Office for National Statistics

Statistical bulletin

Economic well-being, UK: April to June 2016

Presents a rounded and comprehensive basis for assessing changes in economic well-being through indicators that adjust or supplement more traditional measures such as gross domestic product (GDP).

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1 . Main points

In Quarter 2 (April to June) 2016, gross domestic product (GDP) per head increased 0.5% compared with Quarter 1 (January to March) 2016 and is now 1.3% above pre-economic downturn levels. This was a slightly slower growth rate than the 0.7% quarterly increase seen in GDP.

Net national disposable income (NNDI) per head increased by 0.4% in Quarter 2 2016 compared with the same quarter a year ago. Growth in NNDI per head in Quarter 2 2016 was lower than GDP per head over the same period. This was due to a continued deterioration in the balance of earnings on direct investment, which moved from a surplus of £2.8 billion to a deficit of £2.0 billion between Quarter 2 2015 and Quarter 2 2016.

In Quarter 2 2016, real household disposable income (RHDI) per head excluding non-profit institutions serving households (NPISH), increased 2.0% compared with the same quarter a year ago. Growth was largely driven by increases in net social benefits other than transfers in kind, wages and salaries, and gross operating surplus including gross mixed income.

Household spending per head also increased in Quarter 2 2016 (2.2%) compared with the same quarter a year ago (Quarter 2 2015). This continues the general upward trend seen since Quarter 3 (July to September) 2011, but it remains 0.9% below pre-economic downturn levels.

The provisional estimate of median household disposable income for the financial year ending 2016 is £26,400, an estimated increase of £700 from financial year ending 2015, after accounting for inflation and household composition, and £400 higher than its pre-downturn value of £26,000 in the financial year ending 2008.

Total median wealth in those households with a Household Reference Person (HRP) aged between 55 and 64 increased 11.5% and for those 65 and over 14.9% between July 2010 to June 2012 and July 2012 to June 2014. This compares to a 13.8% decrease for those aged between 16 and 24.

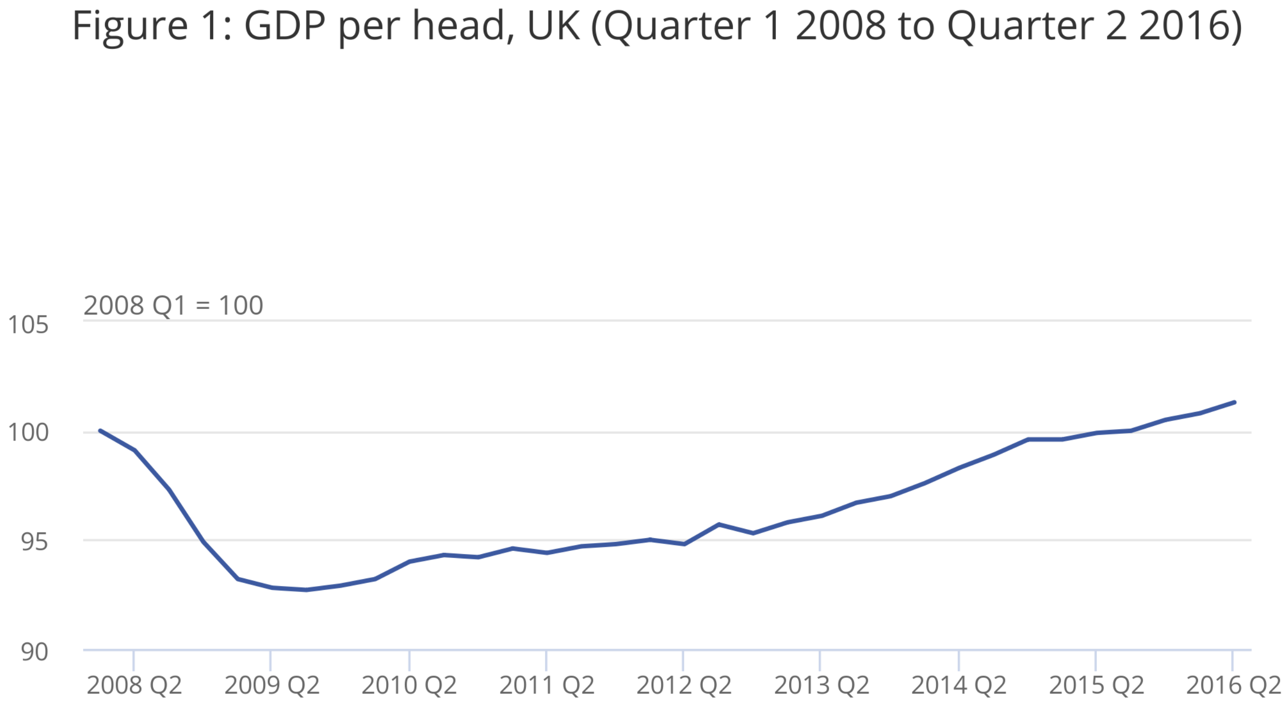
By Quarter 2 2016, the inactivity rate had declined by 1.8 percentage points from its 2011 average of 23.3%. This decline was mainly driven by a decrease in the number of people reporting they were inactive due to early retirement, long-term sickness, and looking after the family and home.

2 . Introduction

This release reports measures of economic or material well-being. Rather than focussing on traditional measures such as gross domestic product (GDP) alone, these indicators aim to provide a more rounded and comprehensive basis for assessing changes in economic well-being. More detail can be found in the ‘ Economic Well-being, Framework and Indicators’ article.

3 . Whole economy production and income

Figure 1: GDP per head, UK (Quarter 1 2008 to Quarter 2 2016)



Source: Office for National Statistics

Notes:

1. Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

Real GDP per head

In Q2 2016, gross domestic product (GDP) per head, which adjusts GDP for the size of the population, increased 0.5% compared with Q1 2016. This was a slightly slower growth rate than the 0.7% quarterly increase seen in GDP, due to faster growth in the population than GDP over the quarter. The quarterly growth in GDP per head means that it is now 1.3% above its pre-economic downturn level, having initially surpassed that yardstick in Q3 2015.

Between 2014 and 2015, GDP per head increased 1.4%. This was slower than the 2.2% increase in GDP over the same period.

Real net national disposable income (NNDI) per head

In Q2 2016, net national disposable income (NNDI) per head increased 0.4% compared with the same quarter a year ago (Q2 2015). This is compared to a 1.4% increase GDP per head over the same period.

Between 2014 and 2015, NNDI per head increased 1.0%. This was slower than the 1.4% increase in GDP per head over the same period.

As discussed in the 'Economic Well-being, Framework and Indicators' article, there are 2 main differences between GDP per head and NNDI per head. First, not all income generated by production in the UK will be payable to UK residents. Some of the capital employed will be owned by non-residents and they will be entitled to the return on that investment. Conversely, UK residents receive income from production activities taking place elsewhere, based on their investments overseas. Adjusting for these flows gives a measure that is more focused on income rather than production.

Second, these measures can be adjusted for capital consumption. GDP is "gross" in the sense that it does not adjust for capital depreciation, that is, the day-to-day wear and tear on vehicles, machinery, buildings and other fixed capital used in the productive process. It treats such consumption of capital as no different from any other form of consumption. But most people would not regard depreciation as adding to their material well-being.

GDP per head and net domestic product (NDP) per head, which makes the adjustment for capital depreciation, track reasonably well over the course of the recession, suggesting that the impact of capital consumption is relatively low.

However, NNDI per head has followed a slightly weaker growth path than GDP per head since late 2011. NNDI per head, which represents the income generated by production that is payable to UK residents, grew by 5.7% between Q1 2012 and Q2 2016. This is compared to GDP per head which has grown by 6.6% over the same period. This means that in Q2 2016 NNDI per head was 1.2% below its pre-economic downturn level. However, in Q2 2016 GDP per head was 1.3% above its pre-economic downturn level.

The difference between the experience of GDP per head and NNDI per head since late 2011 can in part be explained by the deterioration in the balance of primary incomes, which captures flows of income into and out of the UK economy. Since a peak surplus of £8.6 billion in Q2 2011, the balance of primary incomes has deteriorated by an average of £0.9 billion per quarter to reach a deficit of £10.0 billion in Q2 2016.

A major factor in the decline in the balance of primary income has been a fall in the direct investment earnings balance – earnings from cross-border investments made by residents and businesses from one country into another, with the aim of a establishing a lasting relationship.

Since 1997, the balance of earnings on foreign direct investment (FDI) (the difference between earnings from direct investment abroad and from foreign direct investment in the UK) made a positive contribution to the UK current account, partly offsetting negative contributions from the other major components. However, the surplus in FDI earnings has fallen since 2011, turning negative in 2015. More information is available in our analysis of the drivers behind the fall in direct investment earnings and their impact on the UK's current account deficit release.

This deterioration is attributed to falling earnings for UK residents from direct investment abroad and an increase in foreign earnings on direct investment in the UK. The continued fall resulted in direct investment earnings falling into deficit in Q1 2015, the first such deficit since Q4 2008. The balance of earnings on foreign direct investment recovered slightly, returning to surplus in Q2 2015 and Q3 2015 before falling once again into a deficit of £6.2 billion in Q4 2015. This was due to an increase in foreign earnings on direct investment in the UK compared to Q3 2015, and a fall in UK earnings from direct investment abroad in each quarter since Q1 2015.

Although FDI earnings improved in both the first two quarters of 2016 compared to Q4 2015, the balance remained in deficit (£2.0 billion). The increase between Q4 2015 and Q1 2016 reflected a fall in the value of FDI earnings overseas investors made in the UK, and a small increase in UK FDI earnings from overseas. The further improvement in the FDI earnings balance in Q2 2016 was driven by a rise in UK FDI earnings from overseas, which was partly offset by a small increase in the value of FDI earnings overseas investors generated in the UK.

