Young adults and the recession
Jonathan Cribb, IFS
15th July 2014
Introduction

• Household incomes have fallen sharply since 2009–10

• Last year’s report showed that changes to the income distribution varied by age
  – contrasting fortunes of pensioners and young adults since the recession

• We investigate the reasons behind the falls in living standards of young adults
Inequality between different age groups

Median income by age compared to overall median income (measured AHC)

Source: Figure 3.7b of Living Standards, Poverty and Inequality: 2014
Notes: Household income is equivalised and measured after housing costs are deducted
22-30 year olds have seen large falls in income

Source: Figure 5.2 of Living Standards, Poverty and Inequality: 2014
Incomes rising less fast as young people age

Source: Figure 5.1 of *Living Standards, Poverty and Inequality: 2014*
What has driven the income falls for young adults?

Contribution to household income growth for adults aged 22-30, 2007–08 to 2012–13

- Total household income: -12.0
- Income from adult (and partner)
- Net earnings: -13.5
- Net self-employment income
- Benefits and tax credits
- Other
- Deductions (e.g. council tax)
- Income of other household members
  - Parent(s): -0.8
  - Others: -1.2
- Others

Contribution to household income growth (ppt)

Source: Table 5.1 of *Living Standards, Poverty and Inequality: 2014*
Employment rates have fallen for young adults...

Source: Figure 5.7 of *Living Standards, Poverty and Inequality: 2014*
...but have barely changed for 31-59 year olds

Source: Figure 5.7 of *Living Standards, Poverty and Inequality: 2014*
Earnings have fallen more for young adults

Change in real median earnings from 2007 –08 to 2012 –13

-25% -20% -15% -10% -5% 0% 5%

Weekly earnings Hourly wage

Source: Figure 5.9 of Living Standards, Poverty and Inequality: 2014
Recent cohorts have lower earnings than older ones..

Source: Figure 5.10 of Living Standards, Poverty and Inequality: 2014
Lower earnings for young adults

- Individuals born in the mid 1980s have earnings that at age 25 are
  - 10% lower than those born 5 years earlier
  - 6% lower than those born 10 years earlier
  - 2% higher than those born 15 years earlier

- This is despite a large increase in education for later cohorts
  - 31% of mid 1980s cohort have a degree at age 25
  - compared to 25% of those born in mid 1970s at age 25
## Income falls cushioned by parents’ incomes

### Percentage of 22-30 year olds living on own and with parents, and their incomes

<table>
<thead>
<tr>
<th></th>
<th>Living on own or with partner only</th>
<th>Living with parents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage of group in 2005–06 to 2007–08</td>
<td>60%</td>
<td>26%</td>
</tr>
<tr>
<td>Percentage of group in 2010–11 to 2012–13</td>
<td>59%</td>
<td>28%</td>
</tr>
</tbody>
</table>

### Income levels, 2010–11 to 2012–13

<table>
<thead>
<tr>
<th></th>
<th>Median household BHC income (per week)</th>
<th>Median benefit unit BHC income (per week)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median household BHC income</td>
<td>£459</td>
<td>£510</td>
</tr>
<tr>
<td>Median benefit unit BHC income</td>
<td>£459</td>
<td>£281</td>
</tr>
</tbody>
</table>

### Income changes between 2005–06 to 2007–08 and 2010–11 to 2012–13

<table>
<thead>
<tr>
<th></th>
<th>Median household BHC income</th>
<th>Median benefit unit BHC income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median household BHC income</td>
<td>−11.7%</td>
<td>−11.7%</td>
</tr>
<tr>
<td>Median benefit unit BHC income</td>
<td>−7.8%</td>
<td>−17.3%</td>
</tr>
</tbody>
</table>

Source: Table 5.2 of *Living Standards, Poverty and Inequality: 2014*
Does this matter for living standards?

• Young adults who live with low-income parents are more likely to say that they cannot afford:
  – a holiday, to save £10 per month, to keep up with regular payments
  – even when comparing young adults with similar personal incomes

• Parents’ incomes may have provided insurance to young adults

• Living with parents not a long term solution to help support young adults’ living standards
Looking to the future

• A crucial question is whether the recession has done lasting damage to the earnings and incomes prospects of young adults

• There has been a decrease in the proportion of young adults who are not economically active or in full-time education
  – some may have worried about large numbers of young adults becoming discouraged or detached from the labour market

• We do know that home ownership rates of this younger generation are likely to remain lower than for earlier cohorts
Recent cohorts are also less likely to own a home

Source: Figure 3.13 of *Living Standards, Poverty and Inequality: 2014*
Conclusion

• Young adults have seen particularly large falls in income since the recession

• This is entirely explained by falls in employment income:
  – lower employment, lower hours worked, lower hourly wages

• Parents’ incomes have cushioned the fall in incomes for young adults
  – important now; potentially less important as they age