

# **Economic Recovery Scenarios for SEMLEP**

September 2020

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**Disclaimer**

This data pack is based on initial scenario development and information gathering, in accordance with the specification for the work and for the purposes of preparing a draft report. This analysis contains a number of outstanding matters that may be subject to clarification or confirmation. In addition, all outputs are subject to our internal review procedures and accordingly, we reserve the right to add, delete and/or amend the finding as appropriate. No party may place any reliance whatsoever upon these draft findings.

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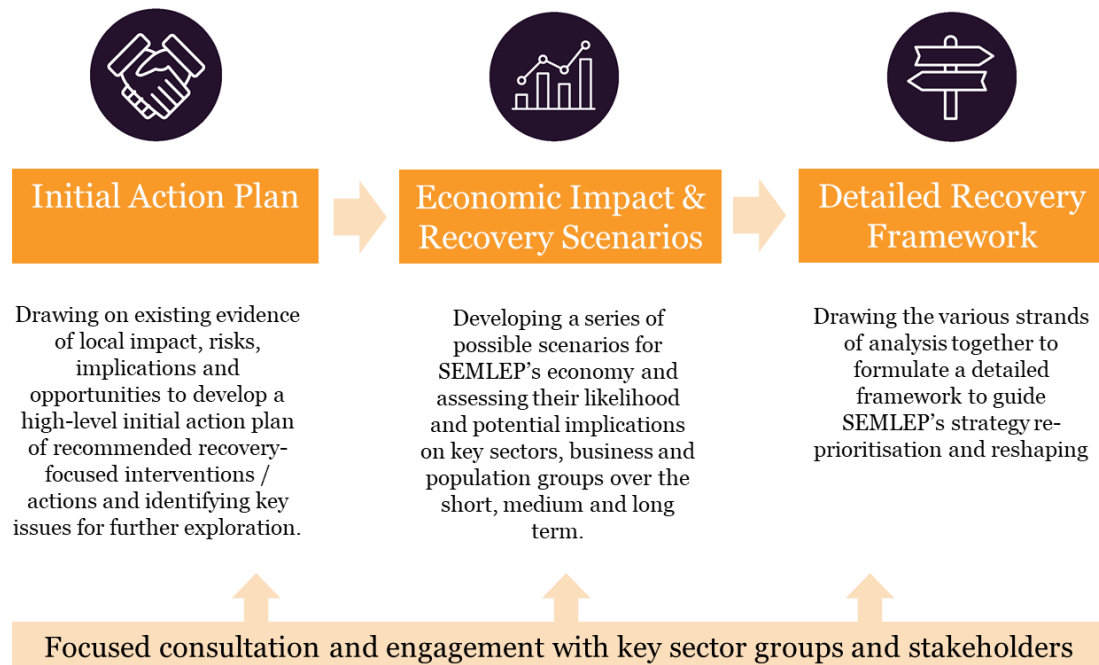
# Introduction

- The South East Midlands Local Enterprise Partnership ('SEMLEP') and its local partners have been working together to understand and respond to the challenges of COVID-19, including its impacts upon the priorities set out in the Local Industrial Strategy for the South East Midlands.
- As part of this, SEMLEP has commissioned planning and economic development consultancy Lichfields to develop a series of possible local scenarios for the LEP area that consider and test different trajectories of COVID-19 economic impact and recovery over the next few years and assess (as far as possible) the likelihood and potential implications these pose for different segments of the local economy and population.
- This paper summarises the key outputs from this scenario development, framed around a '**central case scenario**' that draws upon local level economic forecasts recently prepared by Experian and is aligned with other macro level forecasts that have been prepared by the Office for Budget Responsibility (OBR).
- In recognition of the significant uncertainty associated with economic forecasting and scenario planning at this time, a '**downside scenario**' has also been prepared to test potential economic implications of wider macro risk factors to recovery such as a COVID-19 'second wave' and a 'no deal' outcome of the current Brexit negotiations with the European Union. Outputs are inevitably less granular with regard to individual sectors and locations within SEMLEP when compared with the central case scenario, and may need re-visiting as and when greater clarity is available.
- This scenario exercise is also intended to inform ongoing economic recovery work being undertaken by other partners across the Oxford-Cambridge Arc, although at this early stage it is not possible to make specific assumptions about future government investment or local policy aspirations across the Arc.

# **Approach to developing economic recovery scenarios**

# Developing an Economic Recovery Strategy for SEMLEP

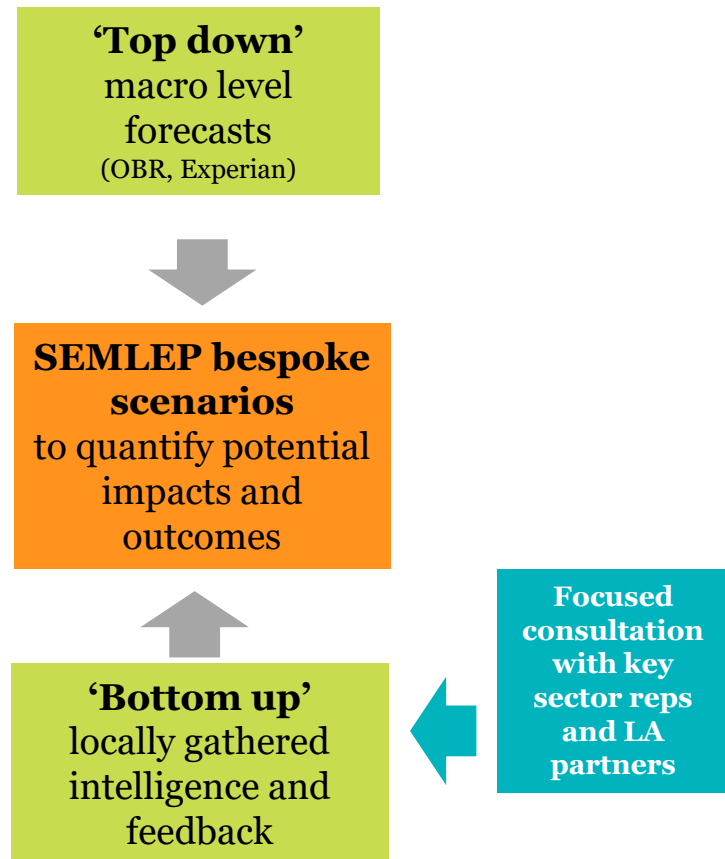
- Lichfields is currently supporting SEMLEP to (re)structure its strategic response to delivering economic and productivity growth in light of COVID-19 and the economic impacts, challenges and opportunities this is creating. This will provide a clear framework for judging where implementation actions and long-term commitments from the recently published Local Industrial Strategy (LIS) need to be re-prioritised and reshaped in order to frame the LEP's COVID-19 economic recovery strategy. The work is being carried out across a three stage approach as follows:



# Economic recovery scenarios

- To inform the Economic Recovery Strategy, two potential economic scenarios have been developed to test local implications, risks and opportunities associated with COVID-19, and to consider:
  - Implications for different sectors, locations and population groups
  - How might these scenarios influence and shape the LEP's economic recovery response
- These scenarios reflect two different trajectories of initial economic impact and subsequent recovery across the SEMLEP area based on latest available assumptions and intelligence.
- They have been informed by focused consultation and engagement with key LEP partners including Local Authority Officers and sector representatives.

## Approach to scenario development



# Important caveats

- Current economic scenarios and forecasts should be treated with a **high degree of caution**, are subject to greater than usual **uncertainty and volatility** and are under **constant review** as the economic situation evolves.
- Considerable uncertainty at the current time primarily relates to:
  - The course of the pandemic and speed with which effective vaccines and treatments become available; and
  - The pace of recovery and extent of long-term reduction in output arising from bankruptcies and necessary changes in the organisation of businesses.
- The scenarios presented in this paper are intended to illustrate the **possible** nature, pace and scale of future economic activity, recovery and growth, recognising the fast moving situation. This will need to be kept under constant review over the coming months and adapted as necessary to reflect COVID-19 developments, future government policy, and the UK's future relationship with the EU.
- 'Top down' economic forecasts provide the starting point for scenario development; they blend together a range of official data sources and assumptions but are inevitably '**policy off**' and do not specifically model or factor in particular policy aspirations, growth plans or planned investments within a local area.
- It should also be noted that economic forecasts draw together a wide range of official data sources to provide an indication of the scale and nature of economic activity over time and across different spatial scales, with resulting economic metrics (such as local area employment) therefore not directly comparable with individual sources and datasets. **For the purposes of this economic recovery scenario exercise, they are used to illustrate potential trends across the SEMLEP area and relative variation between different sectors and locations, rather than to predict absolute change and impact.**

**Central recovery scenario**



# A guide to the central scenario (1)

- The central recovery scenario blends together latest macro economic forecasts prepared by the OBR and Experian in July 2020. These provide a ‘top down’ macro-level perspective about how SEMLEP’s economy could respond to the short, medium and longer term implications of COVID-19 and associated economic disruption that the pandemic has caused.
- To ensure the central scenario reflects the local situation across SEMLEP as far as possible, consultation was undertaken in late August/early September with local authority and sector partners to gather ‘bottom up’ locally gathered intelligence to feed into the analysis.
- The consultation exercise identified the need to make a number of adjustments to the assumptions applied as part of the initial top down economic forecasts to better reflect local impacts, challenges and growth opportunities for SEMLEP arising from COVID-19.
- These adjustments have subsequently been made by Lichfields to finalise the central recovery scenario presented in this paper, and involved:
  - Reducing the overall pace of economic recovery across SEMLEP implied by the Experian economic forecasts to bring the recovery trajectory more in line with OBR’s ‘central case’ scenario;
  - Moderating Luton’s overall employment and economic output/GVA recovery trajectory to match the SEMLEP-wide average;
  - Increasing the scale of recovery and longer term growth of Kettering’s logistics sector to match the SEMLEP-wide average; and
  - Adjusting agriculture sector recovery and growth trajectory from one of decline to consistent/maintained employment and output over the 10 year recovery time period considered.

