
Chair of the UK Statistics Authority, Sir Andrew Dilnot CBE

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Dear Mr Gauke

STATISTICS ON ‘LIVING STANDARDS’

Thank you for your letter of 5 April, relating to comments made by the Leader of the Labour Party, Ed Miliband, in relation to living standards.

There is no accepted statistical definition of ‘living standards’, and hence no single official statistics measure. The phrase ‘living standards’ is commonly used to describe a concept measured by a range of indicators, including both pre and post tax income and earnings, changes in benefit payments, and relative prices. As the Authority’s review of income and earnings has demonstrated, the available statistics cover a range of different measures produced for different purposes.

In your letter you refer to indicators produced by the Office for National Statistics (ONS): Real Disposable Household Income (although the increase in Real Disposable Household Income to which you refer also includes a forecast from the Office for Budget Responsibility for 2015); Average Weekly Earnings; and Consumer Price Inflation. Other statistics may also be relevant. For example, ONS figures included in the Economic Well-being Quarter 4 release¹ found that real Gross Domestic Product per head and real consumption expenditure per head are below their pre-economic downturn levels (quarter 1, 2008). And as this illustrates, the choice of time periods is particularly important as many economic indicators have been volatile in recent years. For your convenience, I attach in the accompanying Annex the main points made in the summary of ONS’s Economic Well-being statistical release published on 31 March 2015.

More broadly, I conclude that, given the range of interpretations of the term ‘living standards’, it is important that all participants to political debate are clear on what they mean by living standards when they use official statistics, what statistical measures they are drawing on and why, and to what time periods they are referring. As the Authority’s recent review on income and earnings statistics stated:

¹ http://www.ons.gov.uk/ons/dcp171778_400247.pdf

“...measuring income and earnings is not straightforward. The complexity is due to a variety of reasons. There are different ways of defining income and earnings, and there are also alternative sources of information, including surveys of employers and employees, and analysis of tax records. Moreover, society and the economy are constantly changing, and statisticians face the challenge of trying to measure an evolving phenomenon. As a result of this constant change, average measures of income and earnings can give a misleading picture where the population is growing and where there are significant differences in the experiences of different cohorts within society”².

I am copying this to Ed Miliband and to John Pullinger, the National Statistician.

Yours sincerely

A handwritten signature in black ink that reads "Andrew Dilnot". The signature is written in a cursive, slightly slanted style.

Sir Andrew Dilnot CBE

² <http://www.statisticsauthority.gov.uk/assessment/monitoring/monitoring-reviews/monitoring-review-1-2015---the-coherence-and-accessibility-of-official-statistics-on-income-and-earnings.pdf>

Summary of headline indicators on Economic Well-being (ONS statistical release, March 2015)

- In Q4 2014, gross domestic product (GDP) per head increased 0.5% compared to Q3 2014 but remains 1.2% below pre-economic downturn levels. This was a slightly slower growth rate than the 0.6% quarterly increase seen in GDP.
- Net national disposable income (NNDI) per head, which represents the income available to UK residents, has remained broadly flat since Q1 2012 and remains 5.1% below pre-economic downturn levels.
- In Q4 2014 real household disposable income (RHDI) per head (excluding non-profit institutions serving households) increased 1.9% compared to the same quarter a year ago (Q4 2013) and stands at 2.2% above pre-economic downturn levels. For 2014 as a whole, RHDI per head (excluding NPISH) was broadly unchanged, up 0.1%, compared to 2013.
- In Q4 2014, household spending per head grew 0.3% compared to the previous quarter – continuing the general upward trend that started in Q3 2011 – but remains 2.5% below pre-economic downturn levels.