



Institute for  
Fiscal Studies



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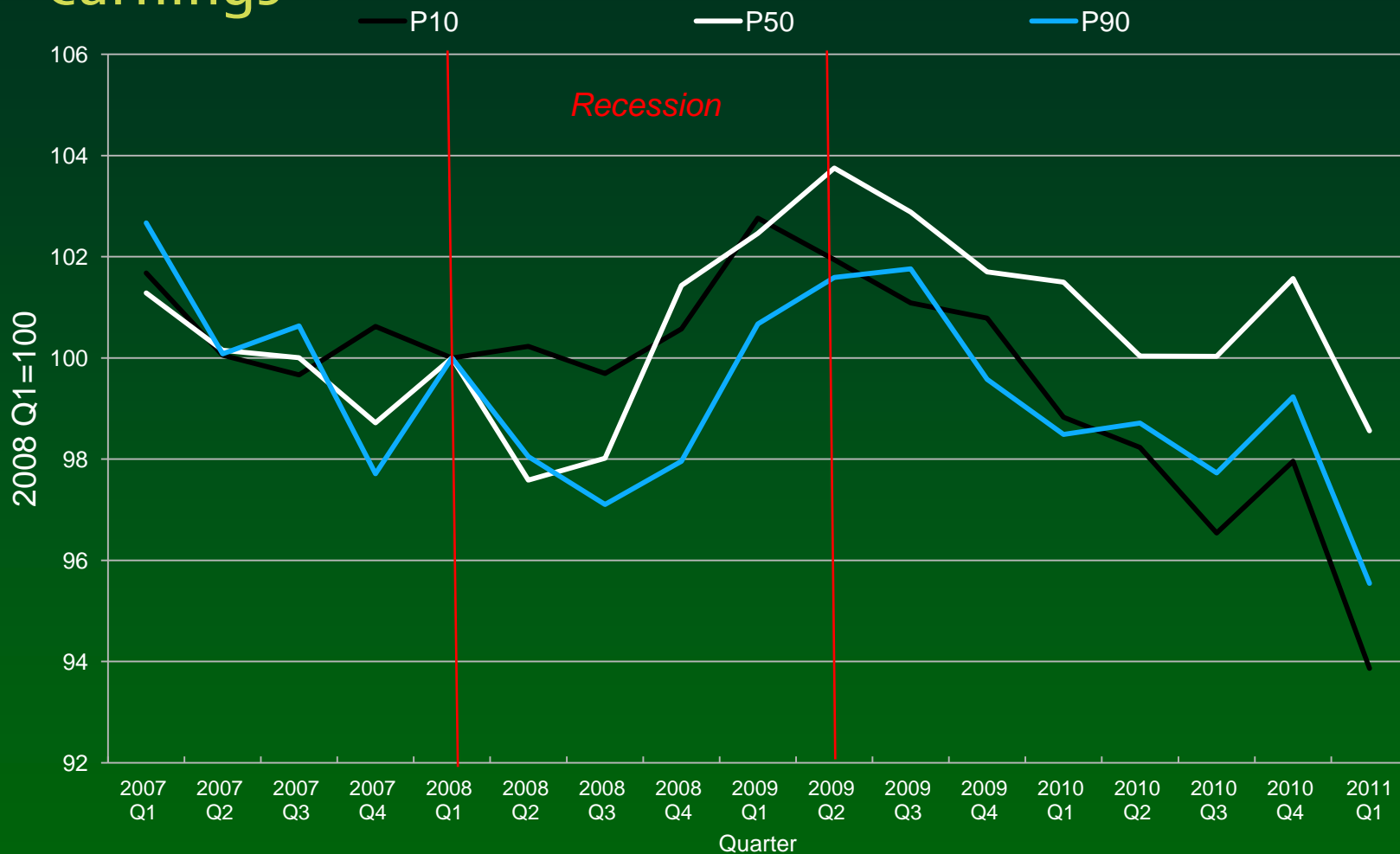
## Household incomes during the recession and austerity

Robert Joyce

# Outline

- Labour market outturns and forecasts
- Fiscal consolidation: impacts of tax and benefit reforms
- Average income during and after the recession: IFS projections, given
  - Macroeconomic forecasts
  - Planned tax and benefit policy
- Income poverty

