The economic effects of coronavirus in the UK

Utilising timely economic indicators

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This is the seventh 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.

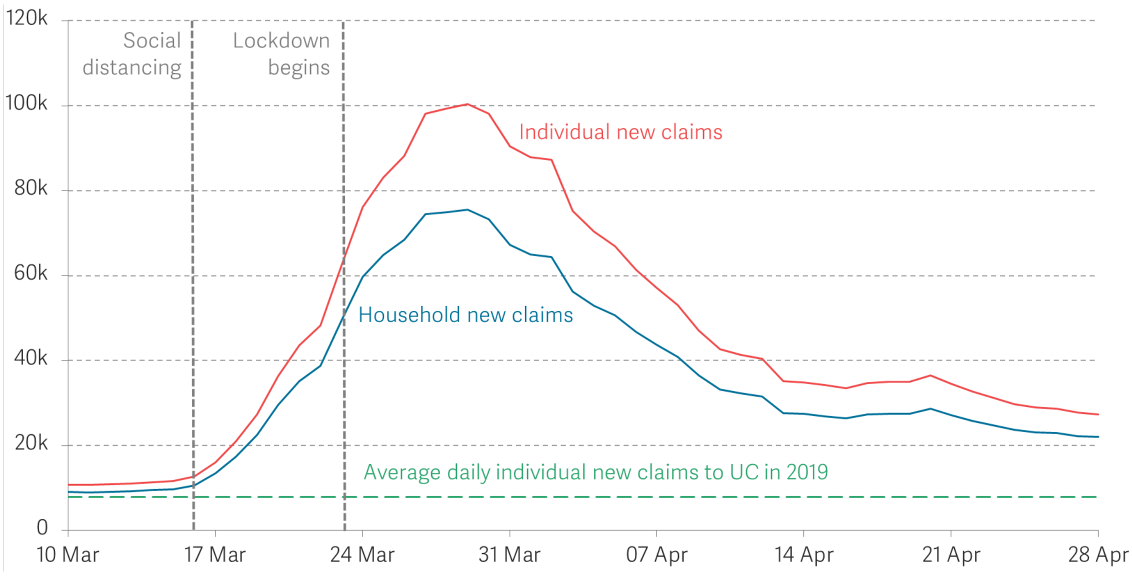
The flow of new Universal Credit claimants has slowed significantly in recent weeks but remains three times above the pre-crisis level. Were it not for almost 6.3 million workers enrolled on the Government's Job Retention Scheme (JRS) we might expected these numbers to be far higher. Indeed, of all the Government's economic support schemes it is the JRS which has seen the most use. Shutdown sectors like hospitality have seen the greatest take-up of the scheme. By contrast, those sectors in which there are large numbers of key workers have seen an increase in demand for workers. There was evidence that households and businesses are taking their own precautionary measures with record levels of consumer credit repayments and business borrowing. The Debt Management Office plans to tap the market for historically-large sums in the coming months to cover the massive increase in the Government's cash requirements. Despite this, there is still no sign that financial markets are unable to digest the increase in borrowing as Bank of England gilt purchases have kept paced with additional issuance.

This article covers the labour market, the Government's economic support package, money and credit, and the Government's fiscal position.

The labour market

The scale of the current jobs crisis has become much clearer in recent weeks: unemployment is still rising, albeit at a slower pace. Over two million new claims for benefits have been made since mid-March, despite the Government job retention scheme (JRS). The number of new Universal Credit (UC) claimants peaked at 100,000 per day – around twice the typical *weekly* claims prior to the crisis – but has since fallen back to around three times the pre-crisis level. That's around an extra 20,000 claims per day. In comparison, the peak of the financial crisis only saw an extra 7,000 average daily claims to Job Seekers Allowance. Slightly more encouraging is [Citizens Advice predicted path] for UC claims; Citizens advice web data has closely mirrored the level of UC claims and their timelier data suggests that the slowdown in claimants will continue.