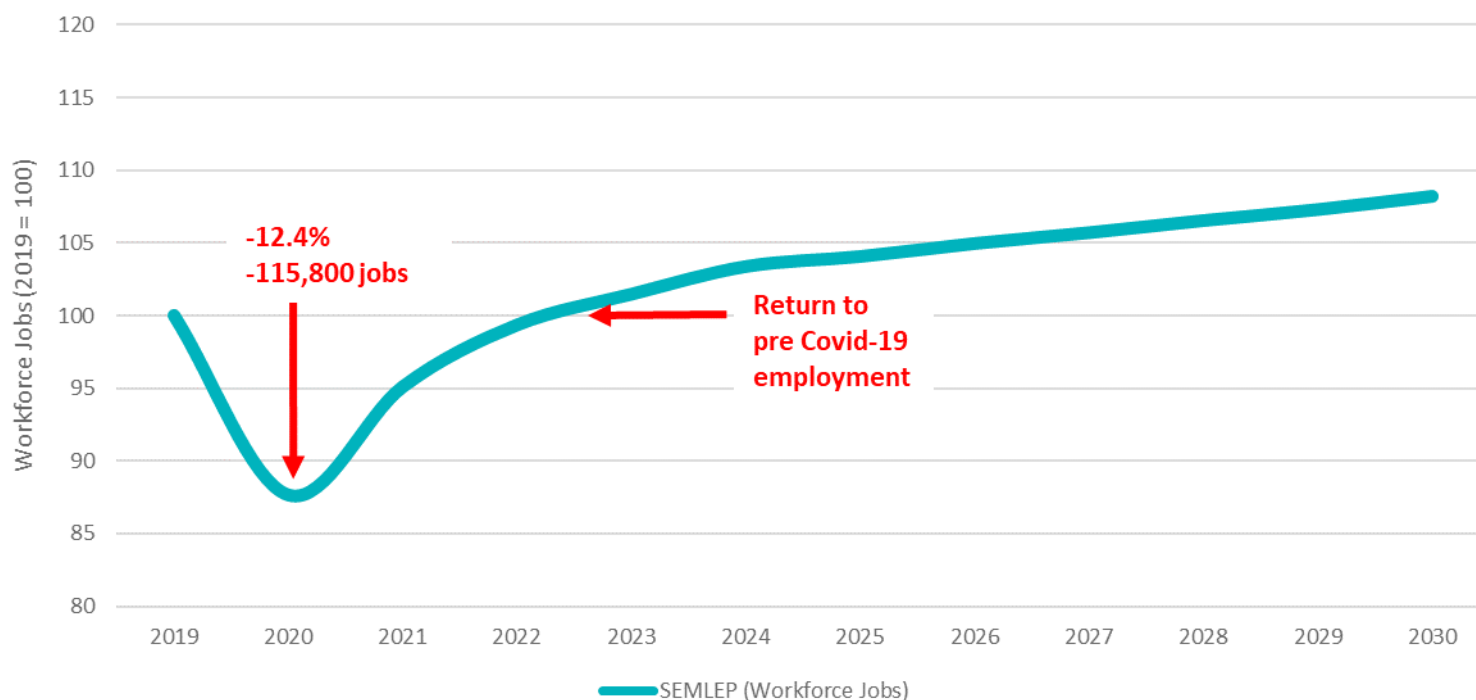
# A guide to the central scenario (2)

- The central recovery scenario focuses on two metrics that represent key indicators of economic performance, change and recovery from COVID-19:
  - 1. Employment**, measured in terms of total workforce/workplace jobs; and
  - 2. Economic output**, measured in terms of Gross Value Added (GVA).
- The scenario considers how each of these metrics could change over the next 10 years as the SEMLEP area economy recovers from the impacts of COVID-19 and eventually returns to growth. Outputs are presented by the following broad time periods:
  - **2019-2020**: to reflect immediate impacts of COVID-19 on economic activity;
  - **2019-2022**: to reflect short term impacts and the early stages of economic recovery;
  - **2019-2025**: to reflect medium term impacts and economic recovery; and
  - **2019-2030**: to reflect longer term impacts and economic recovery.
- Outputs from the central recovery scenario are presented in this paper for the SEMLEP area as a whole. This is based on aggregating more detailed data for individual sectors of the economy (x 20) and for each local authority area within SEMLEP (x 11).

# Key scenario assumptions

- Economic recovery follows a ‘delayed V-shape’ with an overall GDP reduction of 12% for the UK in 2020 following sharp decline recorded in April as lockdown measures and social distancing stifled consumer spending.
- GDP ‘bottoms out’ in April and May, underpinning a return to growth in quarter 3 of 2020, but it could take up to three years before UK output returns to 2019 (i.e. pre-COVID-19) levels.
- Consistent with hesitancy on the part of people to return to normal patterns of economic behaviour even as lockdown measures are progressively eased.
- Though viewed as a temporary shock, COVID-19 has already had, and will continue to have, a significant impact on all sectors of the economy.
- Extremely uncertain longer-term outlook, with significant threat of a second wave of COVID-19 cases later in the year, and renewed bout of job shedding as government support measures (such as the Coronavirus Job Retention Scheme) unwind.
- The UK is assumed to move in an orderly fashion to a new trading arrangement with the EU, with the effect broadly consistent with the terms of a conventional free trade agreement. A ‘no deal’ outcome represents a downside risk.
- **The central recovery scenario does not specifically factor in a second wave of COVID-19 infections or a ‘no-deal’ Brexit at the end of the year.**
- **It should be noted that current economic scenarios and forecasts should be treated with a high degree of caution, are subject to greater than usual uncertainty and volatility and are under constant review as the economic situation evolves. Macro forecasts will be updated over the coming months to reflect the latest COVID-19 developments, emerging government policy, and once further clarity is available regarding the UK’s economic and trading relationship with the EU.**

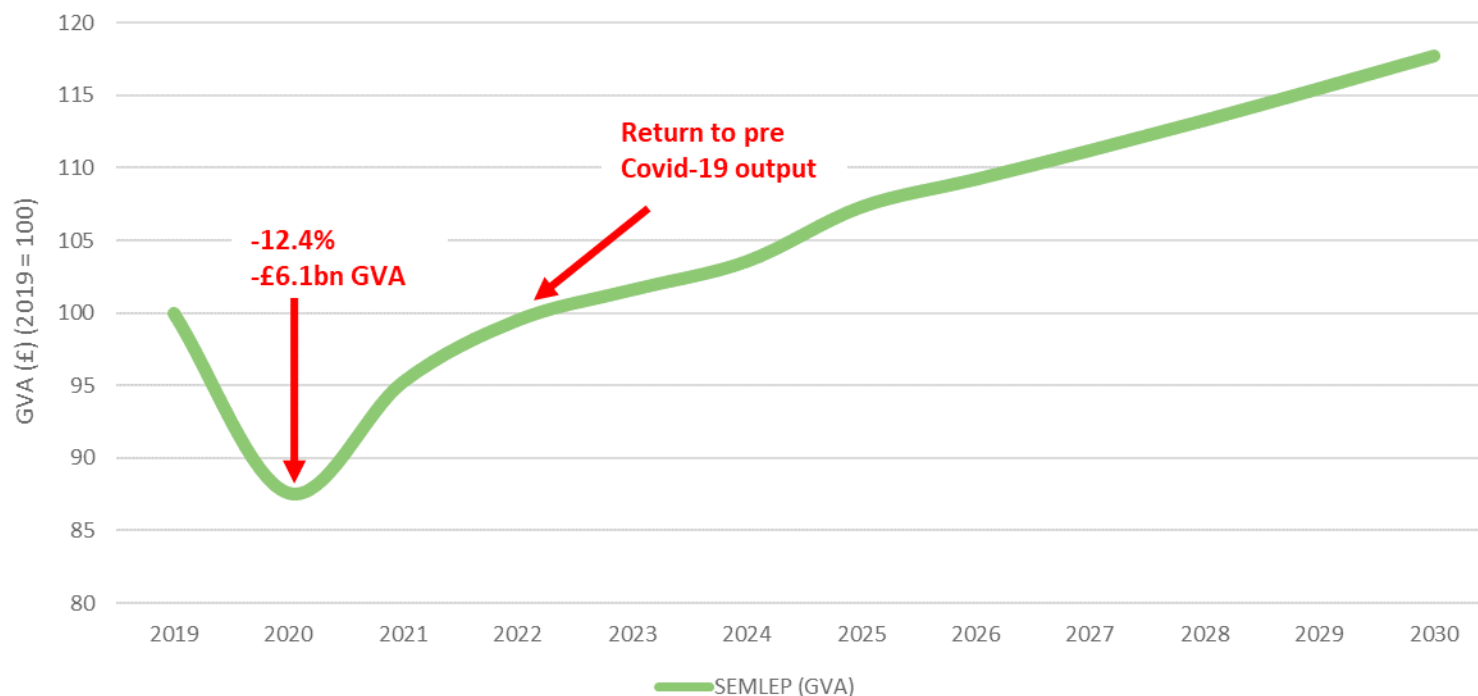
# SEMLEP employment scenario



	Workforce Job Change	
	Number	%
<b>2019-2020</b>	-115,800	-12.4
<b>2019-2022</b>	-6,100	-0.7
<b>2019-2025</b>	+38,000	+4.1
<b>2019-2030</b>	+76,800	+8.2

