Irish Government Economic & Evaluation Service

An Roinn Caiteachais Phoiblí agus Athchóirithe
Department of Public Expenditure and Reform

Social Impact Assessment 2018

Assessment of Living Standards during Recovery Period- SILC Overview

July, 2018

Chris Boyle & Críona Brassil
DEASP Vote & IGEES Section
Department of Public Expenditure and Reform

Summary

Ireland has emerged from an economic downturn which saw incomes decline by 12.6% between 2008 and 2011 and this was accompanied by an increase in poverty rates. The CSO's SILC Survey shows that there has been a marked improvement in incomes over the period 2012 to 2015 with further income increases in 2016 with income levels returning to peak 2008 levels.

This briefing note summarises changes in living standards over the recovery period 2012 to 2016, how it differs between different groups, and the implications for inequality and poverty.

The latest data indicates:

- Median household income grew by 13% between 2012 and 2016 resulting in a return to 2008 levels.
- Over the period 2012 to 2016 income growth has been proportionately larger in the lower income deciles.
- The most significant contributor to weekly income growth has been direct income reflecting labour market improvements over the period 2012 to 2016.
- Income inequality has fallen over the past five years as evidenced by both reductions in the Gini coefficient and the quintile share ratio
- Overall social transfers play a very significant role in reducing the *At Risk of Poverty rate*
- While median income levels are improving across all deciles, improvements have not been uniform and there continues to be issues of poverty within certain cohorts.
- While the national income levels continue to improve, the trend differs across different areas of the country. There was convergence in income levels across the regions during the economic downturn and this accelerated during the initial stages of the economic recovery (2013-2015). However the gap between the regions began to widen again in 2016.

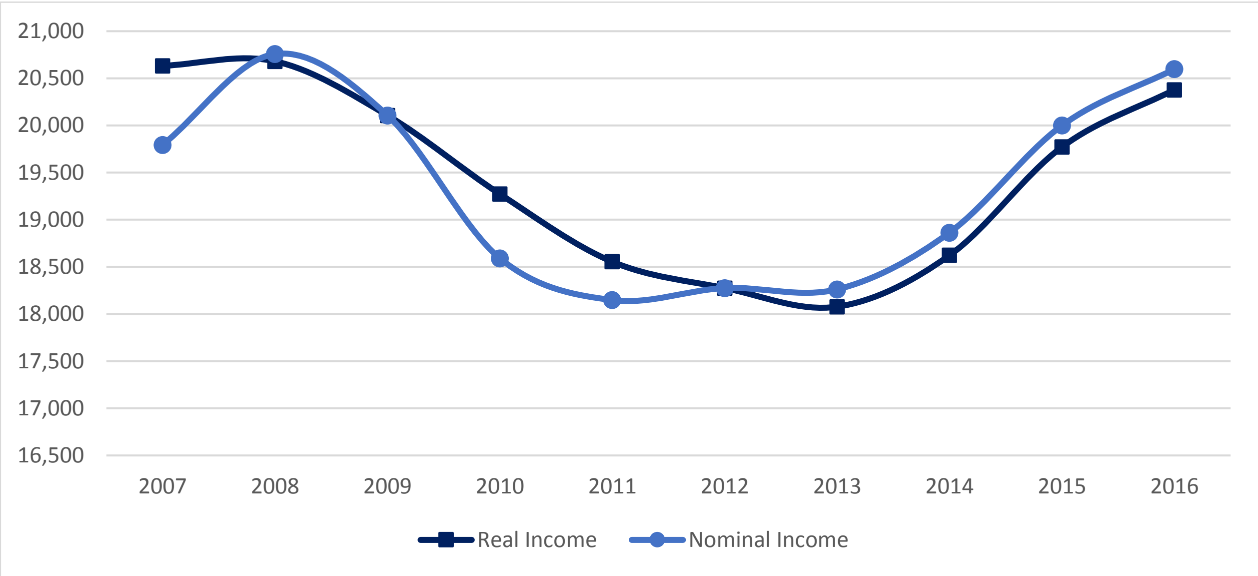
Overall the short term outlook for living standards is positive with forecasts pointing to continued employment and earnings growth. However developments in employment creation and earnings growth may not be evenly spread across the income distribution.

