

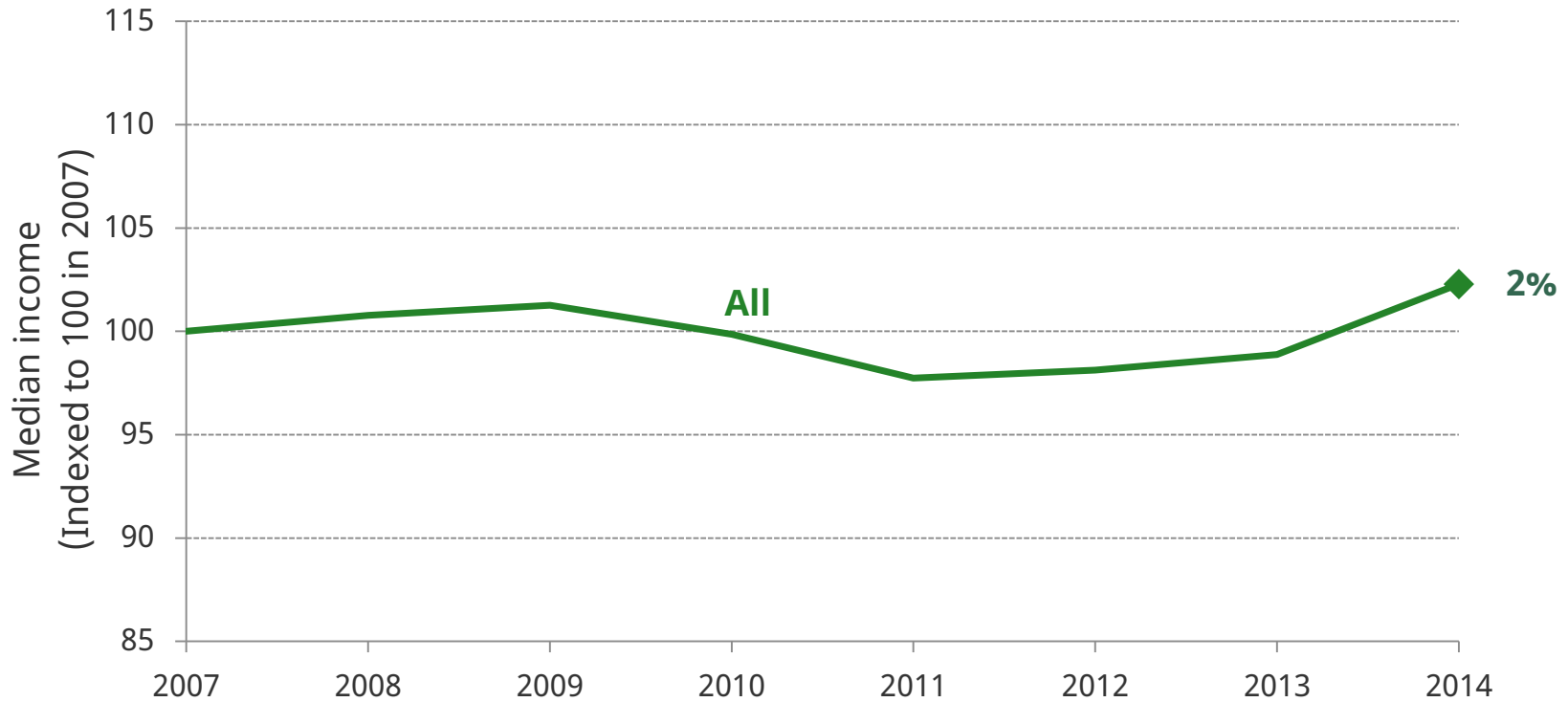
The outlook for living standards

Andrew Hood

IFS Post-Autumn Statement 2016 briefing

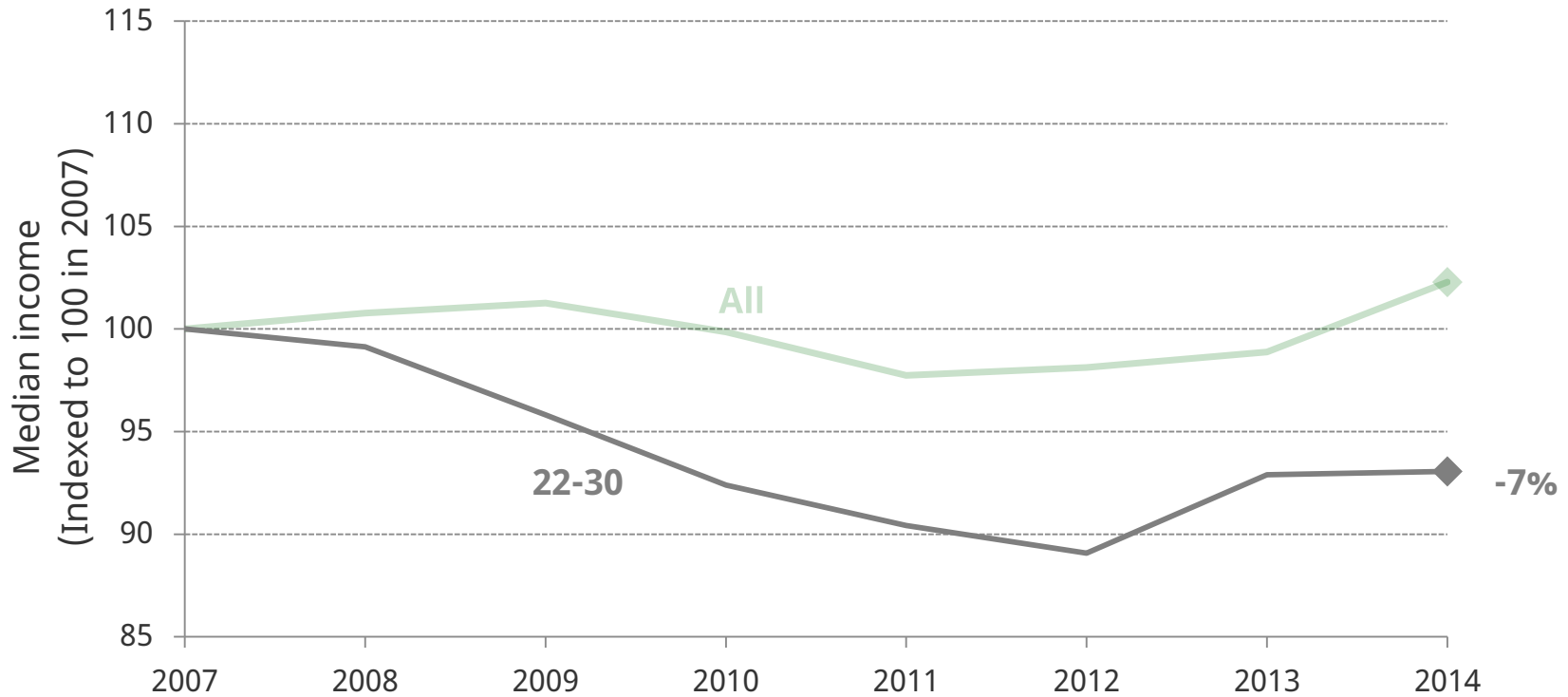
24 November 2016

What has been happening to living standards? Real median income (2007-08=100)



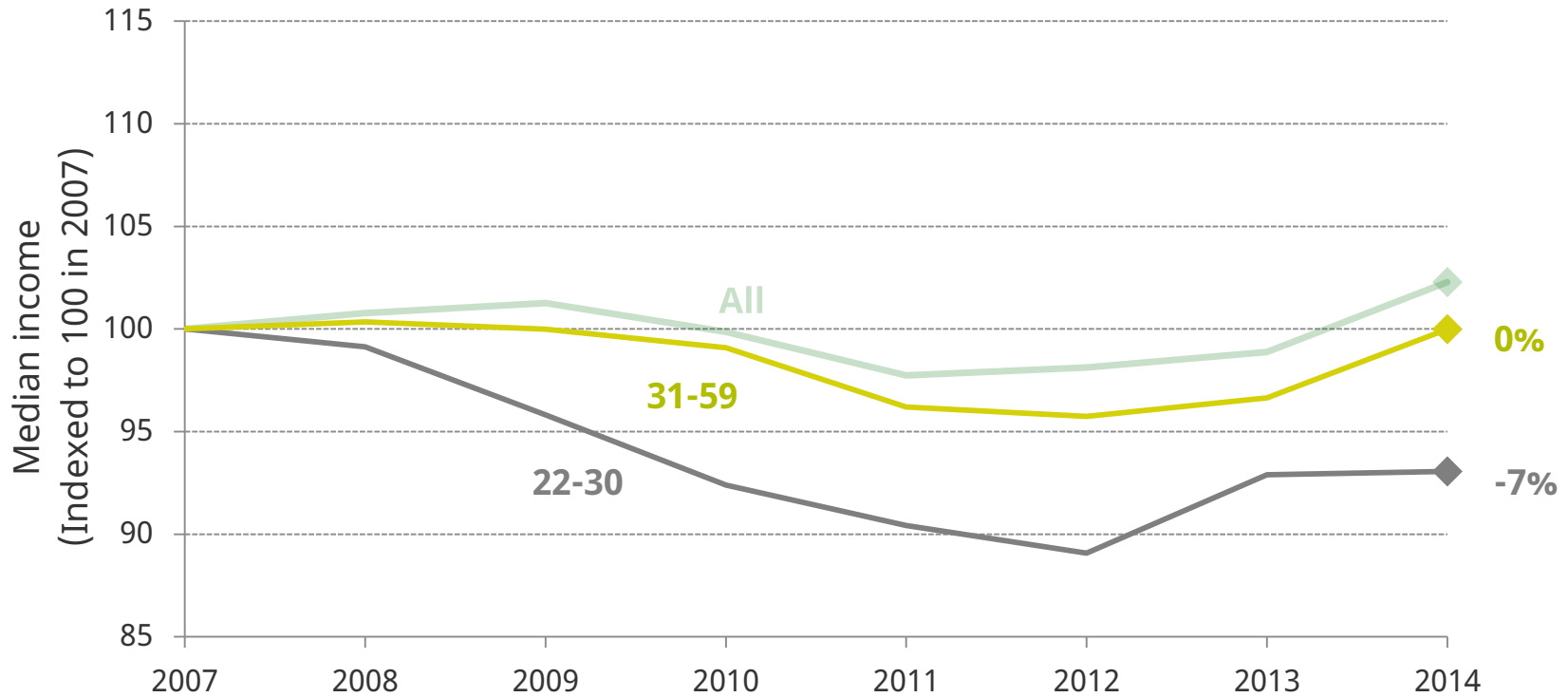
Source: Figure 2.6 of *Living Standards, Poverty and Inequality: 2016*

