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Research Report

Seven key facts about UK living standards

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Institute for Fiscal Studies

IFS Report R315

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Tom Waters**

Seven key facts about UK living standards



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Financial Fairness Trust

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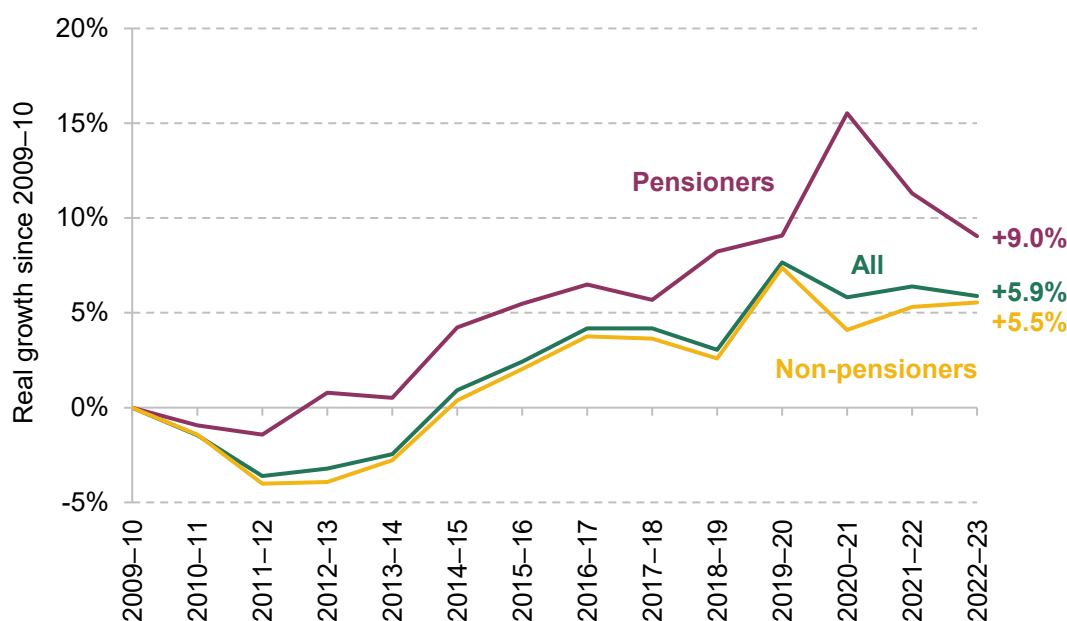
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Key findings

1. **Median income growth since 2009–10 has been slow, with pensioners doing slightly (but not dramatically) better.** Median income grew by 6% from 2009–10 to 2022–23. Before the Great Recession, we could have expected growth of 30% in a 13-year period. Even comparing with 2011–12 – the year in which incomes reached their nadir after the Great Recession – incomes rose by only 10% over the subsequent 11 years.
2. **Income growth for high income households has been even weaker since 2009–10 than for people on average or lower incomes.** At the 90th percentile, total income growth was just 1.5%. This has led to a small decline in income inequality.
3. **Absolute poverty has fallen since 2009–10, though slowly by historical standards.** The overall rate of absolute poverty fell by 3.4 percentage points (ppts): a fifth of the speed seen over the previous 13 years (16.2ppts). Since the pandemic, income poverty rates have been little changed. But some other measures of deprivation have got worse. In 2019–20, 4% of working-age adults (1.8 million) reported being unable to heat their home; by 2022–23, that figure had risen to 11% (4.6 million).
4. **No average pay growth between the Great Recession and the pandemic, but a boom in jobs. Since 2019–20, pay has held up, despite high inflation.** Average real pay in 2023–24 was just 3.5% higher than in 2009–10. Before the Great Recession, we would have expected that kind of growth every 17 months. After-tax pay is modestly higher (6.4%) thanks to tax cuts for middle earners. Together with further tax cuts in the past two months, someone on average earnings now pays about £1,600 less tax than someone on the same real earnings in 2010 would have.
5. **Latest data and forecasts show disposable incomes back at pre-pandemic levels and average earnings higher.** Real average earnings this year are expected to be 4% higher than in 2019–20. But median disposable income appears broadly unchanged.
6. **The UK went from one of the fastest growers for working-age incomes among developed countries pre-2007, to one of the slower performers.** While growth slowed across the board, the UK's growth from 2007 to 2019 (6%) was well below that of the US (12%) and Germany (16%).
7. **Raising living standards over the long run means raising productivity – and policy can play a critical role.**

