North East Covid-19

Economic Response Group

COVID-19 Intelligence

January 2021 update

on behalf of business:

on behalf of regional universities:

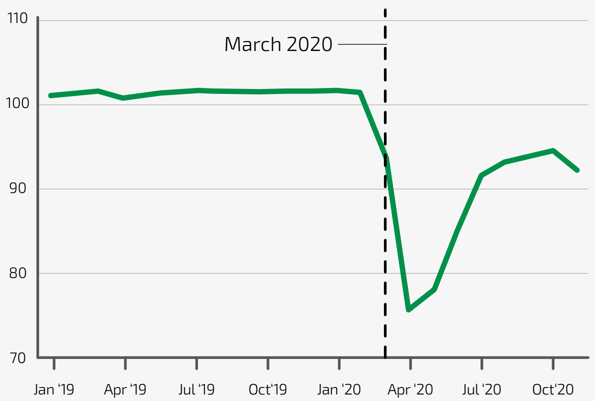
This report forms part of our ongoing monitoring of the immediate and longer term impacts of the COVID-19 pandemic in the North East. It aims to consolidate and update information from a range of available key indicators and intelligence sources.

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

Economic activity

UK Gross Domestic Product (GDP), January 2019 to November 2020

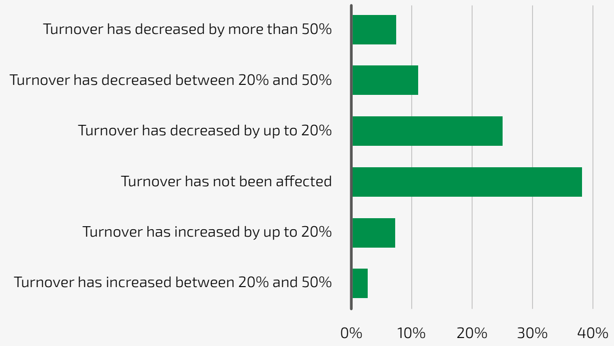


UK GDP fell by 2.6% in November 2020. This was after six consecutive monthly increases and resulted from government restrictions reducing economic activity. UK GDP remains 8.5% below February 2020 levels, the last month before the main impact of the COVID-19 pandemic.

Source: ONS GDP monthly estimate, UK: November 2020

Business activity

Impact of COVID-19 on turnover, North East region, 14 to 27 December 2020



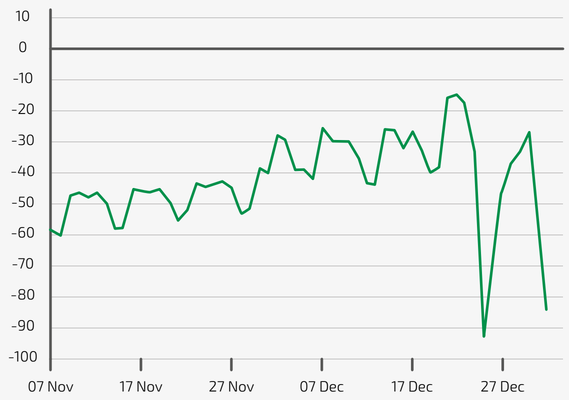
In the period 14 to 27 December, turnover had fallen in around 43% of businesses in the North East region, compared to what is normally expected at this time of year. Turnover had decreased by a fifth or more in 19% of the region's businesses. At the end of April 2020, turnover had fallen in 72% of businesses, including 54% in which turnover had fallen by a fifth or more.

Nationally, the sectors worst affected in December were arts, entertainment and recreation; other personal services; and accommodation and food services.

Source: ONS Business insights and impact on the UK economy: 14 January 2021

Footfall and visits to retail and recreation locations

Visits to retail and recreation locations (seven-day rolling average, indexed), North East LEP, 7 November 2020 to 1 January 2021

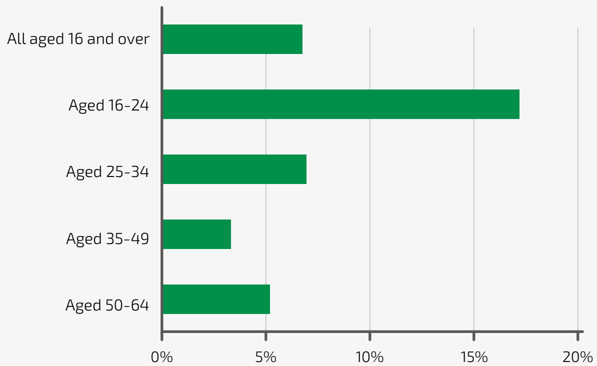


Google's community mobility data suggests that visits to retail and recreation sites on the Monday, Tuesday and Wednesday before Christmas were about 10 percentage points higher than in the previous week, and around 30 percentage points higher than in the lockdown period in late November. Visits remained at around 85% of their level for these days in early 2020.