Introduction

This paper forms part of the Social Impact Assessment (SIA) Series which aims to apply an evidence based methodology to assess the impact of policy on households' financial position. The Programme for Government commits to 'develop the process of budget and policy proofing as a means of advancing equality, reducing poverty and strengthening economic and social rights.' The Social Impact Assessment (SIA) Framework is a first step in this process. This paper examines SILC data between 2012 and 2016, the most recently available year in order to determine whether there has been an increase in living standards and incomes following the economic downturn.

Median household income grew by 13% between 2012 and 2016 resulting in a return to 2008 levels.

Figure 1 - Changes in real and nominal median equivalised income.



Source: *CSO: Table 1E & 1F*

Average income levels peaked in 2008 before declining steeply over the next three years resulting in a 13% reduction by 2011. Between 2012 and 2016, there was significant growth in real and nominal incomes bringing income to similar levels seen in 2008. Over this period income increased cumulatively by 13%, with low inflation during the period contributing to the lack of divergence between real and nominal incomes. Improvement in income levels has been as a result of a number of developments including an expanding economy and strengthening labour market as well as recent changes to tax measures which has contributed to a rise in take-home pay. This trend is expected to be evident in 2017.

- The main metric used to measure developments in average income levels is median equivalised disposable income[1] per person.
- Income levels are now comparable with those seen at peak levels in 2008 prior to the economic recession.
- During the initial stages of the recovery, 2012 to 2014, median income levels increased by approx. 1.5% per annum. Annual growth then accelerated to an average of 3.2% in 2015 and 2016.
- There has been no divergence in the growth observed in real and nominal income between 2012 and 2016 due to a low inflationary environment (approx. 1%).

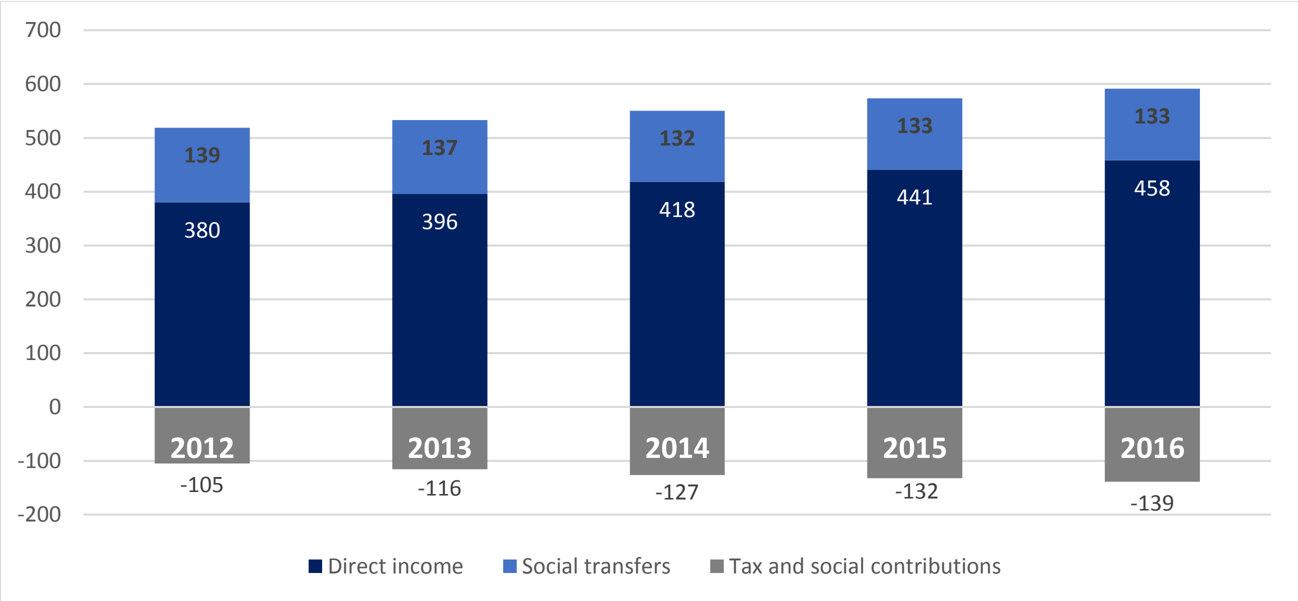
The most significant contributor to weekly income growth has been direct income reflecting labour market improvements over the period 2012 to 2016.

