Time to catch up?

Living standards in the downturn and recovery

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March 2015

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Six year pay squeeze appears to have ended, but nominal growth remains subdued

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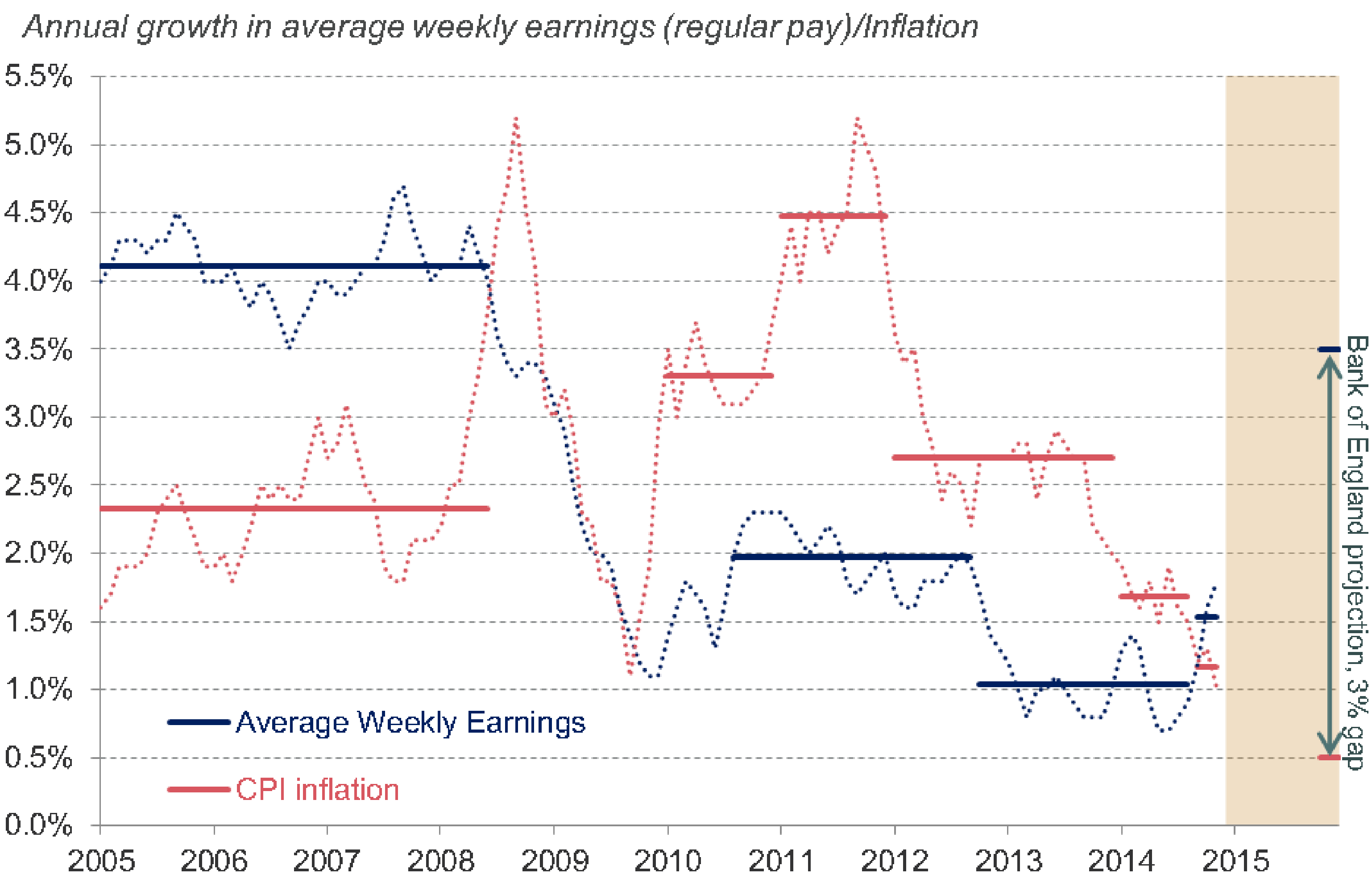
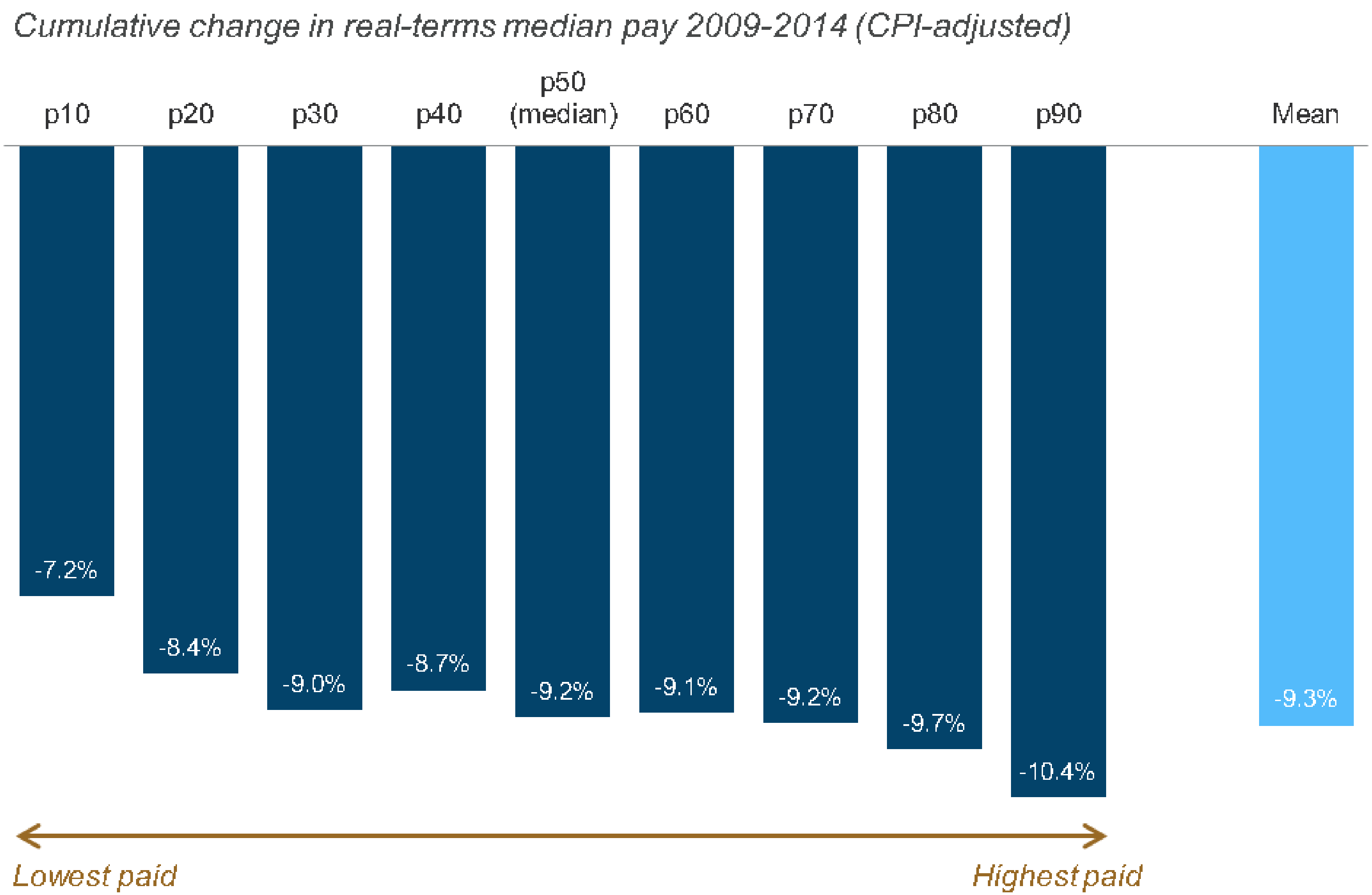


Average earnings finally overtook inflation towards the end of 2014

With inflation set to fall further in 2015, projections point to a period of strong real–terms growth

Relatively little difference in experience across the earnings distribution



Hourly pay fell furthest among the highest paid workers in the period 2009–2014, but the overall trend was surprisingly uniform

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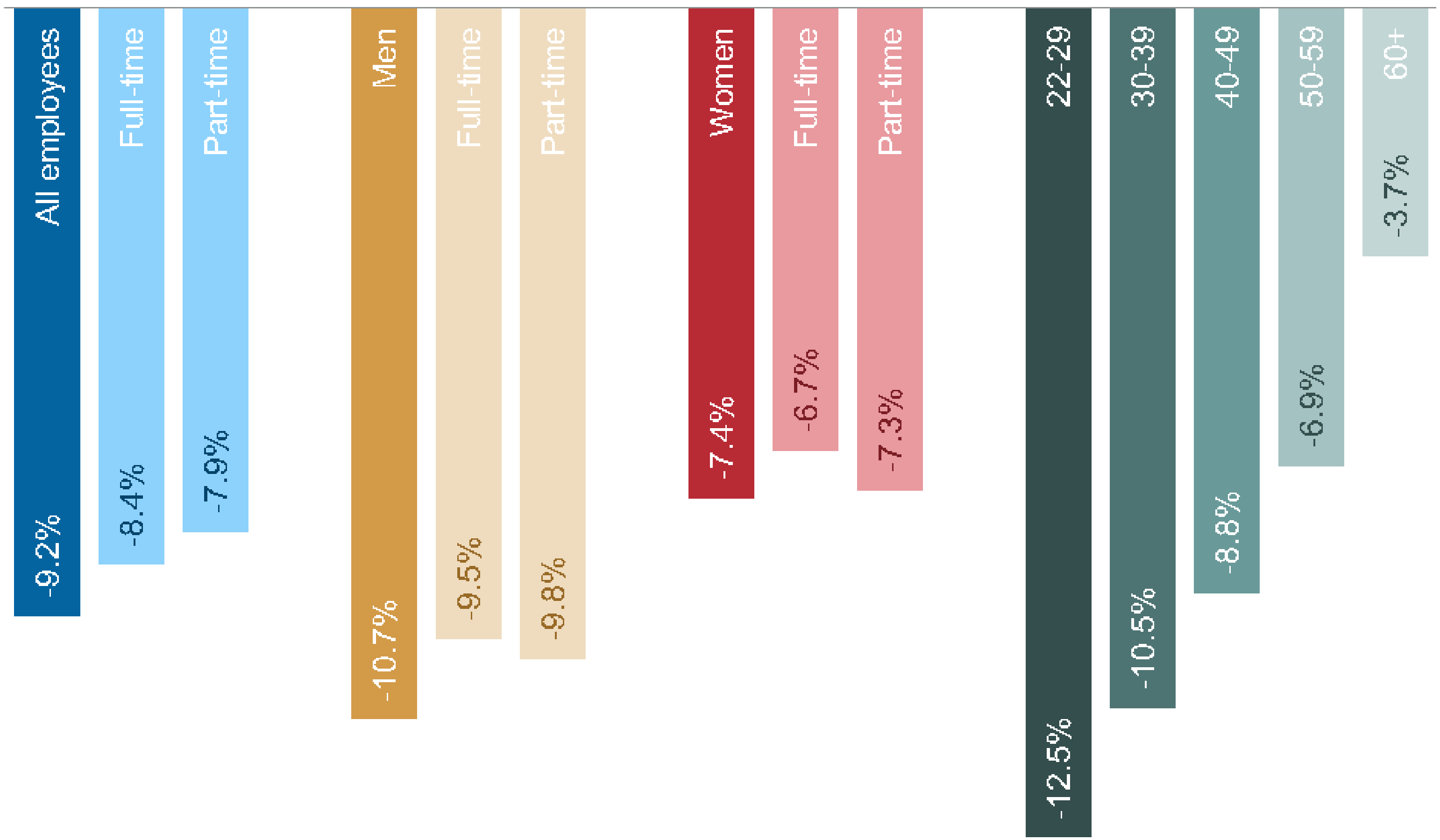
Biggest distinction has been by age and sex – with men and younger workers faring worst

Cumulative change in real-terms median pay 2009-2014 (CPI-adjusted)



The 12.5% reduction among 22–29 year–olds means median pay has fallen below its 2000 level

The gender pay gap has continued to narrow, though only because men's pay has fallen faster than women's

