

Living standards, poverty and inequality: summary of the latest data, for 2018–19

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1. Introduction

The public health response to the COVID-19 pandemic is likely to reduce household incomes as workers lose their jobs, earnings fall, and plummeting share prices and interest rates lead to lower incomes from savings and investments. Newly released official statistics on incomes and poverty in the UK in 2018–19, published by the Department for Work and Pensions (DWP), show this downturn will come after a sustained period of income stagnation in the latter half of the last decade – which itself followed only a brief recovery from the late 2000s recession.

This briefing note summarises what the newly released data for 2018–19 tell us about changes in living standards, income inequality and poverty over recent years. A more in-depth study of these trends, funded by the Joseph Rowntree Foundation, will be published in early summer.

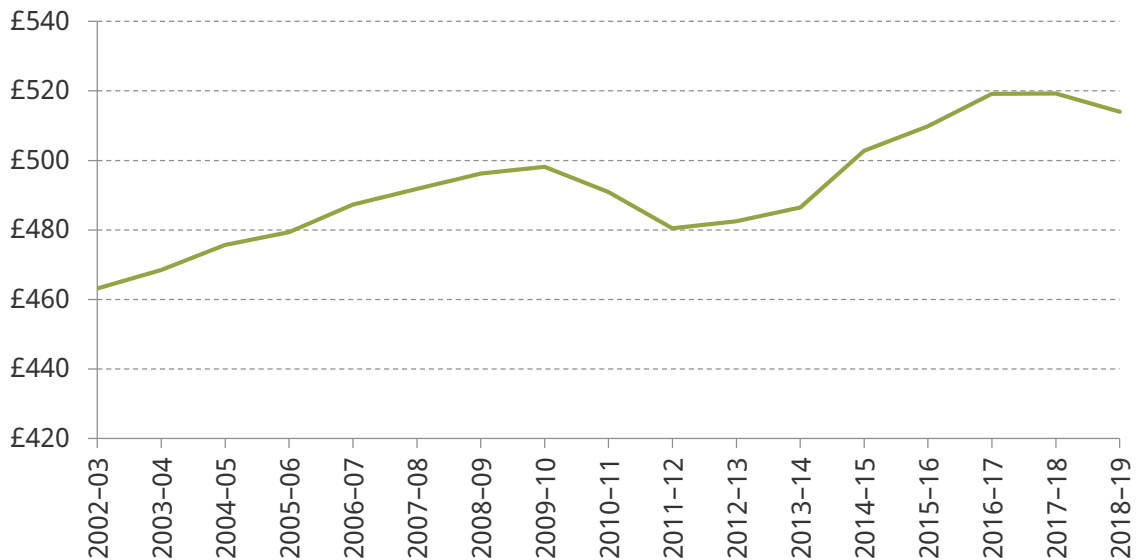
The new data show that median income fell 1% in real terms between 2017–18 and 2018–19, leaving average income essentially unchanged since 2015–16. Recent trends have been worse for low-income households: their living standards in 2018–19 were the same as in 2013–14, amounting to five years of income stagnation. The highest-income 10% have fared better in recent years, with relatively robust income growth since 2015–16.

2. Living standards

The average (median) household income in the UK in 2018–19 was £514 per week (around £26,800 per year), when expressed as the equivalent income for a childless couple. That is essentially the same as in 2015–16, just 5% above its pre-recession (2007–08) level and 16% below where it might have been had the 40-year trend up to 2008 been continued.

After falling in the years after the Great Recession, average household income grew 8% between 2011–12 and 2016–17, after adjusting for inflation. Figure 2 shows that this recovery ground to a halt in 2017–18, when income growth stalled. The data then suggest that median income fell in 2018–19, for only the fifth time in the last 30 years (although, as is almost always the case for single-year changes, this change is not statistically significant). The unhappy result is that, by 2018–19, average incomes had once again been stagnant for several years, following the brief period of recovery from the late-2000s recession. Figure 3 shows this has led to a decade of unprecedented poor improvements in average living standards: between 2008–09 and 2018–19, average BHC income grew at the slowest over any 10-year period since the 1970s (when records began). The last decade looks very slightly less bad in historical context on an AHC basis, but is still a period of incredibly disappointing growth.¹

