GLAECONOMICS

COVID-19 and London's Economy – Impacts so far and economic outlook

12 February 2021

1 Introduction

This paper summarises the latest evidence and analysis on the impacts of COVID-19 on London's economy so far and on the economic outlook so that key actors and stakeholders engaged in responding to the pandemic can have a readily available evidence base to inform policy responses.

The paper reflects and summarises a range of recent GLA Economic publications (predominantly by GLA Economics and by the broader City Intelligence Unit) and external research and statistical releases, all of which are in the public domain.

The COVID-19 pandemic and the policy responses to it are very fast-moving and in constant flux. The content in this paper is broadly up to date until the first week of February 2021. While some of the specific data points may have changed, the trends it highlights are, in our view, rather established by now and we would not expect the broad assessment of the evidence to change in the short term.

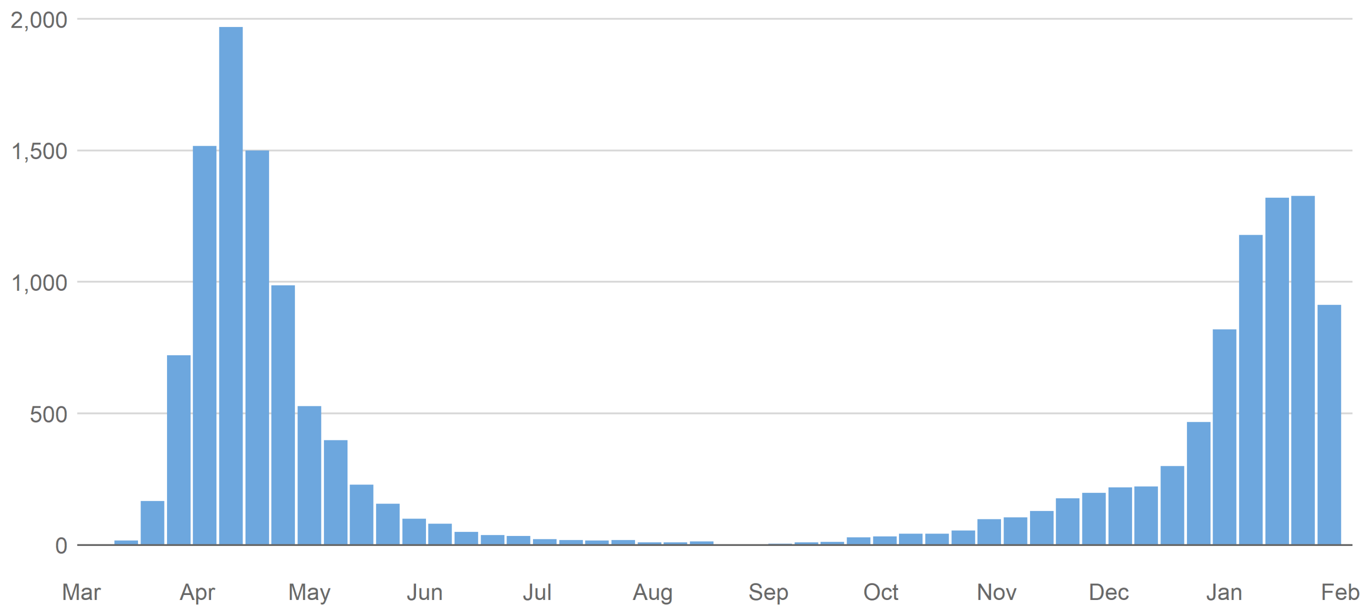
The rest of the paper is structured in three sections. Section 2 looks at the impacts of the pandemic on London's economy so far. Section 3 looks at the economic outlook for the short and medium term. Finally, Section 4 draws some conclusions on London's relative resilience and on the case in principle supporting London's recovery (and therefore recovery for the whole of the UK).

2 Impacts of COVID-19 on London's economy so far

As the most densely populated region of the UK London has suffered a major public health impact from the current pandemic.

- Over 16,000 cumulative COVID-19 deaths have been registered in London by the end of January 2021 (Figure 1).
- At the same point, some 2% of London's population were estimated to have COVID-19, falling from a peak of over 3% a month earlier.

Figure 1: Weekly COVID-19 deaths in London



Source: ONS weekly deaths by Local Authority, graphic by City Intelligence

Like the rest of the UK economy, London has also witnessed a major recession in the course of 2020. The loss of GVA in the course of the year is expected to exceed the 9.5% mark that was estimated as recently as December as a result of further restrictions in November and December.

- The latest ONS estimates of quarterly GDP point to a loss of 16.6% for London in Q2 2020 over Q1 2020. This was a relatively less deep fall among the English regions (the England average being a loss of 19%), but it represents a downturn of a magnitude that the capital had not seen in centuries.

- The latest forecasts from GLA Economics predicted a rapid but not full recovery in Q3, which is likely to have lost steam and possibly flattened in Q4 as pandemic-related restrictions returned to bite.

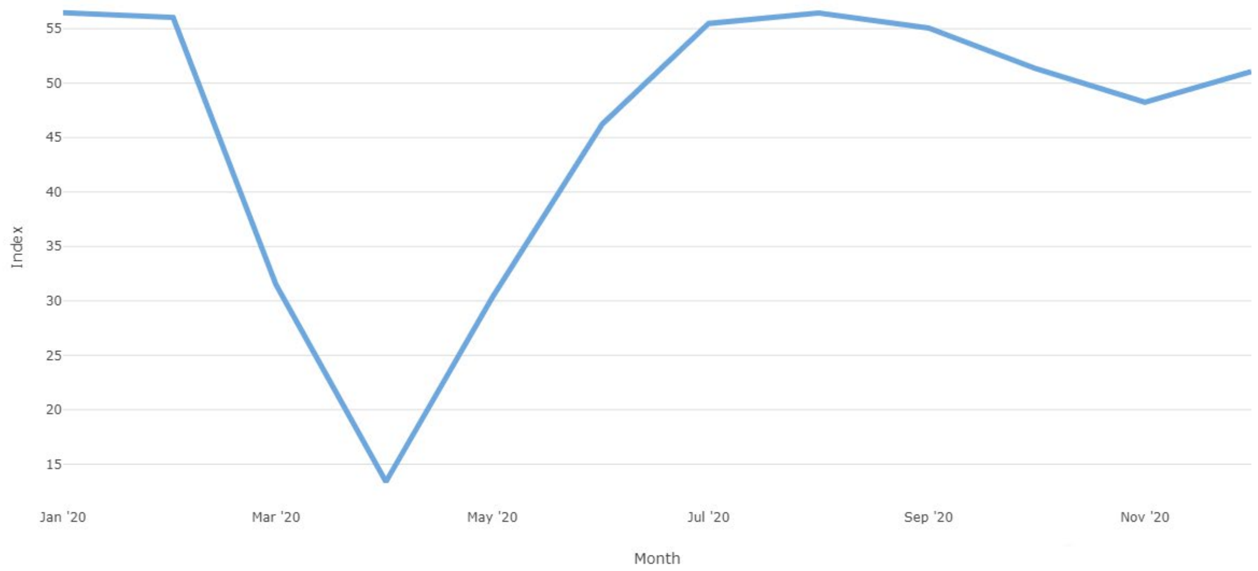
- In its latest *London's Economic Outlook* (published in early December) GLA Economics predicted that London's economy would shrink by 9.5% in a central COVID-19 economic scenario in 2020.

- Business activity (as measured by the NatWest PMI Index for London) had recovered strongly in the summer but had already fallen back to a more neutral outlook prior to the further lockdowns (Figure 2).

- According to the ONS Business Impacts of Coronavirus Survey, London had the lowest percentage of single-site businesses currently trading of the English regions, at 62%.

- Based on the same ONS survey, following the introduction of stricter restrictions in England in late December 2020, London registered the second largest fall (minus 16pp) in single-site businesses currently trading among the English regions after the West Midlands.

