

## COVID-19: Summary of external research

April 9th 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.*

### Introduction and summary

This is the second 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 one or two topics.

In the first briefing, we focused on an overview of recent academic publications and media commentary of epidemiological modelling of COVID-19. Besides, we provided highlights of external publications on the social and economic impact of COVID-19 along with a number of policy recommendations produced by prestigious international institutions.

In this second newsletter, **we are providing a roundup on the latest macroeconomic forecasts and a summary of the recent analyses on the current state of the UK welfare system** after the new Chancellor announcements. Finally, as usual, we are briefly presenting the most relevant external research on other issues of interest which has been published in the week. The key points of this briefing are:

- **Macroeconomic forecasts:** Forecasters consensus is both for London and UK economies to register a historic drop in the second quarter of 2020 while recession seems inevitable this year. London is likely to be less hit than the UK. The shape of the recovery is uncertain although recent economic policy measures might return the economy to its pre-crisis levels in 2021.
- **Welfare measures:** The Chancellor's announcement of an increase to Universal Credit standard allowance and the removal of the minimum income floor is well-targeted at low-income households in London
- **Job Retention and Self-Employed Income Support Scheme:** we estimate that 36 per cent of London's employees would reach the cap of £2,500 per month under the Job Retention Scheme, should they be furloughed. We estimate that 78 per cent of London's self-employed are eligible for the Self-Employed Income Support Scheme, and of these, 12 per cent would be affected by the cap of £2,500 per month.
- **Interaction between measures:** Depending on household circumstances, some low-income Londoners who are furloughed on the job retention scheme, or are self-employed and see their work dry up, will see their household disposable income increase as a result of

the full package of measures, because of the higher standard allowance in Universal Credit.

### **Latest macroeconomic forecasts**

A summary of the latest macroeconomic forecasts produced by some external institutions is provided below. Overall, economic forecasters predict a historic fall of output in the second quarter of the year deriving from the lockdown measures to contain the Covid-19 spread. This output loss is expected to continue - although at a slower speed - during the second semester 2020, thus dragging the economy this year to its first recession since 2009.

Most forecasters also seem to assume that the economic policy measures introduced by authorities will alleviate the unprecedented economic impact in 2020 and will support a rebound of the economy in 2021 and a return to its pre-crisis growth trend in the short-term.

These forecasts should however be treated with some caution. Economic predictions have tended to deteriorate as weeks and persistent uncertainty on the length of the public health crisis and on following could translate into further worsening of forecasts. Ultimately the long-term effects of the current health crisis on the economy are extremely difficult to predict and will depend on many factors, including the magnitude and duration of national shutdowns, the extent of contraction in both aggregate supply and demand for goods and services, the international context, and the effectiveness of the economic policies taken.

**London - Real GVA and employment growth rates down to -1.2% and -0.6%, respectively, in 2020. All industries to be affected although Accommodation & Food services; Art, Entertainment & Recreation; and Transport & Storage to be the most**

Oxford Economics (31/03/2020):

- London's real GVA is now expected to fall by 1.2% in 2020 when compared to real GVA produced in 2019. In 2021, the real GVA annual growth rate is estimated at 4.0%.
- Looking at the breakdown by sectors, Accommodation & Food services would be the most hit industry in London in 2020, with an estimated -15.6% of output growth rate in annual terms. This is followed by the Art, Entertainment & Recreation industry (-14.7%) and by the Transport & Storage industry (-7.2%). The two main London industries in terms of output - Real Estate Activities and Financial & Insurance - would also experience annual output contractions in 2020 by -1.6%, -0.3%, respectively. Conversely, Human health & Social work would work by 3.3% in output terms in 2020 on 2019.
- In terms of London employment, this is estimated to decrease by 0.6% in 2020 compared to 2019, although the employment annual growth rate in 2021 is forecasted at 1.8%. In 2020, employment is expected to especially fall in annual terms in the following London industries: Accommodation & Food services (-5.1%); Art, Entertainment & Recreation industry (-4.0%); and Transport & Storage industry (-2.7%).

