Article

Households’ finances and saving, UK: 2020 to 2024

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Table of contents

1 . Main points

- The UK household saving ratio peaked at 27.4% in Quarter 2 (Apr to June) 2020, mainly because of the suppression of consumption opportunities during the coronavirus (COVID-19) pandemic;

- Having decreased to 6.6% in Quarter 2 2022, the ratio has risen steadily to 11.1% in Quarter 1 (Jan to Mar) 2024.

- These increases have coincided with cost of living pressures, weak consumer confidence and slower growth in household consumption.

- Estimates of the total value of excess saving accumulated by UK households since the start of the pandemic range from £143 billion to £338 billion (7.9% to 18.7% of household annual total resources).

- UK households have been reluctant to spend these accumulated savings, unlike in the US where it has been an important factor in supporting household consumption and economic growth.

2 . Overview of household saving

The household saving ratio is the proportion of the household sector's total resources that are available but have not been used for consumption.

Total resources, which is closely related to disposable income, consist of:

- labour income - the total compensation of employees, so not just wages and salaries but also other employment-related benefits, such as pension contributions

- non-labour income - this includes the operating surpluses from household businesses, the income of the self-employed (mixed income), the net income from the ownership of financial assets such as interest payments and dividends, and changes in the value of household-owned pension funds

- net transfers which consist primarily of social benefits and pensions received and the payment of taxes and social contributions; note that furlough and other income-support payments received during the coronavirus (COVID-19) pandemic would be included in labour and mixed income rather than this component

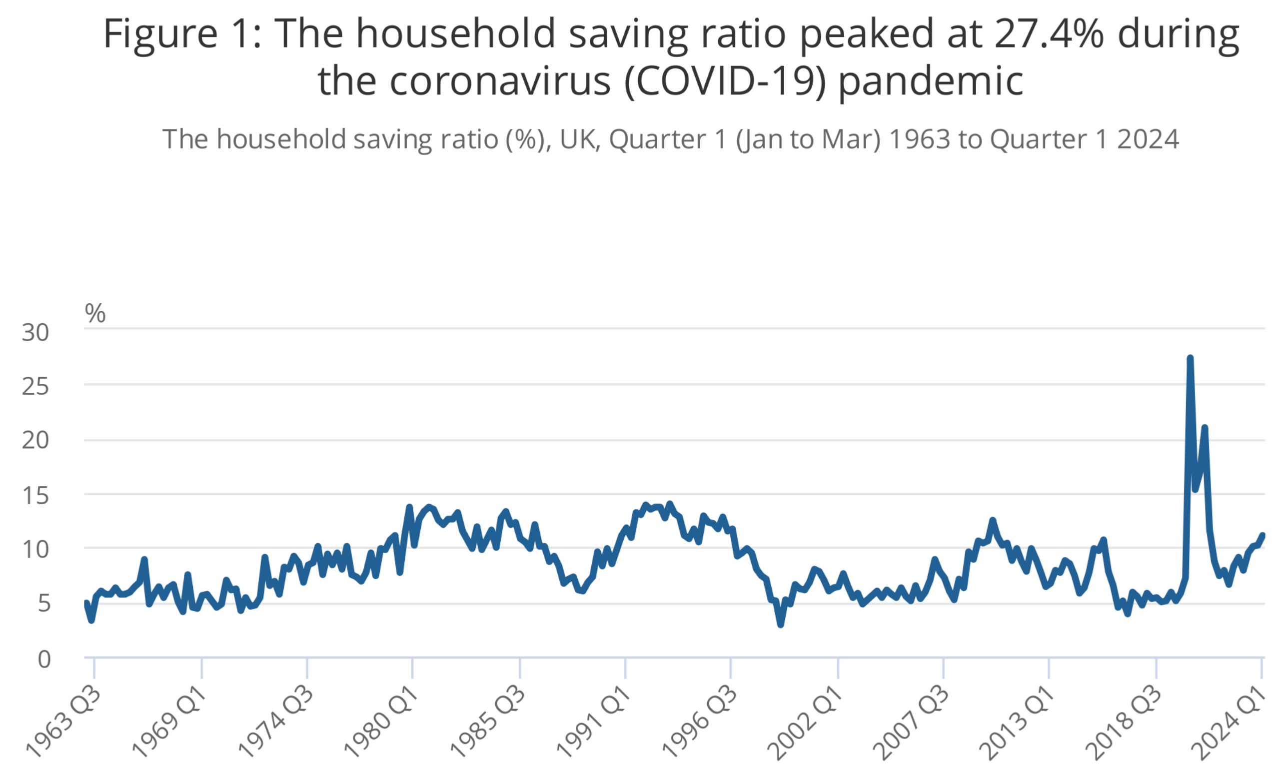
Figure 1 shows the household saving ratio over the last 50 years. The ratio exhibits a distinct cyclical pattern, generally rising in or around recessions as households reduce consumption spending. This article will focus on two recent periods where there have been significant increases in the household saving ratio.

First, during 2020 and 2021 when restrictions on social interactions and physical movement introduced during the pandemic, along with closure of physical stores and customer-facing services, contributed to a spike in the saving ratio which reached a peak of 27.4% in Quarter 2 (Apr to June) 2020.

Second, the significant increase in the saving ratio after the pandemic, from 6.6% in Quarter 2 2022 to 11.1% in Quarter 1 (Jan to Mar) 2024. This period was associated with a significant increase in the cost of living and rising interest rates.

