Office for National Statistics

Article

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

How the nationwide lockdown measures and social distancing policies introduced in the context of the pandemic had a major impact on the UK's institutional sectors in Quarter 2 (Apr to June) 2020.

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1 . Overview

The nationwide lockdown measures and social distancing policies introduced in the context of the coronavirus (COVID-19) pandemic had a major impact on the UK’s institutional sectors in Quarter 2 (Apr to June) 2020.

In Quarter 1 (Jan to Mar) 2020, movements were largely observed in the balance sheet, with activity only impacted by movement restrictions at the end of the quarter. The latest quarter shows unprecedented government interventions as the government provided stimulus to support households and private non-financial corporations (PNFCs) as the coronavirus pandemic triggered an abrupt fall in income, earnings and business activity. This is reflected in the large non-financial and financial account flows of the government, households and private non-financial corporations’ sectors.

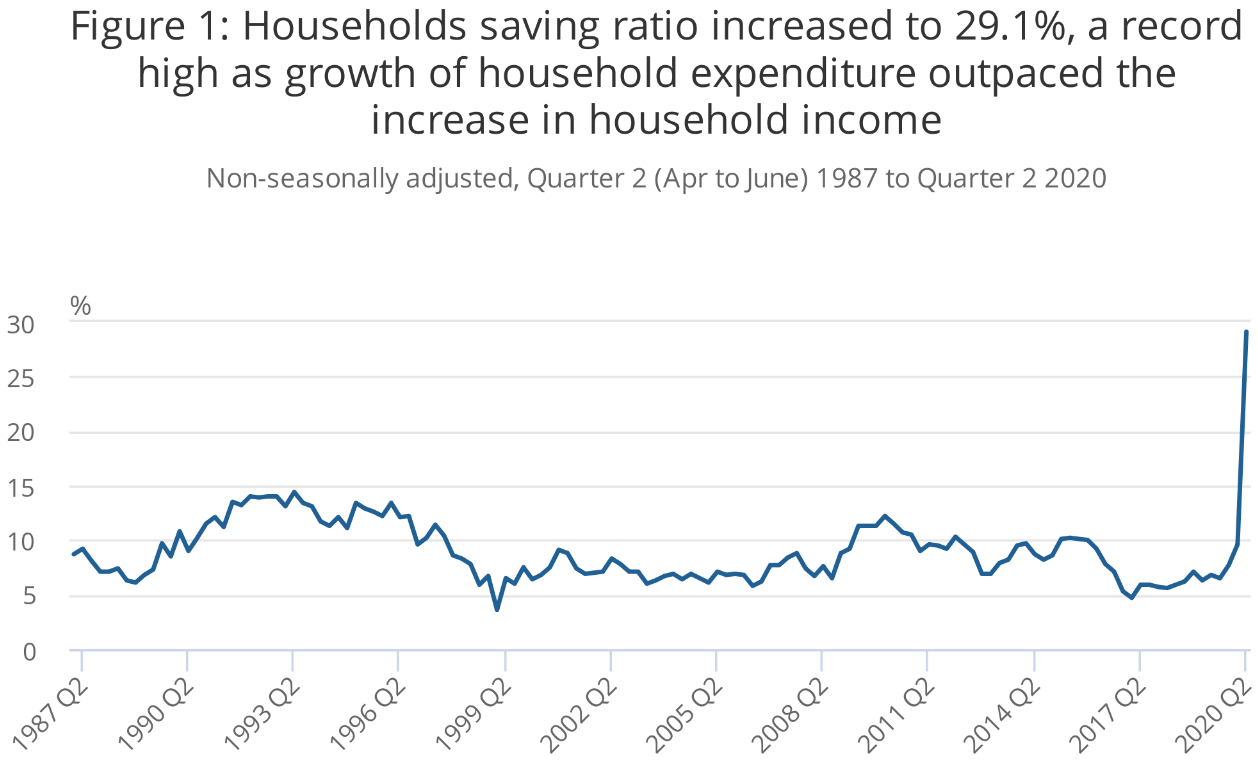
Quarter 2 saw the biggest increase in household savings since records began with the households saving rate increasing to 29.1% because of a rapid decline in consumption expenditure that was offset by a fall in household income that did not fall to a large extent, because of government support schemes such as job retention schemes and temporary changes to existing social security packages.

In Quarter 2 2020, PNFCs’ investment in gross fixed capital formation (GFCF) fell to its lowest level since records began, with many companies impacted by decreased demand and supply chain disruption. Against this backdrop of heightened economic uncertainty, government support schemes implemented in Quarter 2 2020 have enabled PNFCs to raise capital to preserve cash.

2 . Household savings ratio

Figure 1: Households saving ratio increased to 29.1%, a record high as growth of household expenditure outpaced the increase in household income

Non-seasonally adjusted, Quarter 2 (Apr to June) 1987 to Quarter 2 2020



Source: Office for National Statistics – Coronavirus and its impact on the UK Institutional Sector Accounts

The household savings ratio rose to 29.1% in Quarter 2 (Apr to June) 2020, the highest since records began. The increase in the savings ratio in the latest quarter was driven by a huge decrease in household final consumption expenditure of £80.5 billion as households stopped spending at a rapid rate because lockdown measures prevented households from spending on non-essential items. Therefore, large falls were seen on expenditure in restaurants, hotels, clothing and footwear, recreation, and transport.

During this quarter, consumption expenditure on car registrations and sales fell by 97% in April compared with a year ago. In addition to reduced spending opportunities, households may have opted to cut their spending on discretionary items to offset potential losses in income. This change in households' spending behaviour is reflected in the IHS Markit's household index, which dropped as consumers had increased concerns over their incomes with perceptions of job security falling to their lowest level since the survey began in 2009.

