

RF

Resolution Foundation

BRIEFING

Diverse outcomes

Living standards by ethnicity

Adam Corlett
August 2017

RF

resolutionfoundation.org info@resolutionfoundation.org +44 (0)203 372 2960 @resfoundation



Acknowledgements

Thanks to Omar Khan at the Runnymede Trust for comments on an early draft. All errors remain the author's own.

Summary

This briefing note looks at how typical household incomes have differed by ethnicity, given that around one fifth of the population self-report their ethnicity as something other than White British. While not an attempt to offer comprehensive analysis, we also explore some of the causes, including differences in the labour market, pointing to the need for further work.

There are large differences in typical household incomes by ethnic group, with typical Bangladeshi household incomes being £8,900 a year (35 per cent) lower than the White British median; Pakistani households £8,700 less (34 per cent) and typical Black African households £5,600 less (22 per cent).

These income gaps are wider after accounting for housing costs, given that 58 per cent of White British families (singles or couples) own their own home while only around one in four Bangladeshi, Black and Other White (primarily European) families do. After taking housing costs into account, the disposable income gap between typical White British households and Bangladeshi households increases to £9,800 (44 per cent).

These large income gaps are persistent, but have narrowed. Between 2001-03 and 2014-16, typical incomes grew in real terms by 38 per cent for Bangladeshi households and 28 per cent for Pakistani households, compared to 13 per cent for the White British group. Growth for Black African households was 11 per cent. The Other White group had the lowest growth, with an 8 per cent fall in typical income after housing costs. This likely reflected compositional change, with relatively large immigration from Eastern Europe into this group.

Employment differences provide part of the reason for household income differences. Employment rates for Pakistani and Bangladeshi women are 37 per cent and 31 per cent respectively, far below the White female rate (72 per cent). However, there has been a steady catch-up, with increases of 10 and 18 percentage points over the past 14 years. Black African female employment rates have also increased substantially, while the Black Caribbean female employment rate – always high – has risen too and exceeded that of Black Caribbean men for a period after the crisis.

Male employment rates have also risen dramatically for ethnic minorities. Black male employment rates fell substantially post-crisis and were slow to recover, but since then have rebounded to record highs. Sustained employment growth for Bangladeshi and Pakistani men – with increases of 17 and 10 percentage points respectively since 2001-03 – has also supported household incomes, as has real growth in typical weekly earnings of 28 per cent compared to 1 per cent for other male employees. However, unemployment rates for Black, Bangladeshi and Pakistani men (at 8-12 per cent) remain higher today than was the case for White men even during the recession.

Age and family size can also explain some differences in both living standards and faster income growth for some groups. Some ethnic populations are far younger than others, contributing to differences in employment, incomes, and home ownership. The Pakistani, Bangladeshi and Black African populations in particular are less likely to live in pensioner families and have higher numbers of children on average than others. The average number of children in Pakistani and Bangladeshi households has declined significantly over the past 20 years, reflected in higher equivalised incomes, while for Black African households the number of children has edged up slightly.

The long-term narrowing of some ethnic divisions is good news. However, the scale of household income differences remains – alongside many other UK inequalities – worryingly large.

Introduction

In our Living Standards Audit 2017 we explored recent and longstanding trends in UK household incomes, including inequalities between income groups, ages, family types and regions.^[1] In this briefing note we look at the relationships between living standards and ethnicity. Although politicians often talk about the importance of social mobility, large differences in incomes and employment rates between ethnicities remain and, indeed, data on these differences is not often discussed. But these are very clearly important to explore, not least because ethnicities other than White British make up a fifth of the population, as Table 1 shows. In London – which has a very different ethnic make-up to other regions on average – the White British population are only 42 per cent of the total.

Table 1: Ethnic minorities make up around a fifth of the UK’s population, though this varies greatly by region

Make-up of the UK and regional population by ethnicity, 2016-17

	White British	White Irish	Other White	Mixed/ Multiple ethnic groups	Indian	Pakistani	Bangladeshi	Chinese	Any other Asian background	Black African	Black Caribbean	Other Black / African / Caribbean	Other ethnic group
UK	80.3%	0.6%	5.6%	1.7%	2.5%	1.8%	0.9%	0.5%	1.2%	1.9%	1.0%	0.3%	1.8%
North East	93%	0%	2%	1%	1%	1%	1%	0%	1%	1%	0%	0%	1%
North West	86%	1%	3%	1%	2%	3%	1%	1%	1%	1%	0%	0%	1%
Yorks and Humber	85%	0%	4%	1%	1%	4%	0%	0%	1%	1%	0%	0%	1%
East Midlands	84%	1%	5%	1%	4%	1%	0%	0%	1%	2%	1%	0%	1%
West Midlands	77%	1%	4%	2%	4%	4%	1%	0%	1%	2%	2%	0%	2%
East of England	83%	1%	6%	2%	2%	1%	1%	0%	1%	2%	1%	0%	1%
London	42%	1%	15%	4%	7%	3%	3%	1%	4%	8%	4%	1%	6%
South East	85%	0%	6%	2%	2%	1%	0%	0%	1%	1%	0%	0%	1%
South West	91%	0%	4%	1%	1%	0%	0%	0%	1%	0%	0%	0%	1%
Wales	93%	0%	2%	1%	1%	0%	0%	0%	0%	0%	0%	0%	1%
Scotland	90%	1%	4%	1%	0%	1%	0%	0%	0%	0%	1%	0%	1%
Northern Ireland		98%		0%	0%	0%	0%	0%	0%	0%	0%		1%

Notes: A breakdown of the White categories is not available in Northern Ireland, and a breakdown of the Black categories is not available in Northern Ireland nor Scotland.

Source: RF analysis of ONS, Labour Force Survey

As will be shown below, most ethnic minorities also typically have lower incomes, lower home ownership and lower employment rates than the White British population. Ethnicity can therefore be an important lens through which to view the distribution of living standards across Britain. While many – if not most – living standards challenges are shared by all ethnic groups in the UK, some affect particular minorities more than others. Some challenges may come from specific cultural factors, others from demographic characteristics such as age and length of time spent in the UK. Others will stem from the UK’s complex history of immigration, including the Commonwealth immigration of the 1950s and 1960s and the Eastern European immigration of recent years, and the changing picture of discrimination, integration and social attitudes that has accompanied this.

The foundations of this analysis – like much of our work – are official household survey datasets,^[2] and so ethnicity is self-reported, based on a list of options. This data should come with a word of caution – on top of the inherent limitations of ethnicity as a concept. Ethnicity data is often not detailed; categories have been repeatedly changed; some of our analysis is based on the ethnicity of the household reference person rather than every individual,^[3] and small sample sizes can produce noisy results.

[1] A Corlett, S Clarke, D Tomlinson, *The Living Standards Audit 2017*, Resolution Foundation, July 2017

[2] DWP, *Family Resources Survey (FRS) / Households Below Average Income (HBAI)*

[3] The ‘household reference person’ is “the householder with the highest personal income from all sources”, or the eldest in the event of equal incomes. DWP, *Households Below Average Income (HBAI) Quality and Methodology Information Report 2015-16*

Nonetheless, such breakdowns can tell us important things about UK living standards and inequalities. This short briefing note can only explore a small selection of the details and drivers of ethnic income differences but does reveal some worrying gaps as well as some encouraging signs of progress. It also points to a wide range of areas that would benefit from further research.