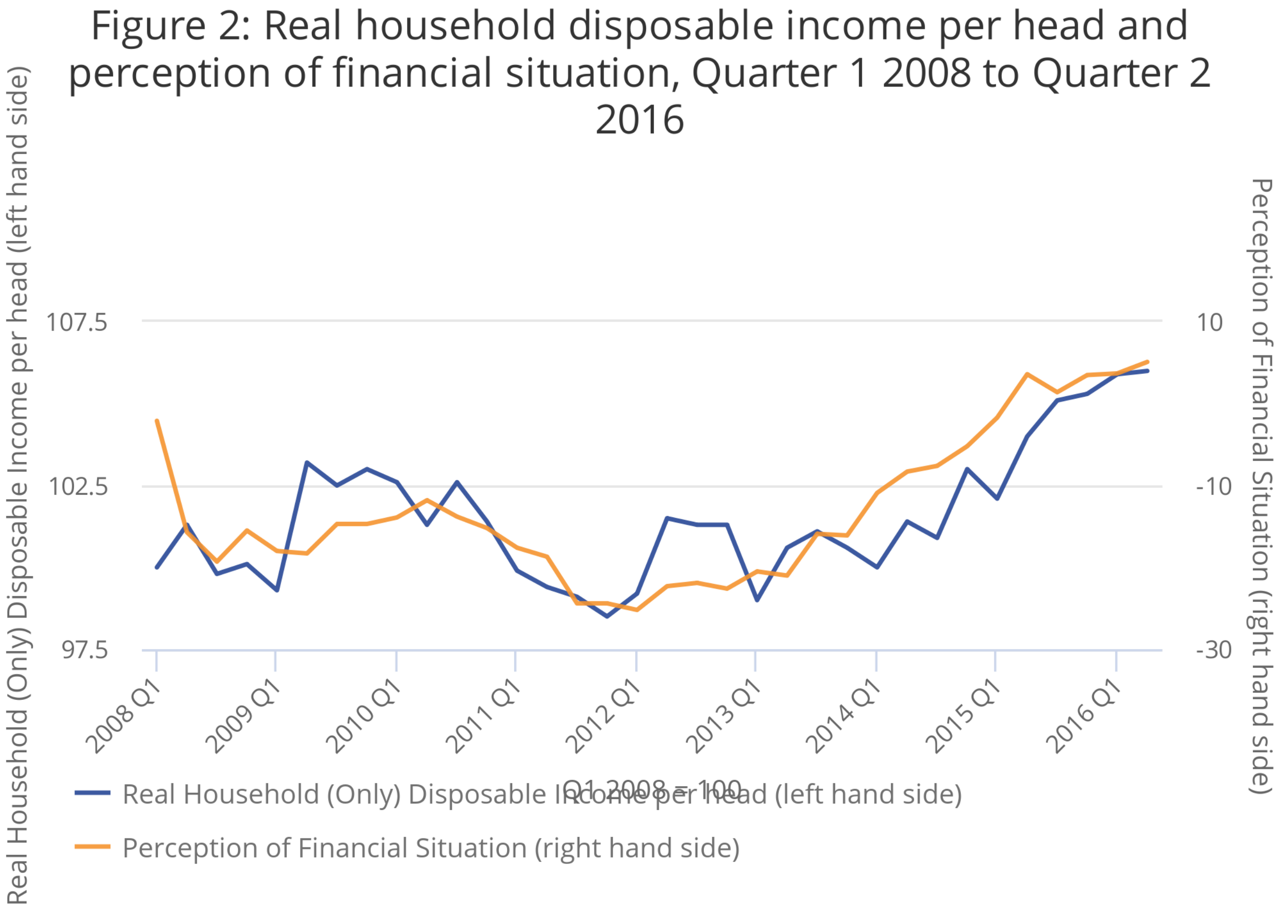
Perception of the economic situation

The Eurobarometer Consumer Survey asks respondents on their perception of how the general economic situation has changed over the last 12 months. A negative balance means that, on average, respondents reported the general economic situation worsened, a positive balance means they reported it improved and a zero balance indicates no change.

In June 2016, the aggregate balance stood at negative 15.1, suggesting that, on average, respondents think the economic situation has worsened over the last year. This is a decrease on the negative 8.7 aggregate balance recorded at the end of the first quarter of 2016 (March 2016). The series has been on a general upwards trend in recent years until April 2015, before the trend turned negative. At its lowest, in May 2009, the Eurobarometer reported an aggregate balance of negative 82.3.

4 . Household income

Figure 2: Real household disposable income per head and perception of financial situation, Quarter 1 2008 to Quarter 2 2016



Source: Office for National Statistics and GfK (for the Eurobarometer Consumer Survey)

Notes:

1. Household's perception of their own financial situation over the last 12 months - last month of each quarter used.

2. Households exclude non-profit institutions serving households (NPISH).

3. Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

Unless stated otherwise, analysis of real household disposable income (RHDI) in this bulletin excludes non profit institutions serving households (NPISH). This is more focussed on the household experience and we consider it a better indicator of economic well-being. Real household and NPISH disposable income per head will continue to be published alongside RHDI per head (excluding NPISH) in the reference tables.

In Q2 2016, RHDI per head increased 2.0% compared with the same quarter a year ago (Q2 2015). On a quarterly basis, RHDI per head increased by 0.1% in Q2 2016 compared with Q1 2016. As a result, in Q2 2016, RHDI per head was 6.0% above its pre-economic downturn level.

In September 2017, the ONS will publish separate, full sets of accounts for household sector only, NPISH sector only and a combination of the two. Until then, it is necessary to analyse composition of RHDI on the traditional measure that includes NPISH. RHDI (including NPISH) per head increased 2.2% in Q2 2016 compared with the same period a year ago. The main contributor to this growth was from growth in wages and salaries – up by 2.9% on a per head basis over the same period. The other main contributors were net social benefits other than transfers in kind per head (3.9%) and gross operating surplus including gross mixed income per head (4.4%).

As GDP began to fall in mid-2008, RHDI per head remained relatively resilient. By Q2 2009, RHDI per head was 3.2% above its pre-economic downturn level. This initial improvement in real household income per head was a result of several factors.

Firstly, household incomes were buoyed by falling mortgage repayments as a result of historic lows in the interest rate. Additionally, automatic stabilisers – such as reduced income tax payments and increased benefits as a result of lower employment – supported incomes during worsening conditions in the labour market. However, moving into early 2011, the impact of these factors wore off and inflation rose. Prices grew more strongly than household income and therefore, over time, people found that their income purchased a lower quantity of goods and services.

Following this, RHDI per head began to rise in early 2012 before stabilising toward the end of 2012. In Q1 2013 the series fell to 1.0% below its pre economic downturn level, but it has been on a general upward trend since, increasing 6.1% between Q1 2014 and Q2 2016. This could be attributed to an improvement in real earnings since Q2 2014. Between Q2 2014 and Q2 2016 real earnings growth increased from negative 1.2% to 2.1%, due to improving nominal earnings and disinflation. The Consumer Price Index (CPI) inflation rate remained near zero throughout most of 2015.

For international comparisons it is important to consider benefits in kind, such as education and healthcare services. The real household and NPISH adjusted disposable income per head series, which makes the adjustment for benefits in kind, can be found in the reference table.

Perception of financial situation

As well as considering levels of household income, it is important to consider individuals' perceptions of their own income. The Eurobarometer Consumer Survey asks respondents their views on the financial situation of their household over the past 12 months. A negative balance means that, on average, respondents reported their financial situation got worse, a positive balance means they reported it improved and a zero balance indicates no change.

In the years before the economic downturn a peak of 3.3 was reported in October 2007 but in general it remained around the zero mark, indicating no change. At the beginning of 2008, following the economic downturn, the balance sharply fell and reached a low of negative 25.2 in March 2012. Between the end of Q1 2016 and the end of Q2 2016, the aggregate balance increased from 3.7 to 5.1, continuing the positive balances that have been seen in recent months following sharp increases since early 2013. The figure suggests that, on average, households are beginning to feel their financial situation has improved slightly over the past 12 months.

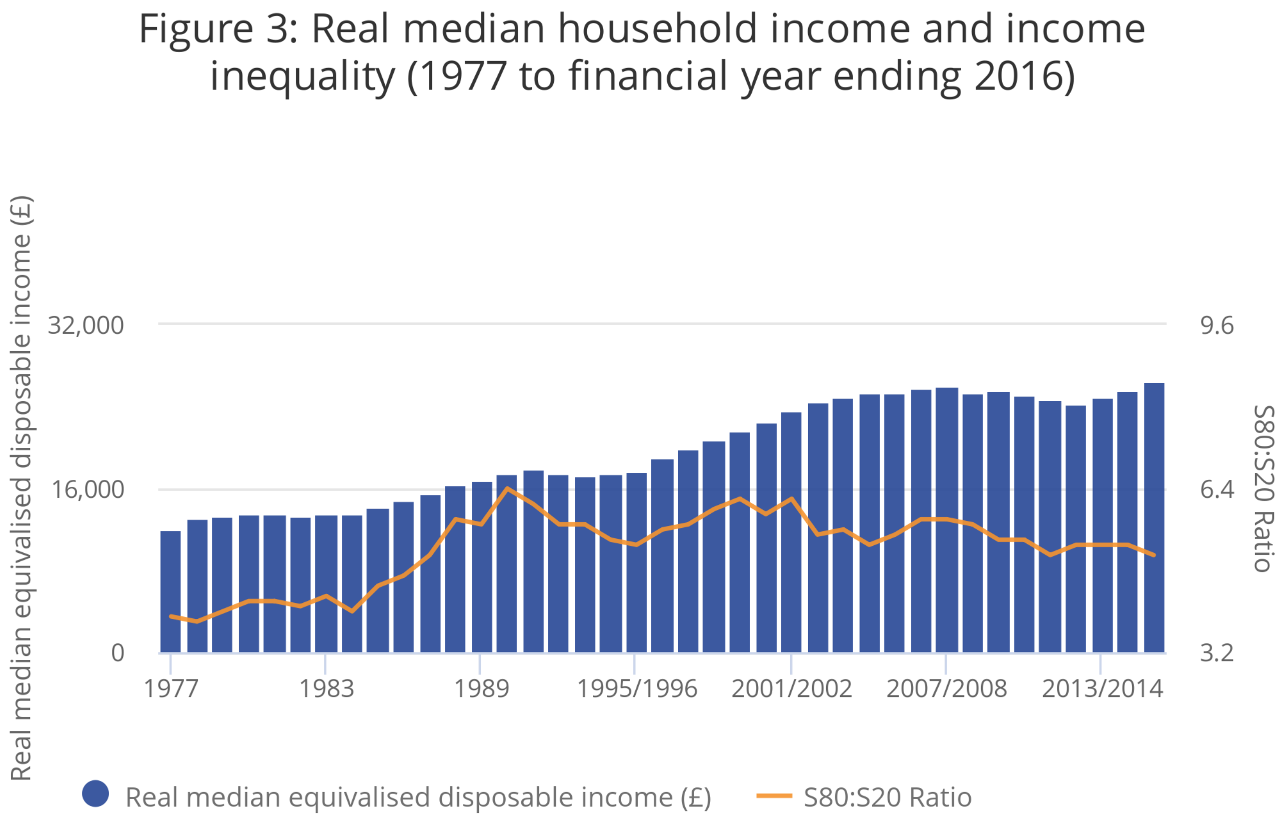
The Eurobarometer Consumer survey also asks respondents their views on whether now is a good time to save. The balance had been negative from April 2011 onwards, but following improvements from May 2013, the series reached a positive figure in June 2015. Between the end of Q1 2016 and the end of Q2 2016, the balance increased from 0.9 to 2.9. This figure suggests that respondents believe now is a good time to save. Also, on average, households reported saving at least some of their income.

Additionally, Understanding Society provides information on the proportion of individuals that report being somewhat, mostly, or completely, satisfied with the income of their household and the proportion of households that report finding it quite, or very, difficult to get by financially.

In the financial year ending 2014, the proportion of individuals that reported finding it difficult to get by financially was 9.1%. This was 1.0 percentage point lower than a year earlier, continuing the downward trend since it peaked at 12.3% in the financial year ending 2010. Despite falling in recent years, the proportion of individuals that report finding it difficult to get by financially remains above pre-economic downturn levels.

In the financial year ending 2014, the percentage of respondents that were somewhat, mostly, or completely, satisfied with their level of income was 53.7%. This is broadly unchanged from a year earlier. Satisfaction with income demonstrated a downward trend between 2007 and the financial year ending 2012, recording a 4.5 percentage point decline between the financial years ending 2011 and 2012. While the increase in the financial year ending 2013 and 2014 shows some improvement in this trend, it remains below the levels seen prior to the economic downturn.

