

From locking down to levelling up

The past, present and future of Welsh living standards

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Acknowledgements

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Executive Summary

In this report, we take a deep dive into Welsh living standards. Wales has too often been overlooked in recent discussions about 'levelling up', and now policy makers also need to navigate the coronavirus crisis and its aftermath. We provide a detailed assessment of how the country has changed over the last few decades, and where it found itself on the eve of coronavirus, and consider the initial hit of the crisis on living standards. We consider fresh challenges in the wake of coronavirus, including for those in hard-hit sectors and the sensitivity of Welsh incomes to UK-wide benefit changes. We also focus on existing demographic challenges that took many years to build up, and conclude that unemployment will be the major challenge for the immediate future.

Employment gaps between Wales and the UK average have halved, but pay and productivity gaps remain broadly unchanged since the 1990s

Big gaps in employment opened up between Wales and the rest of the UK over the 1980s and the 1990s recessions. But employment has surged since the start of the millennium, and particularly over the last decade. Throughout the early and mid-1990s, the gap between the Welsh and UK employment rate was between 4 and 5 percentage points. But at the start of 2020 the working-age employment rate in Wales stood at 74.3 per cent, compared to 76.4 per cent in the UK as a whole – a gap of just 2 percentage points. Although this pre-coronavirus gap has

therefore halved over the period, it is still notable: if Wales had the same employment rate as the UK as a whole, it would mean 45,000 more people in work.

On unemployment, the Welsh economy has performed similarly to the UK in recent years, with the pre-coronavirus unemployment rate in Wales actually 0.6 percentage points lower than that of the UK: a far cry from the excess unemployment of the 1980s. Economic inactivity rates have fallen rapidly, from as high as 29 per cent in the early 1990s to 23 per cent of the working-age population today. Moreover, the gap in economic inactivity rates between the Wales and the UK has shrunk by over 3 percentage points. But the fact that the unemployment rate is lower in Wales partly reflects that the economic inactivity rate (those people out of work not counted as unemployed) remains higher.

On pay, Wales has not come far enough to close the gap with the rest of Great Britain. A lack of highly paid, productive jobs in Wales compared to Britain as a whole helps explain this gap. Throughout the early and mid-1990s the gap between Welsh and British typical hourly pay was between 7 and 9 per cent. In 2019, typical hourly pay in Wales was identical to that in the North East of England, at £12.20, and 9 per cent lower than typical hourly pay in Britain (£13.30). This is despite real hourly pay recovering faster in Wales than across Britain as a whole since 2009: with pay down just 0.1 per cent in Wales by 2019, compared to a fall of 1.5 per cent in Britain. This progress on pay since the last recession is partly driven by Welsh workers especially benefitting from the large rises in the National Minimum Wage and then the National Living Wage over time.

The National Minimum Wage and National Living Wage also explain the rapid decline in low pay in Wales. The proportion of workers earning below two-thirds of the British median wage was as high as 27 per cent in Wales in 2011, but fell to 19 per cent in 2019. However, the proportion of workers paid at the wage floor has risen, to 8.8 per cent. Both of these figures are higher than Britain as a whole, where 15 per cent of workers are paid below two-thirds of the median wage and 7 per cent are at the

wage floor. But Wales does have a notably lower gender pay gap. The difference in median hourly pay for men compared to women is 17 per cent in Wales compared to 22.6 per cent in England and 25.7 per cent in South East England.

A lack of high-paid jobs in Wales is partly explained by the sectoral composition of the labour force. Work is generally more tilted towards hospitality and health and social work – with 28 per cent employed in these sectors. Only 12.3 per cent of workers in Wales are employed in ICT, finance & property and professional and scientific activities – the highest paying and most productive sectors in 2019 across the UK – compared to 17 per cent across the UK. Among the regions of England, only the North East has a lower share (at 11.7 per cent) working in these high-value sectors than Wales. There is also a particular leaning towards working in the public sector in Wales with 21 per cent employed in the Welsh public sector compared to 16.6 per cent for the UK as a whole.

Any future, sustained real pay growth for Wales compared to the rest of the country will be underpinned by growth in productivity, something which has been severely lacking over the last two decades, hampered by a lack of high-output jobs. Wales has consistently had the lowest or second lowest output per head of all nations of the UK and regions of England since 1998. The gap in output per head has remained unchanged over the last two decades, and is still 26 per cent below the UK-wide average. Wales has roughly the same (low) level of output per head as the North East of England, a part of the UK that has been very much part of the ‘levelling up’ conversation.

In part, Wales’s productivity gap and lower proportion of high-paid jobs will reflect the fact that 33 per cent of the working-age population in Wales has a degree qualification compared to 37 per cent for the UK as a whole. Improvements to education and skills will be an important way to boost productivity growth, earnings and living standards in Wales in the long run.

Given that employment gaps have largely closed, but pay gaps have not, the gap between Welsh incomes and the rest of the UK has only shrunk slightly

Since the mid-1990s, relative gaps in household incomes between the regions of England and nations of the UK have shrunk, in general. The position of Welsh incomes – as the second lowest region of the UK after the North East of England – relative to other regions and nations has remained unchanged since 1996-97. While Wales hasn't managed to replicate the success of Scotland (which had very similar typical incomes compared to the UK in 1996-97 but in 2018-19 had typical incomes 5 per cent higher than the UK), there has been a degree of convergence. In 1996-97, typical Welsh incomes were 10 per cent lower than the UK, and they are still 7 per cent lower in 2018-19.

Overall, incomes are low in Wales compared not just to other parts of the UK but also relative to our international peers, with Wales comparable to poorer parts of Spain or Southern Italy. This international context hammers home that 'levelling up' needs to be about Wales as well as poor parts of England.

Despite a need for strong income growth, typical non-pensioner incomes in Wales grew by just 6 per cent between 2008-09 and 2018-19, compared to growth of 30 per cent between 1998-99 and 2008-09. Like the rest of the UK, living standards in Wales have been hit by both the Great Recession and the Brexit referendum-induced inflation spike, resulting in a poor decade for living standards growth in Wales – even before considering coronavirus.

Given that we focus primarily on disposable incomes after subtracting housing costs, it's important to explore whether housing costs account for living standards differences or changes over time. The average ratio of housing costs to income in Wales is 15 per cent in Wales, compared to 16 per cent in the UK, and the Welsh disposable income gap with the rest of the UK is slightly larger if housing costs are not taken into account. But, changing housing costs do not account for the (small) convergence over time. The gap in incomes before housing costs has moved similarly to the gap in incomes after housing costs

(with the former shrinking from 12 per cent in 1996-97 to 10 per cent in 2018-19), and the change in housing cost to income ratios in Wales has been similar to the UK's.

Overall income inequality within Wales, as measured by the Gini coefficient after housing costs, is low relative to the UK as a whole (at 0.33, compared to 0.40). Income inequality is similar in Wales to comparable English regions like the North West and West Midlands. This difference from the UK overall partly reflects the low proportion of high-income individuals in Wales. In 2017-18 (the latest year of available data) only 1.2 per cent of taxpayers in Wales earned over £100,000, compared to 2.9 per cent of taxpayers in the UK. Wales is more heavily skewed to the lower end of the income distribution, with 70 per cent of taxpayers earning under £20,000 in 2017-18 compared to just 63 per cent of UK taxpayers.

Geographical gaps within Wales have shrunk – including on productivity (unlike for the UK as a whole) –

We often hear that economic gaps between and within places have grown. We know at a UK-wide level this story isn't entirely true. Income, employment and pay gaps between the regions of England and nations of the UK have shrunk over the last 30 years. But, productivity gaps across the UK have grown. Within Wales, employment, pay, income and productivity gaps have all closed.

Moreover, those areas that previously had the lowest employment rates have seen the most catch-up. The two areas with the lowest employment in 2005 have seen the biggest percentage increases in employment over the last 16 years, with Cardiff's employment rate increasing by 9 percentage points and Gwynedd by 10 percentage points. Swansea and Rhondda Cynon Taff, which had the highest employment rates in 2005, have seen comparatively smaller changes of around 4 percentage points.

Similarly, pay gaps between local authorities in Wales have shrunk, with the lowest-earning areas seeing double the pay growth of the highest-earning since 1997. For the five local authorities with the highest real weekly pay in 1997 (Blaenau

Gwent, Bridgend, Caerphilly, Cardiff & Carmarthenshire), pay on average has grown by 9.2 per cent to 2019, but for the five lowest paying local areas in 1997 (Rhondda Cynon Taff, Powys, Pembrokeshire, Gwynedd & Conwy) pay growth has averaged 20 per cent. The wage floor has played a big role in explaining this catch up.

When it comes to geographical gaps, what is perhaps most striking for Wales compared to the UK as a whole is that productivity gaps within Wales have shrunk. Productivity gaps between local authorities in Wales (whether measured by output per worker, person, or hour worked) have declined since 1997. But significant gaps remain, such as between the three highest-productivity local authorities (Pembrokeshire, the Vale of Glamorgan and Monmouthshire) and the other 19 local authorities.

Falling employment and pay gaps have meant that, like the UK as a whole, geographic income gaps in Wales have shrunk over the last two decades. We can observe closing income gaps in Wales when looking at highly localised geographies. Focusing on local areas reveals the unusual economic geography of Wales, with higher-income areas that are geographically on the edge of the country. Areas contiguous with England in the South, South East and North East tend to have the highest incomes – with median incomes in parts of Cardiff and the Value of Glamorgan as high as £39,000. Importantly, although gaps between areas have shrunk, big differentials still exist. For example, there is over a 10-percentage point gap in employment rates between the highest (Swansea and Rhondda Cynon Taff) and lowest (Caerphilly and Conwy) employment areas. And, important geographic conclusions are reached by comparing different measures of living standards. For example, high output-per-head does not always translate into high incomes for residents, with workers in places like Cardiff tending to live elsewhere and commute in.

Overall, falling geographic gaps in income, pay and employment (pre-coronavirus) is a story that Wales shares with the UK as a whole, but the fall in productivity gaps is more unique to Wales.

The labour market impact of coronavirus has so far been similar in Wales to the UK as a whole, but the impact is still substantial

Of course, the Welsh labour market and living standards are now experiencing a major shock. As the pandemic has progressed, the labour market impact in Wales has so far broadly mirrored that of the UK as a whole – though with some differences.

HMRC's Real Time Information data shows that the number of paid employees in Wales fell by 25,000 between March and September 2020 (the latest data available at the time of writing): a fall of 2 per cent compared to 2.3 per cent in the UK as a whole. But, looking back to the first lockdown period, hours worked in Wales fell by 13.8 per cent on an annual basis in the three months to May 2020, considerably less than the UK average of 19.5 per cent. At the same time, the Welsh claimant count rose sharply between March and May (from 3.9 per cent, up to 7.8 per cent of working-age adults). The areas of Wales that have seen the highest increases in the claimant count as a proportion of working-age residents are Newport (3.6 percentage points), Rhondda Cynon Taff and Conwy (both 3.3. percentage points).

The Coronavirus Job Retention scheme has protected jobs in Wales. At the peak of the crisis some 32 per cent of workers in Wales were furloughed (particularly those in tourism-reliant areas), with significant differences between local authorities: Gwynedd (36 per cent), Conwy and Flintshire (both 35 per cent) and Pembrokeshire (34 per cent) had the highest furlough take-up, and Neath Port Talbot (27 per cent) and Newport (28 per cent) had the lowest. Tourist-heavy areas – reliant on demand from elsewhere – have inevitably been particularly hard hit. Fast forward to August 31, and some 10 per cent of workers in Wales remained on furlough, compared to 11 per cent UK-wide.

The sectoral nature of the crisis as a whole – for which data is only available UK-wide – shows that the crisis is now very much focused on workers in hospitality and arts and entertainment, with up to 32 per cent still furloughed in mid-September. We estimate that as many as 32 per cent of Welsh workers in the arts and entertainment industry were still furloughed at the end

of August. With national lockdowns in Wales, as well as across the UK, we should expect a very difficult winter. However, this may at least not be a repeat of the 1980s recession, in which the sectoral nature of the crisis was much more geographically focused (on former industrial areas).

If job losses are concentrated in hard-hit sectors, this will disproportionately affect low-to-middle-income families

With the Office for Budget Responsibility (OBR) forecast suggesting that the UK-wide unemployment rate could go as high as 11.9 per cent, understanding who is most likely to be affected is paramount. Job losses concentrated in hospitality and arts and entertainment will disproportionately affect low-and-middle-income-families in Wales. For example, 8 per cent of working adults in the poorest fifth of the household income distribution work in hospitality, compared to 2 per cent in the highest income fifth; and, at a UK-wide level, vacancies in hospitality are still two-thirds below their 2019 average. This current crisis could also turbocharge the decline of retail that has been going on for some time.

The other major change to the world of work is a shift to working from home, which will have been sped up by the current crisis. Prior to the outbreak only three-in-ten workers ever worked from home, and only 11 per cent did so all of the time. Given that as much as three-quarters of workers in ICT and professional, scientific and technical industries are working from home UK-wide, this could provide an opportunity for some higher productivity jobs to be done in Wales. But, if anything, the present data shows that home working is less common in Wales than elsewhere: at the start of September, 43 per cent of Welsh workers worked from home some or all of the time, compared to 48 per cent UK-wide.

Welsh incomes will also be sensitive to changes in UK benefit policy

It is not just the jobs market that will shape Welsh incomes during this crisis and beyond, however. Until now, benefit

policy has helped cushion the coronavirus income shock. But the proposed £20-a-week reduction in Universal Credit and Tax Credit support next April could pull the rug from low-income households at a time of almost-certainly elevated unemployment, and disproportionately hit households in Wales. 35 per cent of non-pensioner households in Wales are set to lose over £1,000 in 2021-22, unless there is a change in policy. Aside from Northern Ireland, Wales loses more than any other nation or region of England, with 300,000 households currently claiming either Working Tax Credits or Universal Credit in Wales.

The worst-hit Welsh parliamentary constituencies include Swansea East (where 44 per cent of working-age households are set to see large income falls in April), the Vale of Clwyd (42 per cent), Torfaen (39 per cent), Merthyr Tydfil and Rhymney (38 per cent) Newport East (37 per cent) and Aberavon (37 per cent). So, this UK-wide policy decision will have a big impact on what happens to household incomes in Wales over the next six months.

While we must not lose sight of demographic challenges that took many years to build up, unemployment will be the major challenge for the immediate future

While the focus today is very much on the coronavirus crisis, we must not lose sight of old challenges that have taken many years to build and will continue well into the future. Wales is older and ageing faster than the UK average, and the young are more likely to be in lower-paid sectors.

Like the rest of the UK, Wales has experienced an increased concentration of young workers in low-paid roles. The proportion of young adult workers in low-paid sectors (like retail, hospitality and leisure) has risen in Wales over much of the 2010s. While 44 per cent of workers born in 1981-1985 worked in one of these three low-paying sectors at the age of 21, for those born in 1991-95 that had risen to 52 per cent. Not only are these generally low-paying sectors, but hospitality and leisure have been hit hardest by the current crisis.

Wales – like all developed countries – is also getting older. Its population is older than the rest of the UK, with the typical age in Wales 42.5, compared to 40.3 in the UK as a whole. And Wales has also aged faster than the UK since the start of the 2000s. But significant gaps exist within Wales: Powys is the oldest area of Wales with the typical age of 50.4, while the youngest area is Cardiff, at only 33.6. And these gaps are growing, with Powys having aged by 17 per cent since 2001 compared to Cardiff, which has a typical age 3 per cent lower than in 2001. In other words, Wales, like Britain as a whole, has experienced demographic divergence, with older places ageing faster than younger ones. This poses further challenges for care funding and the focus of local economic strategies.

This combination of an ageing population and the young being increasingly likely to work in low-paid, hard-hit sectors is not a great starting point. But as well as addressing existing challenges – not least its productivity and pay gap with the rest of the UK – Wales has a pandemic to deal with. Most pressingly, on the economic front, a coming jump in unemployment must be suppressed and then reversed as soon as possible. If unemployment in Wales rises in line with the Bank of England's peak unemployment forecast for the UK (7.5 per cent) this would mean an extra 56,000 people unemployed. But, if Welsh unemployment were to rise in line with the OBR's 'Central Scenario' (11.9 per cent) an additional 122,000 could be unemployed. Looking back to past recessions we know that unemployment takes longer to recover in areas with already weak labour markets, and that the scarring effects of unemployment last well beyond any immediate recovery. Minimising the size of this hit will therefore be key to protect Welsh living standards and ultimately 'level-up' Wales with the rest of the UK.

Section 1

Introduction

This pandemic has cast regional and devolved governments into the limelight. The Welsh (like other devolved nations) approach to life in lockdown has differed somewhat from England – the latest example being the ‘firebreak lockdown’, with Wales locking down for a second time some weeks earlier than England. Devolution is, after all, designed for divergence. This means that between March and October, measures such as restrictions on household mixing and the closure of pubs, cafes and restaurants have gone on for longer in Wales than England.

The other major justification for a focus on Welsh living standards is that Wales is too often absent from conversations about ‘levelling up’. This is despite relatively weak performance on pay, productivity and incomes compared to the rest of the UK. But, as this crisis has shown, the Welsh government’s policy levers are far stronger than those of the English regions, and that status and voice within the UK has become more prominent during the crisis.

Where families and households in Wales find themselves in the current crisis, and beyond, will be heavily shaped by pre-coronavirus living standards. We provide a detailed assessment of how the country has changed over the last few decades, how Welsh progress compares to other nations of the UK and regions of England, and where Wales found itself on the eve of coronavirus, as well as considering the initial hit of the crisis on living standards. We consider historical challenges, some of which have been addressed and some of which have not – but the past can only teach us so much because Wales will face a new challenge post-coronavirus: unemployment.

The rest of this report is set out as follows:

- **Section 2** looks at the **Welsh labour market**, showing how Wales has performed historically on employment, unemployment, pay and productivity; how different areas of Wales compared in terms of employment; and the sectoral composition of the labour force.

- **Section 3** considers **incomes before coronavirus**, showing how Welsh household incomes have changed over time; how this compares to the rest of the UK; and how gaps within Wales have shifted.
- **Section 4** focuses on the initial **jobs hit** from coronavirus, particularly focusing on changes in the number of employees and the impact of the Coronavirus Job Retention Scheme.
- **Section 5** considers **where next for Welsh living standards**, focusing on expected changes in both employment and benefits, as well as longstanding demographic challenges.
- **Section 6** concludes.

Section 2

The labour market

In this section we provide an assessment of the Welsh labour market pre-coronavirus. Gaps between Wales and the rest of Britain – on employment, pay and economic inactivity – are very long lasting, created in large part by the 1980s and 1990s recessions, but there has been significant progress in the last three decades on inclusion measures of labour market activity. Employment surges (around the millennium and the past decade) have halved the employment gap. The big picture is therefore lots of progress on employment, but not enough on pay. There is a particular problem of low pay in Wales, partly explained by the relatively low proportion of high-paid, productive, jobs in Wales compared to the UK as a whole, as exemplified by Wales having a lower level of output per person than the other nations of the UK and regions of England (aside from the North East).

Employment gaps in Wales compared to the UK average have halved over the last 30 years

As discussed in the previous section, Wales is often absent from discussions about ‘levelling up’ despite similar, and sometimes lagging, economic performance compared to the Midlands and North of England. In this section we turn to the Welsh labour market, and assess how Wales matches up to the pre-coronavirus British story of record employment and extremely weak pay and productivity growth.¹

Turning first to employment, by this measure the Welsh labour market has come a long way over the last 30 years. Gaps in employment between Wales and the rest of the UK stretch back even further than the 1990s. The left-hand panel of Figure 1 shows that at the start of 2020 the 16-64-year old employment rate in Wales was 74.3 per cent, compared to 76.4 per cent in the UK as a whole, and 75 per cent in Scotland. Looking further back, throughout the start of the 1990s the gap in employment between Wales and the UK stood at around 4 and 5 percentage points. But by 2020 this gap has shrunk

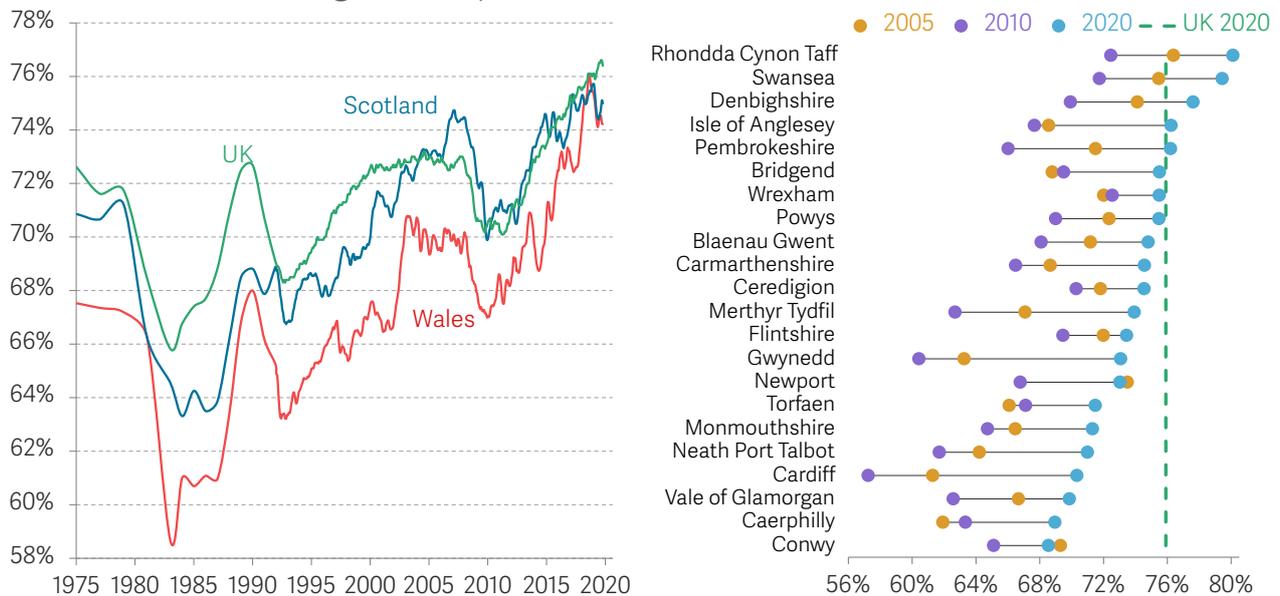
¹ S Clarke & N Cominetti, [Setting the record straight: How record employment has changed the UK](#), Resolution Foundation, January 2019.

to just 2 percentage points. So Wales has halved the employment rate gap with the UK (particularly over the early 2000s and 2010s). But it is still a notable gap. If Wales had the same employment rate as the whole of the UK, it would mean 45,000 more people in work.

