

Economy briefing impacts of COVID-19

Week beginning Monday 18 May

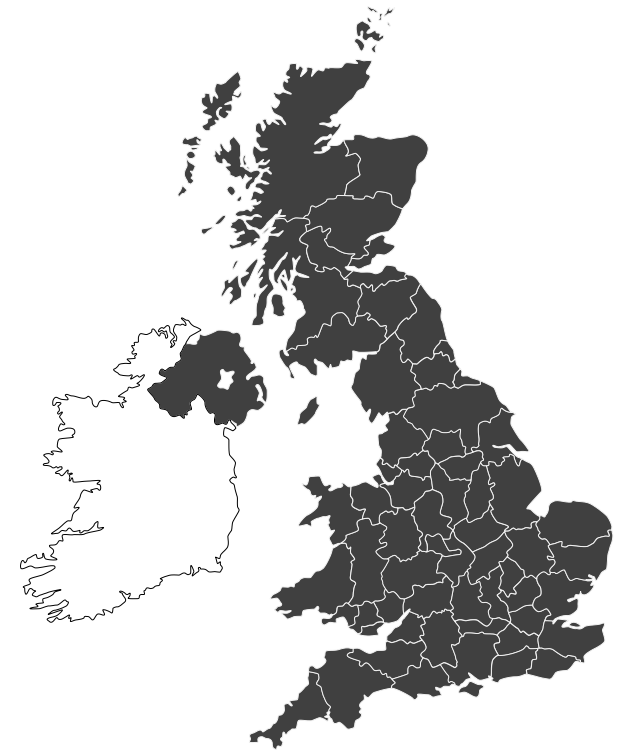
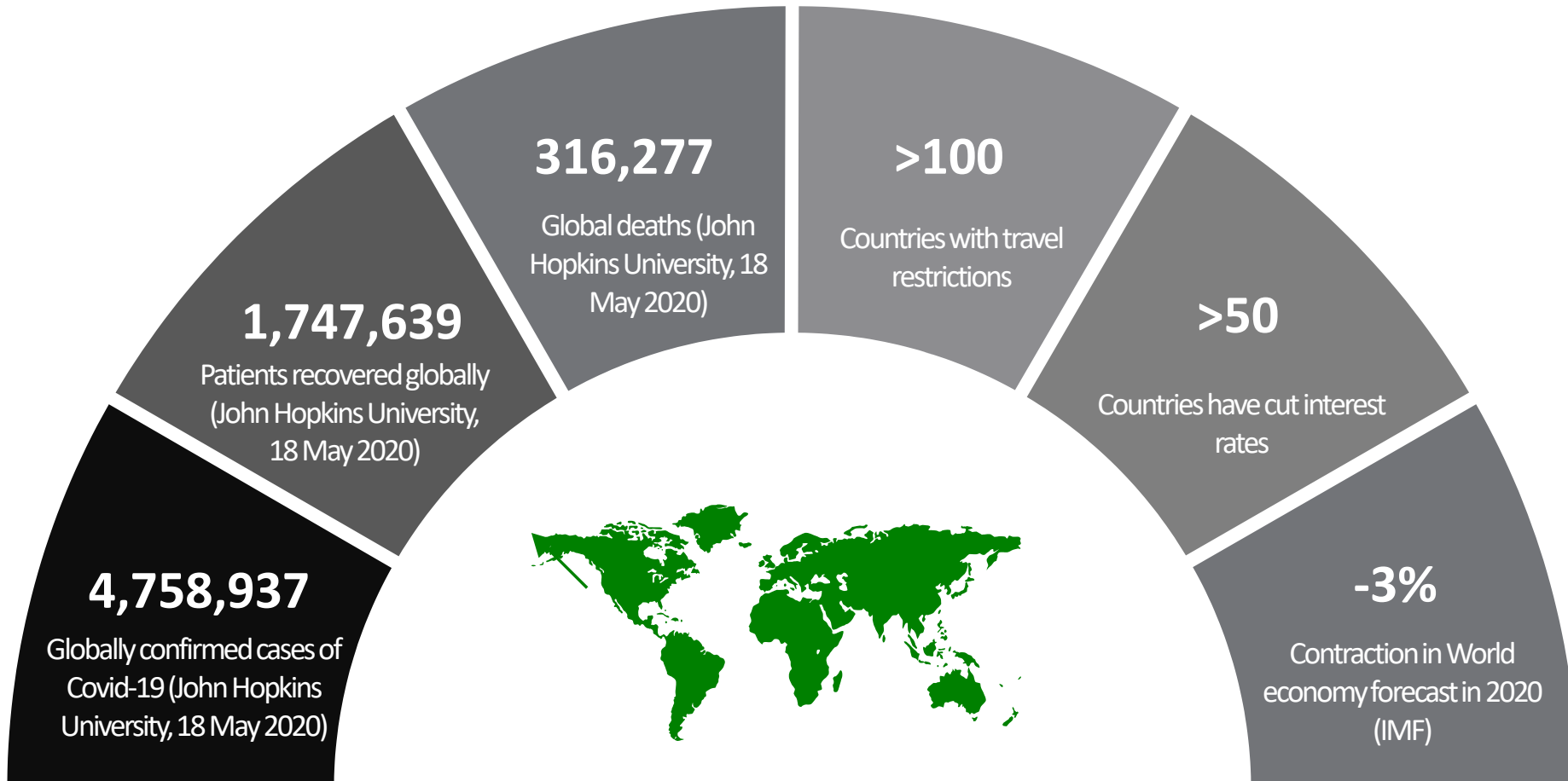
Last updated 13:30, 20 May 2020



Global trends and outlook



GLOBAL HEADLINES



246,406

Lab-confirmed cases
(PHE, 18 May 2020)

34,796

Lab-confirmed deaths
(PHE, 18 May 2020)

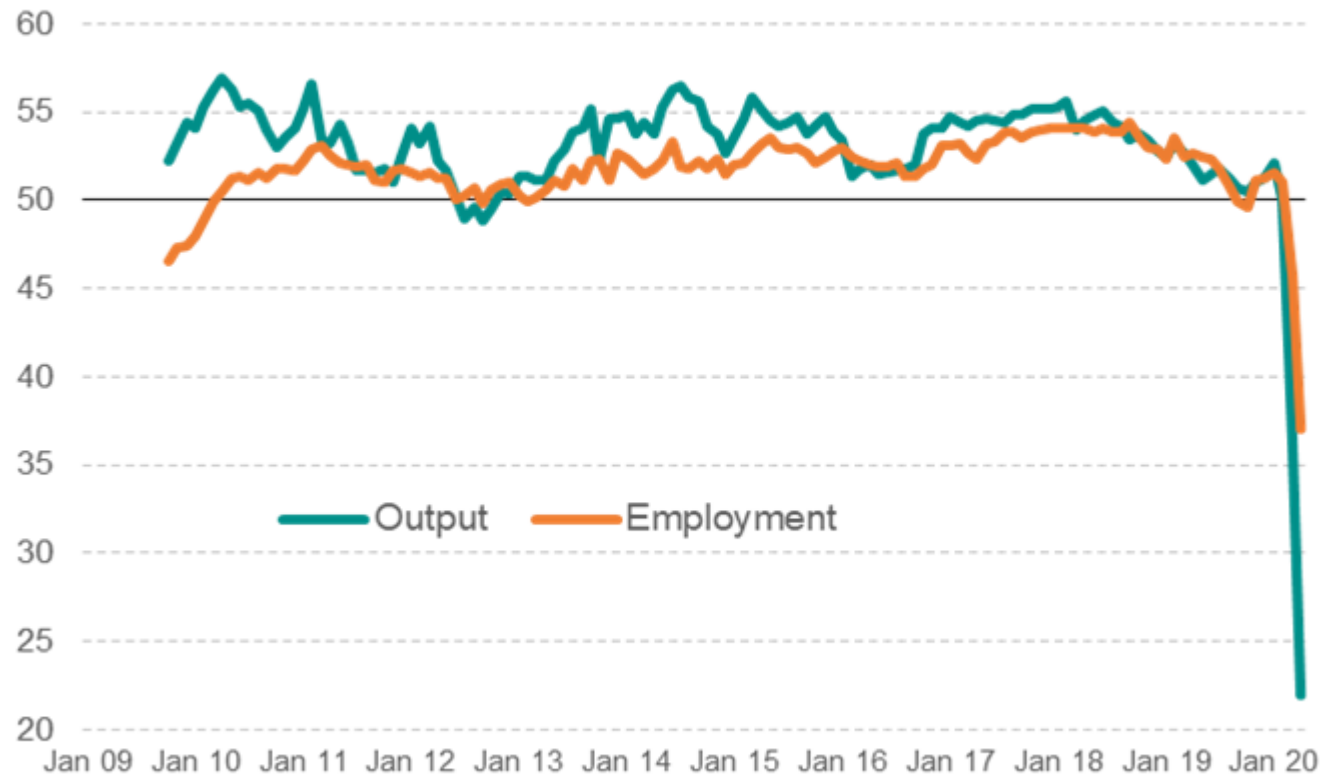
GLOBAL ECONOMY

Advanced economies enter recession

- Eurozone GDP falls by 3.8% in Q1 2020
- G4 index of most advanced economies (US, Eurozone, Japan & UK): composite output index - fell from prior record low of 36.2 in March to 21.9 in April
- New orders index sank to 22.4
- Employment index hit new low of 37.1
- France, Germany, Spain now officially in recession
- The wider eurozone is also half-way into recession, after contracting by 3.8% in the last quarter.

G4 economies output and employment

Flash Composite PMI of 'G4' developed economies



Sources: IHS Markit.

GLOBAL ECONOMY

IMF downgrades global growth forecast

- April World Economic Outlook projects global growth in 2020 to fall to -3.0 percent – a downgrade of 6.3 percentage points from January 2020
- Assuming the pandemic fades in the second half of 2020 and that policy actions taken around the world are effective in preventing widespread firm bankruptcies, extended job losses, and system-wide financial strains, IMF projects global growth in 2021 to rebound to 5.8 percent.

International trade on course for severe contraction

- World Trade Organisation: even the most optimistic scenario for 2020 was that trade would shrink by 13% – a bigger drop than in the 2008-09 recession caused by the banking crisis.
- Warned there was the risk of a much gloomier outcome under which trade would decline by 32% – on a par with the reduction seen between 1929 and 1932

Latest World Economic Outlook Growth Projections

The COVID-19 pandemic will severely impact growth across all regions.

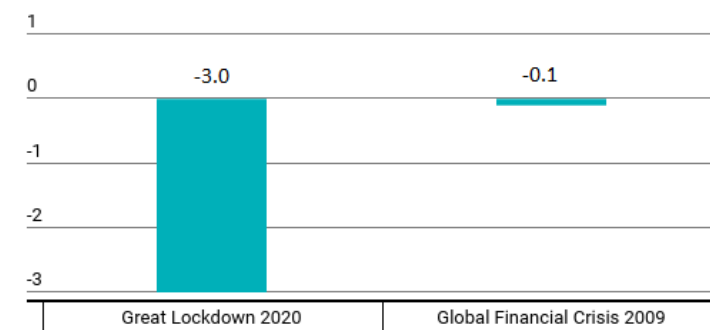
	PROJECTIONS		
(real GDP, annual percent change)	2019	2020	2021
World Output	2.9	-3.0	5.8
Advanced Economies	1.7	-6.1	4.5
United States	2.3	-5.9	4.7
Euro Area	1.2	-7.5	4.7
Germany	0.6	-7.0	5.2
France	1.3	-7.2	4.5
Italy	0.3	-9.1	4.8
Spain	2.0	-8.0	4.3
Japan	0.7	-5.2	3.0
United Kingdom	1.4	-6.5	4.0
Canada	1.6	-6.2	4.2
Other Advanced Economies	1.7	-4.6	4.5
Emerging Markets and Developing Economies	3.7	-1.0	6.6
Emerging and Developing Asia	5.5	1.0	8.5
China	6.1	1.2	9.2
India	4.2	1.9	7.4
ASEAN-5	4.8	-0.6	7.8
Emerging and Developing Europe	2.1	-5.2	4.2
Russia	1.3	-5.5	3.5
Latin America and the Caribbean	0.1	-5.2	3.4
Brazil	1.1	-5.3	2.9
Mexico	-0.1	-6.6	3.0
Middle East and Central Asia	1.2	-2.8	4.0
Saudi Arabia	0.3	-2.3	2.9
Sub-Saharan Africa	3.1	-1.6	4.1
Nigeria	2.2	-3.4	2.4
South Africa	0.2	-5.8	4.0
Low-Income Developing Countries	5.1	0.4	5.6

Source: IMF, World Economic Outlook, April 2020

The Great Lockdown

The world economy will experience the worst recession since the Great Depression.

