



Life on Low Pay as Inflation Begins to Ease

Ana Witteveen, Living Wage Foundation, September 2023

Costs remain high even as inflation begins to ease, leaving many low paid workers facing ongoing financial hardship. While workers across the income distribution are feeling the squeeze, the situation is particularly challenging for the UK's 3.5m low paid workers. This is the fourth time we have run the 'Life on Low Pay' survey to track the real-life impact of being paid less than the real Living Wage.¹ Our polling data shows that despite the general easing of inflation over the past year (from 8.6 per cent CPIH² in August 2022 to 6.3 per cent in August 2023), low paid workers have only reported a slight reduction in financial hardship during that time, and are still experiencing higher levels of financial hardship than before the cost-of-living crisis.

According to our latest polling, 39 per cent of low paid workers reported regularly skipping meals for financial reasons and falling behind on household bills respectively, both down from 42 per cent in August 2022. The proportion of low paid workers that were unable to heat their homes for financial reasons stayed level at 32 per cent over this period, as did the proportion falling behind on rent or mortgage payments (27 per cent in 2023, 28 per cent in 2022). Meanwhile, the incidence of low paid workers getting a pay day loan to cover essentials fell slightly from 24 per cent to 21 per cent between August 2022 and August 2023.

Compared to last year, workers were less likely to say the pay they received had a negative impact on their physical and mental health, their relationships and their overall quality of life. These reductions were more apparent than those reported for financial hardship. For example, in August 2022, 69 per cent of low paid workers reported that the pay they received negatively impacted their overall quality of life and their levels of anxiety, respectively. Both of these figures were down in August 2023, to 50 per cent and 54 per cent respectively. However, they were still higher than those reported by low paid workers before the start of the cost-of-living crisis in 2022.

Even as inflation begins to fall, this year's polling shows that there remains a cohort of low paid workers whose financial situations have worsened over the past 12 months. Indeed, 50 per cent of workers reported being worse off than a year ago, with 65 per cent reporting it was because of the increased cost-of-living. Though this is an improvement on August 2022, when 62 per cent reported being worse off, these findings suggest that high living costs have continued to erode workers' pay packets. Meanwhile, reliance on foodbanks was also up slightly on last year, with 60 per cent of low paid workers using foodbanks at least once this year, compared to 56 per cent last year.

As the results of this survey show, a real-term pay cut is simply not an option for the lowest paid workers, many of whom have already been forgoing essentials. That is why it is more important than ever that employers do right by their employees and pay them a real Living Wage.

¹ The real Living Wage is an independently calculated hourly rate, updated annually to reflect actual living costs. At the time of writing the rate was £11.95 in London and £10.90 in the rest of the UK.

² The Consumer Prices Index including owner occupiers' housing costs (CPIH) is considered the most comprehensive measure of inflation and has been the Office for National Statistics (ONS) lead measure of inflation since 2017.



Financial hardship over the past 12 months

Since our last Life on Low Pay survey in August 2022, inflation has begun to ease and is no longer rising at unprecedented levels. The impacts of this change are reflected in our most recent polling data. Compared to August 2022, fewer low paid workers feel they are worse off than a year ago, the proportion of workers experiencing financial hardship has remained stable or decreased slightly across all measures, workers have more money left over after paying for essentials and fewer workers reported their pay having a negative impact on their health, relationships and quality of life.

