



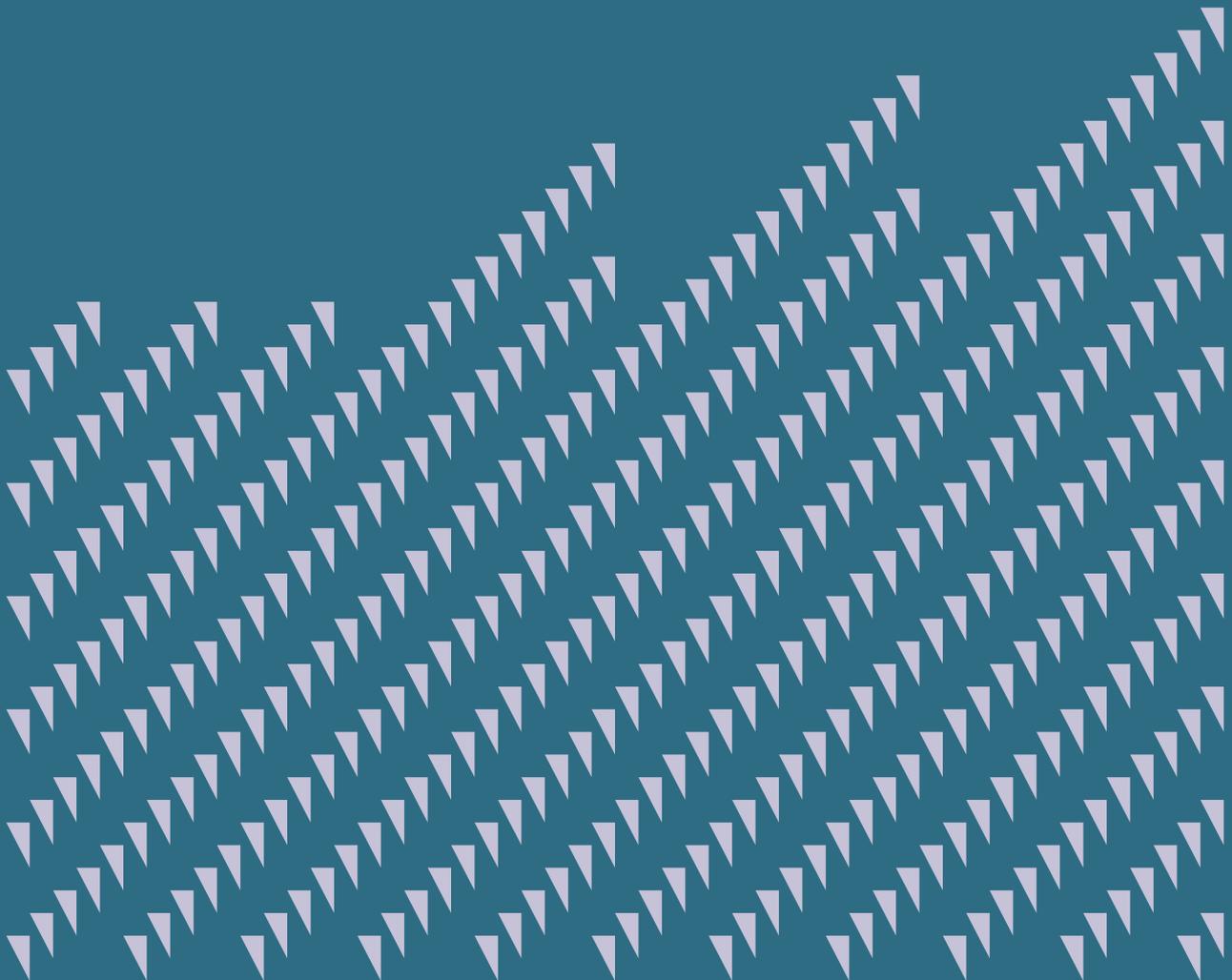
**Resolution**  
Foundation  
BRIEFING

# Return to spender

Findings on family incomes and spending from the  
Resolution Foundation's coronavirus survey

Mike Brewer & Laura Gardiner

June 2020



## Acknowledgements

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## Summary

Analysis of the early impacts of the coronavirus crisis on living standards (including our own) has focused largely on the labour market shock, with a range of new survey evidence suggesting that lower earners have been the hardest hit. But to understand how this crisis is affecting families' living standards in the round, we need to broaden our assessment to look at incomes and consumption. Based on the Resolution Foundation's new coronavirus survey of 6,000 working-age adults, this briefing note provides that assessment, with a focus on how outcomes have differed across the working-age income distribution.

We find that falls in income have been fairly evenly shared across the income distribution: 37 per cent of adults in the bottom 40 per cent of working-age incomes report income falls since the outbreak began, compared to 35 per cent of adults in the top 40 per cent of incomes. This stands in stark contrast to the pattern of changes to jobs and earnings across the earnings distribution: 33 per cent of employees who were in the bottom quintile of weekly earnings before coronavirus have experienced furloughing, job loss or hours reductions associated with reductions in pay, compared to 15 per cent in the top quintile.

This difference is explained by three factors. First, individual low earners are spread across the family-level, working-age income distribution (although employees in lower-income families remain much more likely to have lost jobs or been furloughed than those in higher-income families). Second, many adults at the bottom of the distribution were not in work prior to the coronavirus outbreak and so have not been exposed to the market income shock. Third, Britain's social security system has played an important role in cushioning job loss and earnings falls at the bottom. That happens in all downturns, but is likely to have been particularly important in this one given recent benefit uplifts, which will have boosted incomes for many lower-income families, including those whose employment situation has not changed.

Changes in spending, though, have a much stronger distributional gradient. 57 per cent of adults in the top quintile of working-age family incomes have experienced falling outgoings, compared with 30 per cent in the bottom quintile. In normal times, we would interpret falls in spending as indicative of a decline in household resources. But in this case, it seems likely that the fall in outgoings reflects an inability to spend money, given the shutdown of much of the hospitality, non-food retail and leisure sectors. If so, then, for many families, especially the better off, falls in spending reflect 'enforced saving', rather than being driven by falls in income.

And it is when we look at the combination of income and spending changes for the same adults that we find a much more concerning distributional pattern. 38 per cent of adults in the top income quintile have experienced no income hit alongside a reduction in spending – implying a strengthening of the household budget – compared to just 12 per cent of those in the bottom quintile.

This means that, despite income changes being distributed fairly evenly, the living standards implications of the early phase of this crisis remain much more serious for lower-income, working-age families than higher-income ones. This conclusion is reflected in survey respondents' assessment of their financial situations. For example, respondents' views of changes in their ability to manage financially show a much clearer gradient across income quintiles than do changes in income. Despite a deep recession being underway, respondents in the top quintile were as likely to say that their personal financial situation has improved as worsened (23 per cent compared to 22 per cent).

These findings offer important lessons for policy makers, who need to be particularly focused on providing support to those on lower incomes, whose living standards, when viewed in the round, have been put under most pressure since the coronavirus outbreak began.

## Attention has so far rightly focused on the bottom-heavy effects of the coronavirus crisis in the labour market

The rapid onset of the current pandemic and the far-reaching consequences of the necessary response to it have affected living standards in all kinds of ways. This includes people's engagement in paid work, what they spend their money on, how they spend their time, and physical and mental health and wellbeing. The highest-quality data on the preferred economic measures of living standards – household incomes and consumption – that relate to 2020-21 will not be available until early 2022. In its absence, new survey data has been rapidly collected and disseminated to provide a timely understanding of what is happening to families' living standards and economic situations.

To date, evidence from these exercises has focused largely on the effects of the crisis on workers,<sup>1</sup> with some analysis of what families and policy have done to mitigate these labour market effects,<sup>2</sup> and perceived financial difficulties as a result of them.<sup>3</sup> The

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1 See: L Gardiner & H Slaughter, [The effects of the coronavirus crisis on workers: Flash findings from the Resolution Foundation's coronavirus survey](#), Resolution Foundation, May 2020; M Gustafsson, [Young workers in the coronavirus crisis: Findings from the Resolution Foundation's coronavirus survey](#), Resolution Foundation, May 2020; A Adams-Prassl et al., [Inequality in the Impact of the Coronavirus Shock: Evidence from Real Time Surveys](#), IZA Discussion Paper No. 13183, April 2020.

2 See: M Benzeval et al., [The Idiosyncratic Impact of an Aggregate Shock: The Distributional Consequences of COVID-19](#), Understanding Society Working Paper Series No. 2020-09, June 2020; M Brewer & K Handscomb, [This time is different – Universal Credit's first recession: Assessing the welfare system and its effect on living standards during the coronavirus epidemic](#), Resolution Foundation, May 2020.

