COVID-19 – Social and Economic Issue Analysis: Economy

What does the Government say about this issue?

In an address to the nation on 23 March 2020 the Prime Minister gave the British people what he described as "a very simple instruction": to stay at home. This instruction has been backed up by legal regulations. At that time, people were told that they should only leave the house for very limited reasons:

- Shopping for basic necessities – for example for food and medicine, as infrequently as possible
- One form of exercise a day – for example a run, a walk, or cycle, alone or with a member of your household
- Any medical need – including to donate blood, avoid risk of harm, provide care or help a vulnerable person
- Travelling for work purposes – but only where you cannot work from home

Guidance had been refined over following days and weeks, but this instruction to stay at home remained, until revised in an address to the nation on 10 May 2020 by the Prime Minister.

In his address of 10 May 2020, the Prime Minister announced changes to come into effect on 13 May, setting out conditional plans to return life to as near normal as possible in England, for as many people as possible, as quickly and fairly as possible in order to safeguard livelihoods, but in a way that is safe and continues to protect our NHS. In terms of easing lockdown restrictions to help the economy, subject to social-distancing measures continuing, the Government sets out its three-step plan:

- In step one, starting on 13 May, workers who cannot work from home (such as construction, manufacturing and engineering industries) should travel to work if their workplace is open. The Government is also urging more vulnerable children to attend school if they are able to.
- In step two, which will begin no earlier than 01 June, nurseries and primary schools will begin a phased return beginning with Early Years, Reception, and Year 1 and Year 6. Some businesses will be able to reopen and sporting events will be able to take place behind closed doors.
- In step three, which will start no earlier than 04 July, more businesses will be able to open - although some, which are crowded by design, will not be able to open. The aim is to reopen businesses such as pubs, restaurants, hairdressers, hotels, cinemas and places of worship.

Government guidance (11 May 2020) states that for the time being, certain businesses and venues are required by law to stay closed to the public. These include:

- restaurants and cafes, other than for takeaway
- pubs, cinemas, theatres and nightclubs
- clothing and electronics stores; hair, beauty and nail salons; and outdoor and indoor markets (not selling food)
- libraries, community centres, and youth centres

- indoor and outdoor leisure facilities such as bowling alleys, gyms, arcades and soft play facilities
- some communal places within parks, such as playgrounds and outdoor gyms
- places of worship (except for funerals)
- hotels, hostels, bed and breakfasts, campsites, caravan parks, and boarding houses for commercial/leisure use, excluding use by those who live in them permanently, those who are unable to return home and critical workers where they need to for work

The guidance (11 May 2020) goes on to say that food retailers and food markets, hardware stores, garden centres and certain other retailers can remain open. Other businesses can remain open and their employees can travel to work, where they cannot work from home. The government has also allowed outdoor sports facilities – such as tennis and basketball courts, golf courses and bowling greens – to open, but people should only use these alone, with members of their household, or with one other person from outside their household, while keeping two metres apart at all times.

The Chancellor announced a package of government-backed and guaranteed loans to support businesses affected by COVID-19, making available an initial £330bn of guarantees – equivalent to 15% of GDP. This was on top of a series of measures announced at Budget 2020, the government announced £30bn of additional support for public services, individuals and businesses experiencing financial difficulties because of COVID-19, including a new £5bn COVID-19 Response Fund, to provide any extra resources needed by the NHS and other public services to tackle the virus. The government has implemented new legal powers in the emergency COVID-19 legislation, enabling it to offer whatever further financial support it thinks necessary to support businesses.

What impact is coronavirus having on the economy?

