The Province of Prince Edward Island

Patterns and Trends in Low Income

Poverty Reduction Action Plan Backgrounder

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Patterns and Trends in Low Income

SUMMARY

PEI's rates of low income were relatively stable throughout the 2000s and the post-recession period, but have fluctuated significantly in recent years. By all measures, the rate of low income in PEI rose sharply in 2013, fell in 2014, rose again in 2015, and dipped in 2016. In 2017, the most recent data available, low income rates fell under some measures, and held stable in others.

Historically, PEI has had among the lowest rates of severe poverty in Canada, as measured by the Low Income Cut-Offs (LICO), but comparatively higher rates of moderate poverty, as measured by the Market Basket Measure (MBM) and the Low Income Measure (LIM). (For information on these measures, please see the *Backgrounder: How is Poverty Measured?*) In recent years, PEI has lost some ground on the LICO, with New Brunswick having lower rates in both 2016 and 2017. However, the other two rates have seen improvement from 2013, when PEI had the highest rates below LIM and MBM in Canada, to the mid-range among provinces by 2017.

These patterns of low income, together with fairly moderate incomes at the top end, mean that PEI has long had among the lowest rates of income inequality in Canada, as measured by the Gini coefficient. The higher and fluctuating rates of low income in recent years have affected these standings somewhat. In 2016, PEI had regained the lowest rate of income inequality with regard to after-tax and total income, but in 2017 slipped to second place behind New Brunswick for after-tax income. Also in 2017, PEI made gains in reducing the inequality of market income, improving from fifth lowest inequality rate in 2016 to third lowest in 2017.

PEI's relatively low rates of income inequality reflect the fact that incomes in PEI are more grouped in the lower and middle levels than elsewhere in Canada, with relatively fewer people with very low or very high levels of income. Within this context, single individuals are clustered in the lower income range and families are clustered in the higher income range.

The share of Islanders in low income at any one time masks its broader impact on society, as a significant number of Islanders move into and out of poverty over time. In any given year, about one out of every 25 Islanders enters poverty. Meanwhile, among those in poverty, just over one in four is able to exit poverty. Over the period from 2008 to 2013, the situation worsened, as more people entered low income, and fewer exited. Exit trends improved slightly in 2014 and entry trends improved slightly in 2015 and more significantly in 2017. These patterns varied across the population:

- Women were more likely to enter and less likely to exit low income than men.
- Singles and lone parent families were more likely to enter and less likely to exit low income than couple families.
- Youth were more likely to both enter and exit low income than older Islanders.

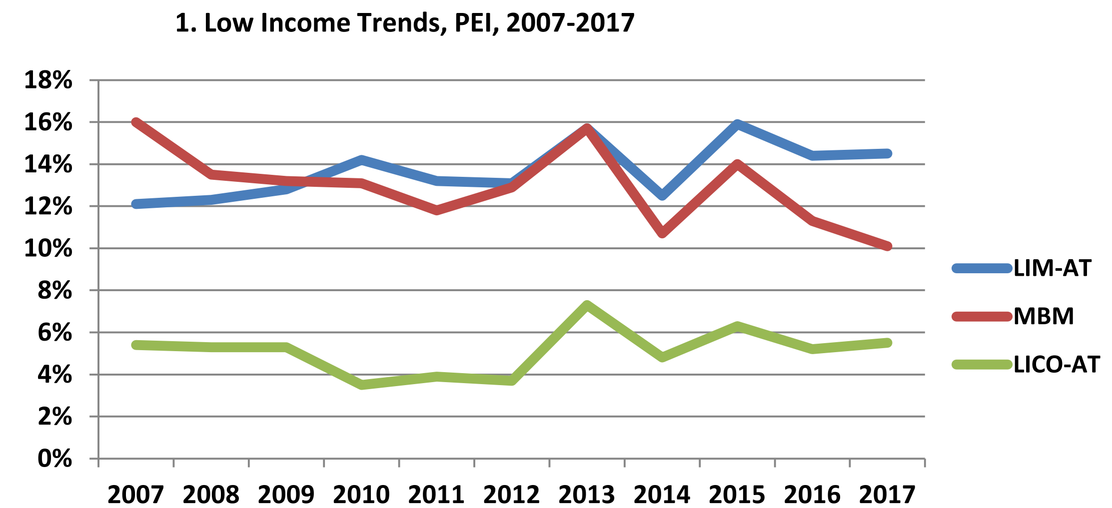
Statistics Canada's measure of low income over eight-year periods shows that just over one Islander in four has been in low income for some or all of that time. This proportion has dropped slightly since the early 1990s, and is slightly lower than for Canada as a whole. However, for those who do experience low income, its average duration has increased since the 1990s. This is in keeping with the rising entry rates and falling exit rates noted above. The past two decades have seen a doubling in the number and an increased share of Islanders who are in low income for seven or all eight of the years examined. As well, this measure varies widely across different demographic groups, with women, youth, and immigrant Islanders far more likely to be in low income than other groups.

