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# Box D: QB 1 – January 2021

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# Employee Earnings and Income Dynamics During COVID-19

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## Household savings grew strongly in 2020 due to a combination of sharply lower consumer spending and resilient household income. Income supports for workers experiencing reduced hours or job losses because of the pandemic have heavily mitigated the earnings shock. Within this group, under-25s benefited most, and females are less negatively impacted than males.

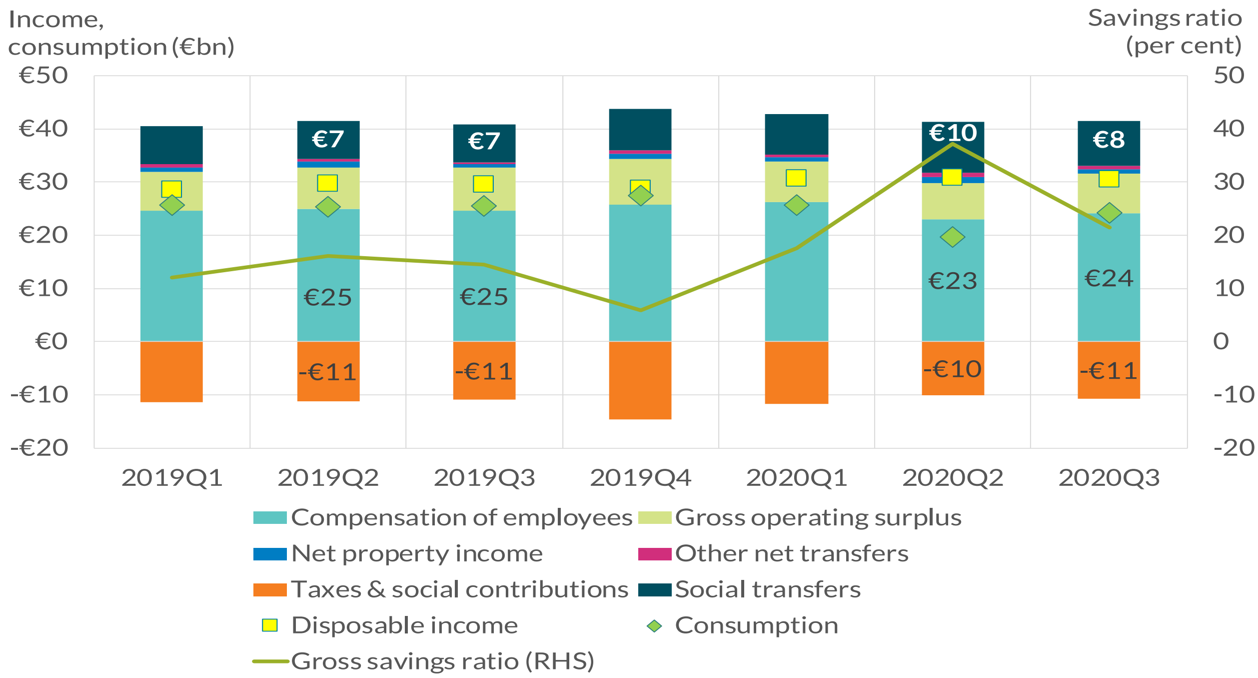
One of the most striking consequences of the COVID-19 economic shock is the jump in household savings. The savings ratio for the household sector was 37 per cent in the second quarter of 2020, falling to 21 per cent in the third quarter (line in Figure 1). Over €13 billion was added to household deposits in the year to November 2020. This does not imply that all households were saving more in 2020. As we show below, the negative income shocks experienced by many means this is highly unlikely.

The well-documented decline in consumer spending during 2020 is one reason for the increase in savings for the household sector. Consumption expenditure was down by almost 22 per cent in the second quarter, before recovering somewhat in third quarter (the green diamonds in Figure 1).

The fact that aggregate household income has held up in 2020 (yellow squares in Figure 1), growing by over 4 per cent year-on-year, is also contributing to higher savings in the face of falling consumption. In a year when numbers in work were down by almost a quarter at the trough, this level of aggregate income growth is remarkable. The decomposition of disposable income in Figure 1 explains what's going on. Compensation of employees fell in 2020 as numbers in work declined, but perhaps less than might be expected, given the large scale job losses. There is a large, offsetting increase in social transfers in the second (+€3 billion) and third (+€1 billion) quarter – including the Pandemic Unemployment Payment – which helped to sustain incomes.

