

London coronavirus economy tracker

Tracking the impact of coronavirus on the
capital's economy - April 2021

Amy Norman
Scott Corfe

SMF

**Social Market
Foundation**

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Kindly supported by



FIRST PUBLISHED BY

The Social Market Foundation, April 2021
11 Tufton Street, London SW1P 3QB
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ACKNOWLEDGEMENTS

This report was commissioned by Peabody, and was produced independently by the Social Market Foundation, which retains full editorial independence, using publicly available information and sources. Any views expressed in the report do not necessarily reflect those of Peabody.

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Scott Corfe joined the Social Market Foundation in 2017 and is our Research Director. As well as managing the SMF's research team, he authors research on a wide range of topics including consumer markets, taxation, low pay, housing and technology.

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Scott's expert insights are frequently sought after in publications including the Financial Times, the Guardian, the Times and the Daily Telegraph. Scott has appeared on BBC News, Sky News, Radio 4 and a range of other broadcast media.

EXECUTIVE SUMMARY

This report, commissioned by Peabody, examines the emerging impact of the coronavirus crisis on London's economy. It explores the latest timely data on economic outcomes to produce an as up-to-date picture as possible.

The key findings of the research are that:

- **The latest claimant count data show unemployment increasing in both London and the UK as a whole, with a more rapid increase in the capital.** Between the end of last year (December 2020) and March, the number of people claiming unemployment-related benefits in London has increased by 4.9%, higher than the 3.8% seen for the rest of the UK. This amounts to an increase in unemployment of about 24,000 in the capital.
- **Compared with February 2020, before the UK entered the first coronavirus lockdown, the claimant count in London has soared by 178%, far higher than the 104% seen in the rest of the country.**
- **Newham was the London borough which saw the biggest increase in unemployment between December 2020 and March 2021.** There, the claimant count increased by 1,905 over this time period. Kingston-upon-Thames, Richmond-upon-Thames and the City of London saw the smallest increases in unemployment.
- **More deprived boroughs have tended to see greater increases in unemployment in the capital, raising the prospect of increased inequality as London emerges from the pandemic.**
- **The number of job vacancies in London has continued to recover in recent weeks, to stand at just under 170,000 openings. This is about 60% more job vacancies than at the end of 2020, though the number of vacancies remains 14% lower than in mid-March 2020, before the first coronavirus-related lockdown.** In contrast, in the rest of the UK, the number of job vacancies is now 19% higher than in mid-March 2020.
- **While growth in the number of job vacancies in London raises the prospect of an improving labour market as lockdown gradually eases, there is likely to be a significant skills mismatch between the newly jobless, and the types of job vacancies available.** While sectors such as retail and hospitality have seen the most coronavirus-related job shedding¹, most vacancies in the capital are in relatively higher-skill sectors such as IT, finance and education.
- **Having said that, there are signs that the easing of lockdown is translating into more job opportunities in the hospitality sector.** While hospitality accounted for 2.6% of all job vacancies in London in February, this has doubled to 5.2% in April.

- **SMF analysis of the Understanding Society survey shows that, during the pandemic, Londoners are much more likely to have been always working from home – suggesting the capital is most exposed to the implications, both positive and negative, of more remote working.** 39% of working Londoners in September 2020 were always working from home, compared with 19% across the UK as a whole.
- **Reduced commuter footfall, tourism and the shift towards online shopping could lead to significant job losses in “face-to-face” industries such as retail, hospitality and arts & culture over the coming years.** We estimate that such sectors prior to the pandemic accounted for over 800,000 jobs in Central London, with the borough of Westminster particularly exposed to these trends in terms of absolute number of face-to-face jobs.

CHAPTER ONE - INTRODUCTION

Recent weeks have seen UK life edge closer to normality, with the re-opening of schools, non-essential retail and outdoor hospitality. However, London's economy continues to face challenges.

Even with the re-opening of sectors such as non-essential retail, Central London remains affected by a lack of commuter footfall, with government guidance still encouraging working from home where possible. Compounding this is a lack of tourists and the significant spending power they bring to retail, hospitality and culture.

With increased rates of remote working and online shopping set to stay, even after the pandemic, tens of thousands of jobs in "face-to-face" sectors of the capital look under threat. Not only has London seen a much greater increase in unemployment than the rest of the country over the past year, but its labour market could continue to underperform over the next few years.

Further, we risk an economic situation which leads to rising inequality in the capital. Our analysis shows that unemployment has increased more in relatively deprived parts of London, and that lower wage sectors such as retail and hospitality have borne the brunt of job losses in recent months.

In this SMF report, sponsored by Peabody, we explore the latest labour market data, and examine how the capital's jobs market is faring compared with the rest of the country. The structure of this report is as follows:

- **Chapter 2** examines the latest unemployment data.
- **Chapter 3** explores trends in job vacancies in London
- **Chapter 4** looks at the number of face-to-face jobs in London that are exposed to trends such as increased remote working and greater rates of internet retail.
- **Chapter 5** examines cost of living inflation for Londoners and social housing tenants in the capital.

