



Institute for
Fiscal Studies



What does yesterday's news mean for
living standards?

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Real Household Disposable Income

- OBR forecasts total RHDl
- OBR's implied forecasts for growth in per-capita RHDl, given ONS population projections:

	2010	2011	2012	2013	2014	2015
March 2011	-1.4%	-1.1%	0.7%	0.9%	1.2%	1.4%
Yesterday						

Real Household Disposable Income

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	2010	2011	2012	2013	2014	2015
March 2011	-1.4%	-1.1%	0.7%	0.9%	1.2%	1.4%
Yesterday	-0.7%	-3.0%	-1.1%	0.1%	1.2%	1.7%

If the OBR is correct...

- 4.7% fall in per-capita RHDl between 2009 and 2012
 - Easily the largest fall over a three-year period on record (since 1955)
 - Previous largest fall was 1.9% between 1974–77
- Per-capita RHDl still lower in 2016 than it was in 2006
 - Combination of slow growth pre-recession, sharp fall during recession, and slow recovery afterwards
 - Worst previous decade on record for changes in per-capita RHDl was 1973-83, when it grew by 14.4%

Another measure of income

- Much of OBR's increased pessimism about RHDl due to increased pessimism about non-labour, non-benefit income
 - Gloomier expectations about company profits and stock market in near term – implications for investment income
 - Likely to affect those close to top of income distribution most
 - Would expectations about (e.g.) *median* income look different?
- RHDl is a national accounts measure – just an aggregate
- But we have model which attempts to forecast *distribution* of income
- Uses same net household income definition as in government statistics on income distribution (HBAI), and Child Poverty Act (2010)
 - Similar to, but not strictly comparable with, measure of real income in RHDl series

Important assumptions and caveats

- We use model to link changes in employment and earnings, as well as taxes and benefits, to net household income
 - Use OBR's macroeconomic forecasts, over which there is much uncertainty, as 'inputs' to this model
- OBR forecasts average (mean) earnings, but not the distribution of earnings around that average
 - Assume all earned income grows at the rate of the mean
- OBR forecasts total employment, but not employment among subgroups
 - Model changes in size of the employed population, but not changes in its composition

Things we learnt yesterday which are relevant for net household incomes (1)

New macroeconomic forecasts from the OBR (March 2011 forecasts in red)

	2011	2012	2013	2014	2015
Employment (millions)	29.0 29.2	29.2 29.1	29.5 29.2	29.7 29.4	30.0 29.7

Things we learnt yesterday which are relevant for net household incomes (1)

New macroeconomic forecasts from the OBR (March 2011 forecasts in red)

	2011	2012	2013	2014	2015
Employment (millions)	29.0 29.2	29.2 29.1	29.5 29.2	29.7 29.4	30.0 29.7
Real mean earnings growth (%)	-3.1 -4.3	-1.4 -1.3	0.3 0.2	0.7 1.2	0.7 0.9

Things we learnt yesterday which are relevant for net household incomes (2)

- Changes to tax and benefit policy
 - Council tax freeze in England in 2012–13; costs £675 million in 2012-13
 - Above-inflation increase in child element of Child Tax Credit will not go ahead; saves £975 million in 2012–13
 - More elements of Working Tax Credit will be frozen; saves £265 million in 2012–13
 - Revenue-neutral changes to Pension Credit
 - Fuel duty increase originally planned for April 2011 delayed further to August 2012, increase originally planned for April 2012 cancelled; costs £975 million in 2012-13

