



Institute for  
Fiscal Studies

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# Young adults and the recession

Jonathan Cribb, IFS

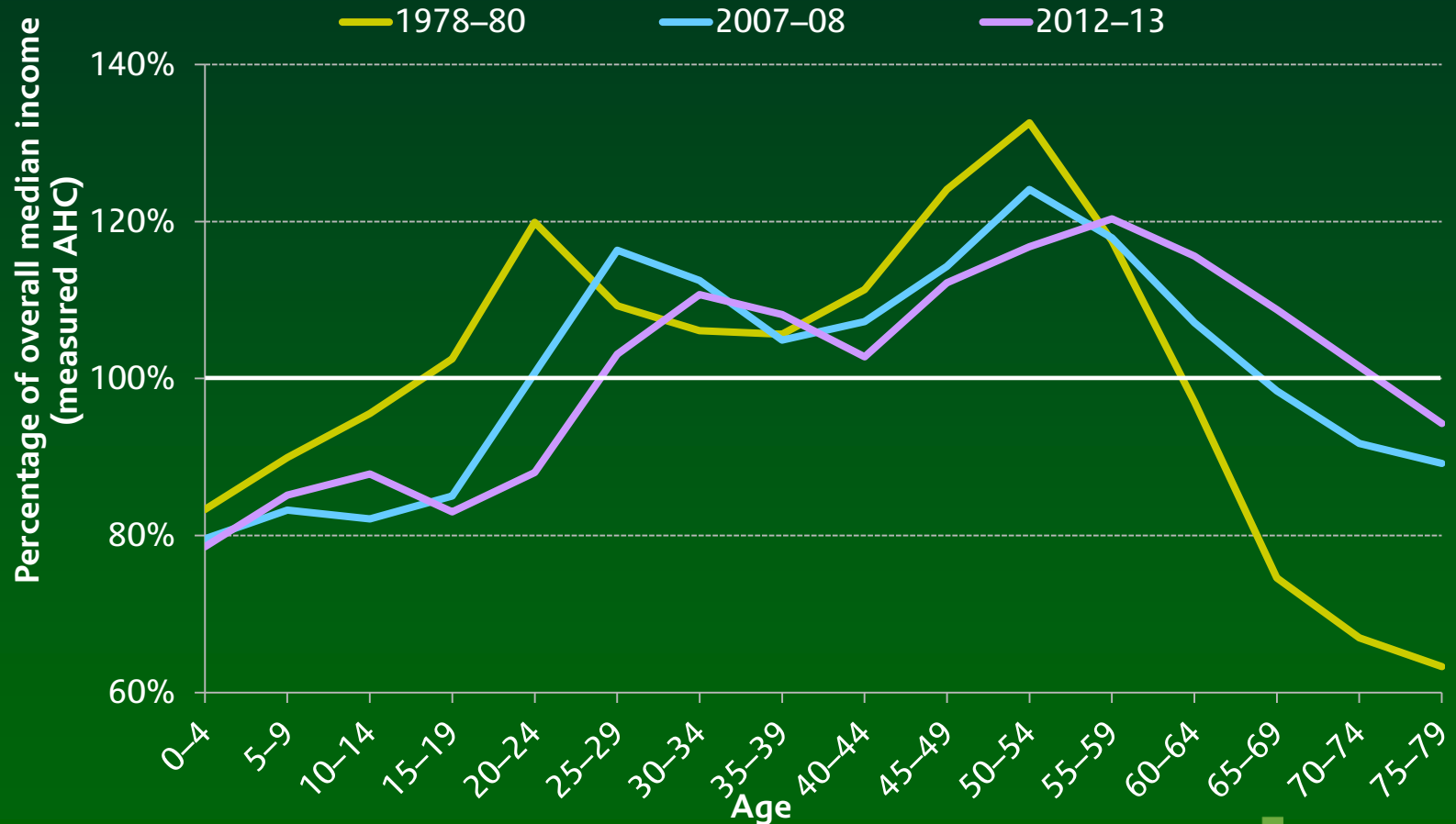
15<sup>th</sup> July 2014

# Introduction

- Household incomes have fallen sharply since 2009–10
- Last year's report showed that changes to the income distribution varied by age
  - contrasting fortunes of pensioners and young adults since the recession
- We investigate the reasons behind the falls in living standards of young adults

# Inequality between different age groups

Median income by age compared to overall median income (measured AHC)

