

# Living standards in the EU after the financial crisis – UK records among the largest declines

The latest Eurostat data on living standards shows that:

- In 2010, median equivalised net income in the UK was the eleventh highest in the EU
- Median equivalised income (adjusted for inflation) fell by nearly 8% in the UK between 2007 and 2010 – representing the sixth largest decline recorded in the EU27
- Despite this decline, the severe material deprivation rate in the UK increased only marginally by 0.6 percentage points to 5.1% in 2011 relative to 2007 and remains 3.7 percentage points below the EU27 average

Using a number of different measures, this [London Economics' Noteworthy Statistics Briefing](#) uses the latest Eurostat data to investigate the change in living standards across the EU27 since the onset of the financial crisis.

## Definitions

- **Median equivalised disposable income** provides a comparable measure of the standard of living across households in a country. The **median** is the middle point of the income distribution – i.e. the income level at which half the working population earns more and half earns less.
- **Equivalised disposable income** is the total household income available for spending and saving, adjusted for household size and composition, using the modified OECD equivalence scale.

## What was the position in 2010?

In 2010, the median income (in €) varied markedly across the 27 EU Member States, from a low of €2,116 in Romania to a high of €32,538 in Luxembourg. At €17,106, the median income in the UK in 2010 exceeded the EU27 average of €14,846 and was ranked 11<sup>th</sup> highest amongst the EU27.

Fourteen Member States had a median income less than the EU27 average of €14,846, with 10 Member States showing a median income below €9,000. In contrast, in seven Member States, median income exceeds €20,000, while in two Member States, median income exceeds €26,000 (Luxembourg and Denmark).

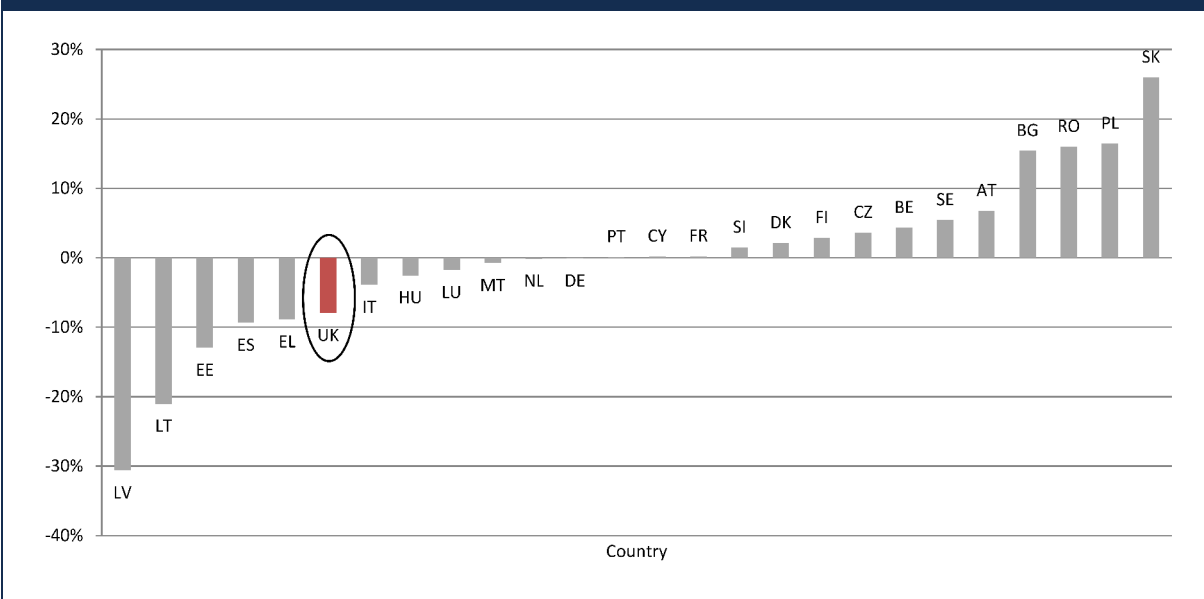
**Table 1: Median equivalised net income in 2010, €**

Country	Median equivalised net income 2010 (€)
Luxembourg	32,538
Denmark	26,394
Sweden	22,506
Finland	21,826
Austria	21,319
Netherlands	20,310
Belgium	20,008
France	19,995
Germany	19,043
Cyprus	17,214
<b>United Kingdom</b>	<b>17,106</b>
Italy	15,972
<b>EU27</b>	<b>14,846</b>
Spain	12,514
Slovenia	11,999
Greece	10,985
Malta	10,862
Portugal	8,410
Czech Republic	7,451
Slovakia	6,306
Estonia	5,598
Poland	5,025
Hungary	4,535
Latvia	4,150
Lithuania	4,005
Bulgaria	2,901
Romania	2,116

Note: Data for Ireland is not available. Income reference period is 01/01/2010 to 31/12/2010 for all countries.