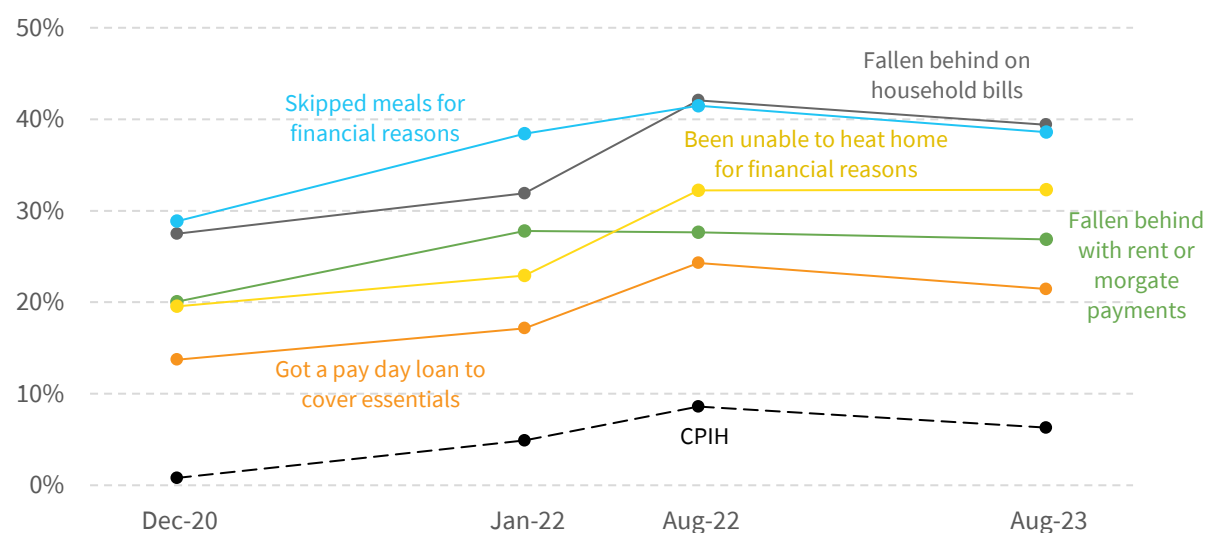
Though inflation is beginning to ease, costs remain high and many low paid workers are still struggling financially. As this year's Life on Low Pay data shows, 50 per cent of workers reported being worse off than a year ago, with 65 per cent citing the increased cost-of-living as the main reason. While this is a reduction compared to our August 2022 polling, in which 62 per cent of workers reported being worse off than a year ago, the cost-of-living crisis is clearly still having an adverse impact on many low paid workers' finances. This was particularly true of female workers, with 58 per cent reporting they were worse off than a year ago, compared to 43 per cent of male workers. This is in keeping with evidence that the cost-of-living crisis has hit women harder than men.³

Financial hardship measures

In our latest survey, low paid workers reported experiencing a number of challenging life situations at levels similar to those reported in August 2022. As shown in Figure 1, low paid workers reported a sharp increase in almost all measures of financial hardship between January and August 2022, with workers being more likely than ever to fall behind on bills, skip meals for financial reasons, be unable to heat their homes and get a pay day loan to cover essentials. One year on, experiences of financial hardship have reduced slightly or remained stable across all measures. The biggest reductions were in the proportion of workers falling behind on bills and skipping meals for financial reasons (both of which fell from 42 to 39 per cent respectively). Figure 1 also demonstrates how closely tied these measures of financial hardship are to broader inflation data, with almost all measures following the same general trajectory as CPIH in recent years.

³ World Economic Forum (2023) Women are bearing the brunt of the cost of living crisis. Accessible here: <https://www.weforum.org/agenda/2023/01/cost-of-living-crisis-women-gender-gap/>

Figure 1: Proportion of workers earning below the real Living Wage experiencing negative life situations as a result of low pay, alongside CPIH, UK, December 2020 – August 2023.



Source: Living Wage Foundation analysis of Survation surveys. Data for December 2020 comes from 2,128 respondents aged 18+, who live in the UK and earn below the real Living Wage. Data for January 2022 comes from 1,702 respondents aged 18+, who live in the UK and earn below the real Living Wage. Data for August 2022 comes from 2,054 respondents aged 18+ who live in the UK and earn below the real Living Wage. Data for August 2023 comes from 2,010 workers aged 18+, who live in the UK and earn below the real Living Wage. All samples were asked: In the past 12 months, have you experienced any of the following life situations?

Given the general downward trajectory of inflation over recent months, sharper reductions in financial hardship might have been expected. However, high rates of inflation are particularly challenging for low income households, as they spend a higher proportion of their income on items most impacted by inflation such as energy and food.⁴ Indeed, both of these essential items have, at different points during the cost-of-living crisis, been lead drivers of inflation. Most recently, for example, ‘food and non-alcoholic beverages’ became the main contributor to CPI⁵ inflation⁶ and according to the Living Costs and Food Survey, food and non-alcoholic beverages account for 20 per cent of total expenditure for the lowest earning households, compared to 14 per cent for households overall.⁷