Another driver of the rise in the savings ratio was the rise in net social benefits other than social transfers in kind (SBOTTIK) of £4.31 billion, which is shown in the substantial increase in applications for Universal Credit, as 1.5 million claims were made between 13 March and 9 April. During the same month, Office for National Statistics (ONS) data show that the Claimant Count rose from 856,000 to 2.1 million. This also corresponds with a significant fall in the number of employees on payrolls, with the decline in Quarter 2 being the largest since the 2008 financial crisis.

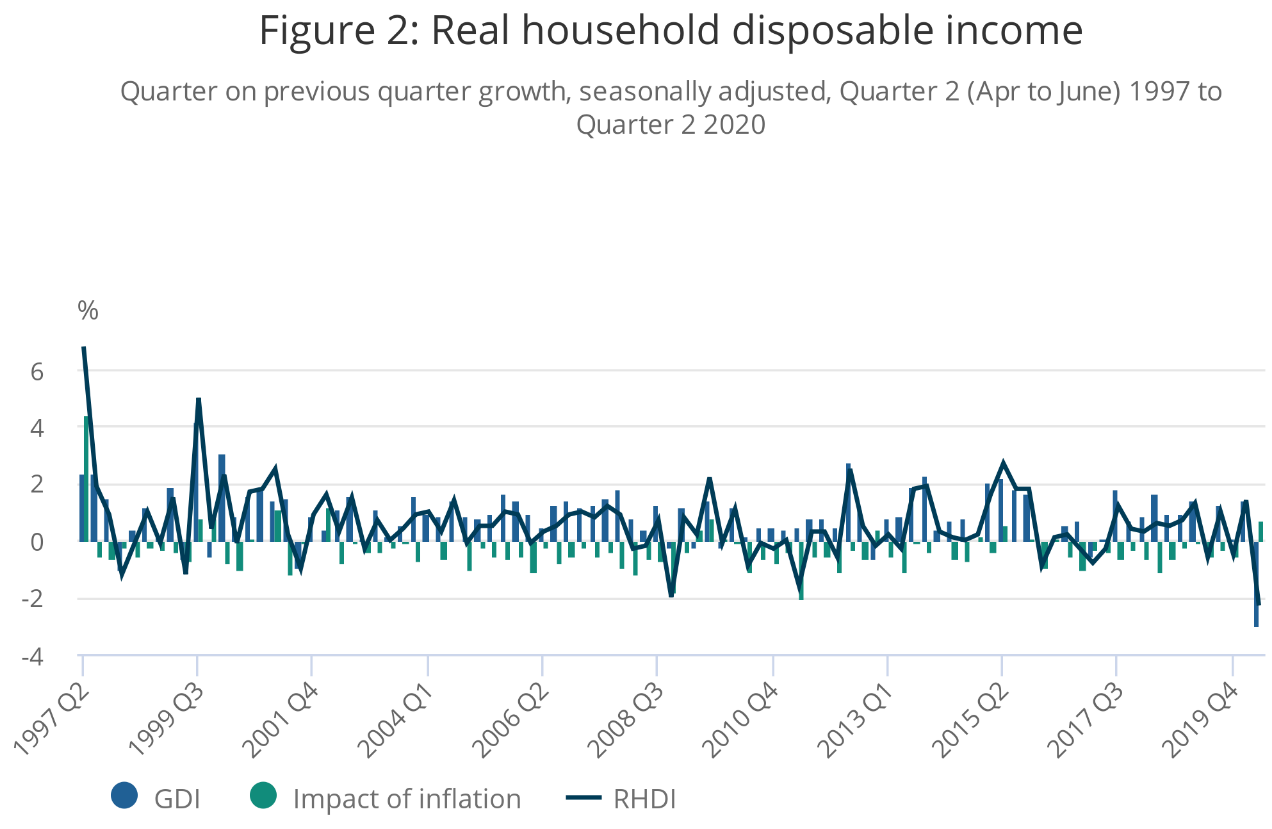
More about coronavirus

- Find the latest on coronavirus (COVID-19) in the UK.
- All ONS analysis, summarised in our coronavirus roundup.
- View all coronavirus data.
- Find out how we are working safely in our studies and surveys.

3 . Real household disposable income

Figure 2: Real household disposable income

Quarter on previous quarter growth, seasonally adjusted, Quarter 2 (Apr to June) 1997 to Quarter 2 2020



Source: Office for National Statistics – Coronavirus and its impact on the UK Institutional Sector Accounts

Real household disposable income (RHDI) in Quarter 2 (Apr to June) 2020 decreased by 2.3%, a reversal of growth in recent years and the largest fall on record. This means that after accounting for price increases experienced by households, incomes after tax deceased by 2.3%.