The employment gap between Wales and the rest of the UK is present for both men and women. In the first three months of 2020, the employment rate for men was 77.1 per cent in Wales, compared to 80.1 per cent UK-wide; while 70.9 per cent of Welsh women were in work, compared to 72.6 per cent of women UK-wide.

FIGURE 1: Employment gaps in Wales compared to the UK average have halved since the 1990s

16-64-year-old employment rate by selected countries/ nations (left side) and Welsh Local Authorities (right side), up to Jan-Mar 2020



NOTES: Employment data are smoothed using quarterly rolling averages after 1992. 2020 figures on the right-side refer to Apr-Mar 2020 while 2020 figures on the left-side refer to Jan-Mar 2020.
SOURCE: RF analysis of ONS, Annual Population Survey; ONS, Annual Labour Force Survey (1975-91); ONS, Quarterly Labour Force Survey (1992-latest).

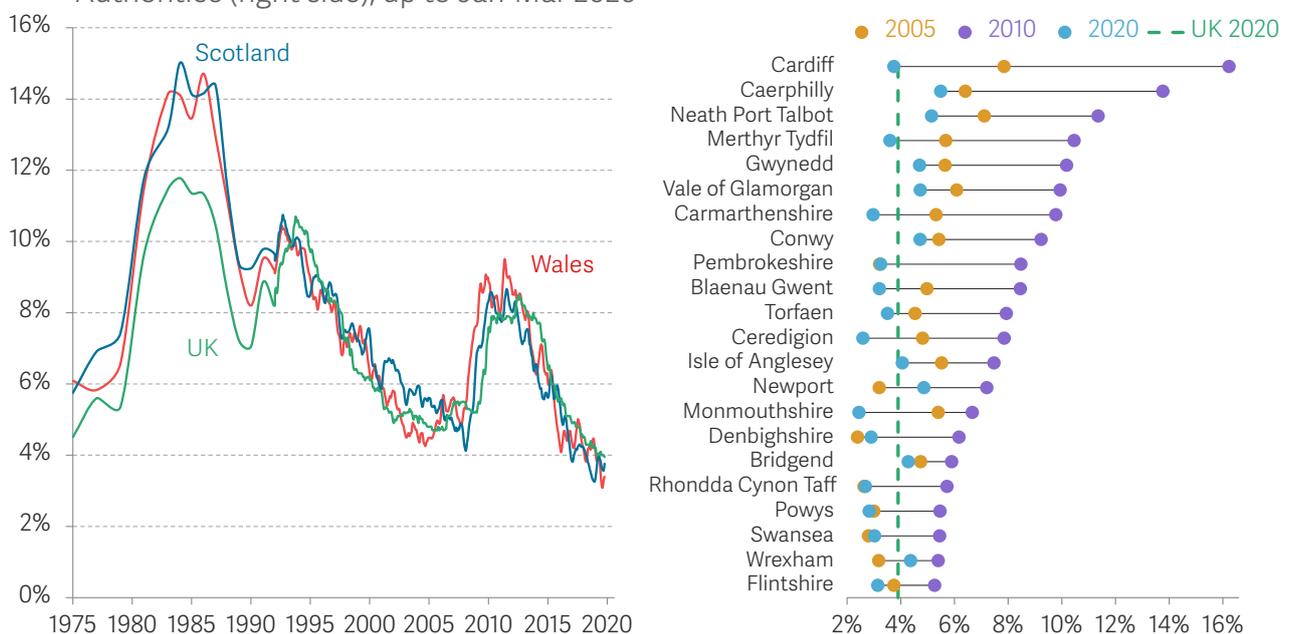
Just as gaps between the rest of the UK and Wales have closed, so too have employment gaps within Wales. The right-hand panel of Figure 1 shows working-age employment rates for each of the 22 Local Authorities in Wales for 2005, 2010 and 2020. The areas with the lowest working-age employment rates in 2005 – Gwynedd and Cardiff – have seen the biggest percentage point increases in employment up to 2020: 10 and 9 percentage points respectively. On the flipside, the areas of Wales with the highest employment rates in 2005 – Swansea and Rhondda Cynon Taff – have seen comparatively smaller increases

in employment of around 5 percentage points. This story is not unique to Wales, with low employment areas (particularly urban ones) catching up across the rest of the country.²

Another way of thinking about the pre-coronavirus labour market performance of Wales, amid a then-booming jobs market, is to assess how the country fared on unemployment (those looking and available for work). Figure 2 highlights some striking differences between the Welsh (and Scottish) experience of past recessions.

FIGURE 2: The pre-coronavirus unemployment rate in Wales was 0.6 percentage points lower than the UK

16+ unemployment rate by selected countries/ nations (left side) and Welsh Local Authorities (right side), up to Jan-Mar 2020



NOTES: Unemployment data are smoothed using quarterly rolling averages after 1992. 2020 figures on the right-side refer to Apr-Mar 2020 while 2020 figures on the left-side refer to Jan-Mar 2020.

SOURCE: RF analysis of ONS, Annual Population Survey; ONS, Annual Labour Force Survey (1975-91); ONS, Quarterly Labour Force Survey (1992-latest).

From previous Resolution Foundation work³ we have highlighted that the early-1990s and late-2000s recessions were far more geographically even than the early-1980s one. The 1980s recession – with the decline of manufacturing and growth of the service sector – had a far more specific spatial pattern.⁴ This explains why unemployment in Wales reached 14.7 per cent in the 1980s while the UK as whole averaged, at its height, 11.8 per cent. More recently, Wales has closed the gap on unemployment with the UK. The (16+) unemployment rate in Wales has tracked that of the UK in recent years. Indeed, on the eve of the coronavirus crisis the Welsh unemployment rate was 3.3 per cent compared

² C McCurdy, *Election 2019: how Britain's North-South divide is changing*, Closing the divide once and for all is a challenge all political parties say they want to embrace, December 2019.

³ See Box 1 in: G Bangham et al., *An intergenerational audit for the UK: 2019*, Resolution Foundation, June 2019.

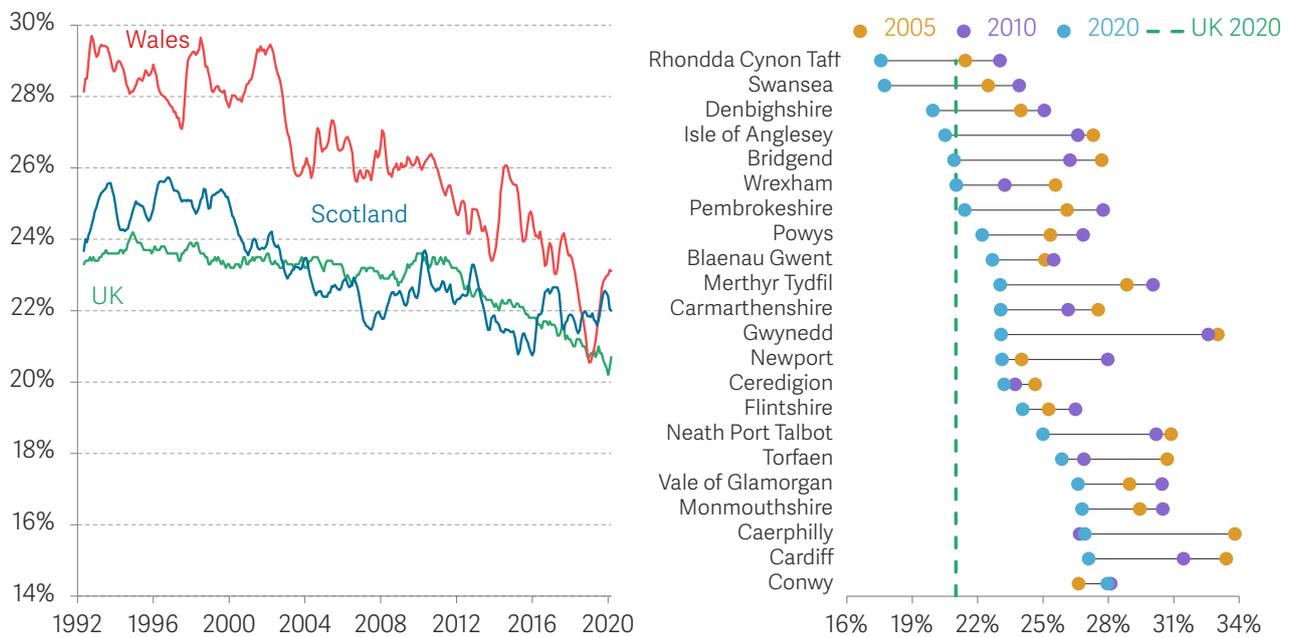
⁴ J Salt, *The geography of unemployment in the United Kingdom in the 1980s*, University College London, November 1985.

to 3.9 per cent for the UK as a whole. These are the lowest estimates since comparable records began.

Just as with employment, unemployment gaps within Wales have also shrunk. The gap between the highest unemployment area in 2005 (Cardiff) and the lowest (Denbighshire) was 5.5 percentage points. But by April 2019 to March 2020, the gap had shrunk to 3 percentage points, with Caerphilly (5.5 per cent) now the highest unemployment Local Authority and Monmouthshire (2.4 per cent) the lowest.

FIGURE 3: Economic inactivity rates have fallen rapidly since the 1990s but remain above the UK-average

16-64-year-old economic inactivity rate by selected countries/ nations (left side) and Welsh Local Authorities (right side), up to Jan-Mar 2020



NOTES: Inactivity data are smoothed using quarterly rolling averages after 1992. 2020 figures on the right-side refer to Apr-Mar 2020 while 2020 figures on the left-side refer to Jan-Mar 2020.

SOURCE: RF analysis of ONS, Annual Population Survey; ONS, Quarterly Labour Force Survey (1992-latest).

However, part of the reason why unemployment rates are fractionally lower in Wales is because (as Figure 3 shows) Welsh rates of economic inactivity (other workless people who are not counted as unemployed) are higher than in the UK as a whole. In the past, economic inactivity rates in Wales have typically been far higher than elsewhere in the UK. This had been highlighted as a significant policy challenge for Wales, and one that was not confined to certain areas. It was partly explained by gaps in provision of childcare and in transport that put some off from entering the work force.⁵ But economic inactivity rates have fallen steeply since the 1990s – from as high as 29 per cent – to 23 per cent of

⁵ J Potter and M Marchese, A Review of Local Economic and Employment Development Policy Approaches in OECD Countries, Part II: Policy Transferability to Wales, OECD Local Economic and Employment Development Programme, 2008

the working-age population in 2020. The gap between the Welsh economic inactivity and that of the UK has shrunk by over 2 percentage points, and this has been driven by falling economic inactivity rates for women.⁶

These findings should be situated in the context of previous Resolution Foundation research which showed that Britain's jobs miracle had a lot to do with increasing labour supply over the 2010s. This came at a time when benefit support had been reduced and pay growth had been sluggish. This meant that people wanted to work more because they felt poorer, with women in particular entering the jobs market as potential second earners.⁷ In addition, between 2010 and 2018 the female state pension age increased from 60 to 65 – meaning longer working lives. Altogether, the fall in economic inactivity (particularly among women) has helped push the Welsh employment rate closer to the UK average in recent years.

Unlike employment, not enough progress has been made on pay

Unlike employment gaps with Wales and Great Britain⁸, pay gaps remain unchanged. A lack of highly paid, productive jobs in Wales explains this gap with the rest of Britain. Figure 4 charts the long-run pattern of real hourly pay in Wales compared to Great Britain, the North East of England and the West Midlands. The pay gap between Wales and Britain opened up at the start of the 1980s and continued to grow well into the 1990s. Since then, median hourly pay in Wales has fluctuated between 89 and 93 per cent of typical pay in Great Britain. In 2019, typical hourly pay in Wales was £12.20, which was over 9 per cent less than typical hourly pay in Britain (£13.30). However, this difference largely reflects far higher pay in the South East and London. Typical pay in Wales looks more similar to some of the poorer paying parts of England (as shown in Figure 4) such as the West Midlands and the North East.

Considering that pay growth in the 2010s has been marred by the Great Recession and post-Brexit referendum inflation spike, how have Welsh pay packets fared? Figure 4 shows that following the Great Recession real hourly pay fell by 7.8 per cent between 2009 and 2012. But, real hourly pay recovered faster in Wales than across Britain as a whole – with 2019 pay in Wales recovering to 2009 levels while real hourly pay in Great Britain was still down by 1.5 per cent since 2009. Despite this (relatively) better recovery, however, it's worth noting for comparison that between 1999 and 2009 hourly pay in Wales grew by 17.6 per cent, and this brings to bare just how dismal the last decade has been for pay growth.

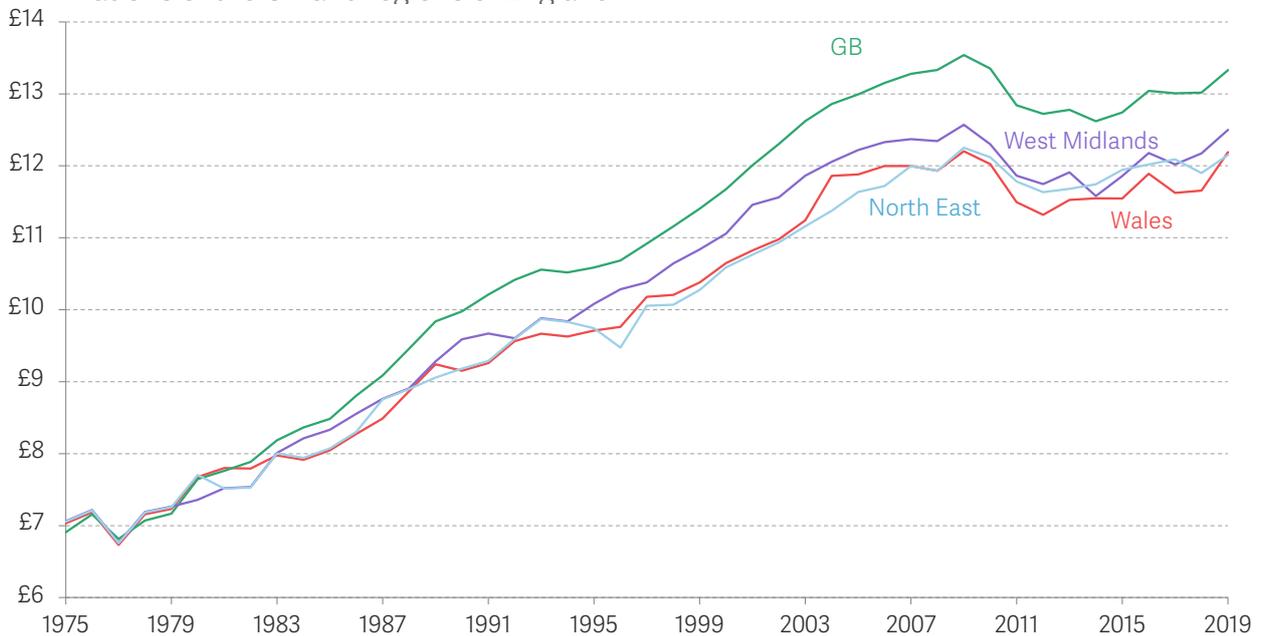
⁶ Welsh Government, *Statistical Bulletin, Key Economic Statistics*, January 2020.

⁷ T Bell & L Gardiner, *Feel poor, work more: Explaining the UK's record employment*, Resolution Foundation, November 2019.

⁸ When we refer to difference in pay, due to data availability over the long-term, we change our geography of comparison from UK-wide to the Great British level.

FIGURE 4: Typical pay in Wales has remained historically low compared to Britain

Median real (CPIH-adjusted to 2019 prices) gross hourly employee pay, by selected nations of the UK and regions of England



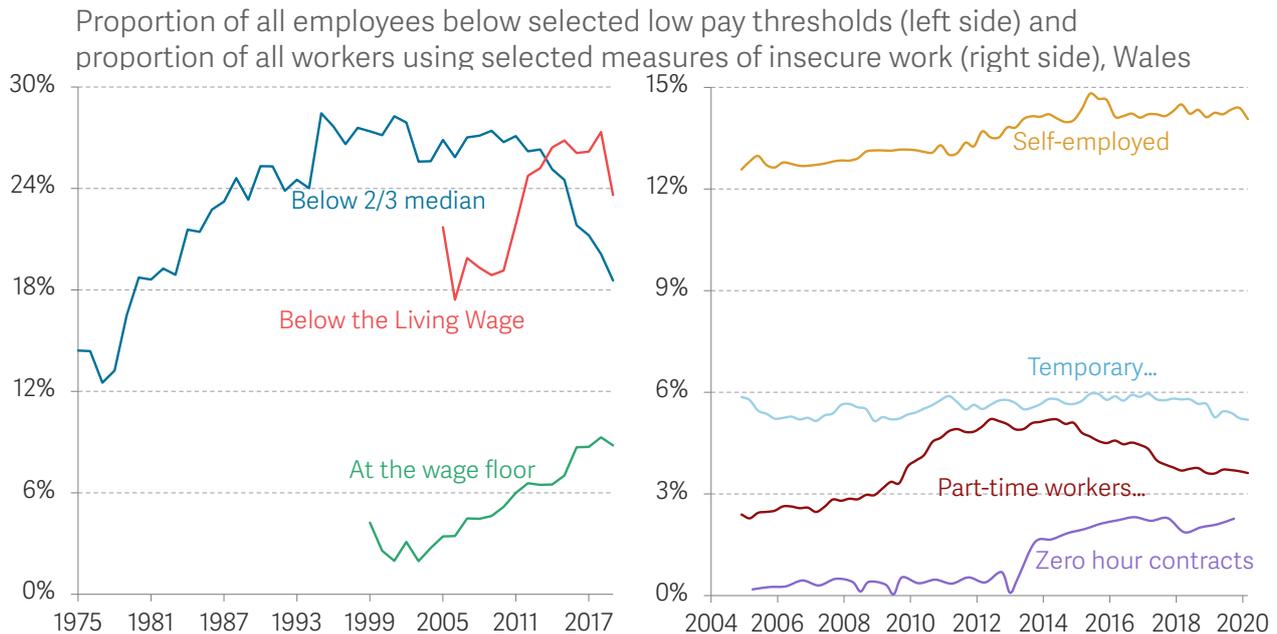
NOTES: Data before 1997 using the New Earnings Survey is adjusted in line with the Annual Survey of Hours and Earnings.

SOURCE: RF analysis of ONS, New Earnings Survey; ONS, Annual Survey of Hours and Earnings.

More progress has been made in reducing low pay, however. The left-hand panel of Figure 5 shows that the proportion of Welsh workers earning below two-thirds of the median wage was 19 per cent in 2019 (compared to 15 per cent in Britain). Thanks to the National Living Wage, there has been a rapid decline in the proportion of low-wage workers. Even as recently as 2011 the proportion of workers earning below two-thirds of the median wage was as high as 27 per cent in Wales. But we can also observe that the proportion of workers at the wage floor⁹ has – like elsewhere – been rising, and in 2019 was 8.8 per cent, compared to 7 per cent for Great Britain as a whole.

⁹ This captures those employees earning at, below or up to 1 per cent above their age-appropriate minimum wage.