There have been no more updates of London economic forecasters so far.

**UK – Most forecasters expect a negative growth rate in real GDP this year, the intensity of this fall will depend on the duration of the current lockdown and the effectiveness of the economic policy measures. The OECD in particular points to a very large reduction in GDP in the initial**

**week of March as a result of the lockdown. Recovery is expected to start in 2021 although its speed remains uncertain**

Experian (31/03/2020):

- V-shape recovery scenario (faster recovery): GDP annualised growth rate would be -5.1% for 2020 and 7.7% in 2021. Unemployment rate in 2020 would be 4.9% while 4.5% in 2021.
- Delayed V-shape recovery scenario (slower recovery): GDP annualised growth rate would be -8.2% for 2020 and 8.1% in 2021. Unemployment rate would be 5.6% in 2020 and 5.3% in 2021.

CEBR (30/03/2020):

- “We now expect the economy to have contracted marginally in the first quarter of the year, by 0.5% quarter-on-quarter. This, however, is expected to be followed by a much steeper contraction of 15% in GDP in the second quarter 2020”.
- “Over 2020 as a whole, we expect GDP to be 4% lower than in 2019. On the assumption that further government measures are applied to kickstart consumer spending in the second half of 2020, we expect GDP growth to recover to 3.5% in 2021 and 2.5% in 2022”.
- Unemployment rate to jump sharply to reach 7% in Q3 2020.
- Consumer spending will be about 5% lower in 2020. An expected rise of 4% in 2021 although.
- Business investment is predicted to be down 13% in 2020 as well.

NIESR (27/03/2020):

- The Covid-19 outbreak will reduce UK GDP growth rate by 4.5 percentage points this year, dragging down the national output growth to 2009 levels. The negative impact of the outbreak on national output growth would also remain in 2021 (0.5 percentage points lower than the pre-outbreak projection) before starting a gradual recovery in 2022.
- In terms of employment, the Covid-19 impact is estimated at 0.6 percentage points lower than the predicted pre-outbreak growth rate in 2020 and 0.3 percentage points lower in 2021.

OECD (26/03/2020):

- Containment measures are expected to reduce UK GDP by 27% during their initial weeks compared to a situation where no coronavirus outbreak and no shutdown had taken place, with Professional and Real Estate services and Retail and Wholesale trade being the industries with the largest contribution to that contraction.
- The above calculation is of a direct initial impact of the shutdown based on data available up to the last week of March. The prediction of the impact on annual GDP growth will depend on how long these measures remain in place.
- The direct impact of the lockdown measures on private consumption is a contraction of this by 37%.

Other forecasters such as S&P, Capital Economics, British Chambers of Commerce, and the Economic and Research Council expect GDP falls by around 15% quarter on quarter in Q2 2020, ranging between -1.9% and -7.2% for the whole year 2020, and the lowest growth in exports, business investment, and household spending in a decade.

**International – There is now a consensus that the world economy and the most advanced economies will enter recession this year**

McKinsey (31/03/2020):

- Annualised real GDP growth rate in 2020 under a mild scenario: Eurozone (-4.4%), US (-2.4%), World (-1.5%), China (-0.4%).
- Annualised real GDP growth rate in 2020 under a muted recovery scenario: Eurozone (-9.7%), US (-8.4%), World (-4.7%), China (-2.7%).
- NIESR (27/03/2020):
- World GDP would fall significantly by about 4 percentage points relative to baseline (pre-virus estimates) in 2020 but remains only slightly lower than in the baseline in 2021. "This global recession would be of a similar magnitude to the financial crisis".
- "All the major economies would see lower GDP than in the baseline in the first year of the shock (2020). The overall impact will depend on a multitude of factors including but not limited to the scale and the timing of the shocks, structure of the economies (how flexible are the labour markets, stickiness of prices), current state of the economy, monetary and fiscal policy response, etc. With the vast majority of the economies experiencing falls in GDP of over 3 percentage points than the baseline recessions would result".

