

COVID-19: Summary of external research

28 August 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 they 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 takes yet another look at recent macroeconomic scenarios, including the latest Bank of England (BoE) illustrative scenario, the latest GLA Economics scenarios for London and other external work. It also summarises selected papers and policy reports from the last few weeks.

2 Macroeconomic scenarios update

Since April, GLA Economics have been analysing the available literature on UK and international macroeconomic scenarios to inform the development of macroeconomic scenarios for London's economy. We have provided periodic updates on economic scenarios in several newsletter issues (see Research Update 3, 6 and 11). In this issue, we are summarising the key points from the latest illustrative scenario update from the BoE, the latest GLA Economics scenarios update, and a relevant external paper.

[Bank of England, Monetary Policy Report \(August 2020\)](#)

On 7 August, the BoE updated their analysis of potential effects of the Covid-19 outbreak on the UK economy up to year 2023. Like the initial analysis published in May, the latest Monetary Policy Report does not attempt to predict the UK's economic outlook in the current uncertain times but it sheds some light (and projections) on some of the potential macroeconomic effects. The key assumptions in this latest scenario are as follows:

- The direct impact of COVID-19 on the UK economy dissipates gradually over the forecast period, although risks are skewed to the downside and uncertainty on the economy is elevated.
- As restrictions are being eased sooner than assumed - and even while some restrictions remain in place - a more rapid recovery in consumer (and online) spending is expected. This leads to a more rapid recovery than stated in the MPR in May.
- The recovery in activity is also being supported by the current fiscal and monetary policy actions.

- There is some long-lasting scarring still, largely due to persistent weakness in productivity.
- BoE still estimates that around six million employees were furloughed on average during Q2 2020. Around two million will be furloughed in Q3 and around one million will be in October. Some jobs will be lost although the long-term equilibrium rate of unemployment is not assumed to rise.
- Credit conditions are assumed to remain tighter over the forecast period than was projected before the COVID-19 shock.
- There is an immediate but orderly move to a comprehensive free trade agreement with the EU on 1 January 2021.

On the basis of these assumptions:

- **The UK's real GDP is projected to drop by 9.5% in 2020 and then rise by 9% and 3.5% in 2021 and 2022, respectively.** The recovery in GDP is accounted for mainly by household consumption — partly as spending on social activities increases — and government spending, while uncertainty and financial conditions continue to constrain business activity.
- As a result, GDP does not exceed its level in 2019 Q4 until the end of 2021. Over 2021, GDP is, on average, more than 3% weaker than in the Monetary Policy Committee's January forecast.
- **However, employment is projected to drop more slowly, falling by 3.8% in 2020 and growing by 2.5% and 2% in 2021 and 2022, respectively.**
- Unemployment is judged likely to decline only gradually after peaking in Q4 2020, as there is some reduction in the efficiency with which people can find jobs, also given differences between the sectors from which workers have been made unemployed and the sectors in which firms are posting vacancies.

GLA Economics - Macroeconomic scenarios for London's economy post COVID-19 (28/07/2020)

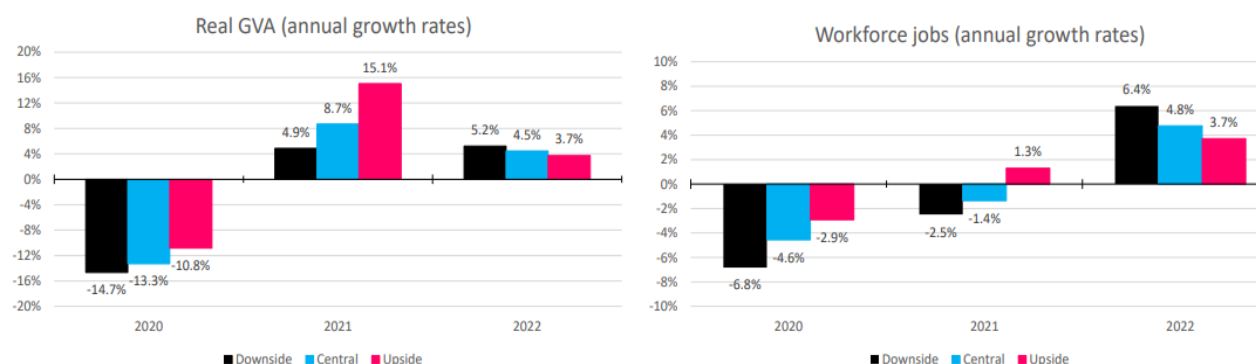
GLA Economics also published some macroeconomic scenarios for London's economy at the end of July, following on from the scenario-based forecasts included in the June issue of [London's Economic Outlook](#). The central macroeconomic scenario for London (and informed by the July OBR scenarios for the UK economy) shows a similar shape for London's output in the medium-term.