CHAPTER TWO – UNEMPLOYMENT IN THE CAPITAL

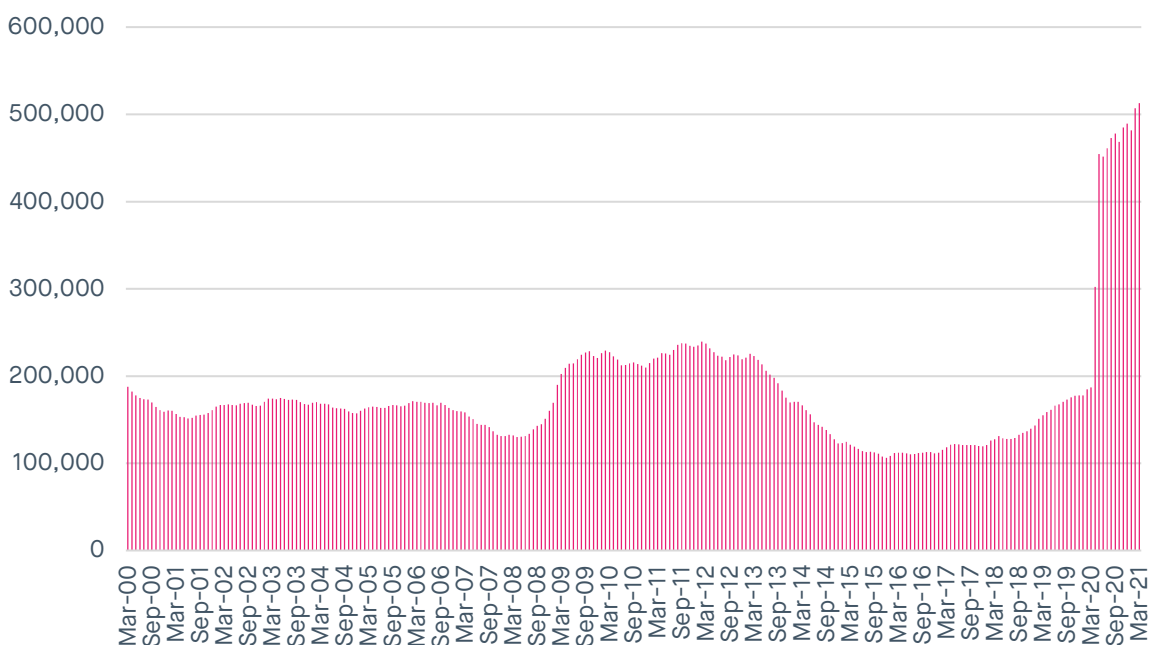
This chapter examines the latest data on benefits claims to explore how unemployment and incomes are being affected by the coronavirus crisis. This includes an exploration of how trends in London differ from elsewhere, and an examination of how different parts of the capital are being affected by the crisis.

Unemployment falls back a bit but remains high

The claimant count measures the number of people claiming benefits principally for the reason of being unemployed – it is thus one measure of the level of joblessness in the economy. As the Resolution Foundation has recently noted², claimant count statistics are potentially being distorted at the moment by the migration to Universal Credit. But the claimant count remains the timeliest measure of unemployment trends, and it is the only data source allowing local area analysis of joblessness – such as across local authorities in the UK. While there might be some measurement issues with the claimant count at present, we believe that it remains a useful guide of the broad trajectory of unemployment, and how different parts of the UK are faring.

The latest claimant count data show unemployment increasing in both London and the UK as a whole, with a more rapid increase in the capital. Between the end of last year (December 2020) and March, the number of people claiming unemployment-related benefits in London has increased by 4.9%, higher than the 3.8% seen for the rest of the UK. This amounts to an increase in unemployment of about 24,000 in the capital. Compared with February 2020, before the UK entered the first coronavirus lockdown, the claimant count in London has soared by 178%, far higher than the 104% seen in the rest of the country.

Figure 1: Claimant count in London



Source: ONS, SMF analysis

Figure 2: Claimant count index, February 2020 = 100



Source: ONS, SMF analysis

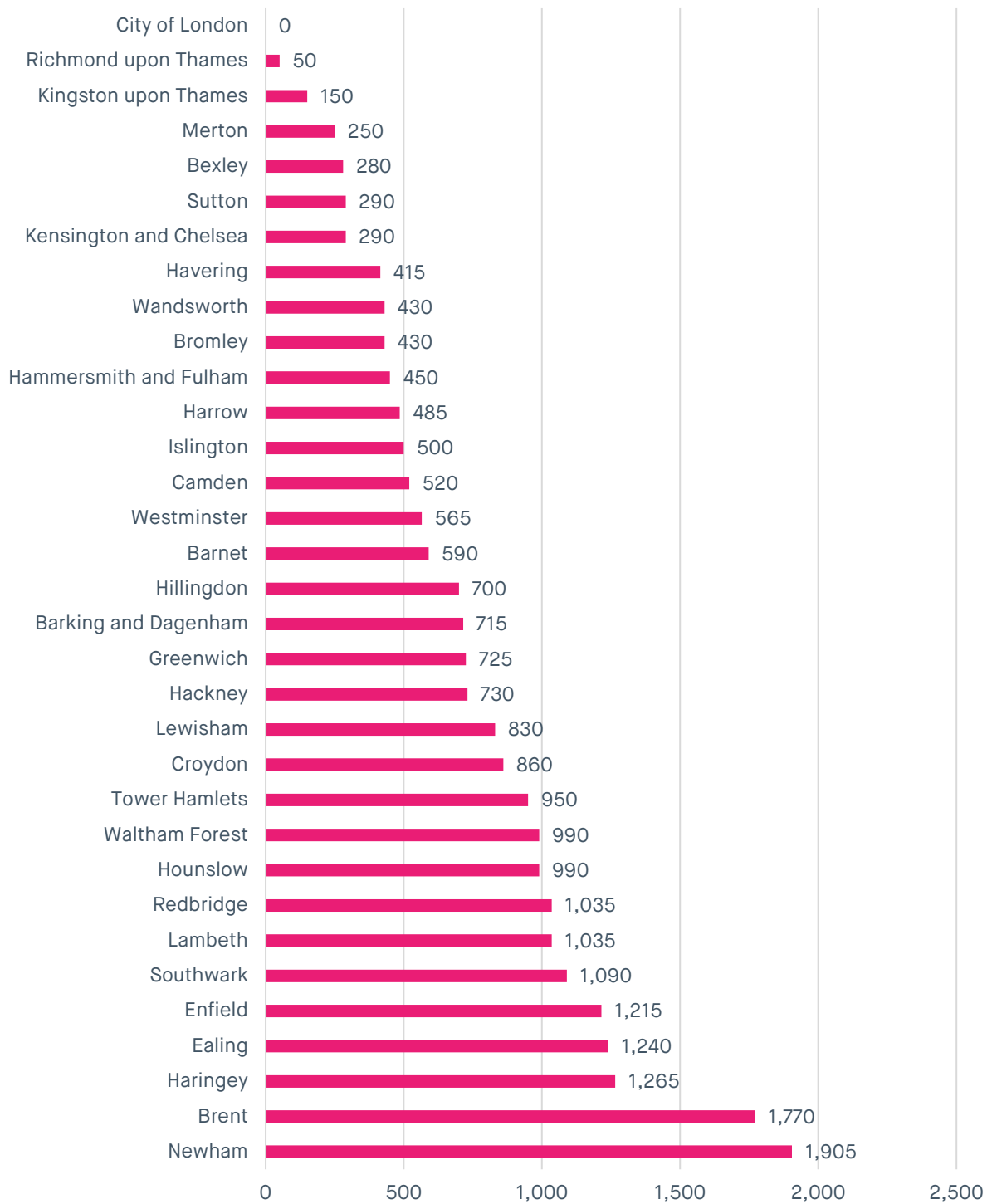
As we discuss later in this report, there are reasons to expect London's labour market to continue to underperform the rest of the UK, with job vacancies remaining below pre-pandemic levels and significant numbers of jobs in the capital exposed to reduced international tourism, increased remote working and an accelerated shift towards online retail.

