THE UNEVEN IMPACTS OF THE COVID-19 CRISIS

MAY 2021

A Cebr report for **compare**the**market**.com

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Foreword

The pandemic has had a devastating impact on individuals, households and families, testing many of us in ways we have never experienced before. Yet we should recognise that, as difficult as the past year has been for all of us, some have suffered more than others. The impacts of the Covid-19 pandemic - physically, mentally and financially – have sadly been more acutely felt by those on poorer incomes, from an ethnic minority and from a single-parent household.

The comprehensive research and findings of this report provide one of the most thorough assessments on the impact of the pandemic to-date. We hope that this will shine a light on the inequalities which are sadly still all-too prevalent in our society and how these inequalities have manifested themselves over the last year. While some households have been able to save large sums every month, it is clear that many feel financially insecure, and that insecurity is leading to worries around paying the bills and servicing debt, creating a spiral from which it is hard to get out.

comparethe**market**.com is proud to have supported Cebr on this important report on the uneven impacts of the Covid-19 pandemic. We hope that you find the research of interest, and that it helps to generate debate and action around the issue of inequality. The pandemic has exacerbated serious societal problems. As the findings show, from a health, wealth and wellbeing perspective, it really has been a tale of two pandemics. Recognising and understanding how different groups in our society have been affected by the pandemic will be vital in understanding its true impact and to learn lessons for the future.

Ursula Gibbs

Director, **compare**the**market**.com

Executive Summary

More than a year on from its emergence in early 2020, the Covid-19 pandemic continues to shape the day-to-day lives of people across the UK. The unprecedent steps that have been taken to control the spread of the virus – including the closure of thousands of businesses and tight restrictions on outdoor movements – have had a tumultuous impact from a financial, social, and wellbeing perspective. Given the scale of disruption, it is unsurprising that 2020 was a record-breaking year in many respects, with a historic economic contraction taking place alongside a record rise in household savings. However, these aggregate figures belie the broad range of experiences and impacts that have been felt by different people during the course of the pandemic.

This report uses data from the UK Household Longitudinal Survey (UKHLS) to look under the bonnet of the UK economy amid the Covid-19 pandemic, analysing how the crisis has affected a variety of demographics, as well as the characteristics that have driven these differing experiences. The key findings include:

- **Cebr's econometric modelling indicates that the presence of children in the household made it 19% more likely that parents working from home suffered a fall in productivity. Living with children also lowers the average amount individuals were able to save per month by an estimated £79, equating to £950 over a 12-month period.**

- **A £100 increase in monthly household income leads to a 2% rise in the chances of having been able to save and a £10.74 increase in the amount saved per month.**

- **In November 2020, 6.5% of respondents in the UKHLS had been diagnosed with a mental health condition, with 17% of these diagnoses made during the pandemic. The composition of the household is a strong predictor of mental health outcomes. Cebr estimates that living with children reduces the likelihood of having been diagnosed with a new mental health issue since the start of the pandemic by 58%. Similarly, living with a partner reduces the likelihood by 56%.**

- **The average monthly amount saved by adults in single parent households in November 2020 was £68, equating to 3% of the total household income. This compares to £235 among those in two-parent households and £239 among those in working-age households without children, which equated to 6% and 7% of monthly household income, respectively.**

- **More than two-thirds (68%) of the top 20% of earners were able to save in July 2020. This falls to just over a quarter (27%) among those in the bottom income quintile.**

- **13% of people in single parent households saw their debts go up in November 2020, compared to 7% of those in two-parent households and 5% of those in working-age households without children.**

- **In November 2020, people in single parent households on average estimated that there was a 20% chance they would face difficulties paying their bills over the next three months. This figure falls to 11% among people in two-parent households and to 9% among working-age households without children.**

1. Introduction

The Covid-19 pandemic has transformed the lives of households across the UK. While the unprecedented restrictions on social activities and outdoor movements have touched all parts of society, the precise impacts of the Covid-19 crisis have varied markedly across the population.

Aggregate figures that show a record rise in the household saving ratio in 2020 together with a decline in the total value of outstanding debt cloak the high number of households that have struggled to get by amid the intense economic disruption. Furthermore, while the spread of remote working has saved millions of workers time and money through the elimination of the daily commute, people's ability to work productively at home has been shaped by a variety of factors that differ widely between households, such as the physical properties of the home and the number of people living within it.

The uneven impacts of the Covid-19 pandemic are by no means limited to people's finances. The loss of loved ones, social isolation and economic hardship have placed a heavy emotional burden on millions of people across the country.

The impacts of the crisis on life satisfaction and mental wellbeing have again varied significantly across different groups.

This report examines these themes in detail through a series of analyses that shed light on how the Covid-19 crisis has affected different segments of British society, looking at a diverse range of variables including saving, borrowing, financial security, productivity, income, and overall wellbeing. The data underpinning the analysis comes from the Economic and Social Research Council's UK Household Longitudinal Survey (UKHLS), which has tracked the experiences of more than 10,000 Brits throughout the course of the pandemic.

The first section of the research focuses on four distinct household groups:

1. Single-parent households

2. Couples with children

3. Working-age households without children

4. Retired households

It also examines how the experiences and impacts of the pandemic have varied across different age groups and regions of the UK. The circumstances of these different groups varied widely heading into the Covid-19 crisis. The analysis seeks to uncover how the pandemic has exacerbated these pre-existing inequalities.

The second section of the research uses a series of econometric models to identify the specific attributes and characteristics that have shaped people's experiences of the pandemic and the impact it has had on them. The analysis focuses on the factors that influence whether people were able to save during the pandemic, whether they suffered a fall in productivity while working from home, their levels of financial security, and their mental wellbeing.

2. Impacts of the Covid-19 crisis on different household groups

2.1. Financial Impacts

Ability to save

During the second quarter of 2020, the UK's household saving ratio ballooned to 27.4%, meaning people put away over a quarter of their income over this period. This is nearly double the previous quarterly record of 14.4% set in Q2 1993. Stringent Covid-19-related restrictions precluded many of the economic and social activities that people previously spent money on, such as visits to restaurants, travel, and holidays. As a result, reduced spending opportunities enabled many households to put aside a larger portion of the income than usual during the pandemic. Another important factor was the various government support schemes that were introduced early in 2020 – most notably the Coronavirus Job Retention Scheme but also the uplift in social benefits – which provided a crucial buffer between households' incomes and the wider economic downturn. Precautionary motives will also have been at play, with the intense uncertainty created by the pandemic inducing some people to save more in order to build up a financial cushion.

