

MONITORING THE BUSINESS AND ECONOMIC IMPACT OF COVID-19

Week beginning 01 June 2020

ECONOMIC CONDITIONS

Forecasts suggest that the Coronavirus could cut global economic output in 2020 by between 6.4% under a 3-month containment scenario, and 9.7% under a 6-month containment. The Asian Development Bank suggests that Government policy responses —such as direct income and revenue support—could soften the COVID-19 impact by as much as 30%–40%, reducing the global economic loss to \$4.1 trillion–\$5.4 trillion (4.5%–5.9% of global GDP).

Rate of decline eases in the Eurozone. The headline Eurozone PMI for April was 30.5, up from 13.6 in March but still well below the neutral 50.0 position as the economy shows tentative signs of restart. The employment index hit a new low of 37.1, signalling continued job losses. Although France and Germany are now officially in recession, their latest PMI results showed that the rate of decline had eased off. The unemployment rate in the Eurozone rose to 7.3% from 7.1% in March, while the jobless rate for the whole EU was 6.6% in April, up from 6.4% in March

US unemployment rate heading for 25%. There have been 41 million new unemployment claims in 10 weeks (2.1m in the last week). The unemployment rate in April was 14.7%, with economists suggesting that the rate is now at 21.5%. The US Labor Department also reports that 25 million people filed 'continued claims' (meaning they've been receiving help for more than one week) plus another 2.23 million claims under the Pandemic Unemployment Assistance Programme. This wipes out decade of (+23m) jobs growth between 2010 and 2020. More positively, payroll job losses in May (notified by payroll firm ADP), at 2.76 million were much smaller-than-expected and nowhere near April's revised figure of 19.6 million job losses. Foreign-owned companies, and companies active in international markets accounted for 30% of Thames Valley Berkshire's jobs, and it is important to understand the international context for trade and economic restructuring.

The UK economy is showing tentative signs of improvement as the country eases out of its lockdown with job vacancies starting to reopen, household spending contracting less sharply and more companies returning to business. Motor vehicle usage has also risen while property searches have jumped in the still fragile housing market since the initial lifting of Covid-19 restrictions on May 11. The overall picture remains one of activity at depressed levels compared with before the pandemic – with the forecast, on average, for an 8.6% contraction in economic output and recession in 2020.

Real-time indicators suggest that the UK economy began gradually emerging from the lockdown from early May. Job websites suggest the labour market may have reached its lowest point during April. In the month to May 24, the number of job vacancies rose 9 per cent partially due to a 20 per cent increase in healthcare posts, according to data from the government website Find a Job. The website LinkedIn also showed how the hiring of new staff deteriorated at a slower pace in the first week of May compared with the steep fall in April, while the drop in UK job postings on the website Indeed has stabilised. Household spending took an unprecedented hit and fell 40 per cent in April, according to transaction data published by the London School of Economics. However, the contraction in spending was half as steep in the week to May 24 compared with the last week of March, according to data from Fable Data, a company that aggregates transaction data from banks, credit card providers and fintech companies. Shopping habits are also normalising, according to data from SimilarWeb, whose data show that the spike in visits to supermarket websites eased in May compared with April and the contraction in visits to fashion websites was less steep, while traffic to the websites of luxury goods producers started to grow again. Government data show a pick-up in motor vehicle usage, but no significant increase in the use of public transport.

The UK housing market is subdued, with the highest monthly fall in average house prices since February 2009. In the first week after the market reopened on May 13, the property website Zoopla reported a weekly 88 per cent jump in demand, defined as browsing on the website followed by inquiry. Yet harder measures of market activity, such as sales agreed, are more subdued, rising from levels that are just a tenth of typical sales volumes at this time of year. The number of approved home loans fell by 80% compared to February, to just 15,800. This was around half the number of approvals that were logged during the worst periods of the global financial crisis and the worst since records began in 1993. Remortgaging performed better, having fallen just 34% to 34,400 since February. It came as borrowers tried to take advantage of the drop in interest rates, with the Bank of England base rate now at 0.1%. Nationwide Building Society data showed that the average price of a home in the UK dropped 1.7% in May from the previous month to £218,902. This comes after April's 0.9% gain and is the biggest monthly fall since February 2009.

IMPACT ON BUSINESSES

In the latest ONS coronavirus business survey (04 May to 17 May 2020), 81% of businesses were continuing to trade between 4 May and 17 May 2020, while 18% reported they had temporarily closed or paused trading. 79% of businesses in the UK had applied for the Coronavirus Job Retention Scheme, whilst 42% of businesses had less than six months of cash reserves. Overall, 4% of responding businesses had no cash reserves; this rose to 7% for businesses who had paused trading. Of the 14% of businesses who reported they had paused trading but are intending to restart trading in the next two weeks, they expect 31% of their workforce will return from furlough leave. The Coronavirus Job Retention Scheme was the most popular government support scheme, with 79% of all responding businesses applying; 27% of the workforce in these businesses had been furloughed.

Manufacturing leaders call for emergency bailout. Make UK, representing 20,000 engineering, manufacturing and technology companies has called for direct state support to ensure firms survive during Covid-19. Make UK claims that the extent of the damage caused by the coronavirus crisis and lockdown measures was so widespread that failure to provide direct support this year could drive companies to the wall. Urging the government to step in, it said firms would need help to service debts they had accumulated during the crisis, and that firms in aerospace, automotive and steel would benefit

most from direct aid. Other major countries have taken such an approach, including France, where Air France has been forced to cut back its domestic routes if train journeys could be used as an alternative in exchange for a €7bn (£6.3bn) government bailout.