(real GDP growth, year-on-year percent change)

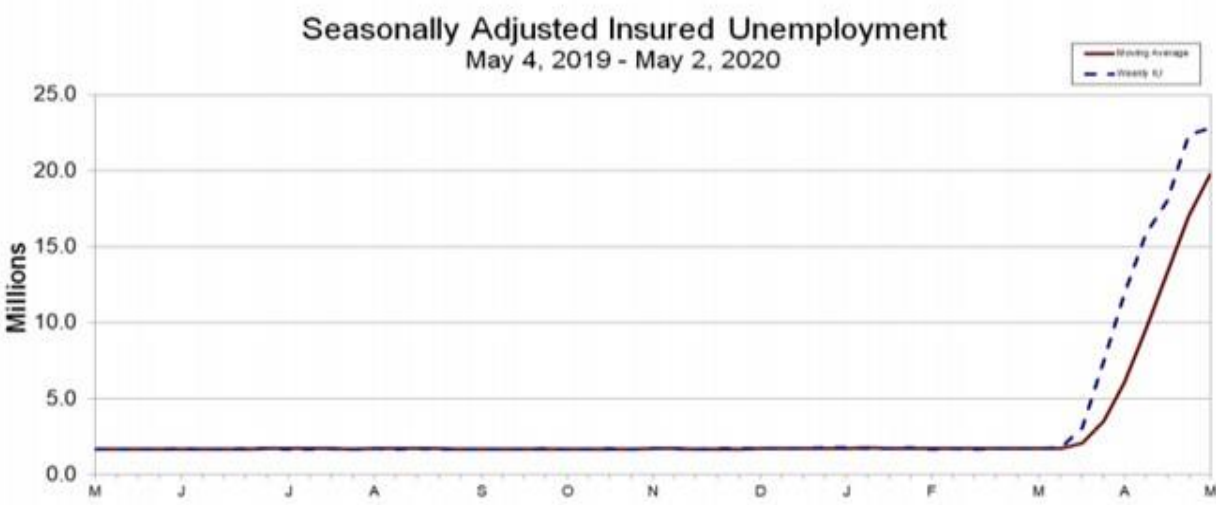
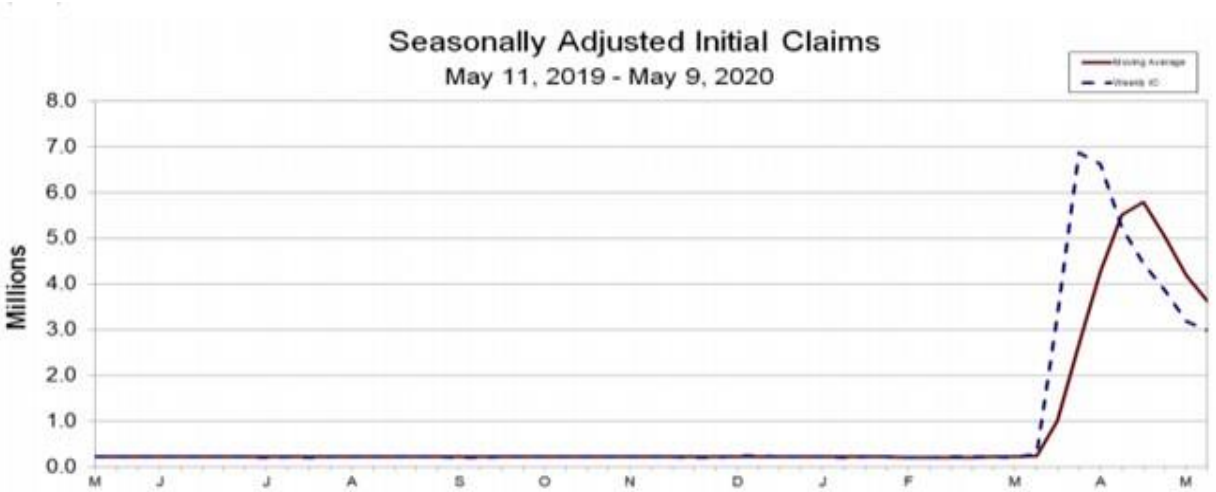


Source: IMF, World Economic Outlook.

US ECONOMY

1 in 5 American workers are now unemployed

- The IHS Markit Flash U.S. Composite PMI Output Index posted 27.4 in April, down from 40.9 in March
- The US private sector shed a record 20m jobs in April as coronavirus lockdowns and the resulting closure of non-essential businesses led to historic unemployment.
- Non-farm private employers cut 20.2m jobs last month, according to payroll processor ADP. That compared with economists' expectations for 20m and easily surpassed the previous record of about 835,000 in February 2009 during the financial crisis.
- 36 million new unemployment claims in 8 weeks (3m in the last week) – approaching unemployment rate of 15%
- The US Labor Department also reports that 22.6 million people filed 'continued claims' (meaning they've been receiving help for more than one week)
- Wipes out decade of (+23m) jobs growth 2010-2020
- Many large US companies have announced cuts to staff or are planning layoffs – Boeing: announce layoffs of 16,000 / 10%; Hertz has laid off 10,000 employees and is reportedly considering bankruptcy
- Significant regional imbalances emerging - in some states – claims have been one-third of total employment (Michigan, Kentucky, Rhode Island)



UK impacts and outlook



UK: ECONOMY

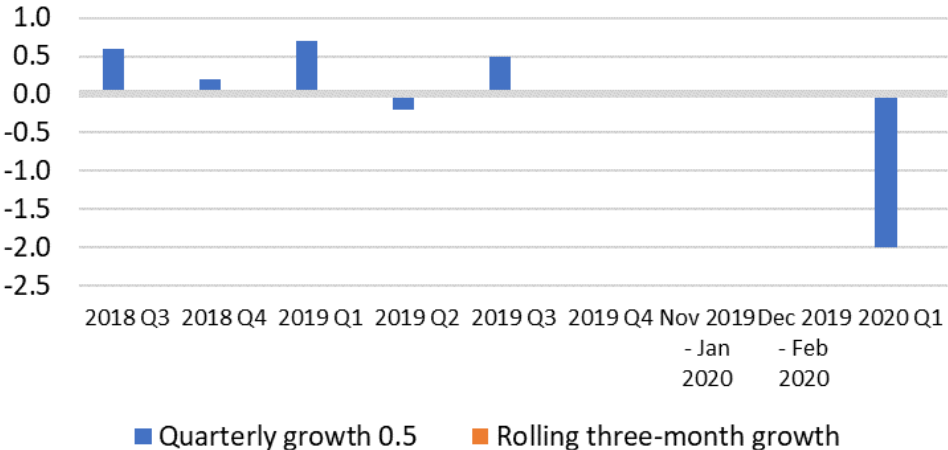
GDP falls by 5.8% in March

- The UK economy wasn't doing particularly well before the Covid-19 lockdown struck
- GDP rose by 0.1% in January, but the economy then contracted by 0.2% in February - as the coronavirus pandemic began to impact the economy
- The real pain struck in March, when GDP shrank by 5.8% - and all sections of the UK economy have suffered dramatic declines in activity
- GDP fell by 2.0% in the three months to March 2020, following no growth in the three months to February

These sectors experienced particular decline:

- Education, which fell by 4.0% as a result of school closures at the end of March
- Wholesale and retail trade and repair of motor vehicles and motorcycles, which fell by 10.7%, predominantly driven by a reduction in new car registrations
- Food and beverage service activities, which fell by 7.3% as a result of the closure of bars and restaurants towards the end of March
- Accommodation, which fell by 14.6% as a result of the closure of hotels and campsites in March
- Travel agents, which fell by 23.6% as a result of reduced demand caused by the introduction of travel restrictions in March
- Most manufacturing sectors also contracted -- with transport equipment-making declining by 20.5% as car factories shut down
- But one sector defied the gloom -- the manufacture of basic pharmaceuticals grew by 9.2% (presumably because people were stocking up on medicines and painkillers)

GDP fell by 2.0% in Quarter 1 (Jan to Mar) 2020, signalling the first direct impacts of the coronavirus (COVID-19) on the economy



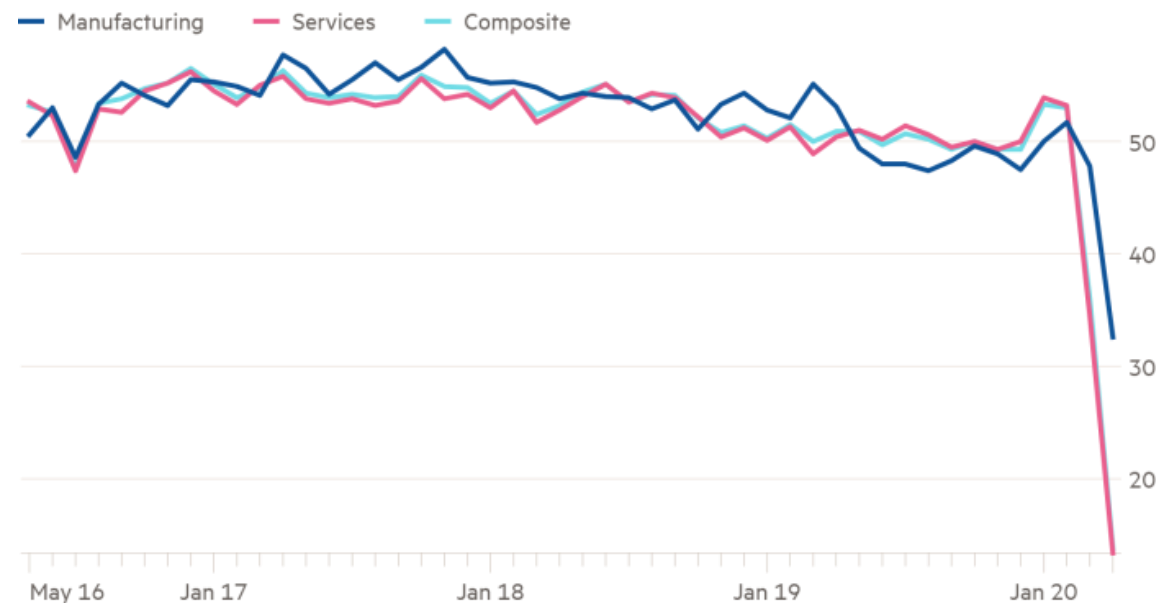
	Quarterly growth	Rolling three-month growth
2018 Q2	0.5	
2018 Q3	0.6	
2018 Q4	0.2	
2019 Q1	0.7	
2019 Q2	-0.2	
2019 Q3	0.5	
2019 Q4	0.0	
Nov 2019 - Jan 2020		0.0
Dec 2019 - Feb 2020		0.0
2020 Q1	-2.0	

UK: PMI RESULTS INDICATE FURTHER SERIOUS ECONOMIC CONTRACTION IN APRIL

- The latest IHS Markit/Cips Composite Purchasing Managers' index (PMI) for the UK, a measure of economic performance in manufacturing and services, fell to 13.8 in April (from 36.0 in March), the lowest figure since the survey began more than two decades ago
- A score below 50 means most businesses reported a deterioration compared with the previous month
- Services was the worst performer, with the corresponding index dropping from 34.5 in the previous month to 13.4 in April, the lowest reading since the survey began in July 1996, but slightly above forecasts
- April's manufacturing final PMI, released last week, dropped to a survey-record low of 32.6
- Nearly 80 per cent of services sector respondents reported a drop in business activity during April, almost double the survey record set in March.
- Respondents attributed the reduced activity levels to business closures, shutdowns among clients or shrinking sales due to a slump in non-essential spending.

Coronavirus plunges the UK economy into an historic fall

Purchasing managers' index, below 50= a majority of businesses reporting a contraction



Sources: IHS Markit, Refinitiv

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UK: ECONOMY

Bank of England's latest analysis and forecast suggests deep recession in 2020 with quick "V-shaped" recovery in 2021

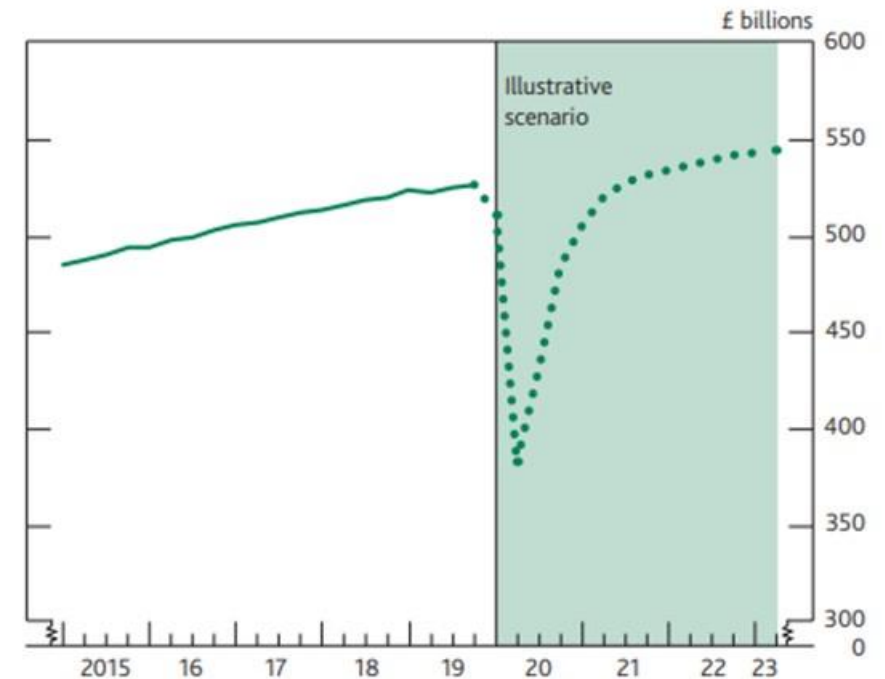
- BoE has forecast that coronavirus will push UK into deepest recession in 300 years
- Output falling by 30% in first 6 months of 2020, 14% contraction over the whole 12 months
- Economy hit by fall in spending – household spending has fallen by 30% since early March
- Forecast that unemployment likely to rise to 9% in 2021
- Despite gloomy outlook, BoE expects 'limited scarring to the economy' – only 1.5% of GDP lost in 2020, bounceback in V-shaped recovery

BoE's "V-shaped" recovery questioned by press and economists

- Some restrictions and social distancing measures likely to remain in place for the rest of 2020, and into 2021, depending on progress towards finding a vaccine. There is a risk of a second lockdown should another outbreak occur combined with depressed consumer confidence
- Other forces at play:
 - Reduced investment
 - Supply chain disruption and reconfiguration
 - Disruption of 'just in time' production – eroding productivity
 - Brexit and small probability of smooth transition to a comprehensive FTA with EU
- Even if economy recovers strongly in 2021 – problems of unemployment will last for some time

Chart 1.3 GDP picks up relatively rapidly in 2020 H2 in the scenario, although it takes some time to recover towards its previous path

GDP scenario^{(a)(b)}



(a) Conditioned on the assumptions in Chart 1.2 footnote (a).

