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After shocks

Financial resilience before and during the Covid-19 crisis

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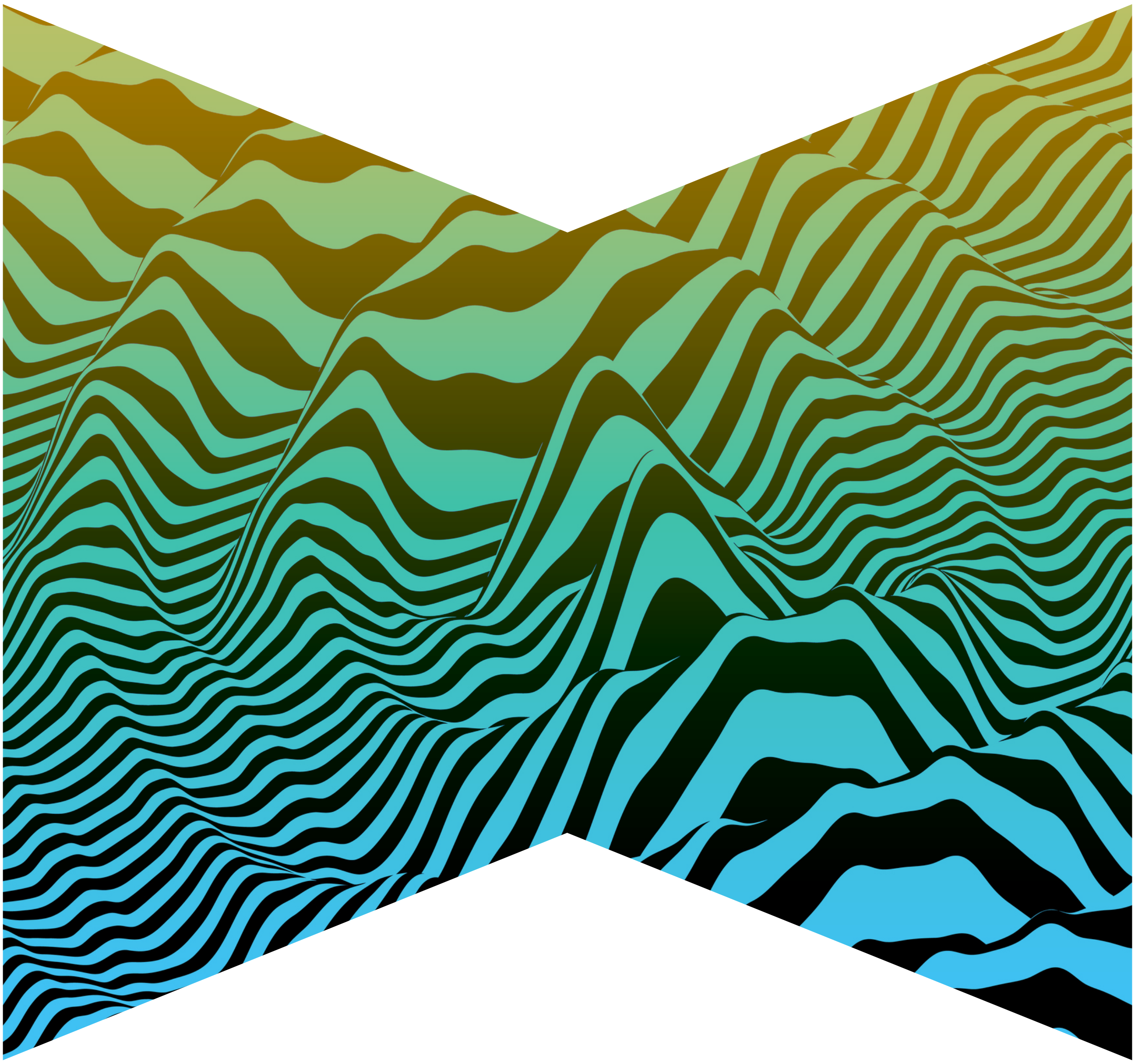

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Executive Summary

Understanding financial resilience has never been more important

Financial resilience is an important topic at the best of times. Shocks to income, or unexpected expenditure needs, can arise for families in good times and in bad. But in the midst of the largest – and most sudden – economic shock for generations, the need for a detailed understanding of the financial positions of families has never been more important.

In this report we assess not only what has happened to household finances during the pandemic using a specially-commissioned survey, but also their position and resilience prior to the arrival of Covid-19. This means we can provide a complete picture of strengths and vulnerabilities prior to the current crisis, as well as tracing out how that picture has shaped the pandemic's impact on family finances. The other unique feature of this report is that we take a comparative approach, looking across Germany, France and the UK – the three largest economies in Europe.

We focus on the capacity of households to withstand negative financial shocks. Such shocks can come in two main forms: a fall in income, or an unexpected expenditure. In turn, families can respond by: finding ways to supplement their income; reducing or reallocating current spending; drawing down savings; or by borrowing. We analyse the relationship between these potential routes of adjustment.

Prior to the pandemic, lower incomes at the bottom provided a weak foundation for resilience in the UK and Germany

Household income is a key determinant of financial resilience. Households with lower disposable incomes not only tend to face more financial pressures from day to day, but will also generally find it more challenging to withstand a shock to their income or spending than those on higher incomes. Typical household incomes (before housing costs) were similar in France (€33,800), the UK (€33,900) and Germany (€34,400) in 2018.

But differences across the income distribution matter a lot, and these countries have very different levels of income inequality, with the income distribution being much more compressed in France – and to a lesser extent in Germany – than in the UK. On average, working-age household incomes in the top quintile in the UK were 17 per cent higher than in France in 2018, and incomes in the bottom quintile in the UK were 20 per cent lower than in France. The greater income inequality in the UK is reflected in a higher relative poverty rate too: almost one-in-five British adults were in a household with incomes lower than 60 per cent of the median in 2018, compared to only one-in-eight adults in France.

Low-income households are more likely to struggle in the face of a shock because more of their income will be spent on essential items, making adjustment more of a challenge. It is important, therefore, to note that even though typical incomes were slightly higher in Germany than in France and the UK in 2018, income levels in the bottom quintile in Germany (€16,600) were in-between those in the UK (€14,700) and those in France (€18,500).

Inequalities in income also manifest themselves across different family types, with single-parent households having the lowest equivalised household incomes in all three countries. Again, the difference is greatest in the UK, where this group's income was 39 per cent below the median in 2018, relatively lower than in Germany (30 per cent less) and France (29 per cent less).

The employment rate is lower in France, although pay and hours worked among those who do work are lower in the UK

Similar typical incomes in the UK, France and Germany are underpinned by quite large differences in labour market outcomes. Hours worked may be higher in France, but the number of people in employment is lower. In Germany, higher pay and employment are counterbalanced by fewer hours worked. And in the UK, higher employment features alongside lower pay and hours worked.

Before the Covid-19 outbreak, employment rates were high in Germany (at 77 per cent) and the UK (75 per cent), but much lower in France (66 per cent). Across almost all of the household income distribution, adults are less likely to be in work in France than in the UK or Germany – so a key route to higher resilience in France is through boosting employment.

An important exception to the finding that employment rates are lower in France is found at the bottom of the distribution. Here worklessness was most elevated in Germany prior to the pandemic, with 38 per cent of households in the lowest-income quintile containing no working adults. This compares with just 25 per cent of households in the UK and 28 per cent in France. This is a source of financial weakness in normal times. It does mean fewer low-income households in Germany are exposed to a labour market shock than in the UK and France, but those households are also not able to use existing employment as a source of flex when other financial shocks hit.

Pay per hour worked is higher in France and Germany than in the UK. Typical hourly pay for all workers stood at €16.00 per hour in Germany in 2018, €14.20 in France, and €12.90 in the UK before the pandemic.

Average hours worked (per worker) are higher in France and Germany than in the UK. This is because there are more part-time and self-employed workers in the UK, and they work fewer hours than their counterparts in France and Germany. In contrast, temporary work is more common in France – in 2019, 16 per cent of employees were on a temporary contract in France, compared with 12 per cent in Germany and 5 per cent in the UK. These differences highlight that the sources of financial shocks vary between countries (for example, given different types of job insecurity) and the range of ways in which households can respond. For example, it is not just entering work that can boost labour income, but also increasing hours for those already in work. On the other hand, it is not always easy to increase hours worked, as evidenced by the finding that around 5 per cent of workers in both France and the UK were underemployed pre-Covid-19, compared with 2.6 per cent in Germany.

The composition of the labour market and different cultural norms around work are also relevant to understanding differences in average hours worked. For example, we find a large bunching in hours worked at 35 hours a week in France and at 40 hours in Germany. Differences in patterns of work at the household level are also important. For example, focusing on those aged 25 to 40 in 2018, 67 per cent of couple households without children contained two earners in France, compared with 76 per cent in Germany and 89 per cent in the UK. This striking difference will go some way to explaining why part-time working and employment is much lower in France – and also why part-time working among men is twice as high in the UK than it is in France and Germany. It also has a significant bearing on financial resilience, with fewer couples without children in France able to pool economic risk than in Germany and the UK.

Benefit replacement rates in France and Germany's contributory welfare systems are generally higher than in the UK

Benefits also play a big role in income levels and financial resilience (given their key role in providing income insurance), especially for households out of work. The welfare systems in France and Germany both have significant contributory elements that provide a higher level of support to the newly unemployed who have 'paid in' to the system. The stylised income replacement rate for a single adult aged 40 with sufficient contributions is 64 per cent after two months of unemployment in France, and 59 per cent in Germany. In stark contrast, the UK's largely non-contributory system provides a replacement rate of just 17 per cent.

The differences across the three countries of interest narrows somewhat when housing-related benefits are included. In the UK, rather than the 17 per cent described above, the replacement rate is 46 per cent, with the rate in Germany unchanged at 59 per cent. This way of comparing replacement rates, though, does not reflect the experience for mortgagors and home owners (who do not receive housing-related benefits), and should be understood in the context of high rental costs in the UK.

The gaps in support for non-working households are smaller for families with children. Due to relatively generous family benefits, the replacement rate (excluding support for rental costs) for couples with children in the UK (53 per cent) similar to that in France (52 per cent), but is still lower than that in Germany (83 per cent).

Households in Germany, especially those on lower incomes, have higher average housing costs than those in France or the UK

Housing costs are the largest regular expenditure items for most households, and where the burden of housing costs is higher, the capacity of households to adapt to shocks is likely to be lower, as rent and mortgages are essential expenditure items that are difficult to flex in the short term. Comparing the three countries, we find that, because of the large size of the private-rented sector in Germany, housing costs (measured including utility bills) relative to incomes are higher across the board than they are in France and the UK. These relatively high housing costs pull down average after-housing-costs income in Germany to below the level in France and the UK.

Households in the lowest-income quintile in Germany and the UK have particularly high housing costs. On average, low-income households in Germany allocated 37 per cent of their income to housing and utilities in 2016, compared with 34 per cent in the UK and just 22 per cent in France. In Germany this is driven by the relatively high proportion of low-income households who are in the relatively expensive housing tenure of private renters (59 per cent). In the UK, this is driven less by the size of the private-rented sector and more by the high costs of private renting. Over one-third of low-income, private-renting households allocated more than 40 per cent of their household income to their housing costs in the UK in 2016, compared with 23 per cent in Germany and 17 per cent in France. While there are similar proportions of private renters in the UK and France, French households are significantly less likely to be overburdened by rent costs. These different drivers demonstrate that what matters for overall living standards and financial resilience is both the tenure mix and rent levels.

Spending is lower relative to income in France and Germany than in the UK, with essentials comprising a higher share of total spending

Households in France and Germany allocate a much lower share of their income to spending than in the UK. For example, households in the middle-income quintile in the UK spent an average of 96 per cent of their disposable income in 2015, compared with 84 per cent in Germany and 75 per cent in France. This suggests the extent to which current incomes – or savings built up as a result of spending generally being lower than incomes – can provide flexibility in response to a shock is greater in France and Germany than in the UK.

It is not just the level of spending that is relevant to financial resilience, but also its composition. Where households allocate a greater share of their spending to essential items, there will be less scope for reductions in non-essential spending to provide the margin of adjustment when shocks arise. We find that a typical household in the middle of the household income distribution spent 64 per cent of its income on such necessities in Germany in 2018, 62 per cent in France and just over half – 51 per cent – in the UK. This suggests it is more likely that reductions in non-essential spending can provide more flexibility when shocks arise in the UK than in France and Germany. Though, of course, this is more of a possibility for higher-income households who allocate more of their spending to non-essentials. Such differences are particularly relevant to resilience in the Covid-19 crisis, in which big falls in non-essential spending have taken place.

Households in Germany and France have higher saving rates – and higher stocks of savings relative to income - than those in the UK

Financial and property assets are both sources of financial resilience. Households that have higher saving rates in the present will be able to use their current income to adjust to shocks more easily by simply saving less, and will also be more able to adjust to shocks in the future using their accumulated savings.

We find that before Covid-19, the gross saving rate (as measured by national accounts) in Germany stood at 19 per cent, compared with 15 per cent in France and just 8 per cent in the UK. Survey-based household saving rates tell a similar story: of a lower saving rate in the UK compared with France and Germany. The evidence also suggests that, on average, low-income, single-parent households in the UK are dis-saving – having higher consumption than incomes - in any given month rather than building up a financial buffer. This is not to say that all these dis-saving households are in this position for a sustained period, although some may well be.

As with saving rates, there are notable differences in overall savings levels across countries, alongside a shared picture of greater financial challenge for low-income households. In Great Britain, 45 per cent of working-age households had less than one month's income in savings in 2017, compared with 38 per cent in France and 40 per cent in Germany. Focusing on low-income households, 56 per cent of households in the bottom quintile of the working-age household income distribution in both France and Germany have savings equivalent to less than one month's gross disposable household income, with as many as two-thirds of households in Great Britain in the same position.

As might be expected, younger households are more likely to have a low level of savings, and this is particularly the case in Great Britain, where over half of households headed by someone under 45 had less than one month's income in savings in 2017. However, differences between countries are much smaller among households headed by someone aged 55-64, with around one-third of households in France, Germany and Great Britain having less than one month's income in savings in 2017.

Higher savings mean that more low-income households in France and Germany are able to withstand a large labour market income shock, such as the one we are currently living through, without drastic living standard changes. We find that two-thirds of the lowest-income households in France and Germany had sufficient financial assets to cover a three-month 25 per cent reduction in labour income in 2017, but that just over half (54 per cent) of households in Great Britain had enough to do so.

Property wealth is much higher in Great Britain, property debt is a concern in France, and financial debt is particularly elevated for low-income households in Germany

The stock and rate of accumulation of financial assets cannot be viewed separately from other forms of wealth, particularly property wealth. Part of the explanation for differences in savings between our countries of interest is the very different levels of home ownership, which can be seen as a vehicle for enforced saving by mortgagors. Home ownership is lower in Germany than in Great Britain and France, meaning that households in Germany are less able to rely on property wealth as a source of resilience. Just 12 per cent of the lowest income German households had property wealth in 2017, compared with one-third of the lowest income households in Great Britain. Average property wealth across all households was around half as large (at around €90,000) in France and Germany than in Great Britain (€182,000) in 2017.

But lower levels of property wealth are associated with lower levels of property-related debt, with differences in tenure and property prices also driving the significant variation in household debt observed across countries. Household debt to GDP stood at 84 per cent in the UK in 2018, compared with 60 per cent in France and 54 per cent in Germany.

Debt is not, in and of itself, a financial resilience issue; in fact, it can be a sign of a healthy financial system or an indication that households are building resilience for the future. But meeting debt repayments in the event of a financial shock is more challenging for households with low equity in their property, as they are more exposed to the vagaries of the property market, and for those with larger mortgage repayments, who will have less room for adjustment when shocks hit.

Low equity and high repayments are both more common in France than in Germany and Great Britain. For example, 60 per cent of mortgagors aged 16 to 24 in France had less than 20 per cent equity in their property in 2017, compared with just 30 per cent in Germany and 51 per cent in Great Britain. In addition, our analysis finds that French mortgagors typically spent 20 per cent of their income on mortgage debt repayments prior to the pandemic, higher than in Germany (12 per cent) and Great Britain (13 per cent). Higher mortgage repayments in France look to be as a result of shorter mortgage terms, particularly for higher-income households. However, the issue of higher mortgage repayments relative to income is most pressing at the lower end of the income distribution in France, where, on average, households in the bottom quintile allocated 35 per cent of their gross income to mortgage repayments in 2017, compared with 22 per cent in Great Britain.

There is limited comparative data on financial debt across countries, but looking within countries we see that, again, the situation for low-income German households stands out. Financial debt-to-income ratios were over four times higher for the lowest gross income quintile in Germany, at 27 per cent in 2017, than for the highest-income quintile, at 6 per cent. In comparison, financial debt-to-income ratios are lower and have smaller differences across the distribution in France, standing at

14 per cent among low-income households and 13 per cent among those in the highest gross income quintile.

We find that a quarter (24 per cent) of the financial debt held by German households in the bottom quintile was taken out in order 'to cover living expenses or other purchases', which is a much higher share of financial liabilities than is reported for the lowest income households in France (8 per cent) and in Great Britain (2 per cent). This suggests that these high levels of debt observed pre-Covid-19 are a sign of a lack of financial resilience among low-income German households ahead of the pandemic.

Prior to the pandemic households in each country had significant vulnerabilities

Overall, then, our detailed assessment of the state of resilience on the eve of the crisis shows that strengths and vulnerabilities differ across the three countries. We find evidence that financial resilience for families in Germany and France was stronger than that for those in the UK. Compared to the UK, low-to-middle income households in both countries have higher incomes and savings, helped along by a more generous social security system. UK households in contrast are more reliant on relatively illiquid housing wealth as their source of financial resilience. However, Germany still faces challenges, particularly among those in the lowest-income households. And in France, relatively low employment rates are a serious concern, and some families appear vulnerable to a sharp fall in house prices.

We use a unique survey of individuals in France, Germany and the UK to look at the impact of the Covid-19 crisis on financial resilience

In the following sections we turn to how these vulnerabilities and strengths have played out over the course of the current crisis. The onset of Covid-19 caused a swift and large economic shock across the world, providing a painful case study for how financial resilient households are in a crisis. So far, few studies have explored the impact the crisis has had on households in different countries – in part, because official data sources operate with a lag. To overcome the lack of timely data, we commissioned a representative survey of adults aged 16 and older in the UK, France and Germany. This survey allows us to investigate the effect of the pandemic on employment and household incomes – drivers of financial resilience – as well as on the ability of households to cope with an income shock, viewed through the lenses of spending, housing costs, savings and debt.

Since the Covid-19 pandemic began, labour markets in France and the UK have been harder hit than in Germany

The economic impact of the crisis has been severe in all three countries, but the largest overall hit to GDP – and the slowest to recover – has been the UK. In part, this is because the UK has had more stringent social distancing restrictions in place for longer. Consistent with this, we find that a smaller share of survey respondents in Germany experienced a labour market shock, compared with their counterparts in France and the UK. In Germany, 27 per cent of respondents who were in work during February 2020 experienced a negative employment change – moving out of work, being furloughed or receiving lower-than-usual pay – by January 2021. In the UK, 38 per cent of those in work in February 2020 experienced at least one of these negative changes, as did 39 per cent in France. In France, respondents were more likely to have moved out of work over this period; in the UK, respondents were more likely to have been furloughed.

Unsurprisingly given the sectorally-concentrated nature of the shock from Covid-19, industry of work is the dominant factor in explaining whether individuals were furloughed. This accounts for 84 per cent of the difference in whether or not a survey respondent was furloughed in the UK, 79 per cent in France and 83 per cent in Germany. However, different factors are behind whether respondents who were in work in February 2020 had moved out of work by January 2021. In the UK, contract type is the dominant factor, with respondents who had worked on insecure contracts in February 2020 being substantially more likely to have moved out of work by January 2021. In Germany, contract type was also significant (accounting for 25 per cent of the difference), but age dominates (47 per cent), with sector and whether or not a person was born abroad coming equal second. In France, personal characteristics related to age, gender and whether or not a person was born abroad are dominant.

Households in France and the UK have experienced large employment shocks: among respondents who had at least one person in their household in work during February 2020, one-in-three in France (33 per cent) and the UK (32 per cent) experienced at least one person moving out of work or having had a period of lower-than-usual pay by December 2020. In Germany, 23 per cent experienced this. Moreover, households in France experienced the largest overall rise in worklessness: the share of respondent households in which neither partner is in paid work (which includes respondents who are not in work and do not have a partner) rose from 19 to 23 per cent in UK, from 22 to 26 per cent in Germany, and from 24 to 32 per cent in France.

In the face of this labour market shock, the welfare state in France and Germany has done more to protect incomes than in the UK

Overall, a larger share of UK respondents experienced a fall in their household incomes (30 per cent) than in France (24 per cent) or Germany (20 per cent).

Households that experience a negative employment change often experience an income fall, but our survey finds important differences in the size of that income hit in the three countries, with the UK performing worst, even though a similar proportion of respondents in the UK and France experienced a negative employment change. Among UK respondent households in which at least one person moved out of work over the past year, 60 per cent recorded a fall in household income, compared with 40 per cent in Germany and 37 per cent in France. Moreover, the share of respondent households that experienced a substantial fall in income (of 25 per cent or more) when one person in the household moved out of work is 41 per cent in the UK – significantly larger than in Germany (28 per cent) or France (20 per cent). This highlights the severe income shock that losing a job in the UK can bring.

Welfare states, and Covid-19 specific government interventions, played a significant role in mitigating the effect of labour market change on household incomes. This is particularly the case in France, which experienced the largest labour market shock but a smaller overall hit to household incomes than the UK – a pattern that reflects our pre-Covid-19 investigation into benefit generosity across each of these countries. Our survey finds that, among respondents who since February 2020 'applied for and received any government benefit or unemployment insurance' or 'received any other coronavirus-related cash payment from the government', one-third in both France and Germany reported a fall in household income, compared with more than half (56 per cent) in the UK. The UK has provided significant income insurance to those being furloughed or entitled to self-employment grants, but those not accessing such support and relying on the basic welfare system have seen far weaker income insurance than their counterparts in France and Germany.

Households have cut spending, although for very different reasons to those in a normal crisis

Our survey also allows us to investigate the ability of households to cope with this income hit by looking at the approaches they have taken to maintain their pre-crisis financial commitments and living standards – specifically in the areas of spending, housing costs, savings and debt. We find that pre-crisis financial strengths and weaknesses did indeed shape households' ability to manage over the past year.

Our survey finds widespread falls in household spending: 33 per cent of respondent households in the UK, 23 per cent in France and 21 per cent in Germany reported spending less in January 2021 than they did before the pandemic. For some, reduced spending appears to be the normal reaction to an economic shock: among those households reporting an income fall during the pandemic, 50 per cent in France, 43 per cent in Germany and 42 per cent in the UK report having cut spending. However, in this particular crisis, falls in household spending also reflect the inability of households to spend in sectors that are shut down, or households voluntarily avoiding social expenditure to reduce health risks. Indeed, across all three countries, respondent households on higher incomes have been more likely than their lower-income counterparts to reduce spending, consistent with them spending more on social consumption, such as eating out, pre-Covid-19. This means that the more widespread fall in spending in the UK in large part reflects the stricter lockdown that has prevailed over the course of the pandemic leading to 'forced' saving.

By contrast, for those on the lowest incomes, the costs associated with more time at home appears to have led spending to rise for many: 30 per cent of respondent households in the bottom-income quintile in Germany increased their spending, as did 28 per cent in the UK and 26 per cent in France.

Housing cost challenges during the Covid-19 crisis reflect the level of housing costs relative to incomes before the crisis

For most households, housing costs are central to living standards: not being able cover them can lead to arrears and being forced to move home. Moreover, housing costs are typically fixed – and where they are high relative to income, households have less ability to withstand financial shocks.

Among respondent households that have experienced an income fall since the start of the pandemic, we find that half (50 per cent) in the UK struggled to meet their housing costs, as did 44 per cent in Germany and 43 per cent in France. Difficulty meeting housing costs in Germany is particularly concentrated at the bottom of the income distribution. Across all respondents regardless of any changes to incomes, the difference in the proportions reporting difficulty to pay for housing costs between the lowest-income quintile and the average was 11 percentage points in the UK, 14 percentage points in France and 21 percentage points in Germany.

Since the pandemic began, more respondents in UK households have relied on debt than in France and Germany

Given social distancing restrictions have constrained a large amount of social consumption, particularly in the UK, it is unsurprising that the proportion of respondents whose households have increased their saving rates during the pandemic is highest in the UK (20 per cent) compared with 13 per cent in France and 11 per cent in Germany.

But these figures mask the pandemic's impact on households that have had to contend with a cut to their incomes. Households that entered the crisis with higher savings, have been in a better position to draw on them in order to maintain living standards. Our survey finds that households that have experienced a reduction in their income in France were more likely to draw down savings (37 per cent), compared with respondent households with reduced incomes in the UK (34 per cent) or Germany (33 per cent). And the share of respondents with an income fall who report that they have taken on debt in order to cover living expenses is 17 per cent in the UK, roughly twice as high as in Germany (9 per cent) or in France (8 per cent). And on top of holding more debt overall, households in the UK are more likely to use short-term and high-interest loans to manage their finances: 37 per cent in the UK report that they hold high-interest debt, compared with 7 per cent in France and 9 per cent in Germany. This is important, as higher future debt repayments will affect their future financial resilience.

The current crisis has highlighted pre-existing strengths and weaknesses in financial resilience across France, Germany and the UK

Although the UK, France and Germany have experienced different levels of social distancing restrictions, and therefore different degrees of economic impact, we find that pre-crisis starting points have, shaped households' experiences during the crisis. This is despite unprecedented emergency forms of financial support introduced by all three governments. As this report sets out, those starting points were also uneven, and so the economic impact of the crisis has been unevenly distributed across households, too: broadly, those who came into the crisis in a more vulnerable position have seen their financial situations deteriorate further.

Some of this variation can be seen between countries. In particular, a less generous social security system in the UK meant that a similarly sized labour market shock in France and the UK resulted a larger hit to household incomes in the latter country. And higher levels of pre-crisis saving rates and stocks meant that more households in France, and to a lesser extent Germany, have been able to avoid taking on new debts, even in the event of an income fall. Households will experience the economic effects of the pandemic for a long time to come, but the severity of that experience seems to have been dependent on their pre-crisis levels of financial resilience.

Coming out of the crisis, policy will need to respond not just to the overall effects of the crisis, but also its uneven impact on households. This means addressing the rise in inequality in household finances, including reduced savings among those on lower incomes (particularly in Germany and France) and higher debt among those on lower incomes (particularly in the UK) that have been affected by the crisis. Policy will also need to respond to the deterioration in the drivers of financial resilience, including by facilitating a boost in labour market participation in Germany amongst the lowest income households. And the sharp rise in worklessness among French households since the crisis which comes on the back of an already low level of labour market participation in France. And finally, the capacity of the welfare state to prevent employment changes from causing sharp household income shocks, particularly in the UK, will need to be given due consideration.

Section 1

Introduction

Shocks to household finances can come in a variety of forms: from general labour market downturns and inflation spikes, falls in asset prices, to new expenditure that individual households suddenly find they need to afford. The Covid-19 crisis has demonstrated just how many households can be affected by shocks, and has highlighted how important it is for policy makers to understand which households have lower levels of resilience and why.

To understand how the Covid-19 crisis has affected financial resilience, this report examines the situation on the eve of the pandemic and, using a primary survey carried out in January and February 2021, its impact so far.

We have taken a comparative approach to our understanding of financial resilience, focusing on the position of households in the UK, France and Germany. These three countries have the largest economies in Europe, and all have similar levels of GDP per capita – ranging from €36,000 a year in France to €41,500 in Germany.[1] However, these countries do have significant differences in levels of inequality, norms around housing tenure, and in labour market structures and institutions. The insights in the sections that follow are therefore richer because we are able to compare and contrast not just within these countries, but also between them. At times, we also present data from other European countries.

Defining financial resilience and its determinants

Financial resilience can be understood as the capacity of households to withstand financial shocks, and it is this capacity that we look at in detail here.[2] Rather than carry out longitudinal analysis of what happens to households when shocks hit, we provide an audit of the key economic factors that determine financial resilience, and discuss how these factors shape that resilience. We focus on economic factors in this report,

1 Source: Eurostat, Gross domestic product at market prices, table TEC00001
2 Abigail McKnight suggests that financial resilience be viewed as "the capacity to cope with negative income or expenditure shocks, or to recover quickly from periods of financial adversity". See: A McKnight, Financial Resilience among EU households: New estimates by household characteristics and a review of policy options, European Union, June 2019.

looking less closely at the related issue of 'financial capability' – how well households manage their money and how knowledgeable they are of various financial products.[3] Box 1 discusses some of the existing work on financial capability and resilience.

BOX 1: **Existing work on financial capability and financial resilience**

There are a number of ways of conceptualising and measuring financial resilience. Our approach in this report is to focus on the living standards-related drivers of the ability to withstand a negative shock to household finances, and to compare these drivers within and between countries. Other organisations have looked at resilience through slightly different lenses.

The Money Advice Service (MAS) has previously made use of a detailed survey of the UK population in order to categorise adults into 15 segments, each with common characteristics, such as 'struggling younger adults' or 'affluent pre-retired'. [4] One key insight drawn from this work is that financial resilience challenges differ between life stages. For example, housing tenure plays more of a supporting role in resilience for the 'older squeezed', of whom 76 per cent were either home owners or mortgagors, compared with just 27 per cent of the 'squeezed younger adults'.[5] On the other hand, this work also shows that older age groups are more likely to have loans: 18 per cent of the 'older squeezed' reported having a personal loan, compared with just 9 per cent of the 'squeezed younger adults'.

The MAS also finds that attitudes towards money and budgeting are, unsurprisingly, less positive for those who are struggling financially. For example, 15 per cent of 'struggling' adults reported that they felt confident managing their money, compared with 65 per cent of those in the 'cushioned' group.[6] This tallies the findings of a review of financial capability surveys from different countries carried out by the World Bank, which identifies attitudes, alongside knowledge, skills and behaviour, as four key 'financial capability concepts'.[7] This review demonstrates that knowledge of financial concepts, terms, services and products often features in studies of capability, as does analysis of the

3 For more discussion of financial capabilities, see: Money Advice Service, Financial Capability in the UK: results from the 2018 survey, 2018.
4 Money Advice Service, Market Segmentation: An overview, May 2016.
5 Money Advice Service, Market Segmentation: An overview, May 2016.
6 Money Advice Service, The Squeezed Segment, May 2016.
7 World Bank, Financial capability surveys around the World: why financial capability is important and how surveys can help, August 2013.

different types of financial products that people use (for example take-up of home banking). These kinds of metrics are relevant for resilience – for example, those who can more readily keep track of their finances are more likely to be able to manage them well. The Eurobarometer survey from 2011 found that there are large differences between France, Germany and the UK in how individuals open bank accounts: in France, 1 per cent of those who had opened accounts recently reported doing so online, compared with 7 per cent in the UK and 4 per cent in Germany (these shares will, of course, have increased in recent years and in the pandemic).[8]

Other research has looked at how financial capability changes as people's circumstances change, finding that financial capability falls as income falls and improves as income increases, reminding us that the ability to manage money well can change quite suddenly with the arrival of a life event, such as unemployment, the birth of a child or a change in relationship status. [9]

The dynamic nature of financial capability and resilience and the fact that households can respond to negative shocks in a large number of ways mean that categorising some households as 'resilient' and others as 'lacking resilience' is a challenge. One approach, taken by McKnight in recent research, is to focus on financial assets as a key source of resilience, and to identify financially 'insecure' households as those with financial assets with a value of less than three months' income and financially 'secure' households as those with financial assets with a value of more than six months' income.[10] These metrics can also be assessed alongside similar measures of 'over-indebtedness' defined relative to household income.

A different approach is to compare households' subjective assessments of their own resilience. This approach has been taken in various research studies following analysis conducted in the aftermath of the financial crisis in the US. These studies asked households if they were able to 'come up with $2,000 in 30 days'.[11] Recent comparisons of similar questions among European countries have found that more households in the UK report being unable to meet a large financial expense than in France and Germany.[12]

8 European Commission, Special Eurobarometer 373, Retail Financial Services, April 2012.
9 M Taylor et al., Financial capability, income and psychological wellbeing, ISER Working Paper Series, July 2011.
10 A McKnight, Financial Resilience among EU households: New estimates by household characteristics and a review of policy options, European Union, June 2019.
11 A Lusardi et al., Financially Fragile Households: Evidence and Implications, The Brookings Institution, 2011.
12 M Demertzis, M Domínguez-Jiménez & A Lusardi, The financial fragility of European households in the time of COVID-19, Bruegel, July 2020.

Negative shocks can come in different forms: broadly, either in the form of lower income (for example job loss or a reduction in benefit income) or higher spending (for example unexpected costs). Of course, as has particularly been the case for some low-income households during this crisis, both shocks can happen at the same time.[13] One important component of resilience is not just an ability to respond to a single shock, but the extent to which a household's circumstances make it more or less likely that it will experience shocks in the first place. Workless households (that is, households where no adult is in work), for example, will not be directly affected by unemployment shocks, depending on the length of unemployment may have weaker attachment to the labour market, and if so might find it more difficult to boost income from work than a household that already contains one or more earners. These differences in exposure to shock are also discussed in the sections that follow.

All financial shocks have one thing in common: at least one part of a household's financial behaviour needs to adjust in order to withstand them. This adjustment can be from the imperceptible (for example a household with high disposable income saves at a slightly lower rate in order to afford a new washing machine), to the very challenging (for example a household in which both earners become unemployed has to take out a large loan to cover day-to-day living costs).

Broadly, households can respond to shocks in one of three ways:

Using or increasing current income. Those households with higher disposable incomes are more likely to be more resilient in the face of shocks than those with lower incomes. All else being equal, it is easier for a household with more disposable income to allocate some of its current income towards paying an expenditure shock, or to be able to manage if it experiences a reduction in income (for example from a fall in hours worked or a loss of a job within the household). Households can also respond to shocks by boosting their income. This could be by increasing hours of work, a household member entering work, claiming benefits or drawing on gifts from family or charities, for example.

Reducing or reallocating current spending. Households that have lower spending relative to income or that allocate more of their current spending towards 'non-essential' items should be more resilient than those whose budgets are dominated by essentials. It is easier for households to respond to shocks when the margin of adjustment is whether or not to eat out for the second time in a week rather than whether or not to turn on the heating when it gets cold, for example.

Drawing down on savings or taking out loans. Households with a high stock of financial assets can draw down on them when a shock hits without having to change any of

13 For research on this in the UK context, see: M Brewer & R Patrick, Pandemic Pressures: Why families on a low income are spending more during Covid-19, Resolution Foundation, January 2021.

their current income or spending decisions. Housing is an important component of this source of resilience, providing both a savings vehicle for mortgagors and a large, if illiquid, financial buffer (for example re-mortgaging or downsizing can release housing equity into liquid financial assets, if needed). On the other side of the ledger, households with a low level of debt should be more able to take on further debts, if required, in response to a shock.

Of course, these responses do not exist in isolation from one another. For example, higher-income households are more likely to be able to save larger amounts and therefore have stronger balance sheets. These links are also explored in this report.

The structure of this report

The bulk of the analysis in this report concerns the position of households before Covid-19 (Sections 2, 3, 4 and 5), but in Section 6 we make use of findings from a primary survey, conducted in January and February 2021 in partnership with YouGov. In that section, we discuss how incomes, spending, savings and debts have been affected by this crisis in each country.

The structure of this report is as follows:

- Section 2 looks at household incomes before housing costs.
- Section 3 focuses on the key components of household incomes, the labour market and the welfare system.
- Section 4 discusses household spending differences, including how housing costs vary between and within countries.
- Section 5 provides an analysis of savings and debts, looking at both financial and property assets and liabilities.
- Section 6 looks at the impact of the Covid-19 crisis on incomes and employment, presenting the findings from our primary survey.
- Section 7 looks at the response of households to the Covid-19 shock.
- The final section summarises our conclusions.

Section 2

Household incomes and financial resilience

Household income is a key determinant of financial resilience. Households with lower disposable incomes will generally find it more challenging to withstand a given negative hit to their income or spending than those on higher incomes. Adjusting to a shock when family finances are already tight is more difficult than doing so when disposable income is higher.

Although typical household incomes are similar in Germany, France and the UK, income inequality is quite different. The income distribution is much more compressed in France, and to a lesser extent in Germany, than in the UK. In common currency terms, typical household incomes (before housing costs) were €33,800 in France, €33,900 in the UK and €34,400 in Germany in 2018. But this similarity hides important differences: incomes at the top in the UK are 17 per cent higher than in France, and incomes at the bottom are 20 per cent lower than in France.

This wider dispersion in incomes at the lower end of the distribution is reflected in poverty figures. Across the three countries of interest, the UK has the highest relative poverty rate measured before housing costs, at 17 per cent, followed by Germany (16 per cent) and France (13 per cent).

There are also wide differences across family types. Single-parent households have the lowest equivalised household incomes in all three countries, and the inequality is greatest in the UK. This group's income is 30 per cent less than the median income household in Germany, 29 per cent less in France and 39 per cent less in the UK. This means that, even after we equivalise incomes according to how many people live in the household, there are considerable benefits from living in a dual-adult household rather than a single-adult household.

Typical incomes are similar in Germany, France and the UK, but income inequality is not

Household income is an important determinant of financial resilience. When an economic shock hits household finances – be that a sudden need for higher spending or a fall in income, such as that stemming from Covid-19 – those with higher incomes are more likely to be able to withstand it. Higher-income households tend to allocate more of their expenditure to non-essentials, which can be cut back when shocks hit (see Section 4). They are also more able to save and, with the obvious exception of their greater propensity to take on property debt, to have lower debt repayments relative to income (see Section 5).

In order to understand the state of financial resilience before the Covid-19 crisis, and the extent to which households in the UK, France and Germany were 'prepared' for it or any other shock, we focus in this section on the differences in before housing costs (BHC) incomes between and within these three countries. We focus on Eurostat's headline measure of equivalised net household incomes, which includes income from employment, benefits (including housing related benefits), private pensions (minimal for our purposes as we focus on the working-age population), property rents and other investments. Taxes on income are deducted.

Our analysis focuses on working-age adults (age 16 to 64) in households containing only working-age adults.[14] Households containing pensioners have, of course, been particularly affected by the health impacts of this crisis, but, in general, are more insulated from broader economic shocks related to the strength of the labour market and economy. This is not to say that pensioner households will never face financial shocks (for example an unexpected expense), but the economic shock from Covid-19 is primarily felt by working-age households, so it is this group on which we focus our attention in this research.

Differences in household incomes (all measured BHC) across the working-age equivalised household income distribution are shown in Figure 1, which also compares the UK, France and Germany to some other EU countries.[15] The median, or typical, income within each quintile of the working-age income distribution is shown (the median of the middle quintile is the population-wide median). Incomes are equivalised to account for household size using a scale where couple incomes equal 1, and are

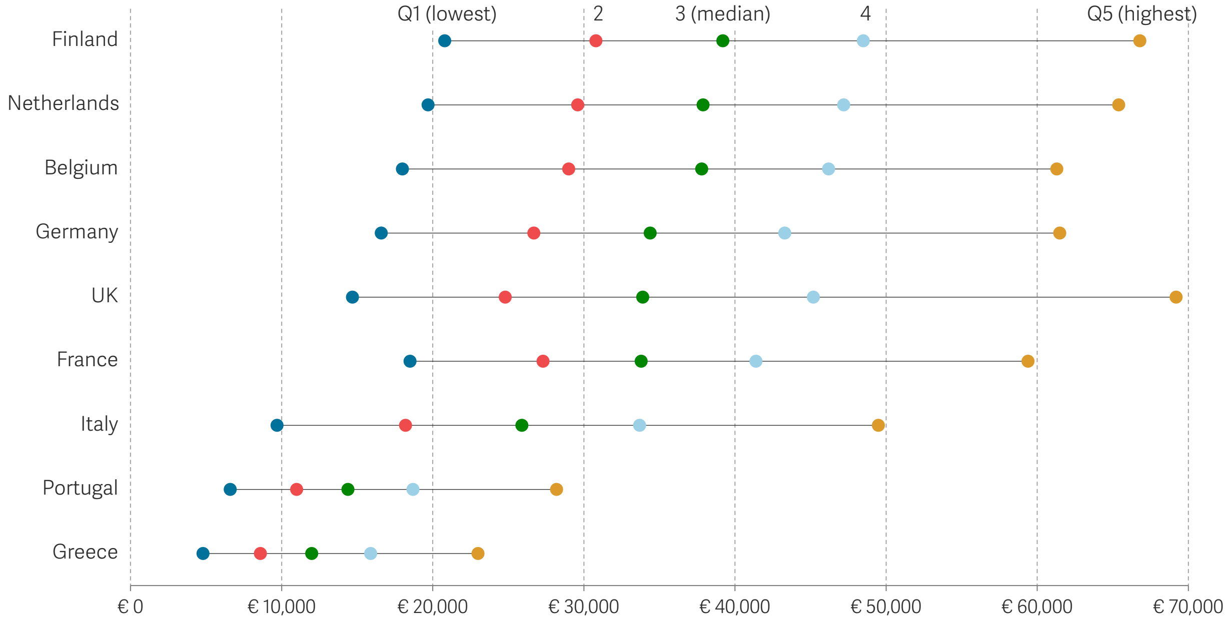
14 We do not exclude students from the statistics we present, but where their inclusion may have significant effects on the results presented we have performed checks as to the difference that their removal would make – and discuss this where relevant.

15 Eurostat equivalises incomes using the modified OECD-equivalence scale, where household incomes are adjusted so as to be comparable between different household types with a single-person household as the 'base'. Here, we use a different equivalisation factor, such that couple households are the comparator. Our approach is in line with that used by the Department for Work and Pensions in its Households Below Average Income publication. This has the effect of increasing income estimates by 50 per cent, and explains why our results are higher than those published by Eurostat. See: Department for Work and Pensions, Households below average income: 1994/95 to 2018/19, March 2020.

presented in euros. This shows that typical incomes are broadly the same in Germany (€34,400), the UK (€33,900) and France (€33,800).

FIGURE 1: **Typical working-age incomes are similar in the UK, France and Germany, with bigger differences at the top and bottom of the distribution**

Median equivalised net working-age household income (before housing costs), by country and working-age household income quintile: 2018



NOTES: Working-age households are defined in this report (unless otherwise stated) as those in which the household reference person is aged 16-64. Equivalised using scale where a couple with no children has a weight of 1. Compared in euro exchange rate terms. 2018 refers to the EU-SILC survey year (in line with the statistics published by Eurostat online). The 'income reference period' which this covers is the preceding calendar year for all countries except the UK, where it is the current year. Results in this Figure have been rounded to the nearest €100.
SOURCE: RF analysis of EU-SILC.

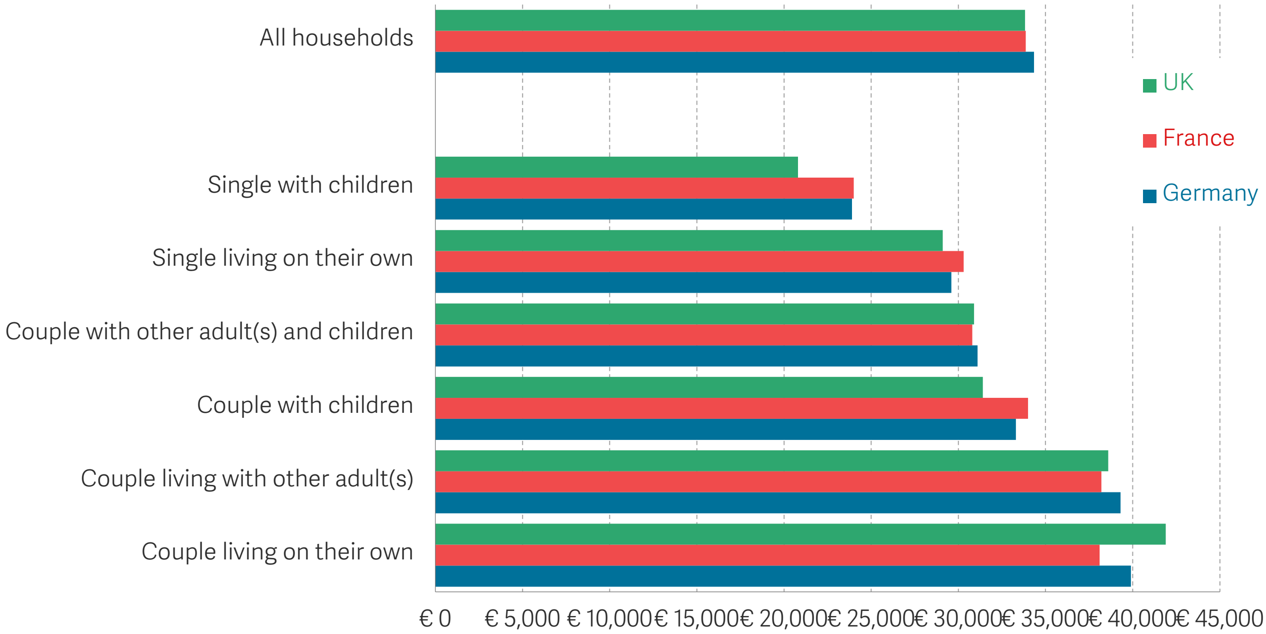
Even though typical incomes are slightly higher in Germany than in France and the UK, income levels in the bottom quintile in Germany (€16,600) are in between the levels in the UK (€14,700) and in France (€18,500). This is the first of a number of findings throughout this report that points to particular issues among low-income households in Germany, which a simple focus on country aggregates would ignore.

Looking across the distribution as a whole, French household incomes are the most compressed – typical income in the fifth quintile in France is 3.2 times greater than in the first quintile. UK household incomes are the most dispersed, with a fifth-to-first income quintile ratio of 4.7. Whereas incomes in the top quintile in France and Germany are similar, at €59,400 and €61,500 respectively, higher-income households in the UK have household incomes (€69,200) on a par with higher-income households in Finland, whereas lower-income UK households have incomes closer to those at the bottom of the distribution in Italy rather than to those in Finland. Put simply, working-age household incomes at the top in the UK are 17 per cent higher than in France, and incomes at the bottom in the UK are 20 per cent lower than in France.

