Office for National Statistics

Statistical bulletin

Economic well-being, UK: April to June 2015

Presents a rounded and comprehensive basis for assessing changes in economic well-being through indicators that adjust or supplement more traditional measures such as gross domestic product (GDP).

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1 . Correction

As noted in the publication of the United Kingdom Economic Accounts (UKEA) Q2 2015 release, Table 1.1.12 included preliminary estimates. Ongoing quality assurance of data contained within this table has uncovered an error in the published estimates. ONS is removing the data contained within this table whilst ongoing methodological and quality assurance checks are undertaken.

Furthermore, this error has affected data in UKEA table 1.1.5. The series affected are MWB6, MWB7 and MWB8, which are also included in the economic well-being statistical bulletin. Therefore, main points, figures and commentary relating to these series within this release have been removed whilst methodological and quality assurance checks are undertaken.

ONS would like to apologise for the errors found within the series and are working to provide a more robust data series by the end of October.

Date of correction: 16 October 2015, 2:30pm

2 . Main points

- In Quarter 2 (Apr to June) 2015, gross domestic product (GDP) per head increased 0.5% compared to Quarter 1 (Jan to Mar) 2015 and is now 0.6% above pre-economic downturn levels. This was a slightly slower growth rate than the 0.7% quarterly increase seen in GDP

- This main point has been removed, see the correction notice for further information

- In Quarter 2 2015, real household disposable income (RHDI) per head (excluding non-profit institutions serving households) increased 1.5% compared to Quarter 1 2015 and increased 3.3% compared to the same quarter a year ago (Quarter 2 2014). Overall, it remains broadly in line with the level of household income seen in mid-2012

- In the financial year ending 2014 (April 2013 to March 2014), median income (the income of the middle household if all households are ranked from the lowest income to the highest) was £24,500 – 3.4% higher than in the financial year ending 2013 (April 2012 to March 2013). This is a reversal of the downward trend seen since the financial year ending 2008

- In Quarter 2 2015, household spending per head grew 0.8% compared to the previous quarter – continuing the general upward trend seen since Quarter 3 (July to Sep) 2011

- As wealth tends to accumulate over an individual's working life, the highest median wealth between July 2010 and June 2012 were those with 2 adults, one under pension age and one over pension age with no children living in the household - with a median wealth of £607,800 compared to £218,400 for all households in Great Britain

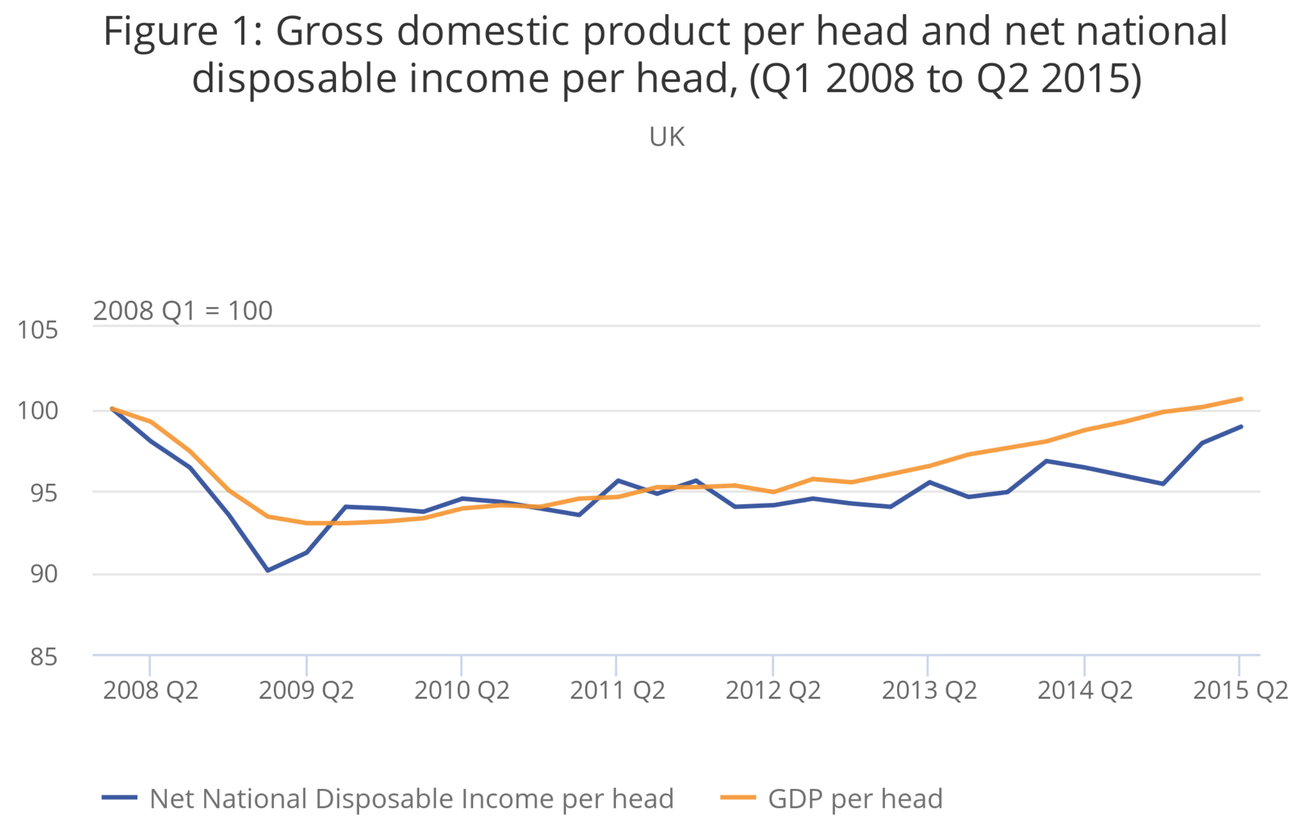
3 . Introduction

This release considers the measurement of economic or material well-being, presenting a dashboard of indicators and commentary that, together, give a more rounded and comprehensive basis for assessing changes in economic well-being, as proposed in Economic Well-being: Framework and Indicators. Economic well-being is a subset of the measurement of national well-being and recognises that many dimensions of well-being are outside the material sphere (for example, our "Wheel of Well-being").

4 . Whole economy production and income

Figure 1: Gross domestic product per head and net national disposable income per head, (Q1 2008 to Q2 2015)

UK



Source: Office for National Statisitcs

Notes:

1.Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

Real GDP per head

In Q2 2015, gross domestic product (GDP) per head, which adjusts GDP for the size of the population, increased 0.5% compared to Q1 2015. This was a slightly slower growth rate than the 0.7% quarterly increase seen in GDP, which recovered to its pre-economic downturn level in Q2 2013. The quarterly growth in GDP per head means that it is now 0.6% above its pre-economic downturn level, having initially surpassed its pre-economic downturn level in Q1 2015.

Between 2013 and 2014, GDP per head increased 2.2%. This was slower than the 2.9% increase in GDP over the same period.

Real net national disposable income (NNDI) per head

In Q2 2015, NNDI per head increased 1.0% compared to Q1 2015. This was a faster growth rate than the 0.5% quarterly increase seen in GDP per head.

Between 2013 and 2014, NNDI per head increased 1.4%. This was slower than the 2.2% increase in GDP per head over the same period.

As discussed in the Economic Well-being - Framework and Indicators article there are two main differences between GDP per head and NNDI per head.

First, not all income generated by production in the UK will be payable to UK residents. Some of the capital employed will be owned by non-residents and they will be entitled to the return on that investment. Conversely, UK residents receive income from production activities taking place elsewhere, based on their investments overseas. Adjusting for these flows gives a measure which is better focused on income rather than production.

Second, it can be adjusted for capital consumption. GDP is “gross” in the sense that it does not adjust for capital depreciation - that is to say the day-to-day wear and tear on vehicles, machinery, buildings and other fixed capital used in the productive process. It treats such consumption of capital as no different from any other form of consumption. But most people would not regard depreciation as adding to their material well-being.

