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Incomes in Northern Ireland: What's driving the change

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INCOMES IN NORTHERN IRELAND: WHAT'S DRIVING THE CHANGE

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ABSTRACT

As the UK economy enters recovery phase, attention is turning to the subject of living standards and whether household incomes have revived to the same extent. Research to date indicates that households in Northern Ireland have yet to experience any significant recovery. Despite disagreement on a precise measurement for living standards, this paper examines income for households and individuals based on the latest available survey data. Overall trends however hide conflicting experiences for households based on the different streams of income they receive. This has given rise to speculation that older generations and those at the top of the income distribution have recovered lost ground whilst younger and poorer households remain left behind.

The evidence on a generational divide points to a collapse in employment income which has impacted more significantly on incomes in younger households. The main components of income for older generations have either remained steady or increased marginally. This is not to say older generations have prospered at the expense of younger generations. The cause of the divergence in income growth can be directly attributed to falling employment incomes for younger generations. There has been no general increase in income inequality, but the collapse of employment income has favoured those at higher middle incomes. Consequently it is those on lower middle incomes who have fared worst. Policy responses need to reflect that absent a significant uplift in employment income particularly at lower levels of remuneration, the emerging divides will become entrenched. This is particularly acute challenge for Northern Ireland as the lowest income region of the United Kingdom.

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INCOMES IN NORTHERN IRELAND: WHAT'S DRIVING THE CHANGE

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1. INTRODUCTION

Since the onset of recession, following the global financial crash in 2008, many western economies have experienced prolonged periods of unemployment and economic stagnation. As unemployment numbers begin to recede and economic growth returns, it is pertinent to investigate how different households have survived these past number of years. Living standards have been a key concern for policymakers of late, with a tacit acknowledgment that any economic recovery may not be apparent for the population at large.

Previous research on wages in Northern Ireland revealed declining real wages and a significant increase in low pay. However, this is only part of the story. It is important to contextualise wages into the broader picture of household incomes in order to determine a true picture of people's living standards. Research to date has shown that Northern Ireland among the 12 regions of the United Kingdom has seen the largest fall in household incomes since the recession. This now leaves Northern Ireland with the lowest average household income of any UK region (Resolution Foundation, 2015). The aim of this paper is to investigate what exactly has driven such a sharp decline.

A very quick answer to this would be that a recession by its very nature will reduce household incomes and Northern Ireland's recession was among the worst in the UK. However, not all households experienced the recession in the same manner. Many people became unemployed, whilst many stayed in work. There were reductions in pay for some with reductions in working hours for others. Many people experienced a significant drop in net wealth whilst others found themselves increasingly dependent on social transfers. These differences are important because understanding how different households experienced recession may inform us as to how effective any economic recovery may be in restoring living standards.

This poses some key research questions; in particular how has composition of household income changed over the last 6 years? Have particular streams of incomes increased or decreased? Are these changes relative or absolute? Have trends in different income streams favoured some households over others? Do national averages disguise growing inequality between different groups? Answers to these questions should give greater insight into living standards in Northern Ireland and what prospects an economic recovery has for households.

The paper is structured as follows; section 2 will outline trends in household income for Northern Ireland over the recession. Section 3 will look at the changing composition of household income and the degree to which this can be explained by the changing circumstances. Section 4 will look at issues of equality and whether income distribution has become more unequal or whether there is a generational divide within household incomes. Finally section 5 will draw together these statistics and examine what policy implications can be drawn from them.

2. TRENDS IN INCOMES

Data

While living standards have become an increasingly important economic indicator in the last number of years, they have also become a contentious one. In the first instance it is worth emphasising that there is no general agreement on, or official measure of living standards, therefore to present any one definitive figure would be at best remiss and at worst misleading. In the past, measures of Living Standards have focused on Gross Domestic Product per Capita and there are two immediate problems with this. Firstly Gross Domestic Product has come under increasing scrutiny of late over how it represents economic output and whether is accurately captures the totality of economic activity, particularly with regard to unremunerated activity such as care provision or work in the household. Secondly there has been a divergence in the trajectory of what economists describe as National Income and the income received by the majority of households. In many western economies and the United States in particular, Gross Domestic Product per Capita has grown at a rate far above the income of most households. This has led many researchers to instead focus on household income as the preferred measure of living standards, with GDP per capita remaining a good indicator of productivity.

However even within household income there is no settled agreement on an exact measure. Within political discourse measures of incomes are often conflated with measures of earnings and the exact definition of the household sector has been debated. In the first instance any measure of living standards should focus on the totality of household income and while income from employment may represent a large portion of household income it is only one component. Secondly the definition of the household sector is important and it is mainly a question of statistical methodology. The Office for National Statistics produces a Household Disposable Income (RDHI) series which aims to measure spending power of households in the economy. There are two problems with this measure. Firstly the full title of the series is Real (or Gross) Household and NPISH Disposable Income. The ONS defines NPISH Non-Profit Institutions Serving Households which includes charities, trade unions, religious organisations, universities and even political parties. The ONS argued for the inclusion of NPISH in the household sector on the basis that the "are financed by households and their sole purpose is to serve households" (ONS, 2015).

However while this may seem intuitive when calculating national accounts, many fear it obscures the experience of what most people understand to be a household and for that reason the ONS have committed to producing separate accounts by 2017. The second issue surrounds average or mean figures. The mean is an important measure but lack the ability to account for distributional impacts which can be more easily determined from the median. It is not possible to produce median figures for RDHI as it is constructed in the same way as the national accounts.

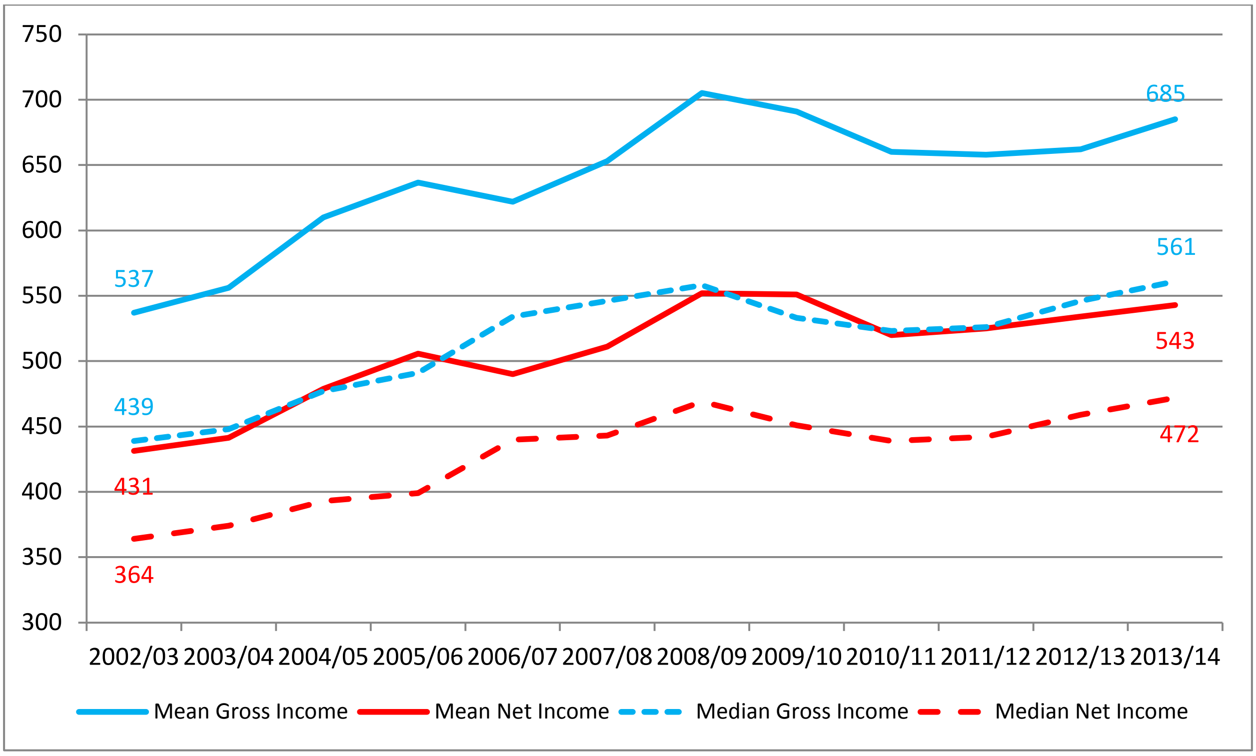
This leads inevitably to the subject of household surveys where a representative sample of the population is used to measure the aggregate experience of households across the country. Such surveys are commonplace across Europe and are collated at European level in the Survey of European Union Statistics on Income and Living Conditions. Until 2012 the General Lifestyle Survey was the main UK contributor to EU SILC, but that role is now filled the Family Resources Survey. The FRS which was launched in 2002 has now replaced the since merged Family Expenditure Survey as the primary repository for information on Household finances and characteristics. Northern Ireland was added to the sample in 2002 and so 10 years of data are now available.

