

Written evidence submitted by Centre for Britain and Europe, University of Surrey

**Economic Impact of Coronavirus:
Lessons learnt and Surrey-specific examples**

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Introduction

Coronavirus has been the ultimate wake-up call and has forced us all to adapt and innovate to tackle the challenges we face. While the impact on key sectors including healthcare, retail, aviation and the knowledge economy have been uneven, the wider impact on the economy overall has – and will continue to be – profoundly damaging.

Drawing on extensive cross-sectoral research and data-gathering of key economic stakeholders across the county of Surrey between May-September (both public and private sector), as well as bespoke economic surveys of the county, the final report was commissioned by the Future Economy's Surrey commission, chaired by Lord Hammond and Surrey County Council. Compiled by the University of Surrey was launched in November 2020, entitled [Charting Surrey's Post-Covid Rescue, Recovery and Growth](#), the following evidence has been extracted from said report in relation to those areas of interest specific the current inquiry.

Context

The report presents a bold vision of growth, innovation and skills in the regional and national economy arising from 'clusters of excellence' including Aviation, the Knowledge Economy, Healthcare and Epidemiology, and Business and Employment. Although this report is based largely on the context of Surrey's local economy and its regional structures, many of the recommendations and lessons pertain not only regionally in terms of economic trends for the Southeast of England, but also to the national context. For Surrey, the south, and the UK as a whole, COVID-19 has been the ultimate wake-up call and the UK economy has suffered serious setbacks in terms of GVA, supply-demand and supply chain upheavals, rising unemployment.

The key message for the UK economy and the business sector is overall economic disruption, which has been unprecedented in speed and scope, the subsequent impact on key sectors as well as consumer behaviour, and ongoing uncertainty over the resumption of 'business as usual'. The global spread of Covid-19 has caused economic activity to fall dramatically in many countries; as lockdowns have eased, output has begun to recover. In the UK, GDP fell by 20.4% in the second quarter of 2020: the biggest fall in quarterly GDP on record, reaching its lowest point in April.

Since then, economic recovery has been visible but slow. While there has been a bounce-back in GDP in the three months until August, the output is still below its February level. Looking at quarter on quarter growth, GDP fell by 8.0% in the three months to August. UK trade is likely to be adversely impacted due to the coronavirus as the UK's major trading partners have also been strongly affected.

Key Messages

Several key messages need to be kept in mind:

- Both supply and demand effects have been drastically affected; supply effects by workplaces functioning less efficiently due to restrictions and reductions; demand effects by customers and clients not spending money.
- Production sectors are primarily affected on the supply side.
- Business services and consumer-facing services have borne the brunt of both supply and demand contractions.
- A large number of low and middle-skill roles are already affected.
- There are both risks and opportunities for industry, business and business associations, and government alike; these range from ongoing national intervention and local support schemes to tackle the immediate labour market consequences of Covid to medium and long-term strategies to help wide-spread reskilling and business support as well as policies that strategically prepare workers and citizens alike for Covid disruption being a part of the national lived reality for some time to come.

Government support for businesses and individuals across different regions and sectors: effectiveness and regional variation.

At the national level, the coronavirus pandemic led to a significant drop in overall and sector-specific activity in the UK. However, as a result of government support schemes and policies which were put in place, unemployment levels remained mainly unchanged, at 3.9% in June. Under the government's Coronavirus Job Retention Scheme, approximately 7.5 million people were temporarily furloughed in June 2020, indicating that a significant impact was had as a result of this government-implemented measure. Among those who were furloughed, the sectors which saw the largest share of employees involved in this scheme in July 2020 were wholesale and retail, and motor vehicle repair (20%), followed by accommodation and food services (18%), and manufacturing (11%). Construction and arts and arts entertainment businesses were also highly affected with 76% of the eligible employers in each of the industries relying on the Coronavirus Job Retention Scheme (Report sources: HMRC and bank calculations).

- An ONS survey (ONS, 2020) conducted recently (Wave 12 - the most recent being Wave 19) confirms that government measures have been essential to preserve jobs throughout the pandemic.
- Of all the respondents, the information and communication industry and human and social work activities were the only two sectors in which less than fifty per cent of the businesses had applied for the Job Retention Scheme, at **48.8% and 46.8%** respectively.
- Other sectors have also relied on government-backed accredited loans and business grants funded by the UK and devolved governments to continue functioning, such as those respondents within the sectors of accommodation and food service, 38% and 34% of which stated that they applied for government-backed finance and agreement and business grants, respectively.
- When looking at the local level, in Surrey specifically, different local councils have put in place different measures to support local businesses and individuals.
- **Guildford Borough Council** specifically was able to agree on a Recovery Plan placing a key focus upon economic recovery and emphasising projects which can provide skills in addition to offering employment support in the form of online support groups.

