

Press Release

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Faster cost of living increases for poorer households means more people in absolute poverty than thought

Big increases in food and energy prices mean that poorer households have experienced larger increases in their living costs than have richer households. If one were to take account of differential inflation since 2010-11 the numbers of people recorded in “absolute poverty” would have been about 300,000 higher in 2013-14 than official numbers imply and the increase in “relative poverty” at the start of the recession would have been greater. These are some of the main findings of a new report funded and published by the Joseph Rowntree Foundation (JRF) and written by researchers at the Institute for Fiscal Studies (IFS).

Changes in living costs

Over the last 10 years the prices of the goods on which poorer households spend more of their money have tended to rise more quickly than the prices of goods purchased by richer households. Over the period 2002-03 to 2013-14, households with incomes in the bottom fifth of the population saw a price increase of 50% compared to an increase of 43% for households with incomes in the top fifth.

The reason is illustrated in the table below. Poorer households tend to devote a greater fraction of their budgets to things like energy and food, the prices of which have risen more quickly than have prices on average. Richer households spend more on things like motoring and mortgage interest the costs of which, at times, have been rising less quickly than the average. Differences were particularly large in the wake of the 2008 recession.

Table 1: Budget shares and price changes for selected goods

	Budget shares 2011/12		Price Change Mar 2002 - Mar 2014	Price Change Jan 2008 - Mar 2014
	Poorest 20%	Richest 20%		
Energy	8%	4%	173%	67%
Food	20%	11%	49%	31%
Leisure services	8%	16%	55%	27%
Motoring	11%	15.0%	34%	23%
Mortgage Interest Payments	3%	8%	27%	-40%
RPI (all items)			46%	22%

Source: Authors' calculations using price data from the Office for National Statistics.

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Effect on poverty measures

The UK government considers two different measures of poverty. The first is an absolute measure – calculating the number of individuals who are below a poverty line that increases each year in line with a variant of the Retail Prices Index. The second is relative, calculating the number of individuals in households with incomes below 60% of the national median income. Both measures assume that all households experience a common inflation rate. In 2012-13, 16.8% of individuals were in absolute poverty and 15.4% were in relative poverty (according to the “before housing costs” definitions).

The report calculates alternative measures of poverty that account for the fact that household inflation experiences can differ with the measures used to calculate official poverty statistics. Absolute poverty is found to be 0.5 percentage points higher in 2013-14 than standard methods would suggest (the equivalent of 300,000 more people). However, in earlier years, poverty on this new definition had been at times higher and at times lower than a standard measure so the overall trend has not been consistent.

Peter Levell, a Research Economist at IFS said “In recent years, lower income households have tended to see bigger increases in their cost of living than have better off households. Official poverty measures do not take this into account and hence have arguably understated recent increases in absolute poverty by a small but not insignificant margin.”

ENDS

Notes to Editors:

1. The full report, **Measuring poverty when inflation varies across households** by Abi Adams and Peter Levell, will be published by the Joseph Rowntree Foundation on Wednesday 5 November and will be available on the JRF and IFS websites.

For embargoed copies of the report or other queries, contact: Bonnie Brimstone at IFS: 020 7291 4818 / 07730 667013, bonnie_b@ifs.org.uk;

2. The authors are very grateful to the Joseph Rowntree Foundation, who funded this research via the project “Poverty and the Cost of Living”.

JRF is a funder of research for social change in the UK. We aim to reduce poverty and strengthen communities for all generations. For more information visit www.jrf.org.uk.

3. Support from the ESRC-funded Centre for the Microeconomic Analysis of Public Policy at IFS is also very gratefully acknowledged.