Figure 1 **UC claims remain three times the normal level**
Daily new declarations to Universal Credit: GB



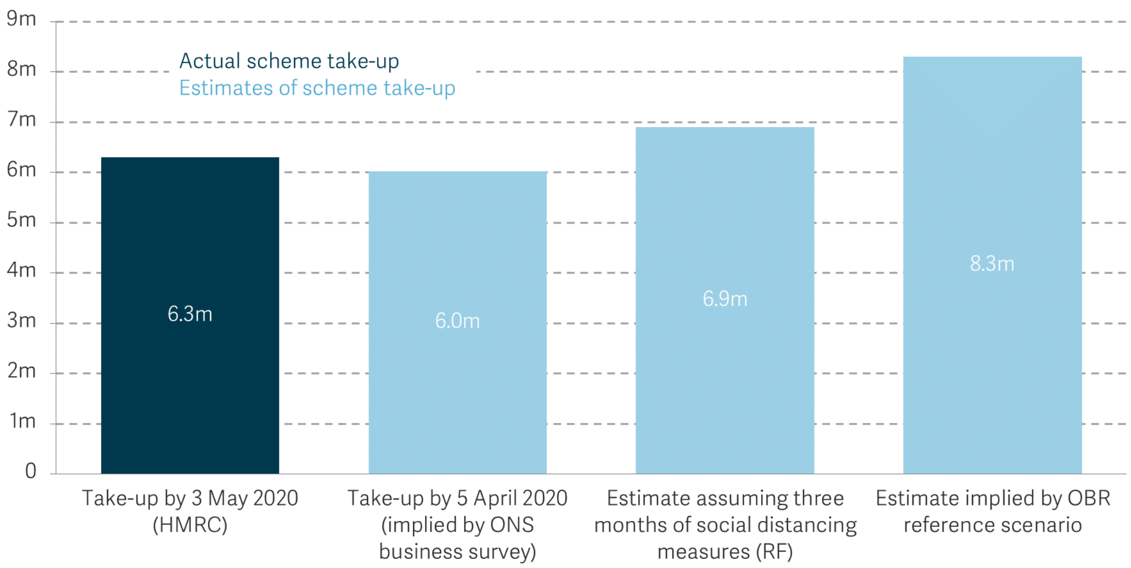
Notes: A declaration is when an individual or household provides information on their personal circumstances to begin a Universal Credit claim. Not all declarations will go on to receiving a payment, so this data is not directly comparable with statistics on the number of Universal Credit claims. There are more declarations for individuals than households, because two adults in a household can claim. 2019 figures are based on a different methodology and are not directly comparable.
Source: RF analysis of DWP, Universal Credit declarations and advances management information.

The current labour market crisis is unique in that it has primarily been driven by people leaving their jobs rather than reduced hiring. This is why the JRS has been so important in preventing even faster rises in unemployment, while helping to cushion falls in household incomes and allows workers to remain connected to their employer (which should support a faster economic recovery as soon as workers can go back to their workplace safely).

The scale of uptake for the JRS has been extraordinary; new figures show that 6.3 million workers have been furloughed since the scheme opened on 20 April. The sheer numbers of furloughed employees show in stark terms the scale of the economic shutdown that the country is living through. As Figure 2 shows, the state is now largely paying the wages of over 6 million private-sector workers, more than the whole public sector workforce. These numbers do not include those self-employed who are being supported by the Government's self-employed grant. HMRC estimate that the JRS claims to date will cost £8 billion. But without the JRS many of those furloughed would have become unemployed, incurring substantial welfare costs as UC claims rose even higher – leaving many more families with even larger income reductions.