Source: Experian July 2020 / OBR July 2020 / Lichfields analysis

# SEMLEP economic output scenario

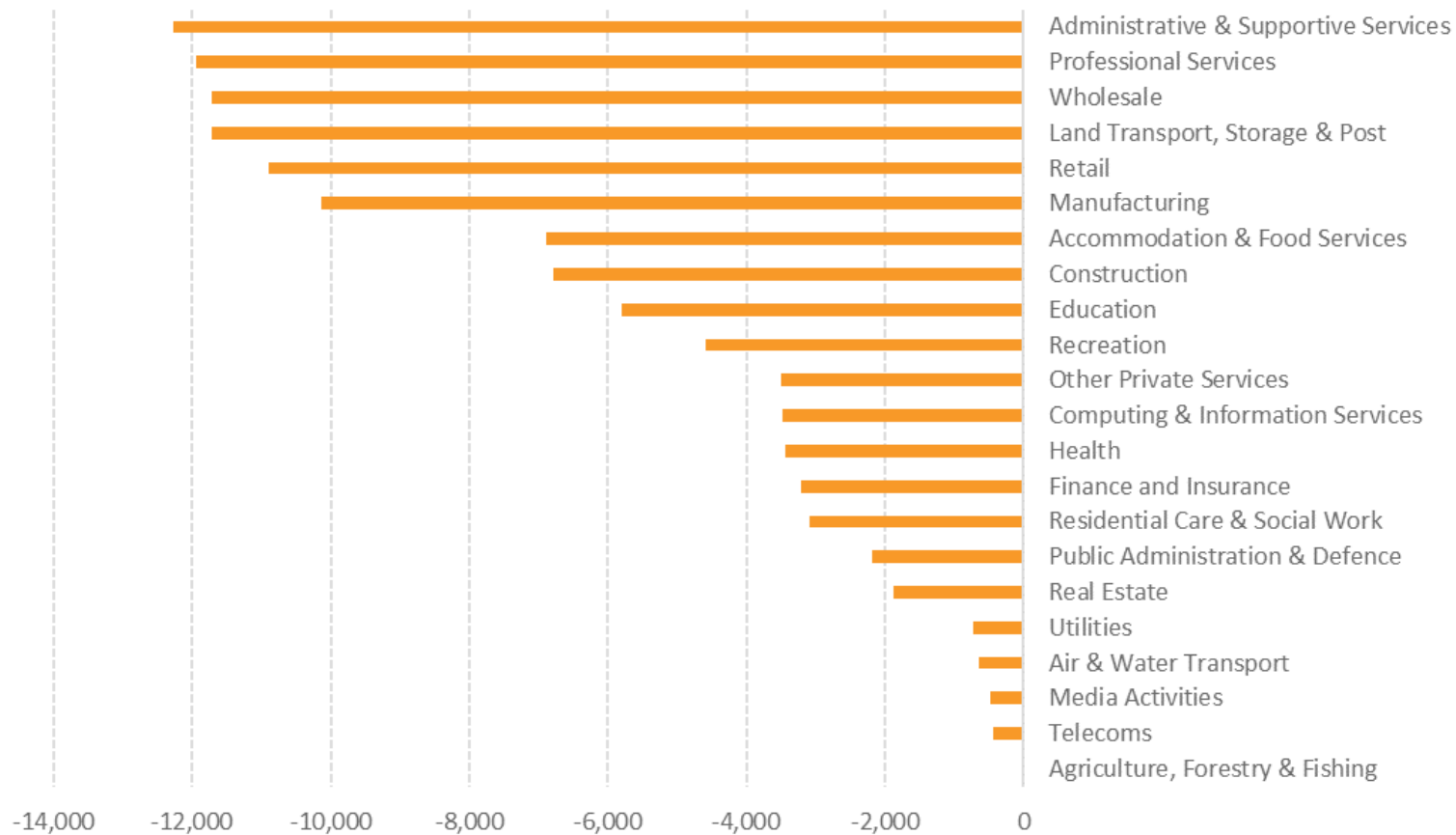


	Economic Output (GVA) Change	
	Absolute Change	%
<b>2019-2020</b>	-£6.1bn	-12.4
<b>2019-2022</b>	-£236m	-0.5
<b>2019-2025</b>	+£3.6bn	+7.3
<b>2019-2030</b>	+£8.7bn	+17.7

