Article

Coronavirus and the Impact on UK households and businesses: 2020

The effect of the coronavirus (COVID-19) pandemic on UK households and businesses, with international comparisons. Includes analysis on income, expenditure, dividends, assets, liabilities and insolvencies.

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1. Main points

- There have been unprecedented impacts on income and expenditure in the UK economy over the last year, including distributional effects for households and businesses.

- There was a £186.1 billion increase in currency and deposits held by households in 2020, reflecting the record increase in the households saving ratio as the Coronavirus Job Retention Scheme (CJRS) and Self-Employment Income Support Scheme (SEISS) cushioned the fall in household income.

- Private non-financial corporations reduced their payment of dividends by £51.7 billion in 2020 as total annual dividend payments reached an eight-year low, while corporate lending was supported by the financial support provided to businesses.

2. Overview

The public health response to the coronavirus (COVID-19) pandemic has led to the introduction of local and national restrictions in 2020, while voluntary social distancing has been undertaken to reduce the spread of the virus. This has led to large falls in spending by households and businesses, while the economic policy response has provided financial support to households and businesses. This has been reflected in a large rise in government borrowing (Figure 1), and at the same time households have improved their financial position and have sizably increased their net lending position over the last year. Another feature of the coronavirus pandemic is the distributional effects, as these economic impacts have been uneven across households and businesses.

We explain some of the trends that have taken place over the last year that underpin these movements in lending and borrowing by households and businesses. We also provide some international context, which highlights how the broad nature of these impacts have not been unique to the UK. It is the case that further impacts are conditional on the future path of the virus. It is also important to note that early estimates are prone to revisions, so the findings in this paper provide only an initial insight into these impacts.
3. The impact on households

There was a sharp decrease in final consumption expenditure (FCE) of 21.6% in Quarter 2 (Apr to June) 2020, reflecting the public health restrictions and social distancing in place (Figure 2). There were particularly pronounced falls in “social consumption”, as there were large declines in the expenditure on restaurants and hotels (88.4%) and recreation and culture (17.7%). There was a 59.1% reduction in transport expenditure, reflecting the restrictions on mobility that were in place. The impact of these restrictions is also highlighted in comparing the size of these movements with that of the economic downturn in 2008, where the peak-to-trough fall in final consumption expenditure was 4.1% (Quarter 1 (Jan to Mar) 2008 to Quarter 2 2009).

In Quarter 3 (July to Sept) 2020, there was a strong bounce-back in household spending, as FCE rose by 21.0%, in line with the re-opening of non-essential retail and hospitality over the summer, while the Government’s Eat Out to Help Out scheme took place, which supported the hospitality industry throughout August 2020. Department for Transport (DfT) figures show there was increased motor vehicle activity, as restrictions on mobility eased. In the final quarter of the year, restrictions were gradually re-introduced including the national lockdown in England, firebreak and national lockdown in Wales, Scotland’s level system and the extended circuit breaker in Northern Ireland. Household’s final consumption expenditure fell by 2.3% in Quarter 4 (Oct to Dec) from the previous quarter.
Figure 2: There was a much larger fall in household consumption than income

UK household and gross disposable income, individual consumption expenditure, Quarter 1 (Jan to Mar) 2007 to Quarter 4 (Oct to Dec) 2020

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UK household and gross disposable income, individual consumption expenditure, Quarter 1 (Jan to Mar) 2007 to Quarter 4 (Oct to Dec) 2020

£ billion

2008 Q4 2010 Q4 2012 Q4 2014 Q4 2016 Q4 2018 Q4 2020 Q4

Gross Disposable Income Individual Consumption Expenditure

Source: Office for National Statistics – UK Quarterly Sector Accounts

Notes:

1. Non-profit institutions serving households are included in “Households”.
2. Gross Disposable Income includes adjustments for changes in pension entitlements.
3. The gap between the two lines denotes gross savings.

