ARTICLE

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Impact of the recession on households

SUMMARY

This article examines the impact of the recent recession on households in the UK. The first half of the article uses the Labour Force Survey to assess the effect of the downturn on labour market participation, specifically the proportions of working, workless and mixed households below state pension age. Comparisons between different groups of the population are also drawn, including by: household type, housing tenure, region, age, number of dependent children and age of the youngest dependent child. The second part of the article focuses on changes to the level of household income using the Living Costs and Food Survey. Analysis is presented at different stages of income (original income, gross income, disposable income and post-tax income), and also by household characteristics including: economic position (working, workless or mixed), region, age and composition.

Introduction

The impact of the recent recession in 2008/09 has been different for many groups of the population and ONS has presented several articles looking at the effect of the recession on people. This article aims to show the impact of the recession on households, where there will be people working, out of work and a mixture of both.

The first half of the article uses the Labour Force Survey (LFS) to look at the economic activity of households by various characteristics such as the type of household, housing tenure, region of the household, the number of dependent children and the age of the youngest child in the household.

Changes in labour market participation will impact on household income, with individuals moving into work bringing in wages, whilst those losing work may have an increase in benefit payments. Therefore the second half focuses on household income, using the Living Costs and Food survey (LCF). It includes the amounts paid in taxes and received in benefits, during the recent recession. It develops analysis published by ONS in June 2010 – *The effects of taxes and benefits on household income, 2008/09* (see Barnard 2010). Note that the sample of households in the LCF (around 6,000) is much smaller than the LFS (around 52,000).

Labour Market

This section of the article considers data from the Labour Force Survey (LFS) household datasets, designed specifically to provide

statistics at the household and family level.

Firstly, this section considers the number of households in the UK by the working status of the household. Secondly, it shows how the percentage of workless households differs among the different types of household. Finally it looks at variations in working status by different characteristics such as region, housing tenure and the number of dependent children within the household.

The LFS household datasets are available, on a consistent calendar quarter basis, for the quarter April to June from 1997, and additionally for the quarter October to December from 2004.

When considering the working status of households there are three categories:

- all adults working (working household)
- a mixture where at least one adult works (mixed household)
- no adults working (workless household)

A workless household includes households in which all adults are unemployed; those in which all adults are economically inactive; and those containing both unemployed and inactive adults. Analysis from the LFS household datasets is based on households that contain at least one man aged 16 to 64 or a woman aged 16 to 59 (below state pension age households).

Table 1 shows the number and percentage of households by the working status of individuals living within them for the period October to December, 2004 to 2009. As the number of households can vary from one period to the next, a rate is

Table 1
Below state pension age¹ households by working status

United Kingdom

	Working households	Households containing both working and workless members				Workless households				All households
		All households containing both working and workless members								
		Employed and unemployed	Employed and inactive	Employed and unemployed and inactive	both working and workless members	All unemployed	Unemployed and inactive	All inactive	All workless households	
Levels (thousands)										
2004	10,946	559	4,289	179	5,028	274	223	2,470	2,967	18,941
2005	10,973	591	4,266	223	5,080	301	242	2,454	2,998	19,051
2006	11,182	627	4,006	189	4,821	351	267	2,439	3,057	19,060
2007	11,176	639	4,297	201	5,136	315	243	2,486	3,044	19,356
2008	11,239	707	4,055	244	5,006	414	306	2,430	3,150	19,395
2009	10,660	916	4,271	304	5,491	504	402	2,441	3,347	19,498
Percentages (%)										
2004	57.8	3.0	22.6	0.9	26.5	1.4	1.2	13.0	15.7	100.0
2005	57.6	3.1	22.4	1.2	26.7	1.6	1.3	12.9	15.7	100.0
2006	58.7	3.3	21.0	1.0	25.3	1.8	1.4	12.8	16.0	100.0
2007	57.7	3.3	22.2	1.0	26.5	1.6	1.3	12.8	15.7	100.0
2008	57.9	3.6	20.9	1.3	25.8	2.1	1.6	12.5	16.2	100.0
2009	54.7	4.7	21.9	1.6	28.2	2.6	2.1	12.5	17.2	100.0

Notes:

Source: Labour Force Survey Household datasets

- 1 A below state pension age household is one that includes at least one man aged 16 to 64 or a woman aged 16 to 59.
- 2 Figures have been adjusted for households with unknown economic activity.

a useful statistic when comparing periods. The workless rate is the percentage of households with no adults in work.

Between 2004 and 2009, the number of below state pension age households increased by around 557,000 to 19.5 million. As stated already, these households can be split into three groups – working, mixed or workless. In 2009, working households made up over half of all households, a sixth were workless with the rest being mixed households.

Looking at the years leading up to the recent recession, in 2004, the workless rate was 15.7 per cent (2.97 million). There were some fluctuations leading up to 2007, and in the final quarter of 2007, the rate was again 15.7 per cent (3.04 million).

In 2008, six months after the start of the recession, the rate increased by 0.5 percentage points, to 16.2 per cent (3.15 million), and there was a further and larger increase over the next twelve months. In 2009, the first quarter since the end of the recession, the rate was 17.2 per cent (3.35 million) an increase of 1.0 percentage point on a year earlier. Therefore between 2007 and 2009, which includes all the recession period there was an increase of 302,000 in the number of workless households.

The main driver of this increase was through increases in households where all members were either unemployed or a mixture of unemployed and inactive. The third group where all people are inactive, which makes up three-quarters of workless households, fell by 0.3 percentage points from

12.8 per cent in 2007 to 12.5 per cent (2.44 million) in 2009. All of this fall happened in the first part of the recession, with a small increase between 2008 and 2009.

Looking at households in which everyone works, in 2004 the percentage of working households stood at 57.8 per cent (10.95 million). As with workless households, the percentage fluctuated for the next few years, standing at 57.7 per cent (11.18 million) in 2007. Over the next twelve months the working rate increased slightly, but between 2008 and 2009 there was a large fall, of 3.3 percentage points, to 54.7 per cent (10.66 million)

A fall in the number of working

households does not necessarily lead to an increase in the number of workless households, as there are many households containing a mixture of people working and those who are not, known as mixed households. In 2004, 26.5 per cent (5.03 million) of households were mixed, and after some fluctuations, it stood at the same percentage but slightly more households in 2007. Between 2007 and 2008, the percentage of mixed households fell, explaining the increase in both working and workless households, to 25.8 per cent (5.01 million). The main driver was a decrease in households in which some are employed and some inactive. Over the

Figure 1
Workless below state pension age households,¹ by household type

Notes:

Source: Labour Force Survey household datasets

- 1 A below state pension age household is one that includes at least one man aged 16 to 64 or a woman aged 16 to 59
- 2 Dependent children are those under 16 and those aged 16 to 18 who have never married and are in full-time education.
- 3 Figures have been adjusted for households with unknown economic activity.

