

# North East Covid-19

Economic Response Group

## COVID-19 Intelligence

December 2020 update



on behalf of business:



on behalf of regional universities:



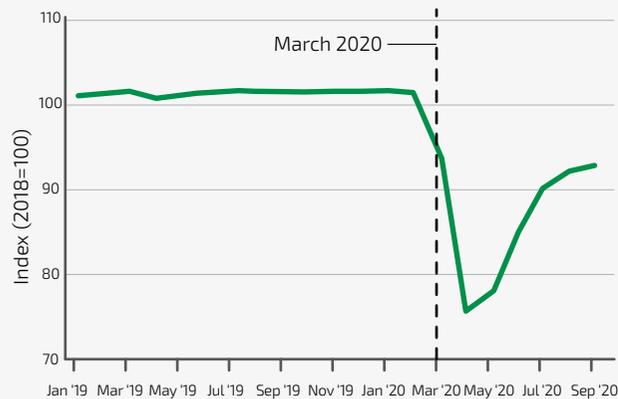
This report forms part of our ongoing monitoring of the immediate and longer term impacts of the COVID-19 pandemic in the North East. It aims to consolidate and update information from a range of available key indicators and intelligence sources.

A copy of the full report is available from the North East LEP from Richard Baker ([richard.baker@nelep.co.uk](mailto:richard.baker@nelep.co.uk)) or Emma Ward ([emma.ward@nelep.co.uk](mailto:emma.ward@nelep.co.uk)).

# Headline findings

## Economic activity

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

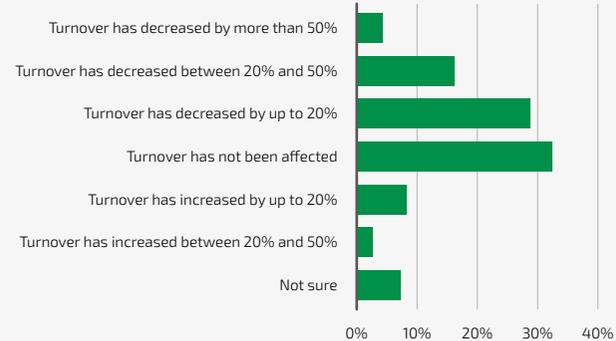


While the economy has begun to recover from the immediate impacts of COVID-19, the rate of recovery is slowing.

Source: ONS GDP monthly estimate, UK: September 2020

## Business activity

Impact of COVID-19 on turnover, North East region (Wave 16: 5 October to 18 October 2020)

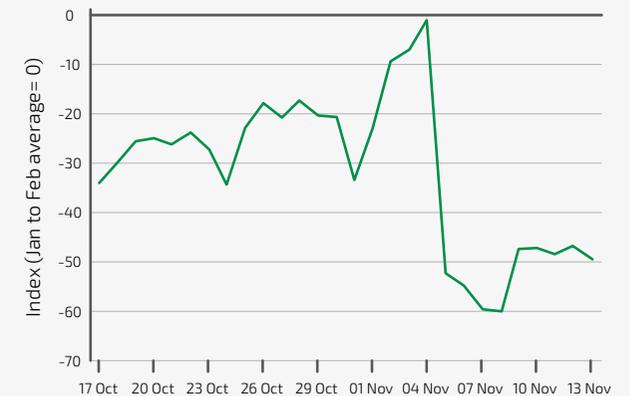


When compared to turnover levels normally expected at this time of year, turnover was reported as being lower for approximately half of businesses (49%) in the North East region (including North East and Tees Valley LEPs) in early October.

Source: ONS Business Impact of COVID-19 Survey

## Footfall and visits to retail and recreation locations

Daily visits (indexed), North East LEP, four weeks to 13 November 2020



At the beginning of the second national lockdown, visits to retail and recreation locations fell to around half of average levels in January and early February.

The impact of the latest national lockdown is demonstrated by the fact that visits to retail and recreation locations fell by over 50% between 4 and 5 November.