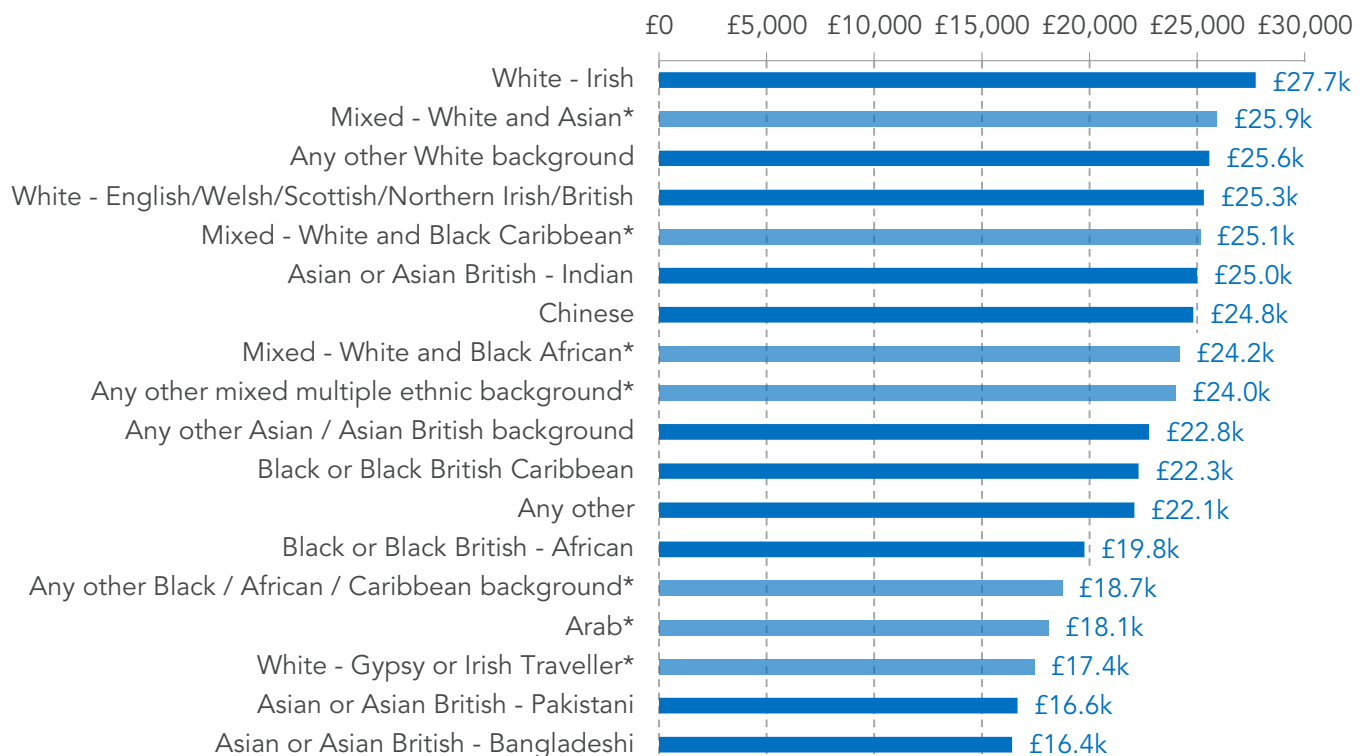
Household incomes

Figure 1 shows typical (median) incomes of the population in each of 18 ethnicity categories, averaging over the latest three years of available data.^[4] Disposable incomes are used (i.e. after taxes and benefits), and equivalised to reflect household size.

There are clear income differences. The White British and other White medians are over £25,000, and the Indian and Chinese medians similar. But the typical Black African and Caribbean incomes are several thousand pounds lower – £5,600 less (22 per cent) in the case of the Black African population. Pakistani and Bangladeshi households have the lowest equivalised incomes, with typical Bangladeshi household incomes being £8,900 (35 per cent) lower than the White British median and Pakistani households £8,700 less (34 per cent). However, it should also be noted that each group as a whole will also be demographically different in other ways: with some on average being older than others; some more focused in London (as shown in Table 1); and with differing family sizes – and that these differences will affect typical incomes.

Figure 1: Typical household incomes vary significantly by ethnicity

Median equivalised disposable income before housing costs (2016-17 prices), 2013-14 to 2015-16



Notes: Figures for starred categories are based on very small sample sizes and should be treated with particular caution. The 'White - Irish' category is only available in England, Scotland and Wales.

Source: RF analysis of DWP, *Households Below Average Income*

[4] The recent question in the GB FRS is "What is your ethnic group? Choose one option that best describes your ethnic group or background" with a list of 17 categories or "Any other".

Reflecting some of the limitations of the data and the need to avoid small sample sizes, in the following household income analysis we merge or exclude categories to give seven large groups.^[5]