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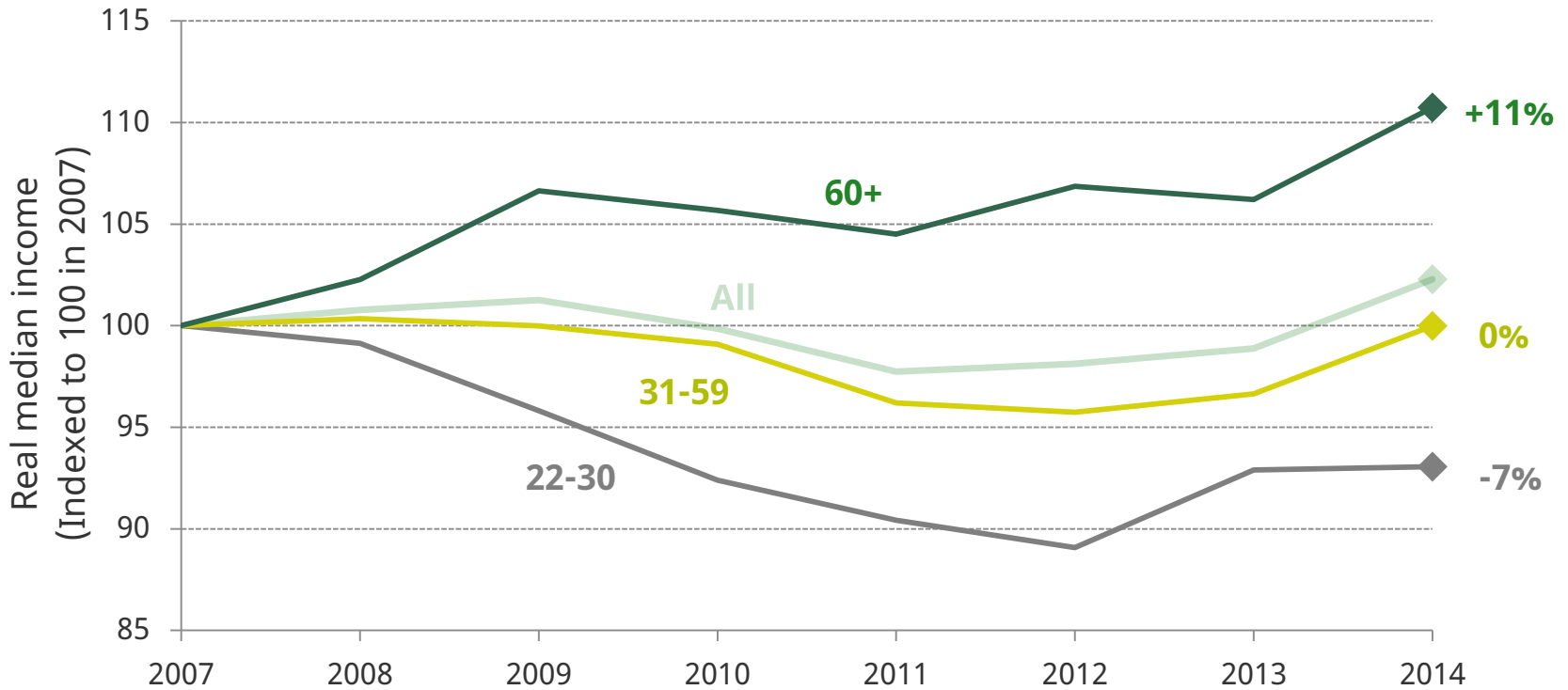
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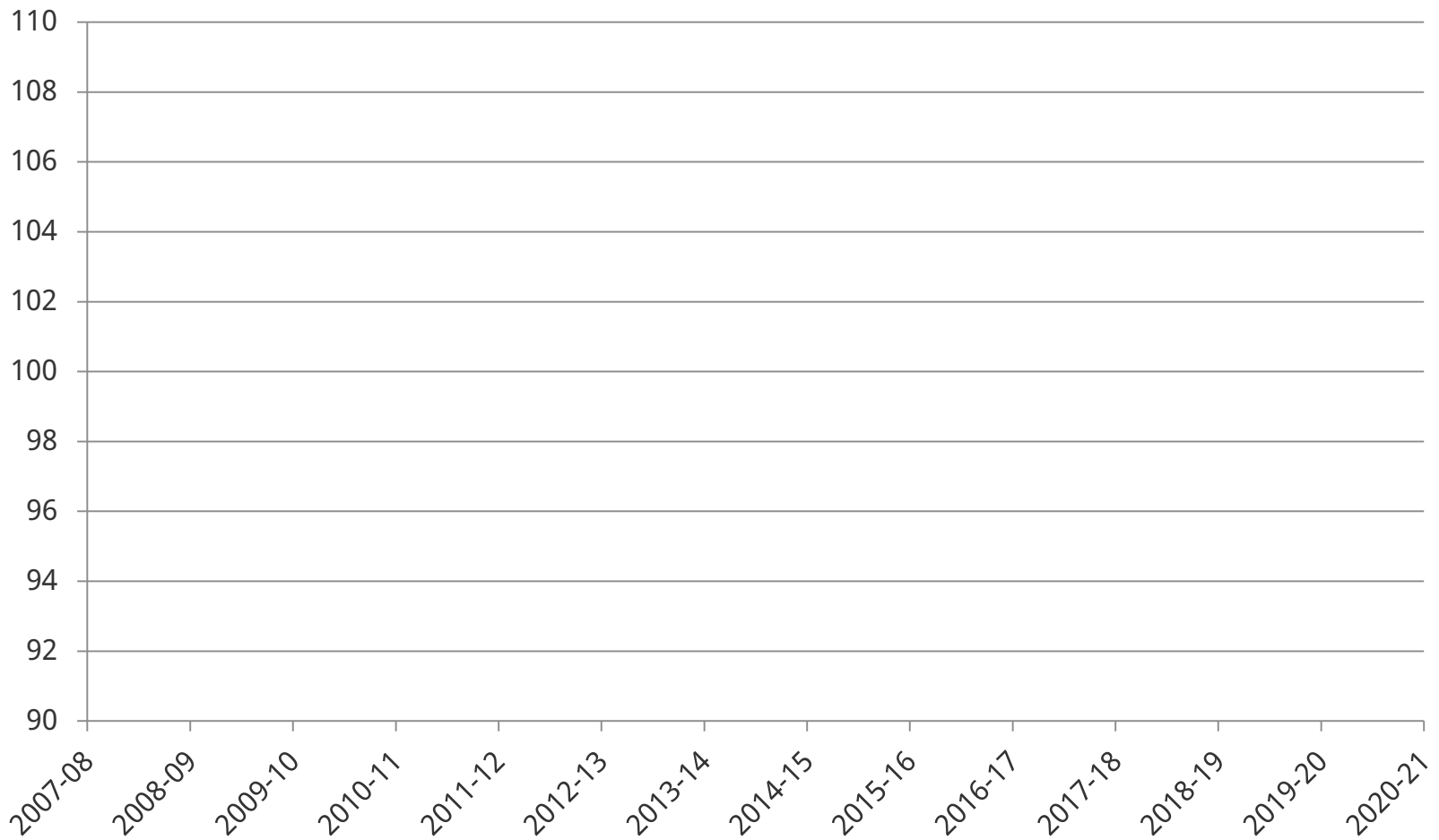
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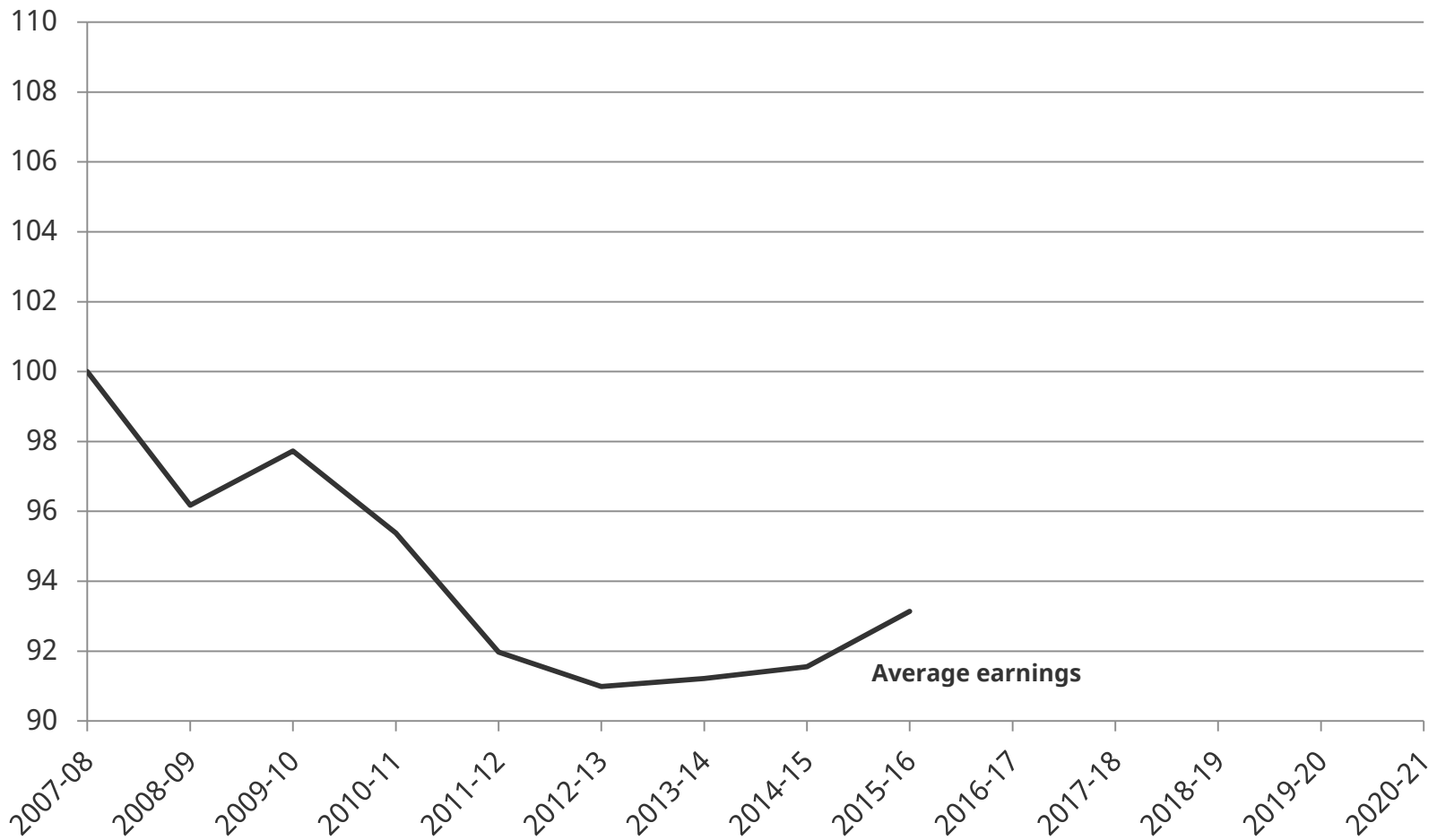


