



# Incomes in Northern Ireland –

A decade of change

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The decade began in the  
aftermath of a global  
financial crisis.

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# Incomes in Northern Ireland – A decade of change

The last decade has seen significant disruption and change to Northern Ireland's economy. The decade began in the aftermath of a global financial crisis. A change of UK government then saw a significant and sustained period of reductions in government expenditure. The recovery from the crisis came slowly in the second half of the decade, but showed signs of waning on the eve of the covid-19 pandemic.

The combination of post-crash unemployment, followed by reductions in government expenditure and eventual recovery in employment have led to significant pressures on household incomes over the last decade. However, the effect of these factors has not been evenly distributed among households. Not only has the rate of growth differed significantly across households, but the composition of income has also changed quite substantially for different households.

The role of employment and government benefits in determining household income has been a key feature of economic policy debates in the UK and Northern Ireland over these 10 years. UK Government policy sought to move the burden of household income away from social transfers toward employment. While that may have been the intention of government policy, the interaction of trends in these sources of income has not been uniform within the income distribution.

This report seeks to analyse the growth of household income over the last 10 years for higher, lower- and middle-income households. In particular, it will seek to outline how different sources of income have contributed to these trends.

The report will set out the economic context of the last decade in Northern Ireland before setting out the picture with regard to household income. Looking at how household income has fared over the last decade, it will then focus on the composition of that income before looking in greater depth at the components of income themselves.

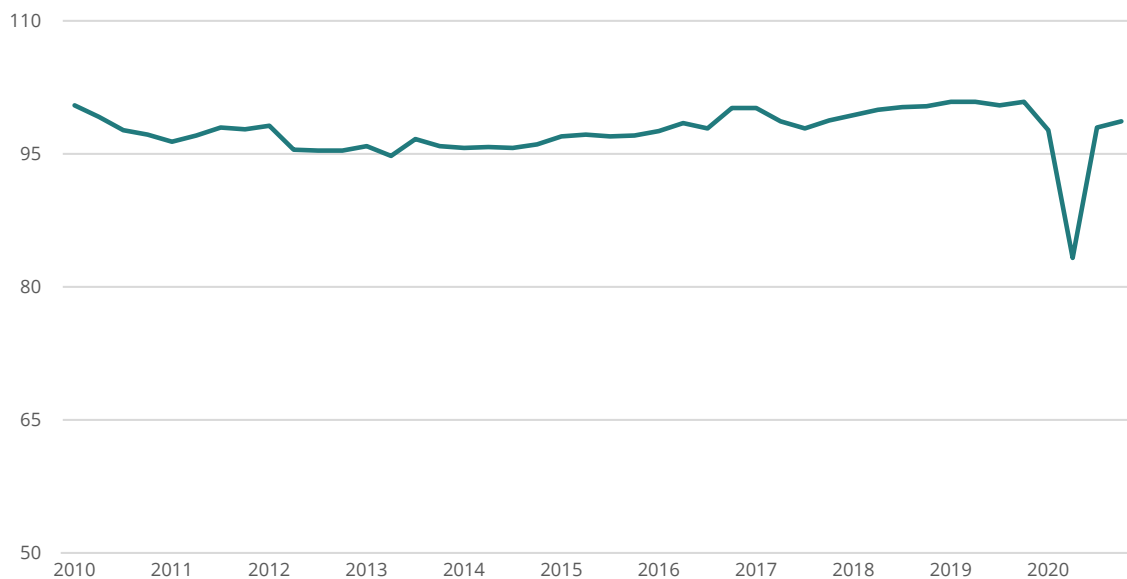
There are significant policy challenges arising from the changing make up of household income. Changes in the components of income can lead to divergent outcomes across the income distribution. The ability of one source of income to compensate for another is limited and this poses important questions about the role of the state in sustaining household incomes.

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## Economic Context.

In 2010 Northern Ireland was in the midst of a severe economic crisis and a property crash. While the 2008 financial crisis was a global economic event, Northern Ireland experienced the after effects of the crash through its property and construction sector. As Figure 1 shows, over the past decade economic output in Northern Ireland has remained largely unchanged. There was a subtle decline from 2010 to 2014, reflecting the period when the most significant cuts to government expenditure took place. This is followed by a similarly subtle expansion in economic activity which took place between 2014-17. There was a noticeable drop in 2017 as uncertainty surrounding the United Kingdom's exit from the European Union was at its height and this was followed by a return to growth in 2018. From 2018-20, the economy plateaued and briefly breached its 2010 level of output, before falling sharply as the covid-19 pandemic took hold. A swift recovery in the latter half of 2020 still leaves the Northern Ireland economy 4% smaller in economic output terms at the end of this decade than it was at the beginning. By contrast, Scotland's economy is 1% smaller and the UK economy as a whole is 8% larger.

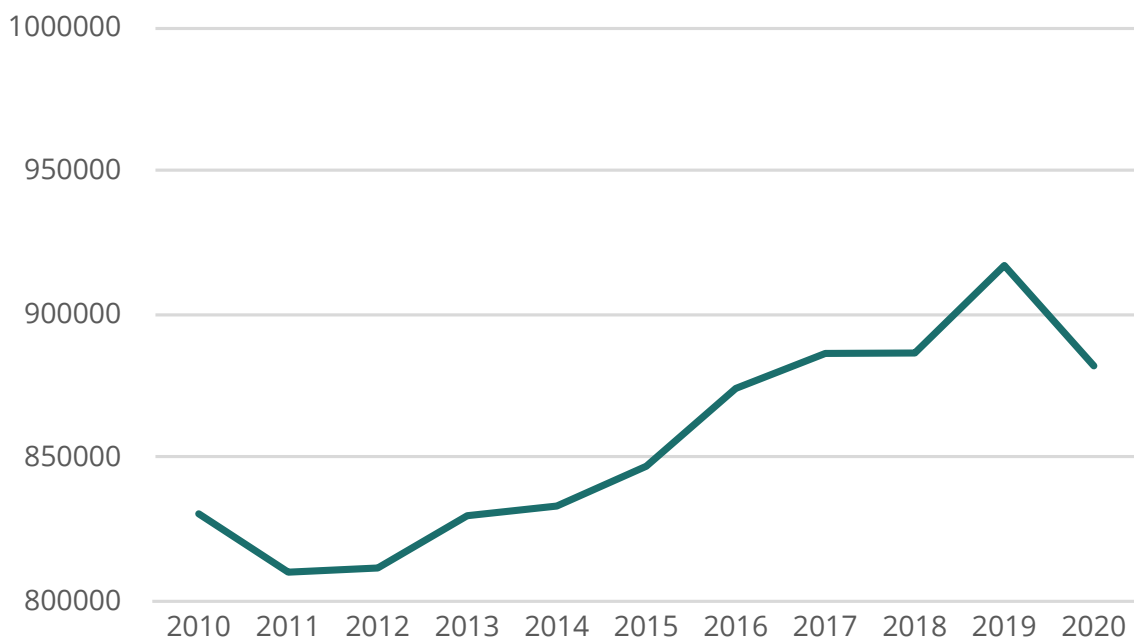
**Figure 1 Northern Ireland Composite Economic Index 2010-2020 (2018=100)**



