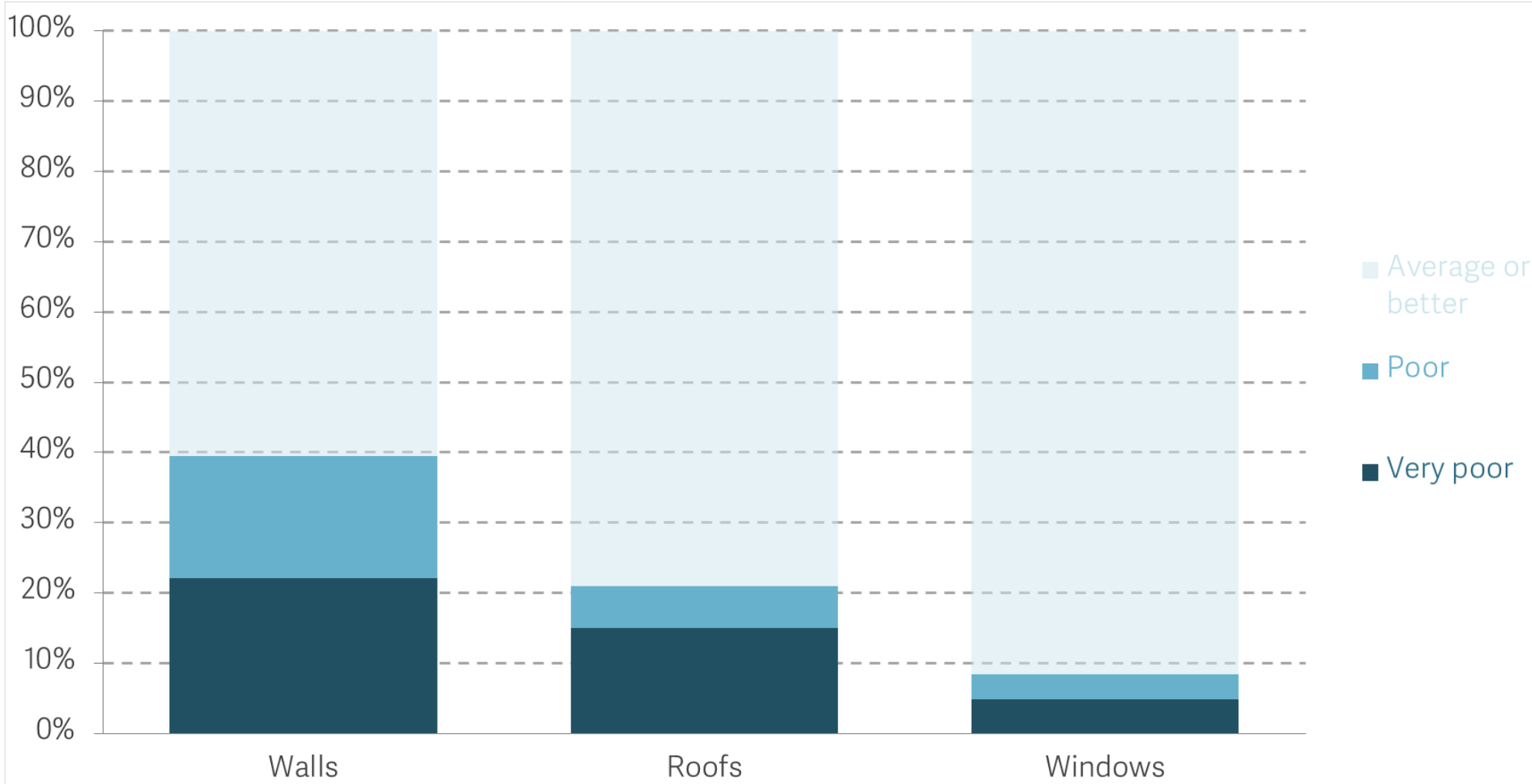
Notes: Working-age adults only shown. November 2022: Behind on no bills (n=6,767), Behind on 1 bill (n=468), Behind on 2+ bills (n=484). October 2021: Not behind on any bills (n = 5,497), Behind on 1 bill (n=304), Behind on 2+ bills (n=299). These figures have been analysed independently by the Resolution Foundation.
Source: RF analysis of YouGov, adults age 18+ Cost of Living Crisis November 2022 wave, and YouGov, working age adults and the Coronavirus (COVID-19), October 2021 wave.

Leaky walls



It's all about walls...

Share of homes by wall, window and roof energy efficiency rating: England, 2021



An old building stock means 9m homes with badly insulated walls. 7.5m need upgrades to reach EPC C

We would mandate improvements, including financial support (via means-test) for owner occupiers

Notes: There are 4 million homes in England, such as flats, without the ability to install roof or loft insulation. The EPC register comprises lodged certificates, where the energy efficiency of different aspects of properties are professionally assessed. These are then banded from very poor to very good based on thermal conductivity.
Source: Analysis of DLUHC, EPC Register; DLUHC, English Housing Survey.