Employment has grown very strongly since 2012, and has returned to its 2004 peak

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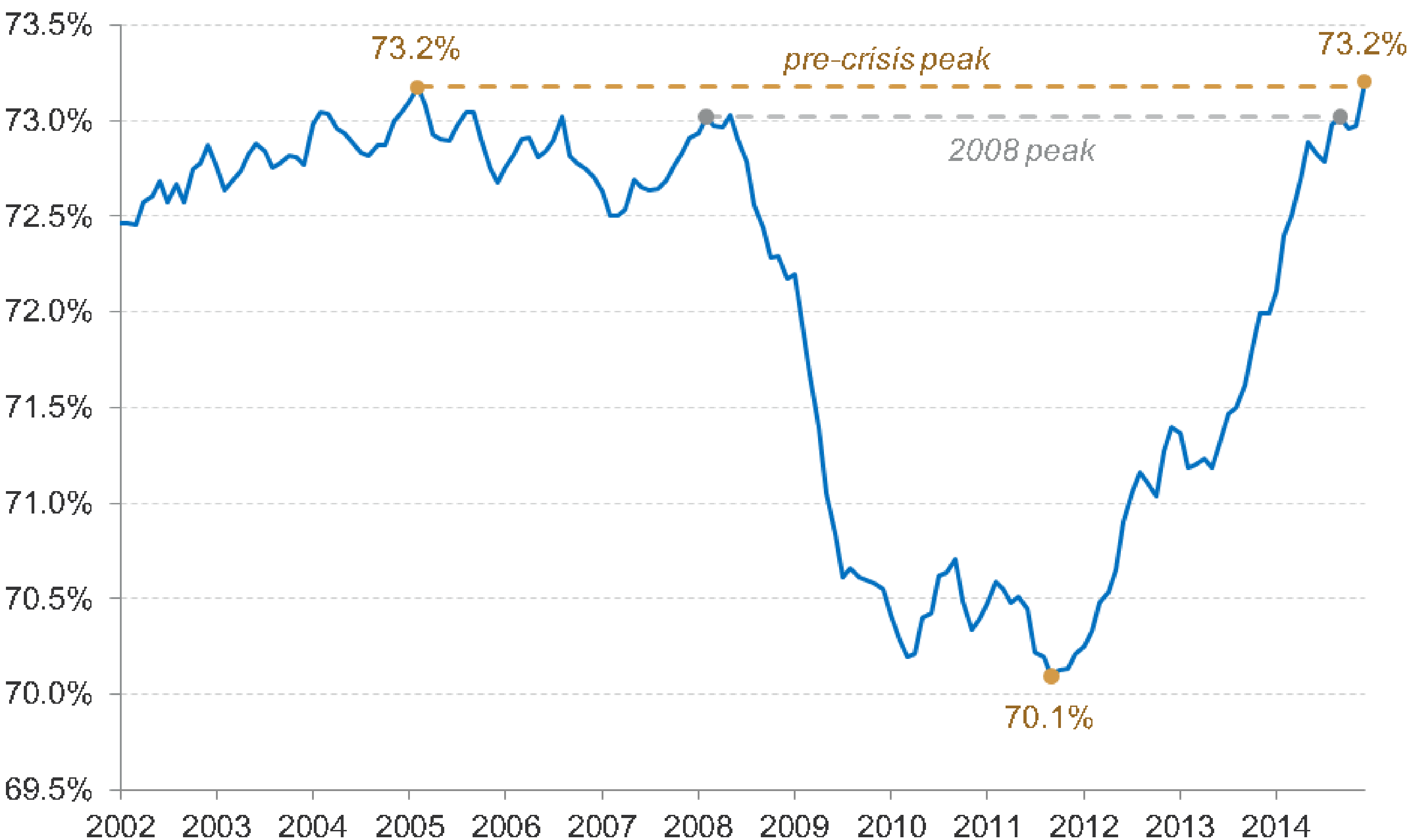
Fall and rise of the UK employment rate (three-month average)

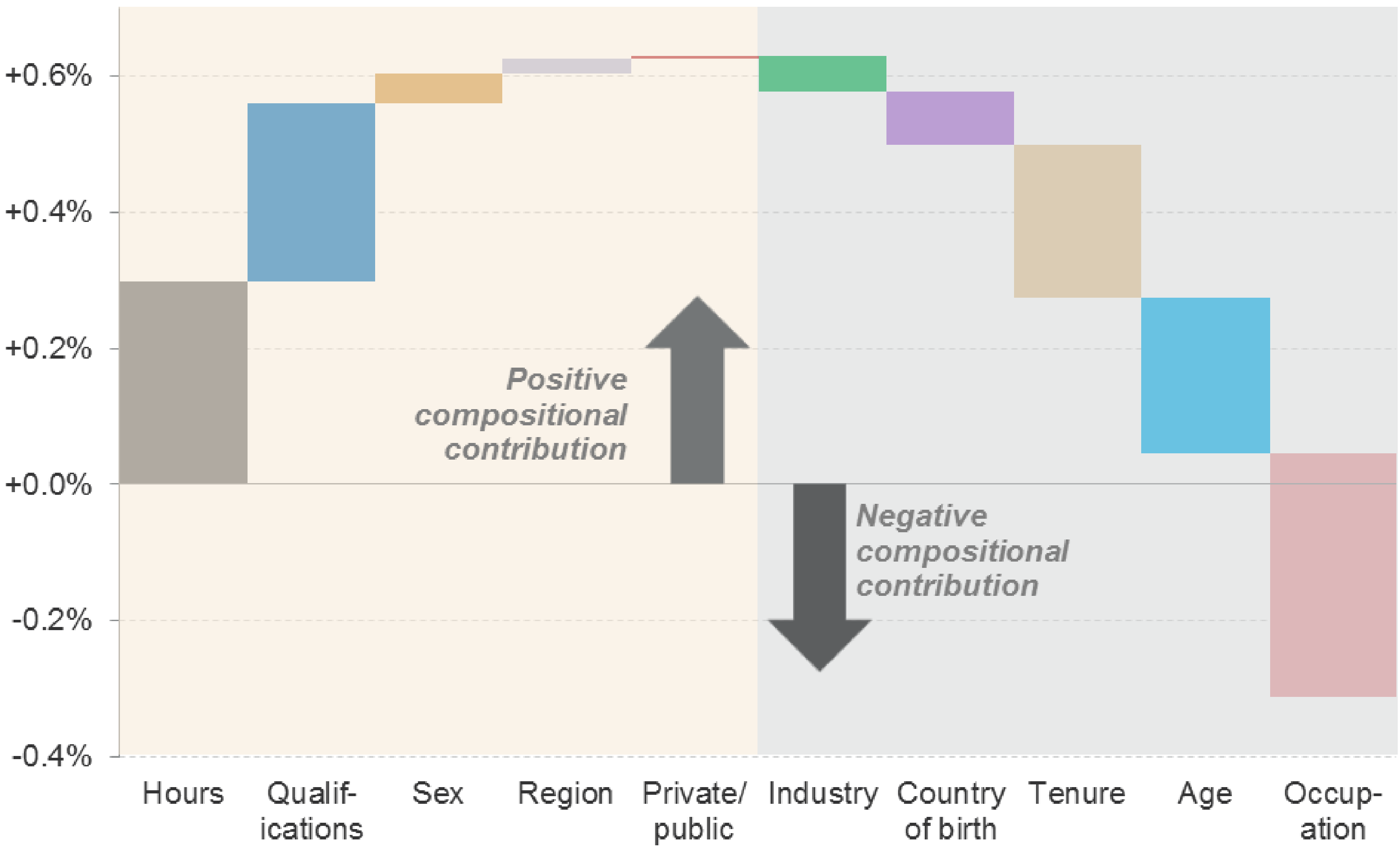


The employment rate surpassed its immediate pre-crisis peak part way through 2014

More recently, it has matched the 2004 peak level of 73.2%

Though surge in lower-paid jobs was one factor dragging on average pay growth in 2014

Compositional effects on annual change in average weekly earnings: H1 2014 (nominal)



Compositional changes in the labour market invariably provide a boost to average pay growth, as the workforce becomes more qualified

But rapid increases in lower-paid occupations and workers provided a rare drag in 2014

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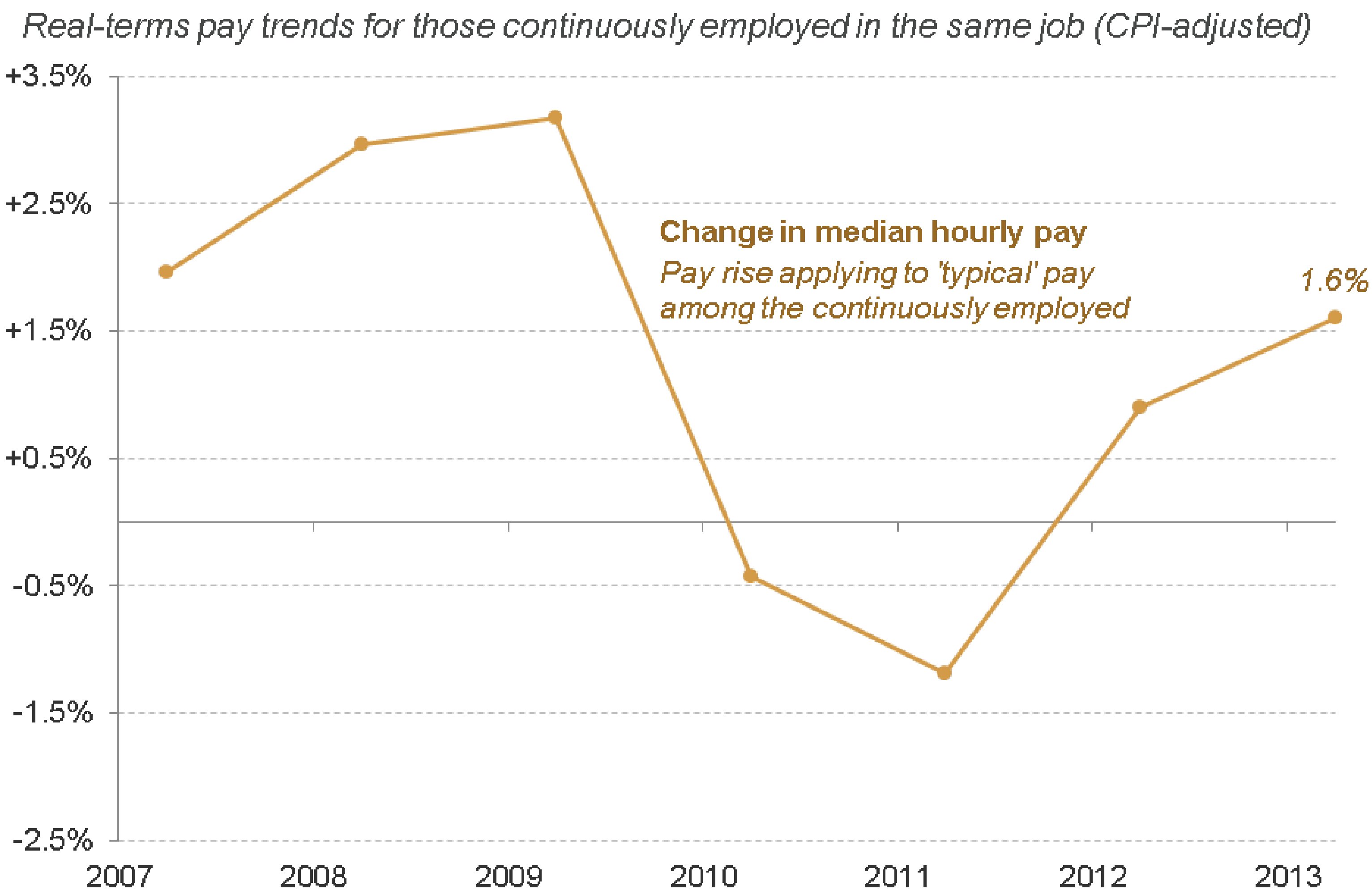
Some have pointed to relatively solid wage growth among those remaining in work



Median pay among those who have remained in the same job for a year or longer has tended to continue to rise in recent years

Leading some to conclude that a majority of those in continuous employment have had real-terms pay rises

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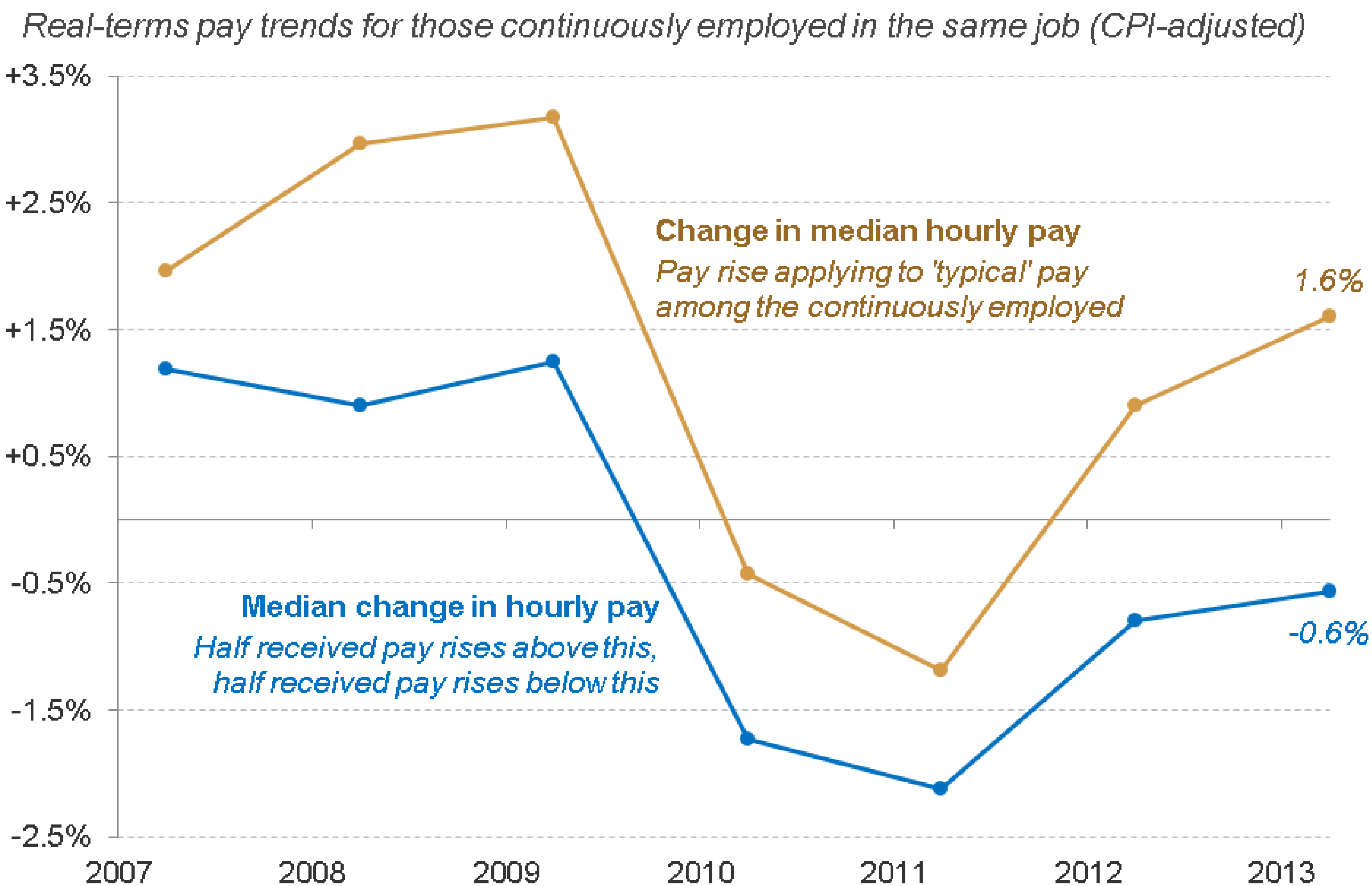
But a majority of such workers have continued to face real-terms wage reductions