Also, the announcement of the lockdown led to a spike in visits.

Source: Google Community Mobility Reports

## Redundancies

UK redundancies, July to September 2005 to July to September 2020



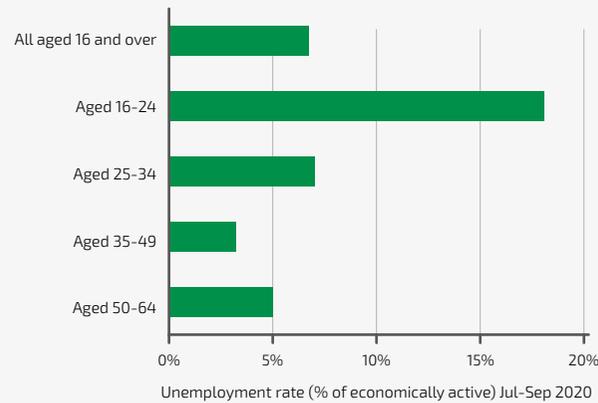
Across the UK, redundancy affected 314,000 people in the three months prior to interview in the July to September 2020 period. This is the highest quarterly increase on record and the number of redundancies now exceeds the level seen following the 2007/08 global financial crisis.

In the North East region, redundancy had affected about 15,000 people in the three months prior to interview in the July to September 2020 period. This was three times the total in the same period of 2019 and represented about 1.4 per cent of all employees, the highest rate since early 2009.

Source: ONS Labour market overview, UK: November 2020/September 2020

## Unemployment

Unemployment rate by age, North East region, July to September 2020



Unemployment in the North East region (including North East and Tees Valley LEP areas) increased by 15,600 people between Q2 and Q3 2020. The unemployment rate is highest among young people.

Source: ONS Unemployment by age

## Recruitment demand

Number of jobs advertised on the Adzuna website (indexed), North East region, week ending 3 January to week ending 30 October 2020



In the last week of October, vacancy levels in the North East region (including North East and Tees Valley LEP areas) were growing, but were at at 88% of the 2019 average.

Source: ONS analysis of Adzuna website data

# Key data

## Economic output

The UK was officially in a recession following two consecutive quarters of negative growth in Q1 and Q2 2020. Around a quarter of GDP was lost in Q2 2020.

Since then, the economy has begun to recover, expanding by 15.5% in Q3 2020, the fastest quarterly growth on record.

However, monthly data shows that the rate of recovery is slowing.

Output of private sector businesses in the North East region (including North East and Tees Valley LEP areas) continues to improve month on month, but the pace of growth is slowing.

Monthly growth in new orders is also continuing, but has also slowed as lockdown restrictions curbed overall growth.

The NatWest Regional PMI report indicates that the North East region's businesses continue to expect an upturn in demand over the next 12 months, but confidence levels are at their weakest in six months, and below the UK-wide average.

The OBR indicate that the pace of economic recovery remains uncertain, dependent on the extent to which the spread of COVID-19 can be controlled (including through the widespread availability of a vaccine), and the extent to which ongoing local or national restrictions are imposed.

The OBR also posit that the effectiveness of policy measures to mitigate the impacts of the pandemic (such as the protect viable businesses, foster new opportunities and sustain employment) is also a key determinant of economic recovery.

Forecasters continue to expect a gradual recovery in late 2020 and into 2021 and beyond; several scenarios suggest GDP will not return to pre-COVID-19 levels until 2023.



## Business activity and confidence

Compared to levels expected at this time of year, turnover was lower than usual for 49% of businesses in the North East region (including North East and Tees Valley LEPs) in early October, compared with 44% in England.

In addition, compared to levels expected at this time of year, profits were lower than usual for a similar proportion of the North East region's businesses (47%, compared with 42% in England).

**More than a quarter of exporters in the North East region (29%) were exporting less than normal, compared with 33% across England.**

Almost a quarter of importers were importing less than normal (23%, compared with 27% in England).