The Households Below Average Income Survey is a sub set of the Family Resources Survey which was initially established to provide key data on poverty and deprivation. In fact the title of the survey is somewhat misleading as it is now used to present data on incomes across the distribution. The income variables in the HBAI allow for more concentrated analysis of incomes whilst retaining much of the descriptive household information provided in the FRS. This paper will seek to examine the changes and trends in household income based primarily on HBAI data to gain a clearer picture of living standards in Northern Ireland.

Trends

Figure 2.1 shows weekly gross and net household income in Northern Ireland, before adjusting for inflation. One of the shortcomings of the RHDI series was the inability to calculate median incomes from the data. However median measures of income can also be misleading if they fail to capture significant movements in income at either end of the distribution that do not affect the middle. For this reason both median and mean incomes measure will be considered in this paper wherever possible.

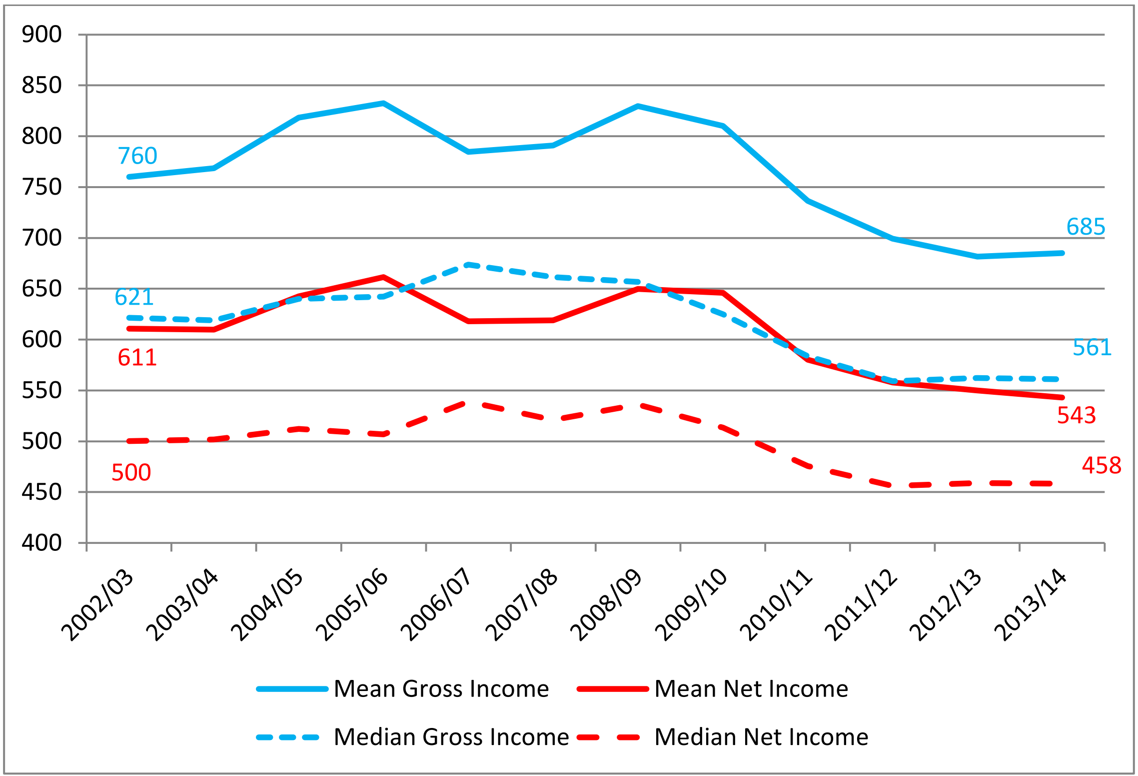
Figure 2.1: Mean and Median Nominal Weekly Net and Gross Household Income 2002/03 – 2013/14



Source: Households Below Average Income Survey 2002/03-2013/14

In nominal terms both mean and median household incomes increased every year from 2002 until 2008 with mean incomes experiencing a small decline in 2006. The mean is much more sensitive to changes in data than the median, and so this may have been an early warning of the economic turbulence that was to come in 2008. After two years of decline, both mean and median incomes remained flat for a further two years before very modest growth began again in 2012.

Figure 2.2: Mean and Median Weekly Net and Gross Household Income 2002/03 – 2013/14 (2013/14 prices)[1]

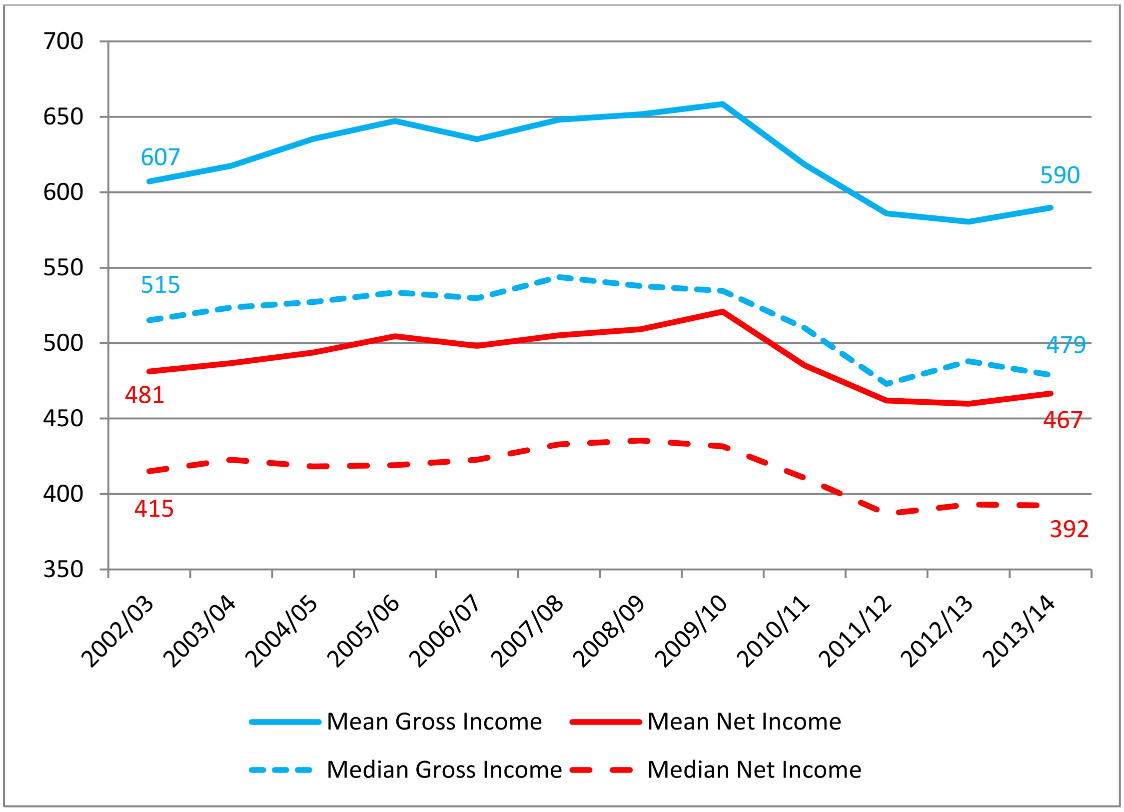


Source: Households Below Average Income Survey 2002/03-2013/14

Taking account of inflation, the full extent of the fall in real household income can be seen in figure 2.2. For mean incomes the fall in 2006 is much more pronounced and enduring in real terms as is the decline in 2009. However in 2013/14 mean gross and net household incomes in Northern Ireland were respectively, 10% and 11% below where they were 11 years earlier in 2002/03. Moreover mean gross household income is 18% below its pre-recession peak in 2005/06, while mean net incomes are also down 18% over the same period. Median incomes have experienced less dramatic falls but gross and net fell by 9.5% and 8% respectively in the 10 years to 2012/13. The pre-recession peak for median incomes arrived in 2006/07 and since then gross incomes have fallen by 17% while net incomes were down almost 15% in 2013/14.

[1] Prices are adjusted using BHC inflation measure provided in HBAI 2012/13 User guide

Figure 2.3: Mean and Median Weekly Net and Gross Equivalised Income 2002/03 – 2013/14 (2013/14 prices)



Source: Households Below Average Income Survey 2002/03-2013/14

While the discussion of household incomes is important, not all households are the same and the financial demands on household incomes can vary substantially. For this reason a measure of equivalised income is produced. Equivalisation adjusts household income to account for the number of adults and dependent children and so gives a gives a measure that more accurately reflects each individual's share of household income. Equivalisation makes a number of assumptions particularly with regard to how resources are spread amongst children and so it is by no means a definitive measure of individual income. Adjusting for household size and composition, Figure 2.3 shows a much smoother trend in both gross and net incomes over the past 10 years.