Table 2

Below state pension age households¹ by working status and housing tenure

United Kingdom

Percentages

	working households			mixed households			workless households		
	2007	2009	% point change	2007	2009	% point change	2007	2009	% point change
Owner occupied	65.1	62.2	-2.9	27.7	29.6	2.0	7.3	8.2	0.9
Owned outright	43.7	41.3	-2.4	38.0	39.4	1.4	18.3	19.3	1.0
Buying with a mortgage	73.5	71.0	-2.5	23.6	25.5	1.9	2.9	3.5	0.6
Rented/Rent Free	44.0	43.0	-1.0	21.2	22.0	0.8	34.7	35.0	0.3
Social rented ²	31.6	29.3	-2.3	22.3	22.4	0.1	46.1	48.3	2.2
Privately rented	58.6	56.1	-2.5	19.9	21.6	1.7	21.4	22.3	0.9

Notes:

Source: Labour Force Survey household datasets

1 A below state pension age household is one that includes at least one man aged 16 to 64 or a woman aged 16 to 59.

2 Local authority or housing association.

3 Figures have not been adjusted for households with unknown economic activity.

next year, including the final nine months of the recession, the mixed rate rose by 2.4 percentage points (485,000) to 28.2 per cent (5.49 million) in 2009, with increases across each of the mixed household groups.

Labour market participation can vary for different groups of the population, such as household types, housing tenure, region, age of head of household, number of dependent children in the household and age of youngest dependent child in the household. The rest of the labour market section considers these different groups and shows the changes between 2007 and 2009.

Household type

There are various household types, and over the period, around a third of households were one-person households, a third were households with dependent children and the remaining third were households without dependent children. These household types can be broken down further, to identify couple households, lone parent households, and other types of households. **Figure 1** shows the percentage of workless households by the type of household, for October to December 2007, 2008 and 2009.

Lone parent households with dependent children had the highest percentage of workless households, but were the only group to show a fall between 2007 and 2009. All the fall happened between 2007 and 2008, from 41.2 per cent to 38.2 per cent, with an increase over the next year to 39.9 per cent. The lowest percentage of workless households was for couples with dependent children, and this group had an increase in the workless rate between 2007 and 2009, from 4.7 per cent to 5.5 per cent. Over the same period, the largest increase in the workless household rate was for one person households, rising from 28.3 per cent in 2007 to 31.7 per cent in 2009.

Housing tenure

Housing tenure refers to the type of arrangement under which someone has the right to live in their home. **Table 2** shows the percentage of households by working status and housing tenure for October to December 2007 and 2009. The percentage of working, mixed and workless households varies by housing tenure.

Housing tenure consists of two main groups, one owner-occupied household, and the other rented/rent free households. The percentage of households that are workless varies for the two groups, and in 2009, 8.2 per cent of owner-occupied households were workless, an increase of 0.9 percentage points from 2007. The percentage of rented/rent free households that were workless was over 4 times as much, at 35.0 per cent in 2009, up 0.3 percentage points from 2007. Analysis published in the Cabinet Office *State of the Nation* report (see Cabinet Office 2010) shows there is a strong link between worklessness and social housing. Looking at the rented/rent free group in more detail shows the workless rate is consistently higher for those renting through a local authority or housing association. This group also had the largest percentage point rise between 2007 and 2009, from 46.1 per cent, to 48.3 per cent, so almost half of these households are workless.

In contrast, the workless rate for those households that are owner-occupied and with a current mortgage stood at 3.5 per cent in 2009, an increase from 2.9 per cent in 2007. The workless rate for households owned outright stood at 19.3 per cent in 2009, up from 18.3 per cent in 2007. Of this group, four in five are where the household reference person is aged 50 and over and therefore more likely to have paid off their mortgage and possibly less likely to need to work.

Government Office Region

As already shown, the combined economic activity varies by household type, and also varies across the UK. **Table 3** shows the percentage of households by working status for the countries of the UK and the Government Office Regions in England for October to December 2007 and 2009.

Between 2007 and 2009, the working household rate has fallen across all areas, with increases in the mixed rate for most areas, and increases in the workless rate for all areas. Of the four countries of the UK, the largest increase in the workless rate was in Scotland, up 2.6 percentage points, to stand at 19.1 per cent in 2009. England experienced an increase of 1.4 percentage points, to 17.0 per cent in 2009, while within England, the largest increase in the workless rate was in the North East up 2.5 percentage points, to 21.5 per cent in 2009. Of all the areas, Inner London had the largest workless rate, where in 2009, 25.6 per cent of households contained no one in work, up 2.2 percentage points from 2007.

Age of household reference person

The household reference person (HRP) is the person who owns the accommodation, or is legally responsible for the rent, or has the accommodation tied to a job or has the accommodation under a relationship to the owner who is not a member of the household. **Table 4** shows the percentage of households by working status and age group of the HRP for October to December 2007 and 2009.