1. Median income growth since 2009–10 has been slow, with pensioners doing slightly (but not dramatically) better.

Figure 1. Growth in real median household disposable income since 2009–10, whole population and for pensioners and non-pensioners



Note: Household incomes are measured before housing costs are deducted, and are adjusted for household size and structure. Pensioners are defined as those aged 66+. Non-pensioners are those aged 65 and younger (including children).

Source: Authors' calculations using the Family Resources Survey, 2009–10 to 2022–23.

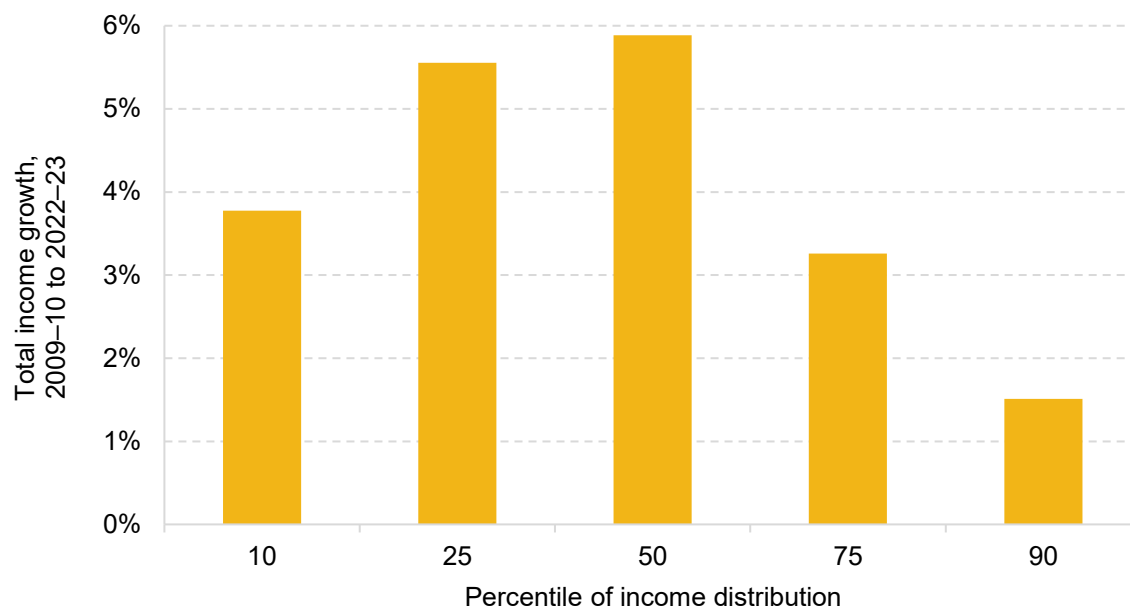
In 2022–23, the latest data available, median (middle) real household disposable income in the UK was 5.9% higher than in 2009–10. By historical standards, this growth is weak: had the average annual growth rate over the prior half-century continued, growth would have instead been 30%.

Examining incomes after deducting housing costs slightly improves the numbers (7.3% growth), as does comparing the 2022–23 level with that in 2011–12, just before the start of the recovery from the Great Recession (9.8%). But none of this really challenges the overall picture of an extended period of slow growth. Nor have things rapidly improved since the period captured by the latest official data: forecasts from the Office for Budget Responsibility (OBR) suggest that 2024–25 incomes might be only 7.6% above their 2009–10 level.