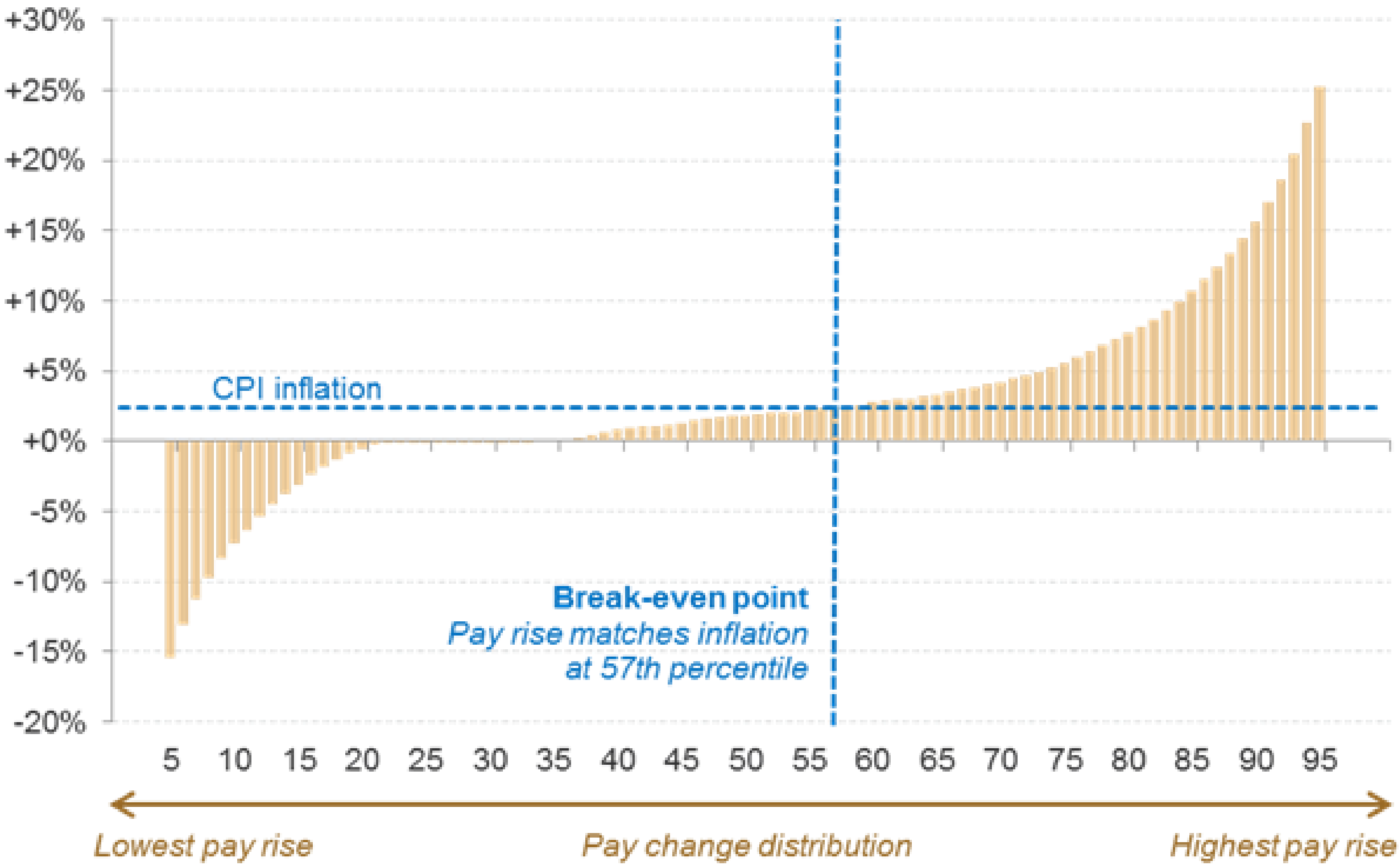


But the change in the median is different from the median change. Capturing the experiences of individuals instead, we find a majority had pay cuts in 2013

Using updated ONS data, we estimate that around ½ had pay rises in 2014

With huge variations in experience being recorded

Nominal change in hourly pay for those continuously employed in the same job, April 2013



The pattern of large pay rises spread relatively evenly across the earnings distribution helps explain why the median change is consistently lower than the change in the median for this group of employees

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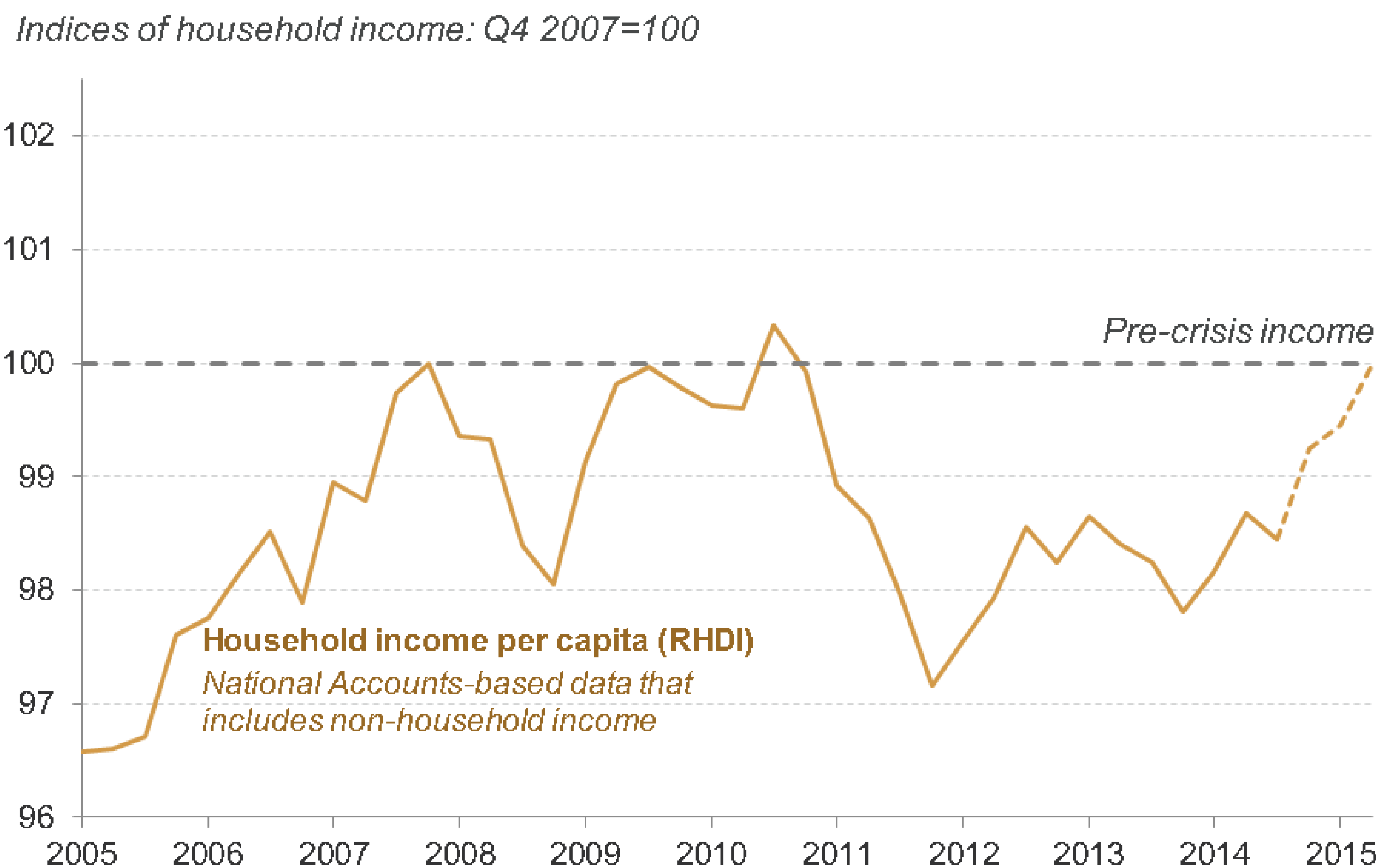
Timely but flawed National Accounts data shows some improvement in average *incomes*



The RHDI measure is the timeliest we have, but it includes many things that people wouldn't recognise as "household income"

Official projections suggest it will return to its pre-crisis peak early in 2015

With more authoritative survey data showing a similar pattern for *median* incomes