Regarding the level of effectiveness of government support across different regions, while firms in Surrey - a more affluent area in the South-East - have been able to gain some security - relatively - as

a result of the extension of the Job Retention Scheme and other government assistance programmes, regional disparities, sectoral limitations and the ongoing decline in high street shopping continue to represent very real challenges to Surrey's economic standing. This leads us to question the impacts seen in other regions which are known to be less affluent or even those which are in a similar position. A section in the report around the British Chambers of Commerce echoes these observations, stating that businesses have continued to benefit from the Coronavirus Job Retention Scheme and that around 70% of businesses surveyed had made use of the furlough scheme. This section also stated that there have however been signs of recovery, and an increase in vacancies in certain sectors - particularly in those of IT and logistics. These sectors were less likely to rely on government support, due to the remote nature of their activity, which could therefore continue during the pandemic.

Second and third lockdowns: impacts on the economy and UK government responses

At the time of submitting this evidence, the UK has just entered a new tiered-system, following the end of a second lockdown, lasting for four weeks from early November to early December 2020. The report from which this evidence has been taken was published before this second lockdown was announced and therefore contains predictions, observations and recommendations around the possibility of future lockdowns and their effects. When looking at individual areas, Surrey specifically has seen an increase in unemployment; pre-Covid, Surrey's unemployment rate stood at 2.5%, while the claimant count (which includes Jobseeker's Allowance and Universal Credit claims), stood at 1.2% of the working-age population. With the start of the lockdown, the claimant count jumped to 4% in July (still below the 6.4% for the UK). Additionally, before the second lockdown in Winter 2020, a large share of Surrey's businesses expected to keep employee numbers unchanged, and a significant share had already put in place a Covid-Secured Risk Assessment, together with an action plan for returning to the workplace - with further measures to be implemented in the event of another lockdown in 2020.

Across all areas of the UK, we have of course seen several businesses experience a significant decrease in supply and demand as a result of the pandemic and consequential lockdowns. Several businesses and structures - including local councils - such as Guildford Borough Council in Surrey, - across the UK have now put in place recovery plans and contingencies to prepare for any further lockdowns and their impacts.

With the uneven impact arising from tier-related confusion between November and December, it is difficult as yet to see clearly the longer-term economic consequences which could arise. In the case of future lockdowns, or a period of intermittent lockdowns, we will inevitably see quarterly output growth back in negative territory, while annual GDP would likely produce some of the worst-scenario forecasts. The Office for Budget Responsibility (2020) for instance expects a worst-case scenario would reduce UK GDP by over 14% compared to 2019, while the medium-case scenario still represents a fall of over 12%.

Permanent changes to the economy and vaccine rollouts

As has been mentioned above, the UK economy has seen unprecedented disruption and decrease in activity - including within the operation of key sectors and the consequential effect on consumer behaviour. As can also be seen above, the most dramatic falls in output were found during the period of lockdowns in Spring 2020, but that as these measures were eased, we began to see a period of recovery. In Surrey, in particular, the pandemic has demonstrated the opportunity for the county to create housing and workspaces for those relocating from London, as a result of the

increase in working from home, and the decrease in commuting. Along these lines, local services and retail have of course been significantly impacted, but maybe set to increase as a result of working from home and local high street spending.

Related to this, the most visible impacts of the pandemic can be seen on the high street, which has seen severe financial losses due to closures throughout the peak of the pandemic in Spring 2020, and now also later, in November 2020. In Surrey specifically, we have seen a reduction in the flow of commuters to London, due to the increase of remote working, which could act as a benefit for local businesses and high streets, as a higher number of people will be shopping locally. This could also be the case in other areas with previously high levels of commuter traffic. This could lead to some economic growth, as can be seen to a small extent in Guildford, Surrey. This is further supported by the success of remote working in maintaining productivity, which will likely impact the role of office space in the future, in addition to impacting the economy on a longer-term basis.

As of October 2020, while data is available regarding sectors, businesses and employees taking up government assistance schemes, it remains unclear precisely how furlough patterns could translate into job losses, business downturns and overall contractions and recession. This, of course, will also have changed as a result of the second lockdown in November 2020, and the new tiered-system which has been implemented in the UK. From a business perspective, certainty is needed to boost both market activity and consumer confidence. Covid needs to be more proactively controlled by improved testing or vaccine development, for consumer and market confidence to promote a recovery in both the UK's GDP and other global economies. In the short term, increased consumption, as well as sector-specific support, are likely to remain the main driver of UK growth, as the recovery in spending that began in the second quarter continues.

