

Press Release

Average income back to around pre-recession level after historically slow recovery in living standards

New IFS projections suggest median (middle) household income in 2014–15 is at around the same level as it was in 2007–08 before the recession, though still more than 2% below its 2009–10 peak. But the recovery in living standards that began in 2011–12 has been much slower than after the three previous recessions, with median income growing by less than 2% between 2011–12 and 2014–15.

These are among the main findings of a new IFS Election Briefing Note on living standards published today, funded by the Nuffield Foundation.

Real household incomes continued to grow slowly during the recession of 2008 and 2009, in part due to temporary fiscal stimulus measures. Median income then fell by 4.0% from peak in 2009–10 to trough in 2011–12. It is almost certain that incomes would have fallen significantly under any government. It would therefore be misleading to attribute all trends in living standards before May 2010 to Labour, and all trends since then to the coalition.

Key findings on changes in average living standards include:

- **There are signs that the recovery in household income is finally strengthening.** Thanks to an improving labour market and falling inflation, we project real median household income grew by 1.1% in 2014–15, returning it to around its pre-recession (2007–08) level.
- **But the recovery in living standards has been slow.** Between 2011–12 and 2014–15, median income grew by just 1.8%, much more slowly than during the first three years of recovery in the early 1980s (9.2%) and 1990s (5.1%). This is mainly the result of weak growth in earnings for those in work. Tax increases and benefit cuts, implemented as part of the government's deficit reduction plan, have also reduced incomes.
- **Household consumption is still below pre-crisis levels.** Consumption per person of non-durables (things such as food and fuel that are bought and consumed straightaway) was 3.8% lower in 2014Q3 than in 2008Q1. At the same point after the 1980s and 1990s recessions, it was 14.4% and 6.4% above pre-recession levels respectively. This may suggest that households think the recession has had a permanent impact on their income prospects.

Changes in living standards have been different for different groups:

- **Falls in income have been larger for higher-income households.** This is largely because real earnings fell significantly after the recession, while

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social security benefits were initially largely protected. Since 2012–13, middle-income households have done better than low- and high-income households, in line with the distributional impact of recent tax and benefit changes.

- **But low-income households have faced higher inflation.** This is mostly due to changes in the period up to and including 2009–10. Low-income households were hit harder by rising food and energy prices, and benefited less from falling mortgage interest rates. When this is taken into account, changes in real incomes between 2007–08 and 2014–15 look similar across most of the distribution.
- **Incomes for those of working age remain below pre-crisis levels.** After adjusting for group-specific inflation, median income for young adults (aged 22 to 30) is projected to be 7.6% lower in 2014–15 than in 2007–08, and it is estimated to be 2.5% lower for those aged 31 to 59. Meanwhile, median income among those aged 60 and over is projected to have risen by 1.8% over the same period. On the other hand, the incomes of young adults have been recovering relatively quickly of late – growing by an estimated 2.5% from 2012–13 to 2014–15.

“After large falls, and a historically slow recovery, average household income is now back to around its pre-crisis level,” said Andrew Hood, a Research Economist at IFS and an author of the report. “However, the young have done much worse than the old, those on higher incomes somewhat worse than those on lower incomes, and those with children better than those without.”

Robert Joyce, a Senior Research Economist at IFS and another author of the report, added “The key reason living standards have recovered so slowly has been weak earnings growth. In the long run, policies that boost productivity, and so increase real earnings, are likely to have a bigger impact on living standards than changes in tax and benefit rates.”

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Notes to Editors:

1. ‘Living Standards: Recent Trends and Future Challenges’ by Jonathan Cribb, Andrew Hood and Robert Joyce will be published on Wednesday 4th March 2015. For embargoed copies of the report or other queries, please contact: Jonathan Wood 020 7291 4818, jonathan_w@ifs.org.uk
2. 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 <http://www.nuffieldfoundation.org>
3. Support from the Economic and Social Research Council (ESRC) through the Centre for Microeconomic Analysis of Public Policy (CPP) at IFS is gratefully acknowledged.