GDP per head and net domestic product (NDP) per head track reasonably well over the course of the recession, suggesting that the impact of capital consumption is relatively low.

However, NNDI has behaved somewhat differently to GDP, particularly between late 2011 and late 2014. NNDI, which represents the income generated by production that is payable to UK residents, was broadly flat between Q1 2012 and Q4 2014. In Q2 2015, NNDI remained 1.1% below its pre-economic downturn level, this is compared to GDP per head which was 0.6% above its pre-economic downturn level in the same quarter.

The difference between the experience of GDP per head and NNDI per head since Q3 2011 can be explained by looking at the balance of primary incomes, which captures flows of income into and out of the UK economy.

One main part of primary incomes is direct investment; that is, earnings from investments in which an investor owns 10% or more of the ordinary shares or voting power in an incorporated enterprise, or an equivalent ownership in an unincorporated enterprise.

Since late 2011, there has been a fall in the net earnings of foreign direct investment (FDI) (the difference between earnings from direct investment abroad and from foreign direct investment in the UK). This fall has resulted in net UK foreign direct investment earnings becoming negative for the first time since Q4 2008. This deterioration is attributed to both subdued earnings for UK residents’ from direct investment abroad and an increase in foreign earnings on direct investment in the UK. Net earnings did however improve during the first half of 2015, although still remain in deficit; in Q2 2015, net direct investment earnings improved to £0.0 billion (from -£0.3bn in Q1 2015), reflecting a larger decrease in earnings on direct investment in the UK relative to the decrease in the amount the UK earns from its direct investment abroad.

Perception of the economic situation

The Eurobarometer Consumer survey asks respondents how they think the general economic situation has changed over the last 12 months. In June 2015, the aggregate balance stood at 2.3. The small positive balance suggests that on average, respondents think the economic situation has slightly improved compared to a year ago, although in general it is broadly similar. The figure is a slight fall on the positive 3.2 figure recorded at the end of the first quarter of 2015, but the figure of 4.9 in April 2015 was the highest reported since February 1988. At its lowest, in May 2009, the Eurobarometer reported an aggregate balance of negative 82.3.

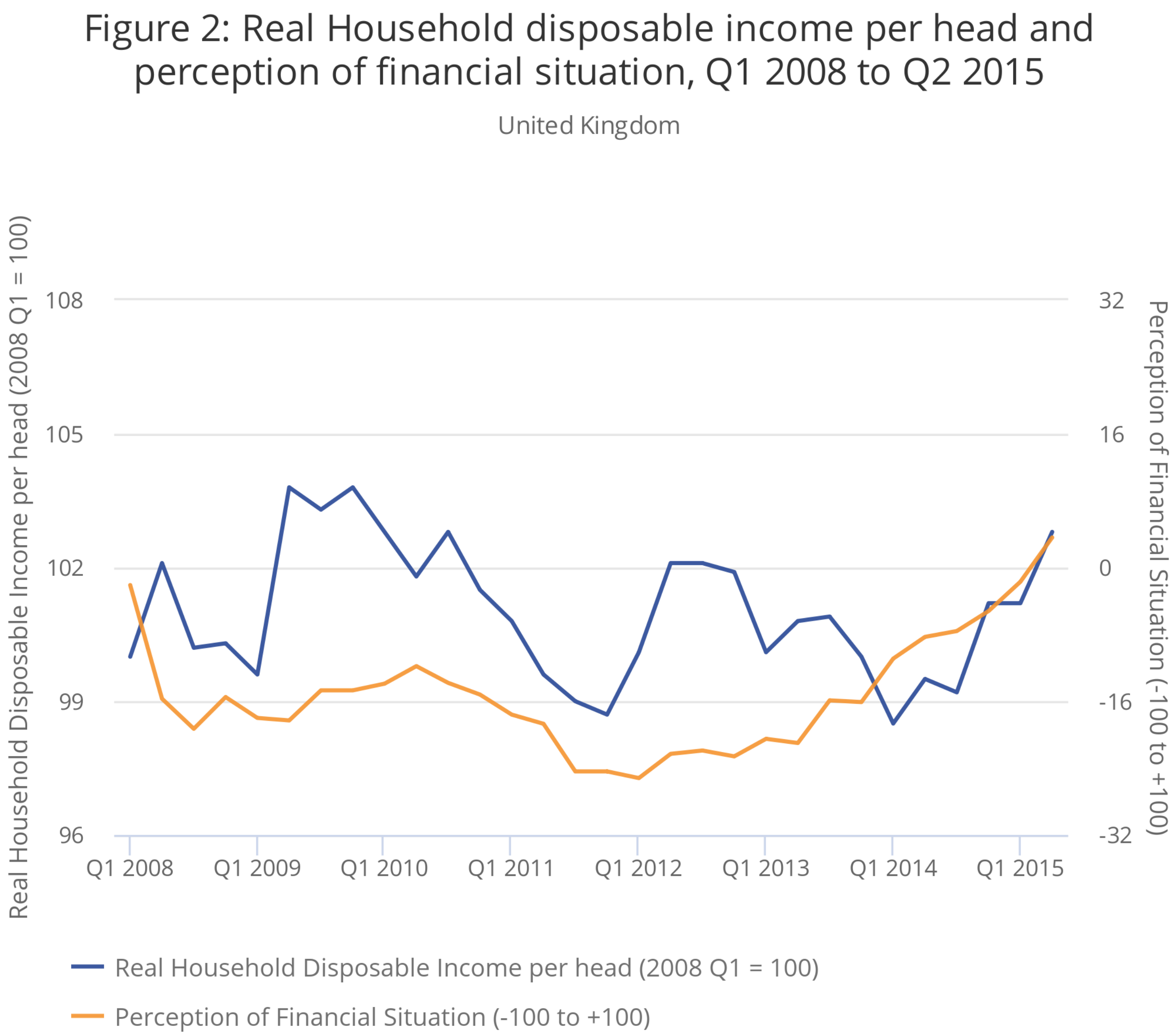
Notes for whole economy production and income

Throughout this release Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

5 . Household income

Figure 2: Real Household disposable income per head and perception of financial situation, Q1 2008 to Q2 2015

United Kingdom



Source: Office for National Statistics

Notes:

1. Household's perception of their own financial situation over the las 12 months - last month of each quarter used.

2. Households exclude non profit institutions serving households (NPISH).

3. Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

In Q2 2015, real household disposable income (RHDI) per head (excluding non-profit institutions serving households) increased 3.3% compared to the same quarter a year ago (Q2 2014). In Q2 2015, RHDI per head (excluding NPISH) increased 1.5% compared to Q1 2015. For 2014, as a whole, RHDI per head (excluding NPISH) was down 0.9% compared to 2013.

Overall, in Q2 2015, RHDI per head (excluding NPISH) was 2.8% above its pre-economic downturn level.

In previous releases, we considered RHDI per head of the household and non-profit institutions serving households (NPISH) sector. In March 2015, we published initial estimates of the real disposable income of households only. We consider this a better indicator of the economic well-being of households. Real household and NPISH disposable income per head will continue to be published alongside RHDI per head (excluding NPISH) in this release.

Real household and NPISH disposable income per head increased 3.1% in Q2 2015 compared to the same quarter a year ago (Q2 2014). For 2014 as a whole, real household and NPISH disposable income per head decreased 1.0%.

As gross domestic product (GDP) began to fall in mid-2008, RHDI (excluding NPISH) per head remained relatively buoyant. By Q2 2009, RHDI (excluding NPISH) per head was 3.8% above its pre-economic downturn level. This initial improvement in real household income per head was a result of several factors.

Firstly, interest rates reached historic lows and therefore household incomes were buoyed by falling mortgage payments.

Additionally, as employment fell and unemployment rose, people paid less in the way of taxes and claimed more in the way of benefits, supporting RHDI per head (excluding NPISH). However, moving into early 2011, the impact of these factors had worn off and inflation had risen. The increase in prices eroded the growth of household incomes, as prices were rising at a faster rate than people's incomes, and therefore over time, people found their income purchased a lower quantity of goods and services.

