



Sam Ray-Chaudhuri

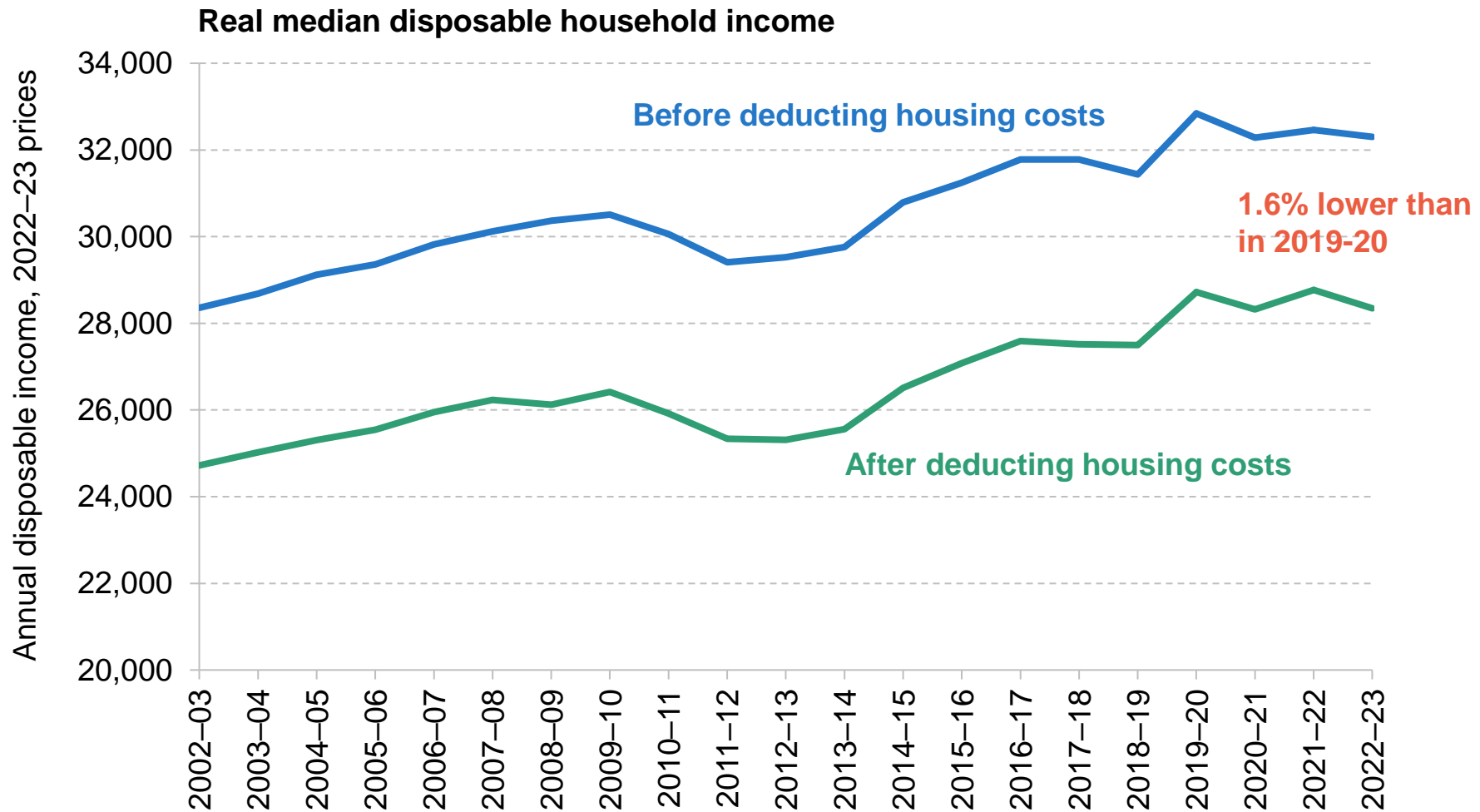
25 July 2024

@TheIFS

Living standards, poverty and inequality

What has happened to household incomes?

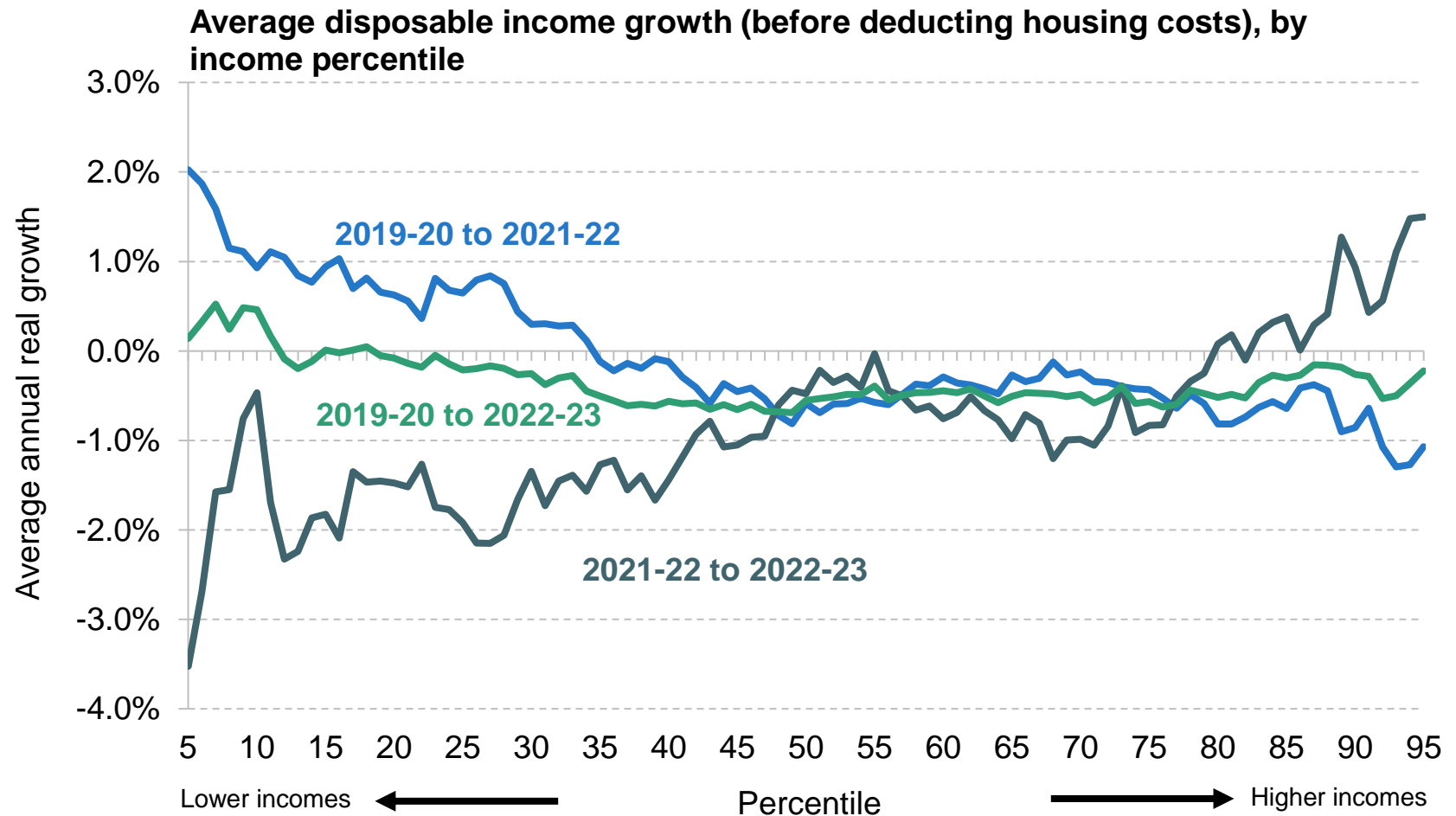
Average income fell slightly in 2022-23



Source: Figure 2.1

Note: Incomes have been measured net of taxes and benefits, and are expressed in 2022-23 prices. All incomes have been equivalised using the modified OECD equivalence scale and are expressed in terms of equivalent amounts for a childless couple.

