

Firm creation in the UK during lockdown

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Business creation is an informative measure of real economic activity. During exceptional events such as the Covid-19 pandemic, it is important to develop tools that allow us to measure in real time the effect of social distancing policies on the economy. The data available from the UK's Companies House allows us to track new daily company incorporations.¹ The main advantage of this data is in its near real-time nature. Here we look at the results of our analysis of new companies' incorporations in the UK since the start of the lockdown measures up until 30 June 2020. We aim to quantify the extent of supply-side disruption caused by social-distancing measures.

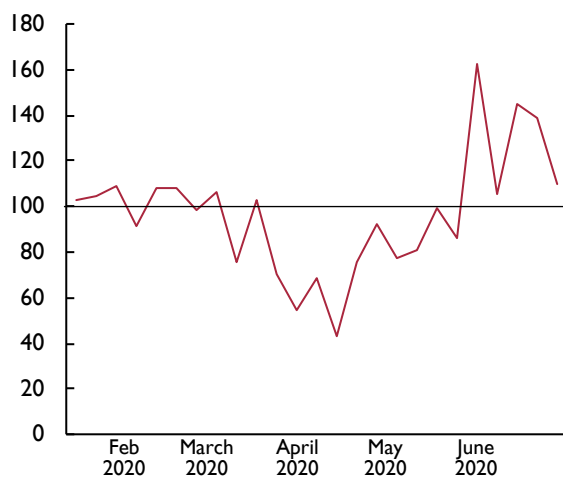
Business creation is also important for deeper economic reasons. Firstly, it is important for productivity dynamics. New firms grow to compete with existing firms, putting pressure on established firms to continue to innovate and keep prices low as consumers have alternative choices. Additionally, successful new firms grow faster than existing firms and have higher levels of productivity (Foster, Haltiwanger and Krizan, 2001). In fact, evidence for the US suggests a small number of high-growth startups account for large portions of aggregate productivity, output, and employment growth (Haltiwanger, Jarmin, Kulick and Miranda, 2016). This is especially important for the UK given its weak productivity performance in the recent past. Secondly, new firms are important for employment creation. A fall in business creation directly reduces the number of jobs created. But this has a long-lasting effect as the firms created during a crisis age (Sedláček, 2020). Furthermore, surviving new firms create more jobs than they destroy, so they are net job creators.²

Aggregate company incorporations

Figure 1 shows weekly company incorporations in the UK since January 2020 relative to the same week in 2019. In the UK, social distancing measures had several stages. On 16 March all non-essential travel was prohibited. On 20 March the closure of pubs, restaurants, and other social contact businesses was announced. The full lockdown was announced on 23 March. Starting 10 May, various measures to ease the lockdown were implemented.

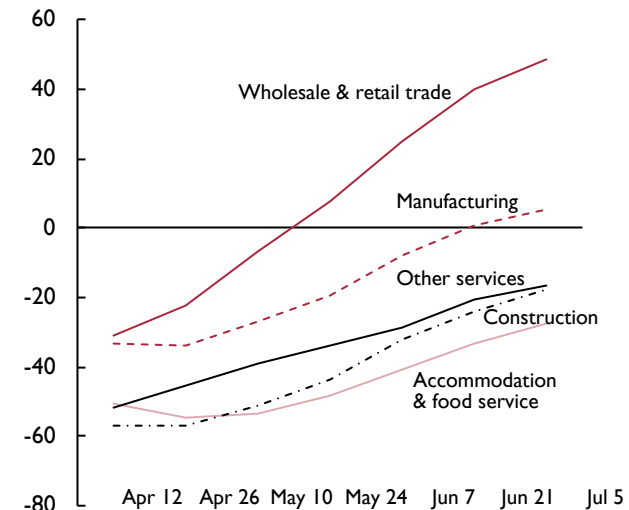
Before the lockdown period, the number of new firms created in 2020 was very similar to the same period in 2019. The number of new incorporations declines sharply after the third week of March (week ending Friday 20th March), which is when lockdown measures were implemented strictly. In the second week of April, new firms created were less than half of those created in the same period last year. There is a recovery in the last two weeks of April which may be driven by different dates for the Easter holiday. However, the recovery in firm creation since mid-May appears to be sustained. Firm registrations in June exceeded their 2019 levels. New company registrations were 60 per cent higher than the same week in 2019 for the week ending 2 June 2020; this week included an announcement extending the Self-Employment Income Support Scheme. Overall, the recovery of business creation coincides with the loosening of lockdown policies. By the end of June, business creation over the lockdown period had

Figure 1. Company registrations per week relative to 2019 level^(a)



Note: (a) Company registrations per week in 2020 (relative to 2019 registrations for the same week = 100)

Figure 2. Change in new firm incorporations by sector^(a)



Note: (a) Cumulative company registrations by industry, 23 March–30 June 2020 (selected industries, % difference from 2019 values).

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almost recovered to 2019 levels; we estimate that, as of the end of June, there are 7,107 missing firms compared with 2019 registrations, representing a fall in firm creation of 3.4 per cent.