The depth of low income, as measured by the 'gap ratio', was fairly stable in PEI for much of the decade, then saw greater fluctuation in recent years, including a sharp increase in 2015, an improvement in 2016, and then some deterioration in 2017. Males tended to have larger gaps and greater fluctuations than women, and those aged 18-64 saw greater depth and variability of low income than other age groups. In particular, seniors had relatively minor gaps, and experienced little change in those gaps over time.

Taking these trends together, poverty saw a sharp peak in 2013 in terms of the number of Islanders in low income, and a second peak in 2015 in terms of both the number in low income and the depth of poverty. These trends caused PEI to lose ground compared to other provinces, although still in a more favorable position than most. The overall pattern of poverty changed over the second half of the past decade, since 2013, with the severest impacts on the most vulnerable. The duration of poverty lengthened, and the depth of poverty increased, especially among those in lowest income to begin with. Most trends saw improvement in 2016, and some groups, notably children, lone parents and women, saw further improvement in 2017.

OVERALL TRENDS

PEI's rates of low income were relatively stable throughout the 2000s and the post-recession period, but have fluctuated significantly in recent years. By all measures, the rate of low income in PEI rose sharply in 2013, dipped in 2014, rose again in 2015, and improved in both 2016. In 2017, the most recent data available, trends diverged: as detailed below, the rate below Market Basket Measure improved, falling from 11.3% to 10.1%, while the rate below the other two measures rose slightly. This effect is partly due to the fact that the thresholds for MBM dropped by about 2%, while the threshold for the Low Income Cut-Offs rose by 1.6% and the thresholds for the Low Income Measure increased by 3.6%.



Statistics Canada, Table 11-10-0135-01 (formerly CANSIM 206-0041) Low income statistics by age, sex and family type...

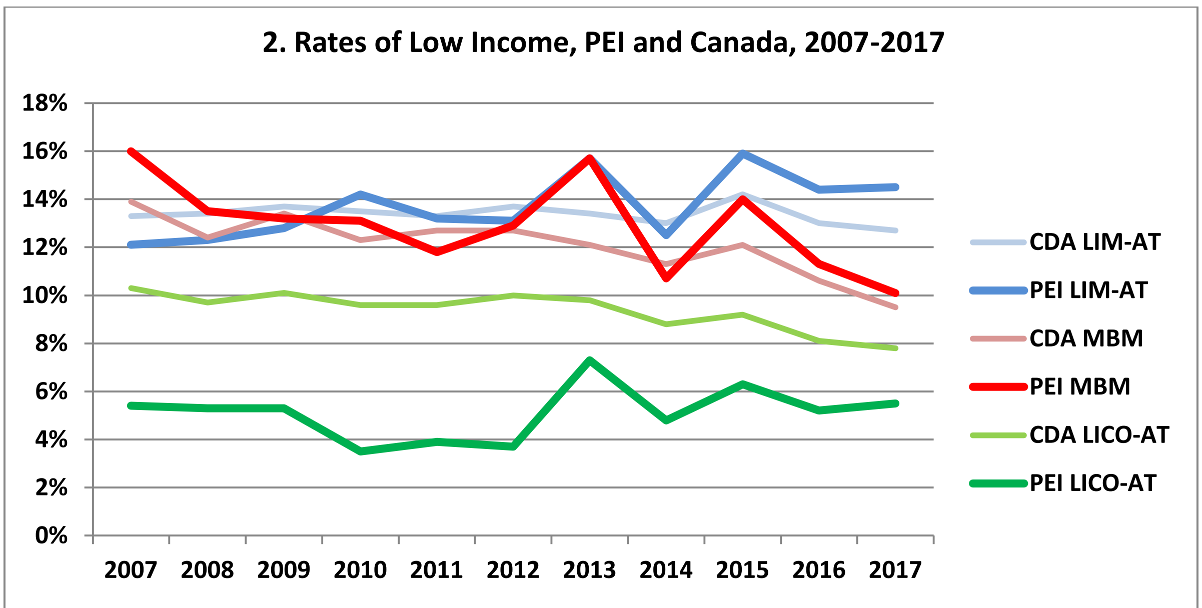
- The share of Islanders below the Low Income Cut-Offs After Tax (LICO-AT) doubled from 3.7% in 2012 to 7.3% in 2013, dropped in 2014, climbed back up to 6.3% in 2015, fell to 5.2% in 2016 and rose again to 5.5% in 2017. This recent level is similar to the rates during 2007 to 2009, but well above the rates of 3.5 to 3.9% during 2010 to 2012. Numbers are rounded to the nearest thousand in the data available and hence are not precise, but amounted to about 7,000 Islanders 2007-09, dropping to 5,000 during 2010-12, jumping to 11,000 in 2013, and then fluctuating down to about 8,000 in 2016 and 2017.