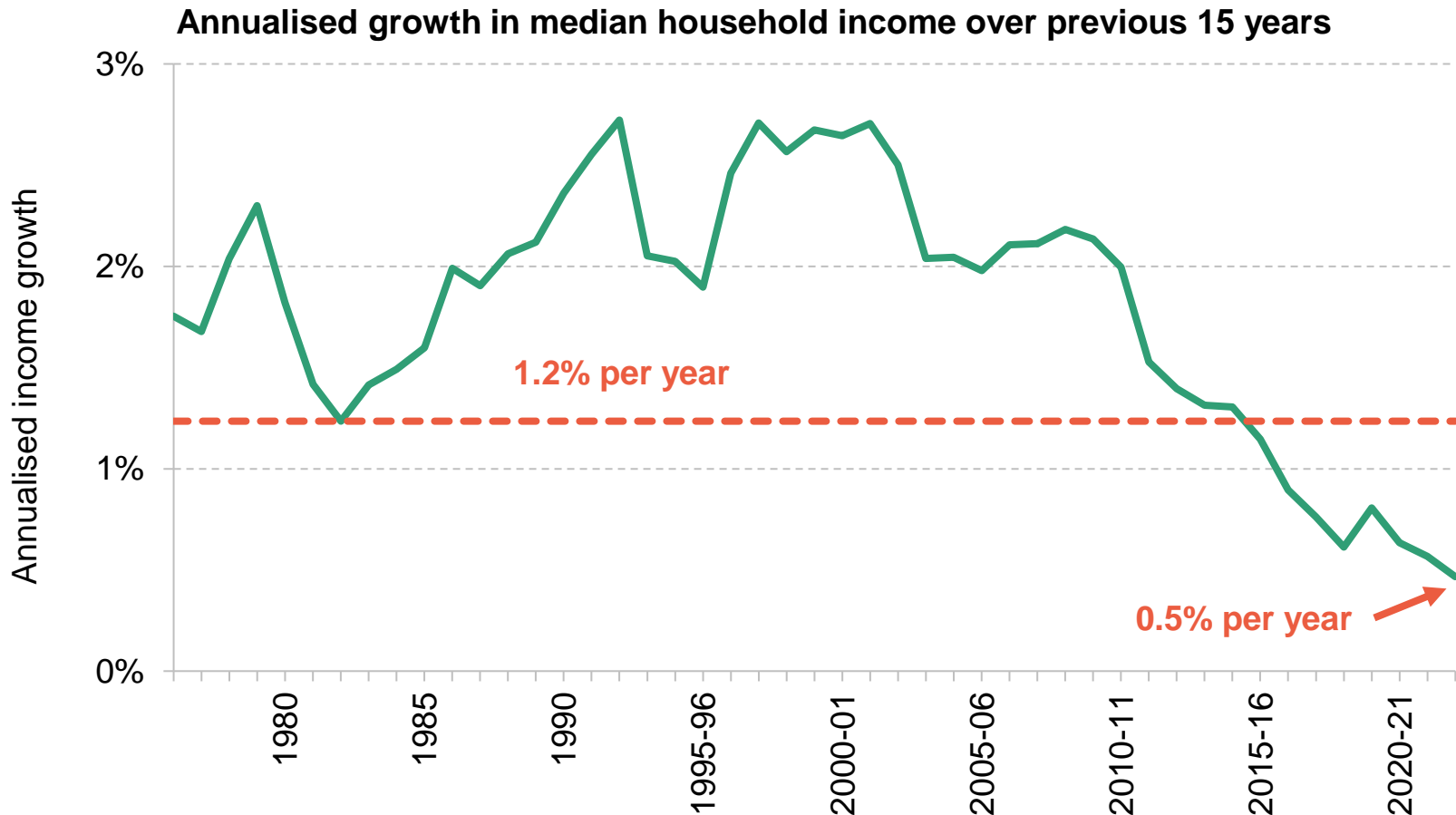
Incomes have performed poorly across the distribution



Source: Figure 2.4

Note: Incomes have been measured net of taxes and benefits. All incomes have been equivalised using the modified OECD equivalence scale

Growth in household incomes has been historically slow

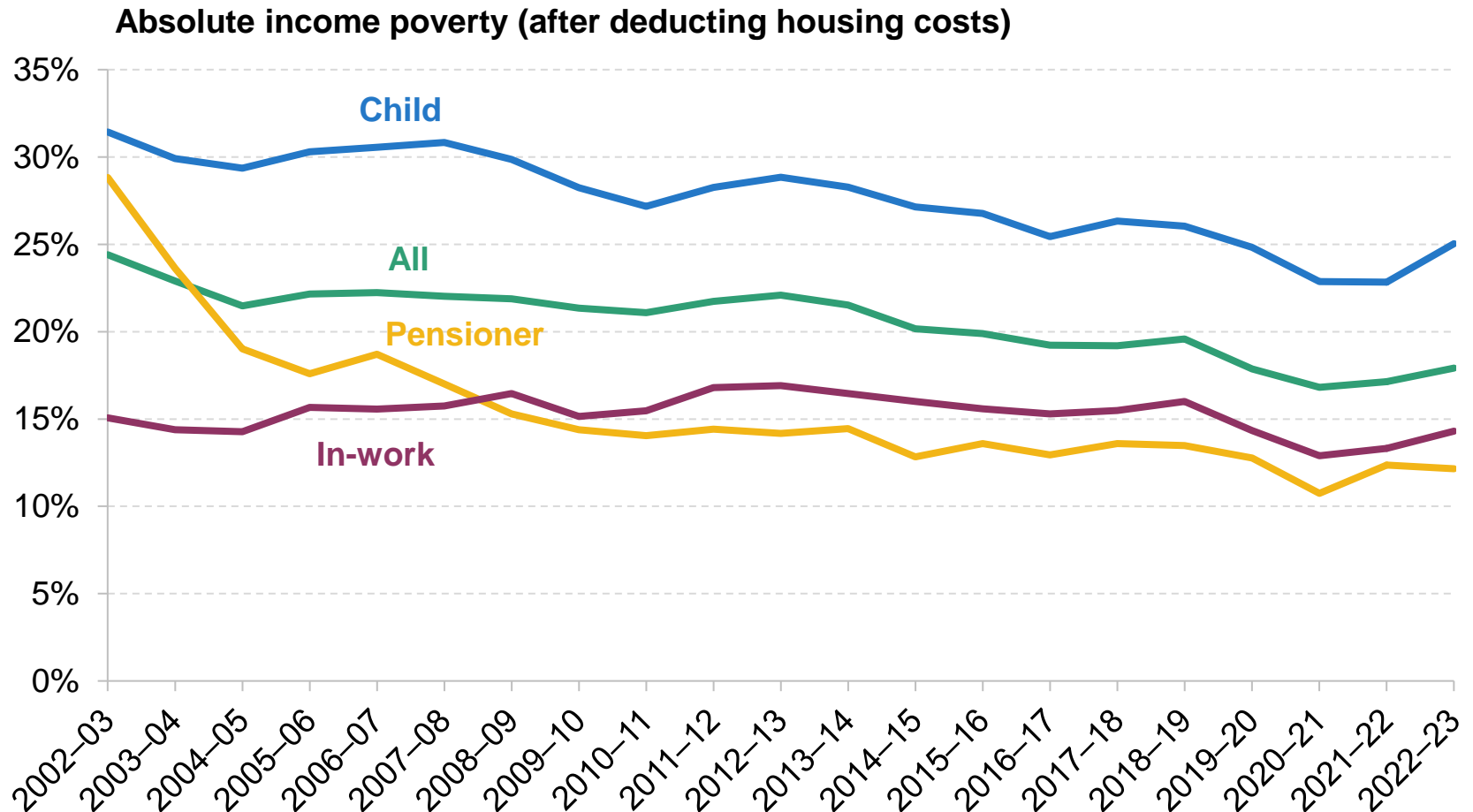


Source: Figure 2.2

Note: Incomes have been measured net of taxes and benefits. All incomes have been equivalised using the modified OECD equivalence scale.

What has happened to poverty and deprivation?

