

Briefing: What will the latest poverty data tell us?

New Policy Institute – 30 June 2014

Key points

The next set of poverty numbers are published on Tuesday 1st July. They will cover the year 2012/13. They will be the latest data available at the general election.

We expect these numbers to show that little has changed: flat household income, the same poverty rate, and growing share of people in poverty in working families.

But commentators should treat these numbers with caution. They are for 2012/13 and do not reflect the main benefit cuts in April 2013 or recent economic improvements.

The bigger changes in the economy and policy came in 2013/14. Data for this period will not be published until after the general election.

Context

On 1st July, the latest data on poverty will be published by DWP; it is the only government endorsed measure of household income. Income is made up a number of elements (earnings, benefits, investments etc.) and a fall in one could be countered by a rise in the other. The Family Resources Survey provides the only comprehensive picture of how changes in all income sources affect how much the typical UK household has to spend.

What did last year's data show?

The data published last year was for 2011/12. It showed that **2011/12 was the second year in a row that household income fell in real terms** (prices grew faster than income). The drop meant that real incomes had fallen back to the level they were at a decade earlier.

It also showed that 16% of people in the UK were in poverty¹. A household is defined as in poverty if their net income is below 60% of the average (median) in that year². As the average household income fell in 2011/12 the poverty threshold also fell. In 2011/12, incomes at the bottom of the distribution fell by about the same amount as those in the middle, so the poverty rate was unchanged.

Factors affecting household incomes in 2012/13 and in 2013/14

The table below summarises the main economic and policy changes that affected household incomes in 2012/13 and 2013/14. It shows that both **improvements in the economy and cuts in benefit entitlement did not occur until 2013/14, the data for which will not be released until the summer of 2015**. Next week's data will reflect a year when inflation was at 2.7%, earnings increased by 1.3% and benefits by 5.2%.

The under-occupation penalty, cuts to council tax benefit, the overall benefit cap and the 1% benefit uprating were introduced in April 2013. This was also the year that the Personal Tax Allowance increased by £1,335 (double the increase in the previous year), inflation fell to 2.2% and the employment rate continued to increase. Next week's data will not reflect any of these changes so does not offer us a verdict on the impact of government's economic plan or spending cuts on households.

¹ Using the before housing costs measure of poverty.

² This is the main poverty measure reported by the government and it is one of four official measures.

Changes in the economy and policy affecting household income

Factor	Change in 2012/13 in forthcoming data	Change in 2013/14 not in forthcoming data
Prices (CPI inflation)	+2.7%	+2.2%
Employment rate (age 16-64)	+1.2 ppts	+0.7 ppts
Earnings (average pay)	+1.3%	+1.1%
Tax (personal tax allowance)	+\$630pa	+\$1,335pa
State Pension	+5.2%	+2.5%
Tax credits and child benefit	no change	no change
Means-tested benefits	+5.2%	+1%
Council Tax Benefit	No change	-\$2.70pw (2.3M families)
Housing benefit (social rented sector)	No change	-\$14.32pw (0.5M families)
Overall benefit cap (workless families)	No change	-\$50pw (28k families)

NB: Figures are the annual change to the mid-point of 2012/13 and 2013/14.

What to expect from the 2012/13 data?

NPI have modelled the above factors to estimate how they impacted household incomes and poverty in 2012/13. We expect the forthcoming data to show that:

- **Median household income did not change in 2012/13** in real terms. A typical couple household without children would have weekly income of £440³ per week.
- Income at the bottom of the distribution was also unchanged and the **poverty rate remained at 16%**. The number of people in poverty was slightly higher than in 2011/12 as the overall population grew.
- The increase the personal tax allowance and overall earnings together meant that the **income of families where all adults were in work increased in line with prices**.
- The increase in **state pension caused a slight fall in pensioner poverty**.
- The increase in the value of **out-of-work benefits prevented a rise in the poverty rate** among workless families.
- **The poverty rate among part-working families⁴ increased slightly**. This was because the tax allowance and earnings growth had a smaller impact on part-working families so their incomes did not increase as much as prices.
- Higher levels of employment caused the **number of workless families in poverty to fall but the number of part-working families in poverty to increase**

This data is the last to be published before the general election. But it will only show how the first half of the Government's term affected household income, not the second and these two halves are very different. Unfortunately, the data that shows us how the main benefit cuts and the return to growth have affected households will not be published until after polling day.

³ Income is net of tax, but includes earnings and benefits. It is measured before housing costs.

⁴ Part-working families are families where some but not all adults are working or the only work done is part-time, it also includes families containing someone who is self-employed