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Core Cities: the impact of the first wave of Covid-19

Executive Summary

Covid-19 has struck at the very heart of what cities do best: bringing people together both to exchange ideas and information, and to enjoy leisure time visiting their galleries, parks and sports stadiums. The result is that previously bustling public spaces and workplaces in cities across the country have become deserted since March 2020.

This has been most clearly seen in the city centres of the UK's largest cities. The 11 Core Cities have higher shares of new home working than other places, and many of those jobs are normally based in city centres. Accordingly, the Core Cities' city centres and public transport usage did not recover as restrictions eased after the first national lockdown even as other economic, car mobility, and air pollution indicators returned to normal. This may give some indication of what will happen when restrictions can again be eased and, finally, removed entirely.

This poses a distinct challenge to the Core Cities that sets them apart from most other parts of the UK: how to support the immediate recovery of their city centres and the tens of thousands of jobs in them as the economy is opened up again.

City centres have played an important role in the past growth of the cities and the regions that surround them. That means the reopening of city centres and supporting their recovery and further growth will be important for the delivery of the Government's 'Building Back Better' and 'levelling up' agendas. This should be a central focus of the newly created Urban Centre Recovery Taskforce.

It is important too that the policy response to Covid-19 is separated from the longer-term need to bolster their role in the national economy. The Government will not be able to level up the country as it has promised without improving the longer-term economic performance of the Core Cities, and this will require a focus on skills, transport and infrastructure, and on the costs of success such as air pollution.

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1. Introduction

Covid-19 has not just had a tragic human and social cost, but an economic one too. Cities Outlook 2021 indicates that it has made the 'levelling up' challenge at least four times harder, as so many jobs have been lost or furloughed over this period, with 80 per cent of the levelling up challenge concentrated in urban areas.[1]

This report looks at the economic impact of Covid-19 on the 11 Core Cities to understand how their economies were affected and how they bounced back from the first national lockdown, in order to understand how they are likely to be affected by continuing restrictions and what the shape of recovery may be, assuming that Covid-19 is brought under control in the first half of 2021.

It uses real-time data up to the second lockdown to understand how labour markets, city centres and high streets, and transport and mobility have all changed within the wider urban areas of the Core Cities over 2020. This data comes from a variety of sources, including Beauclair, Locomizer, Google, the Office for National Statistics and the Department for the Environment, Food and Rural Affairs.

Centre for Cities uses the Primary Urban Area (PUA) definition for cities to capture the built-up footprint of cities.[2] Where the data exists, this has then been broken down for the central local authority of the members of Core Cities UK in boxes throughout the report. The city centres discussed all lie within these central local authorities.

2. How has the labour market changed?

Most Core Cities entered the pandemic with above average claimant rates. All of them have seen claimant rates rise since then, and the Job Retention Scheme (JRS) – or 'furlough' – has prevented rates from rising even higher.

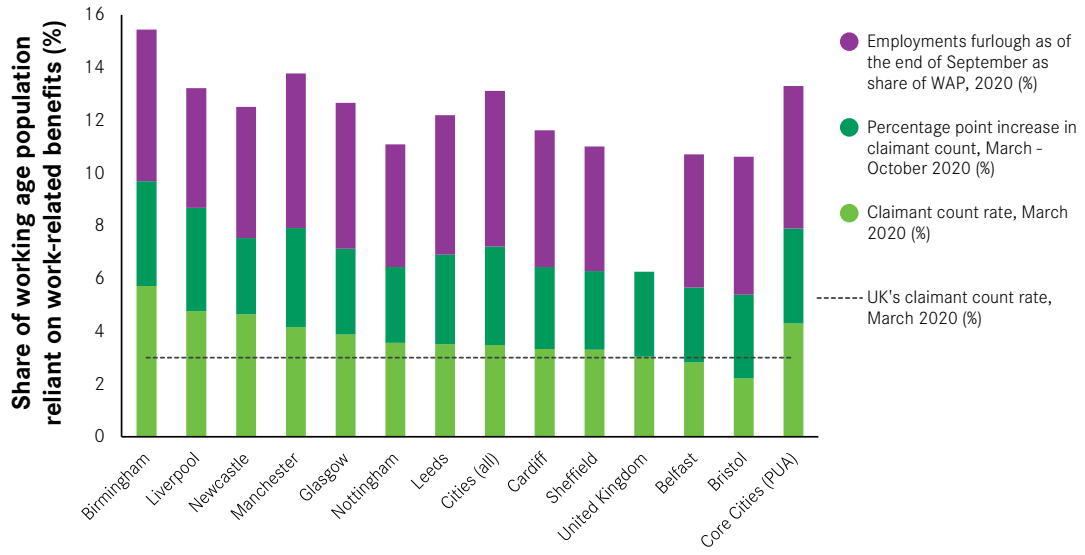
Figure 1 shows both the damage caused to each of the Core Cities' labour markets by the pandemic in dark green, and the protection granted to each by the JRS in purple. Without the JRS, the Core Cities would have seen claimant count rise to over 13 per cent, compared to the pre-pandemic claimant count of 4.3 per cent and a national pre-pandemic average of 3 per cent.