Stock levels were lower than normal in 13% of the North East region's businesses (compared to 14% in England).

6% of the North East region's businesses had no cash reserves or less than a month's cash reserves; a further 15% had cash reserves of only one to three months (compared to 6% and 20% respectively in England).

While 69% of the North East region's businesses had high confidence that their business would survive the following three months, 2.3% had low confidence in their survival (compared to 62% and 3.3% respectively in England).

## Business support

Many businesses are very concerned about an extension to the current lockdown, especially if this happens at short notice, as it will hit the crucial Christmas trading and tourism period.

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

Employers have welcomed the extension of the Coronavirus Jobs Retention Scheme and the increase in the amount payable through the Self Employment Income Support Scheme.

Support agencies continue to receive enquiries from businesses excluded from support schemes with pleas that they are not overlooked again (such as newly self-employed, home based businesses, directors paid through dividends and so on).

There is notable evidence of an increase in requests for business rates relief from manufacturing firms that are only using part of their buildings, suggesting downsizing or consolidation due to COVID-19 and EU Exit.

### Footfall and retail and recreation visits

Google's community mobility reports show that footfall and visits to retail and recreation locations reached some of their highest levels during August, which is the period when the Eat out to Help Out Scheme ran (3 August to 31 August). This suggests that the economy is very sensitive to controls, stimulus and messages.

On the three weekdays between the 31 October announcement of a second national set of restrictions and their introduction on 5 November, visits to retail and recreation locations (excluding supermarkets and pharmacies) increased to almost the same levels seen in January and early February.

On 5 and 6 November, visits to retail and recreation locations fell to less than half of average Thursday and Friday levels in January and early February.

The most recent data shows that levels increased marginally around 9 November and stabilised over subsequent days at around 50% of the January to February average.

During the week ending Friday 30 October, retail and recreation visits were higher than in previous weeks due to half-term holidays, although they were still only about 80% of their January and early February level.

The decrease in visits to retail and recreation locations on the first day of the new national restrictions was larger than any single day's decrease at the start of the first lockdown, but this is likely to reflect the earlier, gradual introduction of restrictions during March. Over two weeks in March, the index decreased by more than 80 percentage points

## Economic activity

The unemployment rate in the North East region (including North East and Tees Valley LEPs) rose by 1.3 percentage points between Q2 and Q3 2020, to 6.7%.

This was the highest unemployment rate among the English regions (England 4.8%).

In total, around 86,000 people were unemployed in the North East region in Q3 2020, up from around 71,000 in Q2.

The unemployment rate is highest among young people. 18.0% of 16 to 24 year olds in the North East region were unemployed in Q3 2020, compared with 7.1% of 25 to 34 year olds, 3.3% of 35 to 49 year olds and 5.0% of 50 to 64 year olds

Almost 6,000 fewer 16 to 24 year olds were in employment in the North East region in Q3 2020 than in Q2. Unemployment increased by a similar number, with little net change in economic inactivity (people who are out of work but not actively seeking a job, whether they want one or not).

The number of 25 to 34 year olds in employment in the North East region rose by around 5,600 between Q2 and Q3 2020, but unemployment also rose by around 6,400 as economic inactivity decreased.

Around 2,000 fewer 35 to 49 year olds in the North East region were in employment in Q3 2020 than in Q2. Unemployment and economic inactivity both increased by around 1,000 people.

The oldest age group (50 to 64 year olds) saw by far the largest net decrease in employment between Q2 and Q3 2020, of over 12,000 people. Unemployment in this age group increased by almost six times more than economic inactivity (9,700 compared with 1,700), suggesting older workers in the North East have been more likely to seek employment after a job loss than to leave the labour market.

The number of women in employment in the North East region fell by 1.4% between Q2 and Q3 2020, while the number of men in employment fell by 3.6%. The employment rate among women (70.4%) remains below the employment rate among men (72.6%).

