

Global City Performance

Relative underperformance of major cities continues into 2021, but brighter outlook forecast

- **Cities around the world continued to underperform through to the first quarter of 2021**
- **Metropolises in Europe and Americas see worsening performance in March as lockdown measures tighten**
- **But London registers most upbeat outlook for output across Q1, followed by Tokyo**

As was the case throughout much of 2020, a range of major cities across the world have continued to underperform relative to the rest of their respective nations into the first quarter of the year, as ongoing containment measures continue to stifle many economies. This paper follows our [earlier research](#) into the relative performance of cities amid COVID-19 with extended coverage around the globe – now covering cities in 20 nations – and the inclusion of the PMI™ Future Activity Index, to analyse how the outlook for output over the coming year differs both between major metropolises themselves, and between the cities and the rest of their nations. These additional data suggest that companies in large cities are generally confident that their fortunes will revive as vaccine rollouts help to subdue the virus and enable a return to more normal conditions.

We again utilise our City Performance Scores to analyse the relative performance of cities compared to the rest of the respective nation, and relative to one another. These scores use the Composite Output Index and Future Activity Index data across manufacturing and private sector services firms in a range of cities. The scores are a three-month moving average of the difference between the PMI index for the city and that for the rest of the country, minus the average difference between the two since January 2015. This figure is then normalized to ensure comparability between scores.

These scores provide us with valuable insights into the relative performance of cities with respect to output, as well as in terms of business confidence, through the inclusion of the PMI's principal forward looking indicator.

Our expanded coverage to 20 metropolises across the globe, each of which were selected as a large population centre and/or city economy in countries for which we produce PMI data, were guided by panel sample sizes to ensure robust results. Where a country has several cities of economic or population importance and panel members are evenly spread, these have been combined to produce a single city score for

that country, which again compares the relative performance of these areas combined against the rest of the respective nation.

Pandemic hits city performance across the world

Across Europe, our performance scores cover Paris, London (produced in association with Natwest), Dublin (produced in association with Dublin City Council) and an amalgamation of cities in Germany (Berlin, Munich, Hamburg, Cologne and Frankfurt), Italy (Rome and Milan) and Spain (Barcelona and Madrid). In the Americas, scores are calculated for Mexico City as well as a combination of major cities in the US, Brazil, Canada and Colombia. Tokyo, Seoul, Kuala Lumpur, India's two largest population centres (Mumbai and Delhi) and a combination of two of Vietnam's largest cities make up our Asia coverage, with performance scores also created for Istanbul, Riyadh and a combination of cities in both South Africa and Australia respectively.

Our data show a clear trend across the board in terms of city performance. Since the start of the pandemic in February 2020, every city monitored has recorded a period of relative underperformance compared to the rest of their nation (with the exception of India). A sustained trend has been observed primarily in Europe and the Americas, however, with many metropolises underperforming through much of the pandemic.

In May 2020, 15 of the 20 monitored cities registered a negative performance score, pointing to an underperformance. This was most marked in Italy, the US and Spain, which saw scores of -2.3, -2.1 and -2.0 respectively just before the midway point of 2020. The second half of the year saw a more mixed bag of results, with many Asian cities, most notably Tokyo, reporting a return to an outperformance as lockdown measures eased and economies began to reopen.

These signs of improvement were reversed in the closing months of 2020, however, with a record (since March 2015) 17 of the monitored metropolises posting an underperformance in November of last year, the most severe of which were again seen in Europe, as further waves of virus infections led to again stricter containment measures.

City Performance Scores



[^]3-month average of difference between the PMI Output Index for the city/cities and rest of the country, minus the average difference since January 2015.
* Manufacturing only

Source: IHS Markit

Indeed, this follows our initial hypothesis and reasoning for analysing the relative performance of cities during the pandemic, with cities faring worse amid COVID-19 related restrictions which turn footfall away from crowded areas, move workers away from urban offices to remote working, and due to the high probability of infection in densely populated areas or spaces, force high streets, shopping centres and hospitality venues to close. Even when non-essential businesses have been opened, mandatory mask-wearing and the risk of infection is likely to have deterred many shoppers, particularly in the opening stages of the pandemic.