There are three broad elements of income: direct income, social transfers and tax and social contributions. The equations below set out the relationships between the different elements.

$$Direct\ income + social\ transfers = Gross\ Income$$

$$Gross\ Income - tax\ \&\ social\ contributions = Net\ disposable\ income$$

Figure 2: Decomposition of weekly income, 2012-2016



Source: CSO SILC data

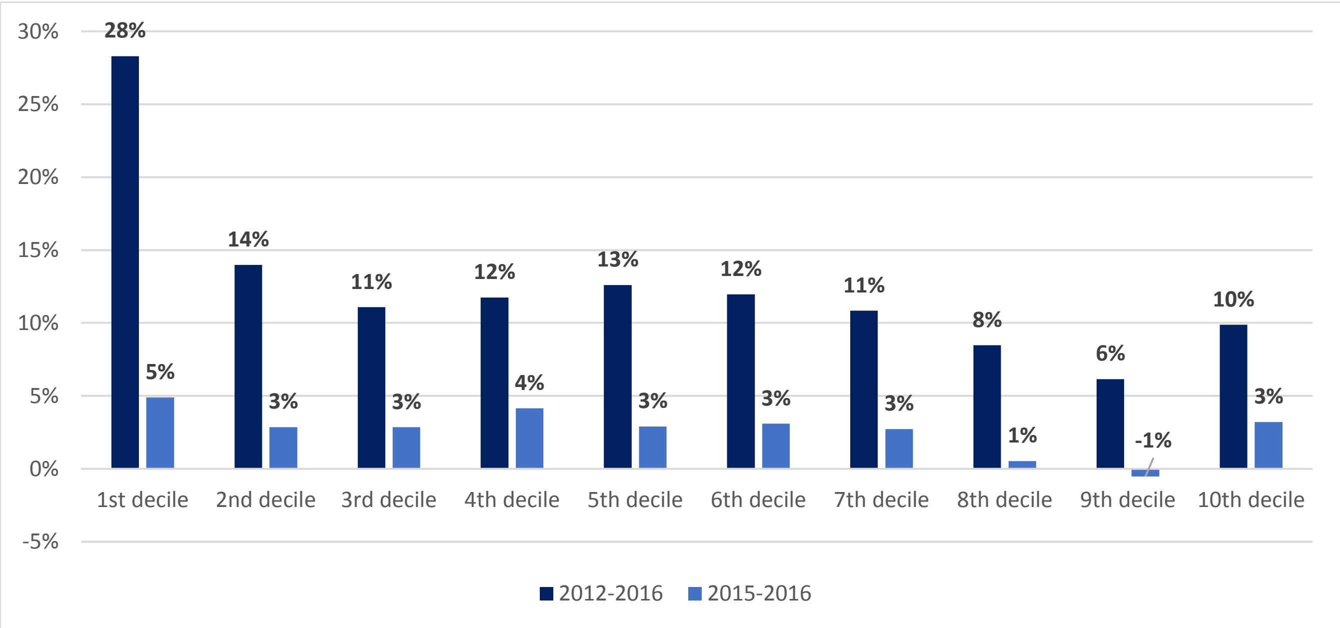
[1] The equivalised disposable income is the total income of a household, after tax and other deductions, that is available for spending or saving, divided by the number of household members converted into equalised adults; household members are equalised or made equivalent by weighting each according to their age, using the modified OECD equivalence scale.

- Over the period 2012 to 2016 direct income, as compensation for work/employment, increased by 20%. As previously discussed this reflects both increases in employment levels in the economy and increased earnings.
- Social transfers fell by 4% but still represented 22.5% of gross income in 2016 emphasising their continued important role in supporting incomes. Taking a closer look at the different types of social transfers, the decrease can be attributed to a reduction in unemployment-related benefits. This was partially offset by an increase in old-age related payments and family/children related benefits.
- In line with increased employment, tax and social contributions have increased.

This decomposition is at an aggregate level for the income distribution as a whole; therefore it does not reflect the different development for various cohorts of the population. There is considerable variation across different income deciles. Direct income growth was highest in the middle income deciles while growth in social transfers was concentrated on the bottom three deciles.

Over the period 2012 to 2016 income growth has been proportionately larger in the lower income deciles.

Figure 3: Income growth by deciles, 2012-2016 and 2015-2016



Source: CSO SILC data

The first and second income deciles saw the largest increase in income over the period 2012 to 2016 of 28% and 14% respectively. Middle income deciles (3rd to 7th) averaged 12% growth. Income growth was lower at the top of the income distribution. This pattern continued in 2016.