The decrease in gross disposable income can be attributed to the decline in wages and salaries resulting from a decrease in employment and wage reductions linked to the furlough scheme. To further explore the latest labour market statistics, see Labour market overview, UK: August 2020

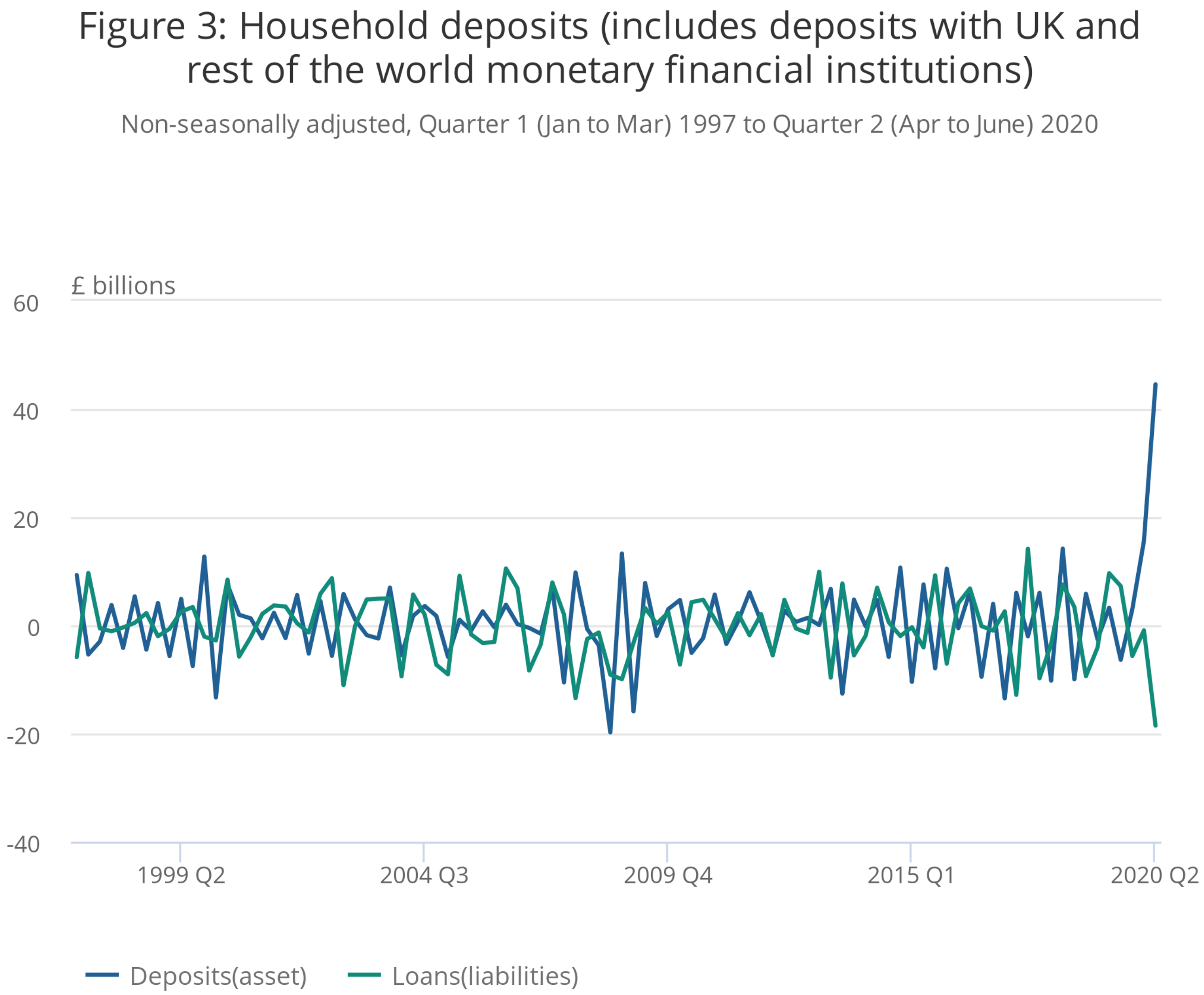
The decline in household income would have been much more severe had it not been helped by government support schemes. The government introduced three schemes to support households reduced incomes: Coronavirus Job Retention Scheme (CJRS) with furloughed workers receiving up to 80% of their previous income, Self-Employment Income Support Scheme (SEISS) and an extension to existing social security schemes. In addition, mortgage payment holidays were also available to some households from April. According to the Bank of England, these have been taken up by approximately 2 million households.

In the financial account, households increased their net lending to £94.8 billion in Quarter 2 2020 following net lending of £24.4 billion in Quarter 1 (Jan to Mar) 2020. This was driven by the record increase in deposits and a fall in loan liabilities. In Quarter 2, we saw a sharp divergence between loans taken out and bank deposits. Usually, there is a closer convergence between the two, which suggests that households save less and that, traditionally, UK households have been net borrowers rather than net lenders.

4 . Household accumulation of liquid assets

Figure 3: Household deposits (includes deposits with UK and rest of the world monetary financial institutions)

Non-seasonally adjusted, Quarter 1 (Jan to Mar) 1997 to Quarter 2 (Apr to June) 2020



Source: Office for National Statistics – Coronavirus and its impact on the UK Institutional Sector Accounts

As Figure 3 shows, household currency and deposits increased by £44.6 billion in Quarter 2 (Apr to June) 2020, which eclipses the Quarter 1 (Jan to Mar) 2020 record by threefold despite the Bank of England setting the interest rate to a historic low level at 0.1%, to ease the financial conditions for borrowers and stimulate spending. These sharp movements towards bank deposits are mirrored across advanced economies including Italy and France, according to published data from the Bank of England and European Central Bank.

The strong increase in bank deposits coincided with limited spending opportunities because of lockdown restrictions, but another reason is that heightened uncertainty over income potentially altered households' financial choices causing an increase in precautionary savings. This is consistent with the GFK consumer confidence survey (conducted in early April), which showed the overall consumer confidence index, which dropped from negative 9 in the survey conducted in March to negative 34, slightly up from early April's negative 34 figure; this was its largest fall since the survey began in 1974.

Households decreased their loan liabilities by £18.5 billion in comparison to Quarter 1, as they opted to pay down debt and reduce borrowing through the lack of spending. This is supported by Bank of England data, which show rapid declines in household demand for unsecured borrowing and record repayments made during April.