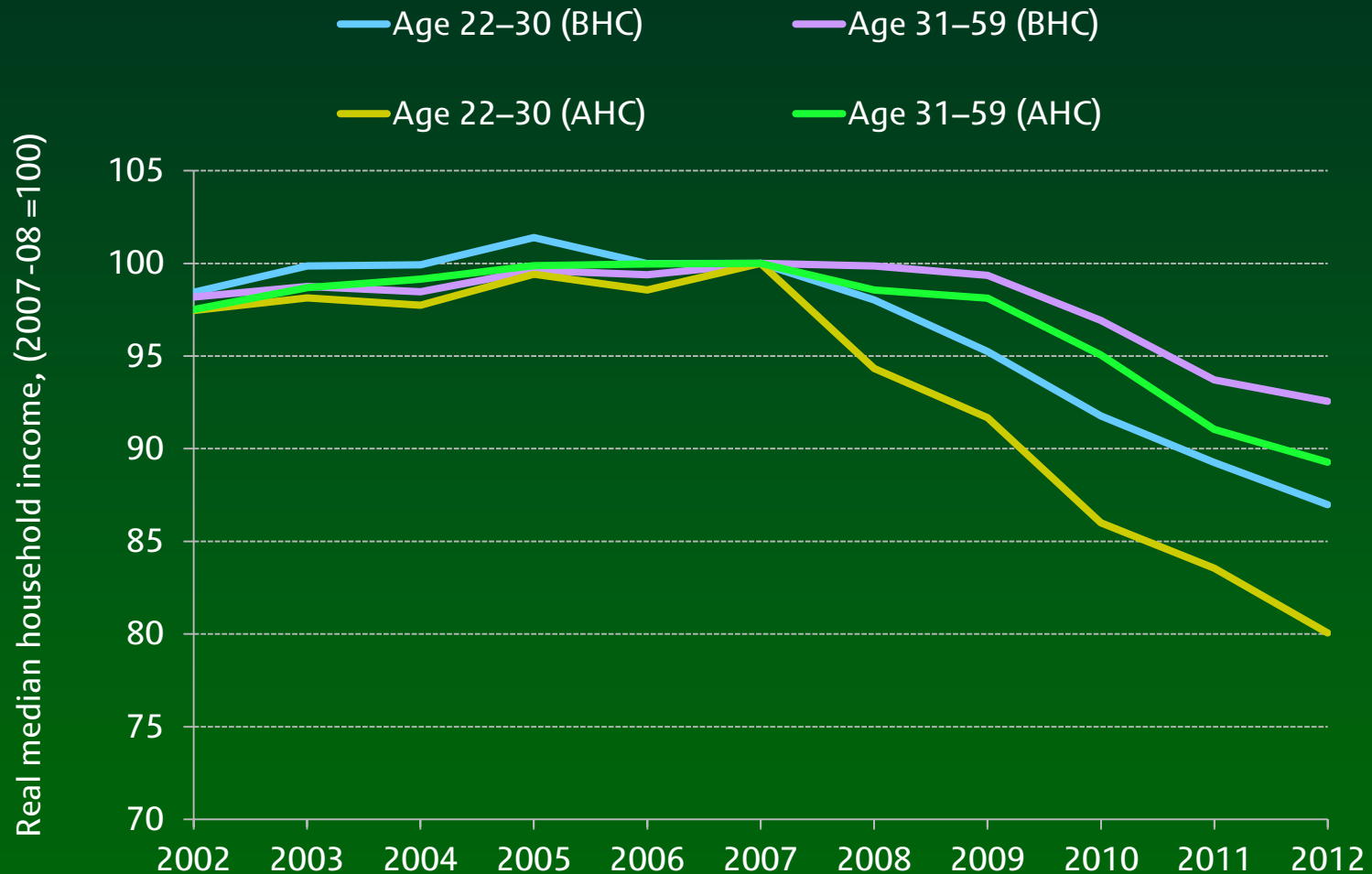


Source: Figure 3.7b of *Living Standards, Poverty and Inequality: 2014*

Notes: Household income is equivalised and measured after housing costs are deducted