Figure 2: NatWest London PMI Business Activity Index

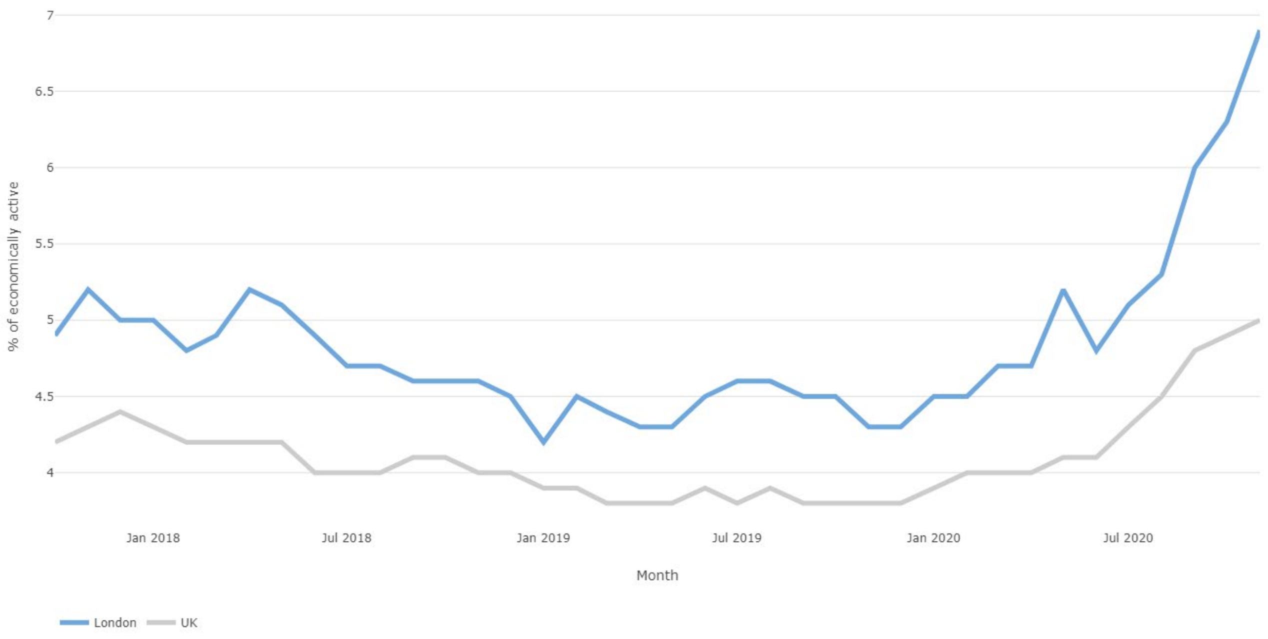


Source: NatWest/IHS Markit

After showing some initial resilience the London labour market has started to weaken markedly in the second half of 2020; more than in the rest of the UK.

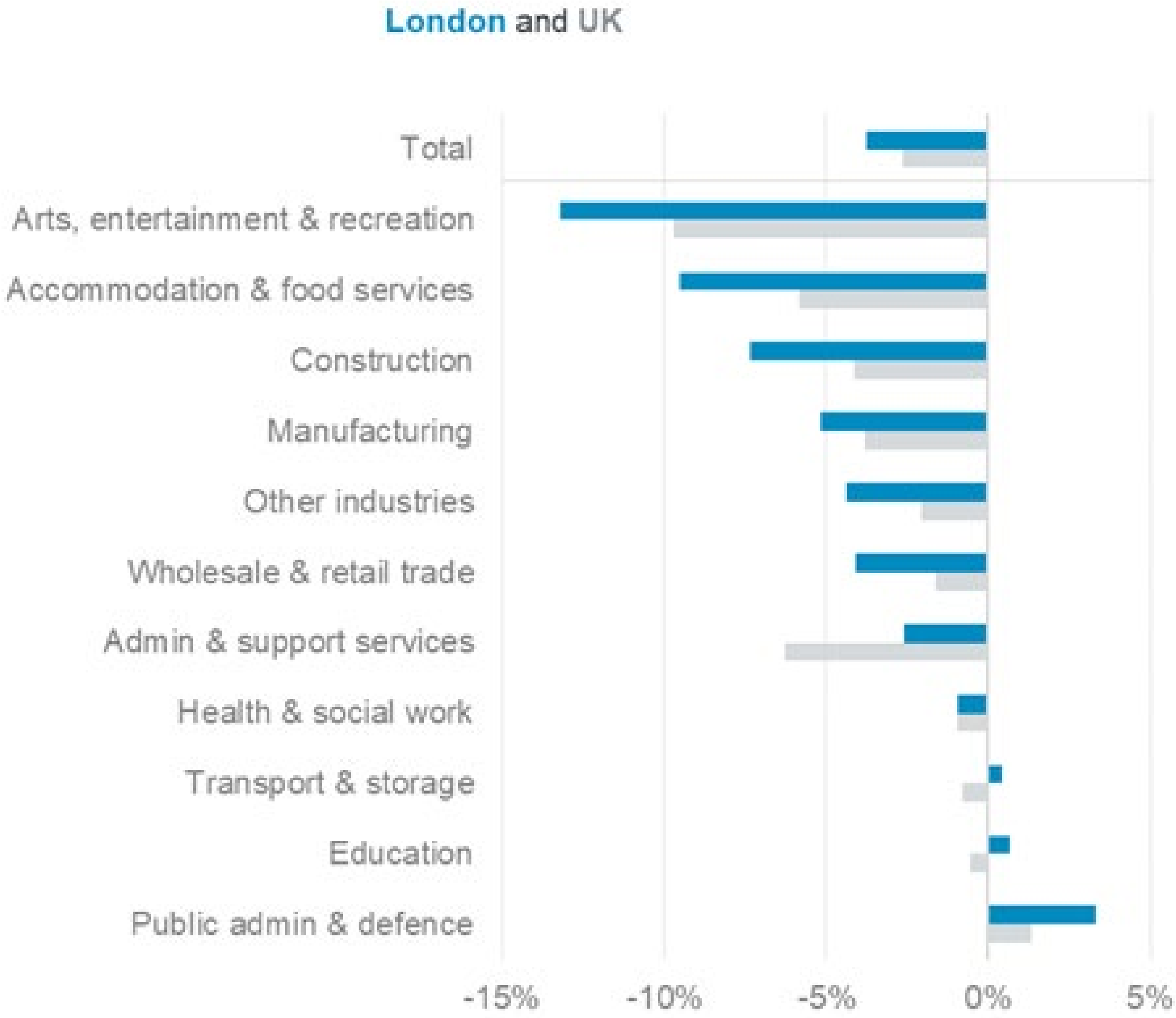
- As highlighted in the most recent GLA Economics Labour market update, The London unemployment rate recorded a record-high increase on the previous quarter, to reach 6.9% in the three months to November 2020 (Figure 3).
- Workforce jobs fell by around 229,000 in London between March and September, with the greatest falls in percentage terms being registered in the Arts & Entertainment, Accommodation & Food and Construction Sectors (Figure 4).
- The number of payroll employees also continues to fall in the capital – and both workforce jobs and payroll employees have been doing worse in London than in the rest of the UK (Figure 5).

Figure 3: Unemployment rate (% of economically active) for London and the UK
Latest data for period Sept 2020-Nov 2020



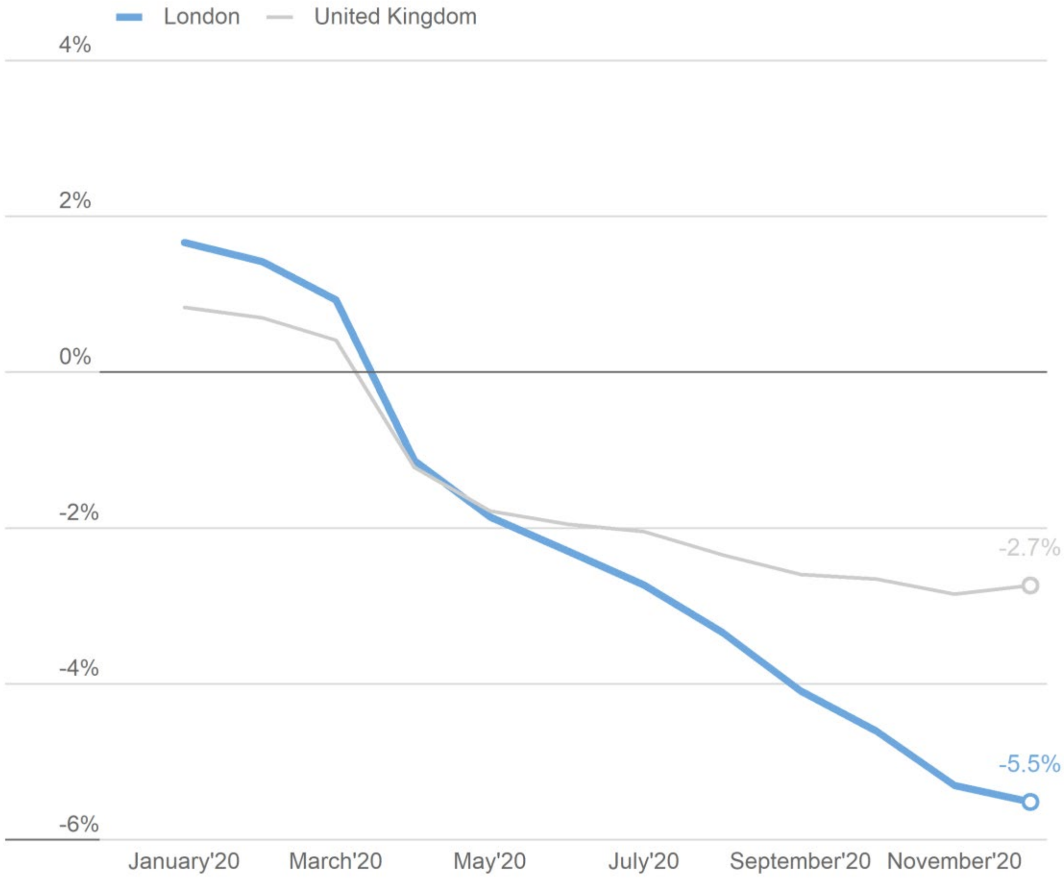
Source: GLA Economics analysis using NOMIS data

Figure 4: Change in Workforce Jobs from March to September 2020 – selected industry groups, London and the UK (%)



Source: ONS Workforce

Figure 5: PAYE jobs estimate, change on previous year, London and the UK
Latest data for period December 2020



Source: HM Revenue and Customs – Pay As You Earn Real Time Information

The relative resilience in London's labour market has been due in large part to government support schemes, especially the Coronavirus Job Retention Scheme (CJRS).