### Claimant count

**Almost  
88,000  
people**

**Were claiming unemployment benefits in the North East LEP area in October 2020, over 33,000 more than in March. Most of the increase happened between March and April, with a further increase between April and May.**

Since May, the claimant count has been relatively unchanged. The October count is slightly below the August 2020 peak (almost 90,000 people) but it is not yet clear whether this reflects a long-term trend.

### Coronavirus Job Retention Scheme (CJRS)

Between the introduction of the CJRS and the end of July, 267,300 employments in the North East LEP area were furloughed at some point, a take-up rate of 32%.

**74,300  
employments**

**In the North East LEP area were still furloughed at the end of August, representing 9.0% of eligible employments (compared with 10.4% in England).**

51% of employments furloughed in the North East LEP area at the end of August were female workers.

As at the end of July, over half of employments furloughed in the North East region (including North East and Tees Valley LEPs) during the scheme were in wholesale and retail including the motor trade (19% of furloughed employments), accommodation and food services (18%) and manufacturing (14%).

CJRS take-up rates in the North East region at end July were highest in accommodation and food services (80% of eligible employments had been furloughed) and arts, entertainment and recreation services (76%).



### Self-Employment Income Support Scheme (SEISS)

Almost 55,000 self-employed workers in the North East LEP area made SEISS claims in the first tranche of the scheme, which ran from 13 May to 13 July.

Around 47,500 self-employed workers had made claims in the second tranche by the end of September (claims could be made from 17 August).

This represented, respectively, 77% and 67% of the eligible population (compared to 76% and 67% respectively in England).

About 30% of claimants in both tranches were in the construction sector. A further 20% were in transport and storage (including postal) or personal and membership services.

These three sectors, along with the smaller education self-employment sector, have had the highest SEISS take-up rates.

### Impacts on individuals

Across Great Britain, 37% of people who were working in the period 28 October to 1 November 2020 were working from home. 29% were not able to work from home.

The proportion of those working from home has risen from 27% at the end of August.

5% of workers had been furloughed in the past seven days, while 2% had been asked to return from furlough.

The proportion of workers who were furloughed in the past seven days was down from 29% at the end of March to 5% at the beginning of November.

## Redundancies

Across the UK, redundancy affected 314,000 people in the three months prior to interview in the July to September 2020 period. This is the highest quarterly increase on record and the number of redundancies now exceeds the level seen following the 2007/08 global financial crisis.

**15,000**  
people  
affected by  
redundancy

In the North East region, redundancy had affected about 15,000 people in the three months prior to interview in the July to September 2020 period. This was three times the total in the same period of 2019 and represented about 1.4 per cent of all employees, the highest rate since early 2009.

Nationally, the rates of redundancy are highest in hospitality, construction, arts, recreation and personal services sectors. The local impacts of potential job losses announced nationally in these and other sectors are uncertain.

Given their importance within the workforce in many of the most impacted sectors, women, young people and the BAME community may be disproportionately affected.

## Vacancies



**88%**  
vacancy  
levels

In the last week of October, vacancy levels in the North East region (including North East and Tees Valley LEP areas) were at 88% of the 2019 average. Across England as a whole, vacancy levels were at 69% of the 2019 average.

At their lowest point in mid May, vacancy levels in the North East region were at 37% of the 2019 average.

Nationally, vacancy levels were above the 2019 average in transport, logistics and warehousing; facilities and maintenance; domestic help; and health and social care.

Vacancy levels in legal, management, executive, HR and administrative services were less than half of the 2019 average.

The number of vacancies in catering and hospitality was only 30 per cent of the 2019 average.

Part-time and weekend vacancy levels were much higher than in 2019.



## Future employment scenarios

Significant uncertainty remains around future employment and unemployment prospects.

The extension of the Coronavirus Jobs Retention Scheme to March 2021 is likely to continue to help mitigate the negative impacts of the pandemic on employment during the winter months.