- The share of Islanders with incomes below the Market Basket Measure (MBM) varied more over time. From 2007 to 2011, it fell from a high of 16% and 22,000 Islanders to a low of 11.8% and 17,000 Islanders, then increased slightly in 2012. From 2013 to 2016, it followed the same pattern as LICO-AT above, jumping to 15.7% and 22,000 Islanders in 2013, then dropping in 2014, rising in 2015, and declining to 11.3% and 17,000 Islanders in 2016. In 2017 it diverged from other measures, falling again, to 10.1%, the lowest point in PEI since data for this measure began in 2006. Given population growth, this equated to about 15,000 Islanders, a level similar to 2014. However, it should be noted that the improvement in 2017 can be partly attributed to the fact that the 2017 ceilings for MBM were lower than in 2016 due to declines in the food and 'other' categories of the basket. (For analysis of these changes, see the updated backgrounder on Low Income Measures.)

- The Low Income Measure (LIM) is influenced by national trends in income because it is set at one half the national median income. Since the national median income is higher than PEI's, this means that the threshold is higher than for the other two measures discussed above. Within this context, the LIM followed similar trends to the above, ranging from 12-14% during 2007-12, increasing to 15.7% in 2013, dropping to 12.5% in 2014, hitting a peak of 15.9% in 2015, and dropping to 14.4% in 2016. It 2017, it stayed about the same at 14.5%.

PEI IN THE CANADIAN CONTEXT

Compared to other provinces, until 2013 PEI had Canada's lowest rates of severe low income (below LICO). Its rates of moderate low income, as measured by the MBM and the LIM, were similar to the national average and in the middle range of provinces.



Statistics Canada, Table 11-10-0135-01 (formerly CANSIM 206-0041), Low income statistics by age, sex and family type...

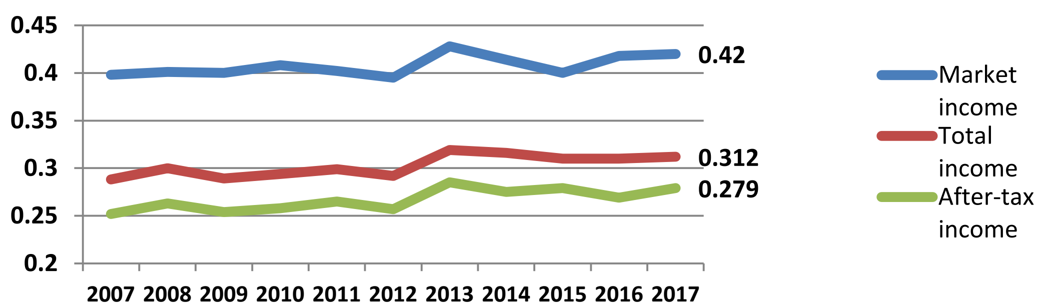
These standings deteriorated and became more variable with the sharp increases in low income starting in 2013 and 2015, which put PEI well over the national average for LIM and MBM, and closer to the national average for LICO. 2016 saw some improvement: while the rate below LIM remained fourth highest, exceeded by the other three Atlantic provinces, the rate below MBM improved to fifth highest in Canada, and the rate below LICO to third lowest. 2017 saw mixed results: the rate below LIM stayed at fifth highest, the rate below MBM slipped slightly to fourth highest, and the rate below LICO improved to a tie for second place.