Given the record quarterly contraction in national output in Quarter 2 2020, a sizeable impact on household income might have been expected. However, Figure 2 shows that the impact on households has been much less marked. While national income contracted by 15.0% in Quarter 2, there was only a 3.3% fall in household’s gross disposable income. Figure 2 also highlights how the relative performance of income did not take place at the time of the economic downturn in 2008.

The relatively lower fall in UK household income, primarily reflects the impact of the Coronavirus Job Retention Scheme (CJRS). This has helped maintain household income through the government subsiding 80% of corporation’s payment of wages and salaries. The Self-Employment Income Support Scheme (SEISS) has also played a role in supporting income in the form of grants to household mixed income – the income of the self-employed. The latest HMRC figures show the value of cumulative claims through CJRS at £57.7 billion and a further £6.2 billion under the SEISS so far. At its peak, the number of people registered on the Claimant Count was 2.7 million in August – up from 1.2 million in May 2020. This was evident in the record quarterly increase in households social assistance in benefits in cash in Quarter 2 2020, which also helped prop up household income.
Recent analysis shows that those in the lowest part of the income distribution who were working or unemployed were more likely to report reduced household income. Between April and October 2020, 43.8% of the economically active in the bottom income quintile reported reduced income, higher than the 30.4% of those in the top income quintile. Other groups who were more likely to report reduced income because of the coronavirus pandemic were working parents, and people aged under 30 years. Eurostat finds similar distributional effects on income for the EU, where the decrease in employment income lost is higher for the low-income group. The income loss is three to six times higher for this group than their peers in the high-income group in half of the EU member states.

Heightened levels of uncertainty tend to lead to an increase in the level of precautionary savings, which explains why the savings ratio typically has increased in previous UK recessions. However, the rise in Quarter 2 2020 is unprecedented where the household saving ratio peaked at 25.9% and remains above levels before the effects of the pandemic were seen. This would have been further compounded by an increase in “enforced” savings, given how mandatory public health restrictions led to an involuntary fall in some types of consumption expenditure. Unlike previous economic downturns, there has been a constraint on how much of household income could be spent.

Figure 3 also shows that the rise in savings has not been unique to the UK, with other countries experiencing a large rise in their household savings ratios in 2020. It is useful to consider the structural compositions of economies when explaining the extent to which household savings have increased. Recent analysis finds that social consumption is more prominent in the UK than in other G7 economies, comprising around a fifth of household final consumption expenditure. Those countries that have a higher share of expenditure on this type of spending have experienced a larger fall in consumption over the year. Furthermore, there is some evidence that government restrictions have also been typically more stringent for the UK and in place for a longer period.

It is also helpful to consider how household incomes have been relatively maintained in each country. For instance, the United States has introduced stimulus cheques to all households, such that there has been a relatively larger increase in household disposable income relative to its pre-pandemic levels. Across most European countries, employment support schemes have been in place, which look to replace some of the household income that would have otherwise been lost. Recent analysis finds that “this greater support to household incomes is a likely driver of the smaller fall in US consumption relative to the UK experience”.

Figure 3: There has been a sharp rise in the households’ savings ratio in 2020 for the G7 countries

Household gross savings ratio (percent) in 2019 and 2020

Source: Office for National Statistics, Organisation for Economic Co-operation and Development

Notes:

1. Non-profit institutions serving households are included in “Households”.

2. 2020 figures for international countries are given as an average of Quarter 1 2020 to Quarter 3 2020. For the UK the figure provided is an average of Quarter 1 2020 to Quarter 4 2020.

