Time to catch up?

Living standards in the downturn and recovery

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

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

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

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

<table>
<thead>
<tr>
<th>Age Group</th>
<th>All Employees</th>
<th>Full-time</th>
<th>Part-time</th>
<th>Men</th>
<th>Full-time</th>
<th>Part-time</th>
<th>Women</th>
<th>Full-time</th>
<th>Part-time</th>
</tr>
</thead>
<tbody>
<tr>
<td>22-29</td>
<td>-12.5%</td>
<td>-10.5%</td>
<td>-10.5%</td>
<td>-7.4%</td>
<td>-6.7%</td>
<td>-6.7%</td>
<td>-7.3%</td>
<td>-7.3%</td>
<td>-7.3%</td>
</tr>
<tr>
<td>30-39</td>
<td>-10.5%</td>
<td>-8.8%</td>
<td>-8.8%</td>
<td>-6.9%</td>
<td>-6.9%</td>
<td>-6.9%</td>
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<tr>
<td>40-49</td>
<td>-6.9%</td>
<td>-5.9%</td>
<td>-5.9%</td>
<td>-5%</td>
<td>-5%</td>
<td>-5%</td>
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<tr>
<td>50-59</td>
<td>-6.9%</td>
<td>-5.9%</td>
<td>-5.9%</td>
<td>-5%</td>
<td>-5%</td>
<td>-5%</td>
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<tr>
<td>60+</td>
<td>-3.7%</td>
<td>-3.7%</td>
<td>-3.7%</td>
<td>-3.7%</td>
<td>-3.7%</td>
<td>-3.7%</td>
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</tr>
</tbody>
</table>

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.

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)

Positive compositional contribution

Negative compositional contribution

But rapid increases in lower-paid occupations and workers provided a rare drag in 2014
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.
But a majority of such workers have continued to face real-terms wage reductions.

Real-terms pay trends for those continuously employed in the same job (CPI-adjusted)

Change in median hourly pay
Pay rise applying to 'typical' pay among the continuously employed

Median change in hourly pay
Half received pay rises above this, half received pay rises below this

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, 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.
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.

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

- Median household income (FRS) Deflated using RPIJ
- Household income per capita (RHDII) National Accounts-based data that includes non-household income
- Mean household income (FRS) Deflated using RPIJ

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.

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.

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.

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

- 'Strong, shared growth' 1997-98 - 2003-04
- 'Pre-crisis slowdown' 2003-04 - 2007-08
- 'Big squeeze' 2007-08 - 2012-13

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 suggest a new phase of falls at the top and bottom.

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*

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

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

- Bottom half: 26%
- 50-90: 46%
- Top 10: 26%

Even share

In contrast, the top 10 per cent accounted for around 2½ times their population size.
With the top’s share rising still higher in the period to 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.

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

- Top 10: 29%
- 50-90: 44%
- Bottom half: 26%
Before falling slightly in the aftermath of the financial crisis

Share of net income among household income groups: 2014

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.

Share of net income among household income groups: 2014
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

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.

Share of net income among household income groups: 1994-95
Though it is lower than the ratio of over 8 that was recorded just before the crisis.

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

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

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.

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

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.
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

• 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.