Job losses are expected to be concentrated in primarily consumer-facing sectors and their supply chains, including the hotel and restaurants sector, wholesale and retail trade, and the arts, entertainment and recreation sector.

Most forecasters expect economic recovery to pick up pace from Spring 2021, and this would be expected to lead to a concomitant recovery in labour demand (though this may not be even across all sectors).

PWC's July 2020 Economic Update noted that as well as short-term shifts in labour demand, the COVID-19 pandemic is also accelerating long-term changes such as automation; occupations at highest risk include machine operators, clerical workers and craft and related trade workers, as well as – more generally – workers in jobs which require lower skill levels.

Sectors such as health and social care, and pharmaceuticals and life sciences are expected to grow in importance, including the need for skilled healthcare workers and researchers.

Science, Technology, Engineering and Mathematics (STEM) jobs are likely to continue to be in demand to drive productivity gains in the economy and support the “levelling up” agenda.

The pandemic has placed greater emphasis on green growth and the Net Zero agenda, and there is likely to be increased demand for workers in the low carbon economy.

Digital skills and transferable skills such as creativity, critical thinking, interpersonal communication skills and leadership skills are also likely to become more important as technology advances.

## Sectors, local authorities, and place intelligence

In preparing the report for this period, there has not been a full assessment of the impacts on all sectors, local authorities and places because detailed consultations have not been undertaken. Instead, a brief update on the latest situation has been provided only for those sectors and places for which data and evidence has been published since the previous report in September 2020. This includes hospitality and tourism, retail, manufacturing, and construction.

A comprehensive update on sectors and places will be provided in the January 2021 report, informed by in-depth consultation workshops to take place in December and January.

## Business activity

The September 2020 report highlighted a mixed picture in terms of the ongoing impacts of COVID-19 on different sectors in the North East, and the extent to which businesses were recovering and returning to more normal levels of activity following the easing of restrictions over the Summer. This mixed picture across sectors has continued as the impact of changing lockdown restrictions has been felt during the period since September 2020.

**Local level restrictions through the Autumn, and the subsequent introduction of a second national lockdown from 5th November 2020, have had a significant impact on some sectors, in particular:**



An NGI survey of hospitality businesses in October 2020 showed revenues were down by between 40% and 70%. Average projected losses per business were around £1m over the next six months, with average projected losses of £300k during the Christmas period.

A Visit County Durham survey (October 2020) of predominantly rural visitor economy businesses found that 60% had seen their revenues fall by more than 50%, 33% were operating reduced opening hours and 79% said local restrictions had impacted their businesses significantly. Many businesses in the arts, culture, tourism and hospitality sectors have closed temporarily, or have adapted operations, for the second national lockdown.

ONS data from 18th October reported that accommodation and food were the sectors with the lowest proportion of businesses currently trading, at 75% compared with 85% across other sectors.

By contrast, some other sectors have continued to fare reasonably well. For example, the most recent CITB insights report shows that during October 2020, 82% of construction industry employers were fully operational. The Make UK survey of manufacturing businesses, from October 2020, reports that 24% have returned to full pre-COVID operating levels, while 35% are operating at somewhere between 75% and 99% capacity. 20% reported an increase in orders, and 41% saw no change, while 39% reported a reduction in orders.

Some sectors have experienced continuous strong demand throughout the local and national lockdowns (digital and tech, pharmaceuticals, health, online retail, offshore energy, professional services, and some parts of the manufacturing sector (such as food and beverage). Others have experienced a severe contraction (e.g. automotive, aerospace manufacturing, aviation, tourism, leisure and hospitality, arts and culture, and high street retail).



## Jobs, skills and training

From 1st November 2020, the Coronavirus Job Retention Scheme (CJRS) was due to be replaced by the Job Support Scheme (JSS) which would have offered lower levels of financial support for businesses seeking to retain employees. However, the original CJRS has now been extended to March 2021 as part of the response to the second national lockdown. It is expected that the extension of CJRS may delay or prevent redundancies that may otherwise have occurred in the transition between the two schemes.

