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The impact of the coronavirus crisis on UK household wealth

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The Resolution Foundation joined the Standard Life Foundation to embark on a major investigation into the role of wealth in 21st century Britain. This audit is part of a three-year programme the foundations are supporting. Standard Life Foundation's mission is to contribute towards strategic change which improves financial wellbeing in the UK. Its focus is on tackling financial problems and improving living standards for those on low-to-middle incomes. It is an independent charitable foundation.

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Executive Summary

The Covid-19 crisis has had profound effects on the UK economy, and understanding that impact is of vital importance for economic policymakers. The labour market and income effects of the crisis were the most immediate, and have been the subject of much attention and analysis to date. But it is also vital for policy makers to understand how the pandemic has affected household wealth – not least because the Covid-19 crisis has had an unprecedented impact on families' finances. Holdings of wealth matter for living standards directly and the strength of household balance sheets will be a key determinant of how quickly the economy can recover. Indeed, changes in wealth may well be the enduring legacy of this crisis.

Given the importance of these issues and the absence of timely data on holdings of wealth, in our second of a series of comprehensive, annual reports covering the state of wealth in Britain, we combine the results of an original online survey with detailed data on the holdings of wealth to provide the first complete picture of the impact of Covid-19 on the distribution of wealth in the UK.

The good news is that the unique nature of the pandemic has led to higher saving and lower debt in aggregate

The context to the crisis has been four decades of steady increases in the value of wealth. Total wealth equated to roughly three times national income in 1980, and on the eve of the pandemic was closer to seven times income. As the value

of wealth has risen, the gap between families' wealth across the distribution have widened. The gap between wealth for an average household in the top decile and that in the fifth decile increased by 50 per cent (up to around £1.3 million) between 2006-08 and 2016-18.

Strikingly these pre-pandemic trends have continued during the crisis. We estimate that total household wealth has increased by almost £900 billion – an increase of around 6 per cent on pre-pandemic levels. Increasing wealth during a recession is unusual: this is the first UK recession in at least 70 years where this is the case. Two effects have driven that change: first, the direct effects it has had on saving and borrowing behaviour; and second, the indirect effects on the value of household balance sheets through asset price changes. In aggregate, households have increased nominal savings by around £125 billion more than would have been expected absent the pandemic and at the same time, non-credit card consumer debt has fallen by around £10 billion. By contrast, following the financial crisis, savings and cash held by households failed to grow for six years. But these direct effects are dwarfed by the changes coming from indirect changes in asset prices. Here we estimate that up-to-date prices imply that the value of total wealth has increased by over £750 billion.

But not every family has been fortunate

To investigate the scale, distribution and effects of changing saving and debt, we use results from a specially-commissioned online survey of more than 8,000 individuals to provide a timely understanding of the impact of the pandemic. That survey shows that these striking increases in wealth have been very uneven. Indeed, around 30 per cent of families in the bottom 20 per cent of the income distribution actually saw their savings decrease. This is three times higher than the proportion reducing savings for the top 20 per cent of earners. Changes in debt are also skewed: around 10 per cent of low earners reduced debt during the pandemic while over 25 per cent of higher earners did the same.

There are two key forces at play here. First, the forced fall in social consumption spending due to restrictions put in place in response to the pandemic, allowed households to build up savings faster than normal – the household saving ratio hit its highest level since at least the 1960s. Saving tends to rise during recessions as families retrench, but the saving ratio in the aftermath of Covid-19 was more than twice the peak during the financial crisis. And better-off families were, on average, particularly likely to benefit because that group tends to spend a higher proportion on social consumption. At the same time evidence suggests that lower income households, particularly those including children, faced higher living costs during the pandemic.

Second, falls in income for those experiencing a negative labour market outcome. The reduction in economic output during 2020 was the largest calendar-year fall in 300 years. This obviously had a huge knock-on effect on the labour market. But Government support schemes – particularly the Coronavirus Job Retention Scheme – have been successful in largely insulating households from this colossal hit to the economy. But a minority of families still suffered income falls, for example as a result of lower wages under the furlough scheme, falling working hours, ineligibility for support schemes and outright job loss. Over 30 per cent of those who were out of work at some point during the pandemic increased debt since February 2020 (higher than the 20 per cent of people who worked throughout).

Changes in wealth from asset price appreciation depend, not on income or spending, but pre-existing wealth holdings

Such changes in saving and borrowing behaviour for individual families will have material effects on wellbeing and financial resilience. But changes in asset prices have had a larger effect on the overall level and distribution of household wealth – and crucially individual impacts depend on pre-existing wealth holdings rather than what someone earns or spends.

In this context, it is striking that while asset price volatility has been exceptionally high, the recovery in asset prices has been very rapid. Sharp falls in asset prices at the start of the pandemic have largely reversed and, for some assets like UK housing, prices are now substantially above pre-pandemic levels. Increasing asset prices directly raise the level of household wealth. We model the impact of changing asset prices using the ONS's granular Wealth and Assets Survey (WAS) and find that the pandemic's effects on asset prices raised wealth levels by as much as 7 per cent in the middle of the wealth distribution. Those in the middle of the distribution had the largest proportional rises because they tend to hold more housing wealth as a share of total wealth than richer or poorer families – and house price increases outpaced returns on other assets. But the largest absolute increases in wealth were for those at the top of the distribution: the richest 10 per cent of families gained, on average, £44,000 in net wealth per adult from higher asset prices.

Changes in household wealth from asset price appreciation have outpaced direct changes from saving and debt

We bring together the effect of rising asset prices and active changes in saving debt to estimate overall changes in wealth during the pandemic. The rise in household wealth, particularly in the middle and top of the distribution, has further widened wealth gaps. While the median family has gained £7,800 in wealth per adult, those at the richest 10 per cent of households have gained a little over £50,000. The poorest 30 per cent of the wealth distribution gained just £86 per adult on average in additional wealth. Therefore, the gap between the richest 10 per cent and the fifth decile of the wealth distribution has increased by over a further £40,000; and by £7,000 between the fifth decile and the poorest 10 per cent. The typical gap in wealth per adult between the top and the middle of the distribution now stands at 55 times typical household income (measured after housing costs). Rising wealth gaps have real effects on the economic experience of families. Holding more wealth in absolute terms confers a range of benefits, for example: accessing higher

investment income, facilitating consumption smoothing, achieving greater financial resilience, lowering housing costs for those able to purchase homes and being associated with higher subjective measures of wellbeing.

Evidence from our survey suggests that the enduring legacy of the pandemic is likely to be widening wealth gaps

It seems very likely that much of the increase in total wealth and wealth gaps will last well beyond the pandemic.

The first reason for this is that respondents to our survey tell us that the direct effects of the pandemic are unlikely to go into reverse and may even continue. Future savings will depend on the extent to which households spend additional savings on consumption, as well as whether savings rates remain elevated. Only around 14 per cent of people with increased savings reported they were "very likely" to use additional savings for purchases. More worryingly from the perspective of the recovery, there is some evidence that savings rates may remain elevated for some time. This is typical after recessions as households repair their balance sheets, building up their financial buffers ahead of the next downturn. But the coronavirus crisis seems to have encouraged a shift in preferences beyond additional precautionary saving: 35 per cent of families with increased pandemic saving are likely or very likely to save more each month than they did before the pandemic because of worries about the future; and 43 per cent say they will do so because they believe they have learnt that they do not need to spend as much as before the pandemic. Those with increased debt have low confidence that debt levels will fall in future. Only 9 per cent of people with higher debts are very confident that debt levels will fall due to rising income in the future.

Second, while prospects for asset prices are inherently uncertain, history suggests a full reversion in prices back to pre-pandemic levels is unlikely. Interest rates are expected to remain low for some time, quantitative easing seems unlikely to be reversed in the near future and the increase in demand for residential space

due to increasing home working may be a structural shift in the housing market. All of which will contribute to keeping asset prices elevated. Although house prices may fall back given the end of the stamp duty holiday.

Looking ahead, it will be important for policy makers to address changes in the distribution of wealth

This was an unprecedented economic crisis, but wealth continued its 40-year trend upwards. It is imperative the Government takes this into account when designing policy for the post-pandemic world; this is an area where simply treating this as a normal recession makes no sense at all. In this context there are a number of specific policy areas that require urgent consideration. The distribution of debt and savings changes provides extra justification for keeping the pandemic support of an additional £20 per week to UC; those in receipt of UC are low-income and are less likely to increased savings and more likely to have increased debt. More broadly, policies that are aimed at addressing specific aspects of the trends in wealth, for example Help to Buy, which aims to reduce the disadvantage that higher house prices pose for first time buyers, need to recognise the drivers behind changes in wealth. More of the same on the housing market risks continuing to fuel house prices increases and giving government subsidies to the already well-off. Wider policies have generally ignored the trend of rising asset prices, which has only been compounded by the pandemic. Taxes on wealth are the clearest example of this, where tax revenues have stayed stubbornly constant despite more than a doubling in wealth levels. This is ultimately unsustainable – particularly in the face of challenging public finance constraints. These policy challenges will be discussed in more detail in a policy-focussed paper which will follow later in the year.

Section 1

Introduction: the pre-pandemic context for family finances

On the eve of the pandemic, households held more wealth than at any point over the past half a century. Apart from dips in the 1990s and financial crisis recessions, rising wealth values have been a feature of the UK economy since 1980. While wealth inequality, as measured by the share of wealth at the top of the distribution, was high in the UK, it has changed relatively little since the 1980s, after having consistently fallen through most of the 20th Century. But there are huge absolute wealth gaps between families, and those gaps were increasing prior to the onset of the pandemic. The typical family in the richest 10 per cent of households had £1.3 million more in wealth per adult than the typical family in the fifth decile of the wealth distribution – equating to 54 times typical annual family household income prior to the pandemic.

Moreover, financial resilience – the ability of families to cope with a fall in income – was low for many families. Higher savings prevent families needing to cut consumption when incomes fall. As the UK entered the pandemic, close to half of households had savings valued at less than one month's income. And low savings were particularly prevalent for those on low-incomes: two thirds of this group had savings less than one month's income.

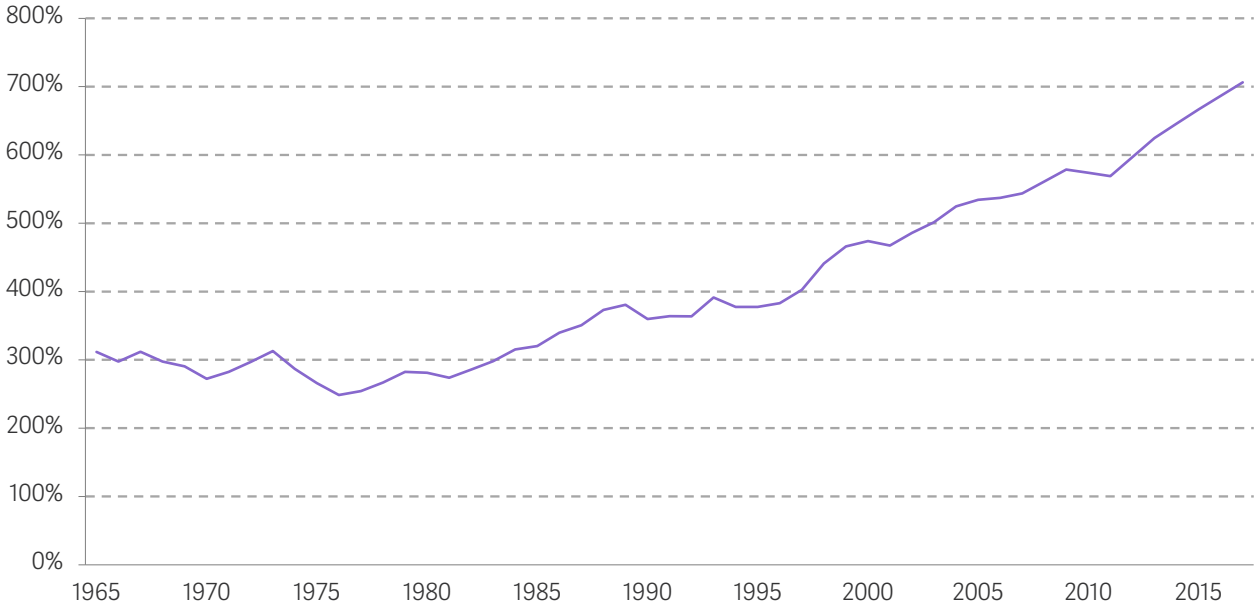
Both long-term trends in UK household wealth, rising overall wealth levels and rising gaps between families, have been accelerated by the pandemic. This is highly unusual: no recession in the past 70 years has been accompanied by rising aggregate wealth levels. This was driven by two effects: first, active changes in savings as limits to spending driven by social-distancing restrictions have led to more than £200 billion in accumulated savings and many families paying down debt; and second, indirect impacts of asset price appreciation – for example, house prices have risen by 8 per cent since the start of the pandemic. This report investigates each in turn and, for the first time, provides joint analysis of the impacts across the wealth distribution.

Household wealth has been rising in recent decades

The steady rise in UK household wealth has been one of the key defining trends in the UK economy since the 1980s. As Figure 1 shows, throughout the 1960s and 1970s, the value of household wealth was roughly three times national income. But since 1980, it has consistently risen faster than national income and now stands at more than double the value in 1980. As discussed in our previous work, there have been a number of drivers for this change, not least the global secular fall in real interest rates over time.[1]

FIGURE 1: **The value of household wealth has more than doubled since 1980 compared to the size of the economy**

Household wealth as a share of national income: UK



SOURCE: RF analysis of OECD; D Blake & J Orszag, 'Annual estimates of personal wealth holdings in the United Kingdom since 1948', Applied Financial Economics 9, 1999; ONS, UK National Accounts; ONS, Wealth in Great Britain; ONS, Gross Domestic Product at market prices.

BOX 1: **Sources of data on UK household wealth**

One of the challenges with measuring household wealth – and particularly how it has changed during the pandemic – is the availability of data. Throughout this paper we rely on two primary data sources: the ONS' Wealth and Assets Survey (WAS) and a specially commissioned survey for this report (conducted by YouGov).[2] The WAS is the best data source for

1 See G Bangham & J Leslie, Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain, Resolution Foundation, June 2020.

2 The paper at times uses other data sources which provide longer-run estimates of wealth in the UK.

understanding UK wealth as it has been produced consistently since 2006, covers a large sample of households, provides very granular data about households' wealth and characteristics, and is conducted in a way which produces accurate responses.[3] However, it has a big disadvantage in that there is a significant lag between data collection and publication which means the currently available data only covers up until 2018, meaning no data covering the pandemic is available. So, in order to understand changes during the pandemic, we have produced a survey for this report which captures changes in savings and debt during the pandemic, alongside changes in incomes and labour market status. The remaining parts of this section focus on the WAS, section 2 covers the key results from the YouGov survey and both data sources are brought together in sections 3 and 4.

And wealth inequality has stopped falling in recent years but is still twice the level of income inequality

Despite much commentary to the contrary, wealth inequality has been relatively stable for the past 40 years, under most methods of measurement. There has been a growing focus on the importance of wealth inequality and how it has changed over time across the world.[4] The primary trend during most of the 20th Century was one of declining inequality with the share of wealth held by the top 1 per cent falling from around 70 per cent to 15 per cent between 1900 and the early 1980s (Figure 2). Since then, shares of wealth held at the top of the wealth distribution have only increased slightly but still remain elevated; wealth inequality as measured by the Gini coefficient is roughly twice that of income inequality and the richest 10 per cent of families own half of all wealth.[5] An important caveat to official measures of wealth inequality is that measurement challenges can be significant. Recent research looking at the WAS between 2016-18 found that it is likely to underestimate the share of wealth held by the richest 1 per cent by a fifth (raising estimated 1 per cent wealth shares from 18 per cent to 23 per cent).[6]

3 For more detail see ONS, Wealth and Assets Survey QMI, December 2019. It should be noted that throughout this paper we take a relatively narrow definition of wealth being the value of assets and debt directly attributed to households. An alternative would be to capitalise future benefit entitlements and tax streams, but this would add complexity and uncertainty to our modelling approach.

