

# Summer Statement, 8 July 2020

## Resolution Foundation response

# Summary

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This was not a Budget, but was still a big deal with £30bn of measures to support the economy. This is particularly significant when seen in combination with £160bn of pandemic-related support already announced, leaving borrowing this year on course to reach £350bn.

Debt interest costs will continue to fall, although the crisis will leave the Treasury with a persistent deficit to address (post-crisis).

The scale of government action reflects the scale of the economic crisis the pandemic has caused. Although the immediate backdrop is of slightly improved, short-term economic forecasts (or would have been, if the Chancellor had let the OBR produce its normal Budget forecasts), big economic challenges will remain until a vaccine arrives.

The Chancellor combined several tried-and-tested recession-fighting policies, with more innovative approaches that attempted to address the specific nature of this very sector-specific crisis.

# Summary



Kickstart jobs for young people is a tried-and-tested policy, but the new Job Retention Bonus is poorly targeted at the 1 million jobs that are most at risk as the furlough scheme is phased out. It is too small and temporary to have a lasting effect on employment. The lack of further action on jobs leaves the Chancellor risking high unemployment this autumn.

Rightly, the Chancellor focused stimulus measures on (some) of the hardest-hit sectors. The “Eat Out” scheme is far too small to have a major impact, but far more significant (and welcome) is a temporary VAT cut on eating out, accommodation & attractions. This sectoral targeting, though, had a big gap, with no support for the likes of bricks-and-mortar retail.

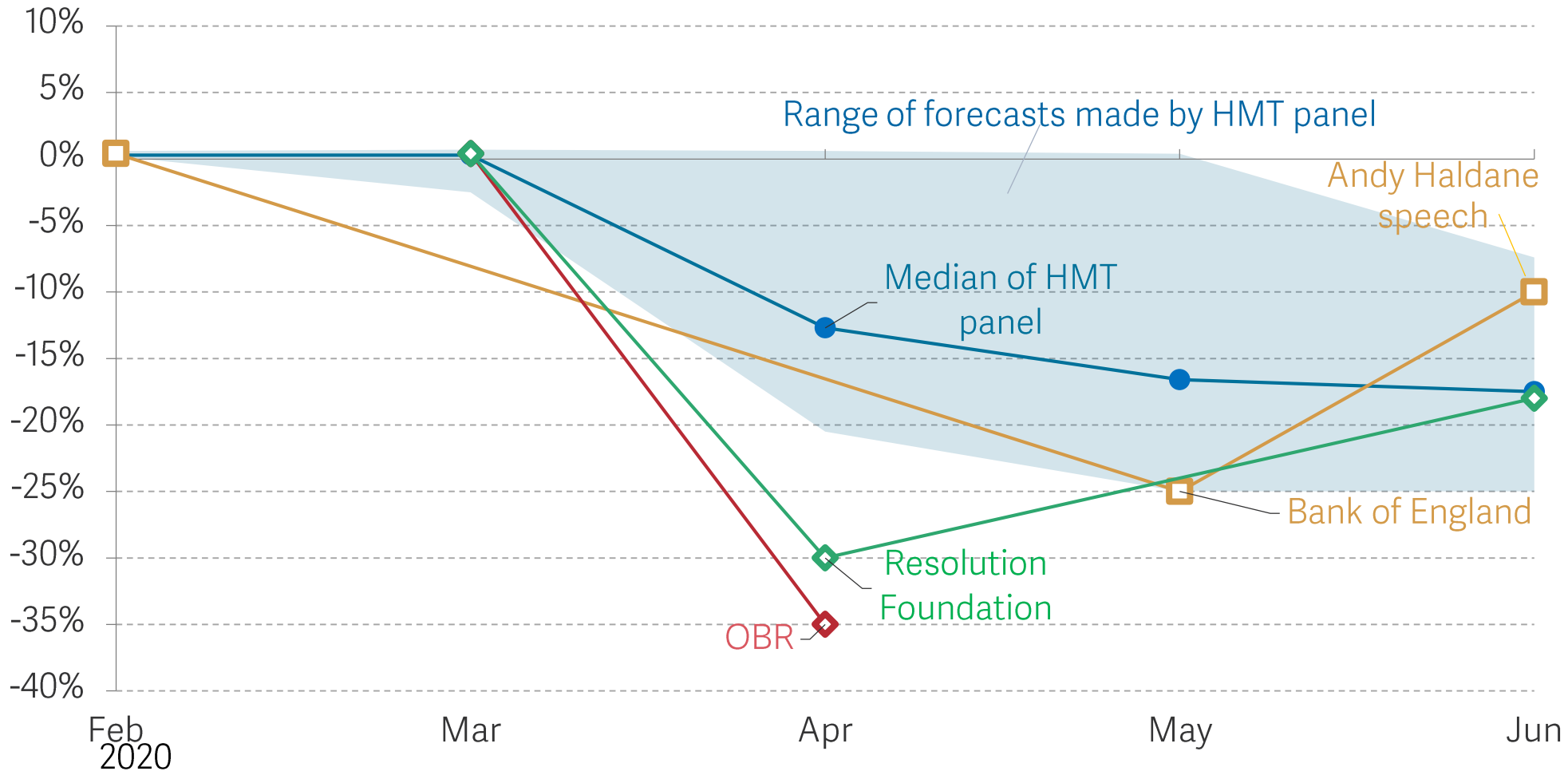
Having previously taken unprecedented action to protect incomes, the Summer Economic Update provided much more conventional in-scale demand support for the next phase of this crisis. That might be sufficient if the UK has a V-shaped recovery. But, as the virus isn’t going away, HM Treasury should expect to return in the autumn with further measures to support the economy.

# Economic Context

# The good news: the initial lockdown hit will not be as large as expected a few months ago



Forecasts for growth real GDP in 2020 Q2 (per cent): UK



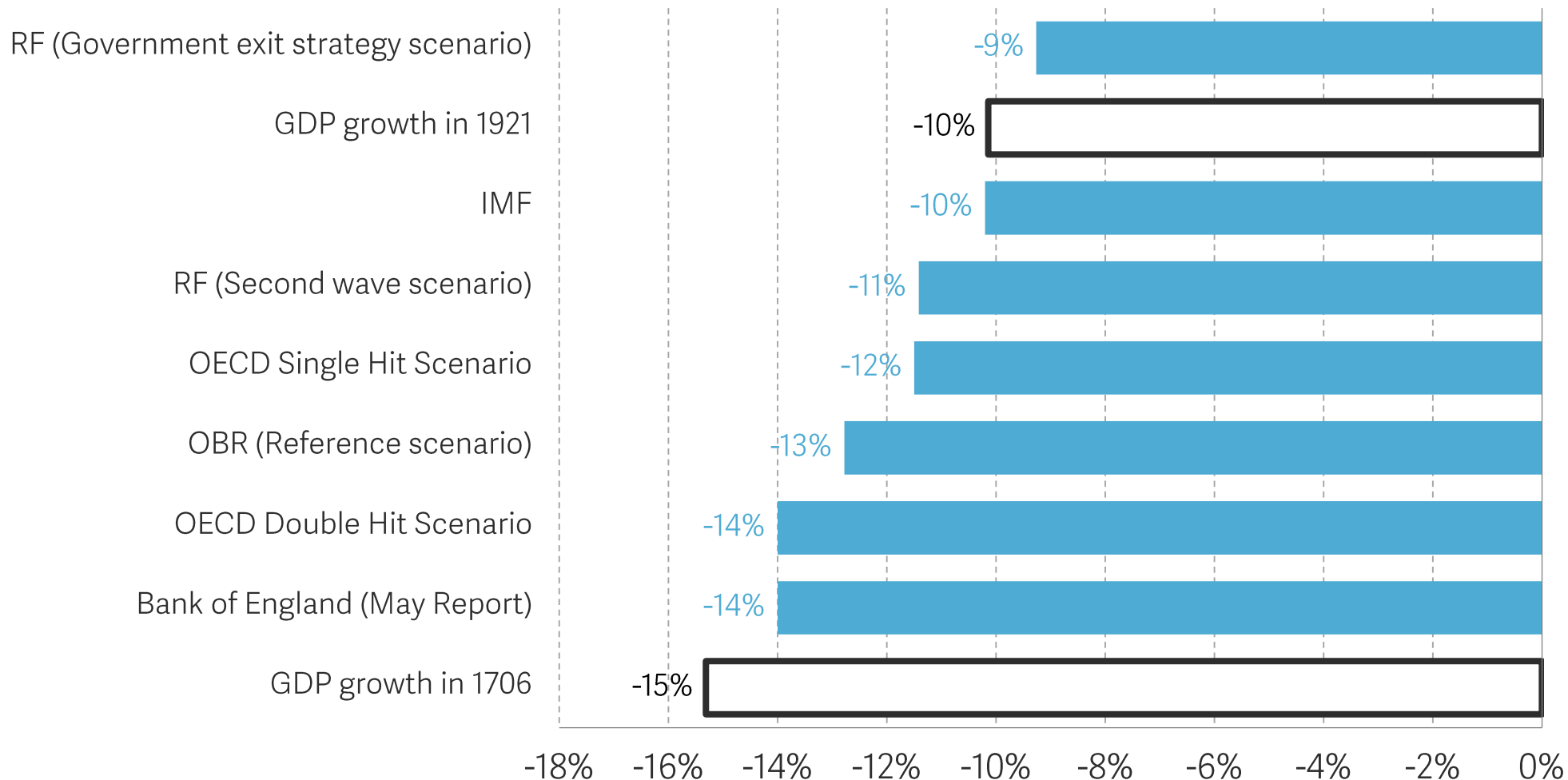
The Bank of England has revised up its view of the economic hit in 2020 Q2 from -25% to around -10%.

OBR is likely to follow suit next week with its new forecast

# The bad news: the economy is still expected to contract more this year than in any year for at least a century



Recent forecasts for GDP growth in 2020: UK



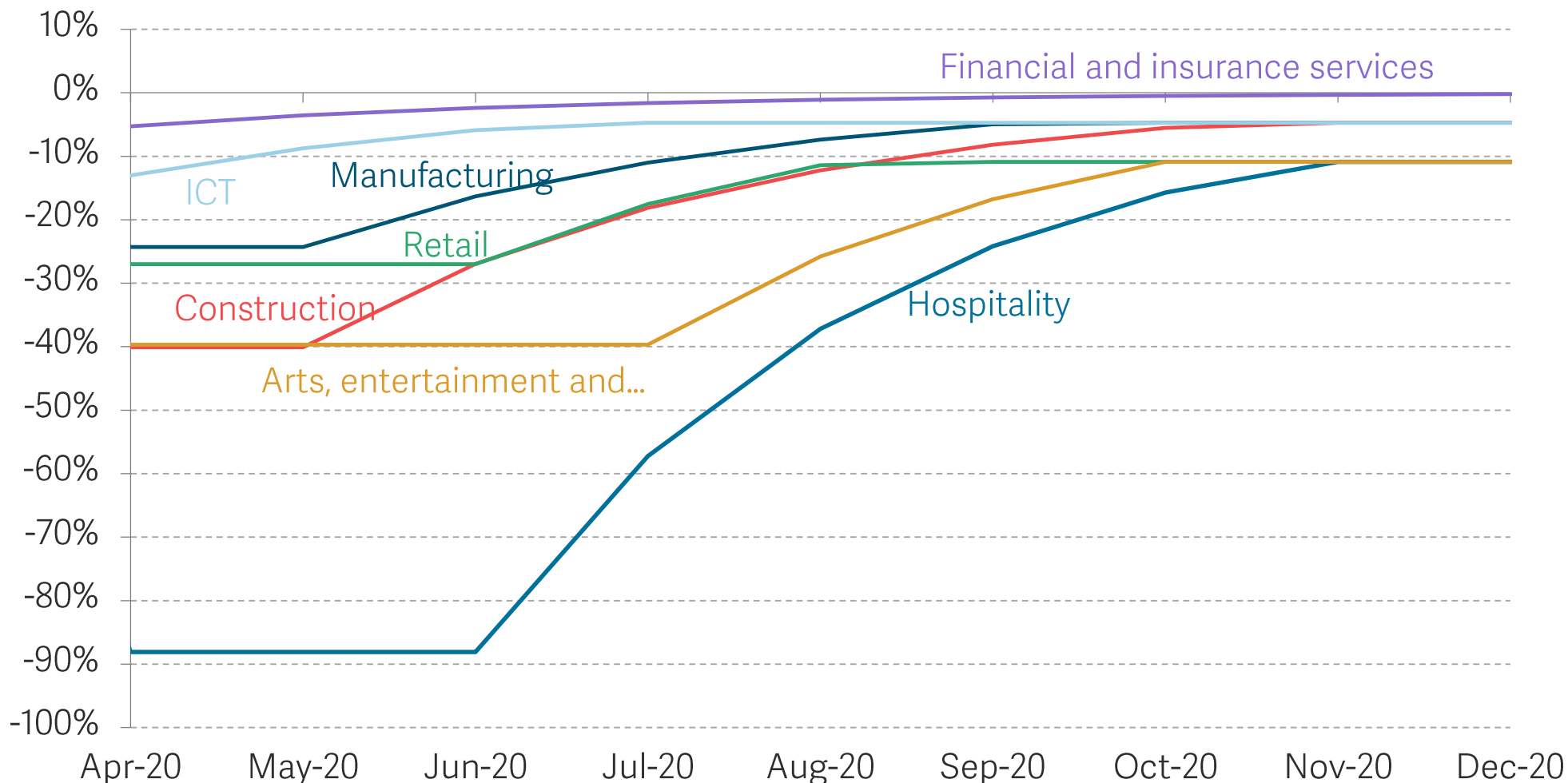
The economy shrank by 9.7 per cent in 1921

Some forecasters think 2020 will be the weakest year of growth since 1706.