In particular, under this scenario (Slow return to growth) **London's real GVA is expected to fall by 13.3% this year, before growing by 8.7% and 4.5% in 2021 and 2022, respectively.**

In terms of employment (workforce jobs), this would contract by 4.6% this year and by 1.4% next year before returning to a positive rate in 2022 (4.8%).

There remains however considerable uncertainty and overall GLA Economics continue to see the risks as being on the downside within a broad scenario range.

Real GVA and Workforce jobs (annual growth rates)



Source: GLA Economics

Stepping back from London and the UK, updates of international macroeconomic scenarios also continue to be produced.

[McKibbin W. and Fernando, R. - Global Macroeconomic Scenarios, COVID Economics Issue 39 \(23/07/2020\)](#)

The paper is a recent update of a paper initially published in March on the Covid-19 effects on the global economy. It applies recent data on the different epidemiological experiences of COVID-19 in early 2020 across countries to explore six different scenarios for the evolution of the world economy over the next few years.

The paper's key findings are as follows:

- There is still enormous uncertainty about the future course of the pandemic, whether a vaccine will be available and effective in the near term, and future policy responses.
- The basis of the scenarios revolves around how many future waves there might be and how countries will respond to those outbreaks in terms of public health responses and changes in economic policies. Even under the first scenario, which assumes that the worst of COVID-19 was over by mid-2020, the global economy experiences a major recession in 2020. In the event of further severe waves, negative economic effects might become permanent.
- Some countries are impacted far more than others. The **UK's GDP growth rate in 2020 ranges from - 6.8% in the most optimistic scenario to -10% in the most pessimistic scenario, which is a relatively good performance despite the historic output loss.**

The authors also make the following recommendations in term economic policy:

- Withdrawing macroeconomic support and creating 'fiscal cliffs' through setting expiration dates on critical fiscal support policies is likely to worsen the uncertainty and increase the economic costs of the pandemic.
- Preventing countries from undertaking more substantial fiscal stimulus measures either through institutional arrangements or by lack of access to financing also increases the cost of the pandemic.
- Investment in global public health, particularly in developing economies, is a crucial ingredient in avoiding future devastation from pandemics.
- Global cooperation is fundamental since pandemics do not respect borders. Therefore, the institutional design at the global level is critical to success. A World Health Organization, in some form, is vital to a cooperative global public health response. Also, the role of the G20, as it was in the global financial crisis a decade ago, is critical.

3 COVID-19 external research

Centre for Economic Performance – What can previous recessions tell us about the Covid-19 downturn? (August 2020)

Analysis of the labour market effects of COVID-19 are compared to the labour market effects with the three most recent UK recessions: the early 1980s, the early 1990s, and the downturn induced by the global financial crisis in the 2000s. They design a ‘realistic’ employment rate measure (based on individuals working a positive number of hours) and find a decrease in employment between February and June of more than 15 percentage points, in sharp contrast with sharp official unemployment. . Key findings include:

- **The current crisis is likely to be the largest economic shock since at least the 1980s.** The OBR central scenario suggests an increased unemployment rate of around 8 percentage points. This would be the joint highest unemployment rate since the current measurement system was introduced, and the highest since 1984. In comparison, the average increase in unemployment rate in the three previous recessions was of the order of 4.5 percentage points.
- The biggest difference with this crisis is the occurrence of a lockdown of some sectors. This contrasts with the typical recession in which economic activity slows down continuously.
- Despite their different impacts across industries, **COVID-19 and the three recessions share the common feature of a disproportionate impact on the most vulnerable** (the youngest, those with a lower level of qualifications, ethnic minority workers and those who were already low earners). COVID-19 has the potential to scar a large number of individuals. Well thought out labour market policies need to be implemented to protect those most at risk.