Beneath these aggregate trends, there is a lot going on. The aim of this box is to highlight some of the key changes, particularly in earnings, which could have a bearing on developments in 2021 and beyond.

**Figure 1 Composition of income, consumption trends, and the savings ratio**




Source: CSO Institutional Sector Accounts (non-financial), Q3 2020. All data is nominal unadjusted.

**The fact that not all households have labour income, and, for those that do, pandemic job losses are more common amongst lower earners, mitigates the overall impact on *aggregate* household income**

Not all households are exposed to the pandemic labour income shock, simply because not all households have labour income (excluding pensions). In Ireland in 2019, this was around 630,000 households, or one-third of all households (SILC 2019). Many of these households are retired, with two-thirds aged 65 or over. Incomes in this group tend to be lower on average. This means that they account for a smaller share (one-fifth) of aggregate household income.

Amongst households with labour income, earnings account for less than half of total household income for three-in-ten of them. For four-in-ten households with labour income, earnings account for at least three quarters of household income.

As noted in the October 2020 Quarterly Bulletin, the concentration of the pandemic labour market shock amongst workers in the bottom half of the earnings distribution is one of the reasons for the resilience of Income Tax in 2020 (the progressivity of the income tax schedule also matters). It also has implications for the impact of pandemic job losses on aggregate earnings and income trends.

In 2020, over 70 per cent of PUP recipients come from just five sectors – Accommodation and Food Services, Wholesale & Retail Trades, Administrative and Support Services, Arts, Entertainment and Recreation Services, and Construction. Almost 60 per cent of wage subsidy recipients are in these sectors.[1] These sectors account for a quarter of aggregate labour income (SILC 2019), and 36 per cent of pre-pandemic employment (LFS 2019). The relatively low labour income share is due to a combination of both lower pay and fewer hours worked.[2] In fact, two-thirds of employees in these sectors earn less than the median level of earnings in the population (SILC 2019). In other sectors, the share earning below the median is 45 per cent. The average earnings of workers in the top-five PUP sectors in 2019 was €28,500, compared with €40,100 in all other sectors (SILC 2019).

The overall effect of both these factors is a lower impact on *aggregate* household incomes and earnings in 2020 than the large scale job losses suggest.

This *does not* mean that *individual* households and workers are not experiencing income losses and the hardship that comes with that. As we show in the next section, many workers experience large falls in earnings in 2020, even when PUP and wage subsidy supports are taken into account.

**Earnings in 2020 by recipient and non-recipient of income supports**

The policy response to the pandemic, and specifically income supports for affected workers, is the other key factor under-pinning incomes in 2020. A recent CSO release highlights just how important these supports are. Using the administrative sources to Q3 2020 – including payroll, wage subsidy and PUP data – the release tracks the median earnings for the same individuals with and without pandemic income supports.[3] Median earnings of *non-recipients* grew steadily in each of the first three quarters of 2020, at around 5 per cent for all workers (top panel in Figure 2). There are no significant differences in median earnings growth by gender.

