



THE CREATIVE INDUSTRIES AND THEIR SUPPLY CHAINS: IMPACT OF COVID-19

JUNE 2020

This technical note has been prepared as part of the We Made That led research into the impact of Covid-19 on London based Creative Industries Supply Chains.

It provides a summary of quantitative intelligence on the potential exposure of London's creative industries and their supply chains to the economic effects of Covid-19.

The research has been undertaken at a time of rapid flux in terms of the information available and in terms of certainty about short, medium and long term economic scenarios. As such, analysis is intended for illustrative purposes only and figures referenced should be treated as indicative.

CURRENT ECONOMIC IMPORTANCE OF THE CREATIVE INDUSTRIES AND THEIR SUPPLY CHAINS

The economic importance of the creative industries to the London and UK economies is well researched and understood.

Latest research by DCMS¹ estimates that the creative industries generated over £111bn GVA for the national economy, and support over 2 million jobs. Around half of this activity is based in London, with estimated creative industry GVA of around £58.4bn in the city, supporting around 656,000 jobs.

Research for the GLA in 2019², highlighted the significant economic impact supported by the industries beyond their 'direct' footprint. London's creative supply chains are estimated to support supply chain expenditure of c.£40bn in London alone, and around 203,000 jobs across the city. These jobs are distributed in sectors across the economy, with only around half in sectors classified as being 'creative'.

RESEARCH TO DATE ON THE POTENTIAL IMPACT OF COVID-19 ON THE UK ECONOMY

It is still far too early to tell with any certainty the likely scale, depth and breadth of the impact of the Covid-19 shutdown on the UK economy.

Projections of the scale of the recession vary significantly. The ultimate length of the shutdown (and the nature of the transition from this) will be influential in determining how quickly the economy can rebound.

The Office for Budget Responsibility³ (OBR) published comprehensive work in mid-April on the potential scale of the impact. The OBR scenario⁴ assumes a 3-month lock-down, followed by a relatively strong economic bounce-back over the remainder of 2020.

The output from the scenario is a 35% decrease in economic output across the UK in Q2 2020 versus the level of baseline performance which had been expected under normal conditions, and a 13% fall in annual GDP for the whole of 2020. This would equate to the largest fall in annual GDP ever recorded in the UK.

¹ DCMS Sectors Economic Estimates 2018 (provisional): Regional Gross Value Added

² GLA Creative Supply Chains Study, 2019

³ <https://obr.uk/coronavirus-reference-scenario/>

⁴ OBR was clear to point out that the numbers published are a scenario rather than a forecast or projection.



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A more recent scenario released by the Bank of England⁵ in early May is largely in line with the OBR scenario, exploring a slightly higher decrease in 2020 output of around 14%.

While the OBR scenario only provides analysis at a broad sector level (breaking the economy into 16 parts) it highlights a relatively diverse set of outcomes for different parts of the economy, with the most severe impacts expected in the accommodation and food sector, construction, retail, manufacturing sectors, and 'other services' (which includes leisure and cultural consumption activities sectors).

Applying this scenario to the London context suggests a decline in economic output in the city of 34% in Q2 (very slightly lower than the national average of 35%)⁶.

PROJECTED IMPACTS OF COVID-19 ON LONDON'S CREATIVE SECTOR AND SUPPLY CHAINS

Analysis by Oxford Economics and commissioned by the Creative Industries Federation⁷, has highlighted that the creative industries are expected to be one of the parts of the economy most significantly impacted by the Covid-19 lockdown and recession.

Published on 17th June, the research projects that:

- The Creative Industries are facing a combined £74bn revenue loss over the course of 2020 (30%). This is expected to translate into a GVA shortfall of £29bn in 2020 (25%). This is significantly higher than the economy wide contraction in output projected by the OBR scenario (13% in 2020)
- As the focal point of the UK's creative industries, London is projected to account for more than half of this contraction in output. The decline in London creative industries output in 2020 is estimated at £14.6bn (25%)

- The reduction in output projected is expected to result in significant employment impacts. In London, this is projected to equate to 109,800 jobs (permanent and freelance): 16% of the creative industries workforce.

These figures have been used to estimate the potential effects on the London based supply chains supported by London's creative industries. The following approach has been used:

- As a starting point, figures have been used from the 2019 GLA Creative Industries Supply Chain study. This found that London's creative industries generated supply chain expenditure (equivalent to revenue) of c.£40bn within London. Around half of this was in parts of the economy outside of the creative industries themselves
- In the absence of more detailed survey information, we have assumed that the Oxford Economics projected decline in revenue (-30%) generated by the creative industries will result in a

⁵ <https://www.bankofengland.co.uk/report/2020/monetary-policy-report-financial-stability-report-may-2020>

⁶ https://www.london.gov.uk/sites/default/files/londons_economy_today_no212_300420.pdf

⁷

<https://www.creativeindustriesfederation.com/news/press-release-cultural-catastrophe-over-400000-creative-jobs-could-be-lost-projected-economic>



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pro-rata impact on expenditure within the supply chains

- To move from figures on supply chain expenditure to supply chain output, information from the ONS Annual Business Survey on the relationship between turnover and GVA across London's economy has been applied⁸
- To estimate the employment impact, we have again used figures from the 2019 GLA Creative Industries Supply Chain study, which found that for every creative industries job in London, there are 0.75 jobs supported in London based supply chains. This multiplier has been applied to figures from Oxford Economics on the total number of creative industries jobs at risk.

