

Introduction

The coronavirus outbreak and subsequent lockdown has adversely impacted the economic activity of many sectors in Scotland, with significant implications for the Scottish labour market. The sharp contraction in economic activity, across many sectors and industries, is affecting labour demand with profound implications for household finances. Whilst it is difficult to predict the nature and scale of the outbreak's impact on the labour market and household finances at this point in time, recent survey data suggests that businesses are reviewing their staffing needs, with inactivity and unemployment expected to rise quickly. There are early signs of rising unemployment and financial distress for households such as the surge in benefit claims since the beginning of the lockdown.

This note examines briefly the impact of emerging labour market effects (such as job losses and reduced earnings) that have come about as a result of the coronavirus outbreak and subsequent UK lockdown. The note also discusses the various categories of workers that are most likely to be affected by these labour market changes as well as assessing the impact of the support measures put in place by the UK Government for individuals and households, including identifying their limitations or gaps. The note also considers potential impacts for those with various protected characteristics, including women, minority ethnic people, disabled people, lone parents, older and younger people, as well as those experiencing socio-economic disadvantage.

Key Points

The coronavirus outbreak and national lockdown has come at a great cost to the economy.

- Many commentators now agree that COVID-19 will lead to a recession, which will potentially be worse than the 2008 financial crisis. In its recent economic outlook, the IMF¹ has warned that the pandemic will trigger a global recession that would very likely be the deepest economic contraction since the 1930s.
- Scenario analysis from the Office for Budget Responsibility (OBR)² suggests that UK gross domestic product (GDP) could contract by more than a third (35%) in the second quarter, with unemployment rising by more than 2 million (10%) – the majority of which will be among lower paid workers.
- Similarly, initial analysis by the Office of the Chief Economic Adviser (OCEA) suggests that the fall in Scottish GDP could be as much as 25% in one month. To provide a sense of the scale and speed of contraction, the 2008 financial crisis saw around a 5% fall in GDP over 12 months (4 quarters).

The sharp contraction in consumer demand and uncertainty about the duration of lockdown is in turn affecting businesses' demand for labour, particularly amongst those with limited cash reserves or unable to access credit.

- The lockdown is taking a heavy toll on many businesses across the country as consumer confidence and spending has taken a significant hit. As a result, many businesses are struggling to stay afloat as demand for their goods or services has fallen sharply or completely dried up.

- Many are now reviewing their staffing in a bid to manage costs³, with the current surge in benefit claims suggesting that businesses are laying off staff or that many workers are seeing a significant reduction in their earnings, at an unprecedented scale and speed.
- Recent DWP figures⁴ show that in just the first two weeks of lockdown, nearly a million people applied for Universal Credit; this compares to about 100,000 claims on average in a typical two week period before the lockdown. This increase comes amid growing warnings that many businesses could close over the coming months, which could lead to an even larger increase in unemployment.
- While it is likely that many businesses will try as far as they can to hold on to staff and draw on various support offered by the government, those already struggling to balance their books and unable to access credit may be forced to close if unable to wait for support.

As businesses review their staffing (through job losses, reduction in hours worked or earnings) and some workers take time off for sickness, isolation or for caring responsibilities (which may result in a reduction in their earnings), we expect workers in the following categories to be most affected by this crisis:

Those employed in sectors most affected and businesses with limited capital reserves

- Those working in adversely affected industries or sectors (e.g. hospitality, tourism, manufacturing, entertainment, non-food retail and wholesale) are likely to be negatively affected by the lockdown.
- Those working for firms that are i) reliant on cash flow and therefore lack savings/liquidity without which they cannot survive e.g. small businesses, ii) facing significant reduced demand and unable to access credit lines thus unable to stay afloat.

Those on insecure work arrangements

- Workers on less secure work arrangements or contracts are more likely to be negatively affected by the lockdown and could be vulnerable to job losses or reduced earnings.
- These will include non-permanent staff, those on temporary contracts, those not paid a salary, and those that work variable hours (e.g. zero hour contracts) and the self-employed/contractors.