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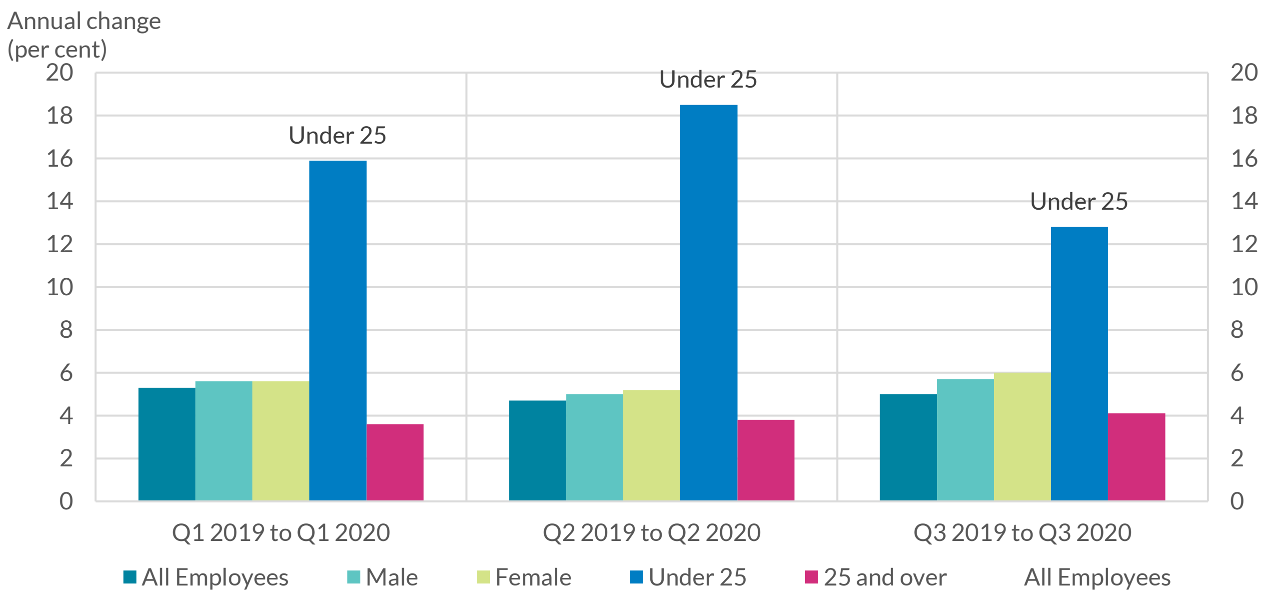
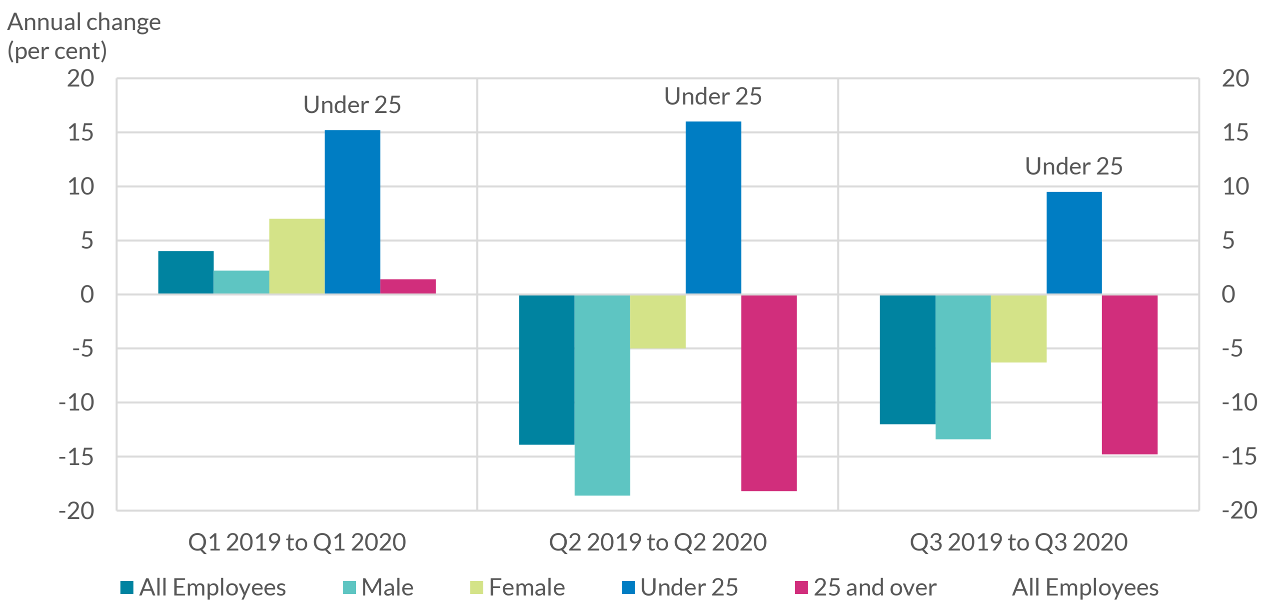
[1] PUP and wage subsidy sector data from the CSO Live Register tables, weeks 18-48 and 18-34 respectively.
[2] For example, 74 per cent of minimum wage workers in the State are in these five sectors (LFS, 2019), accounting for one-in-eight workers in these sectors; 54 per cent of part-time workers are in the same five sectors, accounting for almost one-third of workers in these sectors.
[3] The median is the point in the earnings distribution above/below which half of employees earn more/less. It is usually thought of as the statistic that captures the experience of the 'typical' worker, as opposed to the mean or average which can be skewed by extreme observations of very low or very high earnings.

