

## Press Release

# Richest have seen biggest cash income squeeze but poorest have faced higher inflation

Recent debates about the squeeze on household incomes have suffered from a lack of up-to-date information. The latest data covering all incomes at a household level only goes up to 2011–12, but new modelling work published today by the IFS provides a good guide to where we are now. It shows that:

- Real median household income in 2013–14 is more than 6% lower than before the economic crisis hit in 2007–08;
- The fall in median income has probably come to a halt in 2013–14;
- Better-off households have seen bigger proportionate real falls in income than poorer households if – as is usually the case – one assumes that all households face the average inflation rate;
- But this equalising effect is largely undone by the fact that poorer households have in fact experienced significantly higher rates of inflation.

These are the headlines from work carried out by IFS researchers, which forms part of the forthcoming IFS Green Budget 2014 and is funded by the Nuffield Foundation with support from the ESRC through the Centre for the Microeconomic Analysis of Public Policy at IFS.

### Incomes were hit harder at the top

Adjusting incomes for inflation using the CPI (which gives lower inflation than the RPI), and assuming that all households face the same inflation rate:

- Median income (the income of the person in the middle of the income distribution) is more than 6% lower now than in 2007–08;
- Incomes 90% of the way up the income distribution (i.e. at the 90<sup>th</sup> percentile) have fallen by almost 9% since the recession;
- By contrast, incomes at the 10<sup>th</sup> percentile are “just” 2.4% lower in 2013–14 than they were in 2007–08.

This pattern reflects the fact that earnings have grown much less quickly than prices, while benefit rates have largely, until this year, kept up with CPI inflation.

Looking forward, the recovery in wages combined with continued benefit cuts is likely to see this equalising pattern unwind.

### But the poor have experienced higher levels of inflation

Many with mortgages – who tend to have relatively high incomes – have benefited from reductions in mortgage interest rates.

And food and energy prices, which form a bigger proportion of the spending of poorer households, have risen much faster than the average. Between 2008 and 2013:

- CPI inflation was 20%;
- energy prices rose by nearly 60%; and

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### Embargo

**Until 22:30  
Thurs 30 January 2014**

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- food prices rose by 30%.

Taking account of different spending patterns across the population, including mortgage payments, we estimate that, since 2008, average annual inflation has been 1 percentage point per year higher for the lowest-income fifth of households than for the highest-income fifth.<sup>1</sup> This means that, although incomes at the bottom appear to have fallen less than incomes at the top, real living standards have fallen by similar amounts across the distribution.

What happens next will depend on how different prices change. If pressures on food and energy prices ease and mortgage payments rise again, we could easily see the reverse pattern in coming years.

Andrew Hood, an author of the report, said: “There have been a lot of claims made recently about changes in different measures of incomes and earnings. Our analysis puts together all the information we have to suggest that real median household income is still more than 6% below its peak, but it looks like it stopped falling this financial year.”

Abi Adams, a co-author, added: “Different types of households have had quite different experiences of inflation over the past few years. Those on lower incomes have typically experienced significantly greater inflation than those with higher incomes. Taking this into account can change our views about how the distribution of living standards has changed. Differential inflation has largely undone what would otherwise appear to be a significant reduction in inequality”.

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Notes to Editors:

1. We calculate our own inflation rates for top and bottom income quintiles by taking expenditure information from the ONS’s Living Costs and Food Survey for these two groups and using this to weight price changes taken from the ONS website. Our constructed indices cover expenditures on all goods in the CPI plus mortgage interest payments (taking the price of this from the RPI).
2. This research is a pre-released chapter from the IFS Green Budget 2014, which has been funded by the Nuffield Foundation with support from the ESRC through the Centre for the Microeconomic Analysis of Public Policy at IFS.
3. The Green Budget 2014, edited by Carl Emmerson, Paul Johnson and Helen Miller, will be launched at 10:00 on Wednesday 5<sup>th</sup> February 2014 in Beveridge Hall, Senate House (<http://www.ifs.org.uk/events/986>). To reserve your place please contact [events@ifs.org.uk](mailto:events@ifs.org.uk);
4. For embargoed copies of this specific chapter or other queries, contact Bonnie Brimstone on 020 7291 4818, [bonnie\\_b@ifs.org.uk](mailto:bonnie_b@ifs.org.uk);
5. The Nuffield Foundation is an endowed charitable trust that aims to improve social well-being in the widest sense. It funds research and innovation in education and social policy and also works to build capacity in education, science and social science research. The Nuffield Foundation has funded this project, but the views expressed are those of the authors and not necessarily those of the Foundation. More information is available at [www.nuffieldfoundation.org](http://www.nuffieldfoundation.org).
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