



Income distribution: recent trends and future prospects

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8th July 2013

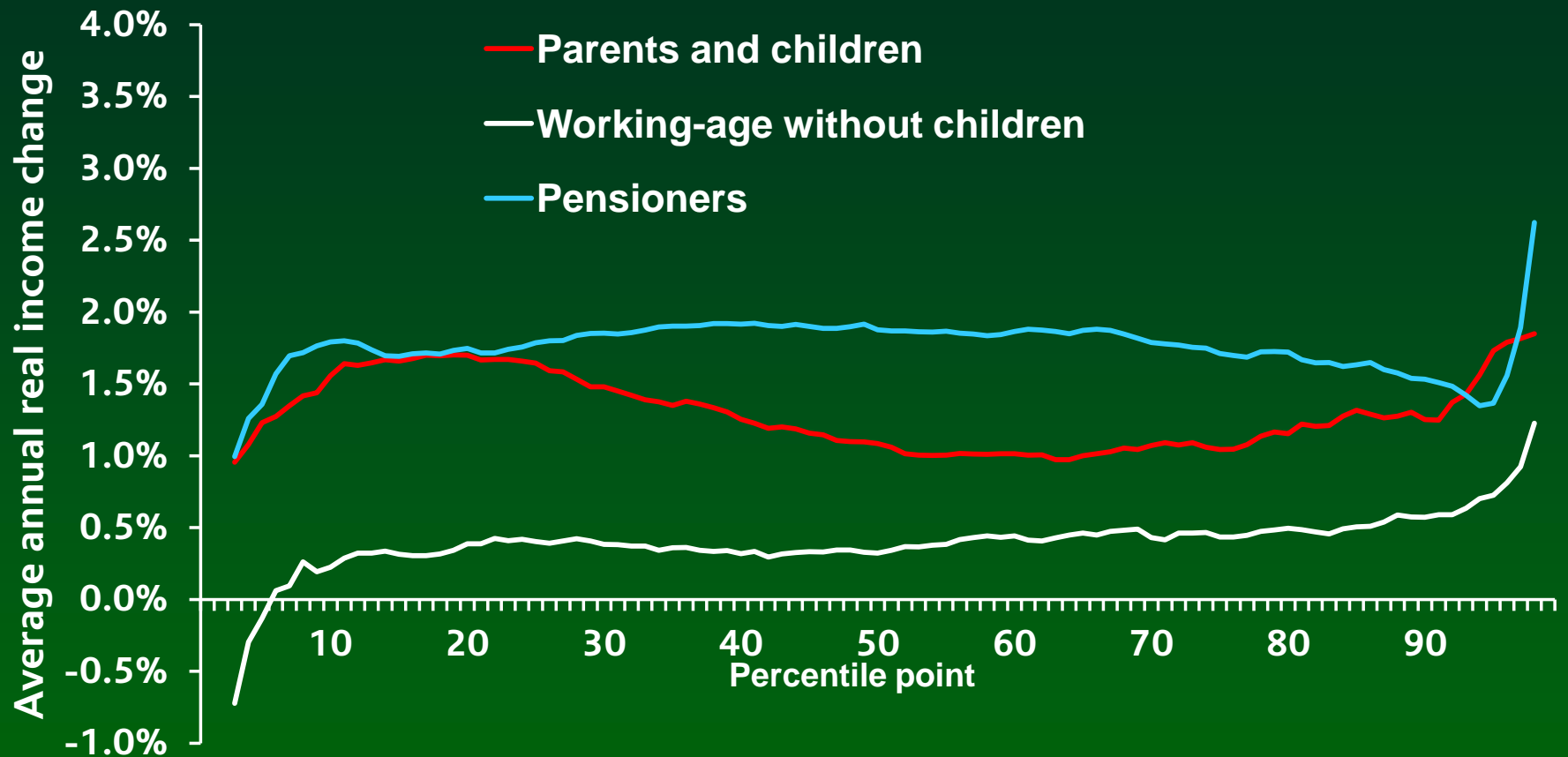
This draws heavily on IFS' most recent annual analysis of trends in the income distribution:

'Living Standards, Poverty and Inequality in the UK: 2013'
<http://www.ifs.org.uk/publications/6759>

Outline

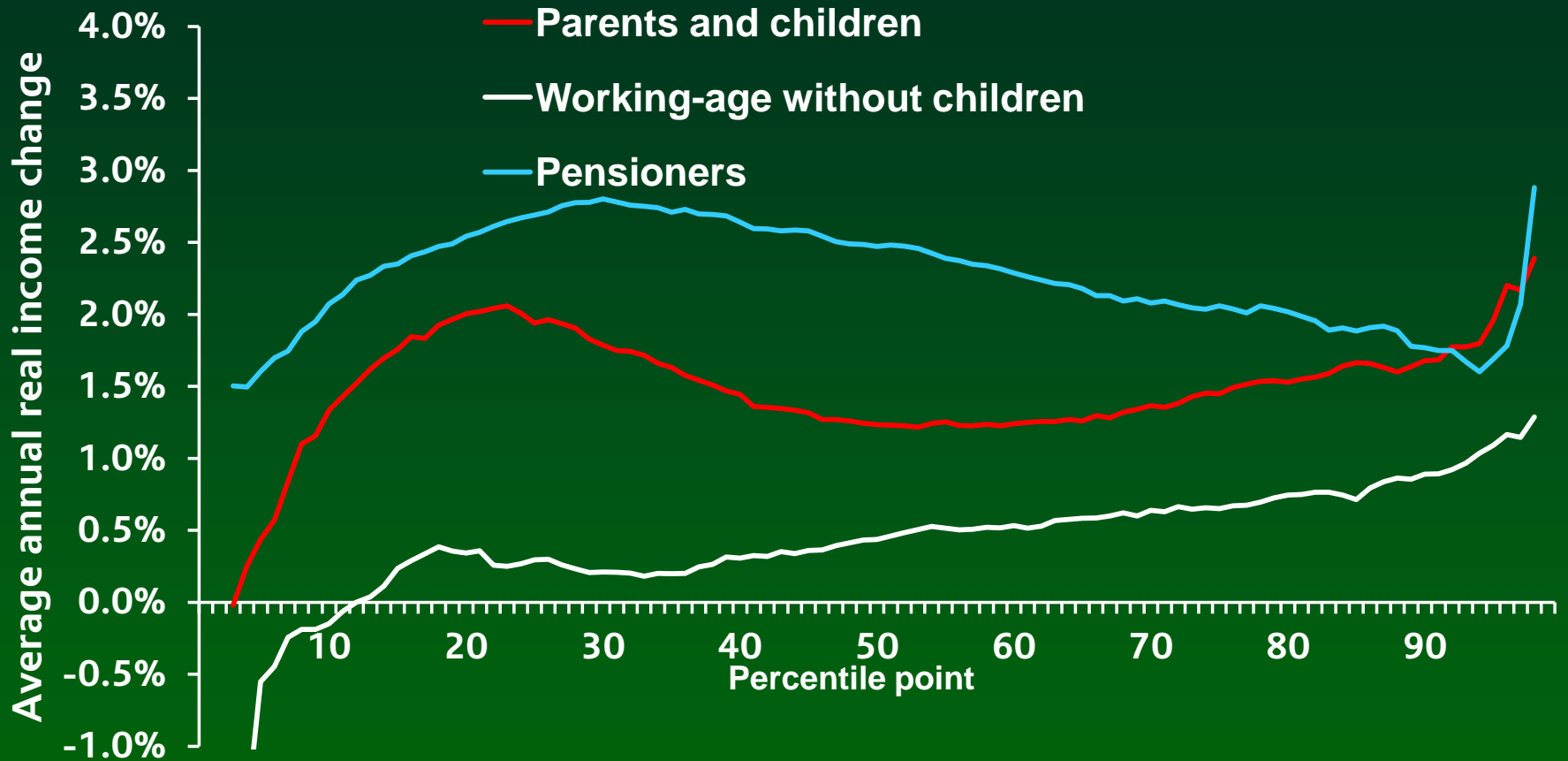
- Income changes over past 15 years
 - By income and family type
- Sub-periods
 - Turning point in early 2000s
 - The recession and immediate post-recession period
- More detail on the recession
 - Key labour market trends
 - Changes in different income sources
 - Changes in income inequality; and changes by age
- Prospects