1 Centre for Cities (2021), Cities Outlook 2021, London: Centre for Cities

2 Although some cities use different definitions of their economic area, the PUA definition allows for better comparisons between cities. Slightly distinct geographies do not change the central message of the analysis or recommendations.

Figure 1: The Core Cities entered the pandemic with above average claimant rates, but experiences have varied

Claimant count and furlough rates in the Core Cities, March-October 2020

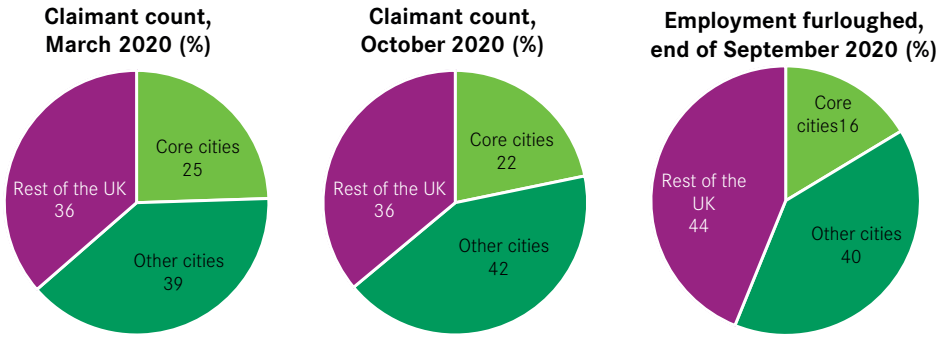


Source: ONS

However, although most Core Cities entered the pandemic with weaker labour markets, they have not experienced the worst shocks, either in terms of unemployment or furlough. Figure 2 shows that the Core Cities account for a smaller share of the rise in unemployment and the furloughed workforce than their pre-pandemic share of unemployment.

Figure 2: The Core Cities accounted for a lower share of job losses than their prior share of the claimant count

Claimant count and furlough rates across the UK, March- October 2020



Source: ONS

This appears to be because although the Core Cities were home to a disproportionate number of people claiming unemployment benefits – many of whom are likely to be low skilled because of eligibility criteria – they are also more likely to be home to jobs that can be done at home, which are likely to be in higher-skilled occupations.

This suggests a two-tiered impact of the pandemic on the residents of Core Cities – those in lower skilled jobs have been exposed to the impact of the recession, reflected in the increase in claimant rates (albeit lower than elsewhere) and the use of the furlough scheme. But those in higher-skilled jobs have been able to continue to work despite the disruption.

The ability of places to bounce back depends on how affected their export base (e.g. automotive, finance, tech etc.) has been rather than on local services such as retail or hospitality, as it is these exporting jobs that sell goods and services to markets in other cities and countries. They bring money into their local economy to be spent on local services.

Box 1: What are exporting and local services jobs?

Broadly, all jobs can be divided into two types, depending on the location of their market.

Local services, such as cafés, dentists, and high street retail, provide goods and services directly to customers, and so locate where there are people to sell to. Exporters, such as finance, manufacturing, and tech, sell to markets in other cities and countries, and so locate in the places which suit the needs of their business and workers.

Local services are the majority of jobs in cities, but exporters are particularly important for city economies, as their activity brings money into the local economy that is spent on local services. Differences in the performance and characteristics of exporters largely explain economic divides across the UK.[3]

There are differences within these sectors. High-skilled and high-paid exporting jobs disproportionately locate in city centres as firms and workers typically require the benefits that those locations can offer: a deep labour market with lots of specialised work and the sharing of infrastructure and ideas. These exporting jobs then help support local services jobs within the city centre.

Furthermore, some types of local services work, such as high street retail, were already in difficulty before the pandemic in many places, while others such as hospitality were experiencing rapid growth. The extent to which the pandemic changes the relative needs of firms and workers and the preferences of consumers will shape the future recovery of different types of work and correspondingly the recovery of cities.

3 Swinney P (2018), The Wrong Tail: Why Britain's 'long tail' is not the cause of its productivity problems, London: Centre for Cities

Covid-19 has disproportionately affected local services businesses such as those in hospitality and leisure. These jobs are spread across the country because they locate wherever there is a population centre. This helps explain why there has been no particular geography to the jobs impact of Covid-19, and why the north-south divide has been complicated by the pandemic.