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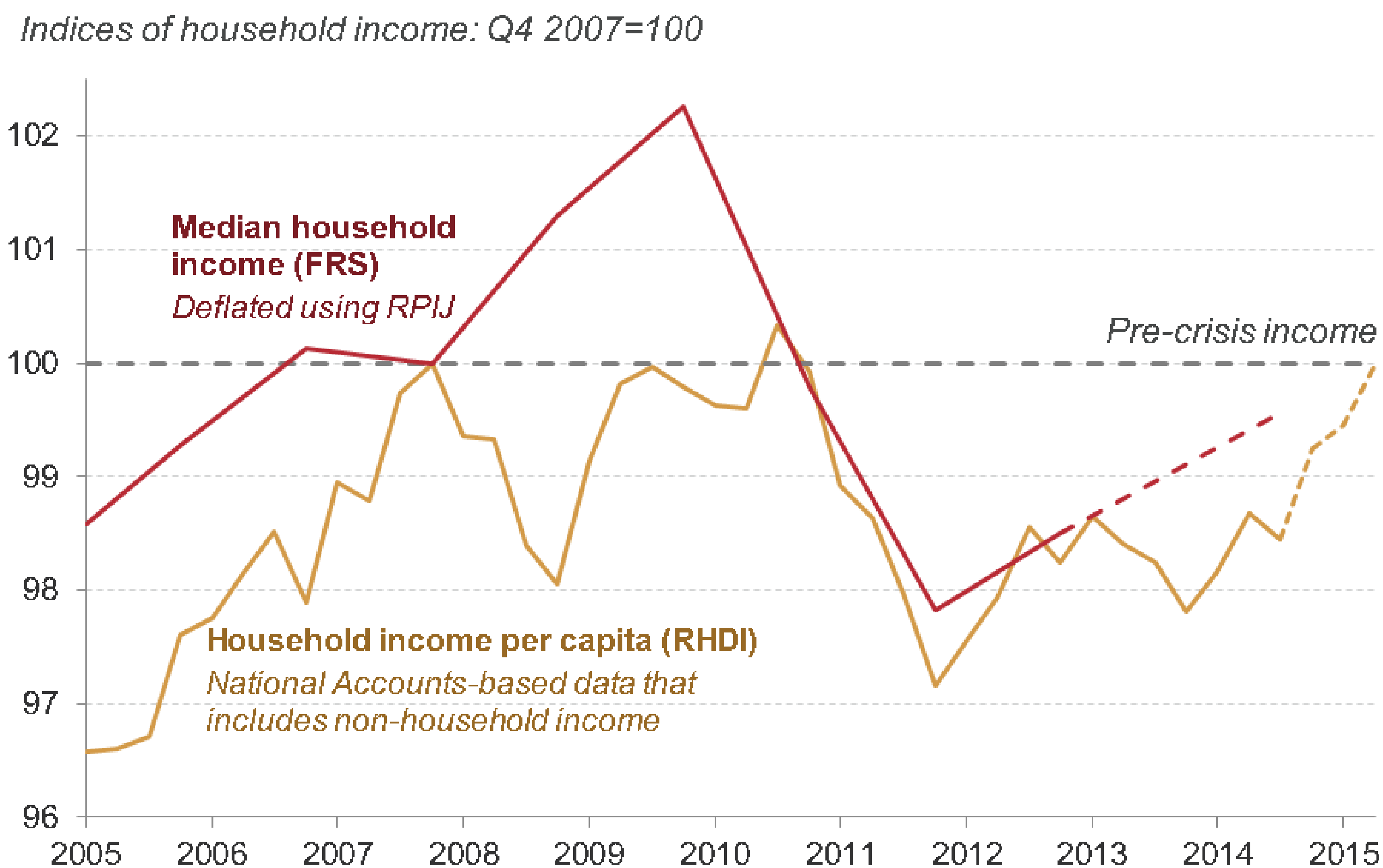
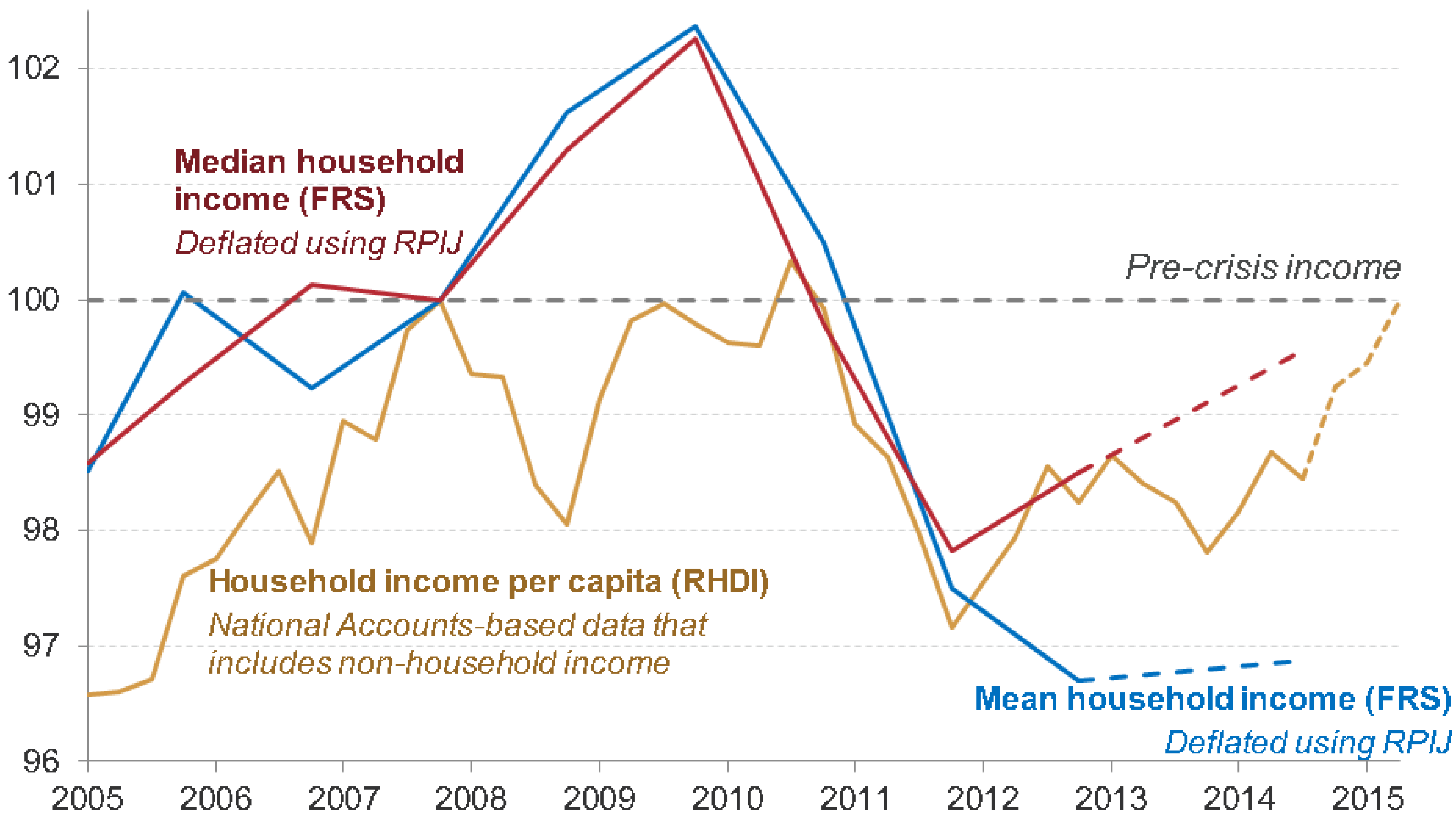


By using outturn labour market data, we project the trajectory of median household income between 2012–13 and 2014

It implies median income is approaching its 2007–08 level, though it remains around 3% below the 2009–10 peak

But *average* incomes appear to be recovering more slowly

Indices of household income: Q4 2007=100

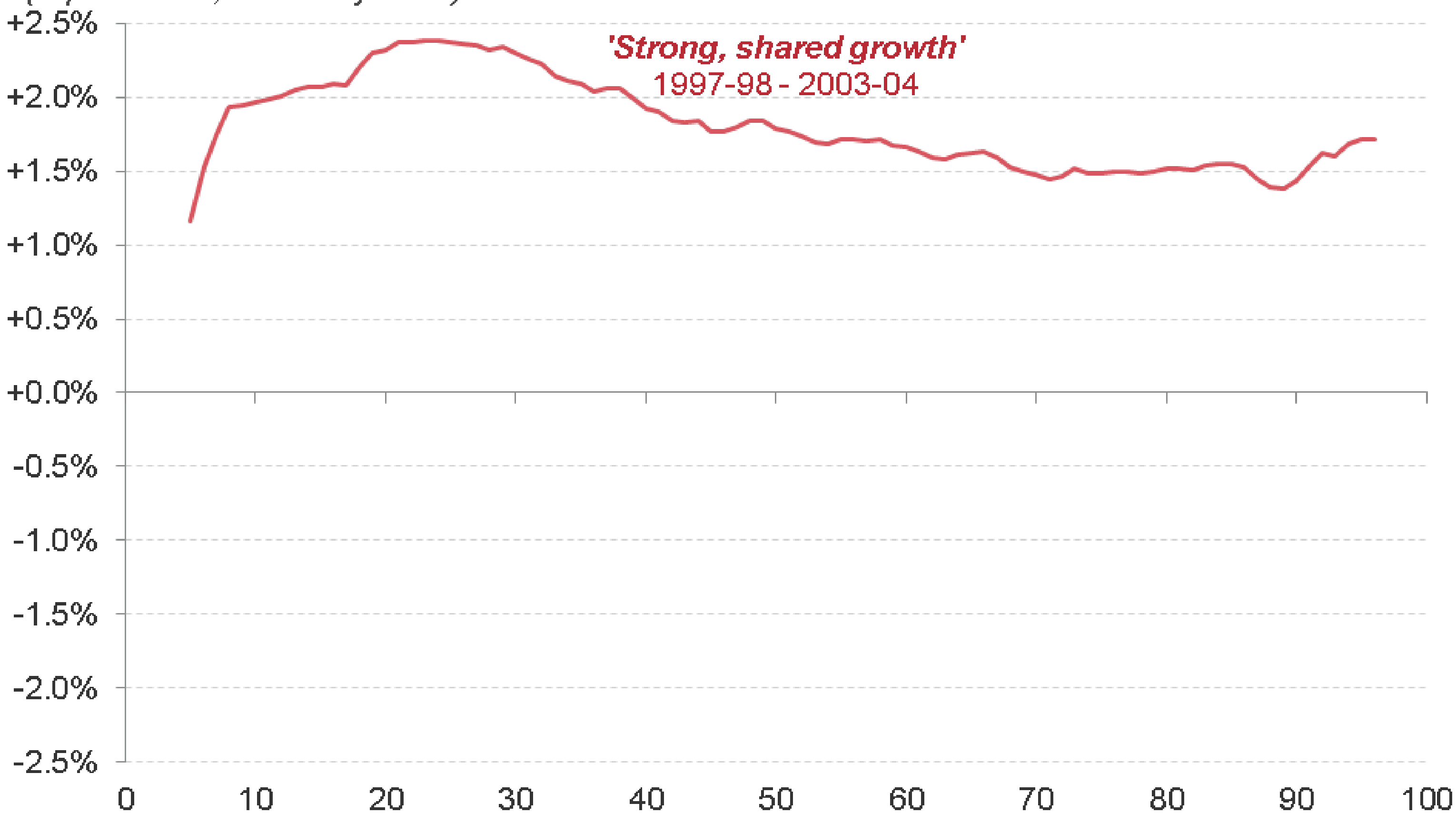


Mean household income increased by just 0.2% between 2012–13 and 2014, leaving it more than 3% below its 2007–08 level

And more than 5% below its peak in 2009–10

The period contrasts with the turn of the century, when incomes were growing strongly

Average annual growth in real disposable household income, by income percentile (equivalised, RPIJ adjusted)



The introduction of the National Minimum Wage and the development of tax credits helped to boost incomes in the lower part of the distribution in this period

More generally, growth was strong across the distribution

Though many households faced a slowdown in growth in advance of the financial crisis

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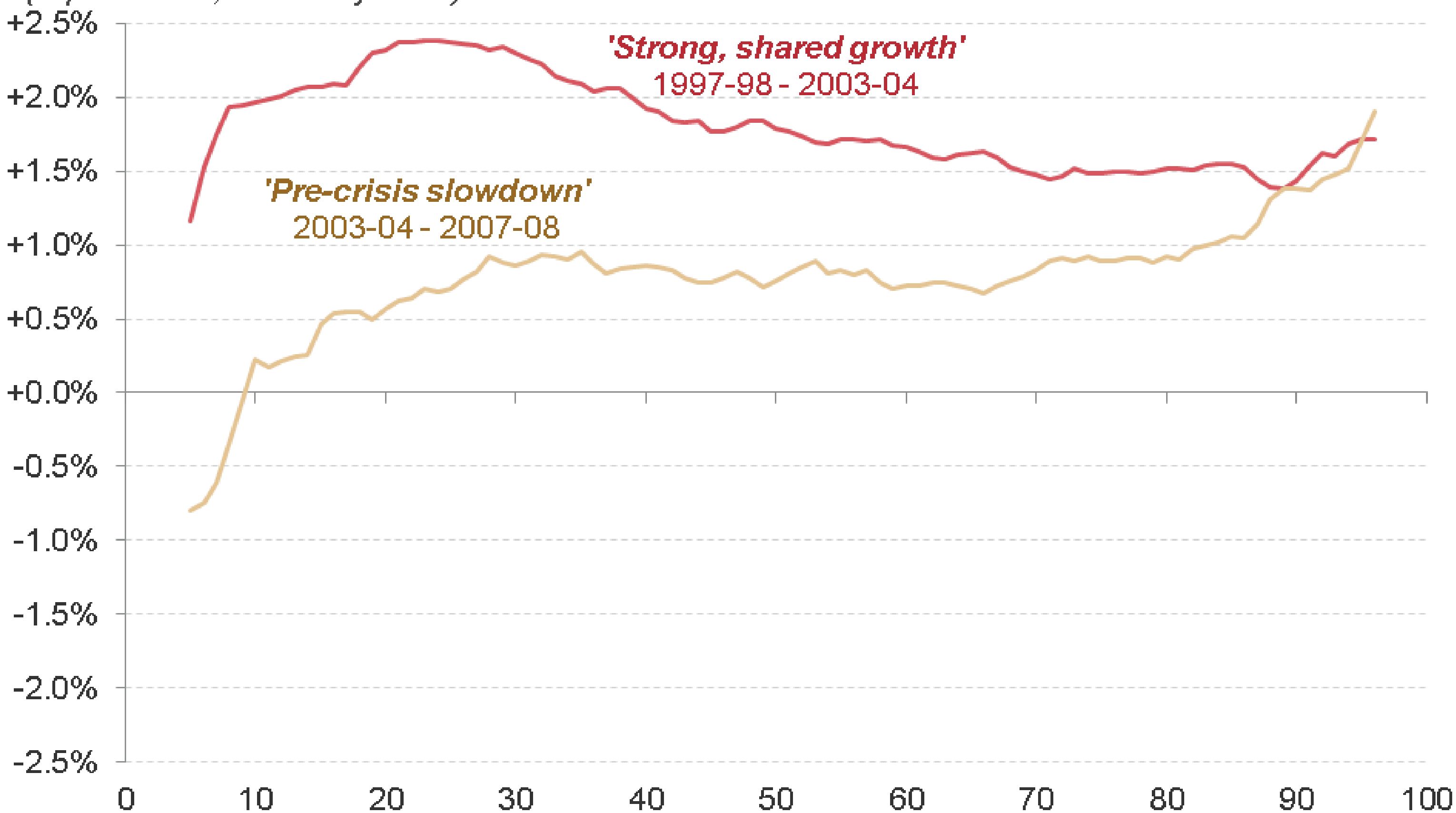
Average annual growth in real disposable household income, by income percentile (equivalised, RPIJ adjusted)



From 2003, income growth slowed down in most parts of the distribution

Incomes fell within the bottom 10 per cent, but continued to grow relatively strongly in the top 10 per cent

Incomes subsequently fell across the board, but higher income households fared worst