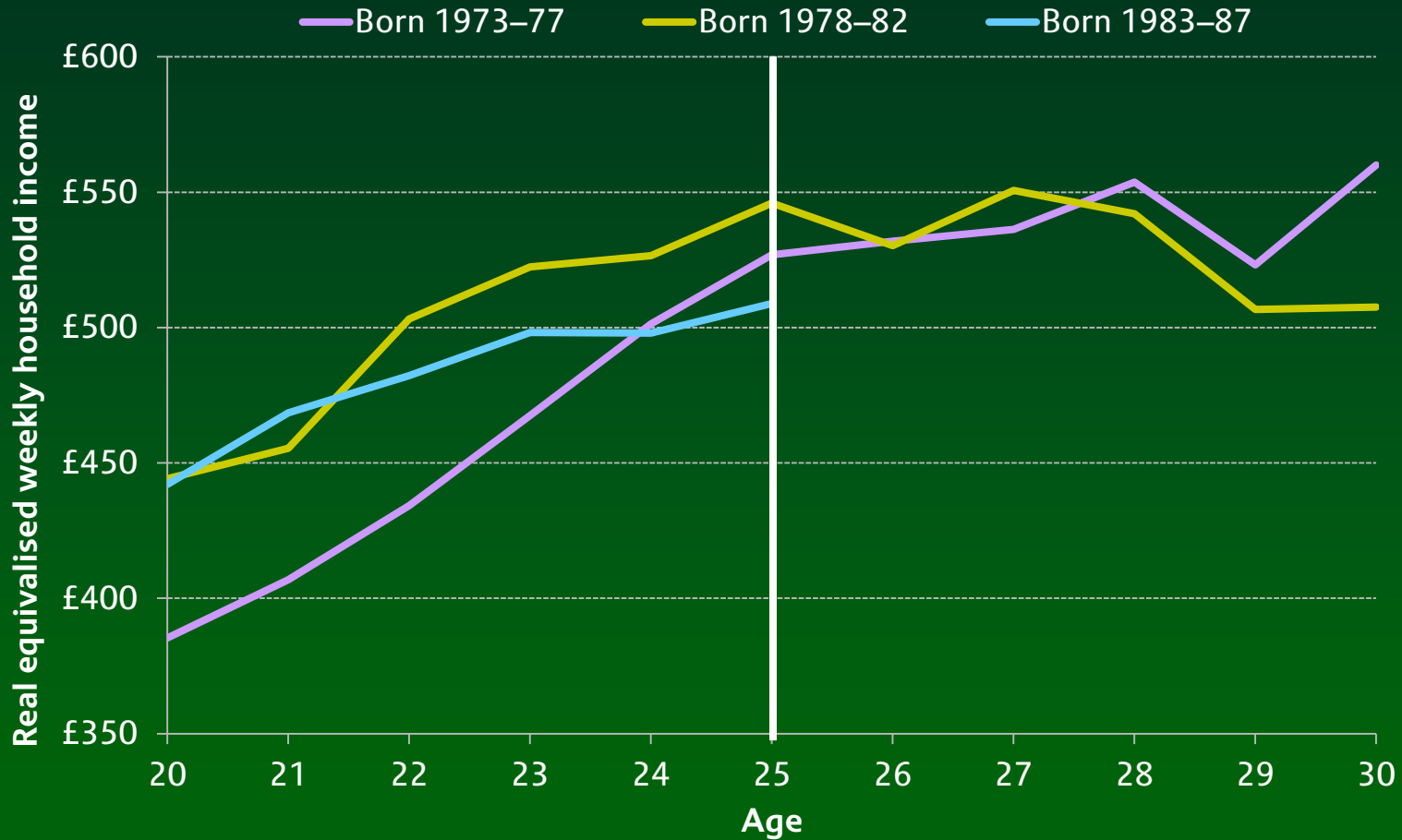


# 22-30 year olds have seen large falls in income



Source: Figure 5.2 of *Living Standards, Poverty and Inequality: 2014*

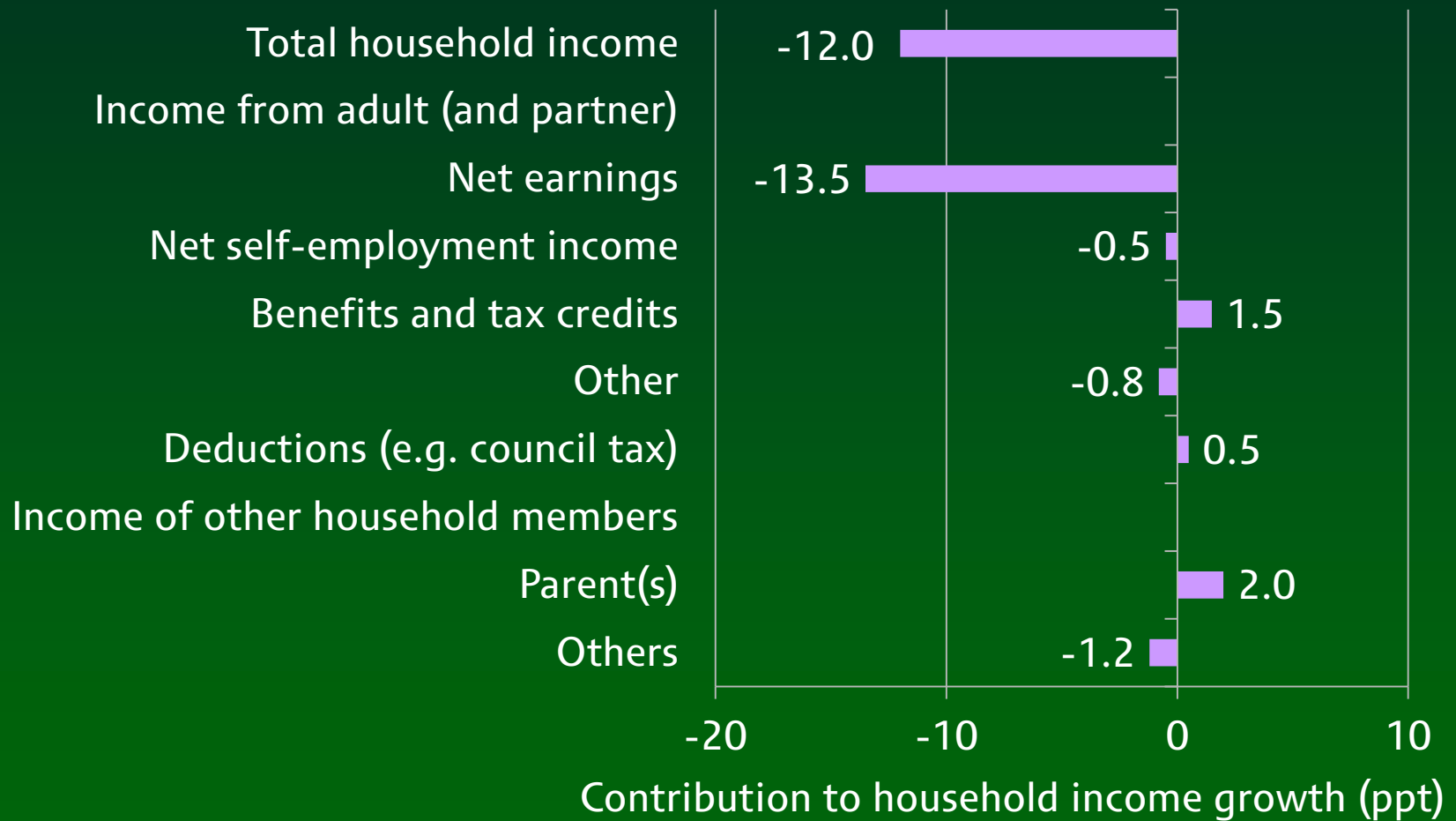
# Incomes rising less fast as young people age



