The financial impact of the pandemic

Summary of findings

Sharon Collard, David Collings and Katie Cross

DECEMBER 2021

University of BRISTOL

abrdn Financial Fairness Trust

UNIVERSITY OF BRISTOL
PERSONAL FINANCE RESEARCH CENTRE

Executive summary

Since March 2020, a substantial body of research has been published in the UK looking at the impacts of the Covid-19 pandemic on people's living standards and financial wellbeing. This evidence review takes stock of where we are more than eighteen months into the crisis, to provide a picture of the personal finance landscape for UK households. It is based on around 240 pieces of evidence, including official statistics, academic journal articles and research reports produced by academics, think tanks, research institutes, charities, and public bodies.

Overview

Overall, the labour market effects of the COVID-19 pandemic have been less pronounced that was first forecast, and the Government job support schemes were broadly successful in protecting jobs and incomes. But where the effects have been felt, the impact has been significant.

The relatively small change in aggregate household income following the economic shock of the pandemic obscured large variations in experience. Job losses, furloughing and reduced hours all impacted household incomes, particularly among groups who were already struggling or in comparatively worse positions. Aggregate decreases in spending and debt and increased saving similarly stand in marked contrast to the experiences of the worst-affected households.

While outcomes and experiences differed greatly between these groups (and within groups, although this was less well explored), the over-arching story was remarkably consistent across the groups who experienced the worst impacts – including people with protected characteristics, particularly disabled people and some ethnic minorities. It was a story of disadvantage in the labour market, of reduced incomes and resilience, of increased expenditure and financial burdens, of unequal (and, in many cases, insufficient) state support, and of socio-economic inequalities and exclusions.

Although the macro-economic forecasts for the UK are comparatively positive, at a household level the evidence paints a picture of increased inequality over the longer-term. The pressure on some UK household's finances because of the pandemic is likely to be exacerbated by the 'cost of living crisis' forecast for winter 2021, as the cost of fuel, energy and other essentials continue to rise. This particularly affects lower-income households who spend a greater proportion of their income on essentials; and where there are strong intersections with protected characteristics, family type, work status and housing tenure, which mean that many people from some ethnic minorities, those with a disability, single parents, people in insecure work and renters will continue to bear the brunt of the economic shock of the pandemic over the longer term.

The economic impact of the pandemic

The COVID-19 pandemic resulted in the UK's worst economic downturn for 300 years. Unlike other recessions, it also caused "*a radical short-term shift in the mix of economic activities of which an unknown, but possibly significant, amount will be persistent*."[1] The UK sectors most heavily impacted were those with frequent customer interaction including retail, hotels, restaurants, hospitality, leisure, and travel. This contrasts with regular recessions which typically see construction and manufacturing most affected. There was also a heavy impact on the childcare sector, which was already in poor financial shape pre-pandemic due to chronic underinvestment.

The government's response to the pandemic prevented the economic collapse turning into a *'living standards disaster'*.[2] The scale of intervention is reflected in government borrowing figures. In the financial year 2020/2021, government borrowing reached an historic high of £298 billion (14% of GDP), compared to £57 billion (3% of GDP) the previous year. Up to that point, the highest level of government borrowing was £158 billion (10% of GDP) in 2009/10, after the global financial crisis.

Work and the labour market

The pandemic had a significant impact on the UK labour market, with a third of households (32%) experiencing at least one person moving out of work or a period of lower pay between February 2020 and January 2021. This did not result in the high unemployment rates that were feared, which is credited to the furlough scheme. However, long-term unemployment (12 months or more) increased, from 245,000 people in May-July 2020 to 444,000 in May-July 2021.

The impact of the pandemic on the labour market was largely determined by people's employment status, the sector in which they worked and the type of work they did. This meant that some groups – such as younger people – were disproportionately affected because of the nature of their labour market engagement and the fact they were more likely to work in low-skilled jobs in locked-down sectors. The most impacted groups in the labour market include:

- People on contracts that do not guarantee regular hours or income such as zero hours contracts, agency work and gig work
- People working in sectors hardest hit by the pandemic, including leisure and hospitality; non-supermarket retail; and the service sector
- People who are self-employed.

These heavily impacted groups are all associated with lower-paid work and lower levels of education, which have implications for individual and household financial wellbeing during and after the pandemic. In addition, urban areas (large towns and cities) were especially badly affected.