Source: NISRA Northern Ireland Composite Economic Index (2021)

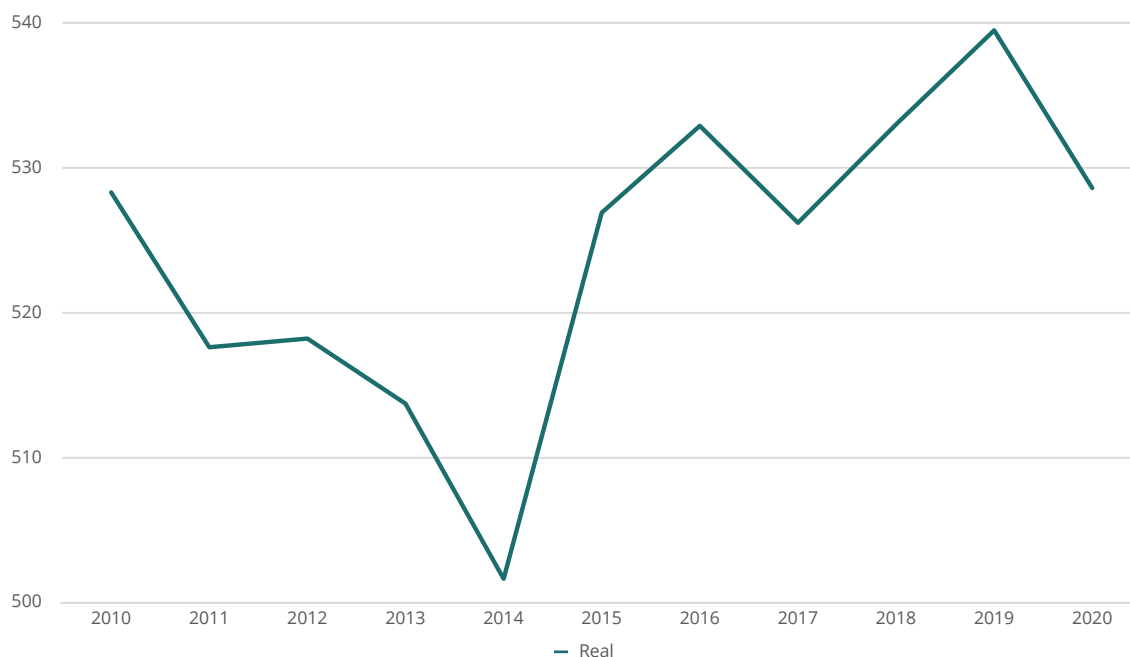
Over this period, the total number of jobs in the Northern Ireland economy grew significantly, from a relatively diminished base. The total number of jobs continued to decline into 2013 before beginning a sustained upward trend of growth that continued until 2020. The most significant shift within the employment picture has been the significant drop-off in public sector jobs which can be largely attributed to the reductions in public expenditure which occurred over the time period.

**Figure 2 Northern Ireland Total Employee Jobs 2010–2020**



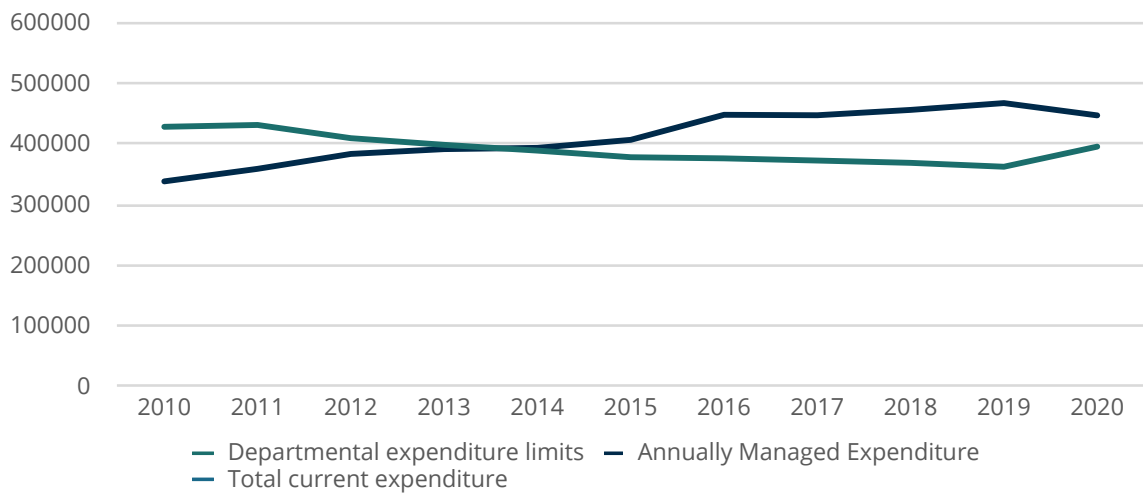
Source: NISRA Quarterly Employment Survey (2021)

In terms of earnings Figure 3 shows how earnings have fared when adjusted for inflation over the 10 years. Wages declined strongly in real terms up until 2015, which broadly reflects the decline in economic activity that occurred over the same period. There was strong growth in 2015 and again in 2016 which was particularly stronger for low wage workers given the introduction of the National Living wage that year. Nevertheless, this level of growth was not enough to sustain long term growth over the decade leading to a situation where real wages in 2020 were almost exactly equal to the level they were in 2010. Obviously, the pandemic explains the most recent decline, but even if trend growth had continued in 2020, overall growth for the decade would likely only have been in the region of 3.5%.

