

Cambridge City and South Cambridgeshire

MONITORING THE ECONOMIC AND BUSINESS IMPACTS OF COVID-19

Week beginning 06 July 2020

Edition 14

SUMMARY

To date (09 July 2020), Cambridge has registered 322 cases of Covid-19, and South Cambridgeshire 346 cases. Cambridgeshire County has registered 2,205 cases of Covid-19, against the 283,757 cases nationally. If we were to calculate this on a per capita basis (using total estimated resident population in 2018), on 09 July 2020, Cambridge has had 25.6 cases per 10,000 residents, South Cambridgeshire 22.0, and Cambridgeshire 33.8 compared to 43.3 for the UK.

The pace of decline in Britain's service sector has levelled off as shops reopen - but the economy still remains subdued. The UK Service sector PMI has risen to 47.1 in June, better than May's low of 29.0. However, this continues to signal a contraction (as the PMI is below 50), with many firms reporting that that conditions are very tough – with one-third of service companies reporting a contraction in activity in June.

UK experiences further job losses and investment uncertainties. The day after the Chancellor of the Exchequer launched a £30 billion jobs package, job cuts have been announced by Boots (4,000), John Lewis (1,300), and Burger King (1,600). 2,000 Rolls-Royce staff are expected to take voluntary redundancy or early retirement by August, following the slump in air travel. Chemicals firm Ineos is now considering building its new off-road vehicle in France, after initially planning to build it at a facility in Bridgend, Wales. Weakening and changing patterns of demand are affecting many industries, including the UK tech industry – as indicated by UK technology firm Micro Focus, who were the top faller in share prices earlier this week after posting a \$1bn loss for the last half-year.

The European Commission has slashed its economic forecasts, warning that eurozone will suffer an even deeper recession than previously thought. In a new set of forecasts, the EC warned that GDP will decline by 8.7% in 2020, down from a previous forecast of -7.7%. It has also reduced its forecast for 2021, from 6.3% growth in output to just 6.1%. The risks of a second wave of infections and lockdowns are significant, and the Organisation for Economic Cooperation and Development (OECD) predicts that the UK unemployment rate will rise to 14.8% if this happens.

US Economy shows signs of stabilisation as PMI readings improve. The US Institute of Supply Management's monthly healthcheck shows that US services companies returned to growth in June. The latest report on unemployment claims (09 July) shows that 1,314,000 Americans filed new claims for unemployment support last week – the latest in 16 straight weeks in which initial claims are above one-million. Continuing claims of those remaining in unemployment are at 18.750 million.

ECONOMIC CONDITIONS

The pace of decline in Britain's service sector has levelled off as shops reopen - but the economy still remains very subdued. The UK Service sector PMI has risen to 47.1 in June, better than May's low of 29.0. However, this continues to signal a contraction (as the PMI is below 50), with many firms reporting that that conditions are very tough. Roughly one-third of companies reported that activity contracted in June, an improvement on the 54% in May and 79% in April. However, barely one-quarter reported that business activity had picked up. Services companies reported that new orders kept falling, although at a slower rate, leading to more job cuts – suggesting that unemployment is going to keep rising.

Investment uncertainties facing UK laid bare as Ineos considers shelving UK manufacturing plans. In a possible blow to UK manufacturing, chemicals firm Ineos is now considering building its new off-road vehicle in France. Ineos had previously indicated it was planning to make the Grenadier 4x4 in Bridgend, Wales, creating 500 jobs. Now, though, it is considering shifting manufacturing to France, where Daimler is selling a factory.

As a sign of weakened demand and commercial activity, sales of new light commercial vehicles in the UK in June 2020 were 24.8% below June 2019 sales. This is an improvement on May, when registrations fell by 74.1% year-on-year. Total van sales in 2020 are down 44% compared to 2019, with just 108,876 new vans being bought. That's 87,500 less than a year ago, broadly matching the slump in car sales. New car sales fell by 34.9% in June 2020 compared with 2019, as car dealers began to reopen showrooms following the coronavirus shut-down. With 145,000 new car sales in June 2020, the demand for electric vehicles and hybrids is growing.

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US Economy shows signs of stabilisation as PMI readings improve. The US Institute of Supply Management's monthly healthcheck shows that US services companies returned to growth in June. Purchasing managers across the country reported that new business improved, helping to boost activity – which lifted the ISM's service sector PMI index up to 57.1 for June, up from May's 45.4. This is the best reading since the crisis began in February, and back over the 50-point mark showing expansion. Another PMI survey company, IHS Market reported less optimistic news – that the US Services PMI for June was 47.9. The latest report on unemployment claims (09 July) shows that 1,314,000 Americans filed new claims for unemployment support last week – the latest in 16 straight weeks in which initial claims are above one-million. Continuing claims of those remaining in unemployment are at 18.750 million.

IMPACT ON BUSINESSES

More job cuts announced by UK employers. The day after the Chancellor of the Exchequer launched a £30 billion jobs package, job cuts have been announced by Boots (4,000), John Lewis (1,300), and Burger King (1,600). Also recently announced, 2,000 Rolls-Royce staff are expected to take voluntary redundancy or early retirement by August, following the slump in air travel.

