CITY INTELLIGENCE

COVID-19 summary of external research

August 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 provides an overview of selected publications on the socio-economic impacts of COVID-19 that have been published in the last couple of months and that we see as particularly relevant from a London and UK perspective. Specifically, we have included:

- the latest economic forecasts and macroeconomic scenarios including studies that looked at the impact of the pandemic on public finances and tourism.
- a number of publications that looked at the UK labour market, including future changes; regional patterns of employment; geographic differences in labour market recovery; the effects of the pandemic at a household level; and the latest furlough trends.
- recent publications on the future of work post pandemic and on the impacts of the pandemic on high-streets and retail.
- several studies looking at the impacts of COVID-19 on equalities, including studies that looked at the implications of ending the £20 uplift to Universal Credit.
- several publications looking at planning for London's recovery including a report on outer London; a series of blogs on reasons to be optimistic about London's future; a report on the role that the Southbank and Waterloo cultural cluster could play in London's recovery; and a report on how London's role as a large river city could impact on the city's long-term plans.

2 Summary of external research

Macro/projections

The IMF updated its economic forecasts in July in its latest World Economic Outlook Update. In this it raised its estimate for UK growth this year by 1.7 percentage points (pp) to 7% but slightly downgraded next year's growth by 0.3pp to 4.8%. However, looking at the international context it noted that "economic prospects have diverged further across countries", with those economies having access to vaccines (almost all advanced economies) looking forward to further normalisation and those that don't facing resurging infections and rising COVID death tolls. As the IMF notes however, recovery "is not assured even in countries where infections are currently very low so long as the virus circulates elsewhere".

The Bank of England also updated its forecasts for the UK economy in its latest Monetary Policy Report. In this it noted that the "vaccines are helping spending, jobs and incomes recover from the effects of Covid". It projects that UK GDP will grow by 7.25% in 2021, reaching its Q4 2019 level in Q4 2021. Growth is then expected to slow to 6% in 2022 and then 1.5% in 2023, while unemployment is projected to return gradually to pre-pandemic rates over the forecast period. However, inflation is expected to hit 4% in Q4 2021 and Q1 2022 although this is expected to be temporary, with inflation returning to around the 2% target in the medium term.

The OBR has also been looking at the impact of the pandemic on the UK's public finances in its latest Fiscal risks report published in July. It observed that with just two decades past in the 21st century "the UK has already experienced two 'once in a century' economic shocks" with there being "reasons to believe that advanced economies may be increasingly exposed to large, and potentially catastrophic, risks" and thus associated risks to public finances. It then turned to the large economic shock and associated fiscal cost of the pandemic in the UK, noting that even with a strong recovery "there are significant risks to the Government's medium-term fiscal plans from the legacy of direct funding pressures that the pandemic may leave behind for public services." Departmental spending plans do not include virus-related contingencies beyond this financial year while legacy costs from the pandemic are to be expected in relation to health, schools and transport. In the longer run it points out that the evidence of economic scarring from the pandemic is mixed, with positive trends being observed on GDP and investment and more negative trends being observed on outward migration.

GLA Economics has also published its latest macroeconomic scenarios in August 2021. London's output expanded more quickly than expected in Q4 2020, and so now London is predicted to reach its pre-pandemic level of output this year. There has also been more positive labour market news, and with faster than expected jobs growth the end of the furlough scheme in September is likely to have less of a dampening effect on labour market prospects. That said jobs are not thought to recover to pre-crisis levels until Q1 2023. Output in the central scenario is forecast to grow by 6.5%, 6.0%, and 2.9% in the years 2021 to 2023.

Looking to the prospects of future growth a recent article on the Economic Observatory by John Turner looked at the example of the Roaring Twenties of the 20th century to see what guidance they could provide for the coming decade. This found a few lessons the first being "the performance of the economy in the 2020s will largely be determined by whether there is a technological revolution that revives severely lagging productivity". While for policymakers the lesson should be that they need to take care "that post-pandemic consumer and property booms driven by pent-up demand and 'joie de vivre' are not fuelled by credit" as "one of the major lessons of history – and the Roaring Twenties in particular – is that such booms do not end well".

