

STATE OF WALES BRIEFING  
February 2022

## Cost of living



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- be aware of differences across Wales;
- anticipate future trends and plan your services;
- strengthen your case-making e.g. for funding.

Links to sources of data are provided in full, either in the introduction, table notes or end-notes. This enables you to explore them further if you wish.

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Registered charity no 1104191

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# State of Wales Briefing: Cost of Living, February 2022

## What this briefing is about

This briefing summarises key data on living costs and inflation.

## Why it matters

Rising living costs have been in the headlines in recent months. Increases in the cost of everyday essentials have squeezed the finances of thousands of families across Wales, leading to many having to cut back on everyday items.<sup>1</sup> There are concerns that living costs may increase further over coming months, pushing many households into severe difficulty.

## Key messages

- High-income households spend more in cash terms on essential items than low-income households.
- Essential items account for a greater proportion of low-income households' expenditure.
- In cash terms:
  - Average household expenditure is slightly lower in Wales than in the rest of the UK.
  - Welsh households spend slightly more on gas, electricity and other fuel than the average UK household.
  - Household expenditure is higher in rural areas than in urban areas.
  - Average weekly expenditure is higher among households with children than in households without children.
- As a proportion of expenditure:
  - Low-income households spend a higher proportion of their income on essentials than higher income households.
  - Low-income households with children spend a significantly higher proportion of their expenditure on essential items than higher-income households with children.
- Inflation is at its highest level since the early 1990s.
  - The inflation rate for energy costs is significantly higher than the headline rate of inflation.
  - Inflation is forecast to continue to rise until April 2022.
  - Inflation is forecast to be greater for low-income households in April 2022 than for high income households.

## 1. Household costs

With living costs on the rise, understanding how households spend their money is important. This section explores data on household spending, focusing on essential items.

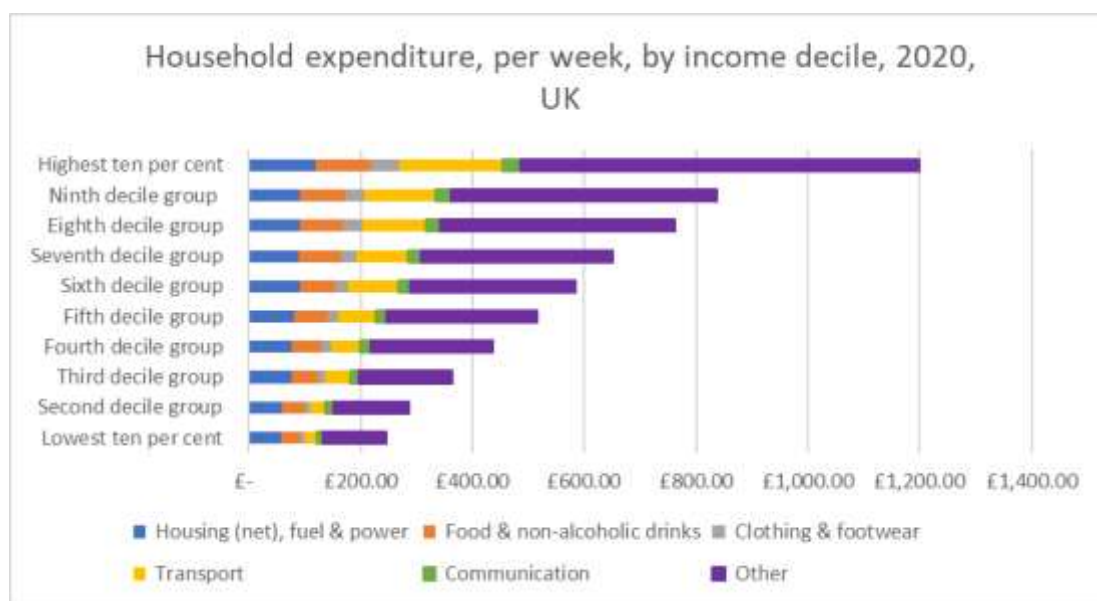
### Household spending in cash

Low-income households typically spend less on essential items than high-income households. In total, households on the lowest incomes typically spend £244.90 per week.<sup>2</sup> Of this, £122.80 is spent on essentials items:

