

Press Release

Average incomes up and poverty down slightly during first year of recession

Average take-home incomes grew even after taking account of inflation and in spite of rising unemployment during 2008–09, the first full financial year of the recent recession. This is the surprising finding of official statistics released today.

However, poverty among working age individuals without children reached a new high in 2008–09 (since at least the start of our comparable time series in 1961). Nonetheless, overall poverty fell slightly, due to declining poverty amongst pensioners and children. Income inequality was largely unchanged, remaining close to its highest level since at least the 1950s.

The annual Households Below Average Income report from the Department for Work and Pensions describes the pattern of household incomes after deducting direct taxes and adding tax credit and benefit payments, and adjusting for family size. Incomes can be compared both before housing costs (BHC) and after (AHC). Poverty lines for some typical family types can be found at the end of this press release.

Key findings in today's data include:

Overall poverty falls slightly

The most widely used measure of relative poverty is the number of people living in households with incomes below 60% of the median. (If households were lined up from richest to poorest, adjusted for family size, the median income would be that of the household in the middle.) On this basis, the number of people in poverty fell by 100,000 to 10.9 million BHC in 2008-09 (18%), but was largely unchanged on an AHC basis at 13.4 million (22%). Having increased in each of the three previous years, poverty is still higher than its recent low-point in 2004–05. However, it is significantly lower than when the recent Labour government came to office in 1997.

Poverty falls most for pensioners and children

Pensioner poverty fell 200,000 measuring incomes both BHC and AHC. Pensioner poverty is now at its lowest level since 1985 (BHC) or 1984 (AHC). Measured AHC, the rate of poverty

Embargo

For immediate release

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amongst pensioners is now lower than for any other population group. Such a large fall is not unexpected or without precedent during a recession; pensioners are largely unaffected by the rising unemployment experienced by working-age adults during recessions.

Child poverty fell by 100,000 measuring incomes both BHC and AHC. At least part of this fall seems likely to reflect the generous increases in benefits and tax credits implemented by the previous Labour government in 2008–09. However, child poverty will still need to fall by 1.1 million between 2008–09 and 2010–11 to meet the previous government’s 2010 target of halving child poverty. Documents accompanying the March 2010 Budget confirmed that the previous government had as good as conceded that its child poverty target for 2010 would not be met, a conclusion supported by previous IFS analysis.

Poverty amongst working-age adults without children reaches new high

Poverty amongst working-age adults without dependent children rose in 2008–09, probably reflecting rising unemployment and partly offsetting the fall in pensioner and child poverty. It now stands at its highest level since at least the start of our consistent series in 1961, with the fraction in poverty at 15% measuring incomes BHC or 19% using incomes measured AHC in the latest year of data.

Average incomes rose during recession.

Average take-home incomes grew in 2008–09, even after accounting for inflation. Mean incomes grew by around 1%, whilst median incomes grew by a little less. Such growth is somewhat surprising given the stagnation in earnings and rise in unemployment suggested by other labour market statistics during 2008–09, the first full financial year of the recession.

However, this small increase in incomes continues the pattern of sluggish growth observed over the past few years; 2008–09 is the seventh consecutive year of weak growth in average take-home incomes. Furthermore, HBAI is based on a survey of 25,000 households and is thus subject to uncertainty and sampling error from year to year. Future years may show a different pattern for mean incomes, and the positive growth in real income could have resulted from an under-estimation of mean income in 2007–08, the previous year of data.

Income inequality remains at a record high.

The Gini Coefficient – a commonly used measure of income inequality – was unchanged at 0.36 in 2008–09. It thus remains

at its highest level seen during the IFS's consistent time series going back to 1961, equalled only by last year's figure.

"People might be surprised to see poverty falling in the midst of the recent recession, but something similar happened during the recessions of the early 1980s and early 1990s" says David Phillips, a Senior Research Economist at the IFS. "Pensioners are largely insulated from the increase in unemployment affecting other groups, and falling rates of poverty for them, and for children will doubtlessly be welcome news for both the outgoing and incoming governments. But a further increase in poverty amongst working age adults without children continues what may be seen as a worrying trend that started even before the recent recession."

"The growth in average incomes, in the first year of the deepest recession since the 1930s, is certainly unexpected" says Ali Muriel, a Senior Research Economist at the IFS. "However, the growth is only modest, and we should be cautious about reading too much into one year's worth of data. It's also worth bearing in mind that the data released today does not include the trough of the recession, so it will be interesting to see if this pattern continues when data for 2009–10 becomes available in a year's time."

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Notes to Editors:

1. The full Households Below Average Income publication can be found on the Department for Work and Pensions website at (<http://research.dwp.gov.uk/asd/hbai.asp>)
2. Further analysis of the data underlying the official statistics will be available in Poverty and Inequality in the UK: 2010 by Robert Joyce, Alastair Muriel, David Phillips and Luke Sibietta. This report will be launched at IFS on 21 May 2010. The briefing will start at 10:30am and is expected to conclude by 12:30pm. If you would like to attend, please contact Bonnie Brimstone (020 7291 4800 or bonnie_b@ifs.org.uk).
3. The official HBAI document reports numbers in poverty to the nearest 100,000, but reports changes in poverty based on the unpublished unrounded numbers. Where no official estimate exists of the change in poverty between two years, this note reports the change in the rounded numbers. Growth rates reported in this press release are calculated based on rounded figures.
4. The authors are very grateful for financial support from the Joseph Rowntree Foundation for the project 'Poverty and Inequality in the UK: 2010. Co-funding from the ESRC-funded Centre for the Microeconomic Analysis of Public Policy at IFS is also very gratefully acknowledged.
5. The ONS's official estimates of employment and earnings growth are based on the Labour Force Survey. For the most recent figures see <http://www.statistics.gov.uk/pdfdir/lmsuk0510.pdf>

Poverty lines (60% of median household equivalised income) in 2008-09 include:

£ per week	Childless couple	Single individual	Couple, one child (age 8)	Couple, two children (ages 8 & 15)	Lone parent, one child (age 8)	Lone parent, two children (ages 8 & 15)
AHC	£206	£119	£247	£333	£160	£247
BHC	£244	£164	£293	£374	£213	£293