Following this, RHDI per head (excluding NPISH) began to rise in early 2012 before falling back in 2013 to levels previously seen at the end of 2011. Over the last few quarters, however, RHDI per head (excluding NPISH) has been increasing. In Q2 2015, RHDI per head (excluding NPISH) increased 3.3% compared with the same quarter a year ago and was 2.8% above its pre-economic downturn levels.

For international comparisons it is important to consider benefits in kind. The real household and non-profit institutions serving households (NPISH) adjusted disposable income per head series, which makes the adjustment for benefits in kind, can be found in the reference table (278 Kb Excel sheet).

Perception of household income

As well as considering levels of household income, it is important to consider individuals' perceptions of their own income. The Eurobarometer Consumer survey asks respondents their views on the financial situation of their household over the past 12 months. A negative balance means that, on average, respondents reported their financial situation got worse, a positive balance means they reported it improved and a zero balance indicates no change.

Between the end of Q1 2015 and the end of Q2 2015, the aggregate balance improved from negative 1.7 to positive 3.6. This follows the sharper increases seen since early 2013. The figure in June was the second time the series has been above zero since January 2008, the first being the positive 0.6 reported in April 2015. This suggests that, on average, households are beginning to feel their financial situation has improved over the past 12 months.

The Eurobarometer Consumer survey also asks respondents their views on whether now is a good time to save. Between the end of Q1 2015 and the end of Q2 2015, the balance improved from negative 3.3 to positive 1.9. The balance had been negative since March 2011 but following improvements from May 2013 onwards, the series reached a positive figure in June; suggesting that respondents believe now is a good time to save. Also, on average, households reported saving at least some of their income.

Additionally, Understanding Society[2] provides information on the proportion of individuals that report being somewhat, mostly, or completely, satisfied with the income of their household and the proportion of households that report finding it quite, or very, difficult to get by financially.

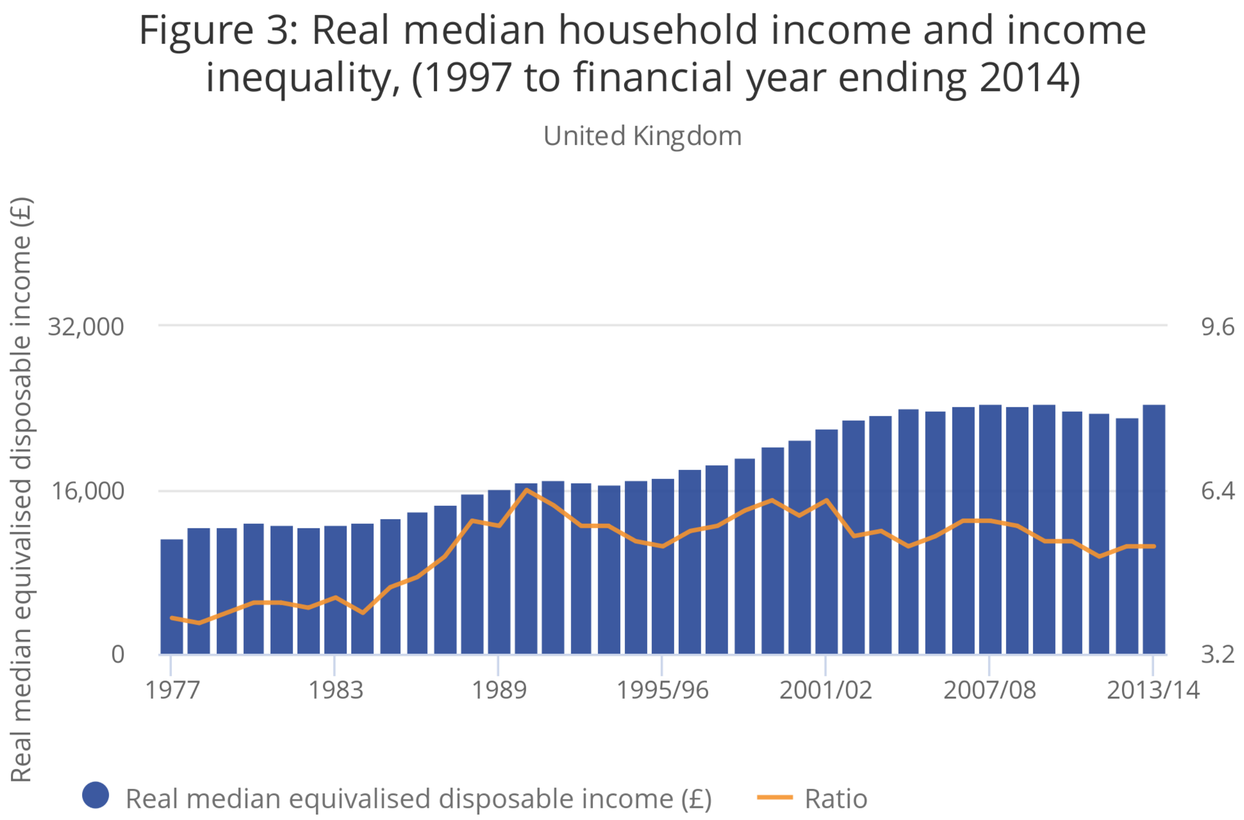
In the financial year April 2012 to March 2013 (2012/13), the proportion of individuals that reported finding it difficult to get by financially was 10.1%. This was 0.8 percentage points lower than 2011/12, continuing the slight downward trend that has been seen since it peaked in 2009/10.

In 2012/13, the percentage of respondents that were somewhat, mostly, or completely, satisfied with their level of income was 53.4%, this is up 0.8 percentage points from 2011/12. Satisfaction with income saw a downward trend between 2007 and 2011/12, recording a 4.7 percentage point decline between 2010/11 and 2011/12. Whilst the increase in 2012/13 shows some improvement in this trend, it remains below the levels seen prior to the economic downturn.

Distribution of income

Figure 3: Real median household income and income inequality, (1997 to financial year ending 2014)

United Kingdom



Source: Office for National Statistics

Notes:

1. A household's disposable income is made up of all its earnings and investment income (including private pensions), plus cash benefits received from the state, minus direct taxes such as Income Tax and Council Tax. Equivalisation adjusts the income of households to reflect the different costs associated with different sizes and compositions of households.

2. In order to sort households into quintiles (fifths), households are ranked by their equivalised disposable incomes, using the modified-OECD scale.

3. Years are calendar years until 1993 and financial years from 1994/95.

4. Income is deflated using the Household final consumption expenditure implied deflator.

In 2013/14, median income (the income of the middle household if all households are ranked from the lowest income to the highest) was £24,500 – 3.4% higher than in 2012/13. This is a reversal of the downward trend seen since 2007/08.

As it represents the middle of the income distribution, the median household income provides a good indication of the income of the “typical” household. However, it is also important to consider how income is distributed around the middle, considering the equality of the income distribution.

One indicator is the ratio of total income received by the richest fifth of households to that received by the poorest fifth (other indicators are available). If the ratio gets larger then it implies increasing inequality between the top fifth and bottom fifth of households.

Between 2012/13 and 2013/14, this ratio saw a small decrease from 5.33 to 5.27 – suggesting a small decrease in income inequality. The decrease in this ratio was a result of the income of the richest fifth declining more than the income of the poorest fifth, at negative 1.6% and negative 0.5% respectively. However, as shown in Figure 3, overall movements in the ratio over the last 10 years have been relatively small when compared to earlier periods.

