Influences on household spending: evidence from the 2012 NMG Consulting survey

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A number of factors are likely to have restrained household spending growth over the recent past, including weak income growth, tight credit conditions, concerns about debt levels, the fiscal consolidation and uncertainty about future incomes. This article examines the factors affecting spending and saving decisions using the latest survey of households carried out for the Bank of England by NMG Consulting. Real incomes have been squeezed. Concerns about debt levels and tight credit conditions appear to be important factors supporting saving. But many households are also uncertain about their future incomes and have been affected by the fiscal consolidation. Over the next year, households do not expect to change the amount they save significantly, with the same factors that have supported saving recently continuing to be important.

Introduction

Spending by households accounts for around two thirds of all expenditure in the UK economy, so movements in consumption have an important impact on GDP. This article examines the factors affecting individual households' spending and saving decisions using the latest survey carried out for the Bank by NMG Consulting.[1]

The macroeconomic context

Real consumer spending fell by around 6% during the 2008/09 recession and it has been broadly flat since the end of 2009.[2]

Subdued household spending partly reflects weakness in real incomes. Real post-tax income in 2012 Q2 was only just above its level at the end of 2007 as modest growth in nominal incomes has been eroded by increases in VAT, energy prices and import prices.

Households have chosen to save more since the crisis, and that has also weighed on spending. The saving ratio increased sharply during 2008 and 2009 and remains well above its level before the 2008/09 recession (**Chart 1**). That increase is likely to reflect a number of factors:

- Tighter credit conditions may have raised saving by forcing first-time home buyers to save more to purchase a property and, more generally, by restricting borrowing to fund spending.

Chart 1 Household saving ratio[a]

(a) Percentage of household post-tax income.
(b) Recessions are defined as at least two consecutive quarters of falling output (at constant market prices) estimated using the latest data. The recessions are assumed to end once output began to rise.

- Households may have increased saving to help reduce their debt levels if they felt more vulnerable to possible adverse events than in the past.

(1) The NMG Consulting survey is carefully designed and weighted to be representative of British households in terms of the following characteristics: age, social grade, region, working status and housing tenure. But, as in any small sample of a population, care must be taken in interpreting small changes in results from year to year because they may not be a reliable guide to changes in the population.
(2) Section 2 of the November 2012 *Inflation Report* contains a more detailed discussion of recent developments in household spending. Preliminary results from the NMG Consulting survey are discussed in the box on pages 22–23 of that *Report*.

- The fiscal consolidation may have encouraged some households to save more, for example, because they anticipate tax increases in the future.

- Heightened uncertainty about future income may also have led households to save more as a precaution against unexpected falls in income.

The 2012 household survey

The factors affecting consumption *in aggregate* are likely to have had different effects across different households. For example, tighter credit conditions will primarily have affected those who wanted to borrow money. Moreover, households facing similar circumstances may choose to respond in different ways. To be able to understand movements in aggregate data, it is helpful to examine disaggregated data to assess the differences across households.

The survey is the tenth that the Bank has commissioned NMG Consulting to conduct on household finances.(1) Households were asked a range of questions about their finances that can help to shed light on the reasons for their spending and saving decisions. These included questions about current income, credit conditions, debt, the impact of the fiscal consolidation and uncertainty about future income.

The main 2012 survey was undertaken online between 12 September and 3 October and covered around 4,000 households.(2) A smaller, face-to-face survey of around 2,000 households was also conducted between 21 September and 8 October, but this included only a subset of questions on income and debt. This is the first year that the main survey has been carried out online. In previous years the full survey has been carried out face-to-face with online pilots in 2010 and 2011. Differences between the online and face-to-face surveys and other aspects of the survey methodology are discussed in the box on page 334. Unless otherwise stated, this article reports results from the online surveys in 2011 and 2012.

Online surveys have a number of benefits. First, they may encourage households to be more open about sensitive topics such as the state of their finances. Second, it is easier to build a longitudinal element to the survey whereby some of the same households are questioned from one year to the next. Further details on the longitudinal aspect of the survey and some additional insights it can offer are discussed in the box on page 335.

The structure of this article is as follows. The first section summarises what survey respondents report has happened to their income and saving over the recent past. The factors affecting spending and saving decisions are then discussed in more detail in the next section. Finally, the article considers the prospects for spending and saving over the next year.

Recent developments in income and saving

According to aggregate data, real incomes have been eroded over recent years following subdued growth in nominal incomes and increases in VAT, energy and import prices. The share of income saved has also risen since 2008. Those factors can explain why aggregate consumption has been weak.

Results from the NMG survey corroborate the view that real incomes have been squeezed over the past year. Average nominal incomes were little changed from the 2011 survey (**Table A**).(3) Twelve-month aggregate CPI inflation was 2.2% in September 2012 and, when combined with flat nominal incomes, that implies that average real incomes had fallen slightly, although the impact of different price increases on spending power may have varied across households.

Table A Monthly income(a)(b)

	Face-to-face			Online	
	2008	2009	2010	2011	2012
Mean pre-tax income (£)	2,609	2,706	2,659	2,670	2,627
Mean available income (£)	630	637	634	699	692

Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'What is the total annual income of the whole of your household, before anything is deducted for tax, national insurance, pension schemes etc?'. 'How much of your monthly income would you say your household has left after paying tax, national insurance, housing costs (eg rent, mortgage repayments, council tax), loan repayments (eg personal loans, credit cards) and bills (eg electricity)?'.
(b) Calculations exclude households who report available income greater than pre-tax income.

