HOUSE OF COMMONS LIBRARY

BRIEFING PAPER

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Coronavirus: impact on household debt and savings

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Summary

Since the beginning of the coronavirus pandemic, official statistics show that total household savings have increased and total household debt remains mostly unchanged, largely due to a fall in spending on non-essential items over lockdown.

The household savings ratio (household savings as a proportion of household disposable income) increased from 9.6% in Q1 2020 to 29.1% in Q2 of 2020, a record high since the series began in 1987. Deposits in bank accounts increased by £44.6 billion in Q2 2020.

Total household debt was £1,858 billion in Q3 2020, only 2.4% more than the year before. Unsecured debt fell in each month between March and November in total, as many households reduced their spending (and so were less likely to borrow).

While on the whole, household savings have risen and debt has decreased, there is evidence to suggest that some households, particularly those with low incomes, have run down savings and increased debt since the start of the pandemic.

The Office for National Statistics' Opinions and Lifestyle Survey found that by July, 13.3% of people said they have had to borrow money or use credit more than usual since the coronavirus pandemic.

The Resolution Foundation found that 54% of adults in families from the lowest income fifth borrowed more in March-June to cover everyday costs like food and housing.

Groups which are more likely than average to have taken on more debt since the start of the coronavirus pandemic include renters, people from minority ethnic groups, parents and carers, disabled people and those who are shielding, and young people.

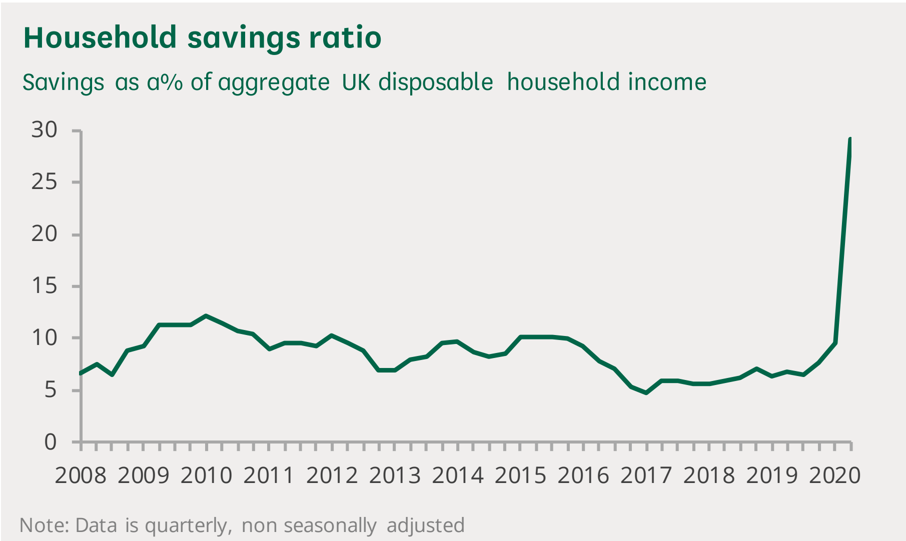
1. Savings

1.1 Official statistics

Overall, savings have increased since the pandemic began.

The household savings ratio (household savings as a proportion of household disposable income) increased from 9.6% in Q1 2020 to 29.1% in Q2 2020, a record high since the series began in 1987. This quarterly increase was driven by a large decrease in household spending of £80.5 billion, as lockdown measures prevented spending on many non-essential items.[1]

As well as a fall in spending, the rise in net social benefits of £4.31 billion, which is shown in the substantial increase in applications for Universal Credit and corresponded with a fall in employees on payrolls, also drove a rise in the savings ratio.[2]