# Social distancing restrictions will have a lasting impact on economic activity in many sectors



RF scenario for the change in GVA relative to pre-crisis levels in selected sectors: UK



RF's data-driven scenarios for opening up point to on-going weakness in many sectors throughout this year, and the economy remaining 5% smaller at year end  
See: [Easing does it](#)

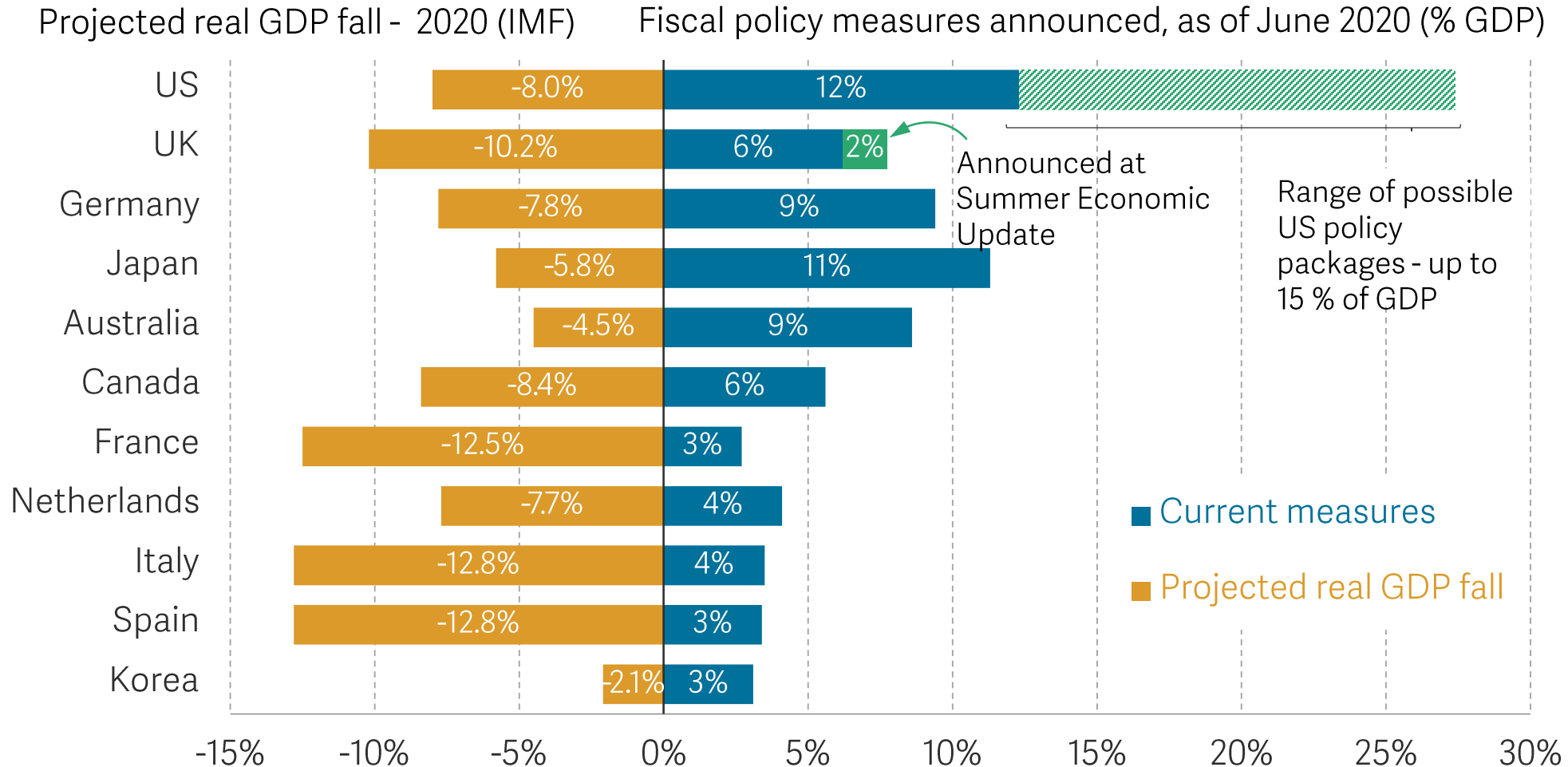
Notes: The starting point for April is the fall in GVA in the ONS data; beyond April the sectors improve in line with the Google mobility trends data.  
Source: RF analysis of ONS; Google mobility trends



# The UK fiscal response is in the middle of the pack



Size of fiscal response to coronavirus as a proportion of GDP, and projected real GDP fall in 2020: US and UK



Today's announcement of £30 billion of measures leaves total UK stimulus looking middle-of-the-pack, and much smaller than packages currently being debated in the US

# When is a Budget not a Budget? When there's no OBR forecasts



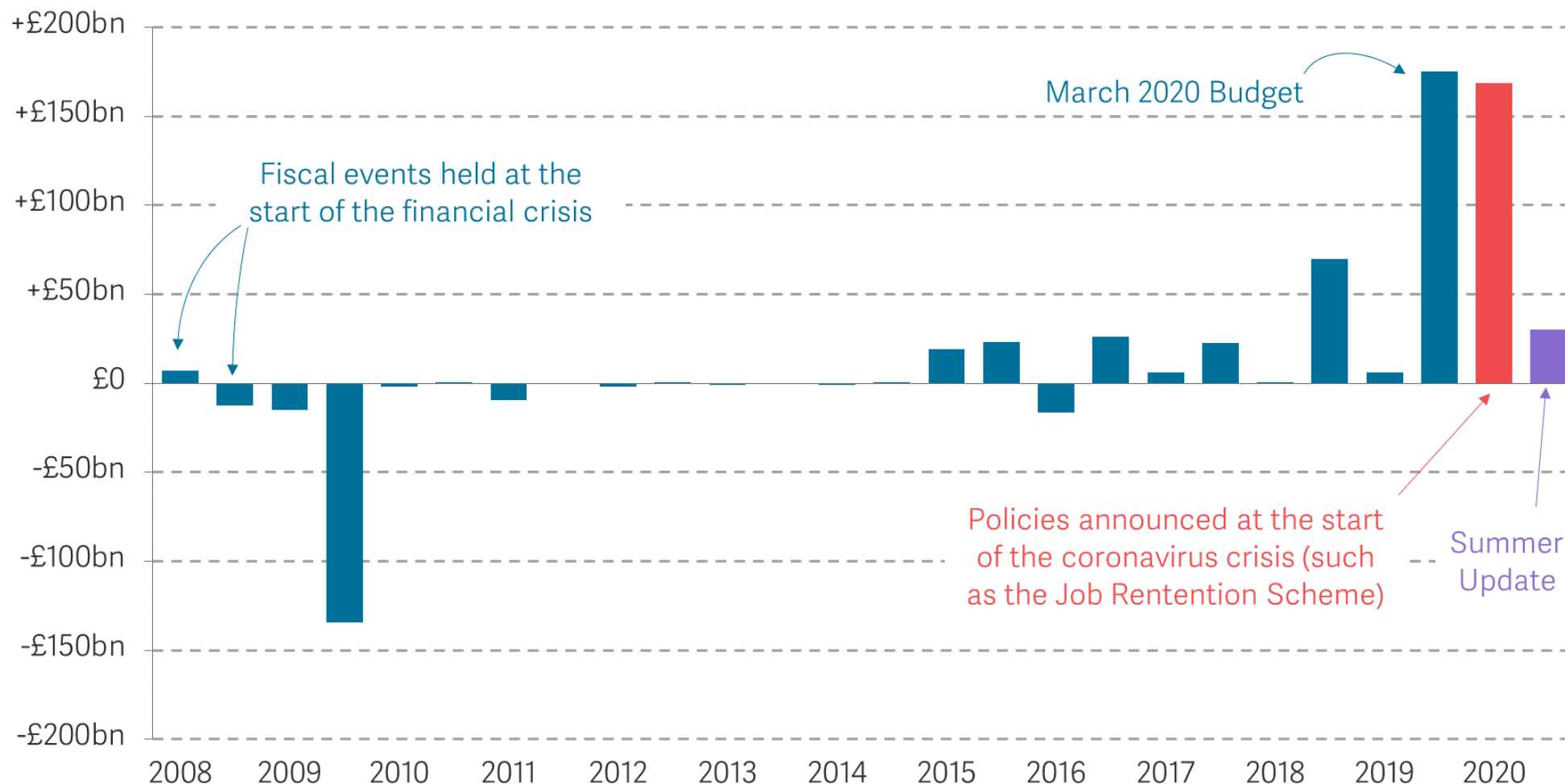
- Since the start of the crisis, around £190 billion of policy measures have been announced, and the UK has entered a deep recession.
- Despite that, the OBR have not costed the proposals in the Summer Statement or updated its economic forecasts.
- That has happened at a time when our fiscal rules, that should be anchoring medium-term expectations of future policy, were already under review
- The lack of a fiscal framework or normal OBR engagement with the Summer Statement is unwise, particularly when monetary policy has reached its limits and fiscal policy is playing the crucial macroeconomic stabilisation role.

# Public finances

# £30bn loosening is significant, but only a 20 per cent increase on the £160bn already announced during this pandemic response



Five-year cumulative forecasts of the impact of policy decisions on public sector net borrowing at fiscal events



£160bn announced since the pandemic but pre-Summer Statement includes £77bn for households and £30bn for businesses. HMT also significantly revised up pandemic related public service spending to £51bn, with £15bn on PPE alone

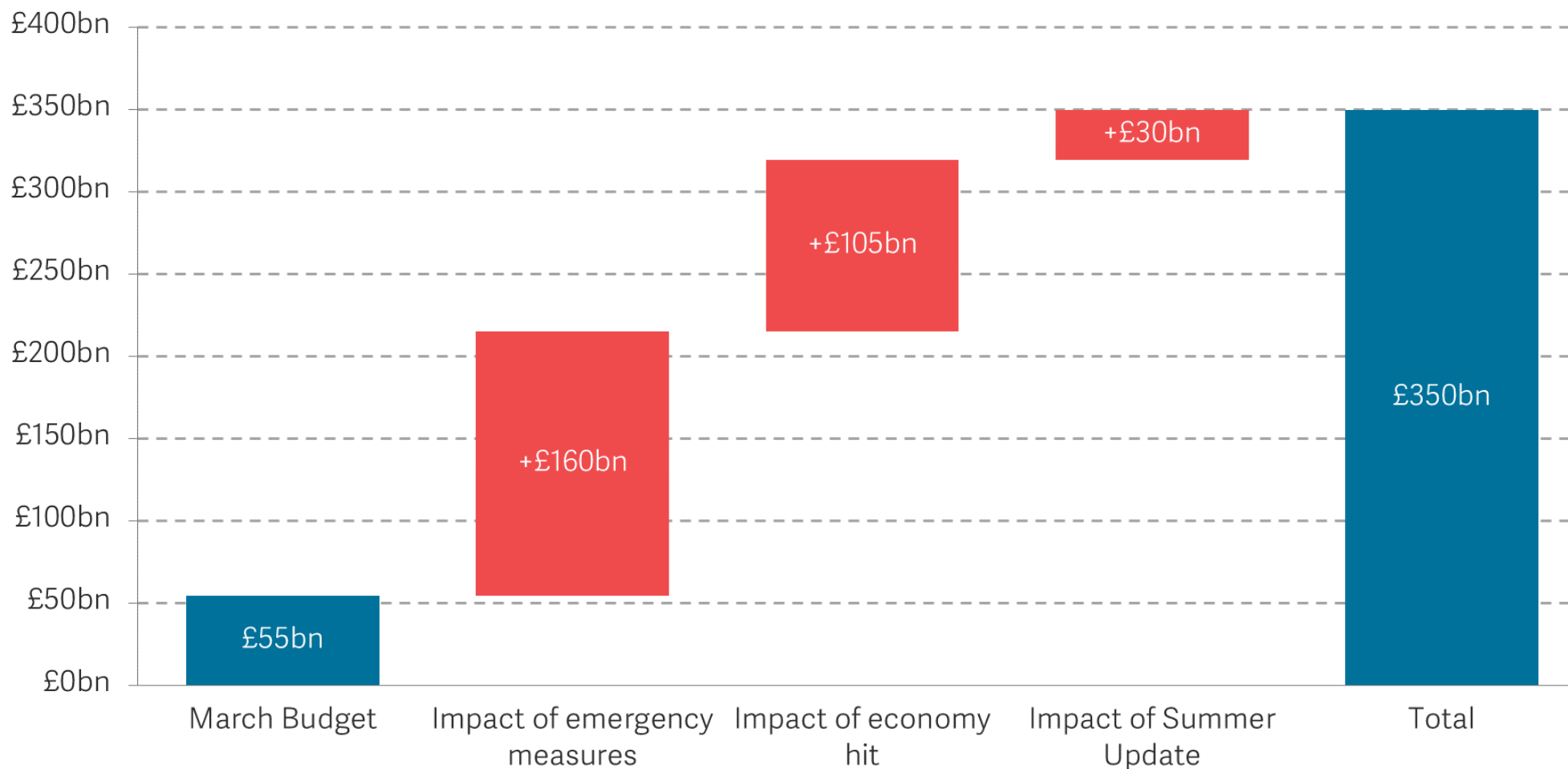
Notes: Values are shown in 2019-20 prices (deflated using the GDP deflator). The current estimate of policies announced between the March 2020 Budget and the Summer Update are included in the red bar.

