



Institute for  
Fiscal Studies



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## Living standards

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# What is happening to living standards?

- Strikingly different claims about living standards have been made in the last couple of days
- George Osborne: “Real household disposable income is rising..”
- Labour:

Working people are today on average £1,600 worse off a year in real terms...

## THE TORIES' COST OF LIVING BOMBSHELL.

**£1,600 A YEAR  
WORSE OFF UNDER  
DAVID CAMERON.**

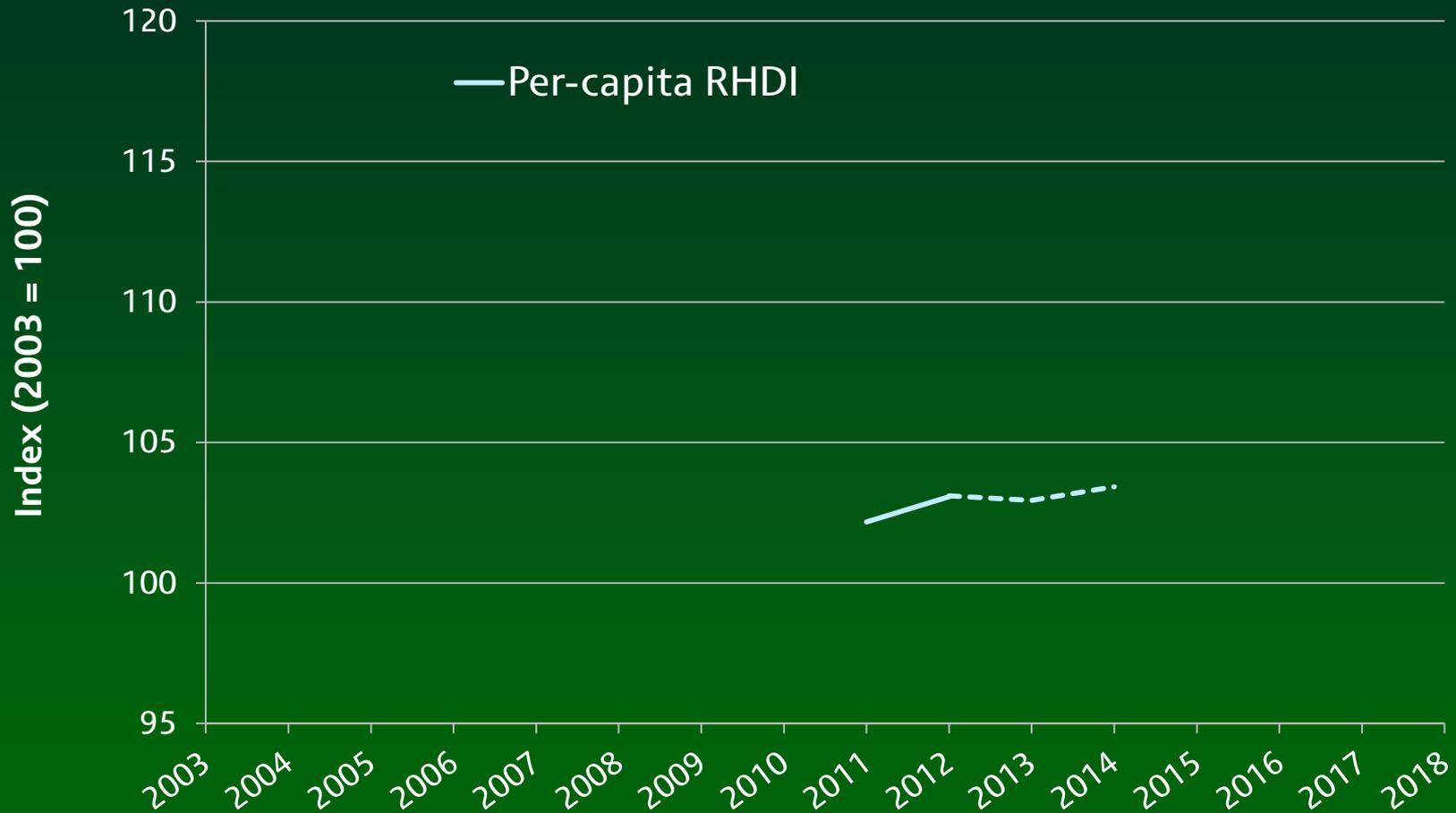
Working people are today on average £1,600 worse off a year in real terms since David Cameron entered Downing Street.

