strategy&

UK Consumer Credit Confidence

March 2023

pwc

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Introduction

Given the current challenges facing consumers in the UK as a result of the cost of living crisis, we wanted to better understand the financial health of consumers in the UK. As a result, we ran a customer survey of >2,000 UK adults with YouGov in January 2023. The survey provides a statistically significant representation of the UK population, at greater than a 95% confidence level. This year's research, conducted against the backdrop of a cost of living crisis and in a post-pandemic world, offers a snapshot of how much debt consumers are taking on and the extent to which they can afford it, their credit confidence and their understanding of financial products and services.

Levels of debt

1. Household debt has reached a record high and is now close to being equivalent to the national GDP.

>£2trillion
total household debt now exceeds £71,000 per household

Total household debt in the UK now exceeds £2 trillion[1] for the very first time – the equivalent to £71,000 per household. This is almost equivalent to the UK's GDP (£2.2 trillion)[2]. Around 80% of household debt is secured against properties, with total outstanding secured debt of £1,6bn[3], having grown 4.1% in the previous year. Meanwhile, the total amount of unsecured debt now exceeds £400bn[4], which equates to a record high of £14,300 per household. In the past year alone, unsecured debt has grown by almost £900 per household, at an annual growth rate of 7.2%.

£14,300
average unsecured household debt, which has grown by almost £900 in the last year alone

While debt has been rising considerably at the overall level, that growth has been relatively concentrated among certain segments of consumers. Only 35% of people said that their debt has increased since the start of the pandemic (January 2020), compared to 38% whose debt had stayed about the same and 27% who had decreased their debt. Younger people were more likely to have increased their debt, with 48% of 18-24 year olds having done so, compared to 27% of people over 55 years old. In contrast, higher earners have been around twice as likely to have decreased their debt, with 49% of those earning >£70k per annum doing so, compared to only 25% of those earning <£30k per annum.

1. Bank of England Financial Stability Report (Dec 2022)
2. ONS GDP Estimates
3. Bank of England Secured Lend (Sep 2022)
4. Bank of England Unsecured Lending

Affordability of debt

2. The overall affordability of household debt is still below its pre-global financial crisis peak when unemployment was double what it is today; however, things are set to deteriorate.

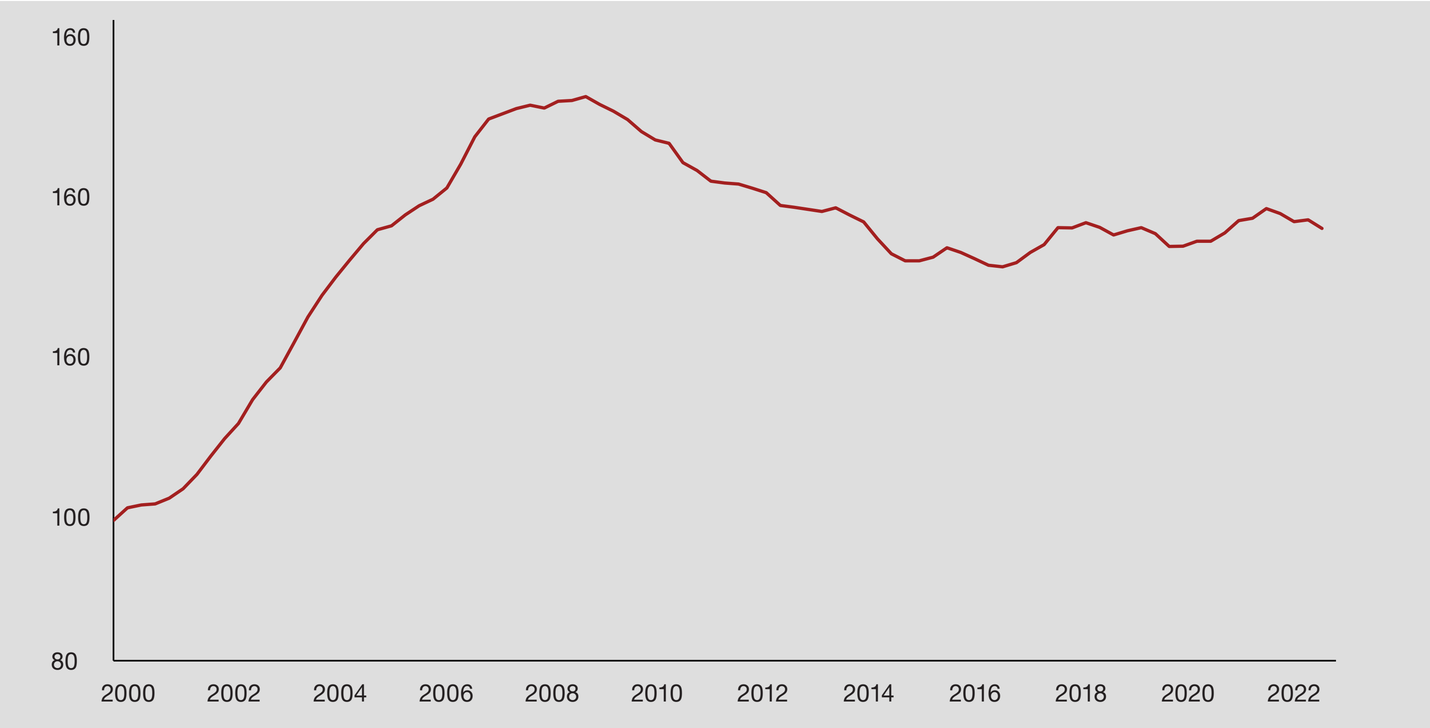
133%

the total UK household debt-to-income ratio - high by historical standards but below the pre-global financial crisis peak of 149% in 2008