Source: Experian July 2020 / OBR July 2020 / Lichfields analysis

# Sector impacts & outlook: short term

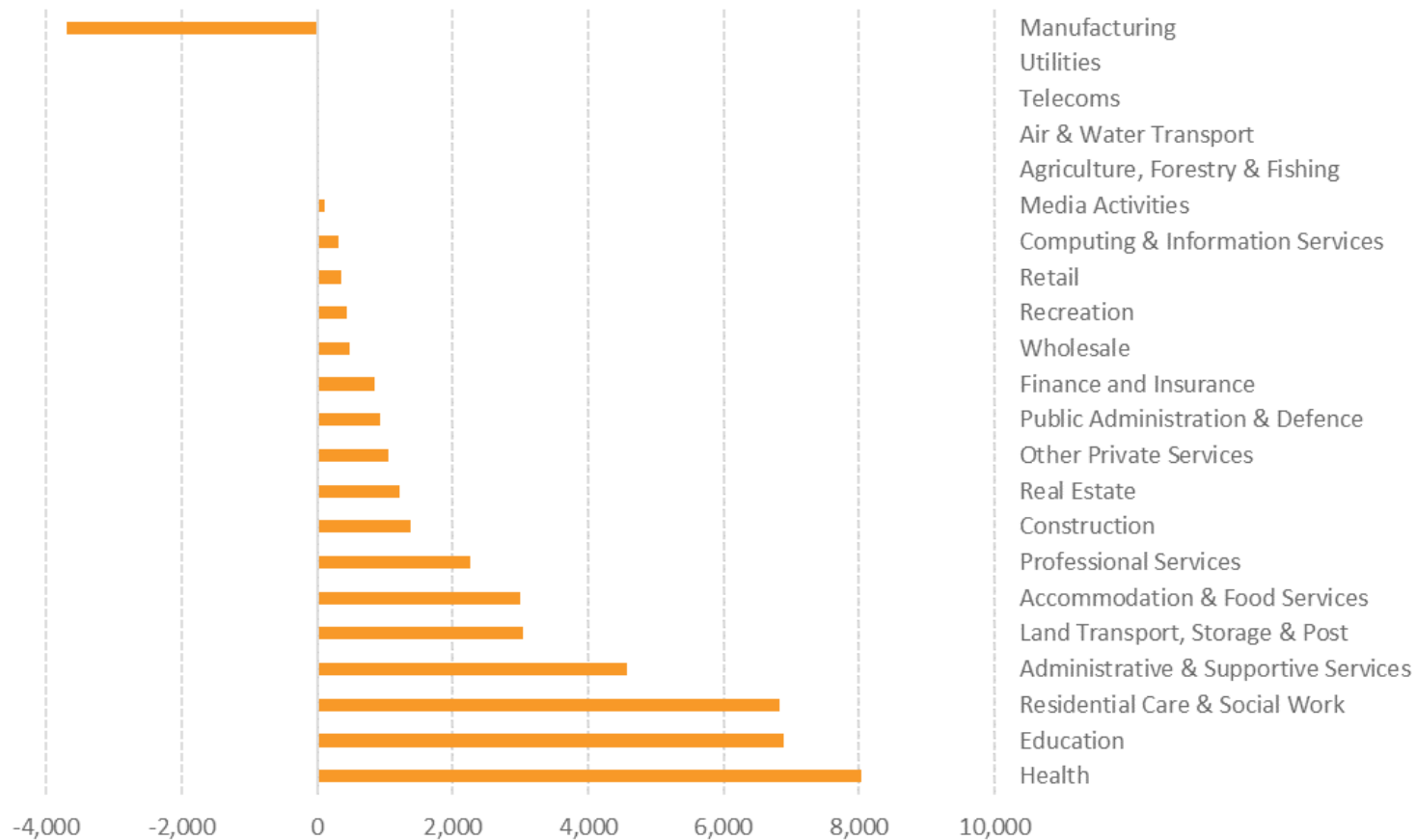
SEMLEP Workforce Job Change 2019-2020



Source: Experian July 2020 / OBR July 2020 / Lichfields analysis

# Sector impacts & outlook: medium term

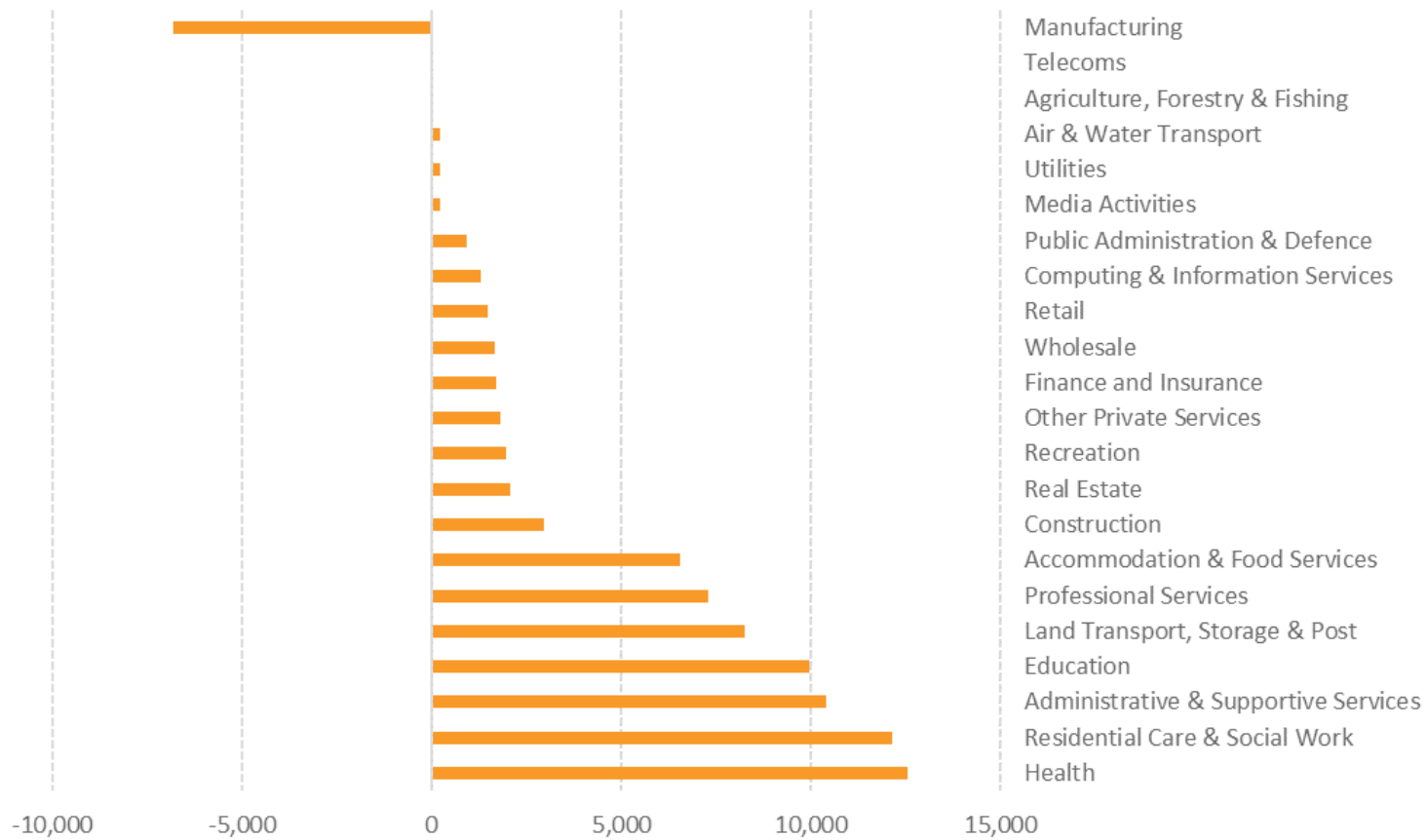
SEMLEP Workforce Job Change 2019-2025



Source: Experian July 2020 / OBR July 2020 / Lichfields analysis

# Sector impacts & outlook: longer term

SEMLEP Workforce Job Change 2019-2030



Source: Experian July 2020 / OBR July 2020 / Lichfields analysis



# Sectors: greatest short term decline

## 2019-2020

	Sector	Greatest Local Impacts
<b>Absolute Job Decline</b>	<ul style="list-style-type: none"> <li>Admin &amp; support services</li> <li>Professional services</li> <li>Wholesale</li> <li>Land transport, storage &amp; post</li> <li>Retail</li> </ul>	<ul style="list-style-type: none"> <li>MK, Luton, Northampton</li> <li>MK, Central Beds, Northampton</li> <li>MK, Northampton</li> <li>MK, Northampton, Central Beds</li> <li>MK, Northampton, Central Beds, Bedford</li> </ul>
<b>% Job Decline</b>	<ul style="list-style-type: none"> <li>Air &amp; water transport</li> <li>Recreation</li> <li>Telecoms</li> <li>Professional services</li> <li>Retail</li> </ul>	<ul style="list-style-type: none"> <li>Luton</li> <li>Corby, East Northants, South Northants</li> <li>Bedford, MK, Luton</li> <li>Wellingborough, Corby, South Northants</li> <li>South Northants, Daventry, Kettering, Corby</li> </ul>

# Sectors: driving economic recovery

## 2019-2025

	Sector	Greatest Local Impacts
<b>Absolute Job Growth</b>	<ul style="list-style-type: none"> <li>Health</li> <li>Education</li> <li>Social care</li> <li>Admin &amp; support services</li> <li>Land transport, storage &amp; post</li> </ul>	<ul style="list-style-type: none"> <li>Northampton, MK, Luton, Kettering</li> <li>MK, Central Beds, Luton, Northampton</li> <li>MK, Northampton, Central Beds, Luton</li> <li>MK, Luton, Northampton</li> <li>MK, Northampton, Daventry, Corby</li> </ul>
<b>% Job Growth</b>	<ul style="list-style-type: none"> <li>Social care</li> <li>Health</li> <li>Education</li> <li>Real estate</li> <li>Accommodation &amp; food services</li> </ul>	<ul style="list-style-type: none"> <li>Corby, MK, Kettering, Wellingborough</li> <li>Corby, MK, Kettering</li> <li>Corby, Central Beds, Wellingborough, Daventry</li> <li>Central Beds, Bedford, Luton</li> <li>MK, Northampton, Corby</li> </ul>

# Sectors: strongest growth potential

## 2019-2030

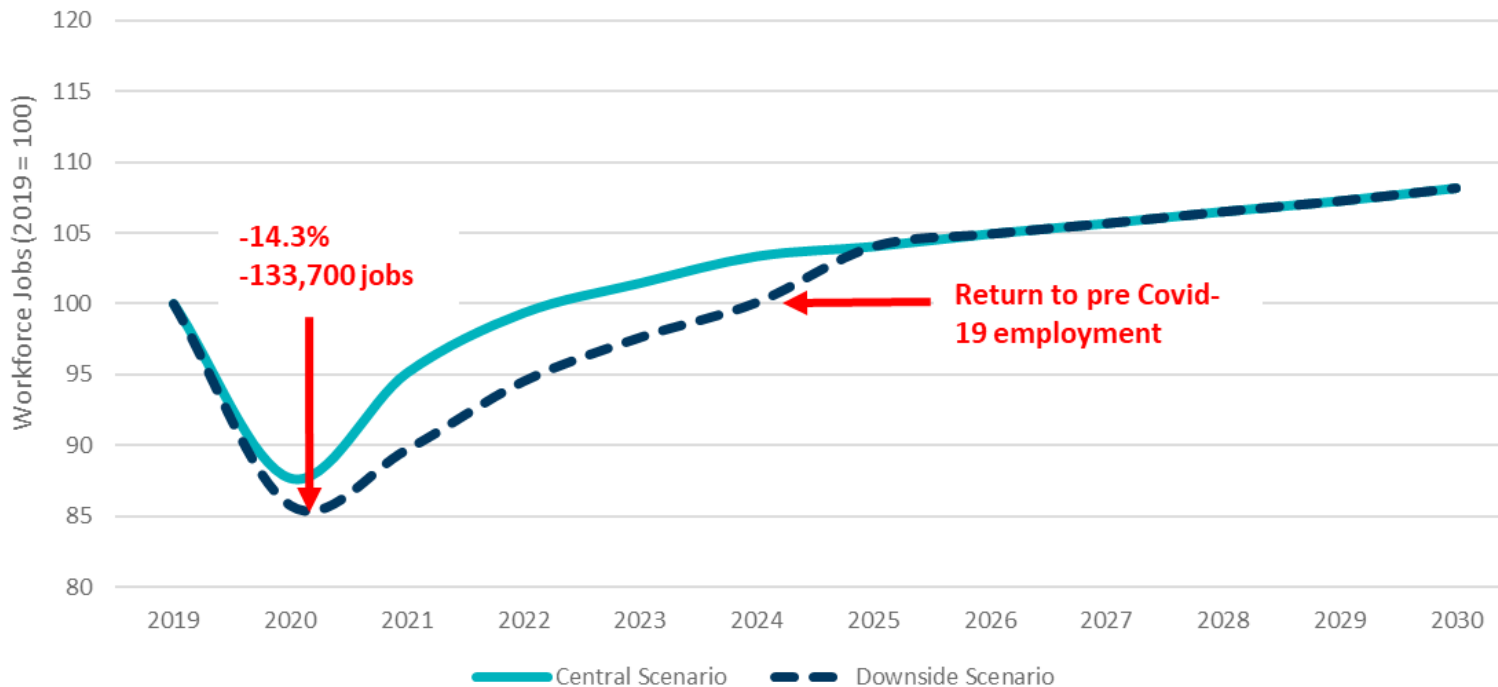
	Sector	Greatest Local Impacts
<b>Absolute Job Growth</b>	<ul style="list-style-type: none"> <li>▪ Health</li> <li>▪ Social care</li> <li>▪ Admin &amp; support services</li> <li>▪ Education</li> <li>▪ Land transport, storage &amp; post</li> </ul>	<ul style="list-style-type: none"> <li>▪ MK, Northampton, Luton</li> <li>▪ MK, Northampton, Luton, Central Beds</li> <li>▪ MK, Luton, Northampton, Central Beds</li> <li>▪ MK, Central Beds, Luton, Northampton</li> <li>▪ MK, Northampton, Central Beds</li> </ul>
<b>% Job Growth</b>	<ul style="list-style-type: none"> <li>▪ Social care</li> <li>▪ Health</li> <li>▪ Real estate</li> <li>▪ Accommodation &amp; food services</li> <li>▪ Education</li> </ul>	<ul style="list-style-type: none"> <li>▪ MK, Northampton, Luton</li> <li>▪ Corby, Kettering, MK, South Northants</li> <li>▪ Central Beds, Northampton, Bedford</li> <li>▪ MK, Northampton, Corby</li> <li>▪ Corby, MK, Wellingborough</li> </ul>

