Outline

• Living Standards
  – Changes in income in 2010-11 and the recent recession
  – How did different components of income change?

• Inequality
  – Changes in income across the income distribution
  – Changes in measures of inequality
How household income is calculated in HBAI

• Income is measured net of direct taxes and benefits
  – We show some new analysis of private incomes (before direct taxes and benefits)
• Measured at the household level
• Adjusted for household size
• Can be measured both before and after housing costs are deducted
• Adjusted for inflation
• Based on Family Resources Survey in 2010-11
  – 25,000 households across the UK
  – Subject to sampling error
• Any figures going back before 2002-03 refer to Great Britain not UK
  – Northern Ireland not included in the FRS until 2002-03

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Slow income growth before the recession

Source: ONS series IHXW and Family Resources Survey, various years
Sharp fall in GDP per capita in recession...

Peak to trough fall in GDP per capita of 7.9%

Source: ONS series IHXW and Family Resources Survey, various years
...But average incomes continue to rise

Source: ONS series IHXW and Family Resources Survey, various years
Weak macroeconomic recovery in 2010-11

GDP per capita grew 1.4% in 2010-11

Source: ONS series IHXW and Family Resources Survey, various years
Large falls in average income in 2010-11

- Median income fell 3.1% to reach £419 per week
- Mean income fell 5.7% to reach £511 per week

Source: ONS series IHXW and Family Resources Survey, various years
Historical perspective of 2010-11 falls

- Mean and median income now lower than their respective levels in 2004-05, reversing 5 years of slow growth in one year.

- The largest one-year fall in median income since 1981

- The largest one-year fall in mean income since at least 1961
  - distorted by “forestalling”: introduction of 50p tax rate in April 2010
Changes in income components in 2010-11

Gross Earnings
Benefits and Tax Credits
Gross savings and pensions
Gross Self Employment
Other
Taxes and other deductions
Total Income

Real growth in 2010-11

Source: Table: 2.3 of Living Standards, Poverty and Inequality: 2012
Notes: This is a very slightly different sample to the overall income statistics. Households with negative incomes are dropped. This makes a small difference to falls in income.
Gross earnings drove income falls in 2010-11

Source: Table: 2.3 of *Living Standards, Poverty and Inequality: 2012*

Notes: This is a very slightly different sample to the overall income statistics. Households with negative incomes are dropped. This makes a small difference to falls in income.
What happened to earnings and benefits?

• Gross Earnings
  – Employment was broadly stable
  – Earnings of those employed did not keep pace with rising inflation

• Benefits and Tax Credits
  – Benefits generally increased by inflation in the previous September
  – With inflation rising to 5.1% in 2010-11, real value of benefits fell
Benefits supported incomes during the recession

Contribution to annual income growth between 2007-08 and 2009-10 (in percentage points)

Source: Table 2.3 of *Living Standards, Poverty and Inequality: 2012*
Notes: This is a very slightly different sample to the overall income statistics. Households with negative incomes are dropped. This makes a small difference to falls in income.
What happened to private incomes?

- Fall in median private income of 7.8% since peak in 2007-08
- Median private income fell 4.1% in 2010-11 alone

Source: Figure 2.5 of *Living Standards, Poverty and Inequality: 2012*
Prospects for living standards

• Earnings
  – 2011-12: Average earnings rose by 1.9%, below inflation of 4.8%
  – OBR predicts negative real earnings growth in 2012-13

• Tax and benefit changes
  – National Insurance rise (1 percentage point) in April 2011
  – Cuts to welfare payments reach about £18 billion per year by 2014-15

• Recent IFS work projected that median income will fall in 2012-13 and 2013-14

• In 2015-16 median income lower than in 2002-03
  – But these are based on uncertain macroeconomic forecasts
Inequality
The UK income distribution 2010-11

Household income (£ per week)

Percentile point

10th percentile: £216
50th percentile: £419
90th percentile: £846

Source: Figure 3.1 of *Living Standards, Poverty and Inequality: 2012*
Income change by percentile point in 2010-11

10th percentile: 1.1% fall
Median: 3.1% fall
90th percentile: 5.1% fall

Source: Figure 3.3 of *Living Standards, Poverty and Inequality: 2012*
Income growth since 1979 (GB)

Income growth: 1979 to 1996–97

Income growth: 1996–97 to 2009–10


Source: Figure 3.5 of *Living Standards, Poverty and Inequality: 2012*
Gini coefficient: 1979 to 2010-11 (GB)

- Gini fell from 0.36 to 0.34 in 2010-11
- Largest one year fall since at least 1961
- Returns Gini to below its 1997-98 level

Source: Figure 3.7 of *Living Standards, Poverty and Inequality: 2012*
Inequality ratios: 1979 to 2010-11 (GB)

- 99/50 ratio fell to 5.1 (still higher than 2008-09)
- 90/10 ratio fell to 3.9 (lower than in 1987)

Source: Figure 3.9a of *Living Standards, Poverty and Inequality: 2012*
Prospects for inequality

- Evolution of earnings and employment very important, and very uncertain

- Welfare cuts unsurprisingly will hit lower income households proportionately more

- Decrease in top rate of tax from April 2013 likely to increase top household incomes

- At top of distribution, temporary effects of “reverse forestalling” will make it difficult to observe “underlying” income inequality until at least 2014-15, and possibly until 2016/17
Summary

- Effect of the recession was finally felt on average household incomes in 2010-11

- Median income fell by 3.1%, the largest fall since 1981

- Median private income has now fallen 7.8% since 2007-08

- The falls in income were proportionately larger for richer households which meant that inequality fell sharply in 2010-1
  - Inequality measures unaffected by “forestalling” also fell sharply