Experian Quarterly **Affordability Update**

Q4 2023

Data-based analysis of the latest consumer affordability trends

The latest UK affordability data brings cautious optimism for consumers and lenders. Despite a cost-of-living crisis, higher interest rates and, for many, a dramatic rise in mortgage rates, mortgage delinquencies are only slightly above pre-covid levels and credit card & personal loan delinquencies remain stable. And although people seem confident to spend more on credit, it seems, they are able to afford it. However, it is worth noting that the rate of income growth is slowing. This quarter saw an increase of 9% compared to 11% in the previous quarter. It would be prudent, therefore, for lenders to continue to be vigilant of affordability data in the near- to mid-term.

Key Findings

Consumer income is continuing to rise, but the rate of growth is slowing

Consumer income continues to outpace inflation. But at 9% – compared to 11% 3 months ago – it shows a slight reduction in the rate of growth.

Although mortgage payments have jumped by 13%, UK consumers remain financially resilient and risk remains identifiable

As more people come to the end of their lower-rate deals, they are having to move from mortgages of around 1-2% to something in the region of 4-6%.

Although contracted payments have risen by 8%, delinquency rates remain stable and aligned to risk

Contracted payments have been rising steadily over the year. However, our data indicates that people are managing these increased payments.

In the following sections of this update, we look these at key affordability trends in detail.

About the Experian **Affordability Update**

This update is based on real Experian-owned data, comparing 12 month year-on-year values, rather than outputs from analytics models or predictive models. By avoiding interpretation, we can provide the most unbiased view of affordability possible at a given point in time.

As a leading UK credit reference agency, we have access to rich financial data covering individuals and households across the country, putting us in a unique position to help our customers to understand market risks and opportunities more fully, and to ensure that their products are aligned to the changing needs of different consumer segments.

Real data, not predictions or models

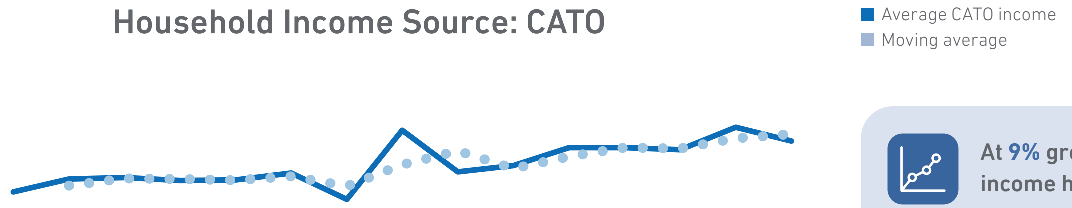
Consumer income is continuing to rise, but the rate of growth is slowing

Consumer income continues to outpace inflation. But at a 9% year-on-year growth – compared to 11% 3 months ago – the rate of growth is starting to slow.

This update – like the quarterly update that precedes it – indicates that consumer income continues to outpace inflation. However, the rate of 9% is significantly lower than the 11% we reported in the previous quarter. Although this reduction in the rate of income growth could potentially impact people's ability to afford credit in the long run, it will be beneficial for the economy as a whole, as it will help to reduce inflation.

However, although income continues to grow, it is starting to plateau – a trend that is expected to continue.

Household Income Source: CATO



At **9%** growth, average monthly household income has **started to stabilise**

We saw a **slight decrease** on last month

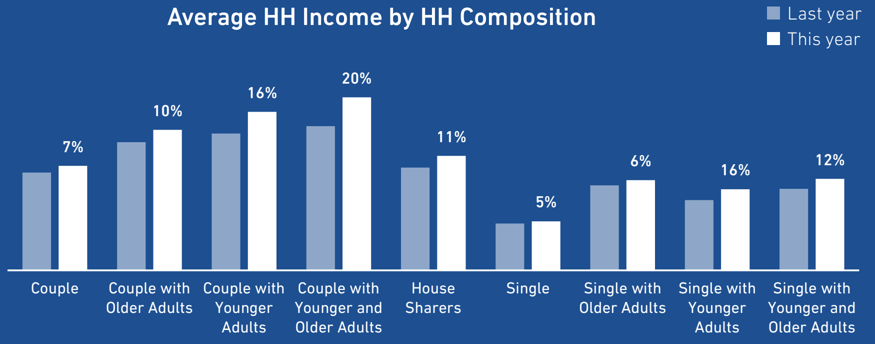
Currently **9%** higher than last year

Rising consumer income by household composition

Average incomes have increased across all household compositions. It has, however, been particularly significant in households defined as 'couples with younger and older adults', where incomes rose by 20% on average. At the other end of the scale, single-person households have enjoyed a rise of just 5%.

