Section 2

The effects of the pandemic on the income, saving and borrowing of UK households

The pandemic caused huge disruption to every aspect of life and the economy was no exception. But savings have increased by £200 billion relative to pre-pandemic levels and consumer debt has fallen by around £10 billion. This seemingly contradictory fact reflects the unique nature of this crisis. Reduced social interactions – via government rules and personal choices to reduce health risks – meant workers in jobs reliant on social spending were not able to work. The fall in spending opportunities meant that those able to work from home, and continue earning as normal, accumulated extra savings and/or paid down debt. The aggregate effect is one of improving balance sheets – the first recession where that is the case in at least 70 years.

But focusing on the aggregate improvement in household balance sheets, while very welcome, misses the impact of the crisis on those who were not insulated from falling incomes. Wide-ranging government support schemes, particularly the Coronavirus Job Retention Scheme (JRS), ensured that increases in unemployment were much smaller than they might have been. But those who were furloughed, lost their job or received reduced pay suffered a fall in income. For those families affected, micro-evidence points to reduced saving and increasing use of debt.

The bifurcation in the behaviour of households – typically those better-off keeping jobs, reducing spending and building savings and those worse-off losing income and using savings or debt – will have longer-term impacts on financial resilience and well-being.

The pandemic has been an unprecedented economic shock with GDP in 2020 falling further than in any calendar year for 300 years (contracting by 9.8 per cent). The scale of the recession was matched by unprecedented macroeconomic support with government borrowing rising to peace time records, interest rates cut to new lows and further rounds of quantitative easing conducted by the Bank of England.[8] Recessions would typically lead to falling wealth levels but, in this crisis, savings have risen, consumer debts have fallen and asset prices have risen.

Wealth increases reflect the scale of the government support and is to a large extent the counterpart to the huge rise in government borrowing. Significant support was given directly to the labour market through the furlough scheme, the corporate sector (via a wide range of grants, tax relief and loan schemes), and households through the £20 Universal Credit uplift. This meant that the unemployment rate only rose to 5.1 per cent at the end of 2020 (up from 4 per cent at the start of 2020), far short of the financial crisis (8.5 per cent) or 1990s (10.6 per cent) peaks. This all meant that typical incomes grew modestly during 2020-21 despite the scale of the economic crisis, although this support has not shielded people completely with many low-paid workers facing a fall in income.[9]

But government support does not fully explain why this recession is unique over the past 70 years in seeing an increase in wealth. The effect of virus restrictions limiting consumption for some families leading to higher saving and reduced debt is also important. So this section covers the direct changes to savings and debt. It starts out by presenting the aggregate changes in saving and debt before discussing the role of falling spending opportunities leading to 'enforced' saving and their aggregate impact, and finally covering the implications of pockets of income falls driven by the shock to the labour market.

In aggregate, during the pandemic, household savings rose at the fastest pace on record

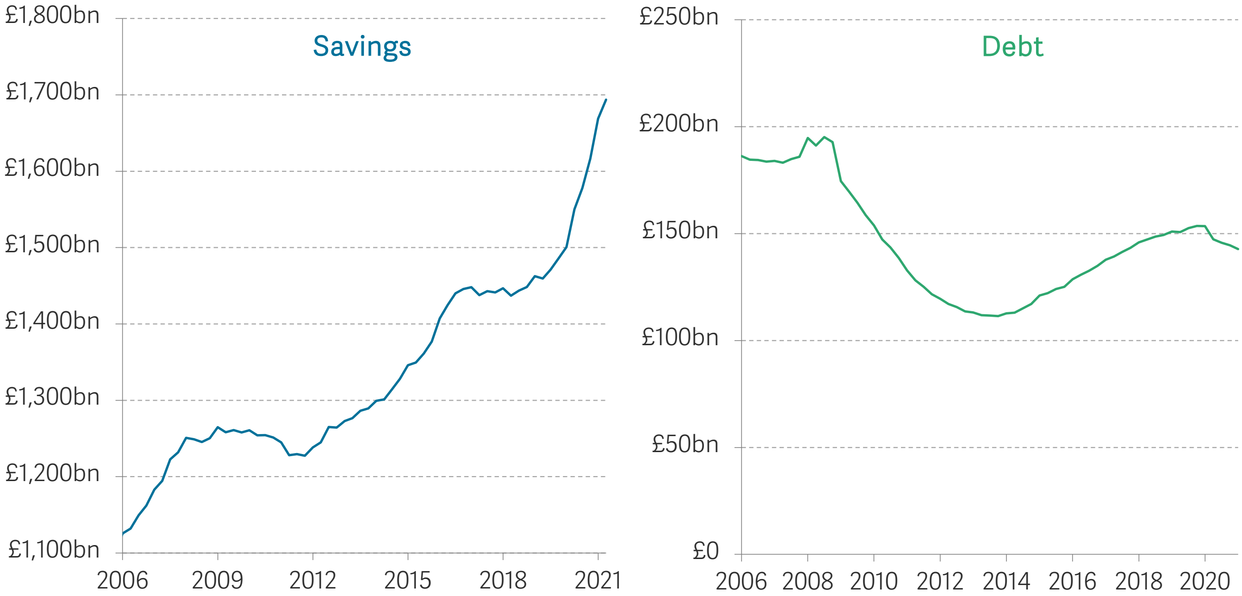
Aggregate savings have risen over the course of the crisis; total household retail bank deposits are around £200 billion higher than pre-crisis. Figure 5 shows the rise in household cash and bank accounts (the blue line) and puts that in context with what we might have expected to have happened absent the pandemic (the red line, which assumes that household money holdings grew in line with the average since 2012). In this comparison, the 'excess' saving observed since March 2020 is just over £125 billion (in nominal terms). This pattern is counter to the experience during the financial crisis, where savings and cash held by households failed to grow for six years in real terms. This demonstrates quite how important the Government's support for household incomes

8 For more details on the macroeconomic policy response to the crisis see: J Leslie, C McCurdy, C Pacitti & J Smith, How to throw good money after good: Budget 2021 and the challenge of delivering a rapid recovery from Covid-19, Resolution Foundation, February 2021.
9 For an in depth discussion of the impact of the crisis on incomes, see: K Handscomb, K Henehan & L Try, The Living Standards Audit 2021, Resolution Foundation, July 2021.

has been, as well as that the unusual features of the crisis (namely restrictions on spending opportunities) have been for driving an unusual macroeconomic outcome during the recession.