Figure 3: Real median household income and income inequality (1977 to financial year ending 2016)



Source: Office for National Statistics

Notes:

1. A household's disposable income is made up of all its earnings and investment income (including private pensions), plus cash benefits received from the state, minus direct taxes such as Income Tax and Council Tax. Equivalisation adjusts the income of households to reflect the different costs associated with different sizes and compositions of households.

2. The S80:S20 is the ratio of the total equivalised disposable income of the richest fifth of the population to that of the poorest fifth of the population.

3. Years are calendar years until 1993 and financial years from 1994/95.

4. Income is deflated using the Household final consumption expenditure implied deflator.

In October 2015 we started producing provisional estimates for measures of the distribution of household income using “nowcasting” techniques. Unlike forecasting, which relies heavily on projections and assumptions about the future economic situation, nowcasting uses data that is already available for the period of study. The Nowcasting Household Income in the UK release provides more detail on the methodology.

In the financial year ending 2016, real median equivalised disposable income (the income of the middle household if all households are ranked from the lowest income to the highest, after accounting for inflation and household composition) was £26,400 – 2.7% higher than the financial year ending 2015. This continues the upwards trend in real median equivalised disposable income since the financial year ending 2013. In the financial year ending 2016, real median equivalised disposable income was 1.5% (£400) greater than its pre-economic downturn level recorded in the financial year ending 2008.

Median household income represents the middle of the income distribution and provides a good indication of the “typical” household. However, to assess equality it is also important to consider how income is distributed.

One commonly used indicator for analysing the income distribution is the S80:S20 ratio – the ratio of total real equivalised disposable income received by the richest fifth of households to that received by the poorest fifth. Between the financial years ending 2015 and 2016, this ratio decreased from 5.3 to 5.1; suggesting early estimates of income inequality in the financial year ending 2016 are broadly unchanged from those for the previous financial year.

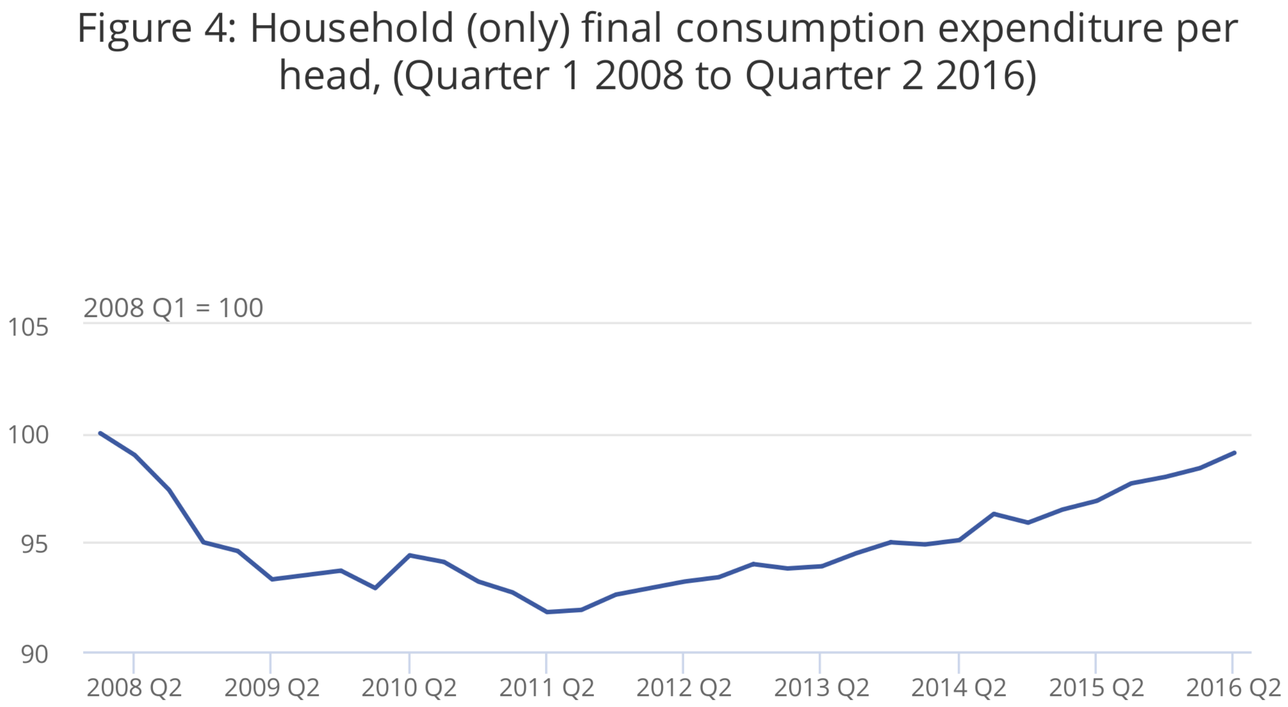
Notes for Household income

1. The Eurobarometer Consumer Survey is collected by GfK for the European Commission. There is more information about interpreting the Eurobarometer Consumer Survey in background note 5.
2. Understanding Society is a household longitudinal study that captures information from a representative UK sample. More information can be found in background note 6.
3. Real household disposable income (RHDI) is published in both non-seasonally adjusted (NSA) and seasonally adjusted (SA) formats in the United Kingdom Economic Accounts, with the latter removing seasonal effects to allow comparisons over time. However, it is sensitive to short-term changes in its components, particularly on a quarterly basis, meaning that quarter on quarter movements can appear volatile. To better present the longer-term movement in household income, this bulletin presents RHDI growth on a quarter on the same quarter a year ago and on an annual basis.
4. The income measure used in this section, unless otherwise stated, is real equivalised household disposable income. Disposable income is the amount of money that households have available for spending and saving after direct taxes (such as income tax and council tax) have been accounted for. It includes earnings from employment, private pensions and investments, as well as cash benefits provided by the state. Equivalisation is the process of accounting for the fact that households with many members are likely to need a higher income to achieve the same standard of living as households with fewer members.
5. Original income is income before government intervention (for example income from employment and investment)
6. A series being “real” means that it has taken account of inflation effects
7. Throughout this release Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December)

5 . Household spending

While income is an important measure of material well-being, it is important to also consider how much households actually consume. For instance, our analysis published in June 2014 [Income, Expenditure and Personal Well-being, 2011/12][3], presented new findings on the relationship between personal well-being, household income and expenditure using regression analysis. It found that household expenditure appeared to have a stronger relationship with personal well-being than household income.

Figure 4: Household (only) final consumption expenditure per head, (Quarter 1 2008 to Quarter 2 2016)



Source: Office for National Statistics

Notes:

1. Households do not include non-profit institutions serving households (NPISH).

2. Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

In Q2 2016, real household spending per head (excluding non-profit institutions serving households) grew 0.7% compared with the previous quarter, continuing the general upward trend seen since Q3 2011. However, real household spending per head (excluding NPISH) remains 0.9% below its pre-economic downturn level. This is despite real household income per head (excluding NPISH) being 6.0% above its pre-economic downturn level in Q2 2016.

Since Q3 2011, real household spending per head has steadily increased, possibly reflecting improved economic sentiment among households. This has been due to the increased spending per head on transport and recreation and culture, which more than offset declines in expenditure per head on alcohol and tobacco, and education, although education spending has levelled out since Q4 2014.

As with household income, for international comparisons it is important to consider benefits in kind. Real household and non-profit institutions serving households (NPISH) actual final consumption per head, which makes the adjustment for benefits in kind, can be found in the reference table.

6 . Wealth

This section considers 2 different measures of wealth; net worth from the national accounts and household wealth from the Wealth and Assets Survey (WAS).

Total net worth

The net worth of the economy as a whole is important as it indicates the sustainability of current levels of production and corresponding income flows. It is possible that a nation might be increasing its output while its stock of assets decline. This could mean that its level of production is unsustainable. However, for a complete appraisal of sustainability, natural, human and social capital should also be considered.

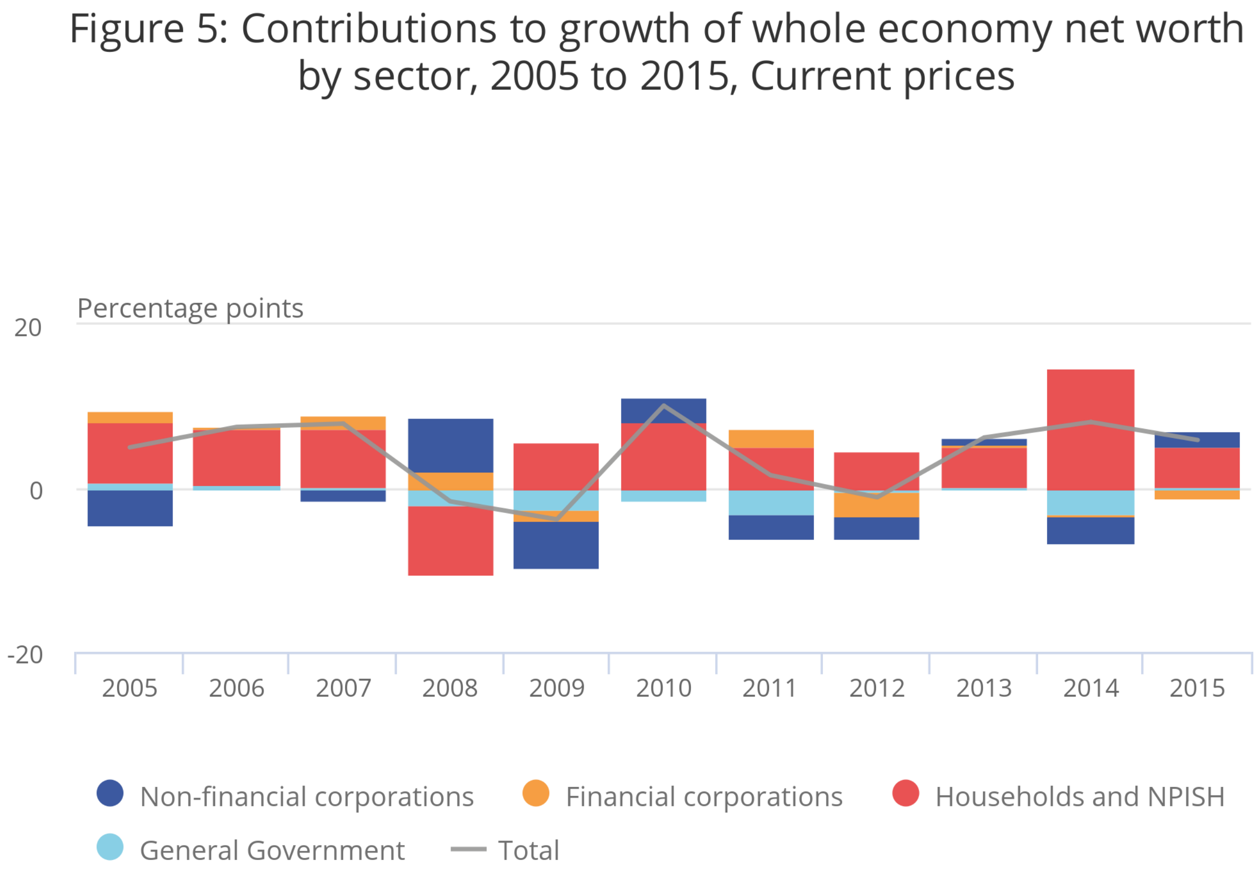
In 2015, the net worth of the economy as a whole (of households, businesses and the government) increased by £493 billion (5.9%), to £8.8 trillion. This was equivalent to £135,000 per person, up from £129,000 in 2014. Total net worth is the sum of the values of financial assets (for example, shares and deposits) and non-financial assets (for example, dwellings and machinery), minus financial liabilities. These measures have not been adjusted for inflation, although this was 0.0% on average, as measured by the Consumer Prices Index (CPI) between 2014 and 2015. This means that the growth in total net worth was stronger than the growth in the general price level between 2014 and 2015.