**Downside recovery scenario**

# Developing a ‘downside’ scenario

- In recognition of the significant uncertainty associated with economic forecasting and scenario planning at this time, a **‘downside scenario’** has also been prepared to test potential economic implications of wider macro risk factors to recovery – which could include a COVID-19 ‘second wave’ and/or a ‘no deal’ Brexit during the latter part of 2020.
- This applies the OBR’s ‘downside’ macro economic scenario as a proxy for the SEMLEP area, and implies:
  - A bigger short term economic ‘hit’ or impact on local levels of activity;
  - Economic activity recovers even more slowly than the central scenario, with pre COVID-19 levels of activity returning by 2024 (1 year later than the central scenario);
  - Consistent with the indefinite maintenance of strong social distancing measures as the virus becomes endemic and without an effective treatment;
  - Would result in a more significant loss of business investment, more firm failures and persistently high unemployment as the economy undergoes significant restructuring; and
  - First wave ‘lockdown’ sectors and import/export intensive sectors are likely to feel the greatest effects of a second wave of COVID-19 cases and a ‘no deal’ Brexit.
- This responds to feedback gathered through the consultation exercise with SEMLEP partners regarding the need to specifically account for some of these wider risks as far as possible, but also noting the considerable uncertainty surrounding both further waves of COVID-19 cases (and any associated lockdown/economic restrictions) and the UK’s future trading relationship with the European Union.
- Outputs are inevitably less granular with regard to individual sectors and locations within SEMLEP when compared with the central case scenario, and may need re-visiting as and when greater clarity is available.

# Downside scenario: employment

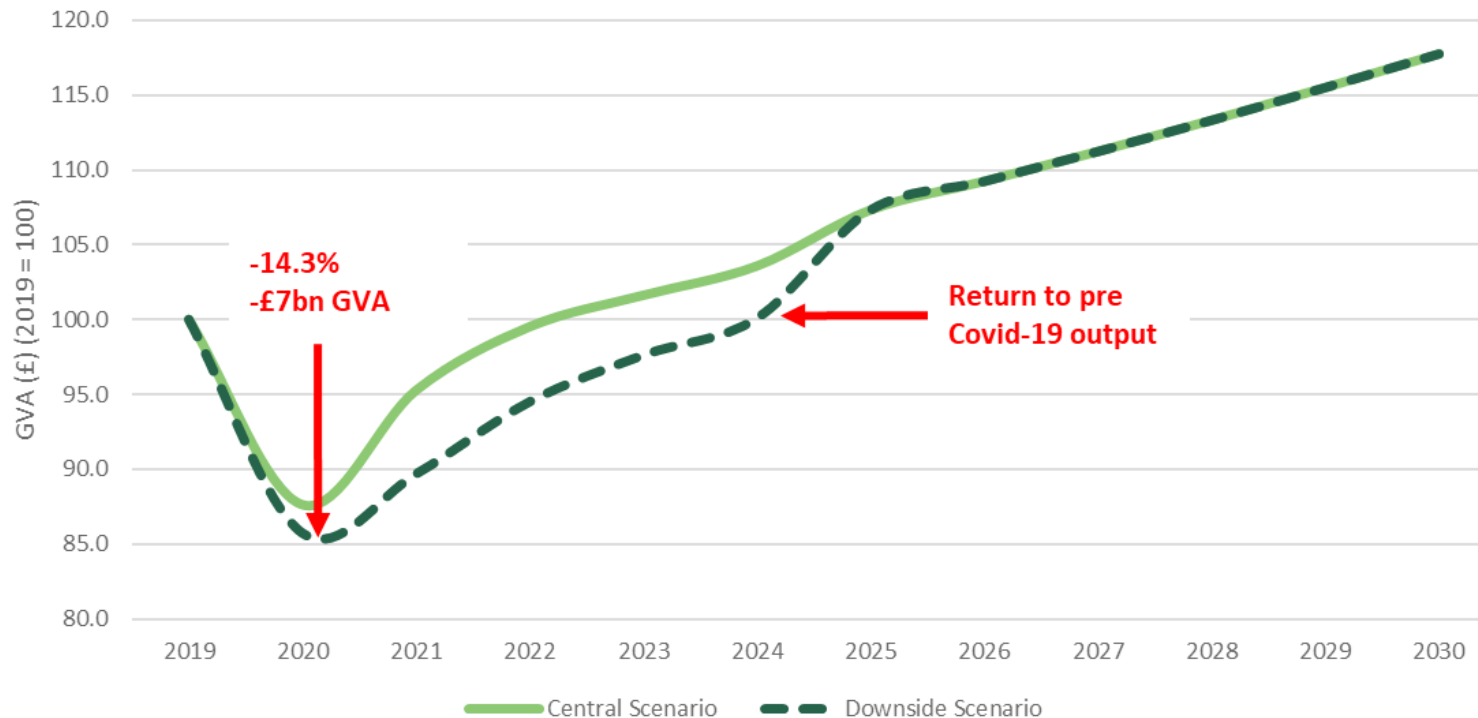


## Key impacts over and above central case scenario

- An additional 18,000 (15%) job losses across SEMLEP in 2020
- 31,000 fewer jobs in SEMLEP by 2024
- Return to pre Covid-19 employment by 2024
- Catching-up with central case growth trajectory by 2025

Source: Experian July 2020 / OBR  
July 2020 / Lichfields analysis

# Downside scenario: economic output



## Key impacts over and above central case scenario

- Economic output declines by a further £1bn (15%) across SEMLEP in 2020
- SEMLEP's economy generates £1.7bn less GVA by 2024
- Return to pre Covid-19 output by 2024
- Catching-up with central case growth trajectory by 2025

Source: Experian July 2020 / OBR  
July 2020 / Lichfields analysis

**Emerging implications and  
distributional effects**



# Emerging implications

## Short term impacts

- The scale of short term impact from COVID-19 upon SEMLEP's economy is likely to be significant, equivalent to a loss of between 116,000 and 134,000 workforce jobs and between £6.1bn and £7.1bn of economic output (GVA) in 2020 alone.
- Whilst no sector has escaped the short term disruption, this scenario exercise suggests that those sectors likely to be impacted most in absolute employment terms include **admin & support services, professional services, wholesale, land transport, storage & post** and **retail**.
- This sector profile translates into short term economic impacts being felt most acutely within SEMLEP's largest economies of **Milton Keynes, Northampton** and **Central Beds**, reflecting their comparatively high economic base pre COVID-19.
- In proportionate terms, the most significant short term employment losses are expected within the **air & water transport, recreation** and **telecoms** sectors. In these cases, spatial impacts across SEMLEP are more nuanced, with a broader range of locations exposed to large percentage declines in employment in 2020 reflecting particular concentrations of key sector activity (such as air transport in Luton).

