Resolution Foundation

The Living Standards Audit 2020

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Executive Summary

In this annual *Audit*, the latest in over a decade-long series, we take a forensic look at the impact of the coronavirus crisis so far on UK living standards. We consider where households found themselves on the eve of the crisis, and provide a detailed assessment of the impact of the crisis on living standards in the middle of lockdown, in May 2020. We also ponder the next 12 months and beyond, paying particular attention to the outlook for low-and-middle-income families.

The coronavirus crisis comes on the back of a poor decade for income growth, particularly for low-income households and the young

The households now facing the current crisis are those whose living standards have also been heavily shaped by the two major economic events of the past decade: the financial crisis – and subsequent years of falling incomes; and the post-Brexit referendum inflation spike – which held back real incomes in the latter part of last decade. These shocks combined to make the 2010s a disastrous decade for living standards.

Despite some important tailwinds, growth in pay and incomes in recent years has been weak by historical standards. On the eve of coronavirus, the UK labour market was very strong – registering a record employment rate of 76.6 per cent. Moreover, pay inequality was falling largely as a result of the National Living Wage. But, despite these positive developments, typical non-pensioner incomes have *not* grown over 2017-18 and 2018-19.

Looking ahead, and our 'nowcast' for 2019-20 suggests stronger, but still weak growth of just 0.8 per cent. For the lowest income households, cuts to welfare support since 2015 have caused incomes to fall consistently between 2016-17 and 2018-19. In fact, incomes for the poorest households (at the tenth percentile of the distribution) were 5 per cent lower in 2018-19 than in 2016-17 – and, strikingly, were no higher in 2018-19 than in 2001-02.

Since the mid-1990s, income gaps between regions have shrunk. As with regions, so the relative gap between typical incomes of those in different ethnic groups has also narrowed. But, substantial gaps still remain, with, for example, income gaps between Black African and White British households close to where they were in 2002-03.

Overall income inequality in the UK, as measured by the Gini coefficient, has remained high, but has not increased further, since the early 1990s. This leaves income inequality in the UK at the end of this decade high relative to the period up to the 1980s, and relative to our international peers. If we look within the income distribution, recent years have seen the middle catching up with the top but pulling away from the bottom. For example, the ratio between incomes at the median and the tenth percentile (the 50/10 ratio) increased to 2.54 in 2018-19: a record high. In contrast, the ratio of the richest households' income (at the 90th percentile) to the middle (50th percentile) peaked just before the financial crisis and has declined gently since. And, although the headline measure of relative child poverty shows no change over the past two years, the proportion of children in households with incomes below 40 per cent of the median has increased to a record high of 13 per cent. This means that poor income growth for the lowest income families has been accompanied by a rise in the proportion of children on very low incomes.

By contrast to working-age adults, pensioner incomes have continued to grow in the run up to the crisis. For example, a typical 70-year old in the three years to 2018-19 had a household income that was 25 per cent higher than that of a typical 70-year old in the three years to 2005-06; whereas a typical 30-year old's income in the three years to 2018-19 was the same as it was for a typical 30-year-old 13 years earlier. This is particularly worrying in the broader context of the pandemic which has disproportionately affected working adults, particularly the young.

Overall, then, the pre-crisis phase saw slow growth in living standards for everyone, but middle-income families have pulled away from low-income families – and the young have fared particularly badly. This context presents a concerning backdrop to the crisis.

This economic crisis is first and foremost a labour market crisis, with big implications for the incomes of working families

The evidence on the labour market effects of lockdown, which is timelier than household income data, is clear. HMRC's Real Time Information data shows that the number of employees fell by 574,000 between March and May 2020, with hours worked falling by 17 per cent on an annual basis in the three months to May 2020. Meanwhile, typical real pay has fallen by 1.5 per cent on the year. And over 40 per cent of the self-employed report their pay having fallen by more than a quarter between February and May 2020. Taken together, this represents an unprecedented shock to the UK labour market. Fortunately, family incomes have been hugely shielded by policy action, with the Coronavirus Job Retention Scheme (JRS) and the Self-Employment Income Support Scheme (SEISS) supporting the incomes of over 12 million people during the lockdown.

The sectoral nature of this crisis, and the fact that the hardest-hit sectors are lower-earning parts of the economy, such as hospitality and retail, means that the labour market effects have been concentrated on low-earners and the young. This pattern is also reflected across the income distribution when we look at the proportion of *those in work* who have lost hours, pay or work due to coronavirus. We estimate that over half of those who are in work and in the lowest-income households had their work negatively affected in some way by coronavirus in May 2020, compared to three-in-ten of workers in the highest-income households.

But higher-rates of non-working among lower-income households (over six-in-ten adults in the bottom 10 per cent of the distribution were non-working in 2019-20), means that when we look across *all adults* this incidence of labour market hits by income is more evenly spread across the distribution, with adults in middle- and higher-income households being more likely to be affected in some way, even if the most severe effects (primarily job losses) are tilted towards lower-income households.

We estimate that typical incomes were 4.5 per cent lower in May 2020 than they were in 2019-20

The most recent comparator for an immediate income shock on this scale is the fall in household incomes recorded during the rampant inflation associated with the oil crisis of the mid-1970s, when in a single year incomes fell by 5.1 per cent in real terms. Our nowcast for household incomes points to typical non-pensioner income falling by 4.5 per cent in real terms between 2019-20 and May 2020.

Of course, this nowcast does not reflect our expectations for ultimate income growth over this ongoing crisis, or even across all of 2020-21. But it provides an indicative estimate of the size of the immediate income shock during the full lockdown: typical household incomes in lockdown were, we estimate, no higher than in 2006-07.

Policy has played a very big role in this crisis, primarily in the form of the JRS and SEISS. The Office for Budget Responsibility estimates that £17 billion was spent on these schemes in May 2020 alone, with, for example, an average pay-out of £1,130 to furloughed employees in May. Without these interventions, the hit to incomes from the labour market shock would have been much larger across the income distribution.

In addition, and crucially for low-income households, the £9 billion of increases to welfare payments has acted to significantly lift incomes towards the bottom of the distribution, turning the distributional impact of this crisis from one that would have been unambiguously regressive to one that is unambiguously progressive. We estimate that, without the £9 billion package of welfare measures, incomes across the bottom fifth of the distribution might have been at least 8 per cent lower in May 2020 than in 2019-20 – but instead they were actually close to unchanged over the period.

However, this finding should in no way breed complacency with respect to the situation for many low-income families in this crisis. Many individuals have missed out on coronavirus-specific government support (e.g. employees who had only very recently started their job were not eligible for the JRS). And even those receiving 80 per cent of usual earnings (pre-benefits) will be experiencing large hits to their labour income. There is clear evidence that falling savings rates and a growing use of high-cost consumer debt has been a feature of lockdown for many low-income families. One-in-four adults in the second poorest fifth of the income distribution have reported increasing their use of consumer debt in this crisis.

Income inequality and relative poverty fell in lockdown, even if some groups fared much worse than others

We also estimate that relative poverty rates have declined sharply. The proportion of people living in households with incomes less than 60 per cent of the median – our measure of poverty – has declined sharply for children and pensioners but remains more stable for those of working age. Relative poverty often falls during downturns, because the poverty line falls in line with median income, but a comparison of estimates of poverty rates with and without the benefits uplift reveals that the majority of this change – for children and adults of working age at least – is due to the increased generosity of benefits, rather than the fall in median income. Estimated rates of absolute poverty fell slightly for children between 2019-20 and May 2020, and only increased slightly among working-age adults, reflecting that the £9 billion boost is broadly offset by the impact of the labour market shock among poorer households.

Looking across the age range, we estimate that it is 16-to-24 and 45-54 year olds whose typical household incomes have fallen furthest, with typical incomes for these groups around 6 per cent lower in May 2020 than in 2019-20. The labour market-led nature of this crisis has meant that pensioner incomes have been relatively protected: we estimate typical incomes for pensioner families grew by 1.8 per cent between 2019-20 and May 2020. In economic terms, lockdown may have acted to widen the growing gap between pensioner and non-pensioner household incomes.

Low-income families in general have been protected by policy intervention through the JRS and benefit increases. However, among those who were not put on to the JRS, working households without children will have seen a larger income fall than similar working families with children. This is, in part, because the welfare system provides more support to families with children. Separately, those families who were not working before the crisis will not have experienced any fall in incomes and likely seen their incomes rise from the benefit increases. For example, incomes increased by around 6 per cent (when comparing between 2019-20 and May 2020) for low-income single parent families but fell by almost 9 per cent for low-income couples without children: a reduction almost twice as large as the fall in typical income across all non-pensioner households.

Unemployment increases over the rest of 2020-21 will mean large household income falls for many

The situation in May 2020 was remarkable due to both unprecedented economic circumstances and by the scale of the policy interventions. But circumstances and policy are both set to change.

While the economy is set to improve as lockdown restrictions are eased, the labour market outlook is more worrying. April will hopefully prove to have been the low point of this crisis in terms of economic output, with evidence of a gradual recovery now in progress. And for many employees, a temporary period of furloughing on reduced pay will be followed by a return to full pay. And – unlike in the periods following the financial crisis and the referendum – CPI inflation is projected to remain low (falling to 0.3 per cent by Q4 2020). But with the phasing out of the JRS, and continued weakness in many sectors due to coronavirus, take-home labour income will be slower to start recovering than GDP, with rising unemployment now a critical concern. In the OBR's 'central' scenario, the unemployment rate is forecast to hit 11.9 per cent in Q4 2020: higher than the peak following the financial crisis, and as high as the record reached in 1984.

The workers most at risk are disproportionately already in lower-income households, with 23 per cent of workers in the poorest fifth of the household income distribution working in retail, hospitality or leisure; compared to 9 per cent in the highest income fifth. And what matters for living standards is not just who is most likely to face unemployment, but also what level of income support is available for those who do. As we have previously noted, the JRS and SEISS are vastly more generous income replacements than the benefits system, even with the 2020-21 benefit boosts. With UC, a worker on £20,000 could expect to receive only 29 per cent of their usual take-home income if made unemployed. This compares to 83 per cent (as well as covering pension contributions) under the JRS so far. So, for many lower-income non-pensioner households, incomes are likely to deteriorate rather than improve through the remainder of this year, despite the expected aggregate economic recovery.

Benefit policy may further pull the rug from under low-to-middle income households in April 2021

The UK is rapidly transitioning to a different form of labour income shock. This reflects the phasing out of the JRS, suggesting that income losses will becoming more concentrated among those made unemployed, increasing the relative importance of different forms of state support shifting towards the benefits system. Despite this, though, benefit policy may soon shift from cushioning income shocks to causing them as benefit support is currently expected to be dramatically cut back in April 2021. This would come at a time when the OBR projects the unemployment rate to still be in double-digits.

The most significant of these April changes is an expected reduction in basic UC and Tax Credit support. Having been boosted from £73 per week to £94 per week in April 2020, the basic level of support for a single out-of-work adult (over age 24) is currently set to fall back to around £75 in April 2021: an estimated 22 per cent cut in real terms. Such a reversion to pre-coronavirus levels would mean a return to the lowest real-terms generosity since 1990-91, and the lowest ever relative to average earnings or the wage floor. And even the boosted 2020-21 level is worth far less than the absolute poverty line, and less than half of the Minimum Income Standard (a measure of what is required to fund a minimum socially acceptable living standard).

In addition to this cutback, support for private renters is expected to be reduced next April, (though the Government has not yet specified a firm plan). We estimate an average reduction of £700 in housing allowances for two-bedroom properties, for example, if Local Housing Allowances become unmoored again from actual local housing costs. And Council Tax Support is also set to be reduced, as a £150 a year tax reduction for poorer working-age households in England expires.

Overall, an estimated 6 million households (22 per cent) – containing 18 million people (27 per cent) – will each lose over £1,000 in 2021-22 as a result of those three April 2021 changes. This will reduce the average income of the bottom half of the income distribution by around £800 (4 per cent) relative to a continuation of that support. In the worst affected regions – Northern Ireland, Wales, the West Midlands, Yorkshire and the Humber, the North West, and the North East – over 30 per cent of non-pensioner households will lose over £1,000.

Ending this support would be the wrong thing to do: in terms of cushioning households in this continuing and shifting crisis; in terms of the fundamental long-term inadequacy of the benefits system; and in terms of macroeconomic policy. Indeed, as we have previously set out, we believe the current circumstances point to the need for further increases to social security benefits to support lower-income households and stimulate consumption.

As we have shown, public policy has played a very important role in propping up household incomes – particularly for lower income families – in the face of a huge economic blow. But the danger now is that those households face large income hits from unemployment and that policy reinforces, rather than ameliorates, that hit. This would leave us with a toxic combination of the pre-crisis trend of weakening support for low-income families and a very weak labour market. The clear task for policy now is to minimise unemployment and to boost, rather than cut, incomes for struggling households.

Section 1

Introduction

The economic effects of the coronavirus pandemic have hit household living standards hard. As large parts of the economy were being shut down, it was already clear that the lockdown and following recession would be unequally felt. In particular, this crisis is first and foremost a labour market crisis, with big implications for the incomes of working families. So, it is important to assess both the state of the country going into the crisis – to properly contextualise its impacts – and where we find ourselves now.

In this, our annual Living Standards Audit, we do just that. Alongside a snapshot of the state of living standards in the UK on the eve of coronavirus, this year's report looks in rigorous detail at what has happened to real household incomes in the early stages of the crisis (May 2020, in particular).

Our starting point is the Department for Work and Pensions' (DWP's) Households Below Average Income survey, which provides representative and consistent data about all forms of household incomes (as well as housing costs) for each financial year up to 2018-19.[1] We discuss this data further in Box 1, as well as giving an overview of the income distribution.

BOX 1: **Measuring living standards and estimating the income distribution**

Household income isn't all that matters for living standards, but it is one of the best measures we have. It has its advantages over measures like GDP in that it brings together the impact of employment, earnings, benefit incomes, and more.

In this report, we focus on equivalised household disposable incomes. This means we account for the number of people living in a household, and for benefits and taxes. Housing costs are also deducted to account for disposable income differences between home owners, mortgagors

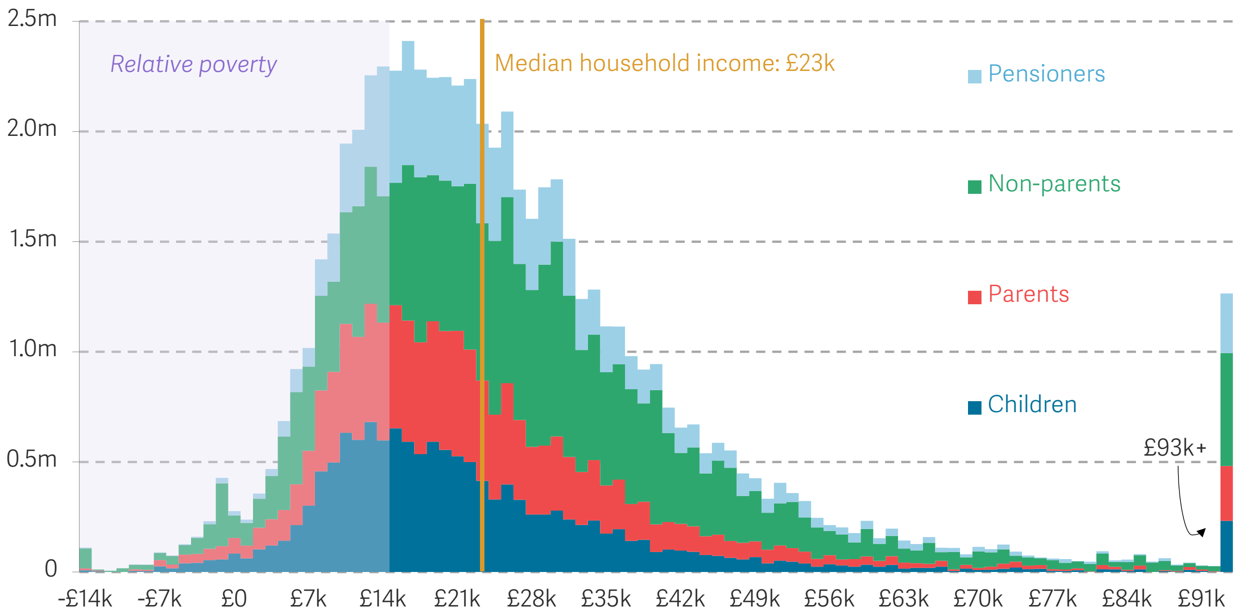
1 Of course, as we have documented elsewhere, there is much more to be done to improve the accuracy of income statistics: see, for example, A Corlett, S Clarke, C D'Arcy & J Wood, The Living Standards Audit 2018, Resolution Foundation, July 2018.

and renters.[2] We also look at real (CPI-adjusted, 2019-20) incomes. To deflate incomes after housing costs, a variant of CPI that excludes housing costs (to avoid double counting their impact) is used throughout this paper. This is the same approach taken in the DWP's Households Below Average Income statistics.

To give a brief introduction to the range of household incomes in the UK, Figure 1. shows the income distribution in 2018-19. The median disposable income was around £23,000 (in equivalised terms that correspond to the living standards of couples without children). And we can see, for example, that there are a large number of children and parents just above and just below the relative poverty line (60 per cent of the median). Differences between and within groups like these will be explored in detail throughout this report.

FIGURE 1: **The range of household incomes in the UK is broad**[3]

Population distribution of equivalised disposable household income, after housing costs, 2018-19



NOTES: Median household income is for all age groups. Some households in the data have negative incomes after housing costs.
SOURCE: RF analysis of DWP, Households Below Average Income.

In this report, we also present our latest 'nowcast' of the financial year that has just ended – 2019-20. But to explore the impacts of the current crisis, the crux of our analysis is then a 'nowcast' of May 2020. This analysis uses results from a survey of 6,000 working-age adults commissioned by us and conducted by YouGov; Real Time Information (RTI)

2 For further discussion see Box 3 in A Corlett, The Living Standards Outlook 2019, Resolution Foundation, February 2019.
3 Unless otherwise stated, charts are based on data for the whole of the UK.

earnings and employment data published by the Office for National Statistics (ONS); Understanding Society's COVID-19 data from April and May 2020; and other timely survey data.

The rest of the report is set out as follows:

- **Section 2** looks at **living standards before coronavirus**, showing how incomes have been growing at different parts of the distribution, which demographic groups had the lowest incomes, and what that means for overall income inequality and poverty up to 2019-20;
- **Section 3** considers **living standards in lockdown**, starting from what we know about the current labour market crisis, estimating how household incomes have changed, and giving our assessment of the distributional impact of the crisis;
- **Section 4** focuses on **what is next for living standards**, particularly given expected changes in employment and the benefit system over the next 12 months; and
- **Section 5 concludes.**

Three annexes provide more information for technical audiences: **Annex 1** gives a description of low-to-middle income families in 2018-19; **Annex 2** details our nowcasting methodology and sources; and **Annex 3** compares previous Resolution Foundation income projections with subsequently released outturn data.

Section 2

Living standards before coronavirus

The onset of the coronavirus economic crisis makes it more important than ever to understand how families were faring in the run up to that crisis – to contextualise the impacts, and help understand where we might find ourselves post-crisis. This section provides an audit of living standards in the years before coronavirus.

The current crisis follows two other major events for living standards: the financial crisis and downturn that followed, and a post-referendum inflation hit. In the years before the pandemic, weak earnings growth offset the beneficial impact of record employment and falling pay inequality, and led to no income growth among non-pensioners in 2017-18 and 2018-19. Real incomes for the lowest income families actually fell in recent years – thanks to cuts to social security benefits – and in 2018-19 were no higher than they were in 2001-02.

Relative income inequality is stable, but remains high. Within this, middle-income households have closed gaps with high-income households while pulling away from low-income households, with the '50/10' measure of inequality hitting a record high. Unchanged overall relative inequality combined with a growing economy means that the absolute gap between the lowest and highest income households has grown. Finally, although official measures of child poverty show no change over 2017-18 and 2018-19, the depth of child poverty has continued to increase.

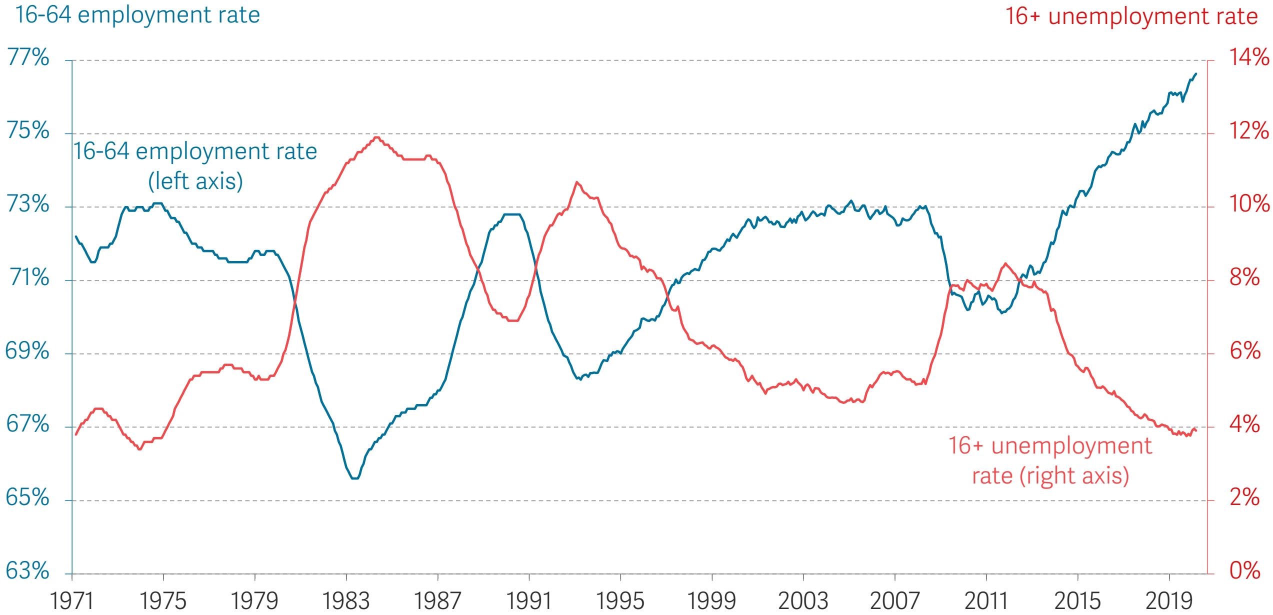
On the eve of coronavirus, the UK had record employment and falling pay inequality, but weak growth in earnings

It is important to assess the state of the country going into the crisis – to properly contextualise its impacts and understand where we might hope to get to after the crisis. Given that earnings from work is the largest single component of household income for most working-age households, employment and earnings provide a good place to start.

And there is no bigger change to our economy over the last decade than the employment boom. Figure 2 shows the unemployment and employment rates from 1971 up until March 2020. The headline employment rate in March 2020 reached a record high – 76.8 per cent in the single-month figure – while the unemployment rate was near record lows, at just 3.7 per cent (3.9 per cent on the preferred three-month measure). The employment surge has seen traditionally low-employment groups and parts of the country catch-up. Employment has increased particularly rapidly for women in their early 60s[4] and for the lowest-income households, especially single parents.[5]

FIGURE 2: **On the eve of coronavirus, employment was at a record high**

16-64 employment rate and 16+ unemployment rate



SOURCE: RF analysis of ONS, Labour market statistics.

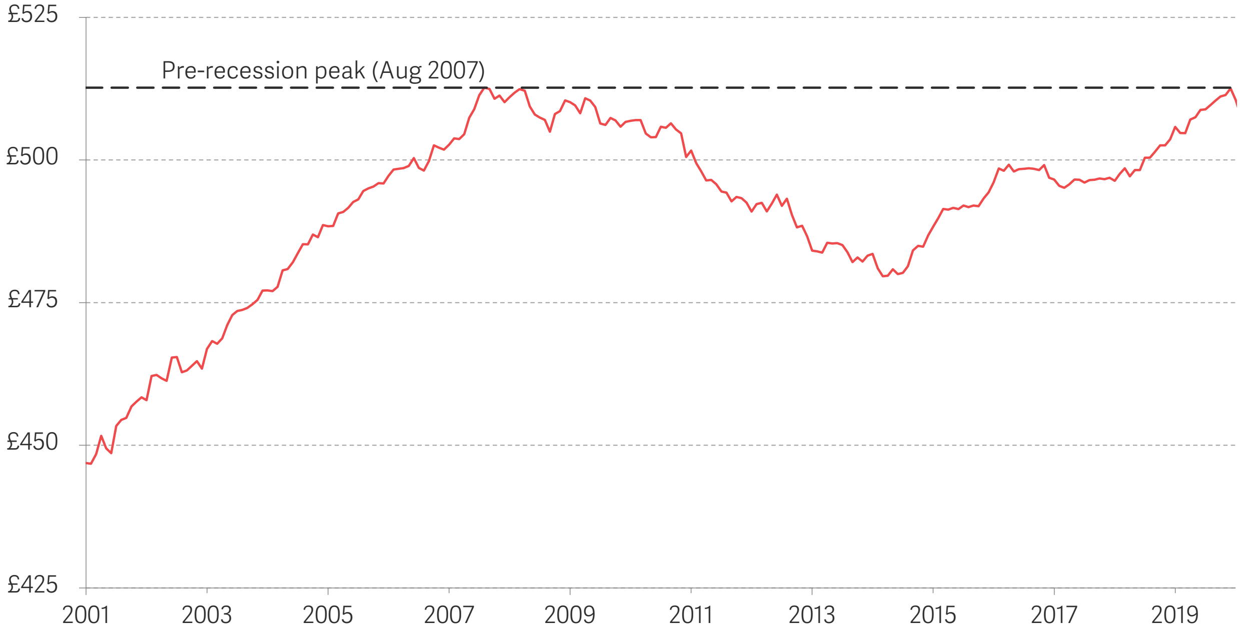
And record employment was accompanied by large increases in the wage floor, contributing to falling wage inequality. Since April 2011, the ratio of hourly earnings at the top of the earnings distribution (p90) to the bottom (p10) has fallen markedly.[6] This is true not just of hourly wages but also of weekly wages. This has primarily been driven by faster wage rises for those at the bottom of the distribution, due in no small part to the rising minimum wage. This decade's trend of falling wage inequality has also closed wage gaps between regions.[7] the income of someone at the 10th percentile

4 This is partly due to the State Pension age going up.
5 T Bell & L Gardiner, Feel poor, work more: Explaining the UK's record employment, Resolution Foundation, November 2019.
6 Office for National Statistics, Employee earnings in the UK: 2019, October 2019.
7 N Cominetti & J Leslie, Earnings Outlook Q2 2019, Resolution Foundation, November 2019.