To understand more about who is exposed to a lack of financial resilience, it is also worth considering the incomes of different household types. Single-parent households have the lowest equivalised household incomes in all three countries, and this is particularly the case in the UK. This is shown in Figure 2. The income of this group is 30 per cent lower than the median income household in Germany, and 29 per cent lower in France. In the UK the difference is even greater, with single parents typically having 39 per cent less than the median household income.

FIGURE 2: **Large differences also exist for different family types, especially in the UK**

Median equivalised net working-age household income (before housing costs), by country and family type: 2018



NOTES: Equivalised using scale where a couple with no children has a weight of one. Compared in euro exchange rate terms. 2018 refers to the EU-SILC survey year (in line with the statistics published by Eurostat online). The 'income reference period' which this covers is not the same in each country. In the UK it is the current year, in Ireland it is the previous 12 months and for other countries it is the preceding calendar year.
SOURCE: RF analysis of EU-SILC.

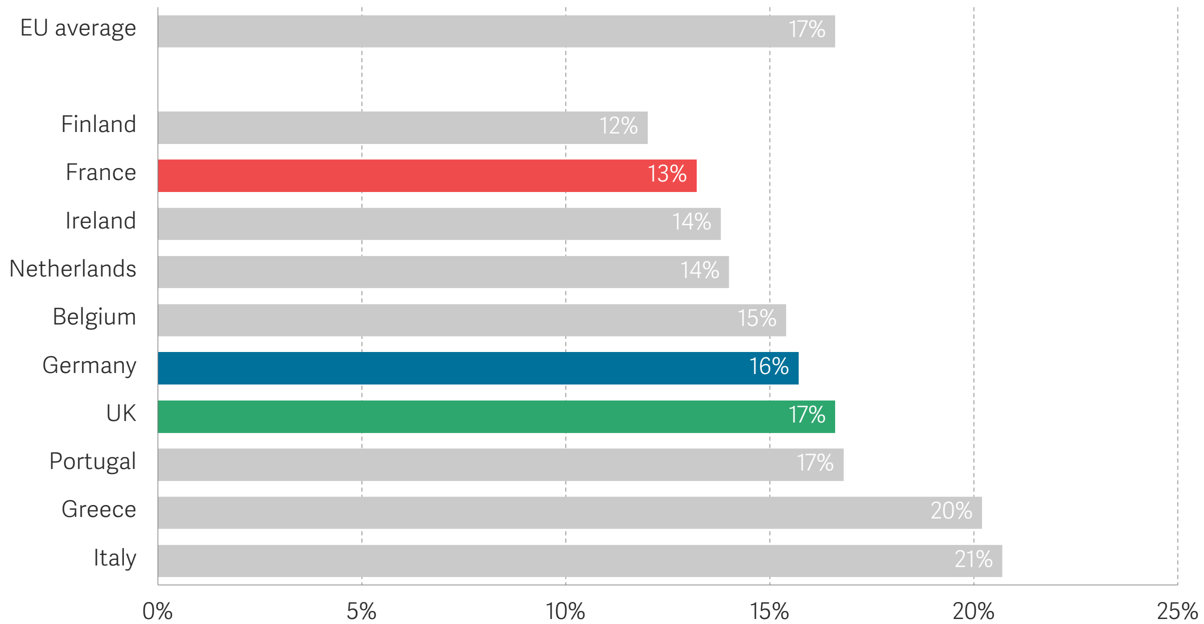
The family type with the highest typical income is a couple without dependent children, and the difference compared to the median is again greatest in the UK. In Germany and France, dual-adult households without children typically receive an income that is 16 per cent and 12 per cent higher than the median respectively. These figures are significantly smaller than the difference in the UK, where couples without children have typical household incomes that are 24 per cent higher than the median household. This means that, even after we equivalise incomes according to how many people live in the household, there are considerable benefits from living in a dual-adult household compared with a single-adult household. In order to increase financial resilience, more support could be given to single-adult households, especially to those with children.

Relative poverty rates are highest in the UK

Poverty rates are one way of measuring the distribution of incomes in the bottom half of the distribution. In the relative poverty measure used here, a person is in poverty if their equivalised household income is below 60 per cent of the median income (Eurostat calls this the 'at-risk-of-poverty rate').[16] It is unsurprising, then, given the differences in the income distribution shown in Figure 1, that relative poverty rates are higher in the UK than in Germany, but particularly, in France and Germany. At 17 per cent, the poverty rate in the UK is the same as the EU average, while the poverty rates in Germany (16 per cent) and France (13 per cent) are just below, as shown in Figure 3.

FIGURE 3: **The relative poverty rate for working-age households is higher in the UK and Germany than in France**

Proportion of adults in working-age households in relative poverty (below 60 per cent of median income) (before housing costs), by country: 2018



SOURCE: RF analysis of Eurostat, At-risk-of-poverty rate by poverty threshold.

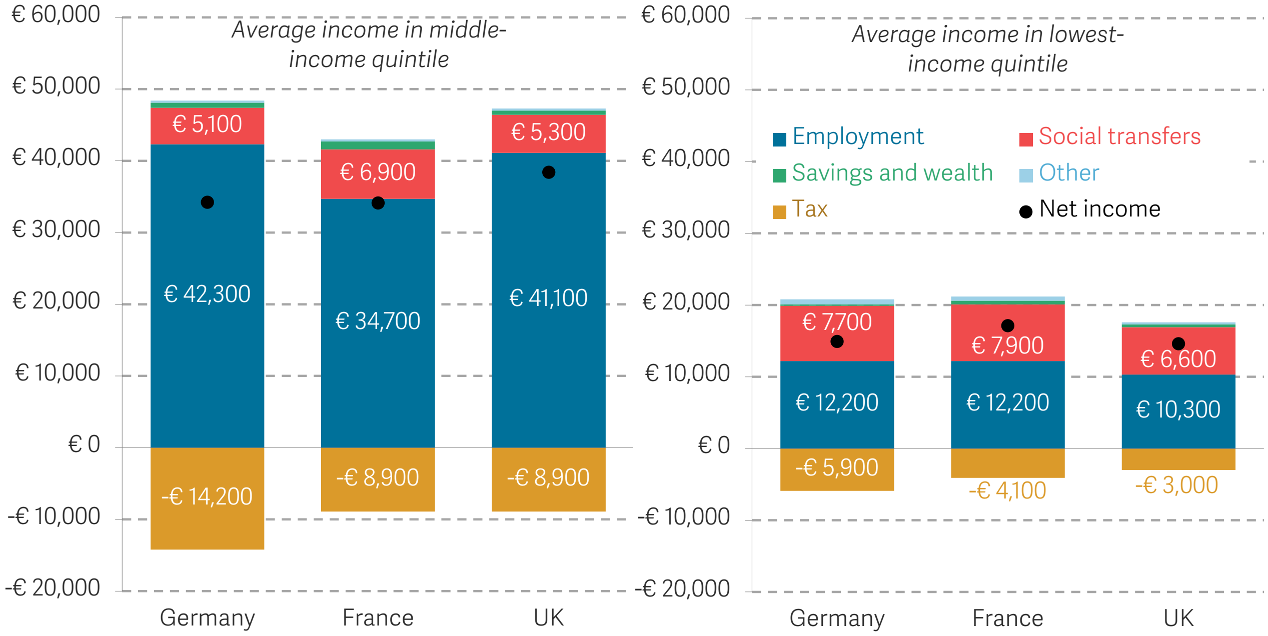
16 Eurostat, Glossary: At-risk-of-poverty-rate, accessed: 11 February 2021.

The components of income are similar across Germany, France and the UK

Comparisons of average (mean) income within the lowest and the middle-income quintiles are set out in Figure 4. These demonstrate both the similarities and differences between incomes in Germany, France and the UK. Average (mean) net incomes (different from the median figures presented in Figure 1) in the middle quintile are similar across all three countries, with higher taxes and employment incomes in Germany broadly cancelling each other out. In contrast, differences in gross incomes persist after tax at the lower end of the distribution – with net average incomes slightly higher in France, and lower in the UK.

FIGURE 4: **Both benefit and employment income are lower in the UK among low-income households**

Sources of equivalised net working-age household income (before housing costs), middle-income quintile (left panel) and lowest-income quintile (right panel), by country: 2018



NOTES: The income reference period in EU-SILC is a fixed 12-month period (such as the previous calendar or tax year). Equivalised using scale where a couple with no children has a weight of one. Compared in euro exchange rate terms.
SOURCE: RF analysis of EU-SILC.

The mix of social transfer and employment income observed in the right panel of Figure 4 is, however, an average across all households – both working and non-working – and so does not reflect either the typical working or workless household's experience in the lowest-income quintile. The way in which workless and working households are likely to be affected by, and respond to, shocks is different. For example, workless households are limited in their exposure to a labour market shock, such as the one brought about by

Covid-19; but at the same time would have to enter the labour market in order to boost their income significantly, as opposed to the option of increasing hours which is available to those already in work.

Summary

In this section we have seen that even though typical incomes are similar across the three countries, the distribution is very different. As summarised in Table 1, income inequality is different across the three countries of interest, with the income distribution more compressed in France, and to a lesser extent in Germany, than in the UK. This wider dispersion in incomes in the UK is reflected in poverty figures, where the UK rate is higher than that in Germany and France. This section provides a good foundation for the rest of this report as it is particularly the financial resilience at the bottom of the income distribution on which this report focuses on.

TABLE 1: **The financial resilience challenges differ across Germany, France and the UK**

Summary table of financial resilience takeaways in Germany, France and the UK

	Germany	France	UK
Household incomes	Low incomes at the bottom end of the distribution.	Low income inequality, and higher incomes at the bottom end of the distribution.	High income inequality, and lower incomes at the bottom end of the distribution.

Section 3

The labour market, welfare and financial resilience

Before the Covid-19 outbreak, employment rates were high in Germany (at 77 per cent) and the UK (75 per cent) and low in France (66 per cent). Across almost all of the household income distribution, adults are less likely to be in work in France than in the UK or Germany – so a key route to higher resilience in France is boosting employment. In Germany, low-income households have relatively high rates of worklessness, with 38 per cent of households in the lowest-income quintile containing no working adults, compared with just 25 per cent of households in the UK and 28 per cent in France.

Both pay and average usual hours worked are lower in the UK than in France and Germany. Typical hourly pay stood at €12.90 in 2018 in the UK, whereas in Germany it was €16.00, and in France €14.20. As well as having lower hourly pay rates on average, workers in the UK work shorter hours than in France and Germany. This reflects both part-time and self-employed workers in the UK working relatively few hours. The low number of hours worked by those in low-income households in the UK highlights how increasing hours worked could be used to increase incomes and support financial resilience.

Two-earner households can be more financially resilient than single-earner households, since it is more likely that the latter experiences a complete loss in labour income. In the UK and France lower incomes are mitigated by relatively high proportions of couple, dual-earner households – with 71 per cent of couple households with children having two earners in the UK and 73 per cent in France, compared with 65 per cent in Germany.

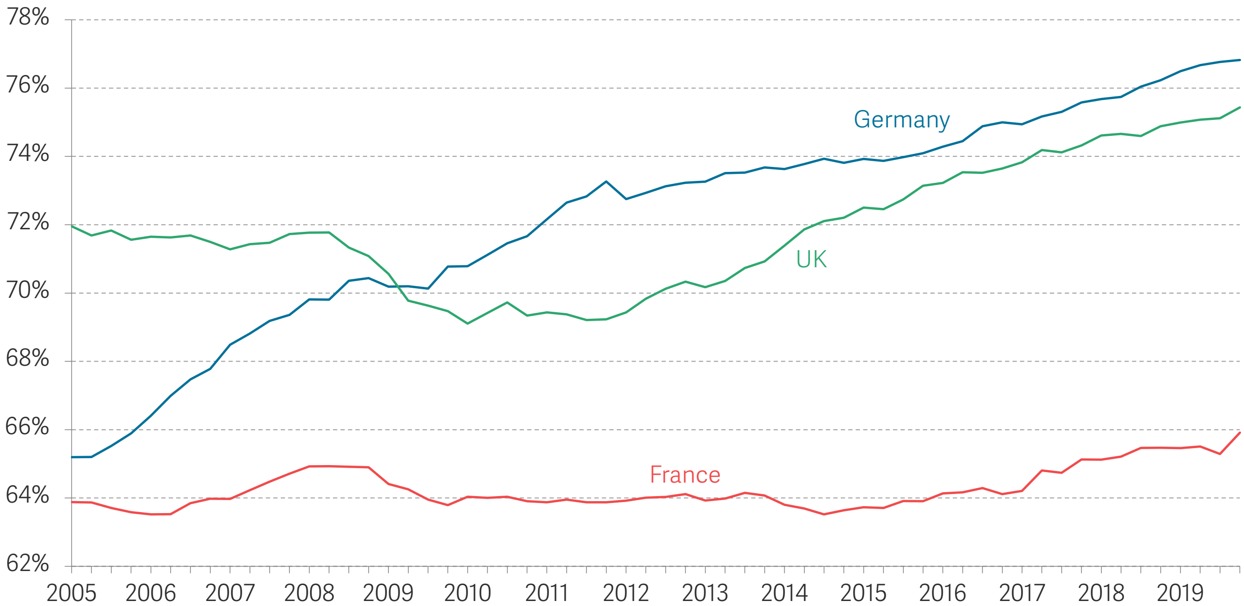
Benefits also play a big role in income levels, especially for households out of work. The welfare systems in France and Germany have significant contributory elements that provide a higher level of support to the newly unemployed who have 'paid in' to the system. The average income replacement rate for a single adult with sufficient contributions is 64 per cent after two months of unemployment in France and 59 per cent in Germany. In stark contrast, the UK's non-contributory system provides a replacement rate of just 17 per cent.

Pre-Covid-19, fewer people were working in France than in Germany or the UK

The labour markets in France, Germany and the UK have all been upended by Covid-19, with unemployment rising markedly in all three countries since early 2020 (as Section 6 shows). But differences in employment at the individual and household level pre-Covid-19 can still provide us with insights into the state of financial resilience before this crisis.

FIGURE 5: **The French employment rate has remained stubbornly low**

Employment rate, ages 15-64: 2005 Q1 to 2019 Q4



SOURCE: RF analysis of OECD, Labour market statistics.

A simple comparison of employment rates over time (Figure 5) shows that the German labour market has transformed since the mid-2000s, with the 15-64 employment rate increasing from 65 per cent in 2005 to almost 77 per cent by the end of 2019. The transformation from the 'sick man of Europe' to high employment was spurred by reforms to increase the flexibility of the labour market (for example through changes to the unemployment benefit system).[17] The UK went into the 2008 crisis with relatively high employment, fell furthest in the financial crisis, but then recovered quickly to reach a record high of 75 per cent last year, partly driven by an increase in flexible, or atypical, employment.[18] In contrast, although there has been a small increase in employment rates since 2015, in France the rate still stood below 66 per cent in late 2019. This very large

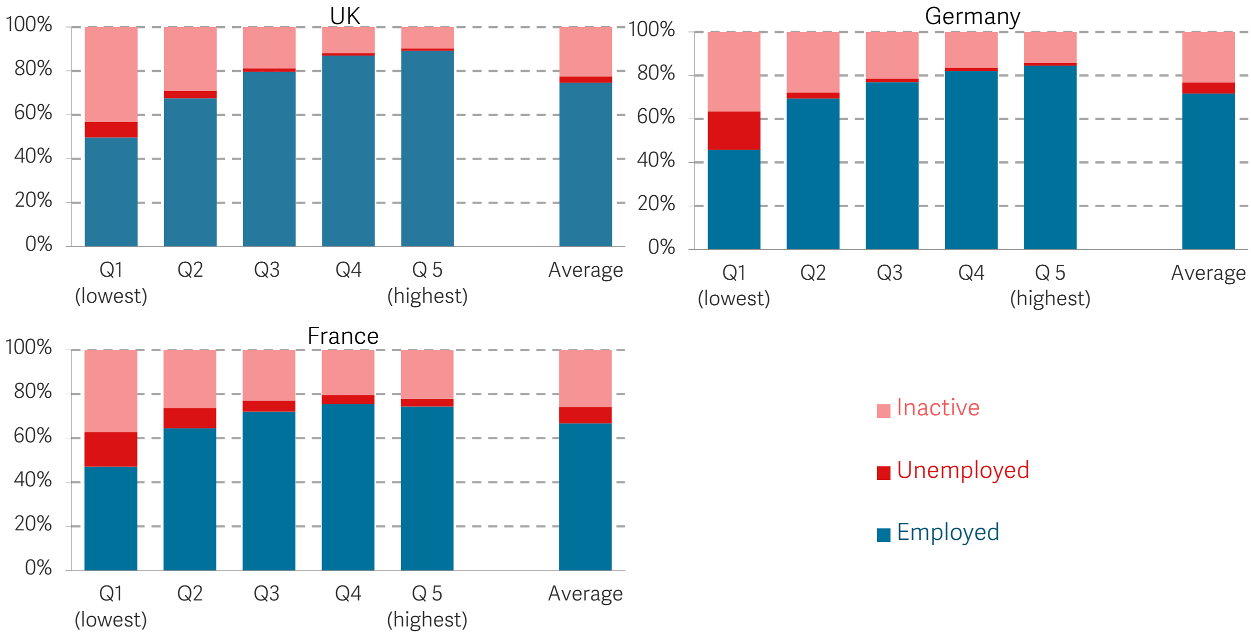
17 H Schneider & U Rinne, The labor market in Germany, 2000–2018, IZA, December 2019. See also: O Blanchard, European unemployment: the evolution of facts and ideas, Economic Policy, volume 21, pages 6-59, 2006.
18 S Clarke & N Cominetti, Setting the record straight: How record employment has changed the UK, Resolution Foundation, January 2019.

difference demonstrates just how significant the long-standing challenge of increasing employment in France is. Given the income gains from entering and progressing in employment, this is a key issue in France when it comes to financial resilience too.

We can also look within countries at the composition of working status across the income distribution.[19] We find that unemployment is elevated across the income distribution in France and that employment (employees and self-employed) is highest across the income distribution in the UK. In general, working-age adults in Germany and the UK are more likely to be in work than in France. The important exception to this is at the bottom of the income distribution, where the share of people out of work in Germany (54 per cent) is higher than in France (53 per cent) and in the UK (50 per cent), as seen in Figure 6.

FIGURE 6: **Pre-Covid-19, unemployment in Germany was concentrated among the lowest income households**

Labour market activity and equivalised net working-age household income quintile, by country: 2018



NOTES: Figures include full-time students.
SOURCE: RF analysis of EU-SILC.

The picture presented in Figure 6 is broadly the same for both men and women in each country, with the key difference being that across all countries and income groups women are less likely to be in work than men. The overall employment gap between men

19 In order to compare differences in employment across the household income distribution, we use EU Statistics on Income and Living Conditions, EU-SILC. This household survey has different estimates for employment rates than in the EU Labour Force Survey (LFS) and as reported by the OECD. The 15-64 employment rate in Germany is lower than in the LFS (74 per cent vs. 76 per cent); the employment rate in France is slightly higher (68 per cent vs. 65 per cent).

and women is similar in Germany (8 percentage points) and the UK (7 percentage points) and lower in France (5 percentage points). However, low-income French women are the most likely to be out of work, with the lowest employment rate among all groups (42 per cent) and with an employment gap compared with men of 10 percentage points.

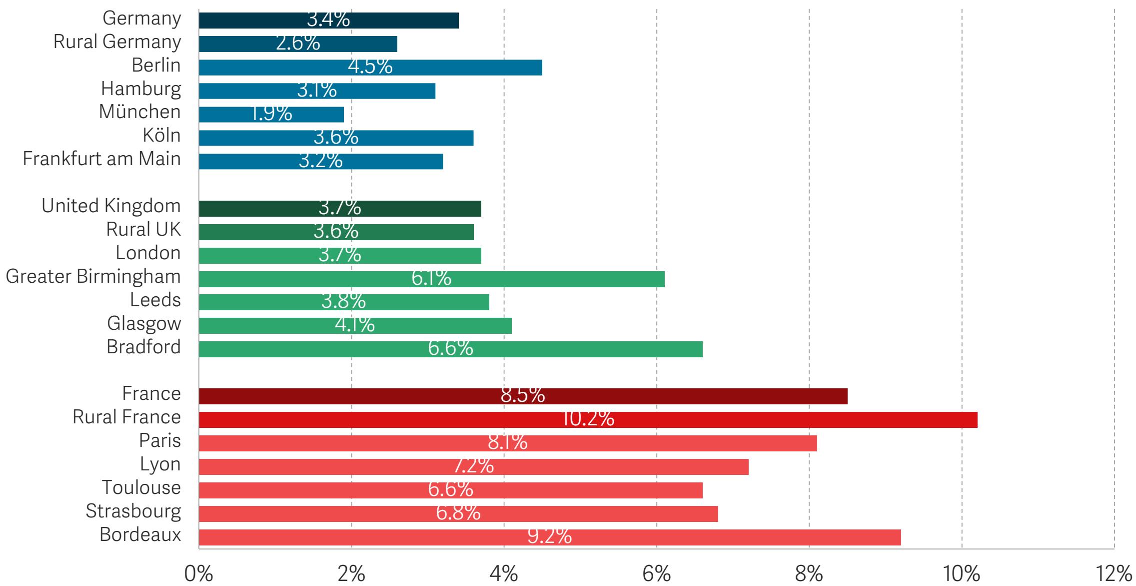
BOX 2: **How different are labour market conditions in major cities?**

Most of this report discusses national averages, abstracting from the considerable variation within countries. It is, however, interesting to compare outcomes for large metropolitan areas which host internationally tradable industries. Unfortunately, such comparisons are hampered by a lack of internationally comparable data on the distribution of key labour market variables. So in this box we discuss what data are available and what that can tell us about the

Starting with unemployment where available data indicates that there is less variation between major cities within countries than between our three countries in aggregate. As seen in Figure 7, in Germany, the unemployment rate in Berlin is just one percentage point higher than in the country as a whole. Likewise, in France and the UK the unemployment rate in Paris and London are broadly similar to the averages for the countries as a whole.

FIGURE 7: **Pre-pandemic unemployment in Paris was higher than in Berlin and London, reflecting higher unemployment rates across France**

Unemployment rates age 15+ for selected metropolitan regions: 2019

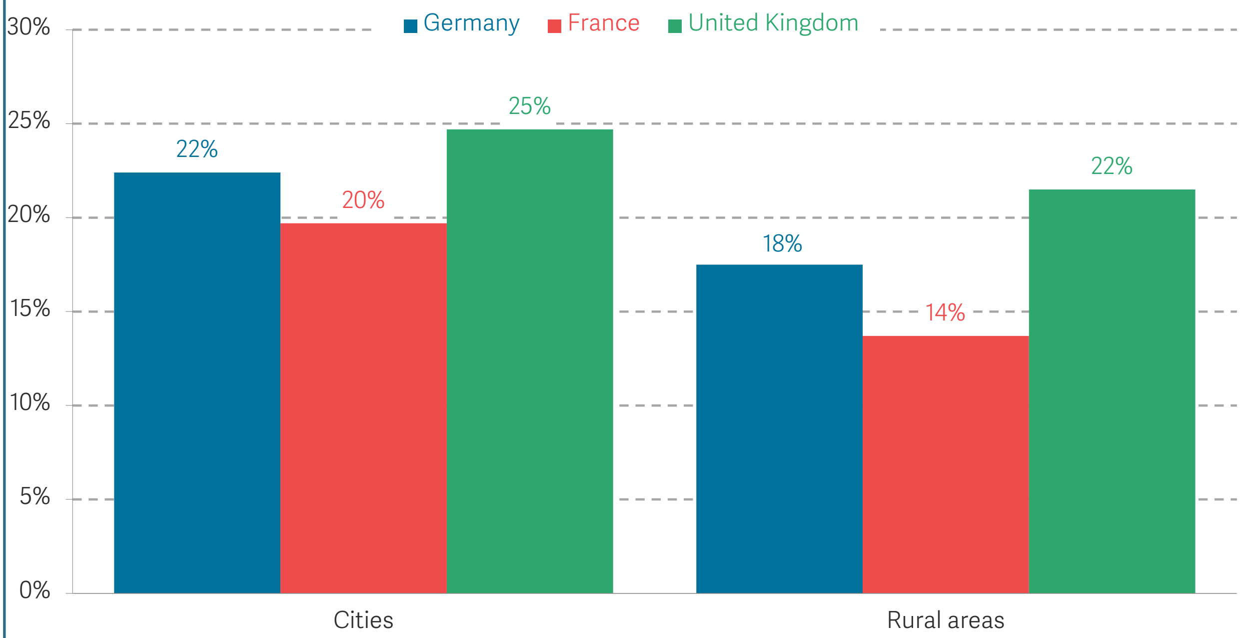


NOTES: Due to data gaps, figures for rural UK and France are from 2017 and from 2018 for Germany. These figures relate to a different dataset than the figures published above and therefore are not directly comparable.
SOURCE: Eurostat 2019.

However, looking simply at unemployment rates captures only part of the story, as we have seen previously in this report. If we look instead at poverty rates, there is a more pronounced difference between cities and rural areas, as seen in Figure 8. The general phenomenon that poverty is higher in cities than in rural areas, holds across all the three countries, with a difference of 6 per centage points in France, 4 percentage points in Germany and 3 percentage points in the UK.

FIGURE 8: **Across the three countries, people are more at risk of poverty or social exclusion in cities than in rural areas**

Proportion of people at risk of poverty or social exclusion, by country: 2018



SOURCE: Eurostat 2018.

These individual-level statistics provide an important context for understanding how labour market outcomes shape financial resilience. But given that individuals within households pool resources, it is important to assess how the findings presented so far in this section map onto household-level measures of work and worklessness.

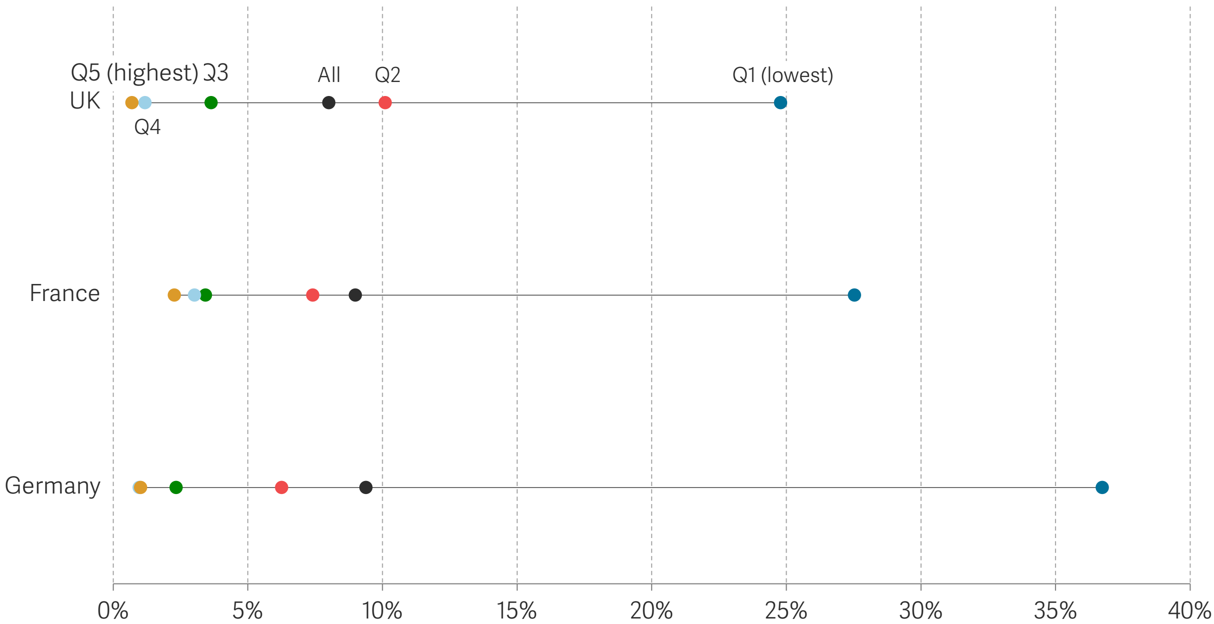
A higher share of low-income households in Germany are workless households

Non-working households may not be exposed to labour market shocks, but will still be at risk of facing unexpected expenditure shocks or reductions in income as a result of policy changes. Non-working households have lower incomes than their working counterparts in all three of our countries of interest – and so will be more likely to struggle in the face of such a shock than those in work.[20]

It is important, therefore, to look in detail at where worklessness is highest – and in doing so we note that the link between aggregate employment figures to worklessness rates is far from uniform. This is partly because of compositional differences in how many adults tend to be in work in households across the three countries. In fact, despite having the highest employment rate overall, the proportion of working-age households that are workless is slightly higher in Germany than in France. This is driven by big differences in worklessness across the income distribution in Germany, as shown in Figure 9.

FIGURE 9: **Worklessness is higher among low-income households in Germany than in France and the UK**

Proportion of non-pensioner adults in workless households by country and equivalised working-age household income quintile: 2018



SOURCE: RF analysis of EU-SILC.

As Figure 9 shows, looking at all households across the income distribution, the likelihood of living in a household in which no one works is similar across the three countries, albeit slightly elevated in Germany. But it is again at the margins that differences are more significant, and especially so at the lower end of the income distribution. The lowest income German households are the most likely to be workless, with 38 per cent of households containing no working adults, compared with just 25 per cent of households in the UK, and 28 per cent in France. Some of these workless

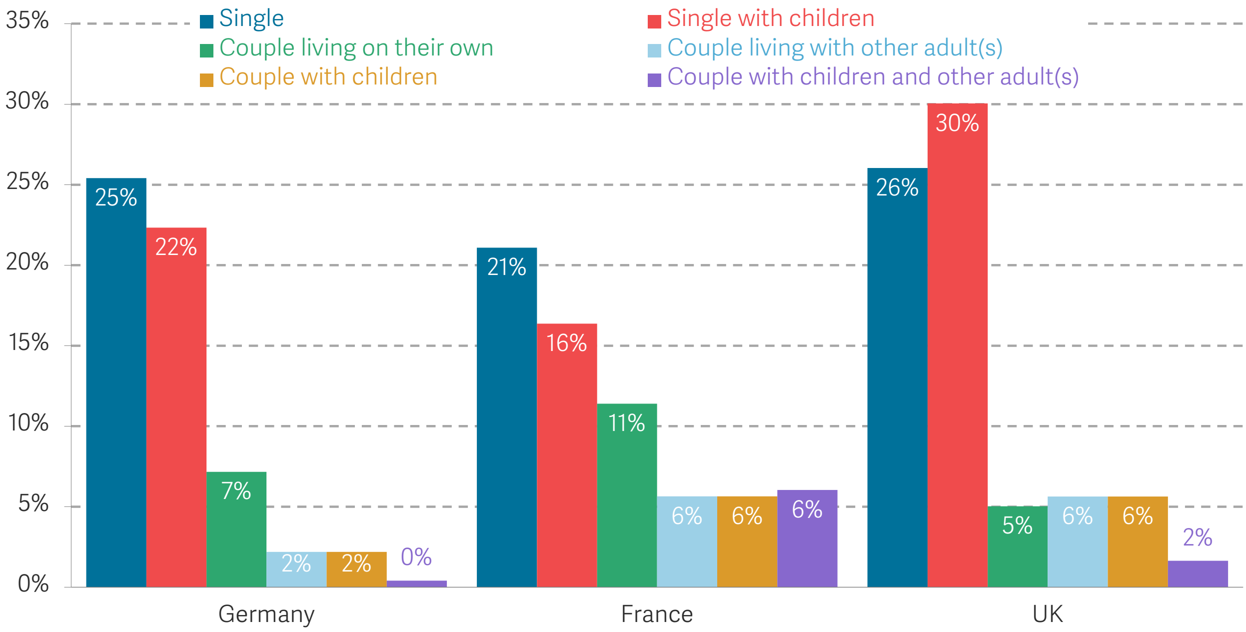
20 RF analysis of EU-SILC.

households are students, but the result holds even when students are excluded from the working-age population. This means that there are more low-income households in Germany whose current incomes are less exposed to a shock specifically hitting the labour market than in the UK and France. But, at the same time, households where no adult is currently in work will be further from the labour market than those who have some work, and will therefore be less able to increase working hours as a source of extra income when an economic shock hits.

In general, household worklessness rates are higher among single adults and single parents. This, in part, explains why these household types have low incomes (Figure 2). As Figure 10 shows, 30 per cent of single-parent households in the UK are workless, compared with 22per cent in Germany and just 16 per cent in France.

FIGURE 10: **Household worklessness is highest among single-adult households**

Proportion of non-pensioner adults in workless households, by country and family type: 2018



NOTES: Figures include full-time students.
SOURCE: RF analysis of EU-SILC.

Overall, then, despite higher aggregate employment rates in Germany, worklessness stands out as an issue among lower-income households. In France, it is couple households that are less likely to be in employment. The picture for the UK, with the exception of single-adult households, is relatively positive – it is not the proportion of people in work that explains the UK's poor performance in terms of incomes.

Hourly pay was lower in the UK than in France and Germany pre-Covid-19

The UK may be a strong performer when it comes to the proportion of people in work, but both pay and hours worked are lower in the UK than in France and Germany – and both matter for low employment income.

Here we compare a constructed measure of hourly pay for all those in employment in working-age households. We are able to take account of income from self-employment as well as employee pay.[21] However, pay and business income data is provided on an annual basis, and estimates of hours include paid and unpaid overtime. These two elements of the data provided by EU-SILC mean that our estimates are slightly lower than those reported in, for example, the Annual Survey of Hours and Earnings (ASHE) for the UK.[22]

Typical hourly pay in Germany in 2018 stood at €16.00, compared with €14.20 in France and €12.90 in the UK. The gap between typical pay in Germany and the UK (with UK typical pay being 81 per cent of German typical pay) is exacerbated by the inclusion of self-employed earnings, due to the relatively low-paid (on average) nature of self-employment in the UK, as we will see below.[23] Among employees only, German typical hourly pay remains at €16.00 while UK typical employee pay rises to €13.40. The higher pay in Germany is all the more noteworthy given the country's high employment rates which will have acted (as in the UK) to bring more people from groups that were previously inactive into the labour market.[24]

This pay gap between the three countries is smaller at the top end of the pay distribution than at the median, falling to 2 per cent at the 90th percentile (UK: €29.60; Germany: €30.10), and with UK pay higher than in Germany at the 95th percentile (UK: €40.90; Germany: €37.10). This narrowing reflects the general finding that the UK's pay distribution is more unequal than in France and Germany, which we saw above is reflected in the household income distribution.

Figure 11 shows selected ratios comparing median pay to the lower and higher end of the pay distribution. The ratio between the typical pay and pay at the 10th percentile of

21 The primary comparable survey on employee earnings across European countries has similar results for both the differences in median earnings, with employee earnings highest in Germany (€15.88 in 2018), lower in France (€15.20) and lowest in the UK (€14.74).

22 ASHE is the UK's most comprehensive survey of earnings. Median hourly pay for all employees was reported as £12.77 in the ASHE in 2018. Our analysis of EU-SILC estimates median hourly pay among UK employees as £11.78. EU-SILC estimates are constructed from reported annual employee earnings figures and reported usual hours worked in the recent 'reference week'. Reference week hours are multiplied by the number of months for which each employee reports working for more than half the month in order to arrive at an estimate for total hours worked each year.

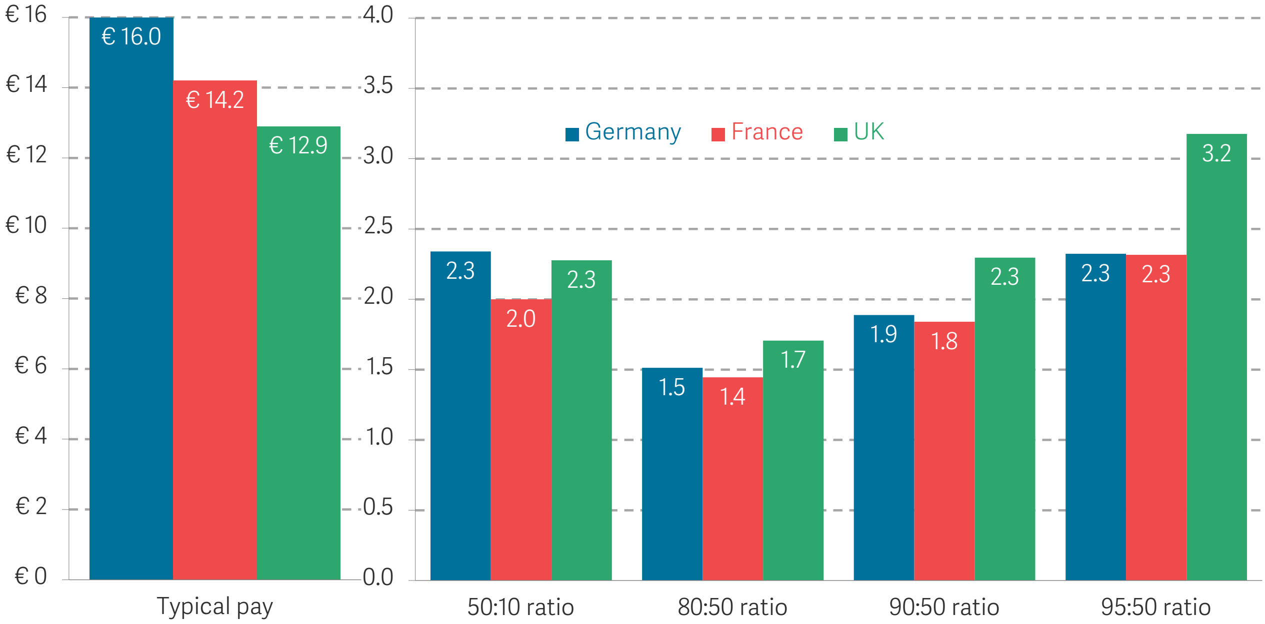
23 A Corlett & D Tomlinson, A tough gig? The nature of self-employment in 21st Century Britain and policy implications, Resolution Foundation, February 2017.

24 S Clarke & N Cominetti, Setting the record straight: How record employment has changed the UK, Resolution Foundation, January 2019.

the distribution is broadly similar across Germany, France and the UK. But pay inequality between the median and higher up the distribution is notably larger in the UK.

FIGURE 11: **Pay inequality is higher in the UK than in France and Germany**

Typical hourly pay and ratios across the pay distribution, adults in working-age households, by country: 2018



NOTES: Compared in euro exchange rate terms.
SOURCE: RF analysis of EU-SILC.

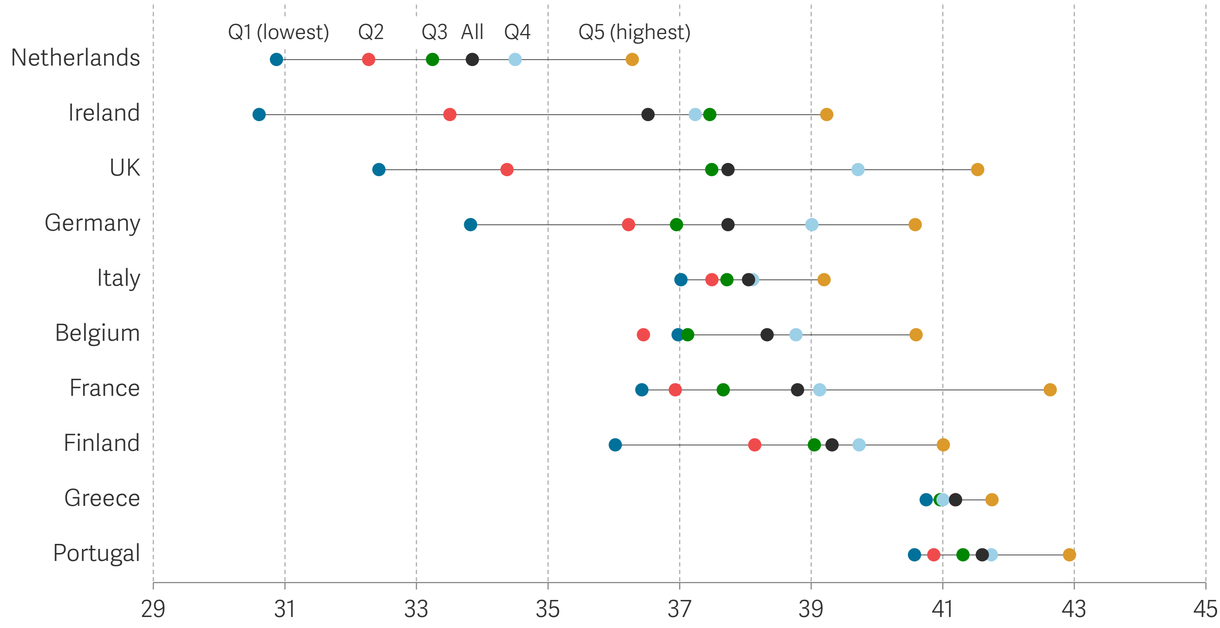
Usual hours worked are higher overall in France, but are particularly low in low-income households in the UK

It is not just hourly pay that determines labour market incomes – hours of work do too. Figure 12 therefore shows the average usual hours worked by those in work in each quintile of the working-age net household income distribution and across all working adults in these households. Average usual hours worked are the same in Germany and the UK at 37.7 hours a week, one hour a week less than the 38.8 average recorded in France.

The distribution of average hours worked is markedly different between countries. On average, those in work in households in the lowest-income quintile in the UK work just 32.4 hours a week (lower than in most other European countries), whereas those in work in the highest income households work 41.5 hours a week (higher than in most other European countries). This 9.1-hour difference in average usual hours is notably higher than the more compressed distributions in Germany (range of 6.8 hours) and France (range of 6.2).

FIGURE 12: **Workers in France work longer hours than in Germany and the UK**

Average usual weekly hours worked by adults in work, adults in working-age households, by equivalised net working-age household income quintile and country: 2018



SOURCE: RF analysis of EU-SILC.

Pre-Covid-19 at least, these different distributions of hours worked will have had an impact on financial resilience. Working fewer hours, as those in the bottom of the distribution in the UK do relative to their counterparts in France and Germany, implies lower earnings (on a given wage) and, in turn, lower incomes. Labour market routes to boosting incomes need not just come through hourly pay, but can also be about increasing the number of hours worked by individuals in low-income households.

This finding – of higher average hours worked in France than in the UK – is not, though, the finding that is commonly reported in cross-country comparisons. One reason for this is the difference between actual and usual hours worked. We have focused here on usual hours. These reflect the typical number of hours worked in a week for every survey respondent and are "generally considered to be less affected by reporting biases" than actual hours worked, reflecting the norms of working weeks better than actual hours which can fluctuate substantially.[25] The main driver of the difference between these two measures is the amount of annual leave taken, and leave entitlement is higher in France and Germany than in the UK.[26] This explains why actual hours measures (which are used

25 A Ward, M Belén Zinni, P Marianna, International productivity gaps: Are labour input measures comparable?, OECD, December 2018.

26 A Maye, No-Vacation Nation, Revised, Center for Economic and Policy Research, May 2019.

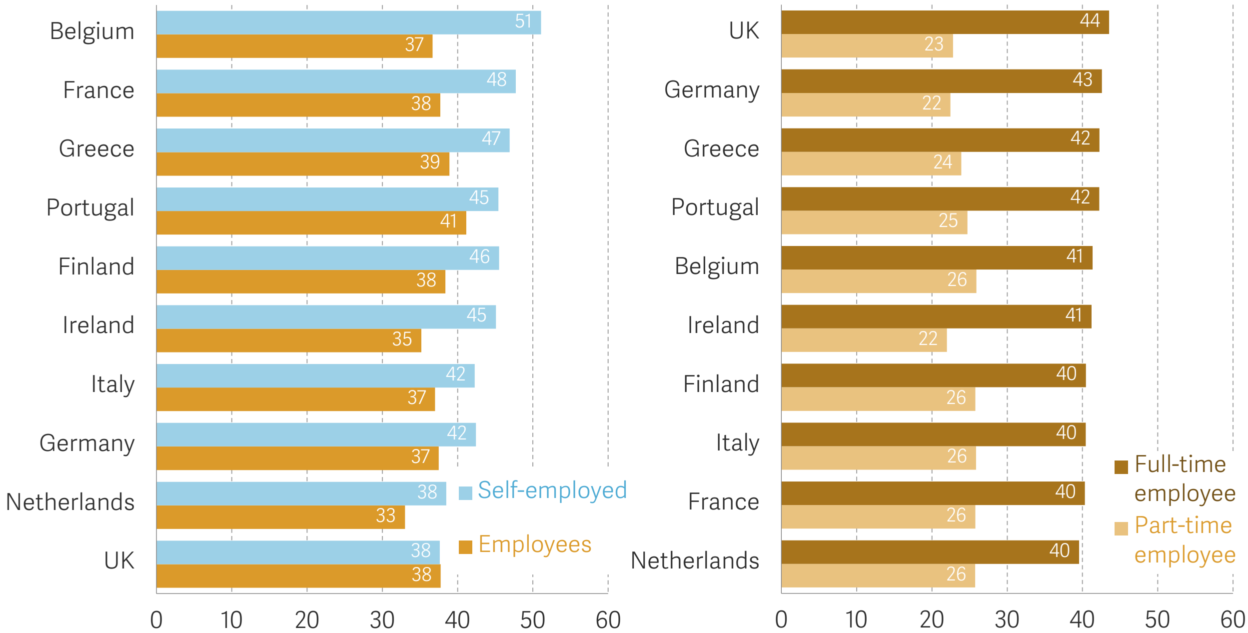
as the basis for productivity statistics) show lower average annual hours worked per person in Germany (1,386 a year in 2019) than in France (1,505) or the UK (1,538).[27]

A further reason for the difference between the commonly held view of lower hours worked in France than in Germany and the UK is that headline hours estimates tend to focus on the hours worked by full-time employees – among whom France does, in fact, have some of the lowest average working hours among large western European economies.[28]

For this reason, when comparing hours worked across countries it is vital to be clear about the impact that paying attention to certain groups can have. For example, the picture presented in Figure 12 above includes the self-employed. But if, instead, the focus is just on employees, average hours worked are the same in the UK and France and very slightly higher in Germany. This difference is a result of the low average hours worked by the self-employed in the UK, as Figure 13 shows. The UK stands out in having lower average usual hours worked by the self-employed than employees – in most other advanced economies, the self-employed work more hours than employees.

FIGURE 13: **Differences in self-employed and part-time employee hours matter for international comparisons of hours worked**

Total usual weekly hours worked, employees and self-employed (left panel), full-time employee and part-time employee (right panel), working adults in working-age households, by country: 2018



NOTES: Full time defined as those working 35 hours a week or more.
SOURCE: RF analysis of EU-SILC.

