Forecasting impact of COVID 19 and related restrictions on Suffolk’s workforce, businesses and economy

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SODA
The SUFFOLK OFFICE of DATA & ANALYTICS
Virtual collaboration - Real insight

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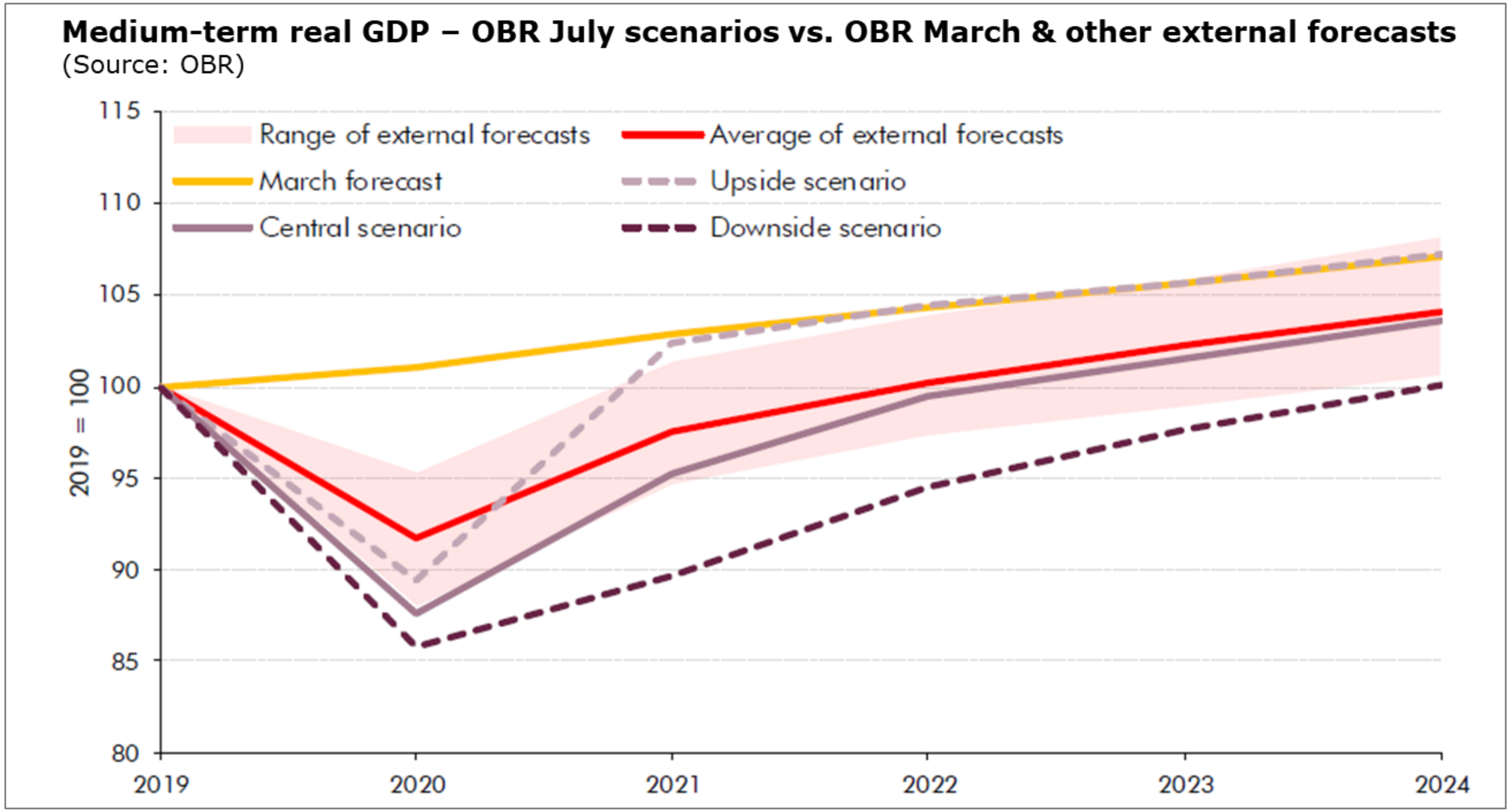
Introduction & Summary

