Cambridge City and South Cambridgeshire

MONITORING THE ECONOMIC AND BUSINESS IMPACTS OF COVID-19

Week beginning 11 May 2020 **Edition 06**

SUMMARY

This briefing is intended to provide up-to-date information on the economic impacts and consequences of the Covid-19 virus and lockdown. It uses information and intelligence from a range of national and local sources of news, data and analysis. We welcome the input of additional local insights and data for inclusion in this report. If you have anything you would like to share please email: glenn@mylocaleconomy.org with details.

Covid-19, or the Coronavirus is a highly infectious respiratory virus which, since the first incident in China in December 2019, has infected the populations of many countries around the world. To date (13 May), Cambridge has registered 205 cases of Covid-19, and South Cambridgeshire 199 cases. Cambridgeshire has registered 990 cases of Covid-19, against the 229,705 cases nationally. If we were to calculate this on a per capita basis (using total estimated resident population in 2018), on 14 May 2020, Cambridge has had 16.3 cases per 10,000 residents, South Cambridgeshire 12.6, and Cambridgeshire 15.2 compared to 34.6 for the UK.

In the Global Economy, the US continues to report significant job losses and increases in unemployment. Non-farm private employers cut 20.2m jobs last month, according to payroll processor ADP. That compared with economists' expectations for 20m and easily surpassed the previous record of about 835,000 in February 2009 during the financial crisis. The US has had 36.4 million new unemployment claims in the past 8 weeks – approaching unemployment rate of 16% as another 2.9 million filed for unemployment in the last week. The US Labor Department also reports that 22.8 million people filed 'continued claims' (meaning they've been receiving help for more than one week) over the past 8 weeks. This more than Wipes out decade of (+23m) jobs growth 2010-2020.

GDP falls by 5.8% in March. The UK economy was not doing particularly well before the Covid-19 lockdown struck. GDP rose by 0.1% in January, but the economy then contracted by 0.2% in February - as the coronavirus pandemic began to impact the economy. The real pain struck in March, when GDP shrank by 5.8% - and all sections of the UK economy have suffered dramatic declines in activity. GDP fell by 2.0% in the three months to March 2020, following no growth in the three months to February. Accommodation (-14.6% over the month to March), Travel Agents (-23.6%), and Wholesale and retail (-10.7%) are particularly affected.

The Bank of England's latest analysis and forecast suggests deep recession in 2020 with quick "V-shaped" recovery in 2021, but this has been disputed by other experts. The Bank of England has forecast that the coronavirus will push the UK into its deepest recession in 300 years, with output falling by 30% in first 6 months of 2020, and a 14% contraction over the whole 12 months. Other economists have pointed out that some restrictions and social distancing measures are likely to remain in place for the rest of 2020, and into 2021, depending on progress towards finding a vaccine. There is a risk of a

second lockdown should another outbreak occur combined with depressed consumer confidence. Other forces at play which mitigate against fast recovery include: reduced investment, supply chain disruption and reconfiguration, disruption of 'just in time' production – eroding productivity, and the small probability of smooth transition to a comprehensive FTA with the EU. Even if the economy recovers strongly in 2021 – high levels of unemployment will continue for some time.

44% of businesses who had not permanently ceased trading between 20 April and 3 May reported that their cash reserves would last less than six months. In the largest weekly survey on the business impacts of coronavirus, conducted by the ONS, it was found that 1% of businesses who had paused trading applied for the Coronavirus Job Retention Scheme, to cover the pay of furloughed workers, compared with 72% of businesses who were still trading, and less than 1% of firms said they had permanently ceased trading during the period 20 April to 3 May 2020.

The Resolution Foundation analysis of distribution of workforce impacts has found that women, low-paid workers, younger employees and parents are being hit particularly hard by the Covid-19 pandemic. Women make up a majority of 'key workers', which means they run a greater risk of exposure to the virus as they are not isolating. Those key workers are often relatively lowly paid. Those on low pay, or a younger adult – being more likely to have experienced job loss or have been furloughed. Those in shutdown sectors are younger – their average age of 39 is four years below the average age of those who can work from home.

Observations from previous recessions tell us that there is no precedent for the speed of economic contraction in other recessions, nor the immediate hit to consumer and travel related sectors. Manufacturing is likely to be affected by reduced demand and supply chain disruption due to both the coronavirus, and also difficulties in firms throughout the supply chain. Private sector services, ICT & digital, scientific & professional activities – have tended to be less impacted by more recent recessions. They are also likely to recover more quickly. The recovery in confidence, and spending (household and B2B) is a big factor in the pattern of recession impacts and in the shape of recovery. Given the size of the economic contraction so far and partial planned resumption of economic activities, combined with continued risks from Covid-19 – it paints a very uncertain picture for the next 6 months.