27 OECD.Stat, Average annual hours actually worked per worker, accessed: 1 December 2020.
28 For example, see: Eurostat, How many hours do Europeans work per week?, January 2018.

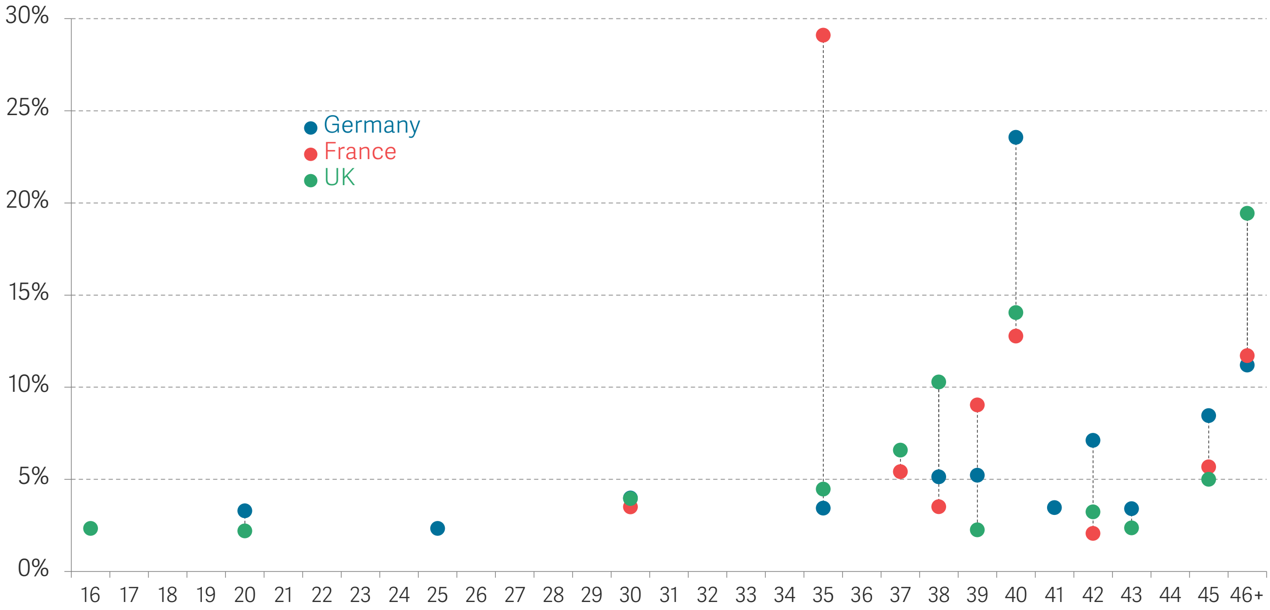
The other key dimension of interest is the variation between average full-time and part-time working hours in different countries. Where the focus of attention is on full-time employees only, UK employees do, in fact, work longer hours than in France and Germany and most other European countries: 44 hours a week compared with 43 in Germany and 40 in France (see right panel of Figure 13). Full time here is defined as working 35 hours a week or more. Restricting analysis to just full-time employees, then, misses the fact that the self-employed and part-time employees work fewer hours in the UK than elsewhere, and that there are relatively more part-time and self-employed workers in the UK than in France and Germany (see Figure 16 and Figure 17 below).

Also relevant to overall average hours is the share of people working full time and part time. Part-time working (less than 35 hours a week) is lowest in France, where 18 per cent of those in work are employed part time, compared with 25 per cent in Germany and 30 per cent in the UK.

Some of these differences look to be a result of interesting variations in cultural norms. In France, 29 per cent of employees usually work 35 hours a week, whereas in Germany 24 per cent of employees work 40 hours a week in their main job (Figure 14). In contrast, the UK has a large share of employees normally working 46 hours a week or more in their main job with a much clearly discernible peak in usual hours for full-time employees.

FIGURE 14: **Three peaks of differences in employee hours worked**

Usual weekly hours worked in main job, employees in working-age households, by country: 2018



NOTES: Full time defined as those working 35 hours a week or more. Only proportions of 2 per cent or more are shown.
SOURCE: RF analysis of EU-SILC.

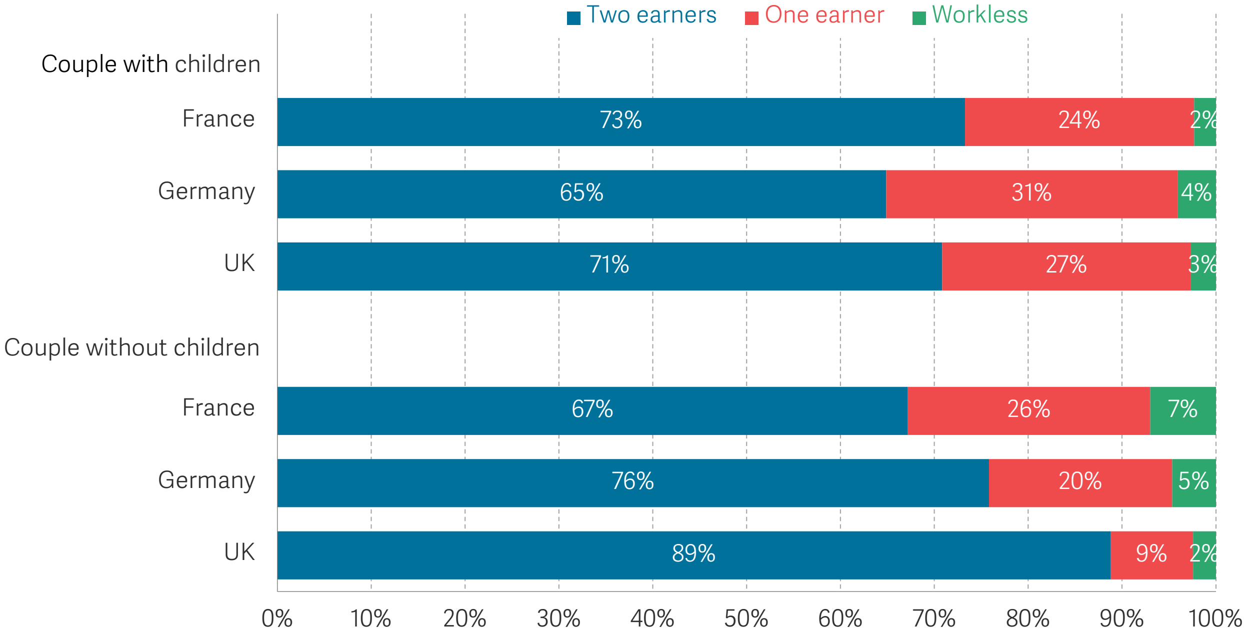
In France, gender differences are more about labour market participation than hours of work

When making decisions about which job to take and how many hours to work, societal and institutional norms lead to different outcomes across countries.

For example, looking across our three countries, we find striking differences in the likelihood that couples without children are both earners. We restrict our analysis here to those aged 25 to 40, to focus on the age at which families are most likely to have younger children. Figure 15 shows that, overall, there are more couples without children in two-earner households in the UK (89 per cent) and in Germany (76 per cent) than in France (67 per cent). When children are present, the household is slightly less likely to be dual-earner in Germany and the UK, but slightly more likely to be so in France.

FIGURE 15: **Couples without children are more likely to be two-earner households than those with children in the UK and Germany**

Proportion of people living in couple households, by country and number of earners in the household, adults aged 25-40: 2018



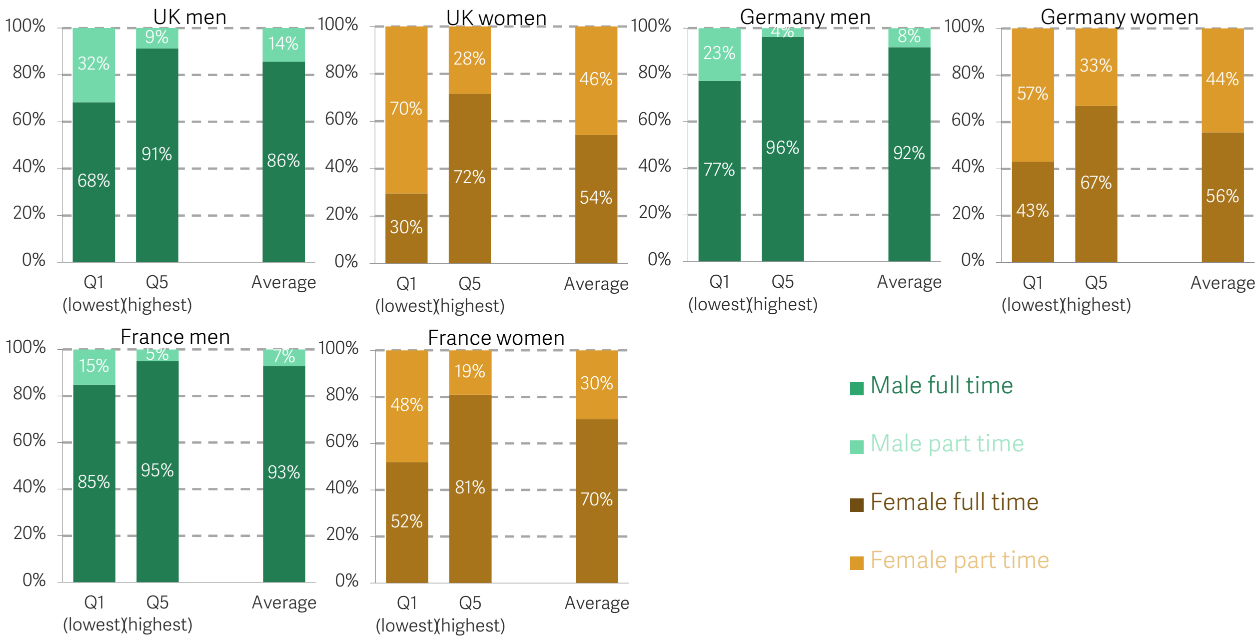
SOURCE: RF analysis of EU-SILC.

It seems, then, that part of the household-level response in the UK to relatively low hourly pay (particularly towards the bottom) and low out-of-work support is for more couples to be dual-earners. This does bring benefits in terms of a better gender balance in work, and means that more individuals and households in the UK avoid worklessness and its associated negative impact on financial resilience. Furthermore, it is also the case that having two earners in a household can be beneficial for financial resilience, reducing the risk of the household becoming workless in economic downturns and also providing two routes by which labour market incomes can be boosted in the face of a shock.

Household-level decisions around whether and how much each adult in a couple work can help explain differences in working hours by gender. Households rather than individuals balance the level of participation by 'second earners' in the workforce participation. Lower participation in the workforce by second earners will be part of the reason for the just 30 per cent of women in work in France working part time, compared with 46 per cent in the UK and 44 per cent in Germany (Figure 16).

FIGURE 16: **Part-time working is higher where labour market participation is also relatively high**

Proportion of working men and women in full-time and part-time work, by equivalised net working-age household income quintile, by country: 2018



NOTES: Full-time work is defined as those working 35 hours a week or more.
SOURCE: RF analysis of EU-SILC.

Part-time working is more common at the lower end of the income distribution for both men and women, with particularly large differences in the rate of part-time working for men in lower-income households.[29] In the UK, one-third of men in households in the bottom-income quintile work part time, compared with 23 per cent in Germany and 15 per cent in France. Part of the difference between the countries can be explained by higher rates of labour market participation in the UK such that more lower-income men tend to work a little rather than nothing in the UK: 46 per cent of men in low-income

29 The degree to which different contracts are deemed 'insecure work' differs across countries. In this dataset we cannot make detailed categories to include contracts like agency work, zero-hours contracts in the UK or mini-jobs in Germany. The main sources of job insecurity we consider in this report are therefore temporary contracts, part-time and self-employed work.

(bottom quintile) UK households were not working at all in 2018, compared with 49 per cent in France and 53 per cent in Germany.

While part-time work can be voluntary and a way to cope with time pressures in a household, it can also occur when a person cannot find full-time work or easily increase the hours worked and therefore be a sign of underemployment. The share of underemployed part-time workers was higher in the UK and France pre-Covid-19 than in Germany, with 4.5 per cent of UK workers aged 15 to 74 reporting being underemployed, 5.1 per cent in France, and just 2.6 per cent in Germany.[30]

Temporary employment is higher in France; self-employment is higher in the UK

As well as the number of hours worked, the nature of the work that individuals carry out also shapes the extent to which employment contributes to financial resilience. Forms of employment with greater volatility in hours, unexpected changes to shift patterns and limited job security are more likely to be the source of an income shock than more stable forms of work.

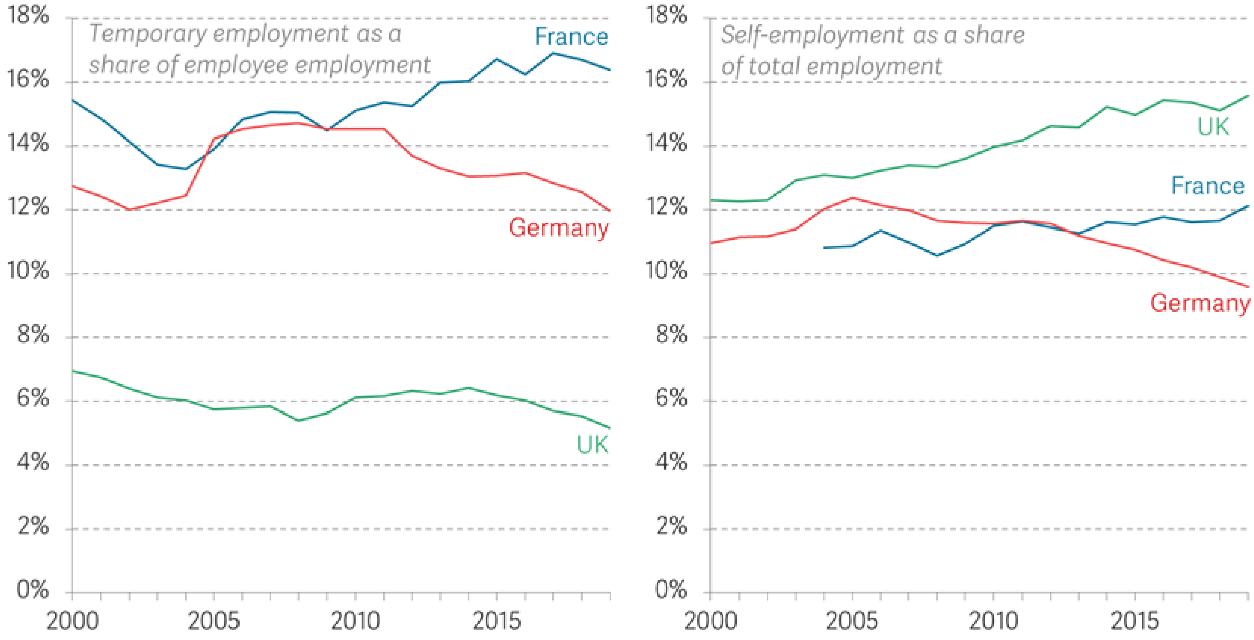
The sources of insecurity are different across our three countries. The biggest challenge in the French and German labour markets being the high incidence of temporary work associated with labour markets with stronger worker protections for those 'inside' the market, with 'outsiders' left out. In 2019, 16 per cent of employees in France were in temporary employment, a share that has risen since the financial crisis (see Figure 17).[31] In contrast, temporary workers accounted for 12 per cent of employees in Germany (a decline since the crisis) and just 5 per cent in the UK.

Self-employment has also been growing as a share of total employment in France (to 12 per cent in 2019), while falling in Germany (to 10 per cent) – as the right panel of Figure 17 shows. But it is in the UK where self-employment has increased the most as a share of all employment since the early 2000s, up to over 15 per cent pre-Covid-19. Although many self-employed workers will have a steady stream of income and sufficient financial buffers, it remains the case that, in many cases, this form of work is less secure than an employee job – with the (sometimes over-estimated) rise of gig-economy jobs a case in point.[32]

30 Eurostat, Labour market slack - annual statistics on unmet needs for employment, June 2020.
31 For more on this see, for example: W Eichhorst, Fixed-term contracts: Are fixed-term contracts a stepping stone to a permanent job or a dead end? IZA World of Labor, issue 45, May 2014
32 C D'Arcy & F Rahman, Atypical approaches: Options to support workers with insecure incomes, Resolution Foundation, January 2019.

FIGURE 17: **Temporary employment is higher in France; self-employment is higher in the UK**

Temporary employment as a share of employee employment (left panel) and self-employment as a share of total employment (right panel), by country: 2000-2019



SOURCE: RF analysis of OECD.

The newly unemployed receive more support in France and Germany than in the UK

We now turn to the incomes of non-working households, and the generosity of the welfare system that provides the majority of income for those out of work.

The complexity of benefit systems and the differences in system design across countries mean that there is no single measure that can be used to assess the level of support for non-working households. Rather, it is important to distinguish between different groups and different circumstances in order to understand how support varies.

Contributory welfare systems, such as those in France and Germany, make a distinction – virtually non-existent in the UK – between unemployment insurance (for those who have 'paid in' sufficient social security contributions while in work) and unemployment assistance (for those who either have not contributed at all or whose entitlement to contributory benefits has expired).[33] These contributory systems are often more generous to those who have been in work for a prolonged period of time than to those who have not. And unemployment benefits tend to be higher for those who have recently stopped working. For example, entitlement to unemployment insurance expires in Germany after

33 Office of Budget Responsibility, Welfare trends report, June 2015.

between six and 24 months out of work, depending on contributions and age.[34] None of this is the case in the UK.

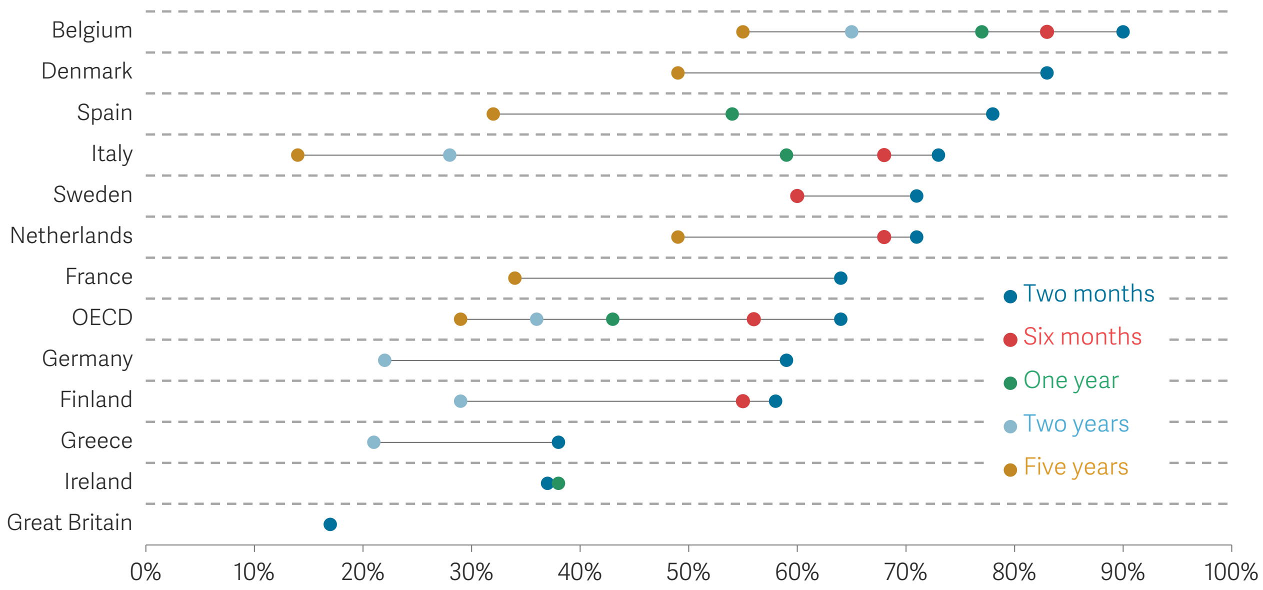
Welfare generosity for those who have made sufficient contributions is therefore much higher for the recently unemployed in France and Germany (and in many other European countries) than in the UK.[35]

The difference in support across countries can be measured by a comparison of replacement rates. These compare the income received by a household when out of work with the income received when working at a specified wage.

Figure 18 shows out-of-work household income for a single adult with no children as a proportion of household income from earnings equal to two-thirds of the average in-country wage.[36] It shows that replacement rates after two months of unemployment are just 17 per cent in the UK, compared with 59 per cent in Germany and 64 per cent in France.

FIGURE 18: **Contributory benefit systems in France and Germany provide higher levels of support to the recently unemployed than is the case in GB**

Proportion of previous household income maintained when receiving unemployment benefits for single adult with no children previously on two-thirds of the average in-country wage, by length of unemployment, various countries: 2019



NOTES: Figures refer to unemployment replacement for a jobseeker aged 40 with an uninterrupted employment record since age 19 until the job loss. Where replacement rates are the same across multiple time intervals, the shorter unemployment spell is shown.
SOURCE: OECD, Benefits and wages: Net replacement rates in unemployment.

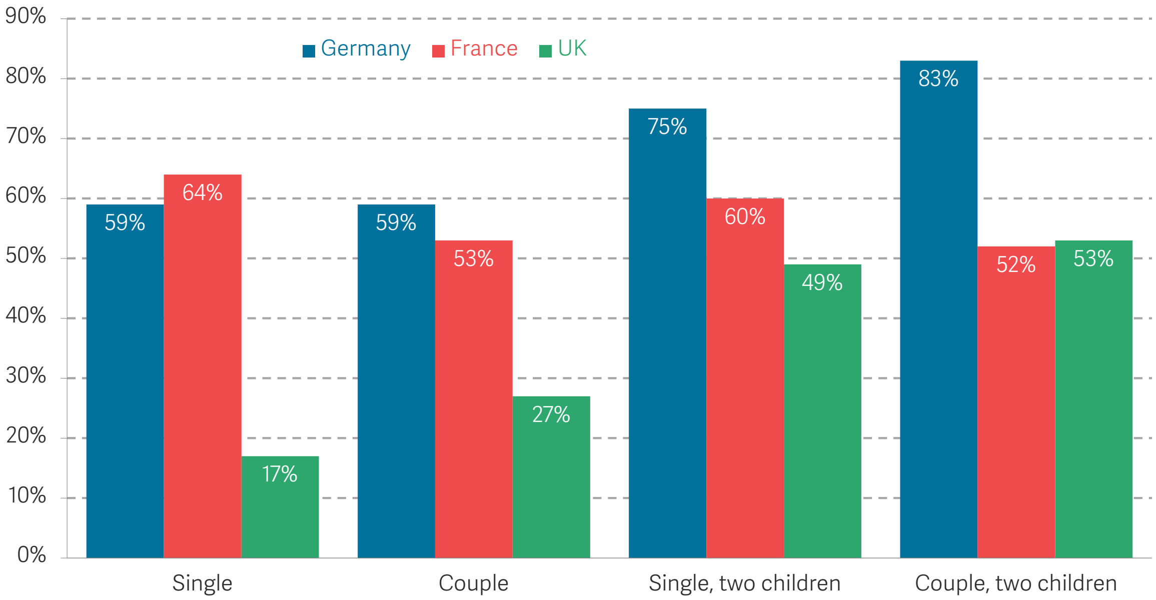
34 Unedic, The German unemployment insurance system, December 2019.
35 For example, for the French context, see: J Rousselon & M Viennot, Primary inequality and redistribution: where does France stand in Europe? France Strategie, January 2021.
36 These replacement rates assume a jobseeker aged 40 with an uninterrupted employment record since age of 19 until the job loss, and so will amplify the differences between contributory and non-contributory systems.

The difference in generosity of support between our countries of interest diminishes somewhat with the length of time out of work, as unemployment benefits in contributory systems decline over time. After two years of unemployment, for example, the replacement rate for a single adult with no children falls to 22 per cent in Germany – similar to that received in the UK (17 per cent). Nonetheless, even after five years of unemployment, the replacement rate in France is still double that in the UK, at 34 per cent.

Welfare systems also differ in the income provided to families with and without children. The UK system is strikingly less generous to single adults than the French and German systems are to those eligible for unemployment insurance, but these differences narrow somewhat when comparing replacement rates for single and couple parents. For example, the replacement rate for a couple with two children where both adults are out of work (compared with a situation where one adult is in work on two-thirds of the average wage) is highest in Germany (83 per cent), but is almost the same in France (52 per cent) as in the UK (53 per cent). As Figure 19 shows, even though the UK welfare system is generally less generous than others, relatively more support is provided to families with children than to those without, whereas the opposite is true in France. In effect, the UK partially compensates for its low unemployment benefits by providing relatively high levels of benefits for families.

FIGURE 19: **Welfare systems in the UK and Germany provide relatively more support to families with children; the opposite is true in France**

Net replacement rates excluding housing-related benefits two months after lost job, by country and family type: 2019



NOTES: Figures refer to unemployment replacement after two months of unemployment for a jobseeker aged 40 with an uninterrupted employment record since age 19 until the job loss, and who was previously on two-thirds of the average wage.
SOURCE: RF analysis of OECD, Benefits and wages: Net replacement rates in unemployment.

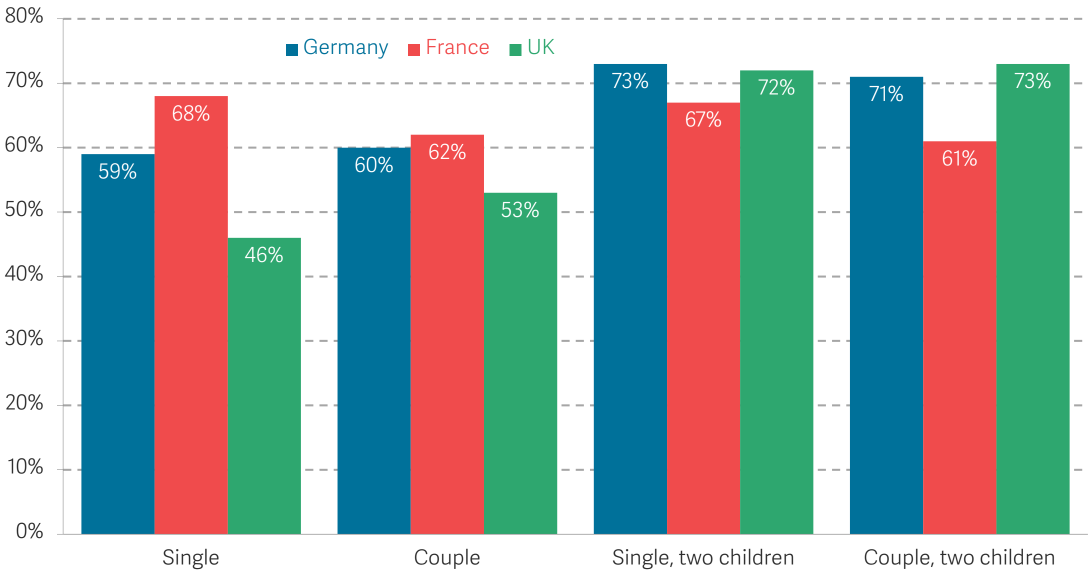
One further dimension to consider when comparing incomes for out-of-work households is the extent of support for housing costs. In France and Germany, support for housing costs for those out of work is provided through unemployment insurance benefits. In the UK, Housing Benefit (HB) is a standalone feature of the system (it has now been incorporated into Universal Credit for many families).

We have presented replacement rates above excluding the impact of HB. This can allow us to make a comparison with before-housing-cost incomes for mortgagors and home owners, who do not receive HB in the UK but who can receive unemployment assistance at the replacement rates shown in France and Germany.

Comparing replacement rates including HB presents the UK in a more favourable light, in so far as levels of HB simply reflect the high cost of renting in the UK (see Section 4). But it is still informative to see the impact of this on replacement rates. As shown in Figure 20, when HB is included, replacement rates are similar across the three countries of interest – with the relative generosity of replacement rates for families with children in the UK continuing.

FIGURE 20: **When financial support for renters is included in replacement rate calculations, the systems in France, Germany and the UK look more similar**

Net replacement rates including housing-related benefits two months after lost job, by country and family type: 2019



NOTES: Figures refer to unemployment replacement after two months of unemployment for a jobseeker aged 40 with an uninterrupted employment record since age 19 until the job loss, and who was previously on two-thirds of the average wage.
SOURCE: RF analysis of OECD, Benefits and wages: Net replacement rates (including housing benefits) in unemployment.

Assessments of actual income levels, rather than replacement rates, for non-working households have found that overall – both before and after housing costs – incomes for non-working households are generally lower in the UK than in France and Germany, with the exception, consistent with the above findings, of families with children, for whom incomes are lower in France than in the UK.[37]

This means that not only are non-working families in the UK more vulnerable to expenditure shocks than their counterparts in Germany, but also that we can expect those households who do suffer job losses to find themselves in a more precarious financial position. For couples and couple parents, income levels for non-working households are broadly similar across the UK, France and Germany.

Summary

In this section we have considered how financial resilience is shaped by the labour market and welfare systems of the three countries. As summarised in Table 2, employment rates were high in Germany and the UK and low in France before the Covid-19 crisis. Across almost all of the household income distribution, adults are less likely to be in work in France than in the UK or Germany, but Germany still faces the highest rates of worklessness among its low-income households. The UK has relatively high employment rates, and the risk to resilience is instead the low pay and average usual hours worked in the country.

Benefits provide an income floor in case of a job loss, and play a big role in income levels in crises. The welfare systems in France and Germany have significant contributory elements that provide a higher level of support to individuals with some job tenure and who are newly unemployed. In stark contrast, the UK's non-contributory system provides a replacement rate of just 17 per cent. In the case of longer-term unemployment in the aftermath and recovery period after a crisis, unemployment support will play a considerable role in households' living standards.

TABLE 2: **The financial resilience challenges differ across Germany, France and the UK**

Summary of financial resilience takeaways in Germany, France and the UK

	Germany	France	UK
Labour market	High employment but also high household worklessness rates among low-income households.	Low employment rates, and low proportion of two-earner households among couples without children.	High employment but relatively low hourly pay for lower earners, and low hours worked for self-employed in particular.
Welfare	High replacement rate for short-term unemployed, lower for longer-term unemployed.	Short-term and long-term unemployed have high replacement rates.	Low replacement rates for both short-term and long-term unemployed.

37 D Gaffney, Welfare States: How generous are British benefits compared with other rich nations?, TUC, January 2016.

Section 4

Housing costs, household spending and financial resilience

High day-to-day housing costs act to hold back financial resilience, limiting the ability of households to have sufficient disposable income (or flexibility in their spending) to respond to financial shocks. High housing costs can also limit the extent to which households can build up savings to withstand future shocks.

In this context it is striking that low-income households in Germany and the UK have high average housing costs, equivalent to 37 per cent of household income in Germany and 34 per cent in the UK. In Germany, this is a result of a high proportion of low-income households renting privately. On the other hand, the UK has a smaller share of private renters, but rent levels are very high. Improving the affordability of the private-rented sector would improve financial resilience prospects for low-income households.

In France and Germany households spend a lower share of their income, suggesting that, overall, the extent to which current incomes can provide flexibility in response to a shock is greater in these countries than in the UK. On the other hand, there may well be a greater capacity in the UK to adjust to a shock by reducing the amount spent on non-essentials (on which a greater proportion of overall consumption is spent in the UK than in France and Germany).

Housing costs are higher in Germany and the UK than in France

In this section we consider in detail the impact of the differences in household expenditure on financial resilience. For most households, their single largest expenditure is housing costs – and it is this that we turn to first.

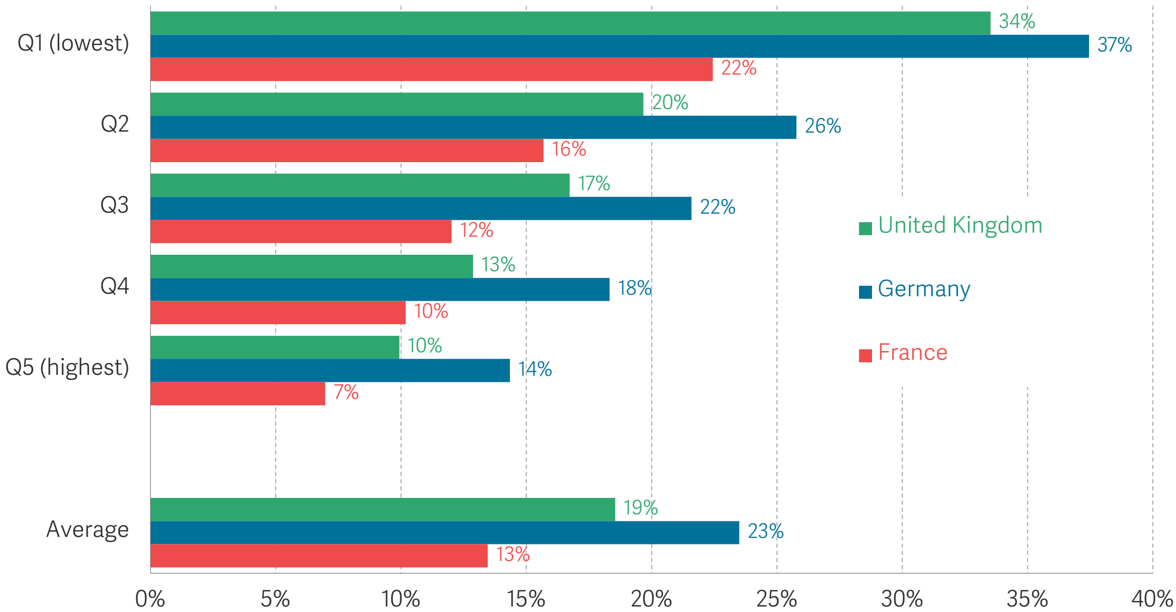
Housing influences financial resilience in a variety of ways, and in Section 5 we look at the impact of home ownership and asset accumulation (and the mortgage debt) on resilience. In this section, our concern is with the extent to which day-to-day housing costs, by taking up a large share of income, affect the capacity of households to respond to shocks, leaving less room for adjustment when a shock arises.[38] In line with the Eurostat data used in this report, housing costs are measured including rent and mortgage interest payments, essential utilities such as water, electricity and heating, and structural involuntary insurances.[39]

Overall, housing costs are higher in Germany (averaging 23 per cent of income) than in the UK (19 per cent) and France (13 per cent). In euros, median after housing costs (AHC) incomes in Germany are €7,800 lower than median before housing costs (BHC) incomes. This is similar to the income reduction in the UK from housing costs (€7,600), but notably more than the €5,200 impact of housing costs on typical incomes in France.

As Figure 21 shows, typical households in the lowest income (BHC) quintile in Germany spend 37 per cent of their net income on housing – more than in the UK (34 per cent) and significantly more than in France (22 per cent). Households in the top income quintile spend five times less on housing costs than those in the bottom quintile in France and the UK, and almost four times less in Germany.

FIGURE 21: **Almost one-quarter of disposable income in Germany is spent on housing costs**

Median net housing cost-to-income ratio, after housing-related benefits, by country and equivalised net working-age household income quintile: 2016



NOTES: Figures exclude mortgage principal repayments and imputed rents for home owners. Housing benefit is deducted from incomes and from housing costs.
SOURCE: Eurostat, EU-SILC.

38 Here we consider data from 2016 because of an abnormally high share of private renters in the more recent wave of EU-SILC data for the UK distorts the results.

39 EU-SILC data does not allow for the separating out of utilities and housing costs and so the figures we use in this report will not correspond directly with how housing costs are measured in some national surveys and presented in other reports. For example, Resolution Foundation's usual measure of housing costs excludes gas and electricity payments, so in other published work we have reported lower housing costs than those presented in this report. However, EU-SILC is suitable for the purposes of this report as it is consistent across countries and therefore allows for comparative cross-country analysis.

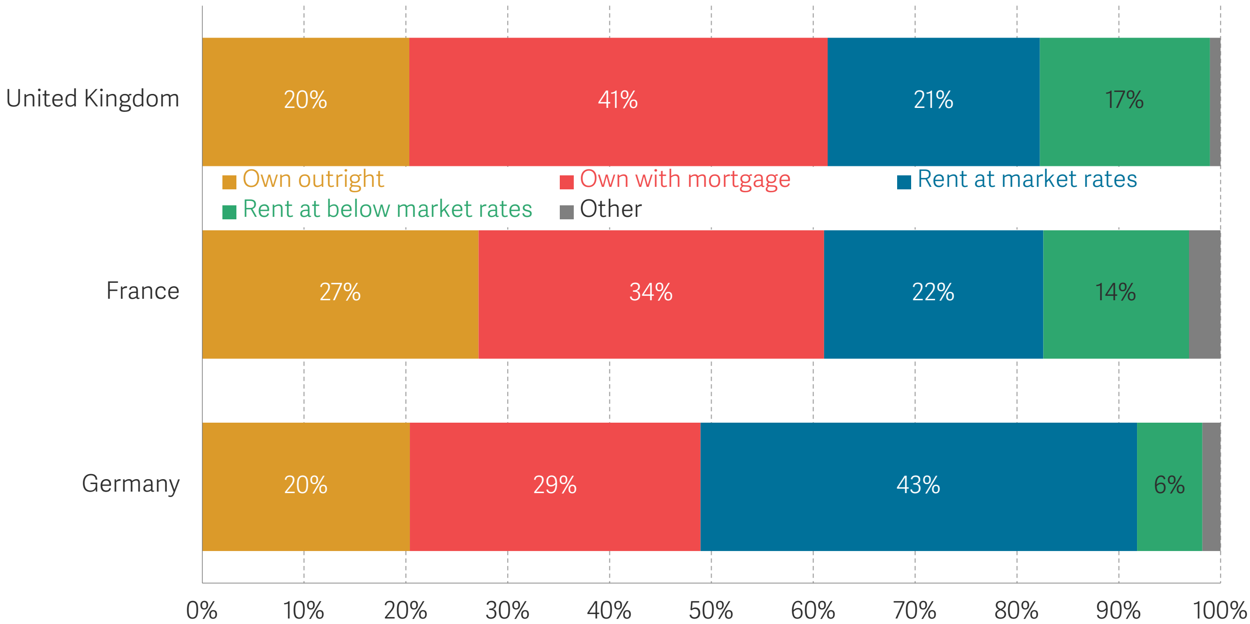
These figures would be higher still if measured before taking account of welfare support for housing costs. For example, the typical housing cost-to-income ratio (HCIR) for households in the bottom quintile is 43 per cent in the UK and 45 per cent in Germany when measured before HB or equivalent payments.

Mortgage principal repayments are not included in these HCIRs, as principal payments are asset accumulation, but clearly they do affect disposable income for households month to month. Including the principal makes a big difference, especially for France and the UK, where the typical HCIR increases, on average, across the income quintiles by 6 percentage points. It makes less of a difference in Germany, where the average HCIR only increases by 3 percentage points.

The tenure mix in each country is a large part of the reason for average housing cost differences. On average, housing costs are higher for private renters than for those with other tenures. As such, the fact that Germany has a very large private-rented sector goes a long way to explaining why housing costs are higher in Germany than in the UK and France, where home ownership is much more common and the social-rented sector is also notably larger. As Figure 22 shows, the proportion of adults living in the private-rented sector is almost twice as large in Germany than it is in the UK or France.

FIGURE 22: **There are more private renters in Germany and more mortgagors in the UK**

Proportion of adults in working-age households in each housing tenure, by country: 2016

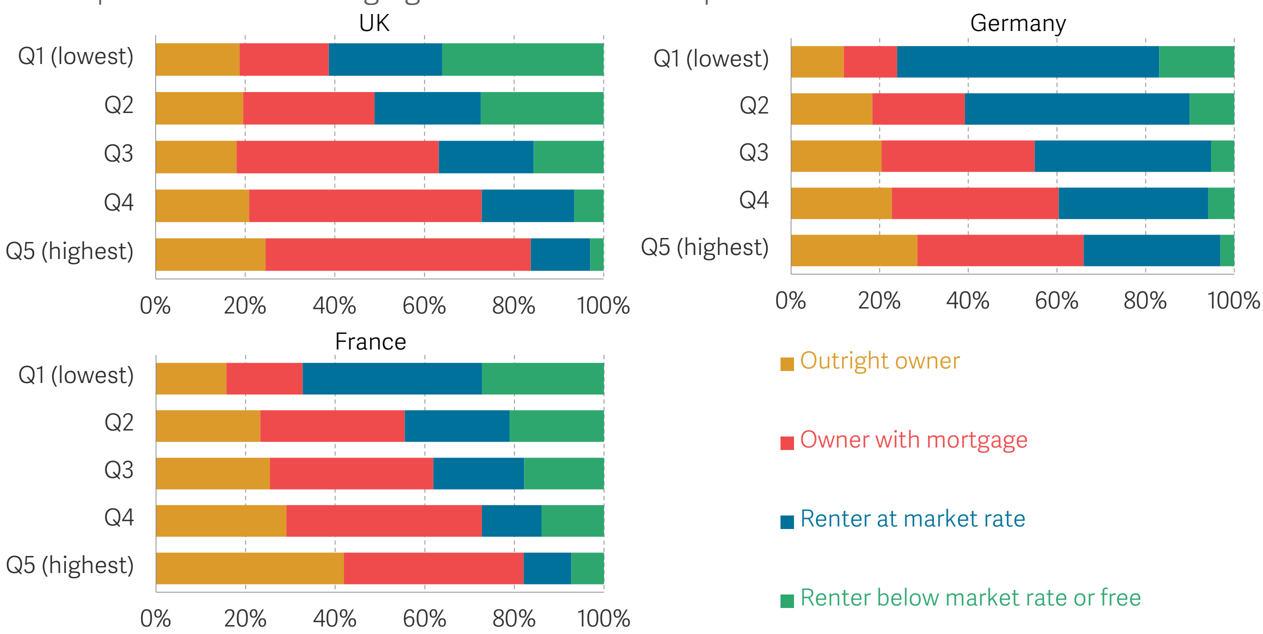


SOURCE: Eurostat, EU-SILC.

Looking at tenure patterns across the distribution shows that renting is more common at the lower end of the income distribution in all three countries, with higher-income households more likely to be outright home owners and mortgagors. Strikingly, as shown in Figure 23, 59 per cent of adults in low-income households (in the lowest-income quintile, where incomes are measured BHC) in Germany are private renters, compared with 40 per cent in France and just 25 per cent in the UK.

FIGURE 23: **Adults in low-income households in Germany are much more likely to be renting privately than those in low-income households in France or the UK**

Proportion of adults in working-age households in each housing tenure, by country and equivalised net working-age household income quintile: 2016



SOURCE: Eurostat, EU-SILC.

Private renters in the UK are the most likely to have very high housing costs

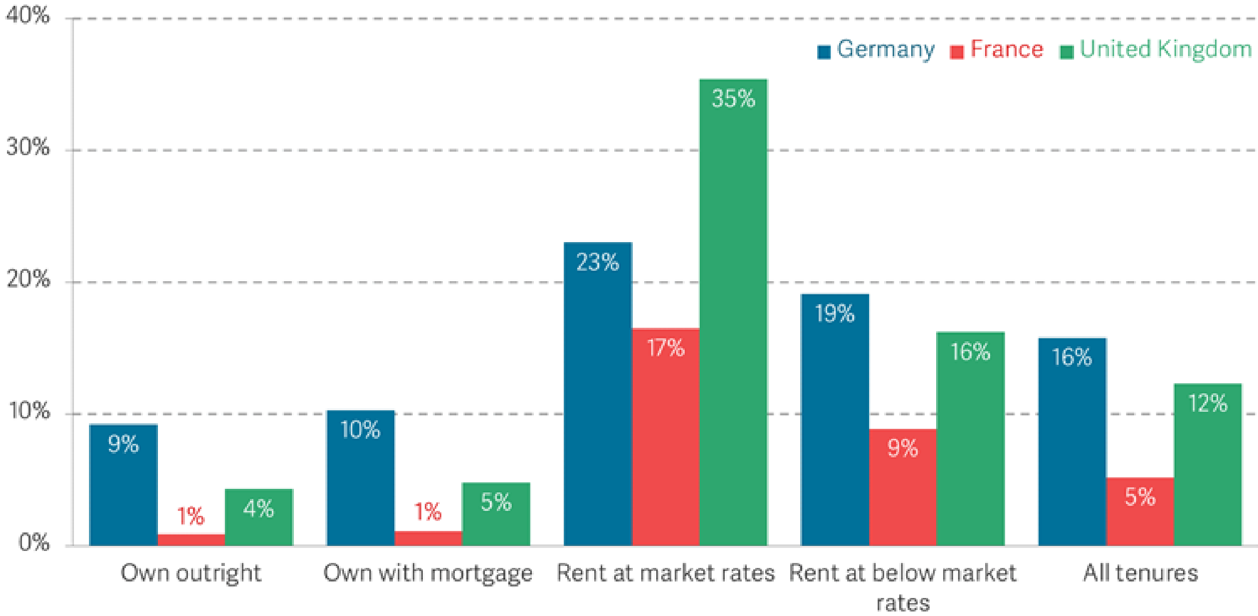
It is those households with the very highest housing cost burden for whom housing will have the most significant effect on financial resilience. To examine this more closely, we can look at the housing cost overburden rate. Various thresholds for 'overburden' are used; here we use the threshold of 40 per cent of income, in line with statistics published by Eurostat and the OECD.[40]

40 Eurostat, Housing costs a challenge to many households, May 2020. OECD, Housing costs over income, December 2020.

Figure 24 shows that more private renters in the UK are exposed to high housing costs: 35 per cent of households in the UK allocate more than 40 per cent of their income to housing. In Germany, that figure is 23 per cent and in France it is considerably lower, at 17 per cent.[41] The implication of this finding is that, although Germany's high average housing costs are a product of having a high share of renters, the UK's challenge is higher private rents. This finding is replicated in other work that shows that rental costs relative to income are lower in Germany than in the UK.[42]

FIGURE 24: **More renters are overburdened by housing costs in the UK**

Proportion of adults in working-age households paying over 40 per cent of household income on housing costs, by tenure: 2016



NOTES: Cost overburden rate is for total population. We use tenure data from 2016 because the data collection for EU-SILC changed for the years 2017 and 2018 in a way that made the tenure variable for the UK inconsistent with national surveys.
SOURCE: RF analysis of EU-SILC, Housing cost overburden rate by tenure status.

