Resolution Foundation

The economic effects of coronavirus in the UK

Utilising timely economic indicators

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This is the sixth edition of our roundup of timely indicators of the impact of coronavirus which aims to plug the gap left by traditional measures of economic activity which are not timely enough to capture these effects. This analysis will be updated weekly, as new data becomes available.

Early indicators suggest households and businesses are facing the largest economic downturn in living memory; 70 per cent of households whose finances have been affected by coronavirus have experienced falls in income and a quarter of businesses have temporarily closed. But the Government's economic support package, particularly the job retention scheme (JRS) appears to be successfully protecting families from very large fall in income, protecting many from additional hardship. This is reflected in consumer and business confidence which remain above financial crisis lows – although measures have fallen faster than they did in 2008/09. The Debt Management Office plans to tap the market for historically-large sums in the coming months to cover the massive increase in the Government's cash requirements. Despite this, there is still no sign that financial markets are unable to digest the increase in borrowing.

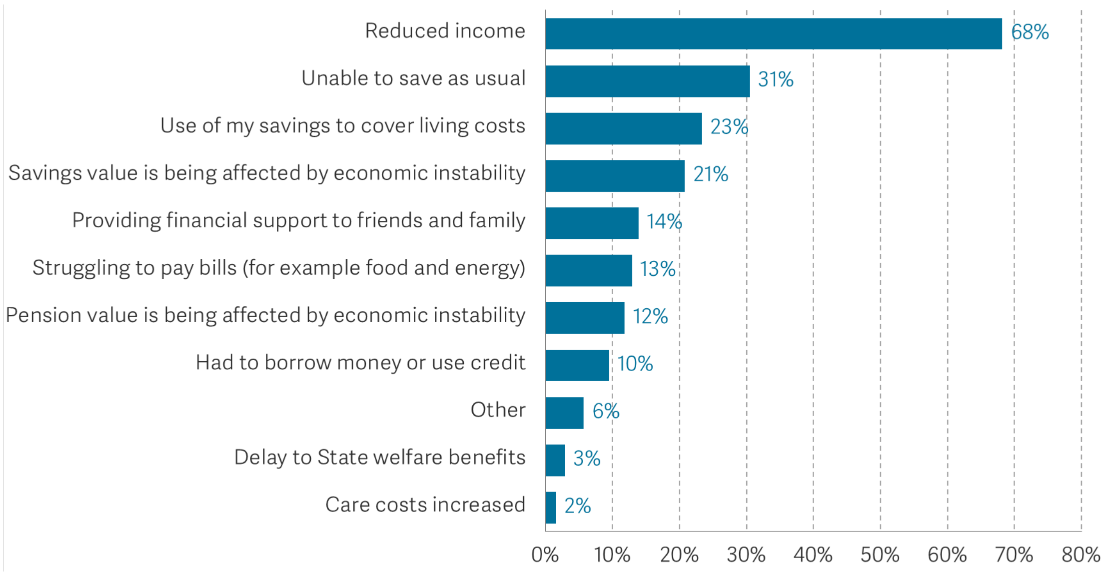
This article covers household's financial position, the labour market, general economic activity, and the Government's fiscal position.

Household finances

The scale of the economic crisis is huge and this is having a direct impact on household finances. As Figure 1 shows, 68 per cent of UK households who state that their finances have already been affected by coronavirus are reporting that they have experienced a reduction in income as a result of coronavirus. This has led to 23 per cent of affected households needing to use savings to cover living costs and 13 per cent struggling to pay bills. The large gap between the number of households facing falling income and those unable to pay bills suggests that, in large part, the current economic support measures, such as the job retention scheme (JRS), are protecting most households from particularly large falls in incomes. Without this support, unemployment would be substantially higher which would have led to a much more significant impact on household incomes as typically Universal Credit is substantially less generous than the JRS.

