Experian Affordability Update

Q3 2023

Data-based analysis of the latest consumer affordability trends

The latest UK affordability data brings good news for consumers and lenders alike, with increases in consumer income outpacing rising costs, and most segments of the population remaining financially resilient – evidenced by low and stable delinquency rates.
But part of the fair-lending remit is to ensure that no consumers are left behind, and this quarter's report looks at household income data and increasing mortgage and contracted payments to indicate where specific consumer segments may need additional support from lenders in the near term.

Key Findings

- Consumer income is outpacing inflation – easing financial pressures for many
- Most consumers remain financially resilient, despite average mortgage payments rising
- Households have seen average ‘contracted payments’ increase but delinquency rates remain low and stable
- Financial vulnerability has increased among specific consumer segments

About the Experian **Affordability Update**

Our world is built on data. It's all around us, growing in power and influence every day. Experian holds rich financial data about tens of millions of individuals and households across the UK meaning that we are in a unique and privileged position.

We work to turn that data into something meaningful. We gather, analyse, combine and process it to help people and organisations achieve their goals – whether that means planning for a secure future or getting to know your customers better.

We believe data has the power to change lives. By helping people and organisations make the most of their data, we can make a positive difference to our society and communities.

Real data, not predictions or models

This report is based on real Experian-owned data, comparing values from October 2022 to August 2023, rather than outputs from analytics models or predictive models. By avoiding interpretation, we are able to provide the most unbiased view of affordability possible at a given point in time.

About Experian's UK consumer affordability data

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), mortgage repayment data from our financial services partners (where this is available) and household composition data, which is available in our FSS affordability tool.

To show consumers' differing levels of financial resilience and affordability, we have used the customer-segmentation capabilities of our Financial Strategy Segments (FSS) affordability tool. This allows us to see how current economic trends are impacting younger demographics, high-income consumers, pension-age people, young families and other categories of consumers – helping 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.

NOTE: Where relevant, the different customer 'categories' are explained in the report.

Key affordability findings for Q3 2023

When it comes to consumer affordability, a lot can change very quickly – and especially in the current climate of high inflation and relatively high interest rates. However, this analysis shows that most consumers remain financially resilient in the face of rising mortgage and contracted payments.

Consumer income is outpacing inflation – easing financial pressures for many

A number of key trends are supporting consumers as they slowly emerge from the recent cost-of-living crisis. Our data shows, for example, that the average household income has increased 11% based on comparing figures from October 2022 and August 2023. While organic wage inflation is contributing significantly to this, along with increased earnings from interest on savings in certain sections of the population, the annual Experian Affordability Report (published in summer 2023) also found that consumers are taking proactive steps to increase their income. This found, for example, that 36% of employed people have increased their working hours to earn more, 13% have changed jobs for higher pay, and 9% had delayed their retirement plans.

Most consumers remain financially resilient, despite average mortgage payments rising

Despite the fact that mortgage payments have risen by 11% when comparing October 2022 and August 2023, most consumers remain financially resilient and able to meet their new repayment obligations. However, rising mortgage costs are having a disproportionate impact on affordability for consumers who are already stretched due to low incomes and the accumulation of other cost-of-living factors.

Households have seen average 'contracted payments' increase but delinquency rates remain low and stable

Increases in contracted payments – meaning payments for personal loans and credit cards – are still manageable for most consumers in most segments at the time of writing, having increased only 6% based on a comparison of data from October 2022 and August 2023. This modest increase, together with stable delinquency rates and credit card applications and usage, suggest that most consumers are able to keep pace with their repayments – at least for the time being.

Financial vulnerability has increased among specific consumer segments

Our data shows that 723,000 households in the UK have experienced a 'triple whammy' of falling income, rising mortgage costs, and rising contracted payments, leading to increased financial vulnerability. While these households make the minority of the overall consumer population, they may require support now or in the near term to mitigate the risk of financial detriment.

In the following sections of the report, we look these at key affordability trends in detail, providing insights on specific customer segments and areas of the UK.