Overall the ratio of income received by the 20% of the population at the top end of income distribution compared to the 20% at the bottom (quintile share ratio[2]) fell from 5.1 in 2012 to 4.7 in 2016. This reflects a small convergence in income levels and is now at a similar levels to that seen in 2007.

Decomposing the reasons behind this pattern of income growth requires detailed analysis of the underlying data. At a high level there have been a number of developments over this period which are likely to have played a role in improving income levels across the distribution:

- Strong employment growth and significant declines in unemployment;
- Earnings growth;
- Changes to tax rates and bands; and
- Recent increases in social welfare rates above the rate of inflation.

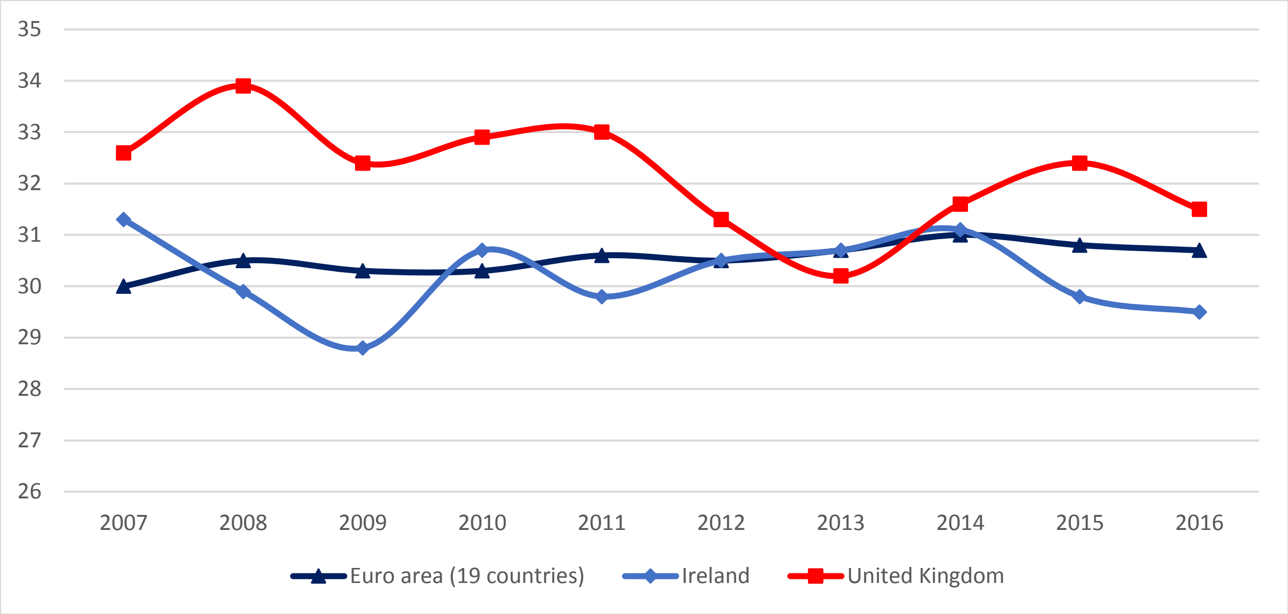
Income inequality (as measured by the Gini coefficient) is now at its lowest point since 2009.

The Gini coefficient is a measure of the degree of equality of income with 0 representing perfect equality and 100 representing total inequality. Countries with a more progressive system of tax and social contributions tend to perform better on the Gini coefficient scale due to greater levels of income redistribution. Ireland, with a progressive income and PRSI tax system, has tended to perform close to the Euro area average during the period examined with improvements since 2014.

- Income inequality is now the lowest that it has been since 2009.
- According to Eurostat, Ireland's Gini coefficient stood at 29.5 in 2016.
- In comparison to the rest of the Euro area and the UK, Ireland's Gini coefficient stands 2 points lower than the UK and 1.2 points below the Euro area average.