Source: Google Community Mobility Reports

Unemployment

Unemployment rate by age, North East region, August to October 2020



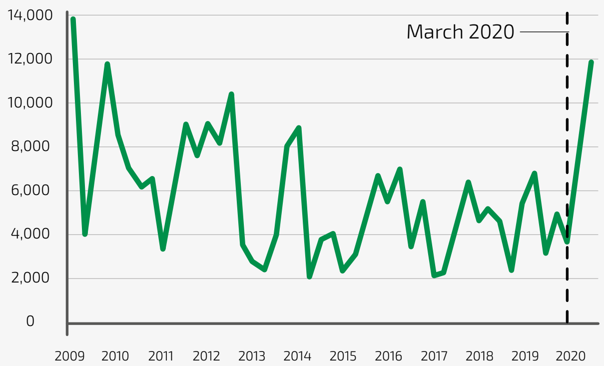
At 6.6%, the North East region had the highest unemployment rate among the English regions in August to October 2020[1]. The unemployment rate is highest among young people.

[1] This is a lagging indicator, based on the Labour Force Survey. Data for the period September to November 2020 will be released on 26 January.

Source: ONS Unemployment by age

Redundancies

Quarterly redundancy estimates, North East region, 2009 to 2020

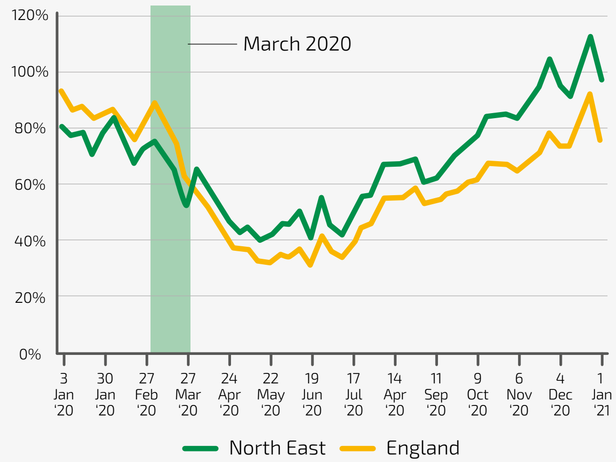


According to the Labour Force Survey, 12,000 people in the North East region were made redundant in August to October 2020. This was the highest level since 2009, and more than 1.5 times the size of any level since early 2014.

Source: ONS Labour Market Release Table RED02: Redundancy Levels by Region Aug-Oct 2020

Recruitment demand

Weekly vacancy index (as a percentage of total a year earlier), North East region and England, to week ending 1 January 2021



In the week ending 1 January, vacancy levels in the North East region were only slightly below their level a year earlier. Vacancy levels increased faster in the region than nationally in the later months of 2020 and the North East is closer to returning to pre-COVID vacancy levels than any other English region[2].

[2] The data are published as an index, and the actual number of vacancies is unknown.

Source: ONS analysis of Adzuna website data

Key data

Economic output

According to the latest ONS data, UK GDP fell by 2.6% in November 2020.

This was after six consecutive monthly increases. The services sector acted as the main drag on growth in November, falling by 3.4% as restrictions on activity were reintroduced.

UK GDP remains 8.5% below February 2020 levels, the last month before the main impact of the COVID-19 pandemic.

Reflecting the fall in UK GDP, private sector firms in the North East region (including North East and Tees Valley LEP areas) reported a decline in business activity in November.

The NatWest PMI indicates a moderate contraction in output, after five consecutive months of growth.

A fall in new business was caused mainly by the four-week lockdown in November, but firms also commented on uncertainty stemming from weaker client demand and any further potential restrictions, as well as uncertainty related to EU Exit. Export conditions also worsened, as key markets implemented their own restrictions in response to a resurgence of COVID-19.

Nevertheless, North East firms remained optimistic about the 12-month outlook

With NatWest reporting the highest level of optimism since July. According to NatWest, business confidence in the region was well below the national average, however.

Forecasters continue to indicate that the economic outlook remains highly uncertain.

According to the Office for Budget Responsibility, the outlook depends on the future path of the virus, the stringency of public health restrictions in response, the timing and effectiveness of vaccines, and the reactions of households and businesses to all of these.

Forecasters such as the Office for Budget Responsibility expect a gradual recovery in 2021 and beyond, with most suggesting that UK GDP will return to its pre-COVID levels in late 2022 or 2023.

Business activity

ONS reports that between 29 December and 10 January, around 10% of businesses in the North East region (including the North East and Tees Valley LEP areas) had temporarily closed or paused trading.

Most said they were closed because of lockdown, though almost one in five (19%) said it was not financially viable to stay open. Insufficient footfall or customer interest was also a factor.

Between 14 and 27 December, turnover was lower than normally expected for around 43% of businesses in the North East region, while profits were lower than normal for 39%.

25% of the region's exporters had exported less than normal for the time of year, and 4% had not been able to export at all. 21% of importers had imported less than normal, and 5% had not been able to import.

Stock levels were lower than normal in 13% of North East businesses, while 14% had higher levels of stock than normal. Half of businesses with stock levels higher or lower than normal cited COVID-19, while around one in five (22%) cited the end of the EU transition period and around on in six (16%) cited both.

6% of businesses in the North East region had no cash reserves, and a further 39% had cash reserves to last six months or less. 4% had low confidence in their business surviving for three months, while a further 24% only had moderate confidence in this. 12% reported that they had a moderate or severe risk of insolvency.

And only 25% thought that they had no risk of insolvency. 44% of North East businesses which thought they were at risk said the risk had increased due to COVID-19.

