

North East Covid-19

Economic Response Group

COVID-19 Intelligence

September 2020 update



on behalf of business:



on behalf of regional universities:

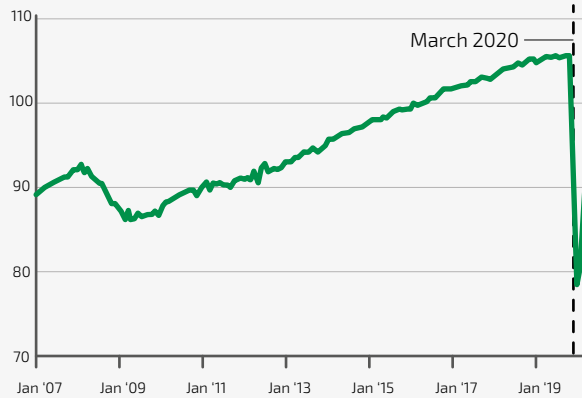


The report has been collated by New Skills Consulting and Ortus Economic Research, working in partnership with the North East LEP. It is a summary of work done to update the data and intelligence report received by the North East LEP Board in May 2020 about the immediate and longer term impacts of the COVID-19 pandemic in the North East.

The evidence prepared in this report was before the Prime Minister's announcement on 22 September 2020 and the additional local measures. A copy of the full report is available from the North East LEP from Richard Baker (richard.baker@nelep.co.uk) or Emma Ward (emma.ward@nelep.co.uk).

Headline findings

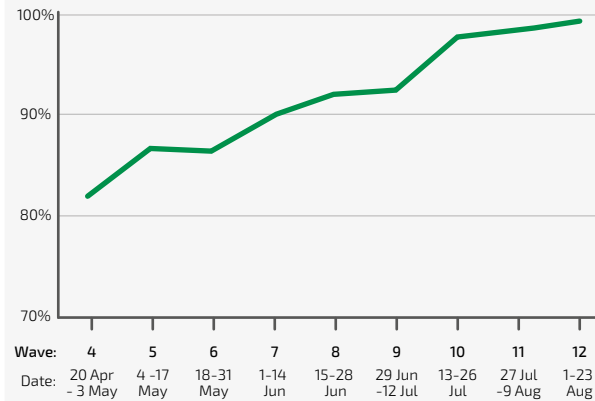
UK GDP



UK GDP showed the third consecutive month of growth in July following the severe drop in GDP in April. Output levels have recovered, making up just over half of that lost due to the COVID-19 pandemic. But they remain at about 10% lower than they were in March.

UK GDP: ONS GDP monthly estimate, UK: July 2020

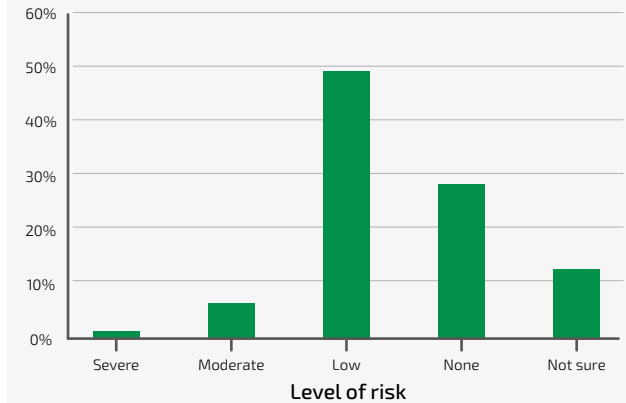
North East businesses continuing to trade



98% of businesses present in the North East region (including North East and Tees Valley LEPs) were trading in the period 10 to 23 August.

North East businesses continuing to trade: ONS Business Impact of COVID-19 Survey (BICS), Waves 4 to 12

North East businesses at risk of insolvency, 10 to 23 August



58% of businesses said that they were at risk of insolvency.

Risk of insolvency: ONS Business Impact of COVID-19 Survey (BICS), Wave 12

The region's strengths in a number of sectors that continue to trade put the region in a strong position to exploit emerging opportunities that can support economic recovery, including R&D and demonstration of new technologies; strengthening UK-based production and supply chains; and growing the low carbon economy.

