A detailed study of unemployment in London

A report by Volterra Partners LLP for London Councils

March 2021

Volterra

Executive Summary

The aim of the study: forecasting London’s unemployment and its disaggregation among subgroups of residents

London residents as a whole have been disproportionately impacted by the COVID-19 pandemic. This works seeks 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?”*

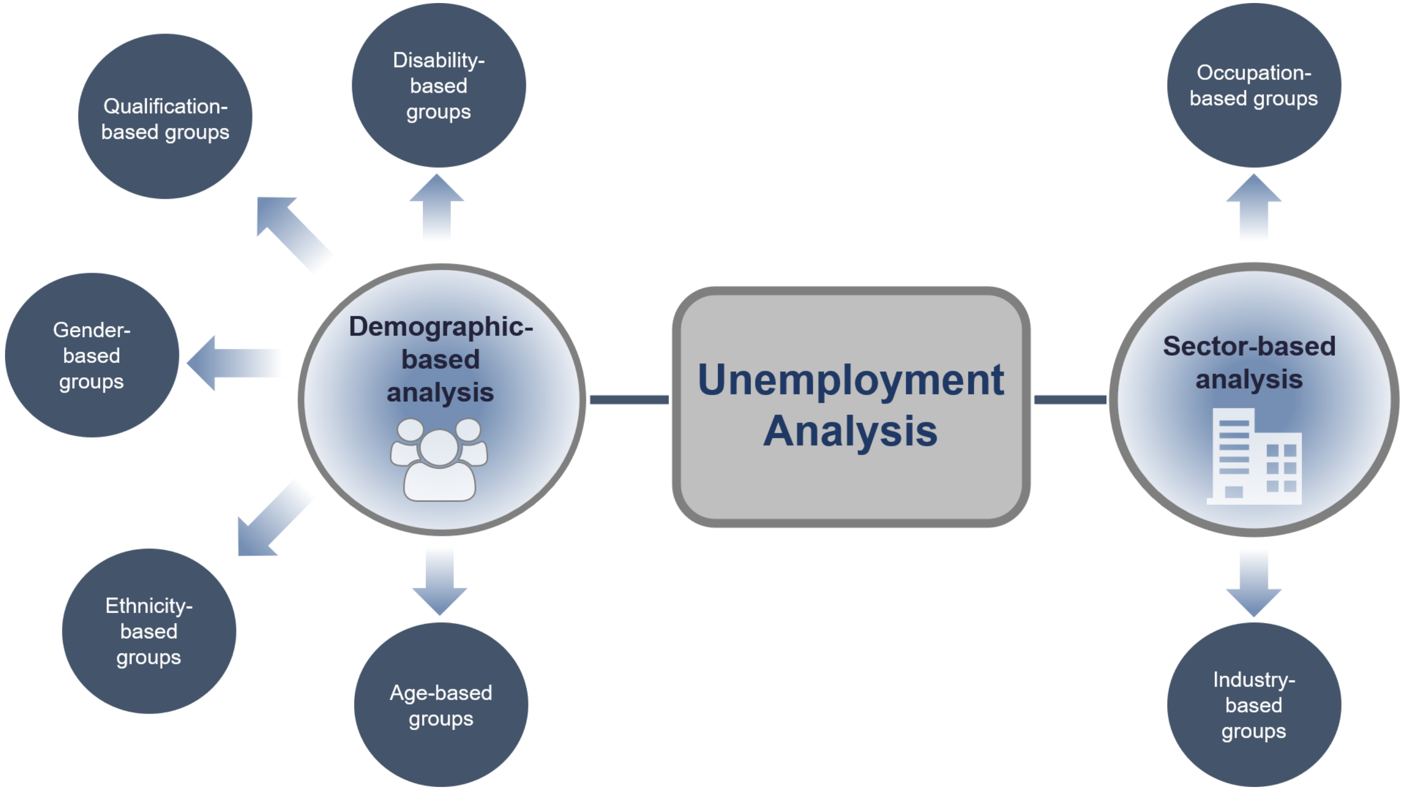
We produce forecasts for two time periods – to April 2021 and to September 2022.

We produce three scenarios – a worst-case, core and best-case. The underlying assumptions vary including: extent of recession (GDP/unemployment growth), speed to peak, what happens after furlough ends, and speed of recovery.

The forecasts are disaggregated by geography (SRP* and boroughs) and demographic characteristics (age, disability, gender, qualifications, ethnicity), as data allows.

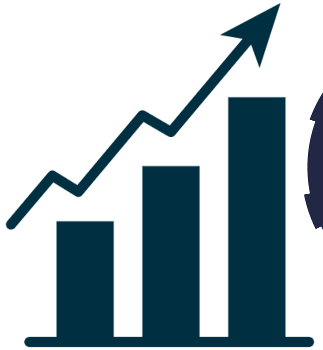
This report produces unemployment forecasts for **London residents**.