Institute of Fiscal Studies – COVID-19 and English council funding: how are budgets being hit in 2020–21? (19/08/2020)

COVID-19 is creating a “perfect storm” for local authorities, simultaneously increasing pressures/expenditures and reducing incomes. Taken together, councils are forecasting in-year pressure of £7.2 billion in 2020/21 (of which £4.4 billion of spending pressures), with billions of pounds more in losses in local tax revenues expected from next year. Against this background the report investigates the scale and nature of the funding shortfall, its drivers and the implications for future funding policy.

The main conclusion of the study is that the funding shortfall is likely to be smaller than Councils estimates but still add up to approximately £2 billion in this financial year (with a lot of uncertainty on either side). More specific findings underpinning this conclusion are as follows:

- Adult social care accounts for £1.8 billion of the spending pressures forecast by councils. Reductions in transport-related income account for £0.8 billion of the loss in income, while reductions in commercial income add up to £0.6 billion.
- Approximately 41% of the spending pressures and 45% of the income pressures are estimated to have taken place between April and June (Q1). If pressures in the remainder of the year turned out to be 2/3 of Q1 levels as opposed to 50% as currently assumed they would be £1 billion higher.
- There is significant variation in forecast pressures across councils, especially for non-tax income. Differences across regions are not robust, but there is more robust evidence that non-tax income losses are higher in more densely populated areas, which rely more on income sources at risk, e.g. parking fees.
- In estimating their shortfall, councils may have underestimated grant funding from the Government and the impact on their finances of various forms of support, including from the CJRS.

Relying on reserves to meet these unfunded pressures would lead to a significant increase in the number of councils with low reserves relative to their pre-crisis expenditure. If the government wants to ease this trade off, options available could include:

- Increases in general grant funding (but this would be expensive and not well-targeted).
- Adopting the Welsh model whereby councils submit claims based on the additional costs they have incurred, subject to some vetting.
- Introduce temporary powers to borrow to cover day-to-day spending (identified by the OECD as a sensible way to give local areas more flexibility and autonomy to respond to the crisis).

Agrawal, S., Phillips, D. Catching up or falling behind? Geographical inequalities in the UK and how they have changed in recent years (03/08/2020)

This paper for the IFS Deaton Review of Inequality starts from the observation that the COVID-19 crisis has highlighted increasing concerns about inequalities between people living in different *places* as well as between different groups of people.

In findings that often resonate with a number of recent GLA publications (such as the Local Industrial Strategy Evidence Base and the Economic Fairness Indicators) the authors find that:

- Geographical inequality in incomes is much lower after accounting for variation in housing costs
- Inequality is far higher within London than in any other part of the UK, with London over-represented at both the bottom and the top of the income distribution nationally.
- Regional inequality is not increasing for incomes, but it is for wealth. Specifically:
- Regional differences in median incomes after housing costs across the UK have narrowed since 2002, with increasing housing costs (both rents or mortgage repayments) affecting Londoners' incomes.
- On the other hand, the increasing divergence in property values around the country has contributed to an increase in wealth inequality between regions, driven by faster increases in London and in the south east.
- Local inequalities are significant and even larger than inequalities between regions especially within London & the South
- Former industrial towns in the North and Midlands and coastal towns have not been falling further behind – but remain poorer and have not made up for the fall in their fortunes in the last quarter of the 20th century.

Looking at the impacts of COVID-19, the authors conclude that:

- it will be important to monitor the evolving impact of the COVID-19 crisis on geographical inequalities.
- Rural and coastal areas and the centres of major cities could be especially exposed to economic risks given their frequent reliance on hospitality and public transport.
- An increase in remote working could reduce the pull of London for the highest-productivity and highest-paid jobs and workers, and increase access to economic opportunities in more peripheral areas.