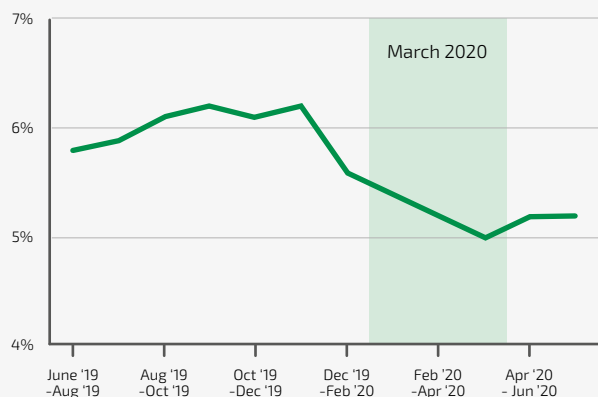
Some sectors have experienced continuous strong demand through the pandemic (digital and tech, pharmaceuticals, health, online retail, offshore energy, professional services, and some parts of the manufacturing sector such as food and beverages)

Others have experienced a severe contraction (automotive, aerospace manufacturing, aviation, tourism, leisure and hospitality, arts and culture, and high street retail).

In all but a few sectors, business investment has slowed down or halted, despite the gradual easing of lockdown since June 2020.

For example, while automotive manufacturing is beginning to return to more normal production levels, investment plans remain on hold.

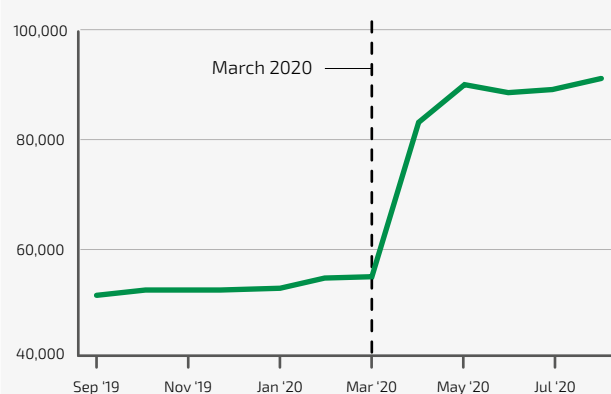
Unemployment rate, North East



The unemployment rate was 5.2% the highest among English regions.

Unemployment rate: ONS Labour Force Survey

Claimant count, North East LEP



In August 2020, almost 91,000 people in the North East LEP area claimed benefits principally for the reason of being unemployed, an increase of over 36,400 since March.

Claimant count: ONS Claimant Count

Apprenticeship vacancies, England



Nationally, the number of vacancies advertised on the Find An Apprenticeship website rose for the second consecutive month in July, following steep decline earlier in the year.

Apprenticeship vacancies: DfE Apprenticeships and traineeships: August 2020

Coronavirus Job Retention Scheme

267,000 employments were furloughed in the North East LEP area at some point between the start of the Coronavirus Job Retention Scheme in March and 31 July – 32% of eligible employments.

Early data shows 13% of eligible employments in the North East region were furloughed at the end of July.

Furlough is being used most in arts and culture, aviation, tourism, hospitality, health and fitness, and automotive manufacturing.

It is being **used least** in food manufacturing, energy, logistics, digital, finance and legal.

Self-Employment Income Support Scheme (SEISS)

54,600 people had claimed self-employment income support in the North East LEP area by 31 July – 77% of the eligible population.

So far, **43,000 claims have been made for a second SEISS grant** – 61% of the eligible population.

Many of these businesses **expect to see significant redundancies** from October but are doing all they can to retain staff.

UK redundancies

In the period May to July, around **156,000 people in the UK had experienced redundancy** in the previous three months – 48,000 higher than in the previous quarter and 58,000 higher than in the same quarter in 2019, the highest increases since 2009.

Larger towns and city centres have seen the greatest reductions in footfall, and an acceleration of the pre-COVID-19 decline of high streets (e.g. increasing vacancies, national chains closing some stores)

By contrast, some smaller towns and suburban high streets have seen a strong recovery.

The pandemic has accelerated the adoption of digital technologies by businesses across all sectors in the North East and there is an opportunity to put the digital sector at the heart of the region's economic recovery, as businesses across the economy look at tech solutions to reach their customers and improve productivity.

Larger businesses have been planning for EU Exit for some time and planned for multiple scenarios, despite the detail of the final deal being unclear.