Source: RF analysis of OBR, March 2020 Economic and Fiscal Outlook and Policy Measures Database; HM Treasury, Plan for Jobs, July 2020, Pre-Budget Report 2009, Budget 2009 and Pre-Budget Report 2008.

# Borrowing is on course to hit £350bn, with previously-announced policies and the recession being the main drivers



March 2020 Budget public sector net borrowing forecast and subsequent policy announcements: 2020-21



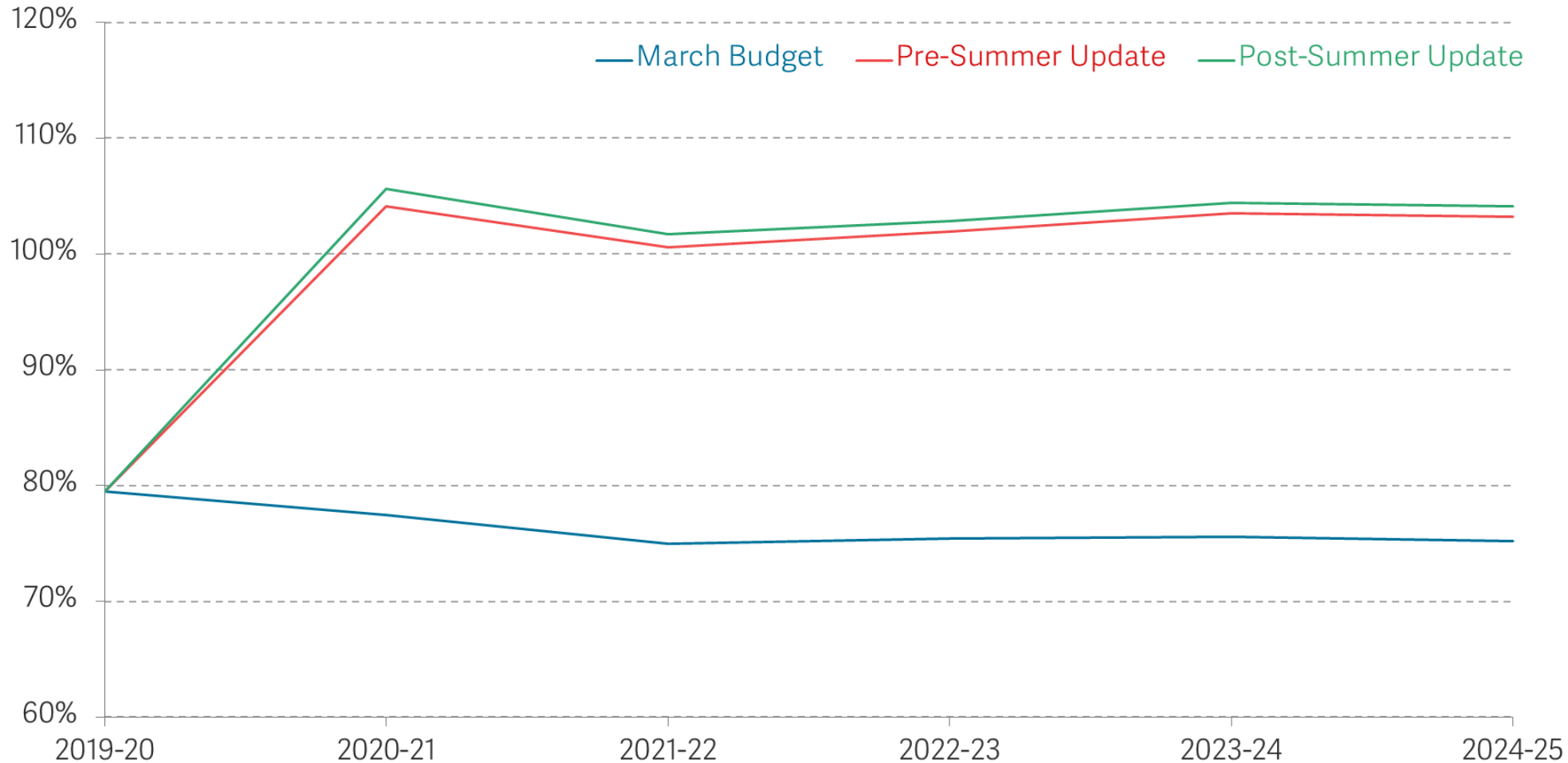
Notes: Additional departmental spending of £32.9 billion was announced in the Summer Update relating to updated estimates of the cost of previously announced policy (for example, the purchase of additional ventilators for the NHS); this is included in the “impact of emergency measures” column.

Source: RF analysis of OBR, March 2020 Economic and Fiscal Outlook; HM Treasury, Plan for Jobs, July 2020; Easing does it: Economic policy beyond the lockdown, Resolution Foundation, July 2020.

# Government debt is set to rise very substantially in 2020...



Forecasts for public sector net debt as a share of GDP



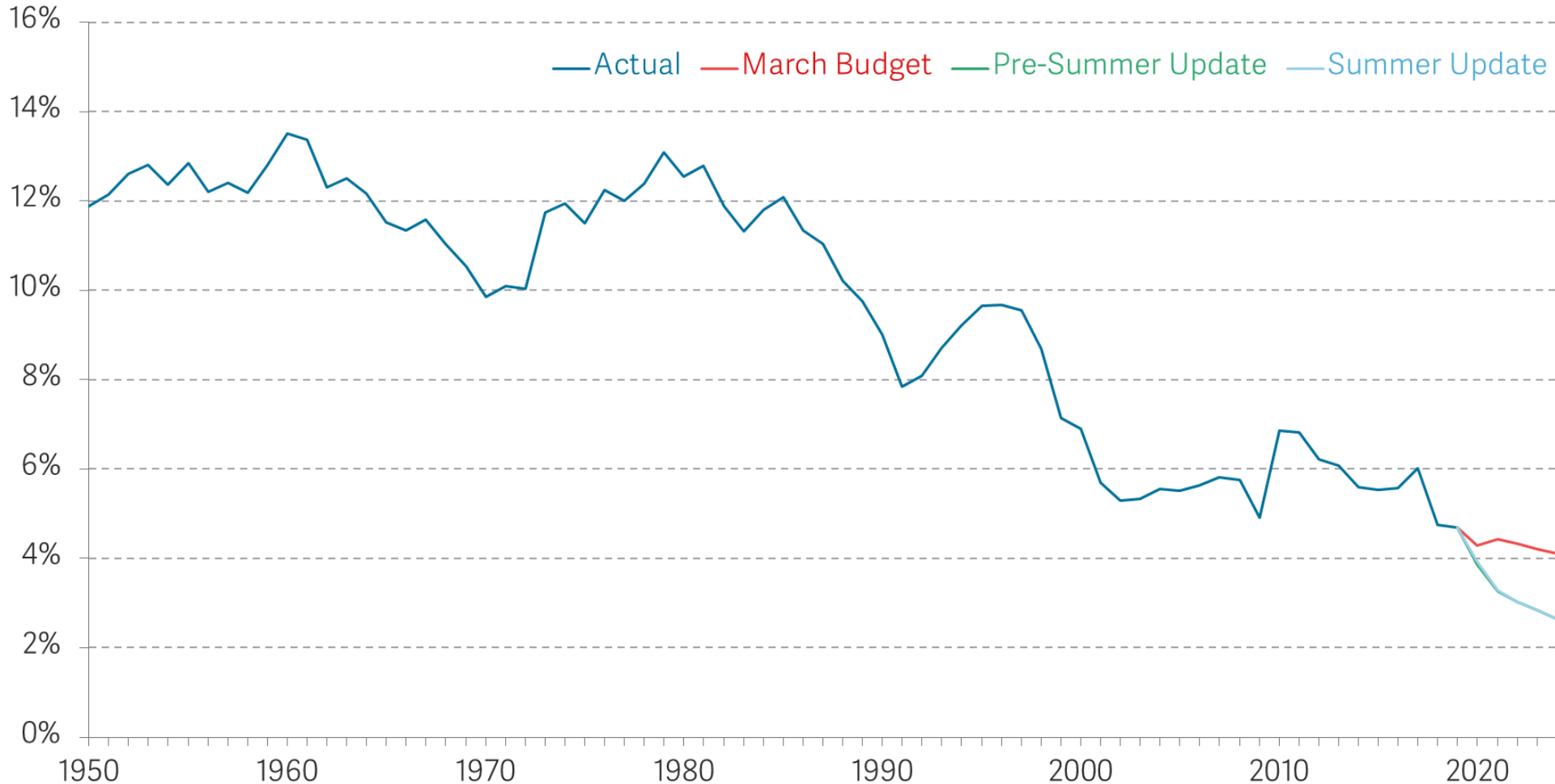
Notes: Additional departmental spending of £32.9 billion was announced in the Summer Update relating to updated estimates of the cost of previously announced policy (for example, the purchase of additional ventilators for the NHS); this is included in the "Pre-Summer Update" line. GDP estimates are taken from the OBR's March Budget forecasts for the "March Budget" line and RF analysis of the macroeconomy for the other lines.

Source: RF analysis of OBR, March 2020 Economic and Fiscal Outlook; HM Treasury, Plan for Jobs, July 2020; Easing does it: Economic policy beyond the lockdown, Resolution Foundation, July 2020.

