North East Covid-19
Economic Response Group

COVID-19 Intelligence

March 2021 update

on behalf of business:

on behalf of regional universities:

Up to date indicators showing the impact of Covid on the North East economy are available on the North East Data Hub here.

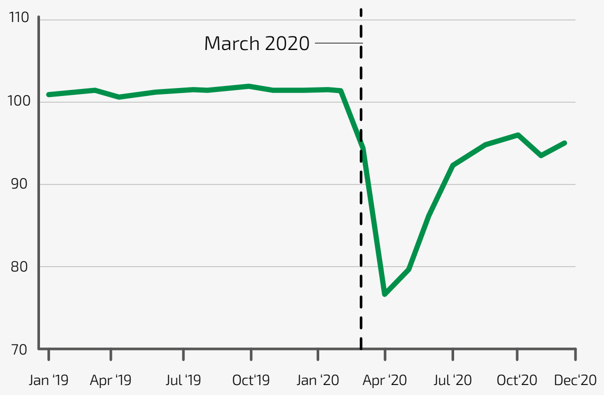
This report forms part of our ongoing monitoring of the immediate and longer term impacts of the COVID-19 pandemic in the North East. It aims to consolidate and update information from a range of available key indicators and intelligence sources.

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).

Summary of key findings

Economic activity

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

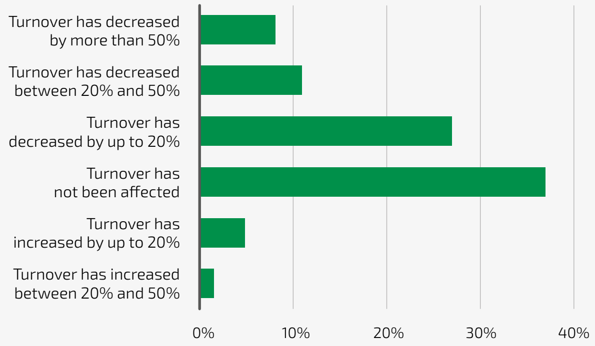


UK GDP grew by 1.2% in December 2020, after falling by 2.3% in November. GDP remains 6.3% below the levels seen in February 2020, the last month before the main impact of the COVID-19 pandemic.

Source: ONS GDP monthly estimate, UK: December 2020

Business activity

Impact of COVID-19 on turnover, North East region, 25 January to 7 February

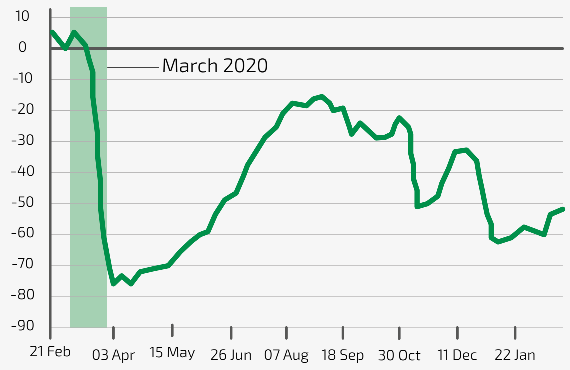


46% of businesses in the North East region reported turnover in the period 25 January to 7 February was lower than normally expected for the time of year. 39% reported that profits were lower than normal.

Source: ONS Business insights and impact on the UK economy: 25 February 2021

Footfall and visits to recreational services

Visits to retail and recreation locations (seven-day rolling average, indexed), North East LEP, 21 February 2020 to 26 February 2021

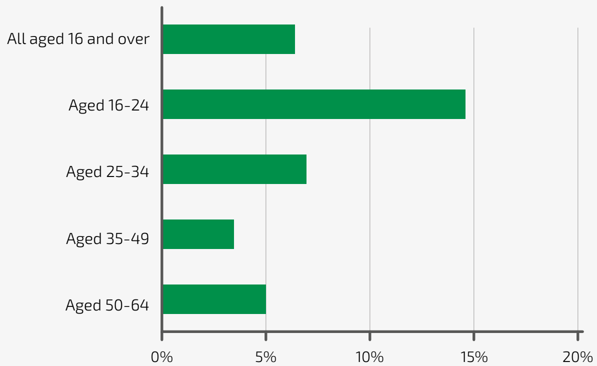


Google's community mobility data suggests that visits to retail and recreation sites in the week ending 26 February were slightly higher than in the previous week – half term – and 5 to 10 percentage points higher than in the weeks prior to the half-term break. Nevertheless, visits were still at only around half the level of the first six weeks of 2020.

