

Written evidence submitted by University of Portsmouth (COV0124)
LOCAL AND REGIONAL IMPACTS ON UNEMPLOYMENT OF THE COVID-19
RESTRICTIONS IN THE UNITED KINGDOM

Summary

- Claimant unemployment for April 2020, published on 19th May, is the first labour market data available covering the period since the Covid-19 lockdown, so it is important to quickly record and analyse the scale of the impact on employment and its unequal local and regional impacts.
- The Covid-19 restrictions in the UK have led to an unprecedented monthly rise in claimant unemployment, which increased by 70% from 1.2 million to 2.1 million between March and April 2020. This represents two in every 100 people of working age moving onto unemployment-related benefits in a single month.
- The unemployment impact is locally and regionally imbalanced, although everywhere is badly affected. Seaside towns, rural coastal areas, and the north and southwest of England have seen the largest increases.
- Places with the weakest economies prior to the lockdown have been hardest hit, underlining the importance of a rebalancing the UK economy to support recovery and build economic resilience in the long term.
- Low shares of employment in the most locked down sectors generally has a much smaller effect in protecting against rises in unemployment compared to the general strength of the local economy. However, the hardest hit places often have *both* weak economies *and* adverse sector mixes, mainly seaside towns.
- An important question for future research is which places have the greatest capacity to recover after the lockdown is eased. Tourism may recover quickly, but other sectors may face longer declines in demand for products and greater start-up costs, with knock-on consequences for their wider local and regional economies.
- The economic impact of Covid-19 will place a huge pressure on public finances. However, the geographical imbalance in its impact requires spending on local and regional economic and infrastructure development to increase, not decrease.

Introduction

As in a number of countries around the world, the United Kingdom (UK) introduced severe restrictions on social contact and travel in response to the spread of the Covid-19 virus. Since late March 2020, non-essential activities and travel have been forbidden and employees required to work from home if possible. Some workplaces are permitted to operate with 'social distancing' measures in place, which often means reduced workforces, and many face substantial drops in demand, disruption to supply chains and staff working from home and/or taking leave to look after children while schools are closed. Although the UK Government has introduced unprecedented emergency financial support measures for businesses and self-employed persons, this can only go so far to save jobs and businesses.

This article reports analysis of the scale of the impact of the Covid-19 restrictions on unemployment in the UK, and how the impact varies across local and regional economies. The UK economy was regionally imbalanced prior to the Covid-19 restrictions, leaving weaker local and regional economies potentially less able to withstand, and in the longer term recover from, the Covid-19 restrictions. The aim of this article is to report the local and regional pattern in the large increase (+70%) in claimant unemployment recorded in the UK in the first month since the Covid-19 restrictions were in place (April 2020).

Claimant unemployment is only part of the economic impact of Covid-19, with many not eligible for benefits, retaining employment but with reduced hours, or 'furloughed' in the Government's Job Retention Scheme (retaining employment but not working and having 80% of wages paid by the Government). However, claimant unemployment for April 2020 is the first labour market data available covering the period since the Covid-19 lockdown, so it is important to quickly record and analyse the local and regional patterns revealed.

Places with large economic sectors most acutely affected by the Covid-19 restrictions are likely to be hardest hit during the restrictions. Business activities that are non-essential and cannot be delivered online from workers' homes could be expected to be worst affected, for example tourism and hospitality. Some places and sectors will be able to withstand the restrictions for longer, in particular those with more profitable or productive businesses that may have more reserves and credit rating.

Longer term recover after the restrictions are gradually lifted are likely to be affected by ability to adapt to new business opportunities and ways of working, the skills and health of workforces, and local and regional infrastructure endowments. In normal circumstances, weaker local economies tend to be hit harder and for longer by economic recessions. The local and regional economic impacts of the Covid-19 restrictions are not likely to be different. However, as with most recessions, the Covid-19 recession will have its own distinct geographical and sectoral flavour, with particular places and sectors more acutely hit, and less able to recover, than others.

The UK Government has stated its commitment to rebalance the UK economy across all regions in the UK Industrial Strategy 2017 and the Northern Powerhouse initiative. It is therefore important to investigate the social and geographical patterns of economic vulnerability to the Covid-19 restrictions.