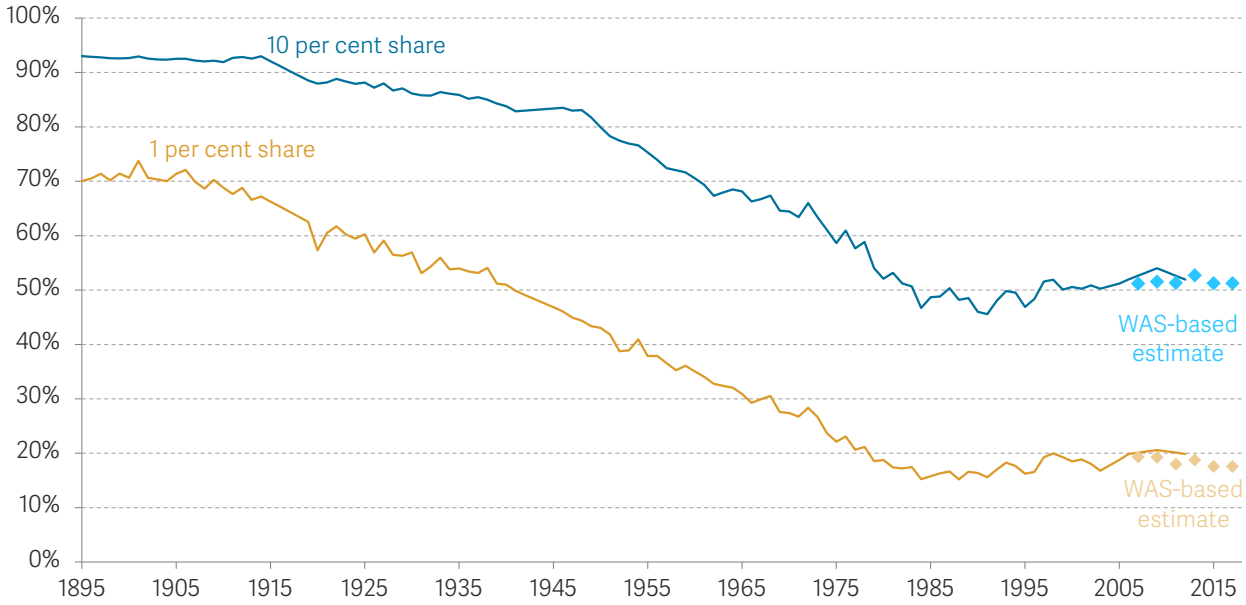
4 Important recent contributions include in the US: E Saez & G Zucman, Wealth inequality in the United States since 1913: Evidence from capitalized income tax data, NBER working paper 20265, October 2016; globally: T Piketty, Capital in the Twenty-First Century, Harvard University Press, April 2014; and in the UK: F Alvaredo, A Atkinson & S Morelli, The Challenge of Measuring UK Wealth Inequality in the 2000s, Fiscal Studies, March 2016, and M Brewer, What Do We Know and What Should We Do About Inequality?, Sage Publishing, June 2019.

5 G Bangham & J Leslie, Who owns all the pie? The size and distribution of Britain's £14.6 trillion of wealth, Resolution Foundation, December 2019.

6 The key driver of this result was that survey measures of household wealth fail to capture representative households from the very top of the wealth distribution, biasing total value of wealth and top wealth shares downwards. For more details see: A Advani, G Bangham & J Leslie, The UK's wealth distribution and characteristics of high-wealth households, Wealth and Policy, Working Paper 101, October 2020.

FIGURE 2: **Declines in wealth inequality came to an end in the 1970s**

Share of net household wealth held by richest 1 and 10 per cent: UK/GB



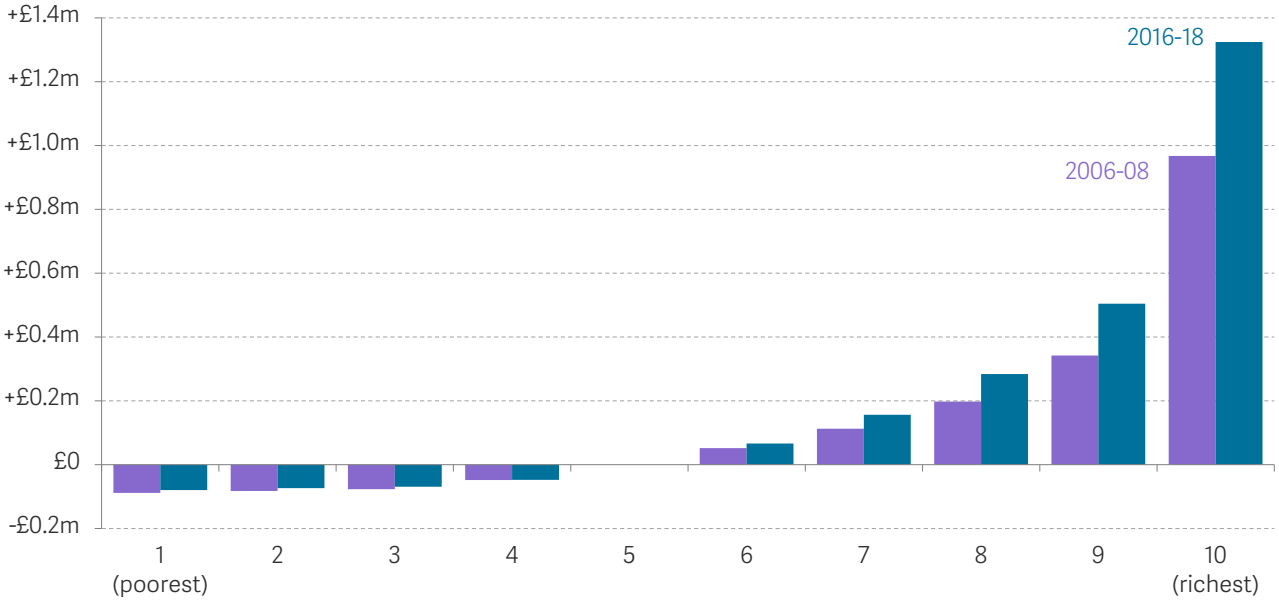
NOTES: World inequality database estimates refer to the whole of the UK and the WAS-based estimates exclude Northern Ireland. Due to changes in the coverage of business assets between survey rounds in the WAS, these results are adjusted using the latest observation of private business wealth shares held by the top 10% and 1% in the most recent round of the survey (2016–18) and imputed backwards to provide a consistent estimate. A version of this chart appeared in A Advani, G Bangham & J Leslie, 'The UK's Wealth Distribution and Characteristics of High-wealth Households', Wealth Tax Commission, Evidence Paper 1, October 2020.
SOURCE: RF analysis of World Inequality Database, 2020; ONS, Wealth and Assets Survey.

But just focusing on the fairly stable shares of wealth at the top of the distribution, or the Gini coefficient, misses a really significant change for families in the UK: the gap in average wealth between rich and poor families has widened substantially. This seemingly contradictory fact, relative wealth inequality has not risen but gaps between households have, is explained by Figure 1; for example, if the share of total wealth held by each family is constant but the overall value of wealth doubles, then the gaps between households' actual holdings would also double.

Figure 3 shows the gap between the average wealth per adult for a family in the fifth decile of the wealth distribution and each other decile. In 2006-08 the average, inflation adjusted, wealth per adult for families in the fifth decile was around £80,000 while those in the top decile, on average, had just over £1 million. By 2016-18 average wealth for the fifth decile rose to £82,000 by 2016-18 but top wealth hit almost £1.4 million. This meant the gap between those at the top and the middle of the distribution grew by around 50 per cent, from £960,000 in 2006-08 to £1.3 million in 2016-18. And this gap is not small – the 2016-18 top decile to fifth decile wealth gap is 54 times the annual median household income after housing costs (up from 43 times income in 2006-08).

FIGURE 3: **The gap between rich households and poorer households has widened**

Absolute gap between mean family wealth per adult within each net wealth decile and mean wealth for decile 5: GB, 2006-08 & 2016-18



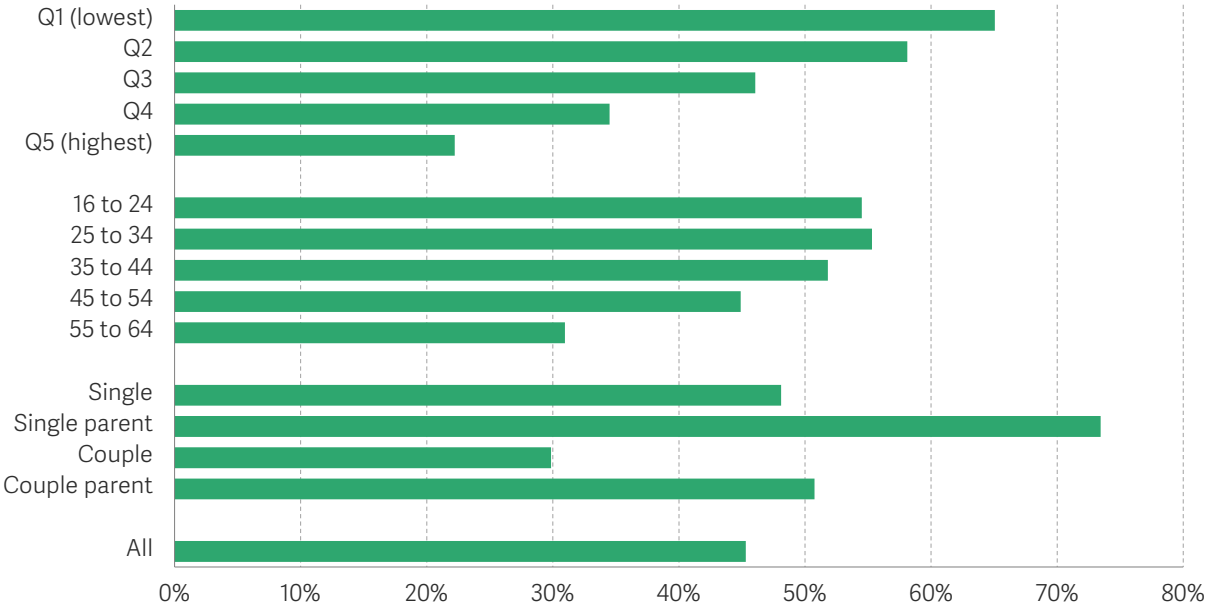
NOTES: Data is adjusted using CPIH into April 2021 prices. Wealth is measured at the family unit level - i.e. one or two adults living as a family plus any dependent children. Family composition is accounted for by taking wealth per adult within the family. The definition of wealth excludes physical wealth and private business wealth. The definition of wealth excludes physical wealth and private business wealth. This is because the definition of physical wealth is more subjective than other asset classes and is inconsistently defined compared to other asset classes. Private business wealth was poorly captured in the 2006-08 wave of the WAS and so is removed to reduce measurement changes over time. Comparisons are to average family wealth per adult in the fifth wealth decile which was, inflation adjusted, £82,000 in 2006-08 and £73,390 in 2016-18.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Finally, the financial buffers of households coming into the pandemic is also vitally important to understand what effects the crisis has had on household wealth. Close to half of UK families had savings below the value of one month's income prior to the onset of the pandemic, as shown in Figure 4. And, unsurprisingly, those most likely to have low savings are those on lower income (65 per cent of the fifth lowest income families had low savings), younger people and those with children (particularly single parents). This is important context for the pandemic because if families with low savings experienced a fall in income, they are more likely to need to increase debt or reduce spending.[7]

7 The financial resilience of families in the UK (and Germany and France) was covered in depth in M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.

FIGURE 4: **A significant minority of households had low savings coming into the pandemic**

Proportion of households with less than one month's income in savings, by selected income, age and family groupings: 2017



NOTES: Savings defined as balances in current accounts and savings accounts (including ISAs).
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

The long-term trends in UK household wealth, rising overall wealth levels and rising gaps between families, have been accelerated by the recession. And this is unusual: no recession in the past 70 years has been accompanied by rising aggregate wealth levels. While it is often the case that there is evidence of higher desired saving in recessions, aggregate savings often do not rise because incomes fall. Furthermore, asset prices typically fall during recessions. This crisis has been different: after falls at the outset of the crisis, strong growth in house prices and global equities have meant asset prices are now higher than pre-pandemic. Active changes in saving and debt as well as asset price appreciation will have profoundly impacted UK household wealth. The rest of the paper takes each of these in turn, and, for the first time, provides joint analysis of the impacts across the wealth distribution. The paper concludes with what these changes mean for the country and for policymakers.

To that end, the rest of the paper is structured as follows:

- Section 2: provides detailed analysis of the changes in savings and debt caused by the coronavirus crisis.
- Section 3: covers the impact of pandemic-driven asset price changes on household wealth and compares that to changes in savings and debt.

- Section 4: considers the prospects for household wealth post-pandemic.
- Section 5: concludes with a discussion of the key implications from this paper's findings for the Government's economic policy.

Section 2

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

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

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

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

The pandemic has been an unprecedented economic shock with GDP in 2020 falling further than in any calendar year for 300 years (contracting by 9.8 per cent). The scale of the recession was matched by unprecedented macroeconomic support with government borrowing rising to peace time records, interest rates cut to new lows and further rounds

of quantitative easing conducted by the Bank of England.[8] Recessions would typically lead to falling wealth levels but, in this crisis, savings have risen, consumer debts have fallen and asset prices have risen.

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

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

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

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

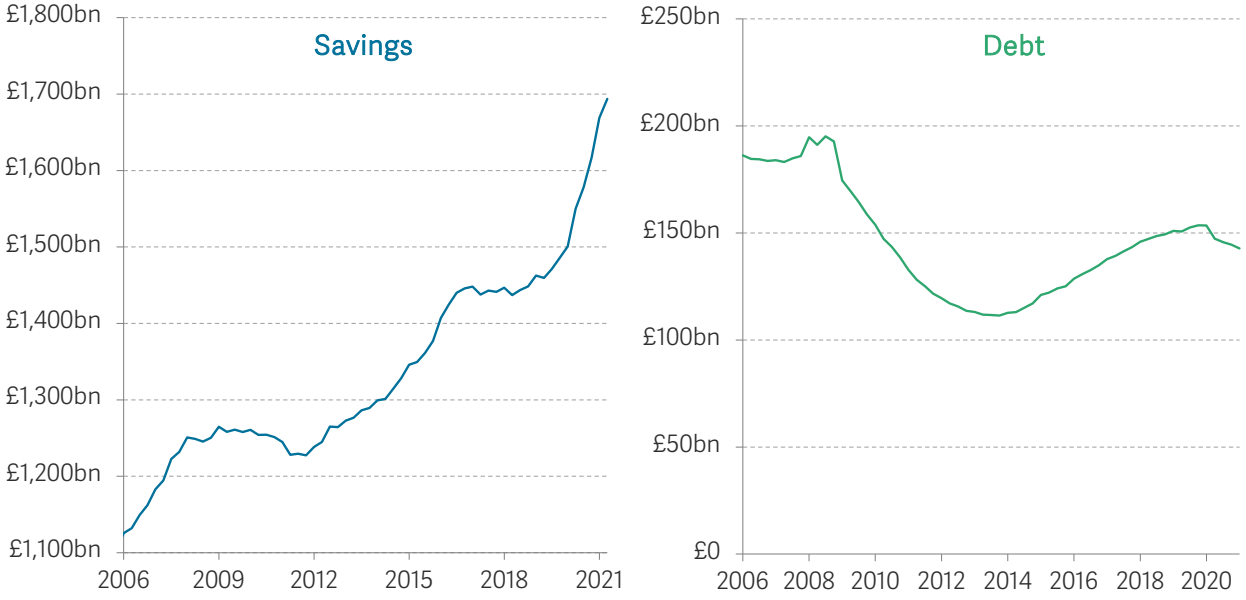
8 For more details on the macroeconomic policy response to the crisis see: J Leslie, C McCurdy, C Pacitti & J Smith, How to throw good money after good: Budget 2021 and the challenge of delivering a rapid recovery from Covid-19, Resolution Foundation, February 2021.

9 For an in depth discussion of the impact of the crisis on incomes, see: K Handscomb, K Henehan & L Try, The Living Standards Audit 2021, Resolution Foundation, July 2021.