The record saving ratio and evidence of deleveraging (paying down debt) do not mean that all households are better off financially, as different households will have had different experiences. Data at different points of the income distribution show that the financial position for lower income households has not improved during this quarter, since the industry composition of the pandemic shock most likely fell heavily on retail, hospitality and restaurants, reducing the income of or increasing the likelihood of unemployment for many households that were already in a lower income threshold.

Office for National Statistics (ONS) research into personal and economic well-being during the pandemic has found that as lockdown continued, there were trends of growing economic inequality, as more low-income individuals were less likely to be able to save for the future compared with high-income individuals. This trend continued after some easing of restrictions throughout May and June. This is further supported by the think tank Resolution Foundation, which showed that the financial squeeze has been particularly felt by poorer households who have seen a substantial rise in their debt level as they have been unable to reduce expenditure, since a larger proportion of their spending is on essentials.

After the lockdown period (July), another measure of financial resilience – the ability to afford a necessary, one-off expense – worsened after June. This was particularly so for people with a personal income of between £10,000 and £20,000, who saw the largest rise in the number of people who could not afford this expense.

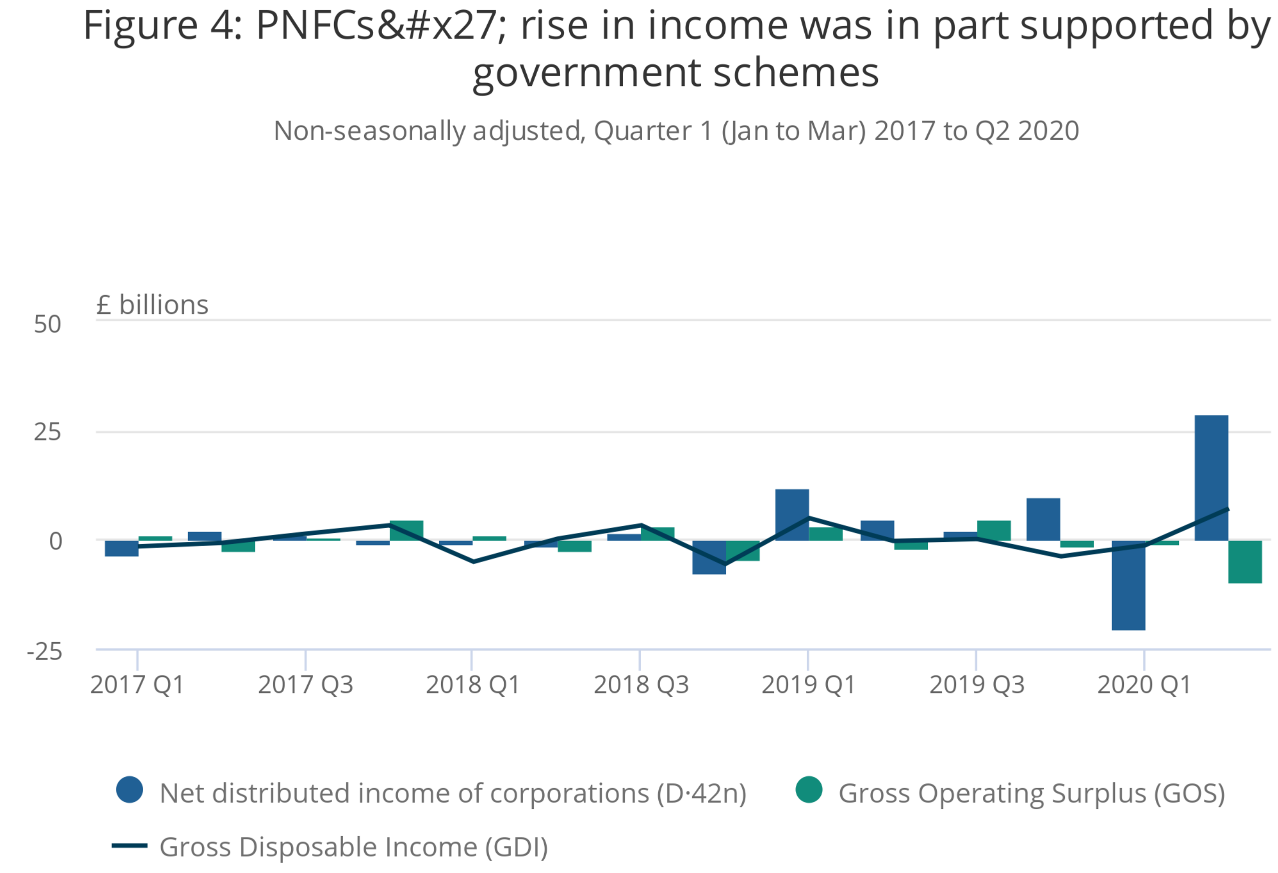
Additionally, people's expectations surrounding their own finances and the UK economy continued to worsen after the lockdown, especially as more people expected it would take longer than a year for life to return to normal. It is worth noting that these measures are sourced from the weekly Opinions and Lifestyle Survey (OPN) and are therefore not directly comparable to the national accounts households savings ratio, but they do help provide helpful context.

5 . Private non-financial corporations

PNFCs saw a rise in their income

Figure 4: PNFCs' rise in income was in part supported by government schemes

Non-seasonally adjusted, Quarter 1 (Jan to Mar) 2017 to Q2 2020



Source: Office for National Statistics – Coronavirus and its impact on the UK Institutional Sector Accounts

Within the private non-financial corporations (PNFCs) sector, some industries including airline, restaurants and hospitality were severely affected by the lockdown measures put in place in April and May since these industries are reliant on consumer footfall. As this fell, it served to depress sales and revenue. This is reflected in the £9.5 billion fall in PNFC gross operating surplus (GOS). According to Ernst and Young, UK-quoted companies issued 165 profit warnings in Quarter 2 (Apr to June) 2020.

