

NEWS RELEASE

For immediate use: WEDNESDAY 12 August 2009

AUDIT SHOWS LOW EARNERS PAYING HIGH PRICE IN RECESSION

Quarterly update of low earners audit published

With Job Seekers Allowance data published this week likely to show another rise in unemployment, a new report reveals the heavy toll being taken on lower earners¹ and the impact this may have on the wider economy.

The quarterly update of *Squeezed: the low earners audit* published by the Resolution Foundation today focuses on low earners and work. It finds that many low earners are facing the prospect of long-term unemployment as the recession takes its toll on the industries in which they work.

It also finds they are in a more vulnerable position in relation to the softening of the labour market than either benefit-dependent households or higher earner households. This will have knock-on effects on the high street, in terms of falling consumption, and on the housing market as this group is most likely to carry high loan-to-value mortgages, be in negative equity yet have no safety net in terms of savings or a redundancy pay-out.²

Whilst the recession initially hit higher earners, the quarterly update found³ evidence that unemployment is now transferring to low earners:

1. There has been a delayed but steep drop in output in key low earner industries. *Distribution, hotels & catering and repairs* lagged by one quarter but, when a fall in output arrived, it proved sharp. More recently, the rates of decline have slowed, although the fall in *construction* activity remains steep (22% of self-employed low earners work in the ailing construction industry).

2. Insolvencies in wholesale and retail (key low earner industries) have risen more sharply than in financial intermediation. A 19% rise compared to 3% quarter on quarter (Q4 2008 compared to Q1 2009) illustrates, despite an initial lag, insolvencies are now transferring to low earner industries. Similarly, the CBI has highlighted signs of optimism in some parts of financial services, an easing of contraction in manufacturing but continued problems for the high street.⁴

3. There are sizeable redundancies being made in industries where low earners are concentrated. 80-90% of people in jobs in *distribution, hotels &*

restaurants are low earners and this industry suffered the largest number of redundancies in quarter 1 2009.

To add to this, low earners are in a position where they are unlikely to return to work quickly with low level skills, training and qualifications, barriers to employment progression and time constraints. For example, half of low earner household members have no qualification above GCSE, compared with 30% of members of higher earner households.

In addition, despite some signs for optimism in higher ends of the economy, such as financial services and manufacturing, there is a visible lag in unemployment amongst low earners as the recession transfers its focus to industries such as retail, hotels & catering and construction.

Sue Regan, Chief Executive of the Resolution Foundation said:

“Despite some signs of economic recovery, it is clear that unemployment will continue to grow for some time to come. Initially unemployment hit white collar workers hardest, but our audit shows low earners are increasingly bearing the brunt of the recession. The danger is that low earners losing their jobs today become lost to the labour market forever because of the difficulty – due to low skills levels – they have bouncing back.”

There are 7.5 million working low earners in the UK, 4.9 million in work and 2.2 million in self-employment, and 0.4 on job seekers allowance at the start of the recession. ‘Low earners’ is the term the Foundation uses for the group of people who are ‘too rich’ to qualify for state support yet often ‘too poor’ to access the benefits of private markets.

Where do low earners work?

Low earning employees are likely to be particularly highly concentrated in vulnerable industries:

- 65% of employees within the *wholesale and retail* sector earn a low earner salary, about 2 million people.
- Low earners are less well represented in manufacturing, where just 35% earn a low earner salary, although this is still around 1 million people.
- Up to 1.25 million low earners could be employed in the real estate industry.
- Just 35% of construction employees are low earners, representing 0.35 million people.⁵ However, it is likely that a sizeable number of low earners work in this sector on a self-employed basis.
- The nature of the downturn could see the high street experiencing a longer period of decline than other sectors of the economy. People’s attempts to curb spending and credit constraint is likely to ensure that UK consumer spending remains depressed for some time.

What’s the position of a low earner in employment?

Low earners are in a squeezed position in employment - in work but on the bottom rungs of the income ladder, with many barriers which prevent them progressing in the Labour market:

- *Lower levels of skills*; 50% of low earner household members have no qualification above GCSE, compared with 30% of members of high earner households.
- *Lower levels of job security*; low earners are considered more dispensable than high earners that companies will have difficulty replacing.
- *Higher concentration in small- and medium-sized enterprises (SMEs)*; such organisations are likely to be less resilient than larger firms and more likely to face closure during a period of reduced demand.
- *Higher levels of self-employment*; while 16 per cent of low earners are self-employed, just 10 per cent of higher earners are.

