Cambridge City and South Cambridgeshire

MONITORING THE ECONOMIC AND BUSINESS IMPACTS OF COVID-19

Week beginning 29 June 2020 **Edition 13**

SUMMARY

To date (02 July 2020), Cambridge has registered 316 cases of Covid-19, and South Cambridgeshire 341 cases. Cambridgeshire has registered 2,178 cases of Covi1d-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 17 June 2020, Cambridge has had 25.1 cases per 10,000 residents, South Cambridgeshire 21.7, and Cambridgeshire 33.4 compared to 42.7 for the UK.

UK economy suffers largest economic contraction since 1979 and is impacted even more by Covid-19 than previously thought. UK GDP shrank by 2.2% in the first quarter of 2020, and by 6.9% in the month of March according to updated figures from The Office for National Statistics. This is a downward revision on the initial estimate of a 2.0% decline in Q1 and a 5.8% decline in March - and is the joint-lowest quarterly GDP change since 1979. HM Treasury's average of independent forecasters predict that there will be a 9.2% contraction in the economy in 2020, followed by 6.5% growth

The economic outlook in the Eurozone and US is improving. The eurozone's economy shrank again in June - but at the slowest rate since the pandemic started, with its composite PMI increasing to 48.5 in June – still contracting, but at a slower pace. Companies reported that new business continued to decline in June, but at a much slower rate, with weak demand at home and abroad. Levels of new export business continued to fall at a severe pace in June. 4.8 million jobs were created in the US in June, but another 1.4 million people filed for unemployment insurance across the US last week. In China, the first country to end lockdown, factory output is starting to grow again.

The pandemic continues to affect business output and confidence, with many businesses reporting that they plan to cut employment and investment for the next year at least. The Bank of England's Decision Makers Survey found that expect an 11% decrease in employment by the end of 2020, up from 10% a month ago. The Bank of England's Agents' report into business conditions reports widespread disruptions to business, disrupted demand and subdued appetite for business investment and commercial property investment. Analysis of VAT registrations reveals declining sales, and a decline in new business registrations for VAT.

Food retailers, and in particular, supermarket chains have reported significant increases in sales, but with accompanying increases in costs. Most supermarkets have projected no increase in profits for 2020. In non-food retail, the picture is bleak. Although UK retail sales grew sharply in May, by 12.0% compared to April, year on year they remain 13.1% lower than May 2019. There has been a number of high profile redundancy announcements amongst retailers, including Arcadia Group, Harrods, Bensons for Beds and Harveys. Intu, the shopping mall owner, entered administration last week.

Claims of a resurgence in the UK housing market appear to be false. UK housebuilder Redrow has warned profits will be badly hit by the Coronavirus, with additional costs and longer build and transaction times. UK mortgage approvals and remortgaging are seriously reduced, with mortgage approvals in April 90% lower than February. 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. The EY ITEM club predicts that house prices may fall nationally by 5% in the next few months, and then only pick up by 2 to 3% in 2021.

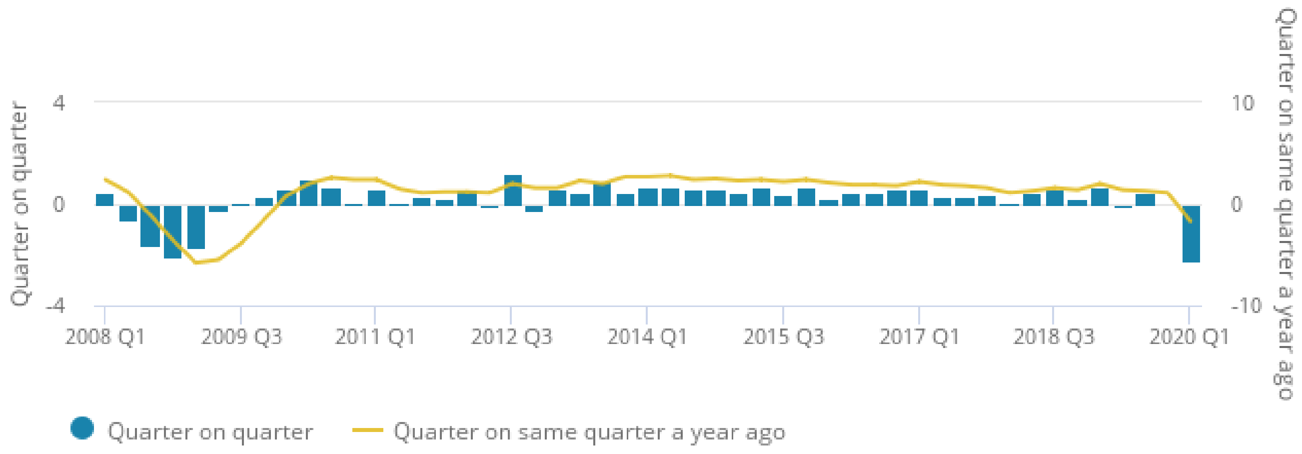
Outlook for job losses and unemployment is bleak according to the Resolution Foundation and NIESR. The Resolution Foundation reckons that the coronavirus job retention scheme – which is supporting the wages of more than 9 million workers at a cost to the taxpayer of more than £22bn so far – should be turned into a job protection scheme that would be kept in place throughout 2021. Recent NIESR analysis which calculates that if the CJRS is not maintained or extended, unemployment could exceed 10% by the end of 2020 largely due to job losses in hospitality, arts, travel and spillovers to other sectors – the highest unemployment rate since 1993. This is higher than the unemployment rate being predicted by HM Treasury's average of independent forecasters – 7.9% in 2020.