Business starts

BankSearch data suggests that the number of small businesses started in the North East in November 2020 was 8.5% higher than in November 2019, reflecting the national picture.

BankSearch suggests that the expected effect of more job losses, combined with redundancy payments, plus opportunities for entrepreneurial activity enhance the number of business starts.

Feedback from North East enterprise agencies suggests the COVID-19 pandemic has acted as a catalyst for many people to start a business.

There are a number of drivers, including people becoming self-employed out of necessity after losing their job, as well as people using free time and redundancy money to start businesses based on ideas they were considering before the pandemic.

Business support

Growth Hub Intelligence Reports show that businesses continue to request support to help them trade their way out of current challenges, and to look beyond COVID-19.

Businesses need support to develop a long-term ability to adapt to future restrictions, including support for short term measures (e.g. to buy new equipment or tools), to innovate with new approaches and business models, and to access professional advice and support.

Businesses also need support to adopt new technologies to help them look beyond survival and thrive post-pandemic.

Including the adoption of digital technology to help pivot business models to online where possible, or better utilise accounting and CRM systems.

Some businesses have requested support to access rapid testing for staff and customers, which would help them fully re-open.

Support agencies continue to receive enquiries from businesses and individuals excluded from government schemes.

With pleas that they are not overlooked again (such as newly self-employed, home based businesses, directors paid through dividends and so on).

According to the British Business Bank, as at 15 October 2020 a total of 1,520 loans had been offered to businesses in the North East region (including the North East and Tees Valley LEP areas) through the CBILS scheme, with a value of £344 million (an average of £226,316 per loan). 39,991 loans had been offered to North East businesses through the BBLS scheme, with a value of £1,107 million (an average of £ 27,681 per loan). In both cases, the loans offered in the North East represented 3% of all loans offered in the UK, the same as the proportion of UK businesses located in the North East.

As at 19 November, 27 loans had been approved to businesses in the North East through the Future Fund, with a value of £24.4 million (an average of just over £900,000 each).

As at 11 November, almost £11.7 billion to over 999,700 business properties in England through the Small Business Grants Fund and the Retail, Hospitality and Leisure Business Grants Fund, equating to 95% of the identified eligible funding.

More than 34,200 grants had been made to hereditaments (premises) located in the North East LEP area, with a value of over £393 million (an average of £11,500 each). This represented payments to 97% of the hereditaments identified as eligible, and 98% of identified eligible funding.

More than 3,100 grants were paid by local authorities in the North East LEP area from the Local Authority Discretionary Grant Fund, with a value of over £19.7 million (an average of £6,354 each).

Footfall and visits to recreational services

Google's community mobility data suggests that visits to retail and recreation sites on the Monday, Tuesday and Wednesday before Christmas were about 10 percentage points higher than in the previous week, and around 30 percentage points higher than in the lockdown period in late November.

Visits remained at around 85% of their level for these days in early 2020.

In the run-up to Christmas, supermarket visits were at a similar level to that in early 2020.

After the November lockdown, levels of visits to workplaces, retail and recreation sites and public transport hubs all increased, to just below October, term-time levels.

Unemployment

During August to October, according to the latest ONS data, the North East region (including the North East and Tees Valley LEP areas) had the highest unemployment rate among the English regions (6.6%, compared with 5.1% in England).

The North East's unemployment rate rose by 1.1 percentage point compared with the previous quarter. In total, 84,300 people were unemployed in the region, up from 71,600 three months earlier.

The unemployment rate is highest among young people.

17.2% of 16 to 24 year olds in the North East region were unemployed in August to October, compared with 7.0% of 25 to 34 year olds, 3.4% of 35 to 49 year olds and 5.2% of 50 to 64 year olds.

Unemployment rose among all age groups, with the largest increase among 16 to 24 year olds. Among 50 to 64 year olds, there was also a net increase in economic inactivity (larger than the unemployment increase), suggesting that some older workers who have lost their jobs have exited the labour market.

Claimant count

Over 87,000 people **were claiming unemployment-related benefits in the North East LEP area in November 2020, according to ONS data, almost 33,000 more than in March.**

Most of this increase happened between March and April, with a further increase between April and May.

7.0% of 16 to 64 year olds in the North East were claiming unemployment-related benefits in November, compared with 6.3% in England. Almost half of claimants were aged 16 to 34.

Coronavirus Job Retention Scheme (CJRS)

HMRC data shows that as at 31 October, 55,200 employments in the North East LEP area were furloughed. This represented 6.7% of eligible employments, a lower proportion than in England (7.4%).

The employments furloughed at the end of October in the North East LEP area represented 20.7% of the total number of employments (267,000) that had been furloughed at any time as part of the scheme. This is a lower percentage than nationally (23.5%).

Almost 52 per cent of furloughed workers in the North East LEP area at the end of October were female.

ONS data shows that in the period 10 December to 13 December 2020, 10% of workers across Great Britain had been furloughed in the past seven days, while 3% had been asked to return from furlough. The proportion of workers who were furloughed in the past seven days was up from 5% at the beginning of November.

Self-Employment Income Support Scheme (SEISS)

According to HMRC, by 31 October 2020 around 49,200 self-employed workers in the North East LEP area had made SEISS claims in the second tranche of the scheme.