On 19th May 2020, the UK's Office for National Statistics (ONS) released the first labour market data for a full calendar month in which the Covid-19 restrictions were in place: specifically, the unemployment benefit 'claimant' count for April 2020. The Covid-19 restrictions had only been in place for a couple of weeks prior to the start of April, so it is of course far too early to quantify the

full impact on employment, which will take some time to occur. However, the release of these data represents the first evidence capable of revealing the local and regional patterns of the employment impact of the restrictions. These patterns are likely to widen during the unemployment pandemic and subsequent recovery, making their early identification all the more important.

What is the 'claimant' count and was it going up or down before Covid-19?

Claimant unemployment, or the 'claimant count', refers to those in receipt of state benefit due to unemployment. In the six months leading up to the Covid-19 pandemic, claimant unemployment had stabilised at around 1.2 million or three percent of the working age population (age 16-64)¹, suggesting we can confidently attribute most or all of the March-April rise to the Covid-19 restrictions.

The claimant count comes with some limitations if it is to be used as a measure of unemployment. In particular, the claimant count is influenced by benefit eligibility and propensity to claim. Not everyone who is unemployed is eligible for state benefits, for example due to National Insurance contributions, savings or their partner's income. Not everyone entitled to claim does so, for example due to self-pride or not facing an immediate financial need, e.g. those with an employed partner or young people living with their parents. The 'claimant' count therefore underestimates the true level of unemployment.

Nevertheless, the gradual replacement of Job Seekers' Allowance (and other benefits) with Universal Credit across the UK has extended the range of benefit claimants who are required to search for work and thus be recorded as 'claimant' unemployed. As such, the gap between claimant unemployment and official surveyed 'ILO' unemployment² has markedly narrowed since the introduction of Universal Credit. At the beginning of 2017, claimant unemployment among the working age population was markedly lower than ILO unemployment (1.9% claimant versus 3.7% ILO) but by the end of 2019 the gap had shrunk to only 0.2% (3.0% claimant versus 3.2% ILO)³. However, the two measure slightly different things and membership of one group does not necessarily imply membership of the other. Despite its imperfections as a measure, the claimant count is nevertheless indicative of some broad patterns and trends in unemployment.

Claimant unemployment rose steadily from 1.8% in February 2017 to 2.9% in October 2019, mainly due to the gradual rollout of the new 'Universal Credit'. In the six months leading up to the Covid-19 restrictions between October 2019 and March 2020, the rate of increase in claimant unemployment rose only very slowly, from 2.9% to 3.0% of the working age population.

The March 2020 figure was virtually identical to the preceding February (increasing by less than 6,000), suggesting that the Covid-19 restrictions introduced in late March did not feed through to claimant unemployment until April. The stability in the monthly claimant count leading up to, and including, March 2020 means that most or all of the large increase observed in April 2020 can be attributed with a high degree of confidence to the Covid-19 restrictions.

¹ Office for National Statistics Seasonally Adjusted Claimant Count.

² The 'ILO', or International Labour Office, definition of unemployment is currently not in employment, searching for work and available to start work; in the UK, 'ILO' unemployment is captured in the Annual Population Survey and Labour Force Survey.

³ Office for National Statistics, 'Claimant Count' and 'Labour Force Survey National & Regional Indicators', accessed via [Nomis](#).

The national picture and recent historical context

Previous economic crises in the UK have seen unemployment rise sharply and remain high for a number of years, usually over five years. So far, the Covid-19 lockdown is producing a far steeper rise in unemployment than produced by other external 'shocks' or recessions. However, unlike previous economic crises, the cause of the Covid-19 economic slowdown is not linked to economic or financial conditions. On this basis, it is likely that recovery may also be relatively rapid, although this depends on how long the severest restrictions are in place. The more businesses that fold, the slower the recovery is likely to be.