ECONOMIC CONDITIONS

UK economy suffers largest economic contraction since 1979 and is impacted even more by Covid-19 than previously thought. UK GDP shrank by 2.2% in the first quarter of 2020, and by 6.9% in the month of March according to updated figures from The Office for National Statistics. This is a downward revision on the initial estimate of a 2.0% decline in Q1 and a 5.8% decline in March - and is the joint-lowest quarterly GDP change since 1979. GDP in the services, production and construction sectors contracted the most in Quarter 1 2020, with services output falling by a record 2.3%. Households' consumption spending decreased by £9.5 billion (falling 2.7%) in Quarter 1 2020, the largest quarterly fall in nominal household spending of this type ever recorded. There were large falls in expenditure on motor vehicles, restaurants and hotels, and clothing and footwear. The latest NIESR analysis shows that GDP per head in Q2 2020 is now at levels last seen in 1999.

Figure 1: Following flat growth in Quarter 4 2019, real GDP fell by a revised 2.2% in Quarter 1 2020

UK, Quarter 1 (Jan to Mar) 2008 to Quarter 1 (Jan to Mar) 2020



Source: UK National Accounts, Office for National Statistics.

The HM Treasury average of independent forecasts (June) suggest that there will be an 9.2% economic contraction in 2020 followed by 6.5% growth in 2021. The monthly average of forecasts also predicts that the ILO unemployment rate will reach 7.9% in 2020, reducing to 6.6% in 2021.

The pace of decline in the UK services sector has eased, but is still contracting. The UK Service sector PMI has risen to 47.1 in June, better than 29.0 in May 29.0. However, services remain contracting (as the PMI is below 50), with many firms saying that conditions are very tough. Roughly one-third of companies reported that activity shrank in June, an improvement on the 54% in May and 79% in April. However, barely one-quarter reported that business activity had picked up.

The eurozone's economy shrank again in June - but at the slowest rate since the pandemic started. Data firm Markit's eurozone composite PMI, which measures activity across the economy, has risen to 48.5 from 31.9. This displays a small contraction (50 = no change, greater than 50 = growth). This is a slight improvement on the 'flash' reading of 47.5 for June, suggesting growth picked up towards the end of the month. Companies reported that new business continued to decline in June, but at a much slower rate, with weak demand at home and abroad. Levels of new export business continued to fall at a severe pace in June. France had a relatively good month, returning to growth during the month. However, Ireland suffered another significant contraction.

4.8 million jobs were created in the US in June, but another 1.4 million people filed for unemployment insurance across the US last week. Leisure and hospitality gained 2.1m jobs in June, about two-fifths of all the gains, with employment in food and drink services up by 1.5m jobs. The unemployment rate dropped to 11.1% on the back of higher than anticipated levels of job creation. The number of Americans who have been claiming unemployment benefit for at least a fortnight rose to 19.29 million.

Chinese factory PMI shows recovery. China's factories grew at a slightly faster pace this month, according to China's National Bureau of Statistics. Its Purchasing Manager's Index has risen to 50.9in June from 50.4 in May (anything over 50 indicates growth). China has experienced four months of modest growth in a row, as it has emerged from the lockdown imposed to curb the spread of Covid-19 in January and February.