Poverty rates rose modestly in 2022-23

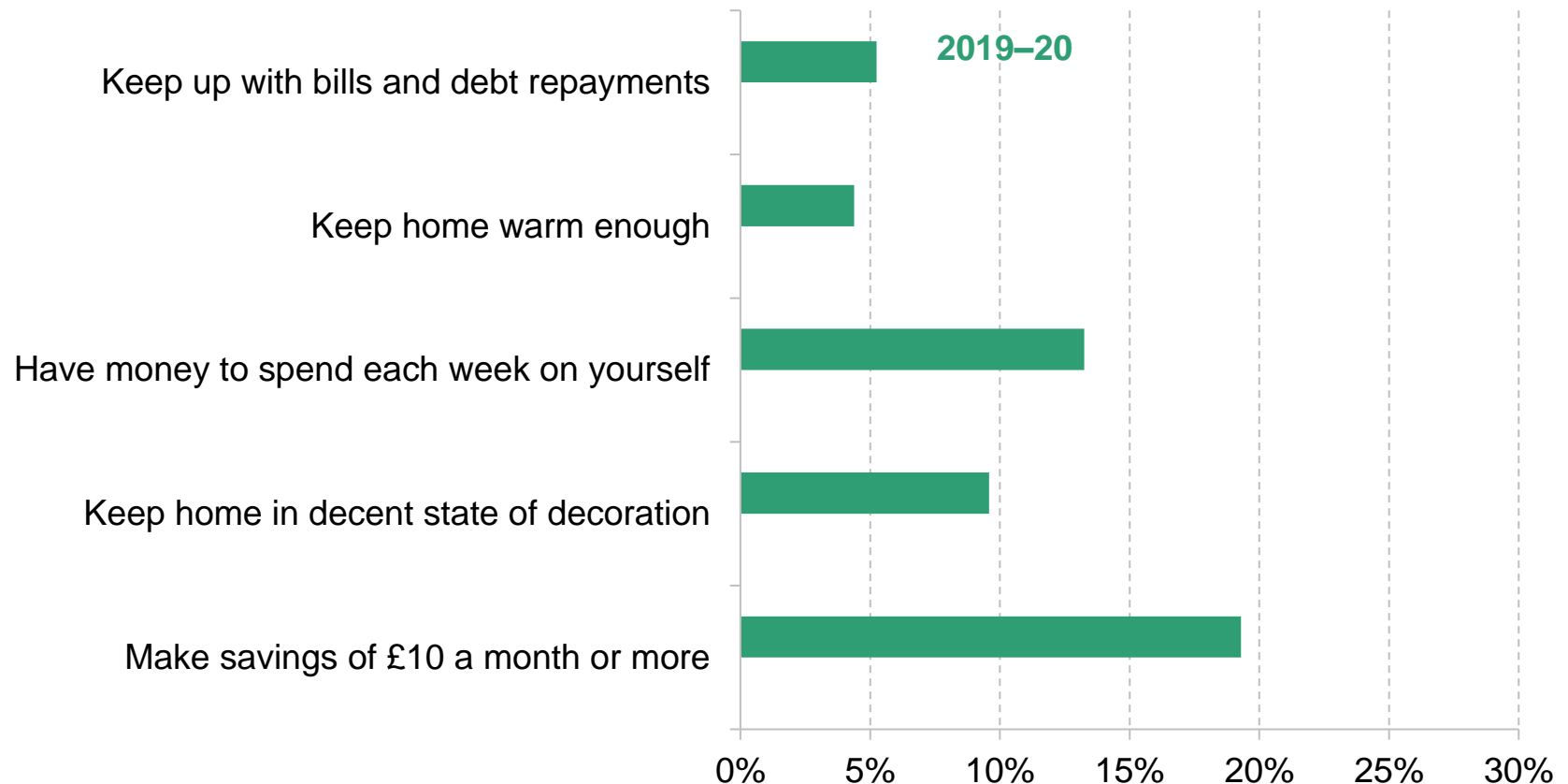


Source: Figure 3.1

Note: Incomes have been measured net of taxes and benefits. All incomes have been equivalised using the modified OECD equivalence scale and are expressed in terms of equivalent amounts for a childless couple. The “in-work” series includes non-pensioner individuals in households with at least one member in work.

But deprivation measures tell a different story

Proportion of working-age adults unable to afford item

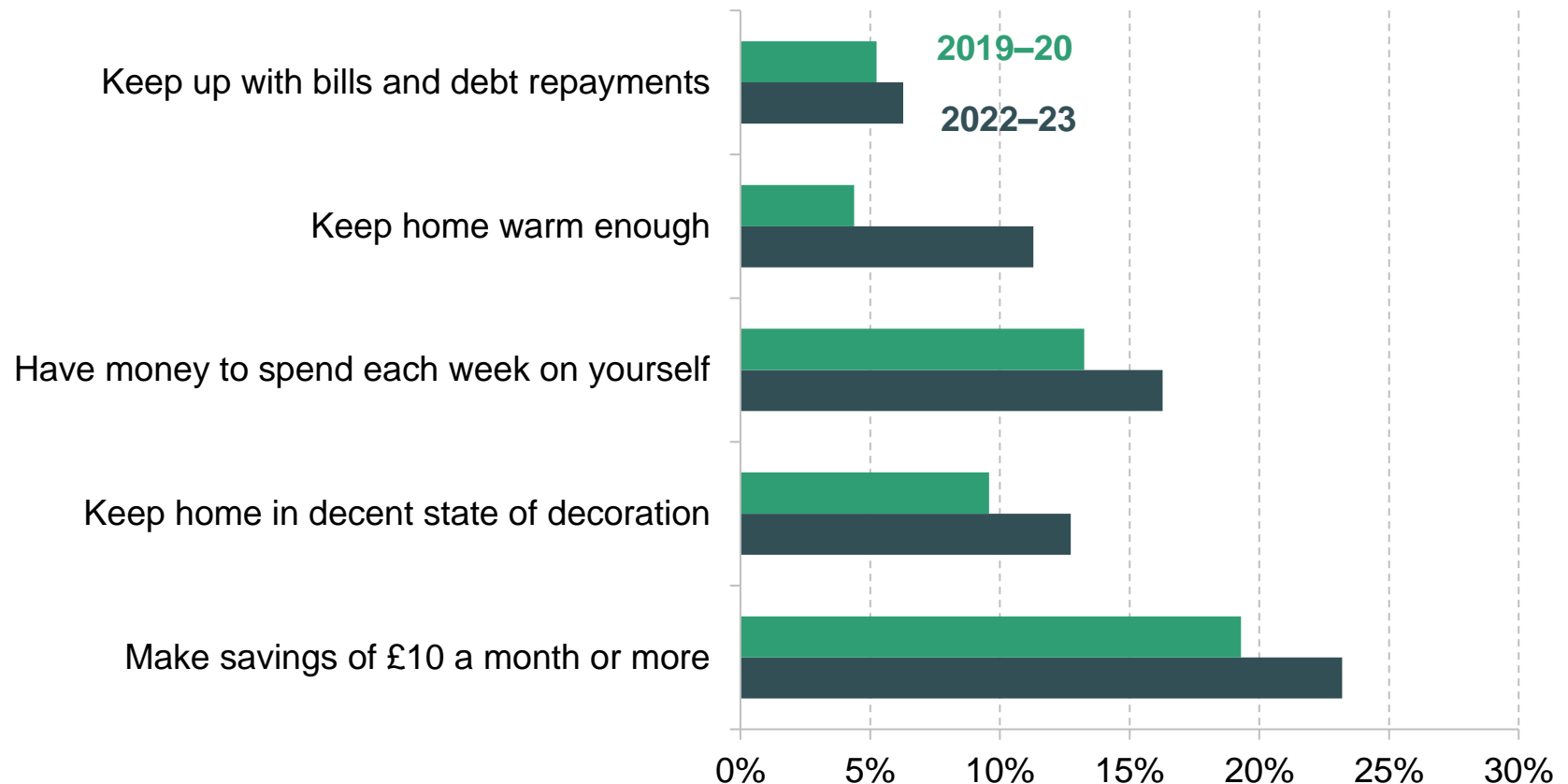


Source: Figure 3.4

Note: These are a subset of items used to calculate the combined material deprivation measure. We include the five with the highest prevalence weight, and list in descending order of prevalence weight