1996-97 to 2011-12: pensioners did relatively well; working-age childless relatively badly



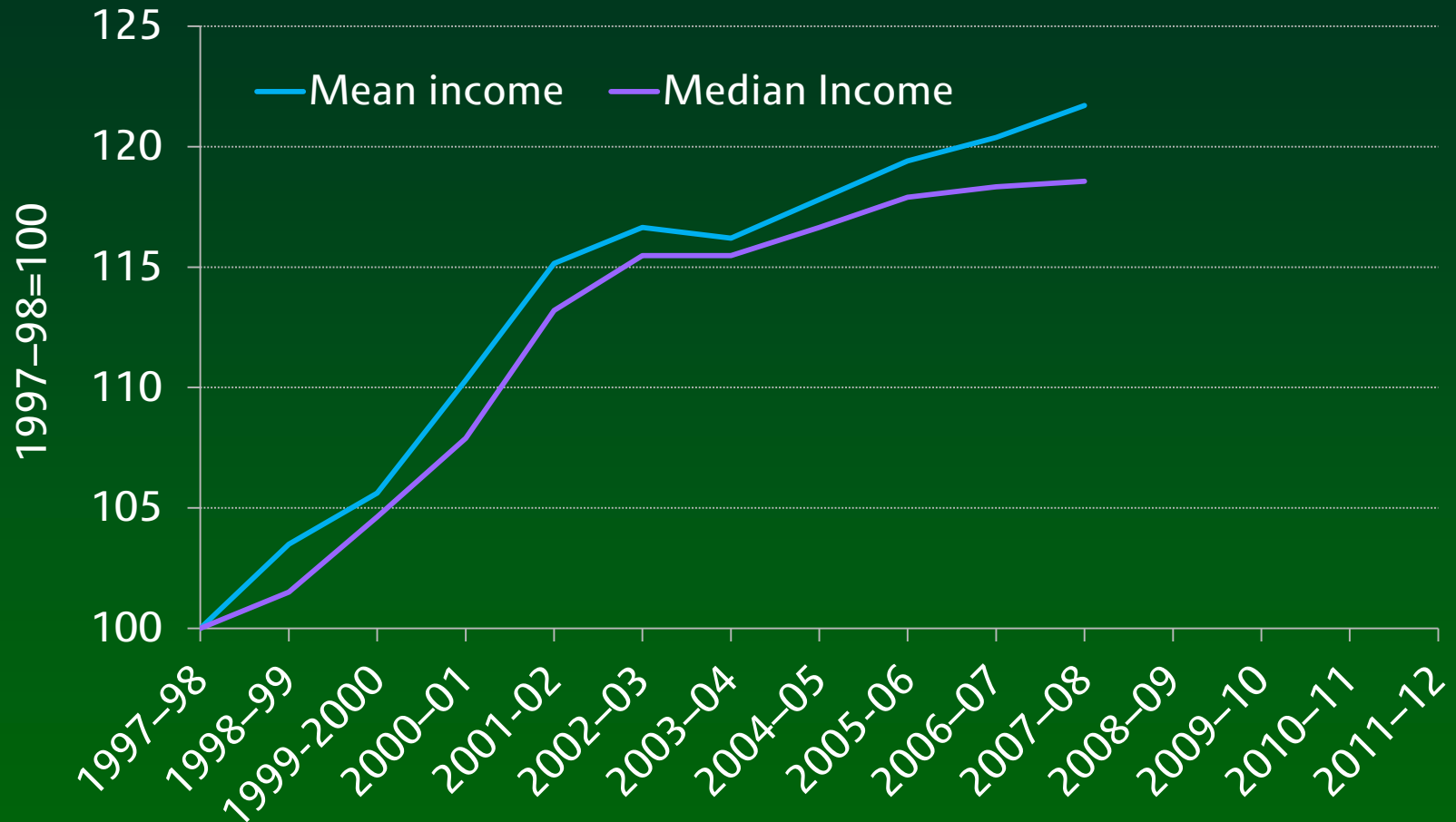
Notes and source: see Figure 5.2 of *Living Standards, Poverty and Inequality in the UK: 2013*

