Resolution Foundation

BRIEFING

Caught in a (Covid) trap

Incomes, savings and spending through the coronavirus crisis

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Summary

The term 'unprecedented' has been over-used of late, but it is hard to view the months since February as anything other than calamitous for UK living standards. In this briefing note we examine how the family finances of working-age adults have been affected by the pandemic, looking closely at how incomes, spending and saving have changed since Covid-19 gripped the nation this spring. Drawing on new data from a representative survey of 6,000-plus working-age adults fielded in mid-September, we identify not just the families who have lost out most in recent months, but also those who have entered the second lockdown and the winter months in a precarious financial position.

Pressures on incomes have eased slightly since lockdown, although still affect a large number of families. We find that 23 per cent of working-age adults reported that their household income in the summer re-opening period (July-September) was lower than in February this year, a slight improvement from the lockdown period (April-June) when 26 per cent of adults reported a reduced income. Critically, we note that four-in-five (81 per cent) of those coping on a lower income in the re-opening period saw their income remain suppressed in lockdown, indicating that for many, the living standards hit is proving far from short-lived.

Lower incomes have been driven by the labour market impact of the pandemic. This has been clearly regressive, with lower-paid workers more likely than those on higher pay to have been furloughed or lost their jobs to date. In contrast, the hit to family incomes has been more equally spread. We show, for example, that 25 per cent of adults from families who were in the lowest income quintile pre-pandemic saw their living standards fall in recent months, a figure only slightly higher than the 23 per cent of those who were in the highest income quintile that report being in a similarly straitened position.

Three key factors sit behind this apparent contradiction. First, those low-paid workers who have been hardest hit by the pandemic are not all to be found in low-income families. Second, families in the lower (and especially the lowest) income quintiles have been insulated from the Covid-19 income shock simply by virtue of being less likely to work than those higher up the income distribution. But third, and more actively, we note that Government policy has gone some way to protecting families from the sharpest income falls. We show, for example, that just one-in-seven (14 per cent) employees who were furloughed over the summer months experienced a severe drop in family income, compared to more than half (51 per cent) of those who have lost their job.

This finding speaks to the fact that benefits are a far from adequate substitute for earnings for the many families newly reliant on the state for income support. We show that 43 per cent of adults in families making a new claim for benefits since February have

seen their incomes fall by more than one-quarter. By comparison, just 9 per cent of those claiming benefits at the outset of the pandemic have seen their income fall to the same extent, and 13 per cent of adults who were in receipt of benefits in February reported an increase in family incomes over the summer, driven by the £20 a week uplift to Universal Credit that all have received since April.

Family finances are not just determined by incomes, however, but also by outgoings. Our survey confirms aggregate data that household spending recovered over the summer months: one-third (33 per cent) of working-age adults reported that they spent less in the April to June period than in February, a figure that fell to 25 per cent when asked about the July to September period. This finding begs the question, however, of whether lower spending has been driven by lack of opportunity (not being able to eat out as much, for example) as opposed to necessity (because money is tight). We find the latter has become more dominant over time. We note, for example, that half (51 per cent) of those reporting significantly reduced spending in lockdown had also seen their income fall but that this figure rose to almost two-thirds (65 per cent) in the summer months as the economy re-opened.

When we bring income and spending together, a clear picture of winners and losers from the pandemic emerges. Overall, we find that four-in-ten (41 per cent) adults saw their income and spending move in lockstep in recent months (meaning they netted out over the pandemic period). But for two-in-five (21 per cent) adults, spending fell relative to their incomes, while 28 per cent saw incomes fall more than their spending, leaving them seriously squeezed by the crisis. Moreover, there is a clear distributional skew to this picture: one-third (32 per cent) of adults from the lowest income quintile fell into the 'squeezed' category over the summer months, compared to one-quarter (24 per cent) of those from the highest income quintile. At the same time, high-income adults were more likely to have seen their family budgets improve than deteriorate compared to their pre-pandemic position, with 35 per cent seeing their income rise relative to spending.

Given what we find about family incomes and expenditures across the board, it is unsurprising that aggregate saving has increased during the pandemic. But while some have banked more (37 per cent of the highest income quintile report doing just this, for example), others have had to draw down on savings in recent months. Critically, we find that a significant share (50 per cent) of those who entered the crisis with the most meagre of savings (bar, of course, those who had none at all) have been forced to dip into them to cover everyday costs such as housing and food. Even more worryingly, we note that more than half (54 per cent) of adults in families from the lowest income quintile have borrowed more in recent months simply to cover everyday costs such as housing and food.

As a result, while there have been modest improvements overall to both family incomes and spending in recent months, there is evidence that serious financial stress is building among a minority as the pandemic continues to dominate lives. We note, for example, that 43 per cent of working-age adults report being more concerned about their family finances than they were in February, a figure that rises to 50 per cent for those in the lowest income quintile. But resilience is wearing thin not just for those who entered the crisis with limited reserves, but also for those who have endured the longest. We find a significant share of those who have managed on reduced incomes for several months are in considerable hardship: almost one-in-three (29 per cent) indicate they cannot afford basic items such as fresh fruit and vegetables every day, or to turn on the heating when required.

As we enter another lockdown period and the winter months, policy action to support family incomes is more important than ever. While there have been welcome extensions to wage replacement schemes in recent weeks (although alas, no refinements to improve targeting of the system helping the self-employed), questions remain about how much support the benefit system will provide to struggling families in the future. As the spectre of large-scale unemployment looms, a commitment from the Government to maintain benefit levels is essential if families are not to be worn back to the bone.

Despite the economic re-opening over the summer, more than one-in-five households are poorer than they were pre-pandemic

In June 2020, we published findings from a representative survey of 6,000-plus working age adults in the UK, exploring how household living standards had been affected in the early months of the lockdown at the outset of the pandemic.[1] In this note we return to the theme, presenting new analysis from a follow-up survey fielded in September which asked respondents to reflect on their experience over the summer months as the economy began to reopen once again. What emerges is a complex picture of winners and losers across the population, many of whom have been protected by policy, but some of whom have fallen through the cracks. As we enter the winter months and another lockdown period, this note provides a clear case for why further support for households is required if serious hardship is to be forestalled.

We begin our exploration with Figure 1, which shows how household incomes in both the lockdown period (April to June) and the re-opening period (July to September) compare to pre-Covid-19 levels in February this year.[2] As this makes clear, a majority (57 per cent)

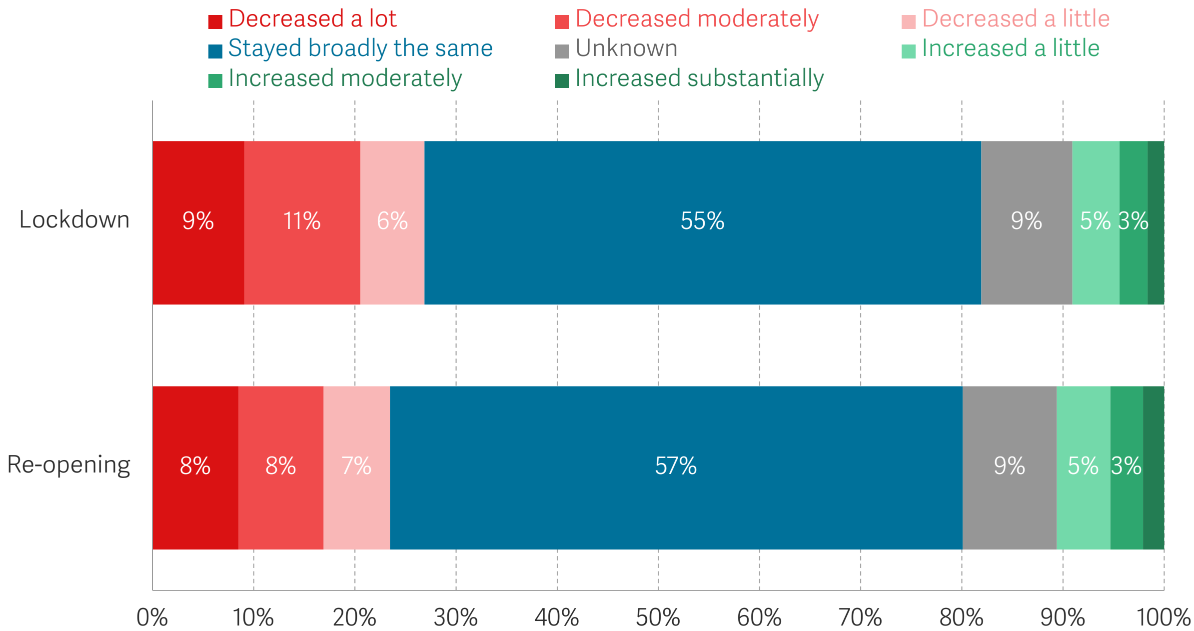
1 M Brewer & L Gardiner, Return to spender: Findings on family incomes and spending from the Resolution Foundation's coronavirus survey, Resolution Foundation, June 2020.

2 All data used in figures, unless otherwise stated, are from YouGov Plc. Total sample size was 6,061 adults. Fieldwork was undertaken between 17th - 22nd September 2020. The survey was carried out online. The figures have been weighted and are representative of all UK adults (aged 18+) according to age, gender, region.

of working-age adults reported that their household income in the summer months was now broadly the same as it had been prior to the pandemic, slightly up on what is observed during the first lockdown (55 per cent). One-in-ten adults (10 per cent) have seen their incomes rise since February (a figure that is the same as that observed in the early part of the pandemic). But far less positively, the share of adults that has witnessed an income fall since February stood at over one-in-five (23 per cent) in the re-opening period, albeit slightly down on the picture we saw in lockdown (when 26 per cent of adults reported a depressed household income).[3]

FIGURE 1: **Household incomes have recovered slightly since May, but more than one-in-five households are still worse off than they were before the pandemic**

Change in household income during lockdown (April-June) and re-opening (July-September) compared to February 2020: UK, 17-22 September 2020



NOTES: Base = all UK adults aged 18-65 (n=6,061). These figures have been analysed independently by the Resolution Foundation. Complete response options for all household income change compared to February 2020 questions: Increased substantially (by more than 25%); Increased moderately (by 10-25%); Increased a little (by less than 10%); Stayed broadly the same; Decreased a little (by less than 10%); Decreased moderately (by 10-25%); Decreased a lot (by more than 25%); Don't know; Prefer not to say.

