

Firm Creation in the UK During the Covid-19 Lockdown (June 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 June in line with lockdown easing.
- 7,107 fewer companies registered between 23 March and 30 June than in the equivalent period last year.
- Notable recoveries in the construction and manufacturing sectors in June. Retail remains the hardest hit sector.
- Northern Ireland, Scotland and Wales harder hit and showing slower recoveries than any English region.
- Wales significantly harder hit with business creation down 29%.

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 3.4% less over the period from 23 March to June 30 than the same period in 2019, with June figures showing a strong recovery. Overall, there were 7,107 fewer companies registered during this period than in the same period last year. The construction sector has recovered strongly in May and June from being among the hardest hit in April. The retail sector remains the most adversely affected.

Background

In the latest monthly release of Companies House data, we observe business formation for June 2020. We compare business formation since the introduction of lockdown measures on 23 March 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 and other policy measures are 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

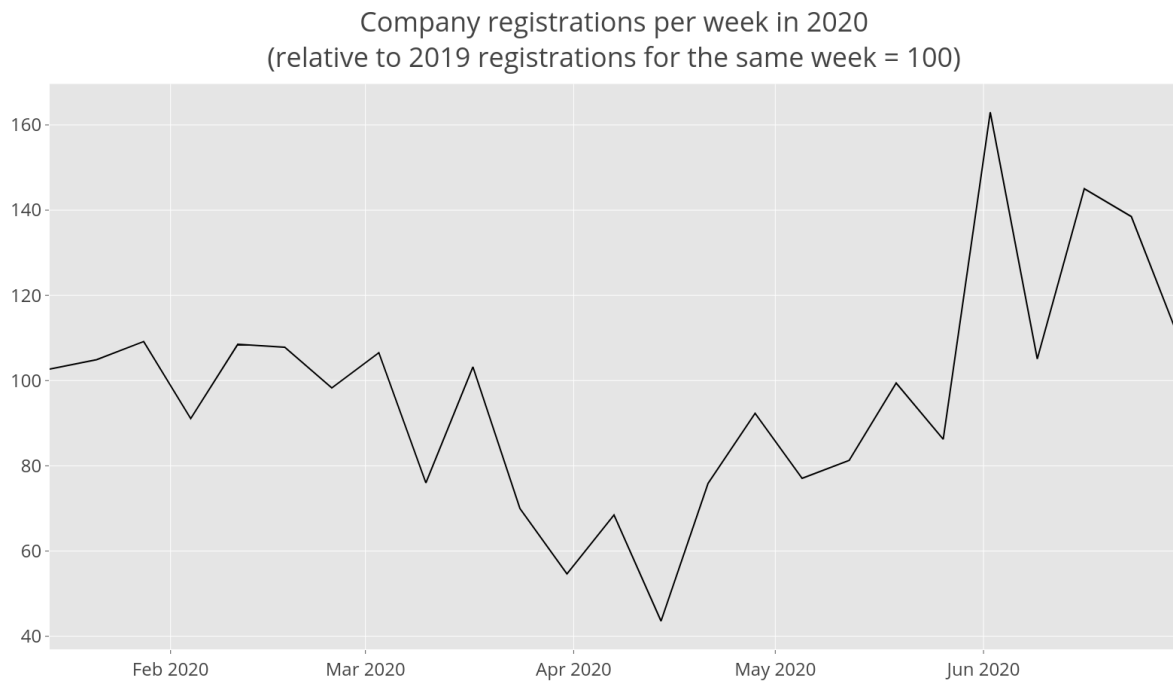


Figure 1 Company Registrations per Week relative to 2019 level

Figure 1 shows a recovery in business creation throughout May and June, with June company registrations exceeding their 2019 levels. New company registrations were 60% 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 loosening lockdown policy. By the end of June, business creation over the lockdown period had 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%.

Industry Effect

Company registrations by industry, 23 March to 30 June 2020
(selected industries, percentage change from 2019 values)