But the good news at the bottom of the pay distribution is not matched by overall pay growth. Figure 3 shows average weekly earnings since the turn of the millennium. On the eve of coronavirus, average real pay was only just back to its pre-crisis August 2007 peak: this means over 12 years of lost pay growth thanks to the financial crisis and post-referendum inflation. Indeed, even without coronavirus, there were reasons to be pessimistic: productivity growth has been sluggish in the 10 years after the last crisis, which in the long term places a limit on pay growth.[8]

FIGURE 3: **Overall, there has been no earnings growth over the last 12 years**

Real (CPIH-adjusted to January 2020 prices) average weekly earnings (regular pay)



NOTES: Data is shown for Great Britain. Pay is 'regular' pay i.e. excludes bonuses and arrears.
SOURCE: RF analysis of ONS, Labour Market Statistics (Average Weekly Earnings).

In sum, labour market data paints a picture of record employment and falling earnings inequality but 12 years (and counting) of lost pay growth. We next turn to household income data: the key measure of overall living standards.

Non-pensioner income has not grown over 2017-18 and 2018-19, while the incomes of the lowest income households were no higher than in 2001-02

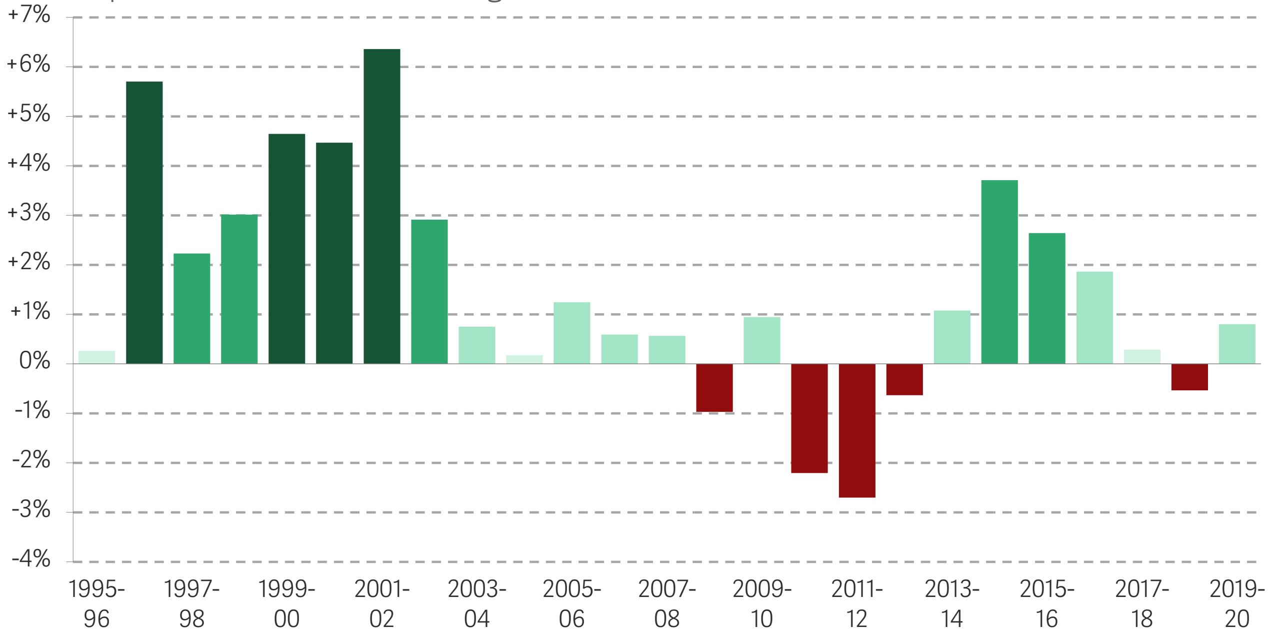
The latest 2018-19 income data shows us that overall growth in living standards leading up to the coronavirus crisis has been weak. Figure 4 shows that typical non-pensioner income (after housing costs) shrank by 0.5 per cent in 2018-19, following growth of just 0.3 per cent in 2017-18. Such low levels are not normally seen outside periods of

8 For a fuller discussion of link between the labour market and the overall economy see: N Cominetti & J Leslie, Earnings Outlook Q3 2019, Resolution Foundation, December 2019.

recession and reflect the high inflation seen following the Brexit vote. While our nowcast (a modelled estimate using timely data sources) suggests some improvement, with growth of 0.8 per cent in 2019-20 [9], the country enters the coronavirus crisis on the back of its second income squeeze in short succession.

FIGURE 4: **The typical non-pensioner income did not grow over 2017-18 and 2018-19, but we estimate some improvement in 2019-20**

Real (CPI-adjusted) growth in median non-pensioner[10] equivalised household disposable income, after housing costs



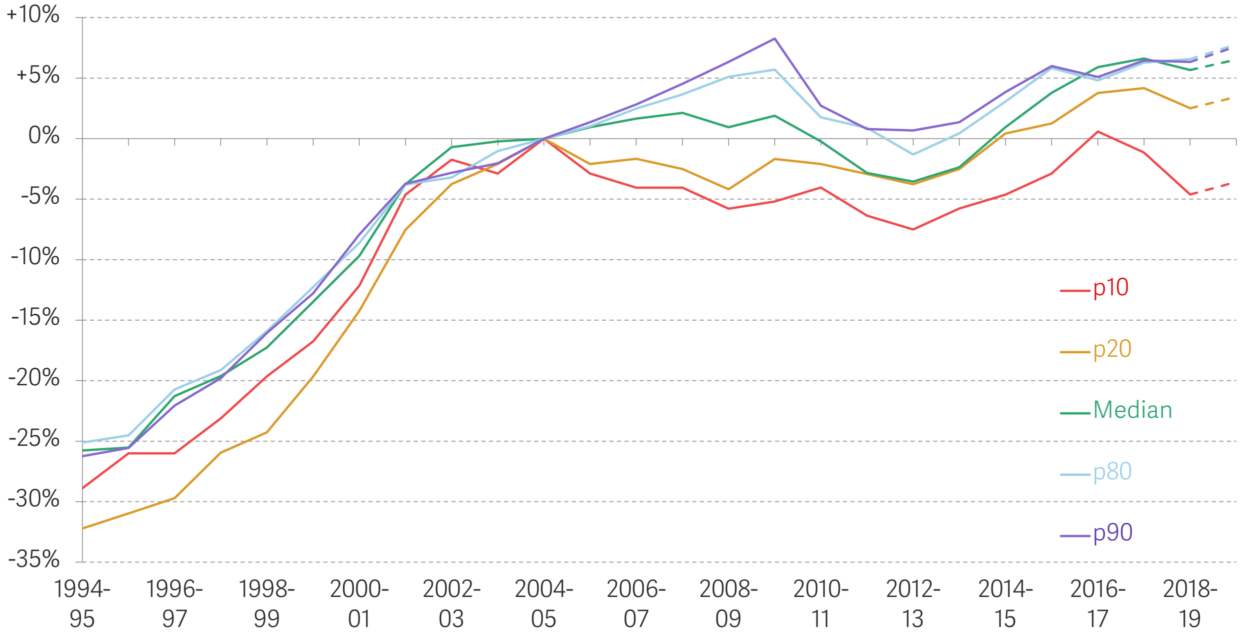
NOTES: UK from 2002-03, GB before. 2019-20 figures are a RF nowcast.
SOURCE: RF analysis of DWP, Households Below Average Income; DWP, Stat-Xplore.

While inflationary pressure since 2016 has meant that household income growth has been poor for almost all households, the lowest-income households have fared particularly badly, with their incomes actually falling. Typical income for someone one-fifth of the way up the income distribution fell by 1.6 per cent in 2018-19, and there was a fall of 3.5 per cent for someone one tenth of the way up the income distribution. Incomes at this 10th percentile were 5 per cent lower in 2016-17 than in 2018-19. As Figure 5 shows, real incomes for the lowest-income households were no higher in 2018-19 than in 2001-02. As with the median, our nowcast suggests stronger (if still weak) growth for poorer households in 2019-20.

9 See Annex 2 for details.
10 Here and throughout this report 'non-pensioner' refers to people (both adults and children) living in family units containing no-one over State Pension age.

FIGURE 5: **Real incomes for the lowest income households were no higher in 2018-19 than in 2001-02**

Real (CPI-adjusted) change in non-pensioner equivalised disposable household income, after housing costs, relative to 2004-05

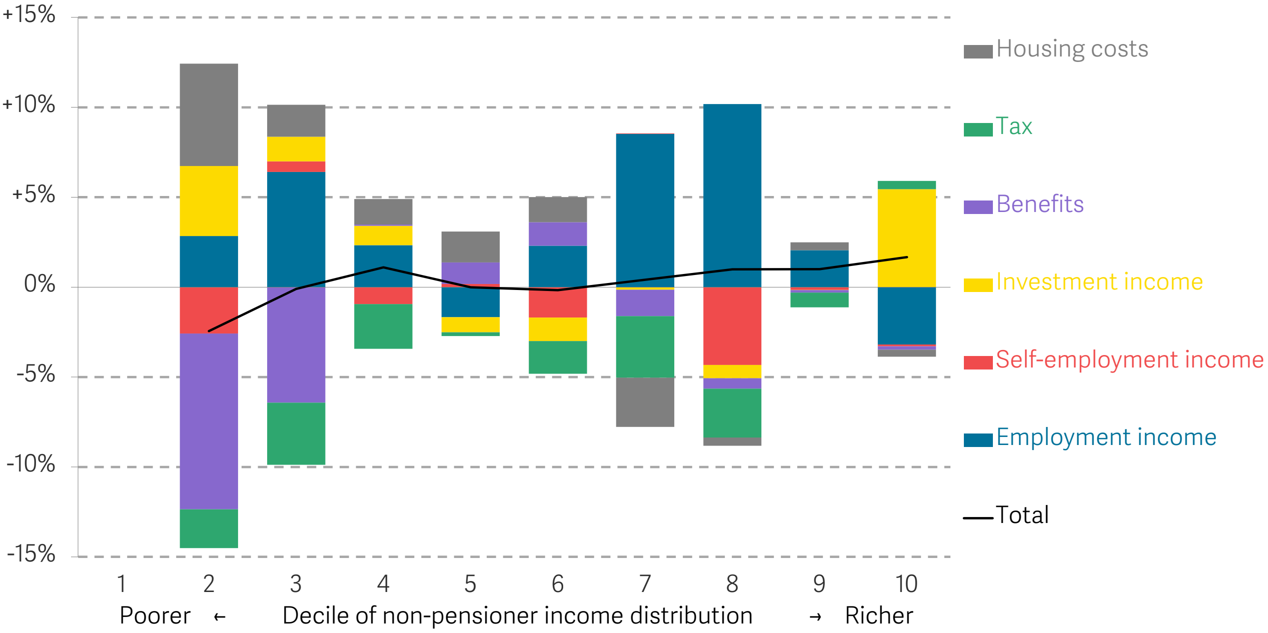


NOTES: 2019-20 are RF nowcast figures. Series refer to percentiles in the distribution, for example, p10 relates to the 10th percentile.
SOURCE: RF analysis of DWP, Households Below Average Income.

Why has income growth been so weak for the poorest households? Figure 6 shows the change in different income components, by income decile, between 2016-17 and 2018-19 expressed as a proportion of average income in 2016-17. It shows that welfare cuts have held back employment-driven gains in living standards for the lowest-income households: the fall in total benefit income in the second poorest tenth of the income distribution is equivalent to 10 per cent of those families' average income in 2016-17. However, this fall in benefit income did not come as a surprise: 2017-18 and 2018-19 were the first two years where the benefit freeze took hold – greatly exacerbating the impact of high inflation following the referendum.

FIGURE 6: **A fall in benefit income was the largest contributor to falling incomes among low-income households**

Real (CPI-adjusted) change in average annual income component, after housing costs, by non-pensioner income decile: 2016-17 to 2018-19



NOTES: Decile 1 is excluded due to the sensitivity of the bottom of the income distribution to changes to each component of average income.
SOURCE: RF analysis of DWP, Households Below Average Income.

The living standards divide between pensioners and those of working age has grown, as has that between renters and homeowners

It is not just low-income households in general that have faced difficult times. Some demographic groups, particularly renters and the young, have seen little improvement in their living standards.

As recently as the mid-1990s, older people typically had the lowest incomes of any age group. As Figure 7 shows, back then the typical equivalised household income recorded among adults aged 75 was around £12,000 in today's money. That was only a little more than half the equivalised household income of the typical 50-year-old (£22,000), and slightly less than that of young children (£12,500).

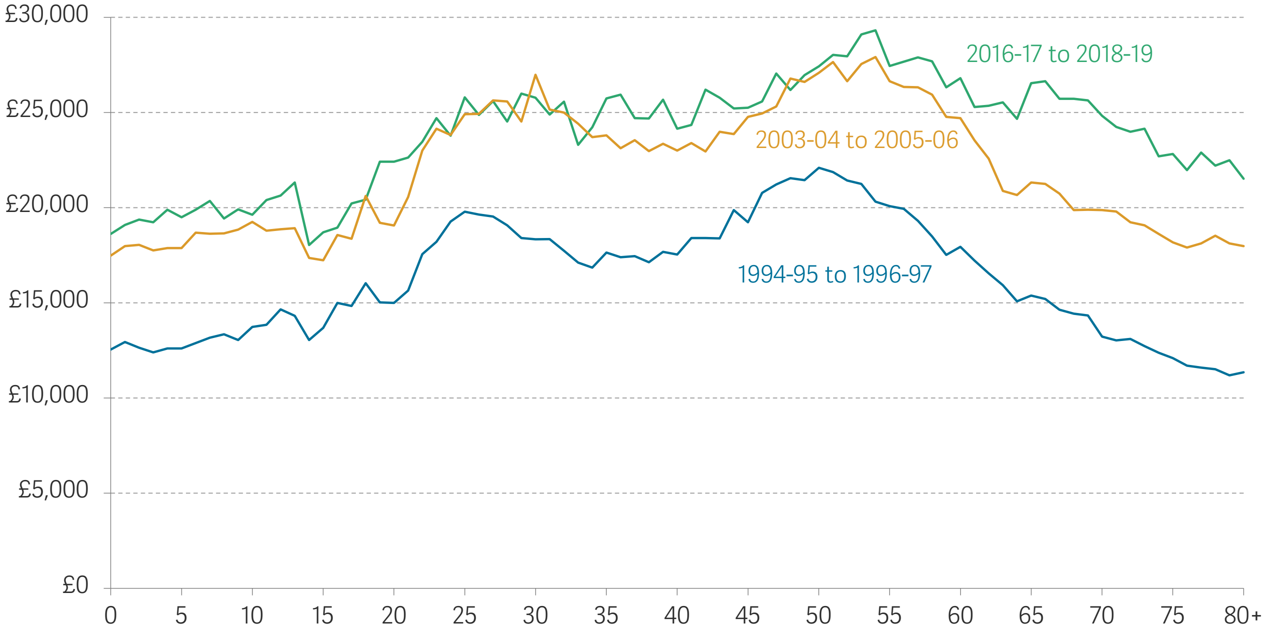
Fast-forward to today – or more accurately to the three years ending in 2018-19[11] – and we see big improvements in the incomes of pensioners. Between 1996-97 and 2018-19, the typical real income of a 75-year-old grew by 89 per cent, far faster than all younger age groups. Within that period, while all age groups saw considerable income growth between the mid-1990s and mid-2000s, only the oldest age groups (roughly 65 plus) have seen any significant growth since 2005-06. A typical 70-year old's income has increased

11 All of the years stated in this paragraph refer to three-year averages, ending in the specified year.

by 25 per cent between 2005-06 and 2018-19, while a typical 30-year old's income has not grown at all over the same 13-year period. Although the 70-plus age group remains poorer, on average, than those aged 25-70, it is children (and their parents) that now comprise the poorest group.

FIGURE 7: **Working-age adults have seen little income growth since the mid-2000s**

Median real (CPI-adjusted to 2019-20 prices) equivalised disposable household income, after housing costs, by age



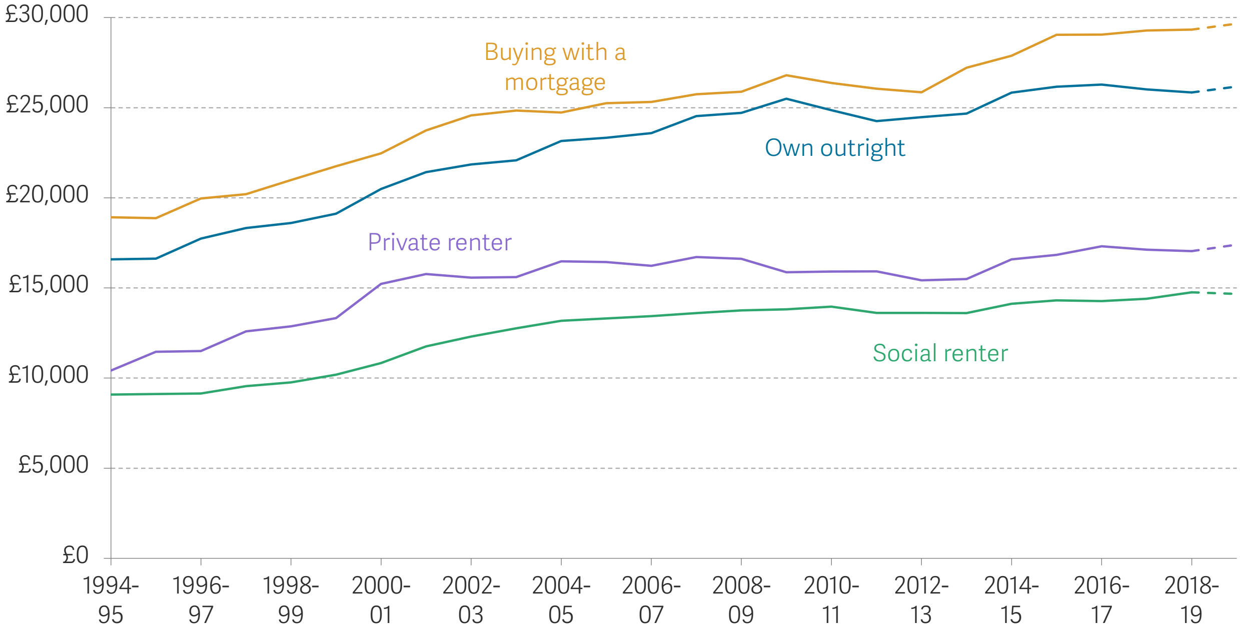
NOTES: The OECD equivalisation scale assumes children over 13 have higher needs than those under 13. Rolling three-year-of-age average.
SOURCE: RF analysis of DWP, Households Below Average Income.

Of course, it is not just age where we see big differences in household incomes and income growth. Housing tenure can also be both a cause and a reflection of disposable household income differences.[12] As Figure 8 shows, there are clear differences between the incomes of renters and home owners. In 2018-19, the typical household income for a mortgagor (£29,000) is almost twice that of a social renter (£15,000). As the chart shows, mortgagors have fared particularly well in recent years, primarily because of historically-low interest rates since the financial crisis.

12 This is not to say that housing tenure and age aren't interrelated. As we have shown elsewhere youth home ownership is low (but more recently rising). See: D Tomlinson, Inequality Street: Housing and the 2019 general election, Resolution Foundation, November 2019.

FIGURE 8: **The typical mortgagor has almost twice the disposable income of the typical social renter**

Median real (CPI-adjusted to 2019-20 prices) equivalised disposable household income, after housing costs, by housing tenure



NOTES: UK from 2002-03, GB before. 2019-20 are RF nowcast figures.
SOURCE: RF analysis of DWP, Stat-Xplore.

Income gaps between regions have shrunk

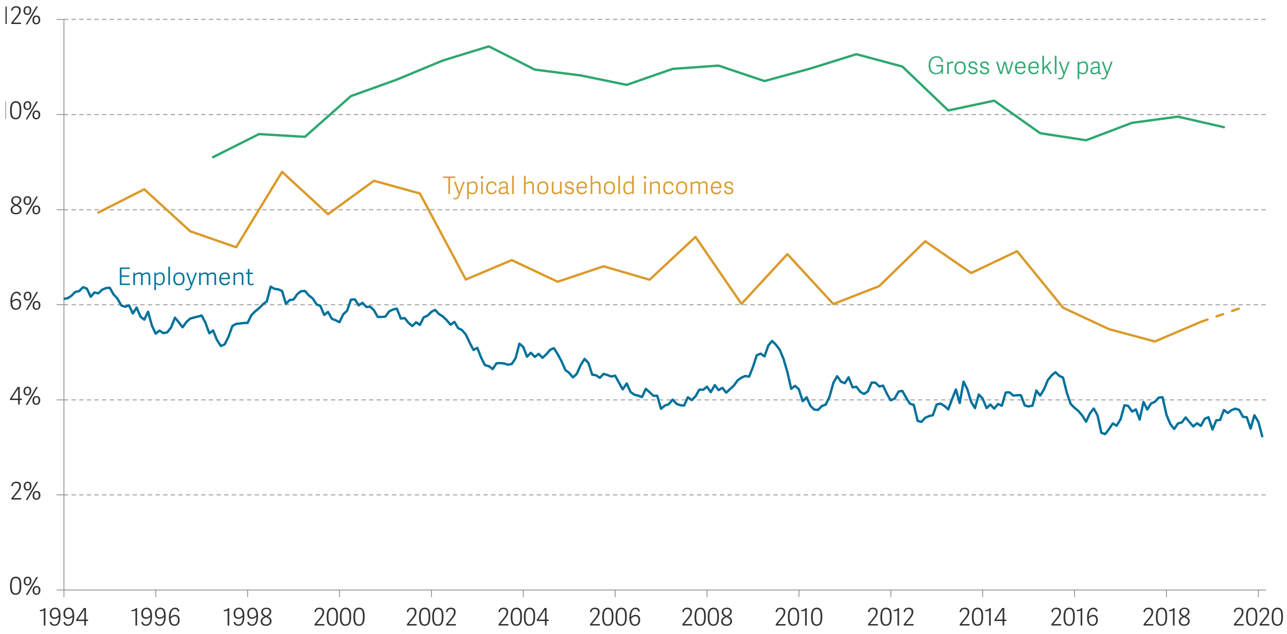
Although income levels differ hugely across the country, the pattern of income growth since 1994-95 has been largely similar across the regions of England and nations of the UK. Typical incomes for all areas slowed before the financial crisis, fell during it, and have since recovered slowly.

But although clear differences remain between typical incomes in London and the South East and those in the North East of England, for example, income gaps between regions of England and the nations of the UK have been gradually shrinking. Figure 9 shows that the regional variation in typical household incomes has declined continuously since the mid-1990s. Smaller income gaps reflect reduced variation in both pay (after 2003) and employment across regions, with employment levels having increased most in parts of the country with historically low employment. On top of this, high and growing housing costs in London and the South East have also contributed to reduced geographic inequalities in (after housing costs) household income.[13]

13 C McCurdy, Why North-South is not England's only divide, BBC News, December 2019.

FIGURE 9: **Income gaps between regions have shrunk**

Coefficients of variation of median equivalised household disposable income, after housing costs; 16-64 employment rate; and gross weekly pay, across regions and nations of the UK



NOTES: 2019-20 household income value is an RF nowcast. Coefficient of variation is the standard deviation divided by the mean, computed across the 12 regions and nations of the UK. Northern Ireland is not included in the household income series in the years between 1994-95 and 2001-02.
SOURCE: RF analysis of ONS, Households Below Average Income; ONS, Labour Market Statistics; ONS, Annual Survey of Hours and Earnings.

