

Cost of living crisis explained

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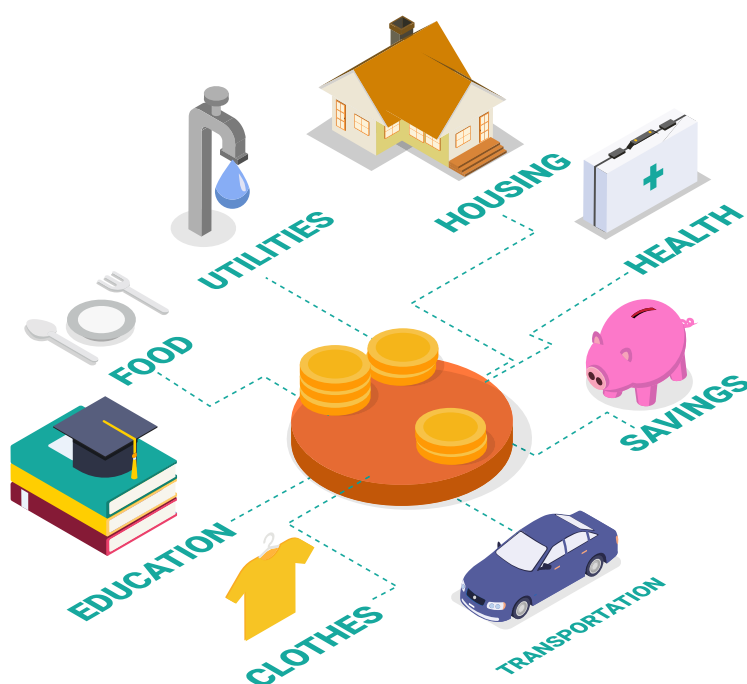
Since late 2021, the term 'cost of living crisis' has dominated the headlines as the price of goods and services continue to rise, leaving households struggling to make ends meet.

This has led to the UK experiencing the highest inflation rate in 40 years and the biggest drop in living standards in almost 70 years. But with people already struggling and further price rises expected, there is growing concern amongst families teetering on the brink of financial hardship and rising fear amongst those already deep in debt.

So, what is the cost of living crisis, and should you be worried?

In this guide, we'll explain:

- What the cost of living crisis is
- What the cost of living crisis has affected
- The cost of living crisis in numbers
- How to manage the cost of living crisis
- What support is available to help with the cost of living crisis



What is the cost of living crisis?

What?

The cost of living crisis refers to the ongoing period in which the cost of everyday items has been rising faster than the average household income. This has led to a fall in real disposable income (income adjusted for inflation, benefits, and taxes).

Why?

The cost of living crisis has been driven by a dangerous combination of high inflation and low wage growth with both of these factors leaving households financially worse off and, in some cases, forced to choose between eating and heating their home.

When?

The UK has been experiencing a cost of living crisis since late 2021 when both local and global factors contributed to the rising cost of a wide range of everyday goods and services, such as food, fuel and utilities.

Where?

The effects of the rising cost of living are being felt all over the world but a combination of factors, such as staff shortages, skyrocketing inflation, and a lack of government support, has left the UK in a particularly vulnerable position.



What has the cost of living crisis affected?



Energy

Since late 2021, the UK has been experiencing a higher-than-expected demand for oil and gas and a lower-than-expected supply. This has led to a steep increase in the cost of wholesale oil and gas and this price hike has been passed onto the consumer in the form of higher energy bills.

Housing

The average cost of renting and buying a home in the UK has inflated to record-breaking levels with the demand for housing outstripping the number of available properties. Because of this, homeowners are struggling to afford their housing costs and, in some cases, are falling behind on their monthly payments.



Fuel

The cost of fuel has risen to record-breaking levels due to a sharp increase in the price of crude oil (used to make petrol and diesel) with suppliers struggling to keep up with unprecedented demand in the wake of the pandemic.

Food

The cost of living crisis has sent inflation soaring to its highest level in 40 years and, as a result, families are facing a £450 annual increase in their food bills. Bread, meat and cheese are amongst the products that have experienced the biggest price hike in the UK, but food costs are expected to continue climbing in line with rising inflation.



Travel

The global travel industry has reopened following years of closures but with mass staff shortages and costs to recover, national train and plane tickets are the latest victims of the cost of living crisis. This has also been exacerbated by the high cost of fuel which has affected all forms of private and public transport.

Cost of living crisis in numbers

The cost of living crisis has had a devastating impact on millions of people's personal finances. According to the latest figures from the Office for National Statistics (ONS):



91%

of people reported a rise in the cost of living

71%

of people reported a rise in the price of fuel

81%

of people are very or somewhat worried about the rising cost of living

19%

of people have had to borrow more money or take out more credit

96%

of people reported a rise in food costs

47%

of people won't be able to save any money over the next year

79%

of people reported a rise in their gas or electricity bills

45%

of people that pay energy bills are finding it very or somewhat difficult to afford them

Mum-of-one left racked up debts of £32,000 to cope with cost of living crisis

Jenna* decided enough was enough when she was left with no money or savings the day after payday.

Jenna turned to credit cards and loans to cover the cost of everyday expenses, like food and clothes.

However, despite working over 60 hours a week, the 41-year-old from Bedfordshire found herself drowning in debt and struggling to provide for herself and her 13-year-old daughter who was about to start secondary school.

Before she knew it, she had accumulated £32,000 of debt through credit cards and loans and was being stung by high interest charges which were mounting with each missed repayment.