The restrictions to control the Covid-19 pandemic led claimant unemployment in the UK to increase from 1.2 to 2.1 million in a single month between March and April 2020 (Figure 1). This represents an increase of 70%, dwarfing all previous monthly rises, including in the aftermath of the Global Financial Crisis of 2008 and the OPEC oil crisis of 1973. Seasonally-adjusted claimant unemployment rose from 3.0% to 5.0% of the working age population (those aged 16-64). This means that two in every 100 people of working age started claiming unemployment-related benefits in a single month.

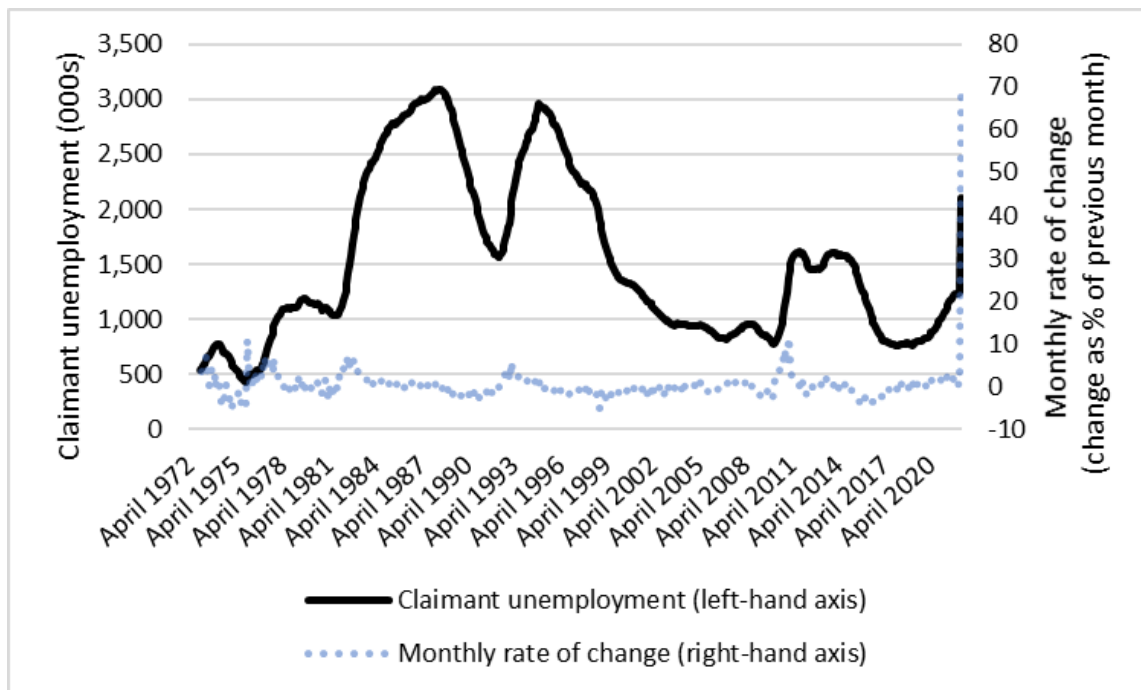
In recent historical context, April 2020 claimant unemployment of 2.1 million represents a moderate level of unemployment, although the highest in almost quarter of a century. Subsequent months are likely to record further large increases while the Covid-19 restrictions remain in place, so April's 2.1 million may be the tip of the iceberg.

Deep recessions in the early 1980s and again in the early 1990s saw claimant unemployment peak at around three million, representing over eight percent of the working age population in December 1992. The unemployment 'pandemic' of the early 1980s was both high and prolonged, with claimant unemployment above two million for nearly eight years. The early 1990s saw a second peak almost as high as in the early 1980s but of slightly shorter duration, with claimant unemployment above two million for five-and-a-half years. Claimant unemployment took until 1997 to fall back to the level it was at before its rise commenced in 1990. Over the next decade leading up to the Global Financial Crisis, unemployment fell somewhat less sharply and then levelled off at just below one million or slightly over two percent of the working age population.

The Global Financial Crisis in 2008 did not cause mass unemployment on the scale of previous recessions, rather affecting wage growth. However, following the crisis claimant unemployment doubled from 0.8 to 1.6 million in just over a year, and remained over one million for almost six years until the middle of 2014.

