

Estimating Current Household Level Effective Disposable Income Using Macro Data

ONS data is used to estimate expenditure items not directly captured within credit bureau data. The Family Spending data is modelled against a household's income to calculate an expected value of essential expenditure, and then is scaled further based off household composition and region. The ONS data is released at an 18 month lag, hence it is unable to reflect current spending during a 'cost of living crisis'. The recent Covid pandemic has also meant recent releases of the data cannot be used within EDI models, as expenditure captured during lockdown periods are not reflective of present or future spending. This has meant an even bigger lag in the data we can use. To help clients get a clearer picture of the customer's affordability, we applied higher frequency macroeconomic data on spends and inflation in consumption categories to estimate the UK average household weekly expenditure. To disaggregate by decile, region and household composition we used historic distributions relative to the UK average. Decile income growth was estimated by applying macroeconomic series to the subcomponents of income as per annual Household Disposable Income and Inequality release. Addressing the two sides of household finances in this way contextualised changes we see at the Macro level down to the household level.