INCOME INEQUALITY

Income inequality is a key poverty indicator. The gap between the richest and the poorest in society, and the extent to which income and wealth is concentrated in some population groups, has major implications for people's well-being, sense of hope, and sense of social inclusion. It is also an indicator of the extent to which a society fully uses its human resources, and of the barriers which may impede people's efforts to improve their situations. Broadly, societies which are more equal are healthier, happier, and more successful.

Income inequality is measured by the "Gini coefficient". This measure consists of a decimal number between zero and one, where zero means all incomes are exactly equal and one means that one person has all the income available. A higher number means more inequality. The greatest inequalities tend to exist for market income (earnings, investment income, business and farm income, pensions), and the smallest for after-tax income, reflecting the impact of a progressive tax system and government transfers in reducing inequality. Total income falls in-between, reflecting transfers but not taxation.
Levels of income inequality in PEI were quite stable and relatively low up until 2013, at which point they jumped sharply, reflecting the spike in low income levels that year. This spike occurred across all income categories – market income, total income, and after-tax income. While levels of inequality have generally declined since 2013, they have not returned to their pre-2013 levels. In 2016, trends diverged, with increased inequality in market incomes and decreased inequality in after-tax income. These two trends offset each other, resulting in little change in inequality for total income. In 2017, income inequality dropped slightly for market income, but increased for total income, and more significantly for after-tax income.

3. Gini Coefficient, PEI, 2007-2017



Statistics Canada, Table 11-10-0134-01 (formerly CANSIM 206-0033), *Gini Coefficients of adjusted market, total, and after tax income*

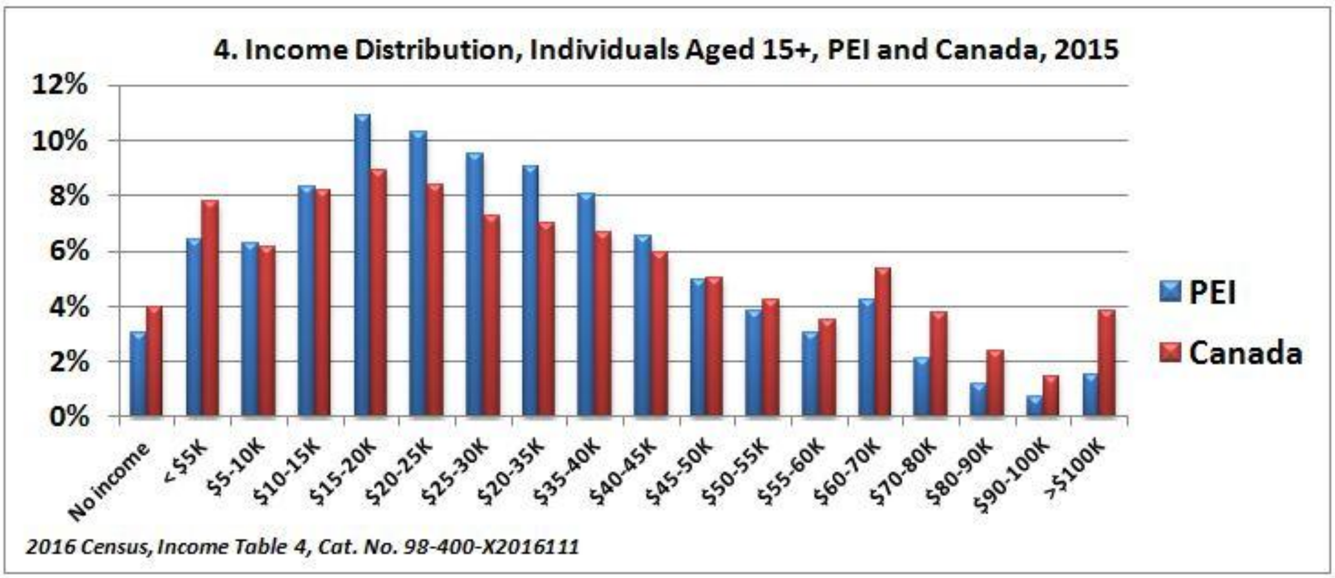
Up until the past five years, PEI had Canada's lowest rates of income inequality. Beginning in 2013, this standing slipped somewhat, driven by the PEI fluctuations shown in the chart above, and progress by other provinces especially in Western Canada in reducing income inequality.