The lessons of the recent past suggest that a peak in unemployment is likely to take at least five years to come down to a more typical level. The rate of the increase in the Covid-19 unemployment pandemic in its first month dwarfed any previous monthly increase following other external shocks or recessions, which suggests we can expect a large peak to come. The speed of recovery depends on how long the severest restrictions are in place and how long business support measures can be maintained.

Figure 1. Claimant unemployment total and monthly rate of change, January 1971 – April 2020



Source: Office for National Statistics Seasonally Adjusted Claimant Count (own calculations).

Regional impact

Recessions generally hit weaker regional economies the hardest and for longest. Weak economies tend to go into decline first and come out last. The first month of the Covid-19 unemployment pandemic conforms to this pattern, although all regions are badly affected.

Prior to the lockdown, the North East of England had the greatest claimant unemployment rate (4.4% of the working age population) and, together with the North West, recorded the joint-highest percentage points increase (2.4% of the working age population). Similarly, at the other end of the scale, and at the other end of the country, the South East of England had the lowest unemployment rate prior to the lockdown (2.1% of the working age population) and the smallest increase (1.7% of the working age population) although this represented a large proportionate rise (83.9% increase) on a lower starting point.

Exceptions to this general pattern are the South West and Northern Ireland which had quite low unemployment prior to the pandemic but recording large increases. In the South West, unemployment almost doubled, from 2.2% to 4.3% of the working age population. Another exception is the West Midlands, which had the second-highest unemployment rate of all regions prior to the lockdown but increased in line with the national UK average. These regional exceptions to the general pattern can be partly explained by how exposed their economies are to the lockdown, for example a large tourism sector in the South West.

Table 1. Claimant unemployment by region, March and April 2020

Region	March 2020		April 2020		Change	
	Number (000s)	% of pop. age 16-64	Number (000s)	% of pop. age 16-64	Rate (%)	% of pop. age 16-64
North East	74	4.4	113	6.8	53.0	2.4
North West	167	3.7	278	6.1	66.5	2.4
Wales	59	3.1	104	5.4	76.2	2.3
Yorkshire and The Humber	116	3.4	190	5.6	64.2	2.2
Northern Ireland	30	2.5	56	4.8	88.2	2.2
Scotland	112	3.2	186	5.3	66.3	2.1
South West	74	2.2	145	4.3	96.8	2.1
West Midlands	144	3.9	216	5.9	50.2	2.0
London	187	3.1	302	5.0	61.8	1.9
East Midlands	79	2.6	135	4.5	70.7	1.9
South East	119	2.1	218	3.9	83.9	1.8
East	89	2.3	155	4.1	74.4	1.7
United Kingdom	1,240	3.0	2,097	5.0	69.1	2.0

