CITY INTELLIGENCE

COVID-19 summary of external research

March 2021

This newsletter series presents a digest of external research that the Greater London Authority is making available for the benefit of external stakeholders in tackling the COVID-19 crisis. These summaries have been prepared under challenging circumstances and to short timescales. They are not intended to be comprehensive and exhaustive and they do not represent the full body of evidence on which Mayoral Policies are or will be based.

1 Introduction

This issue of the City Intelligence Unit summary of external research on COVID-19 marks nearly a year since the start of the lockdown and since the City Intelligence Unit started producing these newsletters (the first issue dates 2nd April 2020).

The Resolution Foundation has taken a 12-month view of the pandemic and of the policy responses in the UK, contrasting major successes on income support and vaccine development and rollout but also repeated delays of lockdown decisions that are likely to have cost lives and worsened the impact on the economy, while also enhancing inequalities.

We are not attempting a similar stocktake exercise in this issue. We instead summarise recent publications on topics that we have tended to cover regularly: from macroeconomic scenarios to economic policy responses; from various types of impacts (labour market, cities and SMEs) to impacts on different dimensions of equality, finishing off with policy recommendations on government support.

2 Summary of external research

Macroeconomic scenarios

In conjunction with the delivery of the March Budget the **OBR** published their latest economic scenario forecast for the UK economy in their Economic and fiscal outlook. In their central scenario, **GDP** in 2021 is expected to increase by 4%, which is lower than forecast in November mainly due to an expected contraction of the economy by 3.8% in the first quarter of the year. GDP is then expected to grow by 7.3% in 2022 before resuming slower levels of growth. The UK's **unemployment rate** is now expected to peak at the end of this year to 6.5% in the central scenario (a rise in unemployment of 490,000 since last year). However, the OBR did warn that the pandemic could have long-term scarring effects on the economy and the labour market participation rate.

The **OECD** has also updated their forecast in their [Interim Economic Outlook report](). This saw them increase their forecast for UK economic growth for both 2021 and 2022 to 5.1% and 4.7% respectively. This was 0.9 percentage points higher than their December forecast for this year and 0.6 percentage points higher for next year.

GLA Economics has published its sixth edition of [macroeconomic scenarios]() for London to incorporate the effects of the Budget. The fiscal stimulus boosts the economy in the near term through, for example: further business rates relief for the hard-hit sectors of retail and hospitality; and the extension of the furlough scheme which delays and ameliorates job losses. In all three scenarios the pace of the W-shaped output recovery is markedly slower than the original fall. Under the central gradual return to economic growth scenario London's economy reaches pre-crisis levels in Q1 2022. Pre-crisis employment levels are not reached before Q4 2023.

Economic policy and broader policy responses

The pandemic has seen central banks engaging in more **quantitative and qualitative easing**. A [new report for the Economics Observatory]() has examined its size for certain banks along with recommendations for future actions. It noted that "the Fed increased from \$4.1 trillion (19.2% of 2019 GDP) in the week from Monday 6 January 2020 to \$7.2 trillion (33.6% of 2019 GDP) in the week from Monday 30 November 2020. Over the same period (Friday 3 January 2020 till Friday 27 November 2020) the size of the Eurosystem balance sheet increased from €4.7 trillion (35.1% of 2019 GDP) to €6.9 trillion (51.5% of 2019 GDP)". In relation to future actions for the Fed the paper suggested that there should be "no tradable asset class that should be off-limits to the Fed as investments" including stocks.

Looking at **fiscal policy**, a recent [paper from the Centre for Climate Change Economics and Policy and by the Grantham Institute](), by Lord Stern and Dimitri Zenghelis, argues that the path to fiscal responsibility actually calls for promoting investment rather than for premature austerity. The authors maintain that for recovery to be sustained, strong and non-inflationary it must be driven by private investment. In order for this to happen however governments must take advantage of the current low-interest rates environment and step-in with ambitious enabling investment in infrastructure, skills and intangible knowledge-generating assets. The risks of not doing so would outweigh the risks of high public debt. Enabling investment – they argue – must support the transition to sustainable and inclusive growth.