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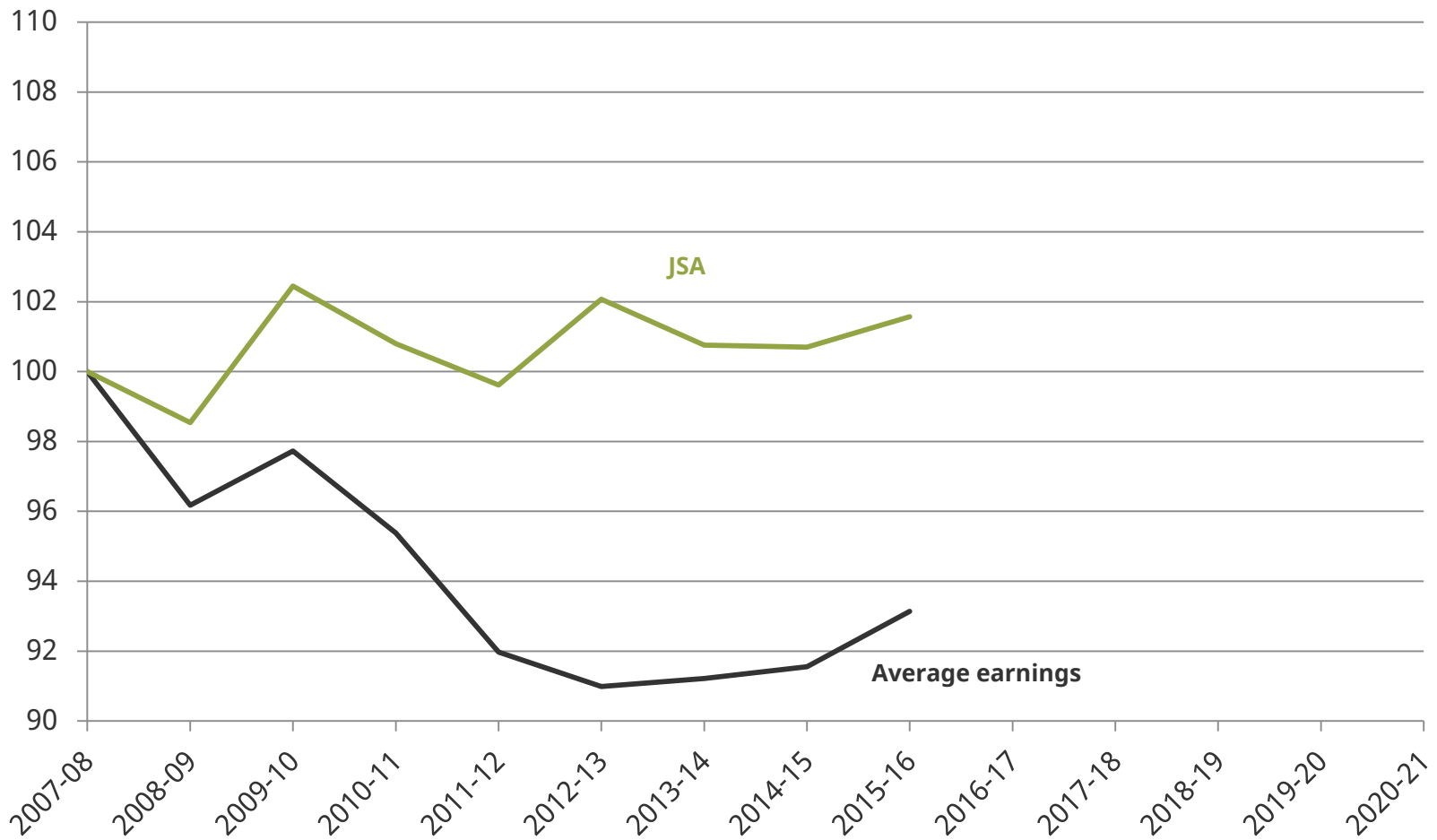
Real-terms path of earnings, benefits and state pensions (2007-08=100)



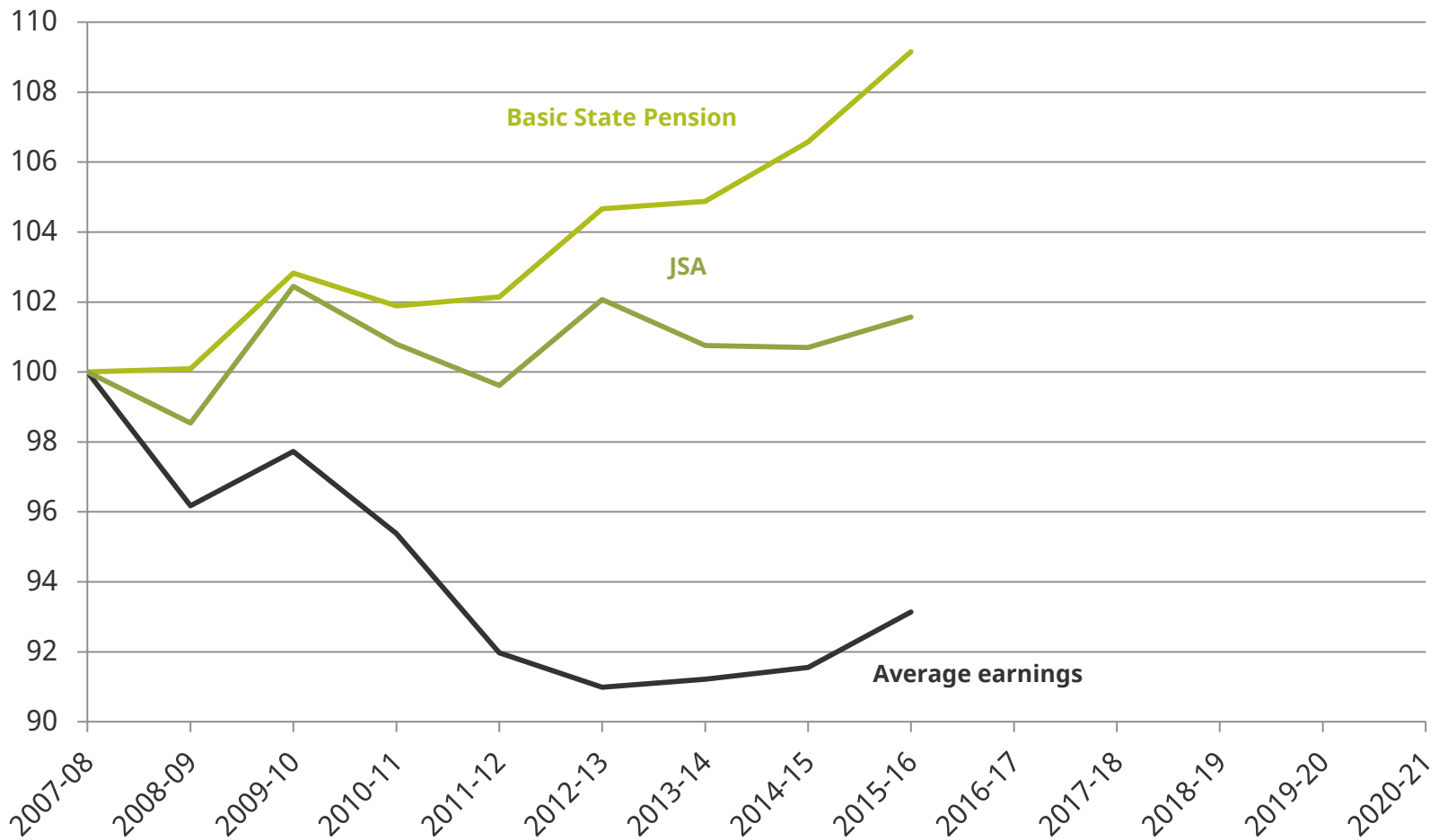
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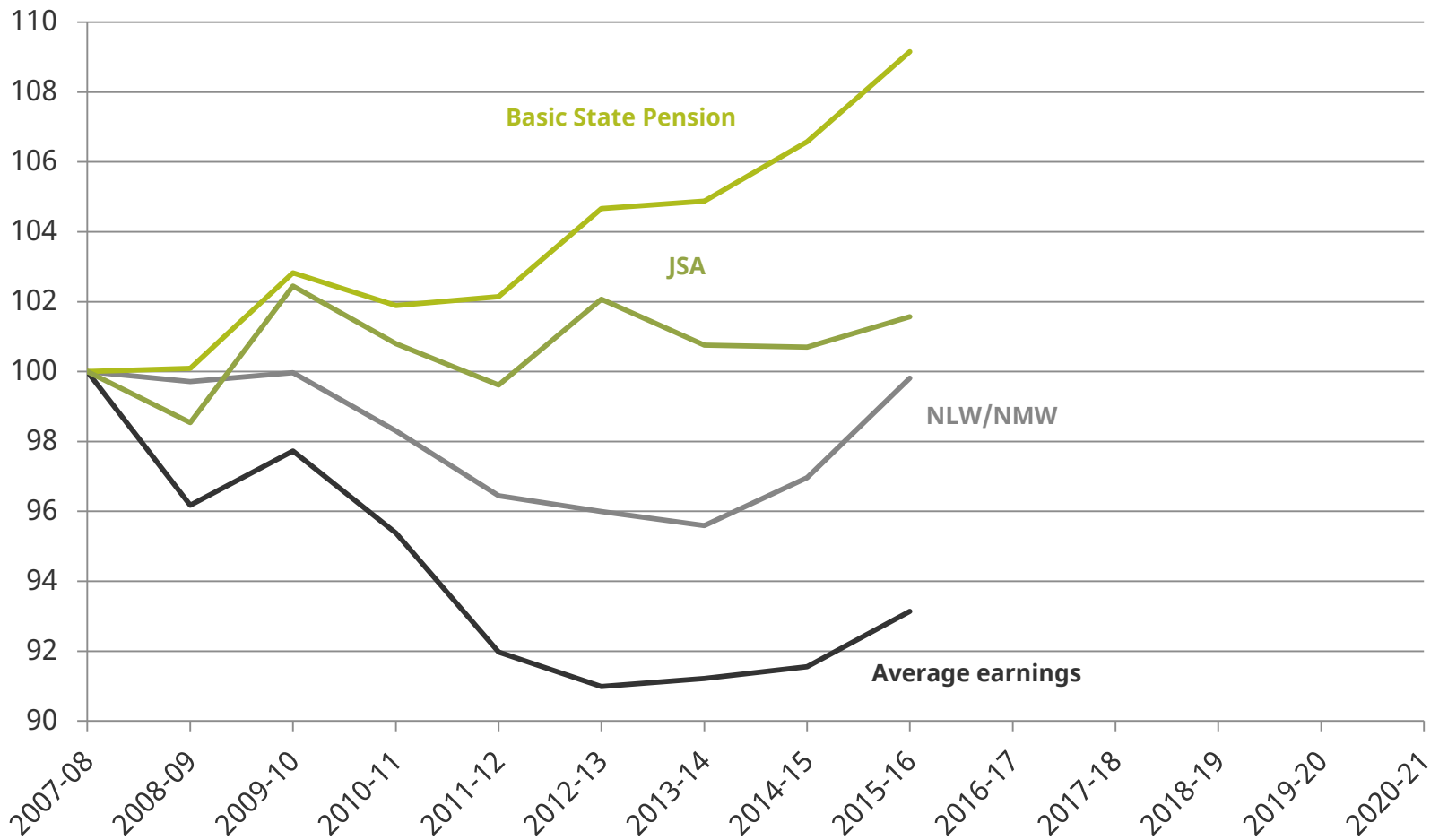
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Slower future growth means lower future living standards

OBR forecast national income (real GDP) to be £30bn (1.2%) lower in 2020-21 than it thought back in March