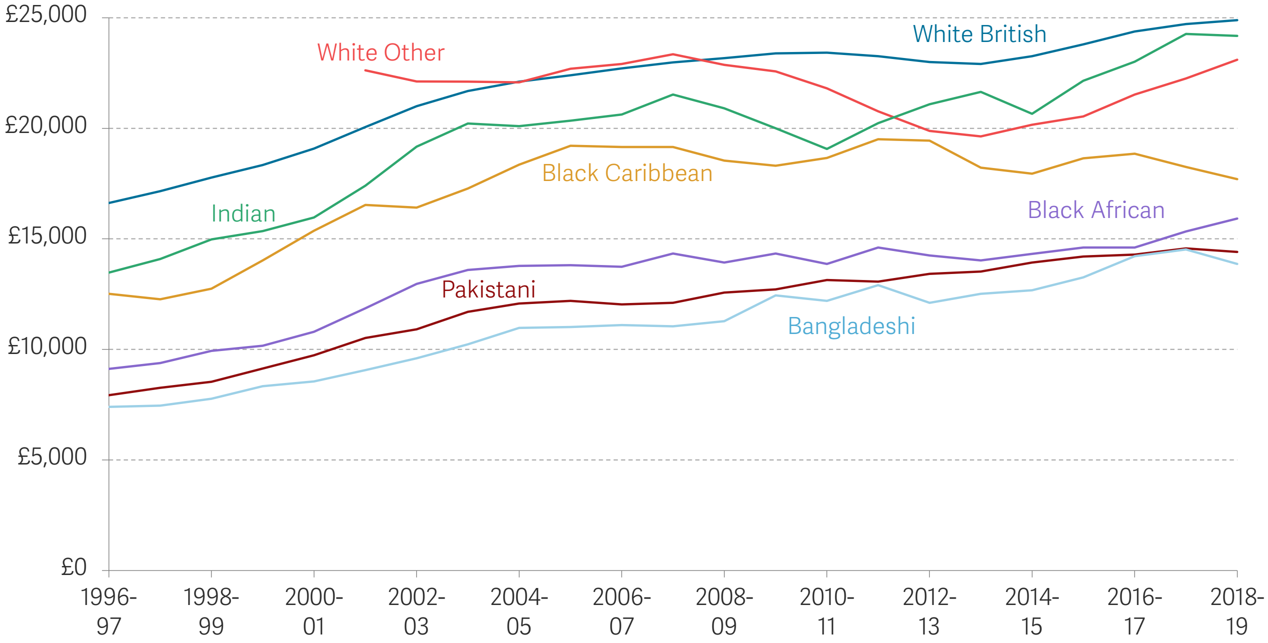
Large household income gaps remain between households of different ethnic groups

Just as with regions, the relative gap between the typical incomes of those from different ethnic groups has also shrunk over time. But the gaps remain sizeable, as Figure 10 shows. For instance, typical incomes (after housing costs) in 2018-19 for Bangladeshi, Pakistani and Black African households were between £14,000 and £16,000 compared to £24,000 for Indian and £25,000 for White British households.[14] This is despite a reduction in the income gap[15] – measured relative to White British Households – of 10 percentage points for Bangladeshis and 11 percentage points for Pakistanis since the mid-1990s. As we have set out in previous work, some of this progress can be put down to significant convergences in employment rates, for both men and women.[16]

14 Ethnicity is based on the head of household and is self-reported based on a list of options. Small sample sizes make the reporting of meaningful results impossible for some groups so our analysis is limited here to the most common categories.
15 Refers to proportional gap in three-year average of real median equivalised disposable household income relative to White British households.
16 For further information see A Corlett, Diverse outcomes: living standards by ethnicity, Resolution Foundation, August 2017; K Henehan & H Rose, Opportunities knocked? Exploring pay penalties among the UK's ethnic minorities, Resolution Foundation, July 2018; and A Corlett, S Clarke, C McCurdy, F Rahman & M Whittaker, The Living Standards Audit 2019, Resolution Foundation, July 2019.

FIGURE 10: **Large income gaps remain between those from different ethnic groups**

Three-year average (year ending) of median real (CPI-adjusted to 2019-20 prices) equivalised disposable household income, after housing costs, by ethnicity



NOTES: UK from 2002-03, GB before.
SOURCE: RF analysis of DWP, Households Below Average Income.

However, as Figure 10 shows, the income gap between White British and Black African households has barely moved since 2002-03, and the income gap between the Black Caribbean population and the White British population appears to have grown since 2016-17. Part of this explanation lies in the labour market. Following the financial crisis, black men saw the deepest employment fall of around seven percentage points, for example.[17] Black male graduates also face the biggest pay penalty compared to white men with the same jobs and qualifications.[18] These figures show that the UK is a long way off eradicating ethnicity-related economic inequalities.[19]

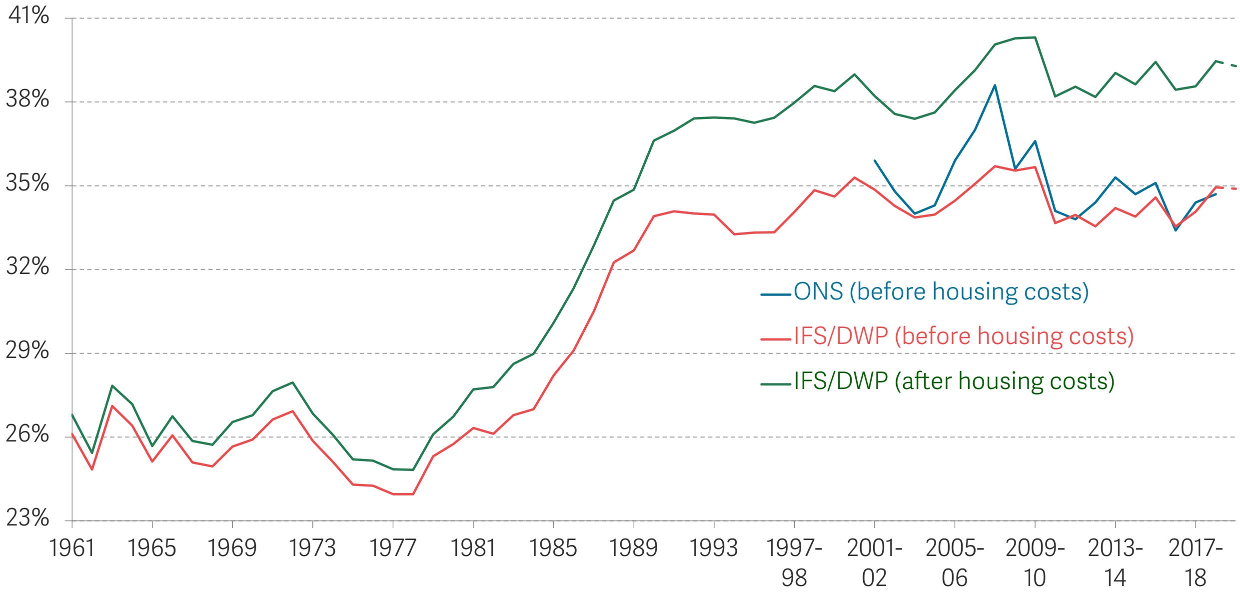
Income inequality remains broadly flat, and high relative to what came before and to international peers

In addition to demographic differences in income, income inequality across the distribution deserves particular attention. Overall income inequality, measured by the Gini coefficient (where zero represents total equality), rose slightly in 2018-19 and hardly moved in 2019-20 according to our nowcast (see Figure 11). Inequality in 2018-19 was lower than it was around the financial crisis, but – after housing costs – was higher (at 39 per cent) than in every year on record prior to 2006-07.

17 Source: RF analysis of ONS, Labour Market Statistics.
18 Source: RF analysis of ONS, Labour Force Survey.
19 F Rahman, Tackling structural inequality should sit at the heart of boosting living standards, Resolution Foundation, October 2019.

FIGURE 11: **Income inequality has remained high but stable since the early 1990s**

Gini coefficient for equivalised household disposable income



NOTES: 2019-20 are RF nowcast figures. UK from 2002-03, GB before. The ONS series (for 2001-02 onwards) uses more extensive and accurate top income data than the DWP series.
SOURCE: DWP, Households Below Average Income; Institute for Fiscal Studies (IFS), Living Standards, Inequality and Poverty; and Office for National Statistics (ONS), Effects of taxes and benefits on UK household income.

Although there was a notable rise in inequality between around 2004-05 and 2007-08 and a falling back during the financial crisis, the big picture is of little movement since the early 1990s, with flat inequality before housing costs and a drifting up of inequality after housing costs. This relative stability came after a rapid rise in the 1980s that took the UK to one of the most unequal countries in the world.[20]

Rising inequality over the past decades is not unique to the UK: if the UK had the level of inequality it had in the 1970s now it would be one of the world's most equal countries. But OECD international statistics on inequality highlight the relatively high level of income inequality in the UK.[21] The UK's Gini coefficient of 36 per cent – by the OECD's measure – is lower than the US (39 per cent) but higher than Canada (31 per cent) and the vast majority of EU nations, including Ireland (29 per cent), Germany (29 per cent), Sweden (28 per cent), and Norway (28 per cent).

20 M Brewer, What Do We Know and What Should We Do About Inequality?, University of Essex, June 2019.
21 The OECD provides the main source of international data on inequality. We should also note the likelihood of methodological and definitional differences.

If we look within the income distribution, the middle is catching up with the top but pulling away from the bottom

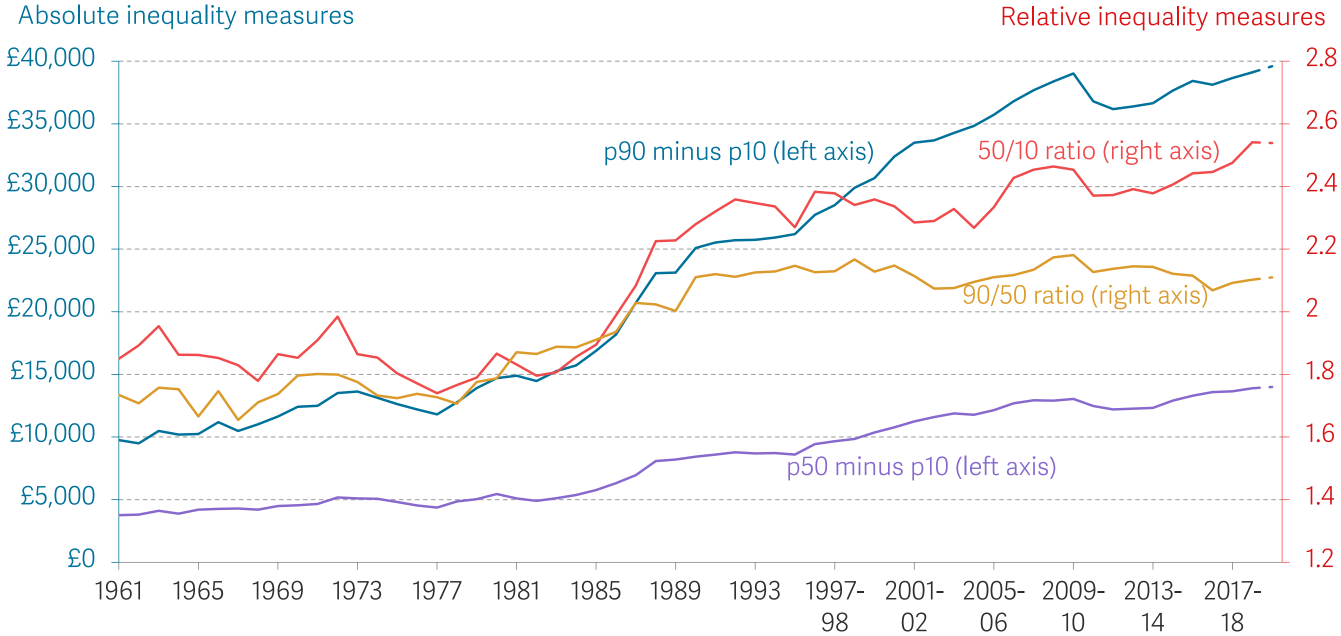
The measure of income inequality we have shown so far, the Gini coefficient, is a measure of relative inequality considering the whole income distribution. But the aggregate stability it shows can hide changes within the distribution, which can be revealed by examining broader measures of relative income inequality. And while measures of relative inequality are useful for separating out concerns over the distribution of 'the pie' from its size (and, when comparing over time or between countries, they neatly side-step the need to account for price changes), it is also useful to consider the absolute gap between income groups.

Figure 12 shows how middle-income households have caught up with those at the top of the income distribution, while the gap has grown between middle- and low-income households. The poorest households (as measured by 'p10', the income of someone at the 10th percentile) have fallen further behind relative to the middle (p50) in recent years: the p50/10 ratio has reached a record high of 2.54 in 2018-19. In contrast, the ratio of the richest households (p90) to the middle (p50) peaked just before the financial crisis and has gently declined since.

The fact that middle-income households have pulled away from low-income households is especially true when it comes to absolute inequality. Looking at the gap between the median (p50) and a household one-tenth of the way up the income distribution (p10), absolute differences have grown from £12,100 in 2005-06 to a record high of £13,900 in 2018-19. Our 'nowcast' also points to an increase in absolute gaps between middle- and low-income households in 2019-20. This creates a clear divide between the amount of goods and services that the lowest income family can afford and what a middle-income family can afford.

FIGURE 12: **The poorest have fallen behind middle-income households, who have gained some ground on top-income households**

Inequality measures for real (CPI-adjusted to 2019-20 prices) equivalised disposable household income, after housing costs



NOTES: 2019-20 are RF nowcast figures. UK from 2002-03, GB before.
SOURCE: RF analysis of Institute for Fiscal Studies (IFS), Living Standards, Inequality and Poverty.

Although the proportion of children below the relative poverty line has not increased between 2016-17 and 2018-19, the depth of poverty for those experiencing it has risen

In addition to a range of income inequality measures, the level and depth of poverty are also important metrics of living standards progress among poorer households.

Figure 13 charts poverty rates - using different thresholds of relative poverty – for working-age parents and non-parents, pensioners, and children. Overall, 26 per cent of people live in households in relative poverty (with incomes below 60 per cent of the median). Although the proportion of children below the usual relative poverty threshold has not increased between 2016-17 and 2018-19, poverty depth has.[22] For example, the proportion of children in households with incomes below 40 per cent of median incomes is at a record high of 13 per cent. Likewise, the proportion of working-age parents and non-parents on income below 40 per cent of median incomes hit record highs (both of 11 per cent) in 2018-19. Our 'nowcast' for 2019-20 points to an increase in both the headline rate of relative child poverty, and its depth.

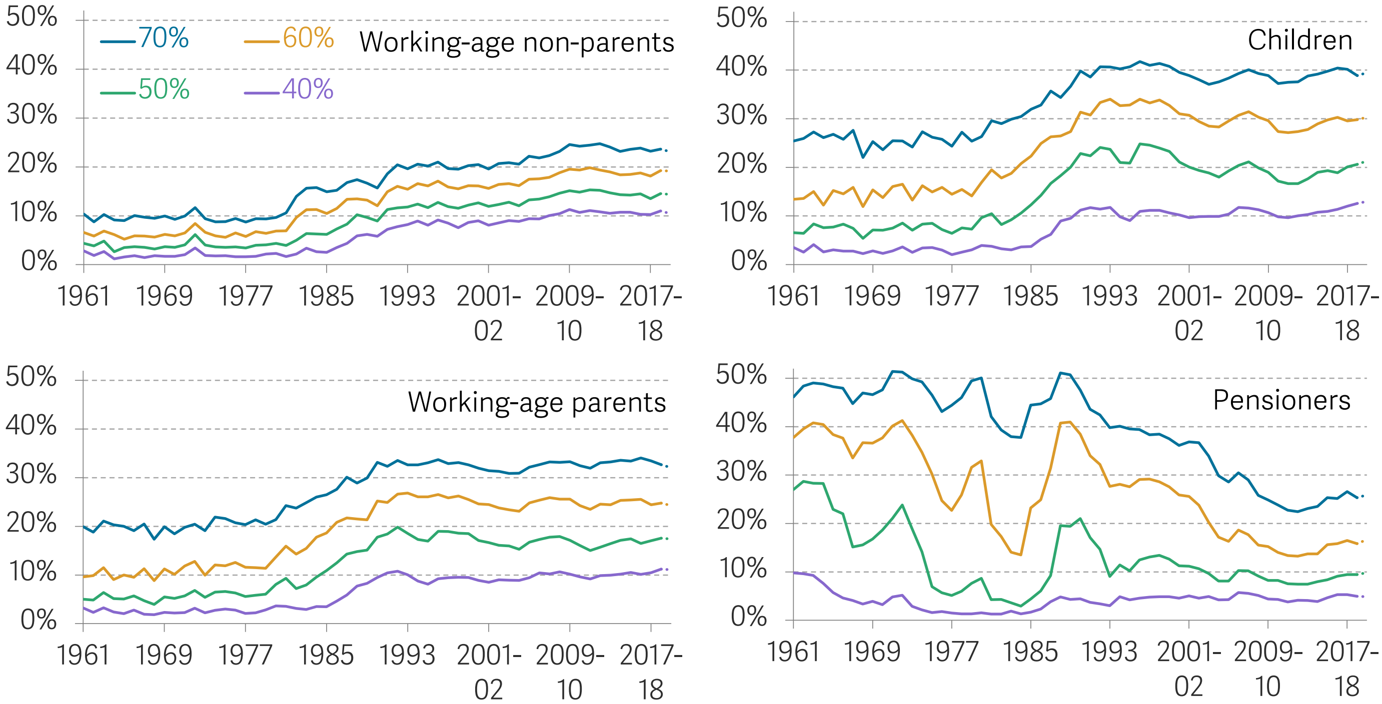
Digging deeper into the latest round of HBAI data confirms that real incomes have fallen – over 2017-18 and 2018-19 – for around the poorest 30 per cent of children. This explains

22 See Annex 3 for some discussion of the accuracy of poverty statistics.

why the depth of child poverty has increased while the official measure of child poverty shows little change between 2017-18 and 2018-19. The major change is therefore a rise in the proportion of children on very low incomes.

FIGURE 13: **Although the proportion of children below the relative poverty line has not increased between 2016-17 and 2018-19, the depth of poverty has**

Relative poverty using different poverty thresholds: 70, 60, 50, and 40 per cent of median household incomes, after housing costs



NOTES: 2019-20 figures are a RF nowcast. Parents refers to adults living with dependent children.
SOURCE: RF analysis of Institute for Fiscal Studies (IFS), Living Standards, Inequality and Poverty.

The fact that the last few years have been very disappointing for low-income households is highlighted by the fact that levels of absolute poverty (using a threshold that changes only in line with price inflation) were higher in 2018-19 than in 2016-17, with the proportion of children living in absolute poverty rising from 26 per cent to 27 per cent.

Having shown how typical disposable incomes fared on the eve of coronavirus, with particularly poor growth for low income households, we now turn in Section 3 to unpick the immediate effects of the coronavirus crisis on living standards.

Section 3

Living standards in lockdown

The coronavirus crisis is one of the biggest shocks to the economy in modern history. The labour market impacts so far are well understood, being very sectorally differentiated, with the young, the low paid and the self-employed most likely to be affected. Here, we translate these effects and the impact of government policy interventions to support family finances into the most comprehensive measure of day-to-day living standards – household incomes measured after housing costs.

We do this by producing a 'nowcast' for household incomes in May 2020, when Britain was still in lockdown, in order to understand the impact of this crisis up to that point. We estimate that typical non-pensioner household incomes fell by 4.5 per cent between 2019-20 and May 2020, returning to levels last recorded in 2006-07.

Unprecedented government action has supported incomes across the distribution. The £9 billion boost to welfare, in particular, has led to a rise in household incomes for many of the lowest-income families, cushioning what would otherwise have been very large income falls at that end of the distribution. This relatively positive picture must, though, be placed in the context of wider evidence of declining savings rates and greater reliance on consumer debt for low-income families. The benefits boost has not been enough to insulate all families on low incomes, particularly those without children, from the challenges of a negative income shock. For example, typical income for low-income non-pensioner couples without children was over 8 per cent lower in 2019-20 than in May 2020.

At the other end of the distribution, cuts to hours and earnings for those remaining in work, and the cap to payments under the JRS scheme, have led to larger declines in income in the top half of the income distribution. Overall, these effects mean that relative poverty and inequality in May 2020 were lower than they were in 2019-20, and that absolute poverty was broadly unchanged.

This economic crisis is first and foremost a labour market crisis, with big implications for the incomes of working families

In previous Living Standards Audits, we have produced nowcasts for incomes in the previous financial year (in this instance, 2019-20) and placed these in the wider context of long-run trends and the experiences of different groups. But this is not a normal year: coronavirus has had, and continues to have, a profound impact on our health, the jobs market, and the way we live our lives.

That is why for this Audit, we have focused on how incomes have changed during the height of the initial lockdown, i.e. between 2019-20 and May 2020, producing an even more up-to-date nowcast than usual. This will not be a complete representation of what incomes will be like through the whole of 2020-21 – something to which we will return in future publications – but instead provides analysis of how families have fared in the heat of the initial lockdown, as well as providing a starting point for understanding the recovery.

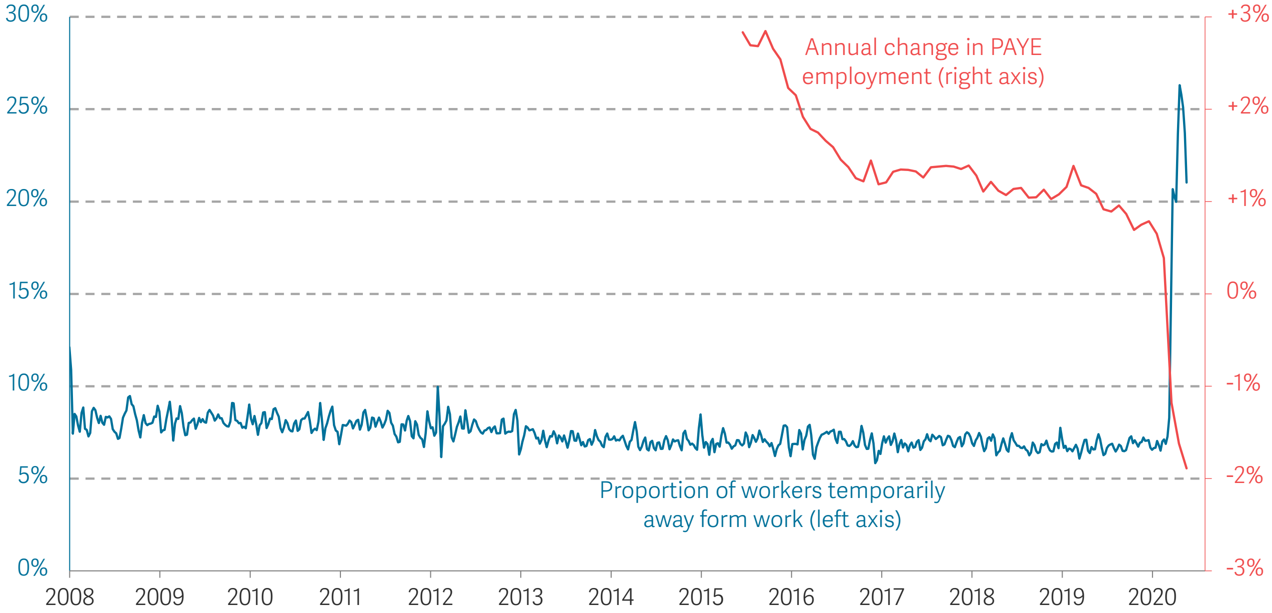
Living standards are rooted in how much income a household receives and what it spends it on. We will return to the second of these later in the chapter, but for now we consider the evidence on incomes.

For most working-age households, earnings are the key determinant of how much income that household will have after taxes and benefits; given the shock to the labour market in recent months, we start our analysis here. Previous Resolution Foundation work has looked in detail at the impact of this crisis on jobs and wages, and the key findings are worth summarising.[23] First, HMRC Real Time Information (RTI) data shows that the number of employees in paid work fell by 574,000 between March and May 2020 and Labour Force Survey data shows that actual hours worked fell by 17 per cent on the year in the three months to May 2020,[24] with 23 per cent of those who say they were employed in April not actually doing any work,[25] most likely due to being furloughed or temporarily away from their job or business. These statistics (see Figure 14) give a sense as to how much the economy has slowed down during the initial lockdown phase of the crisis.

23 See: N Cominetti, L Gardiner & H Slaughter, The Full Monty: Facing up to the challenge of the coronavirus labour market crisis, Resolution Foundation, June 2020; M Brewer, L Gardiner & K Handscomb, The truth will out: Understanding labour market statistics during the crisis, Resolution Foundation, July 2020.
24 Source: ONS, Labour Market Statistics.
25 Average number of people reporting they were temporarily away from work as percentage of all in employment for weeks wholly during May: Source: ONS, Labour Force Survey weekly estimates.

FIGURE 14: **One-in-five workers have stopped working, with half a million fewer employees being paid**

Workers temporarily away from work and annual change in PAYE employment



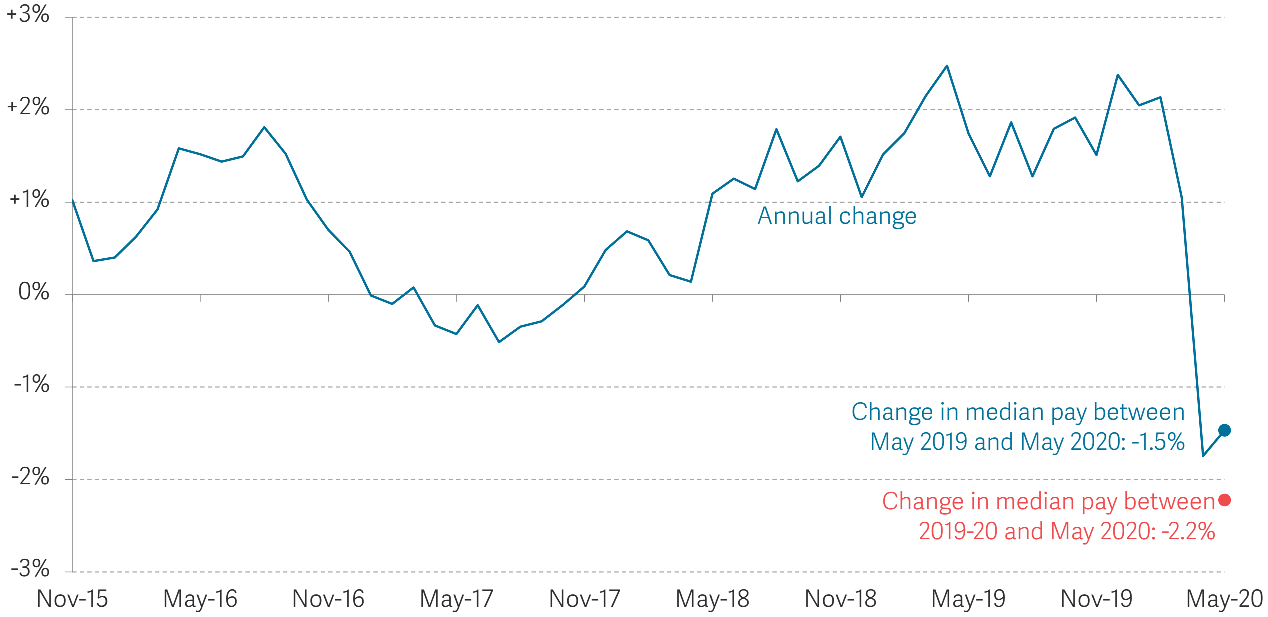
NOTES: Percentage of workers temporarily away from work smoothed for every two weeks of data.
SOURCE: ONS, Labour Market Statistics.

