

COVID-19: Summary of external research

24 July 2020

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 do not represent the full body of evidence on which Mayoral Policies are or will be based.

1. Introduction

This is the latest edition in a series of briefings highlighting key statistics and external research and recommendations relevant to the GLA's response to the COVID-19 pandemic. Each briefing will offer short summaries and a deep-dive into a number of topics. This issue includes an [update of our review of external macroeconomic scenarios](#), especially looking at the new scenarios recently released by the OBR. In addition, the newsletter includes the usual digest of [research and analysis](#) and [external policy recommendations](#).

2. Summary of latest OBR scenarios and updated overview of external macroeconomic scenarios

Since April, GLA Economics have been analysing the available literature on UK and international macroeconomic scenarios to inform the set of macroeconomic scenarios being developed by the same team for the London's economy (see Research Update 3). We have summarised below the key points from the latest OBR scenarios update and how the main findings from the full literature review have changed since April.

OBR scenarios update

On 14 July, the OBR updated their analysis of potential effects of the Covid-19 outbreak on the UK economy. Like the initial analysis published on 14 April, this does not attempt to predict the UK's economic outlook in the current uncertain times but it sheds some light on some of the potential economic and fiscal effects instead.

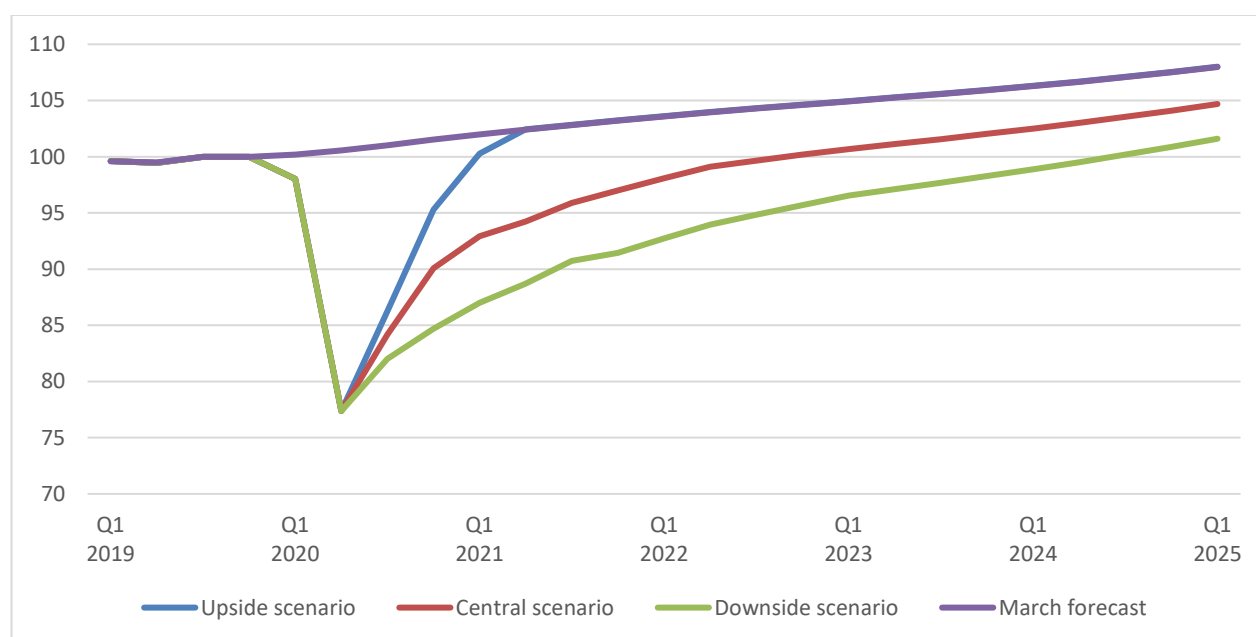
The initial OBR's reference scenario for the UK economy was based on two key simplifying assumptions: 1) that the public health measures to slow the spread of the virus would be fully in place for three months and lifted progressively over the subsequent three; and 2) that the economy would bounce back to its pre-virus level of activity, with no permanent 'scarring' of the economy over the medium term. Given the recent

economic evidence¹, the OBR has now considered three plausible long-term macroeconomic scenarios for the UK: a central scenario, a downside scenario, and an upside scenario. Besides, the OBR has also refined its initial assumptions to the following:

- **In the upside scenario**, activity rebounds relatively quickly, recovering its pre-virus peak by Q1 2021, and there is no scarring. This scenario is essentially an updated version of the reference scenario published in April and would require a very rapid resolution of the threat from the virus.
- **In the central scenario**, output recovers more slowly, regaining its pre-virus peak by the end of 2022. This might be consistent with an effective vaccine or treatment taking around a year to deliver, but also with a faster resolution of the health threat but greater persistence in its economic consequences.
- **In the downside scenario**, output recovers even more slowly. That might be consistent with the indefinite maintenance of strong social distancing measures as the virus becomes endemic and without an effective treatment. This would result in a more significant loss of business investment, more firm failures and persistently high unemployment as the economy undergoes significant restructuring.

The medium-term projections for real GDP for the three scenarios – including the comparison against the March/pre-crisis forecasts – are shown in Figure 1 and Table 1 below:

Figure 1: OBR scenarios – UK real GDP vs March forecast (Index numbers, Q3 2019 = 100)



Source: OBR

Table 1: OBR Scenarios – UK real GDP (annual growth rate in %)

	2020	2021	2022
Upside	-10.6	14.5	1.9
Central	-12.4	8.7	4.5
Downside	-14.3	4.6	5.4

Source: OBR - FSR July 2022

¹ Which includes fiscal data up to 19 June and policy announcements up to 26 June – excluding, therefore, the Summer Statement measures.

- **In the upside scenario**, output returns to its pre-virus peak in Q1 2021 and then follows the path expected in March from the second quarter onwards. This mirrors the 'deep V-shaped' recession predicted by OBR in their 14 April reference scenario.
- **In the central scenario**, output recovers more gradually, reaching its pre-virus peak at the end of 2022. Output at the end of the scenario is 3% lower than expected back in March.
- The recovery is even more sluggish **in the downside scenario**, with GDP not attaining its pre-virus peak until Q3 2024. Output is 6% below the March forecast at the scenario horizon.

Looking at the main labour market indicators, the OBR finds that:

- In all scenarios, unemployment continues to rise and employment to fall beyond the second quarter of this year, even despite output recovering.
- **In the upside scenario**, the unemployment rate peaks in the third quarter at 9.7%, and employment recovers relatively quickly alongside output.
- **In the central scenario**, the unemployment rate peaks in the fourth quarter of 2020 – as the CJRS ends – but employment registers a further fall in 2021.
- **In the downside scenario**, unemployment continues to rise until the first quarter of 2021 when it peaks at 13.2% but net job creation only starts in 2022 as in the central scenario.