Source: Google Community Mobility Reports

Unemployment

Unemployment rate by age, North East region, Q4 2020

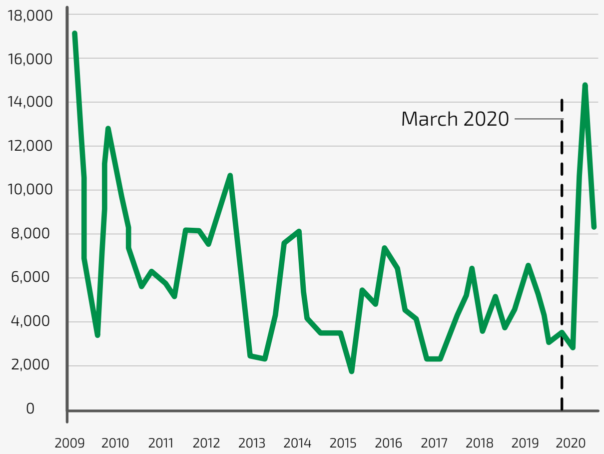


At 6.5%, the North East region had the second highest unemployment rate among the English regions in Q4 2020. The unemployment rate is notably higher among young people than in other age groups.

Source: ONS Labour market in the regions of the UK: February 2021

Redundancies

Quarterly redundancy estimates, North East region, 2009 to 2020



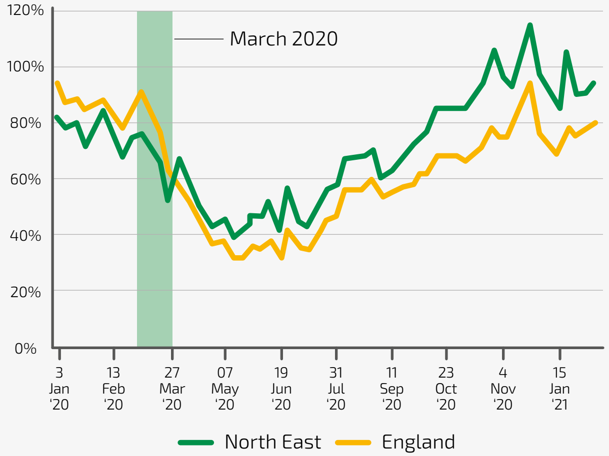
According to the Labour Force Survey, 8,400 people in the North East region were made redundant in Q4 2020. This was fewer than in the previous quarter (14,900), but the number of redundancies remains higher than at any time since 2012.

At a rate of 7.9 redundancies per 1,000 employees, however, the level of redundancies in the North East region in Q4 2020 was lower than that for England (12.8 per 1,000 employees) and the joint lowest among the nine English regions.

Source: ONS Labour Market Release Table RED02: Redundancy Levels by Region

Recruitment demand

Weekly vacancy index (as a percentage of total a year earlier), North East region and England, to week ending 12 February 2021



In the week ending 12 February, vacancy levels in the North East region were at about 94% of their level in the same week of 2020. This was above the equivalent figure for England and the second highest of the nine English regions.

Source: ONS analysis of Adzuna website data

Key data

This is the fourth in a series of summary updates on the ongoing economic impacts of the Covid-19 pandemic, and the path towards recovery. Because it follows so soon after the previous report in January 2021, no further consultations or research have been undertaken exploring the impacts on sectors and places. Therefore, this report focuses on updating the published quantitative evidence only. Readers who are interested in the most recent qualitative evidence on the impacts of the pandemic on sectors and places in the North East can find it in the previous report.

While the current report draws on the latest available sources, almost all the indicators it presents pre-date the Government's publication of the roadmap out of lockdown, as well as the March 2021 Budget. We have tried to reflect this in our analysis, but readers are reminded that the report should be interpreted in the context of these recent policy announcements.