Not all low paid workers reported experiencing financial hardship at the same levels. In August 2023, a higher proportion of workers living with a disability reported experiencing each of these negative life situations, compared to workers that were not living with a disability. A higher proportion of workers with a dependent child also reported experiencing each of these financial hardships, compared to those without a dependent child. These findings chime with previous research into how the cost-of-living crisis is impacting different groups, with ONS data showing that parents are

⁴ Institute for Fiscal Studies (IFS) (2022) Inflation hits 9% with poorest households facing even higher rates. Accessible here: <https://ifs.org.uk/news/inflation-hits-9-poorest-households-facing-even-higher-rates>

⁵ The Consumer Price Index (CPI) is a measure of inflation calculated by the ONS to measure the change in the price of a basket of goods and services consumed by households in the UK and excludes owner occupiers’ housing costs.

⁶ ONS (2023) Consumer price inflation, UK: August 2023. Accessible here: [Consumer price inflation, UK - Office for National Statistics](https://www.ons.gov.uk/economy/inflationandcosts/articles/consumerpriceinflationintheuk/august2023)

⁷ ONS (2019) Household expenditure by gross income decile group: Table A4. Accessible here: [Household expenditure by gross income decile group: Table A4 - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/economy/inflationandcosts/articles/householdexpenditurebygrossincomedeclinegroup)

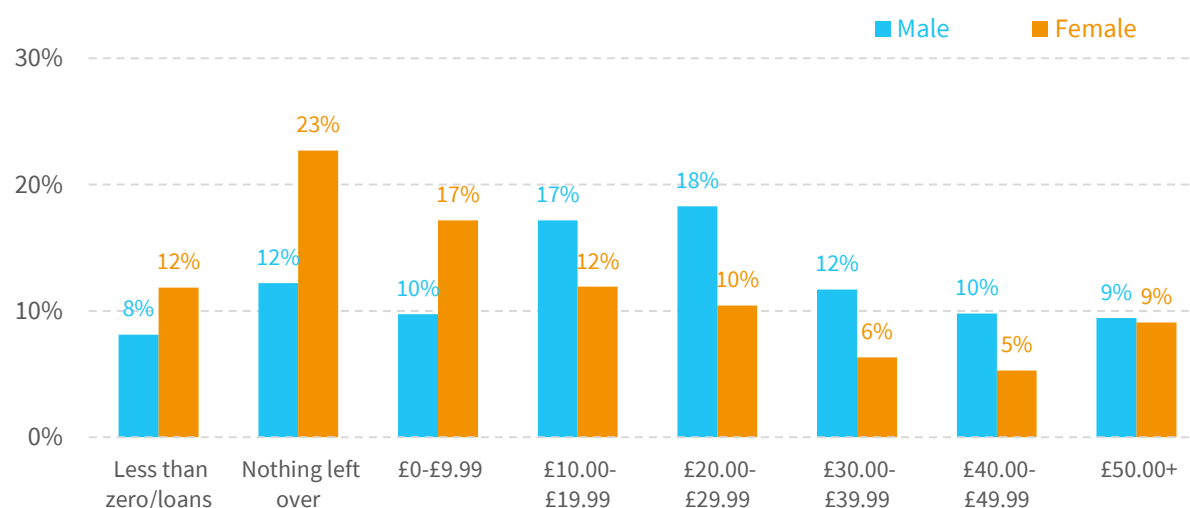
more likely than those without children to have seen costs increase, while also being more likely to have taken on debt and spent less on food and other essentials.⁸ Moreover, Resolution Foundation research found that working age people with disabilities were more likely to struggle to keep their homes warm, while also being more likely to have reduced spending on food and be in ‘severe’ food insecurity.⁹

Income after essential expenses

After paying for essentials, 27 per cent of low paid workers either had no money left over each week or had to use loans to cover essentials, showing no change since our last survey in August 2022. An additional 42 per cent reported having less than £30 left over per week, with 13 per cent having less than £10. However, this is an improvement from August 2022, when 52 per cent of workers reported having less than £30 left over per week and 19 per cent had less than £10. This suggests that while the easing on inflation is starting to have a positive impact at the macro-level, a substantial cohort of low paid workers is still struggling to make ends meet.

Considering experiences by gender in 2023, a larger proportion of female workers (12 per cent) reported relying on credit for essentials compared to male workers (8 per cent). Similarly, female workers were around twice as likely as male workers to report having no money left over after paying for essentials (Figure 2).