Notes for household income

1. The Eurobarometer Consumer survey is collected by GFK for the European Commission. There is more information about interpreting the Eurobarometer Consumer survey in background note 5

2. Understanding Society is an academic study that captures information from a representative UK sample. More information in background note 6

3. Real Household Disposable Income (RHDI) is published in both non-seasonally adjusted (NSA) and seasonally adjusted (SA) formats in the UK Economic Accounts, with the latter removing seasonal effects to allow comparisons over time. However, it is sensitive to short-term changes in its components, particularly on a quarterly basis, meaning that quarter on quarter movements can appear volatile. To better present the longer term movement in household income, this bulletin presents RHDI growth on a quarter on the same quarter a year ago and annual basis

4. The income measure used in this section is real equivalised household disposable income. Disposable income is the amount of money that households have available for spending and saving after direct taxes (such as income tax and council tax) have been accounted for. It includes earnings from employment, private pensions and investments as well as cash benefits provided by the state. Equivalisation is the process of accounting for the fact that households with many members are likely to need a higher income to achieve the same standard of living as households with fewer members

5. Throughout this release Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December)

6. Throughout this release, financial years are written as, for example, 2011/12. This refers to the financial year ending 2012 (April 2011 to March 2012). This convention is applied for all years

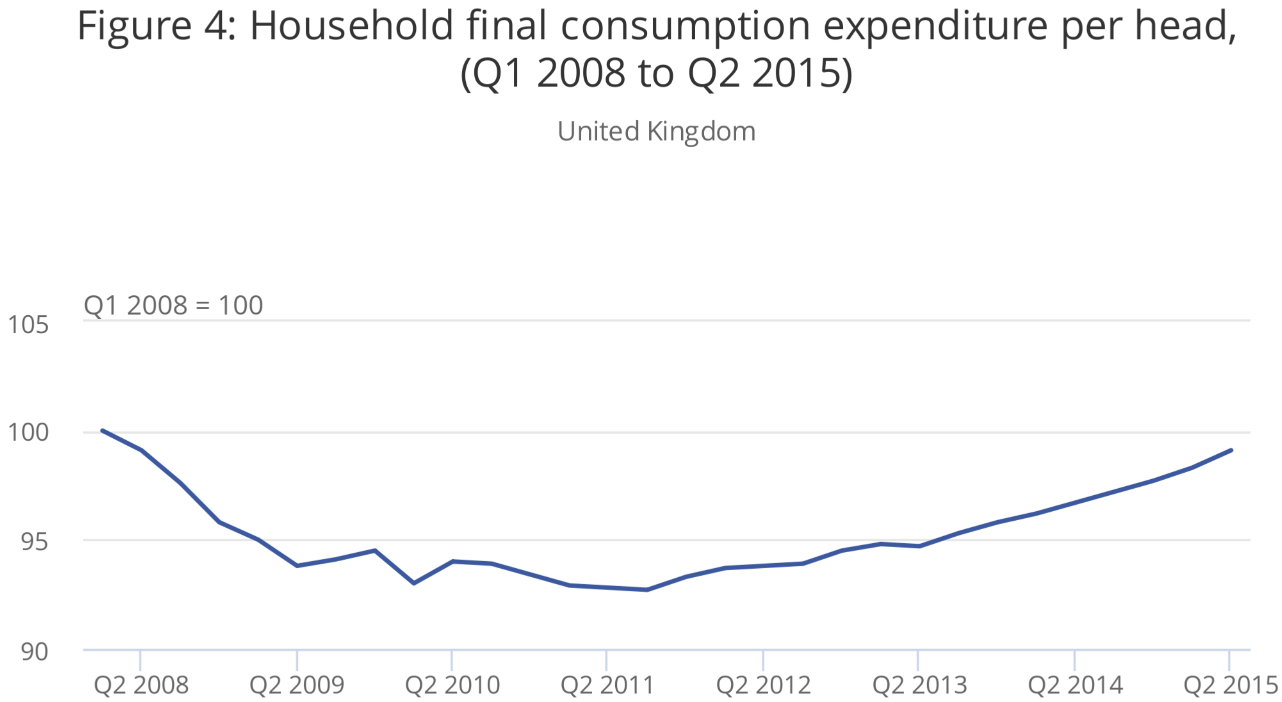
6 . Household spending

Whilst looking at income is a viable measure of the material well-being in the economy, a fuller picture of the economic well-being of a country can be found by looking at how much households consume.

In June 2014, we published an article that presented new findings on the relationship between personal well-being, household income and expenditure using regression analysis. It found that household expenditure appeared to have a stronger relationship with personal well-being than household income.

Figure 4: Household final consumption expenditure per head, (Q1 2008 to Q2 2015)

United Kingdom



Source: Office for National Statistics

Notes:

1. Households include non profit institutions serving households (NPISH).

2. Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

In Q2 2015, real household spending per head grew 0.8% compared to the previous quarter, continuing the general upward trend seen since Q3 2011. However, real household spending per head remains 0.9% below its pre-economic downturn level. This is despite real household incomes per head being 2.8% above their pre-economic downturn levels.

Since Q3 2011, real household spending per head has steadily increased. This could reflect improved economic sentiment among households. In 2014 overall, real household spending per head was 1.9% higher than 2013. The pace of growth in 2014 was faster than the 1.3% growth seen between 2012 and 2013. There was also an increase in the growth rate in Q2 2015 compared to the rate posted in Q1 2015, suggesting this trend is continuing.

As with household income, for international comparisons it is important to consider benefits in kind. Real household and non-profit institutions serving households (NPISH) actual final consumption per head, which makes the adjustment for benefits in kind, can be found in the reference table.

Notes for household spending

1. Throughout this release Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December)

7 . Wealth

This section considers 2 different measures of wealth; net worth from the National Accounts and household wealth from the Wealth and Assets Survey (WAS).

Total net worth

In 2013, the net worth of the economy as a whole (of households, businesses and the government) increased 4.4%, to £7.6 trillion. Total net worth is the sum of the values of financial assets (for example, shares and deposits) and non-financial assets (for example, dwellings and machinery), minus financial liabilities. In 2013, the increase was mainly attributable to an increase in the net worth of financial corporations, which increased by £421 billion (373%). This increase was somewhat offset by non-financial corporations, where worth decreased between 2012 and 2013.

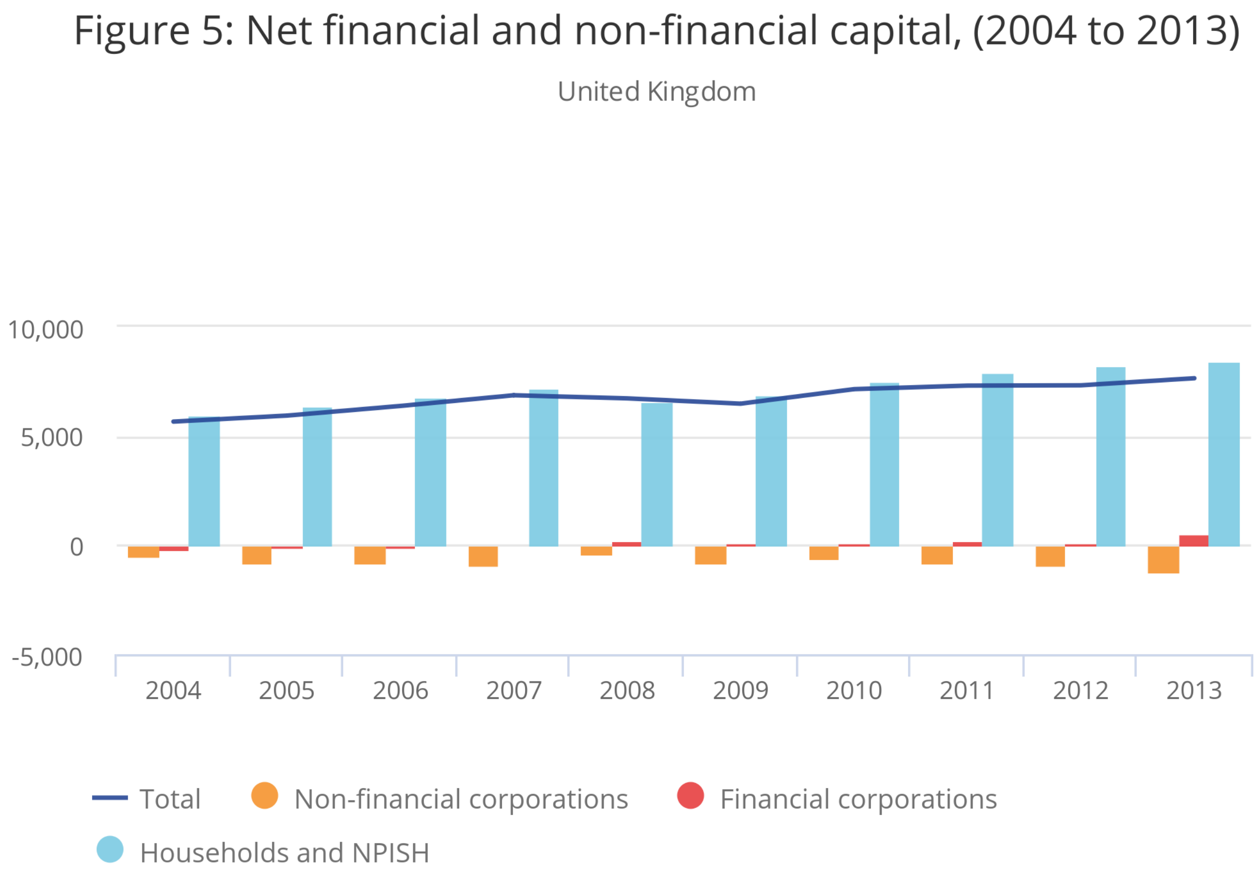
This measure has not been adjusted for inflation, which was 2.6% on average, as measured by the Consumer Price Index (CPI) between 2012 and 2013. This suggests that the growth in total net worth was stronger than the growth in the general price level.