**Figure 3 Northern Ireland Median Gross Weekly Full-time Earnings 2010–2020**

Source: NISRA Annual Survey of Hours and Earnings (2021)

In the middle of 2010, there was a change of government within the UK and a Conservative led government came to power with a plan to drastically reduce government expenditure as a reaction to the fall off in tax revenues. This programme of austerity has continued at varying levels throughout the last decade. Total public sector current expenditure has grown by 9% over the last 10 years in real terms. There was however a large discrepancy between growth in the first half of the decade which averaged 2% per year, compared with an average of 8% annual growth in the second half. Figure 4 shows that it was initially Departmental Expenditure Limits, which covers day to day funding for public services, which initially bore the brunt of cutbacks. However, by the middle of the decade the growth in Annually Managed Expenditure, which mostly consists of social transfers, halted its growth and flatlined in the years after. The reduction in expenditure on social transfers can be linked to sharp reduction in tax credits expenditure post-2015. This included limiting child tax credits to the first two children and reducing the amount people could earn before working tax credits were withdrawn. The introduction of the National Living Wage in 2016 was meant to ease the burden of these cuts by transferring the burden of household income from benefits to earnings. Announcing the National Living Wage alongside the cuts to tax credits in Budget 2016, the then Chancellor George Osborne described it as “a plan for Britain for the next five years to keep moving us from a low wage, high tax, high welfare economy; to the higher wage, lower tax, lower welfare country we intend to create”.

**Figure 4 UK Public Sector Current Expenditure in real terms 2010-2020**

Source: HMT Public Expenditure Statistical Analyse (2021)

All in all, the economic context of the last decade is one in which Northern Ireland's economy began a slow recovery from a significant economic shock. Reductions in government expenditure meant that recovery did not really begin to gather steam until the middle of the decade, following which Brexit, and latterly the pandemic, have caused disruption. It is in this context which we look into the picture of household incomes and how living standards have fared during this time.

## Household Income

All of the economic trends outlined in the previous section will have fed through in some way to the incomes of people living in Northern Ireland. The motivation for examining income is because it provides the best proxy measure of personal living standards. Measuring income at the household level captures the totality of resources available to individuals in the economy.

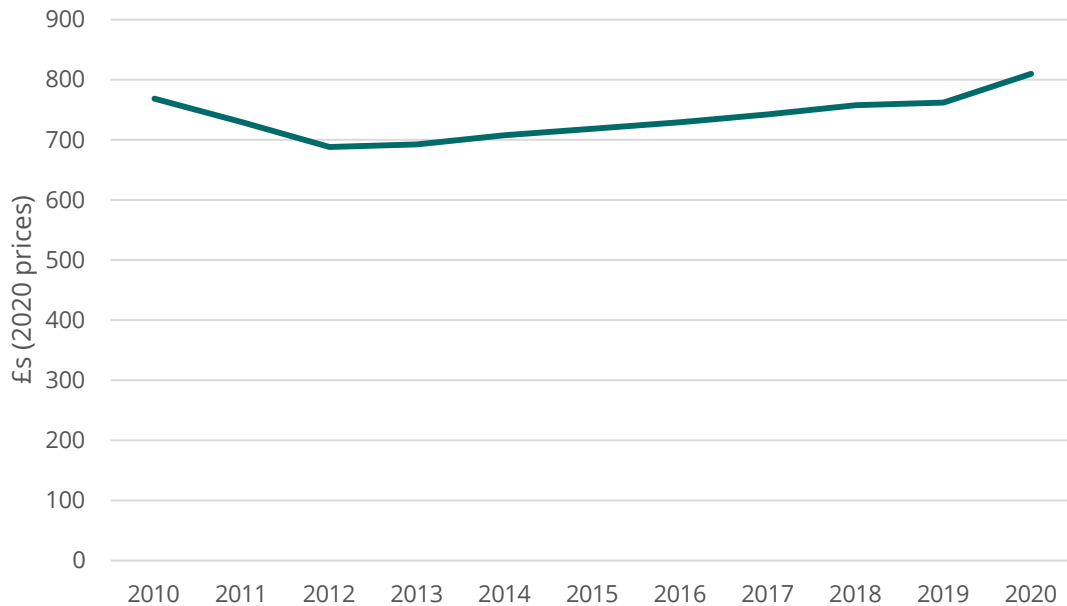


## VICTORIA SQUARE

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the focus of this report  
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10 years

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**Figure 5 Northern Ireland Average Gross Household Income 2010–2020**

Source: DfC Households Below Average Income Survey (2021)

Figure 5 shows the path of the average (or mean) gross household income over the last 10 years, but of course there has been quite a significant variation at the upper and lower end of the income scale or distribution. There are many ways to examine the trajectory of income while taking account of the income distribution. One of the most common of these methods is to divide households into groups based on their position within the income distribution and chart the trend of income for each of those groups separately. Here we divide all households into quintile groups. Quintile groups divide households into 5 cohorts which each account for 20% of all households. The first quintile group contains the 20% of households with the lowest income and so on.

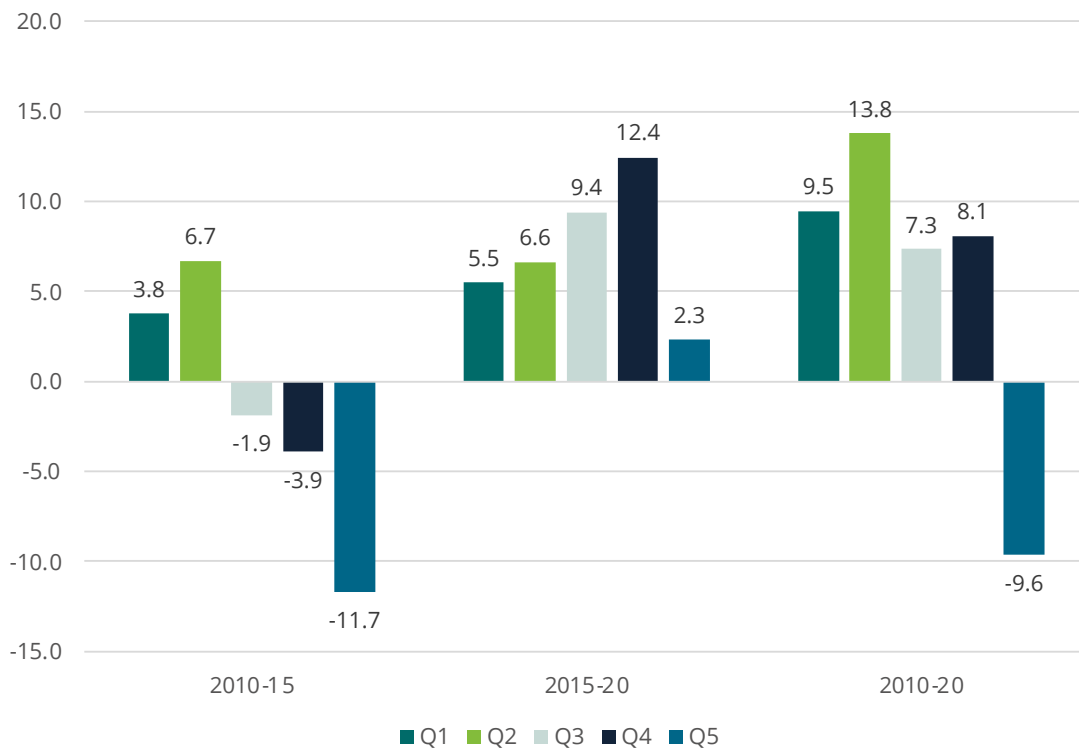
In seeking to get a greater understanding of household income, much research is focused on examining the sufficiency of income and measuring the scale of inequality between households. In order to more accurately measure the sufficiency of household income it must be adjusted for the size and composition of that household. Equivalisation is a process that adjusts household income for the number of adults and children that each household supports. For example, a couple with no children will have a greater ability to convert their resources to obtain higher living standards than a couple with 2 children, even if both households bring in the same income. Equivalised income is therefore the standard measure employed in such analyses.