Second, take-up of the new income-replacement schemes provides a further measure of how unprecedented this crisis is. To date, 9.4 million employees have been furloughed for at least one period of three weeks since the Coronavirus Job Retention Scheme (JRS) was introduced, and 2.7 million people have received payments through the Self-Employment Income Support Scheme.

Furloughing and generalised reductions in hours have had a significant impact on earnings growth. In February 2020, RTI data reported that annual real growth in typical employee pay was robust at 2.1 per cent, with typical monthly pay at £1,858 (May 2020 prices). But by May 2020, median pay had fallen to £1,795, and annual pay growth had plummeted to -1.5 per cent. As shown in Figure 15 below, the fall in typical employee pay between 2019-20 and May 2020 (the change relevant for our nowcast results, shown below) is larger still at -2.2 per cent.

FIGURE 15: **Pay has fallen sharply as more workers have been furloughed and hours worked have fallen**

Real (CPIH-adjusted) change in typical employee pay, annual change and change between 2019-20 and May 2020



SOURCE: RF analysis of ONS, Earnings and employment from Pay As You Earn Real Time Information.

The situation for the self-employed was, according to the limited evidence we have to-date, even worse in May; over 40 per cent of the self-employed report their pay fell by more than a quarter between February and May 2020 (compared to less than 10 per cent of employees).[26] It should be noted, however, that the relatively generous SEISS grants were only just beginning to be distributed in May, so the situation for the self-employed should have improved since this point.

Evidence for the labour market impacts of this crisis is currently drawn from a variety of sources, with Understanding Society (USoc) data allowing us to understand the incidence of furloughing, hours changes and other effects across the working population. In Box 2, we discuss the results from this data, with a particular focus on the differences in lockdown labour market experiences for different ethnicities.

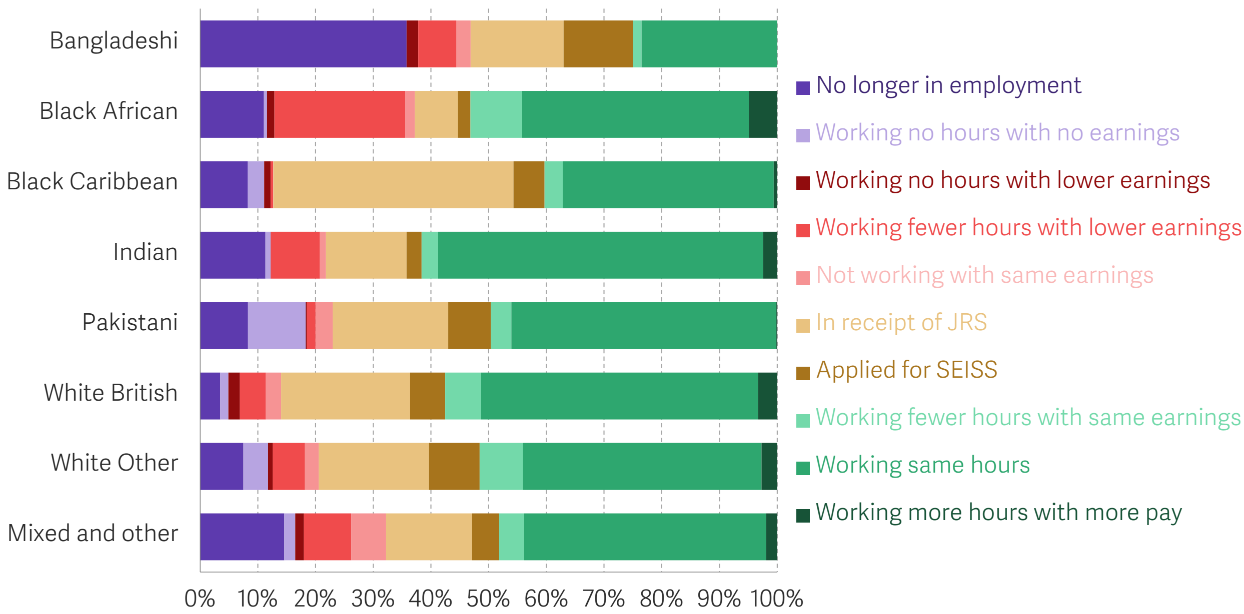
26 N Cominetti & L Gardiner, Earnings Outlook Q1 2020: What we know about how employee earnings have fared in the current crisis, Resolution Foundation, July 2020.

BOX 2: Labour market experiences during coronavirus by ethnicity group

Using the Understanding Society survey data, we can look at how adults in different ethnic groups have experienced the crisis, as of May 2020. As can be seen in Figure 16, as of May 2020, Bangladeshi adults in work before the crisis were much more likely to have left employment altogether (than those in other ethnic groups), a product of higher rates of self-employment and lower-than-average earnings among this group. And we see variation in other outcomes too – for example, Black African adults are most likely to be working fewer hours and earnings less, and least likely to have been furloughed. These figures are not taken from a very large sample (although all sample sizes for each group are larger than 50), so they shouldn't be taken as definitive evidence of differential labour market impacts. But what they do reveal is how different the experience of work (or lack of it) has been in lockdown Britain.

FIGURE 16: **Bangladeshis are disproportionately more likely to have stopped working or experienced an income fall during the crisis**

Employment status among those who were in work before the crisis, by ethnicity: May 2020



NOTES: Categories defined exclusively, Receipt of JRS/SEISS takes priority. Based on separate questions on employment status, earnings, and hours worked in previous week and before the crisis. Sample base size greater than 50 for all ethnicity categories.
SOURCE: ISER, Understanding Society coronavirus survey.

Low inflation, falls in interest rates and government policy have all supported incomes

The pay falls shown above are very different to the inflation-driven declines in real pay growth after the financial crisis and Brexit referendum. Nominal pay has fallen sharply (by 3.4 per cent between February and May 2020), while inflation has remained subdued.[27] In May 2020, the headline rate of CPIH inflation was just 0.7 per cent, closer to zero than the Bank of England's 2 per cent target.[28] The short-term impact of low inflation is good news for growth in real household incomes, although the alternative of higher inflation over the course of this crisis might mean a smaller rise in unemployment as it increases real wage flexibility.[29] Furthermore, as we will discuss later, the impact of the economic crisis has been defined not only by how it affects incomes but also by the additional costs that some have faced during the crisis.

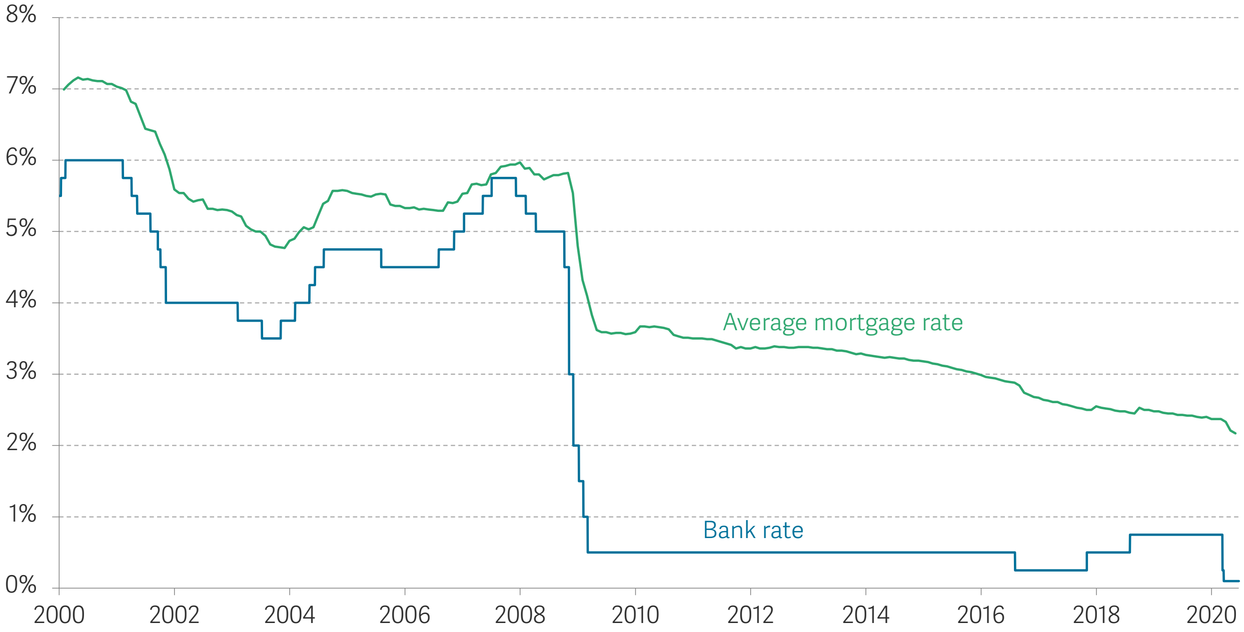
For many families, housing is the single biggest monthly expenditure, and so changes in rents and mortgage costs in lockdown will have certainly affected after housing costs incomes. The most notable change here is the fall in the Bank of England base rate in March 2020 from 0.75 per cent to a new record low of 0.1 per cent (Figure 17). As well as providing a macroeconomic stimulus in general, this has led to a further fall in interest rates for mortgagors – with the average rate paid on a mortgage in the UK falling to just 2.17 per cent (a 10 per cent fall when compared with the average rate over 2019-20). Those on floating (or renewed fixed-rate) mortgages will benefit from this directly in lower housing costs. However, it is worth noting that home owners who have relatively low equity – for example recent first-time buyers – may struggle to re-mortgage at the end of their mortgage term as a result of the impact of this crisis on house values, and so may actually face higher housing costs as they move onto a (usually higher) standard variable rate.

Mortgagors have also benefited from the provision of mortgage holidays by UK lenders. Results from the Resolution Foundation/YouGov survey suggest that as many as one-in-eight mortgage holders applied for and received a mortgage holiday between the start of lockdown and 11 May 2020.[30] We do not account for this in our living standards nowcast for May 2020 because mortgage holidays are, in effect, a loan to support households' cashflow rather than a permanent boost to incomes.

27 Inflation indices will not have accurately captured the change in typical prices of products that were purchased during lockdown, and so should be treated with some caution. For example, hospitality and recreation comprise one-quarter of the CPIH inflation basket, and yet spending in these sectors fell to almost zero in May.
28 CPI inflation, the measure in the Bank's remit, was lower still at just 0.5 per cent.
29 N Cominetti, L Gardiner & H Slaughter, The Full Monty: Facing up to the challenge of the coronavirus labour market crisis, Resolution Foundation, June 2020.
30 L Judge, Coping with housing costs during the coronavirus crisis: Flash findings from the Resolution Foundation's coronavirus survey, Resolution Foundation, May 2020.

FIGURE 17: **Interest rates have fallen to record lows**

Bank Rate and average mortgage interest rate



SOURCE: Bank of England.

Although rent holidays have been much less well used, partly due to landlords' refusals to offer them when requested,[31] the Government has provided significant support to low-income renters both via the temporary £20 a week increase to Universal Credit (UC) and Working Tax Credits, and with additional help for renters through the increase in Local Housing Allowance (LHA) rates to the 30th percentile of local rents. This will provide the most additional support to those families living in areas where rents have risen fastest since 2012 (when a freezing of LHA caps was introduced).[32]

This extra package of support through the social security system amounts to a £9 billion boost to welfare – providing significantly more support to those who now find themselves on low incomes.[33] This, of course, comes in addition to the support offered via the JRS and SEISS, which played a substantial role in supporting incomes in this crisis. The Office for Budget Responsibility estimates that £17 billion was spent on these schemes in May 2020 alone.[34] The JRS, for example, paid out an average of £1,130 to furloughed employees in May; more in one month than the annual boost in the basic elements of UC and Tax Credits.

31 L Judge, Coping with housing costs during the coronavirus crisis: Flash findings from the Resolution Foundation's coronavirus survey, Resolution Foundation, May 2020.
32 M Brewer & L Gardiner, Key take-aways from the Chancellor's package of measures to support workers in the coronavirus crisis, Resolution Foundation, March 2020.
33 Office for Budget Responsibility, Fiscal Sustainability Report, July 2020.
34 Office for Budget Responsibility, Fiscal sustainability report, July 2020.

We do not know how many furloughed workers would have lost their jobs had the JRS scheme not been implemented, but it has been estimated that moves to UC would have meant a median fall in family incomes of around 50 per cent for those affected, as opposed to 10 per cent under the furlough scheme.[35] This reflects the generosity of the furlough scheme compared to the support provided for unemployed benefit claimants. Although we can say that many households would have experienced a greater income hit but for the furlough scheme, we don't know what would have happened to median incomes in May under this scenario. It is plausible that median income hit could have been many times worse,[36] although it is inconceivable that the Government would have taken no policy action during this crisis.

It is easier to analysis the effect of the increases to benefits however, which – as we show below – have had a big effect in reducing the severity of the living standards shock caused by lockdown.

Although low earners are the most likely to have experienced a labour market shock in this crisis, incomes have fallen further for higher-income households

To bring together these individual effects of the crisis on incomes, we first assess who has been affected by the labour market shock described above – taking into account the JRS and SEISS – and then estimate what that means for household incomes, accounting for other policy changes.

We have used the HMRC's Real Time Information statistics above as a guide when modelling the aggregate number of employees furloughed, and the number who have lost their job. For other employment changes, such as a reduction in hours for those not furloughed and changes to self-employment income, we have used longitudinal survey data to estimate the breadth and depth of these effects on earned incomes.[37] This data, like other studies, shows significant falls in hours worked and household earnings – with larger falls for low-income households.[38] [39]

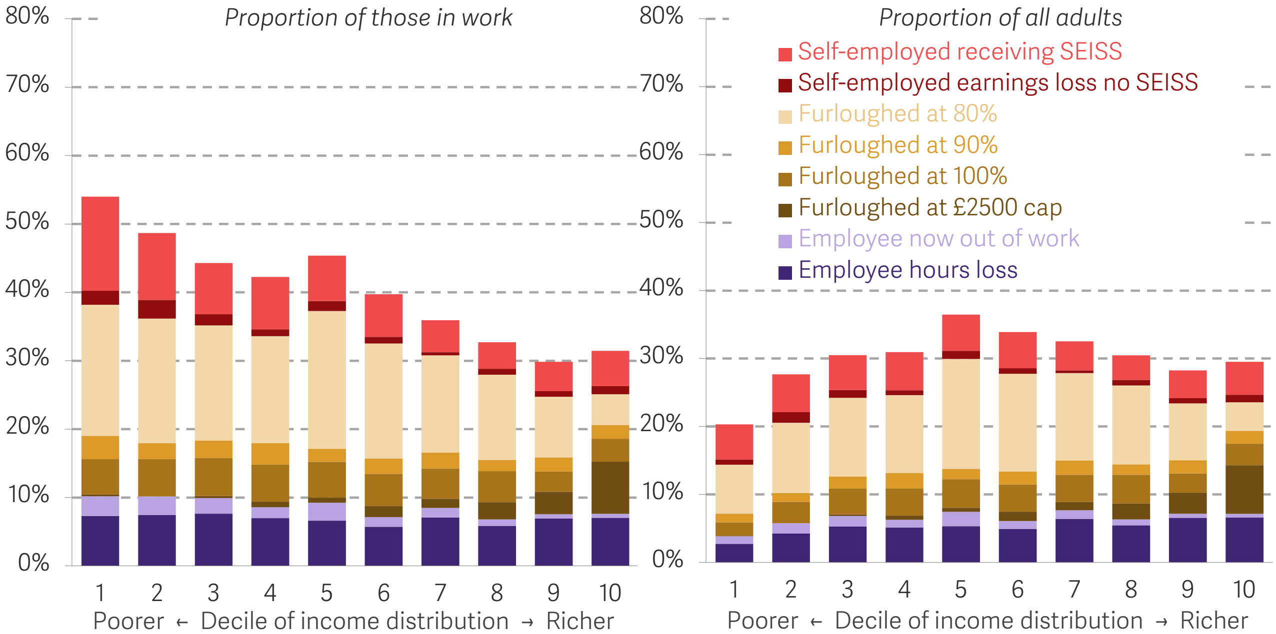
The distributional aspect of this labour market shock is shown in Figure 18. Importantly, this shows not only the labour market effects of this crisis on workers but also on all adults. The left-hand panel of Figure 18 shows our estimates of the proportion of adults in employment whose work has been negatively affected by coronavirus in each decile

35 M Brewer & K Handscomb, This time is different – Universal Credit's first recession: Assessing the welfare system and its effect on living standards during the coronavirus epidemic, Resolution Foundation, May 2020.
36 Consider for example the increase in unemployment benefit recipients in the US as evidence that many UK firms would have stopped paying employees.
37 www.understandingsociety.ac.uk/research/themes/covid-19, accessed 18 July 2020.
38 M Benzeval et al., Covid-19 Survey: Briefing note, Wave 1: April 2020, The economic effects, Understanding Society, April 2020.
39 D Papoutsaki & T Wilson, Covid-19 and the low paid: Early analysis of Labour Force Survey, Institute for Employment Studies, July 2020.

of the 2019-20 non-pensioner household income distribution. We estimate that over half of those in employment in the lowest-income households have had their work affected in some way by coronavirus, compared to three-in-ten of those in the highest-income households.

FIGURE 18: **Middle-income households are the most likely to have been affected by the economic impact of coronavirus**

Proportion of working-age adults affected by coronavirus, by non-pensioner household income decile in 2019-20: May 2020



NOTES: Non-pensioner incomes are those recorded/nowcast for benefit units containing no-one over State Pension age. Incidence of labour market effects of coronavirus by decile drawn from RF modelling results, for details see Annex 2.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF nowcast.

However, many adults in low-income households do not work and so will not have experienced a fall in living standards from the coronavirus shock to the labour market. In fact, almost two-thirds of working-age adults in the lowest-income families in 2019-20 (decile 1) were not in work, compared to less than 20 per cent of those in the middle of the distribution and just 6 per cent of those in the highest-income households (decile 10).

The implications of these differential rates of non-working can be seen in the right-hand panel of Figure 18, which shows the proportion of all working-age adults who have experienced a negative labour market shock in this crisis. This analysis demonstrates that the incidence of negative labour market effects is much more even across households once non-working is accounted for, with middle- and higher-income households most likely to be affected in some way – even if the most significant impact, job loss, is still more common among lower-income households.

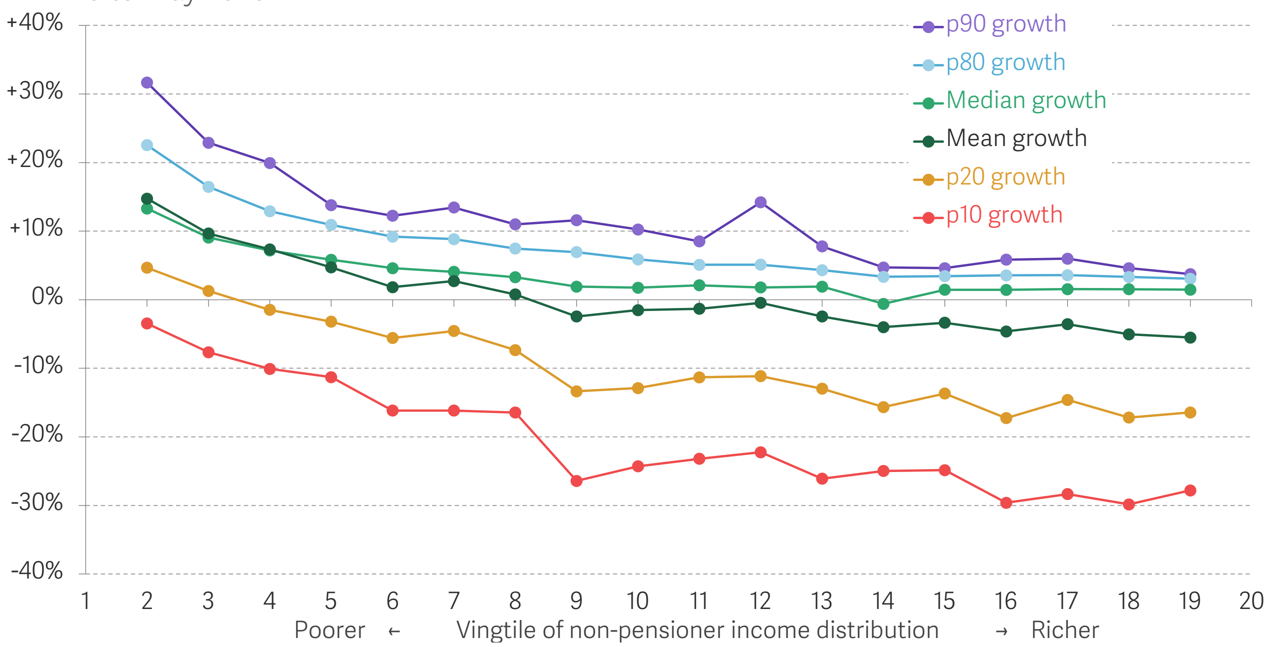
The next step is to use a tax and benefit model to see what the impact these outcomes – alongside policy changes – have had on incomes across the distribution. A complete description of the modelling approach for earnings changes during coronavirus and the tax and benefit modelling can be found in Annex 2.

Figure 19 presents the results of this estimation of the distributional impact of the crisis on household incomes: we show the change in real household disposable income between 2019-20 and May 2020 within each vingtile of the 2019-20 non-pensioner household income distribution. As well as showing the mean and median change within each vingtile, we also show the large variation in the experience of income changes within each vingtile, by plotting the 10th, 20th, 80th and 90th percentile of changes. Note that the red line, for example, does not show income changed at the 10th centile of the 2019-20 distribution: it shows, within each pre-crisis decile, the size of the income change that is comes 10 per cent of the way up the distribution of changes, where the largest fall is at the bottom and the largest rise at the top.

The pattern of changes is a result of the distributional incidence of the labour market hit, coupled with the impact of the £9 billion boost to welfare, the JRS and the SEISS. The fact that falls aren't much lower across the board is a result of these unprecedented government support schemes.

FIGURE 19: **The largest income falls have taken place towards the top of the income distribution**

Distribution of change in real (CPI-adjusted) non-pensioner household disposable income, after housing costs, by pre-crisis (2019-20) non-pensioner income vingtile: 2019-20 to May 2020



SOURCE: RF analysis of DWP, Households Below Average Income; and RF nowcast.

We find that the crisis has led to income growing in real terms for almost 80 per cent of households in the bottom quarter of the 2019-20 income distribution: these gains, of course, will be driven by the £9 billion boost to social security benefits. In contrast, almost half of households in the top half of the income distribution experienced falls in real income. In fact, the largest falls are concentrated among the very highest income households – with income falls of around 30 per cent for one-in-ten households in the top quarter of the distribution. Box 3 discusses how these results compare with other recent research into changes in household incomes in lockdown.

BOX 3: **Comparing our results**

Recent work by HM Treasury[40] and the Institute for Social and Economic Research (ISER) at the University of Essex[41] has also estimated the income effects of the coronavirus crisis, although the data used and the analysis methods differ slightly.

Both analyses find a similar pattern of impact: the lowest-income households experiencing smaller income losses (or some income gains) and higher-income households experiencing greater income losses. Both also show that the progressive nature of the UK tax and benefit system means that the recent benefit increases have supported the lowest-income households.

Our methodology differs slightly from these approaches, most notably in that we compare incomes to 2019-20, rather than immediately before the coronavirus, and so include the effect of earnings growth leading up to the crisis. In addition, we assume slightly fewer people are furloughed and we account for JRS 'top-ups' (assuming 30 per cent of furloughed employees receive a top-up from their employer, on top of the 80 per cent of their wages paid by the Government). We have also been able to use more up-to-date survey data, meaning we have modelled the take-up of the SEISS, for example. These differences mean our income changes are less negative than those in other studies. In particular the HM Treasury analysis finds an average fall in incomes of around 7-to-8 per cent from February to April 2020, and the ISER paper finds an average impact on household incomes of 7.9 per cent.

40 HM Treasury, Impact of COVID-19 on working household incomes: distributional analysis as of May 2020, July 2020.
41 M Brewer & I Valentinova, Did the UK policy response to Covid-19 protect household incomes?, Institute for Social and Economic Research, University of Essex, June 2020.