Social security

The economic shock of the pandemic caused a large increase in the number of people claiming social security benefits, the main one being Universal Credit which the government describes as '*a payment to help with your living costs'* for people who are on a low income, out of work or cannot work. Official statistics show that, pre-pandemic, in February 2020 2.9m people received Universal Credit;

[1] Costa Dias, M., Joyce, R., Postel-Vinay, F. and Xu, X. (2020b) The challenges for labour market policy during the COVID-19 pandemic, *Fiscal Studies*, 41(2), page 371.

[2] Brewer, M., Corlett, A., Handscomb, K. and Tomlinson, D. (2021a) *The living standards outlook 2021*, Resolution Foundation, page 4.

by May 2020 that number was 5.3 million. One year on, in May 2021, there were 5.9 million people on Universal Credit of which 39% (2.3 million people) were in low-paid work.

While the system itself was reported to have performed well under the high volume of new claims, the crisis exacerbated well-evidenced pre-existing issues including:

- The five-week wait for the first Universal Credit payment
- The challenges faced by people with fluctuating incomes due to monthly assessment periods that are designed around stable hours and income
- The severe impacts felt by people with no recourse to public funds
- The fact that Universal Credit does not provide adequate income replacement for people who become unemployed.

The pandemic also highlighted significant gaps in government knowledge about how the Universal Credit system operates for different groups, including how many claimants there are from minority ethnic groups and whether they are negatively affected by the application system.

Major interventions and their effectiveness

The government's main business support schemes in total amounted to £181 billion. Around 1.7 million businesses received loans worth over £80 billion from the government's four loan schemes. Other support for business included grant funds administered by local authorities; business rates exemptions; VAT deferral; and a ban on commercial evictions for unpaid commercial rent.

At a household level, by providing workers with payments directly related to their previous earnings, the CJRS and SEISS protected incomes and avoided a large rise in unemployment. The CJRS also prevented employment ties from being severed in heavily impacted sectors, which was important for employers in terms of continuity and productivity and for individuals in preserving links to employment. On the downside, the CJRS may have kept afloat low productivity firms or maintained poorly matched employer-employee ties. It was also inadequate for people in insecure work, where employers simply stopped offering shifts rather than furloughing zero-hours or agency workers. In addition, the SEISS resulted in some poor targeting of support, so that 1.5 million self-employed workers reported not being eligible for the SEISS scheme even though their profits had fallen. Others did not receive support because they fell between the qualification criteria of the CJRS and SEISS, for example those working in the arts and theatre who combined employed work with freelance work.

Social security

The Government introduced a range of temporary social security measures in response to the pandemic, which included the £20 per week uplift for people on Universal Credit, ending on 30 September 2021. Even with these temporary measures, the social security system in 2020 provided less support to out of work households than in 2011, with negative impacts on financial wellbeing as a result. Resolution Foundation research showed that, in January 2021, a fifth of families newly claiming Universal Credit were behind on essential bills; and three in ten were more in debt than they had been in February 2020. There was no additional support for families with children (despite evidence of increased living costs) or claimants of 'legacy' benefits which particularly impacted disabled people.

Other support for households

There was a wide range of other support for households, including extended eviction notice periods for tenants; financial help for people who were struggling to pay their council tax bills; and additional local authority funding for crisis and hardship grants and payments. The additional support available from mortgage and consumer credit lenders, including payment deferrals and a temporary halt on home repossessions, is credited with keeping mortgage arrears and possessions at very low levels. These interventions may help explain the low numbers of people seeking debt advice in the first 15 months of the pandemic.

What has happened to household finances?

If we only look at the impact of the pandemic at the aggregate level of all UK households, the picture seems relatively positive. Just as unemployment was much lower than expected in the first 15 months of the pandemic, aggregate household income was broadly similar in 2020 to its 2019 level, even though around three in ten UK households experienced a pandemic-related drop in income. As a result of severe social restrictions in the first phase of the pandemic, consumer spending reduced by 10% in real terms in July and September 2020 on the previous year, and there were huge increases in household savings and reductions in consumer debt.

While this big picture reflects the success of government schemes and temporary measures in supporting household incomes, it also masks large variations in experience that often have pre-pandemic roots. The decade prior to the pandemic saw the UK population's financial health affected by real income growth that was modest at best, and non-existent for lower-income households; significant cuts to social security; a high level of income inequality with large differences between groups and regions; and a poverty rate that had remained largely unchanged since 2007-08. Low savings and relatively high unsecured consumer debt also meant that a significant number of UK households came into the pandemic with low financial resilience to deal with an income shock.