3 E Kempson & C Poppe, [Coronavirus financial impact tracker: Key findings from a national survey](#), Standard Life Foundation, April 2020.

consistent message has been that the shock to the labour market has been bottom-heavy. Our own survey, for example, shows that 33 per cent of employees in the bottom earnings quintile have lost their jobs, been furloughed, or experienced hours reductions associated with pay falls, compared with 15 per cent in the top quintile.<sup>4</sup> This is fully in line with predictions for how the crisis would be likely to play out for different workers, given that the lockdown has affected some sectors far more than others, and that there is considerable variation in people's ability to work from home.<sup>5</sup>

To get a complete picture of the current hit to living standards, however, we need to switch our focus from jobs and earnings to incomes and consumption. These are different in their scope (they pertain to everyone, not just those in work), unit of analysis (we need to think about families and households, rather than individuals) and what they constitute (in the case of income: benefits, less taxes, plus income from other sources, as well as earnings).

This briefing note is among the first to provide that analysis for working-age families, with a focus on how the impacts of the crisis vary by where individuals were in the pre-coronavirus income distribution. It is based on our own survey of 6,005 adults, collected by YouGov and supported by the Health Foundation.<sup>6</sup> All of our analysis is based on the position of 18-65-year-old adults, excluding any families containing retired adults or non-working adult students, and we consider quintiles of equivalised family income (a slightly different approach from the usual focus on household income quantiles, given the nature of our online survey).<sup>7</sup>

## The negative effects of the crisis on incomes have, so far, been more evenly shared out across the income distribution

We begin with a focus on income, based on respondents' answers to a question about how their household's income had changed from prior to the beginning of the coronavirus outbreak up to their completion of the survey in early May. Unsurprisingly, more people report that their household income has fallen (33 per cent) than risen (8 per cent). Our key finding (shown in Figure 1) is that the experience of a fall in income is distributed more evenly across the pre-coronavirus working-age income distribution

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<sup>4</sup> L Gardiner & H Slaughter, [The effects of the coronavirus crisis on workers: Flash findings from the Resolution Foundation's coronavirus survey](#), Resolution Foundation, May 2020.

<sup>5</sup> M Gustafsson & C McCurdy, [Risky business: Economic impacts of the coronavirus crisis on different groups of workers](#), Resolution Foundation, April 2020.

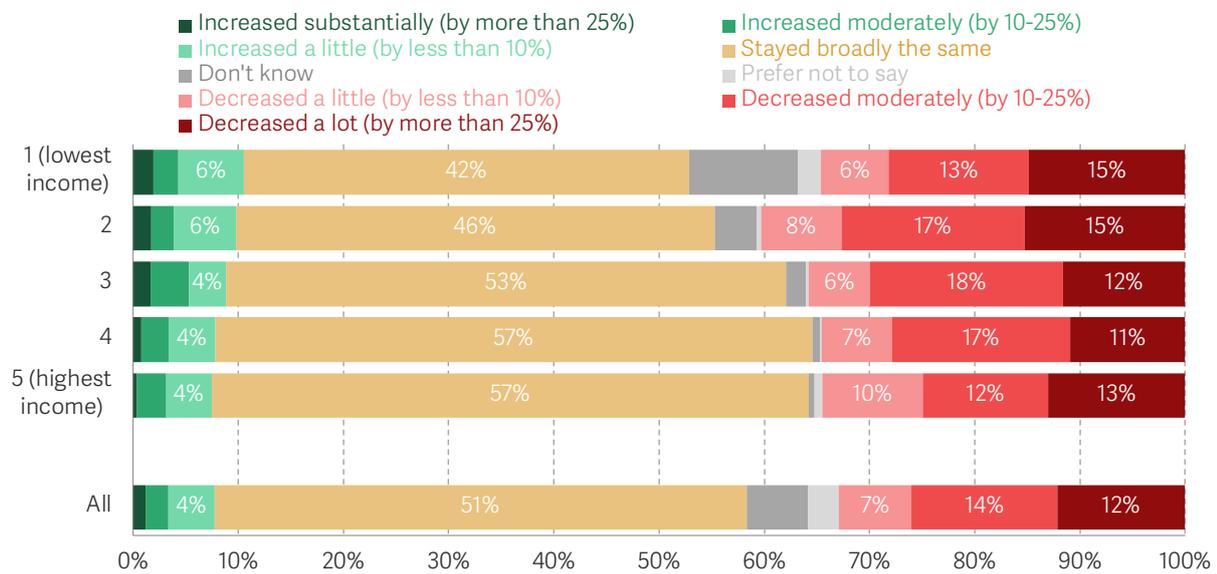
<sup>6</sup> The survey was designed and commissioned by the Resolution Foundation, in partnership with the Health Foundation (although the views in this note are not necessarily those of the Health Foundation). It was conducted using an online interview administered to members of the YouGov Plc UK panel, which is made up of 800,000+ individuals who have agreed to take part in surveys. The total sample size was 6,005 adults, aged 18-65 and fieldwork was undertaken during 6-11 May 2020. The figures presented here have been weighted and are representative of all UK adults (aged 18+) according to age, gender, and region. The figures presented here are not reflective of YouGov statistics and have been analysed independently by the Resolution Foundation.

<sup>7</sup> The annex provides a detailed description of how we arrive at these income estimates, as well as information on the comparability of our survey data to survey datasets containing pre-coronavirus information on employment, earnings, incomes and family structure.

than is the experience of falls in earnings across the earnings distribution, discussed above. The likelihood of household income having stayed the same or increased does rise with family income (from 53 per cent of adults in the bottom quintile to 64 per cent in the top quintile). But the likelihood of income having fallen is quite similar at the top and bottom of the distribution (37 per cent of adults in the bottom 40 per cent of working-age incomes report income falls, compared to 35 per cent of adults in the top 40 per cent).<sup>8</sup>

**FIGURE 1: The likelihood of incomes having fallen does not vary much across income quintiles**

Change in household income compared to before the coronavirus outbreak began, by 18-65-year-old family income quintile before coronavirus (exc. retired and students): UK, 6-11 May 2020



NOTES: Base = all adults aged 18-65 with valid income data (apart from the 'all' category – the fact that adults without valid income data are included in the all category explains why there is a lower incidence of income falls here than across quintiles). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or non-working adult students (see the annex for details). Question wording = To what extent has your household's income (the money you and any partner 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?

SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

What explains the different pattern of income changes across the income distribution compared to employment changes across the earnings distribution? There are three key components to the answer.

First, those with the lowest earnings are not necessarily those with the lowest incomes. For example, previous research has shown that the majority of minimum wage earners

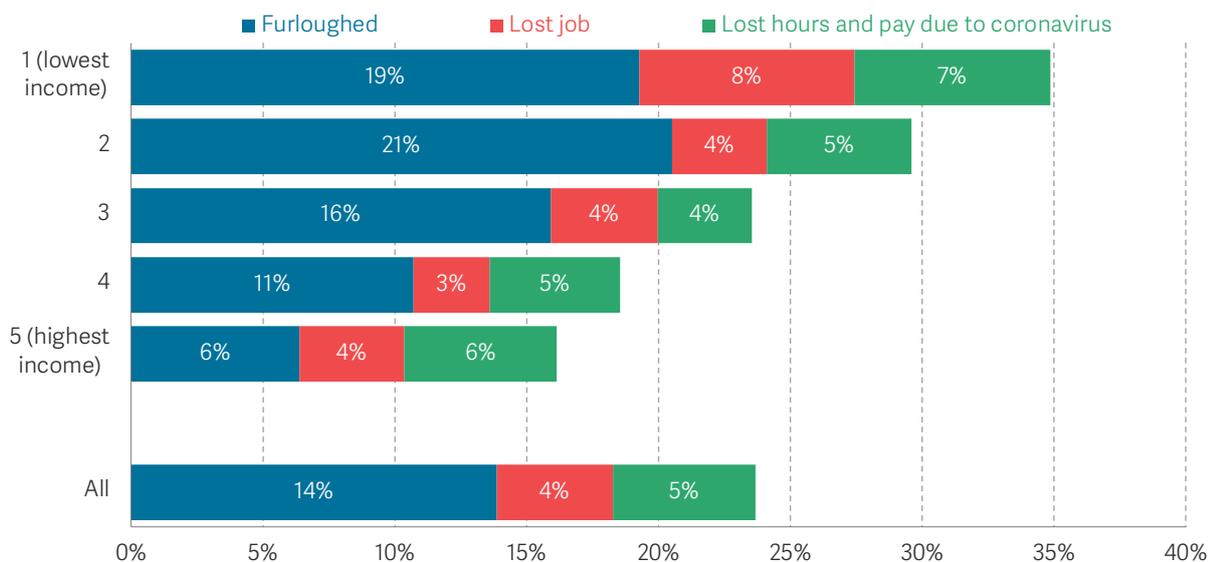
<sup>8</sup> These patterns are partly reflective of a greater proportion of adults in the bottom income quintiles responding 'don't know' or 'prefer not to say'. For completeness, we choose to include such responses in our analysis throughout this briefing note, unless otherwise stated.

live in middle-income households.<sup>9</sup> And two-fifths (41 per cent) of the bottom 20 per cent of weekly earners are in the top half of the household income distribution.<sup>10</sup>

However, this is only a limited explanation of the different patterns. This is because, as Figure 2 shows, the coronavirus-related employment hits are still skewed towards the bottom of the income distribution, as they are in the distribution of earnings. Although furloughing is more evenly spread across the income distribution than it is across the earnings distribution, overall these damaging employment effects are strongly negatively related to both earnings and family incomes.<sup>11</sup>

**FIGURE 2: Job loss and furloughing are most common among those with lower family incomes**

Proportion of respondents in employee jobs prior to the coronavirus outbreak who have experienced job changes since the coronavirus outbreak, by 18-65-year-old family income quintile before coronavirus (exc. retired and students): UK, 6-11 May 2020



NOTES: Base = all adults aged 18-65 who had an employee job prior to the coronavirus outbreak, and with valid income data (apart from the 'all' category). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or non-working adult students (see the annex for details). 'Furloughed' and 'lost job' relate to employees' main job; 'lost hours and pay due to coronavirus' captures employees not in either of these first two groups who are working fewer hours than their usual hours before the coronavirus outbreak, which they state has happened for coronavirus-related reasons, and who have also experienced decreases in earnings. SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

The second part of our answer – closely related to the finding above that lower earners can be found across the income distribution – is that the bottom income quintile is less

<sup>9</sup> J Cribb, R Joyce & X Xu, *The future path of minimum wages*, Institute for Fiscal Studies, November 2019.