- *To understand the potential impact of COVID on our workforce, business and economy we are updating analysis by the Office for Budget Responsibility (OBR) from March 2020.*
- *This analysis is for the UK - we have taken the UK figures and applied these straight to the GDP (at current prices), employment and wage numbers for Suffolk (all available through the ONS).*

- In all cases (except the OBR upside scenario) GDP over the next 4 years will be much more severely impacted than first thought in March.
- Suffolk's GDP will drop from £21.1 billion in 2019 to £19.1 billion in 2020 under the OBR central scenario.
- And due to the sharp drops in GDP in 2020, OBR's central scenario forecasts that GDP in 2024 will be just over £1 billion lower than the Chancellor's Budget 2020 laid out.
- OBR estimates year-on-year changes to average earnings up to 2024, and applying their forecasts to Suffolk's average earnings means that average earnings will grow from just under £36k pa to almost £41k pa (+13%).
- Suffolk's unemployment rate has been consistently below the national average for the past 10 years and stood at 2.4% in 2019. Applying the %-point changes from OBR's central scenario between 2020 and 2024, would see a peak of unemployment rate of 8.5% in Suffolk in 2021.
- One of the consequences OBR's scenarios highlight is an indicative path for household (HH) disposable income and the saving ratio. This indicates rising poverty amongst those on already lower pay.
- OBR also forecast that real business investment will drop sharply in 2020 and remain below Q4 2019 investment in the central scenario until Q1 2023 and for the downside scenario until Q1 2025.

In March 2020, the Office for Budget Responsibility (OBR) modelled the potential impact of COVID-19 on the UK economy. On the 14th July they updated their forecast, now providing three scenarios (an upside, central and downside one).

All three scenarios from July see a sharper drop in GDP in 2020 than the March forecast, and the averages from other external forecasts (compiled by HM Treasury). In all cases (except the OBR upside scenario) GDP over the next 4 years will be much more severely impacted than first thought in March.



Sources: Office for Budget Responsibility (OBR), Commentary on the OBR coronavirus reference scenario, 14 April 2020. ONS, GDP Statistics, Dec 2019.

Suffolk’s GDP was £21.9 billion in 2019. In the Government’s Budget 2020, GDP was predicted to grow by 1.1% nationally, which would have increased Suffolk’s GDP to just over £22 billion in 2020.