(b) The dotted line begins in 2020 Q1, as ONS data are currently only available to February.

UK: BUSINESS

Impacts on businesses (ONS survey 6-19 April)

- 77% of surveyed businesses in the UK continuing to trade, 23% of businesses that responded they had temporarily closed or paused trading
- Of the businesses continuing to trade, 58% reported that their turnover had decreased, while 30% reported that their financial performance had not been affected
- Main sectors reporting temporarily closing or pausing trading were the accommodation and food service activities sector (81%) and the arts, entertainment and recreation sector (80%)
- Professional, scientific and technical activities (97%), information and communication (95%), health and social work activities (94%) and the administrative and support service activities (92%) sectors had the largest proportion of businesses responding to state they continued to trade.

Impacts on businesses (Latest ONS survey 20 April to 3 May)

- **Cash reserves running out:** 44% of businesses who had not permanently ceased trading between 20 April and 3 May reported that their cash reserves would last less than six months.
- **Low rate of business closure:** Less than 1% of firms said they had permanently ceased trading during the period 20 April to 3 May 2020.

UK: INDUSTRIES

Retail round-up

- Almost two-fifths of Britain's retailers have closed for business completely as a result of a Covid-19 lockdown that has prompted a collapse in consumer spending unmatched since the financial crisis in late 2008 (CBI survey)
- UK retailers are increasingly falling between the cracks of various government support schemes, with large companies facing stringent credit rating criteria and banks still reluctant to lend to smaller ones.
- Major retailers no longer have investment grade credit ratings – a requirement to access CCCF (Coronavirus Corporate Credit Facility), and banks have been limiting their exposure to loans to the retail industry
- John Lewis predicts worst case sales decline of around 35% in 2020. Online sales have not offset sales lost through shop closures. JL has furloughed 14,000 staff. Year-on-year - over the past five weeks John Lewis sales were 17% down on 2019.
- Associated British Foods (ABF), the owner of Primark, said it had furloughed 68,000 workers around the world. It has also written off £284m of stock, including Euro 2020 merchandise and spring fashions, which it is unlikely to ever sell.
- High street and travel hub retailer WH Smith has reported that its sales were pretty much obliterated last month, under the lockdown.
- Total revenues in April fell 85% compared with a year ago, including a 91% plunge at airports and railway stations where most outlets are closed. High Street revenue dropped 74%.
- But there are positives. WH Smiths' online businesses "performed strongly", with a 400% jump in book sales in the last month. The company is also still operating 130 stores in hospitals across the UK.

UK: INDUSTRIES

Manufacturing overview

- Major civil aerospace manufacturers announcing jobs cuts – e.g. Rolls Royce planning 9,000 redundancies globally; Boeing planning 10,000 job cuts
- The UK's manufacturing PMI reading came in at 32.6 in April, slightly worse than the flash reading of 32.9. That's confirmed as a record low
- Manufacturing Barometer (30 April), 608 firms interviewed in Spring 2020 showed that on balance, sales turnover has contracting, and that the view for 2020 is very negative, with 85% of manufacturers forecasting that their sales would contract, and 86% forecasting much reduced profits in the next six months of 2020. On balance, 13% said that their capital investment would increase in 2020, 57% said it would decrease. 55% expected staff numbers to be reduced in 2020, only 7% expected them to increase.
- CBI latest members survey (Feb-April) – 330 manufacturing firms
 - Business sentiment – plunged in 3 months to April to -87%
 - Export sentiment dropped by -84%
 - 4/5 firms have had negative impact on their domestic output
 - ¾ manufacturers reported negative impact on international output
 - Half of manufacturers reported partial shutdown / closure
 - Just over half of manufacturers mentioned that they temporarily laid off staff, but only one in twenty reported permanent layoffs.
 - Around two-thirds of firms have faced cash flow difficulties.

UK: INDUSTRIES

Major banks making provisions for bad debts

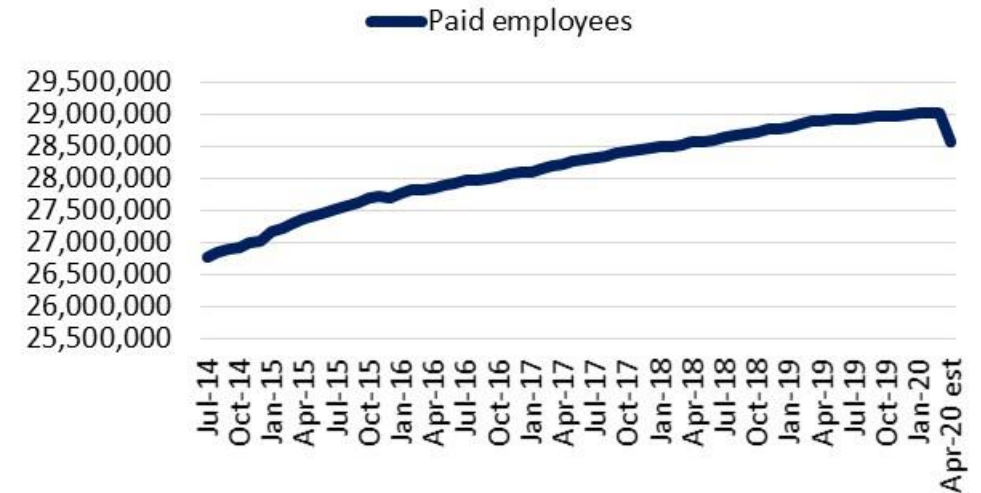
- The pandemic has put banks under pressure to lend more while simultaneously facing mounting defaults from hard-pressed customers whose revenues have fallen precipitously because of the lockdown.
- Royal Bank of Scotland suffered a near-50% drop in first quarter profits after putting aside £802m to help cover a potential surge in bad debts due to the Covid-19 outbreak, making it the latest UK bank to reveal the mounting cost of the pandemic
- Barclays - First-quarter credit impairment charges surged almost fivefold to £2.1bn from £448m in the same period last year. The stress was particularly acute at Barclaycard, the credit card business that operates in the UK, US and Germany, which accounted for £885m of the virus-related loan-loss reserves
- Facing bad loans and credit, balance sheet pressures, freeze on new mortgage lending, short-term cost increases

UK: LABOUR MARKET

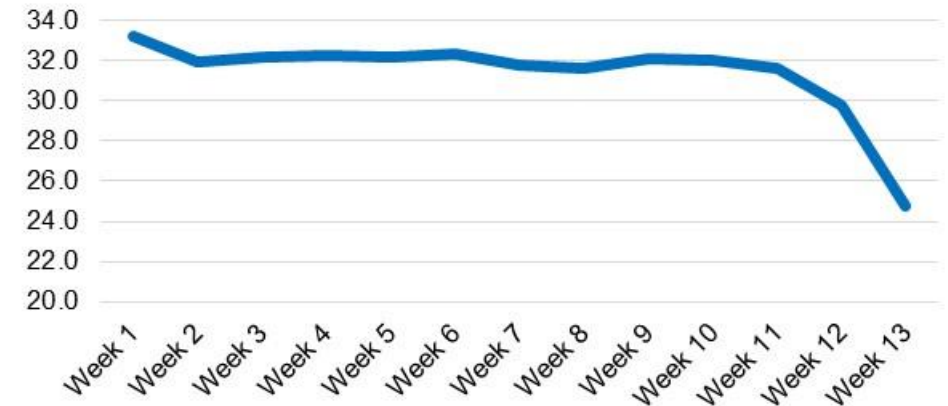
Labour market conditions weaken

- **Prior to April, the UK labour market looked strong** - the latest UK labour market statistics for January to March 2020 pointed to a continued strong labour market in terms of economic participation, unemployment, and redundancies
- **Payrolls dropped in April.** More up-to-date experimental data from HMRC suggests a 1.6% drop in numbers of employees in April
- **Working hours fell in March.** Average weekly hours worked fell to its 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.

HMRC estimate of paid employees



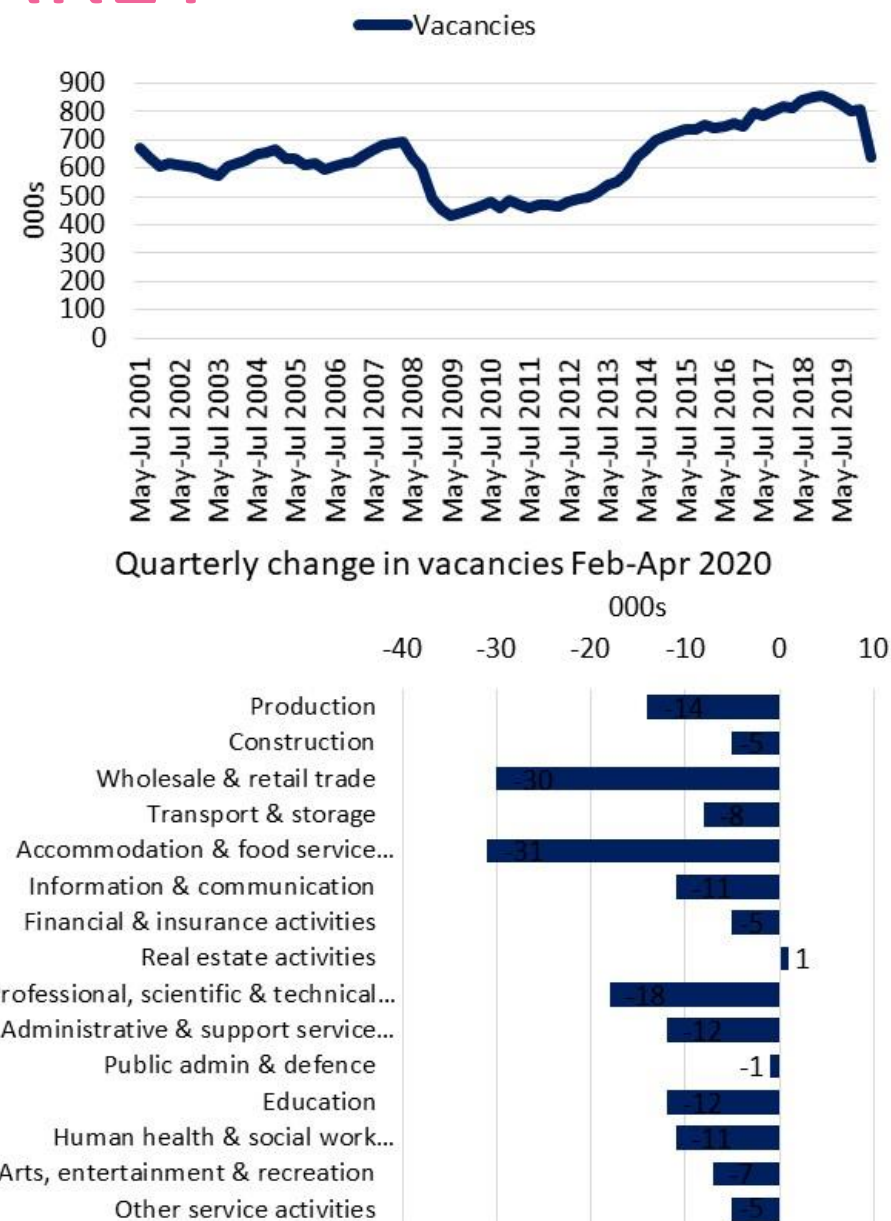
Average actual hours worked in main job - Jan-Mar 2020 weekly estimates



UK: LABOUR MARKET

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.
- During February to April 2020 (which incorporates almost six weeks of lockdown measures), the number of vacancies totalled 637,000 (down 21.1% on the previous quarter, down 24.8% on the same time last year, and the lowest level since Nov-Jan 2014).
- **The quarterly fall in vacancies was the sharpest since the series began in 2001.** During the 2008/09 recession, the largest quarterly drop in vacancies was -17.8% in Nov-Jan 2009.
- Industries experiencing the largest quarterly fall in vacancies were in the main lockdown sectors: Accommodation & food service activities (-31,000) and Wholesale & retail trade (-30,000).