Low skilled and low earners

- Workers on low incomes or those with low skills are more likely to be affected negatively as they will on the whole be unable to work from home. Many of these are likely to be employed in the most affected sectors e.g. retail and hospitality.
- The IFS⁵ estimates that low earners were seven times more likely than high earners to have worked in a sector that has shut down as a result of the lockdown.

Occupations/roles with less ability to work from home

- Those with customer facing roles e.g. retail staff, cleaners, drivers etc. are likely to see reductions in earnings or face job losses as they are less able to work from home – especially those working in adversely affected industries or sectors which require on-site working.

Unemployed and those seeking to enter the labour market

- Those that lost their jobs just prior to lockdown (and have not been furloughed) may now find it relatively harder to apply for jobs during or in the aftermath of lockdown. Despite increasing labour demand in some sectors e.g. food retail, analysis by the Resolution Foundation⁶ suggests that there has been an overall drop in vacancy postings.
- The initial impact of the lockdown is also likely to be hardest felt by those leaving education and looking to enter the labour market. Analysis of previous crises⁷ suggests that recent education leavers experience by far the largest increase in unemployment.

Those taking sick leave and on less generous sick pay and those unable to take paid special leave to care for relatives

- Those taking time off work as a result of sickness and needing to claim Statutory Sick Pay (SSP) which may be significantly lower than their earnings.
- Those needing to take time off to care for sick relatives or caring for children but who cannot take paid special leave or have time-limited special leave and may therefore need to take unpaid leave if not furloughed by their employer.

Households where all earners are impacted

- Single-earner households with an affected earner (e.g. lone parents, couples with single earner), or couples where both earners face a reduction in earnings or lose their jobs, are more vulnerable than those with partners or other household members who are not directly affected by the lockdown, and therefore able to cushion the fall in household earnings.

The UK Government has moved swiftly and set out an unprecedented package of financial support for businesses and individuals to minimise any longer-term damage to the economy and to cushion household finances. For individuals and households, the key measures introduced include:

- A Job Retention Scheme (JRS)⁸ which covers 80% of the salary of furloughed employees up to a cap of £2,500 per month.
- A Self Employment Income Support Scheme (SEISS)⁹ which covers 80% of self-employed profits, up to a cap of £2,500 per month, for those who report that their income has been adversely affected by the coronavirus.
- Increased generosity and ease of access to statutory sick pay (SSP)¹⁰ and increased generosity of benefits for those out of work or on low incomes¹¹.

While the UK Government has set out an extensive package of support to shore up individuals' and households' finances during the crisis, there are gaps in these measures and some people are more likely to benefit than others. For example:

- The TUC suggests that women, those in insecure work, younger and older workers are most likely to miss out on SSP through earning below the minimum threshold.¹²
- Low earners and younger people are more likely to work in many of the 'shut down' sectors and are therefore likely to be impacted more by any adverse labour market changes or be supported via the Job Retention Scheme.¹³ Before lockdown, the industries incorporating wholesale and retail trade, accommodation, food and beverage services and entertainment and recreation accounted for 21% of overall women's employment and 18% of

men's (2019).¹⁴ They also accounted for a higher proportion of part-time workers – 30% of women and 42% of men who worked part-time were employed in these industries.

- For some low earners furloughed via the Job Retention Scheme, the 80% of PAYE earnings threshold could push their hourly pay below the current rate of the real living wage (£9.30/hour) if their employers do not make up the 20% shortfall. If only 80% of usual earnings are paid to staff, median hourly pay will fall below the real living wage in sectors including Wholesale and Retail Trade, Accommodation and Food Services, and Arts, Entertainment and Recreation.¹⁵
- A higher share of the visible minority ethnic population in employment are employed in the hospitality industry (one of the most affected) compared with the white population (31.7% vs 18.6%).¹⁶
- There are concerns that the design of Universal Credit (particularly single household payments) hinders progress towards gender equality and may put women at increased risk of domestic abuse and financial coercion.¹⁷
- Universal Credit and housing benefit are not available to people whose immigration status means that they have no recourse to public funds.¹⁸

Despite the range of support measures offered by the UK Government to cushion household finances, changes occurring in the labour market and uncertainty about the duration of the lockdown are beginning to cause financial anxiety amongst households, with many concerned for their job security or already feeling the financial repercussions of the outbreak and lockdown.