A United Nations Conference on Trade and Development (UNCTAD) report estimates that the global economy could lose over $4 trillion due to the impact of COVID-19 on tourism and related sectors in 2020 and 2021. Recovery will largely depend on the uptake of vaccines globally. As the IMF also highlighted, vaccination rates are uneven across countries, ranging from below 1% of the population in some countries to above 60% in others. The tourism sector is expected to recover faster in countries with high vaccination rates, but the United Nations World Tourism Organization (UNWTO) does not expect a return to pre-COVID-19 international tourist arrival levels until 2023 or later. Across three scenarios UK GDP in 2021 is expected to be between 1.6% and 3.2% lower than it would otherwise have been from a reduction in tourism. The main barriers are travel restrictions, slow containment of the virus, low traveller confidence and a poor economic environment.

Labour market

With the easing of COVID-19-related restrictions in recent months, the latest Chartered Institute of Personnel and Development (CIPD) quarterly Labour Market Outlook gives an indication of future changes in the UK labour market. The headline picture is positive with over two-thirds (69%) of employers planning to recruit in the three months to September 2021 and only 13% looking to make redundancies. In this context 'anxiety about mass job losses has been replaced with the opposite fear for employers – namely, an inability to recruit enough of the right staff' – but particularly for certain sectors. For example, around half (51%) of employers in the hospitality/arts/ entertainment industry report hard-to-fill vacancies compared with 39% for all employers.

A recent article for the Economic Observatory examines the impact of the pandemic on regional patterns of employment. It notes that the number of payroll employees living in several UK regions had returned to pre-pandemic levels by June 2021. Yet in London, the region which has historically driven the UK's employment growth, the number of payroll employees was not only below pre-pandemic levels but, unlike in other parts of the country, the rate of employee growth remained negative between June 2020 and June 2021. Reflecting on these trends, the article highlights 'the uneven impact of travel restrictions on certain jobs and workers concentrated in the capital' (e.g. tourism-related jobs) and the impacts of COVID-19 and Brexit on migration flows. It also notes that the recovery in payroll employees outside of London only provides a partial picture of the labour market. Data from the ONS Labour Force Survey, for example, suggest that total employment levels – including self-employment – may be still be down on pre-pandemic levels in every region.

Geographic differences in labour market recovery are also explored in a recent Resolution Foundation briefing. It also notes that while payrolled employee numbers are back at, or close to, pre-pandemic form in many UK nations and regions, in London the jobs recovery has a long way to go. This variation is only partially explained by the sectoral composition of London's economy. The sluggish recovery in London is also put down to the relatively low demand for 'staycations' in UK cities in recent months (compared to coastal areas) and the continued shortfall in commuter footfall in city centres. The briefing also suggests that wealthier residents in cities seem not to have been 'spending to the same extent as they were pre-pandemic (or at least not locally) with additional implications for local demand'.

The IFS recently produced analysis looking at the impact the COVID-19 pandemic has had on the labour market. The analysis looks at the effects of the pandemic at a household level, highlighting the impact on certain groups. For instance, the authors identify a number of groups where there has been a worrying rise in the number of households where no one has a job. This includes among single-adult households without children and Pakistani and Bangladeshi people – both groups that faced relatively high levels of poverty pre-pandemic. The article also pointed out that real earnings growth for those who continued to work throughout the pandemic was fairly similar to the immediate pre-pandemic years.

With the end of the furlough scheme approaching, a recent Resolution Foundation (RF) note reviews the latest furlough trends. The note shows that furlough rates fell rapidly in some parts of hospitality and leisure in May but remain elevated in some 'stalling' sectors at a UK level (e.g. passenger air transport and travel agencies). It also warns that recent positive news does not mean that the risk of unemployment when the furlough scheme ends is now so low as to be of little concern. For example, high rates of furlough in some parts of the country have persisted, with north London boroughs among the most furloughed areas of the country.