- Can both of these statements be true?
  - Sort of...

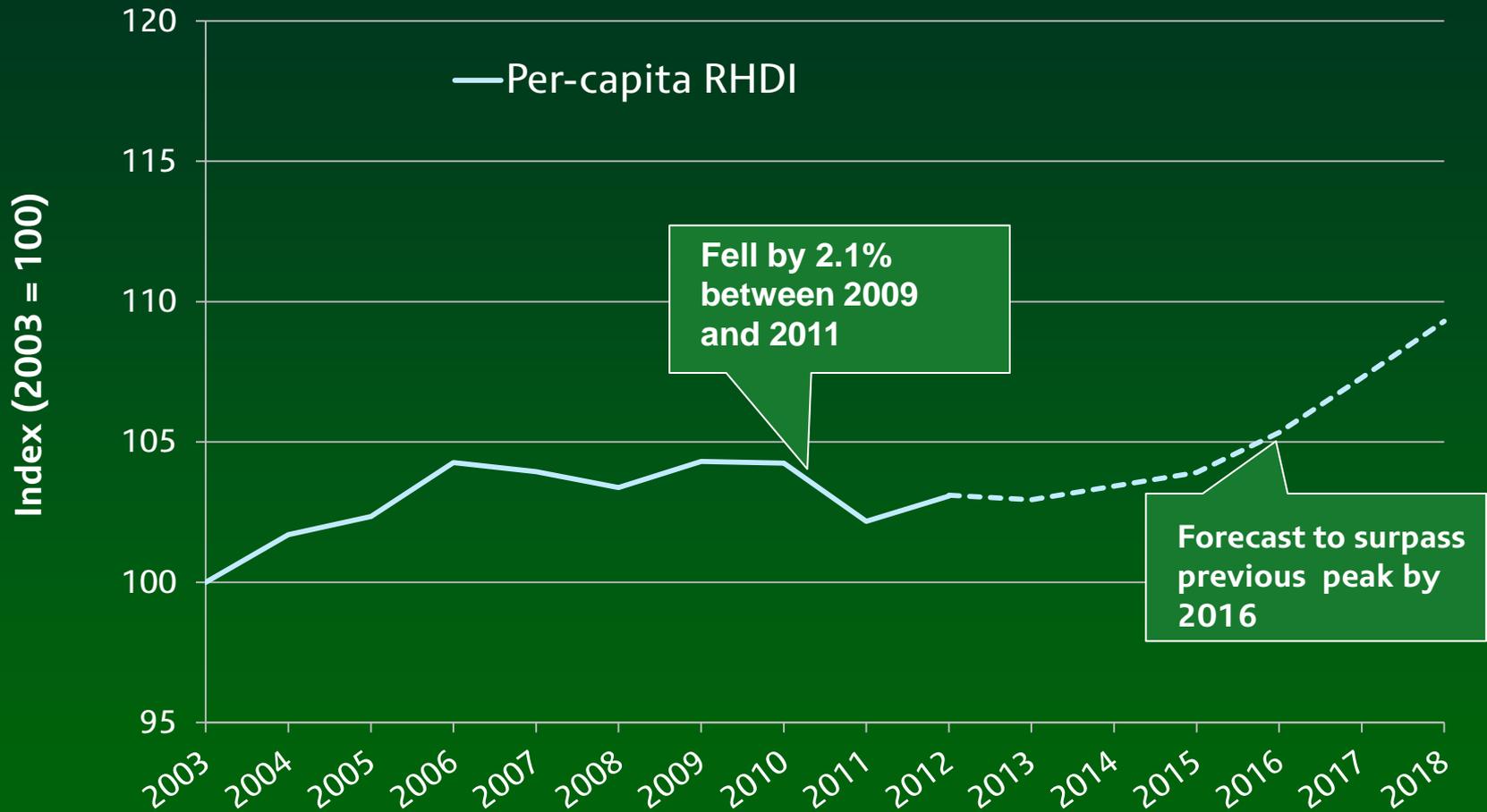
# Real household disposable income (RHDI)