...and on an after-housing-cost (AHC) basis



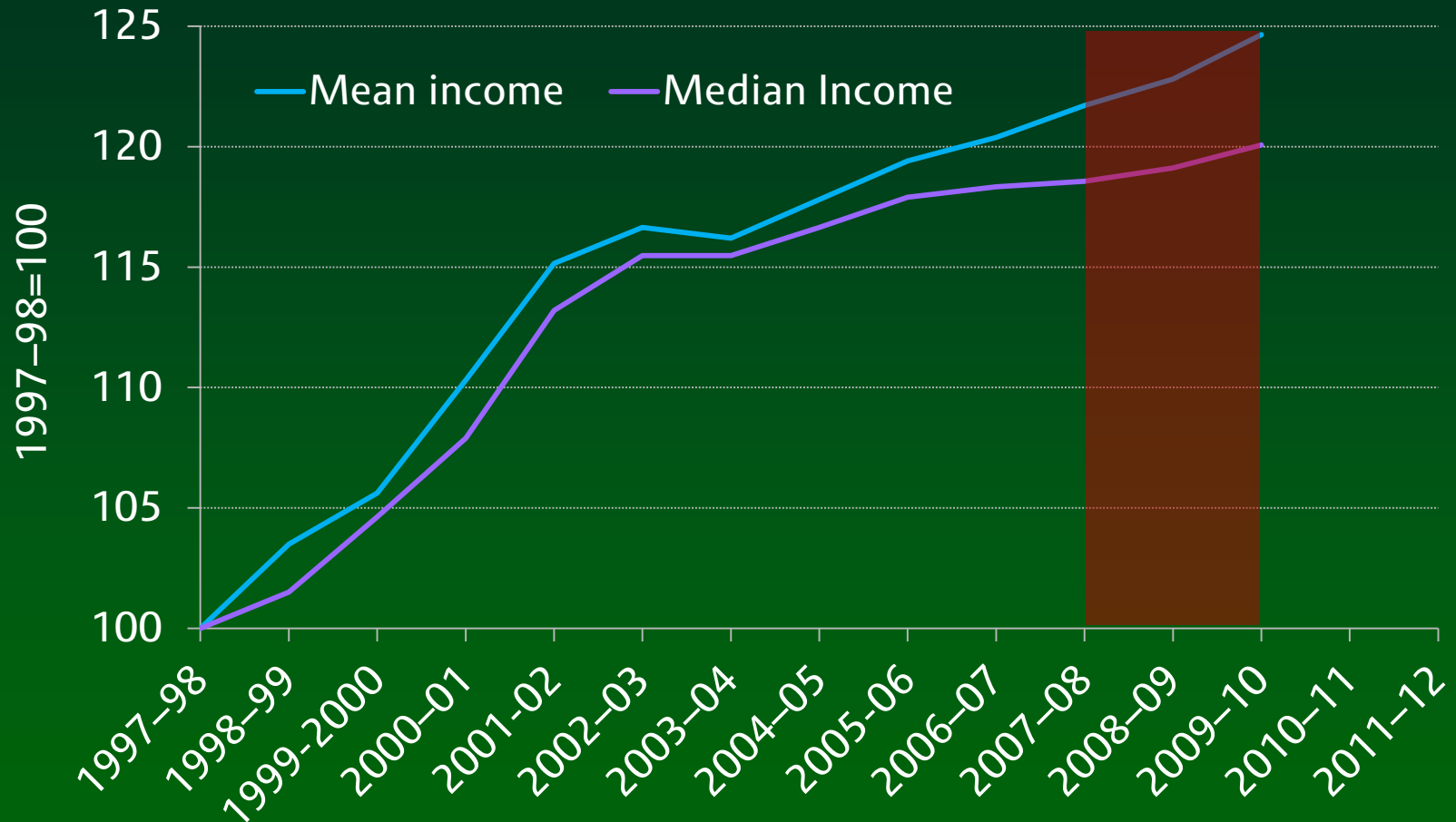
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Trends not uniform: slower growth from early 2000s



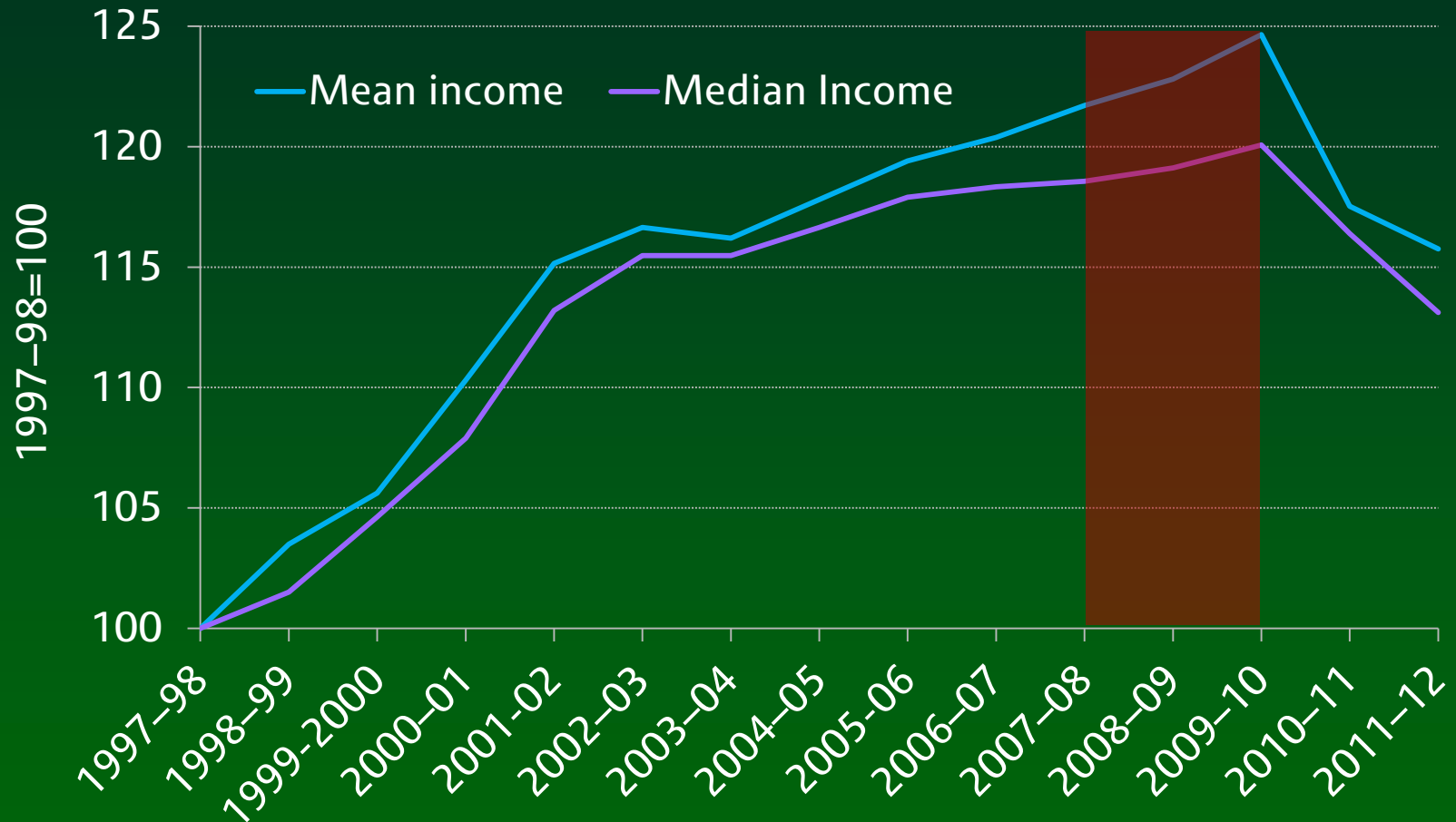
Source: Family Resources Survey, various years

