

Cabinet Advisory Sub-Committee for Economic Recovery and Growth

Economic Recovery

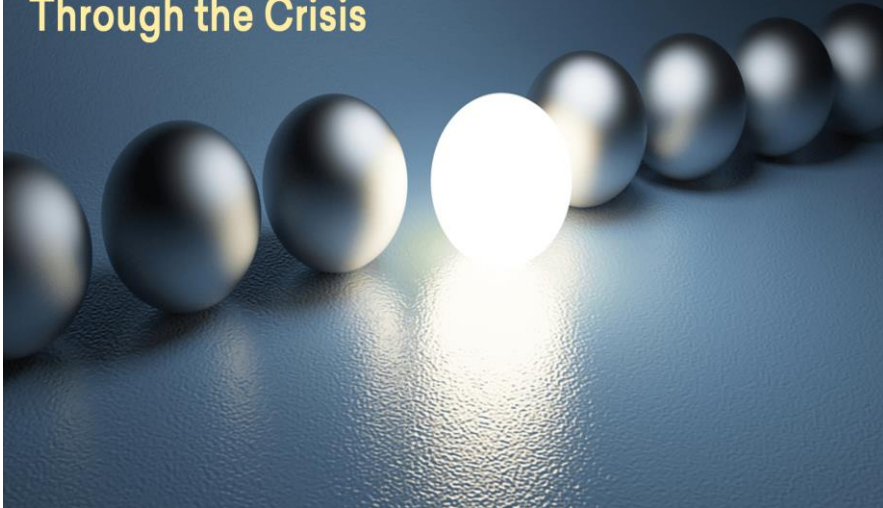
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24th February 2021

Moving out of Response towards Recovery

Covid Response & Recovery

Leading Your Local Area
Through the Crisis



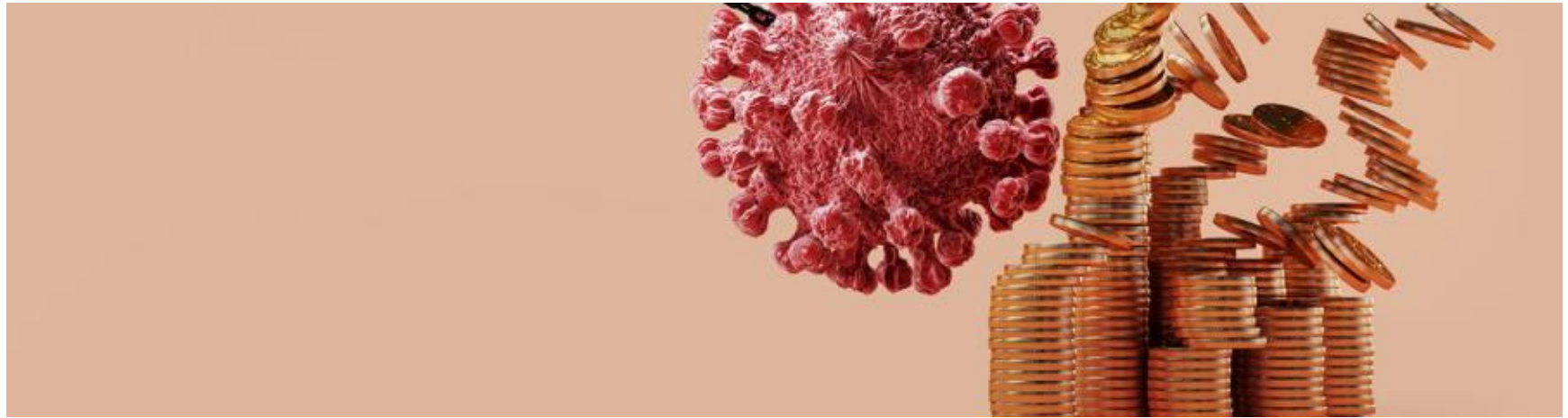
1. The macroeconomic shock
2. The ripple effects: Pan-Hampshire
3. The shape of the response
4. The shape of recovery
5. Towards a strategy

A year of economic uncertainty



Hampshire
County Council

1. The macro economic shock



- **Loss of output to global economy £8 trillion over 2020/21, growing to over £22 trillion 2020-2025 (IMF)**
- **Largest economic contraction in over 300 years**
- At its peak UK GDP 25% lower in depth of crisis in April 2020 than two months earlier – a record fall
- **GDP growth forecast for 2020 : -11.1%** (average forecast from, OBR, BoE, OECD); **December: -9.9%**
- **GDP growth forecast for 2021: +5.4%** (average forecast)
- **Lost Output: economy 3% smaller in 2024/25** than it would otherwise have been (OBR central scenario)
- **Unemployment peak** at 5.9% by end of 2020 and **6.7% by end of 2021** (OBR central scenario)
- **Government deficit at 19% of GDP** (£394bn) in 2020/21 (OBR central scenario)
- **Government debt 105%+ of GDP** at 2020/21 (OBR central scenario).