Aligning growth and fiscal sustainability with a much-needed push for **environmental sustainability** as economies recover certainly looks like a challenge for the next few years. A recent article in [Nature]() shows, global CO_2 emissions have decreased by around 2.6 $GtCO_2$ in 2020 to 34 GtCO2 in 2020. While this is unprecedented, it also highlights the challenge of reaching the ambitions of the Paris Agreement on Climate Change, which would require achieving annual emission reductions of 1 to 2 $GtCO_2$ per year throughout the 2020s and beyond. While in their report on greening the post-COVID recovery, the [Environmental Audit Committee]() concludes that the same kind of urgency that was applied to develop a vaccine now needs to be applied to developing and deploying the solutions to the climate and extinction crises.

While the latest macroeconomic scenarios point to a gradual recovery and the rapid rollout of vaccines and the roadmap for lifting restrictions may suggest that COVID-19 is coming to an end, a recent [British Academy]() report commissioned by the Government Office for Science argues against thinking that we will soon leave the pandemic behind. They argue that we now are in a **COVID decade**, which will be deeply affected by the social, economic and cultural effects of the pandemic. Among the lasting impacts they note among others increased importance of local communities, widening geographic inequalities and increased structural inequalities. Awareness of these long-term impacts is needed for tackling these effects adequately at all levels.

According to a recent report by the Institute for Government, the government also needs to learn a number of **lessons on how to respond to shocks** from its response to the COVID-19 pandemic within a system that had already been strained by Brexit. The report identifies ten lessons and groups them under headings which include anticipating shocks (risk analysis and preparedness), the mechanics of government (policy, operations and communication) and checks and balances (accountability, propriety and effective scrutiny). One of their mechanics of government lessons is about the need to urgently repair relationships between central and local government, as a breakdown in these relationships (aided by what they define as a basic lack of understanding of the makeup and functions of local government in government departments) led to operational problems and missed opportunities.

Finally, in their latest look at **sub-national finances post-COVID-19** the Institute for Fiscal Studies highlights once again how increases in spending and reductions in income of local authorities are likely to persist at least in part in the next few years, exacerbating a fiscal outlook that was already challenging for local government. The author believes that this makes reform of the local government funding system even more necessary but also more contentious. He suggests that previous plans to further shift from grant funding to reliance on business rates may need to be reconsidered while an overdue debate should also take place on the respective roles of local and central government on policy issues ranging from service provision and economic development to crisis management.

Impacts on the labour market

A summary of how the coronavirus crisis is affecting **gig economy** workers has been provided by the Economics Observatory. Workers in the gig economy have been less likely to suffer the loss of income that self-employed workers experienced. One estimate is that 25% of these workers have had more work than usual, and delivery companies have done particularly well. For example, Just Eat has plans to recruit 1,000 new couriers by March 2021. On the other hand, bookings for Uber rides were 73% lower in Q2 2020 year-on-year. And competition for 'gigs' on some platforms may be increasing as people who have lost jobs turn to gig economy work. This is against a backdrop that more than three-quarters of gig economy workers were concerned about health risks at work. Taxi driving is one of the occupations with the highest rates of COVID-19 deaths.

While there is a debate about whether gig economy workers are self-employed or employees the Centre for London has called upon policy makers and employers to adopt a **Client Charter** of good practice to protect the rights of all **self-employed** workers. A survey by the Centre found that 55% of self-employed Londoners said that COVID-19 has negatively affected their income compared with 44% of employees. On top of this, these workers often experience bad client behaviour (e.g. late payments or last-minute cancellations), struggle to pay for expensive workplaces and have few professional development opportunities.