Figure 1: The household saving ratio peaked at 27.4% during the coronavirus (COVID-19) pandemic

The household saving ratio (%), UK, Quarter 1 (Jan to Mar) 1963 to Quarter 1 2024

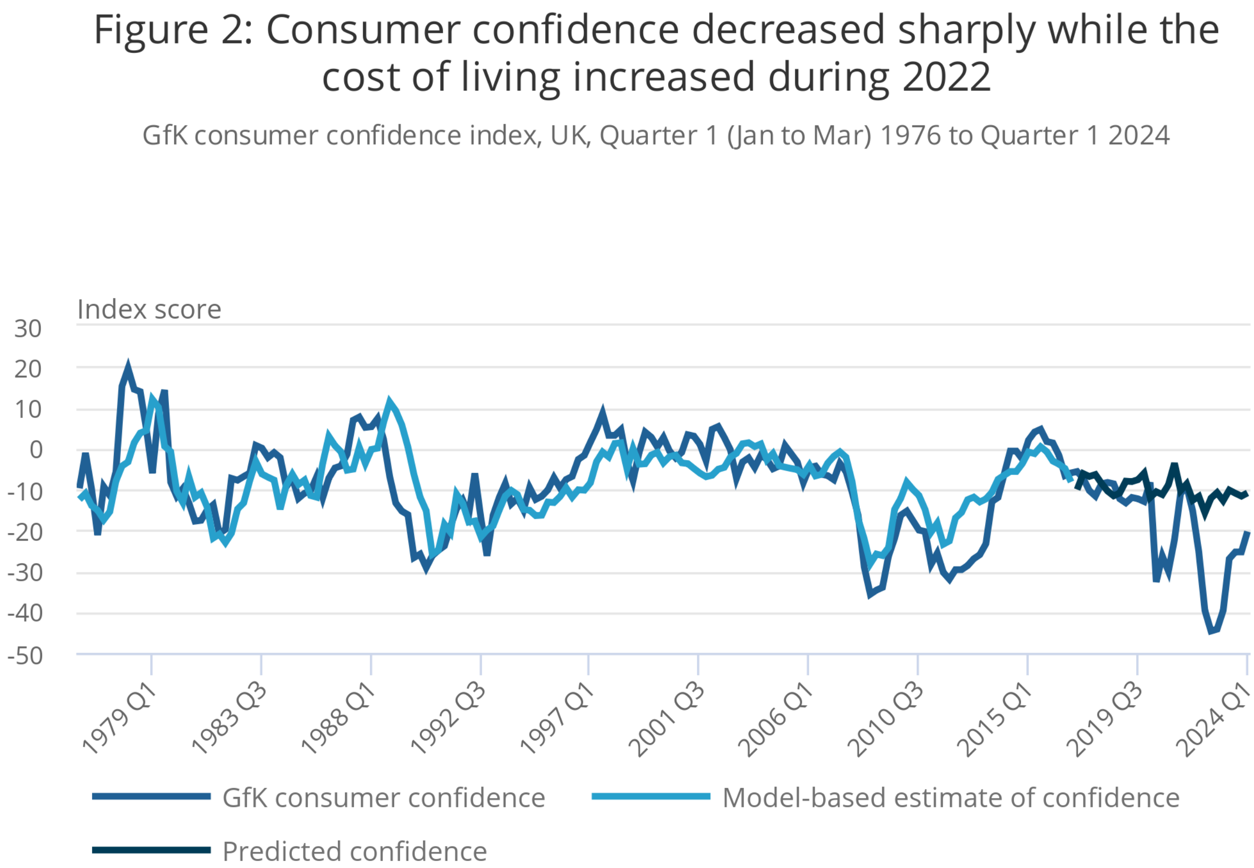


Source: UK Economic Accounts from the Office for National Statistics

These changes in the household saving ratio are reflected in movements in consumer sentiment. The Growth from Knowledge (GfK) consumer confidence index is presented in Figure 2 along with a model-based estimate reflecting the longer-term economic drivers of confidence such as unemployment, real disposable incomes, asset values, and inflation. This shows that not only was consumer confidence historically weak during the pandemic and increased cost of living periods, but it was also significantly weaker than expected given the past relationship between confidence and these economic fundamentals.

Figure 2: Consumer confidence decreased sharply while the cost of living increased during 2022

GfK consumer confidence index, UK, Quarter 1 (Jan to Mar) 1976 to Quarter 1 2024



Source: Consumer confidence barometer from GfK and calculations from the Office for National Statistics

Notes:

1. The model used to predict the GfK consumer confidence index included the following statistically significant variables with the respective coefficient sign in brackets: unemployment rate (-); the annual percentage growth rate of the financial times stock exchange (FTSE) 250 stock exchange (+); the annual percentage growth rate of Land Registry average house prices (+); the annual growth rate of real average disposable income (+); the annual growth rate of the Retail Price Index (RPI) inflation (-) and the annual growth rate of West Texas Intermediate (WTI) oil price (-).

2. The model was trained on the sample up to Quarter 4 (Oct to Dec) 2016 and then used to predict confidence from Quarter 1 (Jan to Mar) 2017 onwards.

The concept of "excess" saving has typically been used to refer to the accumulation of household saving during the pandemic because of restrictions to consumption opportunities and additional government support to disposable incomes (such as the furlough scheme). These excess savings could then potentially support household consumption in the aftermath. According to Liberty Street Economics, the spending down of excess saving has been an important factor in supporting consumption growth in the US, where the saving ratio is presently lower than before the pandemic. In other advanced countries, including the UK where the saving ratio is presently much higher than at the end of 2019, it appears that households have chosen not to collect accumulated excess savings to support consumption.

As household consumption is the largest component of the expenditure measure of gross domestic product (GDP), these trends may partly account for respective economic growth rates of different countries since the pandemic.