However, the focus of this report is concerned with the components of household income and their evolution over the last 10 years. Using equivalised income could obscure changes in the different components of income. For instance, equivalised income could show a drop in income in some quintile groups that is due not to a drop

in a particular component of income but due to a change in family formation. Therefore, in order to take account of household composition without distorting the growth of the components of income, this report will examine the growth of unequivalised income analysed by quintile groups derived from equivalised income. This will allow us to see how trends in the various components of household incomes affect total household income and to compare those trends among households at equal points on the income distribution.

Figure 6 shows how gross household income has performed for each quintile group in Northern Ireland over the last 10 years. It shows for the bottom 4 quintile groups, gross household income has increased and that it has decreased for to top quintile group. As can also be seen from Figure 6, where there has been growth in household income the majority of it has occurred in the latter half of the decade, with the exception of the first and second quintile group. While those in Q2 experienced lower growth in the second half of the decade, this group of households experienced largest percentage growth over the whole period.

**Figure 6 Northern Ireland Percentage change in Average Gross Household Income by Quintile groups 2010–2020**



Source: DfC Households Below Average Income Survey (2021)

## Components of Income

Very often household income is used synonymously with household earnings or employment income. Wages and earnings are one part of income, and income can be drawn from many other sources. This is especially true when we come to look at the experience of households across the income distribution as the components of income differ quite considerably among them. Principally, most households draw the vast majority of their income from three sources, earnings, benefits and pensions. As Figure 7 below shows how these components make up total household income for the population as a whole.

**Figure 7 Northern Ireland Average Gross Household Income by Income Component 2020**

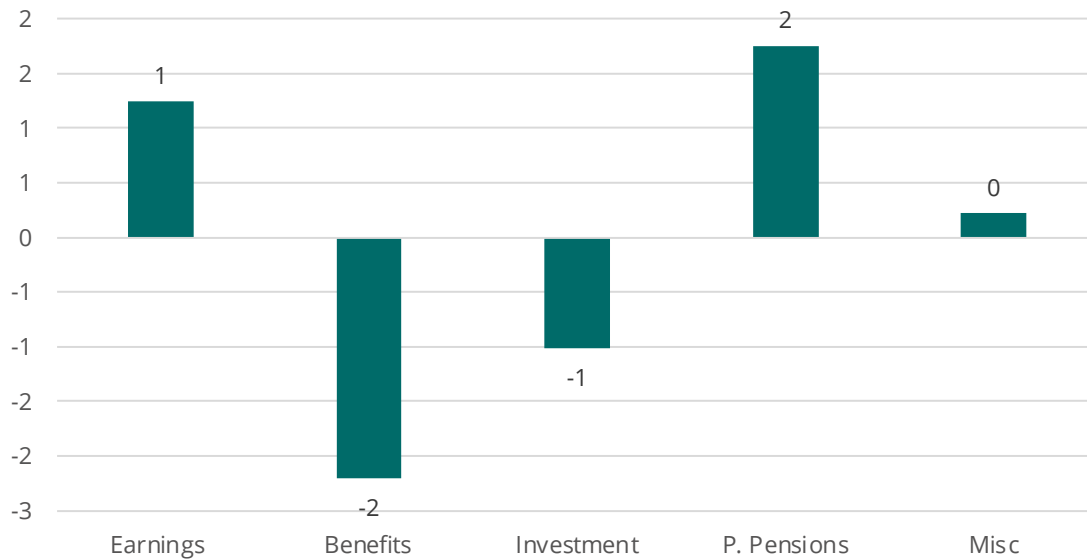


Source: DfC Households Below Average Income Survey (2021)

As we would expect, earnings or income from employment, including self-employment, account for the vast majority of household income. Income from benefits covers all cash transfers made by the state to the household and includes, unemployment payments, child benefit and tax credits and importantly state pensions, and this accounts for just under one fifth of total household income. Private or occupational pensions are accounted for separately and they comprise 7% of the average household income. Income derived from investments or assets (including rents) accounts for 2% while a further 2% is classified as miscellaneous.

As Figure 8 below shows, the composition of income in 2020 is similar enough to that of 10 years ago. There has been a 1 percentage point increase in the share of income derived from employment and a drop of 2 percentage points in that derived from benefits. Investment income has lost 1 percentage point while occupational pensions have gained almost 2 percentage points.

**Figure 8 Northern Ireland Change in share of Average Gross Household Income by Income Component 2010-20**



Source: DfC Households Below Average Income Survey (2021)

The variance in growth rates among the components of income is important because, as we will see, the importance of each component of income varies within the income distribution. Therefore, households with a large share of private pension income, such growth will have contributed significantly to the growth in total income. The opposite will be the case for households with little or no private pension income. This matters if the distribution of private pension income is not equal within the income distribution.

Table 1 sets out how much of total income is attributable to each component of income in each quintile group. Income from employment and self-employment ranges from under half of total income in the lowest quintile, to 80% of total income in the upper two quintile groups. Income from benefits makes up half of total income for the lowest quintile group and only 5% for the richest quintile group. Private pensions and investment related income make up a much larger share of higher incomes, while miscellaneous income is more important in lower income households. In broad terms then, lower income households rely on benefit income as the largest component of income, while earnings provide the largest share for every other group.