# Recent percentile points of full-time real weekly earnings



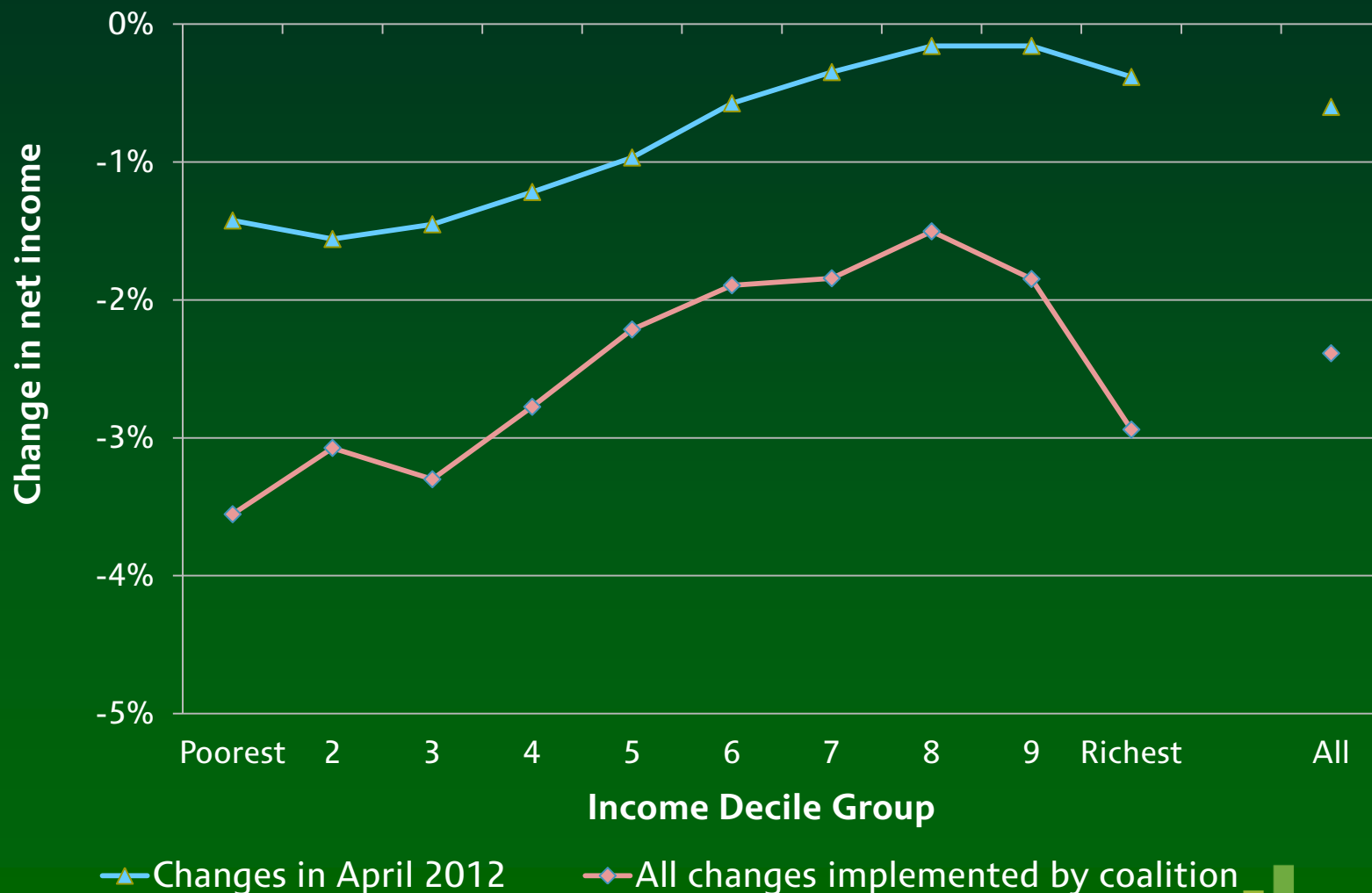
Sources: Labour Force Survey; ONS series CHAW.

Note: Deflated using RPI all-items quarterly index.