Part of the explanation for this disparity is that less affluent households are less likely to be affected by fiscal drag. Higher income households, in contrast, are more likely to have been forced into a higher tax bracket as their income increased.

Average HH Income by HH Composition



Average income has increased across all household compositions, particularly in houses with couples with younger and older adults. However, less affluent/ younger households have seen the biggest boost in income.

Although mortgage payments have jumped 13%, consumers remain financially resilient and risk remains identifiable

As more people come to the end of historically low deals, they are moving from mortgages of around 1-2% to something in the region of 4-6%.

For many households, their largest monthly expense is their mortgage payment, which will increase sharply as they roll off old deals.

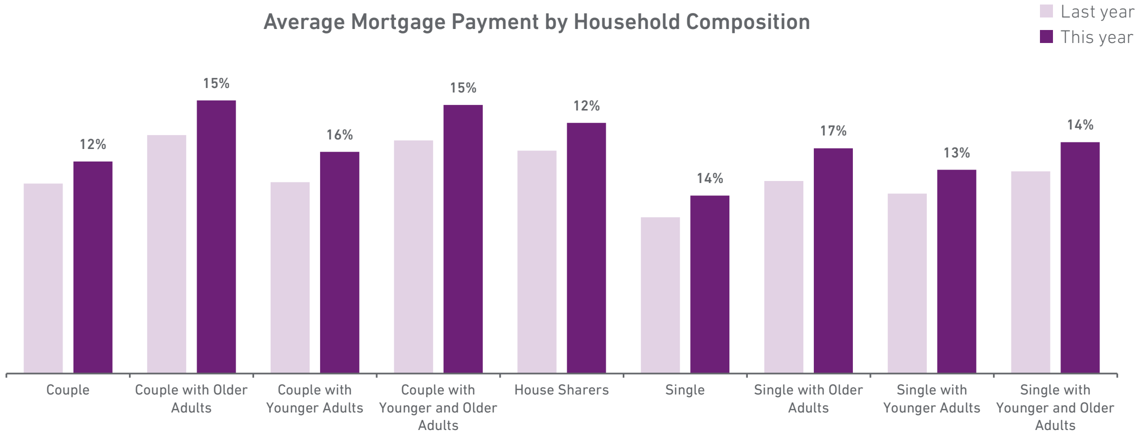
Today, the average mortgage repayment is 13% higher than the previous year.

Over half of consumers searching for a mortgage already have an existing mortgage. This indicates that many people who are coming to an end of fixed deals are actively exploring the possibilities of re-mortgaging with a different lender. Mortgage delinquencies have been on the rise over the past year but are currently only slightly above pre-covid levels, with the rises mainly coming from places we would expect to see it. For example those who have seen their payments increase.

As only around half of those on previously very low fixed deal mortgages have made the switch, we may be yet to see the full impact of higher mortgage payments.

Mortgage payments have risen across all segments fairly evenly

Mortgage costs have affected all household compositions and income brackets fairly consistently. Lower income households, and 'single with older adults' households are experiencing a slightly higher percentage increase than others. In some cases, this will be because some of the best deals are not available to those with lower deposits, on a lower income or with a lower credit score.



The average mortgage payment has risen across all household profiles similarly

Although contracted payments have risen by 8%, delinquency rates remain stable and aligned to risk

