Reading the tea leaves

By Professor Alex de Ruyter, Director, Centre for Brexit Studies

At this point in time I thought I would try and take stock of contemporaneous influences on the UK economy and where I think we are going (a risky activity at best). Covid19 of course continues to dominate media coverage, with Brexit being relegated far lower down on the newsreels.

Although – Brexit continues to percolate away of course, with the impending prospect of failure to reach a trade agreement with the EU coming at the end of the transition period (of continued frictionless trade with the EU) at the end of this year, should negotiations not move on beyond the current impasse on fishing and regulatory alignment (but more on this later).

Let's start with the labour market. As at July of this year, some 18.5% of workers across all industries were on furlough leave, or about 5 million people (representing a fall of about 30% since the start of lockdown in March).

Evident from the Figure below, as reproduced from the Office for National Statistics website[1] is the strongly sectoral nature of furloughed workers, with Arts Entertainment and Recreation having the highest incidence at 64%, followed by Accommodation and Food Service Activities at 45%.

However, the other key workforce development, that of "working from home" is also starkly evident in its sectoral coverage, being almost entirely the preserve of white collar workers. As such, 74% Professional Scientific and Technical Activities, 76% of Information and Communication and 73% of the Education sector were working from home/remotely.

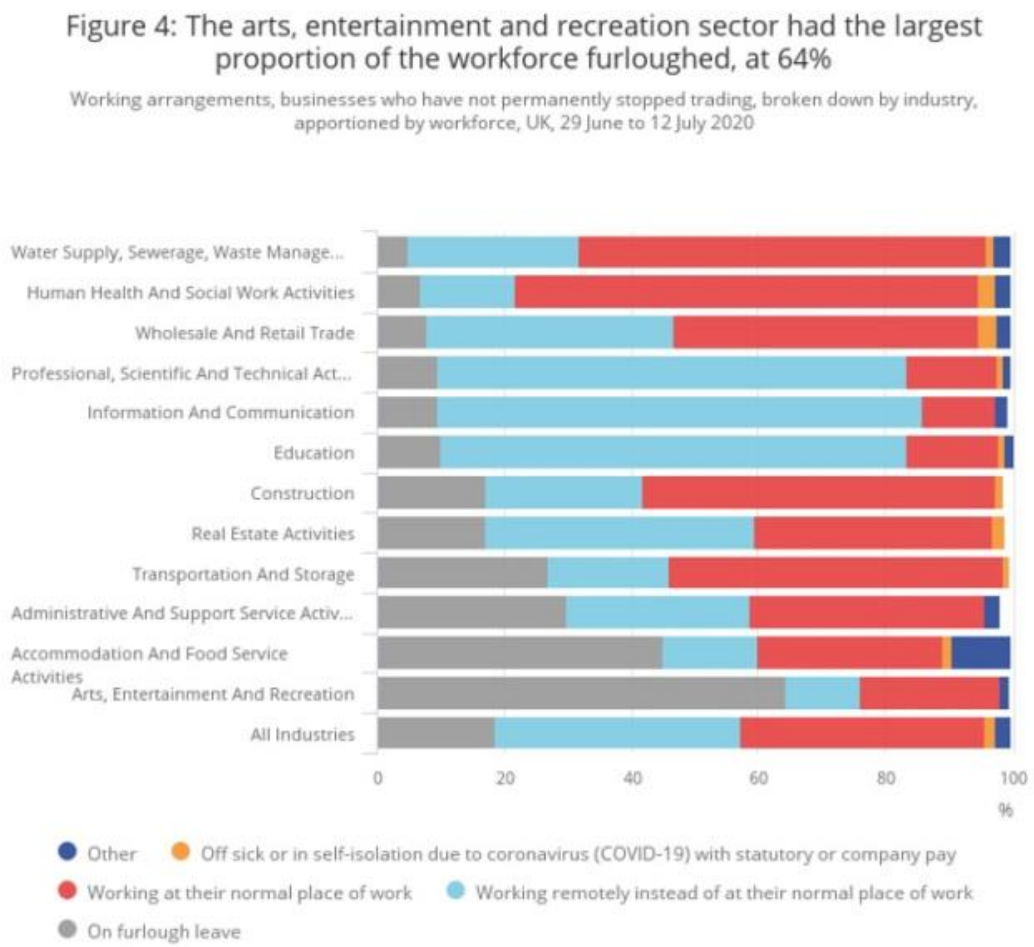
Indeed, the two key traits here are not unrelated, with home working amongst urban professionals leading to a near desertion of city centre corporate precincts. Along with a majority of school and higher education staff continuing to work from home, this has severely depressed demand for the "social consumption" services riding piggy-back on these sectors typified by the pubs, cafes, leisure centres and theatres.

However, with the prospect of further outbreaks of Covid19 and organisations having found working from home to be a success (not least in terms of reducing the need to rent expensive city centre office space), it is likely that this trend will continue.