Economic output

The easing of lockdown restrictions in some parts of the UK and over Christmas means that UK GDP grew by 1.2% in December 2020, after falling by 2.3% in November

The services sector was the main contributor to economic growth in December, increasing by 1.7%. Production output grew by 0.2%. The construction sector acted as a drag on growth, falling by 2.9% in December following seven consecutive monthly increases.

UK GDP remains 6.3% below the levels seen in February 2020, the last month before the main impact of the COVID-19 pandemic.

Forecasters including the Bank of England and the Office for Budget Responsibility expect that the reintroduction of lockdown restrictions in January will most likely lead to the economy contracting in Q1 2021, before a gradual recovery from Q2 2021 as restrictions are lifted.

In its March 2021 Economic and Fiscal Outlook, the Office for Budget Responsibility expects UK GDP to return to pre-pandemic levels by the middle of 2022, six months earlier than previously forecast, though in five year's time GDP levels will remain 3% smaller than expected in March 2020.

In the latest NatWest UK Regional PMI report:

Private sector firms in the North East region (including North East and Tees Valley LEP areas) reported a sharp downturn in business activity in January reversing the slight expansion seen in the December.

The downturn in business activity in the North East was sharper than across the UK as a whole.

According to businesses responding to NatWest's survey, a fall in new business in January was caused by renewed national restrictions to halt COVID-19 infections as well as adjustments to new trading arrangements with the EU weighed on sales.

There was a modest improvement in export demand, though international trade continues to be impacted by public health restrictions in other countries.

Despite falling activity and new business, North East firms remain optimistic about the 12-month outlook with NatWest reporting that sentiment in January, having improved from December, was at its highest level since July.

However, the degree of optimism in the region remained below the national average.

Economic outlook

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

According to the Office for Budget Responsibility, the course of the pandemic remains the greatest single risk. The rapid rollout of effective vaccines offers hope of a swifter and sustained economic recovery, albeit from a more challenging point than previously forecast. Against that, setbacks in the rollout of vaccines, the emergence of new vaccine-resistant variants, or reduced compliance with residual public health restrictions could force Governments back into periodic lockdowns, with more adverse consequences for the economy in the short and medium term.

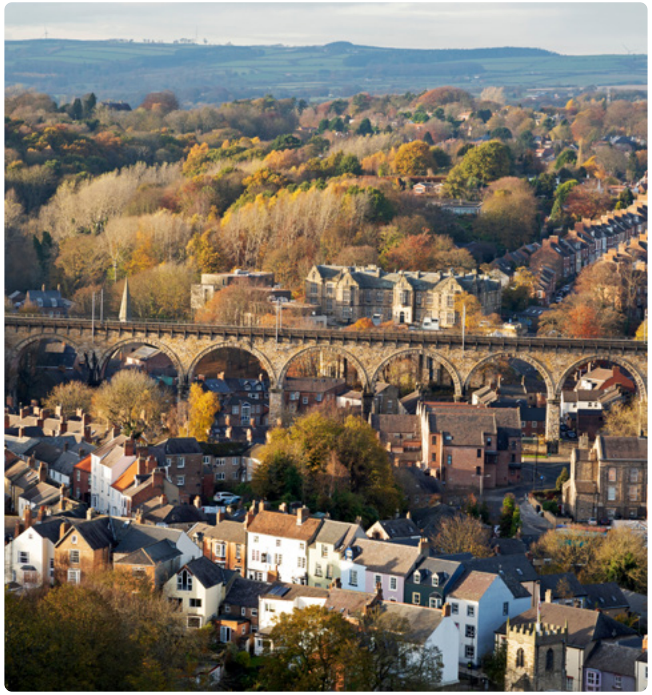
Forecasters such as PWC anticipate that business investment is likely to remain weak in the first half of 2021 (though the tax incentives announced in the March Budget may stimulate investment) and the recovery is expected to be led by household spending.

The Bank of England estimates that households have accumulated over £125 billion of savings in excess of what they usually would have, as the pandemic has forced people to postpone purchases, leisure and travel.

As restrictions are relaxed, this pent-up demand can be released. Nevertheless, the extent to which these savings will be spent and when is uncertain.

Many households may want to hold on to savings due to continued job uncertainty. They may also hold back spending because of ongoing concerns about Covid-19, for example not wanting to travel internationally, dine out or attend live music or theatre events.

In addition, the rise in savings has not been experienced equally across households.