- With regard to market income, PEI's rate fell from best or second best up to 2013, to sixth place in 2013, behind New Brunswick and the four western provinces. In 2016, it had recovered slightly to fifth place, still behind the four Western provinces, and in 2017 it improved further, to third place behind Alberta and BC. PEI's Gini coefficient for market income in 2017 was .42, below the national average of .439.

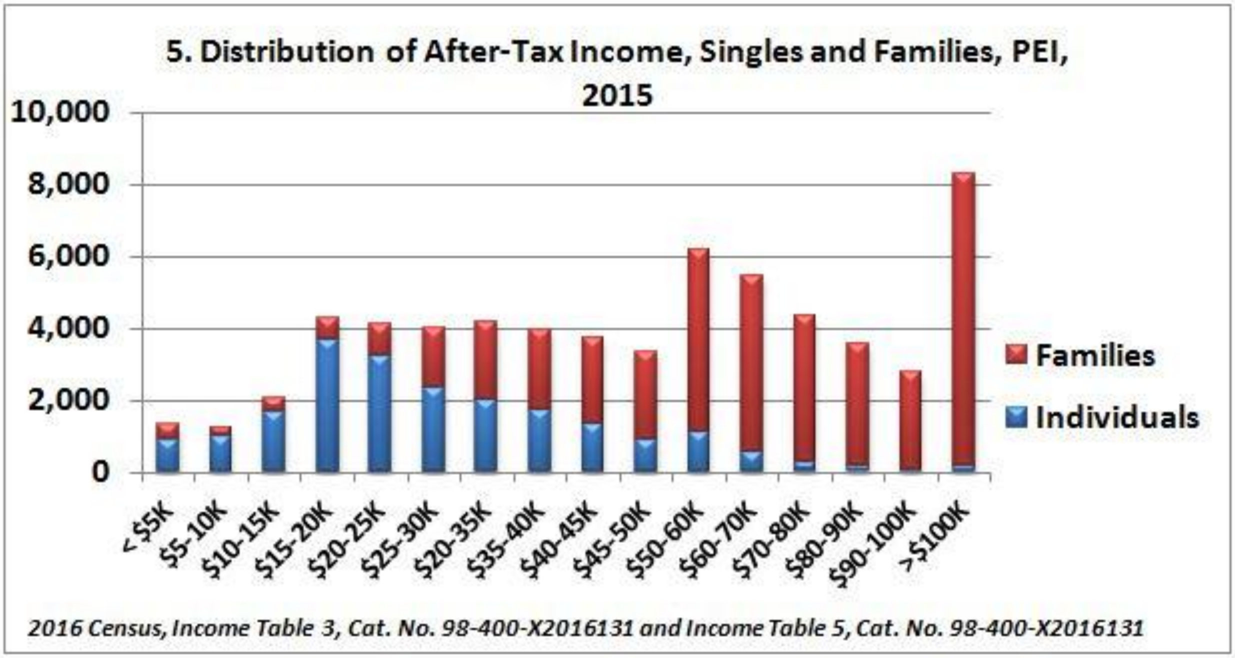
- With regard to total income, PEI fared better, going from the lowest rate up till 2013, to a tie with New Brunswick from 2013 to 2015, and a return to the lowest rate in both 2016 and 2017. The Gini coefficient for total income in 2017 was .312, below the national average of .352.
- With regard to after-tax income, PEI had the lowest rate most years from 2007 onwards, overtaken by New Brunswick in 2013 and again in 2015. In 2016, PEI regained the lowest rate at .269, but in 2017, it fell behind New Brunswick again, rising to .279. However, this was still well below the national average of .309.