Housebuilding resurgence questioned as Redrow issues profits warning, and UK house prices fall for the first time since 2012. UK housebuilder Redrow has warned that profits will be badly hit by the

coronavirus outbreak. The housebuilder has warned shareholders that it is scaling back its operations in London. Following the lockdown, there is more demand for houses with space to work inside, and nice places to visit nearby. The company will focus more on regional development, and less in the capital. Redrow has also found that the new social-distancing rules mean it takes longer to build houses, and also longer to hand them over to customers. This has lengthened its build times, and will continue to drag on its output. Nationwide's house price index estimated that property values are down by 0.1% compared with June 2019, the first time since December 2012 that there has been a year-on-year fall in the UK. This contrasts Halifax data, which estimates that June 2020 prices are 2.5% higher than in June 2019, despite recent falls in price - by 0.1% in June, following a 0.2% drop in May.

Weakening demand and changing software needs impacts one of UK's biggest tech firms. UK technology firm Micro Focus were the top faller in share prices earlier this week after posting a \$1bn loss for the last half-year, and warning that conditions are unlikely to improve. Micro Focus blamed the Covid-19 pandemic as it took a \$922m impairment charge due to heightened economic uncertainty. The firm bought Hewlett-Packard's software business in 2017 for nearly £9bn, but has suffered disruption to new sales activity and timing pressure on renewals since the lockdown started. Customers have been putting off renewing their software licences while they work out their future needs, now that many staff are working from home.

IMPACT ON THE WORKFORCE AND LABOUR MARKET

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The number of unemployed people in Britain could soar to almost 15% of the working population if the country experiences a second wave of the coronavirus pandemic according to the Organisation for Economic Cooperation and Development (OECD). A rise in the unemployment rate to 14.8% would take the UK to a higher level than France, Germany and Italy, but lower than Spain. If a second wave of Covid-19 can be avoided, the UK's unemployment rate is likely to rise to 11.7% by the end of the year, the highest level since 1984 when it peaked at 11.9%. The current UK unemployment rate is 3.9%. This prediction follows the OECD's prediction in its June economic forecast, that the UK economy will suffer the worst damage from the Covid-19 crisis of any country in the developed world. At the time, the OECD said UK unemployment would peak at 9% because the country was more exposed than most to the global slowdown in trade that followed the lockdowns imposed by most governments. In the UK, new online job postings for middle-skill occupations contracted twice as much between February and April 2020 as for low-skill occupations, and 40% more than for high-skill occupations. The OECD also predict further labour market polarisation – as new online job postings for middle-skill occupations contracted twice as much between February and April 2020 as for low-skill occupations, and 40% more than for high-skill occupations. There are significant risks that a generation of young people are denied employment or retraining, restricting their ability to gain a sustainable, skilled job.

COMPANY NEWS

Cambridge Index declines 3.1%. The Cambridge Index fell 726.6 points or 3.1% to close at 22442.4, as six of the top ten Index heavyweights posted weekly losses to their share prices. DS Smith, down 10.7%, in its full year 2020 results, announced that its revenues declined to £6.04b from £6.17b recorded in the previous year. Its basic earnings per share increased to 21.2p from 19.7p in the previous year. The Board deferred payment of dividends until the economic outlook gets clearer. Cambridge Cognition, up 7%, in its trading update for H1 2020, announced that it has entered into contracts worth £4.9m, which is almost double the order intake in the first half of 2019. The firm has signed four large order contracts worth over £500k and ten contracts for between £50k and £500k. The company announced that it will release its interim results for the six months to 30 June 2020 on 22 September 2020. Checkit, up 2.5%, announced that it had completed the sale of certain assets of Elektron Eye Technology Limited to Topcon Europe Medical BV, for around £0.8m, payable in 24 equal monthly instalments.

UL launches game changing carbon reporting software. UL's 360 software division (previously known as CR360 or Credit360) has launched an online cloud-based software solution that gives almost any organisation the ability to measure and report their carbon footprint in a simple, fast and affordable way. The tool helps businesses get up and running with their carbon reporting and generates a PDF report they can use for reporting to customers and regulatory bodies such as SECR mandatory reporting scheme. There are more than 90 mandatory reporting schemes globally, such as the United Kingdom's Streamlined Energy and Carbon Reporting (SECR), which require businesses of various sizes to report their carbon emissions. By reporting carbon emissions, businesses will avoid penalties for non-reporting and be better prepared for increasing legislation.

Allia Future Business Centres are Covid-safe and welcome visitors and new tenants. Allia Future Business Centres have enabled new safety procedures, such as spaced seating in shared areas, and notices advising of capacity in rooms and direction of travel in corridors, with plenty of handwash and sanitiser. They have adapted policies to allow even more flexible working and for tenants to adjust office layouts and seating arrangements. Co-workers have been allocated larger rooms, perspex screens and safer routing of walkways and access.

AVEVA launches predictive artificial intelligence app. AVEVA, a global leader in engineering and industrial software, announced the launch of the AVEVA™ Insight OMI app, a first in the industry to infuse real-time artificial intelligence into an operator's decision-making as well as improve overall operational agility. The smart app provides industrial businesses with an accelerated path toward implementing artificial intelligence in the control room or on the plant floor, presenting real-time anomaly detection in a context-aware OMI visualization display. It will benefit operators, engineers, and operations managers from various industries including Water and Wastewater, Energy, Food & Beverage amongst others.

Marshall Advanced Composites has received an order worth £890,000 from Honeywell for 21 Sonobuoy launch carousel assembly units. The carousel assembly was originally designed for use on the Nimrod aircraft and is used to drop submarine-seeking sonobuoys. Each carousel holds 10 sonobuoys, which are dropped through apertures in the aircraft floor and can be reloaded in-flight. Marshall has been supplying sonobuoy carousel units to Honeywell for a number of years and delivered its 100th unit to the company in December last year. During that time Marshall updated the design so they could be installed on the S-92 and Wildcat helicopters.