But deprivation measures tell a different story

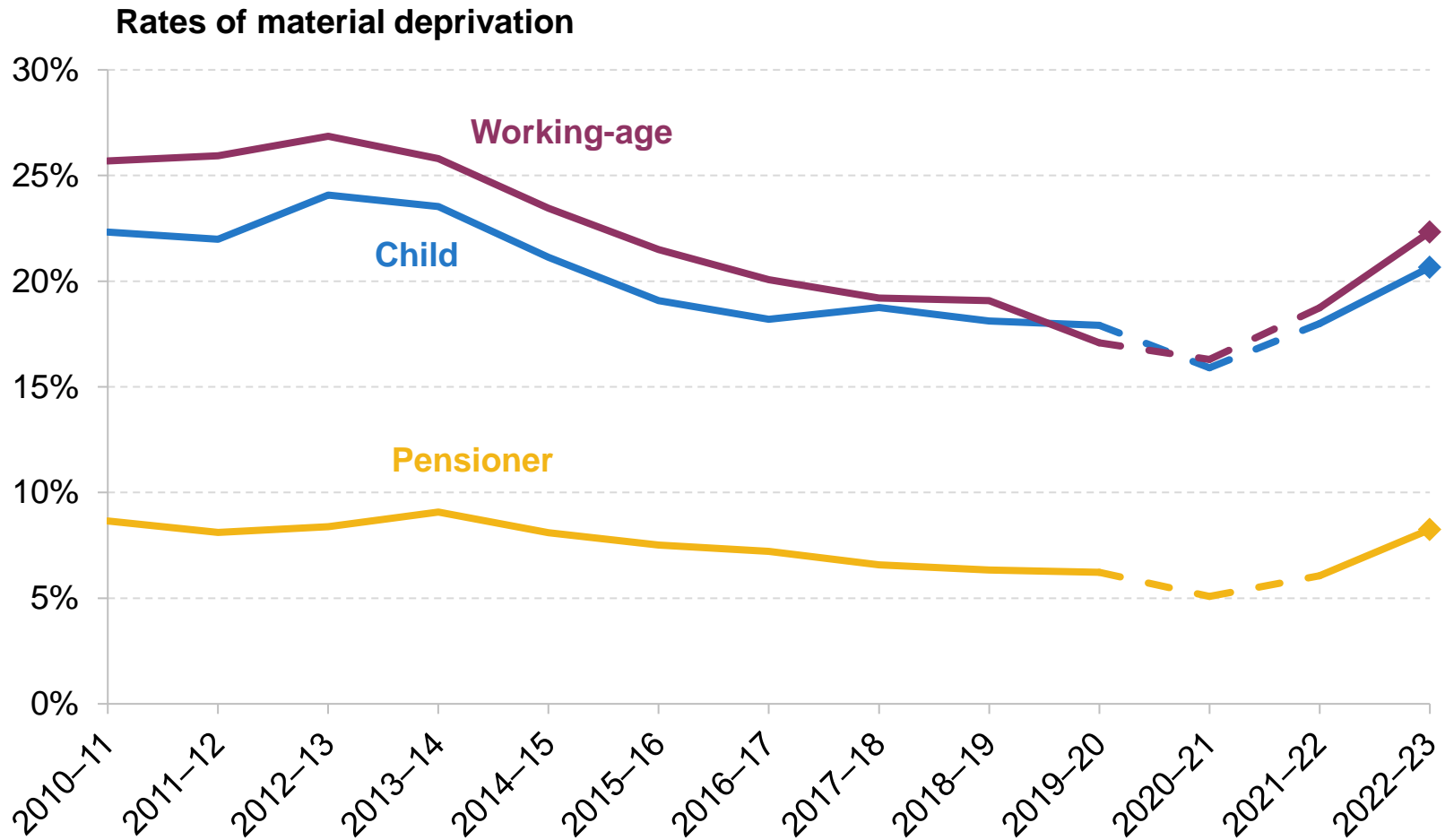
Proportion of working-age adults unable to afford item



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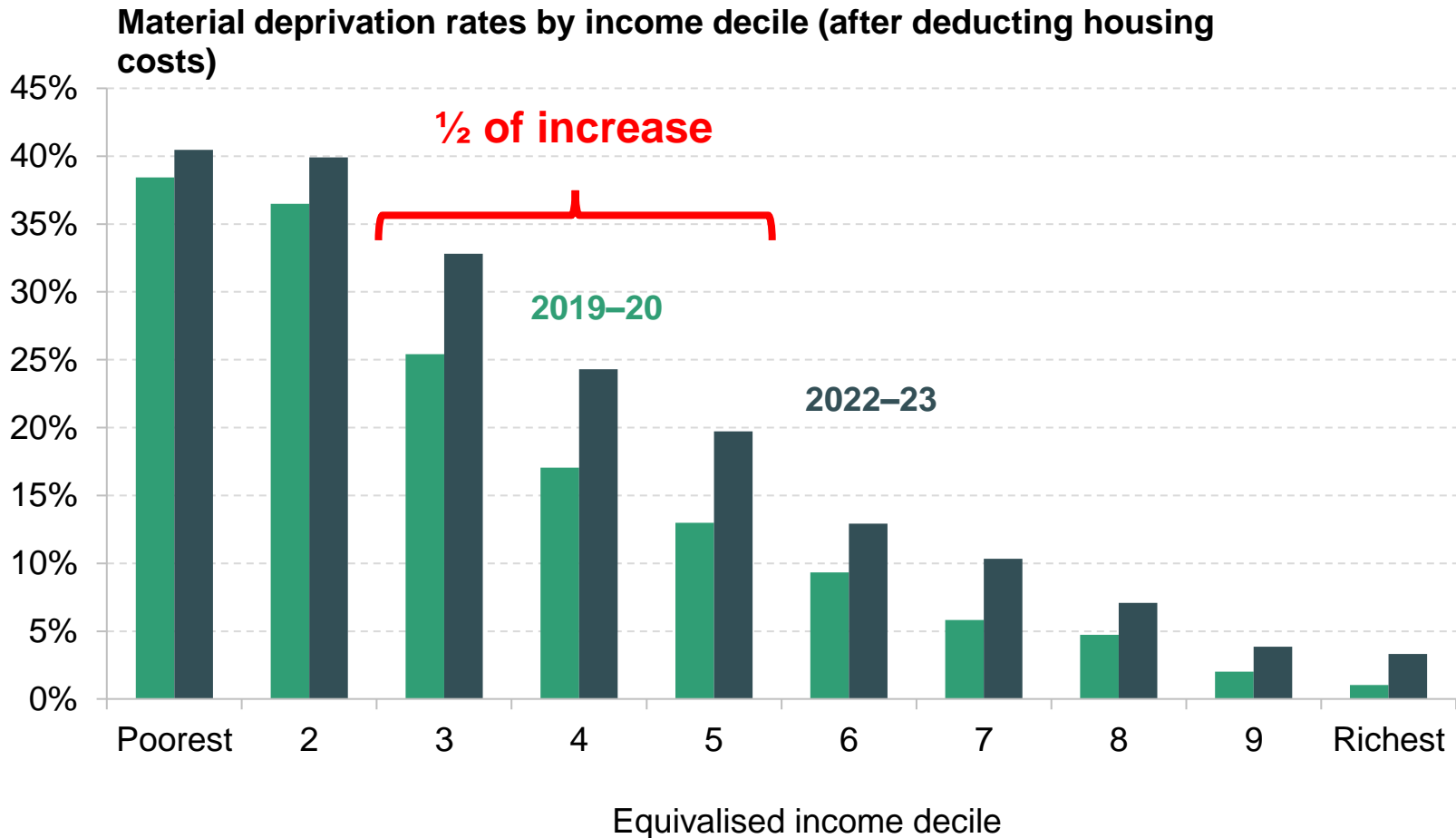
But deprivation measures tell a different story



Source: Figure 3.3

Note: Rates in 2020-21 and 2021-22 are dashed because material deprivation statistics were impacted by legal restrictions due to the COVID-19 pandemic. Material deprivation is defined as in DWP's HBAI publication, except it is not combined with low income.

Majority of rise has come from households above poverty line



Source: Figure 3.5

Note: Material deprivation is defined as in DWP's HBAI publication, except it is not combined with low income. Income deciles are based on income after housing costs have been deducted.