Once applied, the above methodology provides the following findings:

- The total creative supply chain impact within London is estimated to be around £3.3bn in output and 82,400 jobs
- Around half of this impact is within the creative industries themselves (and so

already counted within Oxford Economics projections for the Creative Industries sector). However, around half of the impact lies in sectors outside the creative industries – amounting to around £1.7bn output and 41,200 jobs

- In total, the combined impact to the Creative Industries and its supply chain in London is estimated to be around £16.3bn and 151,000 jobs. This combines the Oxford Economics figures for creative industries impacts with the above estimates for supply chain impacts outside the creative industries
- It is important to note that the government's job retention and self-employment income support schemes are designed to prevent job losses. The number of jobs which are ultimately lost will hinge on the extent to which the creative industries to get 'up and running', in advance of the wind down of the government schemes in early autumn.

Impact Analysis At a Glance

OBR Scenario: Estimated Creative Sector Performance vs Previous OBR Baseline Scenario				
	London Creative Industries	London Based Creative Industries Supply Chains		Total – Creative Industries and Supply Chains
		Total	Outside of Creative Industries	
Estimated Output at Risk - 2020	£14.6 bn	£3.3bn	£1.7bn	£16.3bn
Estimated Employment at Risk - 2020	109,800	82,400	41,200	151,000

⁸ Latest ABS data suggests that across non-financial parts of the London economy, £1m turnover results in

£0.27m GVA <https://www.ons.gov.uk/businessindustryandtrade/busin>

[ess/businessservices/datasets/uknonfinancialbusinessescomonomannualbusinesssurveyregionalresultsectionsas](https://www.ons.gov.uk/businessindustryandtrade/busin)





ECONOMIC IMPACTS OBSERVED TO DATE

With more than 2 months having elapsed since the lockdown began, an increasingly broad set of intelligence is available on the material effects of the lockdown on business performance.

Early estimate of take up of the Government's Job Retention Scheme and Self Employment Income Support Scheme was published on the 11th June 2020⁹. The statistics released provide a broad sector level breakdown of take up of the two schemes across the UK as a whole.

While specific figures are not provided for London's creative industries, the statistics tell us that:

- Across the national economy, around 27% of the workforce has been furloughed and around 70% of self-employed people have taken up the self-employment income support scheme

- Alongside retail sector (which has seen c.58% of employees furloughed), take up of the job retention scheme has been particularly high for the arts and entertainment sector (c.45% of employees furloughed)
- Likewise, the arts and entertainment sector has shown strong take up of the self-employment support scheme – 75% of those eligible (compared to 70% across the economy)
- Matching London's creative industries sub-sectors to the broad sector analysis provided within the statistics enables a high level assessment of the likely scale of impact on London's creative industries. This analysis suggests that around 236,000 creative industries jobs in London could currently be receiving government support – around 34% of the total. Of these, around 113,000 are positions furloughed, and 123,000 are jobs being supported by the self-employment income support scheme.

The Creative Industries Federation ran a survey of creative businesses at the end of March, with a sample of nearly 2,000 businesses. The survey provided some stark headline messages:

- Around and 42% of organisations (and 62% of freelancers) estimated that their monthly income or turnover had decreased by 100% during the lockdown period. *With around 103,000 creative businesses in London, this equates to around 43,500 businesses*
- Around 63% of organisations project an annual decrease in turnover of more than 50% during 2020. *Applying this to the London creative business base would equate to 65,000 businesses.*
- Around 6% of organisations have made all employees redundant, and around 44% have terminated all freelance contracts
- 62% of businesses *(64,000 if applied to the London creative business base)*

⁹ <https://www.gov.uk/government/news/figures-show-uk-government-supporting-incomes-across-all-nations-during-coronavirus>





are experiencing either considerable or very considerable cashflow issues; 37% (38,000) are experiencing considerable or very considerable supply chain challenges

- Over a fifth of businesses (22,000) have applied for or considered applying for the government job retention scheme, of whom around 28% (6,000) have furloughed all of their workforce. Around three quarters of free lancers have applied to or considered applying to the self-employment income support scheme.

The Office for National Statistics have also been publishing experimental statistics on the impacts of the lockdown on the economy, via their ongoing Business Impact of Coronavirus (COVID-19) Survey (BICS). Headlines include:

- Of the businesses responding to the survey, 23% reported they had temporarily closed or paused trading. *Applying this to London's creative sector would equate to 15,800 businesses*
- Of responding businesses that were continuing trading, 58% reported their turnover was lower than normal. *Applying this to London's creative*

sector would equate to 47,500 businesses

- Of businesses who were continuing trading, 41% of businesses who responded said they were reducing staff levels in the short-term. *Applying this to London's creative sector would equate to around 34,000 businesses laying off staff to some degree*
- Of responding businesses that were continuing trading, 6% reported not being confident about being able to continue to operate through the outbreak. *Applying this to London's creative sector would equate to 15,800 businesses*
- Of responding businesses that were continuing trading, 11% reported not being able to get hold of the goods or materials they need to keep trading. *Applying this to the creative sector equates to around 4,900 businesses struggling with their supply chains.*



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