The future of work

The House of Lords COVID-19 Committee has published 'Beyond Digital: Planning for a Hybrid World'. The report considers the impact that the digital acceleration driven by the pandemic might have on wellbeing in the long-term. It highlights that digital inequality may also be a consequence of hybrid working, as people with an annual income of £50,000 or more, for example, are 40% more likely to have basic digital skills than those earning less than £17,499. On the other hand, this may be an advantage for disabled applicants and employees - 73% of disabled workers report being more, or equally, productive whilst working from home due to better pain management and ability to adjust working times to better suit their lives. The Committee also found an increase adoption of workplace monitoring at home due to employer concerns about their employees not working when they are scheduled. This is now affecting workers on higher incomes in more professional workplaces.

The Tony Blair Institute for Global Change has published 'Anywhere Jobs: Reshaping the Geography of Work'. The report argues that the pandemic has proven the ability to do most office-based jobs from anywhere in the UK and internationally - these are defined as 'Anywhere Jobs'. There are 5.9 million (or one in five of all jobs) of these Anywhere Jobs in the UK, mainly in ICT, financial and professional services. Some 1.3 million (21%) are in London (in the City and Tower Hamlets). Digital and interpersonal skills tend to complement each other and tend to increase the number of benefits in larger cities such as London. However, UK white-collar jobs were found to be at risk of being outsourced to digital piecework platforms.

The Economics Observatory published a summary of evidence on the question of whether people will go back to the office after the pandemic. There appears to be a substantial demand from employees for hybrid working arrangements after restrictions are removed and only 18% of UK employees rarely or never want to work remotely. Hybrid working could also have an impact on cities and towns. With companies moving away from offices and workers commuting less, there may be a decline in big city centres. Hybrid work however does give employees more autonomy over when and where they work, improving their work-life balance.

Business forum London First has published '*Renew London: Hybrid Working*', an overview of major consultancy EY's plans to enable hybrid working – and tries to draw insights from it into the wider needs of London as the city begins to open up after the pandemic. EY (which employs 11,500 people in London) assesses the viability of remote working for each of its teams' activities, what sort of scheduling approach works best for the team, and how people at different stages of their careers and personal lives need different approaches to hybrid working. This suggests a mix of on-site and remote working, but one that is tailored to the team and the individual, and an effort to ensure that best use is made of the time employees spend in the office – and by extension, in the City. One possibility is that office workers will spend more time making the most of London's retail, leisure and cultural opportunities on the few days a week they do spend in the office. For this to happen, London First argues that central government needs to fund a campaign to bring people back to the city, ensure short- and long-term investment in TfL and support re-skilling for new sectors and those going through structural change.

The TUC report, 'The future of flexible work', makes the case for government to overhaul employment law to strengthen workers' rights as flexible working becomes entrenched after the pandemic. It points out that some 50% of the UK workforce has continued to work outside the home during the pandemic, and argues that the narrative has wrongly focused on the one-third that worked from home during the pandemic – largely people in higher-paid occupations and in London and the wider South East. Pre-pandemic, flexible working for many meant workers losing rights, it argues, providing irregular hours and pay., A new Employment Bill should provide, stronger protections. However, the TUC also argues that "genuine" flexible working has significant worker benefits such as for work-life balance and wellbeing, as well being a potential catalyst for promoting gender equality and helping address the barriers faced by disabled workers, those experiencing domestic abuse, carers, women experiencing the menopause, and older workers approaching retirement.

Impacts on high-street and retail

'Freedom Day' on 19th July marked the removal of all restrictions and social distancing measures in England, and the largest step towards normality, albeit amid soaring COVID-19 cases. A recent blog by Valentine Quinio from the Centre for Cities, however, suggested normality on London's high streets is still a long way off, with consumer spending only reaching 74% of pre-pandemic levels in London, placing it in the five cities with the lowest consumer spending recovery. This can be explained by London's high street businesses' reliance on office workers, rather than on weekend shoppers. At only 18% by the end of July, office workers seem hesitant to return, leaving London's high streets starved of consumers, consequently delaying a full recovery.