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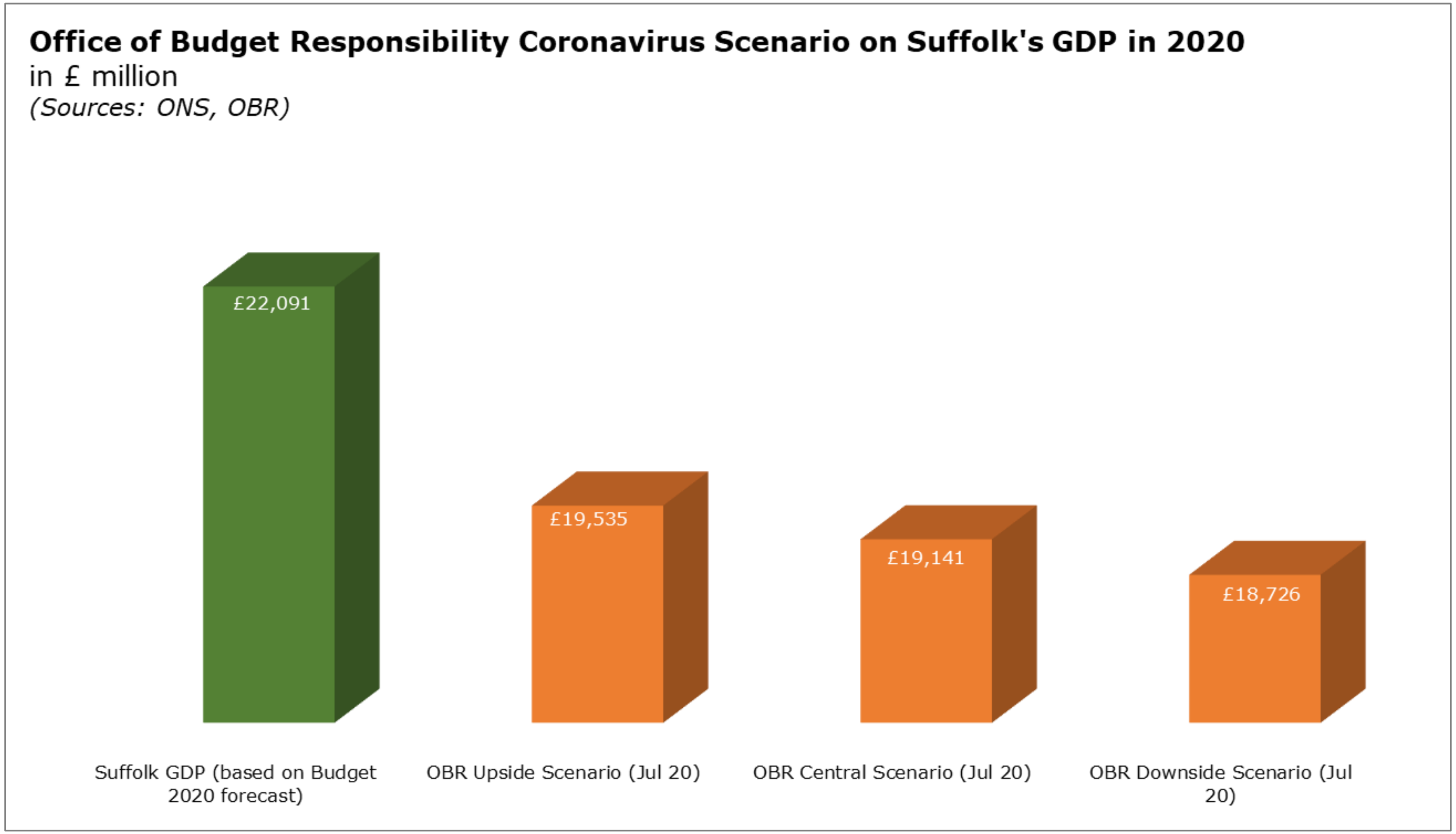
In the latest OBR central scenario, GDP is forecast to contract by 12.4%, while the downside one forecasts a drop of 14.3% in 2020 (vs. 2019).



Sources: Office for Budget Responsibility (OBR), Fiscal sustainability report, July 2020. ONS, GDP Statistics, Dec 2019.

