Forecasting the Impact of Covid-19 on London's Unemployment Rates

London's employment levels have been disproportionately impacted by the Covid-19 pandemic. That is why London Councils commissioned the economic consultancy Volterra to answer the question: "What will unemployment in London look like in the future and how will this differ among different sub-groups of London residents?" This briefing summarises the research findings.

Background

The pandemic has driven unemployment levels up in London, impacting London's labour market disproportionately compared to other UK regions. For the three months ending February 2021 (the latest available figures), the UK employment rate was 4.9 per cent and London's was 7.2 per cent (the highest rate among UK regions).

London also remains the region with the largest proportion of claimants on Universal Credit (19 per cent of all claims nationally) and with the highest redundancy rate (10.7). As of 31 March there were also 654,600 furloughed employments in London – a take up rate of 16 per cent, which is the highest among UK regions.

To address the impact of the pandemic on the capital, London Councils is working with the GLA on developing a mission-based recovery programme, alongside other key stakeholders. One of these missions is: 'Helping Londoners into good work' - Support Londoners into good jobs with a focus on sectors key to London's recovery.

London Councils and the GLA are currently undertaking some high-level mapping of current employment and skills provision across the capital. A key aim is to establish whether existing provision is still suitable for the characteristics of London's unemployed population and whether there are gaps in provision for key groups. It is also important to understand the likely change in the scale of demand for employment services.

The aim of this project was to answer these questions by modelling the likely volume and characteristics of unemployed Londoners in the short term (up to April 2021) and the medium term (up to September 2022) at a pan-London, sub-regional and, wherever possible, borough level.

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The results will inform the action plan for the Good Work Mission. It will also help inform London Councils' on-going discussions with the government on their programmes under the Plan for Jobs, including Kickstart and Restart, and if this will prove a suitable and adequate response to the challenges of London's labour market. The borough-level data should help boroughs plan their own employment services, where these exist.

> In terms of recovery, in the core scenario, the unemployment rate is forecast to return to the pre-crisis level in 2024

Analysis

A forecast based approach

To understand how unemployment in London will look like in the future, three economic forecasts looking at unemployment levels were produced – best-case, core and worst-case. The forecasts extend to both the short-term (until April 2021) and the medium-term (September 2022). The forecasts were then disaggregated by geography (SRP and boroughs) and demographic characteristics (age, disability, gender, qualifications, ethnicity) where the data allowed this.

Data and underlying assumptions

Volterra has produced sets of forecasts for two unemployment indicators – Office for National Statistics (ONS) Labour Force Survey (LFS) and the Alternative Claimant Count (ACC). Due to data availability on existing public forecasts and historic recessions, the LFS-based forecasts are considered more refined and are used in the most parts of this briefing. ACC data is, however, better to understand short-term changes in the labour market and to describe the relative unemployment position between small areas.[1] Hence, it is also mentioned when appropriate.

The key forecasting assumptions include the estimated time for unemployment to peak and at what rate, the estimated recovery rate, as well as distribution over time. These assumptions are based on various external forecasts, including those produced by the Bank of England (BoE), the Office for Budget Responsibility (OBR) and the Organisation for Economic Co-operation and Development (OECD). There is also an assumption about length of the Coronavirus Job Retention Scheme (CJRS), which was announced during the Spring Budget as the end of September 2021.

Unemployment projections at a pan-London level

LFS data: In the 2008/09 recession, unemployment peaked at 10.5 per cent in London at the end of 2011, and then took a further 14 quarters (until 2015) to return to pre-recession levels. The LFS unemployment rate in London is forecast to rise to 9.4 per cent (464,000 people) in December 2021 in the core scenario, 1.1 percentage points below the 2011 quarterly peak. However, the worst-case LFS scenario predicts a peak in February 2022, with an overall of 580,000 (11.8 per cent) unemployed Londoners.

In terms of recovery, in the core scenario, the unemployment rate is forecast to return to the pre-crisis level in 2024, amounting to a total period of approximately 4 years. This is a much faster return to pre-crisis trend that was recorded in the previous recession (7 years).

ACC data: The forecast number of peak claimants in the core scenario is 671,000 (10.9 per cent). The worst-case scenario reaches an overall of 840,000 unemployed Londoners or 13.6 per cent.

The geographic impact of unemployment across London (regions)

- In absolute terms, **Central London Forward (CLF)** will be home to the most unemployed people, estimated at 169,000 in Dec-2021 (core scenario). Unemployment amongst CLF residents is predicted to both rise and recover the fastest, due to expected recovery in job postings likely to be taken by these residents in the economic recovery.
- It is **Local London (LL)**, however, where the unemployment rate (peaking at 9.6 per cent) is predicted to remain persistently high for longest.

1. For more information about the differences between LFS and ACC data, please refer to ons.gov.uk

- In relative terms, the **West London Alliance (WLA)** is expected to be the hardest hit, with a peak unemployment rate of 10.4 per cent (113,000 unemployed residents) in December 2021.
- **South London Partnership** has the lowest levels of unemployment, a trend which is forecast to continue (with peak rates of 7.6 per cent in the core scenario or 48,000 people).

> **The 16-24 age group is forecast to be the hardest hit, making up around a third of unemployed Londoners**

The geographic impact of unemployment across London (boroughs)

In relative terms, Waltham Forest (15 per cent), Westminster (14.2 per cent), Brent (13.7 per cent), Newham (12.8 per cent), Lambeth (12.6 per cent) and Hillingdon (12.6 per cent) are forecast to have the highest peak unemployment rate in December 2021.