Figure 1. Median net household income (before housing costs) since 2002–03

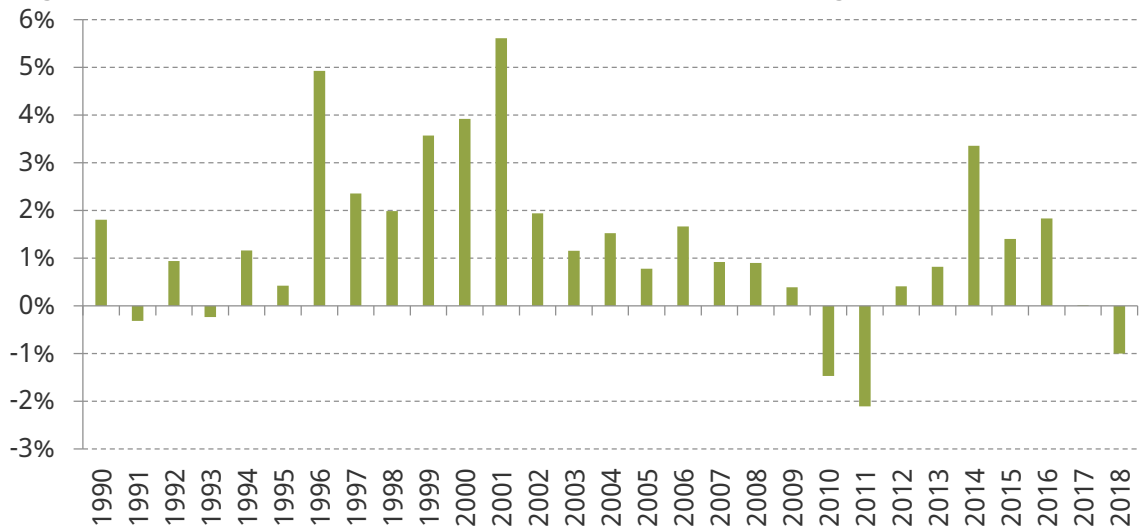


Note: Incomes have been measured net of taxes and benefits but before housing costs have been deducted and are expressed in 2018–19 prices. All incomes have been equivalised using the modified OECD equivalence scale and are expressed in terms of equivalent amounts for a childless couple. The 2018–19 statistic is rounded to zero decimal places, because the results published on 26 March 2020 by DWP do not include a greater level of precision.

Source: Department for Work and Pensions, 'Households below average income: 1994/95 to 2018/19', 2020.

¹ 'BHC' and 'AHC' refer to income before and after housing costs have been deducted respectively.

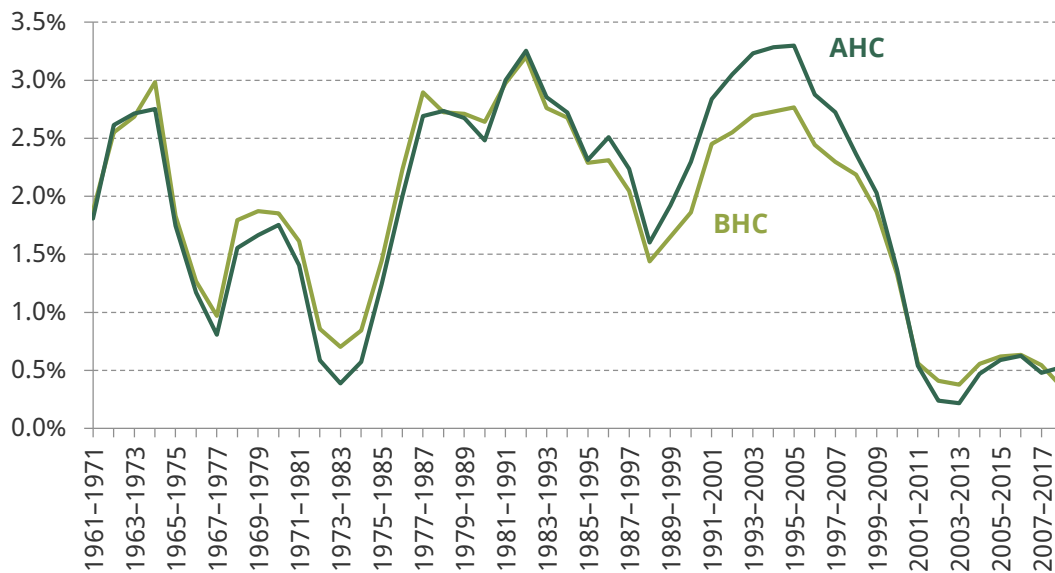
Figure 2. Growth in median household income (before housing costs)