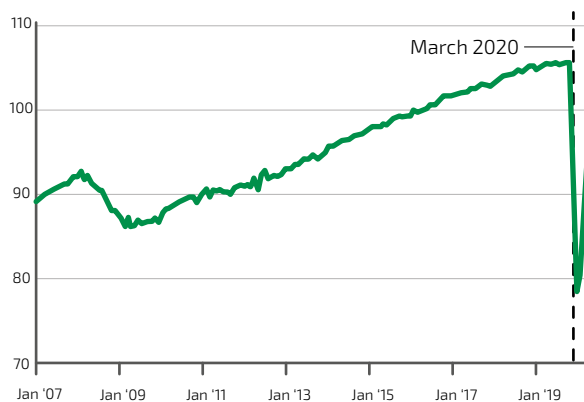
The picture is much different for SMEs, where some are taking a 'wait and see' attitude; some feel they are unlikely to be impacted by Brexit, for example because they do not export goods or services; and some are too busy focusing on the immediate priorities arising from COVID-19; in some cases, furloughing staff is affecting the ability to plan.

Key data

Economic output

The economic shock caused by COVID-19 is unprecedented. Despite the severity of the impacts felt earlier in the year, there are signs of recovery.

UK GDP



UK GDP: ONS GDP monthly estimate, UK: July 2020

UK GDP showed the third consecutive month of growth in July following the severe drop in GDP in April. Output levels have recovered, making up just over half of that lost due to the COVID-19 pandemic. But they remain at about 10% lower than they were in March.

From this lowered base, monthly growth in output among businesses in the North East region (including North East and Tees Valley LEPs) was higher between July and August 2020. Rising in a similar proportion to national trends.

Monthly growth in new orders among North East businesses was also higher in August.

More North East businesses expect an upturn in business over the next 12 months than expect a downturn, but intelligence suggests that confidence in the recovery may be weakening.

The pace of economic recovery remains uncertain, and is largely dependent on the extent to which the spread of COVID-19 can be controlled (including through the widespread availability of a vaccine), and the extent to which ongoing local restrictions are minimised.

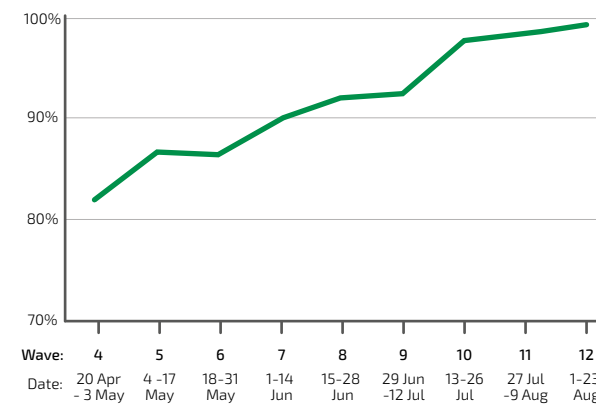
The effectiveness of policy measures to mitigate the impacts of the pandemic is also a key determinant of economic recovery.

Most forecasters expect a gradual recovery in the second half of 2020 and into 2021 and beyond; many scenarios suggest GDP will not return to pre-COVID-19 levels until 2023 or 2024.



Business activity

North East businesses continuing to trade



North East businesses continuing to trade: ONS Business Impact of COVID-19 Survey (BICS), Waves 4 to 12

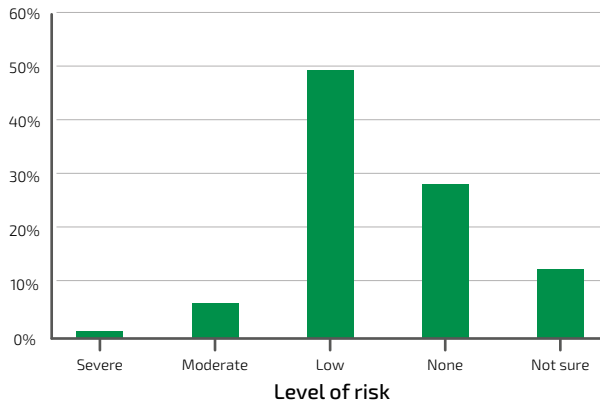
98% of businesses present in the North East region (including North East and Tees Valley LEPs) were trading in the period 10 to 23 August, and had been for more than two weeks previously; another 1% had restarted trading in the previous two weeks after an earlier pause.

46% of the region's businesses reported that their turnover in the period 10 to 23 August was up to 50% lower than usual for the time of year.

25% of North East businesses said that customer interest in goods or services was lower than normal, and 26% said footfall had decreased.

56% of the region's businesses had cash reserves of six months or less; 4% had no cash reserves at all; those with limited cash reserves were very concerned about the future.

