Britons Set To Face ‘Squeeze In Disposable Income Levels’

Millions of households are coming under increased financial pressure, one member of the Conservative party has suggested.

October 7, 2007 (FPRC) -- Philip Hammond, shadow chief secretary to the Treasury, reported that more consumers are beginning to struggle with their money management as they begin to feel the full impact of the 1.25 percentage points being added to the base rate of interest since August 2006. And with tax moves by prime minister Gordon Brown also claimed to have a negative effect on their disposable income, people could well see their ability to make payments on utility bills, personal loans and other demands on their finances curtailed.

He said: "Millions of hard-working families are feeling the financial pinch as the effects of higher interest rates begin to bite and their pay packets are plundered by Gordon Brown’s stealth taxes." As a result, Mr Hammond added that it is "no wonder so many families are finding it so hard to make ends meet".

The shadow secretary’s comments follow recent research carried out by Ingenious Securities revealing that Britons are set to face further difficulties in managing their finances over the coming months. Findings from the firm showed that in six years leading up to 2006, personal incomes rose by some 37.1 per cent. However during the same period, the level of disposable income witnessed slower growth at 30.1 per cent. It was suggested that this was due to a surge in interest payments - which is likely to incorporate areas such as secured loans and mortgages - and "escalating" social contributions.

And with these growth rates being adjusted for the effects of inflation, the typical year-on-year increase of "real" personal disposable income stands at 2.4 per cent. This in turn could see some Britons struggling to manage their capacity to make loan repayments as this figure is lower than household consumption (2.7 per cent) and the rise noted in GDP (2.5 per cent) over the course of the six-year period.

Meanwhile, the amount of borrowing Britons have outstanding, via loans and other means, surged by some 87.8 per cent between the fourth quarter of 2000 and the same time last year. However, during this period interest payments made by consumers only increased by a "comparatively modest" 42.5 per cent, this coming despite the base rate falling from six to five per cent over the period.

The company intimated that following the five interest rate increases since August 2006, consumers are set to see a greater proportion of their money go towards servicing demands for payments on personal loans and other types of borrowing. It was suggested that unless the Bank of England’s monetary policy committee reduces rates before the end of this year, a tenth of households’ annual disposable income will be spent paying loans. Consequently, Ingenious Securities asserted that "rising interest rates are putting a considerable squeeze on household cash flows", with Britons particularly set to struggle over the course of next year.

And as the firm claims that consumers’ financial difficulties are set to rise, those worried about their ability to manage their money over the next few months could be well advised to take out debt consolidation loans. By opting for a consolidation loan, borrowers could be able to pay a number of debts that they have built up quickly, which in turn could leave them with more disposable income. However, Peter Tutton, social policy officer for Citizens Advice, told the Observer those considering getting a debt consolidation loan should make sure that they choose the product which is most suitable for them.

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Keywords
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