The economic effects of coronavirus in the UK

Utilising timely economic indicators

10 April 2019

Jack Leslie

This is the third edition of our roundup of timely indicators of the impact of coronavirus which aims to plug the gap left by traditional measures of economic activity which are not timely enough to capture these effects. This analysis will be updated weekly, as new data becomes available.

The data point to the coronavirus crisis having already had substantial economic impact. The emerging picture is one of huge deterioration in the labour market – the worst month for workers in living memory – although the *pace* of the deterioration appears to be slowing. It is also becoming clear that the economic shocks are not evenly distributed with some sectors facing a sudden stop in economic activity. The Government is borrowing unprecedented sums to combat the economic crisis but this has yet to cause problems in financial markets.

This article covers the labour market, general economic activity, trade and the Government's fiscal position.

The labour market

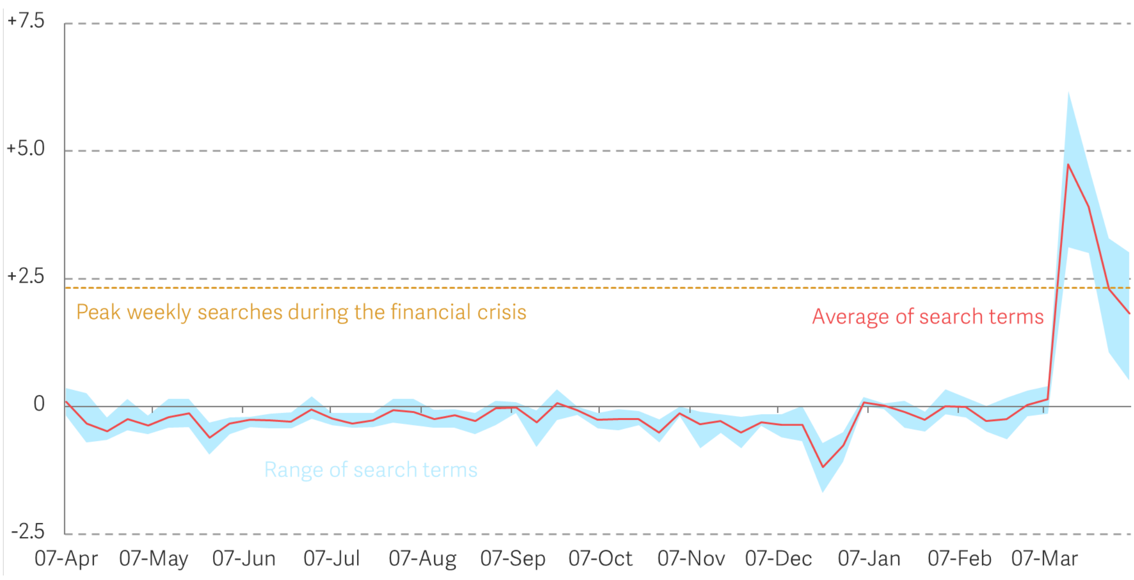
There has been further data highlighting the likely damage to the labour market in recent days, although there are signs that the rate of deterioration might at least be slowing. We already know that there has been a dramatic increase in Universal Credit claimants: around 500,000 people started the process of claiming UC in each of the last two weeks of March; this fell to an additional 250 thousand in the first week of April. Timelier data suggests this trend is continuing; the frequency of web searches for unemployment related terms has fallen further this week and are now less than half of the levels seen in the middle of March. But even though web searches have fallen, they are still around levels that were seen at the peak of the financial crisis in 2009 (Figure 1).

There is also new data showing just how much further unemployment might have risen without employers furloughing workers as part of the government's Coronavirus Job Retention Scheme. A survey conducted by the British Chambers of Commerce shows that a fifth of all firms are intending to furlough their entire workforce and a further 17 per cent furloughing more than three quarters of their staff. That alone represents more than nine million workers who might have moved into unemployment.