As shown in figure 5, the largest contribution to growth in whole economy net worth was from households and non-profit institutions serving households (NPISH). The net worth of this sector grew by £406.0 billion (4.1%) between 2014 and 2015, contributing 4.9 percentage points to total growth.

Positive contributions from the household and NPISH, general government (£12.9 billion) and non-financial corporation (£175.1 billion) sectors were offset by a decline in the net worth of financial corporations of £101.6 billion between 2014 and 2015. More information on this is available in the 2016 National Balance Sheet publication.

Looking at the historical context, Figure 5 shows that between 2004 and 2007, total net worth increased year-on-year, mainly driven by increases in household and NPISH net worth. Total net worth contracted over the economic downturn in 2008 and 2009 before recovering in 2010 largely due to growth in the net worth of households and NPISH. Following falls in 2011 and 2012, total net worth has grown in each year since. This was, again, largely due to increases in the net worth of the household and NPISH sector.

Figure 5: Contributions to growth of whole economy net worth by sector, 2005 to 2015, Current prices



Source: Office for National Statistics

Notes:

1. Here, “net” is used to describe the net wealth position (assets minus liabilities), rather than making an adjustment for capital consumption.

2. Components may not sum to total due to rounding.

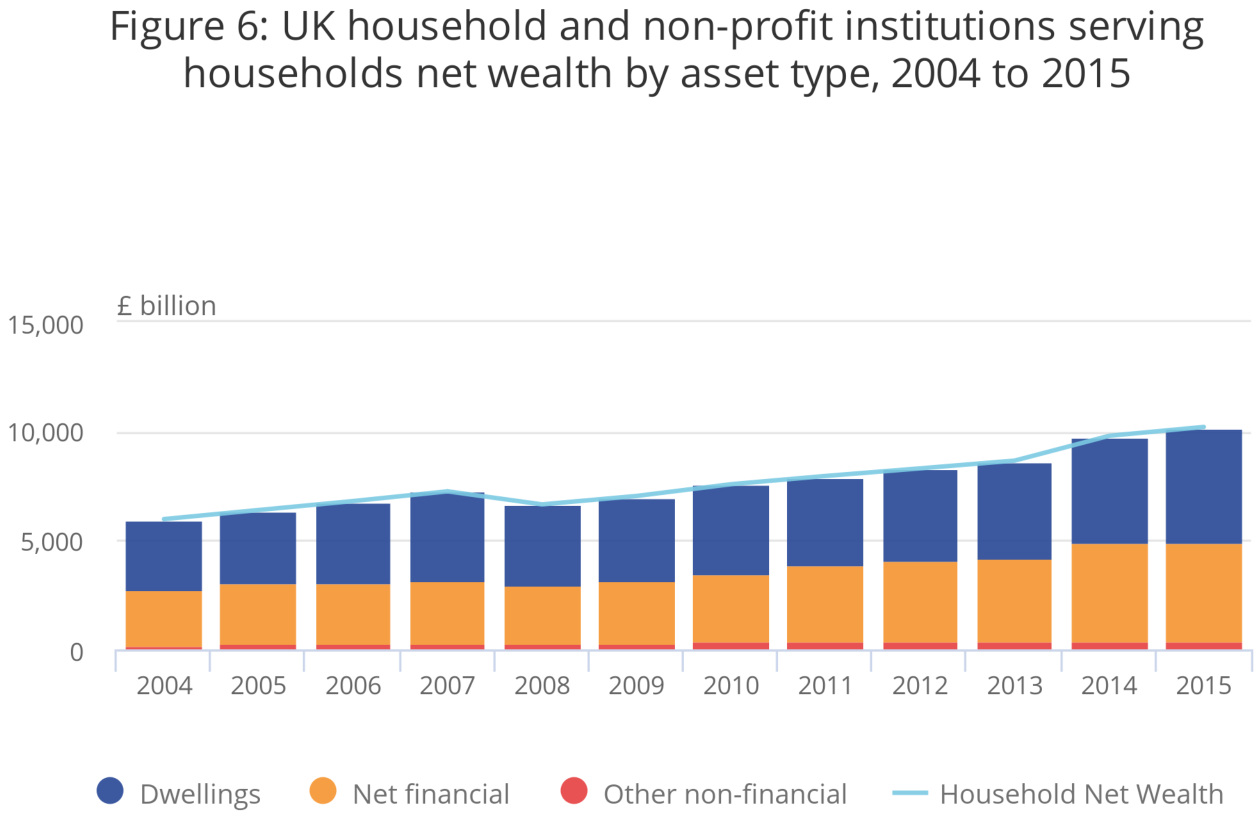
3. NPISH - non-profit institutions serving households.

Household net worth

Household net worth increased by £406.0 billion (4.1%) to £10.2 trillion between 2014 and 2015. As with total net worth, household net worth has not been adjusted for inflation. As a result, these figures should be taken in some context. For instance, household net worth includes non-financial assets, such as houses, which experienced price growth of 6.7% in 2015.

Figure 6 shows total net worth by component between 2004 and 2015. The main driver of the growth in household net worth between 2014 and 2015 was an increase in the value of dwellings (7.2%).

Figure 6: UK household and non-profit institutions serving households net wealth by asset type, 2004 to 2015



Source: Office for National Statistics

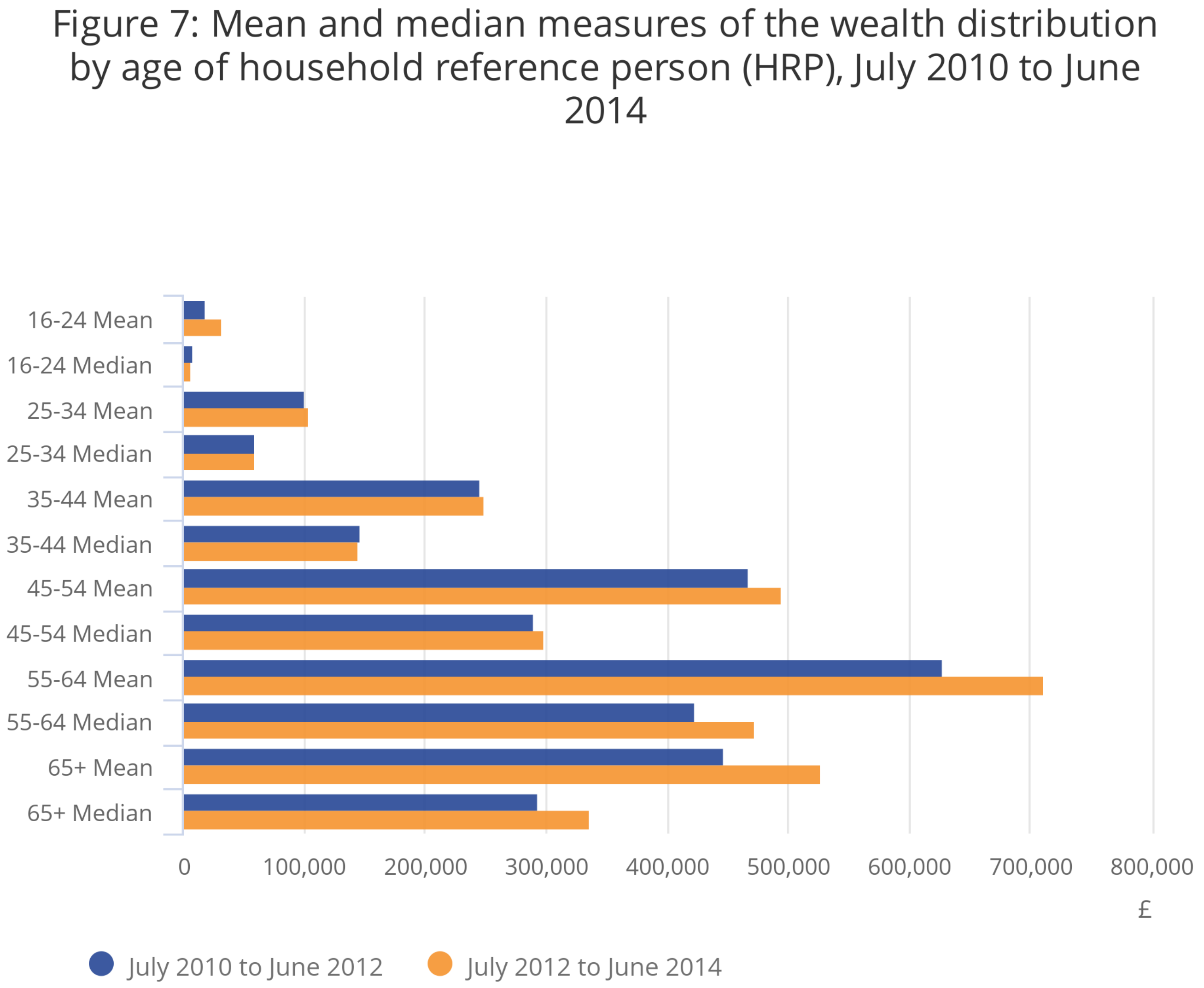
Notes:

1. NPISH stands for Non-Profit Institution Serving Households.
2. Components may not sum to total due to rounding.

Distribution of household wealth

In December 2015, the main results from the Wealth and Assets Survey (WAS) for the period July 2012 to June 2014 were published. Estimates from WAS are updated every 2 years, therefore different measures demonstrating the distribution of wealth will be presented at this point in each quarterly bulletin.

Figure 7: Mean and median measures of the wealth distribution by age of household reference person (HRP), July 2010 to June 2014



Source: Office for National Statistics - Wealth and Assets Survey (WAS)

Notes:

1. The sample sizes are smaller for those with a Household Reference Person (HRP) aged between 16 and 24 as the individuals that are the head of household are generally older.