This was 5,500 fewer than the number of claimants in the first tranche (54,700).

69% of the eligible population in the North East had made a claim in the second tranche of the scheme by 31 October, while the take-up rate was 77% in the first tranche. These were the same proportions as seen nationally.

Impacts on individuals

ONS data shows that across Great Britain, 37% of people who were working in the period 10 December to 13 December 2020 were working from home because of the COVID-19 outbreak.

27% said they were not able to work from home

The proportion of those working from home was the same as at the beginning of November.

Redundancies

According to the Labour Force Survey, 12,000 people in the North East region (including the North East and Tees Valley LEP areas) were made redundant in August to October 2020.

This was the highest level since 2009, and more than 1.5 times the size of any level since early 2014.

Nevertheless, at a rate of 11.1 redundancies per 1,000 employees (1.1%), the level of redundancies in the North East was lower than that for England (13.6 per 1,000 employees) and the second lowest among the nine English regions.

Nationally, the rate of redundancies was highest in arts, recreation and personal services (32.6 per 1,000 employees), accommodation and food services (27.6), administrative and support services (24.2), manufacturing (20.6), retail and wholesale (19.3) and construction (18.8). Together, these sectors accounted for 70% of reported UK redundancies during August to October.

Vacancies

In the week ending 1 January, ONS data shows that vacancy levels in the North East region (including the North East and Tees Valley LEP areas) were only slightly below their level a year earlier.

Vacancy levels increased faster in the region than nationally in the later months of 2020.

The North East is closer to returning to pre-COVID vacancy levels than any other English region.

Nationally, vacancy levels are above the levels a year ago in domestic help; construction; manufacturing; and transport, logistics and warehousing, while vacancies are approaching the levels of a year ago in health and social care, and scientific and quality assurance.

Vacancies in catering and hospitality; management, executive and consulting; legal; energy and oil and gas; accounting and finance; and sales are at less than 60% of their levels a year ago.

Future employment scenarios

Considerable uncertainty remains around future employment and unemployment prospects. Nevertheless, the extension of the CJRS to April 2021 is likely to continue to help mitigate the negative impacts of the pandemic on employment during the next few months.

As the Office for Budget Responsibility notes, the immediate outlook for the labour market is contingent on what happens when support schemes such as CJRS wind down. The longer term outlook depends largely on the pace of economic recovery, but also on the extent to which behavioural changes in response to the pandemic (such as more working from home, less business travel and the shift to online retail) drive economic restructuring away from customer-facing sectors, requiring labour to shift across occupations, sectors and regions, impacting on travel and consumption patterns and compounding the restructuring necessitated by EU Exit.

Most forecasters expect unemployment to rise markedly following the end of the CJRS, before falling broadly in line with the recovery in GDP.

Scenarios which consider a prolonged impact of COVID-19, with greater labour reallocation in response to economic restructuring, are more pessimistic.

Some forecasters, such as KPMG, expect that changing relations with the EU will lead to a loss of output in the manufacturing sector which is likely to generate some job losses over the course of 2021. Further losses in employment in financial services and some professional services linked to EU clients may also ensue. Meanwhile, the worst affected sectors during the pandemic, including hospitality and travel, may re-hire employees in the first half of 2021 to meet rising demand.

However, given the extent that the COVID-19 crisis has fundamentally shifted demand, there is likely to be a relatively large proportion of workers who will need to find new jobs in a different sector or business, while many workers who retain their jobs will find they have changed in terms of delivery. These workers will likely require training to transition to new and different roles.

Jobs in the traditional retail sector may be the worst affected, as the shift from traditional bricks-and-mortar stores to online shopping is likely to endure after the crisis is over.

Sectors, local authorities, and place intelligence

Consultation workshops have been held with representatives of key economic sectors and local authorities to understand how the impacts of the pandemic on the region's economy and places have changed since the previous round of consultation in September 2020.

Business activity

Across many sectors there is a general feeling that the region has taken a backward step economically since September 2020.

Following the easing of restrictions over the summer many businesses had experienced a significant uplift in trade. However, subsequent tier restrictions and national lockdowns during the autumn and winter have had a devastating impact for some businesses, particularly those that have been forced to close down again. There is a sense that the optimism that some businesses and sectors were feeling in the summer is now waning.

As in earlier periods, the picture across sectors is mixed, with some performing more strongly than others.

Sectors that have been largely unaffected or have experienced growth include pharmaceuticals and health, digital, professional services, energy, construction, online retail, agriculture and food production, and many parts of the manufacturing sector.

For example, according to Make UK's Manufacturing Outlook (Q4 2020), in the pharmaceuticals manufacturing sector the final forecast for 2020 was a 14.9% growth in output, compared with an average fall in output of 12% for the UK manufacturing sector as a whole.

By contrast other sectors have continued to be severely impacted, most notably those that have been subject to business closures, such as

- **hospitality**
- **culture**
- **leisure**
- **personal services**
- **tourism**
- **non-essential retail**

In September 2020 many of these businesses were beginning to see light at the end of tunnel and had started to reduce their use of furlough. However, since that time the situation has deteriorated. There is significant frustration amongst businesses that have invested substantially in making their premises Covid secure, only to have to close them again and therefore recouping no return on their investment.