**Table 1 Northern Ireland Average Gross Household Income by Income Component and Quintile groups 2020**

	Earnings	Benefits	Investment	P. Pensions	Miscellaneous
Q1	45	49	1	2	3
Q2	58	33	1	4	2
Q3	67	23	1	7	2
Q4	80	10	2	7	1
Q5	79	5	5	11	1

Source: DfC Households Below Average Income Survey (2021)

**Table 2 Northern Ireland Average Gross Household Income by Income Component and Quintile groups 2010**

	Earnings	Benefits	Investment	P. Pensions	Miscellaneous
Q1	30	63	1	4	3
Q2	47	44	2	5	3
Q3	67	25	1	6	1
Q4	80	10	1	7	1
Q5	83	3	8	5	1

Source: DfC Households Below Average Income Survey (2021)

While Figure 8 showed that there has been little significant change in the components of total income for the population at large, but as Table 2 shows, the same trend is not observed within the income distribution. The 1% increase in the share of income derived from employment has been almost exclusively concentrated in the lower 2 quintile groups of the income distribution. The share of employment income increased by 15 and 11 percentage point respectively for both the first and second quintile groups. Interestingly there has been an almost like for like reduction in the share of benefit income with a decrease of 14 and 11 percentage points for the first and second quintile groups. The share of income derived from employment has remained static of the third and fourth quintile group, while it actually declined for the fifth quintile group. The share of income derived from private pensions has more than doubled for the fifth quintile group while it has either declined or remained static for every other group. Miscellaneous income remains largely unchanged while the decline in investment income is almost solely concentrated in the fifth quintile group.

**Table 3 Northern Ireland Percentage Point change in Average Gross Household Income by Income Component and Quintile groups 2010**

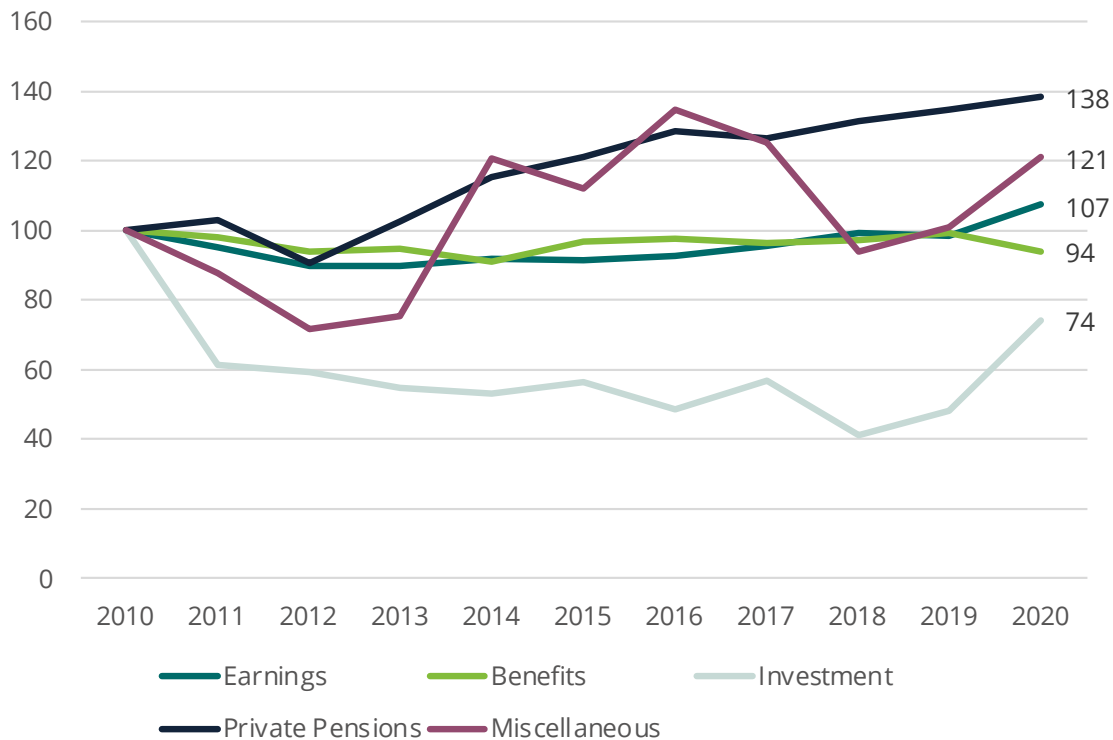
	Earnings	Benefits	Investment	P. Pensions	Miscellaneous
Q1	15	-13	0	-1	-1
Q2	12	-10	0	-1	-1
Q3	0	-2	0	1	1
Q4	0	0	1	0	0
Q5	-5	1	-3	6	0

Source: DfC Households Below Average Income Survey (2021)

## A decade of change

Tables 1 to 3 report on what proportion of total income is accounted for by these five components in each household quintile group. That tells us a good bit about the varying importance of each component to different types of households, but it doesn't tell us how changes in those components have affected the level of total income in these households. For that we need to delve in and examine how each of the components have grown over the past decade. Taking their 2010 value as the starting point, Figure 9 shows that the decline in investment income has been much sharper than Figure 8 would suggest. Similarly, the growth of private pensions has been much more significant than the change in its share of total income would suggest. The figure also shows that income from employment and income from benefits experienced very similar trend in growth over the last 10 years and that in fact it has only been in the final year of the decade where their fortunes significantly diverged.

**Figure 9 Northern Ireland Change in Average Gross Household Income by Income**

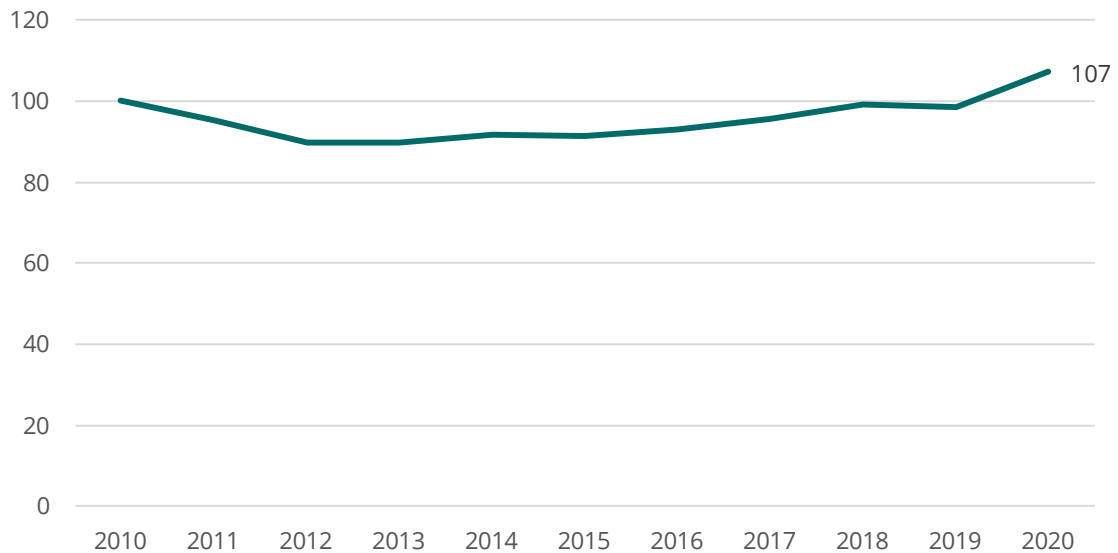


Source: DfC Households Below Average Income Survey (2021)