- Real GDP per household £1,000 lower in 2020-21 than expected

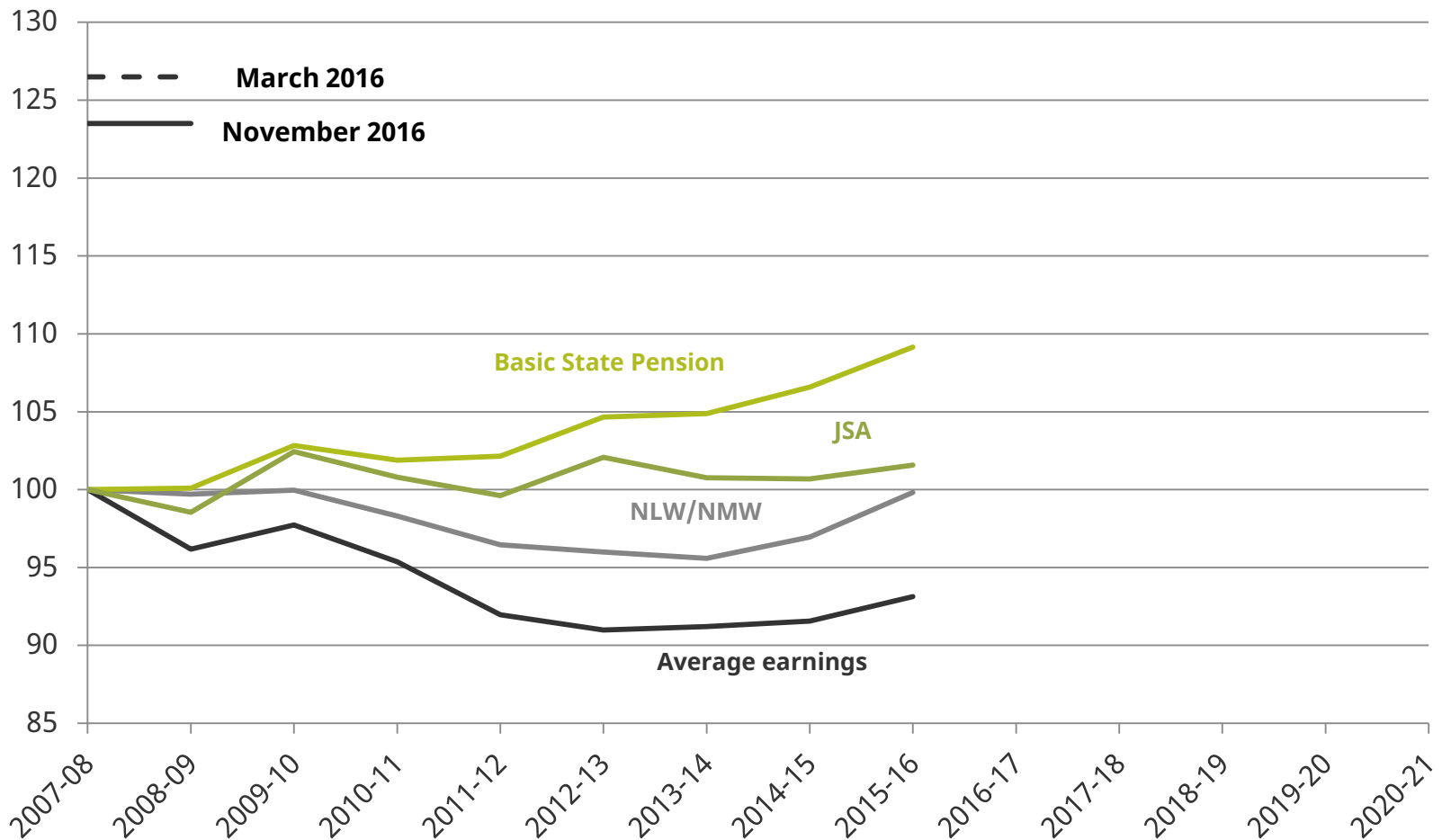
OBR forecast of effect of Brexit vote actually larger than total forecast revision (around £50bn)

- Real GDP per household £1,250 lower in 2020-21 as a result

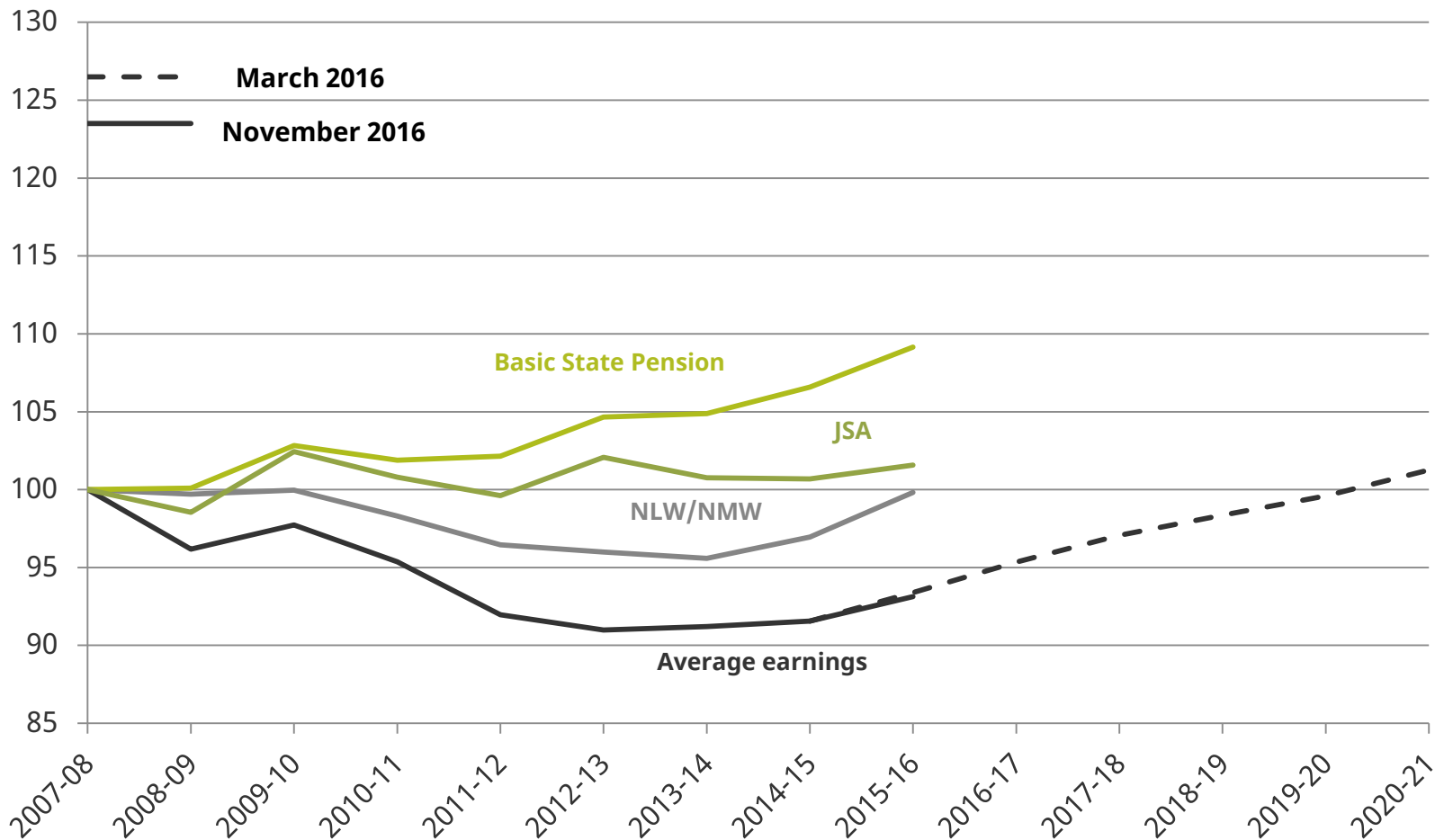
2 main ways the effects of this economic slowdown is expected to pass through to real household incomes