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

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

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



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

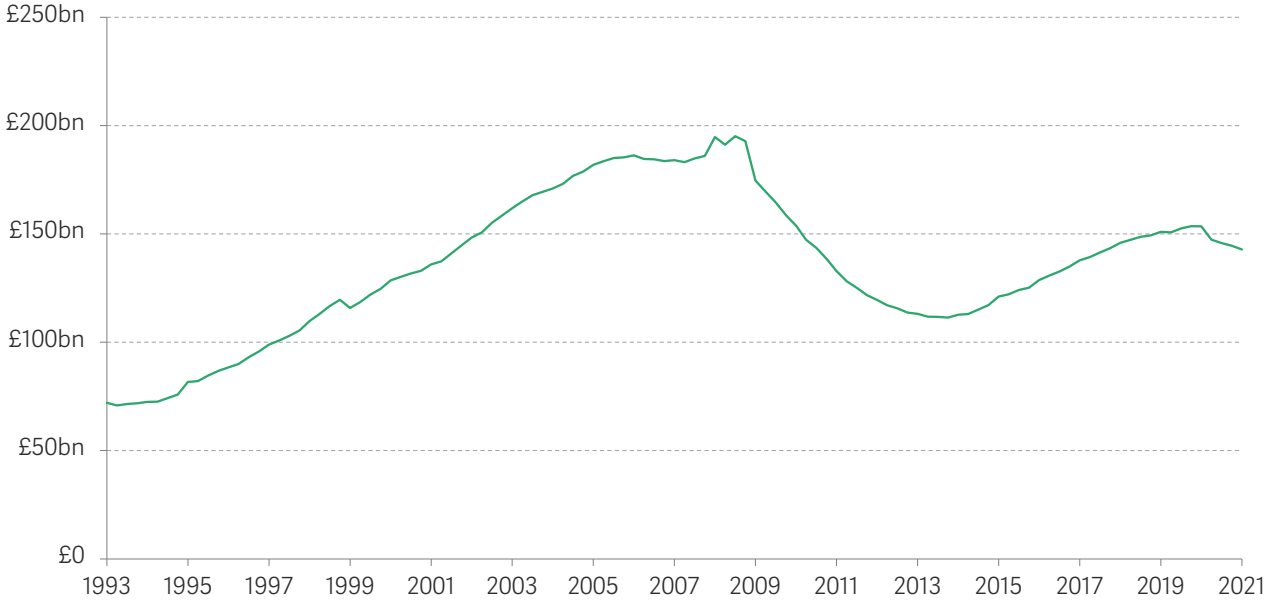
In aggregate, households took the opportunity to reduce debts during the pandemic

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

it can take time for consumers to reduce debts – there are often contractual barriers to early repayment of outstanding loans – and that some households increased debt to cope with income falls.[10]

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

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



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

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

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

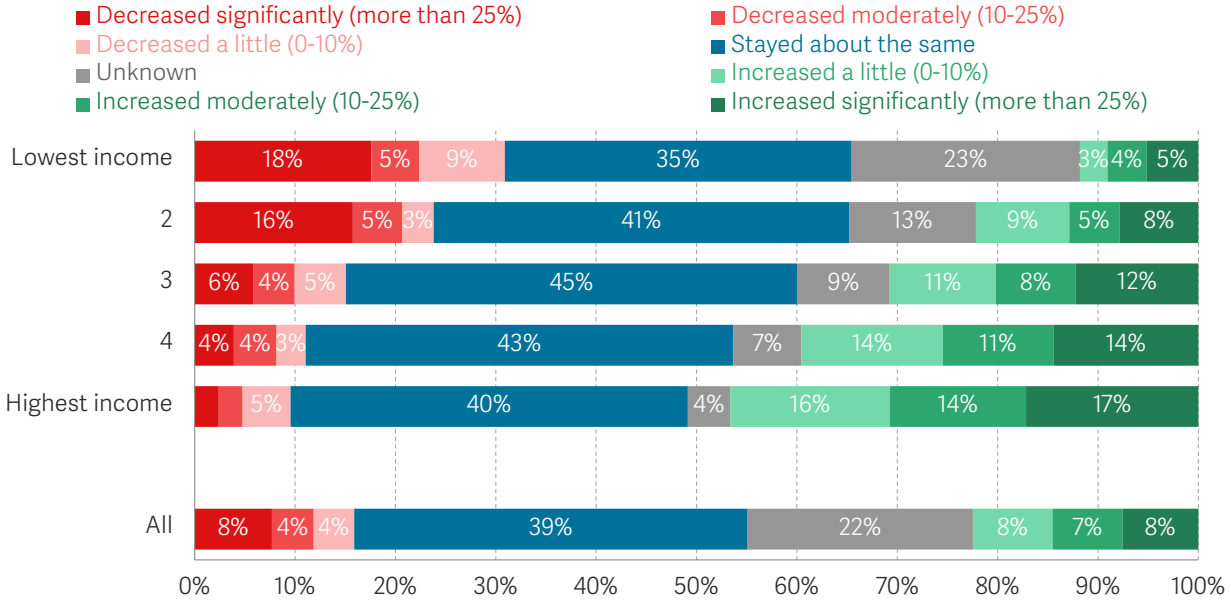
Figure 7 and Figure 8 present the headline distributional changes in savings and debt across the income distribution. Three clear results stand out. First, in line with aggregate changes, our micro-survey evidence suggests that savings have increased in total –

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

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

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

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



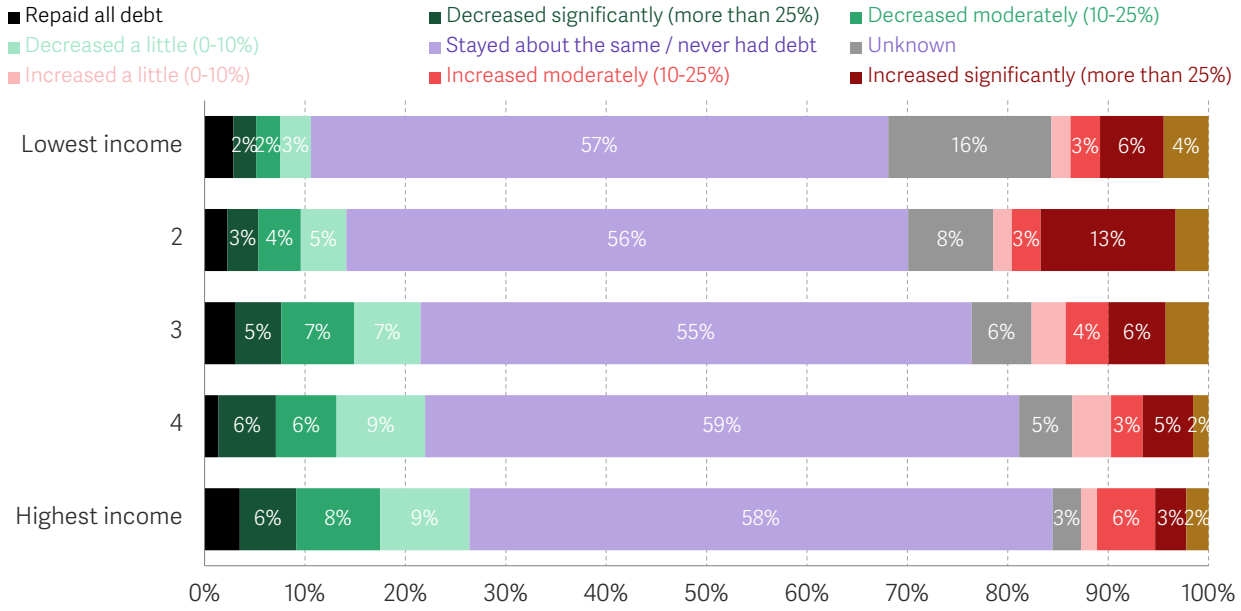
NOTES: The base is n=2,680: non-retired aged 18+ with valid income data for March 2020. Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing retired adults or nonworking adult students. Quintiles were calculated using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

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

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

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

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



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

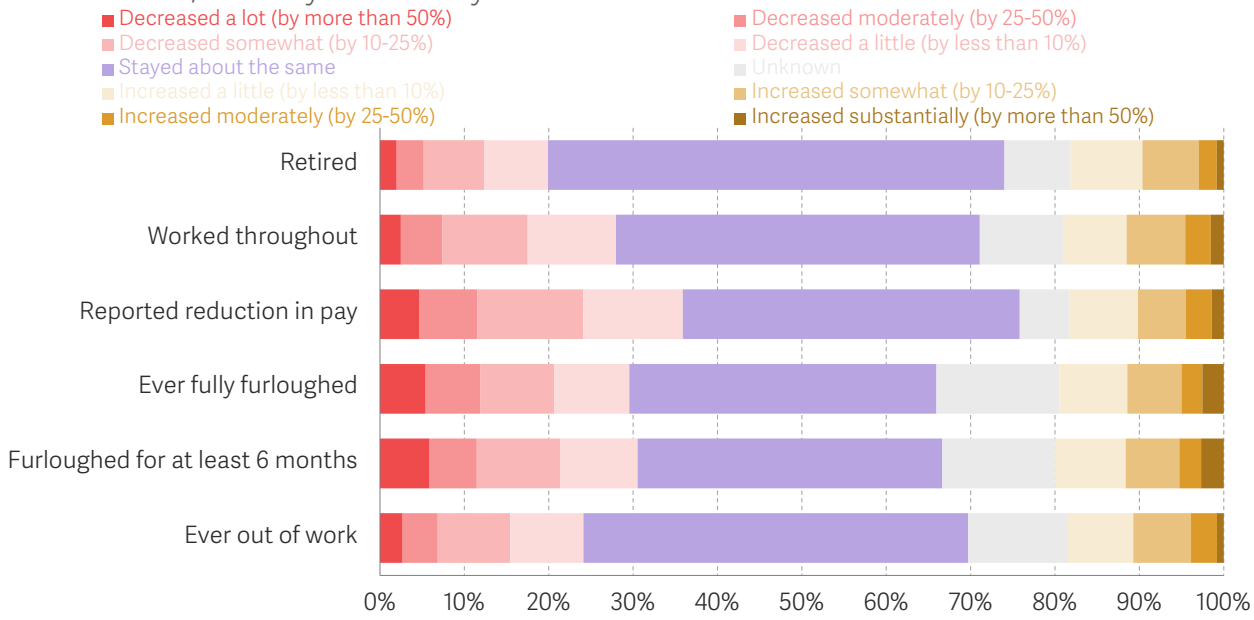
Given the clear distributional pattern across both savings and debt, it is worth exploring the individual drivers of these changes. This section focuses on the two most important: the restrictions on social interactions leading to fewer consumption opportunities and a measure of 'forced' saving, and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

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

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

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

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



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

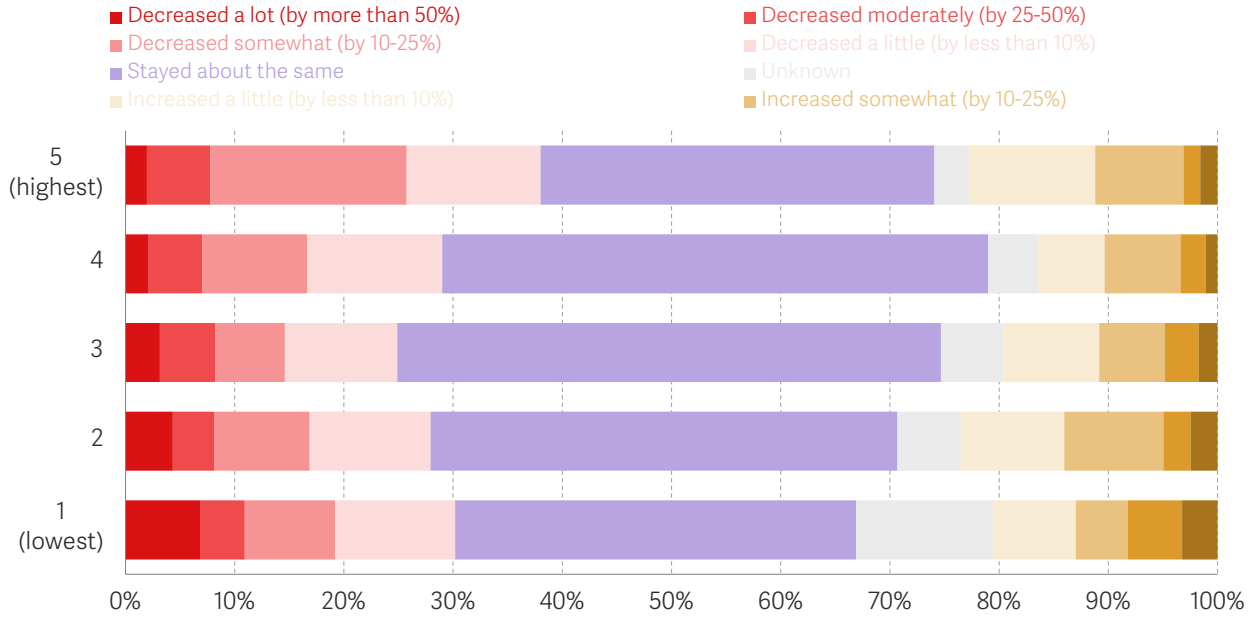
Instead, spending changes are more closely related to income levels rather than changes: those at the top of the income distribution are more likely to have reduced spending than those in the middle or bottom. Figure 10 highlights a trend that has been visible throughout the crisis: better-off families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

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

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

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

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



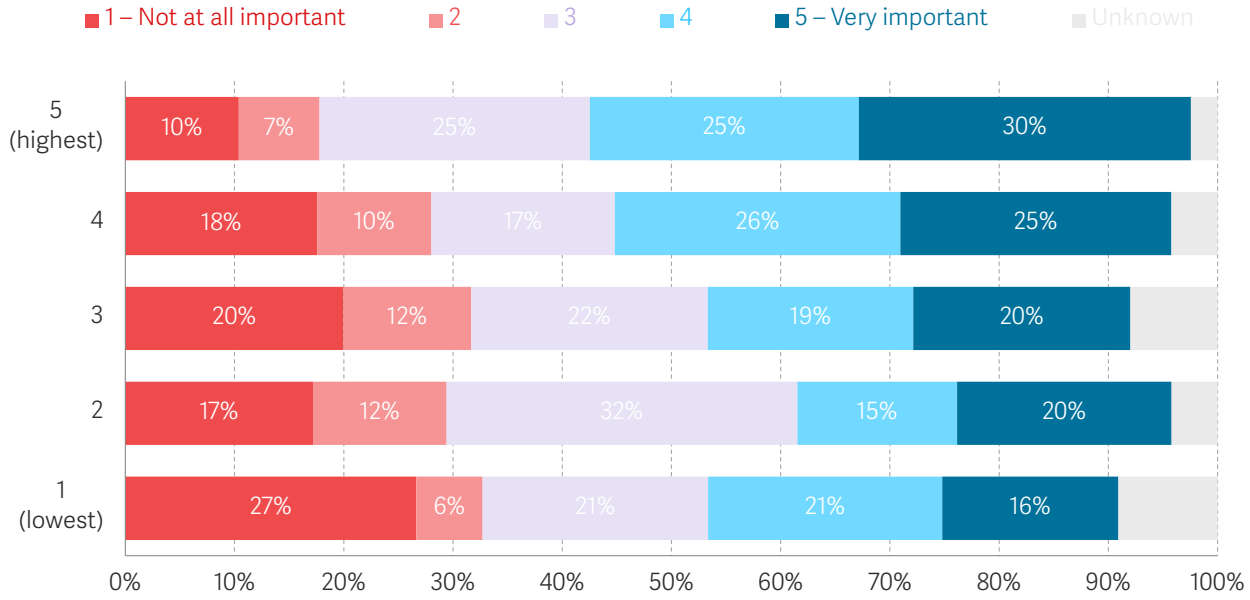
NOTES: The base is n=2,680: non-retired aged 18+ with valid income data for March 2020. Incomes have not been equivalised. Quintiles were calculated using mid-points of 20 banded responses from £0 to £5,000. These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis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

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

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

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

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

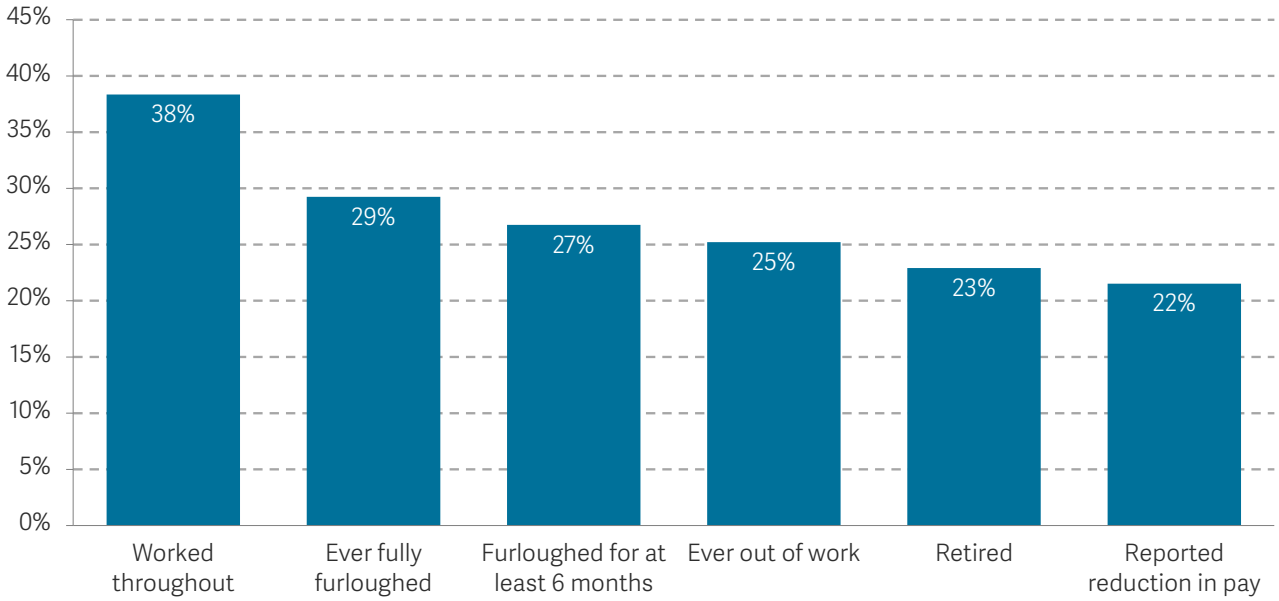


NOTES: The base is n=1,536: non-retired aged 18+ with valid income data for March 2020 and reported a change in savings. Incomes have not been equivalised. Quintiles were calculated using mid-points of 20 banded responses from £0 to £5,000. These figures have been analysed independently by the Resolution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