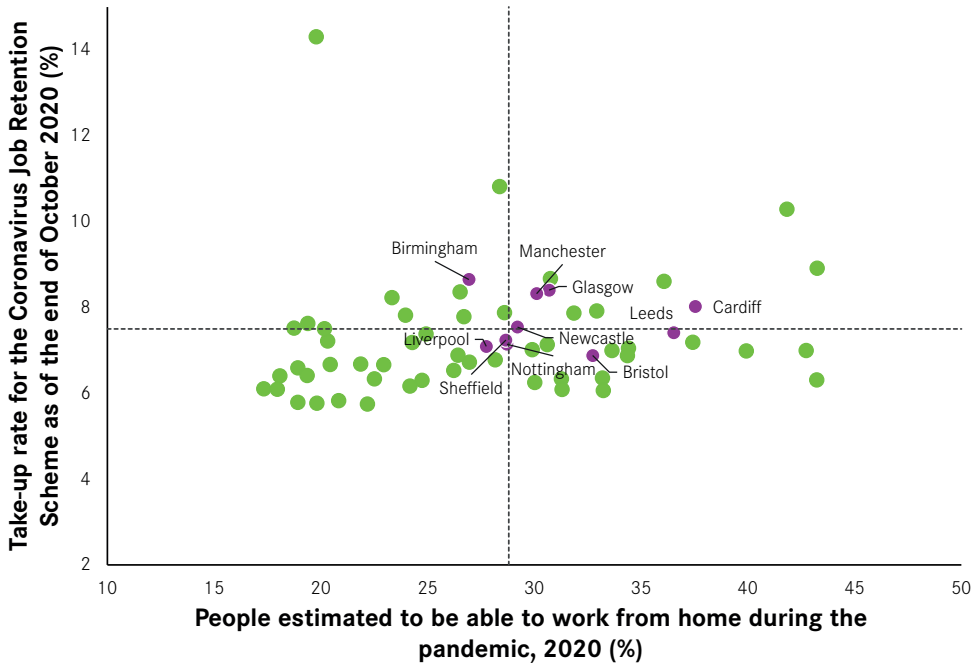
There is no local level data on the sectoral make up of JRS claims. National data shows JRS claims to be overwhelmingly used by local service industries and, given the nature of restrictions and the spread of local services jobs, this is likely to hold across most of the country.[4] By extension, places that have a furlough rate well above average may have either seen their export base particularly affected, or seen local services particularly hard hit if a large share of them depends on footfall in city centres. Setting a threshold on the JRS claimant rate of 7.5 per cent offers a rule of thumb as to which places have been disproportionately affected.[5]

To disentangle as to whether high JRS rates suggest an impact on the export base, or are a result of city centre workers working from home, Figure 3 brings JRS data together with estimates of home working to show the impact that Covid-19 is likely to have had on the jobs market. It splits the chart into quadrants, depending on whether cities sit above or below the JRS threshold, and above or below the national average for estimated levels of home working.

Six Core Cities sit on or below the 7.5 per cent threshold, suggesting that when lockdown restrictions are lifted, they are relatively well placed to bounce back as their exporting base has remained largely unaffected.

Figure 3: The Core Cities have mostly adapted well to homeworking

Working from home and furlough rates across UK cities



Source: ONS, Centre for Cities calculations.
Note: Data for Belfast is not available

4 Centre for Cities (2021), Cities Outlook 2021, London: Centre for Cities

5 This was determined by looking at the distribution of claims by local authority to identify a sensible cut-off for identifying outliers.

Manchester, Glasgow, and Cardiff sit above it. Their above average levels of homeworking may help explain this. If many of these jobs were city centre based, then their decoupling from the workplace is likely to have had a disproportionate impact on local services. Their higher rates of JRS may suggest not that that their exporting bases have been unusually impacted, but rather that their local services sector has been hit hard by the emptying of city centres. This would suggest that they too should also expect to see a bounce back once restrictions end and city centre workers return to their offices. However, Birmingham in the top left quadrant may have seen a sharper shock to its exporting base than other cities, suggesting it may need additional support from the Government as it recovers.

Box 2: Local authority labour market data

Data on labour markets is all available by local authority, making it possible to look at the Core City local authorities for this section as opposed to the PUA definition of the Core Cities' economic geography.

Within these administrative boundaries, the story is at first similar. Although these Core City local authorities entered the pandemic with an above average number of people on the claimant count – 4.4 per cent compared to 3 per cent for the UK as a whole - they accounted for 11 per cent of the rise in the claimant count over 2020 despite having 14 per cent of all people on the claimant count in March 2020.

But, although the Core Cities' local authorities had a higher November claimant count than the UK average (8.1 per cent vs 6.3 per cent), furlough take-up was slightly lower in the Core Cities' local authorities as a share of the working age population (5.3 per cent and 5.8 per cent). This pattern repeated itself for the PUA: claimant count and furlough take up were higher for the Core Cities' local authorities than for the Core Cities' PUAs (8 per cent claimant count and 5.4 per cent furlough take-up). This may indicate that the economic damage to city centres (discussed in the next section) has had an impact on those local services workers in city centres who live outside the central local authority.