Figure 2 **6.3 million workers have been furloughed**

Take-up of the Job Retention Scheme, actual and estimated

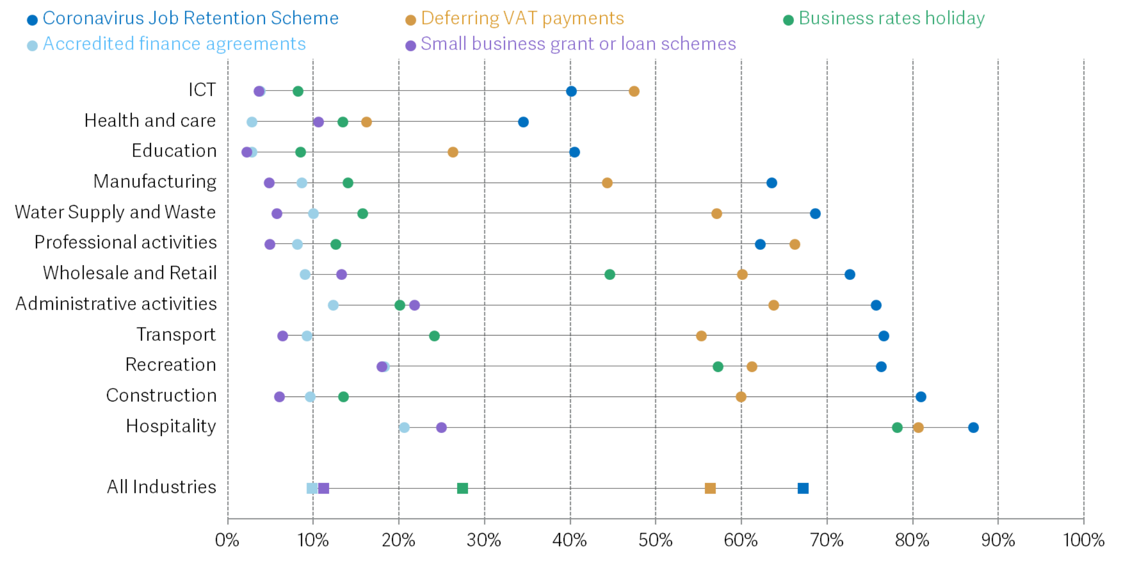


Notes: HMRC figure is for number of jobs furloughed, other estimates are for numbers of employees furloughed.
Source: HMRC; RF analysis of ONS, Business Impact of Coronavirus Survey & RF analysis; of OBR, Coronavirus Reference Scenario, April 2020.

Many businesses are using or intending to use the various support schemes offered by the Government. Figure 3 shows that over 67 per cent of firms have already applied to the JRS at the beginning and middle of April. This is higher than any of the other economic support schemes introduced by the Government. A recent survey commissioned by the British Chambers of Commerce found that 74 per cent of businesses have already furloughed at least part of their workforce, illustrating just how important it has been.

Figure 3 **Two-thirds of businesses have applied for the JRS**

Proportion of businesses reporting that had applied for different government support schemes, by industry: 6 April 2020 to 19 April 2020



Notes: Results are raw percentages; businesses are not weighted.
Source: ONS.

Take up and application for the JRS has been particularly high in some of the hardest hit industries like hospitality. As Figure 3 shows 87 per cent of businesses in accommodation and food services have applied for the JRS. The new ONS data also shows that almost three quarters of the sector's workforce has been furloughed. Unsurprisingly hospitality is the sector where the greatest proportion of businesses have closed or paused trading. These survey findings are consistent with real-time vacancy data showing hiring intentions in hospitality and food sectors have almost entirely vanished in recent weeks.