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

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

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



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

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

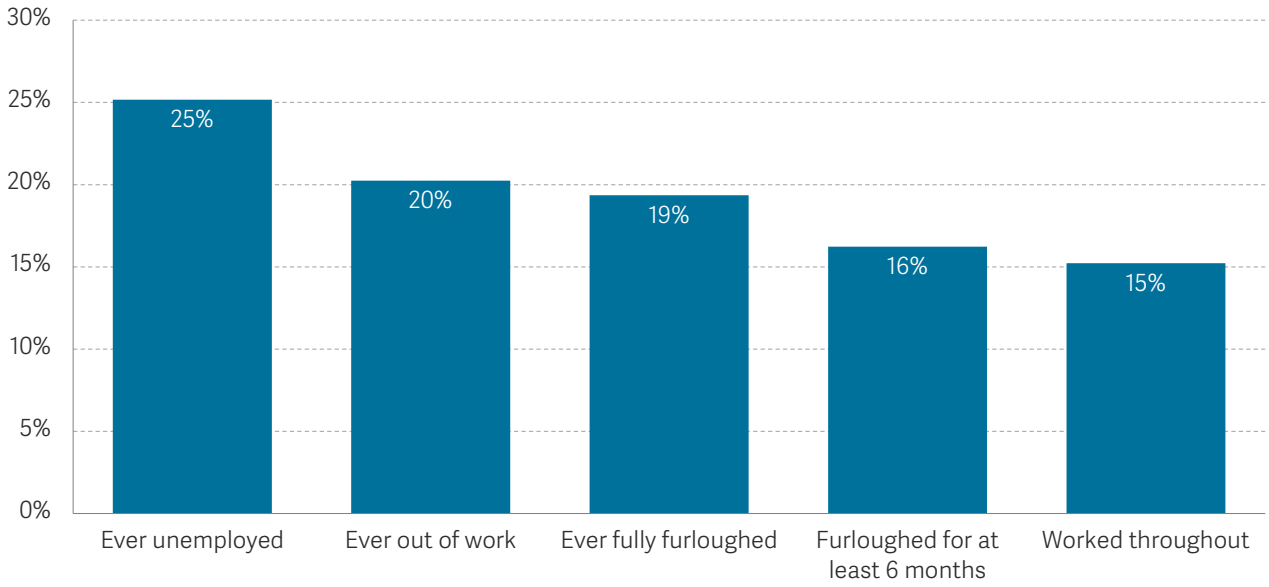
The economic consequences of the pandemic on the labour market were, and are, profound. During the height of restrictions in the first lockdown (April and May 2020), almost nine million workers were using the JRS. And furlough remains significant, with the latest data showing there were still 2.4 million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

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

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

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

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



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

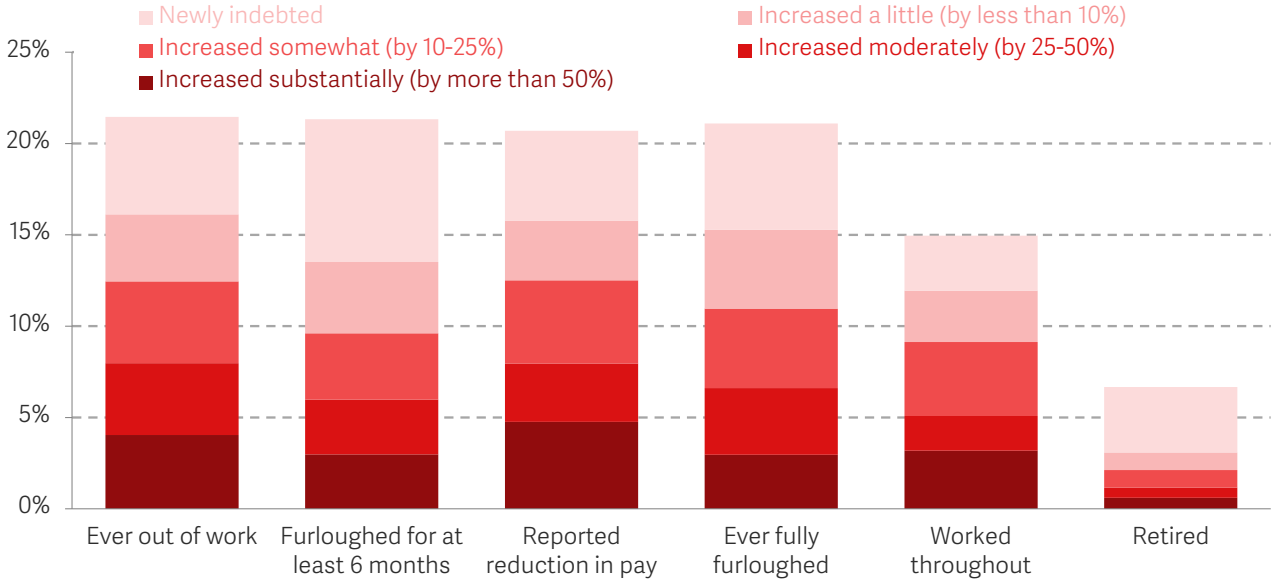
Experiencing a negative outcome in the labour market is not just associated with a fall in income but also with higher levels of debt. Figure 14 shows the proportion of families reporting increased debt based on labour market status during the pandemic. It is clear that those who were out of work or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

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

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

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

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



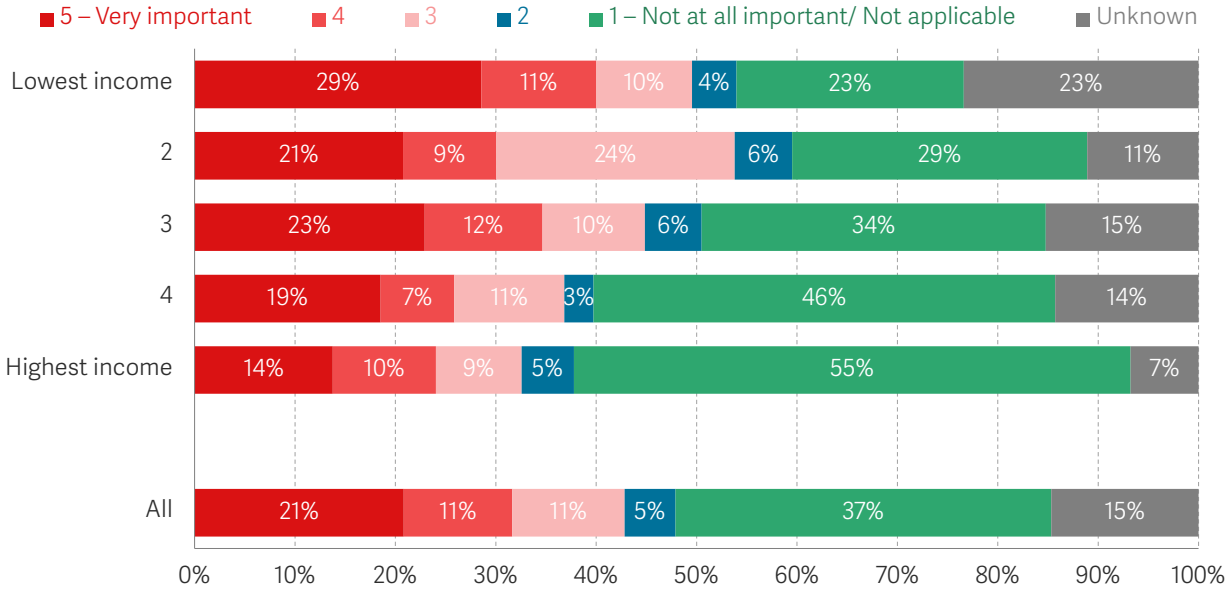
NOTES: The base is those who were unemployed, fully furloughed or self-employed but working no hours (n=1,433), fully furloughed for at least six months (n=848), those who reported a fall in pay (n=672), those who were ever furloughed full-time (n=848), employed and working hours between March 2020 and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

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

19 For more details on the labour market effects of the crisis see: N Cominetti, K Henehan, H Slaughter & G Thwaites, Long Covid in the labour market: The impact on the labour market of Covid-19 a year into the crisis, and how to secure a strong recovery, Resolution Foundation, February 2021.

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

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

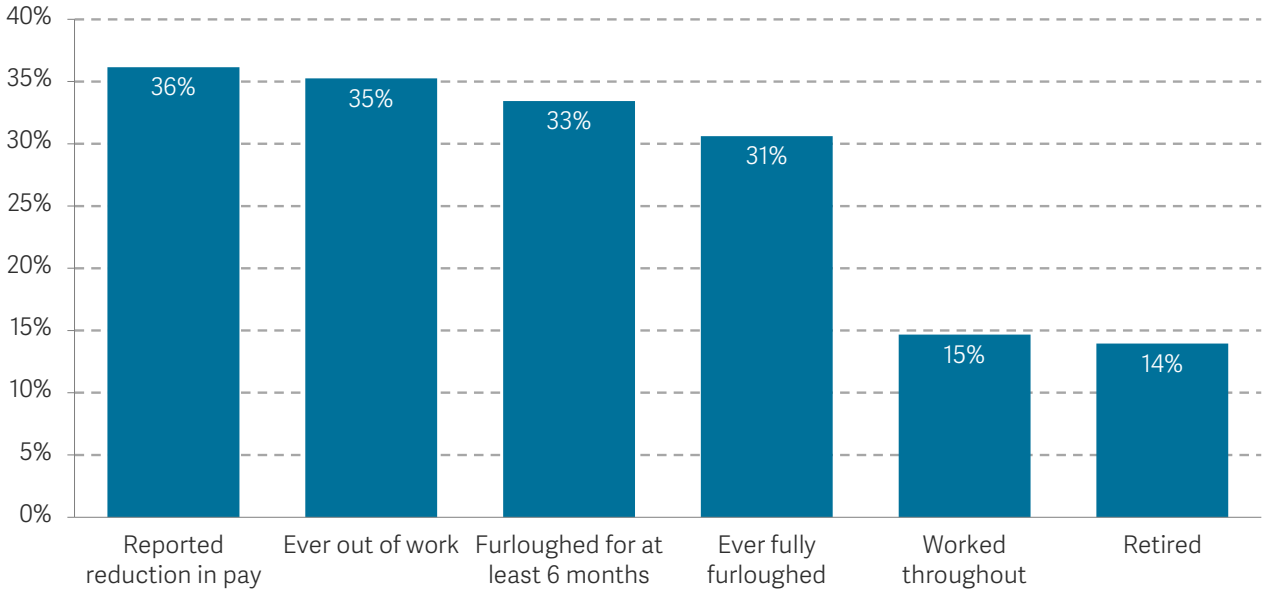


NOTES: The base is n=955: all adults aged 18+ with valid income data where debt increased during the crisis (apart from the 'all' category where the base is 2,119). Family income distribution based on equivalised, disposable benefit unit incomes among 18-65-year-old adults, excluding families containing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

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

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

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



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

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

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

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

Section 3

The impact of the pandemic on UK wealth gaps

Our finding that the direct effect of the pandemic has led to increased savings and lower debts – together increasing total net wealth by around £134 billion in aggregate – is far from the whole story. Instead, it is crucial to recognise that much wealth accumulation is passive – resulting from changes in the prices of the assets that families own. In the same way as this recession has seen a surge in savings rather than the usual flatlining, asset prices have also behaved unusually. Following sharp falls at the start of the pandemic they have since increased sharply on the back of optimism about a vaccine-driven recovery and large-scale policy support in many countries. These increases, have for the most part, more than unwound the falls in asset prices seen at the start of the pandemic. Crucially, who benefits from this depends not on what people earn, but on what they already own. The combination of differential changes in asset prices and the composition of family wealth, therefore, together determine the distributional effect of asset price changes. Since UK house prices have risen more strongly than the prices of other assets, families in the middle of the wealth distribution have seen the biggest percentage increase in their wealth as they have a greater proportion of their wealth invested in property. However, the richest households have seen the largest wealth increases in absolute terms, reflecting their larger existing wealth holdings on entering the crisis.

Combining the effects of asset price appreciation with the direct effect on savings and debt, we estimate that total wealth has increased by around £890 billion during the pandemic. The majority of this results from changes in asset prices which have contributed £756 billion to this increase. Asset prices have clearly had a much larger impact on household wealth than the changes in saving and borrowing behaviour discussed in the previous section. Again, the good news should not be lost: for many households there have been considerable increases in wealth that will raise living standards (the typical middle-wealth family has seen wealth rise by £7,800 during the pandemic) and increase their financial resilience. And although these wealth increases have not pushed up relative wealth inequality, those who started the pandemic with little or no financial wealth have not benefited from asset price

changes, especially as very little of their wealth is held as property. Put simply, all this means that the crisis has widened wealth gaps, particularly between those at the bottom of the wealth distribution and everybody else.

While it is important to track changes in saving and borrowing behaviour, that is far from the end of the story when it comes to family finances. As shown in our previous work, the sharp increase in wealth in recent years reflects 'passive' holding gains driven by changes in asset prices, rather than 'active' increases in saving or reduced borrowing.[20] So, in order to understand the full impact of the pandemic on family finances, it is crucial to take changes in asset prices into account. In this section, we provide the first comprehensive analysis of wealth changes across the distribution during the pandemic. Bringing together both the impacts of indirect 'passive' changes in asset prices and direct 'active' changes in savings and debt, we shed light both on the relative magnitude of each and their impacts across the wealth distribution.

Unusually for a recession, the pandemic has led to increases in some key asset prices

Recessions tend to have a negative impact on asset prices. This reflects the impact of both a deterioration in underlying economic prospects and heightened uncertainty about the future. For example, house prices have fallen 22 per cent in real terms on average over calendar years in the past four recessions. And UK equity prices have fallen in all recessions in the past century bar those in the early 1990s and 1980s.