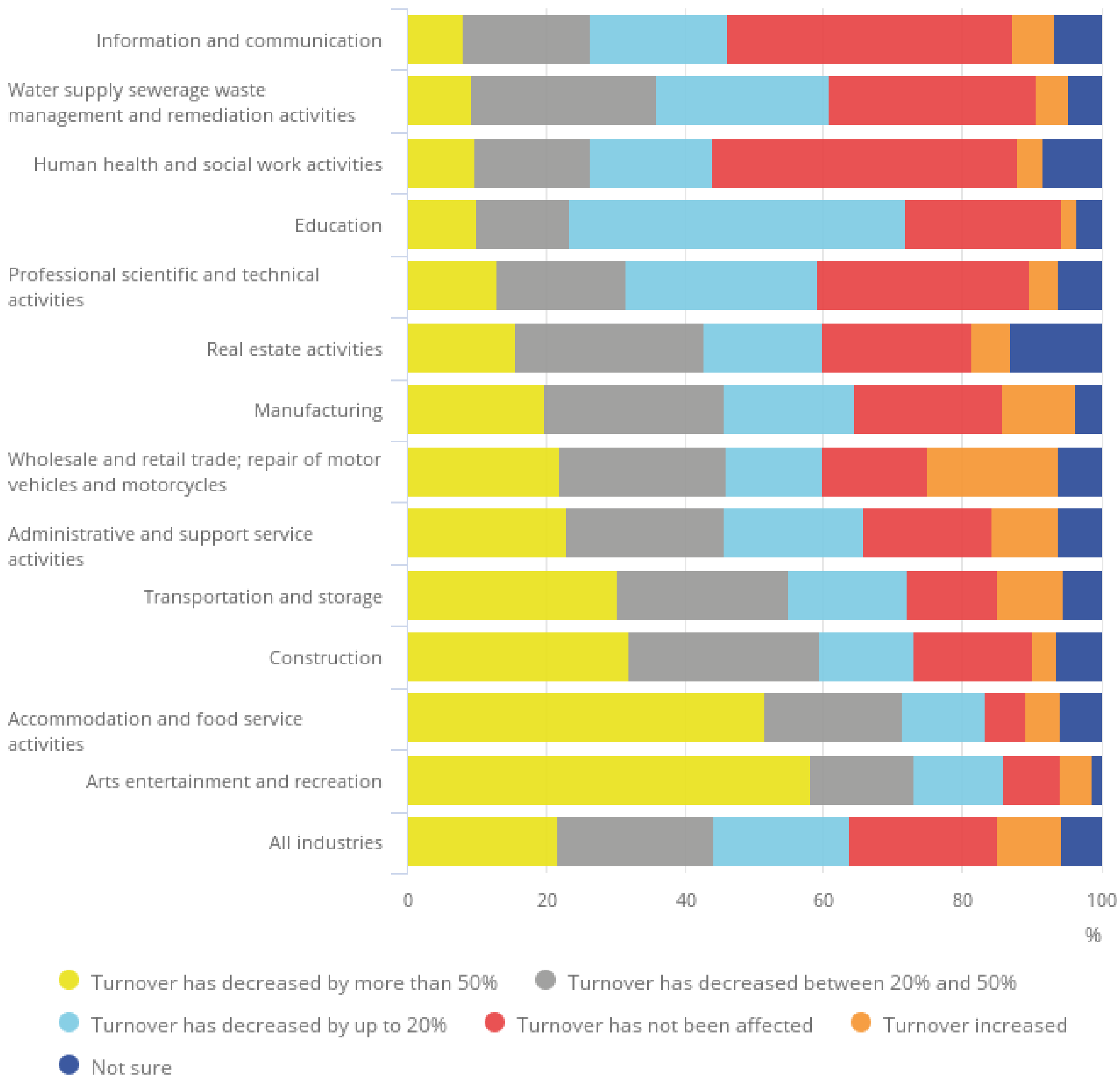
UK business leaders are more pessimistic about the impact of the Covid-19 pandemic on jobs. The Bank of England's latest survey of chief financial officers from small, medium-sized and large companies found that on average, they expect an 11% decrease in employment by the end of 2020, up from 10% a month ago. The Decision Maker Panel survey also found that firms only expect sales to recover gradually this year, and are cutting investment plans. In the June DMP survey, businesses expected their sales in 2020 Q2 to be 38% lower than they would otherwise have been because of Covid-19, employment to be 8% lower and investment to be 38% lower. Sales were expected to recover only gradually over the next year with the negative impact from Covid-19 lessening from 38% in 2020 Q2 to 26% in Q3, 16% in Q4 and 10% in 2021 Q1. Investment was expected to recover somewhat more slowly than sales, but was still on an upward trajectory.