Day-to-day housing costs are what matter for financial resilience in the here and now, even if house prices and how easy it is to become a home owner are relevant for the capacity to build up long-term financial resilience through asset accumulation. This element of housing's contribution to resilience is discussed in more detail in Section 5, but in Box 3 below we discuss city-level differences in house prices – which show that there are large differences in house prices and market rents within countries, not just between them.

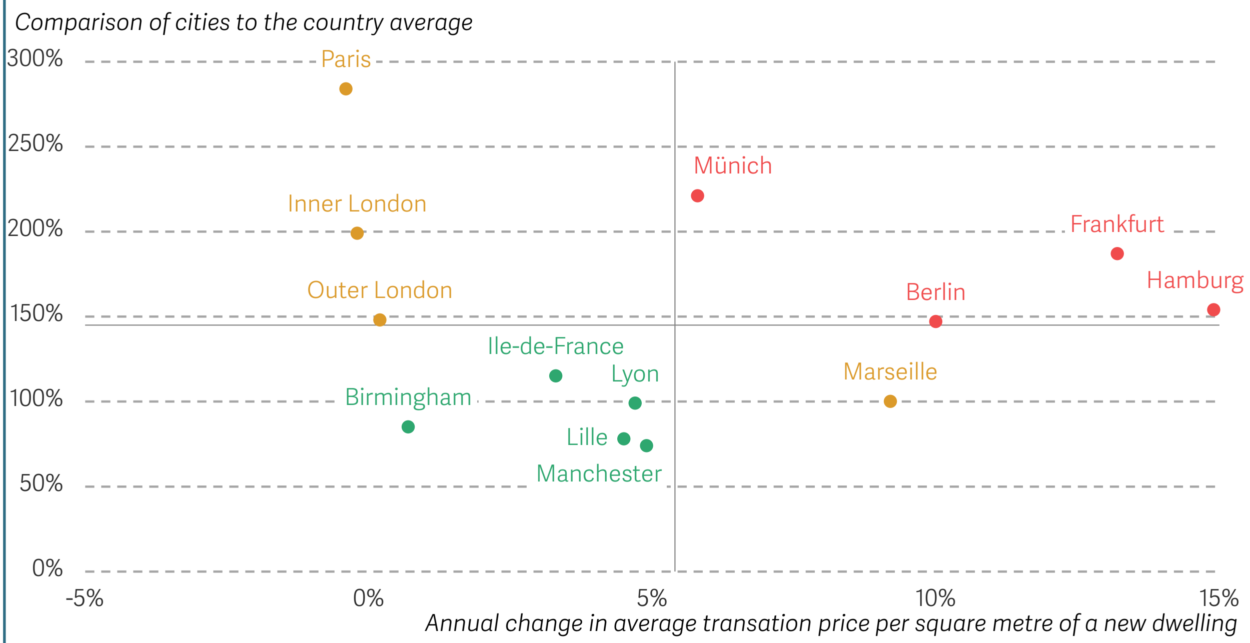
41 In 2019, both France and Germany introduced a rent controls in their capitals, which aim to reduce the cost of renting.
42 OECD, Housing costs over income, December 2020.

BOX 3: **Level and change of city house prices**

It may be a surprise to discover that French housing cost overburden rates are among the lowest in Europe, since urban house prices do not always mirror those elsewhere in the country. The price per square metre for a new-build in Paris is nearly three times the French average at €12,900 (see Figure 25). This is significantly higher than the corresponding figure of €7,700 in Inner London and €5,500 in Berlin (although Münich prices are higher, at €8,300). While prices are still relatively low in Berlin and other key German cities, Figure 25 shows that prices increased dramatically between 2018 and 2019, suggesting that high prices may be a growing problem in Germany. Prices are also highest in Paris, at €28,300 per square metre, compared with €27,000 in Inner London and €9,100 in Berlin (with Münich at €16,400).[43]

FIGURE 25: **New-builds are the most expensive in Paris, but prices are on the rise across all of Germany's main cities**

Annual change in transaction prices of new dwellings, and comparison of selected cities to the country average (country average = 100%): 2019



SOURCE: RF analysis of Deloitte Property Index 2020, Deloitte national offices.

43 M Linhart et al, Property Index 2020: Overview of European Residential Markets, Deloitte, 2020.

General household spending relative to income is lowest in France and highest in the UK

Having considered housing costs, we now move on to look more broadly at levels of consumption. Household spending not only provides a useful way of capturing people's current standard of living,[44] but also, crucially for our purposes in this report, it provides another way of understanding the extent to which households have the capacity to withstand financial shocks.

Where household spending is lower than household income, households will have more capacity to withstand economic shocks out of their current income. Although there is limited data available bringing together spending and income, Eurostat has recently produced experimental statistics that do just this. These statistics are constructed by bringing together income data from the EU-SILC and spending data from the Household Budget Survey.[45]

Figure 26 presents the percentage of disposable income spent on consumption across income quintiles and selected countries using these experimental statistics. It suggests that spending is further below income in France than in Germany and, in turn, than in the UK. In this experimental data, households in the middle-income quintile in the UK spend an average of 96 per cent of their disposable income, compared with 84 per cent in Germany and 75 per cent in France. This suggests that households have more capacity to withstand financial shocks using their current income in France and Germany than they do in the UK.

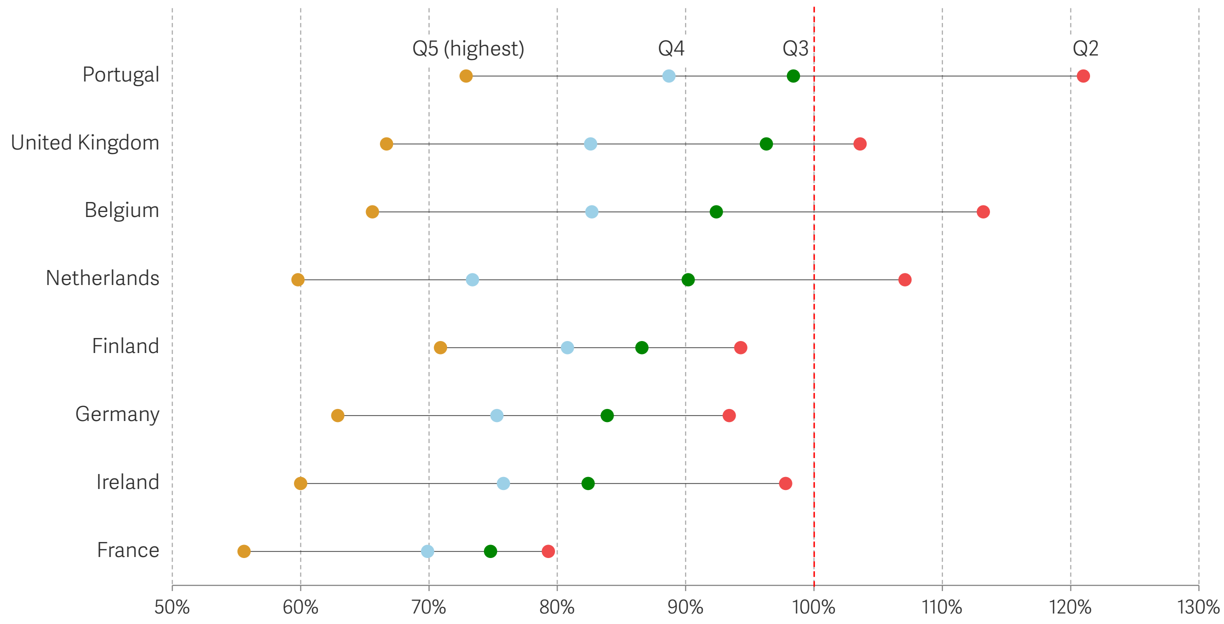
Figure 26 also shows that lower-income households in all countries spend more relative to income, suggesting that their capacity to respond to shocks without adjusting their spending (or turning to savings/debts) is more limited.

44 For example, see: M Brewer & C O'Dea, Measuring living standards with income and consumption: Evidence from the UK, Institute for Fiscal Studies, July 2012; R Blundell & I Preston, Income, Expenditure and the Living Standards of UK Households, Fiscal Studies 16:3, August 1995; B Meyer & J Sullivan, Measuring the Well-Being of the Poor Using Income and Consumption, NBER Working Papers, June 2003; H Noll, Household consumption, household incomes and living standards, GESIS, 2007; H Noll & S Weick, Consumption expenditures and subjective well-being: Empirical evidence from Germany, International Review on Economics 62, November 2014.

45 Mortgage payments and payments into private pension plans are not included in consumption. Given the experimental nature of these statistics, we have excluded figures from the lowest-income quintile from the analysis presented here. By construction, households at the bottom end of the distribution are those more likely to have suffered from negative measurement in income.

FIGURE 26: **Low-income households in France spend a smaller proportion of their income than low-income households in Germany and the UK**

Percentage of household disposable income spent on consumption, by country and household income quintile: 2015



NOTES: Data for Quintile 1 is not presented due to issues with reporting of income and consumption at the lower end of the distribution. Data presented in this chart is for all households, not just working-age households.
SOURCE: Eurostat, Experimental statistics.

Although the estimates for how much households are 'over-consuming' should not be taken as precise, given the experimental nature of these statistics, it is still a cause for concern to see that, even in the second income quintile, UK household budgets are so tight. However, such households are not necessarily in this position for a prolonged period, although some may well be. Household incomes are not fixed over time and many will change from month to month, and certainly over years. OECD research has shown that these income dynamics are less prevalent for low-income households in Germany, and to a lesser extent in France, than in the UK. Indeed, the proportion of people remaining in the bottom-income quintile through a period of four years is lower in the UK (at 26 per cent) than in any other OECD country bar Chile.[46] In contrast, in Germany, 45 per cent of individuals remained in the same income quintile for over four years (and 39 per cent in France). Similarly, ONS research has shown that the persistent poverty rate (the proportion of people in poverty in the current year and at least two of the preceding three years) in Germany is higher than the average across the EU28, at 11.6 per cent, compared with lower rates of 7.8 per cent in the UK and 8.0 per cent in France.[47]

46 OECD, A Broken Social Elevator? How to Promote Social Mobility, 2018.
47 Office for National Statistics, Persistent poverty in the UK and EU: 2017, June 2019.

To the extent that financial resilience is about the extent to which low-income households can lift their relative income, this evidence suggests it is a more common and relatively easier experience in the UK and France than in Germany.

UK households allocate a greater share of consumption to non-essentials than households in France and Germany

It is not only important to consider the level of spending, but also the items households spend their money on and what they can get for their money (see Box 4). Essential spending, such as housing and food, is more difficult to change from month to month, whereas it is relatively easy to cut out consumption of restaurant meals, pub trips and other non-essential activities, as we have experienced during the Covid-19 pandemic. In that vein, if households spend a large majority of their income on essentials, there is less room for consumption to take the strain in the event of a financial shock.

BOX 4: **Differences in price levels across countries**

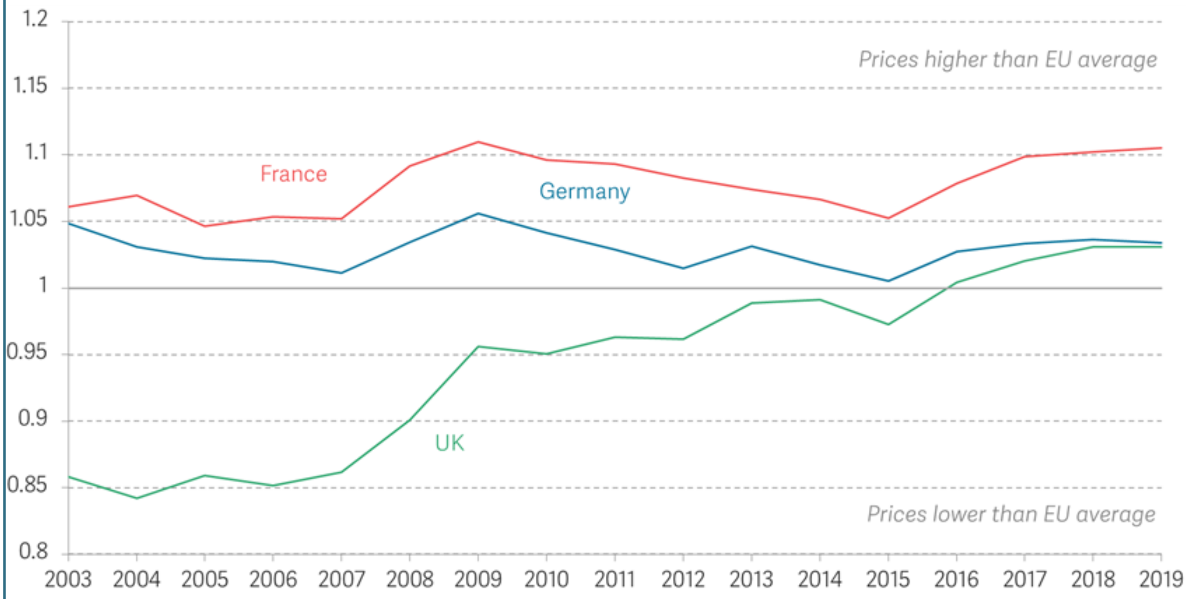
Survey data from 2015 shows average spending per adult of €21,200 in Germany, €20,400 in France and £15,300 in the UK (€21,000 when converted into euros using a simple exchange rate conversion).[48] However, comparisons of consumption in either national currencies or in euro exchange rate terms do not reflect differences in domestic price levels. And so they do not give a sense of how much - in terms of quantity - can be bought with the same amount of cash. We can instead use purchasing power parities (PPP) to understand better how much people receive in return for the money they spend.

PPP is a measure of the relative price of different baskets of goods and services in different countries (for example the relative prices of transport, housing and food). Figure 26 shows relative PPP rates for France, Germany and the UK compared to the EU28 on average.[49] It shows that in 2003, £86 of spending in the UK would buy the equivalent of €100 of goods and services in the EU. The increase in the UK's price level since the mid-2000s (which has been faster in periods in which the pound depreciated) means that, in 2019, it required £103 of spending in the UK to buy the same quantity of goods and services as could be purchased by a typical European consumer for €100.

48 Eurostat, Mean consumption expenditure per household and per adult equivalent, accessed: 5 February 2021.
49 EU28 includes all EU countries as of 2019, that is, before the exist of the UK from EU.

FIGURE 27: **The relative price level has increased faster in the UK, largely owing to the depreciation of Sterling**

Purchasing power parity (EU28=1), Germany, France and the UK: 2003-2019



SOURCE: RF analysis of Eurostat.

Relative price level changes in France and Germany have been smaller than in the UK since 2003, with prices in France increasing only slightly relative to the EU28 and relative prices in Germany actually falling by a small amount. In both countries, the price level has been consistently higher than the EU28 average.

If we instead adjust consumption for price level differences (relative to the EU28 price level average), the national currency figures presented at the start of this Box move closer together. UK consumption in 2015 is €15,800 in PPP terms, compared with €19,400 in France and €21,000 in Germany. The fall in consumption in France and Germany when presented in this way reflects the slightly higher than EU28 average prices in both countries.

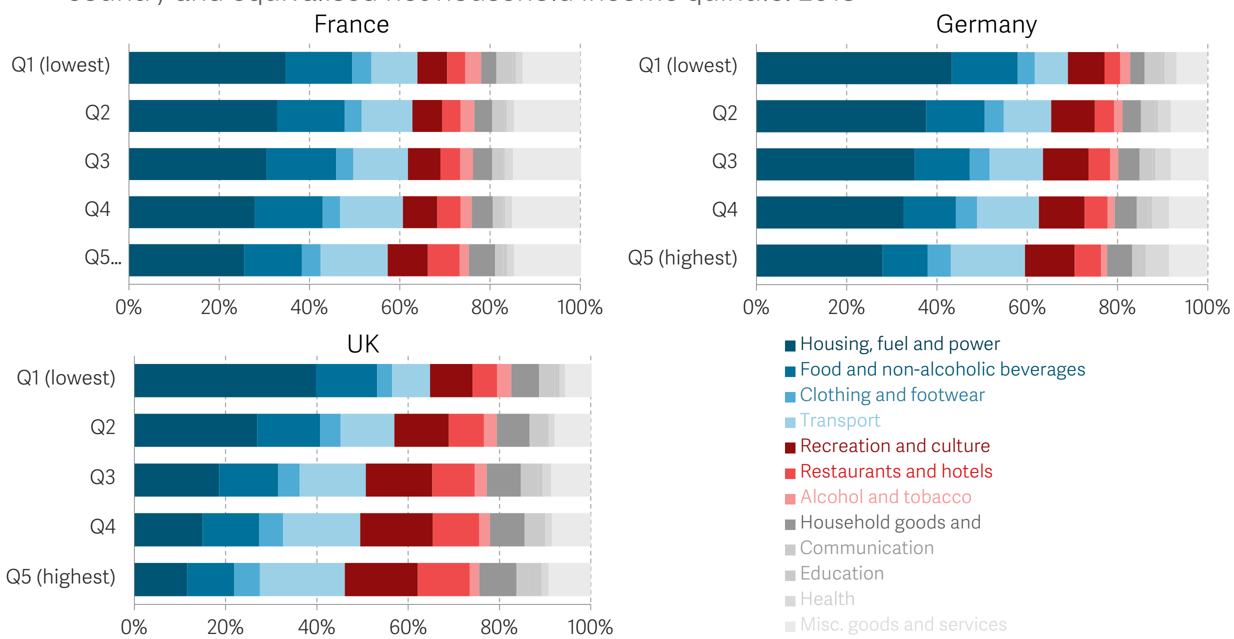
In general, in this report we have compared metrics in market exchange rate terms so as to keep the price level effects discussed here separate from the analysis of elements of living standards and financial resilience, such as pay and housing costs. But if exchange rate and price differences are combined, then the UK has a consistently higher price level than in France and, in turn, in Germany.[50] It is, of course, important to note that these differences imply that, for any given level of income expressed in euros, households will be able to purchase more goods and services in Germany than in France and in the UK.

50 For example, in 2018 the exchange rate of £1=€1.13 combined with the PPP of £1=€1.03 (as per Figure 44) leads to a comparative price level of €1.17 (i.e. 1.13 multiplied by 1.03): higher than the price level in France (€1.11) or Germany (€1.03).

We can break down consumption spending into detailed categories, as we do in Figure 28. The figure shows that adults in Germany allocate the largest proportion of their spending to essentials, such as housing, food and clothing, across the income distribution. Adults in the middle fifth of incomes spend 64 per cent of their income on such necessities, whereas adults in France spend slightly less (62 per cent) and those in the UK spend the smallest proportion (51 per cent). Looking at the other side of the coin, households in the UK tend to allocate a larger proportion of consumption to non-essentials, such as restaurant meals, alcohol and culture, than households do in Germany and France – and this is particularly the case towards the top of the income distribution.

FIGURE 28: **People at all income levels spend the most on essentials in Germany**

Components of total household final consumption expenditure, working-age adults, by country and equivalised net household income quintile: 2018



NOTES: These consumption baskets are based on UK-centric measures of essentials, non-essentials and other goods. While this means we need to be careful about drawing hard conclusions from this it gives an indication about the allocation of spending across different types of goods.
SOURCE: Eurostat, HBS.

At the bottom end of the distribution, 14 per cent of total spending is allocated to non-essential spending in both Germany and France: a lower share than the 18 per cent recorded for the UK. The relatively high spending on non-essentials in the UK means that, even at the lowest incomes, the capacity to use a reduction in non-essential spending in order to withstand a financial shock may well be higher in the UK than in France and Germany.

When we consider consumption gaps within countries we find the steepest income gradient in the UK. Households in the bottom quintile in the UK spend 19 per cent more on essentials than those in the top income quintile, compared with 10 per cent more in Germany and 7 per cent in France. As can be seen in Figure 28, this difference is driven by large inequalities in housing costs in the UK (specifically, low housing costs towards the top of the distribution related to high rates of home ownership), which are less pronounced in Germany and France.

Summary

This section has considered spending on housing costs and other consumption as a limitation of households to have sufficient disposable income to respond to financial shocks, and sufficient disposable income to build up savings for the future. Low-income households in Germany and the UK have high average housing costs compared to those in France. But the reasons behind this are different in the two countries – in Germany, this is a result of a high proportion of low-income households renting while in the UK it is due relatively fewer low-income people in this tenure who face very high rent levels, as summarised in Table 3.

TABLE 3: **The financial resilience challenges differ across Germany, France and the UK**

Summary of financial resilience takeaways in Germany, France and the UK

	Germany	France	UK
Housing costs	High housing costs for low-income households, driven by a large proportion of low-income households in private-rented accommodation.	Housing costs are relatively low and the population is relatively evenly spread across different housing tenures.	Housing costs for low-income households driven by the high cost of private renting.
Household spending	High share of spending on essential items.	High share of spending on essential items.	High proportion of income devoted to consumption.

Section 5

Savings, debts and financial resilience

Household balance sheets - the stock of household assets relative to liabilities – are key to financial resilience. Looking at the financial decisions that contribute to these stocks, we find that saving rates are higher in Germany and France, and lower in the UK. In particular, on average, single-parent households in Great Britain are on average dis-saving – spending more than their income – in any given month rather than building up a financial buffer. Overall, close to half (45 per cent) of households in Great Britain have less than one month's income in savings, while this share is closer to 40 per cent in Germany and 38 per cent in France and Germany.

Higher savings in France and Germany reduce the vulnerability of households to a large labour market shock. We find that 33 per cent of working-age households in the lowest-income households in France, and 36 per cent in Germany, would not be able to cover a three-month 25 per cent reduction in labour income from their financial assets. This can be compared to the significantly higher corresponding figure of 46 per cent of households in Great Britain.

German households have more financial wealth, although differences in housing tenure mean that they are less able to rely on property wealth as a source of resilience than households in Great Britain. The reverse is true of Great Britain: part of the explanation for lower financial wealth is that more British households hold property wealth instead. Just 12 per cent of the lowest income German households have property wealth, compared with one-third of the lowest income households in Great Britain.

Although the acquisition of property wealth and taking on a mortgage can be a source of resilience, mortgage debt can also be a risk to resilience. Households with low equity in their property are more exposed to the vagaries of the property market, while those with larger mortgage repayments will have less room for adjustment when shocks hit. Low equity and high repayments are both more common in France than in Germany and Great Britain.

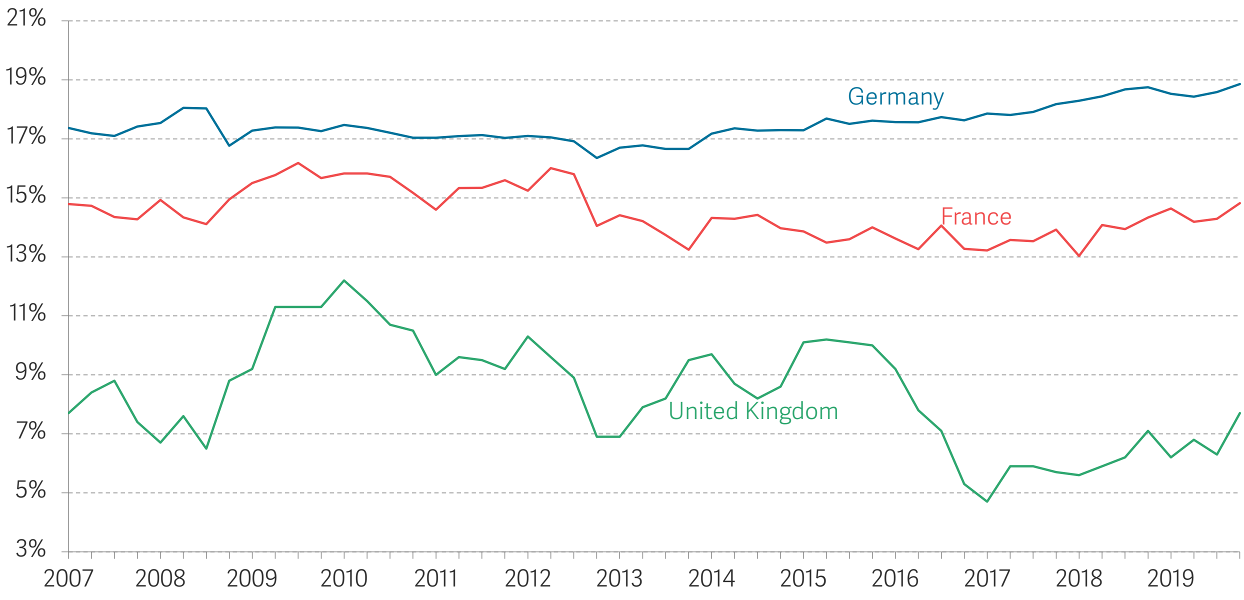
Households in Germany and France have higher saving rates relative to income than households in the UK

Savings are an important component of financial resilience: the more households have saved relative to their income, the easier it will be for income shocks to be absorbed through drawing down these financial assets. And if households have a high saving rate, they may be able to reduce this while adjusting to a financial shock. Being able to use savings (or potential savings) in this way is a sign of financial resilience in so far as it is preferable to other options, such as taking on debt (costly, albeit less so than in previous decades given the low interest environment) or reducing consumption (difficult for some, rarely enjoyable and worse for the economy at large).

National accounts measures of saving rates over time benefit from being broadly internationally comparable, even if they do not allow us to understand the distributional picture at the household level. Trends in these gross saving rates in France, Germany and the UK since 2007 are presented in Figure 29 below. Pre-Covid-19, the saving rate in Germany stood at 19 per cent, compared with 15 per cent in France and just 8 per cent in the UK.

FIGURE 29: **The saving rate in the UK fell sharply in 2016, to a rate a third as high as in Germany**

Household gross saving rate: 2007 Q1 to 2019 Q4



SOURCE: OECD, Household dashboard/Non-financial accounts by sector; ONS, Households' saving ratio.

These aggregate trends show the UK's saving rate has been consistently lower than in France and Germany since the financial crisis, but it fell significantly between 2015 and 2017, and has not recovered since. In 2019, the gross saving rate in the UK was less than half of that in Germany and France. A wide range of factors will influence the level of saving in each country – including demographics, the social safety net and development of the financial system. A comprehensive analysis of all these factors is beyond the scope of this paper but the key point here is that – in aggregate – saving is lower in the UK than in France or Germany.[51]

The distribution of savings is crucial to understanding financial resilience. Unfortunately, however, the availability of internationally comparable data on saving rates at the household level is limited, with Eurostat's recent experimental statistics providing one of the few data points. The experimental nature of this data means that, although the picture within countries is robust to comparisons, we would caution against reading too closely into differences between countries and, as with Figure 26 in the previous section, the data does not show the picture for the lowest-income quintile.[52] These statistics, presented in Figure 30, suggest that household saving rates are highest in France, followed by Germany and then the UK. And also that the inequality in saving rates is highest in the UK, and lowest in France.

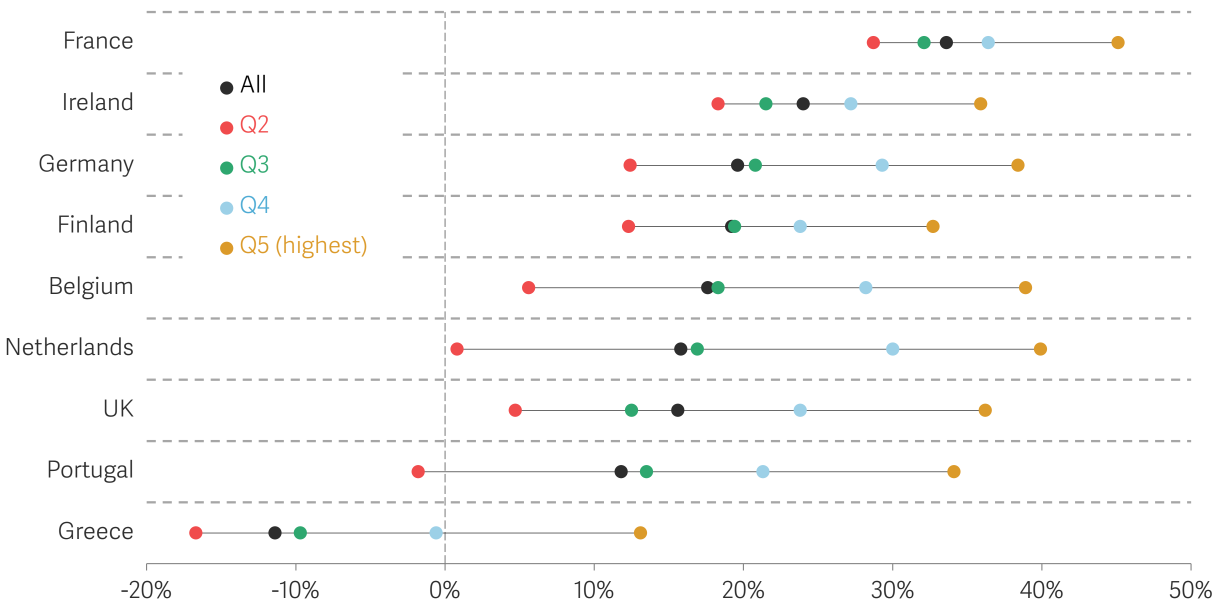
We can also compare saving rates by household type across the UK, France and Germany (Figure 31). A pattern of households with a smaller number of adults having lower saving rates is consistent across all countries, with single-parent households in the UK being the only household type to be dis-saving on average (spending above their income) – a finding that is driven by this group's low income (see Figure 2).

51 S Rocher & M Stierle, Household saving rates in the EU: Why do they differ so much?, discussion paper 005, European Commission, September 2015.

52 The 'experimental' household level saving rates are calculated as the difference between household disposable income (HY020 in EU-SILC) and household total consumption (EUR_HE00 in the Household Budget Survey, HBS), expressed as a percentage of household disposable income. Mortgage payments and payments into private pension plans are not included in consumption, and so these payments fall into the saving rate definition presented here. International comparability will be limited by the extent that income or spending definitions are the same across national surveys, and are fully harmonised in EU-SILC and HBS. Eurostat has not published data on this comparability, and so given the experimental classification of the statistics we suggest cross-country comparisons are best treated with caution.

FIGURE 30: **Household saving rates are highest in France**

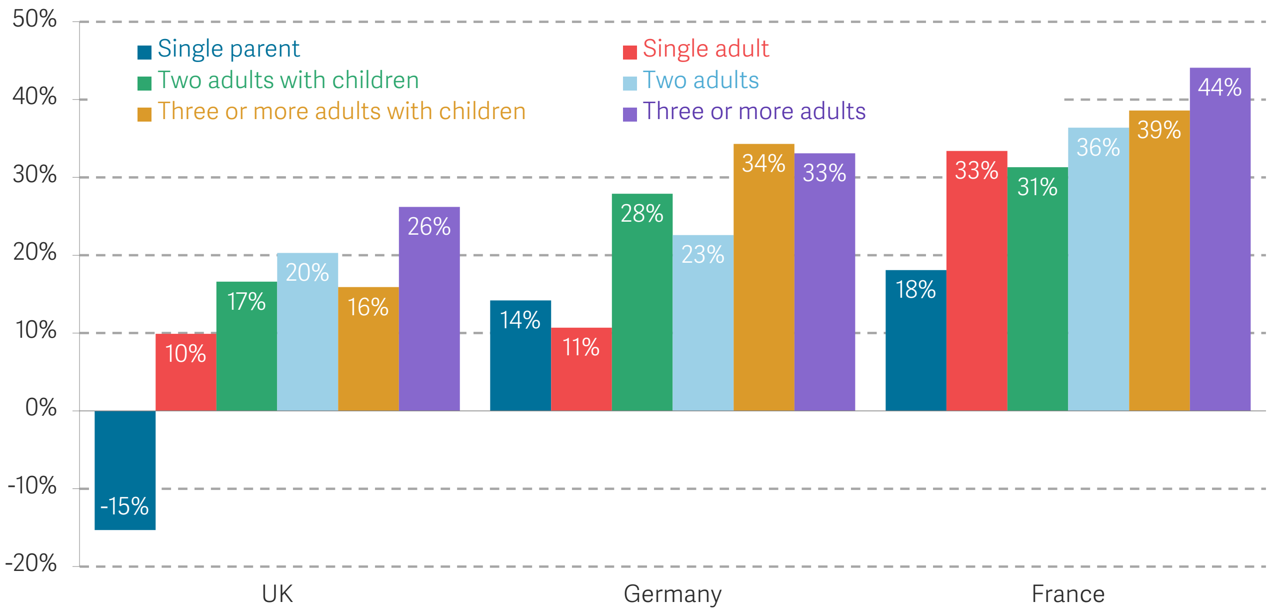
Median household saving rate, by disposable household income quintile: 2015



NOTES: Saving rate calculated as the difference between income (as measured in the EU-SILC) and consumption (as in HBS) as a percentage of income. Data presented in this chart is for all households, not just working-age households. Data for Quintile 1 is not presented due to issues with reporting of income and savings at the lower end of the distribution.
SOURCE: Eurostat experimental statistics. Data is for 2015 or nearest year for which data is available.

FIGURE 31: **Single parents have low saving rates across the UK, France and Germany**

Median household saving rate, by household type: 2015



NOTES: Data presented in this chart is for all households, not just working-age households.
SOURCE: Eurostat experimental statistics.

These statistics are experimental and so should be treated with some caution, but viewed alongside the evidence on lower incomes for single-parent families, they do suggest that for these families, particularly in the UK, financial resilience is in short supply. Although fluctuations in income (discussed in Section 3) mean that households may not be in this dis-saving position for a long period of time, it is still the case that, on average, rather than building up financial buffers in order to be more able to withstand shocks, single-parent families are struggling financially from day to day.

Differences in saving rates between countries translate into differences in the stock of savings

Differences in saving rates translate into differences in the stock of savings relative to income. There is no single measure that captures how high savings need to be to provide financial resilience. This depends on a variety of factors, from the severity of the shock households face, to their ability to adapt to the shock in other ways. However, it is reasonable to assume that a lower stock of savings translates into lower financial resilience. The evidence suggests that there are relatively more households in Great Britain with very low savings than in France and Germany.[53] As Figure 32 shows, almost half (45 per cent) of households in Great Britain have less than one month's gross household income in savings, compared with 38 per cent in France and 40 per cent in Germany.[54] Households with such a small amount put aside relative to their income will be some of the most exposed to any form of financial shock.

Overall, the typical level of savings across all households (including those with no savings) is higher in France and Germany (at €5,600 and €6,100 respectively) than in Great Britain (€4,500).

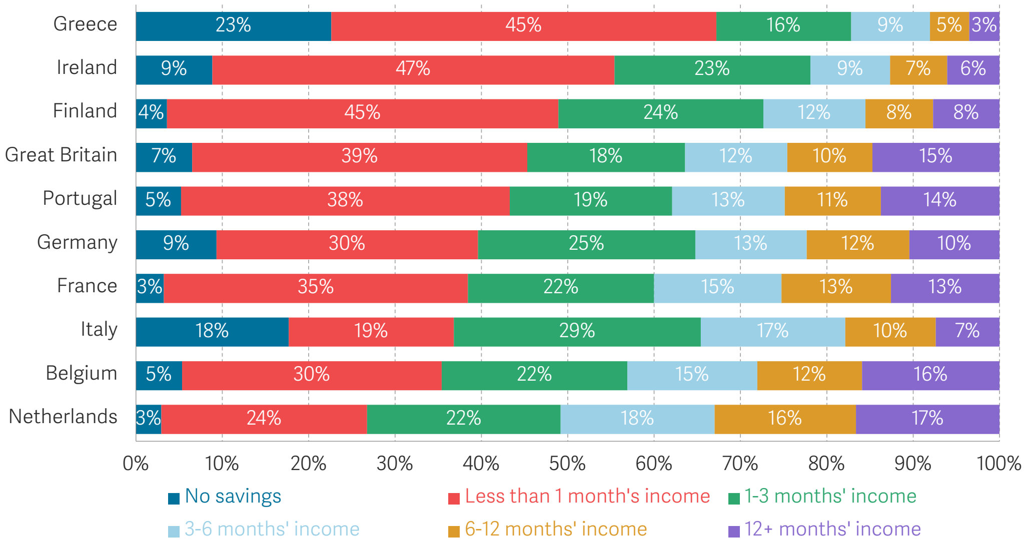
The variation in savings between different household groups is shown in Figure 33. This analysis shows that a smaller proportion of French households have low levels of savings relative to income across the whole income distribution, much of the age range and most family types. These findings also show that a high share of single-parent households in all three countries of interest have less than one month's income in savings. Focusing on low-income households, 56 per cent of households in the bottom quintile of the working-age household income distribution in both France and Germany have savings equivalent to less than one month's gross disposable household income, with as many as two-thirds of households in Great Britain in the same position.

53 We refer to Great Britain (rather than the UK) here, and in much of this section, as our results are taken from the Wealth and Assets Survey, for which the geography is Great Britain.

54 Disposable household income is the preferable measure to compare savings levels against. However, the Household Finance and Consumption Survey (which provides the assets and liabilities findings in this report for France and Germany) only provides gross household income information. To the extent that taxation rates differ across and within countries, our results would look different on a disposable household income basis.

FIGURE 32: **Almost half of working-age households in Great Britain have less savings than their monthly household income**

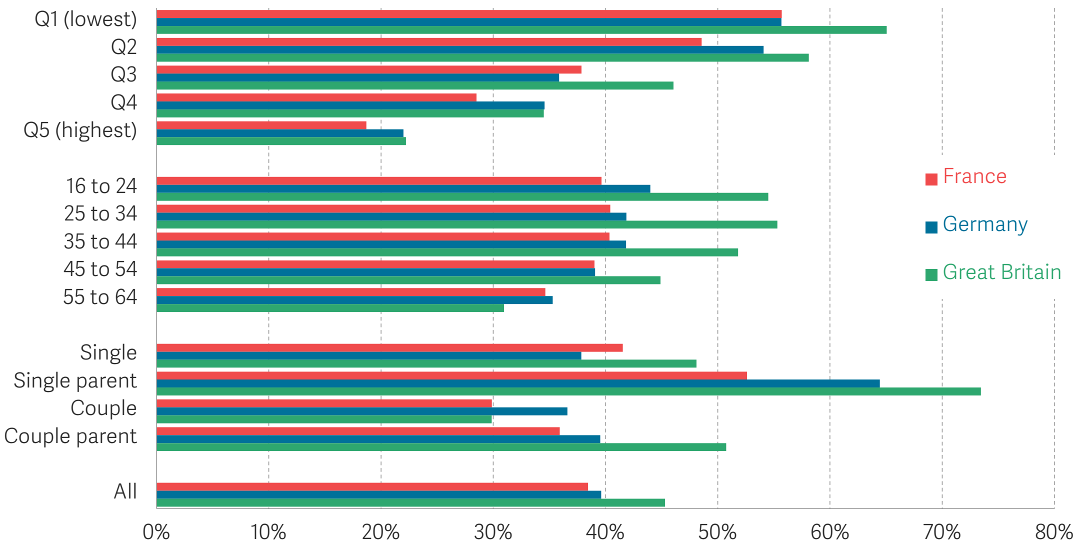
Savings relative to gross income for working-age households, by country: 2017



NOTES: Savings are defined as balances in current accounts and savings accounts (including ISAs in Great Britain). Households with less than £10/€10 in savings are classed as having no savings. Working-age households are those headed by an individual aged 16 to 64. Survey years differ slightly across countries: Germany, 2017; France, 2017-2018; GB, 2016-2018.
SOURCE: RF analysis of ONS, Wealth and Assets Survey; European Central Bank, Household Finance and Consumption Survey.

FIGURE 33: **Low-income, younger and single-parent households have the lowest savings relative to income**

Proportion of working-age households with less than one month's income in savings, by selected income, age and household composition: 2017



NOTES: Savings are defined as balances in current accounts and savings accounts (including ISAs in Great Britain). Households with less than £10/€10 in savings are classed as having no savings. 'Lowest income' households are in the bottom fifth of the gross equivalised household income distribution (quintile 1), 'middle income' in quintile 3 and 'highest income' in quintile 5. Working-age households are those headed by an individual aged 16 to 64. Age refers to the age of the head of household. Survey years differ slightly across countries: Germany, 2017; France, 2017-2018; GB, 2016-2018.
SOURCE: RF analysis of ONS, Wealth and Assets Survey; European Central Bank, Household Finance and Consumption Survey.

Younger households in each of the three countries are more likely to have low levels of savings, with over half of households headed by someone under 45 having less than one month's income in savings in the UK. However, there is less variation towards the top of the age range, with a similar share (around one-third) of households in each of France, Germany and Great Britain having less than one month's income in savings.

Low-income households in the UK have lower levels of financial assets relative to income than those in France and Germany

So far in this section we have looked only at savings, rather than financial assets more broadly. This has allowed us to focus on the most liquid of financial assets using data that we are confident is internationally comparable (and comparable across surveys). But even though savings account for around 70 per cent of all financial assets in each country, it is important to consider other components of financial wealth too.

The method of reporting financial assets in the two surveys used here, the Household Finance and Consumption Survey (HFCS) for France and Germany and the Wealth and Assets Survey (WAS) for Great Britain, is not as consistent as it is in the case of savings, and so cross-country differences in results could well be driven not by divergent experiences, but by data comparability issues. Strong conclusions, then, should not be drawn from small differences in results for different countries.

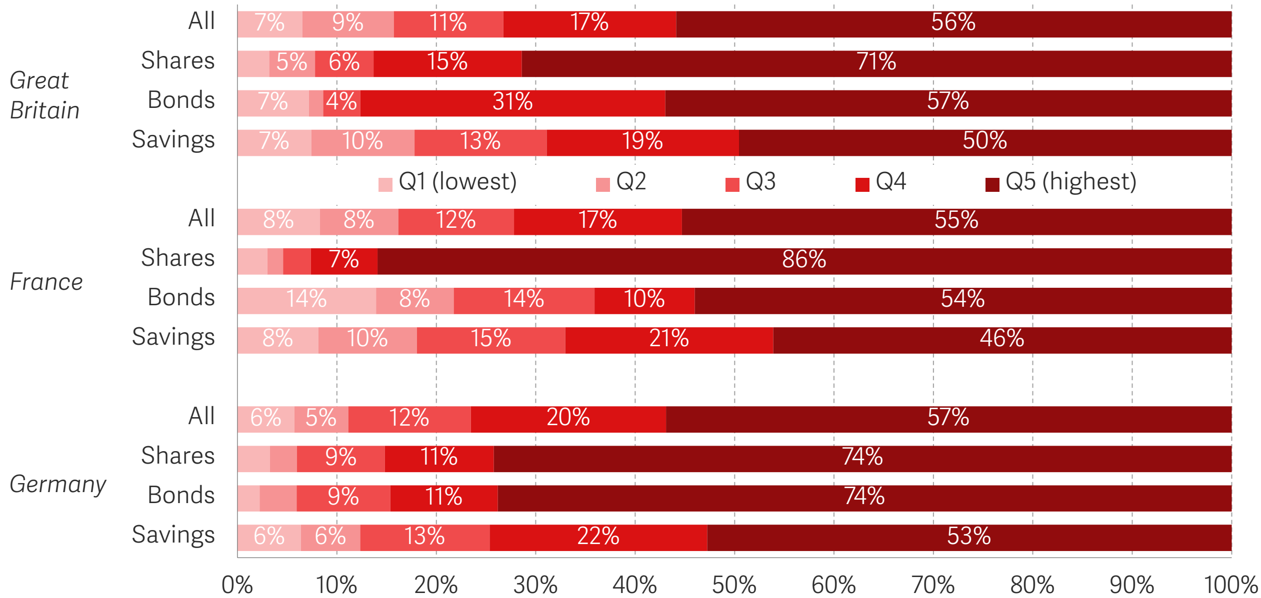
Figure 34 shows the distribution of the three major components of financial assets within income quintiles in Great Britain, France and Germany.[55] This shows that all financial assets are concentrated among high-income households, with savings the least concentrated component in all three countries. Shares are overwhelmingly concentrated among the highest income households in France, as are bonds in Germany. Broadly, though, the distributions are very similar across countries. For example, savings account for 76 per cent of financial assets in Germany, a similar share to that in France (72 per cent) and not too different from that in Great Britain (66 per cent).

We can also look at the extent to which financial assets, as a whole, were likely to have provided sufficient support for households that experienced labour income shocks in the Covid-19 crisis – Section 6 examines the evidence on this in more detail.

55 It should be noted here that although there is a relationship between income and wealth at the household level, this relationship is by no means perfect. On average across 28 OECD countries, around 30 per cent of households are in the same quintile of both the income and wealth distributions – greater than if there was no relationship between income and wealth (20 per cent), but by no means a perfect correlation. See: C Balestra & R Tonkin, Inequalities in household wealth across OECD countries: Evidence from the OECD Wealth Distribution Database, OECD, June 2018.

FIGURE 34: **Shares and bonds are concentrated among high-income households in Germany**

Proportion of total financial wealth held by working-age households in each gross household income quintile, all financial wealth and components: 2017



NOTES: Survey years differ slightly across countries: Germany, 2017; France, 2017-2018; UK, 2016-2018.
SOURCE: RF analysis of ONS, Wealth and Assets Survey; European Central Bank, Household Finance and Consumption Survey.