To mitigate these losses of income, the government intervened through various loan and subsidy schemes such as the £25,000 business grant scheme for businesses in retail, hospitality, tourism and leisure, which has served to mitigate against the larger decline in GOS.

To preserve cash flow and offset weaker earnings, firms have continued to cancel dividends and reduced engagement in share buyback programmes, as corporations hold back profits in anticipation of the weak quarter. This is reflected in the increase in the net distributed income (which includes dividends) for PNFCs of £28 billion as payments fell sharply.

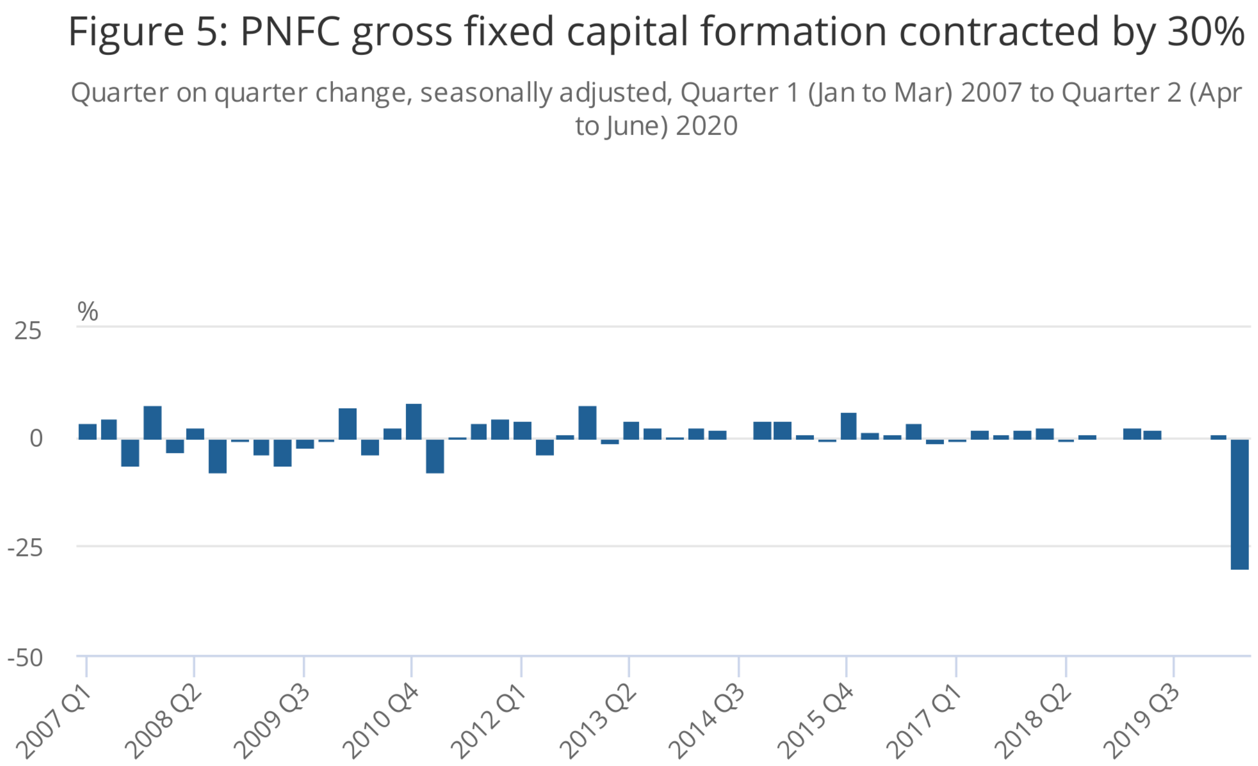
Despite an increase in income, PNFCs have cut back on their capital expenditure spending. This is shown in the contraction of gross fixed capital formation (GFCF), which fell by £16 billion compared with the previous quarter, its largest contraction on record. As UK industry confidence in the UK [fell to negative 87 in Quarter 2 2020, down from the previous three-month figure of positive 23](), its lowest level since records began in the 1950s, manufacturing suffered negatively from shutdowns in response to the pandemic; this is reflected in the sharp contraction in GFCF, as shown in Figure 5.

From the Quarterly Acquisitions and Disposables of Capital Asset Survey, we received some 2,000 coronavirus-related comments from businesses with many citing the coronavirus pandemic as having been a major cause of the reduction or delay in investment. This is further reinforced in the latest Business Impact of Coronavirus (COVID-19) Survey (BICS) conducted during the period 20 April to 3 May, which showed that 22% of businesses that responded had temporarily stopped trading, with huge variations by sector. Falls in stocks for retail trades, wholesale and motor trades were also a major driver of the overall fall in capital expenditure as seen in the Quarterly Stocks Survey (QSS) and BICS. According to the Quarter 2 2020 Bank of England summary report, companies have cancelled or postponed non-essential investment to preserve cash buffers. This unprecedented pattern is reflective of businesses' process of balance sheet repair and the need to build up large cash because of concerns about the lack of consumer spending and low business sentiment

This is shown in the contraction of gross fixed capital formation (GFCF), which fell by £16 billion compared with the previous quarter, its largest contraction on record. As UK industry confidence in the UK fell to [negative 87 in Quarter 2 2020 down from the previous three-month figure of positive 23](), its lowest level since records began in the 1950s, manufacturing suffered negatively from shutdowns in response to the pandemic. This is reflected in the sharp contraction in GFCF, as shown in Figure 5.