Measures of affordability provide a useful insight on whether we should be concerned about current levels of consumer debt. One such measure is the UK household debt-to-income ratio, which currently stands at 133%[5]. While this figure is high by historical standards, it has declined since 5 the 2008 peak of 149% and been relatively flat since 2014. This measure of affordability has been relatively stable over the last decade, as the pace of debt growth has slowed to be more in line with income growth. According to the Bank of England, household debt has grown at 2.4%[6] over the last decade compared to around 9% pre-global financial crisis, while income growth has slowed by less, from an average of 4.6%[7] pre-global financial crisis to 3%.

5. Bank of England Core Indicators
6. Bank of England Credit Lending to Individuals
7. Bank of England Monetary Policy Report (Nov 2022)

Figure 1: UK household debt-to-income ratio (%, 2000-2022)[8]



On the whole, higher debt levels have been more affordable than prior to the global financial crisis for two main reasons. Firstly, lower interest rates have reduced the relative value of debt repayments, remaining below 1% from 2009-2021, a far cry from the current rate of 4% or pre-global financial crisis levels of 5.75% in July 2007. Secondly, low levels of unemployment have mitigated the scale of adverse impacts on consumers, with the latest unemployment rate of 3.7% from September-November 2022 less than half that of the post-global financial crisis peak of 8.5% in September-November 2011.

However, the latest forecasts from the Bank of England predict that unemployment will reach 5.0% in Q1 2025[8] and financial markets expect official borrowing costs to peak at around 4.5% this 8 year. Mortgage rates have risen sharply in the last year, driving a significant increase in the size of repayments for first-time buyers, those on variable rate mortgages or those needing to remortgage a fixed rate deal. For example, someone borrowing £200,000 over 25 years on the average two-year fixed rate mortgage in February 2023 would need to repay £4,080 more in their first year, than someone who took the same mortgage out in December 2021[9].

Compounded by the cost of living crisis, many people are facing a “great adjustment” to how they spend, save and borrow in light of a higher interest rate environment. For younger consumers, many will not even have known an interest rate environment other than the near zero rates we saw post financial crisis and until last year.

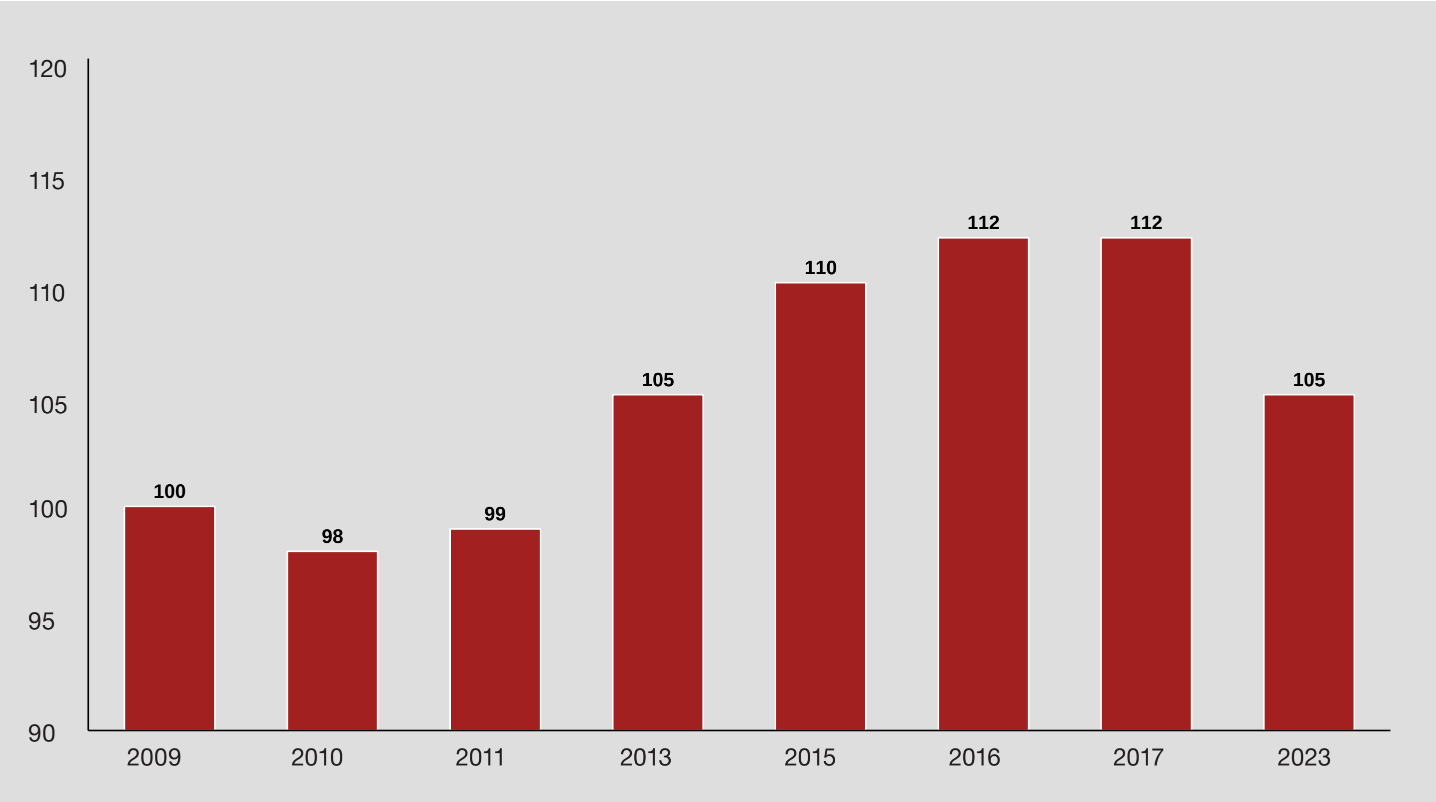
8. Bank of England Secured Lend (Sep 2022)