Deprived boroughs most affected by rising unemployment

Segmenting the claimant count data by London borough shows Newham with the biggest increase in unemployment between the end of last year (December 2020) and March. There, the claimant count increased by 1,905 over this time period. Kingston-upon-Thames, Richmond-upon-Thames and the City of London saw the smallest increases in unemployment.

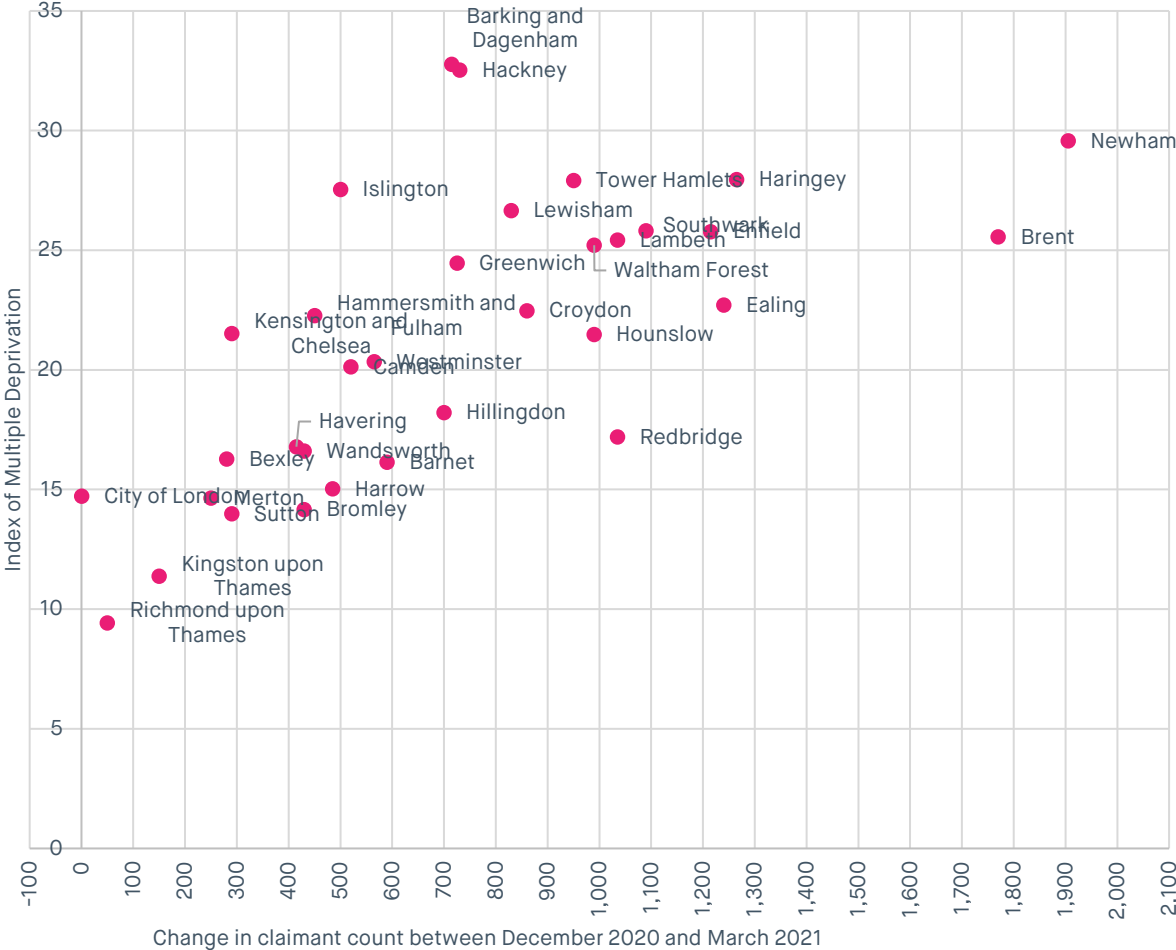
As the scatter chart below shows, it remains the case that more deprived boroughs have tended to see greater increases in unemployment in the capital, raising the prospect of increased inequality as London emerges from the pandemic.