[Institute for Fiscal Studies – Inequalities in children’s experiences of home learning during the COVID-19 lockdown in England \(17/08/2020\)](#)

The study combines real-time survey data on the time use, home learning practices and economic circumstances of families with children during lockdown with pre-lockdown data from the UK Time User Survey. This allows an analysis of the time use of children and how it changed during lockdown, and the extent to which changes in time use and learning practices during this period are likely to reinforce the already large gaps in education attainment. Key findings include:

- There is considerable variation in children’s learning experiences (amount of time spent learning, activities undertaken during this time and the availability of resources to support learning), which is strongly associated with family income.
- **Inequalities may have worsened over the course of lockdown, especially for primary school students:** there is a considerable gap in learning time between primary school age children from poorer and better off families, which is not there prior to lockdown.
- **Any impacts of inequalities in time spent learning at home are likely to be compounded by inequalities in learning resources provided by schools.** For example, as well as having less access to resources such as computers/tablets at home, poorer children’s schools were less likely to provide support such as online classes, video conferencing and online chat.
- In the absence of significant policy intervention in the short-term, children from low income families are at considerable risk of suffering from long-term adverse consequences of lockdown.

[Towse, R. – What financial support is needed for artists and the arts in the pandemic?, Economics Observatory briefing, \(20/08/2020\)](#)

Coronavirus has struck a particularly hard blow to the performing arts and those whose livelihoods depend on them and this article examines the support needs and provision to them during the pandemic. The briefing notes that:

- Due to the varied nature of the industry different parts require different forms of support, with targeted support schemes needed to supplement economy-wide schemes.
- The nature of the live performing arts business (e.g. theatre, concerts, comedy, etc) has made them especially vulnerable to the restrictions introduced to control the pandemic and this is only partially alleviated by the possibility of outdoor performances. **Most businesses require live audiences averaging 60% of capacity to be economically viable. As a result, owners do not envisage reopening before the removal of social distancing restrictions.**
- At the same time workers in the recording, film, broadcast or streamed games sectors are inhibited in terms of creation/interaction activities by social distancing measures, even if social distancing is not preventing their output to reach consumers across most channels.
- Workers and businesses in the sector benefited from government support such as the reduction in VAT and the Self-Employed Income Support Scheme. However, the Coronavirus Job Retention Scheme has only tangentially succeeded in supporting performers given the predominance of freelance work.
- In addition, other public sector funding has come from the Arts Council for England (£1.57 billion) and in different forms from the English Heritage Trust and National Lottery Project Grants.
- Private sector support is also available, e.g. from the Musicians’ Union hardship fund, the Performing Right Society Emergency Relief Fund and a number of charities in the theatre sector such as Acting for Others and the Royal Opera House Benevolent Fund.

Eiser, D. – What are the implications of coronavirus for fiscal devolution in the UK? Economics Observatory briefing, (17/08/2020)

The briefing looks at the prospects for further devolution post COVID-19 in the three devolved governments of Scotland, Wales and Northern Ireland. After summarising the evidence around devolution and the current devolution settlement the author notes that:

- the **capacity of governments to think seriously about broader fiscal devolution issues is likely to remain low for the immediate future, but the economic recovery phase could show how effectively the existing balance of devolved, reserved and shared powers is working.**
- Difficult decisions about returning towards a sustainable UK fiscal position while protecting household incomes may have implications for the allocation of grants to the devolved governments.
- Decisions about individual taxation (with elements that are partially shared with devolved administrations in Scotland and Wales) and changes to social security payments (partially devolved to Scotland) also have devolution implications.
- New initiatives – such as a jobs guarantee programme – would cut across reserved and devolved competencies, depending on which organisations were tasked with delivering them.
- The Scottish government has expressed concerns that the restrictions on borrowing and the use of the Scotland Reserve are not adequate in the current crisis and has argued for additional temporary fiscal flexibilities in 2020, before a formal review of the fiscal framework takes place in 2021. In turn, this is likely to reignite debates about funding levels across the UK.

The author's conclusion is that "as in the recent past, it seems likely that fiscal devolution to Scotland, Wales and Northern Ireland will continue on an ad hoc basis, determined by political power balances rather than a coherent set of economic objectives".