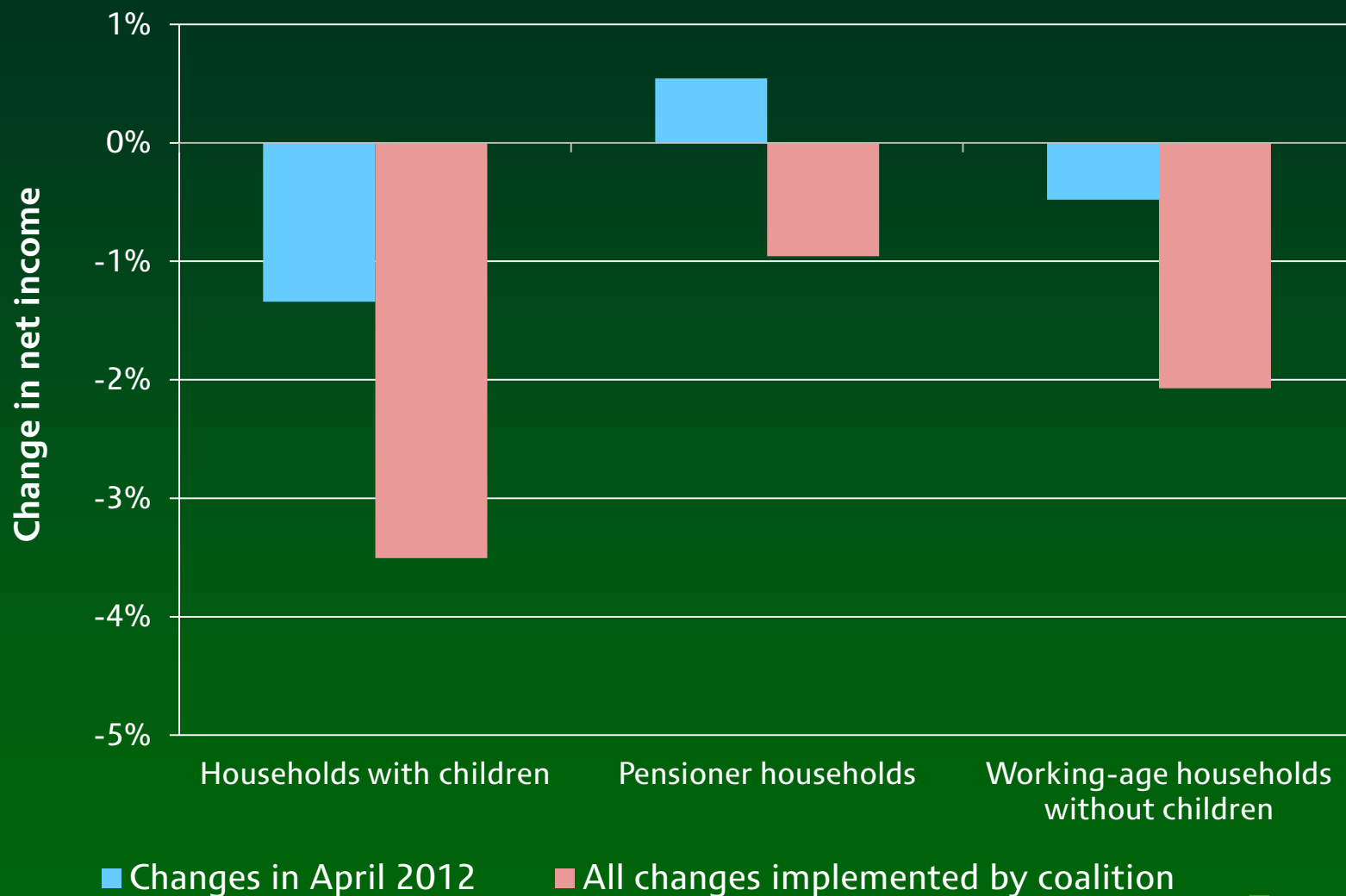
# Key labour market outturns/forecasts from Office for Budget Responsibility (OBR)

	2010	2011	2012	2013	2014	2015
Real growth in mean earnings (%)	-2.2	-4.0	-0.6	+0.7	+1.8	+0.8
Employment (millions)	29.0	29.2	29.1	29.2	29.4	29.7