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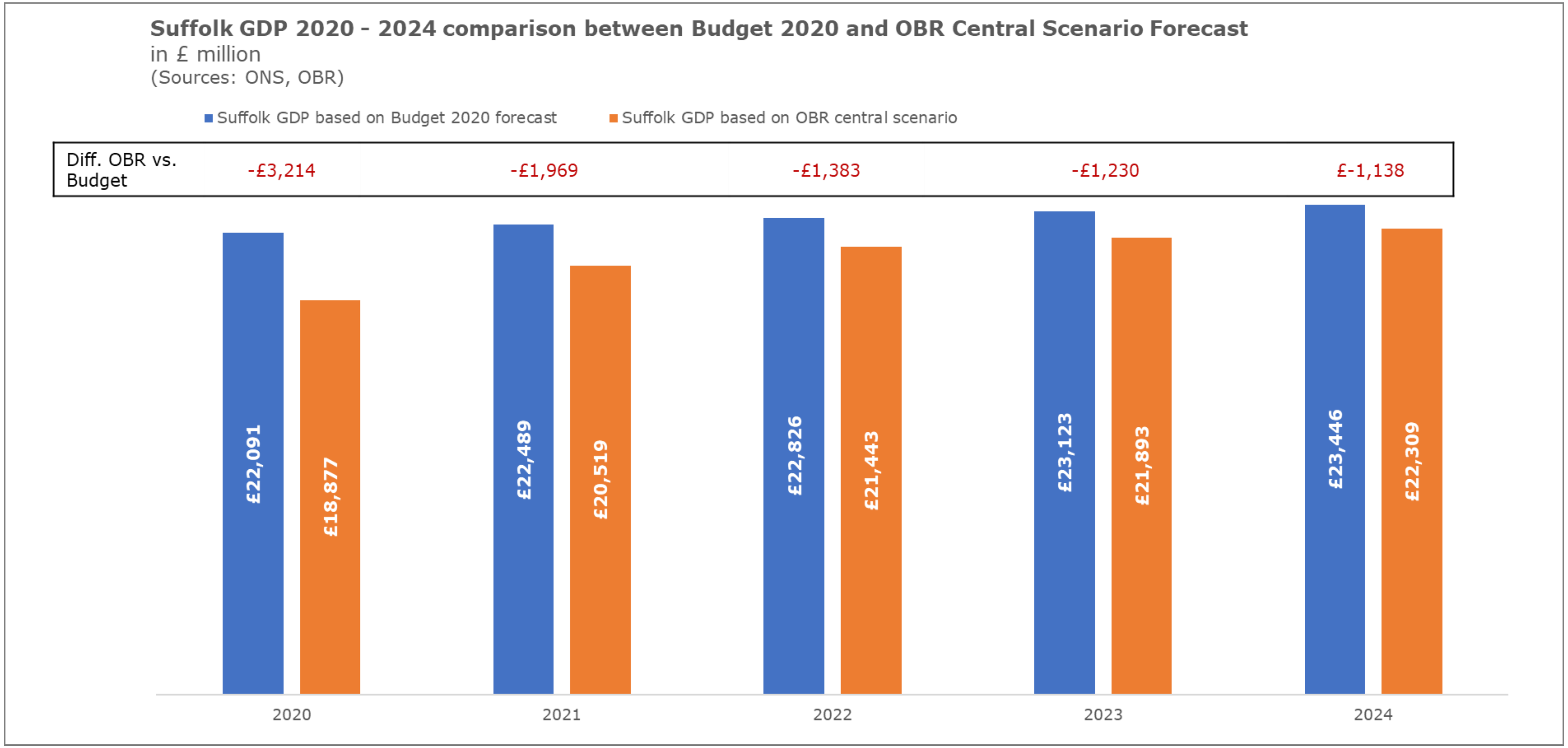
The OBR also provide a longer-term horizon for their scenario, providing estimates for year-on-year changes to GDP up to 2024. We have applied the central scenario figures to the ONS GDP data available at LA level and compared them to the Budget 2020 forecast.

Due to the sharp drops in GDP in 2020, OBR's central scenario forecasts that GDP in 2024 will be just over £1 billion lower than the Chancellor's Budget 2020 laid out.



Sources: Office for Budget Responsibility (OBR), Fiscal sustainability report, July 2020. ONS, GDP Statistics, Dec 2019.

The OBR also estimates year-on-year changes to average earnings up to 2024. Average earnings grew by 12.5% between 2014 and 2019 and are predicted to grow by 13.1% between 2019 and 2024 by OBR.