Over the period the workless rate was higher for those households where either the HRP was aged 16 to 24 and those where the HRP was above state pension age (SPA). The latter includes those households where the household reference person is aged above state pension age but at least one of the other adult members is below state pension age. In 2009, around a half of older

Table 3

Below state pension age households¹ by working status and region

	Percentages								
	working households			mixed households			workless households		
	2007	2009	% point change	2007	2009	% point change	2007	2009	% point change
Great Britain	58.7	55.8	-2.9	25.5	26.8	1.4	15.9	17.4	1.5
England	58.8	55.7	-3.0	25.7	27.3	1.6	15.6	17.0	1.4
North East	55.1	52.8	-2.4	25.9	25.7	-0.1	19.0	21.5	2.5
North West	57.3	53.3	-4.0	24.0	26.7	2.6	18.7	20.0	1.4
Yorkshire and The Humber	58.7	55.1	-3.6	24.5	25.9	1.4	16.8	19.0	2.2
East Midlands	59.9	59.6	-0.3	26.0	25.3	-0.7	14.1	15.1	1.0
West Midlands	56.5	53.5	-3.0	26.8	28.7	1.9	16.7	17.8	1.1
East of England	61.7	58.7	-3.0	26.0	27.9	2.0	12.4	13.4	1.0
London	52.6	49.8	-2.8	28.1	29.7	1.7	19.4	20.4	1.1
Inner London	52.4	48.9	-3.5	24.1	25.4	1.3	23.4	25.6	2.2
Outer London	52.7	50.5	-2.2	31.0	33.1	2.1	16.3	16.4	0.1
South East	63.3	60.0	-3.3	25.7	27.5	1.7	11.0	12.6	1.5
South West	62.8	58.9	-3.9	23.6	26.2	2.6	13.6	14.9	1.3
Wales	53.1	52.9	-0.2	27.2	26.2	-1.0	19.8	20.9	1.1
Scotland	60.9	58.1	-2.8	22.5	22.8	0.2	16.6	19.1	2.6
Northern Ireland	49.1	46.7	-2.4	31.3	32.7	1.4	19.6	20.5	1.0

Notes:

Source: Labour Force Survey household datasets

1 A below state pension age household is one that includes at least one man aged 16 to 64 or a woman aged 16 to 59.

2 Figures have not been adjusted for households with unknown economic activity.

Table 4

Below state pension age households¹ by working status and age of head of household

United Kingdom									Percentages
	working households			mixed households			workless households		
	2007	2009	% point change	2007	2009	% point change	2007	2009	% point change
	2007	2009	% point change	2007	2009	% point change	2007	2009	% point change
16-24	52.3	46.2	-6.1	16.3	16.7	0.4	31.4	37.1	5.7
25-34	71.9	69.5	-2.3	14.2	15.5	1.2	13.9	15.0	1.1
35-49	64.3	61.6	-2.6	24.7	26.2	1.5	11.0	12.2	1.1
50-SPA	50.8	48.3	-2.5	30.5	31.7	1.2	18.7	20.0	1.3
SPA+ ²	11.5	13.2	1.6	55.9	54.6	-1.3	32.6	32.3	-0.3

Notes:

Source: Labour Force Survey household datasets

1 A below state pension age household is one that includes at least one man aged 16 to 64 or a woman aged 16 to 59.

2 Households where the household reference person is aged above state pension age but other adult members are below state pension age.

3 Figures have not been adjusted for households with unknown economic activity.

households contained at least one working adult, a third were workless while the rest were working households. In comparison, around half of households where the HRP was aged 16 to 24 were working, a third was workless households and the rest mixed households.

Between the two periods, the workless rate increased for all households except where the HRP was aged above SPA, which fell by 0.3 percentage points to 32.3 per cent. The largest of the increases in the workless rate was for households where the HRP was between 16 and 24 years old, up 5.7 percentage points, to 37.1 per cent. This is consistent with increases in unemployment over the recession, which shows large increases for younger people.

Number of dependent children

Table 5 shows the percentage of households by working status and number of dependent children within the households for October

to December 2007 and 2009. Previous studies have shown that because of the lack of affordable childcare, the workless rate in large families is higher than for parents in smaller families (*Who does Poverty affect?*, see Barnardos 2010). Generally, the workless rate increases with the number of dependent children in the household. In 2009, the workless rate for households with one dependent child was 14.2 per cent compared with 31.4 per cent for households with four or more dependent children.

Over the period, the workless rate increased the most for households without dependent children, up 2.1 percentage points to 19.5 per cent in 2009. This group will contain many younger people households which as shown earlier also had a large increase in workless households.

Age of youngest dependent child

The age of the youngest child in a household is linked to the number of

dependent children, with more children corresponding to a higher likelihood of there being a young child in the household. Table 6 shows the percentage of households by working status and age of youngest dependent child for October to December 2007 and 2009. Research by the Department for Work and Pensions has shown the older the child, the higher the percentage of working mothers, this in turn decreases the percentage of workless households (see Hoxhallari, Conolly and Lyon 2007). As shown in Table 6, as the age of the youngest child increases the workless rate falls, in 2009 the workless rate was 17.7 per cent for those where the youngest child was aged under five compared with 8.3 per cent for those where the youngest child was aged between 16 and 18. The workless rate for households with dependent children is generally lower than those without dependent children, in 2009 it stood at 14.3 per cent and 19.5 per cent, respectively.

Table 5

Below state pension age households¹ by working status and number of dependent child² in the household

United Kingdom									Percentages
	working households			mixed households			workless households		
	2007	2009	% point change	2007	2009	% point change	2007	2009	% point change
1 child	57.2	53.5	-3.7	29.9	32.4	2.4	12.9	14.2	1.3
2 children	56.6	55.4	-1.2	31.7	32.9	1.1	11.7	11.7	0.1
3 children	39.7	37.7	-2.0	41.9	43.4	1.5	18.3	18.9	0.6
4 or more children	22.0	20.3	-1.7	46.8	48.3	1.5	31.2	31.4	0.2
No dependent children	61.5	58.4	-3.1	21.1	22.1	1.0	17.4	19.5	2.1

Notes:

Source: Labour Force Survey household datasets

- 1 A below state pension age household is one that includes at least one man aged 16 to 64 or a woman aged 16 to 59.
- 2 Dependent children are those under 16 and those aged 16 to 18 who have never married and are in full-time education.
- 3 Figures have not been adjusted for households with unknown economic activity.

Table 6

Below state pension age households¹ by working status and age of youngest dependent child² in the household

United Kingdom									Percentages
	working households			mixed households			workless households		
	2007	2009	% point change	2007	2009	% point change	2007	2009	% point change
0 to 4	52.4	52.9	0.5	31.2	29.4	-1.8	16.4	17.7	1.3
5 to 10	62.6	59.3	-3.4	23.1	25.6	2.6	14.3	15.1	0.8
11 to 15	56.0	51.9	-4.2	33.2	37.9	4.7	10.7	10.2	-0.5
16 to 18	24.6	20.9	-3.7	67.3	70.8	3.5	8.1	8.3	0.2
No dependent children	61.5	58.4	-3.1	21.1	22.1	1.0	17.4	19.5	2.1

Notes:

Source: Labour Force Survey household datasets

- 1 A below state pension age household is one that includes at least one man aged 16 to 64 or a woman aged 16 to 59.
- 2 Dependent children are those under 16 and those aged 16 to 18 who have never married and are in full-time education.
- 3 Figures have not been adjusted for households with unknown economic activity.