OECD (26/03/2020):

- Containment measures in many major economies are expected to reduce GDP by 20-25% during their initial weeks compared to a situation where no coronavirus outbreak and no shutdown had taken place<sup>[1]</sup>.
- The implications for annual GDP growth will depend on many factors, including the magnitude and duration of national shutdowns, the extent of reduced demand for goods and services in other parts of the economy, and the speed at which significant fiscal and monetary policy support takes effect.
- Overall, the scale of the estimated decline in the level of output is such that it is equivalent to a decline in annual GDP growth of up to 2 percentage points for each month that strict containment measures continue. If the shutdown continued for three months, with no offsetting factors, annual GDP growth could be between 4-6 percentage points lower than it otherwise might have been.
- European Central Bank (26/03/2020):
- Under a mild scenario (persistent COVID-19 outbreak for China and the Euro area), compared to the pre-Covid19 projections, the negative impact on Euro Area GDP growth would be between 0.6 percentage points and 0.8 percentage points in 2020.
- Under a severe scenario (resulting in additional shocks to financial markets and oil prices), compared to the pre-Covid19 projections, the negative impact on Euro Area GDP growth would be between 0.8 percentage points and 1.4 percentage points in 2020.

IMF (23/03/2020):

- "Outlook for global growth is negative for 2020, a recession at least as bad as during the global financial crisis or worse is expected. But recovery will follow in 2021".

A number of other international institutions such as JP Morgan, International Labour Organization, IHS Markit, and the EU Commission seem to be in line with the above estimations, forecasting a historic output dip in the second quarter of year and a negative GDP growth rate for the whole 2020 in major economies, even for the most optimistic scenario.

For more details on this analysis, please contact [Eduardo.Orellana@london.gov.uk](mailto:Eduardo.Orellana@london.gov.uk)

<sup>[1]</sup> This compares to a GDP growth rate of 1.5% for the global economy in 2020, which was predicted on 02/03/2020.

## Brief analysis on the state of the UK welfare system under the Covid-19 response

On Friday 20<sup>th</sup> and Friday 27<sup>th</sup> March, The Chancellor of the Exchequer announced a number of interventions designed to limit job losses and support incomes among those affected by the Coronavirus pandemic.

The measures announced include:

- An increase in the standard allowance of **Universal Credit** (UC) and **Working Tax Credit** of £20 per week
- The removal of the **Minimum Income Floor** in UC, an assumed level of earnings for self-employed people
- The introduction of a **Coronavirus Job Retention Scheme**, allowing all UK employers with a PAYE scheme to receive compensation from HMRC of 80 per cent of employee wages up to £2,500 per month, for employees who have been asked to stop working (furloughed employees)
- The introduction of a **Self-Employed Income Support Scheme**, a taxable grant for the self-employed worth 80 per cent of their average monthly profits over the last three years, up to £2,500 a month. Only those self-employed people who have submitted a tax return for 2019, who have self-employed profits of up to £50,000 per year, and where self-employment profits comprise a majority of income will be eligible.

This note attempts to model the likely and potential impact on Londoners of the measures above using UKMOD, an open access tax-benefit micro-simulation model of the UK tax and welfare system.

### Job Retention Scheme:

- We do not yet know the number or proportion of employees that will be furloughed under the Coronavirus Job Retention Scheme. This will depend on the developing economic situation and the individual sectors and businesses that are forced to furlough all or a proportion of their workforce.
- Across all London individuals in the UKMOD dataset with employment earnings, 36 per cent would reach the cap under the scheme, should they be furloughed. In the rest of the UK, 25 per cent of employees would reach the cap.