- As shown in the latest GLA Economics Covid-19 Labour Market Round-up, CJRS or furlough scheme still supported 431,000 jobs in London at the end of October 2020 according to HMRC data. At 10%, take-up in the capital was higher than the national average (8% across the UK), with most of those (278,000) on full furlough. At the level of Local Authorities, three in four of the top 5% areas in terms of take-up rates were London boroughs.

- More recently, HMRC data for the end of November have shown that London continued to have the highest furlough take-up rate of 15% against the UK average of 13% as furlough numbers increased reflecting stricter restrictions. Survey-based data based on the ONS Business Impacts of Coronavirus Survey also showed that in mid-January London had the highest proportion of workers on furlough across all the English regions (at 19%).

- London also had the highest number of claims for the Self-Employment Income Support Scheme (SEISS) in the second grant period, with around 465,000 claims made by the end of October 2020. At 72%, take-up in London remained above average (69%), indicating sustained demand for this support.

- Demand for the SEISS partly reflects a high level of self-employment. There were around 805,000 self-employed workers living in London in the three months to September 2020 – a fall of 45,000 (or 5%) on the previous year.

And Londoners are also increasingly relying on benefits – both on unemployment-related benefits and on the broader (and partially overlapping) safety net of Universal Credit.

- The number of Londoners in the 16-64 age bracket claiming unemployment-related benefits has increased from below 200,000 (or 3%) in March 2020 to just under 500,000 (or 8.2%) in December 2020 (Figure 6).

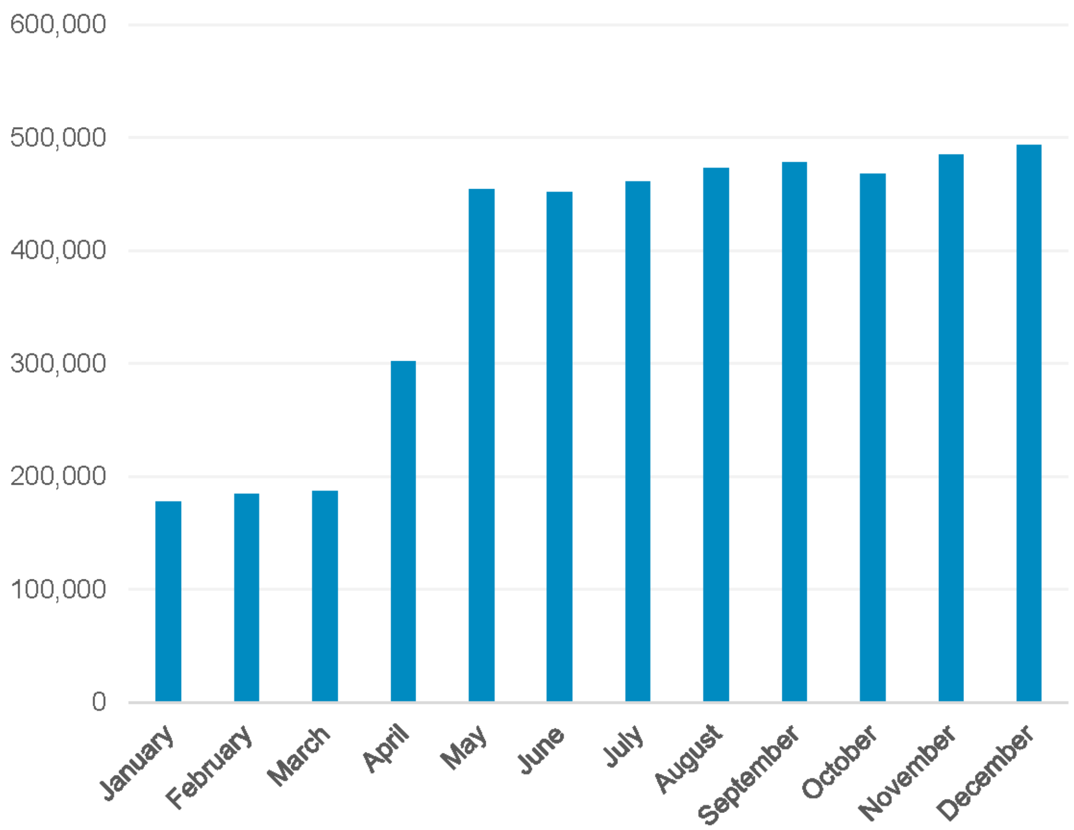
- Looking at local authority level, eight outer London boroughs were recording double digit claimant rates in December 2020, with a band of boroughs running north to south and including inner London boroughs showing rates in the high single digits (Figure 7).

- Over the same March to December period, the number of Londoners claiming Universal Credit has more than doubled and is still rising.

- Nearly 976,000 Londoners were claiming Universal Credit (UC) in November 2020. More than half had started claiming since the pandemic began and the increase is greater in London than in other parts of Britain (Figure 8).

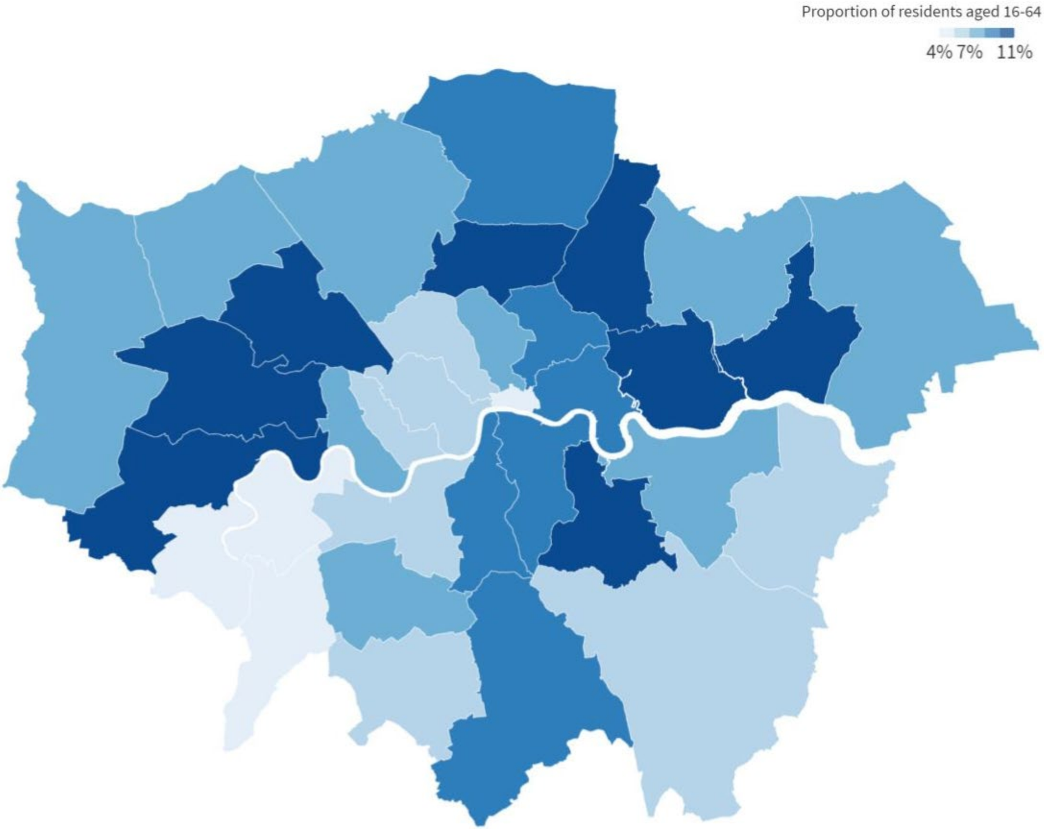
- More than a third of UC claimants were doing at least some work in November, but 45% were unemployed and looking for work.