- Housing (net), fuel and power - £57.90
- Food and non-alcoholic drinks - £34.90
- Transport - £21.90
- Communication - £10.30
- Clothing and footwear - £8.50.<sup>3</sup>

In contrast, the richest households typically spend £1,199.00 per week.<sup>4</sup> Of this, £486.10 is spent on essentials – nearly five times the amount that the least well off spend:

- Housing (net), fuel and power – £118.30
- Food and non-alcoholic drinks - £98.70.
- Transport - £184.20.
- Communication - £33.40
- Clothing and footwear - £51.50.<sup>5</sup>



Source: ONS Family Spending in the UK Survey, Family spending workbook 1: detailed expenditure and trends, Table A6. Data at:

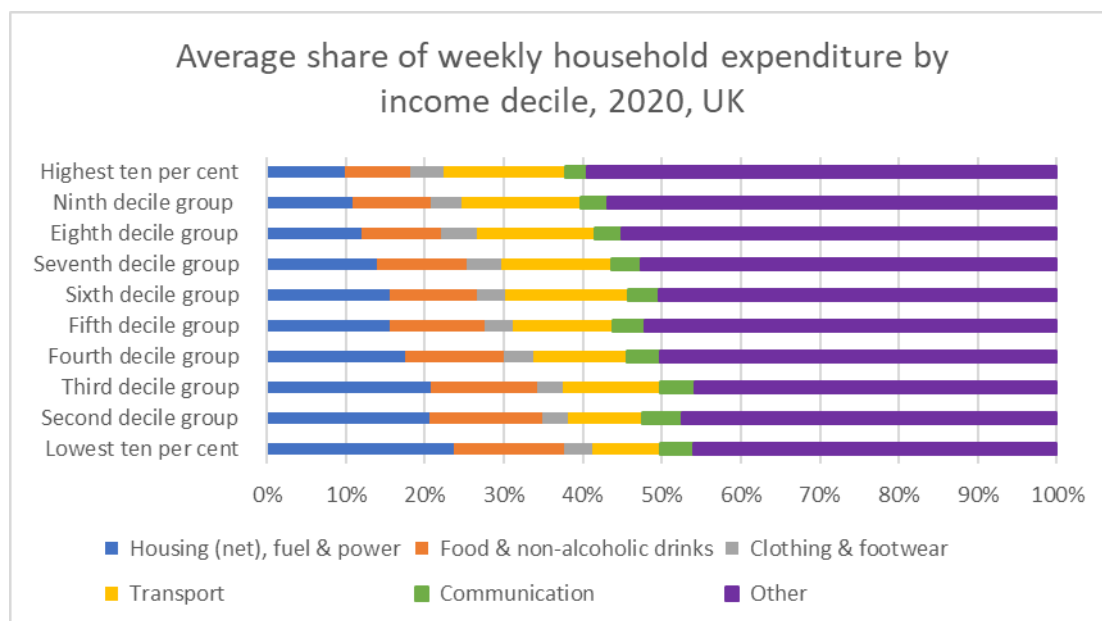
<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook1detailedexpenditureandtrends>

## Household spending as a proportion of expenditure

An alternative way of considering household spending is the proportion of spending allocated to different types of purchases. Essential items typically account for a higher proportion of low-income households' spending than high-income households' spending.