# ...but debt servicing costs are still set to decline



Public sector net government debt interest as a proportion of public sector revenue and forecasts: UK



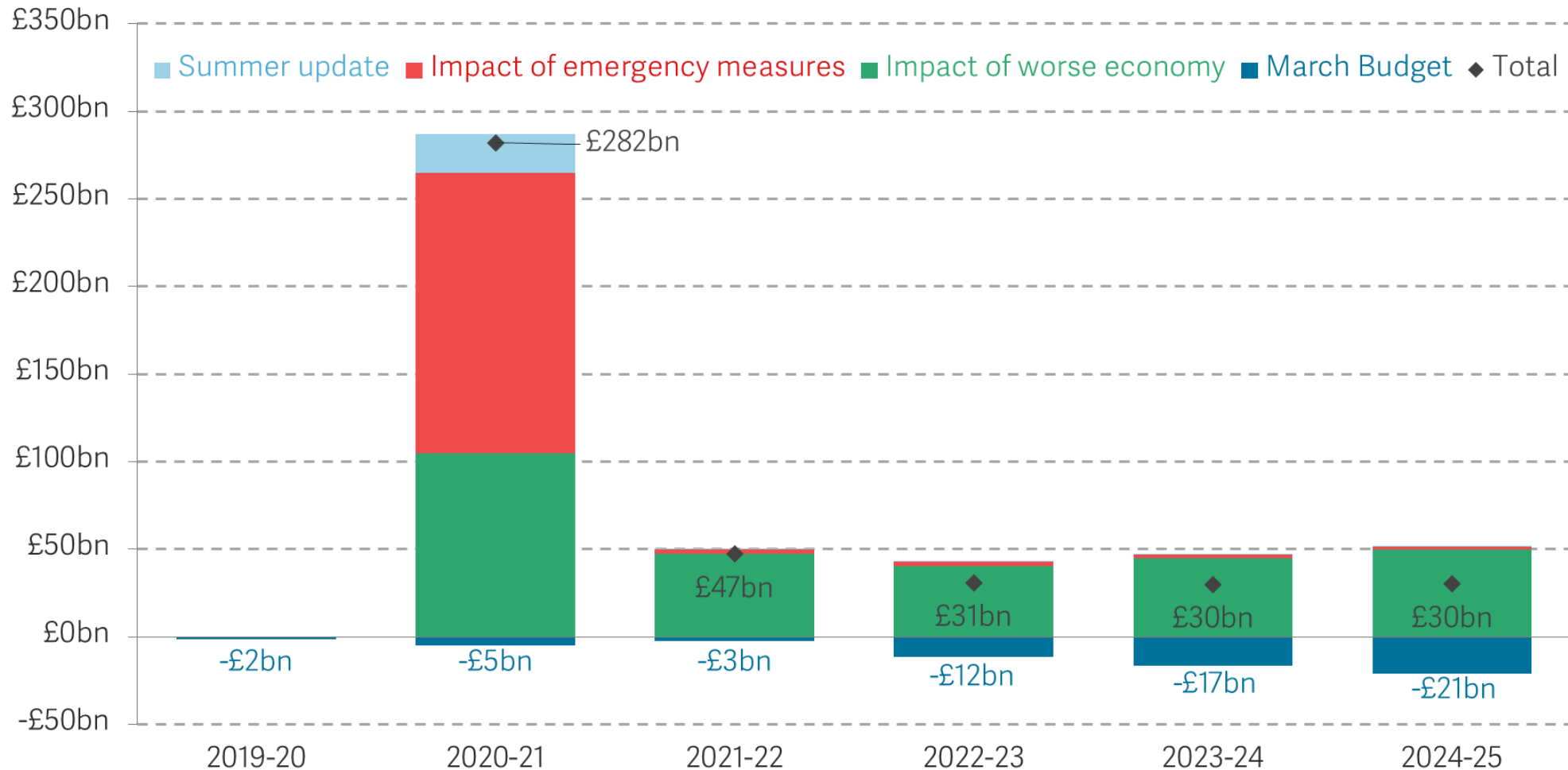
Debt interest as a share of public sector revenue is projected to remain well below the 6 per cent ceiling set out in the 2019 Conservative manifesto

Notes: The underlying scenario forecasts are based on gross public sector net debt interest excluding the Bank of England; they have been transformed proportionally to be consistent with public sector net debt interest and so does not explicitly model the dynamics of net interest directly.  
Source: RF analysis of OBR, March 2020 Economic and Fiscal Outlook; HM Treasury, Plan for Jobs, July 2020; Easing does it: Economic policy beyond the lockdown, Resolution Foundation, July 2020.

# However, lasting damage to the economy means we expect the Government to have a persistent deficit to address post-crisis



Public sector current budget deficit, March 2020 Budget and updated forecast



Notes: Additional departmental spending of £32.9 billion was announced in the Summer Update relating to updated estimates of the cost of previously announced policy (for example, the purchase of additional ventilators for the NHS); this is included in the emergency measures category.  
Source: RF analysis of OBR, March 2020 Economic and Fiscal Outlook; HM Treasury, Plan for Jobs, July 2020; Economic policy beyond the lockdown, Resolution Foundation, July 2020.



# Public investment

## Public investment: £8.6bn of spending brought forward to 2020-21

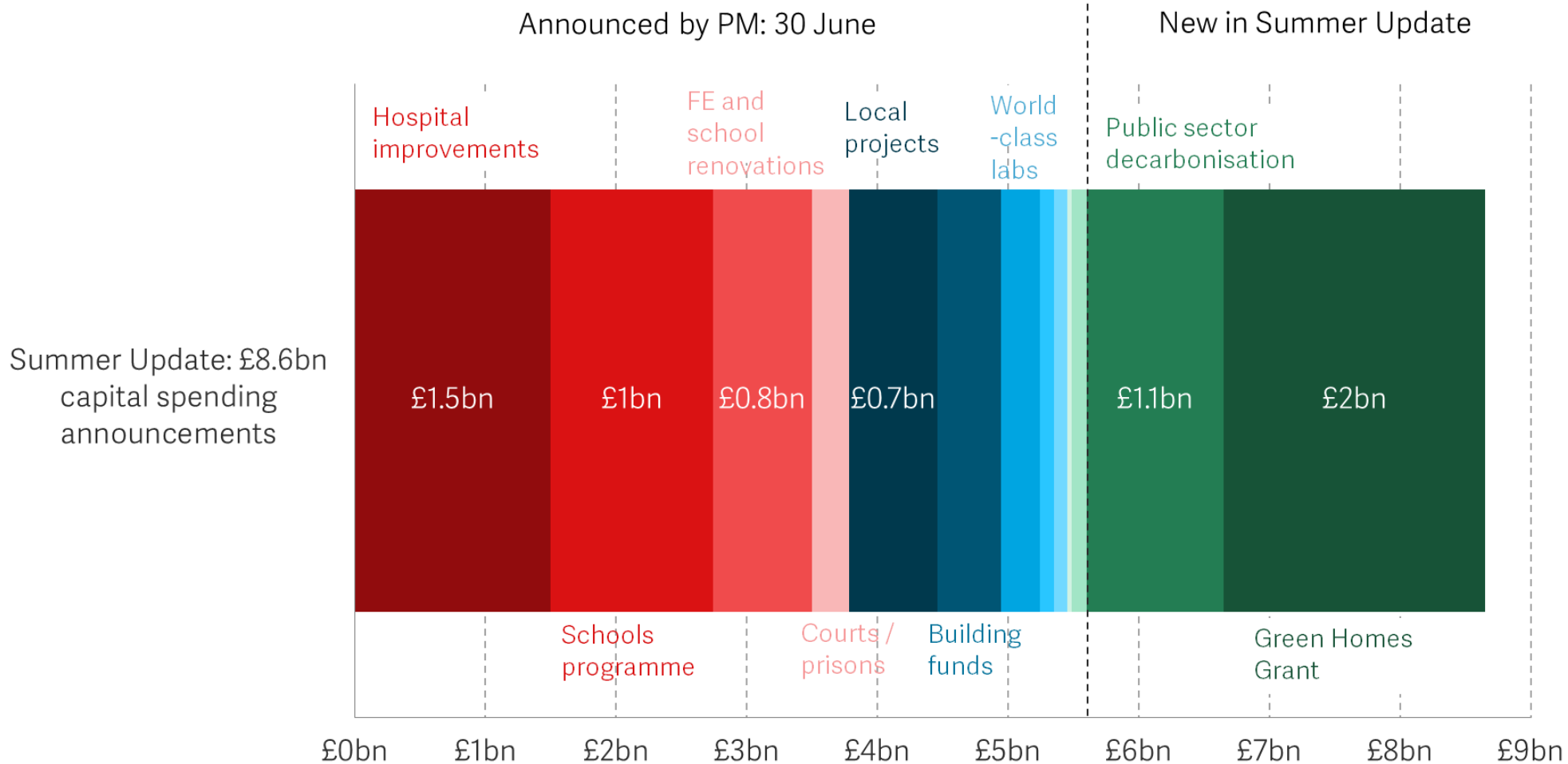


- Summer Update has announced £8.6bn of spending brought forward to 2020-21, but this is within the envelope announced at Budget 2020: it is not *new* spending.
- Public investment projects include:
  - **£5.6 billion announced by the PM** on 30 June (now updated to include e.g. a £300 million investment in 'world class laboratories')
  - **£2 billion Green Homes Grant** (details below)
  - **£1 billion for the Public Sector Decarbonisation Scheme** (plus £50 million demonstrator project to decarbonise social housing)

# Investment: £8.6bn of accelerated, but not new capital spending.



Capital spending commitments brought forward to 2020-21: £ billion



Welcome prioritisation of social / green investment – around 80% of accelerated spending.

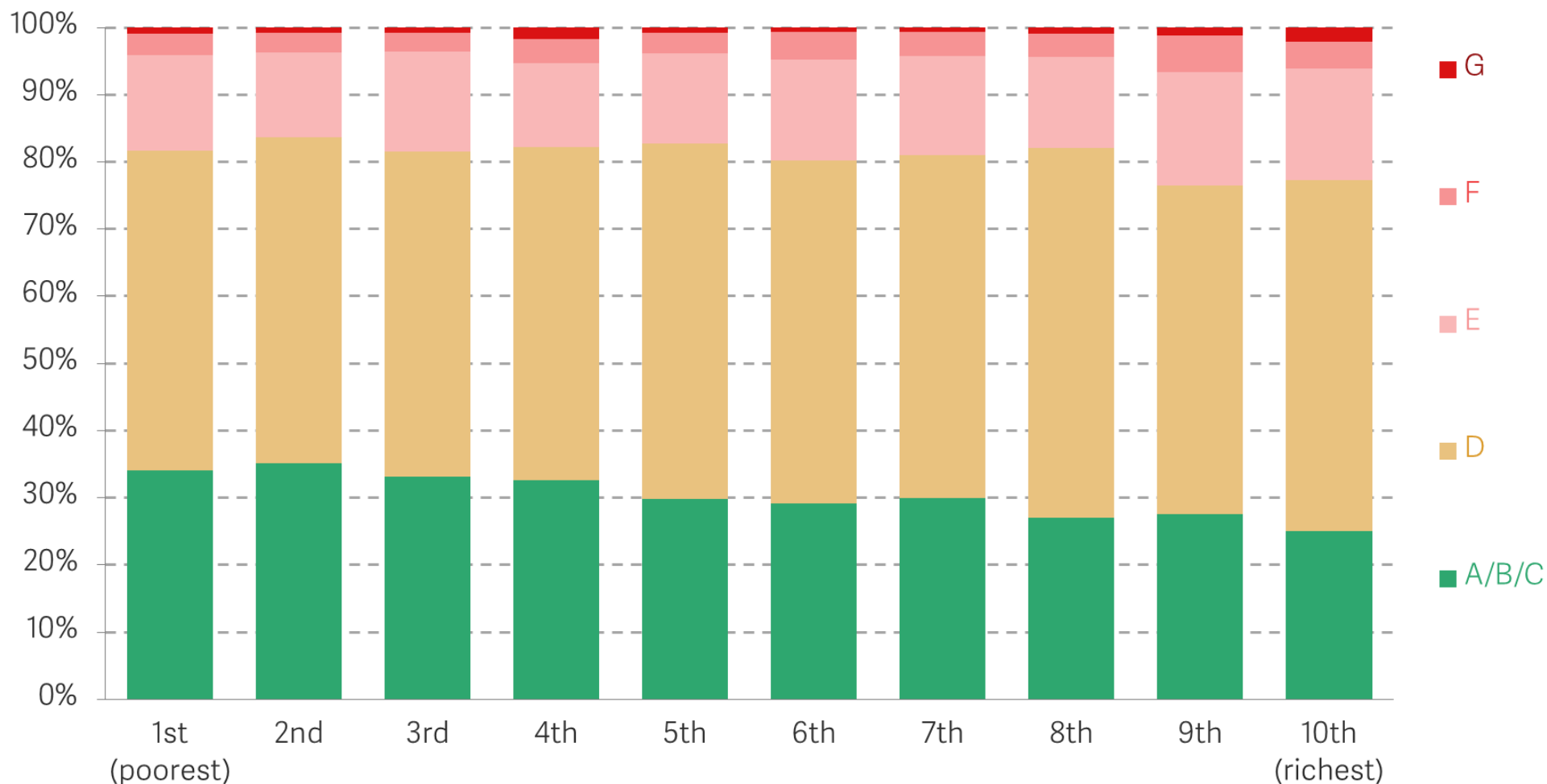
Challenge will be how much of the planned spending can be realised in 2020-21.

Notes: 'Local projects' refers to the 'shovel ready projects' for 2020-21 and 2021-22 described in the PM's announcement, assuming around three quarters are completed in 2020-21, 'Building funds' includes approximations of 2020-21 allocation of Short-Term Home Building Fund extension and Brownfield Housing Fund. 'Schools programme' currently costed at 'over £1 billion', and is shown above as the residual to £5.6 billion taking into account the other projects announced. Source: HM Treasury, Plan for Jobs, July 2020.