FIGURE 5: **Household money holdings are £125 billion higher than they would have been without the pandemic**

Outstanding real sterling M4 liabilities held by the household sector: UK



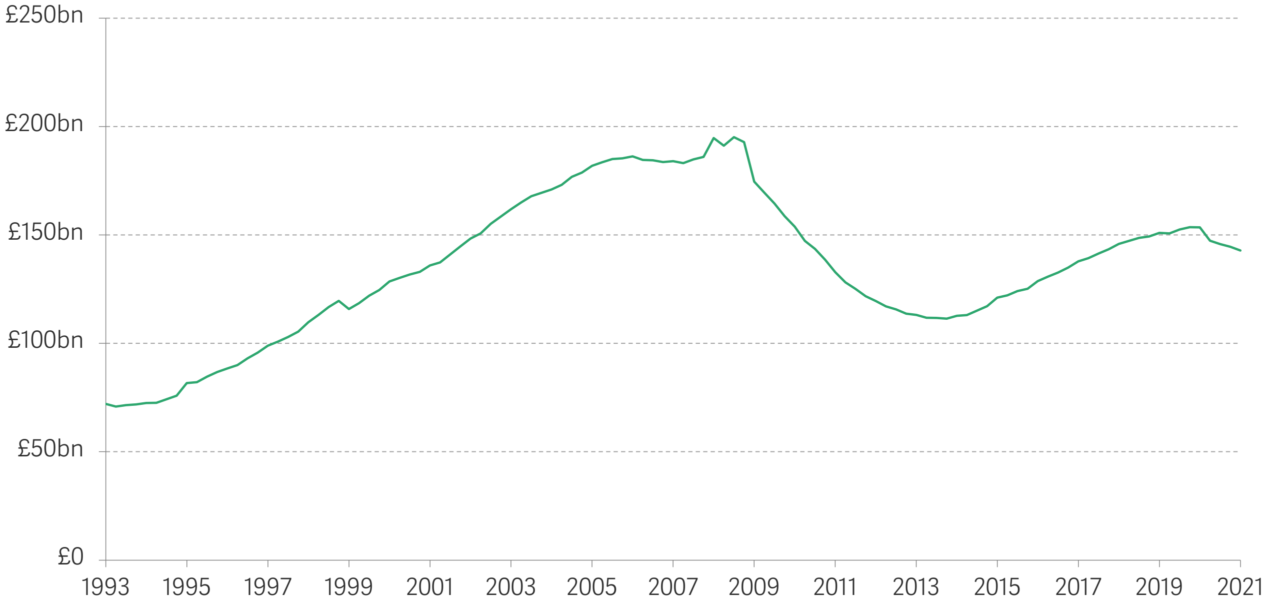
NOTES: Nominal M4 has been put in real terms using CPI, into April 2021 prices. M4 money includes cash, current accounts and savings accounts.
SOURCE: RF analysis of Bank of England, Bankstats; ONS, Consumer Prices.

In aggregate, households took the opportunity to reduce debts during the pandemic

Household consumer debt started to fall as soon as the pandemic started in the UK – this is similar to the UK's experience during the financial crisis (although for different reasons – the flip side of increased saving due to restrictions on consumption). As Figure 6 shows, consumer debt has fallen in real terms by around £10 billion since the start of the pandemic (going from £154 billion at the start of 2020 to £143 billion in the most recent data). And, importantly, the level of household debt is also roughly a quarter lower than at the pre-financial crisis peak, meaning that household leverage is lower and financial resilience higher. But the fall in debt so far has been slower than in the aftermath of the financial crisis. This partially reflects the fact that the supply of consumer credit was constrained in 2009 due to tighter lending requirements and lack of capacity to originate new loans in the financial sector. But it also reflects the fact that it can take time for consumers to reduce debts – there are often contractual barriers to early repayment of outstanding loans – and that some households increased debt to cope with income falls.[10]

FIGURE 6: **In aggregate, households have reduced consumer debt**

Outstanding consumer credit loans to individuals, excluding credit cards and student loans: UK



NOTES: Data is in real terms in April 2021 prices, calculated using the CPI index.
SOURCE: RF analysis of Bank of England, Bankstats; ONS, Quarterly National Accounts.

Together, the changes in savings and debt point towards a clear aggregate improvement in household balance sheets. But, while the aggregate picture is good news, it does not tell us about changes across the distribution. And crucially there has been significant heterogeneity underlying these changes with lower-income families less likely to benefit from higher saving and more likely to increase debt usage.

High-income families are more likely to have improved balance sheets than low-income families

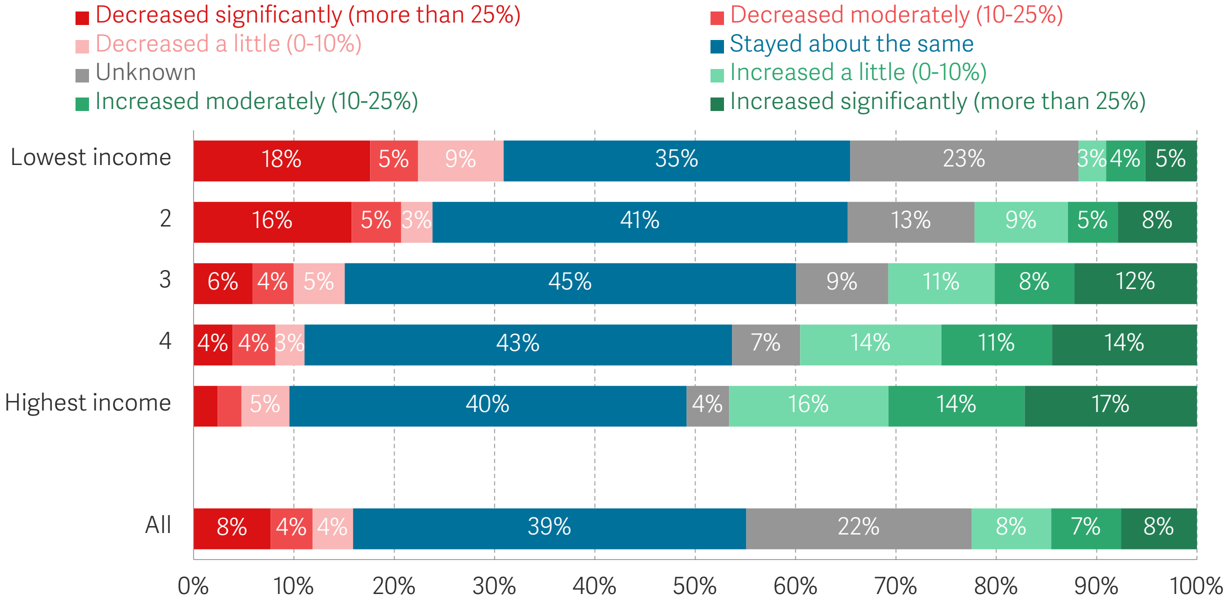
Figure 7 and Figure 8 present the headline distributional changes in savings and debt across the income distribution. Three clear results stand out. First, in line with aggregate changes, our micro-survey evidence suggests that savings have increased in total –