L&W – The impact of the coronavirus outbreak on London's low paid workers (30/07/2020)

Early findings from analysis of existing labour market data and new opinion research undertaken by the Learning and Work Institute show that:

- Low paid workers in London are more likely to be women, young, with low qualifications and born outside the UK than their better paid counterparts.
- One in three low paid workers work in sectors that were shutdown by the pandemic compared with one in seven higher paid workers. In particular, women and those workers from black or Asian groups are disproportionately represented in these 'shutdown sectors', as were low paid workers with higher qualifications.
- Low paid workers are more likely to have seen a reduction in their income with many struggling to pay for essentials. Two in five of all low paid workers were worried about their finances.
- Low paid workers were more likely to access some form of support from benefits or loans to help them through lockdown, with 4% accessing food banks or other charitable support.
- Low paid workers are more likely to be concerned about keeping their job than others, but less worried about job progression or getting a new job.
- More support with job seeking, increased levels of Universal Credit and a higher minimum wage are considered priorities among this group.

The full report is due out later in the summer.

[Centre for London – What impact has the pandemic had on BAME Londoners? \(29/07/2020\)](#)

Against a background of pre-existing economic and health disparities between Londoners of different ethnic groups and the recent Black Lives Matter protests, this blog presents the findings of the latest Snapshot of Londoners survey (published at the end of June) on the views and experiences of BAME Londoners.

The survey was undertaken by the Centre for London in collaboration with Savanta in May, polling 1,562 London residents and weighting the results to be representative of London's population. Relevant findings include the following:

- Overall, **half of White and Asian Londoners believed they have enough money to get by, dropping to two in five among Black and Mixed ethnic group residents.**
- Spatial inequalities in terms of overcrowding appear to have been exacerbated as **BAME Londoners have been outside less, have lower levels of satisfaction with local public spaces and are more worried about air pollution** than White Londoners.
- More Asian than Black Londoners expected to remain in London in the next year (around 75% vs. 60%),
- **Despite the bleak outlook, more BAME Londoners seemed to remain optimistic about the future** (in terms of personal finances, employment prospects, health and family situation) **than White Londoners.**

[Lancet - Determining the optimal strategy for reopening schools \(03/08/2020\)](#)

Modelling study examining the results of two possible strategies for reopening schools: testing and contact tracing and use of a rota system with pupils attending schools on alternate weeks. The study used an individual-based model of COVID transmission that considered contact networks across households, workplaces, schools and communities.

- Six scenarios were tested: both full-time and part-time reopening for each of three different test and trace scenarios.
- The findings suggest that it may be possible to avoid a second pandemic wave across both school reopening scenarios if enough people with symptomatic infection can be tested, and contacts of those diagnosed can be traced and effectively isolated.
- Assuming 68% of contacts could be traced, the authors estimate that 75% of those with symptomatic infection would need to be tested and isolated if schools return full time in September, or 65% if a part-time rota system were used.
- If only 40% of contacts could be traced, these figures would increase to 87% and 75%, respectively.
- The modelling results suggest that:
 - if schools reopened full time or in a part-time rota system, with sufficiently broad coverage of a test–trace–isolate programme, a second COVID-19 wave could be prevented in the UK.
 - school reopening in September, without an effective test–trace–isolate strategy would result in R rising above 1 and a resulting second wave of infections that would peak in December.

Royal Society DELVE initiative - Balancing the Risks of Pupils Returning to Schools (24/07/2020)

A wide-ranging and detailed report considering the risks on both sides of the question of whether to reopen schools, namely:

- risks from infection
- risks from loss of skills and increases in inequality
- risks to child and parent mental health
- risks from parents not being able to return to work

The authors drew on the experiences of other countries that had already reopened schools, including the apparent impact on infection rates and the range and effectiveness of protective measures that were put in place.

A range of evidence is presented about the loss of learning resulting from school closures, the implications for children from different socioeconomic and ethnic backgrounds, and the potential impact on inequality.

One section of the report looks at the key interventions for schools in the UK, including: how to manage further closures in response to surges in cases; the emerging evidence on the use of face coverings in schools; and the likely challenges that will be posed by the winter flu season.