Figure 1 **A majority of households are experiencing falls in income**

Proportion of households whose finances have been affected by coronavirus reporting these specific effects: 9 April to 20 April 2020

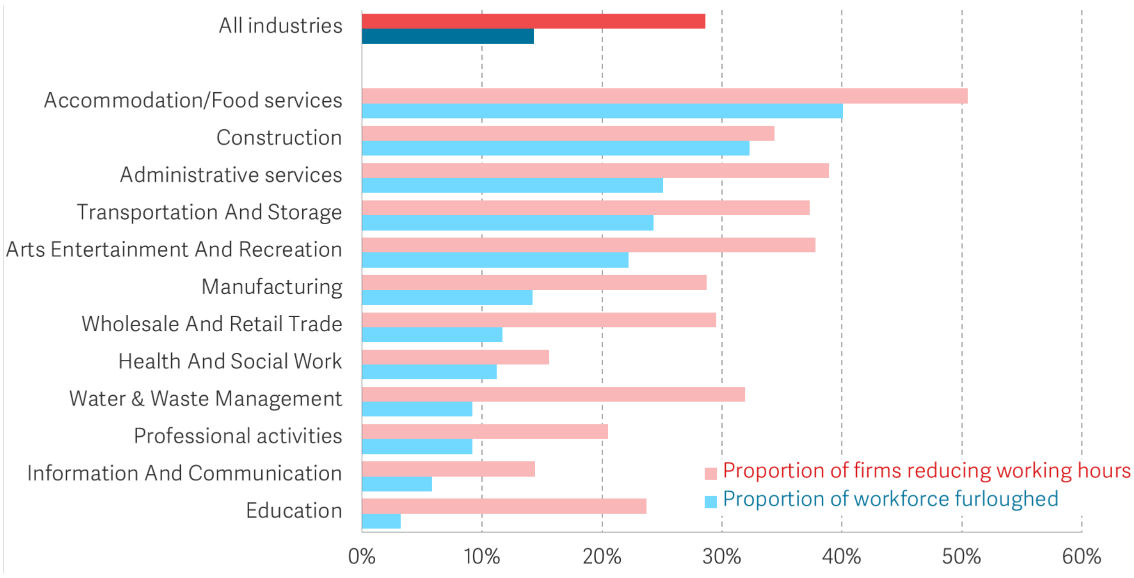


Source: ONS.

Falls in household income are driven by falling employment (both furloughed workers who only receive up to 80 per cent of their previous wage from the Government and those permanently laid-off), falls in hours worked, cuts in wage rates, and, for wealthier households, falls in investment income. Figure 2 demonstrates the scale of workforce adjustments: even when just focussing just on firms which are continuing to operate, almost a third of businesses are reducing hours, and 15 per cent of their workforce has been furloughed.

Figure 2 **A significant minority of operating businesses have cut working hours**

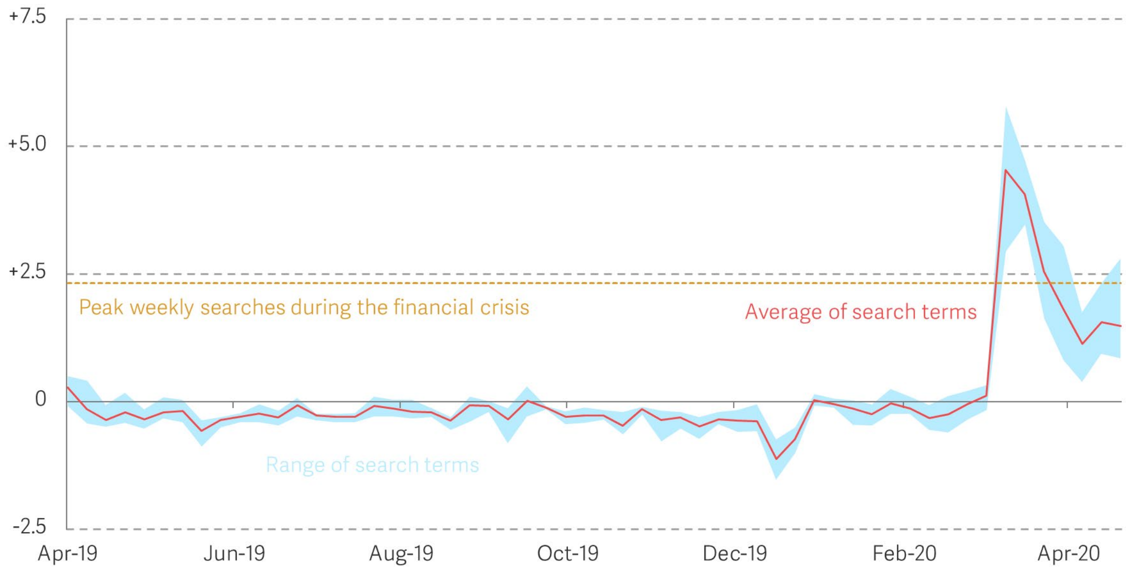
Operational businesses' workforce adjustments as a result of coronavirus: 23 March to 5 April 2020



Notes: Results only include responding firms which are continuing to operate. Rates of furloughing for temporarily closed firms are substantially higher at around three quarters of their workforce.
Source: ONS.