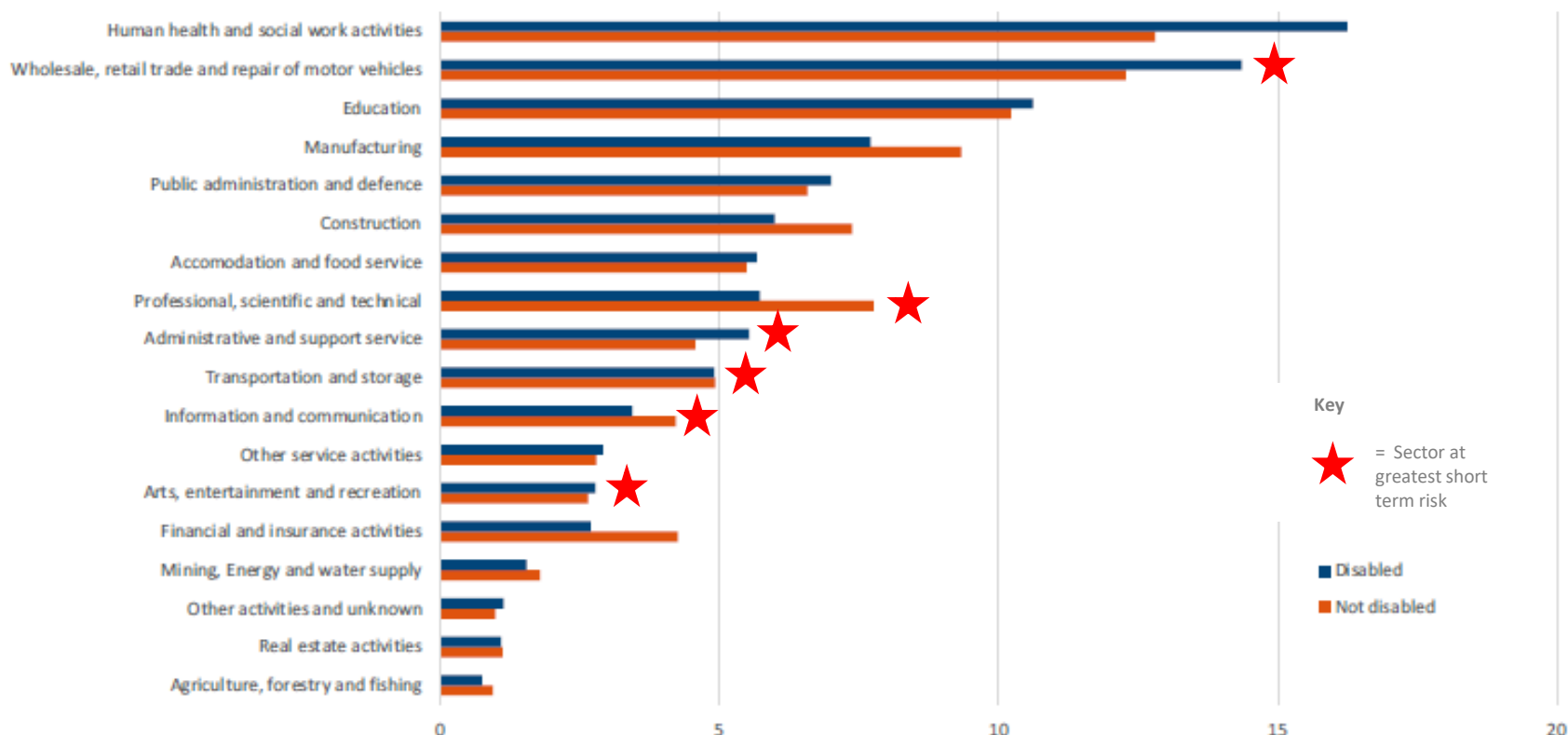
## Economic recovery

- The severity of economic disruption means that it is likely to take between 3 and 4 years for the SEMLEP area to return to pre COVID-19 levels of economic activity.
- Whilst the fast moving situation makes the pace and nature of economic recovery highly uncertain, this scenario development exercise identifies significant scope for targeted intervention by the LEP and its partners to both ameliorate negative economic effects as far as possible and accelerate economic recovery in those locations and sectors that offer greatest potential to rebound and drive a return to growth.
- For instance, some of the sectors expected to be impacted hardest over the short term (e.g. land transport, storage & post, and admin & support services) also offer significant potential to drive medium term recovery and longer term growth within SEMLEP, alongside key service sectors such as health and education.

# Sectors at risk of short term impact

The wholesale and retail sectors tend to employ a relatively high proportion of disabled workers compared with other sectors of the economy, and are amongst those at greatest risk of short term employment impacts across SEMLEP based on this scenario analysis.

Industry composition of disabled and non-disabled workers (per cent), working age, UK, April 2018 to March 2019