Figure 5: PNFC gross fixed capital formation contracted by 30%

Quarter on quarter change, seasonally adjusted, Quarter 1 (Jan to Mar) 2007 to Quarter 2 (Apr to June) 2020



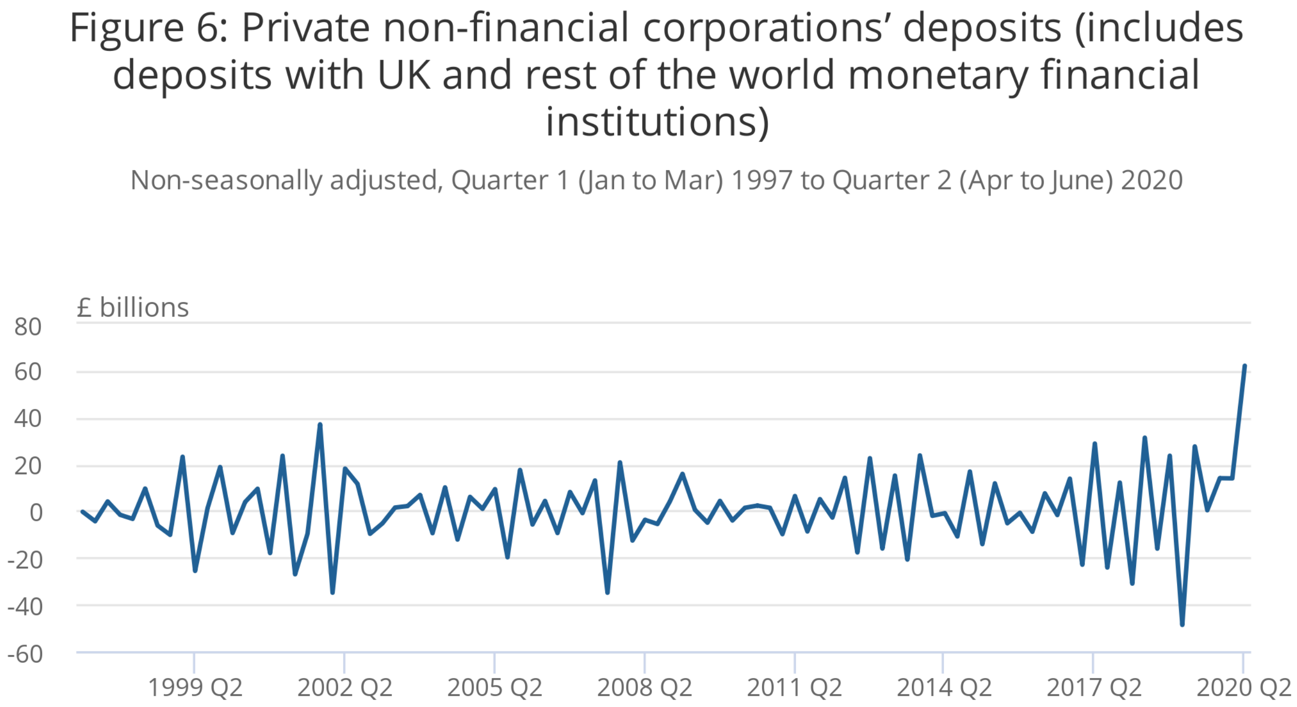
Source: Office for National Statistics – Coronavirus and its impact on the UK Institutional Sector Accounts

PNFCs’ marked record increase in deposits is a continuation of the trend in Quarter 1 2020

PNFCs’ preference to preserve cash in the non-financial account is mirrored in their activity in the financial account with deposits increasing by £62.1 billion, a record high as seen in Figure 6.

Figure 6: Private non-financial corporations’ deposits (includes deposits with UK and rest of the world monetary financial institutions)

Non-seasonally adjusted, Quarter 1 (Jan to Mar) 1997 to Quarter 2 (Apr to June) 2020



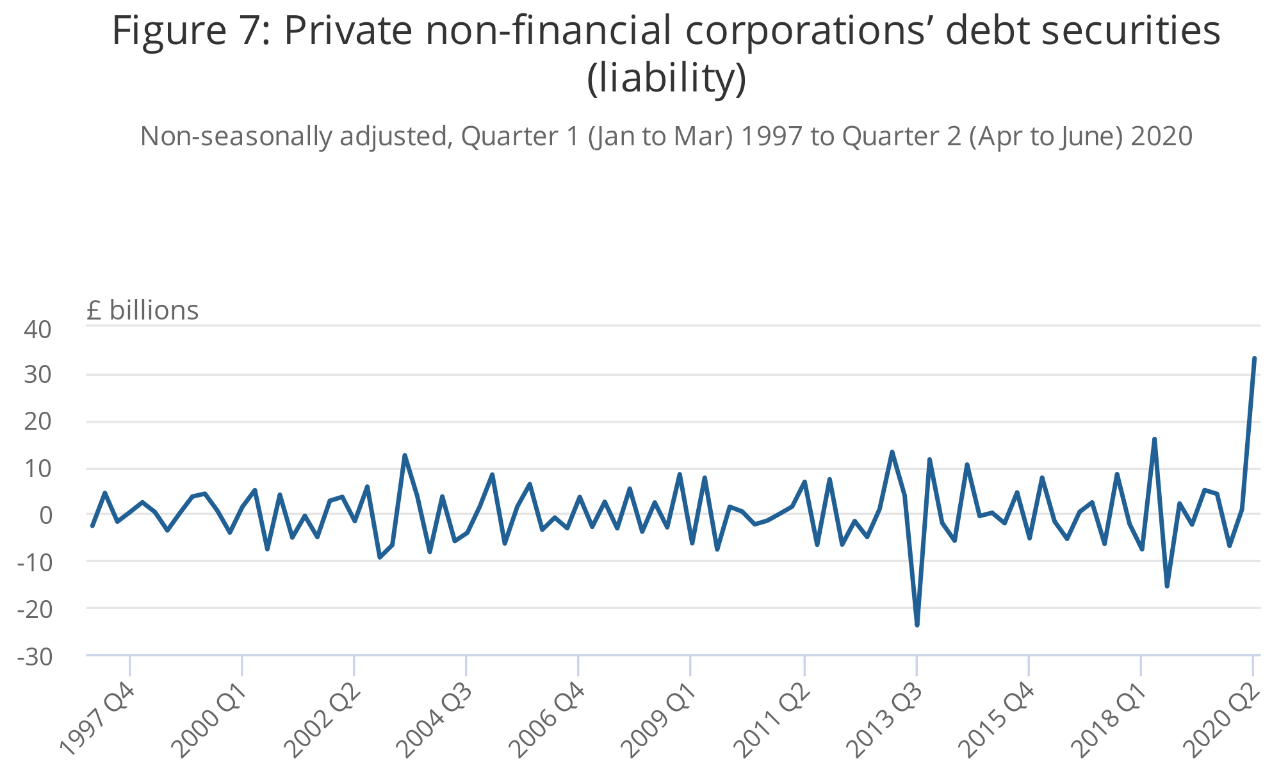
Source: Office for National Statistics – Coronavirus and its impact on the UK Institutional Sector Accounts