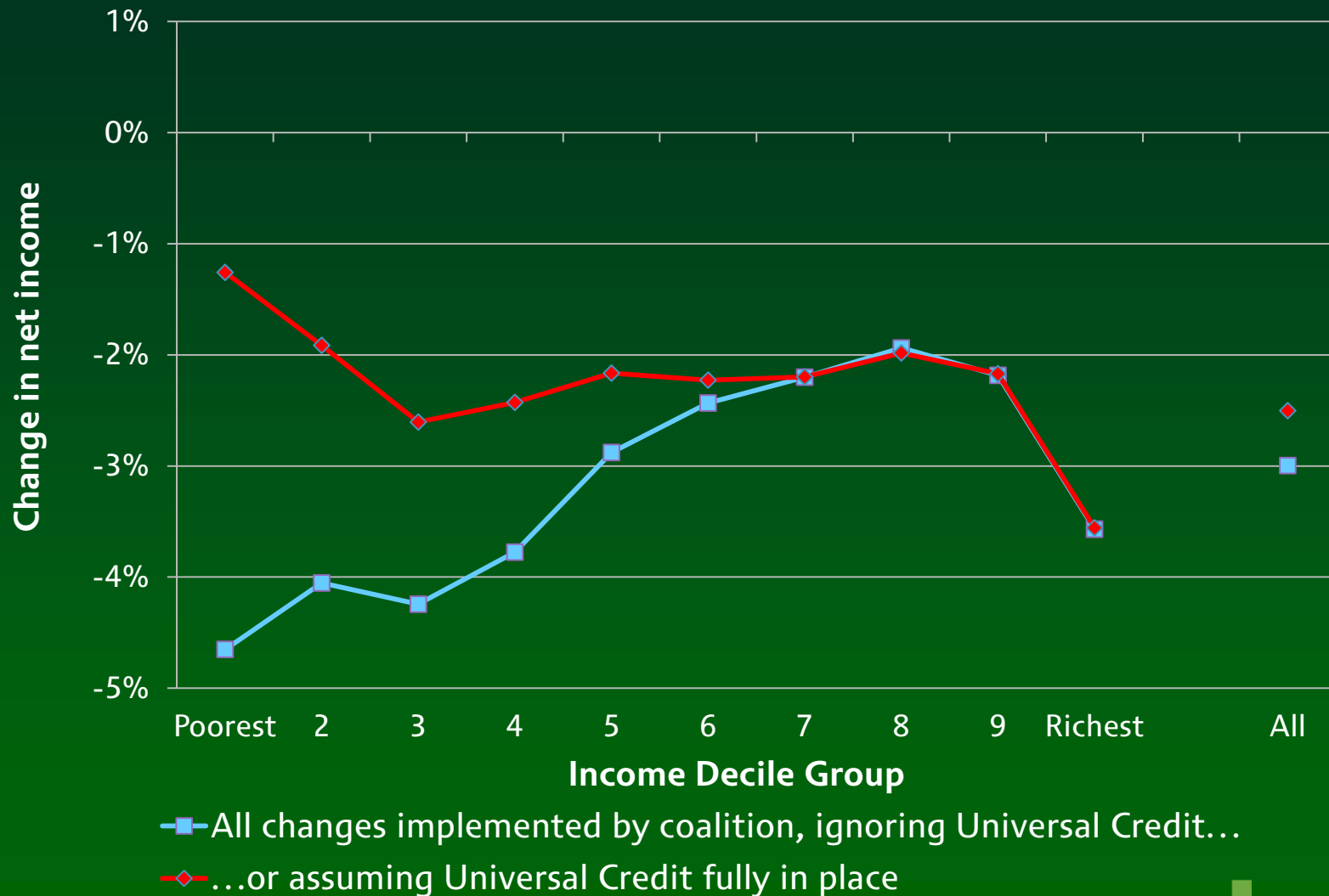
# Impact of tax and benefit changes taking effect by April 2012, by income decile group