The net worth of the economy as a whole is important as it indicates the sustainability of current levels of production and corresponding income flows. It is possible that a nation might be increasing its output, but is wearing down its stock of net assets. This means that level of production is unsustainable, or vice versa. However, for a complete appraisal of sustainability, natural, human and social capital should also be considered [1].

Figure 5 shows total net worth between 2004 and 2013 for the whole economy and 3 of the sectors: households, financial and non-financial corporations. Between 2004 and 2007, total net worth increased year-on-year, mainly attributable to an increase in household non-financial assets. Net worth then fell in 2008 and 2009, before increasing again following the economic downturn.

Figure 5: Net financial and non-financial capital, (2004 to 2013)

United Kingdom



Source: Office for National Statistics

Notes:

1. Here 'net' is used to describe the net wealth position (assets minus liabilities), rather than making an adjustment for capital consumption.

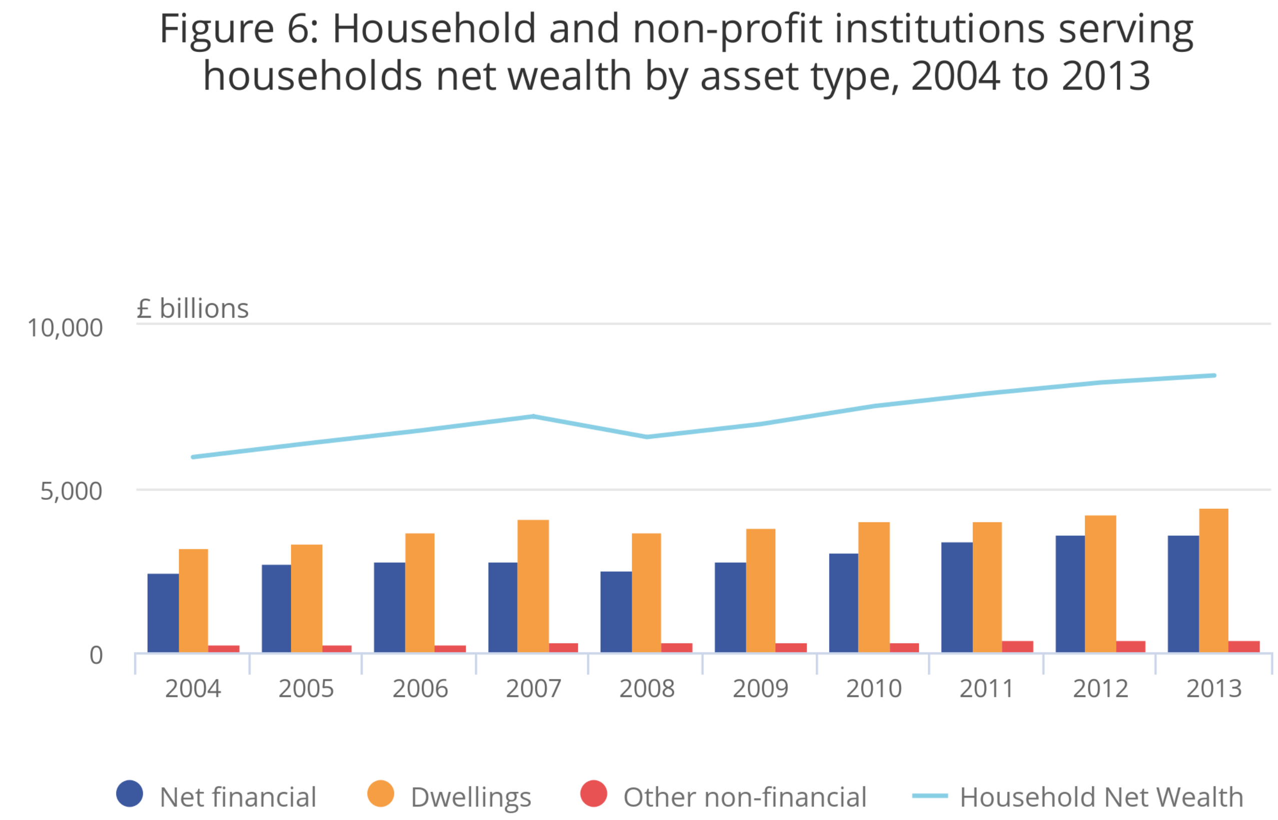
2. Components may not sum to total due to rounding.

3. NPISH - Non-profit institutions Serving Households.

Household net worth

Contributing to the increase in total worth, in 2013 household net worth increased 2.6%. As with total worth, this measure has not been adjusted for inflation and therefore some of the increase in worth could be a result of an increase in price levels. Household net worth considers households financial position and includes non-financial assets such as houses[2]. Figure 6 shows the household net worth position by type of asset between 2004 and 2013.

Figure 6: Household and non-profit institutions serving households net wealth by asset type, 2004 to 2013



Source: Office for National Statistics

Notes:

1. Household and NPISH net worth by asset type from 2004 to 2013.

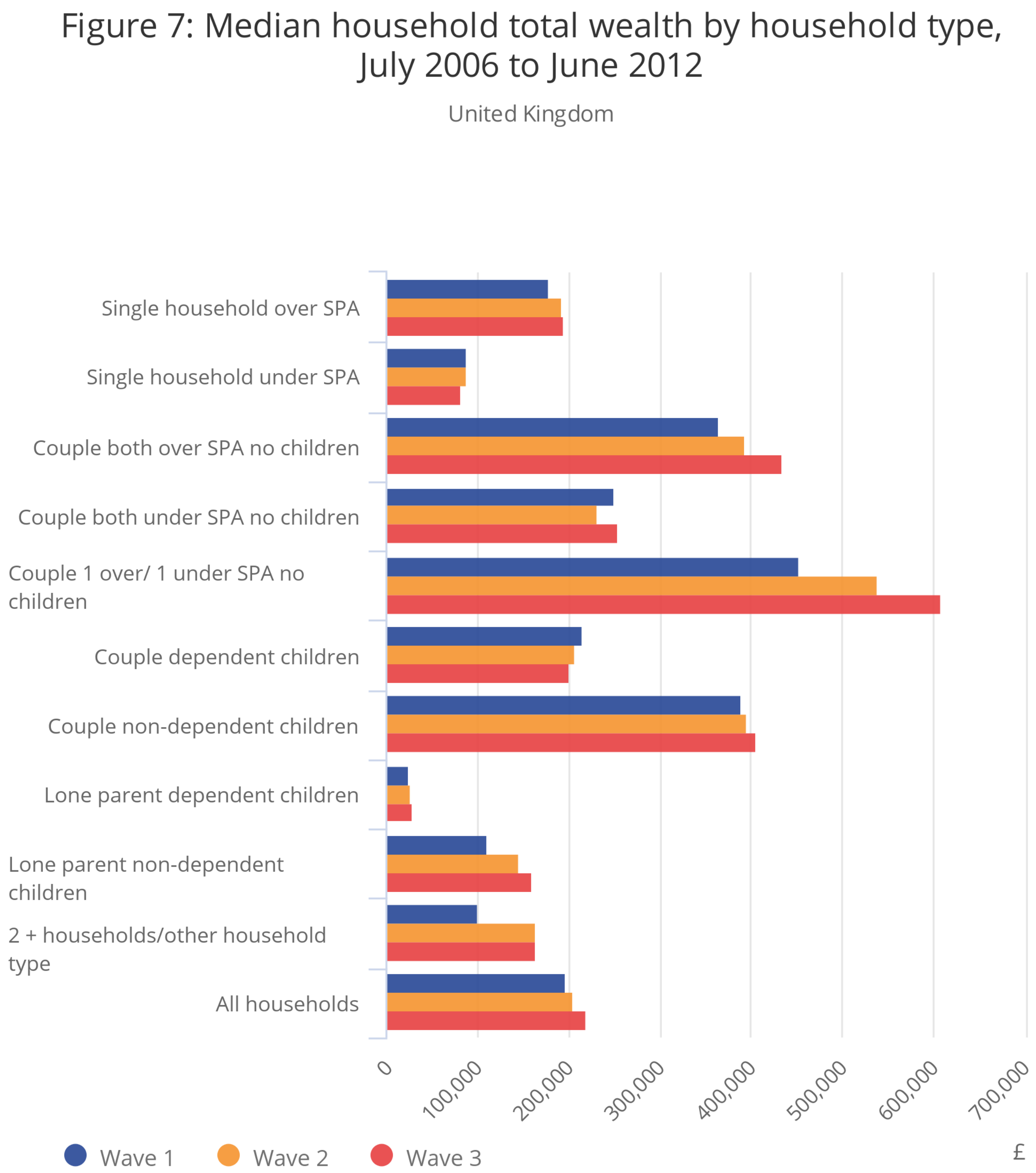
The main contributing factor behind the 2.6% increase in household net worth between the end of 2012 and the end of 2013 was a 4.8% increase in the value of household dwellings. However, the annual growth rate in overall household net worth was lower as a result of slower growth in "other non-financial" (2.1%) and "net financial" (0.1%) assets at the end of 2013 compared to the end of 2012. Between the end of 2008 and the end of 2013, the total value of UK household dwellings has increased by 20.0%. Household dwellings continued to make up over half (52%) of household net worth at the end of 2013.

Distribution of household wealth

In the December 2014 Economic Well-being Bulletin, median household wealth, as measured by the Wealth and Assets Survey (WAS) was presented. Estimates from WAS are updated every 2 years, therefore different measures demonstrating the distribution of wealth will be presented at this point in each quarterly bulletin.

Figure 7: Median household total wealth by household type, July 2006 to June 2012

United Kingdom



Source: Office for National Statistics

Notes:

1. Wave 1 covers the period July 2006 to June 2008 for which estimates are based on a half sample.

2. Wave 2 covers the period July 2008 to June 2010.

3. Wave 3 covers the period July 2010 to June 2012.

4. State Pension Age (SPA) - the age at which an individual can draw their state pension. The same definition of SPA has been used for all waves of the Wealth and Assets Survey (WAS), i.e. SPA for men is 65 and SPA for women 60. SPA started to change for women in April 2010, with SPA increasing monthly so that by November 2018 women's SPA will be the same as that for men, 65. SPA will be increased for both men and women to 66 by October 2020, with further increases announced by the government but not yet approved by parliament.

Figure 7 shows the distribution of total household wealth[1] by the composition of the household. It shows the 10 different categories for household type. It should be noted that some household types will have more adults than others. We would expect households with more than 1 adult to have higher levels of wealth than single person households because, in general, each additional adult makes a positive contribution to wealth accumulation.

The median value of household total wealth was the highest for couple households without children, where 1 person is over, and the other under, the state pension age[2], at £607,800 in wave 3 (compared to a median of £218,400 for all households in wave 3). Similarly this household type also demonstrated the highest median total wealth in waves 1 and 2 (£452,000 compared to £196,700 for all households in wave 1 and £538,000 compared to £204,300 for all households in wave 2).

There were 2 other household types with considerable median total household wealth in 2010 to 2012. These were couple households where both adults were over the state pension age with no children (£434,100) and couple households with non-dependent children (£406,200).

The type of household with the lowest median household total wealth across all 3 waves was "lone parent with dependent children" with a median value of £23,900 in 2006 to 2008, £26,500 in 2008 to 2010 and £28,800 in 2010 to 2012.

Notes for wealth

1. these measures are currently under development as part of the Measuring National Well-being programme and will be included in future releases where relevant.

2. here "net" is used to describe the net wealth position (assets minus liabilities), rather than making an adjustment for capital consumption.

3. other non-financial assets includes “Other buildings and structures”, “Machinery and equipment”, “Cultivated biological products”, “Intellectual property products”, “Inventories” and “Contracts, leases and licences”.

4. throughout this release Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

8 . Unemployment

Figure 8: Unemployment, (Q1 2008 to Q2 2015)

United Kingdom

Source: Office for National Statistics

Notes:

1. All aged 16 and over.

2. Seasonally adjusted.

3. Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

In the 3 months to June 2015 (Q2 2015), the unemployment rate was 5.6%, up 0.1 percentage point from the 3 months to March 2015 (Q1 2015). Although the headline rate of unemployment has fallen sharply over the past year, it remains above its pre-economic downturn level.

Following several quarters in which the unemployment rate has fallen quite sharply, it has shown signs of stabilising in recent quarters. This may be driven by the increase in previously inactive people joining the labour market in search of work and additionally the drop in unemployed people leaving. Meanwhile despite weakening slightly in recent quarters, net hiring still remains relatively strong compared to historical standards in Q2 2015. These factors contributed to net flows into unemployment approaching zero for Q2 2015.

Unemployment can have an impact on economic well-being through the impact on individuals' income, as well as a direct impact on their personal well-being (how satisfied they are, how worthwhile they consider their life to be, their happiness and anxiety levels).