Previous [Resolution Foundation analysis] estimates point to 8.3 million workers using the Government's JRS – which would represent a significant minority of UK households. Actual JRS claims stood at just under 4 million workers as of 23 April – the latest data available. The total is expected to continue to rise over the coming days. A smaller, but still substantial group of people have become unemployed since the onset of the crisis. A useful timely indicator of unemployment is one based on the frequency of Google searches for unemployment-related terms, which has closely tracked the observed rise in Universal Credit claims in recent weeks. As Figure 3 shows, this measure suggests that, while unemployment is not rising as fast as it was at the end of March, the flow of people into unemployment looks to have stabilised at a significantly elevated level.

Figure 3 **Web searches indicate unemployment is continuing to rise**
Web search frequency for a group of unemployment-related terms by week, standard deviations away from average: UK



Notes: Terms include: "job seekers allowance", "JSA", "universal credit" and "unemployment benefit". The search frequency during the crisis peaked in July 2009 – the data is normalised from the start of 2007 until the end of 2009 based on the search terms "job seekers allowance", "JSA", and "unemployment benefit".
Source: RF analysis of Google Trends.

Other important drivers of the fall in household income will be reductions in wage rates for those still working, although there is currently a dearth of quality data to measure the scale of cuts. In addition, households which earn an income from investments – particularly likely to be households including retired people – will have faced a reduction income as interest rates have fallen and businesses have reduced dividends.

Inflation

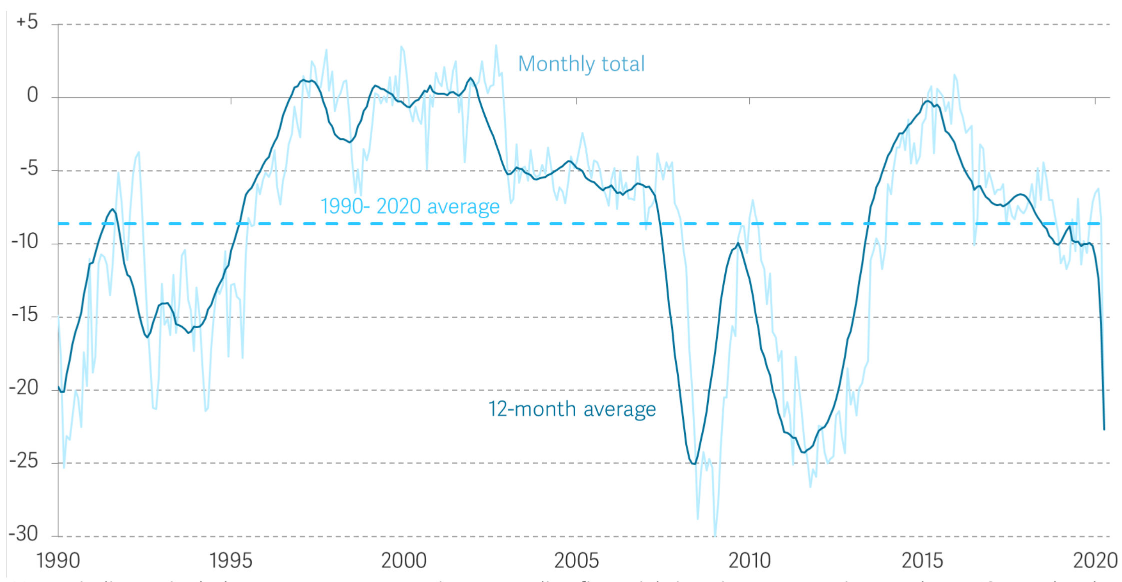
Changes in inflation will be an important factor in household living standards in the coming months. Economic theory would suggest that supply restrictions should lead to price rises.

But data from the ONS on price changes for particularly highly demanded household goods (e.g. cleaning supplies, tinned food, and medication) shows prices for these goods have only risen by 1.3 per cent since mid-March despite many shops struggling to keep the products in stock. In addition, data from the British Retail Consortium shows that overall shop prices fell by 1.7 per cent over the past year, the largest fall since January 2017. This indicates that, at least in the short-term, the reduction in consumer demand will be more important than supply constraints and will lead to falling inflation. This will be further compounded as the effect of the dramatic fall in oil prices since January feeds through to consumer prices.