10 Household debt including mortgages has increased by £11 billion over the same period. We do not focus on changing mortgage debt during the crisis because, over the short-term, it just represents a change in composition of the balance sheet (trading debt for housing wealth) rather than a change in wealth levels. Similarly, we exclude credit cards, where consumer credit including credit cards has fallen by a larger £27 billion. This is because much of the fall in credit cards reflected declining use of transactional balances during the pandemic, where the holder pays off the balance each month. These debts are typically abstracted from in wealth surveys, and we take the same approach in this paper.

22 per cent of families increased savings while 15 per cent reduced them.[11] And these savings increases are skewed towards the top of the distribution meaning, in levels terms, total UK savings will have risen faster than if the changes were distributed evenly.[12] Second, the proportion of families increasing or decreasing debt is similar but high-income families are more than twice as likely to have reduced debt during the pandemic – again consistent with the aggregate totals. Third, while aggregate changes in saving and debt give no cause for concern, the distributional effects cannot be ignored and could have profound economic consequences. We return to these in Section 4.

FIGURE 7: **Savings rises are concentrated in higher-income families and falls in lower income families**

Proportion of families reporting changes in saving, by income quintile: UK, February 2020 to May 2021



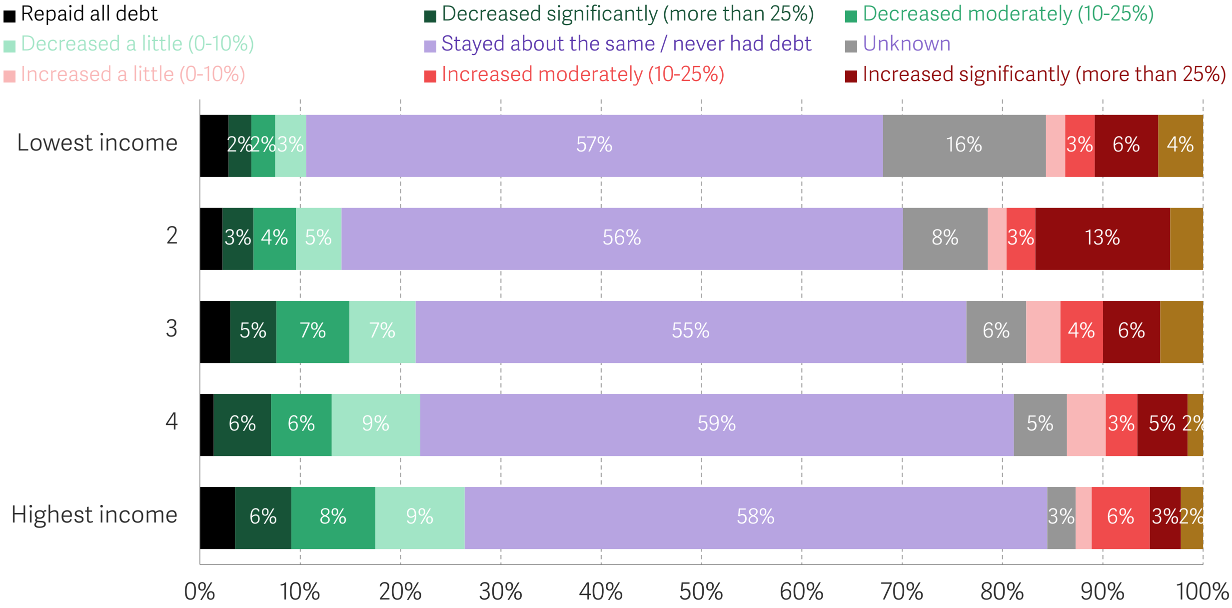
NOTES: The base is n=2,680: non-retired aged 18+ with valid income data for March 2020. Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or nonworking adult students. Quintiles were calculated using mid-points of 20 banded responses from £0 to £5,000. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

11 This key finding has been replicated across a number of other research papers. See: A Davenport et al., Spending and saving during the COVID-19 crisis: evidence from bank account data, Institute for Fiscal Studies, October 2020; J Franklin et al., Household debt and Covid, Bank of England Quarterly Bulletin, June 2021.

12 To make this effect clear, consider a scenario where an almost equal proportion of the highest- and lowest-income families report savings increasing by more than 25 per cent or falling by more than 25 per cent respectively. Higher-income families hold substantially higher savings levels, so a 25 per cent rise is much larger, in pounds, than a 25 per cent fall in the savings of low-income families.