3 . Measuring excess household saving since the coronavirus (COVID-19) pandemic

The excess saving of households is analysed using three approaches:

- a comparison of the actual saving ratio relative to the trend before the coronavirus (COVID-19) pandemic using data from the household income and expenditure accounts
- the extent to which excess saving has been used to accumulate liquid assets such as currency and deposits or to pay down borrowing using data from the household financial accounts
- the difference between the actual saving ratio and a model-based estimate which reflects the long run relationships between the household saving ratio and several relevant economic variables

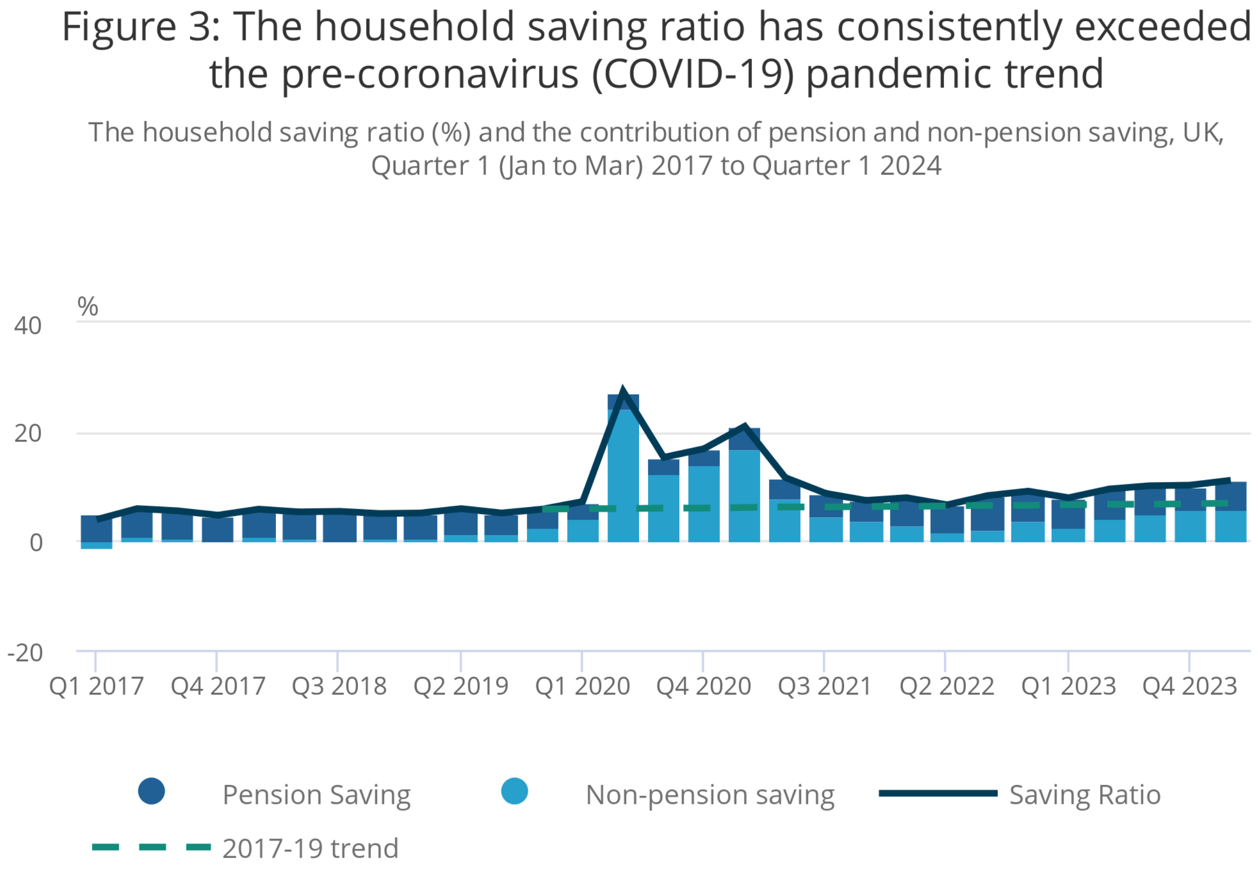
Excess saving from the income and expenditure accounts

Figure 3 shows the path of the household saving ratio (gross saving as a percentage of household total resources) and a projection had the trends in household consumption, labour income, non-labour income and net transfers between Quarter 1 (Jan to Mar) 2017 and Quarter 4 (Oct to Dec) 2019 continued through the pandemic period and its aftermath up to the present. Excess saving reflects the percentage point gap between these two ratios - that is the extent to which the household saving ratio has been above trend. For more information, see the Federal Reserve's [Excess savings during the COVID-19 pandemic article].

Figure 3 also shows there is a significant increase in the contribution of non-pension saving relative to pension saving since the pandemic. As much of pension saving is routinely collected from labour income, the rise of non-pension saving might also be an indicator of a stronger propensity to save among households after the pandemic.

Figure 3: The household saving ratio has consistently exceeded the pre-coronavirus (COVID-19) pandemic trend

The household saving ratio (%) and the contribution of pension and non-pension saving, UK, Quarter 1 (Jan to Mar) 2017 to Quarter 1 2024



Source: UK Economic Accounts from the Office for National Statistics

As Figure 4 shows, there was substantial excess (above trend) saving during the pandemic (Quarter 1 2020 to Quarter 4 2021) because:

- household consumption decreased heavily below the pre-pandemic trend because of government-imposed lockdowns and restrictions

- household total resources, strengthened by job support schemes and fiscal transfers, only decreased marginally below its pre-pandemic trend