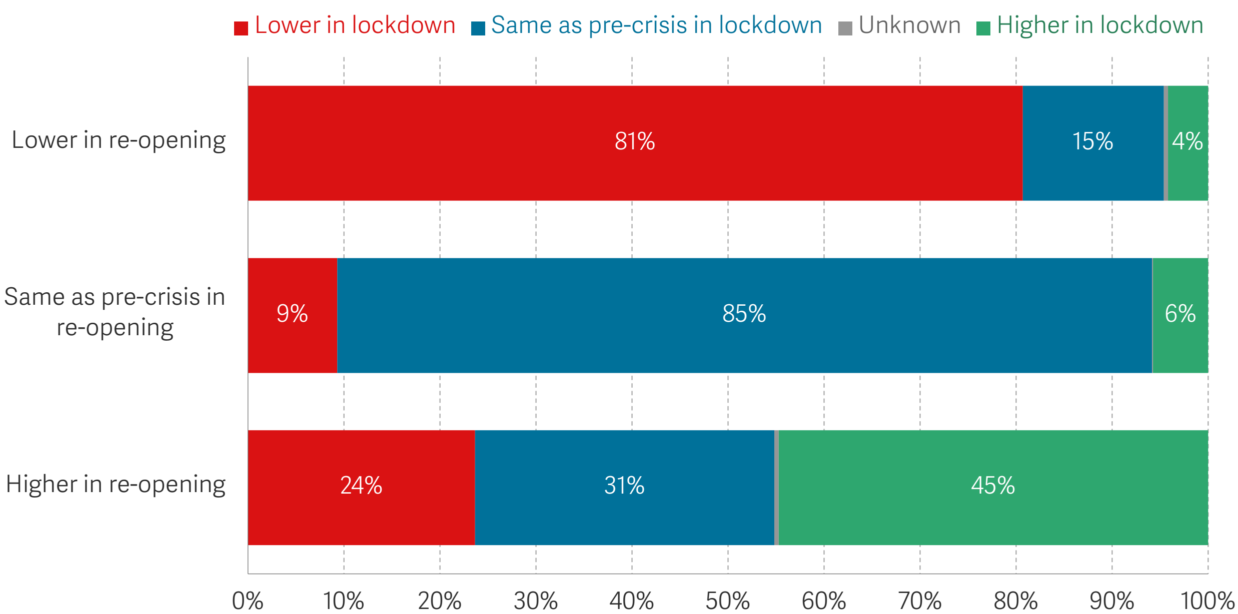
SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

3 The small improvement in the situation for household incomes since lockdown is consistent with what we observe in the labour market. See, for example, Figure 6 in: M Brewer et al., Jobs, job, jobs: Evaluating the effects of the current economic crisis on the labour market, Resolution Foundation, October 2020 which shows that 17 per cent of those who were in employment in February 2020 were either no longer working, were furloughed, or had lost hours and pay due to the coronavirus crisis in September, down from 22 per cent in May.

In Figure 2 we present a more dynamic account of household income change since February this year. Here, we chart how incomes have changed for individual households in both the lockdown and re-opening periods, an exercise that allows us to examine how they have fared over the whole period. To begin, this shows that more than eight-in-ten (81 per cent) households that had a negative income shock in the early months of the pandemic continued to experience a lower income in the re-opening period, with all the implications that has for reduced resilience over time. But joining this group is also a share of those who did not see an income hit in the lockdown period, alongside a small number of those who actually saw their income increase in the spring (15 per cent and 4 per cent respectively of the total number reporting a lower income in the re-opening period). That said, there is also a positive side to the story: 9 per cent of those who have seen their incomes return to pre-pandemic form experienced a spell of lower income during lockdown, as did close to one-quarter (24 per cent) of those who then saw their incomes improve on February during the re-opening.[4]

FIGURE 2: **Four-in-five adults with lower income in the summer months also experienced lower income throughout the lockdown period**

Change in household income during re-opening (July-September) compared to February 2020, by change in household income during lockdown (April-June) compared to February 2020: UK, 17-22 September 2020



NOTES: Base = all UK adults aged 18-65 (n=6,061). Responses grouped as: any lower income, income stayed the same, and any higher income. Sample sizes for each group: lower in re-opening, 1,432; same as pre-crisis in re-opening, 3,449; higher in re-opening, 640. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

4 Looked at from the other direction, we find that, of those who had a fall in income in the lockdown period: 70 per cent reported a lower income in the re-opening period; 20 per cent reported their household income has returned to its pre-pandemic level; and 9 per cent reported a higher household income compared to February.

Policy has mediated the Covid-19 labour market shock, but many households have still experienced dramatic falls in income

We do not need to search hard for an explanation of the household income picture presented so far. As we have documented before, Covid-19 has had a profound effect on the labour market since February, with economic activity in many sectors suspended in entirety in the lockdown period, and working at only partial capacity as businesses re-opened over the summer months. The labour market shock has been strongly regressive: as we have shown elsewhere, the lowest-paid workers have been almost three times as likely to see their earnings fall over the last six months than those on the highest pay.[5] Given this, at first glance Figure 3 is surprising, showing as it does that the family income as opposed to the individual earnings hit is far more evenly spread across the distribution (albeit with households in the lower quintiles slightly harder hit).[6] To demonstrate the point, the largest difference we observe is between adults in the second and the fourth income quintiles, where 28 per cent and 21 per cent respectively have seen their incomes fall since February.[7]

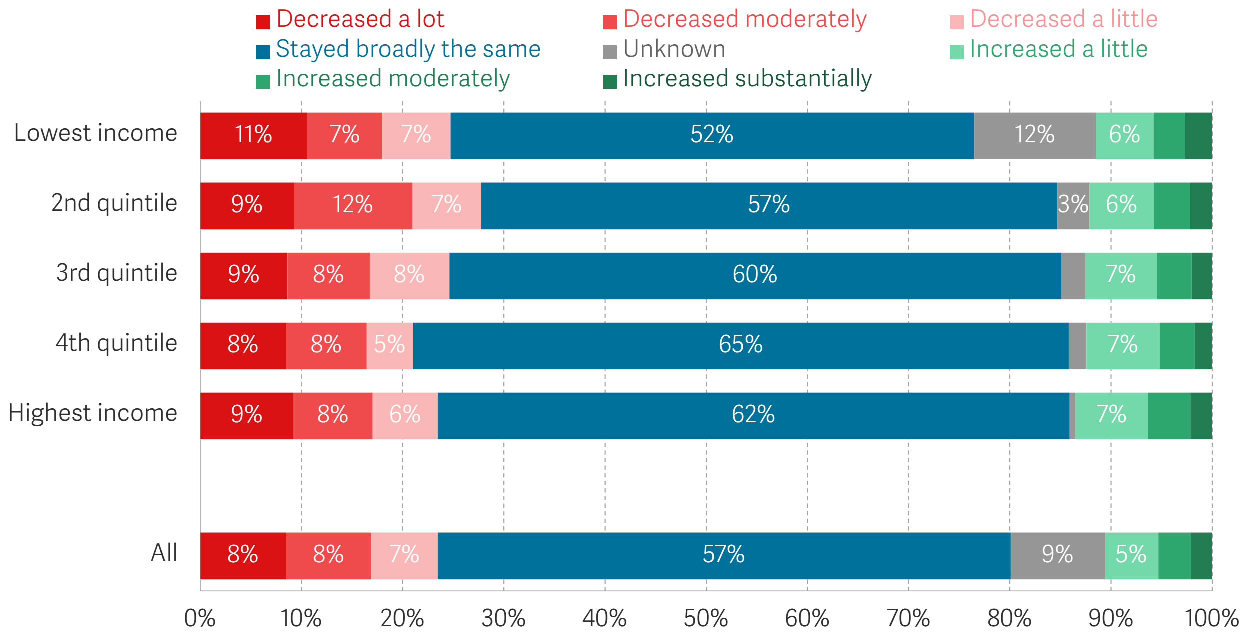
5 See Figure 9 in: M Brewer et al., Jobs, job, jobs: Evaluating the effects of the current economic crisis on the labour market, Resolution Foundation, October 2020.

6 This finding confirms what we observed from our first survey in May. See Figure 1 in: M Brewer & L Gardiner, Return to spender: Findings on family incomes and spending from the Resolution Foundation's coronavirus survey, Resolution Foundation June 2020. Income quintiles calculated by the Resolution Foundation. See Annex 1 for more details.

7 While the share of working-age adults reporting lower incomes across the distribution was also relatively flat in the April to June period, it is worth noting the picture has become a little less top-heavy in the period July to September. For example, while 23 per cent of adults from higher-income families reported a lower income relative to February for the re-opening period, that figure stood at 30 per cent during lockdown. Source: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave. These figures have been analysed independently by the Resolution Foundation.