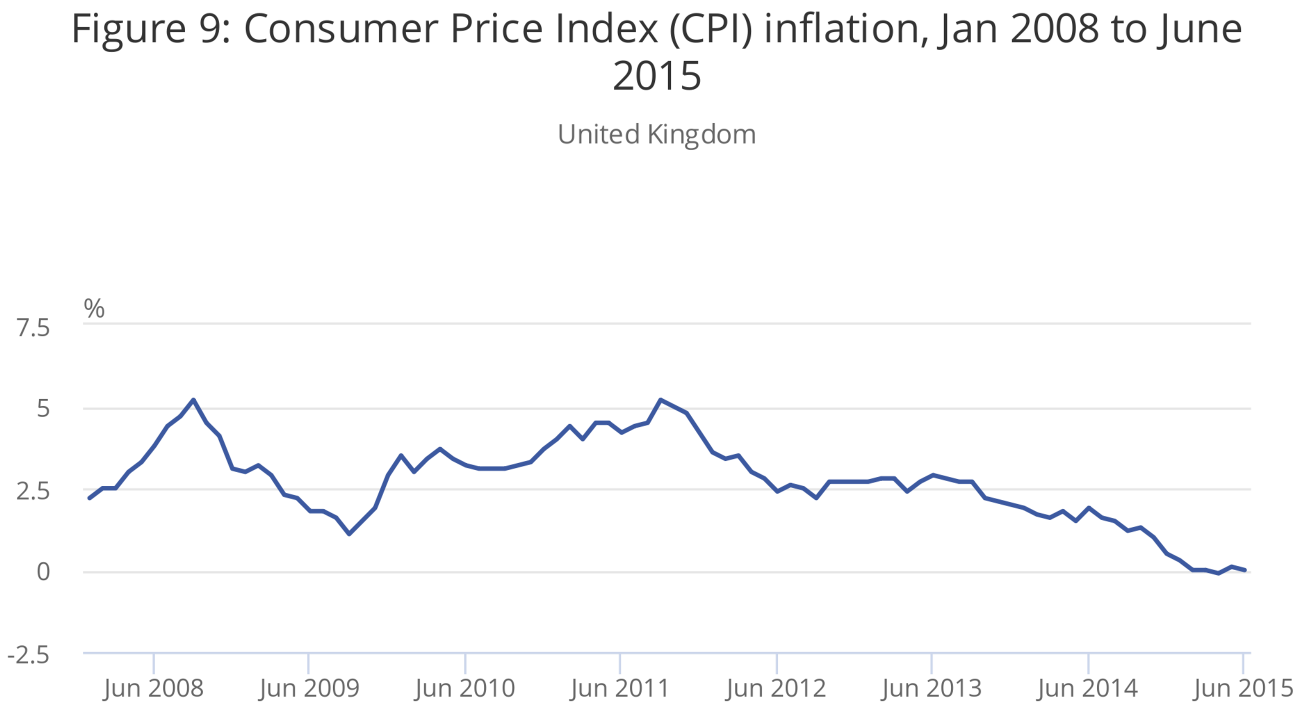
Notes for unemployment

1. Throughout this release Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

9 . Inflation

Figure 9: Consumer Price Index (CPI) inflation, Jan 2008 to June 2015

United Kingdom



Source: Office for National Statistics

In June 2015 (the final month of Q2 2015), the rate of inflation as measured by the Consumer Prices Index (CPI) was 0.0%, down 0.1 percentage points from the 0.1% rate recorded in May 2015 but up 0.1 percentage points from the –0.1% recorded in April 2015.

April 2015 was the first time the CPI has fallen to a negative since records began, whilst June's inflation rate of 0.0% was the joint second lowest rate, matching March 2015 and February 2015 figures. Since January 2008, inflation has twice peaked at 5.2% (in September 2008 and September 2011) but has fallen sharply since those highs, with lower oil prices a likely factor in recent times. Falls in clothing and gas prices produced the largest downward contributions in the latest quarter.

In the year to August 2015 (the latest data point available), the CPI was unchanged, that is, a 12-month rate of 0.0%. This is 0.1 percentage points lower than the 0.1% recorded in the year to July 2015. The main contributor to this fall was from a smaller rise in clothing prices on the month compared to a year ago, but there were also downward effects from price changes in motor fuel and sea fares. This was partially offset by rising prices of soft drinks and furniture and furnishings.

The rate of inflation is important for economic well-being for its effect on income and savings. When prices increase faster than income for a sustained period, incomes can buy less and households feel worse off. Equally, if incomes increase faster than prices, over time, incomes can buy more and households feel better off. The income section of this release considers the evolution of household income, adjusted for inflation. In addition, inflation can impact on households through its effect on savings. If inflation is lower than the interest rates offered to households by banks, then the real value of savings increases. Similarly, if inflation is higher than these interest rates then the real value of savings decreases.

Perceptions of inflation

It is important to consider not only inflation itself, but also individuals perceptions of price trends. The Eurobarometer Consumer survey asked respondents how they thought consumer prices had developed over the past 12 months. Individual's perceptions of price changes have mapped reasonably well to actual changes in price levels over the last year.

There has been a general downward trend since mid-2011 with the aggregate balance falling to –8.6 in June 2015, down from 0.8 in March 2015. A balance figure near zero implies that, on average, people perceive prices to be similar to that of a year ago whereas a negative figure means people perceive prices to have fallen over the last 12 months.

This is broadly in line with the inflation rate of 0.0% reported for the same period.

Notes for inflation

1. Throughout this release Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

10. Related links

Internal

UK Economic Accounts, Table 1.1.5 (ONS)

The UK National Balance Sheet (ONS)

Wealth and Assets Survey (ONS)

The Effects of Taxes and Benefits on Household Income (ONS)

Labour Market Statistics (ONS)

Consumer Price Indices (ONS)

External

Eurobarometer (European Commission/GFK)

Understanding Society

11. Background notes

1. **Economic well-being framework and indicators**

   The framework and indicators used in this release were outlined in Economic Well-being – Framework and Indicators, published in November 2014

   In the UK's sector accounts, households and non-profit institutions serving households (NPISH) are combined to create a single households and NPISH sector. This is because NPISH are financed by households and their sole purpose is to serve households. Alongside this combined household and NPISH sector, we aim to produce separate accounts for these 2 sectors to satisfy user need by the autumn of 2017. Ahead of this date, we have published two key household measures, household disposable income and real household disposable income for the household only sector (excluding NPISH). Following user demand, these series will be published quarterly as part of this release on a per head basis alongside the household and NPISH real household disposable income (RHDI) per head. Users should note that the data presented here are based on current compilation methods and are subject to change during the full separation of the two sectors

2. **Release policy**

   The data used in this version of the release are the latest available at 30 September 2015. The population estimates and projections used in this release are those published on 25 June 2015

   Where possible, data used in this release relate to Q2 2015. As a result, data for more recent months are available from the Consumer Price Indices and Labour Market Statistics statistical bulletins

   Data in this release are published as part of other statistical bulletins:

   UK Economic Accounts, Table 1.1.5 (ONS)

   - real GDP per head
   - real net national disposable income per head
   - real gross household and non-profit institutions serving households (NPISH) disposable income per head
   - real household and NPISH final consumption expenditure per head real net domestic product per head
   - real net household and NPISH adjusted disposable income per head
   - real household and NPISH actual final consumption per head

   The UK National Balance Sheet (ONS)

   - net wealth
   - net household and NPISH wealth

   Eurobarometer Consumer Survey (European Commission/GFK)

   - perception of financial situation over the past 12 months
   - perception of general economic situation over the past 12 months
   - perception of whether it is a good time to save

- perception of financial statement of household
- perception of price trends over the past 12 months

Wealth and Assets Survey (ONS)

- median household wealth
- P80:20
- wealth and income analysis

The Effects of Taxes and Benefits on Household Income (ONS)

- real median equivalised household income deflated using the household final consumption expenditure (HHFCE) implied deflator
- S80:20

Labour Market Statistics (ONS)

- unemployment rate, all aged 16 and over

Consumer Price Indices (ONS)

- consumer price index

Understanding Society

- finding it difficult to get by financially
- somewhat, mostly or completely satisfied with the level of income of their household

3. **Revisions and reliability**

All data in this release will be subject to revision in accordance with the revisions policies of their original release. Estimates for the most recent quarters are provisional and are subject to revision in the light of updated source information. We currently provide an analysis of past revisions in statistical bulletins which present time series. Details of the revisions are published in the original statistical bulletins

Most revisions reflect either the adoption of new statistical techniques or the incorporation of new information which allows the statistical error of previous estimates to be reduced. Only rarely are there avoidable "errors" such as human or system failures and such mistakes are made quite clear when they do occur

Links to the revisions policies for indicators in this release:

National Accounts revisions policy – covers indicators from the Quarterly National Accounts, UK Economic Accounts and the National Balance Sheet

Wealth and Assets Survey revisions policy (92.9 Kb Pdf) – covers indicators on the distribution of wealth

The Effect of Taxes and Benefits on household incomes revisions policy – covers indicators on the distribution of income

Labour Market Statistics revisions policy (36.7 Kb Pdf) – covers indicators from Labour Market Statistics

Consumer Price Indices Revisions Policy (49.6 Kb Pdf) - covers indicators from Consumer Price Indices

We have a webpage dedicated to revisions to economic statistics which brings together our work on revisions analysis, linking to articles, revisions policies and key documentation from the Statistics Commission's report on revisions

Data that come from the Eurobarometer Consumer survey and Understanding Society releases are not subject to revision as all data are available at the time of the original release. These data will only be revised in light of methodological improvements or to correct errors. Any revisions will be made clear in this release