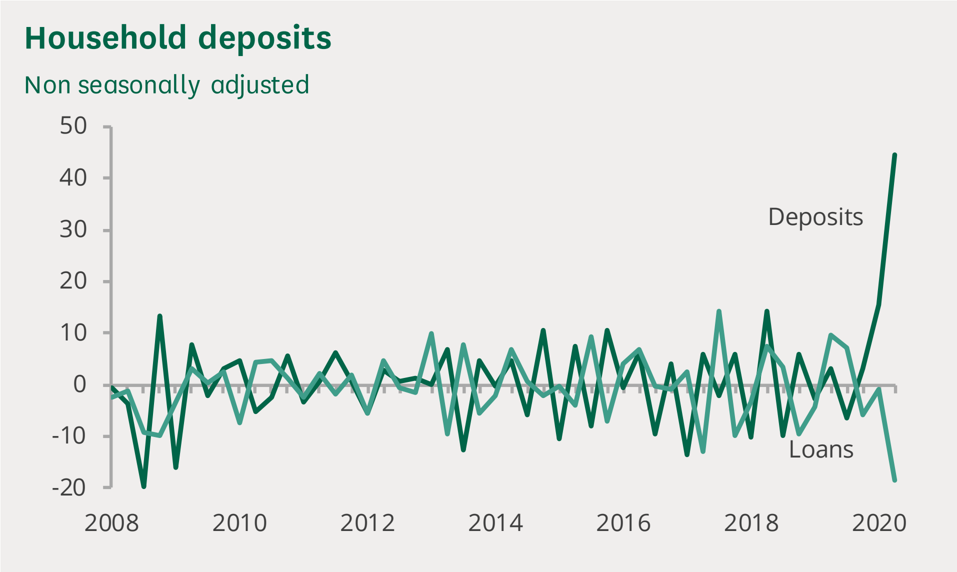


Source: ONS, [Coronavirus and its impact on the UK Institutional Sector Accounts: Quarter 2 (Apr to June) 2020]

The chart below shows deposits in bank accounts increased by £44.6 billion in Q2 2020, despite the Bank of England cutting the interest rate to a historic low level of 0.1% in March. As well as limited spending opportunities over lockdown, heightened uncertainty may have led to some households building up precautionary savings.

Households decreased their loan liabilities by £18.5 billion in Q2 2020 in comparison to Q1, as they opted to pay down debt and reduce borrowing through the lack of spending.[3]

1 ONS, Coronavirus and its impact on the UK Institutional Sector Accounts: Quarter 2 (Apr to June) 2020
2 ONS, Coronavirus and its impact on the UK Institutional Sector Accounts: Quarter 2 (Apr to June) 2020
3 ONS, Coronavirus and its impact on the UK Institutional Sector Accounts: Quarter 2 (Apr to June) 2020



Source: ONS, [Coronavirus and its impact on the UK Institutional Sector Accounts: Quarter 2 (Apr to June) 2020]

1.2 Inequality

The charts above show aggregate savings levels for the whole population, which do not take into account differences between households.

In August, Bank of England analysis of Ipsos MORI and NMG Consulting surveys found that rises in savings have been heavily skewed towards high income households. Lower and middle-income households appear to have built up less savings or run them down.

In October, the Institute for Fiscal Studies (IFS) used user data from the Money Dashboard budgeting app to measure savings rates by income. They found that on the whole, higher income groups saved more than lower ones. The lowest-income fifth of users saw a £170 per month decline in their savings (or increase in their debt), while every other group saw an increase, as seen in their chart below.[4]

[4] Institute for Fiscal Studies, Spending and saving during the COVID-19 crisis: evidence from bank account data, 29 October 2020.

Figure 4.2. Difference in average monthly saving, March to September, between 2019 and 2020, by income quintile

Note: Saving is inflated to September 2020 prices using overall monthly CPI.

Source: Authors' calculations using Money Dashboard data available 16 October 2020.

Source: Institute for fiscal studies, Spending and saving during the COVID-19 crisis, 29 October 2020.

This inequality is due to two factors: income and spending

Spending

The spending most affected by the pandemic is 'social consumption'; things like eating out or live entertainment, and this accounts for a larger proportion of high income households' spending. Meanwhile, low income households spend a higher proportion of their incomes on essentials, so have not experienced the same decrease in spending.[5]

In fact, the Resolution Foundation reports that low income households, particularly families with children, have increased their spending over lockdown. The cost of food has risen for many, as families have been forced to use more local and expensive shops to avoid public transport and having children at home has required higher spending on food and energy. Over a third of low-income families with children have increased their spending, compared with 13% of their high-income counterparts.[6]

Income

Office for National Statistics (ONS) research found that as the first lockdown continued, there was growing economic inequality, as more low-income individuals reported reduced incomes, working fewer hours and being less able to save for the future compared with high-income individuals. This trend continued after some easing of restrictions throughout May and June.[7]

[5] Bank of England, Monetary Policy Report and Financial Stability Report – August 2020.
[6] Resolution Foundation, Pandemic Pressures, Why families on a low income are spending more during Covid-19, 11 January 2021
[7] ONS, Personal and economic well-being in Great Britain: June 2020

The Low Pay Commission find that minimum wage workers are more likely that average to work sectors most affected by the pandemic, particularly hospitality and non-essential retail.