In past recessions equity and house prices have tended to fall sharply and take time to recover – but this time was different. Initially, the impact of the pandemic on equity prices was similar to that of past recessions: UK and world equity prices fell precipitously (Figure 17), the largest quarterly fall seen during recessions over the past century. Since then, both of these changes have reversed, and done so more rapidly than is normal given economic fundamentals: global equities are now around a fifth higher than at the onset of the pandemic – driven by an improving pandemic outlook and the strong stimulus measures, particularly in the US. The unusual sharpness of this recovery in equity prices reflects a number of factors, including: the vaccine-driven improvement in economic prospects; significant monetary and fiscal support measures; and reduced uncertainty as the prospect of recovery following the pandemic became clearer. For the purposes of understanding the UK wealth distribution it is important to note that there has been significant divergence in UK and world equities (which would normally have

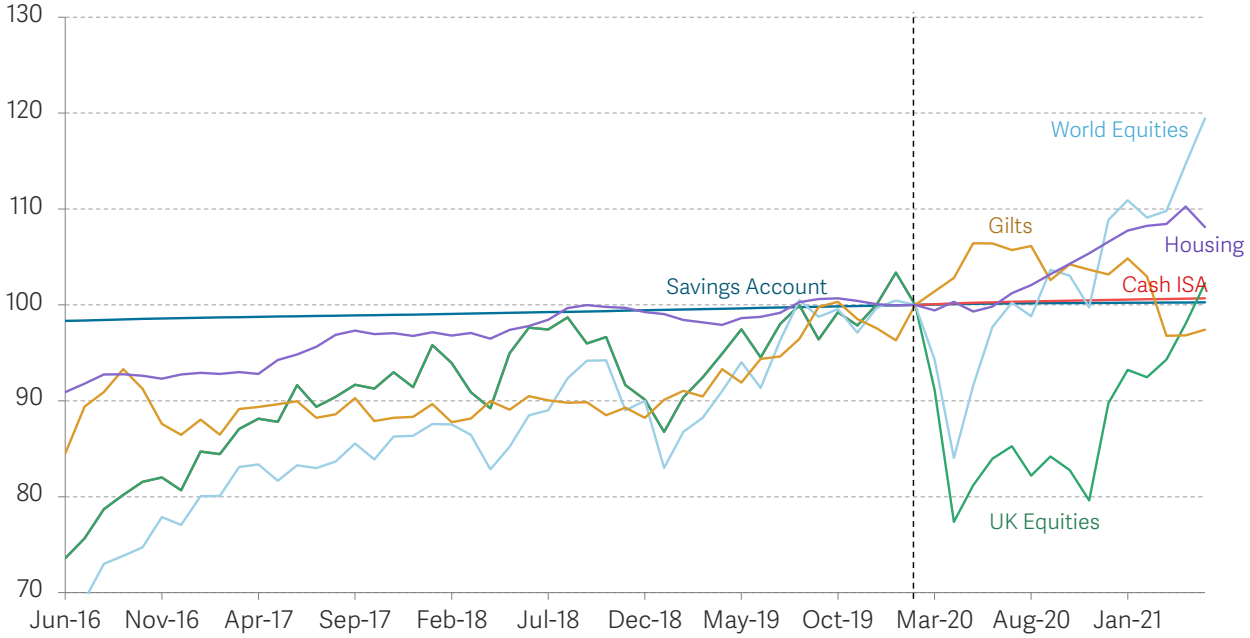
20 G Bangham & J Leslie, Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain, Resolution Foundation, June 2020.

similar dynamics) demonstrating less market optimism about the long-term pace of the UK economic growth and also reflecting the higher proportion of financial services firms, which tend to be more volatile relative to other firms during a recession.[21]

UK house prices have also behaved atypically. Rather than declining, as in previous recessions, UK house prices are now close to 10 per cent higher than when the pandemic began. UK Government policies during the pandemic have had an important role in this, with the stamp duty holiday in the UK, in particular, helping to ensure house prices were well supported. Clearly other factors have also supported house price growth, including the shift in demand towards larger living spaces; geographic mismatches as people working from home move further from their office; and accumulated savings helping families move onto or up the property ladder.[22]

FIGURE 17: **The pandemic caused large swings in asset prices**

Returns by asset class (Feb 2020=100): UK and global



NOTES: Asset classes are UK-based apart from global equities.
SOURCE: RF analysis of Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index.

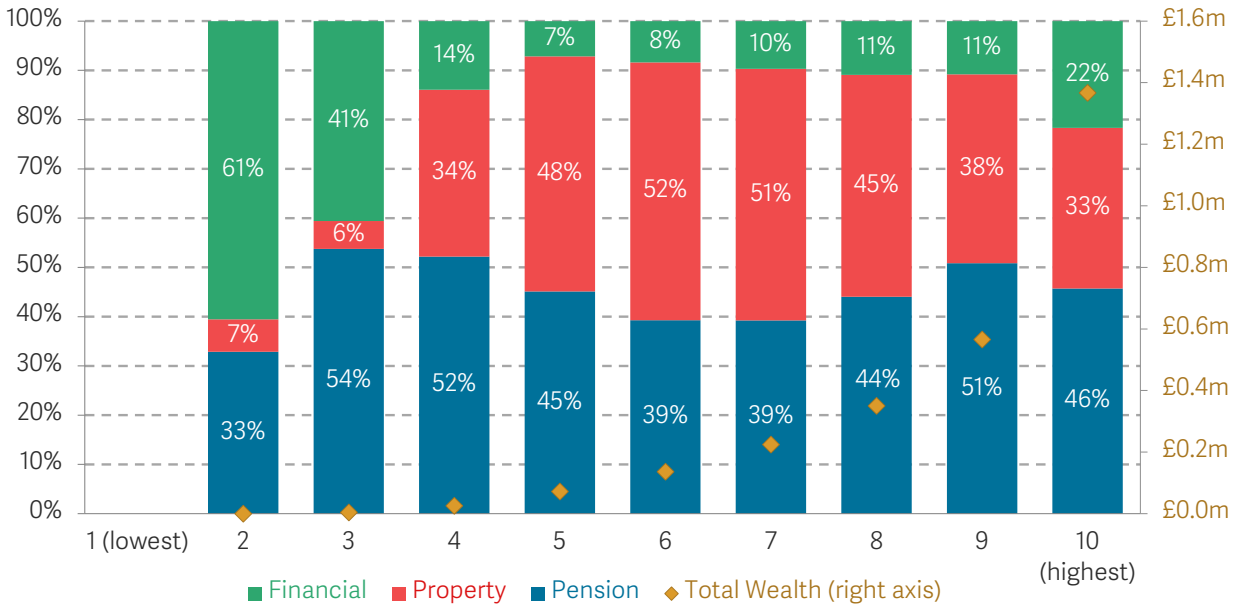
Changes in asset prices directly impact the value of households' wealth and this has profound distributional consequences due to variation in asset portfolio composition across families. Figure 18 shows the proportion of household wealth derived from three broad asset groups: pensions, net property and net financial wealth. Bottom wealth

21 For more details on the macroeconomic recovery and the relationship to Government policy see: J Leslie, C McCurdy, C Pacitti & J Smith, How to throw good money after good: Budget 2021 and the challenge of delivering a rapid recovery from Covid-19, Resolution Foundation, February 2021.
22 L Judge & C Pacitti, Housing Outlook Q2 2021: The impact of Covid-19 on housing demand across the UK, Resolution Foundation, May 2021.

deciles hold very little wealth and what there is tends to be in asset classes which do not generate returns; this shows up as a high proportion of financial assets (which includes current accounts and cash). Wealth in the middle of the distribution derives much more from net property wealth while pensions become more important for wealth at the top of the distribution. Private holdings of financial assets like equities only become a material source of wealth at the very top of the distribution.[23]

FIGURE 18: **Property wealth is the most valuable asset for middle-wealth families**

Average asset portfolio composition, by net wealth decile: GB, 2016-18



NOTES: Data exclude private business assets and physical wealth. The first decile is excluded because average net wealth is negative for that decile. Right axis shows mean net total wealth per adult within families for each decile.
SOURCE: RF analysis of ONS, Wealth and Assets Survey.

Higher asset prices have led to increased wealth with the impact proportionally greatest in the middle of the distribution

Figure 19 estimates the median change in wealth per adult as a result of changes in asset prices since the start of the pandemic, by pre-pandemic net wealth decile. So, for example, a typical family in the richest 10 per cent of families experienced an increase in the value of the wealth by £44,000 per adult.[24] This compares to an increase in wealth of

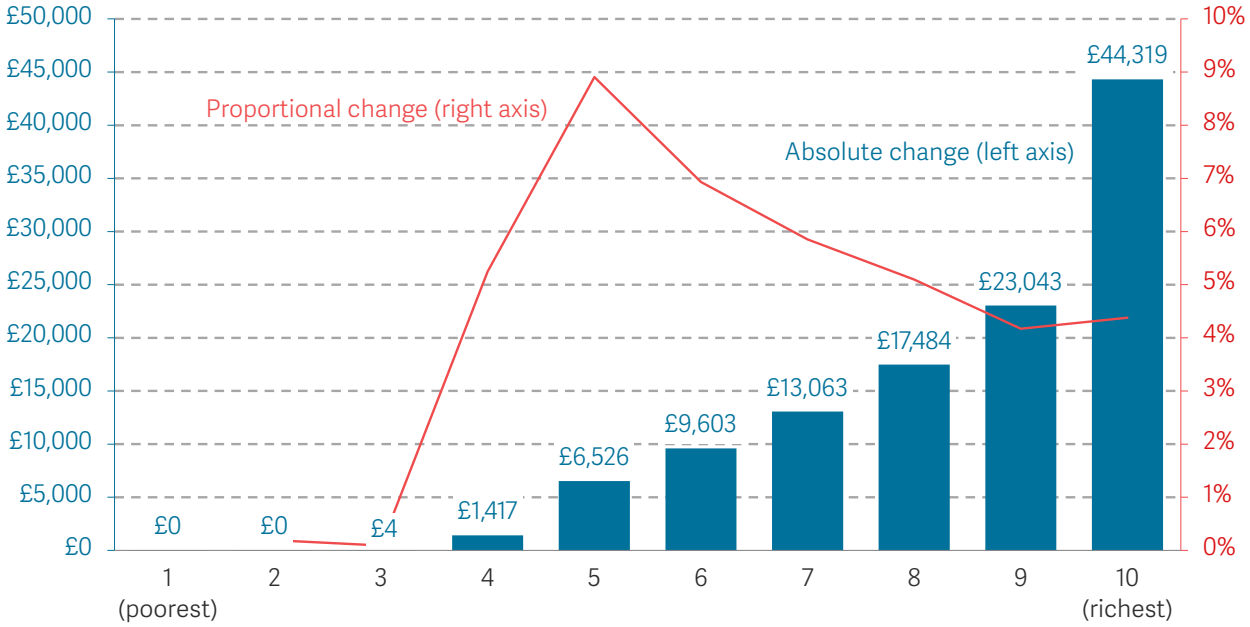
23 We exclude physical wealth (e.g. cars and household possessions) and private business wealth from this analysis. We do this for a few reasons (i) the value of physical assets should have been relatively unaffected by the crisis; (ii) the measurement of physical wealth in the data is harder because it relies more on subjective valuation by respondents; (iii) coverage of private business assets is not complete; (iv) there is little good data on how the value of private companies have changed over the pandemic. For more discussion of some of these issues see: A Advani, G Bangham & J Leslie, The UK's wealth distribution and characteristics of high-wealth households, Wealth and Policy, Working Paper 101, October 2020.

24 Rising wealth from increasing asset prices have been seen globally. For example, see Credit Suisse, Global wealth report 2021, June 2021.

just under £7,800 for the typical family. Naturally, richer households had the largest rise in wealth because their pre-pandemic holdings were largest and so were boosted materially by the unusual resilience of asset prices in this recession. But the largest proportional change was experienced by those in the fifth decile of the distribution. This is because middle-wealth families have more of their wealth in housing which experienced faster asset price growth than other asset types. Typical wealth for families in the bottom 30 per cent of the wealth distribution was unaffected because these families do not hold assets which depend on market asset prices.[25] For details on the methodological approach, see Box 2.

FIGURE 19: **Asset price appreciation raised wealth in the middle of the distribution proportionally the most**

Median change in family wealth per adult as a result of asset price changes since the onset of the pandemic, by net wealth decile: GB, February 2020 to May 2021



NOTES: The first decile is excluded for the proportional change because average net wealth is negative for that decile.
SOURCE: RF analysis of ONS; Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index.

25 Some families in these groups would have experienced an increase in wealth because, for example, they hold property assets. But this is not the experience of the median family within these groups.

BOX 2: **Methodology for calculating distributional impact of asset price changes**

The Wealth and Assets survey (WAS) provides comprehensive and granular details on household wealth holdings. But the latest data only covers the period 2016-18 and therefore we do not directly know how asset price changes have affected wealth levels. In order to estimate this we take observed wealth holdings in 2016-18 and roll forward the value of wealth until the pre-pandemic period using broad asset price growth. For example, for a family sampled in 2017 we apply changes in house prices, financial assets and interest returns for the three years between sample period and pre-pandemic. We then apply observed changes in asset prices during the pandemic to this updated wealth estimate. The gap between the pre- and post-pandemic total wealth is taken as the impact of the pandemic.

More specifically, we make a number of assumptions in order to calculate this change. We need to make assumptions because, while the granularity of the WAS is significant, we do not know the exact portfolio composition of assets. First, we assume that within the asset classes we have returns data for, all assets change value at the same rate.[26] Second, we assume no changes in the composition of assets households held since the WAS sample period because we have no data to calibrate asset composition transitions. In practise, we know that some families have shifted asset allocation during the pandemic – for example those that became first time buyers. Third, the WAS does not provide detailed information of the composition of assets within defined contribution pension pots so we assume a 70:30 split between equities and bonds, which, 10 years prior to retirement age, rolls down linearly to 70 per cent bonds and cash.[27] And finally we do not model changes to the value of defined benefit pensions or pensions in payment. This is because there has been relatively little change in the inputs to calculating the value of these assets and, unlike with other asset classes, changes in the measured value of the assets does not have a direct impact on potential consumption or welfare.[28]

26 This is a necessary simplification but introduce bias into our results. We cannot observe family-level asset returns in our data but research on household wealth in Norway indicates that higher-wealth families achieve higher asset returns within asset classes. This means our estimates could underestimate wealth gains at the top of the distribution but overestimate them at the bottom. For more see: A Fagereng, L Guiso, D Malacrino & L Pistaferri, Heterogeneity and Persistence in Returns to Wealth, IMF working paper 18/171, July 2018.

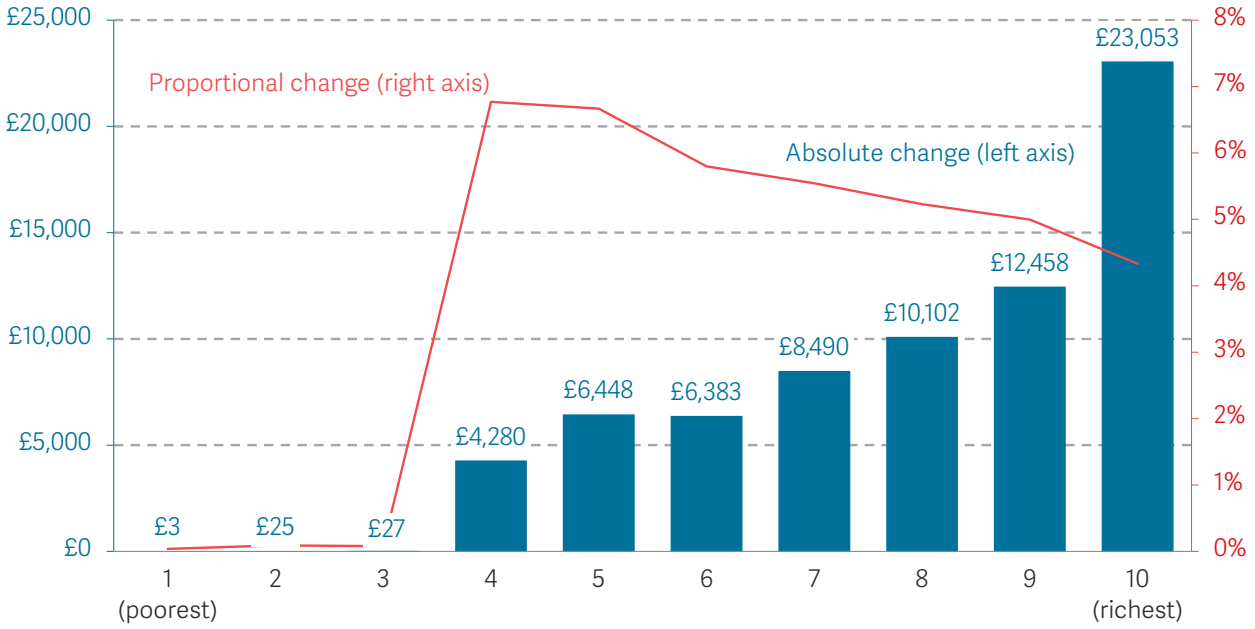
27 For more details on defined contribution pension scheme asset holdings see: Pension Policy Institute, The DC Future Book: In association with Columbia Threadneedle Investments, September 2020. We additionally assume a 4:3 UK to world equity ratio.

28 Defined benefit pensions and pensions in payment are measured by assessing the market value of the income streams they will or do provide. This is done by assessing the expected cost of purchasing an equivalent annuity and depends on long-term gilt rates (which are currently close to pre-pandemic levels) and life expectancy (also close to pre-pandemic levels).

The wealthiest families have on average experienced the largest absolute increases in wealth, and that is also true for the highest income families (although just half the amount of the top wealth decile). Figure 20 presents the same estimates but as median changes within income deciles. The picture is very similar, with the highest absolute changes for those at the top of the income distribution and very little change for low-income families. One difference is that the relative increase in wealth (in the red line) is more even across the distribution. This results from a lower concentration of property wealth in the middle of the distribution. The results in Figure 19 and Figure 20 are close because households' positions in the wealth and income distribution are highly correlated. This is partly because wealth provides additional income (investment income rises across the wealth distribution both in levels and shares) but also because of structural factors such as age.[29] Therefore, these absolute increases in wealth are important when considering the distributional impact of the pandemic as they can mean those already enjoying high levels of income and wealth accrue further benefits conferred by wealth: these include an increased access to credit (if wealth is used as collateral for loans), increased ability to take economic risks, and an increased ability to smooth consumption in the face of income shocks.

FIGURE 20: **High income families increased wealth most**

Median change in family wealth per adult as a result of asset price changes since the onset of the pandemic, by income decile: GB, February 2020 to May 2021



SOURCE: RF analysis of ONS; Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index.

