

Income growth in 2015–16 modest but widespread, leaving inequality and poverty roughly unchanged

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Introduction

The Department for Work and Pensions (DWP) has today published the latest official statistics on household incomes, covering the financial year 2015–16. This briefing note summarises the headline trends observed in the new data and places them in historical context in order to understand better changes in living standards in recent years.

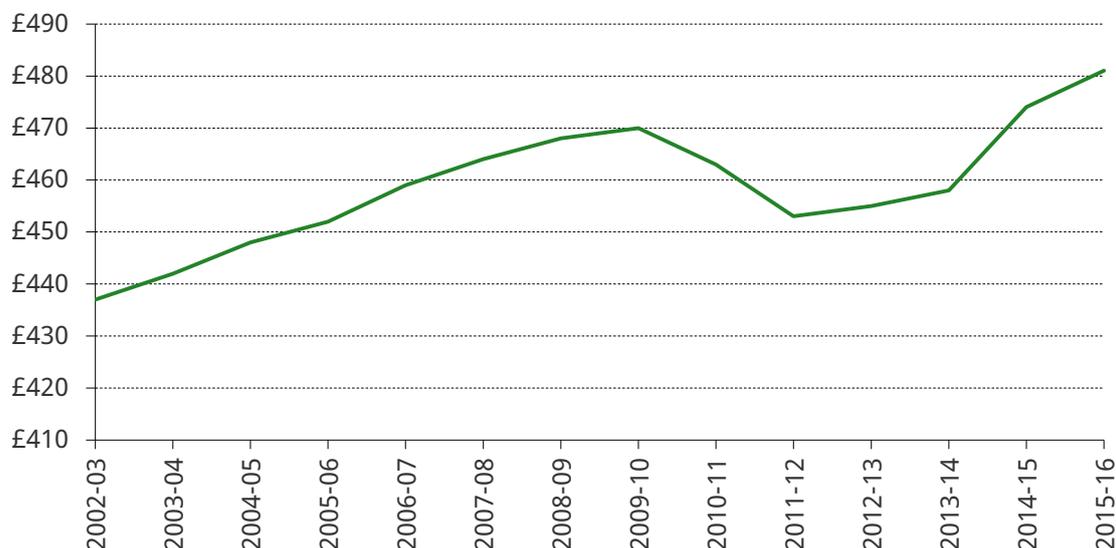
IFS research to be published in the summer will examine recent changes in living standards, poverty and inequality in greater detail.

A recent IFS analysis of trends in inequality over the last twenty years can be found [here](#).

¹ This analysis is based on the Department for Work and Pensions (2017) release “Households below Average Income: 1994/95 to 2015/16”, and on IFS analysis of the Family Resources Survey and Family Expenditure Survey. We would like to thank the Joseph Rowntree Foundation for continued support in our research into poverty and inequality in the UK. Any errors and all views expressed are those of the authors.

New data suggest modest growth of 1.4% in median household income in 2015–16, after adjusting for inflation

Figure 1. Median net household income (before housing costs) since 2002–03, (UK)



Note: Incomes have been measured net of taxes and benefits but before housing costs have been deducted and are expressed in 2015–16 prices. All incomes have been equivalised using the modified OECD equivalence scale and are expressed in terms of equivalent amounts for a childless couple.

Source: Department for Work and Pensions (2017) "Households below average income: 1994/95 to 2015/16" .

The 1.4% growth was not statistically significant, and was slower than that recorded in 2014–15 – though this may (at least in part) be due to the data underlying the statistics showing a fall in the employment rate even though the larger Labour Force Survey showed an increase. As ever, limited weight should be placed on the precise changes measured in any single year of survey data.