Retail stores planning to reopen. Fashion retailer Primark is preparing to reopen all its 153 stores in England on 15 June, according to its owner Associated British Foods. Primark is installing hand sanitiser stations and perspex screens at tills and handing out face masks and gloves to staff in preparation for the reopening of stores in England. This comes after 14% of UK shops reported no turnover at all in April, due to the Covid-19 shutdown – including 27% of clothing and footwear outlets (where takings halved last month), and almost 40% of department stores.

Nationwide Building Society has seen its annual profits almost halve, in part due to the impact of hundreds of thousands of customers taking payment holidays due to the coronavirus. Nationwide's pre-tax profits fell by 44% from £833m to £466m in the year to 4 April. 280,000 nationwide customers have so far opted to take a payment holiday which has cost the company £101m:

More job cuts announced in vulnerable sectors. EasyJet announced 4,500 job cuts on 27 May. EasyJet has laid out fresh cost cutting plans that will involve axing up to a third of its 15,000-strong workforce in response to the Covid-19 crisis. EasyJet said its fleet will also involve 51 fewer aircraft than expected by year-end 2021. Major global automotive manufacturers continue to announce job cuts world-wide, including Renault (15,000) and ZF (15,000). Several restaurant chains have either entered administration or have announced outlet closures including The Casual Dining Group (Bella Italia, Café Rouge) and The Restaurant Group (Wagamama, Garfunkel's, Frankie & Benny's).

UK banks are warning that up to half of the £18.5bn of "bounce back" coronavirus loans are unlikely to be repaid. Under the terms of BBL participation it is made clear that banks bear the responsibility of pursuing defaulting borrowers.

IMPACTS ON WORKERS AND UNEMPLOYED

The UK Labour Market Outlook is deteriorating rapidly. There has been a rapid increase in unemployment, with a rapid loss of jobs and working hours. The number of vacancies posted by employers has fallen even more sharply than in the aftermath of the 2008 financial crisis, even on a quarterly basis. Payrolls fell in April – as evidenced by HMRC data, suggesting a 1.6% drop in the numbers of employees in April.

Working hours fell in March. Average weekly hours worked fell to their lowest level in almost nine years. During Jan-Mar 2020, weekly hours worked averaged 31.4 hours per worker. This was down 0.5 hours (or 1.5%) on the previous quarter, down 1.0 hours (or 2.7%) on the same time last year, and the lowest level since Apr-Jun 2011.







Employer's hiring and HR intentions fell significantly. Vacancies fell to their lowest level for over six years and registered the biggest quarterly fall since the start of the time series in 2001. Online job adverts declined by more than 50% from the start of March to the start of May 2020. Using figures from job adverts provided by Adzuna (an online job search engine), the total number of online job adverts was relatively stable from the start of 2019 until the beginning of March 2020, after which it began to decline rapidly. This decline continued for two months, with total job adverts levelling off from the start of May to around 43% of its 2019 average.

There was a sharp increase in the number of claimants in April. The number of claimants totalled 2.1 million – up 69.0% on March 2020 and up 94.2% on the same month last year. The claimant count rate rose to 5.0% of the working age population – up 2.0 percentage points on the previous month and up 2.4 percentage points on a year ago. South-east of England saw one of the biggest increases. Unemployed claimants increased by 8,600 between March and April in Thames Valley Berkshire, raising the claimant rate from 1.9% to 3.0%. Slough has experienced a large rise in particular – from 3.0% to 5.1%.

CIPD / Addeco survey (18 May) showed that many firms had only been able to avoid lay-offs by freezing pay, putting a stop to hiring, cutting bonuses and making extensive use of the government’s furlough scheme. 50% of private sector employers planning to freeze pay, 15% expecting pay cuts, 29 % expecting to cut bonuses. The Institute of Student Employers (ISE) survey: Graduate recruitment down 12%. All types of entry-level roles have been reduced this year by 23%. Local intelligence in Thames Valley Berkshire reinforces this view – with local employers implementing cuts to pay and imposing freezes on pay increases.

UK lenders have granted around 1.5 million payment holidays on credit cards and personal loans for customers impacted by the Covid-19 outbreak and lockdown. Figures from UK Finance show that there has been a near 30% increase in payment delays being granted across both products since the start of May. Currently 877,800 credit card customers have been granted a freeze, representing around 1.7% of the total 51 million accounts run by its members. 608,000 personal loan customers have been put on a payment holiday, which is around 6.8% of the 9 million accounts run by UK Finance members

GLOBAL IMPACT

	<p>6,511,713 confirmed cases of Covid-19 (John Hopkins University, 04 June 2020)</p>		<p>Travel restrictions apply in over 100 countries</p>
	<p>2,808,183 patients recovered 386,091 deaths (John Hopkins University, 04 June 2020)</p>		<p>Central banks have cut interest rates in over 50 countries</p>
	<p>276,332 lab-confirmed cases 39,045 deaths of patients in hospitals (PHE, 03 June 2020)</p>		<p>IMF: world economic output to contract by 3% in 2020 WTO: world trade will shrink by 13% in 2020 UK economy – consensus view: heading for 8.6% contraction in 2020</p>