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**Research Report**

## Living standards, poverty and inequality in the UK: 2021

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**Institute for Fiscal Studies**

**IFS Report R194**

**Jonathan Cribb  
Tom Waters  
Thomas Wernham  
Xiaowei Xu**

# **Living standards, poverty and inequality in the UK: 2021**

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Copy-edited by Judith Payne

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# Preface

The Joseph Rowntree Foundation has supported this project as part of its programme of research and innovative development projects, which it hopes will be of value to policymakers, practitioners and service users (grant reference 210101A). The views expressed in this report are, however, those of the authors and not necessarily those of the Foundation. Neither are the views expressed necessarily those of the other individuals or institutions mentioned here, including the Institute for Fiscal Studies, which has no corporate view. Co-funding from the ESRC-funded Centre for the Microeconomic Analysis of Public Policy at IFS (grant number ES/T014334/1) is also very gratefully acknowledged.

Data from the Family Resources Survey were made available by the Department for Work and Pensions, which bears no responsibility for the interpretation of the data in this report. The Households Below Average Income data prior to 1994–95 were constructed from the Family Expenditure Survey. These data are available from the UK Data Service.

The UK Household Longitudinal Study is an initiative funded by the Economic and Social Research Council and various government departments, with scientific leadership by the Institute for Social and Economic Research, University of Essex, and survey delivery by NatCen Social Research and Kantar Public. The research data are distributed by the UK Data Service.

The Labour Force Survey (LFS) data are Crown Copyright and reproduced with the permission of the Controller of HMSO and Queen's Printer for Scotland. The LFS data were made available through the UK Data Service.

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# Key findings

## Where were we before the pandemic?

- 1 Median household net income was finally growing steadily again prior to the COVID-19 pandemic, with growth of 3% in real terms over two years from 2017–18 to 2019–20. However, that still meant just 9% growth in total in the 12 years since 2007–08, prior to the previous recession. If the pre-financial-crisis trend of 2.2% growth per year had continued since 2007–08, by 2019–20 median income would have been almost 20% higher than it actually was.
- 2 In the run-up to the pandemic, even the very modest income growth in the middle of the distribution had eluded low-income households. Income at the 10<sup>th</sup> percentile of the household income distribution was almost unchanged over the six years between 2013–14 and 2019–20.
- 3 Looking over the whole period between 2007–08 and 2019–20, the striking pattern is how poor income growth has been right across the income distribution compared with modern British history.
- 4 Since 2007–08, incomes of poor households have been pushed up by significant reductions in worklessness. The fraction of low-income people (excluding pensioners) who live in a workless household has fallen from 45% in 2007–08 to 33% in 2019–20. This boosted incomes at a time when cuts to working-age benefit entitlements (since 2010) have pushed in the other direction.
- 5 This pattern of income growth means that overall measures of relative poverty (measured after housing costs are deducted) were essentially unchanged in recent years, at 22%, the same level as in 2007–08. However, relative child poverty has continued to creep up,

and in 2019–20 was 4 percentage points higher than in 2011–12 (a rise of 700,000 children).

- 6 Absolute income poverty has gradually declined from 22% prior to the Great Recession to 18% in 2019–20. This fall occurred across all major demographic groups (children, pensioners, working-age non-parents), but was modest compared with historical changes in absolute poverty. There have also been recent gradual declines in child and pensioner material deprivation.
- 7 The fraction of non-pensioners in relative poverty who live in a working household rose from 56% to 67% between 2007–08 and 2019–20. This was due to a combination of more households with someone in work and a rising rate of poverty among such households.
- 8 Falling mortgage interest costs in the wake of the 2008 financial crisis have benefited people with mortgages, and the poverty rate for this group has fallen from 13% to 10% since 2007–08. This, combined with falls in homeownership for working-age people, and rises in private renting, means that by 2019–20 the fraction of those in poverty who were private renters has risen from 22% to 31%.
- 9 Pre-pandemic, there had been some notable falls in the poverty rates of some ethnic minorities, though for many they remain high compared with the white population (for whom it was 19% pre-pandemic). The relative poverty rate for people with Indian backgrounds fell from 26% pre-financial-crisis to 23% prior to the pandemic. The most striking change was for people with Pakistani/Bangladeshi backgrounds, for whom the relative poverty rate fell from 61% to 49%, though most of this fall occurred before 2010–12. In comparison, the relative poverty rate for black people, at 40%, was unchanged from before the Great Recession.
- 10 The relative poverty rates of different age groups and household types have also changed in recent years. Most notably, the relative (AHC) poverty rate for lone-parent households fell from 52% pre-financial-crisis to 41% in 2010–12 though it rose back to 47% in

2017–19, below its pre-recession level but still very high compared with other groups. Younger adults (aged 18–24) saw rising relative poverty during the Great Recession, but a better recovery, reaching 24% in 2017–19, compared with 27% pre-recession. On the other hand, 55- to 64-year-olds have seen rising relative poverty, up to 21% pre-pandemic compared with 17% in 2010–12, at least in part due to a higher state pension age for women.

## The labour market during the pandemic

- 1 Although there were large rises in the proportion of people not working at least one hour a week in 2020, there was very little rise in unemployment and economic inactivity (where people have no job at all). By 2021Q1, 1.3 million more adults (aged 19–64) were not working at least an hour a week compared with 2019Q4, whereas only 0.3 million more adults were unemployed or economically inactive. The furlough scheme has kept unemployment from rising sharply during the pandemic.
- 2 Despite the large falls in the number of people working at least an hour a week, the number of households where no one was working has risen only modestly. This is particularly important for 19- to 24-year-olds, many of whom live with their parents. Even excluding full-time students who moved back home when universities and colleges shut, the share of 19- to 24-year-olds who lived with their parents rose from 45% in 2020Q1 to 50% in 2021Q1 – an increase of around 200,000 people. As a result, whilst the share of young adults who were not working rose by 10 percentage points by 2021Q1, the share living in a household where no one is working rose by just 1 percentage point – no more than the general population.
- 3 Looking at the (relatively small) increase in the number of households where no one has a job (i.e. all adults are unemployed or inactive), there are a number of groups where rises are more concerning: single-adult households without children (who by definition do not have a working partner to support them), and



Pakistani and Bangladeshi people (who pre-pandemic were particularly likely to be single-earner households). These groups had relatively high levels of poverty before the pandemic. The share of lone parents who were not working also rose sharply, though this reflected an increase in furlough rather than unemployment and inactivity.

- 4 People who continued to work through the pandemic experienced real earnings growth that was fairly similar to the immediate pre-pandemic years, and much higher than in the aftermath of the Great Recession. Real earnings growth has been supported by low measured inflation during the pandemic.
- 5 Average earnings growth during the pandemic has tended to be stronger for public sector workers and for workers with lower levels of education, the latter perhaps in part due to a significant rise in the National Living Wage in 2020. Conversely, there is some evidence that younger workers (aged 19–34) have seen weaker growth in earnings. This may be due to the lack of vacancies: those earlier on in their career are more likely to move employers more regularly and this is often a source of wage growth.

## Financial difficulties and deprivation during the pandemic

- 1 The start of the pandemic saw rises in some measures of deprivation. But these rises were temporary, leaving deprivation measures in early 2021 similar to, or on some measures below, their pre-pandemic levels. For example, the proportion of people reporting they were in arrears on at least one of their household bills rose from 6.6% in 2018–19 to 8.1% in April–May 2020, a 22% rise, but then fell back to 7.0% by March 2021. Food-bank use also rose from 1.7% of the population in February 2020 to 1.9% in April–May 2020, before falling back to 1.4% in early 2021.
- 2 Expectations of becoming financially worse off a month from the time of interview were very high at the beginning of the pandemic,

with 17% of the population expecting this in April 2020, but then quickly declined, and remained lower through to 2021. These expectations did not translate into more people reporting current financial difficulties. These trends reflect the huge uncertainty faced by many at the onset of the pandemic, which was eased by the government support measures that were introduced.

- 3 Households that were in relative income poverty prior to the pandemic (measured between 2016 and 2019) saw the largest rises in deprivation at the start of the pandemic. In comparison, households that were not in poverty pre-pandemic saw little change on most of the measures. The proportion of poor households behind on their household bills rose from 15% in 2018–19 to 22% in April–May 2020, compared with a much smaller rise from 5% to 6% for households not in poverty pre-pandemic. By March 2021, the proportion of those in poor households behind on their bills remained higher, at 20%, than it was pre-pandemic.
- 4 The group most clearly struggling, particularly at the start of the pandemic, was self-employed people who had lost all work by April 2020. The proportion of this group reporting being in arrears on household bills rose from 2% pre-pandemic to 13% in April–May 2020. There was also a rise for furloughed employees but it was much smaller and less persistent into early 2021. The self-employed who could not work in April 2020 were also a group that reported a big rise in the fraction experiencing financial difficulties, from 16% pre-pandemic to 24% by April–May 2020.
- 5 Consistent with the larger rises in household worklessness for some ethnic minorities, there is evidence that ethnic minorities suffered greater economic hardship during the pandemic. The proportion of people belonging to ethnic minorities who are in arrears on bills rose from 12% in 2018–19 to 21% in April–May 2020 (compared with a rise from 5% to 6% for white people) and there were also increases in people from ethnic minorities reporting financial difficulties. By early 2021, there was a partial recovery for ethnic minorities, with

15% behind on their bills, but the gap remained wider than pre-pandemic.

- 6 Changes in deprivation for 18- to 24-year-olds actually look better than those for older working-age people (aged 25–64) on some measures, particularly regarding foodbank use, which fell for young adults from 6% pre-pandemic to 3% in April–May 2020. This is likely to be because their incomes have been supported through the furlough scheme and there has not been a rise in household worklessness for this age group during the pandemic as many have been living with their parents.

# 1. Introduction

This report examines how household incomes were changing in the UK up to the eve of the COVID-19 pandemic, and how other measures of household living standards have changed over the course of the pandemic. In particular, we use the latest official data covering years up to 2019–20 to provide a comprehensive picture of UK household incomes before the pandemic hit. We subsequently use more recent data to examine how the pandemic and associated restrictions on economic activity have radically affected the scope for people to earn an income in the labour market, and what the implications of the pandemic have been for measures of household deprivation. We look at how different groups have fared, with a focus on low-income households, both before and during the pandemic.

The analysis in this report is chiefly based on data from three UK household surveys. The first is the Family Resources Survey (FRS), a survey of around 20,000 households a year, which contains detailed information on different sources of household incomes. We use household income variables derived from the FRS by the UK government’s Department for Work and Pensions (DWP). These measures of incomes underlie DWP’s annual statistics on the distribution of income, known as ‘Households Below Average Income’ (HBAI). The FRS/HBAI data are available for the years from 1994–95 to 2019–20. They are supplemented by HBAI data derived from the Family Expenditure Survey (FES) for the years from 1961 to 1993–94.

Unfortunately, the HBAI data are not yet available for 2020–21. Therefore, we draw on data from the Labour Force Survey (LFS) to understand how levels of employment, household-level worklessness, and earnings have changed over the last year. We also make use of data from Understanding Society: the UK Household Longitudinal Study (UKHLS). UKHLS is a survey that usually surveys sampled households once a year, but during the pandemic there have been additional ‘COVID modules’ where sample members have been surveyed up to eight times over the course of 2020–21.

The main outcome of interest at the beginning of this report is household income. We use the measure of income that is used in the HBAI statistics. Later in the report, we also make use of household income data from UKHLS, where we construct the measure of income to be as similar as possible to that in HBAI. Further details regarding the methodology of HBAI can be found in Appendix A, but it is worth noting that when we refer to household income, we particularly refer to a definition of income that is ‘net equivalised household income’. ‘Net’ indicates that we are looking at incomes measured after direct taxes (including council tax) are paid, and after benefits and tax credits are received. ‘Equivalised’ means that incomes are rescaled (‘equivalised’) to consider the fact that households of different sizes and compositions have different needs. ‘Household income’ means that we add up the income (from all sources) of each person in the household. Although we measure household incomes, we conduct our analysis at the individual level, meaning that we look at poverty, inequality and differences in living standards between individuals, not between households.

All cash figures are presented in 2019–20 prices and all income growth rates are given after accounting for inflation. We adjust for inflation using measures of inflation based on the Consumer Prices Index, which are the same measures as are used by DWP in the government’s official HBAI statistics.<sup>1</sup> Where we use data from 2020–21, we use the CPIH measure of inflation to compare cash values, which tends to track closely the CPI-based measures of inflation used by DWP.

Throughout this report, many statistics will be presented for the whole of the UK; however, for those series looking at longer-term trends, we present statistics for Great Britain (GB) only, as Northern Ireland has only been included in the HBAI data since 2002–03.

Since all the analysis is based on a sample from the population, all estimated statistics are subject to sampling error. We frequently test whether estimated changes are ‘statistically significant’. In our analysis, being ‘statistically significant’

<sup>1</sup> Further information on the adjustments that DWP makes for inflation can be found in Department for Work and Pensions (2021b). A series of the deflators that we use in this analysis can be found in IFS’s Living Standards, Poverty and Inequality spreadsheet, [https://www.ifs.org.uk/tools\\_and\\_resources/incomes\\_in\\_uk](https://www.ifs.org.uk/tools_and_resources/incomes_in_uk).

implies that an estimate is statistically significantly different from zero at the standard 5% significance level.

The rest of this report proceeds as follows. Chapter 2 examines changes in average incomes in the UK, and how average income growth differs among people aged 60 or over and the rest of the population. It then considers how incomes have changed towards the top and bottom of the distribution, and the consequences for income inequality. Throughout this chapter, we focus in particular on the changes that have occurred over the period between the eve of the Great Recession (2007–08) and the eve of the COVID-19 pandemic (2019–20). We also examine trends in income poverty and material deprivation, and examine how relative poverty rates have changed since 2007–08 for different groups in society, and the implications of these changes for the characteristics of people in income poverty.

Chapter 3 analyses changes in the labour market that have occurred during the pandemic using the LFS. It starts by examining how individual employment has changed, distinguishing between people who have been furloughed and those who have lost their job entirely, and examining how trends differ between employees and self-employed, and other groups. We then examine the implications of these changes, combined with family structures, for the fraction of people who live in a family or household where nobody is working. Finally, we examine a measure of earnings growth – that for continuously employed employees – that does not suffer from some of the main measurement problems that headline measures of earnings growth currently suffer from, in order to better understand trends in the earnings of those people who are able to work during the pandemic.

Chapter 4 focuses on trends in deprivation during the pandemic. Using a suite of questions on deprivation and financial difficulties in the UKHLS, we examine how deprivation changed at the very beginning of the pandemic – in April and May 2020 – and whether there have been subsequent changes between then and early 2021. We set out in particular to understand how different groups have been affected by the pandemic in different ways. To that end, we look at how trends have differed depending on whether a person was in income poverty prior to the pandemic and on their employment status during the first national lockdown in April 2020; we also look at how changes have varied by ethnicity, disability status and age. Combined with the findings in Chapter 3, this allows us to identify groups that look as if they have particularly struggled during the pandemic.

## 2. Where were we before the pandemic?

### Key findings

- 1 Median household net income was finally growing steadily again prior to the COVID-19 pandemic, with growth of 3% in real terms over two years from 2017–18 to 2019–20. However, that still meant just 9% growth in total in the 12 years since 2007–08, prior to the previous recession. If the pre-financial-crisis trend of 2.2% growth per year had continued since 2007–08, by 2019–20 median income would have been almost 20% higher than it actually was.
- 2 In the run-up to the pandemic, even the very modest income growth in the middle of the distribution had eluded low-income households. Income at the 10<sup>th</sup> percentile of the household income distribution was almost unchanged over the six years between 2013–14 and 2019–20.
- 3 Looking over the whole period between 2007–08 and 2019–20, the striking pattern is how poor income growth has been right across the income distribution compared with modern British history.
- 4 Since 2007–08, incomes of poor households have been pushed up by significant reductions in worklessness. The fraction of low-income people (excluding pensioners) who live in a workless household has fallen from 45% in 2007–08 to 33% in 2019–20. This boosted incomes at a time when cuts to working-age benefit entitlements (since 2010) have pushed in the other direction.

- 5 This pattern of income growth means that overall measures of relative poverty (measured after housing costs are deducted) were essentially unchanged in recent years, at 22%, the same level as in 2007–08. However, relative child poverty has continued to creep up, and in 2019–20 was 4 percentage points higher than in 2011–12 (a rise of 700,000 children).
- 6 Absolute income poverty has gradually declined from 22% prior to the Great Recession to 18% in 2019–20. This fall occurred across all major demographic groups (children, pensioners, working-age non-parents), but was modest compared with historical changes in absolute poverty. There have also been recent gradual declines in child and pensioner material deprivation.
- 7 The fraction of non-pensioners in relative poverty who live in a working household rose from 56% to 67% between 2007–08 and 2019–20. This was due to a combination of more households with someone in work and a rising rate of poverty among such households.
- 8 Falling mortgage interest costs in the wake of the 2008 financial crisis have benefited people with mortgages, and the poverty rate for this group has fallen from 13% to 10% since 2007–08. This, combined with falls in homeownership for working-age people, and rises in private renting, means that by 2019–20 the fraction of those in poverty who were private renters has risen from 22% to 31%.
- 9 Pre-pandemic, there had been some notable falls in the poverty rates of some ethnic minorities, though for many they remain high compared with the white population (for whom it was 19% pre-pandemic). The relative poverty rate for people with Indian backgrounds fell from 26% pre-financial-crisis to 23% prior to the pandemic. The most striking change was for people with Pakistani/Bangladeshi backgrounds, for whom the relative poverty rate fell from 61% to 49%, though most of this fall occurred before 2010–12. In comparison, the relative poverty rate for black people, at 40%, was unchanged from before the Great Recession.



10 The relative poverty rates of different age groups and household types have also changed in recent years. Most notably, the relative (AHC) poverty rate for lone-parent households fell from 52% pre-financial-crisis to 41% in 2010–12 though it rose back to 47% in 2017–19, below its pre-recession level but still very high compared with other groups. Younger adults (aged 18–24) saw rising relative poverty during the Great Recession, but a better recovery, reaching 24% in 2017–19, compared with 27% pre-recession. On the other hand, 55- to 64-year-olds have seen rising relative poverty, up to 21% pre-pandemic compared with 17% in 2010–12, at least in part due to a higher state pension age for women.

The key aim of this chapter is to examine trends in household incomes, how they varied across the income distribution, and the implications that these changes have had for income poverty, in the run-up to the COVID-19 pandemic. By examining these changes, we are also able to identify which groups entered the pandemic with higher or lower incomes relative to their recent past. In addition, we now have data on a full economic cycle, from the peak prior to the Great Recession (2007–08), all the way through to the eve of the pandemic (2019–20). The utility of this is that comparisons with 2007–08 therefore do not incorporate changes in the distribution of income that are purely the result of a recession or the immediate recovery from it. This means that now is a good point to set out changes in income inequality, poverty and the characteristics of people in poverty.

Section 2.1 examines how average incomes have changed in recent years, and how these averages differ between people above and below the age of 60. We also examine how those changes have differed across the income distribution, and the resulting changes in income inequality. Section 2.2 focuses on changes in income poverty and, in particular, how poverty rates for different groups have changed, and on the composition of people living in low-income households. We particularly focus on changes since 2005–07 (pre-financial-crisis) and since 2010–12 (the time of a recent low in relative poverty, before the main recovery from the Great Recession, and before most reductions to benefit entitlements had been implemented).

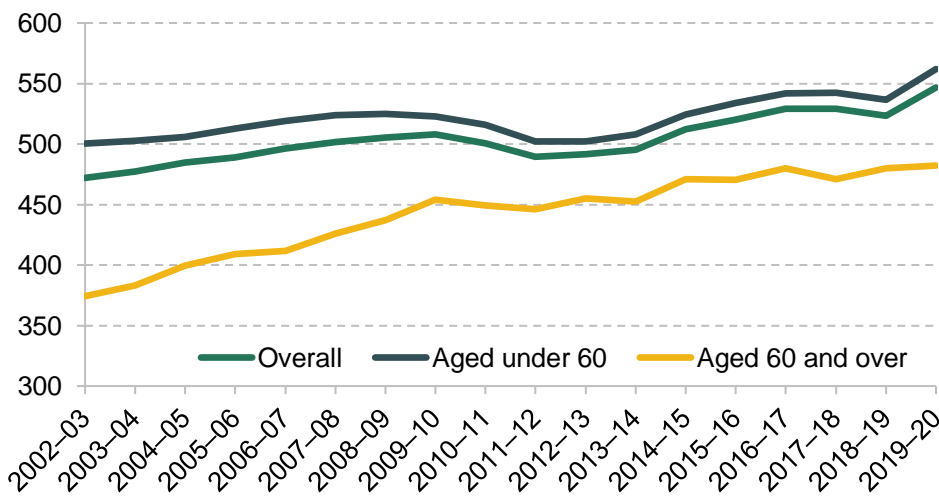
All the analysis in this chapter is based on the Households Below Average Income data, as set out in Chapter 1 (and in more detail in Appendix A), and the measure of

income throughout is net equivalised household income, expressed as the equivalent for a childless couple. We make use of both ‘before housing costs’ and ‘after housing costs’ measures of income at different points throughout the chapter.

## 2.1 Average incomes and income inequality

Figure 2.1 shows median household income in the UK between 2002–03 and 2019–20 for the population as a whole and distinguishing between people aged below 60 and those aged 60 and over.<sup>2</sup> Median income is the income of the person who has a household income higher than 50% of the population, and so this measure is not affected by households that have either very high or very low incomes. Income in this figure is measured before housing costs are deducted.

**Figure 2.1. Median net household income (before housing costs, BHC) since 2002–03, overall and by age group**

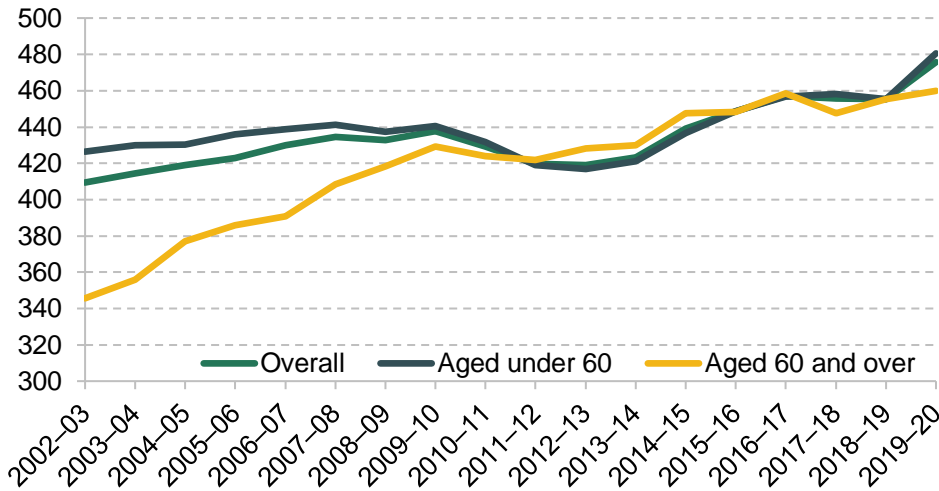


Note: Incomes have been measured net of taxes and benefits but before housing costs have been deducted and are expressed in 2019–20 prices. All incomes have been equivalised using the modified OECD equivalence scale and are expressed in terms of equivalent amounts for a childless couple.

Source: Authors’ calculations using the Family Resources Survey, 2002–03 to 2019–20.

<sup>2</sup> We compare people under and over 60 as a fixed age to divide older people (more likely to be pensioners) from younger people (where adults are generally considered ‘working-age’) as 60 was the state pension age for women up until 2010, and we do not want to have a changing age threshold over time as the state pension age has risen.

**Figure 2.2. Median net household income (after housing costs, AHC) since 2002–03, overall and by age group**



Note: Incomes have been measured net of taxes and benefits and after housing costs have been deducted. Figures are expressed in 2019–20 prices. All incomes have been equivalised using the modified OECD equivalence scale and are expressed in terms of equivalent amounts for a childless couple.

Source: Authors' calculations using the Family Resources Survey, 2002–03 to 2019–20.

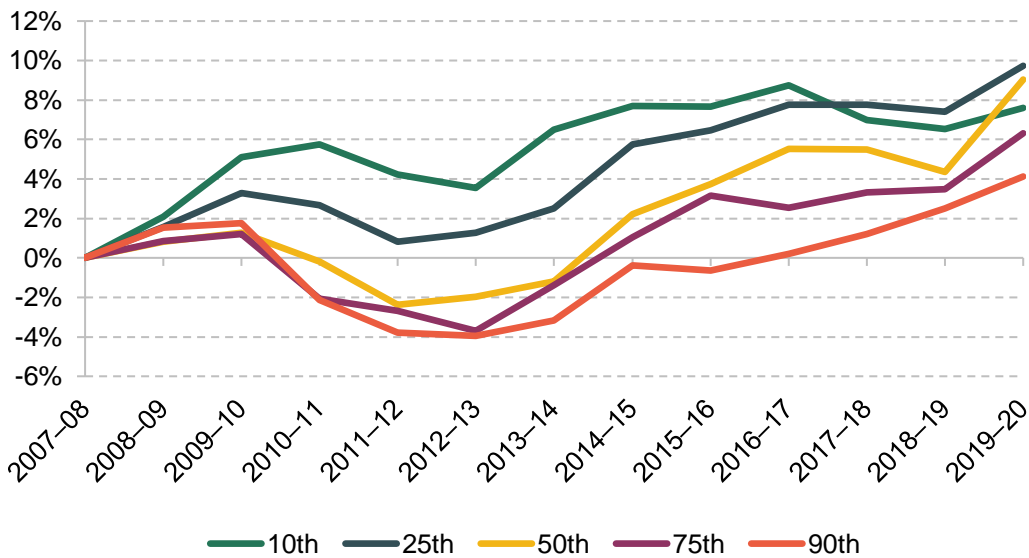
The figure shows that in 2019–20, the median household income in the UK was £547 per week (around £28,400 per year), when expressed as the equivalent for a childless couple. This was 4% higher than in the previous year, although 2018–19 itself saw a slightly surprising fall in median income, and so, focusing on the two years between 2017–18 and 2019–20, median income grew by around 3% over two years. Growth of this rate is steady, and fairly good by very recent standards, but is by no means fast. Overall, we can see that median income in 2019–20 was 9% higher in real terms than prior to the 2008 financial crisis (i.e. in 2007–08), growth of only 0.7% per year since 2007–08. This is less than a third of the average 2.2% growth in median incomes seen in the 20 years before the 2008 financial crisis. If that pre-financial-crisis growth rate had continued over the 12 years between 2007–08 and 2019–20, median income in 2019–20 would have been almost 20% higher than it actually was.

At £482 per week, median household income (before deducting housing costs) was considerably (14%) lower for those aged 60 and over than for under-60s in 2019–20. However, Figure 2.2 shows that this large difference by age is much smaller when measuring incomes after deducting housing costs. Indeed, on an AHC basis,

median income for those aged 60+ was 4% lower than for those aged under 60.<sup>3</sup>

Figure 2.2 also shows that ever since 2009–10 in the aftermath of the 2008 financial crisis, the average incomes of those above and below 60 have been very similar, though as recently as 2002–03, even measured AHC, the average income of those aged 60+ was 19% lower than for those aged under 60.

**Figure 2.3. Real growth since 2007–08 in household income (BHC), by selected percentiles of the income distribution**



Note: Incomes have been measured net of taxes and benefits but before housing costs have been deducted, and have been equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using the Family Resources Survey, 2007–08 to 2019–20.

