Missing Firm Creation in the UK During the Covid-19 Lockdown (May 2020)

Alfred Duncan
Lecturer, School of Economics, University of Kent

Miguel León-Ledesma
Professor, School of Economics, University of Kent and CEPR

Anthony Savagar
Senior Lecturer, School of Economics, University of Kent and Centre for Macroeconomics

Key Points

- Emerging recovery in business creation over May in line with lockdown easing.
- 38,231 less companies registered over lockdown than equivalent period last year.
- Notable recovery in construction sector in May relative to April. Retail remains hardest hit.
- Northern Ireland, Scotland and Wales harder hit than any English region.
- Wales significantly harder hit with business creation down 40%.

We use near real-time data on business creation in the UK to assess the effect of Covid-19 lockdown policies on economic activity. We find that business creation is 25% less over the lockdown period than the same period in 2019, but recent May figures show signs of recovery. Overall 38,231 fewer firms were registered during lockdown than in the same period last year. The construction sector has recovered slightly in May from being among the hardest hit in April, but the retail sector remains the most adversely affected.

Background

In the latest monthly release of Companies House data, we observe business formation for May 2020. We compare business formation over the lockdown period relative to the same time period last year. We analyse the total, sector and regional effects. The great advantage of our analysis is that it provides a near real-time indicator of economic activity in the UK and therefore the effect that lockdown is having. A decline in the creation of new firms has important consequences for long-run productivity and employment. We cover these negative effects of low business creation in our initial (April) report.
Total Effect

Figure 1 shows a recovery in business creation throughout May relative to April levels. This coincides with loosening lockdown policy. Throughout May business creation is 80-90% of its 2019 levels, whilst during April it was 60%. Overall, since lockdown was implemented on 23rd March 2020, business formation is 25% lower than the same period in 2019. This implies 38,231 fewer firms were registered.

Industry Effect

Figure 2 Change in Company Registrations by Sector
Figure 2 shows that compared to the same period last year business creation is down across all major industrial sectors. On average business creation is down 25% across all sectors. The retail sector is suffering the worst, whilst mining and agriculture are more resilient. Compared to our April report, the current (May) report shows that business creation in construction has recovered considerably. In the April report, construction was the worst affected sector. However, the retail sector remains among the hardest hit moving from second worst hit in April to worst hit over the two months. Retail sector business creation is down 35% relative to the same period as lockdown last year.
Regional Effect

Figure 3 Change in Company Registrations by Region

Figure 3 shows that Wales, Scotland and Northern Ireland have suffered the largest declines in business creation relative to the same period last year, whilst Greater London is the most resilient. All English regions perform better than the three countries under devolved administration. Wales is notably hard hit, with 40% fewer companies being setup than the same period last year. This is worse than any individual industrial sector has performed. The worst sector (Retail) is down 35%.

Figure 4 maps these regional effects. It emphasizes an increase in severity of the economic toll as distance from London increases. This could be because London was the first region to suffer from the covid-19 outbreak, so it is further into recovery than elsewhere. In which case the divergence will be temporary and future data should show greater equality. However, the regional differences among the four devolved administrations could be related to differing lockdown policies that emerged during May. Further data and analysis is necessary to answer these questions.
Figure 4 Map of Regional Effects of Lockdown on Company Registrations