Note: Incomes have been measured net of taxes and benefits but before housing costs have been deducted and are expressed in 2018–19 prices. Years refer to calendar years up to and including 1992 and to financial years from 1993–94 onwards. Data are representative of households in Great Britain between 1990 and 2001–02 and of households in Great Britain and Northern Ireland from 2002–03 onwards. The 2018–19 statistic is rounded to zero decimal places, because the results published on 26 March 2020 by DWP do not include a greater level of precision.

Source: Department for Work and Pensions, 'Households below average income: 1994/95 to 2018/19', 2020; authors' calculations using the Family Expenditure Survey.

Figure 3. Average annual growth in median income over 10-year periods, 1971 to 2018–19

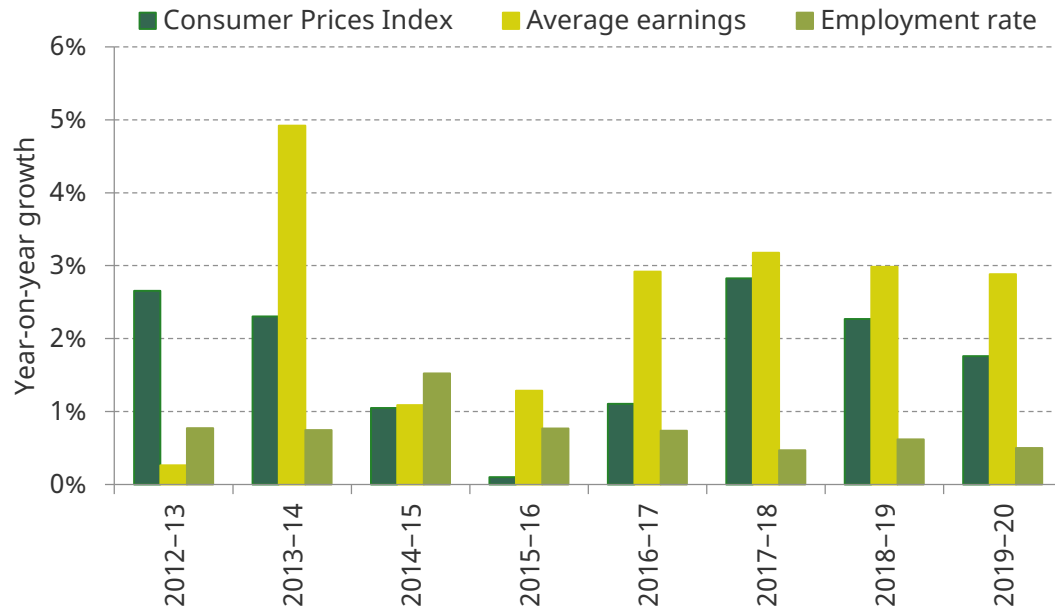


Note: Incomes have been measured net of taxes and benefits and have been equalised using the modified OECD equivalence scale. 'BHC' and 'AHC' refer to income before and after housing costs have been deducted respectively. Years refer to calendar years up to and including 1992 and to financial years from 1993–94 onwards. Figures relate to UK households from 2002–03 onwards and to GB households for earlier years. Calculated using the 2018–19 median rounded to zero decimal places.

Source: Department for Work and Pensions, 'Households below average income: 1994/95 to 2018/19', 2020; authors' calculations using the Family Expenditure Survey.

Figure 4 shows that nominal earnings grew robustly in 2017–18 and 2018–19 and at the same time employment continued to increase. The fact that average income failed to grow over this period is therefore likely because of relatively high inflation, which is in part due to the depreciation of sterling following the Brexit referendum.² Inflation fell back in 2019–20 while earnings and employment continued to grow, which suggests that average incomes may have finally experienced modest growth again in the financial year that is about to end – just before the present COVID-19 pandemic likely wipes that out in 2020–21.

Figure 4. Growth in prices, earnings and employment



Source: Office for Budget Responsibility, 'Economic and fiscal outlook: March 2020', supplementary economy tables.

² See H. Breinlich, E. Leromain, D. Novy and T. Sampson, 'The Brexit vote and inflation – updated evidence', 2020, <https://voxeu.org/article/consequences-brexit-uk-inflation-and-living-standards-first-evidence>.