# £2bn Green Homes Grant is a big boon for those affected, but should rightly be considered a “down payment”



Breakdown of EPC rating for homes in England, 2017, by household income decile



Aims to upgrade over 600,000 homes by March 2021

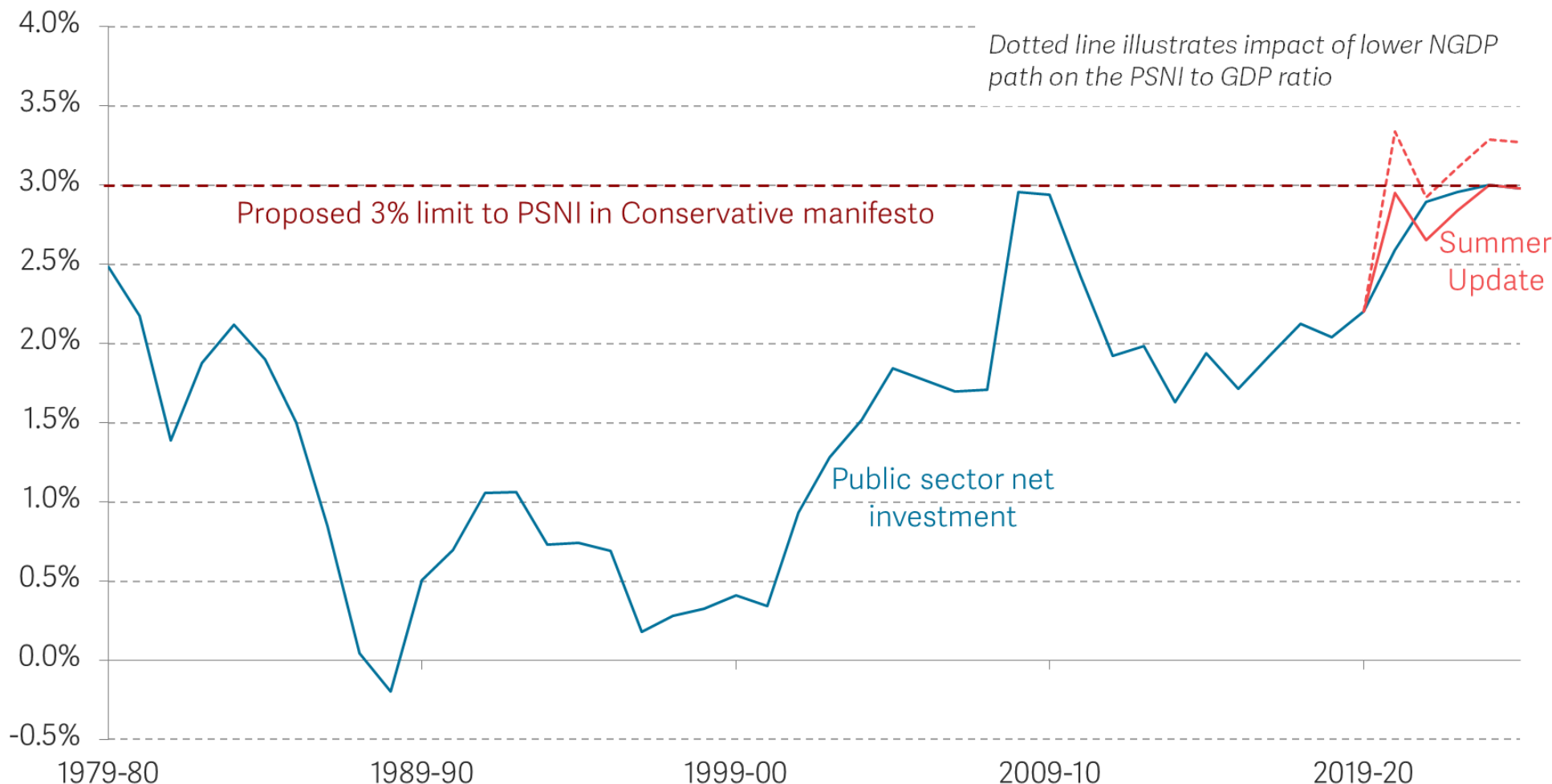
Worth up to £10,000 for “those on the lowest incomes” – but criteria still to be confirmed

Further action needed as there are ~16 million D-G rated homes in England. Social rented properties tend to have better EPC ratings

# Public sector net investment set to rise to 3% of GDP in this year, and far higher taking into account falls in nominal GDP.



Public sector net investment, as a proportion of GDP: outturn and Budget 2020, SU forecasts



PSNI is set to hit the limit of 3 per cent set out in the Conservative manifesto in this year.

However, given GDP will fall, this ratio could rise far higher.

Notes: Path of PSNI assumes two thirds of spending brought forward is removed from 2021-22, with the final third from 2022-23 Dotted line illustrates the same nominal PSNI figures, but as a proportion of the lower NGDP path as modelled under the 'Government Exit Strategy' scenario in 'Easing Does It', Resolution Foundation, July 2020.  
Source: RF analysis of OBR, Economic and fiscal outlook, May 2020; HM Treasury, Plan for Jobs, July 2020.

A targeted approach to stimulate spending in (some) hard-hit sectors

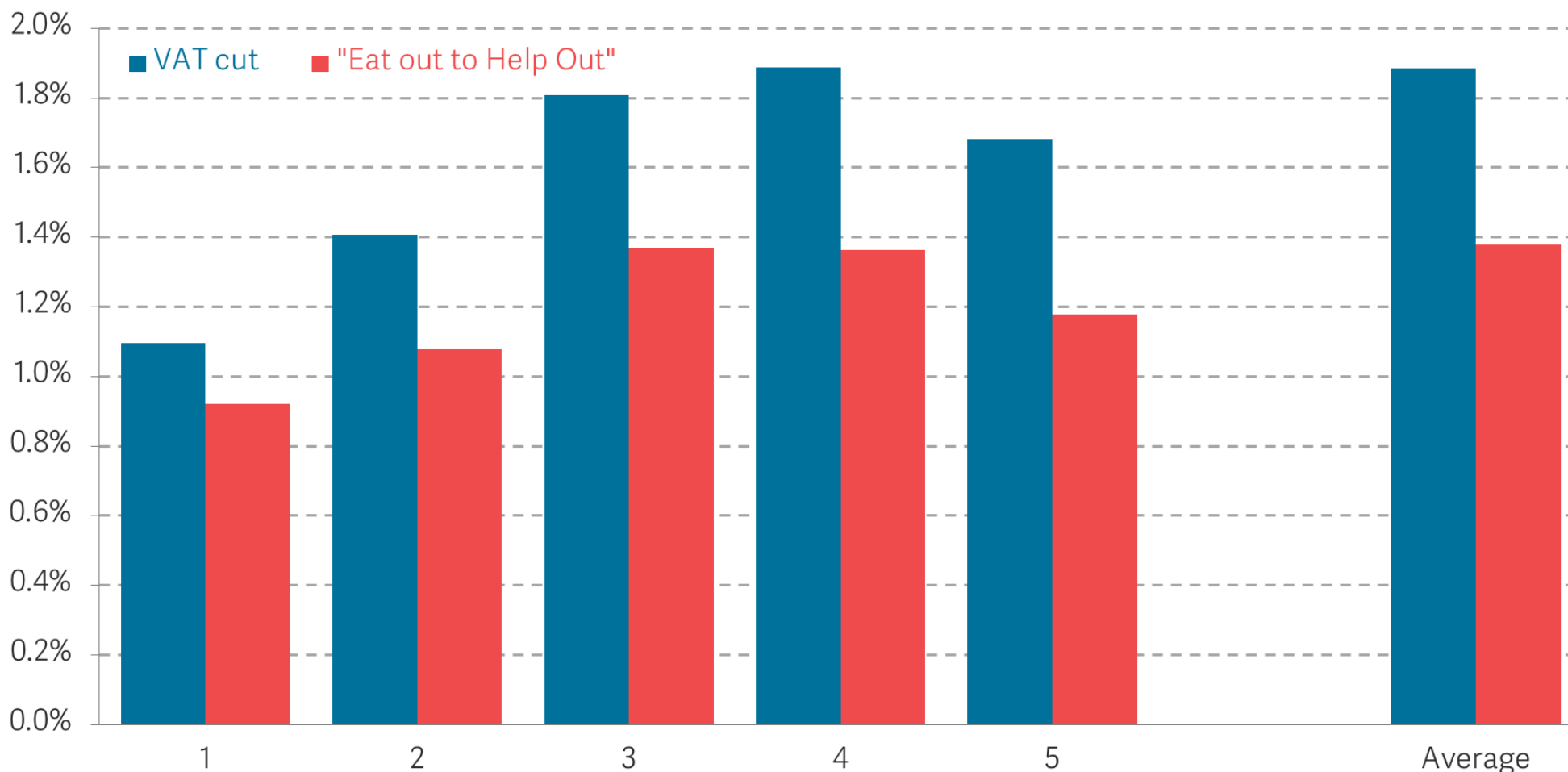
## Policies to boost consumption have welcome sector specific focus



- Focus on hardest-hit sectors is crucial given exceptionally sectorally-concentrated crisis impact. 60 per cent of hospitality workers have been furloughed vs 6 per cent in finance.
- Eat Out scheme offers 50% discount (up to £10/head) on a meal on Mondays through to Wednesdays during August. It is welcome that HMT considering novel policies, but scheme is too small (£0.5bn) to have a significant impact.
- Much more important is a temporary VAT cut from 20 to 5 per cent for most eating out, accommodation and attractions from 15 July 2020 to 12 January 2021.
- Significant gaps in sectoral targeting include non-food bricks-and-mortar retail.

# IF passed on, VAT cut and Eat Out vouchers give small benefit skewed to middle- and high-spending households

Average saving from stimulus measures as a percentage of normal expenditure over policy period, by expenditure decile



Measures aim to stimulate demand: we make no assessment of the scale of such changes. Estimated impact based on pre-Covid spending pattern.



A welcome focus on jobs, jobs, jobs  
but tougher times lie ahead

# Major action on youth unemployment, but Chancellor is taking a gamble with little to step in as Retention Scheme is phased out



- £1,000 Job Retention Bonus for firms employing furloughed workers in January largely equates to a (much less generous) extension of JRS.
- Low level and temporary nature means it is unlikely to have a major impact on unemployment, but will provide grants to some hard-hit firms.
- HMT hope Kickstart scheme will fund over 300,000 temporary jobs for young people. But creating that many jobs will be a huge delivery challenge.
- Apprenticeship bonus will provide employers with a £2k bonus for hiring new apprentices under age 25, and £1.5k for new hire apprentices over 25, but is unlikely to see huge uptake.
- Very welcome boost to Jobcentre staff numbers will see them return to 2013 levels.

# The Job Retention Bonus effectively extends the Job Retention Scheme, but with a much more limited subsidy



Job Retention Bonus and Job Retention Scheme as proportions of employer's gross wage costs



The median annual wage of a furloughed worker is £16,000. For this worker's employer, the JRS covers **82/73/64/55 per cent** of wage costs in July/Aug/Sep/Oct etc, and the JRB covers only **21 per cent**.

Notes: Gross wage costs include gross pay, employer National Insurance contribution and minimum employer auto-enrolment pension contribution. Employers receive a £1,000 bonus if a previously furloughed employee works between November and January and paid at least £520 per month.

Source: RF calculations, using Understanding Society coronavirus sample data from April 2020 for case-study on right.