Figure 6: ONS Claimant Count in London, 2020



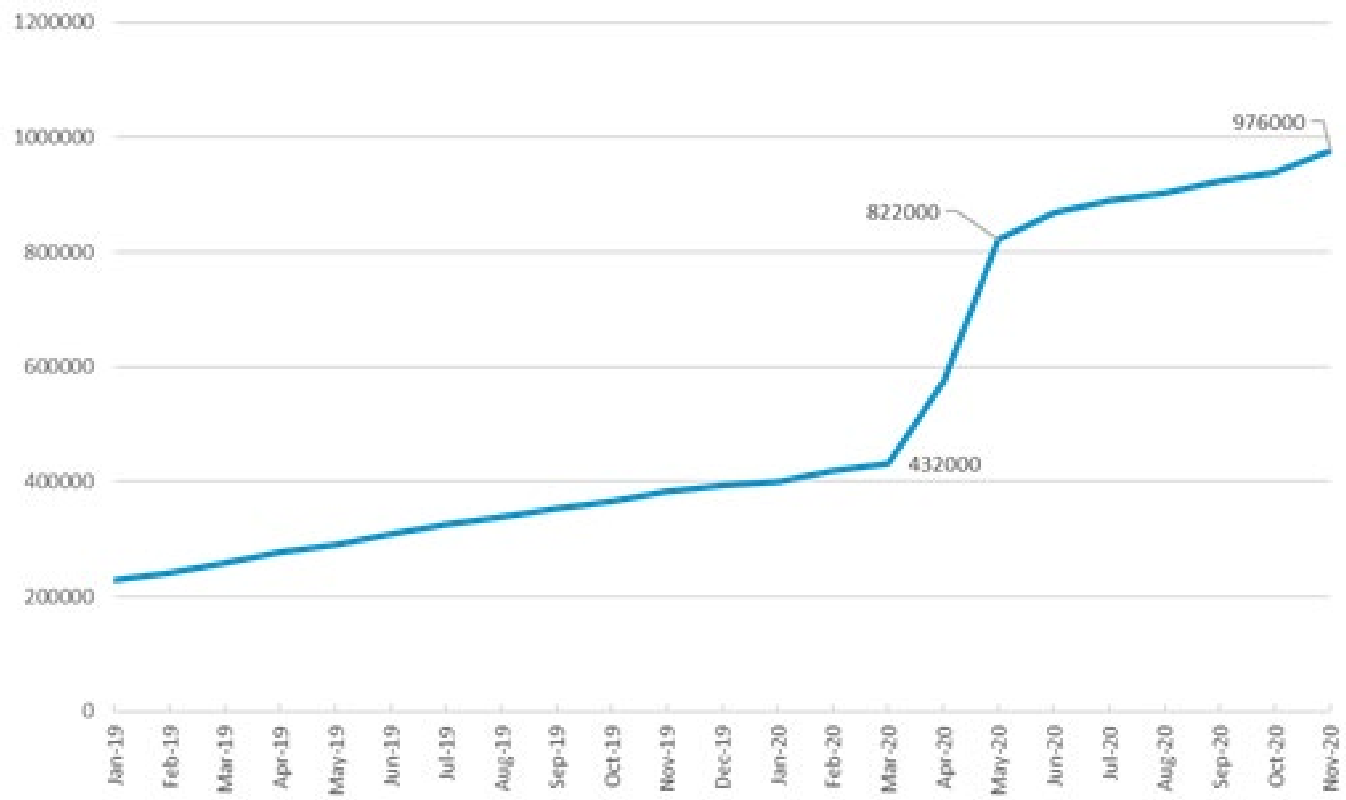
Source: Claimant count by sex and age (Nomis) – data is not seasonally adjusted. Note: changes in the Claimant Count will not be due wholly to changes in unemployment.

Figure 7: Claimant rates across London boroughs, December 2020



Source: Claimant count by sex and age (Nomis) data is not seasonally adjusted. Note that an increasing number of people have recently become eligible for unemployment related benefits, although still employed. Changes in the claimant count will not be due wholly to changes in unemployment.

Figure 8: People claiming Universal Credit, London



Source: DWP

Overall, London's labour market is performing worse than in other regions and cities, notwithstanding the fact that a relatively large proportion of Londoners are able to work from home.

- In their City Outlook 2021, the Centre for Cities finds that London (alongside previously high performing, nearby towns such as Slough and Crawley) is now together with weaker economies such as Birmingham and Bradford in the top 10 places hardest hit economically by COVID-19.
- In April 2020, 46.6% of people in employment did some work at home according to the ONS. This proportion rose to 57.2% in London.
- This reflects differences in the occupation structure of the London economy compared with the rest of the UK; occupations requiring higher qualifications and more experience were more likely to provide homeworking opportunities.

Some groups of Londoners have been affected particularly severely by the worsening labour market. This is likely to reflect differential impacts by sectors (knowledge economy working from home vs. services relying on footfall) and by workers' qualifications/experience.

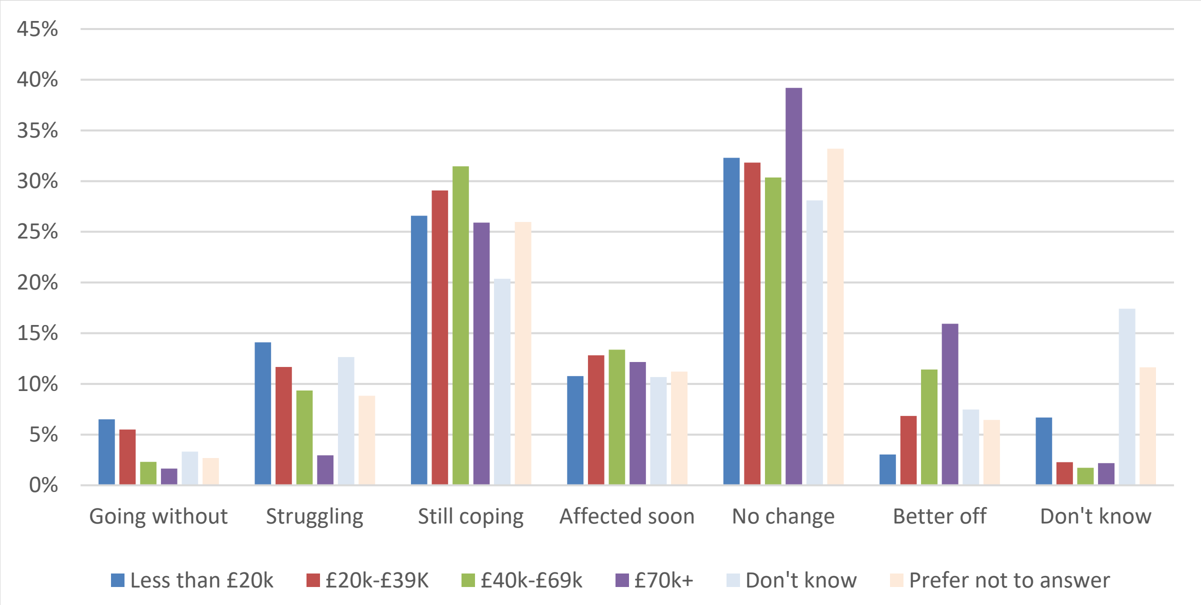
- The unemployed rate has increased most for young people aged 16-24 – rising to 24% in the latest quarter, up almost 7 percentage points on the previous year.

- There are also large differences by ethnicity – nearly one in eight Black Londoners (12%) were unemployed in the three months to September, more than double the rate for their White counterparts (5%).
- The largest increases in UC claimants have also been among the younger age groups, decreasing with age.

More broadly, several studies have highlighted the impact that COVID-19 has had on exacerbating pre-existing health and socio-economic inequalities in the UK and in London specifically, where inequalities were stark to begin with.

- The Rapid Evidence Review of Inequalities in relation to COVID-19 and their effects on London by the University of Manchester highlighted substantial inequalities across protected characteristics (including ethnicity and religion, gender, disability, sexual orientation and age) and socioeconomic position in relation to both the health impacts of COVID-19 and the socioeconomic impacts of policies introduced by the Government to control the spread of the pandemic.
- A recent Journal of Public Health paper based on data from 'Understanding Society' (the UK's main annual household panel study) found that during the first three months of the COVID-19 lockdown in the UK, respondents with disability were more likely than their peers to be working reduced hours and experience higher levels of financial stress.
- Another recent study based on the same survey found that mental health of UK women of all ethnicities and UK men from BAME groups had deteriorated through the crisis.
- In a GLA-commissioned survey, Londoners in households with lower income say they are more likely to be going without their basic needs, relying on debt or struggling to make ends meet, whereas households with the highest incomes are much more likely to say they have seen no change or are better off financially. Overall, 47% of households with income under £20,000 have been negatively impacted, compared with 31% of households with income of more than £70,000 (Figure 9).
- A number of reports (including the Institute for Fiscal Studies report on COVID-19 and inequalities, part of the Deaton Review) have highlighted that women are more likely to have lost their jobs, cut working hours or been furloughed than men, taking up more of the domestic work and home schooling. This is likely to have longer-term impacts on women's careers and lifetime earnings.