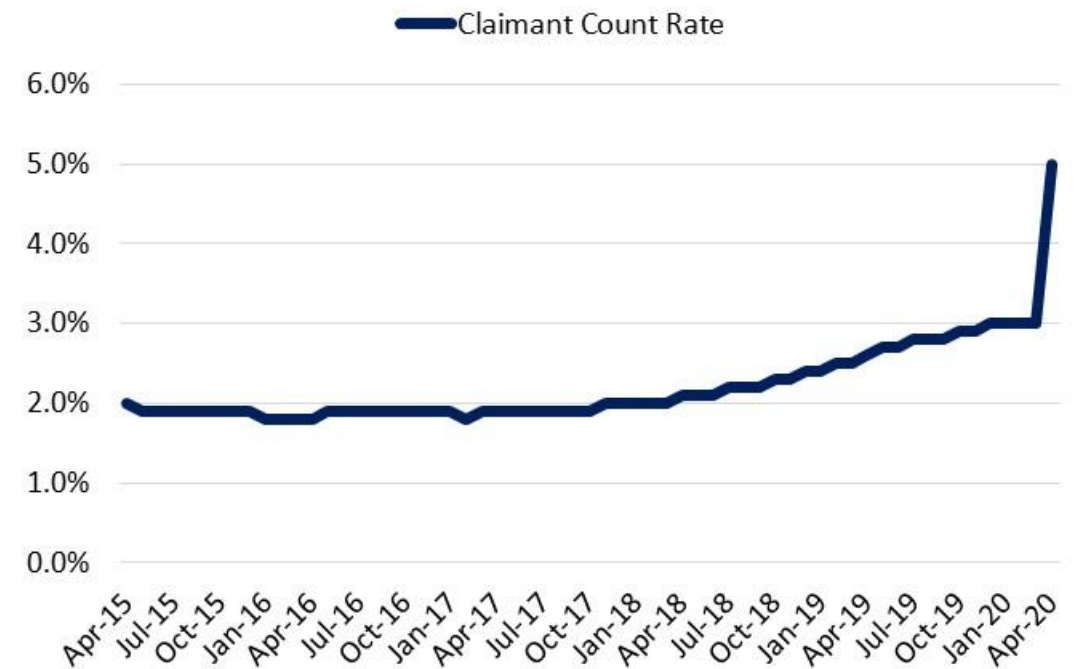
UK: LABOUR MARKET

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 2.0pp on the previous month and up 2.4pp on a year ago.
- South-east of England saw one of the biggest increases

Total employment fell by 457,000 in one month – from March to April

- Significant job loss
- Furloughing having an impact in reducing redundancies and job loss
- Question of what happens once Furloughing ends



UK: LABOUR MARKET

UK Labour Market Outlook is deteriorating rapidly

- Rapid increase in unemployment
- Rapid loss of jobs
- 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

More than one-fifth of UK employers plan to make redundancies over the next three months, with entry level jobs reduced by 23% this year

- Hiring intentions at their lowest level in at least 15 years, with more than a quarter of private sector employers planning to cut staffing levels over the three months to July
- CIPD / Addeco survey (18 May) that shows 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
- Institute of Student Employers (ISE) survey: Graduate recruitment down 12%. All types of entry-level roles have been reduced this year by 23%

At some point – employers will have to assess viability of furloughed jobs – Chancellor of Exchequer's recent announcement make this more likely to happen from July onwards

UK: PEOPLE

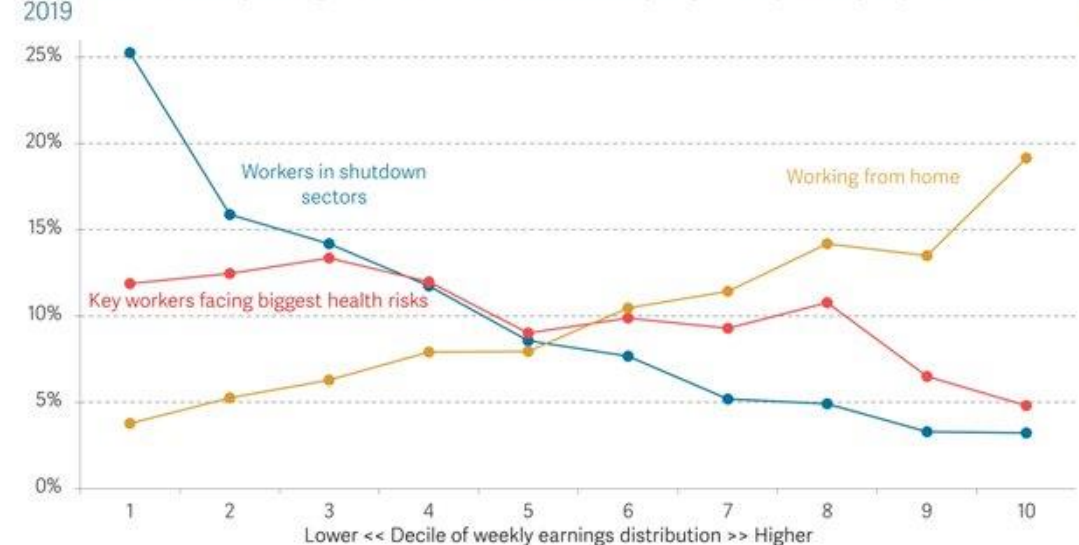
Resolution Foundation: unequal distribution of impacts of Covid-19

- Women, low-paid workers, younger employees and parents are being hit particularly hard by the Covid-19 pandemic.
- Women make up a majority of 'key workers', which means they run a greater risk of exposure to the virus as they are not isolating.
- Those key workers are often relatively lowly paid.
- Those on low pay, or a younger adult – being more likely to have experienced job loss or have been furloughed.
- Those in shutdown sectors are younger – their average age of 39 is four years below the average age of those who can work from home.

Perceptions of job security had plunged to their lowest on record, but yet to affect household finances

- The household finance index (monthly survey of 1,500 adults in Great Britain conducted by Markit & Ipsos MORI) which measures overall perceptions of wellbeing, fell from 42.5 in March to 34.9 in April.
- Those employed in media, culture or entertainment sectors recorded the strongest drop in activity
- On the plus side, there were no signs of immediate stress on household balance sheets in April.

Proportion of employees aged 16-69 in each coronavirus job group, by weekly pay decile: UK, 2019



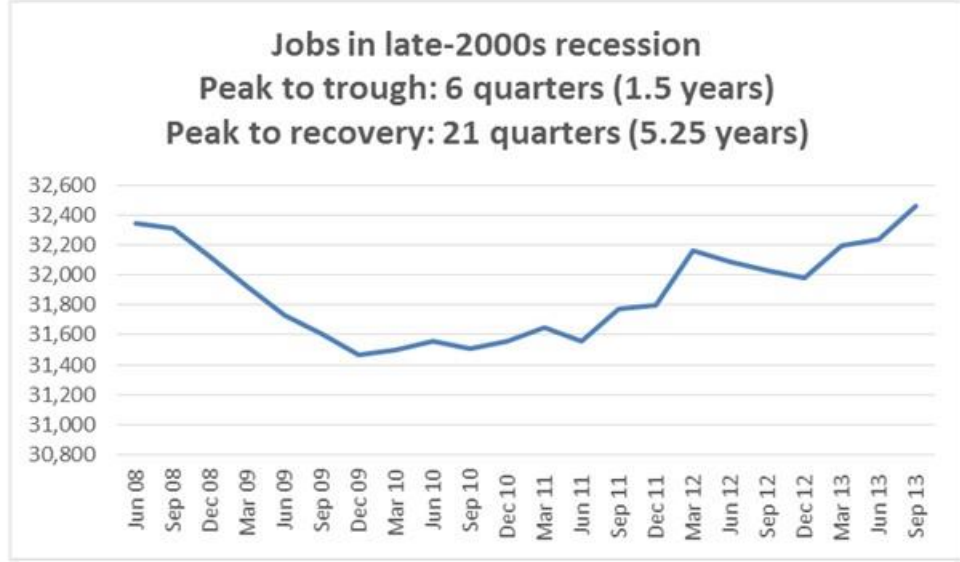
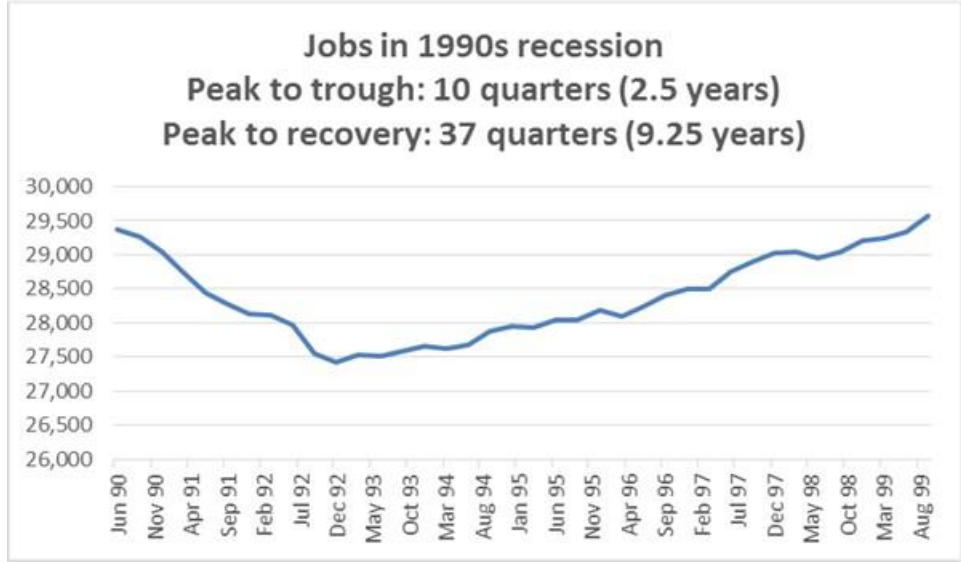
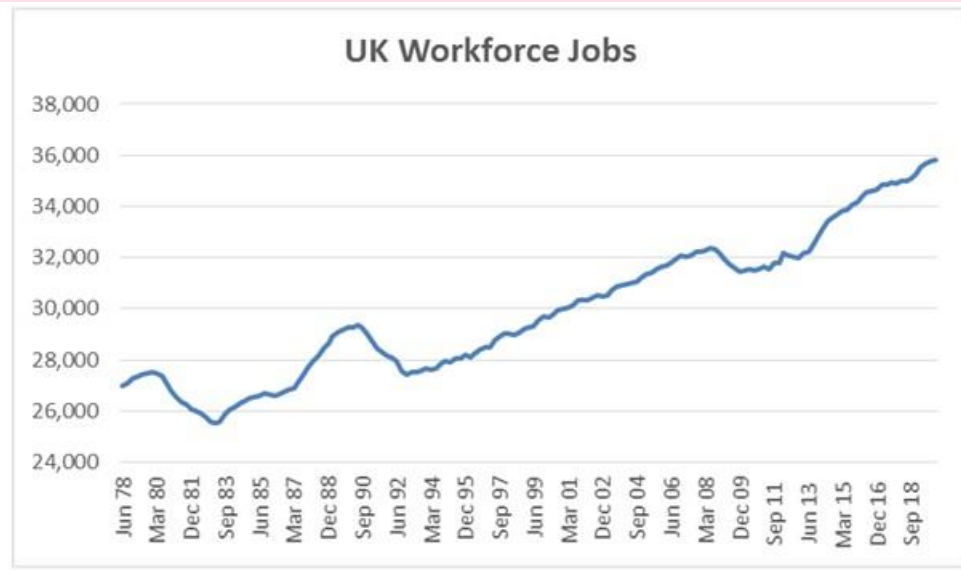
Notes: Pay data is from the 2019 quarters of the Labour Force Survey. Workers are assigned to groups based on their industry and occupation of work. The predicted probability of being able to work from home is drawn from analysis of waves 6 and 8 of Understanding Society. Source: RF analysis of ISEI, Understanding Society, ONS, Labour Force Survey.

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UK RECESSIONS AND JOB LOSS

All analysis shows that the UK is heading for a much deeper recession than in 2008/09 and that a V-shaped recovery is unlikely



UK: GOVERNMENT SUPPORT FOR THE ECONOMY

Furlough scheme

- Now extended until October, making provisions for part-time return to work / more flexibility
- Since the scheme opened on 20 April, 6.3m UK workers have been furloughed by 800,000 employers – representing 17.5% of UK jobs
- Chancellor says employers will have to start sharing the cost after 01 August – this will prompt them to evaluate viability of workforce, and likely to result in redundancy announcements
- Furloughs - British Airways: 36,000; Airbus 3,200 (N Wales site)

Loans – CBIL & Bounce-back loans

- More than 304,000 companies have benefited from two separate government-backed loan schemes
- bounce-back loans are being approved by high street banks – about 38,000 every day
- High street banks have provided about £6.1bn to 35,919 businesses under the CBIL scheme so far

Self-employed support

- The self-employment income support scheme (SEISS) has received more than 110,000 claims in its first four hours of operation

Trade insurance

- Businesses with supply chains which rely on Trade Credit Insurance and who are experiencing difficulties maintaining cover due to Coronavirus will get support from the government
- Trade Credit Insurance provides cover to hundreds of thousands of business to business transactions, particularly in non-service sectors, such as manufacturing and construction. It insures suppliers selling goods against the company they are selling to defaulting on payment, giving businesses the confidence to trade with one another. But due to Coronavirus and businesses struggling to pay bills, they risk having credit insurance withdrawn, or premiums increasing to unaffordable levels.
- This was a major issue in the 2009 recession, and absence of trade insurance helped push a number of retailers and manufacturers into administration



Greater South East and London





Are Southern
LEPs likely to
recover faster,
better?



IMPACT OF SHUTDOWN

- GSE is slightly less affected by shutdown
- Less employees in key worker roles at risk
- Higher share of residents in the Greater South East are capable of working from home (28.6%) compared to the UK average (26.6%).
- However, more than 70% are not capable, particularly in occupation categories 4 to 9.
- Within the area, ability to work from home is highest in London (30.1%) and lowest in the East of England (26.8%).