Distributional impact of changes taking effect in 2012–13 by income decile group



Autumn Statement

Pre-announced

Total % gain

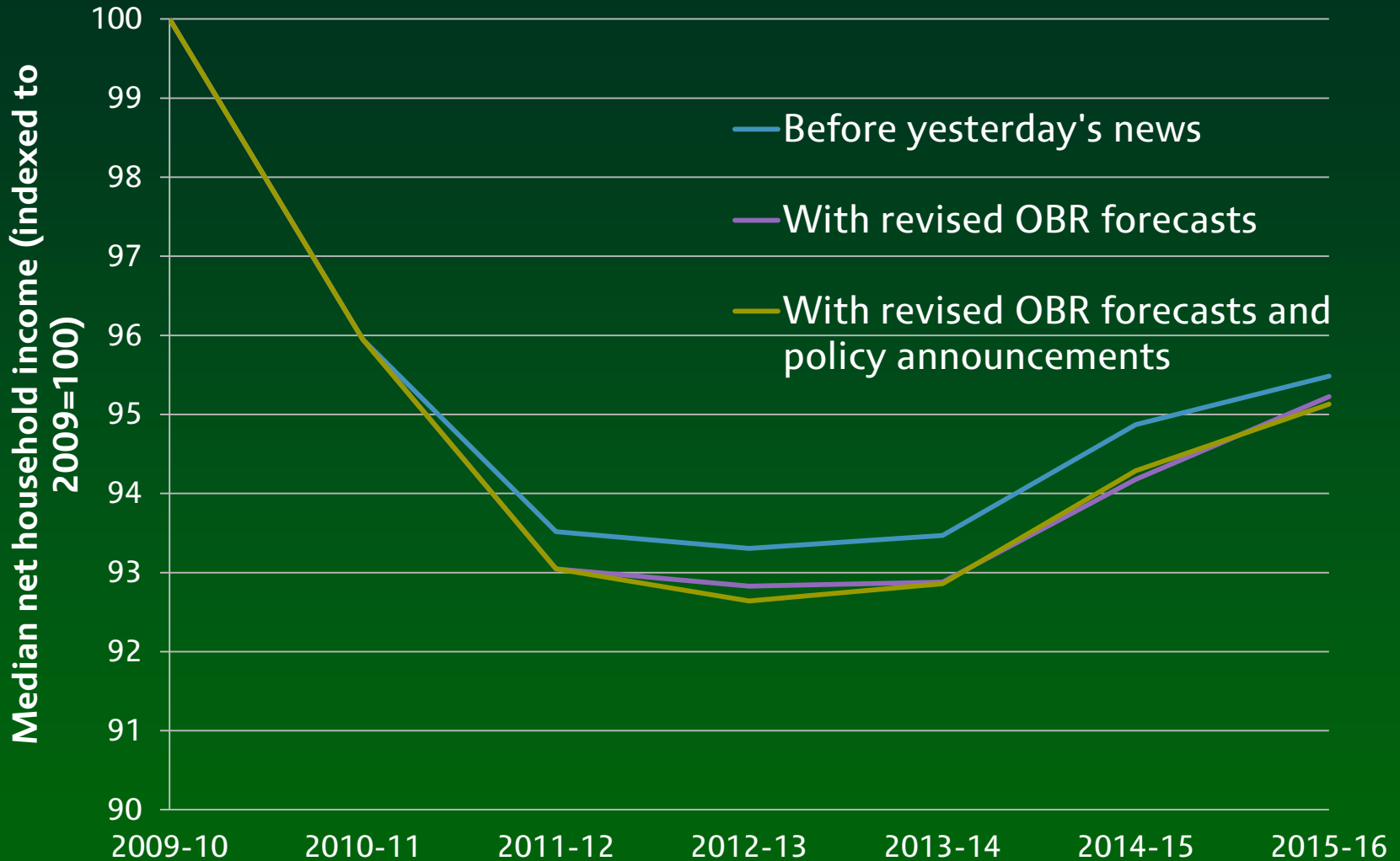


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Distributional impact of changes taking effect in 2012–13 by household type



Real median net household income: projections



Sources: Department for Work and Pensions' HBAI series; IFS calculations and projections using Family Resources Survey.



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Forecasted real growth in median net household income: summary

- Between 2009-10 and 2012-13, we are forecasting 7.4% fall in real median net household income
 - Essentially the same as between 1974-77 (fall of 7.5%), which is largest 3-year fall since records began (starting 1961)
- Real median net household income in 2015-16 forecast to be lower than in 2002-03
 - Again, combination of slow growth pre-recession, sharp fall during, and slow recovery after
 - Easily longest period of no growth at median since records began

And Government's child income poverty targets?

- We estimate little overall change in outlook for path of child poverty in coming years
 - Remains inconceivable that Government will get close to its 2020 child poverty targets under current policies
- Government previously said its reforms would not increase relative income child poverty through to 2012-13
- We disagreed slightly
 - We model Local Housing Allowance (LHA) reforms; HMT were not
- Government now thinks its reforms will increase relative child poverty by about 100,000 in 2012-13
- Why the change?
 - Tax credit cuts announced yesterday
 - HMT is now modelling LHA reforms

Conclusions

- OBR and IFS modelling both suggest we are living through the worst period for changes in measures of average living standards since consistent records began in mid 50s/early 60s
- OBR's revisions yesterday to previous macroeconomic forecasts have worsened the outlook for living standards
- New tax and benefit measures are, on average, a takeaway from lower-income families with children, and giveaway to middle and top of income distribution
 - But very small compared to changes already announced
- Of course, huge uncertainties remain