Changes in median income on their own only provide a very partial picture of changes in household living standards. Figures 2.3 and 2.4 show how household incomes have changed at five particular points of the income distribution: the 10<sup>th</sup>, 25<sup>th</sup>, 50<sup>th</sup> (median), 75<sup>th</sup> and 90<sup>th</sup> percentiles (where the 10<sup>th</sup> percentile is the level where only 10% of the population have a lower income, and so forth). Figure 2.3 shows that slow growth in income (measured BHC) has occurred across the income

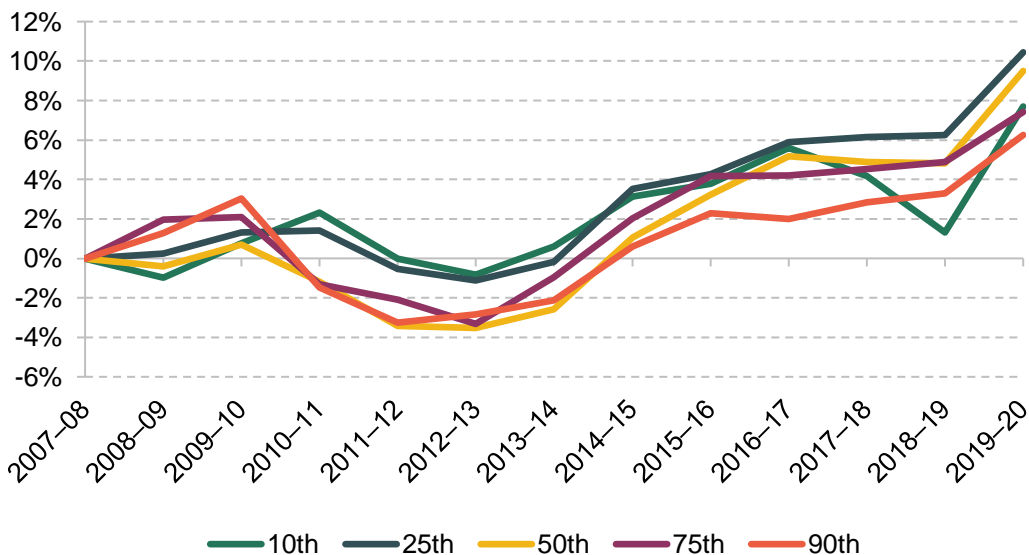
<sup>3</sup> In general, when comparing the incomes of those at or nearing retirement with the incomes of the rest of the population, it is better to use AHC measures, because older people generally have very low housing costs, as most of them own their home outright, and many of those who do not are social renters whose rent is covered at least in part by housing benefit. By using AHC measures in this particular comparison, we therefore take account of the large average differences in housing costs that older and younger people face.

distribution since 2007–08. Whereas from 2007–08 to 2011–12, it seemed that lower-income households did slightly better than higher-income households, trends since then have slightly favoured middle- and higher-income households, compared with stagnant growth in incomes in the bottom half of the income distribution, particularly at the 10<sup>th</sup> percentile, where there was essentially no growth between 2013–14 and 2019–20.

Looking over the whole of the period since 2007–08, it seems that the middle and the lower middle (50<sup>th</sup> and 25<sup>th</sup> percentiles) have performed better than either those on the lowest incomes or those in the upper half of the income distribution.

Figure 2.4 shows that, if anything, the differences in growth across the income distribution since 2007–08 are smaller when measured after housing costs have been deducted. This is due to the differing performance during the first few years after the financial crisis, rather than more recent trends, and occurred because higher-income households benefited most from mortgage interest rates being reduced in the aftermath of the financial crisis.

**Figure 2.4. Real growth since 2007–08 in household income (AHC), by selected percentiles of the income distribution**



Note: Incomes have been measured net of taxes and benefits and after housing costs have been deducted, and have been equivalised using the modified OECD equivalence scale.

Source: Authors' calculations using the Family Resources Survey, 2007–08 to 2019–20.

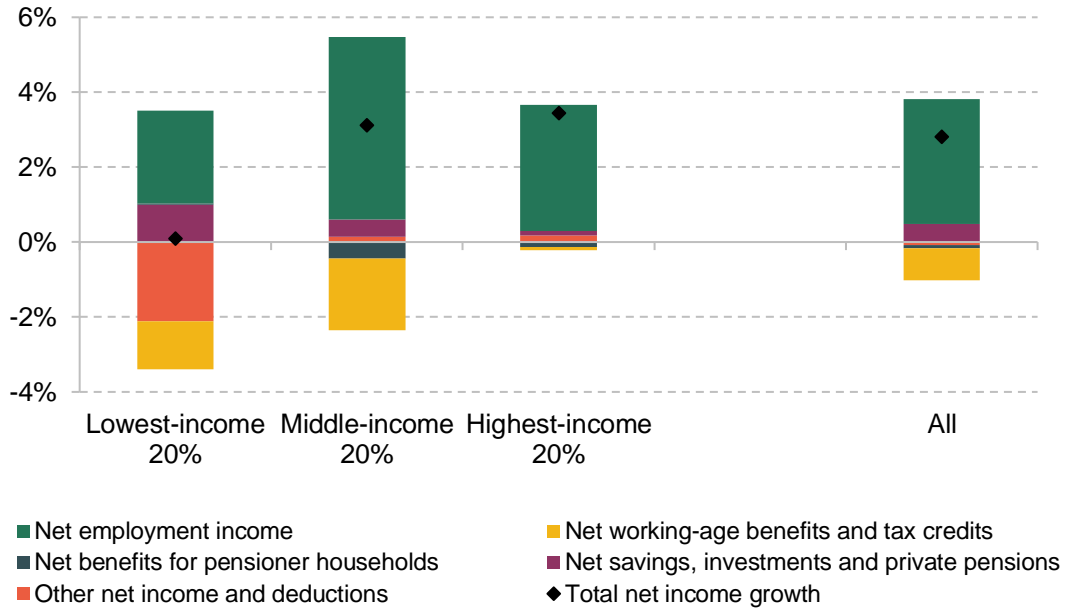
What has driven income growth across the income distribution, both in very recent years and over the 12 years since the peak before the financial crisis? Figures 2.5 and 2.6 shed light on the drivers of income growth across the income distribution, by showing how different income sources have contributed to (mean) income growth among groups of households in the bottom, middle and top fifths ('quintiles') of the income distribution. Figure 2.5 examines growth over the two years from 2017–18 to 2019–20, and Figure 2.6 from 2007–08 to 2019–20.

Figure 2.5 shows that increases in employment income have pushed up incomes across the income distribution between 2017–18 and 2019–20 but that this benefited middle- and high-income households more than lower-income households. This is for two reasons. First, the growth rate in employment income was lower for lower-income households than it was for higher-income households over these two years. Second, because employment income makes up a lower share of net income for poorer households than for middle- and higher-income households (as poorer households generally also receive benefit incomes), the same growth rate in employment income does not push up the income of poorer households by as much (in percentage terms). In addition, we can see that benefit incomes fell for low- and middle-income households. This is in small part as a result of higher employment incomes, but is also because working-age benefits were frozen in cash terms up to the end of 2019–20, meaning their real value fell.

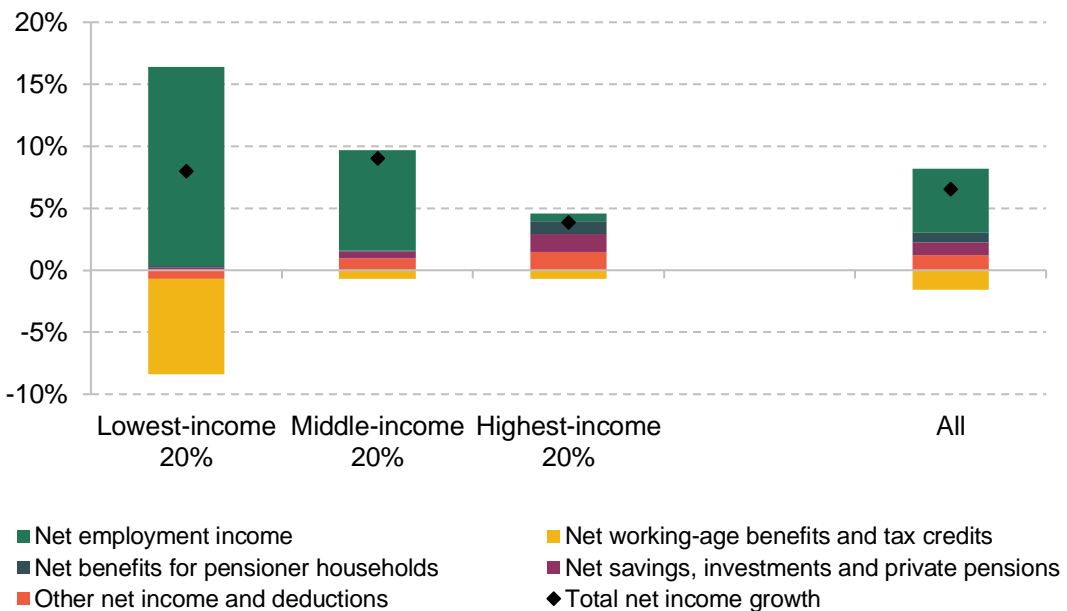
Looking at Figure 2.6, which shows contributions to income growth (measured BHC) across the distribution from 2007–08 to 2019–20, gives a somewhat different picture from looking at the changes since 2017–18. Total income growth for the poorest fifth was similar to that for the middle fifth, and higher than that for the top fifth, consistent with the trends shown in Figure 2.4. This comes despite the fall in working-age benefit incomes for low-income families, driven by cuts to benefit entitlements since 2010 which have been widely remarked upon, and which overall pushed down average incomes of the poorest fifth by 8% over the period.

The key to this pattern is that income growth from 2007–08 to 2019–20 was driven considerably at the bottom of the income distribution by a rise in employment income, pushing up incomes by 16%, higher than the 8% contribution for middle-income households and the 1% contribution for high-income households. In part, this reflects better earnings growth (or less bad earnings growth) for lower earners than for higher earners over this period, as documented in Cribb and Johnson (2019).

**Figure 2.5. Contributions to net household income growth (BHC), by quintile, 2017–18 to 2019–20**



**Figure 2.6. Contributions to net household income growth (BHC), by quintile, 2007–08 to 2019–20**



Note and source for Figures 2.5 and 2.6: See the next page.

**Note and source for Figures 2.5 and 2.6**

Note: The numbers relate to a subsample of households in HBAI that excludes those with negative incomes and excludes those whose incomes have been adjusted by the SPI (see Appendix A for details). All incomes have been equivalised and are measured at the household level and before housing costs have been deducted. ‘Net benefits for pensioner households’ are defined as benefits received by households containing at least one pensioner. This will include some benefits that can also be received by working-age people (e.g. housing benefit) and some benefits actually received by working-age individuals who live with pensioners.

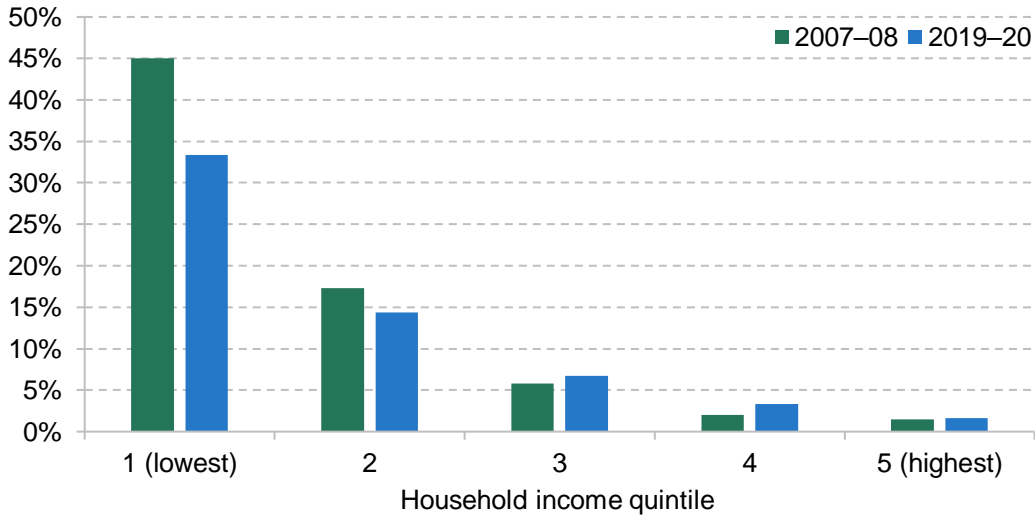
Source: Authors’ calculations using the Family Resources Survey, 2007–08, 2017–18 and 2019–20.

But it also reflects considerable increases in employment that have been concentrated towards the bottom of the income distribution since 2007–08. Indeed, Figure 2.7 shows the proportions of people (excluding pensioners) in each household income quintile who lived in a ‘workless household’ (i.e. one where there was no one in paid work) in 2007–08 and 2019–20. The figure shows that while worklessness rates have changed very little in the upper 60% of the income distribution since 2007–08, there were large falls in worklessness (and therefore increases in employment) amongst poorer households. For the bottom fifth of the income distribution, the fraction of people living in workless households fell by a quarter, from 45% to 33%. There were also falls in the second quintile, from 17% to 14%. These falls in worklessness have helped to boost the incomes of poorer households despite the substantial cuts in the generosity of benefits since 2010.

Figure 2.8 places the changes in household incomes across the income distribution in a historical context. It shows the average annualised growth in household income, by percentile point, from the ‘peak’ of one business cycle (as measured by GDP) to the next – i.e. from the year before a recession, to the year before the next recession (see Cribb, Hood and Joyce (2017) for more details about these periods). There are two striking things from the figure. The first is how low income growth has been all across the income distribution since 2007–08 compared with growth over previous business cycles. Income growth across the whole distribution since 2007–08 has been lower than growth for low-income households in the 1980s (1979–89) – which at the 10<sup>th</sup> percentile averaged 1% per year over that period. And income growth since 2007–08 pales into insignificance compared with the median income growth in the 1980s (2.7% per year).



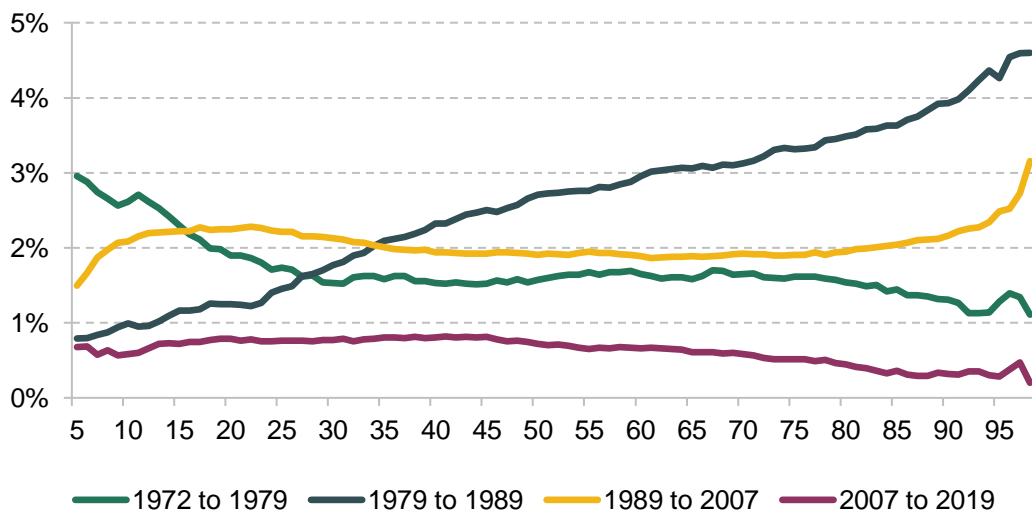
**Figure 2.7. Percentage of non-pensioners living in a workless household, by quintile of the BHC income distribution, 2007–08 and 2019–20**



Note: Income quintiles are based on incomes measured net of taxes and benefits and before housing costs have been deducted and that have been equivalised using the modified OECD equivalence scale. ‘Workless household’ is defined as there being no one in paid work in the household at the time of interview. The figure excludes people over state pension age (pensioners).

Source: Authors’ calculations using the Family Resources Survey, 2007–08 and 2019–20.

**Figure 2.8. Average annualised growth in household incomes across the (BHC) income distribution, from ‘peak to peak’ of UK business cycles**

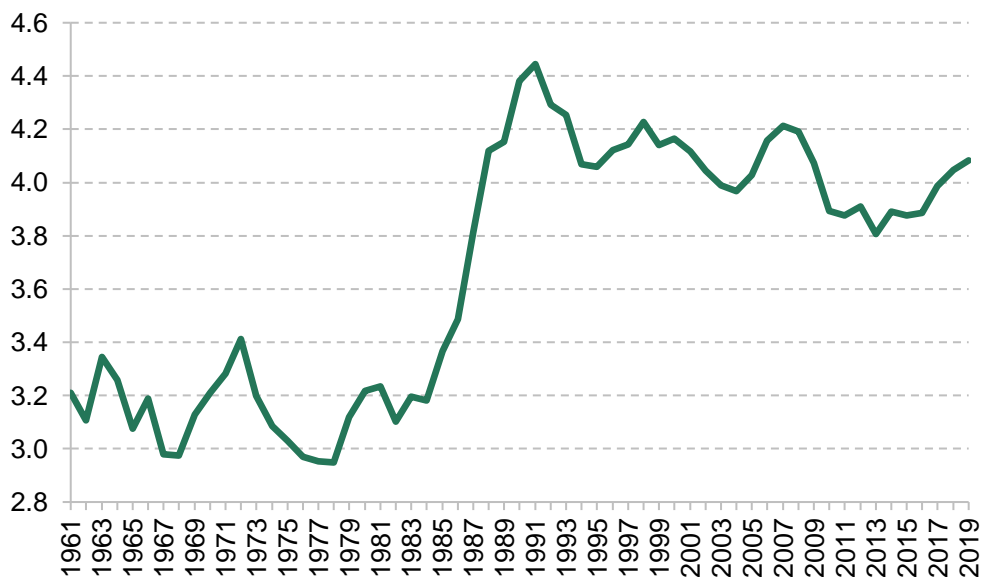


Note: Great Britain only. Financial years since 1994. Percentiles 1–4 and 99 are excluded due to relatively low levels of precision in estimating changes at these percentiles.

Source: Authors’ calculations using the Family Expenditure Survey and the Family Resources Survey, 1972 to 1993 and 1994–95 to 2019–20.

The second key finding is how equal the (low) income growth has been compared with previous cycles. Seen in this historical context, there is very little difference in growth across the income distribution since 2007–08. This compares with the 1970s (1972–79), when growth was higher for lower-income households, the 1980s (when growth was substantially higher for higher-income households) and the long 1989 to 2007 cycle (when income growth was mildly progressive in the middle 60% of the distribution, but then lower at the very bottom and higher at the very top). As shown in Appendix B (Figures B.1 and B.2), considering incomes measured AHC or only considering those aged under 60 makes no difference to these overall conclusions.

**Figure 2.9. 90:10 ratio measure of household income inequality (BHC)**



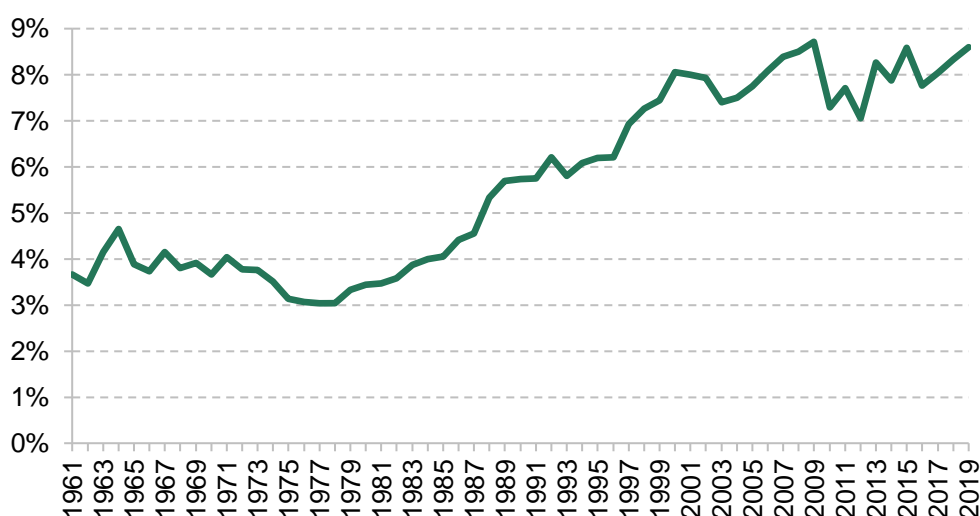
Note: Great Britain only. Financial years since 1994.

Source: Authors' calculations using the Family Expenditure Survey and the Family Resources Survey, 1961 to 1993 and 1994–95 to 2019–20.

The implication of this flat income growth across the distribution since 2007–08 is that measures of income inequality have not changed much since then. Figures 2.9 and 2.10 show two key measures of income inequality – the 90:10 ratio, which compares the incomes at the 90<sup>th</sup> percentile of the income distribution with those at the 10<sup>th</sup> percentile, and the share of income going to the highest-income 1% of people (the ‘top 1% share’). In both cases, the measure of income inequality in 2019–20 looks very similar to that seen in 2007–08, with the 90:10 ratio at 4.1,

down from 4.2 in 2007–08, and the top 1% share at 8.6% compared with 8.4% in 2007–08. In both cases, there was a small decrease in income inequality in the immediate aftermath of the Great Recession, but that has largely been reversed in the years since. This leaves income inequality on both measures at similar levels to those seen in the late 1990s, but still well above the levels seen prior to the 1980s.

**Figure 2.10. Share of net household income going to the top 1%**



Note: Great Britain only. Financial years since 1994.

Source: Authors' calculations using the Family Expenditure Survey and the Family Resources Survey, 1961 to 1993 and 1994–95 to 2019–20.

In summary, average income growth in the few years before the pandemic was solid but unspectacular, at 3% over two years from 2017–18 to 2019–20. However, incomes towards the bottom of the income distribution have been stagnant in recent years, with essentially no change at the 10<sup>th</sup> percentile of the BHC income distribution between 2013–14 and 2019–20. Looking over the whole 12-year period since 2007–08 highlights two key findings. First, income growth across the income distribution was extremely low by historical standards. Had the pre-financial-crisis trend of 2.2% median income growth per year continued, median income would have been almost 20% higher in 2019–20 than it actually was. Second, there was very little change in income inequality, either across most of the income distribution (as measured by the 90:10 ratio) or at the very top of the income distribution (as measured by the top 1% share). Low-income households have not fallen behind middle-income households between 2007–08 and 2019–20, despite large reductions to working-age benefit entitlements implemented since 2010. This

is because of substantial increases in their employment incomes, driven by large falls in household worklessness for low-income households.

## 2.2 Income poverty

The previous section examined average household incomes and income inequality across the entire population. We now focus specifically on low-income households by looking at the prevalence of income poverty and recent changes in poverty rates, up to the eve of the pandemic (2019–20). In Chapter 4, we examine changes in measures of deprivation from more recent data covering the pandemic itself. A particular focus, as in the previous section, is on how income poverty rates have changed since 2007–08, and how the characteristics of people in poverty have changed too.

There are several ways of measuring poverty. Throughout this section, we refer to two main measures that identify poverty based on individuals' household income. The first is the 'absolute poverty rate', which measures the fraction of the population who have a household income below a fixed (in real terms) 'poverty line'. We follow DWP's official HBAI statistics in defining the absolute poverty line as 60% of median income in 2010–11. As with all income amounts referred to in this report, we uprate the absolute poverty line in line with a measure of inflation based on the Consumer Prices Index (CPI). The second income-based measure of poverty is the 'relative poverty rate'. This measures the fraction of individuals whose household income is lower than 60% of median income in the same year. Generally speaking, a rise in real incomes among the poor will lead to a fall in the absolute poverty rate, but their incomes need to rise faster than median income for a reduction in relative poverty to be recorded.

It is useful to track how both relative and absolute poverty have changed over time. Because society's view about what is an acceptable standard of living evolves over time, we judge it particularly appropriate to use a relative poverty measure when looking at longer-run trends. In the short run, however, there is less reason to think that social norms change in real time with year-to-year volatility in median income, and there is often more interest in whether people are getting better or worse off in absolute terms. We therefore tend to focus on absolute poverty when looking at short-run trends and on relative poverty when examining how poverty has changed over several decades. We focus on measures of poverty that use household incomes measured after deducting housing costs (AHC) because we think that this provides

a better, more reliable indicator of poverty than those using incomes measured BHC. More details on this are set out in Appendix A.

In addition to income-based poverty measures, we also examine ‘material deprivation’ as an alternative indicator of low material living standards. The measure of material deprivation used here involves asking families whether they can afford a range of items (for example, warm winter coats for any children in the household) and activities (for example, taking children to a regular leisure activity). A family is classified as materially deprived if it is unable to afford a certain number of these items, with more weight given to items that most families already have. We report separate measures of material deprivation for children and pensioners, which are based on different lists of items to reflect the needs of each group and so are not comparable.<sup>4</sup>

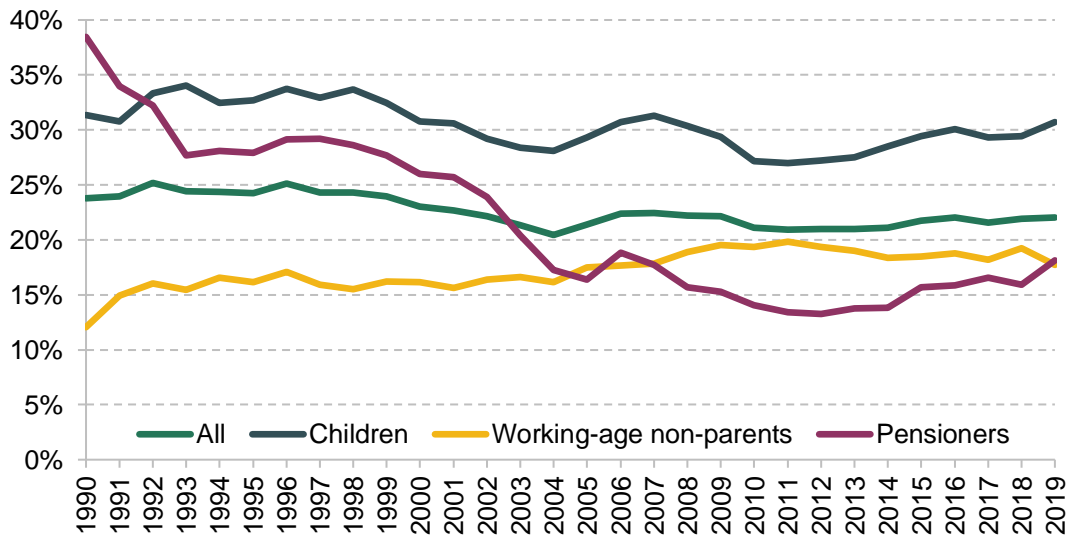
As in the rest of this report, incomes are adjusted (‘equivalised’) to account for differences in the size and composition of different households. This reflects the idea that larger households need more income than smaller households to enjoy a comparable standard of living. To give a sense of monetary amounts, in 2019–20 the relative poverty line (after housing costs) for a single person was £166 per week, compared with £285 per week for a childless couple and £400 a week for a couple with two young children. Relative and absolute poverty lines (AHC and BHC) for different family types are shown in Appendix Table B.1.

Figure 2.11 shows the relative (AHC) poverty rate over the last three decades, both overall and for different demographic groups. The share of the population in relative poverty in 2019–20 was 22%, and it has fluctuated between 20% and 22% every year between 2002–03 and 2019–20, though this is below the 24–25% seen in the early and mid 1990s.

However, there have been larger changes in relative poverty rates over time when looking at different demographic groups. Relative child poverty in 2019–20 reached 31%, similar to the level seen in 2007–08 prior to the financial crisis (though still lower than its level in the mid 1990s). It has risen by around 4 percentage points (700,000 children) since 2011–12.

<sup>4</sup> Interested readers can find more details on the construction of these measures in chapter 6 of Cribb, Joyce and Phillips (2012) and chapter 5 of Belfield et al. (2015).

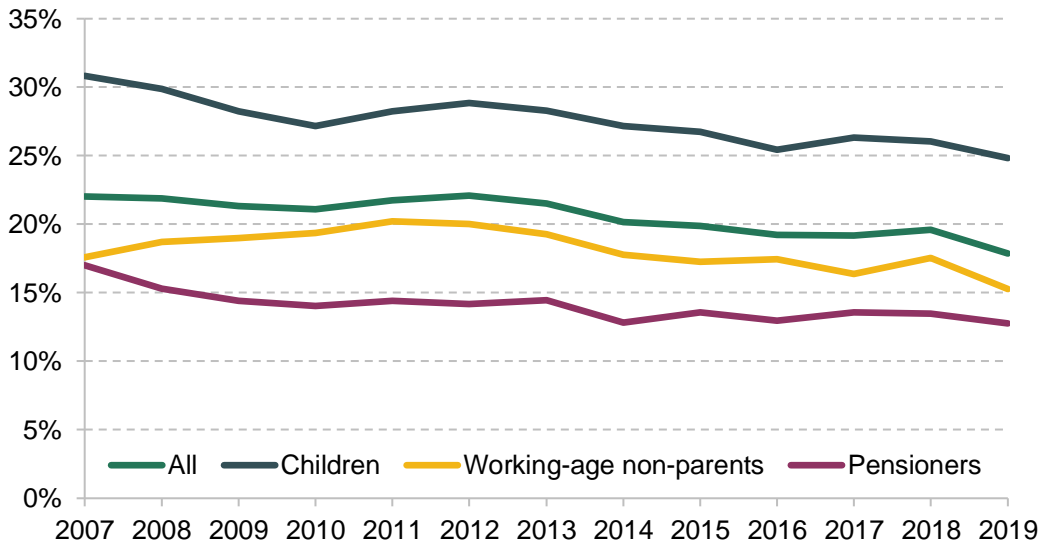
Figure 2.11. Relative AHC income poverty, 1990 to 2019–20



Note: Relative poverty measured as percentage of people on household income less than 60% of the median. Great Britain before 2002–03, UK since 2002–03 (inclusive). Financial years since 1994.