Low-income households, in particular, reported a squeeze in incomes. Sixty-two per cent of households in the lowest quartile of the income distribution said that their available income — income after tax, national insurance, housing costs, loan repayments and bills — had fallen over the past year, compared to 48% for the top quartile. For a given change in aggregate income, the overall effect on spending may be larger if it disproportionately affects low-income households because those households report that they are more likely to adjust their spending in response to falls in income. The box on pages 338–39 describes more evidence on how spending reacts to changes in income.

The amount that households reported that they had saved in the 2012 survey is similar to 2011. In both years, households reported that they put an average of around £185 per month aside in savings accounts or other assets. That represented around 7% of their total pre-tax income, or a quarter of households' available income. The aggregate saving ratio recorded in the National Accounts was also relatively flat over

(1) The results of each year's survey have been reported in the *Quarterly Bulletin*. See Kamath *et al* (2011) for details of the 2011 survey.
(2) The raw survey data are available at www.bankofengland.co.uk/publications/Documents/quarterlybulletin/nmgsurvey2012.xls.
(3) There are some systematic differences between incomes reported in the online and face-to-face surveys, as discussed in the box on page 334.

Survey method

Introduction and methodology

This year, the main survey of around 4,000 households was carried out online, alongside a smaller, face-to-face survey of 2,000 households that covered only a subset of questions. The move to using an online survey follows successful pilots in 2010 and 2011 (covering around 500 and 1,000 respondents respectively).

The 2012 online survey was carried out between 12 September and 3 October. The face-to-face survey was conducted between 21 September and 8 October by adding questions to a regular weekly survey, Capibus, run by Ipsos MORI. Aspects of both surveys were designed to encourage disclosure, including respondents being told that the survey was being carried out on behalf of the Bank of England and that their replies would be treated in the strictest confidence. Responses to both surveys were weighted using the same variables — age, social grade, region, working status and housing tenure — to be representative of Great Britain.

Financial values are reported in ranges in the survey. As in previous years, ratios calculated in this article assume that each respondent's weight is uniformly distributed between the minimum and maximum value of the ratio consistent with the ranges selected, except when computing saving as a proportion of incomes.(1)

Comparison of online and face-to-face surveys

By comparison with traditional face-to-face methods, self-administered online surveys have a number of potential advantages. Most importantly, asking households questions in a less time-pressured situation without the presence of an interviewer might increase disclosure about sensitive issues, such as those related to household finances.(2) For example, in the face-to-face survey, 13% of households refused to disclose their secured debts and 16% said that they did not know the value of their secured debts, compared to 3% and 2%, respectively, in the online survey. Online surveys also make it easier and cheaper to cover a larger sample, which should improve the reliability of the results, particularly when looking at subsets of the sample. And online surveys make it easier to survey the same households from one year to the next (see the box on page 335).

Online surveys also have some potential drawbacks. First, there may be self-selection into online surveys, which could mean that the panel is not representative. Second, online samples may be biased because not all households have internet access, particularly the elderly and those on low incomes. Average income in the online sample was, however, lower than in the face-to-face survey (**Table 1**). That could reflect households overstating their income in the face-to-face survey. Relative to ONS data from the Living Costs and Food Survey, the online sample contains more middle-income households and fewer on high incomes, but it represents the lower part of the income distribution well (**Chart A**).

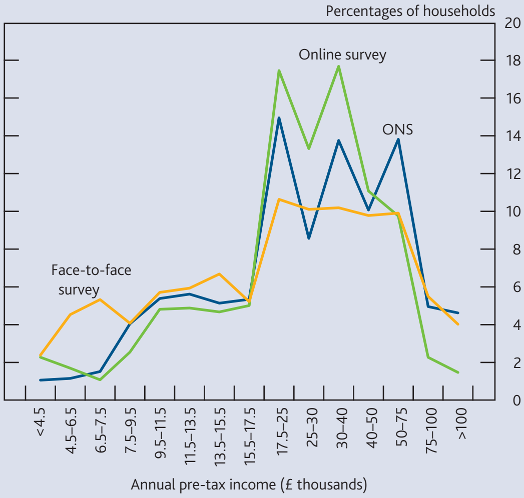
Table 1 Comparison of online and face-to-face surveys

	2011		2012	
	Online	Face-to-face	Online	Face-to-face
Mean monthly pre-tax income (£)(a)	2,670	2,905	2,627	2,769
Percentage of households with unsecured debt	65	54	63	51
Mean unsecured debt (£, unsecured debtors only)	6,485	5,946	5,928	n.a.
Percentage of unsecured debtors reporting unsecured debt repayments to be a burden	60	45	61	40
Mean secured debt (£, secured debtors only)	78,899	99,625	85,189	84,008
Percentage of mortgagors having problems paying for housing	20	10	19	12

Sources: NMG Consulting survey and Bank calculations.

(a) Excludes households who report available income greater than their pre-tax income, except for the 2012 face-to-face results where this was not possible.

Chart A Distribution of household income(a)(b)



Sources: NMG Consulting survey, ONS and Bank calculations.

(a) ONS data are from the Living Costs and Food Survey and are for the year 2010/11 (the latest available data); NMG Consulting data are for 2012.
(b) NMG Consulting data exclude households who report available income greater than pre-tax income.

Households were more likely to report that they have unsecured debt in the online survey than in the face-to-face survey (**Table 1**). The average size of those debts was also higher in the online survey, as was the proportion of respondents that reported that their unsecured debts were a burden. Similarly, a higher proportion of mortgagors reported difficulties paying for their housing in the online survey. These responses are likely to reflect respondents feeling more comfortable answering the questions in an online environment and therefore the responses are more likely to be a true reflection of households' finances.