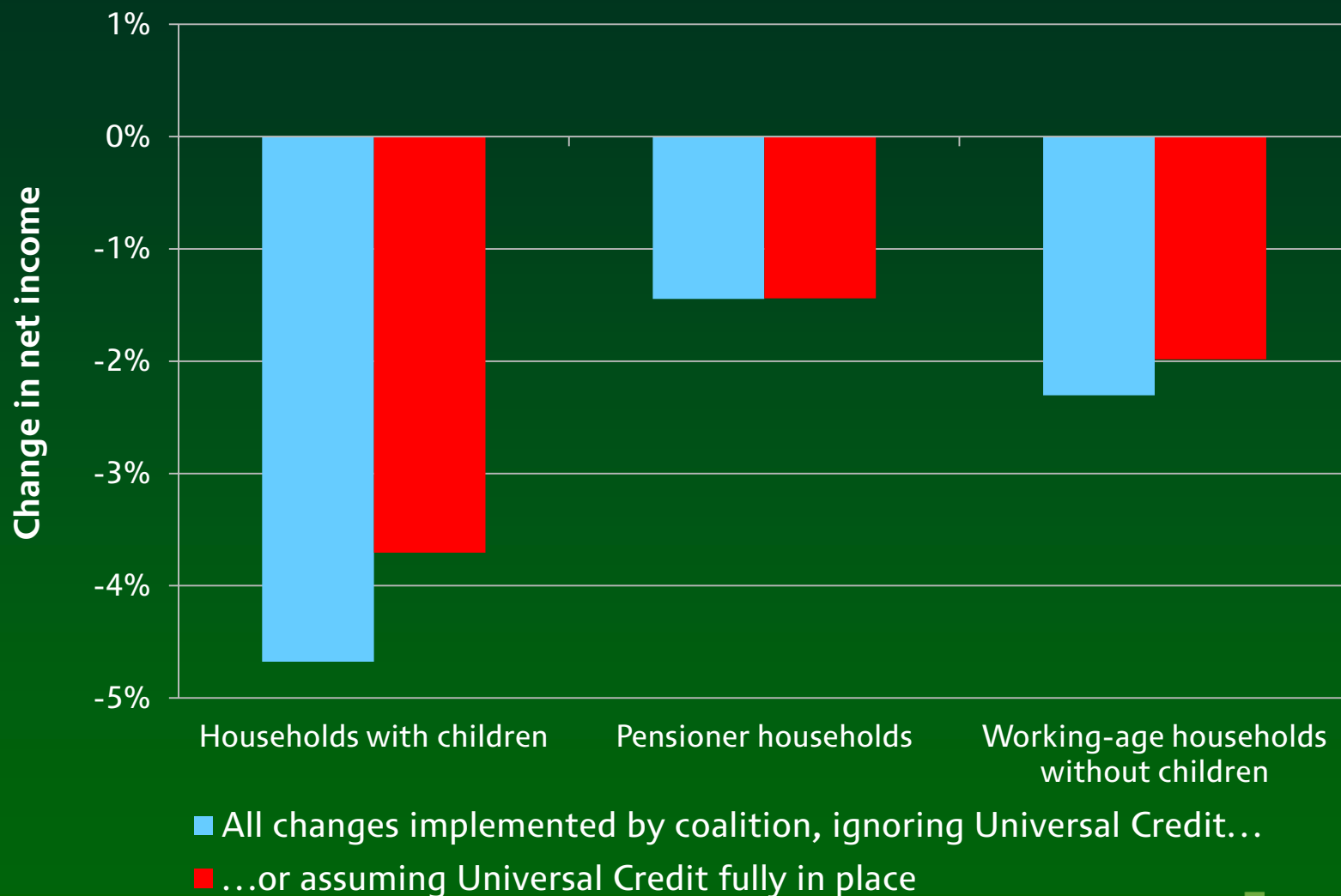
# Impact of tax and benefit changes taking effect by April 2012, by household type