# The JRB will have significant deadweight: most participants would have been brought back anyway

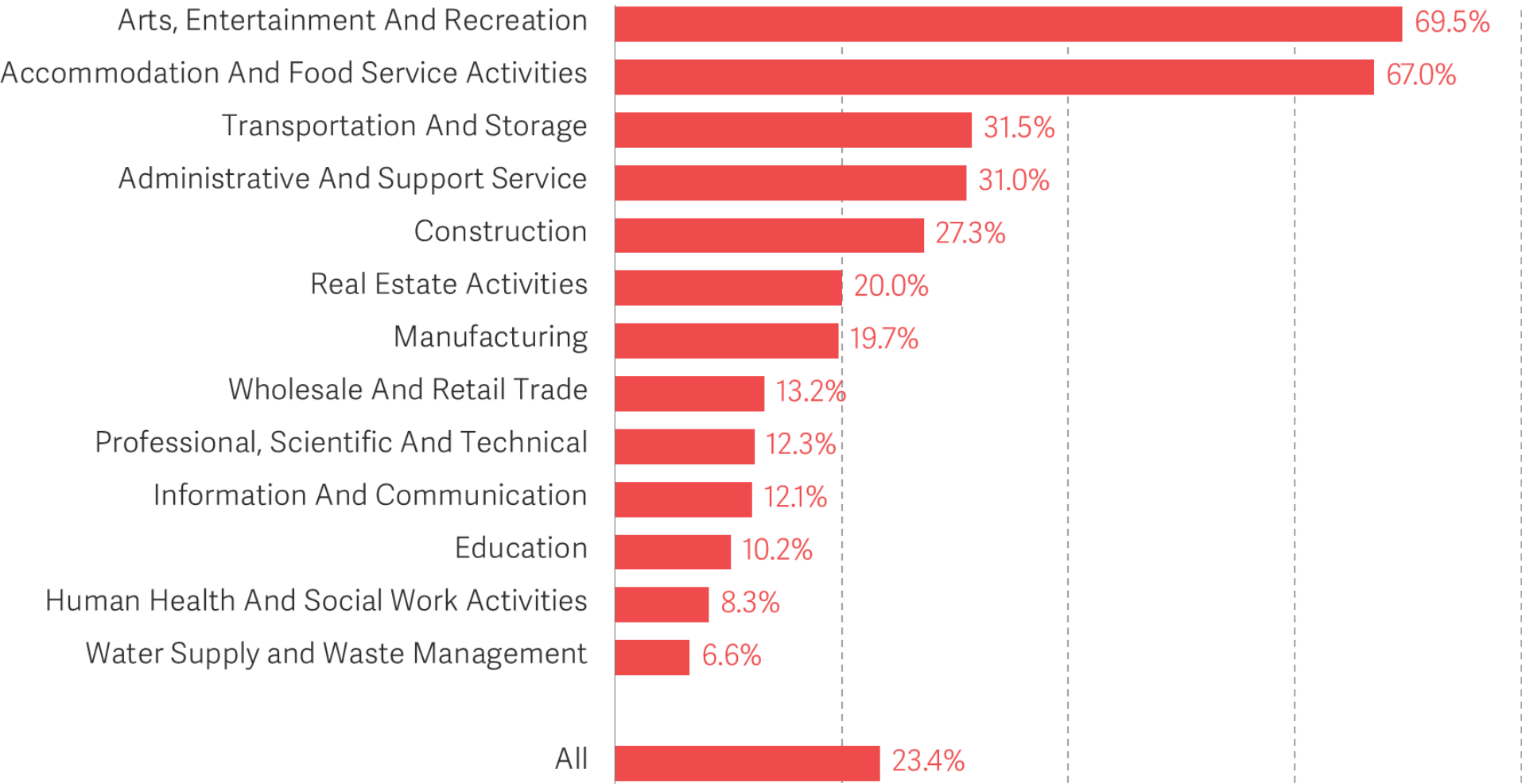


- There are very significant uncertainties about the number of redundancies that will follow as the JRS is phased out over the next few months.
- A recent employer survey suggested that employers planned to make around 1 million furloughed workers redundant as the JRS ends.
- With 9.4 million furloughed workers all potentially entitling their employer to a JRB, the deadweight in the scheme will be large
- Scale and temporary nature of bonus means JRB won't have a major impact on employment, although it will create an incentive to retain a furloughed employee over one not furloughed during lockdown.

# JRB payments will be bigger for firms hardest hit by lockdown, but not those still struggling in the autumn



Proportion of workforce furloughed, by industry: UK, 1-14 June



Scheme will, benefit firms who were heavy users of the JRS but are able to reopen at scale. Scheme may be best thought of as a grant to these firms, who will not all be in the hardest hit sectors

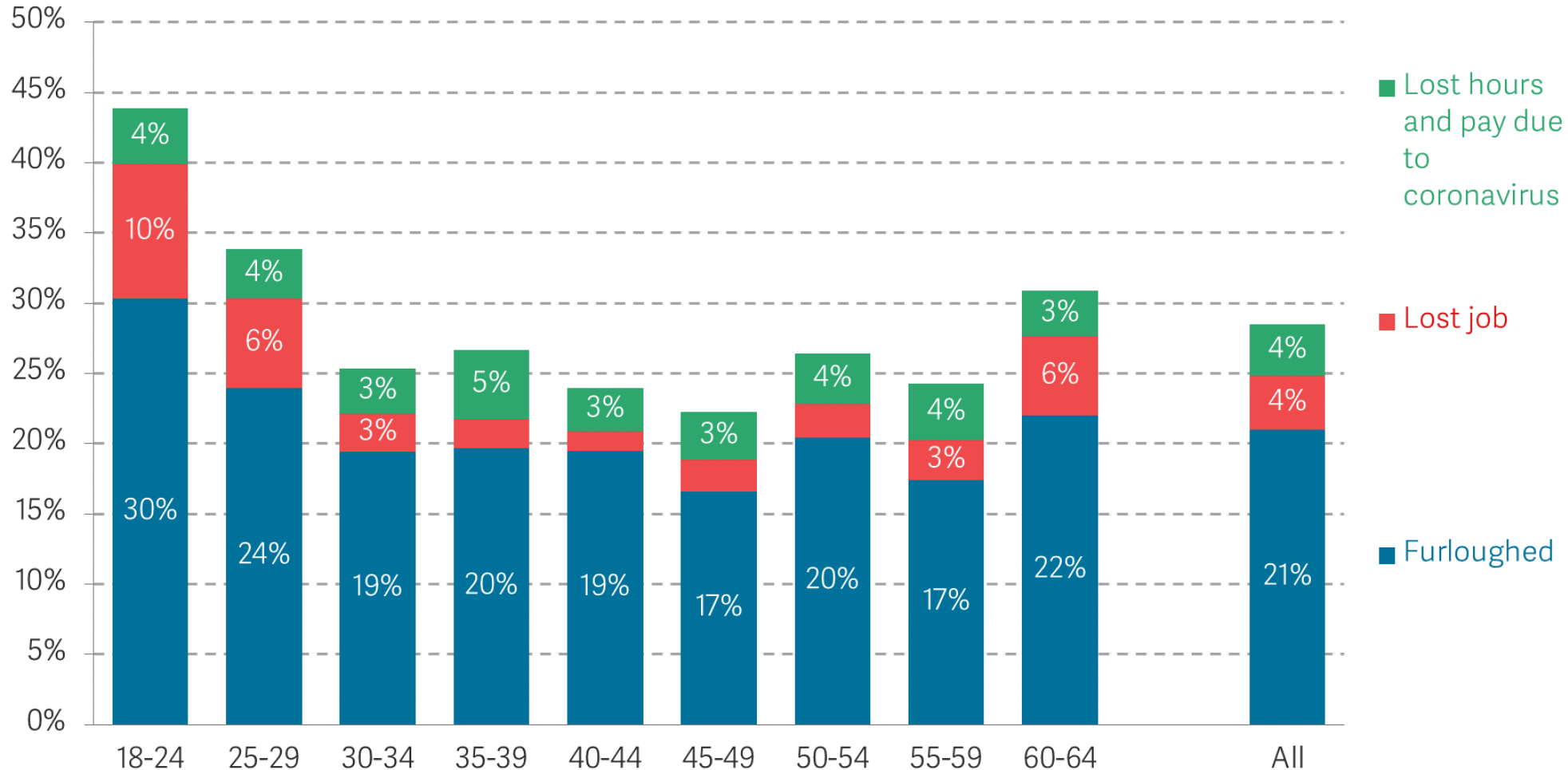
# The Kickstart Scheme: a welcome move to create jobs for young people



- Up to **£2.1bn** in funding to create jobs for 16-24-year-olds that last **25 hours a week** for **6 months** and are paid at the relevant **National Minimum Wage (NMW)**, which employers can top up.
- Government will cover: **NMW + pension costs and National Insurance Contributions and overhead**: Chancellor announced £6,500 cost for a 21-24-year-old.
- Total number of jobs will vary according to age of participants (i.e. relevant NMW rate): *assuming all are age 21-24*, £2.1bn equates to **324k new jobs**.
- Policy is almost an exact replica of the Future Jobs Fund used in the financial crisis, and welcome given that young workers have been hit hardest so far (see next slide).
- Government is rightly committed to **ensuring jobs are additional** (i.e. to ensuring Kickstart Jobs do not replace those of other lower-paid workers).
- Scale of job creation will be a major delivery challenge, requiring many of these jobs to be created by local authorities, rather than private companies.

# Focus on young reflects that that have been hardest-hit so far

Proportion of employees who have experienced job changes since the coronavirus outbreak, by age group: UK, April 2020



In April 30 per cent of 18-24-year-olds reported having been furloughed, and a further 10 per cent reported having lost their job

Notes: Base = all UK adults aged 18-65 who had an employee job prior to the coronavirus outbreak. 'Furloughed' and 'lost job' relate to employees' main job; 'lost hours and pay due to coronavirus' captures employees not in either of these first two groups who are working fewer hours than their usual hours before the coronavirus outbreak, which they state has happened for coronavirus-related reasons, and who have also experienced decreases in earnings.  
Source: RF analysis of ISER, Understanding Society.

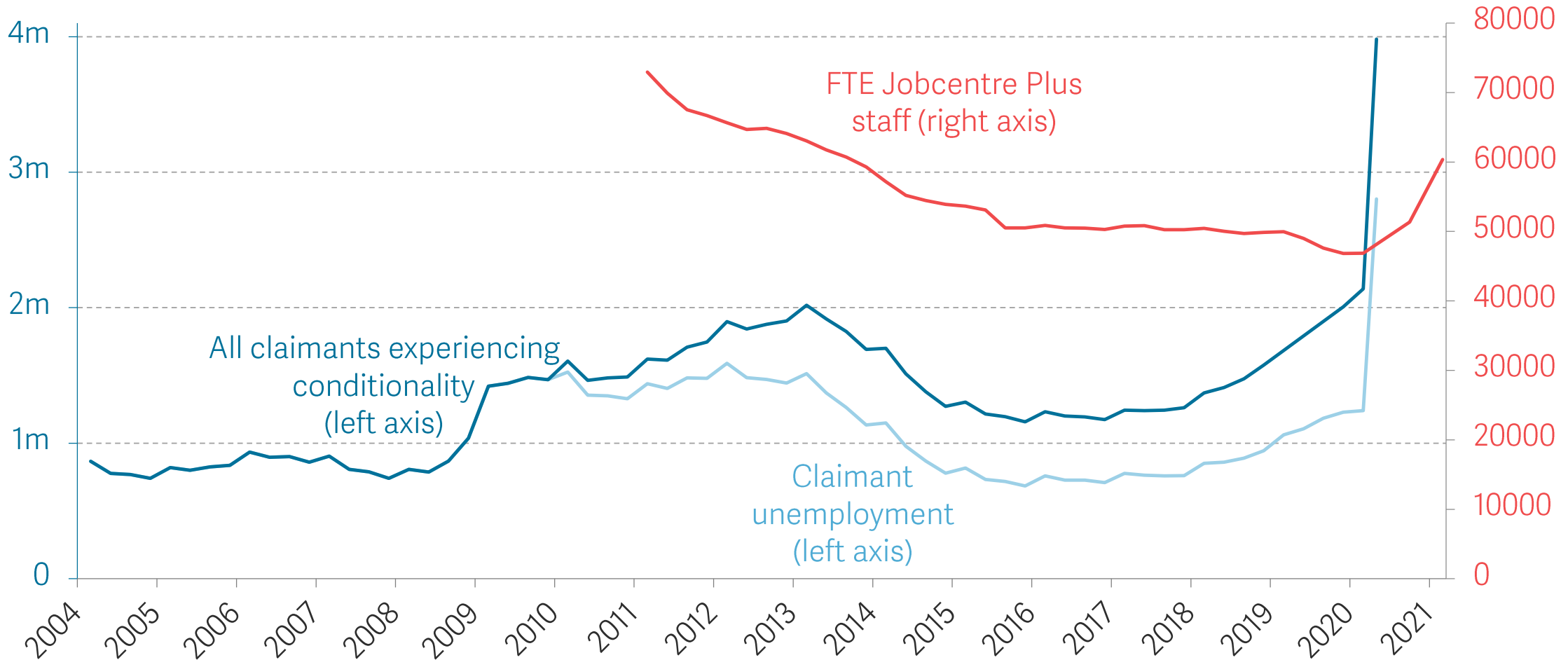
# 13,500 more work coaches takes Jobcentre staff back to 2013 levels