However, some sectors have seen opportunities, or at least continuity, during the pandemic - such as digital firms or IT businesses which can help to facilitate remote working. Additionally, the hospitality sector, while also seeing substantial losses due to travel restrictions and a decrease in tourism, has also seen an increase in hotel bookings from those travelling within the UK for a holiday, due to the restrictions on travelling abroad.

Regarding the Higher Education sector, universities across the UK have been severely impacted by the COVID-19 outbreak. Many are finding it difficult to maintain consistency within educational delivery and to sustain high student recruitment numbers (GovNet Events, 2020: 5). The pandemic has completely changed the nature of Higher Education delivery, resulting in challenges surrounding safety for students and staff, staying up to date with current information and guidance, moving from traditional teaching methods to online learning while maintaining quality, and reallocation of funding affected by fewer student recruits (GovNet Events, 2020: 5).

Crisis Response: institutional improvements, policy-makers, data and transparency

Looking ahead we must understand, evaluate and learn from the lessons that the coronavirus and subsequent lockdowns have shown us. Firstly, the global nature of coronavirus highlighted the need for a unified international response and plan, one that involves institutions such as the World Health Organisation. Which plays a very important role in identification and coordination with member states. Following on from the international level it's important that the government have a cross-departmental response in place for emergency use. Departmental cooperation on such issues is important to have and alleviates possibilities for mismanagement and overlap.

A public health emergency such as coronavirus means that the government must work closely with Public Health England and the National Health Service to provide a national health strategy to

address the issue. The area in which the institutions could improve drastically for future responses is a local approach. The government lacked a local strategy and approach to a coronavirus response. This could have included cooperating with local stakeholders, NHS trusts and local government. A local strategy could have reduced the spread of the virus in some areas, by identifying areas of high risk.

This could have also been carried out with economic stability in mind, by attempting to identify the areas worst hit economically by the virus and introduce strategic policies to address the problems. Looking to the future, the government must be more transparent with data provided and make sure such data is available locally so that decision-making can be more accountable and based on data-driven evidence. Transparency on coronavirus data could also be beneficial in gaining public trust over the debate and could help the government keep the public on the side in following rules and restrictions. Any data published should be clear and accessible with appropriate explanation, context and source to give the whole picture.

Protecting viable jobs and reducing long-term unemployment: government measures

COVID-19 has introduced significant pressures and challenges to the business and employment that have had impacts on all parts of the business ecosystem. COVID-19 has adversely impacted employment in the UK and it is expected to have further ramifications shortly. While the drop in overall and sector-specific activity in the UK was significant, unemployment itself remained largely unchanged at 3.9% in June, thanks to government schemes that were effectively implemented. The Coronavirus Job Retention Scheme (CRJS) supported approximately 7.5 million employees in June 2020 and the Self-Employment Income Scheme (SEISS) protected 2.7million claims. The largest share of furloughed employees in July 2020 was in wholesale, retail and repair of motor vehicles (20%), followed closely by accommodation and food services (18%). Other sectors of employment significantly impacted by COVID-19 were construction and arts and entertainment with 76% of the eligible employers in each of the industries relying on the CJRS scheme.

It is understood that unemployment is likely to rise in conjunction with a decline in GDP in early 2021, as many businesses feel the spill-over impacts of the national lockdowns in 2020. Labour market figures are expected to decline in the coming months, with the likelihood of many furloughed employees permanently losing their jobs before finding new positions or retraining. The Bank of England foresees unemployment increasing to 7.5% by the end of 2020, only falling later in 2021. The extent and speed of the labour market recovery will therefore depend largely on firms' willingness to make both investment and hiring decisions under high levels of uncertainty; but it will also be affected by an increased mismatch between the types of vacancies and those looking for work, as the impact of Covid differs across sectors. Most of the expected job losses are likely to be concentrated in sectors that will take a longer time to recover, or where logistical adjustment to Covid compliance protocols is more demanding and costly, including the hotel and restaurants sector, wholesale and retail trade, as well as the arts, entertainment and recreation sector.

Spiralling employment costs has meant that the cost for Small and Medium-sized businesses has skyrocketed. Putting small businesses at the very heart of a recovery plan for the UK economy is paramount as in regions such as the South East, as they represent the largest employers. An effective policy that would support businesses would be a cut in the burden of employment taxes, for example by increasing the employment allowance for small businesses. Through our research we found that there is a specific concern over SME indebtedness, this meant that some of the government loan schemes weren't supportive enough. Businesses worried about taking on more debt as they were already in debt.

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