	Sectors most affected by Coronavirus shutdown		Sectors with key workers facing biggest health and safety risks	
	No. employees	% share of employees	No. employees	% share of employees
East	437,500	15.7%	812,800	29.2%
London	953,800	18.5%	1,271,700	24.6%
South East	714,100	17.2%	1,205,300	29.0%
Greater South East	2,105,400	17.4%	3,289,800	27.2%
Great Britain	5,038,800	16.9%	9,097,800	30.6%

COMPARING RECESSIONS IN THE GSE

1990s RECESSION

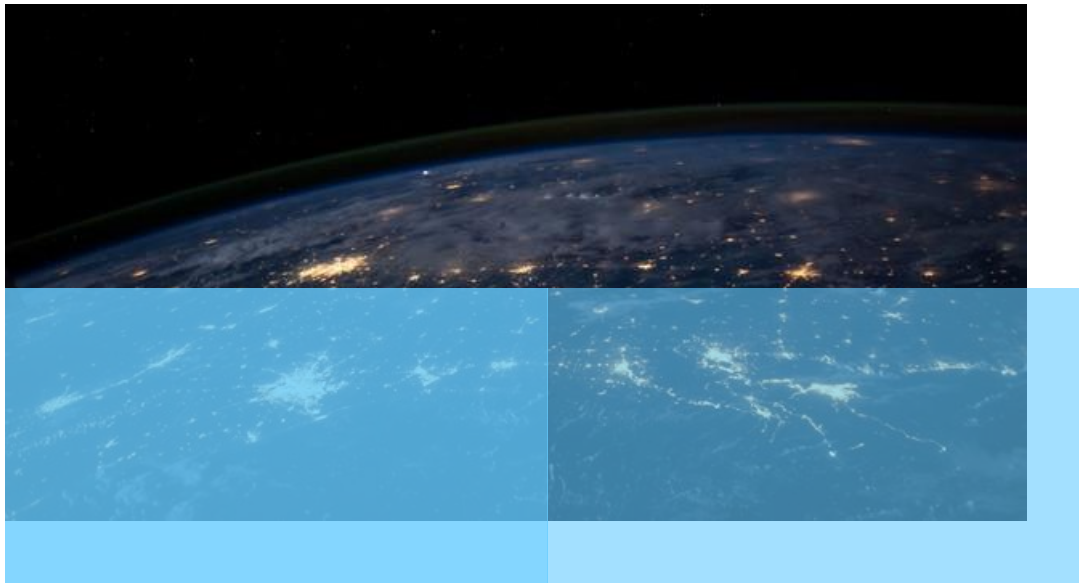
JOB LOSSES	GSE
Length of continuous job losses	Same as UK - June 1990 to Dec 1992
Rate of job loss	Greater: 8.5% (UK 6.1% loss) Particularly high in London: 11.3% loss
Public sector jobs	Fall in health, social work and public admin jobs UK: public sector employment increased
Sectors most affected by jobs losses	Production (incl. manufacturing) Construction Accommodation Food services Financial and insurance activities

RECOVERY	GSE
Time taken to recover total jobs to pre-recession levels	30 quarters, slightly longer than UK (29 quarters) Slowest in London (in GSE) – 34 quarters
Main sectoral jobs gains	Private sector services accounted for 95% of all GSE's job gains during recovery period Administrative and Support Services, Information & Communication, Wholesale & Retail Trade, Construction Professional, Scientific and Technical Activities, and Accommodation and Food Service Activities contributed disproportionately to the GSE's jobs recovery (i.e. the share of all job gains was greater than the share of all jobs)
Public sector jobs	Jobs in Public Administration continued to fall in this period and remain below their pre-recession level today

2000s RECESSION

JOB LOSSES	GSE
Length of continuous job losses	GSE: slighter shorter period Sept 2008-Dec 2009 (UK June 2008-Dec 2009)
Rate of job loss	GSE: 2.8%, similar to UK (2.7%) Particularly high in London: 4.4% loss over shorter period Dec 2008 to Dec 2009
Sectors most affected by jobs losses	Wholesale and Retail Trade Administrative and Support Services Activities Production Compared to the UK, Private Sector Services accounted for a larger share total job losses in the GSE However, Production and Construction accounted for below-average shares of all job losses. The GSE also benefited more from jobs growth across the public sector than nationally.

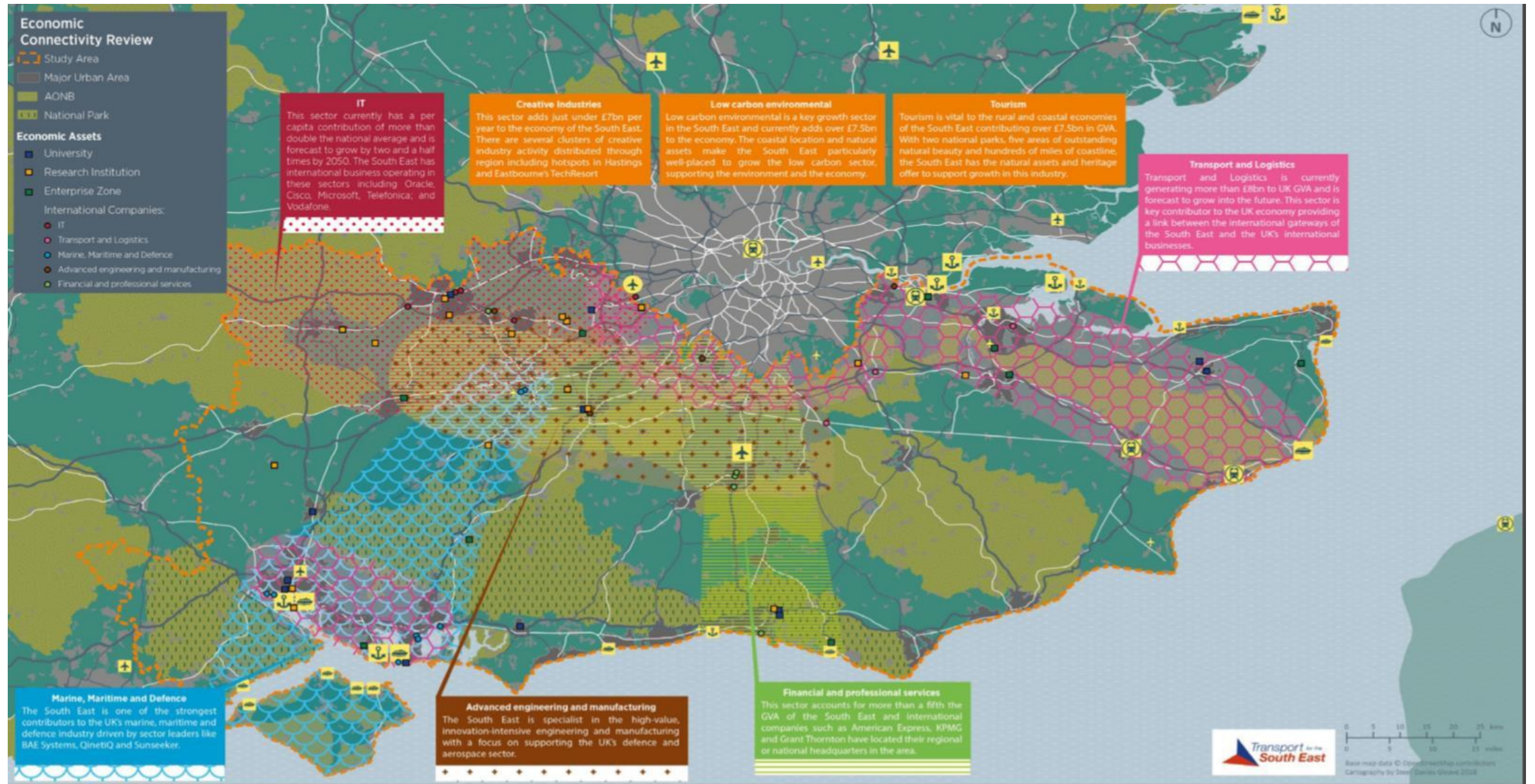
RECOVERY	GSE
Time taken to recover total jobs to pre-recession levels	14 quarters, much quicker than UK (21 quarters) Fastest in London (14 quarters), slowest in East (20 quarters) During the GSE's recovery period, jobs growth was more than double the UK average (GSE 4.8%, UK 2.2%)
Main sectoral jobs gains	Private sector services accounted for 90% of all GSE's job gains during recovery period. Arts, Entertainment and Recreation, Administrative and Support Service Activities, Accommodation and Food Service Activities, and Information and Communication contributed disproportionately to the GSE's jobs recovery



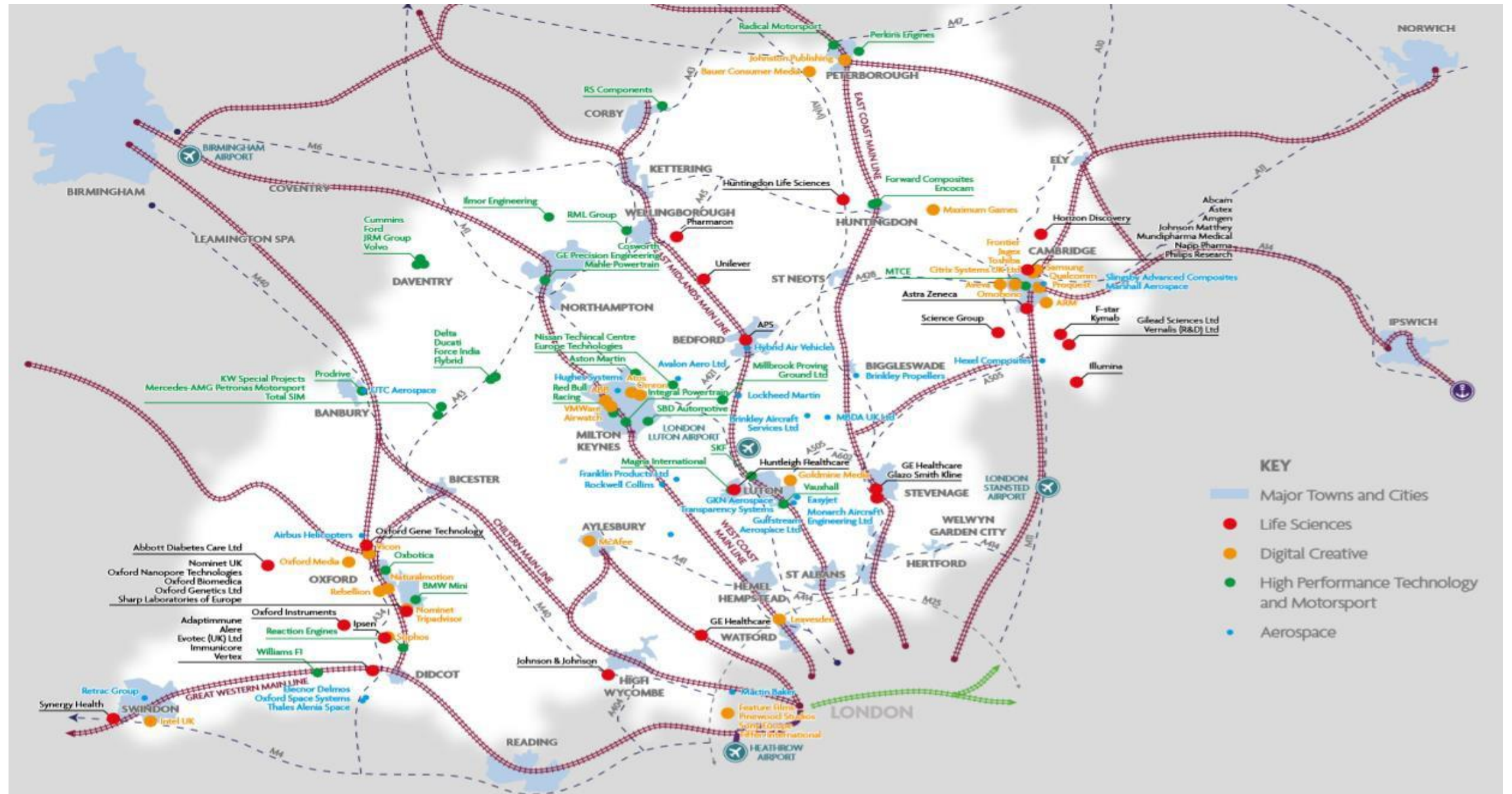
Southern LEPs:
*Global capability,
innovation and
entrepreneurship*