FIGURE 5: The proportion of low-paid employees in Wales has been falling in the 2010s, but self-employment and zero hour contracts have risen



NOTES: A national version of figure 6 first appeared in: T Bell, N Cominetti & H Slaughter, A new settlement for the low paid: Beyond the minimum wage to dignity and respect, Resolution Foundation, June 2020
 SOURCE: RF analysis of DWP, Family Expenditure Survey; ONS, New Earnings Survey Panel Data; ONS, Annual Survey of Hours and Earnings

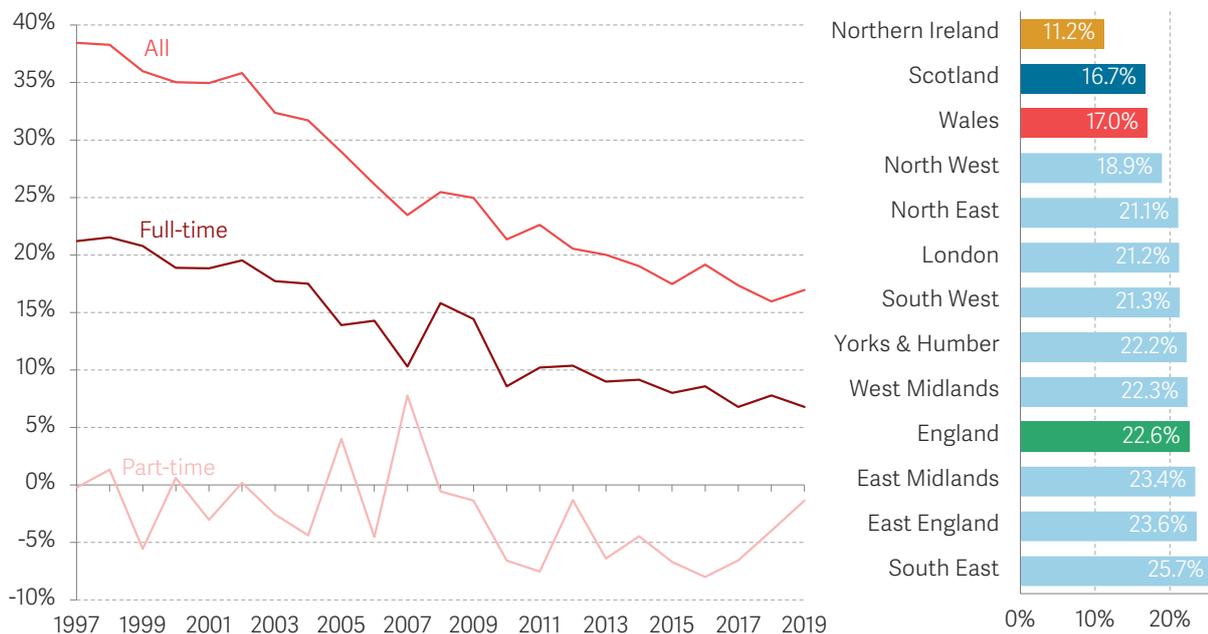
The right-hand panel of Figure 5 shows the proportion of Welsh workers who are in different forms of insecure work. It reveals that the growth in employment seen across Wales has been accompanied by various forms of atypical work. One measure of insecure work that has dominated much of the debate on atypical work since coronavirus is self-employment. 14.1 per cent of workers in Wales were self-employed at the start of 2020 compared to 15.2 per cent of workers in the UK. It's also important to highlight that the proportion of employees on Zero Hour Contracts (ZHCs) has risen, particularly over the 2010s (though this partly reflects the country becoming more aware of this type of work). In Wales 2.3 per cent of workers are on ZHCs, compared to 2.7 per cent for the UK as a whole.

Looking at the gender pay gap, Wales performs (relatively) well compared to the regions of England. Figure 6 shows that the difference in median hourly pay for men compared to women is 17 per cent in Wales compared to 22.6 in England and a high of 25.7 per cent in South East England. The gender pay gap in Wales for full-time workers and for all workers has fallen markedly over the last two decades, but still remains too high. That Wales performs (relatively) well on gender pay gaps will be partly explained by the fact that pay is generally lower in Wales than most of England. If there is a higher prevalence of low pay and fewer high-paid jobs (as we show next) we might expect less pay inequality. There is also a particular leaning towards working in the public sector in Wales with 21

per cent employed in the Welsh public sector compared to 16.6 per cent for the UK as a whole, and research has shown the (raw) gender pay gap tends to be narrower within the public than the private sector.¹⁰ Since 2011 public sector bodies in Wales have also been required by the Welsh Government to release their own gender pay gap and set out ways to improve it.¹¹

FIGURE 6: Wales performs (relatively) well on gender pay gaps compared to the regions of England

Gender pay gap for median gross hourly earnings (excluding overtime) for Wales (left side) and nations of the UK and regions of England (right side)



NOTES: Inflation-adjusted. Note that the right-side refers to all workers.
SOURCE: RF analysis of ONS, Annual Survey of Hours and Earnings.

Wales has a low proportion of top paying, high productivity jobs compared to the UK as a whole

Despite progress, there is a particular problem of low pay in Wales, partly explained by the relatively low proportion of high-paid, productive, jobs, compared to the UK as a whole. The left-hand panel of Figure 7 shows the proportion of employment by sector, for Wales and the UK, while the right-hand panel charts median hourly pay for the sector in 2019. We can see that the two largest sectors in Wales are wholesale and retail and health and social work, with 27.8 per cent of workers employed in these sectors – compared to

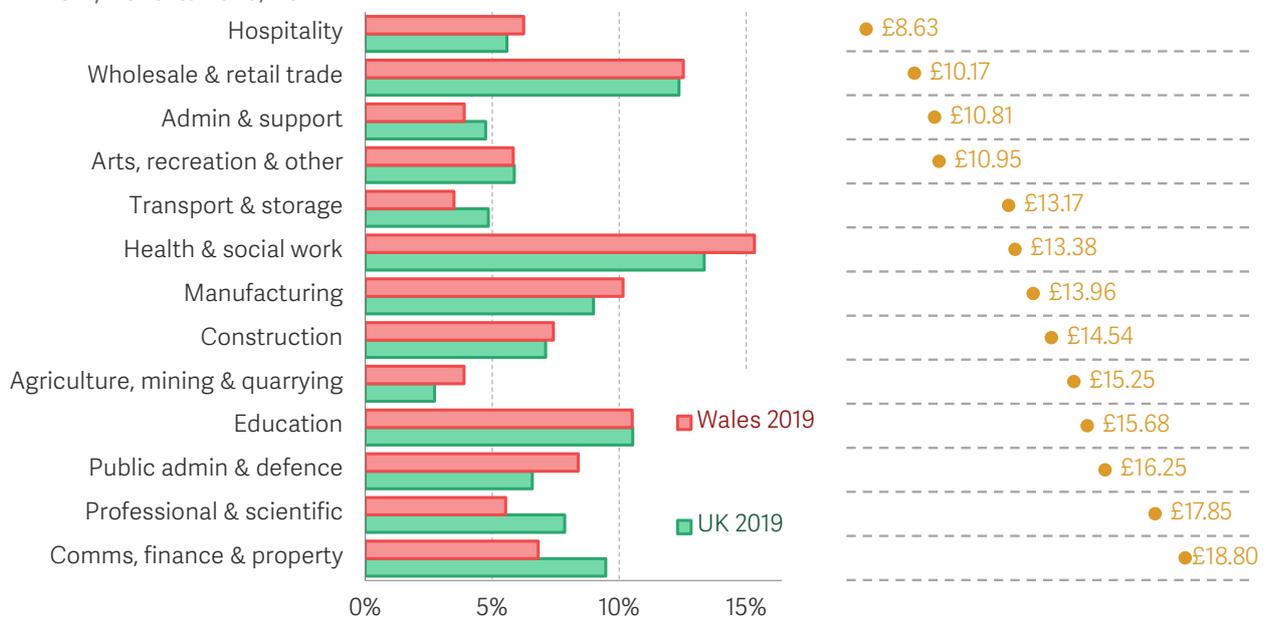
¹⁰ M Jones and E Kaya, *Understanding the Gender Pay Gap within the UK Public Sector*, Research Report for the Office of Manpower Economics, Cardiff University, August 2019.

¹¹ Workforce Partnership Council (WPC), *WPC Report, Fair work – Gender pay gap and senior pay ratio data*, Welsh Government, January 2020.

25.7 per cent for Great Britain as a whole. But, it is the relatively low proportion of the two highest paying sectors – professional and scientific and ICT, finance and property – that helps explain low levels of pay in Wales. Only 12.3 per cent of workers in Wales are employed in these high paying sectors, compared to 17 per cent at a UK-wide level. Excluding the East of England, London and the South East, most of the other regions and nations of the UK also have between 12 and 15 per cent employed in these high-value sectors, but only the North East (at 11.7 per cent) has a lower share working in these sectors than Wales.

FIGURE 7: Wales has a low proportion of top paying, high productivity jobs compared to the UK as a whole

Proportion of employment (left side) and median pay (right side), by sector: Wales & GB/UK, 2019 & 2019/20



NOTES: Pay data covers employees only, and is calculated as a weighted average of sectoral medians for those categories that combine multiple sectors. Employment data is for UK and median pay data is for GB. SOURCE: RF analysis of ONS, Annual Population Survey; ONS, Annual Survey of Hours and Earnings.

This failure to close the pay gap between Wales and the rest of the Britain is being driven by a lack of progress on output per head

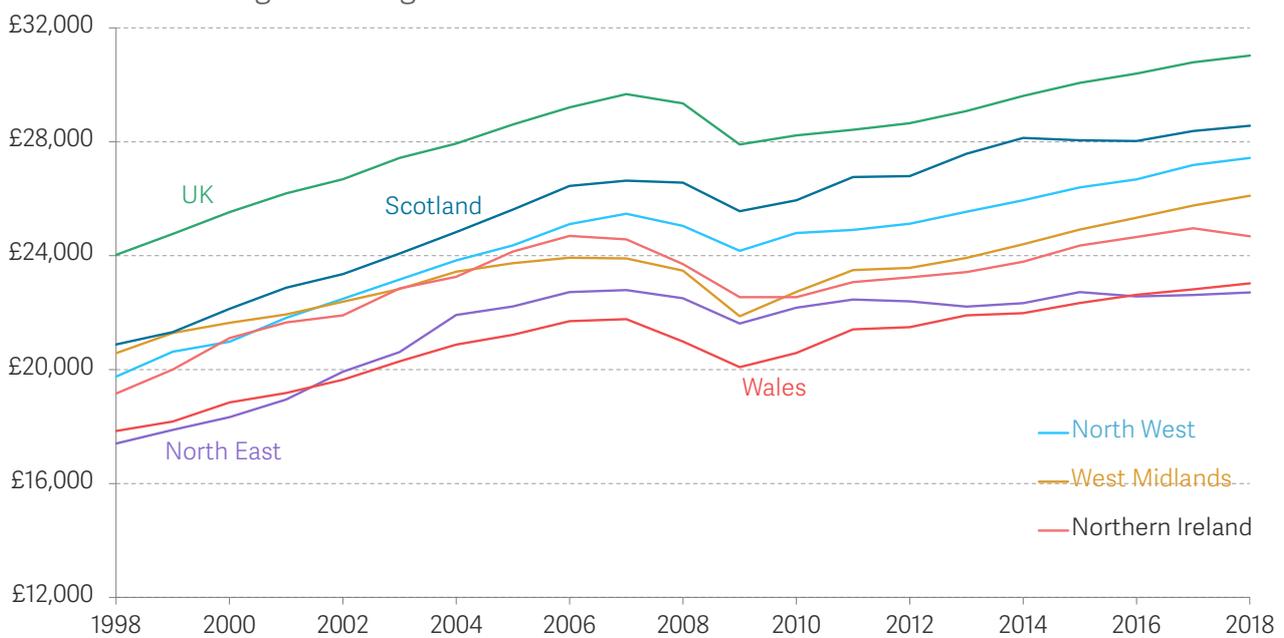
So in terms of employment, the Welsh labour market has come a long way, but in terms of pay Wales has not come far enough. A lack of high-paid, high productivity jobs means that Wales has failed to close the pay gap with the rest of Britain.

Any future, sustainable real pay growth across for Wales compared to the rest of the country will be underpinned by growth in productivity, something which has been

severely lacking over the last two decades. Figure 8 shows that Wales has consistently had the lowest or second lowest levels output per head compared to the other nations of the UK and regions of England since 1998. The gap in levels of output per head has remained unchanged over the last two decades, with Gross Domestic Product (GDP) per head still 26 per cent below the UK-wide average. By 2018, Wales had roughly the same (low) level of GDP per head as the North East of England, a part of the country which has been very much part of the 'levelling up' conversation. And, like the rest of the UK, growth in output per head since the financial crisis has been very weak. Average annual growth in Wales since 2007 has been only 0.5 per cent, compared to 2.2 per cent a year pre-crisis.

FIGURE 8: Welsh productivity levels have significantly lagged the rest of the UK (aside from the North East of England)

Gross domestic product per head, (real) chained volume measures, selected nations of the UK and regions of England



SOURCE: RF analysis of ONS, Regional Gross Domestic Product.

As past Resolution Foundation work has highlighted, low-qualified employment is more present in Wales than much of the rest of the UK.¹² This partly reflects the fact that 33 per cent of 16-64-year-olds in Wales have a degree qualification (or above) compared to 37 per cent for the UK as a whole, with skills improvements an essential way to boost productivity growth, earnings and living standards in Wales in the long-run.

¹² P Gregg and L Gardiner, *The road to full employment: What the journey looks like and how to make progress*, Resolution Foundation, March 2016.

Section 3

Incomes and living standards

After providing an initial assessment of the Welsh labour market, we next turn to how incomes have fared, paying particular attention to gaps between Wales and the rest of the UK. Individual incomes in Wales are typically lower than the UK average with the Welsh income distribution more heavily slanted to the lower end, and a much lower proportion of top-end incomes compared to the UK. Overall, the past 10 years have been poor for changes in living standards, with real typical non-pensioner incomes in Wales growing by just 6 per cent between 2008-09 and 2018-19, compared to growth of 30 per cent between 1998-99 and 2008-09.

Since the mid-1990s, income gaps between regions of England and nations of the UK have shrunk, in general. The position of Welsh incomes – as the second lowest region of the UK after the North East of England – relative to other regions and nations has remained unchanged since 1996-97. While Wales hasn't managed to replicate the success of Scotland, some progress has been made on reducing the income gap with the UK, however. And within Wales, gaps in employment, pay, income and productivity have all shrunk, with traditionally low pay areas like Powys having seen the most catch-up. Even at a very highly localised level of geography, income gaps within Wales have shrunk during the 2010s.

Wales has made some limited progress in closing its living standards gap with the rest of the UK

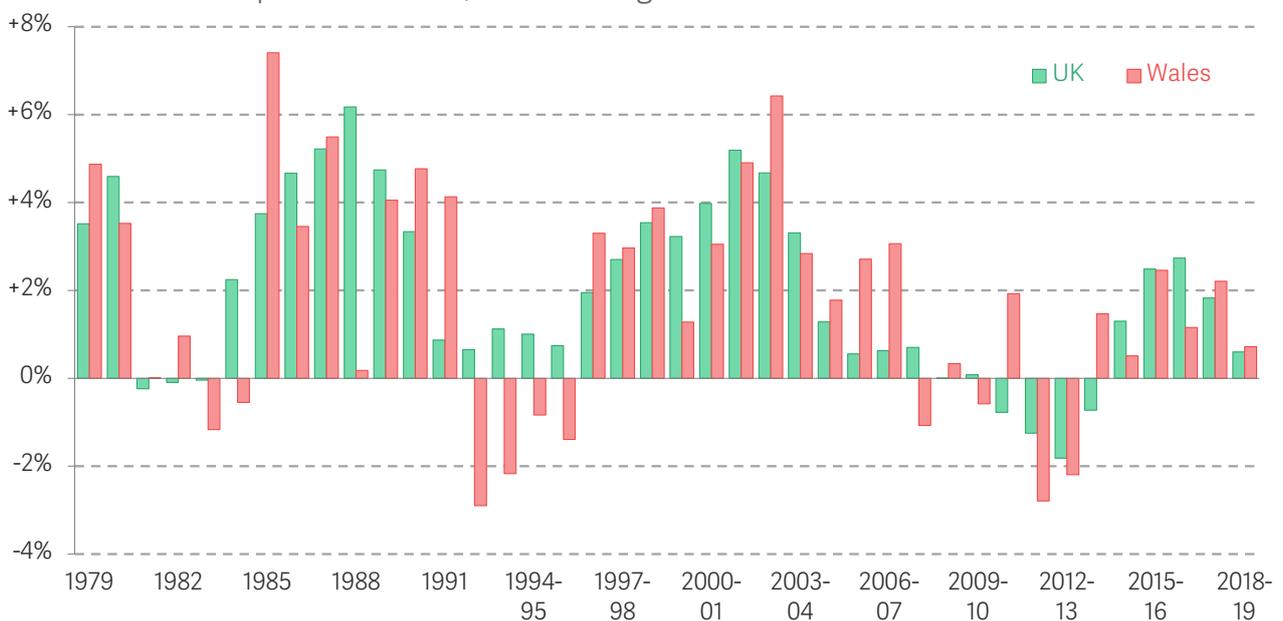
Where families find themselves now, and in the future, will be heavily shaped by living standards before this crisis. UK-wide, the geography of living standards has shifted in recent decades, and alongside this we have seen an increasing focus on regional inequality.

Overall, it has been a poor decade for Welsh living standards (proxied by household incomes). Figure 9 charts the change in real median non-pensioner household disposable income, after housing costs, since 1979 for both Wales and the UK. Broadly,

the 1998-99 to 2003-04 period can be characterised as a period of strong income growth, before a pre-crisis slowdown (which is less a feature in Wales than the UK as a whole), the financial crisis, and a weak recovery through the 2010s.¹ Looking at the last decade, typical non-pensioner incomes in Wales grew by just 6 per cent between 2008-09 and 2018-09, compared to growth of 30 per cent between 1998-99 and 2008-09. In the most recent year of data, 2018-19, typical non-pensioner incomes did not grow in Wales.

FIGURE 9: It has been a poor decade for income growth

Three-year average of real (CPI-adjusted) change in median non-pensioner equivalised household disposable income, after housing costs



NOTES: UK from 2002-03, GB before.

SOURCE: RF analysis of DWP, Households Below Average Income; DWP, Family Expenditure Survey.

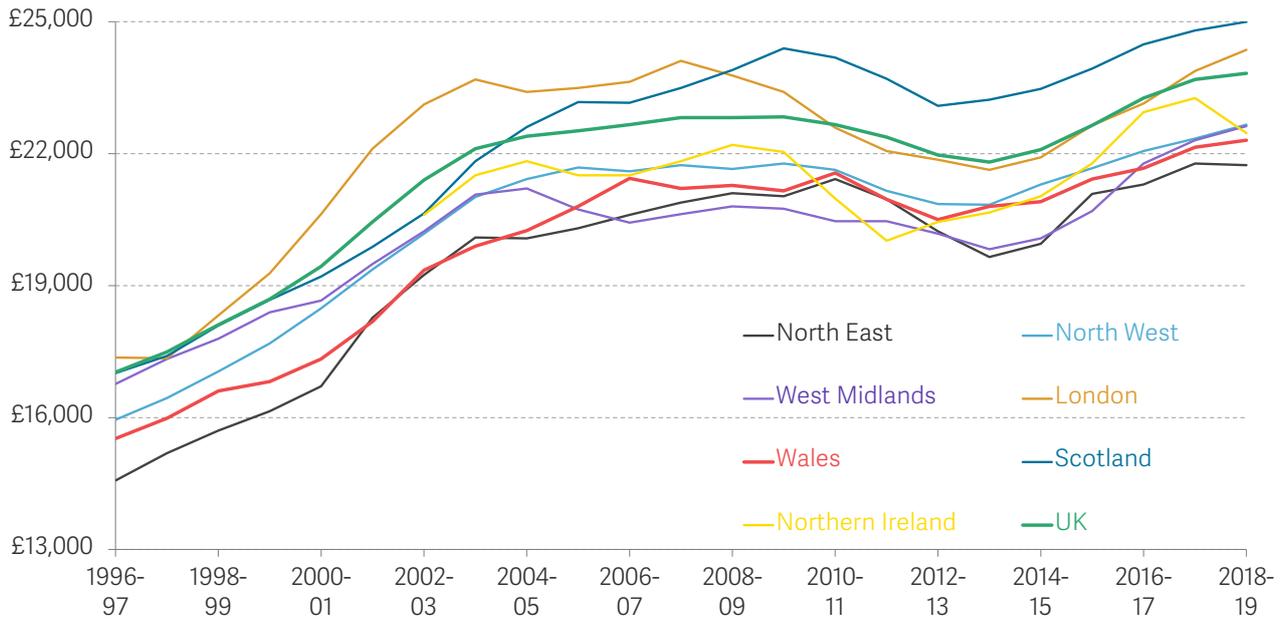
At a national level, income gaps between the nations of the UK and regions of England have shrunk since the mid-1990s. Figure 10 shows that in 1996-97 typical Welsh incomes were 10 per cent lower than the UK, but more recently this gap has shrunk to 7 per cent. But, Wales hasn't managed to replicate the success of Scotland and significantly improve its relative position, with Scotland having had very similar typical incomes compared to the UK in 1996-97 but a typical income 5 per cent higher than the UK as a whole by 2018-19. Only the North East of England, the West Midlands and Northern Ireland have had lower typical incomes than Wales over the past 22 years. But Wales hasn't experienced the relative income decline seen by the West Midlands. Overall, there has been some

¹ Note that we use three-year averages for regional household income figures, and for the UK for comparability.

improvement in incomes for Wales compared to the UK, reflecting the combination of the substantial employment progress but more limited earnings progress discussed in Section 2.