IMPACT ON BUSINESSES

The latest ONS Coronavirus Business Impact Survey (01-14 June) reported that 80% or responding businesses had been trading for more than the last two weeks, while 6% had started trading again within the last two weeks after a pause in trading. Of businesses who were continuing to trade, 6% of the workforce had returned from furlough in the last two weeks, while 2% had returned from remote working to the normal workplace. Of those businesses with a proportion of their workforce furloughed, 41% of businesses reported providing top-ups to furloughed workers' pay on top of the Coronavirus Job Retention Scheme (CJRS). 86% of businesses who were continuing to trade, and who were using logistics services, reported that distribution demands had been met in the last two weeks. Of businesses continuing to trade, 42% reported that capital expenditure had stopped or was lower than normal because of the coronavirus (COVID-19) pandemic. Of all businesses continuing to trade, 11% reported that stock levels were higher than normal, while 17% reported that stock levels were lower than normal.

Figure 2: Of all businesses continuing to trade, 64% reported a decrease in turnover outside of normal range while 9% reported that turnover had increased outside of normal range

Effect on turnover, businesses continuing to trade, broken down by industry, UK, 1 June to 14 June 2020



Source: Office for National Statistics – Business Impact of Coronavirus (COVID-19) Survey

In the latest Bank of England Agents' report into business conditions, it was reported that:

- **Spending on consumer services and non-food goods was significantly weaker** than a year ago, though online sales of some products were strong. Clothing retailers reported cancelling or reducing orders, in some cases by as much as one-third.
- **Business and financial services activity weakened further overall, but developments across sectors were mixed, with demand holding up in restructuring, audit and IT**. There has been a sharp fall in transactional business, such as mergers and acquisitions and property-related services. Demand for marketing, advertising and recruitment services has also weakened significantly.
- **Manufacturing output continues to be significantly weaker than a year ago**, though there has been a modest improvement in recent weeks as more companies reopen. The most common central expectation among companies was that output would still be around a fifth below normal levels by the end of the year.
- **Construction activity resumed on a phased basis in May and June, though mainly on sites where building had already started or was close to completion**. Businesses were concerned about the outlook for commercial work over the next two years as enquiries and orders have collapsed. However, public sector projects were holding up, and housebuilding activity was resuming slowly.
- **Corporate financing conditions** - many companies across different sectors continued to report high demand for credit – either in the form of existing facilities or new loans – to address cash flow issues or finance working capital. Many small companies are reluctant to increase their borrowing, often because they already have high levels of debt, are concerned they will struggle to repay loans or are reluctant to encumber their assets.
- **Investor demand for commercial real estate remains subdued** overall, but there are some signs of activity picking up for distribution, industrial sites and data centres. By contrast, uncertainty about the rental outlook is deterring investment in office and non-food retail premises.
- **Companies have mostly cancelled or postponed non-essential investment** to preserve cash buffers, and many are uncertain when or whether investment plans will be reinstated. In general contacts said they had cut investment spending by around half, or more for companies most severely affected by the pandemic.

ONS analysis of VAT payments (VAT diffusion index) reveals that from March to April 2020 more firms had decreasing turnover than increasing and there was a decrease in companies paying VAT for the first time. This was driven by declines in all the major sectors: services, construction, production and agriculture. Construction has been more negatively affected – the most negative value since the VAT diffusion index started in January 2008, including during the financial crisis. The new reporters index measures the number of firms sending VAT returns for the first time, which is related to the number of firm births. In May 2020, the index dropped 0.7 standard deviations below its historical mean. There has been a small increase in the number of new VAT reporters between April 2020 and May 2020 from 15,250 to 16,460. However, the number of new reporters in May 2020 is still below the 2015 to 2019 five-year average of 20,866, and apart from April 2020, was the lowest since June 2013.