3. Inequality

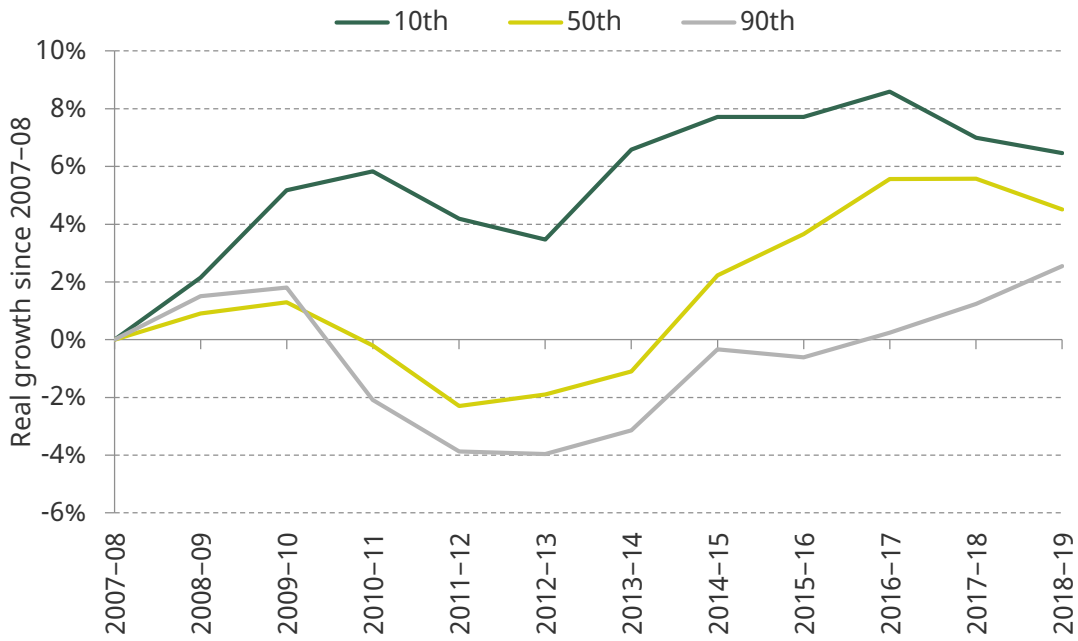
Income growth has stalled since 2016–17 across the majority of the income distribution. Households with the highest and lowest incomes, however, have fared differently over recent years. Figure 5 shows that the 10th percentile of the UK's household income distribution (which represents relatively low-income households) has roughly flatlined since 2014–15 while the 90th percentile (which represents relatively high-income households) has grown by 3%. Slower growth at the bottom of the income distribution is likely to be in part due to the working-age benefits freeze, which fixed most working-age benefits at their 2016–17 cash values throughout this period, leading to real-terms falls in their value as they were eroded by inflation. By contrast, the pay of high earners increased quickly in 2018–19, which is likely to have boosted income growth at the top of the distribution.³

These recent changes continue a trend of growth in higher incomes outpacing that of lower incomes. Figure 6 shows this pattern is even more pronounced looking at incomes after deducting housing costs, with falls since 2016–17 leaving the 10th percentile of the AHC income distribution only 1% higher than it was in 2007–08, while the 90th percentile was 3% higher.

The recent falls in incomes at the bottom of the distribution shown in Figures 5 and 6 are nevertheless far smaller than those observed in the Living Costs and Food Survey (LCFS) data, which were published earlier in March 2020. For example, the 10th percentile of BHC income was around 10% lower in 2018–19 than in 2016–17 when measured using the LCFS data, in comparison with 2% lower using the HBAI data; and those dramatic falls in low incomes recorded by the LCFS followed immediately after similarly dramatic rises recorded between 2014–15 and 2016–17. This apparent roller coaster seems very unlikely. The more stable trends recorded in the much larger HBAI sample should not, however, detract from the big picture. Over the five years between 2013–14 and 2018–19, low-income households saw essentially no change in their living standards, which in itself is highly unusual historically.

³ See Office for Budget Responsibility, 'Economic and fiscal outlook: March 2019', 2019, <https://obr.uk/efo/economic-fiscal-outlook-march-2019/> and C. Giles, 'High earners' pay rises far outstrip those of average employees', *Financial Times*, 2019, <https://www.ft.com/content/e400757c-45ad-11e9-a965-23d669740bfb>.