FIGURE 3: **The Covid-19 hit to household incomes has been felt relatively evenly across the distribution**

Change in household income during re-opening (July-September) compared to February 2020, by pre-pandemic family income quintile: UK, 17-22 September 2020

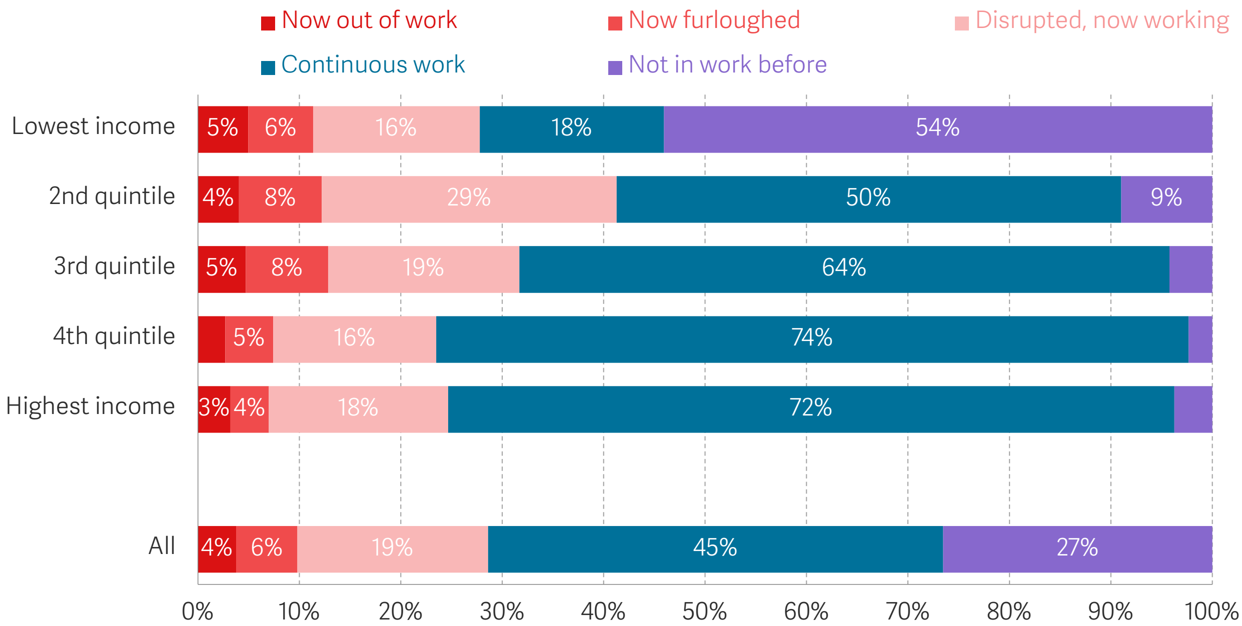


NOTES: Base = 3,128: all adults aged 18-65 with valid income data (apart from the 'all' category where the base is 6,061 – the fact that adults without valid income data are included in the all category explains why there is a higher incidence of unknown income changes here than across quintiles). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or nonworking adult students (see Annex 1 for more details). These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

So why is this the case? To start, a large share of families in the lower income quintiles will contain members who were not working prior to the pandemic, and hence will have been insulated to a degree from the labour market shock (see Figure 4). Likewise, family composition clearly plays a role: not all workers who have been hit by the Covid-19 crisis live in low-income families; indeed, many will cohabit with other (in many instances higher-paid) earners. But it is also clear that policy has gone some way to protect incomes from tumbling even more dramatically in the face of large-scale disruption to earnings in recent months, even if it has been unable to stave off income falls altogether.

FIGURE 4: **The labour market hit has been skewed towards lower-income families, but the majority of the poorest fifth were not in work before the crisis hit**

Experience of labour market change since February 2020, by pre-pandemic family income quintile: UK, 17-22 September 2020



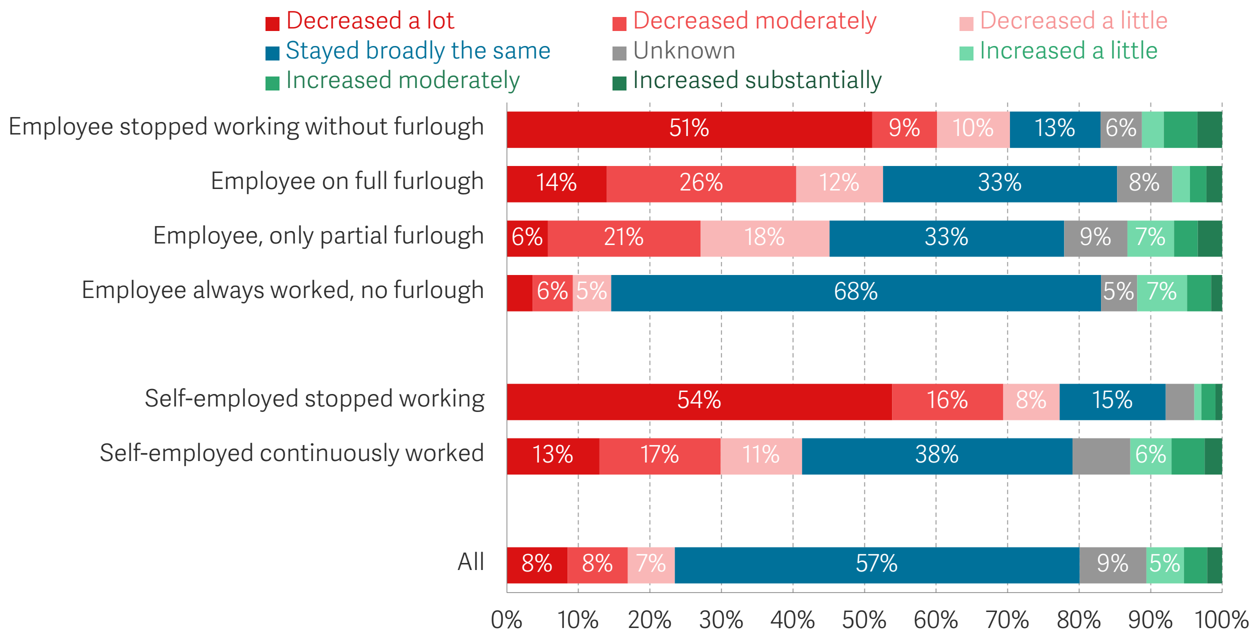
NOTES: Base = 3,128: all adults aged 18-65 with valid income data (apart from the 'all' category where the base is 6,061). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or nonworking adult students (see Annex 1 for more details). These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

Figure 5 shows how important policy interventions have been by examining how those who were in employment in February have seen their incomes change in recent months. Focusing first on employees, we note (unsurprisingly) that those who have lost their jobs altogether have experienced an acute household income hit, with more than one-half (51 per cent) reporting their household income has decreased 'a lot' (i.e. by at least one-quarter) over this time. In contrast, employees who are not working but are furloughed find themselves in a less parlous position: one-in-seven (14 per cent) of those that were fully furloughed in September say their household income has fallen dramatically, along with just over one-in-twenty (6 per cent) of those on partial furlough. But the most significant income shock appears to have be experienced by those were self-employed in February, but who have seen work dry up since. More than one-half (54 per cent) of this group have seen their household income fall significantly, a finding plausibly driven by the fact that a large number of self-employed people have not been eligible for government support from the poorly targeted Self-Employed Income Support Scheme (SEISS).[8]

8 See, for example: M Brewer et al., Jobs, job, jobs: Evaluating the effects of the current economic crisis on the labour market, Resolution Foundation, October 2020, where we show that three-in-five (61 per cent) of the self-employed who were not working in September had not received any support through the SEISS, close to 500,000 people.

FIGURE 5: **Those who have been able to access government schemes have seen their household incomes protected to a degree**

Change in household income during re-opening (July-September) compared to February 2020, by current working status: UK, 17-22 September 2020



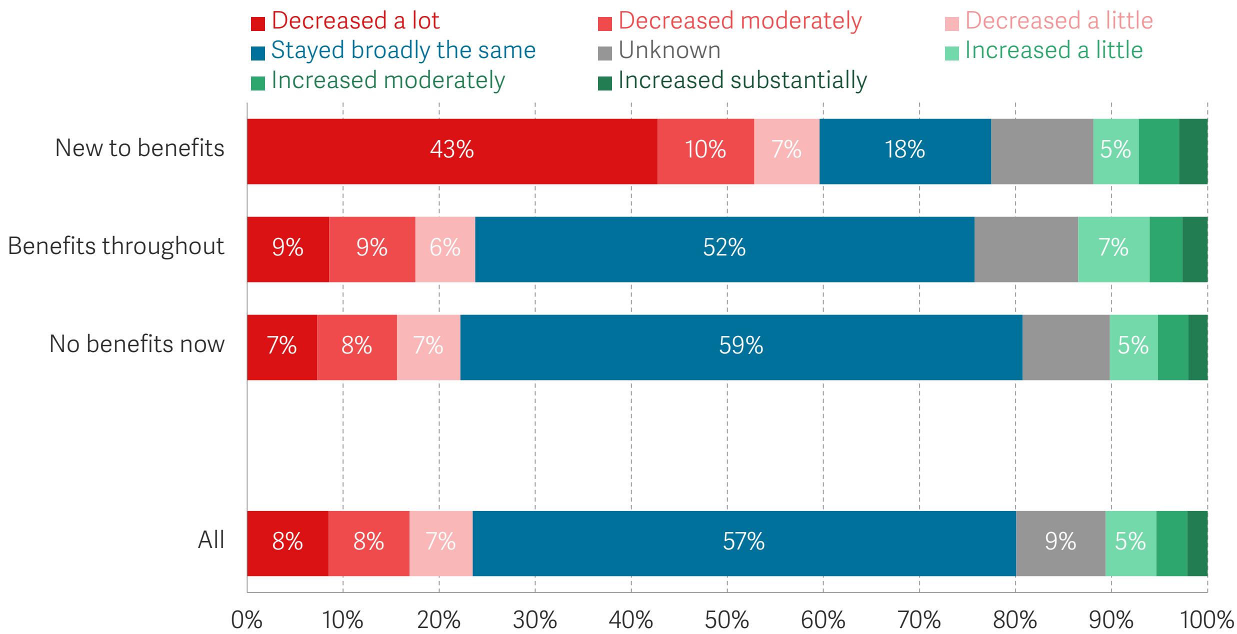
NOTES: Base=6,061. Sample sizes for each group: employee stopped working, 176; employee on full furlough, 357; employee, only partial furlough, 154; employee always worked, 3,066; self-employed continuously worked, 324; self-employed stopped working, 102. Adults previous not employees or self-employed not included except in 'All' category. Furlough and work responses analysed for months July to September. Where adult is in multiple status across the period then they are included in worst outcome - stopped working, followed by full furlough, then partial furlough, then always working. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

As incomes fall below a certain level, however, households can also turn to the social security system for support. Although some benefit entitlements were increased in April this year (with an extra £20 per week uplift for each family unit claiming Universal Credit (UC), and more generous assistance for private renters with their housing costs, for example), benefits are only a partial substitute for lost earnings.[9] Figure 6 proves the point. As this makes clear, households that were not in receipt of benefits prior to the pandemic that have claimed subsequently have seen their incomes drop dramatically in recent months, with more than four-in-ten (43 per cent) adults saying they have experienced a fall in household income of more than a quarter. In contrast, a smaller (although not trivial) 9 per cent of those who were already on low enough incomes to be eligible for benefit support before the pandemic have witnessed a large fall in their incomes, and critically from a lower starting point than those who were not in receipt of benefit support to begin.