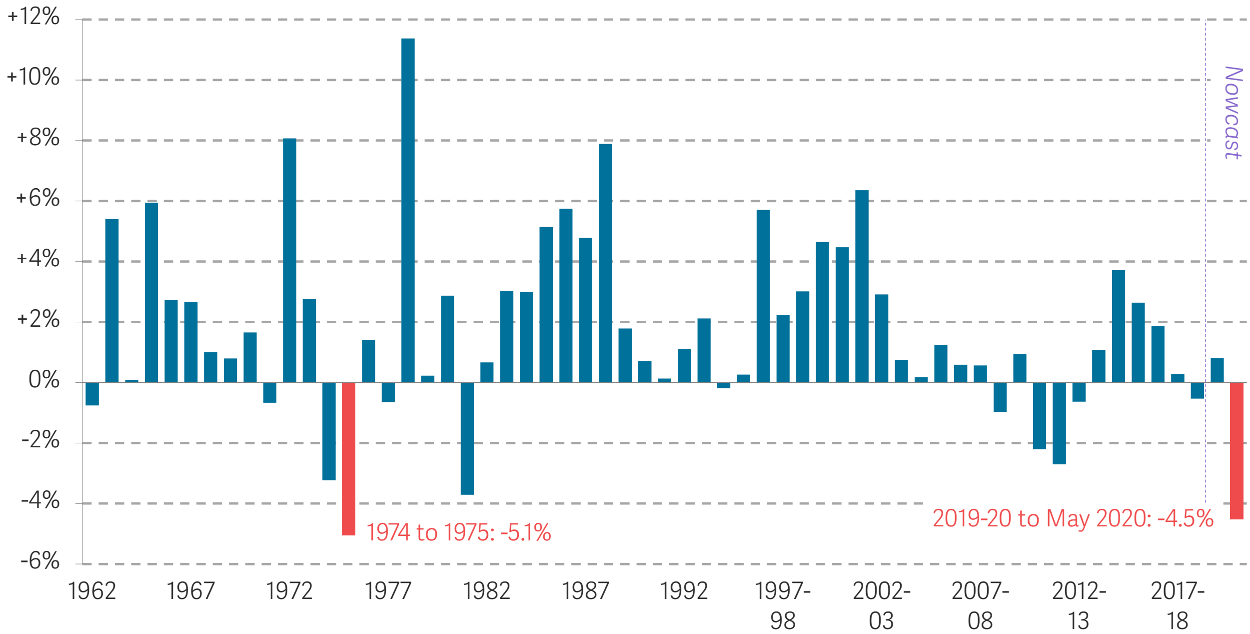
We estimate that typical non-pensioner incomes were 4.5 per cent lower in May 2020 than they were in 2019-20

The analysis above showed how we think incomes have changed in different ways for people at different points in the 2019-20 household income distribution, holding their position in that distribution constant. We now turn to presenting our results in line with the convention followed in previous *Audits* and in government publications of household income statistics (e.g. Households Below Average Income) whereby we, in effect, compare the income distribution in 2019-20 with the distribution in May 2020. This is explained in more detail in Annex 2.

On these terms, our nowcast results point to a fall in the typical non-pensioner household income of 4.5 per cent between 2019-20 and May 2020.[42] This change in typical income is depicted in Figure 20 below, which shows that this immediate decline is on a par with the worst annual fall on record – the income fall in the year to 1975, a period in which inflation peaked at almost 25 per cent.

FIGURE 20: **Typical non-pensioner household incomes fell sharply in lockdown**

Annual real (CPI-adjusted) growth in median non-pensioner equivalised disposable household income, after housing costs



NOTES: Non-pensioner incomes are those recorded/nowcast for benefit units containing no-one over State Pension age.
SOURCE: RF analysis of DWP and IFS, Households Below Average Income; and RF nowcast.

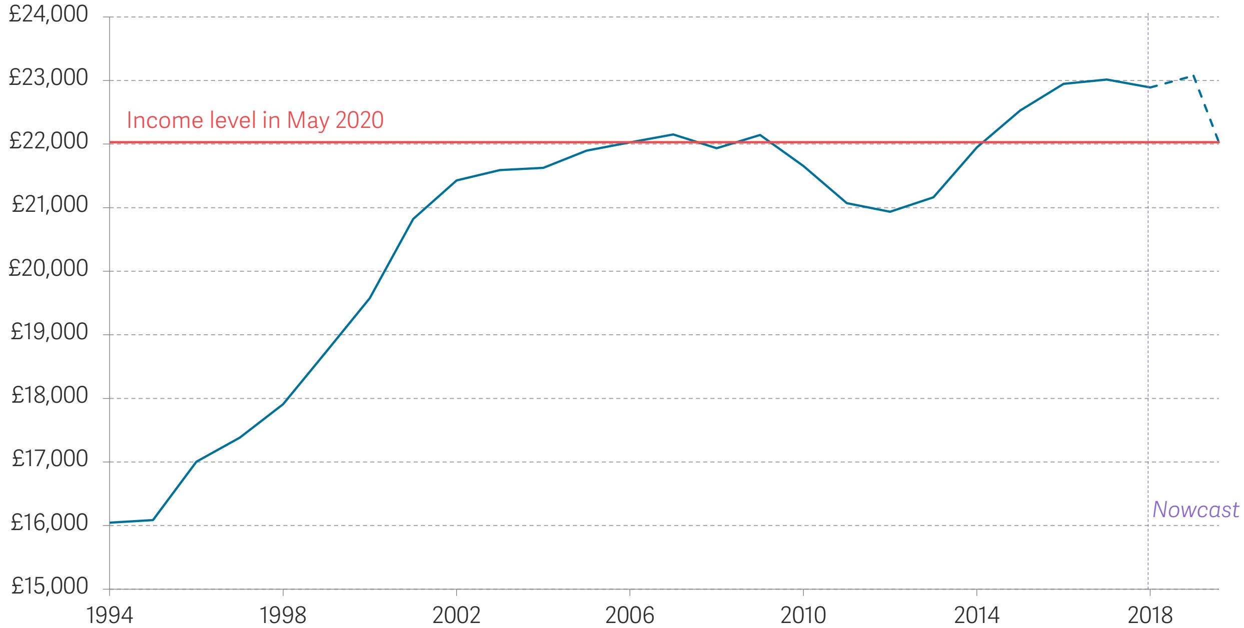
42 This is much sharper than the falls shown in Figure 19 above as a result of the large falls in income for households above the 2019-20 median, moving these households below the median and dragging down typical incomes in the process.

Figure 20 also shows how this fall in incomes has come off the back of a relatively poor period for income growth (as we discussed in Section 2), with incomes falling in the years following the financial crisis and slowing down in the latter few years of the 2010s.

We can also make sense of how big this decline in typical income is, and the context for it, by comparing our estimate of the level of typical working-age income in lockdown with the level of income in recent years. As Figure 21 shows, we estimate that non-pensioner typical household income was no higher in lockdown than it was in 2006-07. Typical working-age household income stood at just £22,000 in lockdown, down from a high of £23,100 in 2019-20.

FIGURE 21: **Typical non-pensioner income in May 2020 was no higher than in the late 2000s**

Real (CPI-adjusted to 2019-20 prices) median non-pensioner equivalised disposable household income, after housing costs



NOTES: Non-pensioner incomes are those recorded/nowcast for benefit units containing no-one over State Pension age.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF nowcast.

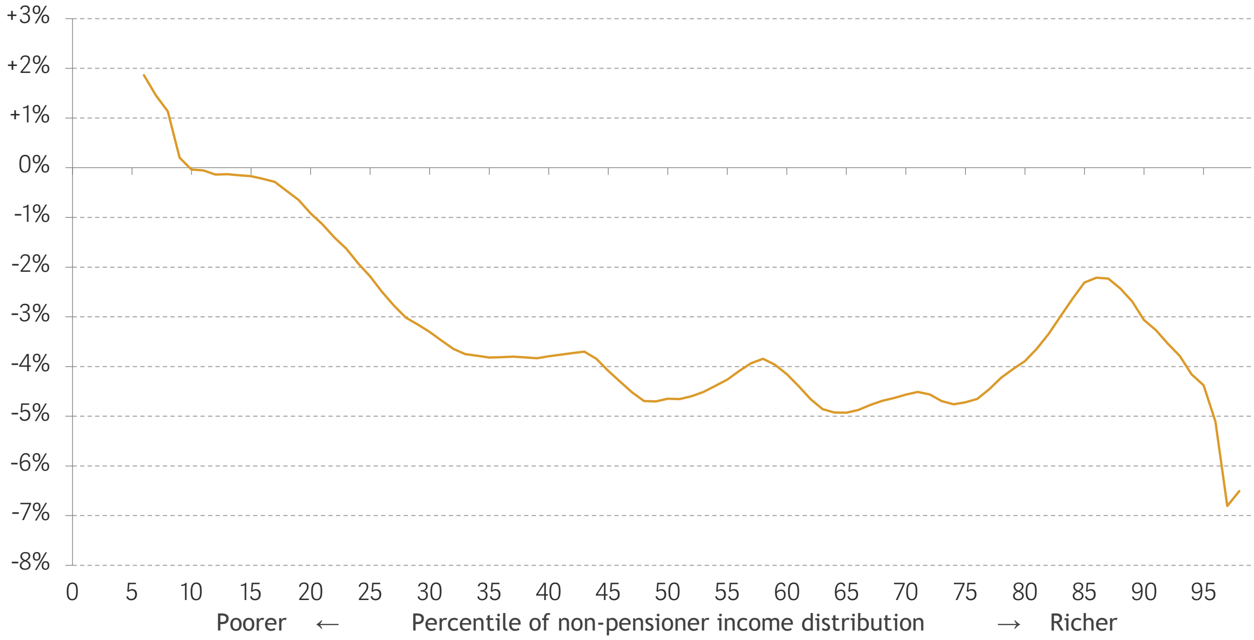
Given the key driver of these income falls is the labour market shock, the overall picture once pensioner incomes are included is slightly less drastic, with typical all-household income falling by 3.6 per cent. However, a word of caution is worth sounding with regards to the estimates for changes in pensioner incomes, in that our modelling does not account for the impact that falling asset prices may have had on pension pots.

The £9 billion boost to welfare has supported incomes at the bottom

The change in typical income is, however, not reflective of the pattern of changes across the distribution, particularly towards the bottom. Figure 22 shows our estimate of the differences between the income distributions of 2019-20 and May 2020, evaluated at different points in the distribution. It shows that incomes across the middle to upper part of the income distribution are estimated to have fallen by between 4 and 5 per cent, with some more variability in income falls among those with highest incomes. But what is most notable is that the incomes of the poorest 15 per cent were unchanged, or slightly higher in lockdown, than the incomes of the poorest 15 per cent in 2019-20. Of course, as we discussed above, it is important to stress that these growth rates are just comparisons of points in the income distributions of 2019-20 and May 2020; they are not estimates of the growth in incomes experienced by specific individuals.

FIGURE 22: **The bottom of the non-pensioner income distribution has so far been relatively protected from the crisis**

Change in real (CPI-adjusted) average equivalised non-pensioner disposable household income, after housing costs, by income percentile: 2019-20 to May 2020

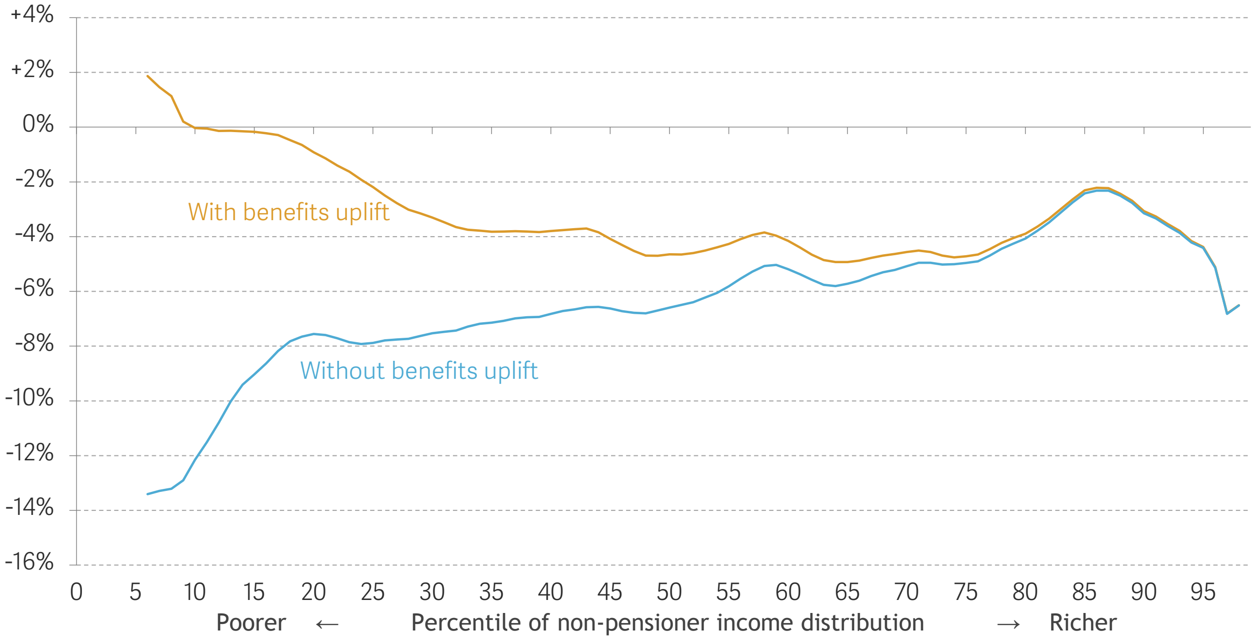


NOTES: Non-pensioner incomes are those recorded/nowcast for benefit units containing no-one over State Pension age. Income growth is smoothed using a five-percentile rolling average, and we have excluded the lowest percentiles from the chart because the results are unlikely to be accurate due to poor reporting quality of incomes for very low-income households.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF nowcast.

This distributional picture would have been very different in the absence of the £9 billion boost to welfare announced by the Government in March 2020. This included a £20 a week boost to standard allowance in Universal Credit, the re-pegging of LHA to 30 per cent of local rents, and the abolition of the minimum income floor for the assessment of self-employed earnings in Universal Credit. Without these measures, our modelling suggests there would have been a hit in excess of 8 per cent hit to incomes in the bottom-fifth of the distribution, as shown in Figure 23.

FIGURE 23: **Increases in benefits have supported incomes in this crisis**

Change in real (CPI-adjusted) average equivalised non-pensioner disposable household income, after housing costs, by income percentile, before and after benefits changes: 2019-20 to May 2020



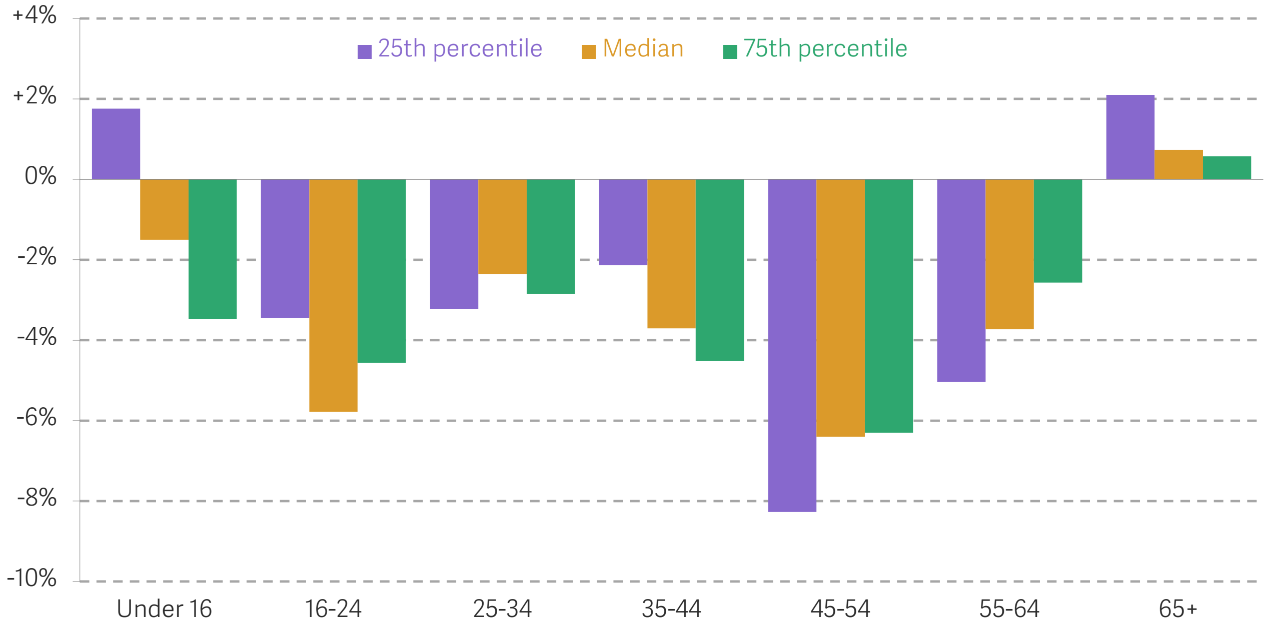
NOTES: Non-pensioner incomes are those recorded/nowcast for benefit units containing no-one over State Pension age. Welfare boost includes £20 a week increase to the standard allowance in Universal Credit, the re-pegging of the Local Housing Allowance to 30 per cent of market rents, an increase in Council Tax Support, and the abolition of the minimum income floor in Universal Credit.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF nowcast.

Income falls have been largest for the young, those without children and couples

This crisis has had very different effects on different types of households. So as much as understanding the whole income distribution is important for making sense of the scale of what has happened to date, we must now turn to look at how the crisis has affected the incomes of different household types to fully understand the income shock. It is this detail that gives policy makers a starting point for how to better target policy during the recovery towards households most affected by this crisis. We look first at the effects by age, specifically at three different points in the income distribution *within* each age band. We illustrate income changes at the 25th percentile, median and 75th percentile of the distribution for seven age ranges in Figure 24 below. This shows that household income has fallen fastest for those on middle and high incomes (relative to their peers) at age 16-24 and at age 45-54, with child and pensioner household incomes faring better. Furloughing and job loss have been concentrated among those age 16-24, explaining the effect for this youngest age band. It's likely that those in their 30s and 40s have fared relatively better overall than those aged 45-54 as they are more likely to have children and benefit from the uplift in welfare support announced in March.

FIGURE 24: **Children and older workers' household incomes have fallen less**

Change in real (CPI-adjusted) median equivalised disposable household income, after housing costs, by age band: 2019-20 to May 2020



SOURCE: RF analysis of DWP, Households Below Average Income; and RF nowcast.

The sharp difference in the change in incomes across the age range means that (notwithstanding the fact that we are not capturing any impact of lower asset prices on pensioner incomes) we estimate typical pensioner incomes have continued to rise above typical non-pensioner incomes – and have now increased by over 30 per cent in real terms since 2003-04, compared to almost no change in non-pensioner incomes over this time period. In part this is due to our choice of May 2020 for our nowcast estimate. The State Pension uplift occurred in April, and normally over the course of the year this increase would be counterbalanced by inflationary pressures. Normally, then, we would expect the rest of population to do better over the rest of the financial year – but inflation is far from certain over the rest of the crisis.

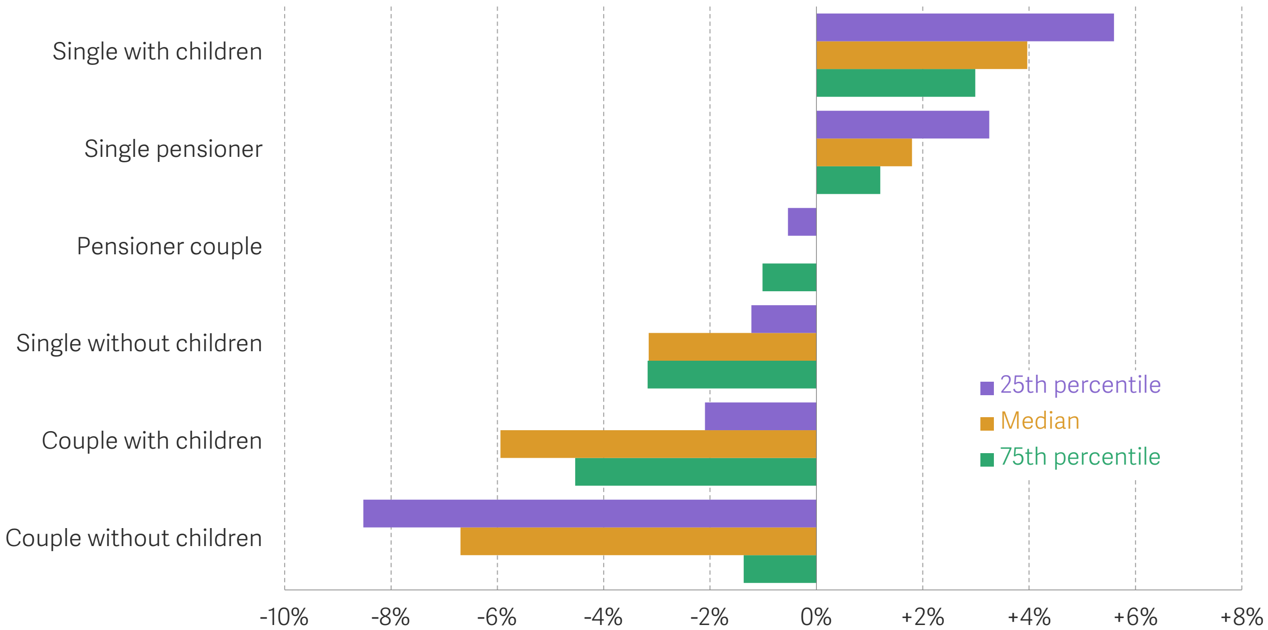
One effect that we have not modelled here is the impact on household incomes of young adults moving into others' homes during the lockdown. After the financial crisis there was a clear increase in the number of young adults living with their parents, and there is some evidence that this happened during lockdown – albeit to a limited extent.[43] The Resolution Foundation's survey of UK households in May 2020 found that only one-in-fifty private renters had moved either to the parental home, or the home of other friends or family during the early stages of lockdown.[44] As far as this has taken place, it is likely to act as a boost to the household incomes of movers – and provide a compositional drag on the incomes of their parents, friends or relatives, to the extent that movers have lower individual incomes than those they have moved in with.

These effects are not modelled in part due to our judgement that in many cases these moves will be short-lived, with little material impact on living standards, but also due to insufficient data on their incidence and effect. For example, it could be the case that young adults moving in with parents are still paying rent on other properties that they planned only to be absent from for weeks, rather than months or years.

It's not just across the age range that this crisis has played out differently, Figure 25 shows how incomes have changed between 2019-20 and May 2020 for different family types.

FIGURE 25: **Incomes for low-income couples without children have fallen almost twice as fast as average**

Change in real (CPI-adjusted) median equivalised disposable household income, after housing costs, by family type, at selected points in the distribution: 2019-20 to May 2020



SOURCE: RF analysis of DWP, Households Below Average Income; and RF nowcast.

This analysis (constructed in a similar way to that presented in Figure 24) reveals that low-income single parent family incomes have increased by over 5 per cent over this

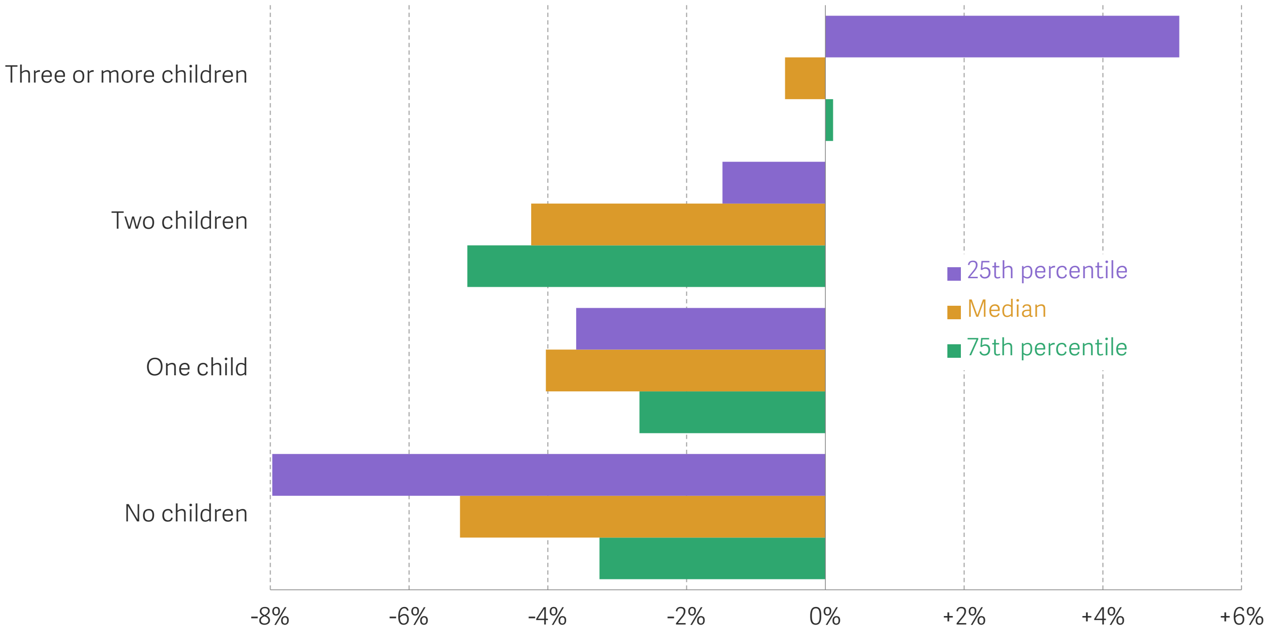
43 G Bangham et al., An intergenerational audit for the UK: 2019, Resolution Foundation, June 2019;.
44 L Judge, Coping with housing costs during the coronavirus crisis: Flash findings from the Resolution Foundation's coronavirus survey, Resolution Foundation, May 2020.

time period, both as a result of this group being less likely than average to be in work, and due to this group being more likely than average to have benefited from the increase to benefits announced in March 2020.