Source: Authors' calculations using the Family Expenditure Survey and the Family Resources Survey, 1990 to 1993 and 1994–95 to 2019–20.

Figure 2.12. Absolute AHC income poverty, 2007–08 to 2019–20



Note: Absolute poverty measured as percentage of people on household income less than 60% of the median income in 2010–11, in line with official UK statistics. Years are financial years.

Source: Authors' calculations using the Family Resources Survey, 2007–08 to 2019–20.

The trends for pensioners have been very different. Poverty rates among pensioners have fallen markedly over the last two decades, from around 28–29% in the mid 1990s to around 16% in more recent years. In 2019–20, there was a tick up in relative pensioner poverty to 18%. While this is a large one-year increase, we should be cautious about over-interpreting one year's data, but it is certainly worth keeping an eye on in the future to see whether this recent upward trend for pensioners is maintained.

Finally, relative poverty among working-age adults without dependent children has fallen very gradually from 20% in 2011–12, and was 18% in 2019–20, back at the same as its pre-financial crisis level, though still higher than the rates of around 16% seen in the late 1990s and early 2000s.

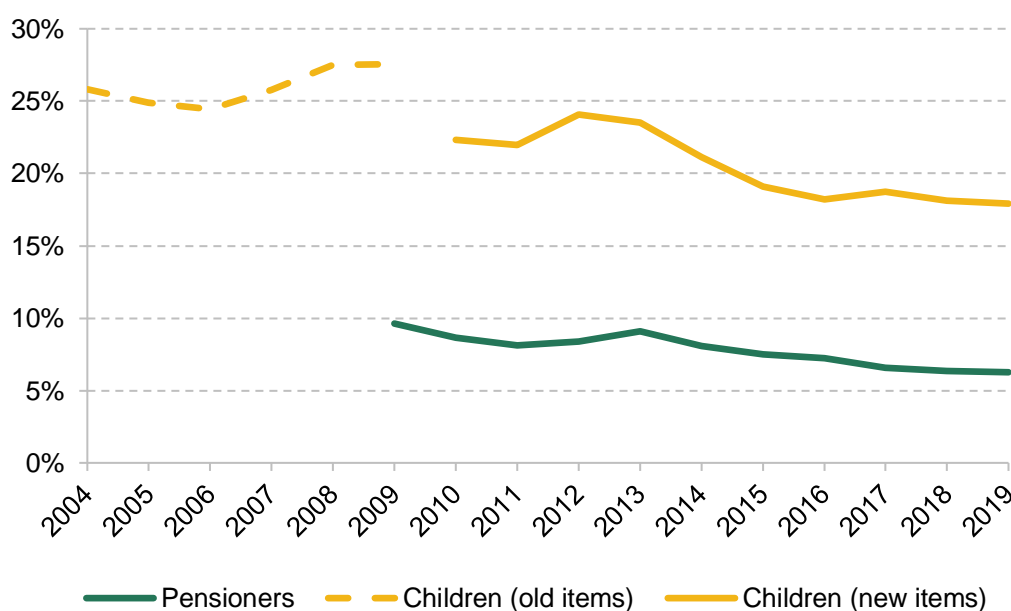
Figure 2.12 shows trends in *absolute* poverty over a shorter period (since 2007–08). Overall, absolute poverty reached 18% in 2019–20, down slightly from 19% two years previously. After very little change in absolute poverty between 2007–08 and 2012–13, overall absolute poverty has fallen since, leaving it 4 percentage points lower than in 2007–08, or 1.5 million fewer people in absolute poverty. However, as has been shown previously, the poor income growth rates seen since 2007–08 (as shown earlier in this chapter) mean the falls in absolute poverty have been low by historical standards (see chapter 3 of Bourquin, Joyce and Norris Keiller (2020) for more details).

Looking at the demographic subgroups, pensioners have the lowest rate of absolute poverty, at 13% in 2019–20, which is essentially unchanged since around 2014–15, but is 4 percentage points lower than its level in 2007–08. Children have the highest rate of absolute poverty, at 25%. Although the gradual downward trend that occurred between 2012–13 and 2016–17 has stalled in recent years, child absolute poverty is 6 percentage points lower than its level (31%) in 2007–08. Larger changes over time have been seen for working-age people without dependent children. Their absolute poverty rate rose from 18% in 2007–08 to 20% in 2012–13 as they were hardest hit by the aftermath of the Great Recession, but since then their absolute poverty rate has fallen to reach 15% in 2019–20.

As set out earlier, we can also use measures of whether families are, or are not, able to afford a certain set of items, and use answers to those questions to identify whether families are materially deprived. Figure 2.13 shows trends in child and pensioner material deprivation rates since these were first introduced. Frustratingly,

the change in questions for children in 2010 (and the fact that questions for pensioners were not introduced until 2009) means we cannot undertake the same comparison back to 2007–08 as has been done elsewhere in this chapter. However, the trends in material deprivation suggest declining levels of deprivation in recent years. In 2019–20, child material deprivation continued to fall, to reach 18%, down from 24% as recently as 2013–14. This trend of improvements in living standards looks closer to the pattern shown by trends in child absolute poverty than it does for trends in relative poverty. The trends in pensioner material deprivation are also more similar to the trends in pensioner absolute poverty than pensioner relative poverty, with gradual declines most years since 2009–10 when the questions were first introduced. The pensioner material deprivation rate was 6% in 2019–20, down from 10% in 2009–10.

**Figure 2.13. Child and pensioner material deprivation rates**



Note: Years are financial years. The figure refers to material deprivation only, not the government's combined measures of relative low income and material deprivation. Items for children changed in 2010–11, and the pensioner questions did not exist prior to 2009–10.

Source: Authors' calculations using the Family Resources Survey, 2004–05 to 2019–20.

So far, this analysis of income poverty and deprivation has focused on the population as a whole, or on large demographic groups. However, there is increasingly interest in both how different poverty rates are across specific groups in the population, and indeed how the characteristics, or composition, of those in



poverty are changing over time. The composition of people in poverty will depend not only on the specific poverty rates for each group, but on how common each group is in the population.

In Tables 2.1, 2.2 and 2.3, we consider how relative poverty rates (measured AHC) have changed between 2007–08 and 2019–20. In order to have sufficient sample size to be able to state with confidence whether there have indeed been any changes, we aggregate the three years before the financial crisis (2005–06, 2006–07 and 2007–08) together and the latest three years of data (2017–18, 2018–19 and 2019–20). We also show the poverty rates for the period 2010–11 to 2012–13, which corresponds to the most recent ‘low’ in overall relative poverty (and which comes before the main recovery in average incomes after the Great Recession). In addition, the tables show how the composition of people in poverty has changed. There are some striking results.

In each of the housing tenure groups, the relative poverty rate has fallen, but the largest fall in poverty since 2005–07 has been for people with mortgages (from 13% to 10%), with most of the fall coming during the Great Recession and immediately after. This is consistent with this group benefiting from the large and persistent fall in mortgage interest rates since the financial crisis, which has significantly reduced their housing costs. However, more striking are the changes in the composition of those in poverty. Compared with 2005–07, the fraction of people in people with a mortgage has fallen from 25% to 21% in 2010–12 and 16% in 2017–19. This is a result not only of lower poverty rates for this group, but also of lower homeownership amongst the working-age population (Cribb and Simpson, 2018). In contrast, there has been a rise in the fraction of those in poverty who live in the private rented sector, up from 22% to 31% since 2005–07. This does not reflect a higher poverty rate for this group, but instead larger falls in poverty rates for people with mortgages and a rise in the fraction of people living in private rented accommodation. Interestingly, we now have a situation (prior to the pandemic) where approximately a third of people in poverty are social renters, a third are private renters and a third own their own home (outright or with a mortgage), dramatically different from the situation prior to the Great Recession.

**Table 2.1. Relative AHC poverty rates, and fraction of those in poverty, by housing tenure, ethnicity and work status, 2005–07, 2010–12 and 2017–19**

	Relative poverty rate			Fraction of those in poverty		
	2005–07	2010–12	2017–19	2005–07	2010–12	2017–19
<b>All</b>	<b>23%</b>	<b>21%</b>	<b>22%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Social renters	46%	42%	45%	35%	33%	34%
Private renters	37%	37%	35%	22%	31%	31%
Mortgage holders	13%	11%	10%	25%	21%	16%
Outright owners	15%	12%	14%	18%	16%	19%
White	20%	19%	19%	81%	80%	75%
Black	40%	40%	40%	4%	5%	6%
Indian	26%	26%	23%	3%	3%	3%
Pakistani/Bangladeshi	61%	51%	49%	6%	6%	8%
Mixed/Other	35%	27%	35%	6%	6%	8%
<i>Under-65s only</i>						
Working household	15%	15%	18%	56%	58%	67%
Workless household	65%	60%	61%	44%	42%	33%

Note: Years are financial years. Outright owners are those who do not have a mortgage. Housing tenure is that of main residence. 'White' includes white (non-British) and white ethnic minorities (e.g. Gypsy, Rom, Irish Traveller).

Source: Authors' calculations using the Family Resources Survey, 2005–06 to 2007–08, 2010–11 to 2012–13 and 2017–18 to 2019–20.

With increasing interest in economic differences between people of different ethnicities, Table 2.1 shows interesting changes in relative poverty rates by ethnicity. The poverty rate of white people is slightly lower than in 2005–07, at 19% compared with 20%. Black people and those with mixed or 'other' ethnicity have seen stable, but relatively high, poverty rates of 40% and 35% respectively (although for mixed/other, this is the result of a fall in poverty during the Great Recession, and then a rise during the recovery). People of Indian ethnicity have seen a fall in their relative poverty rate from 26% to 23% (with all the change coming since 2010–12). But the largest change by far has been a fall in the fraction

of people from Pakistani or Bangladeshi backgrounds in poverty of 12 percentage points from 61% to 49%, though this is still the highest poverty rate of any of these five ethnic groups and over double the national average. Most this fall occurred between 2005–07 and 2010–12, though there was also a smaller fall (of 2 percentage points) during the recovery from the Great Recession. Overall, the combination of these changes in poverty rates, and the increasing fraction of ethnic minorities in the population, means that three-quarters of people in relative poverty in recent years (2017–19) are white, down from around four-fifths in both 2005–07 and 2010–12.

Table 2.1 also shows how, for people aged under 65, the poverty rates for people who live in workless and working households have changed. The ‘in-work poverty rate’ has risen over recent years, from 15% to 18% by 2017–19,<sup>5</sup> whereas there has actually been a decline in the ‘workless poverty rate’, although at 61% it is still more than three times higher than the in-work poverty rate. However, the fact that the in-work poverty rate has increased while the workless poverty rate has decreased, combined with the fact that the share of people living in workless households has fallen, particularly towards the bottom of the income distribution (as shown in Figure 2.7), means that the fraction of under-65s in relative poverty who live in working households has risen by 11 percentage points, from 56% prior to the Great Recession to 67% prior to the pandemic.

Table 2.2 shows some further differences in poverty rates, and the characteristics of those in relative poverty, over the same period, looking at differences by household type and by age. Some of the most dramatic changes have been among lone-parent households (who still have very high relative poverty rates compared with the national average). Their relative poverty rate fell from 52% in 2005–07 to 41% in 2010–12, but since then it has risen to 47% in 2017–19, still materially below its pre-recession level. This is probably due to lone-parent households benefiting from increased benefits between 2007 and 2009 (see Cribb, Hood and Joyce (2017) for more details) and the fact that their lower employment rates meant they were less affected by falls in earnings and employment in the Great Recession. However, as the economy recovered, they have benefited less from it (and, as a poorer group, have been more affected by cuts to benefit entitlements since 2010). The changes for other household types have all been more muted, although single-adult

<sup>5</sup> For more details of the drivers of this, see Bourquin et al. (2019).

households without children have seen an increase in their relative poverty rate, from 26% to 29%, all occurring since 2010–12. There has been a commensurate rise in the fraction of those in poverty who are single-adult households without children, from 14% to 16% of the population, from pre-financial-crisis to pre-pandemic.

**Table 2.2. Relative AHC poverty rates, and fraction of those in poverty, by household type, and age , 2005–07, 2010–12 and 2017–19**

	Relative poverty rate			Fraction of those in poverty		
	2005–07	2010–12	2017–19	2005–07	2010–12	2017–19
<b>All</b>	<b>23%</b>	<b>21%</b>	<b>22%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
Lone parents	52%	41%	47%	16%	13%	13%
Couples with children	23%	22%	23%	30%	31%	32%
Multi-family household with children	27%	28%	27%	9%	9%	8%
Single, no children	26%	26%	29%	14%	15%	16%
Couple, no children	14%	13%	13%	16%	15%	15%
Multi-family household, no children	17%	19%	17%	15%	17%	16%
Aged 0–17	31%	27%	30%	30%	27%	29%
Aged 18–24	27%	30%	24%	12%	14%	9%
Aged 25–34	20%	21%	21%	12%	13%	13%
Aged 35–54	19%	19%	19%	24%	25%	24%
Aged 55–64	18%	17%	21%	10%	10%	12%
Aged 65+	18%	14%	17%	12%	11%	14%

Note: Years are financial years. Multi-family households are those with more than one benefit unit in them. Note that poverty rate for 0- to 17-year-olds is not the same as for ‘children’ under the HBAI definition, as children on that definition are under-16s plus 16- to 19-year-olds in full-time education living at home.

Source: Authors’ calculations using the Family Resources Survey, 2005–06 to 2007–08, 2010–11 to 2012–13 and 2017–18 to 2019–20.

Table 2.2 also shows how poverty rates have varied by age. The poverty rate for under-18s tracks very closely the official child poverty rate shown in Figure 2.11 (which has a specific definition of children as under-16s, and 16- to 19-year-olds in full-time education living at home), with reductions in relative poverty between 2005–07 and 2010–12, and increases since then. Similarly, the trends for those aged 65+ mirror the pensioner poverty series (which defines pensioners as those aged over state pension age).

There are two other changes that stand out. For young adults, aged 18–24, their poverty rate rose from 27% pre-financial-crisis to 30% in 2010–12, but during the recovery it fell back to 24%, as young adults' employment and earnings recovered from the Great Recession and the share living with parents also rose (Gustafsson, 2021), all of which tend to support their household incomes. In contrast, for 55- to 64-year-olds, the recent trend has been rising levels of relative poverty, from 17% to 21% between 2010–12 and 2017–19, at least in part due to the rising state pension age for women from 60 to (more than) 65 over this period (Cribb and Emmerson, 2019).

There has also been increasing interest in regional differences in the UK in recent years. Table 2.3 shows that there are indeed differences in poverty rates (these are, again, measured AHC) across the regions and nations of the UK. In 2017–19, London has the highest relative poverty rate, at 27%, while Northern Ireland, at 18%, has the lowest. There have been some relatively small changes in regional poverty rates, with the West Midlands and Yorkshire & the Humber both rising slightly. The North East saw a fall in poverty during the Great Recession, followed by a rise, which left relative poverty at 25% compared with 24% pre-recession. In contrast, there have been small declines in Wales, the North West, the East Midlands and Northern Ireland. Those areas with the lowest poverty rates in 2005–07 (the South East, East of England, Scotland and the South West) have all seen very little change. The fact that the fractions of people living in each nation or region of the UK have not changed much, combined with the fact that the regional poverty rates have not changed markedly, means the regional composition of those in poverty prior to the pandemic was similar to the composition prior to the financial crisis.

**Table 2.3. Relative AHC poverty rates, and fraction of those in poverty, by region, 2005–07, 2010–12 and 2017–19**

	Relative poverty rate			Fraction of those in poverty		
	2005–07	2010–12	2017–19	2005–07	2010–12	2017–19
<b>All</b>	<b>23%</b>	<b>21%</b>	<b>22%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
London	27%	28%	27%	16%	17%	17%
West Midlands	24%	23%	25%	10%	10%	10%
North East	24%	21%	25%	5%	4%	5%
Wales	24%	23%	23%	5%	5%	5%
North West	24%	22%	22%	12%	12%	11%
Yorkshire & the Humber	23%	22%	24%	9%	9%	9%
East Midlands	22%	19%	20%	7%	7%	7%
Northern Ireland	20%	20%	18%	3%	3%	2%
South West	19%	19%	19%	7%	7%	7%
Scotland	19%	18%	19%	7%	7%	7%
East of England	19%	18%	19%	8%	8%	8%
South East	19%	18%	19%	11%	12%	12%

Note: Years are financial years. Regions are sorted by relative AHC poverty rate in 2005–07.

Source: Authors' calculations using the Family Resources Survey, 2005–06 to 2007–08, 2010–11 to 2012–13 and 2017–18 to 2019–20.

In summary, overall relative poverty rates and those for major demographic groups have not changed radically since 2007–08, though there is some evidence of child and pensioner relative poverty rates rising more recently. There have been small and gradual declines in absolute poverty, with each of the major demographic groups seeing lower absolute poverty in 2019–20 than prior to the Great Recession. This is all consistent with the low, relatively equal income growth across the income distribution that has been seen since 2007–08 and which was noted earlier in the chapter. However, looking in detail at certain parts of the population draws out specific trends that have changed the fact of poverty. In particular, there has been an increasing fraction of poor people who live in working households (due to

more people being in work and higher in-work poverty rates). An increasing fraction of poor people live in private rented accommodation as homeownership rates have fallen, and a lower fraction (but still a large majority) of poor people are white, despite notable falls in poverty rates for some ethnic minorities, particularly people from Pakistani and Bangladeshi backgrounds.

## 2.3 Conclusion

This chapter has set out how household living standards as measured by household incomes changed in the run-up to the COVID-19 pandemic, with a particular focus on how household incomes have changed since 2007–08. While average income growth was solid but unspectacular in the years immediately before the pandemic, income towards the bottom of the income distribution, at the 10<sup>th</sup> percentile, was stagnating, as gains to employment income have been offset by reductions to working-age benefits. Overall, the period since 2007–08 has not been characterised by widening or closing inequalities, where income is measured on a BHC basis, but by relatively even, low income growth across the income distribution. It is the slowness of income growth in particular that stands out compared with modern British history.

These trends have translated into modest and gradual declines in absolute poverty rates since 2007–08, and little change in overall relative poverty. However, a combination of changes to relative poverty rates of different groups and other societal shifts means that the low-income population is significantly more likely to be in the private rented sector, living in a working household and from an ethnic minority than was the case prior to the Great Recession.

Of course, this chapter only analyses household income data up to the eve of the COVID-19 pandemic (2019–20). While there is not yet high-quality household income data available from the Family Resources Survey for 2020–21, the following two chapters aim to understand the impact of the pandemic on household living standards by examining changes in the labour market and measures of deprivation that have been recorded since March 2020.

## 3. The labour market during the pandemic

### Key findings

- 1 Although there were large rises in the proportion of people not working at least one hour a week in 2020, there was very little rise in unemployment and economic inactivity (where people have no job at all). By 2021Q1, 1.3 million more adults (aged 19–64) were not working at least an hour a week compared with 2019Q4, whereas only 0.3 million more adults were unemployed or economically inactive. The furlough scheme has kept unemployment from rising sharply during the pandemic.
- 2 Despite the large falls in the number of people working at least an hour a week, the number of households where no one was working has risen only modestly. This is particularly important for 19- to 24-year-olds, many of whom live with their parents. Even excluding full-time students who moved back home when universities and colleges shut, the share of 19- to 24-year-olds who lived with their parents rose from 45% in 2020Q1 to 50% in 2021Q1 – an increase of around 200,000 people. As a result, whilst the share of young adults who were not working rose by 10 percentage points by 2021Q1, the share living in a household where no one is working rose by just 1 percentage point – no more than the general population.
- 3 Looking at the (relatively small) increase in the number of households where no one has a job (i.e. all adults are unemployed or inactive), there are a number of groups where rises are more concerning: single-adult households without children (who by definition do not have a working partner to support them), and Pakistani and Bangladeshi people (who pre-pandemic were particularly likely to be



single-earner households). These groups had relatively high levels of poverty before the pandemic. The share of lone parents who were not working also rose sharply, though this reflected an increase in furlough rather than unemployment and inactivity.

- 4 People who continued to work through the pandemic experienced real earnings growth that was fairly similar to the immediate pre-pandemic years, and much higher than in the aftermath of the Great Recession. Real earnings growth has been supported by low measured inflation during the pandemic.
- 5 Average earnings growth during the pandemic has tended to be stronger for public sector workers and for workers with lower levels of education, the latter perhaps in part due to a significant rise in the National Living Wage in 2020. Conversely, there is some evidence that younger workers (aged 19–34) have seen weaker growth in earnings. This may be due to the lack of vacancies: those earlier on in their career are more likely to move employers more regularly and this is often a source of wage growth.

The previous chapter analysed the trends in household living standards up to the eve of the pandemic. As discussed in Chapter 2, we currently lack official income data covering the pandemic itself, and so this report uses a number of different sources to measure how households have fared, with a particular focus on the situation facing lower-income households. In this chapter, we focus on what is by far the main source of income for working-age families: the labour market.

The labour market has been disrupted in two broad ways during the pandemic. The first, and largest, disruption has been to employment. The temporary or permanent closure of businesses has led to a large number of workers being unable to do their usual job. Many have been put onto the furlough scheme, which at its peak in May 2020 was paying the wages of almost 9 million workers. But others have lost their job entirely and, given the reduced numbers of vacancies available throughout 2020 and into early 2021, they have found it harder to get back into work than they might have if they had been made redundant in more normal circumstances. In Section 3.1, we therefore investigate how trends in people not working (such as those who

are fully furloughed) have compared with trends in people without a job at all, and how different demographic groups have fared.

Not all changes in employment will have the same effect on household living standards. In particular, those households where, pre-pandemic, only one person was in paid work are much more likely to suffer poverty and financial or material hardship when that one person loses their job, than where there are two earners. It is therefore important to examine levels of household ‘worklessness’ as well as changes in individual employment outcomes. We examine this issue in Section 3.2.

The second dimension of labour market disruption is the earnings of those who have kept their job. Most obviously, the furlough scheme only covers up to 80% of earnings (though employers can choose to top that up). But even those who continue working can be affected too – by cuts to their hours, sluggish wage growth or a lack of job-to-job moves (which are often associated with pay rises). Section 3.3 therefore examines patterns in earnings growth over the pandemic.

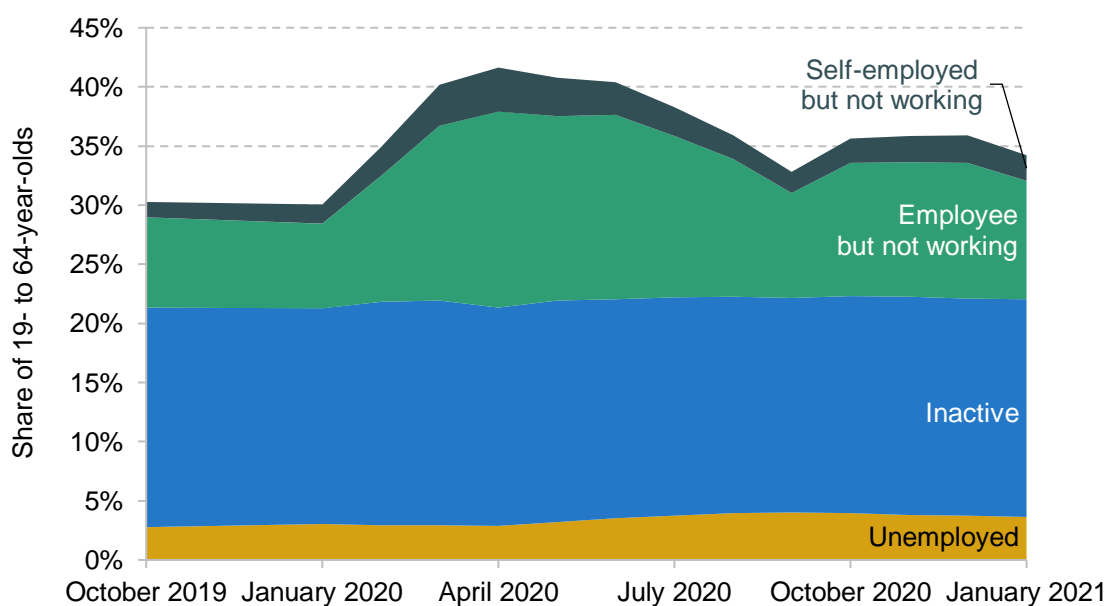
The chapter uses data from the Labour Force Survey, which is used by the Office for National Statistics (ONS) to calculate official employment statistics. It should be noted that, due to the pandemic, the ONS changed its methodology for contacting and surveying respondents, moving from an initial face-to-face interview to only undertaking telephone interviews. Alongside lower achieved sample sizes, the ONS found that this led to a lower likelihood of capturing renters compared with people who owned their own home, and therefore updated its weights to reflect the known housing tenure mix in the population. Our analysis uses these updated weights. However, given changes to survey methods and achieved samples since the start of the pandemic, there is inevitably more uncertainty about the exact changes in the labour market over the last year than there would be in normal times.

## 3.1 Changes in individuals’ employment

The COVID-19 pandemic led to a dramatic fall in economic activity in Spring 2020, which recovered over the summer before falling again in the second and third lockdowns. Figure 3.1 shows trends in employment status over the course of the pandemic, specifically highlighting the different ways in which people were not working during the pandemic. Looking at adults aged 19–64, 70% were employed (either as an employee or self-employed) and worked at least one hour per week in the week they were interviewed before the pandemic hit (2019Q4); therefore 30%

were not working at least one hour per week. Among working-age adults, 9% were employed or self-employed but temporarily not working because they were on holiday, off sick or on parental leave;<sup>6</sup> 3% were unemployed; and 19% were economically inactive, meaning that they were out of work and not searching for a job (because they were retired, studying, looking after family, long-term sick, or for other reasons).

**Figure 3.1. Share of people not working over course of pandemic**



Note: Includes people aged 19–64. Shows forward-looking three-month moving average. Data are available quarterly before January–March 2020 and monthly thereafter.

Source: Quarterly Labour Force Survey.

As the UK entered the first lockdown and entire sectors were ordered to close down, the share of adults who were an employee and working at least one hour per week fell by 9 percentage points (ppts), from 60% in 2019Q4 to 51% in 2020Q2. The furlough scheme prevented this fall in economic activity from turning into a rise in unemployment. Figure 3.1 shows that the share of adults who were

<sup>6</sup> We focus on the employment of adults aged 19 and over. As shown in Appendix Figure C.1, there has been an increase in the share of 17- and 18-year-olds in full-time education since the start of the pandemic, probably due to lower job vacancies. For those aged 19 and over, there has not been a statistically significant increase in participation in full-time education during the pandemic above pre-pandemic trends, so falls in economic activity reflect rises in furlough or unemployment.

employed but working zero hours rose by the same amount (9ppts or around 3.5 million employees<sup>7</sup>) over this period. Most, if not all, of this increase reflects people going on furlough, rather than people being off sick or self-isolating with COVID-19.<sup>8</sup> In contrast, the share of the adult population unemployed in 2020Q2 remained steady at 3%, and the share of adults who were inactive also remained steady at around 18%.

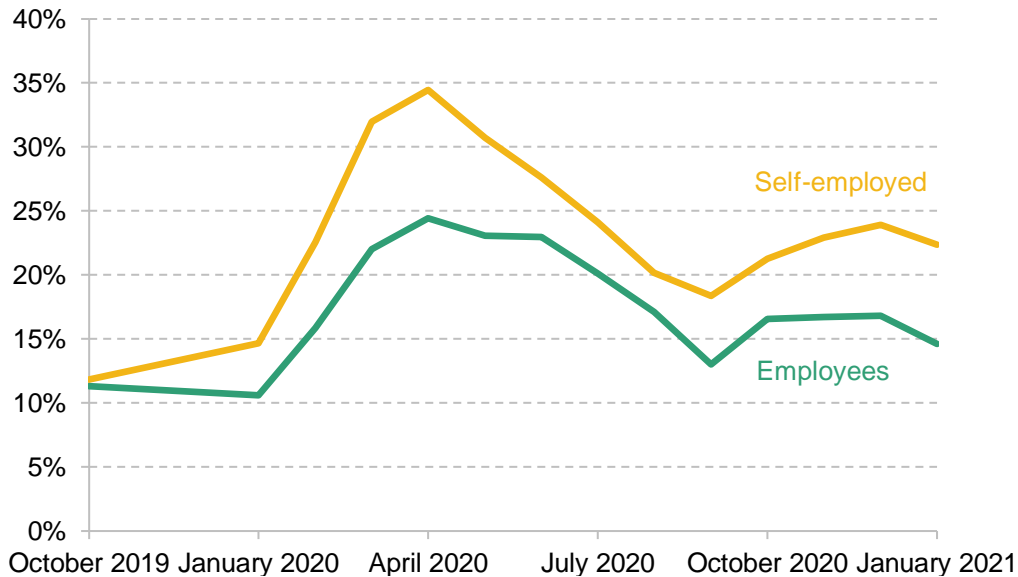
The pandemic hit the economic activity of the self-employed especially hard. Figure 3.2 shows that before the pandemic hit (2019Q4), 12% of self-employed workers aged 19–64 worked zero hours in the last week, a similar share to that of employees (11%). By 2020Q2, 34% of self-employed workers worked zero hours (900,000 more than pre-pandemic) compared with 24% of employees who were working zero hours.