Two interesting points stand out, the first being a much narrower gap between both net and gross incomes and between mean and median measures of the same. Interestingly the peaks for mean equivalised income occurred two years later than the household level equivalent. Mean incomes reached their peak in 2008/09 with both gross and net incomes falling by 15% and 10% respectively by 2013/14. Median gross income fell by just over 14% from their peak in 2007/08 while net incomes reached peak in 2008/09 and fell by just under 10% in the years to 2013/14. Median gross and net equivalised incomes are 7% and 5% lower in 2013/14 respectively than they were in 2002/03.

Regional

The downward trend in real incomes in Northern Ireland is part of a wider UK trend and Tables 2.1 & 2.2 show the experience of Northern Ireland in a wider UK context. At household level

Northern Ireland has seen the third largest fall incomes of any UK region falling only behind Wales and the North West. It is also the second lowest income region of the UK.

Table 2.1: Mean Regional Gross Household Income 2006/07 & 2013/14(2013/14 prices)

Region	2006/07	2013/14	% change
North East	729	661	-9.3
North West	817	706	-13.6
Yorks and Humberside	776	759	-2.2
East Midlands	767	756	-1.4
West Midlands	780	743	-4.7
Eastern	939	873	-7.0
London	1148	1020	-11.1
South East	1089	1119	2.8
South West	868	809	-6.8
Wales	821	702	-14.5
Scotland	793	751	-5.4
Northern Ireland	783	686	-12.4
United Kingdom	894	840	-6.1

Source: Households Below Average Income Survey 2002/03-2013/14

Looking at median household income, Northern Ireland is joint third lowest, ahead of the North East and also the West Midlands. Northern Ireland did however experience the largest fall in median household income of any UK region.

Table 2.2: Median Regional Gross Household Income 2006/07 & 2013/14(2013/14 prices)

Region	2006/07	2013/14	% change
North East	566	503	-11.2
North West	597	567	-5.0
Yorks and Humberside	627	568	-9.4
East Midlands	646	584	-9.6
West Midlands	626	540	-13.7
Eastern	768	662	-13.8
London	831	748	-10.0
South East	820	764	-6.8
South West	688	625	-9.1
Wales	609	561	-7.9
Scotland	611	573	-6.2
Northern Ireland	674	561	-16.7
United Kingdom	681	621	-8.8

Source: Households Below Average Income Survey 2002/03-2013/14

Accounting for household size and composition, mean incomes in Northern Ireland see a much less dramatic decline, but on this measure, Northern Ireland comes at the bottom of the league table.

Table2.3: Mean Regional Gross Equivalised Income 2006/07 & 2013/14 (2013/14 prices)

Region	2006/07	2013/14	% change
North East	646	595	-7.9
North West	730	629	-13.9
Yorks and Humberside	674	688	2.1
East Midlands	680	645	-5.1
West Midlands	664	659	-0.7
Eastern	828	764	-7.7
London	1016	883	-13.0
South East	950	1022	7.6
South West	761	729	-4.2
Wales	711	603	-15.2
Scotland	729	690	-5.4
Northern Ireland	635	590	-7.0
United Kingdom	786	747	-5.0

Source: Households Below Average Income Survey 2002/03-2013/14

Median equivalised incomes show a similar trend, but on this measure Northern Ireland is second from the bottom of the table, with the West Midlands as the lowest income region of the UK.

Table2.4: Median Regional Gross Equivalised Income 2006/07 & 2013/14 (2013/14 prices)

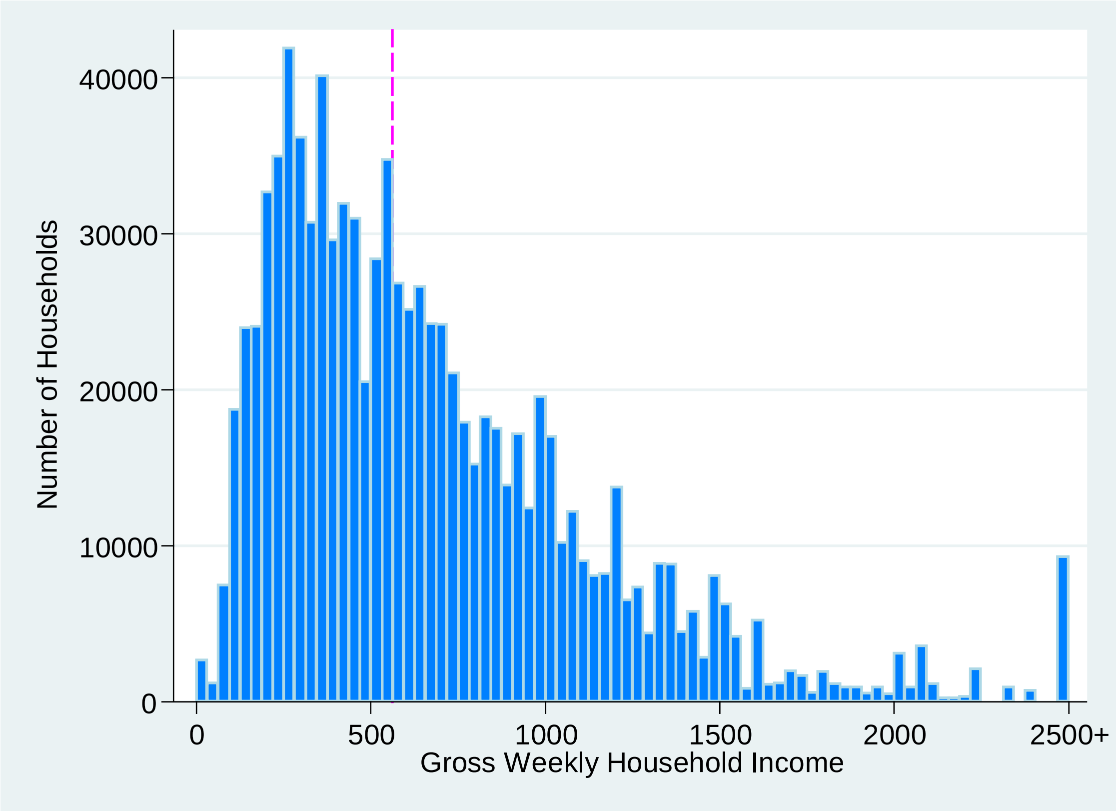
Region	2006/07	2013/14	% change
North East	549	481	-12.3
North West	545	516	-5.3
Yorks and Humberside	558	515	-7.6
East Midlands	570	519	-9.0
West Midlands	549	477	-13.1
Eastern	670	582	-13.1
London	691	618	-10.6
South East	720	677	-6.0
South West	618	569	-7.9
Wales	547	508	-7.2
Scotland	583	568	-2.5
Northern Ireland	527	479	-9.2
United Kingdom	604	555	-8.2

Source: Households Below Average Income Survey 2002/03-2013/14

Income Distribution

Figure 2.4 shows the distribution of household income throughout Northern Ireland. While median weekly gross household income was £686 in 2013/14, the dash line indicates the position of median incomes. The distribution shows that some 59% of households fall below the mean gross weekly income of £681. In 2013/14 the top 5% of households had a gross income of over £1500 per week, while just under 10% of households had a gross income of £200 or less per week.