FIGURE 10: **Welsh incomes are low- but the-income gap with the UK has shrunk**

Three-year average of real (CPI-adjusted) median non-pensioner equivalised household disposable income, after housing costs, selected regions of England and nations of the UK



NOTES: UK from 2002-03, GB before. As per DWP guidance, 3-year rolling averages applied to regions. Northern Ireland series only began in 2002-03.
SOURCE: RF analysis of DWP, Households Below Average Income.

We care also about how Welsh living standards sit internationally. Data² such as that provided by Eurostat can show us the spread of incomes (or output) within countries and how this compares to similar countries. For example, looking at GDP per capita reveals that the UK is the most geographically unequal economy in the developed world.³ Figure 11 maps disposable income of private households for NUTS2 regions across Europe. Wales stands out as having some of the poorest parts of a country with big regional gaps. Using cross-country data also reveals that incomes are low in Wales compared not just to other parts of the country but also relative to our international peers, with Wales more comparable to poorer parts of Spain or Southern Italy than much of the UK.

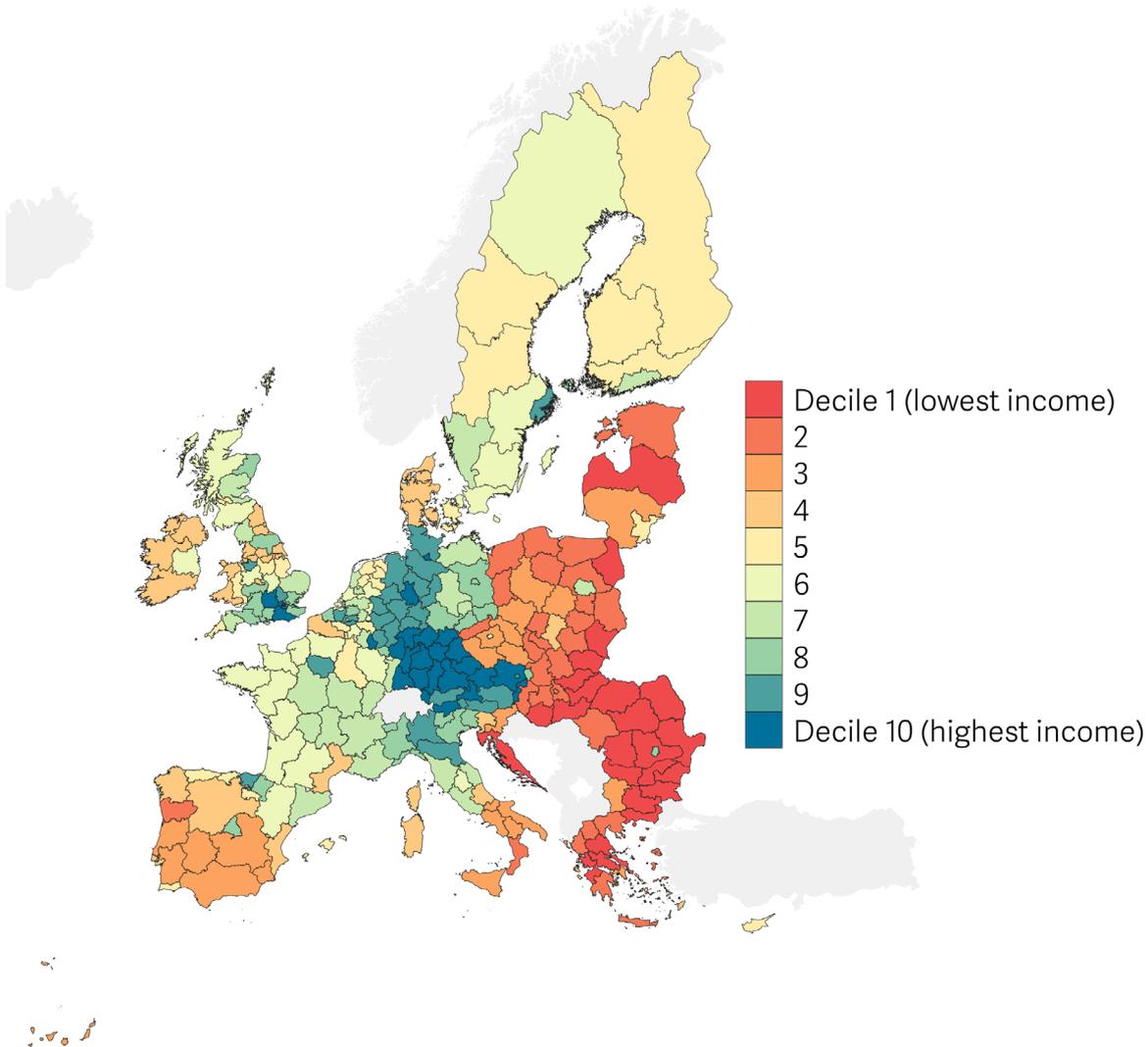
² It's important to acknowledge that there are some problems with comparing and standardising disposable income between countries.

³ Of course, there is also the issue of comparability across different administrative geographies. When comparing across urban areas the UK looks less unequal. For a full discussion see: C Giles, Levelling up: how wide are the UK's regional inequalities? Financial Times, March 2020.

That Wales stands out as home to some of the poorest parts of a country with particularly large regional gaps hammers home that 'levelling up' needs to be about Wales, as well as poorer parts of England.

FIGURE 11: Wales stands out as some of the poorest parts of a country with big regional gaps

Disposable income of private households by NUTS2 regions, by income decile, 2017



NOTES: The method used by Eurostat to compare incomes across countries is based on final consumption. The disposable income of private households is the balance of primary income (operating surplus/mixed income plus compensation of employees plus property income received minus property income paid) and the redistribution of income in cash. These transactions comprise social contributions paid, social benefits in cash received, current taxes on income and wealth paid, as well as other current transfers.
SOURCE: RF analysis of Eurostat, Disposable Income of Private Households.

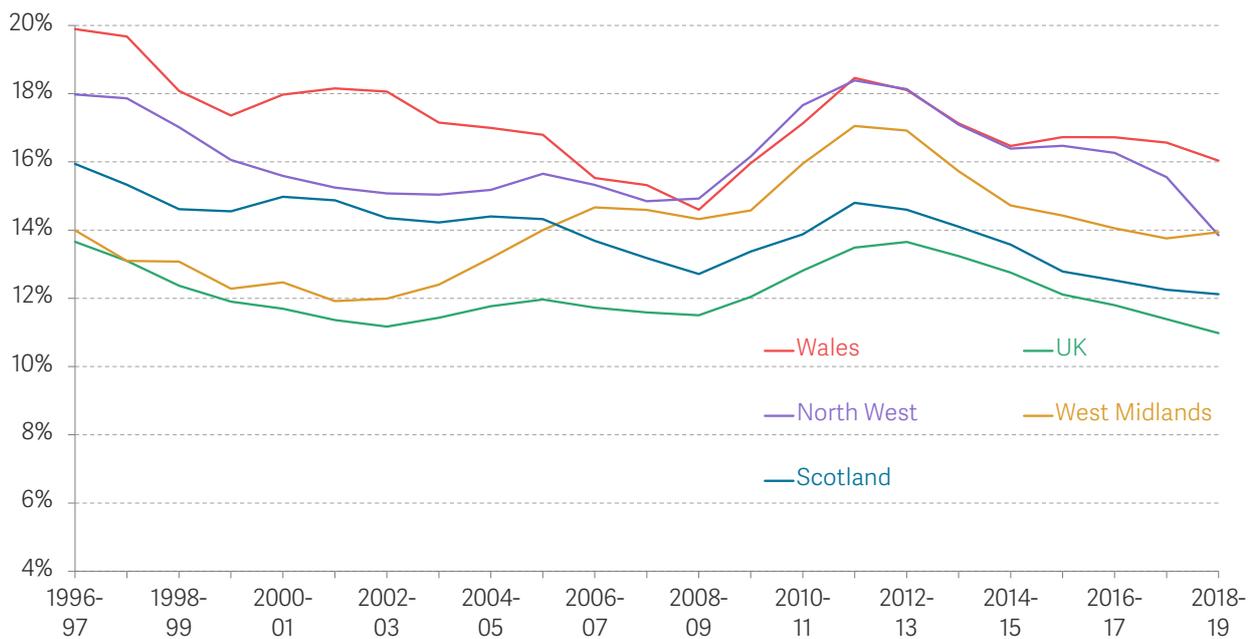
As we have shown in past Resolution Foundation research,⁴ recent UK-wide income

⁴ M Brewer et al., *The Living Standards Audit 2020*, Resolution Foundation, July 2020.

growth has been particularly weak for the poorest households. Over the past three years a fall in benefit income, caused especially by the benefit freeze, was a large factor in driving real income falls for low-income households. But how significant is benefit income for households incomes overall in Wales? Figure 12 charts benefits income (such as the State Pension, Housing Benefit and Tax Credits) as a share of overall income (before housing costs) for selected regions. In 2018-19, benefits accounted for a larger share of before housing cost income in Wales (16 per cent) than elsewhere. Benefit income as a share of before housing cost income has fallen across the board over the last two years, but this high share of benefit income means that Wales will be more sensitive to changes in UK benefit policy than other parts of the country (an issue we return to in Section 5).

FIGURE 12: Benefits account for a larger share of before housing cost income than most other parts of the UK

Three-year average of benefits income as a share of real (CPI-adjusted) before housing cost non-pensioner income, by selected regions of England and nations of the UK



NOTES: UK from 2002-03, GB before. As per DWP guidance, 3-year rolling averages applied to regions of England and nations of the UK.

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

Household income data presented in this report primarily presents disposable income figures after subtracting housing costs. Doing so means we account for important disposable income differences between home owners, mortgagors and renters.⁵ Given this focus, it's important that we understand how housing costs and tenure have

⁵ For further discussion see Box 3 in A Corlett, The Living Standards Outlook 2019, Resolution Foundation, February 2019.

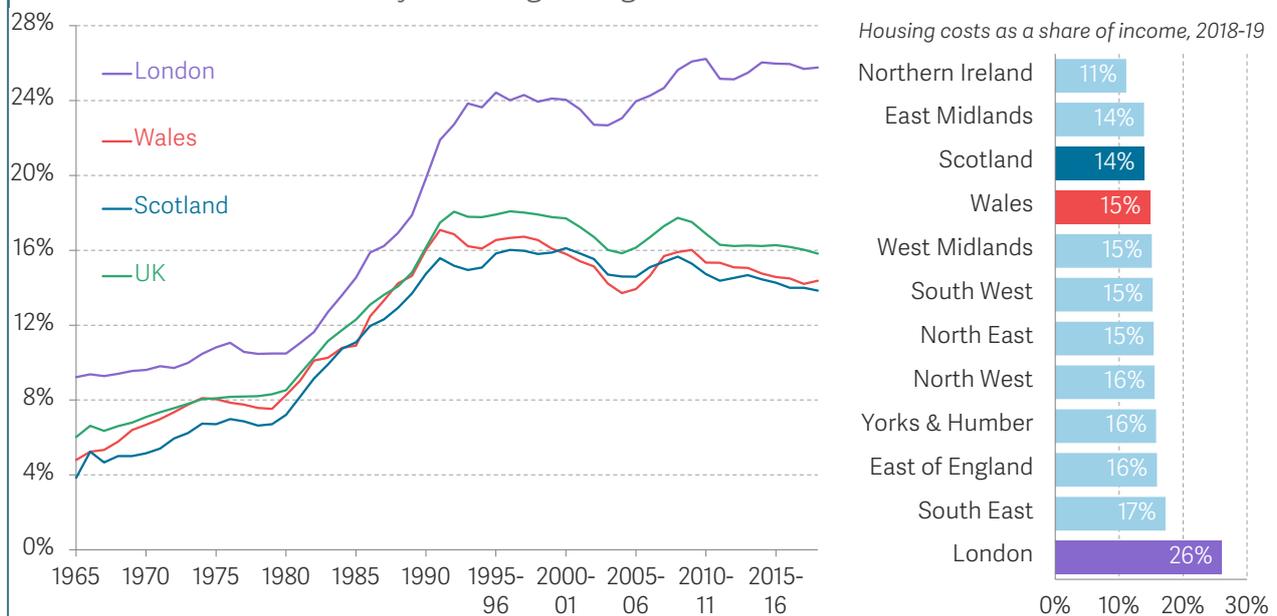
changed in Wales over the long-term and whether these changes have affected the gap in incomes between Wales and the UK, as Box 2 explores.

An important part of the living standards story in Wales concerns the long-term picture of housing costs and changes in tenure. Figure 13 shows the average housing cost to income ratio (HCIR) for different regions in England and nations in the UK with the left-hand panel detailing changes from 1965 to 2018-19 and the right-hand panel just

for 2018-19. It shows that across the country the HCIR increased markedly in the 1980s and the mid-2000s. It also highlights that recurring housing costs in Wales are slightly lower compared to the UK average (albeit still too high). The average HCIR in 2018-19 was 15 per cent in Wales, compared to 16 per cent in the UK and 26 per cent in London.

FIGURE 13: Housing costs in Wales are slightly lower compared to the UK but still too high

Three-year average ratio of housing costs as a share of income, by regions of England and nations of the UK, 3-year rolling average



NOTES: UK from 2002-03, GB before.

SOURCE: RF analysis of DWP, Household Below Average Income; DWP, Family Expenditure Survey.

What do housing costs mean for Wales' relative performance on income? First,

incomes "after housing costs" are lower in Wales compared to the UK despite

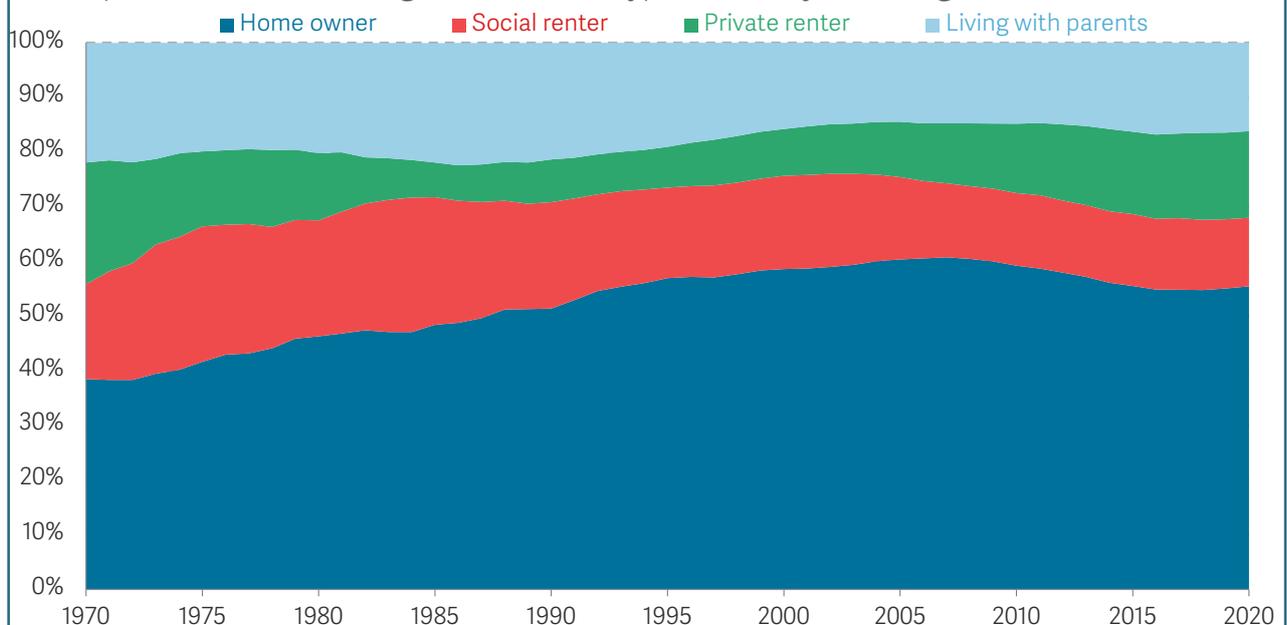
the slightly lower cost of housing relative to incomes. The “before housing cost” measure of income shows that the gap between Wales and UK is slightly bigger than the gap between after housing cost incomes. But, second, changing housing costs do not account for the (small) living standards convergence, given that the gap in before housing cost incomes has similarly shrunk slightly (from 12 per cent lower in 1996-97, to 10 per cent lower than the UK in 2018-19) and that the HCIR trends shown in Figure 13 have been similar for Wales and the UK.

As we have documented in previous Resolution Foundation reports,

significant differences in living standards exist between tenures – with housing costs having risen most for private renters across the UK as a whole.⁶ Likewise, the proportion of families living in different tenure types has changed dramatically over time (see Figure 14). Home ownership rates in Wales fell from around 2007, but have since ticked up very slightly. On the eve of coronavirus, there was a similar share of homeowners in Wales (56 per cent) to the UK as a whole (55 per cent). The private rented sector is slightly less of a feature in Wales than the UK, accounting for 15 per cent and 17 per cent of families respectively.

FIGURE 14: Home ownership rates in Wales, like the UK, have ticked up since 2016 after falling since 2007

Proportion of families living in each tenure type, Wales, 5-year average



NOTES: A family is a single adult or couple, and any dependent children. 18-year olds that live with parents and are not full-time students are not counted as separate family units and do not appear in these statistics. These people are likely to be in education at sixth form or college, and so are still ‘dependent children’.

SOURCE: RF analysis of ONS, Labour Force Survey; DWP, Family Expenditure Survey.

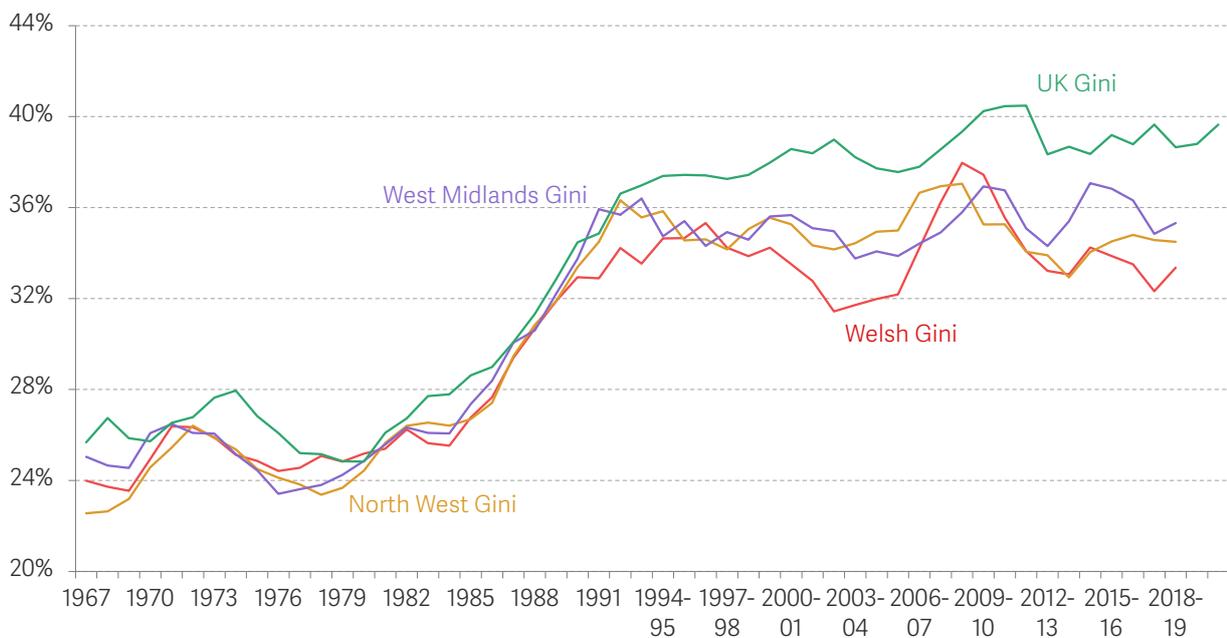
⁶ D Tomlinson, *Inequality Street: Housing and the 2019 general election*, Resolution Foundation, November 2019.