North East businesses at risk of insolvency, 10 to 23 August



Risk of insolvency: ONS Business Impact of COVID-19 Survey (BICS), Wave 12

58% of businesses said that they were at risk of insolvency.

50% of businesses said they were at low risk, while 7% were at moderate risk and 1% at severe risk; 43% of those at risk said that COVID-19 was a factor.

In the last week of August, over 90% of respondents to the North East Growth Hub's business survey said loss of income was the biggest concern for them, with nearly all of these businesses concerned about possible cessation of trading.

As businesses plan to reopen, they expect to need less than 50% of their pre-Covid workforce for the first three months.

Business support

Some companies which have received grant support are now facing difficulties as they are still not returned to pre-COVID-19 trading levels and are uncertain about future trading conditions. Others who did not qualify for grant support continue to raise concerns about viability.

Many businesses and business owners remain unable to access any form of support.

The forthcoming cessation of the Job Retention Scheme at the end of October is causing concerns for some businesses. Some fear they will not have enough work for returning staff but do not want to make redundancies due to the subsequent loss of skills and experience.

There are concerns that the Kickstart scheme requires firms to commit to at least 30 placements, something impossible for most SMEs (who are more likely to take one or two placements).

Economic activity

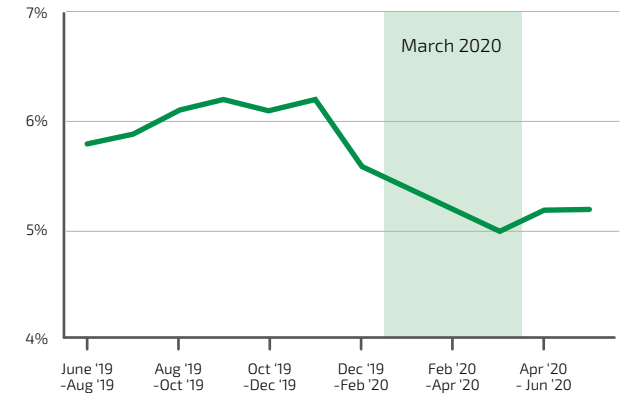
In the May to July period, 6,000 more people in the North East region (including North East and Tees Valley LEAs) were classified as being in employment than in the previous quarter. This figure includes employees who are furloughed, because official labour market definitions count people as employed if they have a reasonable expectation of returning to their jobs after a temporary period of absence.

However, the employment rate was 74.6%, the lowest among English regions.

Nationally, employment fell among 16 to 24 years olds, and among those aged 65 and over, but rose among those aged 25 to 64.

The number of unemployed people in the North East region in the May to July period was unchanged from the previous quarter.

Unemployment rate, North East



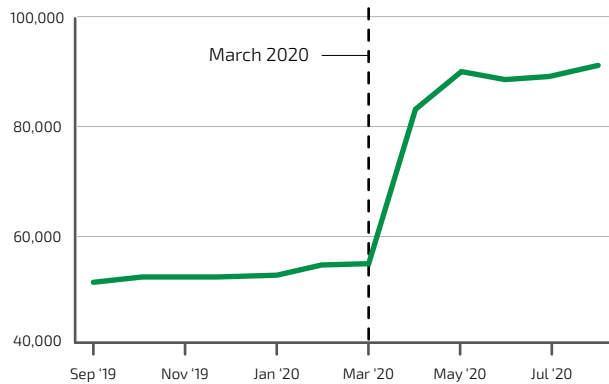
Unemployment rate: ONS Labour Force Survey

The unemployment rate was 5.2%, the highest among English regions.

Nationally, the average number of hours worked per week was 5.8 hours lower than in the same period in 2019.



Claimant count, North East LEP



Source: Claimant count, via Nomis

In August 2020, almost

91,000

people in the North East LEP area claimed benefits principally for the reason of being unemployed, an increase of over 36,400 since March.

Most of this increase occurred between March and April, but the August figure was still 1,900 higher than July.

Young people have been significantly impacted by COVID-19. The increase in the number of people claiming unemployment-related benefits has been greatest among younger people.

The claimant count rate is also highest among young people. There are concerns about a rise in unemployment, and the claimant count, when the Coronavirus Job Retention Scheme closes in October. A number of companies are consulting on redundancies.

Coronavirus Job Retention Scheme (CJRS)

267,000

employments

in the North East LEP area had been furloughed at some point between the start of the Coronavirus Job Retention Scheme in March and 31 July

This was 32% of eligible employments, the same percentage as in England as a whole.