Pensioners have seen somewhat better growth (9.0%), thanks to a combination of real-terms rises in the state pension and newly retiring pensioners being richer than their predecessors. Their incomes declined between 2020–21 and 2022–23 as the state pension temporarily fell in real terms as inflation rose, but by April 2024 it had recovered its 2020–21 value. Among working-age people, there is not much variation: those in their 20s were hit hardest by the Great Recession but have done the best since, leaving income differences between age groups little changed.

2. Income growth for high-income households has been even weaker since 2009–10 than for people on average or lower incomes.

Figure 2. Growth in real household disposable incomes, selected percentiles, 2009–10 to 2022–23



Note: Household incomes are measured before deducting housing costs, and are adjusted for household size and structure.

Source: Authors' calculations using the Family Resources Survey, 2009–10 and 2022–23.

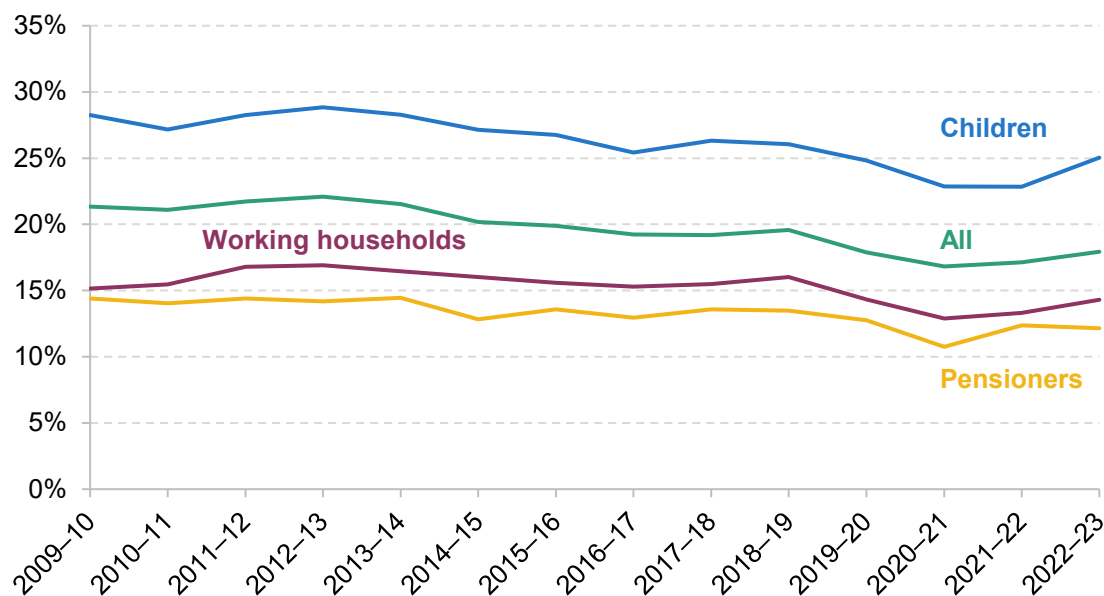
So far, we have discussed changes in median incomes. Differences across the distribution are not huge, though higher-income households have seen weaker growth still: 3.3% at the 75th percentile and just 1.5% at the 90th. This is driven by [weaker growth in hourly wages for higher-paid individuals](#) and an [increasing number of people paying higher-rate tax](#).

Lower-income households have seen slightly weaker growth than middle-income households, with 3.8% growth at the 10th percentile. This is a consequence of rises in employment being partly offset by cuts to benefits. It is worth noting that if we account for housing costs, growth has been stronger for poor households (10% at the 10th percentile). This is because average real housing costs fell by 15% between 2009–10 and 2022–23, mostly due to a decline in mortgage interest rates (some of which has since reversed), plus social rents falling in real terms. As poorer households spend a much larger fraction of their income on housing, the reductions in housing costs particularly benefit poorer people. A small contributing factor has been a shift towards owning outright among poorer households (20% of the poorest fifth now own outright).