INCOME DISTRIBUTION

The relatively low levels of income inequality described above reflect the fact that incomes in PEI are more grouped in the lower and middle brackets than elsewhere in Canada, with relatively fewer people both in the lowest income brackets and in the highest brackets.

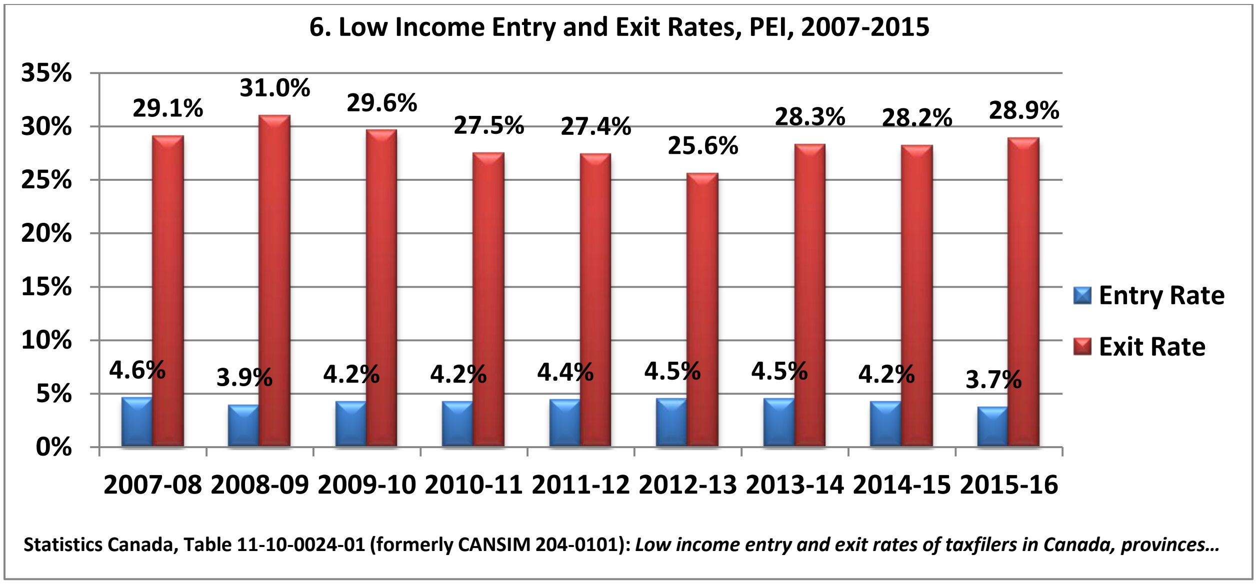


By household type, single individuals are strongly clustered in the lower income brackets while the reverse is true for families. Chart 5 shows the distribution of after-tax income in 2015. In terms of shares, over one in three single individuals had incomes below $20,000, compared to one in twenty-five families. Conversely, over two-thirds of families had incomes over $50,000, compared to barely one in ten single individuals.



PATTERNS OF LOW INCOME ENTRY AND EXIT

The years from 2008 to 2013 saw more Islanders entering low income (as measured by the Low Income Measure), and fewer exiting. Exit trends improved slightly in 2013-14 and maintained that improvement in 2014-15 – but were still lower than the pre-recession rates. Entry to low income increased steadily from 2008-09 to 2013-14, then improved slightly in 2014-15. In 2015-16, entry rates improved sharply, dropping to 3.7%, the lowest rate since statistics began in 1992, and only the second time that the rate dipped below 4%. Exit rates also improved slightly in 2015-16, although not to pre-recession levels.