Forecasts in each geography therefore relate to the area’s residents, rather than the workforce.



*SRP = Sub regional partnership

Key findings: The outlook for London's unemployment



7 years
to recover
(2008/09)

In previous recessions it has taken a long time for unemployment to peak, and then recover back to pre-recession levels. In the 2008/09 recession, whilst the economic recession had finished by mid 2009, unemployment continued to rise for 14 quarters, stabilised for around a year (a quarterly peak of approximately 10.5% in London at the end of 2011), and then took a further 14 quarters to return to pre-recession levels. **London's unemployment had not recovered fully until 2015 – seven years after** the recession.

London
rate
1-2 pp
higher

This work considers **what unemployment will look like across London's residents** as a result of the COVID-19 pandemic. The UK entered an economic downturn in 2020 as a result of the enforced reductions in economic activity resulting from the constraints placed on the whole of society as a result of the pandemic.

Historically there has always been a differential in London's unemployment rates relative to national levels – London's rate is 1-2 percentage points higher. This had narrowed over the past 5 years, but the rise in unemployment as a result of the current situation has resulted in this gap re-emerging – as of **Oct-Dec 2020 the UK LFS unemployment rate was 5.2% and London's was 7.1%**.

The vast majority of economic forecasters predict that this recession will be short and sharp followed by a similarly short and sharp recovery. The **OBR forecast that England's unemployment will peak at 6.5% in Q4-2021**.

Unemployment peak in Dec-21 at **9.4%**

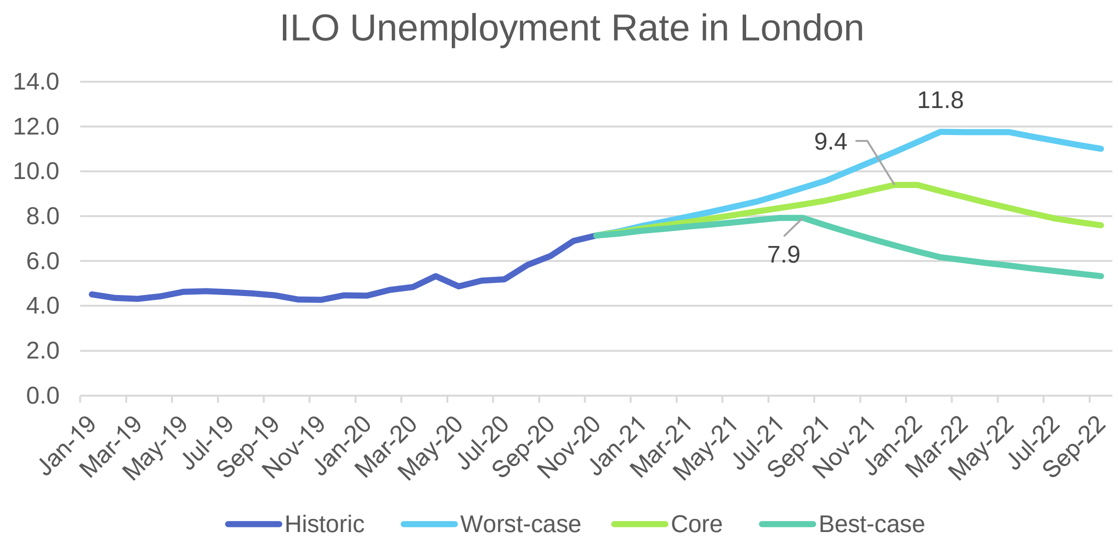
Our core scenario forecasts **London's unemployment** peaking at **9.4%** (464,000 people) in **December 2021.**