Among the badly affected groups in terms of income shocks were:

- People already on low incomes
- New claimants of Universal Credit
- Families with children
- Insecure workers
- Ethnic minorities generally, and particularly Bangladeshi and Black African households
- Disabled people.

While the better-off benefitted from 'forced saving' during lockdowns, people on lower incomes faced higher costs and these increased outgoings could lead households to cut back on essentials.

There is consistent evidence that the financial strain created by the pandemic caused significant numbers of individuals and households to fall behind with payments on bills. IFS research shows that, among households in relative poverty, the proportion in arrears with at least one bill rose from 15% pre-pandemic (which was more than double that for all households) to 22% in April-May 2020, falling to 20% in March 2021. In urban areas in the North of England and the Midlands, people were more likely to have got into debt because the pandemic had less effect on spending in these areas even though people were much more likely to have lost income.

Future prospects

Based on the last financial crisis in 2008, the longer-term labour market impacts of the pandemic may fall disproportionately on certain groups, such as younger people and disabled people; and in certain geographical areas, such as the North East of England.

At a household level, the evidence paints a picture of increased inequality over the longer-term, with the end of government schemes expected to result in a rise in unemployment and the cessation of the temporary Universal Credit uplift putting low-income households under financial strain. The Resolution Foundation estimates that a further 1.2 million people will fall into relative poverty (less than 60% of median income), including 400,000 children, which would be the biggest year-on-year increase in poverty rates since the 1980s. Most of those pulled into poverty will live in working or disabled households; and families with children will also be significantly affected.

The pressure on some UK household's finances because of the pandemic is likely to be exacerbated by the 'cost of living crisis' forecast in winter 2021, as the cost of fuel, energy and other essentials continue to rise. This will particularly affect lower-income households who spend a greater proportion of their income on essentials and are more likely to incur poverty premiums.

The impact on people with protected characteristics

The review also examined the financial impact of the pandemic on people across four protected characteristic groups defined in the Equality Act 2010: age, sex, race, and disability.[3] We summarise the evidence for these protected characteristics below. Overall, the evidence shows that the pandemic has widened inequalities, particularly for people from ethnic minorities and those with disabilities, with serious implications for their future prospects.

[3] There was little high-quality evidence related to other protected characteristics, such as LGBTQ+ people, or people with a religion or belief, or pregnant women and new mothers.

The impact of the pandemic by age

Pre-pandemic, while employment rates were at an all-time high for older people and youth unemployment was declining, nonetheless many older and young people entered the pandemic with low financial resilience due to low-pay and insecure work. Younger age groups also had significantly less wealth and higher levels of consumer debt than previous generations. Below we describe the main impacts of the pandemic by age.

	Household finances and living standards: • Younger people were more likely than older age groups to see a reduction in their pay; to take on consumer debt; and to be struggling financially. • Younger workers were more likely to be furloughed but less likely to have their pay topped up by employers. • Younger people were less likely to live in a workless household because they could live with parents. • Retired older people on fixed incomes were largely protected from the pandemic's economic shock. • Older people saved money; younger people drew on any savings they had.
	Work and the labour market: • Job losses, drops in income and reduced hours particularly affected younger and (to a lesser extent) older people more than those in the middle age groups. These impacts were driven by the sector that people worked in, pay and contract type. • There are fears about scarring effects on young people's employment and careers. People aged 50+ may struggle to get back into work or re-train. • The pandemic affected older people's retirement decisions, including drawing pensions earlier to offset financial losses.
	Social security: • While people aged 25-49 saw the greatest increase in the claimant count early in the pandemic, the number of younger people (aged under 25) claiming Universal Credit more than doubled.
	Future prospects: • There can be serious scarring affects for young people leaving education in a recession, which could be especially prevalent in the wake of the pandemic, as sectors that have struggled (such as hospitality) are typically those in which many young people start their careers. • For older workers, it can be harder to regain employment after long periods out of work and the pandemic may have impacted their decision to retire (either earlier or later).