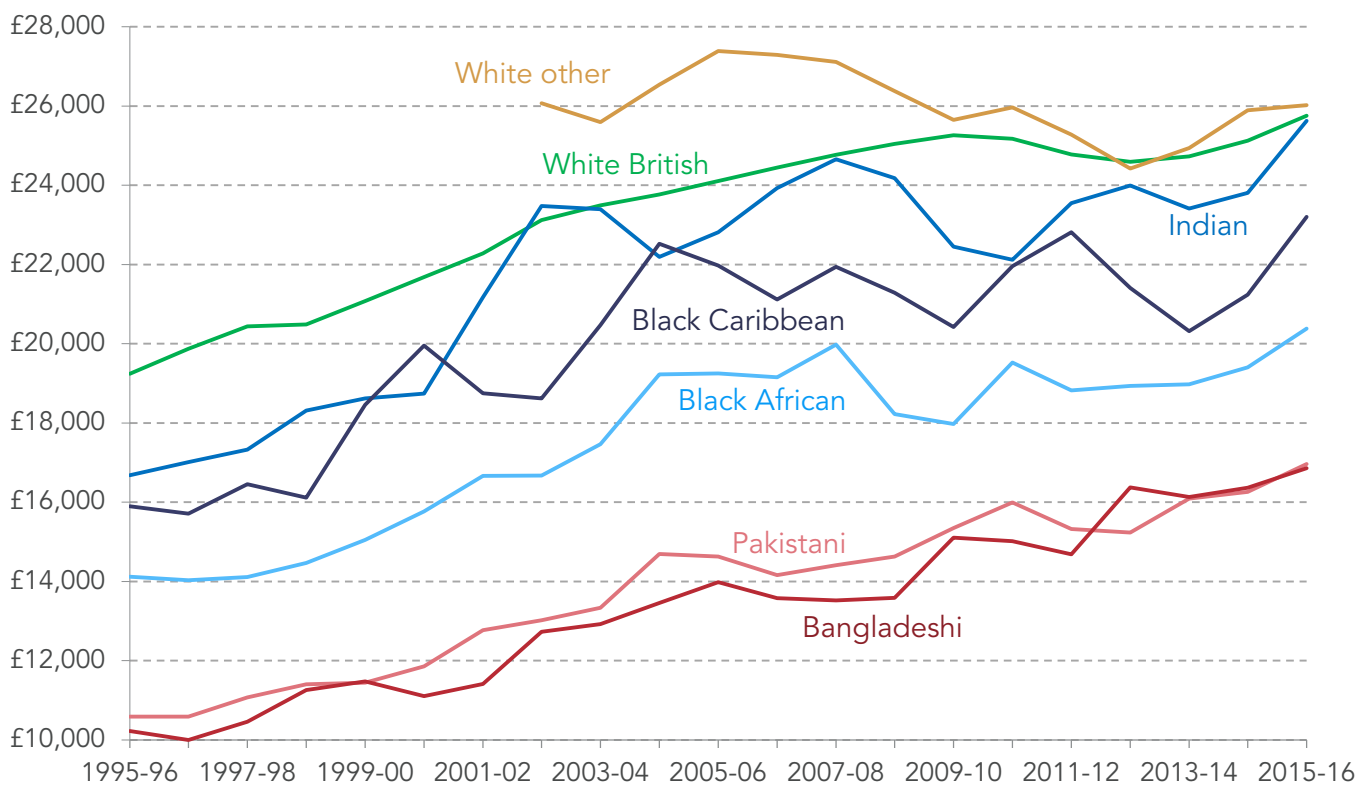
Household income trends

Figure 2 gives a similar picture to Figure 1 in terms of the recent differences between these groups (now simplified), but also shows how these have changed over time.^[6]

Even looking only at larger populations, and then also averaging incomes over two years at a time, the data can be noisy and so small fluctuations should not be overinterpreted. Nonetheless, it is clear that large income gaps have proven persistent.

Figure 2: Differences in typical household incomes by ethnicity are longstanding but not immutable

Median equivalised disposable income before housing costs (2016-17 prices), two year average



Notes: GB only. Prior to 2001-02, all 'White' groups are included in the 'White British' grouping, and questionnaire changes in 2010-11 and 2011-12 may have produced small recategorisations between the 'White British' and 'White other' groups.

Source: RF analysis of DWP, *Households Below Average Income*

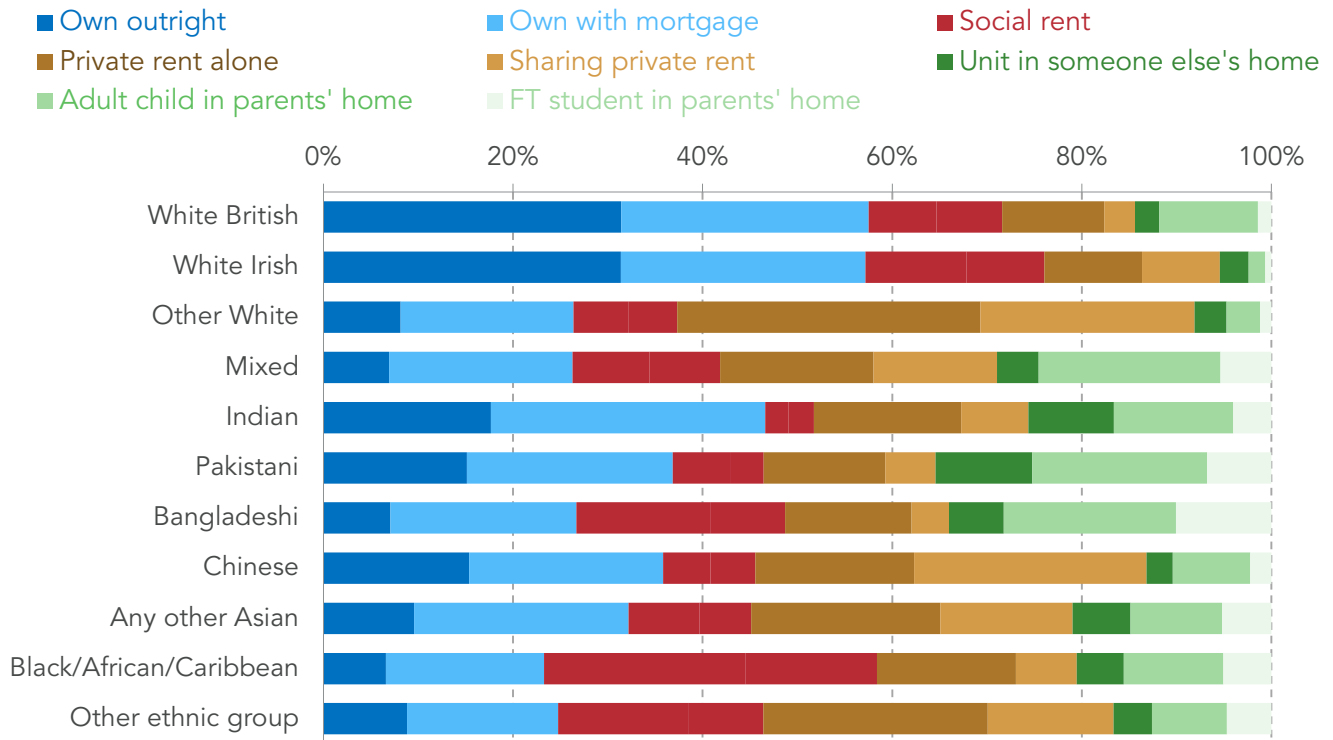
[5] Specifically, from the 18 categories in Figure 1, we exclude the various "any other" and "mixed" categories and the Chinese and Arab groups as these are not available for the full time series and/or have small sample sizes. Due to questionnaire changes, we are only able to break down the White population into 'British' and 'other' and even this is not possible prior to 2001-02. It should be noted that in 2011-12 the category changed from 'White - British' to 'White - English/Welsh/Scottish/Northern Irish/British'.

[6] Unlike in Figure 1, in these time series we exclude Northern Ireland due to a lack of data prior to 2002-03.

The incomes in Figure 1 and Figure 2 do not include any reflection of differences in housing costs between groups. However, these are an important part of living standards. As Figure 3 shows, there are large differences in housing tenure by ethnicity, which will in part reflect (and drive) regional differences – especially the fact that most ethnic minorities are disproportionately likely to live in London with its higher housing costs.