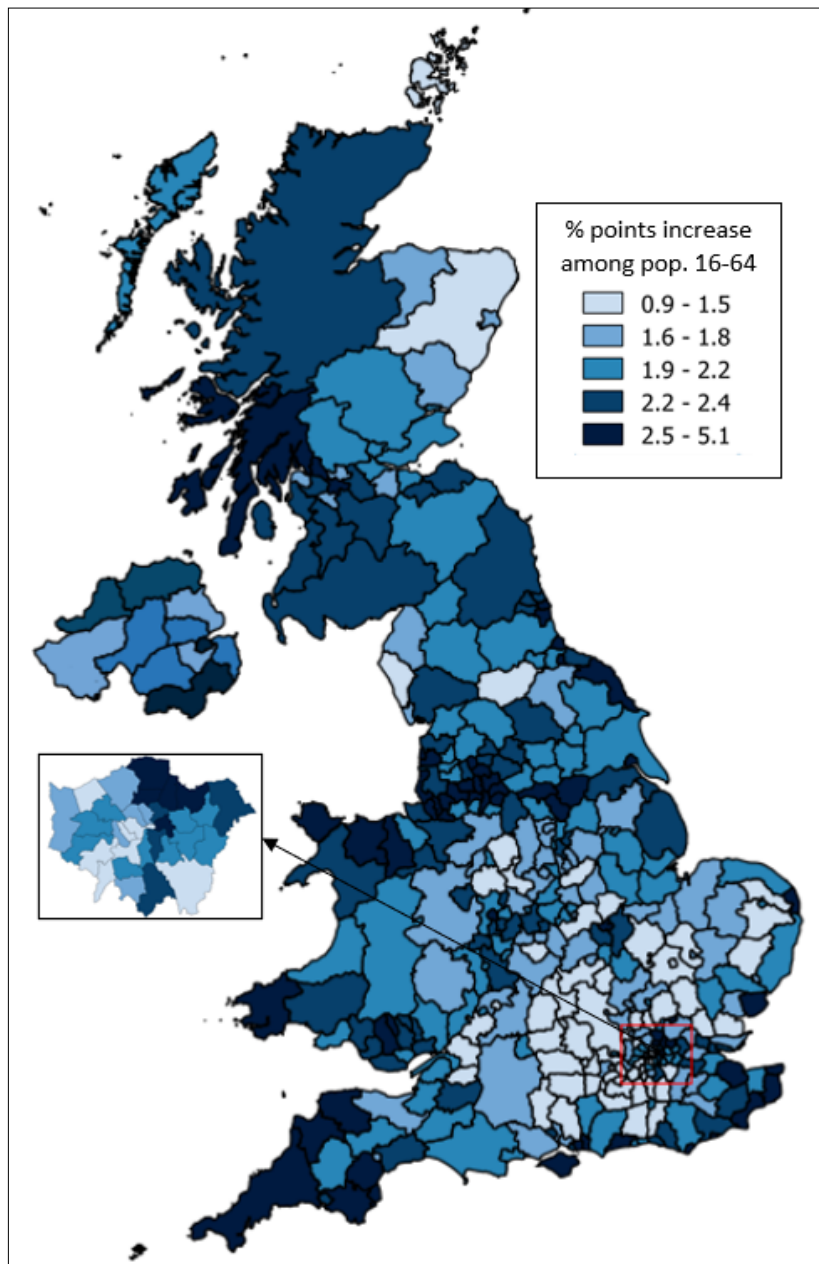
Source: Office for National Statistics Seasonally Adjusted Claimant Count (own calculations).

Local vulnerabilities

The impact of Covid-19 on claimant unemployment rates (Figure 2) ranges from +0.9% points in Cambridge and South Cambridgeshire, to +3.9% in Blackpool where, prior to Covid-19, unemployment was already the second highest (at 7.2% of the working age population) out of 378 local authority areas in the UK⁴. The range between regions (Table 1), while appreciable, was more modest, from +1.7% in the East of England to +2.4% in the North East and North West. As such, some localities are particularly vulnerable to the economic impact of Covid-19.

⁴ The UK had a total of 379 local authority districts or Unitary Authorities as at 1st April 2020; the Isles of Scilly has been excluded from this commentary as it had claimant unemployment of only 10 persons in March 2020 and 75 in April 2020, and these figures are subject to rounding by the Office for National Statistics to ensure claimant anonymity.

Figure 2 Change in claimant unemployment rate, March-April 2020 (% of population aged 16-64)



Source: Office for National Statistics Claimant Count (own analysis), Ordnance Survey Boundary Line and Ordnance Survey Northern Ireland Largescale Boundaries, © Crown Copyright and Database Rights 2020 Ordnance Survey & Ordnance Survey Northern Ireland under University of Portsmouth Education Service Provider License. Shetland Islands (cropped from map) fall in the lowest-increase category.