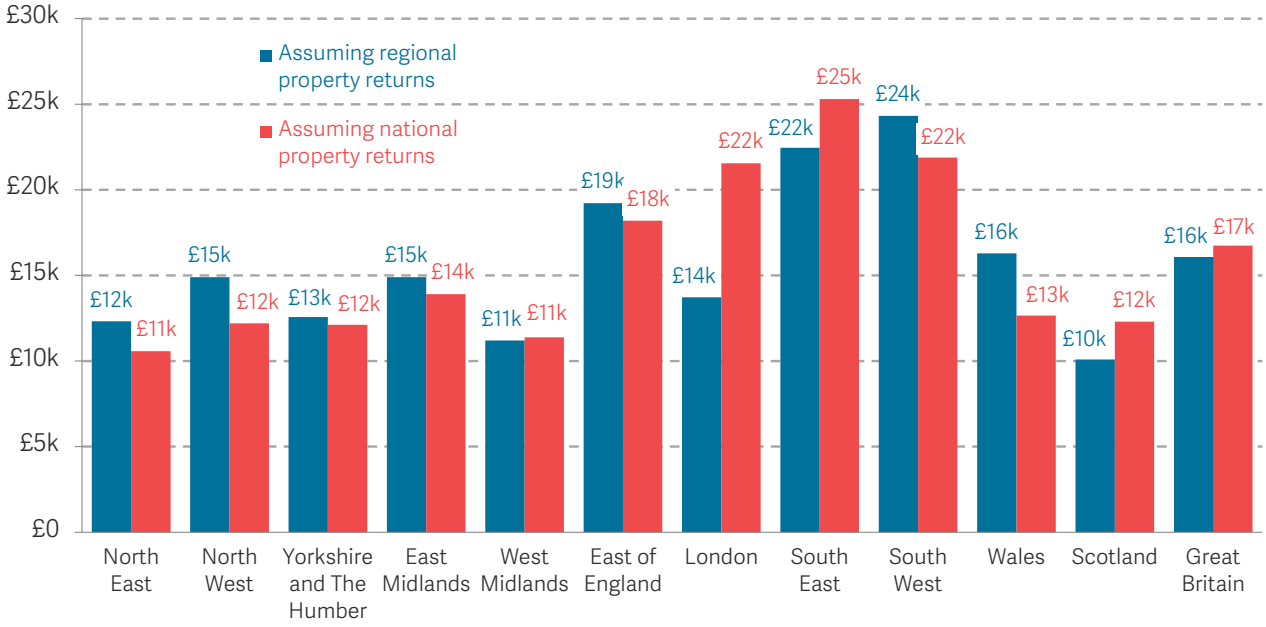
29 For a more in depth discussion of the correlation between wealth and income see: G Bangham & J Leslie, Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain, Resolution Foundation, June 2020.

Changes in asset prices have, on average, pushed up wealth more in the South and East of England than in Northern England or Scotland

Changes in asset prices give rise to significant regional variation with the average family in the South West of England experiencing almost two and a half times bigger increase in wealth than Scotland (Figure 21). Our approach allows us to look at regional variation in wealth changes. Part of this is driven by differences in house prices across regions. For example, London experienced the slowest house price growth and has lower than average increases in household wealth. Figure 21 shows the differences in returns across regions depending on whether property wealth is assumed to have increased by local or national rates. It shows that families in London faced absolute returns £6,000 lower on average than would be expected if house prices in the city had grown at the national average. But asset composition is also important with households in London tending to have a higher proportion of their wealth in financial assets such as savings accounts which have generated low returns over the period.

FIGURE 21: **Asset price appreciation boosted wealth in the South of England more than Scotland**

Mean change in family wealth per adult as a result of asset price changes since the onset of the pandemic assuming regional and national house price returns, by region/country: GB, February 2020 to May 2021



SOURCE: RF analysis of ONS; Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index.

The final driver of differences across regions is the pre-existing level of wealth – all else equal higher pre-pandemic wealth would imply higher returns to rising asset prices. Changes in wealth levels as a proportion of pre-existing wealth are broadly in line with the pattern seen in levels: Scotland had the lowest proportional change, experiencing a mean increase of 4.2 per cent, and the South West had the highest (7.2 per cent).

Active changes in savings and debt benefited the highest income families the most

To fully understand the impact of the pandemic on household wealth, we need to combine the impact of rising asset prices with the active saving and debt changes outlined in Section 2.[30] This is a significant challenge because it is not feasible to estimate the wealth distribution from our YouGov survey.[31] And, of course, we do not have data in the WAS on how people adjusted their savings and debt during the crisis. So, to understand the impact of the pandemic across the distribution, we use the WAS data as a base, and model the likelihood that individual families changed savings and debt during the crisis. After calculating the likelihood of savings and debt changes we scale our results to match the aggregate changes discussed in Section 2. Box 3 provides a more in-depth discussion of our methodology. Because the results are based on models rather than observed changes, there is inherently more uncertain. For this reason, we have undertaken a number of robustness checks. These show that the qualitative conclusions discussed below remain intact even if we change our modelling approach.

BOX 3: **Methodology for estimating complete distributional effects of the pandemic on household wealth**

In order to build a complete picture of the impact of the pandemic on the wealth distribution we must combine our results from the YouGov survey on changes to saving and borrowing with data from the Wealth and Assets survey on asset holdings. As discussed in Section 2, our survey provides us with a good understanding of the type of people who have changed levels of saving and debt. But we do not know their granular pre-crisis wealth holdings so are unable to assess the impact of asset price changes. And

30 The living standards impact of the two effects may not be identical, increasing saving clearly provides access to liquid assets which can readily be used for consumption while increasing housing wealth is less easy to take advantage of. But, over the long-term, the impact on living standards should be similar.

31 We were limited in the number of questions that can be reliably answered in online surveys, the sample size is only 8,030, and lacks the detailed collection process which is used in the WAS.

while we have granular asset holdings in the WAS we do not know how the pandemic affected them. So our approach is to combine asset price changes with modelling of the direct effects discussed in Section 2. In particular, we model the likelihood that each observation family within the WAS would have experienced a change in savings and debt during the pandemic based on the results of our survey. This can then be combined with aggregate data to ensure that the modelled changes in debt and borrowing match aggregate data on these variables since the start of the pandemic.

We estimate a probit model which estimates the likelihood families will change their saving and borrowing behaviour based on their household characteristics.[32] To maintain a large sample, we estimate the probabilities for three outcomes each for savings and debt: increase, unchanged and decrease. Because the true underlying data represents a continuous series, we use an ordered probit which accounts for, as an example, the fact that if someone is more likely to increase savings than leave them unchanged then they are even less likely to reduce them. As savings and debt outcomes are separate, we model them in separate regressions. However, there is obviously a joint probability that someone increasing saving is less likely to also increase debt. As a result, we use a nested model approach where we estimate the probabilities of the savings outcomes and then estimate the conditional probability of debt changes given a particular savings outcome. This means we estimate one ordered probit for savings and then three ordered probits for debt changes for each sub-sample of people who increased, left unchanged or decreased saving.

The possible household characteristics we use to estimate savings and debt outcomes were limited by characteristics we can observe in both datasets. These include marital status, number of children, house value (for owner occupiers) and region. By estimating a number of alternative models, age was found to be a particularly important driver but we also found that the best available fit for our models also included housing tenure and pre-pandemic labour market status.

The results of this process give us a probability of each family in the WAS experiencing each combination of saving and debt outcomes. We make one alteration to these probabilities, which is to fix the proportions of people in each net income quintile in the WAS who experience a given saving/debt outcome to the same proportion as we find in the YouGov survey. This ensures that the distributional results from the modelled saving and debt behaviours have the appropriate split across the

32 Probit models are a particular form of statistical model which are used to estimate the probability that an observation will fit into a finite set of outcomes based on particular characteristics.

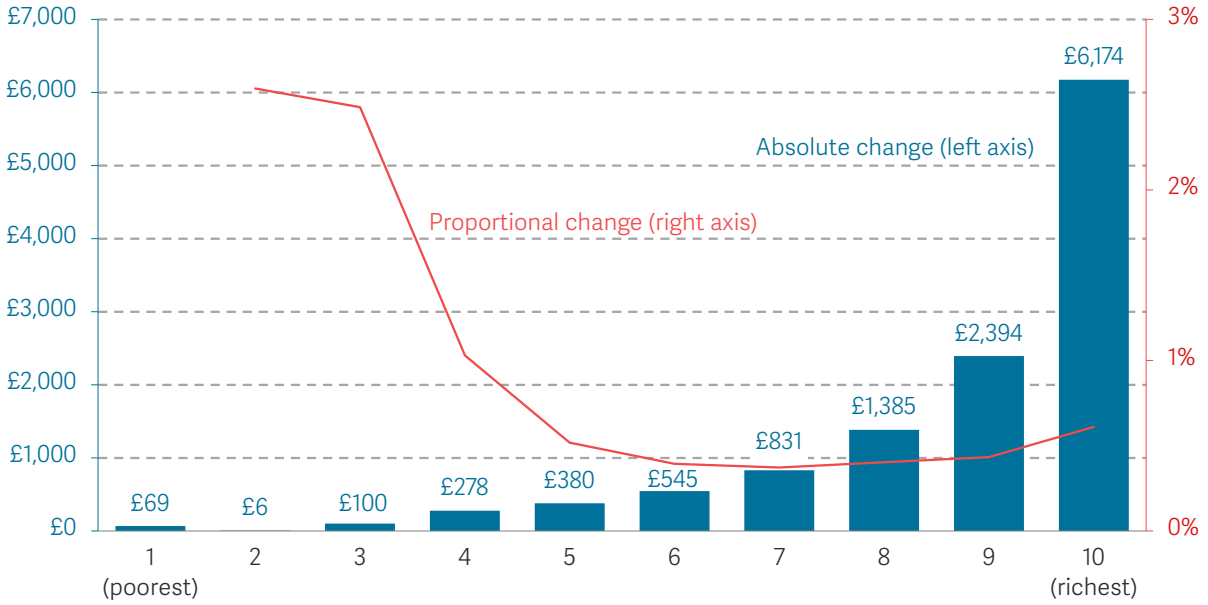
income distribution.[33] To ensure we have consistent final estimates, and to take account of estimation uncertainty, we simulate changes in savings and debt 1,000 times and average our results across each run of the simulation.

Finally, to ensure that our results are consistent with the aggregate changes in savings and debt we scale the changes in debt and saving, for those families who are predicted to have changed their savings/debt holdings, to match the aggregates. Together this means that changes in savings and debt reported in this chapter are consistent with the survey evidence on the distribution of changes and the administrative data evidence on the level of changes.

On average, the very good news is that families have experienced an increase in savings and a fall in debt. And as Figure 7 and Figure 8 showed, families across the income distribution have experienced that – albeit with better-off families more likely to have improved balance sheets.

FIGURE 22: **Savings and debt changes boosted high-wealth levels more but proportional changes were largest at the bottom**

Median change in family wealth per adult as a result of active saving and debt changes since the onset of the pandemic, by net wealth decile: GB, February 2020 to May 2021



NOTES: Results rely on modelling partially based on YouGov survey results. Base of analysis is all adults who responded with valid information about saving and debt changes (n=4,606). These figures have been analysed independently by the Resolution Foundation. The first decile is excluded for the proportional change because average net wealth is negative for that decile.
SOURCE: RF analysis of ONS; Wealth and Assets Survey; YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

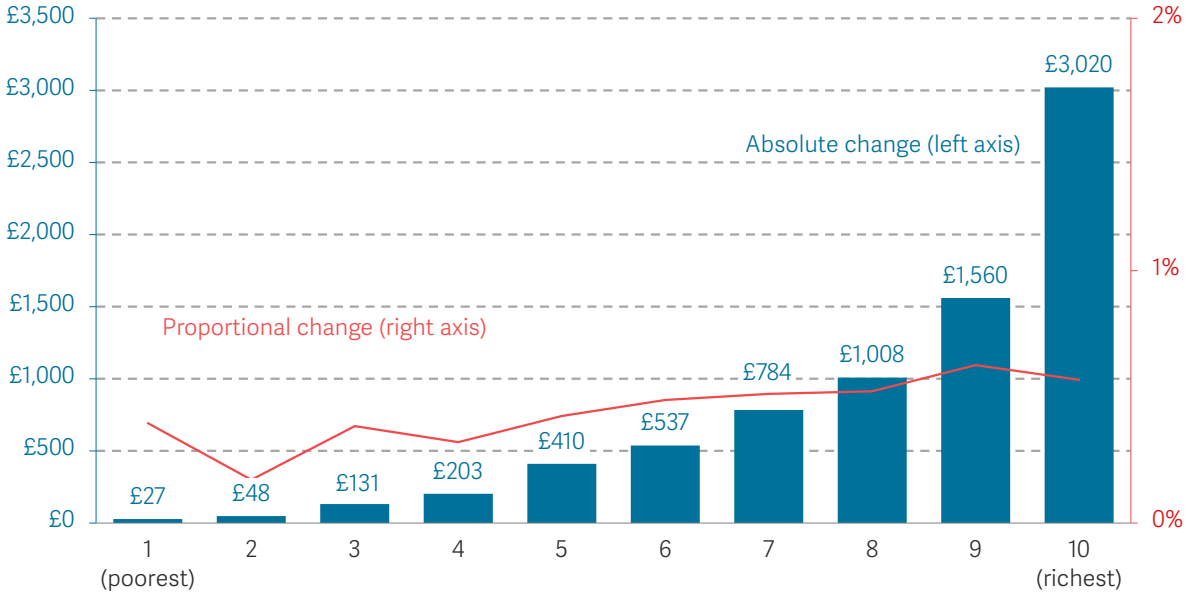
33 We did not include income within the probit models because, due to lower survey response rates, the sample size would have been constricted.

Figure 22 shows what the net result of savings and debt changes are on average for each decile of the wealth distribution. It shows the largest increases were at the top of the distribution where average wealth increased by just over £6,000 – obviously reflecting the higher proportion of households increasing saving. But the proportional increases were larger at the bottom – this naturally reflects the fact that wealth levels are very low at the bottom (so any change in savings/debt makes a big difference) but also that debt falls were an important contributor to improving balance sheets. The overall improvement in family finances is very welcome and should be associated with higher living standards and improved financial resilience in future.

Looking across the income distribution, the clear trend in higher income families improving their net wealth relative to lower income families via increased savings and reduced debt levels, matches the results from Section 2. Figure 23 shows the estimated average wealth changes for each net income decile. The striking difference to the change seen previously across the wealth distribution is that not only are wealth increases at the top of the income distribution larger in levels terms, they are also larger proportionally: the highest income families increased wealth levels by around 0.5 per cent due to increased saving and reduced debt while the typical lowest-income families only improved by about half that.

FIGURE 23: **High income families gained the most wealth in levels terms and as a proportion of pre-pandemic wealth**

Median change in family wealth per adult as a result of active saving and debt changes since the onset of the pandemic, by income decile: GB, February 2020 to May 2021



NOTES: Results rely on modelling partially based on YouGov survey results. Base of analysis is all adults who responded with valid information about saving and debt changes (n=4,606). These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of ONS; Wealth and Assets Survey; YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave

Together, higher asset prices and active changes in savings and debt have stretched wealth gaps between the poorest and everyone else

Overall, then, our analysis points to a significant and widespread increases in wealth, with a total increase of £890 billion. However, this increase has been very uneven across the income distribution, as shown in Figure 24 (which combines the active debt and savings changes with the impact of asset prices). Families in the middle of the distribution have gained the most in relative terms, largely as a result of passive returns, and in particular due to increases in house prices. While, families at the top of the distribution have gained the most in in absolute terms. Total wealth per adult is estimated to have increased for a typical family in the top 10 per cent of the income distribution by £27,000 (equating to almost 5 per cent of pre-pandemic wealth).