Furlough is being used most in:

- arts and culture
- aviation
- tourism
- hospitality
- health and fitness
- automotive manufacturing

Furlough is being used least in:

- food manufacturing
- energy
- logistics
- digital
- finance
- legal

Early data suggests a large fall in the number of furloughed employments at the end of June.

Early data shows that 71,500 females and 71,300 males were furloughed under the scheme in the North East region (including North East and Tees Valley LEPs) at the end of July, suggesting a large fall in the number of furloughed employments in the local area. This figure will rise, as claims can still be made for July onwards (ONS estimate that nationally, around 10% of claims are outstanding).



Early data shows 13% of eligible employments in the North East region were furloughed at the end of July, compared with 14% in England.

Self-Employment Income Support Scheme (SEISS)

54,600

self-employed people

in the North East LEP area had claimed self-employment income support by 31 July.

This was 77% of the eligible population, compared to a national take-up rate of 76%.

About 30% of claimants worked in construction.

Take-up was highest in personal services and similar activities (87%), construction (84%) and transport and storage (82%).

43,000

claims

Preliminary data on claims for the second grant shows that 43,000 claims were made to the scheme by the end of August in the North East LEP area, a take up rate of 61% of the eligible population, compared to 60% in England.



Impacts on individuals

27% of people across GB who were working in the period 26 to 30 August 2020 were working from home.

The same proportion (27%) were not able to work from home.

The proportion of those working from home has fallen from 43% at the end of March.

15% of workers had been furloughed in the past seven days, while 2% had been asked to return from furlough.

The proportion of workers who were furloughed was down from 29% at the end of March.

16% of those who were furloughed between 26 and 30 August thought that it was unlikely or very unlikely that they would return to their main job; confidence appears to be weakening, as this was a larger proportion than among those furloughed in early July (8%).



Redundancies

In the period May to July, around
156,000
people in the UK had experienced
redundancy in the previous three months.

This was **48,000** higher than
in the previous quarter and

58,000 higher than in the
same quarter in 2019, the highest
increases since 2009.

More than 300,000 employees in the UK are at risk of redundancy according to notifications in HR1 forms submitted to the Insolvency Service in June and July.

Analysis of HR1 forms in the North East suggests that there is a higher level of potential risk in a number of key sectors.

Estimates suggest there will be up to 650,000 redundancies in the UK in the second half of 2020, two thirds of which will occur between July and September.



Vacancies

Burning Glass vacancies data shows the fourth successive monthly increase in postings, with 9,000 jobs advertised in the North East LEP area in August, just below the level a year ago.

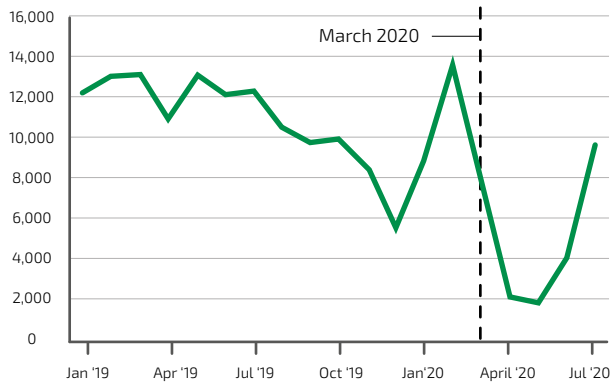
Vacancies for skilled construction and building trades, elementary trades and related occupations, leisure, travel and related personal service occupations, process, plant and machine operatives, and transport and mobile machine drivers and operatives were all well above March levels.

Demand for skilled agricultural and related trades, customer service occupations, teaching and educational professionals, and secretarial and related occupations was lower than in March.

According to ONS analysis of Adzuna vacancies data, the number of vacancies across the North East region (including North East and Tees Valley LEPs) remain well below 2019 levels.



Apprenticeship vacancies, England



Apprenticeship vacancies: DfE Apprenticeships and traineeships: August 2020

Nationally, the number of vacancies advertised on the Find An Apprenticeship (FAA) website rose for the second consecutive month in July, following steep decline earlier in the year.

The number of vacancies advertised on the website in July remains below 2019 levels.

In the North East LEP area, the number of vacancies at intermediate level is highest in retail and commercial enterprise, followed by engineering and manufacturing technologies and health, public services and care.

At advanced level, the number of vacancies is highest in business administration and law, followed by health, public services and care and information and communication technology.

Future employment scenarios

The unemployment rate is expected to continue to rise in the second half of 2020.