# Impact of tax and benefit changes taking effect by April 2014, by income decile group

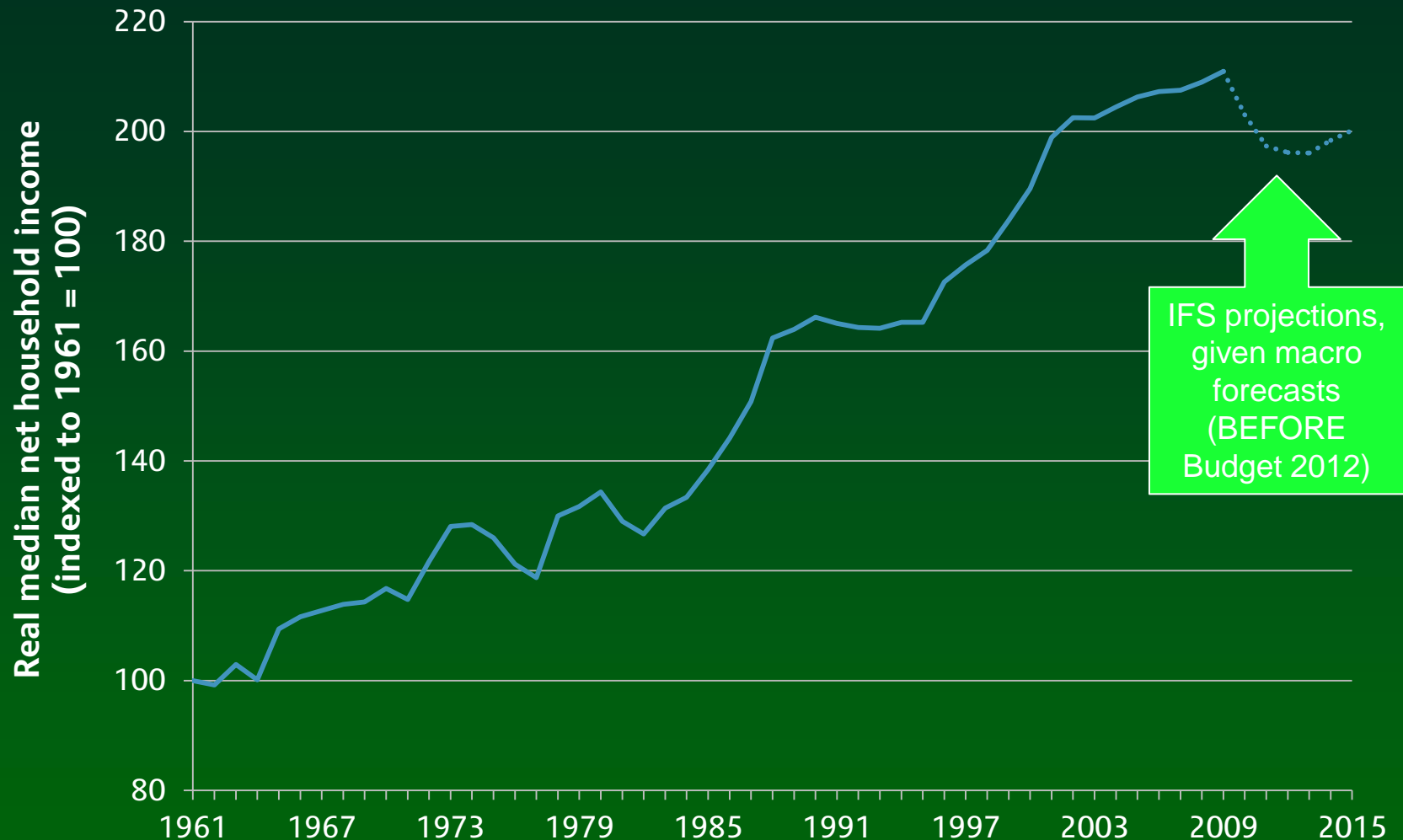


# Impact of tax and benefit changes taking effect by April 2014, by household type





# Real median net household income since 1961



Note: From 1993, years refer to financial years.

Sources: DWP's HBAI series; IFS calculations and projections using Family Expenditure Survey and Family Resources Survey.