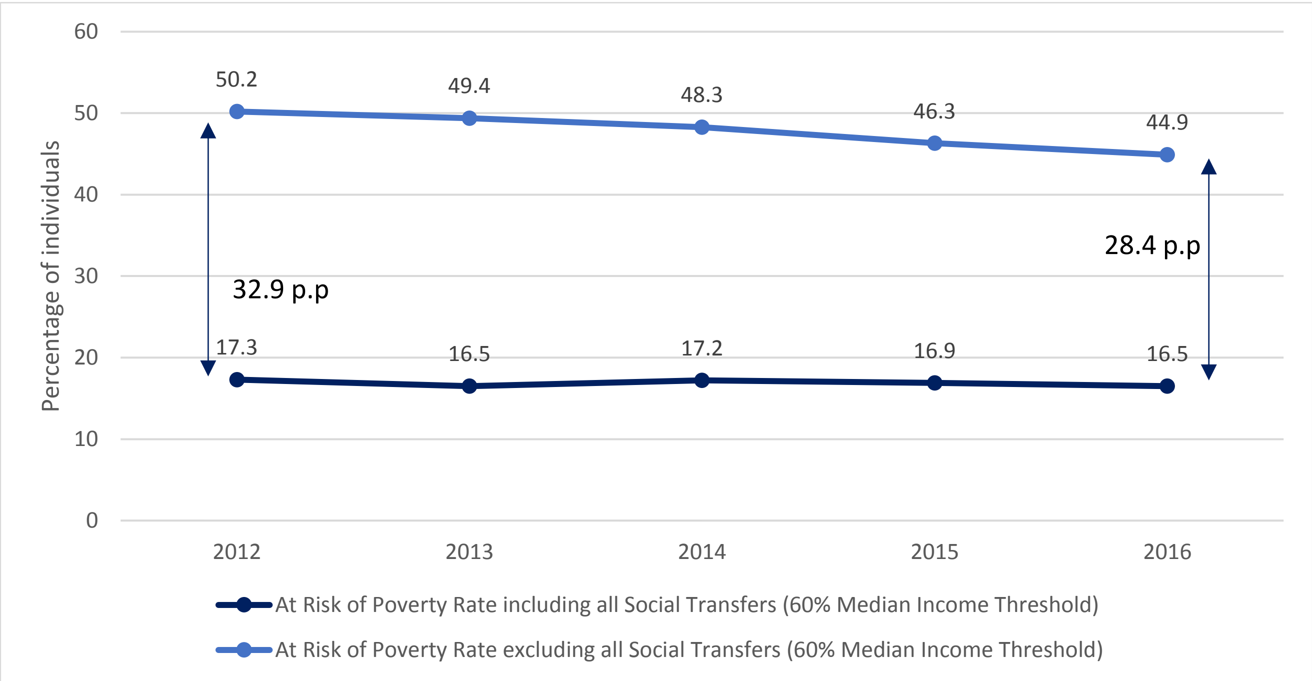
[2] The income quintile share ratio or the S80/S20 ratio is a measure of the inequality of income distribution. It is calculated as the ratio of total income received by the 20 % of the population with the highest income (the top quintile) to that received by the 20 % of the population with the lowest income (the bottom quintile).

Figure 4 - Comparison of the Gini Coefficient; Ireland, UK, & Euro area



Source: *Eurostat Data: ilc_di12*

Overall social transfers play a very significant role in reducing the *At Risk of Poverty rate*; the recovery period has seen a larger reduction in the pre transfer poverty rate (approx. 5 percentage points) compared to post transfer rate (approx. 0.8 percentage point increase). This points to the robust employment growth during the economic recovery.



Source: CSO SILC data

The ‘At Risk of Poverty’ rate measures the percentage of the population whose income is less than 60% of the nominal median income in a given year (€20,597 in 2016). This metric is dynamic in the sense that the threshold changes in line with movements in the income distribution.

The chart above illustrates a number of important dynamics in the context of living standards in Ireland:

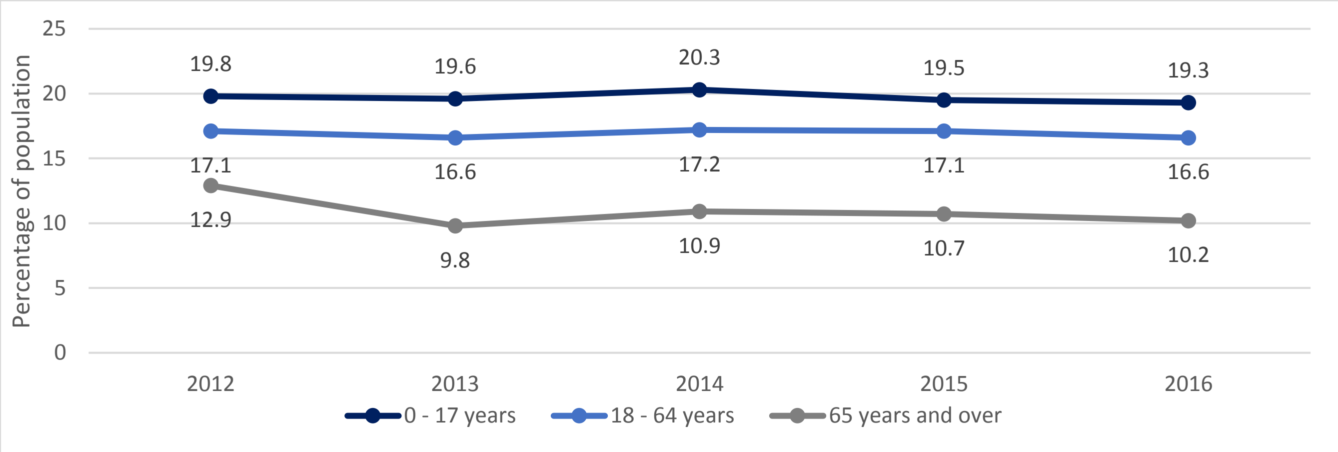
- The social transfer system (tax and social welfare) plays a very significant role in terms of reducing ‘At Risk of Poverty’; in 2016 it reduced the risk by 28.4 percentage points (p.p).
- During the recovery period the role of social transfers has fallen as depicted by the narrowing gap between the ‘At Risk of Poverty Rate’ including and excluding social transfers. The gap decreased from 32.9 percentage points in 2012 to 28.4 percentage points in 2016. This was driven by a 5 p.p reduction in pre transfer At Risk of Poverty compared to a 1 p.p reduction in the post transfer rate. This reflects the recovery in the labour market with people returning to employment and increasing earnings.

While median income levels are improving across all deciles, improvements have not been uniform and there continues to be issues of poverty within certain cohorts.

While the overall at risk of poverty rate has declined since 2014 there is variation within different cohorts:

- Older persons have a lower risk of poverty with children reporting the highest level of risk.
- Recent years (2014-2016) have seen improvements for all cohorts.

Figure 5: At risk of poverty rate by age cohort, 2012-2016

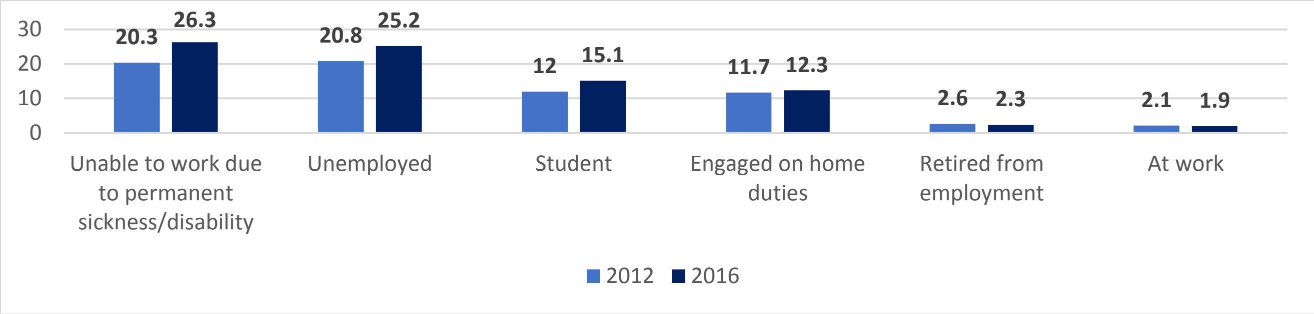


Source: CSO SILC data

Despite income growth, reduced inequality and falling total poverty levels the position of some vulnerable groups has failed to improve. Unemployed individuals and those not at work due illness or disability are more likely than other social groups to report higher levels of consistent poverty. Consistent poverty is a composite metric[3] which describes someone whose income is below the relative 'at risk of poverty' threshold and who cannot afford at least two of the eleven deprivation indicators. For those not at work due to unemployment or sickness/disability, the situation has deteriorated over the period 2012 to 2016. Further analysis is required to identify the relative sizes of these cohorts and how they have changed over time. It is likely the size of the At Work and Retired cohorts have increased while the Unemployed cohort has decreased.

[3] A combination of the '*at risk of poverty'* rate and deprivation rate.