- RHDI is a National Accounts measure of the disposable income of households and “non-profit institutions serving households”
- Total RHDI increased by 1.6% in 2012 and the OBR forecasts further increases of 0.5% in 2013 and 1.1% in 2014
  - But living standards better measured by RHDI *per person*
- RHDI per person grew by 0.9% in 2012
  - But forecast to have fallen slightly (by 0.1%) in 2013
  - And then to begin to grow again

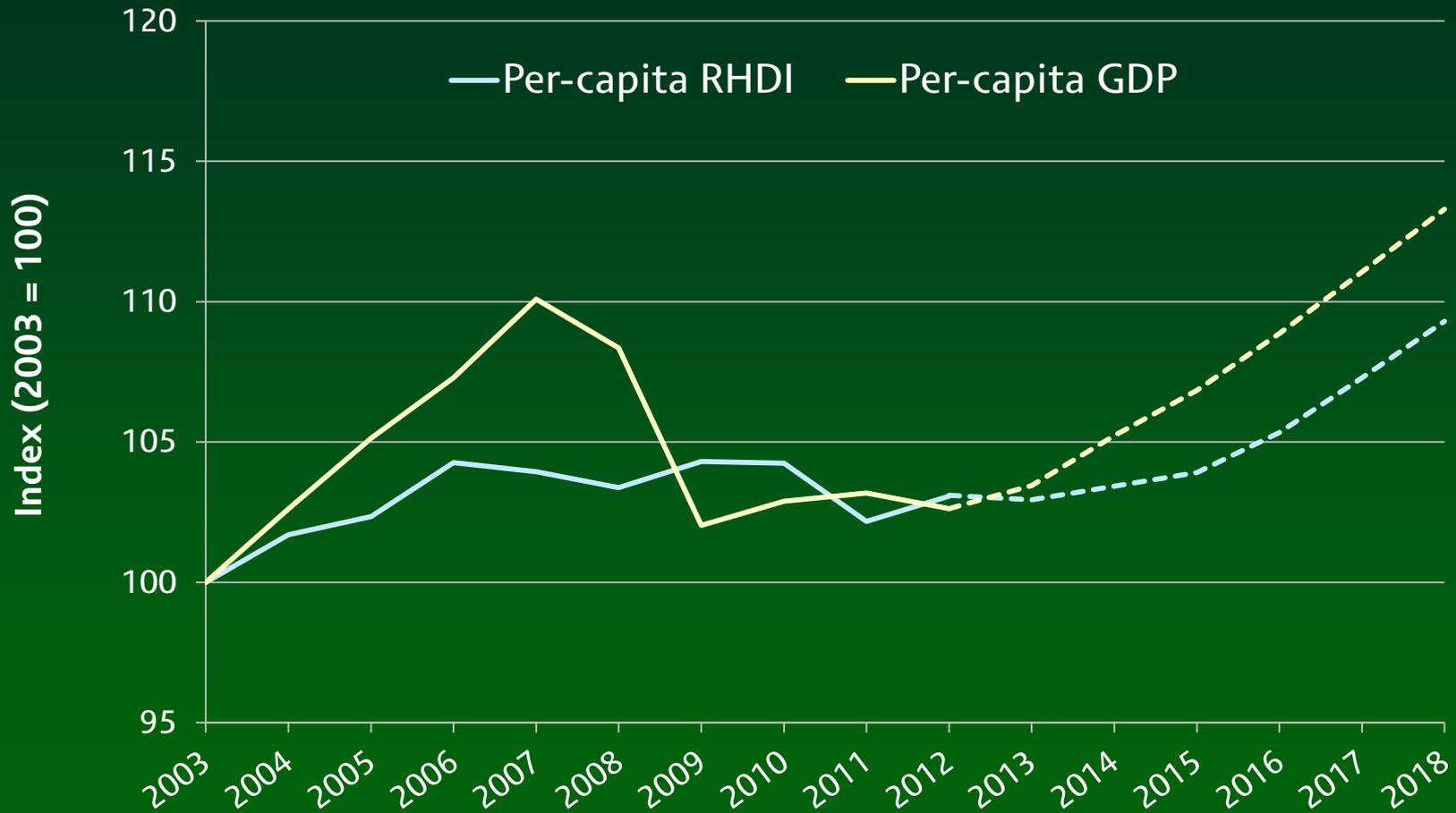
# Putting the changes in RHDI in context



