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What's up?

Five key takeaways from new data on household wealth on the eve of the cost of living crisis

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Today's release of long-awaited data from the Wealth and Assets Survey (WAS) allows us to finally shed more light on family finances during the Covid-19 pandemic. It shows that total household wealth continued to grow faster than the size of the economy – a trend dating back to the mid-1980s. Total household wealth reached a record high of £13.6 trillion in the 2020-22, equivalent to over six times (610 per cent) national income, up slightly from 590 per cent in 2018-20.

But while the total size of the household wealth pie has increased, developments are under the surface are more complex. Absolute wealth gaps – the difference in pound terms – between households in the top wealth decile and those in the middle (fifth) decile has narrowed slightly, as have differences between regions reflecting rapid house price growth outside the South East. On the other hand, intergenerational wealth gaps have increased, with households headed by those aged 65 to 74 experiencing the largest increases wealth between 2018-20 and 2020-22.

Today's release provides a useful insight into the state of household wealth on the eve of the cost of living crisis, but it does not tell us everything we need to know. Methodology changes mean a full distributional analysis will only be possible when detailed survey data is released. And household balance sheets have likely shifted significantly since the pandemic due to the cost of living crisis. Nonetheless, this data provides an important baseline for tracking household finances moving forward.

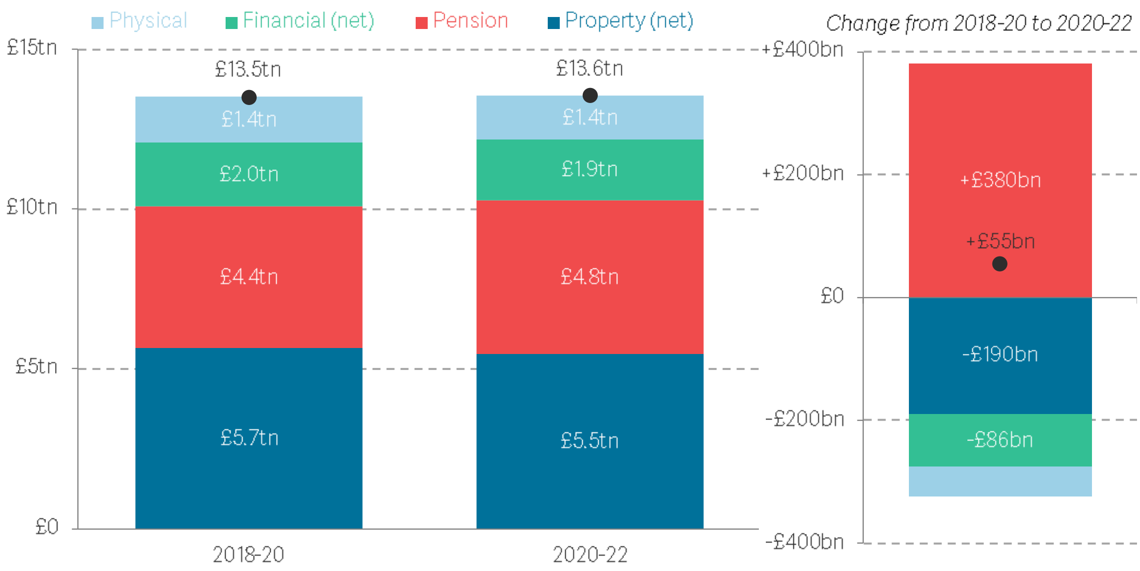
Wealth matters: it is a key determinant of households' living standards, and the size and distribution of wealth affects people's perceptions of inequality both between and within generations. But despite its importance, there is little reliable data on household wealth in Britain. Today's Wealth and Asset Survey (WAS) release is our first comprehensive look at family balance sheets during the Covid-19 pandemic – specifically the period from April 2020 to March 2022 (referred to as 2020-22 hereafter). This data provides crucial context in understanding the state of household finances on the eve of the cost of living crisis. Here are five key things to know.

