

APPG

for Social Science and Policy

What is really happening to living standards?
Tuesday 11 February 2025



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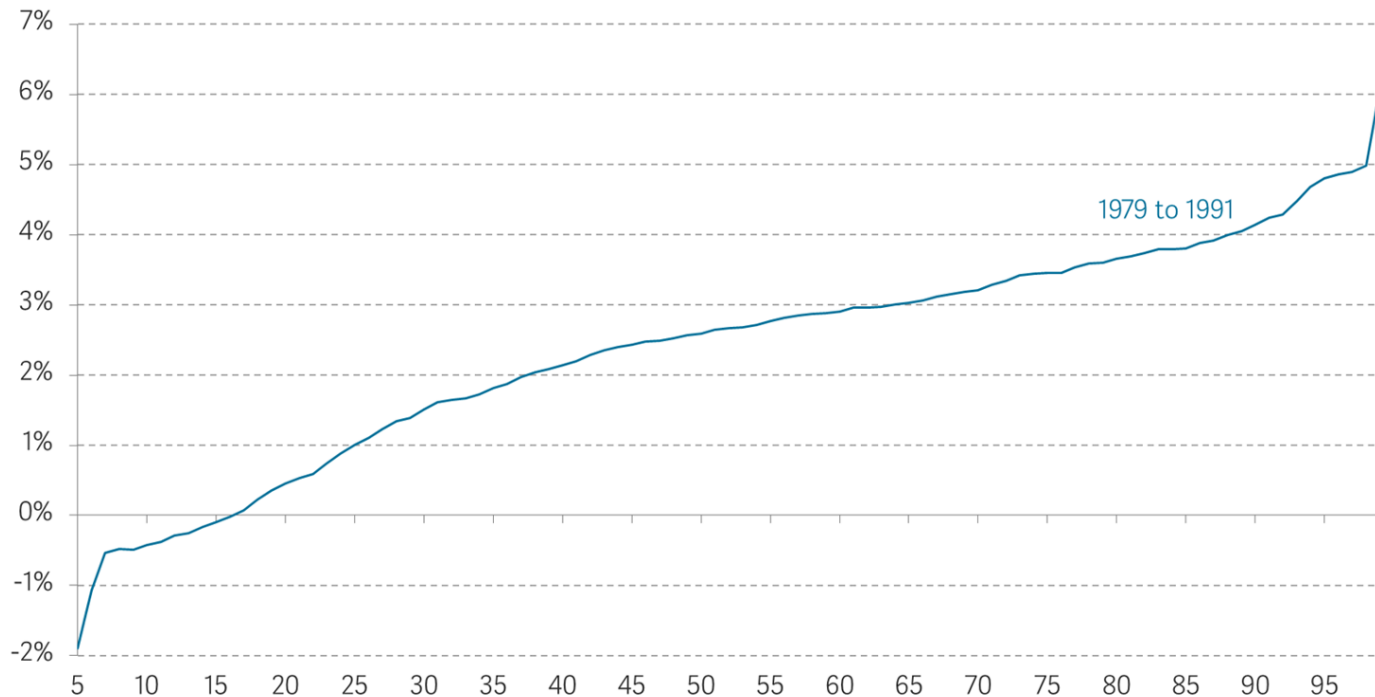
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Emily Fry, Senior Economist, Resolution Foundation

Growing economy and inequality in the 1980s

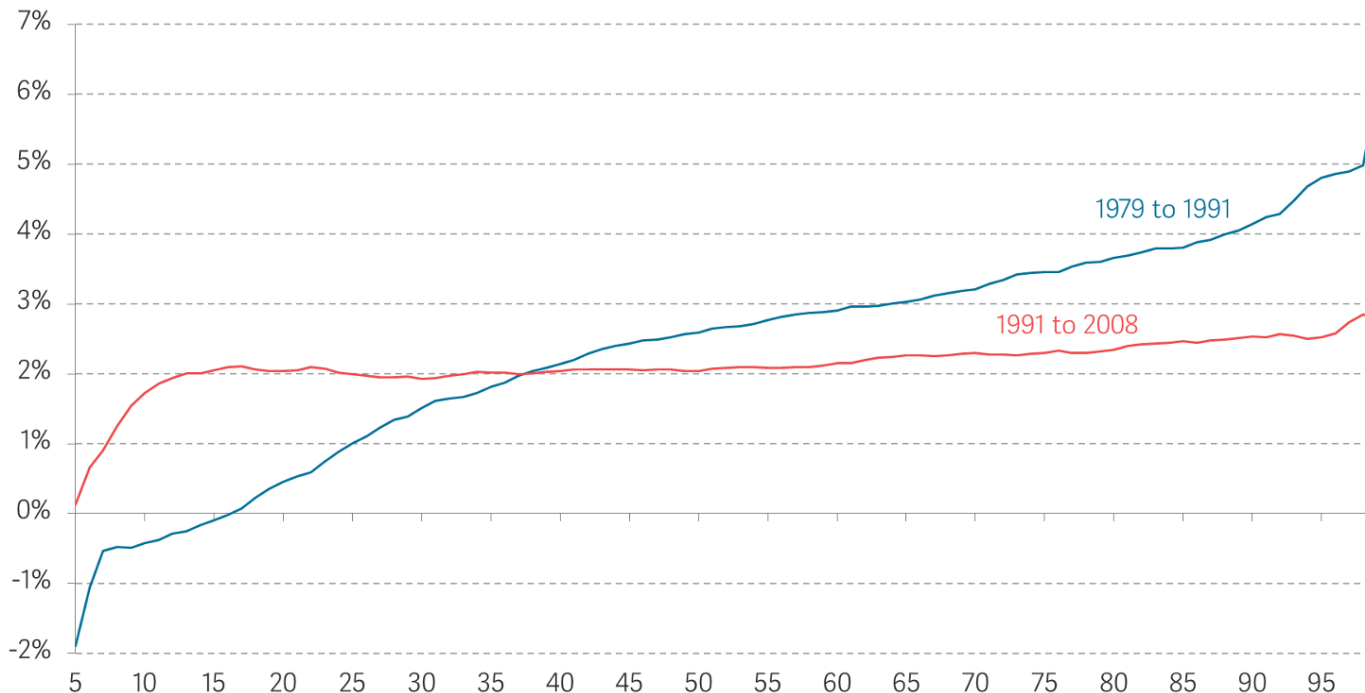
Annualised real growth in income for non-pensioners, after housing costs, by income percentile: GB/UK



Notes: GB between 1994 and 2001. Income is measured as net equivalised real household income, after housing costs are deducted. Annualised growth measures the average annual growth rate over each time period for the mean income of each percentile. We exclude the bottom 5 per cent, due to concerns about the reliability of data for this group.
Source: RF analysis of IFS/DWP, Households Below Average Income