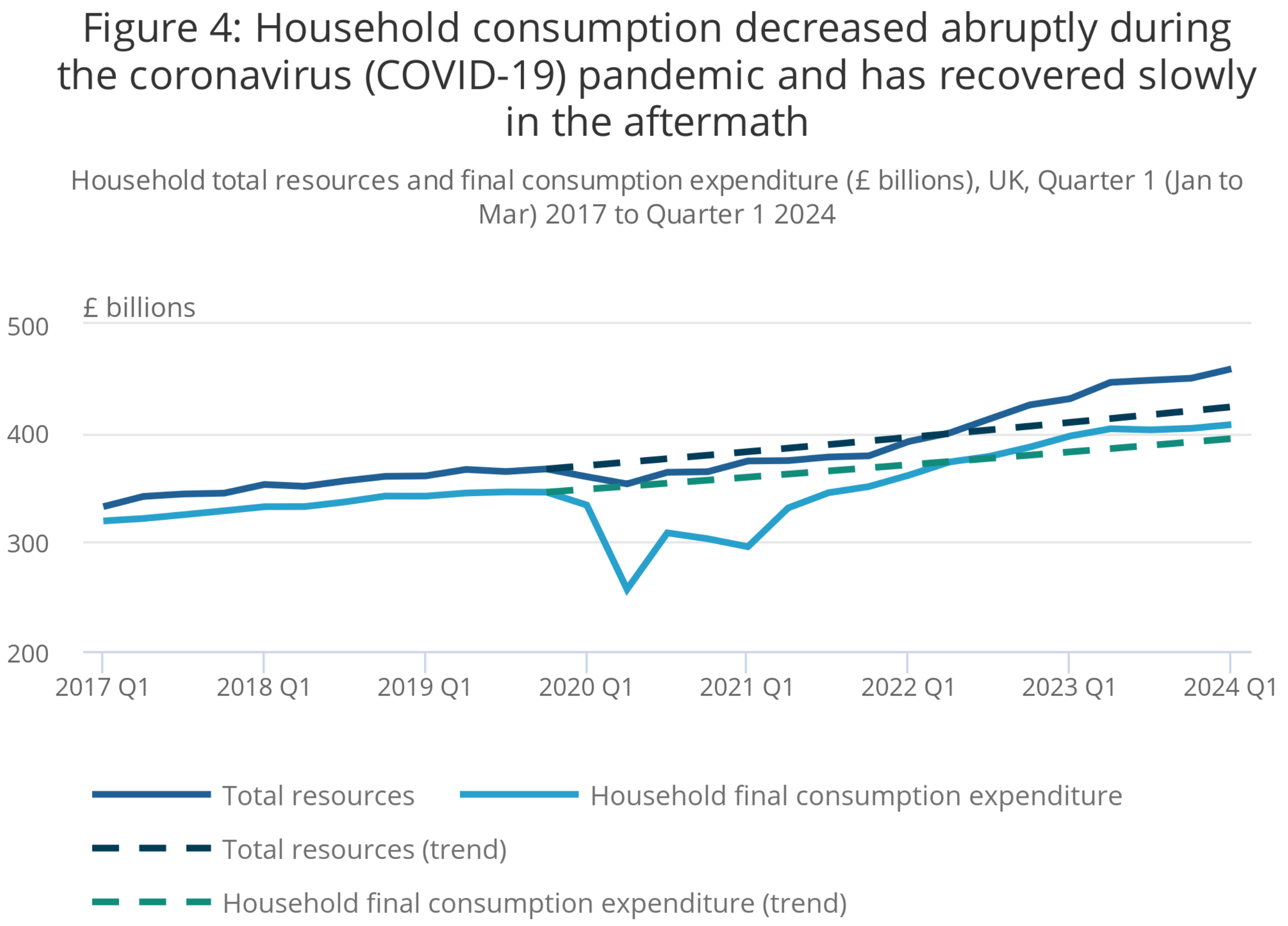
In the period since Quarter 2 (Apr to June) 2022, during which households have experienced the impacts of increased cost of living including rising interest rates, the saving ratio has also increased above its pre-pandemic trend because:

- household total resources, strengthened by faster growth in labour and non-labour incomes, moved significantly above its pre-pandemic trend

- household consumption growth, in contrast, has been relatively subdued, with the movement above the pre-pandemic trend more equivocal

Figure 4: Household consumption decreased abruptly during the coronavirus (COVID-19) pandemic and has recovered slowly in the aftermath

Household total resources and final consumption expenditure (£ billions), UK, Quarter 1 (Jan to Mar) 2017 to Quarter 1 2024



Source: UK Economic Accounts from the Office for National Statistics

Notes:

1. All variables are in current prices.

2. The value of total resources and its respective trend is calculated from the sum of labour income, non-labour income and net transfers.

3.Our CDID code for household total resources is RPQF, and for household final consumption expenditure it is ABJQ.

This measure of excess saving reflects missing or diminished household consumption. That is the extra level of consumption that would have been expected to occur given actual total resources and had the saving ratio remained on trend. However, relative to household total resources, consumption decreased very abruptly during the pandemic and then increased more slowly in the aftermath.

Excess saving from the financial accounts

While the income and expenditure accounts report on the resources and expenditures of households, and therefore the amount of saving undertaken, the financial accounts are the counterpart showing where this household saving has been invested through the acquisitions and disposals of financial assets.