JCP-administered benefit claimant numbers and JCP staff numbers: GB

Claimant numbers

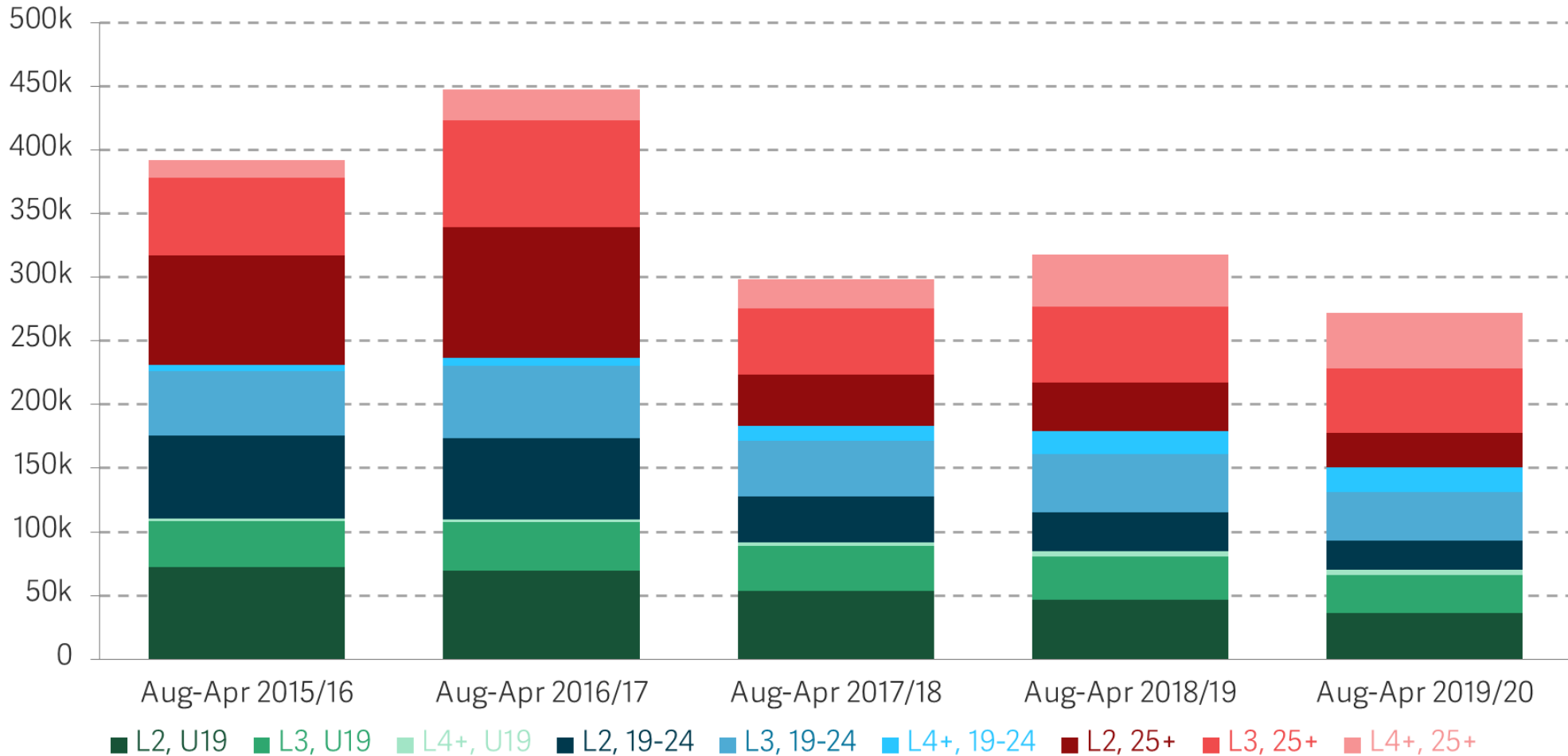
JCP staff numbers





# An apprenticeships bonus – will it be enough?

Apprenticeship starts by age and level: England

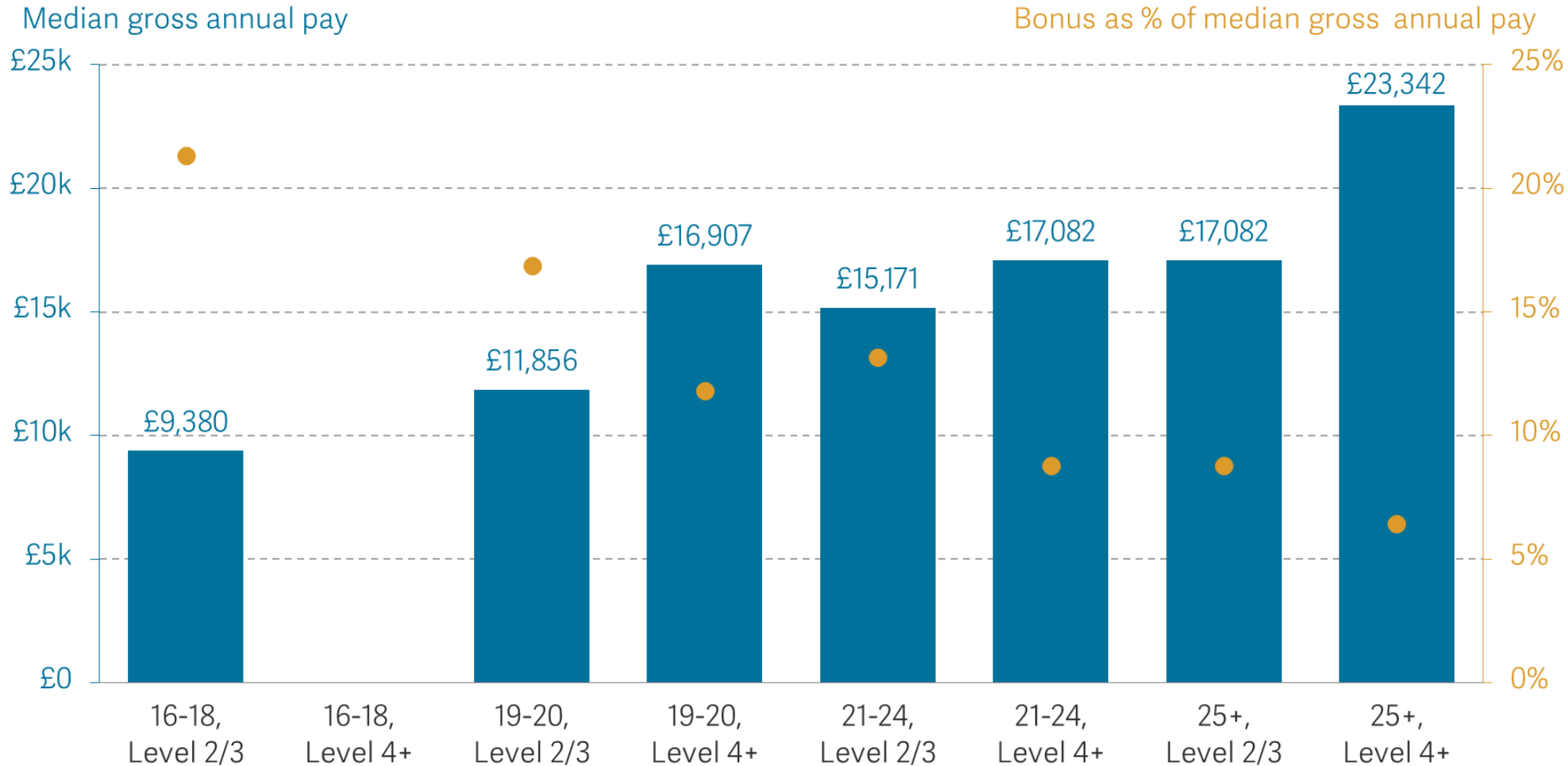


This is a welcome focus given apprenticeship vacancies (outside of degree level) have sharply fallen since the crisis began.

But there are serious questions about impact, with starts among under 19s having fallen despite a £1k bonus from 2017

# An apprenticeships bonus – will it be enough?

Median annual pay by apprentice age and level, and proportion covered by apprentice bonus:  
England, 2018/19



The bonuses equate to 21 per cent of median annual gross pay for Level 2/3 apprentices age 16-18, and just 9 per cent of those age 25+.

## Traineeships: welcome expansion to a small programme

- £111m new spending aims to triple the number of traineeships and widen eligibility to 16-24-year-olds with Level 3 (A level-equivalent) qualifications.
- Traineeships are unpaid, work placements lasting between six weeks and six months that include training and classroom-based English & maths.
- 80 per cent of trainees successfully completed their programme in 2018/19 and one-in-four 'convert' to an apprenticeship.
- Relative to apprenticeships, traineeships have traditionally covered a larger proportion of young people with learning difficulties: 22 per cent of trainees and 11 per cent of apprentices.
- But while their expansion is welcome, there are very few traineeships in existence: during 2018/19 there were just 14,900 traineeship starts. Tripling that would equate to 45,000.
- This is a welcome move but should be considered against the 771,000 16-24-year-olds already NEET during Jan-March 2020.

Stamp duty has been (as always) cut

# All Chancellors reach for stamp duty cuts in recessions. This one is big, and will largely benefit those in the South of England



- The Chancellor announced the first £500k of residential property purchases will be Stamp Duty-exempt for the next 9 months.
- A stamp duty holiday of this size and length is a significant (£3.8bn) revenue giveaway – bigger and longer lasting than that seen in the financial crisis.
- Main beneficiaries (split between buyers with lower stamp duty bills and sellers able to achieve higher prices) will be in London and the South of England
- This is about getting transactions going, not helping first-time buyers (London is the only region in which an average first time buyer would benefit).

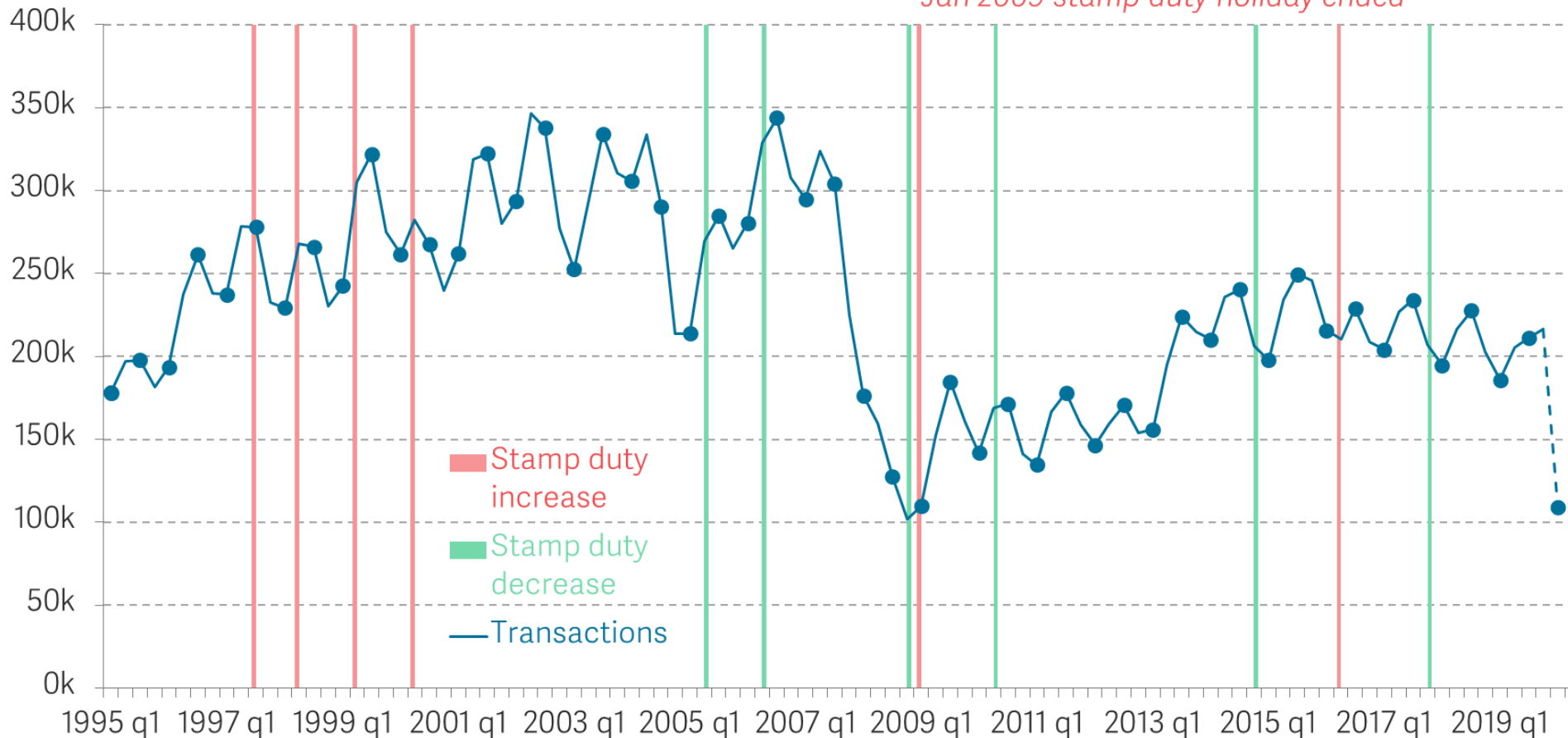
# It's understandable the Government is responding to a housing market seriously in the doldrums



Residential housing transactions (2-quarter rolling average) and historical stamp duty changes: England

*Sept 2008 stamp duty holiday up to £175k*

*Jan 2009 stamp duty holiday ended*



Residential sales have fallen off a cliff since the pandemic took hold.