FIGURE 8: **Higher income families were much more likely to reduce debt**

Proportion of families reporting changes in debt, by income quintile: UK, February 2020 to May 2021



NOTES: The base is n=2,680: non-retired aged 18+ with valid income data for March 2020. Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or nonworking adult students. Quintiles were calculated using mid-points of 20 banded responses from £0 to £5,000. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

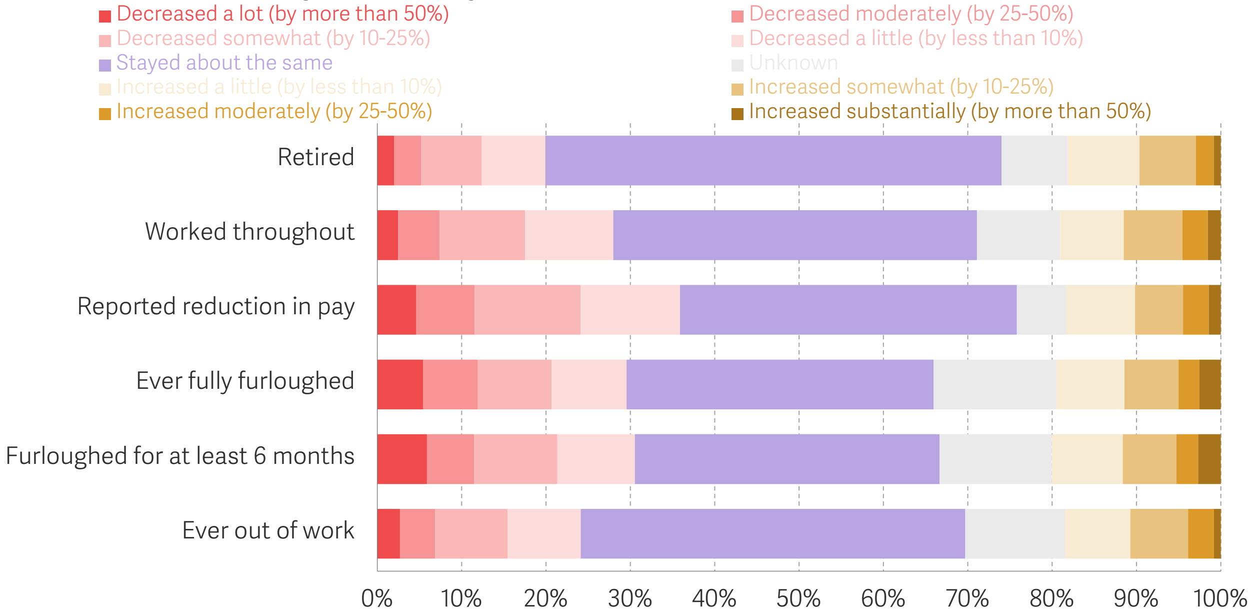
Given the clear distributional pattern across both savings and debt, it is worth exploring the individual drivers of these changes. This section focuses on the two most important: the restrictions on social interactions leading to fewer consumption opportunities and a measure of 'forced' saving, and the asymmetric shock in the labour market meaning some families experienced falling income despite the aggregate improvement.

Virus restrictions have led some families to acquire higher savings and to pay down debt

One unique feature of this recession is that the social distancing restrictions needed to control the virus led to reduced opportunities for social consumption. In principle, spending falls could be related to changes in income. But, as Figure 9 shows, the proportion of households changing spending is relatively unrelated to their labour market status during the pandemic. Between 33 and 39 per cent of all working age households reduced spending between February 2020 and May 2021. The proportion of families cutting spending was only slightly higher for those experiencing negative labour market outcomes (a good proxy for those families facing falls in income) suggesting that reducing spending was, to a large extent, driven by reductions in consumption opportunities rather than curtailing consumption due to a negative income shock.

FIGURE 9: **A significant minority of families reduced spending during the pandemic**

Proportion of households reporting changes to spending, by pandemic labour market status: UK, February 2020 to May 2021



NOTES: The base is all retired (n=2,039), those employed and working hours between March 2020 and May 2021 (n=2,899), those who reported a fall in pay (n=750), those who were ever furloughed full-time (n=1,018), those furloughed whether partial or full (n=503), and those who were unemployed, fully furloughed or self-employed but working no hours (n=1,739). These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

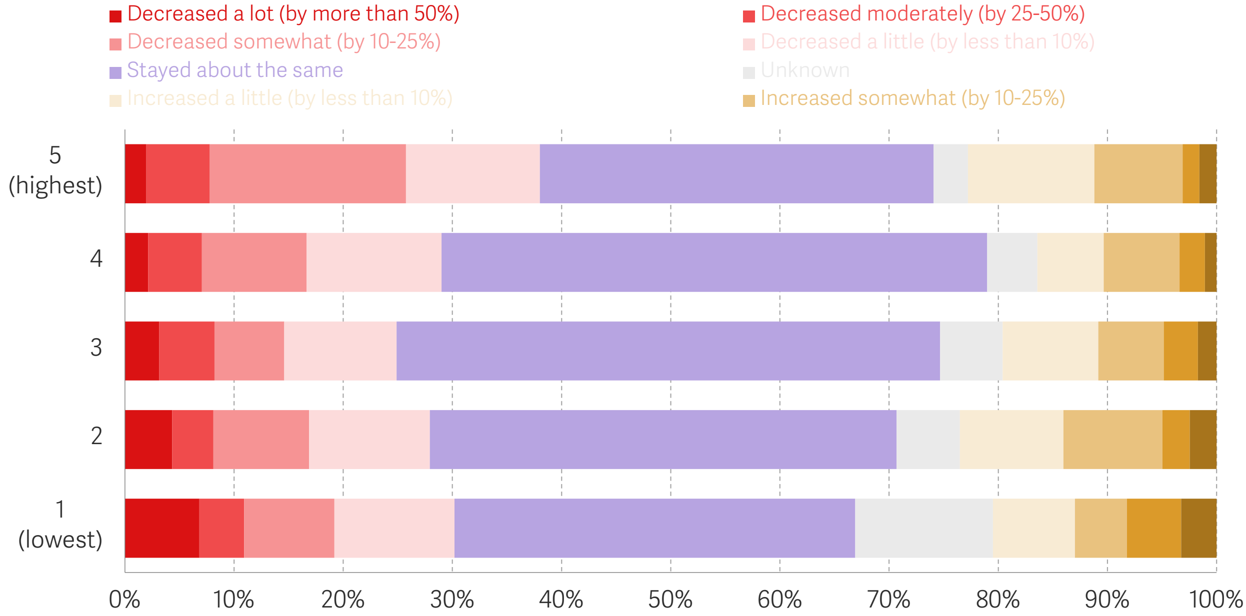
Instead, spending changes are more closely related to income levels rather than changes: those at the top of the income distribution are more likely to have reduced spending than those in the middle or bottom. Figure 10 highlights a trend that has been visible throughout the crisis: better-off families have reduced consumption more than poorer families. This makes sense as a higher proportion of spending for better-off families is on social goods/services which were less available during the pandemic as well as the fact that lower income families spend a higher proportion of consumption on essentials which cannot be reduced.[13] These results are taken from our YouGov survey which used May 2021 as the reference period for current spending patterns (see Box 1 for more details). By this point the restrictions on social activities had been materially loosened from the full lockdown at the start of the year. This means that these results underestimate the difference in spending patterns across the income distribution during the peak of the pandemic.

