JGFR Briefing Paper: Autumn Statement 2016

Self- assessment: Just making ends meet (aka The Jams)

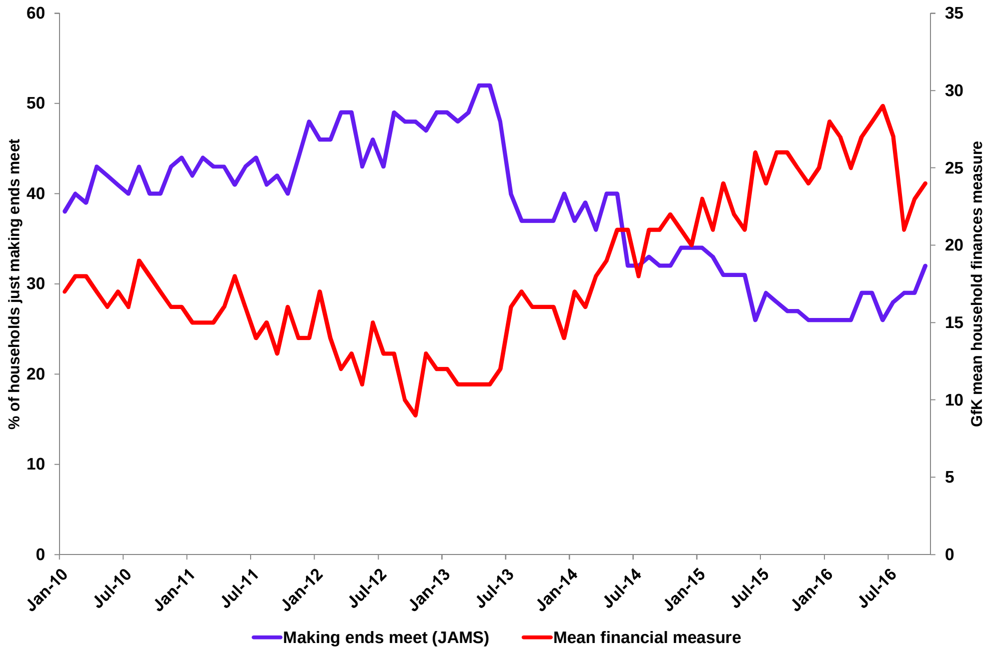
Since Brexit there has been much spotlight on the plight of the Jams–a phrase coined by Chancellor Philip Hammond to describe households 'just about managing'.

This group also feature in the Prime Minister's desire to build a more inclusive society; especially those left behind by globalisation, and who are likely to have borne the brunt of spending cuts.

In the coming years a further squeeze on living standards is likely as inflation kicks in and job pressures grow. Hence measures in the Autumn Statement designed to help counteract the delayed impact of Brexit (income tax kicking in at £11,500, a rise in the National Living Wage, benefit cut reinstatements, fuel duty frozen and infrastructure spending promised to increase housing supply and better communications) . Such measures will help to ease pressures on the Jams.

More insight into the size of the Jams can be found in the GfK Consumer Confidence Barometer that asks consumers about the current state of household finances; whether people are saving, just making do (Jams) or struggling (running down savings and falling into debt). A mean measure is computed for the overall state of household finances.

The state of the Jams and overall household finances 2010-16

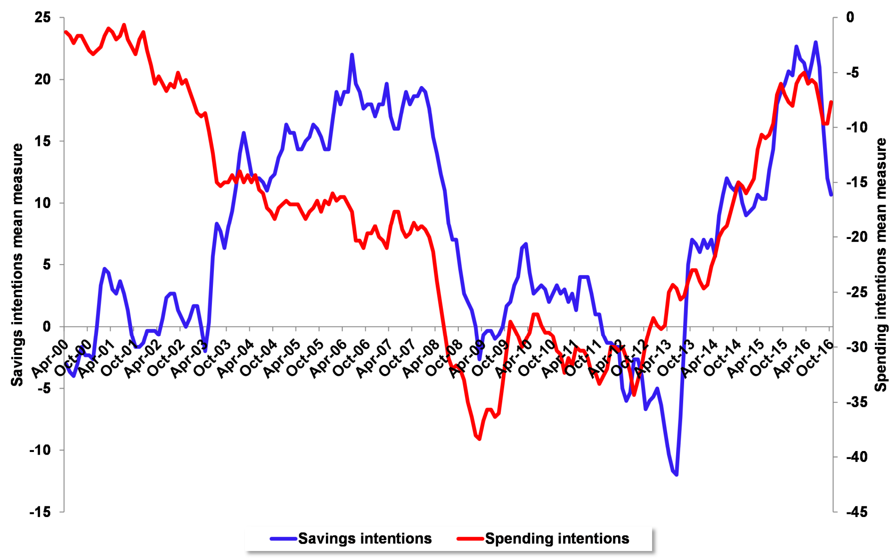


Source: GfK / European Commission / JGFR

Contrary to much recent focus on the rise of the Jams, the past 3 years has seen a reduction in their proportion among households, halving from a high of 52% in April/May 2013 to a low of 26%, most recently last June. Since Brexit there has been a rise in the proportion of Jams to 32%. The average since January 2010 is 38%.