3. The average for the UK for Quarter 1 2020 to Quarter 3 2020 is 15.8%.

4. Comparable data was not available for Japan.

The record increase in the UK savings ratio does not capture the nuanced experiences of households. The Bank of England NMG Survey found that high- and middle-income households were more likely to have seen a rise in savings, whereas low-income, unemployed and furloughed respondents were more likely to have seen a decrease. 42% of high-income employed households saved more during the pandemic, compared with 22% of low-income employed households. This is in line with recent analysis that shows that the rise in savings ratio is being driven from higher income households. Figure 4 shows that between March and December, the largest increase in reporting an ability to save came from households with an income above £20,000. The largest decreases were found in the under 30 years age group and those with a household income below £20,000.
Figure 4: The unprecedented increase in savings does not capture the experience of all households

Percentage of people reporting to be able to save for the year ahead in March and December 2020 for different societal groups

Source: Office for National Statistics – Personal and economic well-being in Great Britain: January 2021 - Opinions and Lifestyle Survey

Notes:

1. Responses answering “Yes” to the question “In view of the general economic situation, do you think you will be able to save any money in the next twelve months?”.

2. Other options were “No” and “Prefer not to say”.

3. Household incomes below £20,000 were calculated as a simple average of those in household incomes up to £10,000, and between £10,000 and £20,000, and similarly for those above £20,000, it is a simple average of those between £20,000 to £40,000 and those above that amount.

Figure 5 shows a record increase in the holding of currency and deposits, highlighting how households have increased their savings over 2020 and in part, reflecting the restrictions in place. Some of this likely reflects that households want to hold higher levels of liquidity as a buffer against the very high levels of uncertainty over future incomes, which might also explain the record fall in the net acquisition of loans from households in 2020.
The [Bank of England](https://www.bankofengland.co.uk) estimates that households have built up an excess stock of savings of £125 billion since March 2020. Household flows into deposit-like accounts has remained strong in January 2021, well above the pre-pandemic levels. The [Office for Budget Responsibility](https://www.gov.uk/government/organisations/office-for-budget-responsibility) estimates that the excess stock of savings could rise to £180 billion by the middle of 2021. There is some evidence that these cash deposits were likely driven by higher-income households. For example, the [Resolution Foundation](https://www.resolutionfoundation.org) found that half of adults with less than £1,000 in savings reported drawing down on them in September 2020.

**Figure 5:** There have been large movements in the net lending and borrowing positions for households and government in response to the pandemic

![Figure 5: There have been large movements in the net lending and borrowing positions for households and government in response to the pandemic](https://example.com/figure5.png)

*Graph showing the difference in the net acquisition of net assets between 2019 and 2020 for households, non-financial corporations, financial corporations, government, and rest of the world.*

*Source: Office for National Statistics – UK Quarterly Sector Accounts*

*Notes:*

1. Non-profit institutions serving households are included in “Households”.
2. Long-term term debt securities issued by the UK central government are not included in “Loans and debt securities”.
3. Other is the sum of “Equity and investment fund shares”, “Insurance, pensions and standardised guarantee schemes”, “Financial derivatives and employee stock options” and “Other accounts”.
4. Total net asset figure for all sectors may not sum to zero due to rounding.
4. The impact on businesses

Public health restrictions have also had an impact on corporate profitability, which has been concentrated on those service industries reliant on face-to-face interactions. Recent analysis points to an 87% increase in profit warnings\(^1\) in 2020, with over three-quarters of these citing the coronavirus (COVID-19) pandemic as the reason. A large proportion of these warnings reflected those businesses “hit hardest by the impact of social-distancing on behaviour, demand, and day-to-day operations”. The latest Financial Stability Report (PDF, 2.99MB) estimates that UK companies could face a cash-flow deficit in the financial year ending (FYE) 2021, of up to around £180 billion, primarily reflecting the shocks to turnover over this period.

Survey evidence points to how some industries have been badly hit, particularly those in the accommodation and food services, and the arts, entertainment and recreation industries, although the nominal fall in corporate profits has not been as large as the hit to national income in 2020 (Figure 6). Part of the explanation is that the Small Business Grant Scheme Fund (SBGF), which gave eligible small businesses in England one-off grants of £10,000 helped prop up private non-financial corporations (PNFCs) gross operating surplus (GOS) in Quarter 2 (Apr to June) 2020. There have also likely been indirect effects on GOS from other types of financial support that have been provided by the government.