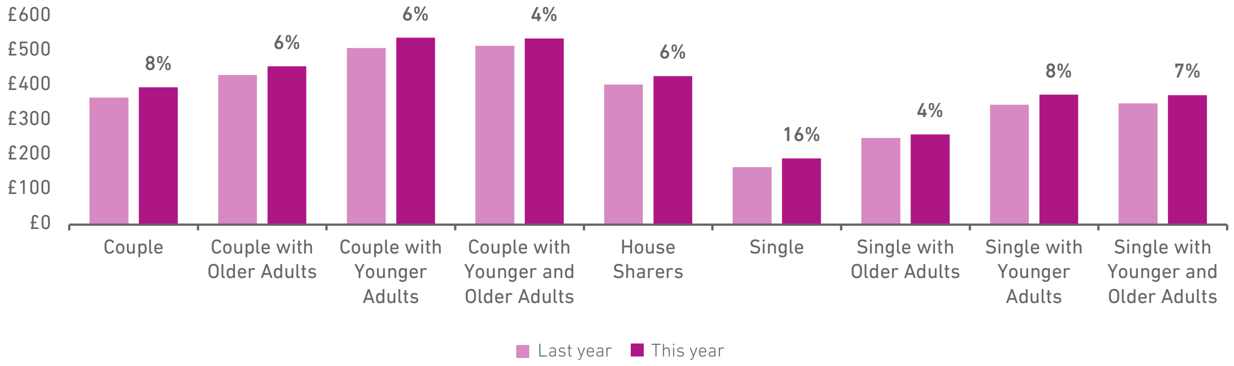
Contracted payments – loan repayments plus any minimum credit card payments – have been rising steadily over the year.

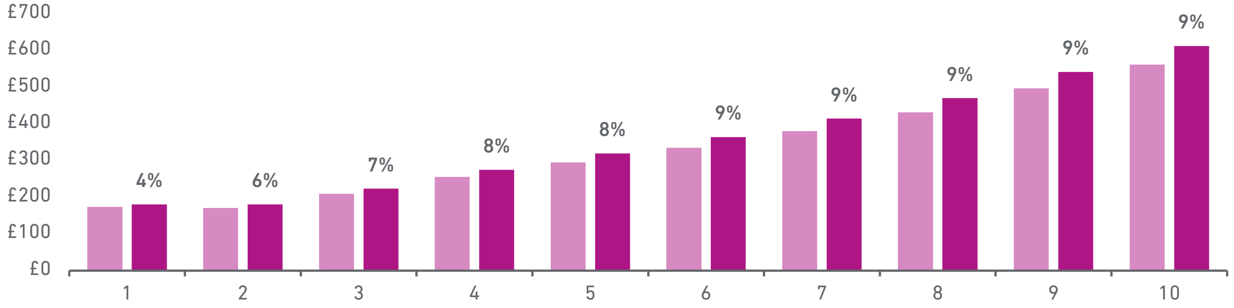
Average monthly household payments are now £359, 8% higher compared to last year

Contracted payments have risen for all UK consumers households fairly evenly and in ways that are to be expected. Higher income households often have higher contracted payments, more expensive cars for example, and these have increased slightly more than households on lower incomes.

Across household compositions, single person households have experienced the highest increase – a 16% jump in monthly payments.

It is significant to note that, we are yet to see indicators of consumers not meeting these increased payments, so although prices are rising, it would suggest that people are managing the increased financial burden. In other words, although inflation has driven prices up quite significantly during the past 12 months, UK consumers appear to have adapted and are keeping up with their contracted payments.





Contracted payments have risen across all segments

People are re-engaging with credit cards

During Q4 2023, fewer people had a zero balance on their credit card than the previous quarter, which indicates more people are spending on credit cards.

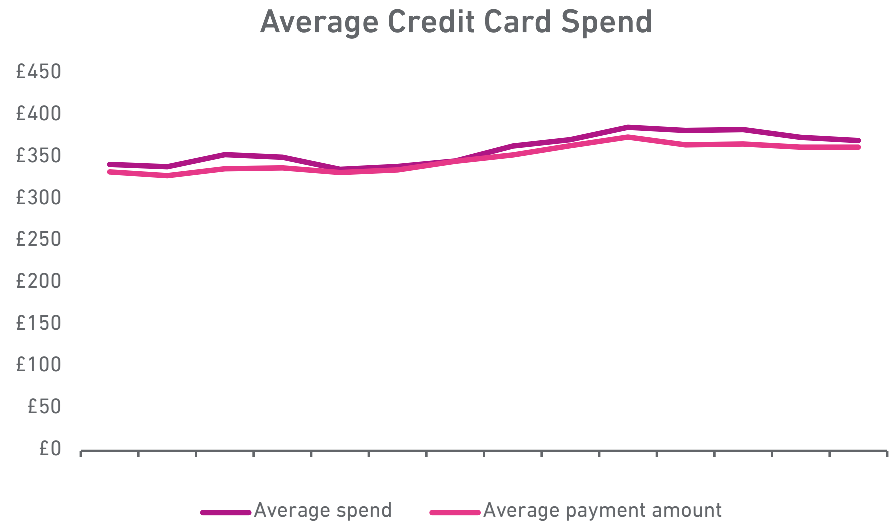
The vast majority are not on a promotional rate and so are gaining interest on any balances. Given delinquency rates remain stable, and the vast majority are effectively managing their spending, it suggests a renewed confidence in the credit card market itself following an unstable period with high interest rates.