Trends not uniform: slower growth from early 2000s



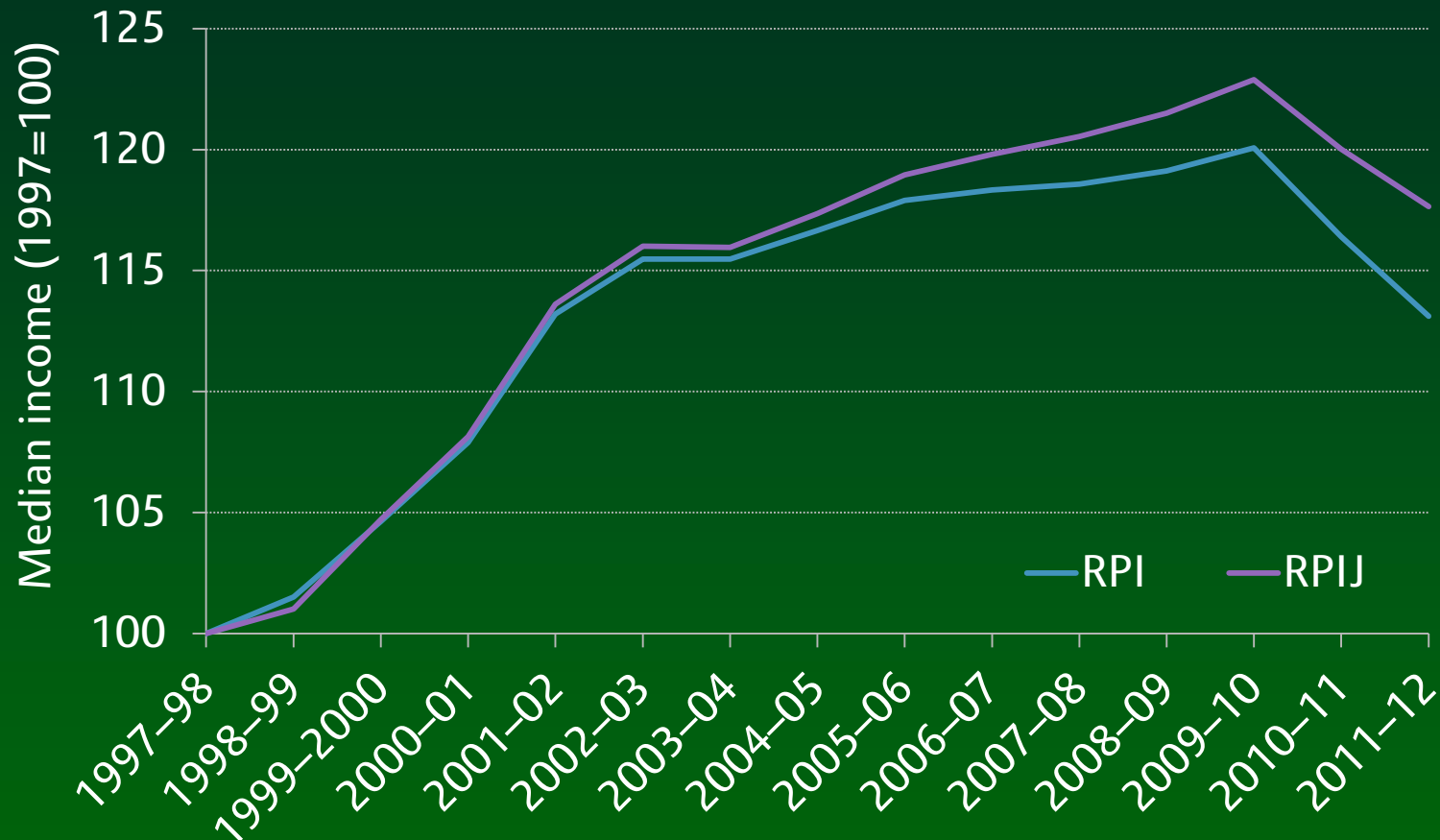
Source: Family Resources Survey, various years

... and large falls after the recession



Source: Family Resources Survey, various years

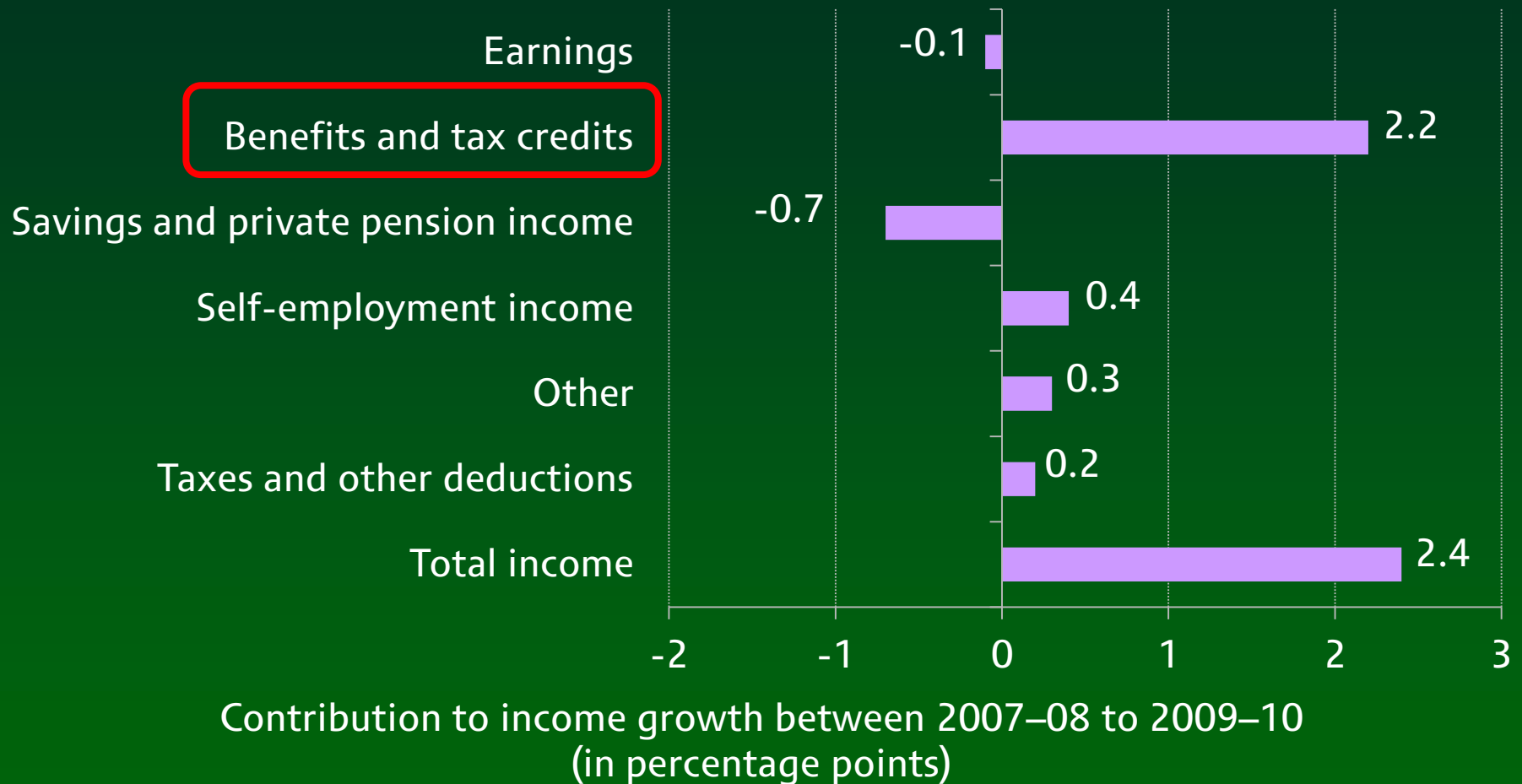
Inflation and living standards: RPI vs. RPIJ