1. During the pandemic, total household wealth nudged up to reach a new peak

Since the early 1980s, the defining trend of Britain's wealth landscape has been the rapid rise in wealth relative to incomes. In 1985, total household wealth amounted to just under three times national income (280 per cent of GDP). By 2020-22, this had risen to a little over six times (610 per cent), up marginally on 2018-20 levels (590 per cent). All told, the median household saw their wealth rise by £1,500 in real terms between 2018-20 and 2020-22.[1] Higher wealth was entirely driven by rising levels of pension wealth, up £380 billion in real terms between 2018-20 and 2020-22.[2] Non-pension wealth (comprising net financial and property wealth, as well as physical wealth) actually fell by £320 billion over the same period, as shown in Figure 1.

Figure 1 **Total household wealth grew a little during the pandemic, thanks to rising pension wealth**

Total real household net wealth (left panel) and change between 2018-20 and 2020-22 (right panel): GB



Notes: Data is adjusted using CPIH to 2020-22 prices. 2018-20 pension wealth is calculated using the ONS's updated methodology for estimating the value of defined benefit pensions and pensions in payment.
Source: RF analysis of ONS, Household total wealth in Great Britain: April 2020 to March 2022 & Estimating defined benefit pension wealth in Great Britain: December 2024.

But, as outlined in previous research, the pandemic looks to have been a high-water mark for household wealth in Britain. Falling asset prices, high inflation and high interest rates are likely to have eroded the real value of British household wealth since 2022. The full extent of this fall will take time to emerge in the WAS data, but more timely data on household net worth in the UK's National Accounts – a different but closely related measure – has already dropped by nearly a fifth (19 per cent) in real terms between 2021 and 2023, a fall of £2.8 trillion in today's prices.

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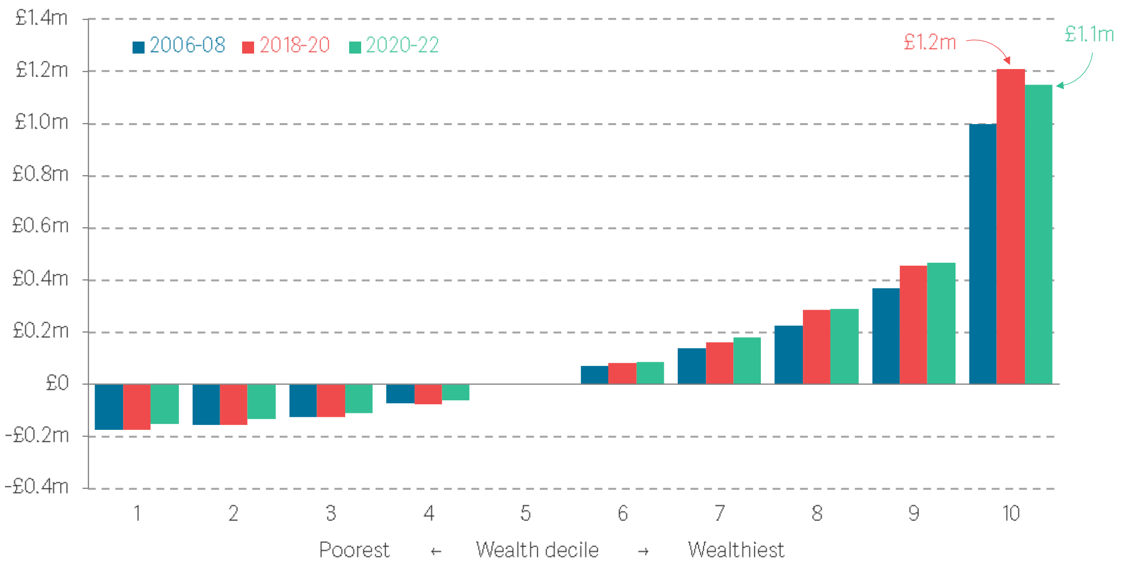
2. Absolute wealth gaps had been widening, but this trend reversed in the latest data

When it comes to wealth in Britain, rising relative inequality is the 'dog that didn't bark'. Despite much consternation, and in stark contrast to the US, relative wealth inequality in Britain has risen very little over recent decades.

But, while relative wealth inequality has held steady over recent decades, *absolute* non-pension wealth[3] gaps have – until recently – been rising: for example, the real (i.e. inflation-adjusted) gap between average non-pension wealth among households in the top wealth decile and those in the fifth decile grew by £210,000 between 2006-08 to 2018-20, reaching £1.2 million. However, as shown in Figure 2, between 2018-20 and 2020-22, the absolute non-pension wealth gap between the wealthiest households and those in the middle fell back slightly to £1.1 million. This change is due to households in the top wealth decile experiencing a larger absolute fall in non-pension wealth compared to those in the middle decile.