UK Retail Sales grew sharply in May (+12.0% since April) but are down 13.1% on the year since May 2019. Retail sales showed a rebound in May with sales rising 12.0% month-on-month. That is a significant improvement compared to the 18% contraction in April. But the annual reading is sobering: retail sales were still 13.1% lower compared to May 2019. That is an improvement on the 22.7% annual decline logged in April. The proportion of retail spending being made online hit a record 33.4% in May - that is higher than the first full month of lockdown in April, when online sales accounted for 30.8% of spending.

Tesco sales increased during lockdown as shoppers switched to buying online, in local stores as well as returning to big weekly shops at the supermarkets. Tesco**,** the UK's biggest supermarket chain, reported that UK sales at established stores rose 8.7% in the three months to 30 May with sales of food increasing by 12%. Clothing sales fell by one-fifth. Online sales rose by 48.5% and sales in convenience stores increased by 10%. Tesco brought in 47,000 new workers during lockdown to help

Significant retail jobs losses continue to be announced. Up to 5,000 job cuts were disclosed on Wednesday morning by SSP Group, the travel food retailer behind outlets such as Upper Crust and Caffè Ritazza. Thousands more were put in danger on Tuesday at retailers including Harrods (700 job), TM Lewin (going into administration), Arcadia Group (500), Bensons for Beds and Harveys. Please use the sharing tools found via the share button at the top or side of articles. The fragility of the retail sector was brought into stark relief last week as Intu collapsed into administration. The underlying group operating companies remain unaffected and all shopping centres are continuing to trade. Intu owns 14 of the UK's best known malls, including intu Lakeside (pictured) in Essex and Manchester's intu Trafford Centre, intu Watford, and three Shopping Malls in Spain, and directly employs around 3,000 people.

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.

UK mortgage approvals are reduced and levels of outstanding consumer credit fall. The Bank of England reported that the number of mortgage approvals for house purchase fell to just 9,300 in May, down from around 15,800 in April. This is almost 90% below the February level, and around one-third of their lowest level during the financial crisis in 2008. Overall, this is the lowest level since comparable records began (in 1997). Usually, at this time of year, we could expect 25,000 new mortgage approvals per month. Approvals for remortgaging have also fallen, to 30,400, over 40% lower than in February. The three-month mortgage holidays available to households, as well as changing financial circumstances, could be affecting remortgaging behaviour. The EY ITEM club predicts that house prices may fall nationally by 5% in the next few months, and then only pick up by 2 to 3% in 2021.

UK factories continue cutting jobs. Data firm IHS Markit reports that employment at UK factories fell for the fifth consecutive month in June. Manufacturers also reported that new orders kept falling in June, although output did rise as more factories returned to work. This lifted the UK manufacturing PMI to 50.1, just above stagnation. European aircraft maker Airbus has warned that the Covid-19 pandemic will wipe out around 40% of its planned production levels. Airbus has reported that production and deliveries will be 40% lower than originally planned in 2020 and 2021, and that it could take until 2025 to return production to pre-crisis levels. Warnings have also been issued that a drop in sales means Airbus must cut jobs, although statements on the scale of job losses have yet to be made.

IMPACT ON THE WORKFORCE AND LABOUR MARKET

To date (02 July 2020), Cambridge has registered 316 cases of Covid-19, and South Cambridgeshire 341 cases. Cambridgeshire has registered 2,178 cases of Covi1d-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 17 June 2020, Cambridge has had 25.1 cases per 10,000 residents, South Cambridgeshire 21.7, and Cambridgeshire 33.4 compared to 42.7 for the UK.

Outlook for job losses and unemployment is bleak according to the Resolution Foundation and NIESR. The Resolution Foundation has called on the government to continue subsidising the wages of workers in the sectors of the economy hardest hit by the Covid-19 crisis until at least the end of next year. It said the coronavirus job retention scheme – which is supporting the wages of more than 9 million workers at a cost to the taxpayer of more than £22bn so far – should be turned into a job protection scheme that would be kept in place throughout 2021. Under current plans, the scheme will close to new entrants on Wednesday. Firms will be asked to contribute to furloughed workers' wages from August, regardless of whether they operate in sectors of the economy that remain closed under government rules, before it closes entirely at the end of October. According to the Resolution Foundation, lasting job losses will be concentrated in the hardest-hit sectors of hospitality, non-food retail and arts, leisure and entertainment. This is also reflected in recent NIESR analysis which calculates that if the CJRS is not maintained or extended, unemployment could exceed 10% by the end of 2020 largely due to job losses in hospitality, arts, travel and spillovers to other sectors – the highest unemployment rate since 1993.