This sharp surge resulted in record deposits levels. The increase in deposits in Quarter 2 reflects an increase in demand of liquid assets. The increase in deposits in Quarter 2 reflects an increase in demand for liquid assets, as the coronavirus pandemic has put pressure on many businesses’ cash flows.

To increase cash deposits and improve their liquidity position, PNFCs in Quarter 2 2020 raised funds through bond issuance. The marked increase in bond issuance is shown in Figure 7.

Figure 7: Private non-financial corporations’ debt securities (liability)

Non-seasonally adjusted, Quarter 1 (Jan to Mar) 1997 to Quarter 2 (Apr to June) 2020



Source: Office for National Statistics – Coronavirus and its impact on the UK Institutional Sector Accounts

In Quarter 2 2020, PNFCs’ debt security liabilities increased by £33.2 billion. This has been partly driven by the fall in the corporate bond spread as the value of riskier assets increased. The effect of market value increases has been noted by the Bank of England: “there was very high issuance of PNFC bonds in both April and June, as a result of corporates taking advantage of buoyant demand for debt to shore up their balance sheets in the face of the COVID crisis.”

Within debt securities, the large rise was partly because of companies taking advantage of the [COVID Corporate Financing Facility (CCFF)](), which provides funding to businesses through government purchasing commercial paper issued by PNFCs. This scheme has enabled PNFCs to raise a large amount of external finance, providing them with additional liquidity.

Finally, in Quarter 2, PNFCs saw a £20.1 billion increase in net other accounts payable and receivable liabilities, the largest increase on record. This was mainly because of the Value Added Tax (VAT) deferral scheme where it has been reported that £30 billion in VAT payments have been deferred, the majority of which will be in the PNFC sector.

6 . Government

Government saw their borrowing increase by record amount

The flow of these interventions through the UK’s institutional sectors is shown in Table 1.

Table 1: Flow of government interventions through the UK's institutional sectors

Intervention	Transaction	Central Government sector	Local Government sector	Private non-financial corporations sector	Households sector	Notes:
Coronavirus Job Retention Scheme	Subsidy on Production (D. 39 U)	28.5bn				Funded by central government borrowing
	Subsidy on Production (D. 39 R)			28.5bn		
	Wages and Salaries (D.11 U)			28.5bn		Private non-financial corporations Gross Operating Surplus neutral
	Wages and Salaries (D.11 R)				28.5bn	HH Wages boosted
Self-Employment Income Support Scheme	Subsidy on Production (D. 39 U)	7.4bn				Funded by central government borrowing
	Subsidy on Production (D. 39 R)				7.4bn	
	Mixed Income (B.3g)				7.4bn	Households mixed income boosted
Small Business Grant Fund	Subsidy on Production (D. 39 U)		12.0bn			
	Subsidy on Production (D. 39 R)			12.0bn		
	Gross Operating Surplus (B.2g)			12.0bn		Private non-financial corporations gross operating surplus boosted & contributor to increased deposits in FA (F22 A)

Source: Office for National Statistics – Coronavirus and its impact on the UK Institutional Sector Accounts

Central government saw record borrowing increases in both the non-financial and financial accounts as a result of unprecedented coronavirus (COVID-19) measures to safeguard against income losses of households and private non-financial corporations (PNFCs).

The Coronavirus Job Retention Scheme (CJRS) was implemented by government to support employers maintaining their employees on the payroll. The Self-Employment Income Support Scheme (SEISS) is a grant scheme to support the self-employed with the intention of supporting their business operations and compensating for loss income. The Small Business Grant Fund and the Retail, Hospitality and Leisure Grant Fund are two grants intended to help businesses with a fall in sales or increased costs as a result of the coronavirus pandemic.