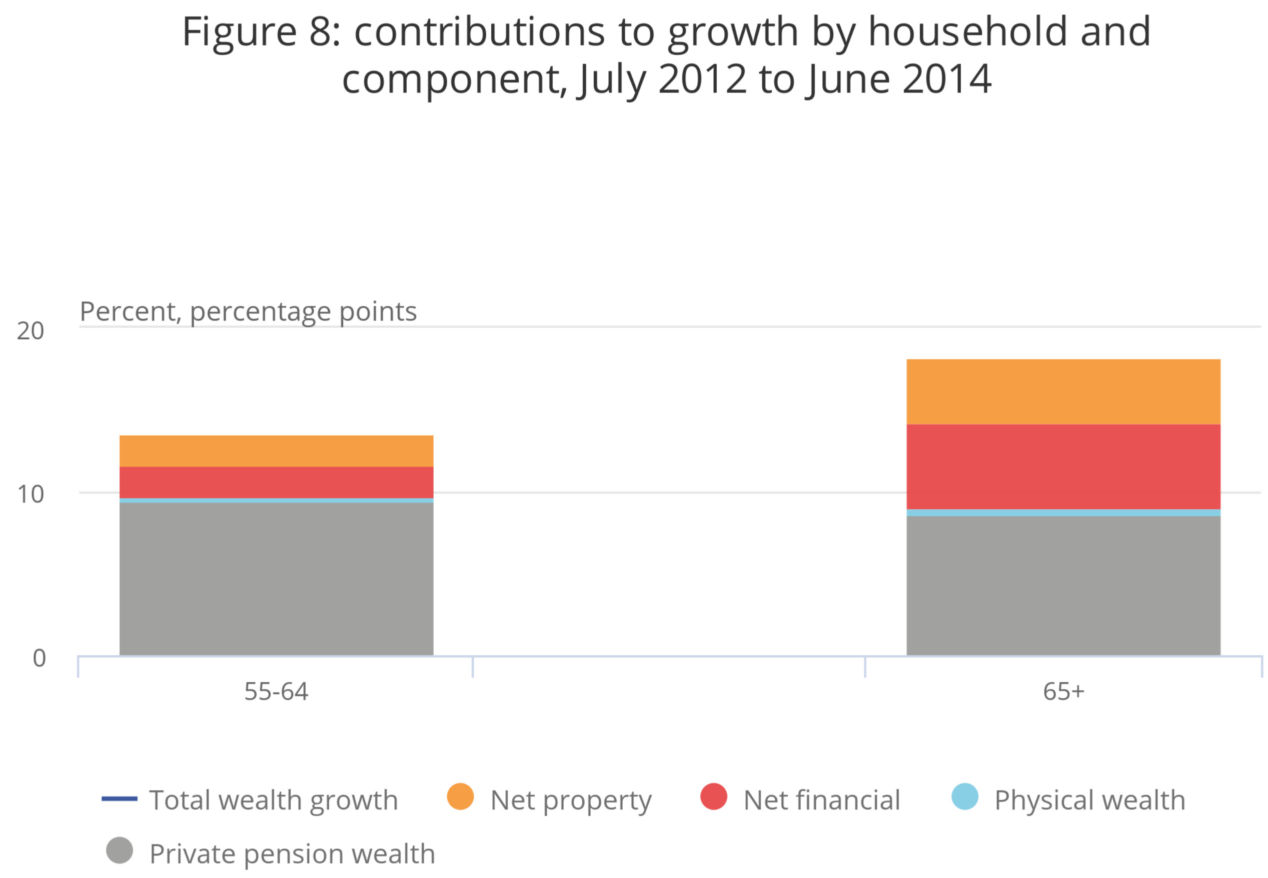
2. We recommend comparing median measures of wealth where possible as it accounts for the fact that wealth is positively skewed, and the mean can be highly affected by large values and outliers.

Figure 7 highlights median and mean measures of the wealth distribution for the latest two waves of the Wealth and Assets Survey (WAS). The median measures the wealth of the "typical" household at the middle of the distribution if all households, in each age category, were lined-up from lowest to highest wealth. The mean gives the average wealth for each age category. We recommend comparing median measures of wealth where possible as it accounts for the fact that wealth is positively skewed, and the mean can be highly affected by large values and outliers. However, compositional analysis of wealth is best undertaken on a mean basis, hence its inclusion in Figure 7.

The figure shows that as age (defined here as the age of Household Reference Person (HRP)) increases, household median and mean wealth increases until the ages 55 to 64, before decreasing for those aged over 65. This reflects the fact that households steadily accumulate wealth throughout their working lives, followed by a period of running down these savings during retirement.

Between Waves 3 and Waves 4, households with an HRP aged 55 to 64 and 65 and over experienced the largest growth in wealth, both in terms of median and mean average. Figure 8 examines the contributions from individual components of wealth to the growth in average total wealth for these age groups.

Figure 8: contributions to growth by household and component, July 2012 to June 2014



Source: Office for National Statistics - Wealth and Assets Survey (WAS)

Notes:

1. Property wealth comprises the value of the main residence for a household and the value of any additional property or properties owned by any adults within the household.

2. Physical wealth is derived from respondents' own estimates of the value of the contents of their main residence, the contents of any property which the household owns other than the main residence and also collectables, valuables, vehicles and personalised number plates.

3. Financial wealth comprises: formal financial assets (such as bank accounts, savings accounts, stocks and shares); informal financial assets (such as money saved at home); assets held by children in the household; and liabilities (such as formal borrowing, overdrafts and arrears on household bills).

4. Pension wealth relates to private pension wealth only, which means state pension wealth is excluded from the analysis.

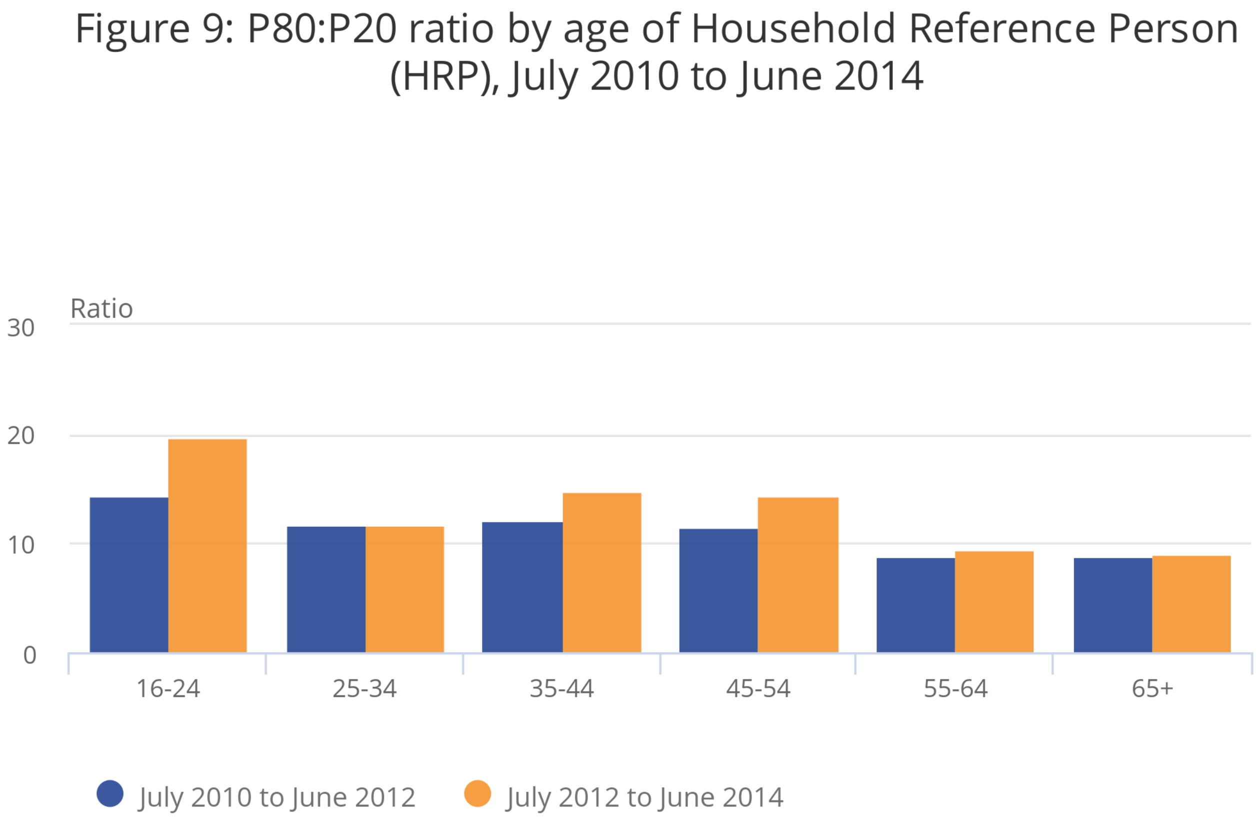
5. Components may not sum to total due to rounding.

Total average wealth (mean) in those households with a HRP aged between 55 and 64 increased 13.4% between waves 3 and 4 of the survey, with the largest contribution coming from growth in private pension wealth (9.5 percentage points). This was followed by net property wealth and net financial wealth which both contributed 1.9 percentage points.

Total wealth by households with a HRP aged over 65 increased 18.3% over the same period. The largest contributor, again, was private pension wealth (8.6 percentage points), followed by net property wealth (3.9 percentage points) and net financial wealth (5.2 percentage points). For both households with a HRP of 55 to 64 and 65+, physical wealth was the smallest contributor (0.2 percentage points and 0.5 percentage points respectively).

The differences between the mean and median total wealth in all age groups suggests inequality in the wealth distribution. To examine inequality in greater detail, Figure 9 presents the P80:P20 ratio, which compares the wealth of the household at the 80th percentile of the distribution to the wealth of the household at the 20th percentile of the distribution. The P80:P20 ratio is preferable to the P90:P10 ratio for studying inequalities in wealth. Although the P90:P10 considers a wider range of the distribution, the 10th percentile of wealth for some age groups can be negative, due to higher levels of debt compared to assets.

Figure 9: P80:P20 ratio by age of Household Reference Person (HRP), July 2010 to June 2014



Source: Office for National Statistics - Wealth and Assets Survey (WAS)

Notes:

1. The sample sizes are smaller for those with a Household Reference Person (HRP) aged between 16 and 24 as the individuals that are the head of household are generally older.

2. The P80:P20 ratio compares the wealth of the household at the 80th percentile of the distribution to the wealth of the household at the 20th percentile of the distribution. It should be noted that higher levels of inequality of those with a HRP of 16 to 24 could be driven by more variance in terms of those with either mortgage debt or taking a student loan.

According to the P80:P20 ratio, wealth inequality increased for all age categories between July 2012 and June 2014. Those households with a household reference person (HRP) between the ages of 16 and 24 had the highest wealth inequality in both waves of the survey – during July 2012 to June 2014 the wealth of the 80th percentile was 19.8 times greater than that of the 20th percentile. However, it should be noted that higher levels of inequality within this age band could be driven by more variance in terms of those with either mortgage debt or taking a student loan.

For those aged over 65, the wealth of the 80th percentile household was 9.1 times greater than the wealth of the 20th percentile of the distribution.

Notes for Wealth

1. These measures are currently under development as part of the Measuring National Well-being programme and will be included in future releases where relevant.

2. Calculated using a mix-adjusted index, which adjusts house prices for the types of property being sold from one year to the next.

3. Here "net" is used to describe the net wealth position (assets minus liabilities), rather than making an adjustment for capital consumption.

4. Other non-financial assets includes “other buildings and structures”, “machinery and equipment”, “cultivated biological products”, “intellectual property products”, “inventories” and “contracts, leases and licences”.

5. Throughout this release Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

6. Property wealth comprises the value of the main residence for a household and the value of any additional property or properties owned by any adults within the household.