Followed by growth across the income distribution

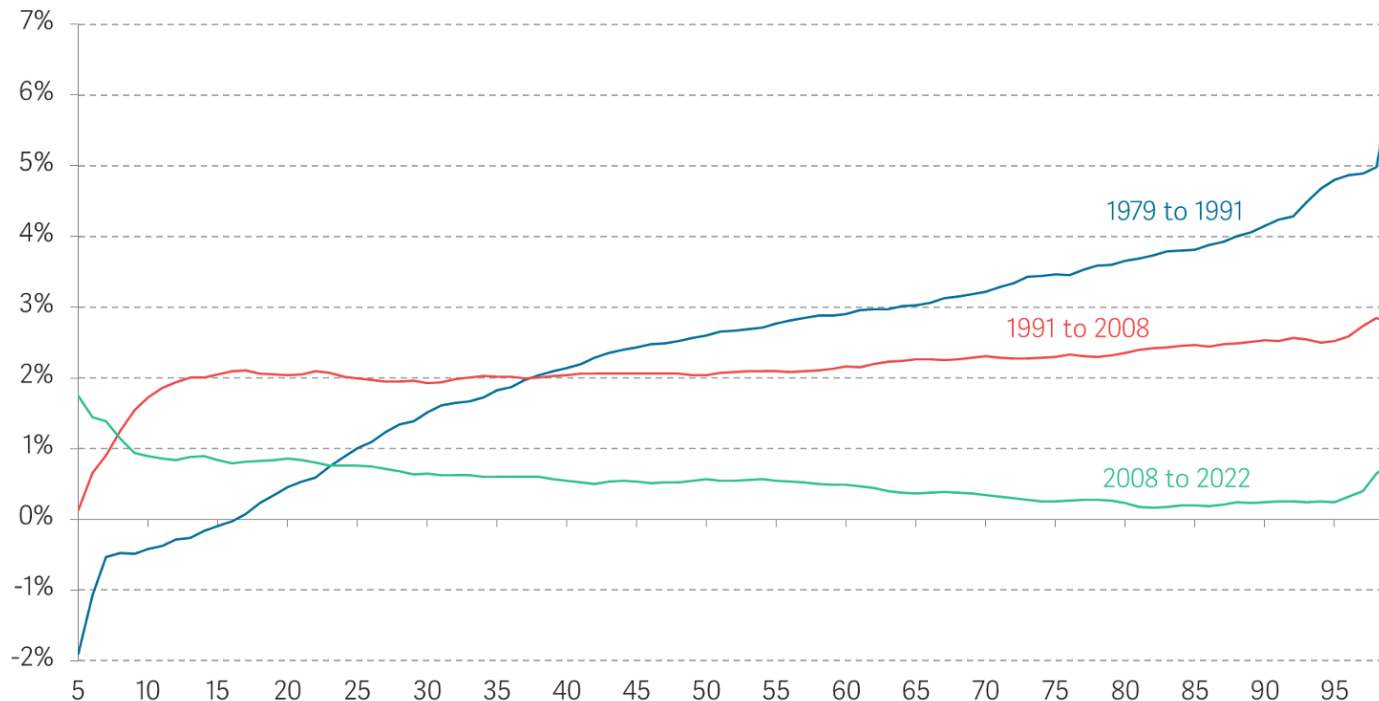
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Source: RF analysis of IFS/DWP, Households Below Average Income

And now, 15 years of dismal income growth

Annualised real growth in income for non-pensioners, after housing costs, by income percentile: GB/UK

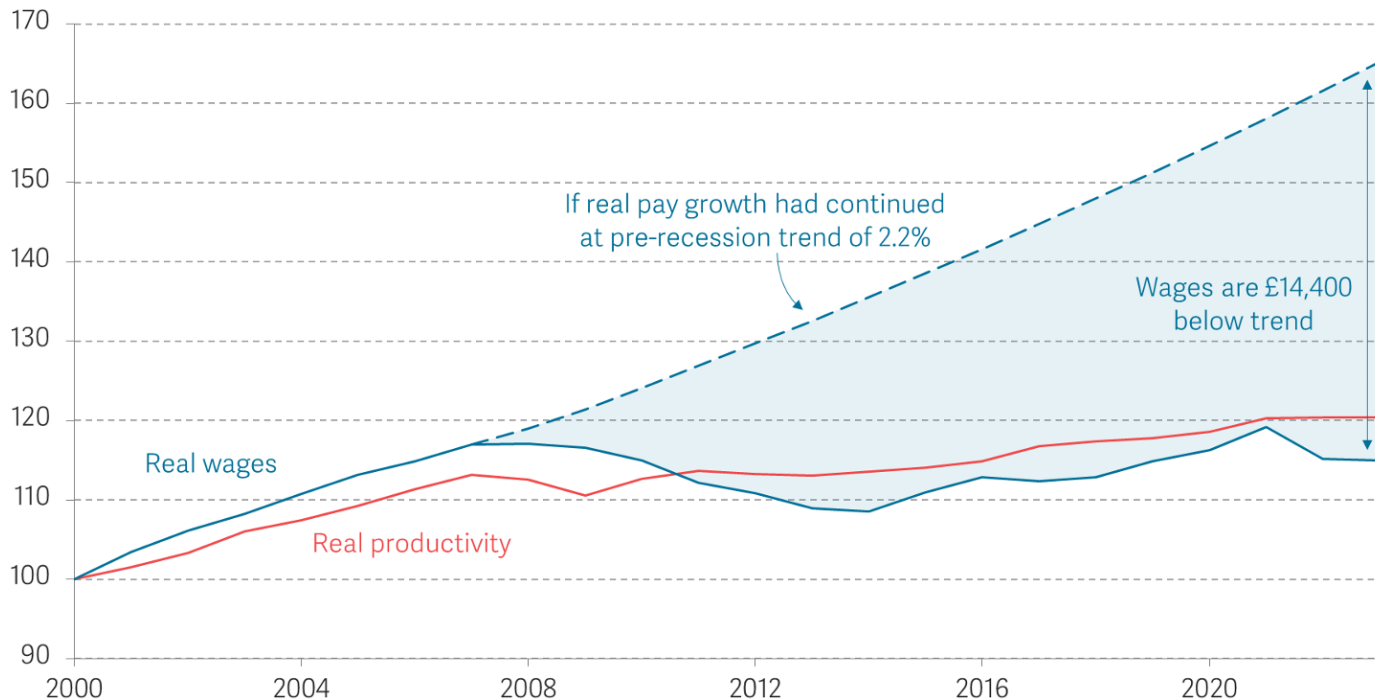


Notes: GB between 1994 and 2001. Income is measured as net equivalised real household income, after housing costs are deducted. Annualised growth measures the average annual growth rate over each time period for the mean income of each percentile. We exclude the bottom 5 per cent, due to concerns about the reliability of data for this group.

Source: RF analysis of IFS/DWP, Households Below Average Income.

Our problem: stagnating productivity...