9. In February 2023 the average interest rate for a two – year fixed mortgage was 5.44% compared to 2.34% in December 2021 – Moneyfacts

Consumer Credit Confidence

3. PwC's Consumer Credit Confidence Index has significantly declined since our last measure and is only marginally above 2009 levels.

Figure 2: PwC Consumer Credit Confidence Index (Index Score, 2009-2023)

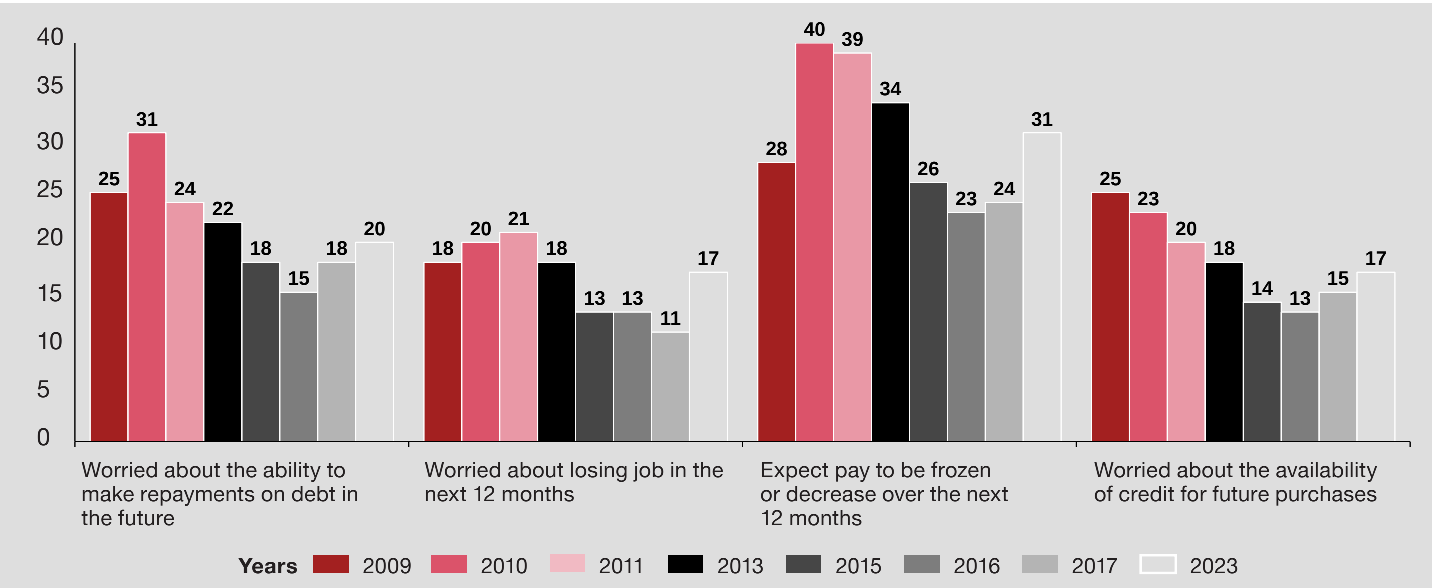


First run in 2009, the PwC Consumer Credit Confidence Index provides one of the longest running and most comprehensive pictures of Britons' finances. The index brings together multiple elements of consumer credit confidence into a single consolidated measure. This year's result shows a significant decline in overall confidence since our last measure of the Consumer Credit Confidence Index, falling back to the same level as in 2013, and only marginally above 2009 levels.

Our survey results indicate that more than half (52%) of Britons feel that they are financially worse off compared to January 2020, i.e. around the beginning of the pandemic. The cost of living is a growing threat to the affordability of consumer debt, with one in five consumers now worried about their ability to make future debt repayments (a 30% increase since 2016). This is particularly acute for consumers with limited savings. More than a quarter of people have less than £500 in savings (28%) and these consumers are three times more likely to be worried about their ability to make future debt repayments than those with more than £1000 in savings (43% vs. 12% respectively).

Almost a third (31%) of people expect their pay to be frozen or decline in the next year. PwC analysis suggests that real wages fell by 3% in 2022 which is the second largest fall on record. This equates to the average worker being worse off by £840 across the year. A further 2% fall in real wages is forecast for 2023, with the average worker then facing a further £540 real cut, amounting to an average worker being worse off by £1,380 by the end of 2023.