Focusing on those with the lowest incomes, we find that a higher share (46 per cent) of British households would struggle to meet a three-month 25 per cent reduction in income from their financial assets than in France (33 per cent) and Germany (36 per cent), see Figure 35.. This result tallies with subjective responses to the question of whether households are able to meet an 'unexpected required expense', with more households in the UK reporting being unable to do so than in France and Germany.[56]

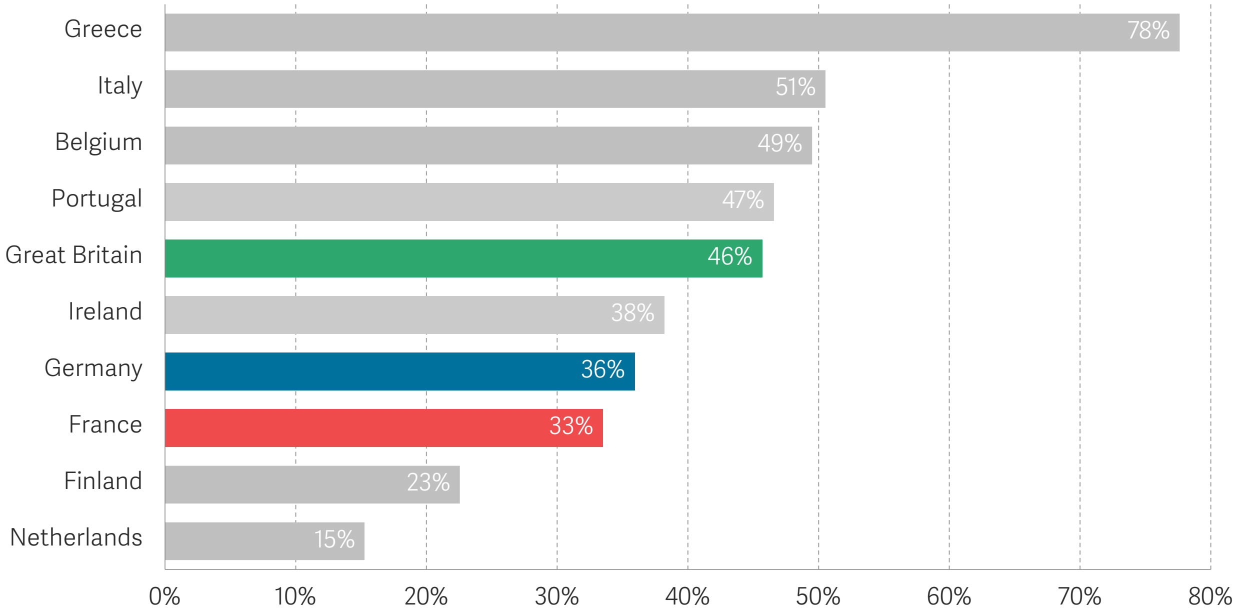
The Bank for International Settlements has also analysed the extent to which liquid assets can support households in different countries in the face of an income loss, and finds that low-income households in France have a financial buffer four times higher than those in Germany and the UK when measured relative to country-specific poverty lines (50 per cent of median income).[57]

A consistent finding, then, is that UK households – and, in particular, those on lower incomes – will have been less able to use financial assets to combat income shocks arising from Covid-19 or other sources.

56 M Demertzis, M Domínguez-Jiménez & A Lusardi, The financial fragility of European households in the time of COVID-19, Bruegel, July 2020.
57 A Zabai, How are household finances holding up against the Covid-19 shock?, Bank for International Settlements, June 2020.

FIGURE 35: **Low-income households Great Britain are less likely to be able to withstand a large income shock using financial assets alone**

Proportion of lowest-income working-age households with insufficient financial assets to cover a three-month 25 per cent reduction in gross household employment income: 2017



NOTES: Households with zero or negative labour income have been excluded from this analysis. Gross income used due to limitations with the HFCS data. Low-income households defined as those in the lowest equivalised gross household income quintile. For more detail on which groups are least resilient on this metric, see this ONS article: Financial resilience of households; the extent to which financial assets can cover an income shock, 2 April 2020. Survey years differ slightly across countries: Germany, 2017; France, 2017-2018; GB, 2016-2018.
SOURCE: RF analysis of ONS, Wealth and Assets Survey; European Central Bank, Household Finance and Consumption Survey.

Low-income German households have the largest financial liabilities relative to income

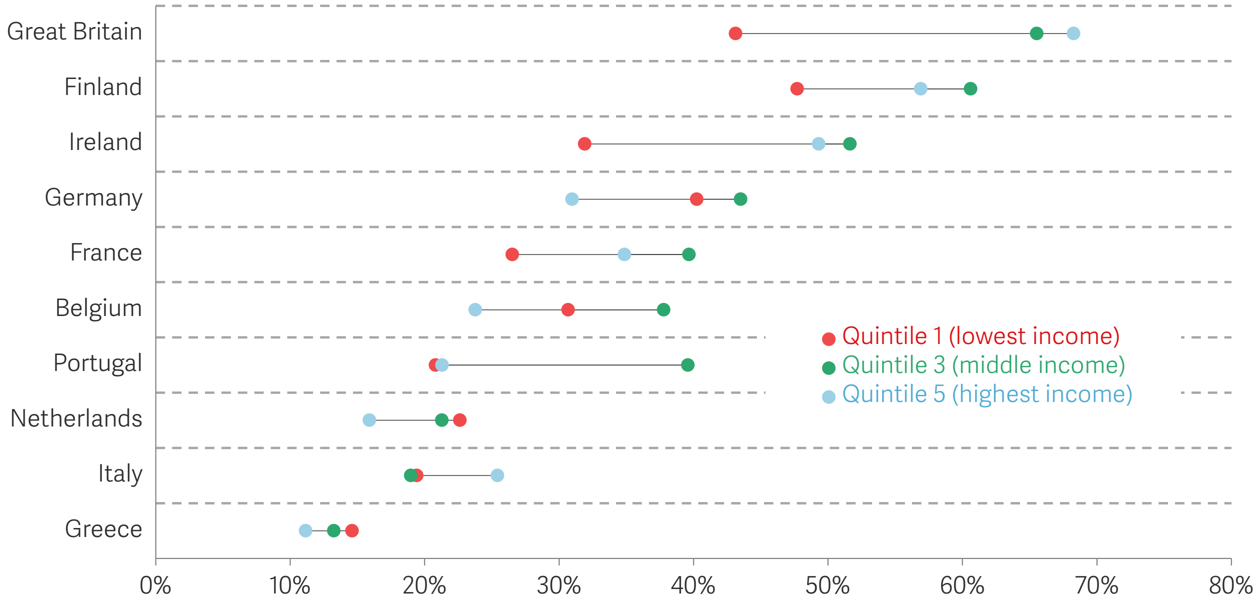
Being able to take on a new financial liability in response to a shock is a sign of financial resilience but, of course, the burden that liability can place on a household can add to financial strain. As such, those households that have lower levels of liabilities can be seen as being more resilient. As discussed below, liabilities in the form of mortgages should be considered differently, given that they are also a route to ownership of an asset.

The available data on financial liabilities points to large differences in both the incidence and burden of debt repayments across countries. Data for France and Germany is from the HFCS, and data for Great Britain is from the WAS. So, although not directly comparable, the differences shown here are still informative – particularly when looking within countries.

Financial liabilities look to be most common in Great Britain, with more households reporting having at least some financial debt than in the other European countries presented in Figure 36.[58] It is no surprise that where savings are higher, financial liabilities are lower. Societal norms, such as a lower tendency to use (or for banks even to offer) credit cards, also provide part of the explanation: just 1 per cent of households report any credit card debt in France, compared with 51 per cent in Germany and 45 per cent in Great Britain.[59]

FIGURE 36: **French households are the least likely to have financial debt**

Proportion of working-age households with financial debt, by equivalised gross working-age household income quintile: 2017



NOTES: Survey years differ slightly across countries: Germany, 2017; France, 2017-2018; GB, 2016-2018.
SOURCE: RF analysis of ONS, Wealth and Assets Survey; European Central Bank, Household Finance and Consumption Survey.

In France and Germany, we find that it is middle-income households that are most likely to have financial debts, with around 40 per cent of middle-income households in both countries having some non-mortgage debt (also shown in Figure 36). The lowest income households in Germany are notably more likely than those in France to have financial debts: 39 per cent of households in the bottom quintile in Germany have financial liabilities, compared with 27 per cent in France.

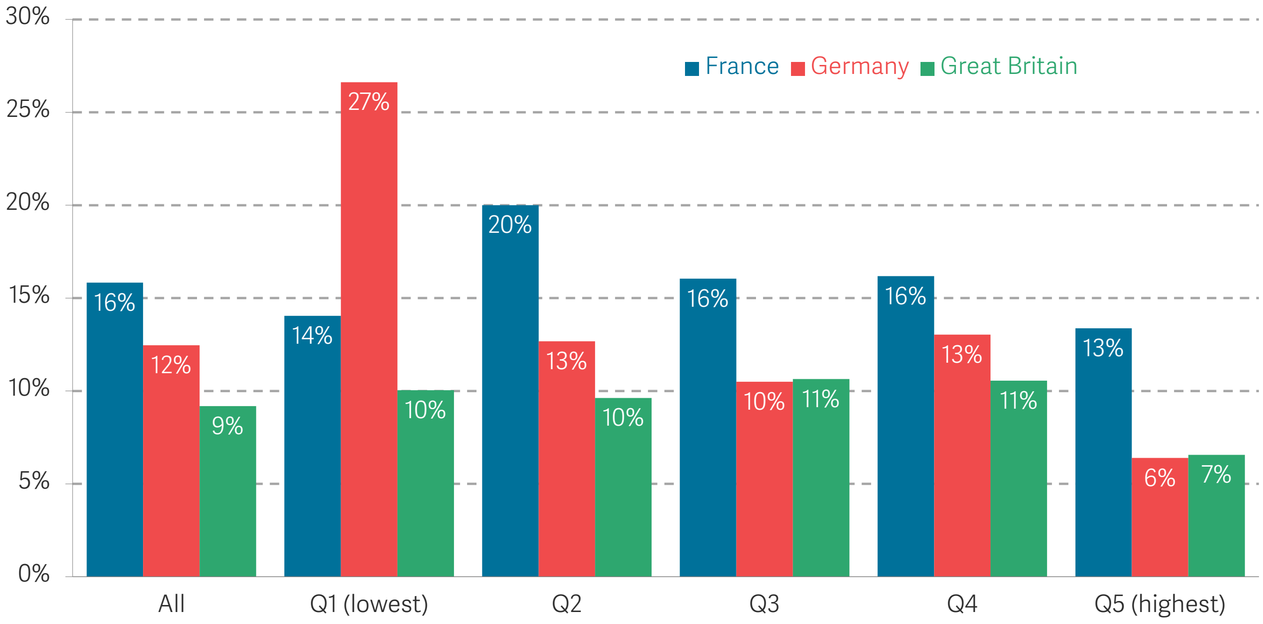
58 This finding, of a higher incidence of financial debt in Great Britain than in France and Germany, as well as the result presented below, that typical financial debt is higher in France than in Germany and Great Britain, is replicated in: C Balestra & R Tonkin, Inequalities in household wealth across OECD countries: Evidence from the OECD Wealth Distribution Database, OECD, June 2018. See Figure 4.6 and Figure 4.7.

59 Resolution Foundation analysis of European Central Bank, Household Finance and Consumption Survey; Office for National Statistics, Wealth and Assets Survey.

Focusing on those households with financial liabilities, we find that it is among low-income German households that the average amount of financial debt is highest relative to income. As Figure 37 shows, financial debts are equivalent to 27 per cent of income for households in the lowest-income quintile in Germany, a much greater share of income than among lowest-income quintile households in France (14 per cent) and Great Britain (10 per cent) – and almost five times higher than the amount of debt relative to income held by the highest income households in Germany (6 per cent).

FIGURE 37: **Low-income German households have more financial debt than their counterparts in France and Great Britain**

Median financial debt-to-income ratio for those with financial liabilities, working-age households: 2017



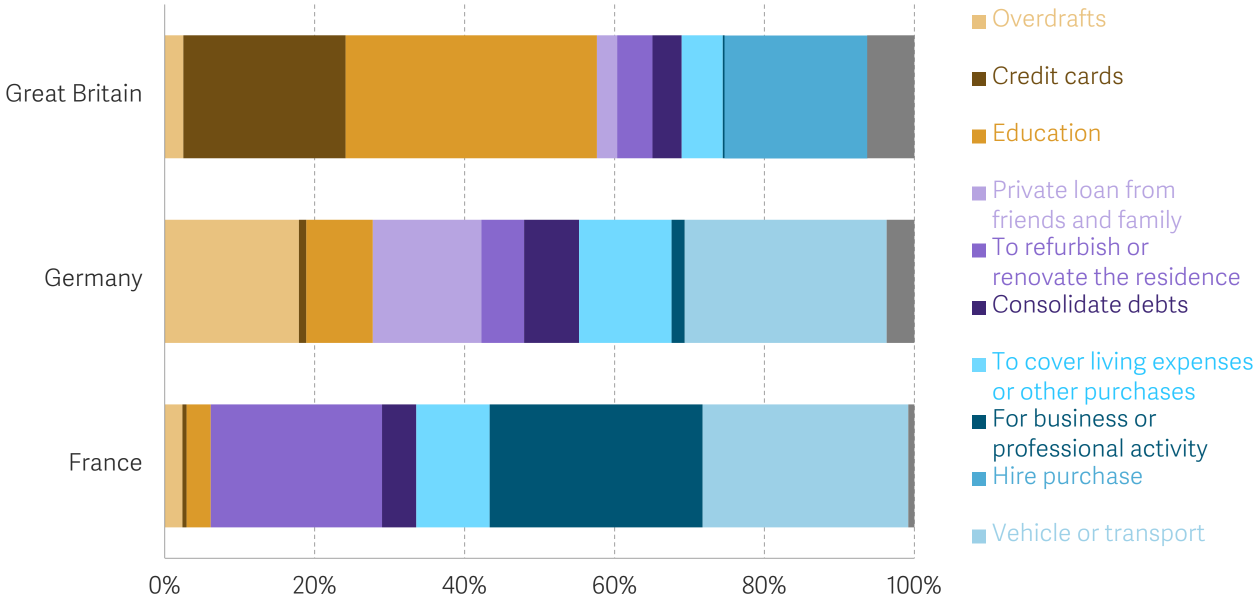
NOTES: Survey years differ slightly across countries: Germany, 2017; France, 2017-2018; GB, 2016-2018.
SOURCE: RF analysis of ONS, Wealth and Assets Survey; European Central Bank, Household Finance and Consumption Survey.

We find that a quarter (24 per cent) of the financial debt held by German households in the bottom quintile was taken out in order 'to cover living expenses or other purchases', which is a much higher share of financial liabilities than is reported for the lowest-income households in France (8 per cent) and (although not directly comparable due to being drawn from a different dataset) in Great Britain (2 per cent). This suggests that these high levels of debt are a sign of fragility among low-income German households.

The composition of this debt is very different across countries. For example, it is striking just how small the share of overall financial debt accounted for by credit cards is in France and Germany compared with Great Britain. Figure 38 splits debt into its component parts, as recorded in the WAS and the HFCS. Due to the different methods of recording financial debt in these surveys some of the classifications used are by loan type and others by reason for taking out a loan. This shows that credit card debt accounts for 22 per cent of all financial liabilities in Great Britain, but just 1 per cent in France and Germany. Overdrafts on current accounts are more common in Germany, accounting for 16 per cent of all financial liabilities, compared with 2 per cent in France and Great Britain.

FIGURE 38: **The components of financial debt are very different across countries (and surveys)**

Components of financial debt, all working-age households, by country: 2017



NOTES: Survey years differ slightly across countries: Germany, 2017; France, 2017-2018; GB, 2016-2018.
SOURCE: RF analysis of ONS, Wealth and Assets Survey; European Central Bank, Household Finance and Consumption Survey.

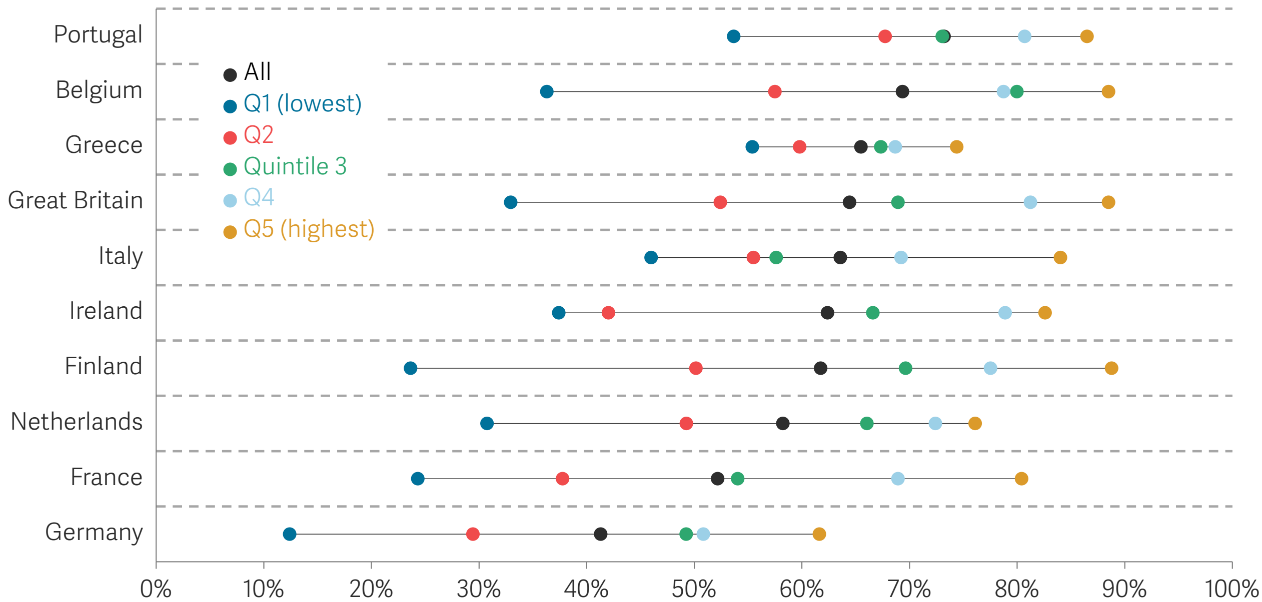
Property wealth is significantly lower in Germany and France than in Great Britain

Illiquid assets – those that cannot easily be converted into cash in order to insulate households from an income shock – are, by definition, less useful than savings and other liquid assets in times of sudden financial stress. Selling some physical assets when hit by a shock may well be possible, but is likely to be both less desirable than using liquid assets and, in many cases, may simply not be practically possible. But property wealth is a source of resilience in other ways. First, it can provide longer-term financial resilience: for example, homeowners can downsize or borrow against the value of their property to make use of their property wealth.[60] Second, even if not immediately useful in the face of a short-term negative income hit (or spending need), it can provide resilience against long-term shocks to households. Third, owning your own home can also provide resilience from day to day, both because of lower housing costs (see Section 4) and because it is easier to reduce mortgage payments than rent in times of financial distress (see Section 6 for more on the adjustments that have been possible during the Covid-19 crisis).

Across the income distribution, and in all countries, property wealth is – by a very large margin – the largest component of gross wealth: 95 per cent, on average, in Great Britain and 89 per cent in Germany, for example. It is unsurprisingly a larger percentage of total wealth in countries where home ownership is more common. As shown in Section 4, rates of home ownership are highest in the UK, followed by France, and lowest in Germany.

FIGURE 39: **Relatively few low-income households in France and Germany have property wealth**

Proportion of working-age households with property wealth, by gross working-age household income quintile: 2017



NOTES: Survey years differ slightly across countries: Germany, 2017; France, 2017-2018; GB, 2016-2018.
SOURCE: RF analysis of ONS, Wealth and Assets Survey; European Central Bank, Household Finance and Consumption Survey.

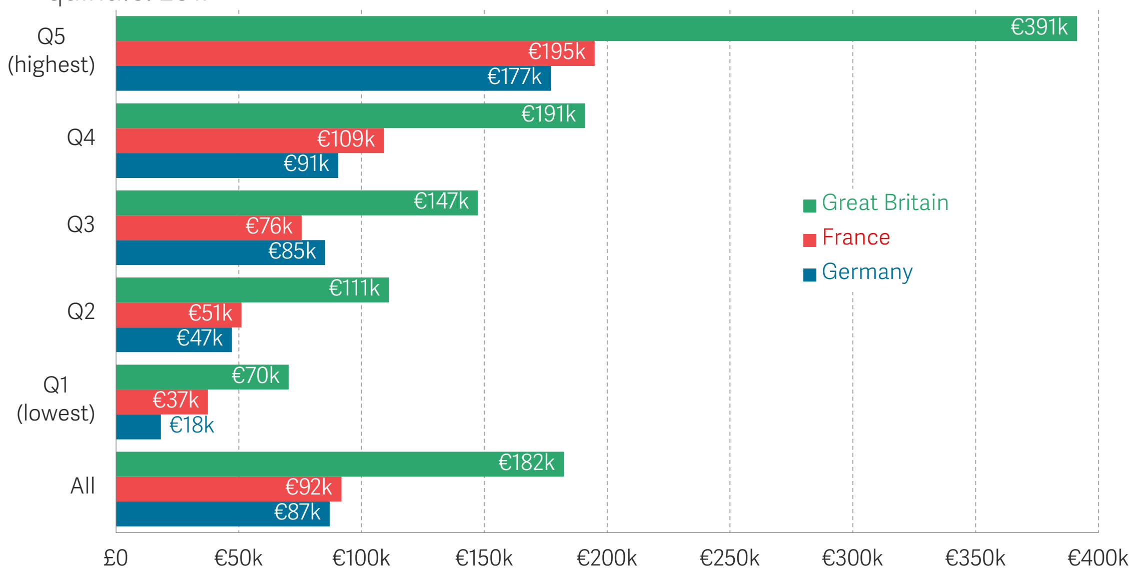
60 C Balestra & R Tonkin, Inequalities in household wealth across OECD countries: Evidence from the OECD Wealth Distribution Database, OECD, June 2018.

Housing tenure not only matters for financial resilience in terms of housing costs (as discussed in Section 4), but also in terms of providing an asset that can be used to supplement income. In addition, for many, home ownership provides a feeling of financial security and stability.[61] Property ownership provides the option to re-mortgage or take out a lower-cost secured loan. Across the distribution, households in Great Britain are over twice as likely to have these options than households in France and Germany. As Figure 39 shows, one-third of low-income, working-age households in Great Britain have property wealth, compared with just 12 per cent of low-income households in Germany. This is a very large difference.

Higher rates of home ownership across the distribution in Great Britain translate into higher average levels of net property wealth. In cash terms, average housing wealth is almost twice as high in Great Britain (€182,000) than in Germany (€87,000). This is a very substantial difference, and implies that property wealth plays a much larger role in providing financial resilience in the UK than in both France and Germany. It also provides a crucial context for the lower savings levels (and rates) in the UK, discussed above: financial wealth is relatively low in the UK, but property wealth is much higher and distributed much more evenly than financial wealth. Average net property wealth in each country and across the income distribution is shown in Figure 40.

FIGURE 40: **Average property wealth is much higher in Great Britain than in France and Germany**

Average net property wealth, by gross working-age household disposable income quintile: 2017



NOTES: Average includes those households with no property wealth. Includes main and additional residences. Data for Great Britain converted to euros using the average exchange rate in 2017. Survey years differ slightly across countries: Germany, 2017; France, 2017-2018; GB, 2016-2018.
SOURCE: RF analysis of ONS, Wealth and Assets Survey; European Central Bank, Household Finance and Consumption Survey.

61 A Wallace et al., Financial resilience and security: examining the impact of falling housing markets on low income homeowners in Northern Ireland, Centre for Housing Policy, University of York, April 2014.

There will clearly be an interaction between these very different levels of property wealth and the differences in saving rates presented earlier in this section. In countries like Germany, where renting is the norm, households are less likely to build up property wealth but will instead be spending more of their income on paying rent and then, where possible, building up financial wealth through savings and investments. In contrast, in the UK home ownership is the norm, and is encouraged by long-term government policy choices (including Help to Buy, but also the relatively lightly regulated and less secure private-rented sector).

Although financial assets may provide a quicker route to boosting spending power in times of crisis than property wealth, both are still important sources of financial resilience. For example, the 'imputed rent' that home owners derive from their housing tenure (i.e. the effective boost to living standards from living rent free in an owner-occupied home) accounts for an average of 15 per cent of income of the over-65s in France, 18 per cent in Germany, and as much as 24 per cent in the UK.[62]

Mortgage debts are more of a concern in France

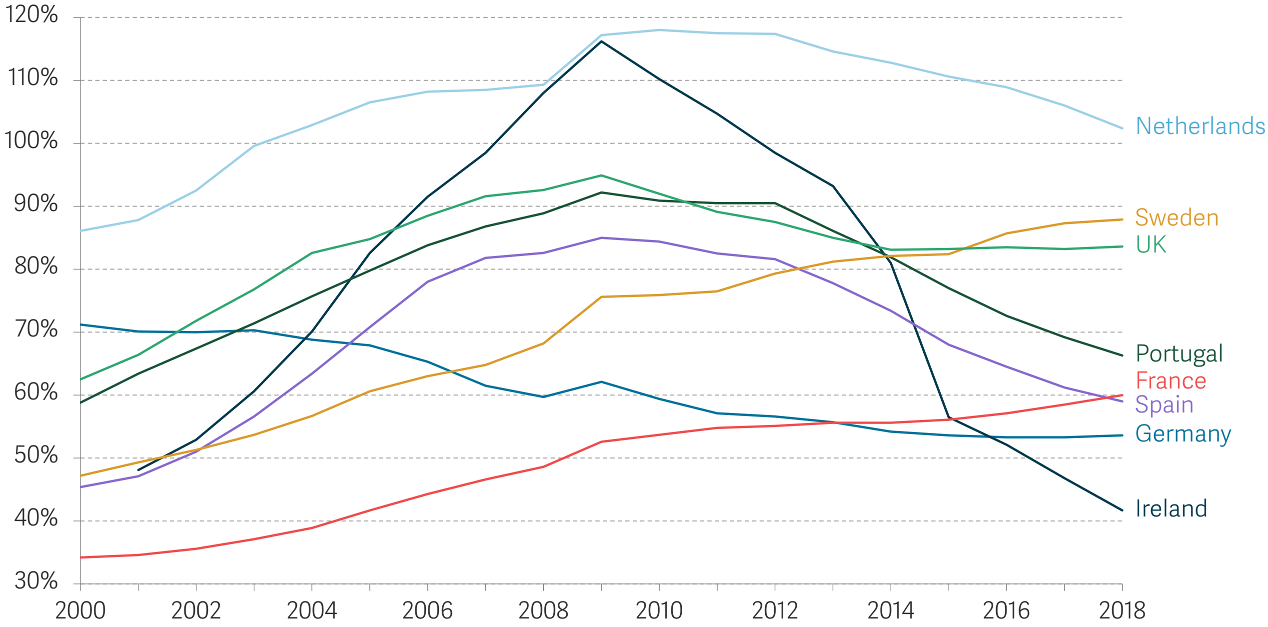
Overall household debt levels were significantly higher in the UK in 2018 (84 per cent of GDP) than in France (60 per cent) and Germany (54 per cent). Trends in indebtedness are accounted for by differences in house prices and the number of mortgage loans. House prices more than doubled in France and the UK between 2000 and 2007, whereas house prices actually fell slightly in Germany over the same period, although they have been increasing at a faster pace in more recent years.[63] In France, rising house prices were coupled with a large increase in the number of mortgagors that continued into the 2010s: from 24 per cent of all households in 2005, to 29 per cent by 2010, and 32 per cent by 2018.[64] In contrast, the number of mortgagors has fallen in both the UK and Germany since the mid-2000s, and is lower in Germany than in many other advanced economies.[65] Trends in overall indebtedness are shown in Figure 41.

Focusing just on mortgage debt at the household level, we find that debt-to-income ratios are similar in Great Britain and France, where property debt equates to around 190 per cent of income, and are lower in Germany (at 130 per cent of income). But the aggregate level of property debt itself is not a cause for concern when we consider the financial resilience of individual households. As discussed above, those who take on mortgages are, in effect, building up their resilience over time as they pay down their mortgage and acquire more property wealth.

62 OECD, Pensions at a Glance 2013, 2013.
63 OECD, Prices: Analytical house price indicators, accessed: 29 September 2020.
64 Eurostat, Distribution of population by tenure status (ilc_lvho02), accessed: 29 September 2020.
65 I Ynesta & M De Queljoe, Statistical Insights: What does household debt say about financial resilience?, OECD, October 2017.

FIGURE 41: **Debt trajectories are very different across France, Germany and the UK**

Household debt as a percentage of GDP



NOTES: Including non-profit institutions serving households (NPISH).
SOURCE: Eurostat.

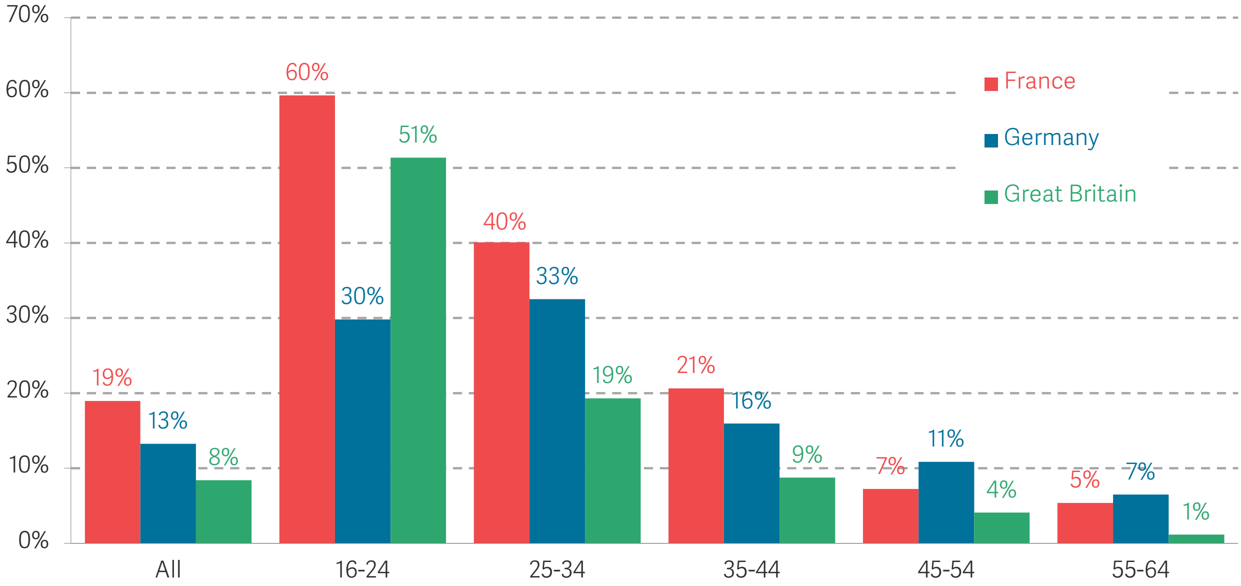
Property debt is more of a concern either when households have low levels of equity or where debt repayments are taking up a large share of income. Low-equity households are more exposed to the risks of house price falls, are less able to move home and can find it more difficult to take on other debt. Inability to keep up with mortgage debt repayments has, in the past, led to wide-scale repossession of properties in downturns.[66] Furthermore, evidence has shown that households with larger mortgage debt relative to income made larger cuts to their spending after the financial crisis, with concerns about their ability to make future debt repayments holding back their consumption – and, in the process, limiting their ability to withstand further shocks.[67]

Figure 42 presents evidence on the percentage of mortgagors in France, Germany and Great Britain with less than 20 per cent equity in their main residence, relative to its current price. This shows a much larger share of mortgagors in France with low equity than in Germany and Great Britain. For example, 60 per cent of mortgagors aged 16 to 24 in France have less than 20 per cent equity in their property, compared with just 30 per cent in Germany and 51 per cent in Great Britain. Young owners are, unsurprisingly, the most likely to have low equity: there are over 500,000 households headed by someone aged 16 to 34 in France with less than 20 per cent equity in their property.

66 M Gustafsson, Under water: How big will the negative equity crisis be, and who is at risk, in the aftermath of the Covid-19 crisis?, Resolution Foundation, September 2020.
67 P Bunn & M Rostom, Household debt and spending in the United Kingdom, Staff Working Paper No. 554, Bank of England, October 2015.

FIGURE 42: **A greater share of mortgagors in France have low equity**

Proportion of working-age households with less than 20 per cent equity, relative to current value of property, by age of head of household: 2017



NOTES: Survey years differ slightly across countries: Germany, 2017; France, 2017-2018; GB, 2016-2018.
SOURCE: RF analysis of ONS, Wealth and Assets Survey; European Central Bank, Household Finance and Consumption Survey.

France also stands out when we turn to look at mortgage debt repayments. Analysis of debt repayments is important for an understanding of financial resilience. Households with higher debt repayments are more likely to struggle when faced with income shocks. First, because debt repayments are akin to essential expenditure items in that it is difficult to reduce expenditure on them when necessary. Larger debt repayments imply a greater challenge in terms of adjusting to shocks via reduced spending. Second, higher debt repayments may make it more difficult for households to take on additional debt. Lenders assess existing repayments when issuing loans and the higher these are relative to household income, the less likely further credit will be issued.

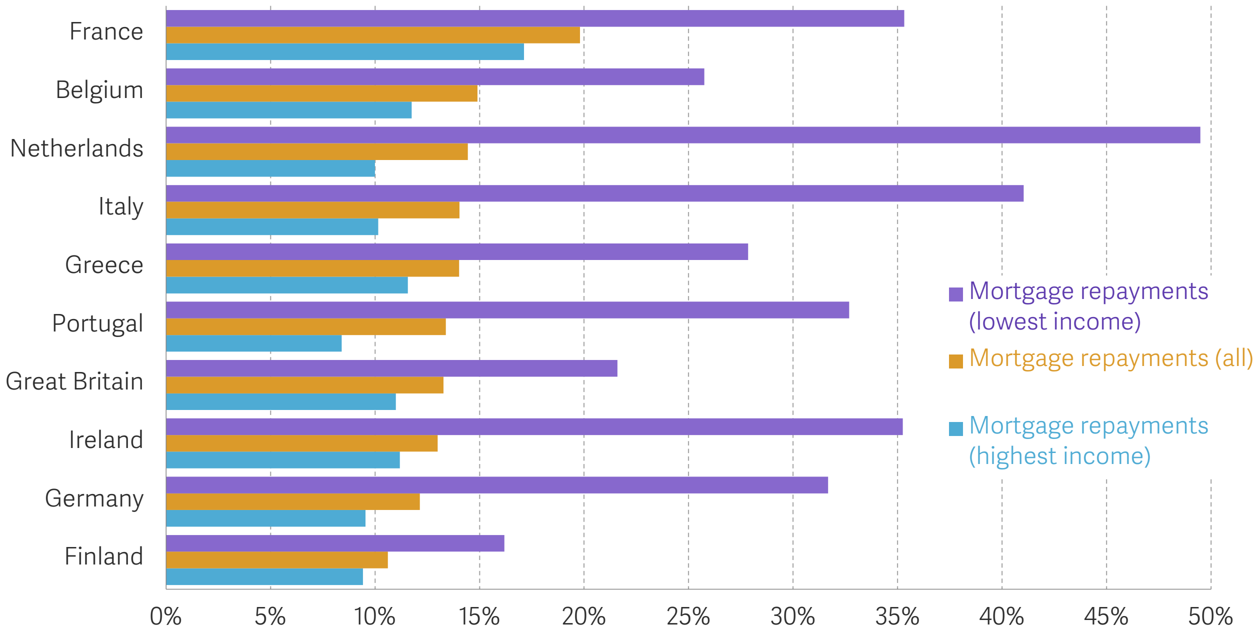
We find that it is in France where mortgage repayments are highest overall, and are also more elevated (although not as high as in some countries, such as the Netherlands and Italy) for low-income households. The typical share of income spent by mortgagor households on mortgage debt repayments (both repayment of the principal and of interest) in France is 20 per cent.[68] As Figure 43 shows, this is much higher than in all of Western Europe's large economies, not just Great Britain and Germany. And towards the bottom of the income distribution, mortgagor households allocate 60 per cent more of their income to repayments in France (35 per cent) than they do in Great Britain (22 per cent).[69]

68 This finding – of higher spending on mortgages relative to income – is not unique to this data set, and is replicated in analysis of mortgage costs in EU-SILC. See: OECD, HC1.2 Housing costs over income, December 2019.

69 High mortgage repayments relative to incomes are also discussed and evidenced in: O Causa et al., Housing, wealth accumulation and wealth distribution: evidence and stylized facts, Economics department working papers No. 1588, OECD, December 2019.

FIGURE 43: **French mortgagors pay a larger share of income on their mortgage**

Median proportion of gross household income spent on mortgage debt repayment, mortgagors, by equivalised gross working-age household income quintile: 2017



NOTES: Survey years differ slightly across countries: Germany, 2017; France, 2017-2018; GB, 2016-2018.
SOURCE: RF analysis of ONS, Wealth and Assets Survey; European Central Bank, Household Finance and Consumption Survey.

This difference in average repayments relative to income is primarily driven by greater costs relative to income among higher-income households. It is not a product of high interest rates or large outstanding loan amounts: these are similar in France to other advanced economies. Instead, analysis of HFCS shows that mortgage terms – particularly for higher-income households – are notably shorter in France than elsewhere. Across all mortgagors, the average term is 19 years in France (compared with an average of 23 years across the countries depicted above), but the gap in term length is wider at higher incomes. In France, the average mortgage length is 17 years for high-income households compared with an average of 23 in other countries.

Summary

This section has considered the role of role of savings and debt in shaping financial resilience. Overall, we find that saving rates are higher in Germany and France, and lower in the UK, as summarised in Table 4. Higher savings in France and Germany mean that fewer households in these countries would struggle to withstand a large labour market shock using their financial assets alone. This picture is nuanced as we look at broader measures of wealth, however. German households have more financial wealth, but less property wealth than households in Great Britain. Although the acquisition of property wealth and taking on a mortgage can be a source of resilience, mortgage debt is also a financial commitment that can become a risk during a crisis.

TABLE 4: **Financial resilience differs across Germany, France and the UK**

Summary of financial resilience takeaways in Germany, France and the UK

	Germany	France	UK
Financial assets	High saving rates and levels.	High saving rates and levels.	Low saving rates and levels relative to income.
Property assets	Low home ownership, leading to low levels of property wealth.	Higher home ownership than France but lower than the UK, leading to middling levels of property wealth.	High proportion of people with property wealth, even among low-income households. High levels of property wealth.
Debts	High financial debt to income ratio for low-income households.	Mortgagor households more likely to have low equity, and low-income mortgagor households allocate a high share of income to mortgage repayments.	Households more likely to have financial debts.

Section 6

The impact of Covid-19 on employment and incomes in France, Germany and the UK

So far, we have focused on pre-existing financial-resilience challenges across France, Germany and the UK. But the unprecedented economic hit from Covid-19 provides a clear test of that resilience. In this section we investigate the immediate impact of the crisis on the labour market and incomes. The following section analyses how households have coped with these income falls. We exploit data from a unique, timely survey of households in France, Germany and the UK to explore the underlying drivers of Covid-19's differential impact on employment and household income, as this will be key to understanding the impact of the pandemic on their financial positions. In doing so, we aim to fill a gap in the analysis that compares the distributional impact of the pandemic across countries.

When looking at the impact of Covid-19 in each country, we find that survey respondents in France and the UK have experienced a greater labour market shock than in Germany. This is consistent with a larger aggregate economic hit in those countries. In the UK, 38 per cent of respondents who were in work during February 2020 had either moved out of work, been furloughed or received lower-than-usual pay by January 2021. In France, 39 per cent of respondents had done so, compared with only 27 per cent in Germany. The proportion of our survey respondent households who were workless grew in all three countries, but it grew most (and the level was highest) in France. It rose from 19 to 23 per cent in the UK, 22 to 26 per cent in Germany, and from 24 to 32 per cent (nearly one-in-three households) in France.

Respondents in the UK also experienced the largest falls in household income: 30 per cent reported a decrease in their household income between February 2020 and January 2021, with 13 per cent experiencing a fall of 25 per cent or more. This compares with 24 per cent of households in France experiencing a fall, and 20 per cent in Germany (with 7 per cent and 9 per cent experiencing falls of more than 25 per cent respectively). Despite being particularly hard hit by unemployment, household incomes in France have been better protected, in part by a more generous social security system: among those respondents newly claiming unemployment insurance or other government transfers (outside of furlough) since the onset of Covid-19, 33 per cent reported a fall in household income in France and Germany, compared with 56 per cent in the UK.

So far, we have focused on the biggest challenges for financial resilience across France, Germany and the UK prior to the Covid-19 crisis. But the economic shock from the pandemic provides an unprecedented test of the ability of households to cope with an unexpected hit to their finances. In this section and the next we use data from a unique, timely survey of households in France, Germany and the UK to investigate the immediate impact of the crisis on the labour market and household incomes. This survey was conducted online by YouGov between 18 January and 4 February 2021. It has a sample size of 12,195 adults age 16+ across the UK, France and Germany. The figures have been weighted and are representative of all adults age 16+ in the UK, France and Germany.[70]

In this section we discuss the impact of Covid-19 on the labour market and on household incomes. To set the scene, we start by setting out the extent to which various social-distancing rules have restricted economic activity, before moving onto to discuss the scale and distribution of respondents who have experienced a negative labour market change since the onset of the pandemic. We explore the reasons behind these differences both within and across countries. We find that the sector mix and contract type, on top of personal characteristics like age, play a leading role in explaining why respondents across all three countries did or not experience furlough, or move out of work.

We turn next to household incomes, where we set out the share of households who experienced a reduction in their incomes since last year, taking into account changes to their pre-pandemic employment status – such as moving from a dual to single (or no)-earner household. Finally, we investigate the effect that policy measures (including both Covid-19-specific furlough schemes as well as government benefits more broadly) had on cushioning incomes for respondents who suffered a negative employment change.

The UK has experienced the largest economic shock, with France also faring worse than Germany

As Covid-19 began to spread throughout Europe during the first few months of 2020, governments put into place a raft of policies aimed at reducing the spread of the virus. Chief among these were social distancing measures: temporarily shutting down

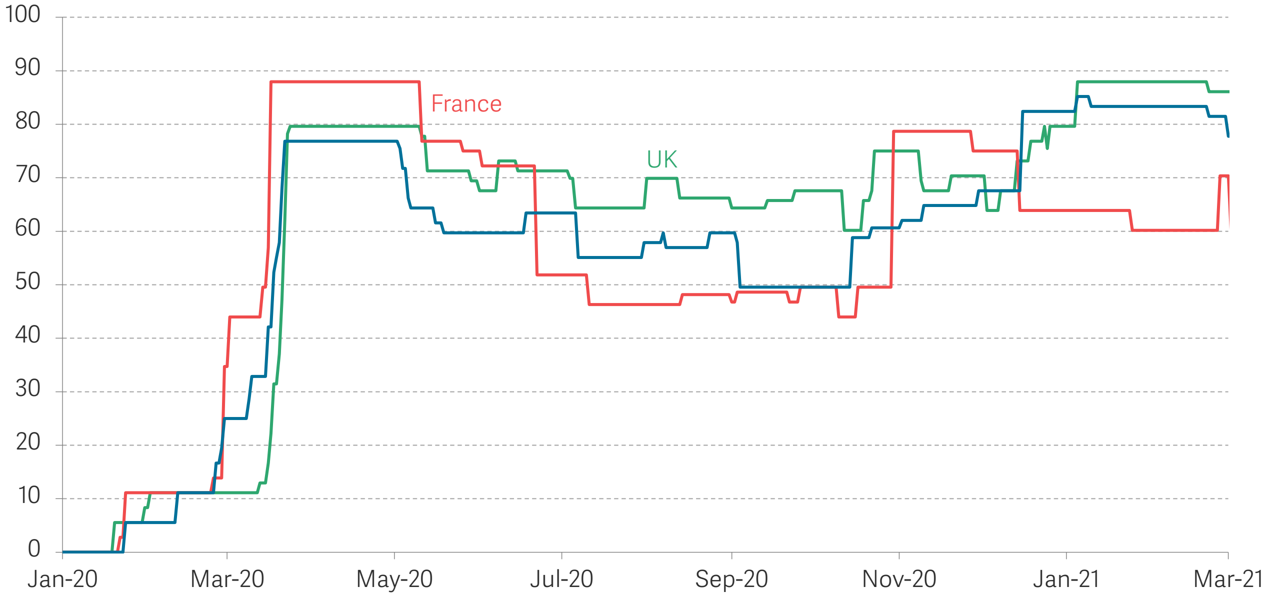
70 Many of the results in this survey are based on retrospective questions, which rely on the ability of respondents to recall their labour market status at various points.

businesses providing in-person services, such as restaurants and hairdressers; placing capacity limits on workplaces and on public transport; and, in some cases, a 'lockdown', which included closing schools and instructing citizens to stay at home.

These measures have changed over time and have often varied within countries themselves. However, Oxford University's Covid-19 Government Response Tracker, aggregates government policy measures across 18 indicators and provides a measure of how 'strict' policy has been in terms of restricting people's behaviour in different countries over time. The stringency index, set out for the UK, France and Germany in Figure 44, shows that restrictions have been tighter in the UK, followed by France and then Germany, over the course of the pandemic to date.

FIGURE 44: **On average, economic restrictions have been tighter for longer in the UK**

Stringency of economic restrictions: UK, France and Germany



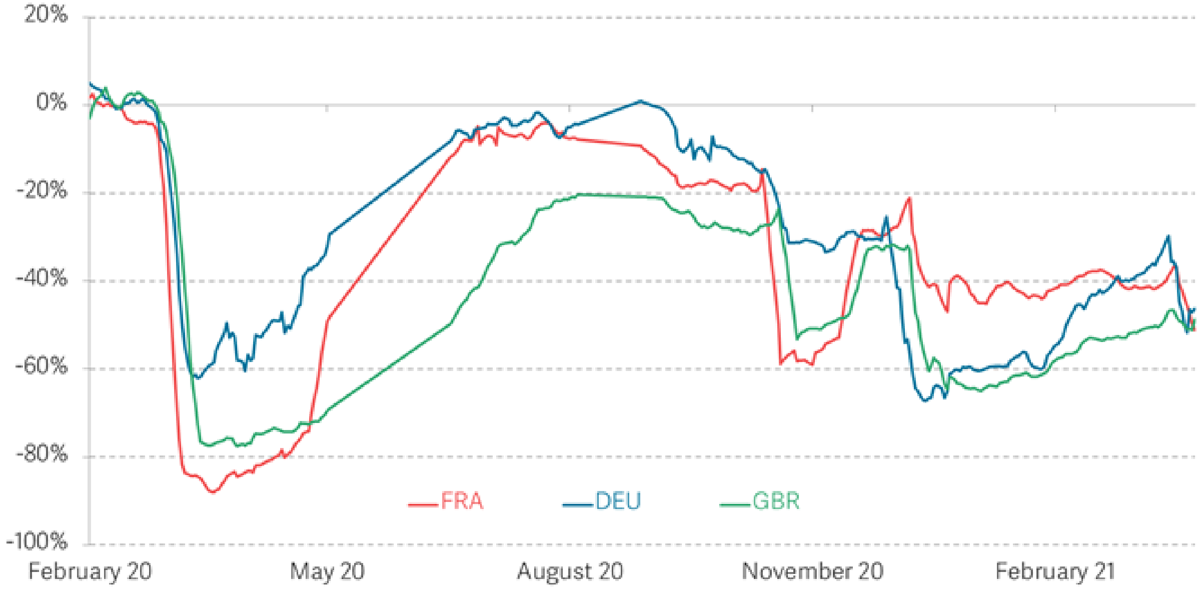
SOURCE: RF analysis of Oxford University, Covid-19 Government Response Tracker.