The poorest 30 per cent of households spend more than half their average weekly expenditure on essential items.<sup>6</sup> By contrast the wealthiest 10 per cent of household households only spend 41 per cent of their average weekly expenditure on essential items.<sup>7</sup>

There are also important differences between income groups in the composition of their essential expenditure. Housing and groceries account for 38 per cent of the average weekly expenditure of households in the bottom income decile.<sup>8</sup> For households in the top decile, it's only 18 per cent.<sup>9</sup> Transport on the other hand accounts for 15 per cent of the average weekly expenditure of the wealthiest households compared to 9 per cent of the expenditure of the poorest households.<sup>10</sup>



Source: ONS Family Spending in the UK Survey, Family spending workbook 1: detailed expenditure and trends, Table A6. Data at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook1detailedexpenditureandtrends>

## 2. Household characteristics

Household spending varies according to the type of household, reflecting their different needs as well as other factors.

### Wales and the UK

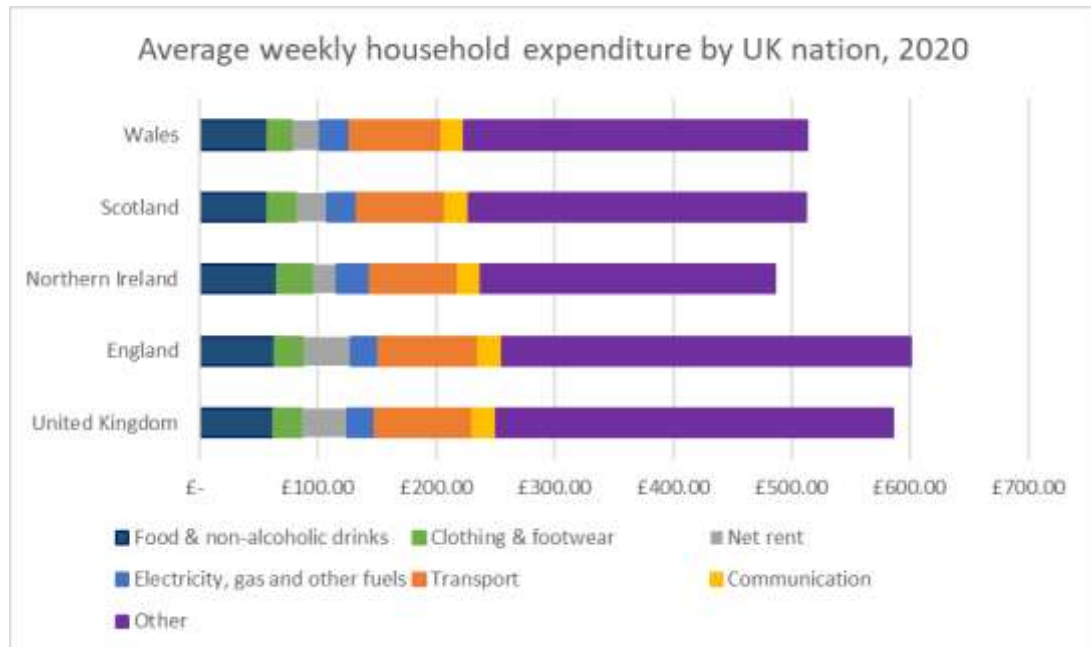
The average Welsh household spends £513 a week.<sup>11</sup> This is £72.20 less than the UK average which stands at £585.20.<sup>12</sup>

Welsh households spend less in cash terms on a number of essential items:

- £13.90 a week less on rent
- £4.80 a week less on food and non-alcoholic drinks
- £4.50 a week less on transport
- £3.50 a week less on clothing and footwear
- £1.30 a week less on communication.<sup>13</sup>

The one exception is electricity, gas and other fuel costs where the average Welsh household spends £0.30 a week more than the average UK household.<sup>14</sup>

Annually the average Welsh household spends £1,440 less on essential items than the average UK household. Despite this, essential items account for a similar proportion of household expenditure in Wales as across the UK.<sup>15</sup>



Source: ONS Family Spending in the UK Survey, Family spending workbook 3: detailed expenditure and trends, Table A6. Family spending workbook 3: expenditure by region, Table A33. Data at: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinance/expenditure/datasets/familyspendingworkbook3expenditurebyregion>



