

### **Press Release**

# Average private incomes fall over 7% in the three years to 2010–11

Average household pre-tax-and-benefit income fell over 7% between 2007–08 and 2010–11, after accounting for inflation, as rising unemployment and the recession took their toll. While average net income continued to rise during the years of the recession itself and did not fall until 2010–11, average private incomes started falling in 2008–09.

These are amongst the findings of a new report by IFS researchers published today, *Living Standards, Poverty and Inequality in the UK: 2012*, funded by the Joseph Rowntree Foundation. The IFS research is based on the government's *Households Below Average Income* data, an analysis of which was published yesterday by the Department for Work and Pensions.

Today's report provides a more detailed analysis of trends in living standards, poverty and inequality.

Key findings include:

#### Average private incomes fall by over 7% in three years...

Median private income – that is income before paying taxes and receiving benefits – fell by 1.1% in real terms in 2008–09, by 2.8% in 2009–10 and by 4.1% in 2010–11, and was 7.8% below its pre-recession level by the end of this period. These falls follow several years of weak growth and leave median private income in 2010–11 5% below its 2003–04 level, the first year for which comparable data are available.

The big fall in 2010–11 is largely explained by the fact that earnings failed to keep up with inflation. The falls in 2008–09 and 2009–10 are more likely to reflect rising unemployment.

#### ... contrasting with the picture for net incomes

While average net incomes fell in 2010–11, they had continued to rise during 2008–09 and 2009–10 despite the recession. As the figure below shows, this led to the trends in median net and median private incomes diverging considerably after 2008–09.

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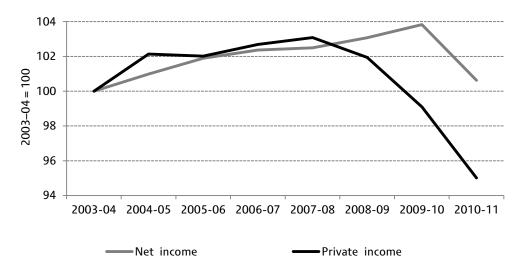
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Figure: Real average (median) net and private household income (UK)



Note: Incomes have been measured before housing costs have been deducted, and are indexed to 100 in 2003–04.

In part this was because benefits increased in real terms during the recession, as inflation fell and the government boosted some benefit rates. In addition, the falls in private income in 2008–09 and 2009–10 were more driven by unemployment. But the big fall in private income when one becomes unemployed is partially offset by increased benefit payments.

#### Further falls in private and net incomes likely

Further falls in private incomes are likely as real earnings look set to fall further and unemployment rise between 2010–11 and 2012–13. Recent forecasts by IFS researchers also suggested that median *net* incomes will be no higher in 2015–16 than they were in 2002–03.

#### Falls in income inequality are broad-based

Inequality fell across the distribution in 2010-11 as the incomes of the better off fell more quickly than those of the worse off. The Gini coefficient, a widely used measure of income inequality, fell from 0.36 in 2009-10 to 0.34 in 2010-11, its lowest level since 1996-97. The 90/10 ratio fell from 4.1 in 2009-10 to 3.9 in 2010-11, its lowest level since 1987.

### Falls in child poverty driven by large increases in benefits and tax credits

Child poverty, measured as numbers of children below 60% of the median, fell from 3.4 million to 2.3 million between 1998–99 and 2010–11. This was a big reduction, but the last government's target to halve it was missed by 600,000.



Changes in child poverty were mostly driven by policy changes that led to an additional £18 billion per year being spent on benefits and tax credits at children by 2010–11. Annual entitlements to net state support – that is, benefits and tax credits minus direct taxes – rose by an average of £4,000 per year for the poorest half of households with children, compared to default indexation.

## But big increases in poverty among working age adults without children

Poverty rates among pensioners and those with children have fallen sharply in recent years. By contrast relative poverty among working age adults without children remains close to its highest level since at least 1961. And the rate of relative poverty among working age adults without children aged under 25 is now similar to that of children, whereas in the late 1990s it was around 10 percentage points lower.

Even more striking is the fact that absolute poverty (based on a poverty line fixed at 60% of the 1996–97 median income, adjusted for inflation) among working aged adults without children was no lower in 2010–11 than in the 1970s on an afterhousing costs basis (and only a little lower on a before-housing costs basis).

"Average private incomes fell by over 7% during the three years to 2010–11, and although net incomes fell in 2010–11 as well, they were cushioned by the tax and benefit system during the recession itself" says Jonathan Cribb, a Research Economist at the IFS. "Unless the economy performs much better than expected in the next few years, it looks likely that households private incomes will still be below their peak for some years"

"That absolute poverty among working age adults without children has not fallen since the 1970s is astonishing. This means the after-housing costs real incomes of the poorest 15% of working age adults without children have increased little if at all over a more-than 30 year period." says David Phillips, a Senior Research Economist at the IFS. "In contrast, after-housing costs median real income among the population as a whole has risen 57% since 1980."

#### **ENDS**

#### Notes to Editors:

 The full Households Below Average Income publication can be found on the Department for Work and Pensions website at (http://research.dwp.gov.uk/asd/hbai/hbai2011/index.php?page=contents)



- 2. The full report *Living Standards, Poverty and Inequality in the UK 2012* is available at the IFS's website at <a href="http://www.ifs.org.uk/comms/comm124.pdf">http://www.ifs.org.uk/comms/comm124.pdf</a>
- 3. The authors are very grateful for financial support from the Joseph Rowntree Foundation for the project 'Living Standards, Poverty and Inequality in the UK: 2012. Co-funding from the ESRC-funded Centre for the Microeconomic Analysis of Public Policy at IFS is also very gratefully acknowledged.
- 4. The ONS's official estimates of employment and earnings growth are based on the Labour Force Survey. For the most recent figures see <a href="http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/may-2012/statistical-bulletin.html">http://www.ons.gov.uk/ons/rel/lms/labour-market-statistics/may-2012/statistical-bulletin.html</a>
- 5. The OBR's official forecasts of earnings and employment are available on their website. See <a href="http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2012/">http://budgetresponsibility.independent.gov.uk/economic-and-fiscal-outlook-march-2012/</a>

Poverty lines (60% of median household equivalised income) in 2010-11 include:

£ per week	Childless couple	Single individual	Couple, one child (age 8)	Couple, two children (ages 8 & 15)	Lone parent, one child (age 8)	Lone parent, two children (ages 8 & 15)
AHC	£215	£125	£258	£349	£168	£248
внс	£251	£168	£301	£384	£219	£301