



PERSPECTIVE

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Where has your pay rise gone?

Disposable income stagnates while personal debt soars

CHARLIE ELPHICKE

- According to the ONS, real earnings (average earnings index, adjusted for RPIX) grew by just 1% a year between 2001 and 2005.
- The proportion of income per employee that is disposable income (after non-discretionary tax and housing costs) has fallen from 58.0% in 2001 to 55.4% in 2005.
- The result is that real discretionary disposable income per employee has been flat in real terms for the last five years – moving from £22,710 per employee in 2001 to £22,807 in 2005.
- Meanwhile total personal debt has soared, increasing from £742 billion at the end of 2001 to £1,178 billion at the end of 2005. By the end of the second quarter in 2006, it had climbed further to £1,227 billion. Personal debt is now equivalent to almost £52,000 per household in today's Britain.

Against the backdrop of continued economic growth, the low earnings increase is surprising. The flatlining of income after tax and housing costs means that the average household is no better off in real terms than it was in 2001.

Over the last five years, taxes have, in nominal terms, increased by 23.5% and housing costs by 23.2%. Earnings have only increased by 16% over the same period. In real terms, disposable income after taxes and housing costs has been static despite continued economic growth.

Taxpayers in Britain are running to stand still. Over the last five years, taxes per employee have gone up by 23.5% and housing costs by 23.2% in nominal terms. With earnings per employee increasing by just 16% over the same period, taxes and housing costs have in effect consumed all the increase in the average pay packet.

In addition, gross personal debt has increased by 59% over the same period. Between 2001 and 2005, unsecured debt increased by 40%, while mortgage borrowings increased by nearly two-thirds. There is a further concern that personal debt will become increasingly hard to service for many households in the light of slow earnings growth.



PERSPECTIVE

Year	2001	2002	2003	2004	2005	Change 2001-2005
Real average earnings have risen by by 1% a year in real terms						
Average earnings index	105.8	109.5	114.2	119	124	17.2%
Real average earnings index (RPIX, 2005 prices)	117	118	119	121	124	6.3%
Discretionary disposable income has not changed						
Income per employee before tax (nominal) (RPHP) (£)	35,496	36,452	37,767	39,141	41,192	16.0%
Taxes (£)	10,714	11,043	11,505	12,192	13,228	23.5%
Disposable income per employee (nominal - RPHQ) (£)	24,782	25,409	26,262	26,949	27,964	12.8%
Housing costs per employee (actual and includes bills etc) (nominal) (£)	4,185	4,345	4,578	4,859	5,157	23.2%
Proportion of income per employee that is disposable after tax and housing costs	58.0%	57.8%	57.4%	56.4%	55.4%	
Discretionary Disposable income after tax and housing costs (nominal)	20,597	21,065	21,685	22,091	22,807	10.7%
Discretionary Disposable income after tax and housing costs (RPIX to 2005)	22,710	22,610	22,687	22,541	22,807	0.4%
Number of people in employment (m)	27.7	27.9	28.2	28.4	28.7	3.6%
RPIX	172.5	177.2	181.8	186.4	190.2	10.3%
Total personal debt (£, millions), of which:	741.7	843.9	954.9	1,076.1	1,177.9	58.8%
– unsecured debt (£, millions)	150.3	168.7	180.3	198.6	210.7	40.2%
– mortgage debt (£, millions)	591.4	675.2	774.6	877.5	967.2	63.5%

SOURCES

Average earnings figures are drawn from ONS historical series and "Labour Market Statistics" press release of 15 November 2006 LNMQ series. This is the average earnings index including bonuses where 2000=100 and are adjusted by inflation (RPIX).

Data for employee income and employee disposable income are drawn from ONS series on household income (ie including benefits) RPHP and RPHQ in Table 2.5 of *Economic Trends* Edition 636 (ONS) (November 2006). These figures have been adjusted by reference to the number of people in employment to arrive at discretionary disposable income (after housing and tax have been paid). Real discretionary disposable income is arrived at by reference to RPIX.

Data for housing costs per employee come from ONS, *Consumer Trends* – www.statistics.gov.uk/downloads/theme_economy/CT2006Q2.pdf

Figures for total household personal debt are derived from adding together series VZRI (unsecured debt) and AMWT (debt secured on a dwelling) on table 6.6 of ONS *Economic Trends* Edition 636 (November 2006) page 134. All data are for the 4th quarter of the year.

Data for numbers in employment are from Labour Force Survey, Table A.1, series MGRZ, seasonally adjusted.

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