UK families face growing hardship

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The austerity measures being imposed by the UK's Conservative/Liberal Democrat coalition government, combined with high unemployment and poor wages, are producing serious hardship for working class families.

Household finances have fallen below the level in early 2009, the height of the recession.

The London-based financial information firm Markit found that after three straight months of worsening economic conditions, 40 percent of families report declining living standards compared with only six percent seeing improvement.

Markit's monthly surveys track the Household Financial Index (HFI), a combined index of factors such as household income, spending and saving. Last month the HFI index fell to its lowest level since the research began nearly three years ago.

Take-home pay fell for each of the past 11 months. Every measure of financial stability fell faster for lower income households compared with the well-off.

Regionally, household finances suffered more in northern regions than the south and London, with Yorkshire and the Humber being worst affected.

According to the Markit HFI research, households reported a rapid decline in available cash without precedent in recent years. At least one in two people are less likely to make a major purchase than a month ago, representing the fastest fall in consumer confidence since the hike in VAT consumption tax to 20 percent in January. Savings dropped accordingly, especially among families with an income below £15,000, nearly half of whom found it harder to put money aside. Household debt has risen for five concurrent months.

These deteriorating conditions are driven by cuts in real-term pay, tax increases, benefits cuts and reduced working hours as part-time work reaches record levels. Households surveyed reported increasing job insecurity, especially in public sector fields such as health, education and social services. This is a reflection of the widespread job losses being enforced as part of the government's £100 billion austerity programme, involving unprecedented cuts in public spending in the wake of the 2007/08 bailout of the banks and financial institutions.

The report found that over 90 percent of families expect to see a rise in the cost-of-living over the next 12 months as energy, transport and utility bills are hiked and inflation surges above wage increases. Overall, half of households surveyed expect to see a general fall in their money situation in the year ahead, while only a quarter foresee an improvement.

The International Monetary Fund (IMF) published an economic survey in August that predicted a fall in UK disposable income of £35 billion by 2016, due in large part to government austerity measures. This translates into average yearly cutbacks of £1,500 per family for the next five years. The IMF also warned that falling house prices would eliminate 12 percent of household wealth in the same period.

With working people increasingly cash-strapped, consumer spending is being hit. Government figures point to a below-inflation increase in overall retail sales of 0.2 percent as thousands of jobs were lost in the sector over the summer.

The visible results are appearing in town centres as closing-down sales and boarded-up shop windows proliferate. New research by the British Research Consortium revealed that at least one in 10 retail units in Britain are empty, with nearly a fifth of shops shut in Northern Ireland and 13 percent closed in the North of England.

The crisis in the retail sector was highlighted by the recent comments of Peter Marks, chief executive of the Co-operative Food, Britain's fifth largest food retailer.

"It has been a tough six months, the toughest I've ever experienced in my 40 years of retailing," he said.

"I don't think we have come out of recession since 2008… I've operated through several recessions—this is by far the longest."

Observing that "people are spending less on food—that's a first," Marks noted that food spending is usually sustained even during a recession. He added that stores are being forced to offer increasingly heavy discounts in order to sell their stock: "We're not into 'buy one, get one free'—we're into 'buy one, get two free'."

The UK economy is heavily dependent on consumer spending, with two-thirds of economic activity accounted for in the domestic market. The fall in disposable income will consequently have a profound knock-on effect on the wider economy.

This effect is already pronounced in Wales, which saw the largest decline in the number of shoppers over the past year and where 13 percent of shops are closed down. The recent announcement of a 10,000 growth in the number of job seekers since May comes as economists begin to suggest that the region is already in recession.

The news comes amid warnings of an imminent second recession for the entire UK, where economic growth is stagnant at 0.2 percent for the quarter, following 0.5 percent growth in the first three months of the year. A poll by London-based polling firm ComRes found that 63 percent of British people believe that another recession will take place in the next year.

Recent figures indicate that the last three months saw the fastest fall in GDP growth since 2009. Despite Chancellor George Osbourne's claim that the UK is a "safe haven" in the economic storm, UK GDP grew by just 0.7 percent over the past 12 months. This is slower than any G7 nation but Japan, which was devastated by an earthquake and tsunami earlier this year.

Last week the Bank of England published minutes of this month's meeting of the Monetary Policy Committee (MPC), which is responsible for interest rates. The MPC decided to keep the super-low 0.5 percent interest rate due to concerns about sluggish economic growth, reflecting fears of "stagflation"—high inflation combined with low GDP growth.

In recent years, the UK economy had performed poorly in comparison with its European neighbours. This changed in recent months as France and Germany also reported stagnant growth rates, pointing to a general economic crisis. Germany grew by just 0.1 percent over the past three months, a figure even below the UK rate. France announced that GDP had remained static.

Another recent report published by Markit pointed to the first contraction in the manufacturing sector across the euro-zone in two years, an area of the economy that had largely driven growth since the recession.