

# COVID-19 summary of external research

February 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 takes a look at the latest macroeconomic scenarios for the UK and London economies, and recent analyses of the effects and trade-offs involved by various lockdown restrictions. It also includes summaries of recent publications that considered multiple dimensions of COVID-19 impacts such as impacts on people, business, local authorities, inequalities and geography.

## 2 Summary of external research

### Macroeconomic scenarios

Most forecasts of UK GDP growth that were published in recent weeks continued to predict moderate GDP growth in 2021. 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 reflect an expectation that social distancing and remote working will continue for a while reducing consumption and investment.

The Institute for Fiscal Studies (IFS) [pre-Budget presentation](#) also included an assessment from Citi around the path of the economy which looks pessimistic compared with other forecasts, with ongoing social distancing due to the risk of potential mutations weighing on output. Citi expects only a small portion of the £125 billion that UK households have accumulated during the pandemic to boost consumption in 2021, with a large proportion of these savings flowing into housing instead.

GLA Economics has also published its latest [macroeconomic scenarios](#) for London. While the fall in GVA in 2020 has not been as deep as previously expected, the scenarios continue to point to a more gradual recovery over the next two years compared to the initial fall. They also continue to project a slower recovery in employment compared to output.

## Effect and balance of costs and benefits of lockdown restrictions

A number of recent papers in [Covid Economics, Issue 67](#) have looked at the effectiveness and, retrospectively, at the balance of costs and benefits of strategies to manage the pandemic.

A first paper presents an empirical analysis of the impact of lockdowns on the virus' transmission and death toll, for a panel of 152 countries, from the start of the pandemic to the end of 2020. The authors find that lockdowns tend to significantly reduce virus spread and mortality, but that after four months of strict lockdown the impacts on fatalities is significantly weaker – an indication of compliance fatigue.

A second paper presents a cost-benefit analysis of state-level policy intervention to contain the spread of infection in US states. The authors find that these reduced COVID-19 deaths in the U.S. by 358,000 lives in 2020, while resulting in a loss of 7.3 million jobs and in a decline of \$410 billion in real gross state product. The national average cost per life saved was US\$1.1 million, which compared with US\$4.2 million for the age-adjusted value of statistical life for COVID-19 fatalities. On these bases the authors conclude that the cost of interventions was not excessive.

A third paper (also from the US) employs a value-of-production approach to estimate the costs and benefit of Covid-suppression policies in the US between March and August 2020 relative to policy that only targets the infected and at-risk populations. They estimate that total benefits of suppression policies are between \$605.9 billion and \$841.1 billion, while the costs are between \$214.2 billion and \$331.5 billion. In other words, the net benefits of these policies are positive and may be substantial.

Closer to home, a specific policy issue that has been the subject of recent policy debate is the issue of restrictions to international travel. An [Institute for Government paper](#) considers the UK's partial hotel quarantine system introduced on 15 February, which requires UK citizens and residents arriving from high-risk countries to quarantine in designated hotels for 10 days at a cost to them of £1,750. The policy is aimed at reducing the risk of new variants of the virus being transmitted from arrivals to the UK. The paper considers the policy's key gaps and challenges, including: the lag in identifying new variants of concern undermining the effectiveness of the measures; the need for consistent policy across the home nations to prevent the rules being bypassed by travellers; and the need for effective procedures and information gathering to prevent evasion. The authors conclude that the policy appears to be the result of a compromise between the priorities of health outcomes and economic impacts, and that it risks meeting the objectives of neither.

## Impacts on people, businesses and local authorities

[Resolution Foundation research](#) concludes that **businesses** overall are in good financial health largely thanks to government support available through the furlough scheme, loans, and other measures. The support is such that the level of company liquidations fell by around a quarter in 2020 compared with 2019 – aggregate cash holdings have risen by £118bn since the start of last year, despite falls in revenue. There has been a rise in corporate debt, but debt levels remain below their pre-financial crisis peak.

On the other hand, a [report from DEMOS](#) shows that large parts of the **charitable sector** are in a funding crisis. While some charities, most notably those supporting the NHS, have seen windfalls, many other charities have lost huge amounts of income, in many cases while there has been increased demand for their services. Loss of skilled staff, delays or cancellation of life saving research will have implications for the future and many grass roots charities may simply cease to exist without emergency, targeted, funding support.