Consumer income is outpacing inflation – easing financial pressures for many

The key takeaway from our research is that consumer income is outpacing inflation: helping to bolster the financial resilience of millions of UK consumers.

Experian's Current Account Turnover (CATO) data shows that the average consumer income has risen by 11%. As well as organic wage increases, this trend is not only being driven by organic wage inflation (which is still falling behind inflation according to Statistica), but also because of consumers' decisions to take on more hours at work, to change to better-paid employment, or to look for other ways to earn extra money, as reported in **Experian's Annual Affordability Report**. Consumers may also be benefiting from higher interest on savings accounts, or they may be transferring sums of money from their savings accounts to their current accounts to ease cost-of-living pressures.

The average monthly household income peaked in April of 2023 due, at least in part, to pay rises, the payment of bonuses and changes in taxation – which are all features of the beginning of the UK financial year. After decreasing slightly from April to May, income levels climbed steadily for the rest of the period to August 2023, and the average household income is now £897 higher than in October 2022.

Delinquency rates remain low and stable, both for mortgages and contracted payments. Credit card applications have also fallen by as much as 6.5% showing that consumers are able to handle higher living costs without turning to new credit facilities.

Rising consumer income and the north-south divide

On average, our data shows that homes in the north of England have seen smaller than average increases in income when compared to the UK as a whole.

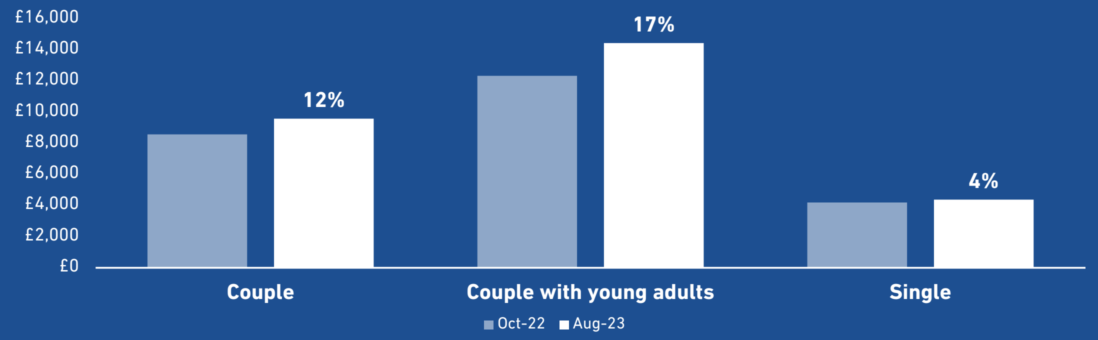
For example, income rose in east Yorkshire and north Lincolnshire by just 8%. The figures are even lower in Scotland and its bordering counties in the far north of England, including Northumberland, Cumbria, Tyne and Wear, Durham, and north Yorkshire, which have had some of the lowest wage increases anywhere in the UK.

By contrast, the south of England has seen income increases higher than the national average. The extreme example of this is the wealthy enclave of central London, where the already significant per-household income rose by 24% to more than £17,000 per month.

Income growth by household 'composition'

Households in the UK have seen variable increases in income depending on the mix of individuals living there. Single-person households have seen the lowest rise in income of any household type at just 4%.

Couples living together have experienced a 12% rise in average income, three times the figure for single-occupant households. Not only that, but households comprised of couples living with young adults (usually their working-age children), have seen the highest income increases at 17%.



Rising income by consumer segment

Using Experian's FSS tool, we can segment consumers into different categories based on demographic, financial and other criteria, and see how quickly income is changing for each group.