Figure 3: Housing tenure varies considerably by ethnicity

Proportion of families (singles or couples) by housing tenure, 2016-17



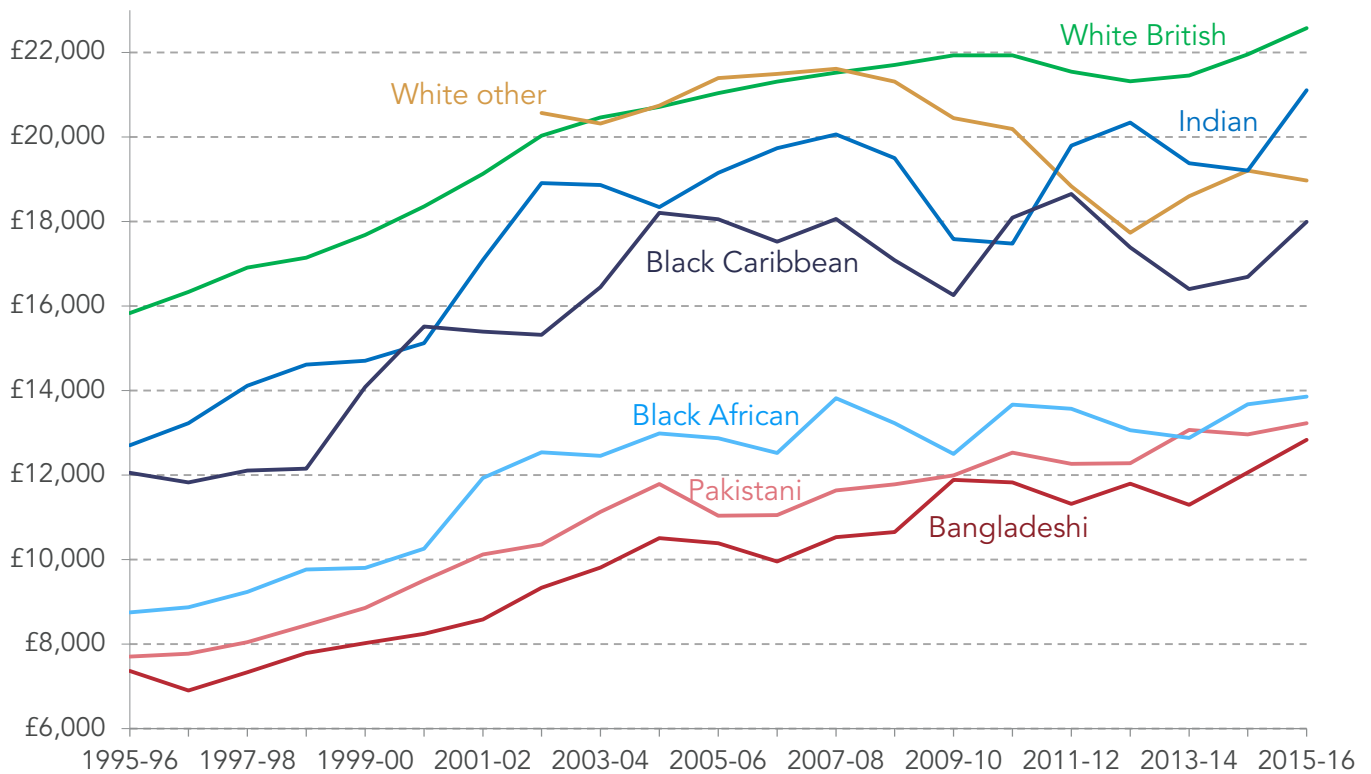
Notes: 'Adult child' and 'FT student' in parents' home includes only those age 19+. 'Unit in someone else's home' includes those living in their parents' home but with a partner and/or child; other relatives; and lodgers. In Northern Ireland, there is only a single 'White' category, which here has been included within 'White British'.

Source: RF analysis of ONS, Labour Force Survey

In particular, it shows that White British (and White Irish) home ownership is considerably higher than that of other groups, followed by the Indian population. For the Bangladeshi, Black and Other White (primarily European) population, only around one in four family units (i.e. singles or couples) own their own home. Private renting is especially common among the Other White and Chinese populations (the latter perhaps partially reflecting student populations); social renting especially among the Black population; and adults sharing with family especially common among South Asian ethnicities.

Figure 4: Income differences are larger after accounting for housing costs

Median equivalised disposable income after housing costs (2016-17 prices), two year average



Notes: GB only. Prior to 2001-02, all 'White' groups are included in the 'White British' grouping, and questionnaire changes in 2010-11 and 2011-12 may have produced small recategorisations between the 'White British' and 'White other' groups.

Source: RF analysis of DWP, *Households Below Average Income*

Housing wealth brings a boost to disposable incomes. Figure 4 shows income trends after accounting for housing costs, giving a broadly similar picture to Figure 2 but with some notable differences. Not least, the gap between the White British group and all other groups is higher after housing costs are taken into account. The poorest of these groups – those in Bangladeshi households – have disposable incomes £9,800 (44 per cent) lower than the highest income group (White British households) when housing costs are considered.^[7]

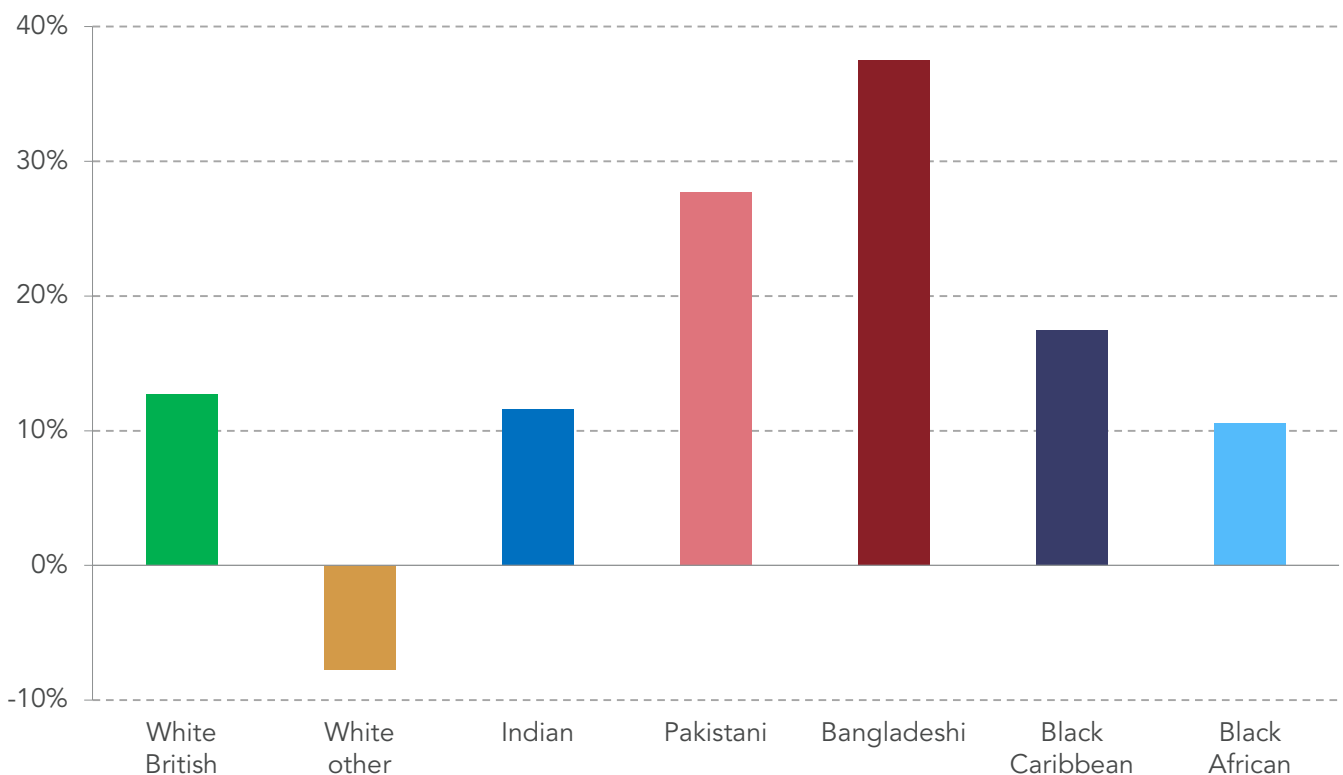
[7] This is based on the same methodology as Figure 1 – i.e. a three year average and UK-wide.