At the other end of the spectrum, incomes for low-income couples without children[45] in May 2020 were over 8 per cent lower than in 2019-20. This sharp fall, almost fifty per cent further than the change in median incomes for all non-pensioner households, stands out all the more given the stronger growth for other low-income families. However, it should not come as a surprise that couples without children have experienced big income falls – this group has the highest income of any family type, will contain many multiple-earner families (thereby increasing chance of experiencing a labour market shock), and, in not having children, is also less likely to receive support from the social security system in the event of a fall in earnings or job loss.

FIGURE 26: **Low-to-middle income families with no children have experienced faster-than-average income falls**

Change in real (CPI-adjusted) median non-pensioner equivalised disposable household income after housing costs, by number of children in family, at selected points in the distribution within each family group: 2019-20 to May 2020



NOTES: Non-pensioner incomes are those recorded/nowcast for benefit units containing no-one over State Pension age.
SOURCE: RF analysis of DWP, Households Below Average Income; and RF nowcast.

When looked at by number of children, as in Figure 26, there's clearly a range of experiences across family sizes – but also within them. For example, we estimate that household incomes for low-income families (25th percentile) with three or more children rose by more than 8 per cent; but remained unchanged for high-income families (75th

45 Comparison of the 25th percentile of the distribution of income for couples without children in 2019-20 and May 2020.

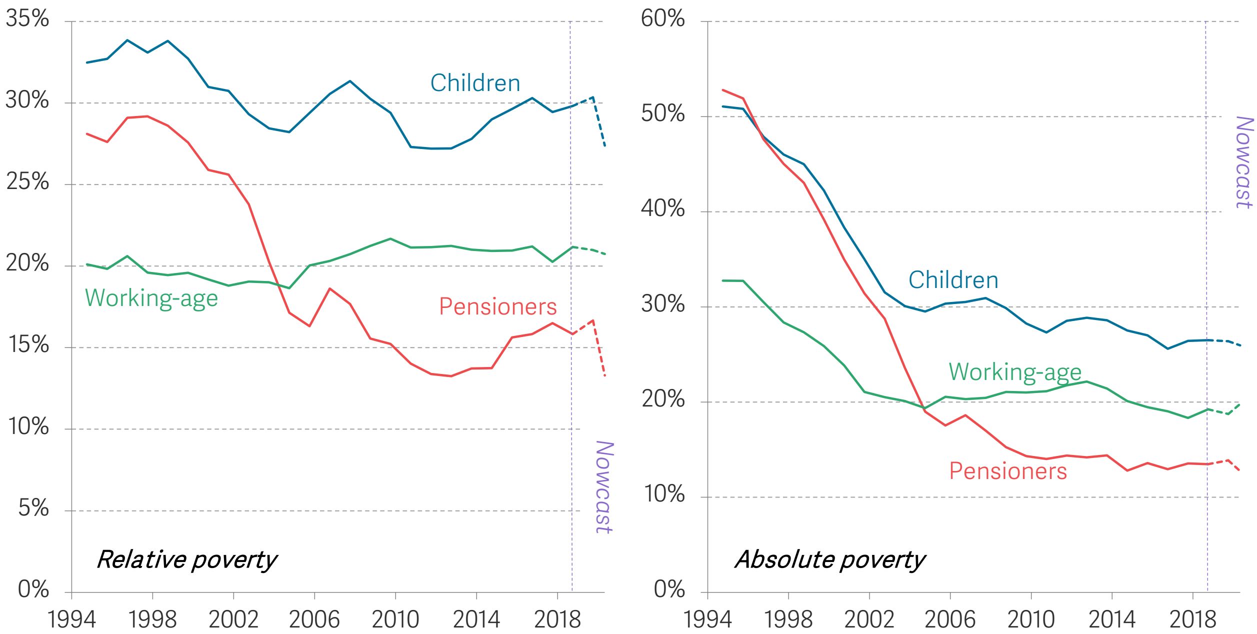
percentile) with three or more children. This will be a result of the former group's greater rates of non-working and benefit reliance, meaning that they were both more likely to avoid the labour market hit, and also more likely to gain from the benefit increase.

We estimate that relative poverty and inequality fell in lockdown

Differential income changes for family types and income groups also play out in our nowcast of poverty rates in May 2020, shown in Figure 27. In line with our forecast that the bottom of the income distribution appears to have fared better than the median over the period 2019-20 to May 2020, we estimate a fall in relative poverty – particularly for pensioners and children. A comparison of estimates of poverty rates with and without the benefits uplift reveals that the majority of this change is due to the actively increased generosity of benefits, rather than purely a change in relative income due to median income falling. The additional generosity of benefits is also reflected in the fact that we estimate a fall in absolute child poverty, although it should be noted that we estimate that working-age absolute poverty rates edged up slightly during lockdown.

FIGURE 27: **Relative poverty is likely to have fallen – and perhaps also absolute poverty**

Proportion of people living in relative and absolute poverty, after housing costs

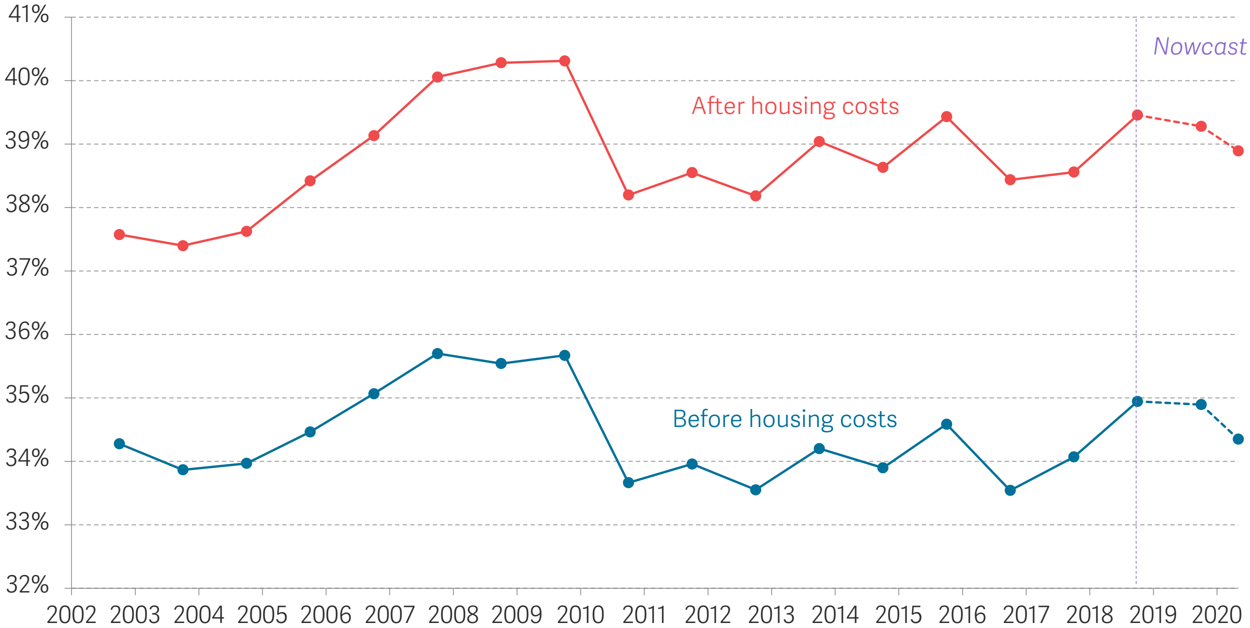


SOURCE: RF analysis of DWP, Households Below Average Income; and RF nowcast.

The shape of the distribution of income growth shown in Figure 22 is broadly consistent with a fall in relative income inequality, as the falls in income are greater at the top of the income distribution than the bottom. Indeed, we estimate that the Gini coefficient was lower in May 2020 than in 2019-20 or 2018-19, as shown in Figure 28. As we will discuss in Section 4, our nowcast for May 2020 is not necessarily representative of the entire 2020-21 financial year (most income inequality analysis uses incomes measured over a full financial year); and nor does it necessarily mean that inequality will be lower in future years. But it does mean that, so far, the crisis has reduced rather than widened income inequalities.

FIGURE 28: **Our nowcast points to a fall in household income inequality in the crisis to date**

Gini coefficient measure of household disposable income inequality



SOURCE: RF analysis of DWP, Households Below Average Income; and RF nowcast.

But the crisis has also meant rising living costs for some, which are not fully accounted for in our nowcast

Before moving on to discuss the prospects for incomes and inequality beyond lockdown, it's important to consider the wider evidence on the impact of this crisis so far on family budgets. The relatively positive distributional picture for income growth should not be taken to mean that all low-income families have been able to easily adapt to this shock. And, although the average change in incomes is positive lower down the income distribution, the analysis in Figure 19 demonstrates that there are still many households on low-to-middle incomes who've experienced large income falls.

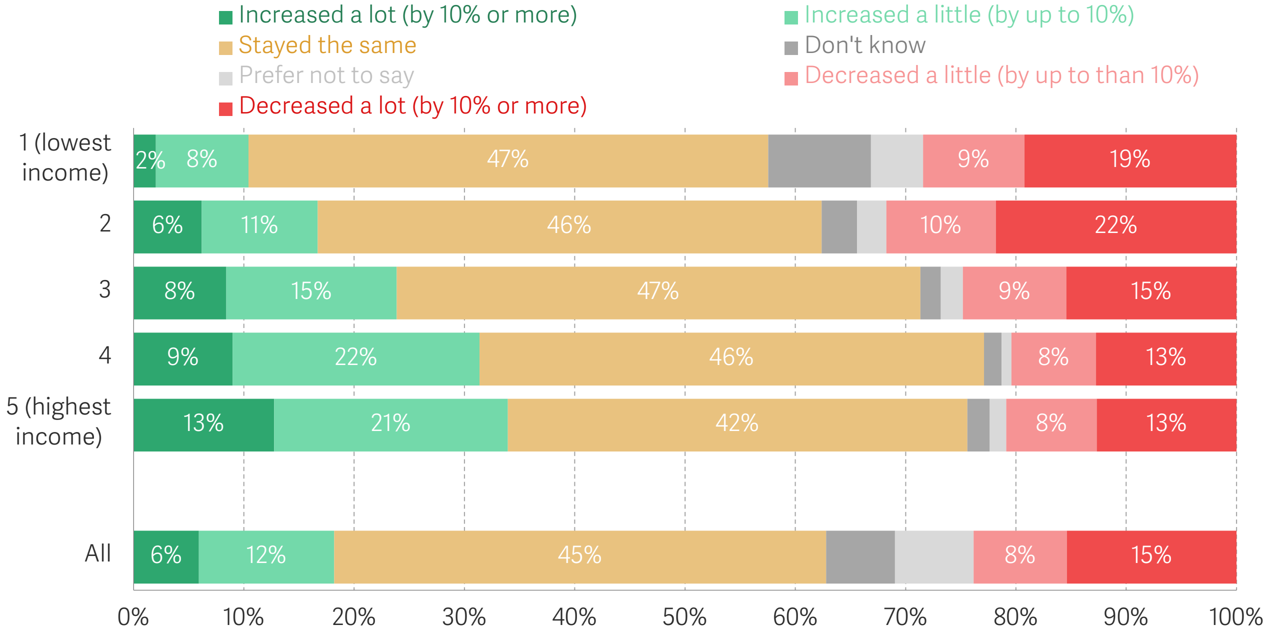
For such families, the option of turning to savings may be limited, particularly since it's higher income families who have been most able to reduce their consumption during lockdown.[46] This explains why, despite higher-income families being hardest hit income-

46 M Brewer & L Gardiner, Return to spender: Findings on family incomes and spending from the Resolution Foundation's coronavirus survey, Resolution Foundation, June 2020.

wise, the evidence doesn't point to large balance sheet deteriorations at the top. Instead, recent survey data (Figure 29) shows that a large number of low-income families have had to reduce their saving rates by more than 10 per cent during lockdown.[47]

FIGURE 29: **During the lockdown, one-third of low-income families are saving less, while one-third of high-income families are saving more**

Proportion of people whose family saving rate has changed since the coronavirus outbreak began, by 18-65-year-old family income quintile before coronavirus (exc. retired and students): 6-11 May 2020



NOTES: Base = all adults aged 18-65 with valid income data (apart from the 'all' category). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or non-working adult students.. Sample weighted to be representative of individuals but not families. Question wording = As a reminder, please think about all forms of savings, including bank accounts, stocks and shares, and other investment products, but excluding pensions. Thinking about now in comparison to before the Coronavirus (COVID-19) outbreak started (i.e. the end of February 2020). To what extent, has the amount of money that you/ you and your partner can save or put aside each month increased or decreased, or has it remained the same?
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

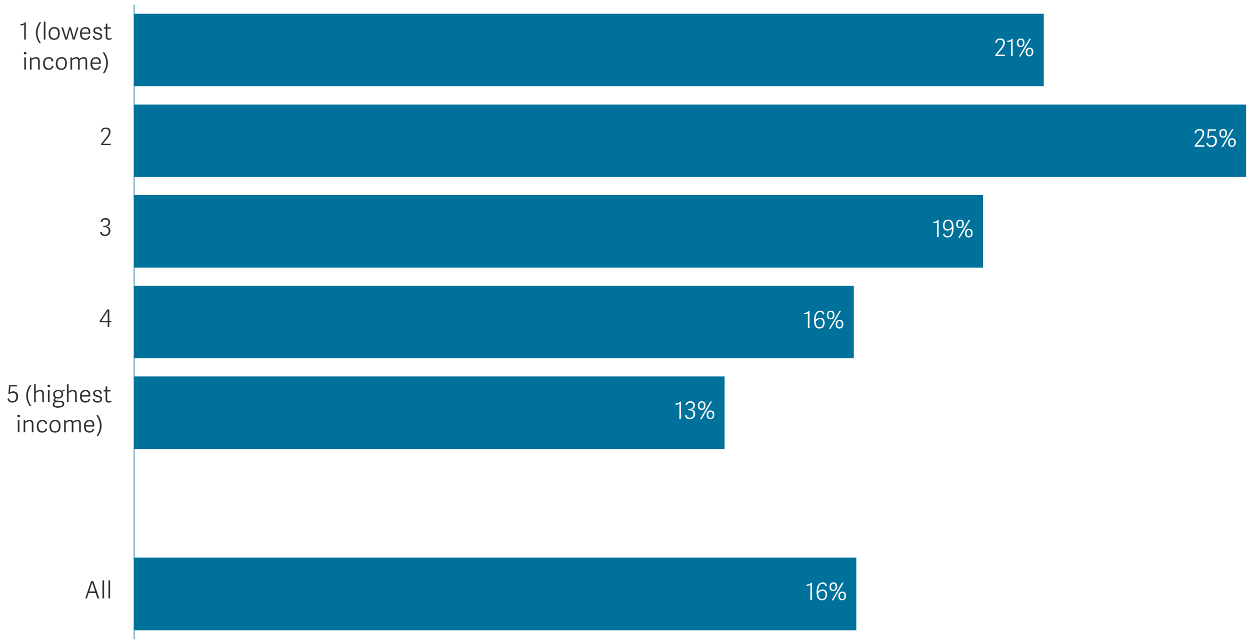
For households that are less able to respond to income shocks by drawing down on savings, taking on more consumer debt is the often necessary in order to make ends meet. Figure 30 shows that between one-quarter and one-fifth of low-to-middle income families have increased their use of consumer debt since the outbreak of coronavirus.[48] Other evidence points towards the savings/debt dimension of this crisis being much less positive than the change in household income, serving as a reminder that even average changes in income at the same point in the distribution hide a wide variety of experience.

47 Taken from G Bangham & J Leslie, Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain, Resolution Foundation, June 2020.
48 Taken from G Bangham & J Leslie, Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain, Resolution Foundation, June 2020.

For example, the Standard Life Foundation's Coronavirus Financial Impact Tracker found that 28 per cent of households were either 'in serious financial difficulty' or 'struggling to make ends meet' in May 2020.[49]

FIGURE 30: **Those on low-to-middle incomes are most likely to have increased their use of consumer debt in this crisis**

Proportion of respondents increasing use of consumer debt products since the coronavirus outbreak began, by 18-65-year-old family income quintile before coronavirus (exc. retired and students): 6-11 May 2020



NOTES: Base for RF survey = all adults aged 18-65 with valid income data (apart from the 'all' category), except those who answered 'Don't Know'. Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or nonworking adult students. Question wording = For the following question, please think about since the Coronavirus (COVID-19) outbreak started in the UK (i.e. the end of February 2020). Which, if any, of the following sources of incomes or support have you started using/ are now using more of to cover your costs? (Please select all that apply)? Consumer debt products = overdrafts, credit cards, personal loans, payday loans and credit purchases.
Source RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

This evidence on changes in spending and debt reinforces our earlier warning that our nowcast is not a forecast of what is yet to come. There are the obvious reasons for this, relating to the length and pace of the recovery, the uncertainties around any structural changes to the labour market (and the distributional impacts those might have), and also the risk that Government policies implemented to support incomes are unwound in 2021. It's to this discussion, of the prospects for incomes and inequality in the months and years ahead, that we turn in the next section.

49 E Kempson & J Evans, Coronavirus Financial Impact Tracker: Key findings from a national survey, Standard Life Foundation, June 2020.

Section 4

What comes next?

The focus of this report so far has been on income changes that have already occurred but, given the rapidly-changing circumstances, it is important to consider the prospects for the immediate future. With the lifting of lockdown restrictions, mobility has increased since May, and output is expected to increase over the course of 2020. Unlike in other recent income hits, inflation is also expected to remain low, falling to 0.3 per cent by Q4 2020.

But despite that overall recovery, the phasing out of the JRS and continued impacts from coronavirus mean that rising unemployment is now a critical concern. The OBR forecasts unemployment hitting 11.9 per cent in Q4 2020: much higher than the peak following the financial crisis. The workers most at risk are disproportionately already in lower-income households, with 23 per cent of workers in the poorest fifth of the household income distribution working in retail, hospitality or leisure; compared to 9 per cent in the highest income fifth. And compared to the JRS, unemployment support in 2020-21 is far less generous.

What's more, in April 2021, benefit support is currently set to be cut back dramatically. Current government policy is that basic unemployment support will be reduced back to its lowest real-terms level since 1990-91 (far lower than the Minimum Income Standard or absolute poverty line), with an annual reduction of over £1,000. Support for renters is also set to be significantly reduced, with an average reduction of £700 in housing allowances for two-bedroom properties. And the current intention is that a Council Tax Support boost of £150 will be removed. As a result of these April 2021 changes, an estimated 6 million households (22 per cent) – containing 18 million people (27 per cent) – will lose over £1,000 in 2021-22; reducing the average income of the bottom half of the income distribution by around £800 (4 per cent).

This outlook for household finances, particularly for lower income families, means we conclude the Government must do more to minimise unemployment, and that maintaining these benefit increases rather than reversing them should be the absolute minimum done to ensure the social security system cushions rather than causes income shocks in the months ahead.

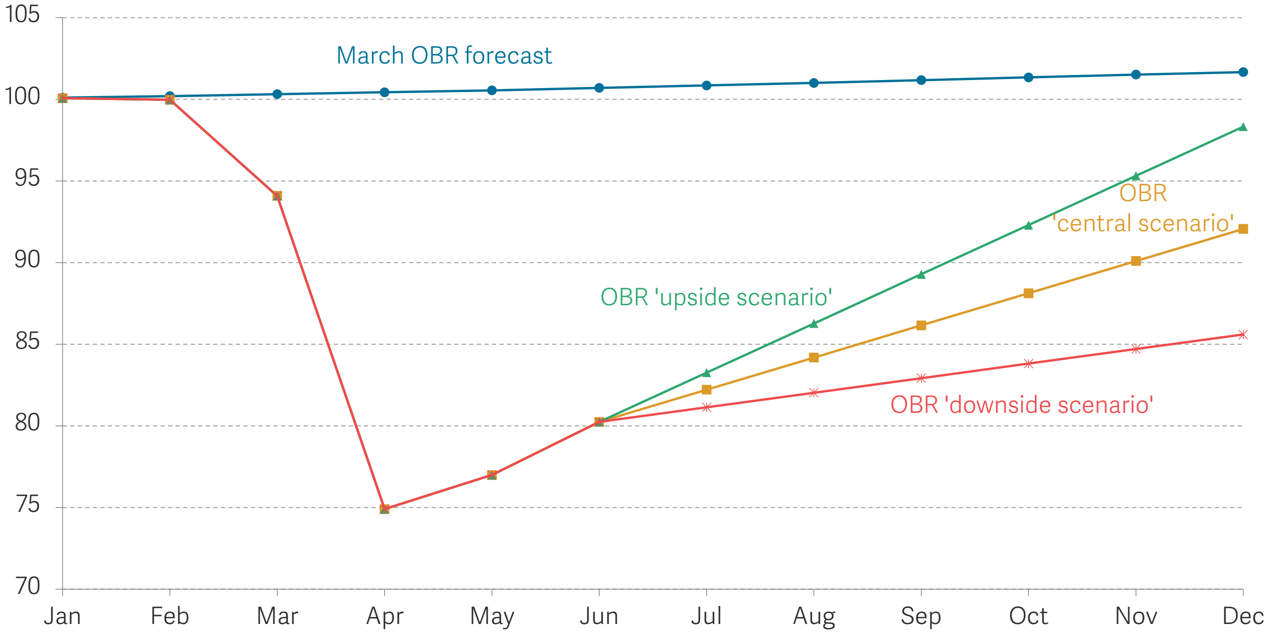
A recovery in overall economic activity is underway...

In Section 3 we modelled incomes in May 2020. Future work – in the form of our next Living Standards Outlook – will look in detail at the prospects for the next few years. But it is worth considering here what the immediate future might hold for living standards, given 2020's rapidly changing circumstances, and asking whether the income hits around May 2020 were just a temporary shock, or the start of a prolonged living standards crisis.

Without attempting to forecast the future path of coronavirus, it is reasonable to hope that the degree of national lockdown required in Q2 2020 will not need to be repeated. There was a clear loosening of restrictions for many businesses from 4 July (with further loosenings to come), and levels of travel to work have increased since the low points of April and May.[50] As Figure 31 shows, while GDP had contracted by around a quarter in April and May, the Office for Budget Responsibility (OBR) expects a continued rebound over the course of 2020 (and beyond).

FIGURE 31: **Economic output is expected to rebound over the course of 2020**

Monthly real GDP in 2020 (January 2020 = 100)



NOTES: See OBR Fiscal Sustainability Report for a description of these scenarios.
SOURCE: OBR, Fiscal Sustainability Report, July 2020.

Notably, unlike in the financial crisis and in the post-referendum period, inflation is expected to remain low. Annual CPI inflation was only 0.6 per cent in June 2020, and in the OBR's central scenario it is expected to fall to 0.3 per cent by Q4 2020, before rising to hit 1.7 per cent (still relatively low) by Q4 2021.[51] Measures announced in the Chancellor's

50 RF analysis of Google, Community Mobility Reports.
51 OBR, Fiscal Sustainability Report, July 2020.

summer stimulus package will provide a minor bit of support for real incomes: with VAT reduced to 5 per cent in the hospitality sector from 15 July 2020 to 12 January 2021, and up to 50 per cent discounts on eat-in meals in August.[52] Additionally, for mortgagors, the direction of travel for interest costs – although they are already low – will surely remain downwards for some time.

