CITY INTELLIGENCE

COVID-19 summary of external research

May 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 focuses on the following:

- New economic forecasts
- The impact of Brexit and the pandemic on trade
- Impacts on productivity; the labour market; and society (including financial resilience, social cohesion, mental health effects, and crime)
- Remote working and the impacts on London
- Building back better with an emphasis on potential impacts of the pandemic on London's town centres, the post-pandemic labour market, and the future of the social security system.

2 Summary of external research

New economic forecasts

The Bank of England set out its new forecasts for the UK economy in early May in its latest Monetary Policy Report. In it the Bank expresses the view that the UK economy is likely to have contracted by about 1.5% in the first quarter of the year, which is less than it expected in its last forecast in February. It therefore thinks the economy is around 8.75% below the pre-crisis level of Q4 2019. Looking at 2021 it expects GDP to grow by about 7.25%, the largest annual rate of growth since records began in 1949, with GDP reaching its Q4 2019 level by the final quarter of the year. GDP is then expected to return to more normal rates of growth after Q1 2022. In terms of unemployment, it expects it to peak below 6% in the third quarter of 2021 before dropping back again.

The International Monetary Fund (IMF) published its latest World Economic Outlook forecast in April. This saw it upgrading its forecasts for both world economic growth and UK growth for this year and next. It now forecasts UK growth of 5.3% in 2021 and of 5.1% in 2022, which represent upgrades of 0.8 and 0.1 percentage points respectively on its January forecast. For the world economy it now expects growth of 6.0% this year and 4.4% next year, upgrades of 0.5 and 0.2 percentage points respectively. It also expects little long-term damage to advanced economies from the pandemic with them expected to produce just 1%

less output in 2024 than if there had been no pandemic, in part due to their firms showing more resilience than was expected.

A recently published Economic Observatory briefing has also examined the ongoing impact of the pandemic on tourism and international travel. It observed that international tourist arrivals declined by 70% over the period January to October 2020, levels last seen 30 years ago. It also noted that according to recent research a continuation of travel disruptions for six months could cost 2.5-3.5% of GDP across the G20 countries alone.

The IMF also published its latest Fiscal Monitor report in April. It argued that until the pandemic is brought under control "fiscal policy must remain flexible and supportive of health care systems, households, viable firms, and the economic recovery". It also called for scaled-up global cooperation (especially around vaccinations) and for policy makers to balance the risks of rising public and private debts against withdrawing support too soon. The IMF suggested that policymakers could consider a temporary COVID-19 recovery contribution, levied on high incomes or wealth and that they should consider combining predistributive policies (affecting incomes before taxes and transfers) and redistributive policies to avoid vicious cycles of mutually reinforcing inequalities.

Finally, the IMF's Global Financial Stability report came out in April. This warned that although extraordinary policy measures had supported the economy and eased fiscal pressures, they "may have unintended consequences such as stretched valuations and rising financial vulnerabilities". This is especially the case as the recovery is likely to diverge across economies. It also noted that emerging market economies, who have large external financing needs, "face daunting challenges, especially if a persistent rise in US rates brings about a repricing of risk and tighter financial conditions". It further warned of the risk to over indebted parts of emerging market corporate sectors. Thus, to avoid a legacy of vulnerabilities "policymakers should take early action and tighten selected macroprudential policy tools while avoiding a broad tightening of financial conditions. They should also support balance sheet repair to foster a sustainable and inclusive recovery".

The impact of Brexit and the pandemic on trade

Analysis published by the Economics Observatory considers how COVID-19 and Brexit might affect the products that UK firms trade. Early evaluation suggests that the pandemic should not yet be seen as evidence of an era of 'deglobalisation'. Most of the early responses have been for firms to trade smaller volumes of their products, rather than by adding or removing products from the market. COVID-19 may not be a temporary shock if international business travel, which is key for global production networks, continues to be disrupted into the medium term. On the other hand, Brexit is a permanent shock which makes trade between the UK and the EU more costly. Research on permanent trade shocks shows that changes in firms' product mixes are pervasive. Firms may drop their least competitive products and renegotiate with suppliers or find replacements.