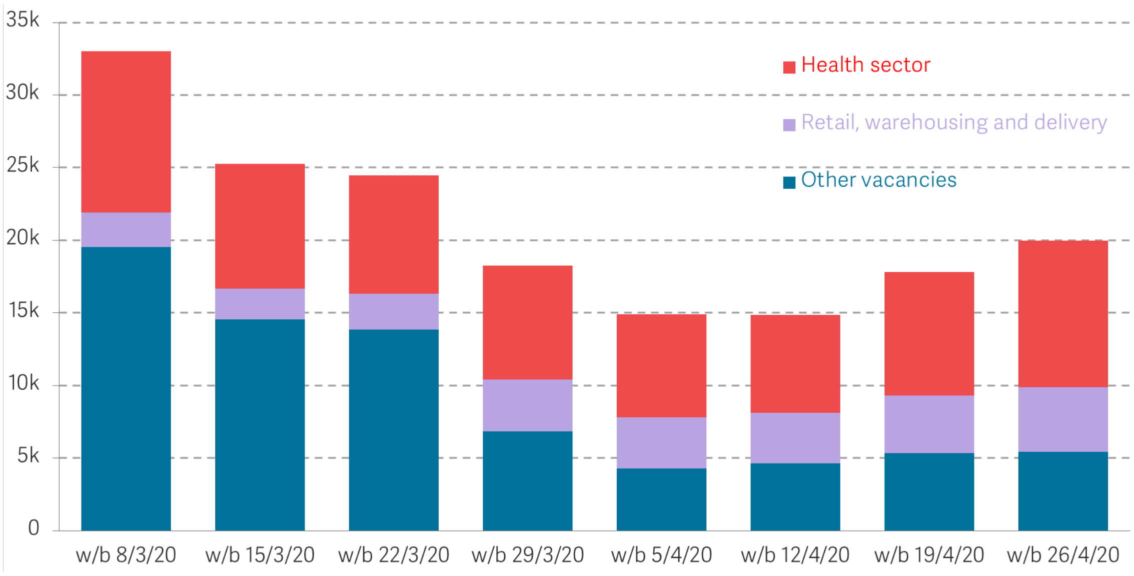
More broadly, we can see big gaps in take-up of some of the other elements of the Government's support schemes. A majority of businesses have applied to defer VAT tax payments but only around 10 per cent are currently seeking loans. This might reflect the fact that firms are currently relying on cash reserves; if so, the longer the economic downturn continues, the more firms may look to apply for financing.

Vacancies

Of course, not every part of the economy has completely shut down. Recent Resolution Foundation analysis has highlighted that the 8.6 million key workers (27 per cent of the labour force) face the biggest health risks. This key worker group is dominated by health workers. But, crucially, those on the frontline also include less traditional key worker roles like those in delivery and warehousing. This growing reliance on key workers explains continued, and even rising, demand for the skills and workers in these groups.

Figure 4 **Key worker roles dominate recent job vacancies**

Number of vacancies posted on DWP Find A Job website, by week



Notes: Vacancies data scraped from Find A Job website. Health sector vacancies are any vacancy where the job title contains one or more of the following terms: NHS, health, hospital, clinical, medical, care, doctor, GP, consultant, locum, nurse, RGN, sister, midwife, practitioner, CAMHS, pharmacist, pharmacy, occupational therapist, physiotherapist, paediatrician, psychiatrist, anaesthetist, radiographer, phlebotomist. Retail and warehousing vacancies are any vacancy where the job title contains one or more of the following terms: retail, store, sales assistant, supermarket, shelf, sorter, warehouse, picker, packer, delivery, driver. Any posting containing multiple jobs will be counted once.
Source: RF analysis of DWP, Find A Job website.

Resolution Foundation

Figure 4 shows the number of vacancies posted on the Department for Work and Pensions' Find a job website since the week beginning the 8th March. Over the preceding week the number of vacancies picked up slightly, but this uptick is driven entirely by jobs in the health sector and retail, warehousing and delivery. All other vacancies remain at just one-quarter of the level we saw in early March.