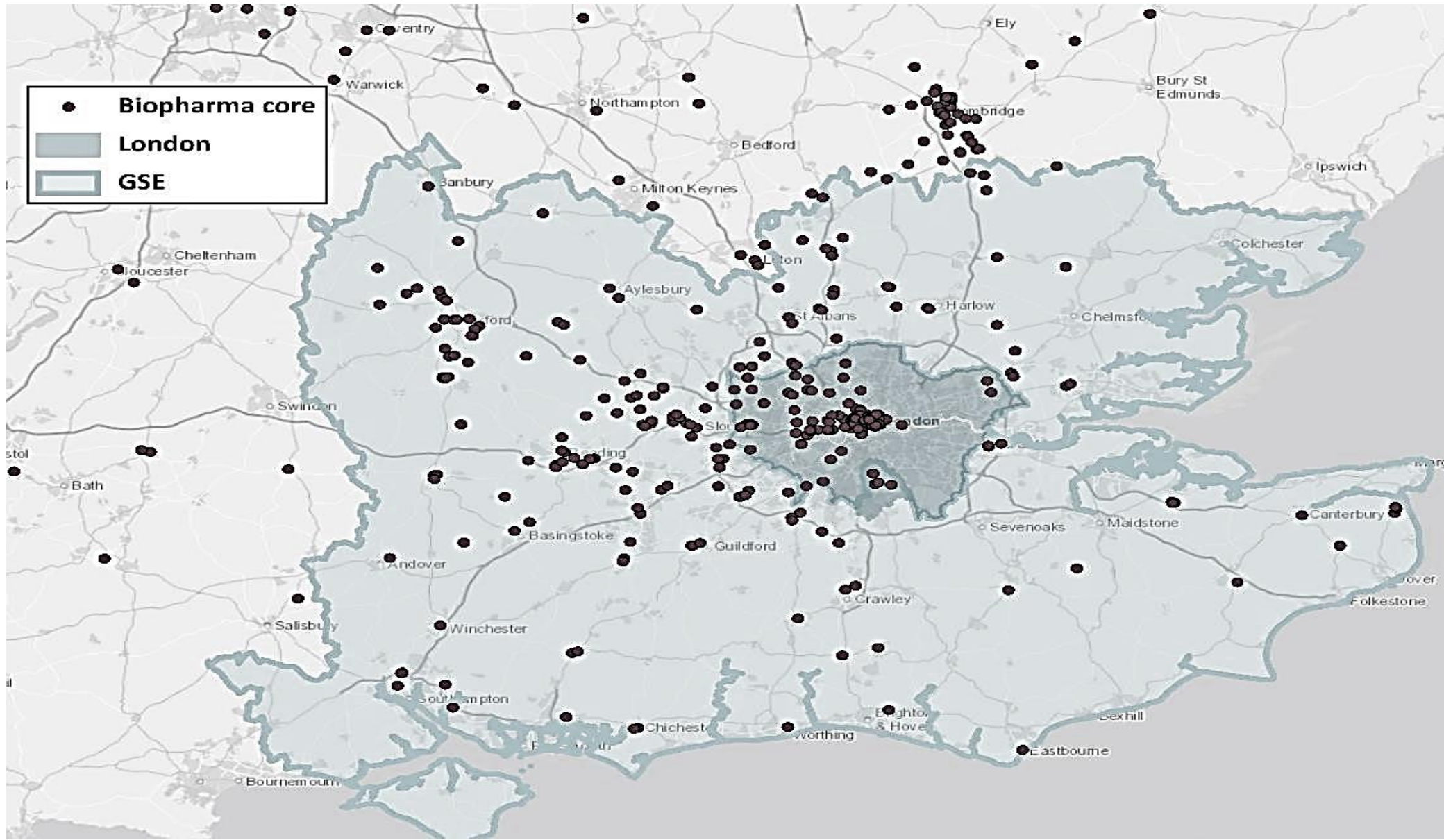
MAJOR SCIENCE, TECHNOLOGY AND INNOVATION BUSINESSES IN SOUTH EAST



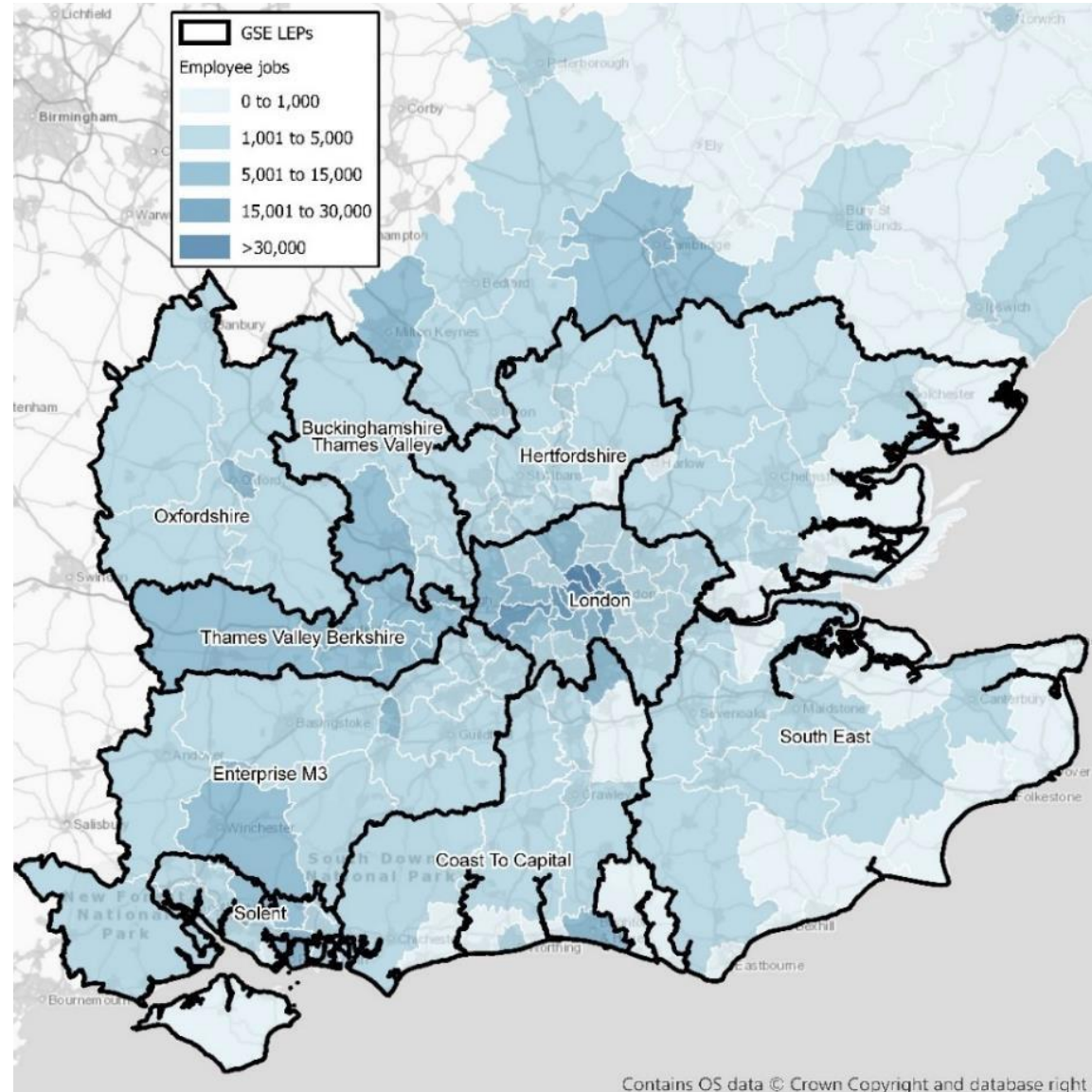
MAJOR SCIENCE, TECHNOLOGY AND INNOVATION BUSINESSES IN OXFORD – HERTS - SOUTH EAST MIDLANDS - CAMBRIDGE



BIOPHARMA COMPANIES IN GREATER SOUTH EAST



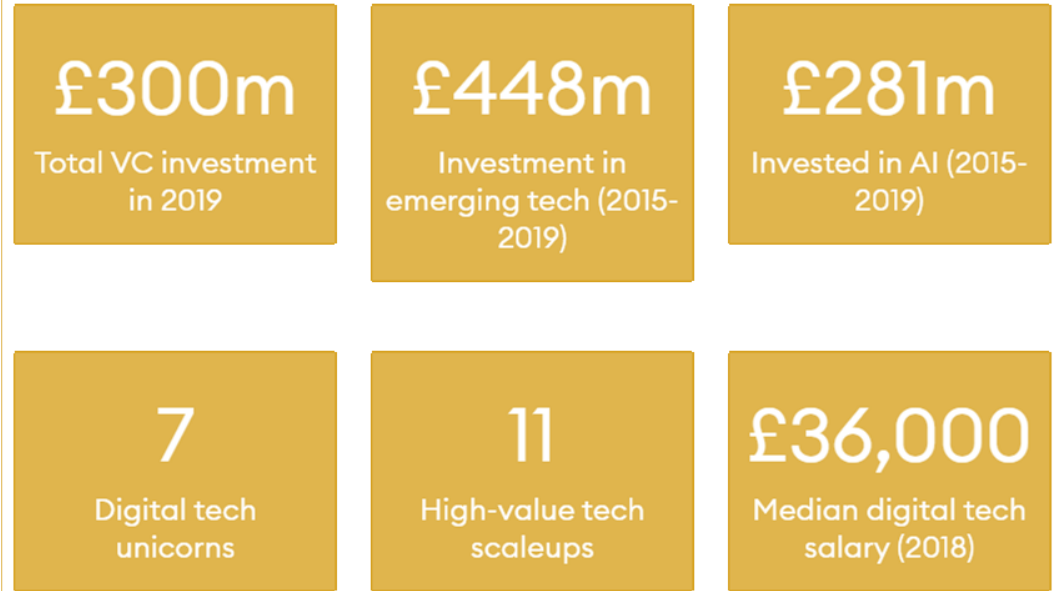
ABSOLUTE NUMBER OF EMPLOYEE JOBS IN THE INFORMATION AND COMMUNICATION SECTOR



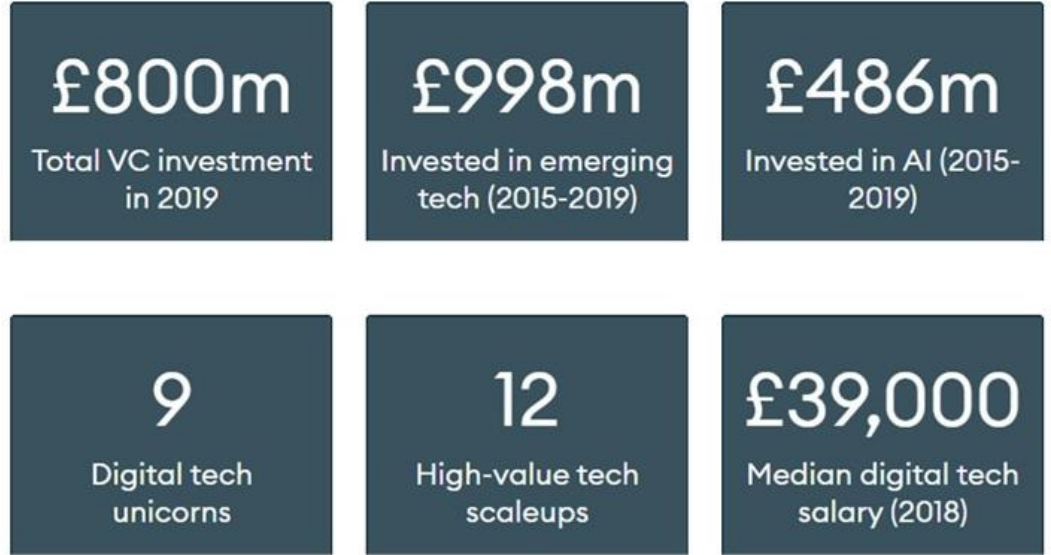
TECH, STARTUPS AND VC

- Centre for London: since 2003, London and the South East England region had attracted a fifth of Western European investment in new headquarter projects – more than the Paris-centred Ile de France region, Dublin and Amsterdam-Rotterdam combined.
- Deloitte: London and south east England now host 55 per cent of the world’s largest 500 companies’ European HQs.