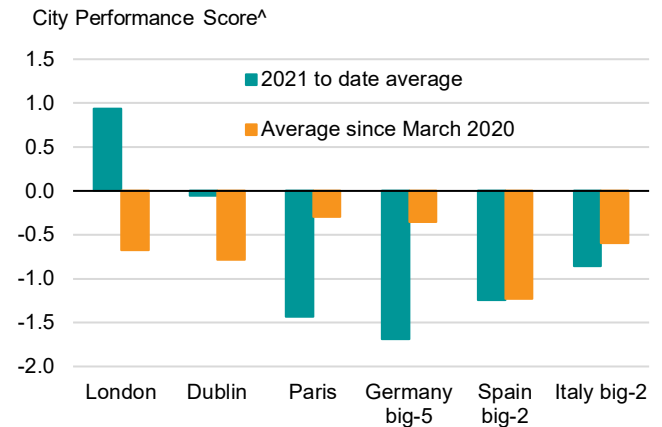
Virus resurgence deals blow to western cities in Q1

Metropolises across Europe and the Americas have seen a particularly marked and sustained underperformance since the start of the pandemic last February, with City Performance Scores climbing into positive territory in only a few instances. Dublin, Paris and cities in Germany, Spain, Italy, Mexico and Colombia have each registered their most severe underperformance since 2015 amidst the pandemic. The lowest recorded score across western cities was -2.6 in Dublin in May 2020, pointing to an unprecedented underperformance of private sector output in the Irish capital relative to the rest of the country.

This trend of city underperformance across Europe and the Americas has again worsened during the opening quarter of 2021, in line with the resurgence of virus cases – a third wave – and subsequently tighter lockdown measures. Paris saw its

most marked underperformance of the pandemic so far in March 2021, while for the amalgamation of German cities, the record low was seen in January, both with a performance score of -1.8. Indeed, across Europe, stricter measures have coincided with a greater degree of city underperformance during the first three months of 2021, with similar trends observed for Paris and cities in Spain and Italy.

European City Performance Scores

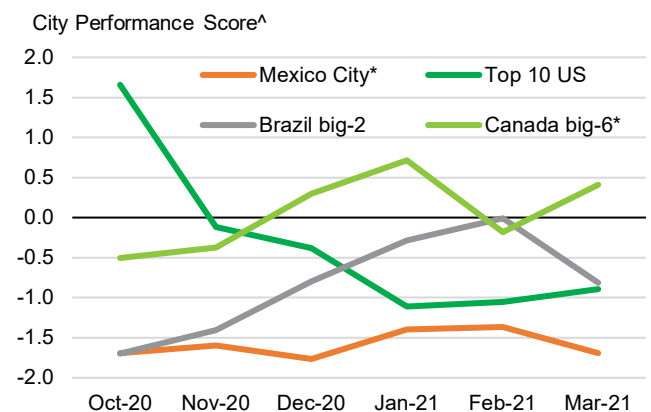


[^]3-month average of difference between the PMI Output Index for the city/cities and rest of the country, minus the average difference since January 2015.

Source: IHS Markit

In the US, a stark underperformance of the top 10 cities during the spring of 2020 was briefly reversed through August to October last year, in line with looser lockdown restrictions and a rebound in the economy. But, the metropolises have returned to a relative underperformance in each month since November, as big cities have again seen shutdowns due to rising case numbers.

Americas City Performance Scores



[^]3-month average of difference between the PMI Output Index for the city/cities and rest of the country, minus the average difference since January 2015.

* Manufacturing only

Source: IHS Markit

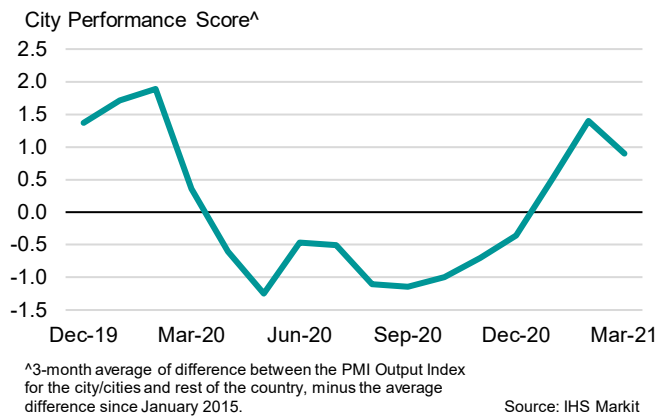
London outperforms in Q1

A notable exception is London, which recorded a stark turn of fortunes during Q1, potentially reflecting the success of the UK's vaccine rollout. The city outperformed the rest of the UK

in each of the first three months of the year, the performance score reaching a year-long high of 1.4 in February and signalling a sharp relative overperformance.