### Self-Employed Income Support Scheme:

- UKMOD estimates that 78 per cent of London's self-employed are eligible for the scheme, higher than the 74 per cent who would be eligible in the rest of the UK. This is likely to be an over-estimate as it does not factor in those who recently became self-employed and would not be eligible.
- Across all those we expect to receive any grant, analysis of UKMOD suggests that the average grant will be £1,400 a month.
- Only 12 per cent of eligible Londoners will be affected by the cap of £2,500 on the monthly grant

### Increase in the standard allowance of Universal Credit and Working Tax Credit and removal of the Minimum Income Floor:

- The increase in the UC and WTC standard allowances, alongside the removal of the Minimum Income Floor, are very well targeted at the lowest income Londoners. We estimate that London households located in the poorest fifth of households nationally will experience an average increase of £460 per year in disposable income, or 6 per cent. Those in the second poorest fifth of households will experience an average increase of £450 (2 per cent), and those on middle incomes £160 (1 per cent).
- We estimate that this immediate impact will lead to 20 per cent of London households, or around 700,000, experiencing an increase in their disposable income, averaging over £1,000 per year.
- Asian and Black households are expected to gain more on average (£350 and £360 per year respectively) than White households (£190)
- Disabled households are expected to gain more on average (£620 per year) than non-disabled households (£210)
- Lone parent (£570) and couple households with children (£290) are expected to gain more on average than single adult and couple adult households without children (£190 and £160 respectively)
- Social and private tenants are expected to gain more on average (£480 and £310 respectively) than owner-occupiers (£90)
- Working-age adults are expected to gain more on average (between £240 and £290 a year) than households with an average age of 65+ (£20 a year on average)
- This analysis does not account for recent job losses, which will mean many more Londoners are claiming Universal Credit.

#### **Interaction of the Job Retention and Self-employed Income Support Scheme and welfare measures:**

- Depending on household circumstances, some Londoners who are furloughed on the job retention scheme will see their household disposable income increase as a result of the full package of measures, because of the higher standard allowance in Universal Credit
- For example, a two adult family with one child and one parent working and earning the National Living Wage will have a higher level of disposable income than before the announced changes, even if they are furloughed, depending on the exact number of hours they were working
- Because of the cap on monthly payments under the Job Retention Scheme, this is not true of a similar two adult, one child and one earner family on a higher level of earnings
- This is also true of self-employed Londoners who see their work dry up. Those on a relatively lower level of earnings may see their disposable income increase, whereas those on a higher income are likely to have a lower level of disposable income, once the welfare measures have been included.

For more details on this analysis, please contact [SocialEvidence@London.Gov.UK](mailto:SocialEvidence@London.Gov.UK)

### **COVID-19 external research**

This section highlights external research into the economic and social impact of COVID-19.

#### **IFS - Sector shutdowns during the coronavirus crisis: which workers are most exposed? (06/04/2020)**

- The lockdown will hit young workers the hardest. Employees aged under 25 were about two and a half times as likely to work in a sector that is now shut down as other employees.
- Low earners are seven times as likely as high earners to have worked in a sector that is now shut down.
- Women were about one third more likely to work in a sector that is now shut down than men.

- One mitigating factor is that the majority of the affected younger workers and lower earners live with parents or others.

### **IZA Compliance with COVID-19 Social-Distancing Measures in Italy: The Role of Expectations and Duration (March 2020)**

Study based on a representative sample of 894 Italian residents, exploring how intentions to comply with self-isolation restrictions respond to the length of their possible extension. Finds:

- Respondents who are positively surprised by a given hypothetical extension (i.e. the extension is shorter than what they expected) are more willing to increase their self-isolation
- In contrast, negative surprises (extensions longer than expected) relate with a lower willingness to comply
- This has potential implications for how to announced lockdown measures and manage people's expectations

### **WONKHE How can universities climb out of the coming financial abyss? (05/04/2020)**

- Both international and UK student demand for HE entry are expected to experience a significant decline
- Universities also face a loss of income from declining research funding, increased non-continuation, commercial income from summer conferences, catering and student accommodation
- Many universities will be sounding out private finance options, some of which are government-backed, although there may also be calls for a 'bailout' of individual institutions. There are also calls for the reintroduction of student number controls to spread the financial cost of reduced student numbers across institutions
- Other possible government interventions could include increasing the size of research funding available, expanded eligibility for student loans, reductions in the level of fees to encourage demand, and, over the medium-term, revisiting post-study work offers to international students.