A [recent Institute for Fiscal Studies \(IFS\) observation](#) sets out the economic case for a national plan to address the long-term impact of **children missing school**. Evidence suggests the impacts will be slow-moving and substantial, with the effect on educational inequalities and mental health already starting to emerge. Using evidence on the returns to schooling, the illustrative impact of children missing over half a year of school could equate to £350bn in lost lifetime earnings and £100bn in lost tax revenue. Alongside prioritising a return to schooling when the health situation allows, the IFS argue for radical ways to increase learning time (e.g., extending the school year or school day) and increased funding to help students catch up, beyond the £1.5bn which has been allocated by the Government.

In a review of [employment, income and council tax](#) the IFS concludes that impacts across regions in terms of falls in **employment**, increases in benefit claims and the use of the furlough scheme were broadly similar across regions during the first lockdown. Since then, falls in employment and increases in unemployment have been larger in London than elsewhere. Increases in the number of benefit claimants, whether for unemployment benefits or council tax support, have been greater relative to existing claimant numbers in more affluent areas, but they have been greater relative to the overall population in more deprived areas. There is a strong relationship between deprivation and fall in **council tax revenue**, with revenues falling in the most deprived local authorities in the first half of 2020/21 and growing in the most affluent ones. However greater reliance on council tax in the more affluent local authorities and greater reduction in revenue from pre-Covid-19 forecasts mean that impacts on overall funding levels in these local authorities are similar to those in the more deprived ones.

The Resolution Foundation has also published a [comprehensive report on the impacts of COVID-19 on the labour market](#) so far. Among several interesting findings, their regression analysis of YouGov survey data indicates that sector is the largest determinant of negative employment effects with personal characteristics playing a smaller role (negative effects = no longer working or furloughed or pay reduced by 10%). This reflects the very sectoral nature of the economic downturn. They also make a number of policy recommendations, including that the removal of the furlough scheme should be gradual (with a two-month extension beyond the end of lockdown) and conditional on the reopening of the economy. Thereafter, they recommend that full furlough is maintained in sectors that remain heavily restricted and replaced with a partial furlough scheme elsewhere.

[ONS analysis](#) shows that the UK **travel and tourism industry** has been affected significantly by the pandemic. The industry saw the sharpest decline in turnover in the first lockdown, falling to 26.0% of February levels in May 2020 compared to 73.6% in all other industries. As restrictions were gradually relaxed in the summer of 2020, operation in these industries became easier, although regions were impacted differently. London saw the weakest recovery of any region in terms of hotel occupancy, with just 20% of rooms occupied in July 2020 compared with 90% the previous year. This contrasted with 2019 when London had the highest occupancy rate in every month except for August, suggesting the loss of international tourism has been felt most severely in the capital.

## Impacts on inequality

An [Economics Observatory article](#), uses up to date labour market information on the characteristics of people affected to estimate changes in household circumstances, to give a “nowcast” of the **income distribution**. It finds that the incomes of those at the bottom end of the income distribution have not been impacted by changes in the labour market as much as those in the second and third quintiles and indeed incomes of many households at the lowest end of the spectrum have increased due to the additional support from the Government. Looking ahead however stopping the welfare uplift and other job-based income support schemes will more than reverse these changes and the biggest decreases will be seen at the bottom end of the income distribution.

In looking at the impact on families' **housing costs**, a [Resolution Foundation note](#) finds a growing crisis in housing arrears, particularly affecting renters and a widening gap between owners and renters. A relatively small proportion of owners have fallen behind on mortgage payments, partly as they were more likely to have savings and less likely to have seen a drop in earnings than those in private rented accommodation. More than half of private renters in arrears are not in receipt of benefits, so ineligible for a Discretionary Housing Payment.

## Geographic impacts

One area of interest for the future is how the lockdown experience of working from home will impact **future post pandemic working and consumption habits**. A [recent report for the economic observatory](#) has looked at what they call the 'zoomshock' effect, with more detail provided by the authors [here](#). With 36% of working adults working at home exclusively, compared with 47% travelling to work (either exclusively or in combination with working from home) a substantial mismatch has emerged between the location of "locally consumed businesses" and location of their usual customers. To the extent that some permanent reduction in commuting can be expected post-pandemic, the areas that are currently most exposed to the zoomshock will still likely experience it. The article includes a granular zoomshock map for London, highlighting the most exposed areas.

Lord Foster has also been discussing the future of city centres post the pandemic in a [recent interview in the Financial Times](#). He regards the pandemic as "an accelerant" of existing trends reshaping cities and argues for creative and sustainable ways of using redundant buildings in city centres.