Source: Figure 5.1 of *Living Standards, Poverty and Inequality: 2014*

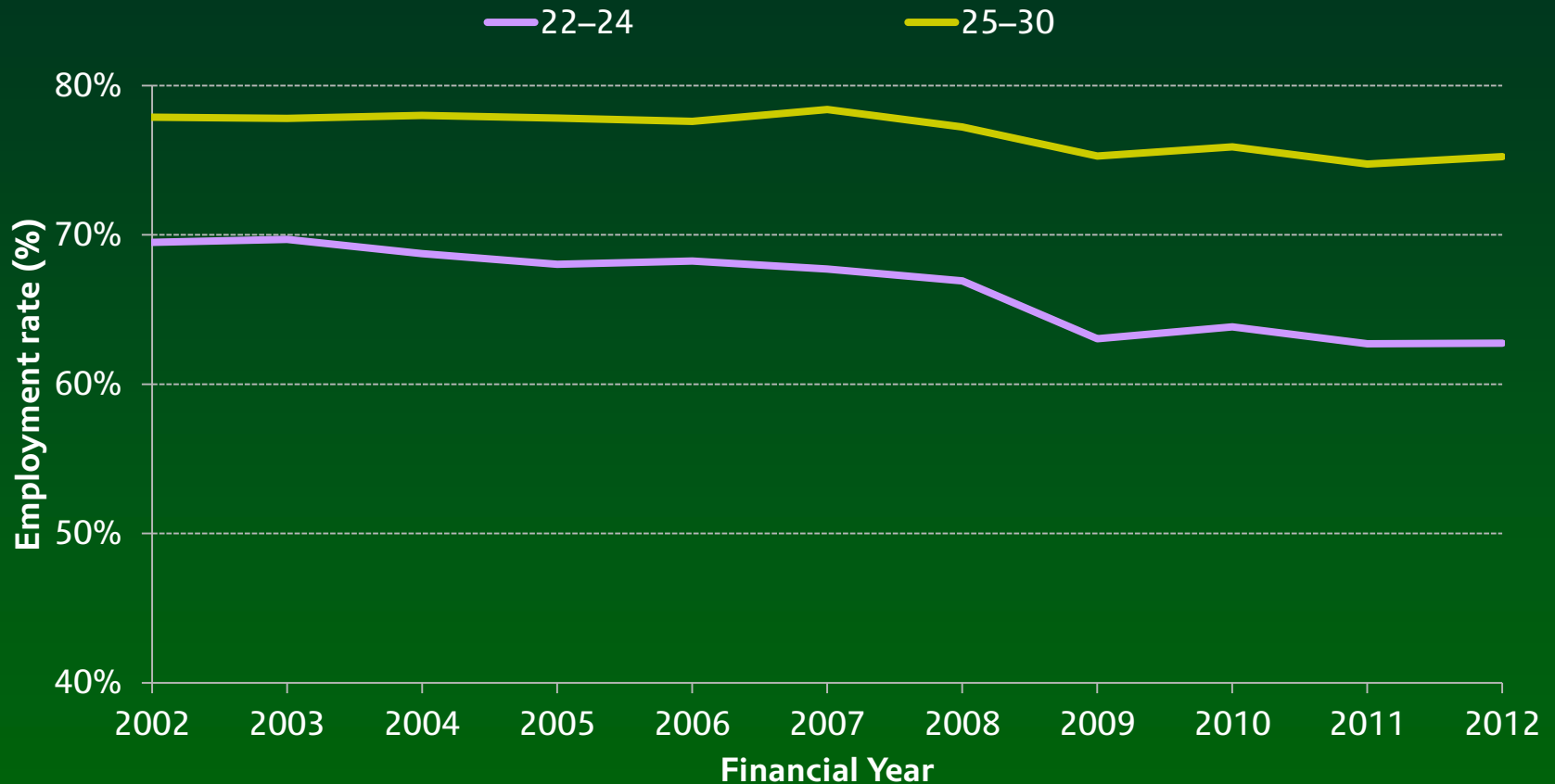
# What has driven the income falls for young adults?