Figure 9: Financial impact of pandemic on London's households by gross income band



Source: YouGov surveys April 2020-Jan2021 Total sample 10,213

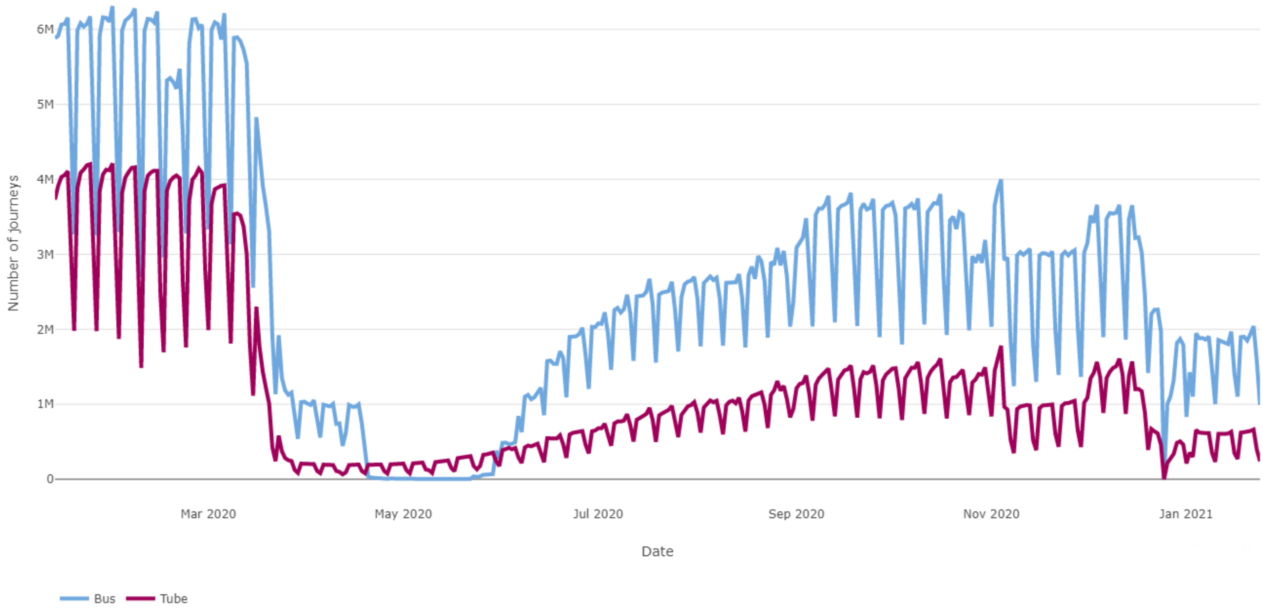
Footfall and expenditure in the capital have been hit harder than anywhere else in the UK, with the impacts of reduced spending by Londoners being compounded by the collapse in international travel and tourism.

- Movement in London has continued to track below movement in other cities and has fallen during the third lockdown (although not as low as it was in March/April 2020). Weekday tube passengers in early January 2021 were around a third of what they were last year, bus passengers were around 15% (Figure 10).

- The Institute for Fiscal Studies has highlighted in a recent report how the biggest declines in consumer expenditure when the pandemic struck were seen in the South of England – and the South has had the weakest recovery since, with these trends being driven by London:
    - Londoners' expenditure fell by around 40% in April 2020 and in November 2020 was still over 10% below its pre-crisis level.
    - Inner London footfall in retail & recreation venues was more than 40% below pre-crisis level – compared with 10–20% in outer London and the rest of the South.

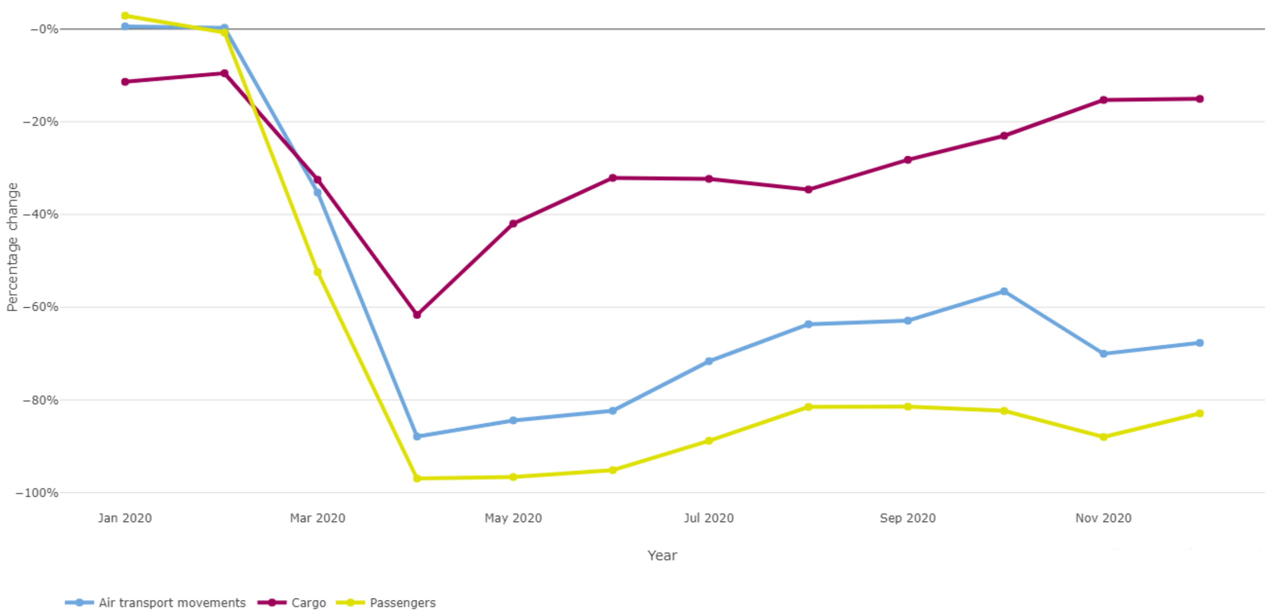
- As a global hub for tourism and business visitors alike, London has suffered particularly during the pandemic from the collapse in international travel. Heathrow air traffic and passenger movements in December 2020 remained approximately. 70% and 80% lower respectively than in December 2019 (Figure 11).

Figure 10: Number of journeys by bus and tube on the TfL network



Source: TfL

Figure 11: Heathrow traffic – percentage change over the same month in 2019

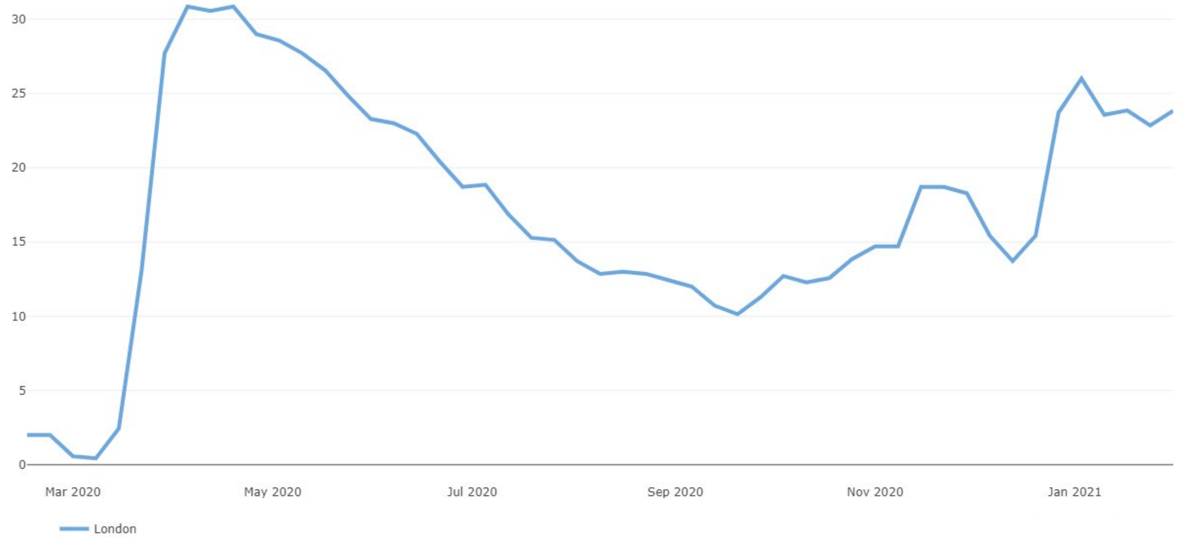


Source: Heathrow Airport Data, GLA Economics elaboration

A combination of lack of tourists and visitors and prevalence of remote working among office workers also contributes to empty the Central Activity Zone (CAZ)