The headline recommendations of the report are:

- Keeping schools open should be the default policy. The Government should do everything feasible in order to not close schools
- If local full or partial closures must occur, this should be based on clear scenarios with objective criteria
- The Government should urgently initiate data collection
- The Government must establish effective, clear and unified communication with school leaders, teachers and parents to manage opening and closing of schools in response to local conditions. The communication from government to parents should be informed by behavioural science to make sure the messages are salient, clear and consistent.

4 COVID-19 external policy recommendations

IPPR – Rescue and recovery: Covid-19, jobs and income security (16/08/2020)

Analysis of the government's response to the unemployment crisis. It argues that the planned phase-out of the Job Retention Scheme (JRS) will come too soon to prevent significant job losses. Based on the OBR's central scenario, demand in October will be around 15% below the pre-crisis trend and three of the estimated four and a half million jobs currently being supported may still need support. One million of these jobs could be lost permanently in the hardest hit sectors, but two million would be viable if wage subsidies were extended into 2021.

Makes the case for large-scale public investment to preserve viable jobs in the short-term, support the creation of new jobs and to help some workers to switch to new sectors. Key recommendations include:

- **Replacing the JRS with the 'Coronavirus Work Sharing Scheme'** from November until March 2021. Unlike the JRS, it would encourage businesses to keep their employees in work, by offering a subsidy for temporary reductions in the number of hours worked. At least two of the three million jobs at risk could be supported. Only the hardest hit firms would be eligible for the scheme, but in the event of local lockdowns or a second wave, any business should be able to apply. Those who cannot work because of caring responsibilities or shielding should also be eligible. The estimated cost for this scheme is £7.9 billion, while the minimum cost of new Universal Credit claims over this period would be at least £1.5 billion.
- **Investing £30 billion a year in public clean infrastructure, health and social care reform.** This would help to create new jobs and to support workers who need to switch jobs.
- **Reducing economic insecurity and supporting incomes.** Suggested measures include extending the ban on evictions for another six months, maintaining emergency access to Universal Credit for those who are out of work, removing austerity-era measures such as the two-child limit and benefit cap and increasing the child element in the Universal Credit and tax credits by at least £20 per week.

Economics Observatory – How should the government support households with unpayable debts? Economics Observatory briefing, (05/08/2020)

This briefing looks at options for new schemes to support households who have taken on debts that may be unaffordable if economic recovery is slow with high levels of unemployment.

- Low paid workers in sectors hit hardest are most likely to have unpayable debts from consumer credit, utilities and council tax, though as few are home owners they are less likely to have mortgage arrears. Lower levels of financial literacy among low-income households suggests a particular need for **increased credit counselling**.
- Rather than dealing with debt through further loans or bankruptcy, this article lays out an **option of income-contingent repayments similar to the student loan scheme**.
- A **restructuring of mortgage debt to avoid repossessions is considered with government taking a role comparable to Help to Buy**.
- **Reform of the personal insolvency regime and an increase in debt advice** are suggested as having a role in addressing consumer debt and other unsecured loans.

Rent arrears are not addressed in this article.

Citizens Advice – An unequal crisis (06/08/2020)

This post discusses the issues of **employment rights and the unequal treatment of people being seen among Citizens Advice clients**.

- Nationally, one in six workers are facing redundancy.
- This is much higher for disabled people (one in four) and one in three where the disability has a substantial impact on their activities, one in two for people who are extremely clinically vulnerable to COVID-19 and two in five for people with caring responsibilities.
- Citizens Advice support and web searches relating to redundancy issues are four times higher than usual.
- One in eight employees working outside the home think measures to keep them safe are not adequate, particularly pregnant women and others with health issues that may need an increased level of protection. Demand for discrimination advice pages has also increased four-fold.

Enforcement of people's rights at work is seen as a big issue and Citizen Advice includes recommendations that

- **The government should fast track its plan for setting up a single enforcement body for employment rights**, with the powers and resources needed to act as an effective defender of people's rights at work
- **Whilst that body is set up, interim emergency funding should be directed to existing enforcement bodies** to ensure people are treated fairly during this unprecedented crisis