While the accumulation of savings is a popular part of the economic narrative that surrounds the Covid-19 crisis, this trend has been far from ubiquitous. In the aftermath of the first wave of the pandemic in July 2020, the majority (53%) of respondents in the UK Household Longitudinal Survey were not able to save any of their income over the previous 4-week period. There was a similar picture in November 2020 – when the UK was in the midst of its second national lockdown – with 52% of respondents indicating that they were not able to save at all during the preceding four weeks.

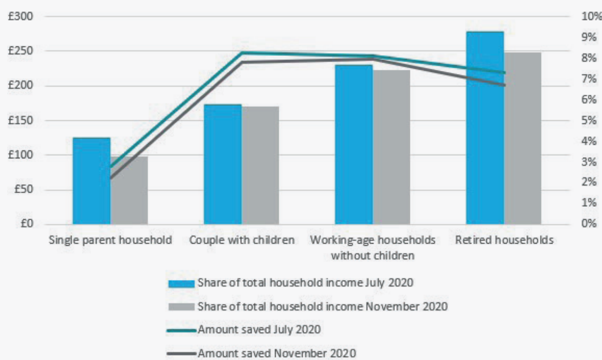
Breaking down these results reveals a high degree of variation between household groups. Less than a third (31%) of single parent households were able to save any of their income in July 2020, falling to 29% during the second national lockdown in November 2020. This compares to a figure of 46% among

two-parent households in July 2020 and 47% in November 2020. The proportion of households without children that were able to save is higher than the corresponding figure for households with children. Among both working-age households without children and retired households without children, 49% were able to set aside some of their income in July 2020. In November 2020, the corresponding shares were 49% and 51%, respectively.

The average amount saved also differs widely across the groups analysed. In July 2020, the average amount saved by adults in single parent households was £84, equating to 4% of the total household income. This fell to an average of £68 in November 2020. For the minority in this group that were able to save, the average amount saved over the previous four-week period rises to £307 in July 2020 and £251 in November 2020. The average amount saved by adults in two-parent households was £248 in July 2020 (equating to 6% of total household income) and £235 in November 2020, rising to £577 and £544 among the subset that were able to set aside at least some of their income in July and November, respectively. While the average amount saved by people in working-age households was slightly lower at £243 in July 2020 (rising to £542 among the subset of savers), this accounted for a larger share of total household income, at 8%.

2. Impacts of the Covid-19 crisis on different household groups

Figure 1 Average amount saved in July and November 2020, by household group



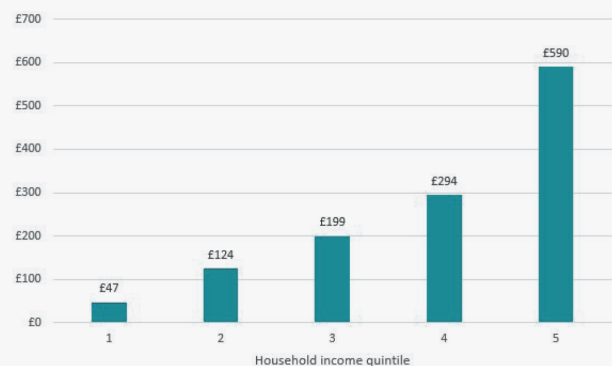
Source: UK Household Longitudinal Survey, Cebr analysis

Spending on essential goods and services makes up a larger share of total expenditure among lower income households. For instance, the Living Costs and Food Survey shows heading into the pandemic, energy bills accounted for 8% of total spending for the poorest 10% of households, compared to 3% among the richest 10% of households. Meanwhile, food expenditures made up 14% of total spending for the poorest 10% of households, compared to 9% of the richest 10% of households. The essential and indoor nature of these spending categories means that expenditures will not have been affected by the Covid-19 pandemic to the same degree as other categories.

By contrast, Covid-19 restrictions deemed illicit many of the activities that generally soak up a greater share of higher-income households' total spending. Before the pandemic, spending on holidays, hotels, restaurants, sports events, cinema, and theatre made up 11% of total spending among the poorest 10% of households, compared to a figure of 18% for the richest 10% of households. Similarly, transport spending accounted for 9% of pre-pandemic spending among the poorest 10% of households compared to 15% among the richest 10% of households.

The spending dynamics described above mean that the reduction in spending opportunities associated with Covid-19-related restrictions will have had a far greater impact on total spending – and hence saving – among higher income groups. This is borne out in the data from the UKHLS. Indeed, more than two-thirds (68%) of those in the top income quintile were able to save some of their income in July 2020. This share falls steadily as you progress down the income spectrum, with just over a quarter (27%) of those in the bottom income quintile having been able to save during the same month. Moreover, the average amount saved by those in the top income quintile was £590 in July 2020 – more than twelve times the average amount saved (£47) by those in the bottom income quintile.

Figure 2 Average amount saved in July 2020, by household income quintile

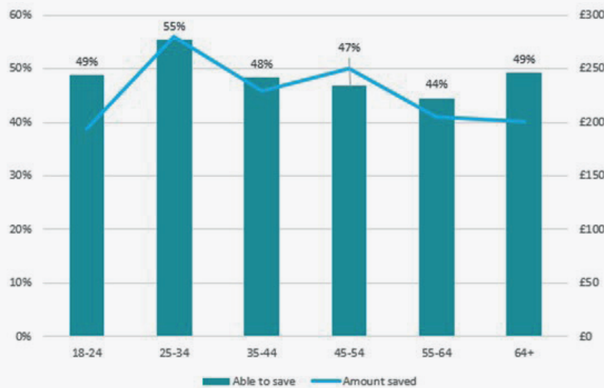


Source: UK Household Longitudinal Survey, Cebr analysis

25-34 year olds were most active when it comes to lockdown saving activity. 55% of UKHLS respondents in this age-group were able to save at least some of their income in November 2020. This compares to a figure of 47% for those aged 45-54 and 44% for those aged 55-64. The 25-34 age groups also saved the most in £ terms last November. The average amount saved by this age group over a four-week period was £280.