Income inequality within Wales is low relative to the UK, which reflects the low proportion of high-income taxpayers in Wales

In addition to how Welsh incomes have changed overall, and how that compares to the rest of the UK, the extent of income inequality within Wales deserves attention. Overall income inequality in Wales, as measured by the Gini coefficient after housing costs (where 0 signifies total income equality), is (at 33 per cent) low relative to the UK as a whole (40 per cent), as shown in Figure 15. In fact, income inequality in Wales, measured by the Gini, is more comparable to poorer parts of England including the West Midlands and North West (both 35 per cent). However, as with the rest of the UK, income inequality in Wales remains considerably above pre-1980s levels.

FIGURE 15: Income inequality in Wales is similar to the West Midlands and the North West of England

Gini coefficient (after housing costs), by selected regions and the UK



NOTES: UK from 2002-03, GB before.

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

Looking at recent history, income inequality in Wales is lower than it was during the Great Recession and roughly the lowest it has been since 2005-06.⁷ The caveat to all of this is the data that underpins the Gini coefficients, by region, is volatile. And, despite some rise in income inequality between 2002-03 and 2009-10, income inequality has broadly followed the path of the UK. In other words, income inequality has remained high

⁷ Inequality changes around the recession were in part driven by forestalling as a result of changes in tax rates.

but stable since the early 1990s. This is still too high. Nationally, the surge in the Gini coefficient that took place in 1980s has cemented the UK as one of the most unequal rich countries.⁸

Taking a step back, what is it that explains why the Welsh income distribution is less unequal than that of the UK as a whole? As Figure 16 shows, the Welsh income distribution (now looking at individuals rather than households) is slanted towards the bottom, with a much lower proportion of top-end incomes compared to the UK. As we showed in Section 2 there is a lower proportion of high-paying jobs in Wales compared to the UK as a whole. In the latest year of data (2017-18) only 1.2 per cent of taxpayers in Wales earned over £100,000 compared to 2.9 per cent of taxpayers in the UK. On the flipside, Wales is more heavily skewed towards the lower end of the income distribution. In 2017-18, 70.1 per cent of taxpayers in Wales earned under £20,000 compared to just 63.4 per cent of UK taxpayers.

FIGURE 16: The Welsh income distribution is slanted towards the bottom, with virtually no top-end compared to the UK

Distribution of total incomes, Wales compared to the UK



NOTES: Can include some taxpayers who are not entitled to a Personal Allowance whose total income can be less than the Personal Allowance of £11,500 for tax year 2017 to 2018. Incomes are allocated to regions and countries according to the residence of the recipient.

SOURCE: RF analysis of HMRC, Survey of Personal Incomes.

Given low incomes in Wales we might also expect relative poverty to be more of a feature in Wales compared to other regions of England and nations of the UK. Relative poverty

⁸ M Brewer, *What Do We Know and What Should We Do About Inequality?*, University of Essex, June 2019.

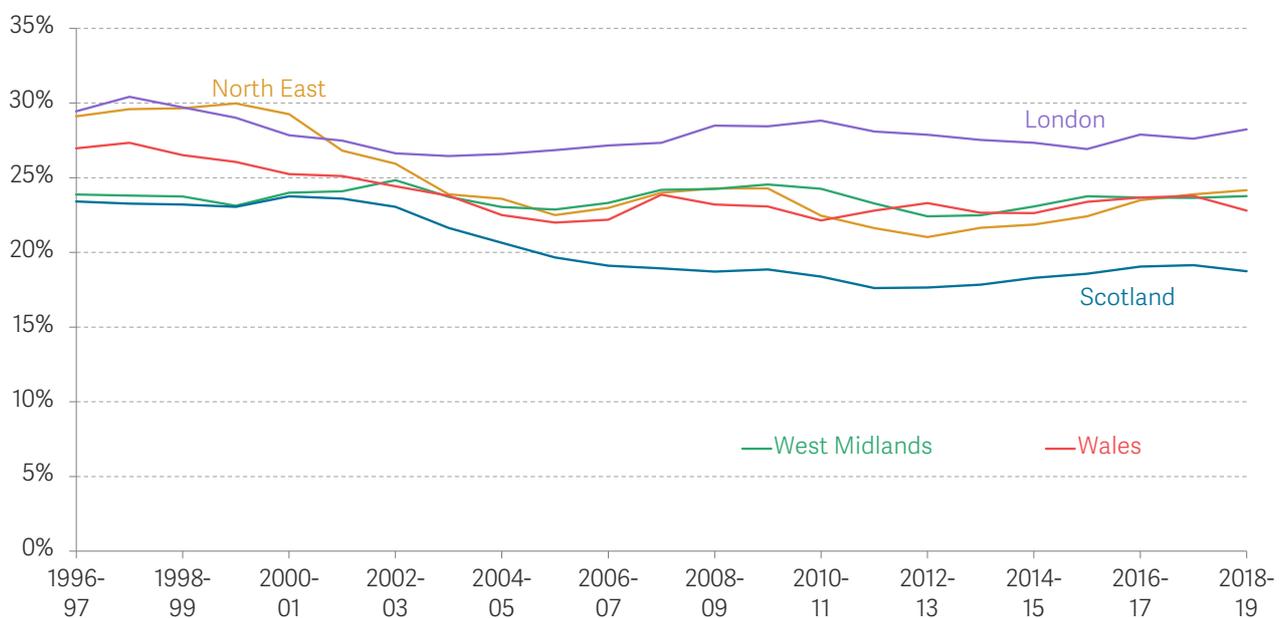
(with incomes below 60 per cent of the median) is an important indicator of living standards progress for poorer families.

Figure 17 charts relative poverty rates for all individuals. Overall, 23 per cent of individuals in households in Wales were in relative poverty in 2018-19.⁹ Wales had the fifth highest relative poverty rate of the 12 regions of England and nations of the UK, after London (28 per cent), the North East (24 per cent), the West Midlands (24 per cent) and Yorkshire and the Humber (24 per cent). It's worth noting that again Wales performs remarkably similarly to the North and Midlands, despite often being left out of discussions about 'levelling up'.

Compared to the highs of the 1990s, Welsh poverty rates have declined. The proportion of people living in households with income below 60 per cent of the median has fallen by 4 percentage points since 1996-97. Likewise, the proportion of children living in households below the relative poverty line has fallen by 8 percentage points between 1996-97 and 2018-19. But despite the proportion of children living in relative poverty falling over the long-term, there are still almost 200,000 children living in relative poverty in Wales.

FIGURE 17: 23 per cent of people in Wales were in relative poverty in 2018-19

Proportion of people living in relative poverty (below 60 per cent of median household income, after housing costs), by selected regions of England and nations of the UK



NOTES: 3-year average as per DWP guidance.
SOURCE: RF analysis of DWP, Households Below Average Income.

This report primarily draws on income and labour market data to assess Welsh living standards in 2020. But to truly understand where Wales stood pre-coronavirus requires

⁹ Note again that we are using three-year averages (ending in the year stated) for figures based on household income data.

a more holistic assessment that includes how Welsh wealth compares to the rest of the country. In Box 3 we provide analysis from the Wealth and Assets Survey (WAS) to show the share of total UK wealth attributed to Wales and how much savings families in Wales had going into the coronavirus crisis.

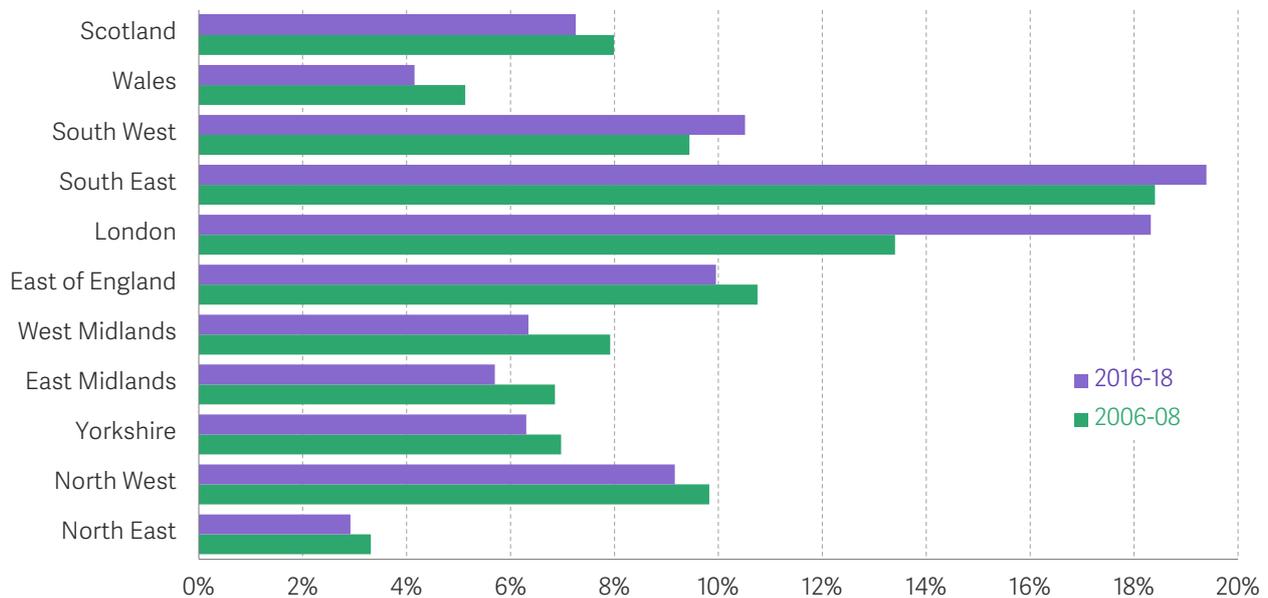
BOX 3: Wealth and saving in Wales

Using the WAS, we can look at the share of total British wealth attributable to Wales, and how this has shifted over time. The median household net wealth in Great Britain from April 2016 to

March 2018 was £286,600 compared to £253,200 in Wales. Figure 18 shows the share of wealth across British regions and nations in 2006-08 and 2016-18.

FIGURE 18: Wales has a low share of UK wealth and this has shrunk

Share of wealth across regions of England and nations of the UK



SOURCE: RF analysis of ONS, Wealth and Assets Survey.

In 2016-18 Wales accounted for 4.2 per cent of British wealth, down from 5.1 per cent in 2006-08. This is marginally less than the Welsh share of the British population which was 5 per cent over 2006-08 and has since slightly fallen

to 4.9 per cent over 2016-18. The only English regions to have increased their share of British wealth over this period are the South West, East and London. In other words, across-region wealth inequality has risen. The most

important factor driving these changes has been property price changes.¹⁰ Since 2006-08 real average property prices in Wales have only risen by 10 per cent, compared to 60 per cent in London. In March 2020, Wales had the fourth lowest average house price¹¹, at £160,000, compared to £230,000 UK-wide.

The WAS also provides important information on household savings leading up to the current crisis. Figure 19 tells us how prepared family finances were on the eve of coronavirus. It charts the distribution of gross family wealth across selected regions of England and nations of the UK. It shows that in Wales 42 per cent of families had less than £1,500 going into the current crisis.

FIGURE 19: 42 per cent of families had less than £1,500 going into the crisis

Distribution of gross family financial wealth: selected regions of England and nations of the UK, 2016-18



NOTES: Figures are averaged over 2016 to 2018.
 SOURCE: RF analysis of ONS, Wealth and Assets Survey.

¹⁰ For more on this see: 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.

¹¹ Source: RF analysis of HM Land Registry, UK House Price Index.

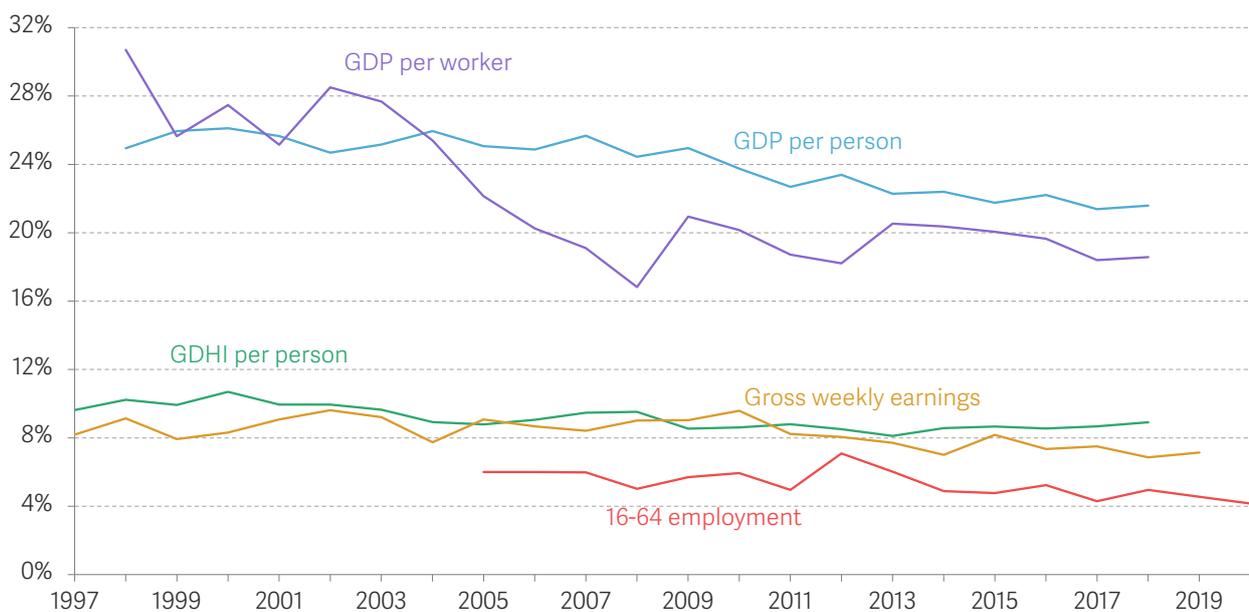
Gaps in productivity, incomes, earnings and employment have all shrunk within Wales

We often hear that economic gaps between and within places have grown. UK-wide income, employment and pay gaps have all shrunk since the mid-1990s.¹² But, productivity gaps across the UK have grown. How does Wales fit into this story of shrinking gaps?

In Wales gaps have also shrunk. This is true across a number of domains including employment, pay and income (see Figure 20). But, Wales stands out compared to the rest of the UK in that productivity gaps within Wales have also shrunk. This means that between 1997 and 2020 the lowest performing Local Authorities in Wales have seen the most catch-up on pay and productivity.

FIGURE 20: Geographical gaps – including on productivity – have shrunk within Wales

Coefficient of variation for different measures, across Welsh Local Authorities



NOTES: GDHI = Gross Disposable Household Income.
SOURCE: RF analysis of ONS.

Figure 20 charts the coefficient of variation (a measure of geographic spread) for GDP per worker and per person, Gross Disposable Household Income (GDHI) per person, gross weekly earnings and working-age employment for the 22 Local Authorities in Wales. A falling coefficient of variation implies Local Authorities have become more 'similar'.

¹² S Clarke, Mapping Gaps: Geographic inequality in productivity and living standards, Resolution Foundation, July 2019.

As discussed in Section 2, employment rate differences across Wales have shrunk. Turning to real weekly pay gaps, the lowest earning areas have seen double the pay growth of the highest earning areas between 1997 to 2019. For the five Local Authorities with the highest real weekly pay in 1997 (Blaenau Gwent, Bridgend, Caerphilly, Cardiff & Carmarthenshire) real pay, on average, has grown by 9 per cent to 2019. But for the five lowest paying Local Authorities in 1997 (Rhondda Cynon Taff, Powys, Pembrokeshire, Gwynedd & Conwy) pay growth has averaged 20 per cent from 1997-2019. A rising minimum wage helps explain why low pay areas have caught up.

When it comes to geographical gaps, what is most striking about Wales compared to the UK as a whole is that productivity gaps within Wales have also shrunk. Figure 20 shows that output per person and per worker gaps between Local Authorities have declined since 1997. But, of all the metrics gaps in productivity still remain the largest. For example, significant gaps remain between the three highest output per worker Local Authorities (Pembrokeshire, the Vale of Glamorgan and Monmouthshire) and the other 19 Local Authorities.

Differences in the measure of output matter too. For example, as research from the Financial Times¹³ has shown, high output-per-head doesn't always translate into high incomes for residents specifically, with workers in places like Cardiff tending to live elsewhere and commute in.

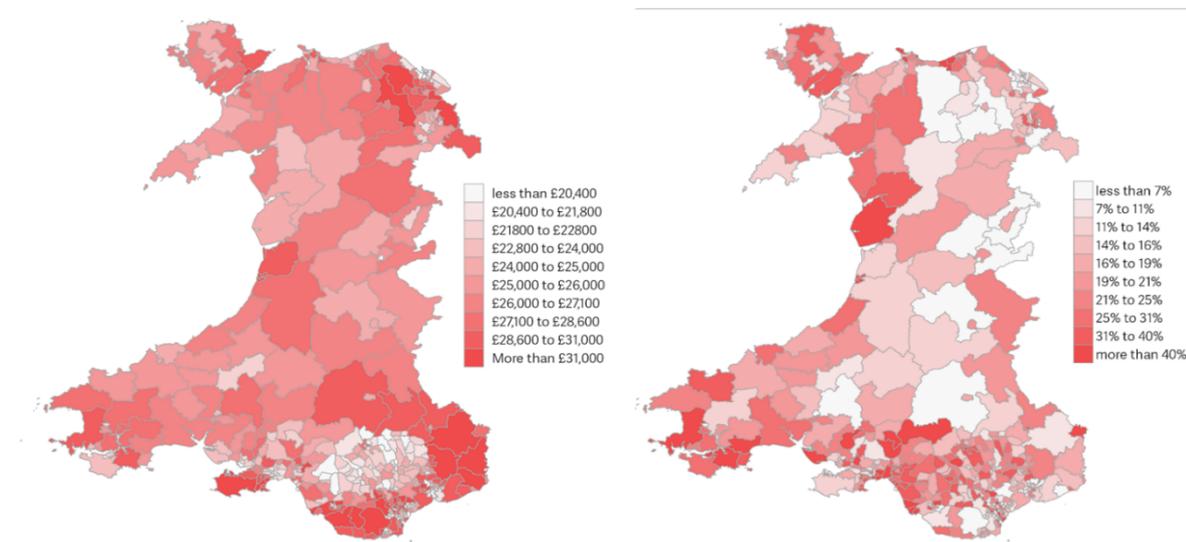
Disposable incomes, however, remain the best a proxy for overall living standards. Given that earnings from work are the largest single component of household income for most working-age households, it is then perhaps unsurprising that closing gaps in employment and weekly earnings have also meant closing gaps in GDHI. This is evident not just at a Local Authority level but also at a neighbourhood (MSOA¹⁴) level. Figure 21 shows typical household income after housing costs by local area on the left-side, and the change in the real median between 2011-12 and 2017-18 on the right. It reveals that low-income areas within Wales have caught up over the 2010s.

¹³ C Giles, Levelling up: how wide are the UK's regional inequalities?, Financial Times, March 2020.

¹⁴ MSOAs refer to Middle Layer Super Output Areas.

FIGURE 21: **Low-income areas within Wales have caught up over the 2010s**

Real (CPI-adjusted) median equivalised household disposable income, after housing costs, by local area, 2017-18 (left side); compared to change in the real median between 2011-12 and 2017-18 (right side)



SOURCE: RF analysis of DWP, Household Below Average Incomes; ONS, Small Area Income Estimates.

Focusing on local areas reveals the unusual economic geography of Wales. Just looking at the MSOA boundaries in Figure 21 reveals the low population density of mid-Wales. MSOAs are a geographic hierarchy which contain a minimum population of 5,000 people and an average of 7,000 people each. The largest areas, then, are parts of Wales with very low population density. Higher-income areas also tend to be located in certain parts of Wales. Areas contiguous with England in the South, South East and North East of Wales tend to have the highest incomes – with median incomes in parts of Cardiff and the Value of Glamorgan as high as £39,000 in 2017-18.

Overall, the trend of geographical income, pay and employment gaps falling is a shared story for Wales and the UK as a whole, but the trend of productivity gaps also falling is more unique to Wales. But this is not purely good news, as it will reflect the low-paid nature of the Welsh workforce and relatively low proportion of high-productivity jobs, which we have discussed in Section 2.

Yet all of these statistics paint a picture of Wales before coronavirus: we must next turn to what the coronavirus crisis has meant for Welsh workers so far.

Section 4

The labour market impact of coronavirus

The jobs market impact of coronavirus in Wales, so far, broadly mirrors the UK as a whole. Every region of England or nation of the UK has been hit hard by the current crisis. This is unlike the 1980s recession in which the sectoral nature of the crisis was more geographically specific to former-industrial areas like Wales.