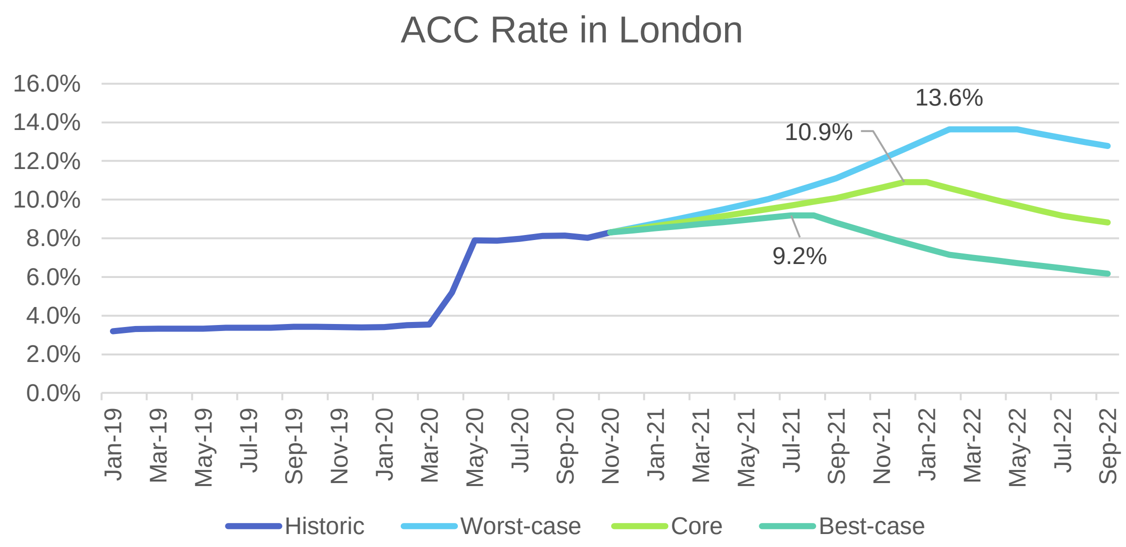
There are many factors which make this recession different from previous ones – the extent of uncertainty around the ability for economies to function is one clear cause of **considerable uncertainty**. The **CJRS (furlough) scheme represents a new challenge for unemployment forecasting** – 17% of eligible London residents were supported on furlough in Jan-21.

17% of Londoners furloughed (Jan-21)

Volterra

Key findings: Peak rates and counts in London





The LFS unemployment rate in London (based on the ILO definition of unemployment) is forecast to rise to **9.4% in December 2021 in the core scenario, 1.1 percentage points below the 2011 quarterly peak**. The period at which the unemployment rate reaches peak varies in each forecasting scenario:

- **Worst-case:** unemployment peaks in February 2022;
- **Core:** unemployment peaks in December 2021.
- **Best-case:** unemployment peaks in July 2021.

There are several indicators of unemployment. In the broadest sense, an 'unemployed person' refers to someone who is not in work but is actively seeking it. The emergence of COVID-19 has heightened the debate around which measure of unemployment provides the most accurate reflection of labour market conditions. Whilst the LFS unemployment rate is the most commonly reported measure, there is some debate as to whether this metric has been under-reporting the absolute number of unemployed residents since the pandemic began. The large rise in absolute numbers of claimants over the past year has not yet been fully reflected in the LFS unemployment rate. The Alternative Claimant Count (ACC) (which captures and accounts for the introduction of Universal Credit at different times across the UK in recent years) is therefore also presented.

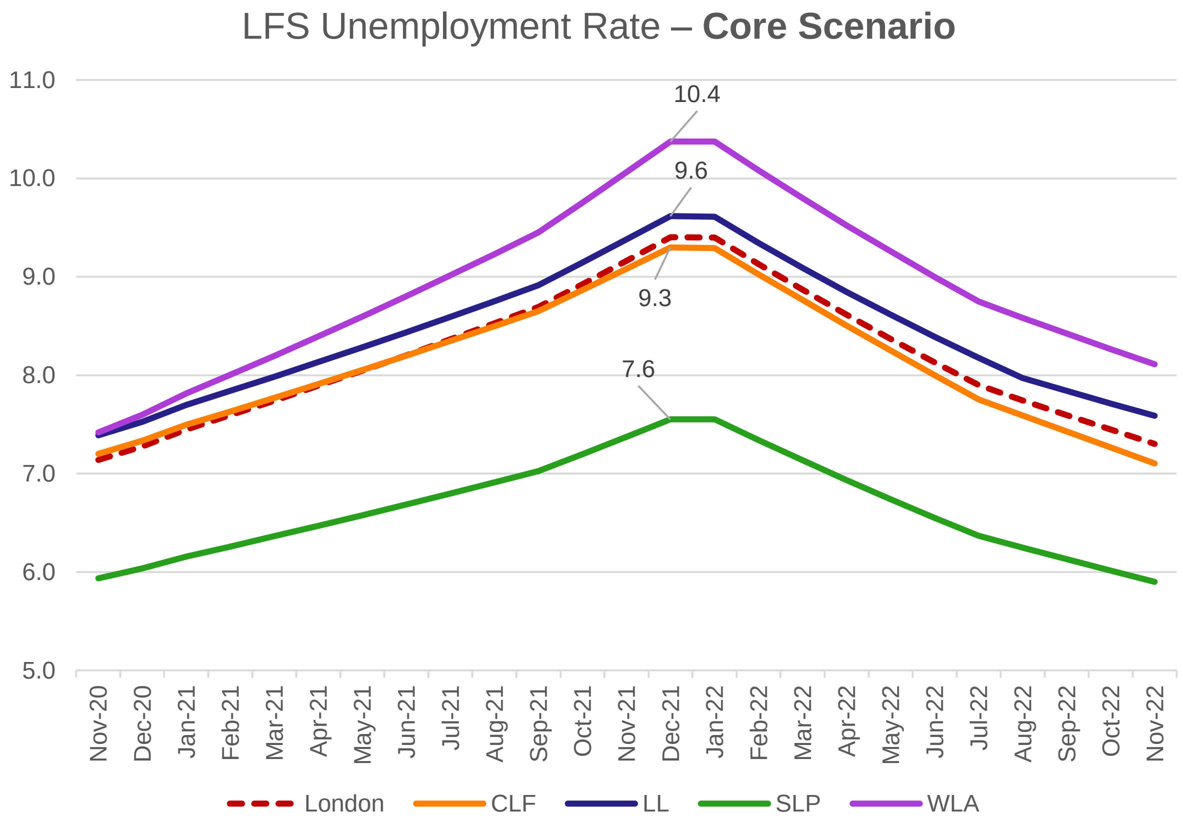
The forecast number of peak claimants in the core scenario – 671,000 – is higher than the LFS reported number of unemployed people.