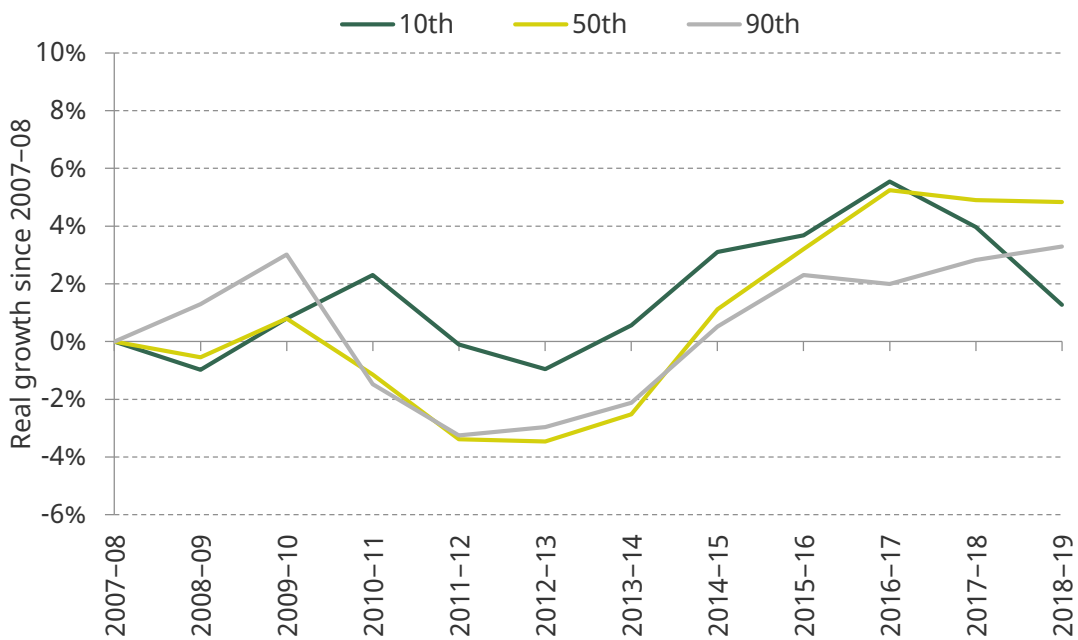
Figure 5. Real growth in percentiles of household income (BHC) since 2007-08



Note: Incomes have been measured net of taxes and benefits but before housing costs have been deducted and have been equivalised using the modified OECD equivalence scale. Calculated using 2018-19 percentiles rounded to zero decimal places.

Source: Department for Work and Pensions, 'Households below average income: 1994/95 to 2018/19', 2020.

Figure 6. Real growth in percentiles of household income (AHC) since 2007-08



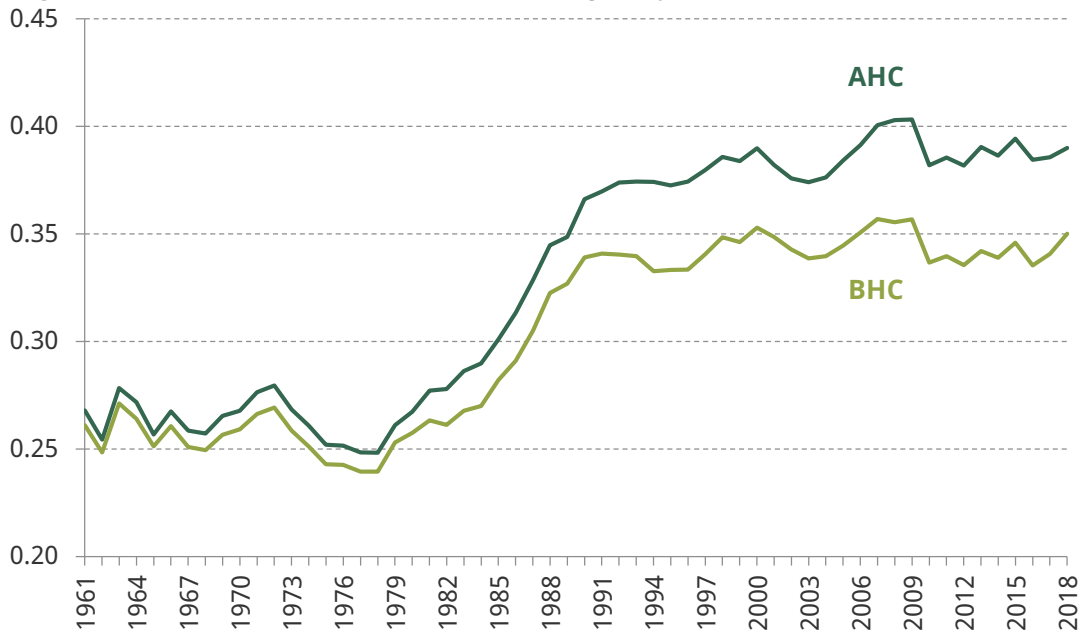
Note: Incomes have been measured net of taxes and benefits, after housing costs have been deducted, and have been equivalised using the modified OECD equivalence scale. Calculated using 2018-19 percentiles rounded to zero decimal places.