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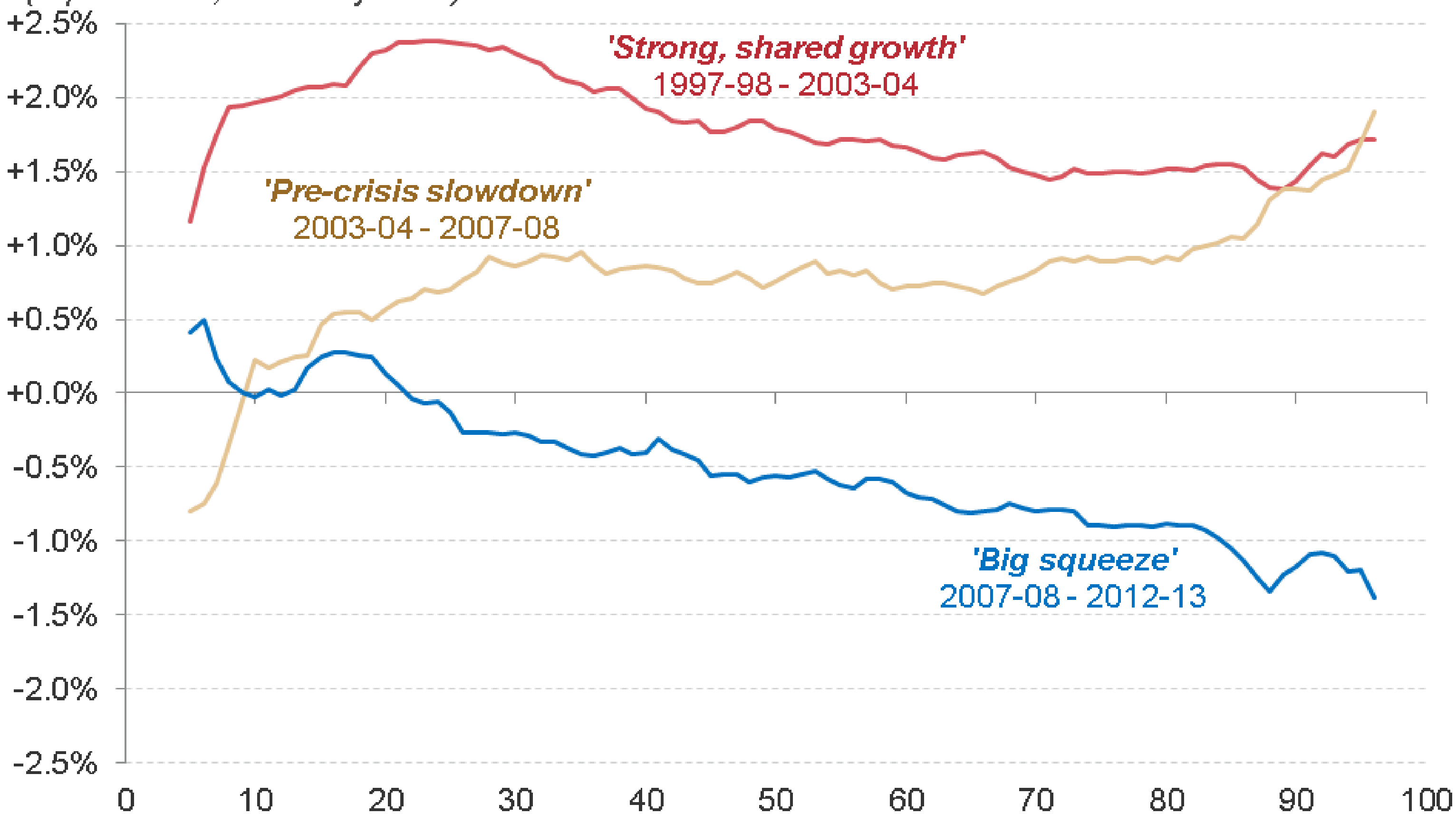
Average annual growth in real disposable household income, by income percentile (equivalised, RPIJ adjusted)

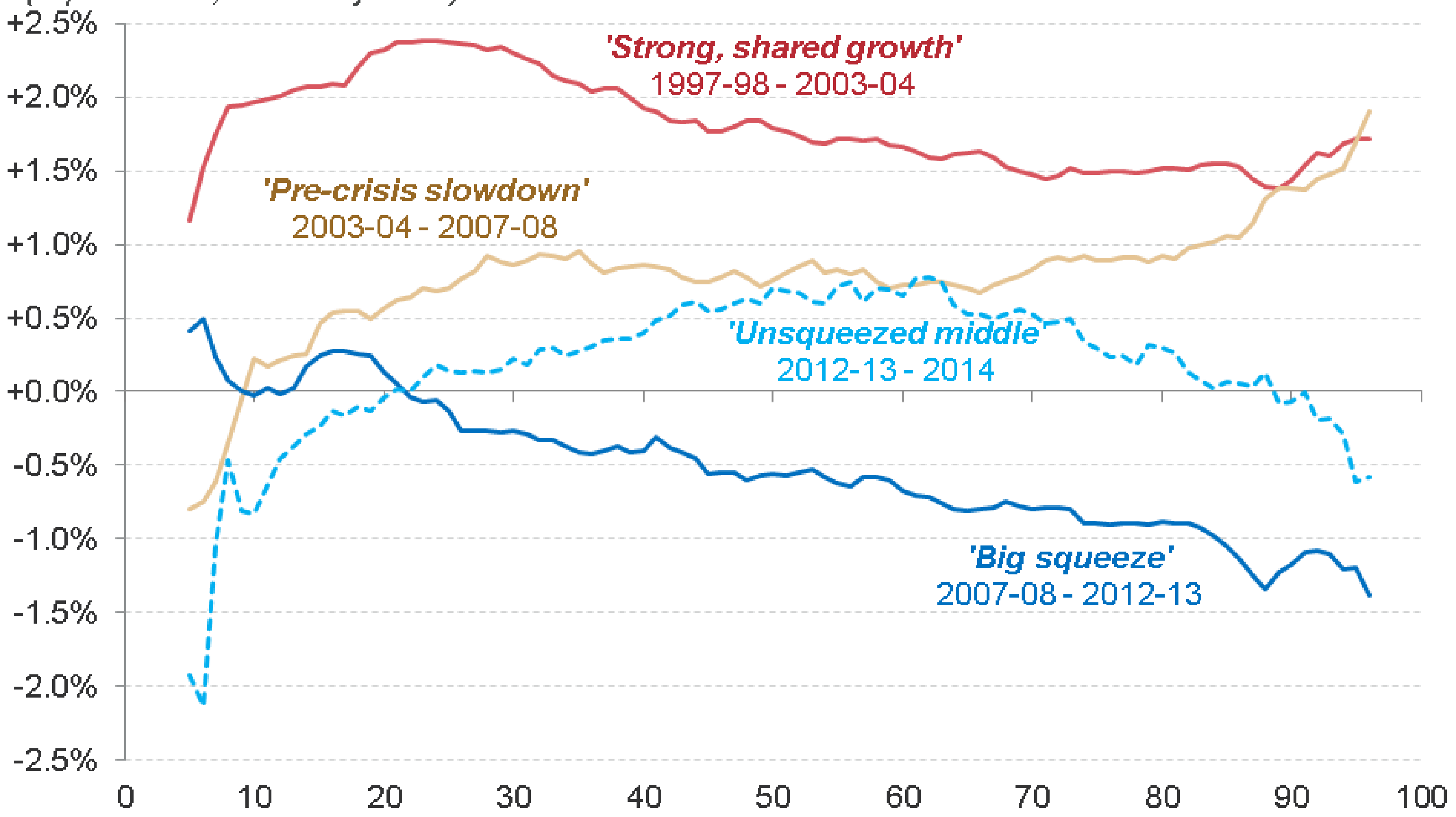


Incomes fell furthest towards the top of the distribution in the early part of the downturn, reflecting falling wages and changes in tax

Incomes towards the bottom were protected to some degree by automatic stabilisers

Our projections suggests a new phase of falls at the top and bottom

Average annual growth in real disposable household income, by income percentile (equivalised, RPIJ adjusted)

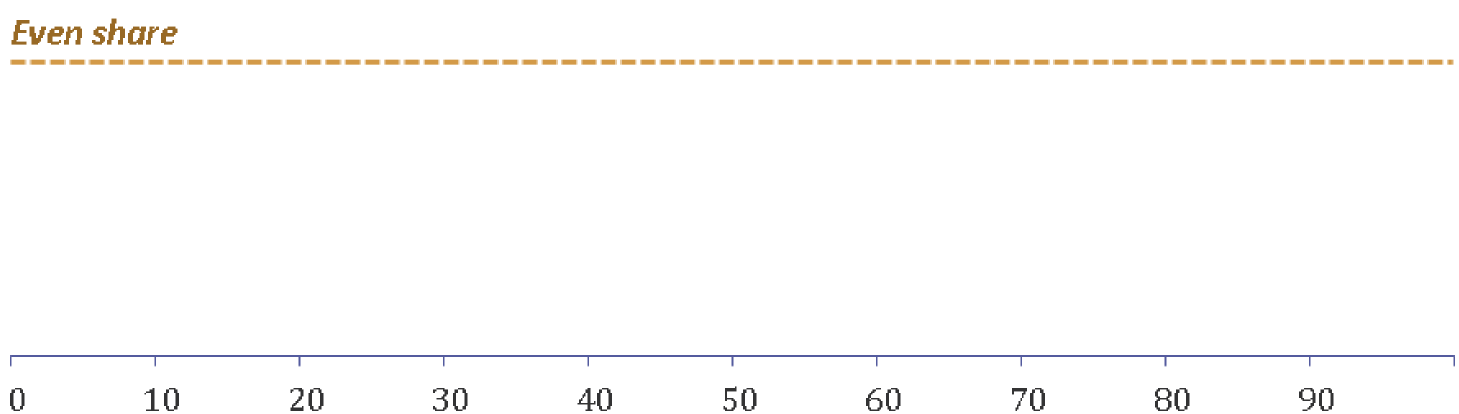


Middle incomes have been boosted by cuts in income tax, while those at the top have faced a reduced higher rate threshold and the withdrawal of Child Benefit

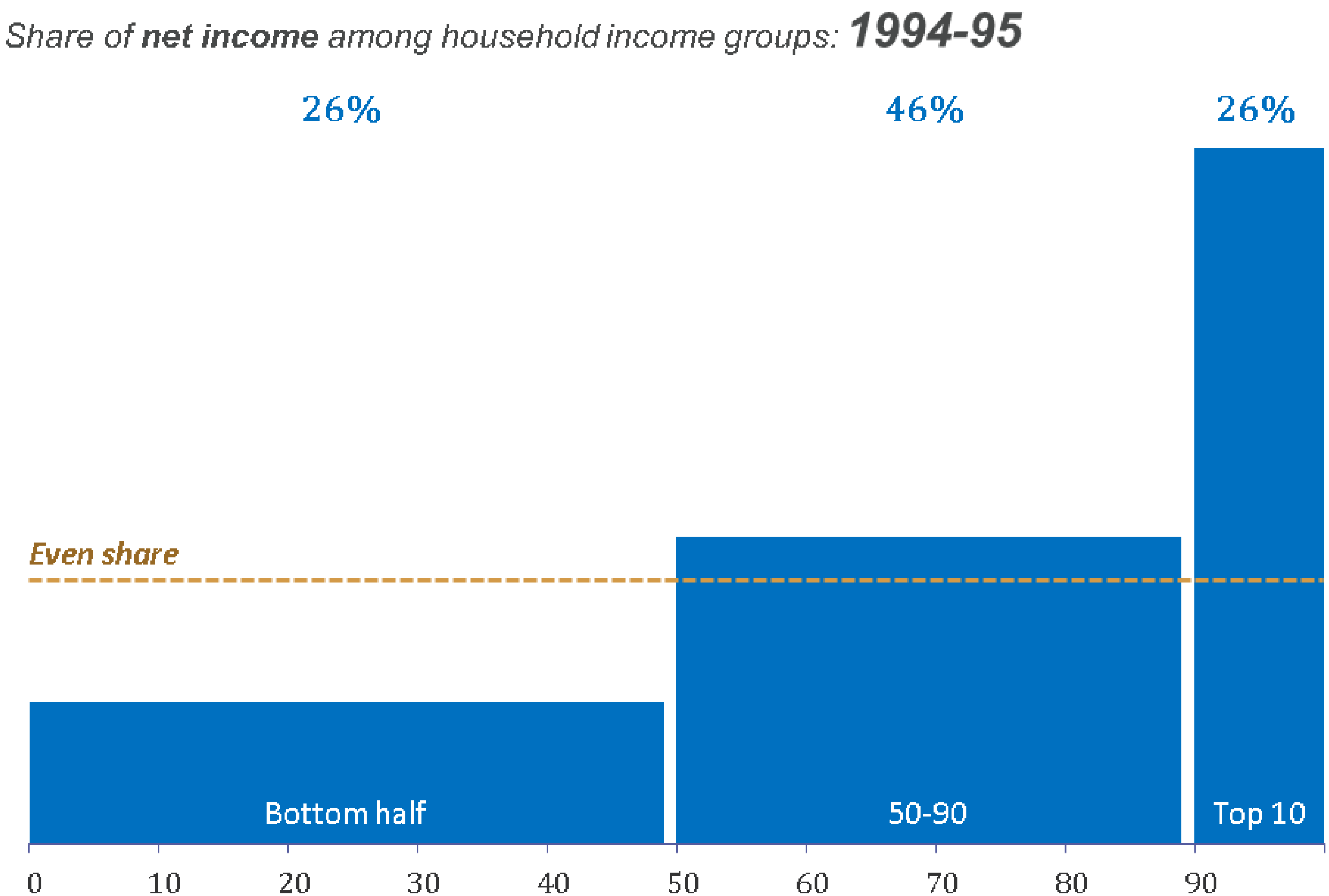
Cuts in benefits appear to have pushed down on incomes at the bottom