The labour market recovered over the summer as many restrictions were lifted. By September–November 2020, 67% of adults aged 19–64 were employed or self-employed and working. This share declined again as the UK went into the second and third lockdowns, to 64% in December 2020–February 2021, though the fall was much smaller than in the first lockdown. This is likely to reflect looser restrictions compared with the first lockdown and clearer guidelines on which businesses could remain open – for example, over 700,000 jobs in the construction sector were furloughed at the end of April 2020, compared with around 200,000 at the end of February 2021 (HM Revenue and Customs, 2021). It is also probable that businesses had adapted to operating under lockdown conditions. For example, fewer jobs were furloughed in the accommodation and food sector in the third lockdown than in the first, which is likely to reflect higher adoption of takeaway and delivery services (HM Revenue and Customs, 2021). In 2021Q1, around 1.3 million more people were not working compared with 2019Q4.

<sup>7</sup> HMRC data from July 2020 show that by the end of June 2020, 8.3 million employments had been furloughed for people aged 19–64. There are a number of potential reasons this exceeds our estimate of 3.5 million people. First, the HMRC figure is cumulative, rather than the number of furloughed employments at one point in time. Second, some people may continue to do some work despite being on furlough; a survey by Adams-Prassl et al. (2020) conducted in April–May 2020 found that two-thirds of furloughed employees continued to work at least one hour per week. Third, the HMRC figure refers to the number of jobs, which will be larger than the number of people since some hold multiple jobs. Finally, there may be measurement error in the Labour Force Survey.

<sup>8</sup> The number of employees not working because their work was ‘interrupted by economic causes’ increased by around 2.6 million, and the number not working for ‘other reasons’ (which could include furlough) increased by around 2.1 million. The number on holiday fell by around 1.0 million and the number ‘off sick’ fell by around 75,000.

**Figure 3.2. Share of workers working zero hours in the last week, over time and by employment status**



Note: Includes people aged 19–64. Shows forward-looking three-month moving average. Data are available quarterly before January–March 2020 and monthly thereafter.

Source: Quarterly Labour Force Survey.

The share of working-age adults who were unemployed rose slightly over the pandemic from 2.8% in 2019Q4 to 3.7% in 2021Q1. In 2021Q1, around 350,000 more adults aged 19–64 were unemployed than before the pandemic. Trends in unemployment can be seen more clearly in Appendix Figure C.2, which shows the unemployment rate since the 1990s, defined as unemployment as a share of the 19- to 64-year-old labour force (i.e. excluding economically inactive people). The unemployment rate remained broadly stable at the start of the pandemic, at 3.5–3.6% in the first two quarters of 2020. But as the contributions that employers were required to make towards the furlough scheme gradually increased between July 2020 and October 2020, the unemployment rate rose, reaching 4.8% in August–October 2020.<sup>9</sup> Since then, the unemployment rate for 19- to 64-year-olds has fallen slightly to 4.4% in 2021Q1. This is higher than before the pandemic, but still low by historical standards.

<sup>9</sup> Employers were required to make National Insurance and pension contributions from July 2020, and to cover 10% and 20% of employee wages up to £2,500 a month in September and October 2020 respectively. Since October 2020, employers have no longer had to cover employee wages but have had to make National Insurance and pension contributions for furloughed staff.

## Differences in individual employment outcomes across the population

The labour market impact of the pandemic has not been evenly felt. The concentration of the shock in low-wage service sectors, coupled with the fact that professional jobs could be more easily done from home, means that different types of workers have been differentially affected over the course of the pandemic.

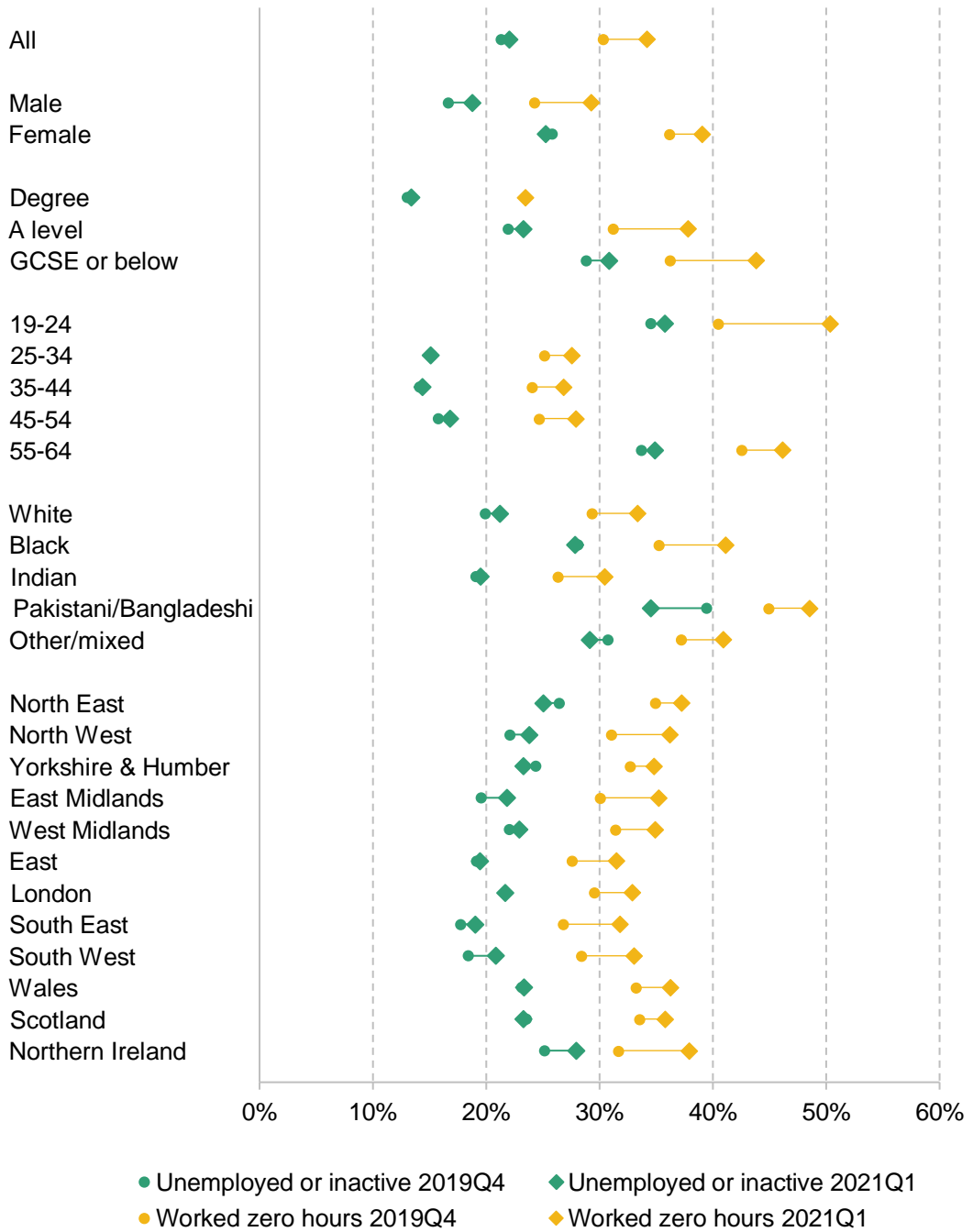
Figure 3.3 shows the share of people who were workless before the pandemic and in the latest data by demographic group. We consider two measures of worklessness: working zero hours in the last week (plotted in yellow) and being unemployed or economically inactive (plotted in green). The latter measure excludes those who were employed or self-employed but did not work any hours in the last week (who were therefore likely to have received support from the furlough or self-employment income support schemes).

Overall, the share of 19- to 64-year-old adults who did not work any hours in the last week rose by 4 percentage points over the course of the pandemic, from 30% in 2019Q4 to 34% in 2021Q1. Men saw a larger increase (5ppts) than women (3ppts). The increase was driven by those with at most A levels (7ppts) and GCSEs (8ppts). Those with degrees did not see an increase in the fraction not working any hours compared with 2019Q4.

The increase in the fraction not working any hours was larger for 19- to 24-year-olds (10ppts) than for older people. In 2021Q1, around 400,000 more 19- to 24-year-olds were not working any hours than in 2019Q4. As shown in Appendix Figure C.1, this is not driven by people staying on in full-time education, and instead reflects people becoming furloughed and becoming unemployed or otherwise inactive.

Less-educated people and younger adults were already less likely than average to be working before the pandemic hit, so the pandemic increased employment inequalities along these dimensions. The rise in the share not working any hours was also more pronounced among black people (6ppts), who were less likely to be working than white people prior to the pandemic.

Figure 3.3. Share not working, by demographic group and region, 2019Q4 and 2021Q1



Note: Includes people aged 19–64.

Source: Quarterly Labour Force Survey.

The share of 19- to 64-year-olds working zero hours per week increased in all regions of the UK. Whilst the HMRC data presented in Appendix Figure C.3 show slightly higher furlough rates in London (16%) than in the rest of the country (13–14%), this is not borne out by the data in the Labour Force Survey. One possible explanation is a higher prevalence of partial furlough, or of people working positive hours despite being on full furlough (Adams-Prassl et al., 2020), in London compared with other regions.

As discussed above, the fall in economic activity only translated into a relatively small increase in the number of people who were unemployed or economically inactive (i.e. had no job at all). Given that most furloughed employees continued to receive 80% of their earnings, and in many cases had the remainder topped up by their employers (Delestre et al., 2020), groups that saw large falls in the probability of working did not necessarily see proportionate falls in their earnings.

Indeed, Figure 3.3 shows that across most demographic groups, the share of adults aged 19–64 who were unemployed or inactive – and therefore received no earnings at all – rose by just 1 percentage point between 2019Q4 and 2021Q1. Differences by age and education remain, with younger and less-educated people doing worse, but these are much less pronounced than when looking at the share of people not working any hours. The increase in unemployment and inactivity is no larger among black people than among white people, and the share of Pakistanis and Bangladeshis who were unemployed or economically inactive actually fell, though only among women, and this change is not statistically significantly different from zero at conventional significance levels.

Overall, this analysis shows that while there has been a vast amount of economic disruption from the pandemic, the effects on the labour market are more nuanced. The furlough scheme means that – compared with other countries such as the United States where unemployment rose significantly – there have only been modest rises in the proportion of people who are formally separated from any employment relationship. Moreover, while there are very large differences in the rise in share of people who are employed but not working any hours between different demographic groups, the differences in the rise in share of people who are completely out of work are much smaller.

That is not to say that being employed but not working is an ideal situation. Many of these people will only be receiving 80% of their pre-pandemic pay, they will not



be gaining important skills and work experience, and they are more vulnerable to unemployment when the furlough scheme ends at the end of September 2021.

## 3.2 Family- and household-level employment

So far, we have considered the impact of COVID-19 on the labour market outcomes of individuals. But the impact on material living standards also depends on the extent to which other members of individuals' households are affected. For some people, individual employment changes will understate the effect of COVID-19 on their household incomes – for example, if they are married to people who are also badly hit by the pandemic. On the other hand, some people who lose work as a result of the pandemic will live with partners or other household members who are not directly affected, who can help support them when their own income goes down.

As in the previous section, we consider two measures of worklessness at the family or household level: whether no one worked any hours in the reference week, and whether no one had any job at all (i.e. all were unemployed or economically inactive). We start by using the broader measure of worklessness to discuss the difference between individual labour market outcomes and family- and household-level outcomes. We then examine how these results differ when we define worklessness only considering the unemployed and economically inactive.

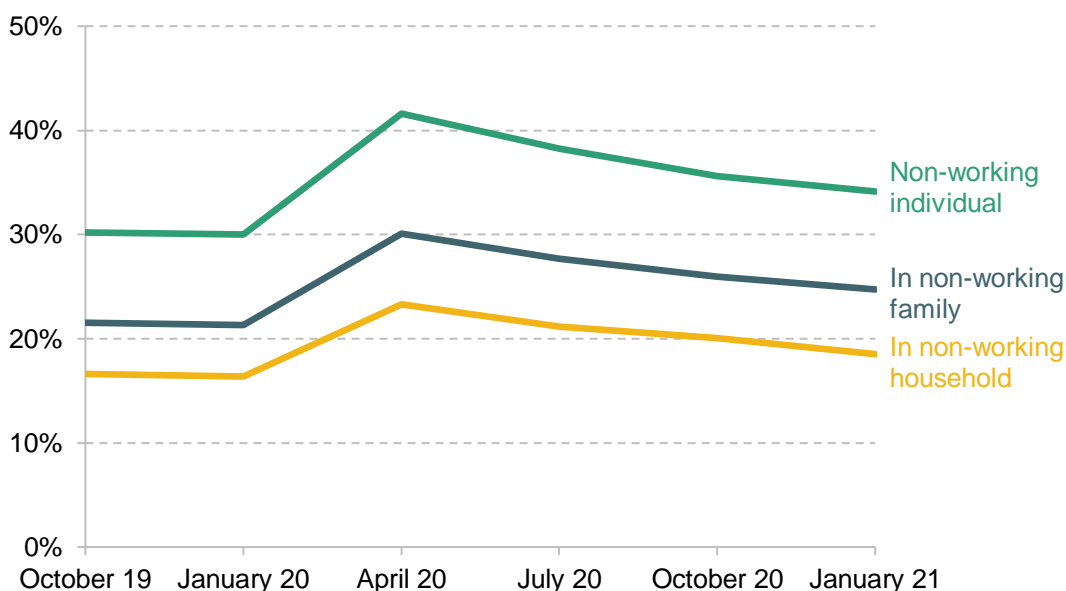
Figure 3.4 shows how the share of individuals aged 19–64 who were not working evolved over the pandemic, and compares this with the share of individuals who lived in families and households in which no one was working. In 2019Q4, 30% of adults aged 19–64 in the UK were unemployed, inactive or working zero hours – this corresponds to the sum of the areas in Figure 3.1 above. However, many of these people had partners who worked positive hours, so that only 22% of adults lived in non-working families.<sup>10</sup> Further, some people lived in households with

<sup>10</sup> We use 'families' to refer to 'benefit units', which are the level at which benefits are paid to people. A benefit unit can be either a single person or a couple, plus any dependent children of that single person or couple. People who live together who are related but in separate benefit units – for example, an adult child living with their parents, or two adult siblings living together – are counted as living in a 'multi-family household'.

multiple families – for example, in multigenerational households or flat-shares. Just 17% of adults lived in households in which no one worked.<sup>11</sup>

The figure shows that the fraction of adults living in a household where no one was working any hours rose (by 7ppts) by 2020Q2, but less than the fraction of adults who themselves were not working any hours (which rose by 11ppts by 2020Q2) implying that other working people in the household provided some support to people who were unable to work.

**Figure 3.4. Trends in share not working over course of pandemic**

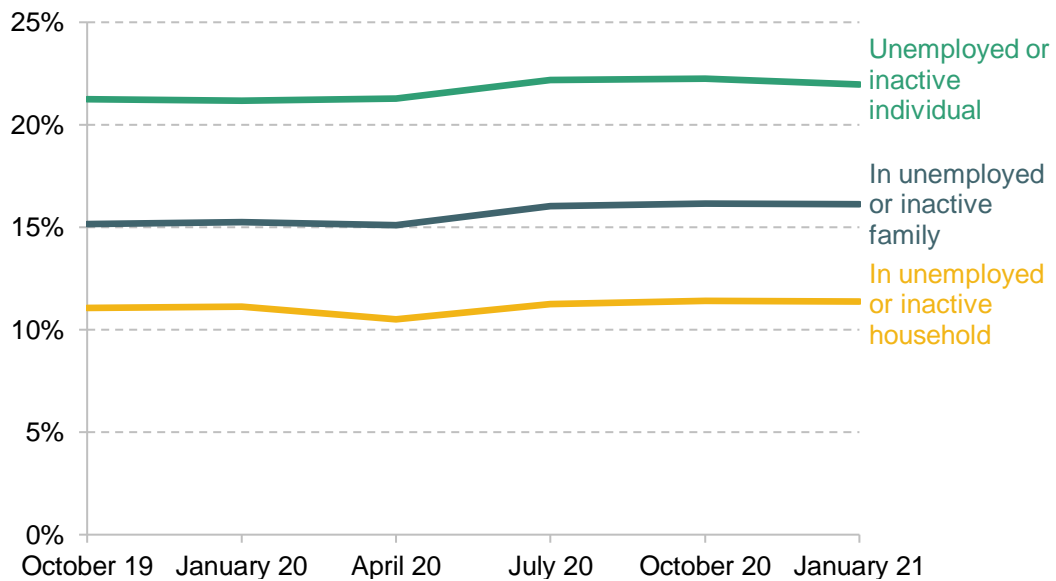


Note: Includes people aged 19–64. Shows forward-looking three-month moving average. 'Not working' is defined as being unemployed, inactive, or employed or self-employed but working zero hours in the week of interview. A family is defined as the unit at which benefits are paid (a single person or a couple, plus any dependent children). A household is defined as a person or group of people living at the same address.

Source: Quarterly Labour Force Survey.

<sup>11</sup> A household is defined as a person or group of people who live at the same address. The share of non-pensioners, including children, who lived in households in which no one worked was about the same at 16%.

Figure 3.5. Trends in share unemployed or inactive over course of pandemic



Note: Includes people aged 19–64. Shows forward-looking three-month moving average. A family is defined as the unit at which benefits are paid (a single person or a couple, plus any dependent children). A household is defined as a person or group of people living at the same address.

Source: Quarterly Labour Force Survey.

Figure 3.5 shows the equivalent trends in unemployment and economic inactivity – that is, people without any job at all. Before the pandemic hit, 21% of adults aged 19–64 had no job, 15% lived in families in which no one had a job and 11% lived in households in which no one had a job.

The rise in this measure of worklessness at the household level over the pandemic was smaller than the rise for individuals. The share of adults who were unemployed or inactive was 0.7ppts higher in 2021Q1 than in 2019Q4. In contrast, the share of people in households in which everyone was unemployed or inactive rose by just 0.3ppts. This implies that whilst 330,000 more people were unemployed or inactive in 2021Q1 than before the pandemic, there has been a smaller increase of 170,000 people who live in households where no one had a job. Among individuals who lost their jobs during the pandemic, many have therefore been protected against large falls in their living standards by the fact that they live in households with other working people.

The distinction between individual and household-level worklessness is especially important when thinking about the living standards of younger adults. As discussed

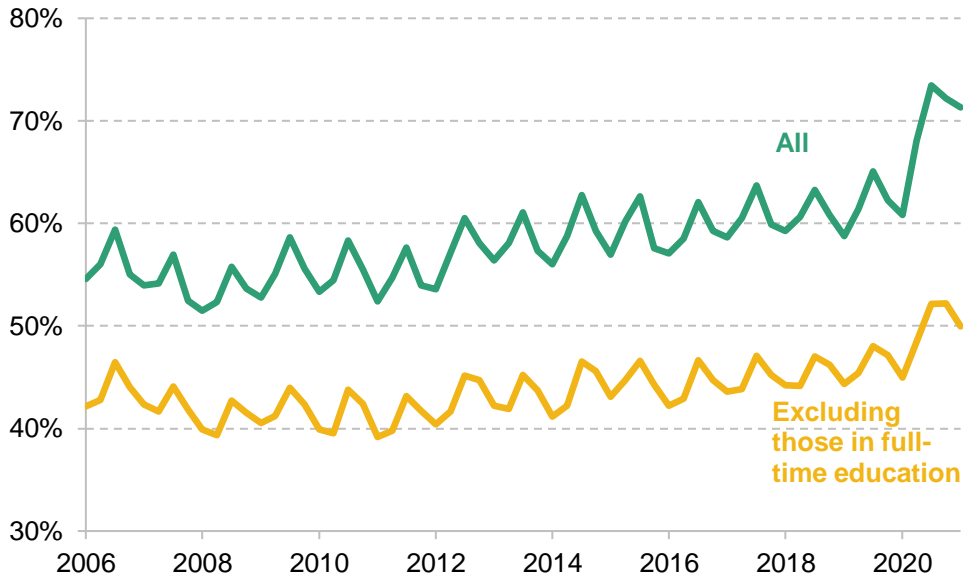
in the previous section, 19- to 24-year-olds suffered the largest labour market shock during the pandemic. But, as is shown in Figure 3.6, in 2020Q1, 61% of young adults lived with their parents, and a further 17% lived in a household with someone other than their partner or parents (for example, a flatmate). The share of 19- to 24-year-olds living with their parents increased over the pandemic, rising to 71% in 2021Q1. As the figure shows, this does not simply reflect students moving back home when universities and colleges shut down: the share of 19- to 24-year-olds not in full-time education who lived with their parents also rose, from 45% in 2020Q1 to 50% in 2021Q1 (around 200,000 people), higher than the level seen in the Great Recession.

While many young adults may not wish to live with their parents in an ideal world (and vice versa), the fact that many young adults have been living with their parents through the pandemic has helped to significantly shelter them from the income-reducing effects of being on furlough or not having a job. The left-hand panel of Figure 3.7 shows that whilst individual-level worklessness among 19- to 24-year-olds was 10ppts higher in 2021Q1 than in 2019Q4, the increase in household-level worklessness was just 1ppt. This implies that the shock to young adults' household incomes was much less severe than implied by their employment rates.

In contrast to young adults, most adults aged 25 and above typically live alone or in couples (and with dependent children if they have them). The right-hand panel of Figure 3.7 shows that for older adults, trends in individual-level worklessness were similar to trends in family- and household-level worklessness. The share of 25- to 64-year-olds who were not working any hours was 3ppts higher in the latest data than before the pandemic, and the share living in a household where no one was working any hours was 2ppts higher. Thus, whilst younger adults saw a larger increase in individual-level worklessness over the course of the pandemic than older adults, they actually saw a smaller increase in household-level worklessness.<sup>12</sup>

<sup>12</sup> The 'family' line in Figure 3.7 lies close to the 'individual' line for 19- to 24-year-olds, because young adults tend to be single, but close to the 'household' line for 25- to 64-year-olds, who typically live only with their partner and children.

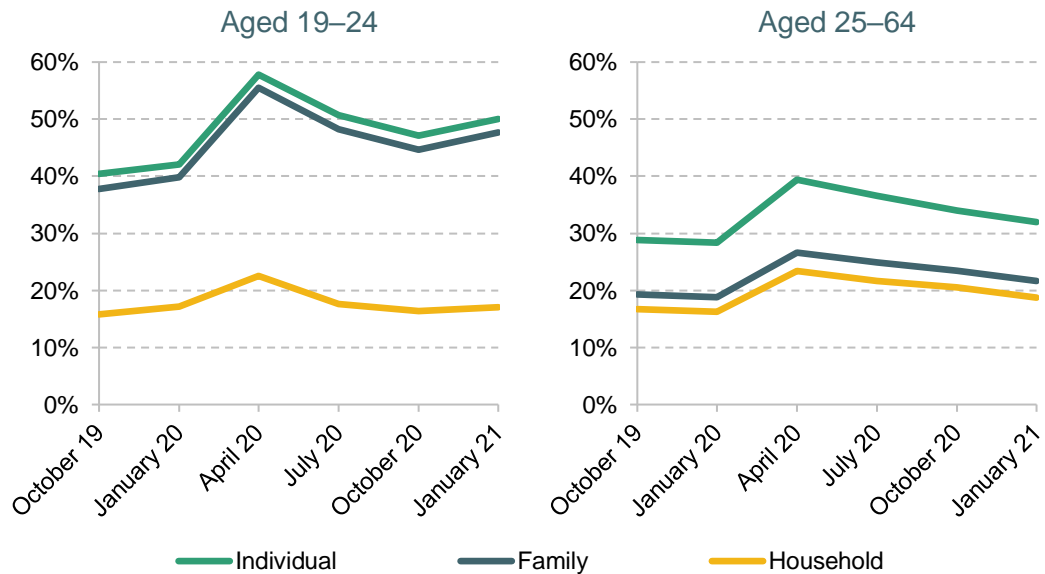
Figure 3.6. Trends in share of 19- to 24-year-olds living with their parents



Note: Shows forward-looking three-month moving average. Seasonal fluctuations reflect timing of school (and college and university) years.

Source: Quarterly Labour Force Survey.

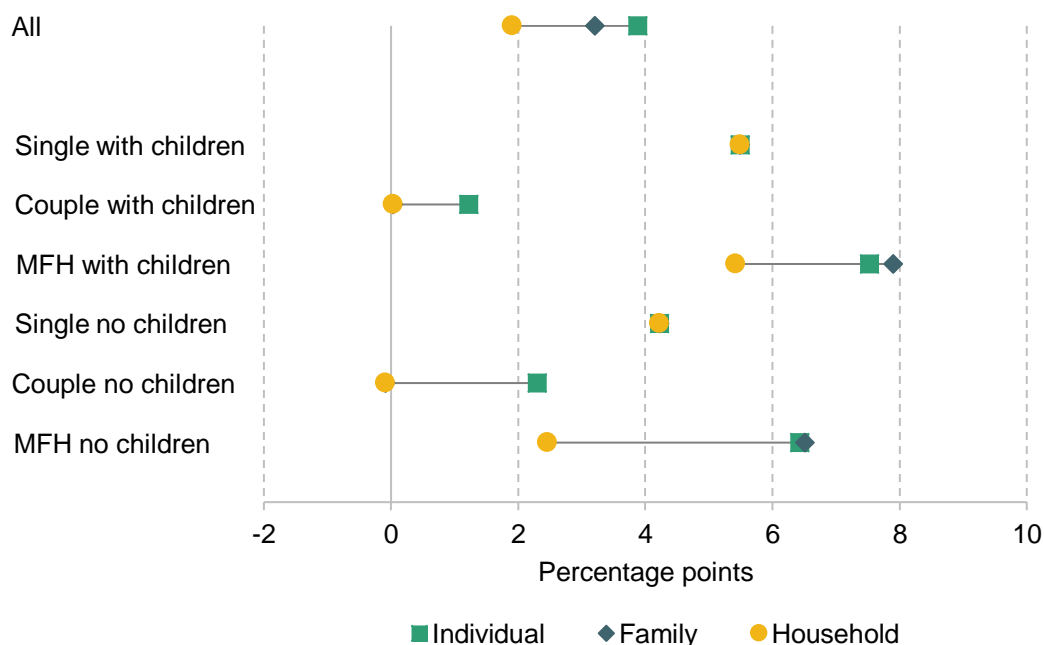
Figure 3.7. Trends in share working zero hours, by age group



Note: 'Working zero hours' is defined as being employed or self-employed but working zero hours in the week of interview. A family is defined as the unit at which benefits are paid (a single person or a couple, plus any dependent children). A household is defined as a person or group of people living at the same address.

Source: Quarterly Labour Force Survey.

**Figure 3.8. Share working zero hours and in families/households working zero hours, by household composition: percentage point change from 2019Q4 to 2021Q1**



Note: Includes people aged 19–64. ‘MFH’ refers to a ‘multi-family household’. Children are defined as those aged 0–16 or 17- to 18-year-olds in full-time education. ‘Working zero hours’ is defined as being employed or self-employed but working zero hours in the week of interview.

Source: Quarterly Labour Force Survey.