Figure 2: Proportion of workers earning below the real Living Wage with different amounts of income available each week after essential expenses, by gender, UK, August 2023.



Source: Living Wage Foundation analysis of Survation survey. Data for August 2023 comes from 2,010 workers aged 18+, who live in the UK and earn below the real Living Wage. The sample was asked: *On average over the past 12 months, how much money have you had left over each week once payments for your essentials have been made?*

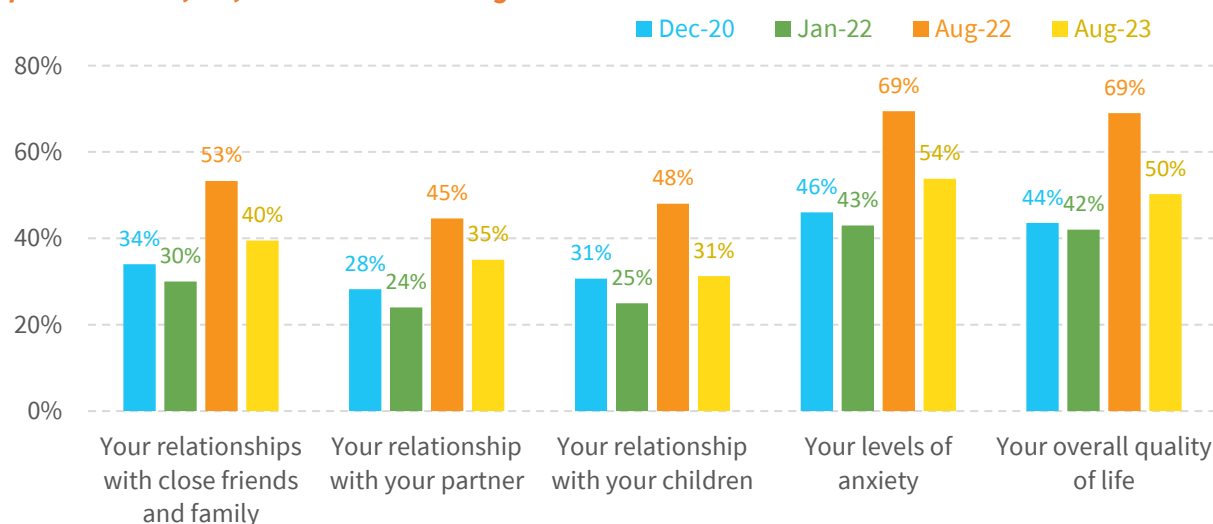
⁸ ONS (2022) Parents more likely to report increases in their cost of living. Accessible here: <https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/articles/parentsmorelikelytoreportincreasesintheircostofliving/2022-09-07>

⁹ El Dessouky, O & McCurdy, C. (2023) Cost differences: Living standards for working age people with disabilities. London: Resolution Foundation. Accessible here: <https://www.resolutionfoundation.org/publications/costly-differences/>

Impact of low pay on quality of life

Since the start of the cost-of-living crisis in 2022, the proportion of low paid workers reporting that their pay negatively impacted their health, relationships and overall quality of life has increased substantially (Figure 3). However, as inflation and uncertainty around the ongoing impacts of the cost-of-living crisis on personal finances have begun to lessen over the past 12 months, this trend has started to reverse. In our most recent polling, fewer workers reported that their pay had negatively impacted their quality of life, relationships, levels of anxiety, quality of sleep, physical and mental health compared to August 2022. Furthermore, these reductions were more notable than those reported against measures of financial hardship, suggesting that although low paid workers are only slightly better off financially than last year, money worries are less of a concern. This is perhaps a result of recent falls in inflation, and broad expectations that it will continue to fall in the coming months.¹⁰

Figure 3: Impact of earning below the real Living Wage on different aspects of workers' personal lives, UK, December 2020 - August 2023.



Source: Living Wage Foundation analysis of Suration surveys. Data for December 2020 comes from 2,128 respondents aged 18+, who live in the UK and earn below the real Living Wage. Data for January 2022 comes from 1,702 respondents aged 18+, who live in the UK and earn below the real Living Wage. Data for August 2022 comes from 2,054 respondents aged 18+ who live in the UK and earn below the real Living Wage. Data for August 2023 comes from 2,010 workers aged 18+, who live in the UK and earn below the real Living Wage. All samples were asked: To what extent does the payment you receive for your work impact the following, if at all?

