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Facing the Squeeze 2011

Understanding household finances and access to credit in the wake of 21st-century recession

RESPONDER workshop May 24-25, 2012

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The context for the study

- The UK had emerged from recession
 - But was still facing a difficult economic climate
- Repeats a 2009 study
 - Noted a ‘correction’ in attitudes and behaviour
 - Derived from ‘precautionary restraint’

The objective of the study

- To explore:
 - Effect of the economic climate on households
 - Strategies they had used to cope
- Primary focus was on changes in last 12 months
 - Longer-term changes were also important

The study methods

- 30 householders interviewed **in depth**
- All of 'working age'
- All were credit users
 - 'keeping up' with bills and commitments
- Mix of 'low' and 'middle' income households
- Mix of mortgagors, social tenants, private tenants
- Mix of major drop in income, no major drop

Overview of findings: How households were managing

- Three groups emerged:
 - ‘Managing’
 - Most were ‘feeling the pinch’
 - ‘Stretched’
 - Some were ‘overstretched’
 - ‘Over-indebted’
 - Deprivation or structural arrears (or both)
- Perceptions did not always match reality

Overview of findings: Changes affecting households

- Major drops in income
 - Job loss
 - Reduced hours or pay
 - Benefits or child maintenance
 - Multiple drops difficult to absorb
- Increased expenditure
 - Rise in cost of living
 - Increased number of dependents
 - Increased housing costs

Overview of findings: Strategies for coping

- Born out of necessity not precaution
- Reining in spending
- Closer money management
- Drawing down savings
- Reliance on unsecured borrowing
 - Commercial
 - Family and friends

Theme 1: Reining in spending

- Shopping smarter
- Cutting back on non-essentials
- Reducing waste

- Cutting back on essentials
- Going without

- Despite efforts, sums spent were unchanged
- Not born out of attitudinal change

Theme 2: The complex role of unsecured credit

- Cutting back on borrowing
 - Conscious decision
- Increased reliance on credit
 - ‘Creeping’ debts
 - Borrowed more than they could afford
- Access to credit
 - Unused balances
 - Constrained supply
 - Concern about credit worthiness

Theme 3: Home ownership

- Mortgage repayments were prioritised
- Difficulties eased by falling repayments
 - The savings were absorbed into budgets
- Contrasts with security among social tenants
- Aspirations for home ownership muted

Conclusions in brief

- Importance of early adjustment
 - But people fail to recognise warning signs
 - And have unrealistic expectations for the future
- Perceived lack of need inhibits advice-seeking
- A role for creditors

- Coping responses of questionable sustainability

Thank you

Further information

Finney and Davies (2011) *Facing the Squeeze 2011* and
Collard, Finney and Crosswaite (2009) *Facing the Squeeze* were
published by the Money Advice Trust and are available from
www.pfrc.bris.ac.uk (theme 'Credit use and over-indebtedness')



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