Figure 3: Change in claimant count, December 2020-March 2021



Source: ONS, SMF analysis

Figure 4: Change in claimant count and index of multiple deprivation, by London borough

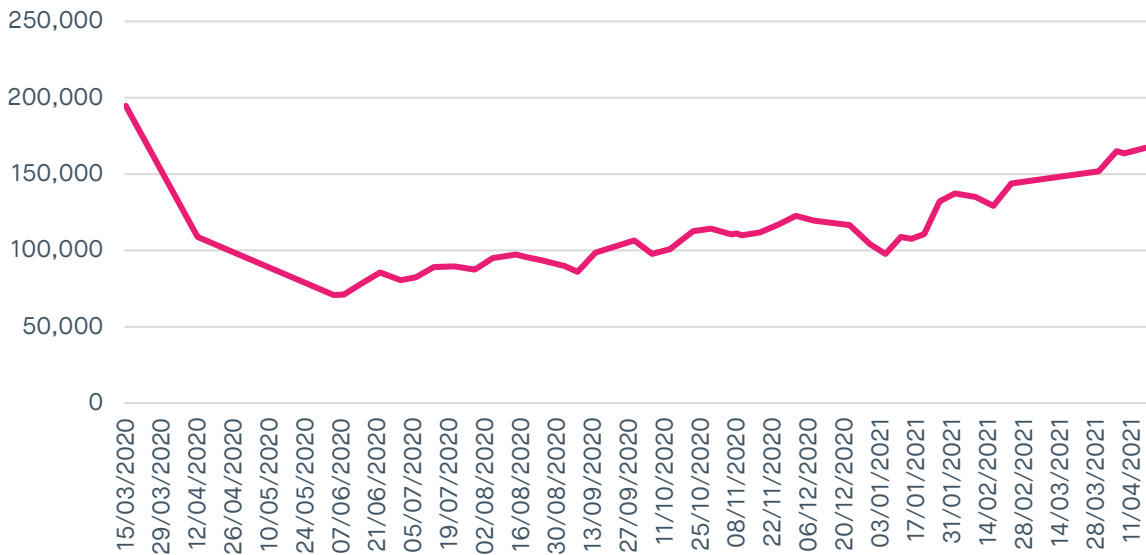


Source: ONS, MHCLG, SMF analysis

CHAPTER THREE – JOB VACANCIES. OUT OF WORK, NOW WHAT?

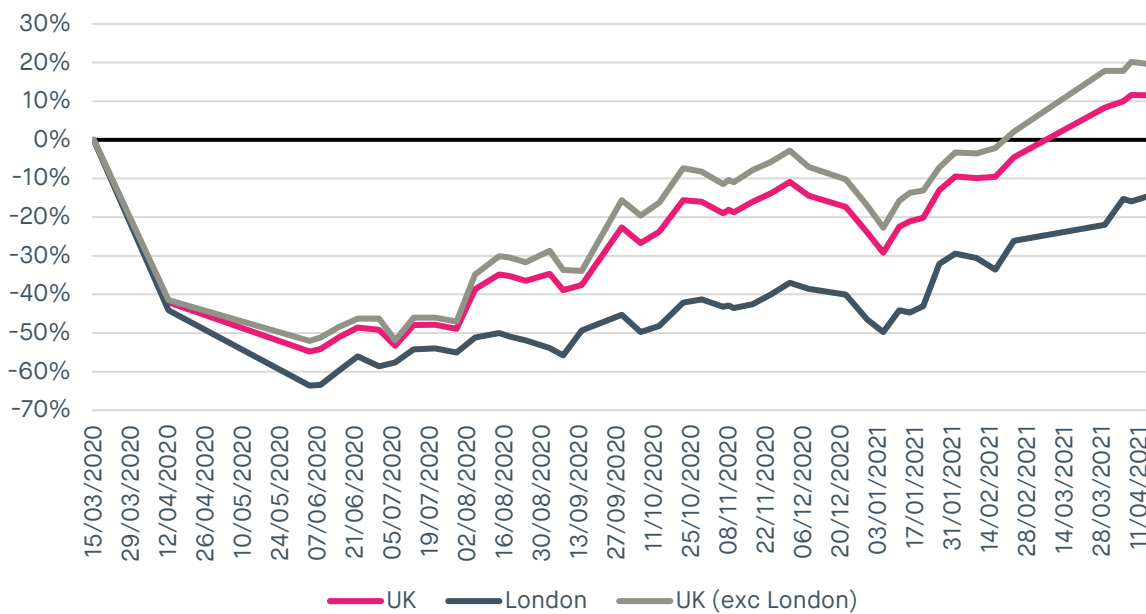
The number of job vacancies in London has continued to recover in recent weeks, to stand at just under 170,000 openings. This is about 60% more job vacancies than at the end of 2020, though the number of vacancies remains 14% lower than in mid-March 2020, before the first coronavirus-related lockdown. In contrast, in the rest of the UK, the number of job vacancies is now 19% higher than in mid-March 2020.