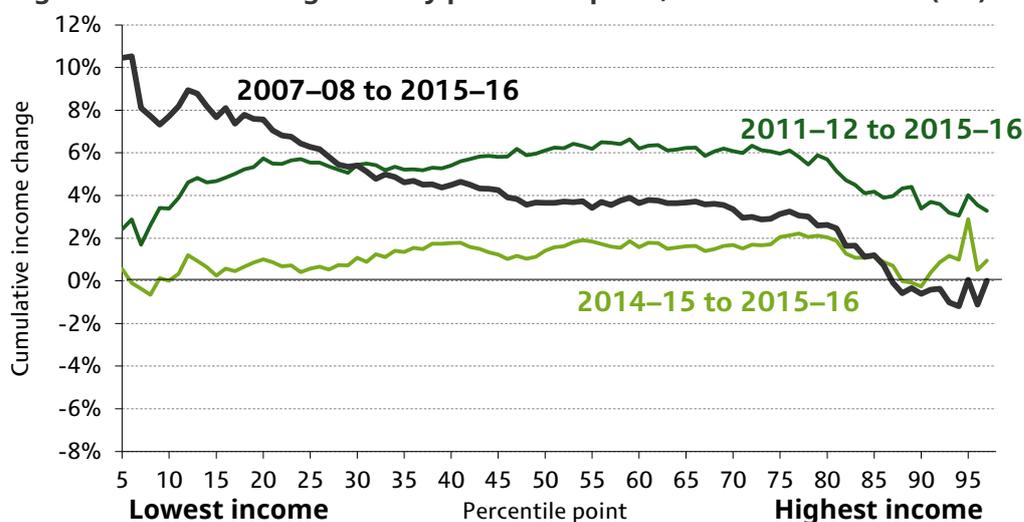
The data does though show a clear growth in incomes over the two most recent years such that median income was 5% higher in 2015–16 than in 2013–14. This is a welcome uptick relative to the recent past.

Nevertheless this has been a protracted period of historically very weak income growth. Median household income is only 2.3% above its 2009–10 level, 3.7% above its 2007–08 level and 10.1% higher than in 2002–03. Between 1961 and 2002–03 median income grew by an annual average of around 2.2%.

Behind those averages, income growth has been much stronger for pensioners than for working-age adults. Median pensioner income rose by around 10% between 2007–08 and 2015–16, compared to almost no growth for working-age adults.

Little change in income inequality in 2015–16

Figure 2. Real income growth by percentile point, 2007–08 to 2015–16 (UK)



Note: Incomes have been measured net of taxes and benefits but before housing costs have been deducted and have been equivalised using the modified OECD equivalence scale. Percentiles 1–4 and 98–99 are excluded because of large statistical uncertainty.

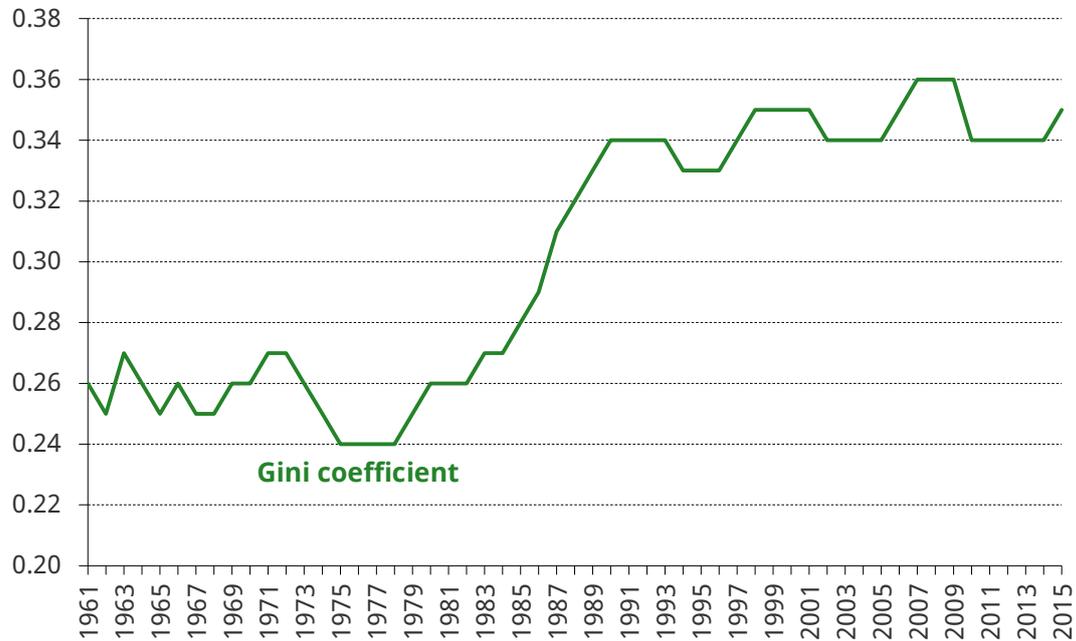
Source: Department for Work and Pensions (2017) and IFS calculations using the Family Resources Survey