The effect of all these patterns is to very slightly reduce overall measures of income inequality such as the Gini coefficient – though the bigger picture is that income inequality has changed very little since around 1990.

3. Absolute poverty has fallen since 2009–10, though slowly by historical standards.

Figure 3. Absolute income poverty rates (after housing costs)



Source: Authors' calculations using the Family Resources Survey, 2009–10 to 2022–23.

Absolute poverty – defined as having an income (after housing costs) below 60% of the 2010–11 median – has fallen from 21.3% in 2009–10 to 17.9% in 2022–23, with falls among children, pensioners and those in working households. But because incomes tend to rise over time, absolute poverty generally falls over long periods, and this 3.4 percentage point (ppt) decline is small by historical standards: in the previous 13 years, the fall was five times as fast (16.2ppts).

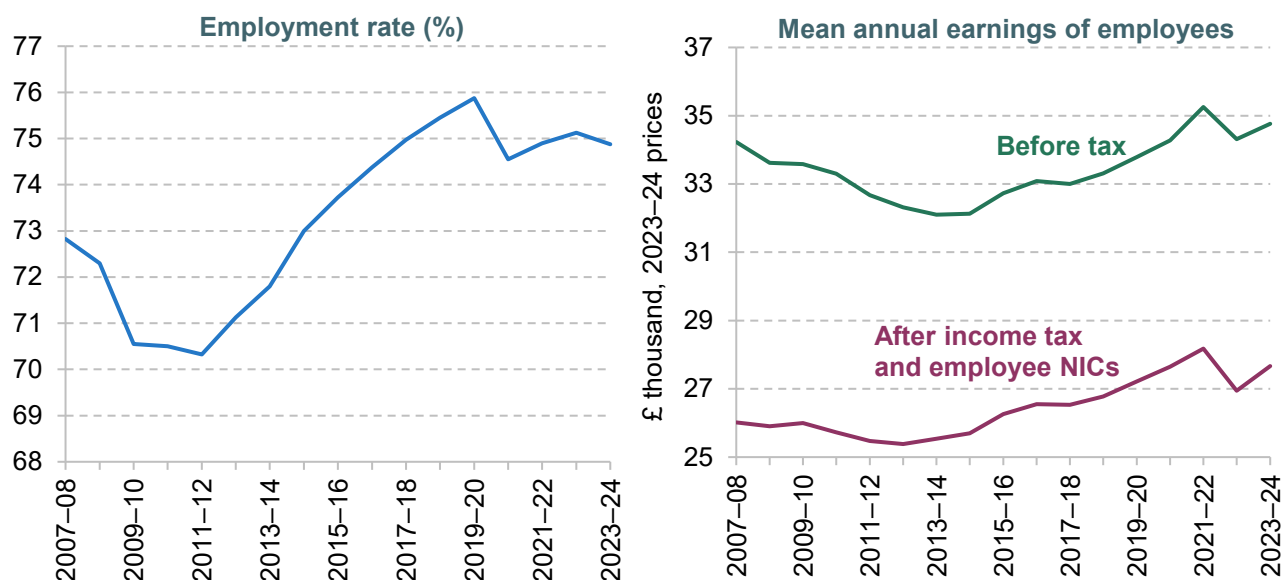
Relative poverty – defined as having an income below 60% of the contemporaneous median – has changed little, falling by 0.7ppts over the period. There has also been surprisingly little change since the pandemic and cost-of-living crisis: relative and absolute poverty rates in 2022–23 were similar to the rates seen in 2019–20.

However, an alternative measure of low living standards – material deprivation – tells a different story. Material deprivation measures the fraction of households unable to afford a set of important items. Having fallen across the 2010s, material deprivation has risen sharply in the wake of the cost-of-living crisis. This may partly reflect headline poverty rates not capturing the higher inflation rates that poorer households have faced due to food and energy making up more of their budgets. Among working-age adults, the fraction that report being unable to afford:

- To keep their home warm enough – rose from 4% in 2019–20 to 11% in 2022–23;
- To keep their home in a decent state of decoration – rose from 10% to 13%;
- To save £10 a month or more – rose from 19% to 23%.