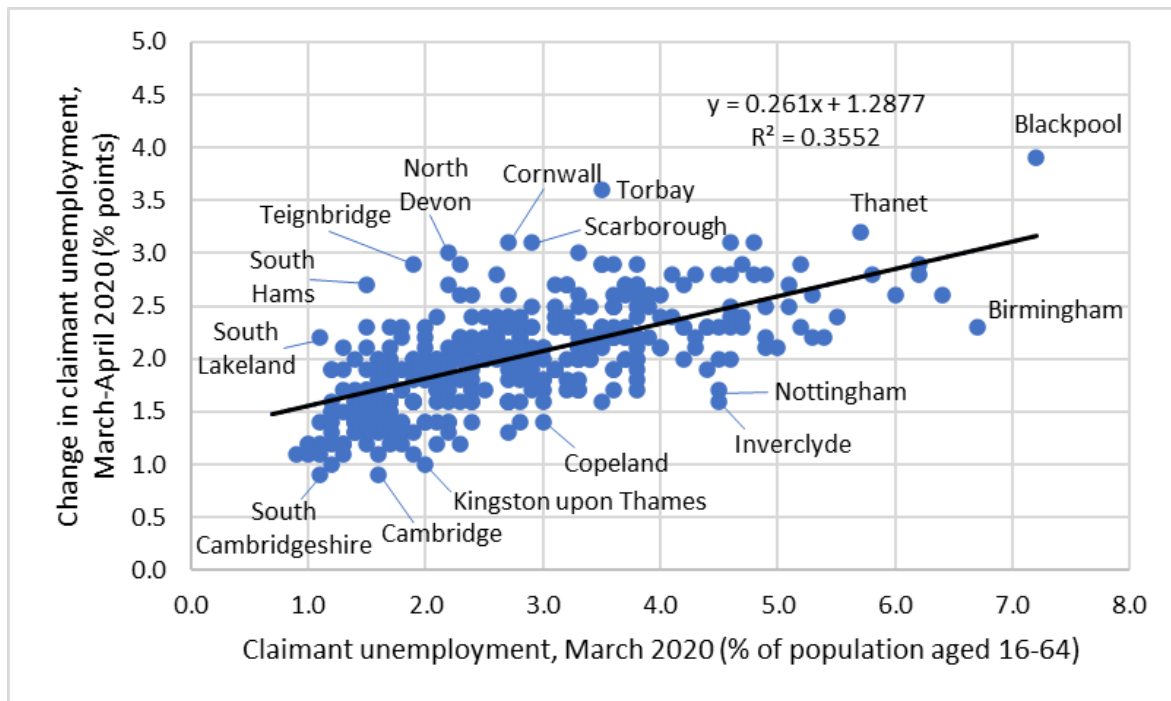
Analysis of the local increase in unemployment is undertaken to assess the impact of two key vulnerabilities. First, the strength of the local economy pre-Covid. Second, the share of employment in sectors most affected by the lockdown.

Vulnerability 1: Strength of the local economy pre-Covid

Underlying local economic strength is captured by the pre-Covid level of claimant unemployment (Figure 3). Unemployment serves as an indicator of the general economic strength of a local economy and the profitability and productivity of the businesses found there, which in turn affect the capacity of businesses to withstand the lockdown.

Across all local areas, there is a relatively strong relationship between pre-Covid unemployment and the scale of the increase following the lockdown (Figure 3). Overall, pre-Covid unemployment predicts 35.5%⁵ of the variation between areas in the scale of the increase. This suggests that the general strength of the local economy prior to Covid-19 is an important factor in explaining the scale of the impact, although it is by no means the only factor. The outliers above and below the 'best fit' line (Figure 3) provide clues as to what else might be affecting the scale of the increase.

Figure 3. Local increase in unemployment according to level of pre-existing unemployment, Local Authority Districts & Unitary Authorities, March-April 2020



Source: Office for National Statistics Claimant Count (own analysis).

The areas above the line in Figure 3 (indicating a greater Covid impact than predicted based on pre-Covid unemployment) are overwhelmingly coastal. Those towards the top right (high unemployment, large increase) are seaside towns with big tourism sectors (e.g. Blackpool, Torbay, Scarborough). Those in the top left (low unemployment, large increase) tend to be affluent rural areas on the coast, but again with substantial employment in tourism and mainly in the South West.

⁵ Indicated by the R^2 value of 0.3552, which reflects (on a 0-1 scale) the extent to which datapoints lie along their 'best-fit' line.

The areas below the line in Figure 3 are more varied. Those in the bottom right (high unemployment, low increase) tend to be in former industrial heartlands (e.g. Birmingham, Nottingham, Inverclyde). Those in the bottom left (low unemployment, low increase) tend to be affluent and/or high-tech and high-productivity (e.g. Cambridge, South Cambridgeshire, Kingston upon Thames).