4,634,172 confirmed cases of Covid-19
(John Hopkins University, 14 May 2020)

Travel restrictions apply in over 100 countries

1,560,035 patients recovered
297,491 deaths
(John Hopkins University, 14 May 2020)

Central banks have cut interest rates in over 50 countries

229,705 lab-confirmed cases
33,186 deaths of patients in hospitals
(PHE, 13 May 2020)

IMF: word economic output to contract by 3% in 2020
WTO: word trade will shrink by 13% in 2020
UK economy – consensus view: heading for 5.8% contraction in 2020

GLOBAL TRENDS AND OUTLOOK

US private sector shed a record 20m jobs in April as coronavirus lockdowns and the resulting closure of non-essential businesses led to historic unemployment. Non-farm private employers cut 20.2m jobs last month, according to payroll processor ADP. That compared with economists' expectations for 20m and easily surpassed the previous record of about 835,000 in February 2009 during the financial crisis. Many large US companies have announced cuts to staff or are planning layoffs – Boeing: announce layoffs of 16,000 / 10%; Hertz has laid off 10,000 employees and is reportedly considering bankruptcy

1 in 5 American workers are now unemployed. The US has had 36.4 million new unemployment claims in the past 8 weeks – approaching unemployment rate of 16% as another 2.9 million filed for unemployment in the last week. The US Labor Department also reports that 22.8 million people filed 'continued claims' (meaning they've been receiving help for more than one week) over the past 8 weeks. This more than Wipes out decade of (+23m) jobs growth 2010-2020. Significant regional imbalances are emerging - in some states claims have been one-third of total employment (Michigan, Kentucky, Rhode Island)

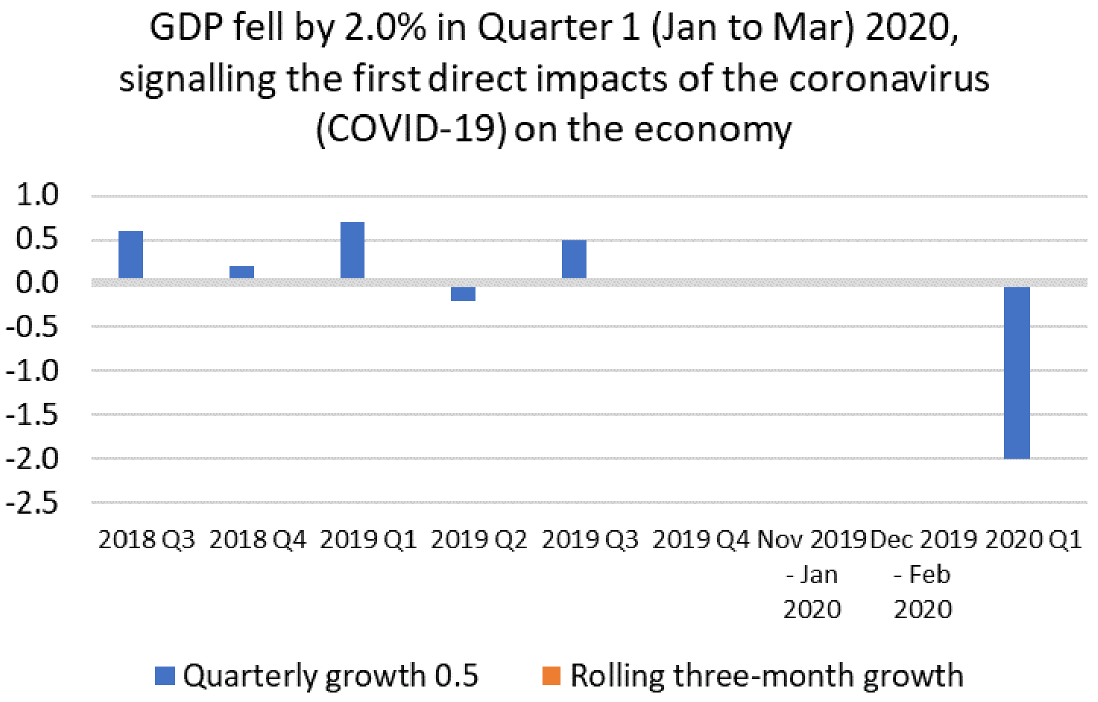
UK TRENDS AND OUTLOOK

GDP falls by 5.8% in March. The UK economy was not doing particularly well before the Covid-19 lockdown struck. GDP rose by 0.1% in January, but the economy then contracted by 0.2% in February - as the coronavirus pandemic began to impact the economy. The real pain struck in March, when GDP shrank by 5.8% - and all sections of the UK economy have suffered dramatic declines in activity. GDP fell by 2.0% in the three months to March 2020, following no growth in the three months to February.