Contribution to household income growth for adults aged 22-30 , 2007–08 to 2012–13



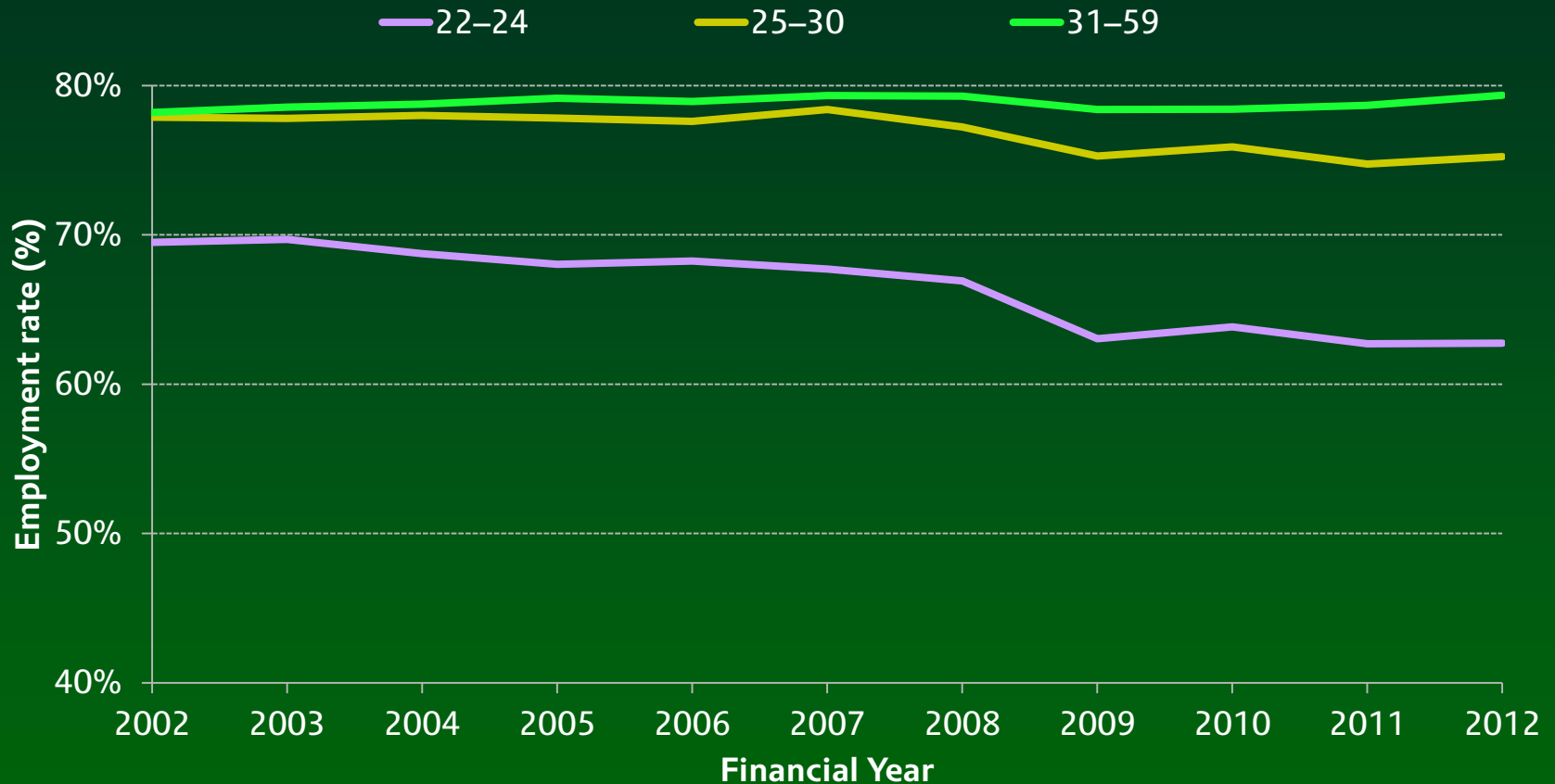
Source: Table 5.1 of *Living Standards, Poverty and Inequality: 2014*