Vulnerability 2: Share of employment in sectors most affected by the lockdown

The Covid-19 restrictions are an unusual cause of economic slowdown, and vary in the extent to which they 'lockdown' different sectors of the economy. A high share of employment in sectors most affected by the lockdown might therefore be expected to be an important predictor of the impact on unemployment (Figure 4). The share of employment⁶ in sectors most affected by the lockdown⁷ analysed in Figure 3 is based on the sectors identified as such by the Institute for Fiscal Studies⁸.

Across all local areas, there is a surprisingly weak relationship between employment in sectors most affected by the lockdown and the scale of the increase in unemployment following the lockdown (Figure 4). However, an adverse sector mix may act in tandem with a weak local economy, with the hardest hit places often have *both* weak economies *and* adverse sector mixes, mainly seaside towns.

A caveat in comparing the effects of pre-Covid unemployment and sector mix is that the sector-specific employment data relates to the location of workplaces but the unemployment data relates to where people live, and most local authority areas have substantial in- and out-commuting flows. Nevertheless, despite this disjuncture in the data, employment in locked-down sectors predicts only 5.7%⁹ of the variation between areas in the scale of the increase (Figure 4), substantially lower than the 35.5% explained by the underlying strength of the local economy (Figure 3).

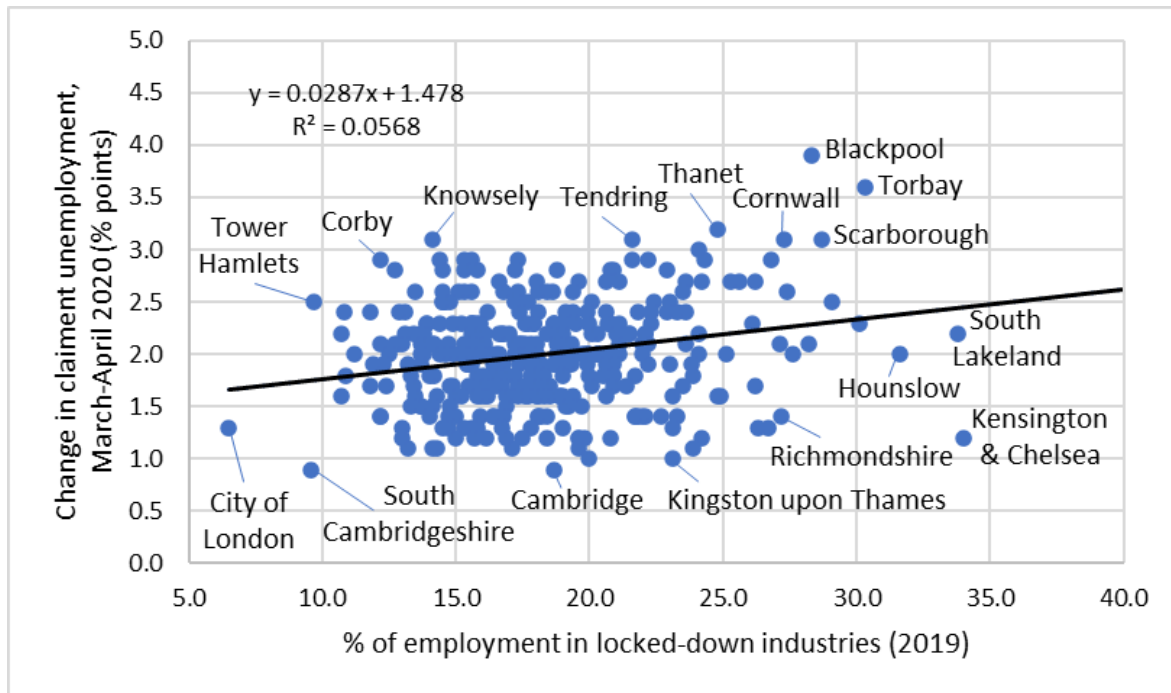
⁶ Based on the workplaces of all employees (excluding HM Forces and Government Supported trainees) and the self-employed registered to pay tax (VAT or PAYE).