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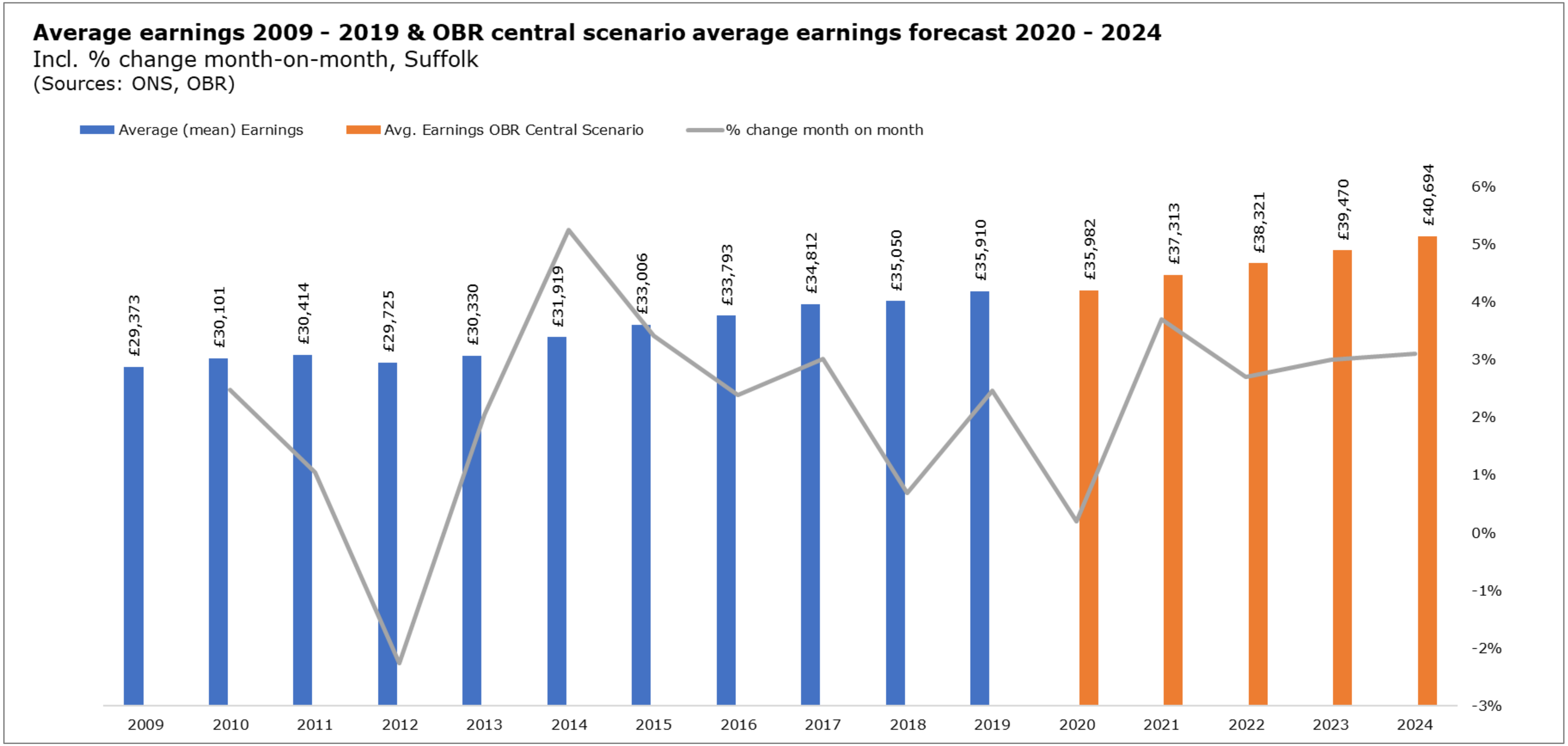

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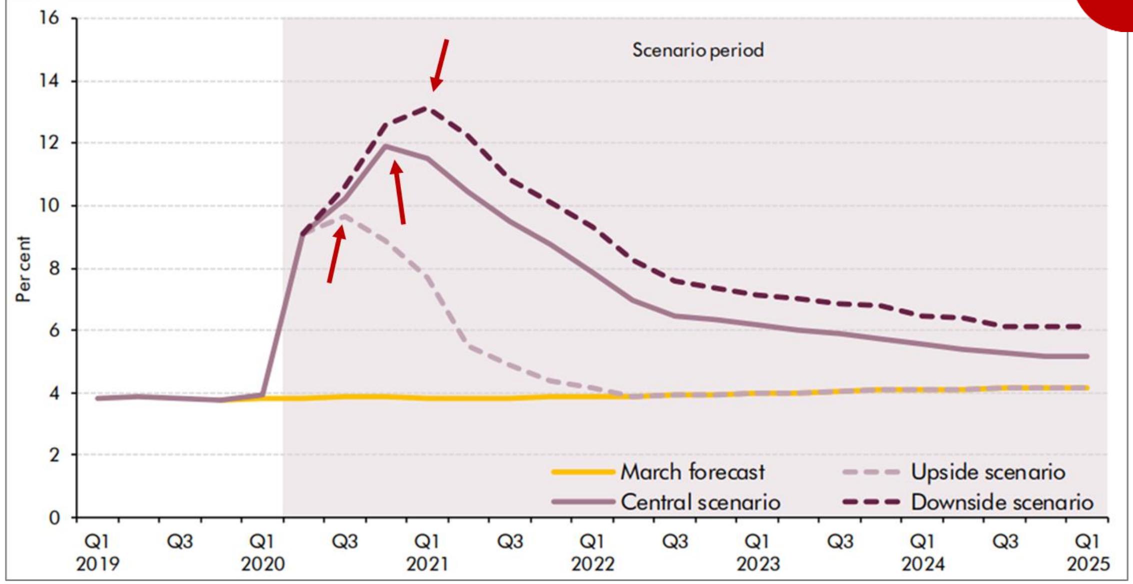
OBR Coronavirus Scenario – unemployment rate, UK
(Source: OBR, 14th April 2020)



Based on the OBR's 3 scenarios peak unemployment rates across the UK will range between 9.7% (upside scenario) and 13.2% (downside scenario).