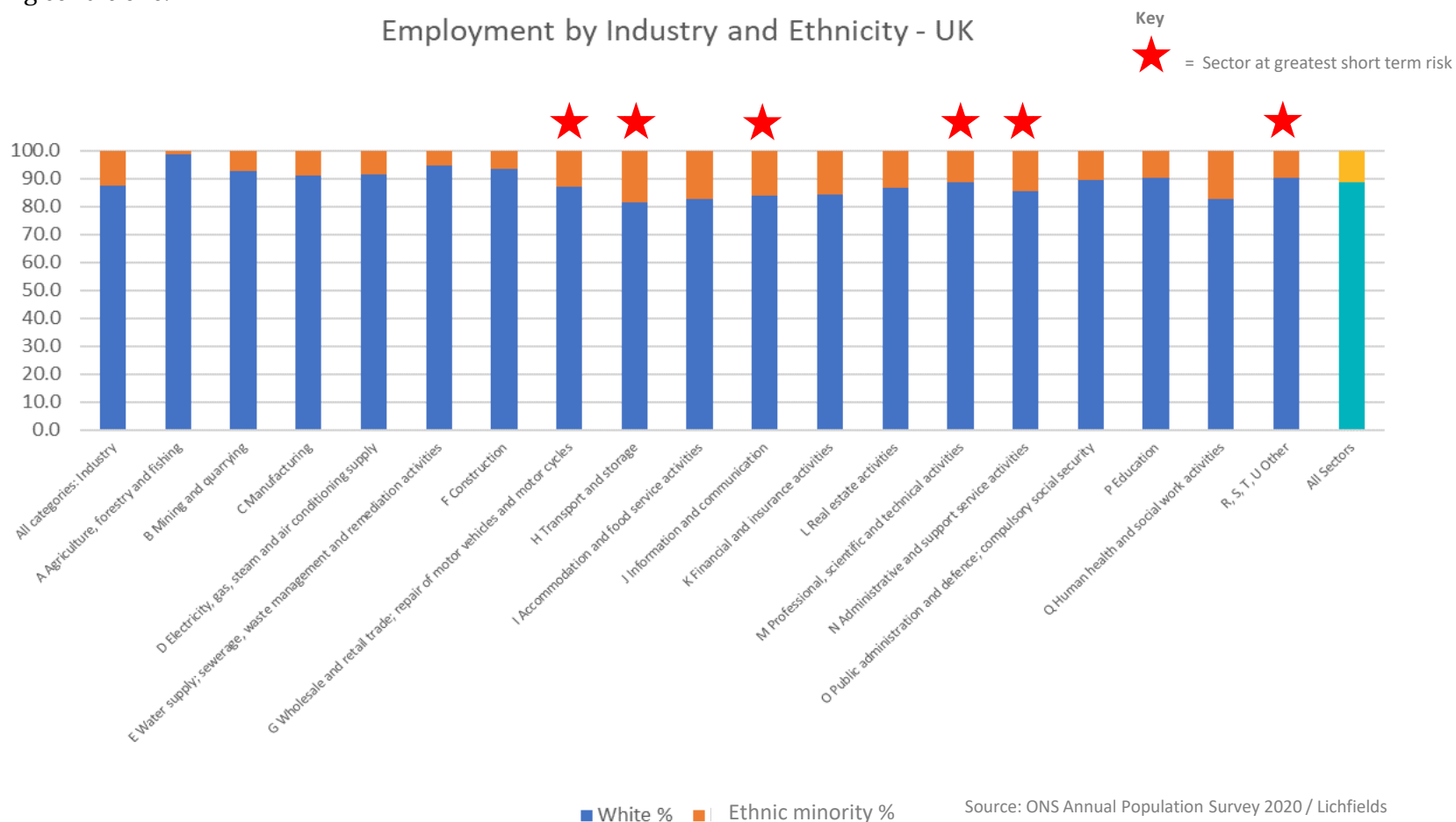


Source: Annual Population Survey, April 2018 to March 2019

Source: DWP / DHSC, The Employment of Disabled People, March 2020

# Sectors at risk of short term impact

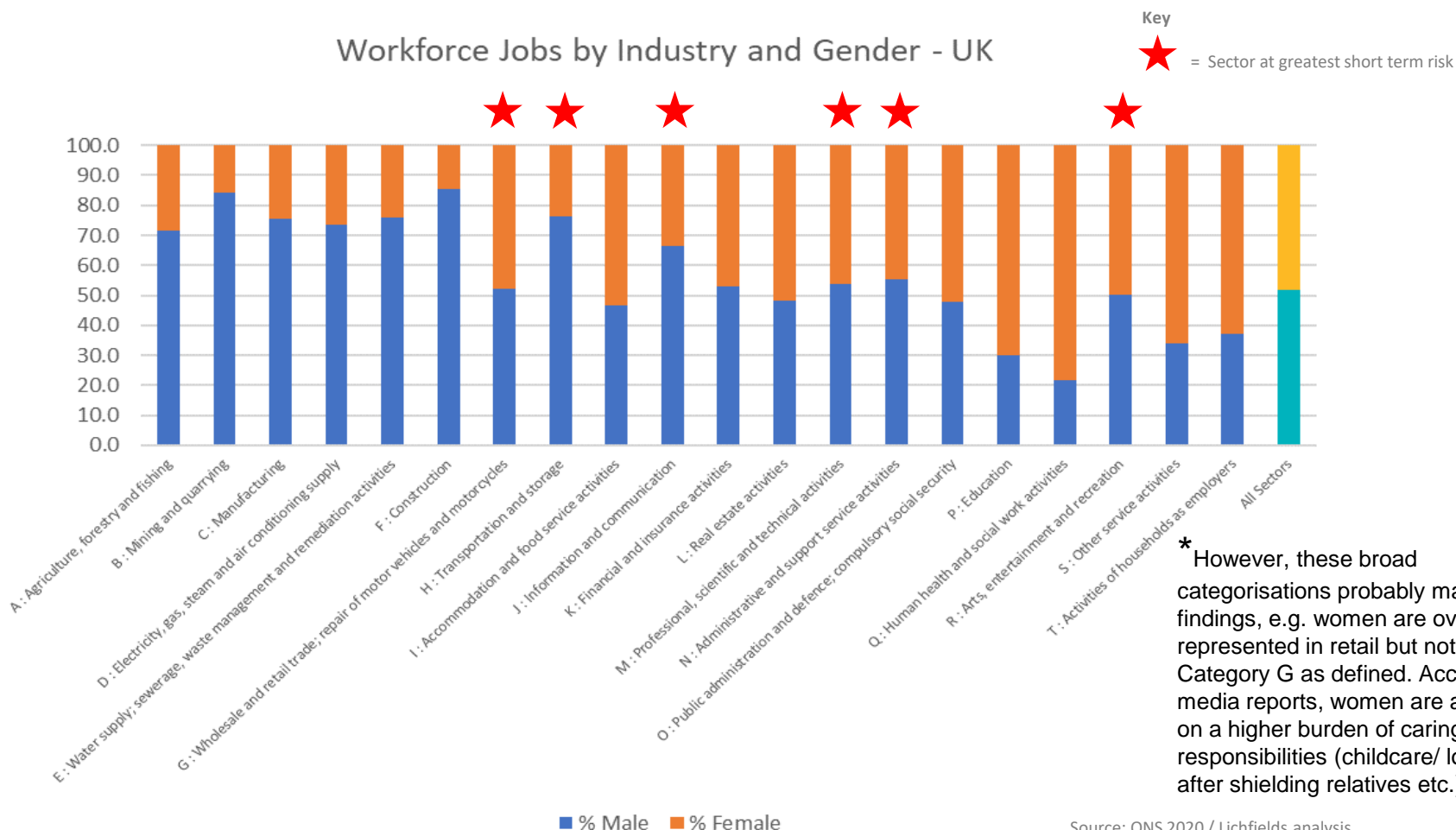
Some of the sectors expected to see greatest short term employment impact across SEMLEP employ disproportionately high numbers of workers from ethnic minorities, including transport & storage, ICT, admin & support services. These employees are likely to be at particular risk of unemployment over the short term as local businesses respond to the ongoing economic disruption and challenging trading conditions.



Source: ONS Annual Population Survey 2020 / Lichfields analysis

# Sectors at risk of short term impact

Those sectors expected to see greatest short term employment impacts within SEMLEP tend to have a fairly balanced male:female workforce\*, with transport & storage characterised by a high proportion of male workers at the national level.

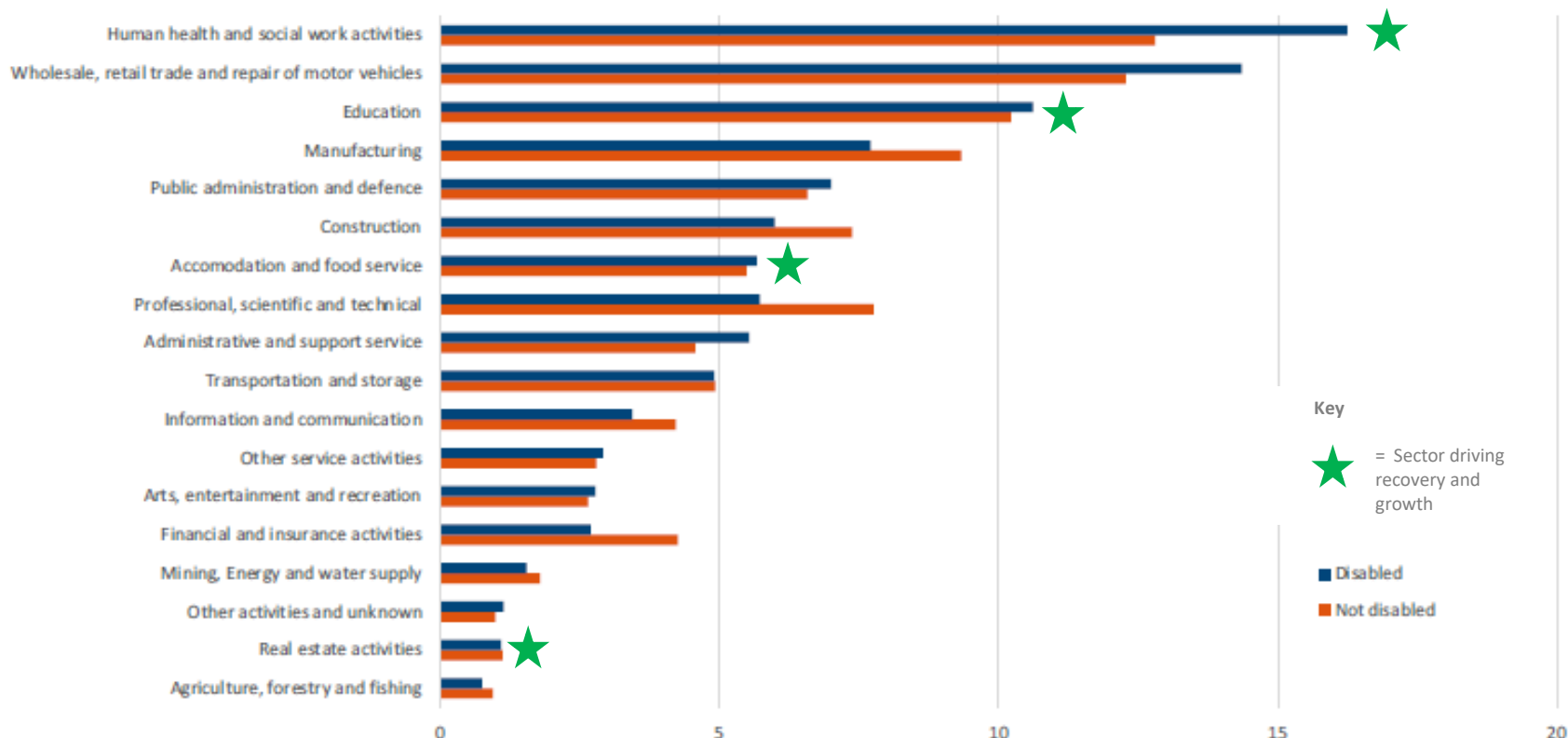


\* However, these broad categorisations probably mask some findings, e.g. women are over-represented in retail but not in Category G as defined. According to media reports, women are also taking on a higher burden of caring responsibilities (childcare/ looking after shielding relatives etc.)

# Sectors driving recovery and growth

The health and social care and education sectors provide an important source of employment for a large share of disabled workers nationally, and are expected to play a key role in driving economic recovery and growth across SEMLEP.

Industry composition of disabled and non-disabled workers (per cent), working age, UK, April 2018 to March 2019