Source: Department for Work and Pensions, 'Households below average income: 1994/95 to 2018/19', 2020.

The sustained income stagnation across most of the distribution in recent years, combined with more robust growth for a small group towards the top, has led to a slight (and not statistically significant) increase in the popular Gini coefficient measure of income inequality.⁴ The clearer and perhaps more important story is the simple absence of any income growth at all towards the bottom of the distribution for five years, and in the middle of the distribution for three years.

Taking a longer-term view, inequality measured using the Gini coefficient in 2018–19 was similar to levels in the late 1990s, and considerably higher than in the 1960s and 1970s owing to large increases in income inequality during the 1980s. Previous research at IFS⁵ has shown that this stability in the Gini since the early 1990s masks some more substantial changes in important kinds of income inequality: for example, the average incomes of pensioners have caught up with those of the working-age population, while the incomes of the highest-income 1% are further ahead of the rest than they used to be.

Figure 7. The Gini coefficient of income inequality, 1961 to 2018–19



Note: Incomes have been measured net of taxes and benefits and have been equivalised using the modified OECD equivalence scale. 'BHC' and 'AHC' refer to income before and after housing costs have been deducted respectively. Years refer to calendar years up to and including 1992 and to financial years from 1993–94 onwards. Figures relate to UK households from 2002–03 onwards and to GB households for earlier years. The 2018–19 statistic is rounded to two decimal places.

Source: Department for Work and Pensions, 'Households below average income: 1994/95 to 2018/19', 2020; authors' calculations using the Family Resources Survey and the Family Expenditure Survey.

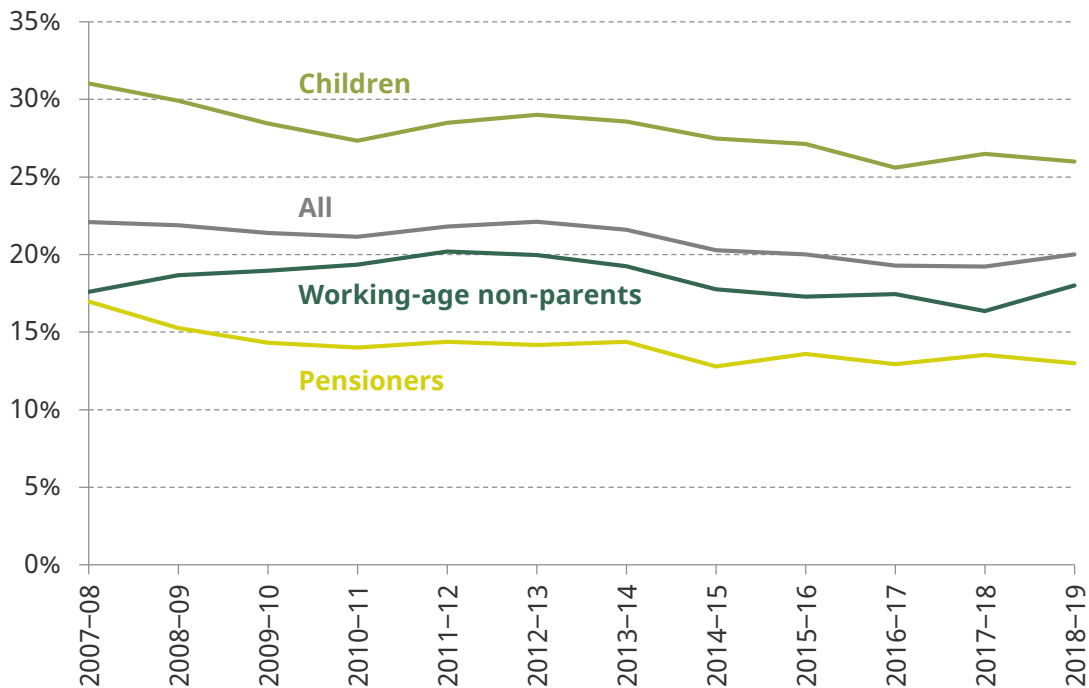
⁴ The Gini coefficient is a summary measure of income inequality across the whole income distribution. It ranges between 0 and 1 and would be 0 if everyone had the same income and 1 if a single person received all of the country's income.