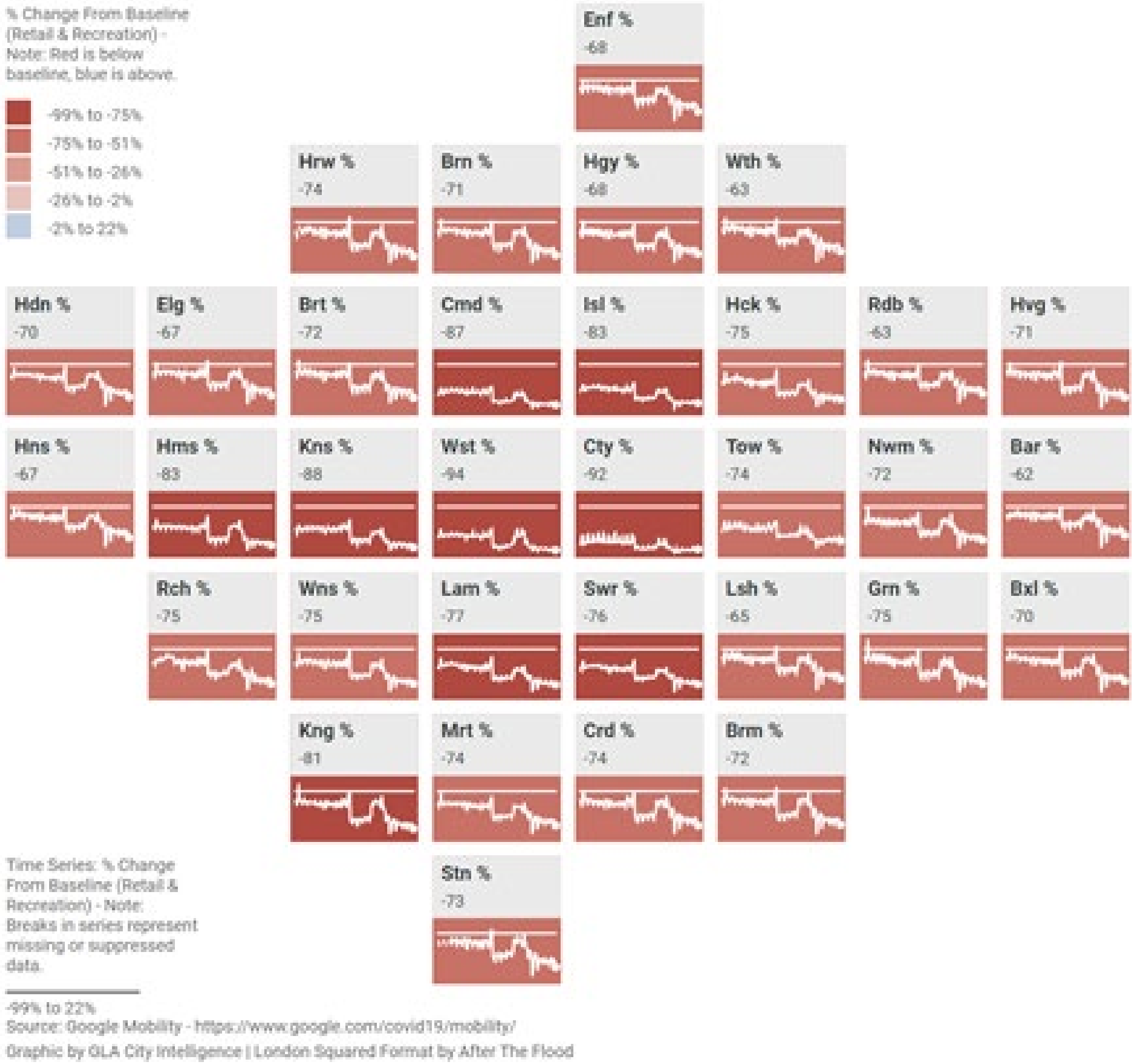
- Data from the Google mobility index suggest that the number of Londoners who were spending the day at home in mid-January 2021 was nearly 24% higher than a year ago (Figure 12).
- The same data by borough show a clear discernible "doughnut" effect in the CAZ when comparing data from January 2021with data from August 2020, with retail and recreation activity decreasing by more than 90% in the City and in Westminster (Figure 13).

Figure 12: Londoners spending the day at home (March 2020 to January 2021) % change



Source: Google mobility

Figure 13: Google mobility data by London Borough (27 August 2020 to 24 January 2021)
Activity percentage change from baseline (Retail and Recreation) at 24 January 2021



Source: Google mobility and GLA City Intelligence

The economic impacts of the pandemic have therefore hit particularly hard those sectors in the CAZ that heavily rely on footfall – whether by tourists, visitors or commuters.

- During the pandemic, the loss of expenditure in London's Central Activities Zone (CAZ) due to both workers staying at home and tourists being unable or choosing not to visit has had a major impact on the retail, leisure and hospitality sectors – which all rely on footfall.

- Based on forecasts for London produced by VisitBritain, GLA Economics has estimated a **£10.9bn loss in tourism expenditure in the CAZ** in 2020 (£3.5bn domestic and £7.4bn inbound) compared to a **£1.9bn loss in expenditure from commuters** (£1.4bn of this expenditure is from commuters from London and £0.5bn is from commuters outside of London).

- As the Arup report on the future of the CAZ highlights, central London has always been known for its vibrant night-time economy, which makes up a significant proportion of the economy. While some hospitality activity was able to resume at different stages during the pandemic, parts of the night-time economy (such as night clubs or a large number of music venues) have essentially remained closed since March 2020.

3 The outlook for London's economy

In the short term, there is likely to be inertia in the return of workers, tourists and visitors to central London even when restrictions are progressively lifted, which is going to continue to have a major impact on sectors that rely on footfall.

- As the Arup report on the economic future of the CAZ highlights, during the summer of 2020 when restrictions were limited, London workers were less likely to visit the office than workers in other global cities. Nearly half of London's office workers were working from home five days a week last July, compared with around a quarter in Paris and Madrid).

- International tourism to the UK (of which London and London's CAZ account for a major share) is expected to take several years to recover to 2019 levels. The central scenario for inbound tourism in the UK for 2021 in VisitBritain's latest projections is for 16.9 million visits, up 73% on 2020 but only 41% of the 2019 level; with £9.0 billion to be spent by inbound tourists, up 59% on 2020 but only 32% of the 2019 level.

- Arup has suggested that even under a return to normality scenario, without government assistance, the West End arts and culture sector would be 10% smaller in terms of annual GVA in 2024 compared with 2019. Under a worst-case scenario of repeated lockdowns, the cultural sector in the West End would essentially disappear.

- Even under more benign scenarios, any social distancing legacy from COVID-19 risks impacting patronage across hospitality, arts, culture and leisure activities (including London's formerly thriving night-time economy) after the pandemic has passed.

Longer term, there remain major uncertainties about the future of office work and of agglomeration economies in central London, as well as on the attractiveness of city living more broadly.

- There seems to be a growing consensus that working patterns among office workers will undergo a permanent and major shift, with 'hybrid' ways of working becoming the new norm.

- A GLA-commissioned survey published in the latest Travel in London report by TfL in September 2020 found that CAZ-based businesses imagine that almost three quarters (72%) of their workforce will be working from home at least partially for the next two years, and multiple international surveys point to both businesses and office workers preferring a mixture of office-based and home-based working.

- This raises some major questions about the extent to which the CAZ ecosystem and its remarkable agglomeration economies will be able to adapt to a post-COVID world. These issues are explored in depth in the Arup report.