General economic activity

Official estimates of economic activity are slow to be produced and are yet to cover the period of the UK's lockdown. The best timely alternative to official measures of economic activity, the Purchasing Managers' Index, has fallen to 12.9 – comfortably below previous historical lows. This implies GDP will fall further and faster than it did during the financial crisis. Another important indicator of economic activity, the European Commission survey of business and consumer confidence has plummeted at a near-record rate in April (see Figure 4). At -22.7 points, consumer confidence fell well below the UK's long-term average, of -8.6 points, and close to the record lows recorded during the financial crisis in 2009. This collapse reflects a deterioration in households' expectations about the current economic situation and their own financial situation.

Figure 4 **Consumer confidence is at lows not seen since the financial crisis**
Overall GfK/ European Commission consumer confidence index, net balance: UK

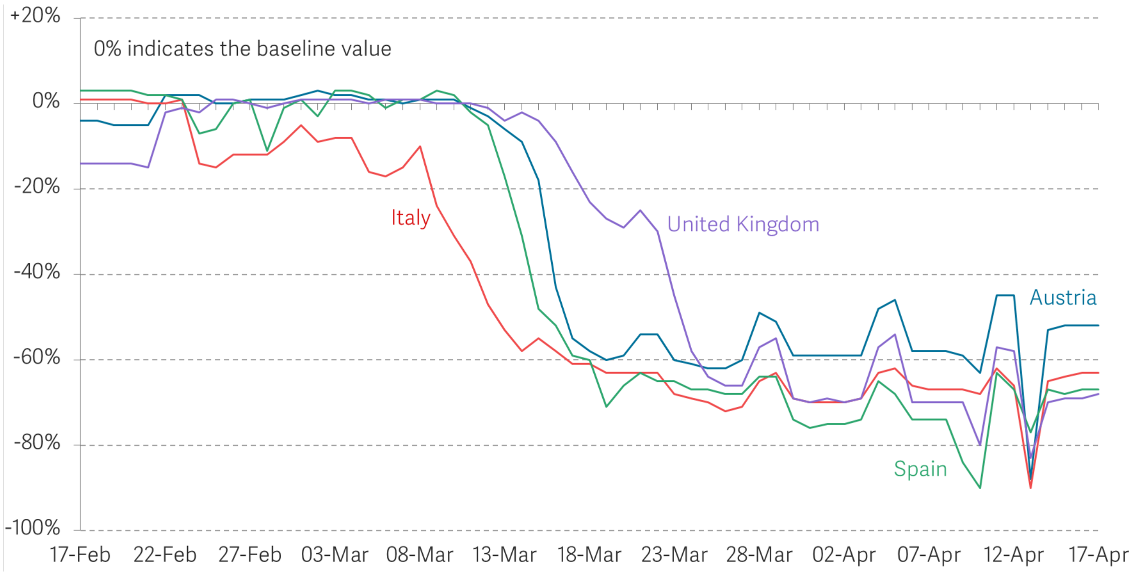


Notes: indicator includes responses to questions regarding financial situation over previous and next 12 months, the general economic situation over the next 12 months, and major purchase intentions over the next 12 months.
Source: RF analysis of European Commission.

Economic activity is closely linked with the mobility of goods and services. Workplace movement has been affected markedly by the necessary restrictions and shutdown of key parts of the economy. A fall-off in physical movement, to and from work, has shown up in novel data sources. Figure 5 shows mobility trends for places of work using Google location data. Travel to places of work is down by 68 per cent in the UK compared to typical levels. While it is tricky to compare this data across countries, they show the effect of the of the later adoption of social distancing measures in the UK, with more recent data consistent with those European countries with the most stringent lockdowns. As restrictions are eased we will continue to monitor how this affects movement across and within countries.

Figure 5 **Necessary lockdowns have restricted workplace movement**

Change in google mobility trends to places of work: selected countries, since February 17, 2020