### **Social Market Foundation Homes, health and COVID-19: how poor housing adds to the hardship of the coronavirus crisis (02/04/2020)**

- Homelessness and housing insecurity: Homeless people are of considerably high risk of contraction due to living in high-risk environments such as homeless shelters. In addition to their physical health being affected, their mental health is likely to decline as a result of the closure of public services across the UK. There are also concerns about homelessness levels increasing, in particular for key workers, of many who now face eviction due to a fear of them contracting the virus at work and then infecting their landlords.
- The inequalities of "Stay Home": we know that stress is higher among private renters, for various reasons. Working from home highlights the smaller space available to private renters, which can be expected to also affect stress. In addition, private rented housing is more likely to low quality.
- Housing costs: Housing arrears are more than likely despite the government's 3 month mortgage holiday and 3 month renters eviction ban in England. Scottish renters however have been offered greater security due to a 6 month ban on evictions.
- Children: Due to school closures, many children are now spending more time in poor-quality homes. It is likely that their wellbeing and education is likely to suffer because of this.

## COVID-19 external policy recommendations

### [New Local Government Network: Councils and COVID-19: the response edition #2 \(03/04/2020\)](#)

Second in a weekly series summarising innovative responses to the COVID-19 crisis by councils:

- **Supporting residents in need:** examples include Kent County Council, who have launched a new county-wide 24-hour helpline, Kent Together, to support people who need urgent help, supplies or medication
- **Additional funding:** examples include Manchester City Council, who have unveiled a set of measures to support people in the city facing financial struggles
- **Job-matching and business support:** examples include Stockport Council, who have launched a new job matching website to connect employers who have urgent temporary or permanent vacancies with applicants who are immediately available
- **Self-isolation activities:** examples include Bradford Council, who have started a series of online tech challenges for primary school-age children

### [Sutton Trust Social Mobility and COVID-19: Implications of the COVID-19 crisis for educational inequality \(04/04/2020\)](#)

Highlights a number of priorities for policy:

- **Widening access to private and online tuition,** both during and after the school closures, in order to minimise the impact on the attainment gap.
- **Ensuring access to technology and online resources** for pupils from disadvantaged backgrounds while schools are closed.
- **Fair access to higher education,** and making sure this year's changes to A levels and the admissions process do not impact negatively on the prospects of young people from less well-off backgrounds.
- **Protecting apprenticeships,** making sure that current apprentices are protected financially, and trying to ensure that the apprenticeship system is ready to bounce back when restrictions are lifted.

### [Covid-19 pandemic and preventing and responding to an increase in violence against women and girls \(03/04/2020\)](#)

Letter to the prime minister from a range of civil society organisations on the subject of domestic violence and violence against women and girls. Provides detailed policy recommendations, including:

- **Resourcing the specialist support sector:** argues an immediate cash injection into the sector is required to meet higher demand in a context of reduced fundraised income.
- **Crisis response planning and coordination involving VAWG and abuse experts:** argues that the Domestic Abuse Commissioner and Victims' Commissioner should be included in relevant planning and coordination groups, and that the interests of survivors should be represented at all levels of departmental response planning.
- **Strong public messaging and guidance on VAWG:** provides a range of recommendations for how clear public communications should be delivered on VAWG crimes.
- **Equal protection for migrant survivors:** highlights that women with no recourse to public funds are at particular risk from VAWG due to the major barriers they face in accessing support and calls for the urgent ending of no recourse to public funds conditions.

### [IFS - If the cap doesn't fit? \(07/04/2020\)](#)



- Around 36,500 working-age families were subject to the benefit cap. The cap means that most of these families, and some of those who have since lost employment during the crisis won't benefit at all from the temporary increases in benefits announced by the Chancellor.
- The benefit cap acts to increase the financial payoff from moving into paid work or to a cheaper home. The evidence suggests that, in normal times, a small minority do respond in this way. But encouraging families to respond in this way is likely to be less effective, and indeed in many cases potentially harmful, at the present time.
- **Raising or removing the cap so that all working age benefit recipients can benefit from the temporary increase** in support would make sense, at least while the current social distancing requirements are in place.