1. Higher prices facing UK consumers
2. Lower cash earnings for UK workers

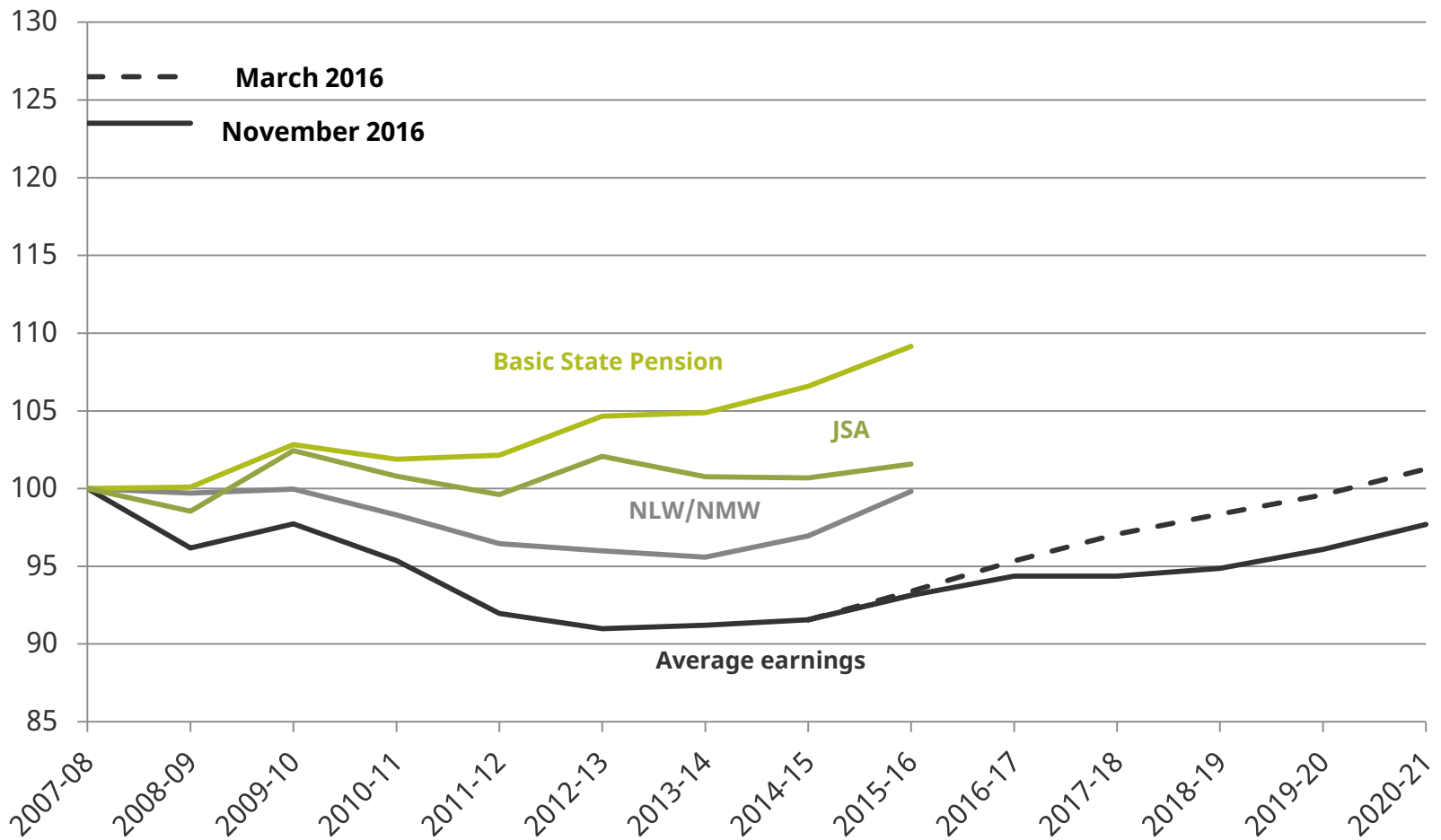
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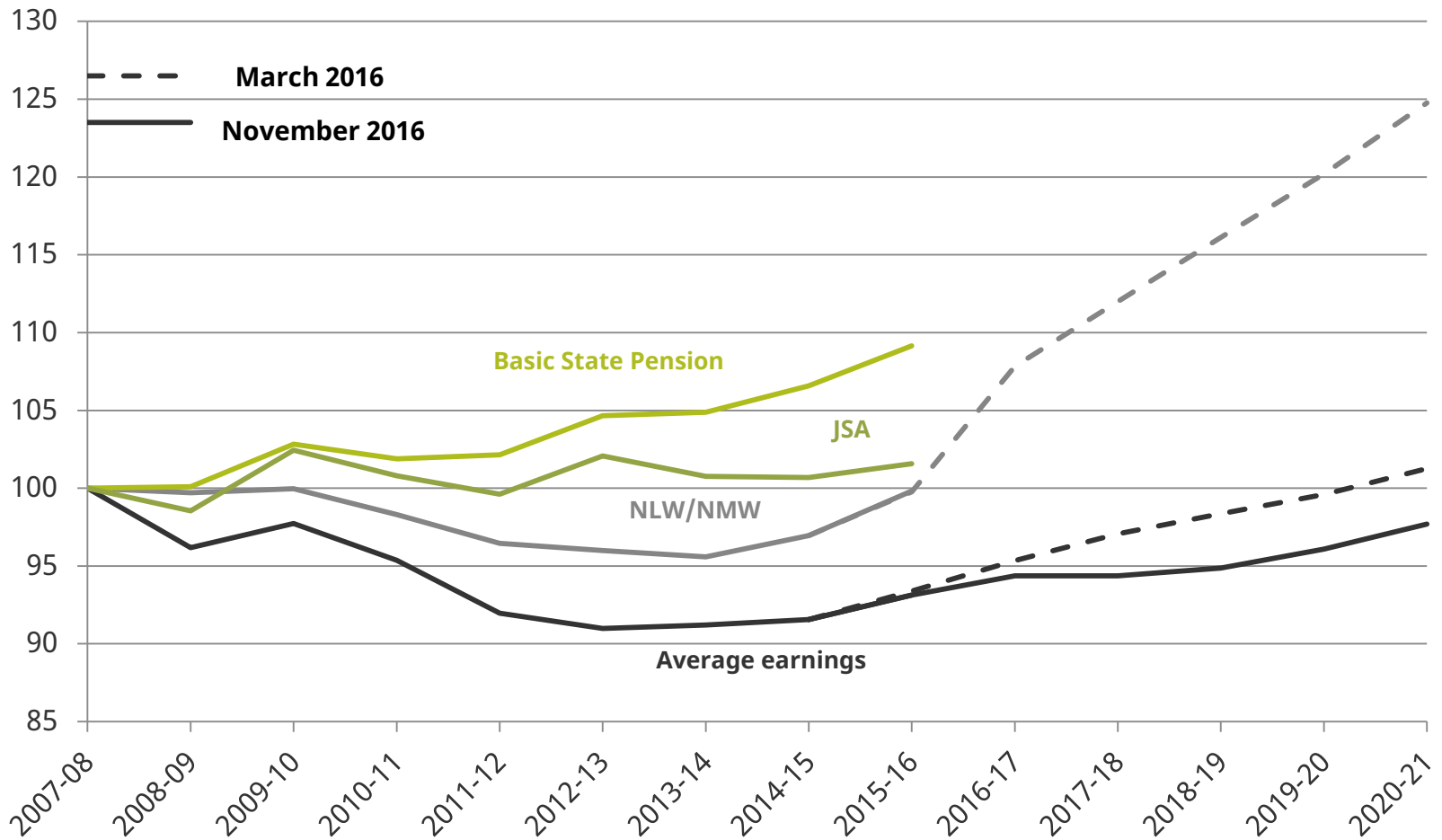
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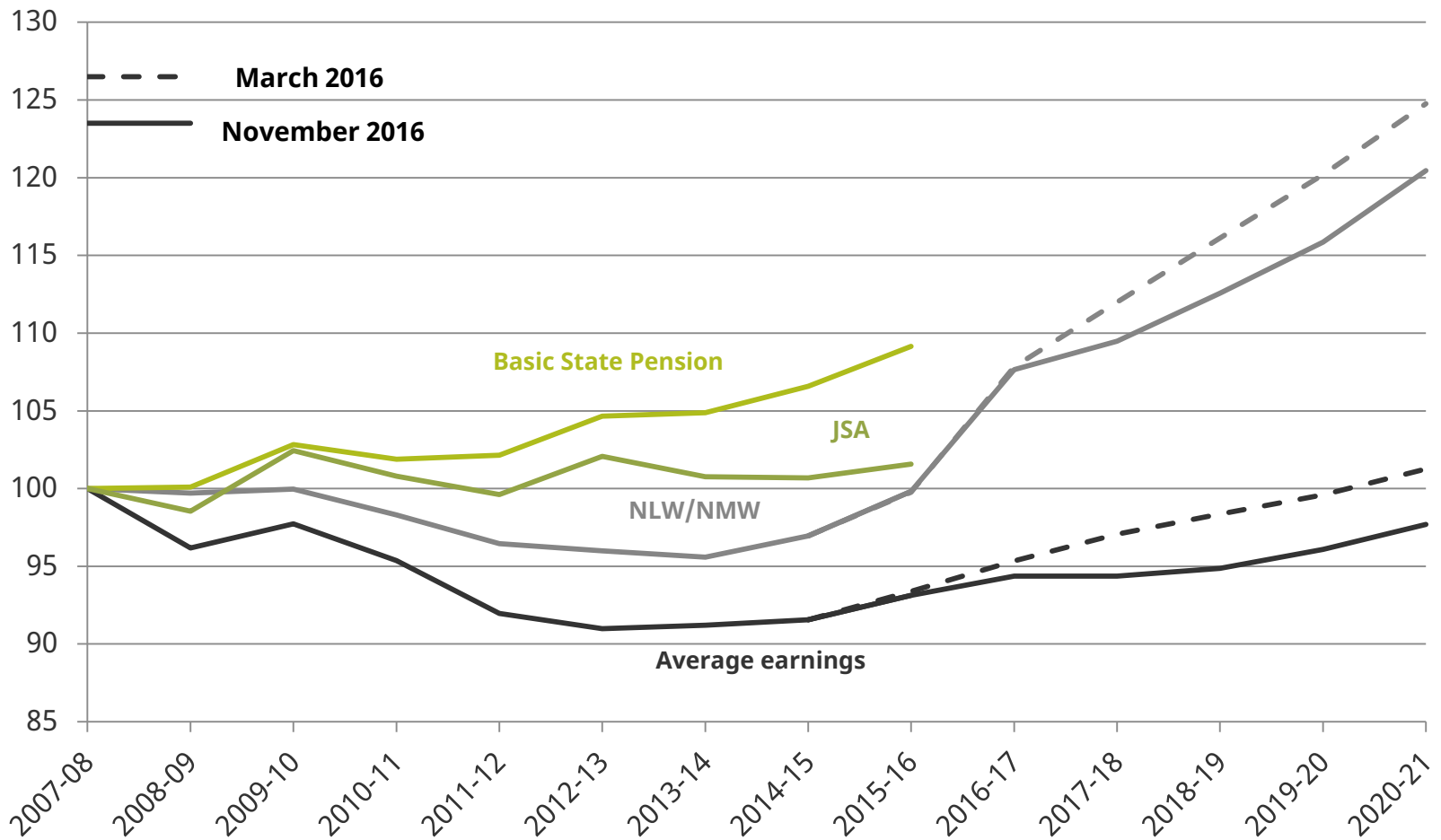
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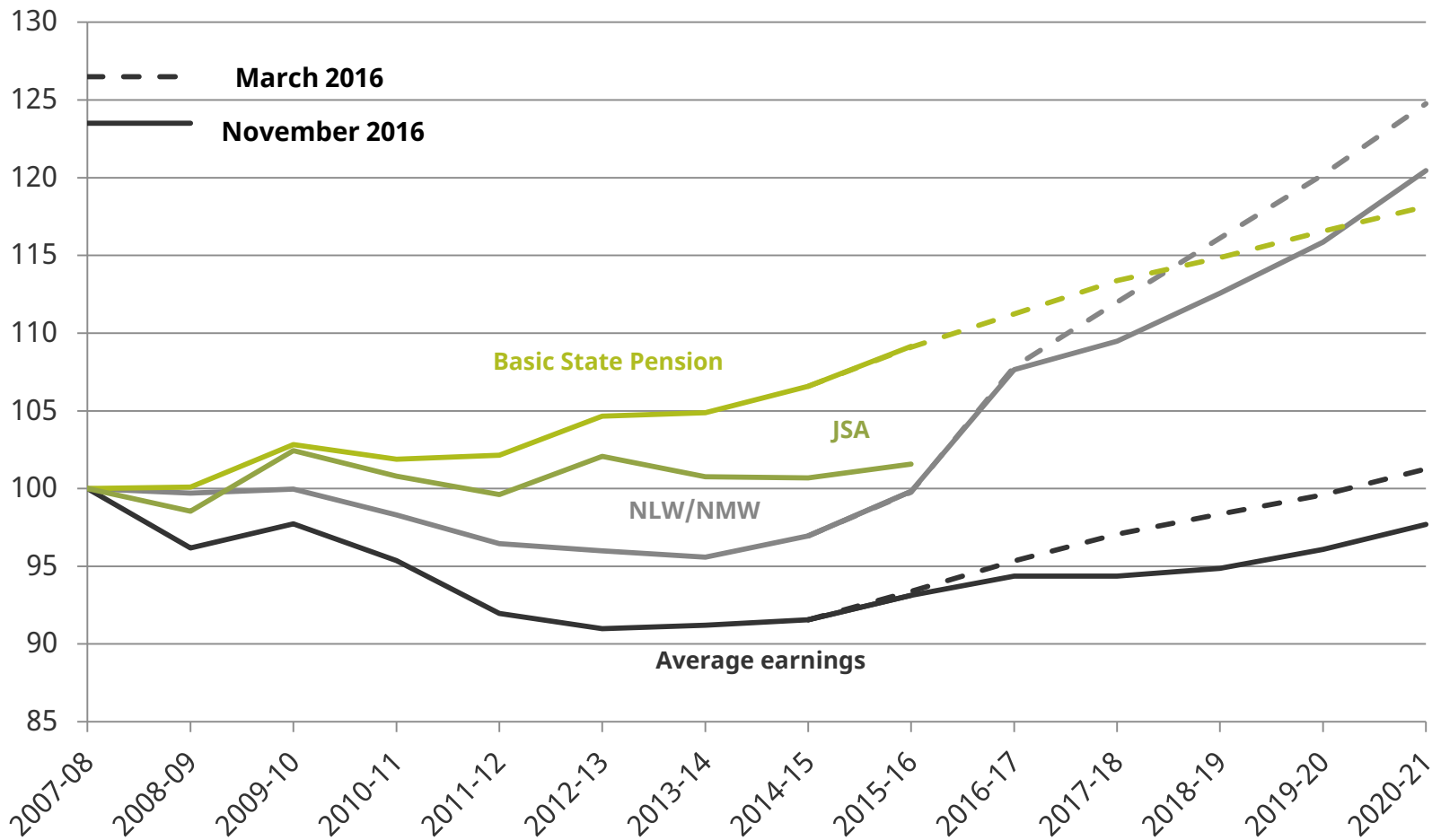
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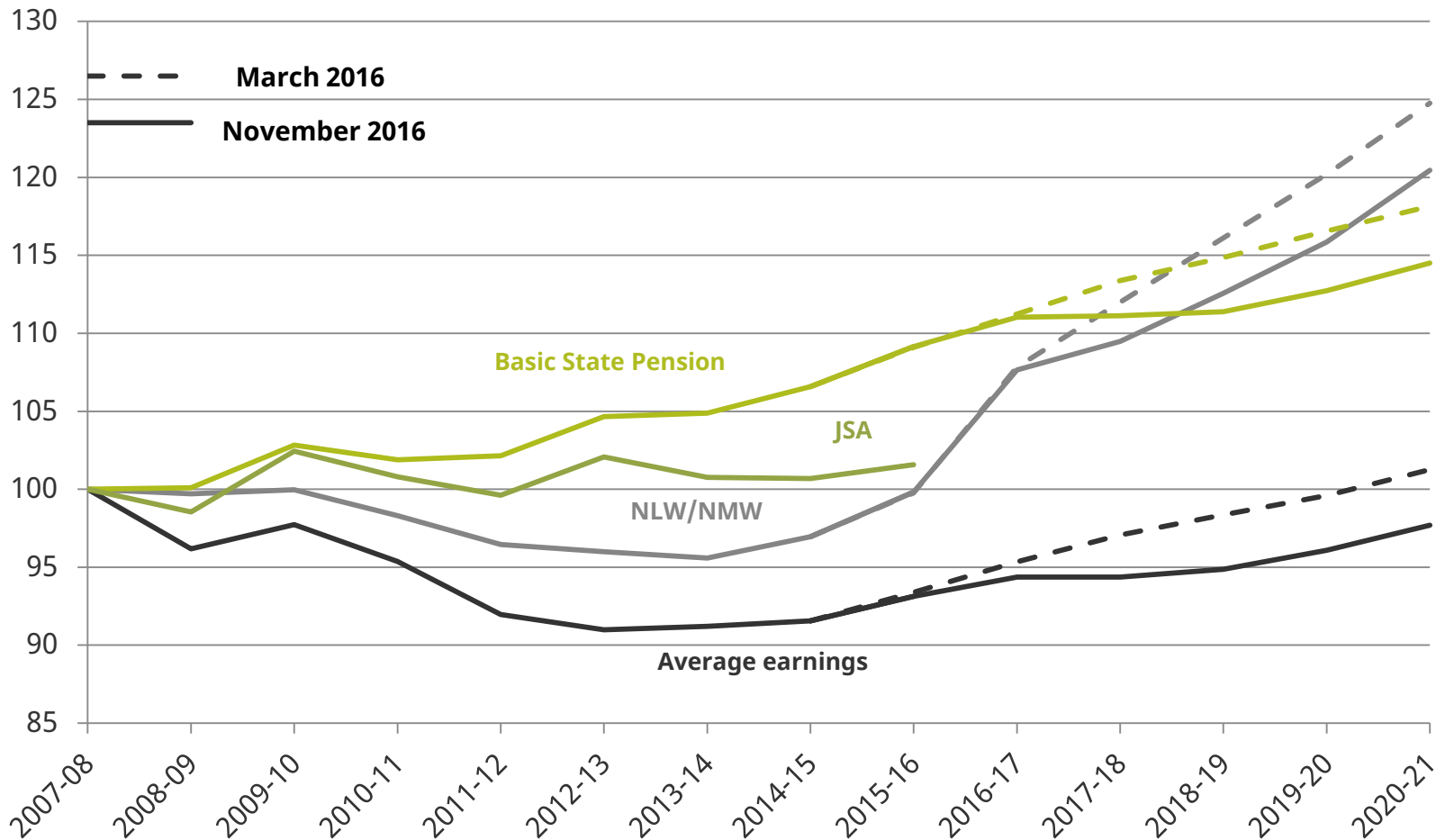
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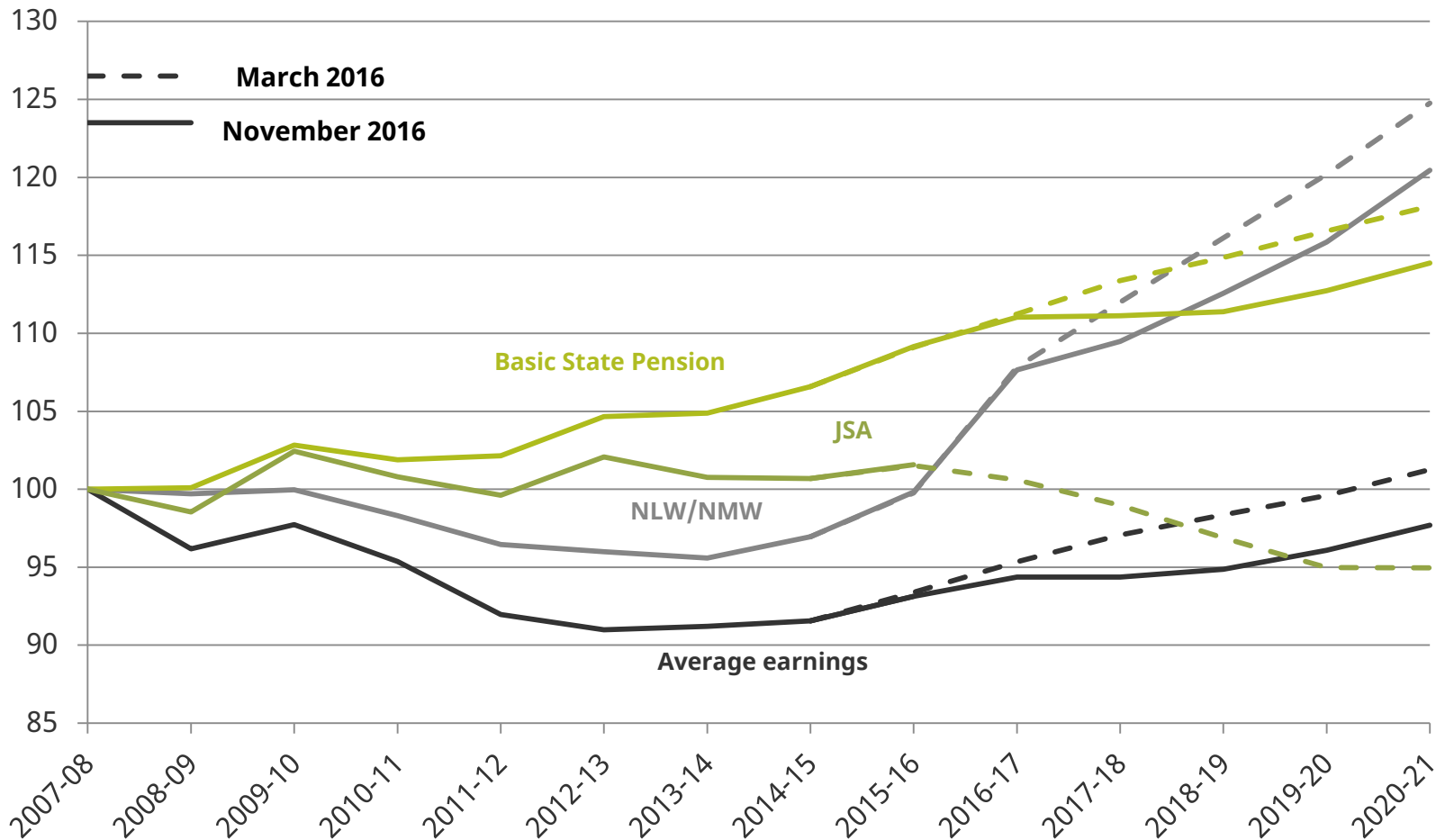
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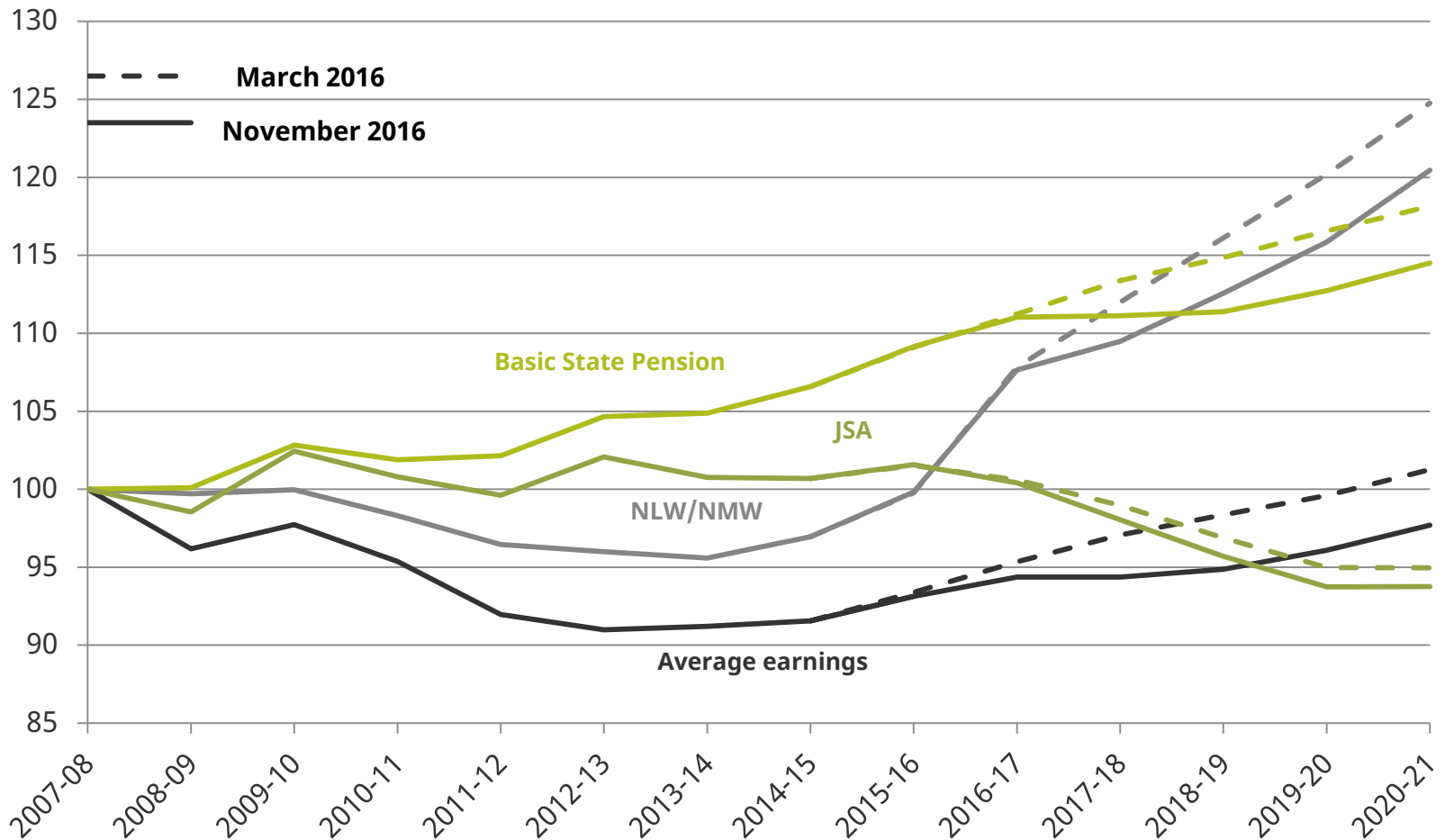
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Higher inflation – who pays the price?