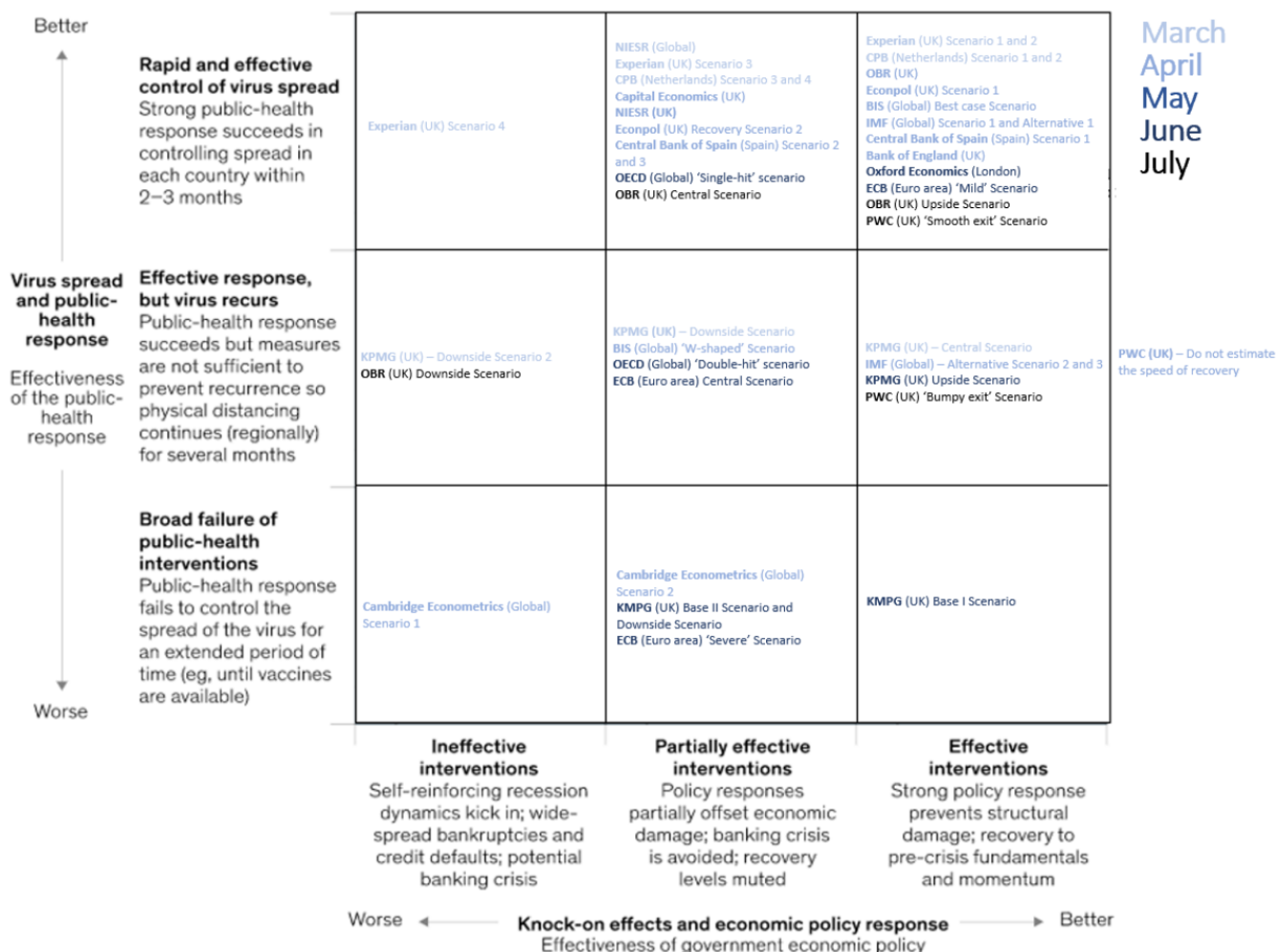
Update of the overall literature review on macroeconomic scenarios

In April 2020, when the literature review was first conducted, most scenarios pointed towards a relatively short-lived dip in economic activity with a rapid bounce-back in late 2020 or early 2021 (i.e., a V-shaped recession). As at July 2020, **most scenarios now predict a deep recession this year, with only a partial recovery in 2021 where annual GDP growth turns positive (i.e., a delayed V-shaped recovery).**

Since April, **assumptions around the virus spread and its impact on the economy have become more pessimistic than initially expected.** Overall, **a delayed V-shaped recovery is now seen as more likely than a symmetric V-shaped recovery.** This means that the recovery in 2021 and 2022 will be less strong than expected in April. There still remains huge uncertainty on the depth and duration (the shape) of the economic downturn and successive recovery, with the risk remaining on the downside. For this reason, more dramatic scenarios such as double dips in GDP (W-shape) or even self-reinforcing recession dynamics leading to a long-lasting scar on output capacity and possible future growth rates (L-shaped) can still not be discarded.

To show this move towards more pessimistic scenarios, we have mapped the scenarios analysed as part of the literature review against the McKinsey scenarios matrix (which provides nine scenarios across two dimensions – the virus spread and the effectiveness of the public health response in controlling it, and the knock-on effects and the effectiveness of the economic policy response in mitigating them). This shows that since March/April, there has been a slight shift towards **more pessimistic assumptions around the virus spread and public-health response** (i.e. an increase number of scenarios have looked at states of the world where either the virus is not controlled rapidly and effectively, or economic policy responses are not fully effective, or both).

Figure 3: GLA Economic macroeconomic scenarios analysis based on McKinsey scenarios matrix



3. COVID-19 external research

[Anderson D. Hesketh, R. Kleinman, M. and Portes, J. - Global City in a Global Pandemic: Assessing the Ongoing Impact of COVID Induced Trends on London's Economic Sectors](#)

This paper by a group of King's College researchers looks at the potential impacts of the COVID pandemic on London's major industrial sectors.