What is clear from Tables 1 and 2 is that between them, earnings and benefit income, account for the vast majority of income for every quintile group, from 94% of total income in Q1 to 83% in Q5. It is then worthwhile to examine the trend in the growth of earnings and benefit income and how income from both of these streams has fared over the last decade and what distributional aspects we can identify from it. Figure 10 shows the growth of average earnings for all households over the last decade. As can be seen, income from employment and self-employment fell in the first years of the decade and

only regained their 2010 value in real terms by 2018. This was followed by no growth in 2019 and a sharp upturn in 2020. However, the trend in employment and self-employment income has been quite different for households across the distribution.

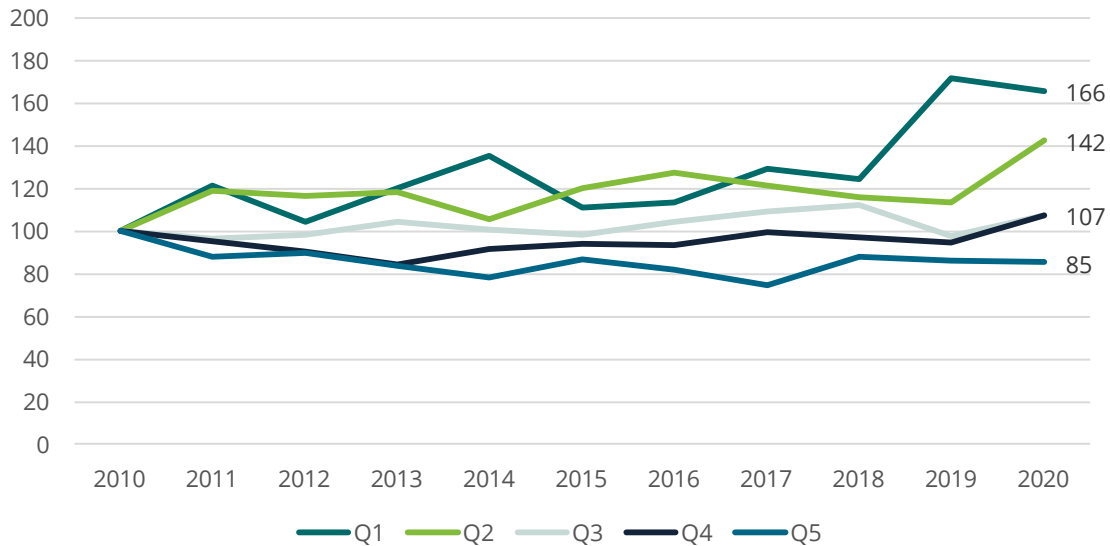
**Figure 10 Northern Ireland Average Income from Employment and Self-Employment 2010-20 (2010=100)**



Source: DfC Households Below Average Income Survey (2021)

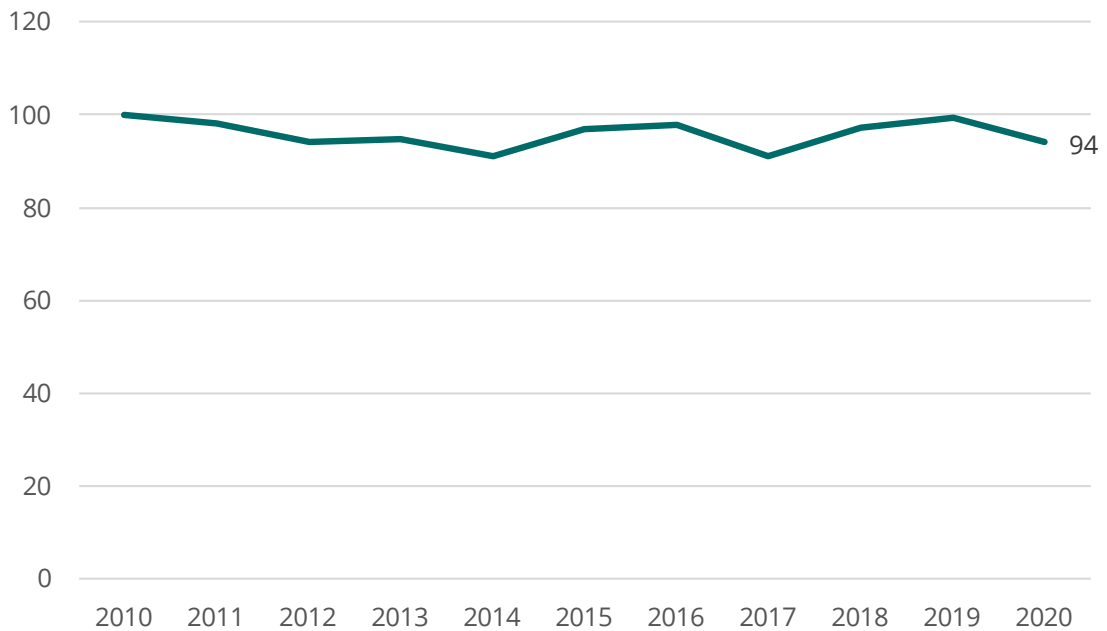
As Figure 11 shows the poorest quintile group saw the biggest increase from 2010 levels. As much of the growth in earnings for the poorest household is post 2016, much of this can be connected with the introduction of the National Living Wage as outlined earlier. This is not to say that poorest households have had the largest increase in earnings over the last ten years. Figure 11 is simply comparing the growth rate of earnings for each quintile group compared to each quintile group's 2010 level of earnings. The outcome of that growth compared between households will be discussed in the next section. Figure 11 also shows that, in contrast to the rest, the richest quintile group of households has a lower level of income from employment than it did 2010. The second quintile group saw significant growth, particularly in 2020, while the 3rd and 4th quintile group saw much more lacklustre growth over the entire period.

