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# Economy in crisis

Professor Frank Peck, Research Director of the Centre for Regional Economic Development (CRED) at the University of Cumbria's Institute of Business, Industry & Leadership discusses how Cumbria's economy has been hit by the global pandemic

**'Quite obviously, the second half of 2020 is going to be critical in determining the economic wellbeing of many inhabitants of Cumbria'**

UK Citizens have grown used to interpreting graphs in recent months through the daily briefings from Government on the coronavirus pandemic. The trends in demographic statistics make sombre reading. More recently, media headlines have been drawn to debates surrounding trends in economic indicators. The impact of the lockdown on the UK economy is now becoming clear. Data released by the Office for National Statistics on July 14, 2020 show that in the three months to the end of May 2020, UK GDP declined by 19.1 per cent. This decline affected all major sectors including manufacturing (-18 per cent), services (-18.9 per cent) and construction (-29.8 per cent). Within the service sector, however, the most severe decline has been in accommodation and food services (-71.7 per cent), a sub-sector that is vital to the Cumbrian economy. These figures are also produced in a monthly series.

At the very start of the lockdown, GDP fell in March by -6.9 per cent followed by the steep fall of -20.3 per cent at the height of the pandemic during April. After easing of restrictions on movement, much interest surrounded the publication of the latest figures for May which showed growth of 1.8 per cent compared to the April figure. This has sparked a media debate about the shape of economic recovery. Will it be a positive V-shaped trend, or perhaps U-shaped? At what point is it realistic to expect that the economy will grow back to its pre-Covid-19 level? While experts may hope for a 'bounce-back' for the economy in 2020, there are very few commentators with such optimism.

Bank of England economists have been more positive than most, but even their speculation about a V-shaped recovery is surrounded in caveats – notes of caution about the recovery of consumer spending; the implication of the tapering of the Government furlough scheme for levels of unemployment; the challenges of Brexit (Andy Haldene, speech reported in BBC News, June 30). The IMF has suggested a more pessimistic scenario for the UK where an initial recovery might flatten out (Gita Gopinath, IMF Chief Economist, *Business Insider Magazine* online, July 2). With the benefit of more recent data, it has been suggested that the signs of recovery might well be interrupted – an "incomplete V" that looks more like a square root sign (Tenreyro predicts "incomplete V-Shaped" recovery", *The Guardian*, Business live, July 15). This seems to correspond with most forecasts for the UK economy in 2020. The latest forecast range from falls of -6.6 per cent to -12 per cent with an average of -9.1 per cent for the year as a whole. Most experts suggest that any recovery is likely to be delayed until well into 2021 or

beyond – an average forecast growth of 6.6 per cent for that year. As regards the impact on Cumbria, the scale of this can be gauged by reference to data on numbers of workers on furlough (Coronavirus Job Retention Scheme – CJRS) and the Self-Employed Income Support Scheme (SEISS). By the end of May 2020, across Cumbria as a whole, there were 64,000 "employments" supported by CJRS. Depending on the method of measurement, this represents between 27 per cent and 32 per cent of all employees in the county. In addition, 16,900 claims had been made from the self-employed for income support through SEISS, representing around 68 per cent of those eligible.

Another feature of the pandemic impact has been less obvious – the "hidden" impacts of 'non-recruitment' – job opportunities that would have existed at his time of year that have simply not been filled. The scale of this can be estimated in data on job postings – or vacancies advertised. These show that the number of postings fell significantly comparing February to May 2020 (-53 per cent). In May, the number of job postings was 94 per cent lower in accommodation and food, 90 per cent lower in construction and 75 per cent lower in real estate. This level of 'non-recruitment' partly explains the rise in people in Cumbria claiming out-of-work benefits. The claimant count rose between February and May 2020 by 7,660, an increase of 110 per cent and affecting 4.9 per cent of the working age population in Cumbria (Cumbria Intelligence Observatory, Labour Market Briefing, May).

This suggests that the numbers of people experiencing unemployment has risen significantly even before the impacts of any potential unwinding of the furlough scheme. The second half of 2020 is going to be critical for the economic wellbeing of many inhabitants of Cumbria as corporate responses to the crisis and the phasing out of the Government support schemes unfold. The visitor economy could well require additional supports to sustain the sector through the winter months. The county's manufacturing businesses may also experience difficulty in returning to former employment levels due to the impacts of the pandemic on markets, supply chains as well as looming changes arising from the Brexit process.

Retailers and providers of services will seek to reopen in a business environment that was already very challenging due to systemic changes in the sector arising from changes in consumer behaviour and e-commerce.

Yet in the midst of this, previous economic crises in Cumbria have demonstrated resilience and adaptability. There are already many illustrations of this adaptability reported in the pages of *in-Cumbria* magazine. Businesses have continued to develop new products and seek new markets.