(1) For further details see Nielsen *et al* (2010).
(2) Dayan, Paine Schofield and Johnson (2007) found that disclosure levels to sensitive questions were higher in online surveys.

The longitudinal aspect of the NMG survey

Conducting the survey online has facilitated the introduction of a longitudinal element to the survey: that is, some of the same households can now easily be sampled from one year to the next. Three hundred and fifty one of the respondents to the latest survey had also completed the survey in 2011 (around one third of the 2011 online survey) and the remainder were new respondents. Although the 2012 longitudinal data set is only small, the 2012 online survey sample size is four times larger than in 2011 and a continuation of this trend in response rates in 2013 would create a larger longitudinal element to the survey.

Advantages of longitudinal data

There are a number of advantages of longitudinal data over cross-sectional data:

- By observing the same individuals over time, it is easier to distinguish between **competing hypotheses**, for example whether observed changes in the data reflect genuine changes in the state of households' finances or simply differences in the households sampled.
- Panel data can also be used to examine **distributional changes**, for example whether the same households tend to find their debt a burden each year or whether it tends to be different households at different points in time.

The main drawback of longitudinal data revolves around the difficulty of ensuring that the sample is representative, particularly if individuals with certain characteristics are more likely to remain in the sample.

Examples of longitudinal data analysis

The longitudinal observations for 2011 and 2012 give insights into households' financial positions that cannot be obtained from the repeated cross-sectional data. For example, the longitudinal data show that households that reported that they were concerned about their levels of debt in the 2012 survey had been actively paying down their debts over the past year. Households that were concerned about their debt levels, on average, reduced their debt by more than households that were not concerned (£6,883 compared to £676). And households that reported that they had cut back spending because of concerns about debt reduced their debts, on average, by even more (£7,374).

The longitudinal data also show that financial difficulties appear to be persistent over time. Of the households that considered their unsecured debt repayments to be either somewhat of a burden or a heavy burden in 2011, 71% reported that they were still a burden in 2012.

the same period (**Chart 1**).[1] The NMG survey shows that there are differences in the distribution of saving ratios, with those households that have high incomes saving a larger share of their income (**Chart 2**). Saving ratios were also higher for households with higher incomes in 2011.

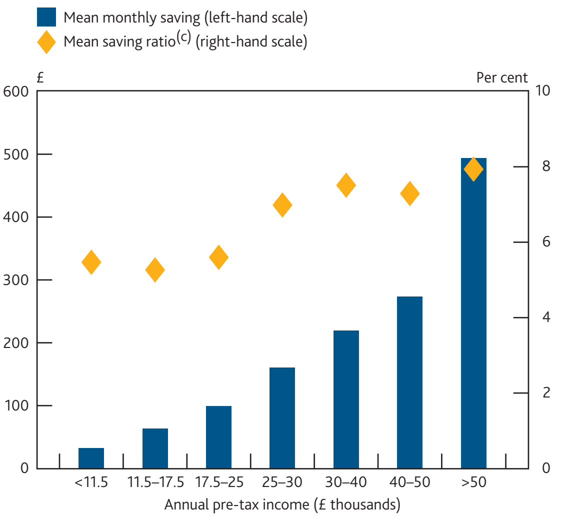
Factors affecting recent spending and saving decisions

Credit conditions

Household credit conditions have tightened significantly since the start of the financial crisis. Respondents to the NMG survey reported that credit conditions remained tight in 2012. The tightening in credit conditions partly reflects a reduction in credit supply by banks, caused by strains in bank funding markets.[2] To help alleviate this problem, the Bank of England and HM Treasury launched the Funding for Lending Scheme (FLS), which started in August 2012 (see Churm *et al* (2012) on pages 306–20 in this *Bulletin* for more details). As the NMG survey was carried out in late September and early October, it was likely to have been too early for the FLS to have had an impact on the results.

Tight credit conditions have discouraged some households from spending. Twenty-six per cent of households reported

Chart 2 Monthly saving[a][b]



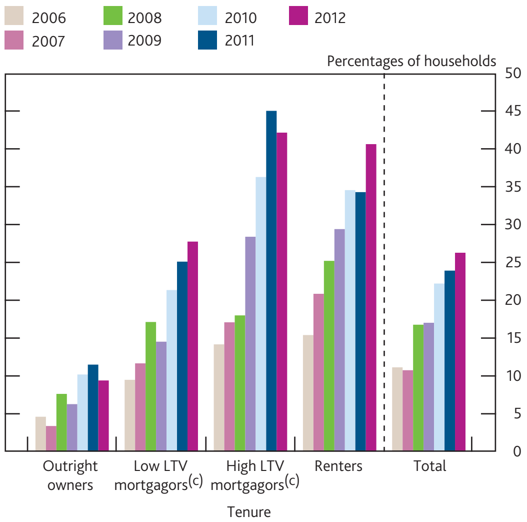
Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'In general over the past year, how much of your household income would you say that you put aside as savings each month (eg put into savings accounts or other assets, but excluding money paid into pensions)?'.
(b) Excludes households whose minimum possible saving exceeds their maximum possible pre-tax income.
(c) The saving ratio is defined as monthly saving divided by monthly pre-tax income.