Data from the 2023 survey suggests that, when it comes to levels of anxiety, mental health and overall quality of life, female workers are more likely to report being negatively impacted by their pay than men. Specifically, 60 per cent of female workers reported that the pay they received negatively impacted their levels of anxiety compared to 48 per cent of male workers. Similarly, 55 per cent of female workers said their level of pay negatively impacted their overall quality of life, compared to 46 per cent of male workers.

¹⁰ Bank of England (2023) Monetary Policy Report. Accessible here: <https://www.bankofengland.co.uk/monetary-policy-report/2023/august-2023>

These findings are in keeping with our previous Life on Low Pay surveys, and other research, which show that women are more likely to be negatively impacted during periods of high inflation, both financially and psychologically. These gender differences appear for a number of reasons. Women are generally more aware of rising prices and how they impact household finances¹¹ because they are more likely to manage household shopping and budgets. Women are also more exposed when prices rise because equivalent women's products are often more expensive than men's.¹²

Managing financial hardship

Over the past 12 months, low paid workers have managed challenging financial situations in a number of ways. This includes 60 per cent of low paid workers who reported using the services of a foodbank and 55 per cent who increased their hours to try to keep up with the increasing cost-of-living. Some low paid workers had to do both to keep afloat. Specifically, of those that used a foodbank, two thirds (67 per cent) also reported increasing their hours at work.

Reliance on foodbanks

60 per cent of low paid workers reported using the services of a foodbank over the past 12 months, compared to 56 per cent last year, and 43 per cent reported using one at least once per month. Furthermore, 32 per cent of low paid workers reported increasing their use of foodbanks over the past year, while 44 per cent said their use had stayed the same. This is in keeping with other research into the use of foodbanks during the cost-of-living crisis, with research published by the Independent Food Aid Network (IFAN)¹³ in August 2023 showing that 84 per cent of foodbank providers reported an increased need for foodbanks during the period April to July 2023, compared to the same period last year, with many citing "inadequate wages" as a key reason for people needing the services of foodbanks. The Trussell Trust also reported that during the period April 2022 to March 2023, 760,000 people used a foodbank for the first time.¹⁴

In our survey, a larger proportion of white workers (36 per cent) reported increasing their use of foodbanks over the past 12 months, compared to Minority Ethnic¹⁵ workers (24 per cent). Meanwhile, a higher proportion of female workers (40 per cent) also reported increasing their use of foodbanks over the past 12 months compared to male workers (28 per cent).

¹¹ International Monetary Fund (2023) Shaping Expectations. Accessible here:

<https://www.imf.org/en/Publications/fandd/issues/2023/03/shaping-expectations-michael-weber>

¹² World Economic Forum (2022) Inflation affects women more than men. Civil society can help. Accessible here:

<https://www.weforum.org/agenda/2022/10/inflation-crisis-hits-women-harder/>

¹³ Independent Food Aid Network (2023) IFAN Survey August 2023: Overburdened food bank teams fear a devastating winter as unprecedented demand soars through the summer. Accessible here:

https://www.foodaidnetwork.org.uk/files/ugd/992190_686303caa3094957891f5dfc258afdd7.pdf

¹⁴ The Trussell Trust (2023) End of year stats. Accessible here: <https://www.trusselltrust.org/news-and-blog/latest-stats/end-year-stats/>

¹⁵ We recognise that 'minority ethnic' is sometimes preferred over 'ethnic minority' or 'ethnically diverse'. The use of minority ethnic has historically been proposed to help counter the use of the term 'ethnic' when referring to people who are not white British. We also recognise that catch all terms like these fail to capture the nuance of individual minority ethnic groups and their unique experiences in the UK Labour Market. For more information see page 5 of this report: <https://www.livingwage.org.uk/living-wage-mattersthe-role-living-wage-closing-ethnicity-pay-gaps>.

Changes in work

Over half (55 per cent) of workers reported undertaking more work in the past 12 months because of the increased cost-of-living. Of those, almost half (46 per cent) reported taking on more hours at their existing workplace, while a further 32 per cent reported taking a second job and 17 per cent reported taking on freelance work. This may explain some of the growth in weekly earnings reported by the ONS¹⁶ in 2023. Indeed, although the ONS reported that the lowest earners have seen their weekly earnings increase by 7.5 per cent over the past year¹⁷ (in nominal terms), our survey data suggests that some of this pay growth could be explained by workers taking on more hours. This is especially true for low earners because they are more likely to be paid by the hour.