The fact that the labour market crisis has been driven primarily by people leaving their jobs, rather than a slower decline driven by businesses reducing the pace of job hiring, presents unique challenges for the Government. In particular, coping with the scale of UC claims and shoring up the welfare system to prevent particularly acute hardship for families.

Figure 1 **Unemployment is already spiking higher**

Web search frequency for a group of unemployment-related terms by week, standard deviations away from average: UK, 2019-2020



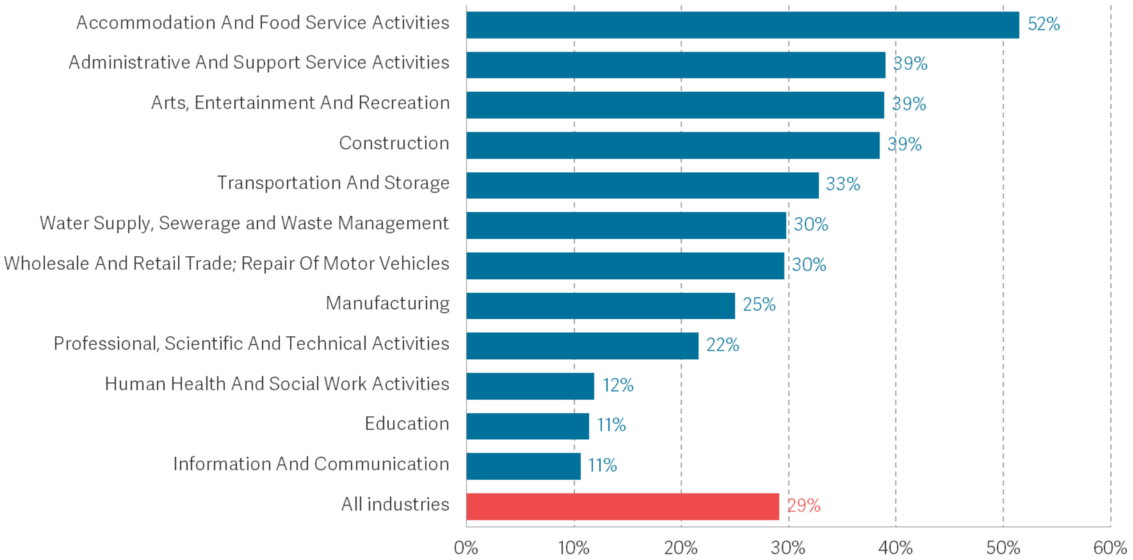
Notes: Terms include: "job seekers allowance", "JSA", "universal credit" and "unemployment benefit". The financial crisis peak was in July 2009 – the data is normalised from the start of 2007 until the end of 2009 based on the search terms "job seekers allowance", "JSA", and "unemployment benefit".
Source: RF analysis of Google Trends.

Not all sectors of the economy are equally affected. The latest data from the ONS, shows that, while on average almost 30 per cent of businesses are laying off workers in the short term, over half of businesses in the accommodation and food services industry are laying off workers (Figure 2). This is backed up by evidence on the fall in vacancies available in different sectors. The jobs website 'Indeed' have published data showing that vacancies have fallen by around 70 per cent in the food preparation and service, hospitality, tourism, and beauty sectors. And a report from KPMG and the Recruitment and Employment Confederation shows that vacancies are falling substantially across retail, hotels, catering, and construction.

The worst affected industries and sectors tend to also be those with the lowest average wages. Previous Resolution Foundation analysis has shown that people on lower incomes before the crisis are much less likely to have enough savings to cover significant income falls – even over very short periods of time. This means that the hardship faced by those households where family members lose their job could well be higher than during the financial crisis.