Data for the first two months of 2021 is allowing a comparison of the relative effects of the pandemic and Brexit on UK trade. Analysis by the Tony Blair Institute for Global Change has considered changes in the trade in goods with the EU-27 with changes in non-EU trade. Non-EU trade was 10% lower in January, and 6% lower in February compared with two years previously while the comparable figures for EU trade were 36% and 25% respectively. Earlier in 2020 both EU and non-EU trade were a similar amount lower in the Summer and Autumn, suggesting that the pandemic reduced EU and non-EU trade roughly equally. The differentials observed this year of an additional 26% reduction in trade with the EU in January and 19% in February can therefore be attributed to Brexit. This corresponds to a 10-14% reduction in total goods trade. As a comparison, analysis by the Centre for European Reform reported that Brexit reduced the UK's total goods trade by 22% in January, and 5% in February. This is in addition to a 10% reduction to trade between the EU Referendum and leaving the single market.

Impacts on productivity

The latest Office for National Statistics (ONS) analysis of official statistics shows that the pandemic has had very different impacts on UK labour productivity depending on the measure analysed. Despite the pandemic, productivity measured by output per hour continued to grow in 2020, rising by 0.4% compared with 2019. This contrasts with the decline in productivity during the 2008-09 economic downturn, reflecting the sharp drop in hours worked in some less productive areas in the last year (e.g. hospitality). At the same time, the level of output produced per worker fell sharply in 2020 – falling by 9.5% compared with 2019 levels. This reflects the introduction of the furlough scheme, which has seen many workers remain employed while working zero or reduced hours.

Impacts on the labour market

A year on from the announcement of the first lockdown restrictions, several research papers have been published on the labour market impacts of the COVID-19 pandemic at the UK level.

A recent article for the Economic Observatory notes the relatively subdued impacts on typical measures of labour market performance – such as the unemployment rate – alongside more marked impacts on work absences (up) and hours worked (down). These trends are unlike previous recessions and reflect the introduction of the furlough and other government support schemes. The article also highlights that the UK labour market is currently less dynamic than usual, citing a decline in rates of hiring, job quitting and residential moves. Some of these changes are unsurprising given the nature of the downturn and dynamism may recover 'if and when' the pandemic subsides. But there could be serious consequences for the health of the economy if these features persist.

The Learning & Work Institute has also published a report on the labour market impacts of coronavirus 'one year on'. The report draws attention to the unequal impacts of the pandemic, including on young people, and recommends five priority areas for government action. This includes a Youth Guarantee, so that every young person is offered a job, apprenticeship or training place; supporting incomes among lower earners, including making the £20 uplift to Universal Credit permanent; and focusing employment support capacity on those who are long-term unemployed.

The youth unemployment challenge is also highlighted in another briefing produced by the Resolution Foundation (RF). But as the RF notes, the impacts of the pandemic also vary *within* generations. The unemployment rate for Black young people was higher than among their White counterparts before the onset of COVID-19 and the pandemic seems likely to have exacerbated this inequality. And while the overall rise in youth unemployment has been partly offset by an increase in education participation, many recent education leavers also are struggling to find their first jobs.

Impact on society

A report by the Resolution Foundation studies the living standards-related factors that contributed to **financial resilience** of households both before and during COVID-19 in the UK, France and Germany. The report concludes that across all three countries, the impact of the crisis will last via its effects on savings and debt. The task for policy makers is to respond to the specific impacts of the crisis, without losing sight of the longer-term pre-crisis vulnerabilities that needed action pre-pandemic, which were especially present in the UK.

The COVID-19 pandemic has impacted on **social cohesion**, posing particular challenges for migrant communities in the UK according to a report from IPPR. As a large portion of these groups live in city regions, the report argues that the mayors of these areas have the powers and responsibility to promote integration by using adult education budgets to tailor ESOL provision and to develop the talents and skills of migrants and to encourage local services, including police, primary health services, homeless outreach and social services to be accessible to all people regardless of immigration status to break down barriers and strengthen community relations.

The **mental health effects** of the COVID-19 crisis and the response to it, with physical and social distancing and isolation, is one of the most important challenges arising from the pandemic. A paper from the IFS looks at the evidence, particularly around the negative consequences, which focuses on the adult population in wealthy industrialised countries, most notably the UK and US. It finds that while there were improvements following the rise in mental ill-health during the initial outbreak and lockdowns, it remains unclear what the impacts of subsequent waves and associated responses will be on mental health. There is evidence, however, of increased inequalities in the mental health impacts for different population groups.