Dublin was the only other European city to see its Performance Score return to positive territory in March. At +0.5, it pointed to only a moderate outperformance relative to the rest of Ireland, although notable nonetheless as the first sign that the capital is returning to its position as a sort of economic powerhouse following the pandemic.

London City Performance Score

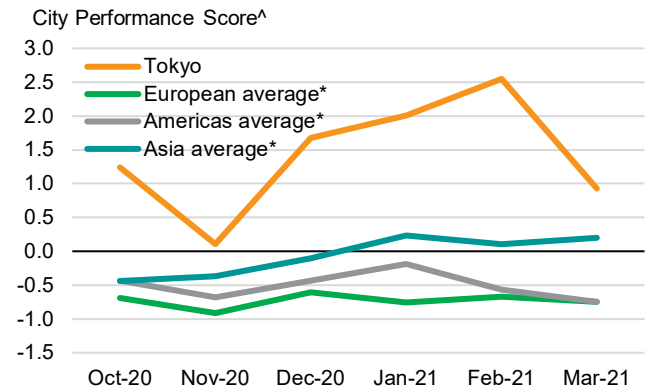


Tokyo bucks trend towards end of 2020

Tokyo has also been one of the better scorers, particularly since the second half of last year. Our City Performance Score highlighted a five-month long period of underperformance, beginning in April 2020, with Japan's capital seeing record low scores in both June and July. Since last September, however, Tokyo has outperformed the rest of the nation in terms of output in each month. This is most pronounced through the opening quarter of 2021, where the overperformance of the metropolis reached record levels.

The City Performance Score hit 2.0 in January and then 2.5 in February, indicating that the performance of output in the city was far greater than for the country as a whole. Despite falling to 0.9 in March, Tokyo has nonetheless been the best performing major city of those monitored throughout 2021 to date. In March, only Saudi Arabia's capital, Riyadh, saw a higher score (+1.6).

Tokyo and regional average City Performance Scores



[^]3-month average of difference between the PMI Output Index for the city/cities and rest of the country, minus the average difference since January 2015.

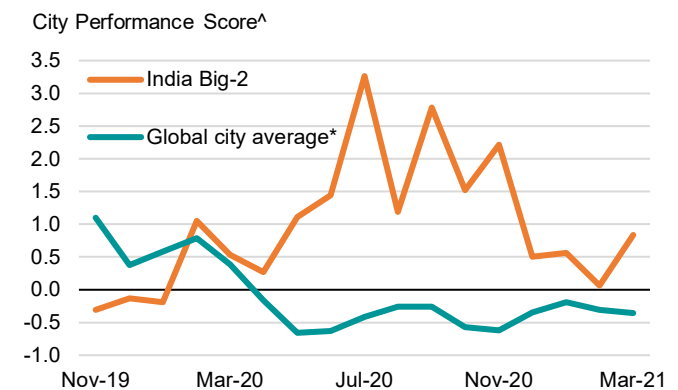
* Average of scores across monitored cities in region

Source: IHS Markit

India's cities maintain outperformance during pandemic

India's two largest cities by population and GDP (Mumbai and Delhi) have provided another standout, but as an exception to COVID-related underperformance as a whole, according to our data. The amalgamated city performance score has remained in positive territory since February 2020, reaching a record high of 3.3 in July of last year. This is in fact the highest performance score across any city monitored on record. That said, the performance score did hit recent lows in March and April of 2020, in line with the government shutdown to curb the pandemic, although these still pointed to output broadly in line with the rest of the country.

City Performance Score, India big-2 vs rest of world



[^]3-month average of difference between the PMI Output Index for the city/cities and rest of the country, minus the average difference since January 2015.