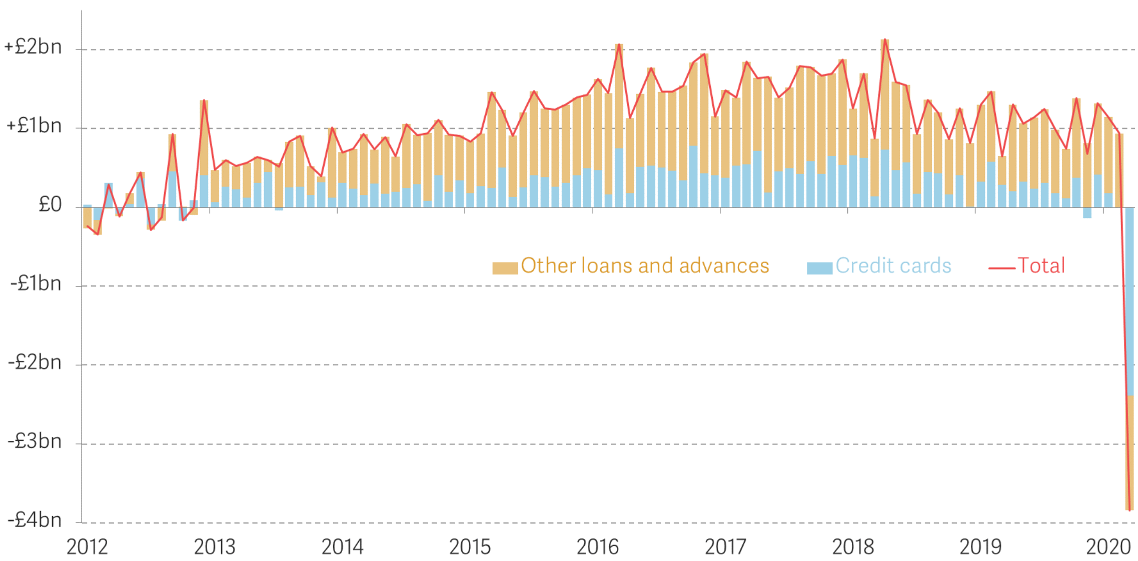
Coronavirus has affected all workers across the country. But some local and regional labour markets will be more exposed than others. Early indicators show that in recent weeks the East Midlands, Yorkshire and the Humber and the West Midlands have seen the number of jobs posted on DWP's Find a Job Website almost half. By this measure all regions across the country have seen job postings dry up.

Money and credit

There has been a big drop-off in consumer spending since social distancing measures were introduced. Figure 5 shows that households have repaid £3.8 billion of consumer credit in March, with credit card repayments accounting for over 60 per cent of that figure. These are the highest repayments levels recorded by the Bank of England since records began. This partly reflects the fact that some households have not experienced falls in income while having their consumption choices restricted, but also that consumer confidence has fallen to its lowest levels since the financial crisis.

The coronavirus crisis has also affected the mortgage market with mortgage approvals down 24 per cent in March. Data from Moneyfacts and the Bank shows that the availability of new mortgage products has fallen, most markedly for those with higher Loan-to-value ratios.