Figure 3: Drivers of the PwC Consumer Credit Confidence Index (Adults, %, 2009-2023)



An increasing number of consumers are also worried about losing their job in the next year (17% in 2023 vs. 13% in 2016). While there is a considerable degree of uncertainty, this aligns to the latest forecast from the Bank of England which predicts unemployment will increase from 3.8% to 4.4%[10] by the end of 2023. Therealso appear to be differences across the UK. Londoners are more worried about losing their jobs compared to the rest of the UK (26% vs. 16%) and more likely to expect their pay to freeze or decrease (39% vs. 29%).

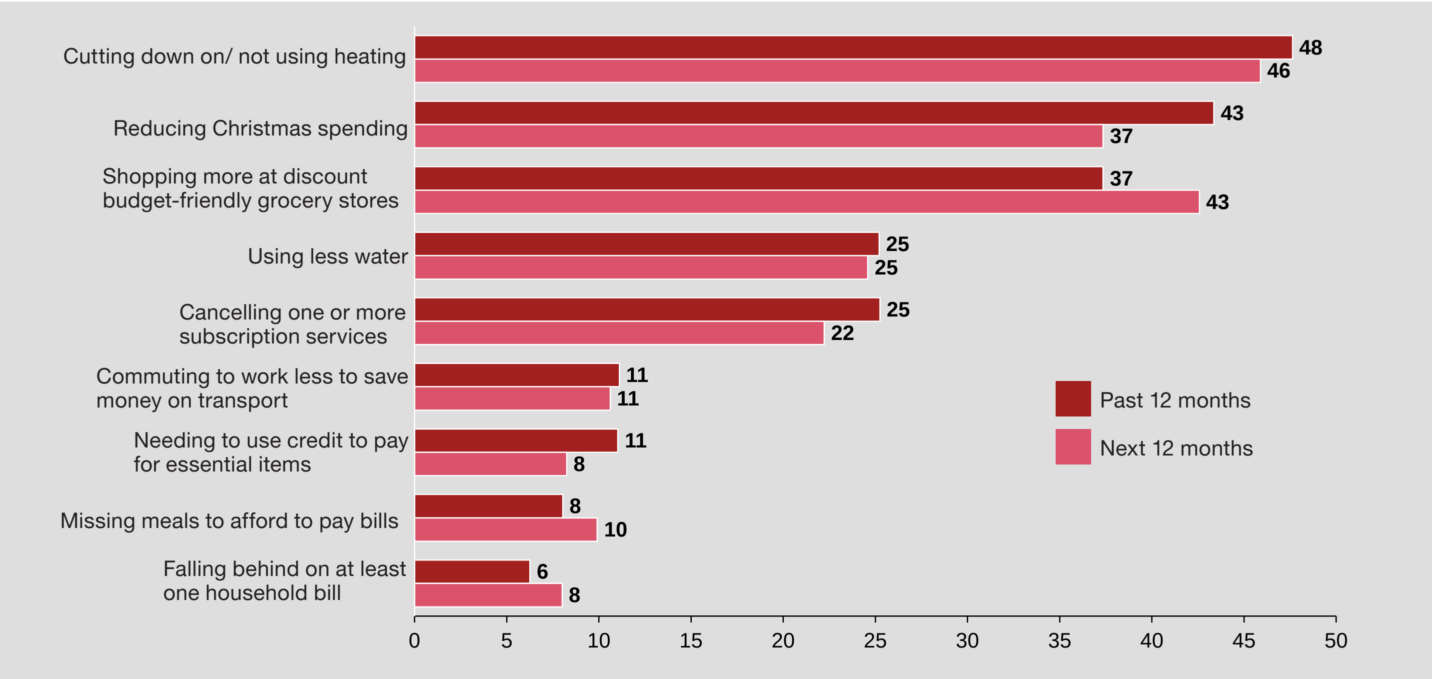
A further measure that shows a deterioration in consumer confidence is concerning the availability of credit. 17% of consumers are now worried about the availability of credit for future purchases, compared to 13% in 2016. This aligns to the increase we observed in the financially-underserved population, i.e. those people that may have difficulty accessing credit from mainstream lenders. In a PwC / TotallyMoney report published in 2022[11], we found that there were 20.2m financially under-served adults in the UK, representing an increase of 50% since 2016.

10. Bank of England Monetary Policy Report (Feb 2023)

11. Overlooked and financially under-served Report

4. Consumers have been cutting back on several areas of their spending and this trend is set to continue.

Figure 4: Cutbacks in consumer spending (Adults, %, 2023)



A consequence of declining levels of consumer confidence has been consumers cutting back in areas of essential spend and this trend is set to continue across the year ahead. Almost half (48%) of all consumers have cut down on their heating usage, as a result of the escalation in energy prices. Other behavioural changes include consumers reducing their Christmas spending (43%), shopping at more discount-oriented grocery stores (37%) and cancelling one or more subscription services (25%).

Those on lower incomes have been more likely to have made and continue making cutbacks For example, 50% of people with personal incomes of <£20k per annum expect to cut down their heating usage in the next 12 months, compared to 31% of those with incomes >£70k per annum. Consumers with lower incomes are also twice as likely to cut their water usage (31% vs. 15% respectively).