The gap between Black Caribbean and Black African households also widens – with the former typically having higher incomes than the latter. One reason for this is simply a differing age profile, as explored later in this note.^[8] This age difference contributes to very different home ownership rates between the two – though not shown in Figure 3 – with Black African families being far less likely to own their own home, and more likely to instead rent privately, than Black Caribbean families.

Although income differences have been broadly persistent over time, there have been important differences in growth rates. To better assess these changes over time, Figure 5 shows simply the total growth in real incomes after housing costs between 2001-03 and 2013-16.

Figure 5: Pakistani and Bangladeshi households have experienced some catch-up growth

Growth in median real equivalised income, after housing costs, between 2001-03 and 2014-16



Notes: GB only. Questionnaire changes in 2010-11 and 2011-12 may have produced small recategorisations between the 'White British' and 'White other' groups.

Source: RF analysis of DWP, *Households Below Average Income*

The 'White other' group has had by far the worst income growth of these groups: with typical incomes after housing costs falling 8 per cent between 2001-03 and 2014-16 (and incomes before housing costs flat). It is likely, however, that this reflects a compositional change within this group, with new white immigrants – especially from the A8 and then A2 Eastern European countries – typically having lower incomes than the pre-existing non-British white population. Questionnaire changes in 2010-11 and 2011-12 – relating to White British and Irish ethnicity – should give extra cause for caution here too.

Also striking has been the rate of growth in the typical incomes of Pakistani and Bangladeshi households. While these still have the lowest typical incomes of these groups, they have also experienced the strongest income

[8] The median Black Caribbean adult in England and Wales is 47 – close to the typical White British adult (50) – while the typical Black African adult is 39.

growth since 2001-03; narrowing the gap between the highest and lowest income group. Typical incomes grew in real terms by 38 per cent for Bangladeshi households and 28 per cent for Pakistani households, compared to 13 per cent for the White British group and the 8 per cent fall of the White other group.^[9]

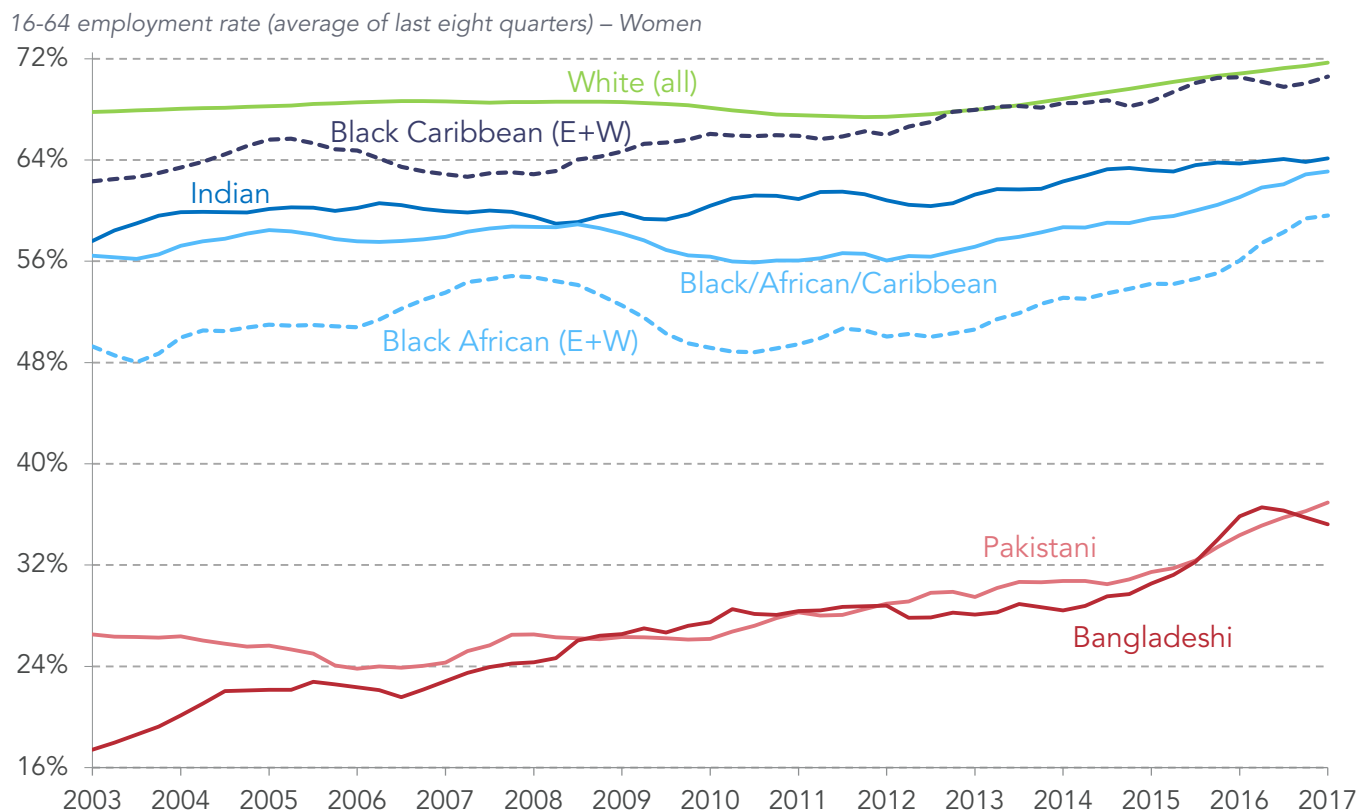
Growth rates for Indian, Black Caribbean and Black African households over this period were not considerably different from those of the White British group. However, given that typical incomes are relatively low for the Black African population – especially after housing costs – above-average growth is now sorely needed to help close income gaps.

The labour market

As shown earlier, part of the explanation for living standards differences comes down to the housing market and to regional differences. The final section will also look at the important role of demographics. But analysis of the labour market can explain a great deal about typical household incomes.

First, it should be noted that Pakistani and Bangladeshi female employment is very low,^[10] as shown in Figure 6, contributing to low household incomes. Whereas the white female employment

Figure 6: Female Pakistani and Bangladeshi employment has been trending upwards, but from a very low base



Notes: Some changes were made to the Labour Force Survey ethnicity questions in 2011. E+W = England and Wales only.

Source: ONS, Labour Market Statistics, Table A09

[9] Note, as ever, that this does not mean that individual households necessarily saw the same growth.