…but unemployment is very likely to rise, and that will hit household incomes

For many workers, lockdown and furloughing on reduced pay will be followed (or have already been followed) by a return to (relatively) normal work and full pay. But for others, unemployment is now a real concern. The JRS is being wound down: beginning with employers having to cover employer National Insurance and pension contribution costs for furloughed workers from August; employers contributing to furlough pay from September; and the scheme ending entirely at the end of October. As set out in previous work, if 15 per cent of furloughed workers were made redundant – an estimate based on a survey of business leaders – then that would point to more than a million redundancies.[53]

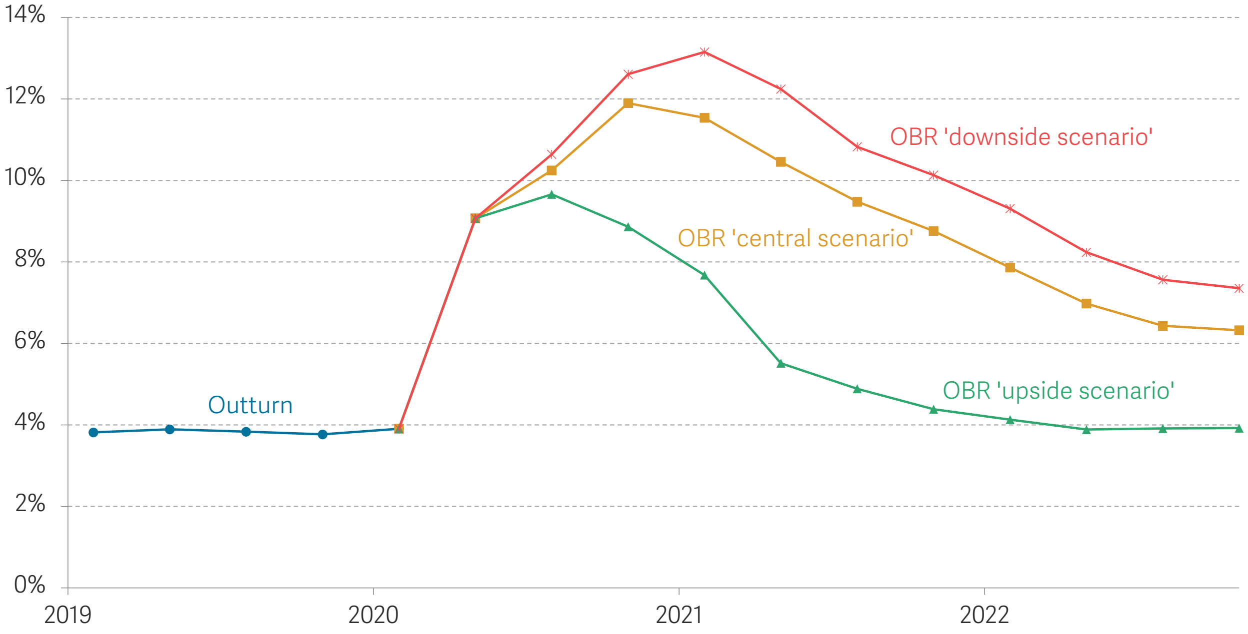
RTI statistics already show a large fall in employment, as shown in Section 3, with 649,000 fewer people in paid employment in June compared to March 2020.[54] But it is very likely that there is worse still to come in 2020-21. As shown in Figure 32, the OBR's scenarios depict the unemployment rate rising from 3.9 per cent in Q1 2020 to a quarterly high of 9.7 per cent in their 'upside' scenario; 11.9 per cent in their 'central' scenario; and 13.2 per cent in their 'downside' scenario. For comparison, the highest unemployment rate since modern records began in 1971 was 11.9 per cent (in 1984); and following the financial crisis the unemployment rate peaked at 8.5 per cent.[55]

In absolute terms, the OBR's central scenario would mean an average of 3.5 million people looking for work in 2021, up from 1.3 million in 2019.[56] Other forecasters have also presented gloomy outlooks – albeit typically slightly less so than the OBR's – with a median recent unemployment rate forecast of 8.1 per cent by Q4 2020, and 6.2 per cent by Q4 2021.[57]

52 HM Treasury, Plan for Jobs, July 2020; Resolution Foundation, Summer Economic Update July 2020: Resolution Foundation overnight analysis, July 2020.
53 N Cominetti, L Gardiner & H Slaughter, The Full Monty: Facing up to the challenge of the coronavirus labour market crisis, Resolution Foundation, June 2020.
54 ONS, Earnings and employment from Pay As You Earn Real Time Information, UK: July 2020.
55 For a discussion of why the impact of the current crisis and recession on jobs could be worse than the financial crisis, see P Gregg, Unemployment: The Coming Storm, UCL blog, June 2020.
56 In practice, those leaving employment may not all be looking for work immediately - not least if vacancy rates remain hugely reduced. In so far as that is the case they would be classed as economically inactive rather than unemployed.
57 HM Treasury, Forecasts for the UK economy: a comparison of independent forecasts, July 2020.

FIGURE 32: **In the OBR's central scenario, the unemployment rate triples by Q4 2020**

Outturn and forecast 16+ unemployment rate



NOTES: See OBR Fiscal Sustainability Report for a description of these scenarios. During the lockdown, LFS unemployment is likely to be an underestimate of real-world circumstances due to people's practical inability to seek work (see M Brewer, L Gardiner & K Handscomb, The truth will out: Understanding labour market statistics during the coronavirus crisis, Resolution Foundation, July 2020) but this effect should be temporary.
SOURCE: OBR, Fiscal Sustainability Report, July 2020.

So – when it comes to household incomes – it is quite possible that the rest of 2020-21 is not significantly better overall than May 2020. Indeed, despite the GDP recovery shown in Figure 31, the OBR's central scenario implies that aggregate household income only begins to recover in 2021.[58]

Although not a focus of this report, there is also (as ever) Brexit policy to consider. The UK's trading policies – including between GB and Northern Ireland – are likely to change considerably on 1 January 2021: making this a time of added uncertainty and transitional disruption for businesses, whatever the strengths and weaknesses of the eventual policy destination.

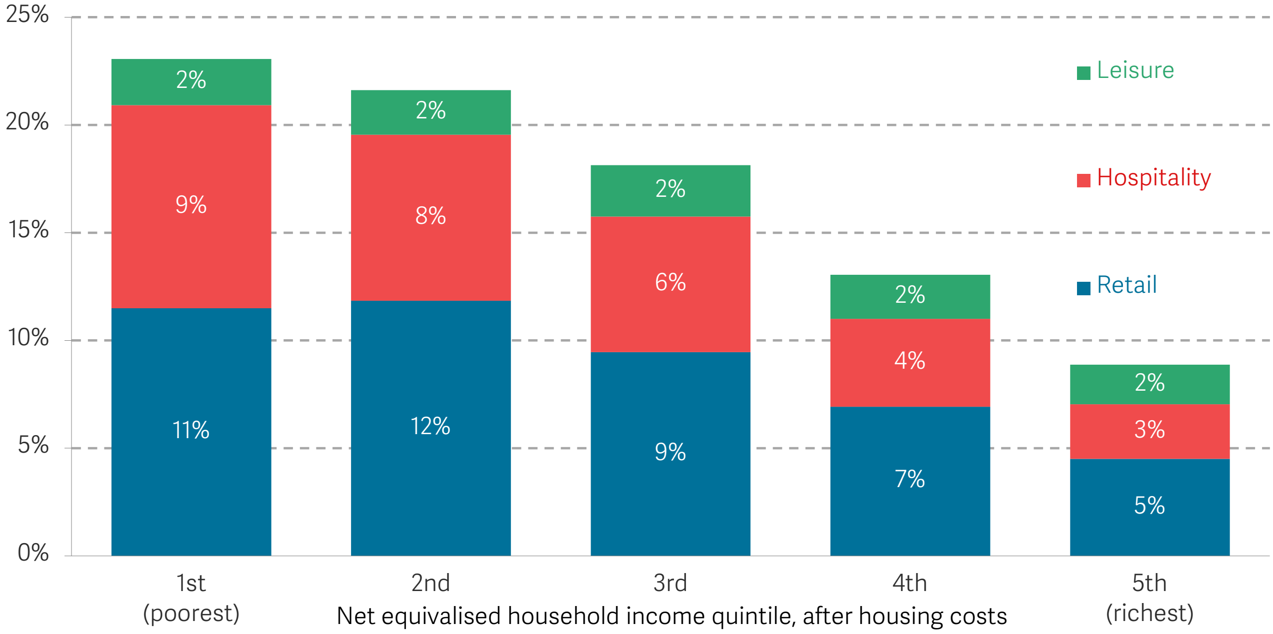
Of course, some jobs are more at risk than others as a result of the coronavirus crisis, with industries such as hospitality and retail hardest hit.[59] And workers in these industries – by virtue of pay, hours, skills, age and family circumstances – are disproportionately found in lower-income households. As shown in Figure 33, 23 per cent of workers in the

58 See Chart 2.17 in OBR, Fiscal Sustainability Report, July 2020.
59 N Cominetti, L Gardiner & H Slaughter, The Full Monty: Facing up to the challenge of the coronavirus labour market crisis, Resolution Foundation, June 2020.

poorest fifth of the household income distribution work in retail, hospitality or leisure; compared to 9 per cent in the highest income fifth, for example.[60]

FIGURE 33: **If job losses are concentrated in industries such as hospitality and retail, they are likely to hit households who already had relatively low incomes**

Proportion of in-work working-age adults working in retail, hospitality or leisure, by household income quintile, after housing costs, 2018-19



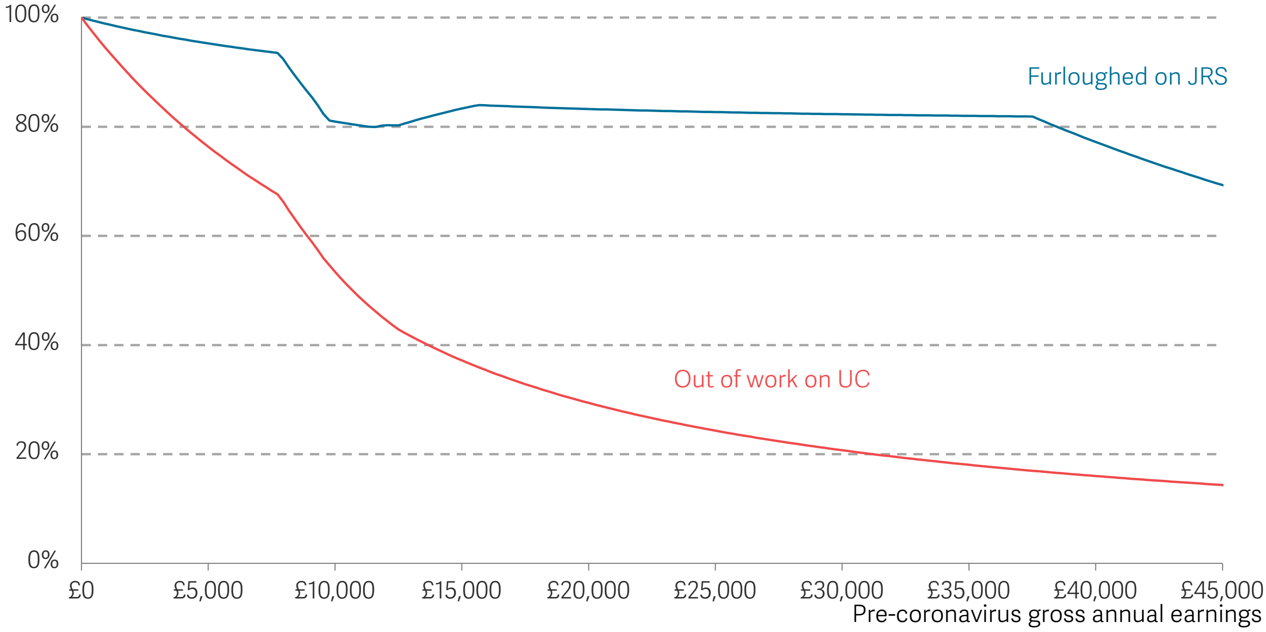
NOTES: Leisure here includes creative, cultural, gambling and sports and recreation activities.
SOURCE: RF analysis of DWP, Family Resources Survey.

We also need to be concerned not just about *how many* people are likely to face unemployment, and *who* is most likely to, but also what level of income support is available for those who do lose their jobs. The JRS and SEISS have been generous income replacements, but the benefits system is a lot less so. UC does cushion the blow of unemployment, but – as Figure 34 shows – with UC, a worker on £20,000 could expect only 29 per cent of their usual take-home income if made unemployed. This compares to 83 per cent of net pay (as well as covering pension contributions) in the JRS. (Indeed, the disparity between these is so large that, in the event of future large-scale lockdowns, we have recommended that the gap in replacement rates implied by these two systems should be narrowed.[61])

60 In terms of individual earnings, these are also low-paying sectors. See for example Resolution Foundation, Doing what it takes: Protecting firms and families from the economic impact of coronavirus, March 2020; and N Cominetti, K Henehan & S Clarke, Low Pay Britain 2019, May 2019.
61 L Gardiner, J Leslie, C Pacitti & J Smith, Easing does it: Economic policy beyond the lockdown, July 2020.

FIGURE 34: **The benefit system in 2020 replaces a much lower proportion of original earnings than the JRS does**

Income replacement rates if a single home-owning adult without children stops working or is furloughed, 2020-21



NOTES: Adults assumed to be aged 25+ and eligible for Universal Credit.
SOURCE: RF analysis using the RF microsimulation model.

It is therefore safe to assume that any increases in unemployment will feed through into significantly lower household incomes for many during the next phase of this crisis (just as rising employment has helped support household incomes over recent years[62]). And it should be noted that Figure 34 is based on the 2020-21 benefit system: beyond March 2021, replacement rates from the social security system are set to fall further, as we now discuss.

Having so significantly boosted incomes this year, benefits policy may pull the rug from under low-to-middle income households in April 2021

As we showed in the previous section, benefits policy played an important role in supporting incomes in the crisis so far – particularly for lower income working-age households. Chief among these policies are the increase in UC and Tax Credit support, and the re-linking of housing support to actual local private rents. However, both of these policies are currently set to expire in April 2021.

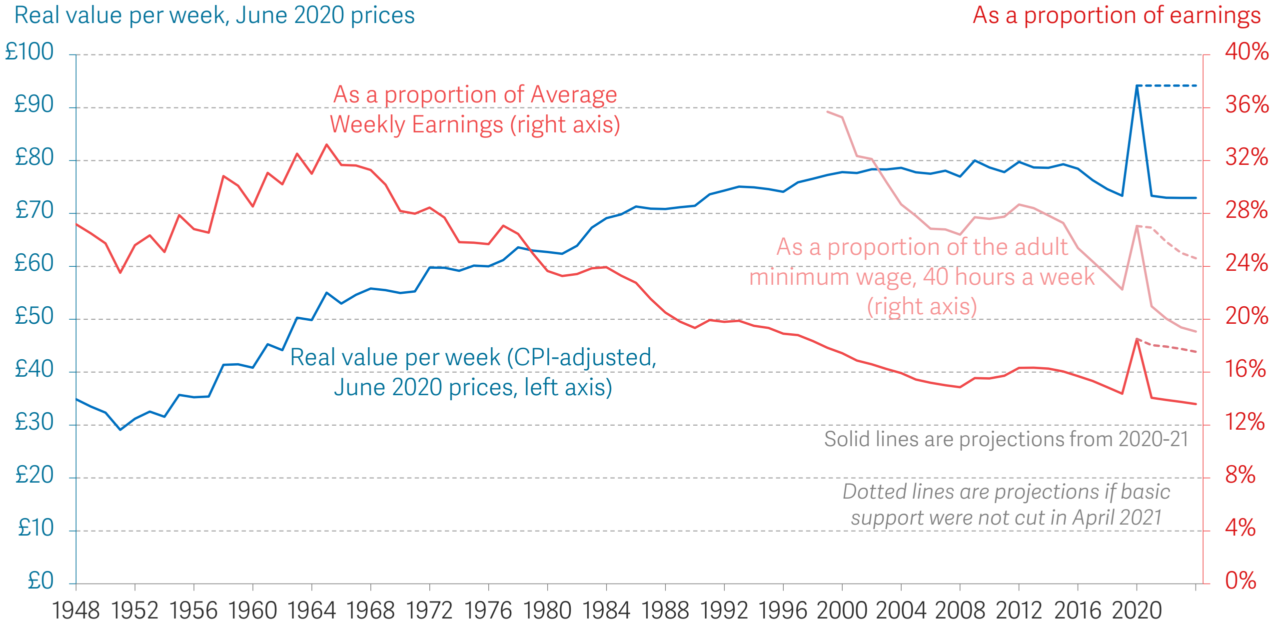
Having been boosted from £73 per week to £94 per week in April 2020, the basic level of support for a single out-of-work adult (aged over 24) is currently set to fall back to around

62 A Corlett, S Clarke, C McCurdy, F Rahman & M Whittaker, The Living Standards Audit 2019, Resolution Foundation, July 2019.

£75 in April 2021:[63] an estimated 22 per cent cut in real terms. Such a reversion to pre-coronavirus levels would mean a return to the lowest price-adjusted generosity since 1990-91, as Figure 35 shows. This would be a very large reduction in incomes for UC and Tax Credit recipients, equivalent to what would happen if Child Benefit was abolished for the first child (worth about £1,100 a year), or if the basic rate of Income Tax were increased by 10 percentage points for someone earning £22,500 (and not on UC).

FIGURE 35: **Basic benefit support is due to crash back to historic lows in April 2021**

Value of the main rate of unemployment-related benefit over time for a single adult, with projections



NOTES: National Living Wage forecast is based on OBR, Economic and Fiscal Outlook, March 2020, adjusted in line with average earnings changes from OBR, Fiscal Sustainability Report, July 2020.
SOURCE: RF analysis of IFS Fiscal Facts; ONS; Bank of England; and OBR.

To avoid social security causing rather than cushioning income falls, this benefit boost should be made permanent. As the unemployment forecasts in Figure 32 suggest, the labour market is extremely unlikely to be in robust health by April 2021 – so there will be large numbers of people with low or zero earnings as a result of the coronavirus crisis. But there is also a broader argument that £73 a week was never sufficient, as Box 4 discusses, and that those out of work deserve a more generous safety net even when the labour market is strong.

The argument might be made that low levels of benefits are required to create strong incentives to work, but this does not hold up to analysis. UC is conditional on work-

63 In monthly terms, this would mean the single 25+ adult rate of Universal Credit falling from £410 per month in 2020-21, to around £324 per month in 2021-22.

search activity, and it is the demand for labour, rather than the supply of labour, that will be holding down employment for the foreseeable future. Additionally, if the increased level were maintained (and uprated with inflation) it would still be a lower proportion of a full-time minimum wage income by the end of the parliament than in any year prior to 2017-18, at around 25 per cent of that salary.[64] Given that the relative value of working would therefore be higher than in the 2010s period that was described as "a jobs miracle",[65] it is hard to be worried that conditional payments of around £94 a week will notably reduce employment.

BOX 4: **£94 a week is not a generous safety net**

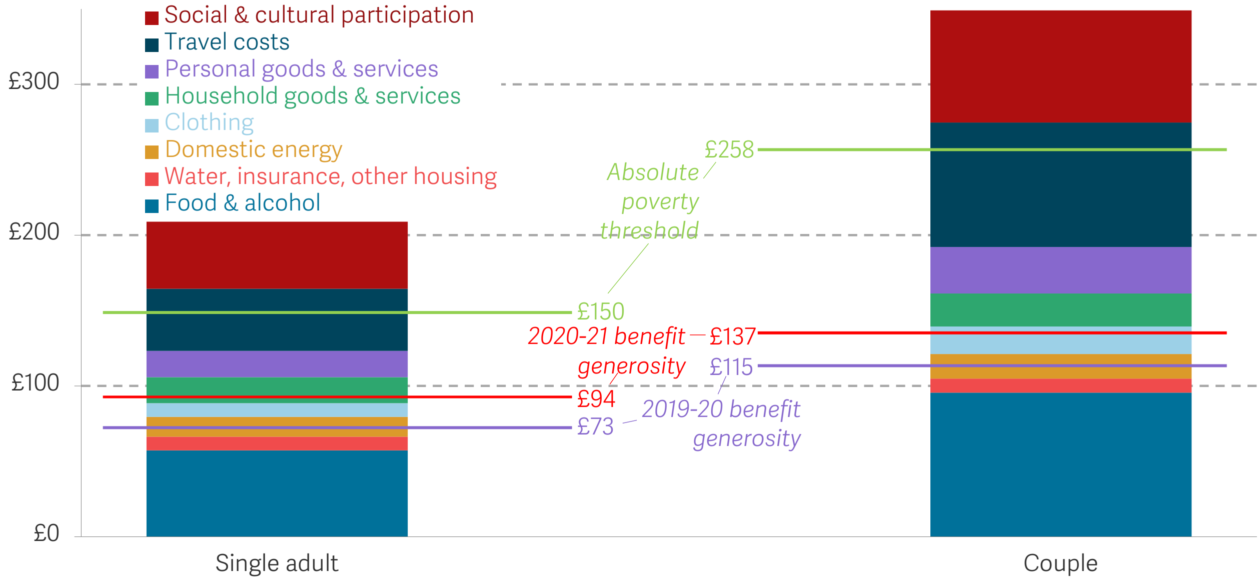
In UC, the basic level of adult out-of-work support will be a crucial determinant of many people's incomes, both in and out of work. We discuss in this report the role that the £1,040 UC (and Tax Credit) boost has played in supporting incomes in 2020-21, and the potential impact of withdrawing it in 2021-22. But we should also consider, more fundamentally, what an appropriate level of support might be. Certainly, the current crisis has led more people to ask whether existing support is enough to live on: with the question of "How is £94 a week going to pay anyone's bills?" being asked.[66] And the JRS and SEISS policies are partly a recognition that UC's replacement rates are – even after the 2020-21 boost – not sufficient.[67]

One approach to consider the adequacy of benefit support is to compare it to the 'Minimum Income Standard'. This standard is calculated based on what groups of members of the public deem to be necessary for a minimum socially acceptable living standard. The weekly requirements for adults without children, and excluding any rental (or mortgage) costs and Council Tax (both of which might be covered by other benefits), are set out in Figure 36. Basic support of £94 a week (equivalent to around £4,900 a year) is less than half of the Minimum Income Standard for a single adult in 2020. Another way of putting that would be that UC might cover a person's food, water, domestic energy and clothing needs, but not stretch to any other goods and services, nor any travel costs (e.g. to work or job seek) nor social participation.

64 Results are very similar for after-tax earnings. This modelling assumes the National Living Wage does not rise as fast as the OBR projected in March 2020: instead, it is adjusted down in line with average earnings changes from OBR, Fiscal Sustainability Report, July 2020.
65 ITV News, David Cameron hails Britain's 'jobs miracle', April 2015.
66 BBC News, Coronavirus: 'How is £94 a week going to pay anyone's bills?', March 2020.
67 M Brewer & K Handscomb, This time is different – Universal Credit's first recession, Resolution Foundation, May 2020.

FIGURE 36: **Basic working-age welfare support remains low compared to the Minimum Income Standard or the absolute poverty line**

2020 Minimum Income Standard (excluding rent and Council Tax); 2019-20 absolute poverty threshold; and basic benefit levels – per week



NOTES: The absolute poverty threshold is measured after housing costs and taxes.
SOURCE: RF; Centre for Research in Social Policy, Loughborough University; DWP, Households Below Average Income.

We can also compare basic benefit support to the absolute poverty line, at around £150 a week for a single adult. Basic benefit support this year is only 63 per cent of the 2019-20 absolute poverty threshold, and reversion to the pre-crisis level of support would take that to around 49 per cent. In reality, the disposable incomes of many people relying on UC will be even lower than suggested.

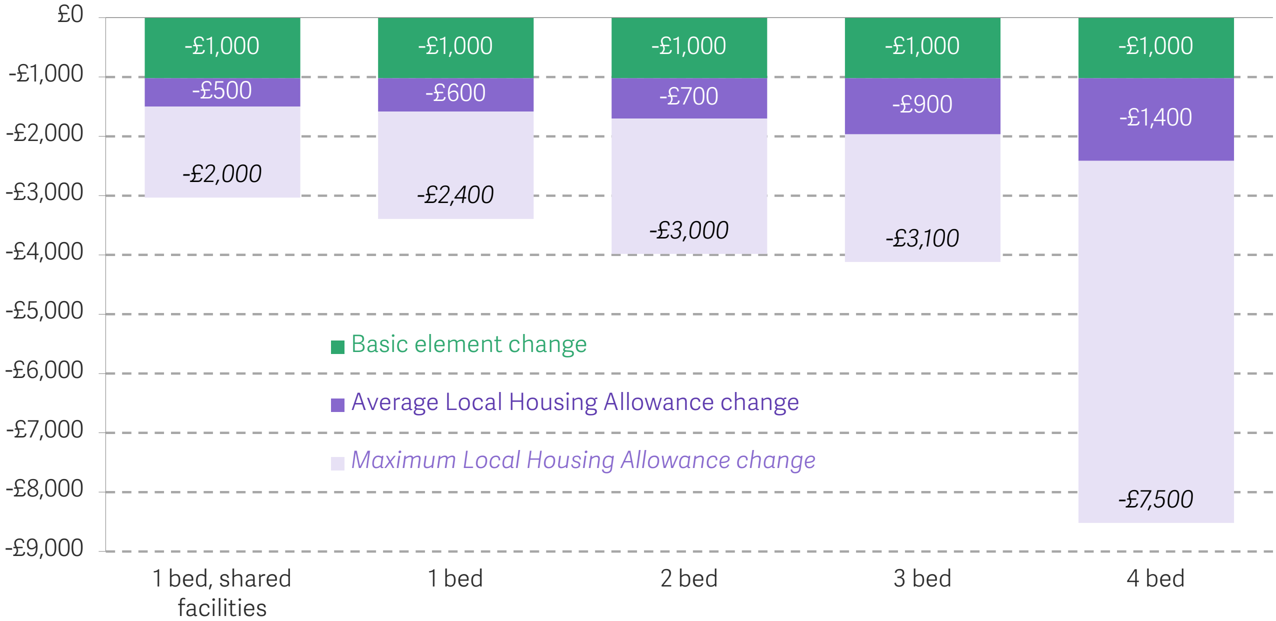
In addition to that change in the basic UC and Tax Credit element – which equates to an annual change of over £1,000 – housing support is expected to be cut back to a lower level in April 2021, reversing another 2020-21 welfare boost.[68] As Figure 37 shows, cutting the maximum rent support from the 30th percentile of local rents back to a

68 The government has not yet specified a firm plan, however. The OBR states that "The Government has not specified LHA rates policy beyond this year, so we assume that they rise in line with CPI inflation" (OBR, Fiscal Sustainability Report, July 2020). But the Summer Economic Update includes this change under a list of temporary measures (HM Treasury, Plan for Jobs, July 2020, para. 3.3); and an explanatory memorandum refers to "providing increased support to renters *for the fiscal year 2020-21* by increasing LHA rates" (Emphasis added. DWP, Explanatory memorandum to the Social Security (Coronavirus) (Further Measures) Regulations 2020).

(increasingly arbitrary)[69] lower level will cost many families substantial sums. For example, for families renting two-bedroom properties, the average change in maximum local housing allowances across the UK would be around £700 a year: with larger falls in areas where rental costs have been growing faster, such as London, Cambridge, Glasgow, Bristol and Manchester. These allowances are maximum entitlements, with an individual household's receipt being based on actual rents and means-testing. But, combined with the change in basic benefit support, many households face income falls between March and April 2021 that are equivalent to £2,000 a year or more.