Source: Figure 2.4 of *Living Standards, Poverty and Inequality: 2013*

Notes: The RPI line is in fact RPI minus council tax, the inflation measure currently used to adjust HBAI incomes

Income sources, 2007–08 to 2009–10: steady income growth due to benefits/tax credits



Source: Table 2.4 of *Living Standards, Poverty and Inequality: 2013*

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

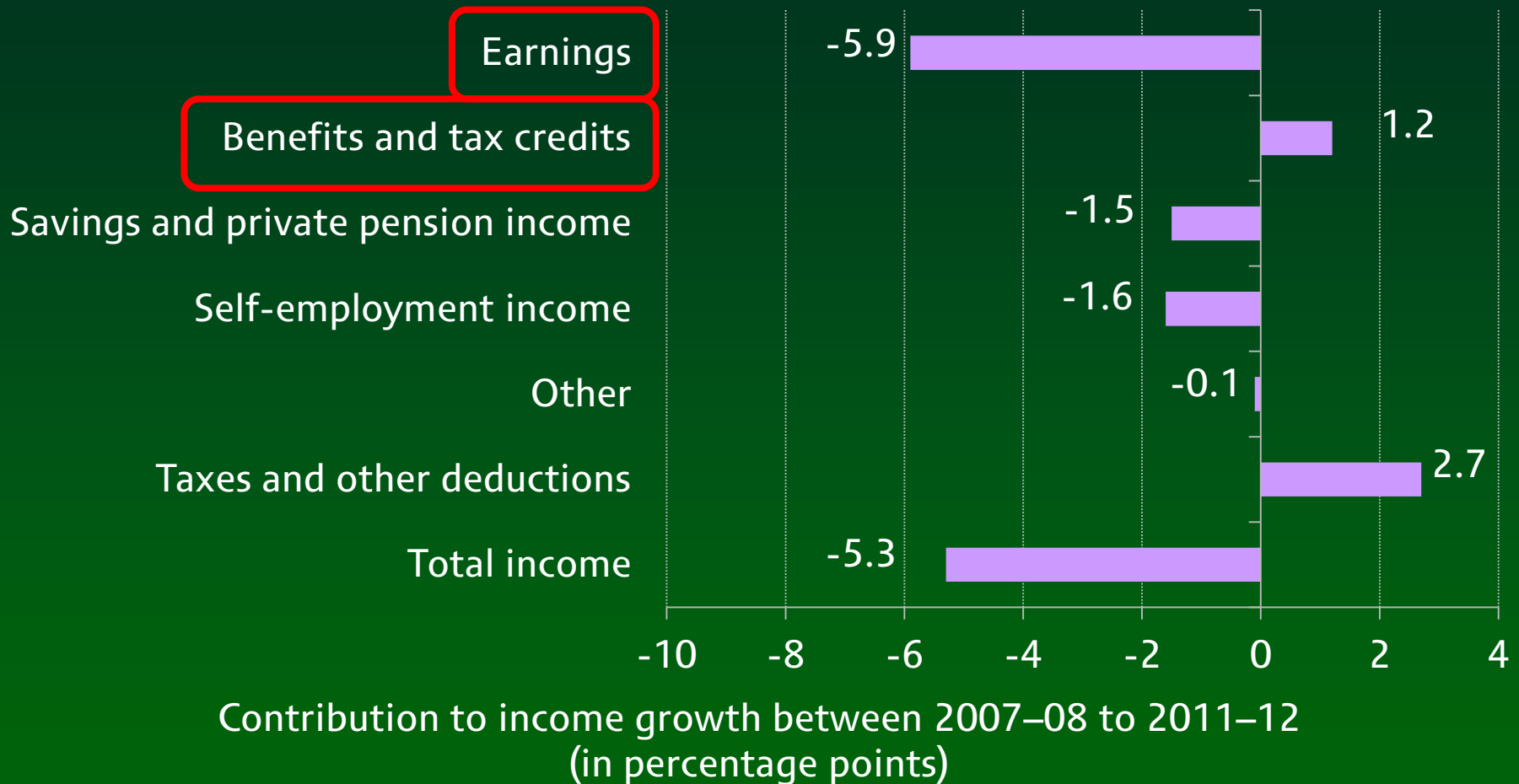
Income sources, 2009–10 to 2011–12: large income falls due to falling earnings