Figure 2 **Lower paid sectors are disproportionately laying off staff**

Proportion of business reporting laying off staff in the short term as a result of coronavirus, by industry: UK, 9 Mar - 22 Mar

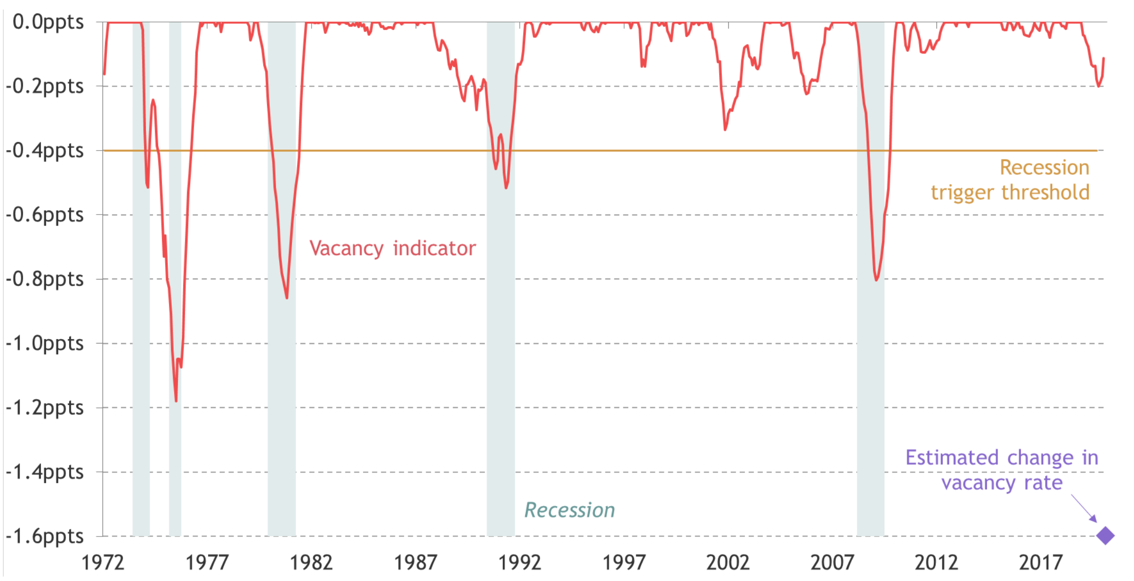


Source: ONS.

There has been an immediate drop in the overall number of job vacancy postings – despite reports that some sectors have hired more staff. Using data we have scraped from the Government's 'Find a Job' website, covering around half of total labour market vacancies, we have seen new weekly vacancies posted fall by around a 60 per cent relative to a year earlier. If this rate of new vacancies was maintained in the coming months, the vacancy rate would fall by more than a one and a half percentage points – an unprecedented reduction.

Figure 3 **The change in vacancies is consistent with a major recession**

Difference between current vacancy rate and the highest vacancy rate in the prior 12 months: UK