The Make UK Manufacturing Outlook reports that automotive manufacturing has been the most significantly affected subsector within manufacturing, with a forecast fall in output of 39% for 2020, which is more than 3 times the average reduction for the manufacturing sector as a whole.

Despite the current challenges facing parts of the manufacturing sector, the Make UK Q4 2020 Manufacturing Outlook Report shows that average business confidence in the sector nationally had increased slightly since the previous quarter to 5.9 points, and for the North East was a little higher at 6.2[3]. This reflects some manufacturing businesses looking forward to 2021 with a little more optimism, driven partly by hopes that the Covid vaccine may see a return to more normal conditions later in the year.

Reflecting changing patterns of economic and leisure activity, feedback from Nexus indicates that public transport use started to increase over the summer but has been falling back incrementally since September. Bus services have been impacted slightly less than Metro services, as users are less likely to have access to a car as an alternative form of transport. Early indications suggest that during the current national lockdown Metro usage will be around 15% of the usual level. Meanwhile, messages about avoiding the use of public transport have resulted in an increase in people travelling by car, which is likely to result in increased congestion and air pollution.

Feedback indicates that the VCSE sector has been exceptionally busy throughout the pandemic, with significant funds being rapidly deployed into the sector. However, impact on individual VCSE organisations has varied. For example, data from Voluntary Organisations Network North East (VONNE) shows that around 50% of organisations have had to significantly reduce services because of government restrictions, while 27% were slightly reduced and 19% had been unable to operate at all. In terms of financial

[3] Confidence in the next 12 months, where 1 = substantially worse and 10 = substantially better

impacts on the sector, responses were divided. 25% of organisations expect a significant financial impact, while a further 25% expect some impact. A quarter of organisations have felt no financial impact to date but expect to in the next six months, while the remaining quarter have felt no impact and are confident there will be no impact in the next six months.

There is still a great deal of uncertainty about the full and longer-term impacts of Covid-19 on individual sectors and businesses in the region.

Sector representatives believe that Government support programmes (e.g. CJRS, business grants, loans) are masking many of the worst effects, and the scarring to the economy will become apparent only gradually as this support is withdrawn.

Jobs, skills and training

The greatest use of the CJRS continues to be in the sectors most impacted by lockdown restrictions, including:

- **hospitality**
- **tourism**
- **leisure**
- **non-essential retail**
- **culture**

which are taking advantage of furlough to sustain employment.

However, despite the extension of the CJRS in October 2020, sector feedback indicates that some businesses are beginning to make redundancies anyway, as they downsize and reduce costs with the aim of surviving in the short-term and being as lean as possible when the recovery begins.

Other firms have chosen to retain staff in the short-term but are likely to see significant redundancies when CJRS comes to an end, potentially from April 2021.

The full scale of job losses across sectors will not be known until the CJRS and other support measures are withdrawn. However, there have been initial indications of the potential scale of job losses from some sectors.

For example, at the national level CITB forecasts that there could be a peak to trough fall in construction employment of up to 13.8%, equating to around 374,000 jobs[4]; while it is estimated by sector representatives that in North East retail around 20% of jobs have been lost already.

Despite the challenges of the pandemic, some sectors are continuing to invest in the workforce, recognising the need to recruit and train young people, retain skilled staff, and reskill the existing workforce to respond to changes in their industries. This includes sectors such as

- **construction**
- **manufacturing**
- **agriculture**

where there is an ageing workforce and an urgent need to bring more young people into the sectors.

Whilst businesses across all sectors recognise the importance of workforce development, the extent to which this is happening currently varies a great deal. In some sectors, for example construction, a large proportion of training provision is now available online and virtually. Sectors such as manufacturing, and construction also report a continuation of apprenticeship activity. However, businesses in other sectors have cut training and apprenticeships where possible and are only doing the minimum necessary. This is predominantly an issue in sectors such as hospitality, culture, tourism and non-essential retail, where businesses lack the revenues to fund training activity.

Across many sectors there are people who have lost income either through furlough or because they are self-employed, who have sought alternative employment such as supermarket work or delivery services. This includes staff from hospitality, retail, culture, tourism and construction. In some cases, individuals are earning more money in their alternative employment, and at this stage it is unclear what proportion will return to their original occupation.

Deskilling of the workforce poses a threat to a number of sectors, particularly tourism, hospitality and culture where many staff have been out of the workplace for up to a year, resulting in a loss of skills, out of date certifications, and demotivation due to the stop-start nature of their employment.

Significant effort may be required to support individuals to return to the workforce, from both a skills and personal wellbeing perspective.

Instability in the labour market is one factor generating a significant increase in enquiries for self-employment and start-up support, including from social enterprises. Many are currently putting start-up plans on hold due to the continuation of furlough and uncertainty over market demand and economic conditions. However, there are potentially many good businesses ready to go and it is expected that there will be a rise in demand for start-up support during 2021.