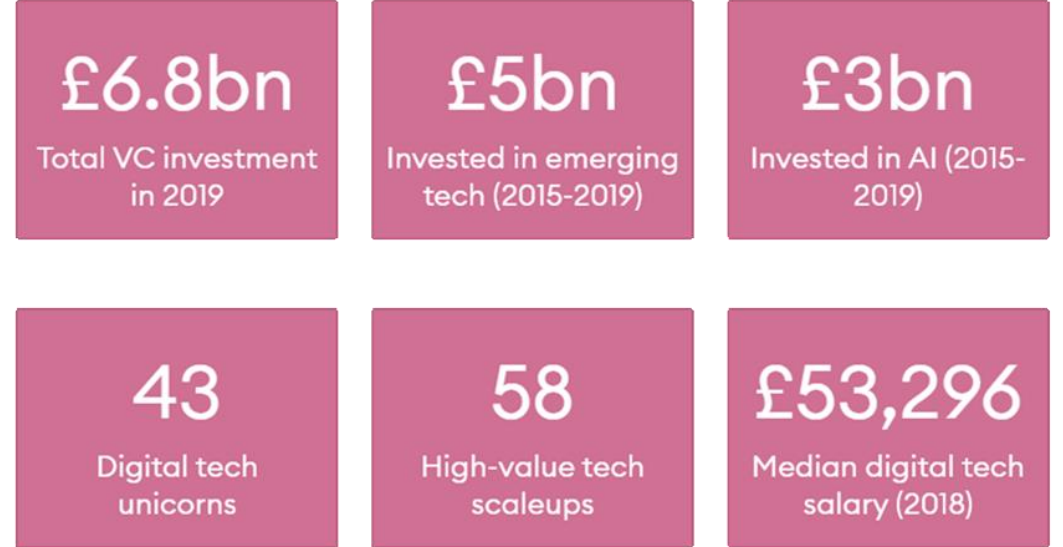
SOUTH EAST



EAST OF ENGLAND



LONDON





Greater South East & London functional area

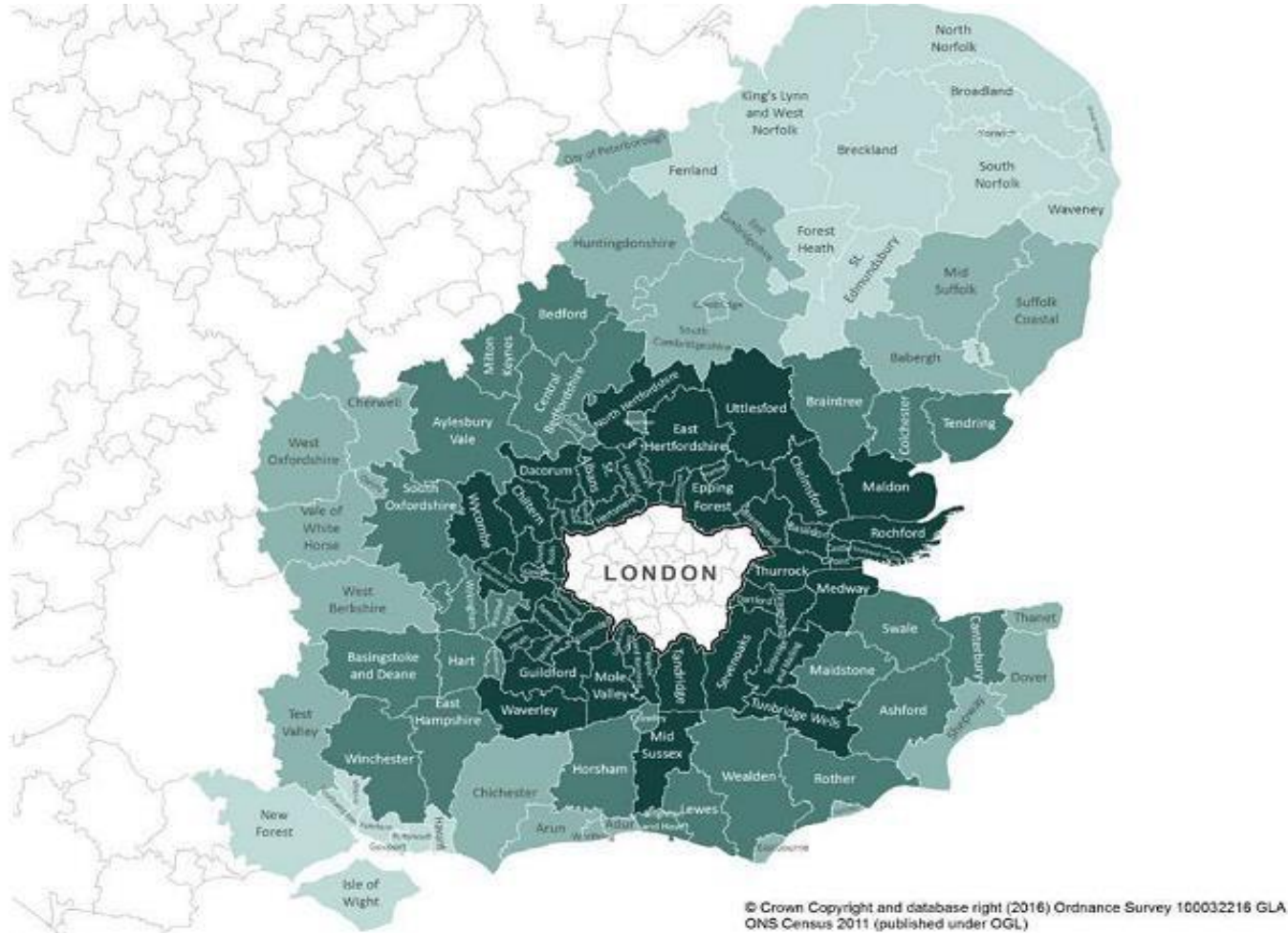


LONDON AND SE RAIL TRANSPORT

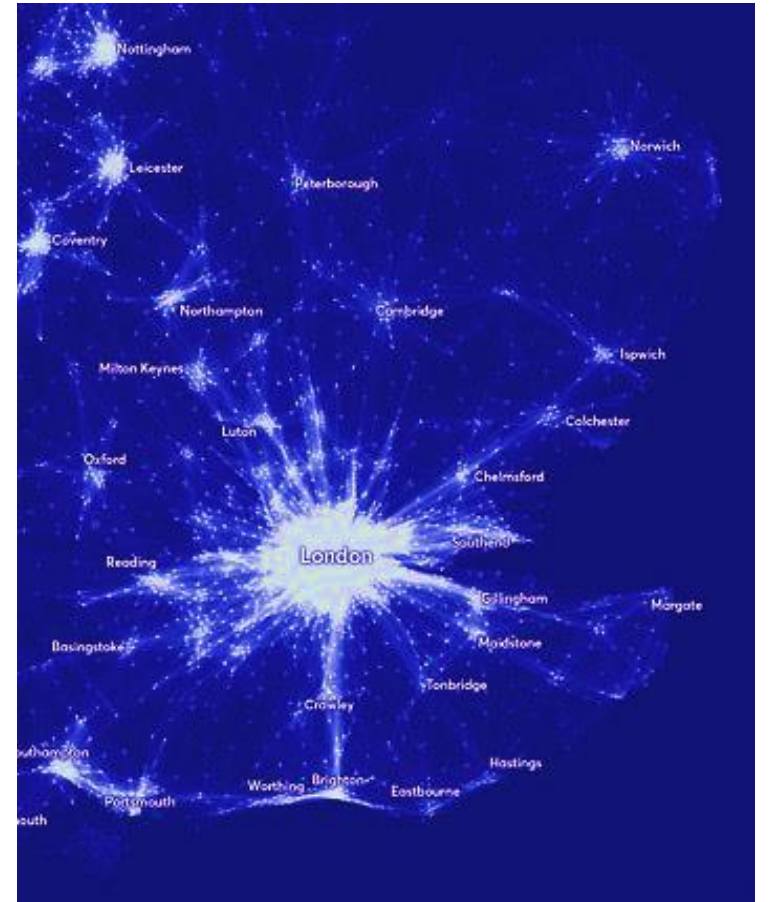


- Since London entered lockdown on 23 March, Tube journeys have fallen by 95% and bus journeys by 85%.
- TfL has closed 40 stations, cut services, furloughed 7,000 staff
- Revenue shortfalls to TfL – potential £500m loss of revenues, have plunged by 90%
- If social distancing is in place buses and the Tube will only be able to carry a sixth of passengers.
- Commuter rail services cut in half
- TfL has £4bn black hole in finances due to loss of fare revenues
- TfL is set to receive a government bailout of £1.6bn after it came close to running out of money following a plunge in passenger numbers during the coronavirus lockdown

COMMUTING



- 500,000 South East residents commute into London to work / 180,000 London residents commute to SE
- 380,000 EoE residents commute into London to work / 100,000 London residents commute into EoE



Summarising the Global and UK impact and outlook

*STRUCTURAL CHANGE

- Drivers: over capacity, technological backwardness, disrupted supply chains and international markets, cheaper acquisitions (stressed assets and valuations, combined with devalued currencies), new market models, cost savings, productivity gains, de-risking, shoring up balance sheets or writing off losses, new trade deals
- Closures and redundancies
- Consolidation / expansion on preferred sites, closure of non-preferred
- Closure / sale of non-core businesses or operations
- New business models – streamlined / supply chain capture (security) / digital
- Mergers & Acquisitions, corporate buy outs – e.g. to capture IP, address technological needs, create cost savings and productivity gains, market access
- Supply chain capture / agile logistics capture
- New strategic partnerships – e.g. supply and value chains, digital services, cloud services

What we know (so far) about this recession and its likely consequences

Higher rates of job loss – more like 1980s and 1990s recessions than 2000s. Employers are already signalling preparation for redundancies, and Chancellor has further prompted that with statements about increased contributions to the Furlough scheme from 01 August

Reduced hiring – employer surveys signal reduced intent to hire – e.g. 23% reduction in entry level hires

Consumer and travel related jobs affected soonest, hardest – no precedent

Manufacturing – likely to be hit by reduced demand and supply chain reduction

Private sector services, ICT & digital, scientific & professional – less impacted, likely to recover more quickly, but could be knock on effects through value chain

Banking and finance (for now) – robust enough to weather recession

Slump in confidence – recovery in confidence, and spending (household and B2B) is a big factor in pattern of recession and shape of recovery

Structural change* – real risk of structural changes in industries and labour markets

Summary – Global and UK impact and outlook



DEMAND CONDITIONS

- Household confidence & expenditure reduced
- Severe impact for: retail, aviation, civil aerospace, accommodation, visitor economy, bars, cafes and restaurants, personal services, performance arts
- Global recession, UK recession in 2020 could be between 6% and 14% contraction
- Banks making provisions for bad loans
- Employers are now signalling intention to cut jobs, recruitment, bonuses

RISKS

- Redundancies, closures, restructuring
- Cuts to entry level jobs this year
- 17.5% of UK jobs furloughed, risk of mass unemployment
- Finance and liquidity problems



TRADE AND SUPPLY CHAIN DISRUPTION

- Reduction in international trade
- Disruption/barriers to travel and immigration
- Aviation industry depressed
- Uncertainties – restoring international passenger transport and patterns of future provision
- Oil & gas prices and commodities - instability

RISKS

- Resuming business as usual?
- Sheer uncertainty facing businesses and industries
- Supply chains affected by shutdown



UNEQUAL IMPACT AND PROSPECTS

- Women make up a majority of 'key workers' & at greater risk
- Key workers and low pay
- Low paid, and young people – more likely job loss / furlough
- Young people more likely to be in in shutdown sectors
- New hires, graduate recruitment are already reduced, and will be further hit

RISKS

- Youth + graduate unemployment
- Acceleration of automation
- Reduced opportunities, marginalisation and disadvantage in labour market



RECOVERY

- Shape of recovery depends on how long it takes economy to return to 'normal' and vaccine developments
- UK government economic support – timely and massive
- ICT, digital, science & technology, financial and business services less affected by shutdown
- Some housebuilding, retail & manufacturing resuming
- Likely office workers will continue to face restrictions

RISKS & OPPORTUNITIES

- Faltering recovery
- At some point – employers will have to assess viability of furloughed jobs
- Sectors less affected – likely to recover quicker
- Local economies with skilled, knowledge workers – more resilient



Thames valley Berkshire LEP area



HOW HAS SHUTDOWN IMPACTED TO DATE?

Ability to work from home

- ONS data on the ability and incidence of home working by occupational category suggests that a higher share of residents in the Thames Valley Berkshire area are capable of working from home (29.3%) compared to the UK average (26.6%).
- However, more than 70% are not capable, particularly in occupation categories 4 to 9. Within the LEP area, ability to work from home is highest in Wokingham (29.3%) and lowest in Slough (24.7%).

	1: managers, directors and senior officials	2: professional occupations	3: associate prof & tech occupations	4: administrative and secretarial occupations	5: skilled trades occupations	6: caring, leisure and other service occupations	7: sales and customer service occupations	8: process, plant and machine operatives	9: elementary occupations	Number of employed residents capable of working from home	% employees capable of working from home
% capable of working from home (UK)	46.7%	45.0%	36.5%	19.9%	17.9%	14.1%	8.7%	6.5%	4.2%	-	-
Bracknell Forest	3,500	6,800	4,100	1,600	1,200	800	300	200	200	18,800	28.5%
Reading	3,800	11,200	6,000	1,700	1,200	1,000	400	200	400	25,900	29.0%
Slough	2,700	7,000	3,800	1,100	1,300	1,200	400	400	400	18,300	24.7%
West Berkshire	5,600	9,100	4,800	1,800	1,500	1,000	400	300	300	24,800	29.1%
Windsor and Maidenhead	6,400	9,000	5,400	1,700	800	800	400	100	200	24,800	31.8%
Wokingham	5,900	12,200	5,200	1,400	1,000	800	400	100	200	27,200	32.3%
Thames Valley Berkshire	27,900	55,400	29,300	9,300	7,000	5,700	2,400	1,300	1,700	140,000	29.3%
Buckinghamshire	24,300	26,700	13,900	5,900	4,000	2,600	1,800	700	900	80,900	29.6%
Oxfordshire	22,600	46,000	21,700	6,600	5,900	4,300	2,200	700	1,100	111,000	30.1%
UK	1,719,200	3,124,900	1,719,200	623,700	591,700	416,600	206,100	131,300	140,900	8,673,800	26.6%

Sectors most affected by shutdown and key workers

Employment in sectors most affected by coronavirus risks and shutdown

In Thames Valley Berkshire, **80,300 employees** (with workplaces in the area) work in sectors most affected by the Coronavirus shutdown. Compared to the Great Britain average (16.9%), Thames Valley Berkshire has a lower share of employees working in shutdown sectors (15.5%). Local authority areas with the highest shares of employees working in shutdown sectors are Windsor and Maidenhead (21.5%) and Reading (16.2%).

115,600 employees in Thames Valley Berkshire work in sectors which employ key workers facing the biggest health and safety risks from Covid-19. Compared to the Great Britain average (30.6%), Thames Valley Berkshire has a lower share of employees working in high-risk key worker sectors (22.3%). Within the LEP area, Reading (26.3%) has the highest shares of employees working in high-risk key worker sectors.

	Sectors most affected by Coronavirus shutdown		Sectors with key workers facing biggest health and safety risks	
	No. employees	% share of employees	No. employees	% share of employees
Bracknell Forest	9,200	15.1%	13,700	22.5%
Reading	17,000	16.2%	27,600	26.3%
Slough	10,400	12.4%	17,400	20.7%
West Berkshire	14,600	15.1%	21,000	21.6%
Windsor and Maidenhead	18,100	21.5%	18,800	22.4%
Wokingham	11,000	12.7%	17,100	19.7%
Thames Valley Berkshire	80,300	15.5%	115,600	22.3%
Buckinghamshire	35,700	15.3%	66,700	28.5%
Oxfordshire	58,200	15.9%	99,500	27.3%
Great Britain	5,038,800	16.9%	9,097,800	30.6%

Industries

Business impact of Coronavirus

- In the ONS UK Coronavirus business surveys – the industries hit hardest in terms of job losses, and revenue loss are: accommodation and food services; administrative and support services; and arts, entertainment and recreation

How exposed are the LEP and LA areas to this?