**Figure 11 Northern Ireland Average Income from Employment and Self-Employment by income quintile groups 2010-20 (2010=100)**



Source: DfC Households Below Average Income Survey (2021)

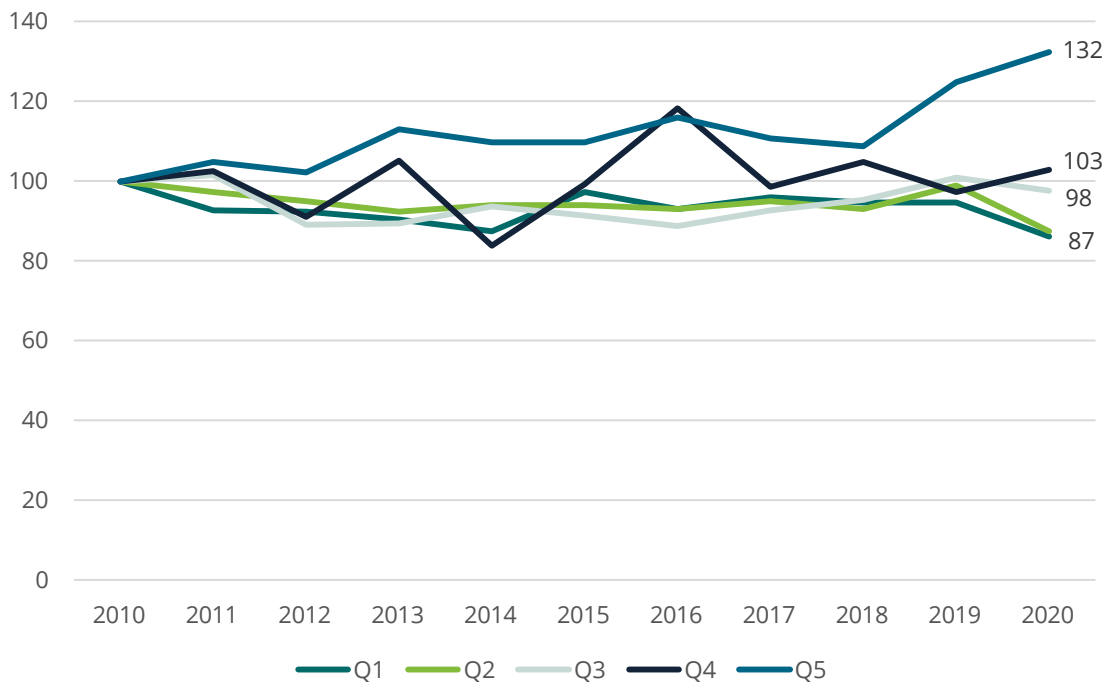
If we then look to income from benefits, Figure 12 shows a much more subdued picture of growth. The average income from benefits for all households in Northern Ireland was, in real terms, smaller than it was in 2010. It declined up until 2014 and there then followed a very modest trend of growth that was interrupted by a sharp drop in 2017. Benefit income almost hit its 2010 level in 2019, but this was followed by another sharp decrease in 2020. As with income from employment, benefit income changes are likely to have had very different impacts on households at the upper and lower end of the income distribution.

**Figure 12 Northern Ireland Average Income from Benefits 2010-20 (2010=100)**

Source: DfC Households Below Average Income Survey (2021)

As Figure 13 shows, the distributional experience of the decline in benefit income over the last decade is almost a mirror image to that of the growth in employment income. The richest households saw the greatest increase in benefit income compared to their 2010 level. The poorest two quintile groups saw an equal decline in their 2020 benefit income compared with 2010. A less sharp decrease in 2020 meant that households in the middle quintile group have a benefit income roughly equal to that which they had in 2010. The fourth quintile group experienced the most erratic trend of growth in benefit income, but ended the decade with a slightly higher level than they began it with.

**Figure 13 Northern Ireland Average Income from Benefits by income quintile groups 2010–20 (2010=100)**



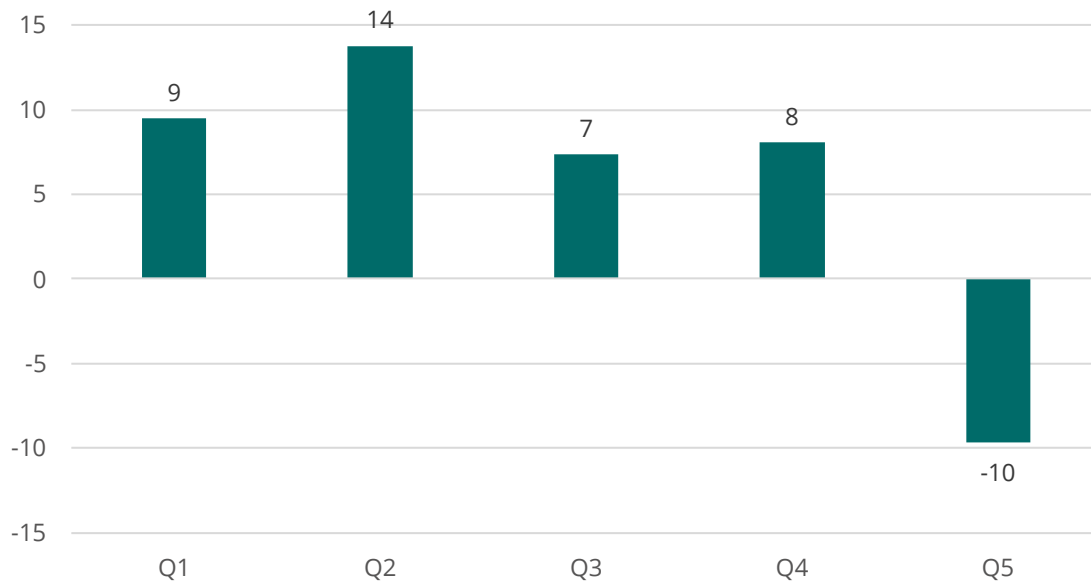
Source: DfC Households Below Average Income Survey (2021)

What Figure 11 shows is that there has been strong growth in income from employment and self-employment in the lower half of the income distribution. What Figure 13 shows is that there has been a similar decline in income from benefits for the same households. Looking at these figures in isolation it would appear that while poorer households have lost out in benefit income, they have gained in employment income and that this may be a positive development. However, in order to understand the impact of these trends, we must look at how they have affected total income for each quintile group. To do this we must combine the data on the growth of each component and adjust it for the share of income that it represents in each quintile group.