> **3x**
>
> renters in the UK were three times more likely to have missed a meal to afford their bills compared to property owners in the last 12 months

The survey also highlights the increasing likelihood of financial fragility among those that rent properties compared to those that own their homes. Renters were four times more likely to have fallen behind on a household bill than homeowners (14% vs. 3%) and three times more likely to have missed a meal to afford to pay bills (17% vs. 5%).

Another indicator of the financial challenges some consumers are facing is that our survey suggests 3.3m people – or 10% of the working population – have opted out of their pension schemes in the last 12 months amid the rising cost of living. This figure rises for those aged 18-24, of whom 17% have opted out, and for renters, who are almost twice as likely as those who own a property to have opted out (15% vs. 8%).

3.3m

our survey suggests 3.3m adults in the UK have opted out of their workplace pension schemes in the last 12 months

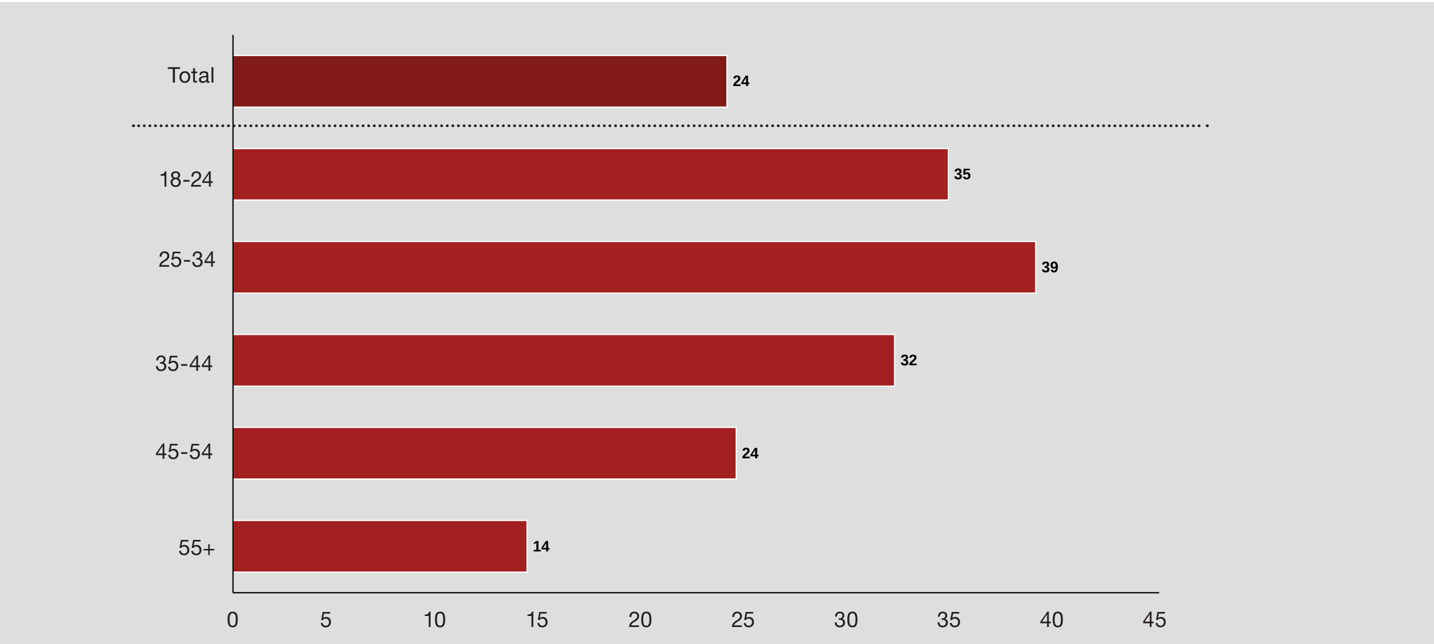
5. Certain consumers are less financially resilient and it is these people that may struggle the most to access affordable credit.

13m

adults in the UK would need to borrow money in order to afford an unexpected payment of £300 in the next 12 months

Whilst the cost of living crisis has forced many consumers to cut back on their spending, some groups are more at risk than others. Our survey suggests that 13m adults in the UK (c.25% of the total adult population) would need to borrow money in order to afford an unexpected payment of £300 in the next 12 months.

Figure 5: Percentage of age group who would have to borrow to meet an unexpected payment of £300 (Adults, %, 2023)



This proportion is even more pronounced for certain demographics, with those aged 18-34 being more than twice as likely to need to borrow for such a payment compared to those aged 55+ (36% vs. 28%). Similarly, those that rent a property are twice as likely to need to borrow than those that own their property (36% vs. 18%), with half of all private renters having seen their rental payments increase in the last 12 months.

Of all of those who would need to borrow to afford an unexpected payment of £300, 43% said they were worried about the availability of credit for future purchases, compared to just 12% that would not need to borrow. This indicates that those people who would need access to credit the most, are typically the most pessimistic about their ability to secure access to it.

Financial literacy

6. There appears to be a disconnect between how confident people feel in making financial decisions and their levels of financial literacy.