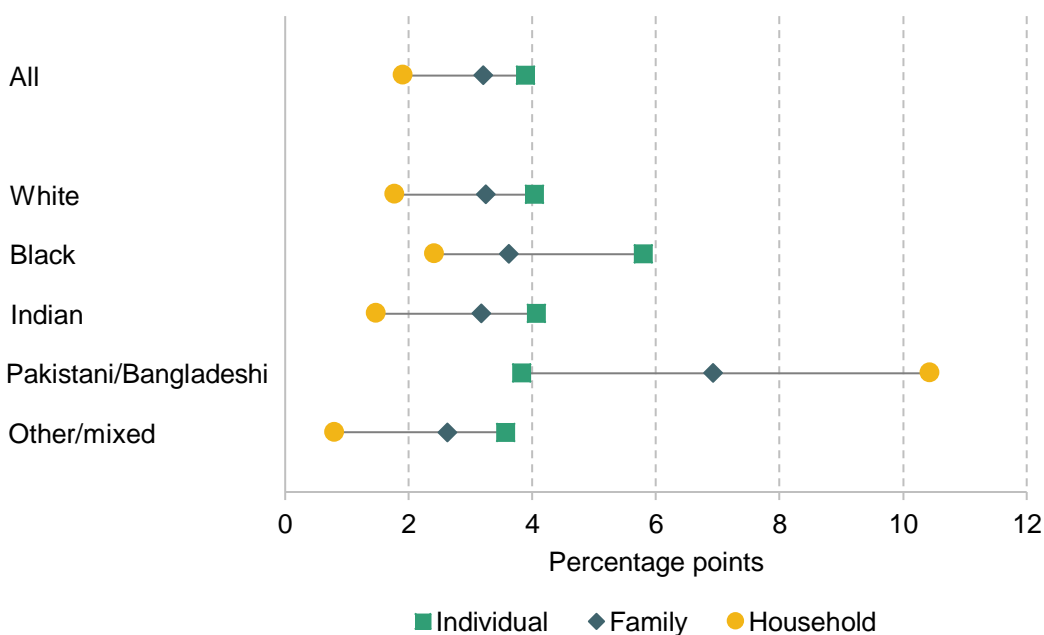
The ability of households to cushion the employment shocks of individuals also differs across household types. Figure 3.8 shows that between 2019Q4 and 2021Q1, the rise in worklessness was greater among single people than among people in couples. The share of lone parents who were not working any hours rose by 5.5ppts, compared with a rise of 1.2ppts among those in couples with children. However, most of the latter group had partners who continued to work, so that the share who lived in a non-working family remained the same as before the pandemic. A difference of 4.3ppts in individual-level worklessness between these two groups therefore translated into a difference of 5.5ppts in household-level worklessness, as lone parents had no other adults in their household to cushion them against losses in their earnings.

A similar pattern can be seen for people living alone and in couples without children. Those in couples without children saw a smaller rise in individual-level worklessness than single people without children, and were further insured against

falls in living standards by partners who remained in work. Those living in multi-family households (MFHs) – which include adult children living with their parents – saw large rises in individual-level worklessness, but much smaller rises in household-level worklessness.

The extent to which rises in individual worklessness result in rises in household-level worklessness also differs by ethnic group. Figure 3.9 shows that the share of white people who were not working any hours increased by 4ppts since the start of the pandemic, while the share living in a household where nobody was working any hours increased by 2ppts. The difference between these two figures provides a measure of the extent to which household members can help cushion individuals against employment shocks. As Figure 3.9 shows, this difference (of 2ppts) is similar for people of black, Indian and ‘other or mixed’ ethnicities.

**Figure 3.9. Share working zero hours and in families/households working zero hours, by ethnicity: percentage point change from 2019Q4 to 2021Q1**



Note: Includes people aged 19–64. ‘Working zero hours’ is defined as being employed or self-employed but working zero hours in the week of interview.

Source: Quarterly Labour Force Survey.

However, for Pakistani and Bangladeshi people, the figures are reversed: the share of individuals not working any hours increased by 4ppts over the pandemic, but the share living in households where nobody was working any hours increased by

10ppts. This is because prior to the pandemic (in 2019Q4), 67% of Pakistani and Bangladeshi adults lived in households in which at least one, but not all, adults worked, compared with 24–35% of adults from other ethnic groups, reflecting low employment rates among Pakistani and Bangladeshi women and higher rates of intergenerational households (Platt and Warwick, 2020a). For non-workers living in these types of households, the pandemic would not have affected their individual-level employment status. However, those whose partners or other household members lose work over the pandemic will experience an increase in household-level worklessness. As a result, whilst people from Pakistani and Bangladeshi backgrounds saw a similar increase in individual-level worklessness to white people, they saw a much larger increase in household-level worklessness.

The increase in household-level worklessness among lone parents and Pakistani and Bangladeshi people over the pandemic is particularly concerning given high levels of vulnerability among these groups pre-pandemic. Table 3.1 shows that before the pandemic hit, nearly one in three lone parents were unemployed or inactive, and nearly half of those in lone-parent households (including children) lived in relative poverty. The share of Pakistani and Bangladeshi people living in workless households was not particularly high pre-pandemic (owing to relatively high male employment rates), but low female employment rates, relatively low earnings of those in work, and relatively large families meant that half of Pakistani and Bangladeshi people lived in relative poverty (measured after deducting housing costs). The loss of earnings over the pandemic, and the likely loss of future earnings – due to lost work experience and a higher chance of unemployment when the furlough scheme ends – are likely to increase inequalities along these dimensions.

As discussed above, the furlough scheme helped protect households where people lost work but remained in employment against large falls in their earnings. Figure 3.10 compares the rise in the share of adults living in households where nobody was working any hours between 2019Q4 and 2021Q1 with the rise in the share of adults living in households in which everyone was unemployed or economically inactive (who therefore did not receive any income from work).<sup>13</sup> It shows that relative patterns across subgroups using this second measure are broadly similar to the patterns using the first measure described above, though the increases are much

<sup>13</sup> The corresponding figures for children are given in Appendix Figure C.4.



smaller across the board. Lone parents are a notable exception: whilst a large share of lone parents were furloughed in 2021Q1, they did not see a rise in unemployment and inactivity, and so fared no worse than the general population on the second measure.<sup>14</sup>

Those with low levels of education (GCSEs or below) fared badly on both measures. Young adults aged 19–24 fared relatively well on both measures – despite seeing the largest individual-level increases in worklessness – and actually saw a fall in household-level unemployment and inactivity (reflecting the fact that over the pandemic many have moved in with their parents, who are unlikely to have lost their jobs). Adults of Pakistani and Bangladeshi ethnicity also saw relatively large rises in household-level unemployment and inactivity.

To conclude, increases in household-level worklessness over the pandemic have been much smaller than increases in individual-level worklessness, whether or not furloughed employees are included. This means that individuals who lost their jobs or were furloughed are likely to have been to some extent sheltered from falls in their living standards by other household members. This is particularly true for young people aged 19–24, many of whom already lived with their parents before the pandemic, and many of whom moved in with their parents over the course of the pandemic. In contrast, the ability of household members to ‘insure’ individuals against labour market shocks is lower among people of black and Pakistani or Bangladeshi ethnicity, who are both more likely to have been poor prior to the pandemic and more likely to have been living in single-earner households.

<sup>14</sup> The share unemployed or inactive fell very slightly, but the change is not statistically significant.

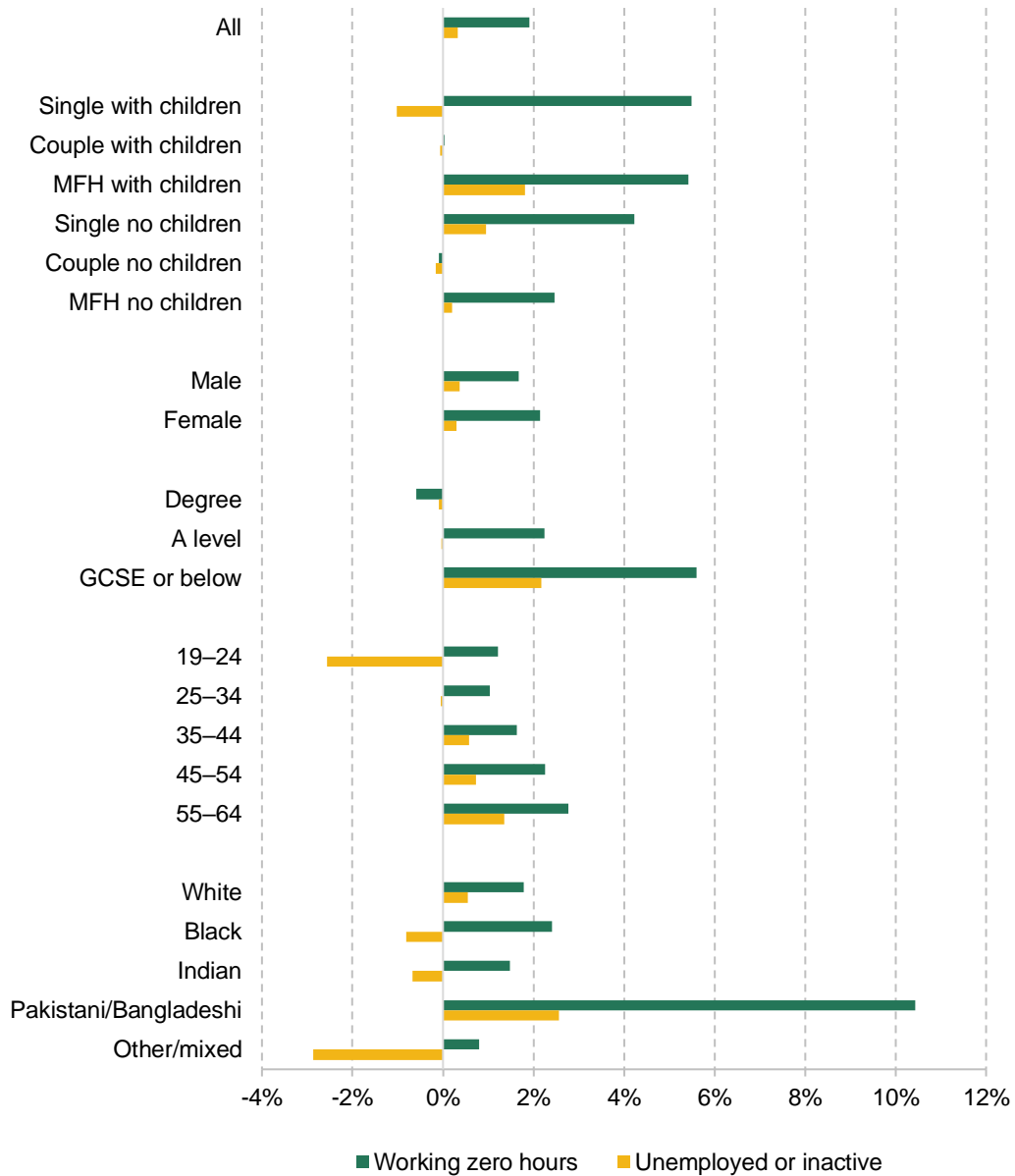
**Table 3.1. Household characteristics of non-pensioners pre-pandemic, by household composition and ethnicity**

	% workless adults	% adults in workless households	% children in workless households	Relative AHC poverty rate
All	21%	11%	11%	23%
<i>Household composition</i>				
Single with children	30%	30%	32%	47%
Couple with children	13%	3%	4%	23%
MFH with children	28%	5%	7%	27%
Single no children	27%	27%	-	33%
Couple no children	19%	11%	-	13%
MFH no children	26%	9%	-	17%
<i>Ethnicity</i>				
White	20%	11%	10%	20%
Black	28%	16%	19%	41%
Indian	19%	5%	4%	23%
Pakistani/Bangladeshi	39%	9%	12%	50%
Mixed/other	31%	16%	15%	36%

Note: Excludes those aged 65 and over. 'Workless' is defined as unemployed or economically inactive. Poverty rates are calculated using 2017–18 to 2019–20 FRS data; other figures use 2019Q4 LFS data. Children are defined as those aged 0–16 or 17- to 18-year-olds in full-time education. 'MFH' refers to a 'multi-family household'.

Source: Quarterly Labour Force Survey and Family Resources Survey.

**Figure 3.10. Share of adults living in households working zero hours and households in which everyone is unemployed or inactive: percentage point change from 2019Q4 to 2021Q1**



Note: Includes people aged 19–64. ‘MFH’ refers to a ‘multi-family household’. Children are defined as those aged 0–16 or 17- to 18-year-olds in full-time education. ‘Working zero hours’ is defined as being employed or self-employed but working zero hours in the week of interview.

Source: Quarterly Labour Force Survey.

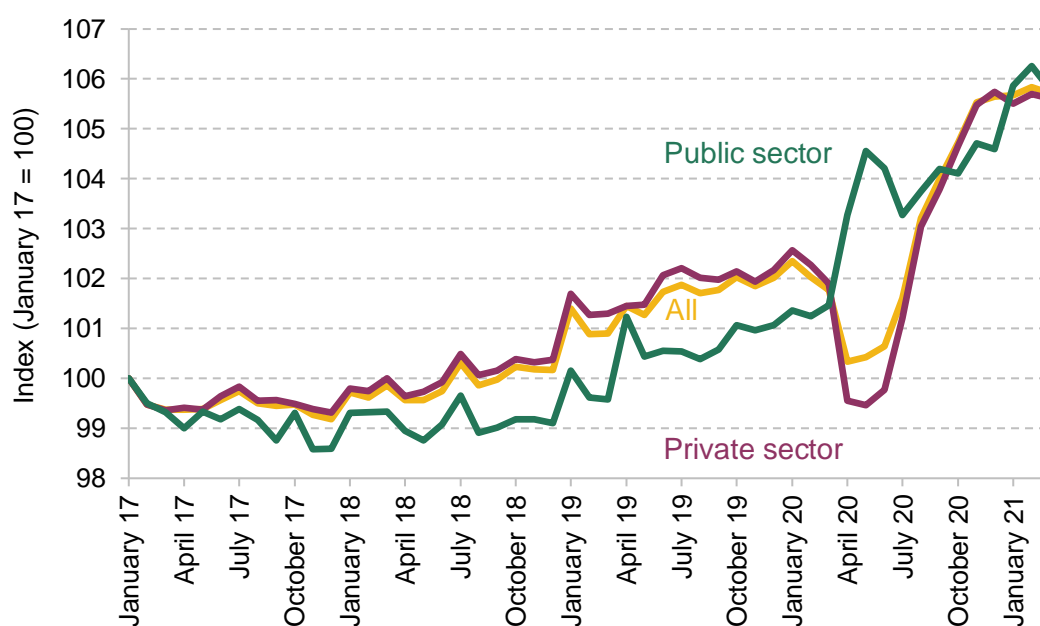
### 3.3 Trends in employees' earnings

We now turn to understanding how earnings have changed for those who have stayed in work. Typically, we are interested in 'real' – i.e. inflation-adjusted – earnings, since this measures the purchasing power of people's earnings. But measuring inflation during the crisis – when many goods and services have been unavailable – is difficult, and the standard inflation measures are likely to be less indicative of the cost of maintaining a particular standard of living than usual (Blundell et al., 2020); moreover, the impact of the change in prices may differ for higher- and lower-income families (Brewer and Patrick, 2021). Given the lack of alternative approaches, we use the CPIH inflation index in this section but note that 'real' earnings may provide less of a guide to living standards in 2020–21 than in previous years. Because of a lack of recent high-quality data on the earnings of self-employed workers, in this section we restrict our attention to employees' earnings.

Several factors are likely to have affected real earnings growth during the pandemic. First and most obviously, a significant part of the economy has been subject to a big fall in labour demand and heightened uncertainty, both of which are likely to push wages (or wage growth) down. Second, measured inflation has been low (0.8% in 2020–21 – though since then it has risen to 2.1% in May 2021), and given that (as we discuss later) *nominal* wage cuts are fairly unusual, this tends to limit how far real earnings can fall. Third, the National Living Wage has continued to rise (a nominal 6.2% increase in April 2020 and a further 2.2% in April 2021), increasing wages for employees with low hourly pay.

Typically, the timeliest measure of earnings growth in the UK is the average weekly earnings (AWE) series, which measures mean employee earnings across the whole economy. Workers who are furloughed are included, and their actual pay – which will be lower than usual if not topped up by their employer – is measured. An index of the recent history of this series (in real terms) is shown in Figure 3.11. It shows a dramatic one-month decline in private sector earnings between March and April 2020, only to be undone by an even bigger increase from June to November of that year. Conversely, public sector earnings spiked in the spring of 2020 – perhaps reflecting substantial overtime pay in the NHS – before growing solidly for the rest of the year. Taken at face value, these statistics would imply that real earnings growth since the beginning of the crisis has been stronger than at any point since the early 2000s.

Figure 3.11. Index of real average weekly earnings (January 2017 = 100)



Note: Using CPI plus mortgage interest payments up to 2019–20, then CPIH. 'All' shows the 'whole economy' series.

Source: Authors' calculations using Office for National Statistics (2021b).

However, this sort of statistic is a very unreliable guide to actual living standards, either now or in the future. There are two things going on. First, as shown in the previous sections, job loss has been concentrated at the bottom of the earnings distribution, among the young, the less educated, and those working in lower-paid industries such as retail and hospitality. These changes actually act to push up measured average earnings among those who stay in work, even if no worker actually receives a pay rise. This likely accounts for much of the dramatic increase in average earnings observed in the latter half of 2020. Indeed, the Office for National Statistics (2021a) estimates that the compositional change in the workforce in terms of occupation, full-time status and age of the employee increased annual wage growth by 1.9ppts in the year to February 2021.

Second, pushing in the opposite direction is the large number of people furloughed, who, if they are not on flexible furlough or do not receive an employer top-up, see their pre-tax earnings fall by (at least) 20%. This likely accounts for the sharp drop in average earnings observed in April 2020 and some of the increase in the latter part of the year as workers were brought back from furlough. These pay declines do of course represent a real hit to workers' living standards rather than a statistical

artefact. However, for most people, spells on furlough have been relatively short, and most of the remaining workers on furlough are expected to return to work as the economy reopens (Bank of England, 2021a). Thus, it is likely to be a short-term period of pain rather than an indication of a long-run decline in income.

Ideally, we would have a measure of ‘underlying’ earnings growth – i.e. the change in earnings that an average worker might be able to command in the market if they were working. We cannot directly measure this because we do not observe earnings for those who are out of work. Instead, we use the longitudinal Labour Force Survey data to analyse earnings growth among workers who meet the following two conditions:

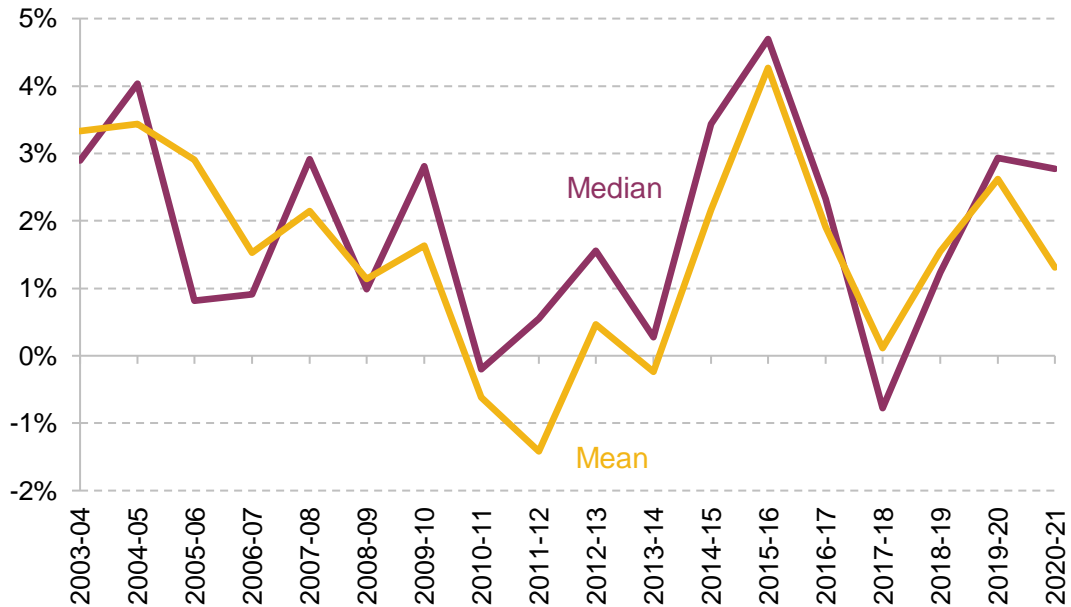
- in an employee job working at least one hour per week at one point in time;
- in an employee job working at least one hour per week one year later.

For simplicity, we refer to this group as the ‘continuously employed’, though note that some may have spent some time out of work over the year we analyse; we require only that we observe them working as an employee at the beginning and end of a one-year period. Restricting our attention to people working at least one hour per week ensures that the results are not affected by those who are fully furloughed.<sup>15</sup> The restriction to those who are in work at the start and end of a year gives us some protection against our estimates being affected by a changing composition of the workforce in the pandemic. It could be, however, that those who stopped working because of the pandemic would have had a different *growth* in earnings than those who kept working. Similarly, it might be that the pandemic affects the LFS *sample*, by changing who responds to the survey (and we do find some evidence of this<sup>16</sup>). Below we discuss some checks on this possibility and provide evidence that it has fairly little impact on our results.

<sup>15</sup> This analysis *will* be affected by anyone who is partially furloughed. This should have only a small effect – on average, about 18% of furloughed jobs have been partially furloughed, and naturally those who are partially furloughed will have earnings closer to their normal earnings than those who are fully furloughed. It is worth noting that average hours among the continuously employed fell by 3½% from 2019–20 to 2020–21 (in pre-pandemic years, average hours among continuously employed workers tend to fall by about 1% from one year to the next). Presumably, part of this decline is a consequence of partial furlough, but perhaps also partly due to declines in hours among those who are not furloughed at all.

<sup>16</sup> In particular, among 16- to 64-year-olds who remain in the sample for a whole year, the share with a degree is several percentage points higher for those who were sampled during the pandemic than for those who were sampled entirely before it. This is not explained by general rises in the level of education: the share with degrees in the repeated cross-sectional LFS does not grow nearly as fast in the run-up to the pandemic.

**Figure 3.12. Real earnings growth among ‘continuously employed’ employees – those working at least one hour per week in the year shown and one year earlier**



Note: Sample is those observed working as an employee with positive hours and earnings in wave 1 and wave 5 of the LFS. Earnings are Winsorised (capped) at the 99<sup>th</sup> percentile within year. Earnings are deflated with the HBAI before-housing-costs deflator up to 2019–20, then CPIH. We do not include anyone surveyed in March 2020, because they would fall into the 2019–20 financial year but may have been affected by the pandemic.

Source: Authors' calculations using the Labour Force Survey.

Figure 3.12 shows growth in median and mean real earnings among the continuously employed. The financial year shown is the *end* of the year period that we follow them, i.e. 2020–21 shows the growth in average earnings among those who we observe in work at some point in 2020–21 and one year earlier. Prior to the pandemic, the patterns in mean earnings growth are very similar to those seen in AWE, except growth among the continuously employed was about 1–1½ppts higher. We would expect growth to be stronger for the continuously employed because, as an individual stays in work, they accumulate experience, which tends to increase their pay. For that reason, the precise *level* of these growth rates is of less interest than how growth post-pandemic compares with that seen pre-pandemic.

Growth in real mean and median earnings in 2020–21 among the continuously employed was 1.3% and 2.8% respectively. This is comparable to that seen in the two or three years immediately before the pandemic, and clearly stronger than growth from 2010–11 to 2013–14, but weaker than that seen in 2014–15 and 2015–

16. Consistent with these results, the Bank of England (2021b), following a different approach, found that underlying pay growth in the three months to April 2021 was close to pre-pandemic levels.

As discussed above, it could be that those who stopped working or stopped responding to the LFS because of the pandemic – and thus are not in our sample – would have had a different growth in earnings from those who kept working. We test this hypothesis by reweighting the data in each year to have a consistent age–education distribution.<sup>17</sup> This procedure raises mean earnings growth in 2020–21 by about 0.2ppts. This is in part a consequence of the pandemic causing younger people – who, as we shall see shortly, tend to have faster earnings growth – to stop working. While 0.2ppts is not an entirely trivial amount, this exercise suggests that the changing composition of the continuously employed is not significantly affecting our results.

These data therefore suggest that underlying pay growth since the recession has been reasonable if unremarkable. In many ways, this might seem like a very good outcome for a year that saw the biggest ever recorded decline in GDP, and perhaps reflects the unusual nature of the recession and the limited increase in unemployment. But here the Great Recession provides a cautionary tale. While earnings growth during the Great Recession itself (2008–09 and 2009–10) was perfectly respectable, the recession’s effects were merely delayed rather than avoided: even among continuously employed workers, real pay was flat or falling for several years in the aftermath of the recession (2010–11 to 2013–14). This delay in effects on pay may relate to ‘downward nominal wage rigidities’ – employers can struggle to cut nominal pay, and so may freeze it instead and allow real pay to be eroded by inflation. But it takes time for this process to work through – especially if inflation is low. In 2020–21, inflation as measured by the CPIH index was just 0.8%, leaving limited scope for nominal wage freezes to have much effect on real wages. In fact, as shown in Appendix Figure C.5, *nominal* mean earnings growth in 2020–21 among continuously employed workers was very similar to that seen in the aftermath of the Great Recession. If the fundamental prospects for

<sup>17</sup> Specifically, we pool together data on the continuously employed from 2017–18 to 2019–20 and calculate the joint distribution of age (in four categories) and education (in three categories) over this pre-pandemic period. Then, in each year, we reweight the data such that the joint age–education distribution matches that pre-pandemic average. We choose age and education to reweight because there have been significant differences in the likelihood of furlough or job loss across these groups.



wages have been weakened by the crisis, the impact on real pay may not be fully felt for some time.

We now study the extent to which the reasonable earnings growth among continuously employed workers as a whole may be masking differences between different types of workers. Table 3.2 shows earnings growth for different groups of workers, both in 2020–21 and the average of the three previous years, when overall earnings growth was similar to that seen in 2020–21. Groups for whom earnings growth during the pandemic is statistically significantly different from that seen before the pandemic are indicated with asterisks.

**Table 3.2. Real growth in mean earnings among ‘continuously employed’ employees**

	2017–18 to 2019–20	2020–21	Difference
Male	1.2%	0.5%	–0.7ppts
Female	1.8%	2.7%	0.9ppts
Higher education	1.0%	0.3%	–0.7ppts
A levels	2.2%	2.2%	–0.1ppts
GCSEs or below	1.6%	5.4%	3.7ppts**
Private sector	1.8%	0.7%	–1.1ppts
Public sector	0.4%	2.7%	2.4ppts*
Aged 19–34	5.7%	2.9%	–2.8ppts
Aged 35+	–0.7%	0.5%	1.1ppts
<b>All</b>	<b>1.4%</b>	<b>1.3%</b>	<b>–0.1ppts</b>

Note: See Figure 3.12. ‘A levels’ and ‘GCSEs or below’ include people with equivalent qualifications. Workers aged 16–18 are not included in the age-related rows (to facilitate easier comparison with the previous sections), but are included elsewhere. \* indicates statistical significance at the 10% level; \*\* indicates statistical significance at the 5% level.

Source: Authors’ calculations using the Labour Force Survey.

There are three groups worth highlighting. First, those with GCSEs or below seem to have seen faster pay growth than the rest of the population – perhaps reflecting the sizeable increase in the National Living Wage in April 2020. This suggests that while this group have been more likely to be furloughed or lose their job, for those who have been able to keep working the picture has been considerably more positive. Second, public sector workers saw faster pay rises than in the private sector. This may reflect both more overtime pay in the NHS, and the greater degree of short-run sensitivity of private sector wages to economic conditions. Third, it seems that younger workers may have seen a slowdown in pay growth, though this result is not statistically significant due to a small sample of younger workers. This slowdown may be due to the lack of vacancies: those earlier on in their career are more likely to move employers more regularly and this is often a source of wage growth. These patterns are qualitatively unchanged if we do the reweighting exercise discussed above (differences by education and sector are a little more pronounced, and differences by age a little less so). Appendix Table C.1 is the equivalent table using the reweighted data.

Focusing on continuously employed workers, as we have done, has enabled us to avoid some of the important difficulties in measurement arising from furlough and compositional changes to the workforce – but it does prevent us from examining changes in earnings for new entrants (those who move from unemployment or inactivity to employment).<sup>18</sup> Nonetheless, continuously employed workers make up a significant fraction (67%<sup>19</sup>) of pre-pandemic employees and so are worth studying. It appears that, at least so far, the pandemic has not had a very big effect on earnings growth on average for those who have been able to keep their job. This has been broadly true for major demographic subgroups, though growth has been somewhat stronger for lower-educated workers and for public sector workers, and a little weaker for younger workers. But – just as with unemployment – it is entirely

<sup>18</sup> If one simply looks at average earnings among those who were not working a year before, 2020–21 looks like a very strong year relative to pre-pandemic years. However, this statistic is subject to a compositional effect of its own – the kind of job openings that have been available since the start of the pandemic, and the kind of people likely to get those jobs, are quite unlike those pre-pandemic. For example, we find that those starting work in 2020–21 are several years older on average than those starting work in 2019–20. This makes it rather difficult to understand trends in wages for new entrants.