Source: Table 2.4 of *Living Standards, Poverty and Inequality: 2013*

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

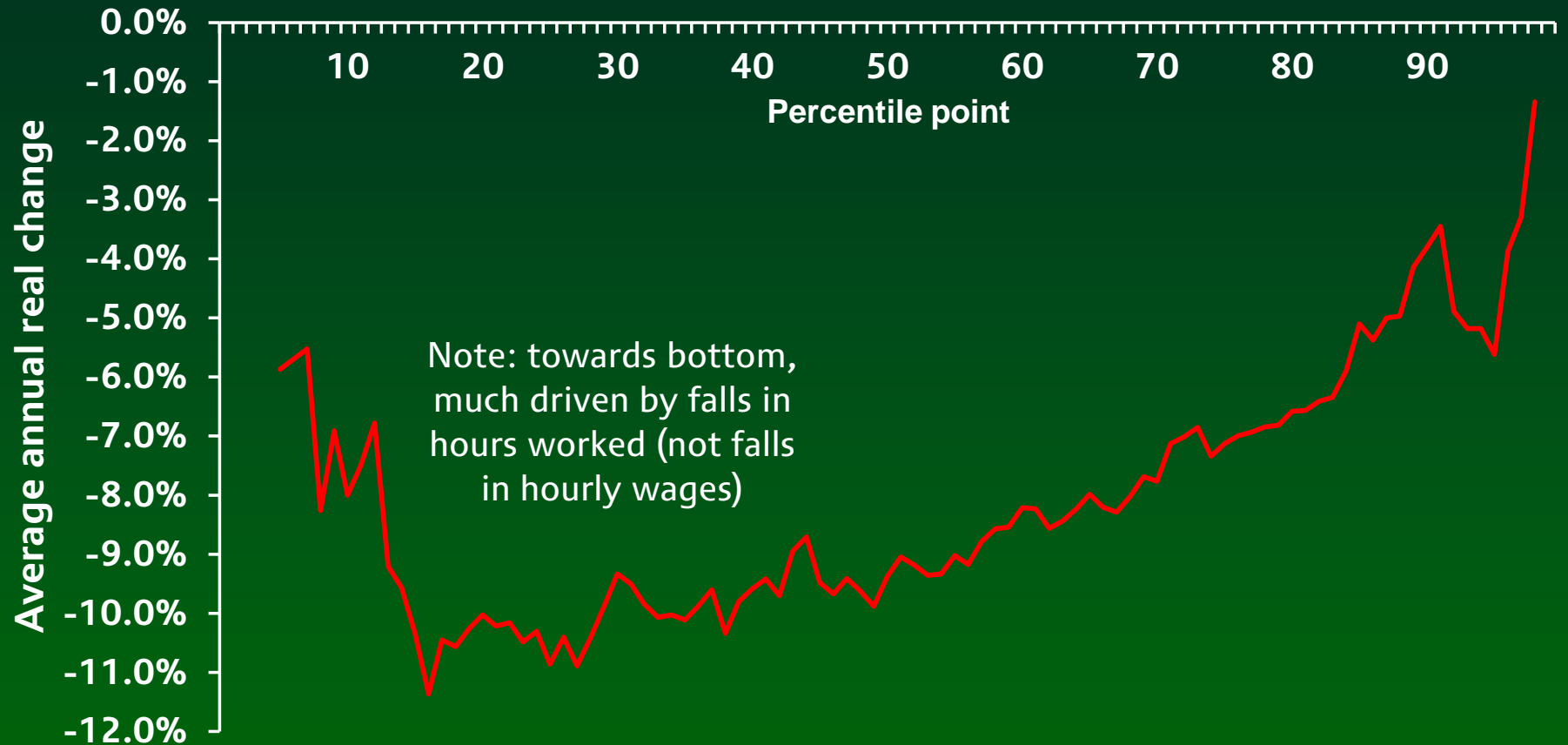
Income sources: 2007–08 to 2011–12



Source: Table 2.4 of *Living Standards, Poverty and Inequality: 2013*

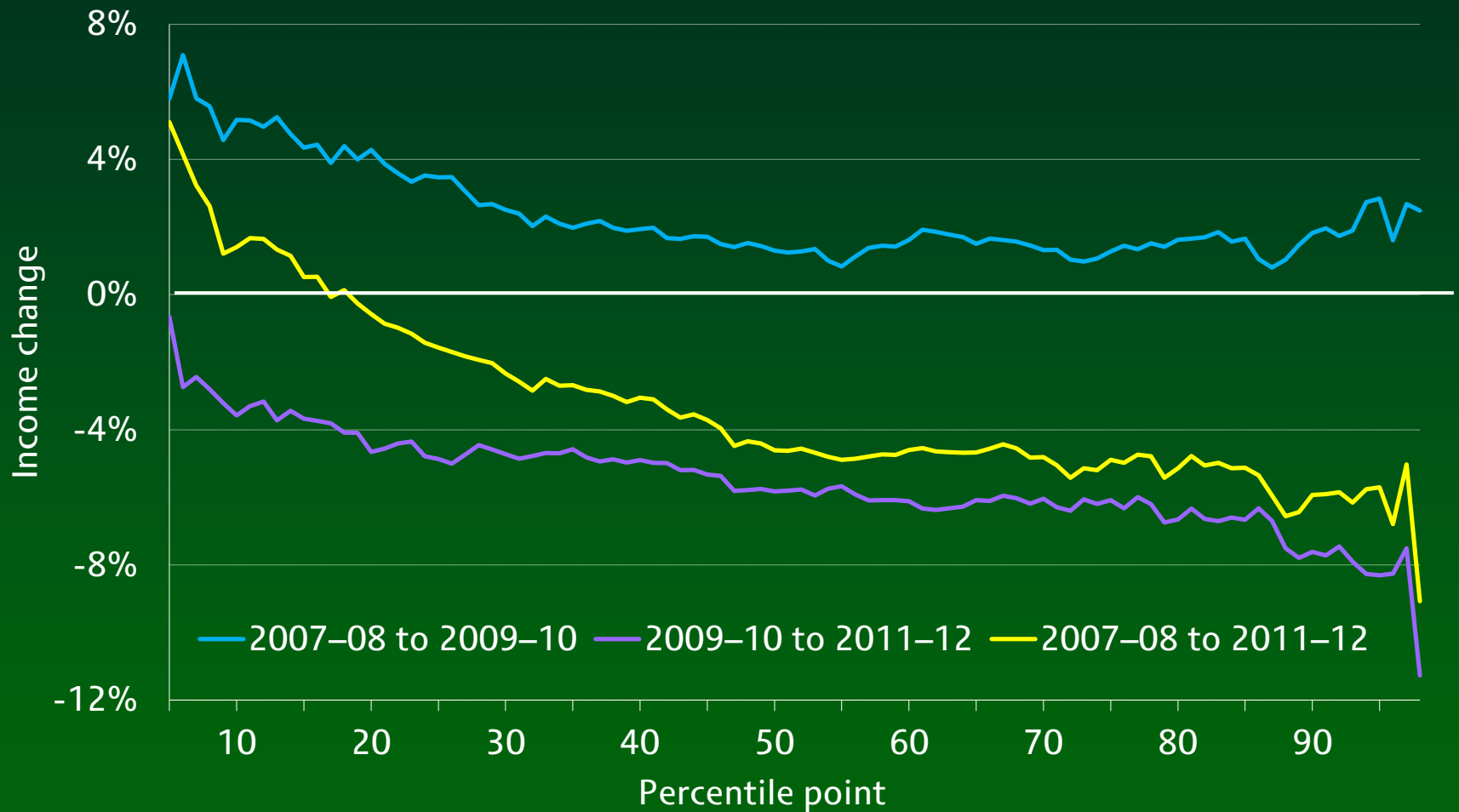
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Weekly earnings inequality (among workers) rose between 2007-08 to 2011-12...