Government intervention

The COVID-19 pandemic has had an immediate and on-going negative economic effect on businesses, organisations, employers and employees. This is due to the need to reduce the spread of the virus, by people staying at home and away from others (in line with government guidance), and certain businesses and ventures not permitted to open to the public (in line with government guidance). The effect of these restrictions on the contribution to the economy include:

- people unable to work because they or someone they live with has become ill
- people furloughed because an employer has no work
- people losing their job and now unemployed
- businesses getting less or no work

The Government has put in place a range of financial support schemes, such as furlough payments, loans, tax relief and grants, to help employees and businesses through the COVID-19 pandemic. The provision of these financial support schemes ultimately affects the economy, and include:

- Statutory Sick Pay

- Mortgage and Loan payment holidays – non-governmental schemes
- Coronavirus Job Retention Scheme (Furlough Payments)
- Universal Credit
- Employment and Support Allowance
- Jobseeker's Allowance
- Self-employment Income Support Scheme
- Deferral of Self-Assessment payments
- Deferral of VAT payments
- Business Rates Relief
- Business Support Grants
- Coronavirus Business Interruption Loan Scheme
- Coronavirus Future Fund
- Bounce Back Loan
- Coronavirus Large Business Interruption Loan Scheme
- COVID-19 Corporate Financing Facility

All of these restrictions, measures and financial support schemes designed to support people, businesses, organisations, employers and employees through the COVID-19 pandemic will have wide-ranging and sustained negative effects on people's personal and business finances, and in turn on local economies and the UK economy as a whole.

On 12 May 2020, the Chancellor announced that so far, the Job Retention Scheme has protected 7.5mn workers and almost 1mn businesses, providing £10.1bn support. Also, that businesses have benefitted from over £14bn in loans and guarantees to support their cashflow during the crisis. This includes 268,000 Bounce Back Loans worth £8.3n, 36,000 loans worth over £6bn through the Coronavirus Business Interruption Loan Scheme, and £359mn through the Coronavirus Large Business Interruption Loan Scheme.

What the data tells us

Gross domestic product (GDP) measures the value of goods and services produced in the UK. It estimates the size of and growth in the economy. The Office for National Statistics (ONS) has released data that captures the first direct effects of the COVID-19 pandemic and the government measures taken to reduce transmission of the virus. The most significant was the introduction of restrictions in movement across the UK, which began on 23 March 2020. ONS warns that GDP estimates for March and Quarter 1 (Jan to Mar) 2020 are subject to more uncertainty than usual as a result of the challenges ONS faced in collecting the data under the government's imposed public health restrictions. Given the uncertainties in estimating the labour market and government intervention to support business, the breakdown of the income approach to GDP should be treated with particular caution.

The headline messages from the ONS bulletin are that:

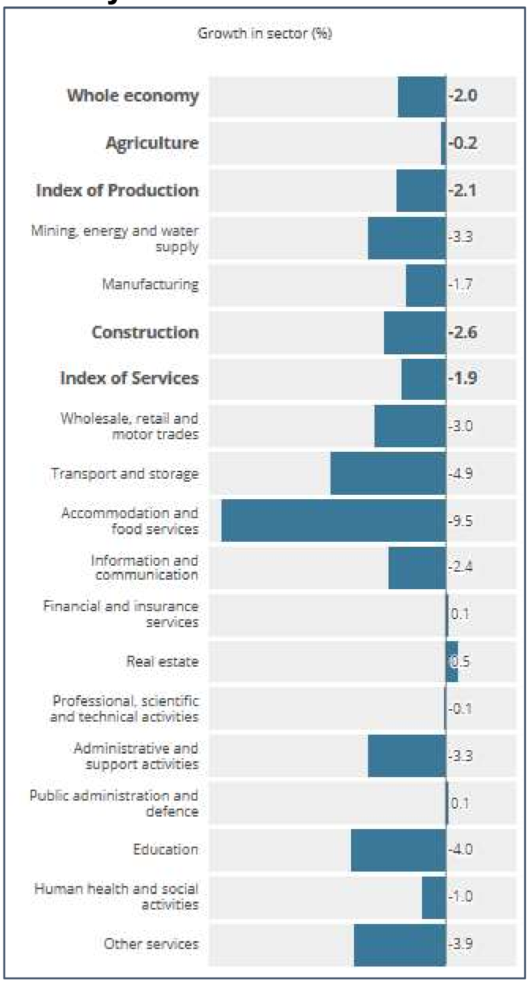
- GDP fell by 2.0% in Quarter 1 (Jan to Mar) 2020, signalling the first direct impacts of COVID-19 on the economy
- Monthly GDP fell by 5.8% in March 2020, the biggest monthly fall since the series began in 1997