Indices of real annual wages (actual and pre-recession trend) and real output per hour worked (2000 = 100): GB/UK

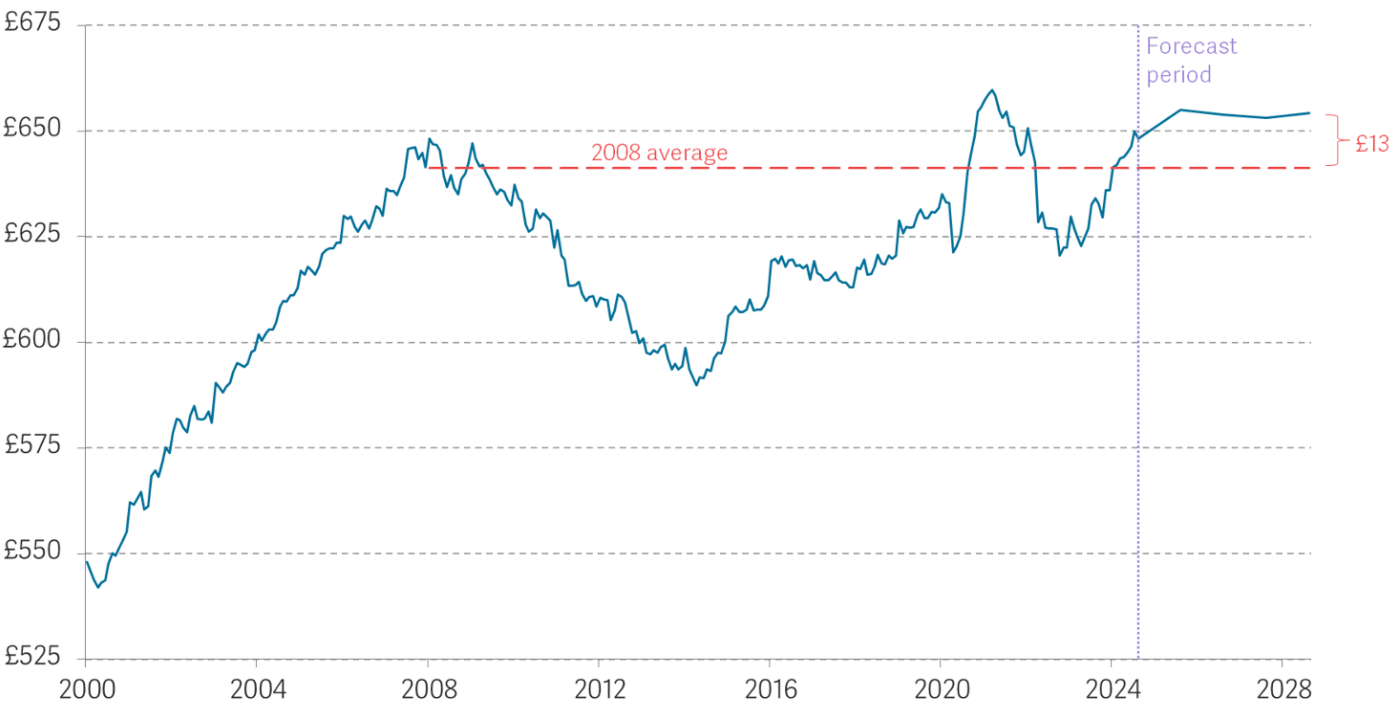


Notes: Converted to real terms using a seasonally adjusted CPI index. Pay is regular pay, i.e. excludes bonuses and arrears. Earnings data covers Great Britain only; productivity data covers the whole of the UK.

Source: RF analysis of ONS, Output per hour worked; ONS, Average weekly earnings.

...will limit wage growth unless we intervene

Average weekly earnings (excluding bonuses and arrears), deflated by CPI: UK

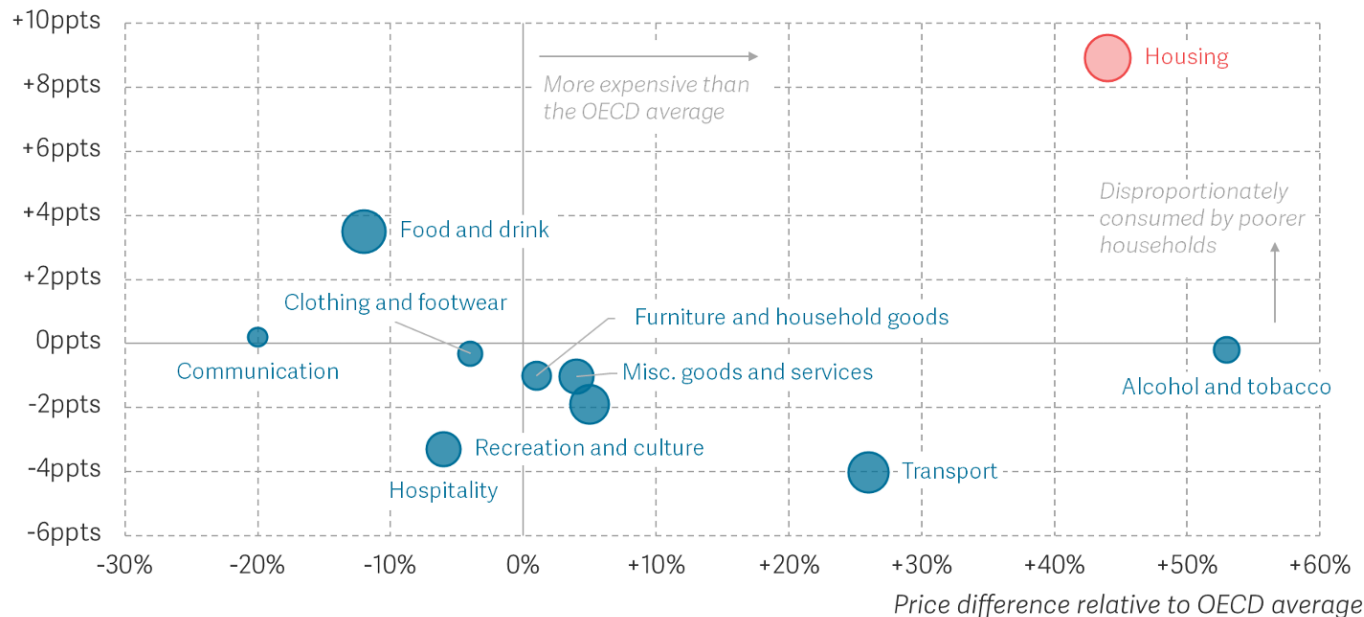


Notes: Average weekly earnings outturn data projected forward from August 2024 using OBR's forecast of calendar year Average earnings and CPI growth.
Source: OBR, Economic and Fiscal Outlook, October 2024; ONS, Consumer Prices Index.

But it is also about high costs - low-income households pay more for housing...