These trends have altered the shares of income accounted for by different parts of the distribution

*Share of **net income** among household income groups*



The top 10% of households account for the same share of income as the entire bottom half



The bottom half of households accounted for around half as much income as their population size would suggest

In contrast, the top 10 per cent accounted for around 2½ times their population

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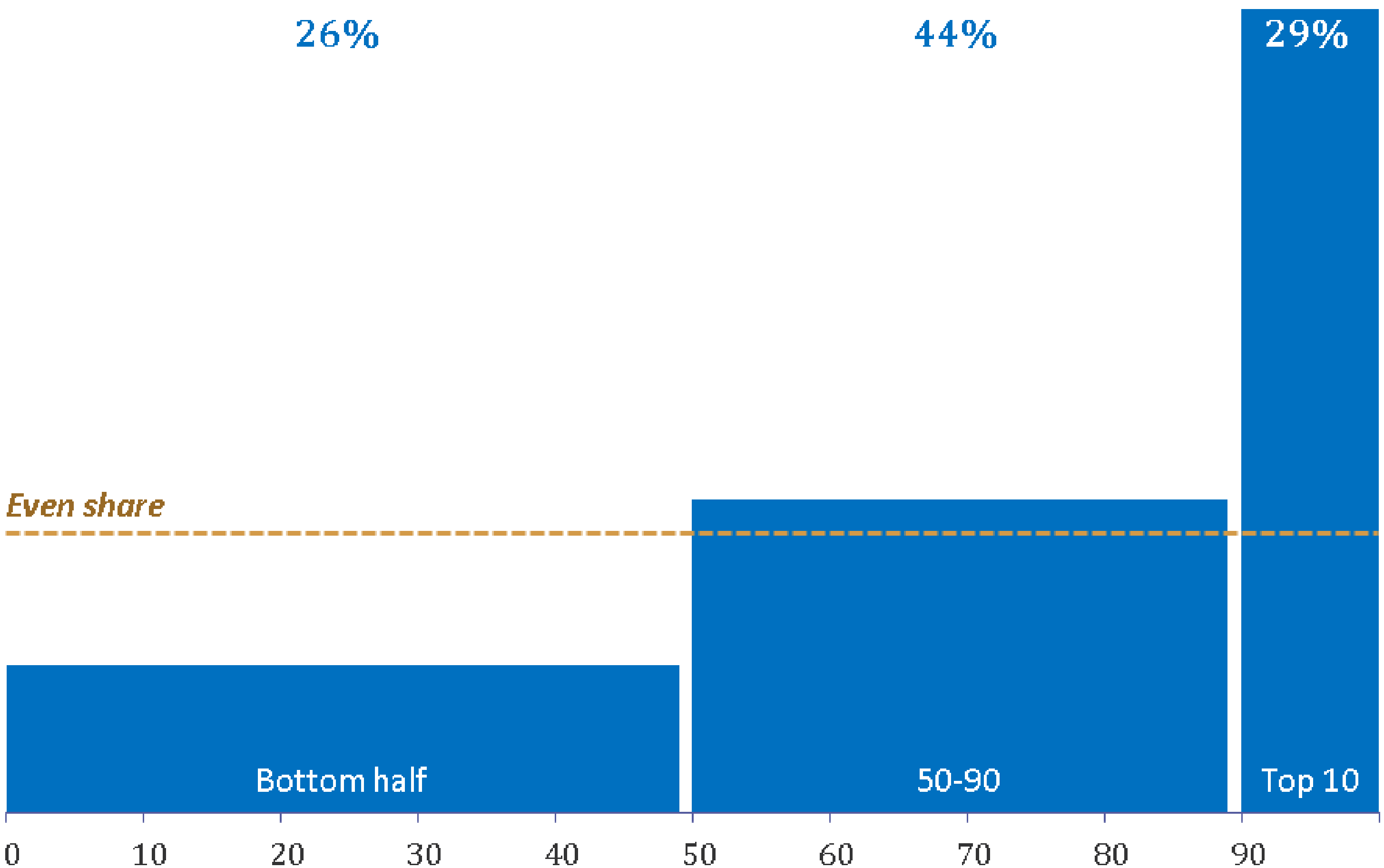
With the top's share rising still higher in the period to 2007-08

Share of **net income** among household income groups: **2007-08**



The increased share enjoyed by the top 10 per cent by 2007–08 resulted in a small share among the bottom half and a more significant drop for the remainder of the top half

Before falling slightly in the aftermath of the financial crisis

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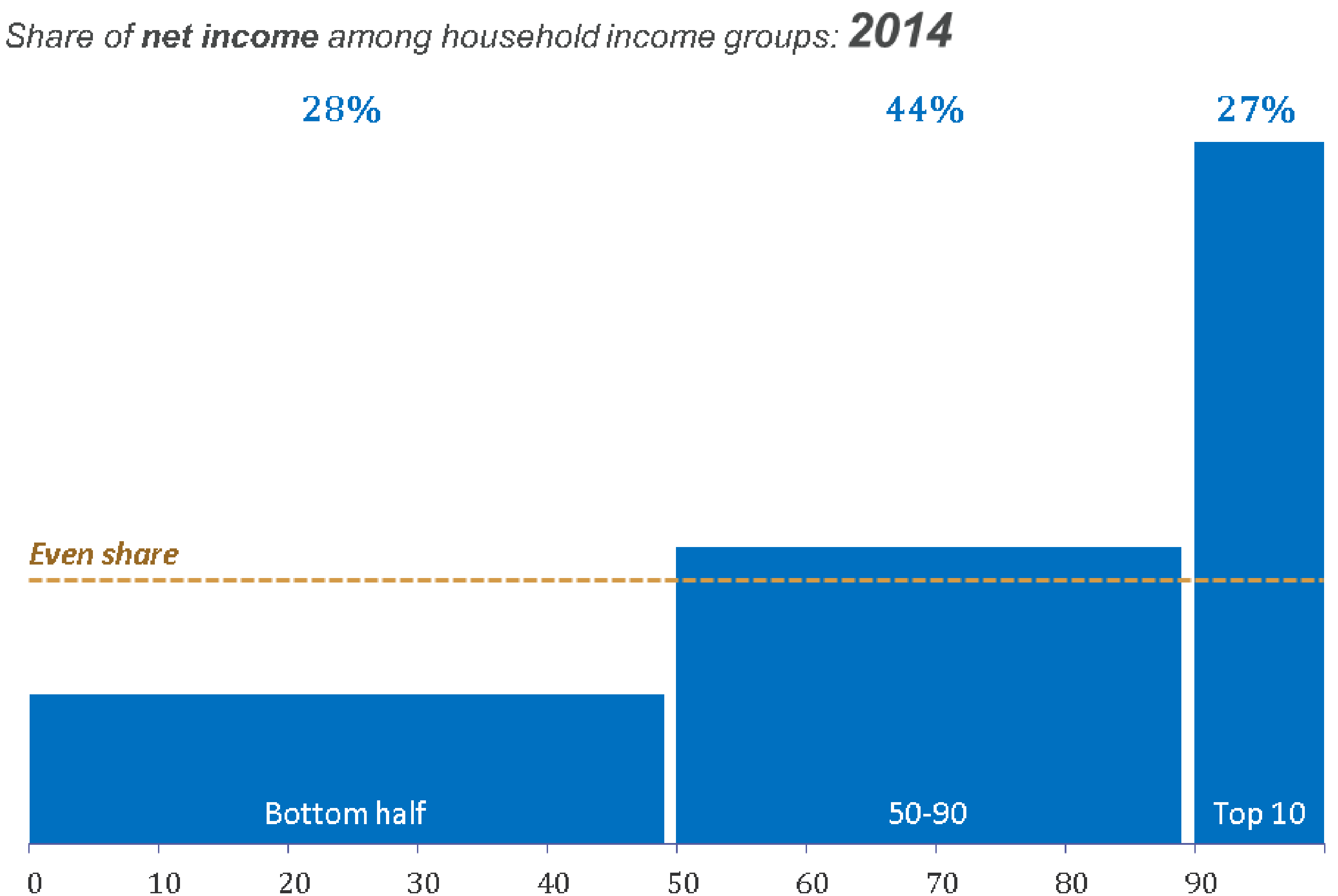

The reduction in income share experienced by the top 10 per cent since 2007–08 has been shifted primarily to the bottom half

The share of the top 1% is over six times the population accounted for by the group

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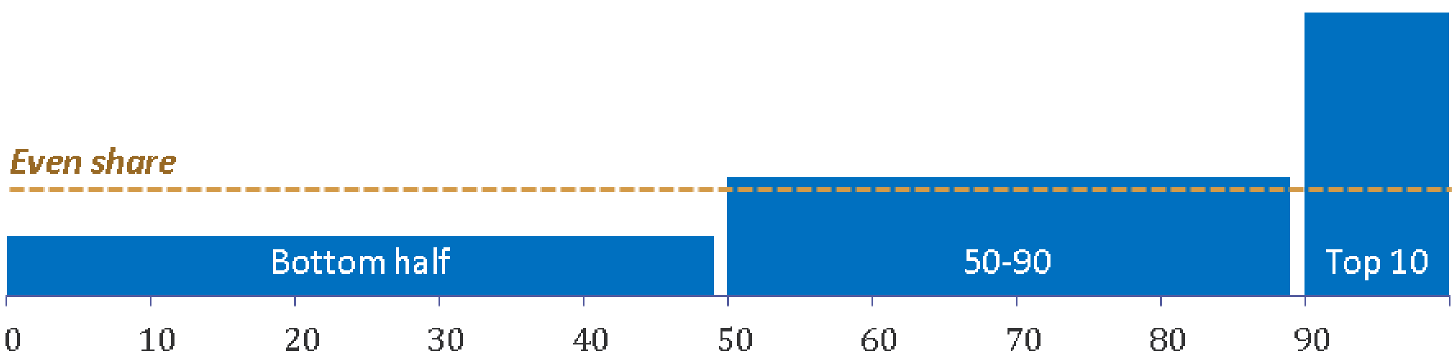
*Share of **net income** among household income groups:* ***2014***



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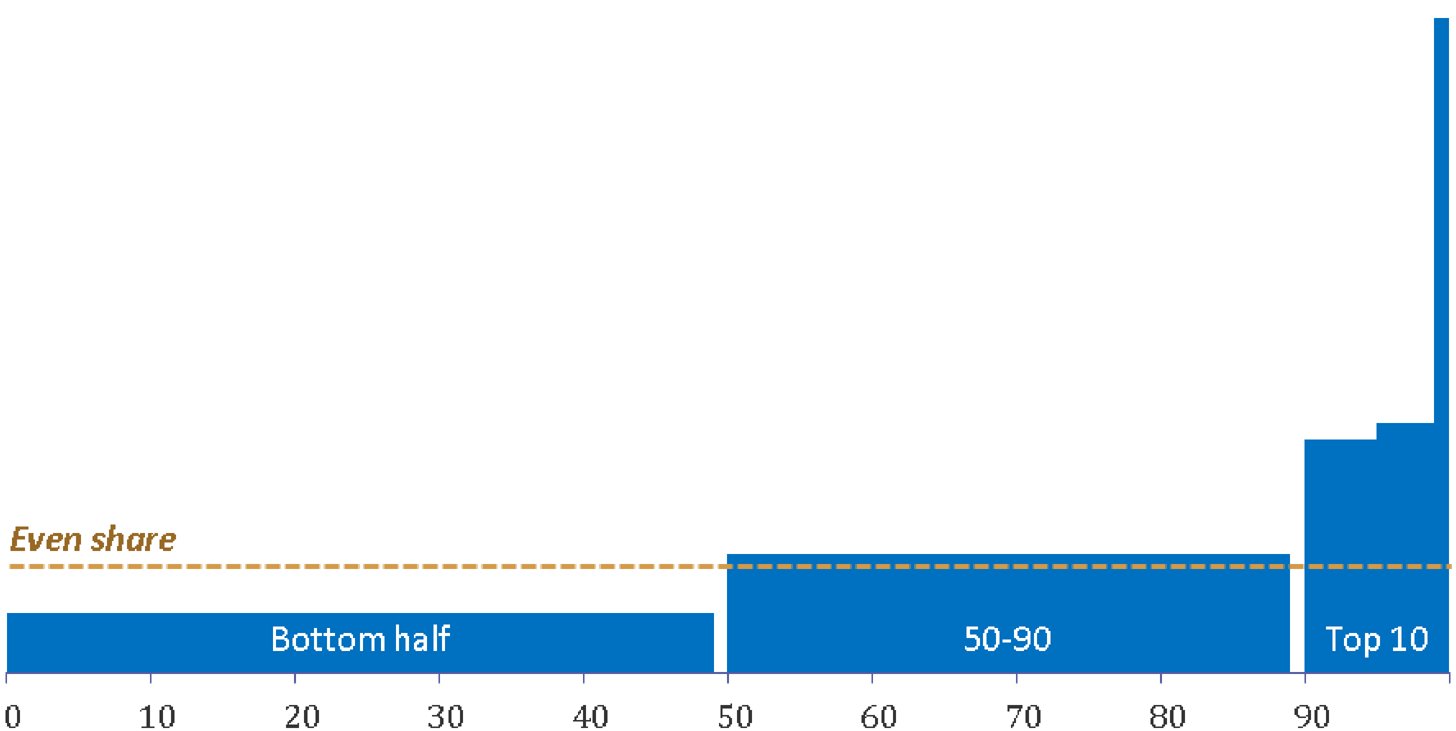
The share of the top 1% is over six times the population accounted for by the group