Commenting on the GDP figures, Jonathan Athow, Deputy National Statistician for Economic Statistics, said:

- With the arrival of the pandemic nearly every aspect of the economy was hit in March, dragging growth to a record monthly fall.
- Services and construction saw record declines on the month with education, car sales and restaurants all falling substantially.
- Although very few industries saw growth, there were some that did including IT support and the manufacture of pharmaceuticals, soaps and cleaning products.
- The pandemic also hit trade globally, with UK imports and exports falling over the last couple of months, including a notable drop in imports from China.

The Figure below shows the breakdown of GDP and its sub-sectors, rolling three-month growth rates, January to March 2020. All the headline sectors provided a negative contribution to GDP growth in the three months to March 2020. The services sector fell by 1.9%, production by 2.1% and construction by 2.6%. The impacts of COVID-19 were seen right across the economy, with nearly all sub-sectors falling in the three months to March.

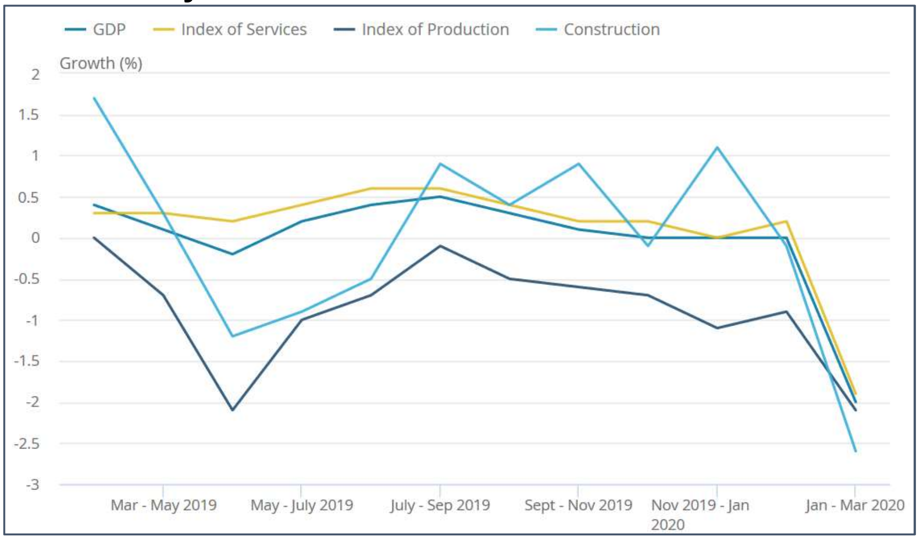
Breakdown of GDP and its sub-sectors, rolling three-month growth rates January to March 2020



Source: Office for National Statistics

The Figure below shows growth, three-months on previous three-months, for the UK, February to April 2019 until January to March 2020. This shows that GDP fell by 2.0% in the three months to March 2020, following no output growth in the three months to February. All the main sectors in the economy also saw a fall in the most recent period.

Growth, three-months on previous three-months, UK, February to April 2019 until January to March 2020



Source: Office for National Statistics

The Table below shows a breakdown of GDP and its components' growth rates by month. This shows that GDP fell by 5.8% in March 2020, the biggest monthly fall since the series began in 1997. Services and construction also saw record falls in the most recent month. The monthly growth rate for GDP is volatile. It should therefore be used with caution and alongside other measures, such as the three-month growth rate, when looking for an indicator of the longer-term trend of the economy. However, it is useful in highlighting one-off changes that can be masked by three-month growth rates.