HMRC's Real Time Information data shows that the number of paid employees in Wales fell by 25,000 between March and September 2020, a fall of 2.0 per cent compared to 2.3 per cent across the UK as a whole. Hours worked fell by 13.8 per cent on an annual basis in the three months to May 2020, compared to the UK average of 19.5 per cent. Take-up of the Coronavirus Job Retention Scheme in Wales reached 32 per cent at its peak, with this figure falling to 10 per cent as of 31 August. The Welsh claimant count rose sharply between March and May (up from 3.9 per cent to 7.8 per cent of workers). The areas of Wales which have so far seen the highest increases in the claimant count as a proportion of working-age residents are Newport (3.6 percentage points), Rhondda Cynon Taff and Conwy (both 3.3 percentage points). With national lockdowns announced across the UK (and Wales starting their lockdown earlier) we should expect a difficult winter.

The initial impact of the coronavirus crisis on jobs has been large, broadly mirroring the UK as a whole

The current labour market crisis has borne down particularly hard on certain groups of workers. Previous Resolution Foundation research shows that it is the youngest and lowest-paid workers who have been hit hardest by the current crisis.¹ Likewise, recent survey evidence reveals that self-employed workers have been particularly hard hit.

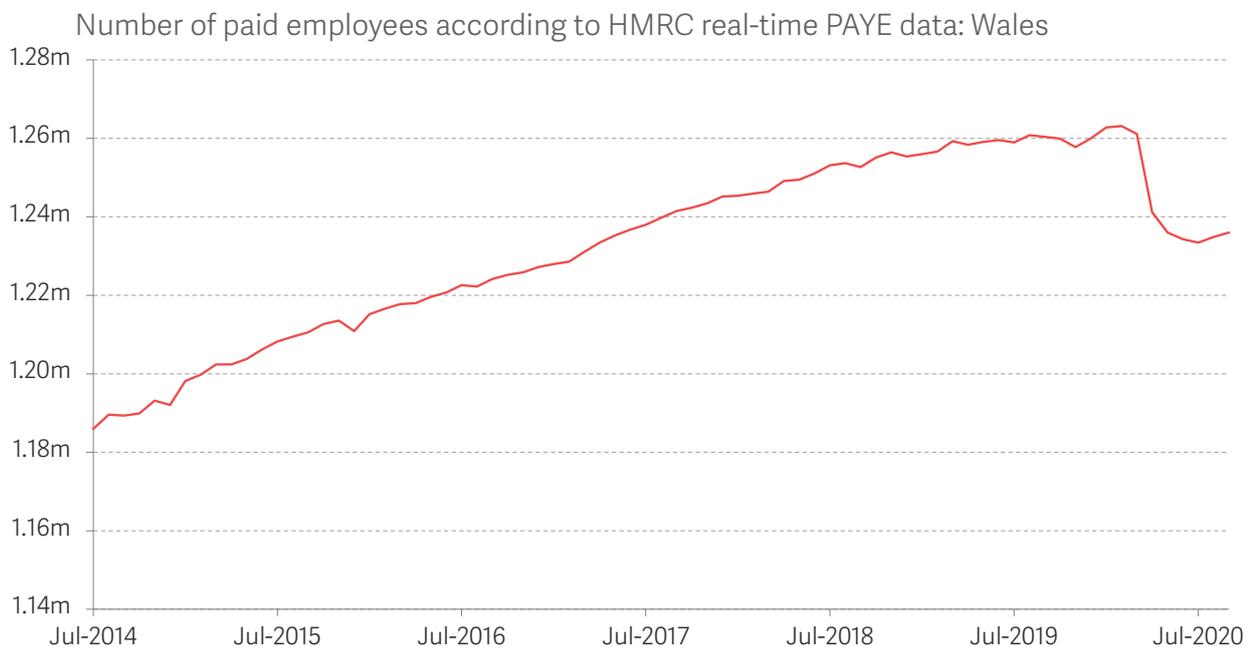
¹ M Brewer et al., *An intergenerational audit for the UK, 2020*, Resolution Foundation, October 2020.

Nationally, some 10 per cent of those who were self-employed in February are now either unemployed or economically inactive compared to 4 per cent of those who were employees.²

As the crisis has evolved the geographic nature of it has also become clearer. Every part of the country – including Wales – has experienced significant jobs disruption. This is the opposite of the 1980s recession which had a more geographic focus than the current crisis. Former industrial areas like Wales saw higher unemployment, and lower employment, during the 1980s than other parts of the UK (as shown in Section 2). Fast forward to the coronavirus crisis, and all local and regional labour markets have been hit hard.

The timeliest labour market information reveals significant jobs disruption to Wales. HMRC's Real Time Information data shows that the number of paid employees in Wales fell by 25,000 between March and September 2020 (see Figure 22). This is a fall in employee numbers of 2.0 per cent, which is similar to the UK as a whole (2.3 per cent fall).

FIGURE 22: The number of paid employees registered for PAYE fell by 25,000 between March and September 2020



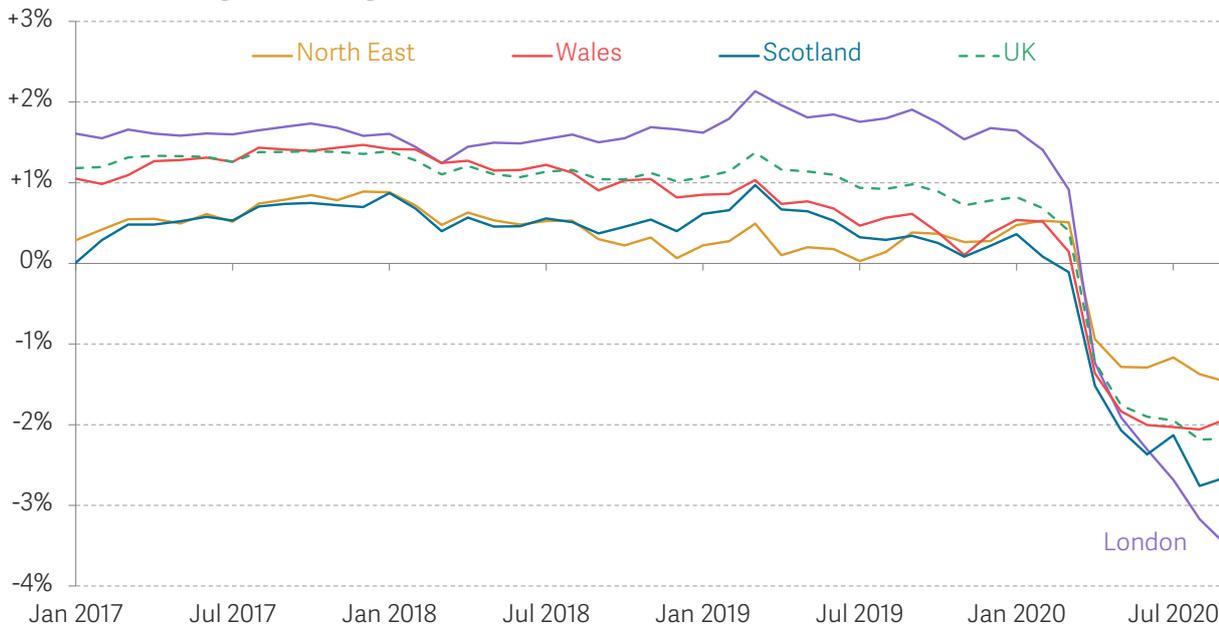
SOURCE: RF analysis of HMRC, Pay As You Earn Real Time Information.

² M Brewer et al., Jobs, jobs, jobs: Evaluating the effects of the current coronavirus crisis on the UK labour market, Resolution Foundation, October 2020.

Alongside this huge hit to the Welsh labour market, it's worth highlighting how the jobs crisis has been felt in other parts of the country. Figure 23 shows the change in the number of payrolled employees, from the same month in the previous years, for a selection of UK nations and English regions between the start of 2017 and September 2020. Like the rest of the country, the number of Welsh employees plummeted in the months following March. The number of employees in Wales in September is down by 2 per cent compared to the same time last year. This is broadly similar to the proportional change in the number of payrolled employees UK-wide. But the number of paid employees registered for PAYE fell much more dramatically in London, for example.

FIGURE 23: So far, the change in the number of employees in Wales mirrors the UK average

Change in number of payrolled employees, from the same month in previous year, selected regions of England, nations of the UK and the UK



SOURCE: RF analysis of HMRC, Pay as You Earn Real Time Information.

Overall, this timely data for PAYE employees underscores the speed and scale of the hit to the Welsh jobs market so far.

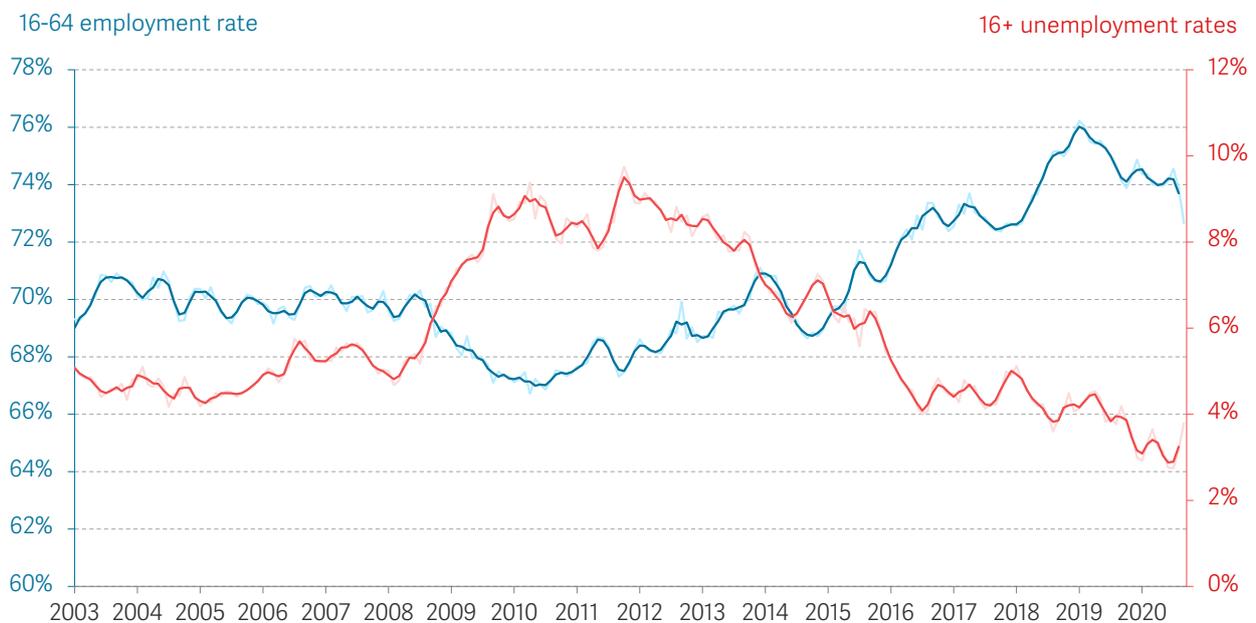
Unemployment and employment have remained remarkably unchanged in the (less timely) official statistics

Given that the change to paid employees was evident as early as April, it is perhaps surprising that official labour market statistics show almost no change over the lockdown period. The Labour Force Survey is the best source of consistent labour market

information. But, as shown in the three-month averages (the darker lines) in Figure 24, there is little sign of this economic hit when we look at either 16+ unemployment rates or working-age employment rates. The working-age employment rate in September is down slightly from 74.1 per cent in March to 73.7 per cent in August 2020; while the 16+ unemployment rate is actually down slightly from 3.4 per cent in March to 3.2 per cent in August. However, it is worth highlighting that the UK-wide unemployment-rate has begun increasing in recent periods.³ As recent Resolution Foundation survey evidence suggests,⁴ official unemployment figures so far are likely to significantly underplay worklessness.

FIGURE 24: Headline unemployment and employment rates have broadly remained unchanged

16-64 employment rate (left side) and 16+ unemployment rate (right side): Wales



NOTES: Faint lines refer to single month-estimates while harder lines refer to three-month data (official measures of employment and unemployment).

SOURCE: RF analysis of ONS, Labour market statistics

But the Welsh claimant count has risen sharply

Alongside HMRC's Real Time Information on employee numbers, a second source of administrative data is the 'claimant count' – those claiming unemployment-related benefits. Although the claimant count is not a good measure of unemployment or long-term trends, it is helpful to understand short-term changes and differences between

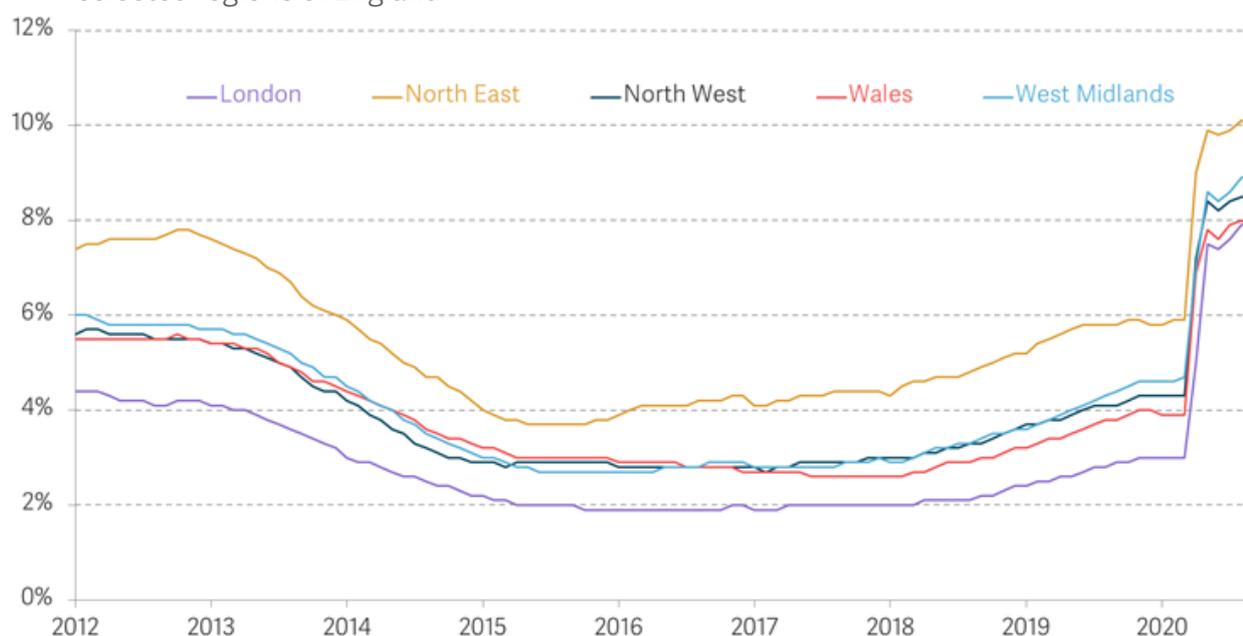
³ Office for National Statistics, Labour market overview, UK: October 2020, Estimates of employment, unemployment, economic inactivity and other employment-related statistics for the UK, October 2020.

⁴ M Brewer et al., Jobs, jobs, jobs: Evaluating the effects of the current coronavirus crisis on the UK labour market, Resolution Foundation, October 2020.

places.⁵ Figure 25 shows the claimant count rose most dramatically in Wales in the initial period of the crisis between March and April (at a time when the headline measure of unemployment remained flat). Overall, the Welsh claimant count rose from 3.9 per cent to 7.9 per cent between March and September. As the crisis has progressed it is (again) London that has seen the largest percentage point increase in unemployment-related benefit claims.

FIGURE 25: **Unemployment-related claims have risen in line with the rest of the UK**

Proportion of working-age adults claiming unemployment-related benefits, Wales and selected regions of England



SOURCE: RF analysis of ONS, Claimant count by region.

Of course, regional aggregations often smooth over key local differences. Every Local Authority in Wales has seen an increase in the proportion of working-age residents claiming benefits primarily for the reason of being unemployed. But the hit to local areas has not been consistent over time. Between March and April, the largest increases in the claimant count were in tourism-reliant areas (including Pembrokeshire and Conwy).⁶ This first phase of the crisis hit areas particularly reliant on travel from elsewhere (i.e. coastal and tourism-reliant areas like London).

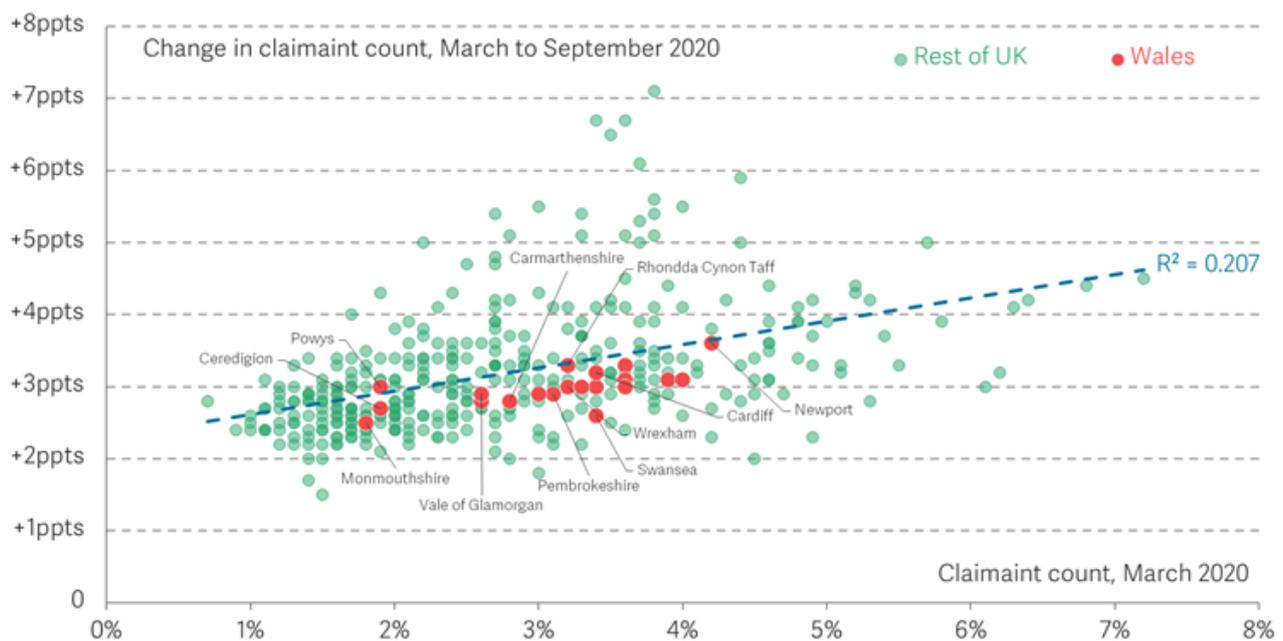
⁵ For an in depth discussion on the (mis)use of the claimant count, and its issues with over-reporting claims see: M Brewer, L Gardiner and K Handscomb, The truth will out: Understanding labour market statistics during the coronavirus crisis, Resolution Foundation, July 2020.

⁶ For an initial assessment of key local differences in the impact of coronavirus see: C McCurdy, Local differences: Responding to the local economic impact of coronavirus, June 2020.

The latest data, covering September, reveals a somewhat different picture. Figure 26 charts the relationship between the claimant count in March, and the percentage point change in claims up to September. There is a small, but positive correlation between areas with higher rates of claimant unemployment before the crisis and the increase in claimant unemployment during the crisis. In short, areas with an underperforming labour market were more likely to have experienced a bigger labour market shock this year. In Wales, the areas with high proportions of working-age claimants have seen the biggest percentage points increase in the claimant count.⁷ For example, the areas which have seen some of the biggest claimant count increases are Newport (3.6 percentage points), Rhondda Cynon Taff and Conwy (both 3.3 percentage points); all of which had relatively high pre-crisis counts.

FIGURE 26: All parts of Wales have seen the claimant count increase

Working-age claimant count compared to change in working-age claimant count, Local Authorities, residence-based: UK, March to September 2020



SOURCE: RF analysis of ONS, Claimant count by unitary and local authority.