Social distancing measures were ratcheted up across all three countries during the early days of the pandemic. But the UK took longer to decide to 'lock down' in early 2020, and this resulted in an eventual lockdown which was tighter and which lasted longer than the lockdowns in France and Germany. As France and Germany began to open up over the summer and autumn, the UK's measures remained comparatively strict. These measures tightened further at the end of 2020, especially in the UK, following the emergence of a new, more easily transmittable, variant of Covid-19.[71] But while Germany and France have also experienced more stringent restrictions since the autumn, the UK's lockdown policies have lasted longer and, for much of the past year, have been stricter. At least in part, this reflects a failure to introduce restrictions in a timely way as the number of cases increased.[72]

The restrictions have been successful in terms of substantially affecting people's behaviour, with the UK experiencing the largest relative falls in different forms of economic activity. For example, Google mobility data in Figure 45 shows that, even though the number of visitors to places of retail and recreation (which includes restaurants, shops and entertainment venues) fell sharply across all three countries during the early months of 2020, the UK experienced a far more anaemic recovery – even over the summer months. During late summer and early autumn, the number of visitors to retail and recreation sites in Germany and France approached pre-pandemic (January-February 2020) levels; in the UK, they remained at least 20 per cent lower than at the start of the year.

FIGURE 45: **The decline in visits to retail, hospitality and recreational establishments has been larger and longer lasting in the UK**

Change in the number of visitors to places of retail and recreation since the five-week period from 3 January to 6 February 2020: UK, France and Germany



NOTES: Retail and recreation includes hospitality (food and accommodation), leisure (cinemas, libraries) and non-supermarket retail.
SOURCE: Google Covid-19 Community Mobility Trends.

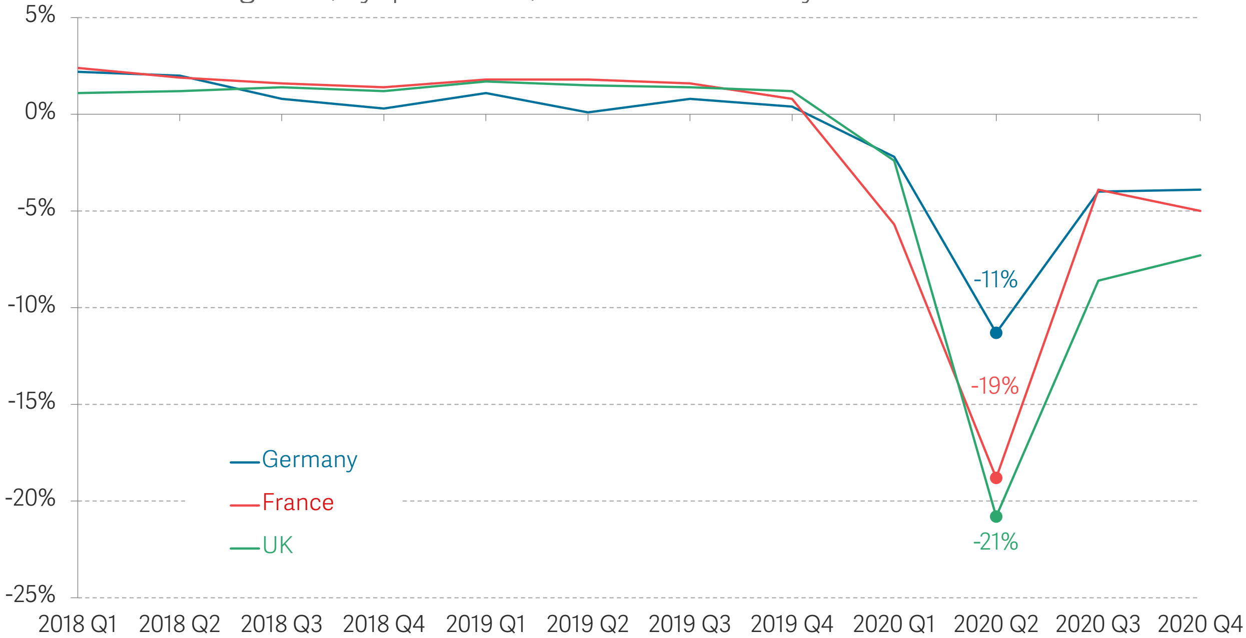
71 M Landler & S Castle, Boris Johnson Tightens U.K. Lockdown, Citing Fast-Spreading Version of Virus, New York Times, 19 December 2020.
72 For a discussion of these policies, see: T Bell & M Brewer, The 12-month stretch: Where the Government has delivered – and where it has failed – during the Covid-19 crisis, Resolution Foundation, March 2021.

The mobility data on visits to workplaces and time spent at home shows similar patterns. While all countries are yet to return to pre-pandemic levels of economic activity, the mobility data points to the fact that the impact of the virus has resulted in a greater proportion of people in the UK experiencing a more significant and prolonged change to their day-to-day lives, than their counterparts in France and Germany. Given these changes to economic activity and, at times, the legally enforceable closure of businesses, we would expect to see a consequent fall in GDP, with recovery following the loosening of restrictions.

Indeed, as Figure 46 illustrates, there was a sharp fall in annual GDP growth across all three countries: in the second quarter of 2020 it fell by 11 per cent in Germany, 19 per cent in France and 21 per cent in the UK. It recovered across all three countries in the following quarter, but GDP growth in the UK still lags behind the other two countries.

FIGURE 46: **GDP has been hit harder and bounce-back is slower in the UK**

Annual GDP growth, by quarter: UK, France and Germany



NOTES: Eurostat has not yet published 2020 Q4 data for the UK, therefore this data point is from ONS.
SOURCE: Eurostat, Gross domestic product, volumes, accessed 16 March 2021; ONS, Gross Domestic Product: q-on-q4 growth rate CVM SA %.

Although differences in how countries measure GDP during the pandemic have complicated comparisons, it is clear that the UK has underperformed. In the UK, the Office for Budget Responsibility (OBR) has highlighted the significance of the virus itself (the number of infections, hospitalisations and deaths) and the UK's comparatively stricter restrictions on certain sectors like hospitality and leisure.[73] These restrictions are likely to have a particular impact in the UK, as households devote a larger share of their spending to hospitality and leisure (21 per cent in 2018), compared with France (15 per cent) and Germany (16 per cent).[74] In other words, for any given level of lockdown restrictions on hospitality and leisure, we would expect the consumption effects to be largest in the UK.

To date, there are few studies comparing the economic impact of Covid-19 across countries that look beyond large-scale economic changes (like GDP) and focus instead on people. In addition, official employment figures are lagged, and are somewhat difficult to interpret given widespread furloughing. To overcome this, we commissioned a representative survey of adults age 16 and over in France, Germany and the UK, to help us understand the effect of Covid-19 on the labour market and household incomes across each country, and on the ability of households to cope with any resulting income shock (which we discuss in Section 7).[75]

The impact of Covid-19 on the labour market has been felt the hardest in France and the UK

Our survey suggests that, consistent with its overall impact on GDP, the impact of Covid-19 on the labour market has been felt the hardest in France and the UK. Figure 47 shows the proportion of 16-64-year-old respondents in each country who experienced either a negative labour market impact (that is: moving from being in work in February 2020 to being out of work in January 2021; experiencing a period of furlough; or having a period of lower-than-usual pay since the pandemic began).[76] It also shows the proportion of respondents who had no change in their employment status over that period (i.e. they were either working or not working in both periods), or who moved from being out of

73 Different countries' national statistical institutes measure government output in health and education differently (as neither sector usually has market prices). The UK uses direct output measures for this (for example, the OBR points to the number of children taught in school or the number of operations performed), while many other countries use deflated costs of inputs as a proxy for output. Under Covid-19 restrictions, school closures and the postponement of many non-Covid-19 medical procedures led to a measured fall in output, despite the additional health spending. Other countries, which do not follow the same measurement method, did not experience as large a fall in GDP. However, even comparing output excluding government consumption, a gap between the UK, France and Germany persists. The OBR attributes the remaining differences to the different sectoral composition of economic activity, the fact that the UK has had higher rates of infections, hospitalisations and deaths, and the fact that it has spent more time under more restrictive lockdowns than comparator countries. See: OBR, Economic and fiscal outlook, March 2021.

74 See: International comparisons of GDP during the coronavirus (COVID-19) pandemic, ONS, February 2021.

75 The survey was conducted online by YouGov between 18 January and 4 February 2021. It has a sample size of 12,195 adults age 16+ across the UK, France and Germany. The figures have been weighted and are representative of all adults age 16+ in the UK, France and Germany. The survey questions ask whether between March and December 2020 a respondent 'received lower pay for a period due to the impact of the coronavirus (COVID-19) pandemic' and whether since February 2020 the respondent has been supported by the Coronavirus Job Retention Scheme (or 'furlough scheme')/*Kurzarbeit/chômage partiel.*

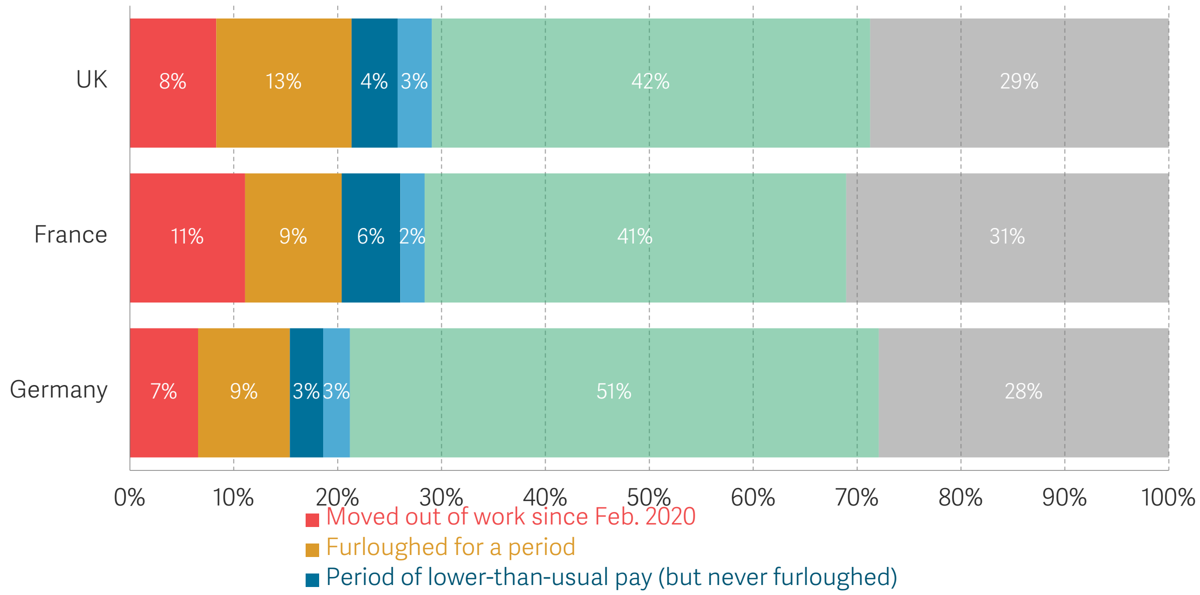
76 For sample size purposes, our discussion of the survey results uses the term 'in work' to refer to respondents who indicated they were employed, self-employed, both employed and self-employed, employed or self-employed but on long-term or maternity leave, and students with paid work. Respondents identified as having moved out of work by January could have been unemployed and seeking work, or inactive for a large number of reasons, such as retirement or caring for relatives.

work in February 2020 to being in work by January 2021.[77]

We find that among all respondents (including those who were in work before the pandemic), a larger share had experienced some form of negative work-related change (moving out of work, furlough – without having moved out of work, or lower-than-usual pay) in France (26 per cent) and in the UK (25 per cent) than in Germany (19 per cent). Within that, a larger share of respondents in France reported moving out of work (11 per cent) than in either the UK (8 per cent) or Germany (7 per cent). However, furlough affected a greater share of respondents in the UK (13 per cent) than in France and Germany (9 per cent each). A smaller share of respondents reported a period of lower-than-usual levels of pay outside furlough: 6 per cent in France, 4 per cent in the UK and 3 per cent in Germany.[78]

FIGURE 47: **Since February 2020, more than one-in-three respondents in France and the UK report having experienced a negative labour market change**

Work-related changes among respondents aged 16-64 between February 2020 and January 2021: UK, France and Germany, data collected 18 January to 4 February 2021



NOTES: The overall unweighted base is all respondents age 16 to 64, with non-missing observations for change in employment status, furlough status and pay status in the UK (n= 2,926), France (n=3,110) and Germany (n=3,250). All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

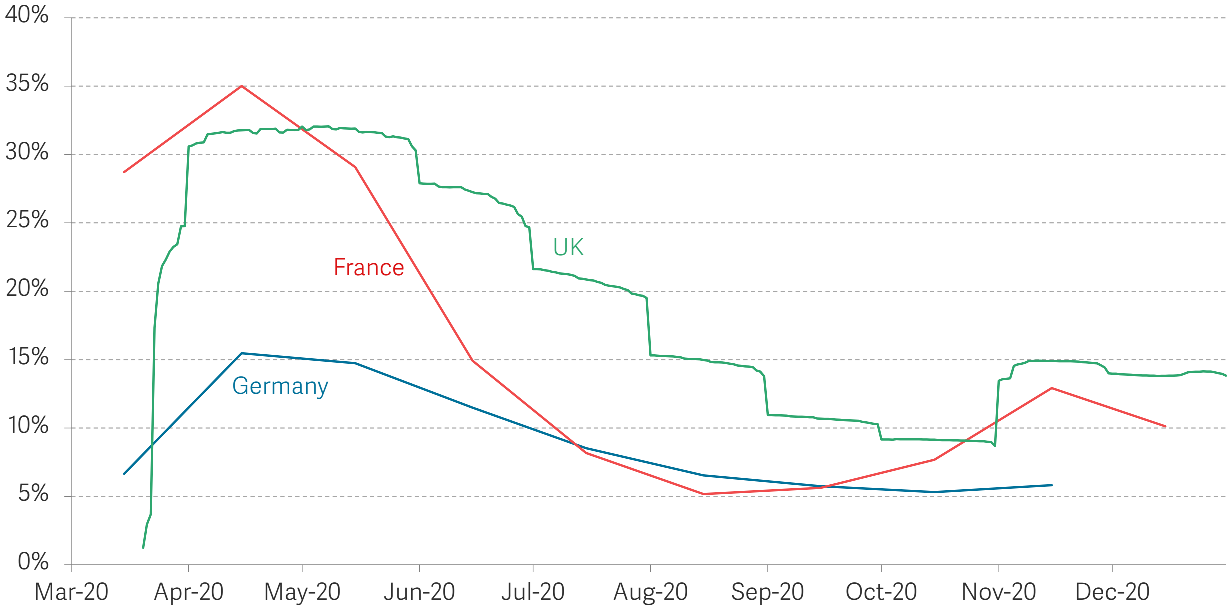
77 The furlough and lower-than-usual-pay experience could have occurred at any point since the pandemic, even if the respondent has since moved back into work or returned to usual levels of pay. Although a respondent may have experienced several of these changes over the course of the year, these are mutually exclusive outcomes: a respondent who has moved out of work but had been on a furlough scheme is labelled as having moved out of work. Having a period of lower-than-usual pay only applies to those who have not been furloughed.

78 Because each of these negative employment outcomes are mutually exclusive, respondents who experienced furlough before moving out of work will count as having moved out of work; therefore, the proportion of respondents reporting furlough shown here will be lower than if we included respondents who experienced furlough before moving out of work. Our survey does not capture the dates or length of time in which a respondent was on furlough. However, Figure 48 highlights the extent to which the share of the total workforce on furlough-equivalent schemes fell further and faster after April 2020 in France and Germany than in the UK. See: Are Europe's furlough schemes winding down?, The Economist, October 2020.

Taken together, this suggests that by way of furlough, job loss and – to a lesser extent – periods of lower-than-usual pay, the respondent-level employment impact of Covid-19 has been greater in the UK and France than in Germany.[79] Our survey findings on furlough are corroborated by official figures capturing furlough rates across each country. Figure 48 shows that, with the exception of the start of the crisis when furlough rates were very high in France, there has been a consistently larger share of employees on furlough in the UK than in France or Germany.

FIGURE 48: **Since the start of the crisis, a larger share of employees have been furloughed in the UK than in either Germany or France**

Proportion of employees on furlough or equivalent: UK, France and Germany



SOURCE: HMRC, Coronavirus Job Retention Scheme Statistics; Bundesagentur für Arbeit, Realisierte Kurzarbeit (hochgerechnet); Dares, Situation sur le marché du travail durant la crise sanitaire au 2 Février 2021.

Similar to our survey results, which show France and the UK experiencing larger labour market shocks compared to Germany, official employment figures for each country show that while employment among 15-64-year-olds in Germany shifted very little between 2019 Q4 and 2020 Q3 (it rose from 76.3 to 76.4 per cent), it fell slightly more in France (from 65.8 to 65.1 per cent) and the UK (from 75.4 to 74.3 per cent) over the same period.[80]

79 These figures only tell us about the share of respondents whose employment has been affected and not the length of time a person has been out of work or furloughed, or the length and depth of pay reductions.

80 We would not expect official headline labour market statistics to exactly match our own survey. This is in part down to sample size and timing (with our own data covering a smaller number of respondents and a different time period than the official figures discussed here. Source: Eurostat, Employment and activity by sex and age - quarterly data, accessed 16 March 2021.

Nearly four-in-ten respondents in France and the UK who were in work in February 2020 have since moved out of their job, or experienced furlough or a period of lower-than-usual pay

By turning specifically to those respondents in our survey who were in work just before the onset of Covid-19 (Figure 49), we can get a clearer sense of how the labour market effects of the pandemic not only vary across countries, but also across individuals and sectors within each country.

Germany has the smallest share of respondents who have experienced a negative employment change (27 per cent of those in work just before the onset of Covid-19). By contrast, nearly two-in-five respondents in France (39 per cent) and the UK (38 per cent) who were in work just before the onset of Covid-19 have since experienced a negative employment change. Within that, the proportion moving out of work is larger in France (17 per cent, compared with 12 per cent in the UK and 9 per cent in Germany). However, a significantly larger share of UK respondents experienced a period of furlough (19 per cent), compared with their counterparts in France (14 per cent) and Germany (13 per cent).

The nature of the economic shock – concentrated in certain sectors of the economy – shapes the distributional impact. In all three countries, negative employment changes were concentrated among respondents who had previously worked in sectors that rely on in-person services: 60 per cent or more who had previously worked in hospitality experienced a negative change. Beyond those sectors where social distancing measures have a larger impact, there is more variation – much of which is determined by the implementation of restrictions. For example, the proportion of UK respondents previously working in construction who experienced a negative employment change (48 per cent) is twice that of respondents in Germany (22 per cent): this is likely to reflect the fact that construction was mostly shut down during the UK's first lockdown in spring 2020.

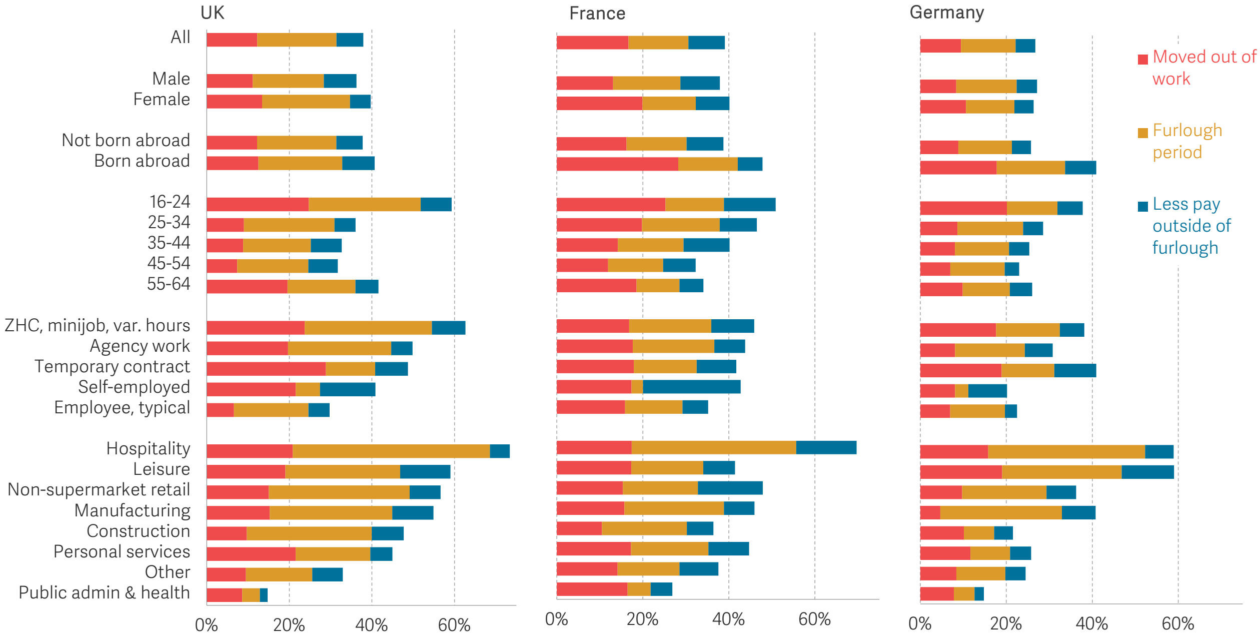
We find a similar story when it comes to employment and contract type. We would expect workers on less secure contracts to be among the first to experience a negative employment change, given the ease with which employers can dismiss them.[81] And indeed, across all three countries, a higher proportion of respondents who were working during February 2020 on flexible contracts, including zero-hours contracts, variable-hours contracts and 'mini-jobs' (which, in our survey, only exist in Germany), reported a negative employment change than did workers on other types of contract.[82]

81 Previous Resolution Foundation research has discussed the extent to which UK workers on insecure contracts have been more likely to experience job loss since the crisis began. For example, respondents to a September 2020 survey who had been working on insecure contracts at the start of the pandemic comprised just 15 per cent of all workers in February, but 40 per cent of those who reported losing a job between February and September. See: M Brewer et al., Jobs, jobs, jobs: evaluating the effects of the current economic crisis on the UK labour market, Resolution Foundation, November 2020.

82 Mini-jobs are jobs in Germany that require a small number of hours worked per week. They have an earnings ceiling of 450 euros per month. Workers in mini-jobs do not pay into the healthcare system, and they can opt out of public pension contributions. See: OECD, Germany: Key policies to promote longer working lives 2007-17, 2018.

FIGURE 49: **Among those in work before the onset of Covid-19, insecure and hospitality workers were especially hard hit, particularly in the UK**

Proportion of 16-64-year-old respondents who were in work in February 2020 and who experienced a work-related change during March to December 2020: UK, France and Germany, data collected 18 January to 4 February 2021

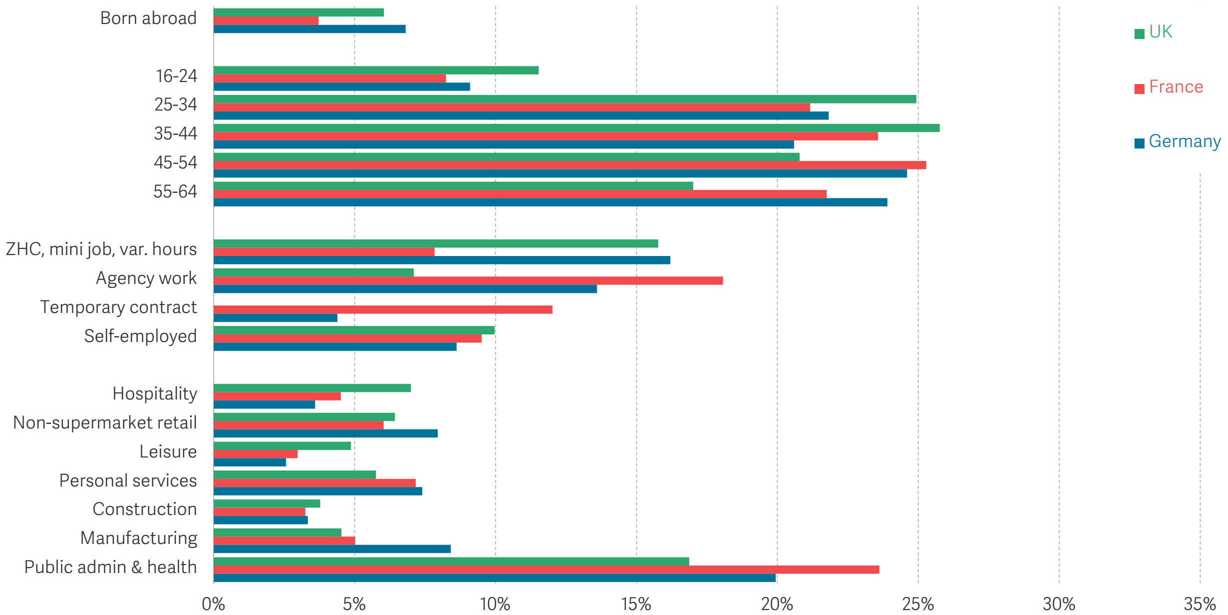


NOTES: The overall base is all respondents age 16 to 64 who were in work during February 2020 and with non-missing observations for change in employment status, furlough status and pay status. Unweighted bases in the UK (n= 2,044), France (n=2,055) and Germany (=2,270). The unweighted base for each sub-group shown in the chart are: MALE: UK (n=1,063); France (n=1,063); Germany (n=1,154); FEMALE: UK (N=1,032); France (n=992); Germany (n=1,116). BORN ABROAD: UK (n=120); France (n=77); Germany (n=152). NOT BORN ABROAD: UK (n=1,917); France (n=1,978); Germany (n=2,118). AGE: 16-24, UK (n=147); 25-34; UK (n=497); 35-44, UK (n=525); 45-54, UK (n=476); 55-65, UK (n=399); 16-24, France (n=157); 25-34; UK (n=432); 35-44, UK (n=506); 45-54, UK (n=538); 55-65, UK (n=422); 16-24, Germany (n=178); 25-34; UK (n=484); 35-44, UK (n=470); 45-54, UK (n=619); 55-65, UK (n=519). CONTRACT: ZHC, UK (N=281); Agency work, UK (n=126); Self-employed, UK (n=220); Employee, UK (n=1,372). CONTRACT: ZHC, France (N=164); Agency work, France (n=375); Temporary, France (n=250) Self-employed, France (n=186); Employee, France (n=1,080); ZHC, Germany (N=1355); Agency work, Germany (n=306); Temporary, Germany (n=97) Self-employed, Germany (n=195); Employee, Germany (n=1,317). SECTOR: Hospitality, UK (n=118); Non-supermarket retail, UK (n=117); Arts, entertainment & recreation, UK (n=102); Personal services, UK (n=111); Construction, UK (n=72); Manufacturing, UK (n=87); Public administration & health, UK (n=356); Other, UK (n=1,021); Hospitality, France (n=98); Non-supermarket retail, France (n=116); Arts, entertainment & recreation, France (n=55); Personal services, France (n=144); Construction, France (n=67); Manufacturing, France (n=102); Public administration & health, France (n=438); Other, France (n=896); Hospitality, Germany (n=75); Non-supermarket retail, Germany (n=170); Arts, entertainment & recreation, Germany (n=53); Personal services, Germany (n=157); Construction, Germany (n=70); Manufacturing, Germany (n=180); Public administration & health, Germany (n=429); Other, Germany (n=984). We do not provide information on UK workers who had previously been employed on temporary contracts because the base sample size for that category is less than 50. All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

However, this is particularly pronounced in the UK: respondents on zero-hours or variable-hours contracts were more than twice as likely as those on standard employment contracts to have had a negative employment change (63 per cent, compared with 30 per cent). In Germany, the difference in these overall figures is somewhat smaller (38 per cent, compared with 22 per cent), but respondents in Germany who were on highly flexible contracts were more than twice as likely as their counterparts on standard employment contracts to have moved out of work (18 per cent, compared with 7 per cent). In France, these differences are smaller: 46 per cent of those on flexible contracts in February 2020 had a negative employment change (including 17 per cent who moved out of work), compared with 35 per cent of those on standard employment contracts (including 16 per cent who moved out of work).

FIGURE 50: **The pre-pandemic composition of employment differs across the three countries**

Employment in February 2020 among 16-64-year-olds by category: UK, France and Germany, data collected 18 January to 4 February 2021



NOTES: The overall base is all respondents age 16 to 64 who were in work during February 2020 and with non-missing observations for change in employment status, furlough status and pay status in the UK. Unweighted sub-group bases are BORN ABROAD: UK (n=120); France (n=77); Germany (n=152). NOT BORN ABROAD: UK (n=1,917); France (n=1,978); Germany (n=2,118). AGE: 16-24, UK (n=147); 25-34; UK (n=497); 35-44, UK (n=525); 45-54, UK (n=476); 55-64, UK (n=399); 16-24, France (n=157); 25-34; France (n=432); 35-44, France (n=506); 45-54, France (n=538); 55-64, France (n=422); 16-24, Germany (n=178); 25-34; Germany (n=484); 35-44, Germany (n=470); 45-54, Germany (n=619); 55-64, Germany (n=519). CONTRACT: ZHC, UK (N=281); Agency work, UK (n=126); Self-employed, UK (n=220); Employee, UK (n=1,372). CONTRACT: ZHC, France (N=164); Agency work, France (n=375); Temporary, France (n=250) Self-employed, France (n=186); Employee, France (n=1,080); ZHC, Germany (N=355); Agency work, Germany (n=306); Temporary, Germany (n=97) Self-employed, Germany (n=195); Employee, Germany (n=1,317). SECTOR: Hospitality, UK (n=118); Non-supermarket retail, UK (n=117); Arts, entertainment & recreation, UK (n=102); Personal services, UK (n=111); Construction, UK (n=72); Manufacturing, UK (n=87); Public administration & health, UK (n=356); Other, UK (n=1,021); Hospitality, France (n=88); Non-supermarket retail, France (n=116); Arts, entertainment & recreation, France (n=55); Personal services, France (n=144); Construction, France (n=67); Manufacturing, France (n=102); Public administration & health, France (n=438); Other, France (n=896); Hospitality, Germany (n=75); Non-supermarket retail, Germany (n=170); Arts, entertainment & recreation, Germany (n=53); Personal services, Germany (n=157); Construction, Germany (n=70); Manufacturing, Germany (n=180); Public administration & health, Germany (n=429); Other, Germany (n=984). We do not provide information on UK workers who had previously been employed on temporary contracts because the base sample size for that category is less than 50. All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

Of course, the composition of the labour force (for example, in terms of sector, contract type and age) will also shape a country's overall level of employment change. We set out the share of respondents who were in work in February 2020, by various categories, in Figure 50. It is to be expected that the combined effect of a slightly larger hit to hospitality in the UK and France (where 73 per cent and 70 per cent of respondents had a negative employment change, compared with 59 per cent in Germany) and a larger pre-pandemic proportion of respondents in the UK and France working in these sectors (7 per cent in the UK, 5 per cent in France and 4 per cent in Germany) will have driven more negative employment change in these countries, relative to Germany. Atypical contracts will also have played a large role in driving overall employment change, where they comprise a large proportion of the labour market.[83] However, we should be cautious when interpreting the nuances of similar sounding contracts across different countries, as they may have different levels of employment security.[84]

Employment change in all three countries has been driven by sector, age and contract type, but age and contract type are the central drivers behind moving out of work

We can use statistical modelling to test more directly the impact that personal and work-related characteristics have had in driving employment change within each country (rather than across countries). Figure 51 shows the proportion of the variance in two employment outcomes (having a furlough period and moving out of work) that can be attributed to different factors, among those respondents who were in work in February 2020 for each of our three countries.[85] It shows, perhaps unsurprisingly, that the industry sector is the dominant factor driving furlough across all three countries – accounting for

83 As set out in Section 3, France and the UK do have a large share of workers in atypical forms of work. Our survey includes a larger share of UK working respondents (in February 2020) who were self-employed (11 per cent) than in France or Germany (9 per cent each). Our German and UK samples include a similar number of respondents on zero-hours contracts, other variable-hours contracts and in mini-jobs (16 and 14 per cent, respectively), compared with just 8 per cent in France. By contrast, temporary and agency working was by far the most common among respondents in France.

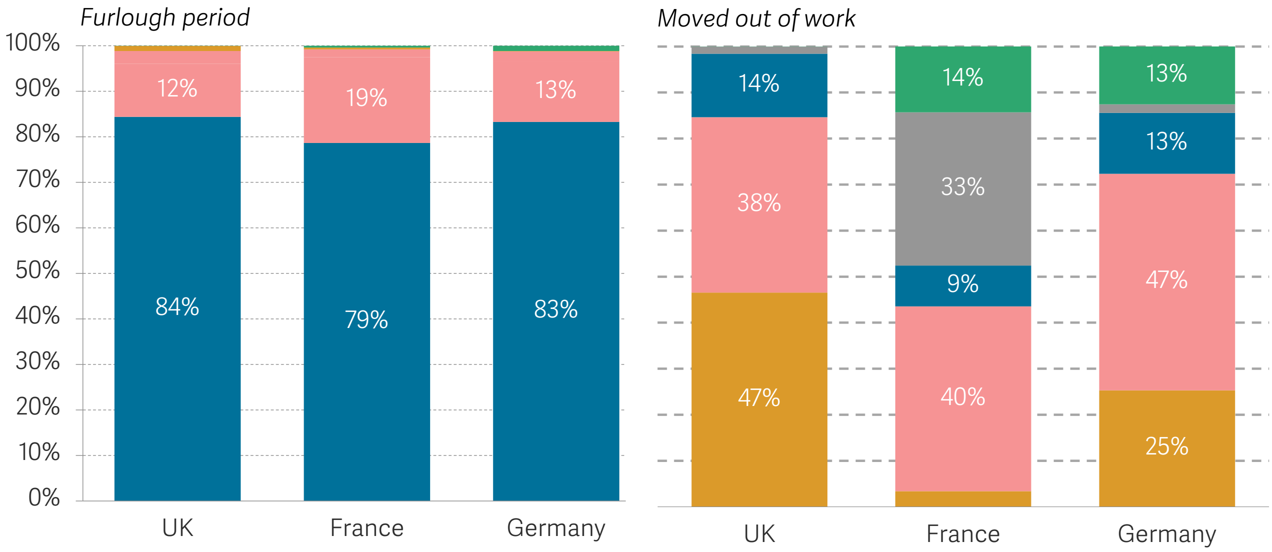
84 For example, in Germany, temporary agency workers are represented by works councils. German employment legislation requires temporary agency workers to be paid and treated the same as full-time, permanent employees. However, collective agreements among the agency worker sector (which have occurred) allow for deviation in these principles. Equal pay rights do not apply for temporary agency workers in the UK. In the UK, agency work and zero-hours contracts can offer a wide range of hours: from less than a typical mini-job in Germany to more than 48 hours a week, if a worker opts out of the Working Time Directive. See: European Parliament, Precarious employment in Europe part 2: country case studies, 2016.

85 We ran two identical sets of probit regressions for each country. In the first, the dependent variable is a binary indicator of whether or not a respondent, who had been in work in February 2020, reported being furloughed at some point between March and December 2020. In the second, the dependent variable is whether or a not a respondent, who had been in work in February 2020, was no longer in work in January 2021. In each regression the independent variables are: age band (16-24, 25-34, 35-44, 45-54, 55-64, 65-74, 75+), gender (male, female), whether the respondent was born in a country different from where they currently live (UK, France or Germany), the sector a respondent worked in during February 2020 (hospitality, non-supermarket retail, leisure, personal services, construction, manufacturing, public administration and health, and other) and the contract type the respondent had during February 2020 (a flag for whether a person works in an atypical form of employment, which includes zero-hours contracts, variable-hours contracts and temporary contracts, and whether they are in a mini-job, work for an agency or are self-employed).

84 per cent of the variation in whether or not a working respondent was furloughed in the UK, 79 per cent in France and 83 per cent in Germany.[86]

FIGURE 51: **The sector in which people work is the dominant factor driving furlough, but contract type is the dominant factor driving moves out of work in the UK**

Proportion of the variance in whether respondents age 16+ in work during February 2020 experienced a period of furlough or moved out of work by January 2021, explained by each factor in a regression analysis: UK, France and Germany, data collected 18 January to 4 February 2021



NOTES: This chart uses a decomposition method called 'dominance analysis' from the Stata package 'domin' to assess the explanatory power of each factor. For each of our above dependent variables (a. whether a respondent who was in work in February 2020 has experienced furlough since then; b. whether a respondent who was in work in February 2020 was not in work in January 2021), the method runs a regression with each possible combination of the explanatory variables, and compares the change in the amount of variance explained. The regression is a probit regression, on the sample of those in February 2020, with two dependent variables set out above. Because this is a probit regression, the statistic is the pseudo R-squared. The same method (using the same regression, and the same variables) was run on each country. The base for each country is the total number of respondents with non-missing observations for each of the variables set out in the chart, and associated footnote. The unweighted base size for the 'furlough' analysis is as follows: UK (n=2,152); France (n=1,963); Germany (n=,2,202). The unweighted base size for the 'move out of work' analysis is as follows: UK (n=2,152); France (n=1,966); Germany (n=,2,212). All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

However, different factors explain the variation in whether respondents who were in work in February 2020 had moved out of work by January 2021. In the UK, contract type is the dominant factor (47 per cent of the variation), followed by age (38 per cent) and sector (14 per cent). In Germany, contract type also plays a substantial role (accounting for 25 per

86 A recent Resolution Foundation report used this modelling to test the drivers behind experiencing a negative employment effect (constructed as a binary variable, this indicated whether a respondent who was in work during February 2020 was no longer working, had been furloughed, or had loss of pay in January 2021). It found that sector was the dominant driver behind experiencing a negative employment effect. See: N Cominetti et al., Long Covid in the labour market: the impact on the labour market of Covid-19 a year into the crisis, and how to secure a strong recovery, Resolution Foundation, February 2020.

cent of the variation), but age dominates (47 per cent), with sector and whether or not a person was born abroad each accounting for 13 per cent of the variation. Similarly, in France, personal characteristics related to age, gender and whether or not a person was born in France are dominant. The strong effect of contract type shows that even within a particular sector, especially in the UK, being on an atypical contract increases the odds of a respondent losing their job or leaving work – and we show below this has significant consequences for incomes and thereby living standards. In France and Germany, by contrast, personal characteristics like gender and whether a person was born in country play a significantly larger role. In part, personal characteristics might be playing a proxy role for other unobserved features of the labour market such as length of tenure.

But even after controlling for the personal and work-related characteristics that drive the chances of a person experiencing furlough and moving out of work, how much more likely is it that a respondent in the UK would have been furloughed for a time, or moved out of work, than one in Germany? We test this by running a logistic regression with respondents from all countries in a single pool, controlling for the same independent variables shown in Figure 51, but also for the country.[87] We find that while personal and work-related variables are most significantly associated with furlough and moving out work, the country is too: a UK respondent who was in work at the outset of the pandemic was 1.5 times as likely as a respondent in Germany to be furloughed, and a respondent in France was 1.2 times as likely as a respondent in Germany. When it comes to moving out of work, these results are 1.5 and 1.9 times as likely, respectively.

The fact that strong country-level effects in the odds of having a furlough period or moving out of work persist once key personal and work-related characteristics are accounted for suggests that at least two things are at play. First and foremost, lockdown restrictions and their effects on economic activity (which we cannot account for in our regression) will have played a significant role in driving larger rates of employment change in France and the UK, compared with Germany. And second, these results reflect different employment regimes – for example, it has been relatively easy to furlough workers in the UK, but also comparatively easy to fire them.

87 These variables include: age band (16-24, 25-34, 35-44, 45-54, 55-64, 65-74, 75+), gender (male, female), whether the respondent was born in a country different from where they currently live (UK, France or Germany), the sector a respondent worked in during February 2020 (hospitality, non-supermarket retail, leisure, personal services, construction, manufacturing, public administration and health, and other) and the contract type the respondent had during February 2020 (a flag for whether a person works in an atypical form of employment, which includes zero-hours contracts, variable-hours contracts and temporary contracts, and whether they are in a mini-job, work for an agency or are self-employed). Figure 7 sets out, for each country, the proportion of respondents employed in February who fit into each of the above categories.

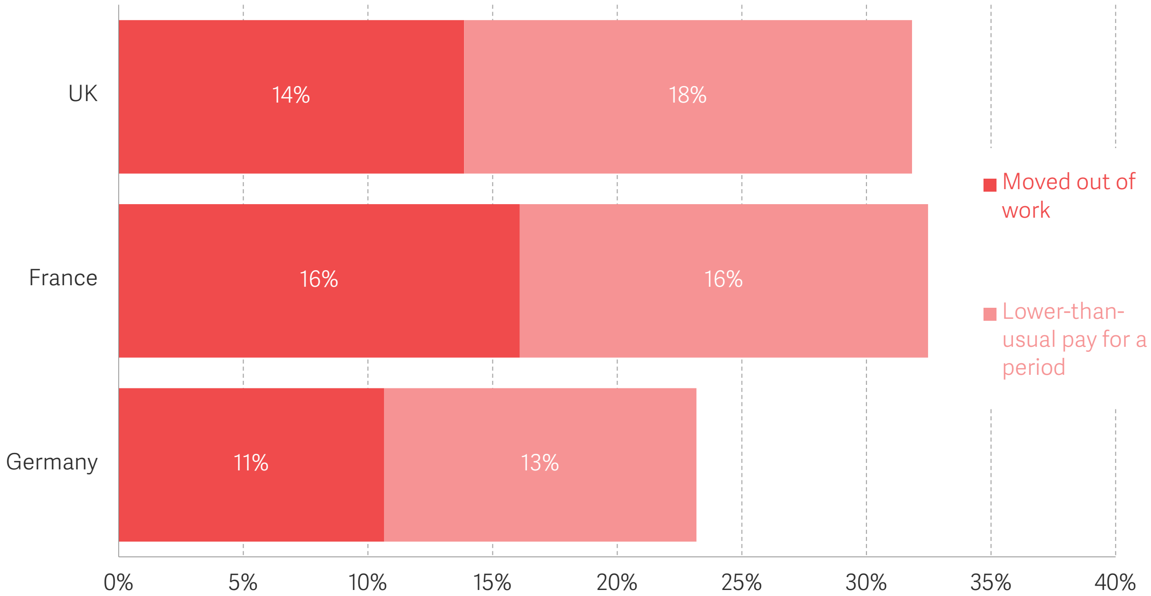
Negative employment changes at the household level are also more common in France and the UK

We now turn to how these labour market changes affect households. This is important because financial shocks affect whole families, not just individual earners. We focus here on job losses (specifically, where a respondent or their partner, if they have one, has moved from being in work to not working) and earnings losses (where a respondent or their partner reports having a period of lower-than-usual pay) between February 2020 and January 2021.[88]

Figure 52 shows that one-in-three households in France (33 per cent) and nearly one-in-three households in the UK (32 per cent) experienced at least one person[89] moving out of work or a period of lower-than-usual pay. In Germany, 23 per cent of households experienced this.

FIGURE 52: **In around one-in-three respondent households in France and the UK, at least one person moved out of work or had a period of lower-than-usual pay**

Proportion of 16-64-year-old-headed household respondents who were in work in February 2020 and who experienced a work-related change during March to December 2020: UK, France and Germany, data collected 18 January to 4 February 2021



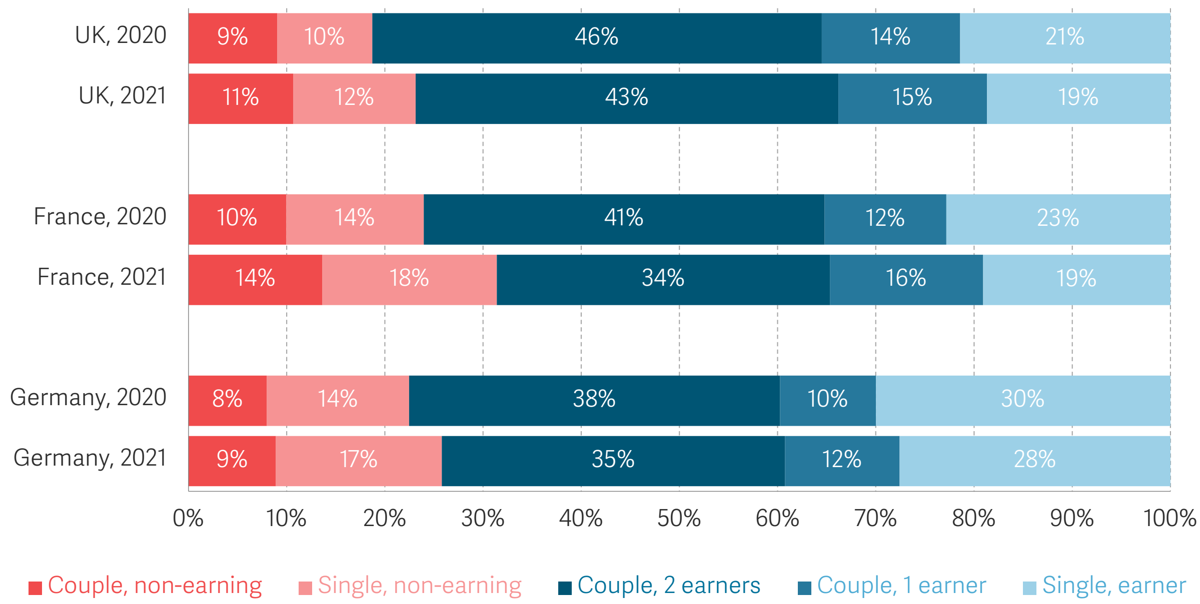
NOTES: The overall unweighted base is all respondents age 16 to 64 who were in work during February 2020 or whose partner was in work during February 2020 and with non-missing observations for change in household employment status and pay status. Sample size is as follows: UK (n= 2,172), France (n=2,049) and Germany (n=2,129). Due to rounding, the total of the two components shown here may not exactly match the total share of households that experienced a negative employment change. All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

88 As with respondent-level employment changes, these are mutually exclusive outcomes.
89 Where this report discusses to at least one person experiencing an employment change, it refers to either a respondent or their partner, if they have one. We do not factor in whether adult children, or other adults that are not partnered to the respondent, experienced an employment change.

