



HODGE

Cost of living

whitepaper



July 2024



As we enter the second half of 2024, consumer feelings on the cost of living continue to steadily improve, backed by market trends and projections.

Confidence in personal finances is also on the rise.

However, while concerns are at the lowest level since 2021, 74% of consumers are still concerned about the cost of living.

This paper will cover the following areas:

- Purpose of the report
- The methodology and outputs of Hodge's fourth wave of cost of living crisis research
- Confidence levels of consumers
- Worries over cost of living crisis
- Disposable income levels of consumers
- Inflation and the cost of goods and services
- Savings habits through the cost of living crisis
- Views on releasing equity during cost of living crisis
- How Hodge can help customers through the cost of living crisis.



Hodge CEO, Dave Landen



Our cost of living survey is a vital part of the research landscape at Hodge. While we have seen an easing of inflation over the last 12 months this just means prices are rising at a slower rate than they were, the extremely high inflation we saw in 2021, 2022 and early 2023 still means our day to day expenses are significantly higher than they were.

In the past five years we've faced a pandemic, witnessed the fallout from the war in Ukraine and seen the Bank of England base rate increase at its fastest rate in 30 years. We know salaries have not kept pace with inflation and grocery shopping seems more expensive each week.

As a bank we need to know how people are feeling and the impact this is having on them and we want to do all we can to support our customers in the moments that matter. It's easy to get lost in the numbers, but luckily for me and our customers, the Hodge team is made up of people with a pretty diverse range of skillsets.

Whether it's our customer service advisers who speak directly to the customers each day, our business development managers interacting with brokers and advisors, our product teams looking at ways our offerings can evolve to support customer needs or our Research and Proposition team who work so hard to not only carry out surveys like this one, but also analyse it in depth. Each member of the Hodge team brings a unique perspective ensuring we are always here to help customers when they need it.

I look forward to learning more about how our customers are feeling so **we can continue to evolve and meet their changing needs.**

Purpose and Methodology

Purpose

We're proud to say we're a bank that cares.

This is our fourth wave of research to understand how people are dealing with the crisis and their behaviours and attitudes toward savings and mortgages. This information is used to help us educate and inform our customers and consumers on the best ways to navigate the cost of living crisis.

Why we did the research:

We constantly seek to better understand the financial challenges people are facing, especially as costs rise while salaries remain stagnant, so we can create products that help them shape a future built around financial security.

We recently interviewed **more than 2,000 consumers** about their savings and the rising cost of living, and what it means

for their decision making when it comes to mortgages. The respondents were a range of people aged 21-80+ across incomes spanning £15k to £100k+.

While the research shows the cost of living crisis is certainly not over, there's plenty to suggest an improving picture, or at the very least a more positive consumer outlook.

Many respondents say they are still using their savings to help them navigate the ever-evolving economic environment, and many are not able to save as much as they used to. And in some cases, not at all.

For those who are continuing to save, building an emergency fund and holidays remain the key objectives. Unlike in previous years, people appear to be cutting back less on groceries, luxury goods and socialising.

Methodology

Where did we get the external data from?

OBR, ONS, Money.co.uk, GfK consumer index

We have collated data and insight from a variety of sources to ensure our findings reflect, not only our own findings but the economy as a whole. We have ensured that all sources used are accurate and well respected. For reference, the main sources used are: The ONS (office for national statistics), The OBR (Office for Budget Responsibility), GfK and Money.co.uk.

What specific methodology did they use in these?

The GfK consumer confidence index:

The GfK Consumer Confidence Index is a well-respected metric that measures consumer attitudes, including expectations of the general economic situation, households' financial positions, and views on major household purchases. It is derived from a survey of about 2,000 consumers and reflects their ratings on past and future economic conditions, personal financial situations, and other relevant factors.

In this paper we have evaluated and used disposable income as a tool to measure the cost of living.

Why have we done this?

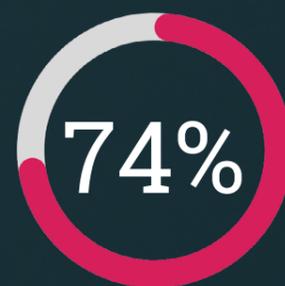
Disposable income is the level of income a person has once essential costs have been factored in. These essential costs include tax, rent/mortgage payments, utilities, fuel, food, household items and essential clothing. In simple terms, it is what is left over to spend as you please once you have met all of your financial obligations.

It is important to include this in our analysis because it factors wage growth into the cost of living and gives a better and more rounded idea of how much money people actually have.





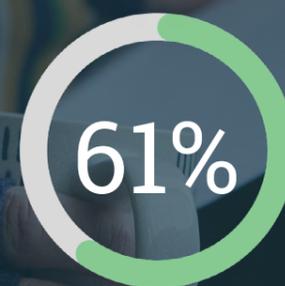
What do consumers think about the rising *cost of living?*



of consumers are concerned about the cost of living crisis going into the second half of 2024



of consumers are reducing electrical usage for financial reasons



of people say they will put less into their savings this year

In 2024, we have seen consumer confidence in managing finances growing and the cost of living concern levels dropping.