(1) The National Accounts definition of the saving ratio differs from that in the NMG survey. The numerator in the National Accounts saving ratio refers to the amount of income that is not consumed, but the NMG survey asks about how much is put aside as savings each month. The denominator in the National Accounts measure is post-tax income, while the NMG saving ratio uses pre-tax income.
(2) See Bell and Young (2010) for more details.

that they were put off spending by concerns over the availability of credit in the 2012 survey, similar to the 24% who were put off in 2011 (**Chart 3**).

Chart 3 Proportion of households put off spending by credit availability concerns(a)(b)



Sources: NMG Consulting survey and Bank calculations.

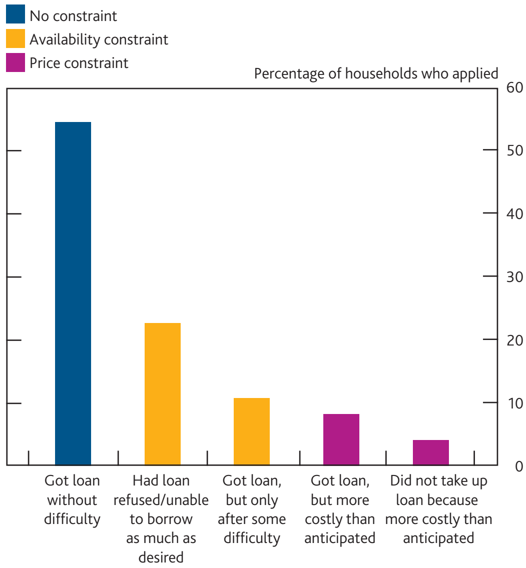
(a) Question: 'Have you been put off spending because you are concerned that you will not be able to get further credit when you need it, say because you are close to your credit limit or you think your loan application will be turned down?'.
(b) Results reported for 2006 to 2010 are from the face-to-face survey and results for 2011 and 2012 are from the online survey.
(c) High loan to value (LTV) mortgagors are those households with an LTV ratio above 75%; low LTV mortgagors are those with an LTV ratio of 75% or below.

Tight credit conditions for borrowers are likely to reflect both restrictions on the amount of credit available from banks and the cost of borrowing being too high for them. A new question in the 2012 survey can be used to help assess the relative importance of each factor. Twelve per cent of households in the survey had applied for a loan over the past year. Of these, just over half were granted loans without difficulty, 23% of applicants did not end up getting the credit that they had hoped for, and 11% eventually got the loan after difficulty, indicative of constraints on the amount of credit available (**Chart 4**). Eight per cent got the loan but reported that it was more costly than anticipated and 4% did not take up the loan because it was too expensive — constraints related to the pricing of the loan. Of course, it is impossible to know how these results compare to the period before the crisis. The survey question only addresses households that applied for a loan, and it may understate the role of prices, since some prospective borrowers may have been put off by high loan rates — which tend to be more visible than credit availability — before applying. The average income of those who succeeded in their applications was around £10,000 a year higher than those who faced constraints. That may suggest that some prospective borrowers faced these constraints because they posed higher risks.

One group that have been disproportionately affected by tight credit conditions are the young. Younger households living in rental accommodation were more likely than older renting households to report that they had been put off spending by tight credit conditions and that they had been unable to buy a house because they could not afford the deposit required to obtain a mortgage (**Chart 5**). Both factors are likely to have boosted saving and reduced spending in those households.

Households that could not afford the deposit needed for a house purchase said that they were likely to save for an extended period to build up a sufficient deposit. On average, households wishing to buy a property reported that they expected to continue saving for around a further six years. Given their planned levels of saving, this implies that they expected to need deposits of around £16,000.

Chart 4 Outcome of loan applications(a)(b)



Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'Have you applied for one or more new loans (including mortgage applications) over the past year?'. 'What was the final outcome of your loan application(s)?'.
(b) Calculations exclude households whose applications were still ongoing.

Chart 5 Households in rental accommodation affected by credit constraints, by age(a)

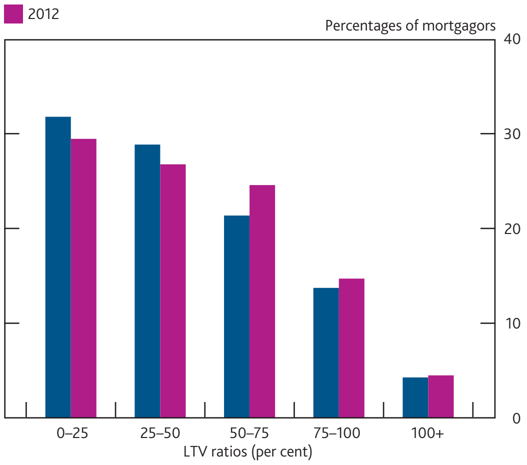
Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'Would you like to buy a property but are unable to obtain a mortgage because of the deposit requirement?'. 'Have you been put off spending because you are concerned that you will not be able to get further credit when you need it, say because you are close to your credit limit or you think your loan application will be turned down?'.

Balance sheets

Household debt levels appear to have increased slightly over the past year. Relative to the 2011 online survey, the average level of secured debt has risen a little, although that increase was partially offset by a fall in unsecured debt holdings. Within that increase in the average outstanding mortgage balance, there were fewer households with loan to value (LTV) ratios below 50% and more with LTV ratios between 50% and 75% (**Chart 6**). The proportion with high LTV ratios was broadly unchanged in the 2012 survey.