Business activity

ONS reports that between 8 and 21 February, 11% of businesses in the North East region (including the North East and Tees Valley LEP areas) had temporarily closed or paused trading.

Between 25 January and 7 February, turnover was lower than normally expected for 46% of businesses in the North East region, while profits were lower than normal for 39%.

30% of the region's exporters had exported less than normal for the time of year, and 6% had not been able to export at all. 26% of importers had imported less than normal, and 3% had not been able to import.

5% of businesses in the North East region had no cash reserves

A further 33% of businesses had cash reserves to last six months or less.

3% had low confidence in their business surviving for three months

A further 24% only had moderate confidence in their business surviving three months.

13% reported that they had a moderate or severe risk of insolvency.

Only 26% thought that they had no risk of insolvency. 10% of North East business owners who thought they were at risk of insolvency said the risk had increased in the last two weeks.

10% of businesses in the North East region expected to make redundancies in the next three months, and 6% intended to permanently close one or more of their sites in the next three months, though it should be noted that they were surveyed before the March Budget announcement of the extension of the furlough scheme.

Business support

Many businesses will welcome the extension of the Coronavirus Job Retention Scheme (CJRS) and Self-Employment Income Support Scheme (SEISS), as well as further targeted support for hard-hit sectors announced in the Budget.

Businesses are also likely to welcome the so-called Super-deduction, a tax incentive designed to encourage business investment. On the other hand, businesses in some sectors continue to call for additional stimulus such as Eat Out To Help Out.

Businesses continue to request support to help them trade their way out of current challenges, and to look beyond COVID-19.

Many businesses are concerned about their ability to raise working capital, as well as the ability of businesses they are exposed to up and down supply chains to do so, due to increased gearing and reduced credit rating due to Covid19.

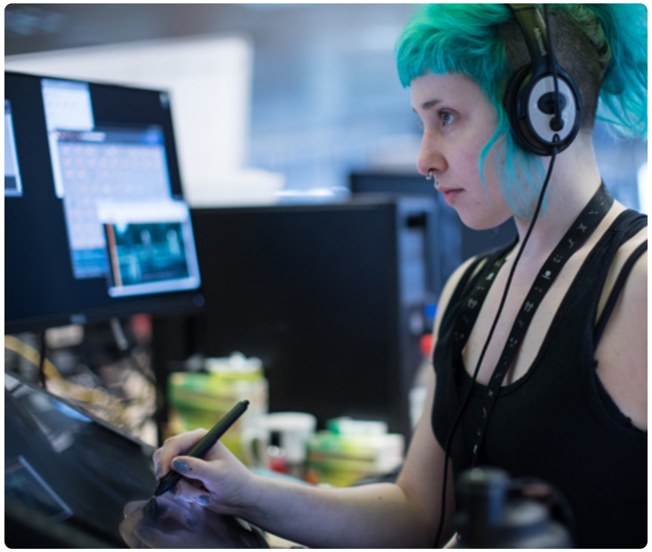
Many businesses report concerns about the need to begin repaying Coronavirus Business Interruption Loan Scheme (CBILS) and Bounce Back loans while still experiencing disrupted trade and reduced cashflow.

There are growing reports of some self-employed people suffering real hardship, particularly those falling between the cracks of Government support.

There has been continued high demand for Local Restriction Support Grants and Additional Restrictions Grants.

These schemes have been over-subscribed, particularly from businesses not required to close due to lockdown restrictions but which have still lost significant footfall.

Some smaller businesses report that they are struggling to find the financial means to purchase essential IT equipment to support employees working from home, given the financial pressures they are experiencing.



Footfall and visits to recreational services

Google's community mobility data suggests that visits to retail and recreation sites in the week ending 26 February were slightly higher than in the previous week – half term – and 5 to 10 percentage points higher than in the weeks prior to the half-term break.

Levels of retail and recreation visits were at their highest so far in 2021 in all seven North East local authority areas.

Reflecting similar conditions, the levels in all seven areas were close to the lowest levels during the November lockdown period.

Retail and recreation visits were still at only about half the level they had been in the first six weeks of 2020, and 20 percentage points lower than in late December.

The latest levels of visits to workplaces, supermarkets and public transport hubs were also all at the highest so far in 2021.