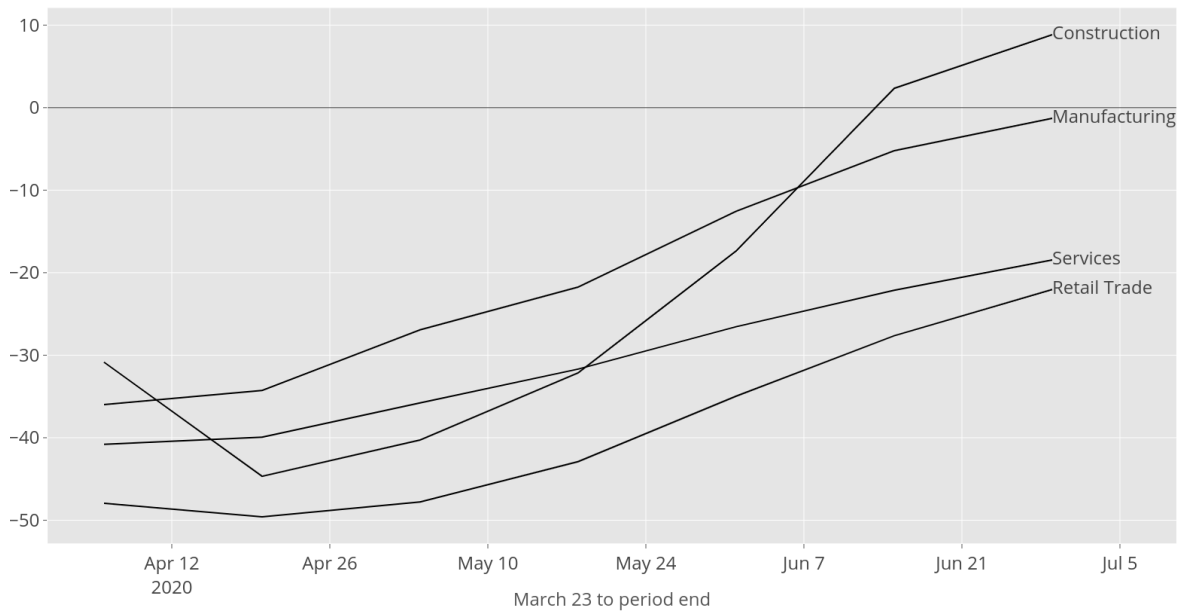


Figure 2 Change in Company Registrations by Sector

Figure 2 shows that the recovery of firm registrations has varied widely across industries. On average business creation is down 3.4% across all sectors. The retail sector has seen the largest reduction in firm registrations: over the period, 22% fewer retail trade firms were registered than over the same period in 2019. Construction was one of the worst hit industries by this measure in the early stages of the lockdown, but as of the mid-June there have been more firms created in the construction sector than in the same period in 2019.

Regional Effect

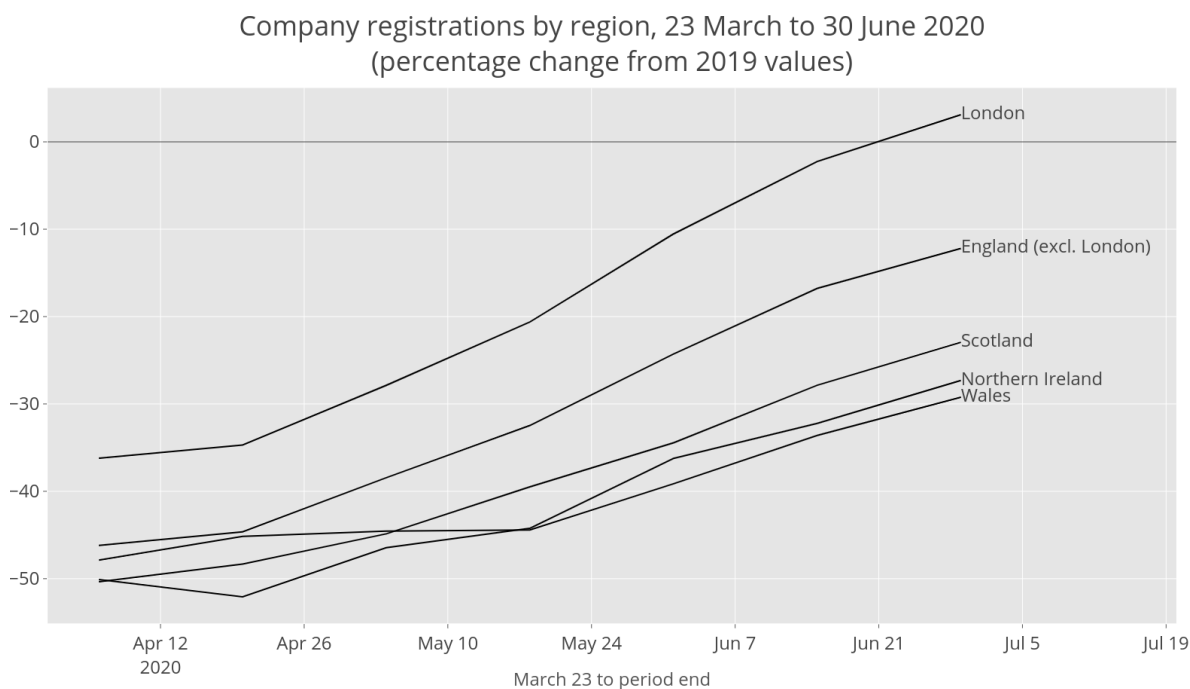


Figure 3 Change in Company Registrations by Region

Figure 3 shows that Wales, Scotland and Northern Ireland have suffered the largest declines in business creation relative to the same period last year. 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% 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 industrial sector.