In our survey, a higher proportion of male workers (61 per cent) reported undertaking more work in the past 12 months because of the increased cost-of-living, compared to female workers (48 per cent). A larger share of workers in full-time employment (60 per cent) also reported undertaking more work, compared to those in part-time employment (46 per cent), suggesting that some workers had to work more than full-time hours to make ends meet. Finally, a higher proportion of those with a dependent child reported undertaking more work in the past 12 months because of the increased cost-of-living (58 per cent), compared to those without a dependent child (48 per cent).

Employee expectations for the coming year

Low paid workers were slightly more optimistic about future wage growth compared to 12 months ago. In August 2023, more low paid workers (22 per cent) expected their hourly pay to increase in-line with, or above the cost-of-living over the next 12 months, compared to 15 per cent in August 2022. Low paid workers will be further buoyed by the fact that, for the first time in over a year, average weekly earnings have grown in real terms for two consecutive months, following 18 months of sustained year-on-year decline.¹⁸

Expected personal benefits of earning a real Living Wage

Workers were also asked about how being paid in-line with inflation might impact them, what they felt their employers could do to help them deal with the increased cost-of-living, and the benefits a prospective employer could offer that would make them consider changing job or employer.

Over half of workers reported that there would be a positive impact on their health, relationships and overall quality of life if their pay was increased in-line with the cost-of-living (Figure 4). The highest proportion of workers (65 per cent) felt that earning a real Living Wage would improve their overall quality of life. This was closely followed by 63 per cent of workers who expected that if their

¹⁶ Office for National Statistics (2023) Real time pay as you earn data. Accessible here:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/realtimereferencetableseasonallyadjusted>

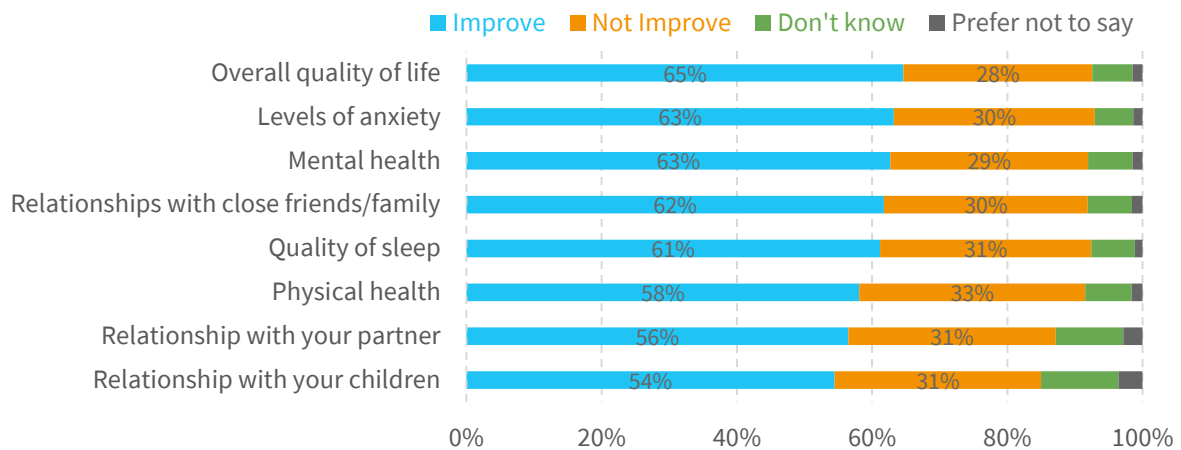
¹⁷ May-July 2023 compared to May-July 2022.

¹⁸ ONS (2023) XO9: Real average weekly earnings using consumer price inflation (seasonally adjusted). Accessible here:

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/xo9realaverageweeklyearningsusingconsumerpriceinflationseasonallyadjusted>

pay was uplifted in-line with the cost-of-living, their mental health and levels of anxiety would improve.

Figure 4: Low paid workers expectations about the impact of receiving a real Living Wage on different aspects of their personal lives, UK, August 2023.