Figure 2 **Latest estimates show wealth gaps shrinking between households at the top of the wealth distribution and those in the middle**

Absolute gap between average non-pension wealth within each wealth decile and average wealth for the fifth decile: GB



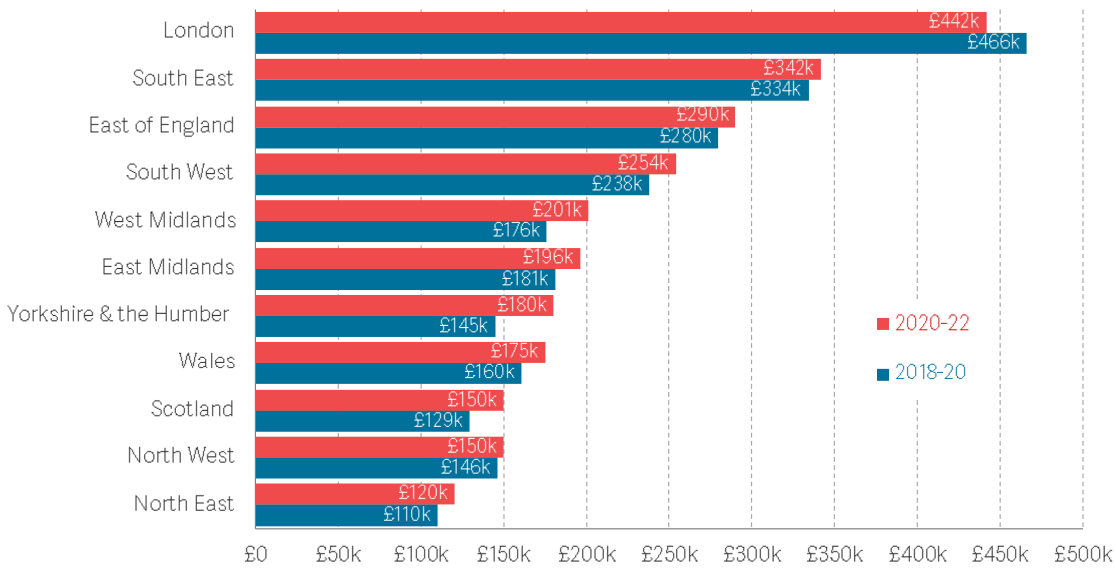
Notes: Data is adjusted using CPIH to 2020-22 prices.
Source: RF analysis of ONS, Household total wealth in Great Britain: April 2020 to March 2022.

3. Rapid house price growth outside London and the South East has acted to shrink some of Britain's geographical wealth gaps

As well as some good news on the absolute gap between rich and poorer households, some regional wealth gaps also fell. There have long been wide gaps in wealth between the regions and nations of Britain. The pandemic period was no different, with typical household wealth in the South East – Britain's wealthiest region – standing at more than two-and-a-half times that of the North East, the poorest region (£480,000 and £180,000, respectively). But recent shifts in property wealth have acted to close some of these gaps. As shown in Figure 3, some of the nation's least-wealthy areas saw the biggest proportional increases in property wealth: net property wealth in the North East increased by 9 per cent in real terms between 2018-20 and 2020-22, compared to growth of 2 per cent in the South East, and a fall of 5 per cent in London. The ONS has flagged difficulties with estimating property wealth in the latest round of the WAS, but these trends are consistent with the regional pattern of house prices during the pandemic, where areas outside London and the South East saw the strongest growth.

Figure 3 **Stronger house price growth outside London and the South East has coincided with rising property wealth in many of the less-wealthy areas of Britain**