Source: Eurostat

**Figure 1: Change in median equivalised net income (adjusted for inflation) in 2010 compared with 2007, national currency**



Note: Data for Ireland (IE) is not available.

Source: Eurostat

### What happened between 2007 and 2010?

The impact of the financial crisis and economic downturn on the standard of living in each Member State is clearly highlighted by the change in median equivalised income (adjusted for inflation) in national currencies<sup>1</sup> from 2007 to 2010. The rate of change in the Harmonised Index of Consumer Prices (HICP) is used to adjust for inflation.

As shown in Figure 1, between 2007 and 2010, the sharpest drops in country-level standards of living occurred in the Baltic States, where median equivalised net income (adjusted for inflation) fell by 30.6% in Latvia, 21.0% in Lithuania and 13.0% in Estonia.

In the second tranche of countries, substantial decreases were also witnessed in Spain (-9.4%), Greece (-8.9%) and the United Kingdom (-7.9%).

In six Member States (Cyprus, France, Germany, Malta, Netherlands and Portugal), real standards of living essentially stagnated (i.e. show a small negative change of less than 1%) from 2007 to 2010.

In contrast, Slovakia, Poland, Romania and Bulgaria registered large improvements in median income adjusted for inflation with increases of 26.0%, 16.4%, 16.0% and 15.4%, respectively.

### Some more definitions

- The **material deprivation rate** provides an estimate of the population that is unable to afford items that are viewed as luxuries or even necessities.
- **Severe material deprivation** is defined by the proportion of people who do not meet at least four of the nine material deprivation indicators<sup>2</sup>.

### Incidence of severe material deprivation across the EU in 2011

As shown in Figure 2 overleaf, severe material deprivation rates vary significantly across EU Member States.

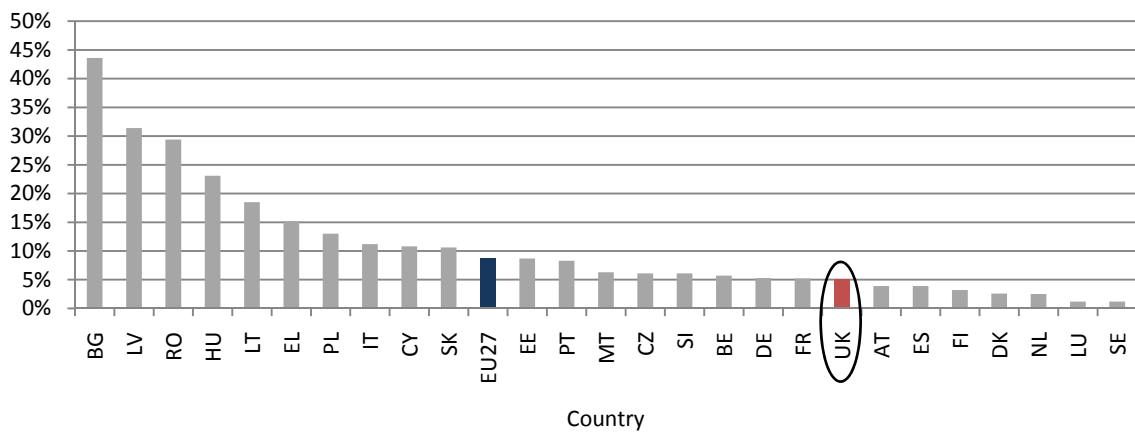
In 2011, ten Member States registered a severe material deprivation rate greater than the EU27 average rate of 8.8%. The highest rate of severe material deprivation was reported in Bulgaria, with 43.6% of its population being classified as severely deprived.

At 5.1%, the severe material deprivation rate in the United Kingdom was the eighth lowest in the EU - 3.7 percentage points lower than the EU27 average.

Only Austria, Spain, Finland, Denmark, Netherlands, Luxembourg and Sweden demonstrate a severe material deprivation rate below that of the UK.

<sup>1</sup>National currencies are used to avoid reflecting exchange rate fluctuations in the reported evolution of income.