Difference in spending shares between low-to-middle-income and higher income households and relative prices across consumption categories: UK, 2022

Difference between LMI and HI spending shares

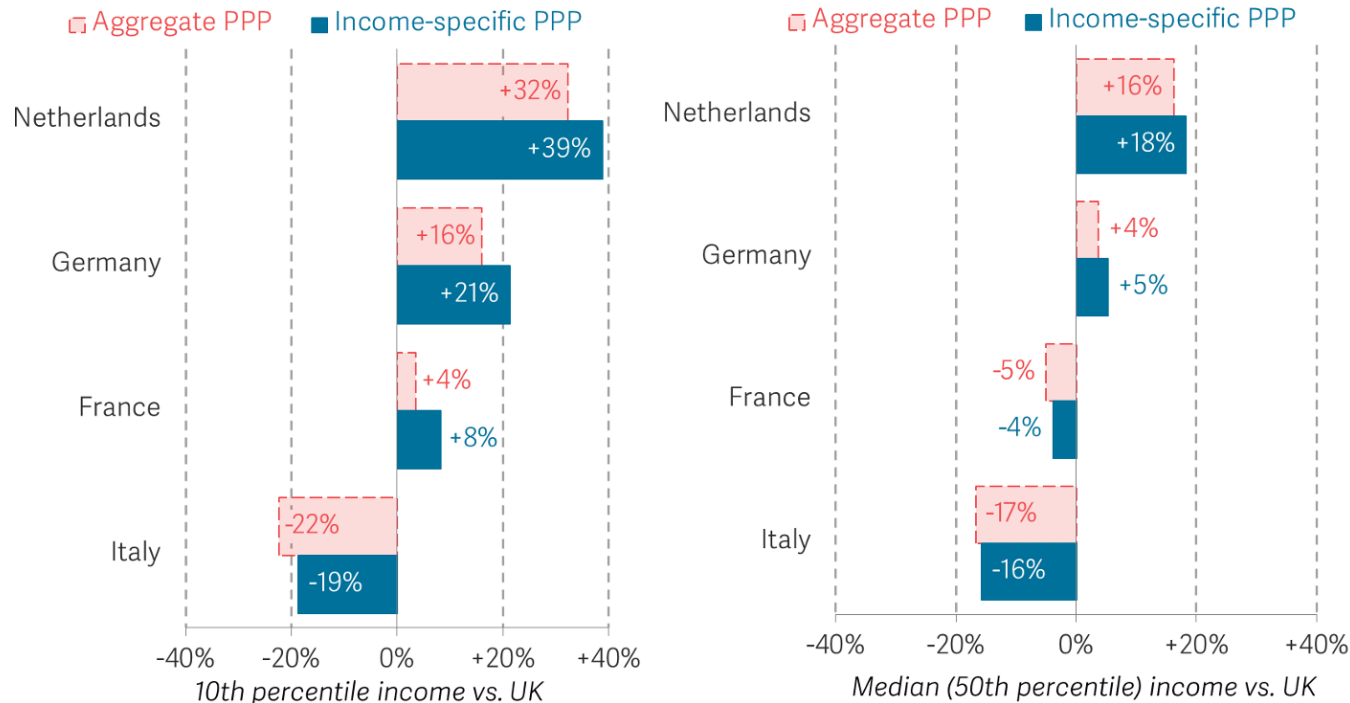


Source: RF analysis of ONS Consumer Price Index, 2022; OECD 2022 PPP Benchmark results.

Notes: Bubble size is proportional to their share of total household spending. Excludes categories that account for less than 2.5 per cent of total spending: health (2.1 per cent) and education (1.0 per cent)

...worsening our toxic combination of low growth and inequality

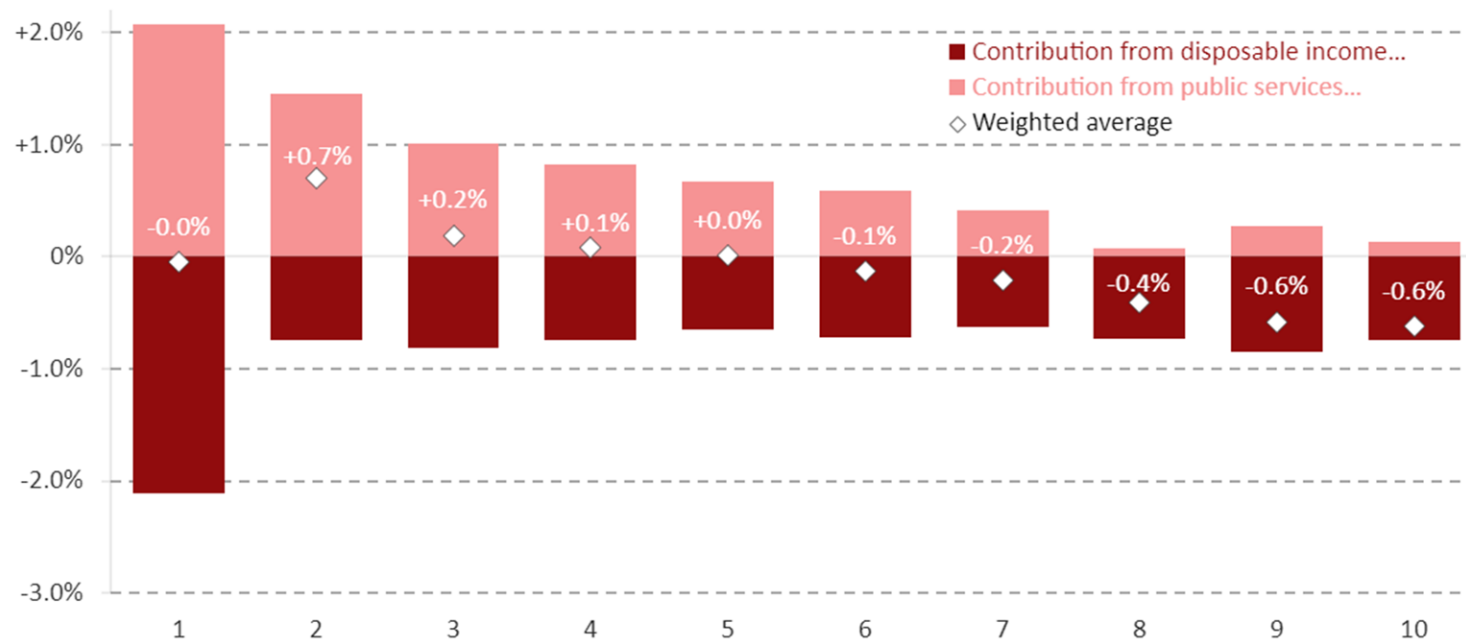
10th percentile and median equivalised household net income relative to the UK, at actual and income-adjusted purchasing power parity: selected EU countries, 2022



Source: RF analysis of OECD, Income Distribution Database & 2022 PPP benchmark results; Eurostat, EU-SILC Distribution of income by quantiles; DWP, Households Below Average Income; ONS, CPIH democratic weights.
Notes: For details on income sources and PPP calculations, see chart notes and Box 1 in: Z Janan & S Pittaway, *Whose price is it anyway?: Comparing the spending power of low-to-middle income families in Britain and abroad*, Resolution Foundation, January 2025.