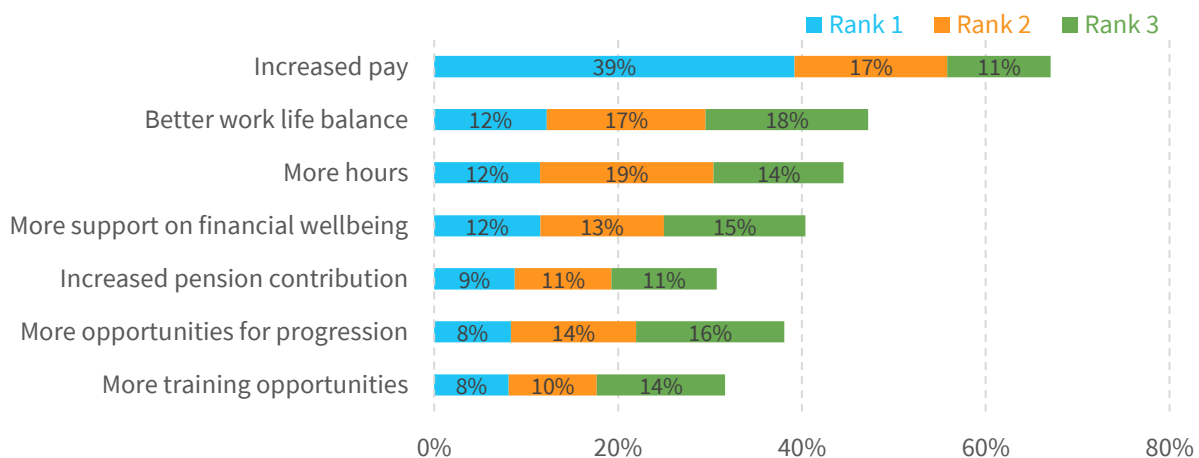


Source: Living Wage Foundation analysis of Suration survey. Data for August 2023 comes from 2,010 workers aged 18+, who live in the UK and earn below the real Living Wage. The sample was asked: If you were paid a wage that increased in-line with the cost-of-living, what impact, if any, would this have on the following?

What employees are looking for from employers

Nearly 40 per cent of workers ranked increased pay as the most effective measure an employer could take to help them deal with the increased cost-of-living. Low paid workers were more than three times as likely to cite this than any other measure. After pay, the other top ranked factors included better work life balance, more hours and more support with financial wellbeing (Figure 5).

Figure 5: Low paid workers views on which employer measures would be most effective in helping them deal with the increased cost-of-living, UK, August 2023.



Source: Living Wage Foundation analysis of Suration survey. Data for August 2023 comes from 2,010 workers aged 18+, who live in the UK and earn below the real Living Wage. The sample was asked: If given the following options by your employer, which of the following measures would be most effective in helping you deal with the increased cost-of-living? Please rank the following measures in order of which would be most important for you, with 1 being the most important and 7 being the least important. Figure only depicts options ranked first, second and third.



In terms of the benefits an employer could offer that would make low paid workers consider changing job or employer, pay was, once again, the most important consideration for low paid workers. Indeed, 47 per cent reported that an offer of pay that increased in-line with the cost-of-living would make them consider changing jobs. Other benefits which workers said would make them consider changing jobs included more paid annual leave (31 per cent), more hours (29 per cent), more choice of working hours (28 per cent), improved sick pay (27 per cent), support with transport to/from work (24 per cent), increased pension contribution (20 per cent) and more notice of shifts (19 per cent).

Conclusion

The findings in this briefing underline that the degree of financial hardship remains high for many low paid workers, even as inflation begins to ease. Our findings show that the experience of earning less than the real Living Wage remains extremely challenging, with low paid workers continuing to skip meals, fall behind on bills and fall into debt. In recent months, the rate of inflation has slowly started to come down and the Bank of England expects inflation to fall further to reach target levels by early 2025.¹⁹ However, even though the rate of inflation is coming down, any amount of inflation means a further increase in prices. It is therefore more important than ever for workers to receive pay that increases in-line with the cost-of-living to ensure they can meet their everyday needs.

¹⁹ Bank of England (2023) Monetary Policy Report. Accessible here: <https://www.bankofengland.co.uk/monetary-policy-report/2023/august-2023>