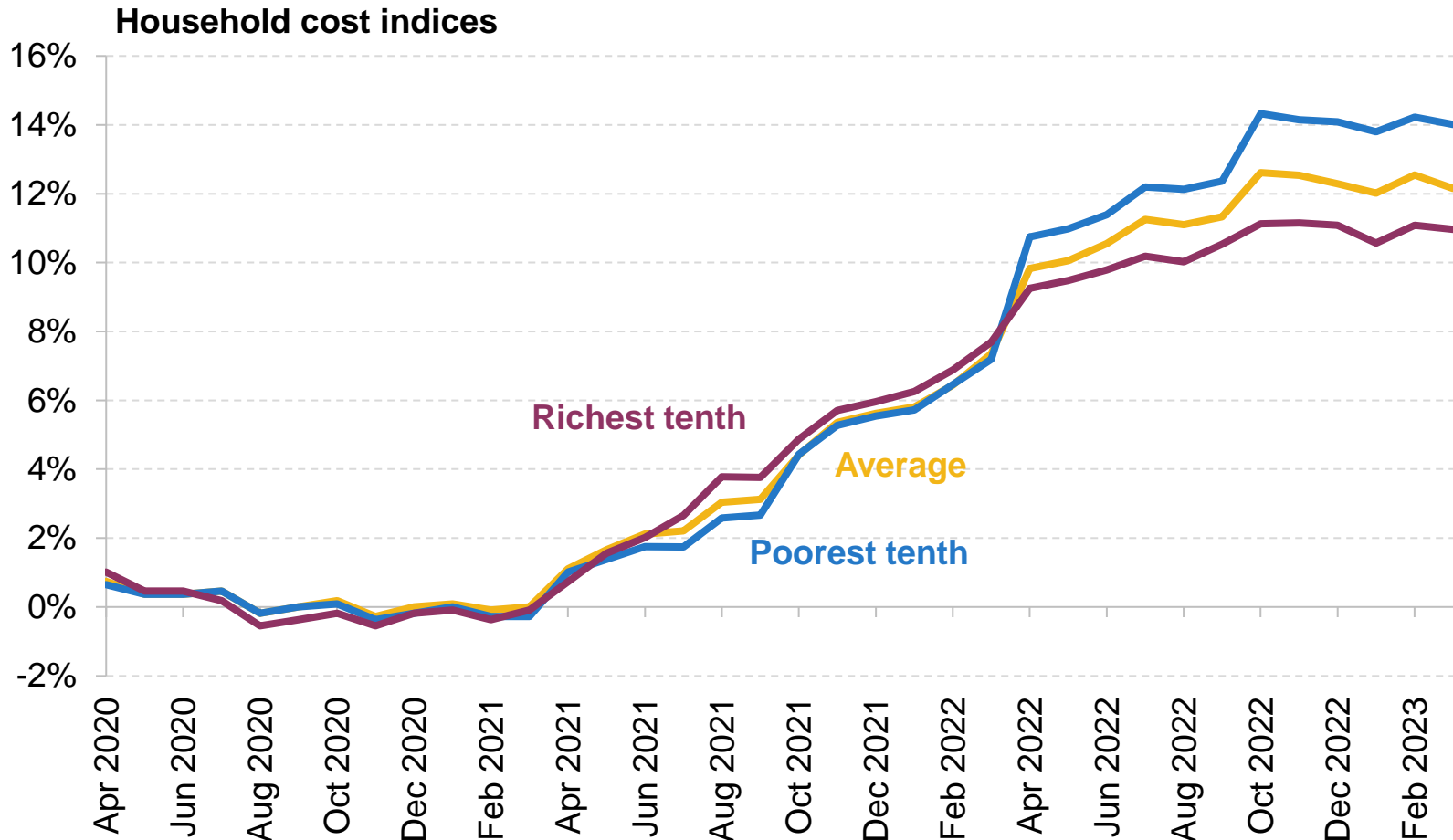


Measuring poverty during the cost of living crisis



1. Inflation

Cost of living crisis has affected households unequally



Source: ONS HCI

Note: Household cost indices is a separate series to headline CPI, so average figures do not match CPI rates.

Accounting for household-specific inflation

- Measurement of real income changes requires a measure of inflation household has faced

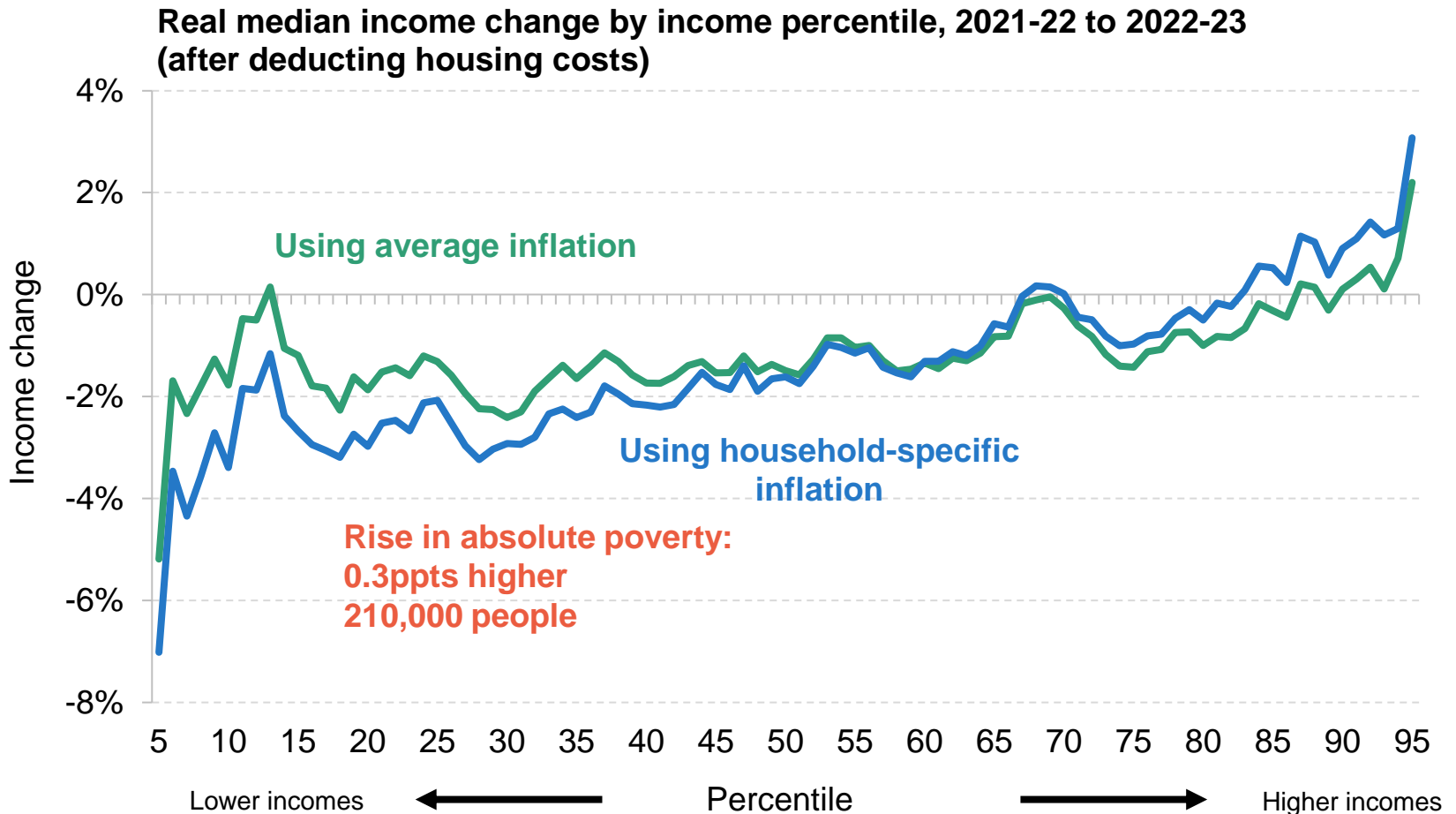
Official statistics

- Use average inflation for all households

Our alternative approach:

- Estimate specific inflation rate for each household based on income, tenure, presence of pensioners, number of families