Living standards gains in 2025 will be driven by funding for public services

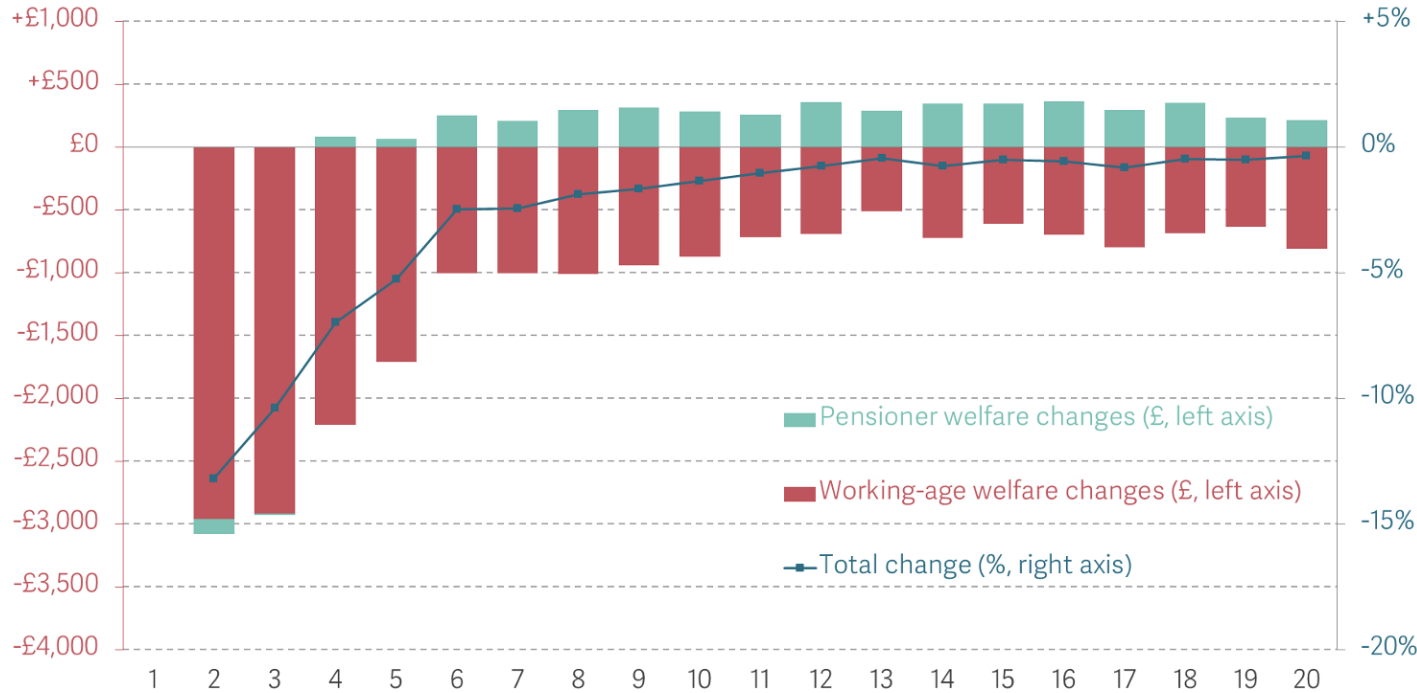
Estimated change in weighted average of disposable income and benefits-in-kind from public services among non-pensioners, by household income decile: UK, 2024-25 to 2025-26



SOURCE: RF analysis of DWP, Households Below Average Income; ONS, The Effects of Taxes and Benefits on Household Income; HM Treasury, Budget and Spending Review documents, various; and RF projection including use of the IPPR Tax Benefit Model. For more details on the RF projection, see: A Clegg & A Corlett, The Living Standards Outlook 2024, Resolution Foundation, August 2024.

And we also need a new approach to social security

Impact of benefit policy changes made between May 2010 and October 2023, by vigintile of equivalised household income after housing costs, in 2027-28



Notes: We exclude the bottom 5 per cent due to concerns about the reliability of data for this group.

Source: Analysis of DWP, Family Resources Survey, using the IPPR Tax Benefit Model.

There are reasons to be optimistic

- Consultations and Bills will turn into action
 - Renters rights, employment rights and fast-growing minimum wage will be very significant for some low-to-middle income families, although could go further in key areas
- A focus on growth is essential to raise overall living standards
- We should combine a fairer labour market, with a broad and generous welfare state, funded by more efficient taxes

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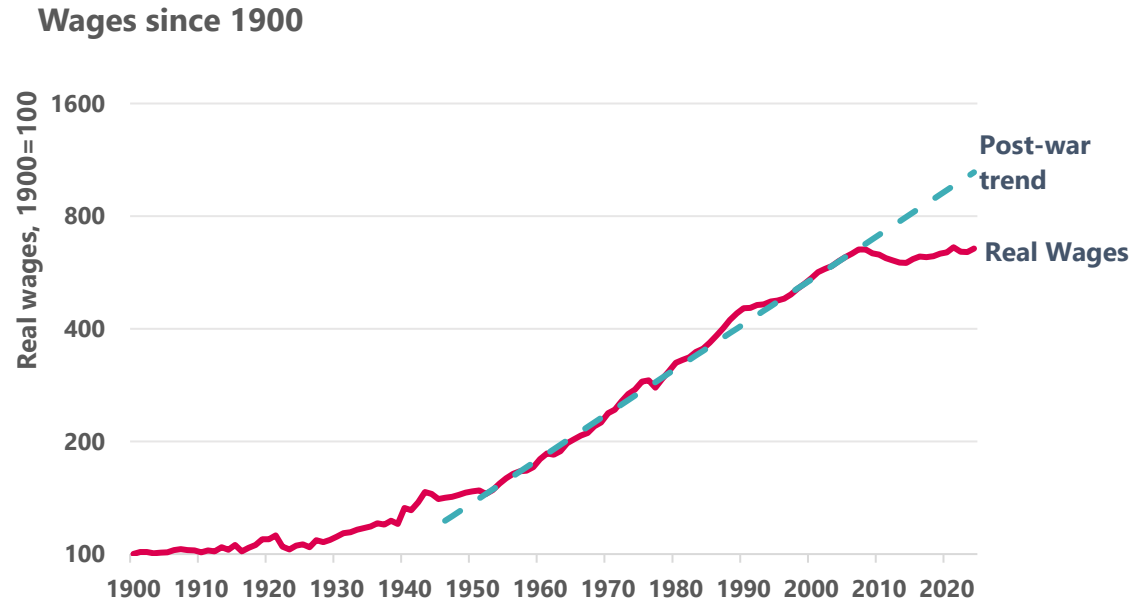
Changing the world
of work for good

Living Standards

Afzal Rahman

Trades Union Congress

Pay stagnation



Source: BoE, ONS AWE/CPI, h/t: Financial Times

Insecure Work

- Number of workers in insecure work has reached record levels of over 4 million
- 1 in 8 workers are in employment that offers little security
- This includes agency, casual, seasonal, zero-hours, and low paid self-employed workers.
- Insecure work has risen nearly three times faster than secure forms of employment since 2011.