[10] Also see J Nazroo & D Kapadia, [Ethnic inequalities in labour market participation?](#), Centre on Dynamics of Ethnicity (CoDE), University of Manchester, September 2013

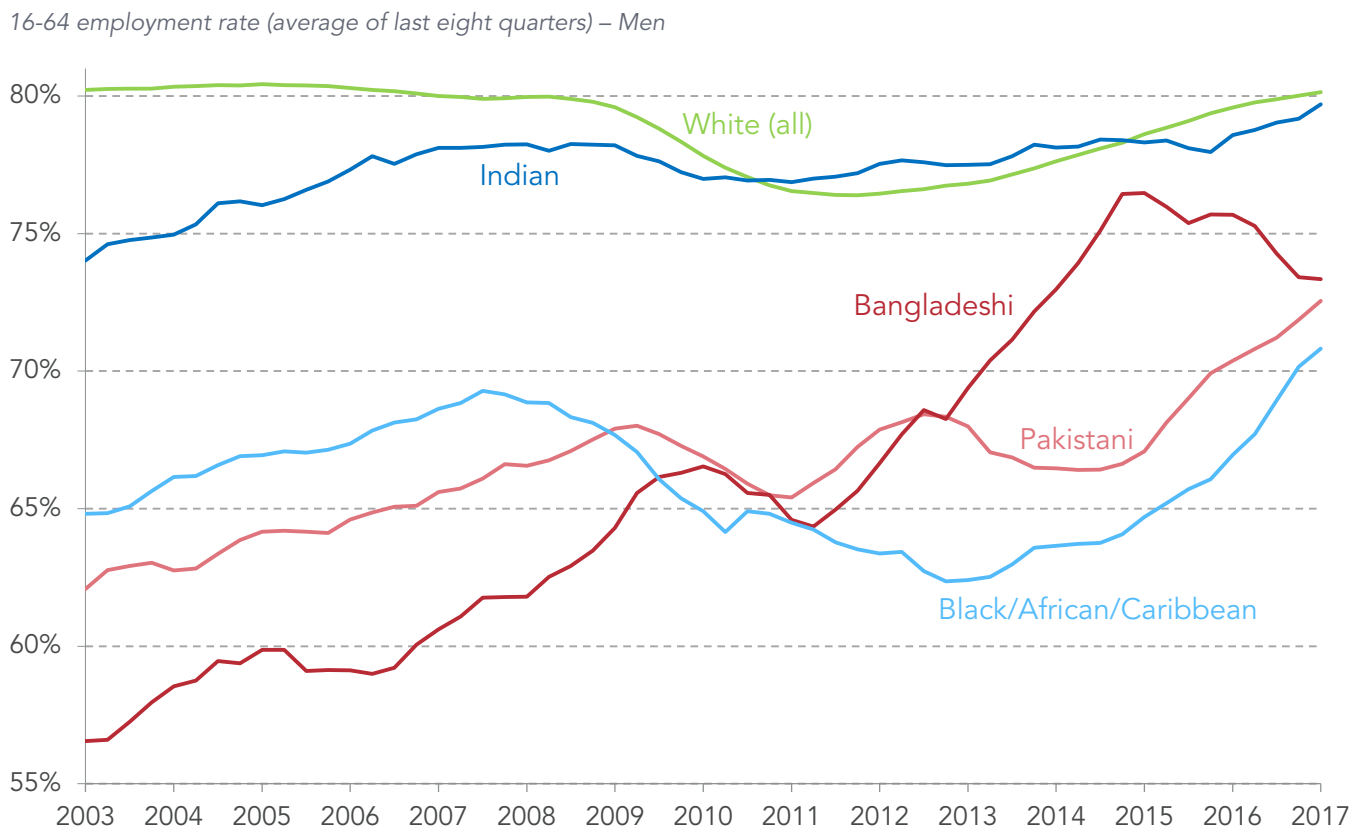
rate is 72 per cent, for Pakistani women it is 37 per cent and among Bangladeshi women it is 35 per cent.^[11] These groups are also the most likely to be in only part-time work.^[12]

However, those employment rates are themselves much higher than 14 years ago, when they were 27 per cent and 17 per cent respectively. Although employment rates have risen for women of all ethnicities, these figures represent a partial closing of the employment gap between Pakistani/Bangladeshi and other women.

Employment rates are also notably different between Black Caribbean and Black African women. The Black Caribbean female employment rate is near that of White women, and during the post-crisis period was in fact higher than the employment rate of Black Caribbean men. The rate for Black African women, however, has – despite the significant impact of the recession – risen substantially, from 49 per cent in 2001-03 to 60 per cent in 2015-17.

Substantial employment gains have not been limited to women, however. As Figure 7 shows, rates for Black, Pakistani and Bangladeshi men have grown rapidly, rising by 6, 10 and 17 percentage points respectively since 2001-03. As a result of this growth, although the Pakistani and Bangladeshi male-female employment disparity has reduced, female employment rates for these groups are still only around half those of their respective male employment rates. Employment

Figure 7: Male ethnicity employment gaps have narrowed considerably



Notes: Some changes were made to the Labour Force Survey ethnicity questions in 2011

Source: ONS, Labour Market Statistics, Table A09

[11] These are averages over the last eight quarters.

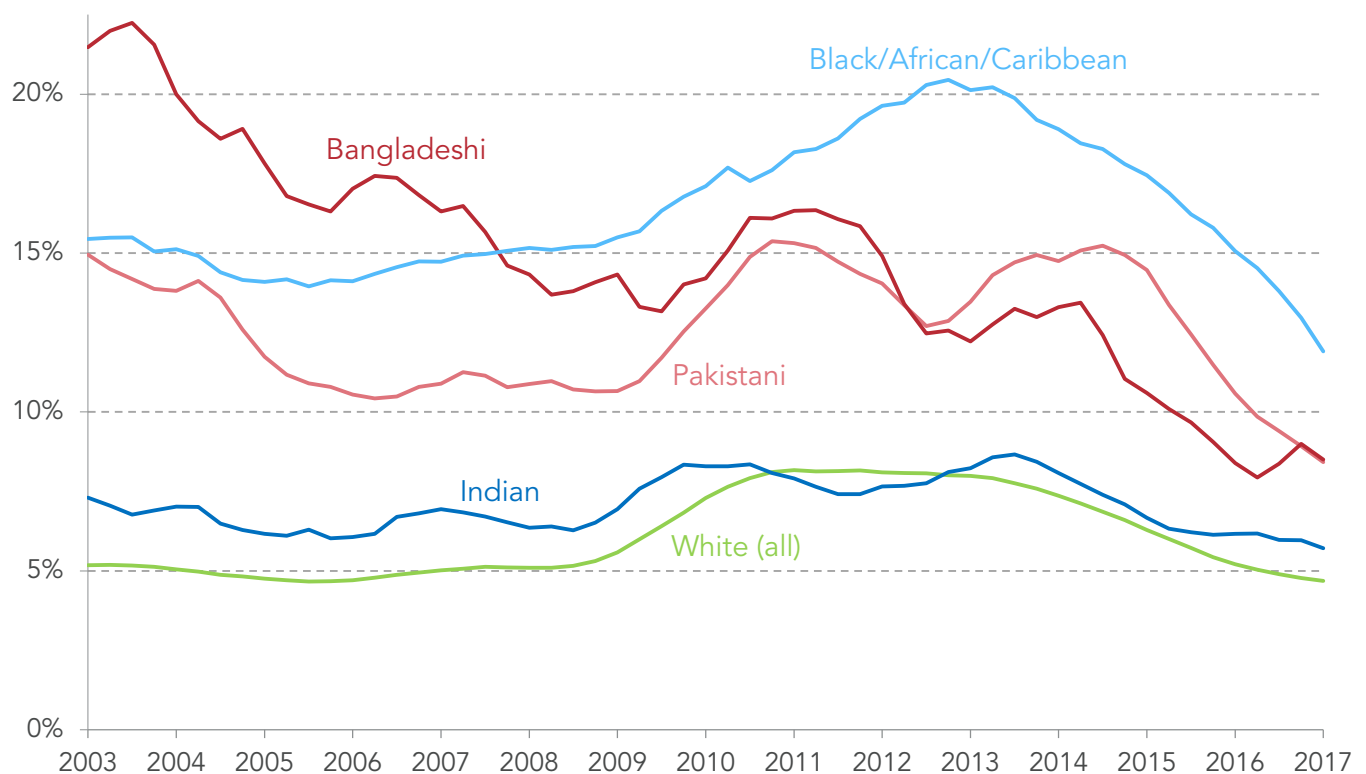
[12] ONS, 2011 Census analysis: Ethnicity and the Labour Market, England and Wales, November 2014

rates for Indian men are also at a record high, but those for White men are unchanged from 2001-03 and actually below their mid-2000s peak. All in all, the current picture is of ethnic differences in male employment being historically low.