9 See, for example: 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, for further details on income replacement rates.

FIGURE 6: **Those who have turned to the benefits system for support have seen their incomes fall dramatically in recent months**

Change in household income during re-opening (July-September) compared to February 2020, by benefit status: UK, 17-22 September 2020



NOTES: Base=6,061. Sample sizes for groups are: new to benefits, 176; benefits throughout, 718; no benefits, 5,167. Benefits include the main income-replacement benefits: Jobseeker's Allowance, Employment and Support Allowance, Income Support, Working Tax Credit, Housing Benefit, and Universal Credit. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

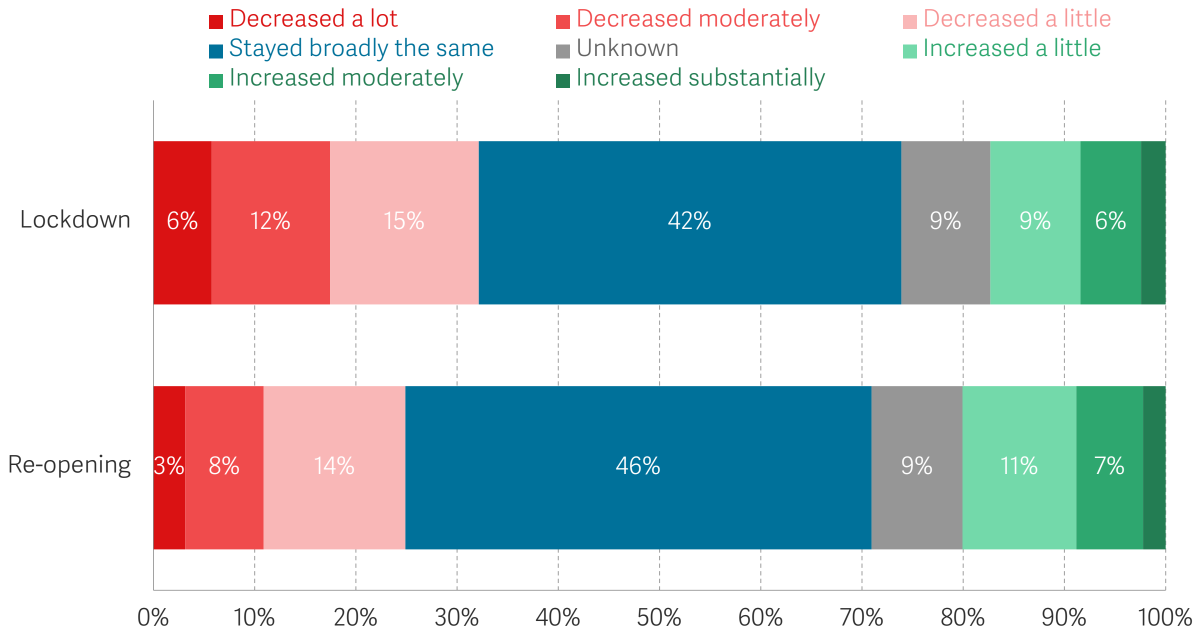
Finally, it is worth pausing to consider who are the 7 per cent of those not on benefits who have seen their incomes fall sharply. When we look closely at the underlying data we observe two distinct groups who fall into this category. First, we see a cluster of older households who have significant wealth: one-in-five (19 per cent) of those not claiming benefits but who have seen an income fall of 10 per cent or more are aged 45 and over and own their homes outright, for example, a group who are unlikely to be eligible for benefit support despite a drop in income. Second, one-in-eight (12 per cent) are young people (18-34 years old) living in another's home, usually a parent's, who may be eligible for benefit support, but who perhaps are drawing down on family resources instead.

Spending has picked up over the summer months, but those experiencing income falls are cutting back to cover essentials

Living standards are largely determined by incomes, but there is another important part of the picture, and that is spending, and especially non-discretionary spending that households can find very hard to flex. In Figure 7 we show that household expenditures changed significantly in the lockdown period, when one-in-three (33 per cent) of adults reported that their household had cut back on outgoings (at the same time, 20 per cent indicated they increased their spending over the spring).[10] As economic activity opened up in the summer and more households saw incomes return to form, the share reporting spending less than before the pandemic has fallen (something that is good for the economy overall). That said, one-quarter (25 per cent) of adults still indicated that their household had a lower level of consumption than they did back in February.[11]

FIGURE 7: **Household spending has risen since lockdown, but one-quarter still report spending less than their pre-crisis level**

Change in household spending during lockdown (April-June) and re-opening (July-September) compared to February 2020: UK, 17-22 September 2020



NOTES: Base = all UK adults aged 18-65 (n=6,061). Complete response options for all household spending change compared to February 2020 questions: Increased substantially (by more than 25%); Increased moderately (by 10-25%); Increased a little (by less than 10%); Stayed broadly the same; Decreased a little (by less than 10%); Decreased moderately (by 10-25%); Decreased a lot (by more than 25%); Increased substantially (by more than 25%); Don't know; Prefer not to say. These figures have been analysed independently by the Resolution Foundation.

SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

This chart does beg the question, however, how much households have cut back on spending out of necessity rather than simply through lack of opportunity in recent months. Focusing on just those households who report significantly reducing their spending in the two periods, we find an interesting picture (shown in Figure 8). In the

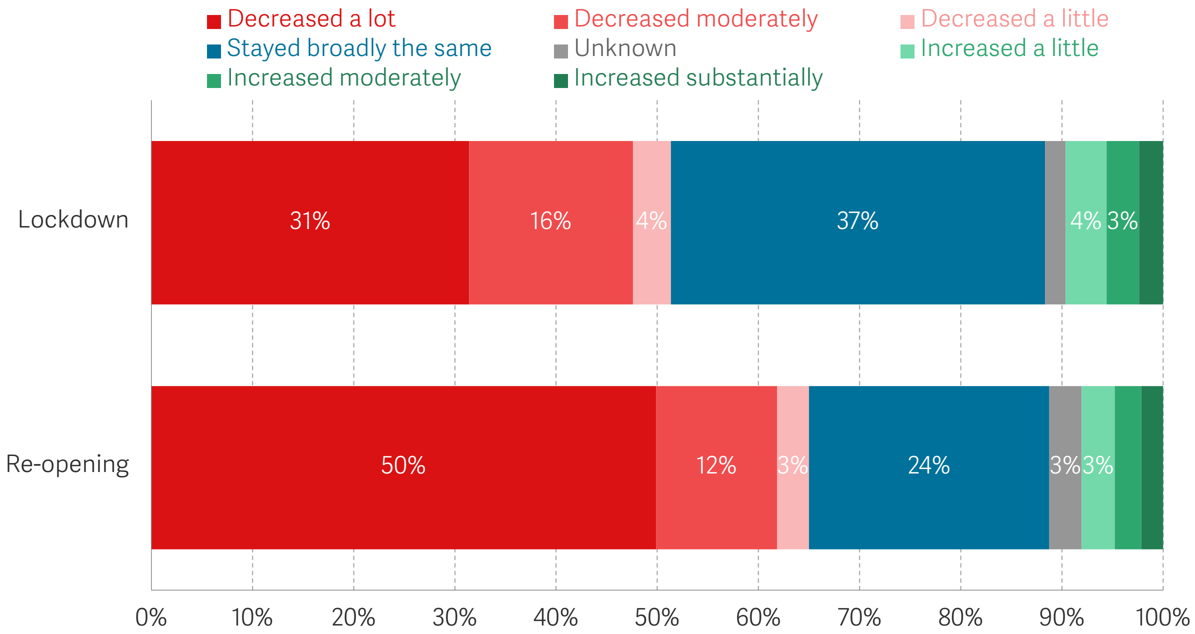
10 In our earlier survey that was fielded in May, 40 per cent of adults reported spending to have fallen and 20 per cent to have risen. See Figure 5 of: M Brewer & L Gardiner, Return to spender: Findings on family incomes and spending from the Resolution Foundation's coronavirus survey, Resolution Foundation, June 2020.

11 For a similar conclusion, see: A Davenport et. al, Spending and saving during the COVID-19 crisis: evidence from bank account data, Institute for Fiscal Studies, October 2020.

lockdown period, just over half (51 per cent) of those who cut their spending back compared to February had also experienced an income fall at that point. But in the re-opening period, the situation looked slightly different. During the summer months when there was more opportunity for discretionary spending again, close to two-thirds (65 per cent) of those who were spending less than February also reported a reduced income. So increasingly more of those spending less are doing so because of hits to income, rather than just a lack of opportunities to get out and spend.