	2023	2011	change
Total in insecure work	4,144,600	3,157,700	31%
Total in secure work	29,048,500	26,247,400	11%
Total in overall work	33,193,100	29,405,100	13%

In-work poverty

- 55% of people in poverty live in a working household (7.9m)
- In 2023 there were 3 million kids in working households living below the breadline in the UK.
- Children growing up in poverty in working households now account for:
 - 69% of all children in poverty
 - 24% of all children in working households
- Number of children growing up in poverty in working households increased by 44% (+900,000) between 2010 and 2023. An increase of 1,300 a week over more than a decade.

TUC Polling

Skipping meals: A sixth of adults (17%) working full time and part time have skipped a meal every day (2%), most days (8%) or every week (7%) to cut back on spending in the last 3 months. And 1 in 10 (10%) say they have skipped a meal every day or most days.

Food and essentials spending: Nearly a quarter (24%) adults working full time and part time said they had made large or significant cutbacks on food spending in the last 12 months and nearly a fifth (19%) said they had cut back spending largely or significantly on other essentials – such as medicine, personal hygiene products and petrol.

Source: YouGov poll for TUC, Dec 2024

TUC Polling

Going into debt: Almost 1 in 4 (23%) adults working full time and part time said they were struggling to afford or couldn't afford their monthly costs – with 1 in 10 (11%) reporting going into debt most months (4%) or every month (7%) over the last year.

Energy costs: Nearly a third (31%) of adults polled working full time and part time said they had avoided putting the heating on most days (23%) or every day (8%) over the last three months. And 1 in 5 (21%) said they had reduced their use of hot water for showers and baths on most days (16%) or every day (5%) over the last three months to reduce spending.

Source: YouGov poll for TUC, Dec 2024

USDAW research

- An Usdaw survey of 6,689 key workers in the retail, pharmaceutical, funeral care, warehouse and distribution sectors, conducted during June 2024, found that:
 - Nearly three-quarters feel worse off than they were at the last general election in 2019.
 - 72% have struggled to pay energy bills, with a quarter of those struggling every month.
 - 62% have taken out loans to pay everyday bills and 45% of them are struggling to keep up with repayments.

USDAW research

“My mortgage has gone up around £500 per month and energy costs are worse. I don't have a social life and I've forgotten when I last had a holiday. Still nothing changes.” Retail worker, Southern England.

“The wage I am on is barely enough to keep my family and I from poverty. There should be stronger controls over energy company charges.” Warehouse worker, Scotland.

“I have taken on a second job. My husband works the best part of 60+ hours a week in order to survive financially. Our work/life balance is way off.” Funeral industry worker, Northern England.

USDAW research

“Everything is more expensive and any small increase in wages doesn’t cover the difference. Fuel, food, electricity, heating, they cripple people. I haven’t been out for a meal in over two years because of this.” Retail worker, Northern Ireland.

“Struggling. Especially having been poorly and only receiving Statutory Sick Pay. I live on my own, so worry a lot.” Pharmacy worker, Midlands.

“Living costs too much. Surviving, just, but struggling to see the point in surviving right now.” Retail worker, Wales.

UNISON research

To uncover the impact of the cost-of living crisis on its lowest-paid members, UNISON conducted a survey during June 2022 which drew more than 3,000 responses from public service workers earning £20,000 or less.

The survey found that:

- 84% report rising bills and pressures on their household budgets were taking a toll on their health
- Strategies to make ends meet included switching off heating (80%), limiting car journeys to reduce petrol costs (64%), keeping lights turned off (60%) and avoiding visits to the dentist (30%)

UNISON research

- Nearly a third were skipping meals (31%), with some doing this in order to allow their children to eat (11%)
- A small proportion were avoiding – or planning to avoid – cooking hot food (13%), and some aim to find a smaller or less expensive home (8%)
- More than a third (37%) were relying on credit cards to cover everyday spending
- A similar proportion were asking friends or family for financial support (33%) while others were using a foodbank (12%), taking out bank or building society loans (13%) or pay day loans (8%)

Raising Living Standards

- A changed approach is needed to break the rut of stagnant and falling living standards.
- Growth must deliver good secure jobs with decent pay. The government's plan to Make Work Pay will set us back in the right direction. Ensuring it is delivered in full, with sufficiently well-funded enforcement and support structures to enable effective implementation, will be key to success.
- The OECD has shown that countries with better quality working conditions perform better than those where insecurity is rife. These nations see higher labour market participation, improved health, higher productivity and stronger demand. Strengthened employment rights can give working people the higher living standards and secure incomes that are needed to build decent lives.



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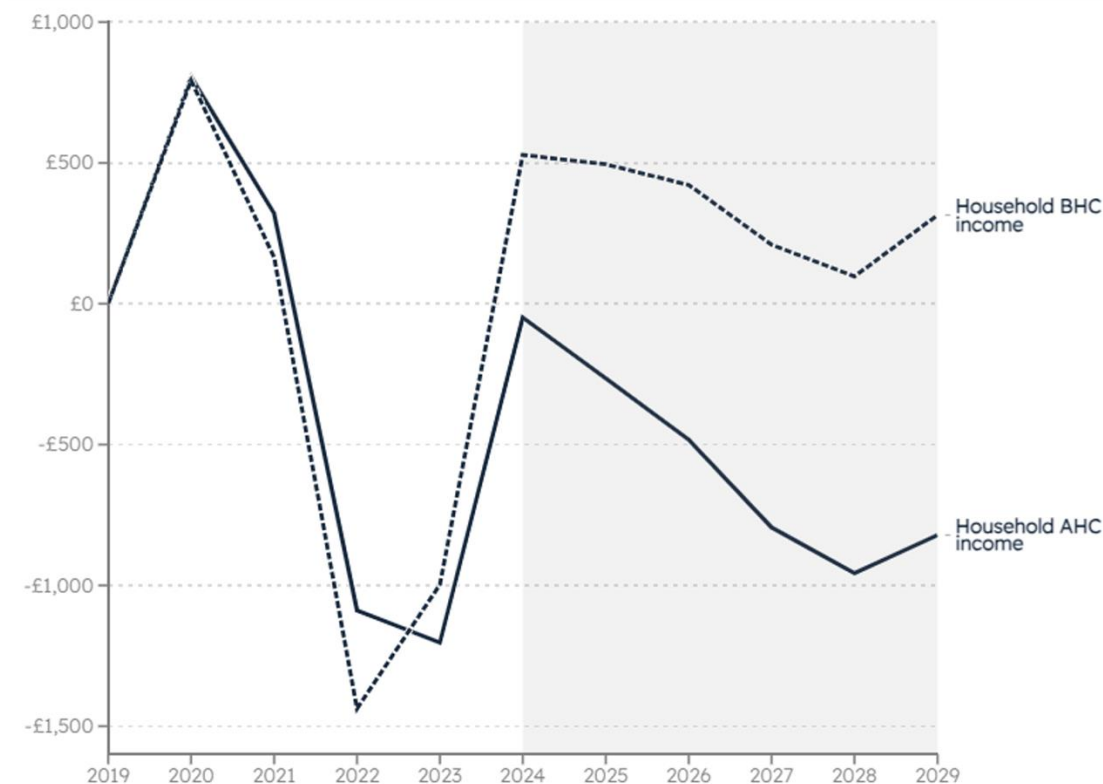
Annualised household disposable income (£, Oct 2024 prices) after housing costs, October 2019 to October 2029