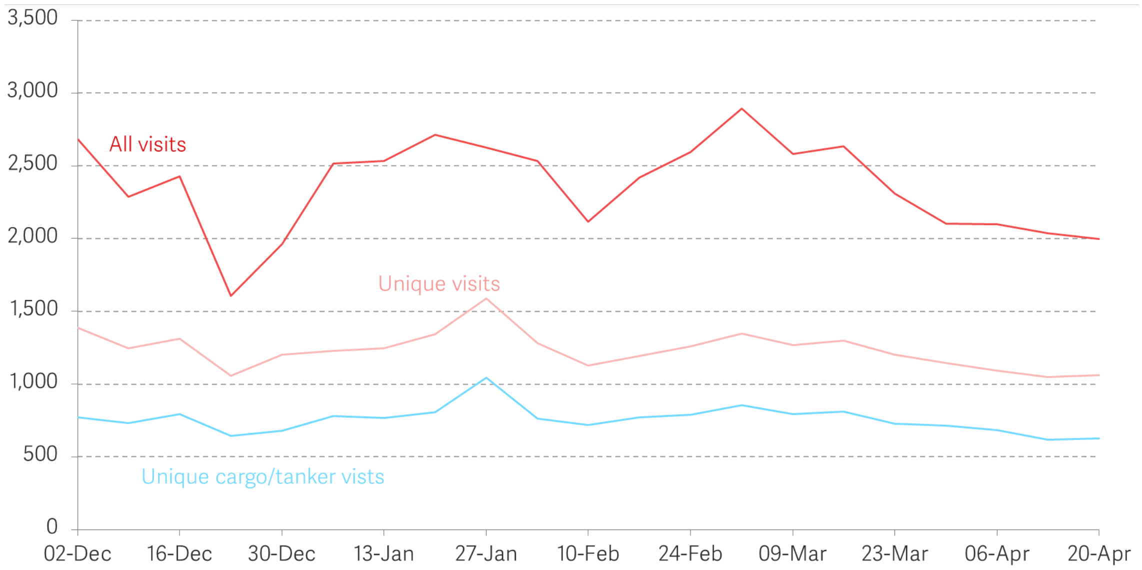
Notes: The data uses aggregated, anonymized data to chart movement trends over time by geography, across different high-level categories of places such as retail and recreation, groceries and pharmacies, parks, transit stations, workplaces, and residential. Location accuracy and the understanding of categorized places varies from region to region. Google recommends not using the data to compare places with different characteristics. The baseline is the median value, for the corresponding day of the week, during the 5- week period Jan 3–Feb 6, 2020.
Source: RF analysis of Google, Community Mobility Reports.

Trade

Weekly data on shipping volumes are continuing to show steady falls in the number of visits to UK ports (see Figure 6) – now down to levels only seen in the seasonally low-period of Christmas. These data are likely to lag the underlying economic effects given the lead time in shipping routes. This suggests that trade levels will continue to fall. Indeed, the World Trade Organisation has estimated that global trade is likely to fall between 13 and 32 per cent – larger than the falls during the financial crisis where world trade fell by 12 per cent from peak to trough. Reductions in global trade would typically be accompanied by slower productivity growth which could limit the ability of the economy to rebound quickly.

Figure 6 **UK shipping traffic has been falling slowly**

Shipping traffic into UK ports



Source: ONS.

Fiscal impacts

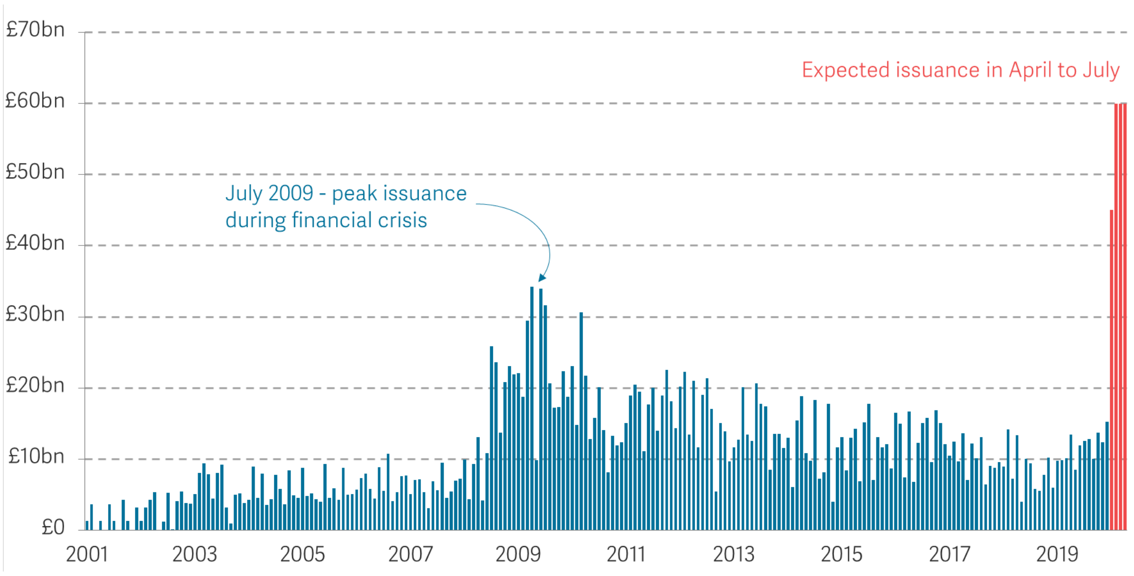
The direct policy measures taken by the Government to mitigate the economic crisis is estimated by the OBR to necessitate an increase in borrowing of £104 billion. In addition, the fall in economic activity will substantially reduce the Government's tax revenues and increase spending. It is unclear at this stage how much extra the Government will ultimately need to borrow (though it could reach as high as 38 per cent of GDP this year if social distancing measures are in place over the course of a year, as suggested by England's Chief Medical Officer at a recent Downing Street Press Conference). This would require the Government to raise an unprecedented amount of cash.