It highlights that **whether one looks at health or economic impacts, there are factors that points to resilience and factors that points to vulnerability**. For example when looking at health reliance on public transport, city density and poverty may be offset by a younger age structure compared with the rest of the UK. Similarly when looking at economic impacts reliance on agglomeration economies, tourism, business travel, migration may be offset by London's economic diversity and large percentage of jobs that can be done remotely.

In order to understand how COVID may impact London's economy the study considers **seven broad types of post-COVID economic trends that could have structural and sectoral implications over different timescales**. These include:

- Government Non-Pharmaceutical Intervention (NPI) Policies (Short-Medium Term);
- Demand Impacts (Short-Medium Term);
- Structural Reductions in Growth, or “scarring effects (Medium-Long Term);
- Changes in the Entrepreneurial Environment (Medium Term);
- Reduced Labour Mobility (Short-Long Term);
- Changing consumer behaviour, such as shift to on-line (Long Term); and
- New Workplace Environment, e.g. e-commuting and changes in the utilisation of office space (Long Term).

By combining current sectoral effects of COVID with the identified business trends, the study undertakes a preliminary qualitative assessment of London’s sector exposure. Their overall conclusion is that **the COVID-19 crisis may drive a sharper divergence between London’s globally competitive advanced services and its more locally-focused sectors.**

The study also suggest that a decline in sectors such as food, arts and entertainment could generate “a secular decline in the relative attractiveness of global cities as a group vis-à-vis medium sized and smaller cities, that can offer other types of amenity, lower housing and other costs, and greater space.” For London this could result in a reduction of the agglomeration economies that it has offered until now.

[Bank of England – Credit Conditions Survey Q2 2022 \(16/07/2020\)](#)

- The BoE quarterly interviews bank and building society lenders to understand the evolution of both lending to households and lending to non-financial corporations, small businesses, and non-bank financial firms in the UK. The latest report presents the results corresponding to the second quarter of the year.
- **Lenders reported that the availability of both secured and unsecured credit to households in the three months to end-May 2020 decreased.**
- **Lenders also reported that the availability of credit to the corporate sector increased for all business sizes in Q2.** Total corporate credit availability was expected to increase only slightly in Q3.

[Bank of England - Consumption in the time of a pandemic: tracking UK consumption in real time \(14/7/2020\)](#)

An analysis of the decline in consumption caused by the lockdown using a transaction-level dataset of over 8 million individual transactions from Money Dashboard. It provides a near-real time read on consumer spending, without the publication lags associated with national accounts consumption data. Their findings include that:

- the bulk of the fall had occurred before legally mandated lockdown started;
- a decline of 40% to 50% in the spending of British households during the Covid-19 crisis.
- the largest declines occurred in retail, restaurants and transport, but spending on some items such as online shopping, alcohol and tobacco rose;
- there is substantial variation in change in consumption across age, income group, housing tenure and local authority;
- percentage declines in total expenditure from the last week of February to the last week of April 2020 varied across different parts of the UK. The economic costs both across the country and within broader local authorities, ranged between –16% to –33% in a few locations in the Midlands, Wales, Belfast and the Scottish Highlands, and –56% to –65% in a handful of areas across Greater London, Hampshire, Berkshire, Surrey and Aberdeenshire;

- the percentage fall in consumption and income was more pronounced among households in the bottom income percentiles. While there was an uptick in the savings of the richer individuals, the decline in the savings of the poor was found to be “quite stark”. In total it was found that, “poorer individuals are getting more constrained, especially in April”;
- while “mortgagors, middle-aged to older individuals and higher earners exhibit the largest spending drop in terms of pound value”.

[Policy Exchange, Daylight Robbery - Uncovering the true cost of public sector fraud in the age of COVID-19 \(11/07/2020\)](#)

The report highlights the risks of fraud and error associated with Government support through the COVID-19 crisis.

- It estimates that **fraud and error could cost the UK Government in the region of £4.6 billion overall** (range: £1.3 billion to £7.9 billion).
- Given the usual levels of fraud that the authors say normally accompany disaster management (where the focus is on rapid disbursement) they estimate that the ultimate cost could be closer to the upper bound.
- The Department for Health & Social Care and the NHS are especially vulnerable to an increase in the types of fraud (e.g. procurement or payroll fraud), which tend to be an issue even in normal times.
- By leading the economic response to the COVID-19 crisis, HM Treasury and the Department for Business, Energy & Industrial Strategy are also vulnerable to fraud.

