

Insight focus

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Exploring the local economic implications of Covid-19

With many sectors effectively shutdown by Covid-19, we take a look at the risk to local area economies and what it could mean for economic policy.



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The outbreak of Covid-19 and resulting pandemic has developed rapidly with far reaching impacts on the economy and business across the country. Lock-down measures have led to unprecedented shut downs of large parts of the economy simultaneously, with effects being transmitted rapidly across all sectors.

Ongoing uncertainty over the timing and phased way in which lock-down restrictions are eased makes it difficult to anticipate the full extent of the economic shock, although various macro scenarios and forecasts are now emerging to help understand the potential outcomes and impacts of Covid-19 on the UK economy. This includes a 'V-shaped' economic scenario from the Office for Budget Responsibility (OBR) which suggests that UK output (measured in terms of GDP) could drop by around 35% in the second quarter of 2020. Whilst economic activity could bounce back later in the year, the overall scale of the impact on the economy

will be significant in historical terms.

Attention is increasingly turning to how these impacts will be manifested in different local areas. This is difficult when the 'real time' nature of the crisis means there is

limited data to work with and much is still unknown.

This Insight focus explores the economic risk to different places based on their sector profile, and considers policy implications that this raises.

Sectors at risk

Although no part of the economy is immune from the effects of the pandemic, so far the impact on individual sectors has varied reflecting the extent to which lock-down measures have forced some industries to temporarily 'shut down'.

Some sectors have seen their output directly impacted by the lock-down (such as entertainment and recreation) while others have continued to function at some level through remote-working (such as professional services), albeit potentially with reduced capacity. Some sectors have the potential to rebound quickly as lock-down measures are eased, for example construction. However, there

may be longer-lasting effects. For instance, consumption-led activities such as retail may be vulnerable if consumer confidence and spending remains cautious.

Until more granular data becomes available to quantify how different sectors are faring, we have drawn upon business survey data from the Bank of England and analysis by the Office for Budget Responsibility (OBR) to give an initial view on which sectors are most 'at risk' of economic harm as a result of Covid-19. Blending together a number of demand and supply-side assumptions, this is summarised by broad industry sector and risk category below.

This provides a starting point for considering how Covid-19 is likely to affect different parts of the economy, and in turn, different parts of the country, through our Local Economic Risk Index.

Figure 1: Covid-19 economic impact: relative risk by sector

Higher Risk	Accommodation & food services, entertainment & recreation, construction, education
Medium Risk	Manufacturing, wholesale & retail, transport & storage, information & communication, finance & insurance, real estate, professional services
Lower Risk	Agriculture forestry & fishing, mining & quarrying, utilities, admin & support services, public admin & defence, health & social care, other services

Source: Lichfields analysis, based on Bank of England and Office for Budget Responsibility

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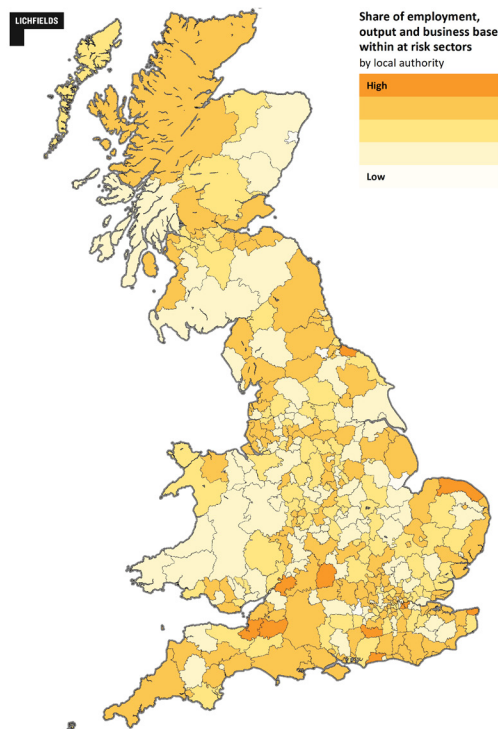
What are the economic risks to local areas?

It is likely that the economic impacts of Covid-19 will be felt unevenly across the country, reflecting the unique make-up and characteristics of local economies and their relative representation in sectors most directly impacted by the pandemic. The scale and diversity of sectors in a local area will be important factors when it comes to considering the overall economic risks that local areas face as the immediate impacts of the public health emergency unfold, and the pace of eventual recovery.