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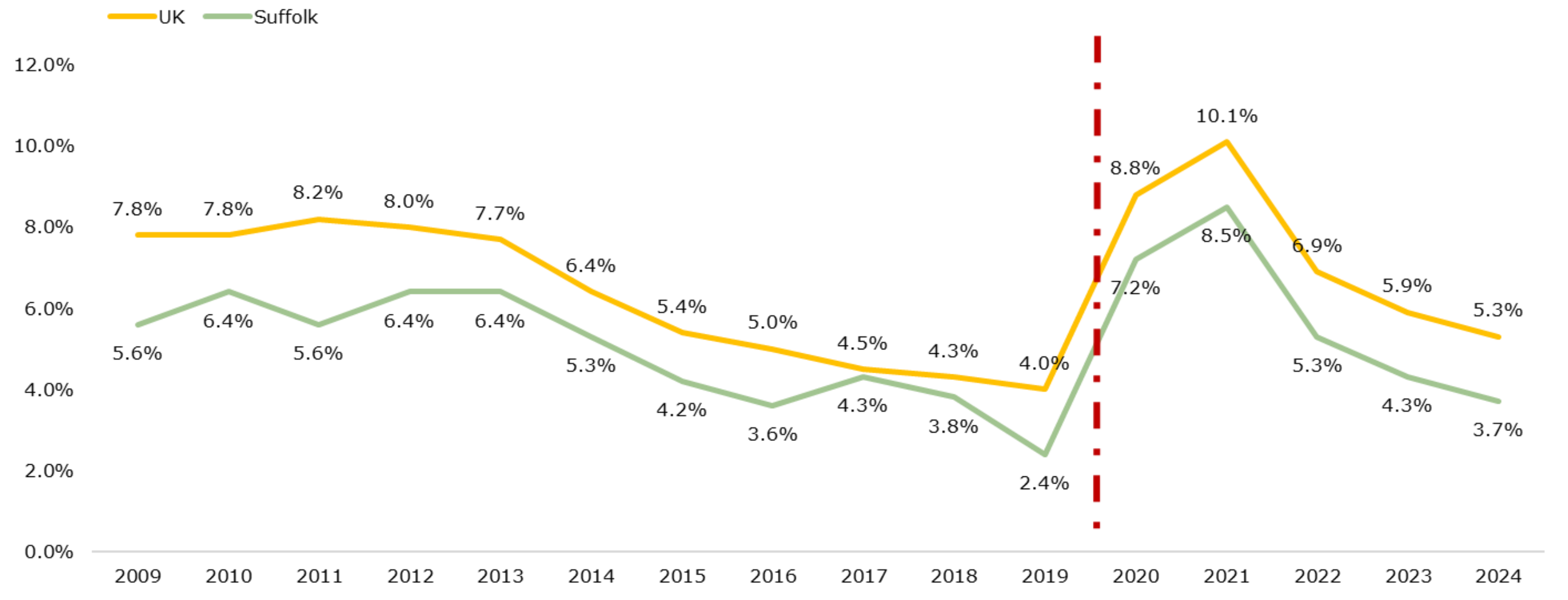
Unemployment rate 2009 - 2019 and OBR unemployment central scenario forecast 2020 - 2024, UK & Suffolk
(Source: ONS, OBR)



Suffolk's unemployment rate has been consistently below the national average for the past 10 years.

Applying the %-point changes from OBR's central scenario between 2020 and 2024, would see a peak of unemployment rate of 8.5% in Suffolk in 2021.

Based on the OBR scenarios, the impact of COVID-19 on productivity are much more severe than in previous recessions.

