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UK Household Wealth

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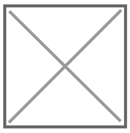
How wealthy you feel at any point in time is affected by many factors. Despite being wealthier than they were 20 years ago, many people still feel financially poorer today. This discrepancy between actual wealth and perceived financial well-being can be attributed to various psychological and societal factors.

Firstly, the concept of relative deprivation is more prevalent than it used to be. This term refers to the perception of being disadvantaged or less well-off compared to others in society. In an era of social media and constant comparison, we all suffer from periods of feeling financially insecure when they see others flaunting their material possessions or luxurious lifestyles.

Second, and most prominent over the past couple of years has been lifestyle inflation. This can create a sense of financial strain even when individuals are objectively wealthier than before. We have many clients that say their inflation rate is much higher than the official numbers. Interestingly, no one ever says it is lower but in reality it must be lower for some people for there to be an average.

Thirdly, and most acute over the past few years is the perception of risk. Economic uncertainties, political upheaval, increased tax rates, market volatility, and global events can influence our perceptions of financial security. Even if you are objectively wealthier than before, the fear of potential financial losses or economic downturns can contribute to a sense of financial insecurity and anxiety.

The reality is something different for most of us however. The chart below is taken from the Office For National Statistics (ONS) and illustrates how household wealth in the UK, in aggregate, has more than doubled over the past 15 years, far outstripping inflation!



So why do many of our clients not feel more financially secure now than 10 years ago? The answer to this question lies in the type of wealth that has been built. Housing forms a significantly larger proportion of a family's wealth today than it ever has previously. It is not uncommon for it to equate to 50% of the total wealth of a household, especially as people age past 70. This wealth is only valuable if it is used, if not, it is an asset with no real current value, in fact it actually costs us to maintain. This in our view is one of the main problems with the data in the chart above: if a lot of wealth has been created but cannot be used productively, should it really be included in the numbers above?

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