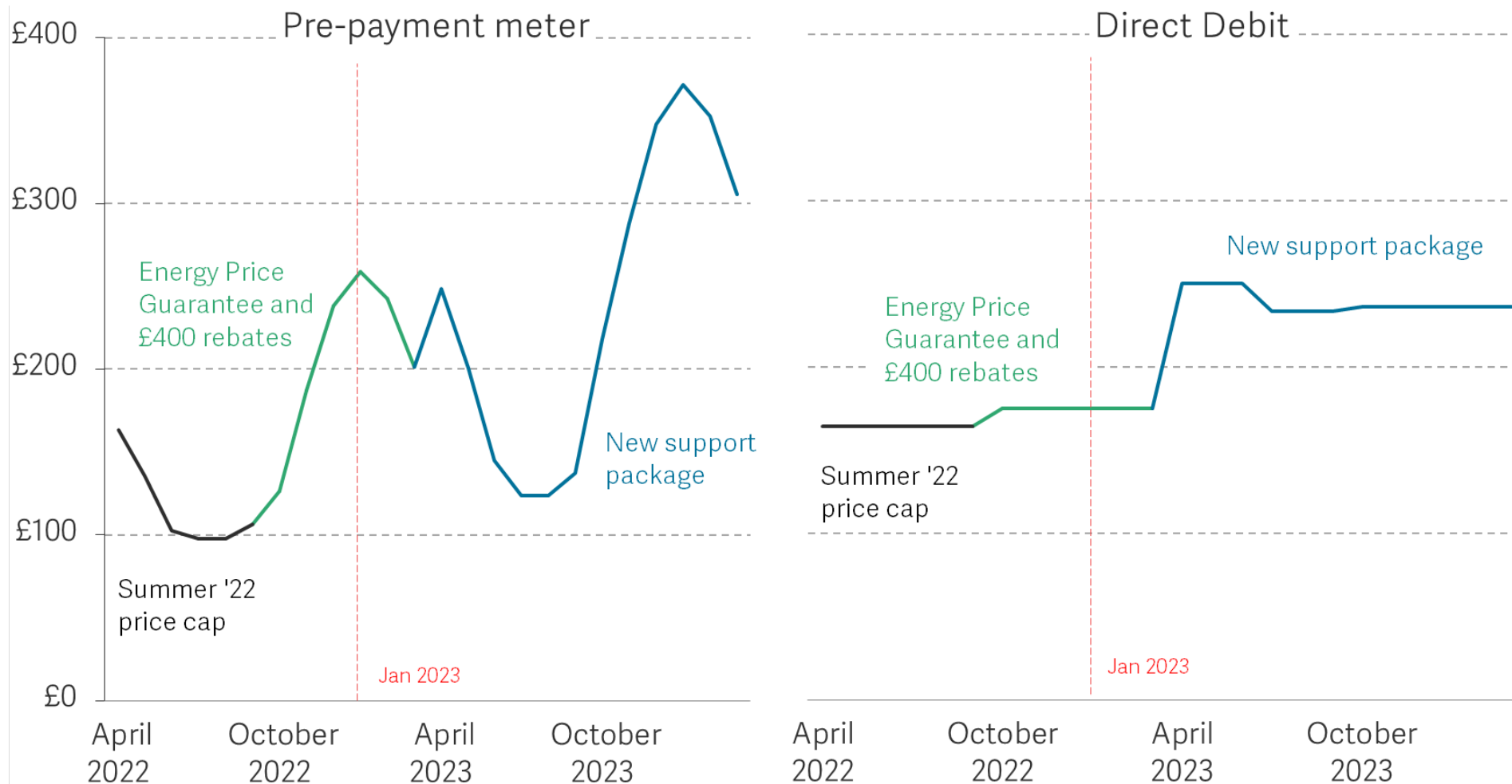
Summary

- We are only partway through a major hit to living standards – this year will be worse than last
- Govt. support mitigating greater impact on poor households – less so on large families
- Some families struggling with food and basics, and relying on debt to cope. Will have lasting impact on financial resilience.
- We need to return to ambitious policies to improve energy efficiency of housing stock – focus on walls

NOT USED

1. Households' energy costs still rising

Historical and forecast monthly energy bills for a typical household paying via a pre-payment meter (left hand panel) and direct debit (right hand panel): April 2022-March 2024



High wholesale energy costs still feeding through

Overall Government support package less generous from April

Notes: Figures net of £400 Energy Bills Support Scheme rebates but no other cost of living payments such as those delivered through the benefits or council tax system. Costs based on forecasts for Cornwall Insight in January 2023 resulting in a typical energy bill of £2,850 in 2023-24, rather than the £3,500 assumed by Government. Source: RF analysis of Ofgem price cap methodology, Government Energy Price Guarantee, Cornwall Insight, UCL SERL data.