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Challenging year ahead

Professor Frank Peck discusses the effect of Covid-19 on the Cumbrian economy and whether 2021 can be any better?

'Unlike most previous recessions, experts are clearly not expecting a rapid bounce-back'



As we greet the New Year, we can look back on the extraordinary events of 2020 and consider the prospects of recovery in 2021. At the time of writing (early December), the latest forecasts for annual growth in 2020 range between -8.9% and -12.4% with an average expectation of -11% (HM Treasury Forecasts for the UK Economy: comparison of independent forecasts, No 400, November 2020.).

To put this in perspective, this far exceeds the declines recorded in all recent major recessions in the UK. In the period since 1945, "significant" year on year declines in GDP have been recorded during the oil crisis of 1973 (-2.5%), manufacturing decline in 1980 (-2%), and more recently during the 2009 financial crisis (-4.2%).

None of these even approach the experience

recorded in 2020. The forecasts for 2021 suggest recovery, with an average forecast of +4.8%, ranging from optimists that estimate +7.6% while pessimists suggest flatlining at around 0.7%. Unlike most previous recessions, experts are clearly not expecting a rapid bounce-back.

Thus far, the measures taken to protect jobs by the government have given essential short-term protection for employment, and we have not witnessed the high levels of unemployment recorded during some previous recessions. But latest forecasts suggest that the average annual rate of unemployment (measured by the Labour Force Survey) could increase significantly from 4.8% of the working population for 2020 to 7.3% during 2021. Medium-term forecasts also indicate an expectation that it could remain high for some time due to structural changes in the UK economy that have been accelerated or induced by the pandemic and unemployment may not fall back to present levels until 2024.

‘In rural areas, those involved in the land economy will be considering plans for the future outside the EU’s Common Agricultural Policy. This involves a transition to a UK agricultural policy based on principles of sustainable farming’



Some of these deep structural changes have already surfaced during 2020, including prominently the accelerated pace of change in retailing. While many food outlets have struggled to keep pace with demand, traditional non-food retailing has reached another crisis point. In the face of on-line competition, the impact of lockdown on store-based retailing has been severe, with further recent announcements of administration by major high street chains including Arcadia (Topshop, Dorothy Perkins, Burtons, Miss Selfridges), Bonmarché, Edinburgh Woollen Mill and Debenhams. There seems little doubt that the pandemic has accelerated the pace of change in UK high street retailing.

Then there is Brexit. Even in early December 2020, trade negotiations have not yet been concluded and uncertainties still surround fishing rights, rules on competition and the mechanism for adjudicating trade agreements. Assuming these tough issues can be addressed, new trade rules will have come into force on

January 1, 2021. UK government websites already indicate the range of issues that businesses are certain to face in 2021 regardless of the outcome of trade negotiations – new customs paperwork, information on trade tariffs for different product codes, keeping records of sources for traceability, ensuring compliance with EU registration procedures (EORI number), checking licensing on imports and exports, new arrangements for business travel in Europe. From January, even in the case of an agreed trade deal, each will need to be checked, verified, and probably enhanced to respond to the different status that will apply to UK producers.

In rural areas, those involved in the land economy will be considering plans for the future outside the EU’s Common Agricultural Policy. This involves a transition to a UK agricultural policy based on principles of sustainable farming and incentives to encourage environmental and animal welfare improvements. This transition is planned in stages with the subsidies gradually removed by 2028. While the broad principles are widely accepted, critics note the lack of detail on how schemes to support “environmental outcomes” might be managed and also the uncertainties surrounding international trade in farm products (see, for instance, “the seven key things” noted on www.nfuonline.com).

In the midst of all these major national and international challenges, what can we say about the prospects for the economy of Cumbria? Reflecting on 2020, some evidence suggests that the proportion of businesses disrupted by restrictions to the economy has been slightly higher in Cumbria compared to national averages. The rate of take-up of the Coronavirus Job Retention Scheme (CJRC) up to July 31 2020, for instance, was slightly higher in the county (34%) than for England as a whole (32%). Those parts of the County that depend more on the visitor economy have experienced more widespread disruption to normal business. Specifically, the rates of furlough in South Lakeland (42%) and Eden Districts (41%) were well above averages for the UK.

On the other hand, rates of unemployment (claimant count rate) and also claims for Universal Credit across Cumbria, though rising, have remained below national and North West regional averages. Cumbria has above average numbers of workers in specialist sectors (defence, nuclear) where there have been less detrimental direct effects on markets and jobs.

Looking ahead, prospects for 2021 depend on addressing the health risks associated with the pandemic, the easing of lockdown restrictions and revival of public confidence. Latest available data shows, for instance, that 61% of businesses formed in Cumbria in 2015 were still in operation in 2018 compared to a UK average of only 55% (reported in Key Statistics for Economy and Employment, Cumbria Intelligence Observatory). But the last nine months have been unprecedented and the county’s excellent record on business survival is being severely tested.

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