Chart 6 Distribution of loan to value ratios on mortgagors' outstanding secured debt[a]



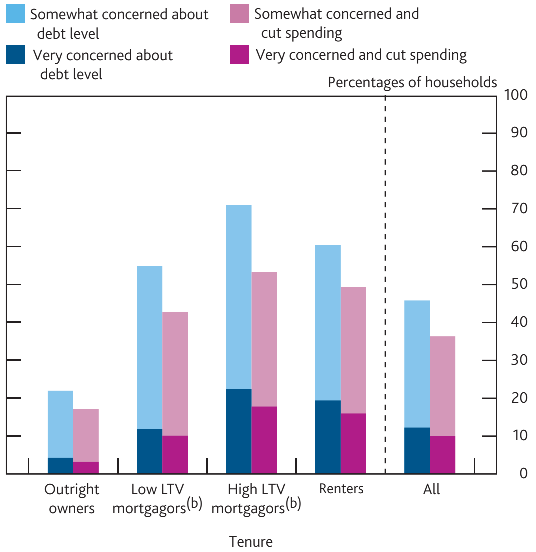
Sources: NMG Consulting survey and Bank calculations.

(a) Mortgage debt from NMG survey captures only mortgage debt owed on households' primary residences.

A large proportion of households reported that they were concerned about their debt levels. Twelve per cent of respondents said that they were 'very concerned', while a further third were 'somewhat concerned' (**Chart 7**). Concerns about debt levels were greatest among households with high LTV mortgages. But a significant proportion of those with smaller mortgages and renters were also concerned. Among renters who have unsecured debts, concerns were greatest among low-income households. Those concerns do not necessarily mean that households are currently having difficulties making repayments, although 5% of all households said that they had fallen behind with at least some bills and credit commitments and it was a constant struggle to keep up for a further 17%.

The most common response among households that were concerned about their debts has been to cut spending. Among those who expressed some concern, 78% had cut back spending, which is 35% of all households (**Chart 7**). Other responses to concerns about debt levels included working longer hours and/or getting a second/better-paid job (22% of concerned households), making overpayments (21%) and getting financial help from family or relatives (10%).

Chart 7 Concerns about debt and response to those concerns[a]



Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'Whether or not you are having difficulties making repayments, how concerned are you about your current level of debt?'. 'What actions, if any, are you taking to deal with your concerns about your current level of debt?'.
(b) High LTV mortgagors are those households with an LTV ratio of above 75%; low LTV mortgagors are those with a ratio of 75% or below.

When asked whether concerns about debt have increased over the past two years, a net balance of 12% of households reported that their concerns had risen. The largest increases were among high LTV mortgagors and then renters. The results imply that deleveraging could have had a larger impact on spending in 2012 than it did in 2010, although increased concerns about debt could also reflect other factors such as greater uncertainty about future income rather than simply a reappraisal of debt levels.

Fiscal consolidation

A substantial fiscal consolidation has been taking place since 2010. To date, that has primarily been achieved through a combination of lower public spending, a reduction in public investment and higher VAT. Further planned consolidation is likely to largely take the form of reduced public expenditure (which includes spending on goods and services, benefit payments and public sector wages) as a share of GDP. The survey included questions that asked households how they had been affected by the measures implemented and how they had responded to those measures.

Around half of all households reported that they had been affected over the past year by measures to reduce the fiscal deficit, broadly in line with the 2011 survey (**Table B**). Higher taxes, lower spending on services and lower benefits were the most often cited ways in which households had been affected by the fiscal consolidation over the past twelve months. A striking difference between the 2011 and 2012 responses is the decline, from 21% to 6%, in the proportion of households reporting to have been affected via lower income. But that could reflect a change in the wording of the question rather

Estimates of marginal propensities to consume

The way in which households adjust their spending in response to unexpected changes in income has important implications for the transmission of changes in monetary policy through to output and inflation. Responses may vary across households and according to the type of income shock.

The marginal propensity to consume (MPC) discussed here measures the share of an unexpected rise in income that is spent (or the proportion by which spending is cut when income falls). The 2011 NMG survey, for the first time, included questions that facilitated the calculation of MPCs. Asked again in 2012,(1) responses to these questions allow for a robustness check of the 2011 results. Additionally, a new question in the 2012 survey makes it possible to distinguish between the response of households to ***temporary*** versus ***permanent*** income shocks.

Households were asked whether their annual household income was higher, lower or the same as expected a year ago. Nearly 40% of households reported that they had experienced an income shock. Of those, 31% experienced positive income shocks and 69% negative income shocks. Positive income shocks were, on average, equal to 18% of annual pre-tax household income, while negative shocks were larger, at 37%. Comparing the change in spending in response to these income shocks provides an estimate of the MPC.

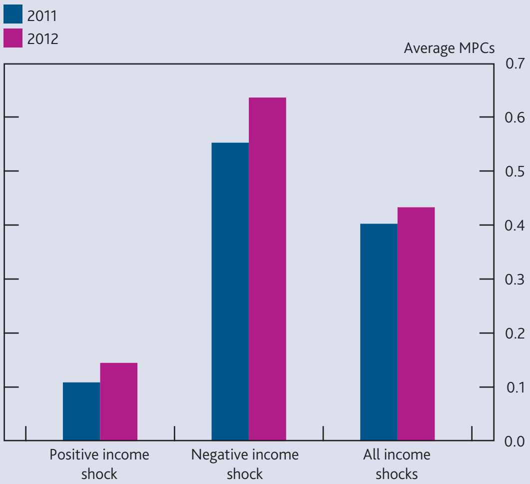
The 2012 survey suggests that there are asymmetric responses to positive and negative income shocks, confirming last year's findings (**Chart A**). Households in the 2012 survey have an average MPC of 0.43. Splitting this by the direction of the shock, households have marginal propensities to consume out of positive income shocks of 0.14 and 0.64 out of negative income shocks.