2. Impacts of the Covid-19 crisis on different household groups

Figure 3 Share that were able to save and average amount saved in November 2020, by age-group



Source: UK Household Longitudinal Survey, Cebr analysis

Looking across the UK's nations and regions, the South West of the England was the part of the country that was most active in the lockdown savings boom. In this region, 51% of respondents saved some of their income in November 2020, making it the only part of the country in which savers were in the majority. UKHLS respondents based in the South West on average set aside £241 in November 2020, amounting to 8.1% of household income. In London, 46% of UKHLS respondents were able to save at least some of their income in November 2020 – the lowest share out of the regions analysed. Despite this, in £ terms, the average amount saved in November was highest in London, owing to higher levels of income relative to the rest of the country.

Figure 4 Average amount saved in £ terms and as a share of household income in November 2020, by region

Source: UK Household Longitudinal Survey, Cebr analysis

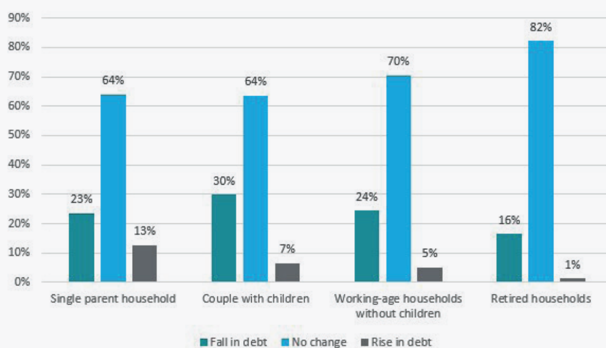
Borrowing

According to data from the Bank of England, the total value of outstanding consumer credit has fallen from £225 billion in January 2020 to £200 billion in January 2021 – an 11% year-on-year decline. This general decrease in debt is observable across the range of household groups analysed. Indeed, more than a quarter (26%) of UKHLS respondents in single parent households indicated that they were able to bring down their level of debt in July 2020. This share rises to 27% among those living in two-parent households and 21% among those living in working-age households without children.

However, the picture is not completely one-sided. 8% of people in single parent households saw the value of their debts go up in July 2020, compared to 7% of those in two-parent households and 6% of those in working-age households without children. Among retired households, just 1% said that their debt increased in July 2020. In November 2020, the share of people in single parent households that saw the value of their debts go up was 13%, compared to 7% among those in two-parent households, 5% among those in working-age households without children, and 1% among those in retired households.

2. Impacts of the Covid-19 crisis on different household groups

Figure 5 Change in level of debt in November 2020, by household group

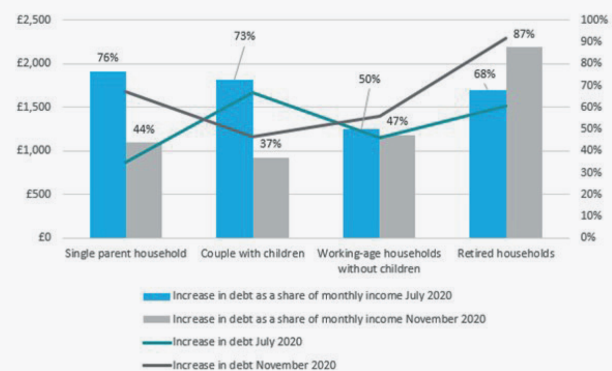


Source: UK Household Longitudinal Survey, Cebr analysis

Digging deeper into these figures suggests that working-age households without children have been a major driver of the overall decline in outstanding debts during the course of the pandemic. Among the 21% of respondents in this group that were able to pay down their debts in July 2020, the average fall in the value of outstanding debts was £712. This is more than three times the corresponding figure (£219) among those in single parent households. This gap narrowed somewhat during the second national lockdown in November, when the average fall in the value of outstanding debts among those in single parent households was £290, compared to a figure of £448 among those in working-age households without children

Among those in two-parent households with children that reported a rise in their debt, the average value of this increase was £1,664 in July and £1,167 in November. This compares to a figure of £1,152 in July and £1,393 in November among respondents living in working-age households without children, and £863 in July and £1,685 in November among respondents in single parent households. In order to put these figures into context, the value of the rise in debt as a share of monthly income has been computed. The results show a striking different between households with and without children. In the aftermath of the first wave of the Covid-19 pandemic in July 2020, among single parent households and two-parent households the increase in the value of debt in July 2020 amounted to 76% and 73% of monthly household income, respectively. By contrast, the average increase in the value of debt among those in working-age households without children that saw a rise in their debts in July 2020 amounted to just 50% of monthly household income. The corresponding figure for retired households was 68%. These results illustrate that while most households were able to pay down their debts during the pandemic, there is a significant minority who were forced to borrow more money in order to stay afloat. This will place a considerable burden on these households' finances even after the public health crisis recedes and the economy re-opens.

Figure 6 Increase in debt in £ terms and as a share of monthly income in July and November 2020, by household group



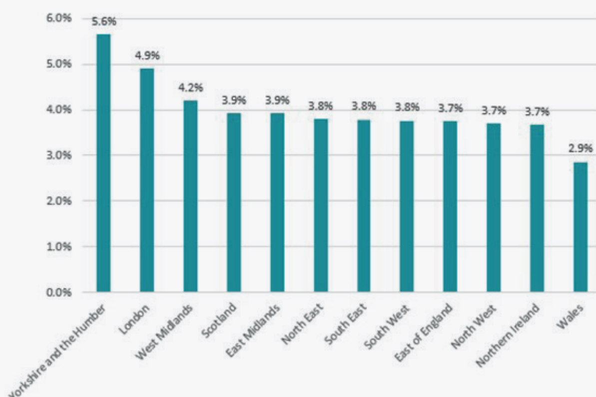
Source: UK Household Longitudinal Survey, Cebr analysis

Individuals in Yorkshire & the Humber were most likely to have reported a rise in the value of their debts during the second national lockdown. In November 2020, 5.6% of Yorkshire-based UKHLS respondents stated that the value of their debts had risen over the previous four weeks. The next highest share was in London, where one in twenty (4.9%) respondents reported an increase in their debts in November 2020. At 2.9%, the share of respondents experiencing an increase in the value of their debts in November 2020 was lower in Wales than in any other part of the UK. However, it is important to note that in all parts of the country, the number of people that paid down their debts during the second national lockdown is several

2. Impacts of the Covid-19 crisis on different household groups

times larger than the number that took on additional debts, reflecting the impact of Covid-19 restrictions on spending opportunities as well as the support to incomes provided by the furlough scheme.