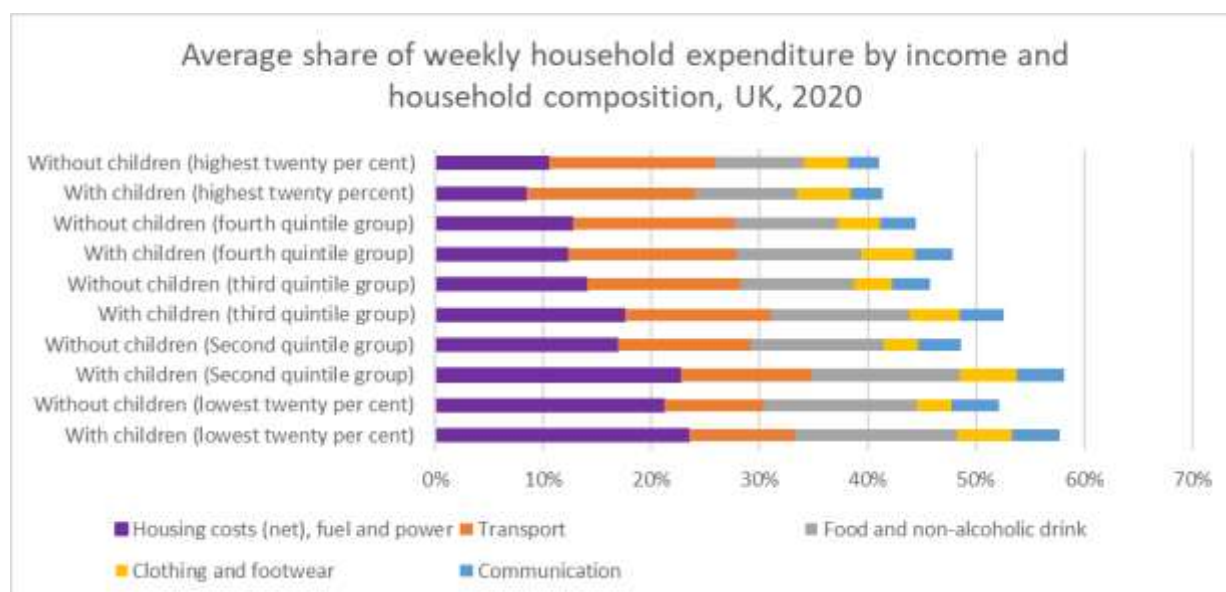
## Rural areas

Household expenditure is higher in rural areas than in urban areas. The average rural household at GB level spends £641.10 per week on essentials compared with £572.90 for the average urban household.<sup>16</sup> One reason is that significantly more is spent on transport: the average urban household spends £76.40 a week on transport compared with £105 for the average rural household.<sup>17</sup>

## Children

Average weekly expenditure is higher among households with children than in households without children. This is true across all income groups. The average household with children spends £714.80 a week, £183.40 per week more than households without children who spend an average of £531.40 a week.<sup>18</sup>

In all income groups, households with children spend a greater proportion of their expenditure on essential items.<sup>19</sup> Low-income households with children spend a significantly higher proportion of their expenditure on essential items than higher income households with children. Food, clothing, housing and heating account for 44 per cent of the expenditure of the poorest 20 per cent households.<sup>20</sup> By contrast the same costs account for only 23 per cent of the expenditure of the wealthiest 20 per cent of households.<sup>21</sup>