These sectors experienced particular decline:

- Education, which fell by 4.0% as a result of school closures at the end of March
- Wholesale and retail trade and repair of motor vehicles and motorcycles, which fell by 10.7%, predominantly driven by a reduction in new car registrations
- Food and beverage service activities, which fell by 7.3% as a result of the closure of bars and restaurants towards the end of March
- Accommodation, which fell by 14.6% as a result of the closure of hotels and campsites in March
- Travel agents, which fell by 23.6% as a result of reduced demand caused by the introduction of travel restrictions in March
- Most manufacturing sectors also contracted -- with transport equipment-making declining by 20.5% as car factories shut down
- But one sector defied the gloom -- the manufacture of basic pharmaceuticals grew by 9.2% (presumably because people were stocking up on medicines and painkillers)

FIGURE 1: MONTHLY AND QUARTERLY GDP IN THE UK



Source: Office for National Statistics.

FIGURE 2: MONTHLY AND QUARTERLY GDP IN THE UK

	Quarterly growth	Rolling three-month growth
2018 Q2	**0.5**	
2018 Q3	**0.6**	
2018 Q4	**0.2**	
2019 Q1	**0.7**	
2019 Q2	**-0.2**	
2019 Q3	**0.5**	
2019 Q4	**0.0**	
Nov 2019 - Jan 2020		**0.0**
Dec 2019 - Feb 2020		**0.0**
2020 Q1	**-2.0**	

Source: Office for National Statistics.

The Bank of England's latest analysis and forecast suggests deep recession in 2020 with quick "V-shaped" recovery in 2021. The Bank of England has forecast that the coronavirus will push the UK into its deepest recession in 300 years, with output falling by 30% in first 6 months of 2020, and a 14% contraction over the whole 12 months. The economy has been hit hard by the fall in spending – as household spending has fallen by 30% since early March. The Bank has also forecast that unemployment is likely to rise to 9% in 2021. Despite this gloomy outlook, the Bank expects 'limited scarring to the economy' – with a 12.5% rate of growth in 2021 – a bounce-back V-shaped recovery,

However, the Bank of England's "V-shaped" recovery has been seriously questioned by the business press and economists. They have pointed out that some restrictions and social distancing measures are likely to remain in place for the rest of 2020, and into 2021, depending on progress towards finding a vaccine. There is a risk of a second lockdown should another outbreak occur combined with depressed consumer confidence. Other forces at play which mitigate against fast recovery include: reduced investment, supply chain disruption and reconfiguration, disruption of 'just in time' production – eroding productivity, and the small probability of smooth transition to a comprehensive FTA with the EU. Even if the economy recovers strongly in 2021 – high levels of unemployment will continue for some time.

BUSINESS AND INDUSTRY IMPACTS

Impacts on businesses (ONS survey 6-19 April)

- 77% of surveyed businesses in the UK continuing to trade, 23% of businesses that responded they had temporarily closed or paused trading
- Of the businesses continuing to trade, 58% reported that their turnover had decreased, while 30% reported that their financial performance had not been affected
- Main sectors reporting temporarily closing or pausing trading were the accommodation and food service activities sector (81%) and the arts, entertainment and recreation sector (80%)
- Professional, scientific and technical activities (97%), information and communication (95%), health and social work activities (94%) and the administrative and support service activities (92%) sectors had the largest proportion of businesses responding to state they continued to trade.

- Of the survey respondents, 19% of the workforce had been furloughed under the terms of the UK government's Coronavirus Job Retention Scheme; of which the arts, entertainment and recreation, and construction sectors had the highest proportion, both with 40%
- 73% of the workforce were still working as normal for the period between 6 April and 19 April 2020

Impacts on businesses (Latest ONS survey 20 April to 3 May)

- 44% of businesses who had not permanently ceased trading between 20 April and 3 May reported that their cash reserves would last less than six months.
- 1% of businesses who had paused trading applied for the Coronavirus Job Retention Scheme, to cover the pay of furloughed workers, compared with 72% of businesses who were still trading.
- Less than 1% of firms said they had permanently ceased trading during the period 20 April to 3 May 2020.