Breakdown of GDP and its components' growth rates by month

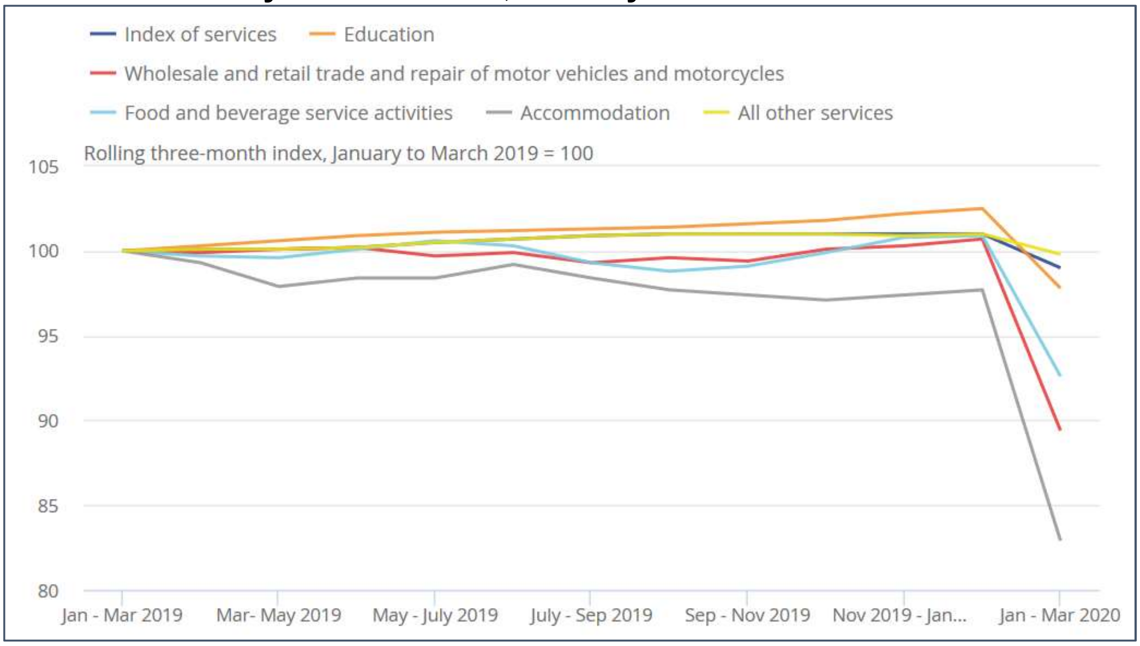
	January 2020	February 2020	March 2020	Quarter 1 2020
GDP	0.1%	-0.2%	-5.8%	-2.0%
Index of Services	0.1%	0.0%	-6.2%	-1.9%
Index of Production	-0.1%	-0.1%	-4.2%	-2.1%
Manufacturing	0.1%	0.3%	-4.6%	-1.7%
Construction	0.2%	-2.1%	-5.9%	-2.6%
Agriculture	-0.1%	-0.1%	-0.2%	-0.2%

Source: Office for National Statistics

The Figure below shows the Services sector rolling three-month on three-month index, January to March 2019 until January to March 2020, where January to March 2019 = 100. This shows that rolling three-month Services sector growth fell by 1.9% in March 2020, following growth of 0.2% in the three months to February 2020. This was driven by falls in nearly every industry, most notably:

- 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
- despite widespread falls, some industries saw growth, the largest of which was computer programming, consultancy and related activities, which grew by 1.4%