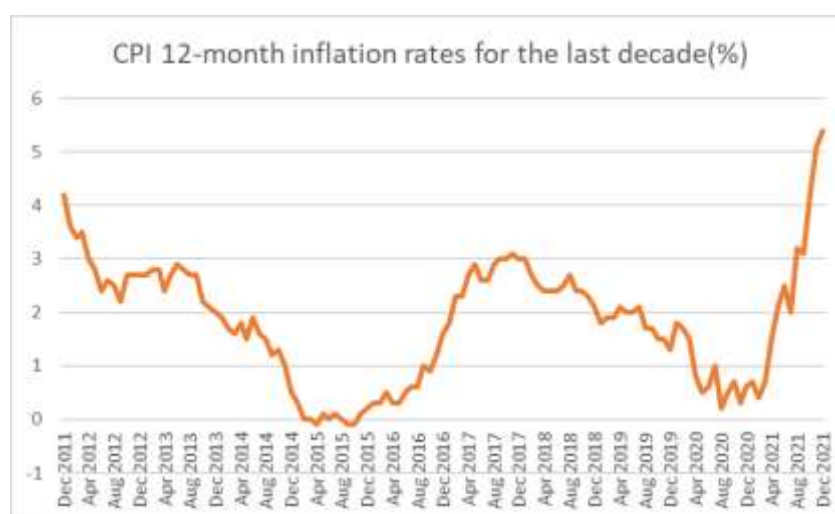
Source: ONS Family Spending in the UK Survey, Family spending workbook 4: expenditure by household characteristics, Tables A56 and A57. Data at - <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook4expenditurebyhouseholdcharacteristic>

### 3. Inflation

Rising living costs have been in the headlines in recent months. This section breaks down the latest inflation data to examine its impact on essential costs.

#### Headline rates

The Consumer Price Index shows that prices have risen by 5.4 per cent in the 12 months to December 2021, up from 5.1 per cent to November.<sup>22</sup> This is the highest CPI 12-month rise since the early 1990s. ONS data shows that inflation rates are consistent across the income distribution.<sup>23</sup>

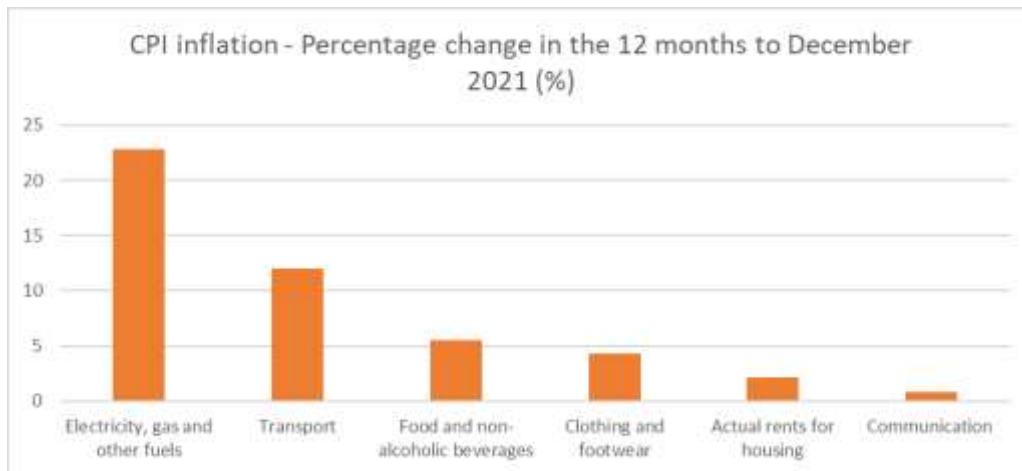


Source: ONS, Consumer price inflation detailed reference tables, Table 24. Data at - <https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/cpicconsistentinflationrateestimatesforukhouseholdgroupsplutocraticweighting>

#### Inflation by key costs

There is significant variation as to interest rates by item. This can be seen clearly when looking at essential spending. The costs of utilities, transport and food have increased in line with headline inflation or significantly above it. Given that low-income households spend a higher proportion of their expenditure on essential items this is likely to hit them harder.