FIGURE 8: **Households making spending cuts are increasingly driven by necessity rather than lack of opportunity**

Change in household income for working-age adults who reported household spending falling by more than 25 per cent compared to February 2020, during lockdown (April-June) and re-opening (July-September): UK, 17-22 September 2020



NOTES: Base = all UK adults aged 18-65 that have decreased their spending by more than 25 per cent (n=191 in re-opening; n=350 in lockdown). Comparison of income and spending in both periods is to February 2020. These figures have been analysed independently by the Resolution Foundation.

SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

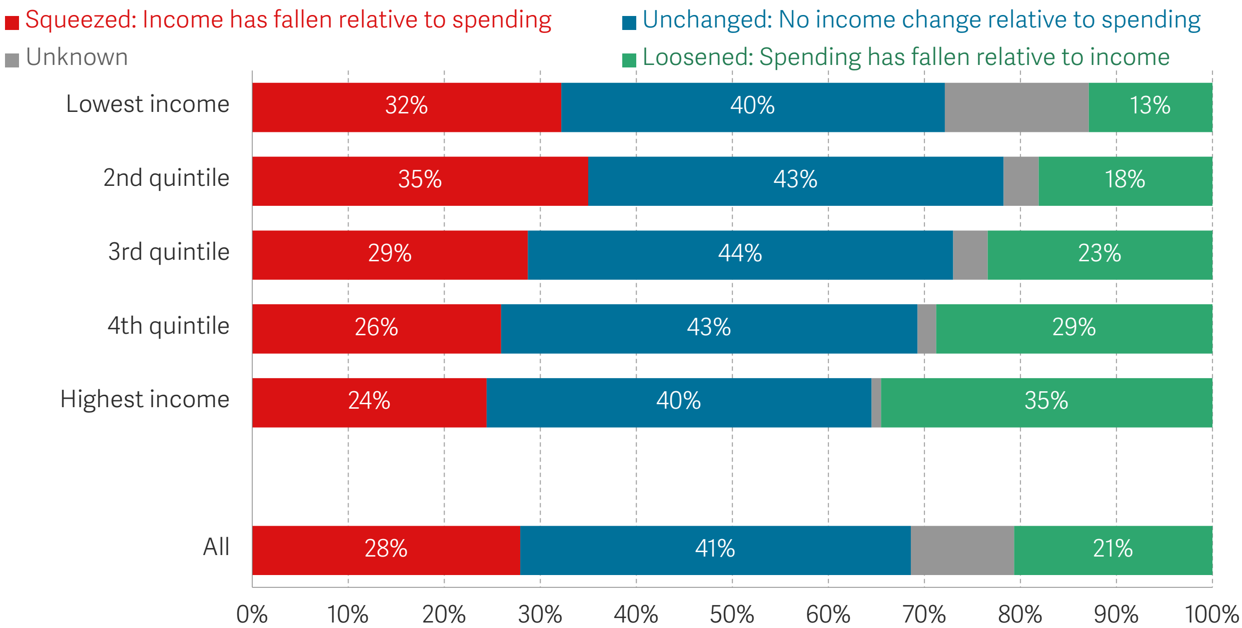
Bringing income and spending together shows how unequal the impact of Covid-19 on living standards has been

Given what we have shown so far, it is clear that many households have adjusted their spending in a period when they have also had to manage on a lower income. But has this strategy meant that most households have 'netted out' when it comes to incomes and outgoings over recent months? We explore this question in Figure 9 by classifying households into one of three groups depending on how their incomes and expenditures have changed relative to each other since the pandemic began.[12]

To begin, we note that four-in-ten (41 per cent) households have seen their incomes and spending change in lockstep (including, of course, those who have seen no change in either) since February. At the same time, there have been many winners, with two-in-five households (21 per cent) seeing their incomes rise relative to their expenditures (or their expenditures to have fallen by more than their income) over the period; this group, while not necessarily better off, should be feeling less financial pressure during the pandemic. But less positively, almost three-in-ten (28 per cent) households are in what we call the 'squeezed' category, where incomes have fallen by more than have expenditures, an experience that can only be to the detriment of families' budgets.

FIGURE 9: **Close to one-third of the lowest income families have been 'squeezed' as incomes fell by more than spending**

Change in income and spending during re-opening (July-September) compared to February 2020, by pre-pandemic family income quintile: UK, 17-22 September 2020



NOTES: Base = 3,128: all adults aged 18-65 with valid income data (apart from the 'all' category where the base is 6,061). 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 (see Annex 1 for more details). These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

The regressive impact of the pandemic on living standards is also plain to see from Figure 9. We find that more than one-third (35 per cent) of households in the highest pre-pandemic income quintile have seen their spending fall relative to incomes over

12 See Annex 2 for further details of the method we have used to create these classifications.

the course of the crisis, in contrast to fewer than one-in-seven (13 per cent) of those in the lowest income quintile. When we look to those who have lost out, the picture is not quite so stark, but the distributional skew is still plain to see. Households in the weakest financial position entering the crisis are more likely to have seen expenditures outstrip incomes in recent months: one-in-four households (24 per cent) from the top income quintile have found themselves 'squeezed' since spring for example, compared to just shy of one-third (32 per cent) from the lowest income quintile.[13] Moreover, high-income adults were more likely to have seen their family budgets improve than deteriorate compared to their pre-pandemic position, with 35 per cent seeing their income rise relative to spending.

When we look to savings, there is a huge range of household experience

Given what we have found about the way incomes and spending have changed relative to each other in response to the Covid-19 shock, it is unsurprising that many have found themselves in a position to actually save money during the crisis.[14] But underneath this aggregate rise in saving during lockdown is an extremely variable pattern across households, as we show in Figure 10. That confirms that an extraordinary 21 per cent of households reported being able to increase their saving rate in recent months. However, 23 per cent indicate they have had to reduce the amount they can put away over the pandemic period. When we break out our results by our three income-expenditure groups, the differential experience is even more starkly illustrated: half (50 per cent) of households that have seen their income rise relative to spending over the crisis period have been able to up their saving rate, compared to 10 per cent of those who have experienced a living standard squeeze.[15]

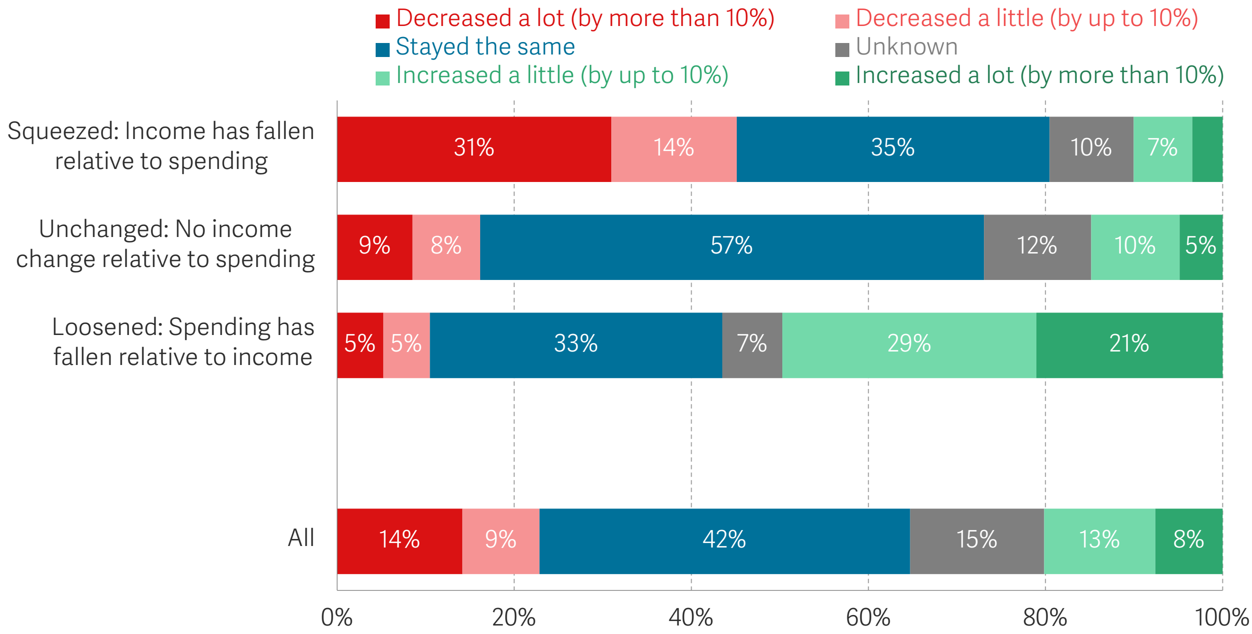
13 It is worth noting that our results for those in the lowest income quintile are somewhat confounded by the large number of 'don't know' responses we find in that group, many of whom report living in another's home.

14 In aggregate, the household saving ratio hit a record 29.1 per cent in April to June 2020, compared with 9.6 per cent in January to March 2020. See: ONS, Quarterly sector accounts, UK: April to June 2020 for further details.

15 When we examine how the saving rate has changed across the distribution we find an equally striking picture: 37 per cent of those in the highest income quintile report saving more since February, compared to 12 per cent in the lowest income quintile.