Far more people who were 'just making ends meet' are now saving, resulting in a big improvement in peoples' own views of the strength of household finances, reaching a post-1997 peak in June. Since Brexit, households have responded to the emergency cut in bank rate in August by spending rather than saving, with a fall in the proportion of saving households. This may be temporary as consumers decide whether to accelerate spending before prices rise in 2017 and are prepared to take on more consumer credit. Expect a bumper Black Friday in the shops and online.

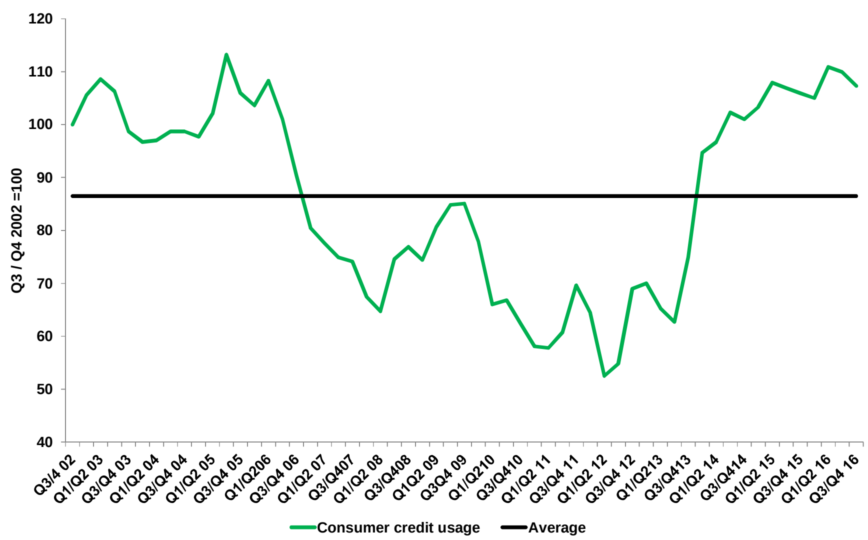
Spending* and saving intentions, 2000-17



*on major household purchases
Source: GfK / European Commission / JGFR

As household finances improved in the 2014-15 economic recovery so both saving and spending intentions increased, peaking last spring. Since June savings intentions have fallen away, while spending intentions on major purchases have remained well above average, with many people taking advantage of readily available consumer credit.

Consumer credit usage intentions, 2002-17*

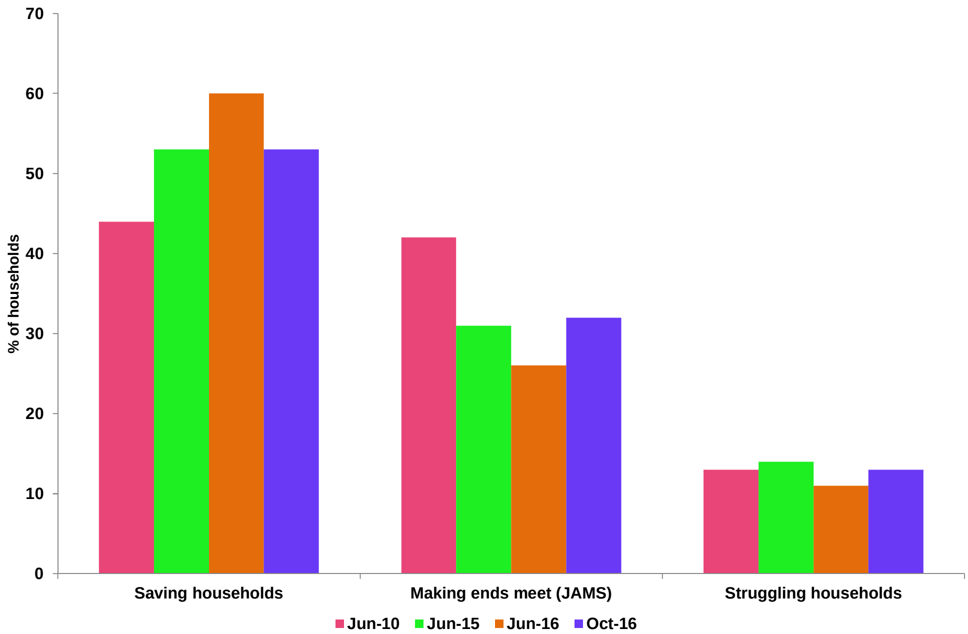


*2-quarter moving average index of % of adults 18+ intending to take out consumer credit

Source: GfK / JGFR

Despite much commentary and analysis of 'hard' data giving support to an ongoing austerity agenda, consumers own self-assessment in the past 2 years provides a very different picture. In 2015 confidence was positive in every month for the only year since records began in 1974. In 2014 confidence jumped by the biggest year-on-year rise (16 points).

Comparing the financial position of households in June 2010 (the start of the Coalition government), June 2015 (post the general election) and June 2016 (pre-EU Referendum) shows another story; that consumers have become better at managing their finances and become more self-reliant despite low wage growth. In the 'new normal' low interest rate, low inflation, high employment economy, good times had seemingly returned.



Source: GfK / European Commission / JGFR

Many years ago pre-recession, we spoke of the tide being high for consumer confidence and for the state of household finances. While the Jams have seen their numbers cut by half in the past 3 years, next year's graph could see a big jump with much depending on the mood of the consumer as the journey along Brexit Road really begins.

The Autumn Statement may provide some help to millions of low-middle earners as the country goes back to the future. 2017 is set to be a very challenging year.

More details on the Jams and the mood and financial activity of consumers are available going back over 20 years.

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