Over the period, households where the youngest child was aged between 11 and 15 were the only households to experience a fall in the workless rate, down 0.5 percentage points to 10.2 per cent, driven by a 4.7 percentage point increase in the mixed rate. Households where the youngest child was aged less than five saw the largest increase in the workless rate, up 1.3 percentage points, to 17.7 per cent, between 2007 and 2009. The same group also had an increase over the period in the working rate, driven by a fall in the mixed rate.

Income

So far the article has shown changes in the labour market participation for households over the period 2007 and 2009, covering most of the recession. The next section focuses on changes to the level of household income using a different dataset to that for the labour market. The Living Costs and Food survey (LCF) is the main source with each period shown covering the twelve months of April to March. The section will show changes over a five year period – in the years leading up to the recession (2003/04 to 2007/08), and then in the period 2007/08 to 2008/09, covering the first year of the recent recession.

Trends in household income for all households are shown with differences between retired and non-retired households. The previous section only looked at households that included at least one person below state pension age, but this section, except for when looking at the economic status of households, will include all households. Analysis is also presented according to different household characteristics including; the household economic activity status, the region of the household, the age of the household reference person (HRP), and the household composition. All income data in this section are *equivalised* and at constant prices (see the next sub-section for more details).

Concepts**Stages of income**

The four stages of income in this analysis are as a result of the effects of taxes and benefits on the incomes of households. The stages in the redistribution of income used are:

1. **Original income:** To begin with, household members receive

income from employment and self-employment, occupational pensions, investments and from other non-government sources

2. **Gross income:** This is original income, plus income from cash benefits
3. **Disposable income:** This is gross income after households pay direct taxes
4. **Post-tax income:** This is disposable income after households pay indirect taxes (for example VAT) via expenditure

Although gross and disposable incomes are arguably the stages most commonly referred to, analysis in this section includes data on all four of the income stages highlighted to enable a more complete investigation of the effects of the recession.

Equivalisation

As the sample of the LCF is different in each of the years, household income is equivalised to account for different households' sizes within each survey sample. For example, a couple with a child would need a higher income than a childless couple for the two households to

Table 7
Equivalised household income¹ of all households

United Kingdom		Average per household (£ per year)						
	Sample number in each band	Original	Cash benefits	Gross	Direct taxes	Disposable	Indirect taxes	Post-tax
All households								
2003/04	7048	26 834	5 003	31 837	6 427	25 409	4 807	20 603
2007/08	6113	28 696	5 364	34 060	7 095	26 964	4 723	22 241
2008/09	5766	28 159	5 486	33 645	6 746	26 899	4 459	22 440
Percentage change 2003/04 to 2007/08		7	7	7	10	6	-2	8
Percentage change 2007/08 to 2008/09		-2	2	-1	-5	0	-6	1
Non-retired								
2003/04	5236	32 823	2 938	35 760	7 828	27 932	5 275	22 657
2007/08	4479	35 128	3 092	38 219	8 590	29 629	5 126	24 504
2008/09	4179	34 521	3 276	37 797	8 242	29 555	4 837	24 718
Percentage change 2003/04 to 2007/08		7	5	7	10	6	-3	8
Percentage change 2007/08 to 2008/09		-2	6	-1	-4	0	-6	1
Retired²								
2003/04	1812	9 973	10 816	20 790	2 483	18 307	3 487	14 820
2007/08	1634	10 644	11 740	22 384	2 899	19 485	3 593	15 892
2008/09	1587	10 235	11 712	21 947	2 531	19 416	3 396	16 020
Percentage change 2003/04 to 2007/08		7	9	8	17	6	3	7
Percentage change 2007/08 to 2008/09		-4	0	-2	-13	0	-5	1

Notes:

- Adjusted to 2008/09 prices using the implied expenditure deflator for the household sector.
- A household where the combined income of retired members amounts to at least half the total gross income of the household, where a retired person is defined as anyone who describes themselves as 'retired' or anyone over minimum national insurance pension age describing themselves as 'unoccupied' or 'sick or injured but not intending to seek work'.

Source: Office for National Statistics

achieve the same standard of living. The equivalence scale used in this analysis is the *McClements scale* (before taking off housing costs). In the earlier example, a childless couple's income of £10,000 is treated as equivalent to an income of £12,300 for a couple with a ten-year-old child. Not equivalising the data could mean that changes in income between different years could be because of a difference in the type of households in the survey, and not changes in income itself.

Prices

Income levels will change as a result of inflation and so it is useful to account for this by adjusting all income data to 2008/09 prices. The income data in this section have been adjusted to constant prices using the implied deflator for Household Final Consumption Expenditure (HHFCE) from the UK National Accounts.

Results**All households**

Between 2003/04 and 2007/08, after adjustment to account for the effects of inflation, original income of all households in the UK increased by 7 per cent, largely because of increases in wages and salaries over the period. This increase also had a large effect on the other measures of income. There was also a 7 per cent increase

in gross household income over the period, caused in part by an increase in cash benefits of 7 per cent (including income support and housing benefit). This increase in gross income, from which direct taxes are taken (including income tax and national insurance contributions) meant that after direct taxes, average disposable household income in the UK increased by 6 per cent from £25,409 per year in 2003/04 to £26,964 in 2007/08. Finally, because of a slight fall in indirect taxes (such as VAT, duty on alcohol and tobacco, and Stamp Duty), post-tax income was 8 per cent higher in 2007/08 than in 2003/04.

Between 2007/08 and 2008/09, that is, before and during the recession, some small changes were observed in average household incomes. Over the period, original household income fell by an average of 2 per cent. However, a slight increase in cash benefits offset some of this decline, so gross income (income including cash benefits) fell by only 1 per cent. Over the same period there was also a fall of 5 per cent in the average level of direct taxation paid by households, due to a fall in income tax payments. The effect of this meant that overall there was no significant change in average household disposable income in the UK between 2007/08 (£26,964 per year) and 2008/09 (£26,899).