Source: JRF analysis using the IPPR tax and benefit microsimulation model. Modelling from October 2024 onwards based on OBR forecast data rather than outturns.



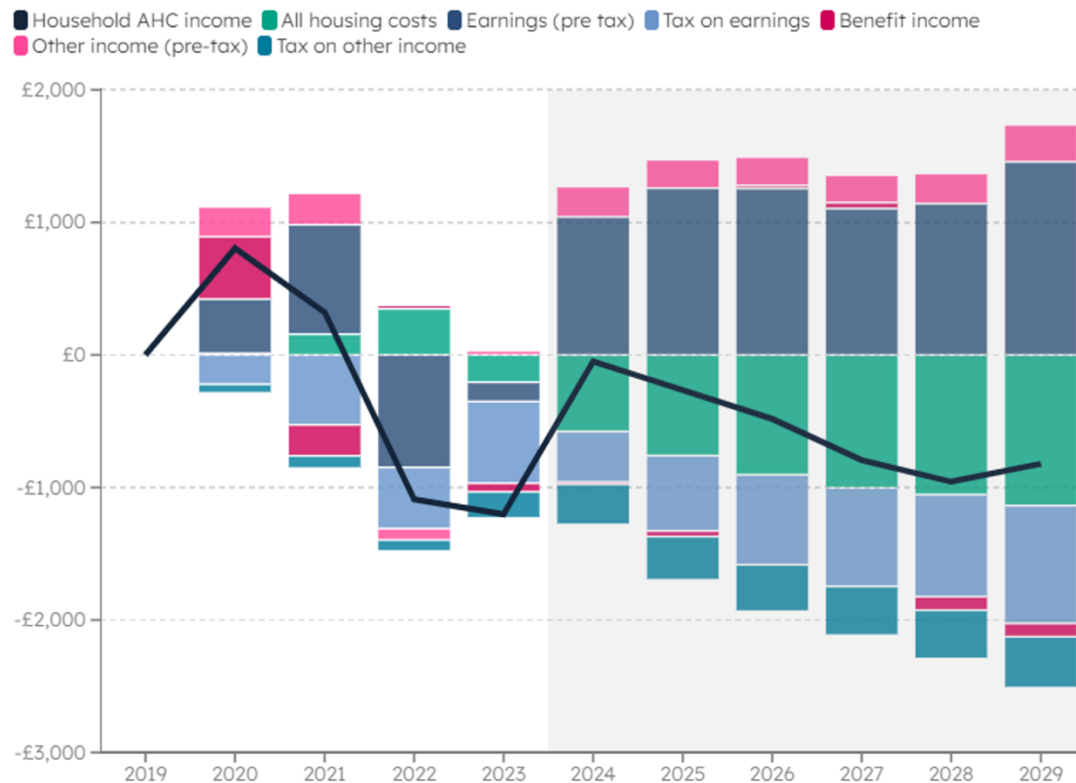
Change in annualised household income before and after housing costs, (£, Oct 2024 prices), October 2019 to October 2029



Source: JRF analysis using the IPPR tax and benefit microsimulation model. Modelling from October 2024 onwards based on OBR forecast data rather than outturns.



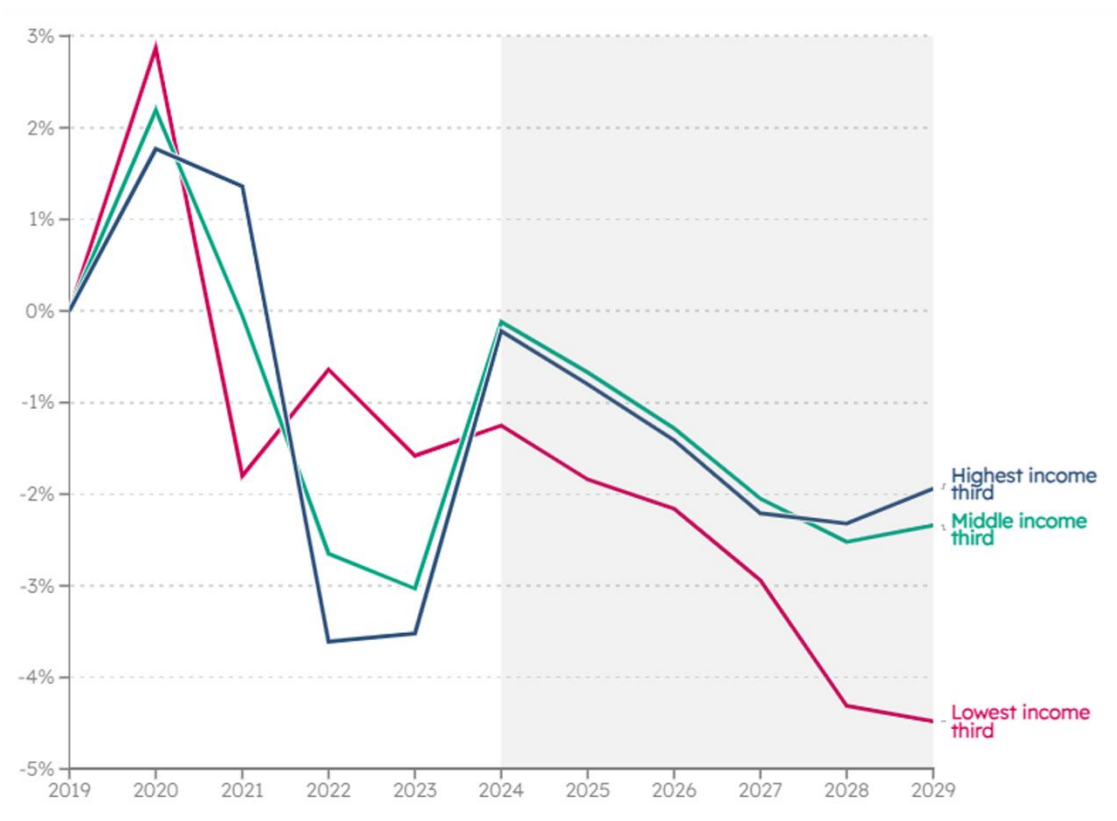
Decomposition of the change in annualised household disposable income (£, Oct 2024 prices), October 2019 to October 2029



Source: JRF analysis using the IPPR tax and benefit microsimulation model. Modelling from October 2024 onwards based on OBR forecast data rather than outturns.