North East workplace visits were at just over 60% of their early 2020 levels.

Unemployment and economic inactivity

According to the latest ONS data, in Q4 (October to December) 2020 the North East region (including the North East and Tees Valley LEP areas) had the second highest unemployment rate among the English regions (6.5%, compared with 5.3% in England).

The North East's unemployment rate fell by 0.1 percentage point compared with the previous quarter.

In total, around 82,900 people were unemployed in the region.

12,600 more than in Q1 (January to March) 2020.

The unemployment rate is highest among young people`

14.6% of 16 to 24 year olds in the North East region were unemployed in Q4 2020, compared with 7.5% of 25 to 34 year olds, 3.5% of 35 to 49 year olds and 5.0% of 50 to 64 year olds.

In Q4 2020 the North East region had the highest working-age economic inactivity rate among the English regions (23.9%, compared with 20.3% in England).

Economic inactivity counts people who are not in employment but who are also not actively seeking a job. It includes working age people who are sick, have caring responsibilities, are students or retired early, as well as those who don't want a job for other reasons.

Around 389,500 working age adults were inactive in the region, 11,400 more than in Q1 2020.

Economic inactivity is highest among the youngest and oldest age groups.

The unemployment rate in the region is higher among men (7.5% in Q4 2020) than women (5.2%). The economic inactivity rate is higher among women (26.6%) than men (20.3%).

Between Q1 2020 and Q4 2020, the number of women in employment in the North East region fell by 12,200 while working-age economic inactivity rose by 10,300 and unemployment rose by 3,000. The number of men in employment fell by 4,600 while and unemployment rose by 6,100. Male working-age inactivity was unchanged.

The largest net decrease in employment was among women aged 35 to 49. The next largest was among men aged 25 to 34.

The largest net increases in unemployment were among women aged 50 to 64 and 35 to 49. The largest net increases in unemployment among men were those aged 18 to 24 and 25 to 34.

The largest net increase in economic inactivity was among women aged 25 to 34.

Claimant count

According to ONS data, almost 85,000 people were claiming unemployment-related benefits in the North East LEP area in January 2021 – 30,000 more than in March 2020.

Most of this increase happened between March and April 2020, with a further increase between April and May.

6.8% of 16 to 64 year olds in the North East were claiming unemployment-related benefits in January 2021, compared with 6.3% in England. Just over a third of claimants were under 30 years old, a similar proportion were aged 30 to 44 and slightly fewer were aged 45 plus.

Coronavirus Job Retention Scheme

HMRC data shows that at the end of January, just over 114,000 employments in the North East LEP area were furloughed.

This was 18,000 more than in December 2020, and more than double the number at the end of October, before the extension of the CJRS. It is almost 13,000 fewer than at the end of July 2020; unemployment and economic inactivity data suggests many of these jobs have been lost.

13.9% of eligible employments in the North East LEP area were furloughed at the end of January, compared with 15.0% in England.

Almost 52% of furloughed workers in the North East LEP area at the end of January were female.

About 73% of furloughed employments in the North East LEP area at the end of January were fully furloughed, a higher proportion than nationally (70%). Fully furloughed employments had increased by over 71,000 since the end of October, while partially furloughed employments were only 9,000 higher.

More than a quarter of furloughed employments in the North East region (including the North East and Tees Valley LEP areas) at the end of January were in accommodation and food services.

Around one in five were in retail and wholesale, and almost one in ten were in manufacturing. Slightly smaller proportions were in business support services and arts and recreation.

Self-Employment Income Support Scheme (SEISS)

According to HMRC, at the end of January (when claims closed) 46,0000 self-employed workers in the North East LEP area had made SEISS claims in the third tranche of the scheme.

This was 3,000 fewer than the number of claimants in the second tranche of the scheme, and 5,500 fewer than in the first tranche.

65% of the eligible population in the North East made a claim in the third tranche of the scheme by 31 October, while the take-up rate was 70% in the second tranche and 77% in the first tranche. These were similar proportions to those seen nationally. The same eligibility criteria applied in each tranche.

Almost 30% of SEISS claimants in the North East region (including the North East and Tees Valley LEP areas) in the third tranche of the scheme were in the construction sector. A further 21% were in either transport and storage (including postal) or personal and membership services.