- Job losses, reduced earnings and delayed benefit payments may result in missed bill payments, increased debt and individuals and households forgoing some basic necessities (e.g. food or utilities such as heating). Those on low incomes, that are asset and capital poor, and those with poor credit ratings or in persistent debt are likely to be most affected.
- The latest data suggests that a typical household in Scotland had £5,500 in financial wealth after any non-mortgage debt was deducted (2016-18).¹⁹ However, those in the least wealthy 20% were in debt. 2.9% of households were in unmanageable debt, with lone parent and younger households more likely to be in this situation.
- It is clear therefore that many households do not have enough set aside even in relatively good times. This is concerning given the pace of changes occurring in the labour market (job losses and reduced earnings), with potentially many more job losses likely to come in the weeks and months ahead if lockdown is prolonged and recovery is slow.
- Recent analysis by the Centre for Economics and Business Research (CEBR)²⁰ estimates that UK households will see a £43 billion reduction in disposable income (income net taxes and benefits) in the second quarter of the year as a result of the coronavirus led market changes (redundancies, reduced hours and reduced earnings). It estimates that this is equivalent to a drop of 17% or around £515 per household per month, during the lockdown.
- Findings from ONS's²¹ recent survey on the impact of the coronavirus on households suggest that almost half of the GB working age population have seen their work affected, with many seeing their hours cut, their workplace closed, being furloughed or losing their jobs. The knock-on effect is that

almost a quarter of the population have already seen an impact on their household finances, with most seeing their income cut. Nearly a third of those who have seen their income affected have had to draw on their savings to cover their basic living costs, such as food, bills and housing costs, while more than one in five people said they are struggling to pay their bills. The survey also found that about half of adults expected their finances to get worse over the next 12 months.

Drawing on multiple evidence sources we anticipate that the following groups will be hardest hit financially:

- **Low earners:** Most low earners are unlikely to be able to work from home and a large proportion also work in the hardest-hit or shut down sectors. Any reductions to pay are likely to put significant pressure on their finances, especially given that lower income households were far more likely to have already been financially vulnerable before the crisis.²² More generous benefit measures and support for the self-employed may aid many low earners, but likely delays in payments could result in reliance on savings, borrowing, missed bill payments or foregoing basic necessities in the short term.
- **Younger people:** The employment rate for those aged 16-24 is lower than for those in older age groups (57.2% in 2018, and 80.6% for those aged 25-34 – compared to 83.7% for those aged 35-49 and 69.7% for those aged 50-64).²³ Younger people are also more likely to be working in hard-hit sectors such as retail and leisure and entertainment²⁴, and to be working part-time or on less secure contracts (at a UK level).²⁵ Younger people were more likely to be financially vulnerable and in unmanageable debt before the pandemic,²⁶ and recent surveys are indicating that under-35s are already resorting more than older people to overdrafts, borrowing and using up savings²⁷ and are more concerned about paying their rent.²⁸ Living with parents may help to cushion many under-25s to some extent.²⁹
- **Women:** Women's overrepresentation as both unpaid carers³⁰ and in health and social care jobs³¹ is likely to put them at higher risk of contracting COVID-19, which may result in a fall in earnings as well as serious health implications. Their disproportionate shouldering of caring responsibilities may also make it harder to maintain or take on employment. Women also account for the majority of employment in many of the 'shut-down' sectors, such as retail, accommodation and food and beverage services.³² Women earn less than men on average,³³ are less likely to be eligible for sick pay,³⁴ and are over-represented in many of the sectors where median hourly pay will fall below the current rate of the real living wage if employers do not bridge the 20% shortfall for furloughed staff. Women are also the vast majority of lone parents, who face particular difficulties as outlined below.³⁵
- **Minority ethnic people:** Previous economic recessions have disproportionately impacted minority ethnic employment,³⁶ and this may be repeated, especially given that a higher share of the visible minority ethnic population in employment work in the hospitality industry (31.7% vs 18.6% of the White population).³⁷ Gypsy/Travellers were also most likely to be employed in hospitality³⁸ at the