GOVERNMENT ASSISTANCE TO BUSINESS AND THE ECONOMY

The Furlough Scheme: is now extended until October, making provisions for part-time return to work / more flexibly. Since the scheme opened on 20 April, 6.3m UK workers have been furloughed by 800,000 employers – representing 17.5% of UK jobs.

Loans – CBIL & Bounce-back loans: More than 304,000 companies have benefited from two separate government-backed loan schemes. Bounce-back loans are being approved by high street banks – about 38,000 every day. High street banks have provided about £6.1bn to 35,919 businesses under the CBIL scheme so far.

Self-employed support: The self-employment income support scheme (SEISS) has received more than 110,000 claims in its first four hours of operation

Trade insurance: Businesses with supply chains which rely on Trade Credit Insurance and who are experiencing difficulties maintaining cover due to Coronavirus will get support from the government. Trade Credit Insurance provides cover to hundreds of thousands of business to business transactions, particularly in non-service sectors, such as manufacturing and construction. It insures suppliers selling goods against the company they are selling to defaulting on payment, giving businesses the confidence to trade with one another. But due to Coronavirus and businesses struggling to pay bills, they risk having credit insurance withdrawn, or premiums increasing to unaffordable levels. This was a major issue in the 2009 recession, and absence of trade insurance helped push a number of retailers and manufacturers into administration

IMPACTS ON HOUSEHOLDS AND THE LABOUR MARKET

Current rates of infection. To date (13 May), Cambridge has registered 205 cases of Covid-19, and South Cambridgeshire 199 cases. Cambridgeshire has registered 990 cases of Covid-19, against the 229,705 cases nationally. If we were to calculate this on a per capita basis (using total estimated resident population in 2018), on 14 May 2020, Cambridge has had 16.3 cases per 10,000 residents, South Cambridgeshire 12.6, and Cambridgeshire 15.2 compared to 34.6 for the UK.

The Resolution Foundation analysis of distribution of workforce impacts has found that women, low-paid workers, younger employees and parents are being hit particularly hard by the Covid-19 pandemic. Women make up a majority of 'key workers', which means they run a greater risk of exposure to the virus as they are not isolating. Those key workers are often relatively lowly paid. Those on low pay, or a younger adult – being more likely to have experienced job loss or have been furloughed. Those in shutdown sectors are younger – their average age of 39 is four years below the average age of those who can work from home.

WHAT CAN WE LEARN FROM PAST RECESSIONS?

Analysing socio-economic indicators and impacts on sectors and unemployment in previous recessions provides a few clues to what may happen during and after this current recession.

In the 1980s recession, 7.3% (2 million) jobs were lost over 13 quarters from March 1980 until March 1983. It then took 19 quarters to regain these lost jobs, by December 1987. The rate of unemployment peaked at 12.0% in Q1 1984, and did not return to a rate before the recession of 5.4% until Q3 in 2000.

In the 1990s recession, UK jobs decreased by 6.7% (2.0 million) over 10 quarters. It then took 27 quarters to regain these jobs by September 1999. The rate of unemployment peaked at 10.7% in Q1 1993, and did not return to a rate at or below the recession of 6.9% until Q3 1997.

In the 2000s recession, UK jobs decreased by 2.7% (880,000) over 6 quarters, and recovered over 15 quarters by September 2013. Unemployment peaked at 8.6% in Q4 2011, and reached the rate of 5.2%, consistent with the rate before the 2000s recession, in Q4 2015.

Most economic analysts and forecasters, including the Bank of England suggest that the rate of unemployment and job loss will be higher than the most recent recession in 2009. The Bank of England has suggested that unemployment may climb to 9% in 2021, but it is worth noting that in previous recessions unemployment has tended to peak up to four years after the onset of recession.

Observations from past recessions, particularly in relation to their impacts on the Greater South East of England (comprising the East of England, London and South East of England regions) are that:

- Consumer and travel related sectors have been impacted soonest and hardest by the Coronavirus and lockdown. There is no precedent for the speed and nature of this impact in other recessions.
- Manufacturing is likely to be affected by reduced demand and supply chain disruption due to both the coronavirus, and also difficulties in firms throughout the supply chain
- Private sector services, ICT & digital, scientific & professional activities – have tended to be less impacted by more recent recessions. They are also likely to recover more quickly
- Banking and finance (for now) – are regarded as robust enough to weather the current crisis. However, losses and debts are likely, as are asset revaluations – which will affect balance sheets
- The recovery in confidence, and spending (household and B2B) is a big factor in the pattern of recession impacts and in the shape of recovery
- Given the size of the economic contraction so far and partial planned resumption of economic activities, combined with continued risks from Covid-19 – it paints a very uncertain picture for the next 6 months.