The impact on a household of a person moving out of work will, of course, vary according to the household's previous earnings: a move out of work for a single-earner household would be of more concern, for example, given there would be no remaining labour income. By comparing household employment status between 2020 and 2021 for each country, Figure 53 helps us to understand how the employment changes of respondents (and their partners) affected overall household worklessness. It shows that the share of workless respondent households grew in all three countries, but it grew most – and is the highest level – in France. It rose from 19 to 23 per cent in the UK, 22 to 26 per cent in Germany, and 24 to 32 per cent (nearly one in three) in France.

FIGURE 53: **Nearly one-in-three respondent households in France were out of work in January 2021**

Employment status among respondent households by year: UK, France and Germany, data collected 18 January to 4 February 2021



NOTES: The overall unweighted base is all respondents age 16 to 64 who provided employment status information about themselves and their partners (if they have one) for both February 2020 and January 2021. The base for each sub-group shown in the chart are: UK (n=1,292); France (n=1,686); Germany (n=1,484). All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

A larger share of households in the UK have experienced a fall in income than in France or Germany

Households that experience a negative employment change are also likely to experience a hit to their household income. However, our survey finds that the size of that income 'hit', given a certain level of negative employment change, varies from country to country. Although a similar share of respondent households in France and the UK reported that at least one person moved out of work or experienced a period of lower-than-usual pay between February 2020 and January 2021 (32 per cent in the UK and 33 per cent in France), Figure 54 shows that a larger share of respondent households in the UK reported having less income in January 2021 than in February 2020 (30 per cent), compared with 24 per cent in France (and 20 per cent in Germany).[90] And among UK respondent households in which at least one person moved out of work over the past year, 60 per cent recorded a fall in household income, compared with 45 per cent in Germany and 37 per cent in France.

The share of respondent households in the UK experiencing a substantial decrease in income (of 25 per cent or more) is a particularly striking aspect of Figure 54: 13 per cent of all respondent households, and 41 per cent of those where at least one person moved out of work, experienced a substantial fall in income.[91] This is significantly larger than among respondent households in Germany (9 per cent of all households and 28 per cent of those who moved out of work) and France (7 per cent and 20 per cent, respectively).

The fact that a comparatively very large number of UK respondent households have experienced a substantial decrease in income upon one person moving out of work highlights the severe income shock that losing a job in the UK can bring. Much of this is driven by the social security system and, specifically, the different levels of income replacement support offered by each country's benefits system, which we discuss further below.

Respondent households in which at least one person experienced a period of lower-than-usual pay (but in which no one moved out of work) were also (unsurprisingly) more likely than average to report a decrease in income: 61 per cent in the UK, 52 per cent in Germany and 48 per cent in France. However, a smaller share of households in this group (compared with those in which someone moved out of work) reported experiencing income falls of 25 per cent or higher: 17 per cent in the UK, 15 per cent in Germany and 14 per cent in France. Respondents (or their partners) in this group could have been working reduced hours, taken a real-terms pay cut or have been self-employed with less work than they had before the onset of Covid-19. However, the extent to which these

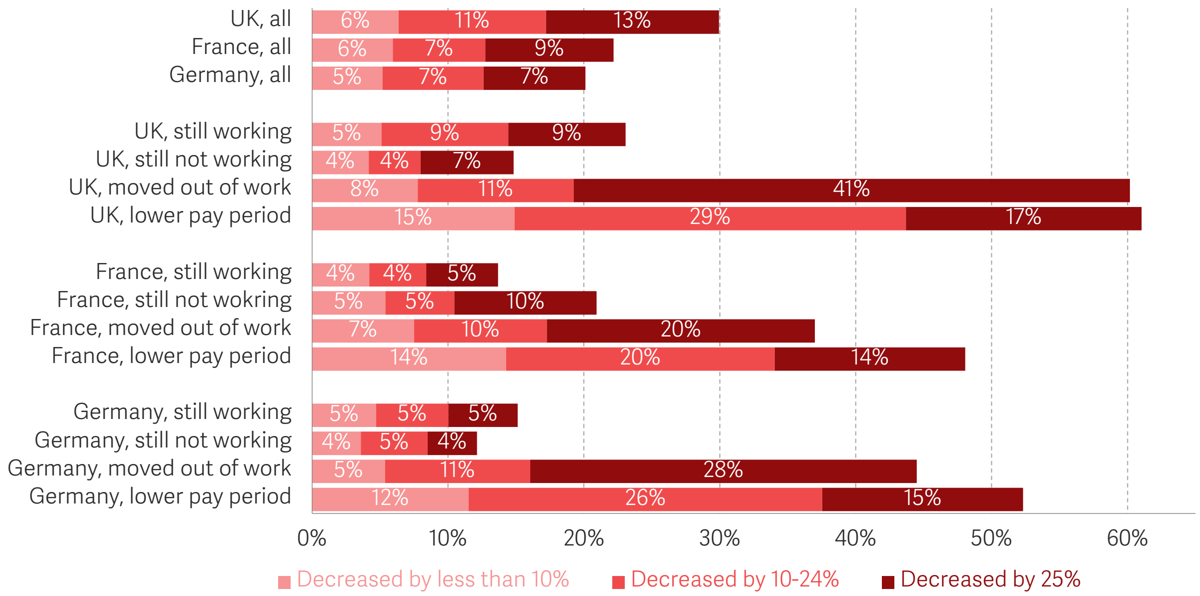
90 Our survey question asked: 'Over recent months, to what extent has your income (i.e. the money have coming in from earnings, benefits and other sources) increased or decreased compared to your usual income before the Coronavirus (COVID-19) outbreak started (i.e. the end of February 2020), or has it stayed broadly the same?' Response categories were: 'Increased substantially (by more than 25%)'; 'Increased moderately (by 10-25%)'; 'Increased a little (by less than 10%)'; 'Stayed broadly the same'; 'Decreased a little (by less than 10%)'; 'Decreased moderately (by 10-25%)'; 'Decreased a lot (by more than 25%)'; 'Don't know'; 'Prefer not to say'.

91 Previous Resolution Foundation research has shown income falls persisted over a long period of time for many UK households. For example, a survey conducted in September 2020 found that four-in-five (81 per cent) working-age adults who were on a lower income during the summer of 2020 had also been on a lower income since the since the start of the pandemic in March (compared to their pre-pandemic incomes)– indicating that, for many, the pandemic has had a persistent and negative effect on household incomes. See: K Handscomb & L Judge, Caught in a (Covid) trap Incomes, savings and spending through the coronavirus crisis, Resolution Foundation, November 2020. Resolution Foundation research has also found that, since the onset of the crisis, the median fall in income if furloughed is 9 per cent but it is 47 per cent if people lose their jobs and turn to Universal Credit. See: M Brewer & K Handscomb, This time is different – Universal Credit's first recession, Resolution Foundation, 27 May 2020.

employment changes translated into household-level income changes will have been mitigated by Covid-19-related policy measures and each country's social security system.

FIGURE 54: **Almost than one-in-three households in the UK reported having less income than before the pandemic**

Proportion of households reporting lower levels of income in January 2021 than in February 2020, by country and household employment status: UK, France and Germany, data collected 18 January to 4 February 2021



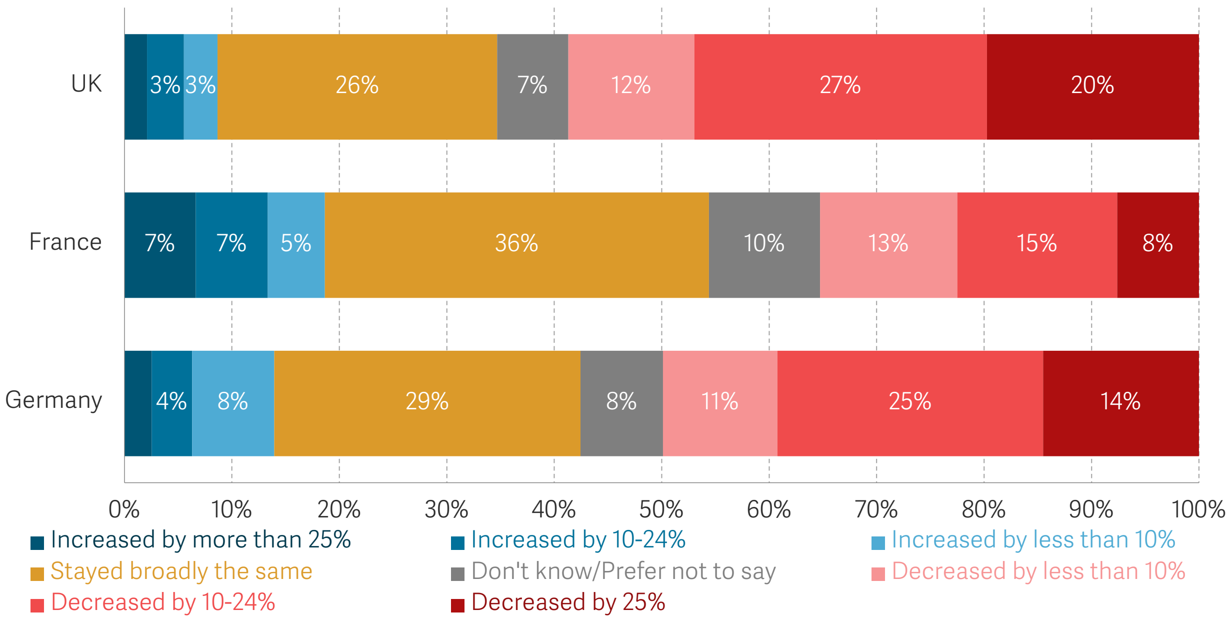
NOTES: 'Still working' refers to households in which at least one partner worked in both February 2020 and January 2021. 'Still not working' refers to households in which no one worked in either of these periods. 'Moved out of work' refers to where at least one partner in the household moved from being in work during February 2020 to being out of work in January 2021. 'Lower pay period' refers to households in which at least one partner experienced a period of lower-than-usual pay between February 2020 and January 2021. NOTES: The overall unweighted base is all respondents age 16 to 64 who were in work during February 2020, or whose partners (if they have one) were in work during February 2020 with non-missing observations for their or their partner's (if applicable) employment status in January 2021, and with non-missing observations for their household income changes over the same period. The unweighted base for each sub-group shown in the chart are: UK (n=2,172); France (n=2,049); Germany (n=2,1290). Sub-group sample sizes are UK, still working (n=1,498), UK, still not working (n=582); UK, moved out of work (n=281); UK, lower pay period (n=396); France, still working (n=1,383), France, still not working (n=748); France, moved out of work (n=332); France, lower pay period (n=337); Germany, still working (n=1,640), Germany, still not working (n=661); Germany, moved out of work (n=227); Germany, lower pay period (n=290). All figures have been analysed independently by the Resolution Foundation. Due to rounding, the total of the three components shown here may not exactly match the total share of households that experienced a lower level of income compared with their pre-pandemic income.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

Benefit generosity appears to have cushioned incomes more in France and Germany than in the UK

Since the onset of Covid-19, many workers in all three countries will have had access to a furlough or short-time working scheme, providing them with at least some of their previous earnings during a period when their employer was unable to operate at full capacity. Germany has long had a short-time work scheme, 'Kurzarbeit', allowing employers to reduce staff hours rather than lay them off. Government subsidises workers such that they receive 60 per cent of pay for their usual hours not worked and full pay for the hours they do work. After the onset of Covid-19, a number of temporary changes were made to Kurzarbeit to encourage more firms to take it up rather than lay off workers. These include increasing the replacement rate where a worker is on lower-than-usual hours for more than three months and expanding coverage to include temporary workers.[92] In France, chômage partiel have subsidised non-working hours with a 70 per cent replacement capped at €39.29 per hour, but has now announced that there will be a tapering down of this rate.[93] In the UK, the Coronavirus Job Retention Scheme subsidises non-hours worked with an 80 per cent replacement rate up to a cap of £2,500 per month.

FIGURE 55: **Respondents who experienced furlough in the UK and Germany were more likely to have a substantial fall in household income than in France**

Household income changes between February 2020 and January 2021 among respondents who experienced a period of furlough between February 2020 and January 2021: UK, France and Germany, data collected 18 January to 4 February 2021



NOTES: The overall base is all respondents age 16 to 64 who reported that they had been supported by a furlough scheme at some point since February 2020 and with non-missing observations for household income changes that occurred between February 2020 and January 2021. Unweighted base sizes are as follows: UK (n=441); France (n=356); Germany (n=314). All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

Figure 55 suggests that a smaller share of respondents in France who were furloughed at some point between February 2020 and January 2021 experienced a household income

92 See: International Monetary Fund, Kurzarbeit: Germany's short-time work benefit, IMF Country Focus, June 2020.
93 See: Service-Public,fr, Partial or technical unemployment (partial activity): steps taken by the employer, accessed 16 March 2021.

fall (36 per cent) than in Germany (50 per cent) or the UK (59 per cent). Moreover, a smaller share of French respondents in this group reported a substantial income fall of 25 per cent or more (8 per cent in France, compared with 14 per cent in Germany and 20 per cent in the UK).

Because these results relate to changes in household income, and therefore could also reflect changes in the employment of respondents' partners, they are not driven solely by the generosity of each country's furlough scheme. Indeed, given the relatively generous scheme in the UK it is probable that the relatively high income losses in the country are not only driven by replacement rates but also in large part by the nature length of lockdown, as well as what has happened to others in the household. However, they do strongly indicate that furloughed respondents in the UK, and to a lesser extent Germany, were more likely to have experienced an income shock while on furlough than their counterparts in France.[94]

Turning to the wider social security system and how it protects workers when they become unemployed, Section 3 showed that France has the highest levels of wage replacement for a single adult with sufficient contributions (64 per cent for most adults, after two months of unemployment), followed by Germany (59 per cent), with the UK lagging behind at 17 per cent (excluding Housing Benefit).[95] Therefore, for many workers, becoming unemployed will incur a bigger hit to incomes in the UK than in Germany and, especially, in France.[96] This also means some workers, particularly in Germany and the UK, who have had relatively high replacement rates on the furlough schemes may face yet another income shock if they end up unemployed when the furlough schemes are wound down.

Our survey findings help corroborate the different levels of generosity in each country's social security system. Figure 56 shows that among respondents who, since February 2020, 'applied for and received any government benefit or unemployment insurance', or 'received any other coronavirus-related cash payment from the government', one-third in both France and Germany reported a fall in household income, compared with more than half (56 per cent) in the UK.

Moreover, the share of UK respondents reporting a substantial fall in household income (35 per cent) is nearly twice as large as among respondents in France (19 per cent) and

94 We do not know how long a respondent was on furlough, and we would expect longer periods of furlough to lead to greater losses of income, on average. Given that the UK was under more stringent social distancing measures for longer than Germany or France, we might expect a larger share of UK respondents to have experienced a prolonged period of furlough and therefore a larger reduction in income overall. We also measure income changes at the household level, so even if a respondent was on furlough, their partner's income could have guarded against large household-level income falls.

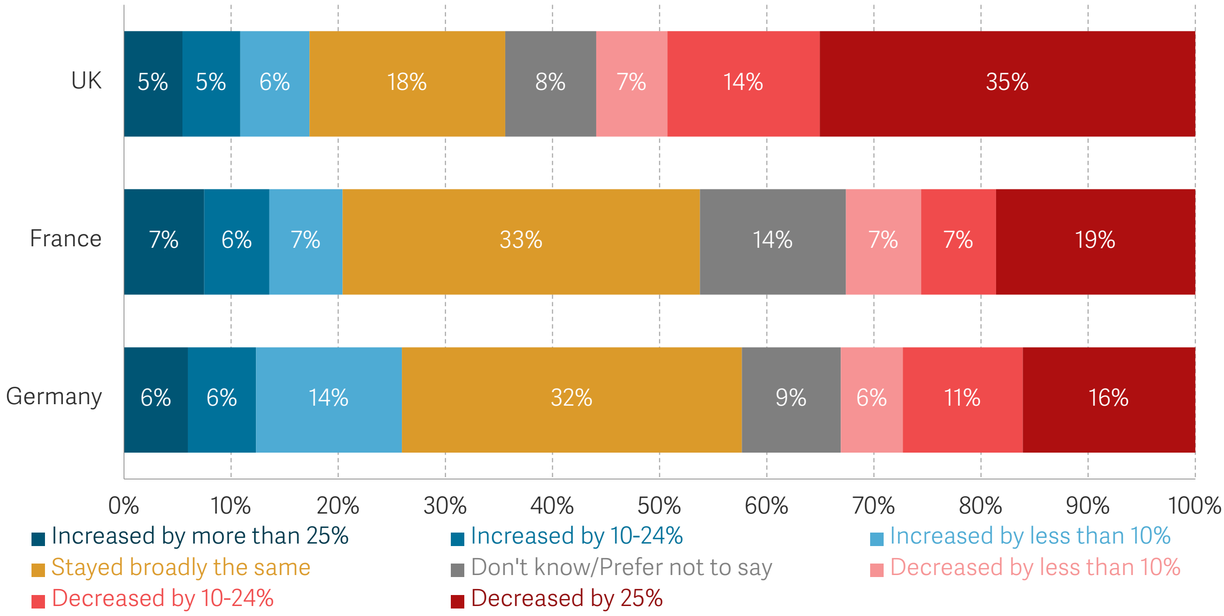
95 As discussed in Section 3, where Housing Benefit is included, the overall replacement rate in the UK rises to 46 per cent.

96 See: J Rousselon & M Viennot, Primary inequality and redistribution: where does France stand in Europe? France Strategie, January 2021.

more than twice as large than among respondents in Germany (16 per cent).[97] Like Figure 55, these numbers are not a direct reflection of each country's unemployment replacement rate, but they do provide a clear indication of the extent to which the wider social security systems in France and Germany will, in most cases, provide a higher level of income protection in the face of a labour market shock, such as losing a job or experiencing a reduction in pay.

FIGURE 56: **Respondents who newly claiming benefits in the UK were roughly twice as likely to experience a substantial income fall than their counterparts in France and Germany who newly claimed benefits**

Household income changes between February 2020 and January 2021 among respondents who newly claimed unemployment insurance or other benefits after February 2020: UK, France and Germany, data collected 18 January to 4 February 2021



NOTES: The overall base is all respondents age 16 to 64 who reported that they 'applied for and received any government benefit or unemployment insurance', or 'received any other coronavirus-related cash payment from the government' since February 2020 and with non-missing observations for household income changes that occurred between February 2020 and January 2021. Unweighted base sizes are as follows: UK (n=265); France (n=455); Germany (n=422). All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

97 Previous Resolution Foundation research, based on a survey conducted in September 2020, found that 43 per cent of adults in families making a new claim for benefits since February have seen their incomes fall by more than one-quarter. See: K Handscomb & L Judge, Caught in a (Covid) trap Incomes, savings and spending through the coronavirus crisis, Resolution Foundation, November 2020. Research by the Institute for Fiscal Studies has found that new claimants of Universal Credit during the crisis experienced a fall in net income of roughly 40%. See: I Delestre et. al., Income protection policy during COVID-19: evidence from bank account data, Institute for Fiscal Studies, September 2020.

Looking into the longer term, workers face a possible 'cliff edge' as the furlough schemes are removed or wound down. If furlough schemes are scrapped before businesses have recovered it will likely mean that many of those who were previously on the schemes will become unemployed. Based on current plans, UK households look will lose access to the furlough scheme before those in Germany and France with the UK scheme set to end in September 2021 compared December in Germany and an unspecified date in France.[98] This means that unemployed people will rely on usual unemployment support, which are considerably more generous in France than in Germany and the UK (as we saw in Section 3). After 2 years, the replacement rate is still 64 per cent in France, but much lower Germany at 22 per cent and the UK at 17 per cent. Such a cliff edge scenario would therefore hit unemployed households the hardest in the UK and Germany.

Summary

Stepping back, this section has shown that both France and the UK have experienced the largest labour market shocks, with the share of respondents in Germany experiencing negative employment change at a much lower rate. Across all countries, the sectoral composition of an economy (at least during a pandemic) and job quality (the security of contracts) play a central role in determining who wins and who loses in the midst of a labour market shock. But, although respondents in France were hit particularly hard in terms of employment, with the rise in workless households particularly striking, their incomes were comparatively well protected, with fewer respondents in France reporting income falls than in Germany or the UK, even where households have experienced at least one person moving out of work, as summarised in Table 5.

Covid-19-related policy measures and the social security system more generally have played a central role in mediating the effect of labour market changes on household incomes (see Table 5). Respondents in France, and to a lesser extent, Germany are less likely than in the UK to report a fall in household incomes either when they have experienced a period of furlough or when they have reported that they are newly claiming unemployment or other government benefits. Where systems fall short, and households experience substantial falls in income, financial resilience is undoubtedly at risk.

98 Service Public, Chômage partiel: ce qui change en 2021, March 2021; The Federal Government, Regulations to facilitate access to short-term work to be extended, September 2020.

TABLE 5: **Financial resilience differs across Germany, France and the UK**

Summary of financial resilience takeaways in Germany, France and the UK

	Germany	France	UK
Household incomes	Relatively low share of respondent households experienced an income fall during the crisis.	Relatively low share of respondent households experienced an income fall during the crisis.	Relatively high share of respondent households experienced an income fall during the crisis.
Labour market	Relatively low share of respondents who worked before the crisis experienced a negative employment change since it started.	High share of respondents who worked before the crisis experienced a negative employment change since it started; large rise in household worklessness.	High share of respondents who worked before the crisis experienced a negative employment change since it started.
Welfare	Relatively low share of respondents who claimed unemployment or another form of welfare since the start of the crisis reported an income fall.	Relatively low share of respondents who claimed unemployment or another form of welfare since the start of the crisis reported an income fall.	High share of respondents who claimed unemployment or another form of welfare since the start of the crisis reported an income fall.

Section 7

The response of households in France, Germany and the UK to the financial shock from Covid-19

The previous section considered the impact of Covid-19 on jobs, pay and incomes across different groups. In this section we turn to how households have responded to these developments. A key question in this context is whether pre-existing financial vulnerabilities – identified in earlier sections of this report – have affected the ability of households to maintain their living standards through the pandemic. As such, this section is a case study in how pre-crisis financial resilience has shaped the impact of the pandemic across households. Specifically, we look at the approach households have taken to maintaining their pre-crisis financial living standards in four main areas: spending, housing costs, savings and debt.

There have been widespread falls in spending since the start of the Covid-19 pandemic: 33 per cent of our survey respondent households in the UK, 23 per cent in France and 21 per cent in Germany reported cutting the amount they spend. In a 'normal' recession, these falls would be symptomatic of households retrenching in the face of an economic shock. Lockdowns have, however, constrained social behaviour and consumption, leading to lower spending and 'forced' saving – even for those who have seen little change to their income. But this trend hides more worrying developments for those households that have seen their incomes fall during the pandemic. A higher proportion of this group have cut their spending. This proportion is somewhat higher in France (50 per cent) than in Germany (43 per cent) and the UK (42 per cent). And for those on the lowest incomes, the costs associated with more time at home have meant spending has risen. Here Germany stands out, with the highest proportion of households in the lowest-income quintile that have seen an increase in spending (30 per cent), compared with the UK (28 per cent) and France (26 per cent).

Difficulty in meeting housing costs is clearly indicative of poor financial resilience. Here we find that half (50 per cent) of respondent households in the UK who have had a fall in income have struggled to meet their housing costs, a higher figure than in Germany (44 per cent) and France (43 per cent). Housing cost difficulties are particularly concentrated at the bottom of the income distribution in Germany – with 43 per cent of households in the lowest-income quintile struggling, compared with 41 per cent in France and 42 per cent in the UK. These outcomes reflect the pattern of who was exposed to high housing costs relative to incomes before the crisis. Overall, the impact of the pandemic has been to increase saving and reduce debt. In the UK, 20 per cent of households have increased their saving, compared with 13 per cent in France and 11 per cent in Germany. But, once again, this pattern reflects the impact of social distancing restrictions on higher-income households and masks the impact of the pandemic on those households that have experienced a hit to their incomes. In principle, at least, such households have the option of drawing down their savings or borrowing to maintain living standards. French and German households came into the pandemic with higher savings, whereas UK households had notably higher debt. And this pre-crisis context is, once again, important in understanding the impact of the pandemic. Among those households that have experienced an income fall, our survey respondent households in France have been somewhat more likely to draw down savings (37 per cent) than respondents in the UK (34 per cent) or Germany (33 per cent). But the proportion of respondents with an income fall who report that they have taken on debt in order to cover their living expenses is 17 per cent in the UK – much higher than in Germany (9 per cent) or in France (8 per cent).

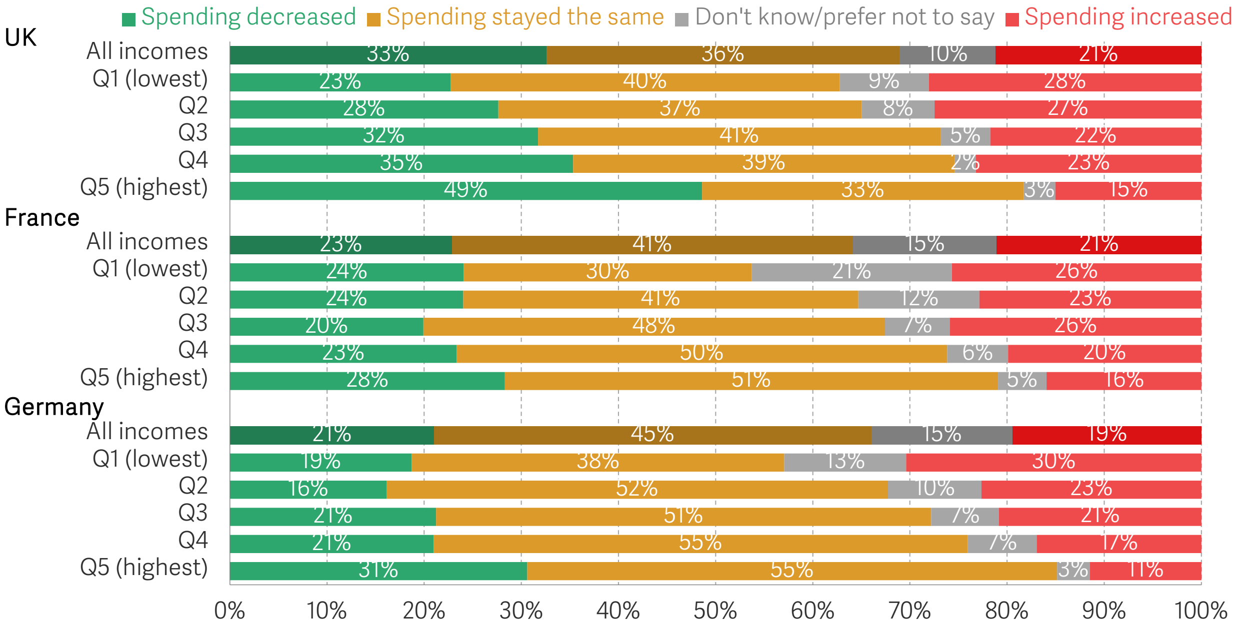
The lasting impact of the pandemic on family finances therefore looks set to be highly uneven, particularly in the UK, with those who came into the crisis in a vulnerable position more likely to see their financial position deteriorate, and those who started in a stronger position more likely to experience an improvement. Left unchecked, the crisis will lead to greater inequality in household finances, with reduced wealth (particularly in France and Germany) and higher debts (in the UK) for those on lower incomes.

The previous section considered the impact of Covid-19 on jobs, pay and incomes across different groups. In this section, we turn to the ability of households to cope with these income shocks. We look at the approaches they have taken to maintain their living standards, focusing on spending, housing costs, savings and debt. A key question is whether pre-existing financial vulnerabilities have affected the ability of households to maintain their living standards through the pandemic. By using the pre-pandemic analysis in earlier sections of this report as a starting point, we can evaluate how pre-crisis financial resilience has affected the ability of households to weather the economic shock from Covid-19.

Overall, lockdowns have constrained social consumption, leading to lower spending and 'forced' saving

FIGURE 57: **Decreases in spending since the outbreak of the pandemic are more tilted towards those on higher incomes in the UK and Germany than in France**

Proportion of respondent households with changes to spending, by income quintile: UK, France and Germany, data collected 18 January to 4 February 2021



NOTES: Quintiles constructed using gross equivalised household income. Base: UK, n=2926; France, n=3110; Germany, n=3250. Base by category: Base: UK, n=2926; France, n=3110; Germany, n=3250. Base by category: UK Quintile 1, n=407; UK Quintile 2, n=398; UK Quintile 3, n=438; UK Quintile 4, n=489; UK Quintile 5, n=611; France Quintile 1, n=651; France Quintile 2, n=566; France Quintile 3, n=522; France Quintile 4, n=469; France Quintile 5, n=448; Germany quintile 1, n=442; Germany quintile 2, n=367; Germany quintile 3, n=394; Germany quintile 4, n=405; Germany quintile 5, n=441. All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

The ability to maintain patterns of spending in the face of a drop in income is usually a key measure of financial resilience. But, unlike in most crises, looking at how the pandemic has affected spending is not, in itself, a good way to assess its eventual impact on living standards. A unique feature of this crisis is that lockdown measures mean that spending on 'social consumption' (including restaurant meals and leisure and cultural activities) will fall for many, even those who have not seen a reduction in their income. In addition, those who have worked from home have seen some spending – such as on commuting costs – fall.[99] All this will lead to an increase in saving and financial resilience for those whose incomes have been relatively unaffected, as we discuss below.[100]

Overall, spending has decreased most in the UK, reflecting the stricter lockdowns. In the UK, 33 per cent of respondent households have decreased spending, compared with only 23 per cent in France and 21 per cent in Germany. In all three countries, those on higher incomes have been more likely than lower-income respondent households to reduce spending, consistent with their spending more on social consumption.[101] This is particularly true for the UK and Germany (see Figure 57).

From the analysis in Section 4, we know that, looking across all households, non-essential consumption – which in large part consist of the 'social consumption' mostly prevented due to social restrictions – is higher in the UK than in France and Germany. In combination with the stricter lockdowns seen in the UK, especially over summer 2020, it is unsurprising that relatively more UK respondents whose incomes have stayed the same or increased compared with pre-pandemic levels have seen a decline in spending, compared with those in France and Germany, as shown in the left-hand panel in Figure 58.[102] Of those whose incomes have remained the same or increased during the current crisis, 32 per cent have reduced their spending in the UK, compared with only 17 per cent in France and in Germany.

While this pent-up consumption for some is reason for thinking that spending can recover quickly as lockdown restrictions are eased, this picture masks more worrying developments among those who have experienced an income shock.

99 M Brewer & R Patrick, Pandemic Pressures: Why families on a low income are spending more during Covid-19, Resolution Foundation, January 2021. See also: L Gardiner et al, An intergenerational Audit for the UK 2020, Resolution Foundation, October 2020; L Gardiner, J Leslie, C Pacitti & J Smith, Easing does it: Economic policy beyond the lockdown, Resolution Foundation, July 2020.

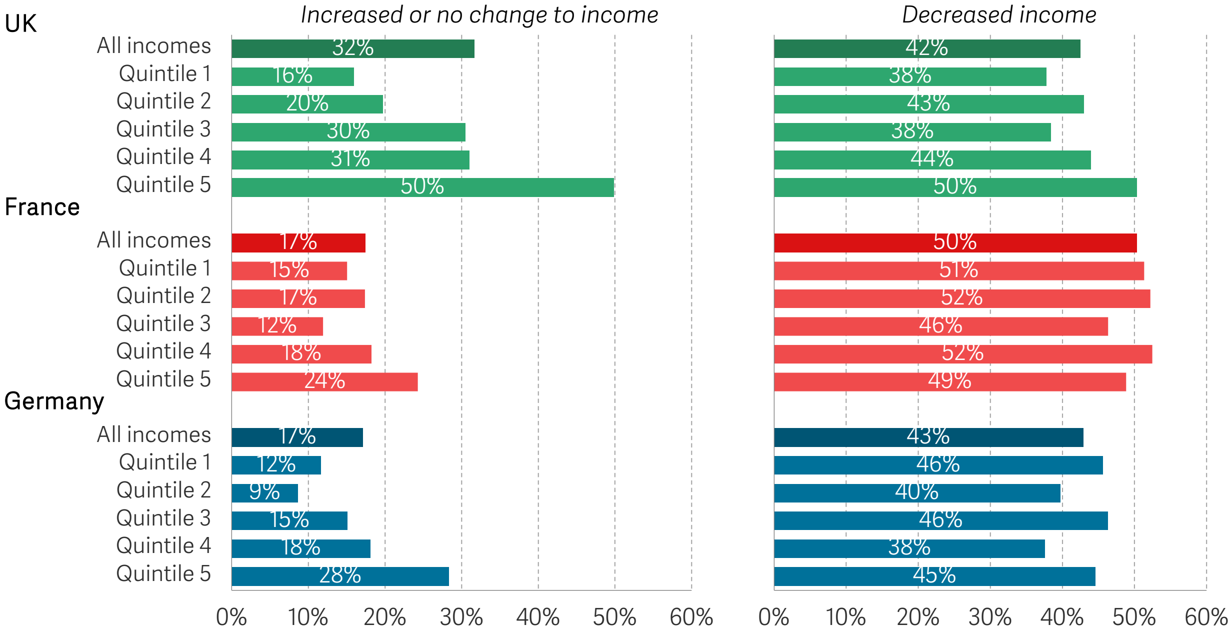
100 For evidence from the UK see, for instance: Financial Lives 2020 survey: the impact of coronavirus, Financial Conduct Authority, February 2021; Monetary Policy Report - February 2021, Bank of England, February 2021; COVID-19 and the increase in household savings: precautionary or forced?, ECB Economic Bulletin, Issue 6, 2020.

101 This is consistent with analysis of pre-pandemic spending patterns. See, for example: F Rahman, Family spending before the coronavirus crisis helps us to understand its potential impact, Resolution Foundation, March 2020.

102 The income quintiles used in this report refer to current (post-crisis) incomes. Given relatively large income and household job status changes during the crisis, the characteristics of the different household income quintiles may have changed in this Section compared with the pre-crisis analysis in Sections 2-5.

FIGURE 58: **Spending falls among those with unchanged or increased incomes during the crisis have been most widespread among high-income households in the UK**

Proportion of respondent households whose spending has decreased, by income change on pre-crisis levels and income quintile: UK, France and Germany, data collected 18 January to 4 February 2021



NOTES: Base: All respondents age 16-64 with increased or same income compared to February 2020 in the UK, n=1462; France, n=1651; Germany, n=1442. And all respondents age 16-64 with decreased income in the UK, n=751; France, n=607; Germany, n=431. Base by category: Respondents age 16-64 with increased or same income in UK Quintile 1, n=216; UK Quintile 2, n=222; UK Quintile 3, n=264; UK Quintile 4, n=320; UK Quintile 5, n=440; France Quintile 1, n=299; France Quintile 2, n=336; France Quintile 3, n=352; France Quintile 4, n=341; France Quintile 5, n=323; Germany Quintile 1, n=277; Germany Quintile 2, n=242; Germany Quintile 3, n=281; Germany Quintile 4, n=296; Germany Quintile 5, n=346. And respondents age 16-64 with decreased income in UK Quintile 1, n=145; UK Quintile 2, n=155; UK Quintile 3, n=152; UK Quintile 4, n=148; UK Quintile 5, n=151; France Quintile 1, n=171; France Quintile 2, n=135; France Quintile 3, n=125; France Quintile 4, n=85; France Quintile 5, n=91; Germany Quintile 1, n=101; Germany Quintile 2, n=86; Germany Quintile 3, n=86; Germany Quintile 4, n=81; Germany Quintile 5, n=77. All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

Respondent households that have had a decrease in their income have had larger spending falls than those without

There has also been a forced reduction in spending for respondent households that have seen falls in income, which will have been accompanied by a deterioration in their living standards.[103] So we now focus our attention on those households that have experienced a negative income shock. Here, the ability to maintain pre-crisis spending can be a sign of strong financial resilience, as it indicates that the household has maintained a similar living standard as before the crisis, drawing on government support or financial

103 For more on this, see: K Handscomb & L Judge, Caught in a (Covid) trap: Incomes, savings and spending through the coronavirus crisis, Resolution Foundation, November 2020.

buffers to maintain spending.[104] At the same time, reducing spending on non-essential consumption can also be a way of coping with an unexpected fall in income.[105]

The proportion of respondent households that have decreased spending in the face of a fall in income is similar across the three countries, as seen in the right-hand panel of Figure 58. It shows that a higher proportion of respondent households that experienced an income fall have reduced spending, compared with the proportion of those that saw their income remain stable or increase. The proportion of those with an income fall reducing spending is somewhat higher in France (50 per cent) than in the UK (42 per cent) and Germany (43 per cent).

In Figure 59 we focus on respondents who have experienced a specific type of labour market shock since February 2020. For respondent households in which at least one person has moved out of work, a smaller proportion have cut spending in France and Germany than in the UK. In France, just 18 per cent of respondent households experiencing a job loss also had a reduced income and reduced spending. This is similar to Germany (20 per cent), but much lower than in the UK, where job loss was associated with 26 per cent having an income fall and a reduction in spending.

The differences across the three countries likely reflect both the stringency of each of their lockdowns (which was stricter in the UK) as well as the extent to which the hit to incomes from a job loss have been softened by benefit replacement rates (which are more generous in France and Germany). Indeed, if we look only at survey respondent households that have experienced job loss and an income fall, a higher proportion reduced spending in the UK (47 per cent), compared with France (43 per cent) and Germany (35 per cent).[106]

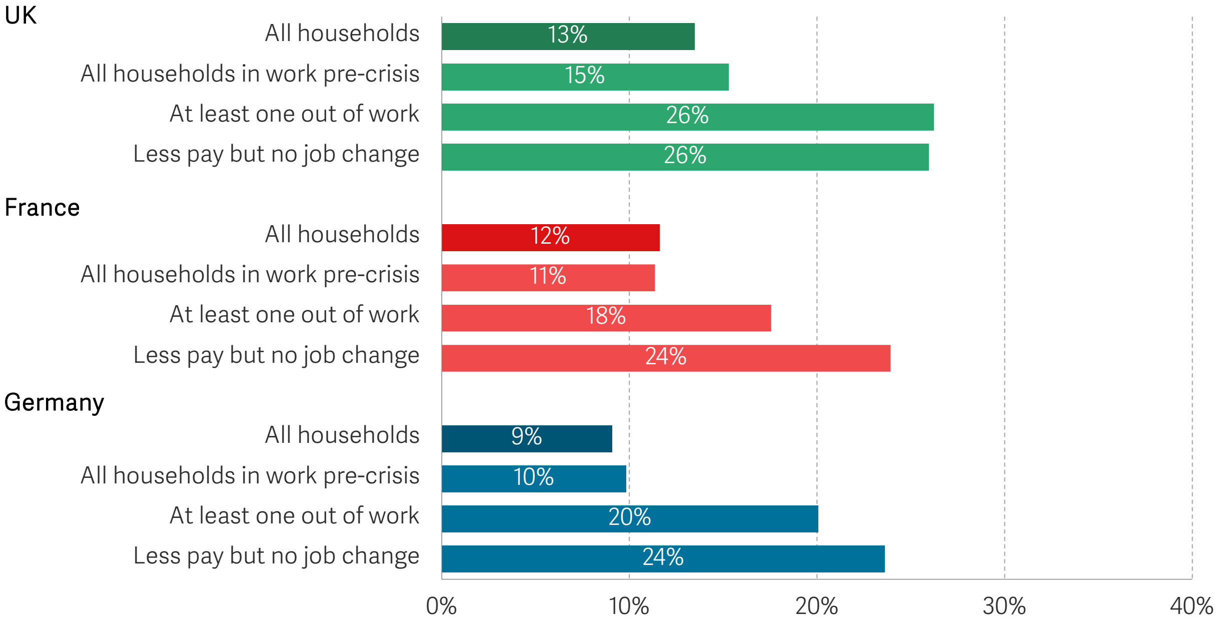
104 A word of caution in this section. This report focuses on mapping the outcomes of respondents' responses to the crisis rather than attempting to understand the motivations behind these.

105 For more discussion of these issues in the UK context, see, for example: K Handscomb & L Judge, Caught in a (Covid) trap: Incomes, savings and spending through the coronavirus crisis, Resolution Foundation, November 2020; Financial Lives 2020 survey: the impact of coronavirus, Financial Conduct Authority, February 2021.

106 Source: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

FIGURE 59: **Fewer respondents in France have reduced income and spending after a household job loss than in Germany and the UK**

Proportion of respondent households with a decrease in income and in spending, by change in household labour market status: UK, France and Germany, data collected 18 January to 4 February 2021



NOTES: Base: Adults age 16-64 in the UK, n=2343; France, n=2656; Germany, n=2049. Base by category: Adults age 16-64 in the UK, all households in work pre-crisis, n=1906; UK with at least one person moved out of work, n=226; UK with less pay but no employment status changes, n=338; France, all households in work pre-crisis, n=1992; France with at least one person moved out of work, n=276; France with less pay but no employment status changes, n=300; Germany, all households in work pre-crisis, n=1593; Germany with at least one person moved out of work, n=146; Germany with less pay but no employment status changes, n=191. All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

Lower-income households are more likely to have increased their spending, especially in Germany

So far, we have considered those fortunate enough to have kept or increased their pre-crisis incomes and seen a fall in spending, and those in the somewhat more precarious position of having reduced spending in the face of an income fall. Now we turn to those households who, at the start of the crisis, had little capacity to cut their spending further and who have faced higher costs as a result of spending more time at home (for example, through higher energy costs, or needing to provide meals that would otherwise have been provided by schools).[107] For these households, as well as those who spend a large proportion of their income on essentials, such as housing, food and bills, it may be necessary to maintain – or even increase – pre-crisis spending, even in the face of an income shock.

107 For UK evidence on this, see: M Brewer & R Patrick, Pandemic Pressures: Why families on a low income are spending more during Covid-19, Resolution Foundation, January 2021.

The spending patterns across income quintiles in all three countries since the onset of Covid-19 are shown earlier in Figure 57. Strikingly, the income 'gradient' is the opposite of that for spending cuts, with lower-income households more likely to have seen increases in spending. This gradient is more pronounced in Germany, than in the UK and France. The proportion of the lowest income respondent households with an increase in spending is 30 per cent in Germany, compared with 28 per cent in the UK and 26 per cent in France. The reasons for the increase in spending will be a combination of relatively high spending on housing and other essentials (as we saw in Section 4), less severe restrictions on social interaction (which avoids restricting consumption) and a smaller overall income hit. Our survey does not allow us to disentangle the relative importance of each of these factors, however.

Difficulties in paying for housing in the crisis reflect both the size of the income hit and pre-existing housing costs

Housing costs are a component of spending that are worth paying particular attention to for at least two reasons. First, because the consequences of not paying housing costs are severe (with households going into arrears or being forced to move), struggling to meet them clearly indicates poor financial resilience.[108] Second, housing costs tend to be fixed in the near term, so high costs reduce the ability of households to respond to income shocks.

To understand whether households are struggling to meet their housing costs, we consider whether respondents have had to take action to meet them.[109] These actions include: reducing other spending; using savings; taking on debt; moving; and applying for, or having, a mortgage or rent 'holiday'.[110] Half (50 per cent) of respondents in the UK who have seen a fall in income have taken some action, but this figure is lower in Germany (44 per cent) and France (43 per cent), as shown in Figure 60. The groups of respondent households experiencing challenges of paying for housing during the Covid-19 crisis largely reflect the income groups that had high cost of housing relative to incomes before the crisis. In Section 4 we found that households in the UK tended to have higher housing cost-to-income ratios than in France and Germany.

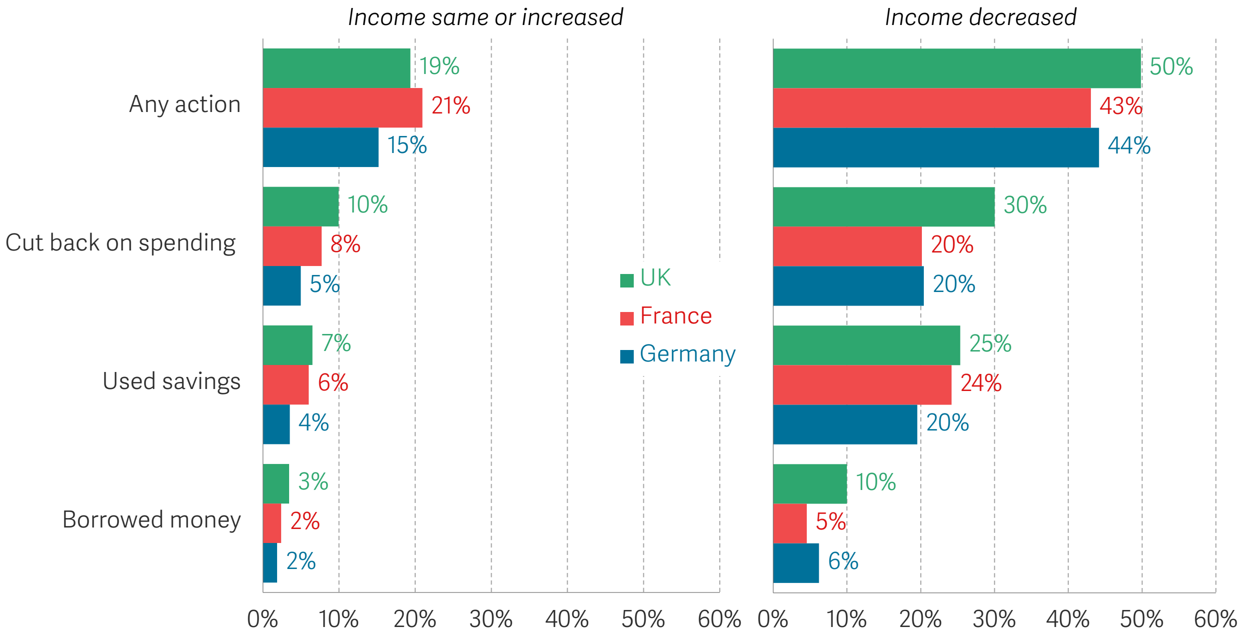
108 In all three countries, as a response to the crisis, a temporary eviction ban has been put in place to prevent people losing their homes, but this has seen rent arrears mount. See: L Judge, Getting ahead on falling behind: Tackling the UK's building arrears crisis, Resolution Foundation, February 2021; Protecting the Right to Housing during the COVID-19 Crisis, Open Society Justice Initiative, December 2020.