<sup>19</sup> That is, of those who were employees when sampled by the LFS in 2019–20, 67% were still employees one year later and worked a positive number of hours at both points in time. In the few years prior to the pandemic, the equivalent figure averaged 76%.

possible that the impacts of the pandemic have been postponed, rather than prevented.

### 3.4 Conclusion

Overall, given the huge changes to the economy and the labour market in 2020–21, it may be considered remarkable how little change there was in many labour market indicators. While there were large increases in the proportion of people not working, the existence of the furlough scheme means that the proportion of people unemployed or inactive, and therefore completely without a job, has risen only modestly. Of course, this may change in the autumn of 2021, when the furlough scheme comes to an end and when unemployment is expected to rise. And of course, many people on the furlough scheme will only be receiving 80% of their pre-pandemic gross pay, so they will have felt a hit to their incomes even though they are still paid through the furlough scheme.

In order to understand the potential implications for household living standards, however, it is important to go beyond the individual-level employment statistics and examine whether this has led to many households no longer having any workers in them. Household worklessness is a very strong predictor of being in income poverty, and rises in it would therefore be very concerning. Our analysis is somewhat reassuring for those concerned about income poverty caused by worklessness. The fraction of households where no one is working at least an hour a week rose much less than the fraction of individuals not working at least an hour a week, as most working-age people live in a household with more than one worker. And there was only a very modest rise in the fraction of households where no adults had a job at all. Looking at the household level in particular does lessen some concerns over the immediate material living standards of 19- to 24-year-olds. Although they were particularly likely to be furloughed, most of them still live with parents who work, and some more have moved back in with their parents. While this may not be an ideal situation, it means that there was very little change in the number of 19- to 24-year-olds in a household where no one was working; an increase would have been particularly concerning regarding their current standard of living.

Despite this positive outlook in general, people living in single-earner households who were furloughed or lost their job entirely do not have the benefit of the support provided by another household member's earnings. Indeed, we have seen more

concerning rises in household worklessness among single-adult households, with and without children, and among Pakistani and Bangladeshi people, where households are particularly likely to only have had one earner pre-pandemic. These households had relatively high levels of poverty before the pandemic, and so the pandemic is likely to have increased inequalities along these dimensions.

Finally, as people are brought out of furlough during the summer and autumn of 2021, concern may turn to the pay of employees, rather than just their employment probabilities. Based on our analysis of ‘continuously employed’ workers, it looks as if real earnings growth in the pandemic was similar to that in the immediate pre-pandemic years, supported by low measured inflation. In so far as we can detect differences by demographic groups, it looks as if public sector workers and those with lower levels of education saw faster growth than others. There is also some evidence that younger workers (aged 19–34) have seen weaker earnings growth than older workers compared with pre-pandemic. It will be particularly important to monitor the earnings growth of this younger group in the years to come, particularly because many people in this group have, or will soon have, young children, and therefore there may be consequences for the incomes of families with children and for child poverty if there continues to be poor earnings growth for younger adults.

# 4. Financial difficulties and deprivation during the pandemic

## Key findings

- 1 The start of the pandemic saw rises in some measures of deprivation. But these rises were temporary, leaving deprivation measures in early 2021 similar to, or on some measures below, their pre-pandemic levels. For example, the proportion of people reporting they were in arrears on at least one of their household bills rose from 6.6% in 2018–19 to 8.1% in April–May 2020, a 22% rise, but then fell back to 7.0% by March 2021. Food-bank use also rose from 1.7% of the population in February 2020 to 1.9% in April–May 2020, before falling back to 1.4% in early 2021.
- 2 Expectations of becoming financially worse off a month from the time of interview were very high at the beginning of the pandemic, with 17% of the population expecting this in April 2020, but then quickly declined, and remained lower through to 2021. These expectations did not translate into more people reporting current financial difficulties. These trends reflect the huge uncertainty faced by many at the onset of the pandemic, which was eased by the government support measures that were introduced.
- 3 Households that were in relative income poverty prior to the pandemic (measured between 2016 and 2019) saw the largest rises in deprivation at the start of the pandemic. In comparison, households that were not in poverty pre-pandemic saw little change on most of the measures. The proportion of poor households behind on their

household bills rose from 15% in 2018–19 to 22% in April–May 2020, compared with a much smaller rise from 5% to 6% for households not in poverty pre-pandemic. By March 2021, the proportion of those in poor households behind on their bills remained higher, at 20%, than it was pre-pandemic.

- 4 The group most clearly struggling, particularly at the start of the pandemic, was self-employed people who had lost all work by April 2020. The proportion of this group reporting being in arrears on household bills rose from 2% pre-pandemic to 13% in April–May 2020. There was also a rise for furloughed employees but it was much smaller and less persistent into early 2021. The self-employed who could not work in April 2020 were also a group that reported a big rise in the fraction experiencing financial difficulties, from 16% pre-pandemic to 24% by April–May 2020.
- 5 Consistent with the larger rises in household worklessness for some ethnic minorities, there is evidence that ethnic minorities suffered greater economic hardship during the pandemic. The proportion of people belonging to ethnic minorities who are in arrears on bills rose from 12% in 2018–19 to 21% in April–May 2020 (compared with a rise from 5% to 6% for white people) and there were also increases in people from ethnic minorities reporting financial difficulties. By early 2021, there was a partial recovery for ethnic minorities, with 15% behind on their bills, but the gap remained wider than pre-pandemic.
- 6 Changes in deprivation for 18- to 24-year-olds actually look better than those for older working-age people (aged 25–64) on some measures, particularly regarding foodbank use, which fell for young adults from 6% pre-pandemic to 3% in April–May 2020. This is likely to be because their incomes have been supported through the furlough scheme and there has not been a rise in household worklessness for this age group during the pandemic as many have been living with their parents.

In Chapter 3, we examined trends in the labour market through the COVID-19 pandemic, looking at changes in both employment and earnings, and what the potential implications of these trends have been for material living standards. In this chapter, we look in more detail at how financial difficulties and measures of deprivation have changed during the pandemic.

There is clearly interest in how living standards have changed over the course of the pandemic. The combination of lockdown measures, labour market changes and the government policy response to the pandemic has potentially had important impacts on the distribution of income. Unfortunately, the latest household income data from the Family Resources Survey, which we analysed in Chapter 2, are only likely to be available for 2020–21 in early 2022.

However, the UK Household Longitudinal Study (UKHLS) has consistently asked questions about various financial difficulties throughout the pandemic. As part of the survey's COVID 'modules', sample members were asked a range of questions about their experience of the pandemic up to nine times during 2020–21, giving us representative data which help to shed light on how people's situations have changed over the last year.

Although the UKHLS COVID modules also include information on household income data, the way this information was collected in the COVID modules was not consistent with the pre-COVID waves, due to the necessity of reporting COVID data quickly. This means that it is very hard to use these data to measure changes in the distribution of income.<sup>20</sup> At any rate, looking at direct measures of financial difficulties and deprivation in some ways provides a better indicator than looking at snapshots of household income, which may have fluctuated significantly for some during the pandemic.

The impact of the pandemic on material living standards has been complex. Whilst lockdown and other social distancing regulations have meant many people have been unable to work, the government has introduced various measures to try to reduce the impact on household incomes. These have included the furlough scheme, where the government has contributed up to 80% of the wages of employees who

<sup>20</sup> Other work, such as Bourquin et al. (2020), has looked at incomes more specifically at the start of the pandemic, using information from a budgeting app called Money Dashboard.

were unable to work, the Self-Employment Income Support Scheme (SEISS) providing grants to many self-employed people (though also excluding many), and some benefit increases, including the £20 per week uplift to universal credit and working tax credit.

In the context of these various changes, in this chapter we will track changes in measures of financial difficulties and deprivation over the pandemic and, where possible, compare these with pre-pandemic measures. All of these measures are partial, and on their own they provide an indication of how living standards have changed in the UK population, and for different groups. But by examining a set of indicators together, rather than focusing specifically on each indicator alone, we are able to draw out the key patterns which shed light on people's material living standards during the pandemic.

As well as considering the population as a whole (Section 4.1), we will consider how experiences have varied across different groups of interest, including by pre-pandemic household income, work status, ethnicity, disability status and age (Sections 4.2–4.6).

## 4.1 Overall changes in deprivation

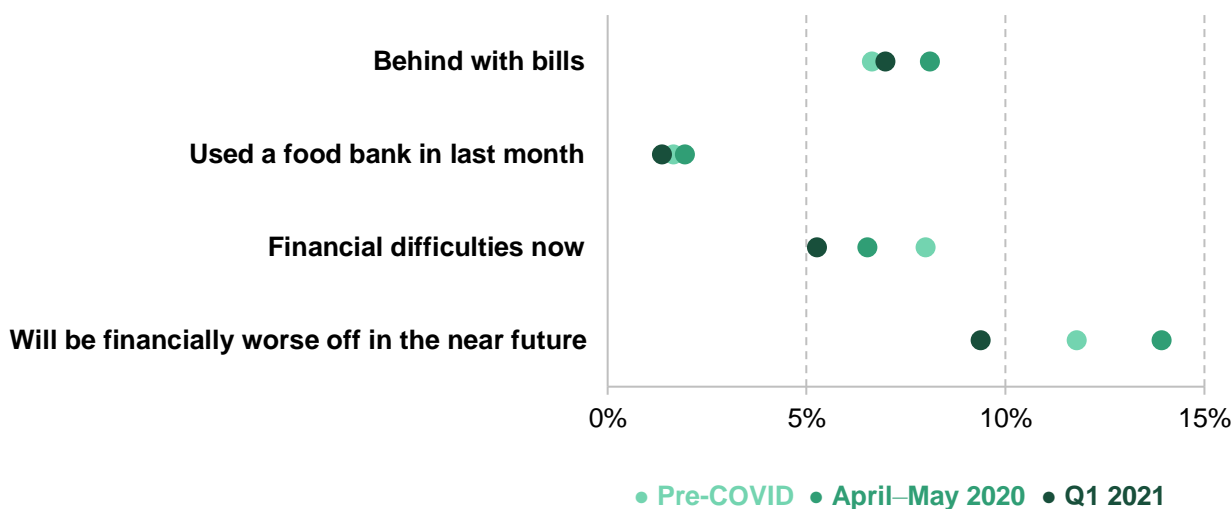
First, we consider the overall picture over the course of the pandemic, for a range of measures of financial difficulties and deprivation. Figure 4.1 plots the evolution of four indicators of deprivation. Two of these are objective measures of whether the family does or does not face a specific situation: whether the family is currently behind ('in arrears') on any household bills<sup>21</sup> and whether the family used a food bank in the last month. The other two measures are subjective: whether an individual reports finding things 'difficult' or 'very difficult' financially at the moment, and whether they expect to be worse off financially in the near future.<sup>22</sup>

<sup>21</sup> Respondents are asked about water, electricity, gas, phone, council tax, credit cards and 'other bills'.

<sup>22</sup> In the pre-COVID survey, respondents were asked whether they expected to be worse off 'a year from now'. In the COVID surveys, they were asked whether they expected to be worse off 'a month from now', except in March 2021, when they were asked about three months' time.



Figure 4.1. Trends in various deprivation measures, 2019 to 2021



Note: Percentages for the bills and food-bank measures are of people (including children) living in a family where each difficulty is reported. Percentages for the subjective financial difficulty measures are of individual respondents aged 16+ reporting each difficulty. Data from before the pandemic were collected in 2018–19 (the food-bank measure is for February 2020, as recalled in Summer 2020). The ‘April–May 2020’ data point is an average from the surveys in each of these months. ‘Q1 2021’ refers to January 2021 for the food-bank measure and March 2021 for the others.

Source: Authors’ calculations using UKHLS data.

Here, and in subsequent sections, we will consider our various measures at three points in time. We want to benchmark any changes in deprivation to the levels prior to the pandemic. ‘Pre-COVID’ data usually refer to data from 2018–19, although for our measure of food-bank use prior to the pandemic, we measure food-bank use in February 2020, which survey participants are asked to recall in Summer 2020. We then compare the pre-COVID data with two periods during the pandemic. First, we examine the measures during the height of the Spring 2020 lockdown; ‘April–May 2020’ therefore refers to averages calculated from surveys conducted in those two months. Second, we examine more recent data from early 2021 (when the UK was also in a lockdown, albeit much less strict than the first lockdown). ‘Q1 2021’ refers to data collected in March 2021, with the exception of food-bank use, which is measured in January 2021.

One key finding from Figure 4.1 is that, despite the huge changes in the economy and society over the last year, on most of the measures there has not been a dramatic change in the proportion of people facing deprivation over the course of the pandemic. Those increases that did occur were seen during the very start of the

pandemic in April and May 2020, but they were reversed, and on every deprivation measure, the levels in the first quarter of 2021 look no worse, and some look better, than prior to COVID.

Analysing each of these indicators in turn, we can first see that there was an increase in the proportion of people reporting living in a family where they are behind on one or more household bills, from 6.6% prior to the pandemic (2018–19) to 8.1% in April–May 2020, but it subsequently fell back to 7.0% in March 2021.<sup>23</sup>

Use of a food bank is an indicator of severe financial difficulty. The data show that overall food-bank use rose materially from 1.7% of the population in February to 1.9% in April–May 2020 (a rise of almost 20%), but then fell again during the summer and autumn of 2020, reaching 1.4% in January 2021. Of course, this does not provide information on how many food packages were provided, only the number of people living in families who received a food package in the previous month. The Trussell Trust (2021), a major food-bank provider, found that the number of food packages it distributed rose by 33% in 2020–21, with a particular spike in 2020Q2, similar to the one shown here. It is therefore possible that food-bank users may have been more likely to go multiple times to food banks in 2020–21 than in previous years. Although our data are based on a much smaller sample, they have the distinct benefit of being able to identify the exact types of people for whom food-bank usage has changed, as we explore later.

Looking at the subjective measures of financial difficulties, the trends for people reporting being in financial difficulties are more positive. The proportion of adults reporting being in current financial difficulties fell from 8.0% pre-COVID to 6.5% in April–May 2020, and subsequently fell again to reach 5.3% in early 2021.

Although the big picture is that there were not large differences in either this measure or being behind on bills over the course of the pandemic, it is not clear exactly why the measure of current financial difficulties points in the opposite direction to that of being in arrears on bills. As is shown later, most subgroups in the population subjectively reported fewer financial difficulties, even as they reported increases in struggling to pay bills or food-bank use. One key thing to note

<sup>23</sup> The survey question makes no mention of emergency credit arrangements or postponed payment plans, so respondents making use of such arrangements may have had different interpretations as to whether they were ‘behind’ on their bills.

here is that, in general, there is not much overlap between the set of people who say they are behind on bills and those who say they are struggling financially. Prior to the pandemic, in 2018–19, only 27% of those who were in financial difficulties said they were behind on their bills and only 37% of those who were behind on bills said they were in financial difficulties. A greater fraction of those who are behind on bills are working-age adults, and in the lower half of the income distribution, compared with those who report being in financial difficulties.

However, the really interesting pattern is the contrast between the falling proportion reporting current financial difficulties at the beginning of the pandemic and the large proportion saying that they expect they will be financially worse off ‘a month from now’. Almost 14% of adults reported this to be the case during April–May 2020. Looking into the data in more detail, we actually see the rise in April 2020 was particularly large, reaching 17%, but this increase was quickly reversed in May 2020, as expectations were adjusted. Before the pandemic, respondents were asked to look ahead by a year, rather than a month, allowing an imperfect comparison of future expectations. But it is notable that only 12% of adults expected to be worse off a year after the interview. It seems people’s expectations for the near future fluctuated more wildly than their current financial situation, perhaps reflecting the huge uncertainty faced by many at the start of the pandemic, before government support packages were fully rolled out.

In summary, it looks as if at the beginning of the pandemic in April and May 2020, there were some increasing signs of deprivation in the UK population, with increased numbers of people in arrears on their bills and using food banks. However, these were not particularly large considering the size of the shock to the labour market at that time, given that 9 million people were furloughed in May 2020, and that, as shown in Chapter 3, around 900,000 more self-employed people were unable to work any hours per week in 2020Q2 compared with late 2019.

It is also clear that people’s concern about their financial future rose sharply, but that those fears were not persistent and did not translate into large increases in difficulties or deprivation through Summer 2020. Instead, on most measures, difficulties eased throughout the summer and autumn of 2020, and even into early 2021, despite the third national lockdown starting in January.

These figures are for the population as a whole. In the following sections, we will see how these experiences have differed for various groups.

## 4.2 Changes in deprivation for people in income poverty

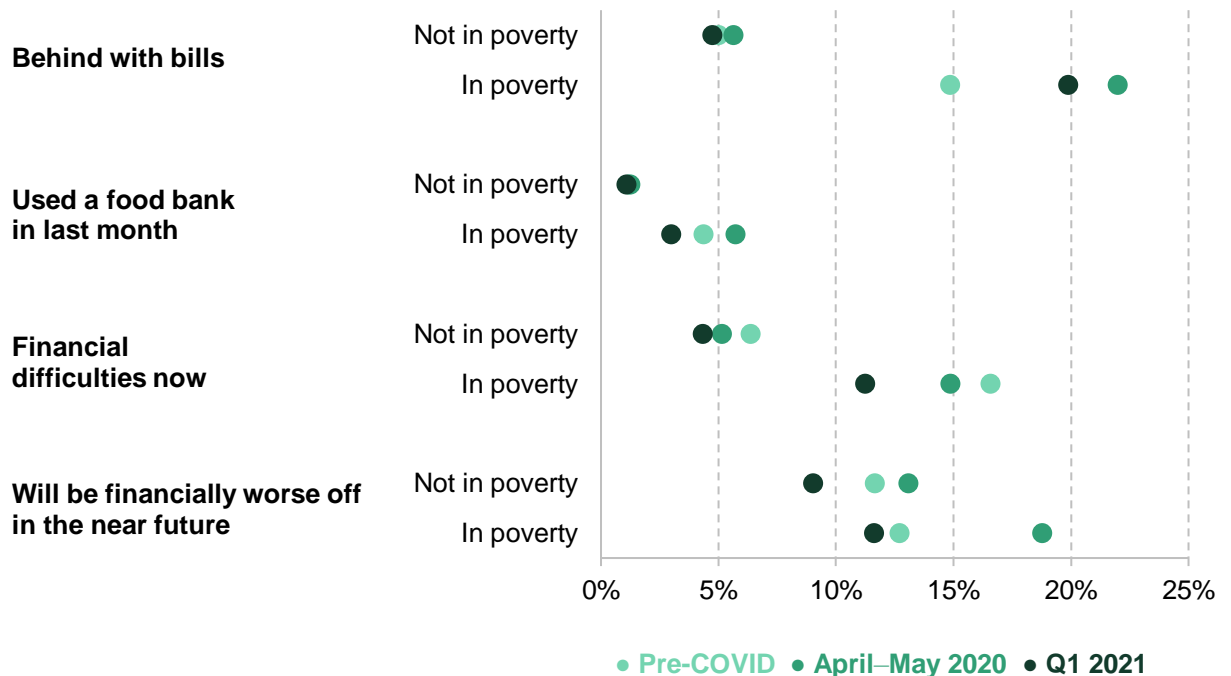
It is important to understand how financial difficulties and deprivation have changed for higher- and lower-income people. In common with previous studies on how unequal the impact of COVID-19 has been (e.g. Crossley, Fisher and Low, 2020), we measure household income averaged over three pre-COVID waves of data (waves 8, 9 and 10 of UKHLS, covering the years 2016–17 to 2018–19). We measure household income net of taxes and benefits, and equivalise it to account for differences in household size, in common with the ‘Households Below Average Income’ methodology discussed in Appendix A.

Figure 4.2 divides people into two groups based on their average pre-COVID household incomes – ‘in income poverty’ and ‘not in income poverty’ – and considers the trends in deprivation and financial difficulties for these two groups. An individual is defined here as in income poverty if their average pre-COVID household income is in the bottom 17% of the equivalised net household income distribution (before housing costs are deducted), corresponding to the average (BHC) relative poverty rate in the three pre-COVID years used, according to official HBAI statistics.

It can be seen from the figure that the trends in deprivation were markedly different between those in income poverty and those not in income poverty prior to the pandemic. Indeed, the experience of those in poverty pre-pandemic drives the overall figures, with the indicators changing comparatively little for higher-income households.

A striking difference can be seen when looking at the fraction who are in arrears on their household bills. For those in poverty pre-pandemic, the probability of being behind on their bills increased from 15% in 2018–19 to 22% in April–May 2020. Although there were declines in this measure during the summer, it stood at 20% in March 2021. This suggests that the lowest income groups have found it difficult to keep up with bill payments throughout the pandemic, particularly when there have been national lockdowns. Although the changes in food-bank use for those in income poverty are not statistically significant, they also show a rise early in the pandemic, before falling back by early 2021.

**Figure 4.2. Trends in deprivation measures, by pre-pandemic income poverty status**



Note: Being in poverty is defined here as having average pre-COVID household income in the bottom 17% of the equivalised net household income distribution (before housing costs are deducted). Percentages for the bills and food-bank measures are of people (including children) living in a family where each difficulty is reported. Percentages for the subjective financial difficulty measures are of individual respondents aged 16+ reporting each difficulty. Data from before the pandemic were collected in 2018–19 (the food-bank measure is for February 2020, as recalled in Summer 2020). The ‘April–May 2020’ data point is an average from the surveys in each of these months. ‘Q1 2021’ refers to January 2021 for the food-bank measure and March 2021 for the others.

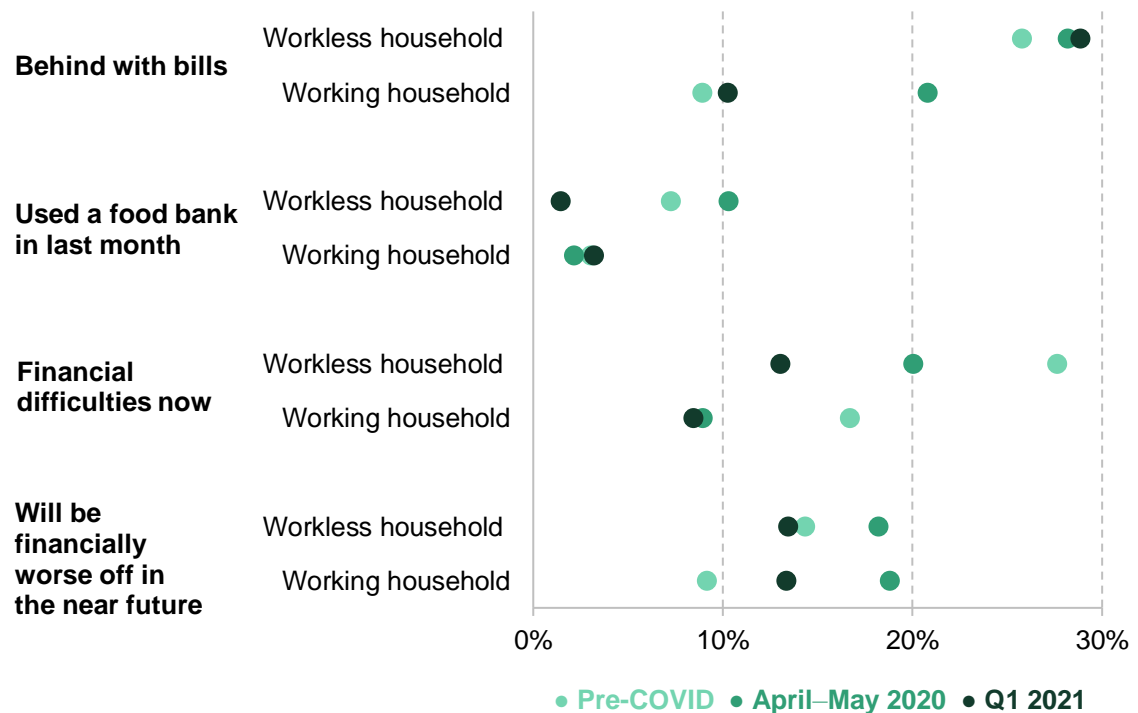
Source: Authors’ calculations using UKHLS data.

Looking at the subjective measures, the fraction of people who thought they would be worse off in the near future is much larger amongst those in income poverty (19%) than amongst those with higher incomes (13%), but this pessimism recedes quickly. Before the pandemic, similar proportions of these groups (13% and 12% respectively) expected their situation to deteriorate over the next year. Again, the worries of poorer households about the future did not feed through to more people reporting financial difficulties: the fraction of poorer households saying that they were struggling financially actually fell slightly from 17% prior to the pandemic to 15% in April–May 2020, before falling again to reach 11% in early 2021.

The £20 uplift to universal credit and working tax credit would have benefited many of the households that were poorer pre-pandemic, which might account for some of the observed trend in reported financial difficulties.

Given the very different experiences of those in poverty, it is worth delving a little deeper into this group. We focus now on working-age households (i.e. we exclude people aged 65 and older) who are in income poverty, and split the sample according to household work status pre-pandemic.

**Figure 4.3. Trends in deprivation measures, by pre-pandemic household work status, among working-age households in poverty pre-pandemic**



Note: Being in poverty is defined here as having average pre-COVID household income in the bottom 17% of the equivalised net household income distribution (before housing costs are deducted). Percentages for the bills and food-bank measures are of people (including children) living in a family where each difficulty is reported. Percentages for the subjective financial difficulty measures are of individual respondents aged 16+ reporting each difficulty. Data from before the pandemic were collected in 2018–19 (the food-bank measure is for February 2020, as recalled in Summer 2020). The 'April–May 2020' data point is an average from the surveys in each of these months. 'Q1 2021' refers to January 2021 for the food-bank measure and March 2021 for the others. Those aged 65 and over are excluded from the calculations.

Source: Authors' calculations using UKHLS data.

Figure 4.3 splits the in-poverty group into those who lived in a household with at least one worker pre-pandemic (based on the most recent pre-COVID UKHLS wave to which the household responded) and those who lived in a workless household.<sup>24</sup> We might expect that those in in-work poverty would be more vulnerable to the labour market shocks associated with the pandemic than poor workless households, who cannot, by definition, have lost work due to the pandemic.

There is some indication that this has indeed been the case. It seems that, particularly towards the start of the pandemic, there was a larger increase in the number reporting falling behind on their bills among low-income working than low-income workless households. For those in working households, the increase was from 9% to 21% in April–May 2020, whereas for those in workless households the increase was from 26% to 28%. However, by early 2021, the fraction of poor working households behind on their bills had fallen back to 10%, similar to its pre-pandemic level.

There were also larger increases in the proportions expecting to be worse off in the near future among working households. Given their exposure to the labour market shock of the pandemic, working households faced much more economic uncertainty than workless households, and that seems to have passed through into concerns about the future of their family finances.

To summarise this section, the majority of deprivation changes during the pandemic were seen by those who were already on low household incomes prior to the pandemic. Experiences for this group drive the overall changes that we can see, with sizeable increases in some deprivation measures early in the pandemic. However, these subsequently fell back so that they were similar to or better than the pre-pandemic levels in early 2021. There is also evidence that the changes were concentrated among low-income working households compared with workless households.

<sup>24</sup> Given the length of time between the pre-COVID data (which the work status classification is based on) and the COVID data, there may be some ‘mean reversion’ for each of the workless and working groups.

## 4.3 Changes by employment status

One difficulty with interpreting changes across the income distribution in these measures is that people on different levels of income may have very different labour market experiences. This is important, because employment status has been a huge driver of differences in experiences of the pandemic. As Chapter 3 showed, the pandemic has had drastic effects on the labour market, with many unable to work normally or at all. The packages of support for employed and self-employed people have differed by timing, level and coverage. Support for self-employed people, while generous for those who have received it, has also excluded many (Cribb, Delestre and Johnson, 2021).

On the other hand, those who were already out of work before the pandemic hit might have been far less affected financially, as they cannot have lost their job as a result. Therefore, in this section, we compare the changes in deprivation measures for different types of workers. We consider four groups, all of which were workers (as either employees or self-employed) in February 2020. We examine trends for: employees who were still able to work in April 2020, the ‘continuously employed’; self-employed people who were able to work in April 2020, the ‘continuously self-employed’; employees who were furloughed in April 2020; and self-employed people who had lost all their work (i.e. they worked zero hours) in April 2020. We also track members of these groups before the pandemic (back to 2017–18 because of how the survey is weighted for representativeness), and through the pandemic as the labour market started to recover following the first lockdown. We only consider people aged 16–64 in this analysis. Figures 4.4 and 4.5 show the changes for the objective and subjective deprivation measures respectively.