Transactions volumes are not very sensitive to stamp duty changes historically, although this holiday is more extensive both in scale and length than that of 2008.

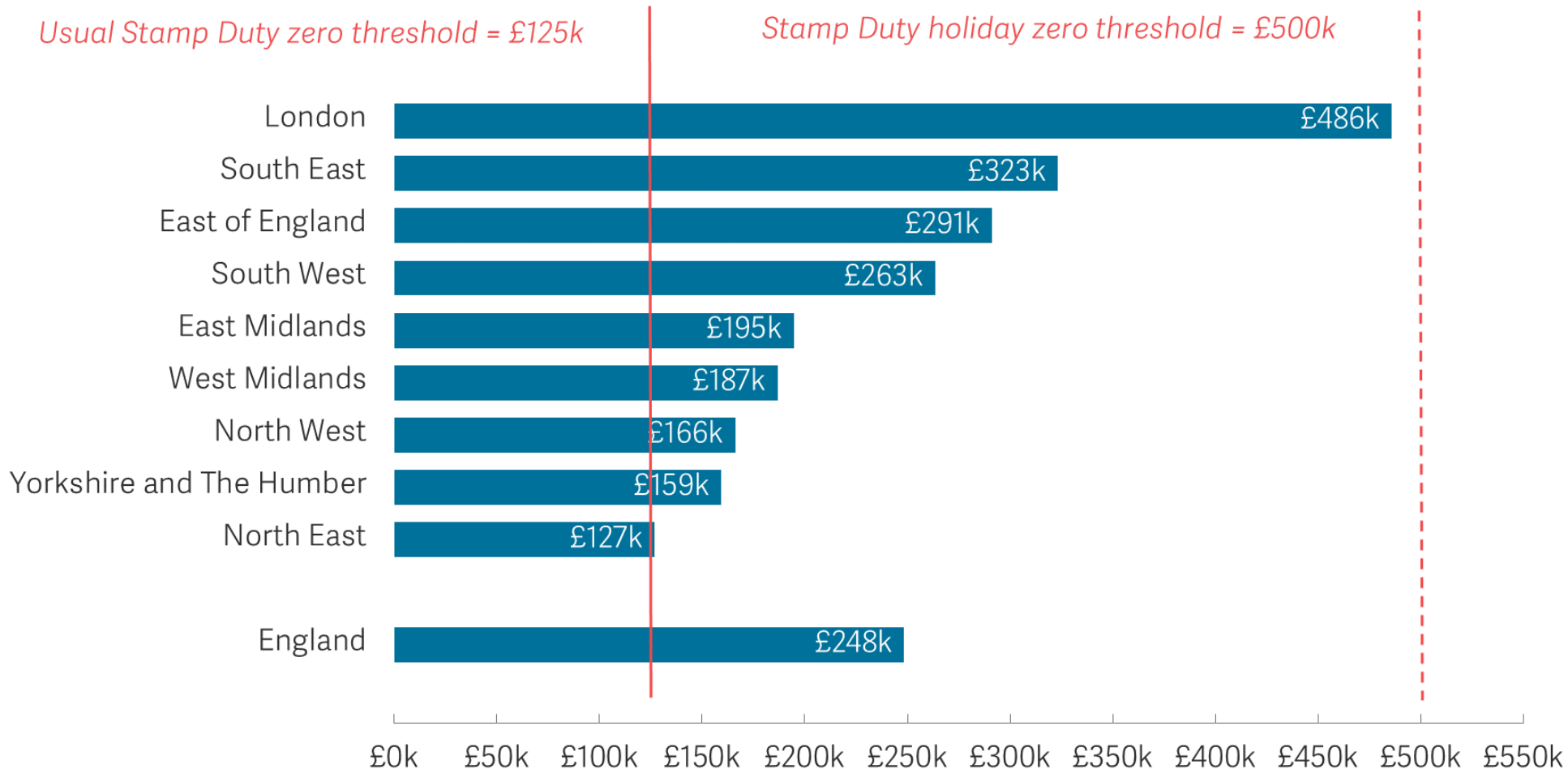
Notes: 2020q1 and q2 transactions levels estimated from data published in HMRC, Monthly property transactions completed in the UK with value of £40,000 or above, June 2020.

Source: ONS, UK House Price Index March 2020.

# The main beneficiaries will be in London and the south of England



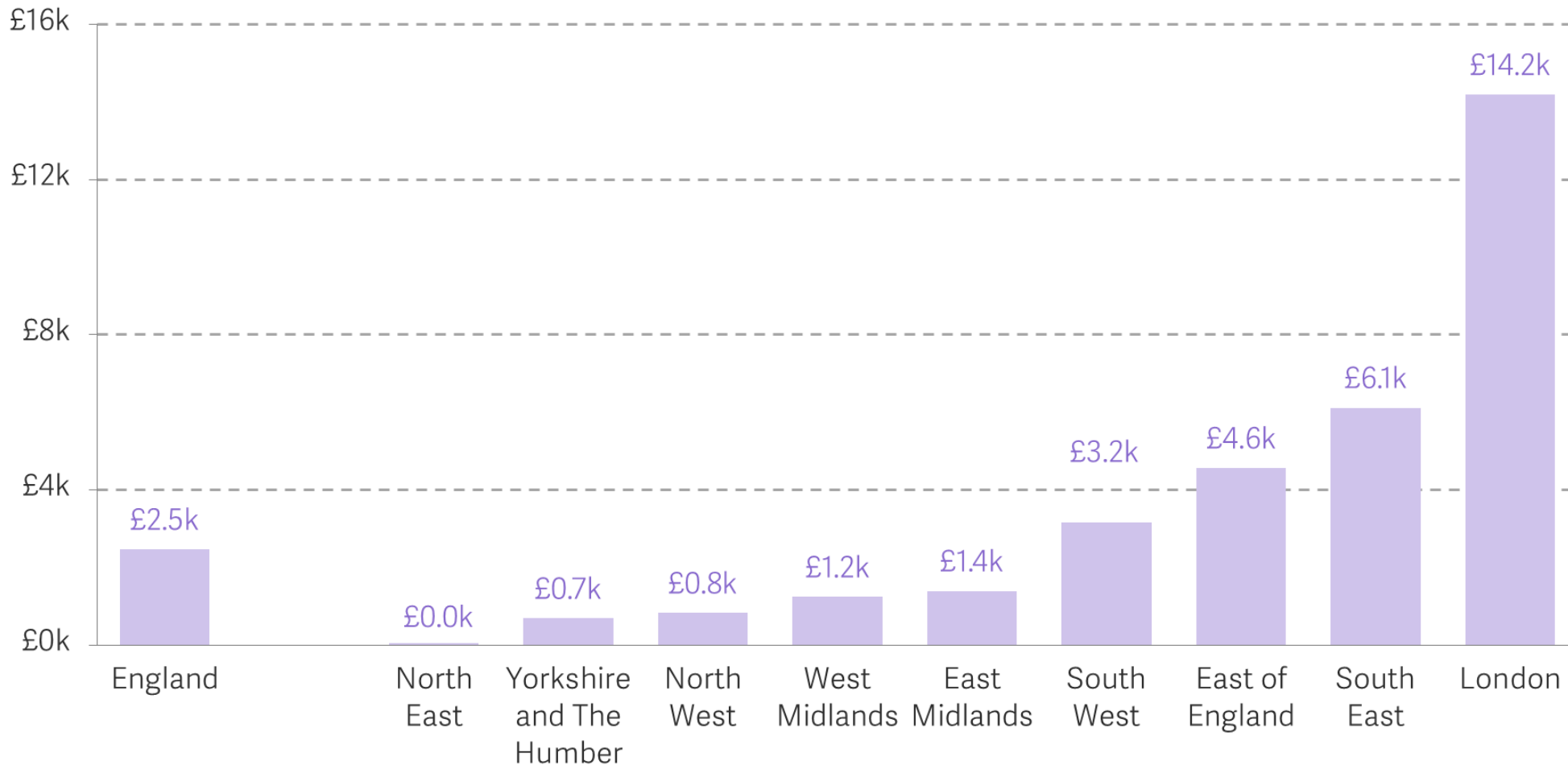
Average house price in January 2020 by region, and stamp duty zero thresholds: England



# Cash savings for those buying in the capital could be considerable, but are much more modest elsewhere in the country



Saving for average non-first time buyer as a result of stamp duty holiday, by region: England



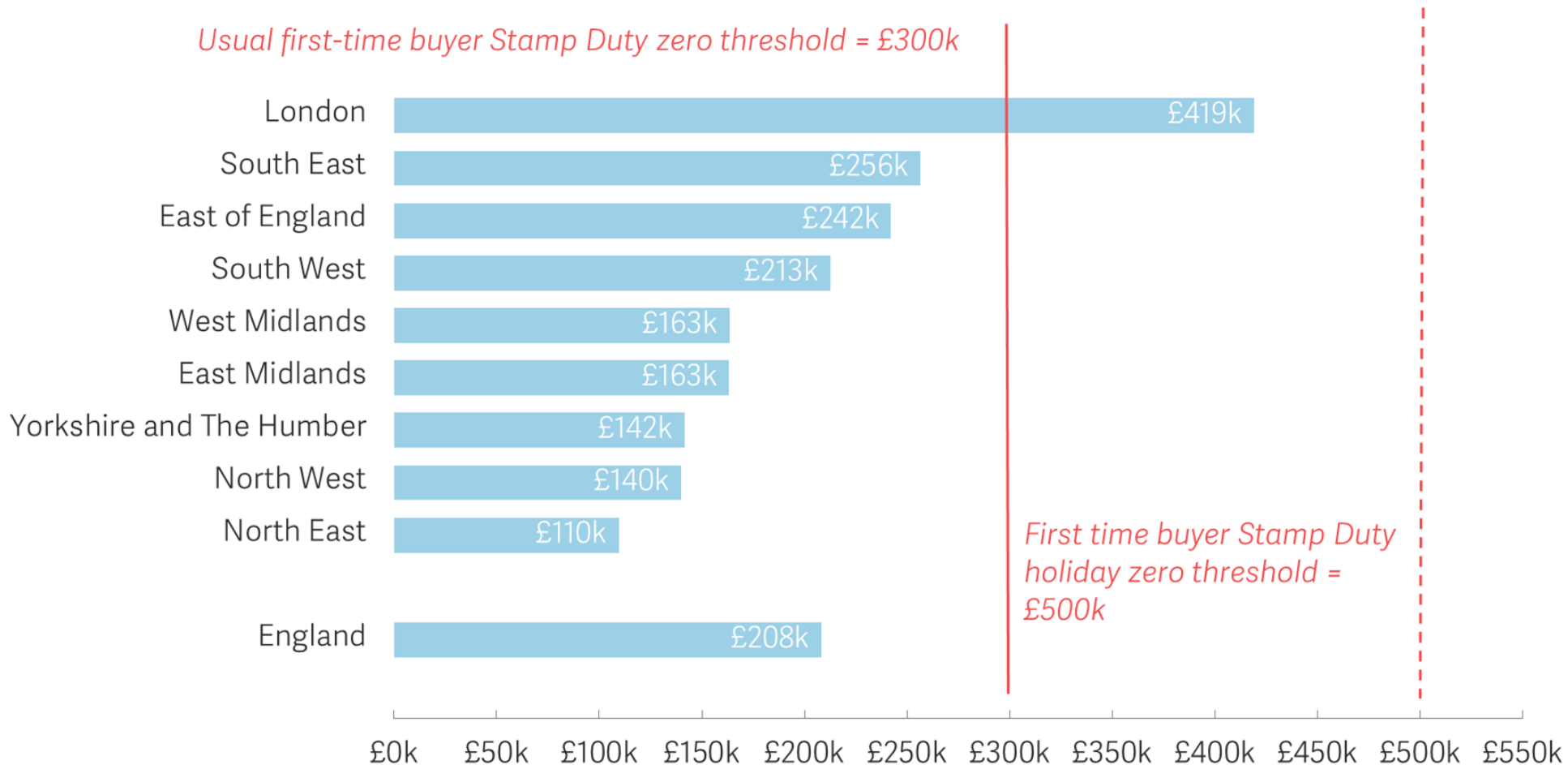
A non-first time buyer purchasing a home at the average English house price will save £2,500 as a result of the Stamp Duty holiday. But the average buyer in the North East will see no gain, while in London they would be more than £14k better off.



# Few first-time buyers will benefit, and they lose their privileged tax position over other house purchasers



Average first time buyer house price in January 2020 by region, and stamp duty zero thresholds: England



The Chancellor's threshold increase has (temporarily) removed one of the few advantages young people had in the housing market.

And in cash terms there is little gain: with London being the only region where the average FTB will benefit (by £6k)

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