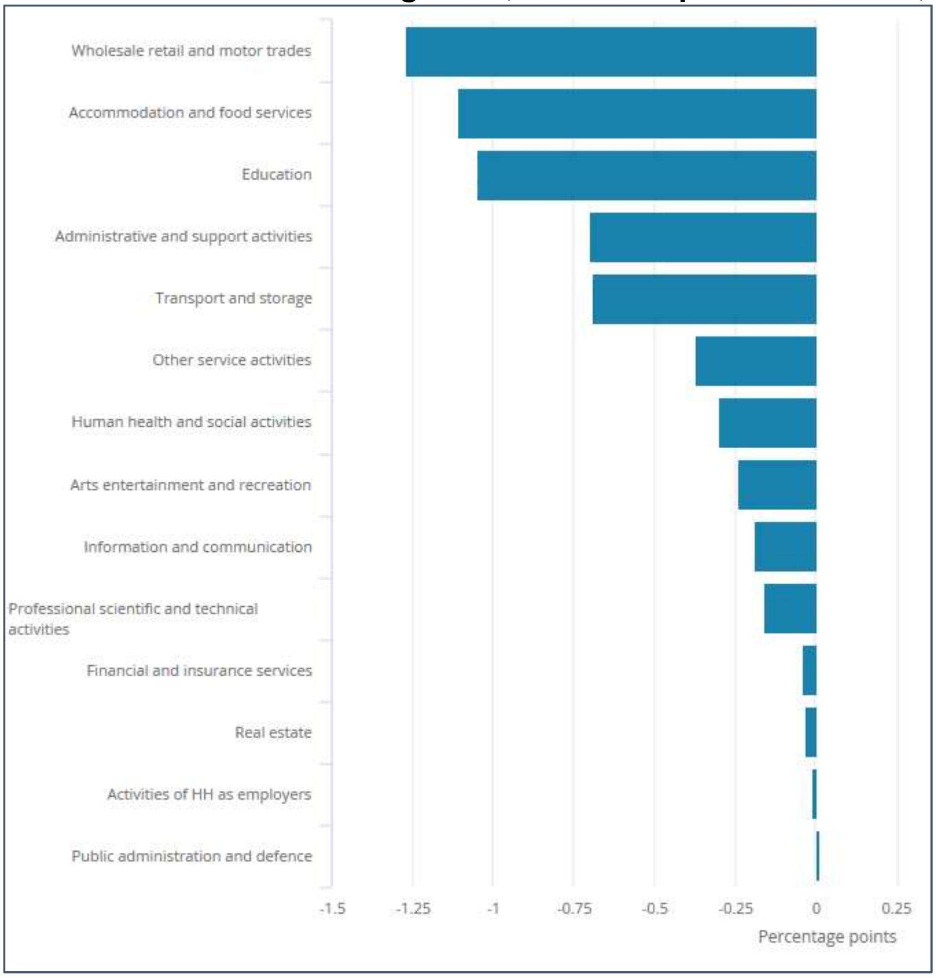
Services sector rolling three-month on three-month index, January to March 2019 until January to March 2020, January to March 2019 = 100



Source: Office for National Statistics

The Figure below shows contributions to Services sector growth, month on previous month, for the UK, March 2020. This shows that all but one of the Services sub-sectors contributed negatively to growth in March 2020. In March 2020, the Services sector fell by 6.2%, the largest monthly fall on record. The largest driver to this fall was wholesale, retail and motor trades followed by accommodation and food services, and education. The only positive contribution to growth came from public administration and defence, which grew marginally compared with the previous month.

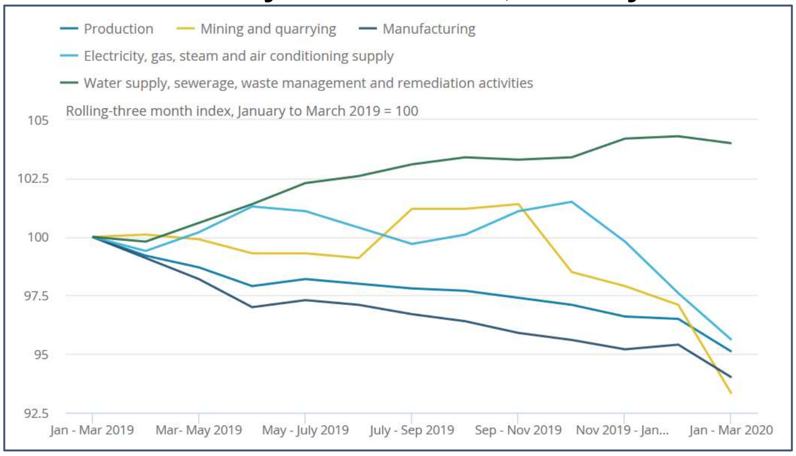
Contributions to Services growth, month on previous month, UK, March 2020