MPCs may be higher for negative income shocks because it is harder for households to smooth through unexpected falls in income than it is to smooth through increases, particularly if they are credit constrained. By limiting the sample to those households reporting a negative income shock that also reported that they had been put off spending due to a lack of available credit, the average MPC increases to 0.75. Those who are credit constrained are also likely to be on lower incomes. Across income groups, households with lower incomes display higher marginal propensities to consume out of negative income shocks (**Chart B**).

The 'permanent income hypothesis' suggests that households make spending decisions based on their average income over a long period of time rather than on their income in the current period. That implies that the marginal propensity to consume out of an unexpected change in income should be smaller when the shock is perceived to be temporary — rather than permanent — because average income in the future will be less affected.

Responses to a new question in the 2012 survey support the hypothesis that MPCs are lower for temporary income shocks than for permanent ones, although the difference is relatively

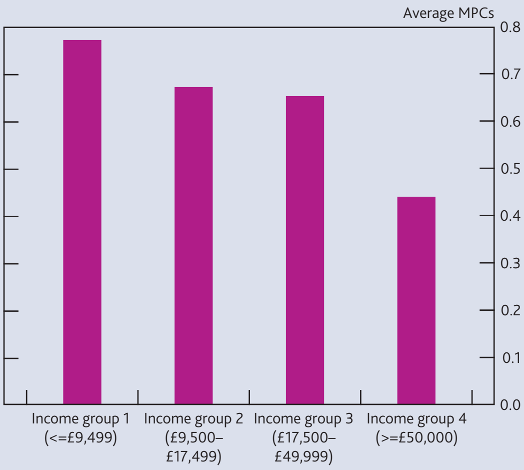
Chart A Average marginal propensities to consume(a)(b)



Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'Compared to what you expected this time last year, how much more/less money did your household receive over the last twelve months? Please specify an approximate amount in pounds'. 'You indicated earlier in the survey that your household received £x more/less over the last twelve months than you had expected a year ago. By how much did you increase/decrease your annual spending in response to this?'.
(b) MPCs greater than one and less than zero are excluded.

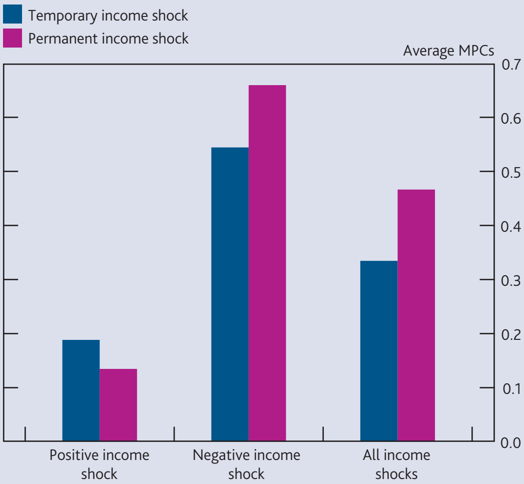
Chart B Marginal propensities to consume out of a negative income shock by income group(a)(b)



Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'Which of these ranges comes closest to the total annual income of the whole of your household, before anything is deducted for tax, national insurance, pension schemes etc?'.
(b) MPCs greater than one and less than zero are excluded.

Chart C Marginal propensities to consume by temporary or permanent income change(a)(b)



Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'Are you treating this unexpected increase/decrease in money received by your household as: a temporary increase/decrease, an increase/decrease that is likely to persist?'.
(b) MPCs greater than one and less than zero are excluded.

modest. Restricting the data to changes in income that households perceive to be temporary reduces the average MPC to 0.33, while including only permanent changes in income yields an average MPC of 0.47 (**Chart C**). That aggregate result is driven by responses to negative income shocks. The MPC out of a positive permanent income shock was marginally smaller than the MPC out of a positive temporary shock, but the number of households reporting that they had experienced positive temporary income shocks was small.

(1) The question changed to reflect income surprises not just in the month of the survey but over the course of the past twelve months.

Table B Impact and expected impact of fiscal measures on households(a)(b)(c)

Percentages of households

	Impact over the past year		Expected impact in the future	
	2011	2012	2011	2012
Those affected	**52**	**48**	**76**	**70**
How affected:(b)				
Higher taxes	21	22	39	40
Lower income(c)	21	n.a.	33	n.a.
Lower pre-tax employment income(c)	n.a.	6	n.a.	9
Less spending on services used	16	17	26	27
Lower benefits	11	14	19	21
Loss of job	6	6	22	22
Not heavily affected	**38**	**41**	**15**	**19**
Had not thought about it	**10**	**11**	**10**	**10**

Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'In 2010, the government announced a set of measures in order to cut the country's budget deficit. Some of these measures have already come into effect. How have these measures affected your household over the past year?'. 'Some of the government's measures will come into effect over coming years. Which of the following are you most concerned about for the future?'.
(b) Impacts may not sum to totals since households could choose up to three effects.
(c) The possible response to this question changed marginally between 2011 and 2012 surveys. 2012 survey refers to 'Lower pre-tax employment income' while 2011 survey refers to 'Lower income'.

than a material easing in the squeeze on incomes:(1) households indicating that they had been affected by the fiscal consolidation reported a similar average fall in monthly available income in both years.

In the 2012 survey, households continued to expect the impact of deficit-reducing measures to be larger in the future than over the past year. Higher taxes were most frequently reported as the way in which households expected to be affected in future (**Table B**), despite no announcement of significant future tax increases. Compared to households receiving the majority of their labour income from the private sector, households working in the public sector were more likely to expect to be affected through lower income or losing their job.