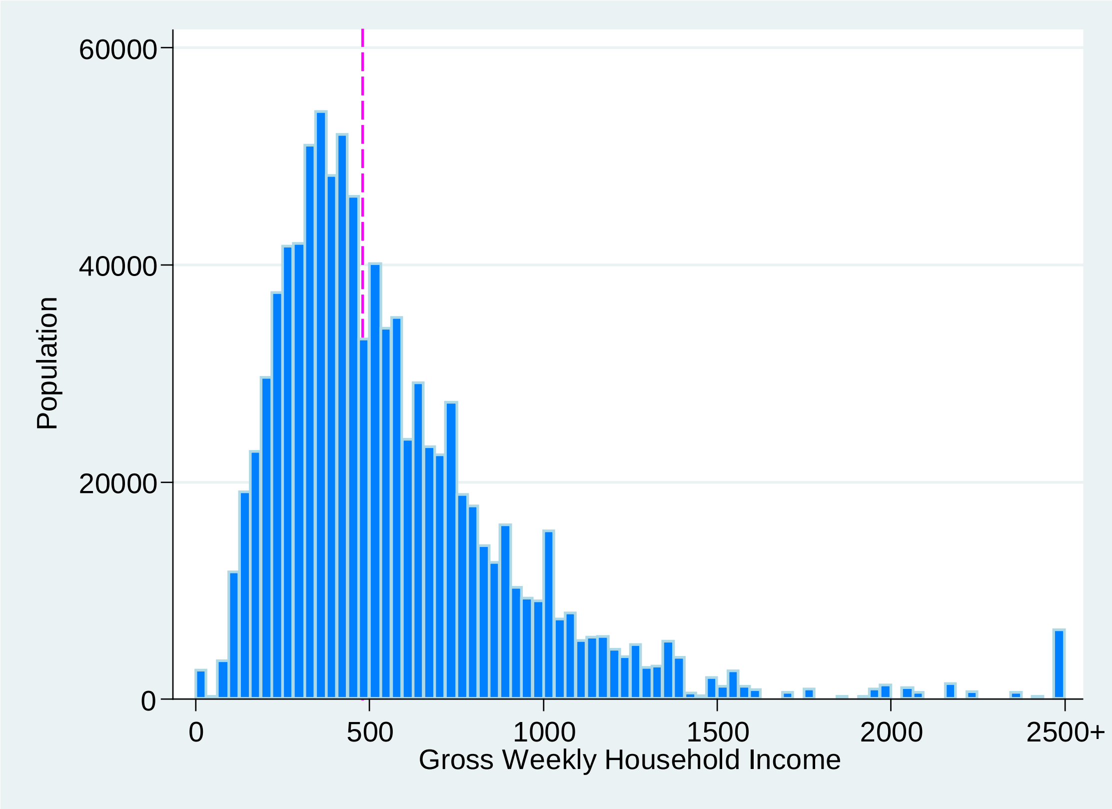
Figure 2.4: Northern Ireland Distribution of Gross Household Weekly Income 2013/14



Source: Households Below Average Income Survey 2002/03-2013/14

Figure 2.5 shows the distribution of equivalised income in 2012/13 and the distribution is more skewed to the left than it was at household level. While median equivalised income was £479, 63% or nearly two thirds of individuals had a weekly gross income below the mean of £590. The top 5% of individuals had a weekly income in excess of £1250, while over 6% of individuals had and weekly gross income of £200 or less.

Figure 2.5: Northern Ireland Gross Equivalised Weekly Income Distribution 2013/14



Source: Households Below Average Income Survey 2002/03-2013/14

Overall Northern Ireland has seen large fluctuation in incomes over the past decade with the 2008/09 recession marking a significant inflection point. There is no indication that the experience of gross and net incomes has changed dramatically over these years and so attention should be focused on the components of gross incomes.

3. COMPOSITION OF INCOME

As mentioned previously, the discussion surrounding living standards has led to a series of misconceptions about income. Chief among these is the tendency for some to equate wages and income. This is quite understandable as for most people, wages or salaries constitute the largest proportion of their income and as such most people are quite acute to changes in it. However there are other components of income that are also important including social transfers, pensions and investment income. Whilst these streams of income may only have a significant effect for a minority of households they do affect the outcome for mean income. Therefore it is worth investigating to what extent changes in the components of income have affected the mean for Northern Ireland. Additionally it is important to ascertain whether changes in these components are driven by actual or compositional effects. In other words are the people receiving this stream of income receiving less or are there less people receiving this stream of income.

Table 3.1: Components of Gross Income in Northern Ireland 2006/07 – 2013/14 (2013/14 prices)

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14
Gross Employment	517	505	537	498	450	431	396	435
Gross Self-employment	69	82	82	79	69	70	84	51
Total Benefit	136	130	140	149	149	138	136	132
Gross Occ Pension	30	35	34	40	41	36	40	41
Gross Investment	21	20	23	27	14	13	12	12
Private	2	5	2	2	2	1	1	2
Misc	9	12	9	13	10	8	13	10
Gross	784	790	829	810	737	699	682	684
Net	618	619	651	647	581	558	547	545

Source: Households Below Average Income Survey 2002/03-2013/14

Table 3.1 outlines the make-up of mean income in Northern Ireland from 2006, showing the effects of recession on different components of income. Mean figures are presented as median figures would exclude many streams of income that do not accrue to those in the middle of the income distribution. For instance median weekly income from self-employment, occupational pensions, investments, private and miscellaneous sources are all zero.

Table 3.2: Components as % of Gross Income in Northern Ireland 2006/07 – 2013/14

	06/07	07/08	08/09	09/10	10/11	11/12	12/13	13/14
Gross Employment	66	64	65	62	61	62	58	64
Gross Self-employment	9	10	10	10	9	10	12	7
Total Benefit	17	16	17	18	20	20	20	19
Gross Occ Pension	4	4	4	5	6	5	6	6
Gross Investment	3	3	3	3	2	2	2	2
Private	0	1	0	0	0	0	0	0
Misc	1	1	1	2	1	1	2	1
Gross	100	100	100	100	100	100	100	100

Source: Households Below Average Income Survey 2002/03-2013/14

Table 3.2 presents the same figures as percentages to show that in addition to changes in monetary value, streams of income now represent larger or smaller shares of mean gross household income. For instance as table 3.1 shows the real terms value of mean benefit income remains almost the same in 2013/14 as it was in 2006/07. However due to the decline in other streams of income in 2013/14, it accounts for 19% of gross income compared to 17% in 2006/07. Employment income has declined both in real terms and as a percentage of gross income, while self-employment has increased on both measures. This will be important when evaluating the impact of income changes on particular groups, but the changes in income streams require further examination.

Table 3.3: Contribution of components in income to change in Gross Income 2006/07 – 2013/14

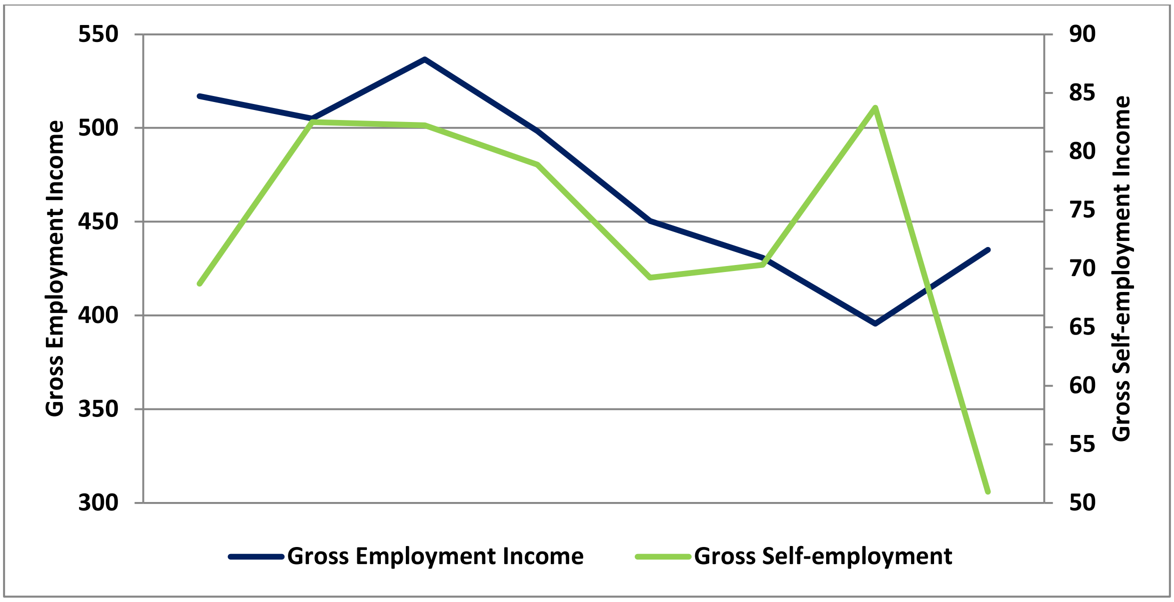
	06/07-07/08	07/08-08/09	08/09-09/10	09/10-10/11	10/11-11/12	11/12-12/13	12/13-13/14
Gross Employment	-1.5	4.0	-4.6	-5.9	-2.7	-5.0	5.8
Gross Self-employment	1.8	0.0	-0.4	-1.2	0.1	1.9	-4.8
Total Benefit	-0.8	1.2	1.2	-0.1	-1.4	-0.4	-0.6
Gross Occ Pension	0.6	-0.1	0.8	0.1	-0.7	0.5	0.3
Gross Investment	0.0	0.3	0.5	-1.7	0.0	-0.2	0.0
Private	0.3	-0.3	0.0	-0.1	-0.1	0.0	0.1
Misc	0.3	-0.3	0.4	-0.3	-0.2	0.6	-0.4
Gross	0.8	4.9	-2.3	-9.1	-5.1	-2.5	0.4

Source: Households Below Average Income Survey 2002/03-2013/14

Table 3.3 shows how each component of income affected the overall, real change in household income in the years up to 2013/14. The bottom line of the table shows the annual real change in gross income and what the key drivers of the change were. Note that the 5% increase in gross employment income in 2013/14 relates to the effect of changes in employment income on the change in total gross income. Real gross employment income increased 10% from 2012/13 to 2013/14 (as table 3.1 confirms), what table 3.3 shows is that that 10% increase in employment income contributed a decrease almost 6% in total gross income. Overall total gross income was pulled down by a 40% decrease in self-employment income. This reverse a trend of recent years.