Figure 7 Share of respondents that saw a rise in the value of their debts in November 2020, by region



Source: UK Household Longitudinal Survey, Cebr analysis

Breaking down the results by age reveals that the 35-44 age group were most likely to have taken on more debt in November. Indeed, 6.8% of UKHLS respondents in this group reported that the value of their debt had risen in November 2020. This share falls significantly for older age groups. Indeed, 3.5% of those aged 55-64 reported an increase in the value of their debt in November 2020, while for those aged over 64, this share was just 1.2%.

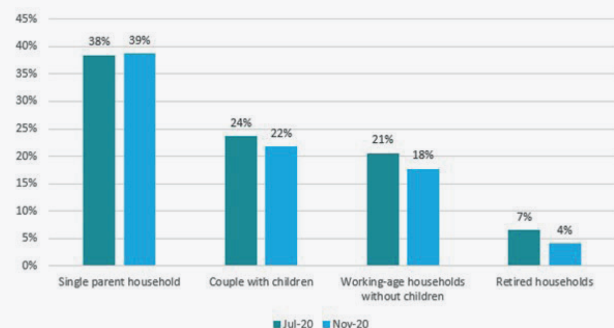
Financial security

The differences in saving and borrowing activity described above have important implications for financial security. Financial security is influenced by an array of factors including wealth, debt, income, and financial commitments. However, a lack of financial security ultimately manifests itself in challenges meeting necessary expenses. For the purposes of this study, Cebr has examined financial security by analysing how likely people are to face difficulties in meeting their usual bills and expenses over a three-month period.

In both July 2020 and November 2020, people in single parent households on average estimated that there was a 20% chance they would face difficulties paying their usual bills and expenses over the subsequent three months. This figure falls to 12% in July and 11% in November among people in two-parent households, and to 11% in July and 9% in November among working-age households without children. For retired households, the average reported likelihood of facing difficulties paying usual bills and expenses over a three-month period was just 4% in July and 2% in November.

Cebr has defined an individual as being financially insecure if they report that there is at least a 20% chance of them facing difficulties meeting their everyday expenses over the next three months. In November 2020, nearly two in five (39%) of adults in single parent households were financially insecure, compared to just less than a quarter (22%) of those in two-parent households. People in households without children are significantly less likely to be financially insecure. For instance, just 18% of people in working-age households without children met the criteria for being financially insecure, with this figure falling to 4% among people in retired households.

Figure 8 Share of people that are financially insecure, by household group



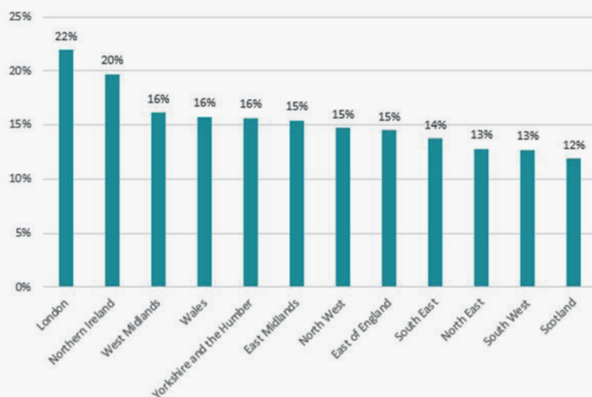
Source: UK Household Longitudinal Survey, Cebr analysis

During the second national lockdown in November 2020, there was considerable regional variation in the prevalence of financial insecurity. More than a fifth (22%) of Londoners were financially insecure in November – the highest share in the UK.

2. Impacts of the Covid-19 crisis on different household groups

According to the Living Costs and Food Survey, rent accounts for 17% of total expenditure among London-based households. This is more than double the share in any other part of the UK. While the price of newly let tenancies has fallen significant since the onset of the pandemic, the amount that most people spend on rent has been more stable due to the fact that rent payments are generally agreed months or years in advance. The relative stability of rental costs together with the fall in income that many households suffered during the course of the pandemic will have placed considerable pressure on the finances of many London-based households.

Figure 9 Share of people that are financially insecure, by region



Source: UK Household Longitudinal Survey, Cebr analysis

Financial insecurity during the pandemic was least prevalent among older age groups. Indeed, just one in twenty (5%) UKHLS respondents aged 65 or above said there was at least a 20% chance they would face difficulties paying their bills over the subsequent three months. This share rises to 14% among those aged 55-64. There is a different picture among younger age groups. Indeed, a quarter (25%) of those aged 18-24 were financially insecure in November 2020 – the highest share of any age group. Younger people are more likely to have been laid off or furloughed during the pandemic, which will have significantly eroded the financial security of the affected individuals. The share of UKHLS respondents who are financially insecure dips to 22% among those aged 25-34 before rising again to 24% for those aged 35-44. This dynamic likely reflects changes in the level of essential bills and expenses faced by different households, with those in the 35-44 age bracket more likely to be living with children than those in the 45-54 age bracket.

Earnings

The UK's economic output in Q2 2020 was 21.0% lower than during the same period in 2019. This represented the deepest economic contraction on record, and by a considerable margin. However, the Coronavirus Job Retention Scheme – which grants furloughed workers 80% of their income up to a maximum of £2,500 per month – has meant that the impact of the economic downturn on unemployment and household incomes has been much less severe than would otherwise have been expected. With that being said, the scale of the crisis has meant that even with significant government support, millions of Brits have suffered a significant hit to their earnings.

2. Impacts of the Covid-19 crisis on different household groups

The data suggest that the Covid-19 crisis has had a slightly larger effect on the earnings of households with children. Nearly half (44%) of people living in households with children reported that their income in July 2020 was lower than it was before the pandemic (i.e. January/February 2020). This compares to 43% among those living in households without children. By November, the picture had improved slightly, with the share reporting households earnings below pre-pandemic levels standing at 38% among those living with children and 42% among those not living with children.