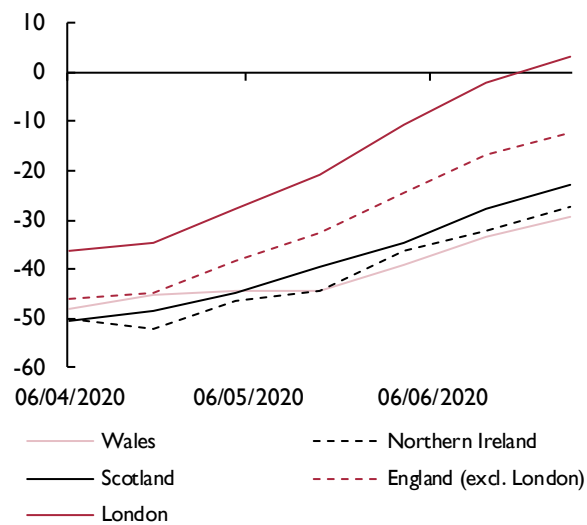
Sectoral change in company incorporations

Figure 2 shows the effect of the lockdown on business creation across key selected sectors. The figure presents the cumulative change since March 23 relative to 2019 values. It shows that the recovery of firm registrations has varied widely across industries. Unsurprisingly, accommodation and food services experience a very sluggish recovery with firm creation still 30 per cent down from 2019 values. Construction recovers faster after being initially the worst hit sector. Wholesale and retail trade recovers the fastest, possibly driven by new registrations of companies offering online and delivery services. Registrations by the end of June are close to 50 per cent higher than in 2019. Finally, manufacturing (as well as other goods-producing sectors not in the plot) had reached 2019 levels by mid-June. In general, sectors that require personal contact with customers and are also less essential in consumption are worse hit.

Regional analysis

Figure 3 shows that Wales, Scotland and Northern Ireland have suffered the largest declines in business creation relative to the same period last year. Although the figure shows a synchronised decline in all regions at the beginning of the lockdown, the recovery has been uneven. In London, firm creation has fully recovered to catch up to 2019 levels. All English regions perform better than the three countries under devolved administration, and are experiencing faster recoveries. Wales is notably hard hit, with 29 per cent fewer companies being registered than the same period last year. These regional disparities cannot be fully explained by geographical differences in industry composition: the fall in business creation in Wales is worse than in any individual sector.

Figure 3. Change in company registrations by region^(a)



Note: (a) Cumulative company registrations by region, 23 March–30 June 2020 (percentage change from 2019 values).

Figure 4. Map of regional effects of lockdown on company registrations. 23 March–30 June values relative to the same period in 2019

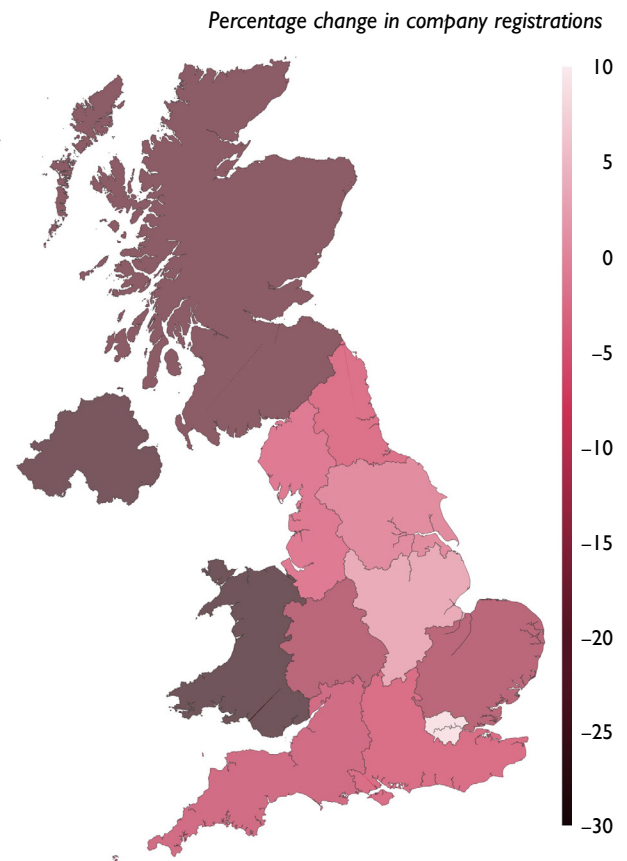


Figure 4 maps these regional differences with a finer disaggregation for the English regions. The strongest performing regions are Greater London and the East Midlands, which both have seen more company registrations than over the same period in 2019.³

Firm creation in the UK during lockdown (continued)

NOTES

- 1 The full data file can be found on the Companies House website (http://download.companieshouse.gov.net/en_output.html). The full list of variables is available at https://github.com/asavagar/companies_house_data_analysis/blob/master/freedataproductdataset.pdf.
- 2 See Sedláček and Sterk, 2020, for a deeper analysis of these points with reference to the US.
- 3 On 29 June 2020, a local lockdown was announced for Leicester, the largest city in the East Midlands region. We expect this lockdown to have a negative effect on East Midlands' firm registrations in July.

REFERENCES

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