88% vs. 33%

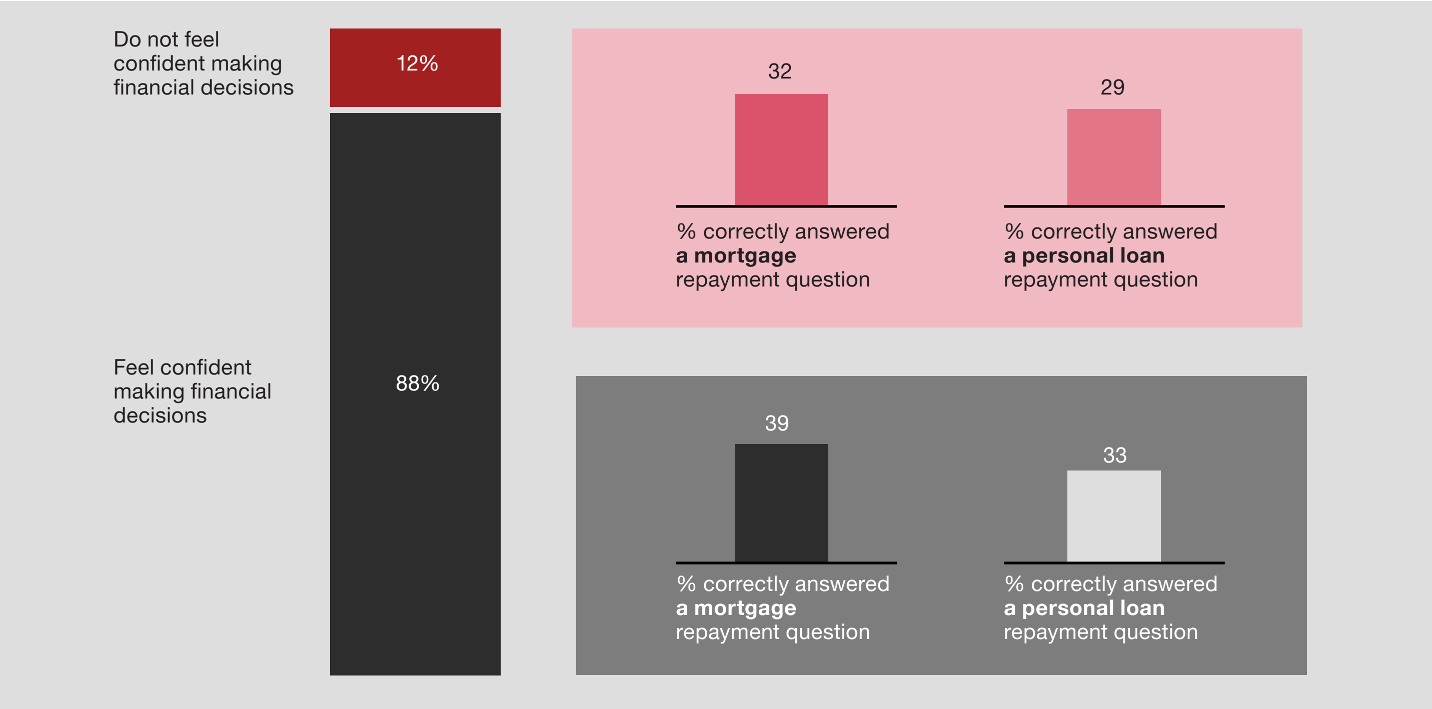
88% of consumers feel confident in making personal finance decisions, but when tested on a basic question around repaying a personal loan, only 33% answered correctly

With inflation continuing to reduce how far the money in people's pockets will go, we wanted to understand how well informed consumers feel they are to manage their personal finances and make good choices. Whilst financial decisions can feel daunting to some people, we found that 88% of consumers feel confident or very confident in making such decisions, suggesting relatively high levels of financial literacy. However, there appears to be a disconnect between these confidence levels and consumers' actual understanding of everyday financial products.

When tested on basic multiple choice questions around how much interest someone would pay by holding common banking products, just 37% of people correctly estimated the value range for a mortgage, and 31% for a personal loan, not significantly better than the 20% probability of guessing between the five multiple choice options offered. Even if we isolate the 88% who feel confident in making personal financial decisions, slightly above a third of the group then went on to answer the questions correctly (39% for the mortgage question and 33% for the personal loan question).

There is also a marked difference in the proportion who respond correctly to these questions by income band. For example, those earning >£70k p.a were twice as likely as those on less than <£20k p.a to answer correctly (69% vs. 31% respectively for the question on a mortgage). There also appears to have been no sign of improvement in financial literacy. When asked the same personal loan repayment question back in 2017, 33% of people selected the correct answer, 2% more than this year.