Figure 5: Job vacancy numbers in London



Source: Adzuna, SMF analysis

Figure 6: Job vacancy numbers - % difference compared with 15th March 2020

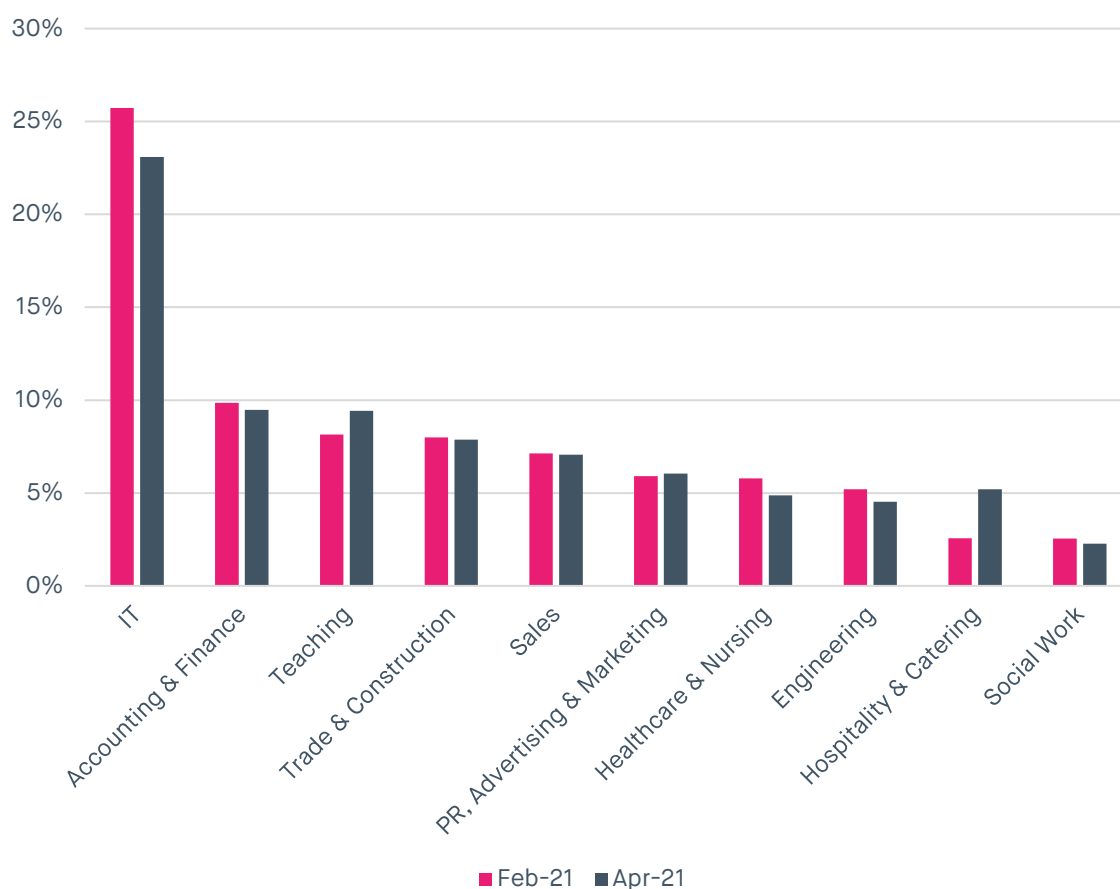


Source: Adzuna, SMF analysis

While growth in the number of job vacancies in London raises the prospect of an improving labour market as lockdown gradually eases, there is likely to be a significant skills mismatch between the newly jobless, and the types of job vacancies available. While sectors such as retail and hospitality have seen the most coronavirus-related job shedding³, most vacancies in the capital are in relatively higher-skill sectors such as IT, finance and education. A focus on reskilling and adult education will be essential to ensure those out of work can acquire new employment.

Having said that, there are signs that the easing of lockdown is translating into more job opportunities in the hospitality sector. While hospitality accounted for 2.6% of all job vacancies in London in February, this has doubled to 5.2% in April.

Figure 7: Top 10 sectors in London, in terms of number of job vacancies, February 2021 and April 2021. % of all job vacancies in the capital



Source: Adzuna, SMF analysis

CHAPTER FOUR – WHAT DO ZOOM, ONLINE SHOPPING AND REDUCED TOURISM MEAN FOR JOBS IN THE CAPITAL?

The coronavirus pandemic looks set to permanently change the nature of work in the UK, even as restrictions on our lives fade away. This will have implications for the number and nature of jobs in London, particularly Central London.

While the shift towards online retail has been going on for years, COVID-19 appears to have accelerated the shift away from “high street” shopping. Research by Retail Economics suggests that around a third of British consumers think that the way they shop will change permanently as a result of the pandemic⁴, with new spending habits formed over the past year.

Across the country, this trend raises the prospect of shop closures and associated job losses. In theory at least, Central London’s retail sector may be well-placed to survive or even thrive even with increased internet retail – given the “experience” of shopping in destinations such as flagship stores on Oxford Street and Regent Street.

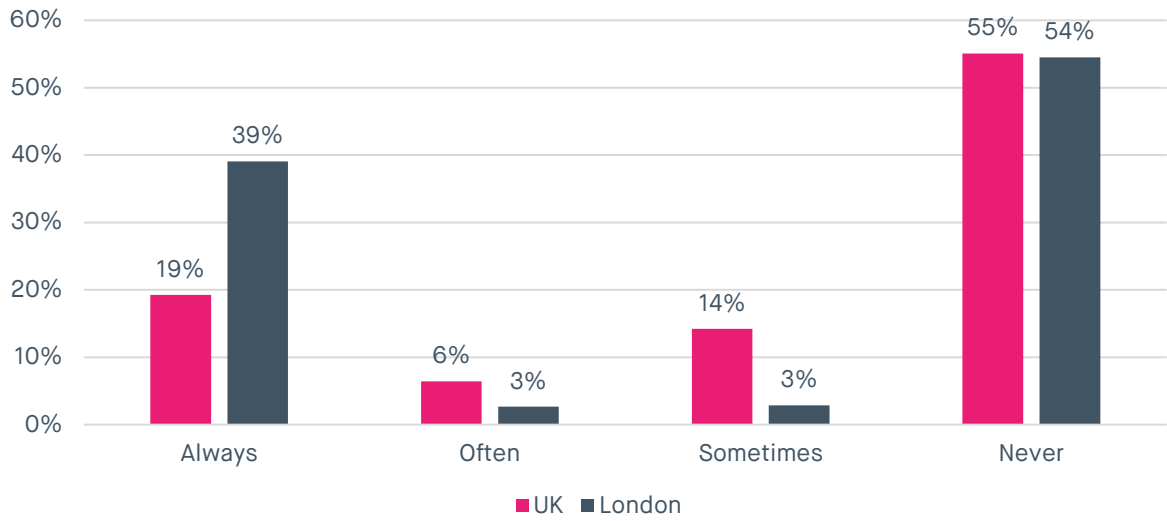
However, in the short-to-medium term, these parts of London face another challenge: reduced spend by international tourists. It is expected that the pandemic, and its economic fallout, will see international travel suppressed until 2024 or even 2025.⁵ Prior to the pandemic, tourists accounted for under half (46%) of retail spend in London’s West End⁶, highlighting how exposed retail jobs in the capital are to reduced travel into the UK.