4. **Interpreting the data**

   Components may not sum to total due to rounding

   We have produced an article 'Interpreting the Recent Behaviour of the Economy' available on our website to aid interpretation of movements in the economy

   We have also produced a short guide to the UK National Accounts (136.8 Kb Pdf) (136.8 Kb Pdf)

   Real Household Disposable Income (RHDI) is published in both non-seasonally adjusted (NSA) and seasonally adjusted (SA) formats in the UK Economic Accounts, with the latter removing seasonal effects to allow comparisons over time. However, it is sensitive to short term changes in its components, particularly on a quarterly basis, meaning that quarter on quarter movements can appear volatile. To better present the longer term movement in household income, this bulletin presents RHDI growth on a quarter on the same quarter a year ago and annual basis

5. **Interpreting the Eurobarometer Consumer survey**

   The Eurobarometer Consumer survey, sourced from GfK on behalf of the European

   Commission, asks respondents a series of questions to determine their perceptions on a variety of factors which collectively give an overall consumer confidence indicator. For each question, an aggregate balance is given which ranges between negative 100 and positive 100

   Balances are the difference between positive and negative answering options, measured as percentage points of total answers. Values range from negative 100, when all respondents choose the negative option (or the most negative one in the case of five-option questions) to positive 100, when all respondents choose the positive (or the most positive) option

   The questions used in this release are:

   Question 1: How has the financial situation of your household changed over the last 12 months?

   It has...

   - got a lot better
   - got a little better
   - stayed the same
   - got a little worse
   - got a lot worse
   - don’t know

   Question 3: How do you think the general economic situation in the country has changed over the past 12 months? It has...

   - got a little better
   - stayed the same
   - got a little worse
   - got a lot worse
   - don’t know

   Question 5: How do you think that consumer prices have developed over the last 12 months?

- They have...risen a lot
- risen moderately
- risen slightly
- stayed about the same
- fallen
- don’t know

Question 10: In view of the general economic situation, do you think that now is...?

- a very good moment to save
- a fairly good moment to save
- not a good moment to savea very bad moment to save
- don’t know

Question 12: Which of these statements best describes the current financial situation of your household?

- we are saving a lot
- we are saving a little
- we are just managing to make ends meet on our income
- we are having to draw on our savings
- we are running into debt
- don’t know

Further information on this survey is available from [the European Commission.]

6. **Interpreting Understanding Society**

Understanding Society is an academic study that captures information from a representative UK sample of 40,000 households. The data collected covers a broad range of topics including health, housing, employment, income and personal perceptions

The percentage of the population that said they were finding managing financially quite or very difficult and the percentage of the population that were somewhat, mostly or completely satisfied with their income was used, from the questions:

Question 1: How well would you say you are managing financially these days? Would you say you are:

- living comfortably
- doing alright
- just about getting by
- finding it quite difficult
- or finding it very difficult?

Question 2: Please choose the number which you feel best describes how dissatisfied or satisfied you are with the following aspects of your current situation: the income of your household:

- completely satisfied
- mostly satisfied
- somewhat satisfied
- neither satisfied nor dissatisfied
- somewhat dissatisfied
- mostly dissatisfied
- completely dissatisfied

Further information on this survey is available from Understanding Society

7. **Economic context**

   We publish a monthly Economic Review discussing the economic background, giving economic commentary on the latest GDP estimate and other economic releases. The next article will be published on 7 October 2015

   In January 2015 we released articles which explored the deterioration of the primary income balance and foreign direct investment in more detail. In June 2015, we released an article which explored the UK's trade and foreign direct investment relationship with the EU

8. **Special events**

   We maintain a list of candidate special events in the Special Events Calendar and keeps all events under review in line with our Our Special Events policy. As explained in Our Special Events policy, it is not possible to separate the effects of special events from other changes in the series

9. **Basic quality information**

   Basic quality information for all indicators in this Statistical Bulletin can be found on our website:

   National Accounts Quality and Information report (518.9 Kb Pdf)

   Consumer Price Indices Quality and Information report (141.9 Kb Pdf)

   Wealth and Assets Survey Quality and Information report (107.7 Kb Pdf)

   The Effects of Taxes and Benefits Quality and information report (227.1 Kb Pdf)

   Labour Market Statistics used in this release are derived from the Labour Force Survey Quality and information report (227.1 Kb Pdf)

10. **Methodology and articles**

We regularly publish methodological information and articles to give users more detailed information

For the National Accounts, methodological information and articles are available, detailing developments within the National Accounts; supplementary analyses of data to help users with the interpretation of statistics and guidance on the methodology used to produce the National Accounts

Methodological developments are part of the programme of continuous improvement to the UK National Accounts

For the Effects of Taxes and Benefits on Household Income release, methodological information is available, detailing the methodology in both the production of and the quality assurance of the data. Further detail and discussion can also be found in this further analysis article

For the Wealth and Assets Survey, methodological information is available, detailing both the production and quality assurance of the data

For Labour Market Statistics methodological information is available, detailing both the production and quality assurance of the data

A full description of how consumer price indices are compiled is given in the Consumer Price Indices Technical Manual (674.4 Kb Pdf). This is supplemented by video, infographics and textual information available from the guidance and methodology section of our website

11. Source of information on the distribution of income

The source for the information on the distribution of income included in this release is the "Effects of Taxes and Benefits on Household Income". This has been chosen over other sources for a number of reasons:

- the definition of income and the deflator used in the Effects of Taxes and Benefits on Household Income are more closely aligned to those used in the national accounts

- indicators of the distribution of income and wealth are currently lagged, published at best around 15 months after the end of the reporting period. Work is ongoing to improve the timeliness of indicators of the distribution of income coming from the Effects of Taxes and Benefits on Household Income release (further details are available in the “future development” section of this article)

Should further breakdowns be required (for example income distribution by region or type of household) then the larger sample size of Households Below Average Income published by the Department for Work and Pensions may make this a more appropriate source. Further information on sources of data on household income can be found in the our guide to sources of data on earnings and income (653.5 Kb Pdf)

12. **Economic well-being seminar**

On 3 March 2015, ONS hosted a seminar on economic well-being as part of the Economic Forum series of seminars. This seminar provided an overview of our work on economic wellbeing. It considered what we have learned to date, particularly covering the indicators from the quarterly Economic Well-being release. It also provided an overview of our work to develop wider measures of economic well-being, including the measurement of services households provide for themselves, the capitals approach to measuring sustainability and work to further develop measures of the distribution of income. Slides from the event are available on our website.

13. **Discussing measuring national well-being online**

There is a Measuring National Well-being community on the StatsUserNet website.StatsUserNet is the Royal Statistical Society’s interactive site for users of official statistics

Here you will be able to find and share information on the development of measures of national wellbeing. This includes latest releases and news from our Measuring National Well-being programme

14. **Your views matter**

    We would welcome any feedback you might have regarding this release and its associated commentary and we would be particularly interested in knowing how you make use of these data to inform our work. Please contact us via e-mail: economic.wellbeing@ons.gsi.gov.uk or telephone Lee Mallett on +44 (0)1633 45 5060

15. **Measuring national well-being**

    This article is published as part of our Measuring National Well-being programme. The programme aims to produce accepted and trusted measures of the well-being of the nation - how the UK as a whole is doing. For further information on Measuring National Well-being is available by visiting www.ons.gov.uk/well-being or visit our publications page for a full list of wellbeing publications

16. **Following ONS**

    Follow us on Twitter and receive up-to-date information about our statistical releases

    Like ONS on Facebook to receive our updates in your newsfeed and to post comments on our page

17. Details of the policy governing the release of new data are available by visiting www.statisticsauthority.gov.uk/assessment/code-of-practice/index.html or from the Media Relations Office email: media.relations@ons.gsi.gov.uk

Reference tables: Economic well-being Q2 2015

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Where possible, data used in this release relate to 2015 Q2. As a result, data for more recent months are available from the Consumer Price Indices and Labour Market Statistics Statistical Bulletins.