4. No average pay growth between the Great Recession and the pandemic, but a boom in jobs. Since 2019–20, pay has held up, despite high inflation.

Figure 4. Employment rate (16- to 64-year-olds) and real average employee earnings (pre- and post-tax), 2007–08 to 2023–24



Note: Real earnings are deflated using CPIH and expressed in 2023–24 prices. Employment rate is for 16- to 64-year-olds and includes self-employed. Post-tax series uses the tax system in April of the relevant year.

Source: Authors' calculations using 'EARN01 Average Weekly Earnings - total pay, Great Britain (seasonally adjusted)' and ONS series LF24, and TAXBEN, the IFS tax–benefit microsimulation model.

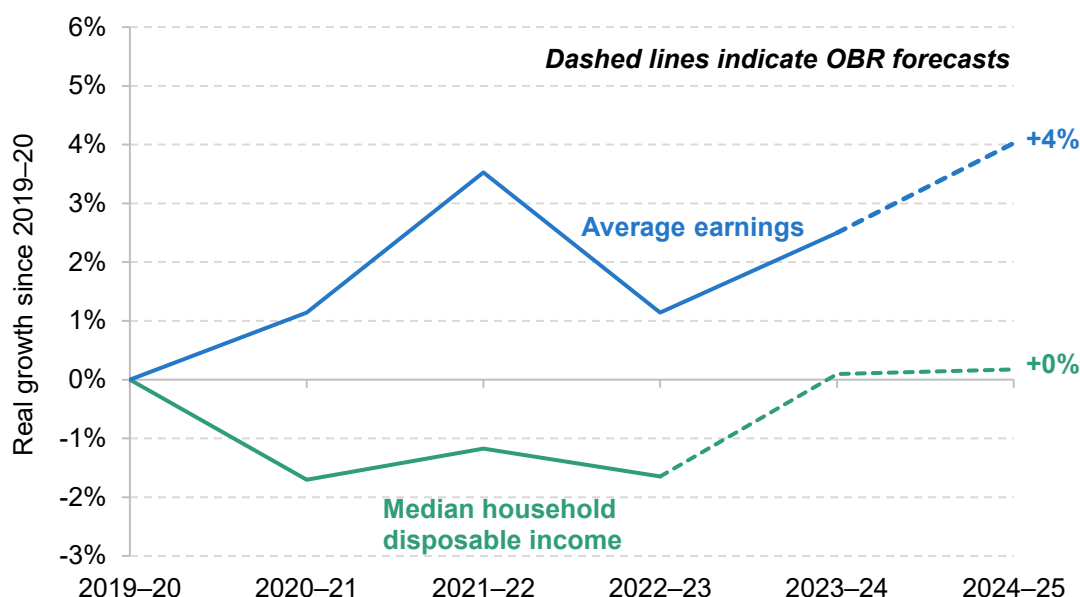
After falling in the wake of the Great Recession, employment rose strongly from 2011–12 up to the pandemic, significantly surpassing the pre-recession peak. [Increases were seen](#) across men and women, immigrants and UK-born people, different age groups, regions and family types. During the pandemic employment, faltered by around 1ppt and has not recovered since (though some data sources show a more optimistic picture¹) but is still 2.1ppts higher than in 2007–08.

The story for earnings has been very different. After a long fall and slow recovery, pre-tax average earnings in 2023–24 were in real terms just 1.6% above 2007–08 levels, and 3.5% above 2009–10 levels. The numbers are slightly more positive for after-tax pay for someone on average earnings (6.3% and 6.4% respectively), reflecting significant tax cuts for middle-earning workers. Together with further tax cuts in the past two months, someone on average earnings now pays [about £1,600 less tax](#) than someone on the same level of real earnings in 2010 would have.