Examples of consumer segments that have seen higher-than-average income increases are:

13% increase in income

Golden Age
Older people on gold-standard pensions with money to enjoy now

23% increase in income

Established Investors
Wealthy households with substantial assets confidently able in terms of financial management

14% increase in income

Money Makers
High income households in the process of accruing assets, despite high expenditure, aim to achieve financial security

Examples of consumer categories that have seen lower-than-average income increases are:

6% increase in income

Single Earners
Individuals in low-cost housing, working hard to make their way on their own resources

6% increase in income

Cash Economy
Mature households with low wages when in work, leaving little to spare and a need for support

3% increase in income

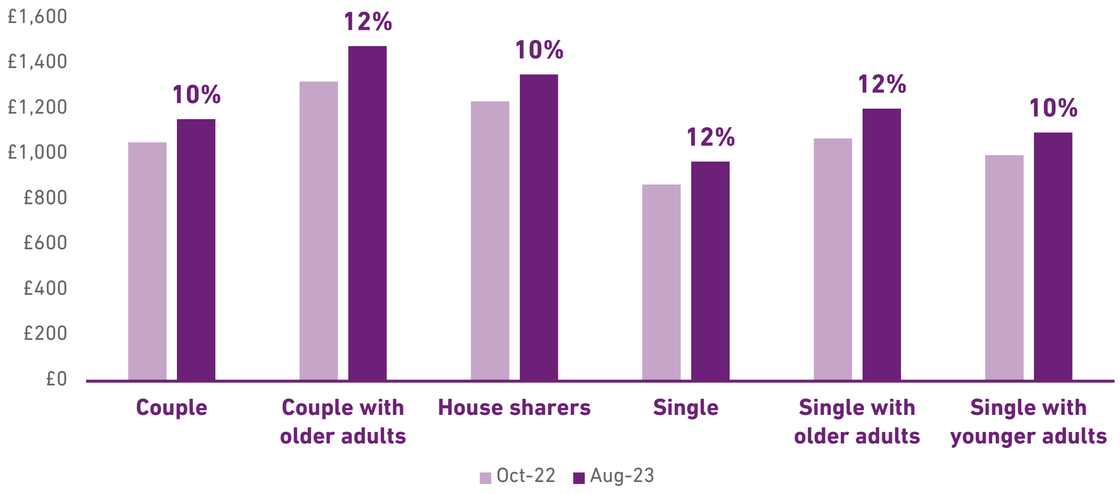
Declining Years
Elderly people on state pensions, usually living in low value homes, with the need to economise as money doesn't stretch beyond essentials

Most consumers remain financially resilient, despite average mortgage payments rising

Average mortgage repayments have increased by 11% across the UK to an average of £1,174. However, our data also shows that most consumers are able to absorb these increasing costs, with delinquency rates remaining low and stable (up fractionally to 0.18% from a historical norm of 0.14%), although mortgage arrears still remain an issue in the market.

Rising mortgage payments by household composition

Rising mortgage costs have been fairly consistent across all households, irrespective of the residents who live in them.



Mortgage cost increases by consumer segment

When we look at the way rising mortgage costs have impacted different types of consumers, the results are more striking. We can see that "golden age" consumers on fixed pensions have been among the most affected – seeing a 13% increase in mortgage costs. At the other end of the spectrum, the financially savvy "established investors" have seen cost increases of only 9%.

The largest increases in mortgage costs (13%) is for consumers in the "mutual resources" FSS category. These are described as mid-range-income families whose financial position is enhanced by the support of extended family or the wider community.

The impacts of rising mortgage costs by consumer income decile

It is perhaps no surprise that consumers in the lowest income decile are those who have seen the highest mortgage increases (13%), possibly due to the fact that many struggle to access the full range of mortgages available in the market due to their limited income or other factors, such as a lack of credit history or previous defaults. However, our research finds that all other income groups have been impacted to a similar extent.