The Office for National Statistics has produced new experimental analysis of employee payroll statistics linked to information about the **nationality of employees**. The analysis shows that the reduction in non-UK nationals during the coronavirus pandemic is smaller for payroll employees than for equivalent Labour Force Survey (LFS) data. In the year to October to December 2020, there was a decrease in EU payroll employees of 7% across the UK while the number of non-EU nationals was virtually unchanged. Though declines in non-UK payroll employees are more pronounced in London, the findings suggest that 'LFS-based estimates are likely to significantly overstate the change in the non-UK national population'.

Impacts on SMEs

Over two-fifths of SMEs have seen sales decrease in the past 12 months and just under a third have cut jobs according to research by the Enterprise Research Centre. Sectors such as recreation and hospitality have been particularly hard-hit, and this compares with modest signs of growth in the construction and wholesale and retail sectors. In response, the majority of SMEs have adjusted their business strategy. The most common change was to increase focus on cost reduction. However, SMEs, and notably those that had experienced turnover declines during 2020, also reprioritised the introduction of new products and processes and the adoption of digital technologies (e.g. videoconferencing platforms, online marketing and newer technologies such as the Internet of Things and augmented reality). The authors warn though that the digital dash is not likely to continue because of pressures on cash and the uncertain outlook.

Impact on cities

The economic impact of Covid-19 has been most clearly seen in the **city centres of London and the 'Core Cities'**, according to Centre for Cities. A large part of the damage appears to be temporary, but there is a risk that any permanent shift towards working from home would stunt recovery. In the meantime, increased working from home has not appeared to have helped congestion and air pollution levels. The report suggests actions to support the immediate recovery of city centres: encouraging public transport usage once it is safe, tackling air pollution, ensuring the supply of commercial property and improving local skills.

Looking at **London** specifically, the Centre for Cities also puts the spotlight in a recent blog on how not only city centres have been hit hard by the COVID-19 crisis, but also on how central London in particular has been hit the hardest. As of late February, travel to workplaces had recovered to around half of its pre-pandemic baseline at a national level but remained at less than a third in inner London, with even weaker recovery in Westminster and in the City. On the other hand, in large parts of outer London travelling to work has remained much closer to the national average. Similar relative impacts are also observed when looking at mobility data for retail and recreation.

A thought experiment published by the Centre for Economic Performance suggests the **effects of COVID-19 on social lives** may be more relevant for the cities than its impact on work. Using data from Germany and a structural general equilibrium model, the analysis models the population and GDP impact of removing the effects of agglomeration on productivity, the agglomeration effect of social amenities (e.g., restaurants, clubs and theatres) on quality of life, or both simultaneously. They find that for large labour markets, the impact of removing social amenities is much greater than the productivity effect. However, there is hope that behavioural adjustments and innovations – cheaper and quicker tests, and effective vaccines – will mitigate the long-run impact of a reduction in the social amenities of cities.

The **creative industries** are certainly one of those sectors that were previously attracting people to city centres and that have been hit hard by the pandemic. The House of Commons library published a short briefing paper on the impact of the pandemic on the sector, finding that "the early months of the first lockdown, over 15,000 theatrical performances were cancelled with over £300 million in lost box office revenue". It also provided details on the contribution of the sector to the UK economy as well as details on the Government's support programmes. But as highlighted by the City of London, recovery for these sectors is possible, so that they can fuel a creative renewal. A number of recommendations came from the report including the setting up of creative enterprise hubs, the celebration of London's cultural offer and the creation of creative exchange and skills building programmes.

Impacts on people and on equalities

A recent survey by the King's College Policy Institute looks back at **life under lockdown** and at how people have felt over the past year. Interestingly there are notable minorities that appear to have coped better than expected. Some 32% say the past year has been similar to or better than average for them personally, while a majority (54%) say they'll miss at least some aspects of the COVID-19 restrictions, with more time spent with family often being mentioned.

Previous widely reported research by the same institute had also looked at **attitudes towards inequalities post-COVID-19.** This found considerable support for the notion that tackling area-based inequalities should be a priority. By contrast it appeared to show somewhat harsher attitudes towards inequalities that may have been exacerbated by COVID-19, with around a third of respondents actively saying they would not consider it a problem if gender inequalities were to increase following the pandemic, with nearly a quarter saying the same about the ethnic minority income gap and nearly half expressing that an individual's performance at work is important in determining whether they lost their job during the current crisis.