[4] Construction Skills Network (CSN) Output and Employment Forecasts (CITB)

Places

The most deprived parts of the region, with the highest unemployment rates and the lowest incomes and skills, are the ones being impacted most severely by the pandemic

According to ONS data[5], Bede ward in South Tyneside, and Walkergate in Newcastle had among the highest unemployment benefit claimant rates in the region before the pandemic and they saw the greatest increases in the claimant rate between February and November 2020 (increases of 3.6% and 4.1% respectively). In these deprived areas people are more likely to have been furloughed or lost their job, have little or no savings to fall back on, and are more likely to be digitally excluded.

It is reported that Newcastle City Centre lost around 40% of footfall during 2020, largely linked to the hospitality and retail sectors

The City Centre started to see year-on-year increases in footfall at the end of 2020 as a result of retail reopening, although this was short-lived and footfall has again been impacted by subsequent restrictions and the third national lockdown. This pattern is confirmed by data from the Google Community Mobility Reports.

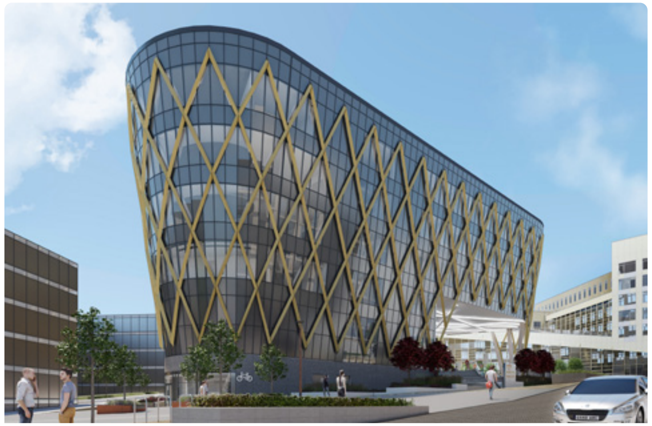
The high street retail sector across the region has been severely impacted, particularly in large towns and city centres, as well as the Metro Centre, which have been impacted by the closure of large national chains.

The impact has been somewhat less severe in Sunderland City Centre, which has a higher proportion of smaller independent retailers.

There is evidence of ongoing demand for industrial and commercial property in different local authority areas.

For example, in Durham there has been little reported impact on the occupancy or rent levels in industrial units; planned office developments in Gateshead are still ongoing and there is evidence that rents are holding up on the Baltic Quayside; and in Newcastle it is anticipated that the Biosphere at the Helix site will be 90% let by the end of January 2021, due in part to demand from the health sector.

Many parts of the manufacturing sector in the North East have remained resilient during the pandemic, and this has supported positive levels of activity in local economies with a high manufacturing density, such as County Durham. However, there are ongoing concerns about the fall in business activity in the automotive sector and the significant impact this could have in terms of supply chain businesses and jobs, particularly in the local areas where these firms are concentrated.



Local authority activities

Local Authorities have returned broadly to business as usual and are delivering their full range of services, although with fewer people due to staff isolating and with some services taking longer to deliver due to Covid restrictions and safe working practices.

There has also been an increase in the duties and responsibilities of Local Authorities and currently a high proportion of staff time is being spent on supporting the short-term survival of local businesses, including processing grant payments.

Colleagues are working together across the region to develop a common approach to supporting businesses that are most in need of support, including essential services such as retail, and those that have been the most severely affected such as hospitality. This includes supporting key services that have previously fallen through the gaps in support, such as childcare and taxi drivers.

[5] ONS benefit count (experimental)

Resilience

Representatives of several sectors (e.g. hospitality, retail, construction), as well as local authorities, report that burnout and mental health issues are becoming increasingly common, particularly among small business owners.

The challenge of facing a third national lockdown, after striving to survive for many months and using up business reserves, is starting to have an impact on business resilience. There has been a ‘feast or famine’ situation that is difficult for businesses to respond to in terms of managing cashflow, retaining staff, and managing stock. It is considered crucial that support is available to help these businesses to survive, in the hope that the Covid vaccine will usher in a return to more normal conditions later in the year.

APR
2021

The LA7 Economic Directors’ report highlights that many businesses believe there is a cliff edge looming in April 2021 when much of the Government support is due to end, including business rates relief, VAT reductions for hospitality, government loan schemes, and furlough.

There is concern that this will lead to further closures and job losses, given that many businesses have exhausted cash reserves, loans and previous grants.

The Make UK / PWC Executive Survey indicates that manufacturers are building their resilience to prepare for the challenges in 2021 by investing in people, new products, markets and technology.

The survey also reports that just under half (48%) of UK manufacturers expect conditions within their industry to either moderately or significantly improve in 2021.

There are also indications of optimism in the construction sector, where insolvencies are below the overall average for all sectors, at 1.9% compared with 2.8%. The rate of temporary closures is also below the overall average at 9.6% for construction compared with 13.2% for all sectors.

In addition, CITB research shows that 83% of businesses were either fairly (47%) or very (36%) confident of surviving the economic conditions resulting from Covid-19, while only 5% were not very or not at all confident.

A recent report by VONNE on the key challenges facing the sector as a result of COVID-19 highlights the issue of resilience. Despite significant strength in terms of the flexibility and adaptability of organisations to date, there are concerns over long-term sustainability. In particular, many of the Government and charitable funds to support short-term survival in the VCSE sector will end in the current financial year, with no clarity currently about whether further financial support will be available in 2021/22. In addition, while the workforce takes pride in persevering through the challenges they are facing, staff and volunteer fatigue is a real concern.