While **crime** rates, except for anti-social behaviour, domestic abuse and drug-related crimes, were reduced during the first lockdown in England and Wales, the Economics Observatory reports that the economic consequences of the response to the pandemic have changed the incentives, with a rise in crimes such as burglary, shoplifting and bicycle theft, particularly in areas seeing the largest increases in claimants of Jobseekers Allowance and Universal Credit. At the same time empty streets have made it easier to track offenders and increased the probability of being caught.

Remote working and impacts on London

In a recent report, Nesta considers the **potential implications of remote working on relocation of high-skilled workers away from London**. The scenarios revolve around two dimensions: persistence of social distancing – the longer it takes to get back to normal, the more radical changes to working practices are likely to be; and whether workers or firms capture the benefits of remote working. Opposite outcomes on this latter driver are equally possible, i.e. a granular wage-setting where salaries are set to reflect the cost of living where employees live could become widespread, removing any monetary incentive to relocate. Alternatively, blind salary settings (where salaries do not vary by location) could become the norm, increasing the attractiveness of moving out of London and other expensive areas. London and London-based knowledge economy workers (especially the low-paid) stand to lose in most of the Nesta scenarios but perhaps less so in a scenario that the authors refer to as "same old inequalities" but which could arguably be characterised as a resilient London scenario.

The **potential for a large number of London-based workers to move away from the capital** while retaining their jobs at London-based workplaces has been highlighted by recent YouGov research. Alongside confirming findings of previous surveys about the popularity of remote working among Londoners (19% of London workers would prefer to work from home all of the time in the future, with 43% preferring a hybrid model) this found that 29% of workers in London say they would consider moving to an area of the country that is not within commuting distance of their company's workplace. This figure raises to 33% among those living in inner London.

But if workers (and increasingly companies) appear to prefer hybrid ways of working, there are some challenges of making them work in terms of innovation, creativity and team spirit. While noting that the productivity benefits of homeworking appear to have increased during the pandemic, (33% of employers are now saying that remote working increased productivity compared to 28% in June 2020), recent research by CIPD highlights seven **strategies to make hybrid work a success**. A number of those strategies revolve around promoting wellbeing and personal relationships, while some also highlight the importance to build in time (including face-to-face time) for team cohesion and to pay attention to creative, brainstorming and problem-solving tasks.

Building back better

A Centre for London report commissioned by Cross River Partnership thinks through and responds to the potential impact of the pandemic on **London's town centres**. From evidence collated through thematic reviews and case studies, 11 recommendations that local authorities, Business Improvement Districts and their partners could take to improve town centres in 2021 and 2022 are put forward, building on existing ideas to support London's recovery, including the Mayor of London's Recovery Programme. For each recommendation, actions that different organisations (including the GLA family) could take are outlined, alongside potential timescales and funding sources.

The Centre for Cities examines the likely **post-pandemic labour market**, estimating that the UK economy will need to create 9.4 million jobs to get 1.3 million people back into work, with most new jobs being generated by new businesses and industries hit hardest by COVID-19. Recommendations for creating jobs include a 'Spend out to help out' voucher, supporting labour-intensive industries and increasing skills. However, the challenge will be to simultaneously boost productivity whilst creating jobs. Recommendations for this include supporting Research & Development, a £5 billion City Centre Productivity Fund, removing business rates liability and setting out the specific remit of the newly created Office for Investment.

The **future of the social security system** in the UK is the subject of a report from the Resolution Foundation that investigates how well the system, including the new schemes, has supported those whose earnings have been negatively impacted by the pandemic. Some aspects have fallen short of need, such as sick pay. Other aspects have fallen short of expectation, such as earnings replacement rather than poverty alleviation for those becoming unemployed. Self-employed and employees have been treated very differently, while measures such as the job retention scheme have worked well to maintain workers' incomes. The report offers suggestions to provide a more generous and fairer system, building on the successes and looking to the longer-term needs particularly for those impacted by long Covid.

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