Bigger income falls for poorer households



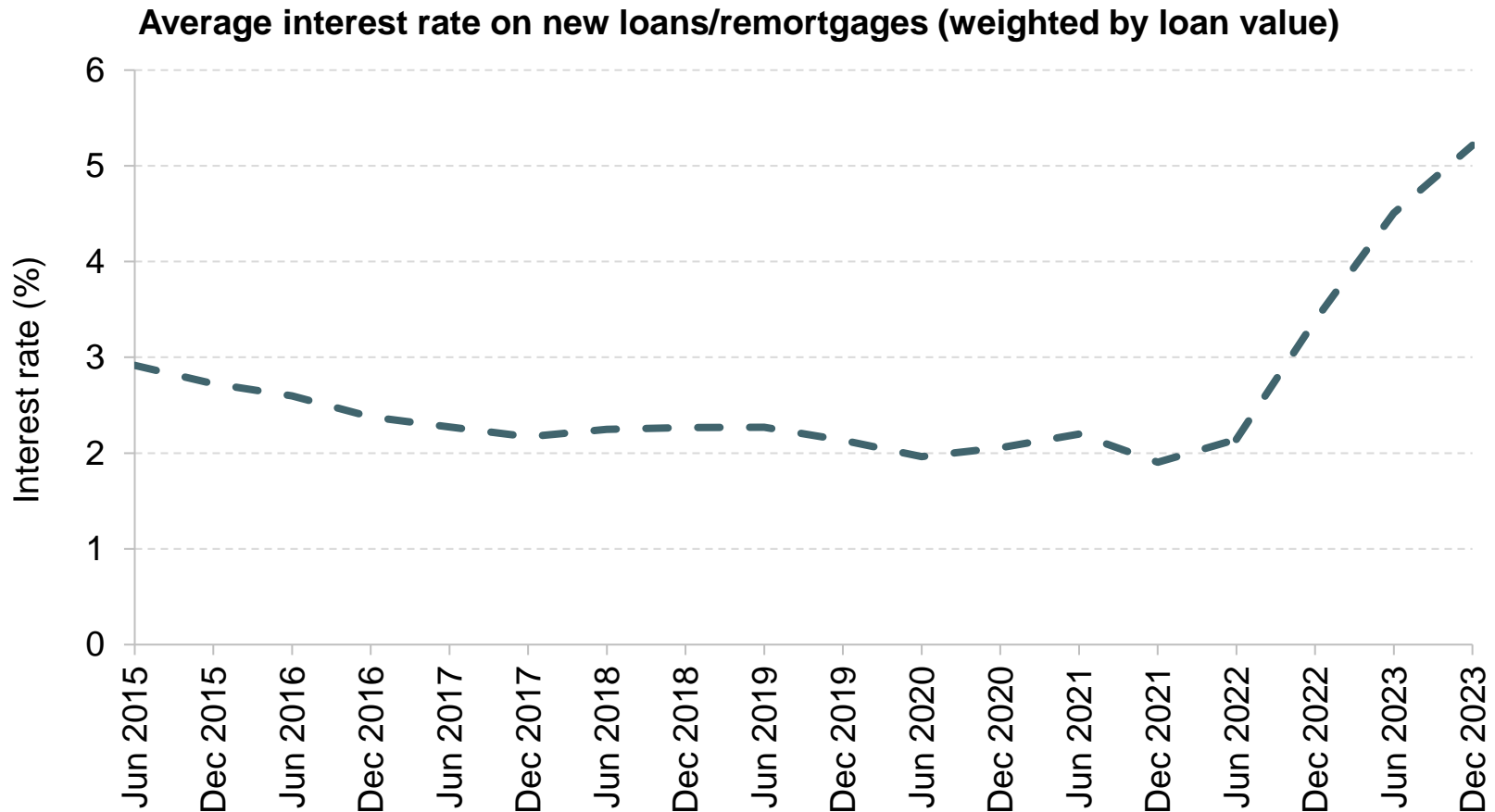
Source: Figure 3.7

Note: Incomes have been measured net of taxes and benefits and after housing costs are deducted.



2. Mortgage interest rates

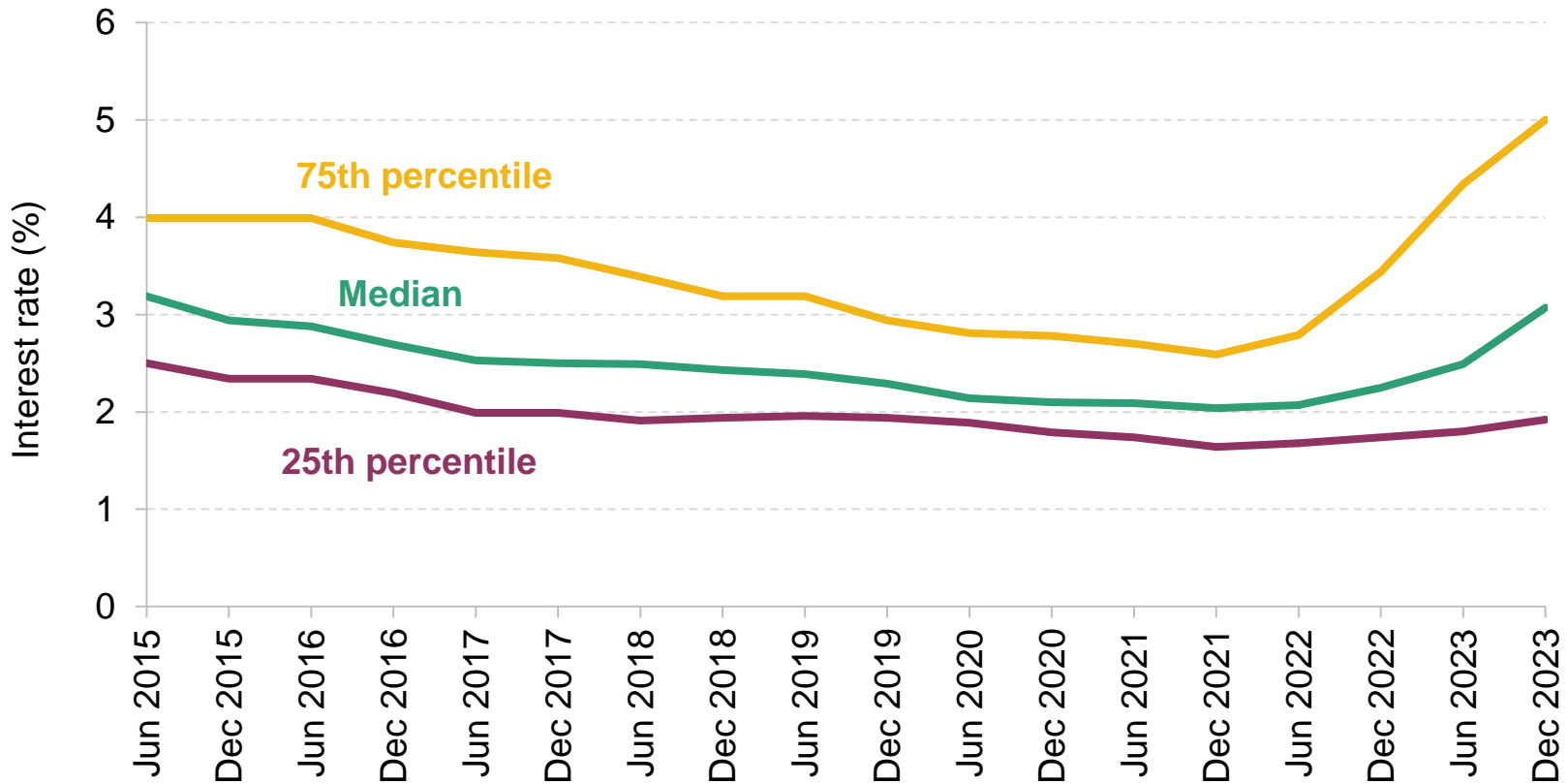
Mortgage interest rates have risen rapidly



Source: Figure 3.8

Leading to greater variation among mortgagors

Percentiles of the mortgage interest rate distribution



Source: Figure 3.8

Accounting for variation in mortgage interest rates

- Official income data do not tell us what interest rates households are paying

Official statistics

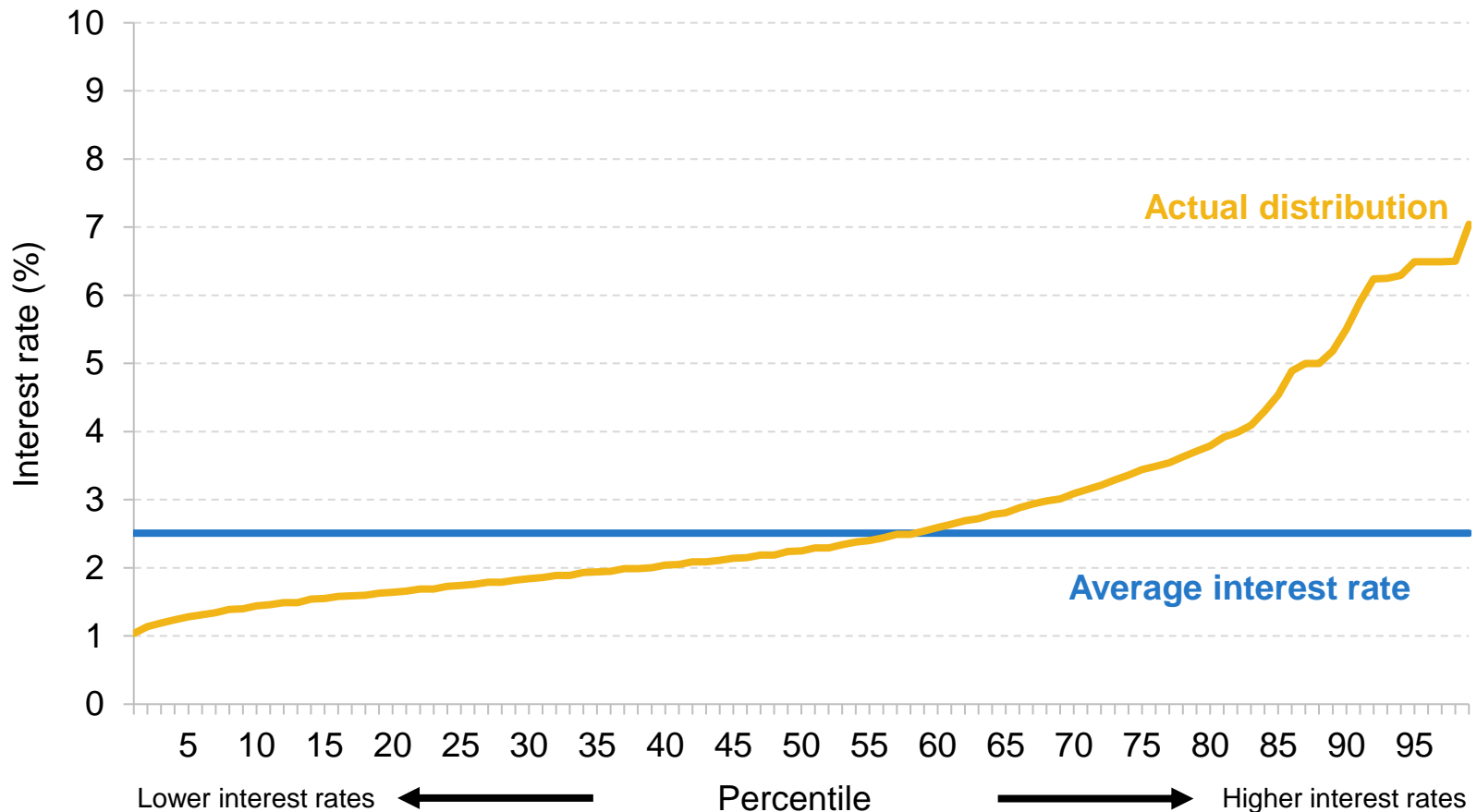
- Assume all households pay same average rate