FIGURE 10: **Overall, saving has increased in the wake of the pandemic**

Change in household saving rate during the crisis, by household income-spending categories in the re-opening period: UK, 17-22 September 2020

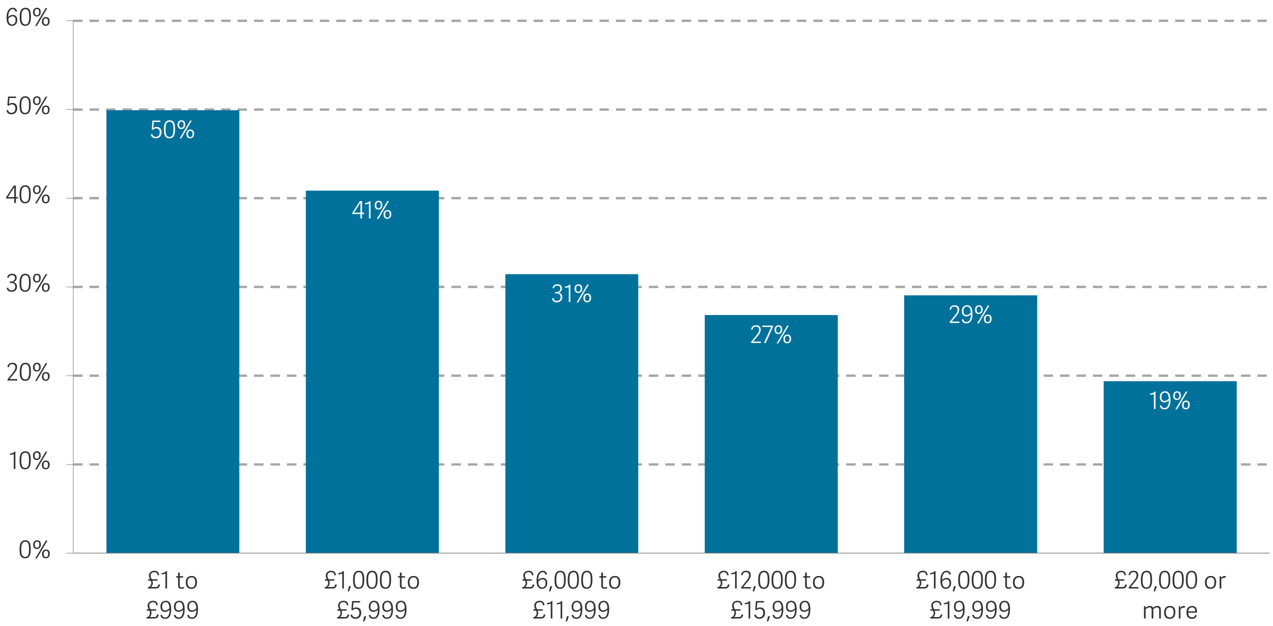


NOTES: Base = all UK adults aged 18-65 (n=6,061). Sample sizes for groups are: squeezed, 1,704; unchanged, 2,477; loosened, 1,256. Adults who do not report income and spending changes are not included in groups, but are included in total. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

At the same time that a significant share of households has been able to increase their wealth, others have had to draw down on their savings to smooth the shock to their incomes. Putting aside the fact that a significant number of households will have entered the crisis with no financial buffer whatsoever, in Figure 11 we show the share of adults that have dipped into savings for everyday items such as food, housing, clothes and travel. The distributional impact of the crisis is once again plain to see: half (50 per cent) of adults with the slightest of savings (less than £1,000) have had to draw down on them since February this year, compared to less than one-in-five (19 per cent) of those with financial reserves of over £20,000.

FIGURE 11: **Those with the lowest level of saving are also the most likely to have drawn down on their reserves since February**

Proportion of working-age adults using savings for everyday spending during the crisis, by level of savings in February 2020: UK, 17-22 September 2020



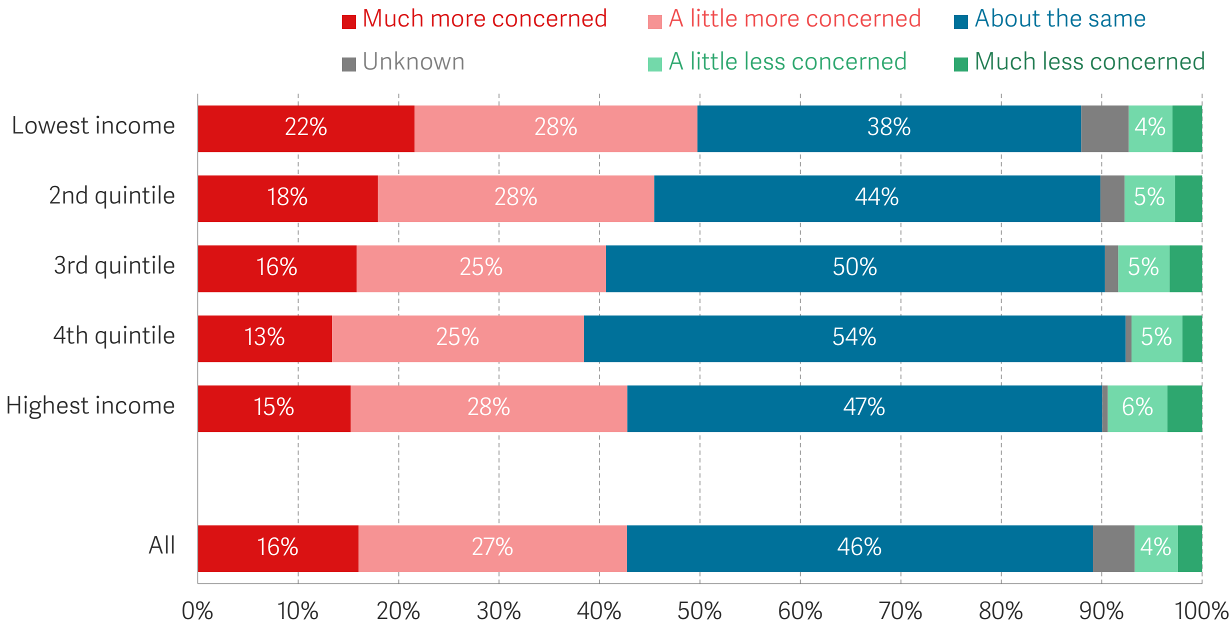
NOTES: Base = all UK adults aged 18-65 with any savings in February (n=3,705). Those with no savings, or who did not respond to savings in February question are excluded. Sample size for the subgroups are as follows: £1 to £999, 595; £1,000 to £5,999, 928; £6,000 to £11,999, 498; £12,000 to £15,999, 220; £16,000 to £19,999, 144; £20,000 and more, 1,320. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

On both subjective and objective measures, many households are showing signs of heightened financial stress

Overall, our survey allows us to unpick the complex story of how family finances have changed since Covid-19 gripped the UK back in the spring this year. Looking at incomes, spending and savings together shows that, although there have been falls in living standards across the distribution, households that entered the crisis in February with lower incomes and/or lower wealth are more likely to have been hit, despite extensive support from policy in the interim. We find confirmation of this in Figure 12, which documents how levels of concern about family finances have changed since February this year. Across the board, more than four-in-ten (43 per cent) of working age adults report being more worried about their living standards than they were pre-Covid-19. But even more critically, we observe a large difference in heightened concerns between those from higher and lower income households: half (50 per cent) of working age adults from the lowest household income quintile are concerned about their living standards, for example, compared to over one-third (38 per cent) from the second highest income quintile.

FIGURE 12: **Those on the lowest incomes have seen concerns about their family finances rise most since the pandemic began**

Change in concern about family finances and income compared to pre-pandemic, by pre-pandemic family income quintile: UK, 17-22 September 2020



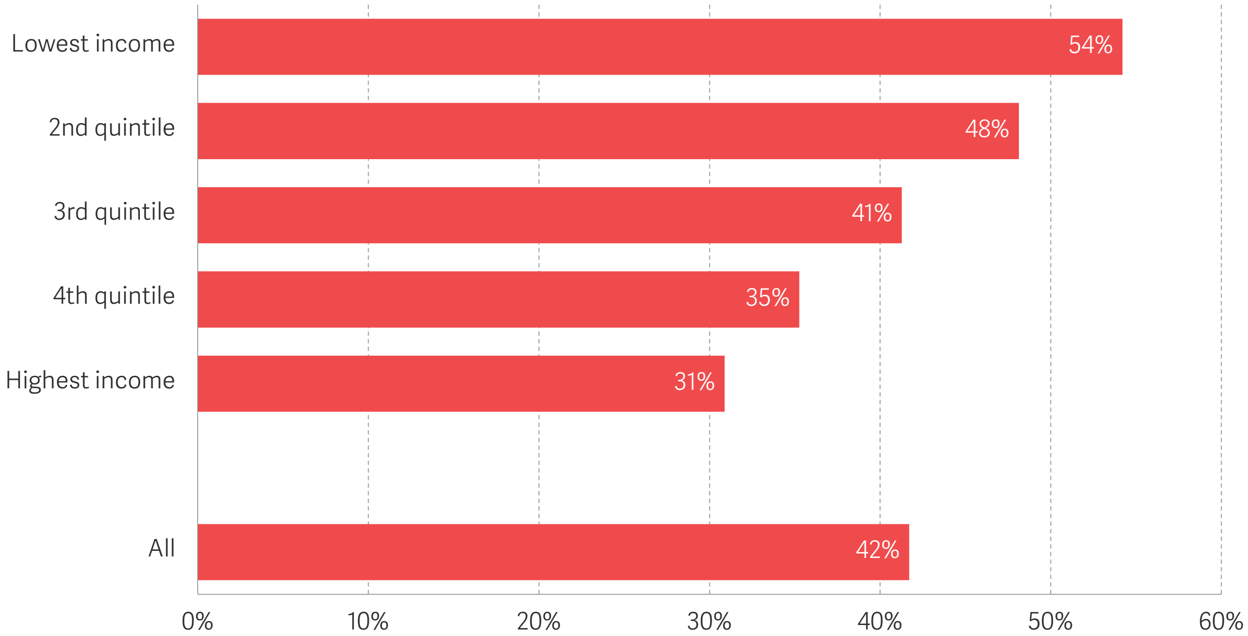
NOTES: Base = 3,128: all adults aged 18-65 with valid income data (apart from the 'all' category where the base is 6,061). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or nonworking adult students (see Annex 1 for more details). These figures have been analysed independently by the Resolution Foundation.

SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

Beyond families' subjective assessment of their living standards, there are objective warning signs that financial stress is building for many. For example, in Figure 13, we show that more than four-in-ten (42 per cent) adults report using at least one form of borrowing (credit cards, borrowing from family and the like) to cover everyday living costs. Most strikingly (and worryingly), this figure rises to over half (54 per cent) for those living in the lowest income families, indicating not only the pressure such households are under currently, but also that a debt problem may be brewing for the future.

FIGURE 13: **There have been high levels of borrowing to pay for everyday living costs during the crisis**

Proportion of working-age adults relying on additional borrowing or support for everyday living costs during the pandemic, by pre-pandemic family income quintile: UK, 17-22 September 2020



NOTES: Base = all adults aged 18-65 with valid income data (n=3,128) (apart from the 'all' category where the base is 6,061). 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 (see Annex 1 for more details). These figures have been analysed independently by the Resolution Foundation.

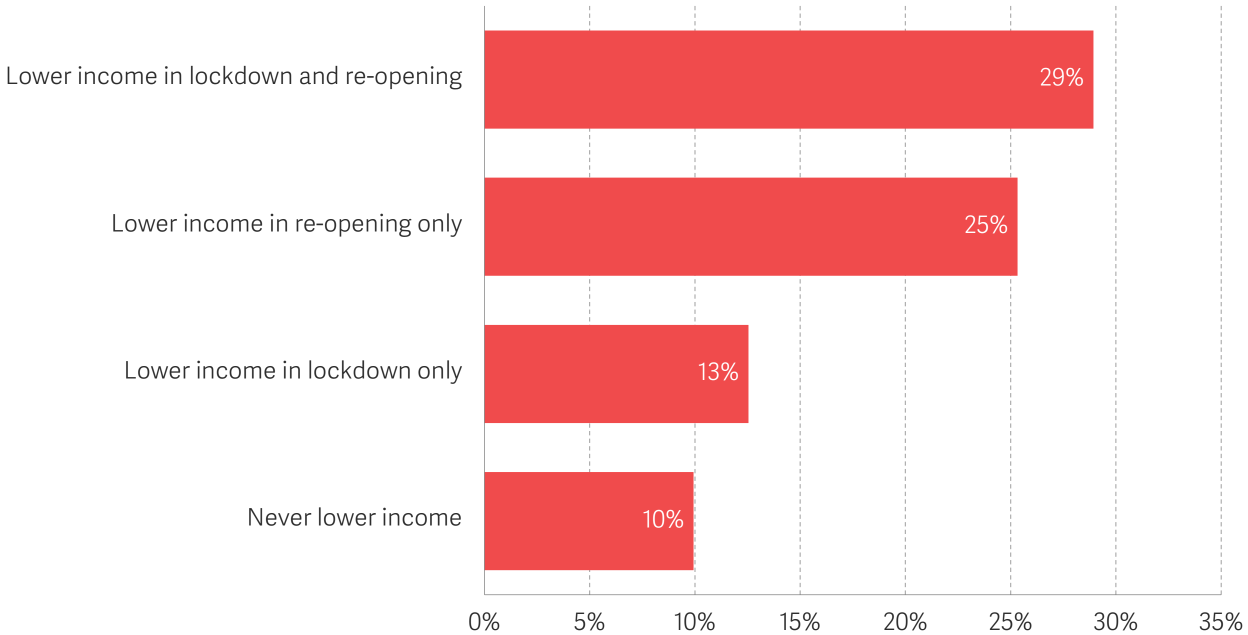
SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

Finally, it is worth reflecting on the fortunes not just of those who entered the crisis with a limited financial buffer, but also those who have had to draw down on reserves for longer. As we showed in Figure 2, the Covid-19 shock to family finances has been highly variable. To begin, there is a significant share of households that have suffered no spells of lower income (which has often been coupled with lower expenditures, enabling greater saving over the period). Second, there is a group of households that saw their income fall during lockdown, but who have subsequently returned to form. Third, there are those who have had the opposite experience, weathering the storm at the outset but subsequently seeing incomes drop over the summer months. And finally, there is a group of households who saw their incomes drop significantly in the earliest months of the crisis and have continued in this state and seen no pick-up since.

In Figure 14 we look at how these four distinct groups were faring in September, showing the share of each that indicated they were unable to afford at least three out of six basic items, such as fresh fruit and vegetables every day, or the ability to turn their heating on when required.[16] Those living in households that have experienced two spells of reduced income since February show the clearest signs of material deprivation: close to one-in-three in this situation indicated they were struggling to afford basic items, compared to one-in-ten (10 per cent) of those who have not had a negative income shock over the course of the pandemic. Moreover, those who have had a more recent hit to income have an elevated material deprivation rate, with one-quarter (25 per cent) saying they are unable to afford the basics currently compared to 13 per cent of those who experienced an early but temporary income fall.[17]

FIGURE 14: **Close to three-in-ten adults who experienced a persistent pandemic income hit cannot afford basic items**

Proportion of working age adults reporting their household is unable to afford at least three basic items, by income experience during lockdown (April-June) and re-opening (July-September) compared to February 2020: UK, 17-22 September 2020



NOTES: Base = all UK adults aged 18-65 (n=6,061). Sample size bases for the subgroups are as follows: lower income in lockdown and re-opening 1,158; lower income in re-opening only, 274; lower income in lockdown only, 482; never lower income, 4,147. The chart shows survey respondents who disagreed that they could afford three or more of the following basic items: to switch the heating on when needed; to eat fresh fruit and vegetables every day; to replace or repair major electrical goods such as the fridge or washing machine, when broken; to keep up with bills and regular debt payments; make regular savings of £10 or more a month; to afford household contents insurance. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

16 We use these and the other items noted as they are standard measures of material deprivation. See, for example: DWP, Households below average income: An analysis of the UK income distribution: 1994/95-2018/19, DWP March 2020.

17 When we look at the borrowing experience of our four groups we see a similar pattern, with 56 per cent of those who have had a lower income in both periods reporting they have relied more on borrowing for everyday costs, compared to 36 per cent who have had no spells of lower income since February.

Conclusion

The pandemic has been a turbulent time for many families' incomes and spending. Although some of the shock has been mitigated by government support schemes, our survey makes clear that many families have entered the second lockdown and the winter months in a worse financial position than they were back in the spring. Overall, there have been some modest improvements in incomes (and a definite pick-up in spending) in the summer compared to the lockdown, but those entering the crisis with lower levels of resources and those who have been hard-hit for the entirety of the crisis look especially vulnerable today.

So, what can the Government do to prevent a bad situation getting even worse? Helping those who have lost their jobs to find new work is critical, but the primary mechanism for supporting families on low incomes through this crisis looks set to be the social security system. While the Government rightly increased UC by £20 per week for each family claim back in April this year, this remains a temporary measure. A commitment to maintain this support for the medium term would be a step in the right direction, while other tweaks (such as extending the benefit cap grace period and suspending savings rules) would help those who are falling through the cracks. Although this would cost the Treasury money in the short term, protecting family finances through the crisis can ensure the recovery is not overshadowed by debt and deprivation.

Annex 1: Using the Resolution Foundation coronavirus survey data to estimate family incomes

To calculate family incomes, including income quintiles, we adopt the same approach as we did for a report that used the version of this survey we fielded in May.[18] We have repeated some of the checks below to show that our income calculations are still representative of the wider population.

It is important to note that our analysis does not use the resulting equivalised disposable income variable as a continuous variable: its purpose is only to sort respondents into income quintiles so that we can assess how responses differ between (pre-pandemic) lower-income and higher-income households. However, it is still worth checking the income variable against more established sources – mainly, the Department for Work and Pensions' Households Below Average Income (HBAI) dataset – to assess its accuracy and validity as a tool with which to order respondents.

The income variable we produce is not directly comparable to other income estimates, though, in a number of ways:

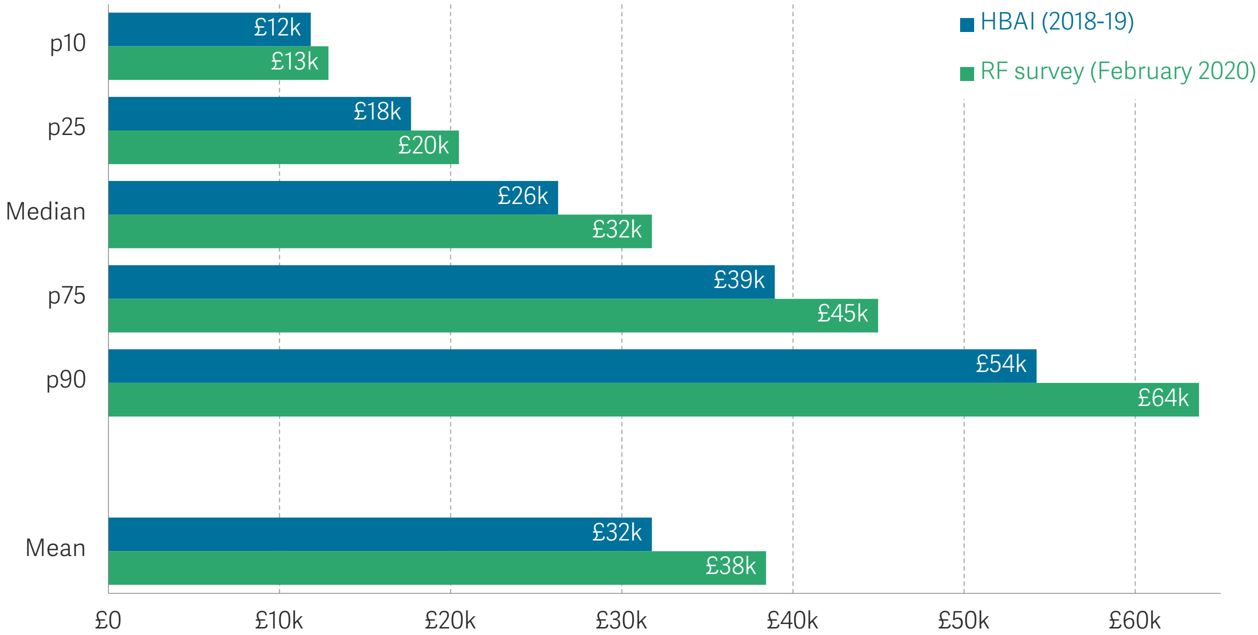
- It covers families (benefit units), whereas established income sources cover households, which can contain more than one benefit unit;
- It is based on a modified definition of working age: 18-65-year-olds; and,
- It excludes families containing retired adults or non-working adult students.