Figure 6: Consistent poverty rates by economic status, 2012 and 2016 (Source: CSO SILC data)



Regional Messages

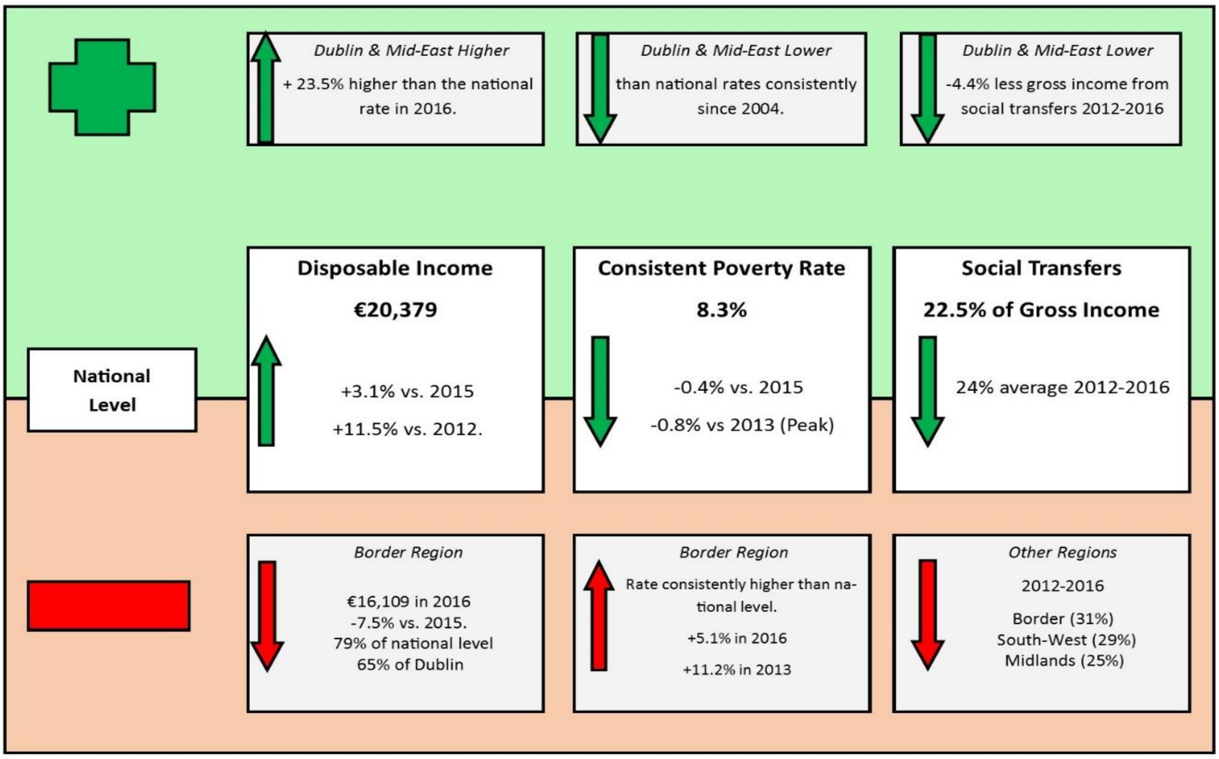
While the national income levels continue to improve, the trend differs across different areas of the country. There was convergence in income levels across the regions during the economic downturn and this accelerated during the initial stages of the economic recovery (2013-2015). However the gap between the regions began to widen again in 2016.

- The CSO provided data corresponding to NUTS III[4] regions which facilitated a regional analysis of the SILC data.
- Over the period 2006-2016 Dublin consistently reported the highest income levels in the country at an average of 124% of national income levels.
- The gap between the regions peaked in 2008 with Dublin levels of income 28% above the national average while income in the Midlands was 77% of the average. This gap narrowed over the course of the economic downturn and this trend accelerated in 2014 and 2015. This gap increased in 2016 due to gains in Dublin considerably above the national average with the Border region and the West fairing considerably worse than the national average.
- Despite national level indicators showing improvement in income and poverty, there is a disparity in the degree of improvement among regions. Dublin and the Mid-East consistently performed better than the national average while other regions performed below the national average. [5]
- Disposable Income in Dublin and the Mid-East is 23.5% higher than the national average while the Border region is 21% lower.
- The Consistent Poverty rate for Dublin & the Mid-East was consistently below the national average in the period 2004-2016 while the Border, Midlands and South-East regions were consistently higher.

[4] See Appendix
[5] See Figure 3.