The impact of the pandemic by sex

Pre-pandemic, the employment rate was at an all-time high for both men and women. While the gender pay gap had been declining, progress had stalled. Women were more likely to work part-time, on insecure contracts and in low paying jobs; and were more likely to be key workers and work in sectors that were shut down in the pandemic. Below we describe the main impacts of the pandemic by sex.

Household finances and living standards:

- Men experienced a greater reduction in earnings than women; but the impact on total household income was broadly the same for women and men.
- Self-employed women were less likely to apply for state support than men and to get less support when they did, due to lower pre-pandemic earnings.
- Women were worse off financially than men, but this difference seems to be driven by factors other than sex.
- Women were more likely to cut back on essential spending than men.
- Changes in consumer debt levels were broadly similar among women and men.
- Women were less able to save than men; and on average where women were able to save, they saved lower amounts.

Work and the labour market:

- Men had a greater reduction in employment and a higher rate of redundancies than women, while more women were furloughed than men. Overall, though, the differences were relatively small.
- Working single mothers were especially hard hit by the economic shock.
- Women were more likely to work in shut-down sectors; although some shut down industries e.g. construction and manufacturing were male-dominated.
- Furloughed women were less likely to have their earnings topped up by their employer; less likely to work any hours on furlough; spent longer on furlough; and had worse perceptions about job prospects and financial security.

Social security:

- Early in the pandemic, a higher proportion of men than women started to claim Universal Credit, although this changed over time.
- Women might struggle more with the five-week wait for Universal Credit due to lower financial resilience.
- Women were less likely to be eligible for statutory sick pay because they were more likely to work part-time and earn below the qualifying threshold.

Future prospects:

- It is unclear how furlough and job losses will impact long-term career prospects and earnings for men and women, although there is evidence to suggest more women are working full-time which could impact the gender pay gap in future.
- Other sources suggest that women may find it harder to return to work after furlough than men and that a lack of gender specific policies could have negative implications for gender equality.

The impact of the pandemic by race[4]

Pre-pandemic, the picture regarding race was one of entrenched and in many cases increasing inequality between ethnic groups, of complex intersectional disadvantage, and unequal exposure to risk – financial and otherwise. Below we describe the main impacts of the pandemic by race.

Household finances and living standards:

- Ethnic minorities were more likely to lose income and earnings; and to report financial difficulties, where the ethnicity gap with White people widened.
- Ethnic minorities were more likely to struggle to manage financially and to have drawn on savings; and less likely to afford one-off emergency costs.
- The proportion of over-indebted ethnic minority people increased, and the proportion in arrears rose markedly (in contrast to White people).

Work and the labour market:

- Overall, ethnic minority unemployment rose; and BAME workers may have been particularly impacted by employer decisions not to furlough.
- Early on, Black people were more likely to have kept their job, reflecting their over-representation among key workers.
- Bangladeshi and Pakistani people saw a much greater rise in household-level worklessness.
- Younger Asian and (particularly) Black people were more likely to be out of work, including graduates.
- Older BAME people were more likely to experience negative job outcomes.
- Some industries saw significant falls in BAME workers (Accommodation and Food, Arts and Entertainment), while others (Education) saw increases.

Social security:

- There is a significant ethnicity data gap in DWP Universal Credit data and government communications were not always well targeted.
- BAME people were more exposed to eligibility gaps in job support schemes and social security provision.
- BAME people were twice as likely to have applied – or tried to apply – for Universal Credit.
- Post-pandemic cohorts of benefit claimants are more likely to be BAME.

Future prospects:

- Any further rise in unemployment is likely to disproportionately affect ethnic minorities. Pakistani, Bangladeshi, Black African and Black Caribbean households will be particularly vulnerable to any employment-related income shocks,
- The cessation of the Universal Credit uplift will disproportionately impact both working and non-working low-income ethnic minority households because they are more likely to be living on lower incomes, to be unemployed and to have moved into unemployment since the pandemic.

[4] Under the Equality Act 2010, the protected characteristic of 'race' refers to a person's skin colour, nationality, ethnic or national origin. However, most of the evidence we reviewed related to ethnicity rather than race because surveys most often ask people about their ethnicity. We mirror the terminology used in the studies to which we refer; outside of these instances, we use the term 'ethnic minorities' to refer to all ethnic groups except the White British group.

The impact of the pandemic by disability[5]

Pre-pandemic, levels of poverty and material deprivation were higher among people with disabilities, who were hard hit by cuts to social security. People with disabilities already faced a substantial premium because of unavoidable extra costs; and were significantly affected by a lack of accessible housing. Below we describe the main impacts of the pandemic by disability.