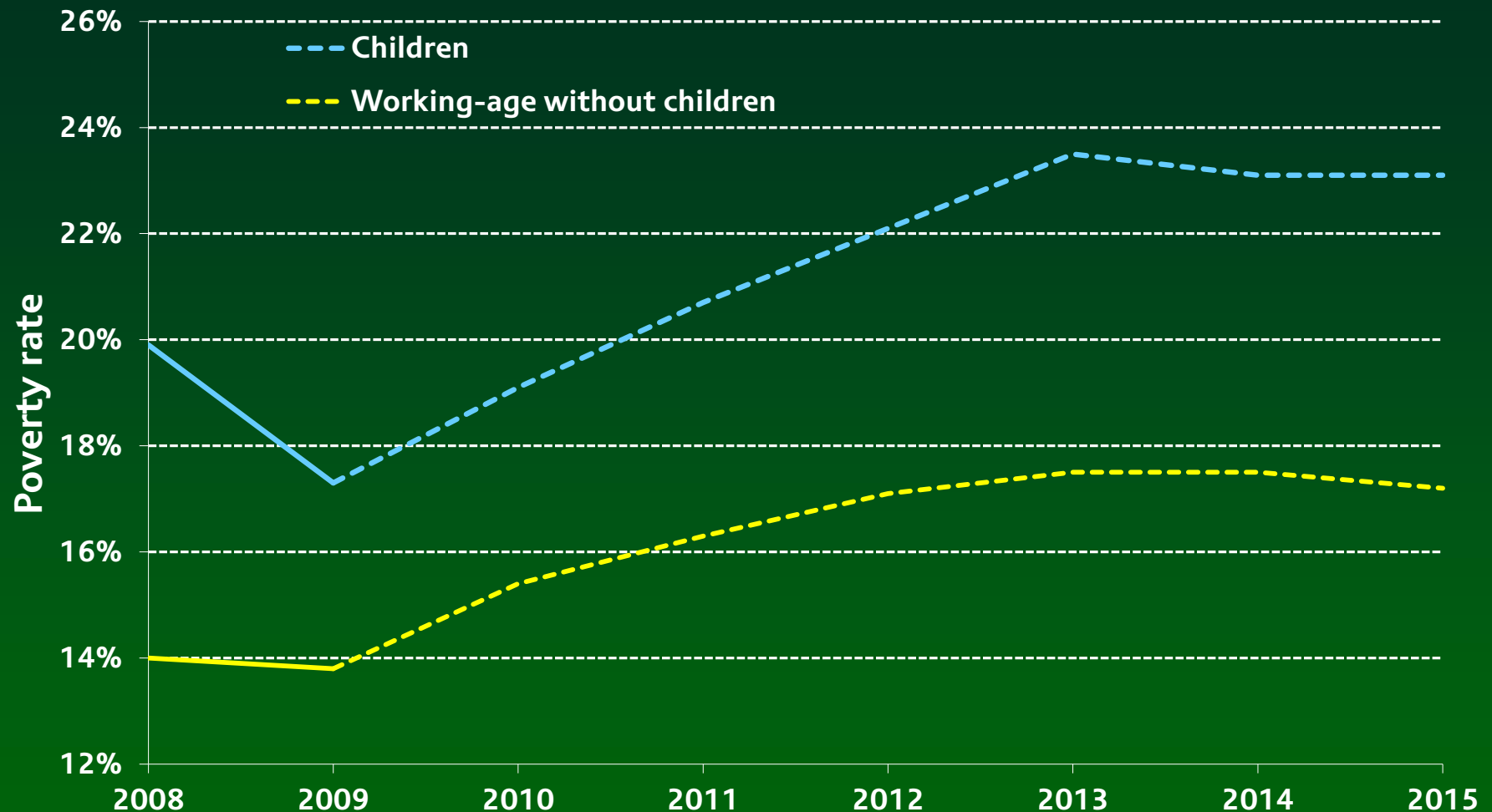
## Median income: summary and historical context

- Between 2009-10 and 2013-14, we are projecting 7.1% real-terms fall in median net household income
  - Largest fall since 1974-77 (fall of 7.5%)
- But most of this expected decline has now happened (6.4% over last two years; 0.7% over next two)
- Nevertheless, recovery expected to be slow. Even by 2015-16:
  - Growth still slower than historical average
  - Level still lower in real terms than in 2002-03

## And those on lower incomes?

- Govt stats use specific measures of income poverty to track fortunes of the poor
- Also of policy relevance: govt has committed to reducing them substantially among children by 2020-21
  - Relative low income: income less than 60% of median
  - Absolute low income: income less than 60% of 2010-11 median
- We have projected these too, given the macro forecasts as before