Whatever our "new normal" ends up becoming, it is likely to see less need or desire to commute into city centres, with the attendant prospect of more widespread job losses in the aforementioned sectors. Pizza Express for example is amongst the latest to announce job cuts, with up to 1,100 jobs at risk[2].

Looking at the big picture, the National Institute for Economic and Social Research (NIESR) estimate that up to 1.5 million people are likely to be made unemployed when the furlough scheme comes to an end in October of this year and hence they are calling for the furlough scheme to be extended to June next year, at an extra cost of £10 billion.[3]

I can only agree in this regard, as the severe costs of unemployment to individuals, the economy and society are well-attested enough. However, as I have argued previously, I would like to see furloughed workers mandated to train or retrain – in effect having it become a wage subsidy similar to the highly praised German 'Kurzarbeit' approach[4].



NB: the corresponding figure of furloughed workers for Manufacturing is 14.3%.

With skills shortages in key technology sectors, and the need to 'Green' the economy to combat the longer term challenges of climate change, my own clear preference would be to encourage the growth of jobs in these sectors, rather than trying to prop up retail, hospitality and recreational services.

Surely now is the time to do this and go beyond Chancellor Sunak's relatively small £2bn "Kickstart" wage subsidy package (paid at the national minimum) offered to employers to take on 16 to 24 year olds currently in receipt of Universal Credit[1], commendable though this initiative is. For Covid19 has truly had a severe impact on the economy, with data in the three months up to May this year showing a 19% contraction in UK GDP.[2]

But no. Instead we have relaxation of Stamp Duty to stoke up the housing market, and a wholescale poleaxing of local autonomy in planning laws to permit unbridled development across our green spaces, whilst workers and their employers are cajoled by the Government to go back to the office and "eat out to help out".

It is in this context that the prospect of a No Deal outcome to Brexit threatens to impose further damage to the UK economy (and this according to the Government's own forecasts).

At this stage, how likely is such an outcome? To be honest – whilst to me it still seems the most probable outcome – it is something of a moot point. A No Deal outcome (according to the Government's own "long term" analysis) would result in a 9.3% hit to the economy.

However, the Government's own **stated** objective of a limited free trade agreement with the EU would still result in a 7% hit to the economy, as my colleague Steve McCabe pointed out on these pages yesterday[3]. And so take another big hit we shall.

Little wonder then that the Department for Health and Social Care has advised pharmaceutical companies in the UK to "stockpile six weeks' worth of drugs" to alleviate the prospect of disruption to supplies when the Transition Period ends on December 31st this year.[4] I could go on, with the projected impact to other sectors, as our research on automotive or aerospace would attest[5], but you get the point.

All this leads me to tentatively prognosticate (never say never, after all) that despite the Government's manifest desire to return us to the "normal" neoliberal and gig economy economic model we had before the pandemic hit – with a good dose of Brexit thrown in – events will overtake them.

"Spend Spend Spend" and "Build Build Build" will not be enough, especially if we end up with a No Deal trade agreement outcome. Either the UK Government will be forced into maintaining a more interventionist stance to protecting the UK economy to counter the impact of Covid19 and Brexit-induced mayhem or the inevitable pressures will build to push them out for others who will.

And I have not even mentioned the increasing stresses that all this will impose on preserving the United Kingdom as a cohesive political entity….

[1] https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/coronavirusandtheeconomicimpactsontheuk/30july2020#workforce

[2] https://www.theguardian.com/business/live/2020/aug/04/bp-halves-dividend-covid-19-stock-market-ftse-oil-business-live?page=with:block-5f291ac48f089d9b758a6282#block-5f291ac48f089d9b758a6282

[3] https://www.theguardian.com/commentisfree/2020/aug/04/extending-furlough-scheme-uk-jobs-growth

[4] https://www.ft.com/content/927794b2-6b70-11ea-89df-41bea055720b

[5] https://www.cityam.com/rishi-sunak-reveals-2bn-unemployment-scheme-to-create-hundreds-of-thousands-of-jobs/

[6] https://www.pwc.co.uk/services/economics/insights/uk-economic-update-covid-19.html

[7] https://centreforbrexitstudiesblog.wordpress.com/2020/08/04/ever-get-the-feeling-youve-been-cheated/ . These scenarios assume a zero net migration from the EEA area. Given the current UK Government approach this seems most likely to occur. Even with no change to pre-2019 migration rules, the prognosis is still bad, with an 8% and 5% hit respectively..

[8] https://www.theguardian.com/politics/2020/aug/04/uk-warns-drug-firms-to-stockpile-in-case-of-brexit-disruption

[9] https://www.bcu.ac.uk/centre-for-brexit-studies/news-and-events/new-report-reveals-thousands-of-transport-manufacturing-jobs-at-risk-from-hard-brexit