

Summary of NIESR Business Conditions Forum July 2020

National Institute of Economic and Social Research (NIESR) hosted the Business Conditions Forum (BCF) on 1st July. The aim of the BCF is to have informed and analytical discussions of data and surveys to better understand the current state of the UK economy. The discussions are held under Chatham House rules to encourage free and open discussion. NIESR is grateful to the ESRC and the Impact Accelerator Award (IAA) for funding the BCF.

Agenda

The topic for discussion was the impact of Covid-19 on the UK economy.

The discussions were centred around the following questions:

- Are there any signs of consumer demand being lower than pre-Covid after lifting lockdown restrictions?
- Are we seeing any scarring to capacity e.g. bankruptcies?
- Have international supply chains been damaged? Are there signs of firms “re-shoring” production?
- How sustainable is the debt businesses have acquired? Are there signs of it weighing on recovery?
- Are any firms or sectors seeing potential expansion or efficiency gains from the pandemic e.g. from automation or government stimulus?

Opening remarks

Lockdown restrictions are being lifted gradually in the UK. According to the Oxford University Government Stringency Index, the UK and the US had eased restrictions less than Germany and Australia.

Resolution Foundation analysis of YouGov demonstrates that lower income households have significantly reduced their savings, most likely out of necessity, potentially building up debt. On the other hand, higher income households have increased their savings. This finding has implications for demand going forward as consumers might be both unable and unwilling to spend.

On the supply side, there might potentially be big solvency and liquidity questions. The ONS survey of businesses suggests that sectors badly hit by the pandemic (e.g. accommodation and food services, Arts and Entertainment, Manufacturing, Transport etc) are disproportionately those with little or no cash reserves, implying an elevated risk of bankruptcies. A separate survey by the Bank of England shows that the fiscal support provided by the government has helped cash flow management, but the cash flow deficit remains large at around £140bn even after considering that support.

Also, on the supply side, the latest Make UK Manufacturing Outlook Survey suggests that within the manufacturing sector, there is an anticipated sharp increase in redundancies in next three months compared to the previous three months. This is consistent with a potential “second wave” of unemployment. The survey data further suggest that investment in capital will remain in negative territory over the next twelve months.

Turning next to the global trading environment and the risks to international supply chains, data from Global Trade Alert show that some 90 jurisdictions have imposed export restrictions on medical equipment. Re-shoring of supply chains may be disruptive for exporters, but re-shoring may also create opportunities for domestic suppliers.

Financial markets data show rebounds in stock markets globally though it is unclear how much of this is underpinned by optimism about the future and how much is down to central bank interventions.

Comments/Discussions/Questions

With regards to the **labour market**, and the furlough scheme in particular, one participant was keen to find out what the data says about workers who have maintained their position but took a pay cut to sustain their living or to keep their job long-term, and how this might impact spending going forward. There was evidence on firms topping up furlough workers’ wages – this was less than 50 per cent of firms.

On job adverts, the average posted wage has risen since March but there is a compositional effect as lower-paid vacancies have been particularly hit. Weekly trends in job postings (as of 26 June) shows that in UK job postings are down 59 per cent compared to what they were expected to be based on last year’s trend. However, this is a marginal improvement on what it was a week before, where postings were down by 61 per cent – suggesting vacancies might have stabilised. Compared to other major European countries (France, Germany, Italy, Spain), the recovery in job postings in the UK have been weakest. Within the UK, Scotland has been the most affected in terms of job postings. There is evidence of recovery in all regions with the exception of London and the Northwest.

In the **food and drink sector**, aggregate data suggest that domestic turnover has fallen in Q1, output and GVA has been down consecutively in the first four months. Food and drinks export declined in Q1, the first time this has happened in a very long-time. This was across all the top 20 markets and all but one of the top 10 products. Second quarter figures are expected to be significantly worse than those of Q1.

Participants were asked about their views on BoE chief economist, Andy Haldane’s comments on opportunities for growth in the hospitality sector after reopening and whether his optimistic view reflects what others have seen. One participant lent support this view but noted that this was more anecdotal and not yet supported by hard data.

The **housing sector** was one of the first to reopen. The sector is important because it has implications for demand in other sectors. Early indicators suggest that pent up demand is helping support early activity in the sector. Notwithstanding, the uncertainty surrounding job security and the furlough scheme means a lot of consumer are taking a wait and see approach in the housing market. In terms of a regional effect, evidence suggest that people are starting to look more at places outside London.

Credit conditions have remained quite tight with very few high LTV products available. Where they are available, these are priced at a much higher premium.

One participant commented that they have had discussions about the appetite for **reshoring** but have not actually explored this route, largely because this might not be practical or feasible for certain parts of the supply chain. However, the participant noted that supply chains are also considering alternatives such as dual sourcing to build up resilience. Another participant weighed in that it is unclear whether onshoring will be the answer to resilience. The participant then went on to mention that high debt levels will make it very difficult for British firms to explore new markets. He made the point that financially fragile firms are usually unwilling to explore new export markets.

On the increased **household savings ratio**, in response to a question raised earlier, one participant commented that it is difficult to tell whether this is an increase in precautionary savings or whether it reflects consumers inability to spend on consumption.

On **inflation**, a participant noted the literature questioning the usefulness of CPI as a measure of inflation in the current climate and mentioned that ONS will provide an alternative estimate which essentially rescales to account for unavailable products.

Panelist Survey

NIESR organised a short survey at the end of the session. The questions and the responses are as follows:

Q1: What type of recovery can we expect?

V:	6%
U:	44%
W:	22%
L:	6%
Other:	22%

Q2: Will the crisis lead to higher structural unemployment?

Yes:	67%
No:	16%
Don't know:	16%

Q3: Will the pandemic result in increased business investment, say because of automation?

Rise:	18.75%
Fall:	62.5%
Unchanged:	18.75%

Q4: Will inflation pressures rise?

Yes:	35%
No:	47%
Don't know:	18%

Q5: Is this the end of globalisation?

Yes:	6%
No:	75%
Don't know:	19%

The meeting was chaired by Amit Kara, with Rory Macqueen (NIESR) also leading discussions. A total of 20 organisations were represented which covers survey organisations and policy making departments/institutions.