As well as reduced tourist footfall, the capital’s businesses may also need to grapple with fewer commuters in Central London, with associated reductions in spend in sectors such as hospitality and retail. City Hall has estimated that commuter spending in Central London fell by close to £2bn in 2020 - £1.4 billion from commuters living in London and £0.5 billion from those outside.⁷

The pandemic has seen huge numbers of businesses embrace en masse remote working for the first time, more often than not with no detrimental impact on productivity. Office for National Statistics data from last year showed that, of businesses that had more staff working from home during the pandemic, 64% experienced an increase in or no impact on productivity.⁸

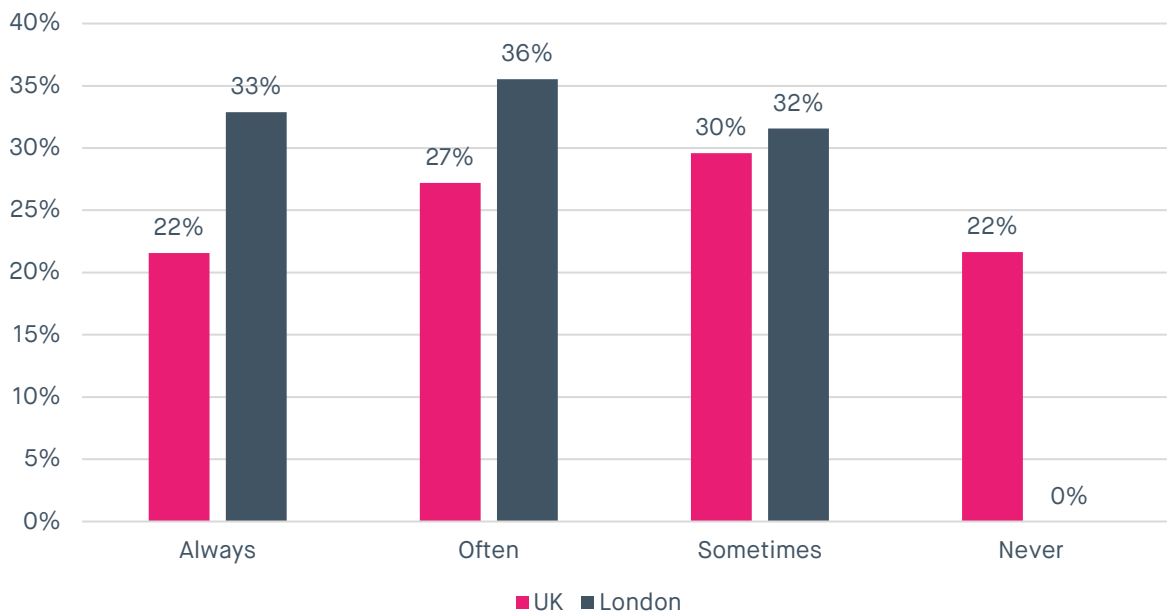
Given this, greatly increased rates of remote working look set to stay, even as the restrictions on office work and social distancing requirements are removed. Recent research by the Chartered Institute of Personnel & Development (CIPD) found that some 40% of employers expect more than half their workforce to work regularly from home after the pandemic has ended.⁹ A study by Kings College London found that about a third (31%) of Londoners think they will do less travelling to work than they used to, higher than the 23% seen for the UK as a whole. SMF analysis of the Understanding Society survey shows that, during the pandemic, Londoners are much more likely to have been always working from home – suggesting the capital is most exposed to the implications, both positive and negative, of more remote working. Our analysis also suggests that Londoners are more likely to prefer working from home than the rest of the country.

Figure 8: Frequency of working from home, by % of residents who are employed/self-employed and not furloughed



Source: *Understanding Society COVID-19 Special (September 2020), SMF analysis*

Figure 9: Future preferences about working from home, by % of residents who are employed/self-employed and not furloughed