⁵ C. Belfield, R. Blundell, J. Cribb, A. Hood and R. Joyce, 'Two decades of income inequality in Britain: the roles of wages, household earnings and redistribution', *Economica*, 2017, 84, 157–79.

4. Poverty

The overall rate of absolute income poverty (measured using income after deducting housing costs) was 20% in 2018–19, 1 percentage point higher than in 2017–18.⁶ This is due to the slight falls in income among low-income households discussed above, which also occurred for AHC income. The slight (statistically insignificant) increase in the overall absolute poverty rate comes after no change in poverty in 2017–18 and falls over the preceding three years (from 22% in 2013–14 to 19% in 2016–17). Such modest reductions over recent years are disappointing by historical standards, as absolute poverty rates have tended to fall quite sharply particularly during the late 1990s and early 2000s.

Figure 8. Absolute poverty rate (AHC) by demographic group



Note: Incomes have been measured net of taxes and benefits, after housing costs have been deducted, and have been equivalised using the modified OECD equivalence scale. The absolute poverty line is defined as 60% of median AHC income in 2010–11. The 2018–19 statistics are rounded to zero decimal places.

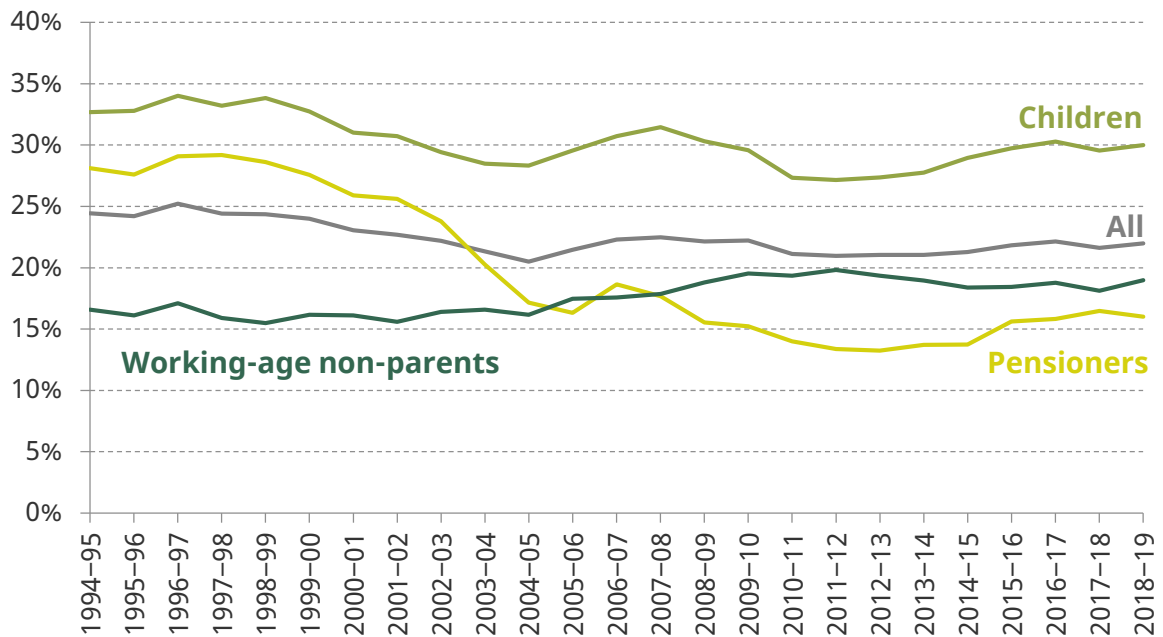
Source: Department for Work and Pensions, 'Households below average income: 1994/95 to 2018/19', 2020.

