Insight from the OECD Household Dashboard: Why household incomes don't always track changes in GDP

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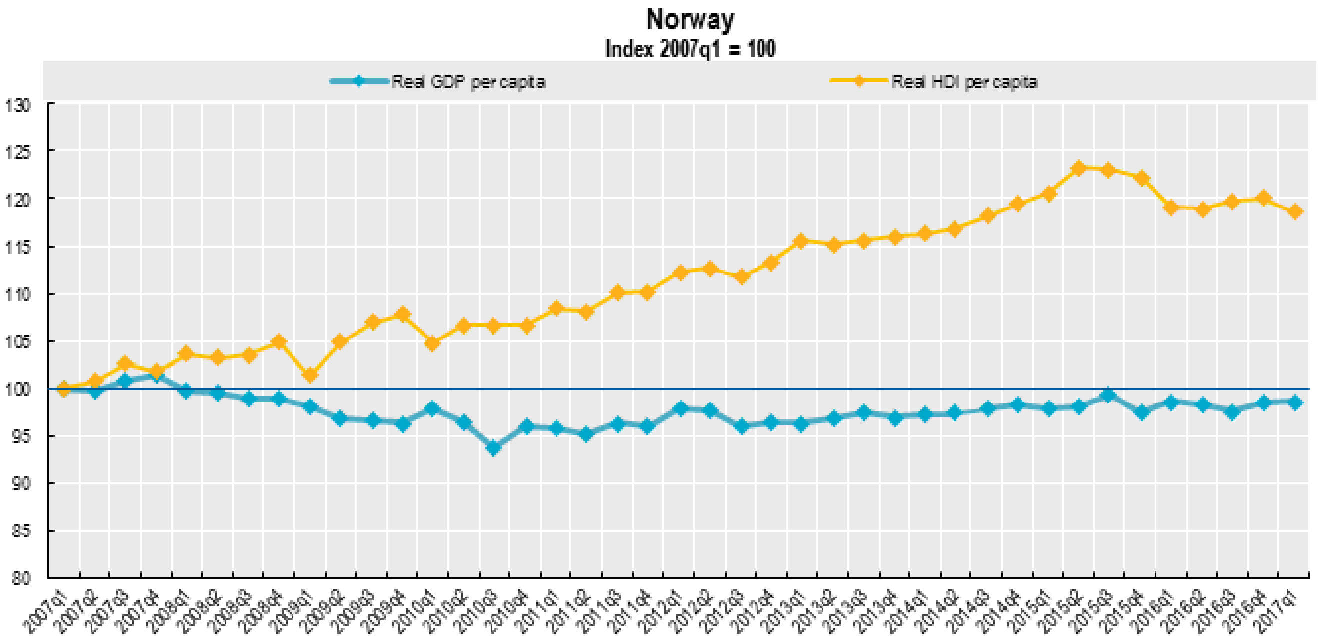
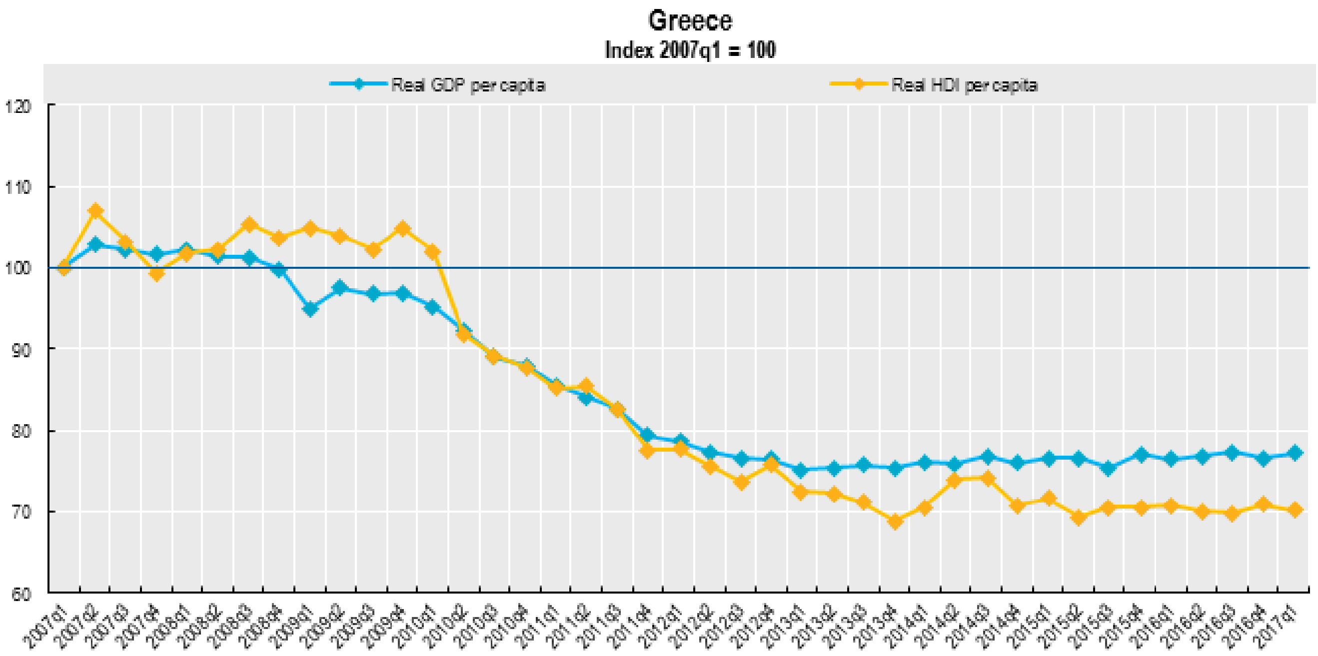
A key indicator of households' material conditions, or economic well-being, is per capita household income, after deducting taxes and social contributions and including social benefits. It provides a better gauge than gross domestic product (GDP) of the resources households have at their disposal to buy goods and services or save for the future.