As with Black African women, Black male employment appears to have been hit disproportionately by the financial crisis.^[13] As Figure 8 shows, Black male unemployment topped 20 per cent post-crisis. However, as with employment rates recent progress on unemployment has been very strong. It is notable though that the unemployment rates for Black, Bangladeshi and Pakistani men (at 8-12 per cent) are higher now than was the case for White men even during the recession. Overall, if ethnic minority employment rates were as high as the White group, 700,000 more people would be in work.^[14]

Figure 8: Male unemployment is lower than pre-crisis for every ethnicity

16+ unemployment rate (average of last eight quarters) – Men



Notes: Some changes were made to the Labour Force Survey ethnicity questions in 2011

Source: ONS, Labour Market Statistics, Table A09

These rates of ethnic minority employment and unemployment may in part relate to London’s economic performance – though the direction of causality is not clear – with a strong employment recovery in the capital and ethnic minorities concentrated there.

[13] Rates for Black African and Black Caribbean men (in England and Wales) are much more similar than those of Black African and Black Caribbean women, and so are not shown in Figure 7.

[14] Again, this will in part reflect differences in age profiles, rates of parenting and more. However, P Gregg & L Gardiner, [The road to full employment: what the journey looks like and how to make progress](#), Resolution Foundation, March 2016 shows a 490,000 gap even after controlling for these.

Nonetheless, both female and male employment gains have played an important role in supporting household incomes. And while the household income data explored earlier only goes up to 2015-16, the employment growth since then is a positive sign for 2016-17 and perhaps beyond.

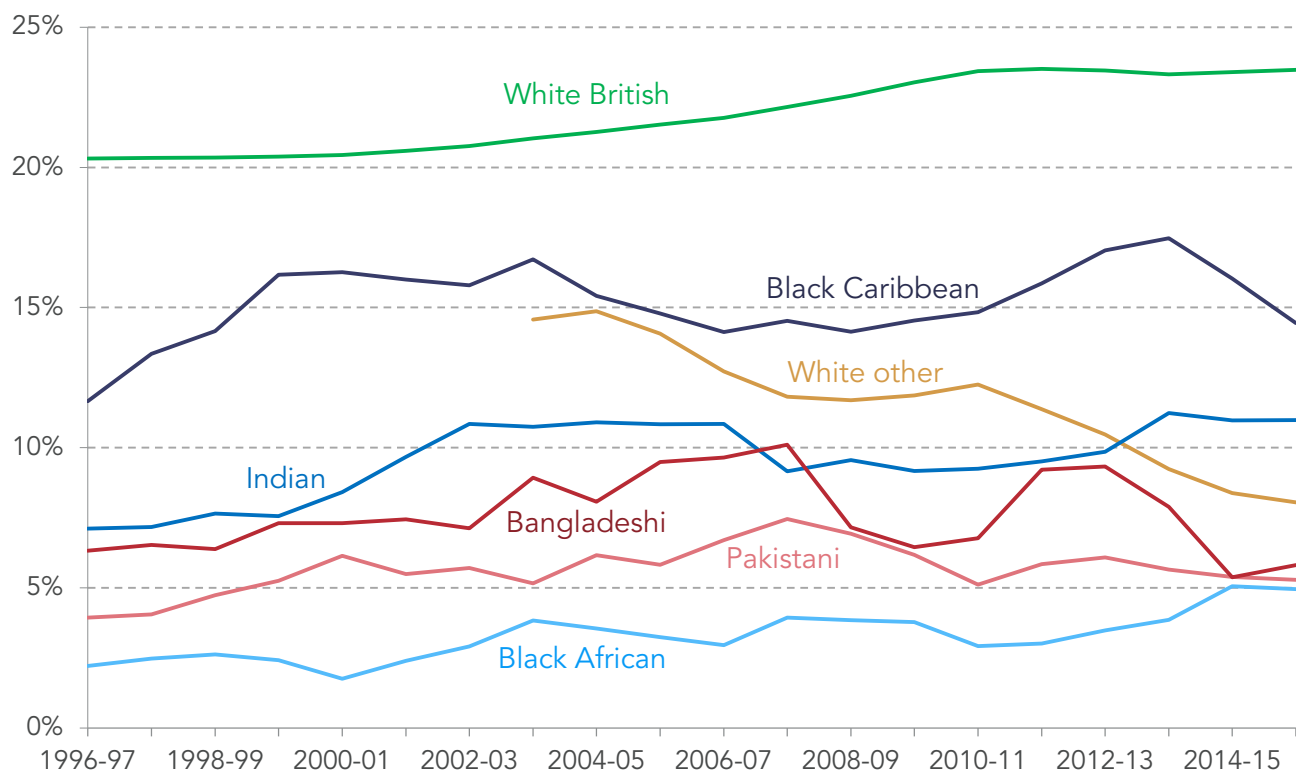
Finally, although not a focus of this note, changes in earnings may explain part of the strong income growth of Pakistani and Bangladeshi households. For male employees of other ethnicities, as a whole, typical weekly pay grew between 2001-03 and 2015-17 by only 1 per cent after accounting for CPIH inflation. For male Pakistani and Bangladeshi employees, however, typical weekly pay rose by 28 per cent over the same period – and the pattern is similar when looking at hourly pay – though their typical pay remains considerably below the overall median. As ever, this is not to say that this was (or was not) a typical pay rise for individual people over this period: and it is likely that a changing composition of this workforce – including education – played a role. Future Resolution Foundation work will explore the ethnicity pay gap in more detail.

Age and family size

Alongside the labour market and housing, demographics have a large impact on household finances. As mentioned earlier, one cause of typical income differences between ethnicities are different age profiles, with some being much younger than others. As Figure 9 shows, the White British, Black Caribbean and Indian populations are more likely to live in pensioner families.