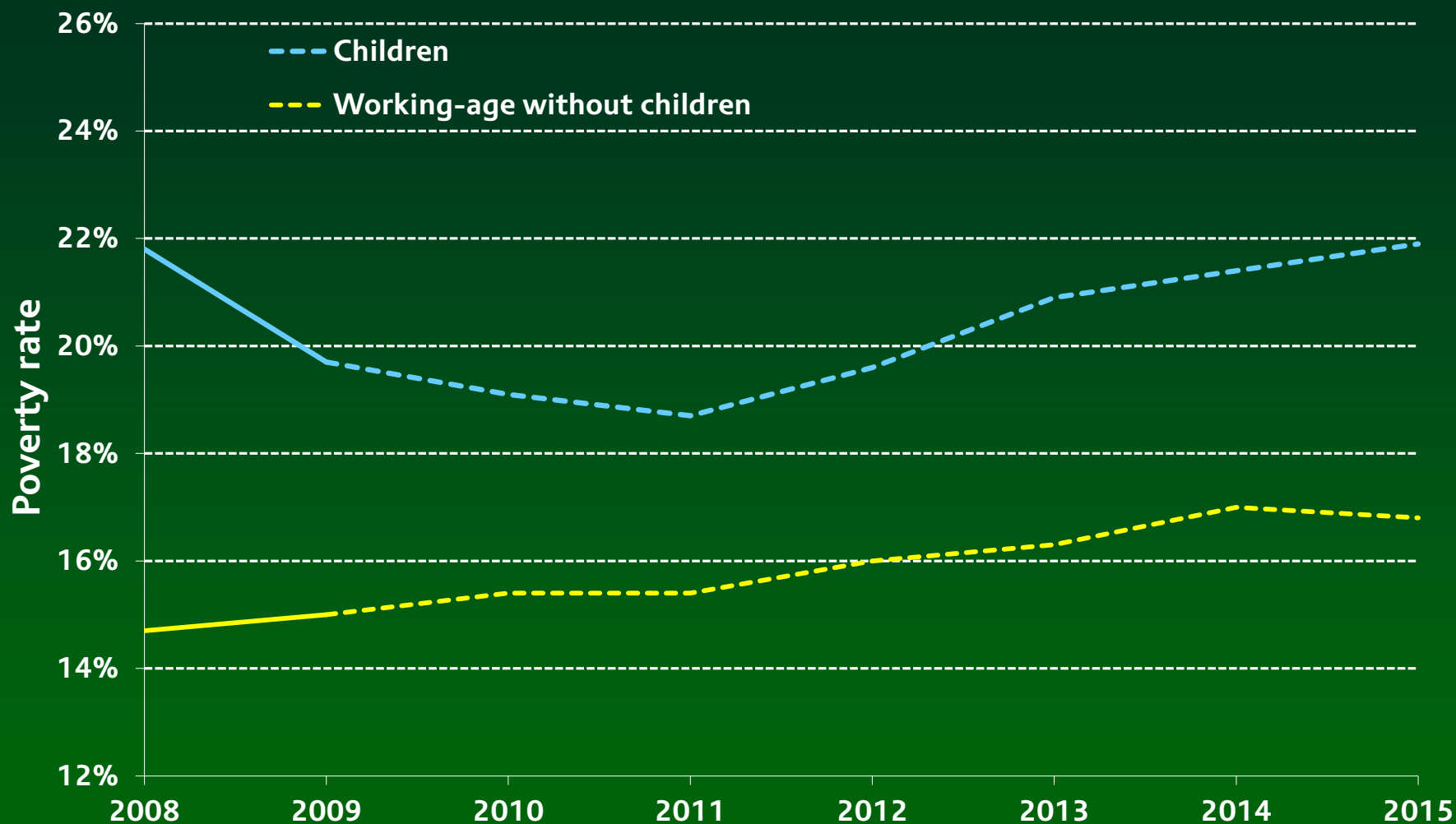
# Absolute low income poverty [pre-Budget 2012 projections]



Note: Dotted lines represent projections. Years refer to financial years. Absolute low income line is 60% of 2010-11 median in real terms (deflated using RPI).

Sources: DWP's HBAI series; IFS calculations and projections using Family Resources Survey.

# Relative low income poverty [pre-Budget 2012 projections]



Note: Dotted lines represent projections. Years refer to financial years. Relative low income line is 60% of contemporary median.

Sources: DWP's HBAI series; IFS calculations and projections using Family Resources Survey.

# Income poverty: summary

- Incomes of low-income people are generally falling in absolute terms (as are those of middle-income people)
  - Particularly among families with children
- If anything, they have been falling less quickly than middle incomes since recession
- But that trend set to be reversed in years ahead: relative low income poverty to rise between now and 2015-16
- To large extent, this is driven by the timing of welfare cuts (still many to come) versus timing of real earnings falls (mostly behind us)