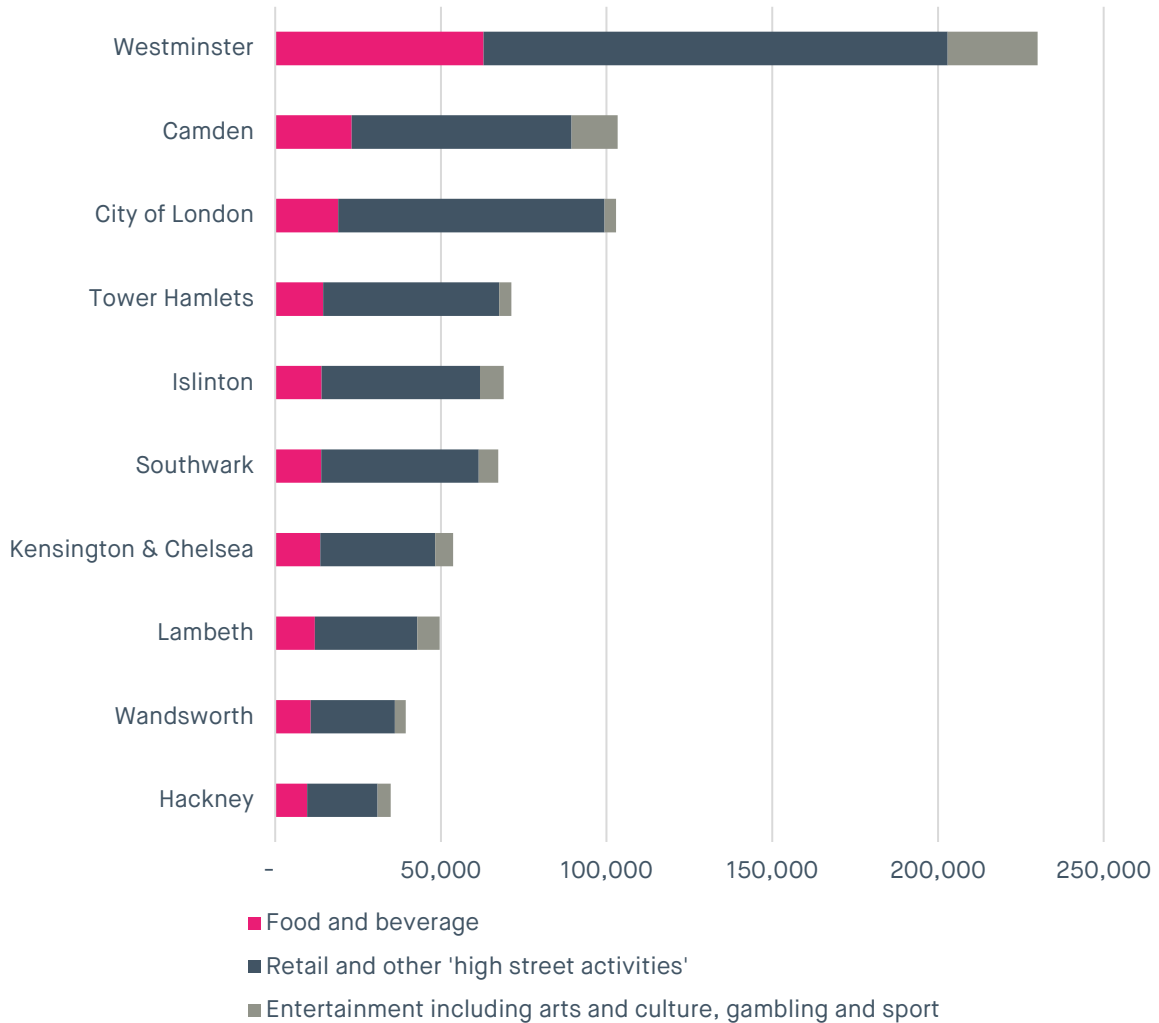


Source: *Understanding Society COVID-19 Special (September 2020), SMF analysis*

What are the implications for jobs in London?

Reduced commuter footfall, tourism and the shift towards online shopping could lead to significant job losses in “face-to-face” industries such as retail, hospitality and arts & culture. We estimate that such sectors prior to the pandemic accounted for over 800,000 jobs in Central London, with the borough of Westminster particularly exposed to these trends in terms of absolute number of face-to-face jobs.

Figure 10: Number of jobs employed in the face-to-face sector in London’s Central Activity Zone (CAZ)



Source: Business Register and Employment Survey, 2019

However, face-to-face job losses in Central London could be partially offset by job creation elsewhere. For example, while increased rates of remote working may reduce spending by commuters in Central London, such individuals may instead spend money in their local neighbourhood, creating jobs there in sectors such as hospitality. Similarly, while the shift towards online retail will reduce employment in shops, it creates job opportunities in sectors such as distribution and logistics. It remains to be seen whether emerging trends will be a net positive or negative for employment in London, but it seems highly likely that the location of jobs, and the sectors in which they are based, will change.

CHAPTER FIVE – COST OF LIVING DURING THE CRISIS

Lastly, this chapter presents the findings of analysis of living costs in London, particularly with respect to relatively lower income residents living in social housing.

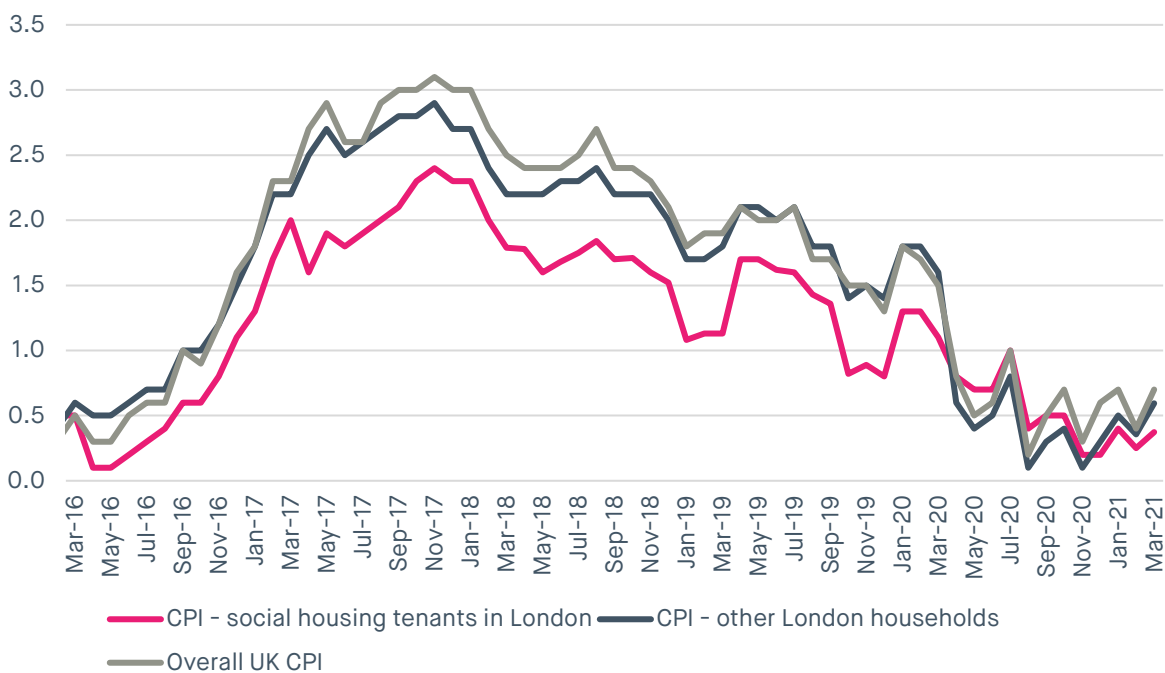
This analysis is based on analysis of a range of datasets, including the ONS Living Costs and Food Survey, ONS Family Resources Survey, ONS labour market and inflation statistics and rental data from the Greater London Authority.