Around 33% of self-employed workers in the North East region – about 46,000 people – were ineligible to claim SEISS.

People who had become self-employed after April 2019, for example, were previously ineligible for SEISS support. The March Budget announcement extends the fourth round of SEISS support to self-employed people who first submitted a self-assessment tax return for the 2019-20 financial year.

Impacts on individuals

ONS data shows that across Great Britain, 45% of people who were working in the period 17 February to 21 February had worked from home because of the COVID-19 outbreak.

46% of those who were working had travelled to work in the past seven days, either exclusively or in combination with working from home. 28% were not able to work from home.

The proportion of those working from home was higher than in mid-December 2020 (37%).

Redundancies

According to the Labour Force Survey, 8,400 people in the North East region (including the North East and Tees Valley LEP areas) were made redundant in Q4 2020.

This was a lower total than in the previous quarter (14,900), but more than double the total in Q4 2019 (3,000). The number of redundancies remains higher than in any quarter since 2012.

Nevertheless, at a rate of 7.9 redundancies per 1,000 employees, the level of redundancies in the North East region in Q4 2020 was lower than that for England (12.8 per 1,000 employees) and the joint lowest among the nine English regions.

Nationally, over 30% of these redundancies were in either wholesale and retail or manufacturing. A further 20% were in business administration and support or food and accommodation services.

Vacancies

ONS data shows that in the week ending 12 February, vacancy levels in the North East region (including the North East and Tees Valley LEP areas) were at about 94% of their level in the same week of 2020.

This was above the equivalent figure for England and the second highest of the nine English regions.

Nationally, vacancy levels were above the levels a year ago in manufacturing; construction; transport and logistics; and scientific and quality assurance activities.

UK vacancy levels were particularly low in catering and hospitality; travel and tourism; sales; administration, clerical and secretarial; and wholesale and retail.

Apprenticeship starts

Data from the Department for Education shows that in August to October 2020 (the first three months of the 2020/21 academic year) the number of apprenticeship starts in the North East LEP area was 34% below the total in the same period in 2019.

Intermediate apprenticeship starts were at just half the level of the previous year while advanced apprenticeship starts had fallen by 35%. The number of higher apprenticeship starts had only slightly decreased.

Apprenticeship starts among young people aged under 19 were only half the level of the previous year. Among those aged 19 to 24, apprenticeship starts were down by 33% while starts among those aged 25 plus were 17% lower than a year earlier.

Apprenticeship starts in engineering and manufacturing technologies in August to October 2020 were 50% below the level in the same period in 2019. Starts in information and communication technology and in retail and commercial enterprise were also much lower than a year earlier. In contrast, apprenticeship starts in health, public services and care had only decreased by 11%.

Future employment scenarios

Considerable uncertainty remains around future labour market prospects. Nevertheless, the further extension of the Coronavirus Jobs Retention Scheme and additional Self-Employment Income Support Scheme grants announced in the March Budget are likely to continue to mitigate the negative impacts of the pandemic on employment as lockdown restrictions are gradually eased.

Most forecasters, including the Bank of England and Office for Budget Responsibility, expect economic recovery to pick up pace from Q2 2021, as vaccines become more widely available and social distancing restrictions are eased. However, the extent of long-term economic scarring and its impact on the labour market is unclear.

In its March 2021 Economic and Fiscal Outlook, the Office for Budget Responsibility expects the pace of the recovery in output, combined with the extended CJRS and additional fiscal support announced in the March Budget, to help limit further rises in unemployment.

The UK unemployment rate is forecast to peak at 6.5% (2.2 million people) at the end of 2021

This represents a rise of 490,000 over the year, but is 340,000 lower and six months later than previously forecast. The rise in unemployment reflects residual constraints on activity in some sectors such as accommodation and transport, as well as firms' adoption of less labour-intensive modes of operation in sectors such as retail and hospitality.

It also reflects the scarring effect of long spells away from employment experienced by some CJRS beneficiaries, many of whom have been away from work for more than six months over the past year.

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 to meet rising demand as lockdown restrictions are eased and businesses reopen.

However, given the extent to which 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.

As the Bank of England notes, however, the outlook for the labour market is unusually uncertain, and sensitive to the evolution of the pandemic, government policy, and measures taken to protect public health including the vaccination programme.