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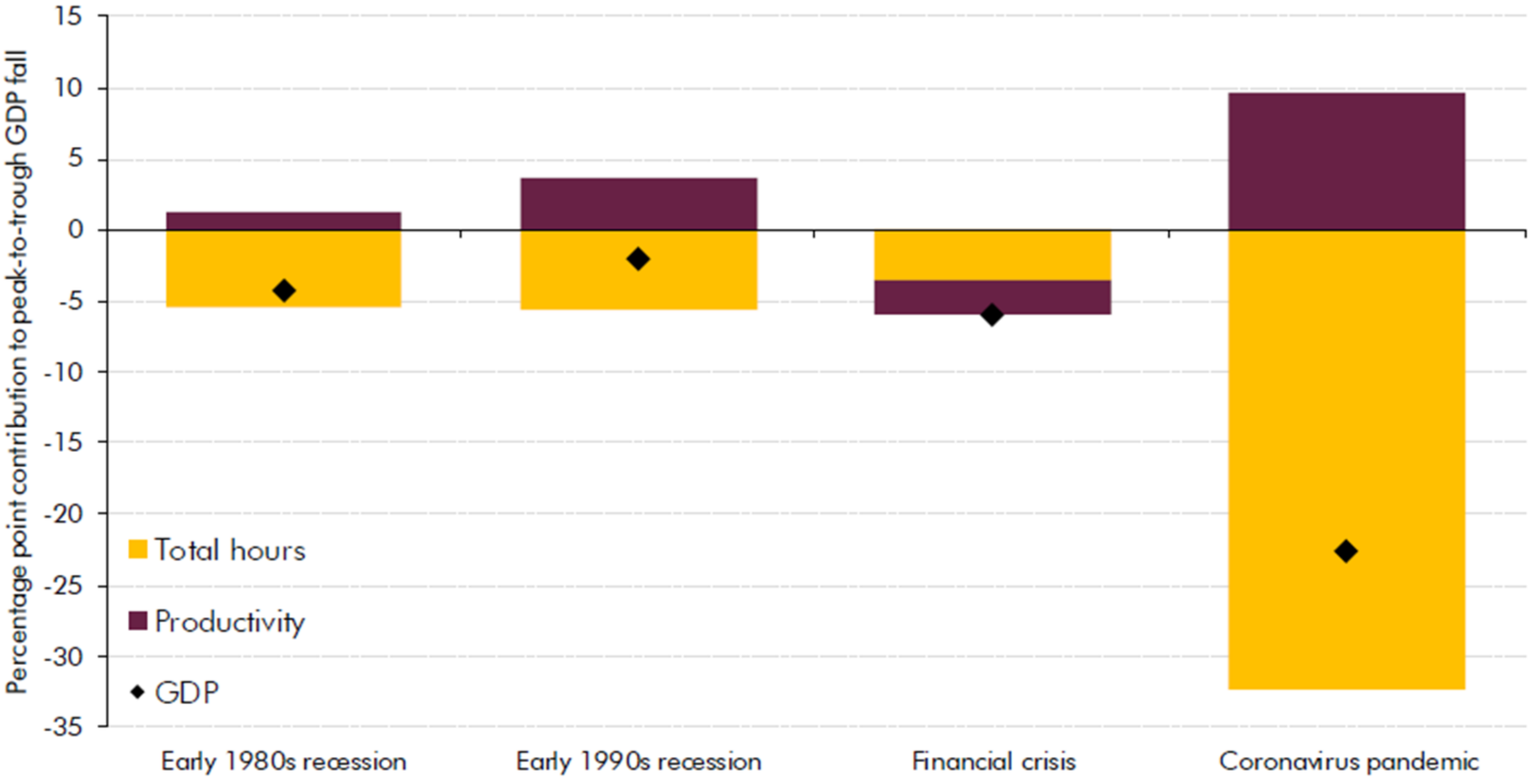
Output, hours and productivity: OBR scenarios vs. previous recessions
(Source: OBR)



OBR's central scenario also includes an indicative path for household (HH) disposable income and the saving ratio. These are a consequence of (rather than an input into) the scenarios, but they provide a perspective on how the pieces of the scenario fit together.

