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Professor Frank Peck

Professor Frank Peck examines recent trends in economic indicators and considers scenarios for different sectors in the Cumbrian economy in the next 12 months

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Recent reviews of the economic prospects for the UK make sombre reading. Latest data from the Office for National Statistics indicate that GDP levels have recovered from the major fall in activity arising from the pandemic but recovery is now faltering significantly.

The first quarter of 2022 recorded low growth on the previous quarter (+0.8%) and the initial estimate for the second quarter (April to June) records negative growth of -0.1%. Most commentators now expect the UK to go into recession by the end of 2022 (technically, two successive quarters of negative growth).

Looking further ahead into 2023, the prognosis is not optimistic. The UK Economic outlook published by the Organisation for Economic Cooperation and Development (OECD) in June 2022 suggested that the UK economy would “stagnate” in 2023.

The National Institute of Economic and Social Research (NIESR) suggests that the UK economy is likely to enter recession in the third quarter of 2022 and remain there until the first quarter of 2023 (*National Institute UK Economic Outlook: A Risky Present*, summer issue 2022). The Bank of England, too, accepts that the economy is likely to enter recession by the end of 2022 (BoE Minutes of Monetary Policy Committee Report, May 2022).

The reasons for this have been widely discussed. Paramount among these are the high energy prices and rising costs. The 12-month rate of inflation as measured by the official Consumer Price Index (CPI) has already risen to 9.4% in June 2022 and the signs are this will rise even further by the end

Building resilience in a recession



of 2022. The Bank of England expects a rise to around 13% in quarter four of 2022 and for inflation “to remain at very elevated levels through much of 2023”. Business confidence may have recovered from the pandemic, but consumer confidence appears to be faltering in response to rising living costs. As a consequence, the bank lending rate has been raised, currently to 1.75%.

These national conditions inevitably have effects on all local economies across the UK, but these impacts have historically been uneven. Some broad generalisations can perhaps be made. Analyses of the effects of economic cycles on the UK regions in previous decades, for instance, tend to reveal a north-south divide – peripheral regions are affected more severely and take longer to recover. However, at a finer scale, the impacts of recessions on local areas vary considerably.

Experience of previous recessions certainly provides useful clues, but these are not necessarily reliable predictors of how well a local economy can meet the challenge of future economic downturns. So, what can be said about the Cumbrian economy and its current state of regional resilience?

This question can partly be addressed by examining economic structures – what are the pillars of the economy and how well placed are they to survive (or even thrive) under an economic downturn? Consider first the industrial base which is significantly affected by two major industrial enterprises – BAe Systems at Barrow and Sellafield Ltd.

Economic cycles in Cumbria are significantly influenced by investment at these two sites which can, in some circumstances, make the Cumbrian economy more resilient than other economies of the north during periods of recession.

As reported in the January 2022 issue of *in-Cumbria*, it is reassuring to note that both these major industrial employers have work programmes that guarantee significant economic activity well beyond 2023.

BAe Systems has an impressive order book arising from the submarine programmes that assures continuity of employment for around 10,000 workers at least over the next five years. Similarly, Sellafield provides employment directly for around 10,000 workers as well as significant spent in the supply chain and resource at Sellafield is

There are many places in Cumbria, like Askham Hall, which appeal to the high end market



The Cumbrian economy can be more resilient to recession because of the investment at BAe Systems in Barrow (above) and also at Sellafield

across all markets, but some differentiation may still apply.

Given recent trends in the staycation market, high quality self-catering may remain more buoyant than mid-range market for serviced accommodation.

A third major pillar of the economy comprises public sector services – health, education and local government. In some previous recessions, public services have protected local economies, although this is not always the case. In the period after the 2008 financial crisis, for instance, austerity meant that some local areas dependent on jobs in the public sector were affected negatively by policy responses to recession. In the current context, government appear committed to the “levelling up” agenda which suggests that public services could be a more positive aspect for Cumbria. We also know that

there is commitment to invest in new higher education facilities in Carlisle (Borderlands investment in the University of Cumbria Campus at the Citadel) and in Barrow (Town Fund investment in the Learning Quarter). On the other hand, the economic impacts of the creation of unitary local government in the county are unclear at present.

As for other sectors, all are likely to face cost pressures as markets are affected by the squeeze on household incomes. Retailing, logistics, personal services, manufacturing and land-based sectors all need to make plans to build resilience to counter the rising cost of inputs of goods, materials and energy, to resolve supply chain issues and address the ongoing labour shortages.

The next 12 months will be yet another challenging time for businesses across Cumbria.

expected to be fairly stable at least through to 2030.

As regards the visitor economy in Cumbria, lessons from the effects of the 2009 downturn in the economy may be more relevant than recent experience under Covid lockdowns. The informed opinions of some industry experts were reported in research published in July 2009 and some of these observations seem highly relevant (Peter Jones, “Impact of the global recession on the hospitality and tourism industry” in *Tourism and Hospitality Research* (2009) 9, 363-367).

It was suggested that the restaurant industry, for instance, became more polarised during the 2009 recession.

The fine dining sector, which is dependent on higher income groups, was largely unaffected, while fast-food outlets continued to meet demand for lower cost takeaway services. It was the mid-market ‘popular’ dining that was most badly affected as middle- and lower-income consumers cut back on discretionary spending.

As regards accommodation, the 2009 recession saw a sharp decline in trading



The Carlisle Citadels project will see a new city centre campus built in and around the historic buildings of English Street and Victoria Viaduct. Sir Robert McAlpine has been chosen to build the new university campus. University Vice Chancellor Prof Julie Mennell (front right) toured the site with Sir Andrew McAlpine (front left). Looking on are (from left) Kate McLaughlin-Flynn, Peter Yates, Ian Looker and Mark Gibson