Living standards

David Phillips
What is happening to living standards?

• Strikingly different claims about living standards have been made in the last couple of days

• George Osborne: “Real household disposable income is rising…”

• Labour:

Working people are today on average £1,600 worse off a year in real terms...

• Can both of these statements be true?
  – Sort of...
Real household disposable income (RHDI)

- RHDI is a National Accounts measure of the disposable income of households and “non-profit institutions serving households”

- Total RHDI increased by 1.6% in 2012 and the OBR forecasts further increases of 0.5% in 2013 and 1.1% in 2014
  - But living standards better measured by RHDI per person

- RHDI per person grew by 0.9% in 2012
  - But forecast to have fallen slightly (by 0.1%) in 2013
  - And then to begin to grow again
Putting the changes in RHDI in context
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Per-capita RHDI

Fell by 2.1% between 2009 and 2011

Forecast to surpass previous peak by 2016
Putting the changes in RHDI in context

Index (2003 = 100)

- Per-capita RHDI
- Per-capita GDP

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How does RHDI compare with other measures?

- Unclear how well this National Accounts aggregate actually measures living standards

- Analysis of living standards usually based on different official measure
  - Households Below Average Incomes survey (HBAI)

- HBAI is based on a large representative survey of households
  - Look at changes in living standards across income distribution
  - Data are available up to 2011-12 only
  - No official forecasts for this measure

- HBAI shows larger falls in income in 2010-11 and 2011-12
Between 2009-10 and 2011-12...

- **Per-capita RHDI**
- **Per-capita GDP**
- **Mean HBAI**
- **Median HBAI**

Note: GDP and RHDI figures are calendar year, HBAI figures are financial year (e.g. 2003-04)

Mean HBAI income down 7.1%
Median income 5.8% down
Other findings from analysis of HBAI data

• Previous IFS modelling based on HBAI data suggests further falls in median income in 2012 and little if any growth in 2013 and 2014
  – Employment up
  – But falls in real wages and benefits

• Our expectation is that, on this measure, real median household incomes will be substantially lower in 2015-16 than in 2009-10

• Change in mean income tells you little about what is happening at different parts of the distribution
  – Falls up to 2011-12 were larger for richer than poorer households
  – Rich likely to do better than poor between 2011-12 and 2015-16
Explaining the differences between RHDI and HBAI

• RHDI and HBAI use different measures of inflation
  – HBAI adjusted using RPI, which overstates inflation
  – Using RPIJ measure instead: mean HBAI income fell 5.6% (not 7.1%) between 2009-10 and 2011-12
  – Still much bigger than the 2.5% fall in RHDI during same period

• Other differences include
  – Changes in housing costs incorporated differently
  – Self-employment income is measured with a lag in HBAI
  – RHDI includes income of ‘non-profit institutions serving households’

• So advantages and disadvantages of both measures
But strange that RHDI never falls much in recessions
Are people £1,600 worse off in real terms?

• Ed Balls: “Working people are £1,600 a year worse off under this government”

• This is based on comparing average weekly earnings in September 2013 with those in May 2010 and adjusting for RPI inflation
  – Average weekly earnings up 5.8% from £449 to £475
  – Prices up 12.7% in same period according to RPI
  – After RPI inflation, average weekly earnings down by 6.1% or £31

• A fall in real average wages of £31 a week is £1,600 a year

• But this is not quite the same as being worse off by £1,600 a year
Are people £1,600 worse off in real terms?

• Labour has calculated change in average real *gross* wages

• People more likely to judge whether better or worse off based on *net* income after taxes and benefits
  – Substantial changes to taxes and benefits during this period which affect different people differently
  – e.g. Increases to income tax personal allowance, increases in NICs, cuts to benefits and tax credits

• Turns out falls in median and mean HBAI income are fairly similar
  – e.g. median fell by 5.8% between 2009-10 and 2011-12

• So while an incomplete measure, it is not giving a misleading impression of changes in average living standards
Summary

- RHDI rose in 2012 and is forecast to increase in 2013 and 2014
  - But RHDI per person forecast to fall slightly in 2013
  - Follows fall of 2.1% between 2009 and 2011
  - RHDI per person set to remain below its 2009 peak until 2016

- Mean and median HBAI income fell much further between 2009-10 and 2011-12, and likely to take longer to regain peak

- Average real gross wages fell by £1,600 per year between May 2010 and September 2013
  - Changes in gross wages only one part of change in living standards
  - Turns out this does not give a misleading picture of the magnitude of falls in living standards likely seen during this period