Local Economic Risk Index

Lichfields has developed a Local Economic Risk Index to explore how different areas could be affected in the short term based on the sectoral composition of their local economy. This draws on assumptions about the relative risk profile of each industrial sector (as summarised on page 1) and measures the representation or share of activity in each of these sectors in terms of three economic metrics for each local authority: employment, output (GVA) and number of business units. These are then combined to give an overall risk category for each local authority.¹

Figure 2: Local Economic Risk Index



Source: Lichfields analysis

The combination of metrics helps to provide a rounded view of how risks to particular sectors might manifest themselves locally. For example, the potential impact on a large, low value sector with lots of small businesses, will be felt differently compared to a smaller, high value sector that comprises mainly large companies. Both could be equally at risk from the potential impacts of Covid-19 and output impacted or reduced, but the nature of the effects and policy response will not look the same.

Our index places each local authority area in Great Britain on a scale of 'high' to 'low' reflecting the potential economic risks based on the types of sectors present locally and their scale of representation relative to the economy overall (Figure 2). This assumes in the context of an expected national recession, that every part of the country will see some fall in economic output as a result of Covid-19 at least over the short term.

The results show a varied spatial picture, but a number of trends emerge. Many coastal and rural areas in particular appear to be at greater potential risk, reflecting the dominance of tourism, leisure and hospitality sectors within their local economies. This includes areas such as West Oxfordshire, North Norfolk, Mendip, Arun and Thanet. Larger towns and cities, in general, appear at less immediate risk, but in the main because they tend to have more diverse economies where higher-risk sectors are counterbalanced by others – but this does not mean that individual sectors such as retail will not be acutely impacted. Most areas have medium levels of risk, but as noted above, the risk profile of sectors could change as the longer-term effects of Covid-19 on the economy become clearer.

Outputs from our analysis – whilst indicative and not without their limitations – are intended to provide an initial steer about how the short term economic effects of Covid-19 may vary across the country. This will need to be supplemented with more granular analysis and nuanced intelligence about key sub-sectors that may be particularly impacted at a local level. However, it can be used to help focus local interventions by identifying the sectors which may be at greater risk locally and in turn what interventions could be introduced to help mitigate the economic harm.

Methodology

Latest ONS data on employment, business units and output (GVA) by local authority area in Great Britain is used to calculate Location Quotients (LQs) for each industrial sector. Insight from the Bank of England and OBR on sectors at risk from the economic effects of Covid-19 is applied to this LQ analysis to place each local authority area on a scale of 'high' to 'low' based on local sector representation in each of the three metrics.

The index and resulting analysis is intended to provide an initial indication of potential spatial effects rather than a comprehensive assessment, reflecting ongoing uncertainty over the scale and nature of economic impact at a macro level.

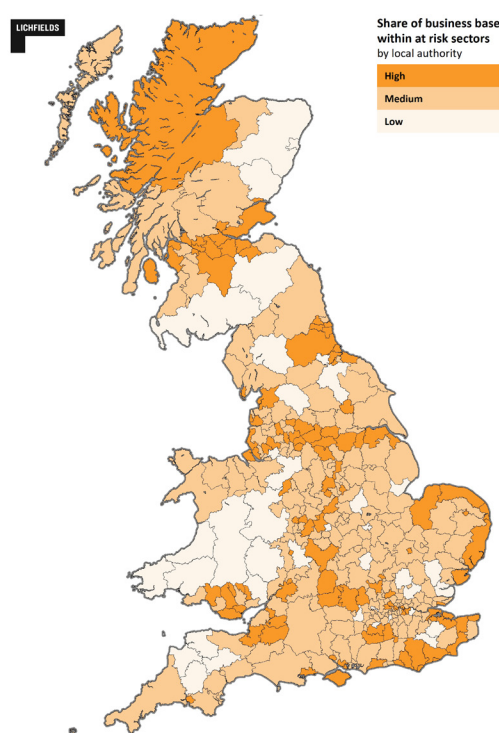
To date, the focus of central government's economic response to the Covid-19 pandemic has been on financial support to businesses during the initial period of enforced lock-down. The ability of businesses to survive will be a critical factor in determining how much productive capacity is ultimately lost from the economy, and the extent to which other indicators such as unemployment increase. This will be influenced by how long lock-down measures remain in place, and the effectiveness and duration of the financial support available. A strong business base will also be essential if there is to be a quick recovery.