13 For example, the expenditure share of food and non-alcoholic beverages for the lowest equivalised disposable income decile in 2019 was 12.5 per cent but just 6.7 per cent for the highest decile. Similarly, the share spent on restaurant and hotels for the lowest decile was 6.9 per cent but 12.4 per cent for the top decile. Source: ONS, CPIH-consistent inflation rate estimates for UK household groups (democratic weighting).

Another important feature has been changes in living costs for families. As Figure 10 shows, lower-income families were slightly more likely to have increased spending during the crisis. Evidence suggests that low-income families, particularly those with children, faced higher costs during the pandemic.[14] At the same time, higher-income families were more likely to work from home, potentially saving on commuting costs, leading to lower essential spending.

FIGURE 10: **High-income families have reduced spending more than low- and mid-income families**

Proportion of working-age respondent households with changes to spending, by income quintile: UK, February 2020 to May 2021



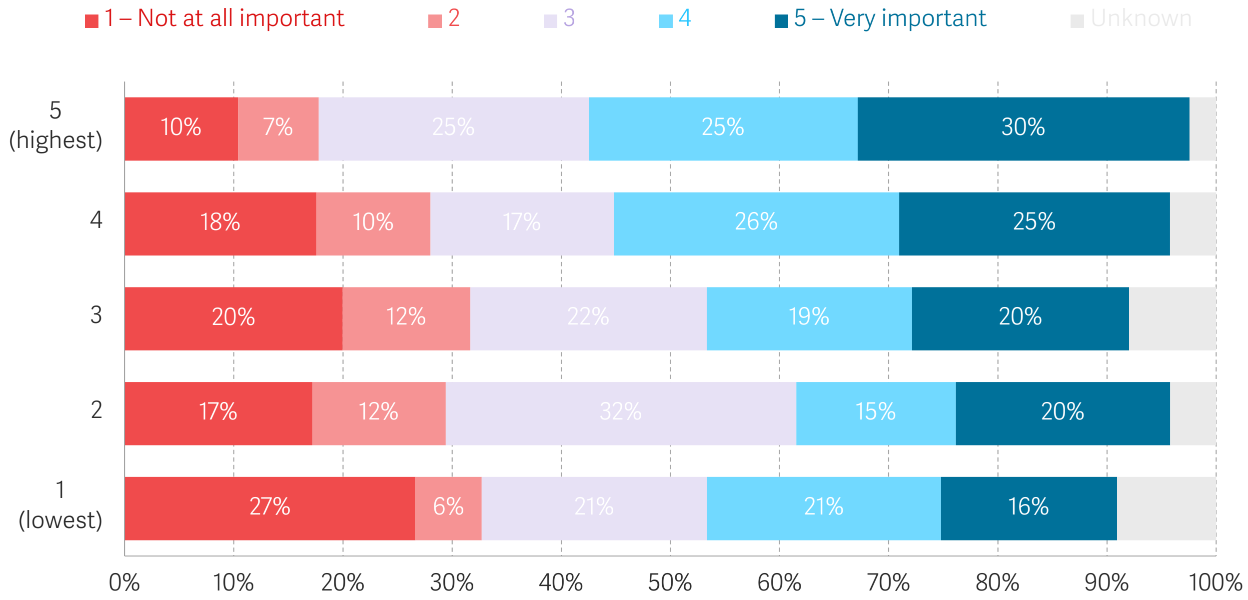
NOTES: The base is n=2,680: non-retired aged 18+ with valid income data for March 2020. Incomes have not been equivalised. Quintiles were calculated using mid-points of 20 banded responses from £0 to £5,000. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

So far, the evidence that virus restrictions and households' natural response to reduce social interactions during a pandemic on spending opportunities have driven the decrease in spending presented has been circumstantial. But Figure 11 makes it clear that not only have virus restrictions been important for spending, they have also been a key driver for increasing savings. This is particularly the case for high-income families: 30 per cent of the richest fifth of households cited virus restrictions as very important for affecting their savings level since February (a still significant but smaller 16 per cent of the poorest fifth of household said the same).

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

FIGURE 11: **Virus restrictions led to increased savings, particularly for richer families**

Proportion of working-age households with changes to saving citing virus restrictions as an important/unimportant factor, by income quintile: UK, February 2020 to May 2021