Household finances and living standards:

- More disabled people were pushed into poverty, and there was evidence of deepening poverty among those already experiencing it.
- By October 2020, the disability pay gap increased by an average of £800 to £3,800 (in the last year).
- Expenditure was more likely to have increased, particularly for food, utilities, and care (including extra PPE costs).
- Over four in ten disabled people were in arrears with housing payments; the same proportion had needed to take on debt.
- Financial precarity was strongly associated with worsening mental health.

Work and the labour market:

- By Q4 2020, the working-age disabled population had increased by 340,000, meaning around 20% of the working-age population were disabled.
- The unemployment rate for disabled people increased by 1.6% to 8.5%, while the employment rate decreased by 1.9% to 52.2%.
- Disabled people were more likely to experience job loss but also redundancy; lost hours; and being furloughed. There was some evidence of discriminatory practices driving these negative labour market outcomes.

Social security:

- Those on legacy benefits – mostly disabled people and carers – were excluded from increased pandemic social security support.
- Of the 16 million people affected by the withdrawal of extra financial support at the end of September 2021, half live in families where one person is disabled.
- The suspension of face-to-face assessments caused long delays, backlogs and sometimes exclusion from full entitlements for indefinite periods. Remote assessments provided some benefits but introduced new barriers too.

Future prospects:

- There is a high risk that the pandemic will reverse the trend of a reducing employment gap between disabled and non-disabled people
- The UK Government's National Disability Strategy has been widely criticised by campaigners and disability rights groups, with measures unlikely to significantly address the existing inequalities that disabled people in the UK face.
- The Health and Disability Green paper, too, has raised concerns including its repeated references to making the system more affordable and the suggestion of a new single benefit for disabled people.

[5] Under the Equality Act (2010) a person is disabled if they have a physical or mental impairment that has a 'substantial' and 'long-term' negative effect on their ability to do normal daily activities. There are an estimated 14.1 million disabled people in the UK.

Evidence gaps and research challenges

We conclude by briefly discussing some of the evidence gaps and research challenges that emerged from our review.

1. A bird's-eye perspective is a long way from the experiences of people living on the ground.
Quantitative evidence gives us a clear overview of the social landscape from above, allowing us to find patterns, explore differences, make predictions and test causal relationships. It plays a critical role in informing large-scale policies and decision-making. But it is important to remember that quantitative methodologies provide particular perspectives, and these perspectives were disproportionately represented in the literature we reviewed.

2. While it is important to look at individual characteristics, experiences and outcomes can't be fully understood by reducing people to their characteristics – whether in isolation or as a 'sum' of intersecting parts.
People do not experience their characteristics in a siloed way, nor can their intersecting characteristics be reduced to a sum of constituent parts. However, an intersectional perspective does provide a deeper and more nuanced understanding of structures, experiences, and outcomes. The evidence base is more complete – and therefore clearer – for some characteristic-based intersections (such as age by sex), but less complete for others (such as disability by ethnicity), indicating a need for more in-depth research focusing on specific marginalised groups. We know comparatively little about groups who share *a greater number* of protected characteristics, although the evidence indicates that the more protected characteristics a person has, the greater the risk that they will experience inequality and disadvantage.

3. We know very little about the socio-economic effects of the pandemic on the lived experience of marginalised groups.
Because survey and statistical sources are – to date – the predominant lenses through which researchers have explored the socio-economic effects of the pandemic on marginalised groups, substantial qualitative and lived experience evidence gaps have emerged (with a few notable exceptions[6]), and these gaps have consequences for our understanding. This was particularly apparent from the literature on ethnicity and disability, which struggled to consider the role of racism and ableism (respectively) as drivers of disadvantage. There are many complex interactions and intersections that are not – or in some cases cannot – be measured. Nonetheless, wherever possible, research on different protected characteristic groups should be situated within a theoretical framework that considers the role of discrimination. It should also bring to bear a broader range of methodological approaches, from across disciplines, to provide a more nuanced understanding of experiences, barriers and exclusions facing different groups.

[6] Examples include the Covid Realities project, which has been conducting participatory online research during the pandemic with low-income parents and carers: https://covidrealities.org/about

University of BRISTOL

https://pfrc.blogs.bristol.ac.uk