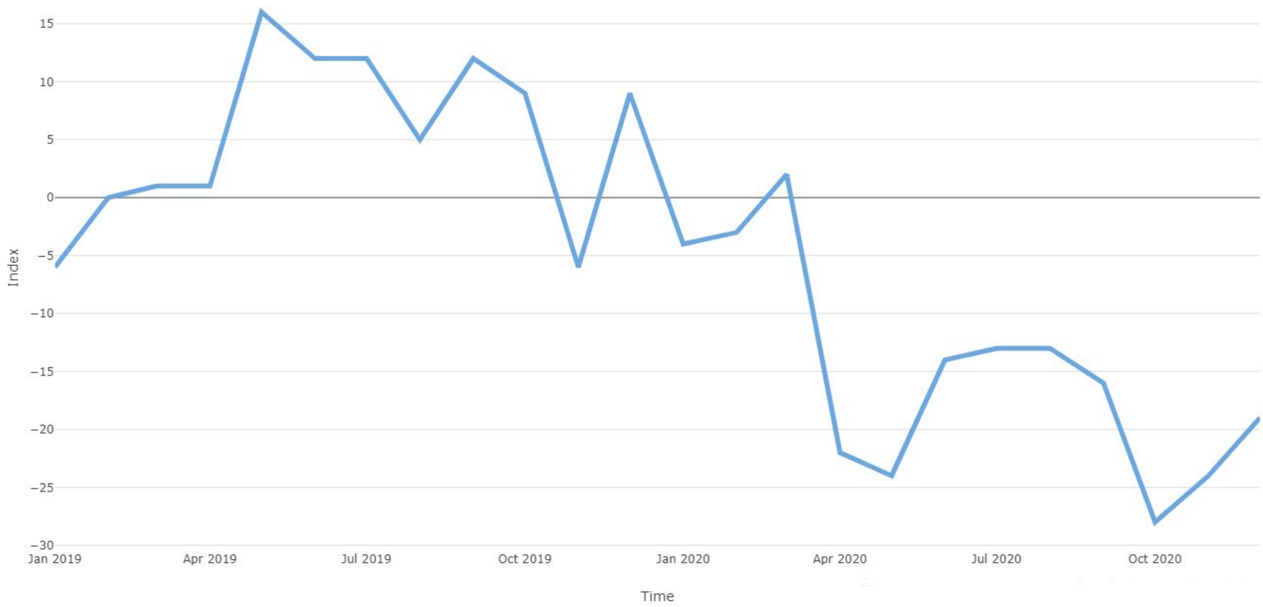
While a Free Trade and Cooperation Agreement with the EU is now in place, non-tariff barriers and regulatory uncertainties will continue to affect the trajectory of the economic recovery in the medium term and raise some London-specific issues.

- The service sector makes up over 90% of the London economy and has lost access to the Single Market. Its trade surplus with the EU (estimated at £21bn in 2017) is at risk.
- The Financial and Professional Services sectors face large immediate challenges. London-based firms are now having to negotiate a patchwork of individual EU nations' regulations. Major UK-based banks have had to move more than £1trillion of assets, and thousands of jobs to other EU cities to avoid disruption.
- Analysis by Cebr for the Greater London Authority sets out the initial effects on the London economy of the reduction in trade with the EU from the UK-EU Trade and Cooperation Agreement. Based on previous Cebr modelling of a Canada-plus style agreement, it shows a potential loss of £9.5 billion at today's prices and level of GDP per year, with most of these costs impacting the services sector.

And notwithstanding some survey evidence pointing to a positive sentiment returning among large UK corporates, confidence in the economy among London businesses and consumers remains low, with a large share of businesses at risk of running out of cash.

- The latest Deloitte CFO Survey (Q4 2020) points to optimism among CFOs of large corporates rising to a 12-year high, buoyed by the prospect of mass vaccinations and a return to growth in 2021 as well as by the Trade and Cooperation Deal with the EU having brought a period of major uncertainty to an end.
- However, according to the LCCI London 1,000 report (January 2021), 58% of businesses are less confident about their own business prospects and 84% are less confident about London's economy compared to 12 months ago. Firms in accommodation, food, and entertainment were found to be the least confident in their own business prospects (64%).
- Around a third of single site businesses that have not permanently stopped trading have less than three months' cash reserves according to the latest wave of the ONS Business Impacts of Coronavirus Survey.
- Consumer confidence in London as measured by the GfK Consumer Confidence Barometer continues to remain at levels close to those seen during the financial crisis of 2008/09 (Figure 14).

Figure 14: GfK Consumer Confidence Barometer for London



Source: GfK

While national economic data suggest that the economy may now be better adjusted to lockdowns compared with Spring 2020, the ultimate recovery trajectory for London will be significantly affected by the duration of the current restrictions.

- Available data for UK GDP from the ONS suggest that the economy adjusted much better to the second lockdown in November (which led to a fall of 2.6% in November from October) compared with the first Lockdown, when nearly a quarter of GDP was lost over two months.

- However, there are currently neither data nor available projections (either national or regional) of the impacts of the new national lockdown that was introduced on 5 January.

- Most forecasts of UK GDP growth that were published in recent weeks continued to predict moderate GDP growth in 2021 (considering the drop in 2020). The latest Monetary Policy Committee report by the Bank of England takes a rather positive view in light of the expected impacts of vaccine rollout, predicting GDP growth of 5% in 2021 increasing to 7.25% in 2022. NIESR on the other end predicts a much slower growth for the economy, with GDP growth rates of 3.4% and 4.3% in 2021 and 2022 respectively, with output recovery to pre-pandemic levels not occurring before the end of 2023. These forecasts reflects and expectation that social distancing and remote working will continue for a while reducing consumption and investment.

- These scenarios however continue to highlight significant uncertainty and downside risks, mostly related to the speed of the vaccine rollout and its effectiveness in controlling the spread of the virus.

Table 1: Summary of recent GDP growth forecasts for the UK economy

Forecaster	Forecast date	UK GDP change 2021	UK GDP change 2022
Resolution Foundation	28 December 2020	+4.3%	NA
PWC	January 2021	+2.2% to +4.8%	5.1% to +6.3%
IMF	January 2021	+4.5%	+5%
Bank of England	4 February 2021	+5%	+7.25%
NIESR	9 February 2021	+3.4%	+4.3%

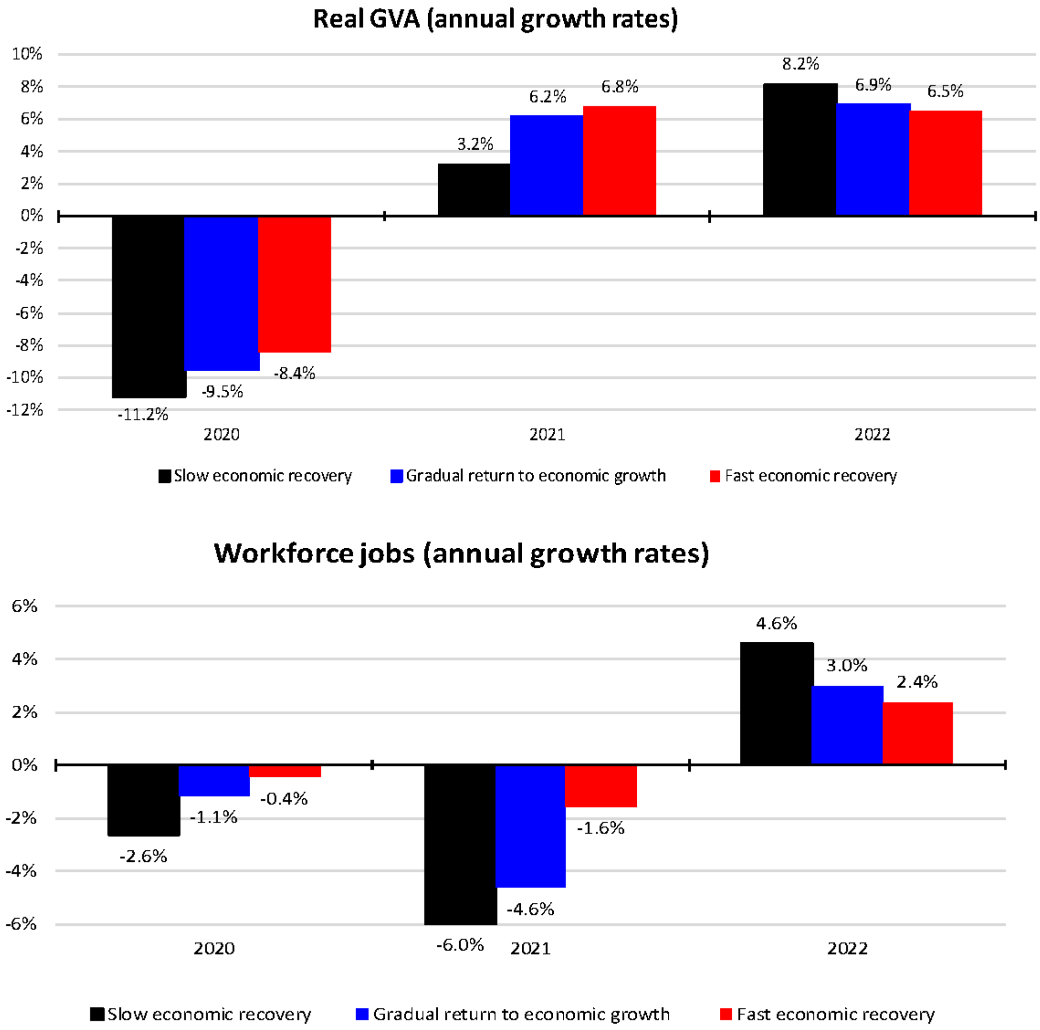
Overall the economic outlook for the short and medium-term for London's economy remains rather negative, with a subdued output recovery in 2021 and beyond and a further fall in employment this year before jobs start growing again.