Source: ONS, Consumer price inflation detailed reference tables, Table 22. Data at - <https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceinflation>

## Future trends

Inflation is forecast to continue to rise, reaching 7.25 per cent in April before gradually falling back.<sup>24</sup> It is not forecast to reach the Bank of England’s target level of 2 per cent until 2024.<sup>25</sup> Continued bottlenecks within global supply chains and rising gas prices are the primary reasons why inflation is predicted to stay high.<sup>26</sup>

Forecasts suggest that inflation rates will be higher for low-income households in April 2022 than for high income households.<sup>27</sup> This is because inflation is expected to be highest for the items that comprise a large share of low-income households’ expenditure, in particular energy costs.<sup>28</sup> Low-income households with children are likely to be especially badly affected by inflation in the next few months.

Headline projections suggest that the average household in Wales is likely to be affected by the overall increase in inflation in a broadly similar way to the rest of the UK.<sup>29</sup> In detail, it is likely that Welsh households will be more affected than those in other parts of the UK by inflation in energy costs because they spend slightly more in cash terms and as a percentage of expenditure on electricity, gas and other fuels. This is especially true in rural areas.<sup>30</sup>

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## End notes

<sup>1</sup> Bevan Foundation, *A snapshot of poverty in winter 2021* (December 2021) available at -

<https://www.bevanfoundation.org/resources/poverty-in-winter-2021/>

<sup>2</sup> ONS Family Spending in the UK Survey, *Family spending workbook 1: detailed expenditure and trends*, Table A6 (16 March 2021) available at -

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook1detailedexpenditureandtrends>

<sup>3</sup> *ibid*

<sup>4</sup> *ibid*

<sup>5</sup> *ibid*

<sup>6</sup> *ibid*

<sup>7</sup> *ibid*

<sup>8</sup> *ibid*

<sup>9</sup> *ibid* The housing element of this measure is based on actual rents, less housing benefit, rebates and allowances received. Mortgage interest payments, Council Tax and Northern Ireland rates are excluded from this measure.

<sup>10</sup> *ibid*

<sup>11</sup> ONS Family Spending in the UK Survey, *Family spending workbook 3: detailed expenditure and trends*, Table A6. *Family spending workbook 3: expenditure by region*, Table A33 (16 March 2021) available at -

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook3expenditurebyregion>

<sup>12</sup> *ibid*

<sup>13</sup> *ibid*

<sup>14</sup> *ibid*

<sup>15</sup> *ibid*

<sup>16</sup> ONS Family Spending in the UK Survey, *Family spending workbook 3: detailed expenditure and trends*, Table A6. *Family spending workbook 3: expenditure by region*, Table A36 (16 March 2021) available at -

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook3expenditurebyregion>

<sup>17</sup> *ibid*

<sup>18</sup> ONS Family Spending in the UK Survey, *Family spending workbook 4: expenditure by household characteristics*, Tables A56 and A57 (16 March 2021) available at -

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook4expenditurebyhouseholdcharacteristic>

<sup>19</sup> *ibid*

<sup>20</sup> *ibid*

<sup>21</sup> *ibid*

<sup>22</sup> Office for National Statistics, *Consumer Price Inflation, UK: December 2021* (19 January 2022) available at -

<https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/december2021#main-points>

<sup>23</sup> Office for National Statistics, *CPI-consistent inflation rate estimates for UK household groups (plutocratic weighting)* Table 24 (28 January 2022) available at -

<https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/cpiconsistentinflationrateestimatesforukhouseholdgroupsplutocraticweighting>

<sup>24</sup> Bank of England, *Monetary Policy Report* (February 2022) available at -<https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2022/february/monetary-policy-report-february-2022.pdf?la=en&hash=BD71A8D49FA5973A333213CE8AD3D266ED9C3441>

<sup>25</sup> *ibid*

<sup>26</sup> *ibid*

<sup>27</sup> Institute for Fiscal Studies, *The cost of living crunch* (12 January 2022) available at -

<https://ifs.org.uk/publications/15905>

<sup>28</sup> *ibid*

<sup>29</sup> *ibid*

<sup>30</sup> *ibid*