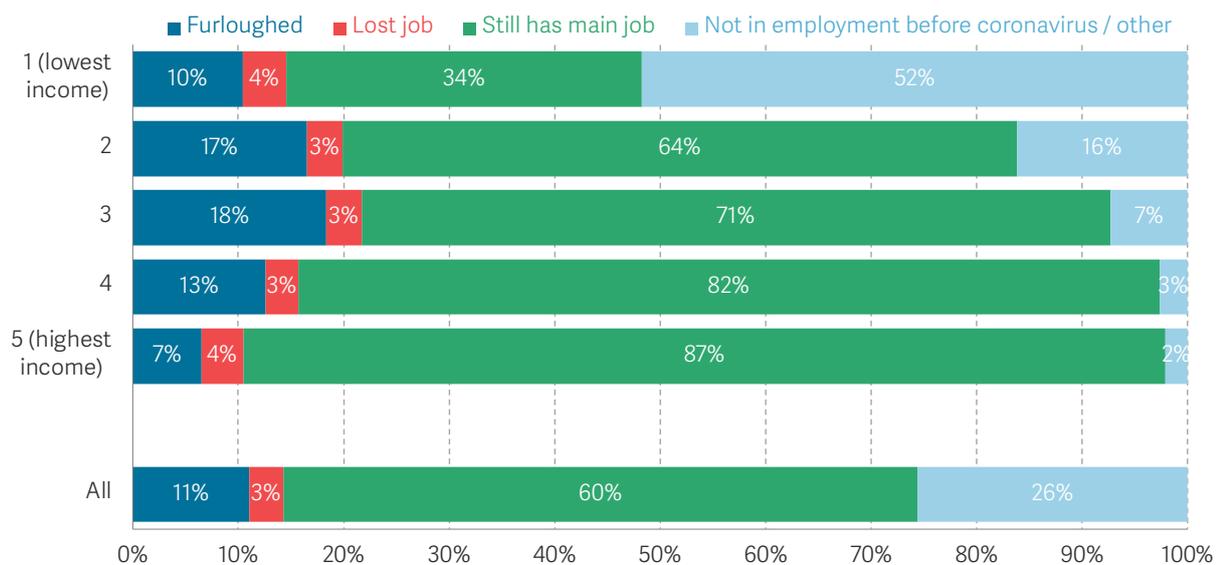
<sup>10</sup> Based on adults with positive gross income from employment, measured across the after-housing-costs income distribution. Source: RF analysis of DWP, Family Resources Survey.

<sup>11</sup> See: L Gardiner & H Slaughter, *The effects of the coronavirus crisis on workers: Flash findings from the Resolution Foundation's coronavirus survey*, Resolution Foundation, May 2020.

exposed to the coronavirus shock to the labour market because it contains fewer adults who are in work. This is shown in Figure 3, which takes the findings about how job loss and furloughing vary across income quintiles from Figure 2 and instead measures their incidence among all adults, rather than just those respondents who were employees pre-coronavirus.<sup>12</sup> Because around half of adults in the bottom quintile of our distribution were not working before the outbreak, when we consider their incidence across all working-age adults, we find that furloughing has been most common overall in middle-income families (measured before the outbreak began), and job loss is evenly spread across the income distribution.

**FIGURE 3: Those in lower-income families are less exposed to market income shocks because they are less likely to be working**

Proportion of adults (respondents and partners) who have experienced job changes since the coronavirus outbreak, by 18-65-year-old family income quintile before coronavirus (exc. retired and students): UK, 6-11 May 2020



NOTES: Base = all adults aged 18-65 who provided information on whether they have a partner or not, and with valid income data (apart from the 'all' category). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or non-working adult students (see the annex for details). 'Furloughed' and 'lost job' relate to the individual's main job.

SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

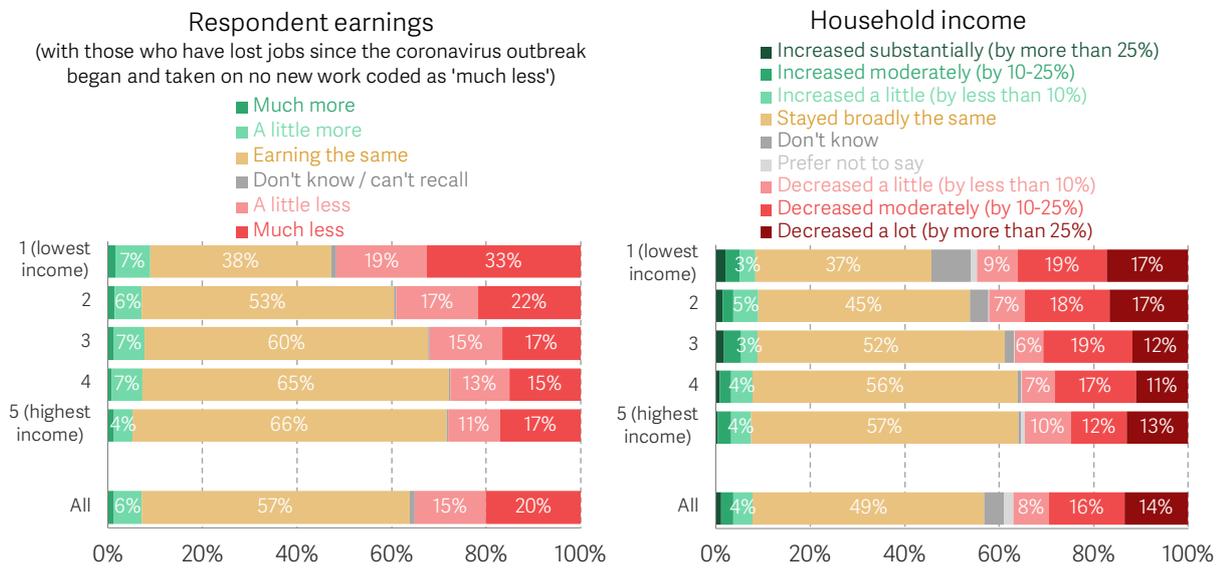
The final part of our answer is that our social security safety net has protected the incomes of those in lower-income, working-age families who experienced job loss or falls in earnings due to coronavirus. This is demonstrated in Figure 4, which compares the incidence of falls in earnings since coronavirus began with falls in income, for respondents in employment prior to coronavirus. The response scales in these questions

<sup>12</sup> We do not include the 'lost hours and pay due to coronavirus' category here, because we do not have that information for respondents' partners.

are different, but the pattern suggests that falls in earnings have a steeper gradient across income quintiles than do falls in income. This will reflect the fact that means-tested benefits and tax credits cushion the blow when people lose jobs or hours, or when their pay falls for other reasons (as well as the fact that benefits have risen, as we discuss below).