FIGURE 37: **Ending the recent benefit boosts will mean very large income losses for many private renters in 2021-22**

Potential losses for low income renters in 2021-22 due to changing benefit policies, by type of property



NOTES: Very large losses (such as the £7,500) may be constrained in many cases by the benefit cap. The light purple elements depict the difference between the average and maximum change. Averages are unweighted. Local Housing Allowance property categories are based on family size.
SOURCE: RF analysis of VOA, Local Housing Allowance (LHA) rates; Scottish Government; Welsh Government; and Northern Ireland Housing Executive.

Council Tax Support is also due to decline in generosity in April 2021, costing many of the poorest working-age households in England another £150 a year relative to the 2020-21 system.[70]

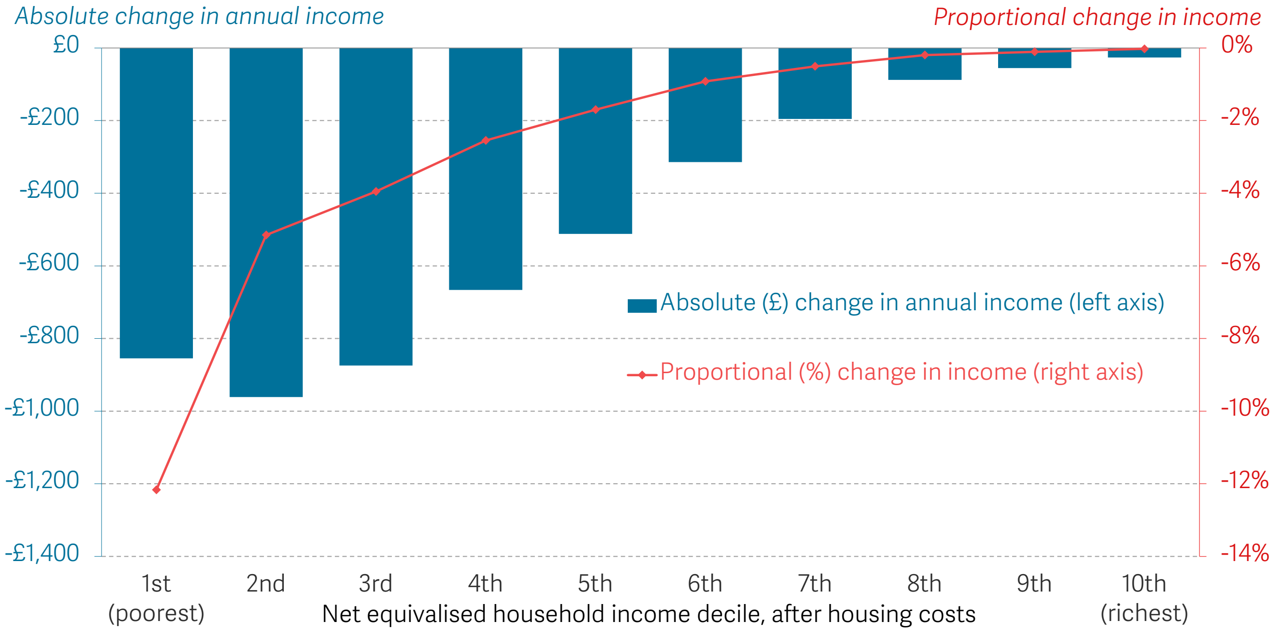
Figure 38 models the combined impact of these three reversions in benefit policy, relative to maintaining them. Even looking at the impacts on the average incomes of each

69 Prior to the 2020-21 change, Local Housing Allowances were based on rental values from 2012-13 levels, uprated each year by the minimum of local rent growth or CPI inflation: meaning support is increasingly unrelated to local conditions.
70 MHCLG, Council Tax COVID-19 hardship fund 2020-21 – Local Authority Guidance, March 2020. Support in Scotland, Wales and Northern Ireland has taken different forms.

income decile – so including many people who are unaffected, and pensioners who are relatively unaffected – it is clear that this is a big deal for household finances. Across the bottom half of the income distribution, average incomes will be approaching £800 a year – or 3.8 per cent – lower as a result. For much of the income distribution, this change is in fact a greater hit overall than the net impact of the coronavirus crisis itself; as policy shifts from protecting households from an income shock, to causing one.

FIGURE 38: **Ending the benefit boosts in April will mean a very large loss of income in 2021-22 for low- and middle-income households, relative to maintaining them**

Impact on average household income by decile, of not continuing benefit boosts in 2021-22



NOTES: Includes the £1,040 boost to Universal Credit and Tax Credits; Local Housing Allowance increase; and Council Tax Support increase. We assume raised unemployment in 2021-22, in line with the OBR's central scenario.
SOURCE: RF analysis of DWP, Family Resources Survey, using the IPPR tax-benefit model.

We estimate that 6 million households (22 per cent) – containing 18 million people (27 per cent) – will lose over £1,000 in 2021-22, and the number of people living in relative poverty would rise by roughly 1 million, compared to a continuation of the policy. In the worst affected regions –Northern Ireland, Wales, the West Midlands, Yorkshire and the Humber, the North West, and the North East – over 30 per cent of non-pensioner households will lose over £1,000. And this reduction in support would be alongside other cuts that are ongoing and will put further pressure on working-age incomes over coming years: chiefly the continued roll-out of the 'two child limit' and the abolition of the family element in UC and other means-tested support.[71]

71 See for example Figure 32 in Resolution Foundation, Spring Budget 2020 response, March 2020.

So, reducing benefit support in April be the wrong thing to do in terms of cushioning household incomes in this continuing and shifting crisis, and in terms of the fundamental long-term (in)adequacy of the benefits system. These reductions would also be a notable drag on economic demand in Q2 2021, at a time when the economy itself needs significant fiscal support.[72] Indeed, the Resolution Foundation has already argued that the need to secure the economic recovery means that the Government should be boosting incomes further through *increases* in UC, particularly slanted at families with children.[73] Given the forecast for unemployment especially, there is no way that the government should be contemplating cutting benefits less than a year from now.

72 L Gardiner, J Leslie, C Pacitti & J Smith, Easing does it: Economic policy beyond the lockdown, July 2020.
73 L Gardiner, J Leslie, C Pacitti & J Smith, Easing does it: Economic policy beyond the lockdown, July 2020.

Section 5

Conclusion

In our Living Standards Outlook 2019, we noted that "households have faced the double whammy of the financial crisis fallout and a post-referendum inflation spike", and that the outlook for growth was weak.[74] Now, we find ourselves at what is only the first phase of a large and very unusual recession – in addition to the health impact of the coronavirus itself. The double whammy has become a triple whammy.

But it remains to be determined whether the worst for household incomes is now behind us, or still ahead; and whether this crisis is drawn out and damaging for the long-term, or something the country (and world) can rapidly bounce back from. The right policy choices must be made on fighting coronavirus; preventing a deep recession and supporting employment; directly supporting household incomes; and determining our future relationship with the EU – and indeed the rest of the world – from 1 January 2021.

Policy has thus far hugely helped to soften the (still substantial) blow to low- and middle-income households in this crisis. But there is a lot more to be done to ensure that the triple whammy is not followed by further income hits for many, and that the UK does not end up combining the pre-crisis trend of weakening support for low-income families with a now very weak labour market.

74 A Corlett, The Living Standards Outlook 2019, Resolution Foundation, February 2019.

Annex 1

Low-to-middle income families in 2018-19

The Resolution Foundation's mission is to improve the living standards of those on low-to-middle incomes, especially those who are in work but still struggling financially. Given the current crisis, this year's Audit has not focused explicitly on this low-to-middle income group. However, they remain our central long-run consideration and so this Annex presents some key statistics about them.

As set out in earlier Audits, we define the low-to-middle income group by focusing on those in:

- non-pensioner family units – excluding those containing any pensioners, as older households face different sets of challenges;
- the bottom half of the non-pensioner equivalised income distribution (before housing costs) – i.e. below a disposable income of around £27,500 for a couple in 2018-19;
- and family units in which at least one person is in (at least part-time) work.

As set out in Table 1, this divides the UK population into four groups: pensioner family units; those in non-working family units; those in higher-income family units; and those with low-to-middle incomes. That final group includes 20 million people (30 per cent of the population), including 7.1 million children (51 per cent of children).

TABLE 1: **20 million people, including half of all children, lived in 'low-to-middle income' family units in 2018-19**

Numbers and proportions of people / families in our four income categories, 2018-19

	Non-pensioner						Pensioner		Total
	Non-working	(%)	Low-to-middle income	(%)	Higher-income	(%)		(%)	
Total population	*6,650,000*	*10%*	*19,680,000*	*30%*	*26,190,000*	*40%*	*12,970,000*	*20%*	*65,480,000*
Adults	4,990,000	*10%*	12,570,000	*24%*	21,080,000	*41%*	12,910,000	*25%*	51,550,000
Children	1,650,000	*12%*	7,110,000	*51%*	5,110,000	*37%*	60,000	*0%*	13,930,000
Total number of families	*4,300,000*	*12%*	*8,230,000*	*23%*	*13,790,000*	*39%*	*8,710,000*	*25%*	*35,030,000*
Couple with children	250,000	*4%*	2,900,000	*48%*	2,840,000	*47%*			6,000,000
Single with children	620,000	*34%*	850,000	*46%*	380,000	*21%*			1,850,000
Couple without children	440,000	*7%*	1,440,000	*23%*	4,440,000	*70%*			6,320,000
Single male without children	1,760,000	*25%*	1,630,000	*23%*	3,580,000	*51%*			6,980,000
Single female without children	1,220,000	*24%*	1,410,000	*27%*	2,540,000	*49%*			5,170,000
Pensioner couple							4,210,000	100%	4,210,000
Single male pensioner							1,460,000	100%	1,460,000
Single female pensioner							3040000	100%	3040000

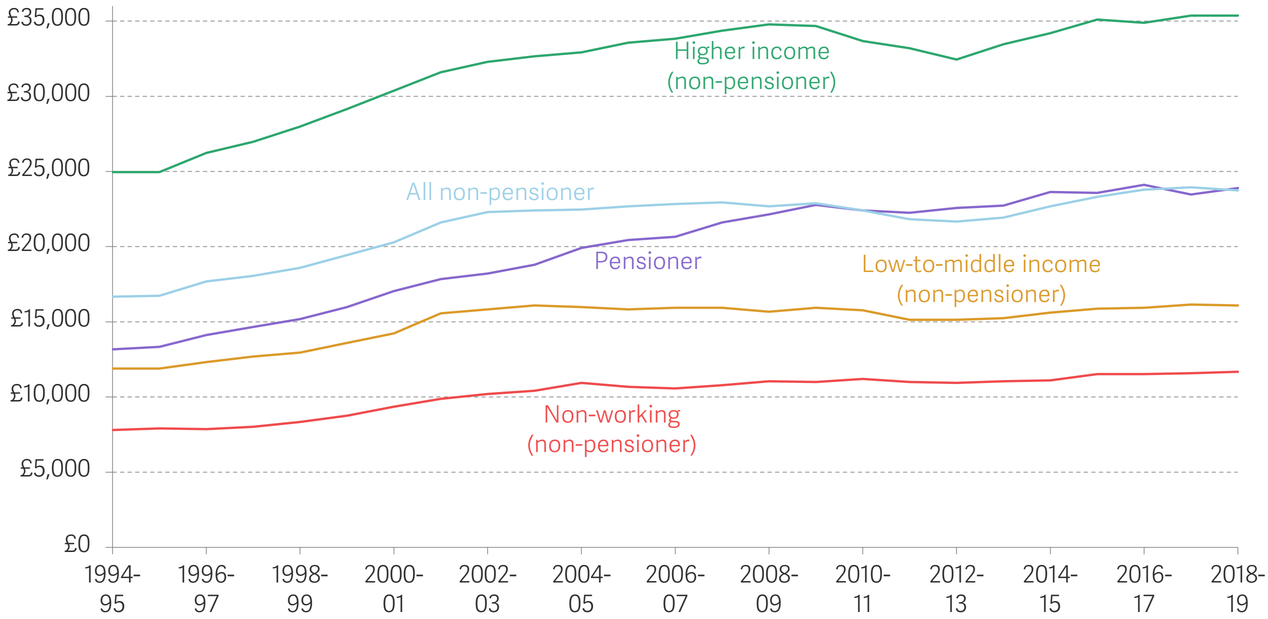
NOTES: UK.
SOURCE: RF analysis of DWP, Households Below Average Income.

In 2018-19 the typical (and equivalised) disposable income for the low-to-middle income group, after housing costs, was £16,100. As Figure 39 shows, this is – strikingly – no higher than in 2003-04.

One contributing factor to this is that rising employment has increased the size of the low-to-middle income group while shrinking the non-working group, and those who have moved between the groups are more likely to have relatively low earnings (for example, more lone parents now work part-time rather than not at all). This acts as a slight drag on the typical income of this specific group. But weak growth in incomes is also apparent for the non-pensioner group as a whole, and for the poorer 50 per cent in particular, as we discussed in Section 2.

FIGURE 39: **The median income of the low-to-middle income group was £16,100 in 2018-19, unchanged from 15 years earlier**

Median real (CPI-adjusted to 2019-20 prices) equivalised household disposable income, after housing costs



NOTES: UK from 2002-03, GB before. See text for definitions of these groups.
SOURCE: RF analysis of DWP, Households Below Average Income.

As we stress in the main body of this report, the fact that the coronavirus crisis is coming on top of this prolonged weak growth makes it all the more important that policy delivers a period of sustained, strong real income growth for low-to-middle income working-age households as soon as possible.

Annex 2

Nowcasting methodology and assumptions

This annex sets out in more detail our nowcasting methodology, and the assumptions we have made to arrive at our estimates of household incomes in 2019-20 and in May 2020.

For 2019-20 we have followed broadly the same approach as in previously published Living Standard Outlooks which we have briefly summarised below.[75] However, to reflect living standards during the coronavirus crisis we use additional data and change the methodology in order to account for the large disruption in the labour market during the lockdown period.

Nowcasting 2019-20

We take the 2018-19 Family Resources Survey as our base.[76] We update levels of earnings in line with HMRC's Real Time Information PAYE data for pay growth at different points in the earnings distribution,[77] and we also model the impact of increases in minimum pension auto-enrolment contributions in 2019-20. We assume self-employed earnings have increased in line with OBR figures, and adjust investment income and housing costs to reflect changes between 2018-19 and 2019-20.

We also adjust employment levels and the size and composition of the population, primarily based on the Labour Force Survey and ONS population figures.

Using the IPPR-tax benefit model, we then simulate tax liabilities and benefit entitlements on this updated household data for the 2019-20 tax year, accounting for changes to the tax and benefits system. Specifically, we assume:

- Incomplete take-up of benefits;
- Partial roll out of UC; and,
- An increasing proportion of claimants affected by the two-child limit and the abolition of the family element of UC and Tax Credits.

Nowcasting May 2020

We have specifically focussed on forecasting incomes for May 2020, rather than the entire 2020-21 period. This means that we can base our assumptions of how the economy has changed on currently available data. But if the remainder of the 2020-21 year is markedly different from May 2020, then our nowcast will not provide an accurate read on the year as a whole.

75 See: A Corlett, The Living Standards Outlook 2019, Resolution Foundation, February 2019.
76 DWP, Family Resources Survey 2018-19, May 2020.
77 ONS, Earnings and employment from Pay As You Earn Real Time Information, UK: June 2020.

As we model income changes between 2019-20 and May 2020, before modelling the specific impacts of the coronavirus crisis, we first take account of economic changes that took place prior to that, such as increases in employment, wages and demographic changes. This is done in a similar way to our 2019-20 nowcast, including making use of Labour Force Survey data as well as a rough estimate of underlying pay growth across the distribution, particularly to try and capture the impact of the National Living Wage rising in April 2021.

It is also worth explaining how we have analysed income changes between 2019-20 to May 2020, as we have supplemented our usual approach:

- Normally, we *only* present income changes over time by comparing growth at each point in the distribution. In other words we compare, for example, the income of the median-income individual in one time period with the income of the median-income individual in the following time period, and these will be different people. This is how income changes are presented in government publications, such as the DWP's Households Below Average Income reports. It allows for comparisons over long time periods, and shows how the economy and society are changing.

- However, there is considerable interest in understanding what sort of households have been affected by the crisis, and by how much. For this reason, in Section 3 we also present analysis of the changes in incomes from 2019-20 to May 2020 based on individuals' positions in the 2019-20 household income distribution. This answers the question "how did the crisis affect individuals' incomes?" rather than "how does the income distribution in 2019-20 compare to the one in May 2020?".

Our approach to nowcasting incomes in May 2020 is considerably more involved than for 2019-20, because we account for the impacts of the coronavirus crisis. To model in detail the large labour market shock, we have used the results of the May wave of the Understanding Society coronavirus survey.[78]

From this, we estimate regression models for:

- The probability of being furloughed (and receiving support under the Job Retention Scheme) for employees;

- The probability of stopping work for employees who are not furloughed;

- The change in number of hours worked (where earnings have also changed) for employees not furloughed and still in work;

- The probability of not working for the self-employed;

- The change in hours worked (where earnings have also changed) for the self-employed who are still working; and

78 University of Essex, Institute for Social and Economic Research, Understanding Society: COVID-19 Study, 2020, 2nd Edition, July 2020.

- The probability of receiving support under the Self-Employment Income Support Scheme (SEISS) (this is independent from other effects).

We use the following independent variables in each model (except where the sample does not allow interaction terms): earnings before coronavirus, a quadratic earnings term, partner status, gender, dependent children status, part-time working, being in receipt of a working-age benefit, 2010 occupation grouping, highest qualification, age, whether working in the public sector, and appropriate interaction effects.

These coefficient estimates are then applied sequentially (preserving the exclusions set out in the regression analysis) to the individual data in the Family Resources Survey to predict loss of employment or reductions in earnings, subject to assumptions for some results. Specifically:

- We align the total number of adults furloughed to 7.5 million; assume 20 per cent of those furloughed receive full pay and are not subject to the salary cap; and assume a further 10 per cent receive 90 per cent of their pay and are not subject to the salary cap (we assume the employer bears this additional cost).[79]
- We align the total number of employees who have stopped working and are not receiving any pay to 612,000, broadly in line with the fall in PAYE employment from March to May.[80]
- We align the number of employees that experience a change in earnings due to a change in hours worked (beyond that of the furlough scheme, or from stopping work) to the proportion of adults similarly affected in the Understanding Society survey: which is 14 per cent of those still working.
- We align the total number of self-employed adults who receive SEISS support to 2.38 million, in line with the HMRC estimate of the total number of applications to the scheme as of 31 May.[81]
- We align the total number of self-employed persons who stop working to the proportion of self-employed respondents in Understanding Society who also report having stopped working: which is 40 per cent.

Having made those changes to earnings and employment, we follow a similar process as set out above for the 2019-20 nowcast when calculating tax liabilities and benefit entitlements. When modelling May 2020 tax and benefits we have included policy changes such as the boosts to Universal Credit, Tax Credits, Local Housing Allowances and Council Tax Support, as well as the suspension of the Minimum Income Floor for the self-employed.

79 Our estimate of the average number of people furloughed, and the distribution of furlough pay, in May 2020 is based on the Business Impact of Coronavirus Survey (ONS). Note the HMRC statistics show the cumulative take-up of the JRS scheme, which will over-estimate those who are just furloughed in May.
80 ONS, Earnings and employment from Pay As You Earn Real Time Information, UK: June 2020. (This figure has been revised to 574,000 in the July 2020 release, but not in time for us to reflect it in our modelling. Earlier sensitivity analysis suggests this would have only a very small impact on our overall results.)
81 HMRC, Self-Employment Income Support Scheme statistics: June 2020.

Annex 3

Previous income predictions

Using the methods and sources set out in Annex 2, this report includes a 'nowcast' of household incomes in 2019-20, as well as a rapid nowcast of incomes in May 2020.

These are the latest in a series of Resolution Foundation nowcasts and forecasts, and we now have some outturn data on which to judge these previous projections.

It is important to stress that the outturn data itself (DWP's Households Below Average Income data) is unlikely to be a perfect record of what has happened. For example, as a survey with limited sample size, DWP's 95 per cent confidence intervals can only say that the number of people living in relative poverty (after housing costs) changed by between -0.78 million and +1.54 million between 2017-18 and 2018-19.[82] And on top of this (random) sampling error, we know there are substantial systematic problems such as an under-reporting of benefit income,[83] and some under-reporting of top incomes.[84] The DWP's data might therefore be revised in future.

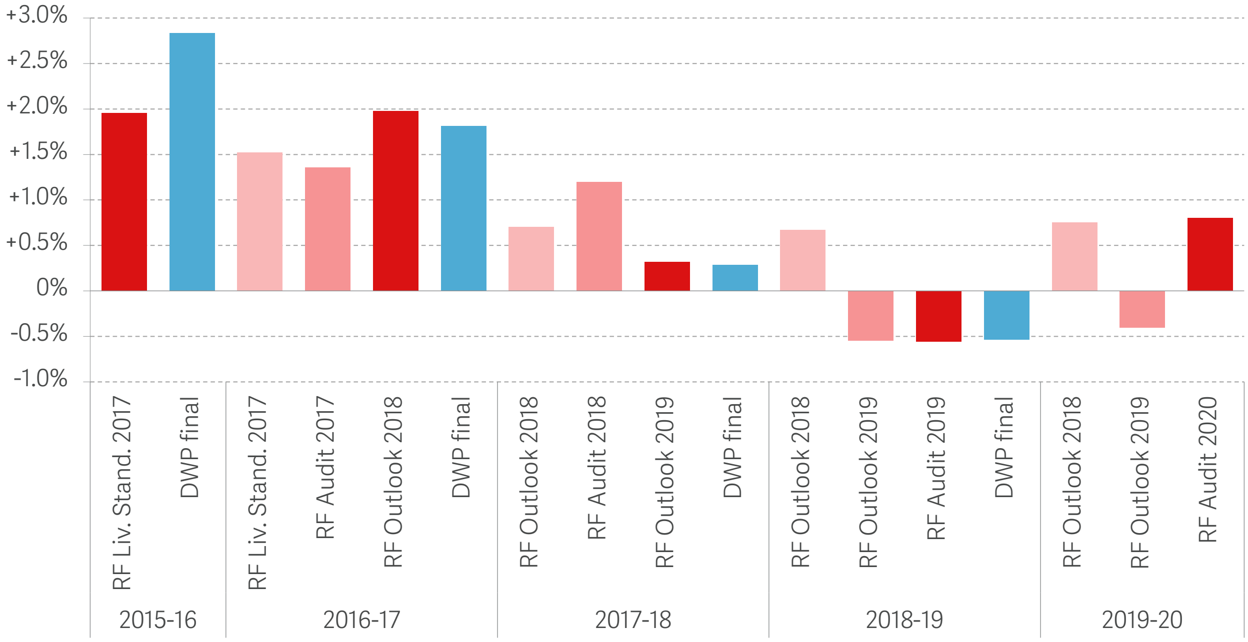
That said, our nowcasts of growth in median income have performed well, as Figure 40 shows. Growth in median income after housing costs has been our headline measure (being less skewed by the very top than mean income) – and we have tended to focus on non-pensioners (though our track record for the overall median is similar). This success may not hold: indeed, it should not be expected given the level of uncertainty in the survey data discussed above. And the current coronavirus crisis is notably more complicated than most time periods. But this does show that we can produce useful income data in advance of HBAI publication (and the ONS have shown the same for their own preliminary income estimates)[85].

Looking beyond the median, the Gini measure of inequality has been relatively predictable: our Living Standards Audit 2018 and Living Standards Audit 2019[86] nowcasted a small inequality rise in 2017-18 and then a larger rise in 2018-19, and this is what the DWP data has subsequently shown.

82 DWP, Households below average income: 1994/95 to 2018/19, March 2020.
83 A Corlett, S Clarke, C D'Arcy & J Wood, The Living Standards Audit 2018, Resolution Foundation, July 2018.
84 For discussion, see ONS, Top income adjustment in effects of taxes and benefits data: methodology, February 2020.
85 ONS, Average household income, UK: Financial year ending 2019 (provisional), July 2019.
86 A Corlett, S Clarke, C McCurdy, F Rahman & M Whittaker, The Living Standards Audit 2019, Resolution Foundation, July 2019.

FIGURE 40: **Nowcasts of real growth in median household income have proved a good indicator of what HBAI will show**[87]

Real (CPI-adjusted) growth in median non-pensioner equivalised household disposable income, after housing costs



NOTES: Projections for a given year may change from report to report due to changes in the economic forecast; policy changes; and modelling upgrades.
SOURCE: Various RF; and RF analysis of DWP, Households Below Average Income.

Our projections for relative poverty have proved harder to reconcile with outturn survey results. In the Living Standards Outlook 2019,[88] we projected relative child poverty to rise between 2016-17 and 2018-19, while the rate has actually fallen slightly in the DWP data. However, this is not because this group has done particularly well: the real household incomes of roughly the poorest 30 per cent of children actually declined between 2016-17 and 2018-19 in the DWP data. But the relative poverty measure is sensitive both to changes in median income and to the exact number of people just above or below the poverty threshold (in this case 60 per cent of the median: as shown in Figure 13). Additionally, poverty measurement is likely to be particularly affected by the under-reporting of benefit income.[89]

87 This chart includes both nowcasts and projections. We would not expect projections to perform as well. For example, the Living Standards Outlook 2019 projection for 2019-20 was made before that year began, and was based on the October 2018 OBR Economic and Fiscal Outlook. Among other factors, nominal wage growth came in more positive, and mortgage interest growth much slower, than the OBR forecast. Hence, our nowcast for 2019-20 is more positive than our last projection.
88 A Corlett, The Living Standards Outlook 2019, Resolution Foundation, February 2019.
89 A Corlett, S Clarke, C D'Arcy & J Wood, The Living Standards Audit 2018, Resolution Foundation, July 2018.

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

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