Figure 5 **Demand for consumer credit is at record lows**
Consumer credit flows

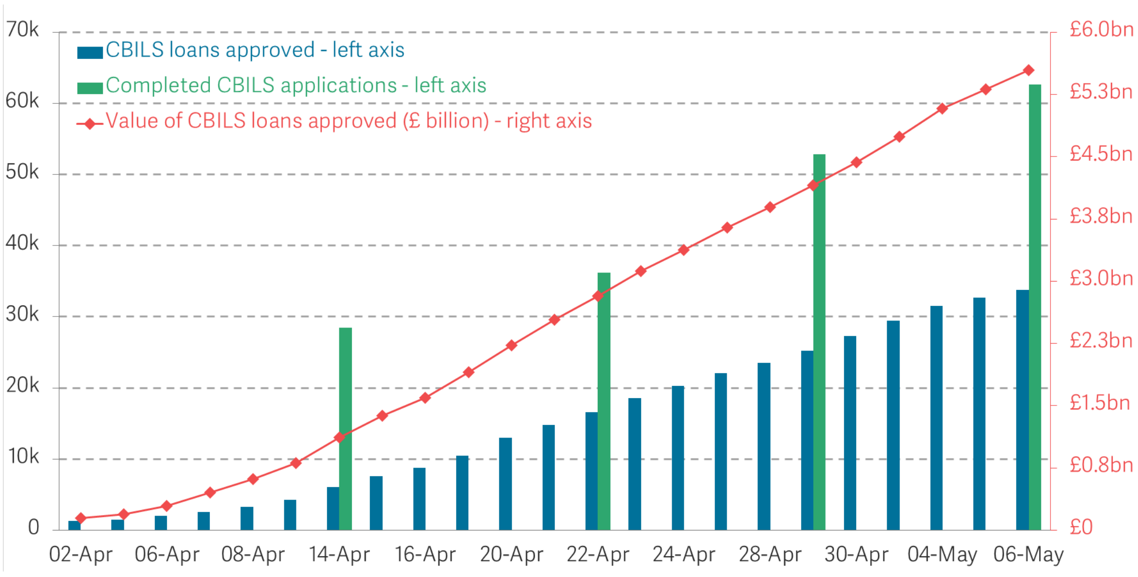


Notes: Figures are seasonally adjusted.
Source: RF analysis of Bank of England, Money and Credit -March 2020.

In contrast to consumer lending, there has been a record increase in lending to businesses in March with a net increase in finance of £34 billion – driven entirely by loans rather than equity or bonds. Just £300 million of the additional business borrowing was by SMEs, suggesting that larger firms have been more able to access bank financing – partially reflecting that larger businesses have more than three times the gross overdraft lending of smaller firms.

Timelier credit data on the Government's CBILS loans issued by banks show that lending under the scheme has expanded since the start of April and total additional lending has reached more than £5 billion. This is relatively small compared to the £34 billion increase seen in March, before CBILS loans were available.

Figure 6 **The CBILS is supporting additional lending but current levels are low**
Lending and applications for the CBILS



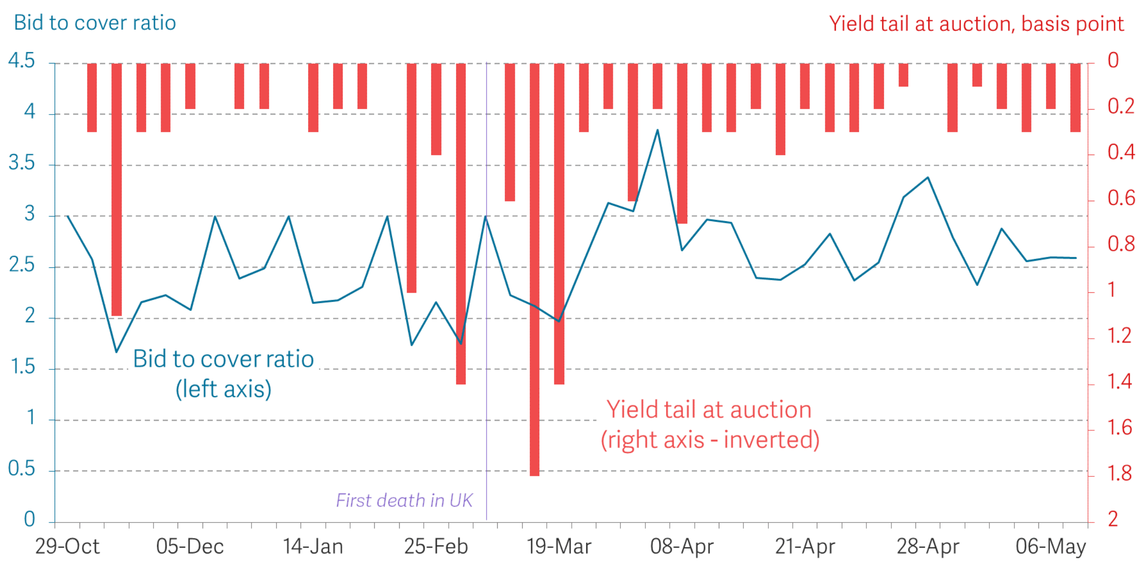
Source: RF analysis of UK Finance.