**FIGURE 4: Among respondents in work prior to coronavirus, earnings reductions show a stronger gradient across the income distribution than income hits do**

Change in respondent earnings and household income among respondents in employment prior to the coronavirus outbreak, by 18-65-year-old family income quintile before coronavirus (exc. retired and students): UK, 6-11 May 2020



NOTES: Base = all adults aged 18-65 who were in employment prior to the coronavirus outbreak, with valid income data (apart from the 'all' category). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or non-working adult students (see the annex for details). Question wording = Overall, are you earning more or less money from your all of your paid employment currently than you did before the Coronavirus (COVID-19) outbreak in the UK (i.e. end of February 2020), or are you earning the same? And: To what extent has your household's income (the money you and any partner 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?  
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

This finding – that the social security system cushions those on lower incomes – is uncontroversial. It is one of the reasons why income inequality and relative poverty often fall initially during recessions.<sup>13</sup> In addition, in this particular crisis it will also reflect the fact that the Government has increased entitlement to the main means-tested benefits

<sup>13</sup> The experience of pensioners (whose incomes are more protected in downturns) also has a strong bearing on these outcomes, with working-age poverty less likely to fall. Alongside the fact that employment effects in this crisis are particularly bottom-heavy for those in work (when the distribution is measured by either earnings or income), our focus on working-age adults in this note will be one reason why we are still left with slightly more negative income effects at the bottom of the income distribution than at the top.

significantly through the £20 per week uplift to Universal Credit and Working Tax Credit.<sup>14</sup> As well as strengthening the ability of the safety net to protect incomes for those losing jobs or earnings, this change has increased incomes for many (but not all<sup>15</sup>) in- and out-of-work families that were already in receipt of benefits.<sup>16</sup> The Coronavirus Job Retention Scheme will also have played a big role in cushioning incomes, at least relative to a counterfactual scenario in which those people furloughed would otherwise have lost their jobs. Although, as Figure 3 showed, its effects are concentrated in the middle of the income distribution (with those in the top income quintiles less likely to be furloughed than those either in the middle or at the bottom).<sup>17</sup>

These three features of modern Britain – that low earners are not all at the bottom of the income distribution; that many of those on lower incomes are not working and therefore not exposed to market income shocks; and that a progressive benefits system protects families on lower incomes from earnings losses – all explain why an employment hit that is focused on lower earners has translated into a more evenly distributed hit to household incomes.

## There is a much starker pattern in relation to spending changes, with those on higher incomes most likely to have reduced spending

Initial changes in incomes are not the end of the story, however. An additional lens on living standards can be provided by a focus on spending. Indeed, many argue that consumption spending provides a more direct, detailed, and (in some cases) accurate lens on day-to-day living standards than income does.<sup>18</sup>

Our key finding, shown in Figure 5, is that changes in spending display a much clearer pattern across the (working-age, pre-coronavirus) income distribution than do the income changes shown in Figure 1. 57 per cent of adults in the top quintile of working-age family incomes have experienced reduced outgoings, compared to 30 per cent in the bottom quintile. Across all families, outgoings are twice as likely to have decreased (as they have for 40 per cent of respondents) as to have increased (20 per cent).

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<sup>14</sup> Alongside this have been changes to Local Housing Allowance rates that limit housing support, and support for the self-employed. See: M Brewer & K Handscomb, *This time is different – Universal Credit's first recession: Assessing the welfare system and its effect on living standards during the coronavirus epidemic*, Resolution Foundation, May 2020.

<sup>15</sup> Contributory benefits ('new-style' Jobseeker's Allowance and Employment and Support Allowance) have not been increased, and nor have the legacy (pre-Universal Credit) 'income-based' versions of these benefits for the relatively small number of people still on them. In addition, the benefit cap and a national cap on Local Housing Allowance rates will have limited or entirely negated benefit increases for some.

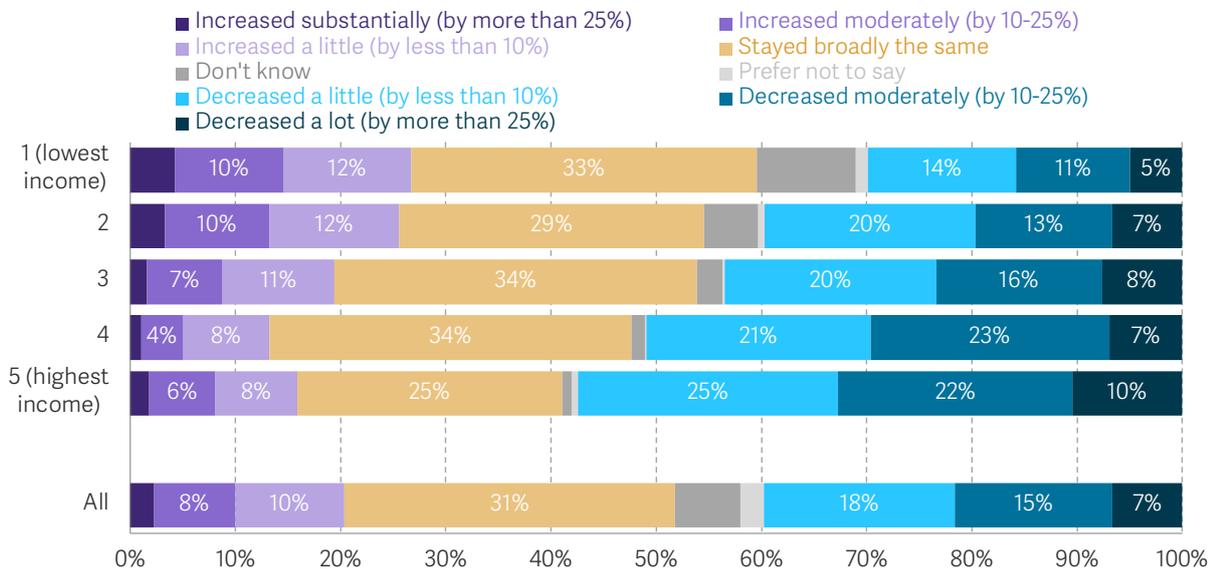
<sup>16</sup> See Section 3 of: M Brewer & K Handscomb, *This time is different – Universal Credit's first recession: Assessing the welfare system and its effect on living standards during the coronavirus epidemic*, Resolution Foundation, May 2020.

<sup>17</sup> The Self-Employment Income Support Scheme is likely to have similar effects but, because grants had not been paid at the time of our survey, it is unlikely to have affected responses to our question on income changes.

<sup>18</sup> L Gardiner, D Hirsch & L Valadez-Martinez, *Consuming forces: Generational living standards measured through household consumption*, Resolution Foundation, September 2017; M Brewer, B Etheridge & C O'Dea, *Why are Households that Report the Lowest Incomes So Well off?*, *Economic Journal* 127(605), October 2017.

FIGURE 5: Spending changes follow a much clearer distributional pattern, with spending reductions at the top

Change in household spending compared to before the coronavirus outbreak began, by 18-65-year-old family income quintile before coronavirus (exc. retired and students): UK, 6-11 May 2020



NOTES: Base = all adults aged 18-65 with valid income data (apart from the 'all' category). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or non-working adult students (see the annex for details). Question wording = Still thinking about now in comparison to before the Coronavirus (COVID-19) outbreak started (i.e. the end of February 2020)...To what extent have your household's outgoings changed?  
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

This finding requires careful interpretation. In normal times, we might interpret spending falls as a 'bad thing', reflecting either falls in income or increases in precautionary savings behaviour in anticipation of tough economic times ahead. However, given the lockdown of large sections of our economy and the restrictions on travel, falling levels of spending in this crisis also reflect reduced opportunities to spend on non-essentials. Previous research has shown that higher-income families devote a smaller proportion of their spending to items deemed essentials than lower-income families,<sup>19</sup> and that pre-coronavirus spending on items and activities likely to be affected by the lockdown was concentrated among those on higher incomes.<sup>20</sup>

For some families, spending cuts are less of a realistic prospect, particularly for those on lower incomes who devote a greater proportion of their spending to essentials. Indeed, Figure 6 shows that, for the lowest-income families with children, spending is much more likely to have increased (37 per cent) than decreased (8 per cent). This will reflect the fact that many of the costs associated with bringing up children are fixed, and that school

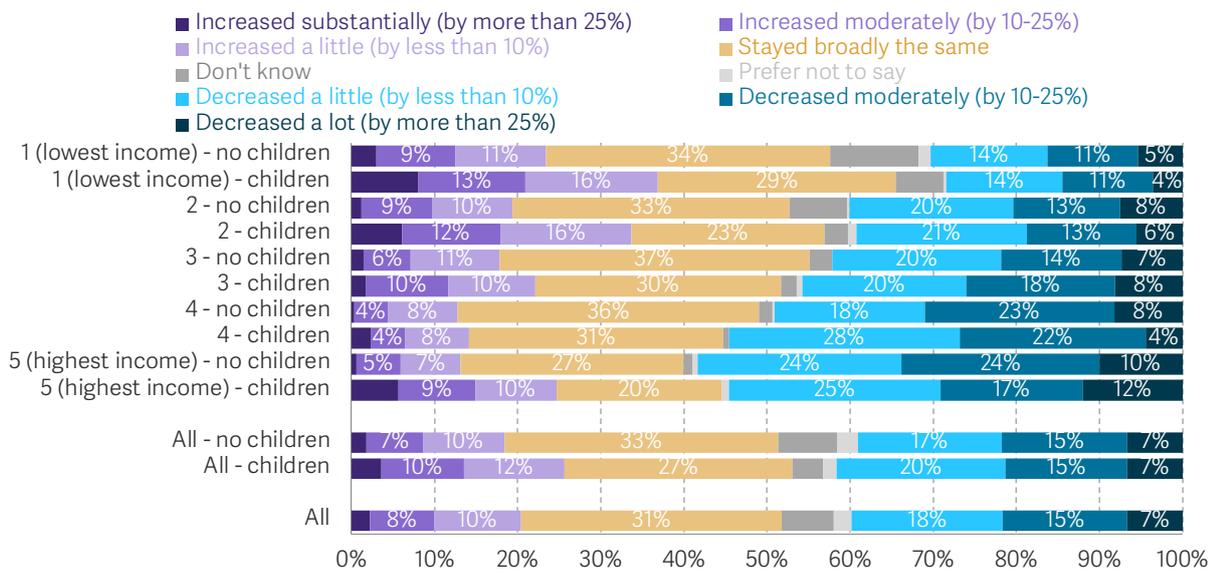
19 J Smith & C Pacitti, *A problem shared?: What can we learn from past recessions about the impact of the next across the income distribution?*, Resolution Foundation, August 2019.

