

Box D Trough to Boom: UK firm creation during the COVID-19 pandemic

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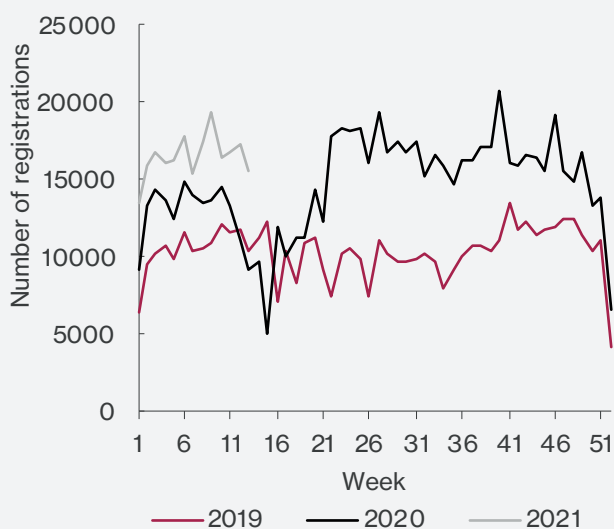
Business creation is an important indicator to monitor especially in the face of large shocks such as Covid-19. In this analysis, we use data from Companies House to calculate new company registrations by sector and geographical area on a daily basis. We use data up to 30 March 2021, to infer how one measure of the supply side of the economy has evolved since the start of the pandemic. All our data and further interactive analysis can be accessed on the project website (www.ukfirmcreation.com).

Following a sharp drop during the initial national lockdown, business registration has strengthened in most sectors even during the second and third lockdown periods. New registrations were particularly strong for online retailers, food and drink providers, sports equipment production and pet care businesses. During the third lockdown, real estate activities recovered significantly relative to their 2019 levels. Our findings are consistent with firm creation activity in the U.S. (Buffington et. al, 2021) and European countries, such as France and Germany (Sneader and Singhal, 2021).

Aggregate company registrations

Figure 1 plots the aggregate number of new registrations by week in 2019, 2020 and 2021. Firm creation displays a sharp decline during the initial national lockdown (23.03.2020-04.07.2020) compared to 2019 levels but recovers strongly afterwards. Firm creation has kept increasing throughout 2020 and 2021 despite the second and the third national lockdowns and other local restrictions that affected certain areas.

Figure 1 Total number of registrations by week



Note: We exclude last week of the year (see here for details)

Source: www.ukfirmcreation.com.

Sectoral changes in company registrations

Figure 2 shows the effect of the pandemic and associated lockdowns on business creation across selected sectors. The figure presents the cumulative change between March 23, 2020 and March 15, 2021 relative to the cumulative change between March 16, 2019 and March 15, 2020.

In the first few weeks after the onset of the initial lockdown in March 2020, cumulative firm creation was lower than cumulative firm creation over the same period in 2019 for all sectors. Cumulative business registrations were lower by 40-60 per cent relative to 2019 levels. The speed of recovery in firm creation varied significantly across industries. Wholesale and retail trade, followed by manufacturing, showed rapid recoveries. In wholesale and retail trade cumulative company registrations in the last year were 120 per cent above their 2019 levels. In the manufacturing sector the figure was 60 percent. Within the broadly defined sectors, there has been a shift in the type of businesses setup. There were particularly strong increases in online retail businesses,² food and drink wholesale providers, sports equipment production and pet care businesses.

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² For instance, registrations in 'Retail sale via mail order houses or via Internet' increase 365 per cent in March 2021 relative to March 2019.