**Around a third of North East employees have been placed on furlough through the CJRS at some point during the pandemic, although this varies greatly between sectors.**

CITB data from October 2020 shows that 72% of construction businesses had no employees currently furloughed, while only 7% had most or all staff furloughed. Make UK data for the manufacturing sector shows that 51% of businesses had no staff furloughed in October, 42% had less than one quarter of staff furloughed, and none had more than 75% of staff currently furloughed.

However, the hospitality and tourism, arts and culture, aviation, and fitness sectors continue to be the largest users of furlough, with many businesses now having to close temporarily or significantly reduce their operations as a result of the second national lockdown.

**There is evidence from some sectors that the scale of redundancies grew through the period September to November, as businesses adjusted to lower levels of demand and prepared for the original planned end of the CJRS in October 2020.**

For example, the October 2020 Make UK Manufacturing Monitor reports that 49% of UK businesses have made redundancies, although the proportion of manufacturing businesses reporting redundancies in the North East is much lower at 20%. It also reports that around one fifth of businesses were planning redundancies within the next six months. However, this is down from the previous month when 30% were planning redundancies within the next six months. The October 2020 CITB survey reported that 71% of construction businesses had made no redundancies, while 28% had made some of their workforce redundant, and only 1% had made most of the workforce redundant.

Businesses in automotive and aerospace manufacturing, high street retail, hospitality, arts and culture, leisure and tourism, were most concerned about the original planned end of the furlough scheme in October 2020, and many expected to see significant redundancies from October. Businesses in these sectors were concerned about the loss of highly skilled staff and the impact on future business sustainability, growth and productivity. The actual scale of redundancies in these vulnerable sectors is unknown at the current time but may become clearer following the sector consultations and research to be reported in January 2021.

### Staff recruitment is continuing in some North East business sectors, including:

-  healthcare
-  pharmaceuticals
-  logistics
-  digital
-  online retail
-  supermarkets

**There has been an increase in enquiries for business start-up support across the region. This is partly driven by the increase in unemployment, but also includes people who have been considering self-employment for some time, and furlough or redundancy has given them the opportunity and impetus to pursue it.**

## Places

Footfall in major towns and city centres in the North East remains below pre-COVID-19 levels, with some areas reporting footfall of between 55% and 80% of the normal levels experienced at the same time last year.

**Larger towns and city centres have seen the greatest reductions in footfall, and an acceleration of the pre-COVID-19 decline of high streets (e.g. increasing vacancies, national chains closing some stores).**

British Retail Consortium data showed high streets experiencing a 75% reduction in footfall due to the second national lockdown, compared to a year previously. This is slightly lower than the 80% fall experienced during the first lockdown in March.

The introduction of the second national lockdown appears to have provided a temporary boost to footfall in some North East towns and city centres, likely to have been driven by people doing last minute shopping ahead of the lockdown coming into effect.

## Resilience

Expectations of future business resilience vary widely between sectors and future prospects remain uncertain for many businesses, particularly now that a second national lockdown is in place which is likely to be followed by further local restrictions.

A recent survey undertaken by UK Hospitality reported that 23% of businesses in the sector believed they would fail by early 2021, while 40% believed they would fail by mid-2021.

By contrast, the Make UK Manufacturing Monitor reported that 50% of businesses think it will take less than 12 months for trading conditions to return to normal pre-COVID levels.

However, some evidence is beginning to emerge that orders from large OEMs and Tier One manufacturers into the early part of 2021 are beginning to slow due to both the pandemic and ongoing uncertainty about post-Brexit trading arrangements. This is beginning to impact on some supply chain businesses in the North East manufacturing sector.

For construction businesses, a key risk to future resilience is the availability and cost of building supplies, which has become more challenging through the Autumn and may worsen as a result of the second national lockdown.