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 4-5 years. This is a much faster return to pre-crisis trend that was recorded in the previous recession (7 years).

Scenario	Peak (LFS)	Peak (ACC)
Worst-case	580,000	840,000
Core	464,000	671,000
Best-case	390,000	564,000

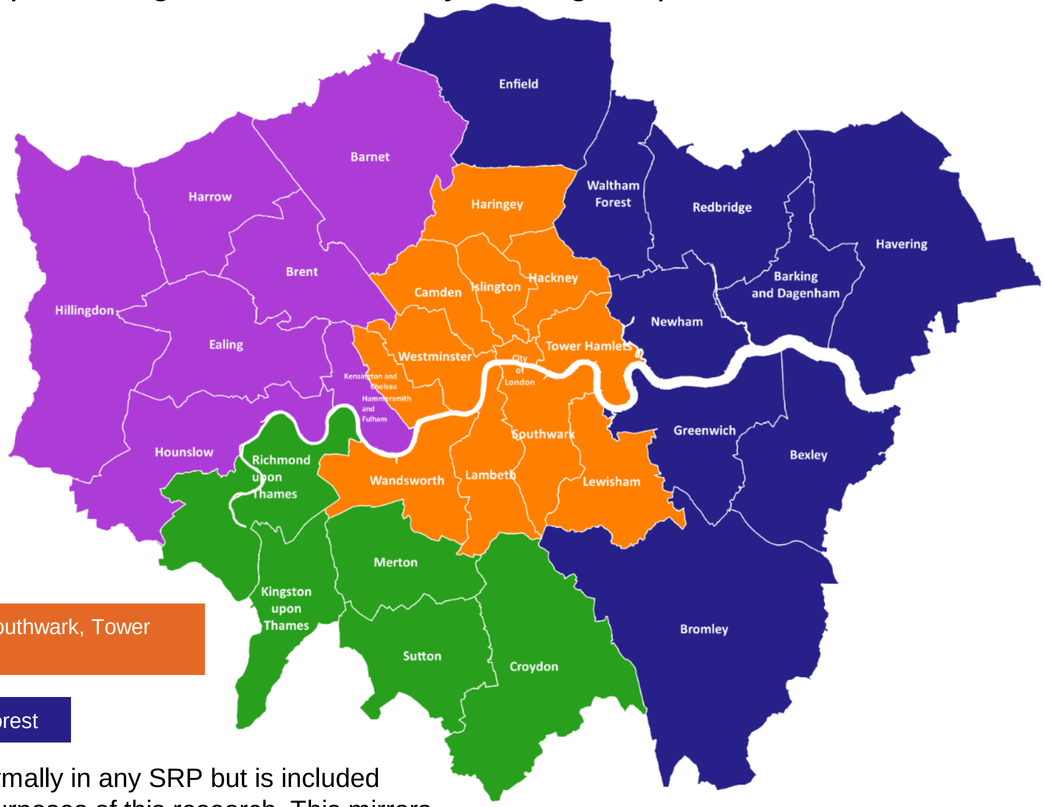
Volterra

Key findings: A comparison of forecast unemployment rates by SRP



West London Alliance (WLA) is forecast to be the worst hit sub-regional partnership (SRP), although it is predicted to recover at a slightly faster rate following peak than Local London (LL), suggesting LL boroughs could suffer the most from long-term unemployment issues in the future.

A map defining the four SRPs by borough is provided below.