From 1st December 2008 the Government dropped the standard rate of

VAT from 17.5 per cent to 15.0 per cent and despite this change only contributing to the last four months of 2008/09, the level of VAT paid by households in this period fell substantially. Similarly, in September 2008, the Government raised the threshold at which 1 per cent stamp duty is paid on house purchases, from £125,000 to £175,000. As a result the average level of Stamp Duty fell by 58 per cent between 2007/08 and 2008/09. The overall effect was a fall of 6 per cent in the level of indirect taxes paid by households between 2007/08 and 2008/09. As households were paying on average a lower proportion of their income on indirect taxes, there was therefore a slight increase over the recession period in households' post-tax income.

Table 7 also shows how the four headline income measures (and the effects of benefits and taxes), depending on whether the household was non-retired or retired. A retired household is defined as one where the combined income of retired members amounts to at least half the total gross income of the household, where a retired person is defined as anyone who describes themselves as 'retired' or anyone over minimum national insurance pension age describing themselves as 'unoccupied' or 'sick or injured but not intending to seek work'.

Non-retired households make up almost three-quarters of all UK households so

Table 8
Equivalised household income¹ by combined household economic activity status²

United Kingdom	Average per household (£ per year)		
	Working	Workless	Mixed
Sample number in each band (2008/09)	2375	676	1175
Original			
2003/04	42 000	5 477	28 293
2007/08	45 872	5 216	28 028
2008/09	45 423	4 728	27 181
Percentage change 2003/04 to 2007/08	9	-5	-1
Percentage change 2007/08 to 2008/09	-1	-9	-3
Total cash benefits			
2003/04	976	9 334	3 124
2007/08	978	10 667	3 105
2008/09	1 133	10 703	3 422
Percentage change 2003/04 to 2007/08	0	14	-1
Percentage change 2007/08 to 2008/09	16	0	10
Gross			
2003/04	42 976	14 812	31 418
2007/08	46 850	15 883	31 133
2008/09	46 556	15 432	30 602
Percentage change 2003/04 to 2007/08	9	7	-1
Percentage change 2007/08 to 2008/09	-1	-3	-2
Direct taxes			
2003/04	9 948	1 336	6 780
2007/08	11 271	1 288	6 678
2008/09	10 913	1 008	6 236
Percentage change 2003/04 to 2007/08	13	-4	-1
Percentage change 2007/08 to 2008/09	-3	-22	-7
Disposable			
2003/04	33 028	13 476	24 638
2007/08	35 579	14 596	24 455
2008/09	35 644	14 424	24 366
Percentage change 2003/04 to 2007/08	8	8	-1
Percentage change 2007/08 to 2008/09	0	-1	0
Indirect taxes			
2003/04	5 920	3 649	4 924
2007/08	5 753	3 547	4 754
2008/09	5 381	3 341	4 507
Percentage change 2003/04 to 2007/08	-3	-3	-3
Percentage change 2007/08 to 2008/09	-6	-6	-5
Post-tax			
2003/04	27 108	9 827	19 714
2007/08	29 825	11 049	19 701
2008/09	30 263	11 083	19 859
Percentage change 2003/04 to 2007/08	10	12	0
Percentage change 2007/08 to 2008/09	1	0	1

Notes:

Source: Office for National Statistics

- 1 Adjusted to 2008/09 prices using the implied expenditure deflator for the household sector.
- 2 Data are for households containing at least one male aged 16 to 64 or one female aged 16 to 59.

the income patterns for this group are similar to those of all households. For retired households, however, there was a slightly larger fall in original income (4 per cent) and gross income (2 per cent) than for non-retired households in the 12 months to 2008/09. For retired households there was a larger proportional fall in the amount of direct taxes paid (13 per cent) than observed for non-retired households.

Therefore, even though original income for retired households fell by 4 per cent over the year, their disposable income in 2007/08 (£19,485 per year) was similar to 2008/09 (£19,416).

Household characteristics

Although the analysis has shown little or no change in the headline levels of income for all households during the recession

and some small changes when household retirement status is considered, there are further differences when the data are analysed by other household characteristics.

Economic position

As mentioned, the analysis looking at the economic status of the household is restricted to households containing at least one person below state pension age. This removes a number of households that are not participating in the labour market for retirement reasons.

There were increases in original income among working households (9 per cent) whereas there were decreases among workless households (5 per cent) between 2003/04 and 2007/08 (**Table 8**). However cash benefits for working households were the same in 2003/04 as in 2007/08 while an increase in benefits for workless households (14 per cent) meant that gross income over the period increased for both working households (9 per cent) and workless households (7 per cent). Direct taxes increased for working households and decreased for workless households and as a result average disposable income for each of these households increased by 8 per cent over this period.

In the period 2007/08 to 2008/09 there were some small changes in the income of working, workless and mixed households for the four measures of income. Although original income for working households fell slightly (1 per cent), an increase in cash benefits, particularly from maternity pay and housing benefit, meant that gross income fell by only 1 per cent, the same as the fall in original income. There was also a fall (3 per cent) in direct taxes, meaning the disposable income of working households was similar between 2007/08 (£35,579 per year) and 2008/09 (£35,644). Because of the fall in indirect taxes (driven by the fall in VAT and the change to the Stamp Duty threshold) working households' post-tax income was slightly higher in 2008/09 than in 2007/08.

The situation was different for workless households. Original income of workless households fell between 2007/08 and 2008/09 (9 per cent) and as there was only a negligible change in average cash benefits received, which form most of workless households' gross income, their gross income fell by 3 per cent. Due to a large drop (22 per cent) in direct taxes paid by workless households over the period, the disposable income of this group fell by a smaller amount (1 per cent) between 2007/08 (£14,596 per year) and 2008/09

Table 9

Equivalised household income¹ by region

United Kingdom

Average per household (£ per year)