The number of people being made redundant is also expected to rise, with significant concerns relating to the end of the Coronavirus Job Retention Scheme in October.

Forecasters expect the unemployment rate to reach as high as 13% at the end of 2020, before reducing during 2021.

Job losses are expected to be concentrated in sectors that will take a longer time to recover or adjust to the need for social distancing, including the hotel and restaurants sector, wholesale and retail trade, and the arts, entertainment and recreation sector.

The COVID-19 pandemic is also accelerating long-term changes in labour demand, such as automation; occupations at highest risk include machine operators, clerical workers and craft and related trade workers, as well as – more generally – workers in jobs which require lower skill levels.

Sectors such as health and social care, and pharmaceuticals and life sciences, will likely grow in importance, including the need for skilled healthcare workers and researchers.

Science, Technology, Engineering and Mathematics (STEM) jobs are likely to continue to be in demand to drive productivity gains in the economy and support the “levelling up” agenda.

The pandemic has placed greater emphasis on green growth and the net zero agenda, and there is likely to be increased demand for workers in the low carbon economy.

Digital skills and transferable skills such as creativity, critical thinking, interpersonal communication skills and leadership skills are also likely to become more important as technology advances.



Sectors, local authorities and place intelligence

During September 2020, the project team undertook a series of in-depth consultations with representatives of key economic sectors and local authority teams in the North East LEP area, with the aim of examining the impacts of COVID-19 on specific sectors. The discussions explored how conditions in each sector and area have changed since the previous round of consultations in May 2020, focusing on the extent to which businesses and sectors have begun to recover as government lockdown restrictions have been gradually eased in recent months.

The key messages from these consultations are summarised in this section. Consultation findings have been supplemented with additional data on specific sectors, where available.

Consultations have been completed with a total of 19 representatives from the 15 sectors listed below.





Agriculture and rural	Health, pharmaceuticals, and life sciences
Arts, Culture, Tourism, and Hospitality	Higher education
Automotive manufacturing	Legal services
Aviation	Manufacturing
Construction and housebuilding	Offshore energy and subsea
Digital	Retail
Financial services	Voluntary and community sector
Food and drink	

Consultations were also undertaken with North East local authorities to understand how the situation has changed in local area economies since the previous report in May 2020.

Business activity

There is a mixed picture in terms of the ongoing impacts of COVID-19 on different sectors in the North East, and the extent to which businesses are recovering and returning to more normal levels of activity since the easing of lockdown restrictions since June 2020.

Some sectors have experienced continuous strong demand through the pandemic:

-  Digital and tech
-  Pharmaceuticals
-  Health
-  Online retail
-  Offshore energy
-  Professional services
-  Some parts of the manufacturing sector (such as food and beverage)

Others have experienced a severe contraction:

-  Automotive
-  Aerospace
-  Manufacturing
-  Aviation
-  Tourism
-  Leisure and hospitality
-  Arts and culture
-  High street retail

Some of the more badly affected sectors, such as automotive manufacturing and hospitality, are now beginning to see a return to more normal levels of activity as the lockdown has eased since June 2020, and they have re-started operations.

The rapid adoption of safe working and social distancing measures was most prevalent in those sectors that were classed as essential and therefore able to continue operating during lockdown (e.g. agriculture, food production and distribution, offshore energy, health, and pharmaceuticals). These sectors have continued to operate at close to normal levels of activity.

In all but a few sectors, business investment has slowed down or halted, despite the gradual easing of lockdown since June 2020.

For example, while manufacturing is beginning to return to more normal production levels, investment plans remain on hold. However, sectors such as energy and offshore renewables, with a high level of confidence about the future, are continuing to invest.

It is expected that the full impacts of COVID-19 and the lockdown will become clearer during October to December 2020 as the Coronavirus Job Retention Scheme ends and other forms of support are withdrawn. This will be when the full extent of the impact on North East sectors will be realised, as decisions are made about redundancies, job losses, and businesses closures.

Jobs, skills and training

Around a third of North East workers may have been placed on furlough at some point although this varies greatly between sectors.

Furlough is being used most in:



It is being used least in:



Businesses in automotive and aerospace manufacturing, high street retail, hospitality, arts and culture, leisure and tourism, and aviation are **more concerned about the end of the furlough scheme in October 2020 and their ability to retain furloughed staff. Many of these businesses expect to see significant redundancies from October but are doing all they can to retain staff.**

Businesses in these sectors have real concerns about the loss of highly skilled staff and the impact on future business sustainability, growth and productivity. There is a clear case to lobby Government to extend the CJRS for North East businesses in these sectors.