Almost two thirds of households affected by the fiscal consolidation had taken some action over the past year in response (**Table C**). Among these, the most frequently reported responses have been to increase saving (23%), work longer hours (22%) and look for a new job (21%). The proportion of households reporting that they will take action in future declined marginally in the 2012 survey, from 65% to 61%. Of the households planning to increase saving at some point in response to the consolidation, only around half reported that they planned to save more over the next twelve months. That may indicate that households intend to increase saving over an extended period of time or that increasing saving in response to the consolidation is more of an aspiration.

Overall, the past impact and expected future impact of the continuing fiscal consolidation remained broadly similar between 2011 and 2012. While some households are saving more in response to the consolidation (11% of all households), it appears to have been a less important driver of saving than tight credit conditions and concerns about debt.

Uncertainty about income

A new question in the 2012 survey explores the extent to which households' uncertainty about future income has

(1) Respondents to the 2011 survey could select 'Lower income'. This was changed in the 2012 survey to 'Lower pre-tax income'.

Table C Actions and likely actions taken in response to the fiscal measures[(a)(b)]

Percentages of households

	Actions taken over the past year		Likely action in the future	
	2011	2012	2011	2012
Responded/will respond	**65**	**60**	**65**	**61**
Type of response:[(c)]				
Look for new job	23	21	29	26
Work longer hours	21	22	27	26
Save more	17	23	28	32
Spend more	5	5	2	2
Not responded/ will not respond	**35**	**40**	**35**	**39**

Sources: NMG Consulting survey and Bank calculations.

(a) Questions: 'Which, if any, of the following actions have you taken in response to these measures?'. 'Which, if any, of the following actions will you take in response to these measures?'.
(b) Actions questions were not asked to those households who reported that they 'had not thought about it' to the effects questions in **Table B**.
(c) Types of response may not sum to totals since households could choose up to three types of response.

changed. Compared to the same time last year, 41% of households reported that they were more concerned about the chance of a fall in income over the next twelve months, suggesting that they have become more uncertain about their future incomes.

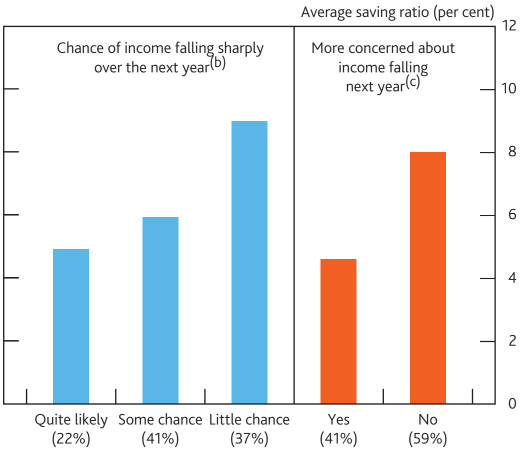
Increased uncertainty about the path of future income may have encouraged households to save more as a precautionary measure. That is not, however, borne out in the data: as shown by the orange bars in **Chart 8**, households who have become more uncertain actually display lower saving ratios. That does not seem to be related to households' ability to save, as a similar pattern of lower saving rates among uncertain households is evident within income groups. As the survey did not directly ask how any change in uncertainty had affected saving, it is possible that households had nonetheless saved more than they otherwise would have if they had not become more uncertain. And some households may have become more concerned about a fall in income precisely because of their low saving rates.

The extent to which households are uncertain about their income differs across age groups (**Chart 9**). Nearly half of households in the prime working-age groups (35 to 44 and 45 to 54) were more concerned about a sharp fall in income over the next year. In contrast, only 28% of households aged over 65 reported feeling more concerned. That may be related to older households being less likely to be in work and having a greater reliance on guaranteed pension incomes.

Prospects for spending and saving

Many of the factors that have affected spending and saving over the recent past are likely to persist in the near term. Real income growth is likely to only recover gradually; households may want to reduce debt levels further; the fiscal consolidation is set to continue; uncertainty may persist; and,

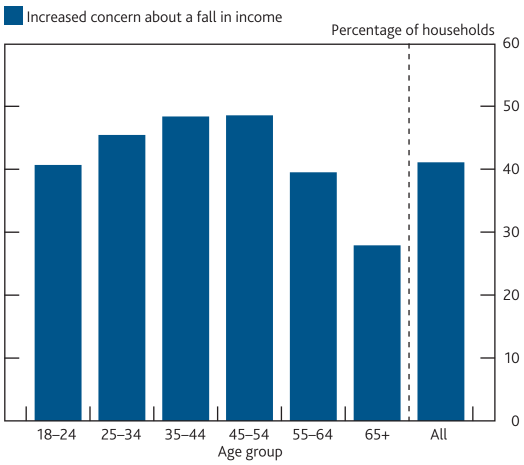
Chart 8 Income uncertainty and saving[(a)]



Sources: NMG Consulting survey and Bank calculations.

(a) Excludes households whose minimum possible saving exceeds their maximum possible pre-tax income. The saving ratio is defined as monthly saving divided by monthly pre-tax income. Numbers in parentheses show the percentages of respondents.
(b) Question: 'To the best of your knowledge, how likely is it that your household income will fall sharply over the next year or so (for example, because you or someone in your household are made redundant)?'.
(c) Question: 'Are you more concerned now than a year ago, that your household income will fall sharply over the next year or so?'.