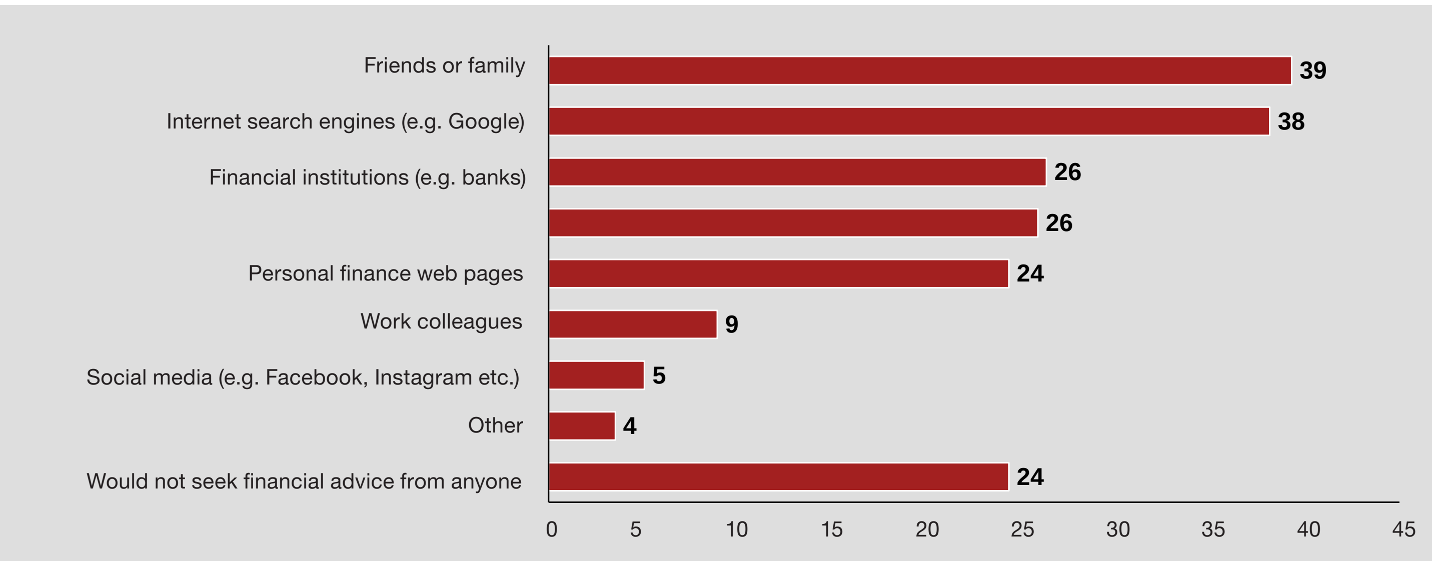
Figure 6: Proportion of people who correctly answered a personal finance question, by financial confidence level (Adults, %, 2023)



7. Only a quarter of people now turn to financial institutions for financial advice, with a generational divide emerging in the sources of information people are using.

While a range of sources are available for today's consumers to access financial advice and information, it is clear that financial institutions are not the leading choice for most people. In fact, only around a quarter (26%) of consumers seek advice or information from financial institutions such as banks, compared to a larger number who turn to friends and family (39%) or internet search engines (38%). What is perhaps most alarming is that 24% of people surveyed do not seek financial advice or information from anyone, reinforcing notions of a potential advice gap in the UK.

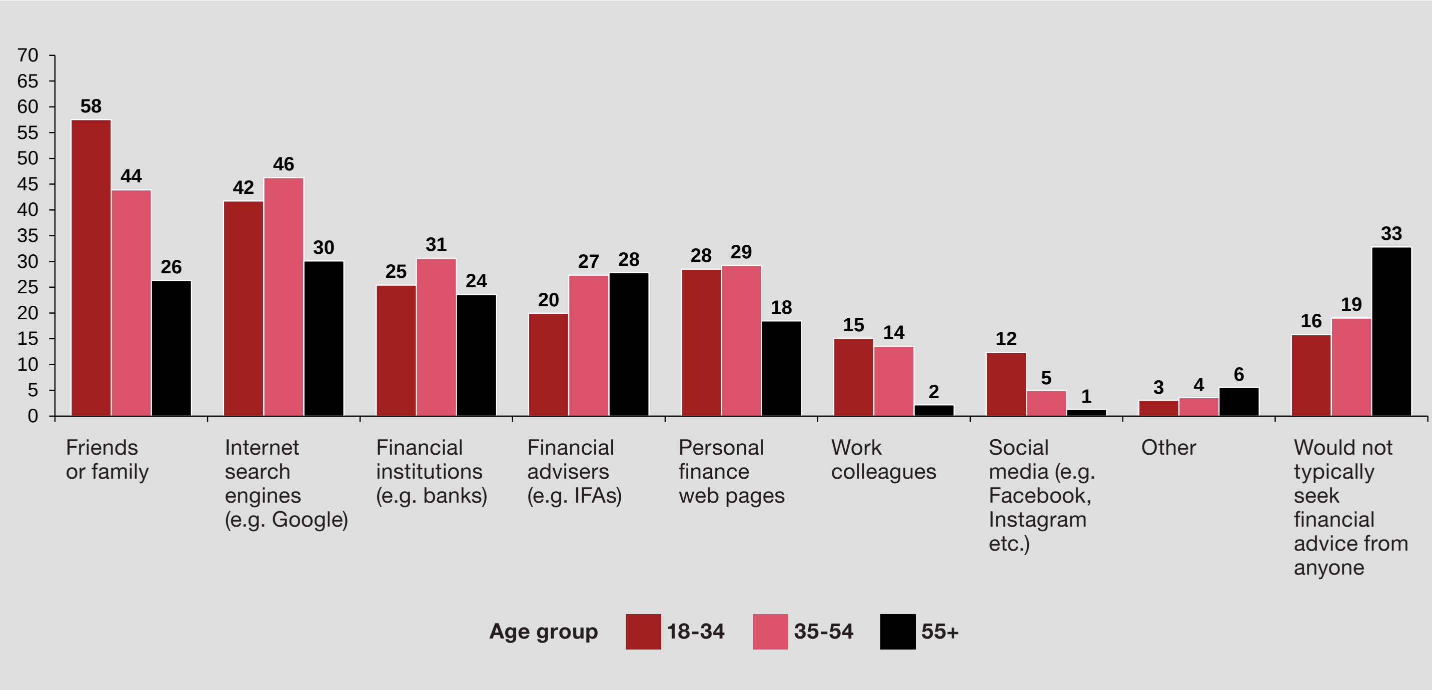
Figure 7: Sources used for personal financial advice / information (Adults, %, 2023)