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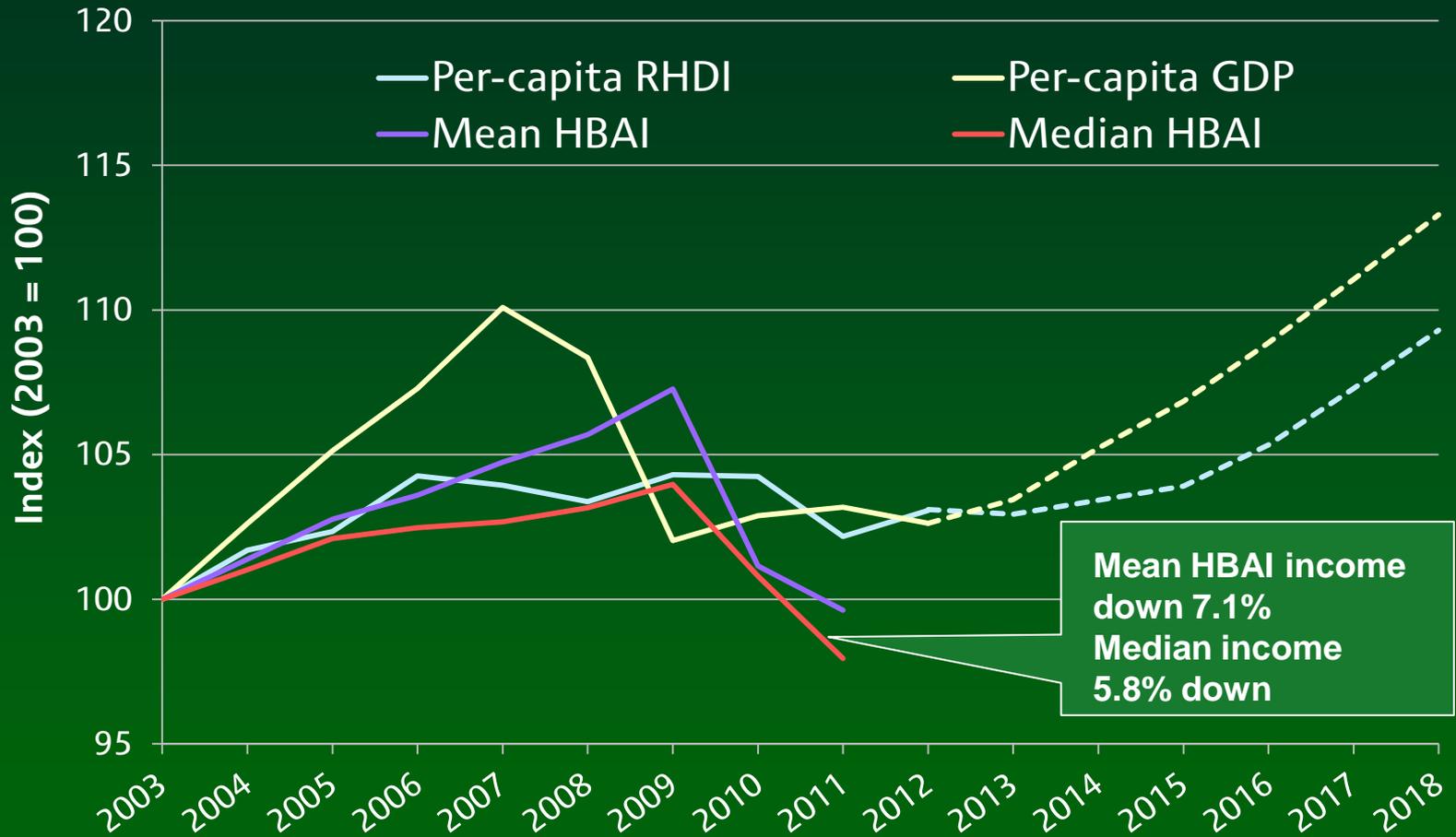
# Putting the changes in RHDI in context