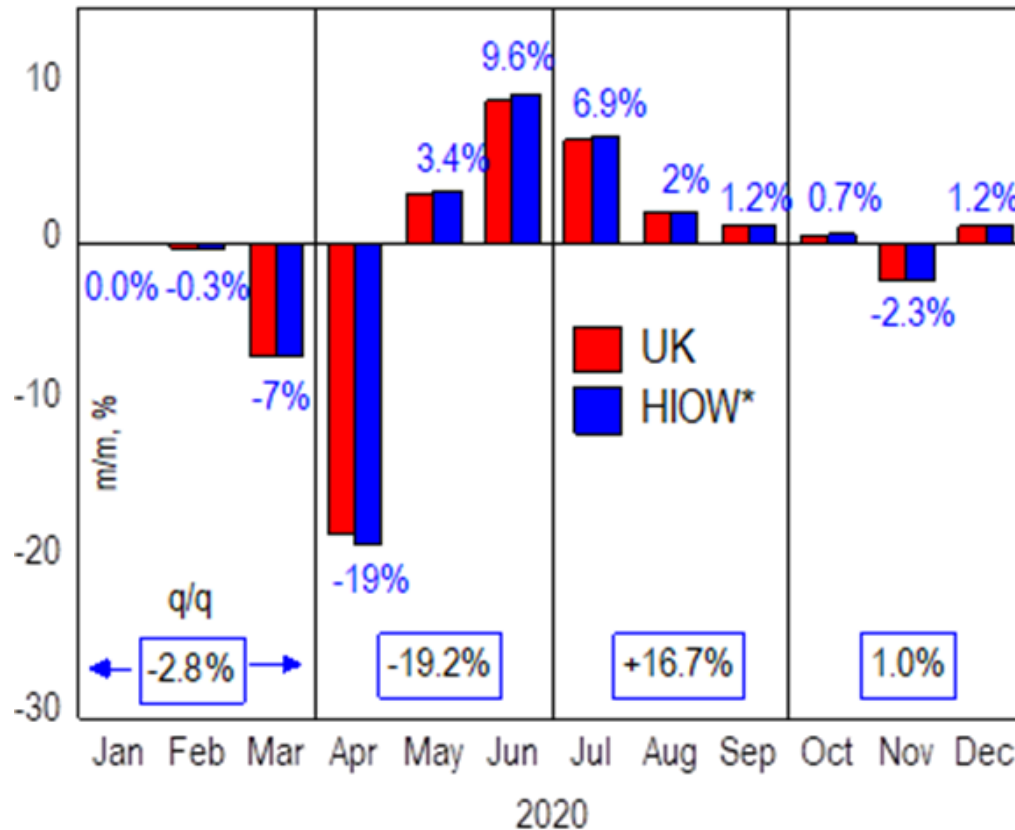


2. Ripple effects: Pan-Hampshire

- **Economic activity fell by at least 22%** in the first six months of 2020
- The **initial impact was greater pan-Hampshire** than on the UK economy but the initial recovery was faster
- In GDP terms UK economy was 9.9% smaller in December 2020 than in previous year. **In GVA terms the impact was -9.1%.**
- Preliminary local estimate suggests that in GVA terms Hampshire lost between 9.1% and 10.8% of its GVA by December 2020.
- In money terms this implies a **loss of GVA of between £6.1bn and £7.2bn in 2020**