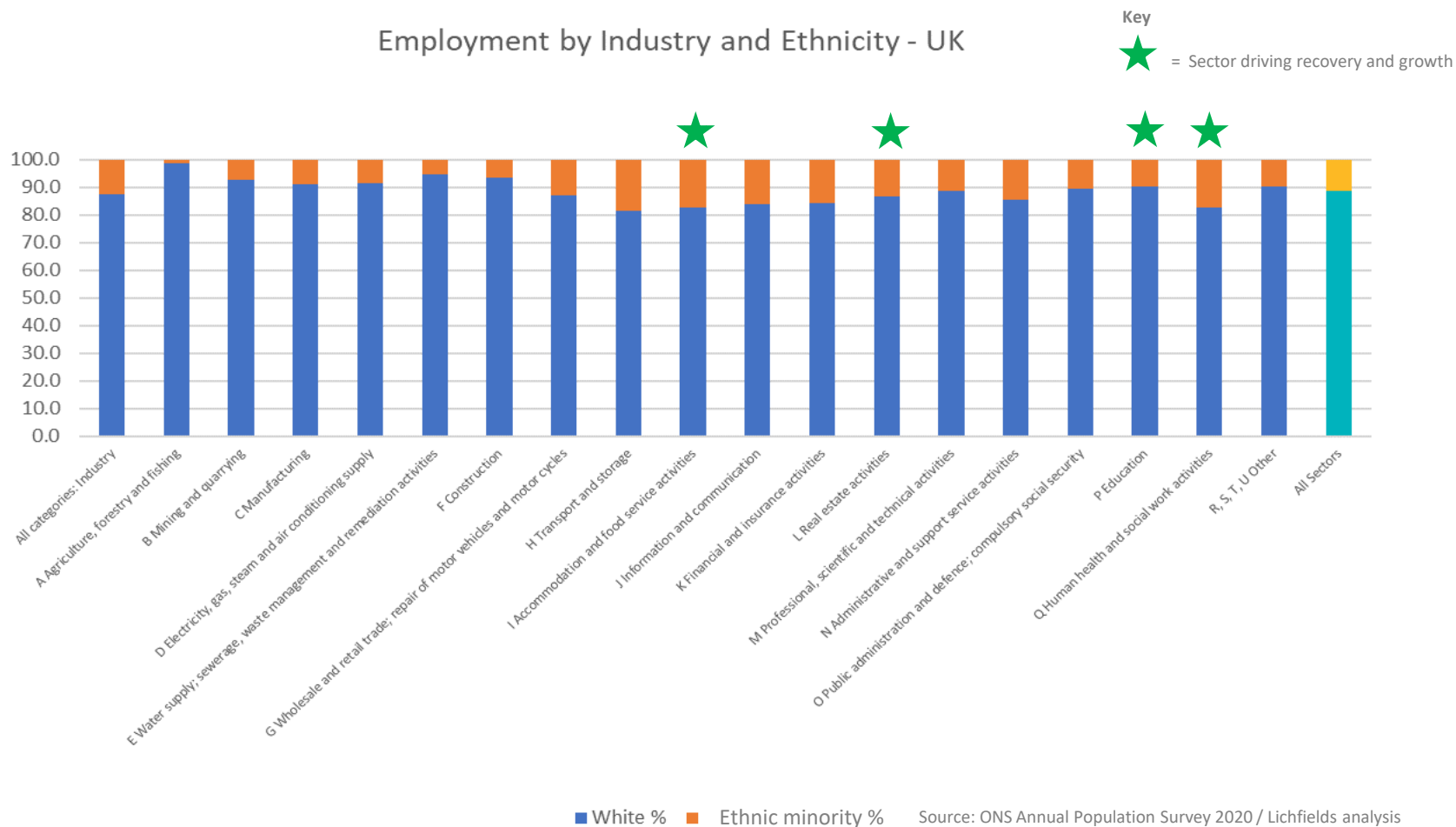


Source: Annual Population Survey, April 2018 to March 2019

Source: DWP / DHSC, The Employment of Disabled People, March 2020

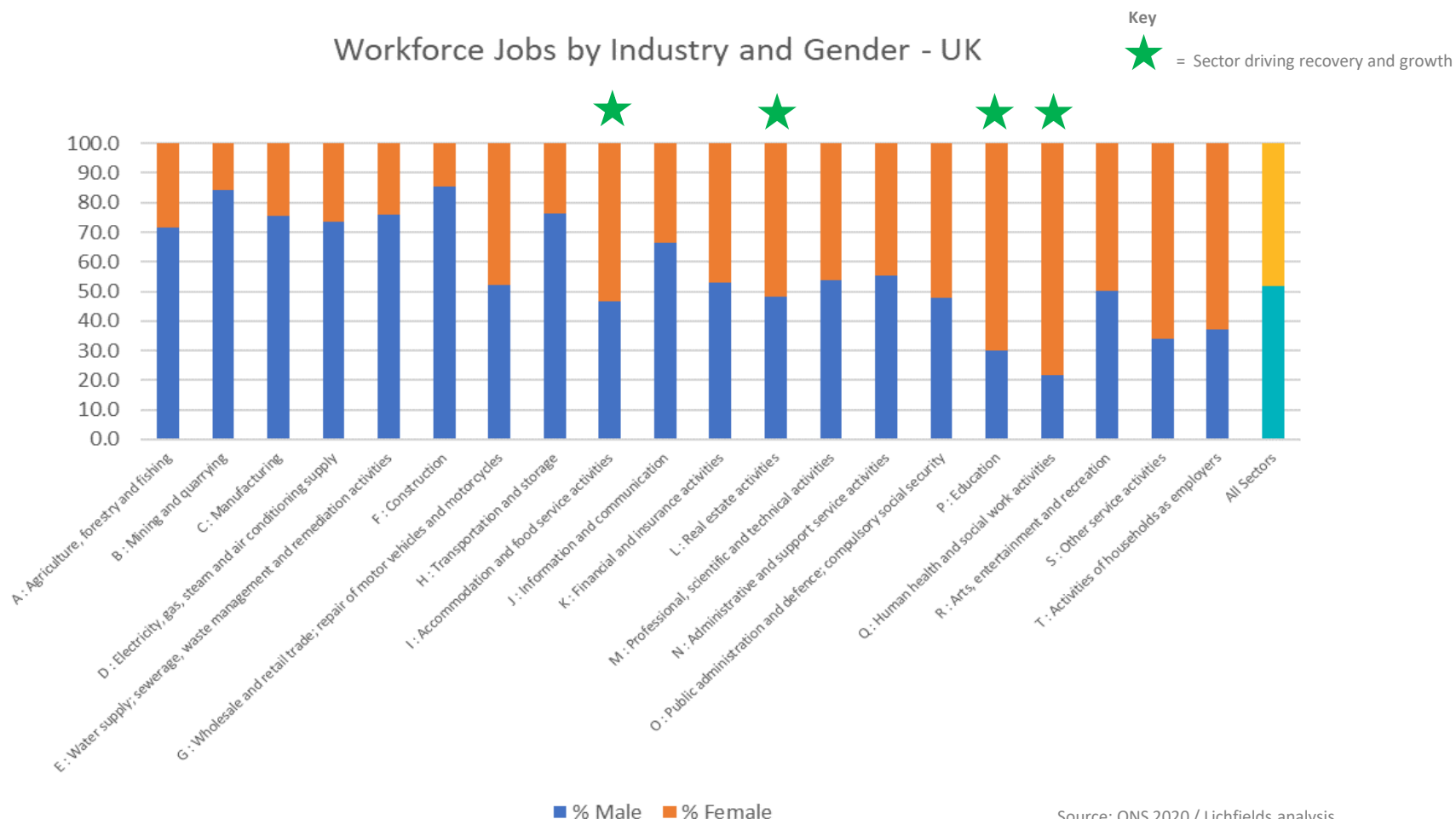
# Sectors driving recovery and growth

Some of the sectors expected to drive economic recovery and growth across SEMLEP employ disproportionately high numbers of workers from ethnic minorities, including health and social care, accommodation and food services.



# Sectors driving recovery and growth

Females tend to be over-represented in employment terms within some of the key sectors expected to drive economic recovery and growth across SEMLEP, most notably health and social care and education.



Source: ONS 2020 / Lichfields analysis

# Disproportionate effects

- Wider evidence base work, research and consultation identifies a range of groups that could be particularly vulnerable and exposed to the economic impacts of COVID-19 within the SEMLEP area.
- The latest Coronavirus Job Retention Scheme (JRS) data from HMRC indicates that young people have been disproportionately impacted by furloughing and could be at greatest risk of unemployment when the JRS winds down in October. Of all age groups, employees aged 17 were most likely to be furloughed.
- Analysis by RedQuadrant/SEMLEP 2017 Business Survey of sectors characterised by a higher proportion of ethnic minority, disability or women led businesses aligns with a number of short term 'at risk' sectors identified by this scenario exercise (highlighted in bold):
  - Minority-led businesses > average proportion: Accommodation and food service activities, **Information and communication**, Manufacturing, **Transportation and storage**, **Retail**
  - Disability-led businesses > average proportion: Accommodation and food service activities, Manufacturing, **Retail**
  - Women-led businesses > average proportion: Human health and social work activities, **Wholesale**, **Retail**
  - RedQuadrant have also heard anecdotal concerns that disabled groups and older people might be at greater risk of redundancy
- Consultation feedback from local partners identified the following groups at particular risk of economic harm:
  - **Younger people** – as businesses makes cutbacks, entry level jobs are reduced. Many staying in education to make use of the time although key skills opportunities such as Apprenticeships have also been impacted by reduced employer demand
  - **Women** – tend to be employed in lower skilled, lower paid jobs and often bearing the brunt of childcare responsibilities
  - **Ethnic minorities** – health and economic data both locally and nationally indicates that the virus has had a greater impact on those areas with higher proportions of ethnic minority communities
  - **Deprivation** – evidence suggests more deprived parts of the country have seen disproportionate health and socio-economic impact from COVID-19. E.g. Luton has seen the biggest numbers of new unemployment claimants during the pandemic in the more deprived areas, and COVID cases and fatalities have been higher in the more deprived parts of Luton



**Next steps**

# Next steps post September Board

- Finalise economic recovery scenarios for SEMLEP drawing on Board feedback.
- Refine analysis of distributional effects in partnership with RedQuadrant.
- Draw together key implications into overarching framework to inform SEMLEP's Economic Recovery Strategy and associated business support and skills activities.
- Keep scenario and wider recovery work under constant review as the COVID-19 and economic situation continues to evolve, and as new data and evidence becomes available.

**Annex**

# Annex 1: sector definitions

Experian sectors are defined using the following 2 digit SIC 2007 codes:

- Accommodation & food services: 55, 56
- Admin & support services: 77, 78, 79, 80, 81, 82
- Agriculture, forestry & fishing: 01, 02, 03
- Air & water transport: 50, 51
- Construction: 41, 42, 43
- ICT & telecoms: 61, 62, 63
- Education: 85
- Finance & insurance: 64, 65, 66
- Health & social care: 86, 87, 88
- Land transport, storage & post: 49, 52, 53
- Manufacturing: 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33
- Media activities: 58, 59, 60
- Other private services: 94, 95, 96, 97, 98
- Professional services: 69, 70, 71, 72, 73, 74, 75
- Public admin & defence: 84, 99
- Real estate: 68
- Recreation: 90, 91, 92, 93
- Retail: 47
- Utilities: 35, 36, 37, 38
- Wholesale: 45, 46