Lastly, one the major lessons from previous recessions is that the level and patterns of structural change that result from changes in financial and economic conditions and dynamics can be long-lasting, and in some cases permanent.

COMPANY NEWS

The Cambridge Index jumped 850.8 points or 4% to close at 21926.7, as seven of the top ten Index heavyweights posted weekly gains to their share prices. DS Smith, up 0.4%, announced the retirement of Chris Britton from the Board, following its 2020 Annual General Meeting (AGM), which is expected to be on 8 September 2020. Frontier Developments, up 10.4%, announced that it has commenced the registration for the Elite Dangerous Fleet Carriers Beta 2 gameplay. The multiplatform Beta will allow PC, Xbox One and PlayStation 4 players, access to test the mighty Fleet Carriers mega-ships before their official release in June. Credit Suisse reaffirmed its "Outperform" rating on the stock with a target price of 2080p. Cambridge Cognition Holdings, up 33.3%, in its preliminary results for the year ended 31 December 2019, announced that revenues dropped to £5m from £6.1m recorded in the previous year. However, its loss before tax widened to £3.1m from £1.5m in the previous year. Its basic and diluted loss per share increased to 12.4p from 7p in the last year. Xaar, up 27.4%, announced that its AGM will be held on 2 June 2020, following with the government measures to limit the spread of COVID-19.

Agile Analog, a leading provider of semiconductor analog IP based in Cambridge has announced that Palma Ceia SemiDesign, a provider of communication chips and IP for WiFi HaLow and Cellular NB-IoT applications, has selected Agile Analog's data converter and power management IP for its next-generation of WiFi and cellular IoT products. Agile Analog's innovative approach to analog IP generation enables Palma Ceia SemiDesign to effortlessly achieve optimum performance while minimizing cost and time to market. he IoT and cellular markets are key industry growth areas with demanding requirements and an increasing need for customization. Using Agile Analog's IP has enabled Palma Ceia SemiDesign to focus their internal resources on more differentiating factors of their world-class transceivers without sacrificing overall quality and performance.

Cambridge-based cyber security world leader Darktrace continues to work towards an IPO – possibly in the US and UK – next year after growing its market capitalisation to more than $2 billion. Sources close to the company say Darktrace would have hit the markets by now had it not been for the coronavirus pandemic.

Macarthur Fortune Holding LLC, a global asset management company, has announced that it has acquired Cambridge-based Jagex, one of the UK's largest video game developers and publishers, for $530million through one of its funds, Platinum Fortune LP, from Shanghai Hongtou Network Technology. Hongtou Network (Hong Kong) was also acquired by Platinum Fortune LP. The management team of Jagex, headquartered in Cambridge, UK, will remain in place.

Mologic Ltd, a leading developer of diagnostic technologies, has announced today that it has joined forces with BioSure, leading experts in self-testing, to produce a COVID-19 antibody self-test. By combining Mologic's independently verified COVID-19 lateral flow test with BioSure's market-leading design, the companies have created a self-test for COVID-19 that can be used without any training being required. The innovative design has been proven to be extremely easy to use, requires only a fraction of a drop of blood and gives the user their own result in just 10 minutes. Since launching the first CE marked HIV self-test in 2015, BioSure have become world-leading experts in self-testing.

Cambrionix hubs are helping to speed preparation of devices so hospital patients and care home residents can stay in touch with loved ones during the Covid-19 lockdown. Cambrionix today announced that it is proud to be supporting Phones for Patients - a major new initiative, developed by Cambridge-based Bridgeway Security Solutions, which aims to distribute tens of thousands of securely repurposed mobile devices to UK hospitals and care homes. Cambrionix has lent Bridgeway twelve managed USB hubs, which make it easy to charge, connect, and sync multiple mobile devices, at the same time - helping to speed up the device preparation process.

Cambridge Design Partnership (CDP) has donated a reconditioned ventilator to Royal Papworth Hospital NHS Foundation Trust to help save lives in the Covid-19 emergency. The ventilator was used to develop and test innovative ventilator accessories in-vitro, in CDP's test labs, as part of CDP's medical device development programs.