The map in Figure 3 uses data from Lichfields' Covid-19 Local Economic Risk Index to identify the relative levels of risk across the country based on the sector composition of the business base in each local authority. Areas which appear to have greater concentrations of businesses operating in higher risk sectors include:

- **North East England** – reflecting strong representation of manufacturing, construction, hospitality and education sectors
- **East of England** – reflecting dominance of construction, manufacturing, hospitality, wholesale and retail sectors
- **South East Coast** – with strong reliance upon hospitality, construction, education and recreation sectors
- **Central Belt of Scotland** – reflecting presence of recreation, hospitality and education sectors
- **South Yorkshire to Wirral corridor** – combined representation of manufacturing, construction, wholesale and retail, education and transport sectors
- **South Wales** – strong reliance upon hospitality, manufacturing and education sectors.

Locations within these clusters will already be feeling the effects of Covid-19 as these are transmitted throughout the local business community. Support needs will inevitably vary by business size and sector; for some the immediate challenge will be survival until 'normal' trading conditions can resume. Seasonal businesses (for instance within seaside and tourist destinations) will be facing particular challenges, for example, if lock-down measures continue and impact this year's peak summer season. Meanwhile, some businesses that 'fall through the net' of the government's emergency financial support may need to rely on local funding sources where these can be made available.

Figure 3: Local Economic Risk Index – Business Base



Source: Lichfields analysis

What are the potential implications for policy?

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Our analysis shows that the local economic impacts of Covid-19 will vary considerably, and much will also depend on the timing and pace of recovery for different sectors. Below we consider potential implications for some key dimensions of economic policy and planning.



Industrial strategy
The government's flagship economic agenda, designed to boost national and local productivity. Once the short term effects ease, focus will turn to how much productive capacity has been lost from the economy, and securing long-term investment to repair the damage.



Levelling-up
A key manifesto pledge, designed to improve investment and life chances for communities particularly in northern and central areas. Likely to remain a priority although the crisis will have exposed vulnerabilities across the country, so demand for support will be widespread.




High streets
Already a focus for government intervention, the lock-down has dealt a significant blow to retail and leisure that will exacerbate problems for struggling centres and businesses. However stronger and inventive centres can bounce back as destinations that people value.



Coastal communities
A delayed 2020 season has been devastating for coastal areas, and traders will hope a good summer can salvage some trade pending easing of lock-down. Staycation effects could provide a boost, but the long term regeneration challenges that come with seasonality remain.



Planning for growth
Development activity has been interrupted, so the sector will be keen to rebound quickly to make up for lost construction time. Positive local planning and responsive decision-taking will be essential to support recovery and rebuild longer term confidence in the market.



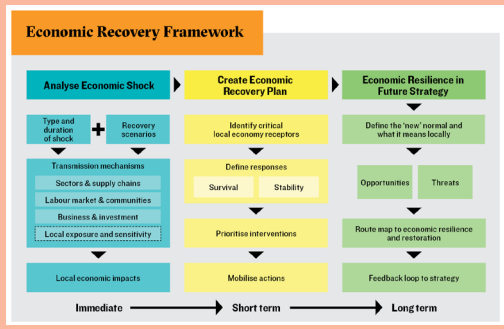
New normal?
Lock-down has forced different ways of living and working. To what extent will this disruption accelerate and consolidate trends already reshaping local economies, e.g. remote working, online consumption, reduced travel. Local strategies will need to interpret the new normal.

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Covid-19: Business as (un)usual

Lichfields has developed an online resource hub to help navigate a route to development and economic recovery from Covid-19. This includes our live tracker on how Councils are working through the Covid-19 pandemic and beyond, updated in partnership with the Planning Advisory Service (PAS).

It also includes details of our Economic Recovery Framework, designed to support local areas develop their economic and policy response, and other practical advice and guidance. Please visit <https://lichfields.uk/business-as-un-usual/> for more details.



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