Living standards over the last five decades

Source: Authors calculations using the Family Expenditure Survey and Family Resources Survey, various years.
What do we mean by “income”?

**Income is measured:**
- Net of direct taxes and benefits
- At the household level
- Both before and after housing costs have been deducted ("BHC” and “AHC”)

**Income is adjusted to account for:**
- Differences in household size and structure ("equivalisation")
- Inflation over time (using variants of the CPI)

*Latest income data available for 2015–16*

*Same definition as used in official income statistics*
Income and the labour market since the recession

Source: Figure 2.2 of *Living Standards, Poverty and Inequality in the UK: 2017*
Income and the labour market since the recession

Change since 2007-08

-6%  -4%  -2%  0%  2%  4%  6%


Median income
Employment rate
Median weekly earnings

Source: Figures 2.2, 2.4 and 2.5 of Living Standards, Poverty and Inequality in the UK: 2017
Median income by age group since the recession

Source: Figures 2.2 and 2.7 of *Living Standards, Poverty and Inequality in the UK: 2017*
Income dynamics

Usually focus on changes in incomes across entire population (or specific groups)

Can also follow particular people over time

- Alternative way to look at changes in living standards
- Possible using Understanding Society survey

Between 2010–2011 and 2014–2015:

- Median change = 5% increase in income
- Considerable variation in personal experiences
Income dynamics

Change in real household net income, 2010–2011 to 2014–2015

Source: Figure 2.10 of *Living Standards, Poverty and Inequality in the UK: 2017.*

Note: Tails of the distribution have been trimmed.
Change in real household net income, 2010–2011 to 2014–2015

Source: Figure 2.10 of *Living Standards, Poverty and Inequality in the UK: 2017.*
Note: Tails of the distribution have been trimmed.
Why are large income changes so common?

**Systematic changes over the lifecycle:**
- Entering the labour force after study
- Wage progression over career
- Changes in household composition
- Moving out of the labour force (e.g. childcare and retirement)

**Short-run sources of volatility:**
- Spells of unemployment
- Volatility in self-employment profits
Income dynamics

Change in real household net income, 2010–2011 to 2014–2015

Source: Figure 2.10 of Living Standards, Poverty and Inequality in the UK: 2017.
Note: Tails of the distribution have been trimmed.
Income dynamics by age

Change in real household net income, 2010–2011 to 2014–2015

Source: Figure 2.10 of *Living Standards, Poverty and Inequality in the UK: 2017.*

Note: Tails of the distribution have been trimmed.
Conclusion

Growth in average income very weak since recession

- Rising inflation and cuts to working age benefits likely to subdue income growth after short-lived acceleration

Substantial differences in income growth across age groups

- Those aged 60+ largely unscathed by recession; young adults hit hardest

Most people have seen substantial changes in income over recent years

- Largest income changes often associated with changes in number of workers in household

- Older individuals have relatively stable incomes; young adults more likely to experience large income changes (both positive and negative)