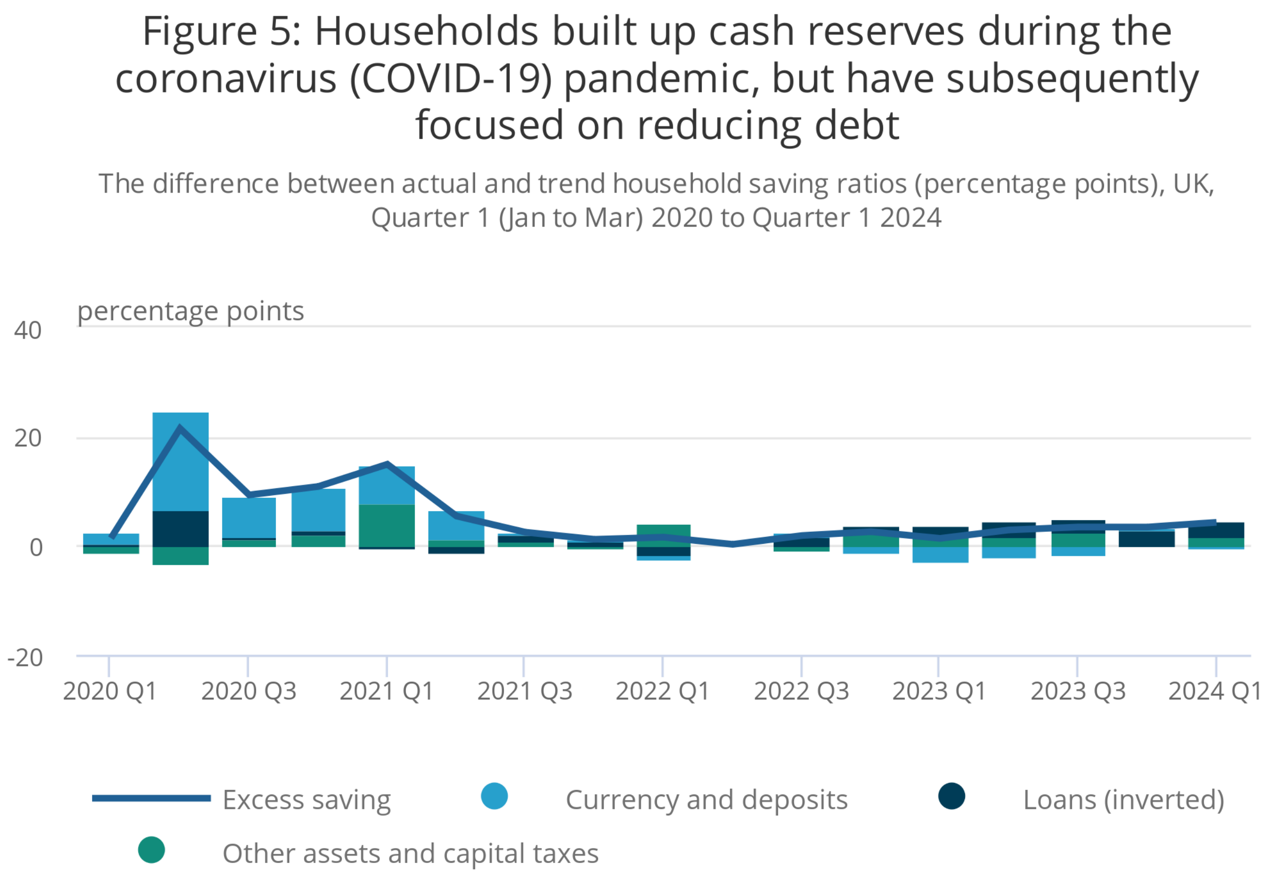
Analysis of the changing pattern of asset holdings might help to refine measures of excess saving because the acquisitions of different types of assets may reflect different motivations for saving. For instance, holdings of cash and bank deposits might reflect "forced" saving because of government-imposed restrictions on consumption during the pandemic. Currency and deposits are also liquid assets, so can be more readily used by households to support future consumption spending.

On the other hand, holdings of less liquid financial assets such as pensions, life insurance, and equities and non-financial assets such as land and buildings might reflect more calculated reasons for saving such as to fund retirement or achieve higher rates of return.

Using the household financial accounts, Figure 5 shows the destination of excess household saving (derived as the difference between actual and pre-pandemic trend saving ratios in Figure 3). This shows that following the outbreak of the pandemic, excess household saving during 2020 and the first half of 2021 were predominately held in currency and deposits. Furthermore, this excess saving appears to have been only partially run down by households. See the European Central Bank's Excess savings blog post for more information.

Figure 5: Households built up cash reserves during the coronavirus (COVID-19) pandemic, but have subsequently focused on reducing debt

The difference between actual and trend household saving ratios (percentage points), UK, Quarter 1 (Jan to Mar) 2020 to Quarter 1 2024



Source: UK Economic Accounts from the Office for National Statistics

Notes:

1. Excess saving reflects the percentage point difference between actual and trend household saving ratios in Figure 3.

2. These data have been seasonally adjusted using Census X-13.

3. Loans have been inverted because households may use saving to reduce their financial liabilities rather than increase their holdings of financial and non-financial assets.

4. Other assets consist of: other financial assets including equity, investment trusts, pensions, and life insurance; and non-financial assets which predominately consist of dwellings, other buildings and structures and land improvements.

Since 2022, household excess savings have again been rising, but are now more focused on reducing the value of outstanding loans or paying down debt. This might reflect rising interest rates as an impact of the increased cost of living, with the Bank of England increasing the bank rate 13 times from 0.25% to 5.25% between January 2022 and August 2023.

Model-based estimates of excess saving

This approach differs to the previous measure of excess saving by modelling the expected change in the household saving ratio after Quarter 4 2019 based on typical motives for saving behaviour, rather than assuming it would otherwise have continued at the pre-pandemic trend. Our previous Economic modelling of forced saving article has used this model-based approach to estimate the extent of forced saving during the pandemic - that is the impact on the saving ratio because of suppressed consumption opportunities because of restrictions imposed to prevent the spread of the virus.

The model seeks to explain movements in the household saving ratio based on two motives for saving:

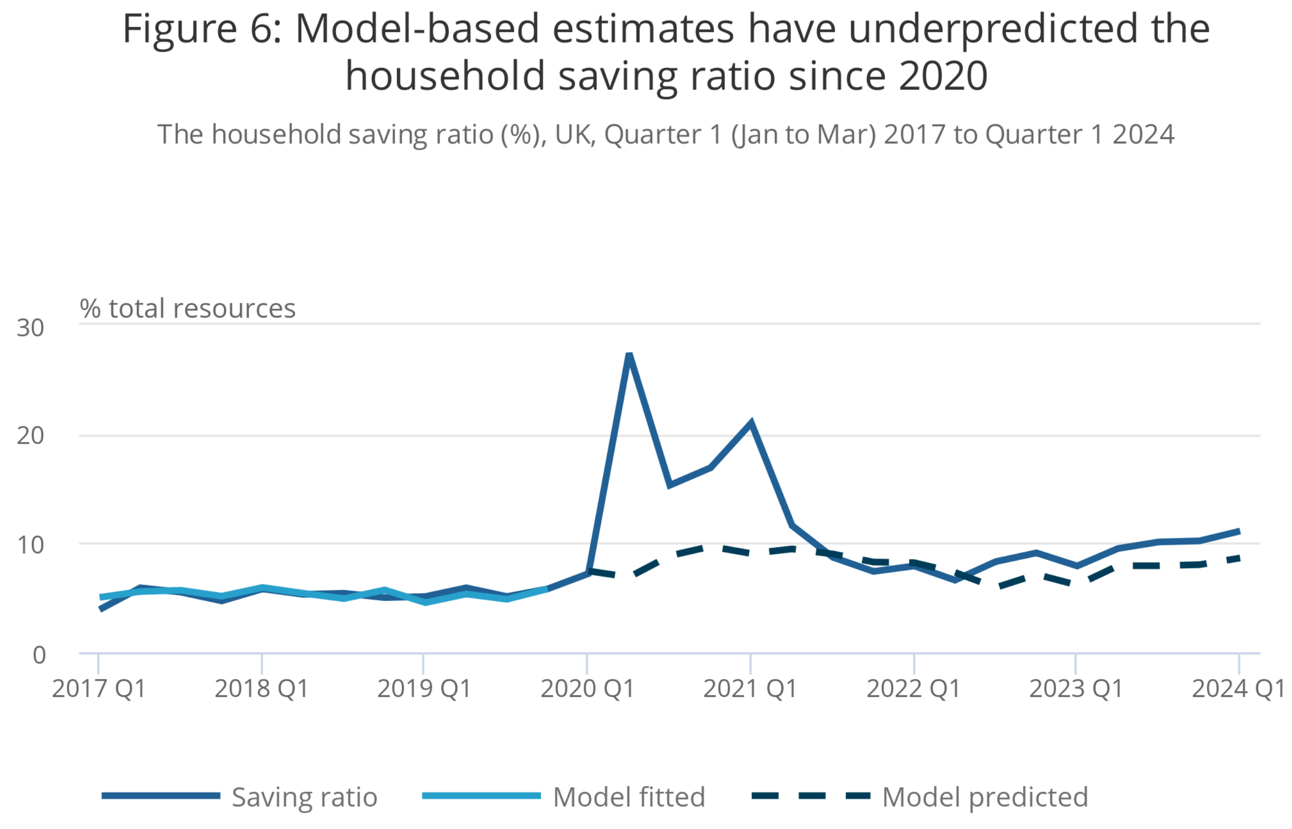
- the intertemporal motive, reflecting the desire to use savings to move consumption across time in response to changes in income expectations, wealth and credit conditions, proxied using three variables: the change in household real disposable incomes, the ratio of household total wealth to domestic income, and the real interest rate on overdrafts

- the precautionary motive, reflecting the desire to maintain a given level of savings to act as a buffer against an uncertain future; this effect is proxied using the unemployment rate

Figure 6 shows the model-based estimate of the household saving ratio, where the model has been fitted on the sample leading up to just before the pandemic in Quarter 4 2019, and then used to predict how the saving ratio would have been expected to then change. The extent of excess saving then reflects the gap between the actual saving ratio and the counterfactual saving ratio predicted by the model.

Figure 6: Model-based estimates have underpredicted the household saving ratio since 2020

The household saving ratio (%), UK, Quarter 1 (Jan to Mar) 2017 to Quarter 1 2024



Source: UK Economic Accounts from the Office for National Statistics

Notes:

1. The model fitted estimates are the fitted values from the regression model of the household saving ratio over the sample Quarter 1 (Jan to Mar) 1996 to Quarter 4 (Oct to Dec) 2019 (in-sample estimates).

2. From Quarter 1 2020 to Quarter 1 2024, the model predicted estimates are formed by extrapolating the model forward over the coronavirus (COVID-19) pandemic period and the aftermath (out-of-sample estimates).

Excess saving rising during the pandemic and its immediate aftermath, between Quarter 1 2020 and Quarter 1 2022 is assumed to reflect forced pandemic saving. Furthermore, unlike in the US, there is little evidence that this stock of additional saving has been run down to support consumption in the post-pandemic period. In fact, the opposite has occurred, with the saving ratio increasing relative to its modelled rates.

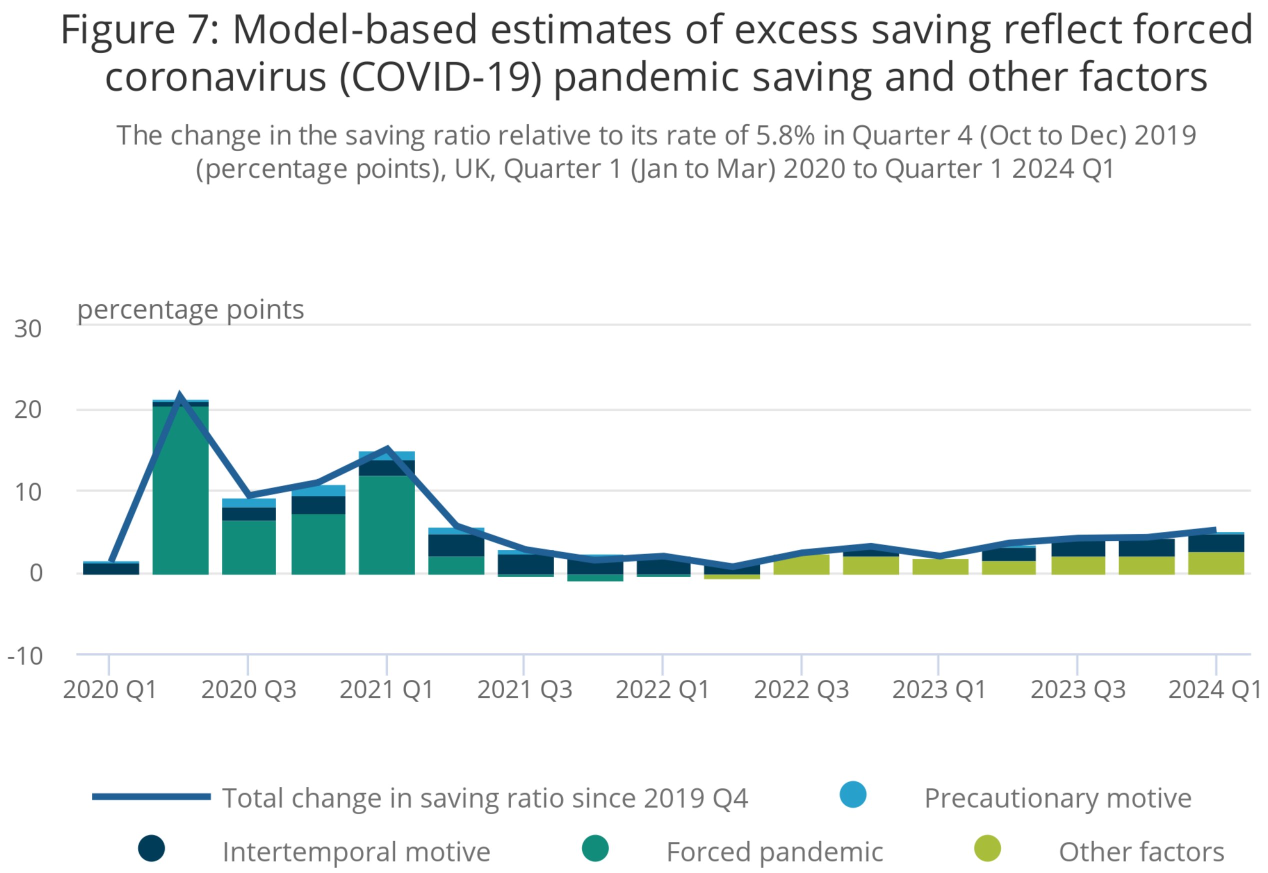
Although this might reflect a behavioural response by households to cost of living pressures, other factors - such as heightened economic and geopolitical uncertainty - may also have been a factor. Therefore, excess saving from Quarter 1 2022 is attributed to "other factors".