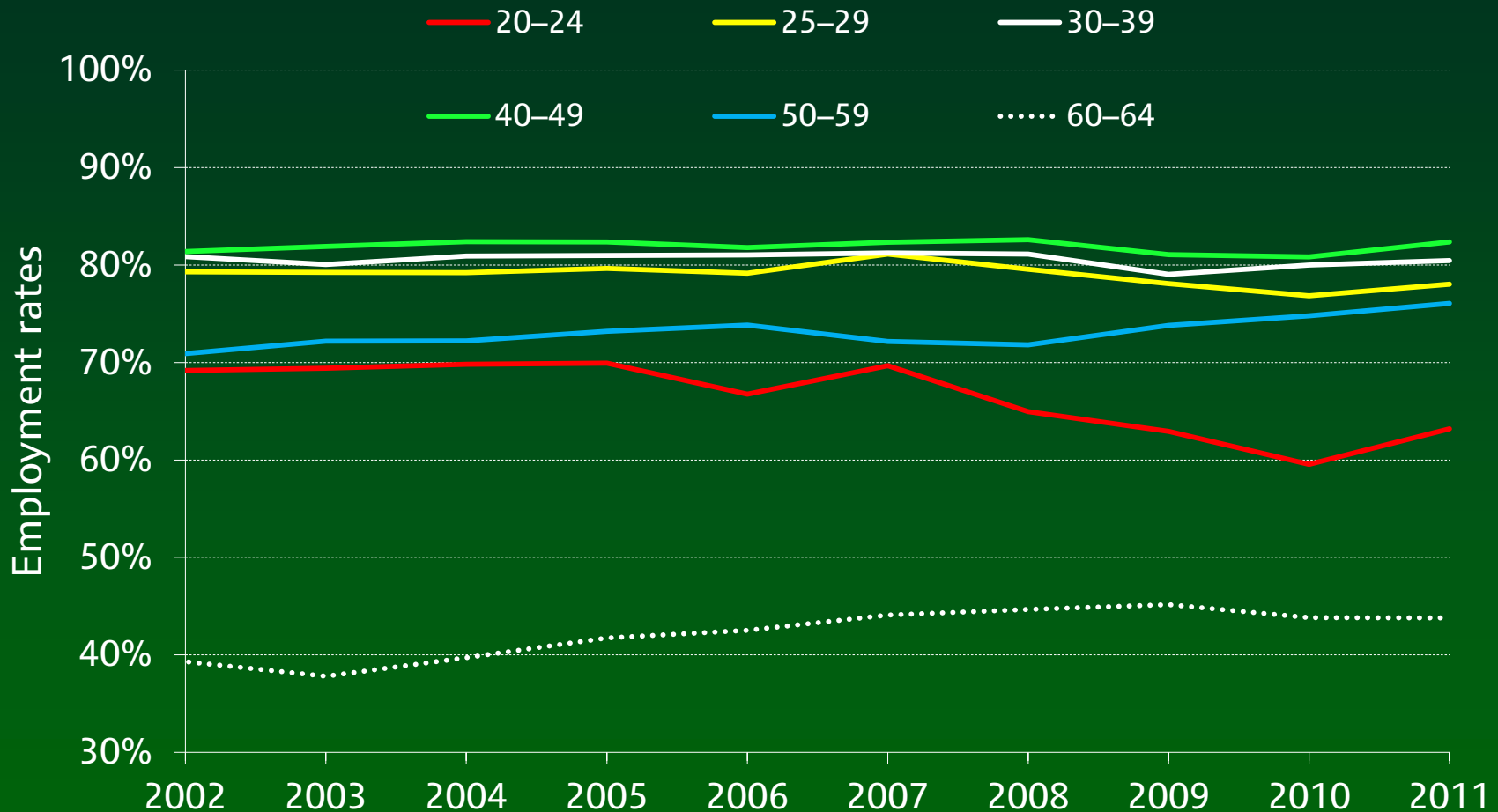
Notes and source: see Figure 3.10 of *Living Standards, Poverty and Inequality in the UK: 2013*

...but net result was still a big fall in income inequality



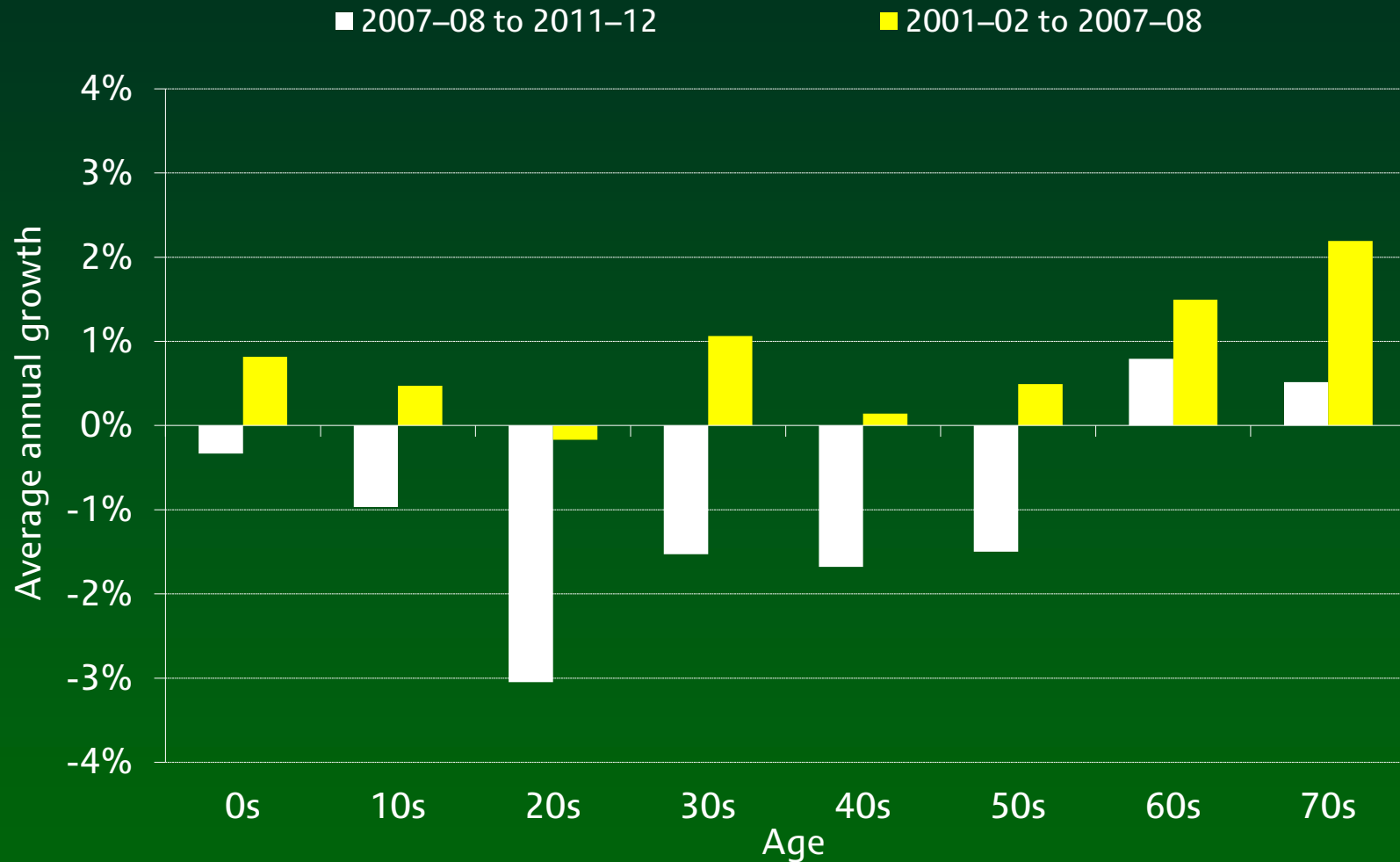
Source: Figure 3.5 of *Living Standards, Poverty and Inequality: 2013*