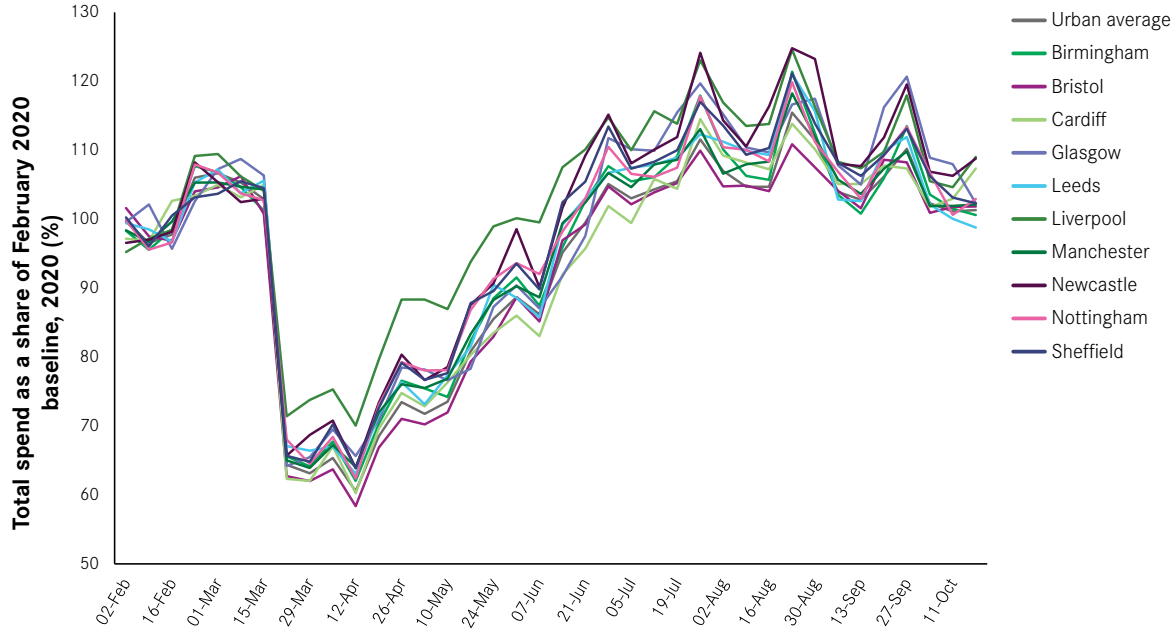
3. How have city centres, the high street, and spending changed?

Looking at changes in consumer spending between different types of city can shed light on the geography of the pandemic's impact on local services among the Core Cities.

In the first national lockdown, city-wide spending for the Core Cities dropped in April 2020 to between 58 and 70 per cent of the February baseline. Figure 4 shows this then slowly recovered through to July, and spending within cities subsequently exceeded February levels through to October.

Figure 4: Overall consumer spending in the Core Cities has recovered

Total retail spending in the Core Cities



Source: Beauclair

Yet as this data looks city-wide, it does not capture the impact on city centres specifically. City centres play a unique role in the economy because they are concentrations of jobs and thereby customers, they are key locations for employment in both exporting and local services work. As the largest city centres in the country outside London, the city centres of the Core Cities therefore provide a disproportionate contribution to national employment overall.

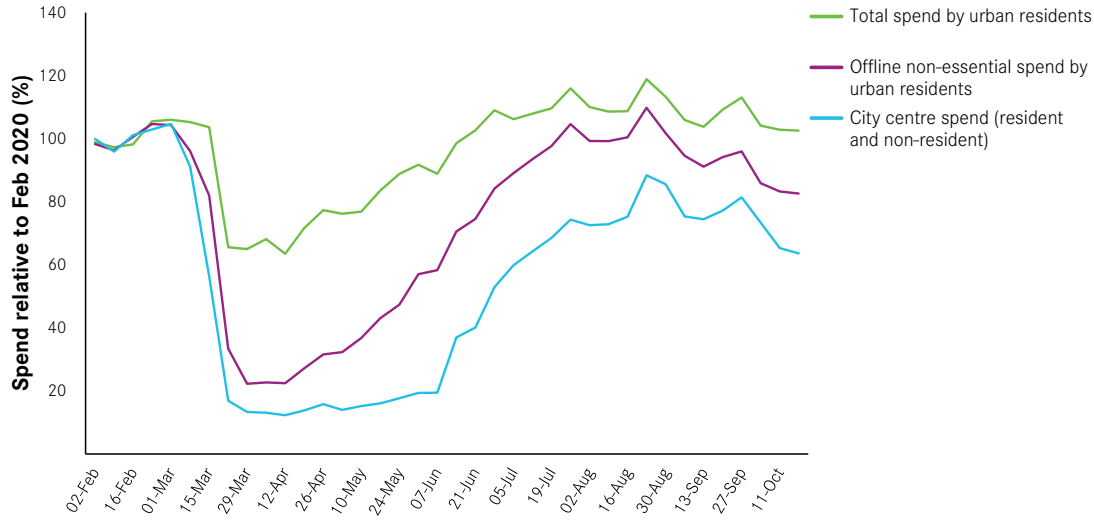
Looking at the recovery of spending by residents on non-essential items (such as spending in bars and restaurants) in physical shops across the cities, and the recovery of city centre spend shows how this has played out. This decline has been deepest within the Core Cities' city centres.