Library paper Coronavirus: impact on the labour market provides more detail about how low paid workers are disproportionately economically impacted by the pandemic.

2. Debt

2.1 Official statistics

So far, official statistics do not show a big change in household debt since the start of the coronavirus pandemic.

Total household debt was £1,858 billion in Q3 (August-October) 2020, 2.4% more than the year before.

This is not a dramatic increase: annual growth in household debt levels was in the range of 2.5-4.5% between 2017 and 2018, before decreasing to around 2% in 2019.[8]

Debt-to-income ratio (debt as a percentage of household income) increased slightly in the first three quarters of 2020, but this may be partly due to its decrease in 2019, and so far 2020 debt to income ratios levels are similar to 2018 levels.

UK household debt, 2017-2020

Figures are for end of each year or quarter

	Total (£ bn)	Annual % change in debt	Total as % of household disposable income
Q3 2017	£1,724	3.7%	131.5
Q4 2017	£1,733	3.5%	130.9
Q1 2018	£1,741	2.6%	129.9
Q2 2018	£1,758	3.2%	129.7
Q3 2018	£1,778	3.1%	129.7
Q4 2018	£1,790	3.3%	128.8
Q1 2019	£1,773	1.8%	126.7
Q2 2019	£1,794	2.0%	126.9
Q3 2019	£1,815	2.1%	127.4
Q4 2019	£1,827	2.1%	127.4
Q1 2020	£1,845	4.1%	127.6
Q2 2020	£1,845	2.9%	128.3
Q3 2020	£1,858	2.4%	128.7

Source: ONS, national accounts series NIWK, RPHA, and CVZI

The Bank of England's measure of total outstanding debt to individuals rose by an annual rate of 3.6% in March 2020 when lockdown began, and each month since has seen an annual increase of 2-2.9% – the lowest growth since 2015.[9]

There is however a significant difference in trends between mortgage debt and unsecured debt, especially since the start of the pandemic. Total unsecured debt fell in each month between March and November,

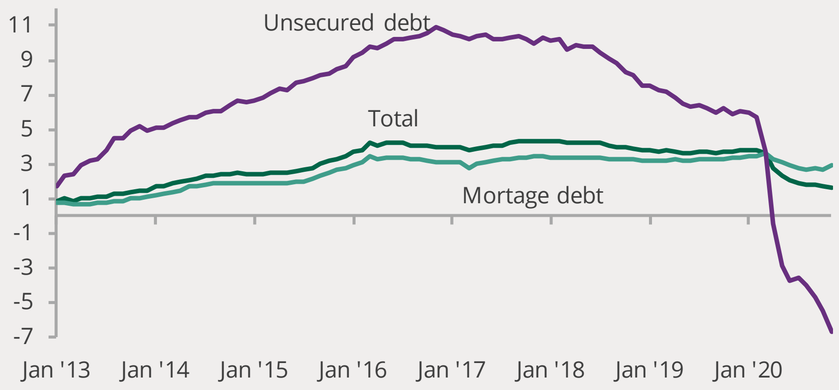
[8] ONS, national accounts series NIWK, RPHA, and CVZI
[9] Bank of England, Money and Credit-September 2020, 29 October 2020

as many households reduced their spending (and so were less likely to borrow). Mortgage debt usually takes longer to decrease than unsecured debt because the stock of debt is so much larger.

In November 2020, the 1.6% annual change in outstanding debt comprised of a 2.9% rise in mortgage debt (the large majority of total debt) and a 6.7% decrease in unsecured debt, a steep decline following a more gradual downward trend before the pandemic began.