### What's driving the change?

Figure 14 shows the percentage change in total gross household income for each quintile between 2010 and 2020. The richest households have lost the largest part of their income since 2010 and the second quintile group have gained the most. The first, third and fourth quintile group have all recorded similar gains in income for the period. One of the most striking observations from Figure 14 is that the second quintile group has done so much better than the all-other households and the poorest quintile group on particular.

**Figure 14 Northern Ireland Percentage Change in Average Gross Household Income by Income Quintile groups 2010-20**



Source: DfC Households Below Average Income Survey (2021)

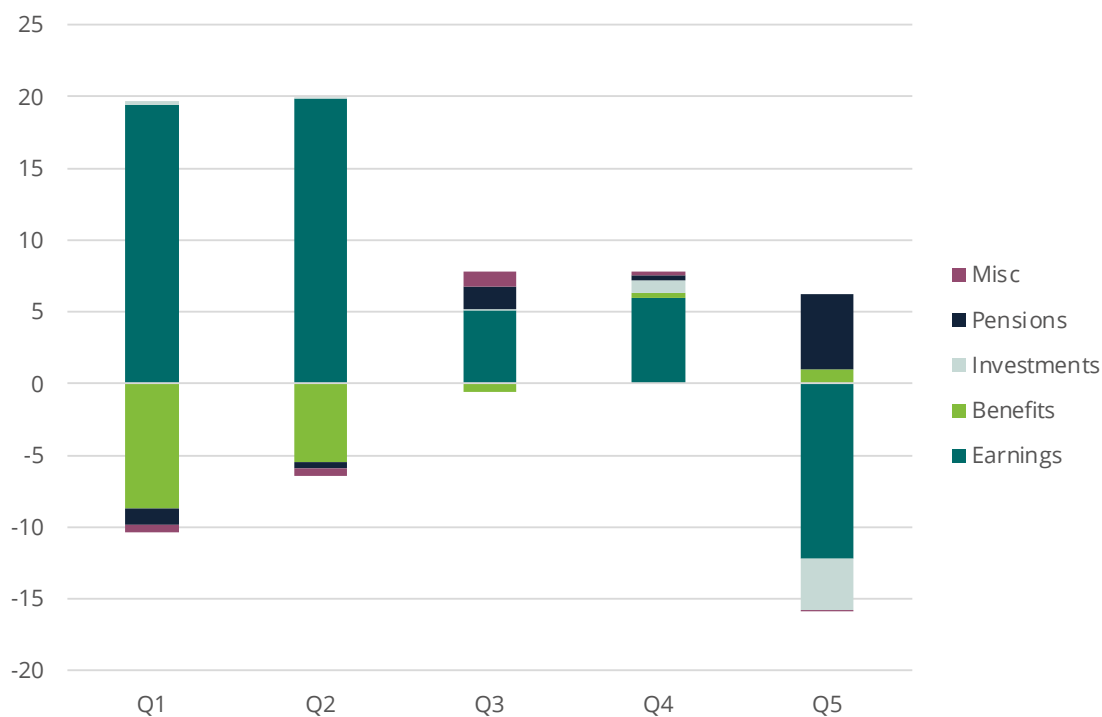
This can seem somewhat counterintuitive based on Figures 11 and 13. From those figures it would seem as if the gain in income from employment is larger for the first quintile group and the decline in benefit income is roughly the same. However, this is where each component share of income comes into effect. When we adjust the change in each component of income for the share of total income it represents, the compositional impact of change becomes clear.

Figure 15 takes the change in each of the components of income for each quintile group and presents it as a share of the change in total income. The growth in income from employment in the first quintile group is tempered because earnings only represent 45% of total income for that quintile group. Meanwhile, a smaller increase in income from employment gives a slightly larger boost to the total income of the second quintile group because earnings account for nearly 60% of total income. Looking at benefit income, while Figure 13 showed that the decline in this component was almost equal for both the first and second quintile group, the impact on total income was substantially different. While the decline of benefit income shaved 5% off total income in the second quintile group, it removed almost double this amount (9%) from the first quintile group.

Figure 11 showed that income from employment had grown by almost exactly the same amount for the third and fourth quintile group. Figure 15 shows that earnings contributed marginally more to households in the fourth quintile group because of a higher share of earnings in total income as outlined in Table 1. Figure 15 also shows that the changes in benefit income for these two quintile groups had little or no impact on the change in total income. For the richest group of households, the higher share of

investment and private pensions account for a large proportion of the change in total income. Looking at Figure 9, we can see that, overall, private pensions had the largest increase between 2010 and 2020, while investment income had the largest decrease. As Figure 15 shows, the effect of these changes for all quintile groups was marginal, except for the richest households. Figure 15 shows that the losses sustained from investment income were exceeded by the gains made from private pension income. The large drop in earnings for the richest households therefore explains the majority of the 10% decline in total income.

**Figure 15 Northern Ireland Contribution to Change in Average Gross Household Income by Income Component for Income Quintile groups 2010-20**



Source: DfC Households Below Average Income Survey (2021)

## Policy Implications

The beginning of this report set out the economic context of the last decade in Northern Ireland and how a slow recovery from the financial crash was buffeted by waves of cutbacks in government expenditure and uncertainty surrounding Brexit. What is quite clear is that these trends have impacted differently on the various components that make up household income and that in turn these divergent trends have had significantly different impacts on various households.

In terms of income from employment and self-employment, several observations emerge. Firstly, growth in earnings has considerably benefited those in the lower end of the income distribution. They have seen the highest levels of growth and that growth

has contributed the most to the growth of total income. For middle- and upper-income households, earnings growth has positively impacted growth in total income but it has been more subdued. The richest of households saw a substantial initial decline in earnings and total household income has never recovered from this slump.

On benefit income, the poorest households have been the clear losers from this downward trend of growth. While they experienced a similar decline to households in the second quintile group, the hit to total income was greater for the poorest households. The impact of the decline of benefit income for other households has been marginal.

Taken together, the growth income from employment has contributed significantly to the growth in household income over the last decade. However, for the poorest households, the growth in earnings has been severely dented by the decline in benefit income. This calls in question how much store can be placed in earnings as the main driver of income for all households. While government might like earnings from employment to drive household income, it is clear that it is not that simple for all households. While low-income households have benefited from earnings growth, the poorest have not. This suggests that while buoyant earnings will always be the key driver of income growth, they cannot be the sole driver. Earnings growth is a necessary but not sufficient condition for income growth and government policy must clearly re-examine its role in maintaining household income and accept its complex make-up. Social transfers will always be necessary in this regard.

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While government  
might like earnings  
from employment to  
drive household income,  
it is clear that it is  
not that simple for all  
households.

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