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## NEWS RELEASE

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# **Biggest peacetime squeeze on household disposable incomes since 1921 – updated Cebr forecasts show real household disposable incomes down 2.0% in 2011**

New Cebr forecasts show that 2011 is likely to show a fall in real household disposable incomes of 2.0%. Taken in conjunction with the 0.8% fall now recorded as having taken place in 2010, the new estimates show that the UK is now seeing a bigger fall in real household disposable incomes than in the 1930s and the biggest fall excluding WW2 and the General Strike since 1921<sup>1</sup>.

This means that households will have £27.3 billion less spending power in 2011 than in 2009 – a fall of £910 per household.

The fall in real disposable income is a result of high inflation and weak earnings growth. Cebr expects the annual rate of inflation across 2011 as a whole to come in at 3.9%, the highest since 1992, while earnings growth will edge up to 1.9%, as unemployment remains high. The high rate of inflation is mainly a result of surging global commodity prices and the rise in VAT in January. Rising prices of energy, cotton, metals and other raw materials and food are the major factor, caused by a combination of supply side shocks and strong demand from emerging markets. By comparison, public spending cuts are only a minor element in the squeeze on household incomes.

The squeeze in disposable income is the main reason why Cebr is forecasting much lower GDP growth than the forecasts from the Office for Budget Responsibility (OBR) that were released with the Budget. Cebr forecasts that consumer spending will decline by 0.8% this year whereas the OBR forecasts 0.6% growth. The flurry of retailers reporting profit warnings lately supports the more cautious forecast.

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<sup>1</sup> Although the two year fall forecast for 2010 and 2011 is only slightly larger than the 2.7% fall which took place in 1976 and 1977.

This consumer spending view is one key reason why Cebr forecasts growth of 1.0% in 2011 growing to 2.4% in 2015 (see Figure 1), a slower rate than most others are currently projecting.

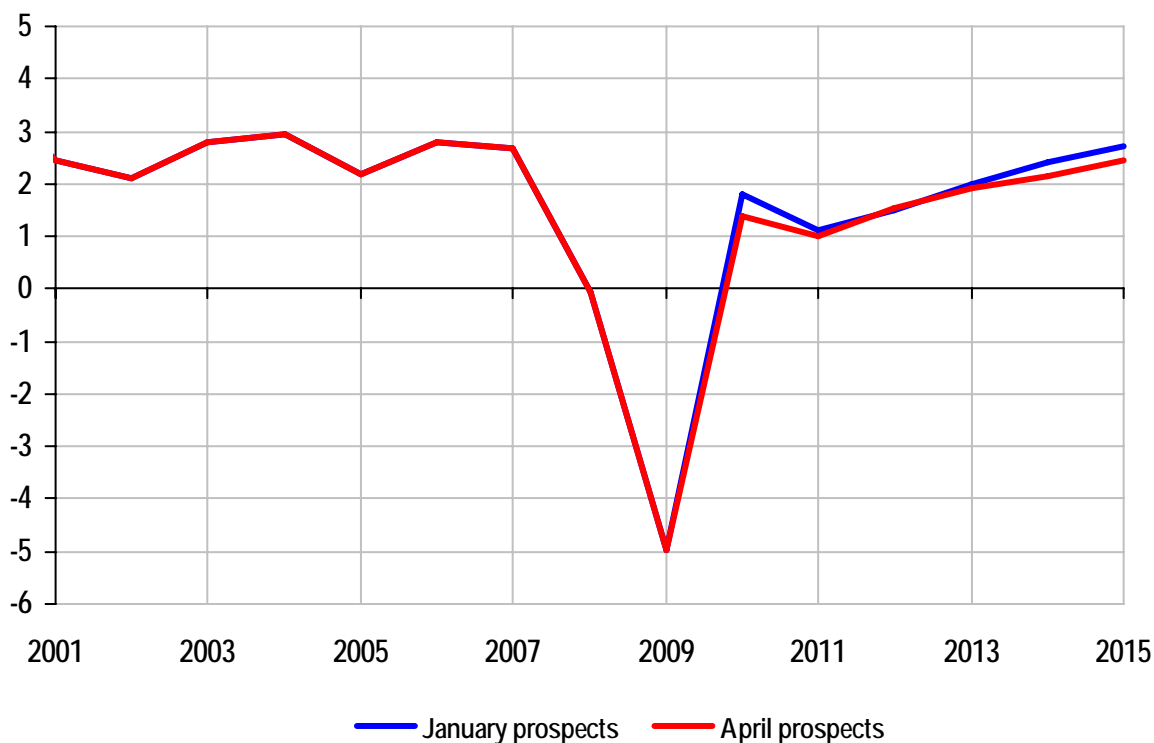
Scott Corfe, Cebr Economist and main author of the report comments: ‘The unprecedented peacetime squeeze on real household incomes, combined with more realistic forecasts for exports and investment growth than the OBR, means that GDP growth will be subdued for the next two or three years, though we expect growth to accelerate towards 2015. Business investment in IT is likely to be the strongest element in the economy.’

Douglas McWilliams, one of the report’s authors and Chief Executive of Cebr, added:

‘We have been pointing out the pressures on household incomes for over a year, during which the underlying position has deteriorated as average earnings growth has remained very low while commodity price inflation has accelerated. Most other forecasters have been gradually adjusting their forecasts into line with us.’

‘The OBR now forecasts that squeezed incomes will be offset by a record increase in indebtedness: it is surprising that after a debt fuelled consumer boom and housing bubble that they think either that borrowers will be prepared to borrow that amount or that lenders will be in a position to lend that amount, let alone both.’

**Figure 1: UK real gross domestic product annual percentage change**



Source: ONS and Cebr January and April 2011 United Kingdom Prospects reports

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**NOTES TO EDITORS**

Cebr is a leading independent commercial economics consultancy with particular strengths in macroeconomic and market forecasting. The report has been co-authored by Cebr staff (for details see below).

The United Kingdom Prospects report is a quarterly report released in January, April, July and October of each year. The report is part of the prospects service - Cebr's macroeconomic advisory package for business.

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