Our alternative approach:

- Give households different rates to reflect that some households face higher/lower rates than average

Accounting for variation in mortgage interest rates

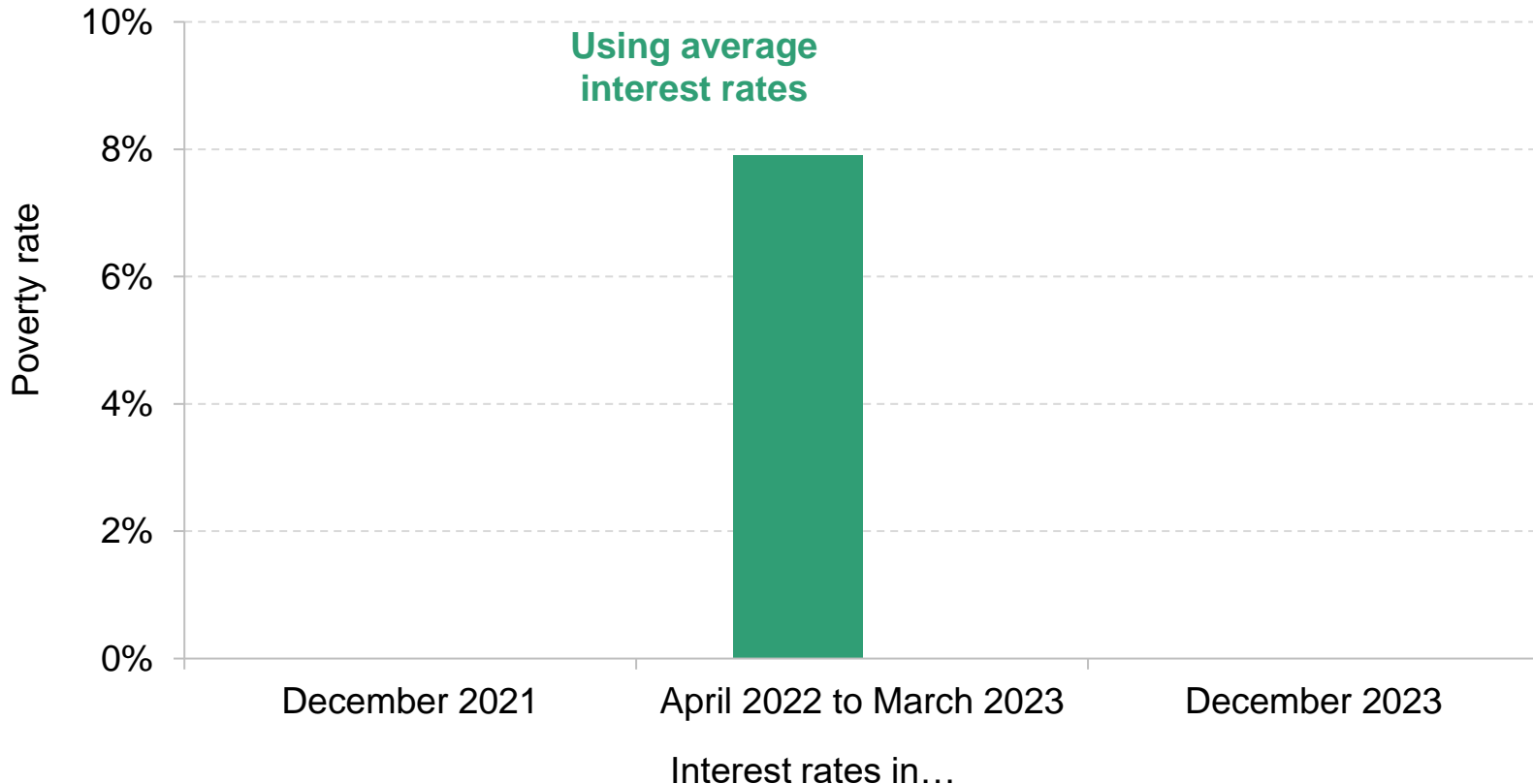
Percentile of mortgage interest rate distribution, December 2022



Source: Actual distribution from FCA

Higher interest rates set to increase poverty

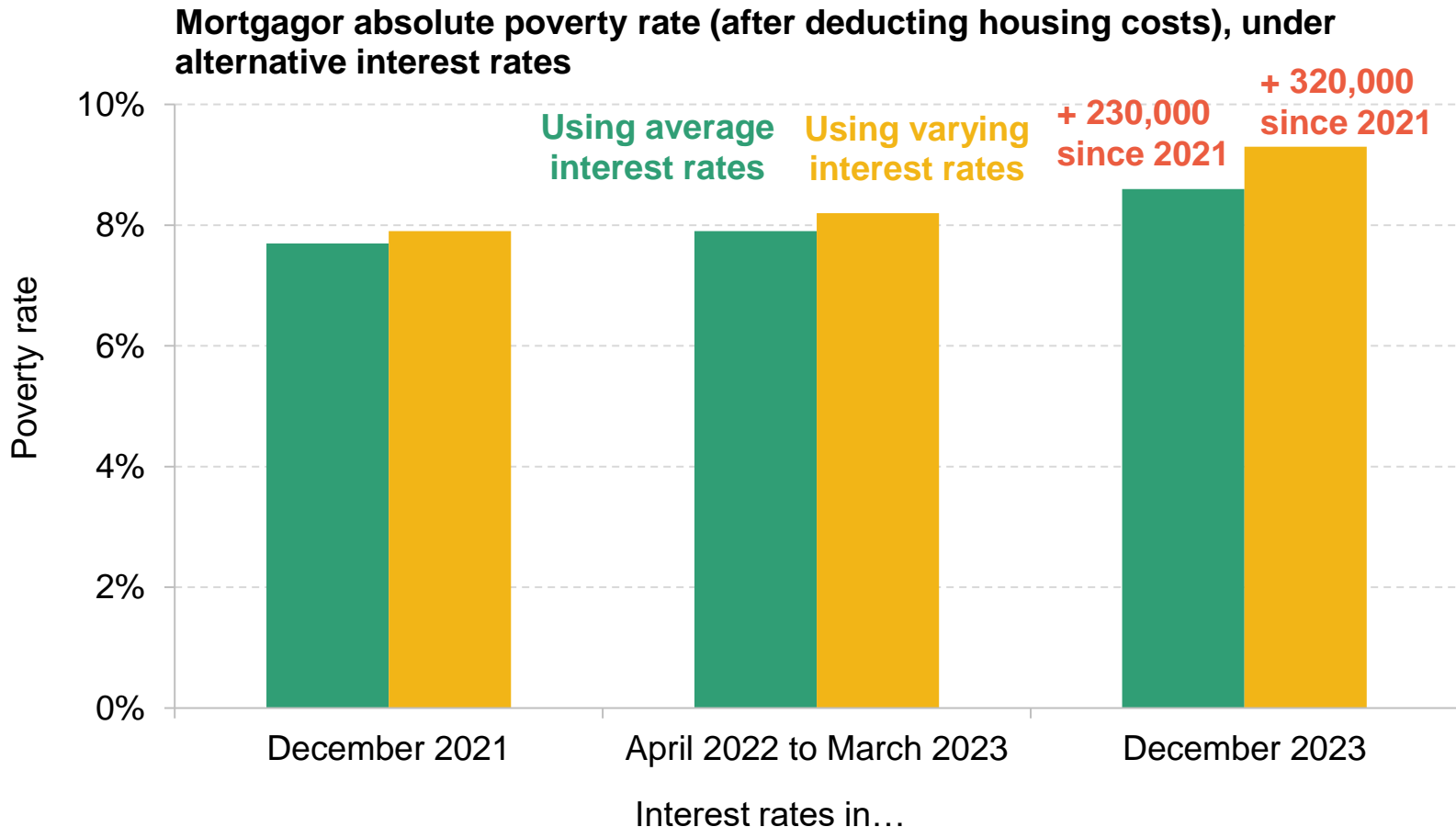
Mortgagor absolute poverty rate (after deducting housing costs), under alternative interest rates



Source: Table 3.3

Note: December 2021 (2023) interest rates assumes each month the interest rate distribution was the same as the December 2021 (2023) distribution.

