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# UK COST OF LIVING CRISIS: AN OVERVIEW

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**Rinku Manocha**

*Associate Professor, Department of Commerce, Hindu College,  
University of Delhi, Delhi rmanocha2002@yahoo.com*

**Nishit Manocha**

*Research Scholar, Department of Commerce,  
Shri Ram College of Commerce, Delhi*

## ABSTRACT

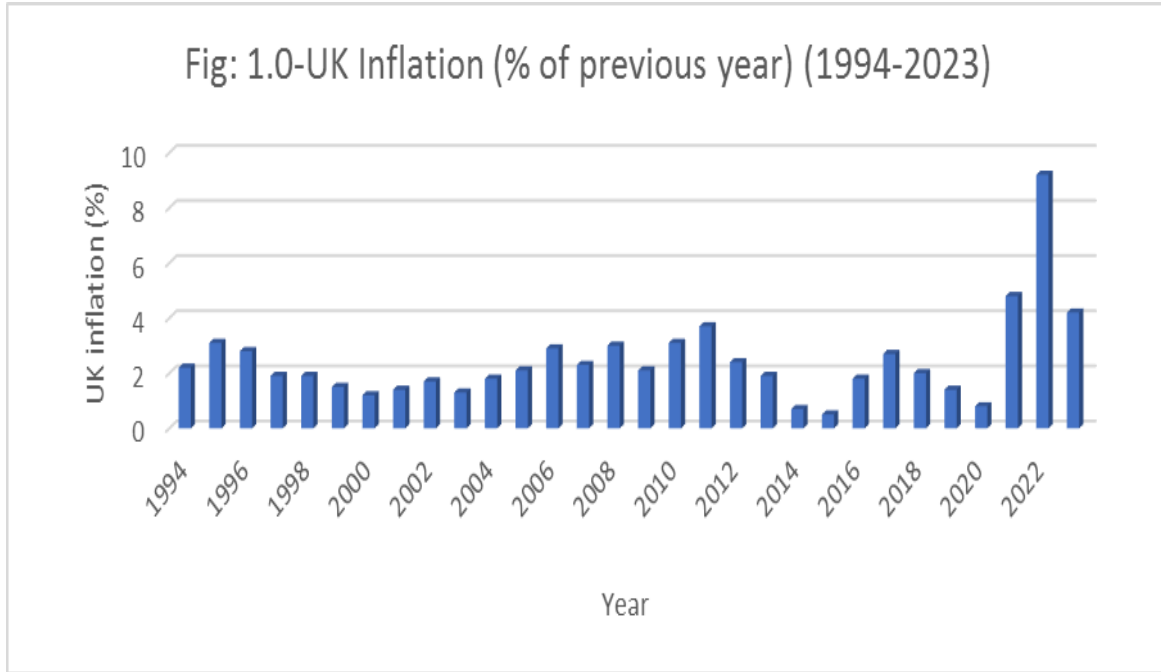
*In November 2021, a major section of the UK population reported an increase in cost of living. An upsurge in the price of food shopping, price of fuel, and price of gas and electric bills were the major reasons as per the UK households. A drastic rise in household cost and energy bills as compared to a year ago were reported. Household bills for almost every section of the UK got affected but deprived population had to bear the worst impact of rising household bills. Subsequently, the government of the UK took number of corrective measures but the penetration impact of the measures taken seem to take time to control the rising inflation in UK (likely by the end of 2028). The present study was an attempt to briefly state the reasons that contributed to UK cost of living crisis, the measures taken by the government and financial institutions of the UK, and the likely changes in the CPI inflation for UK in the years to come.*

*Inflation, UK cost of living crisis, CP, Consumer Price index*

## 1. INTRODUCTION

In late 2021, UK witnessed a rise in prices for essential goods in comparison to rise in household incomes leading to steep fall in real incomes for household. Various leading newspapers of UK defined the crisis as "a scenario in which the cost of everyday essentials like energy and food is rising much faster than average incomes" (Wilson and Westwater, 2022). A rise in inflation in UK and in the world at large contributed to such scenario. Further, the economic impact of Brexit, COVID-19 pandemic, and Russia-Ukraine war also worked as fuel to the fire (Hourston, 2022). A major section of UK got affected by the rising prices but low-income population was the worst affected section. To combat the impact, British government adopted number of measures namely, grants; tax relaxations and subsidies; and subsidies associated with electricity and gas suppliers (Borrett, 2022).

A pictorial representation (figure 1.0) and tabulation (table 1.0) of UK inflation depicts the trends of inflation of UK over the period of last three decades. The trends suggest that in none of the years post 2021, UK experienced an inflation more that 4% annually.



Source: Inflation tool. <https://www.inflationtool.com/rates/uk/historical>

Further, for years such as 2014, 2015, and 2020, inflation level for UK was less than 1%. A drastic rise started by the end of 2021 and reached to 9.2% in 2022 [as per Macrotrends (2024) a monthly inflation for UK in October, 2022 was recorded as high as 11.1%] leading to crisis wherein the UK households had to pay a huge cost for essentials and witness a major reduction the real income.