Looking specifically at some of the COVID-19 support schemes:

- The speed with which **Bounce Back Loans (BBL)** are approved and the potential to make multiple applications pose a particular risk, which is compounded by poor companies House data.
- The speed with which overstretched and underqualified councils have issued **Business Support Grant Funds** make these vulnerable to fraud.
- The **Coronavirus Job Retention Scheme** is the most expensive and widely used support scheme but is also the most susceptible to fraud, being one of the most difficult to monitor.
- The approach taken for the Self-Employment Income Support Scheme, with HMRC only contacting those who are eligible, has minimised fraud, although individuals could still exaggerate claims.

The report includes a long list of **recommendations to governments so they can learn from the experience of COVID-19 and have preventative measures and control in place for future disasters**. Awareness campaigns, deterrence and data and technology are among the key levers. Among specific recommendations to the UK government, the report highlights several measures relating to governance and oversight, including the creation of a new Minister for Fraud and Economic Crime.

[Hu – Intersecting ethnic and native-migrant inequalities in the economic impact of the Covid-19 pandemic in the UK \(24/06/2020\)](#)

This academic article compares the economic impact of Covid-19 between different groups in the population, focusing on ethnicity and country of birth. The article distinguishes four groups in the population; the UK-born White British population, the non-UK born White population, the UK-born BAME population and the non-UK born BAME population. The article measures economic well-being using a variety of measures, including change in employment, hours of work, household income, and whether households are able to keep up with their bills or report financial difficulties in general. Key points from the article include:

- **BAME migrants in particular have been negatively affected by the Covid-19 lockdown.** Compared to the UK-born White British population, BAME migrants are 3.1 times more likely to have lost their job, 1.2 times more likely to have experienced household income loss, 2.2 times more likely to report being behind with their bills, and 1.3 times more likely to have experienced an increase in their perceived level of financial hardship
- However, **the UK-born White British population were 1.7 times more likely to be furloughed than the UK-born BAME population**, and BAME migrants were less likely to experience a reduction in their work hours during the lockdown than other groups
- **Generally, outcomes for the non-UK born White population and the UK-born BAME population have also been worse than for the White British population**, although these differences were not always found to be significant. The article does find, however, that these groups were 1.3 times more likely (non-UK born White population) and 1.2 times more likely (UK-born BAME population) than the UK-born White British population to experience household income loss

The King's Fund – Workforce race inequalities and inclusion in NHS providers (07/07/2020)

The NHS has a diverse workforce but faces a number of issues around race inequalities among its workforce, including a relative lack of BAME leaders, low levels of trust and higher levels of reporting discrimination among BAME staff. This research was carried out within three NHS provider organisations to understand how they have sought to address workforce race inequalities to develop positive and inclusive working environments. It finds:

- **Strategies used** by the three providers **include establishing BAME staff networks, ensuring psychologically safe routes for raising concerns and enabling staff development and career progression.**
- The research found that **BAME staff felt that there was increased awareness of issues as a result of these changes** and that they felt the changes had an impact.
- The research found that the **changes could be perceived negatively by some staff**, and that inevitably **these strategies caused difficult conversations**. The study argues that leaders have an important role in modelling the principles of inclusion when designing and implementing these strategies
- The report includes some recommendations for the sector.

Belot et al – Unequal consequences of Covid-19 across age and income: Representative evidence from six countries (16/07/2020)

This study looks across six economies, including the UK, to understand how people in different age groups and income levels have been affected, in terms of income, spending and other impacts. The results find:

- In all countries, including the UK, **younger age groups are more likely to have experienced a fall in household income**: in the UK, the 65+ age group is 35 percentage points less likely to have experienced a fall in household income relative to the 18-25 age group.
- In the UK and USA, **higher income groups are more likely to have experienced a drop in spending**, but there is less difference between higher and lower income groups in terms of income.
- **Older age groups in the UK have experienced a sharper fall in the frequency of social interactions with others than younger groups**
- In all countries, including the UK, **younger age groups are much more likely to report non-financial negative impacts**, such as boredom, loneliness, trouble sleeping and conflict with friends

and family. Differently from other countries, in the UK lower income groups are also more likely to report these negative impacts than those on higher incomes

Borgonovi et al - Community-level social capital and COVID-19 infections and fatality in the US (22/07/2020)

This research looks at the role of 'social capital', measured using a social capital index incorporating local data on volunteering and civic activity, as well as trust in institutions and family structures, on the speed of Covid-19 spread and case fatality rates.