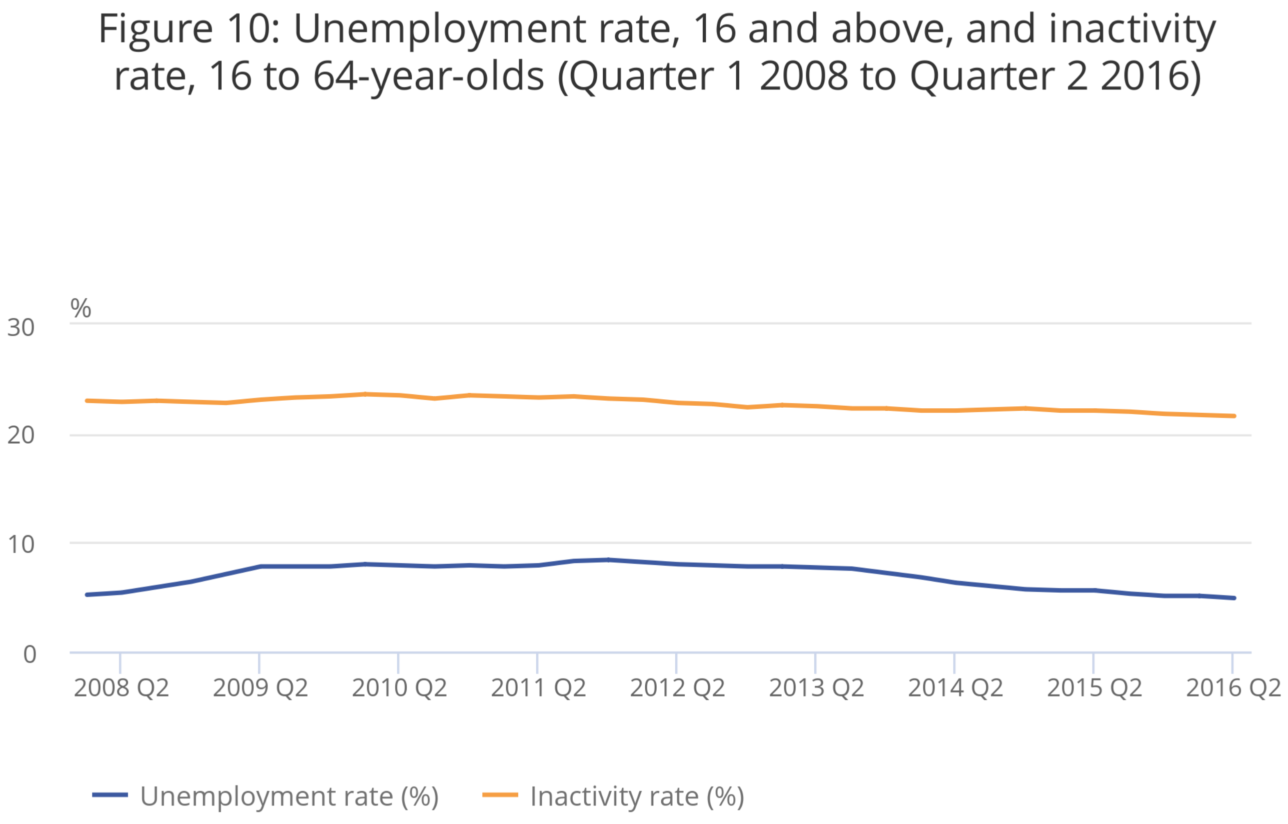
7. Physical wealth is derived from respondents’ own estimates of the value of the contents of their main residence, the contents of any property which the household owns other than the main residence and also collectables, valuables, vehicles and personalised number plates.

8. Financial wealth comprises: formal financial assets (such as bank accounts, savings accounts, stocks and shares); informal financial assets (such as money saved at home); assets held by children in the household; and liabilities (such as formal borrowing, overdrafts and arrears on household bills).

9.Pension wealth relates to private pension wealth only, which means state pension wealth is excluded from the analysis.

7 . Unemployment

Figure 10: Unemployment rate, 16 and above, and inactivity rate, 16 to 64-year-olds (Quarter 1 2008 to Quarter 2 2016)



Source: Office for National Statistics

Notes:

1. Seasonally adjusted.

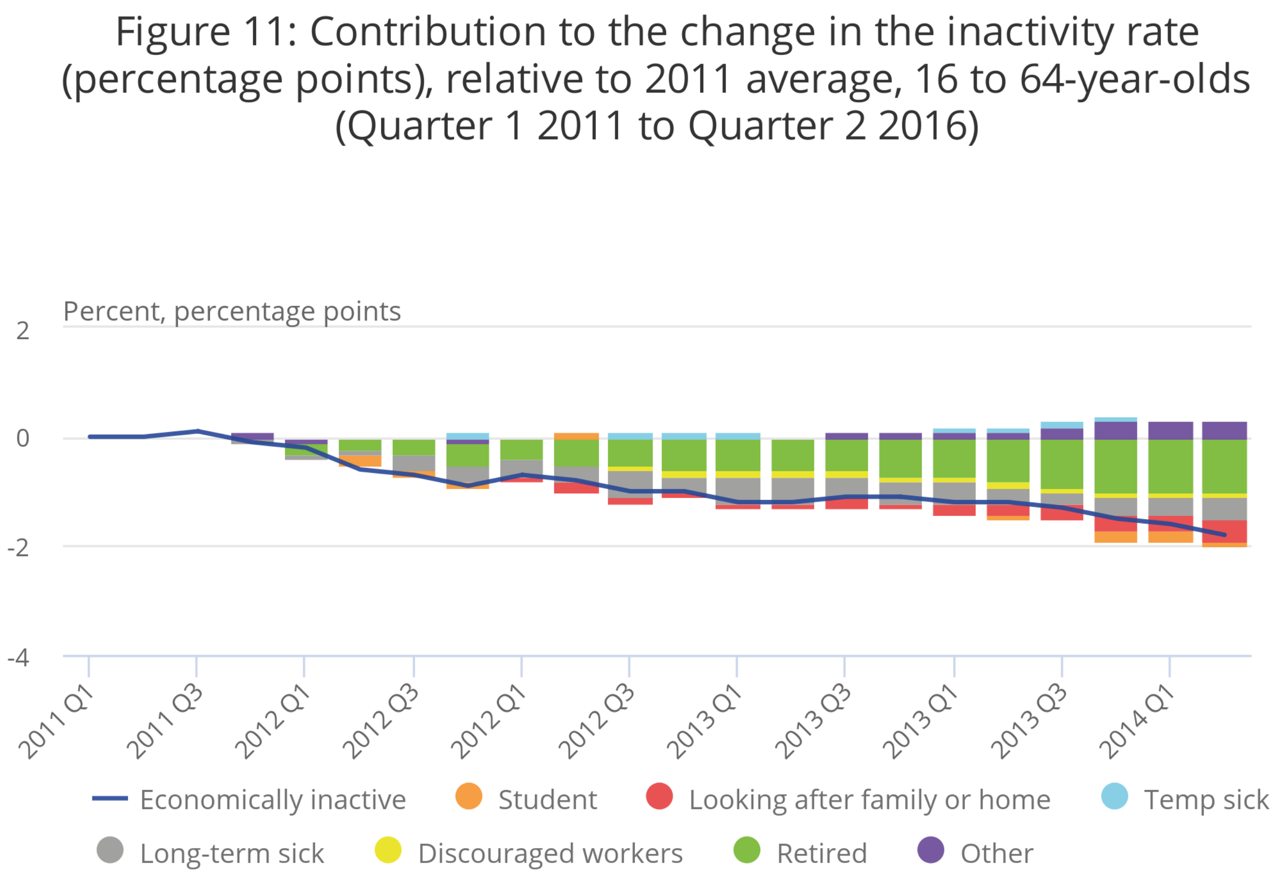
2. Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

In the 3 months to June 2016 (Q2 2016) the unemployment rate was 4.9% – down 0.2 percentage points from the 5.1% rate recorded in Q1 2016. This continues its downward trend since its post economic downturn peak of 8.4% in Q4 2011. Since then it has fallen, on average, 0.2 percentage points per quarter to reach 4.9% in Q2 2016. As a result, the unemployment rate in Q1 2016 was 0.3 percentage points below its pre-economic downturn rate of 5.2%, recorded in Q1 2008. The employment rate for those aged 16 to 64 increased to 74.5% in the 3 months to June 2016, the highest since comparable records began in 1971. This is up from 73.4% in the same quarter a year ago (Q2 2015).

As discussed in our '[Economic well-being framework and indicators article](#)', it is important to consider unemployment as it is shown to have detrimental effect on well-being. However, headline unemployment is only measured in terms of those of the economically active population – those in work, or those seeking and available to work. As Figure 10 highlights, the headline inactivity rate – those aged 16 to 64 who are not working and not seeking or available to work – was 21.6% in Q2 2016. Following a peak of 23.6% in 2010 Q1, the inactivity rate has generally declined at an average rate of 0.1 percentage points per quarter.

There are a number of reasons reported for being inactive, with varying implications for economic well-being. For instance, inactivity due to becoming a student would likely be considered positive for well-being. On the other hand, it is anticipated that those in inactivity due to a long-term illness, or generally discouraged from the labour market, would report lower levels of well-being.

Figure 11: Contribution to the change in the inactivity rate (percentage points), relative to 2011 average, 16 to 64-year-olds (Quarter 1 2011 to Quarter 2 2016)



Source: Office for National Statistics

Notes:

1. Seasonally adjusted.

2. Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

3. Components may not sum to total due to rounding.

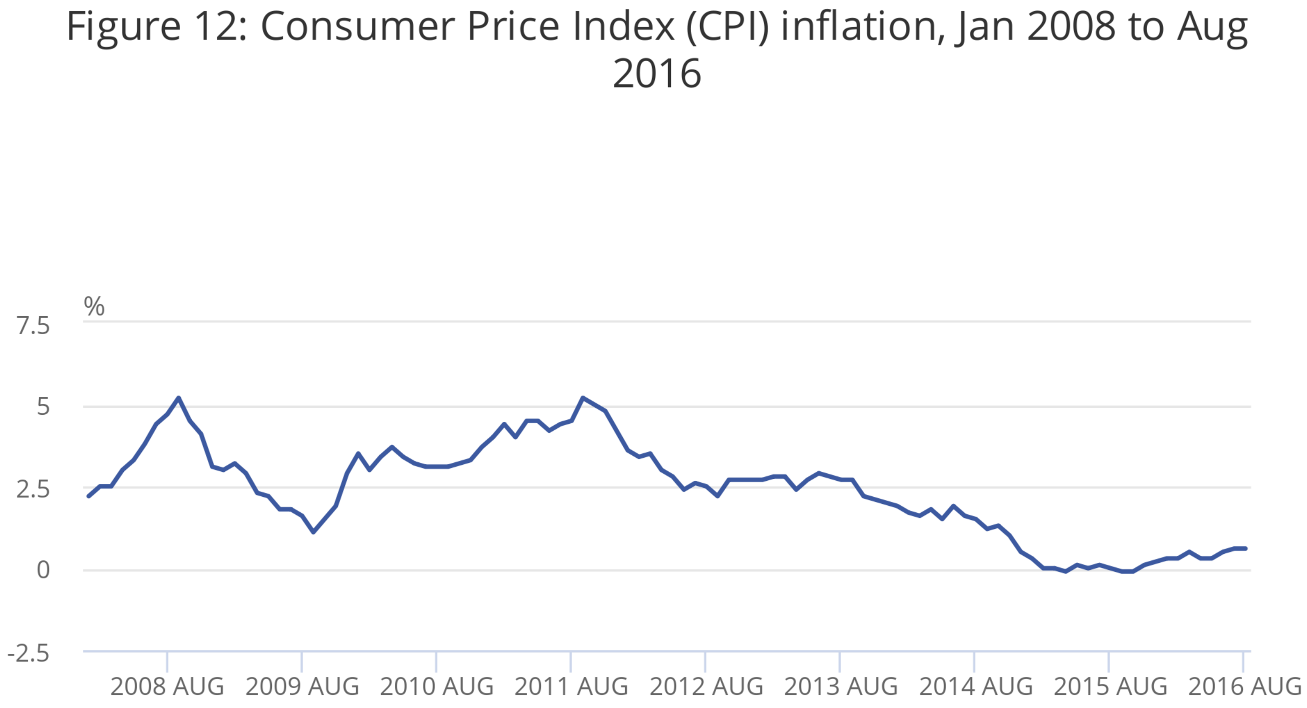
Figure 11 highlights the contribution to change in the inactivity rate compared to its average level in 2011. It shows that by Q2 2016, the inactivity rate had declined by 1.8 percentage points from its average of 23.3% in 2011. This decline was mainly driven by a decrease in the number of people retiring from the workforce. This is largely due to ongoing changes to the state pension age for women resulting in fewer women retiring between the ages of 60 and 65. The implication of this on well-being is not clear – delayed retirement could be due to financial pressures, or change in government policy, or it could be due to improvements in the labour market resulting in greater availability of work. Two other significant factors were a fall in the number of inactive people reporting inactivity die due to long-term health issues, and looking after a family or home.