Why low earners are likely to become long-term unemployed:

Low earners whose jobs are under threat are likely to find it more difficult than high earners to find alternative employment:

- Low earners have lower starting level of skills and qualifications and reduced access to on- and off-the-job training. They are often too lowly skilled to be considered a worthwhile investment by employers, yet too highly skilled to be eligible for Government assistance which focuses on those without the most basic skills.
- Low earners are less likely than high earners to receive sizeable redundancy payments to help soften their fall in income
- Their opportunities are likely to be squeezed by unemployed skilled workers taking jobs at lower salaries as a way of returning to the labour market.

The Low earner experience – ‘they [the government] could have saved Woolworths: loads of people worked there’.

The Foundation held a focus group with low earners in June which found that job security and employment prospects was their greatest concern during the recession. The Foundation heard that:

- the worsening employment situation brought about by the recession and rises in the cost of living experienced during 2008 have served to weaken the position of low earners and expose them to increasing pressures and vulnerabilities.
- Job insecurity, lack of employment opportunities and having less money left at the end of the week have had a negative consequence on people’s quality of life. Feelings of physical tiredness, stress, anxiety and depression were being experienced by several members of the group.
- Tellingly, no member of the group felt that the Government or other private or public service providers had their concerns at heart or was there to advocate for positive change on their behalf.

/Ends

For further information please contact Cara Brown on 020 7731 9143 / 07957 536758 or Mark Hanson on 07973 697947.

The full report, *The low earners audit: August 09 update: low earners' experiences of work*, is available on our website www.resolutionfoundation.org

All the Foundation's research, reports, briefings, seminar notes are also available on our website.

Notes to editor:

1. At its broadest, we define the low earner group as including all those with below-median income (from all sources) who are not dependent on state support. For the purposes of analysis there are a number of different ways of capturing this group and this note uses a variety of methods, depending on the data available in the underlying sources.
 - At its simplest, we consider the group to be made up of households in income deciles 3, 4 and 5: that is, with gross annual income between £11,650 and £27,150.
 - Around 7.6 million households fall into this category in the UK, equivalent to around 13.7 million adults.
 - We define two other income groups in relation to low earners: households with above-median incomes (income deciles 6-10) are considered *high earners*, while those with below £11,650 income (deciles 1 and 2) are considered *benefit-dependent*.
 - This definition inevitably excludes some low earners (those in income deciles 1 & 2 who are not benefit-dependent and those living in high earner households who are individual low earners) and includes some benefit-dependent individuals. However, it provides a reasonable picture of the position faced by the majority of low earners.
2. Low earners are likely to have high Loan to value mortgages – 17.1% with 75% or more. 27 – 40% of a low earners disposable household income went on mortgage repayments compared to 19 – 28% of higher earners.
3. All statistics taken from the Quarterly update of the *low earner's audit*.
4. CBI Press releases, First signs of optimism returning to some parts of financial services", 29 June 2009, "Contraction in manufacturing is easing but return to growth could be distant", 22 July 2009; "UK high street struggling through the summer", 28 July 2009
5. Not all of the individuals working in these three industries who earn less than the low earner threshold will live in households with gross incomes between £11,650 and £27,150 because many will live with other working adults. General low levels of pay are likely to be indicative of low earner concentration however.
6. The Foundation's work on long-term care includes:
 - 'Lost: low earners and the elderly care market', February 2008. An investigation into low earners' experiences and perceptions of the care market, based on a combination of literature reviews and new polling, focus group and interview data.
 - 'A to Z: mapping long-term care markets', May 2008. An analysis of the long term care system to produce an holistic "market map", identifying weaknesses in the market which can be modelled to take into account future demographic and policy trends.
 - A series of policy development projects using a range of quantitative and qualitative studies, stakeholder workshops and desk research investigating solutions to the weaknesses of the long term care market on Navigating care, Innovation and Efficiency in Long-Term Care, Local Market Shaping, and Funding.
 - 'Navigating the way: the future care and well-being of older people', December 2008. A vision and architecture of a future care system, based on the findings from the four policy development projects (above).

7. The Foundation's first project in 2005 was on low earners and their financial health. Discovering an 'advice gap' for 12 million low earners of working age and a further 3 million low earners in retirement, the Foundation developed proposals for a national generic financial advice service. This proposed service was aimed at low earners in the 'advice gap' – people who are not currently attractive to commercial providers of advice, nor receiving support from existing voluntary sector provision. This work fed into the Thoresen Review which recommended in March this year that a Money Guidance service be set up. This is now at Pathfinder stage backed by £12 million from the Treasury and the FSA. Relevant Resolution Foundation reports can be downloaded from the Foundation's website: www.resolutionfoundation.org- A national dividend: The economic impact of financial advice and The advice gain: The impact of generic financial advice on the financial services industry.