The modest income growth in 2015–16 was spread quite evenly across the distribution (shown by the light green line), meaning little change in income inequality. As the Figure shows, this is similar to trends over the last 4 years as a whole (shown by the dark green line): the slow recovery in incomes since 2011–12 has been experienced across the distribution. Previous IFS research (Section 3.2 of [Belfield et al. \(2016\)](#)) has shown that employment increases during the recovery have been key in boosting the incomes of poorer households despite benefit rates growing slower than earnings.

Compared to 2007–08, income inequality is significantly lower in 2015–16, due to falls in inequality between 2007–08 and 2011–12 that have not been unwound. Those falls were largely the result of real increases in benefit income between 2007–08 and 2009–10 (raising the income of low-income households), and large falls in real earnings between 2009–10 and 2011–12 (reducing the income of high-income households).

Income inequality (measured by the Gini coefficient) around the same level as 25 years ago

Figure 3. The Gini coefficient of income inequality, 1961 to 2015–16

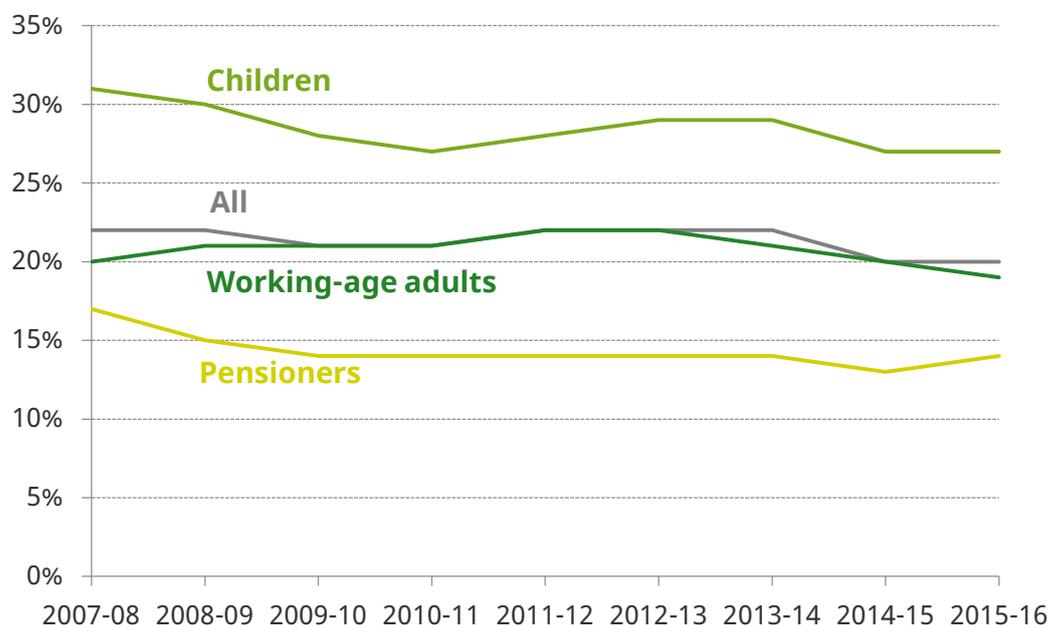


Note: Incomes have been measured net of taxes and benefits but before housing costs have been deducted and have been equivalised using the modified OECD equivalence scale. Years refer to calendar years up to and including 1992 and to financial years from 1993–94 onwards. Figures relate to UK households from 2002–03 onwards and to GB households for earlier years. Source: Department for Work and Pensions (2017) and IFS calculations using the Family Resources Survey and the Family Expenditure Survey.

The slight increase in the Gini coefficient in 2015–16 was driven by relatively strong income growth at the very top of the income distribution, which is often volatile. The increase in the Gini was not statistically significant. Income inequality remains somewhat below its pre-crisis level, at around the same level as it was 25 years ago, but much higher than it was 50 years ago, thanks to large increases in inequality during the 1980s.

Absolute poverty rates (after housing costs) were largely unchanged in 2015–16

Figure 4. Absolute poverty rate (AHC) by demographic group



Note: Incomes have been measured net of taxes and benefits and after housing costs have been deducted and have been equivalised using the modified OECD equivalence scale. The absolute poverty line is defined as 60% of median AHC income in 2010–11.