	North East	North West	Yorkshire and the Humber	East Midlands	West Midlands	East	London	South East	South West	Wales	Scotland	Northern Ireland
Sample number in each band (2008/09)	209	569	477	403	506	511	471	788	509	266	488	569
Original												
2003/04	18 324	24 750	23 541	24 335	24 843	28 772	36 673	33 107	24 646	21 786	23 068	20 006
2007/08	23 070	25 607	25 168	26 470	23 920	32 014	37 587	33 805	28 892	22 935	26 429	23 666
2008/09	17 965	24 172	23 554	26 690	26 686	32 761	34 582	35 592	27 489	23 972	28 442	23 897
Percentage change 2003/04 to 2007/08	26	3	7	9	-4	11	2	2	17	5	15	18
Percentage change 2007/08 to 2008/09	-22	-6	-6	1	12	2	-8	5	-5	5	8	1
Total cash benefits												
2003/04	6 047	5 147	5 079	4 981	5 032	4 897	4 473	4 616	5 069	5 269	5 190	5 761
2007/08	5 701	5 708	5 522	5 438	5 814	5 211	5 126	4 937	5 232	5 615	5 164	5 689
2008/09	6 909	5 620	5 637	5 184	5 527	4 627	5 751	4 741	5 566	6 236	5 333	5 917
Percentage change 2003/04 to 2007/08	-6	11	9	9	16	6	15	7	3	7	-1	-1
Percentage change 2007/08 to 2008/09	21	-2	2	-5	-5	-11	12	-4	6	11	3	4
Gross												
2003/04	24 371	29 897	28 620	29 317	29 875	33 669	41 146	37 724	29 715	27 054	28 258	25 767
2007/08	28 772	31 315	30 690	31 908	29 734	37 225	42 713	38 742	34 124	28 549	31 593	29 355
2008/09	24 874	29 791	29 191	31 874	32 213	37 388	40 333	40 333	33 054	30 209	33 776	29 814
Percentage change 2003/04 to 2007/08	18	5	7	9	0	11	4	3	15	6	12	14
Percentage change 2007/08 to 2008/09	-14	-5	-5	0	8	0	-6	4	-3	6	7	2
Direct taxes												
2003/04	4 264	5 787	5 518	5 516	5 698	7 144	9 028	8 352	5 775	4 995	5 539	4 323
2007/08	5 442	6 330	5 996	6 574	5 811	7 823	9 600	8 680	7 130	5 348	6 537	5 213
2008/09	4 059	5 631	5 573	6 290	6 303	8 032	8 972	8 820	6 122	5 497	6 830	5 000
Percentage change 2003/04 to 2007/08	28	9	9	19	2	10	6	4	23	7	18	21
Percentage change 2007/08 to 2008/09	-25	-11	-7	-4	8	3	-7	2	-14	3	4	-4
Disposable												
2003/04	20 107	24 110	23 103	23 801	24 177	26 525	32 118	29 371	23 940	22 059	22 719	21 445
2007/08	23 329	24 985	24 694	25 333	23 923	29 402	33 112	30 062	26 994	23 202	25 056	24 142
2008/09	20 815	24 160	23 618	25 584	25 909	29 356	31 361	31 514	26 932	24 712	26 946	24 814
Percentage change 2003/04 to 2007/08	16	4	7	6	-1	11	3	2	13	5	10	13
Percentage change 2007/08 to 2008/09	-11	-3	-4	1	8	0	-5	5	0	7	8	3
Indirect taxes												
2003/04	4 198	4 819	4 698	4 595	4 612	4 943	5 104	5 215	4 786	4 373	4 650	4 785
2007/08	4 208	4 559	4 494	4 475	4 258	4 768	4 891	5 185	4 966	4 363	4 875	5 285
2008/09	3 506	4 184	4 137	4 409	4 521	4 904	4 751	4 847	4 502	4 111	4 464	4 638
Percentage change 2003/04 to 2007/08	0	-5	-4	-3	-8	-4	-4	-1	4	0	5	10
Percentage change 2007/08 to 2008/09	-17	-8	-8	-1	6	3	-3	-7	-9	-6	-8	-12
Post-tax												
2003/04	15 909	19 291	18 404	19 206	19 565	21 582	27 014	24 156	19 153	17 686	18 068	16 660
2007/08	19 121	20 426	20 200	20 859	19 665	24 634	28 222	24 877	22 027	18 839	20 181	18 857
2008/09	17 309	19 976	19 481	21 175	21 389	24 453	26 611	26 667	22 430	20 601	22 481	20 176
Percentage change 2003/04 to 2007/08	20	6	10	9	1	14	4	3	15	7	12	13
Percentage change 2007/08 to 2008/09	-9	-2	-4	2	9	-1	-6	7	2	9	11	7

Notes:

Source: Office for National Statistics

1 Adjusted to 2008/09 prices using the implied expenditure deflator for the household sector.

(£14,424). It is worth noting that some of this fall in direct taxes will have been because of the changes to the personal income tax thresholds between 2007/08 and 2008/09. The effects of the changes to VAT and Stamp Duty meant that workless households also paid less (6 per cent) in indirect taxes and their post-tax income was unchanged over the period.

For mixed households containing both working and workless members, there

were smaller changes between 2007/08 and 2008/09 in the four measures of income. An increase in cash benefits (10 per cent) for mixed households also went some way to offset a fall of 3 per cent in their original income, as gross income for mixed households fell by only 2 per cent. A fall in direct taxes meant that disposable income was similar in 2007/08 (£24,455) and 2008/09 (£24,366). As with working households the fall in the amount of indirect

taxes paid by mixed households meant that post-tax income for this group was also slightly higher in 2008/09 than 2007/08.

Government Office Region

Now looking again at all households, **Table 9** shows income for the Government Office Regions of England, Wales, Scotland and Northern Ireland. Note that breaking down the sample to the many areas results in smaller sample sizes and so caution should