Figure 9 shows trends in poverty in a longer-run context using the relative poverty measure (using AHC income). While the absolute poverty line is unchanged in real terms from year to year, the relative poverty line changes in line with average income. The graph shows that over the last 15 years there has been little change in overall relative poverty: in every year since 2002–03, overall relative poverty has been either 21% or 22%. In contrast to the stability of the overall poverty rate, relative child poverty rose by 3 percentage points between 2012–13 and 2015–16, reversing falls between 2007–08 and 2010–11 that were due

⁶ When assessing trends in poverty, there are good reasons to focus on measures of income after deducting housing costs. See P. Bourquin, J. Cribb, T. Waters and X. Xu, *Living Standards, Poverty and Inequality in the UK: 2019*, IFS Report R157, 2019, <https://www.ifs.org.uk/publications/14193>.

to increases in benefits.⁷ While the relative child poverty rate is still below its peak in the late 1990s, children remain more likely to be in low-income households than other groups.

Figure 9. Relative poverty rate (AHC) by demographic group



Note: Incomes have been measured net of taxes and benefits, after housing costs have been deducted, and have been equivalised using the modified OECD equivalence scale. The relative poverty line is defined as 60% of median AHC income in each year. Figures relate to UK households from 2002-03 onwards and to GB households for earlier years. The 2018-19 statistics are rounded to zero decimal places.

Source: Department for Work and Pensions, 'Households below average income: 1994/95 to 2018/19', 2020.

⁷ Relative pensioner poverty also increased over this period, although previous research suggests this uptick is erroneous (see P. Bourquin, J. Cribb, T. Waters and X. Xu, *Living Standards, Poverty and Inequality in the UK: 2019*, IFS Report R157, 2019, <https://www.ifs.org.uk/publications/14193>).

Appendix. Measuring incomes and poverty in the UK

The 'Households Below Average Income' statistics that the government has released, and that are used in this briefing note, are based on the Family Resources Survey, a survey of around 19,000 households per year. Using these data, the Department for Work and Pensions measures household incomes in the following way:

- Incomes are measured after all direct taxes have been paid and state benefits have been received.
- Incomes are measured at the *household* level, meaning the incomes of all household members are added together.
- Incomes are adjusted for the household size and composition (and expressed as the equivalent income for a childless couple).
- Incomes are adjusted for inflation using a variant of the Consumer Prices Index and are expressed in 2019–20 prices.

Using these data, it is possible to measure how many people are in income poverty. There are two main measures of income poverty measured by the government:

- *Absolute income poverty* measures how many people have household incomes below a level that is fixed in real terms (i.e. the level increases in line with inflation over time).
- *Relative income poverty* measures how many people have an income below 60% of contemporaneous median income. Therefore, as median income has grown during the recovery, the amount of income needed to move out of relative poverty has risen too.

In this briefing note, we exclusively look at measures of poverty that use incomes measured after housing costs have been deducted ('AHC'). The government also releases poverty statistics using incomes measured before housing costs have been deducted ('BHC'). We use AHC measures for low-income people, as measuring poverty AHC is likely to provide a better reflection of their material living standards. This is discussed in more detail on pages 75–77 of Bourquin et al. (2019).⁸

Table 1. Cash values of poverty lines for example families in 2018–19 (£ per week)

AHC	Childless couple	Single adult	Lone parent, one child	Couple, one child	Couple, two children
Absolute poverty line	253	147	197	303	354
Relative poverty line	268	156	209	322	375

Note: Incomes have been measured net of taxes and benefits and after housing costs have been deducted. The children in these example families are assumed to be aged 13 or younger. For families with older children, the poverty lines are slightly higher. The absolute poverty line is defined as 60% of median income in 2010–11 and the relative poverty line as 60% of median income in 2018–19.

Source: Department for Work and Pensions, 'Households below average income: 1994/95 to 2018/19', 2020.

⁸ P. Bourquin, J. Cribb, T. Waters and X. Xu, *Living Standards, Poverty and Inequality in the UK: 2019*, IFS Report R157, 2019, <https://www.ifs.org.uk/publications/14193>.