- The central scenario in the latest GLA Economics projections (7th December) assumed a Free Trade Agreement with the EU but did not assume a new national lockdown, which was neither the policy nor the expectation at the time. A more pessimistic scenario assumed both further restrictions and failure to agree a Free Trade Agreement with the EU.

- Reflecting these assumptions:
  - The central scenario estimated a GVA fall of 9.5% in 2020, followed by growth of 6.2% in 2021 and 6.9% in 2022. The lower scenario estimated a GVA fall of 11.2% in 2020 followed by 3.2% growth in 2021 and 8.2% growth in 2022 (Figure 15).
  - The central scenario also estimated a 1.1% fall in London's workforce in 2020 and a larger 4.6% fall in 2021, followed by 3.0% growth in 2022. The lower scenario estimated a fall of 2.5% in 2020 and 5.5% in 2021, followed by 4.0% growth in 2022. External scenarios also project a significant increase in unemployment (Figure 15).
  - Loss of GVA at the level of particularly hard-hit sectors was estimated to be much higher than the economy-wide reduction. In the central scenario for example, accommodation and food service activities were estimated to lose almost half of their GVA in 2020, with transportation and storage, arts, entertainment and recreation, and education, all expected to lose between one quarter and one-fifth of their output.

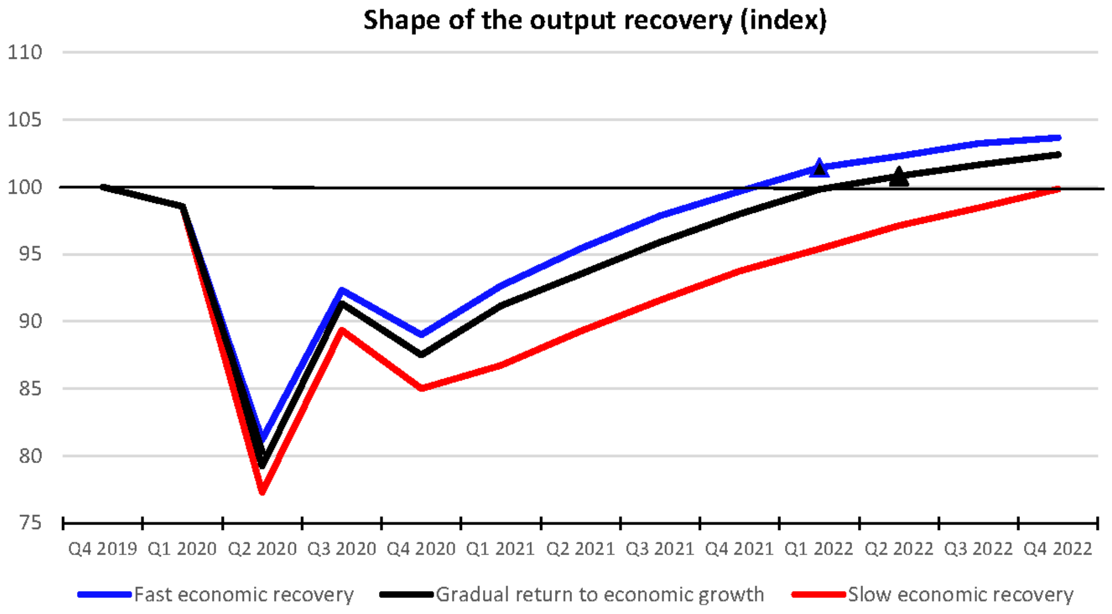
- None of the available regional projections fully reflects the impacts of the current national lockdown It is likely that the performance of London's economy this year will be somewhere between these two scenarios. GLA Economics will be updating its macroeconomic scenarios later this month.

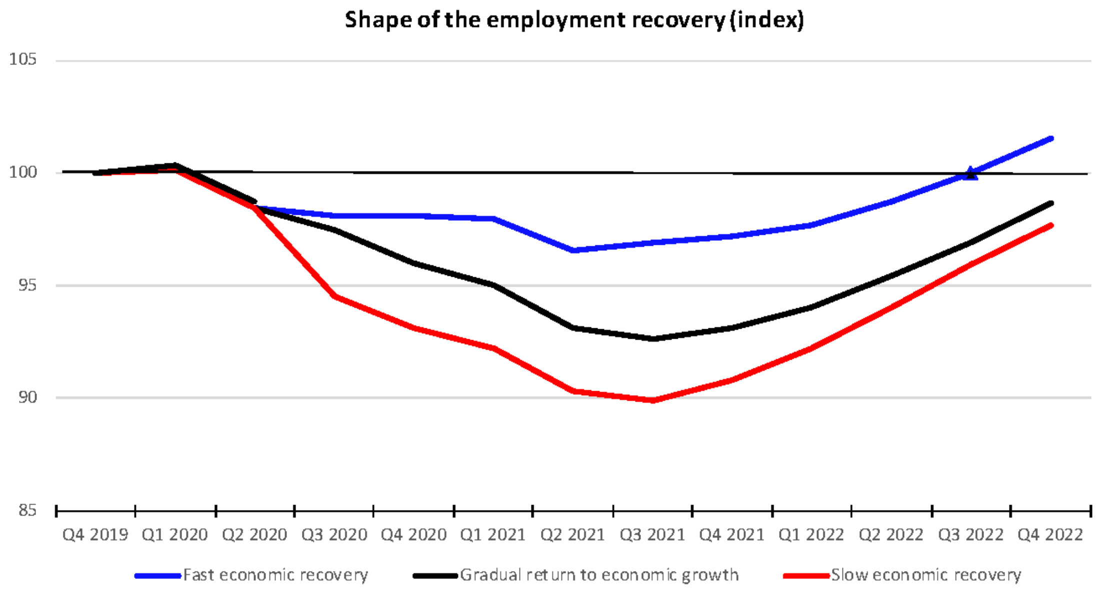
Figure 15: Medium-term scenario projections for London – Real GVA and Workforce jobs (annual growth rates)



Source: GLA Economics

Figure16: Medium-term scenarios projections for London - output and employment (indexes)





Source: GLA Economics

4 Conclusions

As the data and analysis above clearly show, London is suffering severe economic impacts from COVID-19 and in many respects (business closures, labour market, expenditure, footfall) is doing worse than other places in the UK.

It cannot be taken for granted that just because London's economy has bounced back quickly from previous recessions it will necessarily do so this time around in the absence of well targeted recovery policies and support.

- London's economy (and particularly its labour market) showed remarkable resilience in the wake of the 2008/09 financial crisis compared to other parts of the UK. And academic research by Cambridge academics Ron Martin and Ben Gardiner in a 2019 Paper in Regional science called "The resilience of cities to economic shocks: A tale of four recessions (and the challenge of Brexit)" has highlighted that London's resilience has been a constant feature of all recessions since the 1970s.

- The drivers and sectoral impacts of the COVID-19 crisis however are rather unique and do not resemble any other recent recession, with a number of features of London (its density, economic geography, role as a magnet for tourism and visitors, exposure to the global economic climate and the importance of retail, cultural and recreational industries) creating unique vulnerabilities.

- As highlighted by Arup in their interim report on the future of the CAZ, this crisis is also different in the sense that it is deeper and has knock-on societal impacts (e.g. aversion to public transport and crowding) that affect central London directly and could persist for longer.

- Until social distance measures are eased significantly and restrictions on international travel are lifted, we can expect a continuing decline in the arts and culture, retail and hospitality sectors across London (and within the CAZ in particular).

At the same time, the size and linkages between London's economy and the rest of the UK economy mean that without a solid recovery in London there cannot be broader recovery in the rest of the country.

- London represents just under a quarter of the UK's GVA. Over the past 20 years, when London has grown the rest of the UK has also grown. The sheer size of London's economy and its interconnections with the rest of the UK's economy (both highlighted in the London Local Industrial Strategy Evidence Base) mean that it is difficult to envisage scenarios where the country returns to prosperity if London does not.

- Another key finding of the Cambridge research on cities recovering from past recessions is that the closer/better connected other cities were with London, the better their recovery performance. In other words, regional agglomeration dynamics meant that recovery in London spread across the wider South East and beyond. Therefore, failing to support/achieve an equally strong bounce back in London following the COVID-19 crisis could have implications for the economic performance of a large share of the country.

- This effect is compounded by trade and supply chain links. The Input-output table for London by GLA Economics highlighted that for every £ of output consumed in London, 24p of production is generated elsewhere in the UK.

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