A Grimsey Review research paper, Against all odds, reviews developments in the independent retail sector. The collective debt of 68,000 independent small retailers has risen from £0.25bn to £1.03bn since the start of the pandemic. The collective debt of nearly 56,000 small independent hospitality businesses has risen from £0.19bn to £0.84bn over the same time period. Many of these businesses have been unable to trade. The paper concludes that most have been forced to take on unsustainable levels of debt and many are teetering on the brink as a result. It argues for urgent support to stop a tsunami of closures. High street entrepreneurs have been resourceful, agile and determined during the pandemic, although there has been a heavy human cost in terms of mental health and confidence. Despite unprecedented financial challenges, independent businesses have prioritised supporting local communities and maintaining the social fabric. The support of local businesses for Marcus Rashford's campaign to provide free school meals during school holidays provides an example of this. The key message is that government must change their emphasis from regenerating town centres and high streets through infrastructure investment to a focus which prioritises people, partnerships and communities.

Equalities and wellbeing

The Institute for Fiscal Studies flagship annual report on living standards, poverty and inequality in the UK lays out a detailed picture of the situation immediately prior to the pandemic and looks at how the restrictions on economic activity since March 2020 have affected earnings and deprivation for different groups. Against a background of stagnant relative poverty for adults (but increases for children) and only marginal decreases in absolute poverty since 2007/08, some of the rises in deprivation indicators such as rent arrears and food bank use, seen in mid-2020 had returned to pre-pandemic levels by early 2021.For some groups, most notably the self-employed and people on furlough, the situation had not improved to the same extent and some inequalities had widened. For example, the gap in the proportion of people from BAME and from White groups reporting financial difficulties and being in arrears on household bills had increased over the same time period.

Wealth of the Nation is the annual publication from CACI that gives an overview of the financial state of households across the UK. Using many data sources, largely from private sources, CACI models household income for small areas across the UK. The report shows that London is the only part of the UK where average gross income increased between 2020 and 2021 (though it remained below average income for the South East), with lower income households relocating out of London potentially contributing to this change. However, for disposable income (after essential outgoings including housing) the story is very different, with London households having the lowest disposable income – more than £2,500 below the average for any other region. The report also highlights the widening wealth gap between the highest and lowest income households over the course of the pandemic with lower outgoings for the richest households enabling them to pay off more debt and increase savings with no loss of income, while many poorer households had reduced income and drew on savings and increased debt.

Another Economic Observatory article explores the links between pre-COVID-19 measures of deprivation with a new index of COVID-19 economic impacts based on real-time, local level indicators of economic activity (including data on consumer mobility and spending and firms' expectations for future investment and growth). The authors argue that both measures – deprivation and pandemic impacts – are important for policymakers to consider when prioritising additional support for local areas, such as levelling up funds. Taking both into account, the most 'in-need' local authorities in England include Barking & Dagenham (1), Newham (5) and Haringey (6) alongside Blackpool, Great Yarmouth and Liverpool.

The Health Foundation has also looked at inequalities before March 2020 and at the impacts of the pandemic on different groups and suggests some actions necessary for a fairer recovery. It notes how working-age people from the poorest areas were four times more likely to die from COVID-19 than the wealthiest and that the ongoing consequences of the restrictions, from unmet health need to economic impacts, are also unequal. It finds that the legacy of the financial crisis contributed to the vulnerability of some groups to the impacts of the pandemic. Addressing the root causes of poor health in the recovery programme in a co-ordinated way is needed to improve the nation's health and prosperity in the longer term.

The IFS and Joseph Rowntree Foundation both report on the upcoming ending of the £20 uplift to Universal Credit (UC). The IFS article looks at the types of claimants and how much of their UC entitlement will be lost, from a more than 20% loss of income for a single workless claimant with no children, no health condition and no housing entitlement to a cut of less than 8% for a quarter of claimants. The latter are mainly families with a housing allowance as part of their entitlement, though those whose support is capped won't see any further reduction as a result of the end of the uplift. The IFS also highlights that the £20 uplift was the first real-term increase for many claimants over a period of half a century when earnings have doubled, therefore strengthening work incentives. By contrast removing the uplift will mean the UK reverts to among the lowest safety nets of any developed countries. The JRF report highlights that this will pull half a million more people, including 200,000 children into poverty, with six in ten of all lone-parent families seeing a drop of more than £1000 in annual income. The cumulative impact of the changes in welfare since 2013/14 to a family with three children with two working parents in a medium cost area has seen them go from £271 a month above the poverty line to being £150 below the poverty line when the £20 uplift ends, while a single adult without a job would likely be left destitute.