# How does RHDI compare with other measures?

- Unclear how well this National Accounts aggregate actually measures living standards
- Analysis of living standards usually based on different official measure
  - Households Below Average Incomes survey (HBAI)
- HBAI is based on a large representative survey of households
  - Look at changes in living standards across income distribution
  - Data are available up to 2011-12 only
  - No official forecasts for this measure
- HBAI shows larger falls in income in 2010-11 and 2011-12

# Between 2009-10 and 2011-12...



Note: GDP and RHD figures are calendar year, HBAI figures are financial year (e.g. 2003-04)

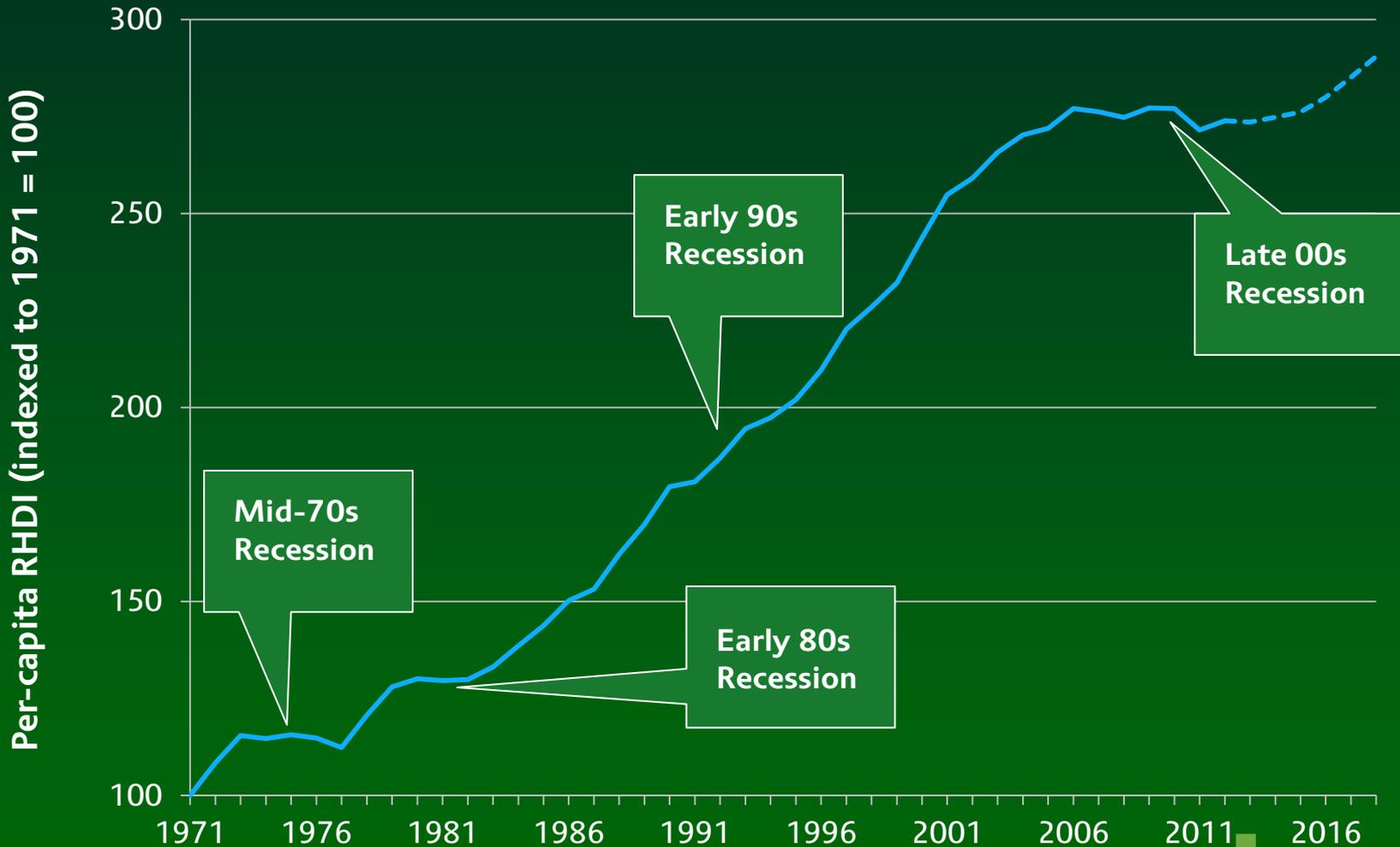
## Other findings from analysis of HBAI data