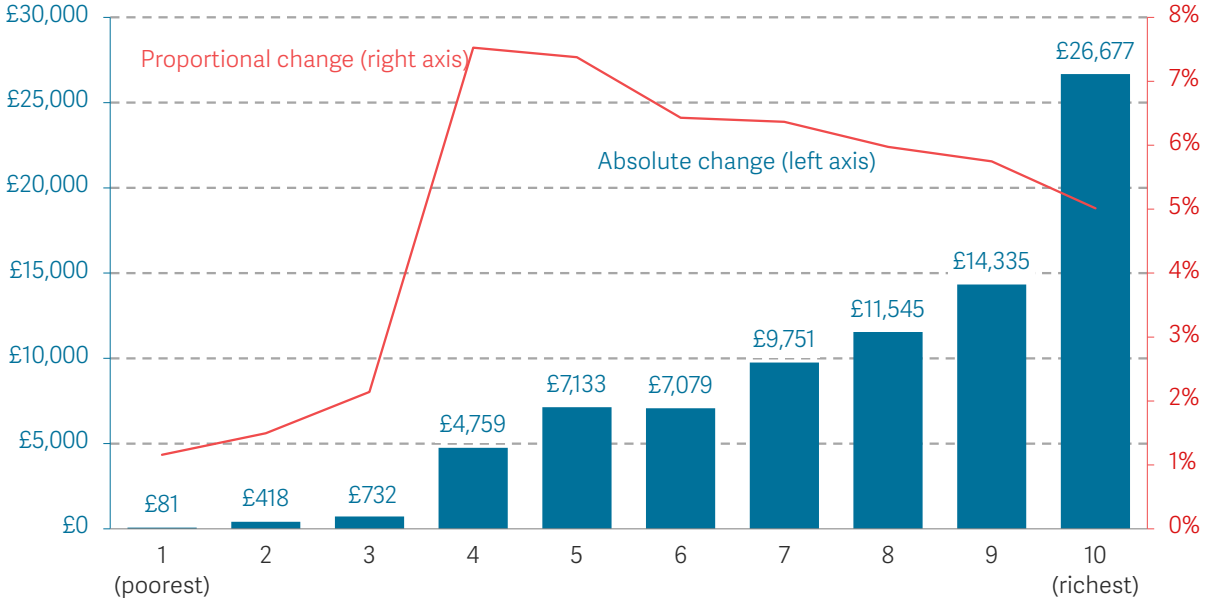
It is important to recognise these results are based on modelled changes to savings and debt rather than observed pandemic impacts. But because our results are based on direct post-pandemic survey data, we can be confident in the broad conclusion that wealth levels have risen significantly. We can also say with a relatively high degree of certainty that, for those in the top half of the wealth distribution, the vast majority of the increases in wealth result from changes in asset prices rather than saving or debt (Figure 25). While wealth changes are smaller at the bottom of the distribution, average wealth has increased and this was driven by active changes in saving and debt rather than asset price changes

It is also important to be clear that these forms of wealth are different in nature: while savings are more liquid and can be more easily spent than asset wealth, over the long-run asset wealth can confer benefits such as additional income through dividends or rent, and are important for determining living standards.[34]

34 Evidence on the extent to which increases in asset prices impact the real economy suggests there are some effects in the short run. Work using data in the US finds that households have a marginal propensity to consume 3 cents from every dollar of increase in the stock valuations. See G Chodorow-Reich, P Nenov & A Simsek, Stock Market Wealth and the Real Economy: A Local Labour Market Approch, American Economic Review, 2021.

FIGURE 24: **The pandemic caused wealth to rise materailly across the income distribution**

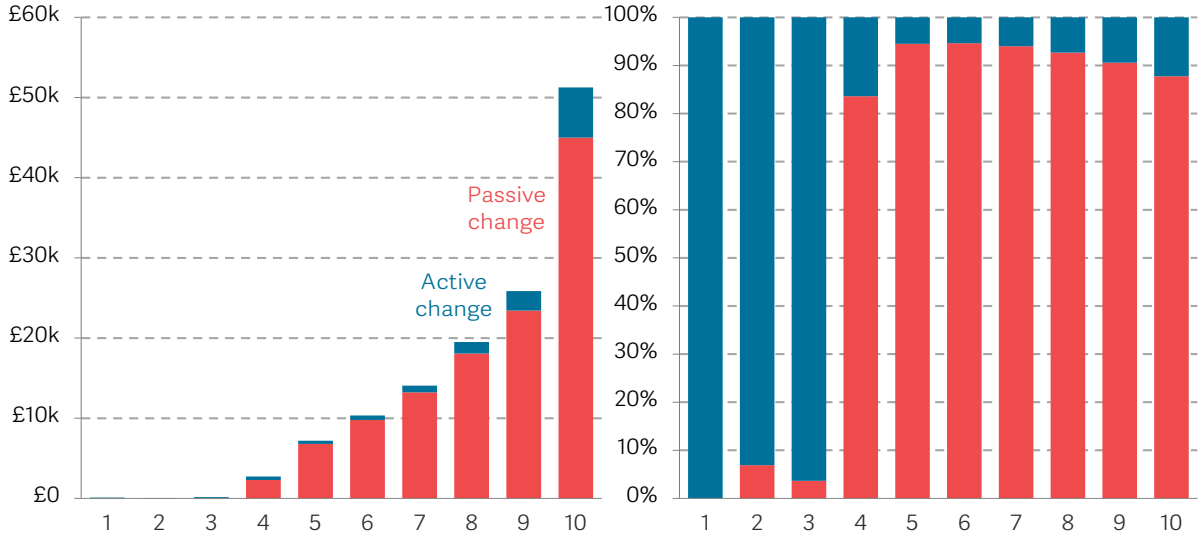
Median change in family wealth per adult since the onset of the pandemic, by income decile: GB. Februarv 2020 to Mav 2021



NOTES: Results rely on modelling partially based on YouGov survey results. Base of analysis is all adults who responded with valid information about saving and debt changes (n=4606). These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of ONS; Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index; YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

FIGURE 25: **Asset price changes are much more important in driving wealth changes**

Median change in family wealth per adult since the onset of the pandemic, by wealth decile (left panel) and share of changes from active saving and debt or passive asset price appreciation: GB, February 2020 to May 2021



NOTES: Results rely on modelling partially based on YouGov survey results. Base of analysis is all adults who responded with valid information about saving and debt changes (n=4606). These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of ONS; Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index; YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

Taking these results together, it is clear that policy makers need to recognise both that overall wealth has increased significantly and also that this wealth increase has been uneven across the distribution. Asset price appreciation has been the most important factor in driving wealth changes and these gains have naturally flowed to those already holding wealth.

Section 4

Prospects for household wealth in the aftermath of the pandemic

For aggregate household wealth to rise during a recession is unique in recent history, and it has important distributional consequences. Gaps between households have been exacerbated by the pandemic: the gap between average wealth for those in the fifth decile of the distribution and those at the top increased by over £40,000; and the gap between the middle of the distribution and the bottom has increased by more than three times than it did over the previous decade.

While it is key for policy makers to understand the changes in the level and distribution of wealth during the pandemic, it is also important to consider prospects for the future. Whether these gaps persist will depend on what happens to asset prices and how families respond to changes in their wealth. On the former, while there is inevitably significant uncertainty, it seems unlikely that all of the recent rises in prices will reverse (although it is possible that house prices fall in the coming months after the end of the stamp duty holiday, and with the prospect of a rise in unemployment).

Evidence on the behavioural response of families suggests there is significant uncertainty about whether the changes we have seen during the pandemic will unwind. Those households which have increased savings report that they are unlikely to draw them down and may even continue to accumulate savings at a faster rate. This would be consistent with the response to past recessions, and also with the idea that the pandemic has raised fears about future crises. Meanwhile, those households who had to increase debts during the pandemic report that, for the most part at least, they are not expecting to pay down those increased debts in the near term. Taken together, then, the legacy of the pandemic looks set to be a continuation of the pre-pandemic trends: continued growth in overall total wealth with a sizable minority of the population less able to cope with any future income falls.

This has been the first recession in at least 70 years in which household balance sheets have improved

The good news is that Covid-19 pandemic has – unusually for a recession – led to a rise in wealth and falling debts in aggregate. While it is common for households to respond to negative economic shocks by raising saving rates and reducing debt – as happened after the financial crisis, for example – the scale of the increase in total wealth since March 2020 is remarkable. In order to get economic policy making right during the recovery period, it is important the Government understands the nature of the changes in wealth and the impacts this might have, and so this Section explores the likely implications of the increase in aggregate wealth, as well as its distributional consequences.

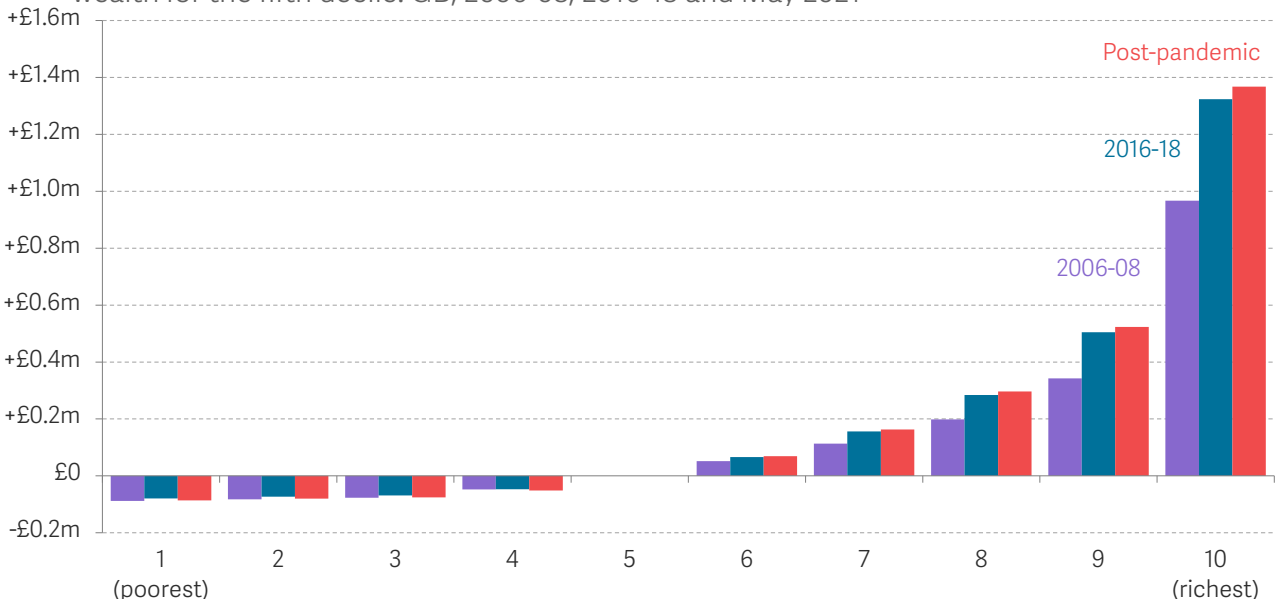
But families will feel the economic effects of the pandemic through wider wealth gaps

One clear impact of this crisis on household wealth has been a rise in the gap between families across the wealth distribution. Figure 26 updates the Figure 3 on the gap between average wealth between deciles to include an estimate of the gap post-pandemic. Wealth gaps have risen across the entire distribution: the gap between average wealth for those in the fifth decile of the distribution and those at the top, which increased massively between 2006-08 and 2016-18, grew by a further 12 per cent, or over £40,000, during the pandemic.[35] The gap between the middle of the distribution and the bottom had the largest proportional increase, where wealth increased for those in the fifth decile by £7,000 more than it did at the bottom. Gaps between the middle and the bottom have risen proportionally by more than elsewhere for two reasons: first, average wealth rises at the bottom have been moderated by low passive wealth gains and smaller absolute rises in savings (or larger absolute increases in debt); second, wealth rose in the middle of the distribution more because of higher exposure to house price appreciation.

35 This is likely to be an underestimate of the increase in wealth gaps because the WAS dataset fails to fully capture the very top of the wealth distribution, and there is clear evidence that wealth has increased at the very top of the wealth distribution substantially faster than for everyone else. The Sunday Times Rich List is the best available data for the value of wealth in the upper tail of the distribution. The 2021 list found that total wealth increased by 22 per cent over the past year, far larger than our estimated increase in wealth at any point in the distribution. For the latest Rich List see: R Watts, The Sunday Times Rich List 2021 revealed, The Times, May 2021 and for more on the materiality of the gap in WAS coverage at the top of the wealth distribution see: A Advani, G Bangham & J Leslie, The UK's wealth distribution and characteristics of high-wealth households, Wealth and Policy, Working Paper 101, October 2020.

FIGURE 26: **Wealth gaps have risen, particularly between the bottom and the middle**

Absolute gap between average family wealth within each wealth decile and average wealth for the fifth decile: GB, 2006-08, 2016-18 and May 2021



NOTES: Data is adjusted using CPIH into April 2021 prices. Wealth is measured at the family unit level - i.e. one or two adults living as a family plus any dependent children. Family composition is accounted for by taking wealth per adult within the family. The definition of wealth excludes physical wealth and private business wealth. This is because the definition of physical wealth is more subjective than other asset classes and is inconsistently defined compared to other asset classes. Private business wealth was poorly captured in the 2006-08 wave of the WAS and so is removed to reduce measurement changes over time. Post-pandemic results rely on modelling partially based on YouGov survey results. Base of analysis is all adults who responded with valid information about saving and debt changes (n=4606). These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of ONS; Wealth and Assets Survey; Bank of England, Effective interest rates; FTSE Russell, FTSE All-Share Index TR; MSCI, MSCI World Index TR; S&P Global, S&P UK Gilt Index; and ONS, UK House Price Index; YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

Such rising wealth gaps have real impacts on the economic experience of families. Holding more wealth in absolute terms confers a range of benefits. For example, it provides higher investment income; provides greater financial resilience and enables consumption smoothing; lowers housing costs (for those able to purchase homes); and is associated with higher subjective measures of wellbeing.[36] But it is not just the level of wealth holdings that matters, but also the gaps between households. One clear example is the extra difficulty of becoming a homeowner as a result of higher house prices. Buying a property lowers housing costs relative to renting and creates a large exposure to wealth rises through increased house prices, something that is unavailable through other means (families cannot get mortgages to purchase bonds or shares, for example).[37] Wealth gaps also have a direct impact on household wellbeing – there is long-established research

36 For more details on the link between wealth and living standards see: G Bangham & J Leslie, Rainy days: An audit of household wealth and the initial effects of the coronavirus crisis on saving and spending in Great Britain, Resolution Foundation, June 2020.
37 The financial benefit of becoming a homeowner and how the costs of becoming a first time buyer have increase are covered in detail in: L Judge & J Leslie, Stakes and ladders: The costs and benefits of buying a first home over the generations, Resolution Foundation, June 2021.

showing that relative differences in incomes and wealth are key to household wellbeing, with larger relative gaps leading to lower happiness for the less well-off.[38]

Early evidence suggests that changes in household wealth will have a longer-run legacy

The additional increases in wealth gaps brought about by the pandemic sit on top a decade in which wealth has become more unequally held, and it is important that Government policy takes the implications of this into account. For example, those facing a reduction in UC in the coming months are also those who are least likely to have benefited from asset-price-driven wealth increases during the crisis. Moreover, there are good reasons for thinking that these increased wealth gaps are likely to persist into the future.