West London Alliance	Barnet, Brent, Ealing, Hammersmith & Fulham, Harrow, Hillingdon, Hounslow
Central London Forward	Camden, City of London, Hackney, Haringey, Islington, Kensington & Chelsea, Lambeth, Lewisham, Southwark, Tower Hamlets, Wandsworth, Westminster
Local London	Barking & Dagenham, Bexley, Bromley*, Enfield, Greenwich, Havering, Newham, Redbridge, Waltham Forest
South London Partnership	Croydon, Kingston upon Thames, Merton, Richmond upon Thames, Sutton

*Bromley is not formally in any SRP but is included within LL for the purposes of this research. This mirrors the Work and Health Programme (WHP) sub-regions.

Key findings: The geographic impact of unemployment across London

26,000
unemployed residents in Lambeth

In our core scenario there will be **464,000 unemployed Londoners in Dec-2021 (9.4%)**. In the worst-case scenario, unemployment continues to rise beyond this, not peaking until February 2022 at 11.8%. This would represent an estimated 580,000 Londoners unemployed at peak in February 2022.

15%
peak rate in Waltham Forest

169,000
unemployed in CLF

In absolute terms Central London Forward **(CLF) will be home to the most unemployed people**, estimated at 169,000 in Dec-2021 (core scenario). With a forecast potential **peak of 26,000 unemployed residents, Lambeth is the hardest hit London borough** in absolute terms. Unemployment amongst CLF residents is predicted to both rise and recover the fastest, due to **expected gradual 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%) is predicted to remain persistently high for longest**. LL is forecast to be home to some of the worst hit boroughs both in absolute (Newham with 25,300 unemployed residents is the 2nd worst hit) and relative (Waltham Forest with a peak unemployment rate of 15.0% is the worst hit) terms.

Slowest
recovery forecast in LL

10.4%
peak rate in WLA

In relative terms, West London Alliance **(WLA) is expected to be the hardest hit**, with a peak unemployment rate of 10.4% (113,000 unemployed residents) in December 2021 in the core scenario. This is due to the high proportion of at-risk industries its residents work within, and the **disproportionately large number of furloughed residents**. **Brent (peak rate 13.7%) is the worst hit WLA borough**.

South London Partnership **(SLP) has the lowest levels of unemployment**, a trend which is forecast to continue (with peak rates of 7.6% in the core scenario). This does not make the peak forecast in SLP immaterial, however, as there are still forecast to be 48,000 unemployed residents at peak. **Merton is the worst affected borough** in SLP.

48,000
unemployed in SLP

Key findings: The impact of unemployment for London's subgroups (1)

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

At peak it is expected that there will be 161,000 unemployed residents aged 16-24 (35% of the total).

More than 50,000 will live in each of LL and CLF.

Aged 16-24 make up **1/3** of the unemployed

161,000 peak unemployed aged 16-24

This age group is however less likely to be furloughed, with older age groups being at highest risk of furlough. 31% of those furloughed are aged 35-49. The **35-49 age group is of particular concern in WLA** – with 35,000 unemployed in Dec-2021 this group is the same size as the unemployed in the 16-24 age category for WLA.

The **older age group (50+) is at most risk of scarring**. Our model predicts that **14,000 Londoners may drop out of the labour market** and so are not captured by employment statistics but are nevertheless an impact of the recession.

31% of furloughed aged 35-49

14,000 could drop out of labour market

3.5x higher rate for less qualified

The economic recovery in London is expected to be led initially by high-skilled jobs, whether that be in the workplace or working from home. Before COVID-19, this would be expected to have a 'ripple' effect on the local economy, creating supporting low-skilled jobs in industries such as retail and accommodation & food. Changing patterns of work as a result of COVID-19 (i.e. shift to home-working) could alter the sectoral (e.g. to warehousing/distribution) and geographic (e.g. a greater proportion of jobs in outer London) distribution of low-skilled employment. Low-skilled employment across London as a whole would, however, still be expected to recover after high-skilled jobs if the shift occurred.

Londoners with **lower levels of qualifications are much more vulnerable** to becoming unemployed as a result of the economic downturn. It is residents with lower levels of qualifications – NVQ1 and NVQ2 – who have recorded the worst initial unemployment impact from the COVID-19 pandemic so far.

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.

The industries with the highest numbers of furloughed workers, such as **retail and accommodation & food**, also **have the highest proportions of workers with no qualifications.** Residents with no qualifications, whilst peaking at a lower rate, are forecast to have **more persistent unemployment problems**. This is because the economic **recovery in London is expected to be led predominantly by high-skilled jobs**, with availability of lower-skilled jobs to increase later on in the recovery.