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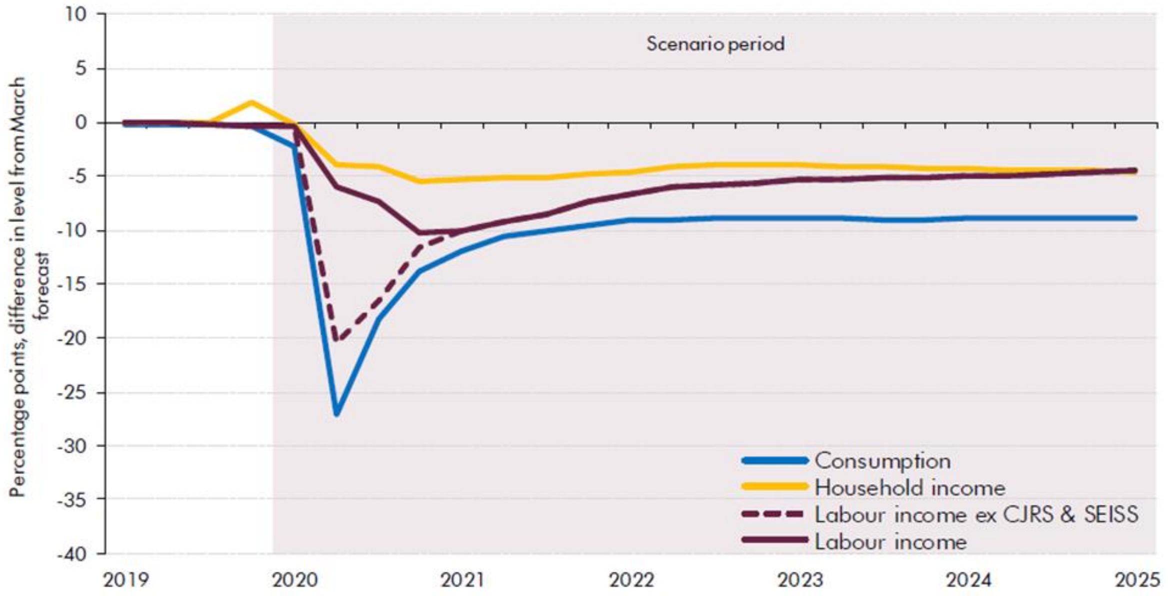
- Chart on left-hand side shows how shortfall in HH disposable income compares with shortfalls in labour income (with / without CJRS & SEISS) and consumption.
- Labour income excl. the CJRS & SEISS is significantly lower in 2020, though not quite as much as consumption, while the shortfall in HH disposable income is smaller than in labour income including those payments, as HH also pay less tax on their income and wealth and receive higher benefits.
- The smaller shortfall in HH income relative to consumption means that a key feature of OBR's scenarios is a massive increase in HH saving in 2020 (right-hand side chart) - reflecting the joint outcome of restricted consumer spending due to lockdown and the support to HH incomes provided by CJRS & SEISS.
    - HH saving ratio rises to 28% in Q2 2020, almost double the historical peak of 15% in Q2 1993. It then falls back to more normal levels by mid-2021.
    - This outcome does not mean that CJRS and SEISS payments are all being saved at the individual level. Instead, there will be very significant differences across HH.
        - *For some HH, income may not have fallen much, if at all, but their opportunities to spend have been greatly curtailed. For others, income may have fallen sharply (perhaps because they have lost their job) and they are forced to run down their savings (or take on debt) to maintain even a lower level of consumption. But the former group dominate in the aggregate, causing the saving ratio to rise sharply. In part this is because the income losses associated with job losses and furloughing appear to be concentrated among those on lower pay, while higher income HH, who save more in normal times, have seen their discretionary spending fall sharply.*

Household finances: OBR central scenario Jul 20 vs. OBR Mar 20 forecast
(Source: OBR)



Household saving ratio: OBR central scenario Jul 20 vs. OBR Mar 20 forecast
(Source: OBR)

OBR forecast that real business investment will drop sharply in 2020 and remain below the Q4 2019 baseline in the central scenario until Q1 2023 and for the downside scenario until Q1 2025.

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