Table 1.0 Tabulation of UK inflation trends 1994-2023

|                  |      |      |      |      |      |      |      |      |      |      |
|------------------|------|------|------|------|------|------|------|------|------|------|
| Year             | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
| UK Inflation (%) | 2.2  | 3.1  | 2.8  | 1.9  | 1.9  | 1.5  | 1.2  | 1.4  | 1.7  | 1.3  |
| Year             | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| UK Inflation (%) | 1.8  | 2.1  | 2.9  | 2.3  | 3    | 2.1  | 3.1  | 3.7  | 2.4  | 1.9  |
| Year             | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| UK Inflation (%) | 0.7  | 0.5  | 1.8  | 2.7  | 2    | 1.4  | 0.8  | 4.8  | 9.2  | 4.2  |

Source: Inflation tool. <https://www.inflationtool.com/rates/uk/historical>

Hence, the present was an attempt to study the impact of crisis and the initiative taken by government of UK and various stakeholders to combat the rising inflation in UK

## 2. IMPACT OF THE CRISIS

UK cost of living resulted as a consequent of global and local determinants that stimulated inflation. Andrew Bailey (Bank of England governor) stated that 80% cause of crisis was due to global factors and global instabilities that the world experienced due to the COVID-19 pandemic, energy crisis, chip scarcity, supply and distribution channel variations, and Russia-Ukraine war; Further, as a result of Brexit, the UK was worst affected world's developed economies (Stepek, 2022). Local factors, labour shortage of goods associated with Brexit and additional taxes levied on household worst affected the cost-of-living crisis for UK. Post April 2022, the impact of crisis further deepened because of Ofgem (Office of Gas and Electricity Markets), an increase in energy consumption cap by 54% was imposed. A rise in National insurance and council tax (Wilson and Westwater, 2022) also led to an increase in prices for UK consumers. A research at Centre for Economic Performance, London School of Economics stated that stimulation and changes in the trade activities, stimulation in consumption and energy usage; and food and consumer prices fluctuation in the UK were seen. The report found that Brexit led to an upsurge in food prices because of excessive bureaucratic norms for food items coming from European economies (Borrett, 2022). Such a scenario, largely worsen the lower segment households. In addition to that, disproportionate and overexposed energy price in UK along with long-term gas storage led to significant impact of global market variations on UK energy prices and amenities. As a result, real wages drastically chopped down by 4.5% and inflation rose to over 10% (highest in last four decades in April 2022) (Stepek, 2022). Even the energy costs for British household rose by around 80%.

In October 2022, Prime Minister of UK announced measures to curtail inflation and consumer product price rise. Further, in September 2022, UK Chancellor also announced a mini-budget to combat crisis and suggested widespread tax cuts. The budget incorporated reduction in stamp duty; abolishing cap on bankers' bonuses; and the reduction of 45% of income tax. Measures were also undertaken to stimulate foreign investment and economic growth, and to strengthen financial markets of the UK.

As a result of crisis, the pound fell to a low of \$1.03 leading to significant increase in government borrowing costs. Hence, the Bank of England took measures to support the economy and raised the interest rates; such measures were undertaken to hold the pensions and savings of UK inhabitants. By the end of October 2022, all the mini budget's plans were

cancelled and the pound slowly regained strength but interest rates were still high. Hence, limited moderation in income of UK household were seen.

### 3. CHRONOLOGY AND UK INFLATION

In the beginning of 2021, inflation started rising sharply in the UK, affecting the prices of number of consumer goods and services. Food prices, transportation expenditure, furniture cost, household consumption items, electricity, and clothing cost started increasing drastically. As a result of crisis, confidence of UK citizens fell to its lowest level since 1974. Number of leading newspapers reported that the crisis had also affected mental health of the UK citizens.

On 10<sup>th</sup> November 2022, nurses and medical staff opted to go for a strike due to a drastic fall in wage structure, overwork pressures, and underfunding pay masters.

On 11<sup>th</sup> November 2022, Office for National Statistics (ONS) November suggested that investments in business activities saw a major knock down as a result the crisis (Sillars, 2022). Even, Gross domestic product fell exorbitantly over a period of the three months to September 2022 as a result of fall in manufacturing activities "across most industries" in UK.

On 8<sup>th</sup> December 2022, researchers reported that UK low-income consumers had no to negligible funds to heat their accommodations. Further, the report suggested that more than 7 lakh households had limited resources to meet food and clothing expenditure (Partington and Kirk, 2022). The report requested the government to strengthen Universal Credit. As a result of the report, the neediest citizens of UK were disposed with a direct amount of around £1,200 to meet the rising prices and approximately £400 to bear the energy costs.