The most striking finding in this section is the difficulties faced during the pandemic by the self-employed who had lost all work in April 2020. Looking at Figure 4.4, we can see that among this group, the proportion reporting that they were behind on their bills rose from 2% in 2017–18 to 13% in April–May 2020. Unlike the rise in arrears for furloughed people (from 6% to 12% by April–May 2020), which fell back, the rise in arrears for self-employed people who lost all their work seems to have been more persistent into early 2021.



Figure 4.4. Trends in objective deprivation measures, by work status

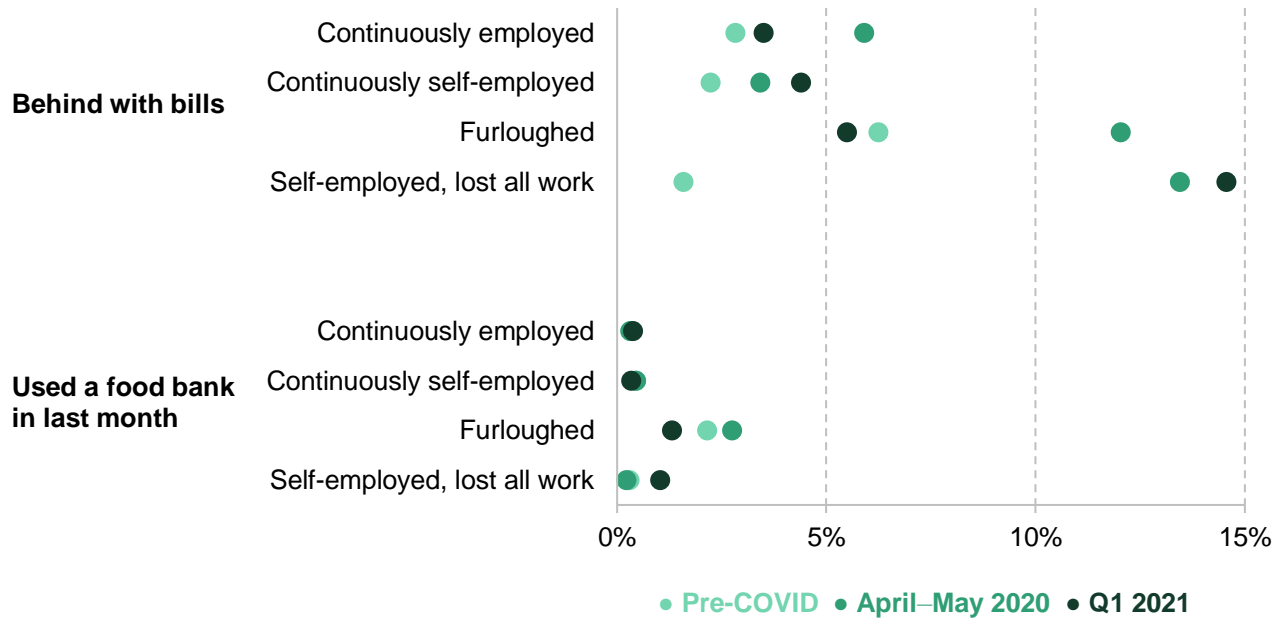


Figure 4.5. Trends in subjective deprivation measures, by work status



Note for Figures 4.4 and 4.5: Percentages for all measures are of individuals aged 16–64 falling into each category. Data from before the pandemic were collected in 2017–18 (the food-bank measure is for February 2020, as recalled in Summer 2020). The ‘April–May 2020’ data point is an average from the surveys in each of these months. ‘Q1 2021’ refers to January 2021 for the food-bank measure and March 2021 for the others.

Source for Figures 4.4 and 4.5: Authors’ calculations using UKHLS data.

The subjective measures of financial well-being also demonstrate the starkly different situation faced by many self-employed people. Whilst the proportions of those continuously in work reporting financial difficulties were actually lower at the start of the pandemic than in 2017–18, there was a rise (from 16% to 24% by April–May 2020) among the self-employed who lost work. There was a particularly large increase in the proportion of this group expecting things to get worse in the near future at the beginning of the pandemic, and a smaller but still notable rise for the furloughed and the continuously self-employed. In all cases, these increases were reversed by March 2021.

The timing of these changes in subjective measures may be related to the timing of SEISS payments, which only started arriving in late May 2020, leaving many without any income in April and early May. Previous research looking at the impact of the pandemic on incomes found that expenditure of SEISS recipients only started to recover compared with a control group of people with steady incomes once the first SEISS payment arrived in late May (Delestre et al., 2020).

In summary, this provides evidence that the large increase in financial difficulties and deprivation at the start of the pandemic was concentrated amongst self-employed people who were unable to work. To a lesser extent, there is some evidence also of an increase in difficulties for furloughed people. Given the evidence of recovery that can be observed in the subjective measures in particular, it underlines the importance of the income support packages the government has provided through the furlough scheme and SEISS payments. The dramatic changes that occurred in April in particular were when many self-employed people could not work but had not yet received SEISS payments from the government.

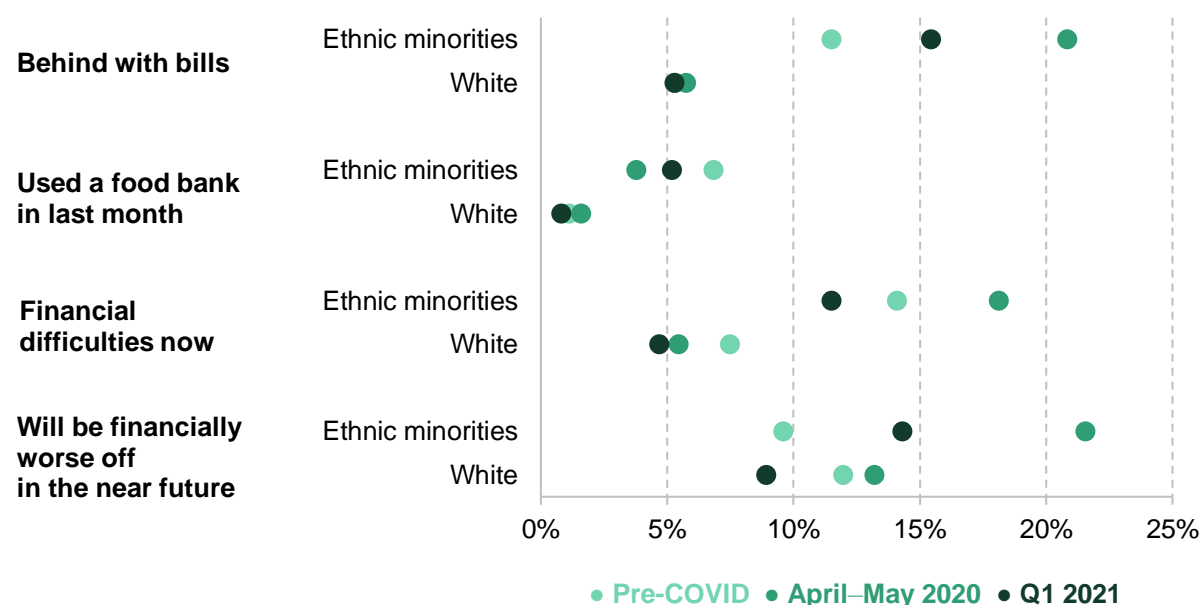
## 4.4 Changes by ethnicity

Ethnic disparities in the impact of COVID-19 have been widely remarked upon, but these disparities are not limited to the health impacts. The economic impacts have also varied by ethnicity. Unfortunately, sample size limitations here mean that we cannot robustly disaggregate ethnic minorities, and we know from previous work that the economic circumstances of different minorities are different (Platt and Warwick, 2020b). But we can examine how the experience of ethnic minorities in

general has compared with that of white people.<sup>25</sup> This section looks at individuals aged 16 and over.

Figure 4.6 shows that ethnic minorities were far more likely to fall behind on their bills at the start of the pandemic. Before the pandemic, there were large differences by ethnicity, with around 5% of white adults behind on their bills compared with 12% of ethnic minorities. But while the proportion of white people in arrears barely changed as the pandemic took hold, there was a large increase for ethnic minorities at the start of the pandemic, from 12% to 21% in April–May 2020. Figure 4.6 shows that this gap persisted. By March 2021, 15% of adults from ethnic minorities were in arrears on at least one household bill, still higher than prior to the pandemic.

**Figure 4.6. Trends in deprivation measures, by ethnicity**



Note: Percentages for all measures are of individuals aged 16 and above falling into each category. Data from before the pandemic were collected in 2018–19 (the food-bank measure is for February 2020, as recalled in Summer 2020). The ‘April–May 2020’ data point is an average from the surveys in each of these months. ‘Q1 2021’ refers to January 2021 for the food-bank measure and March 2021 for the others.

Source: Authors’ calculations using UKHLS data.

<sup>25</sup> Throughout the chapter, ‘ethnic minorities’ excludes white non-British people and white ethnic minorities, who are included in the ‘white’ group.

Similar differences existed for the subjective measures. White people were slightly less likely to be struggling financially at the beginning of the pandemic than before, whereas people from ethnic minorities were more likely, again widening a gap that already existed. In March 2021, however, the situation had improved for both groups.

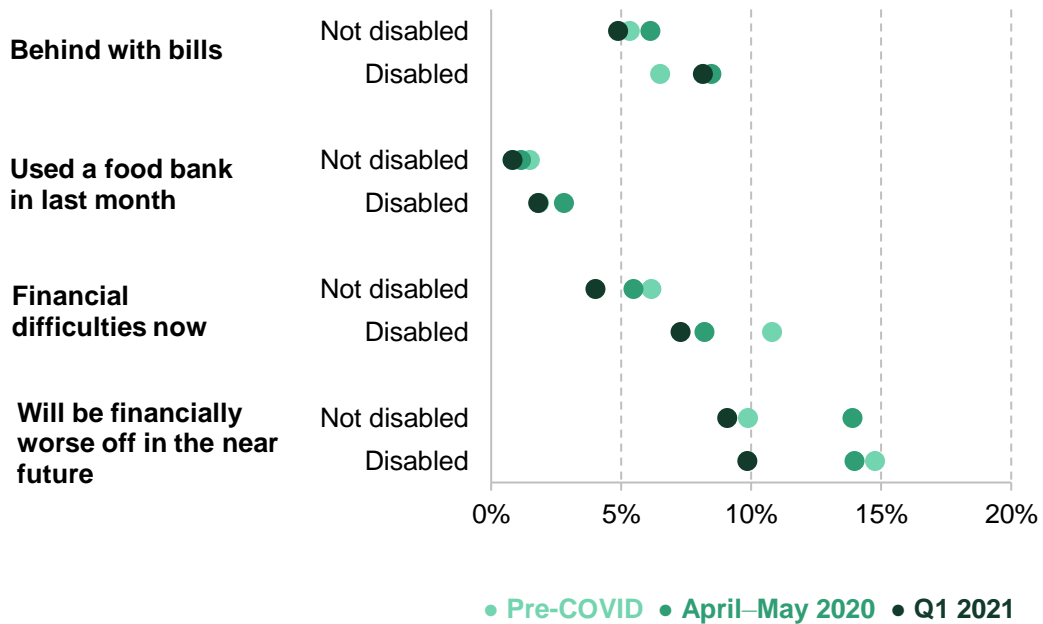
Chapter 3 showed more concerning trends regarding household worklessness for some ethnic minorities – namely, black people and people from Pakistani and Bangladeshi backgrounds. This analysis implies that these worse labour market outcomes seem to be feeding through into more financial difficulties and deprivation for ethnic minorities compared with the white population. In comparison, among white people, there have been very limited changes in measures of deprivation.

## 4.5 Changes by disability status

The disparities in the financial impact of COVID-19 on disabled and non-disabled people have been less clear-cut. Whilst the fact that many with long-term health conditions and disabilities have needed to shield may have made it more difficult for them to work, the generally higher levels of employment among non-disabled people may have meant this group was generally more vulnerable to labour market difficulties. This section looks at individuals aged 16 and above, split by whether or not they are disabled.

Figure 4.7 shows a mixed picture. The increase in the proportion of disabled people reporting being behind with their bills was slightly greater than for non-disabled people. However, on the subjective measures, there was a larger decrease in the proportion reporting current financial difficulties among disabled people. The same is true for the proportion expecting to be worse off in the future. Whilst on these subjective measures disabled people were more likely to report difficulties before the pandemic, the pandemic did not hit this group harder in this respect.

Figure 4.7. Trends in deprivation measures, by disability status



Note: Percentages for all measures are of individuals aged 16 and above falling into each category. Data from before the pandemic were collected in 2018–19 (the food-bank measure is for February 2020, as recalled in Summer 2020). The 'April–May 2020' data point is an average from the surveys in each of these months. 'Q1 2021' refers to January 2021 for the food-bank measure and March 2021 for the others.

Source: Authors' calculations using UKHLS data.

## 4.6 Changes by age

Age is another characteristic that has received a lot of attention when considering the impact of the pandemic. Though younger adults have been less likely to suffer the health consequences, much has been made of their increased probability of having been furloughed. In Figures 4.8 and 4.9, we break down the changes in the deprivation measures by three age bands (18–24; 25–64; 65+). We aggregate together people aged 25–64 because the trends for people of these ages look very similar.

Figure 4.8. Trends in objective deprivation measures, by age

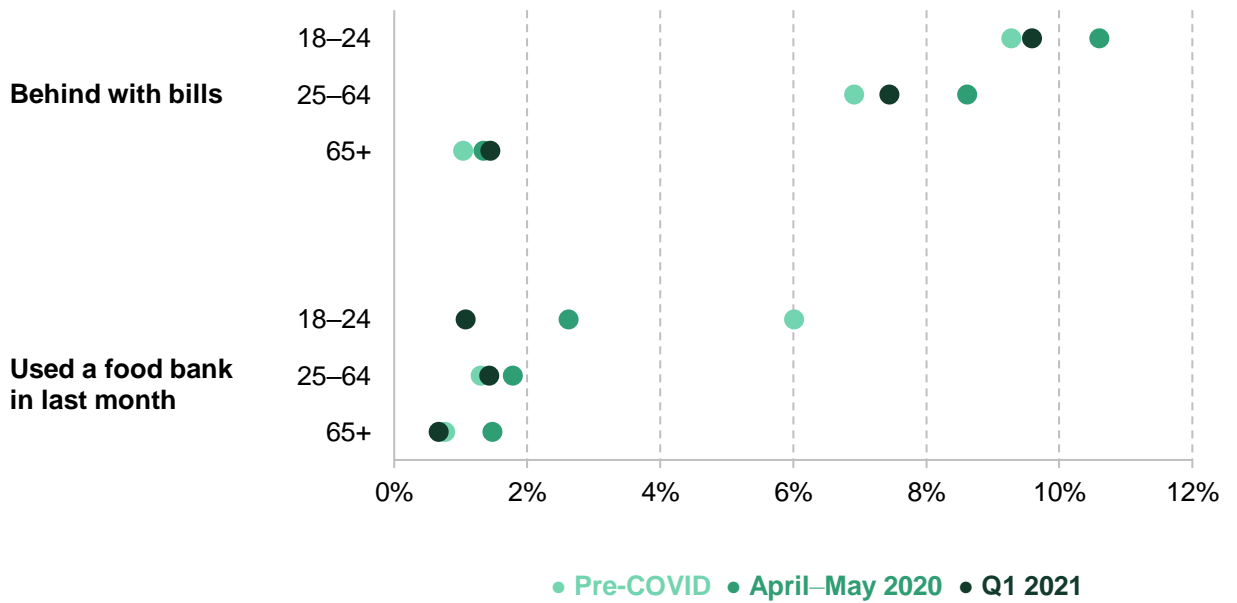
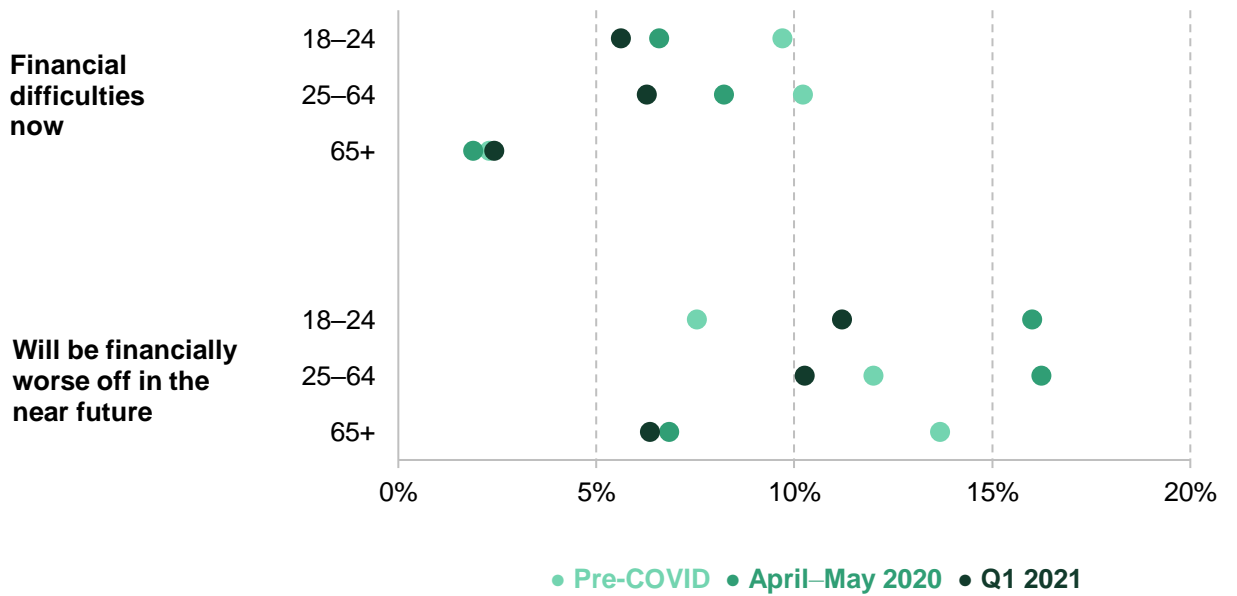


Figure 4.9. Trends in subjective deprivation measures, by age



Note for Figures 4.8 and 4.9: Percentages for all measures are of individuals falling into each category. Data from before the pandemic were collected in 2018–19 (the food-bank measure is for February 2020, as recalled in Summer 2020). The ‘April–May 2020’ data point is an average from the surveys in each of these months. ‘Q1 2021’ refers to January 2021 for the food-bank measure and March 2021 for the others.

Source for Figures 4.8 and 4.9: Authors’ calculations using UKHLS data.

Looking at those reporting being in financial difficulties or falling behind with bills, there is little evidence of increased deprivation for younger groups compared with older working-age people (though changes for those aged 65+ are particularly small). Indeed, it is striking how the proportion of people aged 18–24 in households that used a food bank fell, even as this age group has persistently seen lower rates of employment throughout the pandemic. As shown in the previous chapter, this is likely to be because many of them are sheltered from financial difficulties by living with their parents and because a significant number of younger adults moved back in with their parents during the pandemic. The furlough scheme has protected many young adult's earnings too.

On the measure of current financial difficulties, the two groups of working-age people seem to have been affected similarly, while over-65s are barely affected. The increase in the proportion of working-age people expecting their situation to deteriorate has been much more pronounced compared with people aged 65+. Indeed, among those aged 65 and above, fewer were reporting expecting their financial situation to deteriorate towards the start of the pandemic, potentially because they have had fewer spending opportunities throughout the pandemic but have incomes from state and private pensions which are essentially unaffected by the pandemic.

## 4.7 Conclusion

We have found evidence of changes that imply increased deprivation during the first national lockdown in Spring 2020, with higher rates of arrears on bills and higher food-bank usage, although these changes are potentially not that large considering that 9 million people were furloughed and there was a rise of 900,000 self-employed people who were unable to work any hours. Early in the pandemic, there was also a large increase in the fraction of people who thought they would be worse off in the near future, but this did not translate into much higher rates of people reporting current financial difficulties or other measures of deprivation later on. Indeed, expectations adjusted rapidly in Summer 2020. On essentially all measures, households' financial situation improved throughout the latter half of 2020 and into early 2021 despite the national lockdowns in November and again in the first quarter of 2021. By early 2021, on average, people were reporting hardship at or below pre-pandemic levels.

On most measures, it looks as if households with low incomes saw larger rises in deprivation during the pandemic than did higher-income households. The fraction of people in households in relative income poverty who were behind on at least one household bill rose from 15% to 22% in April–May 2020. The difference in the impact of the pandemic on this group compared with higher-income households, who were barely affected on average, is stark. There is evidence that increased difficulties were concentrated among poor working households rather than poor workless households.

However, the group for which the trends are most clear is the self-employed who lost all work. This group saw substantially larger increases in deprivation measures at the beginning of the pandemic, with the proportion in arrears on bills increasing from 2% to 13% between 2018–19 and April–May 2020.

There is also some evidence that ethnic minorities have seen worse trends during 2020–21, perhaps unsurprisingly given that they saw worse trends in employment, as shown in Chapter 3. Equally, although the individual-level employment outcomes have been awful for young adults during the pandemic, most young adults lived with at least one other person in paid work. Indeed, in this chapter, we have seen that trends in deprivation do not look particularly different for 18- to 24-year-olds compared with older working-age people.

Looking into the current year (2021) and beyond, there are great uncertainties around the prospect for household incomes, and for the incomes of poorer households in particular. As lockdown and social distancing requirements are progressively relaxed, more people will return to working on full pay, boosting their incomes. On the other hand, the furlough scheme and SEISS are planned to end at the end of September, as is the increase to universal credit put in place at the beginning of the pandemic. The increase to working tax credit has already ended.<sup>26</sup> With this happening, and unemployment likely to rise in the autumn, the future path of household incomes and deprivation is unclear.

<sup>26</sup> The increase to working tax credit ended in April 2021, with recipients receiving a £500 lump-sum payment.



# Appendix A. Data sources

## Households Below Average Income (HBAI)

### Income as a measure of living standards

Most people would consider that well-being consists of more than a simple measure of material circumstances. However, even if we wanted to, it would be extremely hard to define an objective index of well-being, let alone to measure it. The main approach to measuring living standards taken in the government's HBAI document is to focus solely on material circumstances and to use household income as a proxy for that.

Even as a measure of material living standards, the HBAI income measure has some important limitations. There is some evidence of under-reporting of income in the HBAI data, particularly among those households with extremely low reported incomes.<sup>27</sup> Even for those households whose income is measured correctly, HBAI provides a 'snapshot' measure – reflecting actual, or in some cases 'usual', income at around the time of the Family Resources Survey interview. Measuring income in this way means the HBAI income statistics capture both temporary and permanent variation in income between individuals, but the latter would generally be regarded as a better measure of their relative welfare. For example, having a temporarily low income is unlikely to have severe consequences for current material living standards if individuals are able to draw on previously accumulated wealth. Statistics based upon current incomes will attribute the same level of welfare to people with the same current income, regardless of how much savings or other assets they have, or how much they spend. Consumption would arguably make a

<sup>27</sup> See Brewer, Etheridge and O'Dea (2017).

better measure of material well-being, but reliable data can be harder and more expensive to collect. Using consumption as the measure of well-being can change our interpretation of who is ‘poor’ and how rates of poverty have changed over time.<sup>28</sup>

### The treatment of housing costs

The government’s HBAI publication provides information on two measures of income. One measure captures income before housing costs are deducted (BHC) and the other is a measure after housing costs have been deducted (AHC). The key housing costs captured in the HBAI data are rent payments and mortgage interest payments, but they also include water rates, community water charges, council water charges, structural insurance premiums for owner-occupiers, and ground rents and service charges. Mortgage capital repayments are not included, on the basis that these represent the accumulation of an asset (they increase net housing wealth) and are therefore better thought of as a form of saving than as a cost of housing. Costs such as maintenance, repairs and contents insurance are also not included.

When looking at changes in average living standards across the population as a whole, there is usually a strong case for focusing on income measured BHC. This is because most individuals exercise a considerable degree of choice over housing cost and quality, at least in the medium and long term, and for those individuals housing should be treated as a consumption good like any other (i.e. the amount that households choose to spend on it should not be deducted from income). For instance, consider two households with the same BHC income, one of which decides to spend a larger fraction of that income on a larger house in a better neighbourhood, while the other has different preferences and chooses to spend the difference on other things. On an AHC basis, the former household would be considered poorer, but their living standards may be comparable.

There are, however, a number of reasons to focus on income measured AHC in certain circumstances.

First, income measured AHC may provide a better indicator of the living standards of those who do not face genuine choices over their housing, particularly if housing

<sup>28</sup> See Brewer, Goodman and Leicester (2006), Brewer and O’Dea (2012), Brewer, Etheridge and O’Dea (2017) and Office for National Statistics (2018).

cost differentials do not accurately reflect differences in housing quality. This is likely to be the case for many in the social rented sector, where individuals tend to have little choice over their housing and where rents have often been set with little reference to housing quality or the prevailing market rents.

Second, the existence of housing benefit means that measuring income AHC has an advantage over BHC as a measure of living standards for housing benefit recipients. This is because housing benefit reimburses individuals specifically for their rent. Consider a household with no private income whose rent increases by £10 per week. This might trigger a £10 increase in housing benefit entitlement to cover the rent increase. Hence, AHC income would remain unchanged but BHC income would increase by £10 per week. Therefore, where rent changes do not reflect changes in housing quality – for example, when they simply reflect changes in the rules governing social rents – the subsequent changes in BHC (but not AHC) income can give a misleading impression of the change in living standards of households on housing benefit.

Third, measuring income AHC may be more appropriate than BHC when comparing households that own their home outright (and so pay no rent or mortgage interest costs) with those that do not. On a BHC basis, an individual who owns their house outright will be treated as being as well off as an otherwise-identical individual who is still paying off a mortgage; an AHC measure, though, would indicate that the former was better off.<sup>29</sup> This is particularly important when comparing incomes across age groups – pensioners are much more likely to own their homes outright than working-age adults.

Fourth, comparing changes in AHC incomes may provide better information about relative changes in living standards when some households have seen large changes in their housing costs that are unrelated to changes in housing quality. This is particularly relevant when looking at the period between 2007–08 and 2009–10, as rapid falls in mortgage interest rates reduced the housing costs of those with a mortgage significantly, while the housing costs of those who rent their homes (or own them outright) were not directly affected. When incomes are measured BHC,

<sup>29</sup> A conceptually better solution to this problem would be to impute an income from owner-occupation and add this to BHC income. Unlike the AHC measure, this would also capture the benefits to individuals of living in better-quality housing. See Brewer and O’Dea (2012) for an example of such an imputation procedure.

changes over time in the incomes of all households are adjusted for inflation using a price index that accounts only for *average* housing costs. This will understate the effect of falling housing costs on living standards for those with a mortgage and overstate it for those without a mortgage. Changes in income measured AHC do not suffer from this issue, since changes in housing costs are accounted for by subtracting each household's actual housing costs from its income. This difference is important to bear in mind when looking at changes in poverty and inequality. Those towards the bottom of the income distribution (around the poverty line), as well as the youngest and oldest adults, are less likely than average to have a mortgage.

### Income sharing

To the extent that income sharing takes place within households, the welfare of any one individual in a household will depend not only on their own income, but also on the incomes of other household members. By measuring income at the household level, the HBAI statistics implicitly assume that all individuals within the household are equally well off and therefore occupy the same position in the income distribution. For many households, this assumption provides a reasonable approximation – for example, many couples benefit roughly equally from income coming into the household, no matter who the income is paid to. For others, it is unlikely to be appropriate. Students sharing a house are one probable example. Perfect income sharing is by no means the only ‘reasonable’ assumption that one could make: for example, one could effectively assume that there is complete income sharing *within* the different benefit units<sup>30</sup> of a household but not *between* them, by measuring incomes at the benefit unit level rather than at the household level (and making an assumption about how housing costs are split across benefit units). However, given the data available, perfect income sharing is one of the least arbitrary and most transparent assumptions that could be made.

<sup>30</sup> Benefit units are the level at which benefits are paid to people. A benefit unit can be either a single person or a couple, plus any dependent children of that single person or couple. For this reason, a benefit unit is frequently described as a ‘family’. However, people living together who are related can be in two separate benefit units. For example, a household composed of a couple living with one of their parents would be two separate benefit units, as would a household composed of two adult siblings living together.

## Comparing incomes across households

Controlling for household size and structure is important when comparing living standards across households. If two households, one composed of a single adult and the other composed of a couple with two children, both have the same total income, the living standard of the couple with children will usually be significantly lower than that of the single adult, as the larger household normally has a greater need for material resources. Therefore, if household income is to reflect the standard of living that household members experience, and if we are to compare these incomes across different household types, then some method is required to adjust incomes for the different needs that different households face.