For households with children in the UKHLS, average monthly earnings in July 2020 were £62 lower than before the pandemic. Over a 12-period, this shortfall would equate to £748. By contrast, households without children suffered an average fall in monthly earnings of just £3. During the second national lockdown in November, incomes among the subset of households with more than one earner were on average higher than they were before the pandemic, by an average of £103 per month for households with children and an average of £85 per month for households without children. However, it is important to note that these figures do not capture the experience of households without multiple earners, who will in many cases have suffered the sharpest falls in income during the pandemic as a result of withdrawals from the workforce.

Looking at the labour market as a whole, average earnings fell by 3.7% between January and April 2020, from £548 per week to £528 per week according to data from the Office for National Statistics. Since then, however, average weekly earnings have staged a marked recovery, reaching £572 in January 2021. These gains are partially due to furloughed workers returning to the active workplace during the second half of the year, meaning that the share of employees whose earnings were capped at 80% (or £2,500 per month) of their pre-pandemic level was diminished. Another important factor is the shifting composition of the workforce. The sectors that have been hit hardest by Covid-19 restrictions – such as hospitality and non-essential retail – also tend to have a higher concentration of low-paid workers. Redundancies in these sectors will have therefore had the effect of driving up average wages across the economy as a whole.

2. Impacts of the Covid-19 crisis on different household groups

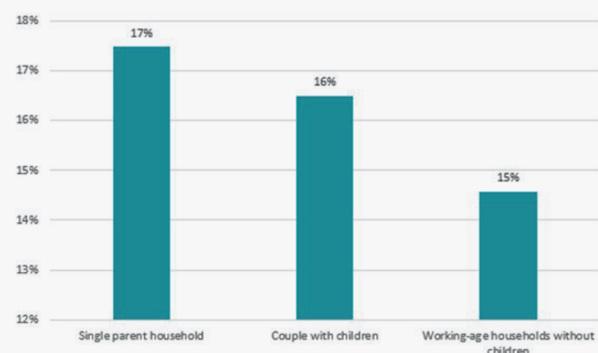
Productivity

The last financial metric that is examined is productivity i.e. the amount that people are able to produce per hour worked. While this has a less immediate impact on households' financial position, rises in productivity are generally associated with higher wages, while falls in productivity can reduce earnings and, in some cases, lead to redundancy.

Across the different household groups analysed, the share of workers reporting a rise in productivity during the pandemic was larger than the share reporting a fall in productivity and surprisingly consistent across all groups. For single parent households, two-parent households and working-age households without children, the share of respondents reporting an increase in their productivity in September 2020 relative to January/February 2020 was 24%. One potential explanation for this is that the transformation of working habits and environments brought about by the pandemic – including the increased use of digital technologies and reduction in workplace distractions – has enabled people to work more productively. Another explanation is that people have been working harder due to rising levels of demand and the impact of the furlough scheme on the size of the active workforce.

On the other hand, there is also a significant number of workers whose productivity has taken a hit during the pandemic. Around one in six (17.5%) people in single parent households stated that their productivity was lower in September 2020 than it was before the pandemic. This compares to a figure of 16.5% among those in two-parent households and 14.6% among working-age households without children. Put another way, those in single parent households are 20% more likely to have suffered a fall in productivity during the pandemic than those in working-age households without children. Some of the drivers of these differences are explored in greater detail in Section 3 of this report.

Figure 10 Share reporting a fall in productivity in September 2020 relative to January/February 2020, by household group

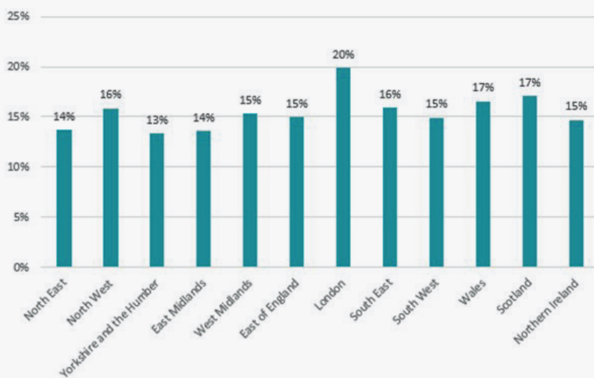


Source: UK Household Longitudinal Survey, Cebr analysis

2. Impacts of the Covid-19 crisis on different household groups

The productivity impacts of the pandemic have not been distributed evenly across the country. In September 2020, remote working was the most widespread among London-based UKHLS respondents, which reflects the larger share of jobs in sectors that are conducive to working from home, such as financial and professional services. This spread of remote working in the capital appears to have had a polarising impact on productivity. Indeed, in September 2020 London had both the highest share of workers reporting a fall in productivity compared to January/February (20%) as well as the highest share of workers reporting a rise in productivity (28%). Differences in living arrangements and access to equipment and technology mean that people's ability to remain productive while working from home has varied significantly.

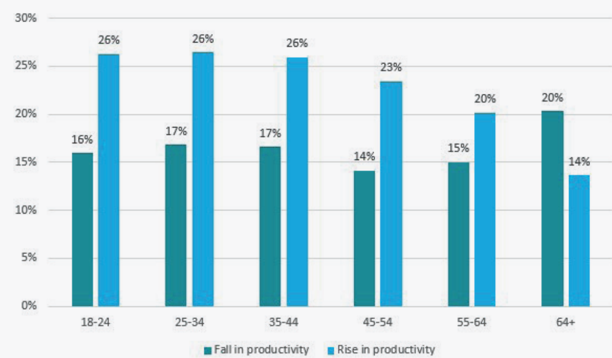
Figure 11 Share reporting a fall in productivity in September 2020, relative to January/February 2020, by region



Source: UK Household Longitudinal Survey, Cebr analysis

Many of the adaptations that workers and employers have had to make to in order to remain productive in the context of Covid-19 restrictions have involved the deployment and expansion of digital technologies. For instance, the spread of home working has transformed the way in which communications are carried out, both within organisations and externally. The nature of these changes would suggest that those with a higher level of digital proficiency heading into the pandemic are less likely to have suffered a fall in productivity. The results of the UKHLS provide some evidence for this, with 20% of those aged 65 or above indicating that their productivity was lower in November 2020 than it was before the pandemic. By contrast, more than a quarter (26%) of those aged 44 or under reported an increase in their productivity in November 2020 compared to January/February 2020. This share falls to 14% among those aged over 64.