## Figure 2 Annual percentage change in median weekly earnings

**Non-recipients of pandemic income supports**




**Recipients of pandemic income supports (PUP + wage subsidies)**




Source: CSO, December 2020, Table 3.2.
Earnings for recipients includes PUP and/or wage subsidies.

The main differences are by age. The median earnings of younger non-recipient workers (under-25) grew by 18 and 13 per cent in the second and third quarters respectively. It is important to point out

that part of the reason for such high growth rates for younger workers is that the CSO is comparing the growth in median earnings *for the same employees* who are working in both 2019 and 2020 (a 'matched cohort' approach). This means the growth also picks up the effect of a steep age-earnings profile for these workers. Annual increases of the order of 10 per cent are not uncommon between the ages of 20 and 25, particularly amongst third-level graduates.[4]

The bottom panel in Figure 2 shows the growth in median earnings by quarter for recipients of income supports.[5] 'Earnings' here is defined as employee earnings *plus* any income from either PUP and or wage subsidies. The year-on-year growth in the first quarter is broadly similar to the non-recipient group for the same period. In the second quarter, earnings drop considerably for all groups, bar under-25s. For males and over-25s, median earnings fell by 18-19 per cent in the second quarter. There is some claw back in the third quarter, with smaller annual falls of 13-14 per cent. There is no sector decomposition in the CSO data, but the return to work by construction workers, who earn more on average, could be partly to explain.[6] There are also proportionately more younger (under-25) and/or female and part-time recipients in the third quarter, who earn less on average and therefore PUP and wage subsidy supports could be expected to be higher in comparison to their 2019 earnings.

Comparing earnings growth across the distribution (Figure 3.4 in the CSO release), recipients in the top quintile – that is, the top 20 per cent of earners – experienced the largest fall in earnings, at almost *minus* 23 per cent. Similar to the earlier point, this partly reflects the fact that both younger and female workers, who are less negatively affected, are also more likely to be found in the lower half of the earnings distribution – and the first quintile in particular.