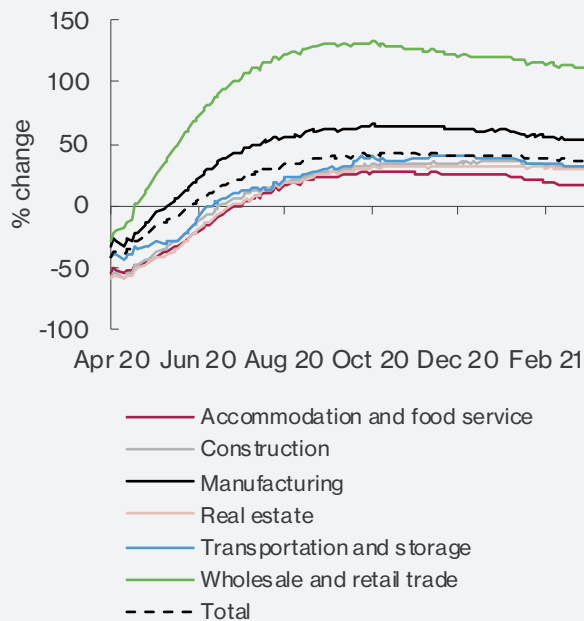
During the third lockdown, which started in January 2021, real estate activities showed a noticeable increase in new business registrations.

Regional changes in company registrations

Figure 3 shows the change in the cumulative company registrations by UK nations between March 23, 2020 and March 15, 2021 relative to the cumulative change between March 16, 2019 and March 15, 2020. In the first few weeks after the first lockdown began, cumulative firm creation was significantly lower than cumulative firm creation over the same period in 2019 for all countries. However, countries did not recover at the same pace. Cumulative business registrations in London recovered to the 2019 levels by May. It took until June for England and Wales to recover; until July for Scotland to recover; and until August for Northern Ireland to recover. From November 2020 to March 2021 there was a flattening, and weak decline, in cumulative firm creation relative to November 2019 to March 2020. This weakening coincided with the second and third national lockdowns and a large fraction of the population being under Tier 4 restrictions. However, despite this ‘cooling off’, cumulative firm creation was over 20 per cent higher in all countries by the final period, and 50 per cent higher in London, suggesting some centralisation of economic activity in the aftermath of the first national lockdown.

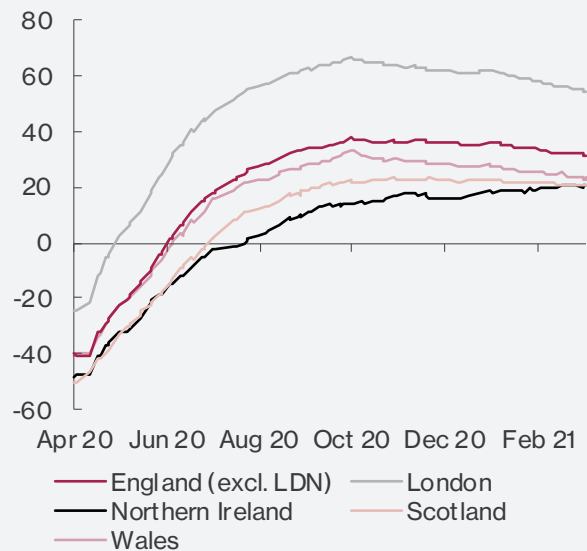
Overall our results show that firm creation in the UK fell sharply during the initial lockdown last year and rebounded sharply during the summer until late autumn. Subsequently the sharp rebounding has tapered off, but one year on the total number of firms created in the UK remains significantly higher than in the non-Covid period. Typically, firm creation is an indicator of future employment trends (see Duncan, León-Ledesma, Savagar, Sedláček, Sterk, 2020) and can improve future productivity. However, our research shows that the COVID-19 pandemic is unusual in that it has shifted firm creation to specific COVID-compliant sectors such as online retailers. Therefore, the productivity and future employment potential of these firms may differ from firms created during normal economic times. Our findings also highlight unequal economic effects of the pandemic across different regions of the UK in terms of firm creation.

Figure 2 Change in new company registrations by sector



Note: Cumulative company registrations by country, 23 March .2020– 15 Mar 2021 (percentage difference from cumulative change in 16 March 2019 – 15 March 2020)
Source: www.ukfirmcreation.com.

Figure 3 Change in new company registrations by country



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Source: www.ukfirmcreation.com.

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