Figure 12 Share reporting a fall in productivity in September 2020 relative to January/February 2020 and share reporting a rise in productivity, by age group

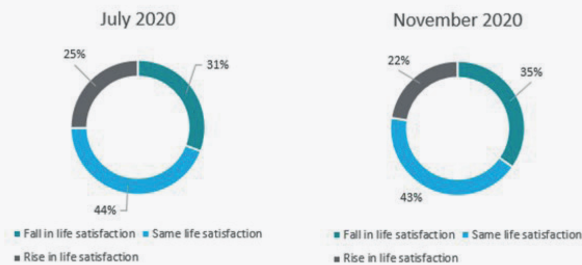


Source: UK Household Longitudinal Survey, Cebr analysis

2.2. Wellbeing Impacts

It goes without saying that the effects of the Covid-19 pandemic extend far beyond the financial sphere. In July 2020, nearly a third (31%) of respondents across the sample reported a lower level of life satisfaction than before the pandemic. Meanwhile, 44% reported the same level of life satisfaction and a quarter (25%) reported a higher level of life satisfaction. The picture worsened slightly amid the winter wave of the pandemic, with 35% of respondents indicating a lower level of life satisfaction in November 2020 than before the pandemic compared to 22% that reported a higher level of life satisfaction.

2. Impacts of the Covid-19 crisis on different household groups



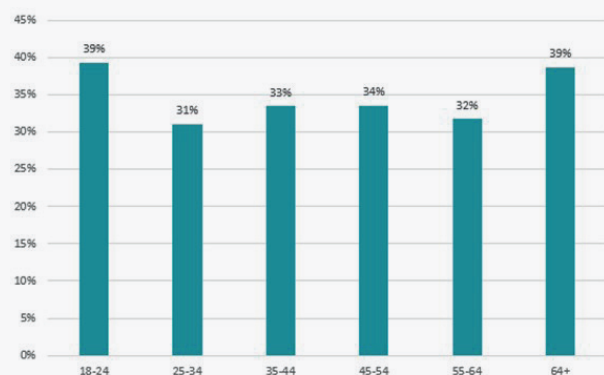
Source: UK Household Longitudinal Survey, Cebr analysis

When looking at the financial impacts of the Covid-19 crisis, households with children have generally fared worse. However, in the case of self-reported life satisfaction, the reverse appears to be the case. For instance, in July 2020, 28% of people living in two-parent households had a lower level of life satisfaction than was the case before the pandemic. This compares to a figure of 30% among those living in working-age households without children and 34% among those living in retired households.

The pandemic has had the strongest effects on wellbeing at the two ends of the age spectrum. 39% of those in the UKHLS aged 65 or above reported a lower level of life satisfaction in November 2020 than they did prior to the pandemic. The heightened health risks associated with the Covid-19 pandemic mean that older age groups will have had to exercise a greater degree of caution in their outdoor movements than younger people. Moreover, many older people will have been required to shield for extended periods over the past year.

Meanwhile, 39% of respondents aged 18-24 also had a lower level of life satisfaction in November 2020 than before the pandemic. For young people, an important factor driving this trend will have been the labour market. In Q4 2020, the unemployment rate for the 18-24 age group was 13.4% - 3.5 percentage points higher than before the pandemic (i.e. in Q4 2019) and more than double the national unemployment rate of 5.1%. During economic downturns, unemployment for younger age groups typically rises more sharply than for older age groups, since employers are more likely to retain staff with more experience within the organisation. The Covid-19 pandemic has also had a particularly severe impact on many of the sectors that are large employers of younger people, such as the hospitality industry. The scarring effect of youth unemployment on future earnings potential as well as other wellbeing measures means that the large increase that has taken place amid the Covid-19 crisis is a major concern. Moreover, the distorting impact of the furlough scheme on headline labour market figures means that unemployment statistics do not fully capture the effects of the pandemic on the UK labour market.

Figure 14 Share of UKHLS respondents reporting a lower level of life satisfaction in November 2020 than before the pandemic, by age group



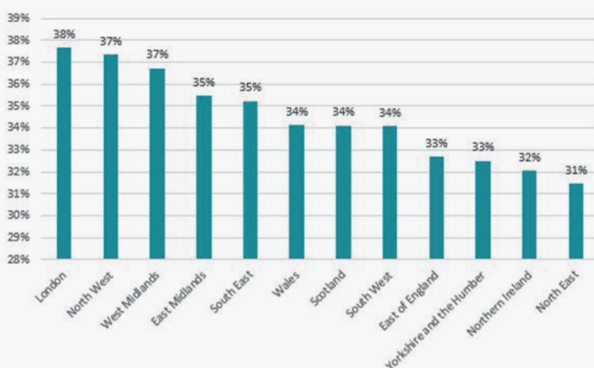
Source: UK Household Longitudinal Survey, Cebr analysis

For those that remained in employment during the pandemic, working activities have been important in maintaining a level of social connectedness. As a result, the social isolation generated by Covid-19-related restrictions will have been significantly more pronounced for retired people, as well as those not active in the workplace. This link between employment and lockdown wellbeing is borne out in the data, with those in the sample who were not in employment in July 2020 being 13% more likely to have reported a fall in life satisfaction than those in employment.

2. Impacts of the Covid-19 crisis on different household groups

Nearly two in five (38%) Londoners reported a lower level of life satisfaction in November 2020 than before the pandemic – the highest share in the UK. The next highest share was observed in the North West, where 37% of UKHLS respondents had a lower level of life satisfaction in November 2020 than before the pandemic. In London, the higher population density will have exacerbated the anxieties and disruption induced by Covid-19 restrictions, which is a potential contributor to the larger than average decline in wellbeing. In the case of the North West, high local infection rates will have been a factor weighing on life satisfaction last November.