Figure 9: Some ethnic populations are much older than others

Proportion of each ethnicity's population living in a pensioner family unit, three year average



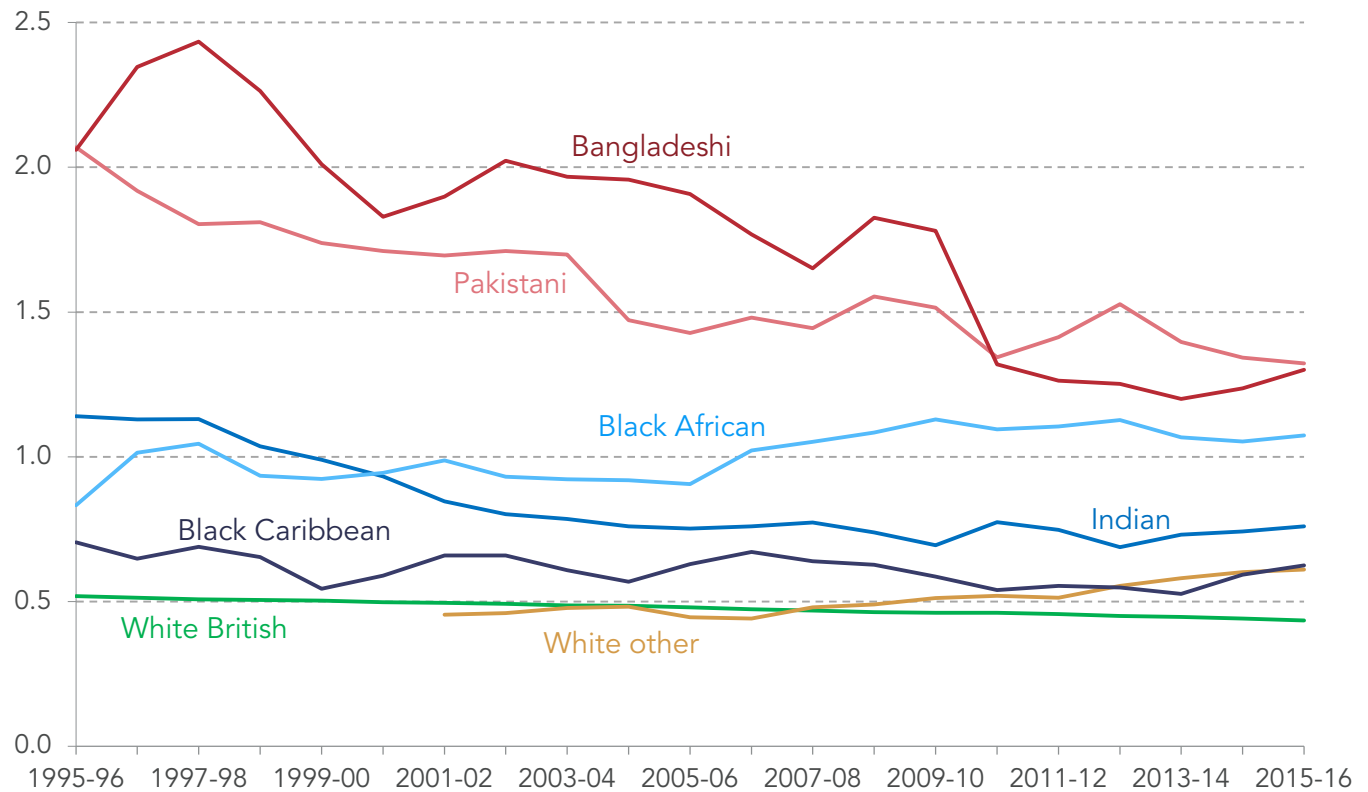
Notes: Pensioner family units are those containing at least one person of state pension age. GB only. Prior to 2001-02, all 'White' groups are included in the 'White British' grouping, and questionnaire changes in 2010-11 and 2011-12 may have produced small recategorisations between the 'White British' and 'White other' groups.

Source: RF analysis of DWP, Households Below Average Income

As well as affecting earnings, employment rates and housing wealth, age of course influences the likelihood of having dependent children to look after. In addition, cultural or economic differences mean that some ethnic groups typically have larger families than others. Figure 10 gives the average number of dependent children per household by ethnic group, reflecting both the proportion of households that have children and the number of children within those.

Figure 10: Average family sizes have shrunk significantly for Bangladeshi and Pakistani households

Average number of dependent children per household, two year average



Notes: Includes households with no children. GB only. Prior to 2001-02, all 'White' groups are included in the 'White British' grouping, and questionnaire changes in 2010-11 and 2011-12 may have produced small recategorisations between the 'White British' and 'White other' groups.

Source: RF analysis of DWP, Households Below Average Income

Pakistani, Bangladeshi and Black African households on average include more children. And because incomes are 'equivalised' based on family size – to give a better sense of living standards – this results in lower equivalised incomes. In addition, child rearing will relate to lower parental – and especially maternal – employment and hours, also influencing household incomes. Again, however, there have been large changes. The average number of children in Bangladeshi and Pakistani households has fallen markedly, given both a rise in the number of households that contain no children at all and a fall in numbers of children among those that do.

Among other ethnicities, Black African households have not seen such a change – and have notably larger family sizes than Black Caribbean households; Indian family sizes have shrunk; and there are now more children on average in 'White other' households than previously. Again it should be noted that differences in the age make-up and other characteristics of each group over time can play a key role in such trends.

Conclusion

Very significant differences in typical incomes and employment between ethnicities remain, though there has been some relative narrowing of these gaps. This note has not attempted to fully unpick the reasons for every trend – whether that be changes in educational inequalities, discrimination or composition. But the improving employment rates among the Black, Pakistani and Bangladeshi population are one example of a success story – especially as these have typically been the lowest income groups – and one that could be built on in future as part of a full employment strategy.^[15]

Many of the trends touched on only briefly here are deserving of further work, not least the income performance of recent white immigrants and the compositional effects this has had. A future Resolution Foundation paper will look at ethnicity, earnings and education.

This retrospective work (with 2015-16 being the latest household income data) has also not explored what impact the £14 billion of working-age welfare cuts currently being rolled out might have on ethnic income differences – nor indeed the importance of past benefit increases to income growth. Given that the impact of the current package of cuts on low to middle income families is expected to be significantly negative,^[16] and that some ethnic groups are disproportionately low income, young and with children, this should be cause for concern.^[17]

As this paper has shown, ethnic minorities are a large part of the UK population. Their share of the working-age population especially is also expected to grow.^[18] It is evidently important – for them and for the country as a whole – that their incomes and rates of employment perform well.

[15] S Clarke et al., [Work in Brexit Britain: reshaping the nation's labour market](#), Resolution Foundation, July 2017

[16] A Corlett & S Clarke, [Living Standards 2017: The past, present and possible future of UK incomes](#), Resolution Foundation, February 2017

[17] H Reed & J Portes, [Cumulative Impact Assessment](#) for the Equality and Human Rights Commission, March 2016 showed that the impact of benefit and tax credit cuts during the 2010-2015 period was greatest on Black and Asian households, though this was partly offset by tax changes.

[18] D Owen, L Gambin, A Green and Y Li, [Projecting employment by ethnic group to 2022](#), JRF, March 2015

Resolution Foundation

Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged. We do this by:

- » *undertaking research and economic analysis to understand the challenges facing people on a low to middle income;*
- » *developing practical and effective policy proposals; and*
- » *engaging with policy makers and stakeholders to influence decision-making and bring about change.*

For more information on this report, contact:

Adam Corlett

Senior Economic Analyst

adam.corlett@resolutionfoundation.org

020 3372 2983