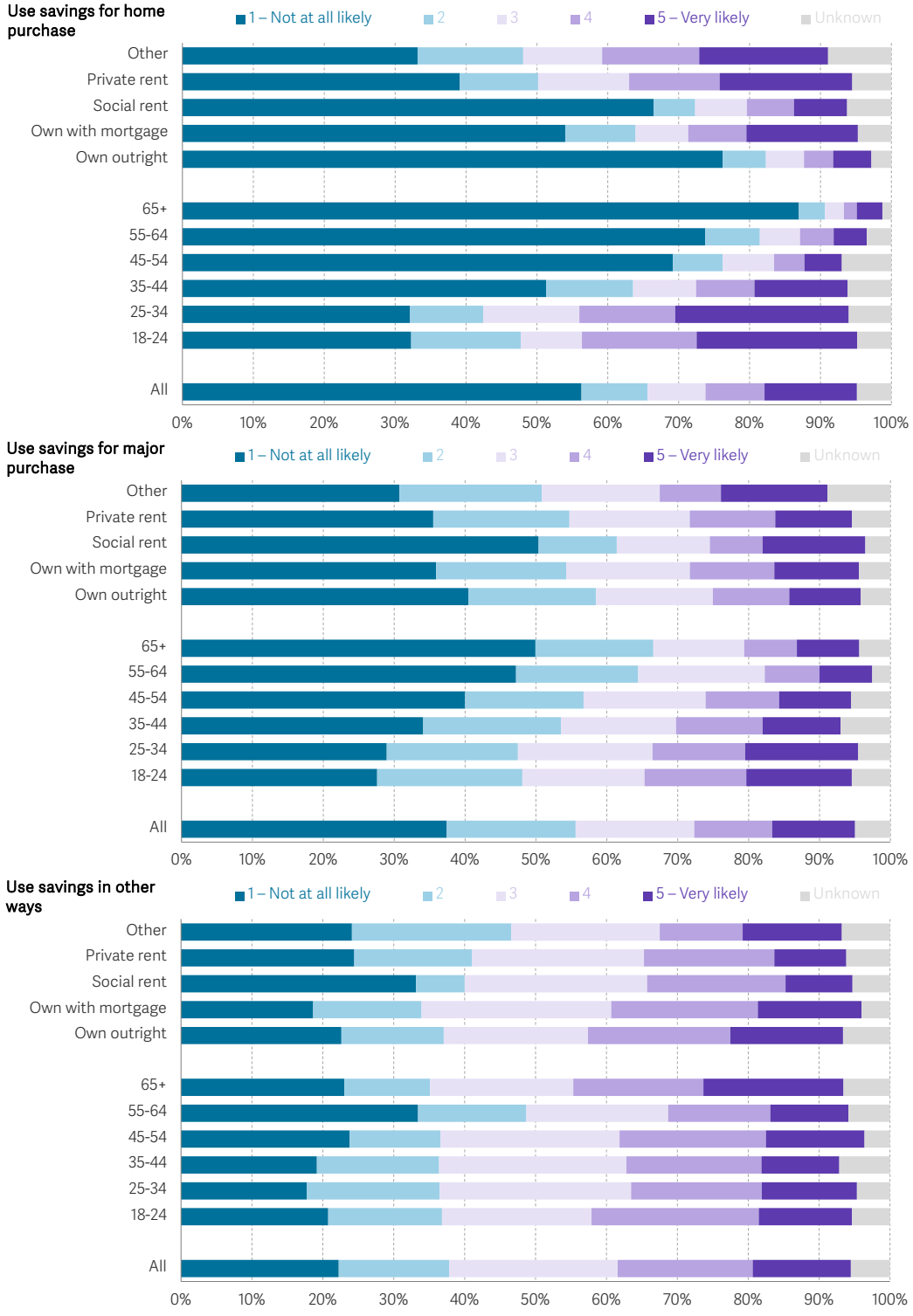
First, although the outlook is inevitably uncertain, asset price increases – the biggest driver of the wealth gaps – are unlikely to fully reverse. Financial asset prices have tended to recover in the aftermath of recessions and, for the most part, have maintained those gains until the next recession. Prices may well be volatile in the recovery, but it is likely that changes in financial asset prices will persist. As discussed above, the most important asset price for UK families is the price of housing. Here, there is a risk that house prices could fall as the stamp duty holiday ends or unemployment rises later in the year. But increases in UK house prices have been similar to those in other developed countries, suggesting a broader trend.[39] This trend could reflect that a higher prevalence of home working has boosted demand for residential space. Unless this fully reverses post-pandemic, this suggests that there could be a lasting change in the relative price of housing. Moreover, the falls in interest rates since the start of the pandemic are expected to persist, further supporting house prices.

38 See A Clark, P Frijters & M Shields, Relative Income, Happiness, and Utility: An Explanation for the Easterlin Paradox and Other Puzzles, Journal of Economic Literature, March 2008.

39 N McCarthy, The Countries With The Biggest House Price Increases In 2020, Forbes, March 2021. A Stamp Duty Land Tax (SDLT) holiday which increased the threshold at which it became payable from £150,000 to £175,000, was previously implemented in September 2008 and continued until December 2009. The policy, however, appeared to have little impact on house prices: this may be due to the fact that SDLT at the time was payable as a flat rate on the total value of a property, and so the policy only impacted the subset of the housing market valued between £150,000 and £175,000.

FIGURE 27: **Few people are definitely planning to use additional savings built up during pandemic**

Proportion of families with increased savings planning to use additional savings for home purchase, other major purchase or in other ways: UK, May 2021



NOTES: NOTES: Base is all those whose savings increased and in each of the categories listed. All (n=2238), 18-24 (n=225), 25-34 (n=509), 35-44 (n=411), 45-54 (n=353), 55-64 (n=273), 65+ (n=467), own home outright (n=705), own home with mortgage (n=837), rents home in social sector (n=117), rents home in private sector (n=366), and other or unknown housing tenure (n=213). These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

Second, there is evidence to suggest that families will not act to completely unwind changes in wealth. One way in which wealth gaps could reverse is if families plan to spend down the additional savings accumulated, or even go further and use the increase in wealth levels to fund higher consumption over the longer-term. Figure 27 presents mixed evidence on the likelihood that savings levels will be drawn down. It is important to keep in mind that this evidence relates to intentions about the future, and so comes with significant uncertainty. Nevertheless, it is striking that only around 14 per cent of people who increased saving levels over the pandemic are "very likely" to use the additional savings for some form of purchase. This would indicate that savings levels will remain elevated. However, there is some heterogeneity between groups: young people and those renting in the private sector were particularly likely to report plans to put the savings towards buying a home (which would not represent a change in wealth gap: it would be substituting one asset for another). Although relatively few people were very confident in their plans to use savings, it is also the case that relatively few people are certain to keep the additional savings. The largest group who fall into this category are the over 65s, of whom 50 per cent were "not at all likely" to use additional savings for a major purchase. Taken together, this seems to be tentative evidence that additional savings are unlikely to be fully drawn down, meaning wealth gaps are unlikely to shrink in future.[40]

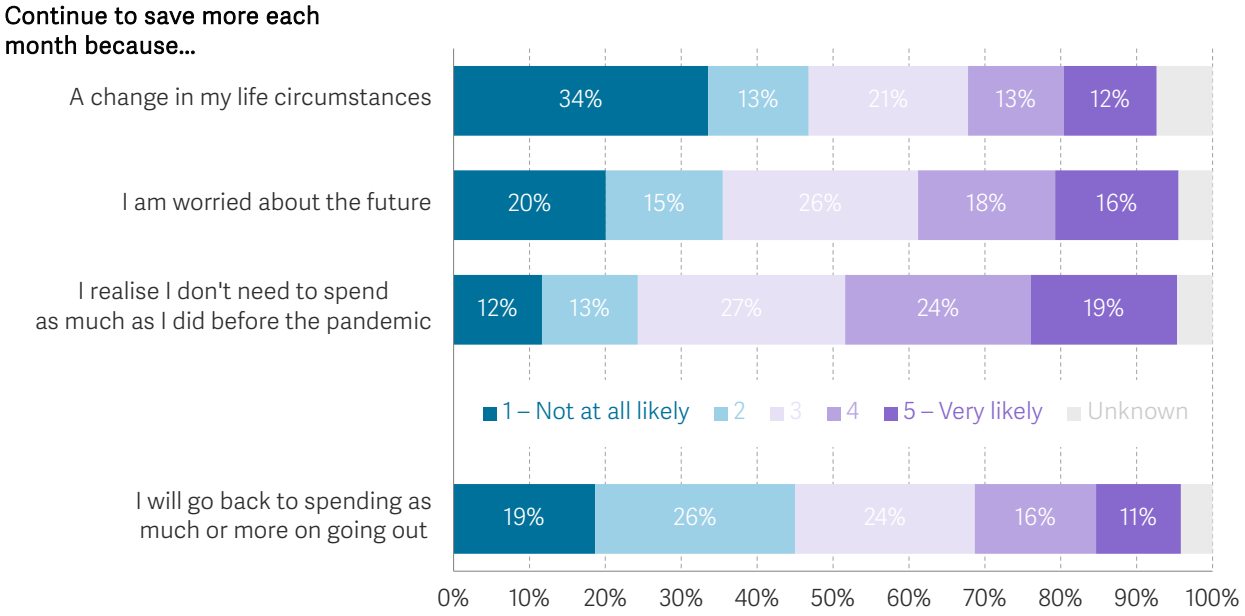
More worryingly from the perspective of the economic recovery, there is also evidence that saving rates may remain elevated for some time after the pandemic is over, as is normal after recessions.[41] If this happens, then wealth gaps could continue to grow. This is because better-off families have more capacity to save money, and so higher average saving rates will tend to lead to growing wealth gaps. This would also mean that overall household spending would remain sluggish even as the pandemic subsides, providing a major headwind to the recovery. Figure 28 presents evidence on households' plans to change saving rates in the future. Again, the evidence is mixed, but suggests that many families will continue to save more. Around half of families say that changing life circumstances are unlikely to be a factor in continuing to save more each month. But a third of families say they are likely to save more as a result of worries about the future: in other words, precautionary saving appears to be an important motivator for some families. And an even larger share – almost half – of families say they will save more because they have learnt they don't need to spend as much as they did before the pandemic. If this is true, this would represent a meaningful shift in household preferences between saving and consumption. Of course, it is hard to interpret these

40 The Bank of England currently judge than 10 per cent of additional savings levels will be used for additional consumption during the recovery. See: Bank of England, Monetary Policy Report, May 2021.
41 The household saving ratio remained above typical pre-financial crisis levels until 2012 and only fell below it in 2016.

results definitively, because the data is just on intentions, and people may not know how permanent are their changed patterns of spending. But the higher saving rates here suggest that wealth gaps could continue to rise.

FIGURE 28: **Most families indicate they are likely to continue to save more each month after the pandemic is over**

Proportion of respondents with increased savings during the pandemic reporting likelihood of changing saving rates in future: UK, May 2021



NOTES: Base is all those whose savings increased between February 2020 and May 2021 (n=2238). These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

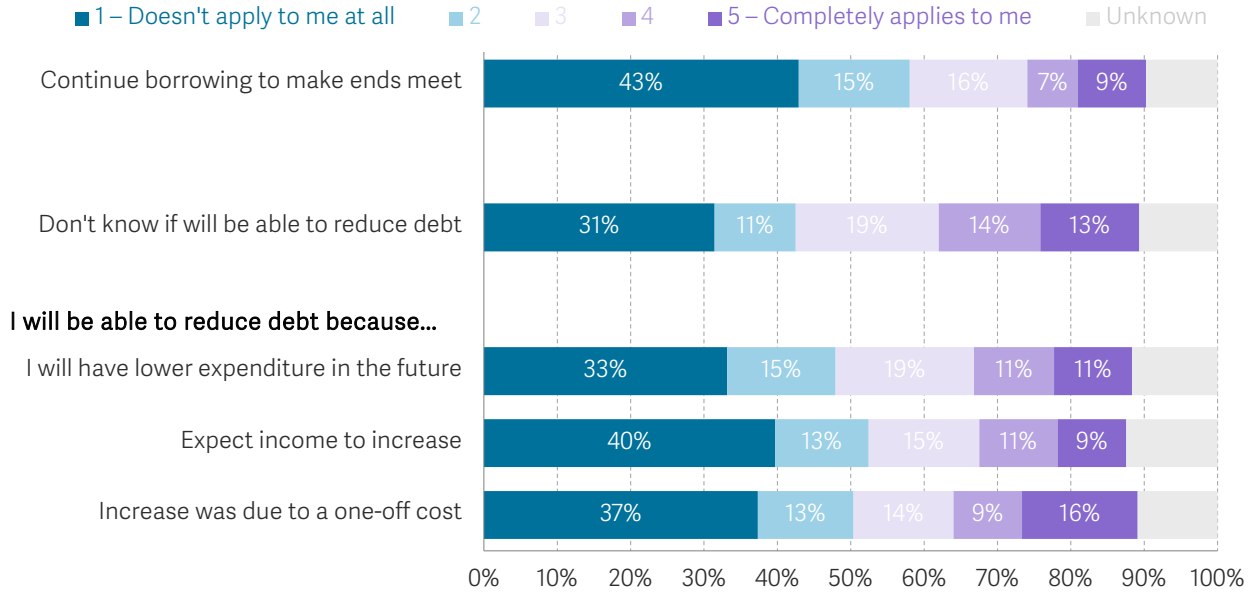
The future of debt holdings is also important for understanding the longer-term impact of the pandemic. While there has been good news, with aggregate debt levels falling over the course of the pandemic, some families have increased their use of debt. The optimistic case for those who increased debt in the pandemic would be that, as the economy recovers, the labour market quickly returns to pre-pandemic tightness, leading to a recovery in incomes and allowing families to reduce the extra debts taken out.

However, as Figure 29 shows, this looks unlikely to be the case – or, at least, families do not currently expect it to happen. Of those who increased debt since February 2020, just 10 per cent are completely confident that debt will fall in the future because their income will rise, while 40 per cent say that does not apply to their situation at all. More encouragingly, our survey found a relatively low proportion of families expecting to increase debt further as they are unable to make ends meet. But given the low confidence that debts will fall in the future, the financial resilience of families who have increased debts is likely to remain precarious. Higher debts reduce the capacity for

families to cope with future falls in income and is also associated with lower levels of wellbeing.[42]

FIGURE 29: **Families with increased debt have low confidence in reducing it in the future**

Proportion of respondents whose debt increased during the pandemic reporting the following statements apply or don't apply to their situation: UK, May 2021



NOTES: Base is all adults who increased debt between February 2020 and May 2021 (n=993). These figures have been analysed independently by the Resolution Foundation.
SOURCE: RF analysis of YouGov, adults age 18+ and the Coronavirus (COVID-19), June 2021 wave.

Overall, then, while it is undoubtedly positive that the pandemic has come with aggregate improvements in family finances, it also appears likely that there will be a lasting increase in wealth gaps. In addition, there is a sizable minority of the population less able to cope with any future income falls given higher debts. As we discuss in our concluding section below, this evidence will be vital for policy makers as they grapple with the aftermath of the crisis.

42 S Garforth-Bles, C Warner & K Keohane, The Wellbeing Effects of Debt and Debt-Related Factors, Financial Conduct Authority, November 2020.

Section 5

Conclusions and policy directions

The pandemic has had profound impacts on household wealth in the UK. Covid-19 has had an unprecedented impact on the economy, but the big picture is that there has been good news on family finances. Uniquely for a recession in at least the past 70 years, the aggregate picture is one of rising wealth levels, increased saving and falling debt. These developments should help to support living standards and will mean that many families will have seen their financial resilience increase.

But these gains have been uneven. Those at the bottom of the distribution are much more likely to have increased debt and have not been in a position to benefit from increases in asset prices. Moreover, although the outlook is uncertain, evidence from our survey suggests that the changes seen over the past 16 months are likely to persist. This means that the legacy of the pandemic looks set to be a continuation of the pre-pandemic trends: continued growth in overall total wealth, but larger absolute gaps between families, with a sizable minority of the population coming out of the pandemic more vulnerable to future income falls.

The rise in wealth during the pandemic is a continuation of a 40-year trend. This makes it all the more imperative for the Government to put changes in household wealth front and centre when designing policies for the post-pandemic recovery. Economic policy choices will be crucial in delivering a swift and sustainable recovery from the pandemic. Changes in wealth matter, not least because the pace of the recovery is likely to depend on household saving rates and the average propensity to consume from the additional savings built up. In this context, evidence from our survey provides a reason to the Government to prioritise policy measures that support overall demand and drive a rapid recovery.

The distribution of debt and savings changes – particularly the rise in debt for some low-income families, many of whom will be receiving UC – provides extra justification for keeping the pandemic support of an additional £20 per week to UC. Prior to the pandemic, low-to-middle income households were increasingly using consumer credit: for example, there was a 13-percentage point rise in proportion of the bottom fifth of

earners who use a credit card during the 2010s.[43] There is also little evidence that those families who did increase debt in the past year are expecting to be able to reverse that situation. Higher debt is associated with lower wellbeing, and reduces financial resilience to cope with future falls in income. Policy support to help families with longer-term rises in debt may well be needed.

Meanwhile, policy needs to be proactive in addressing wealth gaps. As we have shown, increasing gaps between households' wealth holdings is not a new feature of the British economy. But the pandemic has further accelerated this process, particularly between those at the bottom of the distribution and everyone else. A society where some people are able to invest, make returns and get on the housing ladder but others are unable to accumulate wealth is both bad for the economy and for family wellbeing. Many of the policy interventions over the past decade have either exacerbated the problem (for example, 'help to buy' accelerated house price growth and much of the government subsidy went to those who were already better off) or been small scale.

Wider policies have generally ignored the trend of rising asset prices, which has only been compounded by the pandemic. Successive governments' approach to taxing wealth is the clearest example of this. While the inflation-adjusted value of household wealth has more than doubled since 1980, revenue from taxes on wealth has remained remarkably stagnant, meaning the tax rate on wealth has effectively more than halved over the past 40 years. This is ultimately unsustainable. Given that the Government has a significant challenge to achieve its fiscal targets, especially if the pandemic leaves longer-term damage to the economy, reforming wealth taxes is a good candidate to help improve tax revenues.[44]

This paper has highlighted how household wealth has evolved through the Covid-19 pandemic and the significant challenges that these changes present. But policy solutions are not simple. A follow-up paper, again in partnership with the Standard Life Foundation, will be published later in the year focussing on the policy response to the pandemic and changes in wealth.

43 For more details on the use of households' use of consumer credit, see: J Ahmed & K Henehan, An outstanding balance? Inequalities in the use – and burden – of consumer credit in the UK, Resolution Foundation, January 2020.

44 For more on the scale of the fiscal challenge and the potential for wealth taxes, see: G Bangham, A Corlett, J Leslie, C Pacitti & J Smith, Unhealthy finances: How to support the economy today and repair the public finances tomorrow, Resolution Foundation, November 2020.

Resolution Foundation

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

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