Figure 5 plots all spending by residents, spending on non-essential items in physical outlets, and spending in city centres (by residents and non-residents) for large cities. Spending on non-essential items in a physical location across these cities recovered more quickly than city centre spending, showing that the city centres benefited the least from the overall recovery in spending.

It is important to note though that this does not signal a boom in spending on local high streets or a switch away from city centre to more local spending. While more local spending recovered more quickly, overall spending on 'offline' non-essential items had not recovered back to February 2020 levels by October.

Figure 5: City centre spending is lagging other kinds of urban spending

Total spending, spending by commuters, and city centre spending in large UK cities

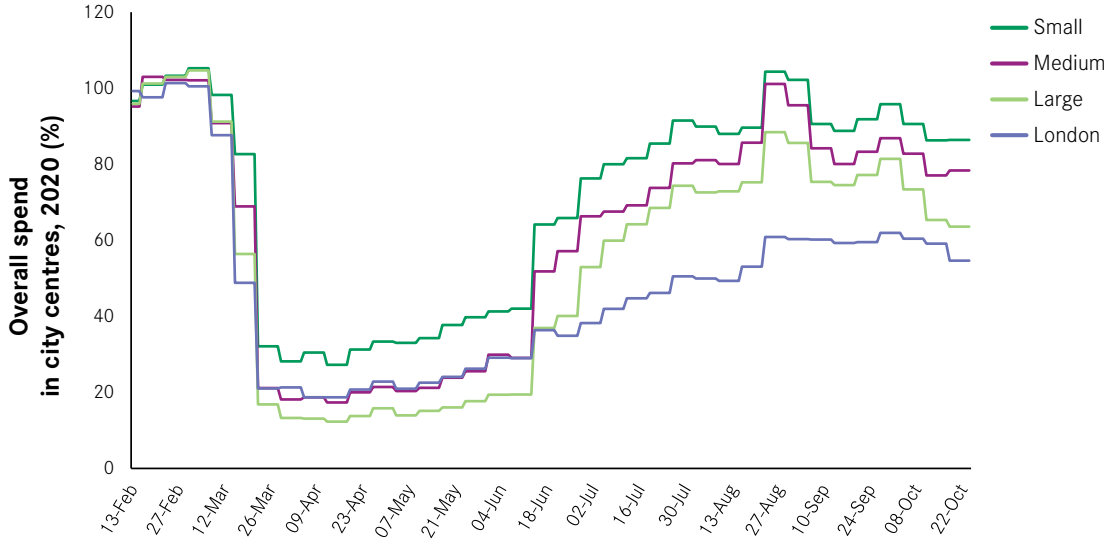


Source: Beauclair

As Figure 6 shows, this appears to be a phenomenon linked to city size – large cities and especially London saw slower and more stunted recoveries in city centre spending than smaller cities. Although Liverpool briefly saw spending rise above the February baseline at the end of August, no Core City in any period since March had city centre spending return to pre-pandemic levels.

Figure 6: City centre spending across Great Britain has fallen most in the largest cities

City centre spending by size of city

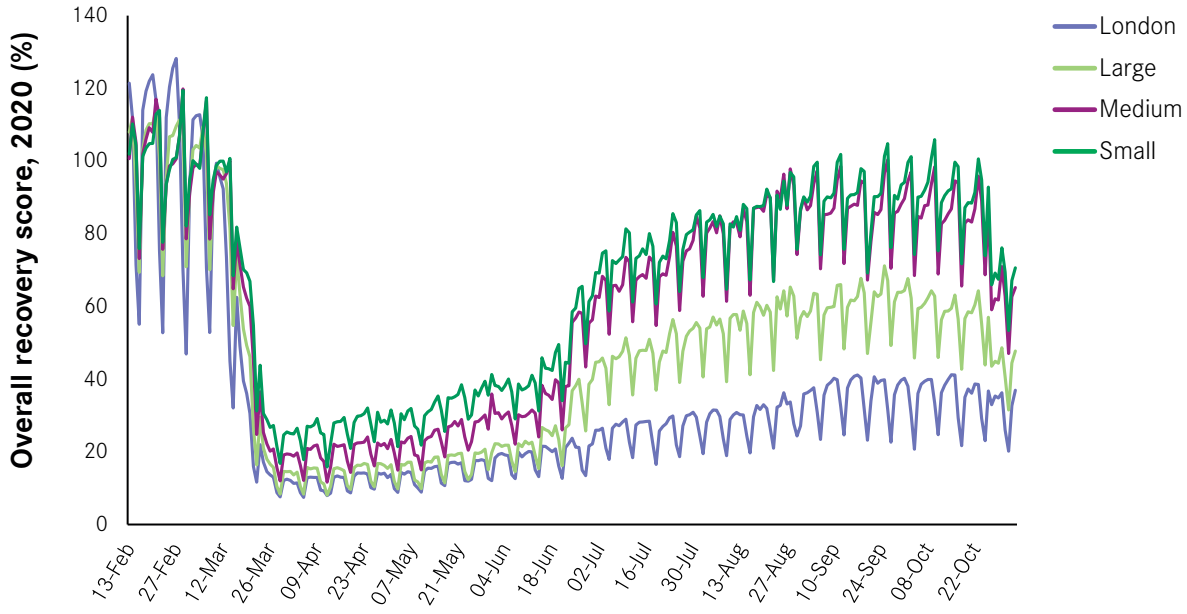


Source: Beauclair.
Note: Cardiff is omitted, as it is classed in the raw data as a medium-sized city. Data for Belfast is not available.