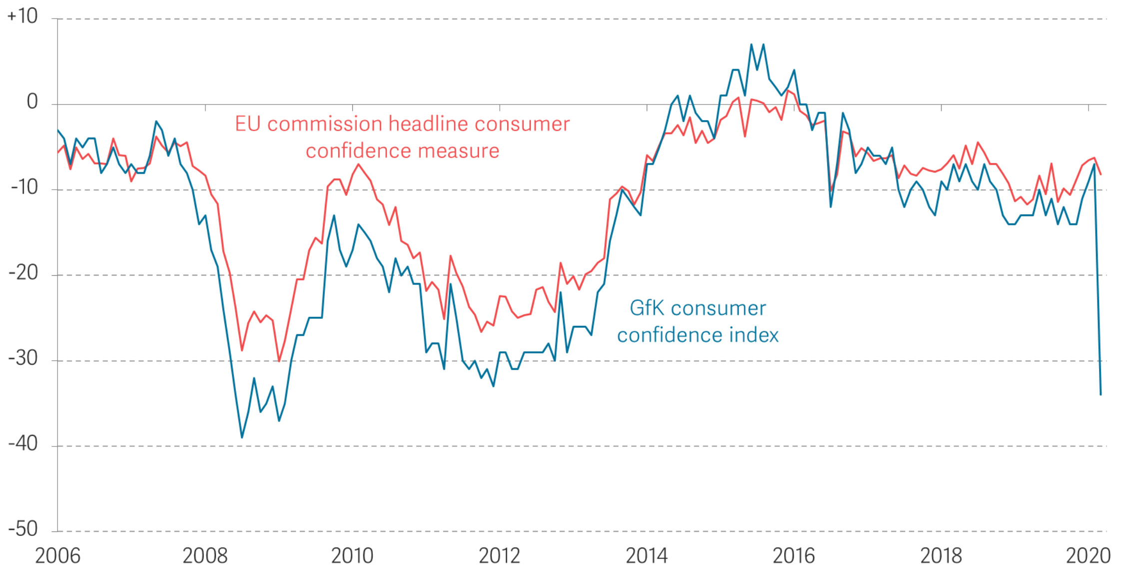


Notes: Recessions are defined as two quarters of negative GDP growth. Historic vacancy data are based on spliced series from jobcentres and employment offices. The estimated change is based on the relative frequency of new vacancies posted to the Government Find a Job website – collated using a webscrape. The indicator is adapted from the Sahm rule for indicating a US recession which is based on the unemployment rate rather than the vacancy rate. Source: RF analysis of ONS, Vacancy Survey; Bank of England, A millennium of macroeconomic data for the UK.

General economic activity

Official estimates of general economic activity are not yet available but all other measures point to a sudden stop in much of the UK's economic activity. Survey indicators, including the Purchase Managers Index highlighted in previous editions of this report, point to the rapid fall in GDP under way – similar in scale to the financial crisis. Corroborating this, new survey evidence on consumer confidence in March shows that households are much less confident about the economic future than they were a month ago (see Figure 4).

Figure 4 **UK GDP already appears to be falling dramatically**
Consumer confidence indexes, net balance: UK



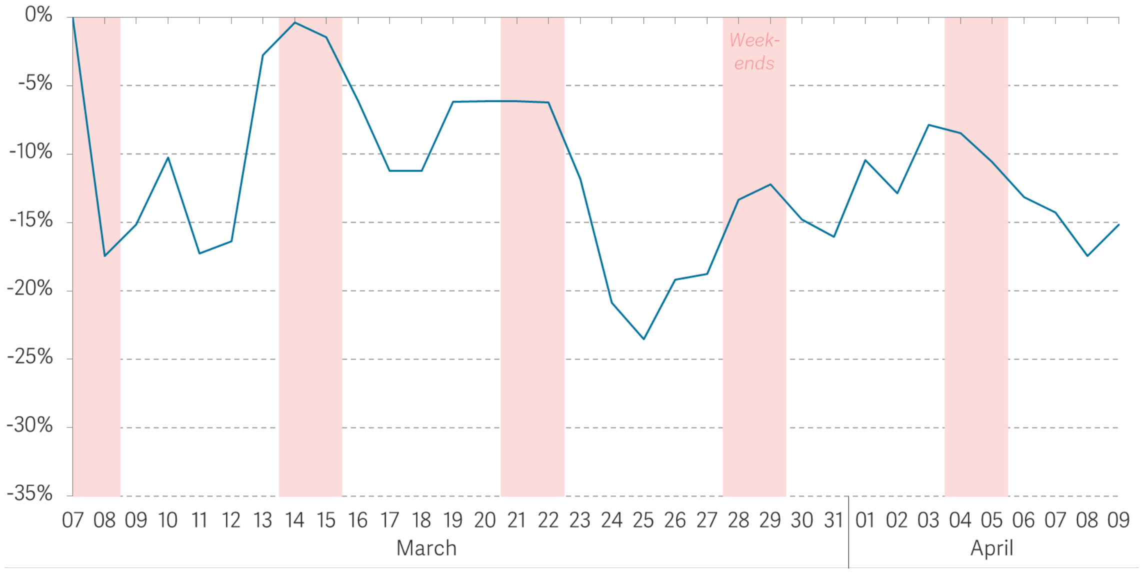
Notes: The EU commission published indicator is seasonally adjusted and includes responses to questions regarding financial situation over previous and next 12 months, the general economic situation over the next 12 months, and major purchase intentions over the next 12 months. The GfK measure includes an updated flash estimate for March reflecting the deterioration in the economy during March 2020.
Source: European Commission and GfK.