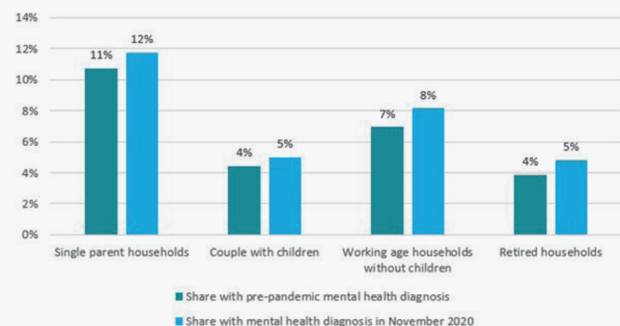
Figure 15 Share of UKHLS respondents reporting a lower level of life satisfaction in November 2020 than before the pandemic, by region



Source: UK Household Longitudinal Survey, Cebr analysis

In November 2020, 6.5% of respondents in the UKHLS had been diagnosed by a doctor or health professional with an emotional, nervous or psychiatric condition. Nearly one in six (16%) of these mental health diagnoses were made since the onset of the Covid-19 pandemic.The comparison in Figure 8, showing rates of mentall illnesses before and during the pandemic point to a concerning spike in the prevelance of mental health issues throughout the UK population.

Figure 16 Share of people with mental health diagnosis before the pandemic and in November 2020, by household group



Source: UK Household Longitudinal Survey, Cebr analysis

The pandemic appears to have had the most severe effects on mental health for older age groups. Among the 4.6% of UKHLS respondents aged 65 or above that had been professionally diagnosed with an emotional, nervous or psychiatric condition in November 2020, nearly one-fifth (19%) of these diagnoses were made since the onset of the pandemic. Similarly, of the 7.8% of respondents aged 55-64 with a diagnosis for a long term mental health condition in November 2020, 18% were diagnosed since the onset of the pandemic.

3. Econometric analysis of the drivers of pandemic experiences

The previous section of this report highlights how the experiences of the pandemic from both a financial and wellbeing perspective have varied considerably across different household groups. This section of the research delves deeper into this topic, using a series of econometric models to identify and quantify the drivers of a range of key economic and social variables during the course of the Covid-19 crisis.

The econometric modelling approach allows the effects of specific variables to be isolated, by holding constant a range of other related characteristics that may also have a significant effect, such as age, gender, ethnicity, income, and employment status.

3.1. Productivity

One of the most significant changes brought about by the Covid-19 crisis is the rapid propagation of remote working. During the height of the first wave of the pandemic in April 2020, nearly half (49%) of people in employment were working from home in some capacity. Almost a year on and with the UK in the midst of its third national lockdown, more than two in five (42%) workers are still working from home. Remote working has been fuelled first and foremost by the government's guidance that "everyone who can work from home must do so". These stringent restrictions on outdoor movements have been imposed in order to contain the spread of the virus. However, the public health situation is such that employees' health concerns would likely have led to a sharp rise in working from home over the past year even in the absence of any formal restrictions.

These developments mean that millions of Brits across the country have had to adapt swiftly to a drastically different working environment. For many households with children, the intermittent closure of schools that has taken place throughout the past year will have compounded the challenge of remote working. Cebr's econometric modelling indicates that the presence of children in the household made it 19% more likely that parents working from home suffered a fall in productivity.

Productivity is closely tied to income, and the hit to productivity that many employees have suffered as a result of remote working threatens to undermine their earnings potential. Although the extent of remote working is likely to recede in the coming months as the economy gradually re-opens (conditional on the continued success of the vaccination rollout and the absence of vaccine-resistant Covid-19 variants), numerous surveys of both households and businesses provide evidence to suggest that a sizeable amount of remote working is likely to endure even after restrictions are lifted. If this long-term shift in working patterns materialises, the results of our analysis suggest that this could have important financial repercussions for households with children.

3. Econometric analysis of the drivers of pandemic experiences

3.2. Ability to save

Cebr has also developed an econometric model to identify the factors that have shaped people's ability to save amid the Covid-19 pandemic. The results of this analysis point to a number of characteristics that have a statistically significant impact on the probability that an individual was able to save at least some of their income during the pandemic, using data from July and November:

- **Living with children** causes a 17% reduction in the chances of having been able to save during a given month. Moreover, Cebr estimates that living with children lowers the amount individuals were able to save per month by £80, equating to £956 over a 12-month period. Households with children often face significantly higher financial commitments than those without children, meaning their ability to save is more limited. Also, the impacts on productivity of having children at home could have further impaired these households' ability to save during the pandemic.

- Each £100 increase in **monthly household income** leads to a 2.0% rise in the chances of having been able to save and a £10.65 increase in the amount saved per month. These figures imply that living with children has an equivalent effect on saving as a £748 fall in monthly household income. Higher income households typically have more income left over after meeting their essential expenditures, providing more room for saving. Covid-19 restrictions also had a greater impact on the capacity for spending in categories that make up a larger share of higher income households' total expenditures, such as travel and recreation.

- Belonging to an **ethnic minority group** lowers the chances of having been able to save by 19%. It is widely acknowledged that in the UK, ethnic minorities have been hit particularly hard by the Covid-19 pandemic. The results of the econometric modelling also suggest that ethnic minorities have been less active in the rise in savings seen in the UK as a whole, which may be due to an array of factors including cultural differences, living arrangements, and pre-existing levels of assets.

3.3. Financial security

The next econometric model focuses on the drivers of financial security during the Covid-19 pandemic. In this study, individuals are classed as financially secure if they report a less than 20% likelihood of facing difficulties paying bills and expenses over a three-month period.

Again, living with children has a statistically significant impact in this critical area. Indeed, the introduction of children to a

3. Econometric analysis of the drivers of pandemic experiences

household is estimated to raise the chances of an individual being financially insecure by 41%. Factors that are key in lowering the chances of being financially insecure include age and monthly income. Cebr estimates that for the average person in the sample, growing a year older reduces the probability of being financially insecure by 3%. Meanwhile, for the average person in the sample, £100 of additional monthly income (across the household) would lower the chances of being financially insecure by 7.7%.

3.4. Mental wellbeing

Finally, our analysis turns to the important question of mental wellbeing during the Covid-19 pandemic. As of November 2020, around 1% of those in the UKHLS without a pre-pandemic mental health diagnosis had been newly diagnosed with an emotional, nervous, or psychiatric disorder by a doctor or health professional since the onset of the pandemic. It is important to note that this group may only represent the tip of the iceberg, with many more new instances of mental health issues likely going undiagnosed.