This is reflected in footfall in larger city centres, which diverged from smaller cities as the pandemic has progressed and restrictions came and went. Over the course of 2020 to October, Figure 7 demonstrates that, while smaller cities saw a gradual return close to pre-pandemic trends, London and large cities including the Core Cities had still not seen their post-lockdown weekday highs match their pre-pandemic weekend lows.

Figure 7: Footfall within UK city centres has recovered least in the largest cities and London

City centre footfall by size of city

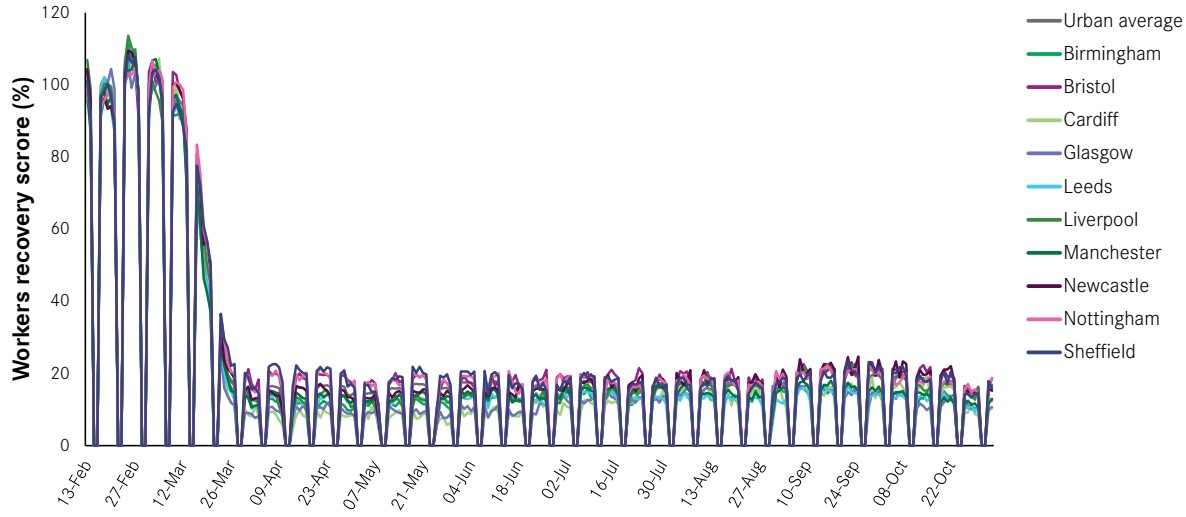


Source: Locomizer
Note: In this figure, Cardiff and Belfast are both classed as medium-sized cities due to the nature of the raw data.

Much of this is likely to be driven by home working – the subject of much discussion in relation to the prospect of '15-minute neighbourhoods' – and other changes that are assumed by some to be positive for cities. Figure 8 uses footfall data for the Core Cities focused on city weekday workers. It shows that there was little change in city centre footfall for weekday commuters across the Core Cities in the period from late March to October 2020. It seems unlikely then that the struggles of the Core Cities' city centres will improve until workers return.

Figure 8: Working from home has driven changes in city centre footfall

Weekday worker footfall in the Core Cities' city centres



Source: Locomizer

These issues should be temporary. Once safe to do so, Centre for Cities expects that city centre workers and firms will return to the office because of the benefits that determined their location there in the first place.[6] But local leaders will need to help encourage workers and consumers to city centres to both induce a rapid recovery and avoid any permanent damage to the Core City economies.