Change in outstanding levels of debt to individuals

Monthly data, % change on year before



Source: Bank of England, [Money and Credit: October 2020]

3. Inequality

Despite there being little change in official total debt statistics (likely due to the fact they are largely based on aggregate measures of all households), there is evidence to suggest that some households have experienced an increase in debt levels, particularly lower income households.

The ONS' Opinions and Lifestyle Survey found that by July, 13.3% of people said they have had to borrow money or use credit more than usual since the coronavirus pandemic.[10]

The Financial Conduct Authority carried out a survey in July and found that 12 million people in the UK had low financial resilience (struggle with bills or loan repayments). 2 million of this number had moved from being classified as financially resilient to being not financially resilient since February 2020.[11]

A survey by Turn2us, a UK poverty charity, found that 18 million people took on some form of debt to get by between March and September.[12]

The Resolution Foundation found that poorer households were less likely to reduce their spending at the height of the pandemic, presumably because a larger proportion of their spending is on essentials. 54% of adults in families from the lowest income fifth borrowed more in March-June to cover everyday costs like food and housing.[13]

A survey by the Joseph Rowntree Foundation and Save the Children in June 2020 found that 60% of families on Universal Credit and Child Tax Credits have been forced to borrow money since the start of the crisis.[14]

Stepchange, a UK Debt charity reported that in September 2020, 15% of new debt advice clients cited coronavirus as the main reason for their debt.[15] Stepchange commissioned a YouGov poll in May 2020 and estimated that around 14 million people had been negatively affected financially by the coronavirus, 30% of whom were either showing one or more signs of financial distress (25%) or were in severe problem debt (5%). Of those financially impacted, 26% borrowed to make ends meet, 23% used savings, 11% asked family and friends for help, 9% applied for Universal Credit, and 8% sold their possessions.[16]

[10] Office for National Statistics, Personal and economic well-being in Great Britain: September 2020, 10 September 2020
[11] Financial Conduct Authority, FCA highlights continued support for consumers struggling with payments, 22 October 2020
[12] Turn2us, Weathering the storm: How Covid-19 is eroding financial resilience, November 2020
[13] Resolution Foundation, Return to spender, Findings on family incomes and spending from the Resolution Foundation's coronavirus survey 9 June 2020
[14] Joseph Rowntree Foundation Nearly two thirds of families on Universal Credit forced into lockdown debt 'nightmare', June 2020
[15] Stepchange, Debt advice during coronavirus: September 2020, October 2020
[16] Stepchange, Debt advice during coronavirus, April and May 2020, June 2020

3.1 Falling behind on bills

Citizens Advice estimate that in July 2020, 6 million UK adults had fallen behind on at least one household bill during the pandemic:

- 3.4 million on their mobile phone or broadband bills;
- 3 million on their water bills;
- 2.8 million on their energy bills;
- 2.8 million on their council tax;
- 1.2 million on their rent.

They estimate that 3.9 million have fallen behind on credit card or overdraft repayments, 3 million of whom have fallen behind on their household bills at the same time.[17]

The Joseph Rowntree Foundation report that in October, around 2.5 million households were worried about paying their rent over the winter and 700,000 were already in arrears with their rent payments.[18]

A report from the Institute for Fiscal Studies (IFS) estimates that by May 2020, the number of households making mortgage, retail and council tax payments was respectively 14%, 11%, and 9% below what they would have predicted based on pre-crisis trends.[19]

As the IFS have noted, in some cases unpaid bills are a sensible short term solution in a crisis (for example, mortgage holidays), but still mean additional debt going forward.

The pros and cons of household debt

The downsides to household debt are well known and include over-indebted households cutting back on their spending on other things, thus reducing economic activity. In addition, there could be problems in the banking system when loan defaults rise. Research from the UK and internationally has shown that large increases in household debt prior to recessions make those recessions worse and inhibits the following recovery.

Household debt, however, does provide benefits to an economy and individuals. It allows people to buy things, like a house, that they would not be able to pay for in one go, raising their standard of living. It allows people to smooth their consumption over time, including during periods when their incomes temporarily fall. This can provide stability to the economy.

Library briefing paper Household debt: statistics and impact on economy provides more background information.