* Average of scores across remaining 19 monitored cities

Source: IHS Markit

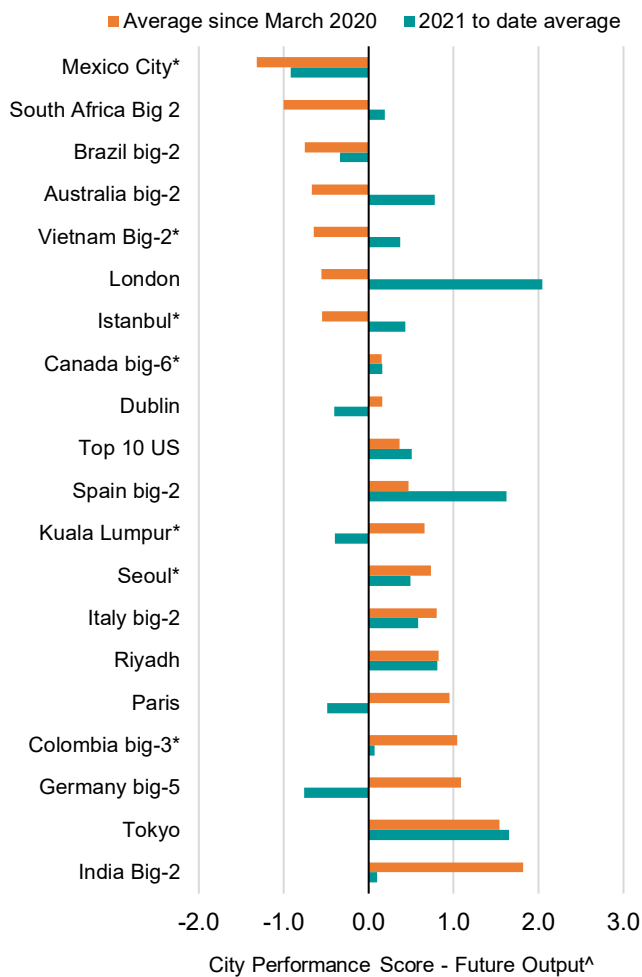
Cities far more confident of a recovery

The extension of our research to include the relative level of business confidence – as monitored by the PMI Future Output Index – in cities highlighted another interesting trend. Despite the general underperformance of metropolises around the world due to the pandemic, there are signs that cities are

confident that the coming year can provide something like a return to normality. Performance scores for future output hit negative territory for 13 of the 20 monitored cities at the onset of the pandemic in February and March of last year, most notably in Brazil, Australia and Spain, with the lowest score for future output during the pandemic coming from London in May 2020, in line with sustained lockdown measures.

During the second half of 2020, our monitored metropolises generally recorded a more optimistic outlook than the rest of their countries, however. India's big two cities take the record here, with the performance score at 3.4 in July of 2020 and remaining strong throughout much of the latter part of last year, although this is perhaps rather less surprising given the positive output scores recorded there.

City Performance Scores, Future Output

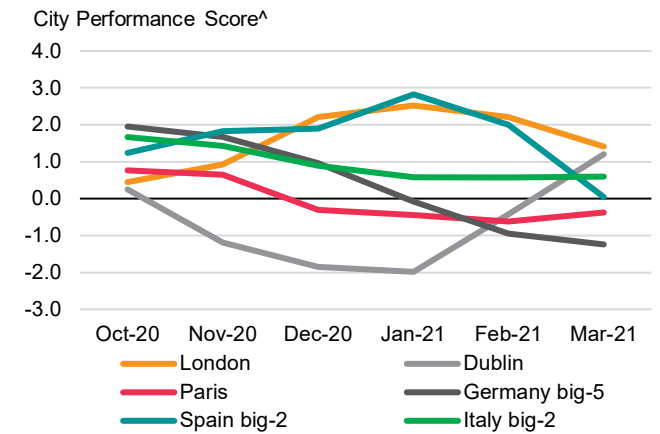


[^]3-month average of difference between the PMI Future Output Index for the city/cities and rest of the country, minus the average difference since January 2015.
* Manufacturing only
Source: IHS Markit

Vaccine rollout and looser measures buoy city confidence

The trend of optimism among major metropolises has since become more pronounced, particularly in the opening months of 2021 amid the progression of the vaccine rollout and easing of restrictions at that point. European cities have seen the most substantial level of relative optimism of late: London's score hit 2.2 in December, before climbing again to 2.5 in January and has since continued to suggest that companies in the city are far more confident towards output over the next year in both February and March (City Performance Scores at 2.2 and 1.4, respectively). Metropolises in both Spain and Italy also saw a noticeable recovery of sentiment in the latter part of 2020.