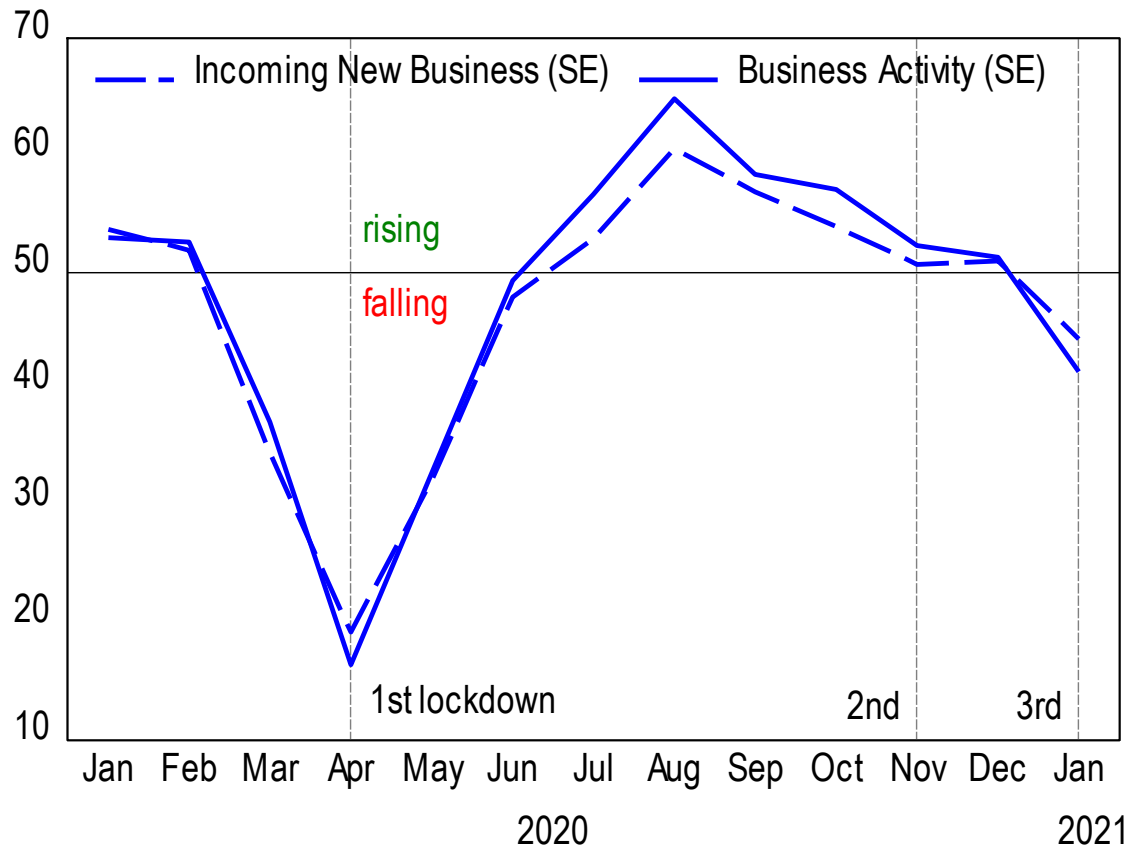


Economic Growth



- Local estimate points to a sharp contraction but faster recovery
- Recovery followed by slowdown and contraction reflecting the pattern of lockdown measures
- £6.1bn to 7.2bn in GVA lost in 2020

Business Activity

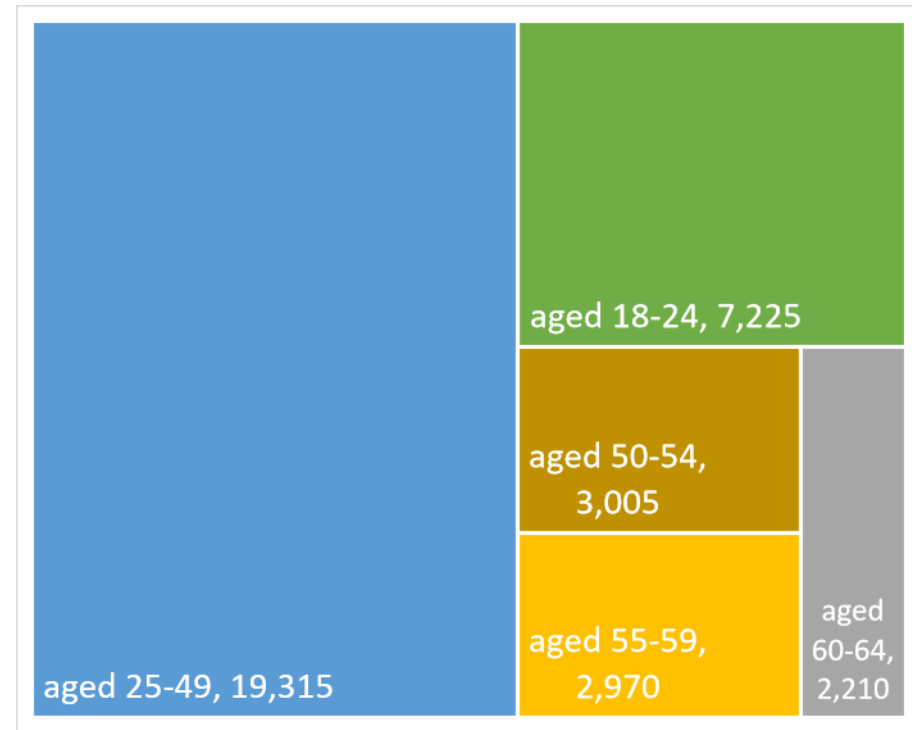


- 77% HIOW businesses trading in late Dec; 36% have less than 3 months or no cash reserves
- Falling activity and incoming new business in January
- Businesses on a survival, stabilisation, recovery pathway