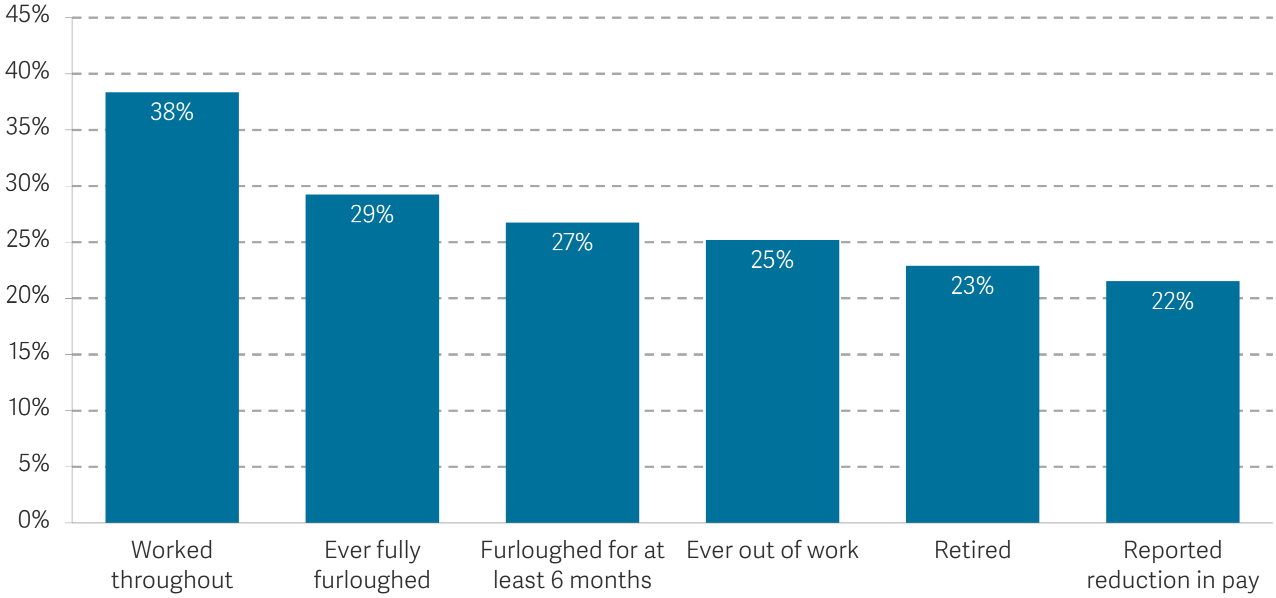


NOTES: The base is n=1,536: non-retired aged 18+ with valid income data for March 2020 and reported a change in savings. Incomes have not been equivalised. Quintiles were calculated using mid-points of 20 banded responses from £0 to £5,000. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

Taking these results together, the impact of constrained spending, particularly for those households who have not faced income shocks – i.e. those who continued to work through the pandemic, is that some households have experienced an increase in savings. Figure 12 shows the proportion of households who had an increase in saving between February 2020 and May 2021. Naturally the highest proportion is for those who worked throughout the crisis (40 per cent of whom increased savings) but 29 per cent of those who were furloughed for at least six months since March 2020 also increased savings. The lowest groups were those who were retired or reported a fall in pay; just 23 and 22 per cent respectively increased saving.

FIGURE 12: **A sizeable minority of working households increased savings during the pandemic**

Proportion of households that increased savings levels over the pandemic, by labour market status: UK, February 2020 to May 2021



NOTES: The base is those employed and working hours between March 2020 and May 2021 (n=2,899), those furloughed whether partial or full (n=503), those who were ever furloughed full-time (n=1,018), those who were unemployed, fully furloughed or self-employed but working no hours (n=1,739), all retired (n=2,039), and those who reported a fall in pay (n=750). The base includes those who responded with prefer not to say or don't know. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

Asymmetric income changes have led to pockets of increased debt and reduced saving

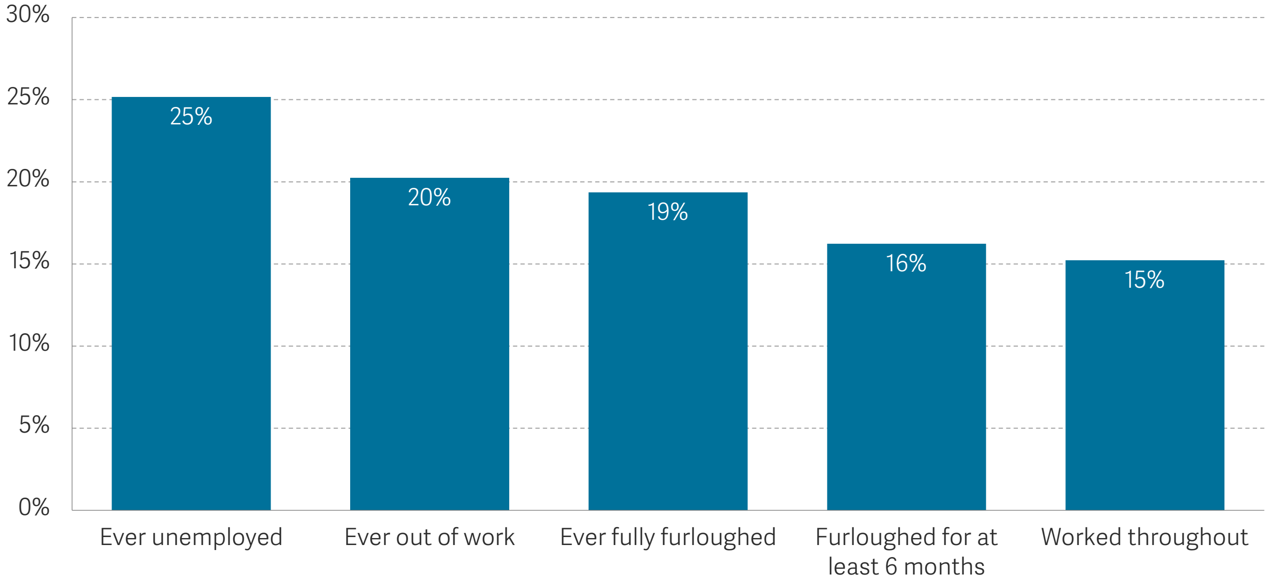
The economic consequences of the pandemic on the labour market were, and are, profound. During the height of restrictions in the first lockdown (April and May 2020), almost nine million workers were using the JRS. And furlough remains significant, with the latest data showing there were still 2.4 million jobs furloughed.[15] The scheme meant that workers received 80 per cent of their salary for furloughed hours, and while employers had the ability to top up wages this was voluntary and many chose not to do so.[16] There has also been a moderate rise in unemployment and just under 10 per cent of workers report having lower pay than pre-pandemic in our survey.[17] Together these mean that a minority of households experienced a negative income shock as a result of the labour market.

15 Source: HMRC, Coronavirus Job Retention Scheme statistics: 1 July 2021 – which covers up until end of May 2021.
16 See: A Adams-Prassl et al., Furloughing, Fiscal Studies, November 2020. The paper finds that during the first lockdown 70 per cent of employers made some form of discretionary payments, but this was more likely to be targeted at those in higher-paying jobs and men rather than women.
17 This will not only reflect pandemic effects but also natural transitions we would expect in pay over time.