Europe City Performance Scores, Future Output

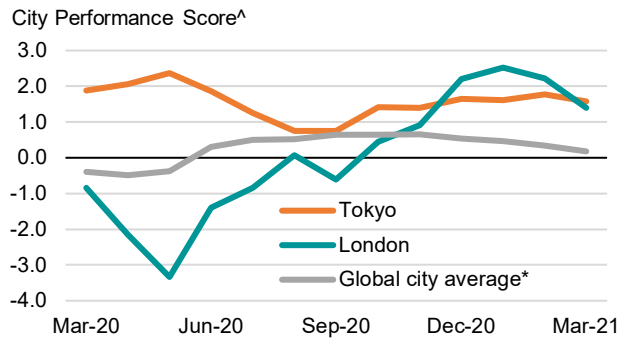


[^]3-month average of difference between the PMI Future Output Index for the city/cities and rest of the country, minus the average difference since January 2015.
Source: IHS Markit

In Asia and the Americas, meanwhile, the data have shown another mixed bag. The US cities have seen a strong turnaround to relative confidence since last July, although the level of outperformance has moderated throughout the first quarter of this year. Brazil's big two cities have generally remained downbeat relative to the rest of the country, although here these areas have seen a much greater impact from the pandemic. Cities in Vietnam, Australia, Canada and India, as well as Seoul and Tokyo have seen a return to a relatively stronger outlook for the year ahead through the turn of the year.

The latest data point to Tokyo as being the greatest outperformer, the performance score for future output was at 1.6 in March, followed by London at 1.4, both of which are indicative of a vastly more optimistic outlook than the rest of their countries respectively. In contrast, cities such as Mexico City and those in Germany saw scores deep into negative territory as the pandemic continued to cause severe disruption to operations.

Selected City Performance Scores, Future Output



[^]3-month average of difference between the PMI Future Output Index for the city/cities and rest of the country, minus the average difference since January 2015.
*Average of 20 monitored cities
Source: IHS Markit

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City Performance Score data - Output Index

Region	City	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21
Europe	Dublin	-0.8	-1.8	-0.7	-0.6	0.0	0.5
	Germany Big-5	-0.9	-1.0	-1.3	-1.8	-1.7	-1.5
	Italy Big-2	0.3	-0.2	-0.1	-0.8	-0.9	-0.9
	London	-1.0	-0.7	-0.4	0.5	1.4	0.9
	Paris	-0.8	-1.2	-1.0	-1.0	-1.5	-1.8
	Spain Big-2	-1.0	-0.6	-0.2	-0.8	-1.2	-1.6
Americas	Brazil Big-2	-1.7	-1.4	-0.8	-0.3	0.0	-0.8
	Canada Big-6*	-0.5	-0.4	0.3	0.7	-0.2	0.4
	Colombia Big-3*	0.1	0.1	0.5	1.1	-0.2	-0.8
	Mexico City*	-1.7	-1.6	-1.8	-1.4	-1.4	-1.7
	Top 10 US	1.7	-0.1	-0.4	-1.1	-1.1	-0.9
Asia	Australia Big-2	-2.7	-1.3	-0.1	1.1	-0.4	0.4
	India Big-2	1.5	2.2	0.5	0.6	0.1	0.8
	Istanbul*	-0.3	-0.5	-0.4	0.0	0.6	0.2
	Kuala Lumpur*	-1.8	-1.6	-0.5	-0.1	-1.6	-1.5
	Riyadh	0.3	-0.8	-0.8	-1.4	0.3	1.6
	Seoul*	-0.2	-0.2	-0.6	0.2	0.2	0.4
	Tokyo	1.2	0.1	1.7	2.0	2.5	0.9
	Vietnam Big-2*	-1.6	-0.8	-0.8	-0.5	-0.8	-1.1
Africa	South Africa Big-2	-1.5	-0.7	-0.2	-0.1	-0.2	-0.5

City performance scores. >0 = relative outperformance. *manufacturing only

Source: IHS Markit.