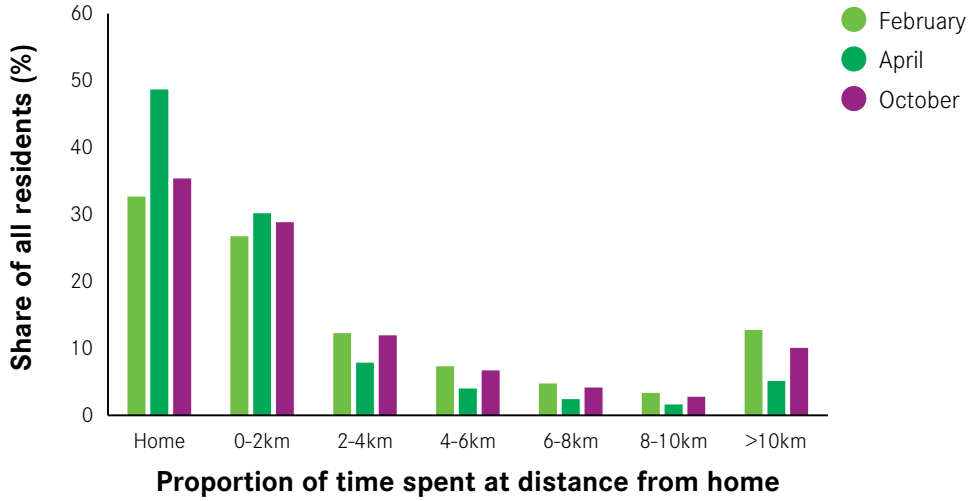
6 Centre for Cities (2021), Cities Outlook 2021, London: Centre for Cities

4. How has mobility and transport changed?

Changes in people's mobility behaviour indicate that the above economic factors are not caused by people wanting to stay at home, but by an aversion to city centres and public transport in particular. While, during the first lockdown, households nationally spent far more time at home than before the pandemic, Figure 9 demonstrates that people were, at various distances from home, spending far more time out of the house by October 2020 than they were in April.

Figure 9: Lockdown stay-at-home behaviours have since unwound in the Core Cities

Average amount of time spent at different distances away from home by urban residents, by month

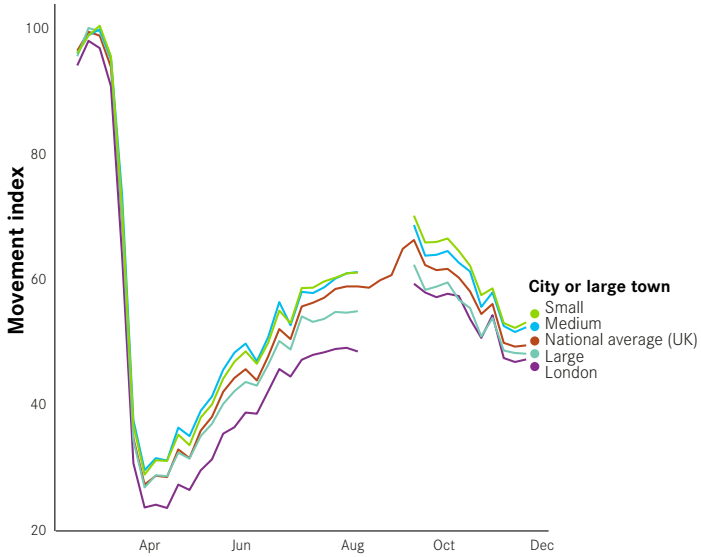


Source: Locomizer

However, residents' travel patterns changed. Specifically, public transport usage fell dramatically from the beginning of the first lockdown. Figure 10 shows that, in December 2020, the Core Cities' public transport usage was at between 37 and 62 per cent of pre-pandemic levels.

Figure 10: Public transport usage has not recovered from the pandemic

Public transport usage in the Core Cities as a percentage of pre-pandemic patterns



Source: Google

This data on public transport contrasts with that on car usage. At the national level, both initially saw similar declines but this was followed by a recovery to pre-pandemic levels in car usage, seen in both national and regional data.[7]

Most worryingly, this means air pollution returned to pre-pandemic levels and, in some Core Cities, surpassed it. For example, nitrogen dioxide levels across the Core Cities are shown in Figure 11 and indicate that air pollution remains a serious policy problem despite higher levels of working from home.

Figure 11: Nitrogen dioxide levels have returned to pre-pandemic levels

Nitrogen dioxide levels in the Core Cities

How to read this chart

Source: Defra, CREA, 2020. Note: the scales for each figure are different as cities went into lockdown with different baseline levels.
Note: Some data is missing for Liverpool due to a gap in data reported from monitoring stations.

7 Source: DfT. Data on local traffic levels is not available.

What this means is that, while working from home may only be a temporary phenomenon, if it were to become permanent it would not solve urban policy problems such as congestion and pollution, and may them worse.

Box 3: Mobility and transport local authority data

The Google data on public transport usage is available by local authority. For the central authorities within the Core Cities, it indicates that the decline in public transport usage was even starker. For example, while public transport usage fell to 28 per cent of pre-pandemic levels across Manchester PUA in April, within Manchester the local authority it fell to 15 per cent. The recovery through to autumn was then less intensive for the central local authorities than for PUAs, reaching 47 per cent of the total in Manchester local authority compared to 64 per cent across the PUA, followed by a similar decline in the final months of 2020.

This appears to be a pattern similar to central London local authorities, where boroughs such as Southwark and Islington saw sharper falls in public transport usage than London as a whole. This may indicate the importance of city centre economies to the residents of central local authorities. If a large share of city centre workers before 2020 had resided near to their place of work and depended on public transport for their commute, then a shutdown and aversion towards city centres would disproportionately affect residents of the Core City local authorities.