In absolute terms, Lambeth (26,000), Newham (25,300), Brent (23,300) and Waltham Forest (22,700) are forecast to have the highest number of unemployed people in December 21.

The demographic impact of unemployment across London

- **Age:** The **16-24 age group** is forecast to be the hardest hit, making up around a third of unemployed Londoners (147,000 in Dec-21 according to the core scenario). More than 45,000 will live in each of LL and CLF. This age group is however the least likely to be furloughed. 31 per cent of those furloughed are **aged 35-49.** The **older age group (50+)** is at most risk of scarring. The model predicts that 14,000 Londoners in this group may drop out of the labour market and so are not captured by employment statistics.
- **Qualifications:** Londoners with lower levels of qualifications are much more vulnerable to becoming unemployed as a result of the economic downturn. Unemployment rates for NVQ1 or NVQ2 (only) qualified residents are forecast to reach three to three and a half times the unemployment rate for residents with NVQ4+ qualifications at peak.
- **Gender:** Male Londoners typically have higher unemployment rates than females, apart from in WLA where females have historically recorded higher unemployment rates. Male unemployment rates will peak at above 11 per cent in LL and CLF. WLA is the only SRP where the peak rate for females (10.1 per cent) exceeds 10 per cent. In work inequality and the potential for in-work poverty remains a persistent issue for female Londoners, however.
- **Ethnicity:** Ethnic minorities will experience higher unemployment rates. Ethnic minorities in CLF (14.9 per cent) and SLP (13.3 per cent) will experience higher disparity compared to white residents in the same geographies (6.9 per cent and 5.3 per cent respectively). However, this reflects historic disadvantages rather than being caused by the crisis. Pakistani/Bangladeshi and Black/Black British appear to be the worst hit ethnic groups by Covid-19 so far.
- **Disability:** LL is forecast to be the worst affected SRP with respect to unemployment amongst disabled residents, with a peak rate of 12.4 per cent in the core scenario.

Commentary

The research illustrates the scale of the unemployment challenge for London in short term, and even more so in the medium term when the CJRS comes to an end. This will put an additional strain on London boroughs, 88 per cent of which are providing employment support services without having the statutory obligation to do so.[2]

The capacity of boroughs' employment support services largely varies, and many boroughs identify funding as a major challenge for running those. Furthermore, some of the most common sources of funding for these services are Section 106, which the government suggested replacing with an Infrastructure Levy, and the European Social Fund (ESF) which will come to an end in 2022.

The newly announced government's Restart scheme targeting the long-term unemployed is a welcome initiative which is expected to absorb some of the pressure from London's labour market. However, the scheme won't be up and running until mid-July 2021 and it will

2 London Councils, Survey of boroughs' employment and skills services, December 2020.

undoubtedly take a while for providers to familiarise themselves with the local labour market in order to be able to provide a more tailored support to residents.

> "Londoners with the lowest levels of qualifications are more susceptible to unemployment as a result of the pandemic"

The research also showed that the severity of unemployment, the groups affected and the timescales for recovery vary quite significantly between boroughs and sub-regions. Therefore, there is a need for more flexibility to allow for these differences in the response to the economic recovery and in any pan-London employment and skills programmes.

London Councils originally proposed to DWP that Restart should be devolved to London boroughs in order to allow for such flexibility, but the government opted for a centralised programme. However, it is encouraging to see that the scheme will be delivered in manageable Contract Package Areas (CPAs) – two in London aligned to existing sub-regional partnerships - and that London sub-regions have been actively involved in the procurement process. London Councils will continue to work closely with sub-regions and DWP to share best practice and make suggestions to improve the scheme.

The research also showed that certain demographic groups, such as the 16-24-year-olds, ethnic minorities and those with lower qualifications, have been more severely affected by the crisis than others.

It is welcome to see that the government has introduced employment support schemes to support some of these groups. For instance, government's Kickstart scheme is a welcome initiative which provides funding to employers to create job placements for 16-24-year-olds on Universal Credit. However, Kickstart is unlikely to benefit those young people who are furthest away from the labour market and at greatest risk of long-term unemployment, such as disabled young people and those with Special Educational Needs.

There is also a gap in support for other groups. For instance, Londoners with the lowest levels of qualifications are more susceptible to unemployment as a result of the pandemic, with a concentration of lower qualified workers in some of the key sectors negatively impacted by the crisis like retail, accommodation and hospitality. This gap can be addressed by bringing together the employment and skills systems and adopting a 'no wrong door' approach to provision.[3]

Integrating these systems with other borough services such as welfare and housing can also help support people furthest away from the labour market who are facing multiple barriers to employment. London Councils will continue to work closely with colleagues from the GLA, and other sub-regional and borough stakeholders, to make sure there is 'no wrong door approach' for Londoners by conducting research and stakeholder engagement, developing a digital employment and skills offer and enhancing practitioners' support.

3 According to the Good Work mission, for Londoners, a No Wrong Door (NWD) approach would mean that no matter what their starting point or which service they access first, they will be connected to the right type of support, at the right time, to help them on their journey to good work.

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Links:

A detailed study of unemployment in London (full report)

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Portfolio holders and those members who requested policy briefings in the following categories: Economic Development