[17] Citizens Advice, Excess debts - who has fallen behind on their household bills due to coronavirus?, 8 September 2020
[18] Joseph Rowntree Foundation, Struggling renters need a lifeline this winter, 16 November 2020
[19] Institute for Fiscal Studies, The effects of coronavirus on household finances and financial distress, 29 June 2020

3.2 Most affected groups

Some groups are more likely to have seen an increase in debt than others. There is evidence to suggest that renters, people from minority ethnic groups, parents and carers, disabled people, and young people have been disproportionately likely to have increased their debt since the beginning of the pandemic.

Renters

The ONS' Opinions and Lifestyle Survey found that at the end of July, 63.2% of renters reported not being able to afford a necessary but unexpected expense for £850, compared with 10.6% of homeowners.[20]

According to the Joseph Rowntree Foundation 700,000 renters were in rent arrears in September, and 1.7m (19%) were in arrears with household bills or council tax payments. Approximately 80,000 households in the private rented sector and 125,000 households in the social rented sector have arrears of more than £1,000.[21]

The Financial Conduct Authority found that in July 42% of renters were worried about falling behind on rent payments.[22]

People from minority ethnic groups

The Joseph Rowntree Foundation reports that in late October, 42% of renters from minority ethnic groups were worried about paying rent through to February (compared with 29% of all renters). The gap between adults from a minority ethnic background and adults from a White background worried about paying their rent has widened since March, from a difference of 9.4 percentage points before the pandemic, to 14.5 percentage points in October.[23]

A July survey from Citizens Advice found that people from minority ethnic groups, in particular people from Black ethnic groups are more likely to have fallen behind on their bills. 31% of people from a Black ethnic group compared to 12% of people from a White ethnic group.[24]

Turn2us found that by September, 45% of people from a Black ethnic group said they were unable to afford an emergency cost of £250, compared to 26% of people from a White ethnic group and 27% of people from an Asian ethnic group.[25]

Parents and carers

The ONS' Opinions and Lifestyle Survey found that in July, 22.2% of parents said they had to borrow money or use credit more than before

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[20] Office for National Statistics, Personal and economic well-being in Great Britain: September 2020, 10 September 2020

[21] Joseph Rowntree Foundation, Struggling renters need a lifeline this winter, 16 November 2020

[22] Financial Conduct Authority, FCA highlights continued support for consumers struggling with payments, 22 October 2020

[23] Joseph Rowntree Foundation, Struggling renters need a lifeline this winter, 16 November 2020

[24] Citizens Advice, Excess debts - who has fallen behind on their household bills due to coronavirus?, 8 September 2020

[25] Turn2us, Weathering the storm: How Covid-19 is eroding financial resilience, November 2020

the coronavirus pandemic, compared to an average of 13.3%. 47.5% of parents reported not being able to afford an unexpected expense for £850.[26]

Citizens Advice found that 1 in 4 (23%) people with caring responsibilities had fallen behind on their bills in July, compared to 6% of people without caring responsibilities.[27]

Disabled people and people who are shielding

Citizens Advice found that 22% of those who are shielding due to coronavirus had fallen behind on their bills in July, and that 3.1 million disabled people had fallen behind on their bills due to coronavirus.

Turn2us found that in September, 46% of disabled people used at least one form of debt since March, compared to 33% of people with no disability.[28]

Young people

The Financial Conduct Authority found that in July, 19% of those aged 25-34 said they were likely to seek debt advice in the following 6 months compared to 2% of those aged 55-64.[29]

Turn2us found that in September, 57% of people aged 18-24 had used at least one form of debt since March, compared to 20% of people aged 55+.[30]

Citizens Advice found that 20% of people aged 18-34 were behind on their bills in July, compared to fewer than 8% of people aged 35+. Young people are less likely to have built up savings to weather a short-term shock to their income and are also more likely to have higher housing costs and to be in insecure work.

[26] Office for National Statistics, Personal and economic well-being in Great Britain: September 2020, 10 September 2020

[27] Citizens Advice, Excess debts - who has fallen behind on their household bills due to coronavirus?, 8 September 2020

[28] Turn2us, Weathering the storm: How Covid-19 is eroding financial resilience, November 2020

[29] Financial Conduct Authority, FCA highlights continued support for consumers struggling with payments, 22 October 2020

[30] Turn2us, Weathering the storm: How Covid-19 is eroding financial resilience, November 2020

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