Labour Income

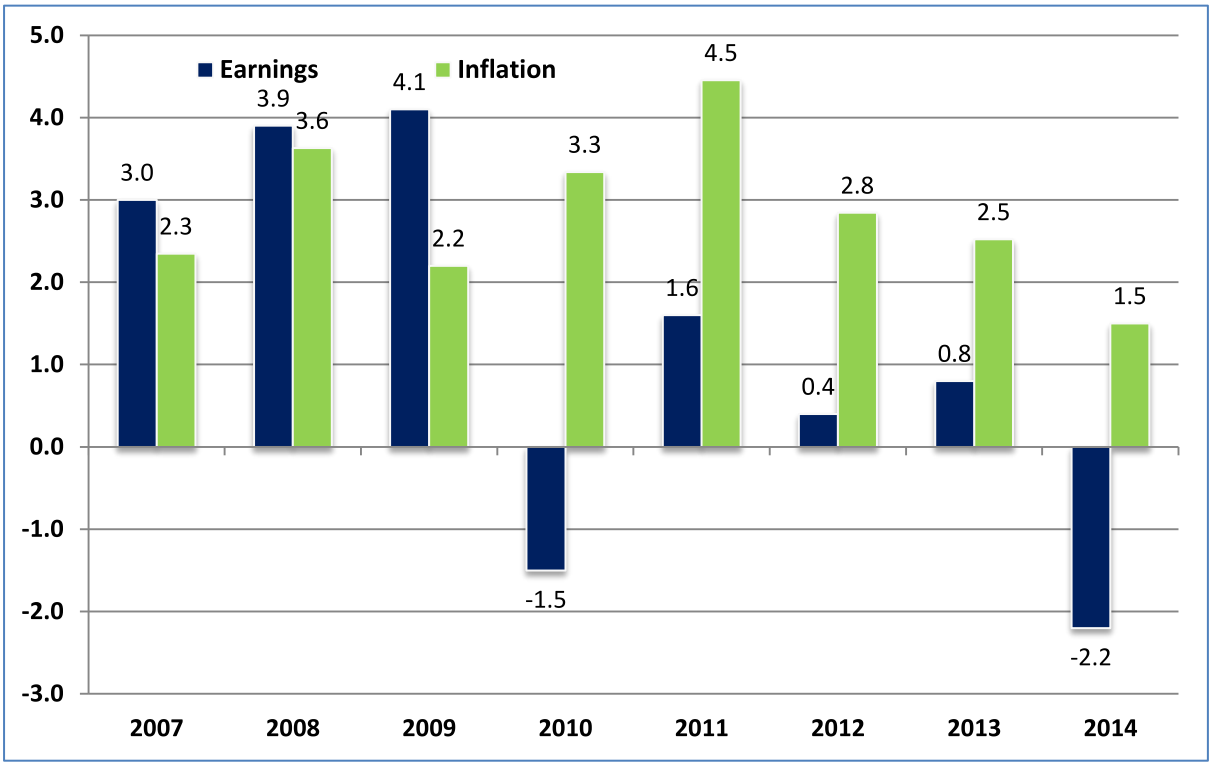
Figure 3.1: Gross Employment and Self Employment Income 2006/07 – 2013/14 (2013/14 prices)



Source: Households Below Average Income Survey 2002/03-2013/14

One of the more interesting features of the composition of income since 2006 has been the diverging experience of income from employment and self-employment. There has been much comment on the performance of real wages during the recession and particularly in the apparent recovery phase that followed. It is often less commented upon that most of the data that is analysed in this debate relates only to employees. In Northern Ireland, the most reliable and up to date data on wages is contained in the Annual Survey of Hours and Earnings. This is an employee survey and when adjusted for inflation shows significant real (and in the last year nominal) terms decreases in wages, as Figure3.2 shows.

Figure 3.2: Annual % Changes in Median Full-time Wages and Consumer Price Index 2007-2014



Source: NISRA (2014) Annual Survey of Hours and Earnings 2007-2014 & ONS (2015) UK Consumer Price Index

The trends for employment income would tend to reflect the trajectory of wages over the last number of years excepting 2013/14. However, part of the decline of employment income, both in real terms and as a percentage of gross income, may be due to compositional effects. Unemployment as measured by the Labour Force Survey in Northern Ireland increased substantially in the years following 2006/07 reaching a peak of over 8% in early 2013. Therefore the figures for 2013/14 may owe more to falling employment rather than falling wages. HBAI data indicates that the number of households receiving income from employment has fallen from 66% in 2006/07 to 63% in 2013/14. A 3% drop in the number of households receiving employment income would only explain a small part of the 16% real terms reduction in mean employment income.

When the sample is confined to those who actually receive income from employment, table 3.4 shows that the largest decreases have taken place at the lower end of the employment income distribution. However as section 4 will show, income from employment makes up a smaller portion of overall gross income for those at the top and a much smaller part of gross income for those at the bottom.

Table 3.4: Gross Weekly Household Income from Employment (2006/07 & 2013/14 (2013/14 prices)

Decile	2006/07	2013/14	% change
1	146	125	-15
2	293	237	-19
3	405	345	-15
4	530	435	-18
5	629	560	-11
6	744	656	-12
7	886	767	-13
8	1050	923	-12
9	1272	1146	-10
10	1760	1523	-13

Source: Source: Households Below Average Income Survey 2002/03-2013/14
Note: Excluding Households who do not receive Employment Income

However as figures from the HBAI suggest, the experience for self-employment income has been quite different. It is important in this case to ascertain first whether increases in mean self-employment income are due to increases in the value of the income or compositional changes in the make-up of those in self-employment. According to HBAI for 2006/07 and 2012/13 the percentage of households who drew income from self-employment was 15% in 2006/07 and 14% in 2013/14. While absolute numbers have increased, the data would not imply that there has been any great shift toward self-employment over the recession years. The Labour Force Survey of Northern Ireland finds a small percentage reduction over the same time period.

The data does not indicate any significant shift toward self-employment or an increase in the proportion of people drawing an income stream from self-employment. The fluctuations in self-employment income therefore must come from an absolute increase. Even then the picture is still mixed. Of those who receive income from self-employment, the median income has fallen while the mean has increased marginally. Looking at percentiles the decrease from 2006/07 is far larger at the lower end of the distribution than at the top.

Table 3.5: Gross Weekly Household Income from Self-Employment 2006/07 & 2013/14 (2013/14 prices)

Decile	2006/07	2013/14	% change
1	50	35	-31
2	126	90	-29
3	198	138	-30
4	290	175	-40
5	348	203	-42
6	378	260	-31
7	442	300	-32
8	558	460	-18
9	748	606	-19
10	1409	1386	-2

Source: Households Below Average Income Survey 2002/03-2013/14
Note: Excluding Households who do not receive Employment Income

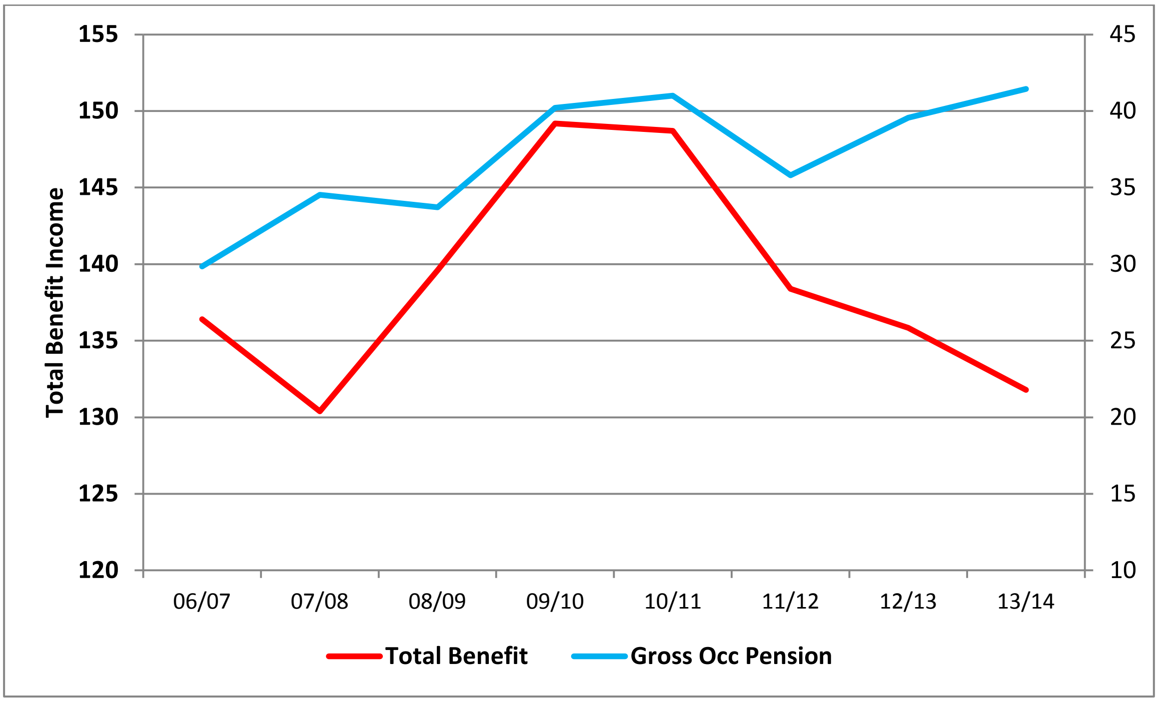
All of this would indicate that while self-employment has contributed positively to gross household income, this income flows to less than 15% of households. Furthermore within that 15%, the experience since 2006/07 has been very unequal.