Source: Office for National Statistics

The Figure below shows the Production sector rolling three-month on three-month index, January to March 2019 until January to March 2020, where January to March 2019 = 100. This shows that the rolling three-month output in the Production sector fell by 2.1% in March 2020, with manufacturing falling by 1.7%. Widespread shut-downs caused production to fall significantly in the three-months to March 2020. There were widespread falls across manufacturing industries with 9 out of 13 sub-sectors falling. The most notable was the manufacture of transport equipment, which fell by 9.9%. This was partially offset by an increase in the manufacture of basic pharmaceuticals, which grew by 9.2%. Elsewhere, energy production along with mining and quarrying fell, while water supply increased. The fall in mining and quarrying was largely as a result of widespread maintenance shutdowns within oil and gas extraction.

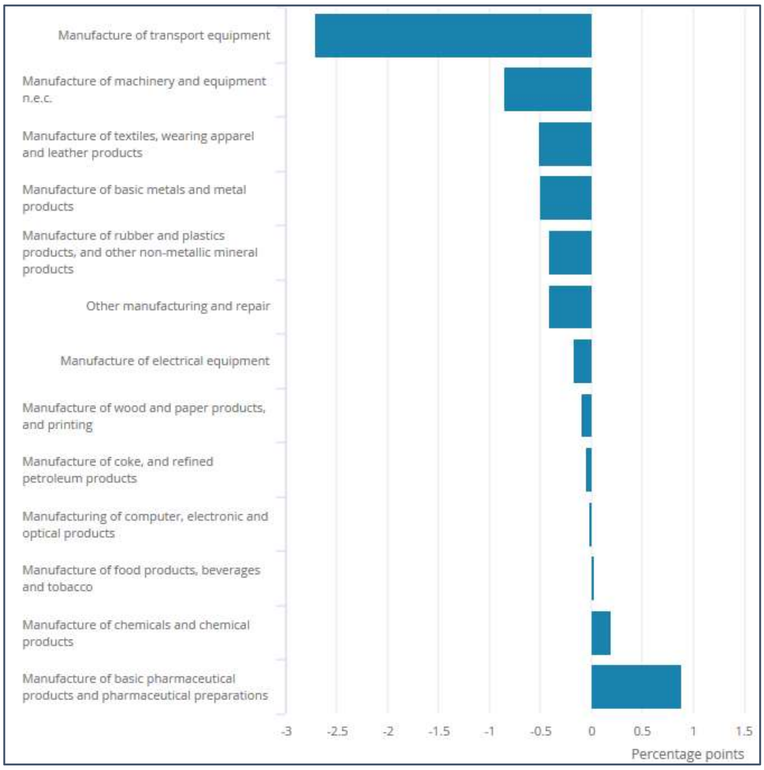
Production sector rolling three-month on three-month index, January to March 2019 until January to March 2020, January to March 2019 = 100



Source: Office for National Statistics

The Figure below shows contributions to Manufacturing sector growth, month on previous month, for the UK, March 2020. Production fell by 4.2% in March 2020, with manufacturing falling by 4.6%. The Figure shows that the largest cause of this decrease was manufacture of transport equipment, which fell by 20.5% following COVID-19-led shutdowns on car plants across the UK.

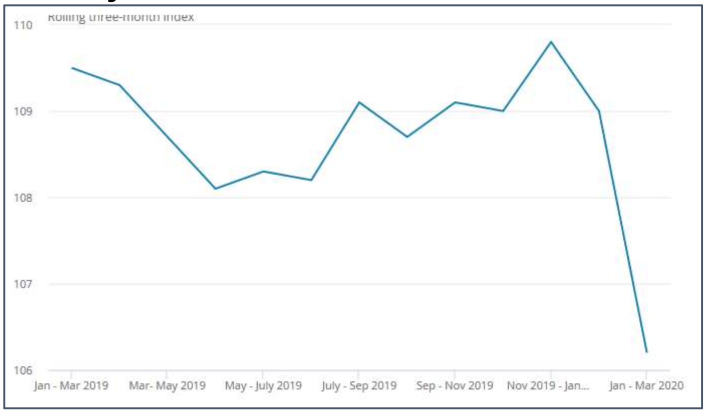
Contributions to Manufacturing growth, month on previous month, UK, March 2020