Figure 6 also shows that there has also been a fall in capital expenditure over 2020, reflecting the adverse impact of coronavirus (COVID-19) restrictions on sales revenues and cash positions, as well as the effects of higher levels of uncertainty around whether the changes in the level and composition of demand will persist in the future. Unlike households, there has been similar-sized falls in income and expenditure for PNFCs, which explains why the movements in the net lending and borrowing positions have not been as pronounced.
Figure 6: Gross operating surplus experienced a nominal fall in 2020, but national income fell by more, this was matched by a fall in gross capital formation

Private non-financial corporations’ gross operating surplus and gross capital formation, 1987 to 2020

Source: Office for National Statistics – UK Quarterly National Accounts

Notes:
1. Shaded areas denote periods of economic downturn.

Figure 7 shows that the impact of the pandemic on turnover and capital expenditure has not been the same for all industries. For example, those services industries that are more reliant on face-to-face interaction have been more adversely affected by the public health restrictions in place over the last year.

There is also some evidence that industries have been able to adapt to the coronavirus over time, such as the shift to online retail. The latest Business Insights and Conditions Survey (BICS) finds that a net 30.0% of businesses are reporting turnover is lower than normal. This has been most pronounced in the accommodation and food services as well as the arts, entertainment and recreation industries. In contrast, the financial performance of businesses in the information and communication industry has been relatively stronger.

There is a similar industry-level profile of the impacts to capital expenditure, where a net 9.5% of businesses are reporting lower levels compared with normal expectations for this time of year. However, Figure 7 highlights that these effects have also not been the same for all industries.
Figure 7: The coronavirus pandemic has had wide-ranging impacts on business turnover and capital expenditure at the industry level

Net turnover and capital expenditure balance (percent) of businesses, weighted by turnover and count respectively, (8 to 21 March 2021)

Source: Office for National Statistics - Business Insights and Conditions Survey

Notes:

2. Mining and quarrying has been removed for disclosure purposes, but its total is included in “All industries”.

3. Net turnover balance is given by subtracting the percentage of businesses reporting a decrease in turnover, from the percentage of businesses who reported an increase in turnover.

4. Net capital expenditure balance is given by subtracting the percentage of businesses reporting a decrease or stopping of capital expenditure, from the percentage of businesses who reported an increase in capital expenditure.

5. In Wave 27 of the Business Insights and Conditions Survey; businesses currently trading, 46.3% of businesses across all industries reported either “Not sure” or “Not applicable” when answering “How does your business's capital expenditure for the last two weeks compare to normal expectations for this time of year?”

One factor that helps explain why income has not fallen further is the change in PNFCs net property income – specifically that of dividend payments. PNFCs reduced their payment of dividends in 2020, reflecting a decline of income for some companies and the intention to maintain a relatively high level of liquidity. The fall in dividend payments in 2020 has been more immediate and substantial than the economic downturn in 2008.

Figure 8 also shows the effects of a change in dividend payment patterns immediately before and after a change in the way dividends are taxed. The demand for holding more liquid assets in 2020 also helps explain the record levels of PNFC cash deposits, as businesses increased their holding of short-term liquid assets given the heightened levels of uncertainty (Figure 5).
A further explanation for the fall in dividends payments and subsequent increase of short-term liquid assets may be the expectations that should be met for businesses that draw down from the Coronavirus Large Business Interruption Loan Scheme (CLBILS). There are instances where businesses are required to not pay dividends until the facility has been paid off in full. Larger firms are also eligible for the Covid Corporate Financing Facility (CCFF), which provides funding through the purchase of commercial paper as a purchase of short-term debt. Recipients were required to make a letter of commitment to restrain on their capital distributions and on senior pay.

The UK government introduced loan guarantees to facilitate the flow of credit to businesses, including the Coronavirus Business Interruption Loan Scheme (CBILS), the Coronavirus Large Business Interruption Loan Scheme (CLBILS), the Bounce Back Loan Scheme (BBLS) and the Future Fund (FF). The latest figures show that there have been more than 1.6 million facilities approved to the value of £76.2 billion.