It is likely that the industrial and skills make-up of those in receipt of both employment and self-employment would give a clearer insight into why income may have increased or decreased. Unfortunately we have limited data on those in employment and no data for those in self-employment in that regard. What can be said from the figures presented here is that self-employment income has been increasing for a small number of households, and that while some houses have lost employment income altogether the vast majority of households are receiving less, in real terms.

Benefit and Pension Income

There are two other components of income that warrant attention, benefit income and occupational pension income. The issue of benefit income has become a significant issue in political discourse whether in the context of the number of recipients or the value of what is received. As table 3.1 showed in 2013/14 mean household benefit income in Northern Ireland increased marginally in real terms from £132 per week in 2006/07 to £136 in 2013/14. In 2006/07 77% of households received some form of benefit income, in 2012/13 that decreased to just over 74%. That indicates that benefit income is the stream of income received by the largest number of households within Northern Ireland. The level of income is obviously widely dispersed as figure 3.4 shows.

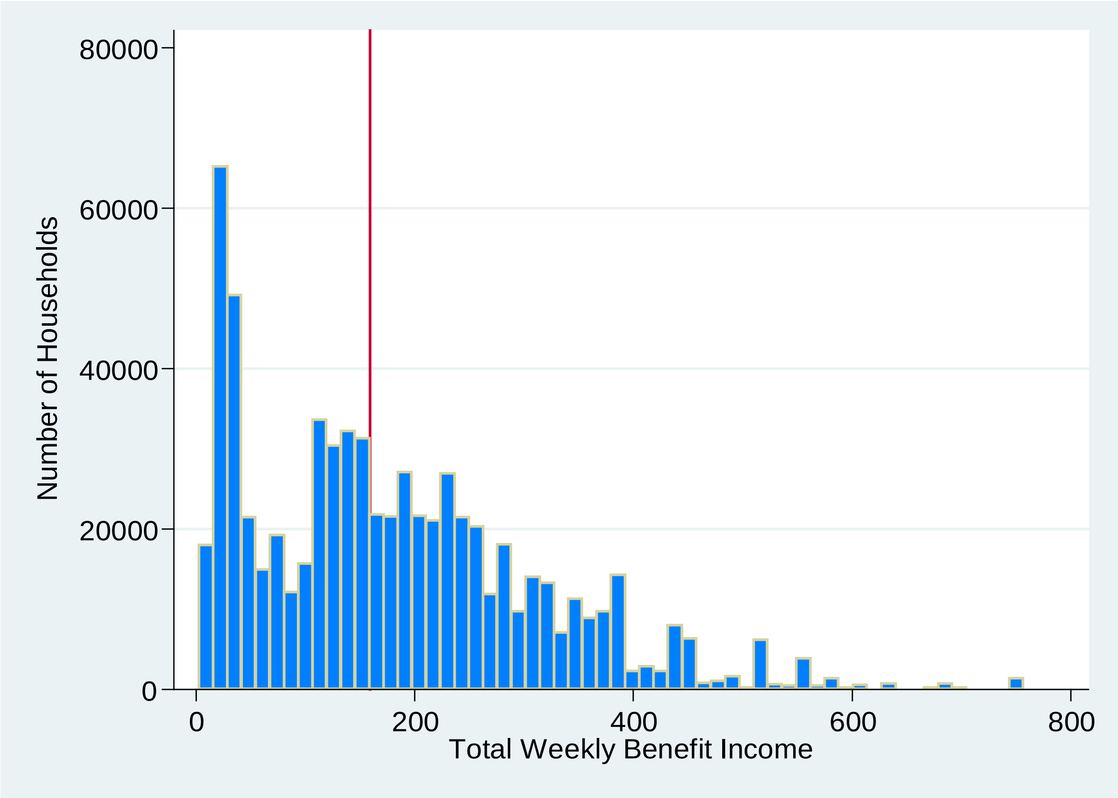
Figure 3.3: Weekly Total Benefit and Gross Occupational Pension Income 2006/07 – 2013/14 (2013/14 prices)



Source: Households Below Average Income Survey 2002/03-2013/14

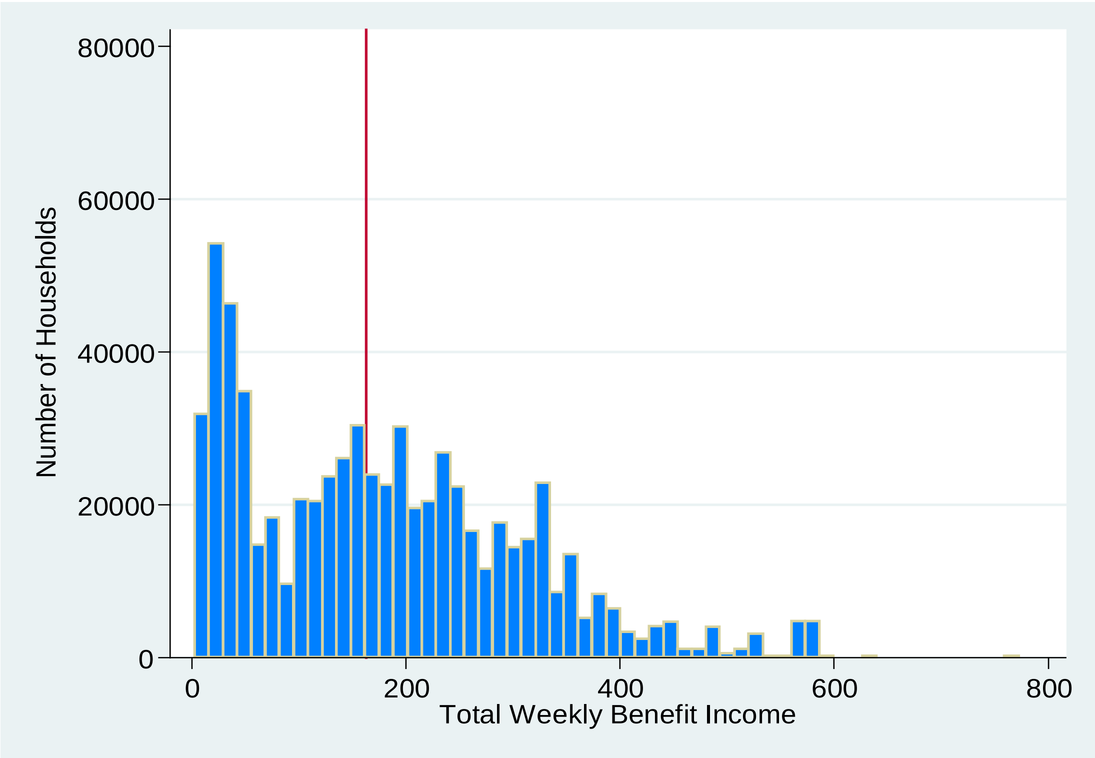
When the sample is restricted to those who actually receive a benefit income of some kind, then the household mean increases to £180. This is a minor increase form 2006/07 when the mean was £179, adjusted for inflation.

Figure 3.4: Distribution of Total Benefit Income 2012/13



Source: Households Below Average Income Survey 2002/03-2013/14
Note: Dash line indicates mean total benefit Income received

Figure 3.5: Distribution of Total Benefit Income (actually received) 2012/13



Source: Households Below Average Income Survey 2002/03-2013/14
Note: Dash line indicates mean total benefit Income received

Occupational pensions may seem too small for discussion in the context of labour income and social transfers, but the trends since 2006/07 are markedly different. In contrast to the previous three income streams both mean and median occupational pension incomes have increased since 2006/07. The 99th percentile value of occupational pension income has fallen somewhat but this too marginal to be in anyway statistically significant. Occupational pension income has seen a substantial real terms increase among those who receive it and has in many years contributed positively to the growth in mean household income. However, as this is a stream of income only available to a subset of the population, it motivates the discussion of whether certain groups have fared better than others due to the components of their gross income. The next section will examine the experience of these groups and examine what implications these differences will have on policy in the future.