109 It can be noted that some of these actions may have been taken as a precautionary measure. However, the proportions of respondents taking actions that could be precautionary, such as taking out a mortgage holiday, have been similar across countries, as well as low in all three countries.

110 The action of 'reducing spending to afford housing costs' is specifically asked in regard to housing costs. This is different from the measure we considered earlier in this chapter, where we looked at reductions in spending for any reason.

FIGURE 60: **More respondents with an income shock have taken some action to afford their housing costs in the UK than in France and Germany**

Proportion of respondent households that have taken specific actions to afford housing costs, by change in household income since February 2020: UK, France and Germany, data collected 18 January to 4 February 2021



NOTES: Base: All adults age 16-64 reporting the same or an increased income in the UK, n=1732; France, n=1772; Germany, n=2025, and all adults age 16-64 reporting a decreased income in the UK, n=893; France, n=663; Germany, n=636. All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

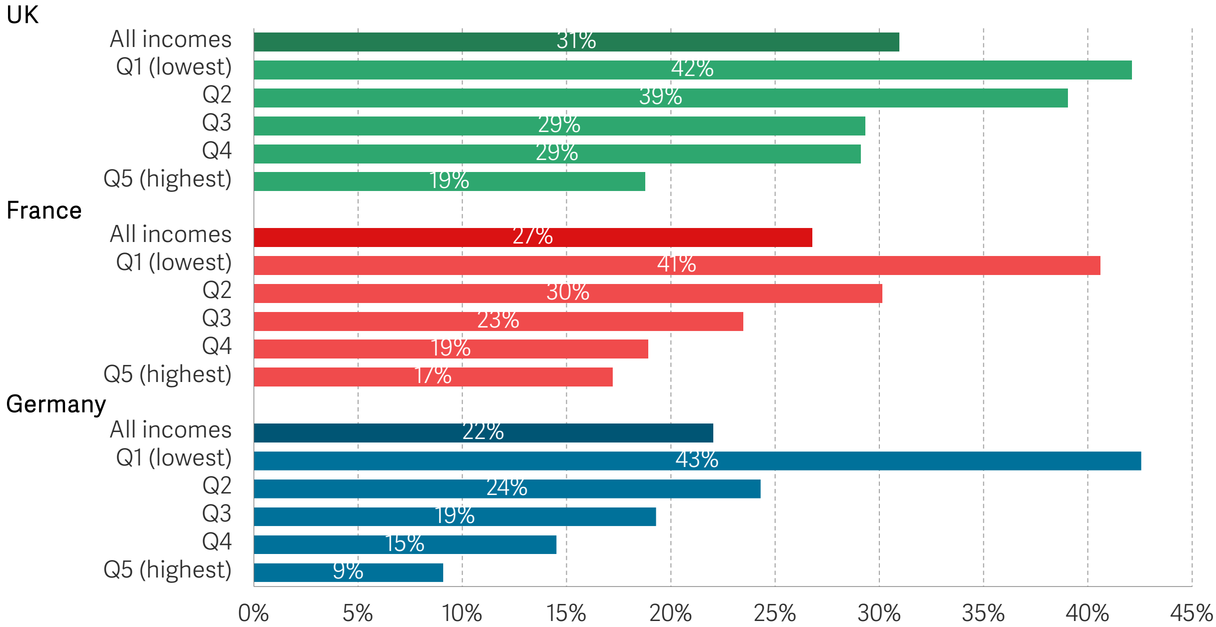
Again, this pattern is reflected in our recent survey results. Figure 61 shows that although, overall, fewer respondents in Germany have struggled to pay for housing (22 per cent) compared with respondents in the UK (31 per cent) and in France (27 per cent), the bottom-income quintile in Germany has the highest proportion of struggling respondents (43 per cent, compared with 41 per cent in France and 42 per cent in the UK). In our analysis of pre-pandemic data in Section 4, we found that households in the lowest-income quintile in Germany spent a larger proportion of their net household income on housing costs and bills (37 per cent) – more than in the UK (34 per cent) and significantly more than in France (22 per cent).

The financial precarity of respondents in lower-income German households has been made clear in this crisis. Not only are they at the highest risk of struggling to pay for housing across the three countries, but this group is also more at risk of struggling with housing costs compared with respondents in the highest income households within the same country. In Germany, 4.8 times as many lowest income household respondents have taken action as those in the highest-income quintile. This is significantly greater than the corresponding figures for France (2.4 times as many respondents) and the

UK (2.2 as many respondents). This financial precarity at the bottom of the income distribution in Germany is stark, given the relatively less-severe income shock that German respondent households have had compared with those in France and the UK (shown in Section 6).

FIGURE 61: **Paying for housing costs in the pandemic is more of a challenge for respondents in lower-income households in Germany than in France and the UK**

Proportion of respondents who have taken any action to meet housing costs since February 2020, by income quintile: UK, France and Germany, data collected 18 January to 4 February 2021

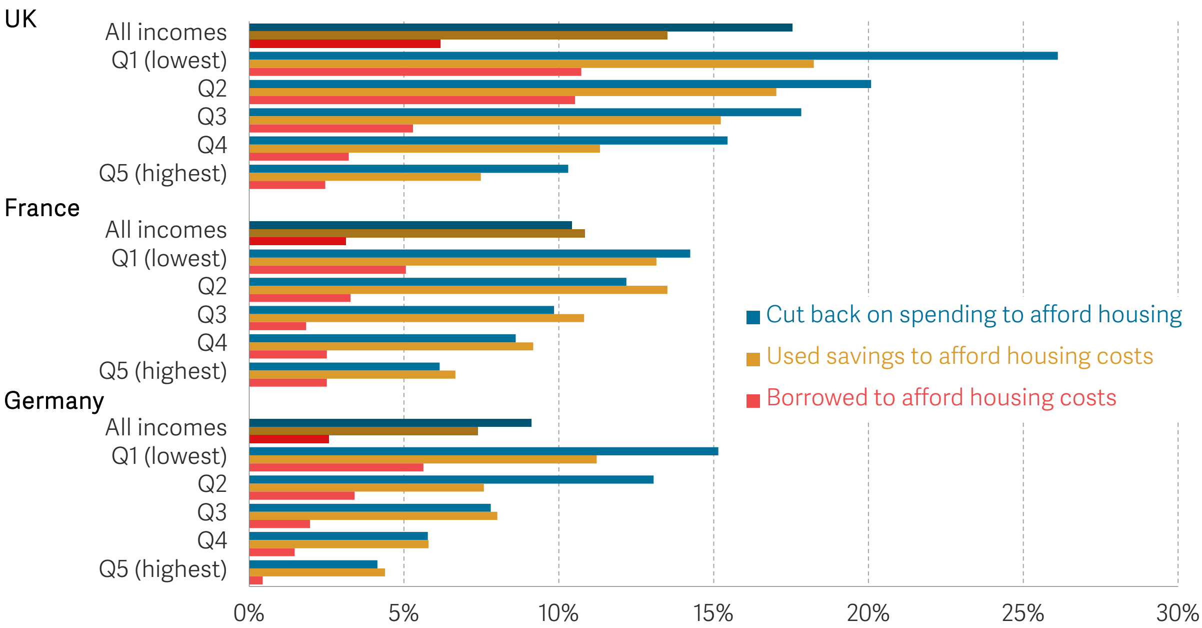


NOTES: Quintiles constructed using gross equivalised household income at the point of data collection. Base: All respondents age 16-64 in the UK, n=2306; France, n=2530; Germany, n=2003. Base by category: UK Quintile 1, n=392; UK Quintile 2, n=394; UK Quintile 3, n=434; UK Quintile 4, n=481; UK Quintile 5, n=605; France Quintile 1, n=595; France Quintile 2, n=535; France Quintile 3, n=505; France Quintile 4, n=455; France Quintile 5, n=440; Germany Quintile 1, n=424; Germany Quintile 2, n=358; Germany Quintile 3, n=386; Germany Quintile 4, n=398; Germany Quintile 5, n=437. All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

The pre-crisis financial situation also plays an important role in determining the options households can draw on to manage their housing costs in the event of a sudden shock to income. Respondents across the distribution in the UK and in lower-income households in Germany have been most likely to cut back on spending in order to afford housing costs, with drawing down savings the primary option taken in France (see Figure 62). This reflects the larger pre-pandemic saving buffers in France and among higher-income German households than in the UK and among lower-income German households (see Section 5).

FIGURE 62: **Over one-quarter of the lowest-income respondent households in the UK have cut back on spending to afford their housing costs in this pandemic**

Proportion of respondent households who have taken selected actions to meet housing costs since February 2020, by income quintile: UK, France and Germany, data collected 18 January to 4 February 2021



NOTES: Quintiles constructed using gross equivalised household income at the point of data collection. Base: All respondents age 16-64 in the UK, n=2306; France, n=2530; Germany, n=2003. Base by category: UK Quintile 1, n=392; UK Quintile 2, n=394; UK Quintile 3, n=434; UK Quintile 4, n=481; UK Quintile 5, n=605; France Quintile 1, n=595; France Quintile 2, n=535; France Quintile 3, n=505; France Quintile 4, n=455; France Quintile 5, n=440; Germany Quintile 1, n=424; Germany Quintile 2, n=358; Germany Quintile 3, n=386; Germany Quintile 4, n=398; Germany Quintile 5, n=437. All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

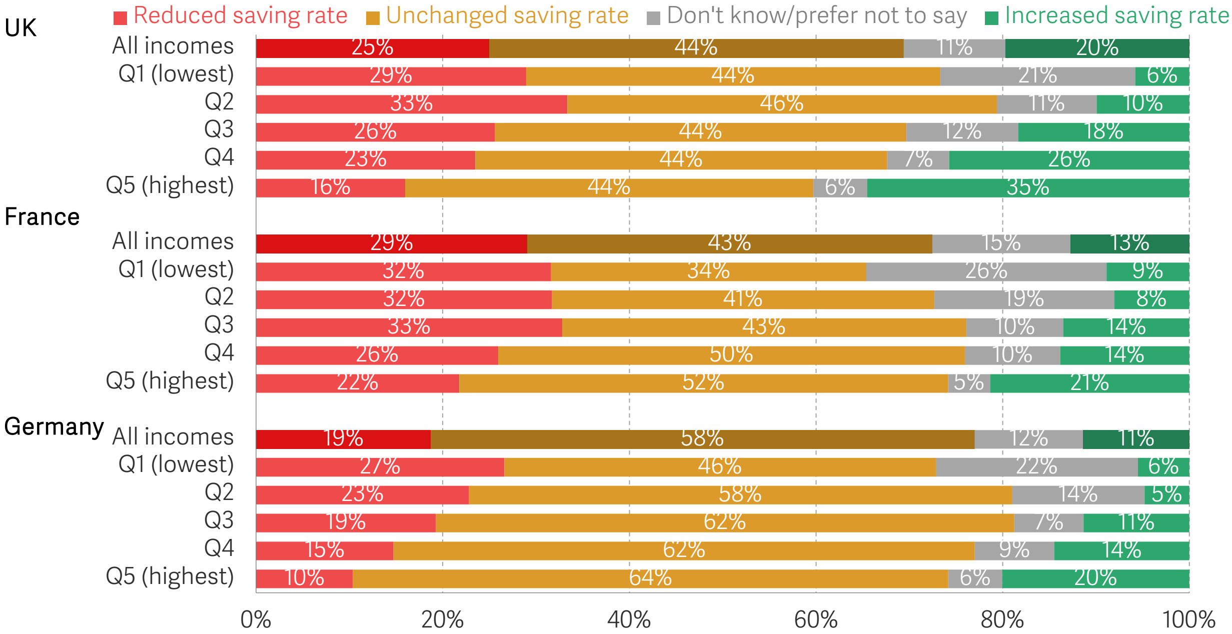
Overall increases in savings and decreases in debt reflect social distancing restrictions, and mask the hit to households experiencing a fall in income

As discussed in the context of spending, 'forced' reductions in social consumption have led to increases in savings. As shown in Figure 63, this is particularly the case in the UK, where 20 per cent of households have increased their saving rate, compared with 13 per cent in France and 11 per cent in Germany. This 'forced' saving has been documented earlier in the crisis in the UK, particularly for those in high-income households.[111]

111 K Handscomb & L Judge, Caught in a (Covid) trap: Incomes, savings and spending through the coronavirus crisis, Resolution Foundation, November 2020.

FIGURE 63: **Slightly more respondents in French households than in UK and German households have reduced saving rates to withstand the Covid-19 shock**

Proportion of respondent households with changes to saving rate, by income quintile: UK, France and Germany, data collected 18 January to 4 February 2021



NOTES: Quintiles constructed using gross equivalised household income at the point of data collection. Base: All respondents age 16-64 in the UK, n=2343; France, n=2656; Germany, n=2656. Base by category: UK Quintile 1, n=407; UK Quintile 2, n=398; UK Quintile 3, n=438; UK Quintile 4, n=489; UK Quintile 5, n=611; France Quintile 1, n=651; France Quintile 2, n=566; France Quintile 3, n=522; France Quintile 4, n=469; France Quintile 5, n=448; Germany Quintile 1, n=442; Germany Quintile 2, n=367; Germany Quintile 3, n=394; Germany Quintile 4, n=405; Germany Quintile 5, n=441. All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

But this pattern masks the impact of the pandemic on households that have had to draw on savings. When responding to negative outcomes in the crisis, respondent households in France have been more likely to respond by reducing saving rates (29 per cent) than respondents in the UK (25 per cent) and much more likely than those in Germany (19 per cent), as seen in Figure 63.[112] The ability to use money previously earmarked for monthly saving in order to mitigate a reduction in income in France reflects the relatively high saving rates in the country going into the crisis (Section 5).

112 In previous RF work looking at the UK only, we found slightly higher figures, particular in the lowest-income quintile: 37 per cent of those in the highest-income quintile reported saving more in September 2020 than in February 2020, compared with 12 per cent in the lowest-income quintile. See: K Handscomb & L Judge, Caught in a (Covid) trap: Incomes, savings and spending through the coronavirus crisis, Resolution Foundation, November 2020.

More respondents in the UK than in France and Germany have used savings or debt during the Covid-19 crisis, but low-income German respondents stand out again

Savings and debt become increasingly important if the shock is so severe that it is not possible for households to weather a crisis simply by reallocating spending and income earmarked for monthly savings toward essential costs. In such a situation, accumulated savings act as a buffer that can smooth over such income shortfalls.[113] Alternatively, households can also cope with a crisis by taking on debt. In principle, using debt can be a relatively low-cost option with interest rates at historically-low levels, and widespread access to reliable low-cost credit is a sign of a healthy financial system. However, taking on short-term debt is typically more expensive and may prevent household from taking on debt in the future.[114] From Figure 64, it is clear that more respondent households in the UK have either taken on debt or drawn on savings to support their living costs than in France and Germany.

The extent to which respondents are able to draw on savings or take on debt reflects their pre-crisis financial positions. We saw in Section 5 that savings are relatively high in France, with fewer people in debt. The opposite is true in the UK, where savings buffers are less common and more households depend on debt, particularly those on lower incomes.

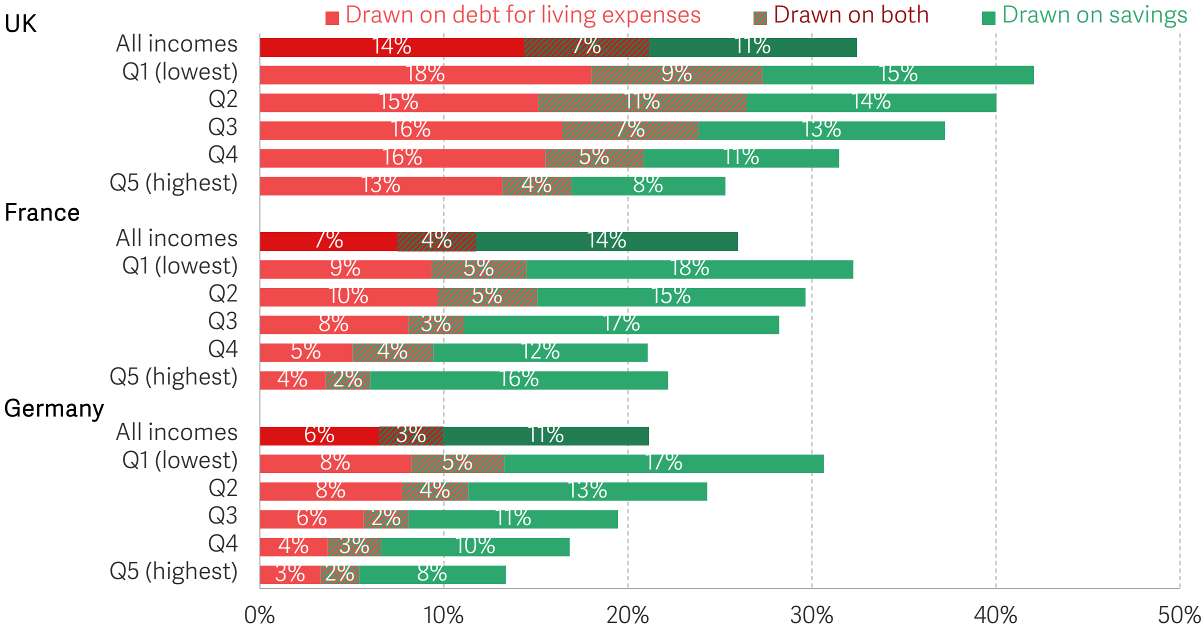
The outcomes during the crisis seen in Figure 64 reflect this, as respondents in the UK have been more likely to draw on debt to support living costs. The opposite is true for France and Germany. Of those in the lowest-income quintile in the UK, 15 per cent have drawn on savings and 18 per cent have taken on debt to meet living costs, with 9 per cent doing both. But only 8 per cent have taken out such debt in Germany, with 17 per cent drawing on savings (with 5 per cent doing both). Similarly, only 9 per cent of those in the lowest-income group have done so in France compared to the much higher 18 per cent who have drawn on savings (with 5 per cent doing both).

113 See more on how stocks of saving are important for financial resilience in, for instance: A McKnight & M Rucci, The financial resilience of households: 22 country study with new estimates, breakdowns by household characteristics and a review of policy options, CASE/219, Centre for Analysis of Social Exclusion, LSE, May 2020.

114 K Kim et al, Poverty Levels and Debt Indicators Among Low-Income Households Before and After the Great Recession, Journal of Financial Counseling and Planning, Volume 28, Number 2, 2017.

FIGURE 64: **More respondents in the UK have drawn on savings or taken on debt to support living standards than in France and Germany**

Proportion of respondent households who have drawn on savings or taken out more debt since February 2020 in order to support living expenses, by income quintile: UK, France and Germany, data collected 18 January to 4 February 2021



NOTES: Base: All adults age 16-64 in UK, n=2926; France, n=3110; Germany, n=3250. Base by category: All adults age 16-64 in UK Quintile 1, n=407; UK Quintile 2, n=398; UK Quintile 3, n=438; UK Quintile 4, n=489; UK Quintile 5, n=611; France Quintile 1 , n=651; France Quintile 2, n=566; France Quintile 3, n=522; France Quintile 4, n=469; France Quintile 5, n=448; Germany Quintile 1, n=442; Germany Quintile 2, n=367; Germany Quintile 3, n=394; Germany Quintile 4, n=405; Germany Quintile 5, n=441. . All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

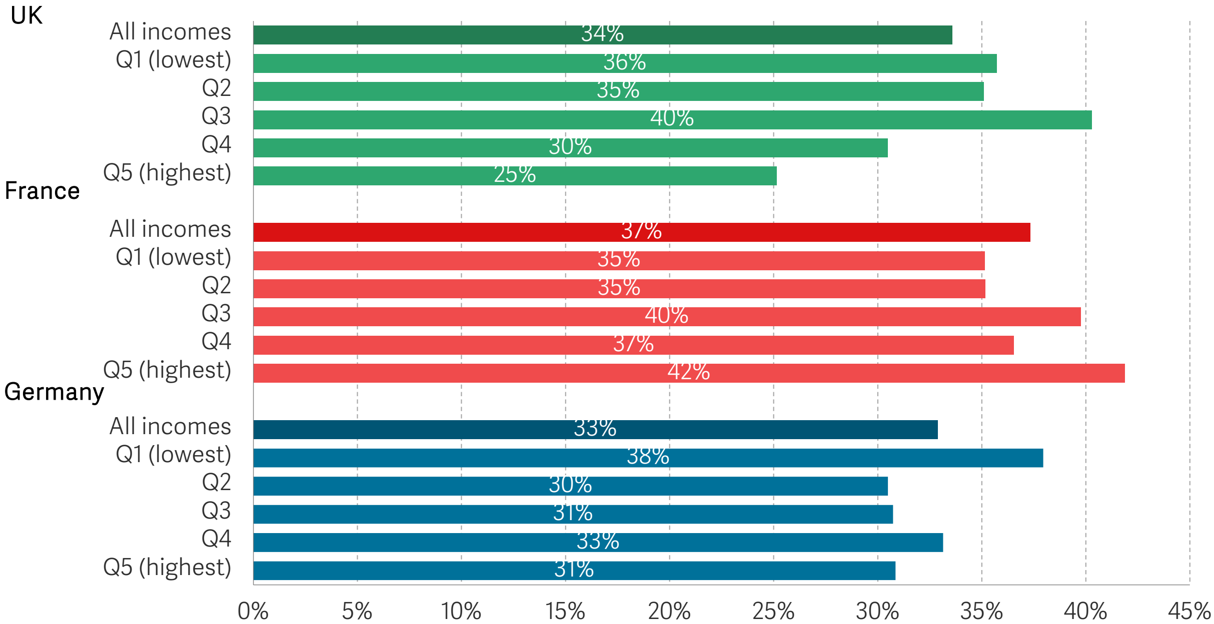
It is notable that a relatively high proportion of the lowest income German respondent households have taken on debt or used savings in the crisis, despite having a smaller income shock than in France or the UK. While the proportion taking on debt or drawing on savings is smaller overall in Germany, those in the bottom-income quintile (31 per cent) have done so to a similar degree as those in lower-income households in France, at 32 per cent. This reflects the low financial resilience in this group before the pandemic (discussed in previous sections) and the high numbers who have been struggling to pay for their housing costs during the crisis.

Among those with reduced household incomes, more respondents in France than in the UK and Germany have used savings to deal with the shock

We now focus on those households that have had an income fall. Here, given a negative income shock, respondent households in France have been more likely than those in the UK and Germany to draw down on savings. Figure 65 shows that, overall, 37 per cent of respondents in France have used savings in the face of an income hit, compared with 34 per cent in the UK and 33 per cent in Germany.

FIGURE 65: **More respondents with decreased household incomes in France have drawn on savings to cope with the shock**

Proportion of respondent households with decreased incomes that have drawn down on savings, by income quintile: UK, France and Germany, data collected 18 January to 4 February 2021



NOTES: Base: All respondents age 16-64 in the UK, n=751; France, n=607; Germany, n=431. Base by category: UK Quintile 1, n=145; UK Quintile 2, n=155; UK Quintile 3, n=152; UK Quintile 4, n=148; UK Quintile 5, n=151; France Quintile 1, n=171; France Quintile 2, n=135; France Quintile 3, n=125; France Quintile 4, n=85; France Quintile 5, n=91; Germany Quintile 1, n=101; Germany Quintile 2, n=86; Germany Quintile 3, n=86; Germany Quintile 4, n=81; Germany Quintile 5, n=77. All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

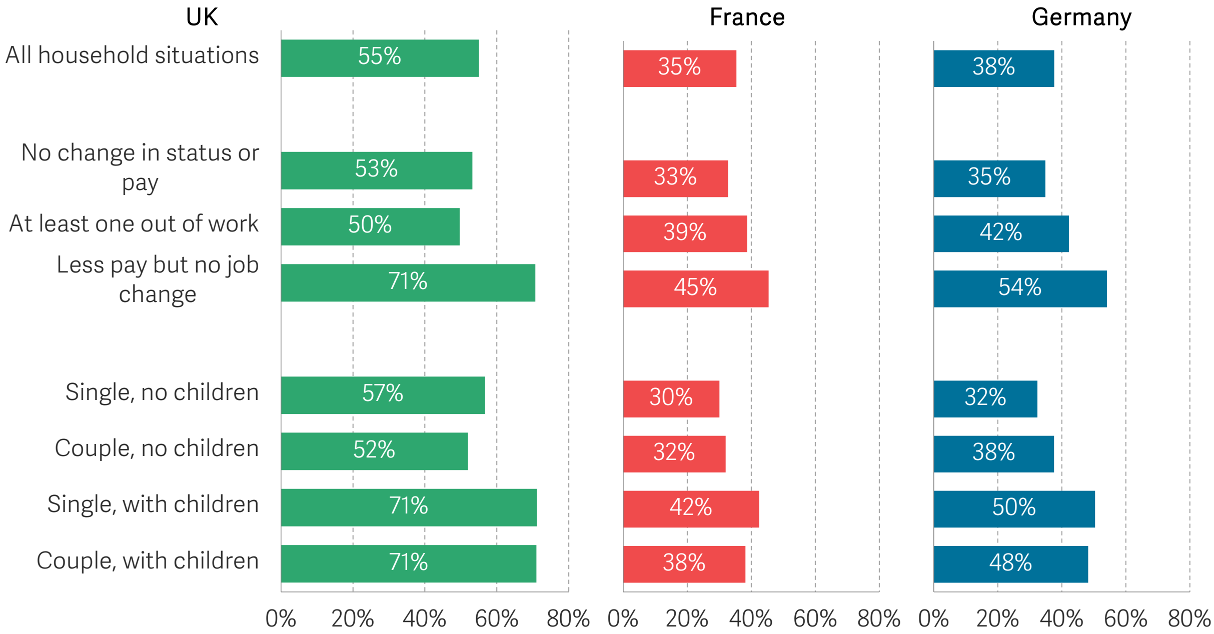
Taking on debt to deal with an income fall has been a more common strategy in the UK than in France and Germany

A lower proportion of respondent households in France have some debt in France (excluding mortgage debt and student loans) than in Germany and the UK. Overall, only 35 per cent of respondents in France have some debt, taken on either before or during the Covid-19 crisis (as shown in Figure 66), compared with 38 per cent in Germany. UK households stand out in this respect, however, with 55 per cent of households indicating they have such debt, reflecting previous findings that debt has increased among UK households during the Covid-19 crisis.[115]

115 Financial Lives 2020 survey: the impact of coronavirus, Financial Conduct Authority, February 2021; M Brewer & K Handscomb, The debts that divide us: Flash findings from a survey of families claiming Universal Credit, Resolution Foundation, February 2021.

FIGURE 66: **Being in debt during the pandemic is much more common in the UK than in France and Germany**

Proportion of respondents whose households have any non-mortgage and non-student loan debt, by personal characteristics: UK, France and Germany, data collected 18 January to 4 February 2021

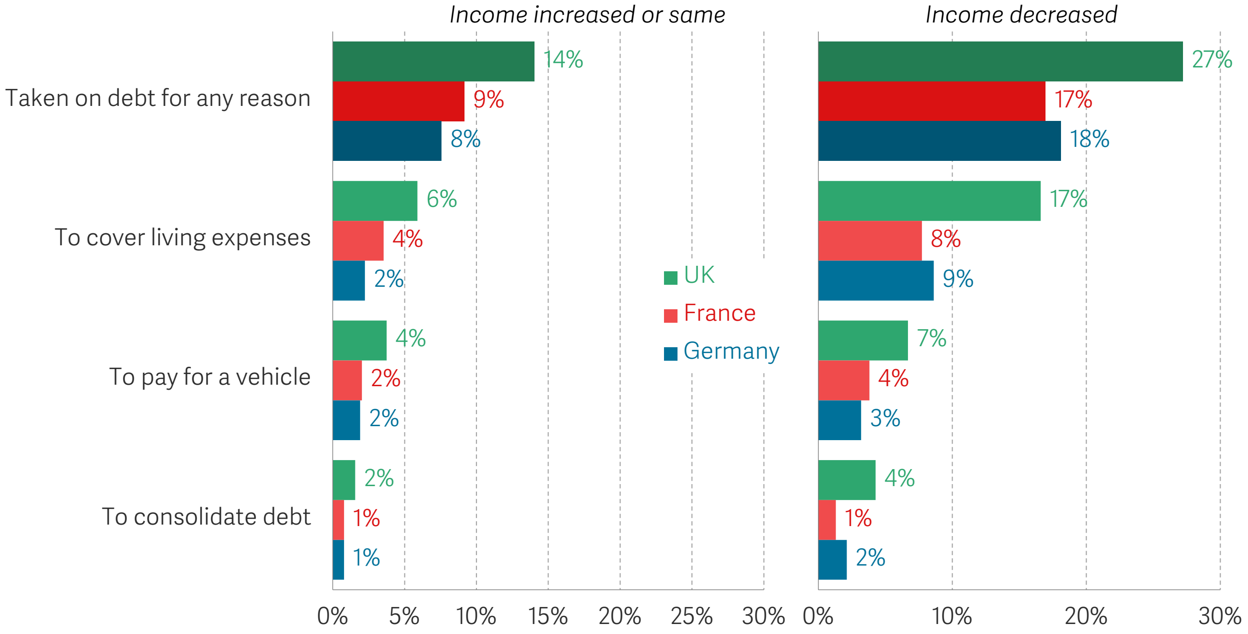


NOTES: Base: All respondents reporting any or no debt in the UK, n=2686; France, n=2723; Germany, n=2818. Base by category: Respondents reporting any or no debt and no change in employment status or pay in the UK, n=1937; France, n=1920; Germany, n=2241at least one person moved out of work in the UK, n=254; France, n=277; Germany, n=187; less pay but no employment status changes in the UK, n=378; France, n=315; Germany, n=265; single, no children in the UK, n=298; France, n=341; Germany, n=491; couple, no children in the UK, n=536; France, n=456; Germany, n=501; single, with children in the UK, n=77; France, n=200; Germany, n=88; couple, with children in the UK, n=308; France, n=508; Germany, n=252. All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

Turning to debt taken on during the crisis, it becomes clear that while respondents in French households have managed their income shocks by using potential savings rates and actual savings stocks, UK respondent households have made more use of debt. The proportion of respondent households with an income decrease in the UK reporting that they have taken on debt to cover living expenses since the outbreak of the Covid-19 crisis (17 per cent) is higher than the proportions in both French households (8 per cent) and German households (9 per cent), as seen in Figure 67.

FIGURE 67: **Respondent households in the UK have turned to debt in the face of an income decrease to a greater extent than those in Germany and France**

Proportion of respondent households that have taken on more debt since the outbreak of the pandemic, by income change and selected categories of reasons for debt: UK, France and Germany, data collected 18 January to 4 February 2021



NOTES: Base: Adults age 16-64 who report decreased income compared to February 2020 in the UK, n=901; France, n=687; Germany, n=653; and adults age 16-64 who report increased or the same income compared to February 2020 the UK, n=1759; France, n=1821; Germany, n=2061. All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

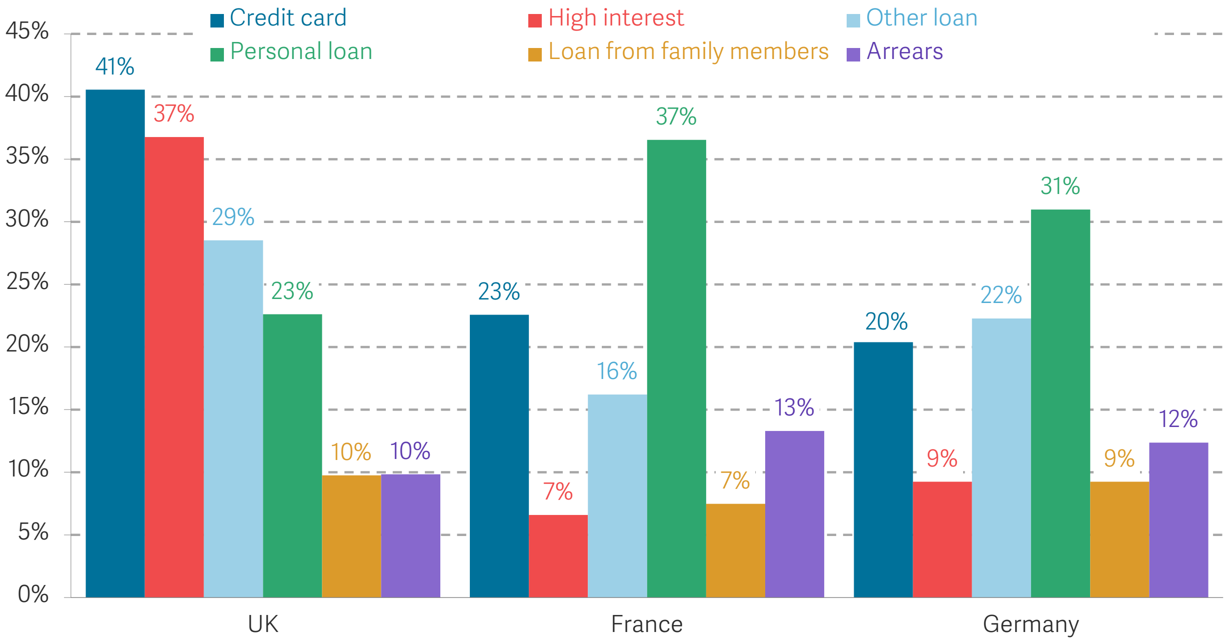
Households in the UK now have more insecure and high-interest debt than in France and Germany, making them vulnerable to further shocks

Managing household finances by taking on debt in the Covid-19 crisis leaves UK households more vulnerable in future. As we have shown previously, consumer debt in the UK has been rising since the financial crisis more for lower-income households than for higher-income households.[116] As Figure 68 shows, in addition to holding more debt overall, more UK households hold insecure debt than those in France and Germany. In particular, households in the UK make more use of short-term and high-interest loans to manage their finances, with 37 per cent in the UK reporting high-interest debt, compared with 7 per cent in France and 9 per cent in Germany. The pandemic looks set to leave UK households particularly vulnerable to future falls in their incomes.

116 J Ahmed & K Henehan, An outstanding balance? Inequalities in the use – and burden – of consumer credit in the UK, Resolution Foundation, January 2020.

FIGURE 68: **Respondents in the UK tend to have more short-term debt than those in Germany and France**

Proportion of respondent households with different kinds of debt: UK, France and Germany, data collected 18 January to 4 February 2021



NOTES: Base: Respondents age 16-64 who report any debt in UK, n=2343; France, n=2656; Germany, n=2049. All figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, Covid-19 Financial Resilience Cross-Country Survey.

Summary

In this section, we have found that pre-crisis financial vulnerabilities have played an important role in survey respondents' ability to adjust to the negative shock brought about by Covid-19. This mean that the impact of the pandemic on family finances has been highly uneven. For many households that have weathered the crisis without any job or income hits, the period of 'forced' saving has allowed them to increase savings or pay down debt, as summarised in Table 6. Meanwhile, those households that started the crisis with low savings, high debt or higher housing costs have tended to see their position deteriorate further. This bifurcation is particularly stark in the UK. While on average more French and German households have been able to respond to lower income by drawing down savings thank households in the UK, UK respondent households have been more likely to take on (more) debt. In the UK, particularly, this has left some households with considerable amounts of high-interest debt to deal with in the recovery period (see Table 6). This is particularly worrying as many households may still face further reductions in income as the furlough schemes are wound down and those who are unable to return to work will have to rely on the usual, less generous, unemployment support. The crisis looks set, therefore, to lead to greater inequality in household finances, with reduced wealth (particularly in France and Germany) and higher debts (in the UK) for those on lower incomes.

TABLE 6: **Financial resilience differs across Germany, France and the UK**

Summary of financial resilience takeaways in Germany, France and the UK

	Germany	France	UK
Housing costs	The lowest-income households have struggled to meet housing costs.	Overall, a higher share of respondents reported difficulty paying for housing costs than for Germany but lower than for the UK.	Overall, the highest share of respondents reported difficulty paying for housing.
Household spending	Spending reductions since the crisis slightly titled towards higher-income households. Highest share of households in the bottom-income quintile reporting increased spending.	Broad-based spending reductions since the crisis. Still a significant share of households in the bottom-income quintile increased spending.	Spending reductions since the crisis titled towards higher-income households. Still a significant share of households in the bottom-income quintile increased spending.
Financial assets	Those who experienced an income fall have used savings more than debt.	Households in France most likely to have used savings if experienced an income fall during this crisis.	Those who have experienced an income fall have used both savings and debt to support living expenses.
Debts	Since the crisis, relatively low share of respondents took on debt.	Since the crisis, relatively low share of respondents took on debt.	High share of respondents utilised debt in this crisis; households more likely to take out high-interest forms of debt.

Section 8

Conclusions and policy priorities

For more than a year now the world has been adjusting to the unprecedented economic hit from the Covid-19 crisis. This large, globally-synchronised, shock is often quantified by the billions spent by governments or the magnitude of falls in GDP. But, in this report, we have focused on the impact of Covid-19 on household finances across the largest economies in Europe. We have looked in detail at the situation both before the crisis, and, through a primary survey, have provided some of the first cross-country comparisons of the pandemic's effect. It is only by combining that survey evidence with an in-depth understanding of the state of financial resilience prior to the pandemic that we can understand its impact fully. By undertaking comparative research across countries we have been able to add to our understanding of the significance of the financial resilience challenges within each country.

Although financial resilience was stronger in Germany and France prior to the pandemic, each country had its weaknesses

Across a range of metrics, financial resilience appeared significantly stronger in both Germany and France than in the UK. In particular, low-to-middle income households in both countries had higher incomes and savings, helped along by a more generous social security systems. Even so, our pre-pandemic investigation into financial resilience found that there were still challenges to confront in both countries. In Germany, vulnerabilities were concentrated among the lowest-income households with a high proportion of worklessness, and high housing costs. Meanwhile in France, low employment rates and the exposure of many families to falls in house prices were cause for concern. The challenge of low-incomes in the UK stems primarily from lower hourly pay and less generous welfare support for those out of work. While these are serious problems, they must be viewed in the context of high employment levels. Likewise, low levels of savings on the part of UK households should be placed in the context of much higher rates of property ownership.

The economic consequences of Covid-19 have provided a severe test for households' financial resilience. The extent of the shock that households in each country faced has to some extent differed according to the prevalence of the virus and the stringency of lockdowns that were imposed to control it. However, our results clearly show that households in countries with higher levels of financial resilience were – for the most part – better equipped for the storm.

This comes through clearly when examining the relationship between job losses and income falls: although a comparatively large share of households in France moved out of work in the pandemic's aftermath, survey respondents in the UK were far more likely to have reported a substantial decrease in their household incomes. In each country, the social security system played a central role in translating negative employment changes into household income falls – with household incomes among those who experienced job loss in France and Germany much more resilient than in the UK. As our pre-pandemic analysis would lead us to expect, this matters for households' ability to be able to maintain their pre-crisis living standards.

Pre-crisis patterns of savings and debt have shaped the impact of the pandemic too. Households in France and Germany entered the pandemic with higher savings, whereas UK households had higher debt. Among those households that have experienced an income fall since the start of the pandemic, French households have been somewhat more likely than their UK and German counterparts to have drawn on their savings. By contrast, respondents in the UK who have seen a household-income fall were more likely to report that they have taken on debt to cover living expenses.

Table 7 summarises the key pre- and post-pandemic patterns in both the drivers and indicators of financial resilience. The colour coding shows the areas in which individual countries perform relatively well (highlighted in green), where challenges exist (orange) and those areas that are of more concern (red).

TABLE 7: Financial resilience differs across Germany, France and the UK

Summary of financial resilience takeaways in Germany, France and the UK

	Germany	France	UK
Household incomes	Low incomes at the bottom end of the distribution. Relatively low share of respondent households experienced an income fall during the crisis.	Low income inequality, and higher incomes at the bottom end of the distribution. Relatively low share of respondent households experienced an income fall during the crisis.	High income inequality, and lower incomes at the bottom end of the distribution. Relatively high share of respondent households experienced an income fall during the crisis.
Labour market	High employment but also high household worklessness rates among low-income households. Relatively low share of respondents who worked before the crisis experienced a negative employment change since it started.	Low employment rates, and low proportion of two-earner households among couples without children. High share of respondents who worked before the crisis experienced a negative employment change since it started; large rise in household worklessness.	High employment but relatively low hourly pay for lower earners, and low hours worked for self-employed in particular. High share of respondents who worked before the crisis experienced a negative employment change since it started.
Welfare	High replacement rate for short-term unemployed, lower for longer-term unemployed. Relatively low share of respondents who claimed unemployment or another form of welfare since the start of the crisis reported an income fall.	Short-term and long-term unemployed have high replacement rates. Relatively low share of respondents who claimed unemployment or another form of welfare since the start of the crisis reported an income fall.	Low replacement rates for both short-term and long-term unemployed. High share of respondents who claimed unemployment or another form of welfare since the start of the crisis reported an income fall.
Housing costs	High housing costs for low-income households, driven by a large proportion of low-income households in private-rented accommodation. The lowest-income households have struggled to meet housing costs.	Housing costs are relatively low and the population is relatively evenly spread across different housing tenures. Overall, a higher share of respondents reported difficulty paying for housing costs than for Germany but lower than for the UK.	Housing costs for low-income households driven by the high cost of private renting. Overall, the highest share of respondents reported difficulty paying for housing.
Household spending	High share of spending on essential items. Spending reductions since the crisis slightly titled towards higher-income households. Highest share of households in the bottom-income quintile reporting increased spending.	High share of spending on essential items. Broad-based spending reductions since the crisis. Still a significant share of households in the bottom-income quintile increased spending.	High proportion of income devoted to consumption. Spending reductions since the crisis titled towards higher-income households. Still a significant share of households in the bottom-income quintile increased spending.
Financial assets	High saving rates and levels. Those who experienced an income fall have used savings more than debt.	High saving rates and levels. Households in France most likely to have used savings if experienced an income fall during this crisis.	Low saving rates and levels relative to income. Those who have experienced an income fall have used both savings and debt to support living expenses.
Property assets	Low home ownership, leading to low levels of property wealth.	Higher home ownership than France but lower than the UK, leading to middling levels of property wealth.	High proportion of people with property wealth, even among low-income households. High levels of property wealth.
Debts	High financial debt to income ratio for low-income households. Since the crisis, relatively low share of respondents took on debt.	Mortgagor households more likely to have low equity, and low-income mortgagor households allocate a high share of income to mortgage repayments. Since the crisis, relatively low share of respondents took on debt.	Households more likely to have financial debts. High share of respondents utilised debt in this crisis; households more likely to take out high-interest forms of debt.

Areas in which financial resilience can be improved so that households can better withstand future shocks

The fact that the Covid-19 crisis crystallised pre-existing financial weaknesses within each country despite unprecedented government support underscores the need for further steps to improve financial resilience going forward. Our goal in this report has been to undertake a comparative analysis of financial resilience across Europe's three largest economies, leaving discussion of the policy implications of that analysis to future work. Nonetheless, given the extent of the issues uncovered by our analysis, below we discuss the key areas in which steps should be taken to reduce the impact of future financial shocks on families. Government policy clearly has a key role to play here, particularly in areas such as employment, welfare and housing costs. But there is also scope for private sector initiatives leveraging innovation to help lower-income households with saving, budgeting, access to affordable credit and housing, debt management and debt advice.

While the UK has, like France, sustained a large labour market shock since the onset of Covid-19, it entered the crisis with higher employment rates and lower household worklessness. That said, low levels of hourly pay, a welfare system that typically failed to stave off large and swift income shocks upon moving into unemployment, and high housing costs, particularly among lower-earning households are key areas for policy makers to consider in future. These weaknesses highlight key areas for public policy reform: ensuring that the labour market recovery is led by secure, well-paid jobs, that the welfare system reduces such sweeping income shocks in future and that a range of mechanisms can be put in place to keep housing costs down for those on low incomes. There is also a role for innovation here in helping workers to understand better whether their pay is fair, employment rights are met and how their benefits would be calculated. There is also scope for technological solutions to help households build their own financial resilience. For example, tools to help households find ways to make saving easier, to manage their debt burden and to prepare for unpredictable income – which could prevent households from turning to high-interest, short-term debt. At the bottom end of the income distribution there is scope to help households through making it easier to identify and claim benefits and other entitlements, and to digitise debt advice.

The large employment shock in France has manifested itself in the form of a large rise in household worklessness. And though the French welfare system provides a more generous cushion for incomes in the event of unemployment - preventing the very large income falls seen in the UK - it will be important that French policy makers prioritise an employment-led recovery, reducing the number of households where no one is in work. At the same time, policy will need to ensure that that the post-pandemic labour market is based on quality and secure forms of work across the labour market, particularly for those on temporary contracts. There is also a clear space for third-party actors to help boost financial resilience, too. For example, reducing digital exclusion – which can make financial management overly difficult – and making money management tools more accessible and useful to those on low incomes and/or in insecure work. As in the UK, there is also scope to help lower-income households by digitising debt advice.

The effects of the pandemic on the German labour market, and on German incomes, were more muted than in the UK and France. While some of this is down to the conditions of the virus and the stringency of social distancing measures, Germany also entered the crisis with relatively high employment rates and a welfare system that prevented the large income falls seen in the UK. That's not to say there's little room to improve financial resilience among German households: even before the pandemic, a large share of work was insecure and lower-paid; worklessness was concentrated among the lowest-income households in Germany, who tended to have high housing costs, as was indebtedness. There is a clear role for public policy including in terms of reducing housing costs, facilitating employment and increasing the quality, and security, of work at the bottom end of the German labour market. There's also scope for innovation: for example, tools to boost financial literacy and reduce digital exclusion would serve to help low-income households manage their finances, smooth unstable incomes and avoid over-indebtedness.

By fixing today's weaknesses, we can ensure households fare better in the next crisis

This report has drawn a clear line between household's pre-pandemic financial strengths and weaknesses, and the extent to which they've been able to cope with the Covid-19 economic crisis. Those strengths, like stable employment, more generous unemployment benefits, lower housing costs and high rates of saving have helped many households maintain their living standards after the onset of Covid-19. But for others, weaknesses like insecure employment, sharp income falls upon moving out of work, high housing costs and higher use of debt has led to financial deterioration. There are lessons for each country in terms of how to improve resilience in the years to come, but these policy choices need to be taken now – so that families can build their financial resilience ahead of the next economic crisis.

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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