Higher interest rates set to increase poverty



Source: Table 3.3

Note: December 2021 (2023) interest rates assumes each month the interest rate distribution was the same as the December 2021 (2023) distribution.

Summary



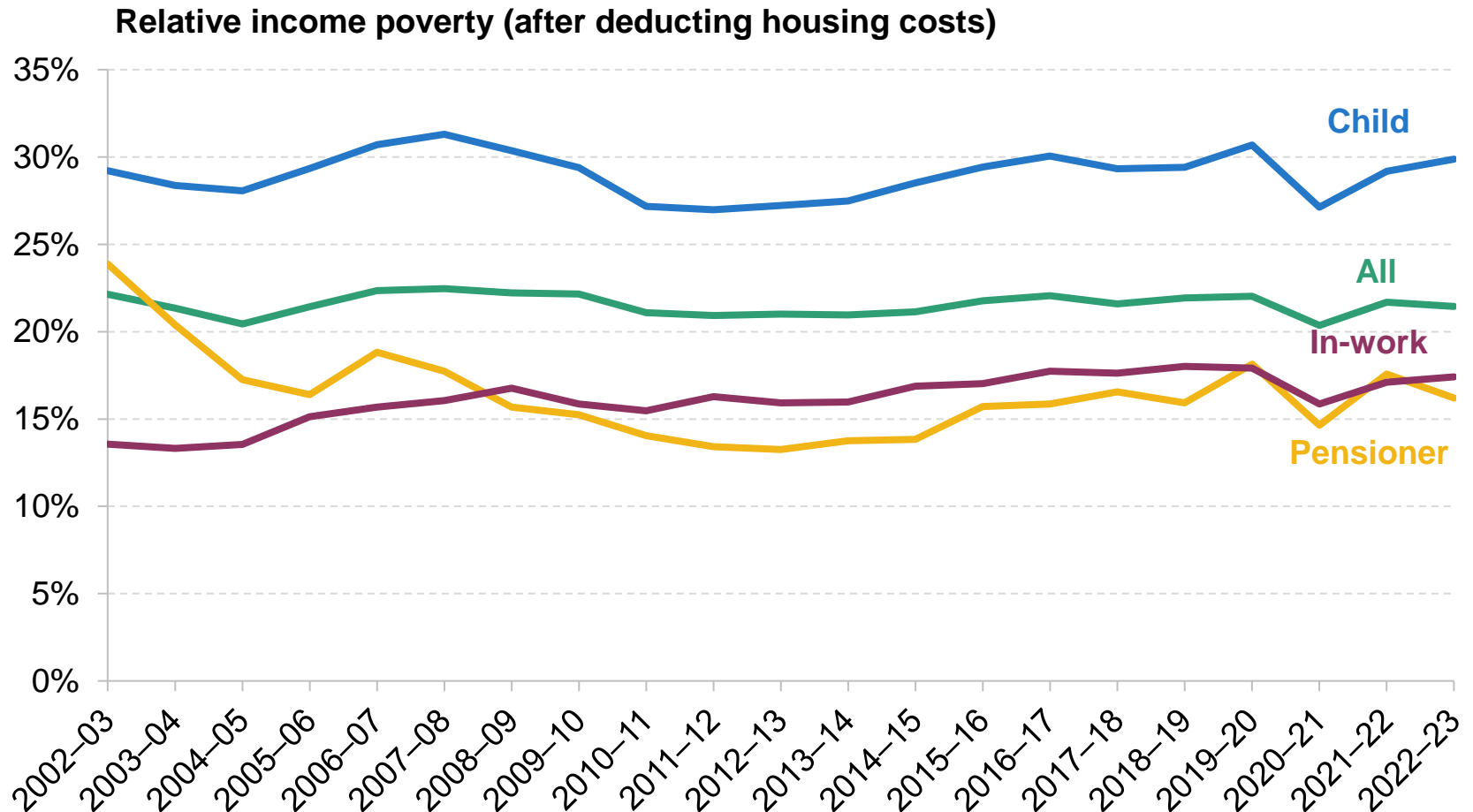
- Most of income distribution saw falls in income between 2019-20 and 2022-23
- Poverty rose modestly, but sharp increases in deprivation
- Partly explained by measurement of inflation and mortgage interest
 - Adjusting to shock of higher interest rates? Reduced stigma?
- Higher interest rates will continue to impact mortgagors
- Lack of data on mortgages hides some of these effects

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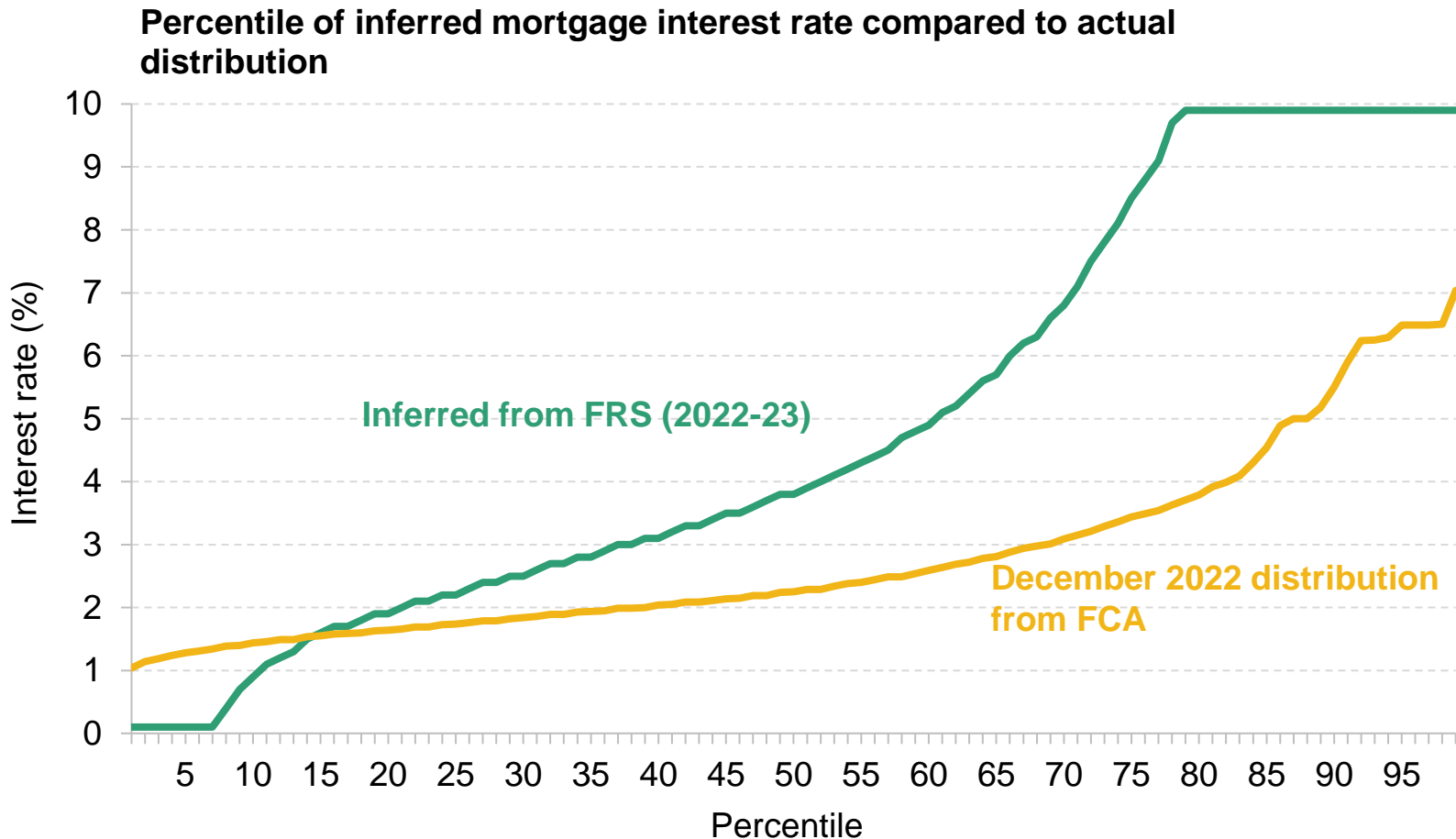


Relative poverty



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Quality of FRS mortgage data



Note: FRS estimates based on sample of mortgage holders with at least three years remaining on their mortgage, with non-missing responses to questions on capital remaining and monthly payments. For visual clarity, estimated interest rates are bottom- and top-coded at 0% and 10% respectively.