They argue that **higher levels of social capital in an area imply greater social mixing, potentially increasing the speed at which a communicable disease can spread**. However, **greater connection between individuals** locally is known to reduce the prevalence of health conditions and make reciprocal behaviour change more likely, **potentially reducing the health impact of Covid-19**.

The study supports these hypotheses in the US context, finding that **the time taken to reach 10 cases in a county was faster in areas with higher levels of social capital**, controlling for other factors. The study also finds **case fatality rates in counties with higher levels of social capital were lower**, controlling for other factors.

Resolution Foundation – The Living Standards Audit 2020 (21/07/2020)

More than the usual annual report, going beyond recent trends in household incomes to include a "nowcast" showing how the incomes of different groups were affected during the height of the lockdown and also looking towards the future, considering the role of the welfare safety net, including the additional supports put in place. Key findings include:

- After a decade of poor income growth, particularly for low income groups in the last few years, and young people, driven by higher inflation following the EU referendum alongside welfare cuts, **2020 started with record levels of employment**, as well as real pay growth, particularly at the bottom of the pay distribution, due to the National Living Wage.
- The lockdown hit living standards hard, with **non-pensioner households incomes 4.5 per cent lower in May than during the financial year 2019-20**. An income shock of this size was last seen during the 1970s oil crisis.
- While the labour market impacts have fallen most heavily on the lowest earners, **overall impacts on working age households with the lowest incomes have been minimal due to the welfare boost**, meaning that **income inequality and relative poverty have fallen during lockdown**.
- A mixed picture for living standards is expected, with some people whose earnings have been cut either through furlough or reduced hours returning to full-paid work, but increased unemployment and an end to the Job Retention Scheme meaning lower incomes for some households, particularly those with workers in the hardest hit sectors of the economy, many of whom are already on low earnings.
- The report highlights **particular concern that benefit support is set to return to pre-crisis levels in April 2021**, reducing incomes for more than 6 million households containing 18 million people. This is expected to reduce the average income of the poorest half of the population by an estimated 4 per cent in 2021-22

4. COVID-19 external policy recommendations

[IPPR - All hands to the pump: A home improvement plan for England \(15/07/2020\)](#)

The report makes the case for an ambitious investment programme to deliver household improvements across the country to be put at the heart of the economic recovery from Covid-19. It claims this would provide rapid job creation (up to 325,000 across all areas of the UK by 2035) as well as other public benefits such as lower carbon emissions, greater energy security, lower energy bills and better health outcomes. It also highlights that it would be an essential investment to achieve net zero carbon emissions by 2050.

Specific recommendations are organised in 4 areas and include the following:

- **A clear technological pathway**
 - Prioritising electric heat pumps, heat networks and energy efficiency upgrades as the main technologies for retrofitting homes, with hydrogen boilers and high heat retention storage heaters as the next preferred solutions.
 - All households in need of boiler replacements should be signposted towards alternative low-carbon heat solutions.
- **A strategy for financing retrofit**
 - Adopting a blended approach for financing combining government support and private finance on a 50-50 basis.
 - Capitalising a Retrofit Fund for England with £5.3 billion per year through to 2030 and £3.5 billion after this through to 2050, with £1.8 billion of this per year committed to the Social Housing Decarbonisation Fund until 2030.
 - Bank of England working with financial institutions to ensure that the risk profile of retrofit activity is reduced and the government securing low interest rates for the loans by using the UK Guarantees Scheme.
 - Developing a new framework that helps local authorities and social housing providers securitise area-based investment in low-carbon heat technologies as a means of attracting private finance.
- **A framework for policy and incentives:**
 - Providers in the social renter sectors setting themselves target that all retrofit activity brings homes to EPC B standard or higher by 2030 (or EPC C should where not possible).
 - Government offering means-tested grants for homeowners supported by low-cost loans for homeowners and private landlords.
 - Linking council tax rates and stamp duty to energy efficiency.
 - Including new regulation and enforcement actions to ensure compliance.
- **A blueprint for delivery:**
 - Developing an area-based approach to housing retrofit, which incorporates a local plan for retrofit taking place on a street by- street basis and prioritising fuel poor homes and the social rented sector.
 - Offering clear guidance to households and consumers on how low-carbon heat solutions work.
 - Investing in a large-scale training and retraining programme for installers: the Heat Engineer Accreditation Training (HEAT) scheme.