Before comparing our income estimate to that in HBAI, we adjusted the before-housing costs income data in HBAI as follows: we un-equivalised household incomes, calculated benefit unit-level equivalisation scales, distributed household incomes for multi-benefit-unit households among benefit units on the basis of these scales, and then re-equivalised the resulting incomes using benefit-unit level equivalisation scales. We then assigned these incomes to all adults aged 18-65, excluding any who live in benefit units containing retired adults or non-working adult students. Figure 14 compares our income estimates to these modified HBAI estimates. Our estimate of disposable family income has a slightly wider distribution, and a slightly higher mean and median, than the equivalent estimate from HBAI. However, the results are broadly comparable, which gives us confidence in using our estimate of family incomes to sort respondents into income quantiles.

18 Full details set out in the annex of: M Brewer & L Gardiner, Return to spender: Findings on family incomes and spending from the Resolution Foundation's coronavirus survey, Resolution Foundation, June 2020.

FIGURE 15: **Our survey reflects established income data in terms of the shape of the income distribution**

Annual disposable family income statistics for 18-65-year-old adults in non-retired, nonstudent families, Resolution Foundation coronavirus survey compared to Households Below Average Income: UK

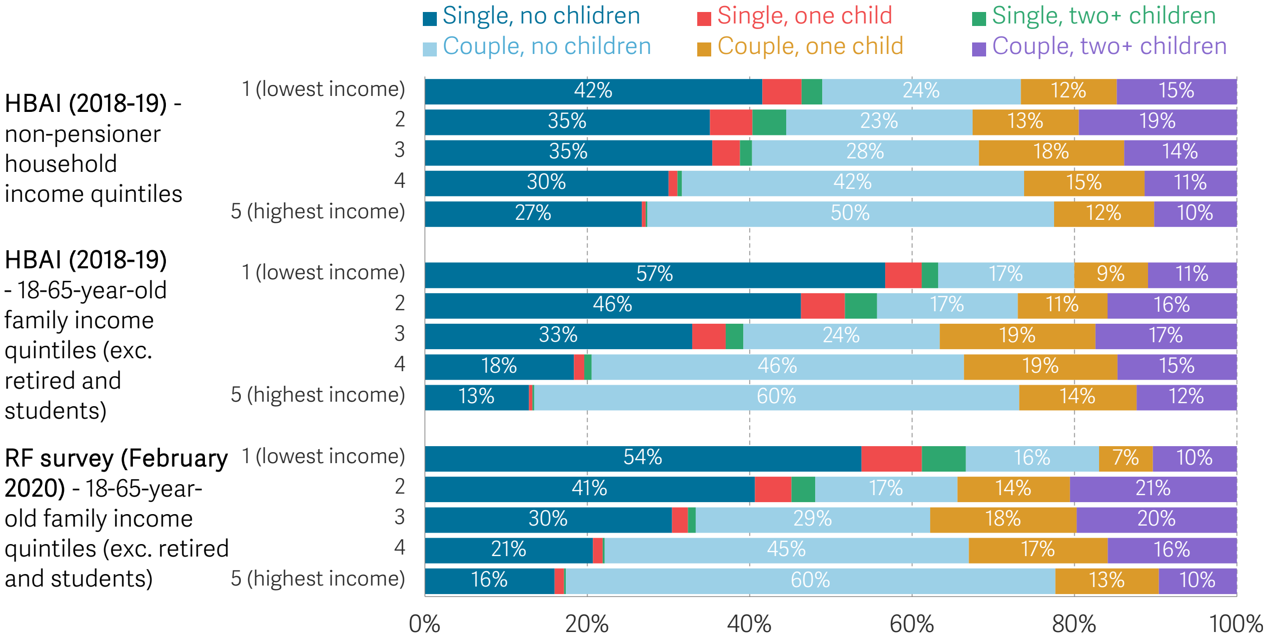


NOTES: Base = all adults aged 18-65 with valid income data (see earlier work referenced in the text). Incomes are equivalised to account for family size. Results are adult-weighted. We exclude adults in families containing retired adults or non-working adult students. To match the Households Below Average Income data to the income estimates in our survey, we un-equivalise household incomes, calculate benefit unit-level equivalisation scales, distribute household incomes for multi-benefit-unit households among benefit units on the basis of these scales, and then re-equivalise the resulting incomes using these benefit unit level equivalisation scales.
SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

As a further cross check, Figure 15 explores the distribution of adults in different types of families across income quintiles. It shows that our survey matches the HBAI pattern very closely, particularly when HBAI income quintiles are switched from the standard (working-age) household version to family (benefit unit) income quintiles that match the approach in our survey.

FIGURE 16: **Different types of families are distributed across income quintiles similarly in our survey to the distribution in Households Below Average Income data**

Family structure of 18-65-year-old adults across income quintiles (various definitions), Resolution Foundation coronavirus survey compared to Households Below Average Income: UK



NOTES: Base = all adults aged 18-65 with valid income data (see earlier work referenced in the text). Incomes are equivalised to account for family size. Results are adult-weighted. The second and third sets of results exclude adults in families containing retired adults or non-working adult students. In the second set of results, to calculate income quintiles in a way that matches the quintiles resulting from the income estimates in our survey, we un-equivalise household incomes, calculate benefit unit-level equivalisation scales, distribute household incomes for multi-benefit-unit households among benefit units on the basis of these scales, and then re-equivalise the resulting incomes using these benefit-unit level equivalisation scales.
SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

The differences between the shape of Figure 16 when using household income quintiles and family ones – in particular, the greater concentration of single adults without children at the bottom of the distribution on a family-income basis – can be explained by the different equivalisation scales we use in each case. For example, three young, unrelated adults sharing a house have a total equivalisation score of 1.33 when viewed as a household (the first adult takes a score of 0.67, and subsequent adults a score of 0.33, on the basis of sharing resources). But these three adults have a total score of 2.01 in our modified family equivalisation approach (three separate families with a score of 0.67 each). In effect, our approach of viewing these three adults individually rather than as one combined household means we judge that their income will stretch less far, hence they cluster at the bottom of the distribution in the approach we have to take to calculating income quantiles.

Annex 2: Deriving combined income and spending groups

In Figure 9 we introduced a categorical variable that combines the household income changes with the household spending changes experienced by individuals since the start of the crisis. Figure 16 shows how we have derived that variable by looking at the combination of answers to separate questions about changes in spending and income. Shaded in red are those who have seen a relatively negative change in income when compared to the change in spending – our 'squeezed' group; shaded in green are those who have seen a relatively positive change in income relative to spending changes – our 'loosened' group; and shaded in blue are those who have experienced similar changes to income and spending since February – our 'unchanged' group. This measure gives a better impression of the financial position since the start of the pandemic rather than just relying alone on just income changes. As with any measure, this is likely to be imperfect as we cannot account for all financial aspects of individuals.

FIGURE 17: **Breakdown of our income-spending change variable**

Combinations of household income and spending changes in reopening (July-September) compared to February 2020, as a percentage of all survey respondents: UK, 17-22 September 2020

Spending	Income: Decreased a lot	Decreased moderately	Decreased a little	Stayed the same	Increased a little	Increased moderately	Increased substantially	Unknown	All	*Sample sizes*
Increased substantially	0.1%	0.2%	0.1%	0.7%	0.4%	0.1%	0.5%	0.1%	2.1%	*125*
Increased moderately	0.1%	0.4%	0.4%	1.2%	0.5%	0.5%	0.1%	0.0%	3.2%	*196*
Increased a little	0.1%	0.4%	1.0%	1.7%	1.2%	0.5%	0.1%	0.1%	5.3%	*319*
Stayed the same	0.7%	3.8%	7.6%	33.7%	6.3%	3.2%	0.5%	0.7%	56.6%	*3449*
Decreased a little	0.1%	0.5%	1.8%	2.4%	1.0%	0.5%	0.2%	0.1%	6.6%	*399*
Decreased moderately	0.4%	1.4%	1.5%	3.0%	0.9%	0.8%	0.3%	0.2%	8.4%	*515*
Decreased a lot	1.6%	0.9%	1.3%	2.7%	0.6%	0.7%	0.4%	0.2%	8.5%	*518*
Unknown	0.1%	0.2%	0.2%	0.7%	0.3%	0.3%	0.1%	7.5%	9.3%	*540*
All	3.1%	7.8%	14.0%	46.1%	11.2%	6.6%	2.2%	9.0%	100.0%	*6061*
Sample sizes	*191*	*474*	*851*	*2803*	*683*	*403*	*136*	*520*	*6061*	

NOTES: Base = 6,061 (all adults aged 18-65). Sum of groups: loosened (green), 28%; unchanged (blue), 41%; squeezed (red), 21%; unknown (grey), 11%.
SOURCE: RF analysis of YouGov, UK Adults Age 18 to 65 and The Coronavirus (Covid-19) – September wave.

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