20 D Corry, *'Excess saving' in lockdown: a big new economic challenge*, New Policy Institute, May 2020.

and nursery closures in this crisis have loaded additional cost (and time) pressures onto parents. For example, parents will have had to provide lunches (which will have been provided for free at school for many) and educational resources. This finding serves as a reminder that an overall reduction in spending does not ring true for all households.

**FIGURE 6: Spending is more likely to have increased for families with children on lower incomes**

Change in household spending compared to before the coronavirus outbreak began, by 18-65-year-old family income quintile before coronavirus (exc. retired and students) and whether has children or not: UK, 6-11 May 2020

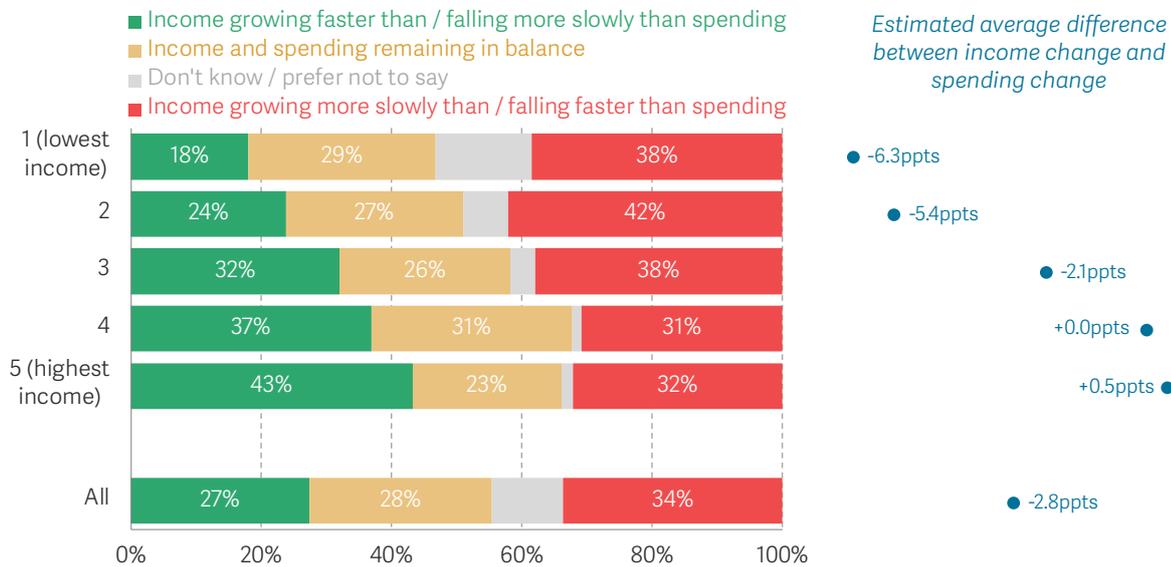


NOTES: Base = all adults aged 18-65 with valid income data (apart from the 'all' category). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or non-working adult students (see the annex for details). Question wording = Still thinking about now in comparison to before the Coronavirus (COVID-19) outbreak started (i.e. the end of February 2020)...To what extent have your household's outgoings changed?  
 SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

To try to separate out reductions in spending that reflect falls in income from spending reductions that reflect precautionary saving or lockdown restrictions on consumption, Figure 7 plots our measures of income change and spending change together. It shows that over two-fifths (43 per cent) of those in the top quintile of working-age, pre-coronavirus incomes have experienced consumption falls that are greater than any income falls (or consumption increases smaller than any income increases), compared to under one-fifth (18 per cent) in the bottom quintile. 'Excess saving' (either precautionary or enforced by restrictions) is very clearly skewed towards the better off.

**FIGURE 7: There is a clear distributional spread in those whose income changes are outperforming their spending changes**

Change in household income and spending compared to before the coronavirus outbreak began, by 18-65-year-old family income quintile before coronavirus (exc. retired and students): UK, 6-11 May 2020



NOTES: Base = all adults aged 18-65 with valid income data (apart from the 'all' category). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or non-working adult students (see the annex for details). Right-hand panel excludes those responding 'don't know' or 'prefer not to say', and is based on assigning those in income and spending change categories values as follows: +/->25 per cent = 33 per cent; +/-10-25 per cent = 17.5 per cent; +/-<10 per cent = 5 per cent. For question wording, see notes to Figure 1 and Figure 5. SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

Across all respondents, we find in Figure 7 that incomes are more likely to have grown more slowly or fallen faster than spending, than to have grown more quickly or fallen more slowly than spending. This is not necessarily inconsistent with recent aggregate data showing a large rise in broad money holdings by households.<sup>21</sup> First, our analysis excludes pensioners (who are much less likely to have experienced a fall in income than working-age adults, but at least as likely to be facing reduced opportunities to spend). More importantly, the volumes of income and spending are so much larger at the top of the income distribution than the bottom, thereby driving aggregate 'excess saving' into positive territory, despite the typical working-age experience being otherwise.

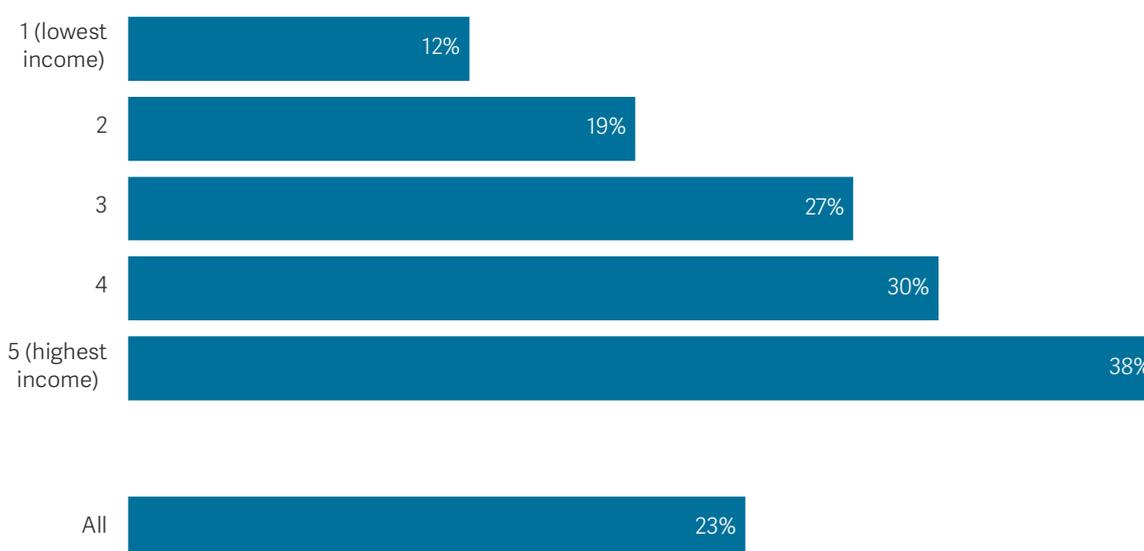
Figure 8 presents this in another way, showing the proportion of respondents experiencing no income hit together with a reduction in outgoings. This situation applies to 38 per cent in the top quintile compared with 12 per cent in the bottom quintile. The clear message from this analysis is, therefore, that despite a relatively benign

<sup>21</sup> J Smith & T Yates, *The Macroeconomic Policy Outlook Q2 2020*, Resolution Foundation, May 2020.

picture when assessing income changes across the distribution, the living standards implications of this crisis remain much more serious for lower-income, working-age families than higher-income ones.

**FIGURE 8: Three times as many adults in the top income quintile as in the lowest income quintile have experienced no income hit alongside a spending reduction**

Proportion of respondents whose household income has risen or stayed the same and spending has fallen compared to before the coronavirus outbreak began, by 18-65-year-old family income quintile before coronavirus (exc. retired and students): UK, 6-11 May 2020



NOTES: Base = all adults aged 18-65 with valid income data (apart from the 'all' category). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or non-working adult students (see the annex for details). For question wording, see notes to Figure 1 and Figure 5.