Importantly, despite these effects, overall average incomes have been protected through the crisis as a result of the wide range of government support schemes.[18] The focused distributional nature of falls in income becomes clear in Figure 13. It shows that, during the peak of the last lockdown (January 2021) a quarter of those unemployed at some point during the pandemic had experienced a fall in incomes (10 percentage points higher than those who worked throughout).

FIGURE 13: **Income falls were largest for families affected by job loss or furlough**

Proportion of households reporting lower levels of income in January 2021 than in February 2020, by household employment status: UK



NOTES: Base is all 18+ non-retired adults with valid income data and within each group. Those ever unemployed during the pandemic (n=545), ever out of work (includes unemployment and furlough) during the pandemic (n=1,354), ever fully furloughed (n=898), ever furloughed for at least 6 months between March 2020 and January 2021 (n=410), and those working throughout (n=2,532). These figures have been analysed independently by the Resolution Foundation. This chart uses a previous wave of the YouGov survey as the most recent wave of the survey did not ask about income changes relative to pre-pandemic due to concerns over reporting accuracy over that breadth of time.
SOURCE: RF analysis of YouGov, Adults Age 18-65 and the Coronavirus (COVID-19), January 2021 wave.

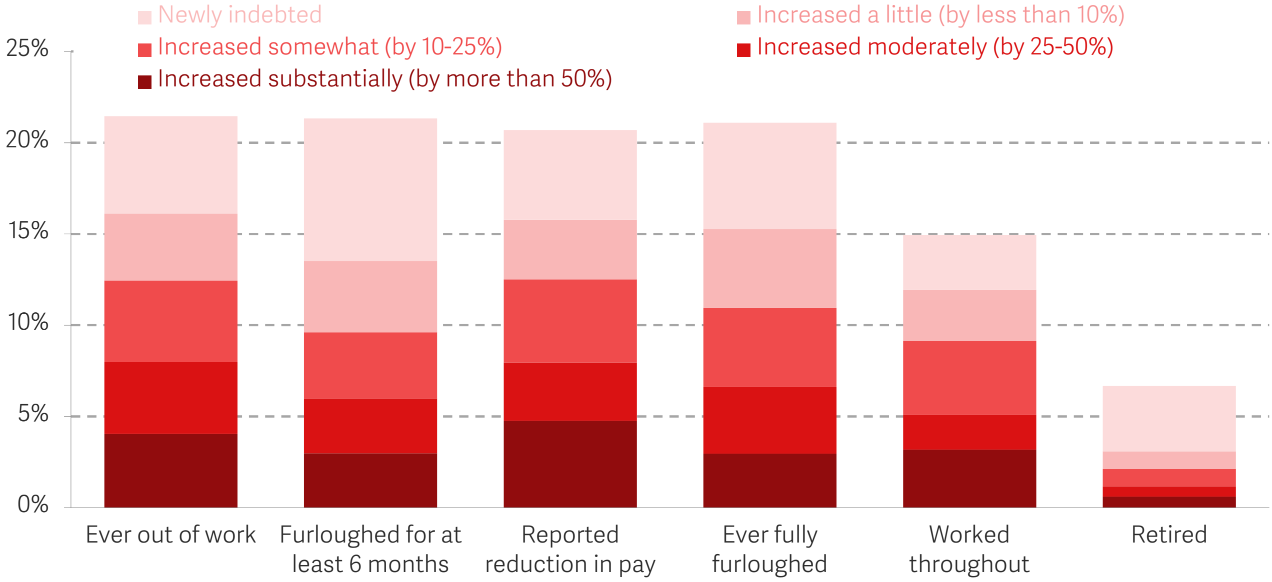
Experiencing a negative outcome in the labour market is not just associated with a fall in income but also with higher levels of debt. Figure 14 shows the proportion of families reporting increased debt based on labour market status during the pandemic. It is clear that those who were out of work or furloughed for a significant part of the year were much more likely to increase debt (around 30 per cent of these groups increased debt)

18 For a comprehensive analysis of the change in family incomes during the pandemic, see: K Handscomb, K Henehan & L Try, The Living Standards Audit 2021, Resolution Foundation, July 2021.

than those who worked throughout (20 per cent of whom increased debt). Naturally older, retired families, were least likely to increase debt although one-in-ten of these families still did so.

FIGURE 14: **Loss of work is strongly associated with increasing debt levels**

Proportion of households that increased debt levels over the pandemic, by labour market status: UK, February 2020 to May 2021



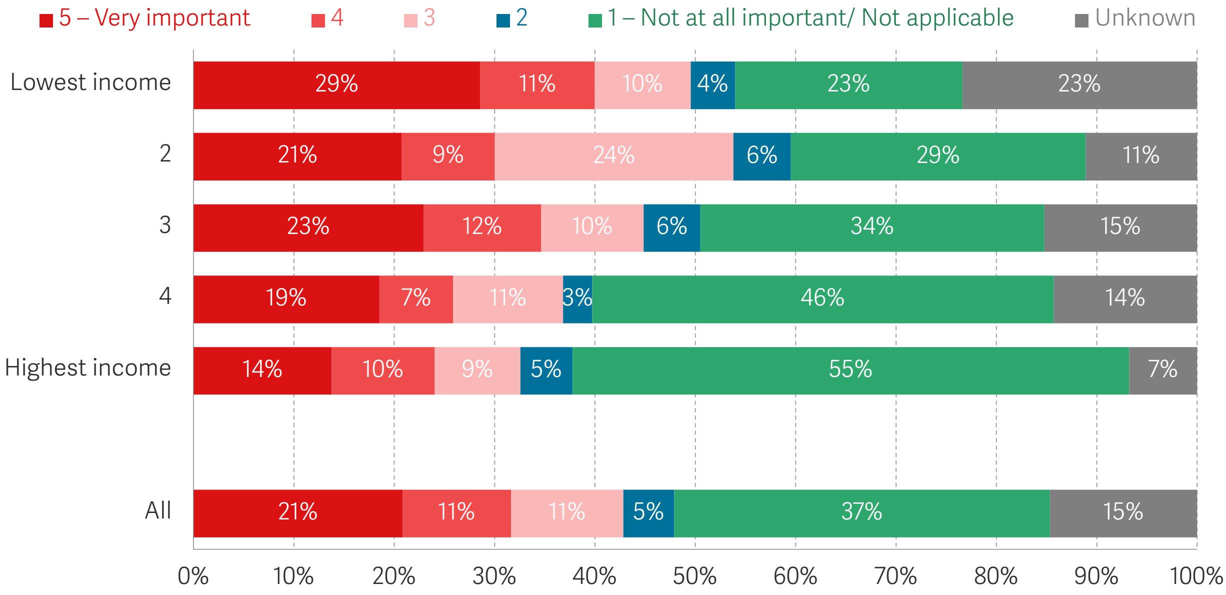
NOTES: The base is those who were unemployed, fully furloughed or self-employed but working no hours (n=1,433), fully furloughed for at least six months (n=848), those who reported a fall in pay (n=672), those who were ever furloughed full-time (n=848), employed and working hours between March 2020 and May 2021 (n=2,490), and all retired (n=1,826), all excluding prefer not to say or don't know responses. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