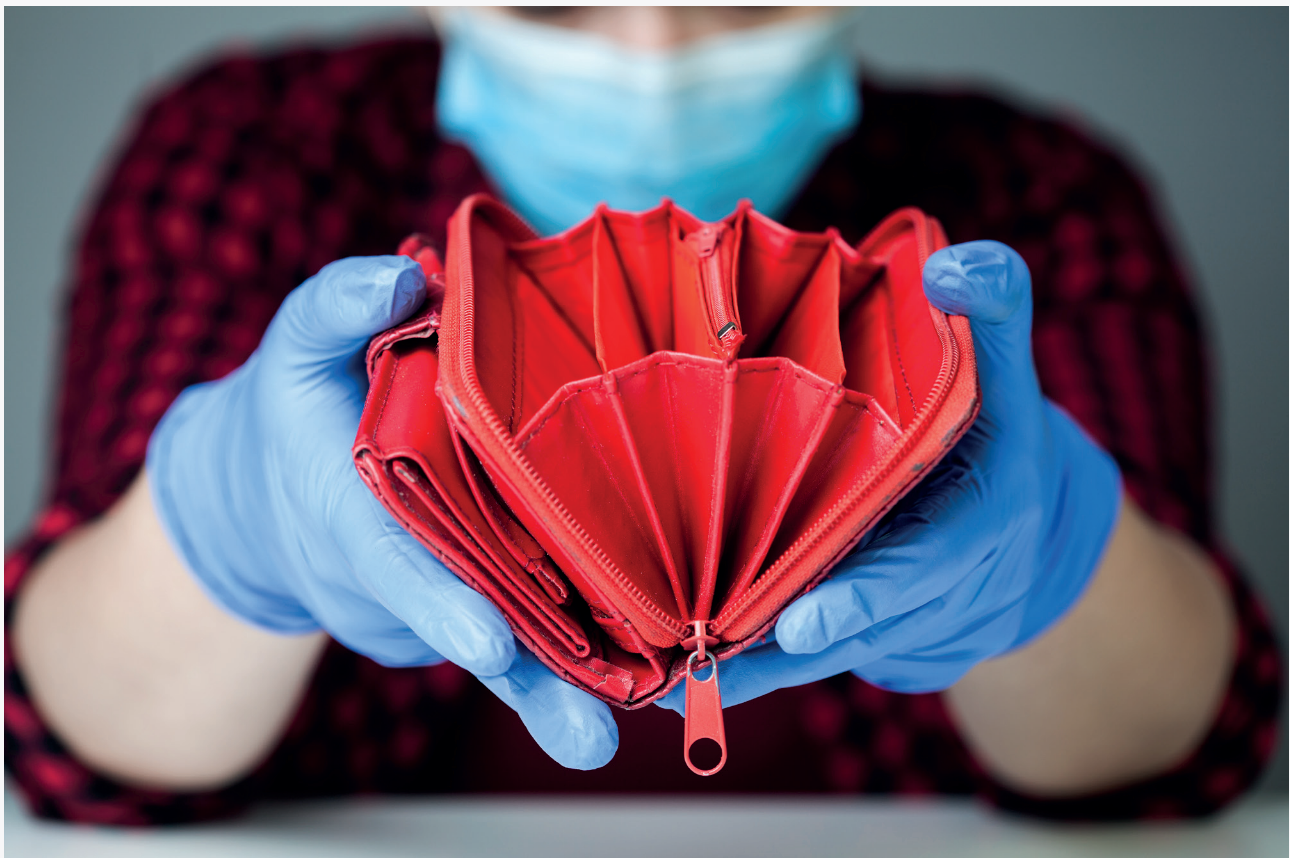
The econometric modelling finds that social isolation is by far the strongest predictor of mental health problems during the Covid-19 pandemic. With lockdown restrictions confining millions of people to their homes for much of the year, the presence of others within the home has been highly important in supporting mental health. Cebr estimates that living with children reduces the likelihood of having been diagnosed with a new mental health issue since the start of the pandemic by 58%. Similarly, living with a partner reduces the likelihood by 56%. Being in employment is another statistically significant factor, which might be related to the important role that workplaces have played in maintaining regular social contact with a variety of people from outside of the household. While monthly household income is another statistically significant predictor of new mental health diagnoses during the Covid-19 pandemic, the estimated magnitude of this effect is smaller than those of the social variables discussed previously. Indeed, a £100 increase in monthly household income is estimated to reduce the probability of having been diagnosed with a new mental health issue during the pandemic by 2.2%.

4. Conclusions

While the Covid-19 pandemic has had a pervasive impact on people's lives across the UK, this research highlights that the effects have been far from uniform. The crisis has exacerbated pre-existing wealth gaps, with lower-income groups and single parent households largely excluded from the lockdown savings boom witnessed in other segments of society. Although the share of people that were able to pay down their debts during the pandemic far outweighs the share that saw their debts go up, there exists a significant minority of people who were forced to borrow more to stay afloat amid the intense financial challenges presented by the Covid-19 crisis. Among these lockdown borrowers, the additional debt burden as a share of monthly income is considerably higher for those with children in the household.

Across a number of financial metrics, living with children is found to have a highly influential effect. For instance, having children at home is estimated to increase the chances of suffering a productivity hit while working from home by 19%. Living with children is also identified as an important factor in lowering financial security and the amount that households are able to save. Indeed, Cebr estimates that living with children has an equivalent effect on saving as a £737 fall in monthly household income.

The adverse impacts of the Covid-19 pandemic extend far beyond the financial toll that the crisis has taken. The data from the UKHLS suggests that one in 100 Brits who did not have a diagnosed mental illness heading into the pandemic have since been diagnosed with an emotional, nervous, or psychiatric condition by a medical professional. The results of our modelling highlight the importance of living arrangements in shaping people's mental health during lockdown. Cebr estimates that living with a partner lowers the risk of having been newly diagnosed with a mental health issue by 56%, while living with children lowers the risk by 58%. These results highlight that while households with children appear to have suffered a greater economic hit amid the Covid-19 pandemic, the effects of this on mental wellbeing have been offset by the reduced level of social isolation that comes with having children at home.



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