Share of **net income** among household income groups: **2014**

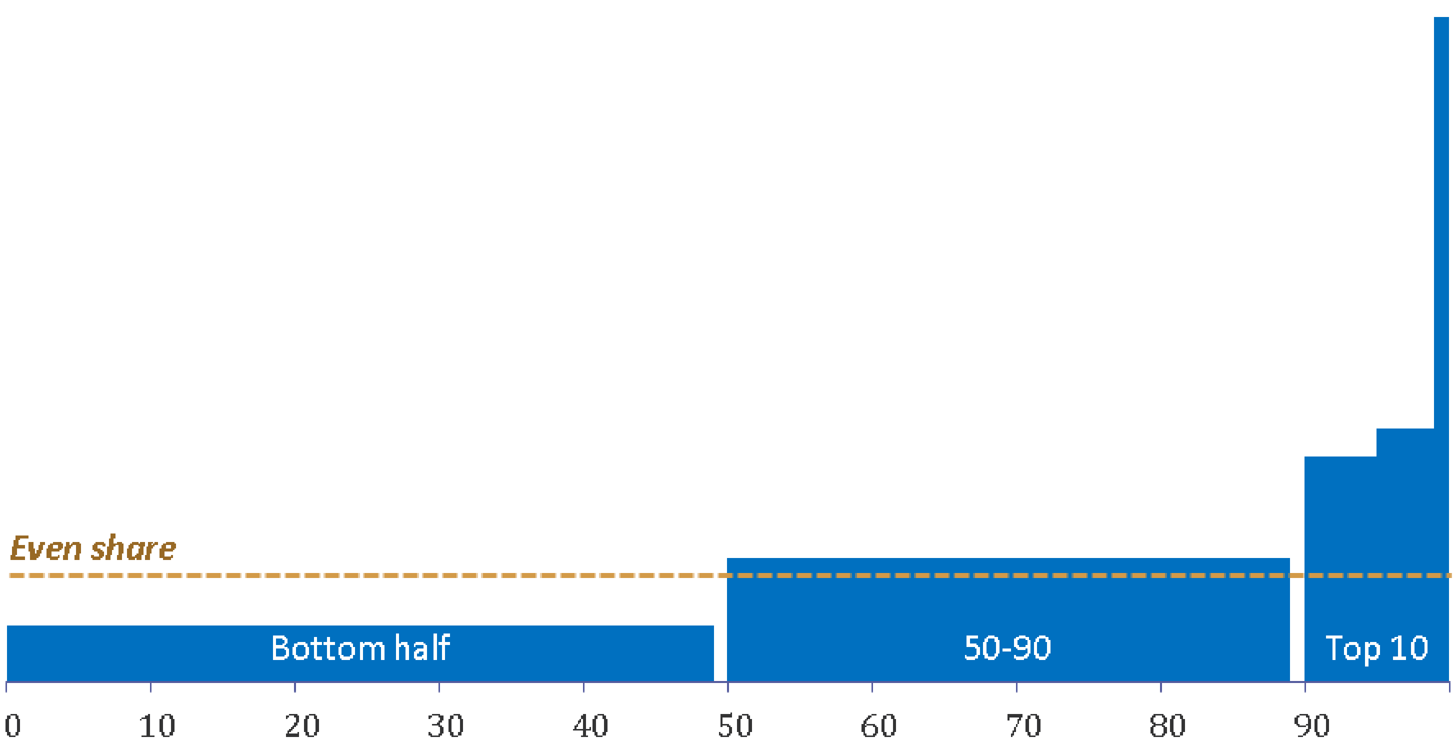


We estimate that the top 1 per cent accounted for a little over 6 per cent of all net income in 2014

The entire bottom half accounted for just over 4 times more, at 28 per cent

Which is not much changed from the mid-1990s

Share of **net income** among household income groups: ***1994-95***



The ratio of bottom half to top 1 per cent was very slightly higher in the mid–1990s, suggesting top–to–bottom inequality has fallen a little in the intervening period

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Though it is lower than the ratio of over 8 that was recorded just before the crisis

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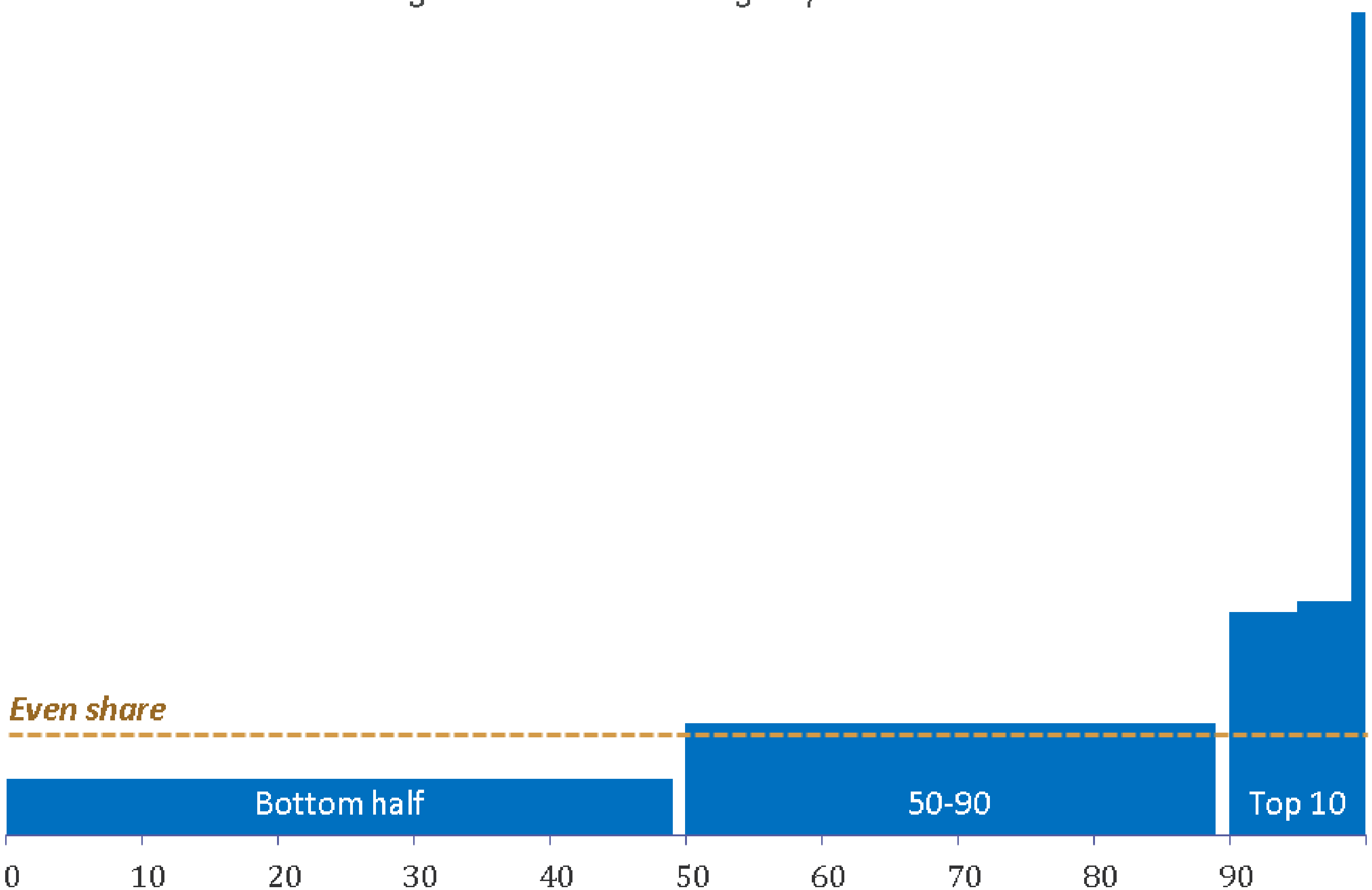
Share of **net income** among household income groups: **2007-08**



But just before the crisis the ratio stood at around just 3½ times

That is, the top 1 per cent accounted for just over 8 per cent of all income while the bottom half accounted for 26 per cent

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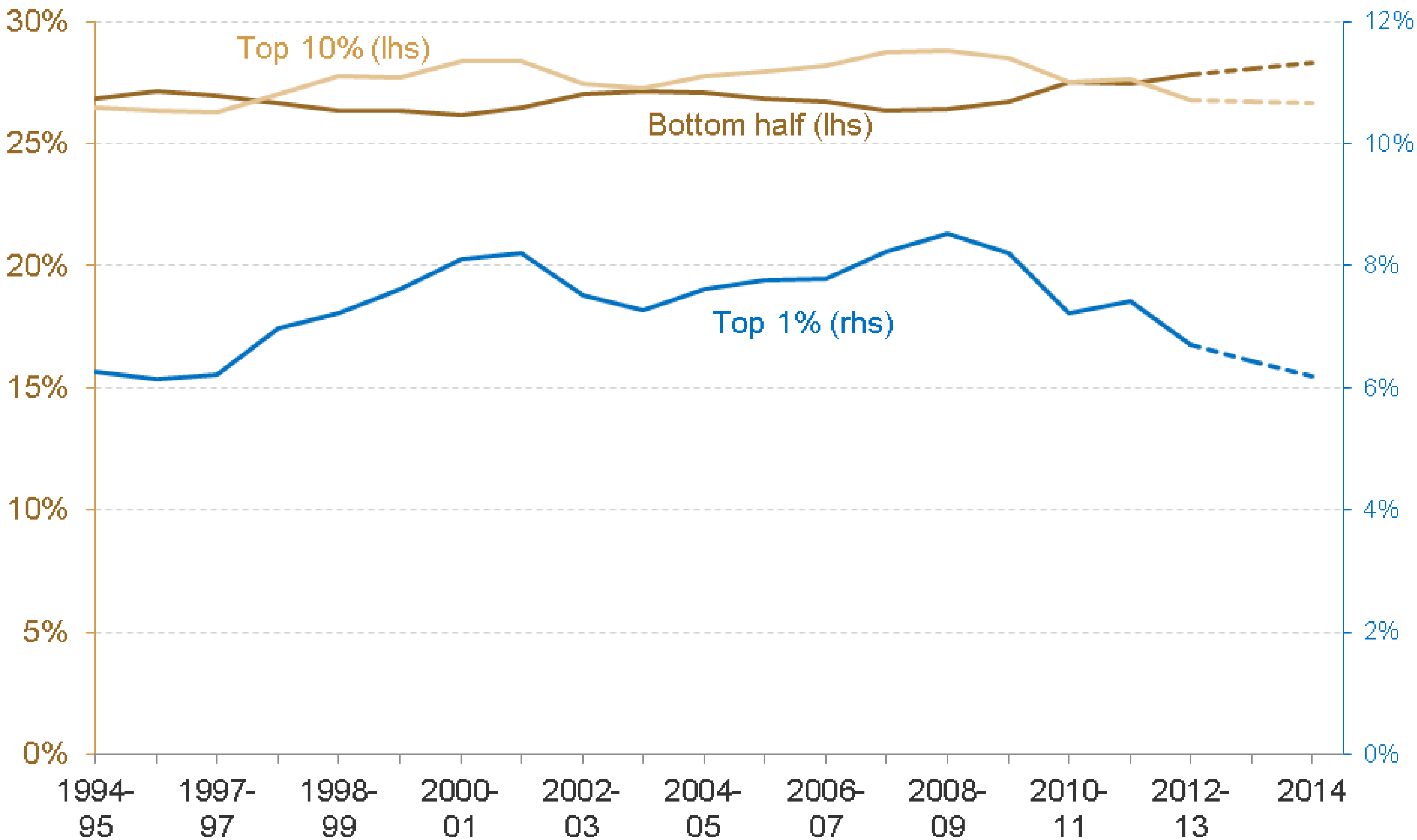
Inequality has been largely flat since 1994, with the exception of the very top

*Share of **net income** among selected household income groups*



There has been relatively little movement in the gap between the bottom and the middle

But the very top accounted for a steadily growing share over the course of the 1990s and 2000s, prior to the sharp reversal from 2008–09

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Working-age incomes have been hit much harder than pensioner ones