Key findings: The impact of unemployment for London's subgroups (2)

260% increase in male claimants

10.1% peak rate for females (WLA)

Male Londoners typically have higher unemployment rates than females, apart from in WLA where females have historically recorded higher unemployment rates. Across the whole of London, male claimants have increased at a substantially higher rate (260% vs. 212%) since COVID-19 emerged in March 2020. **Male unemployment rates will peak at above 11% in LL and CLF. WLA is the only SRP where the peak rate for females (10.1%) exceeds 10%**.

Ethnic minorities **twice** as likely to be unemployed in CLF & SLP

14.9% of ethnic minorities unemployed in CLF

Ethnic minorities will experience higher unemployment rates. Ethnic minorities in CLF (14.9%) and SLP (13.5%) will experience **higher disparity compared to white residents** in the same geographies (6.9% and 6.0% respectively). These entrenched and persistent trends of reduced labour market accessibility for ethnic groups should remain a priority for addressing in the aftermath of COVID-19.

Data released through the LFS to date suggests that **Black/Black British and Pakistani/Bangladeshi** London residents have been hardest hit since COVID-19 emerged.

12.4% peak rate for disabled residents (LL)

LL is forecast to be the worst-affected SRP with respect to unemployment amongst **disabled residents**, with a peak rate of 12.4% in the core scenario. Research shows that disabled people are disproportionately affected as (1) they are more likely to be employed in jobs that are vulnerable to economic cycles and (2) they are **more at risk of unequal treatment in the workplace**.

Disabled residents are more likely to experience in-work inequality such as changes to terms and conditions and work practices, including wage freezes, reduced overtime pay and the reorganisation of work. These inequalities need to be addressed through **appropriate policy interventions**. This is particularly relevant for the current situation, where many disabled residents are likely having to continue to shield.

Key findings: Case studies of some of the worst-hit boroughs

Central London Forward

The average number of unemployed residents in a London borough is around half the estimated number of unemployed **Lambeth** residents. Lambeth is forecast to be the hardest hit CLF borough in absolute terms (and across London as a whole) and have the second highest peak unemployment rate after Westminster. Naturally unemployment amongst all residents will therefore likely be prevalent, but particularly so for the younger (16-24) and older (50+) demographics. At peak in the core scenario (December 2021), it is forecast that 11,000 young and 4,100 older Lambeth residents will be unemployed. Ethnic minority males working in elementary occupations are also considered to be a particularly at risk group of residents in Lambeth.

local london

Waltham Forest is forecast to have the highest peak unemployment rate of all London boroughs, amounting to 15.0% in the core scenario (December 2021). Naturally, there are multiple sub-groups of the population who are all anticipated to experience disproportionate impacts on unemployment as a result of COVID-19. One of these groups is young residents in Waltham Forest. At peak it is expected there could be between 7,900 – 11,600 residents aged 16-24 who are unemployed in Waltham Forest at peak. In the central case (core), this amounts to 9,400 unemployed young residents at peak (December 2021).

South London Partnership
'Representing and connecting'

In **Merton,** in contrast to the trend seen across London as a whole, females are more disadvantaged in the labour market. In October 2019 – September 2020, female residents in Merton recorded an unemployment rate of 6.4%, compared to 5.9% for males. At peak, there could be between 5,200-7,500 unemployed females in Merton, with a central peak estimate of 6,200 (December 2021) in the core scenario.

West London Alliance

As of 31st January 2021, 33,300 working residents in **Ealing** were still relying on the CJRS. This is the second highest absolute number of all London boroughs and the highest within WLA. In terms of persistence, 20% of working Ealing residents were still supported by the CJRS at the end of January 2021. This high proportion of furloughed workers is most likely linked to the types of industries that Ealing residents work in. For example, 18% of Ealing residents work in the transport and communications sector. A lot of these jobs are likely linked to Heathrow Airport, which has recorded a significant decline in economic activity since international travel restrictions were brought in. Ealing residents would therefore be particularly sensitive to an abrupt ending of the CJRS, particularly if the aviation sector is unable to open up again fully before the scheme ends. This high reliance on CJRS drives a relatively high forecast unemployment peak for Ealing (12.0% in the core scenario).

Key findings: Pre- vs. Post-COVID trends

The text below provides a comparison, by both geography and by demographic characteristic, of the differential impacts on unemployment pre- and post-COVID-19.