⁷ Standard Industrial Classification sectors directly affected by the lockdown (four-digit codes in brackets): Non-food, non-pharmaceutical retail (4719, 4730-4772, 4776-4799); passenger transport (4910, 4931-4939, 5010, 5030, 5110); accommodation and food (5510-5630); travel (7911-7990); childcare (8510, 8891); arts and leisure (9001-9329 except 'artistic creation' 9003); personal care (9601-9609 except 'funeral and related activities' 9603); domestic services (9700).

⁸ Joyce, R. and Xu, X. (2020) *Sector shutdowns during the Coronavirus crisis: which workers are most exposed?* Institute for Fiscal Studies, IFS Briefing Note BN278.

⁹ Indicated by the R² value of 0.0568, which reflects (on a 0-1 scale) the extent to which datapoints lie along their 'best-fit' line.

Figure 3 Local increase in unemployment according to prevalence of locked-down sectors, Local Authority Districts & Unitary Authorities, March-April 2020



Source: Office for National Statistics Claimant Count and Business Register & Employment Survey (own calculations and analysis).

Outliers in relation to the overall relationship with employment in locked-down sectors (Figure 4) show some similarities, but also some important differences, to the outliers based on pre-Covid unemployment (Figure 3). In both cases, large seaside towns (e.g. Blackpool, Torbay, Scarborough) and fragile coastal economies (e.g. Cornwall, Thanet) with high reliance on tourism record greater-than-predicted increases in unemployment. It is possible that this can be explained by knock-on multiplier effects felt beyond locked-down sectors being greater in areas with large shares of employment in locked-down sectors. High-tech and high-productivity areas (e.g. City of London, Cambridge, South Cambridgeshire) once again appear in the bottom-left quadrant, characterised by both low exposure and low impact.

Areas with low exposure to locked-down sectors but greater-than-predicted impact (upper left quadrant) tend not this time to be coastal (as in relation to pre-Covid unemployment), rather weaker former industrial districts (e.g. Corby, Knowsley) and inner city areas with high levels of social deprivation (e.g. Tower Hamlets). Areas with high exposure to locked-down sectors but recording lower-than-predicted impacts tend to be affluent rural areas (e.g. Richmondshire) and affluent London boroughs (e.g. Kensington & Chelsea, Kingston upon Thames).

Conclusions

The data used in this analysis are subject to a number of limitations. Claimant unemployment is only part of the economic impact of Covid-19, with many not eligible for benefits, retaining employment but with reduced hours, or 'furloughed' in the Government's Job Retention Scheme. However, claimant unemployment for April 2020 is the first labour market data available covering the period since the Covid-19 lockdown, so it is important to quickly record and analyse the local and regional patterns revealed.

The Covid-19 restrictions in the UK have led to an unprecedented monthly rise in claimant unemployment, which increased by 70% from 1.2 million to 2.1 million in a single month between March and April 2020. This represents two in every 100 people of working age moving onto unemployment-related benefits in a single month. This increase dwarfs all previous monthly rises, including in the aftermath of the Global Financial Crisis of 2008 and the OPEC oil crisis of 1973.

The impact is locally and regionally imbalanced, although everywhere is badly affected. Places with the weakest economies prior to the lockdown have been hardest hit. The vulnerability of weaker local and regional economies to external shocks underlines the importance of a rebalancing the UK economy to support recovery and build economic resilience in the long term.

In some locations high unemployment pre-Covid has been compounded by a high share of employment in sectors most affected by the lockdown. Seaside towns, rural coastal areas, and the north and southwest of England are particularly affected. Affluent and high-tech or high-productivity areas, and to some extent industrial areas, are least affected.

An important question for future research is which places have the greatest capacity to recover after the lockdown is eased. Tourism may recover quickly, but other sectors may face longer declines in demand for products and greater start-up costs, with knock-on consequences for their wider local and regional economies.

The economic impact of Covid-19 will place a huge pressure on public finances. However, the geographical imbalance in its impact requires spending on local and regional economic and infrastructure development to increase, not decrease. Otherwise, the consequence may be lasting economic destruction and social devastation in vulnerable economies, to the detriment of the national recovery as well as the localities affected.

May 2020