Source: Office for National Statistics

The Figure below shows the Construction sector rolling three-month index, for the UK, January to March 2019 until January to March 2020. This shows that rolling three-month growth in the Construction sector was negative 2.6% in March 2020. This was caused by private commercial work which fell 5.3%, as well as declines in private housing new work and private housing repair and maintenance (negative 4.2% and negative 7.5%, respectively). Month-on-month, output in construction fell by a record 5.9% in March 2020, following a fall of 2.1% in the weather-impacted February 2020. This fall was driven by declines in all types of work, which, again, is the first time this has happened since monthly records began in 2010. There were record monthly declines in repair and maintenance (-5.1%) and new work (-6.2%).

Construction sector rolling three-month index, UK, January to March 2019 until January to March 2020



Source: Office for National Statistics

The UK economy experienced a significant shock since the start of the COVID-19 pandemic. The first Government advice on social distancing was published on 12 March 2020, before a formal “lockdown” was announced on 23 March 2020, which led to a fall in consumer demand and business and factory closures, as well as supply chain disruptions. GDP fell by 5.8% in the month of March 2020, the largest fall since monthly records began in 1997, reflecting record widespread falls in services, production and construction output. This decline in GDP in March 2020 of 5.8% occurred within a single month. To illustrate the seriousness of this decline in GDP, during the global financial crisis, from the peak in February 2008 to lowest point of March 2009, a total of 13 months, GDP contracted 6.9%.

The BBC reported on 13 May 2020 that the Chancellor warned that it is very likely the UK is in a significant recession, with a fall in GDP of 5.8% recorded in March almost as deep as the entire 6.9% drop in output seen over more than a year during the global financial crisis.

Even before the latest UK GDP figures were released, the Bank of England Governor, Andrew Bailey, told the BBC that the UK economy is heading towards its sharpest recession on record, and that the COVID-19 impact would see the economy shrink 14% this year, based on the lockdown being relaxed in June, dramatically reducing jobs and incomes in the UK. The Bank of England latest Monetary Policy Report showed the UK economy plunging into its first recession in more than a decade. The economy shrank by 3% in the first quarter of 2020, followed by an unprecedented 25% decline in the three months to June. This would push the UK into a technical recession, defined as two consecutive quarters of economic decline.

Are things any different in Norfolk?

The COVID-19 lockdown has caused an unprecedented deterioration in everyday economic activity, with much of the UK economy having temporarily closed down. Since local economies differ, the economic impact of COVID-19 also varies between different areas, and between different towns and cities within an area.

The Table below shows two datasets side-by-side, for comparison. The breakdown of UK GDP and its sub-sectors, rolling three-month growth rates, January to March 2020; alongside Norfolk employee jobs (%) for 2018. This shows that the highest negative contribution to UK GDP in the three months to March 2020 was in the Accommodation and food services sector (-9.5%). This is particularly worrying for Norfolk as in 2018, the Accommodation and food services sector accounted for 8.3% of employee jobs, so negative contribution to growth in this sector affects around 30,000 jobs.

UK GDP rates January to March 2020 compared with Norfolk Employee Jobs (%) 2018

Industry Sector	UK Growth (GDP) in Sector (rate), Jan to March 2020	Norfolk Employee Jobs (%), 2018
Agriculture	-0.2	no data available
Mining, energy and water supply	-3.3	1.7
Manufacturing	-1.7	9.1
Construction	-2.6	5.0
Wholesale, retail and motor trades	-3.0	17.5
Transportation and storage	-4.9	4.2
Accommodation and food services	-9.5	8.3
Information and communication	-2.4	1.7
Financial and insurance services	0.1	3.6
Real estate	0.5	1.4
Professional, scientific and technical activities	-0.1	6.1
Administrative and support services	-3.3	8.0
Public administration and defence	0.1	3.9
Education	-4.0	9.1
Human health and social activities	-1.0	15.2
Other services	-3.9	4.5

Source: Office for National Statistics and Nomis (ONS Business Register and Employment Survey)

The Wholesale, retail and motor trades sector shows 3.0% negative contribution to UK GDP for the three months to March 2020. This affects around 63,000 (or 17.5%) Norfolk employee jobs in the sector.