Different age-groups have fared differently too



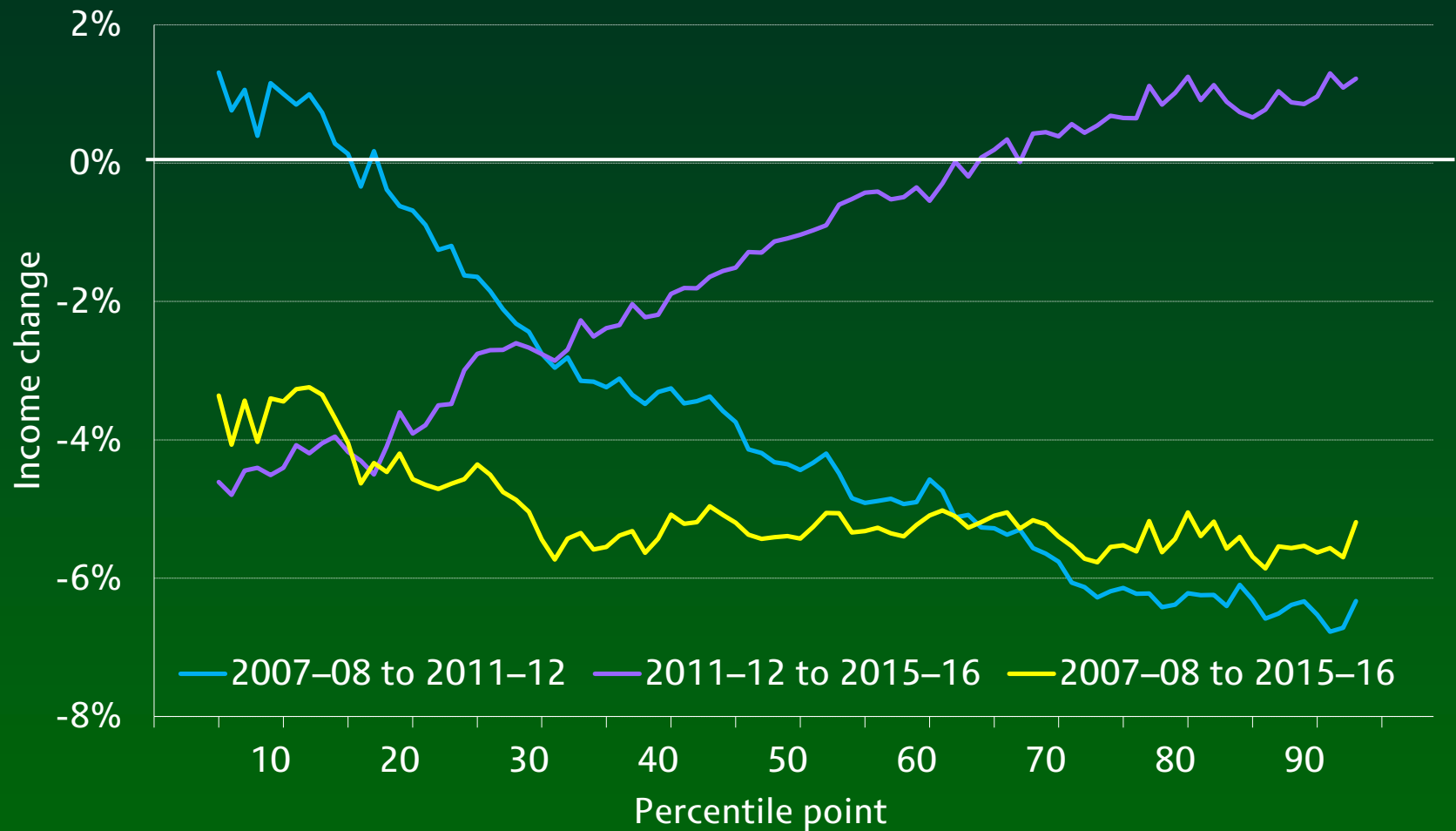
Notes and source: see Figure 5.9 of *Living Standards, Poverty and Inequality in the UK: 2013*

Median income changes by age (BHC, GB)



Notes and source: see Figure 5.7 of *Living Standards, Poverty and Inequality in the UK: 2013*

Prospects: simulations up to 2015–16



Note: Figure taken from Brewer et. al. (2013), published before the latest HBAI release. The 2011–12 income distribution is therefore a simulation, but is extremely similar to the actual data.

Summary

- Background to recession:
 - Income growth had slowed in early 2000s
 - Pensioners/ working-age childless were doing relatively well/badly
- During recession and immediately afterwards:
 - Real earnings for those in work fell sharply; benefits/tax credit incomes were robust
 - Employment rates fell for young adults; not for older ones
 - As a result:
 - a) income inequality fell (despite rise in earnings inequality among workers)
 - b) young adults did worst; pensioners did best (again)
- Inequality trends likely to be reversing now (at least across vast majority of distribution)
 - Most falls in real earnings have already happened (if OBR is right)
 - More than £20 bn year of benefit cuts by end of this parliament
 - Trends by age maybe more durable, e.g. pensioner benefits protected