The shift to home working has produced mixed results. For some businesses and individuals, working from home has brought positive benefits in time management, productivity, and flexibility.

For others, particularly those in rural communities, lack of broadband connectivity has been a problem. In addition, home working has resulted in increased isolation and mental health problems for some workers.

The pandemic has also highlighted the extent of digital exclusion in the North East, with many people unable to access the equipment or internet services required to access services digitally, as well as lacking the skills and know-how to do so. According to data from VONNE, it is estimated that around 38% of the North East population is digitally excluded and it is suggested that a comprehensive regional strategy is required to tackle this major problem.

Sector representatives report that the short-term impacts on North East businesses of EU exit are difficult to judge with confidence at this time.

As the Trade and Cooperation Agreement was secured only a couple of weeks ago, and many of the practical implications and ways of working are still to be resolved, it is too early to say what the impact will be.

In the short-term many North East businesses that may have been at risk of disruption appear to have avoided significant immediate impacts by stockpiling in advance of the end of the transition period.

It is anticipated that the impacts on businesses will become clearer in the coming weeks and months, the main concerns being the potential impacts on smaller manufacturers, food production businesses, and construction firms from disruption to supplies and dealing with additional paperwork and rules of origin.

Some sectors report that supply chains have already been impacted by EU exit, including construction and the food and drink sector.

In addition, it was reported that freight costs have increased, while availability of supplies has decreased, and some businesses do not have sufficient space or capacity to stockpile.

Opportunities and changes

Organisations across all sectors have demonstrated their ability to innovate and make positive changes to the way they operate.

This includes the development of new products and services; entering new markets; developing better and more efficient ways of working; and accelerating the pace of digital adoption.

Many parts of the hospitality sector have embraced changes in legislation and new ways of working that have enabled outdoor operations, which can add around 40% additional capacity for some businesses.

Once businesses are no longer required to implement social distancing, combined with this additional outdoor capacity, it will put them in a stronger position to bounce back.

It has recently been announced that the UK's first Gigafactory dedicated to the production of batteries for electric vehicles may open in Blyth within the next three years. It is expected that the factory will employ 3,000 people once fully operational and help create a further 5,000 jobs in the wider supply chain. Coupled with other announcements, including the Ten Point Plan for a Green Industrial Revolution and the National Infrastructure Strategy and Construction Playbook, this is contributing to a sense that there is a pipeline of projects with potential to stimulate investment and growth as the North East economy begins to recover.

The Make UK / PWC Executive Survey report highlights potential opportunities arising from EU exit, which will see the UK competing globally through its own independent trade strategy. Whilst it is expected that this will create challenges, it is also anticipated that it will provide opportunities to expand into new markets.

Around 27% of manufacturers expect that their exports to the US will increase in 2021, and this may be higher if a Free Trade Agreement (FTA) is agreed. In addition, 48% of manufacturers expect exports to South America to increase or stay the same, while 57% said that exports to the Asia Pacific region will either increase or remain the same.

There is a greater propensity for cycling and walking in the region, which began during the first lockdown and has continued since. This will have positive impacts for both the environment and personal health and wellbeing.

Looking ahead and preparing for recovery

Long-term planning is currently difficult for many businesses. There is an awareness that they need to adjust business models and assess future skills and workforce requirements. However, the ongoing challenges caused by further national lockdowns, as well as uncertainty over when they may return to more normal trading, means it will take some time before businesses are able to fully develop recovery plans.

Some businesses prepared in advance for EU exit while others planned to react when they knew the details of the deal. At this stage it is still too early to assess the potential impact of the trade agreement on individual sectors, or on the wider North East economy. Feedback suggests a mixed picture among businesses over whether they believe EU exit will have positive or negative impacts.

For example, the Make UK Executive Survey 2021 shows that a third of manufacturing companies believe the investment prospects for UK businesses will decrease following the EU exit, while 18% believe they will increase. In addition, just over a quarter of companies believe exports to the EU will fall, while 16% believe they will increase. The biggest risks anticipated by businesses are customs delays, the increased costs of regulation, and the risk of a major customer relocating out of the UK.

There have been some early indications of re-shoring activity as a response to EU exit, including some businesses planning to relocate some production activities back in the North East, or increasing their levels of domestic production.

Make UK feedback suggests that up to a quarter of manufacturing businesses intend to re-shore activity back to the UK in order to address weaknesses in their global supply chains, as well as to increase production and protect jobs and skills domestically.

Economic development agencies report a healthy pipeline of inward investment enquiries to the North East during recent months, across a range of sectors including manufacturing, digital, professional services, contact centres, and health and life sciences.

This provides optimism about the prospects for new investment and job creation as the economy begins to return to more normal conditions.

A key area of preparation for recovery in many sectors is training and skills development. This includes retraining and reskilling the current workforce for new jobs and new technologies; supporting staff who have been out of the workplace for many months to refresh their skills and knowledge; and bringing more young people into the workforce, particularly in those sectors where the current workforce is ageing.

Public messages during the pandemic about avoiding the use of public transport may have longer-term implications for passenger numbers.

It was apparent that even when restrictions were lifted over the summer of 2020, there were still high levels of concern about using public transport.