Comparing year on year, the average credit card spend has increased by 9% (£30) from £339.45 to £370.66. Importantly, the average payment amount during the period has also risen. The average payment amount is, however, slightly lower than the average spend, which means that credit card balances are growing, and is something that should be monitored by lenders to ensure any credit is always affordable.

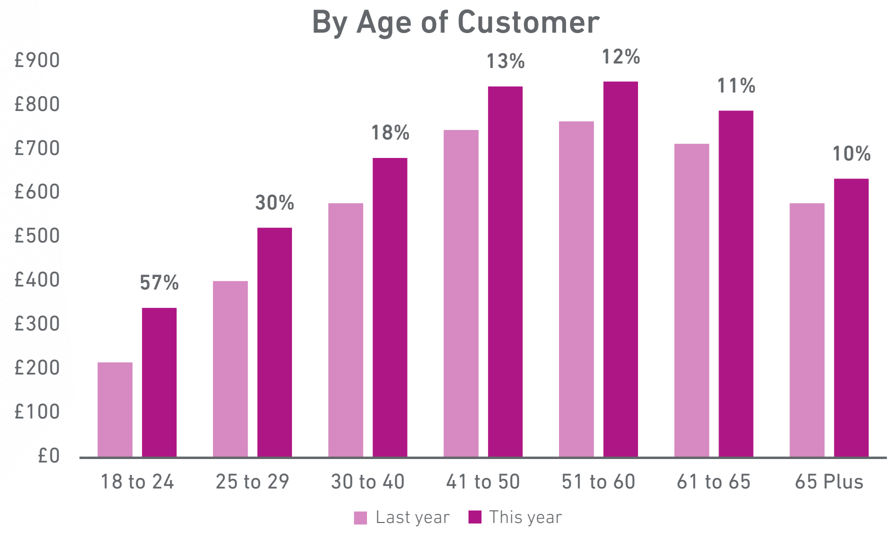
Younger people have increased their credit card spend dramatically

Younger people have increased their spend proportionately more than older people (although in absolute terms, their levels of credit card spending are still lower).

In percentage terms, these figures appear dramatic. 25-29 year olds increased their credit card spending by 30%, whilst 18-24 year olds increased theirs by 57%. In absolute terms, this represents a monthly spending increase from around £200 to just under £350.



The largest percentage increases in credit card usage are **younger people, lower income and lower risk individuals**



The last word on **consumer affordability** for Q4 2023

With high interest rates, a cost-of-living crisis, a jump in mortgage rates and the UK economy experiencing a technical recession, lenders will naturally be concerned about how British consumers are coping financially.

This affordability update indicates that they can be cautiously optimistic, our analysis paints a picture of widespread resilience in terms of affordability, despite the financial challenges.

Although this is an optimistic story, we would continue to urge lenders to remain vigilant. Although income is increasing, the rate of growth is slowing. Moreover, although mortgage rates have come down over recent months, it is still true that they are enduringly higher than they once were, and rates remain turbulent.

But overall, people are continuing to spend and, with delinquency rates remaining stable, seem able to afford to repay their credit commitments.

How can Experian help?

With our rich breadth and depth of data on consumers across the UK, Experian helps lenders to optimise new lending decisions and identify opportunities for growth with risk-right customers. What's more, we can help organisations to understand each consumer's individual financial circumstances, ensuring that the products and services are right for them.

This includes our latest **Affordability insights** which allows lenders to verify a consumer's income, understand their disposable income, monitor their financial stability throughout your relationship and identify any income shock, so that any action needed can be taken quickly. We also provide access to consumer consented sources of data such as digital payroll and Open Banking insights that can reveal more about a consumers' financial health.

We believe data has the power to change lives.

With better, more informed data we can support your business to grow and help you to drive better outcomes for your customers.

Contact us **today**

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* This report is based on real Experian-owned data, comparing values from November 2022 to November 2023

Experian uses data on tens of millions of consumers across the UK to create our reports. This includes curated data on 55 million representative UK adults from our credit bureau; information from our CATO product (which uses banking data for 22 million UK households) and mortgage repayment data from our financial services partners (where this is available)