Notes for Unemployment

1.Throughout this release Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

8 . Inflation

Figure 12: Consumer Price Index (CPI) inflation, Jan 2008 to Aug 2016



Source: Office for National Statistics

The rate of inflation is important for economic well-being due to its effect on both income and savings. When prices increase faster than income for a sustained period, all else equal, incomes have less purchasing power and households feel worse off. Equally, if incomes increase faster than prices, over time, incomes can buy more and households feel better off. The income section of this release considers the evolution of household income, adjusted for inflation. In addition, inflation can impact on households through its effect on savings. If inflation is lower than the interest rates offered to households by financial institutions, then the real value of savings increases. Similarly, if inflation is higher than these interest rates then the real value of savings decreases.

In the year to June 2016 (the final month of Q1 2016) the rate of inflation, as measured by the Consumer Prices Index (CPI), was 0.5%. This was its joint highest rate since the year to March 2016 and the year to December 2014, when it was also 0.5%.

Throughout 2015 the CPI 12-month rate remained close to zero which means that, on average, consumers experienced very little change in prices compared with 2014. The rate of inflation has picked up and from November 2015 onwards the rate has been positive. In the year to June 2016 it was 0.2 percentage points greater than the 0.3% recorded in the year to May 2016 and the year to April 2016.

Looking at contributions to the June 12 month CPI rate, the largest downward pull came from prices for food and non-alcoholic beverages. There continued to be a downward pressure from transport prices, but this has eased during 2016 from the 2015 position. Upward pressures come from a variety of categories, most notably restaurant and hotel bills.

Despite the rate of inflation being positive from November 2015 onwards, it remains weak in the historical context. In the year to August 2016 (the latest data point available), the rate was 0.6%, showing no change from the 0.6% recorded in the year to July 2016. Between the year to June 2016 and the year to July 2016, the rate of inflation increased by 0.1 percentage points.

Perceptions of inflation

It is important to consider not only inflation itself, but also individuals' perceptions of price trends. The Eurobarometer Consumer Survey asked respondents how they thought consumer prices had developed over the past 12 months. Individuals' perceptions of price changes have mapped reasonably well to actual changes in price levels until May 2015, with the series diverging from June 2015 onwards. Since April 2015 respondents have perceived price changes to have been negative despite the CPI 12-month rate being 0.2% or higher since December 2015, suggesting that people's perceptions of price changes have been less accurate in recent periods.

The series has been on a general downward trend since a peak of 56.1 in July 2011, with the aggregate balance falling to negative 4.5 in June 2016 (the last month of Q2 2016), slightly up from negative 9.2 in March 2016 (the last month of Q1 2016). This compares with an aggregate balance of negative 7.8 in May 2016 and negative 8.2 in April 2016. An aggregate balance near zero implies that, on average, people perceive prices to be similar to that of a year ago whereas a negative figure means people perceive prices to have fallen over the last 12 months.

Notes for Inflation

1.Throughout this release Q1 refers to Quarter 1 (January to March), Q2 refers to Quarter 2 (April to June), Q3 refers to Quarter 3 (July to September) and Q4 refers to Quarter 4 (October to December).

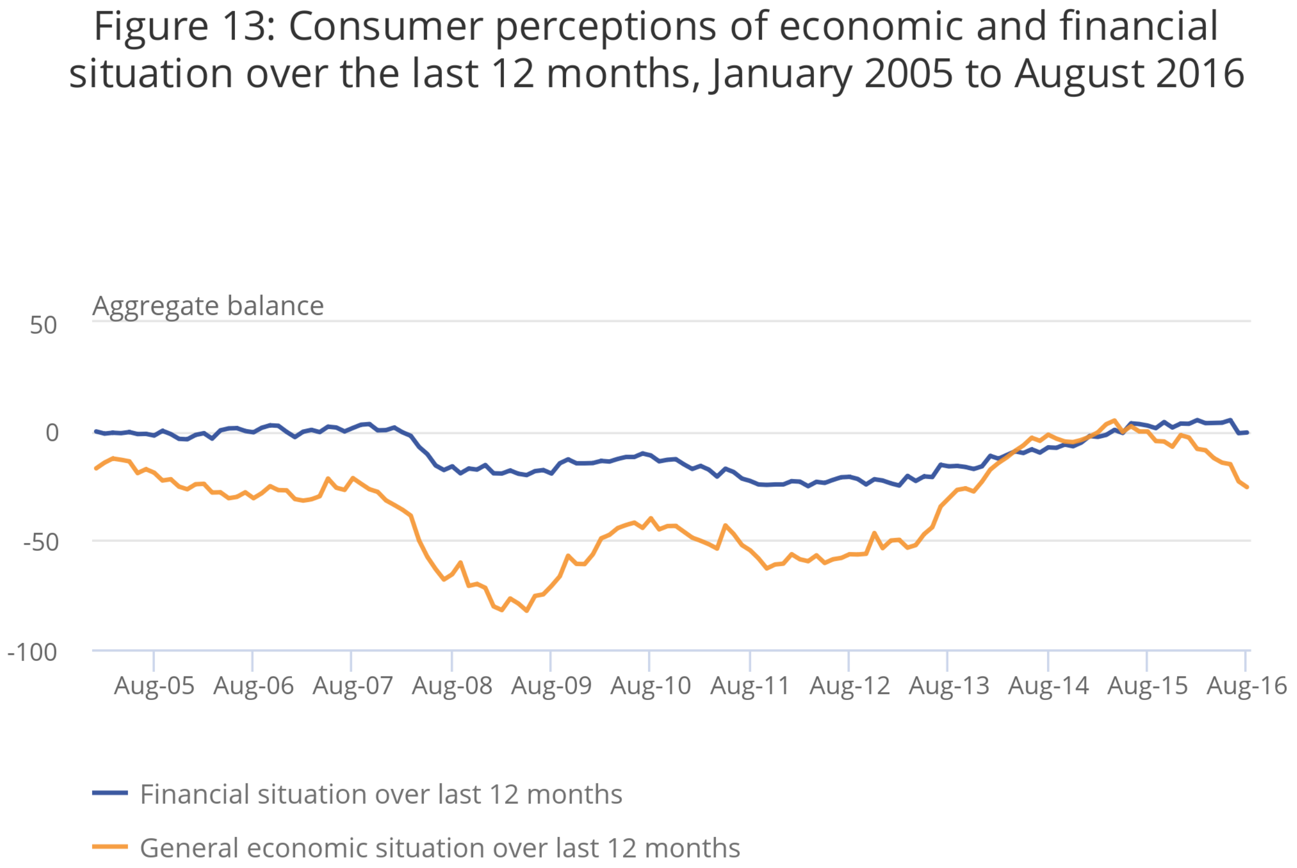
9 . Summary of economic well-being indicators post Q2 2016

This bulletin mainly reports on measures of economic well-being to the period April to June (Quarter 2) 2016. However, some of the indicators that we monitor have more recent data available. These include CPI inflation, unemployment and consumer perceptions of the general economic situation and their financial situation over the last 12 months. This section of the bulletin summarises these indicators post Q2 2016.

Individual's perception of economic conditions

The economic well-being bulletin publishes findings from the Eurobarometer Consumer Survey (produced by GFK on behalf of the European Commission). This survey asks respondents about their financial situation and general economic conditions over the last 12 months. Since the end of June 2016 there have been two further releases of Eurobarometer results, covering July and August 2016. Figure 13 shows both series from January 2005 to August 2016.

Figure 13: Consumer perceptions of economic and financial situation over the last 12 months, January 2005 to August 2016



Source: Office for National Statistics

Notes:

1. The source is the Eurobarometer Consumer Survey, which is collected by GfK for the European Commission. Further information can be found in background note 5.

2. A negative balance means that, on average, respondents reported the general economic situation worsened. A positive balance means they reported it improved and a zero balance indicates no change.

The recent data on consumer's perception of the economic situation over the last 12 months suggests a slight worsening in people's perceptions since the end of Q2 2016, with the series decreasing from negative 15.1 in June to negative 25.6 in August, continuing the trend seen since April 2015. In interpreting this perception indicator, it should be noted that in recent years it has tended to be negative despite continued growth in GDP per person. For instance, in the 44 months since the end of Q4 2012, there were only three months in which respondents reported improving economic conditions, with an average balance of negative 15.3. This is despite unbroken quarterly growth in GDP per person by an average of 0.4% over the same period [1].

The recent data on consumer's reporting of their financial situation over the last 12 months suggests a very slight worsening since the end Q2 2016 – from positive 5.1 in June to negative 0.9 in July, and negative 0.6 in August. Looking at this from a historical perspective, consumer's perception of their financial situation over the last 12 months was, on average, negative 18.9 between January 2009 and June 2013. More recently, sentiment improved, so that there was an average positive balance of 3.0 between April 2015 and June 2016.

Taken together these results indicate that previous trends in consumer sentiment are broadly continuing, particularly for perceptions of the general economic situation over the previous 12 months which has been declining since early 2015 despite continued economic growth during this period. Furthermore, as we have noted, economic statistics published up to 21 September 2016 indicate that there has not been a major effect on the UK economy following the referendum, but longer-term effects remain to be seen.

Inflation

Since Q2 2016 there have been two releases of the Consumer Prices Index (CPI) inflation rate, covering the year to July and August 2016. The CPI rate was 0.6% in the year to July and August - 0.1 percentage points higher than the 0.5% rate in the year to June 2016.

Unemployment

The latest UK Labour Market: September 2016 release covers the period May to July 2016. Between February to April 2016 and May to July 2016 the unemployment rate fell from 5.0% to 4.9%. Coupled with the employment rate for the same period being at its joint highest since comparable records began at 74.5%, this indicates recent strength in the labour market.