# Employment rates have fallen for young adults...



Source: Figure 5.7 of *Living Standards, Poverty and Inequality: 2014*

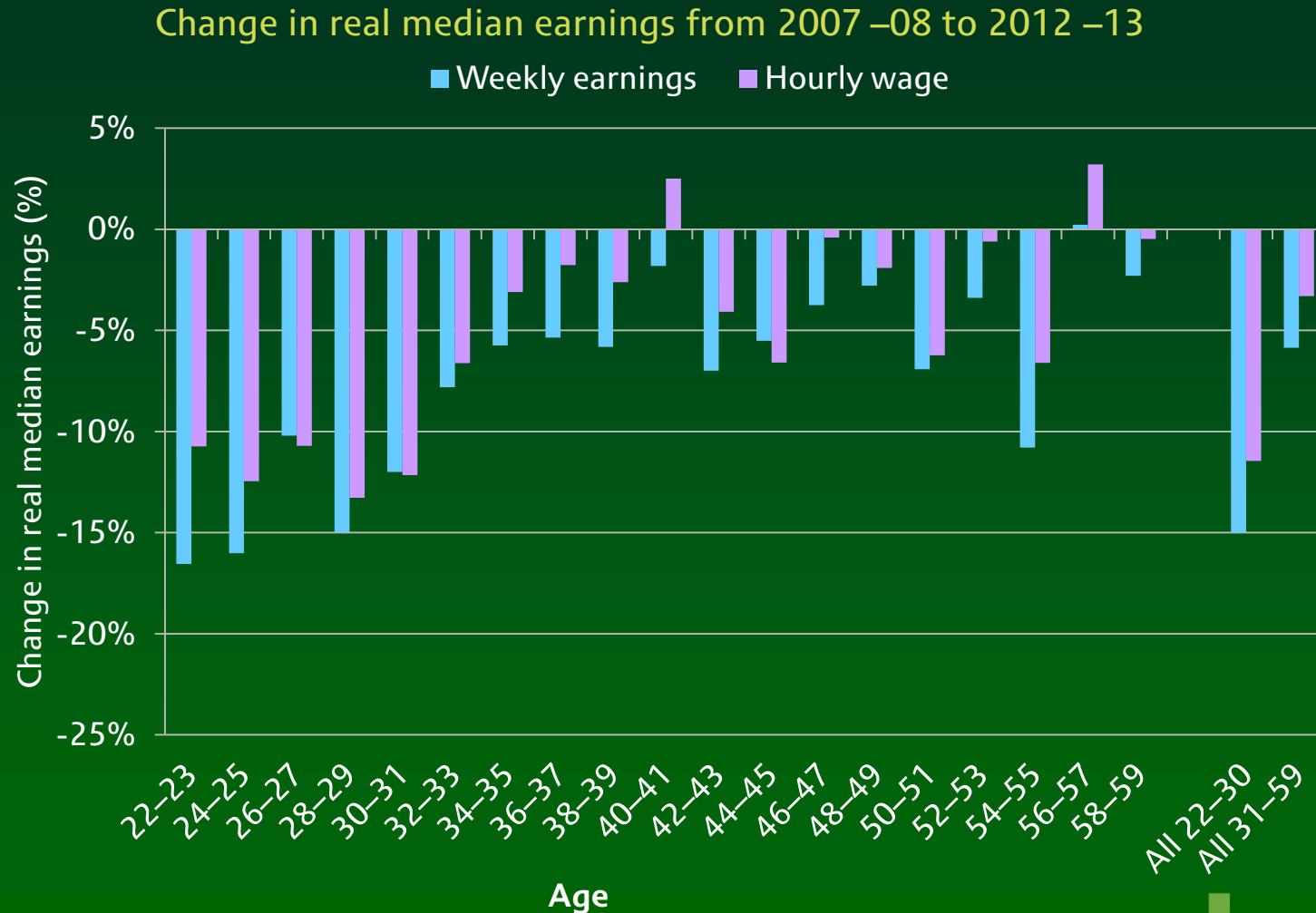
...but have barely changed for 31-59 year olds