Figure 5 shows that PNFCs increased their holdings of financial liabilities in loans in 2020. The Credit Conditions Survey shows that lenders reported the availability of credit provided to businesses increased as "the schemes recently launched by the Government to support lending to businesses underpinned the reported increase in availability in Quarter 2". Coinciding with a slowing in the issuance of these loan schemes, the availability of finance increased more slowly in the second half of the year.

Figure 5 also highlights how PNFCs increased their liabilities of debt securities in 2020, as the CCFF and corporate bond issuance supplied liquidity to larger firms. According to the Bank of England, PNFCs issued £28.4 billion of bonds in Quarter 2 2020, which was a 75.3% rise from a year earlier.
These corporate financing conditions might help explain the relatively low level of insolvencies (Figure 9). The liquidation rate for UK businesses fell in each quarter of 2020 and was over 30% lower in Quarter 4 2020 than a year earlier. This is in stark comparison with the experience of the global financial crisis and the economic downturn of the early 1990s. This might reflect, to some extent, how cash-flow pressures have been reduced by these government-backed loan schemes.

Amendments made to UK insolvency law in June 2020 have been shown to increase the likelihood of business survival in previous analysis of worldwide bankruptcy procedures. However, the International Monetary Fund points to how the government support that has been provided may lead to pent up insolvencies and bankruptcies at a later point.

**Figure 9: In comparison with the 2008 economic downturn, there has been a marked decrease in insolvencies in 2020**

Total number of quarterly insolvencies in England and Wales Quarter 1 (Jan to Mar) 2007 to Quarter 4 (Sep to Dec) 2020

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Total number of quarterly insolvencies in England and Wales Quarter 1 (Jan to Mar) 2007 to Quarter 4 (Sep to Dec) 2020

Source: The Insolvency Service – GOV.UK

Figure 10 shows the change in the size and the composition of the financial balance sheet positions of the institutional sectors in 2020. Households have increased their financial net worth, driven by a rise in the holding of currency and deposits as financial assets. There was also a large increase in "other", specifically a rise in insurance, pensions and standardised guarantees. This is mostly made up of pension schemes, driven mostly by low gilt yields. Note, these data will be subject to revision in future Blue Books where improvements are planned in this area.

In contrast, there was a slight fall in the financial net worth of PNFCs (a subsector of non-financial corporations) in 2020. This reflected an increase in the stock of financial liabilities held in debt securities, loans, equity investment fund shares and units, and pension schemes, partially offset by a rise in currency and deposits.
Figure 10: Private non-financial corporations’ financial net worth fell as households’ net financial worth increased

Balance sheet positions of the institutional sectors as a percentage of GDP, 2019 and 2020

Source: Office for National Statistics – UK Quarterly Sector Accounts

Notes:

1. Non-profit institutions serving households are included in "Households".

2. Long-term term debt securities issued by the UK central government are not included in "Loans and debt securities".

3. Other is the sum of "Equity and investment fund shares", "Insurance, pensions and standardised guarantee schemes", "Financial derivatives and employee stock options" and "Other accounts".

Notes for: The impact on businesses
1. An official statement to the stock exchange from a publicly listed company that says that it will report full-year profits materially below management or market expectation.

2. Loan scheme that provides finance to mid-sized and larger UK businesses with a group turnover of more than £45m.

5. Related links

- **Quarterly sector accounts, UK: October to December 2020**
  Bulletin | Released 31 March 2021
  Detailed estimates of quarterly sector accounts that can be found in the UK Economic Accounts (UKEA).

- **Business insights and impact on the UK economy: 8 April 2021**
  Bulletin | Released 22 April 2021
  The impact of the coronavirus pandemic and other events on UK businesses and the economy. Based on responses from the voluntary fortnightly business survey (BICS) about financial performance, workforce, prices, trade, and business resilience.

- **Personal and economic well-being in Great Britain: January 2021**
  Bulletin | Released 21 January 2021