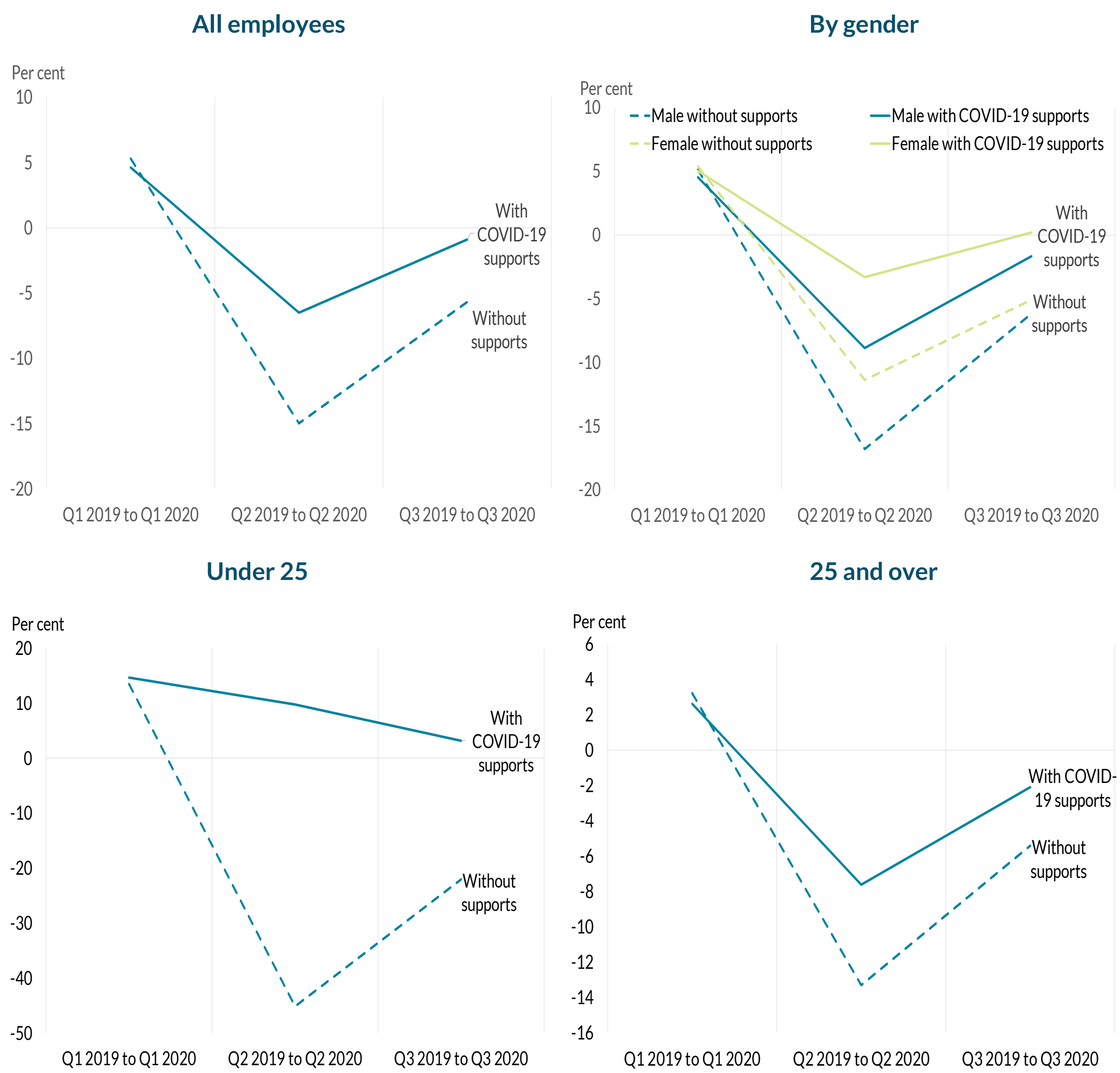
Figure 3 quantifies the impact of supports on the median earnings of all employees. As the median without supports can include observations of zero earnings, this will drag down year-on-year growth rates significantly. The other important caveat for this comparison is what the counterfactual support would be *without* PUP or wage subsidies. As the basic job seekers payment (without top-ups) is lower than the PUP, it would likely be lower than the actual (solid) line in the charts, but above the 'without supports' (dashed) line.

Even with these caveats, it is clear that combined income supports heavily mitigated the negative earnings shock. In the second quarter of 2020, for all employees, median earnings growth without supports is -15 per cent, not the -6.5 actually observed. Remarkably, by the third quarter, the annual growth rate including the supports is closing in on zero (-0.9 per cent).[7] For females, it is above zero

[4] See Figure 9 in LeBlanc and Lydon (2019).
[5] By April 2020, around 44 per cent of the labour force, or close to half of all workers, were receiving either PUP (25 per cent) or Wage Subsidies (19 per cent). See Figures 2 and 3 in Lydon and McGrath (2020).
[6] Compared to the four other sectors with high PUP take-up in 2020, construction workers earn over 50 per cent more on average (SILC 2019)
[7] At this stage, it is important to re-emphasise that this is the growth rate in *median* earnings, that is for the 'typical worker'. Growth in *total* or *average* earnings (and income) could be higher or lower.

(+0.2 per cent). Generally, the levels by gender are slightly different but the 'gap' (with/without supports) is similar.  Once again, the under-25 age group stands out. Without supports, median earnings would be almost 50 (22) per cent lower in the second (third) quarter. Instead, median earnings actually show strong positive growth, of 10 (3) per cent.

**Figure 3 Growth in median earnings with/without COVID-19 supports (grouping recipients and non-recipients)**




Source: CSO, December 2020, Table 3.5.

## Conclusion

Despite large-scale job losses during the year, household income has held up in 2020 for several reasons. Firstly, a large number of households have little or no reliance on income from work. Second, for those in work, but not directly affected by pandemic job losses, median earnings grew in the first three quarters of the year. Thirdly, for workers experiencing reduced hours or job losses because of the pandemic, income supports heavily mitigated the earnings shock.  Within this group, under-25s benefited most, and females are less negatively impacted than males.  Changes to PUP supports in September 2020, linking payments to previous earnings could change this.

PUP numbers increased sharply in recent weeks, as restrictions were re-introduced.  As long as restrictions remain in place, income supports will help avoid large negative income shocks.