In normal times we would expect some families to be increasing debt as a result of natural churn – for example as a result of life events (e.g. going to university or getting divorced). And, as we know that in more normal times those on lower incomes are more likely to take on new debt in a given period, and simultaneously also more likely to experience negative labour market outcomes during the pandemic, the changes in debt above could just reflect compositional effects rather than a causative link between losing income and debt increase.[19] But, as Figure 15 shows, only 37 per cent of those who did experience an increase in debt cited income changes as not important/not applicable in driving the change in debt. And the impact of income losses is clearer when we focus just on low-income families: only 23 per cent of the poorest fifth of families who experienced rising debt said income falls were not at all a factor in the debt increase.

19 For more details on the labour market effects of the crisis see: N Cominetti, K Henehan, H Slaughter & G Thwaites, 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 2021.

FIGURE 15: **Falling income is one key driver of increases in debt**

Proportion of respondents who faced rising debt over the pandemic saying that falling income was important/not important as a driver for increased debt: UK

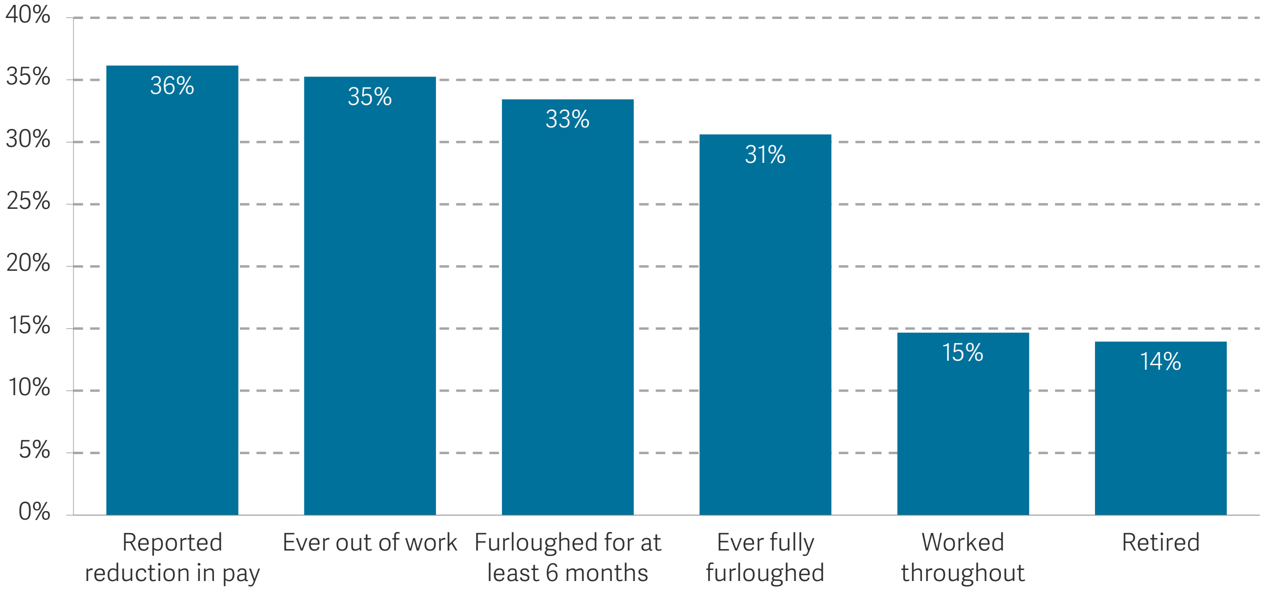


NOTES: The base is n=955: all adults aged 18+ with valid income data where debt increased during the crisis (apart from the 'all' category where the base is 2,119). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or nonworking adult students. Importance based on the highest importance figure when answering separate questions about own or partner's falling income. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

Clearly the amount of debt is not the only part of families' balance sheets which might change in response to falling income: reducing savings also appears to be related to labour market shocks. Figure 16 shows the proportion of families who reduced savings levels since the start of the pandemic by their labour market status. As with previous charts, we again see a relationship between negative labour market outcomes and reduced savings.

FIGURE 16: **Working and retired families were less likely to draw down on savings**

Proportion of households reporting a decrease in savings levels over the pandemic, by labour market status: UK, February 2020 to May 2021



NOTES: The base is those who reported a fall in pay (n=651), those who were unemployed, fully furloughed or self-employed but working no hours (n=1,320), fully furloughed for at least six months (n=394), those who were ever furloughed full-time (n=549), employed and working hours between March 2020 and May 2021 (n=2,397), and all retired (n=1,635). Base includes prefer not to say or don't know responses. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

Overall, then, changes in spending and incomes have driven higher savings for those at the top and higher debt for those at the bottom

Different families have experienced the crisis in different ways. While idiosyncratic factors are clearly very important for understanding how individual families' finances have changed over time, the overall distributional effect of this crisis is clear: the highest-income fifth of families are four times as likely to have increased saving during the pandemic as the poorest fifth and these same families are two-and-a-half times as likely to have reduced debt levels.

But changes in savings and debt are only one way in which wealth has changed. The next section looks at the impact of asset price changes and compares that indirect effect with the direct savings and debt changes.