Cost of living during the crisis

Annual cost of living inflation for social housing tenants in London remained low in March 2021, standing at 0.4%. This was slightly lower than the 0.7% seen for all UK households.

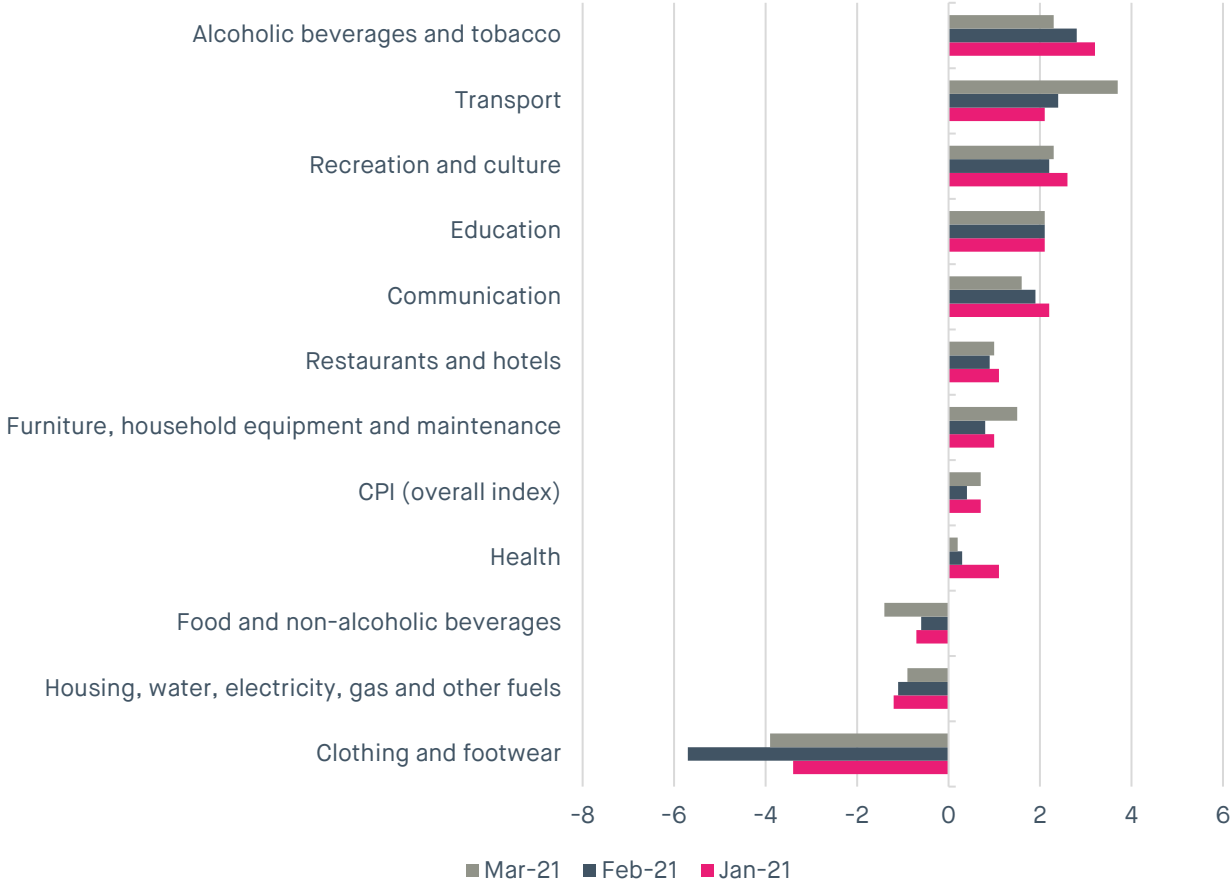
This reflects falling prices for essential goods, which account for a greater proportion of spending among lower income households. ONS data show that in March food, energy and clothing prices were lower than a year ago.

Figure 11: Estimated cost of living inflation, London social housing tenants versus UK CPI, %



Source: ONS, SMF analysis

Figure 12: Annual change in consumer prices, %



Source: ONS, SMF analysis

ENDNOTES

¹<https://news.sky.com/story/coronavirus-crisis-where-jobs-have-been-lost-across-the-uk-12029604>

² <https://www.resolutionfoundation.org/publications/the-truth-will-out/>

³<https://news.sky.com/story/coronavirus-crisis-where-jobs-have-been-lost-across-the-uk-12029604>

⁴<https://www.retailconomics.co.uk/white-papers/economic-outlook-for-the-uk-retail-industry-and-the-impact-of-covid-19>

⁵<https://travelweekly.co.uk/news/air/europe-to-remain-aviations-worst-affected-region-warns-airports-chief>

⁶ <https://www.knightfrank.com/research/article/2020-08-14-london-for-once-the-laggard>

⁷ <https://www.london.gov.uk/press-releases/mayoral/central-london-tourist-spending-to-drop-by-109bn>

⁸

<https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/coronavirusandtheeconomicimpactsonteuk/8october2020>

⁹ <https://www.cipd.co.uk/knowledge/fundamentals/relations/flexible-working/planning-hybrid-working#gref>