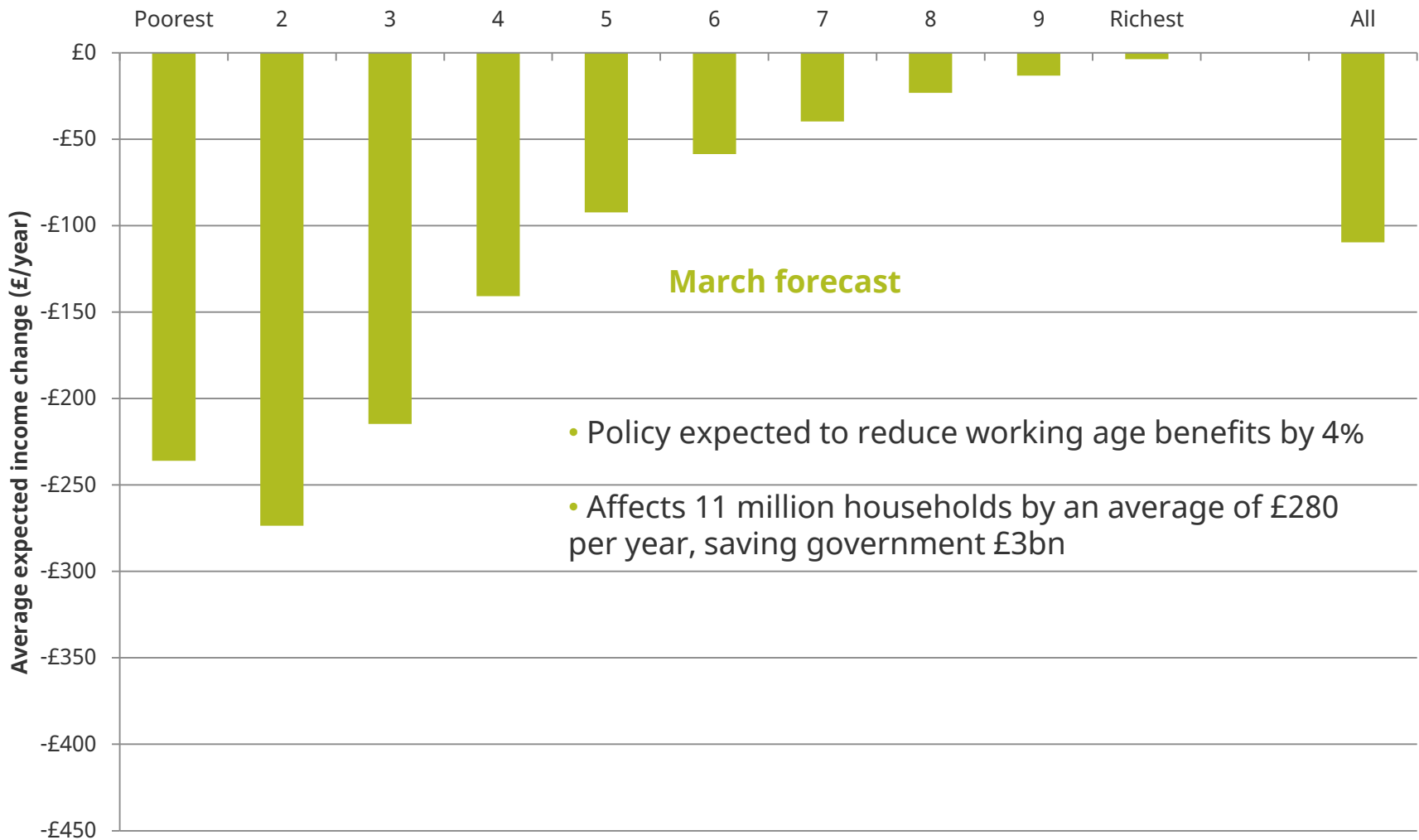
The OBR now expects prices to be 1.4% higher in 2021 Q1 than was expected back in March