Figure 7 shows how the total change in the household saving ratio since Quarter 4 2019, when it was 5.8% of total resources, has been accounted for by:

- explained factors underlying the precautionary and intertemporal motives for saving
- unexplained factors, or excess saving, attributed to forced pandemic and other factors

Figure 7: Model-based estimates of excess saving reflect forced coronavirus (COVID-19) pandemic saving and other factors

The change in the saving ratio relative to its rate of 5.8% in Quarter 4 (Oct to Dec) 2019 (percentage points), UK, Quarter 1 (Jan to Mar) 2020 to Quarter 1 2024 Q1



Source: UK Economic Accounts from the Office for National Statistics

Notes:

1. The modelled saving ratio in Figure 7 reflects the rate of 5.8% in Quarter 4 (Oct to Dec) 2019 plus the intertemporal and precautionary effects. Excess saving reflects the unexplained change in the saving ratio not accounted for by these two behaviours.
2. The forced coronavirus (COVID-19) pandemic saving contribution reflects the difference between actual and modelled estimates of the UK saving ratio from Quarter 1 (Jan to Mar) 2020 to Quarter 1 2022.
3. The other factors contribution reflects the difference between actual and modelled estimates of the UK saving ratio from Quarter 2 (Apr to June) 2022 onwards.

4 . The amount of excess saving in the UK

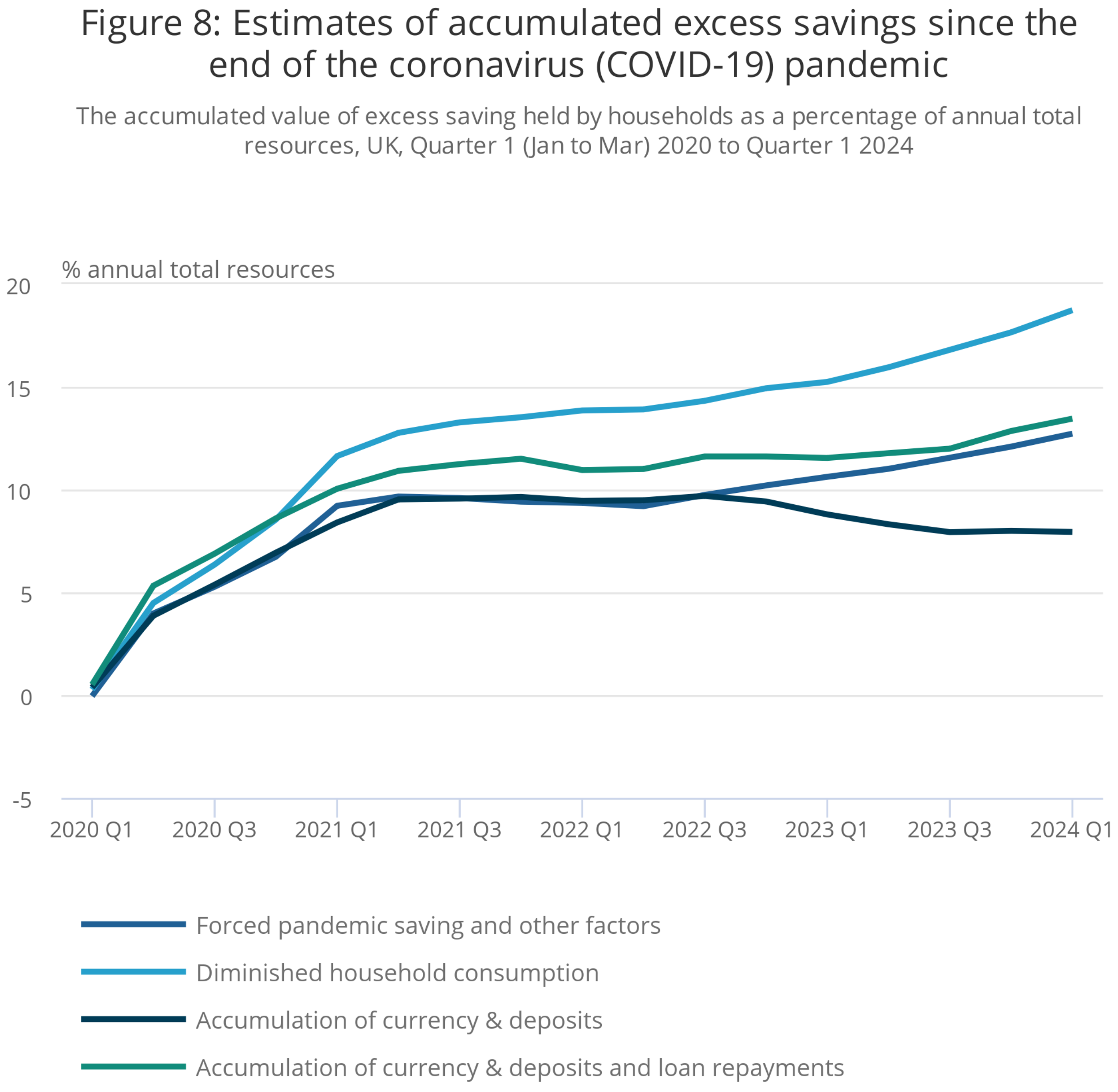
Three different approaches to the measurement of excess household saving have been presented:

- the total value of excess saving because of diminished household consumption that would have occurred if the household saving ratio remained on its pre-pandemic trend, shown in Figure 3
- the value of excess saving resulting in the additional accumulation of currency and deposits by households, and an additional measure that also includes the value of loan repayments, shown in Figure 5
- the value of excess saving because of forced pandemic saving and other factors; this is shown in Figure 7 and represents the additional household saving over and above that predicted by a model accounting for the precautionary and intertemporal motives for saving

The accumulated value of each of these measures of excess household saving since Quarter 1 2020 as a proportion of current household annual total resources is shown in Figure 8.

Figure 8: Estimates of accumulated excess savings since the end of the coronavirus (COVID-19) pandemic

The accumulated value of excess saving held by households as a percentage of annual total resources, UK, Quarter 1 (Jan to Mar) 2020 to Quarter 1 2024



Source: UK Economic Accounts from the Office for National Statistics

Notes:

1. Annual total resources have been calculated over the most recent four quarters for which data is available: Quarter 2 (Apr to June) 2023 to Quarter 1 (Jan to Mar) 2024.

2. Diminished household consumption is the accumulated value of the estimates presented in Figure 3.

3. The value of accumulated currency and deposits, and the reduction in loan liabilities is taken from Figure 5.

4. Forced pandemic saving and other factors is the accumulated value of the estimates presented in Figure 7.

The value of excess savings because of diminished household consumption increased rapidly during the pandemic as restrictions were placed on economic activity and physical movement. Between Quarter 1 2020 and Quarter 4 2021, this was estimated at £244 billion, or 13.5% of household total resources. However, this measure of excess saving, rather than being run down in the aftermath of the pandemic, has continued to increase. In Quarter 1 2024 the total accumulated value is estimated at £338 billion or 18.7% of total resources.

By the end of the pandemic in Quarter 4 2021, the accumulated value of excess saving held in currency and deposits amounted to £175 billion or 9.7% of annual total resources. This has since decreased to £143 billion or 7.9% of annual total resources by Quarter 1 2024.

However, over the same period the household sector has lowered its outstanding debt liabilities. Since Quarter 1 2020, the total value of excess saving accumulated in currency and deposits and net loan repayment equaled £243 billion or 13.5% of annual total resources.

Finally, the accumulated value between Quarter 1 2020 and Quarter 4 2021, attributed to forced pandemic saving, was £170 billion or 9.4% of present household annual total resources. Over this period, this has moved closely with the accumulation of additional cash and deposits, implying that most of forced saving were being held in this form.

Modelled estimates of excess saving have continued to increase in the post-pandemic period because of other factors. By Quarter 1 2024, this accumulated stock of excess saving further rose to £229 billion or 12.7% of annual total resources. This is close to estimates of the value of the total of accumulated currency and deposits and loan repayments, indicating that more recent increases in the saving ratio have been associated with a lower accumulation of household loan debt.

UK households seem to be more reluctant to use excess savings to increase consumption. This reticence could be the result of the source of accumulated savings. Unlike the US, where the income support measures leading to the accumulation of excess savings have been viewed as windfalls, UK consumers have accumulated savings mostly by reducing consumption.

5 . Data on households' finances and savings

UK Economic Accounts
Dataset | Released 28 June 2024
Quarterly estimates of national product, income and expenditure, sector accounts and balance of payments.

6 . Glossary

Household saving ratio

The saving ratio estimates the amount of money households have available to save as a percentage of their total resources.

Household total resources

Total resources is the estimate of the total amount of income that households have available to either spend, save, or invest including:

- income received from wages (and the self-employed)
- social benefits
- pensions
- net property income (that is, earnings from interest on savings and dividends from shares) less taxes on income and wealth

7 . Data sources and quality

Revisions to the household saving ratio

As household savings are the difference between two large nominal aggregates - household total resources and household final consumption expenditure - it can be subject to larger revision than other economic statistics. With this mind, readers are made aware that revised estimates of the household saving ratio up to the end of 2022 are planned as part of Blue Book 2024: Advanced aggregate estimates to be published on 7 August 2024.

8 . Future developments

Analysis of the household saving ratio and updated estimates of household excess saving to reflect new and revised data will be published in future editions of our Quarterly economic commentary.

9 . Related links

Economic modelling of forced saving during the coronavirus (COVID-19) pandemic
Article | Released 6 June 2022
The impact of the coronavirus (COVID-19) pandemic on the UK household saving ratio. Including an estimate of forced saving because of the suppression of consumption opportunities between Quarter 1 (Jan to Mar) 2020 and Quarter 4 (Oct to Dec) 2021.

Coronavirus (COVID-19) and its effects on household consumption, UK: January 2020 to December 2021
Article | Released 6 April 2022
The impact of the coronavirus (COVID-19) pandemic on UK household expenditure. Including new analysis of credit card transaction data on household spending patterns in December 2021.

Impact of increased cost of living on adults across Great Britain: July to October 2023
Article | Released 4 December 2023
Analysis of the groups of the population affected by recent increases in the cost of living using data from the Opinions and Lifestyle Survey and of the characteristics associated with financial resilience from the Wealth and Assets Survey.

Alternative measures of UK households' income and saving: April to June 2018
Article | Released 8 October 2018
Official statistics in development on the impact of removing "imputed" transactions from real household disposable income and the saving ratio to better represent the economic experience of UK households.

10 . Cite this article

Office for National Statistics (ONS), released 22 July 2024, ONS website, article, Households' finances and saving, UK: 2020 to 2024