Figure 4 maps these regional differences. The strongest performing regions are Greater London and East Midlands, which both have seen more company registrations than over the same period in 2019. Our data includes registrations up to June 30 2020. On June 29 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.

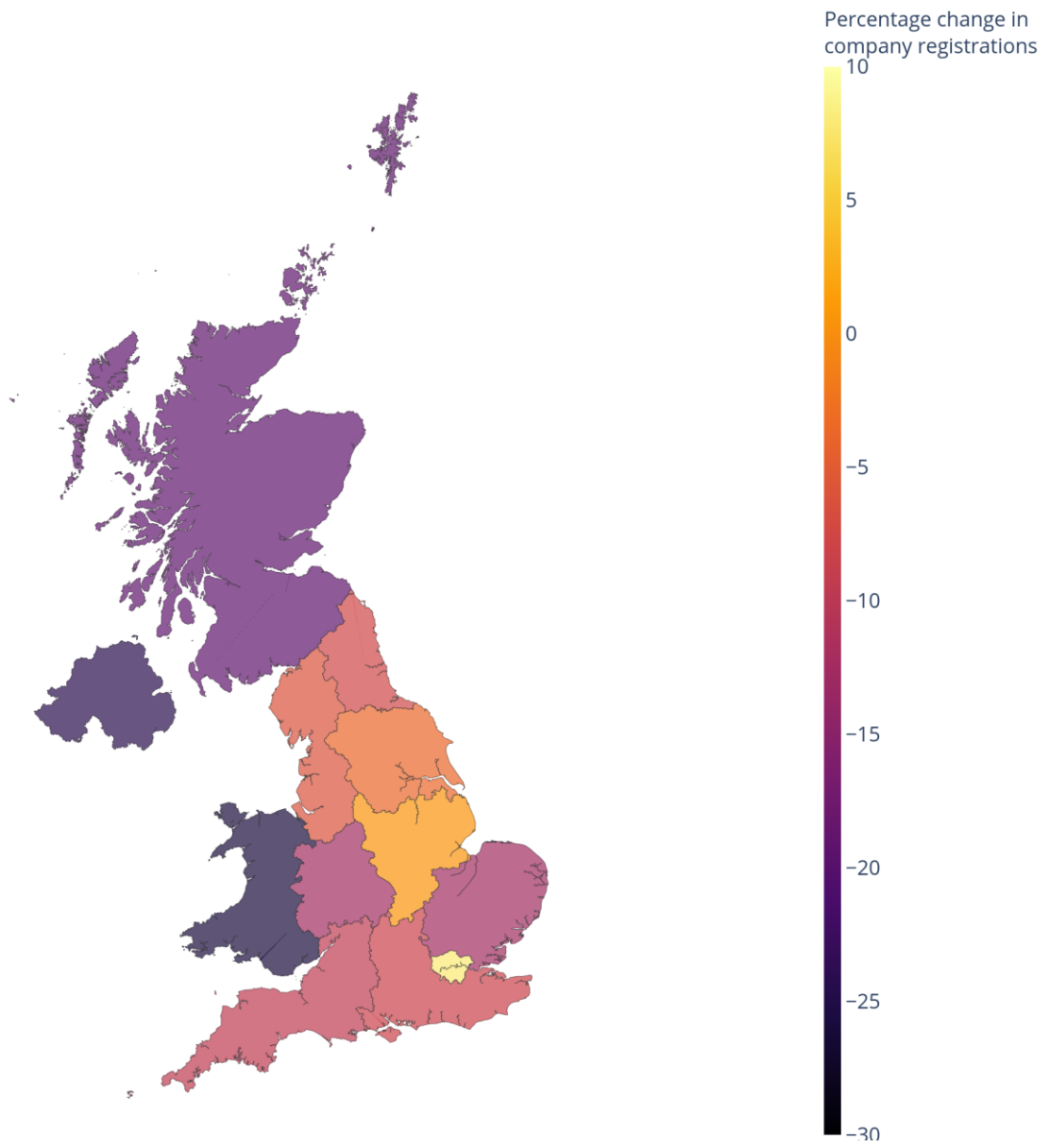


Figure 4 Change in Company Registrations by Region against the same period in 2019, March 23 to June 30