**Table A.1. Modified OECD equivalence scales**

	<b>BHC equivalence scale</b>	<b>AHC equivalence scale</b>
First adult	0.67	0.58
Spouse	0.33	0.42
Other second adult	0.33	0.42
Third and subsequent adults	0.33	0.42
Child aged under 14	0.20	0.20
Child aged 14 and over	0.33	0.42

The official HBAI income statistics currently use the modified OECD equivalence scale for BHC incomes, and an AHC variant from the Department for Work and Pensions (DWP), shown in Table A.1. These equivalence scales are used to adjust incomes on the basis of household size and composition. For example, when income is measured before housing costs, the OECD scale implies that a single person would require 67% of the income that a childless couple would require to attain the same standard of living. So, to get the equivalent income of that single person, we divide their actual income by 0.67. This process is referred to as ‘income equalisation’. Having equalised household incomes, cash income figures are expressed as the equivalents for a childless couple, i.e. a household’s

income is expressed as the amount that a childless couple would require to enjoy the same standard of living as that household.

The modified OECD scale only takes into account the ages and number of individuals in the household, but there may be other characteristics affecting a household's needs. An important example of these would be the disability or health status of household members. The conventional methodology in HBAI would place a household receiving disability benefits higher up the income distribution than an otherwise-equivalent household without such benefits. But if this higher level of income only compensates the household for the greater needs it has or the extra costs it faces, then the standard of living of this household may be no higher.<sup>31</sup>

### Sample weighting, and adjusting the incomes of the 'very rich'

The incomes analysed in Chapter 2 of this report are derived from the Family Resources Survey (FRS) and, prior to 1994–95, the Family Expenditure Survey (FES). These surveys are designed to provide a broadly representative sample of households in Great Britain until 2001–02 (i.e. not including Northern Ireland) and in the whole United Kingdom from 2002–03 onwards. However, because they are voluntary surveys, there is inevitably a problem of households not answering them, and such non-response may differ according to family type and according to income. This 'non-response bias' is dealt with in two ways. First, weights are applied to the data to ensure that the composition of the sample (in terms of age, sex, partnership status, region and a number of other variables) reflects the true UK population.<sup>32</sup> For example, if there are proportionately fewer lone parents in the sample than there are in the population, then relatively more weight must be placed upon the data from those lone parents who actually do respond.

Second, a special adjustment is applied to correct for the particular problems in obtaining high response rates from individuals with very high incomes and for the volatility in their reported incomes. This adjustment uses projected data from HMRC's Survey of Personal Incomes (SPI) – a more reliable source of data for the

<sup>31</sup> See also section 5.3 of Brewer et al. (2008).

<sup>32</sup> See Department for Work and Pensions (2021b).

richest individuals based on income tax returns.<sup>33</sup> Individuals with an income above a very high threshold are assigned an income level derived from the SPI, which is an estimate of the average income for people above that threshold in the population (the threshold and replacement income value are set separately for pensioners and non-pensioners). Note that this procedure will therefore not capture the *inequality* within the very richest section of the population. The weights referred to above are also adjusted to ensure that the number of households containing very high-income individuals in the weighted data is correct. There is no corresponding correction for non-response, or for misreporting of incomes, at the lower end of the income distribution, meaning caution should be used when considering people with the very lowest incomes.

### Adjusting for inflation

All of the description of the HBAI methodology so far sets out how we, following the government's HBAI methodology, measure living standards in any one year. However, because of inflation, the same cash incomes do not bring the same purchasing power over time. It is therefore necessary to adjust for inflation and express all figures in real terms, which we do in the prices of the latest year of data (2019–20 in this report).

We account for inflation using variants of the Consumer Prices Index (CPI). For comparing BHC measures of income over time, we use a variant of the standard CPI that includes owner-occupiers' housing costs (mortgage interest payments, and insurance and ground rent for owner-occupiers); for AHC measures, we use a variant of the CPI that excludes all housing costs (including rent and water costs, which are part of the standard CPI). These variants are available from the Office for National Statistics (ONS) back to 1996 and 2000 respectively. Before that, we use an approximation to those indices generated by combining RPI-based indices that are available back to 1961 with an estimate of the historical 'formula effect' (the amount by which the Retail Prices Index overstates inflation).<sup>34</sup>

<sup>33</sup> See Burkhauser et al. (2018) for an analysis of the limitations of this adjustment and a discussion of alternatives.

<sup>34</sup> For more details on the construction of this series, see Department for Work and Pensions (2021b). The resulting 'deflators' are available online at [https://ifs.org.uk/tools\\_and\\_resources/incomes\\_in\\_uk](https://ifs.org.uk/tools_and_resources/incomes_in_uk).

## The income measure summarised

In the analysis in Chapter 2, our main measure of living standards is *equivalised household income after deducting taxes and adding benefits and tax credits*, expressed as the equivalent income for a couple with no dependent children and in average 2019–20 prices. For brevity, we often use this term interchangeably with ‘income’.

## Labour Force Survey (LFS)

Almost all of the analysis in Chapter 3 of this report relies on analysis of microdata from the Labour Force Survey. The LFS is a quarterly survey of the UK population that has been running since 1992. All members of sampled households are included as either direct responses or proxy interviews. The sample size at the end of 2019 was around 85,000 people per quarter, though during the start of the COVID-19 pandemic, the sample size was lower, at around 70,000 per quarter.

The LFS is conducted as a five-quarter rolling panel, meaning that households enter the LFS in a given quarter and are interviewed for five consecutive quarters (‘waves’) before leaving the survey. Therefore, around one-fifth of households are replaced with newly sampled households in each quarter. We use both the data provided as repeat cross-sections (in the sections on employment) and those provided as five-quarter longitudinal data sets, accessed through the UK Data Service.

The LFS contains detailed information on individuals’ economic activities, background characteristics and a household grid, which can be used to identify with whom any individual lives, their relationship with them, and the characteristics of partners or other household members. In waves 1 and 5 of the data (only), employees are asked about their weekly earnings.

It should be noted that, due to the COVID-19 pandemic, the ONS changed its methodology for contacting and surveying LFS sample members.<sup>35</sup> It moved from an initial face-to-face interview, to only undertaking telephone interviews.

<sup>35</sup> For more details on this, see <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetype/articles/coronavirusanditsimpactontheLabourForceSurvey/2020-10-13>.



Alongside lower achieved sample sizes, the ONS found that this led to a lower likelihood of capturing renters compared with people who owned their own home, and that this bias caused employment levels to be overestimated. It therefore updated its weights to re-weight the achieved sample to reflect the known housing tenure mix in the population. Our analysis uses these updated weights. However, this does mean that there is more uncertainty over the exact changes in the labour market over the last year, due to difficulties in surveying people, than there would be in normal times.

## Understanding Society: the UK Household Longitudinal Study (UKHLS)

### Main survey and COVID-19 survey

Understanding Society is a panel study, run by the Institute for Social and Economic Research at the University of Essex. The survey is asked in waves, with each wave lasting two years, and a new wave starting each year, so that the waves overlap. The main survey asks a large number of households a wide range of questions, with all household members either interviewed directly or (in the case of younger children) asked about. Households are invited to be re-interviewed in each wave, every year, allowing them to be tracked over time. The most recent full wave to be released was wave 10, covering 2018–19.

Since April 2020, participants in the main study have been invited to take part in several modules of an additional COVID-19 study. The people who were in wave 9, from 2017–18, were approached for these surveys. Sample members were surveyed in 2020 in April, May, June, July, September and November, and again in January and March 2021.

These modules contain some questions that are also in the main study (though a smaller set of them), and also many additional questions on the impact of the pandemic itself. Not every question is asked in every wave of the COVID survey. In general, we use the variables that were also available in the main study, to allow us to compare the situation during the pandemic with that prior to it. Both phone and web surveys have been conducted – we use the web surveys only in this report.

Not all adults in every household are interviewed in the COVID surveys. Moreover, there are some differences in how some information, notably income information,

was calculated, necessitated by the speed at which the surveys were conducted and released.

We use the data from UKHLS in Chapter 4 of this report.

## Deprivation questions used in Chapter 4

### Behind on bills

The question asks ‘Sometimes people are not able to pay every household bill when it falls due. May we ask, are you up to date with all your household bills such as electricity, gas, water rates, telephone, council tax, credit cards and other bills or are you behind with any of them?’. We calculate the proportion of people who are ‘behind with some’ or ‘behind with all’ bills.

### Used a food bank in the last month

The question asks ‘How often has your household used a food bank, or similar service, in the last four weeks?’. We calculate the proportion of people who are in households that have used a food bank any number of times in the last four weeks. For the pre-pandemic data point, we use the question asked in the fourth COVID wave (July 2020): ‘Thinking about February 2020, how often did your household use a food bank, or similar service?’.

### Financial difficulties now

The question asks ‘How well would you say you yourself are managing financially these days? Would you say you are ...: Living comfortably / Doing alright / Just about getting by / Finding it quite difficult / Finding it very difficult’. We calculate the proportion of people who report finding it ‘quite difficult’ or ‘very difficult’.

### Will be financially worse off in the near future

The question asks ‘Looking ahead, how do you think you will be financially a year / a month / three months<sup>36</sup> from now, will you be ...: Better off / Worse off than you are now / Or about the same?’. We calculate the proportion expecting to be worse off than they are now.

<sup>36</sup> The question asks about a month in the future in all the COVID modules, except in the last survey (in March 2021) when it asks about the next three months. In the main survey (pre-pandemic), it asks about a year in the future.

## Weighting

Most of the analysis in Chapter 4 is conducted at the adult level, but for some of the variables, and cuts of data, we also include children (i.e. it is at the ‘population level’). For the analysis of arrears on bills and food-bank use (overall, and looking at changes by pre-pandemic poverty status), we include children.

For our adult-level cross-sectional analysis, we straightforwardly use the cross-sectional weights provided with the adult survey. Where we conduct analysis at the population level, we construct new weights, based on the adult weights and multiplying up by 1 plus the per-adult ‘share’ of the number of children (under-16s) in the household. For example, if there were a single adult in the survey, and they had one child, we would multiply the adult’s weight by 2 to reflect the presence of that child. Similarly, if there were a couple, both surveyed in the data, who had three children, these three children would effectively be split across their two parents (1½ children allocated to each), so the weight for each adult would therefore be multiplied by 2.5 to reflect the presence of those children.

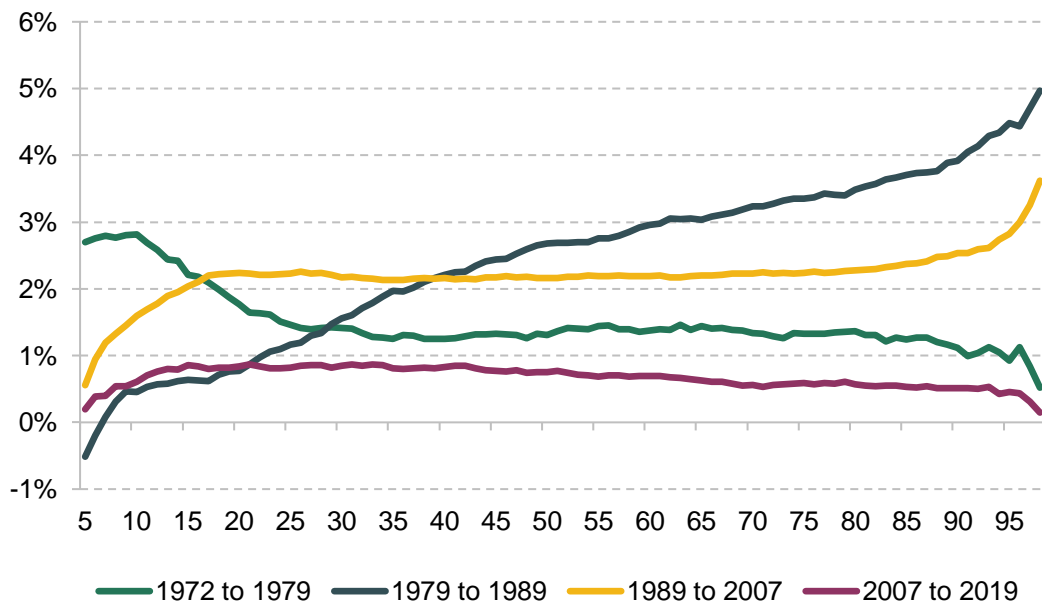
We have assessed this method by comparing summary statistics based on the child weights (which are available for 10- to 15-year-olds) with weights constructed using this method (except based on the number of 10- to 15-year-olds in households). These two methodologies for 10- 15-year-olds showed similar results.

It should be noted that the COVID surveys did not contain up-to-date household identifiers. Instead, we must use the household identifiers from wave 9 (to which all respondents with non-zero COVID weights responded). Therefore the analysis will not account for more recent household changes.

# Appendix B.

## Supplementary figures and table for Chapter 2

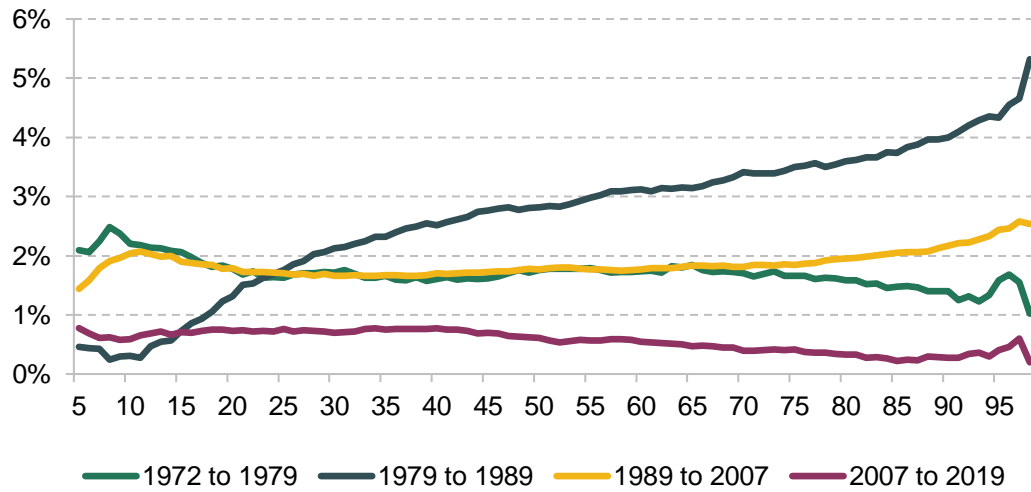
**Figure B.1. Average annualised growth in household incomes across the (AHC) income distribution, from 'peak to peak' of UK business cycles**



Note: Great Britain only. Financial years since 1994. Percentiles 1–4 and 99 are excluded due to relatively low levels of precision in estimating changes at these percentiles.

Source: Authors' calculations using the Family Expenditure Survey and the Family Resources Survey, 1972 to 1993 and 1994–95 to 2019–20.

**Figure B.2. Average annualised growth in household incomes across the (BHC) income distribution, from ‘peak to peak’ of UK business cycles, excluding people aged 60 and over**



Note: Great Britain only. Financial years since 1994. Percentiles 1–4 and 99 are excluded due to relatively low levels of precision in estimating changes at these percentiles.

Source: Authors’ calculations using the Family Expenditure Survey and the Family Resources Survey, 1972 to 1993 and 1994–95 to 2019–20.

**Table B.1. Cash values of poverty lines for example families in 2019–20 (£ per week)**

	<b>Single adult</b>	<b>Childless couple</b>	<b>Lone parent, one child</b>	<b>Couple, one child</b>	<b>Couple, two children</b>
Absolute poverty line (AHC)	149	258	201	309	361
Relative poverty line (AHC)	166	285	223	343	400
Absolute poverty line (BHC)	201	300	261	360	420
Relative poverty line (BHC)	220	328	285	394	459

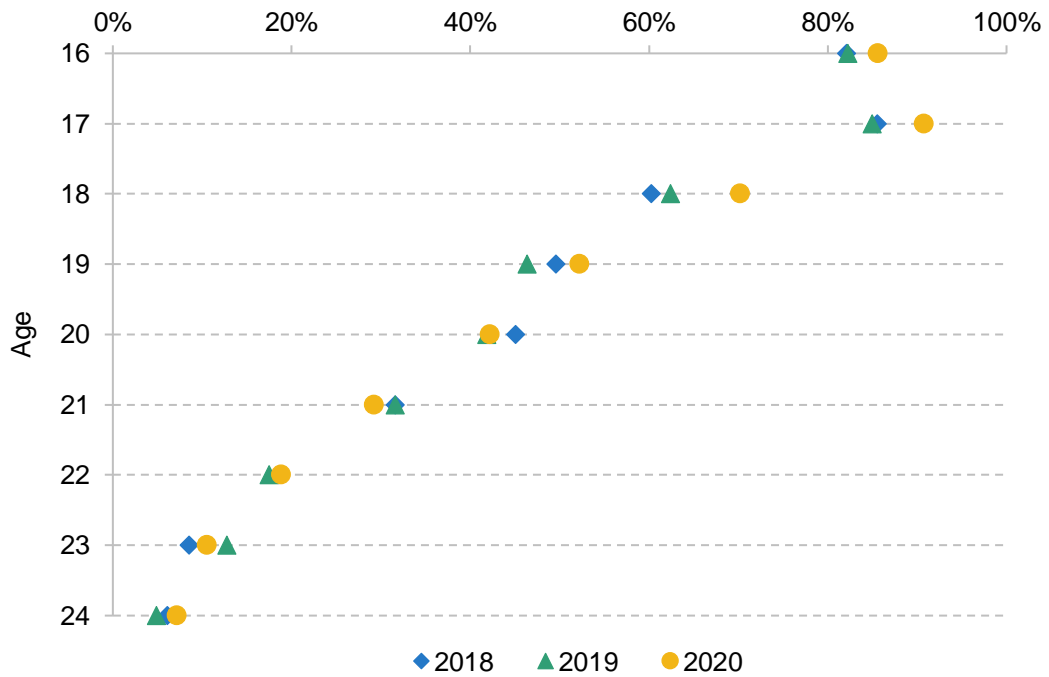
Note: Incomes have been measured net of taxes and benefits and after housing costs (AHC) or before housing costs (BHC) have been deducted. The children in these example families are assumed to be aged 13 or younger. For families with older children, the poverty lines are slightly higher. The absolute poverty line is defined as 60% of median income in 2010–11 and the relative poverty line as 60% of median income in 2019–20.

Source: Department for Work and Pensions, 2021a.

# Appendix C.

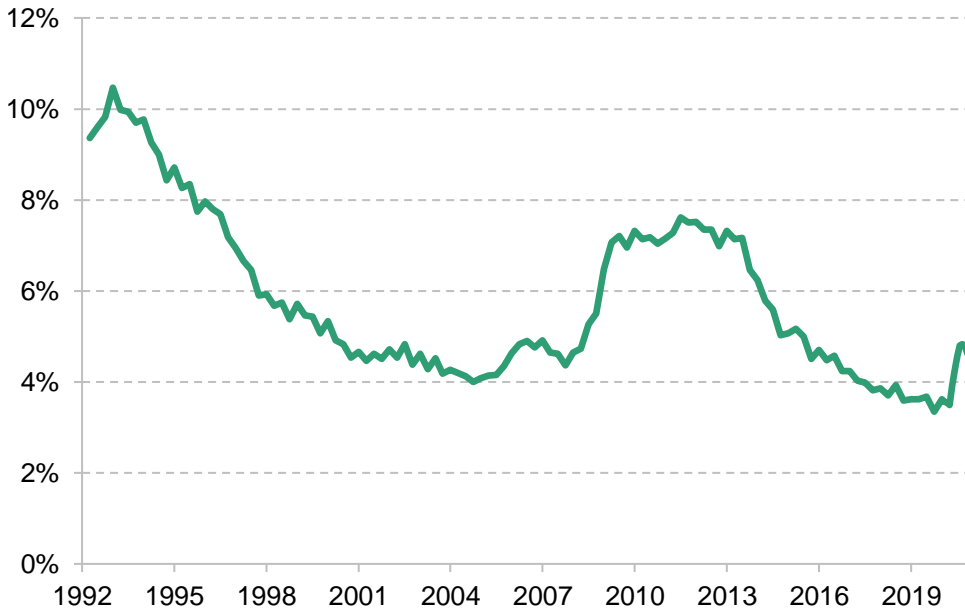
## Supplementary figures and table for Chapter 3

Figure C.1. Share of young people in full-time education in October–December, by age and year



Source: Quarterly Labour Force Survey.

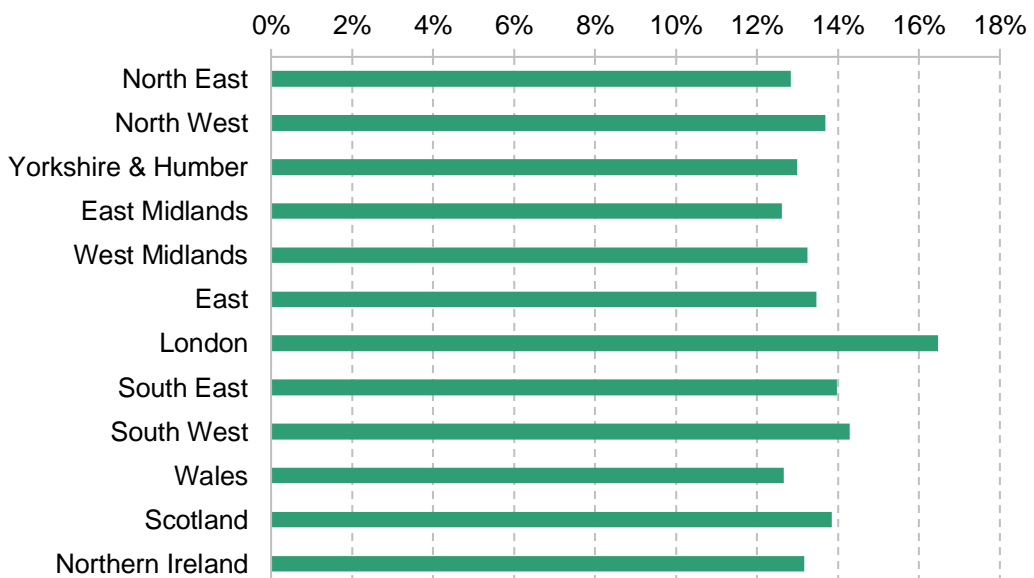
Figure C.2. Trends in unemployment rate



Note: Includes people aged 19–64. Shows forward-looking three-month moving average. Data are available quarterly before January–March 2020 and monthly thereafter.

Source: Quarterly Labour Force Survey.

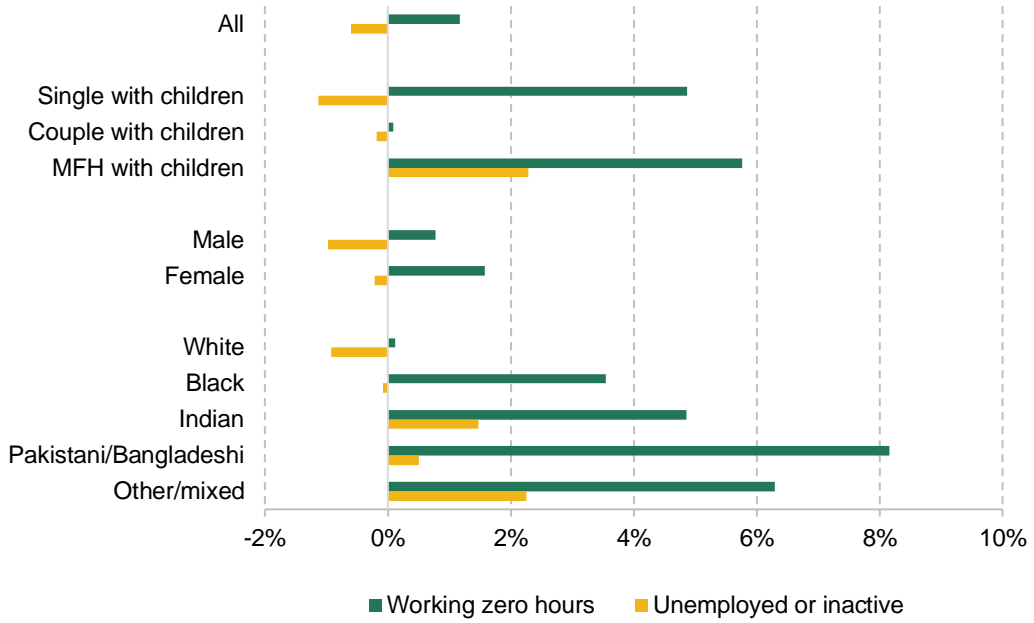
Figure C.3. Take-up rate of furlough at 31 March 2021, by region



Source: HMRC, Coronavirus Job Retention Scheme statistics and PAYE Real Time Information.



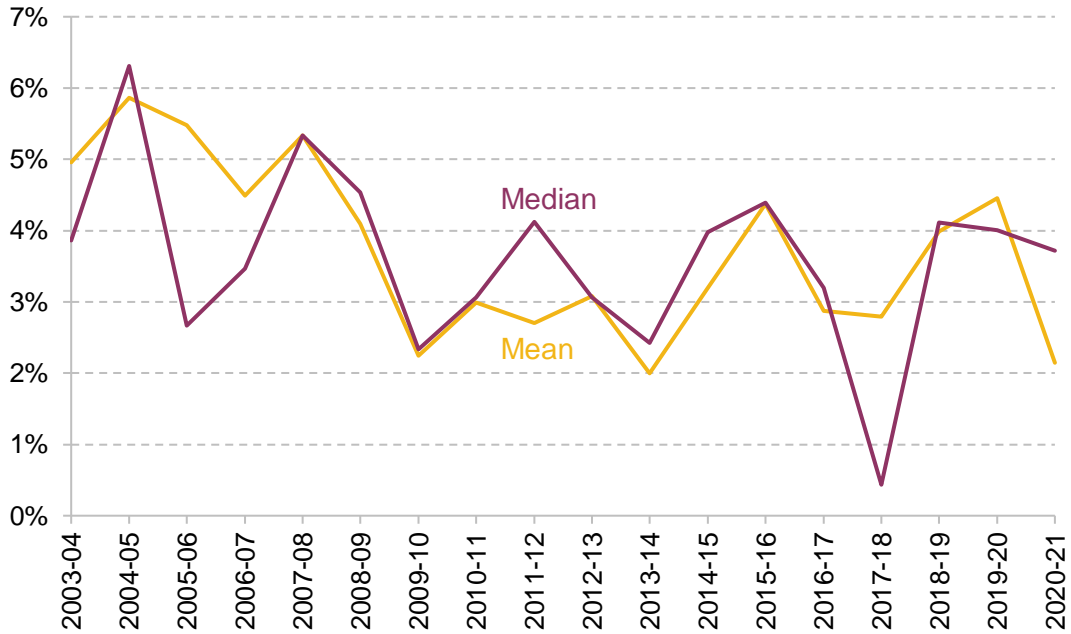
**Figure C.4. Share of children living in households working zero hours and households in which everyone is unemployed or inactive: percentage point change from 2019Q4 to 2021Q1**



Note: Children includes those aged 0–16 and 17- to 18-year-olds in full-time education. 'MFH' refers to a 'multi-family household'. 'Working zero hours' is defined as being employed or self-employed but working zero hours in the week of interview.

Source: Quarterly Labour Force Survey.

**Figure C.5. Nominal earnings growth among ‘continuously employed’ employees – those working at least one hour per week in the year shown and one year earlier**



Note: Sample is those observed working as an employee with positive hours and earnings in wave 1 and wave 5 of the LFS. Earnings are Winsorised (capped) at the 99<sup>th</sup> percentile within year. We do not include anyone surveyed in March 2020, because they would fall into the 2019–20 financial year but may have been affected by the pandemic.

Source: Authors’ calculations using the Labour Force Survey.

**Table C.1. Real growth in mean earnings among ‘continuously employed’ employees with reweighted data**

	2017–18 to 2019–20	2020–21	Difference
Male	1.2%	0.8%	–0.4ppts
Female	1.8%	2.8%	1.0ppts
Higher education	1.0%	0.2%	–0.8ppts
A levels	2.2%	2.0%	–0.2ppts
GCSEs or below	1.6%	5.6%	3.9ppts**
Private sector	1.8%	1.0%	–0.8ppts
Public sector	0.3%	3.1%	2.8ppts**
Aged 19–34	5.7%	3.3%	–2.4ppts
Aged 35+	–0.7%	0.6%	1.3ppts*
<b>All</b>	<b>1.4%</b>	<b>1.5%</b>	<b>0.1ppts</b>

Note and source: See Table 3.2 in the main text. Data are reweighted by age and education as described in the text.

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