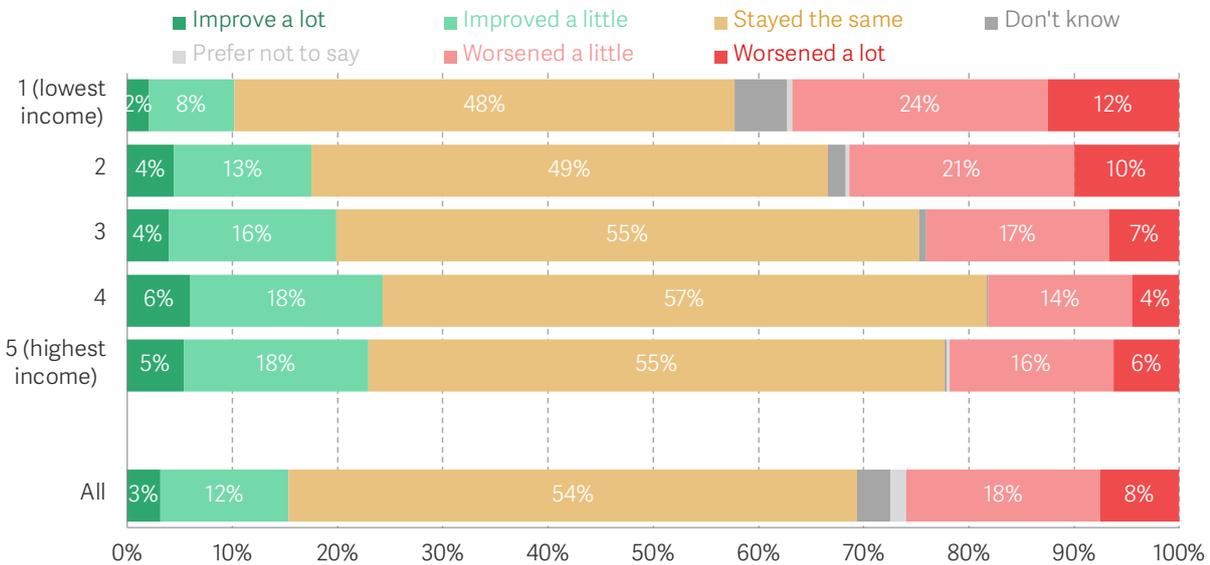
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

## These outcomes are reflected in subjective measures of financial situations, but the outlook for the future is more mixed

Our conclusions above on the combined effect of income and spending changes are reflected in the fact that survey respondents' views of changes in their ability to manage financially show a much clearer gradient across income quintiles than do income changes. Figure 9 shows that respondents in the bottom quintile of pre-coronavirus incomes are much more likely to say that their ability to manage has worsened than improved (37 per cent compared to 10 per cent), whereas, despite a deep recession being underway, respondents in the top quintile are as likely to say that things have improved as worsened (23 per cent compared to 22 per cent).

**FIGURE 9: Respondents on lower incomes are most likely to say their ability to manage financially has worsened**

Change in respondents' ability to manage financially compared to before the coronavirus outbreak began, by 18-65-year-old family income quintile before coronavirus (exc. retired and students): UK, 6-11 May 2020

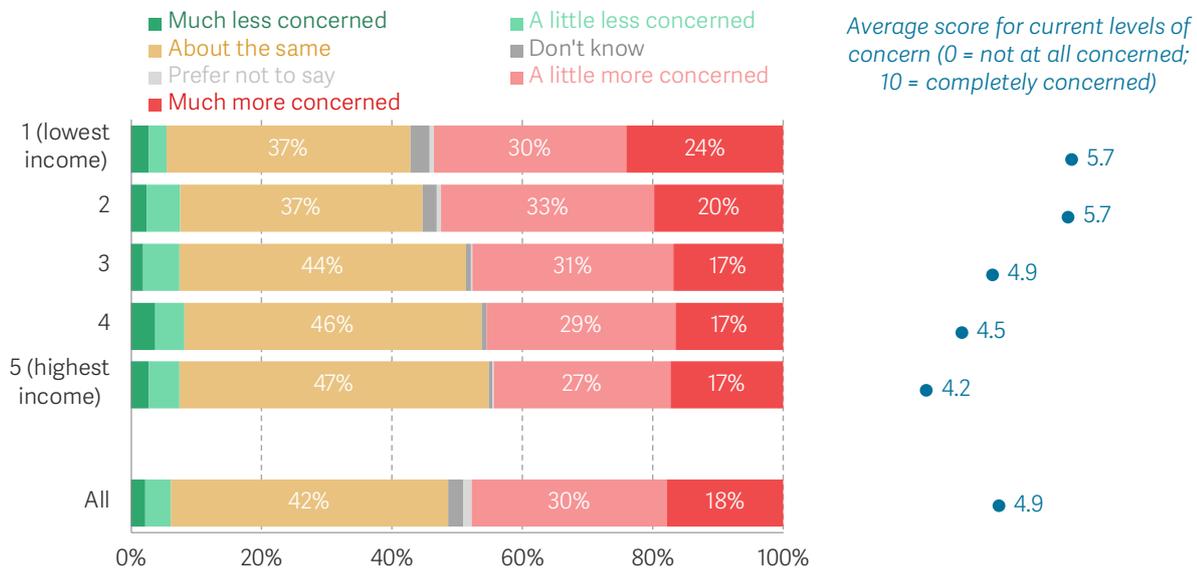


NOTES: Base = all adults aged 18-65 with valid income data (apart from the 'all' category). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or non-working adult students (see the annex for details). Question wording = Overall, to what extent has your ability to manage financially improved or worsened since the Coronavirus (COVID-19) outbreak in the UK (i.e. since the end of February 2020), or stayed the same?  
 SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

Similarly, the left-hand panel in Figure 10 shows that 54 per cent of adults in the bottom fifth of pre-coronavirus working-age incomes have become more concerned about their family finances since the coronavirus outbreak began, compared with 44 per cent in the top quintile.

### FIGURE 10: Those on the lowest incomes are currently the most concerned about family finances

Change in concern about family finances compared to before the coronavirus outbreak began and current levels of concern, by 18-65-year-old family income quintile before coronavirus (exc. retired and students): UK, 6-11 May 2020

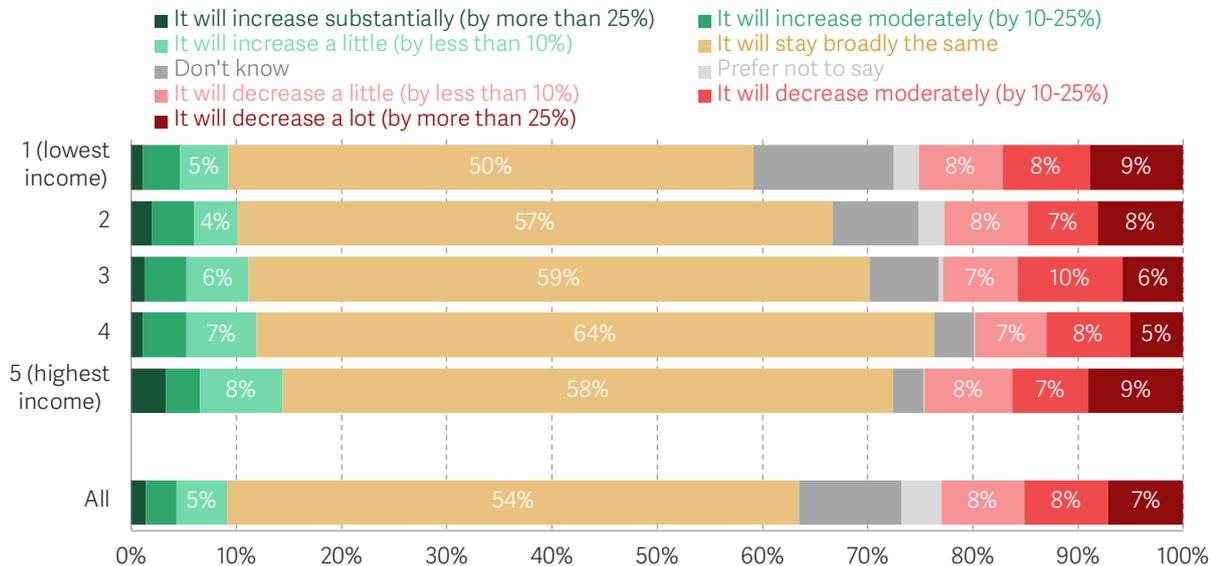


NOTES: Base = all adults aged 18-65 with valid income data (apart from the 'all' category). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or non-working adult students (see the annex for details). Question wording = Generally, are you more or less concerned about each of the following now compared to before the outbreak began (i.e. before the end of February 2020)? (Please select one option on each row). And: On a scale from 0 to 10 where 0 is 'Not at all concerned' and 10 is 'Completely concerned', how concerned, if at all, are you about each of the following aspects of your life currently? (Please select one option on each row): My/ my family's overall finances and income.  
 SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

Turning to the prospects for the future, Figure 11 shows a fairly even distributional picture in terms of those expecting (additional) income falls over the coming three months, with identical fractions of the top and bottom quintiles reporting that they expect incomes to fall. The reasons why there is not a strong gradient to this outcome to some extent match the reasons discussed above for why the initial fall in income did not have a strong gradient across the income distribution. But this outcome may also reflect the fact that, as this crisis moves from its acute phase (with severe and targeted impacts on some people, such as those losing jobs) to a more generalised demand deficiency phase, so the impacts may become more evenly spread.