Online job adverts recovered slightly in recent weeks, but continue to decline in catering and hospitality. Between 29 May and 5 June 2020, total online job adverts (Adzuna) across all industries have increased marginally from 45.1% to 45.6% of their 2019 average. This is the third consecutive week of a small but continued increase from mid-May. However, the volume of job adverts in catering and hospitality has declined further to a record low of 18.1% of its 2019 level, and the category of education has also seen a notable decline in the volume of online job adverts. From the start of March to the start of May 2020, total job adverts drastically decreased, reaching a low of 41.8% of its 2019 average on 1 May 2020. Over the same period, the categories of catering and hospitality, and wholesale and retail, both saw particularly large declines, each reaching a lowest value below 25% of their 2019 average values. In contrast, the volume of job adverts in education, and health and social care each saw a smaller decline from the beginning of March.

COMPANY NEWS

Cambridge Index falls 0.8%. The Cambridge Index dropped 190.7 points or 0.8% to close at 23,169.0, as eight of the top ten Index heavyweights posted weekly losses to their share price. AVEVA Group, down 0.8%, announced that its Annual General Meeting will be held on 21 July 2020. Johnson Matthey PLC, down 2.1%, in its final results for the year ended 31 March 2020, announced that revenues climbed to £14.6b from £10.7b recorded in the previous year. Basic earnings per share dropped to 132.3p from 215.2p. CyanConnode, up 15.6%, announced that it has commenced the shipment of Omnimesh RF Modules to Genus Power. Oracle Power, up 2.6%, in its final results for the year ended 31 December 2019, announced that operating losses increased to £1.1m from £0.9m recorded in the previous year. Loss per share came in at 0.1p. GRC International Group, up 1.8%, in its trading update replacement for the first quarter, stated that funds raised from the February placing has strengthened the balance sheet and working capital position of the firm.

AVEVA, the global leader in engineering and industrial software, has been named a market leader in the Verdantix 2020 Green Quadrant for Asset Performance Management (APM) Solutions. The report is targeted at heads of maintenance, reliability engineering, operations and safety providing a detailed assessment of the most prominent global vendors of APM solutions. It assessed 11 vendors on 116 criteria, surveyed 284 engineering and maintenance managers, reviewed functionality in live product demos and undertook 10 in-depth customer interviews. This was AVEVA's inaugural year of participation in this report.

CMR Surgical Ltd, the company behind the next-generation surgical robotic system Versius®, announced a strong start to 2020 with new installations and orders in markets including the UK, India, Italy and France. The Company has continued its focus on global expansion to strengthen its commercial presence. As part of this, CMR has formed a partnership with Gulf Drug, a medical equipment supplier in the United Arab Emirates, to bring Versius to this strategically important region, increasing its commercial presence across Asia and the Middle East. Strong progress has been made as part of the Versius clinical programme, with over 600 clinical cases successfully completed across gynaecology, upper GI, urology and colorectal surgery. The clinical cases are being collected in the CMR clinical registry providing a growing wealth of data supporting the use of Versius worldwide.

Cambridge Consultants has developed EnfuseNet, a breakthrough Artificial Intelligence (AI) system for autonomous vehicles - a low-cost system that generates high-resolution depth data for vehicle perception technology. EnfuseNet fuses data from low-cost sensors and cameras – hardware costing just tens of dollars – to generate high-resolution depth data, the ideal reference point for autonomous systems. The result is revolutionary: very low-cost, high-resolution depth data that enables vehicle manufacturers and automotive suppliers to rewrite the economics of vehicle autonomy.

Oncology diagnostics company Tailor Bio (formerly known as PinPoint Oncology) has secured £67,000 in funding for the Innovate UK category: application of whole-genome sequencing approaches to cancer. The venture is using machine learning to find patterns in tumour DNA which can be used to predict a person's response to cancer drugs. Their current test uses a biopsy of a patient's tumour to predict if they will respond to a drug used to treat ovarian cancer.

Medwise.ai has been awarded a UK government grant of £40,000 to further develop their not-for-profit platform to provide the NHS with free and fast official guidelines and best practice – initially and most urgently to treat COVID-19. Their artificial intelligence platform aggregates information from academic journal articles and national guidelines to provide healthcare professionals with the latest information on COVID-19 in a fast and concise format.