- 13% fall in value of sterling adds 2.0% to CPI through higher import prices

The effect of the devaluation on prices is likely to be similar for different groups of households (see OBSERVATION)

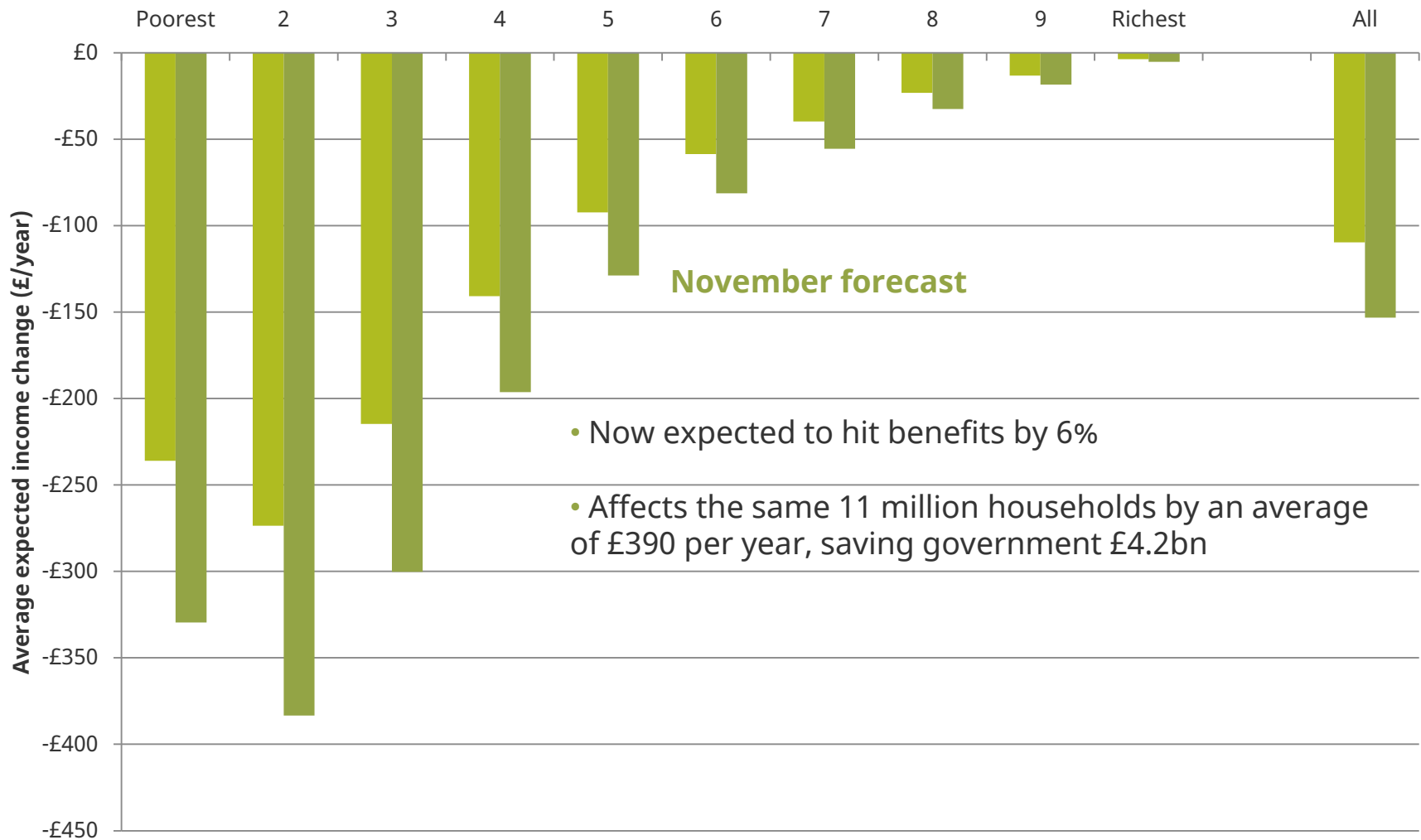
- But some households' incomes will rise automatically to offset higher prices
- Normally that would include low-income working-age households (in and out of work) on benefits...

Higher inflation – the benefits freeze



Assumes full take-up of means-tested benefits and tax credits and all changes fully in place

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Lower earnings

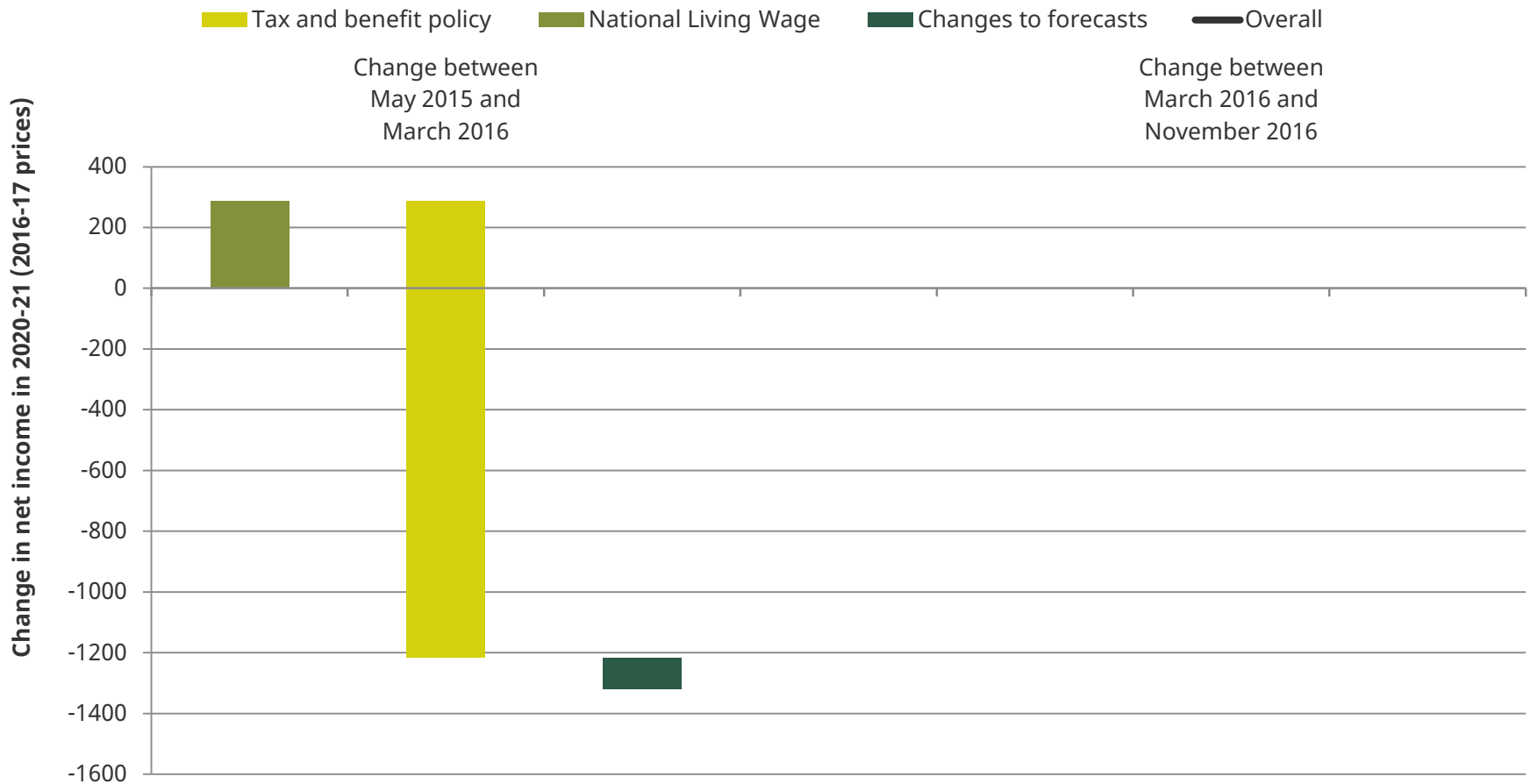
The OBR now expects average earnings to be 2.4% lower in cash terms in 2021 Q1 than was expected back in March

- Mainly explained by lower productivity, as investment falls in light of post-Brexit uncertainty
- Combined with higher inflation, this is a 3.7% decline in forecast average real earnings