Labour market surveys suggest an even greater fall in output could be possible. For example, a 30 per cent fall in employment – consistent with a number of published surveys – suggests GDP could end up contracting by as much as 5 per cent in Q1, with much worse to follow in Q2. Such sharp contractions in activity would be unprecedented.

This fall in activity is also showing up in 'hard' data and not just survey-based estimates. Figure 5 shows the estimated fall in energy demand since the first week of March (which preceded material economic responses to the coronavirus in the UK). These falls have been seen despite modest rises in energy demand for households – Octopus Energy data suggests household energy demand has risen by 2-4% as a result of more people staying at home. The most recent data suggests that output is no longer falling but remaining and a severely depressed level.

Figure 5 **Lower energy demand also suggests falling economic activity**

Percentage reduction in estimated daily average rolling national grid system power demand, relative to the first week of March: GB



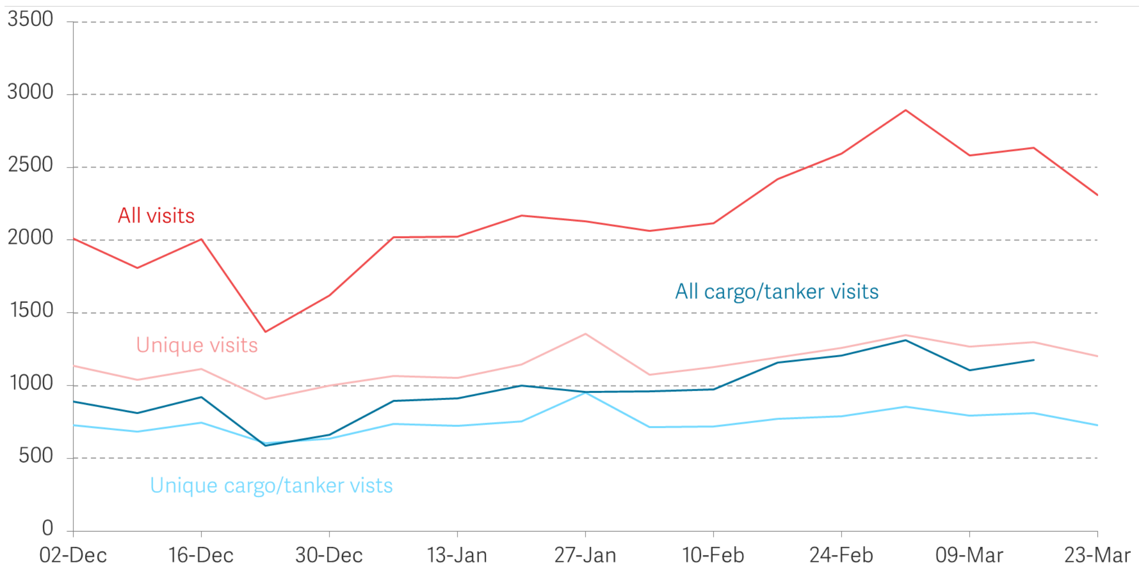
Notes: Each day is compared to the corresponding day of the week in the first week of March. Improved weather and longer days are likely to have reduced demand for electricity beyond the economic effect. Demand is averaged over five-minute intervals.
Source: RF analysis of Elexon.