Chart 9 Income uncertainty by age[(a)]



Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'Are you more concerned now than a year ago that your household income will fall sharply over the next year or so?'.

although there may be some easing in credit conditions following the introduction of the FLS, credit availability is likely to remain tighter than before the crisis. In the survey, households were asked how they expect their saving to change over the next year and they were asked to give the main reasons for any expected changes.

Households expect to save slightly more over the next year than they have done over the past year. Twenty-eight per cent of households said that they plan to increase the amount that they save next year, while 13% said that they would save less. But among those planning to save more, the average planned increase in monthly saving (£103) was smaller than the average decrease (£169). The survey therefore implies only a very modest increase in average saving across all households of £8 a month over the next year. That translates into a small increase in the aggregate saving ratio of around 0.3 percentage points.

Tight credit conditions (leading to greater saving for big items and house deposits) and deleveraging (saving to reduce debts) were the most commonly cited reasons why households plan to increase saving over the next year (**Table D**). These echoed the main reasons why households expected to raise saving in the 2011 survey.

Table D Reasons for planning to increase monthly saving over the next year(a)(b)

Percentages of households

	2011	2012
Saving for big item	38	36
Reduce debts	27	34
Saving for a house deposit	22	27
Personal commitments	24	26
Increased income	19	22
Retirement	17	14
Worried about redundancy	15	12
Worried about interest rate rises	8	8
Future tax rises	8	6
Euro-area developments	n.a.	6
Less guaranteed monthly income	3	5
Lower mortgage repayments	6	5
Value of assets fallen	4	2

Sources: NMG Consulting survey and Bank calculations.

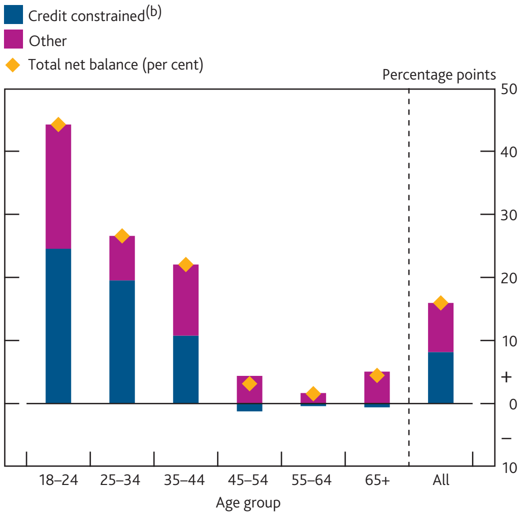
(a) Question: 'What would you say are the main factors driving this increase?'.
(b) Percentages of households that are planning to increase saving. Percentages do not sum to 100 because households could choose up to four reasons.

Only a small proportion of households said that they were planning to increase saving because they were worried about redundancy or about economic developments in the euro area, perhaps suggesting that uncertainty is unlikely to be an important factor boosting saving over the next year. Euro-area developments may, however, affect saving by contributing to the tightness of credit conditions and consequently encouraging people to save for big items and/or a house deposit, which are expected to be big drivers of saving. Concerns about tax increases and saving for retirement also appear to only have a relatively small role in explaining why households plan to increase saving over the next year, although they could be more important in explaining the level of saving than the expected change in saving.

Many of the households expecting to increase saving over the next year are in younger age groups (**Chart 10**). In part, that may be related to the normal life cycle of saving, but these households are also the ones that have been most affected by tight credit conditions. Around 60% of those under the age of 35 who were expecting to increase saving over the next year had also been affected by credit constraints.

Among the households that expected to reduce their saving over the coming year, most were being forced to save less

Chart 10 Contributions to the net balance of households planning to increase saving next year by age(a)



Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'Over the next year, are you planning to change the amount you save?'.
(b) Credit-constrained households are defined as those who have been put off spending because they are concerned that they will not be able to get credit when they need it or who would like to buy a property but have been unable to obtain a mortgage because of the deposit requirement.

because of lower income or rising costs for essential items (**Table E**). Rising costs of essential items appear more important in pushing down expected saving over the next year in the 2012 survey than in 2011. Only a small proportion of households reported that they planned to reduce saving over the next year because they had already built up a sufficient stock of savings, indicating that relatively few households are actively choosing to save less.

Table E Reasons for planning to decrease monthly saving over the next year(a)(b)

Percentages of households

	2011	2012
Higher cost of essentials	43	57
Lower income	37	39
Low interest rates	18	23
Bought what saving for	16	11
Have enough savings	9	10

Sources: NMG Consulting survey and Bank calculations.

(a) Question: 'What would you say are the main factors driving this decrease?'.
(b) Percentages of households that are planning to decrease saving. Percentages do not sum to 100 because households could choose up to four reasons.

Conclusion

The 2012 NMG survey shows that nominal incomes have been broadly flat over the past year, and rises in prices will have eroded the spending power of that income. Households on low incomes are more likely to have seen their income fall and a number of households remain uncertain about their future incomes.

Tight credit conditions and concerns about debt levels appear to be two important factors that have supported household saving over the past year. The fiscal consolidation has also boosted saving to a smaller extent, but there is less clear evidence that those who are uncertain about their future incomes have saved more.

The survey implies that the household saving ratio is likely to remain broadly flat over the next year. That would be consistent with a small rise in spending if nominal incomes grow modestly. The survey suggests that the factors that have supported saving over the past year, such as tight credit conditions and concerns about debt levels, are likely to continue to encourage households to save over the next year, although, to the extent that the FLS eases credit conditions, that may encourage households to increase spending relative to their current expectations.

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