This indicates that while public transport networks connect outlying local authorities with city centres, the connections they provide within the Core City local authorities between city centres and nearby neighbourhoods are just as important, if not more so. Getting city centre economies working again is crucial for the entire urban area, not just suburban commuters.

5. Conclusion and what needs to change

Covid-19 has left no part of the UK untouched and has affected daily life across the country. Where this has had the biggest impact is in the city centres of London and the Core Cities – turning their city centres to ghost towns as their many thousands of office workers have switched to home working and people have been cautious about spending their leisure time there.

A large part of the economic damage appears to be temporary, and the pent-up demand for local services waiting to be released by homeworkers after the end of restrictions will help recreate many jobs in city centres. For this reason, it would be a mistake to assume cities will enter a period of long-term contraction because of this short-term shock. Problems such as housing affordability, urban mobility, and increasing local living standards will be harder to solve if cities and national government start planning for a period of limited or zero growth.

Nevertheless, there is a risk that any a permanent shift towards working from home would stunt a recovery, as high-skilled exporting workers opt to stay home and consume less within city centres, damaging the job prospects of lower-skilled people in the city centres who depend on that spending.

In the meantime, increased working from home appears not to have coincided with reduced congestion problems, but instead to have displaced travellers into cars as they avoid public transport and city centres. Air pollution has returned to pre-pandemic levels in the Core Cities, even though city centre commuting has not.

These local economic problems arise not from the direct cost of Covid-19, but from how it has changed and may change residents' behaviour towards city centres, spending, and urban travel. The size and importance of the Core Cities means that these choices have consequences for the national economy too. The Core Cities and national government will need to work together to help ensure that their city centres recover. The recently announced Urban Centre Recovery Taskforce will play a crucial role in doing so.

Encourage public transport usage once it is safe

The challenge for the Core Cities will be to encourage city centre workers and firms to return to their offices once it is safe to do so. The message from the Government not to use public transport in the early stages of the pandemic was clear. An opposite campaign of equal magnitude will be required in order to reverse this, and should be a priority for the Core Cities and the new task force.

Tackle air pollution

The rise in private transport usage also raises concerns about longer-term impacts on air pollution. While the pandemic improved air pollution in the spring of 2020, greater car usage means that it might make it worse in the longer term. The cities should look to restart their policy changes to improve air quality that were under way before the pandemic struck, particularly Clean Air Zones.

Focus on commercial property

While the discourse last year latched onto the idea of the 'death of the office', profound changes did take place in England's framework for land-use planning and commercial property. The merger of numerous commercial use classes into the single 'E' class and the ongoing expansion of Permitted Development Rights (PDR) make it easier to switch uses.

The commercial property market will therefore be more flexible, which increases the need for local government to monitor the situation and step in when necessary if the supply of office space in city centres begins to be squeezed. The Core Cities will continue to need high-quality city centre office space as they recover from Covid-19, and will have important roles to play as the Government attempts to both 'Build Back Better' and 'level up'. To counteract this squeeze if it occurs, the Core Cities should either request or extend Article 4 exemptions from PDR for their city centres, while making sure that a pipeline of new homes is built to meet residential demand.

The cities should monitor the quality and use of the public realm around commercial property too. Much work has been done on public realm in recent years, and this should continue in conjunction with new development. It should also be adapted in light of any new requirements from office occupiers in post-pandemic city centres.

Improve local skills

Once the pandemic is over, the underlying social and economic challenges the Core Cities were already facing will still need to be tackled. In the long term, improving the skills of each city's population is essential. The Government's new further education white paper is a step towards this.

But there needs to be greater clarity on how the new Local Skills Improvement Plans will be led in the Core Cities, especially those with metro mayors, as overlapping responsibilities between the Chambers of Commerce, the Local Enterprise Partnerships, and Mayoral Combined Authorities will need to be simplified. The Core Cities should look to the forthcoming Budget and Spending Review for financial commitments from the Government.

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About Centre for Cities

Centre for Cities is a research and policy institute, dedicated to improving the economic success of UK cities.

We are a charity that works with cities, business and Whitehall to develop and implement policy that supports the performance of urban economies. We do this through impartial research and knowledge exchange.

This report is published as part of an occasional series by guest experts to provide a platform for new ideas in urban policy. While they do not always reflect our views, we consider them an important contribution to the debate.

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About Core Cities UK

Core Cities UK is an alliance of 11 cities – Belfast, Birmingham, Bristol, Cardiff, Glasgow, Leeds, Liverpool, Manchester, Newcastle, Nottingham and Sheffield. Its mission is to unlock the full potential of our great city regions to create a stronger, fairer economy and society.

Partnerships

Centre for Cities is always keen to work in partnership with like-minded organisations who share our commitment to helping cities to thrive, and supporting policy makers to achieve that aim.

As a registered charity (no. 1119841) we rely on external support to deliver our programme of quality research and events.

To find out more please visit: www.centreforcities.org/about/partnerships

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