- Reliance on social transfers is consistently lower in Dublin and Mid-East regions, averaging 20% between 2012 and 2016, while averaging 31% in the same period in the Border region.
- The Consistent poverty rate varied from 5.6% in the Mid-East region to 13.4% in the Border region in 2016.

Figure 7 - Comparison of key deprivation statistics nationally and regionally



Source: Author's analysis of CSO Data

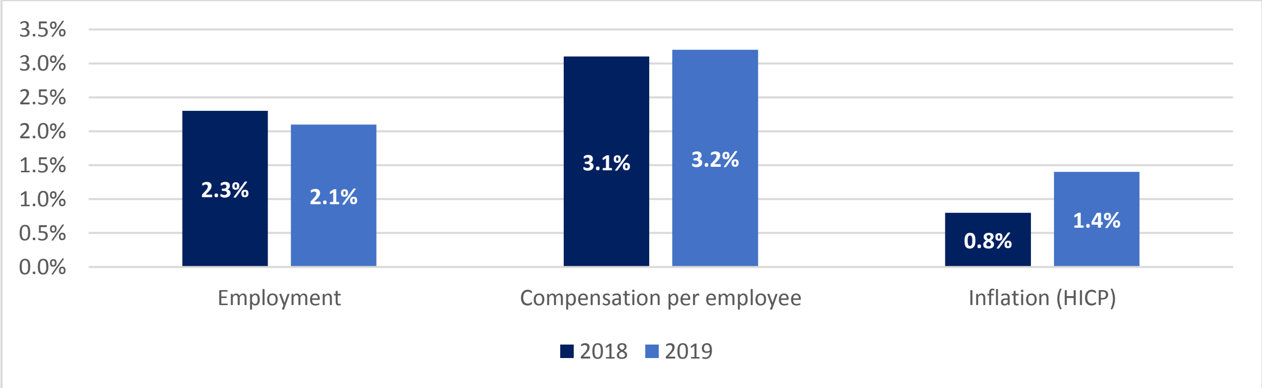
The short term outlook for living standards is positive with forecasts pointing to continued employment and earnings growth. However developments in employment creation and earnings growth may not be evenly spread across the income distribution.

2017 saw a strong performance across a range of different economic metrics.

- 2017 saw an increase in employment of 66,800 or 3%. The fastest growing sectors in 2017 were Admin & Support Services (13%), Construction (9%), and Accommodation and Food Services (8%).
- As mentioned above average weekly earnings grew by 2.5% in 2017. The largest increase in both nominal and percentage terms was in the high earning Information and Communication sector. The low earnings sector of Accommodation and Food Services also experienced significant growth of 4.4%. The mid earning sectors of Admin & Support Services and Construction experienced average levels of earnings growth.
- Strong employment growth is an important component of income growth (as set out above). However developments in the income distribution will also depend on the type of jobs created, the number of hours worked and their associated earnings level. Further analysis of the interaction of employment creation and earnings developments is required.

The Department of Finance's latest macroeconomic forecasts point to continued strong economic developments underpinned by robust employment and earnings growth in 2018 and 2019. Employment growth is forecast to continue albeit it at a lower rate than observed in 2017. Growth in earnings and inflation are estimated to be higher in 2018 and 2019 than seen in recent years. The two most recent budgets have seen successive increases in all weekly social welfare rates. Based on these forecasts, there is likely to be significant real growth in incomes in the short term.

Figure 8: Employment, earnings and inflation growth forecasts, 2018 and 2019



Source: Department of Finance Fiscal Outlook, Budget 2018

Overall living standards are expected to continue to improve but the implications for different income deciles will require monitoring going forward.

Appendix – Regions of Ireland

Ireland organises statistical data for regions along NUTS III classification which is based on population sizes. NUTS III regions are regulated and agreed by Eurostat in conjunction with each member-state. Ireland's regions correspond as follows.

Map No.	Region Name	Local Government areas included
1	Border Region	Cavan, Donegal, Leitrim, Louth, Monaghan, Sligo
2	West Region	Mayo, Roscommon, Galway and Galway City
3	Midland Region	Laois, Longford, Offaly, Westmeath
4	Mid-East Region	Kildare, Meath, Wicklow
5	Dublin Region	Dún Laoghaire–Rathdown, Fingal, South Dublin and Dublin City
6	South-East Region	Carlow, Kilkenny, South Tipperary, Wexford, Waterford City & County
7	South-West Region	Kerry, Cork and Cork City
8	Mid-West Region	Clare, North Tipperary, Limerick City & County