This was when things reached a crisis point for the mum-of-one who is issuing a warning to those struggling with their finances and urging those turning a blind eye to their debts to get the help they need before things spiral out of control.

Having filled out the online application form multiple times before pressing send, she knows more than anyone how much of an emotional impact debt can have on your mental health as well as how much courage it takes to swallow your pride and do something about it.

"It's admitting defeat. I was heartbroken and crying. You're just in this deep hole and you have to get out of it," she said.

"I got paid and had nothing left. Nothing."

Jenna initially turned to credit cards and loans to cover the cost of unexpected expenses and with the cost of sending her daughter to secondary school this month leaving a £300-shaped hole in her finances, family members also stepped in to help bridge the gap.

But despite working full-time, her wages barely stretched far enough to cover her rent and bills and she was forced to pick up a part-time job to make ends meet.

Things took a turn for the worst when her gas and electricity bills shot up earlier this year and with every penny going towards keeping a roof above her and her daughter's head, she finally reached out to Creditfix in July.

"Everyone was so kind," she said. "The person on the phone even said 'I don't know how you've done this and worked these hours for so long.'"

Within a few weeks, she was able to reduce her monthly payments into a single affordable amount with an Individual Voluntary Arrangement (IVA) and leave her part-time job which allowed her to spend more quality time with her daughter.

"Going from paying £1,000 a month to £125 a month is incredible. Absolutely incredible," she said.

"I'm not working at my part-time job anymore so that £400 isn't there but that's fine because I've got my time back and I've changed my mindset.

I'm not getting out of bed every morning thinking 'Where am I going to get this £10 from?'"

As well as changing her mindset, she has changed her spending habits and only buys things she knows she needs.

"We always write down what we spend so although we might have a £400 a month budget for shopping, last week we only spent £48 in Aldi.

I've also managed to save up and get myself an air fryer, a slow cooker and some extra blankets so I'm prepared when winter comes and energy prices go up."

She also credits budgeting tools and saving pots with helping her stick to a spending limit and has opened separate bank accounts for income, petrol and shopping, and savings to ensure she stays on track.

The biggest difference, however, has been that she's been able to start saving for luxuries, like hair and beauty appointments, and is already saving to take her daughter on a holiday next year because as a working mum, she "should be able to do that."

So, what advice would Jenna give someone in a similar situation that she was in just a few months ago?

"If you're not already, seek some debt advice and get the right direction. Also look at avenues, little things you can change. You don't have to do stuff with your kids all the time, you can do free stuff like wrap up warm and take them to a park. You don't have to take them to the cinema, buy them trainers, or buy them top stuff.

You just have to say no. It's not failure, it's either we live or you get a pair of designer trainers."

How to manage the cost of living crisis

The cost of living crisis is wreaking havoc on peoples' personal finances with greater government support desperately needed to ease the squeeze. In the meantime, there are some steps you can take to lower your personal expenditure and soften the blow of further price rises.

Budget, budget, budget:

The importance of budgeting cannot be understated but during the cost of living crisis, it can help you get a firmer grip on your finances and safeguard your financial future. Whether you are worried about unexpected expenses or just need a helping hand to cover essential costs, it's as easy as listing your income, tracking your spending, and setting realistic goals. Reviewing your budget on a regular basis can also help you monitor your progress and celebrate the small wins along the way.

Save spare change:

During the cost of living crisis, saving probably hasn't topped your list of priorities. But saving spare change is better than saving nothing and within a matter of months, you'll have built up a comfortable cash cushion to help you cover the cost of an unexpected expense or bridge the gap between you and your essential costs when you're struggling to make your money stretch until payday. For example, every time you buy a takeaway coffee or a train ticket, deposit the change into a savings account and watch your savings grow.

Slash unused subscriptions:

The cost of living crisis has highlighted the difference between financial needs and wants and how much your monthly outgoings could be reduced when you stop spending money on services you, quite simply, don't need. From free trials you've forgotten to cancel to streaming apps you never use, slashing your unused subscriptions can free up more money for essential costs, such as utilities, food and fuel.



What support is available to help with the cost of living crisis?

In May 2022, Rishi Sunak announced a £21 billion package of financial support to help the UK's most vulnerable households with the worsening cost of living crisis. However, people are being urged to check if they qualify for further financial support they're not claiming or don't know they're entitled to.

If you are struggling with your finances and need confidential advice and guidance, there are various charities and organisations available to provide further information to help you tackle the cost of living crisis:

Citizens Advice

Citizens Advice is an independent organisation that specialises in providing confidential information to help people struggling with legal, debt, consumer and housing problems. They can be contacted in-person, online or over the phone:

Call Adviceline (England): 0800 144 8848

Call Advicelink (Wales): 0800 702 2020

Call Relay UK (text-to-speech): 18001 then 0800 144 8884

Simple Energy Advice

Simple Energy Advice is funded by the UK Government and managed by the Energy Saving Trust and provides impartial and independent advice to help people reduce their energy bills and heat their home efficiently.

Call: 0800 444 202

National Energy Action

National Energy Action works to eradicate fuel poverty by helping vulnerable people that can't afford to heat their home access affordable alternatives.

Call: 0800 304 7159

Contact your local council

If you need local help or advice, you might be eligible for financial support in the form of a loan or grant from your local council.

Check what benefits you're entitled to

If you don't know what benefits you're entitled to, visit the UK Government's benefits calculator and input your details to find out what financial support you could be missing out on.

If the cost of living crisis has pushed you into debt, you're not alone. We've helped over 182,000 people write off up to 81% of their unsecured debts and we can help you.