4. A GROWING DIVISION?

As mentioned in the introduction to this paper, previous research from the Resolution Foundation (2015) has unearthed two key divides in incomes in the UK over the last number of years, a regional one and a generational one. A regional divide in income is nothing new and is a feature to be expected of most large, developed economy. That divide is getting wider and the growth of London in particular has raised concerns about the development of a two speed economy. A regional divide is clearly of interest to Northern Ireland as a small low income region of the United Kingdom, but this has been well covered in existing research. The generational divide is also of great interest for Northern Ireland, and while previous reports have alluded to a generational divide at UK level, no research to date has measured the extent of the divide in Northern Ireland. In addition to a generational divide it is also worth exploring to what extent growth in components of income has affected income inequality and whether higher income groups have fared better over the recession period.

Generational Divide

Before looking in depth at the data a quick glance at the gross income figures for different age groups shows a clear divergence in their experience since 2006. Gross Incomes declined by 20% whereas they increased by 0.2% for those aged 65 and over. The age cohorts 30-44 and 45-64 saw similar deceases of 13% and 12% respectively. The trend for median income is much the same, with the 65+ age group seeing a small decline and all other age groups seeing a much smaller reduction. Gross income figures hide interesting trends within the components of income and how they have changed over the past 6 years.

Table 4.1: Gross Household Income by Age Cohort 2006/07 & 2013/14 (2013/14 prices)

Age Cohort	Mean			Median		
	2006/07	2012/13	% change	2006/07	2012/13	% change
18-29	936	747	-20.2	821	671	-18.3
30-44	850	741	-12.8	754	654	-13.3
45-64	846	746	-11.8	680	603	-11.3
65+	455	456	0.2	352	344	-2.3

Source: Households Below Average Income Survey 2002/03-2013/14

The theory of a generational divide in incomes stems from two trends, falling labour income for younger generations coupled with relatively protected pension income for older generations. To take labour income first table 4.2 shows the percentage change in mean employment income by the age cohort of the head of the household. On mean income, the 18-29 group look to have taken the biggest hit, but median figures show a much larger decline for the 65+ group. This shows that the overall decline in 65+ employment income has been significant, the distributional impact of this has been highly skewed in contrast to the 18-29 group where declines in mean and median are almost identical.

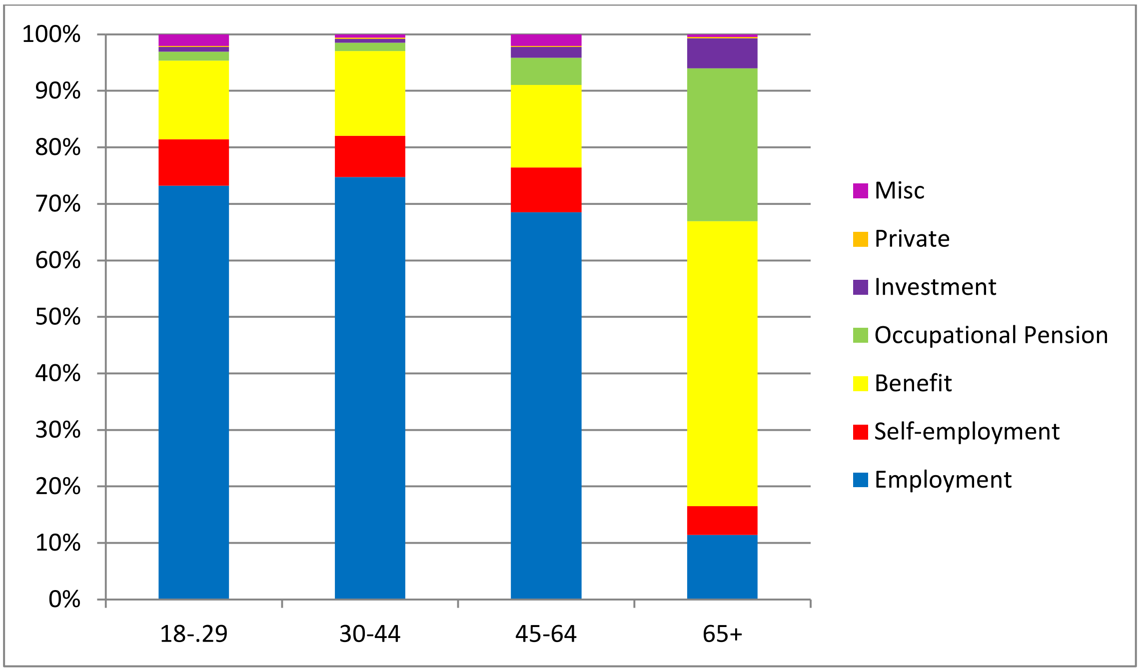
Table 4.2: Gross Employment Income by Age Cohort 2006/07 & 2013/14 (2013/14 prices)

Age Cohort	Mean			Median		
	2006/07	2013/14	% change	2006/07	2013/14	% change
18-29	867	697	-19.6	780	617	-20.9
30-44	779	699	-10.3	675	634	-6.1
45-64	807	735	-8.9	700	588	-16.0
65+	482	425	-11.8	438	265	-39.5

Source: Households Below Average Income Survey 2002/03-2013/14

The 18-29 group has been most impacted by falls in employment income, especially given the relative importance of this component of income. Employment income is a far less important component of income for the over 65 group than it is for the 18-29 group as Figure 4.1 shows.

Figure 4.1: Components of Gross Income by Age cohort 2013/14



Source: Households Below Average Income Survey 2002/03-2013/14

The experience of self-employment income has been quite variable, reflecting the experience of self-employment more generally. Mean incomes increase for both the upper and lower age cohorts, while median incomes declined significantly. On this occasion the increase in self-employment income is highly skewed for both the 18-29 and the 65+, whilst it has been more uniformly distributed amongst the two middle age cohorts.

Table 4.3: Gross Self Employment Income by Age Cohort 2006/07 & 2013/14 (2013/14 prices)

Age Cohort	Mean			Median		
	2006/07	2013/14	% change	2006/07	2013/14	% change
18-29	399	431	8.0	348	300	-13.8
30-44	469	311	-33.7	379	230	-39.3
45-64	578	388	-32.9	379	249	-34.3
65+	374	407	8.8	252	180	-28.6

Source: Households Below Average Income Survey 2002/03-2013/14

Benefit income is a much larger component of over 65 incomes and that is unsurprising due to the state pension and other universal benefits that people of pension age receive. In real terms mean total benefit income for households in 2012/13 is roughly at the same level it was in 2006/07. That has obviously benefited mean gross incomes for the over 65s much more than that of younger cohorts as figure 4.1 shows. Additionally, as table 4.4 shows, benefit income has increased in real terms for over 65s. There was a small increase for the youngest age cohort along with significant reductions for middle age cohorts.

Table 4.4: Total Benefit Income by Age Cohort 2006/07 & 2013/14 (2013/14 prices)

Age Cohort	Mean			Median		
	2006/07	2013/14	% change	2006/07	2013/14	% change
18-29	156	170	9.0	127	139	9.4
30-44	161	154	-4.3	128	112	-12.5
45-64	160	163	1.9	138	138	0.0
65+	235	229	-2.6	223	222	-0.4