3.3m households have seen their mortgage payments increase

203k households | Average rise=**34%** (£460)	
Income Decile	<4
CP/Inc	>=10%
Mort/Inc	>35%

2+ Rate Oct 22= **6.45%**
2+ Rate Aug 23= **7.42%**
Difference- **+0.97%**

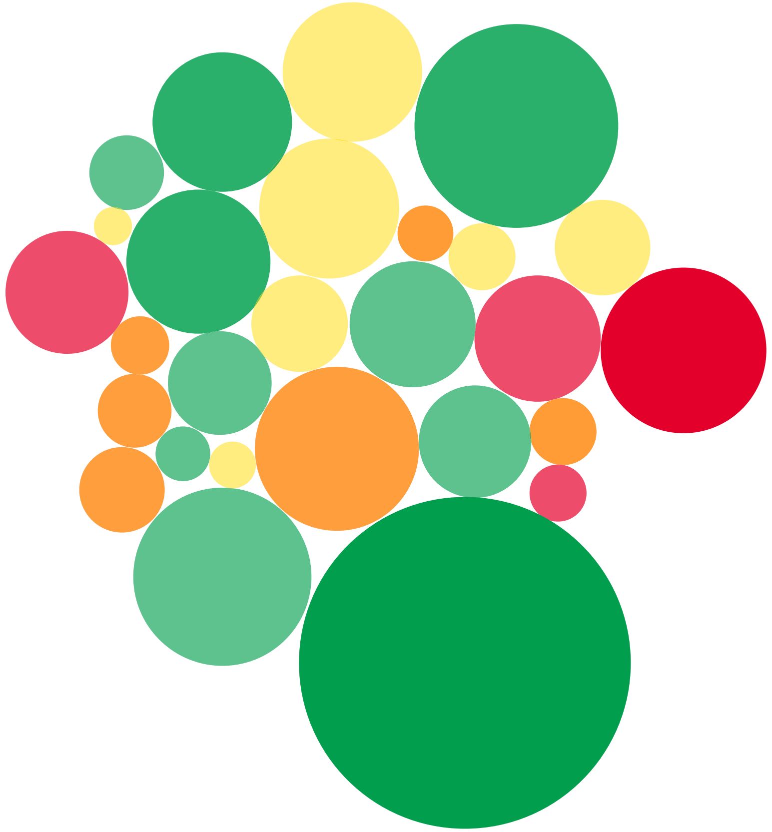
68k households | Average rise=**33%** (£278)	
Income Decile	Between 4 and 7
CP/Inc	Between 5% and 10%
Mort/Inc	Between 15% and 35%

2+ Rate Oct 22= **5.20%**
2+ Rate Aug 23= **5.96%**
Difference- **+0.76%**

822k households | Average rise=**42%** (£403)	
Income Decile	>=7
CP/Inc	< 5%
Mort/Inc	< 15%

2+ Rate Oct 22= **3.40%**
2+ Rate Aug 23= **3.69%**
Difference- **+0.29%**

Low resilience **Medium** resilience **High** resilience



The image shows how rising mortgage costs for 3.3 million households are driving the 11% rise in average mortgage costs when comparing October 2022 and August 2023

CP/Inc = Proportion of income spent on contracted payments
Mort/Inc = Proportion of income spent on mortgage payments

Households have seen average 'contracted payments' increase by 6% but delinquency rates remain low and stable

Average contracted payments (meaning monthly repayments for loans and credit card debt) increased by only 6% from an average of £326 to £346.

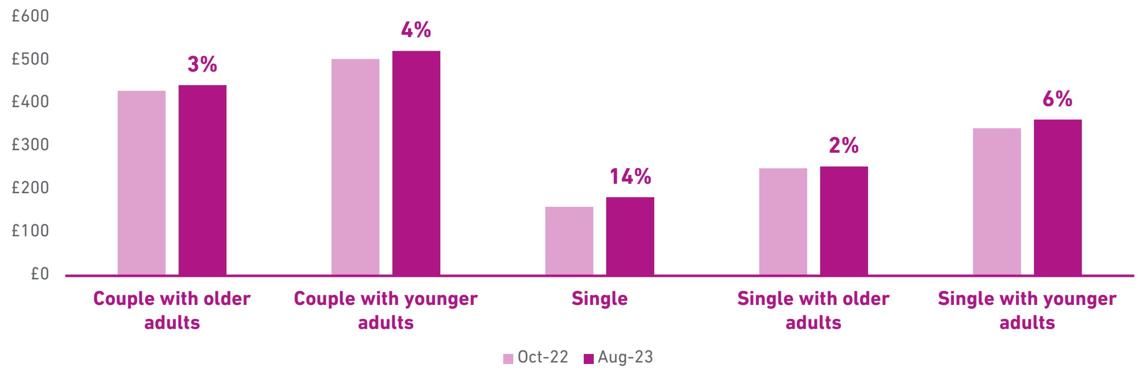
Most have been able to absorb this small increase in costs, evidenced by the fact that credit card delinquency rates have increased by only 0.08%.

