Household incomes during the recession and austerity

Robert Joyce

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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)

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real growth in mean earnings (%)</td>
<td>2.2</td>
<td>4.0</td>
<td>0.6</td>
<td>0.7</td>
<td>1.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Employment (millions)</td>
<td>29.0</td>
<td>29.2</td>
<td>29.1</td>
<td>29.2</td>
<td>29.4</td>
<td>29.7</td>
</tr>
</tbody>
</table>
Impact of tax and benefit changes taking effect by April 2012, by income decile group

Note: ignores measures affecting mainly the very rich
Impact of tax and benefit changes taking effect by April 2012, by household type

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

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

- Households with children
- Pensioner households
- Working-age households without children

Change in net income

- All changes implemented by coalition, ignoring Universal Credit…
- …or assuming Universal Credit fully in place

Note: ignores measures affecting mainly the very rich
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)