Geography: Historically, the proportion of London's unemployed residents was rising in LL boroughs and remained constant in WLA boroughs. Yet, following the impacts of COVID-19, WLA is forecast to be the worst-hit SRP in terms of unemployment rate, particularly in the worst-case and core scenarios where the higher proportion of furloughed residents in West London boroughs leads to higher unemployment once the CJRS ends. WLA is predicted, however, to recover faster than unemployment in LL boroughs, suggesting that LL boroughs could suffer the most from long-term unemployment issues in the future. CLF will account for the highest absolute number of unemployed residents, in line with historic trends. Central London boroughs will experience fast increases to peak unemployment, followed by the fastest recovery of residents in London, as the number of jobs posted in central London begins to increase again.

Age: Whilst young people account for highest absolute number of unemployed residents, this recession has also seen large rises for those older residents (50+), and they have been more at risk of being furloughed. The OBR has warned of a scarring effect on this demographic – a group which might drop out of the labour market altogether. This means that they are not necessarily captured by unemployment statistics but nevertheless have the potential for significant impacts which should be considered when planning upskilling programmes.

Gender: Historically London, and all the SRPs, has had higher unemployment rates for males than females, except for WLA where the female unemployment rate is higher. London's male residents are forecast to experience substantially higher rates of unemployment post-COVID, with the male unemployment rate in WLA also forecast to surpass the female rate. In work inequality, and the potential for in work poverty, remains a persistent issue for female Londoners however.

Ethnicity: Ethnic minorities will continue to experience worse unemployment rates than white residents across London, although the differential is not forecast to widen as a result of COVID-19. However, these broad categories hide varied outcomes among different ethnic groups. Pakistani/Bangladeshi and Black/Black British appear to be the worst hit ethnic groups by COVID-19 impacts so far.

Qualifications: Residents with NVQ2 qualifications only or below will experience the largest increases in unemployment rates. Similar to historic trends, residents with no qualifications will see unemployment persist the longest, as these residents are the hardest to get into the labour market.

Disability: Disabled residents have historically faced higher unemployment rates than non-disabled residents in London. Whilst the unemployment rate for disabled residents is not forecast to increase disproportionately more, this demographic are at greater risk of in-work inequality as a result of COVID-19.

Duration: Prior to COVID-19 emerging, short-term unemployment had been decreasing rapidly in London. The numbers of short-term unemployed (up to 6 months) has naturally rapidly increased over the past year, given the short, sharp nature of the economic shock. During the recovery, however, it continues to be the long-term unemployed (3+ years) who will be the most difficult to get into employment in the future, as the unemployment rate for this demographic rarely shows signs of reducing.

In-work poverty: The proportion of Universal Credit claimants who are also in employment has increased during 2020, signalling greater issues of in-work poverty since COVID-19 emerged and a need to focus on this demographic of residents in recovery strategies.

Self-employment: Boroughs with high prevalence of small businesses and self employment are often linked to high take up of the Government's SEISS. Residents in these boroughs, typically in outer London, are at greater risk of unemployment if there is an abrupt end to SEISS.

Occupation: Historically, many unemployed residents appear to be seeking sales and customer service occupation roles. However, the largest decline in job postings has been in middle-skill and labour-intensive occupations. Unemployment may therefore persist longer for residents seeking these occupations.

Volterra

KEY Change since COVID-19 Remains broadly the same as historic trends

Policy recommendations – skills

Lower-skilled residents

Higher skilled jobs are expected to lead the recovery in terms of the types of jobs likely to be posted, meaning that the unemployment rate of highly skilled residents will recover more quickly. This leaves the risk of lower-skilled areas of London being left behind and experiencing persistent unemployment impacts. **Upskilling and reskilling programmes should therefore focus on allowing lower-skilled residents with little to no qualifications to converge to the rest of London's population.** Policymakers should bring together employment and skills provision, as well as utilise and build on existing initiatives to carry out upskilling. For example, the **Green Jobs Taskforce's focus on providing residents with green skills** as the UK transitions to its aim of a high-skill, low carbon economy, would be a good initiative to get lower-skilled London residents involved in.

Reskilling (e.g. digital & green)

The enforced physical lockdown caused by COVID-19 has accelerated trends in the decline of high street retail and the rise of online sales and distribution. Residents, often in the older demographic, who have worked in the same sector for their whole career may find it difficult to adjust and transfer their skills. The OBR has warned that many in this group could drop out of the labour market altogether. **Specific reskilling programmes to focus on transferrable skills and skills directed at growing sectors (e.g. digital and green) should be targeted at this older demographic of unemployed residents**. These Londoners will also need advice and guildance to identify transferrable skills and seek new skills where needed.

Growth sectors

London's residents need to possess the skills that make them robust to economic shocks in the future. The large numbers of unemployed younger residents expected as a result of this economic downturn represents an opportunity to **reskill younger residents in the types of growth industries that are robust from automation in the future**. **Reskilling programmes – such as apprenticeship and internship initiatives –** for this demographic should be focused on the occupations least at risk of automation and most likely to experience significant growth in the future.