Increases in contracted payments by household composition

Most types of households have experienced similar, and small, increases in contracted payments. However, one group – single householders – have seen increases much higher than the 6% average.

This group has seen repayments grow by 14%.

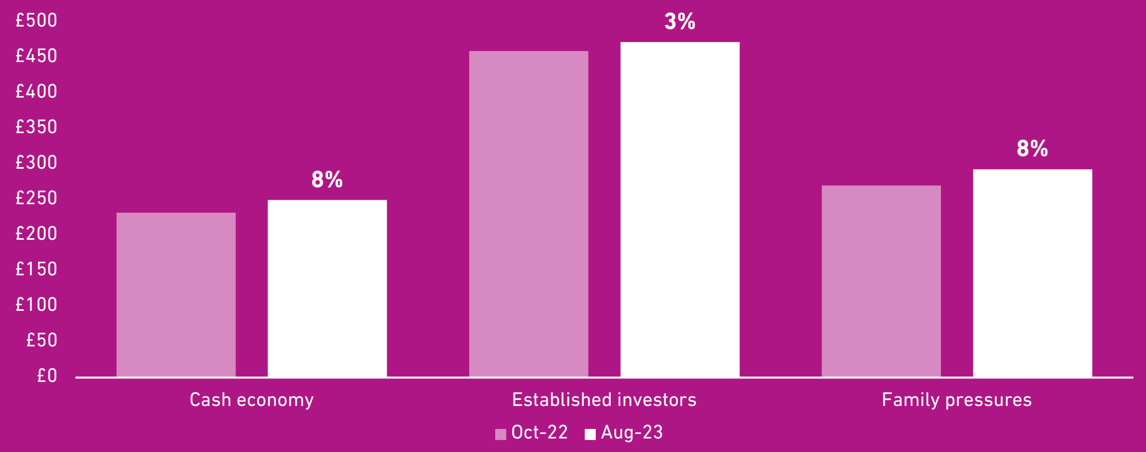
The households with the smallest rises in contracted payments are cohabiting single people (likely to be student or shared accommodation) and couples cohabiting with younger or older adults (usually their children), who have experienced payment increases of only 2% and 3% respectively.



Increases in contracted payments by consumer segment

The Experian FSS consumer segments most affected by rising contracted payments are "cash economy" and the "family pressures" segment.

By contrast, the "established investors" group, who are building their wealth due to a surplus of income vs. expenditure, are the least affected by rising contracted payments, seeing a barely noticeable 3% increase (from an average of £459 a month to an average of £472 a month.



The impacts of rising contracted payments by income decile

Showing a contrast with mortgages, consumers in the lowest income decile are least affected by increasing contracted payments seeing just a 2% increase in their bills. The most affected are middle and higher-income groups, which have seen an average 7% increase in their contracted payments.

Financial vulnerability has increased among specific consumer segments

While our data paints a picture of continuing resilience among the UK consumer population, some individual consumers and households are facing significant financial vulnerability as a result of higher mortgage rates and contracted payments – especially where their income is not keeping pace with inflation.

723,000 households in the UK have experienced a 'triple whammy' of falling income, rising mortgage costs, and rising contracted payments.

The households in this group are not confined to a single area of the UK, or single household type or consumer category. Instead, they are spread out evenly across the UK, from Scotland to the Midlands, and further south to the Home Counties, London, the South East, South West, and Wales.