Staff recruitment is continuing in some North East business sectors, including healthcare, pharmaceuticals, logistics, digital, and online retail and supermarkets.

The continuing delivery of Apprenticeships is mixed across North East sectors. For example, Apprenticeship activity is ongoing in the construction sector where outdoors trades (e.g. bricklaying) can continue safely. By contrast, many office-based businesses have put a hold on Apprenticeship recruitment for the time being (e.g. legal sector) due to uncertainty about future workforce needs and a strong preference to be able to train and supervise new Apprentices face-to-face. It appears that overall levels of Apprenticeship recruitment by North East businesses are well below normal levels.

Unemployment has continued to increase in all areas of the North East, with a high proportion of job losses amongst low-skilled, low-paid workers. There has also been an increase in youth unemployment, exacerbated by the limited training and apprenticeship opportunities currently available.

There has been an increase in enquiries for business start-up support across the region. This is partly driven by the increase in unemployment, but also includes people who have been considering self-employment for some time, and furlough or redundancy has given them the opportunity and impetus to pursue it.

Places

Footfall in town and city centres has increased since June 2020 as lockdown restrictions have been eased although it remains below pre-COVID-19 levels.

Larger towns and city centres have seen the greatest reductions in footfall, and an **acceleration of the pre-COVID-19 decline of high streets** (e.g. increasing vacancies, national chains closing some stores).

By contrast, some smaller towns and suburban high streets have seen a stronger recovery and an increase in spending and footfall, reflecting a move towards more local shopping patterns.

There is evidence of increasing demand for commercial and business property in some local authority areas. For example, warehousing space for logistics and distribution; high tech R&D space, partly driven by the accelerated research needs in healthcare; and the need for additional business space to implement social distancing measures.

Issues specific to individual local areas include:

- The uncertain future of the Metrocentre in Gateshead and Eldon Square in Newcastle as a result of Intu going into administration.
- Concerns about the future pipeline of demand for manufacturing businesses in County Durham.
- The impact of COVID-19 on the automotive sector in Sunderland and wider region as a result of the initial shutdown of Nissan and the knock-on impacts on local supply chain businesses.

Local authority activities

As a result of the pandemic, local authority operating costs have increased significantly while income has reduced, meaning that some authorities will face significant budget deficits. This may impact on Councils' ability to fund and progress some planned development projects.

Local authorities have experienced a significant increase in enquiries since May 2020 from businesses and individuals seeking support and advice. All Councils have redeployed staff to frontline roles to respond to this demand for business and social support.

Resilience

While some sectors have begun to recover well as lockdown measures have eased, there is concern that this growth may be short-term as it is driven by temporary factors, such as catching up with work backlogs, pent up demand, and temporary Government support initiatives such as Eat Out to Help Out, or the Stamp Duty Holiday. For many sectors, the longer-term picture remains uncertain and there are concerns over future pipelines of demand, and the potential impact of further national or local lockdowns.

There is evidence that some businesses are surviving on the back of loans and CJRS, so an increase in insolvencies is expected as Government support is withdrawn.

There are concerns about the longer-term impacts of increased home working on the sustainability of the commercial property market, and particularly demand for office space in town and city centres. However, there is also evidence of increased demand for warehousing space for the logistics and distribution sector.

While the downturn has not been as bad in some sectors as originally feared, there is concern about the impact of further local or national lockdowns. Having survived the economic consequences of the first lockdown, it is feared that some businesses may not have the resources and resilience to survive a second wave.

Opportunities and changes

The pandemic has demonstrated the benefits of home working and digital delivery of services, including the positive environmental impacts this can deliver. The increase in remote working also offers opportunities for local people to access jobs and income outside the local area.