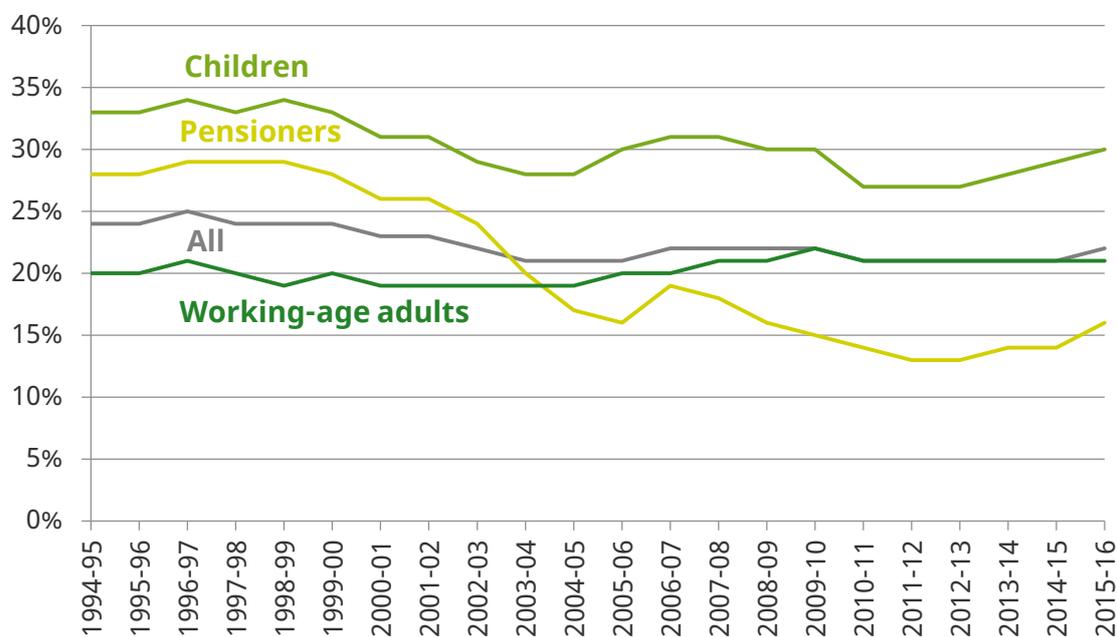
Source: Department for Work and Pensions (2017) "Households below average income: 1994/95 to 2015/16" .

The data record slight falls in absolute poverty rates overall, and among children and working-age adults, and a slight rise among pensioners. But all of these changes are small in magnitude and none is statistically significant. Absolute poverty is below pre-recession rates for each of the groups shown: particularly pensioners and children. This is largely because of income growth for low-income households between 2007–08 and 2009–10 (see above).

Note though that this is an historically very slow rate of decline in absolute poverty, directly related to the very slow rate of growth in incomes at all points in the distribution. The fall of 2ppts in the eight years between 2007-08 and 2015-16 compares with a fall of 10ppts in the eight years between 1999-2000 and 2007-08.

Relative poverty rates rose for some groups in 2015–16, although changes were very small by historical standards

Figure 5. Relative poverty rate (AHC) by demographic group



Note: Incomes have been measured net of taxes and benefits and after housing costs have been deducted and have been equivalised using the modified OECD equivalence scale. The relative poverty line is defined as 60% of median AHC income in each year. Figures relate to UK households from 2002–03 onwards and to GB households for earlier years.

Source: Department for Work and Pensions (2017) "Households below average income: 1994/95 to 2015/16" .

Overall, the relative poverty rate has remained roughly unchanged since the mid-2000s, having fallen markedly through the late 1990s and early 2000s. The exception is relative pensioner poverty, which has continued to fall. Viewed in this historical context, the increases in relative poverty among children, pensioners and across the entire population observed over recent years are relatively small; the changes for 2015–16 are, again, not statistically significant.

However, recent IFS research ([Hood and Waters \(2017\)](#)) suggests the rise in relative child poverty, small as of yet, will continue over the second half of this decade, as cuts to working-age benefits act to reduce the incomes of low-income households with children.