The September 2020 report highlighted concerns about the future of the Metrocentre in Gateshead and Eldon Square in Newcastle as a result of Intu going into administration. However, it was announced in October 2020 that the Metrocentre has been taken over by the Metrocentre Partnership and will be managed on its behalf by Sovereign Centros, with potential future investment of £25m into the Centre.

**While the impacts of the first national lockdown were not as bad in some sectors as originally feared, there is concern about the impact of ongoing local and national lockdowns. Having survived the economic consequences of the first lockdown, it is feared that some businesses may not have the resources and resilience to survive the second lockdown.**



## Opportunities and changes

**The region has strengths in a number of sectors that are continuing to trade strongly through the pandemic, including food and drink, pharmaceuticals, offshore energy, and advanced manufacturing. This puts the region in a strong position to exploit emerging opportunities that can support economic recovery, including R&D and demonstration of new technologies; strengthening UK-based production and supply chains; and growing the low carbon economy.**

The digital and tech sector can have a big impact on all other sectors in the North East economy through the growing use of tech solutions to reach customers and improve productivity and efficiency. The pandemic has accelerated the adoption of digital technologies by businesses across all sectors in the North East and there is an opportunity to put the digital sector at the heart of the region's economic recovery.

The pandemic has demonstrated the benefits of home working and digital delivery of services, including the positive environmental impacts this can deliver. The increase in remote working also offers opportunities for local people to access jobs and income outside the local area.

With the ongoing decline of high street retail and the continued growth of online retail, plans for repurposing town and city centres should focus on the interrelationships between living, working and leisure, including increased investment in residential accommodation and leisure facilities.

## Looking ahead and preparing for recovery

It remains the expectation that economic recovery in the region will vary widely between sectors. For example, the arts, culture and hospitality sectors are expecting extensive job losses, business closures and a recovery that will take many years without ongoing support. Other sectors, such as construction and parts of manufacturing, are performing well or on the road to recovery.

Feedback indicates that few businesses, especially SMEs, are actively preparing future recovery plans. Those in strongly performing sectors are getting on with running their businesses. Those in badly impacted sectors are focused on short-term survival. Those businesses that are actively planning for the future tend to be larger firms.

Larger businesses have been planning for EU Exit for some time and, whilst the full impacts won't be understood until the final deal outcome is known, they have largely planned for all different scenarios. The picture is much different for SMEs however, where some are taking a 'wait and see' attitude; some feel they are unlikely to be impacted by EU Exit, for example because they do not export goods or services; and some are too busy focusing on the immediate priorities arising from COVID-19.

A key factor underpinning future economic recovery is business confidence. Firms in strongly performing sectors (e.g. energy, pharmaceuticals, digital, food manufacturing) are most likely to drive the region's recovery. In other sectors, confidence is weak and investment plans on hold.

## Current and future support

There has been a high take-up of Government financial support (such as the furlough scheme, business grants and loans, and business rates relief) by businesses in the North East and this has played a critical role in ensuring the short-term survival of many firms.

Some sectors need further short-term financial support to aid their survival and recovery (culture, hospitality, aviation, tourism, and some areas of retail and manufacturing). Businesses in hospitality, tourism and retail in particular need clarity from Government as soon as possible about the end date of the second national lockdown, the level of tiered local restrictions the region is likely to move into at that time, and ongoing financial support after the national lockdown ends. The extent of any Christmas trading period through December could be the difference between survival and closure for many North East businesses in these sectors.

Some key sectors require investment to maximise their contribution to the region's economic recovery and growth (health and pharmaceuticals, advanced manufacturing, energy and offshore, food and drink, education).

Others need the economy more broadly to recover for their businesses to be sustainable and to thrive (legal, finance, digital, professional services).

Training initiatives are needed to support local people to re-train for work in growing sectors. For those that have been made redundant, these schemes may need to include an element of income support while people are in training.

Targeted support is needed for young people to ensure they continue in education or move into employment. The Kickstart scheme may go some way to achieving this, although more will need to be done within the region to supplement this, as the level of need is so great.