Source: Figure 5.7 of *Living Standards, Poverty and Inequality: 2014*

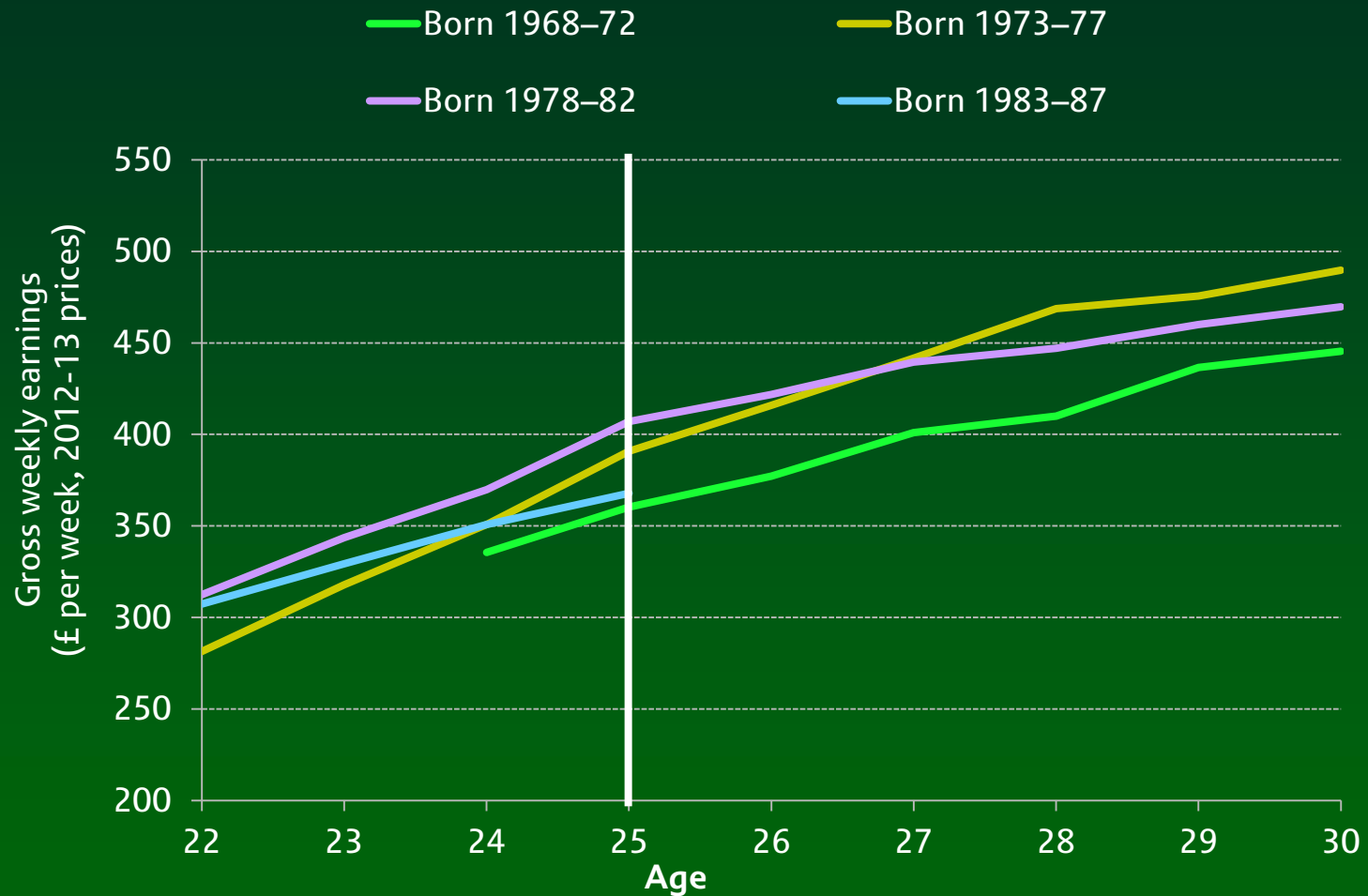


# Earnings have fallen more for young adults



Source: Figure 5.9 of *Living Standards, Poverty and Inequality: 2014*

# Recent cohorts have lower earnings than older ones..



Source: Figure 5.10 of *Living Standards, Poverty and Inequality: 2014*

## Lower earnings for young adults

- Individuals born in the mid 1980s have earnings that at age 25 are
  - 10% lower than those born 5 years earlier
  - 6% lower than those born 10 years earlier
  - 2% higher than those born 15 years earlier
- This is despite a large increase in education for later cohorts
  - 31% of mid 1980s cohort have a degree at age 25
  - compared to 25% of those born in mid 1970s at age 25

# Income falls cushioned by parents' incomes

Percentage of 22-30 year olds living on own and with parents, and their incomes

	Living on own or with partner only	Living with parents
Percentage of group in 2005–06 to 2007–08	60%	26%
Percentage of group in 2010–11 to 2012–13	59%	28%
Income levels, 2010–11 to 2012–13		
Median household BHC income (per week)	£459	£510
Median benefit unit BHC income (per week)	£459	£281
Income changes between 2005–06 to 2007–08 and 2010–11 to 2012–13		
Median household BHC income	-11.7%	-7.8%
Median benefit unit BHC income	-11.7%	-17.3%