Hodge research shows that while confidence levels in managing finances

are improving, 80% of consumers are now confident in managing their own finances. Despite this, consumers are still concerned about the cost of living crisis.

The biggest areas of concern are



Energy costs (78%)



Food prices (75%)



Council tax (52%)

The cost of goods, including energy and food, has stabilised, which is the main reason for inflation returning to the 2% level. However, services inflation such as haircuts, hotels and restaurants, are still rising at a level well above the overall CPI inflation (5.7% in May). While this is still an area of concern, these are generally not seen as such essential expenditures.

According to Jake Finney, a senior economist at PwC UK, consumer prices have risen by 20% since inflation was last at target in July 2021. This highlights how even with prices stabilising, consumers will experience a

delay in feeling the full effects of this. Findings from GfK support Hodge's findings, showing reason for cautious optimism. The GfK Consumer Confidence indicator in the United Kingdom rose to -14 in June 2024 from -22 in December 2023 as Britons become less pessimistic about their future financial situation amid easing inflationary pressures.



Joe Staton, client strategy director at GfK, says:

"Once again we have an improved reading for the Overall Index Score, bolstered by consumers' more sympathetic view of the economy for the last year and the 12 months to come. There was also a welcome three-point boost in intentions to make major purchases.

While June's reading of -14 is the third month in a row that confidence has increased, the headline score remains negative owing to the difficulties so many have experienced as the unrelenting cost-of-living crisis batters household budgets. Nevertheless, consumer confidence continues its robust long-term upward trend this month and has recovered significantly since the record low of -49 reached in September 2022."



Consumers are now **more confident with their finances**, 80% compared to 72% 2023

November 23 cost of living concern levels monitored by Hodge were at 77% v's June 24 which **showed a drop to 74%**.





Concern levels surrounding fuel prices have decreased in the past 12 months. Less than half of consumers are now worried about fuel costs. However, **78% of people are still concerned about energy costs**, with the highest levels of concern in the North East. This is substantiated by the North East having (on average) the joint highest percentage of salary spent on energy bills (10%).

Market trends offer reason for cautious optimism and projections support a brighter outlook.

The GfK consumer confidence index score for the general economic situation over the previous 12 months is -32 vs the score for the general economic outlook for the next 12 months at -11.

This shows a sizeable improvement in consumer confidence. It's important to caveat this by highlighting this is still a negative score indicating the cost of living crisis is not over, but the situation and consumer feelings are improving.

Age specific concerns:

- 31-40 age group: 30% are concerned about house prices and 44% are worried about childcare costs
- 60+ age group: more concerned with household costs.

Hodge's research shows consumers have taken to green retrofitting in their homes in order to save money on energy bills with some of the following enhancements made:

- LED lighting **48%**
- Installing energy efficient appliances **46%**
- Insulation and double/triple glazing **32%**
- Only **9%** have not made any green retrofitting changes.

Average costs of goods in 2024 across the UK

The price of goods, just like income, vary across the UK. These statistics outline the average weekly expenditure for a variety of household compositions. Accompanied by data showing the increase in weekly household expenditure projected across 2024. It's worth noting these projections are assuming increases on the higher side.



Predicted increase in household expenditure for 2024

Average weekly expenditure UK, 2023

Category	Single adult, working age (£)	Couple, pensioners (£)	Lone parent with two children (£)	Couple, two children age 2-4 and primary age (£)
Food	77.21	113.36	105.21	144.86
Alcohol	8.97	12.99	5.88	11.41
Clothing	14.99	19.03	41.50	51.16
Water rates	8.06	9.51	12.53	12.54
Council tax	20.68	27.58	24.13	32.17
Household insurance	1.75	1.99	1.73	1.93
Fuel	40.15	43.44	58.64	61.95
Decorating maintenance	2.01	2.01	2.19	2.19
Household goods	15.83	24.43	33.06	34.08
Household services	8.93	13.24	15.02	11.07
Childcare	0	0	247.34	247.34
Personal goods and services	28.49	57.77	40.82	54.21
Motoring	0	0	80.53	81.86
Travel costs	34.79	20.64	16.24	44.97
Social and cultural participation	67.97	82.70	105.89	118.88
Rent	110.76	98.92	107.58	107.58
Total all	440.59	527.62	898.31	1,020.40
% change	12.50%	12.30%	10.90%	11.10%



Disposable income levels of consumers

Disposable income levels are an important indicator when looking at the rising cost of living as they include wage fluctuations. When looking at how consumers may save in the years to come, this gives a positive outlook that on the whole, consumers will have more money available to save. Combined with the increased levels of financial confidence our research shows, it suggests consumers have greater financial competency and will potentially be more inclined to save.

In March 2024, the OBR forecasted that real household disposable incomes per head will increase by **0.1%** in 2024 and then by **1.7%** in 2025. Based on these forecasts, real (inflation-adjusted) post-tax income per person will return to its pre-pandemic level (Q4 2019) in Q4 2025.