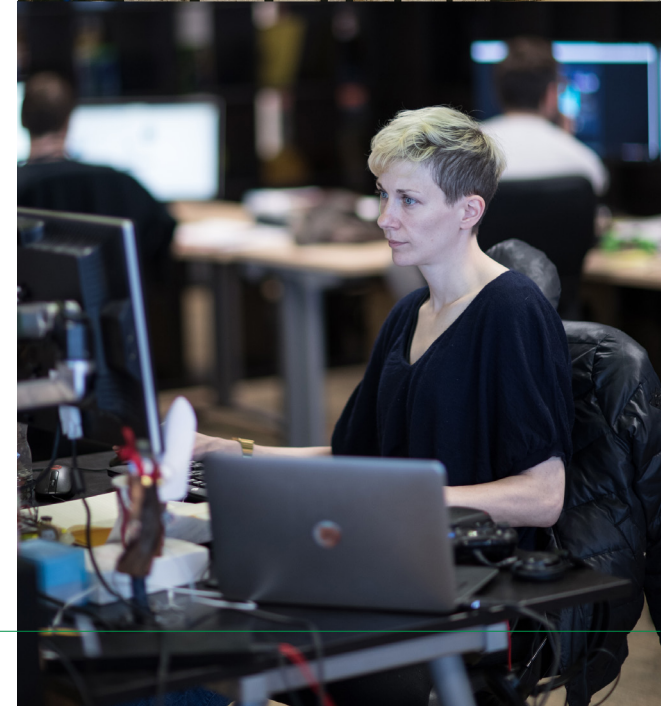
The region has strengths in a number of sectors that are continuing to trade strongly through the pandemic...

including food and drink, pharmaceuticals, offshore energy, and parts of advanced manufacturing. This puts the region in a strong position to exploit emerging opportunities that can support economic recovery, including R&D and demonstration of new technologies; strengthening UK-based production and supply chains; and growing the low carbon economy.

The digital and tech sector can have a big impact on all other sectors in the North East economy...

through the growing use of tech solutions to reach customers and improve productivity and efficiency. The pandemic has accelerated the adoption of digital technologies by businesses across all sectors in the North East and there is an opportunity to put the digital sector at the heart of the region's economic recovery.

With the ongoing decline of high street retail and the continued growth of online retail, plans for repurposing town and city centres are being considered to reflect on the interrelationships between living, working and leisure, including increased investment in residential accommodation and leisure facilities.



Looking ahead and preparing for recovery

Economic recovery in the region is expected to vary widely between sectors. For example, the arts, culture and hospitality sectors are expecting huge job losses, business closures and a recovery that will take many years. Other sectors, such as construction, are already well on the road to recovery.

Feedback indicates that few businesses, especially SMEs, are actively preparing future recovery plans. Those in strongly performing sectors are getting on with running their businesses. Those in badly impacted sectors are focused on short-term survival. Those businesses that are actively planning for the future tend to be larger firms.

A key factor underpinning future economic recovery is business confidence. Firms in strongly performing sectors (e.g. energy, pharmaceuticals, digital, food manufacturing) are most likely to drive the region's recovery. In other sectors, confidence is weak and investment plans on hold.

Larger businesses have been planning for EU Exit for some time...

but the full impact won't be understood until the final deal is known. The picture is much different for SMEs however, where some are taking a 'wait and see' attitude. Some feel they are unlikely to be impacted by Brexit, for example because they do not export goods or services; and some are too busy focusing on the immediate priorities arising from COVID-19; in some cases, furloughing staff is affecting the ability to plan.

Current and future support

There has been a high take-up of Government financial support (such as the furlough scheme, business grants and loans, and business rates relief) by businesses in the North East and this has played a critical role in ensuring the short-term survival of many firms.

A more flexible, sector-by-sector approach to business support is required in the coming months, focusing support where it is needed most.

Some sectors need further short-term financial support to aid their survival and recovery (culture, hospitality, aviation, tourism, and some areas of retail and manufacturing).

Some key sectors require investment to maximise their contribution to the region's economic recovery and growth (health and pharma, advanced manufacturing, energy and offshore, food and drink, education).

Others need the economy more broadly to recover for their businesses to be sustainable and to thrive (legal, finance, digital, professional services, retail, hospitality and leisure, travel and tourism).

Training initiatives are needed to support local people to re-train for work in growing sectors. For those that have been made redundant, these schemes may need to include an element of income support while people are in training.

Targeted support is needed for young people urgently to ensure they continue in education or move into employment. The Kickstart scheme may go some way to achieving this, although more will need to be done within the region to supplement this, as the level of need is great.



Acknowledgements

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Gateshead Council

Homebuilders Federation NE

Northern Gas Networks

Make UK (The Manufacturers' Organisation)

National Farmers Union North East

NE Culture Partnership

NE1 Business Improvement District

NECA / South Tyneside Council

Newcastle City Council

Newcastle International Airport

NewcastleGateshead Initiative

North East Automotive Alliance

North East universities

Northumberland County Council

North Tyneside Council

ORE Catapult

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