Trade

Weekly data on shipping volumes are starting to show small falls in the number of visits to UK ports (Figure 6). However, these data are likely to lag the underlying economic effects for those ships which started their journeys prior to the crisis starting in Europe. Flight traffic, which may be more responsive has fallen 92 per cent compared to a year ago in the UK.

Figure 6 **A significant impact on shipping trade is yet to be seen**

Shipping traffic into UK ports



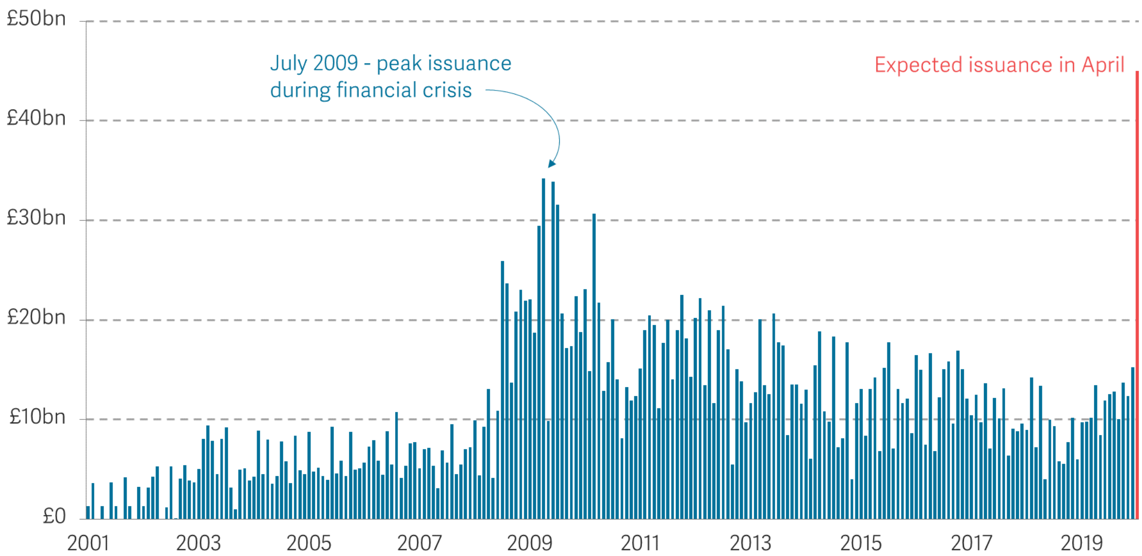
Notes: Cargo and tanker visits unavailable for 23 March.
Source: ONS.

Fiscal impacts

The fall in economic activity together with the rise in unemployment and the package of stimulus measures will substantially reduce the Government's tax revenue and increase spending commitments. It is unclear at this stage how much extra the Government will need to borrow. But the Debt Management Office has set out its planned debt issuance for April and, as Figure 7 shows, this will be higher than any single month during the financial crisis. The Government is clearly mindful of the challenge in ensuring adequate financing during this period and is extending the use of the existing Ways and Means facility – effectively the Government's overdraft with the Bank of England – as it did during the financial crisis.

From a market perspective, the results of recent gilt auctions are encouraging, with high demand for Government debt; the cover ratios, the ratio of financial market bids for bonds to the amount of debt issued, have been above 2.6 at all auctions since the start of April. But there will be a lot of supply for the market to absorb in the coming weeks, so we will continue to monitor developments here as a potential first sign of worries about debt sustainability.

Figure 7 **The Government intends to issue an unprecedented amount of debt**
Real gilt issuance by the Debt Management Office, outturns and forecast



Notes: Figures show total issuance at operations in cash. Figures are adjusted into 2020-21 prices using the GDP deflator based on the most recent data from the Office for Budget Responsibility. The April 2020 forecast is based on the expected issuance this month.
Source: RF analysis of Debt Management Office.