The decline in actual hours worked has been very large, due to furloughing

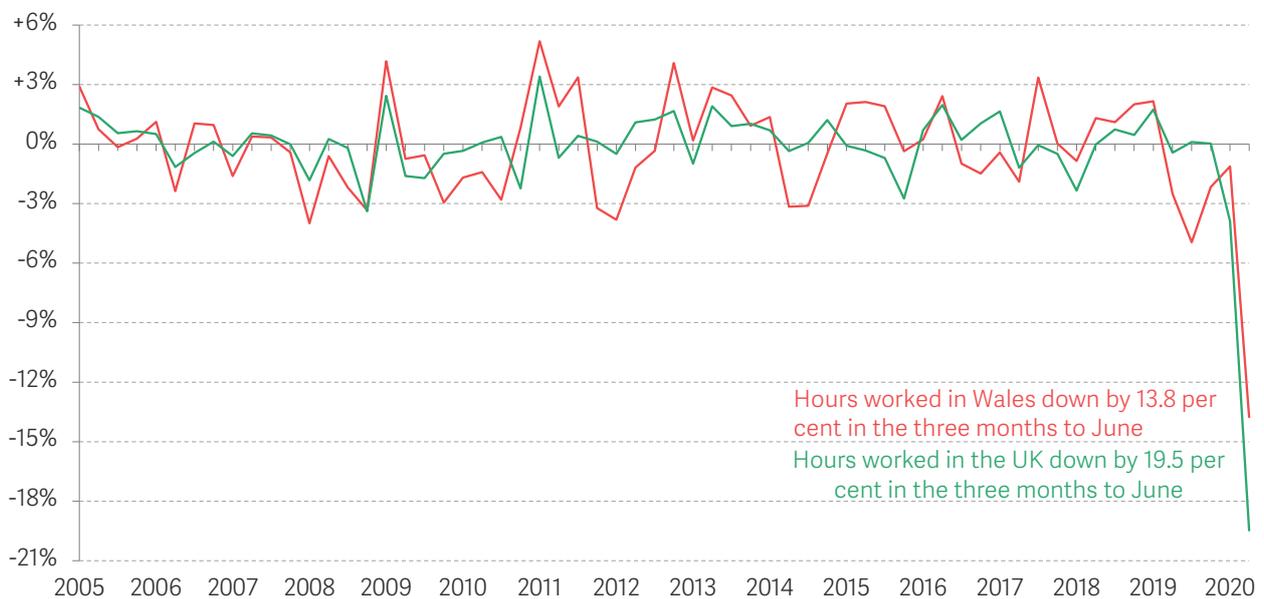
Aside from the number of paid workers declining, how many hours someone works is an important labour market measure because it cuts through the effect of the government

⁷ London boroughs buck this trend national with: those Local Authorities were middle-ranking in terms of claimant count in March 2020 but have seen the biggest percentage point increases in the claimant count from March to September 2020.

furlough schemes. The coronavirus pandemic has affected the number of average hours worked across the country. As work from the Office for National Statistics has shown, the numbers of workers temporarily away from work has had a large impact on average actual hours worked (particularly in the hospitality industry).⁸ Figure 27 shows that hours worked are down 13.8 per cent in Wales, compared to 19.5 per cent in the UK, in the three months to June 2020. These are the largest falls on record, and much of this can be attributed to the fact that as many as 32 per cent of Welsh workers were furloughed at peak take-up.

FIGURE 27: Hours worked were down 13.8 per cent in Wales in the three months to June, compared to 19.5 per cent in UK, the largest fall on record for both

Annual change in hours worked over the last three months



SOURCE: RF analysis of ONS, Labour Force Survey.

The Coronavirus Job Retention Scheme has protected jobs in Wales – in line with the rest of the country

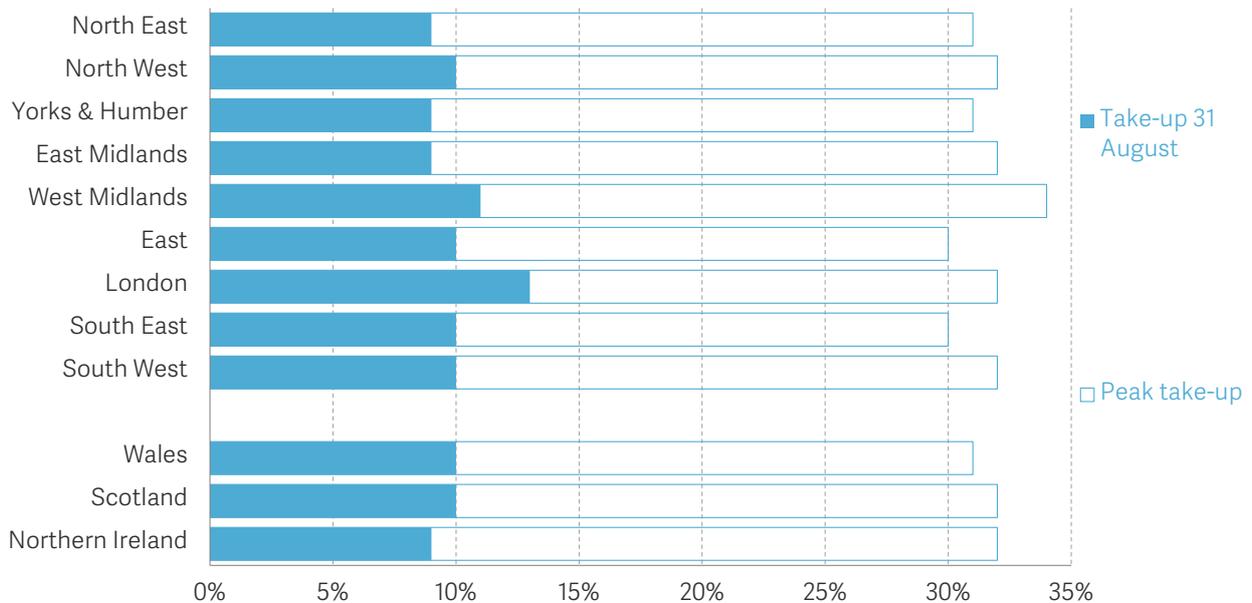
At present, we know as much about the economic impact of coronavirus from administrative records of government support take-up as we do from official labour market statistics. HMRC data on Coronavirus Job Retention Scheme (CJRS) claims reveals similar rates of peak take-up across the regions of England and nations of the UK. At the peak, 32 per cent of Welsh workers were furloughed – as Figure 28 shows – with the West Midlands being the region with the highest CJRS take-up (at 34 per cent). Fast

⁸ Office for National Statistics, Early insights of how the coronavirus (COVID-19) pandemic impacted the labour market, July 2020.

forward to take-up at the end of August⁹ and Welsh furlough rates mirror the rest of the UK, with London again as an outlier.

FIGURE 28: At the peak, almost a 32 per cent of the Welsh workforce was furloughed

Proportion of workers furloughed by nations of England and regions of the UK



SOURCE: RF analysis of ONS & HMRC.

However, at the peak of the crisis it should be noted that there was some differences between the Local Authorities within Wales. Gwynedd (36 per cent), Conwy and Flintshire (both 35 per cent) and Pembrokeshire (34 per cent) had the highest furlough take-up, compared to Neath Port Talbot (27 per cent) and Newport (28 per cent) with the lowest furlough take-up. Across the UK as a whole every single Local Authority saw at least a fifth of their workforce furloughed.

The current crisis has hit certain industries particularly hard, with over one-quarter of Welsh workers still furloughed in certain sectors

As the crisis has evolved, local restrictions in Wales have led to economic activity recovering slower in some places compared to others. By the beginning of October, areas not under initial local lockdowns – Pembrokeshire, Powys and Anglesey – understandably saw the least reduction in leisure and retail activity (proxied by Google mobility data)¹⁰. On the flipside, Cardiff’s recovery has been much slower, with visits down by 36 per cent in late October, and with public transport taking a further hit to activity after

⁹ These are cumulative take-up rates released in the HMRC Coronavirus Job Retention Scheme statistics: October 2020 release.

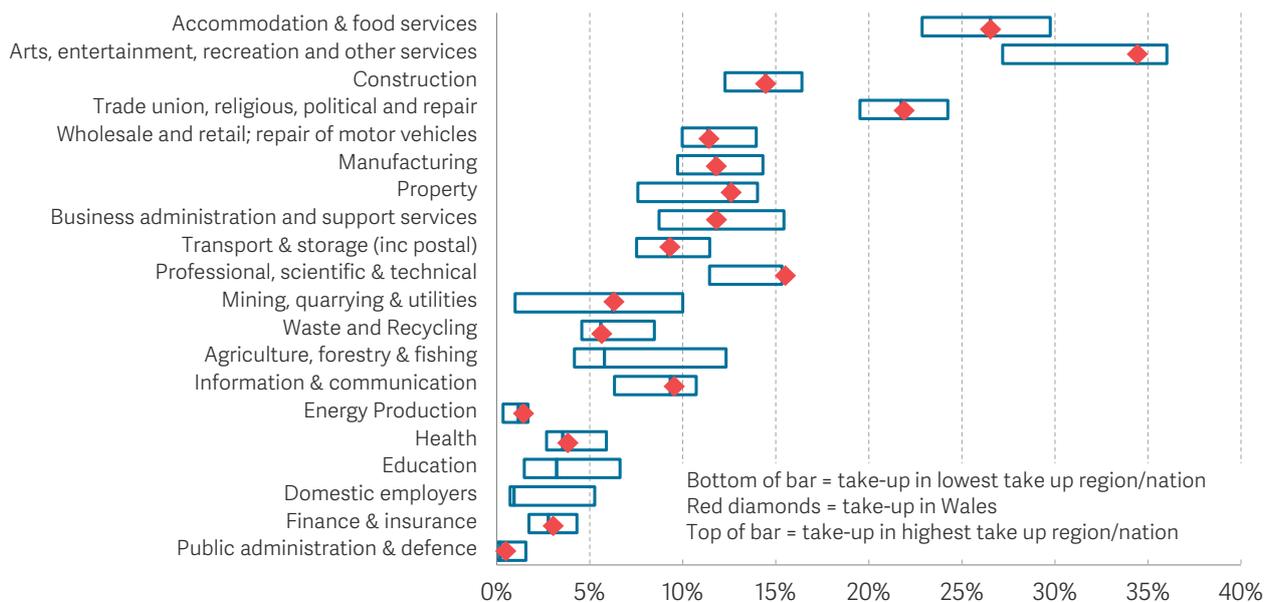
¹⁰ Google, COVID-19 Community Mobility Report, October 2020.

the introduction of a local lockdown. More generally, cities like Cardiff, London and Manchester have seen much weaker returns to economic activity than the national average.

Falls in leisure and retail activity highlight the sectoral nature of the current crisis. This point is very clearly illustrated by HMRC’s CJRS data. On 31 August, 33 per cent of those working in arts, entertainment and recreation, and 27 per cent of hospitality workers were still furloughed nationally; and timelier survey data¹¹ shows that up to 32 per cent of workers in hospitality and arts and recreation were still furloughed in mid-September. This is compared to the all-sector average of 11 per cent.

FIGURE 29: This jobs crisis is more about sectors than regions of England or nations of the UK

Estimated cumulative furloughed workers as a proportion of employees, by sector, and range across nations of the UK and regions of England, as at 31 August



NOTES: The last time that HMRC released regional/ sectoral data was for claims received up to 31 July. This estimate uses a combination of overall regional take-ups which are available until 31 August combined with national take-ups by sector up to 31 August. We estimate furlough take-up first by applying the change in take-up by industry using national statistics by sector and then by adjusting the number of workers furloughed in each sector so that the total proportion of workers furloughed matches the figures provided by HMRC for the end of August.

SOURCE: RF analysis of HMRC, Coronavirus Job Retention Scheme Statistics.

Figure 29 shows an estimate for the cumulative proportion of workers furloughed as at 31 August for Wales (shown by the red diamonds) as well as the range across the nations of the UK and regions of England (the lower-end of the bar shows the region/nation with the lowest take-up while the higher-end of the bar shows the region with the highest take-up). It underlines the uniquely sectoral – more than geographic – nature of this crisis. But

¹¹ Office for National Statistics, *Business Impact of Coronavirus (COVID-19) Survey*, October 2020.

regional differences remain, and our estimates suggest that as at 31 August up to 34 per cent of Welsh workers in the arts and entertainment industry were still furloughed, with only London having a higher share still furloughed. We consider the implications of the sectoral nature of this jobs crisis in Section 5 of this report.

When it comes to unemployment, there are undoubtedly worse statistics still to come. National lockdowns announced across the UK (with Wales starting their lockdown earlier) mean we should expect a difficult winter, and we now turn to what comes next for Welsh living standards.

Section 5

Where next?

Before concluding, this penultimate section outlines the new challenges thrown up by the coronavirus as well as existing demographic challenges. We show that future unemployment will be the challenge for the indefinite future. And, if job losses are concentrated in hard-hit sectors this will disproportionately hit low-and-middle-income workers. 8 per cent of workers in the poorest fifth of the household income distribution work in hospitality compared to 2 per cent in the highest income fifth. This crisis could also turbocharge the decline of retail that has been going on for some time. The other major challenge to the future of working is the working-from-home 'revolution'. Its particular bias to higher paid, more productive, jobs could be an opportunity for Wales going forward.

Alongside the outlook for jobs, the most straightforward challenge to low-income families in Wales is whether the £1,000-a-year increase in Universal Credit and Tax Credits is extended or not. Welsh incomes will be particularly sensitive to this benefit change, with 35 per cent of working-age households currently set to see a large income fall next April if the increase is withdrawn.

Unemployment will be the challenge for the indefinite future – and if job losses are concentrated in hard-hit sectors this will disproportionately affect low-and-middle-income workers

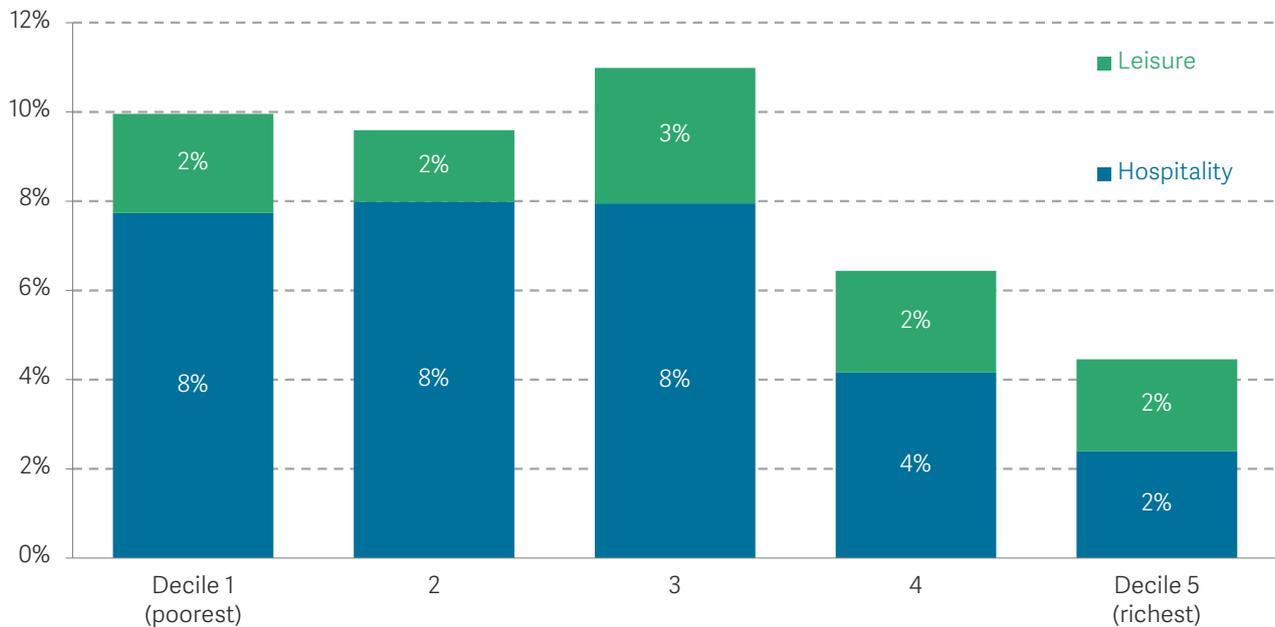
In this section we focus on new challenges thrown up by the coronavirus crisis and existing challenges that have taken many years to build and won't be easily undone by the virus. With the 'second wave' of the virus, the future path of the Welsh living standards remains highly uncertain. But given what we already know about the labour market impact and its sectoral nature so far, the outlook for Welsh jobs – as with the rest of the UK – is alarming.

As we have shown in Section 4, official labour market statistics are beginning to catch up with what we already knew was happening: increasing unemployment rates. But the

scale of the problem is not yet known with certainty. At a nation-wide level the OBR’s ‘central’ scenario predicts the unemployment rate in the UK to rise from 3.9 per cent at the start of 2020 to a peak of 11.9 per cent. If Welsh unemployment were to rise in line with that forecast, an additional 122,000 people could become unemployed. Although there is huge uncertainty about this outlook (with the Bank of England having a slightly less pessimistic forecast), this would mean rates of unemployment in Wales that have not been seen since the 1980s recession, when Welsh unemployment rates hit 14.7 per cent.

FIGURE 30: 8 per cent of workers in the poorest fifth of the household income distribution work in hospitality compared to 2 per cent in the highest income fifth

Proportion of in-work adults working in hospitality or leisure, by household income quintile, after housing costs, 2016-17 to 2018-19, Wales



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

Perhaps most concerning is the impact the ongoing crisis might have workers in particularly hard-hit sectors. In the latest round of the ONS’s Business Impact of Coronavirus Survey (BICS), the arts, entertainment and recreation (27.5 per cent) and the hospitality industry (24 per cent) still had significant chunks of their workforce on partial or full furlough leave.¹ The BICS data also shows that the hospitality sector has the highest proportion of businesses with no cash reserves. As Figure 7 reveals, these signs are particularly concerning for adults in low-and-middle-income households. In Wales, 8 per cent of workers in the poorest fifth of the household income distribution work in hospitality compared to 2 per cent in the highest income fifth. And, 11 per cent of workers

¹ Office for National Statistics, Business Impact of Coronavirus (COVID-19) Survey, October 2020.

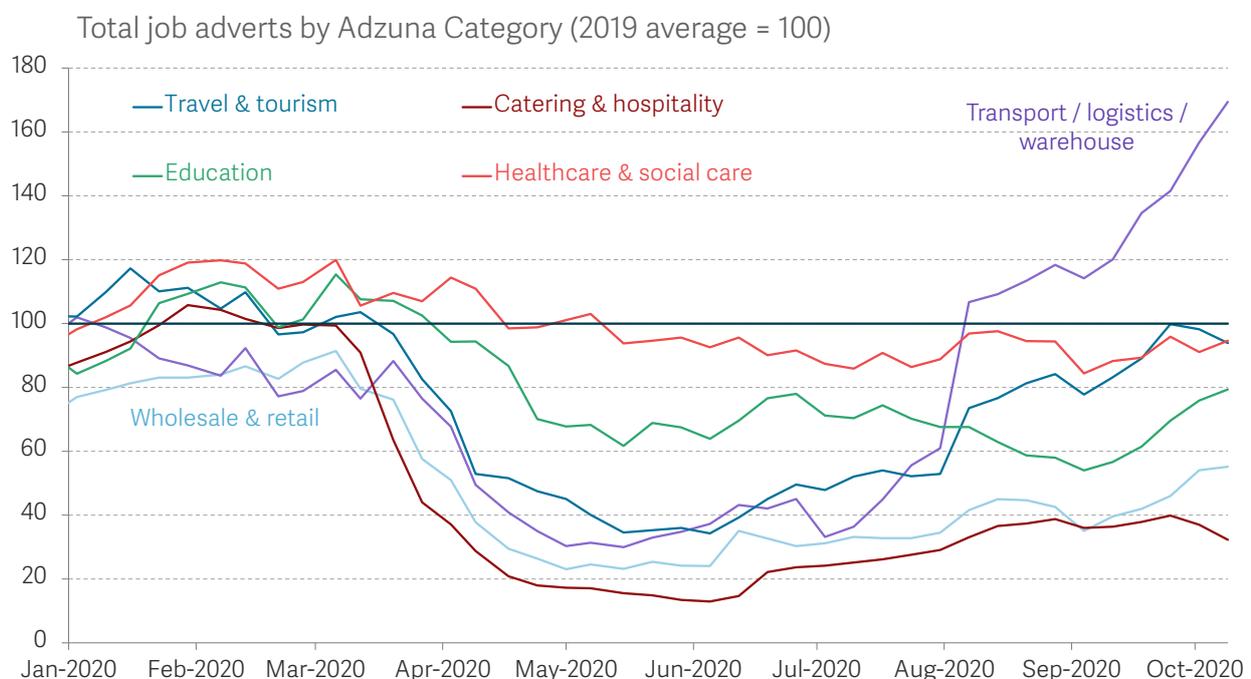
in the middle fifth of the income distribution work in leisure and hospitality compared to just 4 per cent in the richest income quintile.

The current crisis poses a significant challenge to current and future demand in key sectors like wholesale and leisure – and office working could pave the way for a more productive economy

The present crisis also poses a challenge to the current and future demand for specific skills in Wales.² Some of the hardest-hit sectors had already experienced a structural decline (retail) while for hospitality, leisure and the arts (which accounts for 6 per cent of workers in both the UK and Wales), what is happening right now is cyclical. This current crisis could turbocharge the decline of retail that has been going on for some time.³

Figure 31 shows the change in total job adverts since the start of 2020, indexed relative to the 2019 average. At a national level, wholesale and retail job adverts are still 60 per cent lower than their 2019 levels whereas hospitality vacancies are still two-thirds below their 2019 average. This is particularly relevant to Wales, where a slightly higher share of workers are in hospitality (6.2 per cent) compared to the UK as a whole.