**FIGURE 11: There aren't huge differences across the income distribution in expectations for income changes over the coming three months**

Expectations for household income over the next three months, by 18-65-year-old family income quintile before coronavirus (exc. retired and students): UK, 6-11 May 2020



NOTES: Base = all adults aged 18-65 with valid income data (apart from the 'all' category). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or non-working adult students (see the annex for details). Question wording = Thinking about over the next three months (i.e. up until early August 2020)...Do you expect your household's income (i.e. the money you/ your partner have coming in from earnings, benefits, investments etc.) to increase or decrease, or do you think it will stay broadly the same?. SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19).

## Policy makers must take heed of the more serious living standards implications of this crisis for lower-income families

The findings in this briefing note have shown the complicated interactions between the distribution of changes in employment and earnings for those in work, and the distribution of income and spending changes across the (working-age, family) income distribution during the early phase of the coronavirus crisis. We find that the bottom-heavy labour market hit is not translated into as bottom-heavy a hit to family incomes, due in part to the success of our social security safety net in cushioning the blow (with policy changes also actively raising the incomes of many families that were already receiving benefits). But looking jointly at how income and spending have changed for individual families provides a much more concerning picture. Higher-income families are far more likely to have experienced a reduction in spending alongside no hit to incomes, leading to additional saving (whether precautionary or enforced). A future Resolution Foundation report will explore the impact of this crisis on household balance sheets in much more detail, including the distributional incidence of increased debt usage. But it is already clear – from both the combination of income and spending changes, and survey

respondents' assessments of their own financial situations – that the crisis to date has had very different effects on the living standards – considered broadly – of lower-income, working-age families than it has on those of higher-income families. In short, it has been much worse for poorer families.

These findings offer important lessons for policy makers. On the macroeconomic side, it will be essential to remember that aggregate evidence of increased precautionary or excess saving in the household sector will not ring true for many (indeed, on the basis of our survey, for most) families. The rise in enforced saving that has been concentrated among those on higher incomes shows why the universal financial giveaways some were calling for at the beginning of this crisis would not have been helpful (aside from being difficult to implement speedily). As we consider how policies should develop over the recovery phase of this crisis – including the phasing out of the Coronavirus Job Retention Scheme, the introduction of support to help the unemployed return to work, and any further changes to welfare benefits – policy makers should be particularly focused on providing support to those on lower incomes whose living standards changes so far have been most concerning. Further down the track, any fiscal consolidation after this crisis that is needed to reduce the Government's deficit should be designed with an eye to those whose overall financial situation has been least affected by the crisis, not least those who have experienced spending reductions alongside no hit to incomes. A keen eye to the differential impacts of this crisis on different groups within society will allow policy makers to support the recovery most effectively, and prevent this crisis, as far as is possible, from becoming a long-term living standards crisis.

## Annex: Comparing the Resolution Foundation coronavirus survey data to other sources, and using it to estimate family incomes

The major new part of our analysis in this note features our estimate of the equivalised, disposable, before-housing-costs, family (i.e. benefit unit – meaning a single person or couple and any dependent children) income distribution before the coronavirus outbreak began, for 18-65-year-olds, excluding those in families containing retired adults or non-working adult students. We use this to divide respondents into pre-coronavirus income quintiles, so as to assess how outcomes vary between lower-income and higher-income families. This annex explains the steps we took in more detail and compares our new estimates to those from more established household surveys.

We estimate family income using information collected in our survey on individuals' and their partners' earnings, any benefits received, housing tenure and family structure. The survey was designed and commissioned by the Resolution Foundation, in partnership with the Health Foundation (although the views expressed here are not necessarily those of the Health Foundation). It was conducted using an online interview administered to members of the YouGov Plc UK panel, which is made up of 800,000+ individuals who have agreed to take part in surveys. The total sample size was 6,005 adults, aged 18-65 and fieldwork was undertaken during 6-11 May 2020. Figures presented here have been weighted and are representative of all UK adults (aged 18+) according to age, gender, and region.

Our approach took the following steps.

### **1. Checking the representativeness of the sample against other sources**

We began by comparing our survey data (which is only designed to be representative of age, gender and region) to the Labour Force Survey. We reviewed variables including economic activity, family structure, housing tenure and industry of employment (see Figure 12 and Figure 13 for examples). There are differences – including a slightly lower proportion of employed people and higher proportion of single adults without children in our survey – but in general we are satisfied that these differences are small enough for the data to be used to estimate income quantiles with some accuracy.

**FIGURE 12: Our survey matches the Labour Force Survey relatively well in terms of broad economic activity measures**

Economic activity of 18-65-year-olds, Resolution Foundation coronavirus survey compared to Labour Force Survey: UK



NOTES: Base for RF survey = all adults aged 18-65.  
 SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19); ONS, Labour Force Survey.

**FIGURE 13: Our survey is relatively well aligned with the Labour Force Survey in terms of the structure of working-age families**

Family structure of 18-65-year-olds, Resolution Foundation coronavirus survey compared to Labour Force Survey: UK



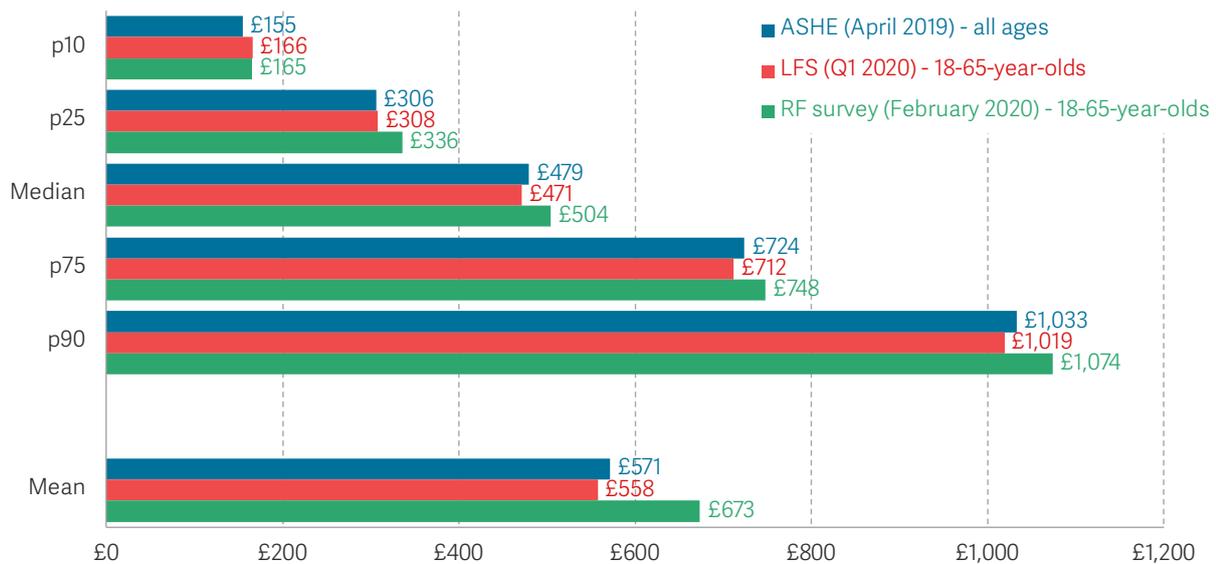
NOTES: Base for RF survey = all adults aged 18-65.  
 SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19); ONS, Labour Force Survey.

## 2. Constructing consistent earnings variables and comparing to other sources

We constructed consistent variables for gross and net earnings before coronavirus (i.e. around the end of February), for respondents and any working partners. Respondents were able to provide pay information on an hourly, weekly, fortnightly, monthly or annual basis, and in gross or net terms. We standardised this information using a modified version of the Resolution Foundation's case study model to calculate income tax and National Insurance liabilities during 2019-20, for both employees and the self-employed.<sup>22</sup> We assumed that employees are making minimum auto-enrolment pension contributions in the conversion from gross to net (and net to gross) earnings.

**FIGURE 14: Our survey reflects more established sources in terms of the shape of the earnings distribution**

Gross weekly employee earnings statistics, Resolution Foundation coronavirus survey compared to Labour Force Survey and Annual Survey of Hours and Earnings: UK



NOTES: Base for RF survey = all adults aged 18-65 who had an employee job prior to the coronavirus outbreak, and provided information on their usual earnings prior to the coronavirus outbreak. Data from the Resolution Foundation survey covers responding individuals only, not partners. The Annual Survey of Hours and Earnings and Labour Force Survey results cover an individual's main employee job, whereas the RF survey covers all employee earnings across jobs. We assume that the earnings of those both employed and self-employed in the RF survey are split evenly between the two employment forms.

SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19); ONS, Labour Force Survey.

<sup>22</sup> We assume the earnings of people who are both employed and self-employed are split evenly between the two employment forms.

Comparison of Resolution Foundation survey respondents' employee earnings to other employee earnings data (Figure 14) suggests that our survey estimates align well with other sources, generally coming out only slightly higher (although quite a lot higher at the mean<sup>23</sup>).