Nonetheless, these are low growth rates by historical standards. From 2000 to 2007, average real pre-tax pay grew by 2.4% per year. Viewed in that light, the total growth seen between 2009–10 and 2023–24 is equivalent to what we previously might have expected in about 17 months.

5. Latest data and forecasts show disposable incomes back at pre-pandemic levels and average earnings higher.

Figure 5. Out-turn and forecast real growth in level of average earnings, and in median household income, since 2019–20



Note: Dashed lines indicate OBR forecasts. Inflation measured using CPIH index (and OBR projections for CPI for 2024–25). Average (mean) earnings are for employees only (total pay), consistent with Figure 4. Data on median household disposable income between 2019–20 and 2022–23 are based on Family Resources Survey data, consistent with Figure 1. Forecast for median household disposable income is based on OBR forecasts for (mean) real household disposable income, 2022–23 to 2024–25 (adjusted to deflate using the CPIH measure of inflation).

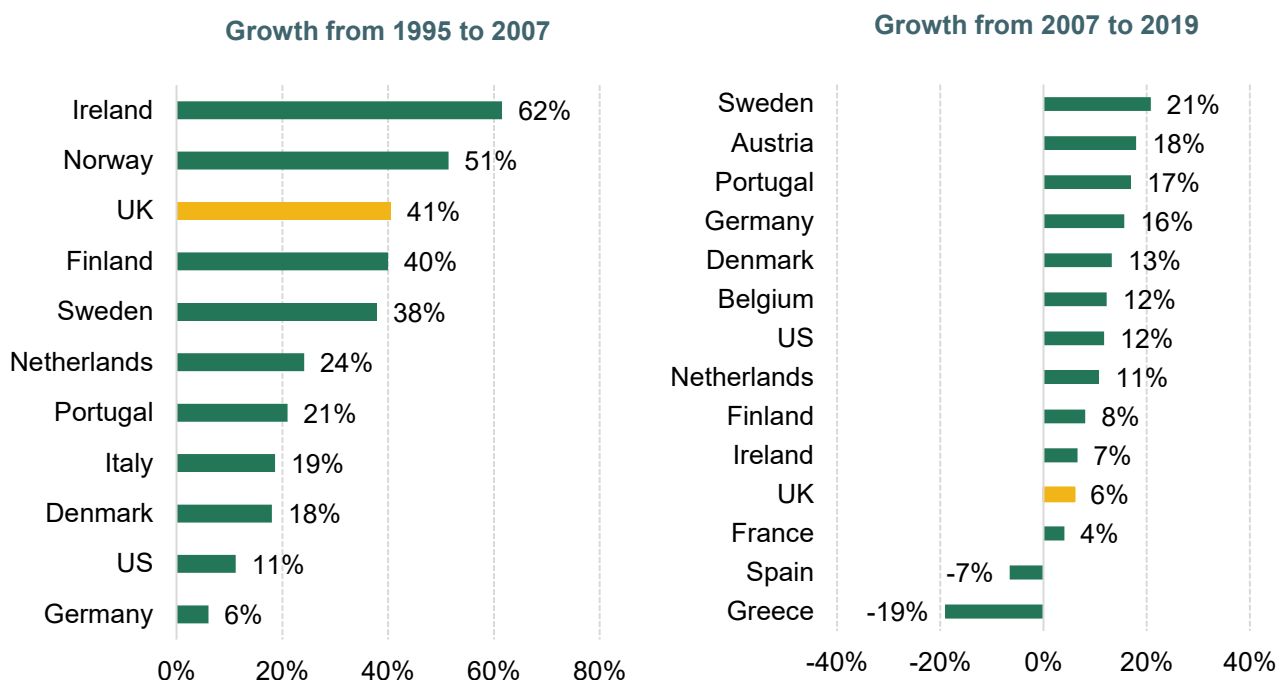
Source: Authors' calculations using ONS series L522 (CPIH); Average Weekly Earnings; Family Resources Survey, 2019–20 to 2022–23; and OBR Economic and Fiscal Outlook March 2024.