Source: Households Below Average Income Survey 2002/03-2013/14

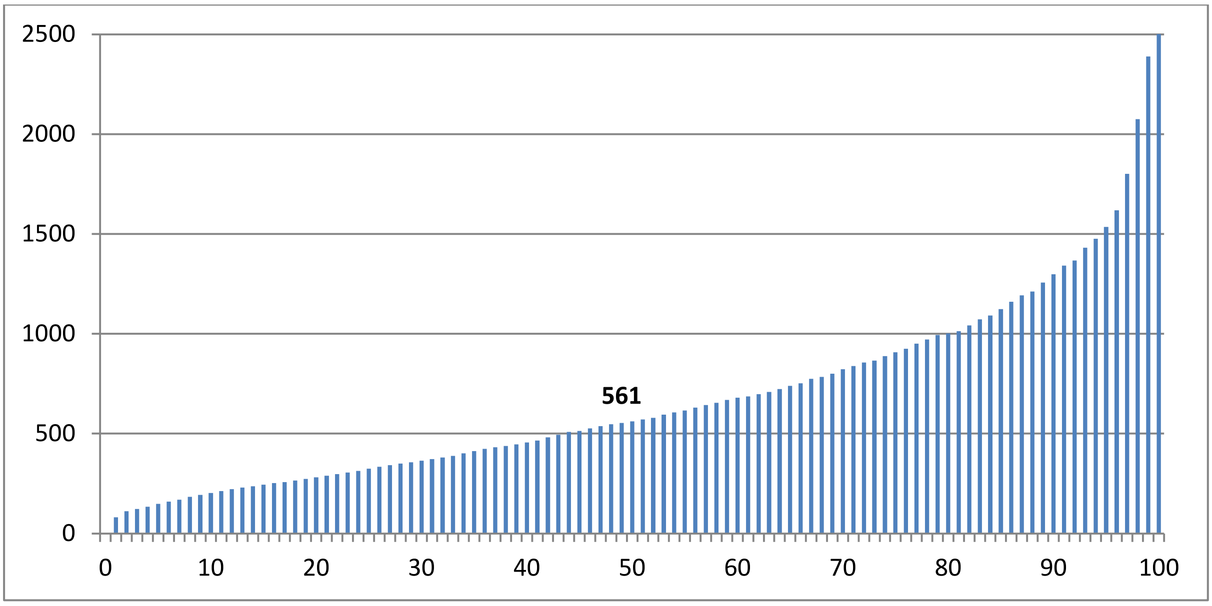
Occupational pension income forms a far larger component of the over 65 income. Mean household income from occupational pensions has increased by over a third in real terms from 2006/07 to 2012/13. While a significantly smaller component of mean income than benefit income, occupational pensions do provide a large portion of household incomes for the over 65s and have cushioned incomes throughout the last 6 years.

For younger households, no other component of income has emerged to soften the blow from the collapse in income from employment. Younger households and the 18-29 age groups rely on employment income most and therefore have been among the worst affected by the impact of the recession on wages and salaries. Mean Total benefit income for younger households did increase somewhat, as it did for pension age households, but it was not a large enough to compensate for falling employment income.

Income inequality

There is also a concern that the evolution of household income since the recession has tended to favour those households in the upper portion of the income distribution. The Gini coefficient is a standard measure of income inequality and in 2013/14 the UK had a score of 34. Using the HBAI survey data for 2013/14, Northern Ireland produces a score of 30. That Northern Ireland, on the face of it, has a more equal distribution of income than the UK as a whole is not all that surprising, especially considering the scale of incomes in London and the South East compared to the country as a whole. What is perhaps more surprising is that the Gini coefficient for Northern Ireland has only increased slightly since 2006/07 when it was 29. In fact since 2002/03 the Gini coefficient for NI has remained within the 28-31 range showing little overall change, and remaining consistently below that of the UK as a whole. The Gini coefficient for gross equivalised income shows little change also, a small increase between 2006/07 and 2012/13.

Figure 4.2: Gross Household Income 2013/14 by Percentile



Source: Households Below Average Income Survey 2002/03-2013/14

Quintile ratios are another often used measure of income inequality and on this measure Northern Ireland once again shows a small decrease in inequality with the quintile ratio decreasing from 3.9 in 2006/07 to 3.6 in 2013/14. The figure for the United Kingdom in 2013/14 was 3.8.

Looking again at the distribution of income in Northern Ireland and broadening the investigation to percentiles at the top, bottom and middle of the income stream show some interesting results. The data confirm a greater drop in real incomes at the top than at the bottom of the income distribution for net equivalised income, as earlier figures confirmed. However they also point to a less drastic decrease for those in the 60^{oth} percentile of the income distribution. In real terms net income for this group only fell 7.6%, closer to the experience of those in the 10th percentile.

Table 4.4: Equivalised Median Net Household Income 2006/07 - 2013/14 by selected percentile (2013/14 prices)

Percentile	2006/07	2013/14	% change
10	252	232	-7.9
40	468	419	-10.5
60	607	561	-7.6
90	1096	1025	-6.5

Source: Households Below Average Income Survey 2002/03-2013/14

Data for Gross incomes tell a slightly different story, in that the fall in income for those in the 40th percentile fell by more than those in the 10th percentile but by substantially more than those in the 60th and 90th percentile.

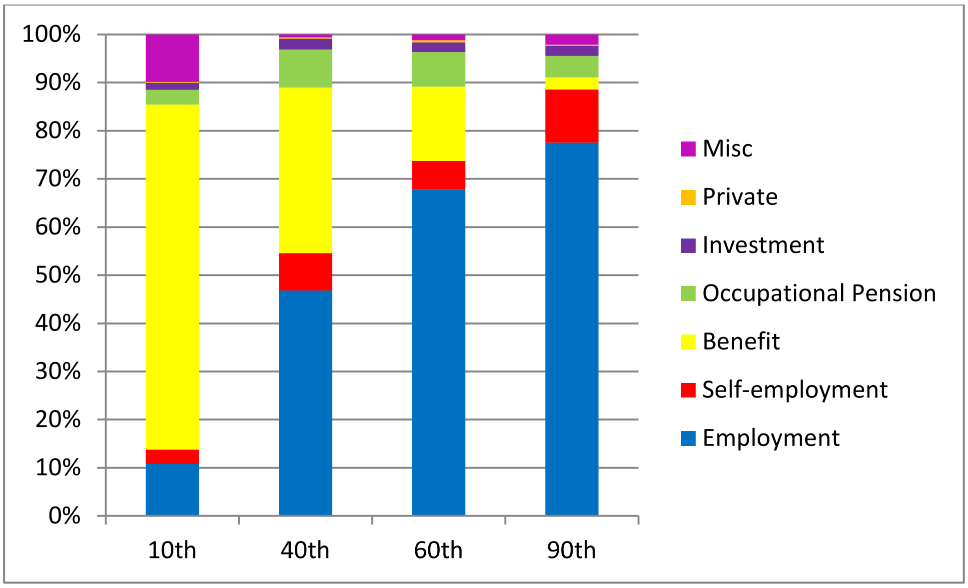
Table 4.5: Equivalised Median Gross Household Income 2006/07 - 2013/14 by selected percentile (2013/14 prices)

Decile	2006/07	2012/13	% change
1	204	183	-10.3
4	502	445	-11.4
6	654	608	-7.0
10	1335	1252	-6.2

Source: Households Below Average Income Survey 2002/03-2013/14

Data from the HBAI show little evidence of increasing inequality of income in Northern Ireland. It does however point to some interesting trends at the centre of the income distribution. Components of income can only be examined at the household level, however households in the 60th percentile are more reliant on income from employment and less reliant on income from benefits as figure 4.2 shows. A larger portion of employment income should have led to a greater reduction in overall gross income as shown earlier in table 3.4. However those in the 60th percentile of gross income are more likely to be around the 50th or even 40th percentile of employment income, which saw some of the smallest losses over the period. While overall levels of income inequality may have slightly improved subtle movements may have taken place among those in the middle of the income distribution.

Figure 4.3: Gross Household Income 2013/14 by Percentile



Source: Households Below Average Income Survey 2002/03-2013/14

CONCLUSION

The evidence from the Households Below Average Income Survey paints a bleak picture of income in Northern Ireland. In addition to being one of the lowest household income regions of any UK region, Northern Ireland also experienced some of the largest falls in income. Income from employment has decreased significantly while self-employment and pensions have increased. Benefit income has held steady in value terms. While some of the change has been compositional, this can only explain some of the change. Increases in self-employment have favoured higher income groups, and benefit and occupational pension income have shielded pension age income. This points to the emergence of a generational divide among households and the propensity for increasing income inequality should certian benefit income changes occur.

What does all of this mean and what does it entail for policy and policymakers? In the first instance the collapse of income from employment should be the main focus. It is the driving force behind declining incomes across the board and the key driver in emerging inequalities. The collapse in employment income has been most pronounced at lower income levels and so a focus on low pay as outlined in Mac Flynn (2014) in necessary. Secondly, there is very little known about the scope and nature of self-employment within Northern Ireland and the data presented here shows that the experiences for those on higher levels of self-employment income differ greatly from those at lower levels. Whilst the increase in self-employment in the United Kingdom has been celebrated from an overall employment perspective, in Northern Ireland the benefits to household incomes would be limited and skewed,

Implementation of welfare reform has been a very contentious policy issue for the Northern Ireland Executive and the figures presented here may help to explain why. The UK Welfare

Reform programme in its entirety focuses solely on working-age benefit income. To target benefit income reductions at lower age-groups who have lost the most from falling employment income would almost certainly exacerbate the emerging divide in generational income. An increasing proportion of Welfare payments are made to people who are in work such as tax credits. The UK government have signalled that they intend making significant reductions in this area. Without any significant upward pressure on income from employment, such policies would likely increase pressure on gross incomes.

In conclusion the full picture of incomes in Northern Ireland reveals a collapse in employment income affecting those at the middle and lower end of the distribution. If there is no significant uplift in wages in the medium term, income inequality and emerging generational divisions may be entrenched. Policies aimed at limiting working –age benefits may deepen these also deepen these divisions.

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