time of the last Census in 2011 (31% of all those who were employed, compared to 21% for the employed population as a whole).³⁹ Asian men and women were particularly likely to be working in wholesale and retail and accommodation and food services in 2011.⁴⁰ Pakistani and Bangladeshi workers have the lowest median hourly pay⁴¹ and are also the least likely to work from home in the UK⁴², while in Scotland, African women were by far the most likely to be working in either caring, leisure and other service occupations or sales and customer service occupations, where homeworking may be much less feasible.⁴³ Those who identified as 'White: Polish', 'White: Gypsy/Traveller', 'African', 'White: other' or 'Other Asian' were all more likely to be in Elementary occupations⁴⁴, where homeworking may be less feasible, than for the employed population as a whole (35%, 20%, 18%, 17% and 17% respectively, compared to 12% overall).⁴⁵ 44% of women who identified as 'African' and 34% of those identifying as 'Caribbean or Black' worked in human health and social work activities in 2011, which is likely to put them at higher risk of contracting COVID-19 and for some therefore dropping down to statutory or contractual sick pay. Notably, there are growing calls for the UK Government to investigate if and why Black, Asian and minority ethnic medical staff are more vulnerable to coronavirus deaths.⁴⁶

- **Disabled people:** Families with disabled members are more likely to be in poverty,⁴⁷ while disabled people are known to earn less on average than non-disabled people at the UK level, meaning that the impact of any reduction in income is likely to be particularly harmful.⁴⁸ There are slightly higher proportions of disabled people working in some of the areas currently experiencing damaging impacts from COVID-19-related restrictions,⁴⁹ and a slightly higher proportion of disabled people in employment are self-employed.⁵⁰ Disabled people are far more likely than non-disabled people to be in socially rented housing and much less likely to be buying their home with the help of a loan/mortgage.⁵¹ While the ban on evictions offers some temporary protection for renters, paying back any missed rent in the future may be challenging for those who continue to experience unemployment or a reduction in income going forwards.
- **Those living in more deprived areas:** These are least likely to say that they are managing well financially and therefore may be particularly vulnerable if their income is reduced.⁵² They are also more likely than those in less deprived areas to be unpaid carers⁵³ and/or lone parents,⁵⁴ which for some people may mean they are unable to work and may need to take unpaid leave if paid special leave or time limited special leave is not available and if they are not furloughed. Finally, those living in the most deprived areas are less likely to be buying their house with the help of a loan or mortgage and far more likely to be renting in the social sector.⁵⁵ They are therefore more likely to benefit from current measures taken to restrict evictions, but may still face difficulties in meeting rent payments in the longer term, especially given that many living in deprived areas were not managing well financially before the crisis.
- **Lone parents:** Lone parent households were already, before the pandemic, much more likely than average to be in unmanageable debt and also far more likely than average to be financially vulnerable.⁵⁶ Households with only one

earner are more exposed to the impacts of reductions in earnings or job losses than those with partners or other household members not directly affected by the lockdown. Lone parents may also be less likely to have someone to share childcare with and some may be unable to work as a result. Those needing to take time off to care and who cannot take paid special leave or have time limited special leave may need to take unpaid leave if their employer does not furlough them. Lone parents are disproportionately women and far more likely to live in more deprived areas.⁵⁷

[Note that many of these groups overlap, for example the vast majority of lone parents are women and younger people. Women, disabled people and those of many minority ethnicities are all more likely to be low earners.]

In addition to UKG action, the Scottish Government has announced its own measures in support of businesses and households affected by the coronavirus and lockdown, which include a £2.2 billion package⁵⁸ of support for businesses and a £350 million fund⁵⁹ in support of communities.

- Continued analysis of the impact of the coronavirus and lockdown on businesses, individuals and communities across our diverse population will allow for further tailored policy development to support people through the pandemic.

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⁴⁴ Section 9 of the Standard Occupational Classification (SOC) codes. This major group covers occupations which require the knowledge and experience necessary to perform mostly routine tasks, often involving the use of simple hand-held tools and, in some cases, requiring a degree of physical effort. Most occupations in this major group do not require formal educational qualifications but will usually have an associated short period of formal experience-related training.

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