Once current restrictions are lifted, initiatives will be required to increase public confidence in using the transport system, particularly given the potential negative impacts of congestion and air pollution if car usage increases.

Current and future support

It is essential that current Government support for businesses continues until the economy begins to recover to more normal conditions. This includes grants, business rates relief, the VAT reduction for hospitality businesses, and the furlough scheme.

All are playing a crucial role in retaining the region's business base, which will be essential in delivering a strong regional recovery.

At both national and regional levels, there should be a distinction between the short-term support that is needed for immediate business survival, and the development of a more long-term and strategic approach to supporting economic recovery by helping businesses to adapt, invest and grow.

A wide range of cultural venues and festivals are calling for support in the form of event cancellation insurance. Confidence across the sector is low and organising performances and events for summer 2021 and beyond is high risk when there is no guarantee they will be able to go ahead. The current lack of insurance is placing significant restrictions on the sector in terms of future planning and will make the transition to reopening and recovery very difficult.

The culture, tourism and hospitality sectors require investment both nationally and locally to stimulate demand, so that customers are there once businesses are able to open. If the North East is to compete as a region with other parts of UK it requires a large, co-ordinated promotional effort to stimulate demand.

There is a feeling that the current situation offers a major opportunity to raise awareness of a relatively undiscovered region and to capitalise on the significant outdoor spaces and attractions it offers.

In the coming months there should be a focus in the North East on supporting self-employment and business start-up, to ensure that wide-scale redundancies can be channelled into the growth of high quality, sustainable new businesses.

Digital adoption requires public intervention as it is a clear area of market failure. While some businesses have been quick to adopt digital ways of working in response to the pandemic, others have been slow to adapt, and this is weakening their resilience and growth potential.

Additional support is needed for those businesses that are still some distance from digital adoption, to help them understand how it can support their growth, efficiency, and productivity.

More clarity is needed urgently about the UK Shared Prosperity Fund.

In the 2014-2020 ESIF programme, the North East LEP area allocation amounted to over £437m, which has been invested in economic infrastructure, business growth, innovation, and skills. Many sectors are keen to see an equivalent replacement, as well as continuity and consistency of funds as they transition from ESIF to UKSPF. This will be a crucial source of investment in supporting economic recovery in the region.

Apprenticeships and the wider training and recruitment of young people to the manufacturing and energy sectors is vital.

In the drive towards net zero there needs to be co-ordinated investment in education provision to grow the workforce. There also needs to be intelligence and guidance for the education sector to ensure it is delivering provision that meets the emerging technologies and future skills needs of manufacturing and energy businesses.

The VCSE sector is very keen to forge closer working relationships with the North East LEP and the Economic Response Group to set out how it can respond and contribute to the regional recovery. The VCSE can make a significant contribution to the recovery in a number of key areas, including digital inclusion, skills and employment, and wellbeing.

Observations and implications

In the short term there is a need to focus on supporting businesses to survive the impacts of the third national lockdown, particularly in the sectors that have been most severely impacted. The ongoing challenges and stop-start nature of operating have had a significant negative impact on both the financial and mental resilience of these businesses.

The Government should extend aspects of business support for as long as possible, in order to give businesses time to recover. This includes an extension of business rates relief and VAT reductions, as well as the consideration of new forms of support such as event cancellation insurance for the tourism, culture and hospitality sectors.

Support is required for the workforce across all sectors. This includes retraining the existing workforce to ensure they have the skills needed to remain relevant in the labour market; bringing more young people into the workforce; and providing support for people who have been made redundant to update their skills and secure alternative employment. In addition, it includes support for those returning from furlough, both to update and refresh their skills and to address any wellbeing problems they may be experiencing after a significant period out of the workplace.

In the longer term, there needs to be a focus on upskilling the workforce and supporting businesses to take advantage of the opportunities arising from planned government investments and strategies, such as the Green Industrial Revolution Ten Point Plan and the National Infrastructure Strategy, among others. This includes upskilling the workforce to meet the new skills needs of a greener, more digital economy.

The pandemic has disproportionately affected the North East's most deprived communities and further exacerbated inequalities in the region. To ensure there is long-term and sustainable recovery for the entire region, initiatives need to be implemented to ensure these inequalities are addressed. This includes tackling the problem of digital exclusion, as well as ensuring that the creation of more and better jobs includes a focus on entry level jobs that offer security, a living wage, and opportunities for progression.

Recovery and support plans should be developed for individual sectors, setting out targeted, short-term support measures, as well as articulating the longer-term role each sector will play in the region's economic recovery, and the targeted investment needed to support this. Recovery plans should address the sector specific recommendations identified in the sector reports.

Investment in regional economic infrastructure should be accelerated, including digital and transport infrastructure; major projects; and investment to raise the region's profile and stimulate demand for the tourism, culture and hospitality sectors. This will provide a direct economic stimulus, as well as providing the infrastructure the region needs to attract investment and achieve a strong and sustained recovery.

It is too early to judge the impacts of EU exit on the region's businesses. Early indications suggest a mix of positive and negative effects, including potential reshoring of some jobs to the North East and new trading opportunities with global markets, set against potential challenges including supply chain disruption and the additional costs of adjusting to new regulations.