2020 National Living Wage expected to be 27p an hour lower in real terms than was expected back in March

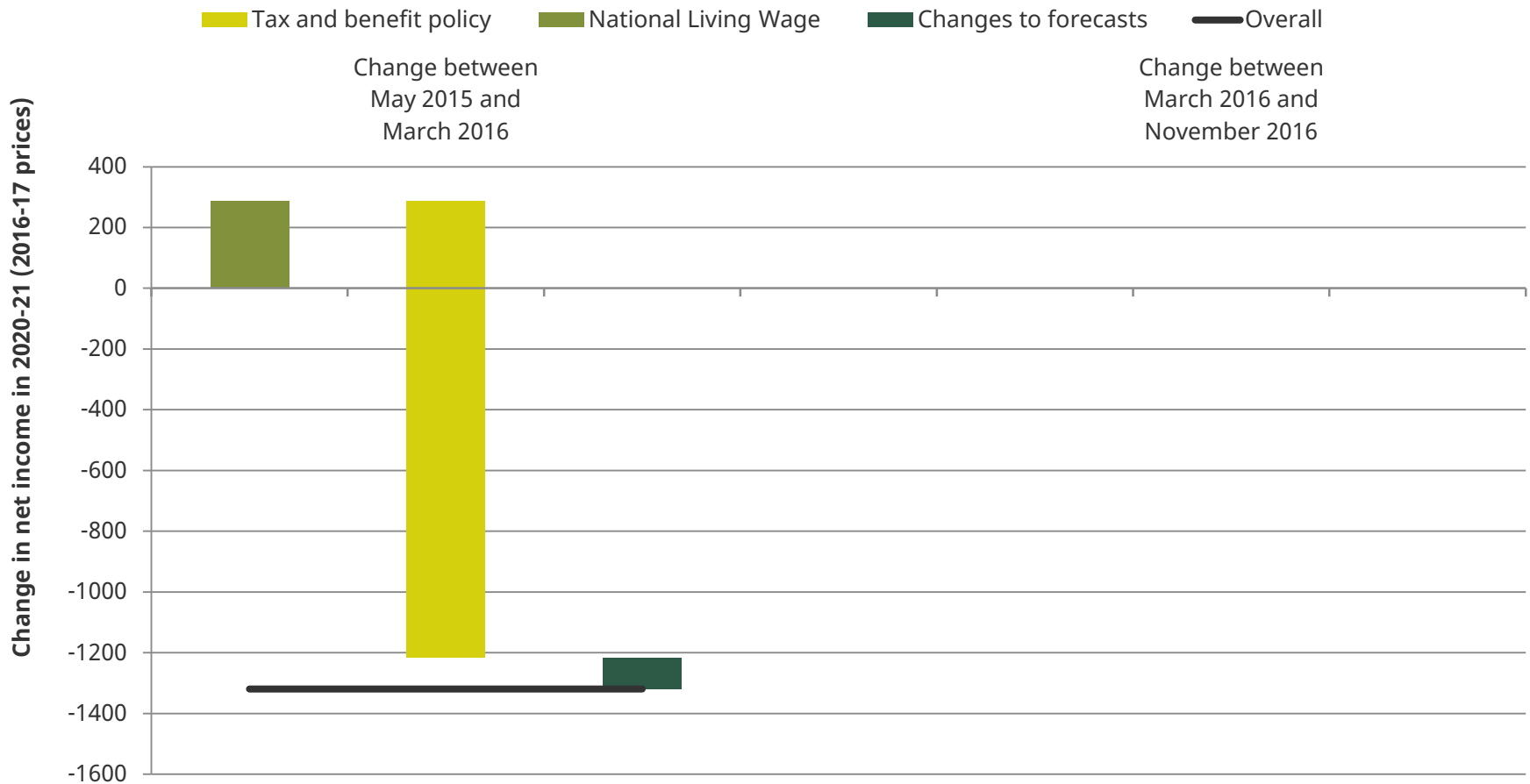
- £8.05 in current prices, compared to £8.32 expected in March
- But still much higher than the £7.09 expected for the National Minimum Wage

Impact on expected net income for a part-time lone parent in 2020-21



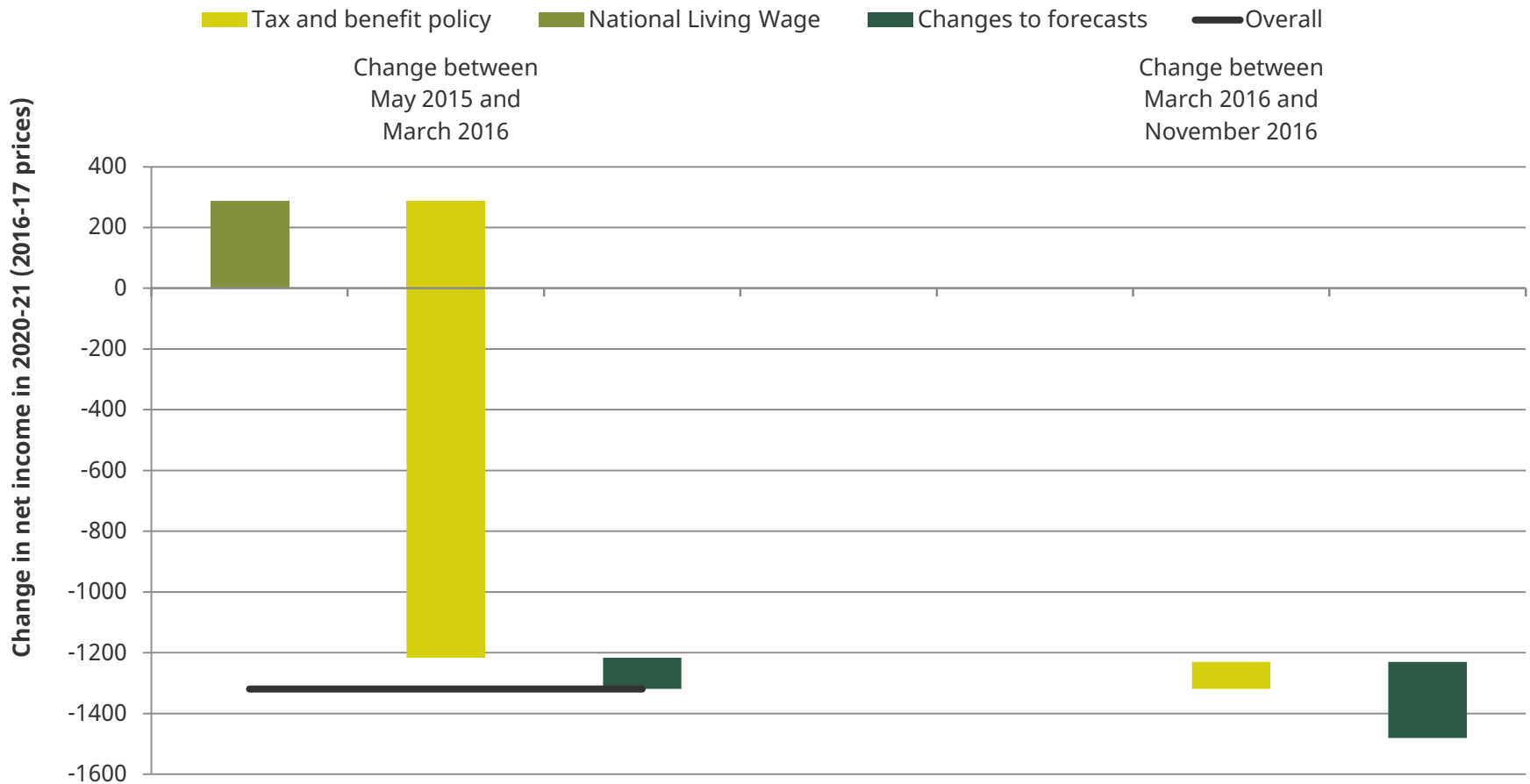
Note: figure shows change in expected net income for lone parent with 2 children, working 16 hours per week at the National Living Wage in 2020-21, with a weekly rent of £130.

Impact on expected net income for a part-time lone parent in 2020-21



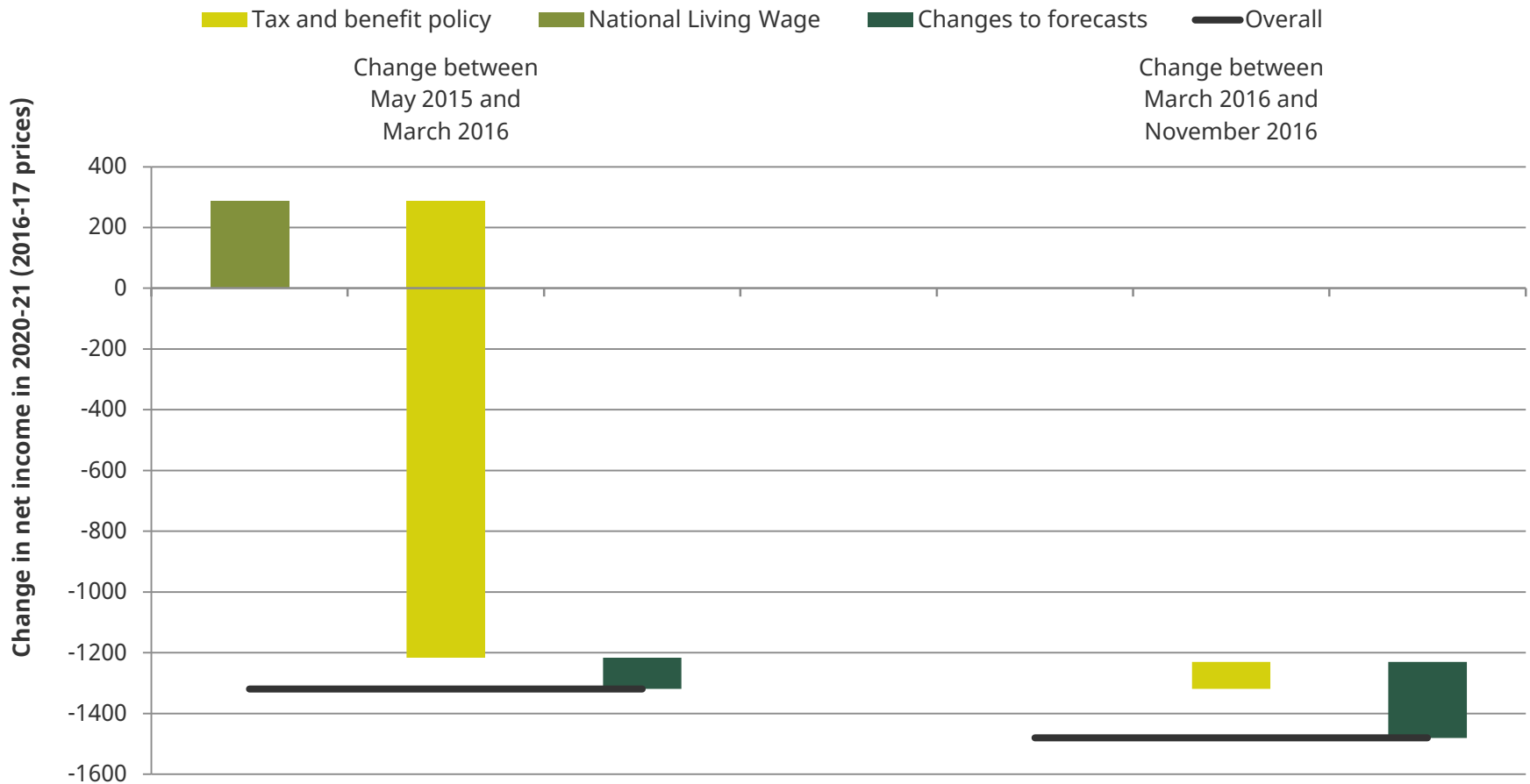
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Conclusion

Living standards over the next few years to be hit by combination of higher prices and lower earnings

- OBR expects average real earnings to be 3.7% lower in 2021 than they thought back in March (and still to be below pre-crisis level)

Pensioners will feel earnings squeeze less, and more protected than working-age households when prices rise

- Particularly given working-age benefits freeze
- But real increase in state pension lower than previously expected

Next few years will see benefits cuts for low-income working households on top of lower earnings and higher prices

- For some low-income working families these will actually matter more than the weaker macro outlook