Spending habits

Hodge research shows consumers are starting to spend again with less cutbacks being made in all areas bar one (beauty treatments). People are making fewer cutbacks on groceries, luxury goods and socialising in comparison to the past two years.

While these figures show consumers are starting to spend again, it's crucial to note that in half of the areas outlined in our survey, at least **28%** of people are still making cutbacks as

prices remain high despite inflationary pressures subsiding somewhat. The latest ONS figures provide some context to this, household spending across the UK economy increased **0.4%** in Q1 2024 in comparison with Q4 2023 with insight suggesting this is driven by improving levels of disposable income and a more positive outlook on the future of the economy.



Overall trends

- Still cutting back on holidays (**44%**)
- Almost **1/4** cutting back on beauty treatments (the only area that is still seeing an increase in the amount of people cutting back)
- The cost of living crisis has impacted **50%** of peoples holidays
- **1/3** have a savings plan in place
- **1 in 10** have had to rely on family to help pay for their holiday
- **66%** of those who are not going on holiday, said the main reason is because they could not afford it or have had to use the holiday funds for other purposes.



Savings trends



Savings Habits

'Having an emergency fund is still important even though financial confidence is improving'

Despite higher interest rates and increased competition, increased costs are limiting the growth of the market. According to our most recent survey **61%** will be putting less into savings this year.

For those consumers who are saving they are prioritising their savings for emergencies (**50%**) and holidays

(**35%**). This could be reflecting of mindsets being cautious when it comes to the increase of living costs but also still prioritising holidays over other luxuries. Instant access savings accounts still remain popular accounts where consumers can have quick access to their funds in the case of an emergency.

Emerging saver groups:

1.

Consumers less impacted by the cost of living: these consumers are interested in higher rates and are willing and able to put their money into fixed term products (like bonds and ISAs) as they are in a position to deal with financial surprises and price increases.

2.

The everyday saver: these individuals are still saving but need to be able to access their money immediately or at short notice for "rainy day" needs or planned expenses like holidays. This group is driving the demand for easy access savings accounts.



Saving statistics

- During the second quarter of 2023, the average UK household saved **9.1%** of their income
- Savings for the purpose of a house deposit and savings to be used to supplement every day costs have both fallen (**10%-7%** & **15%-11%** respectively).
- Those aged 50 plus will put **less** into savings (Those aged 50 plus have higher levels of savings but deposit smaller amounts on average. They also have an increased focus on retirement)
- Over **1/3rd** of those in Wales are more focused on retirement savings.
- Those under 50 **more likely** to be savings for Holidays
- Nearly **1/3** saving for retirement with those aged 50-70 more likely to be saving for retirement (**just over 40%**)
- Men are more likely to be saving for retirement than women (**31%** of men v **25%** of women)
- **80%** of people say they will switch savings accounts for a higher rate. There is far less brand loyalty in the savings market than there is for mortgages.

Other areas covered off in the research

Childcare & hybrid working

Most reports estimate the additional heating costs from homeworking to be at least £50 per month over the winter.

New data from Slack has found **70%** of workers believe hybrid work has helped them deal with rising costs, meaning they now spend less on food and transport to a physical office.

According to research conducted by Confused.com, hybrid working can save employees an average of £328 a year on train travel and up to £128 a year if they commute by car.

Childcare, unsurprisingly, accounts for the majority of costs for those with children, at **27.5%** for single parents and around **24.2%** for a couple with two children. For single, working adults, around a quarter of their weekly costs goes towards rent, with food and socialising accounting for **17.5%** and **15.4%** of expenditure, respectively.

Loyalty cards

Research has found more than half, (**57%**), of Britons are relying on loyalty points to aid household spending and that the average wallet held 3.5 reward cards. Britons could be saving up to £257 annually from using loyalty schemes alone.

The older demographics are also more likely to use loyalty schemes. Apart from Lidl plus, which is more popular amongst younger consumers.

The cost of living in retirement

The required income to live a comfortable life in retirement (54,500) is well above the average pension income for a couple of £26,780. The income required to live a moderate lifestyle (£34,000) is also far higher than the average. In order to bridge this gap, many people are looking into equity release and specialist mortgage options as they have substantial equity tied up in their home. These options have become more appealing since the beginning of the cost of living crisis as pension income alone is becoming less likely to fund the average lifestyle.



As we move into the latter half of 2024, it's encouraging to see growing financial confidence among our customers. While concern about the cost of living persist, they have been tempered by the news of slowing of inflation and the recent base rate cut. At Hodge, we're committed to understanding each customers' unique challenges and finding the best mortgage solutions for them. By enhancing our products, we've been able to better support our customers and help them feel secure in their financial decisions."

Head of business development, Lee Weston

Our cost of living surveys are a vital part of the research programme at Hodge.

It helps us understand the challenges customers and consumers face, providing us with the insight we need to shape our products and services and support them the best we can.

- Inflationary pressures are beginning to ease, providing cause for optimism
- Inflation on essential goods has

dropped significantly but luxury goods are still increasing in price at a higher rate than targeted.

- Disposable income levels are projected to increase in the coming years
- Consumer confidence is on the rise.