As discussed in a recent paper for the Economics Observatory **social media** can also be a useful tool for tracking the public's physical and mental wellbeing. The paper observed unsurprisingly that the Vermont Complex Systems Center 'Hedonometer' which tracks sentiment on Twitter found a big drop in global happiness in March 2020. The 'Gross National Happiness' which also monitors Twitter found more negative tweets in areas affected with higher daily COVID-19 cases and subject to lockdown restrictions. However, there are weaknesses and problems with monitoring social media to monitor society – these include among others unrepresentative sample bases, potential for bias in algorithms and the unprecedented collection of people's data by private companies.

While there is little evidence of widening **gender** inequalities on average, with as many men as women losing their jobs and being furloughed, analysis from the Economics Observatory finds that mothers, and particularly single mothers have been particularly affected. More mothers than fathers withdrew from paid work completely, reduced their paid work hours or took furlough to adjust to the increase in caring responsibilities. Single mothers, already a group particularly vulnerable to economic disadvantage, have been left among the most disadvantaged by the pandemic. The lockdown that started in January 2021 is likely to have further exacerbated these inequalities.

Many **young children** have missed out on early years education either partially or completely due to the pandemic, with a significant number of childcare providers having gone or expected to go out of business, reducing spaces available in the short to medium term according to Coram Family and Childcare, while costs of childcare have already risen over the last year. London Councils have reported on the considerable concerns about children being left behind due to missing this early-years education and the potential for widening entrenched disadvantage and potentially the attainment gap in London not only for this cohort but for future cohorts if capacity is reduced in the mid to long term. London Councils has proposed a five-point plan to address this issue. Young people's mental health has also been badly affected with research from the Institute for Social and Economic Research finding increases in behavioural and emotional difficulties among primary aged children and that these were greater among the age groups that did not return to school in May, but the effects lasted well beyond the return to school in September.

The Institute for Fiscal Studies highlight not only the immediate effects of the pandemic in increasing inequalities in education and skills, in the labour market and in households incomes by gender, ethnicity and across generations, but also look at the expected **longer-term changes and how they might impact on inequalities**. Among these are the further shift towards online purchasing, the increase in remote working, the understanding of the threat of future pandemics on firms' investment decisions.

State Support

A joint report from the Institute for Government and Social Security Advisory Committee advocates strengthening support offered to those losing their jobs and entitled to **contributory benefits**, ensuring income levels that are at least as high as for those on means-tested benefits. This would encourage people to look for suitable good jobs, maintaining longer-term benefits for individuals and the economy of higher wages and productivity. Other recommendations include raising the savings limit and taking a more systematic and flexible approach to managing the return to work.

Analysis from independent think tank Bright Blue has looked at the scale and cost of **state support for housing costs** in the UK. It shows that prior to the pandemic households in urban areas, particularly in London, were most likely to be receiving state support for housing costs (in the form of Housing Benefit or the housing element of Universal Credit), but the level of support available had decreased substantially due to successive changes brought in between 2008 and 2020 in the Local Housing Allowance. During the first nine months of the pandemic the proportion of households claiming support with housing costs increased in all local authority areas, but again more in urban areas and particularly in some London boroughs. In four English local authority areas (all in London), more than two in five of all households were receiving state support for housing costs in November. The increase was particularly strong among private renters, and again most obvious among private renters in London. The cost to government is expected to remain high until at least 2025.

The Economics Observatory highlights findings from several different studies that the **support to the most vulnerable people** in the UK has not been enough to prevent rising and serious hardship during the pandemic. Destitution, severe poverty and debt were already making some people vulnerable economically before the pandemic, including people in working households, while risk of income poverty was particularly high among Pakistani, Bangladeshi and Black households, people with disabilities and in single parent households. During the pandemic decreases in income have been seen across all income groups but have impacted most on those in low paid work.

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