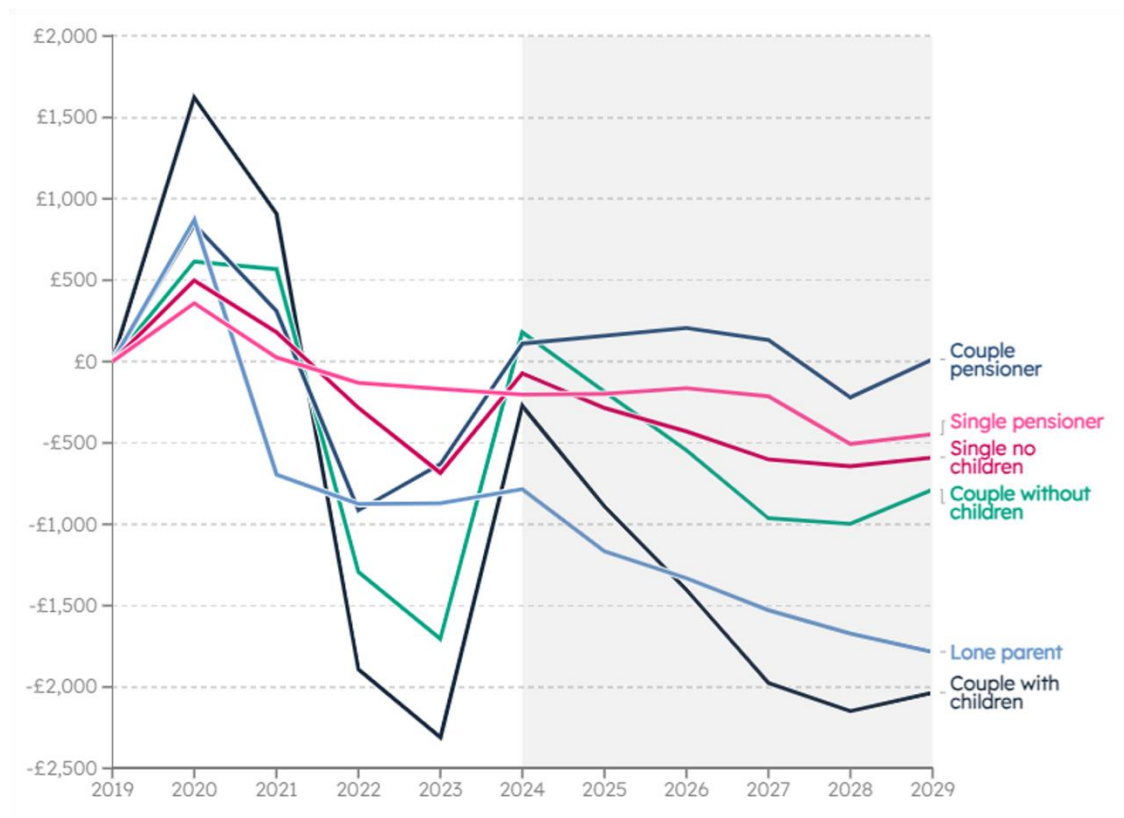
Real percentage change in household disposable income after housing costs by population tertiles, October 2019 to October 2029



Source: JRF analysis using the IPPR tax and benefit microsimulation model. Modelling from October 2024 onwards based on OBR forecast data rather than outturns.



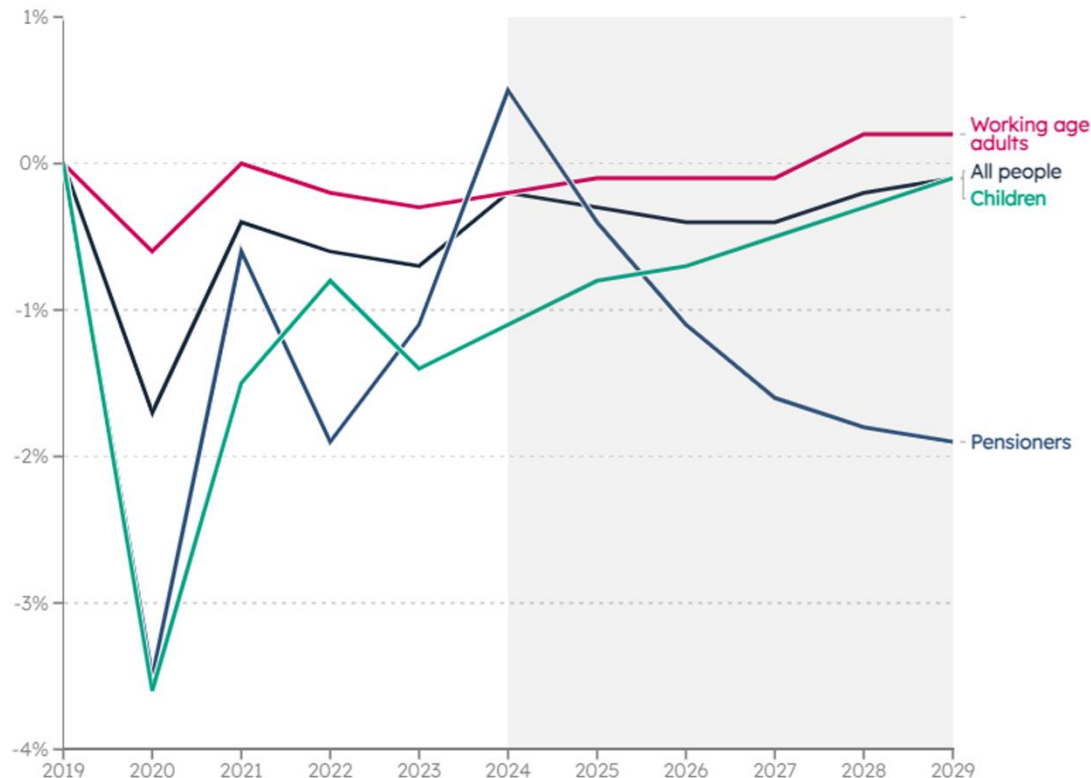
Real percentage change in household disposable income after housing costs by household formation, October 2019 to October 2029



Source: JRF analysis using the IPPR tax and benefit microsimulation model. Modelling from October 2024 onwards based on OBR forecast data rather than outturns.



Change in relative poverty (in percentage points, after housing costs), October 2019 to October 2029



Source: Data before October 2023 is based on published Households Below Average Incomes data. Data from October 2023 onwards is JRF analysis using the IPPR tax and benefit microsimulation model, and from October 2024 is based on OBR forecast data rather than outturns.



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