An article for the Economic Observatory considers how we measure the impact of COVID-19 policies on our wellbeing, calling for a greater focus on life experiences and wellbeing when analysing the effects of policies. The authors note that combining length of life and quality of life in one measure (wellbeing-adjusted life years) would make it easier to account for 'how many life years a person lives as well as how these years are actually experienced by that person'. Such an approach would, the authors argue, allow policymakers to make more meaningful policy decisions. By contrast, the evaluation frameworks adopted during the pandemic have not fully accounted for the impacts that policies have on people's wellbeing (e.g. in terms of mental health, loneliness or loss of education due to school closures).

Recovery outlook for London

A report from The Smith Institute finds that both Inner and Outer London have been hit hard by the pandemic both in terms of deaths and economic consequences. Despite increases in housing support in some Outer London boroughs particularly, there are many households with rent arrears. Low pay, more prevalent in some sectors, and in some Outer London areas, needs to be addressed as part of the recovery and the report urges the GLA and the boroughs to do more to encourage and support improved employment standards and working practices. The report also looks at the implications of longer-term homeworking and hybrid working, finding that, if consumption patterns also become more localised to home, there is potential for increased job opportunities locally for Outer London workers, including lower paid workers. However, that could be as a result of lower consumption in central and inner London areas. Skills mismatches could be a challenge in tackling the issues of low pay and poverty and the report recommends that the GLA establishes an Outer London Recovery Taskforce to coordinate and focus effort.

A series of blogs by four different authors published by Centre for London outlines reasons to be optimistic about what the future holds for London. Their key views are as follows:

- London has bounced back in the face of wars and diseases many times before and has facilitated technological leapfrogging and a re-evaluation of business structures. It is likely that history will repeat itself, such as after the Second World War, which saw the birth of the great artistic and musical movements of the 1960s, driven by the welfare state.
- As workers return to desks, relationships will flourish once again, and it is these relationships that underpin London's growth throughout history. A group of people is likely to generate better ideas than an individual, allowing relationships to drive ingenuity and innovation, shaping a more optimistic future.
- London's cultural infrastructure has displayed its resilience during the pandemic, maintaining London's status as a global cultural capital. Digital engagement has been made a requirement in the current climate to control crowds, however it can also provide a diversification of the industry's audiences by allowing organisers to conduct demographic analysis of their consumers and alter their services to attract those who are underrepresented.
- London's continued success on a global scale can be maintained by an emphasis on neighbourhoods to guarantee a basic quality of life for all Londoners, however the importance of London's metropolitan structure must not be undermined for the sake of a '15 minute-city'.

Relating to cultural activities, a recent report by the Lambeth and South Bank BID looks at the specific role that the Southbank and Waterloo cluster (made up of cultural institutions such as the National Theatre, Rambert, Southbank Centre, The Old Vic and Young Vic) could play in supporting London's recovery. The cluster normally draws over 5.6 million visits a year, contributing significantly to the UK economy. The impact of COVID-19 has been stark, with an estimated loss of £330 million GVA for the UK economy and 5,500 UK jobs normally generated by the cluster in 2020/21. The report states that with a combination of private and public investment, the cluster has the potential to play a significant role in the recovery of London and the UK, both creatively and economically.

How could London's role as a large river city also help drive recovery? A paper by the Port of London Authority sets out the responses to COVID-19 made across 15 of the world's largest river cities, including London. It concludes that the pandemic and other influences are increasing demand for river activity, resulting in a new set of challenges. In the short-term, responses have focused on mitigation e.g. securing public safety and managing demand shocks. In the medium-term, actions are being taken to adapt, such as optimising rivers for city logistics and reworked supply chains, stepping up net zero commitments and enhancing riverside placemaking. The report also discusses longer-term actions for rethinking the role that the river can play in a post-Covid context, such as scoping the future visitor economy and recreation locations along the river.

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