- Hospitality and tourism: Employs 29,600 in TVB – 5.7% of TVB total (GB=6.5%); Windsor & Maidenhead: employs 8,000 (8.6%) – 1.5x more important than nationally
- Administrative and support activities account for a lot of jobs: employs 35,300 in TVB – 6.8% of TVB total (GB=5.6%); Slough: employs 8,900 (10.6%) – 1.9x more important than nationally
- Arts, entertainment and recreation: employment levels similar to the national average, Employs 13,000 in TVB – 2.5% of TVB total (GB=2.5%); more significant in Windsor & Maidenhead: employs 4,800 (5.8%) – 2.3x more important than nationally

LOCAL RISKS: INDUSTRIES

We have adapted a CBI analysis of industrial sectors which includes evidence on the local importance of each industry

Critical socio/economic sectors (“keeping the lights on”) – heat map / RAG rating

Sector	Impact now	Impact in Q1 – Q3	LOCAL IMPACTS
Food and drink retail	Demand: Unpredictable spikes in demand Supply: Supply chain disruption Workforce: high risk of infection	Cashflow / lease costs / payroll Disruption to business / supply chains by Jun-Aug	<ul style="list-style-type: none"> Employs 26,500 in TVB – 5.1% of TVB total (GB=5.2%) Slough: employs 6,400 (7.7%) – 1.4x more important than nationally
Energy/utilities	Demand: Unpredictable spikes in demand (lockdown & isolation)	Supply chain disruption Workforce continuity	<ul style="list-style-type: none"> Employs 10,300 in TVB – 2.0% of TVB total – 1.7x more important than nationally (1.1%) Reading: employs 3,300 (3.1%) – 2.6x more important than nationally Slough: employs 2,900 (3.1%) – 2.9x more important than nationally
Health and social care	Demand: Increasing Workforce: Pre-existing workforce shortage	Rising demand, lack of workforce	<ul style="list-style-type: none"> Employs 48,000 in TVB – 9.3% of TVB total (GB=13.1%)
Freight / logistics	Demand: Change in nature of demand Workforce: Pre-existing workforce shortage	Current and future workforce shortages impact distribution	<ul style="list-style-type: none"> Employs 9,500 in TVB – 1.8% of TVB total (GB=2.8%) Slough: employs 4,700 (5.6) – 2.0x more important than nationally
Insurance	Demand: Steady increase in insurance claims	Insurance losses could be heavy	<ul style="list-style-type: none"> Employs 3,900 in TVB – 1.2% of TVB total (GB=1.0%) Reading: employs 2,300 (2.2%) – 2.1x more important than nationally
Banking + fin servs	Proactively supporting vulnerable firms Little stress in funding markets currently	Reserves run short Cash flow / liquidity difficulties	<ul style="list-style-type: none"> Employs 6,300 in TVB – 1.2% of TVB total (GB=2.4%)

LOCAL RISKS: INDUSTRIES

We have adapted a CBI analysis of industrial sectors which includes evidence on the local importance of each industry

Sectors most at risk – heat map / RAG rating

Sector	Impact now	Impact in Q1 – Q3	LOCAL IMPACTS
Hospitality / tourism	Demand: Sharp decline in trade since Jan c. 500,000 redundancies in past week Seasonal hires of c 500,000 cancelled	National changes seeing 70% drop in bookings YOY Likely lose a full season of trade	<ul style="list-style-type: none"> Employs 29,600 in TVB – 5.7% of TVB total (GB=6.5%) Windsor & Maidenhead: employs 8,000 (8.6%) – 1.5x more important than nationally
Arts, entertainment & recreation	Demand: sharp decline with shutdown of venues and businesses	Complete loss of revenue at physical venues; disruption of new productions and services	<ul style="list-style-type: none"> Employs 13,000 in TVB – 2.5% of TVB total (GB=2.5%) Windsor & Maidenhead: employs 4,800 (5.8%) – 2.3x more important than nationally
Admin & support	Affected by lockdown and ability to work remotely	Lower demand, rate of furloughing is high	<ul style="list-style-type: none"> Employs 35,300 in TVB – 6.8% of TVB total (GB=5.6%) Slough: employs 8,900 (10.6%) – 1.9x more important than nationally
Aviation / Travel	Demand: has declined rapidly	Revenue and cashflow crisis Unlikely international travel will pick up in 2020	<ul style="list-style-type: none"> Air transport employs 1,000 in TVB – 0.2% of TVB total (GB=0.6%) Freight & logistics employs 9,500 in TVB – 1.8% of TVB total (GB=2.8%) Freight & logistics in Slough: employs 4,700 (5.6) – 2.0x more important than nationally
Retail & wholesale	Demand: for non-food retail depressed Supply: severe supply chain disruption Workforce: high risk of infection	Recession further depresses demand Cashflow problems – salaries and leases Disruption to supply chain	<ul style="list-style-type: none"> Employs 47,500 in TVB – 9.2% of TVB total (GB=8.1%) Bracknell Forest: employs 8,500 (14.0%) – 1.7x more important than nationally
Manufacturing	Demand: urgent for some products Limited demand for others – e.g. automotive	Fall in export market and domestic demand Ongoing supply chain disruption	<ul style="list-style-type: none"> Employs 25,000 in TVB – 4.8% of TVB total (GB=8.1%)
Construction	Demand: Site work ongoing Supply: Materials supply chain disruption	As work slows down, could see significant downturn and layoffs	<ul style="list-style-type: none"> Employs 20,000 in TVB – 3.9% of TVB total (GB=4.7%)

LOCAL RISKS: INDUSTRIES

Knowledge-based sectors

Sector	Impact now	Impact in Q1 – Q3	LOCAL IMPACTS
ICT & Digital	Demand: Consumer sector likely to surge / B2B decline; Unpredictable spikes in demand (lockdown & isolation)	Disruption to market demand Disruption to supply chains Workforce continuity Trade/ travel restrictions – less of an impact	<ul style="list-style-type: none"> • Employs 74,300 in TVB – 14.3% of TVB total – 2.2x more important than nationally (GB=3.8%) • More important than the national average in Bracknell Forest (employs 12,600 or 20.5% of total), Slough (6,600, 7.8%), West Berkshire (15,200, 15.6%), Windsor & Maidenhead (8,900, 10.7%) & Wokingham (15,200, 17.4%)
Advanced Manufacturing	Demand: urgent for some products Limited demand for others – e.g. automotive Supply: shut down of many manufacturing plants	Fall in export market and domestic demand Ongoing supply chain disruption	<ul style="list-style-type: none"> • Employs 23,300 in TVB – 4.5% of TVB total (GB=3.2%) • More important than the national average in Reading (employs 3,400 or 3.2% of total), West Berkshire (7,100, 7.3%) and Wokingham (4,900, 5.6%)
Life Sciences (does not include health care)	Demand: Medicines, medical devices, Covid-19 related R&D	Supply chain disruption Advantage in rapid R&D and production	<ul style="list-style-type: none"> • Employs 16,000 in TVB – 3.1% of TVB total, 3.4x more important than nationally (0.9%) • More important than the national average in every unitary authority area: Bracknell Forest (2,400 jobs, 3.9% of total), Reading (2,100, 2.0%), Slough (2,800, 3.3%), West Berkshire (1,300, 1.4%), Windsor & Maidenhead (3,700, 4.3%), Wokingham (4,200, 4.8%).
Business services	Demand has been limited and affected by lockdown; rates of home working and business continuity are higher	Decline in some areas of business, but new work / continuity in legal and finance advisory	<ul style="list-style-type: none"> • Employs 177,500 in TVB – 34.2% of TVB total (GB=24.5%) • More important than the national average in Bracknell Forest (employs 23,900, or 38.9% of total), Wokingham (37,400, 43.0%)

BUSINESS STRUCTURE

- TVB area slightly more reliant on microbusinesses (0 to 9 employees) – particularly in Windsor & Maidenhead and Wokingham
- 11.3% of private businesses are sole traders, compared to UK average of 17.0%; West Berkshire has higher share of businesses that are sole traders (14.4%). Sole traders benefit the most from self employment assistance from government

Area	Total businesses				Total	Share of businesses			
	Micro (0 to 9)	Small (10 to 49)	Medium-sized (50 to 249)	Large (250+)		Micro (0 to 9)	Small (10 to 49)	Medium-sized (50 to 249)	Large (250+)
Thames Valley Berkshire	40,895	3,455	795	260	45,405	90.1%	7.6%	1.8%	0.6%
Bracknell Forest	4,190	355	80	40	4,665	89.8%	7.6%	1.7%	0.9%
Reading	6,265	595	140	45	7,045	88.9%	8.4%	2.0%	0.6%
Slough	5,735	450	155	40	6,380	89.9%	7.1%	2.4%	0.6%
West Berkshire	7,950	740	145	45	8,875	89.6%	8.3%	1.6%	0.5%
Windsor and Maidenhead	8,690	700	150	40	9,575	90.8%	7.3%	1.6%	0.4%
Wokingham	8,070	620	125	50	8,865	91.0%	7.0%	1.4%	0.6%
United Kingdom	2,431,990	233,960	42,000	10,480	2,718,435	89.5%	8.6%	1.5%	0.4%

Features of the labour market in Thames Valley Berkshire

Younger labour market compared to UK average

- Although 16-25 year-olds make up a larger share of the population (11.2%) and workforce (16.4%) compared to the UK average (pop 9.9%, WF 15.8%)
- The next cohort is bigger of labour market entrants is also relatively bigger than the national average
- 67,000 young people aged 13-18 in Thames Valley Berkshire who will enter the labour market over the next 5 years
- Represents 7.4% of population, or equivalent to 11.7% of the working-age population – higher than UK average

Significant in- and out- commuting to London and rest of SE(2011)

- 11.9% (43,000) of TVB jobs filled by in-commuters from London
- 36.1% (130,000) of TVB jobs filled by in-commuters from rest of SE
- 6.6% (24,000) of TVB residents in work commute to London
- 19.2% (71,000) of TVB residents in work commute to rest of SE

	Total population aged 13-18	Percentage share of population aged 13-18	Share as % of working-age population
Bracknell Forest	9,200	7.5%	11.7%
Reading	10,100	6.2%	9.2%
Slough	11,300	7.6%	11.9%
West Berkshire	12,100	7.7%	12.5%
Windsor and Maidenhead	11,900	7.9%	12.9%
Wokingham	12,500	7.4%	12.1%
Thames Valley Berkshire	67,100	7.4%	11.7%
United Kingdom	4,364,500	6.6%	10.5%

UNEMPLOYMENT

+8,600 claimants in the past month (March to April) in TVB area, a +77% increase

Claimant rate now 3.4% in April, up from 1.9% in March in TVB area

Claimant unemployment has increased sharply in the South East of England

	March 2020 - total claimants	April 2020 - claimant rate	March 2020 - total claimants	April 2020 – total claimants	Monthly increase in claimants March to April
Bracknell Forest	1.5%	3.2%	1,220	2,500	105%
Reading	2.8%	4.2%	3,050	4,635	52%
Slough	3.0%	5.1%	2,820	4,830	71%
West Berkshire	1.6%	2.9%	1,525	2,815	85%
Windsor & Maidenhead	1.4%	2.8%	1,300	2,555	97%
Wokingham	1.1%	2.2%	1,140	2,275	100%
Thames Valley Berkshire	1.9%	3.4%	11,050	19,605	77%
UK	3.0%	5.1%	1,268,620	2,117,360	67%

Summary – local impacts and outlook



DEMAND CONDITIONS

- Although higher share of workers capable of WFG – 70% are not capable
- Slightly lower overall share of workers affected by shutdown compared to nationally
- Aviation impact: Heathrow (partic in Slough)
- Hospitality & tourism (Windsor & Maidenhead)
- Admin & support services (partic. Slough)
- Arts, entertainment & recreation (partic. Maidenhead)

RISKS

- Hospitality & tourism: further lockdown / restrictions, incl. international tourism
- Aviation restructuring
- Retail environment: jobs & town centres
- Insurance claims: Reading



TRADE AND SUPPLY CHAIN DISRUPTION

- Significant industries at risk: utilities, food & drink (partic. Slough), freight & logistics,
- International HQs and multinational firms
- International gateway role

RISKS

- Reduced business activities under distancing procedures
- Supply chains affected by shutdown / international transport disruption



UNEQUAL IMPACT AND PROSPECTS

- TVB labour market is younger
- Starting with lower base of unemployment compared to UK average and other parts of UK
- Ability to WFH remains a minority in terms of the workforce (30%)
- Younger people more affected by furlough and redundancies

RISKS

- Reduced job openings & change in skills requirements
- Youth unemployment
- Acceleration of automation
- Reduced opportunities, marginalisation and disadvantage in labour market



RECOVERY

- ICT, digital, science & technology, life sciences, financial and business services – all major strengths for TVB economy, less affected by shutdown and likely to recover faster
- Likely office workers will continue to face restrictions
- For some businesses – conversion of ST debt into LT debt an advantage
- How long will households remain cautious on spending?
- Seeing real signs of job losses and unemployment now

RISKS & OPPORTUNITIES

- Redundancies / restructuring
- Transport provision, distancing and London lockdown
- Sourcing materials, supplies, and skills
- Stronger capabilities for international trade and operations