HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

4 November 2020

Rt Hon. Mel Stride MP
Chair of the Treasury Committee
House of Commons
London
SW1A 0AA

Dear Mel,

Thank you for your letter on the economic impacts of the restrictions that the Government is putting in place. As the Prime Minister has said, incidence rates are growing and the NHS is under increasing pressure. In that context, the Government is clear that we need to take further action immediately to protect the NHS.

It is difficult to precisely isolate and analyse the specific impacts of different public health restrictions on the economy. However, it is clear that the Covid-19 pandemic and the restrictions needed to curtail it have had a significant impact on economies around the world, including the UK economy.

The Office for National Statistics (ONS) estimates that Gross Domestic Product (GDP) in April – the first full month of the previous national restrictions – was around 25% below the level recorded in February. Consumer spending fell, with social consumption falling by around 80% at its lowest point. Around a quarter of firms stopped trading, while business investment fell by a record amount between the first and second quarter.

Underneath these overall effects, there were large shifts in the composition of spending, leading to significant differences between sectors. For example, hospitality and leisure were some of the hardest hit sectors in the previous national restrictions, with accommodation and food services Gross Value Added (GVA) output 91% lower in April and May compared to February; and arts, entertainment and recreation GVA output 47-49% lower in April and May relative to February. HMRC estimates suggest that, at peak, 1.65 million were furloughed in accommodation and food services, just over 455,000 in the arts and entertainment sector, and 1.85 million in the wholesale and retail sector.

These impacts will continue to be felt for a significant period, with the pace of recovery and extent of long-term scarring highly uncertain. While the economy returned to growth in May, the ONS estimates that GDP in August was still 9% below the level recorded in February. In its July 2020 Fiscal Sustainability Report, the Office for Budget Responsibility's 'central' scenario did not forecast output to regain its pre-virus peak until the end of 2022 and set out that real GDP could be 3% lower in the first quarter of 2025 than in their March forecast; and its 'downside' scenario did not forecast output to return to its pre-virus peak until the third quarter of 2024, and set out that real GDP could be 6% lower in the first quarter of 2025 than in their March forecast.

The further restrictions announced by the Government will have significant additional impacts on the economy and society. However, the Government's policy is not the same as the previous national restrictions and nor is the environment in which these restrictions are coming into force. On policy, the Government has set out that the restrictions will expire on Wednesday 2 December, with a return to a tiered system after four weeks; that schools, colleges, universities, childcare and early years settings will remain open; and that workplaces should stay open where people cannot work from home – for example, in construction and manufacturing. On the wider environment, some businesses may be more prepared for working from home than was the case prior to previous restrictions, while the labour market enters these restrictions in a weaker state than in March, and so do corporate balance sheets, including in the worst-affected sectors.

HM Treasury does not prepare formal forecasts for the UK economy, which are the responsibility of the independent OBR. They will publish their next forecast on 25 November. In addition, within their statutory mandates, the Bank of England's Monetary Policy Committee (MPC) and Financial Policy Committee (FPC) produce analysis including short-to-medium term scenarios and projections which reflect their independent judgements regarding the impact of Covid-19 on the likely path of the economy and UK financial stability. The MPC will update their projections in the upcoming Monetary Policy Report which will be published on 5 November.

In the context of the further action the Government has taken to prevent the spread of the virus, we have announced decisive further action to support people, jobs and businesses. This includes a further extension to the Coronavirus Job Retention Scheme for one month, more generous support for the self-employed and paying that support more quickly, cash grants of up to £3,000 for businesses which are closed, £1.1 billion for Local Authorities to make further cash payments to businesses, and an extension to the mortgage payment holiday for homeowners. Alongside our Winter Economy Plan, these announcements will give businesses, whether they are open or required to close, the flexibility to adjust and plan over the coming months – and comes on top of the £200 billion package of support we have committed since the beginning of the crisis.

Yours sincerely,

Rishi Su

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