The ONS also reported that in September 2022, UK witnessed a 22% rise in shoplifting. Hence, number of shopping centres began to kindle towards the proposed retail loss prevention systems. The researches depicted that hundreds and thousands of citizens were not having enough to safeguard against the cold and to pay for essentials required due to rising energy bills. The energy costs of the citizens had almost two folded as compared to immediately preceding winter (Nazir, 2022) in UK.

As a result, the largest local authority of Europe (Birmingham City Council) on 5<sup>th</sup> September 2023, issued a self-bankruptcy notice.



## **4. CONSEQUENT AND SUBSEQUENT**

### **4.1: GOVERNMENT INITIATIVE**

UK government responded to rising inflation and hence, an upsurge of 6.6% in minimum wage was promoted to stimulate the disposable income of UK households in 2021. Further, the government intensified efforts to combat crisis; the UK administration promoted windfall tax worth £5bn for energy corporates and a £15bn assistance package for the public at large. The assistance package provided a £400 discount on energy invoices for each household. For around 8 million lowest income households, a supplementary £650 payment was disclosed. Further, pensioners or disabled were given an extra payment of the £550 over and above the help announced for every citizen (Clinton, 2022).

In June 2022, business secretary directed review of the motor fuel market on urgent basis in order to combat the increasing consumer prices. Government of UK also announced a full range of subsidies to monitor the rising energy bills up to £150 billion (estimated cost) with a major move towards Energy Price Guarantee package. Government suggested that household with "average energy usage" were not required to settle for more than £2,500 a year for energy invoices (Ward-Glenton, 2022). The assistance packages were planned for the tenure of two years for households and six months for business houses at the outset, but subsequently, the package was further enhanced to support "the most vulnerable" households of UK.

### **4.2: ROLE OF SOCIETY, HOUSEHOLDS, AND MEDIA**

Various campaigns by numerous civic groups kept a watch on the government moves including "Don't Pay UK" campaign that encouraged the government to enhance and intensify various subsidies and action plans for assistance of UK citizens. The campaigner suggested that the government should bring out action plans that kept the subsidies and rising inflation in line with each other, and provided a constant and consistent support to low-income households in the coming few years. UK civil society kept on highlighting the discomforts and adversities caused by the cost-of-living crisis. They kept on organising foodbanks, and some foodbank managers reported additional demands of food banks. Further, organisers of food bank consistently reported low donations for food because of the crisis. On 18<sup>th</sup> June 2022, millions of UK work force and workers walked to Parliament to demand further stronger actions and strategies to combat the cost-of-living crisis (Sherman, 2022).



A campaign, "Enough is Enough" was promoted by trade union leaders to create pressure and persuasion during the crisis phase. The trade union leaders stated demands, namely, reduction in energy rates (to be pre-April 2022); rise in pay for public sector workers; rise in national minimum wage; reversal of the National Insurance increase; and a £20 per week increase in Universal Credit payments (Nicholson, 2022). Within a few weeks, more than 450,000 people of UK associated with the drive, and the campaign gained high-profile support from various sections of the society.

The cost-of-living crisis was very well captured, reported, and addressed by the media. Workers' unions, industrial staff, bus strikes, action by legal aids, and others struggling were well captured. In October 2022, the BBC identified a new brand '*Tackling It Together*' designed specially to assist UK consumers to navigate through the cost-of-living crisis (Jones, 2022).

## **5. FUTURE EXPECTATIONS: UK AND INFLATION**

Bank of England (BoE) and Office for Budget Responsibility (UK) are consistently working on providing the data related to Consumer price index (CPI) over the years. They also provide a budgetary forecast of likely changes in the CPI inflation for UK in the years to come. Though the inflation for UK reached at its peak of 11.1% in October, 2022 and both the authorities expected a still increase in subsequent few months but the forecast provided suggest that UK inflation will come down to 2% by the end of year 2024 and to 1% by the end of year 2026 (as an overcorrection) (Bank of England Monetary Policy report, 2023).

Further, it is suggested that UK government should not only work towards enhancing monetary and fiscal measures to control inflation but also keep a cost check on the energy prices. Moreover, better packages for energy consumption and price charged should be facilitated. A structured distribution of consumer goods along with the price control measures should be promoted to cater the needs of weaker section of the society during the phase/s of high consumer price index.

## **6. CONCLUSION**

Both local and global factors contributed to the UK cost of living crisis. Covid 19 pandemic, Brexit, Ukraine war, increase in UK inflation levels, fall in real income of households, and UK energy price fluctuations seem to be the major reasons that contributed to an upsurge in the household and energy bills of UK inhabitants. Further, low-income population was the



worst hit as wage rates drastically fell by the end of April 2022. Prime Minister of UK and Bank of England took corrective and supportive measures via mini budgets, tax cuts, raising support for pensioners and savings, reduction in stamp duties. By the end of October 2022, all the mini budget's plans were cancelled and the pound slowly regained strength but interest rates remained high, restricting household incomes. Further, the inflation level was still around 11% in October 2022 and authorities expect an improvement in UK inflation by the end of 2024.

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