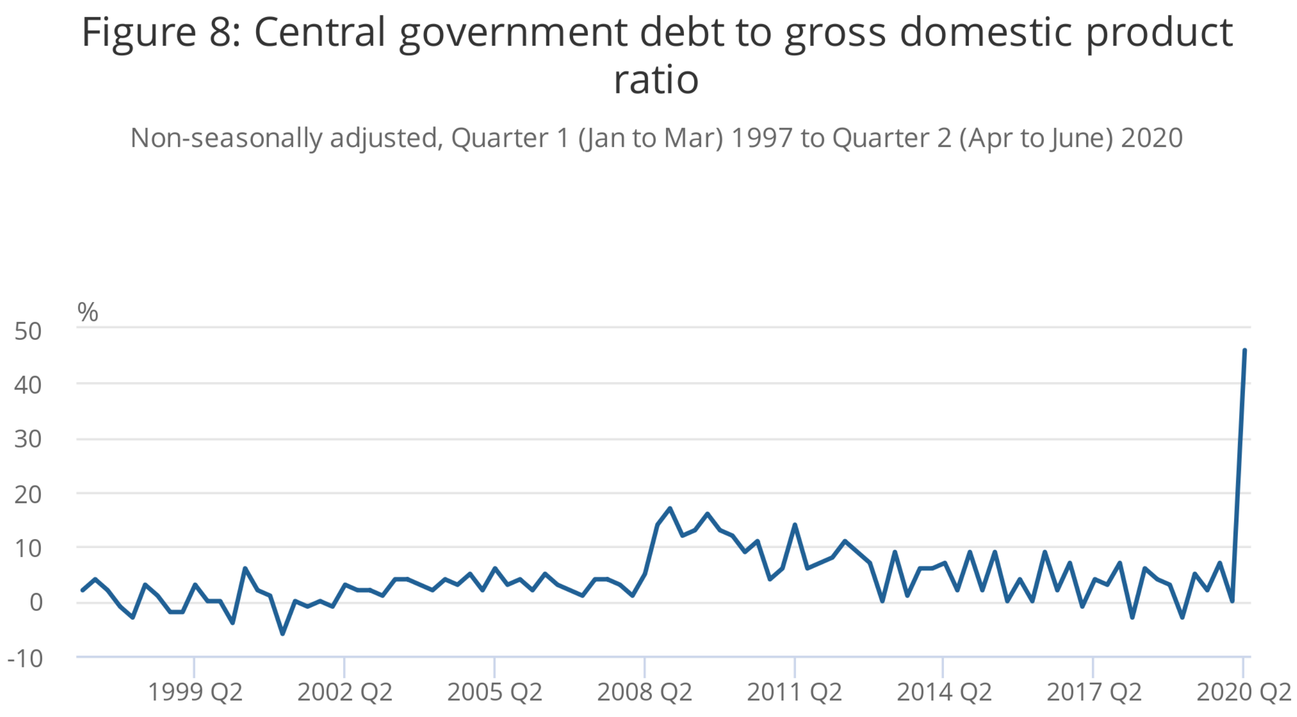
These interventions can be seen in their non-financial account. The main driver of the increase in the borrowing in the non-financial account movement was in subsidies provided of £37.0 billion through the introduction of public health measures and government policies such as the CJRS and SEISS. For further details on the government expenditure, see Public sector finances, UK: July 2020.

Government grants such as the Small Business Grant Fund contributed to a fall in net current transfers of £16.9 billion. Central government also experienced a rise in final consumption expenditure of £14.7 billion.

In their financial account, central government increased their net borrowing to £128.8 billion following net borrowing of £0.1 billion in Quarter 1 (Jan to Mar) 2020. The main driver of this large increase was the £152 billion issuance of central government gilts, which is also known as the quantitative easing programme. Large increases in government borrowing have increased central government’s indebtedness, causing the government debt to gross domestic product (GDP) ratio to spike in Quarter 2 (Apr to June) as seen in Figure 8.

Figure 8: Central government debt to gross domestic product ratio

Non-seasonally adjusted, Quarter 1 (Jan to Mar) 1997 to Quarter 2 (Apr to June) 2020



Source: Office for National Statistics – Coronavirus and its impact on the UK Institutional Sector Accounts

7 . Conclusion

The coronavirus (COVID-19) pandemic has caused huge movements in the UK's Institutional Sector Accounts in Quarter 2 (Apr to June) 2020, particularly for central government, households and private non-financial corporations (PNFCs). Government intervention schemes helped cushion the shock to household incomes, which has enabled households to increase their savings. The financial outcome of PNFCs was also helped through government schemes that enabled businesses to repair their balance sheet and raise additional external finance. For central government, these intervention schemes have increased indebtedness.

8 . Related links

Quarterly sector accounts, UK: April to June 2020
Bulletin | Released 30 September 2020
Detailed estimates of quarterly sector accounts that can be found in the UK Economic Accounts (UKEA).

GDP quarterly national accounts, UK: April to June 2020
Bulletin | Released 30 September 2020
Revised quarterly estimate of gross domestic product (GDP) for the UK. Uses additional data to provide a more precise indication of economic growth than the first estimate.

GDP first quarterly estimate, UK: July to September 2020
Bulletin | Released 30 September 2020
First quarterly estimate of GDP. Contains current and constant price data on the value of goods and services to indicate the economic performance of the UK.

Balance of payments, UK: April to June 2020
Bulletin | Released 30 September 2020
A measure of cross-border transactions between the UK and rest of the world. Includes trade, income, capital transfers and foreign assets and liabilities.

UK flow of funds accounts matrices: 2019
Article | Released 7 November 2019
Annual update of the UK flow of funds matrices incorporating the latest available Blue Book data, as part of the Economic Statistics Transformation Programme.

Alternative measures of UK households' income and saving
Article | Released 8 October 2018
Experimental Statistics on the impact of removing "imputed" transactions from real household disposable income and the saving ratio to better represent the economic experience of UK households.