### 3. Assigning rents, Council Tax bills and benefit take-up

We did not collect information on rent levels in our survey. Therefore, we imputed the level of rents according to tenure (social or private), region, and the number of bedrooms that the family would require according to the 'bedroom standard' (up to a maximum of three bedrooms). We used lower-quartile private rents (drawn from Valuation Office Agency data) for private renters, and average local authority rents for social renters. Rents are only relevant for our income estimates when we estimate entitlement to benefits, so this approach (i.e. focusing on lower-quartile private rents rather than average rents) is felt to be appropriate for the population in question, and is the same as the approach taken in the calculation of the voluntary Living Wage.

We assigned each family the average Band D Council Tax bill for their region.

We used responses to our survey question on the benefits that families received prior to the coronavirus outbreak to assign entitlements to Disability Living Allowance, Carer's Allowance, Personal Independence Payment, Child Benefit, Council Tax Support and Universal Credit (UC). For simplicity, consistency and due to the information we have available,<sup>24</sup> we simulated all families' benefit entitlements in the UC system, rather than the legacy benefits system. This means that we assumed that any respondents in our survey who said they were receiving tax credits, Housing Benefit, Jobseeker's Allowance, Employment and Support Allowance and Income Support, were actually receiving UC. In practice, this may overestimate benefit income for some.

### 4. Modelling benefit entitlement for those in receipt

We used a modified version of the Resolution Foundation's case study model to estimate UC, Council Tax Support and Child Benefit entitlements for those families taking up these benefits. The model accounts for earnings, family structure, the ages of family members,<sup>25</sup> rents, Council Tax bills, and the parameters of the benefit system in 2019-20.

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<sup>23</sup> This larger difference at the mean reflects some very high values at the top of the earnings distribution in our survey in comparison to other sources, particularly above the 96th percentile. This may well reflect response error, for example, respondents accidentally submitting monthly values as weekly earnings. However, top-censoring our data risks introducing bias in the other direction, by effectively assuming that any respondent whose earnings put them among the top 4 per cent of earners has responded in error. We do not directly analyse earnings or incomes data in this analysis, only using these to classify respondents into distributions. So, this top-earnings discrepancy in comparison to other datasets is a source of misclassification error only, with the error affecting our earnings and incomes quantiles in similar ways.

<sup>24</sup> For example, we don't know partners' working hours, which are pertinent to the calculation of tax credit entitlements.

<sup>25</sup> We assumed partners are the same age as respondents, as our survey did not collect this information.

For simplicity, and due to a lack of the relevant information in our survey, we assumed no entitlement to childcare support, or enhanced allowances related to health and disability. This will underestimate benefit income in some cases.

We assigned all recipients the middle care component in Disability Living Allowance, the standard daily living component in Personal Independence Payment, and the standard rate of Carer's Allowance.

## 5. Calculating net family incomes for valid cases

We calculated raw (unequalised) family incomes using the following formula:

*Unequalised family income = Respondents' gross earnings + partners' gross earnings – pension contributions – income tax – employee/self-employed National Insurance contributions – Council Tax + Universal Credit + Council Tax Support + Child Benefit + Disability Living Allowance + Personal Independence Payment + Carer's Allowance*

We only calculated family incomes for 'valid cases', i.e. those families for which enough information has been provided in our survey to make an accurate calculation. Invalid cases included those families with a respondent or partner in employment but earnings information not supplied (a particularly common occurrence in relation to partners' earnings – discussed below), and those in which respondents did not answer questions relating to family structure, partners' work status, and benefit receipt.

We also excluded all respondents in families containing a non-working, adult student, or a retired adult. This is because we do not have the necessary information (such as student grants and loans, and pension income) to come to an accurate income estimate for these families.

We were able to estimate family incomes for 3,257 respondents, 64 per cent of the 5,105 respondents in non-retired, non-workless-student families.

Finally, we converted to equalised incomes using the OECD-modified equivalisation scale (in which a couple without children equals one), estimated at the family level. This is slightly different to this scale's intended use, which is to equalise household-level incomes.

## 6. Reweighting our results to account for missing cases and calculating income quantiles

As discussed above, a number of responses to our survey did not contain enough information to come to a 'valid' family income estimate. This 'missingness' is not random, and so will have a bearing on the resulting income estimates. Most notably, almost half

(48 per cent) of respondents with working partners were unable to provide information on their partner's earnings, and 13 per cent of working respondents were unable to provide information on their own earnings.

To correct for missingness, we estimated a probit regression on all respondents (other than those in families containing retired adults or non-working adult students) in which the dependent variable is whether or not the respondent has a valid family income estimate, and the independent variables included ageband, region, gender, respondent's employment status prior to the coronavirus outbreak, the presence of a partner and their employment status prior to the coronavirus outbreak, the number of children, the respondent's highest qualification and housing tenure. We estimated income weights by multiplying the sample weights by the inverse of the predicted probabilities.

We calculated income quantiles using these new income weights multiplied by the number of people in each family unit. This 'person weighting' mimics the approach to calculating income distributions and poverty statistics in official household income datasets.

Any results presented for 'all' adults are calculated for all respondents, not just those with valid income data, and so instead use the unadjusted sample weights.

## 7. Checking our results against other sources

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

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

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

Before comparing our income estimate to that in HBAI, we adjusted the before-housing-costs income data in HBAI as follows: we un-equivalised household incomes, calculated benefit unit-level equivalisation scales, distributed household incomes for multi-

benefit-unit households among benefit units on the basis of these scales, and then re-equivalised the resulting incomes using benefit-unit level equivalisation scales. We then assigned these incomes to all adults aged 18-65, excluding any who live in benefit units containing retired adults or non-working adult students.

Figure 15 compares our income estimates to these modified HBAI estimates. Our estimate of disposable family income has a slightly wider distribution, and a slightly higher mean and median, than the equivalent estimate from HBAI. However, the results are broadly comparable, which gives us confidence in using our estimate of family incomes to sort respondents into income quantiles.

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

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



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

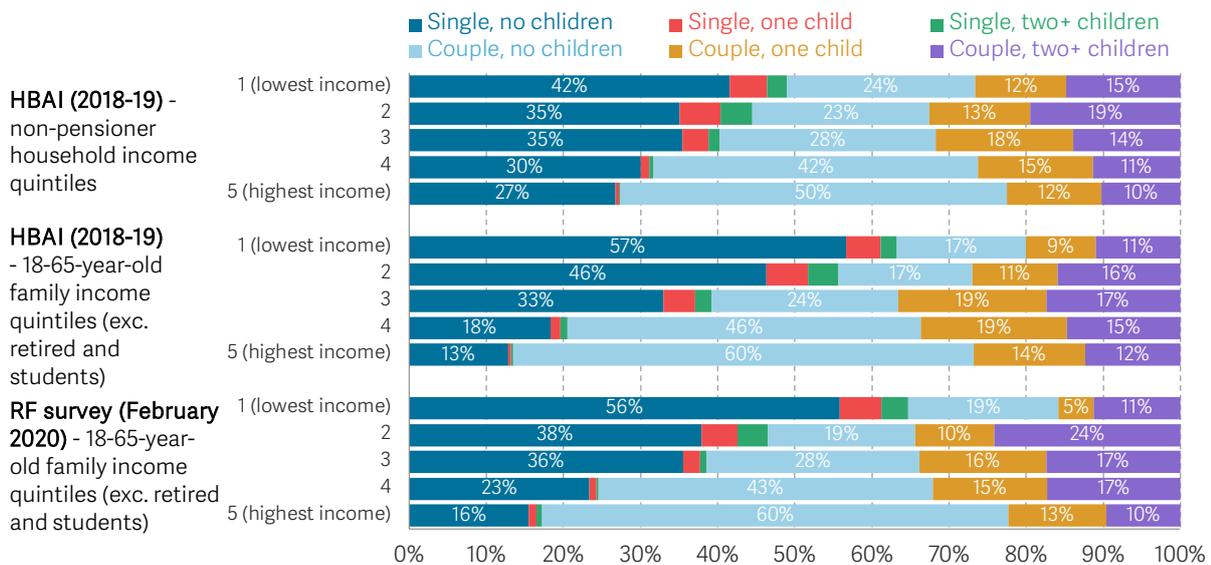
SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19); DWP, Households Below Average Income.

As a further cross check, Figure 16 explores the distribution of adults in different types of families across income quintiles. It shows that our survey matches the HBAI pattern

very closely, particularly when HBAI income quintiles are switched from the standard (working-age) household version to family (benefit unit) income quintiles that match the approach in our survey.

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

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



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

SOURCE: RF analysis of YouGov, Adults aged 18 to 65 and the coronavirus (COVID-19); DWP, Households Below Average Income.

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

as one combined household means we judge that their income will stretch less far, hence they cluster at the bottom of the distribution in the approach we have to take to calculating income quantiles.

The Resolution Foundation is an independent think-tank focused on improving living standards for those on low to middle incomes. We work across a wide range of economic and social policy areas, combining our core purpose with a commitment to analytical rigour. These twin pillars of rigour and purpose underpin everything we do and make us the leading UK authority on securing widely-shared economic growth.

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