- Previous IFS modelling based on HBAI data suggests further falls in median income in 2012 and little if any growth in 2013 and 2014
  - Employment up
  - But falls in real wages and benefits
- Our expectation is that, on this measure, real median household incomes will be substantially lower in 2015-16 than in 2009-10
- Change in mean income tells you little about what is happening at different parts of the distribution
  - Falls up to 2011-12 were larger for richer than poorer households
  - Rich likely to do better than poor between 2011-12 and 2015-16

# Explaining the differences between RHDl and HBAI

- RHDl and HBAI use different measures of inflation
  - HBAI adjusted using RPI, which overstates inflation
  - Using RPIJ measure instead: mean HBAI income fell 5.6% (not 7.1%) between 2009-10 and 2011-12
  - Still much bigger than the 2.5% fall in RHDl during same period
- Other differences include
  - Changes in housing costs incorporated differently
  - Self-employment income is measured with a lag in HBAI
  - RHDl includes income of ‘non-profit institutions serving households’
- So advantages and disadvantages of both measures

# But strange that RHDI never falls much in recessions



# Are people £1,600 worse off in real terms?

- Ed Balls: “Working people are £1,600 a year worse off under this government”
- This is based on comparing average weekly earnings in September 2013 with those in May 2010 and adjusting for RPI inflation
  - Average weekly earnings up 5.8% from £449 to £475
  - Prices up 12.7% in same period according to RPI
  - After RPI inflation, average weekly earnings down by 6.1% or £31
- A fall in real average wages of £31 a week is £1,600 a year
- But this is not quite the same as being worse off by £1,600 a year

# Are people £1,600 worse off in real terms?

- Labour has calculated change in average real *gross* wages
- People more likely to judge whether better or worse off based on *net* income after taxes and benefits
  - Substantial changes to taxes and benefits during this period which affect different people differently
  - e.g. Increases to income tax personal allowance, increases in NICs, cuts to benefits and tax credits
- Turns out falls in median and mean HBAI income are fairly similar
  - e.g. median fell by 5.8% between 2009-10 and 2011-12
- So while an incomplete measure, it is not giving a misleading impression of changes in average living standards

# Summary

- RHDH rose in 2012 and is forecast to increase in 2013 and 2014
  - But RHDH *per person* forecast to fall slightly in 2013
  - Follows fall of 2.1% between 2009 and 2011
  - RHDH per person set to remain below its 2009 peak until 2016
- Mean and median HBAI income fell much further between 2009-10 and 2011-12, and likely to take longer to regain peak
- Average real gross wages fell by £1,600 per year between May 2010 and September 2013
  - Changes in gross wages only one part of change in living standards
  - Turns out this does not give a misleading picture of the magnitude of falls in living standards likely seen during this period