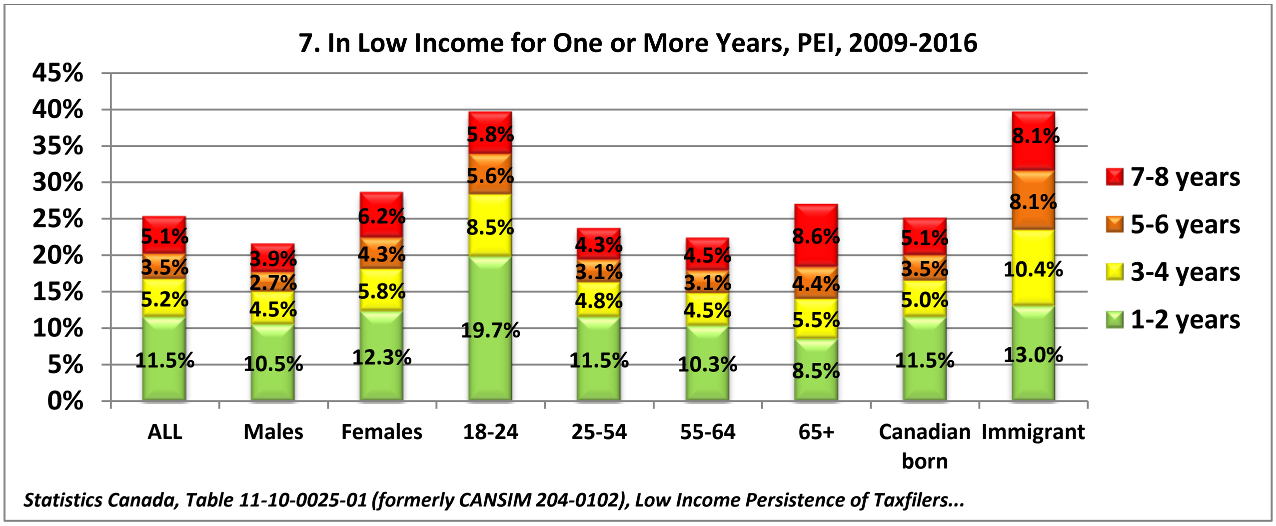
Patterns of entry to and exit from low income varied by population group:

- Women were more likely to enter and less likely to exit low income than men.
- Singles and lone parent families were much more likely to enter and less likely to exit low income than couple families. From 2007-08 to 2015-16:
    - About one out of ten lone parent households, one out of sixteen singles, and one out of thirty couple families entered low income each year. As well, over time, singles and lone parent families were increasingly likely to enter low income, while couple families became less likely to do so.
    - Conversely, fewer than three in ten lone parent families and about two in ten singles exited low income each year, compared to almost four out of ten couple families.

Youth were almost twice as likely to enter low income as older Islanders, but also had a somewhat higher exit rate.

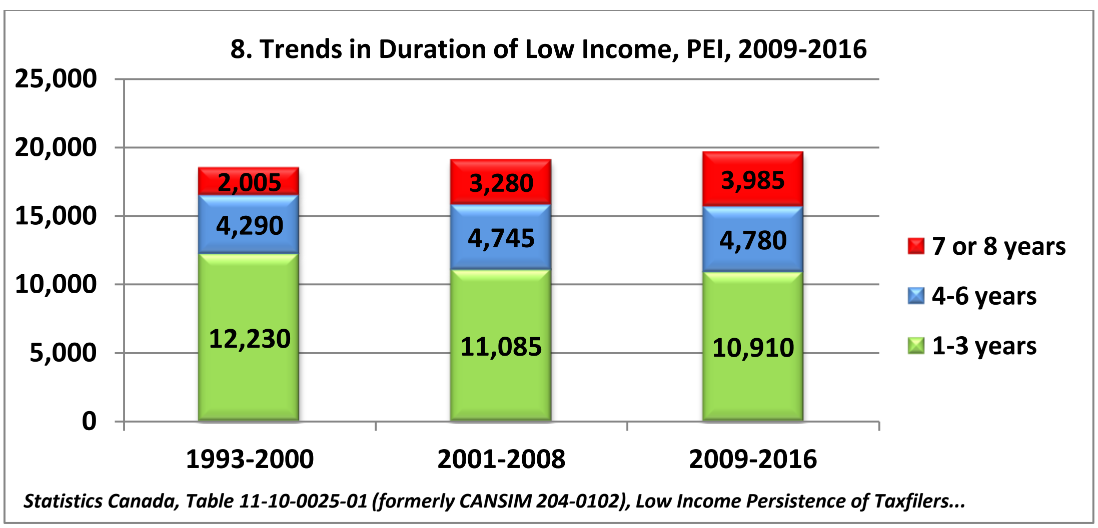
PERSISTENCE AND DURATION OF POVERTY

The share of Islanders in low income at any given time masks its broader impact on society. When low income is measured over an eight-year period, just over one Islander in four is in low income over that time. This proportion has dropped slightly since the early 1990s, and is slightly lower than for Canada as a whole. However, for those who do experience low income, its average duration has increased over that time. As well, its impact across different demographic groups varies widely, with women, youth, and immigrant Islanders far more likely to be in low income than other groups.