Median household net property wealth by region and nation: GB

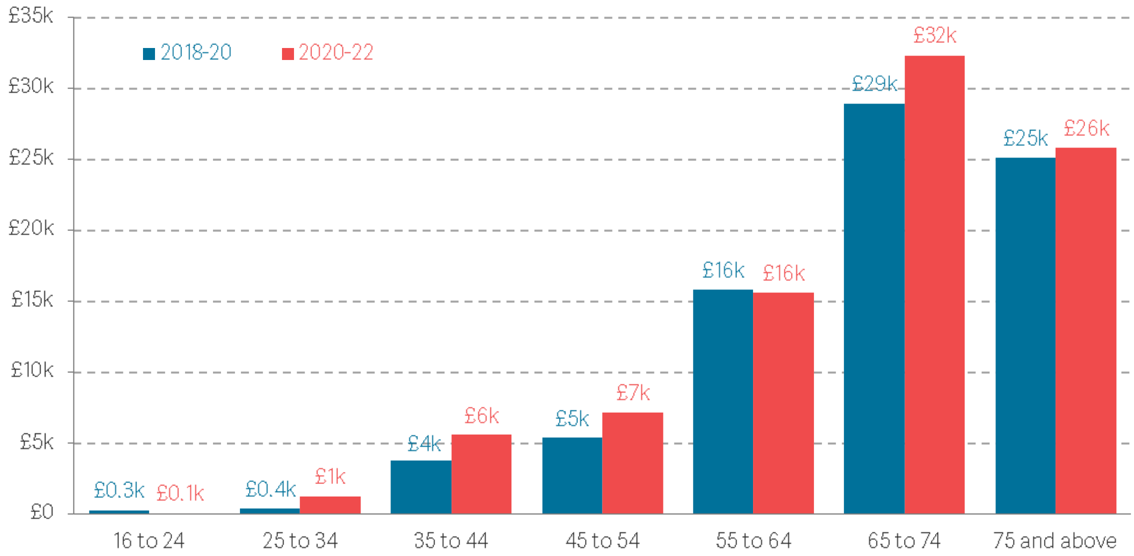


Notes: Data is adjusted using CPIH to 2020-22 prices.
Source: RF analysis of ONS, Household total wealth in Great Britain: April 2020 to March 2022.

4. Intergenerational wealth inequality rose again

Some level of wealth inequality between age groups is to be expected as people build up wealth over their working life before running it down to fund their spending in retirement. But, in Britain, the absolute wealth gap between young and the old has grown over time. Due to limited data on wealth by age in today's release, Figure 4 shows changes to financial wealth rather than total wealth. Households headed by someone aged 65 to 74 saw the largest increase in financial wealth between 2018-20 and 2020-22. For this group, median financial wealth increased by £3,300 in real terms, compared with a smaller increase of just £800 for households headed by someone aged 25 to 34.

Figure 4 **Older people have seen the largest rise in financial wealth in recent years**
Median household financial wealth, by age group: GB



Notes: Data is adjusted using CPIH to 2020-22 prices.
Source: ONS, Household total wealth in Great Britain: April 2020 to March 2022.

Young people in Britain today face significant challenges in accumulating wealth. For example, despite higher rates of pension saving among younger cohorts than previous generations, analysis indicates that younger generations are on track to reach retirement with smaller pension pots on average, due to the decline in the availability of defined benefit pension schemes. Similarly, younger generations have struggled to get onto the housing ladder. Data for 2020-22 shows that 44 per cent of 25-34-year-olds did not own property, up from 41 per cent in 2018-20 and 37 per cent in 2006-08.

5. This release isn't the last word when it comes to household balance sheets

Finally, although the WAS remains an invaluable source of information on the distribution of wealth in Britain, today's release does not tell us everything we need to know about the present state of household finances. For example, the ONS has changed the way it values guaranteed pension promises in the latest WAS wave, but back data is not available on a comparable basis. We have accounted for this when looking at total wealth in Britain, but a full distributional analysis of how household finances have changed will only be possible when detailed survey data becomes available later in the year. The ONS has also highlighted a higher non-response rate for this WAS than previous survey waves, part of a broader trend that has caused problems with other household surveys, meaning that it is advisable to look at today's data in conjunction with other sources of data on family finances. More than anything, however, the world has moved on in many ways since the pandemic, so we at RF will continue to use modelling and other data to build a clearer picture of how wealth has fallen during the cost of living crisis.

[1] Unless otherwise stated, we follow the ONS in expressing figures in 2020-22 prices based on a CPIH deflator.
[2] This calculation is based on applying the ONS's new methodology for valuing pension wealth to the 2018-20 wave of the WAS.
[3] Wealth gap analysis between household wealth deciles has been calculated using non-pension wealth. This is due to methodology changes in how the ONS values guaranteed pension promises in the latest WAS wave, making it impossible to compare total wealth – including private pension wealth – between 2018-20 and 2020-22.