Table 10

Equivalised household disposable income¹ by age of household reference person

United Kingdom		Average per household (£ per year)					
	Under 25	25–34	35–44	45–54	55–64	65–74	75 and over
Sample number in each band (2008/09)	157	753	1139	1124	1049	790	754
Original							
2003/04	21 923	34 478	33 400	35 163	28 768	12 979	7 898
2007/08	18 399	38 849	35 950	35 877	31 560	14 212	9 343
2008/09	18 411	35 650	36 565	36 791	30 049	13 873	8 741
Percentage change 2003/04 to 2007/08	–16	13	8	2	10	9	18
Percentage change 2007/08 to 2008/09	0	–8	2	3	–5	–2	–6
Total cash benefits							
2003/04	3 388	2 623	2 565	2 391	4 099	10 802	11 293
2007/08	3 574	2 538	2 971	2 419	4 605	11 297	12 143
2008/09	4 059	2 778	2 917	2 535	4 834	11 197	12 357
Percentage change 2003/04 to 2007/08	6	–3	16	1	12	5	8
Percentage change 2007/08 to 2008/09	14	9	–2	5	5	–1	2
Gross							
2003/04	25 311	37 101	35 965	37 555	32 867	23 781	19 191
2007/08	21 974	41 387	38 920	38 296	36 165	25 508	21 485
2008/09	22 470	38 428	39 482	39 326	34 883	25 070	21 098
Percentage change 2003/04 to 2007/08	–13	12	8	2	10	7	12
Percentage change 2007/08 to 2008/09	2	–7	1	3	–4	–2	–2
Direct taxes							
2003/04	4 717	8 269	8 044	8 303	6 873	3 214	2 037
2007/08	3 871	9 545	8 811	8 800	7 760	3 943	2 440
2008/09	3 923	8 547	8 760	8 868	6 975	3 480	2 279
Percentage change 2003/04 to 2007/08	–18	15	10	6	13	23	20
Percentage change 2007/08 to 2008/09	1	–10	–1	1	–10	–12	–7
Disposable							
2003/04	20 593	28 832	27 922	29 252	25 993	20 567	17 154
2007/08	18 103	31 842	30 109	29 496	28 405	21 565	19 045
2008/09	18 547	29 882	30 722	30 458	27 908	21 590	18 819
Percentage change 2003/04 to 2007/08	–12	10	8	1	9	5	11
Percentage change 2007/08 to 2008/09	2	–6	2	3	–2	0	–1
Indirect taxes							
2003/04	4 503	5 530	5 354	5 331	5 252	4 089	2 510
2007/08	3 917	5 056	5 009	5 320	5 504	4 258	2 778
2008/09	3 664	4 728	4 758	5 039	5 134	4 086	2 620
Percentage change 2003/04 to 2007/08	–13	–9	–6	0	5	4	11
Percentage change 2007/08 to 2008/09	–6	–6	–5	–5	–7	–4	–6
Post-tax							
2003/04	16 090	23 302	22 567	23 920	20 741	16 478	14 644
2007/08	14 186	26 786	25 100	24 176	22 901	17 307	16 267
2008/09	14 882	25 154	25 963	25 419	22 774	17 504	16 199
Percentage change 2003/04 to 2007/08	–12	15	11	1	10	5	11
Percentage change 2007/08 to 2008/09	5	–6	3	5	–1	1	0

Notes:

1 Adjusted to 2008/09 prices using the implied expenditure deflator for the household sector.

Source: Office for National Statistics

be attributed when looking at changes from one year to the next.

Most of the Government Office Regions of England had increases in original income between 2003/04 and 2007/08, except for the West Midlands. The region with the largest increase over this period was the North East, with original income increasing by 26 per cent followed by Northern Ireland (18 per cent) and the South West (17 per cent). In 2003/04, the North East and Northern Ireland were the

regions with the lowest household income in the UK.

Focusing on the period 2007/08 to 2008/09, although Table 7 showed a small fall of 2 per cent in original income in the UK, there were some larger changes among the areas of the UK. The largest fall was in the North East, at 22 per cent. There were also falls in London (8 per cent), Yorkshire and the Humber (6 per cent) and the North West (6 per cent). These falls in household original income (which

includes wages and salaries) reflects data presented in the Labour Market section, which showed the North East having the second largest increase in the proportion of households which were workless between 2007 and 2009.

The impact of the increase in worklessness in households could contribute to the increase in cash benefits (21 per cent) seen in the North East during the period, although there was a smaller increase in Yorkshire and the Humber (2

Table 11
Equivalised household income¹ by household type

United Kingdom		Average per household (£ per year)								
	Retired 1 adult	Retired 2 or more adults	Non-retired 1 adult	Non-retired 2 or more adults	Non-retired 3 or more adults	Non-retired 1 adult with children	Non-retired 2 adults with 1 child	Non-retired 2 adults with 2 children	Non-retired 2 adults with 3 or more children	Non-retired 3 or more adults with children
Sample number in each band (2008/09)	795	792	826	1191	436	354	414	534	206	218
Original										
2003/04	8 422	11 697	33 347	41 088	32 212	10 910	34 865	29 839	26 676	26 881
2007/08	8 589	13 045	36 041	44 147	32 115	11 888	34 985	36 523	24 315	25 495
2008/09	7 745	13 376	36 680	44 526	31 997	10 464	36 100	32 307	22 030	23 517
Percentage change 2003/04 to 2007/08	2	12	8	7	0	9	0	22	-9	-5
Percentage change 2007/08 to 2008/09	-10	3	2	1	0	-12	3	-12	-9	-8
Total cash benefits										
2003/04	11 933	9 576	3 470	2 265	2 112	7 941	2 015	2 119	3 151	2 639
2007/08	13 044	10 217	4 083	2 066	1 954	8 186	2 403	2 335	3 881	2 764
2008/09	12 827	10 304	3 894	2 236	2 626	8 698	2 722	2 363	3 899	2 966
Percentage change 2003/04 to 2007/08	9	7	18	-9	-7	3	19	10	23	5
Percentage change 2007/08 to 2008/09	-2	1	-5	8	34	6	13	1	0	7
Gross										
2003/04	20 355	21 272	36 817	43 353	34 324	18 851	36 880	31 958	29 827	29 520
2007/08	21 633	23 262	40 124	46 214	34 069	20 074	37 389	38 858	28 196	28 260
2008/09	20 573	23 680	40 574	46 762	34 623	19 163	38 822	34 670	25 929	26 484
Percentage change 2003/04 to 2007/08	6	9	9	7	-1	6	1	22	-5	-4
Percentage change 2007/08 to 2008/09	-5	2	1	1	2	-5	4	-11	-8	-6
Direct taxes										
2003/04	2 175	2 825	8 586	10 102	7 089	1 815	7 966	6 961	6 265	5 867
2007/08	2 363	3 526	9 325	11 051	7 178	2 323	8 407	9 084	5 380	5 560
2008/09	2 097	3 078	9 384	10 764	7 270	2 027	8 712	7 292	4 988	4 966
Percentage change 2003/04 to 2007/08	9	25	9	9	1	28	6	31	-14	-5
Percentage change 2007/08 to 2008/09	-11	-13	1	-3	1	-13	4	-20	-7	-11
Disposable										
2003/04	18 180	18 448	28 231	33 252	27 235	17 036	28 915	24 996	23 561	23 653
2007/08	19 270	19 737	30 799	35 162	26 890	17 750	28 982	29 773	22 817	22 699
2008/09	18 476	20 602	31 190	35 999	27 353	17 136	30 110	27 378	20 941	21 517
Percentage change 2003/04 to 2007/08	6	7	9	6	-1	4	0	19	-3	-4
Percentage change 2007/08 to 2008/09	-4	4	1	2	2	-3	4	-8	-8	-5
Indirect taxes										
2003/04	3 014	4 013	5 768	5 937	5 040	3 505	5 252	4 897	4 403	4 555
2007/08	3 126	4 139	5 361	5 872	5 182	3 686	4 921	4 868	3 719	4 060
2008/09	2 952	3 956	5 044	5 561	4 913	3 307	4 863	4 436	3 691	3 827
Percentage change 2003/04 to 2007/08	4	3	-7	-1	3	5	-6	-1	-16	-11
Percentage change 2007/08 to 2008/09	-6	-4	-6	-5	-5	-10	-1	-9	-1	-6
Post-tax										
2003/04	15 166	14 435	22 463	27 315	22 194	13 531	23 662	20 100	19 158	19 098
2007/08	16 143	15 597	25 438	29 290	21 708	14 064	24 060	24 905	19 098	18 639
2008/09	15 524	16 646	26 146	30 437	22 440	13 829	25 247	22 942	17 250	17 691
Percentage change 2003/04 to 2007/08	6	8	13	7	-2	4	2	24	0	-2
Percentage change 2007/08 to 2008/09	-4	7	3	4	3	-2	5	-8	-10	-5