FIGURE 31: UK-wide wholesale job adverts are 40 per cent of their 2019 averages



SOURCE: RF analysis of Adzuna, Online Job Adverts.

² Given the lack of available data we focus some of the analysis here on national level data.

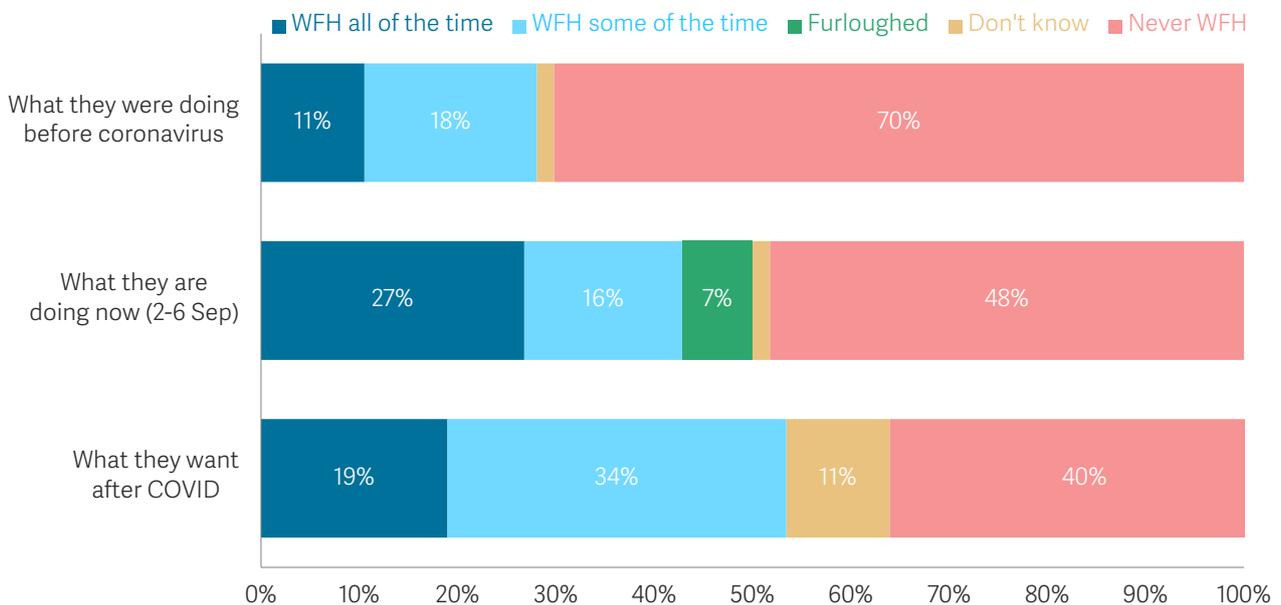
³ D Tomlinson & L Gardiner, Sorry, we're closed: Understanding the impact of retail's decline on people and places, Resolution Foundation, February 2019.

Recent Resolution Foundation survey analysis⁴ also revealed that those people looking for work –who are in the hardest-hit sectors of leisure and hospitality – are searching for new jobs in those exact sectors, precisely where vacancies are lacking. As the report also shows there is comparatively little jobseeker interest in social care, despite Figure 31 showing that vacancies in health care and social care have held up over 2020. This sector is an important part of the Welsh workforce with some 15 per cent employed in health and social care jobs (higher than the UK as a whole), but so far there is little sign of a rebalancing of jobseeker interest.

The coronavirus crisis has paved the way for workers across Wales to work from home en-masse. Figure 32 shows that of those who were in work pre-coronavirus, 70 per cent in Wales (and the Midlands) never worked from home. Just three-in-ten did: split between 11 per cent who did so the whole time and 18 per cent who did so some of the time. But at the start of September, 43 per cent of workers in Wales (and the Midlands) worked from home some or all of the time; and 53 per cent wished to do so 'after COVID'.

FIGURE 32: More workers now have a taste for the work-from-home lifestyle

Proportion of workers working pre-coronavirus and expecting to still be in the workforce post-coronavirus, and their views on working from home (WFH): Wales/ Midlands



SOURCE: RF analysis of YouGov, Working from home.

Recent survey evidence⁵ confirms that ICT, and the professional, scientific and technical activities industry had 77 per cent and 63 per cent, respectively, of their workers working

⁴ M Brewer et al., *Jobs, jobs, jobs: Evaluating the effects of the current coronavirus crisis on the UK labour market*, Resolution Foundation, October 2020.

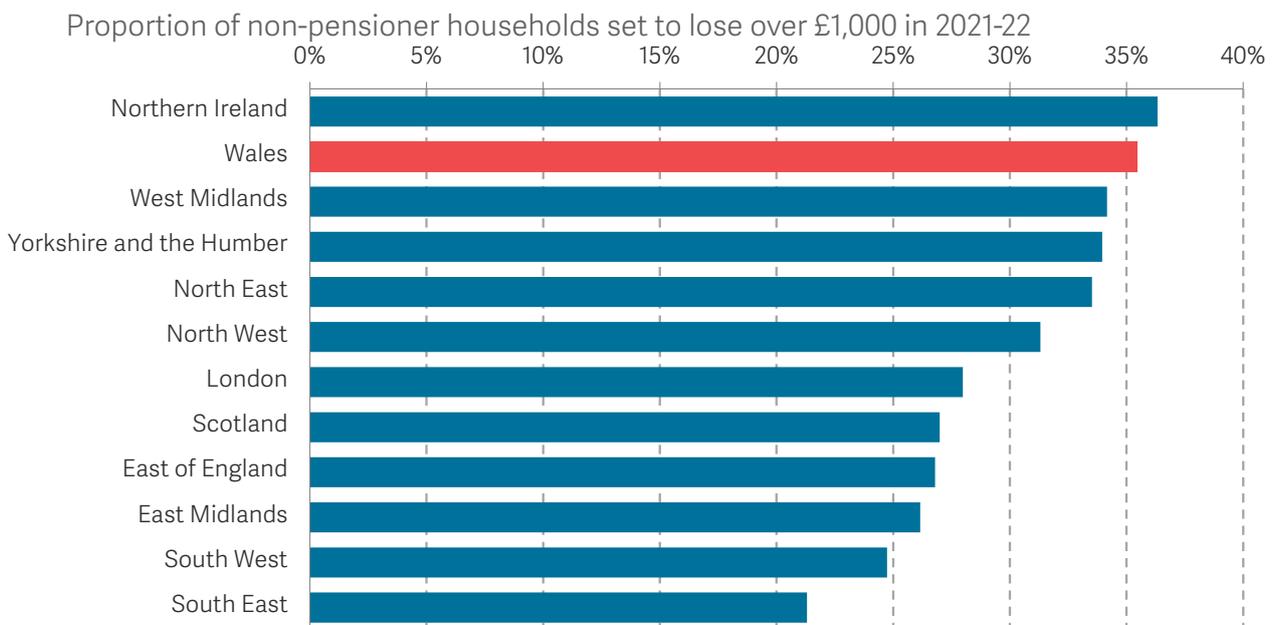
⁵ Office for National Statistics, *Business Impact of Coronavirus (COVID-19) Survey*, October 2020.

from home. Speculatively, home working might provide an opportunity for more higher productivity jobs to be done in Wales, although the figures so far, in Figure 32, are below the UK average.

Welsh incomes will be highly sensitive to future changes in UK benefit policy

Clearly, the Welsh labour market is in flux. But it is not the only factor that will determine how Welsh incomes develop over the next year. Without government intervention this could have been much worse, not least for low-income families.⁶ The range of support packages announced following the coronavirus outbreak, and subsequent economic shut down, helped cushion the coronavirus living standards hit across the UK. When the Chancellor announced the Coronavirus Job Retention Scheme he also (temporarily) increased the level of working-age, means-tested benefits – in the form of Universal Credit (UC) and Working Tax Credits (WTC) – by over £1,000 a year (£20 a week). But, these boosts are due to end in April 2021. As we have shown in Section 3, even before the onset of coronavirus a larger chunk of Welsh incomes was made up of benefit income compared to elsewhere in the country. Moreover, welfare decisions and expenditure in Wales are largely administered by the UK government.⁷

FIGURE 33: 35 per cent of non-pensioner households in Wales are set to lose over £1,000 in 2021-22



NOTES: Losses are relative to a counterfactual of the benefit boost being maintained.

SOURCE: RF analysis of DWP, Family Resources Survey, using the IPPR tax-benefit model.

⁶ M Brewer et al., *The Living Standards Audit 2020*, Resolution Foundation, July 2020.

⁷ For a discussion of the impact of devolving welfare to Wales see: G Ifan and C Sion, *Devolving Welfare: How well would Wales fare? Assessing the fiscal impact of devolving welfare*

As the Resolution Foundation has argued elsewhere, the UK government will need to extend the £20 a week boost to prevent lower-income families from suffering a fresh income shock in April 2021.⁸ Figure 33 shows that Welsh incomes will be particularly sensitive to this decision. Based on current government policy, 35 per cent of non-pensioner households in Wales are set to lose over £1,000 in 2021-22. Aside from Northern Ireland, Wales would be hit harder than any other region or nation in the United Kingdom. Overall, 300,000 Welsh households are forecast to miss out on over £1,000 in 2021-22 if the benefit boost is not extended.

But, as we have shown in this report, there are significant local differences when it comes to living standards within Wales. Figure 34 shows the proportion and number of working age households claiming WTC or UC across Welsh parliamentary constituencies. Swansea East (44 per cent), the Vale of Clwyd (42 per cent), Torfaen (39 per cent), Merthyr Tydfil and Rhymney (38 per cent) Newport East (37 per cent) and Aberavon (37 per cent) all have particularly high proportions of households claiming either WTC or UC. So, this UK-wide policy decision will have a big impact on what happens to household incomes in Wales over the next six months.

FIGURE 34: There is significant local variation in the proportion of households that claim WTC or UC – and therefore any UK-wide changes to benefit policy will be unevenly felt

Welsh constituencies by proportion and number of working age households claiming either Working Tax Credit or Universal Credit: April-September 2020

Constituency	Affected working-age households		Constituency	Affected working-age households	
	%	#		%	#
Swansea East	44%	10,000	Carmarthen West and South Pembrokeshire	31%	6,800
Vale of Clwyd	42%	8,100	Cardiff Central	30%	8,200
Torfaen	39%	9,600	Vale of Glamorgan	30%	8,800
Merthyr Tydfil and Rhymney	38%	9,000	Ynys Môn	29%	6,000
Newport East	37%	9,200	Llanelli	29%	7,800
Aberavon	37%	7,500	Arfon	29%	5,400
Blaenau Gwent	35%	7,900	Clwyd South	29%	7,000
Aberconwy	34%	5,200	Swansea West	29%	7,900
Ogmore	34%	7,700	Bridgend	28%	7,600
Wrexham	34%	7,100	Alyn and Deeside	27%	7,400
Newport West	34%	9,500	Islwyn	27%	7,200
Cardiff West	34%	10,400	Montgomeryshire	27%	4,900
Delyn	33%	6,300	Carmarthen East and Dinefwr	26%	5,600
Cynon Valley	33%	7,900	Pontypridd	25%	6,400
Caerphilly	33%	8,400	Dwyfor Meirionnydd	25%	4,800
Rhondda	33%	7,700	Ceredigion	25%	5,500
Cardiff South and Penarth	32%	13,000	Brecon and Radnorshire	24%	4,900
Clwyd West	31%	6,800	Monmouth	22%	5,500
Preseli Pembrokeshire	31%	7,300	Gower	22%	5,600
Neath	31%	7,200	Cardiff North	14%	5,300
			Wales overall	30%	0.3m

NOTES: Household Annual Population Survey data used as denominator. Numerator includes May data for UC, 2018-19 constituency data for WTC, scaled to September 2020 UK WTC data. Numbers rounded to nearest hundred.

SOURCE: DWP, Stat Xplore; ONS, Nomis.

⁸ T Bell, A Corlett and K Handscomb, [Death by £1000 cuts? The history, economics and politics of cutting benefits for millions of households next April](#), Resolution Foundation, October 2020.

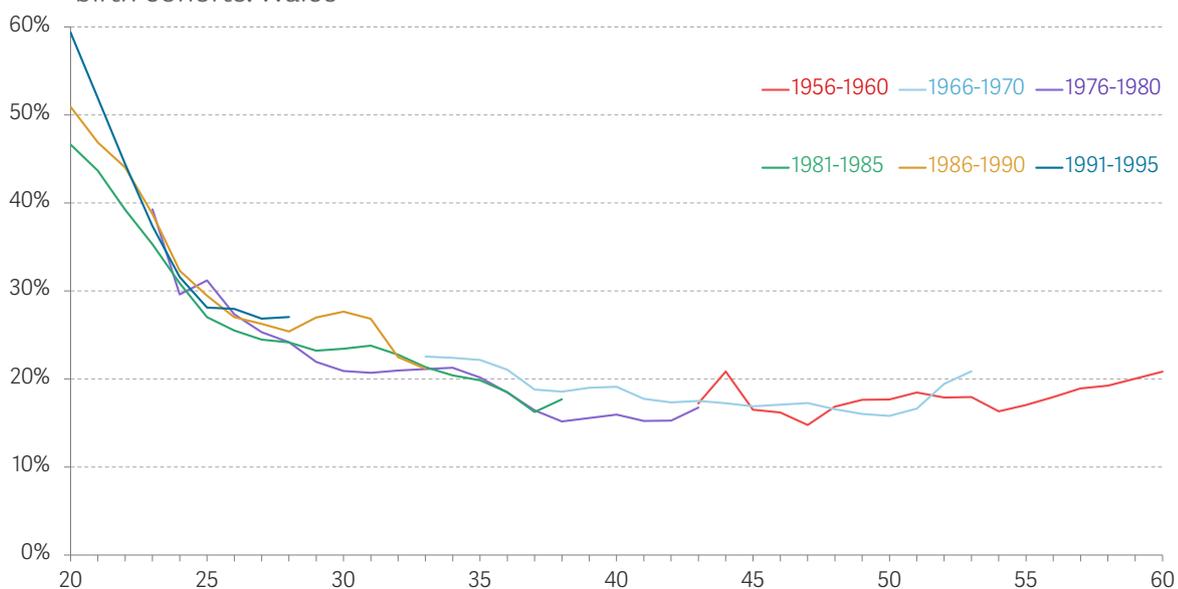
Demographic challenges – including an ageing population and a higher share of young workers in low-paid jobs – took many years to build up and won't be undone by the coronavirus crisis

While the coronavirus crisis has thrown up fresh challenges for the future of Welsh living standards, there are also long-term problems that have built up over a longer time period. In this last section before concluding, we take a look at the intergenerational, demographic and place-based divides that have built up over recent decades.

In Wales, like the UK as a whole, younger workers are more likely to work in the sectors that are both lower-paying and hardest hit by coronavirus. The overall trend, displayed in Figure 35, is that young age is a good predictor of the likelihood of working in low-paid sectors. Over the 2010s, the proportion of young adults working in low-paid sectors like retail, hospitality and leisure has risen. Digging deeper reveals that workers born in more recent cohorts are more likely to work in these three low-paying sectors compared to previous cohorts. For example, 52 per cent of workers in the 1991-1995 cohort worked in retail, hospitality and leisure at the age of 21, up from 44 per cent for the 1981-1985 cohort. Not only are these three sectors generally low-paid but they were also, at least initially, the ones hit hardest by the coronavirus crisis.

FIGURE 35: Over the 2010s, young workers have become more likely to work in low-paid jobs

Proportion of workers in retail, hospitality, arts and leisure sectors, by selected 5-year birth cohorts: Wales

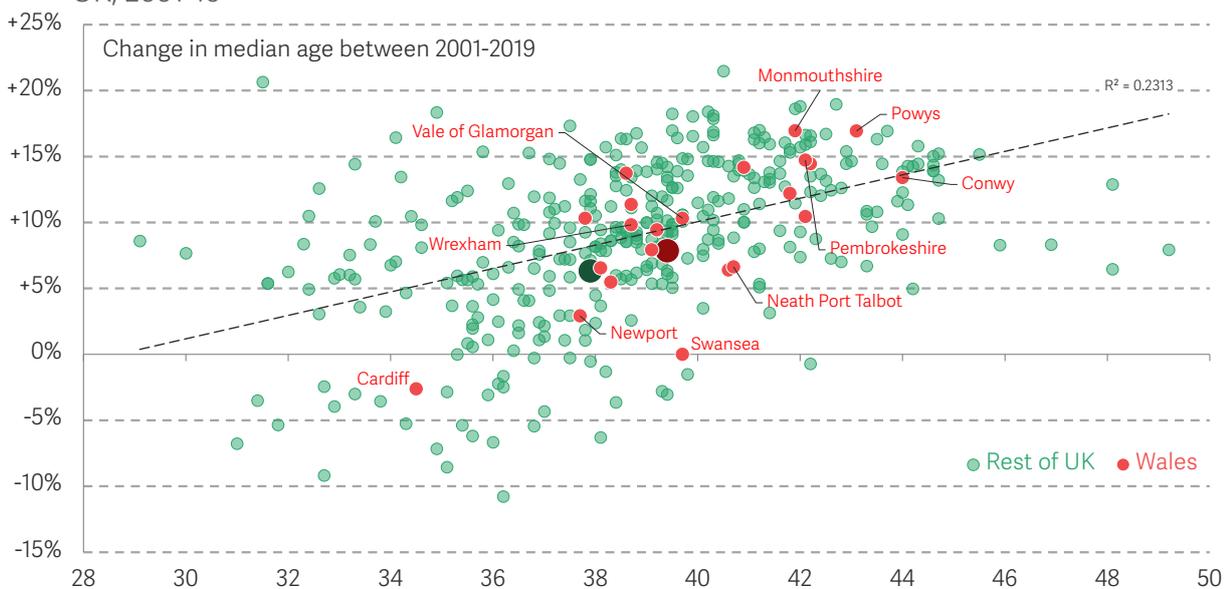


NOTES: Low-paid sectors here include retail, hospitality, arts and leisure.
SOURCE: RF analysis of ONS, Labour Force Survey.

Turning next to broader demographic challenges for Wales, perhaps the most-discussed demographic change of recent years is an ageing population. Like all developed countries, the typical person in Wales is getting older.⁹ As Figure 36 shows, Wales has an older typical age (42.5) than the UK (40.3), but significant differences exist within Wales. Since 2001 the Welsh typical age has grown faster than the typical age in the UK as a whole. The oldest Local Authority in Wales is Powys (50.4 years), while the youngest is Cardiff (33.6 years). The median age in Powys has increased by 17 per cent since 2001 compared to Cardiff which has a typical age 3 per cent lower than in 2001. In other words, Wales, like Britain as a whole has experienced demographic divergence, with older places ageing faster than younger ones.

FIGURE 36: Wales is ageing faster than the UK average, and the country is diverging when it comes to population ageing

Relationship between median age and change in median age across local authorities: UK, 2001-19



NOTES: Large red dot refers to the Welsh average and large green dot refers to the UK average.
SOURCE: RF analysis of ONS, mid-year population estimates.

Demographic divergence within Wales poses further challenges for the allocation of local care funding, as well as the focus of economic strategies.¹⁰ Local Authorities grappling with rising demand for care have seen acute funding cuts over the past decade. At the same time many local economic strategies have tended to focus exclusively on securing growth in productivity as a route to income growth. These strategies will need to focus on the changing demographics of their local populations.

⁹ This is true by a number of measures of population ageing: for example, the mean and median age, and the proportion of the population aged 65 and over.

¹⁰ For more on the implications of demographic divergence see: C McCurdy, [Ageing, fast and slow: When place and demography collide](#), Resolution Foundation, October 2019.

In sum, Wales – like the UK as a whole – has a pandemic to deal with, on the back of existing demographic challenges and a major UK-wide policy decision that could potentially pull the rug from under low-income families. And all of this comes at a time when unemployment looks set to jump. Suppressing and then reversing the rise in unemployment will surely be the major challenge for Wales for the foreseeable future.

Section 6

Conclusion

In many respects, Wales has come a long way over the last few decades – particularly when it comes to closing employment gaps with the rest of the UK and closing geographical gaps within Wales. But, as we have shown, not enough progress has been made on pay and productivity. Comparing pay, incomes and productivity across the regions of England and Nations of the UK sees Wales perform as poorly, on levels and on progress, as areas like the North East that have so far been the primary focus of the ‘levelling up’ rhetoric. This report supports wider efforts, not just to close the UK’s large North-South productivity divide, but also to close gaps between all regions of England and nations of the UK. After all, these gaps cement parts of Wales as some of the poorest parts of the UK – a country which is one of the most geographically unequal parts of Europe.

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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A photograph of a rugged, rocky hillside with patches of green grass and moss, overlooking a valley with a lake and rolling hills under a clear sky.

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