Over the very long term the average annual growth rates of the two statistics tend to be similar, since the incomes earned by households account for a large share of the total income generated through production in the economy, as recorded by GDP. However, over shorter time periods, especially during severe economic recessions or rapid expansions, trends in household disposable income and GDP may differ significantly. Many factors can contribute to such a divergence; for instance, changes in the government's policies related to taxes or social benefits, or in how companies allocate their earnings between dividends, retained earnings and compensation of employees.

To see these factors in action, let's look at recent data for Norway and Greece. Figure 1 shows how GDP and household income have evolved there since the first quarter of 2007, right before the start of the global financial crisis. The figure shows that in the crisis years 2008-2009, GDP per capita was falling in both countries, though faster in Greece. However, government intervention – though a reduced budget surplus in Norway and an increased deficit in Greece – cushioned households from the negative effects of the economic contraction.

Figure 1. Real GDP and household disposable income per capita





Starting from 2010, the picture in the two countries becomes very different. With Greece’s fiscal deficit hitting

15% of GDP in 2009, the European sovereign debt crisis and a deep and prolonged recession, the government ended its support to household income. This retrenchment in government spending, as well as the substantial falls in compensation of employees and self-employed income, meant that household incomes in Greece began falling precipitously in 2010. Even though Greece's per capita GDP has started to recover slightly in recent quarters, household disposable incomes today remain near their lowest levels since the precipitous decline.

Norwegian households have been in a much more favourable position. As a resource rich country, Norway's revenue from the oil and gas sector has for years resulted in large government surpluses that were channelled into a sovereign wealth fund. The Norwegian government continued to sustain household incomes after 2010 by reducing the surplus saved into the fund. However, government intervention was not the primary driver of the longer term Norwegian trend of household income growth outpacing GDP. Since 2007 the share of company earnings going to compensation of employees has increased, and the share going to dividends or retained earnings has declined. Rising employee compensation is thus the main reason for Norwegian household incomes growing 20% more than real GDP per capita since just before the crisis, though the gap has narrowed slightly in the last two years.

To see how households are doing in other OECD countries, visit our dashboard on households' economic well-being **which contains a range of household indicators and has recently been updated to include data through Q1 2017.**

Further reading:

Ribarsky, J., C. Kang and E. Bolton (2016), "The drivers of differences between growth in GDP and household adjusted disposable income in OECD countries", *OECD Statistics Working Papers*, No. 2016/06, OECD Publishing, Paris.