The Human health and social activities sector shows 1.0% negative contribution to UK GDP for the three months to March 2020. This affects around 55,000 (or 15.2%) Norfolk employee jobs in the sector.

The Education sector shows 4.0% negative contribution to UK GDP for the three months to March 2020. This affects around 33,000 (or 9.1%) Norfolk employee jobs in the sector.

The Manufacturing sector shows 1.7% negative contribution to UK GDP for the three months to March 2020. This affects around 33,000 (or 9.1%) Norfolk employee jobs in the sector.

The Administrative and support services sector shows 3.3% negative contribution to UK GDP for the three months to March 2020. This affects around 29,000 (or 8.0%) Norfolk employee jobs in the sector.

In contrast, the Financial and insurance services sector, the Real estate sector and the Public administration and defence sector all show positive contribution to UK GDP for the three months to March 2020. Combined, this affects around 32,000 (or 8.9%) Norfolk employee jobs in the sector.

These data show the industry sectors in Norfolk that have been most effected by the downturn in growth over the three months to March 2020 during the COVID-19 pandemic lockdown. Although lockdown rules have been eased for some businesses which have re-opened (either partially or fully), many Norfolk businesses are in sectors where lockdown means they will remain closed for several weeks to come, such as the Accommodation and food services sector. These businesses will need specific strategies and support to get through the current economic downturn and on-going economic recession.

The Local Government Information Unit (LGiU) has reviewed research into how the economic impact of COVID-19 differs across local economies. The research focuses on two challenges: the immediate impacts of COVID-19 lockdown and the longer-term recovery, which depends on the underlying strength of the local economy. The research notes that some sectors are more adversely affected by lockdown than others – accommodation, non-food retail, pubs and restaurants, arts and leisure are particularly badly hit– so local economies that are more reliant on these sectors are likely to be more heavily affected. Furthermore, the research finds that the capacity of a place to withstand the economic shocks associated with COVID-19 depend on their existing resilience, with many coastal towns and ex-industrial towns less able to recover compared with major towns and cities, which are generally better placed to recover economically. For Norfolk, these two factors combined, see potentially less resilient places such as coastal towns, whose economies are reliant on accommodation, non-food retail, pubs and restaurants, or arts and leisure, needing specific strategies and support to get through the current economic downturn and on-going economic recession.

The LGiU has reviewed more research into how the economic impact of COVID-19 differs across local economies. The research focuses on how different places have been affected by the decrease in consumer spending since lockdown. The research notes that small tourist towns are particularly badly affected by reduced household spend compared to the same period last year; university towns are experiencing a double hit, as they have lost the spending power of students and visitors; local economies that are most dependent on retail, wholesale, coffee shops, restaurants, sports and airports have also seen steep falls in spending; and that tourism in coastal towns, and fruit/veg picking activities are seasonal, and businesses rely on summer income to see them through leaner months. The research goes on to say that within towns and cities, wards that are doing well are those with a very local customer base; and that local-facing shops servicing local customers, whether in rich or poor areas, are doing better than others. These research findings suggest that for Norfolk, strategies and support to get through the current economic downturn and on-going economic recession need to be sensitive to the way these very local economies work.

The British Chamber of Commerce (BCC) has developed a Coronavirus Business Impact Tracker that serves as a barometer of business' response to the Government's measures and changes to business' working practices over the next few months. It also tracks how quickly new Government interventions, introduced to deal with the real-world impact of this crisis, are getting to the businesses at the front line. Results from the latest BCC Coronavirus Business Impact Tracker (week 7) reveal that firms are ready for a gradual reopening of the economy but will need continued, adaptable Government support during a phased return to work.

Further work to better understand the affect of COVID-19 on Norfolk's economy is currently being done and planned by New Anglia LEP and NCC Insight & Analytics Team.

Paper written 15/05/2020

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