Source: Table 5.2 of *Living Standards, Poverty and Inequality: 2014*

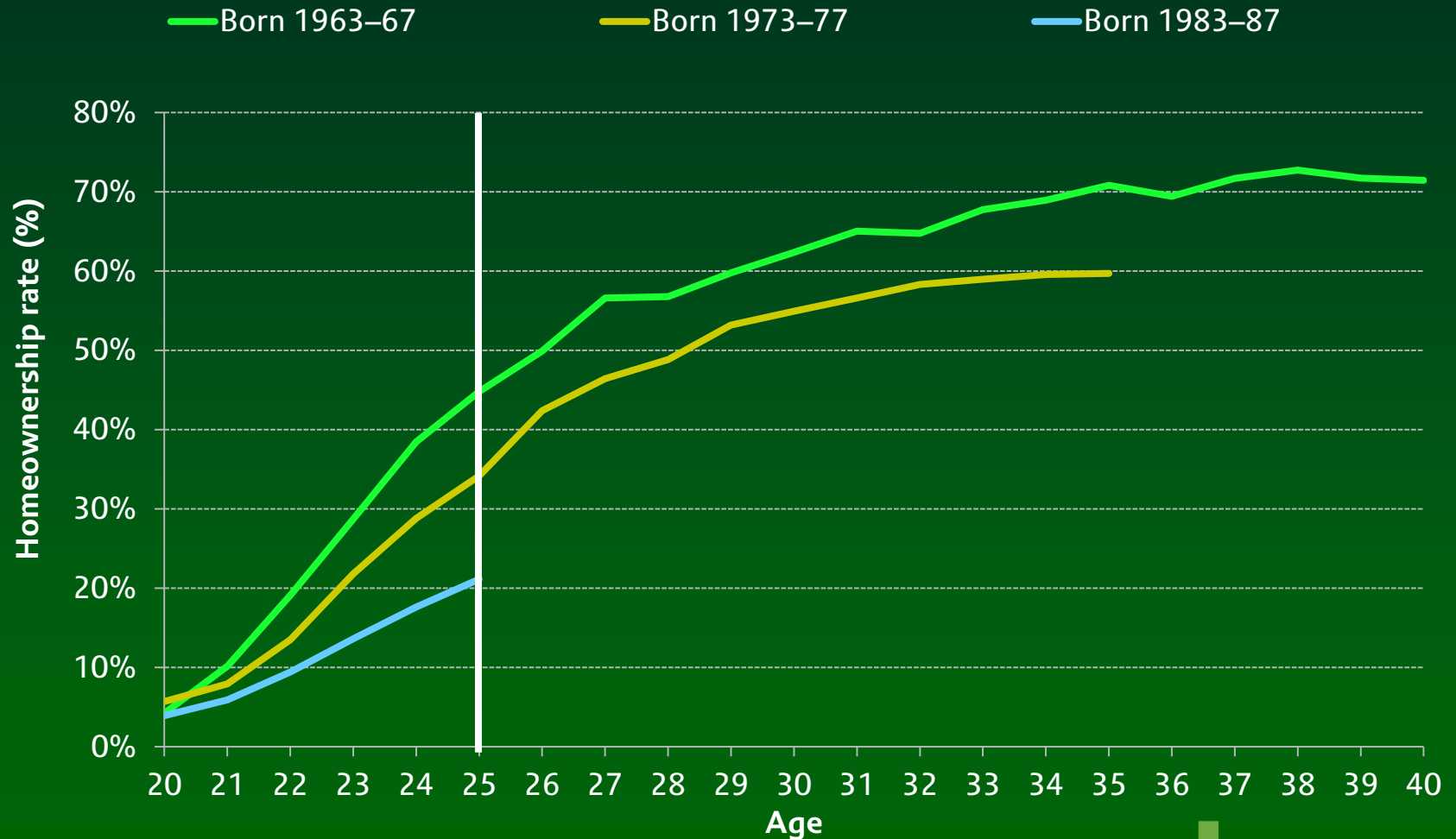
# Does this matter for living standards?

- Young adults who live with low-income parents are more likely to say that they cannot afford:
  - a holiday, to save £10 per month, to keep up with regular payments
  - even when comparing young adults with similar personal incomes
- Parents' incomes may have provided insurance to young adults
- Living with parents not a long term solution to help support young adults' living standards

## Looking to the future

- A crucial question is whether the recession has done lasting damage to the earnings and incomes prospects of young adults
- There has been a decrease in the proportion of young adults who are not economically active or in full-time education
  - some may have worried about large numbers of young adults becoming discouraged or detached from the labour market
- We do know that home ownership rates of this younger generation are likely to remain lower than for earlier cohorts

# Recent cohorts are also less likely to own a home



Source: Figure 3.13 of *Living Standards, Poverty and Inequality: 2014*

# Conclusion

- Young adults have seen particularly large falls in income since the recession
- This is entirely explained by falls in employment income:
  - lower employment, lower hours worked, lower hourly wages
- Parents' incomes have cushioned the fall in incomes for young adults
  - important now; potentially less important as they age