Among those Islanders in low income in the most recent period, 2009-2016, about two-thirds were in low income for less than half the period, one to four years. The remaining one-third was in poverty for much or all of the period. Here too, the risk of being in longer-term low income varies by group, with women, youth, seniors, and immigrants at greater risk.

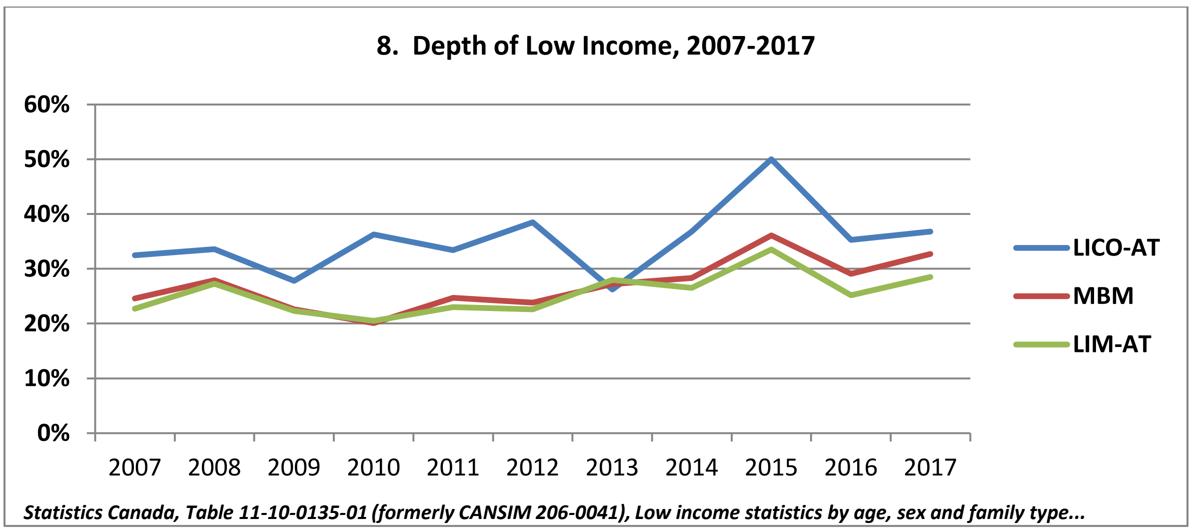
Looking at the three eight-year periods from 1993 to 2016, the share of population experiencing low income dropped slightly, but the total number increased due to overall population growth. More concerning, the share in prolonged low income – seven or all eight years – increased sharply from 2.9% to 5.1%, and the number doubled. The share in low income for four to six years held steady at 6%, and the number increased somewhat during the 1990s, and then leveled out. All gains in reducing the total number of Islanders experiencing low income were made in the group in shorter-term low income of one to three years.



DEPTH OF LOW INCOME: THE GAP RATIO

The gap ratio is a measure of the depth of low income. It is the difference between the low income threshold and the family (or household) income, expressed as a percentage of the low income threshold. For those with no income, the gap ratio is set to 100. For those with some income, the statistic is the average of the gap ratio, calculated over the population of individuals below the income line.

The gap ratio was fairly stable in PEI over much of the past decade. In 2013, a year in which low income rates increased sharply, the gap did not grow. That is, there were more people in low income, but the depth of poverty did not worsen. In 2014, fewer people remained in poverty, but their depth of poverty worsened. In 2015, both trends worsened, with a sharp increase in the gap ratio. Trends improved on both fronts in 2016, and then diverged somewhat in 2017: while rates below some measures of low income improved, the gap ratio increased for all measures.



The gap ratio tended to be highest for those below the Low Income Cut-offs, that is, those in the lowest income. This measure also showed the greatest fluctuation over the period.

Among population groups:

- By age, seniors had relatively low, stable gaps, not surprising given their high share of fixed income. The largest gaps and greatest fluctuations were in the 18-64 age group.
- Males tended to have larger gaps and more fluctuations than females.