Skill shortages

The OBR forecasts a lower future labour supply resulting from a smaller population due to **lower net inward migration**. Our model predicts this could impact upon London and this has been further supported by stakeholder feedback. Some sectors have greater reliance upon migrant workforce. **Identifying skills gaps and designing programmes to directly meet these needs in a timely manner**, ideally aimed at unemployed people looking to change sector, would maximise the opportunity to address this gap.

There is a need for **better alignment between skills programmes provided for unemployed Londoners, and the future needs of employers**. There should be a focus on skills programmes in sectors where employment is forecast to grow and drive the economy in the future, as well as employer-led identified skills gaps, rather than a focus on employment in sectors at risk of lower employment in the future.

Policy recommendations – employment pathways

Graduates

New graduates during COVID-19 have found it difficult to gain employment opportunities, and employment rates of graduates in some subjects are lower. **Post graduate apprenticeships or transferrable skills programmes** should be considered to adapt their skills to meet employer needs and provide alternative routes into employment for new graduates.

Vulnerable residents

Creating specific basic skills training programmes and safeguarded apprenticeship opportunities for long-term unemployed residents could help boost their opportunities in the labour market. The **Work and Health Programme (WHP) is key for helping these types of vulnerable residents** and should continue to receive funding in the future from the Government.

In-work poverty

Emphasis should **continue to be placed on ensuring that all residents in London are paid at least the London Living Wage**, so that the proportion of people who are in employment but also claiming UC can reduce. This pressure to pay at least the London Living Wage will be important over the next couple of years, as employers seek to reduce both workable hours and wages to pass on the adverse impacts of COVID-19.

Policy recommendations – ongoing business support

Sector specific

Some industries, particularly those reliant upon inbound travel / tourism (such as those clustered around Heathrow as well as central London tourist focused industries) **may require ongoing support even after the CJRS scheme ends in September 2021**. Sector specific support dependent upon how the economy unlocks and the extent of delay in the return of international travel, **should be considered to ensure these industries are not forced to make large redundancies when the CJRS ends**.

SMEs

Support to further **enable SMEs to diversify** (e.g. sales going digital) as well as to further **improve access to contract opportunities** should continue to ensure that these businesses are able to retain staff and adapt quickly as the economy recovers.

Volterra

Policy recommendations – addressing structural issues

Ethnic minorities

Whilst COVID-19 is not forecast to materially widen the existing gap that exists in the labour market, the disadvantages that ethnic minorities face in employment opportunities remain significant and must not be forgotten. **Improving educational outcomes for ethnic minorities should continue to be a key focus**, whilst factors related to religion and culture (e.g. some cultures have different expectations of females in work) are complicated issues for policy makers where further work needs to be done. **Labour market discrimination** has long been a deep-rooted and persistent issue that **will need to continue to be addressed through anti-discrimination policies in the workplace**.

Women

Programmes which **support women into employment and help them to have more options should receive more funding in the near future**. This includes domestic abuse support programmes, as well as other initiatives such as flexible working and childcare support. As with disabled workers, there is evidence that women are **more likely to experience in-work discrimination** such as changes to terms and conditions and unfair working practices. These persistent structural issues must be addressed. Self employed **women have also been less likely to make SEISS claims** despite being eligible. **Equality of access to information on support** must be ensured to prevent unintended biases in allocation of support.

Small businesses

Support is needed for small businesses to survive, particularly in areas of the capital where there are high proportions of these types of businesses (e.g. Harrow). The **failure of these small local businesses may be linked to older and less-skilled claimants emerging as a result of the pandemic** and hence a **lack of sufficient support could create a greater burden for the taxpayer in the future** if not addressed now.

Disability

Targeted employment support should be provided to London's disabled (both physical and learning disabilities) residents who are having to shield, whilst they await their vaccines. This should be a relatively small group at the time of writing given the speed of the UK's vaccine roll out, but it is an important consideration nonetheless.

Evidence shows that **disabled workers are also more likely to experience in work inequality** such as changes to terms and conditions and unfair working practices. These persistent structural issues must be addressed through fairer more transparent working practices and the **continued breaking down of unintended bias**.

Data collection

Public sector bodies should **collect and release unemployment data at a much more granular level – both demographically and geographically –** to allow local authorities to better understand the issues and priorities that exist within their boundaries. This should be done in a timely manner to enable quick reactions and forward planning.

Geographic flexibility

There has so far been a centralised response to dealing with labour market issues in the UK. Whilst some policy responses have been effective in minimising unemployment impacts, this report shows that impacts vary greatly dependent on the geographical area in question. **Flexibility is needed in future policy responses, to account for stark differences in impacts across different areas.**