Notes:

1 Adjusted to 2008/09 prices using the implied expenditure deflator for the household sector.

Source: Office for National Statistics

per cent). Cash benefits also increased in London (12 per cent). Looking at the North East, the increase in cash benefits were not large enough to compensate for the falls in original income, with a similar story for other regions. Therefore gross income in this region also fell (14 per cent) between 2007/08 and 2008/09. The large fall in average household gross income also meant the North East experienced the largest

fall (25 per cent) in the UK in the level of direct taxes.

When comparing regional changes in average disposable income between 2007/08 and 2008/09 the most notable was a fall (11 per cent) among households in the North East from £23,329 to £20,815 per year. Some regions, however, experienced increases in average household income. For example the West Midlands and Scotland

experienced the largest increases (each 8 per cent) in average household disposable income over the period.

Age of household reference person

The age bands presented in the following analysis are in line with those presented in *The effects of taxes and benefits on household income, 2008/09* and are slightly different to those presented in the Labour Market section.

When analysed by age bands shown in **Table 10**, original and gross income increased for nearly all groups in the years 2003/04 to 2007/08. The exception was for those where the HRP was aged under 25 where there were falls of 16 per cent and 13 per cent, respectively, over the period. It is worth noting however, that this age group is the smallest in number, largely because people of this age are less likely to be a household reference person, and the estimate for this group has large variation.

In the 12 month period between 2007/08 and 2008/09, average household income fell for some age groups while others have experienced less change. The group most affected was those households where the HRP was aged 25 to 34 which experienced a fall of 8 per cent in original income. Cash benefits for this group also increased, but as is the case with many of the estimates, these benefits did not replace the original income lost and therefore gross income also fell (7 per cent). Households where the HRP was aged 55 or over (55 to 64, 65 to 74, and 75 and over) also experienced falls in gross income (although smaller than for those aged 25 to 34).

Disposable income for all age groups was either the same, or changed by no more than 3 per cent, between 2007/08 and 2008/09. The exception was for those aged 25 to 34 who experienced the largest change – a fall of 6 per cent from £31,842 (the highest disposable income in 2007/08 of all age groups) to £29,882 per year (lower than for those aged 35 to 44 and 45 to 54). The main driver behind this fall was a corresponding fall in wages and salaries of 10 per cent between 2007/08 and 2008/09. The proportion of HRPs in the 25 to 34 age group who were not receiving any income from wages and salaries fell between 2006/07 (22 per cent), 2007/08 (18 per cent) and 2008/09 (16 per cent). Although data above from the Labour Force Survey shows the increase in unemployment in the economic downturn, these income data from the LCF suggest that at least some of the fall in income from wages and salaries in this group could be as a result of wage freezes rather than job losses.

Household composition

In the years leading up to the recession there were increases in original income

for nearly all household types presented in **Table 11** with the exception of those comprising of two non-retired adults with three or more children, and three or more adults with children. However, it is worth noting that these groups are the smallest in terms of sample size. The households which experienced the largest increase in original income between 2003/04 and 2007/08 were those comprising two non-retired adults with two children (22 per cent), and two or more retired adults (12 per cent).

However, the original income of households comprising of two non-retired adults with two children fell by 12 per cent between 2007/08 and 2008/09 (as did that of non-retired one person households with children). Similarly, the original income of retired one person households fell by 10 per cent.

After direct taxation, the disposable income of households with two non-retired adults and two children fell from £29,773 per year in 2007/08 to £27,378 in 2008/09 – a fall of 8 per cent. The disposable income of households with two non-retired adults and three children also fell by 8 per cent over the period, from £22,817 to £20,941 per year.

Conclusion

Analysis from the LFS household datasets shows that labour market participation among UK households is uneven, with some households having no adults in work. Between 2007 and 2009, of which includes the recent recession, the number and percentage of workless households increased, largely due to an increase in unemployment. Economic inactivity continues to be an important feature in workless households, with economically inactive households representing a high percentage of workless households, whilst excluding households containing all adults above state pension age.

The percentage of workless households varies by factors such as type of household, housing tenure, region, age of head of household, number of dependent children in the household and age of youngest dependent child in the household.

Nearly half of socially rented households are workless, and this group also had the largest increase in the percentage of workless households between 2007 and

2009. Lone parents with dependent children also have the highest workless rates among the different household types, but this group was the only one to fall between 2007 and 2009.

The analysis of household income presented is not exhaustive and is limited to data available from the LCF. However it has shown that overall, households in the UK experienced little change in their disposable and post-tax income between 2007/08 and 2008/09. This means that despite an increase overall in the number of households in which no one is in work, the money that households have to spend on goods, services and utilities remained the same. Over the period there were increases in benefits paid to households, offsetting a fall in original income, whilst there were falls in direct taxes.

However, when looking at households across the UK, some regions did experience a fall in disposable income, most notably in the North East, which also had the second largest increase in the workless household rate.

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