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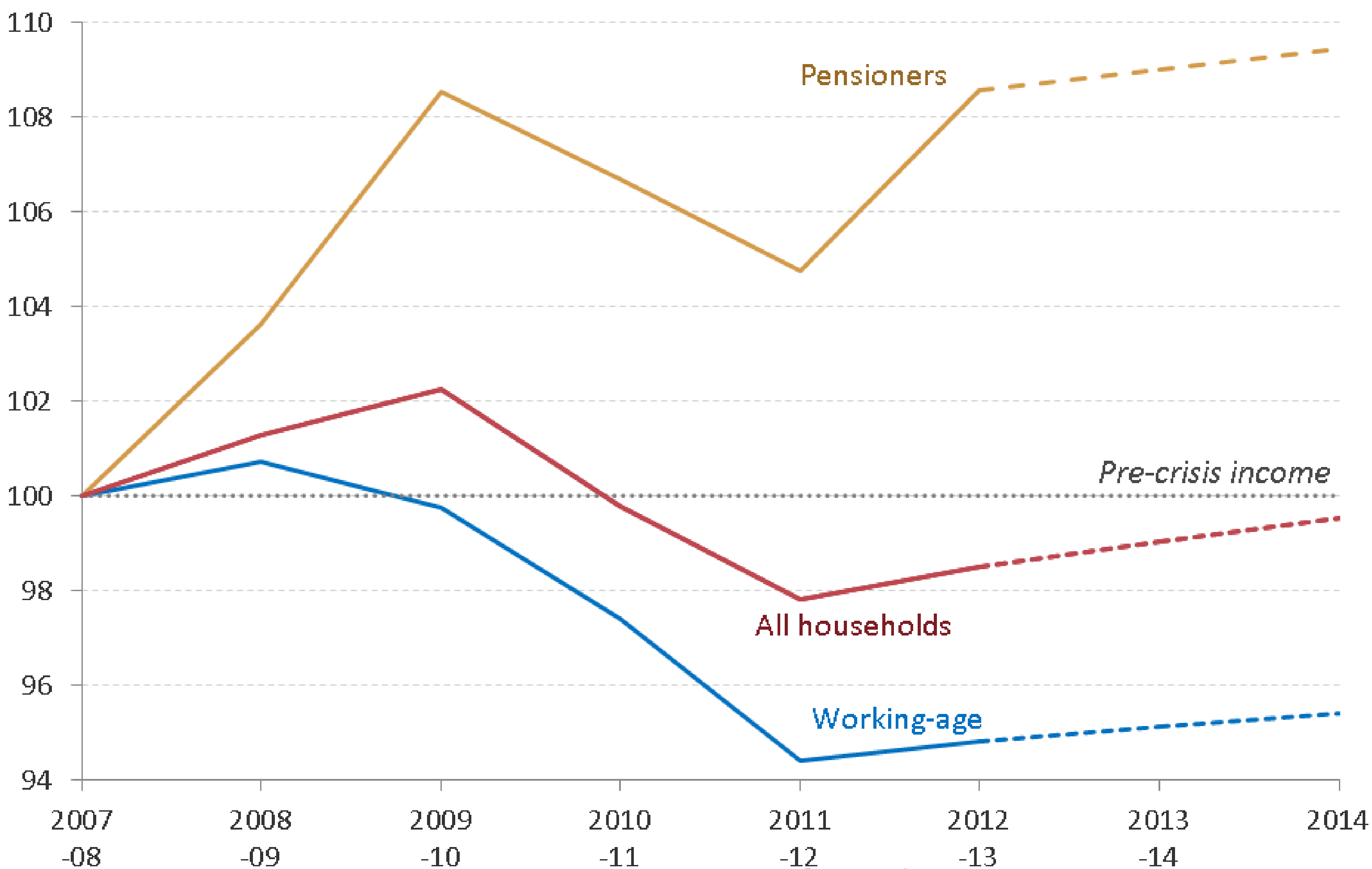
Indices of real-terms median net household income: 2007-08 = 100 (RPIJ-adjusted)

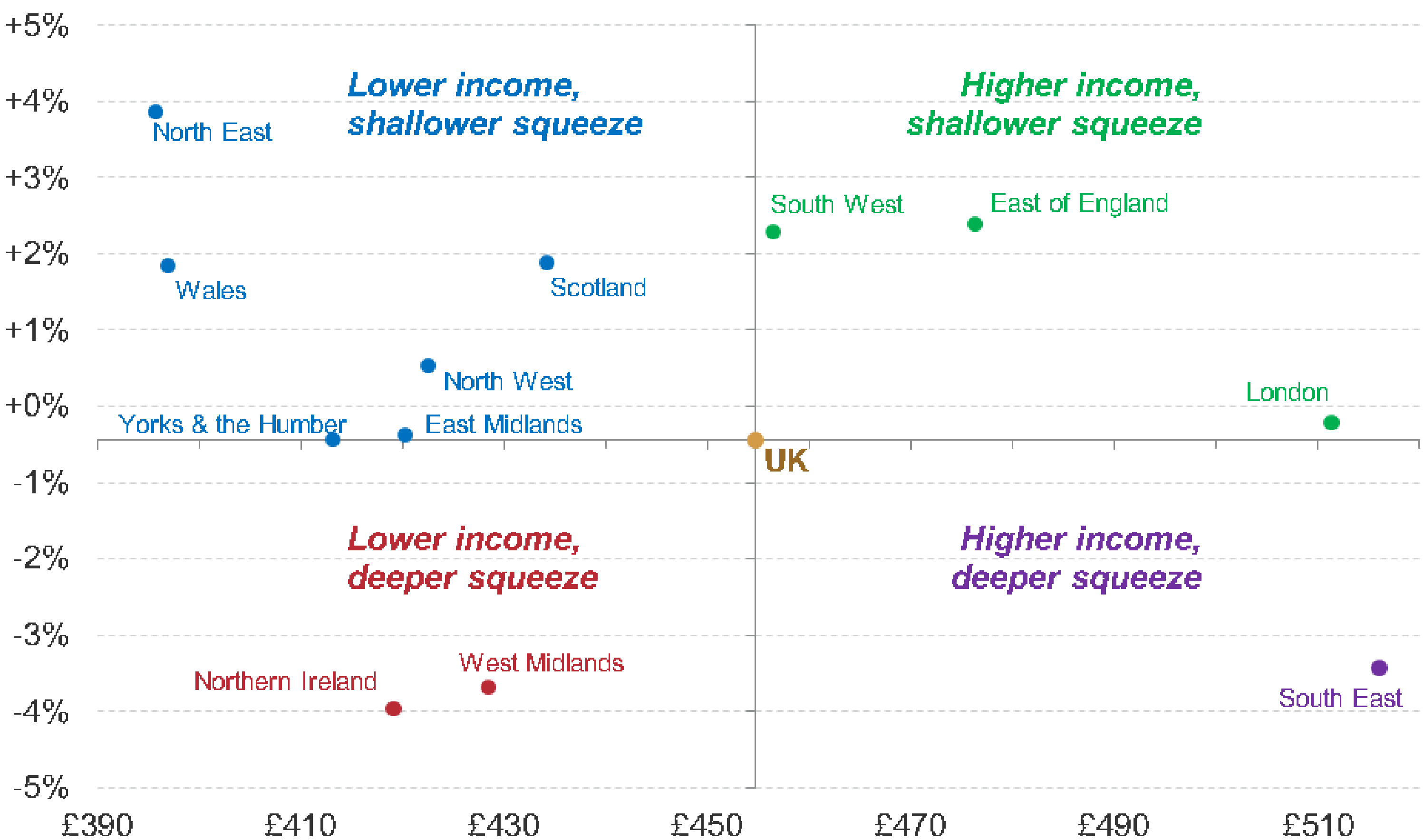


Labour market trends and benefit cuts have pushed down on working-age incomes, though income tax cuts and falling mortgage repayments have boosted some

Pensioner incomes have been protected by the triple lock and by rising employment and lower falls in wages

And there has been significant variation across countries and regions

Change in real-terms median net household income (RPIJ adjusted) 2007-08 to 2014



Median net household income in 2007-08 (2013-14 prices, RPIJ adjusted)

Median incomes have risen by 4% in the North East but fallen by the same amount in Northern Ireland, despite both starting the period from similar (low) levels

Of the four regions starting the period with higher than typical median income, the South East has fared worst

With the biggest gains in the last 18 months coming in the North and East

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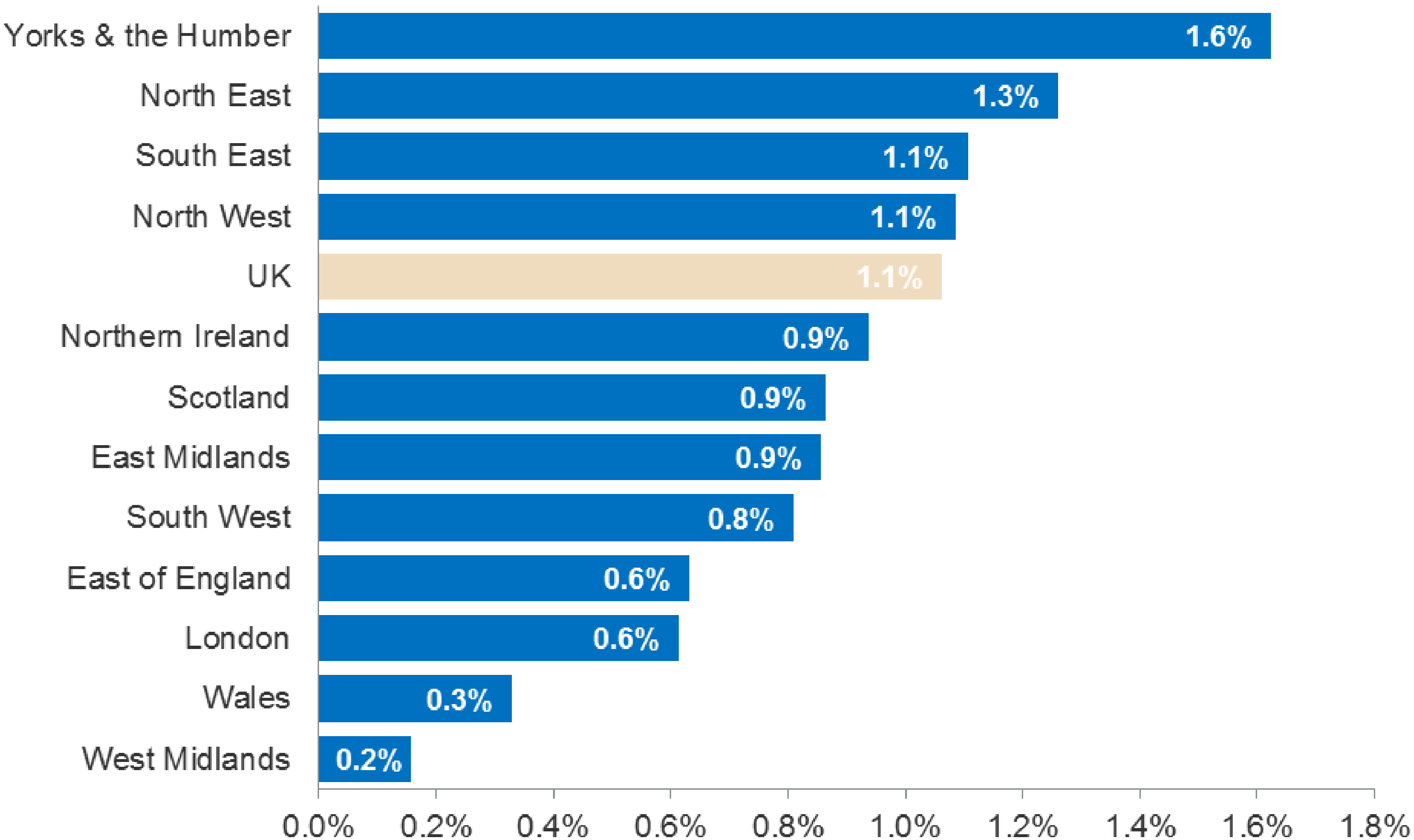
Growth in median household income 2012-13 to 2014 (RPIJ adjusted)



Median income rose by 1.6% in Yorkshire and the Humber between 2012–13 and 2014, but by just 0.2% in the West Midlands – a cash difference of over £300 a year

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Living standards in the downturn and recovery: *pay*

- Pay falls have been relatively uniform across the **earnings distribution**, but have hit men and the young hardest
- With inflation falling, there are clear **signs of improvement** in average pay
- But a **significant number continue to face pay cuts** and it will take a number of years to restore pre-crisis earnings levels

Living standards in the downturn and recovery: *incomes*

- Strong **employment growth**, **tax cuts** and **cuts to working-age benefits** have produced varying experiences in relation to household *incomes*
- Incomes fell across the distribution after 2007, but **the top experienced the biggest reductions**
- More recently, we estimate that the middle has seen some recovery while **incomes at the bottom and top have continued to fall**
- **Median income is likely to return to its 2007 level this year**, but this stat won't chime with experience for many

ANNEX

Explaining our 'nowcasting' methodology

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- We estimate trends in household income between 2012-13 and 2014 in order to roll forward the latest *Family Resources Survey* data.
- We use outturn data from the quarterly *Labour Force Survey* (pooled over four quarters) in order to determine pay trends (at the individual level) and changes in population, family status and work status (at the household level) in that period.
- On pay, we establish more than 100 clusters of individuals based on combining different age, industry and occupation profiles (e.g. one cluster covers 16-24 year-olds working in low-skilled jobs in the primary industry sector). We calculate average change in pay in each of these clusters and apply it to the same set of clusters for individuals in the 2012-13 *Family Resources Survey*.
- On population, we create a similar number of clusters, this time split by age, work status (FT/PT/unemployed etc), occupation and family status (working couple/retired etc). Again, we apply the changes (this time in their share of the total household population) recorded between 2012-13 and 2014 to the *Family Resources Survey*.
- We then run our 2012-13 and 2014 household data through the IPPR tax-benefit model in order to determine the change in net household income for each household. By applying these changes to the 2012-13 *Family Resources Survey* we are able to determine trends by percentile, by age and region.