The Debt Management Office (DMO) has published their financing remit outlining how much the Government intends to raise in debt over the next three months and, as Figure 7 shows, the borrowing in each of the next three months will be higher than any single month during the financial crisis.

From a market perspective, the results of recent gilt auctions are encouraging, with high demand for UK Government debt. As Figure 8 shows, the cover ratios (the ratio of financial market bids for bonds to the amount of debt issued) have averaged above two since early March, although they have fallen slightly since earlier in April. Another metric of auction success, the yield tail (a measure of the range of bid prices where a larger spread indicates weaker demand), has remained low and fallen since late-March. But there will be a lot of supply for the market to absorb in the coming weeks and months, so we will continue to monitor developments here as a potential first sign of worries about debt sustainability.

Figure 7 **The Government intends to issue an unprecedented amount of debt**

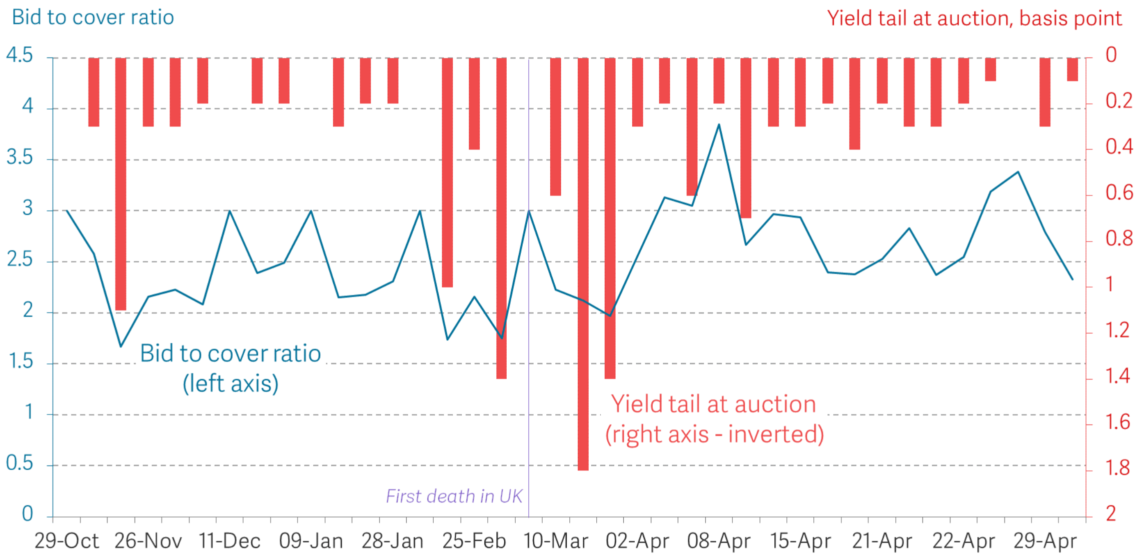
Real gilt issuance by the Debt Management Office, outturns and forecast



Notes: Figures show total issuance at operations in cash. Figures are adjusted into 2020-21 prices using the GDP deflator based on the most recent data from the Office for Budget Responsibility. The April 2020 forecast is based on the expected issuance this month and May to July is based on the DMO's financing remit.
Source: RF analysis of Debt Management Office.

Figure 8 **Financial markets have maintained high demand for government debt**

Bid to cover ratio and yield tail at Debt Management Office gilt auctions



Source: DMO; Worldometer.