<sup>2</sup>Material deprivation indicators include the inability to afford paying rent, a mortgage or utility bills, keeping home adequately warm, facing unexpected expenses, eating meat or proteins regularly, a holiday, a television set, a washing machine, a car and a telephone.

**Figure 2: Severe material deprivation rate in 2011, % of population**


Note: Data for Ireland (IE) is not available. The analysis of material deprivation presented here relates to 2011, while the analysis presented in the subsequent section considers the comparable deprivation rate in 2010.

Source: Eurostat

Figure 3 displays the **correlation** between the change in the severe material deprivation rate and the change in the median equivalised income (adjusted for inflation) across Member States between 2007 and 2010.

The Baltic States, which experienced substantial declines in median income, show an increase in the severe material deprivation rate of roughly 3 percentage points on average (top left quadrant).

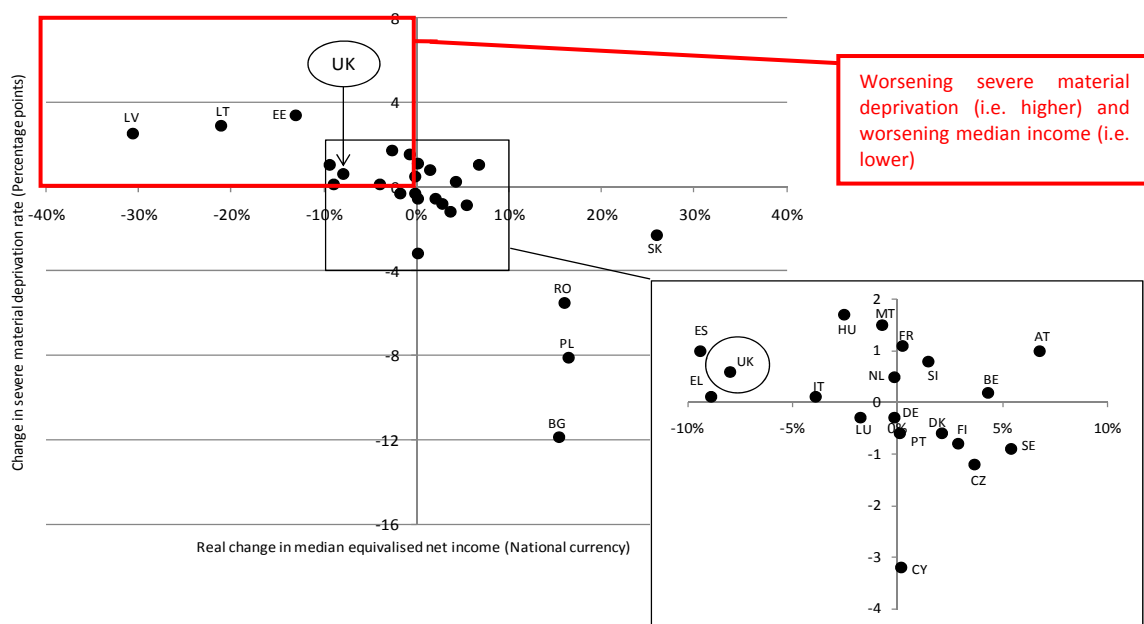
Despite the substantial drop in median income in the UK, the severe material deprivation rate increased by only 0.6%, reflecting the more extensive welfare system at the time compared to other EU Member

States that experienced equivalent declines in median income (adjusted for inflation).

#### What does this mean?

The deterioration in UK living standards that occurred between 2007 and 2010 is on a par with that of EU “crisis” Member States such as Spain and Greece, and much worse than in most other EU countries.

The fiscal consolidation that has taken place since 2010 may have further negative consequences on median UK incomes and living standards, as well as levels of material deprivation and severe material deprivation.

**Figure 3: Change in severe material deprivation rate and real change in median income in 2010 compared to 2007**


Note: Data for Ireland (IE) is not available.

Source: Eurostat

**Additional notes:**

**Member State abbreviations:**

AT	Austria	LT	Lithuania
BE	Belgium	LU	Luxembourg
BG	Bulgaria	LV	Latvia
CY	Cyprus	MT	Malta
CZ	Czech Republic	NL	Netherlands
DE	Germany	PL	Poland
DK	Denmark	PT	Portugal
EE	Estonia	RO	Romania
EL	Greece	SE	Sweden
ES	Spain	SI	Slovenia
FI	Finland	SK	Slovakia
FR	France	UK	United Kingdom
HU	Hungary		
IE	Ireland		
IT	Italy		