Figure 5 provides the best available evidence from the latest data and OBR forecasts on the path of average earnings and disposable incomes between 2019–20 and 2024–25. (Naturally, the forecasts should be treated with caution.) Average earnings were resilient through to 2023–24. Further earnings growth is expected this year as inflation falls, leaving average earnings 4% higher than in 2019–20. In terms of changes in earnings across the distribution, [Henry and Joyce \(2024\)](#), comparing a number of data sources, provide evidence that earnings inequality is no higher, and probably a little lower, than it was in 2019.

In comparison, median disposable incomes have seen less dramatic changes. Overall, it is likely that average incomes in 2024–25 are roughly unchanged from 2019–20 (despite the growth in real earnings and state pensions). Reasons for this include falls in employment and rising mortgage interest rates suppressing income growth.

6. The UK went from one of the fastest growers for working-age incomes among developed countries pre-2007, to one of the slower performers.

Figure 6. Real median disposable income growth for 25- to 60-year-olds by country and period



Note: Different countries' data are available for different years, and so the two panels have a different list of countries. 1995 is the furthest back we can go and have more than 10 countries in our sample.

Source: Authors' calculations using data harmonised as part of the 'Country Studies' project: a parallel project to the IFS Deaton Review. See <https://ifs.org.uk/inequality/country-studies/> for more information. The countries in the project were the (previous) EU-15 countries (except Luxembourg), plus Norway, Canada and the United States.

The poor performance of living standards since the Great Recession means that the UK has fallen down the league table relative to other European and North American economies. In the 12 years pre-financial crisis, median working-age incomes rose by over 40% in the UK, one of the best-performing countries. In the 12 years post-2007 (up to 2019), growth was slower across the board. But in the UK it was just 6%, making it one of a number of slow-growing countries, similar to France.

There are not up-to-date consistent international measures of median working-age household income growth. Examining mean income growth among the whole population [shows](#) that the UK's relative performance has not improved since the pandemic: between 2019 and 2023Q2 (latest data), UK incomes fell by 0.5%; of the 12 other countries in the right panel of Figure 6 that we have up-to-date data for, only Austria and Sweden have seen worse growth (−2.6% and −1.1% respectively).ⁱⁱ

7. Raising living standards over the long run means raising productivity – and policy can play a critical role.

Precisely attributing blame for poor income growth in the last 15 years is difficult. The slowdown in growth across the developed world makes it clear that there are plenty of non-UK-specific factors at play, though it is also notable that the UK has slid down the growth league table in that time. Since 2019, it is perhaps unsurprising that growth has stalled given the COVID pandemic and energy price crisis, though again the UK seems to have fared somewhat worse than many comparable countries.

Whatever the root causes of the growth malaise, looking forward the only sustainable route out is increases in productivity – the amount we produce for every hour worked. And while there are no silver bullets here, we do know what the government can do to put us in the best position for good growth. First, reform taxes to prevent unnecessary disincentives to work and invest. Second, reform the planning system to allow housing and commercial development in the places where people want to live and where companies want to invest. Third, deliver high-quality education that raises human capital. Fourth, make well-targeted public investments, bearing the long-term future in mind. Five, ensure that regulation that does not unnecessarily hold up public or private investment. Six, improve trading conditions with the EU – our biggest and nearest trading partner. Seven, political consistency and stability help.

Naturally, translating these broad targets into specific, effective, politically feasible policy proposals is no mean feat. But if the government is to have a positive impact on the UK's future living standards, this is what it will have to grapple with.

Endnotes

ⁱ Growth in employment as measured by the ONS's workforce jobs measure or by HMRC's Real Time Information shows much stronger employment growth than the Labour Force Survey. See chart 2.14 here: <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2024/may/monetary-policy-report-may-2024.pdf>.

ⁱⁱ Data for Greece were not available.