While these households make up a minority of the overall consumer population, they may require additional support at the present time. We have a range of solutions that can identify potentially vulnerable customers, so that they can be offered support before falling into delinquency.

723k

households saw their mortgage increase, their income decrease and increased their contracted payments

25k households	
Income Decile	<4
CP/Inc	>=10%
Mort/Inc	>35%

2+ Rate Oct 22= **5.74%**
2+ Rate Aug 23= **7.29%**
Difference- **+1.55%**

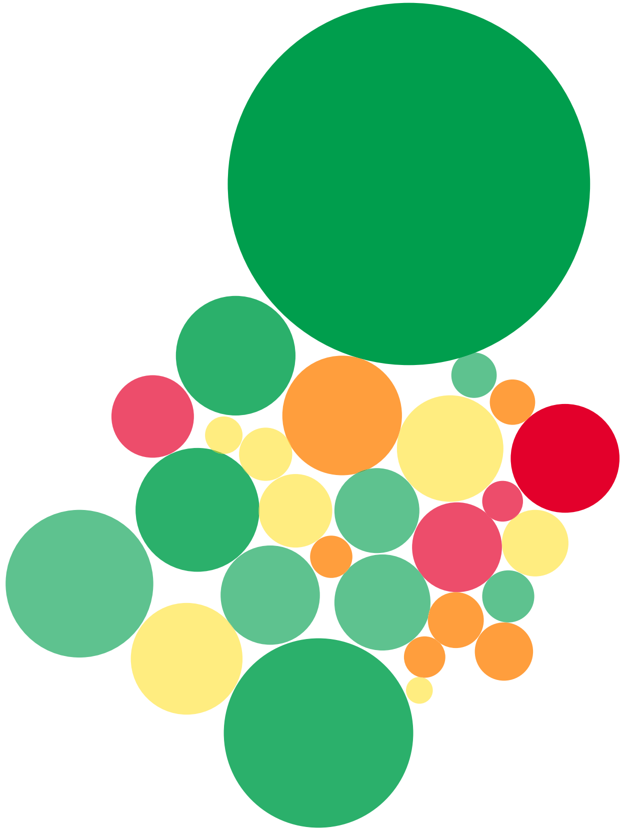
12k households	
Income Decile	Between 4 and 7
CP/Inc	Between 5% and 10%
Mort/Inc	Between 15% and 35%

2+ Rate Oct 22= **4.82%**
2+ Rate Aug 23= **6.31%**
Difference- **+1.49%**

273k households	
Income Decile	>=7
CP/Inc	< 5%
Mort/Inc	< 15%

2+ Rate Oct 22= **3.48%**
2+ Rate Aug 23= **5.09%**
Difference- **+0.61%**

Low resilience **Medium** resilience **High** resilience



The image shows the characteristics of vulnerable consumer segments being impacted by falling income and rising mortgage and contracted payments

CP/Inc = Proportion of income spent on contracted payments
Mort/Inc = Proportion of income spent on mortgage payments

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

Our analysis leaves great scope for optimism in the market as a whole. As well as seeing inflation and fuel costs begin to fall, we are seeing increases in consumer income that are outpacing growing costs and leaving many consumers more financially resilient. This trend is evidenced by low and stable delinquency rates, and stable use of credit cards and loans, which suggests consumers are not relying on these facilities to make ends meet.

But, even when slowing inflation represents rising costs for consumers and it is critically important, now more than ever, to understand potential areas of vulnerability, by identifying possible credit risk sooner you can protect your business, but also take action to support customers more quickly, helping them to meet their financial goals and avoid detriment.

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, contributing to a positive consumer outcome.

This includes our latest **Affordability insights** which allows lenders to verify a consumers income, understand their disposable income, monitor their financial stability throughout their relationship with you and identify income shock and indebtedness, so any action needed can be taken quicker. 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**

To find out more about how Experian can help you in this changing marketplace, mitigate credit risk, and support vulnerable customers, get in touch:

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