Fiscal impacts

The direct policy measures taken by the Government to mitigate the economic crisis are [estimated by the OBR] to necessitate an increase in borrowing of £104 billion. In addition, the fall in economic activity will substantially reduce the Government's tax revenues and increase spending. It is unclear at this stage how much extra the Government will ultimately need to borrow (though it [could reach as high as 38 per cent of GDP] this year). The Debt Management Office (DMO) financing remit, which outlines how much the Government intends to raise in debt over the next three months, shows that the borrowing in each of the next three months will be higher than any single month during the financial crisis.

The DMO successfully raised £55 billion from gilt auctions in April without a deterioration in market indicators of demand. As Figure 7 shows, the cover ratios (the ratio of financial market bids for bonds to the amount of debt issued) have averaged above two since early March, although they have fallen slightly since earlier in April. Another metric of auction success, the yield tail (a measure of the range of bid prices where a larger spread indicates weaker demand), has remained low and fallen since late-March.

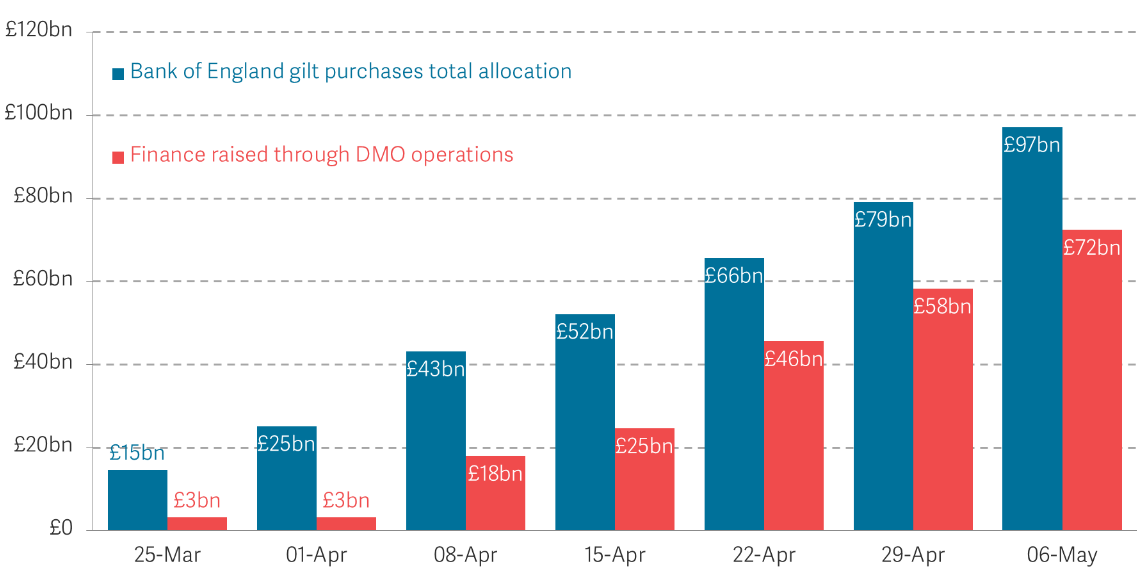
Figure 7 **Financial markets have maintained high demand for government debt**
Bid to cover ratio and yield tail at Debt Management Office gilt auctions



Source: DMO; Worldometer.

A major driver of the sanguine market reaction has been the Bank of England's purchases of gilts as part of its recent expansion of its quantitative easing programme. The Bank announced in March that it would purchase £200 billion of gilts. Since then purchases have run slightly ahead of debt issuance by the DMO, as shown in Figure 8. It is possible that once the Bank reaches its £200 billion target for purchases, there could be a deterioration in market conditions, raising government financing costs.

Figure 8 **QE purchases have run ahead of debt issuance**
Weekly cumulative change in Bank of England QE gilt purchases and government debt issuance, since 18 March 2020



Source: RF analysis of DMO; Bank of England