Notes for: Summary of economic well-being indicators post Q2 2016

1. A negative balance means that, on average, respondents reported the general economic situation worsened. A positive balance means they reported it improved and a zero balance indicates no change.

10 . Related links

Internal

United Kingdom Economic Accounts, Table 1.1.5 (ONS)

The National Balance Sheet (ONS)

Wealth and Assets Survey (ONS)

The Effects of Taxes and Benefits on Household Income (ONS)

Labour Market Statistics (ONS)

Consumer Price Indices (ONS)

External

Eurobarometer Consumer Survey (produced by GFK on behalf of the European Commission)

Understanding Society

11. Background notes

1. **Economic well-being framework and indicators**

   The framework and indicators used in this release were outlined in Economic Well-being, Framework and Indicators, published in November 2014.

   In the UK's sector accounts, households and non-profit institutions serving households (NPISH) are combined to create a single households and NPISH sector. This is because NPISH are financed by households and their sole purpose is to serve households. Alongside this combined household and NPISH sector, we aim to produce separate accounts for these 2 sectors to satisfy user need by the autumn of 2017. Ahead of this date, we have published 2 main household measures, household disposable income and real household disposable income for the household only sector (excluding NPISH). Following user demand, these series will be published quarterly as part of this release on a per head basis alongside the household and NPISH real household disposable income (RHDI) per head. Users should note that the data presented here are based on current compilation methods and are subject to change during the full separation of the 2 sectors.

2. **Release policy**

   The data used in this version of the release are the latest available at 30 September 2016. The population estimates and projections used in this release are those published on 23 June 2016.

   Where possible, data used in this release relate to Q2 2016. Data for more recent months are available from the Consumer Price Indices and Labour Market Statistics statistical bulletins.

   Data in this release are published in other statistical bulletins:

   United Kingdom Economic Accounts, Table 1.1.5

   - real gross domestic product (GDP) per head
   - real net national disposable income per head
   - real gross household and non-profit institutions serving households (NPISH) disposable income per head
   - real household and NPISH final consumption expenditure per head real net domestic product per head
   - real net household and NPISH adjusted disposable income per head
   - real household and NPISH actual final consumption per head

   The National Balance Sheet

   - net wealth
   - net household and NPISH wealth

   Eurobarometer Consumer Survey (seasonally adjusted) (produced by GFK on behalf of the European Commission)

- perception of financial situation over the past 12 months
- perception of general economic situation over the past 12 months
- perception of whether it is a good time to save
- perception of financial statement of household
- perception of price trends over the past 12 months

Wealth and Assets Survey

- median household wealth
- distribution of total household wealth
- wealth and income analysis

The Effects of Taxes and Benefits on Household Income

- real median equivalised household income deflated using the household final consumption expenditure (HHFCE) implied deflator
- S80:20 ratio – the ratio of total income received by the richest fifth of households to that received by the poorest fifth

Labour Market Statistics

- unemployment rate, all aged 16 and over

Consumer Price Indices

- consumer price index

Understanding Society

- finding it difficult to get by financially
- somewhat, mostly or completely satisfied with the level of income of their household

3. Revisions and reliability

All data in this release will be subject to revision in accordance with the revisions policies of their original release. Estimates for the most recent quarters are provisional and are subject to revision in the light of updated source information. We currently provide an analysis of past revisions in statistical bulletins, which present time series. Details of the revisions are published in the original statistical bulletins.

Most revisions reflect either the adoption of new statistical techniques or the incorporation of new information which allows the statistical error of previous estimates to be reduced.

Only rarely are there avoidable “errors”, such as human or system failures, and such mistakes are made quite clear when they do occur.

For more information about the revisions policies for indicators in this release:

- National Accounts revisions policy – covers indicators from the Quarterly National Accounts, UK Economic Accounts and the National Balance Sheet
- Wealth and Assets Survey revisions policy – covers indicators on the distribution of wealth
- Effect of Taxes and Benefits on household incomes revisions policy – covers indicators on the distribution of income
- Labour Market Statistics revisions policy – covers indicators from labour market statistics

- Consumer Price Inflation - Revisions policy – covers indicators from consumer price indices

Our Revisions policies for economic statistics webpage is dedicated to revisions to economic statistics and brings together our work on revisions analysis, linking to articles, revisions policies and important documentation from the Statistics Commission's report on revisions.

Data that come from the Eurobarometer Consumer survey and Understanding Society releases are not subject to revision as all data are available at the time of the original release. These data will only be revised in light of methodological improvements or to correct errors. Any revisions will be made clear in this release.

4. Interpreting the data

Components may not sum to total due to rounding.

We have published an article, 'Interpreting the Recent Behaviour of the Economy', to aid interpretation of movements in the economy.

We have also produced a short guide to the UK National Accounts.

Real Household Disposable Income (RHDI) is published in both non-seasonally adjusted (NSA) and seasonally adjusted (SA) formats in the UK Economic Accounts, with the latter removing seasonal effects to allow comparisons over time. However, it is sensitive to short-term changes in its components, particularly on a quarterly basis, meaning that quarter on quarter movements can appear volatile. To better present the longer-term movement in household income, this bulletin presents RHDI growth on a quarter on the same quarter a year ago and annual basis.

5. Interpreting the Eurobarometer Consumer Survey

The Eurobarometer Consumer Survey, sourced from GFK on behalf of the European Commission, asks respondents a series of questions to determine their perceptions on a variety of factors which collectively give an overall consumer confidence indicator. For each question, an aggregate balance is given which ranges between negative 100 and positive 100.

Balances are the difference between positive and negative answering options, measured as percentage points of total answers. Values range from negative 100, when all respondents choose the negative option (or the most negative one in the case of five-option questions) to positive 100, when all respondents choose the positive (or the most positive) option.

The questions used in this release are:

Question 1: How has the financial situation of your household changed over the last 12 months? It has...

- got a lot better
- got a little better
- stayed the same
- got a little worse
- got a lot worse
- don’t know

Question 3: How do you think the general economic situation in the country has changed over the past 12 months? It has...

- got a lot better
- got a little better
- stayed the same

- got a little worse
- got a lot worse
- don’t know

Question 5: How do you think that consumer prices have developed over the last 12 months? They have...

- risen a lot
- risen moderately
- risen slightly
- stayed about the same
- fallen
- don’t know

Question 10: In view of the general economic situation, do you think that now is...?

- a very good moment to save
- a fairly good moment to save
- not a good moment to save
- a very bad moment to save
- don’t know

Question 12: Which of these statements best describes the current financial situation of your household?

- we are saving a lot
- we are saving a little
- we are just managing to make ends meet on our income
- we are having to draw on our savings
- we are running into debt
- don’t know

Further information on this Consumer survey is available from the Business and Consumer Survey section of the European Commission website.

6. Interpreting Understanding Society

Understanding Society is a household longitudinal study that captures information from a representative UK sample of 40,000 households. The data collected covers a broad range of topics including health, housing, employment, income and personal perceptions.

The percentage of the population that said they were finding managing financially quite or very difficult and the percentage of the population that were somewhat, mostly or completely satisfied with their income was used, from the questions:

Question 1: How well would you say you are managing financially these days? Would you say you are:

- living comfortably

- doing alright
- just about getting by
- finding it quite difficult
- finding it very difficult

Question 2: Please choose the number which you feel best describes how dissatisfied or satisfied you are with the following aspects of your current situation: the income of your household:

- completely satisfied
- mostly satisfied
- somewhat satisfied
- neither satisfied nor dissatisfied
- somewhat dissatisfied
- mostly dissatisfied
- completely dissatisfied

Further information on this survey is available from the Understanding Society website.

7. Economic context

We publish a monthly Economic Review discussing the economic background, giving economic commentary on the latest GDP estimate and other economic releases. The next article will be published on 5 October 2016.

In June 2015, we released an article which explored the UK's trade and foreign direct investment relationship with the EU, titled how important is the European Union to UK trade and investment.

In October 2015 we released an analysis of Foreign Direct Investment, the key driver of the recent deterioration in the UK's Current Account. The Foreign Direct Investment 2014 data was released in December 2015.

8. Basic quality information

Basic quality information for all indicators in this statistical bulletin can be found on our website:

- National Accounts Quality and Information report.
- Consumer Price Indices Quality and Information report.
- Wealth and Assets Survey Quality and Information report.
- Effects of Taxes and Benefits Quality and information report.
- Labour Market Quality and Information reports.

9. Methodology and articles

We regularly publish methodological information and articles to give users more detailed information.

For the National Accounts, methodological information and articles are available, detailing developments within the National Accounts; supplementary analyses of data to help users with the interpretation of statistics and guidance on the methodology used to produce the National Accounts. Methodological developments are part of the programme of continuous improvement to the UK National Accounts.

For the Effects of Taxes and Benefits on Household Income release, methodological information is available, detailing the methodology in both the production of and the quality assurance of the data. Further detail and discussion can also be found in the Effects of Taxes and Benefits on Household Income, 2014/15 – Further Analysis and Methodology article.

For the Wealth and Assets Survey, methodological information is available, detailing both the production and quality assurance of the data.

For Labour Market Statistics methodological information is available, detailing both the production and quality assurance of the data. A full description of how consumer price indices are compiled is given in the Consumer Price Indices Technical Manual.

10. Source of information on the distribution of income

Effects of Taxes and Benefits on Household Income is the main source for the information on the distribution of income. This has been chosen over other sources for a number of reasons:

- the definition of income and the deflator used in the effects of taxes and benefits on household income are more closely aligned to those used in the national accounts

- the estimates are the most timely available. Since financial year ending 2015, new provisional estimates of main indicators, produced using so-called nowcasting techniques, have been published as Experimental Statistics. In future, these should be available within a few months of the end of the financial year. Additionally, work is ongoing to improve the timeliness of the main, survey-based estimates.

Should further breakdowns be required (for example, income distribution by region or type of household) then the larger sample size of Households Below Average Income, published by the Department for Work and Pensions, may be a more appropriate source. Further information on sources of data on household income can be found in our guide to sources of data on earnings and income.

11. Economic well-being seminar

On 3 March 2015 we hosted a seminar on economic well-being as part of the Economic Forum series of seminars. This seminar provided an overview of our work on economic wellbeing. It considered what we have learned to date, particularly covering the indicators from the quarterly Economic Well-being release. It also provided an overview of our work to develop wider measures of economic well-being, including the measurement of services households provide for themselves, the capitals approach to measuring sustainability and work to further develop measures of the distribution of income. Slides from the event are available on our website.

12. Discussing measuring national well-being online

There is a Measuring National Well-being community on the StatsUserNet website.

StatsUserNet is the Royal Statistical Society's interactive site for users of Official Statistics.

Here you will be able to find and share information on the development of measures of national wellbeing.

This includes latest releases and news from our Measuring National Well-being programme.

13. Measuring national well-being

This article is published as part of our Measuring National Well-being programme. The programme aims to produce accepted and trusted measures of the well-being of the nation - how the UK as a whole is doing. Further information on Measuring National Well-being is available on our website with a full list of well-being publications.

14. Details of the policy governing the release of new data are available by viewing our code of practice or from the Media Relations Office email: media.relations@ons.gsi.gov.uk