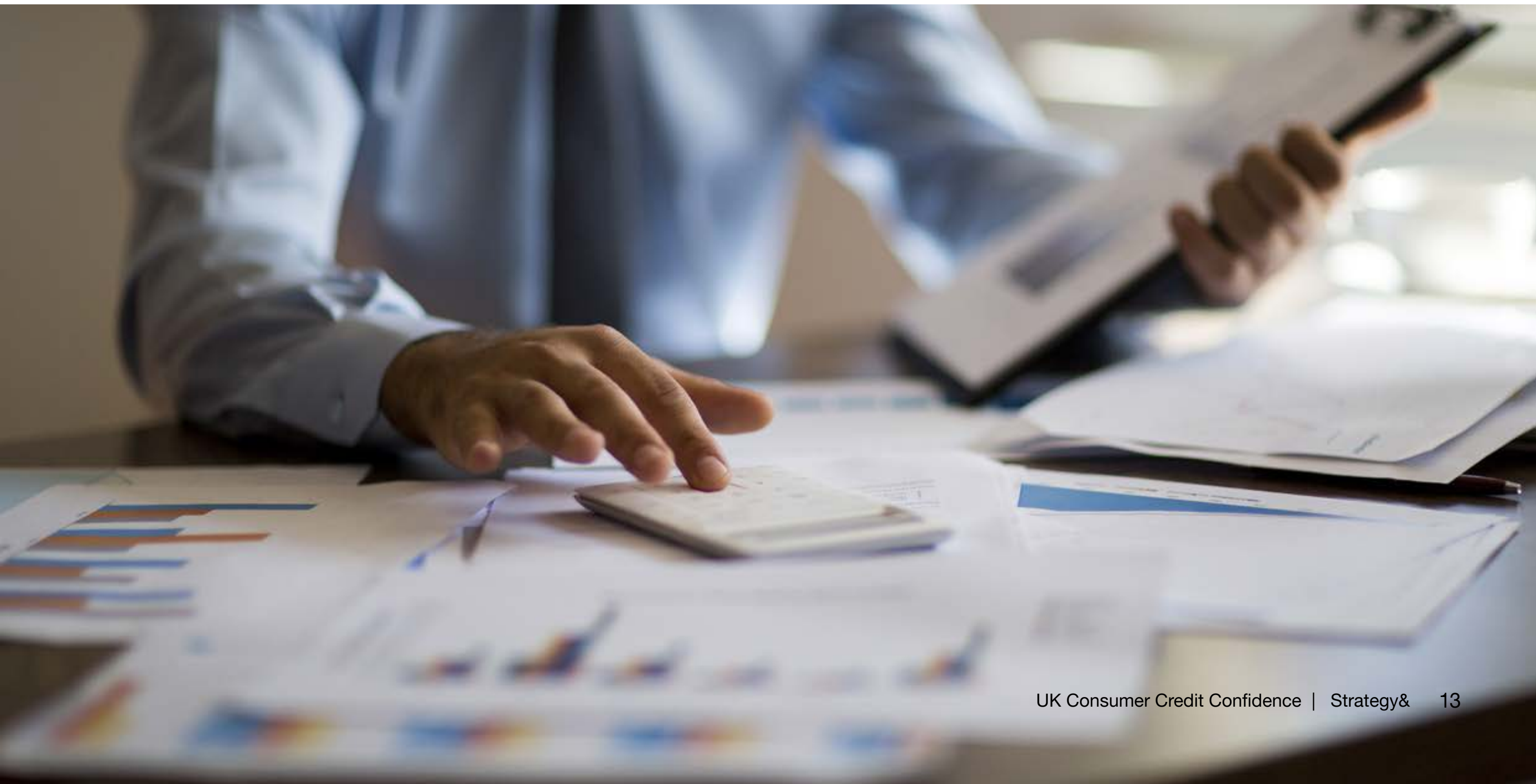


The limited use of financial institutions for advice or information is consistent across all age groups, while there tends to be a bigger reliance on friends and family across younger segments, who would tend to have less experience owning and using financial products and services. As one might expect, there is also a significantly higher uptake in social media use for financial advice and information across younger groups, with 12% of 18-34 year olds using such channels compared to just 1% of those aged 55+.

The variety, breadth and evolution of sources being used by different consumer groups creates increasing challenges for the provision of safe and simple information that enables consumers to make the best financial decisions for their circumstances.

Figure 8: Percentage of age group using various sources for financial advice (Adults, %, 2023)





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RITM11585682