[The Centre for Local Economic Strategies \(CLES\) – Own the future – A guide for New Local Economies \(06/07/2020\)](#)

Left of centre think tank CLES starts from the premise that “the Covid-19 pandemic has served as a stark reminder that our economic model has failed us.” It argues for a reset and build a new economy in which “wellbeing stands above economic growth.”

This recently published guidance sets out their proposed new approach to local economic development, led by local authorities and running counter what they define as orthodox UK industrial policies view. The guidance uses the framework of “community wealth building” – a people-centred approach to local economic development. This involves a focus on local “generative” businesses – i.e. firms in which the wealth created is shared broadly between owners, workers and consumers.

Their recommendations (which they recognise are difficult to implement in the current policy climate) are rather broad ranging and only for some of them evidence (mostly of a case study nature, including post-Covid responses) is provided in the report. The recommendations cover five broad areas:

- **Building the generative economy**, including making the regenerative economy a key local economic development principle, supporting “wealth hubs” by repurposing business growth hubs and business support toward regenerative companies and create municipal companies to deliver local public services.
- **Mobilising a range of local financial levers** for investing in local economies including local pension funds, locally owned and locally investing regional banks, mutual credit networks and municipal bonds targeting key sectors of the economy.
- **Using planning levers** including strategic acquisition and repurposing of land and property, investing in low-carbon local authority housing, engaging in transfer of social assets to local communities (e.g. strategic land trusts) and using planning contributions for supporting local and social business
- **Using spending power**, including (among others) scaling up the role of social value in local procurement, “interventionist market shaping” (supporting and at risk economic sectors and businesses) and “insourcing” of previously outsourced services.
- **Interventions to support the workforce**, including extending public sector recruitment, scaling up and repurposing employment support towards locally relevant training and sectors and adopt intermediate labour market interventions (ILMS), to provide a time-limited opportunity for socially useful work to people not in employment.

[Citizens Advice – Lockdown Lifeline: Ensuring adequate support across the benefits system during the Covid-19 pandemic \(10/07/2020\)](#)

Report from the advice charity on changes to the benefit system they argue are needed to support incomes, in three areas:

- **Widening eligibility to benefits**: migrants should be more supported by temporarily lifting the ‘no recourse to public funds’ restriction and suspending the ‘habitual residence test’. The self-employed should be supported by clarifying how the ‘capital limit rule’ in Universal Credit applies to business assets (currently self-employed people who save through the year in order to make tax payments may have temporary ‘savings’ of more than £16,000, rendering them ineligible for Universal Credit).
- **Immediate measures to ensure adequate support within the benefit system**: the report argues that some features of the benefit system should be suspended temporarily, including the benefit cap and the need to pay back advance loans in Universal Credit by turning them into grants.

They also argue that ‘legacy benefits’ (those benefits replaced by Universal Credit but are still claimed in large numbers) should have an uplift applied to extend the recent increase in Universal Credit to these benefits

- **Reviewing support for groups particularly affected:** the report argues that some groups are being particularly affected and warrant particular attention in the benefit system. These include young people, where they argue benefits should be more generous, lifting the 2-child limit to support larger families and reviewing and improving the accuracy of assessments for disability benefits

Social Market Foundation – A new life for the high street (22/07/2020)

Policy recommendations for mitigating the impact of COVID-19 on high streets in towns and city centres. Highlight evidence suggesting there will be a long-term change in working and shopping patterns, with retail and office spaces becoming increasingly vacant. This change will impact urban spaces, risking widening income and wealth inequality, with those working in retail facing widespread job losses. Argue that policymakers should act now and deploy radical new measures to stimulate life in urban centres, including:

- **A nationwide program of repurposing city and town centres.** This would see vacant retail space converted into residential property, with could create 800,000 additional homes.
- **A write-off of the £80bn in local government debt sitting on the Public Works Loan Board’s loan book,** to stimulate new investment in community assets in town and city centres.
- **Designating areas at risk of urban decline due to loss of retail and office space as Economic Growth Areas (EGAs).** These would offer tax incentives for firms moving into these areas, contingent on the hiring of local workers – particularly those that have lost work as a result of economic change accelerated by COVID-19.