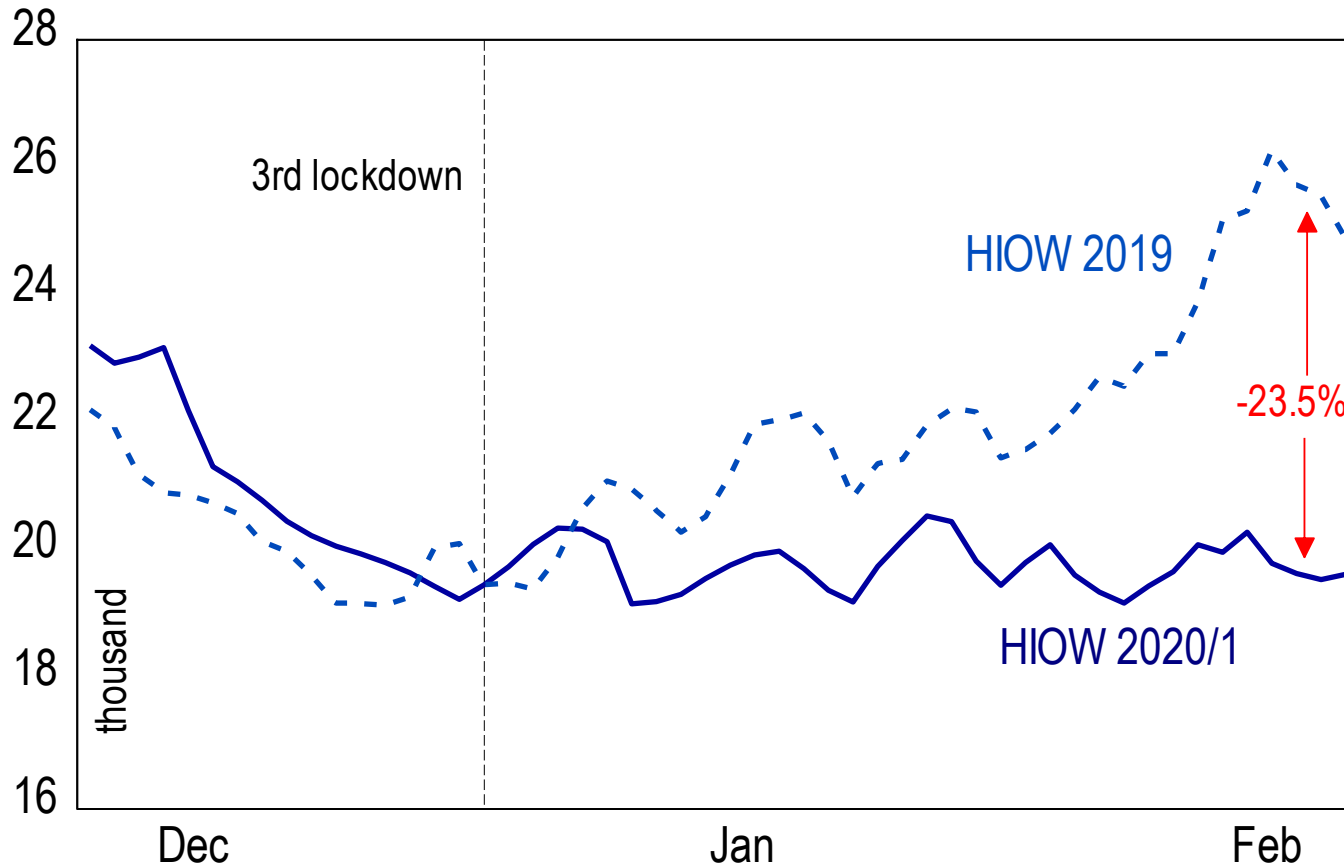
Labour Market

- Employment down 1.4% (12,900) in year to Sept but annual data masks the impact of Covid-19
- Sharp increase in unemployment
- Impact continues to be highly sector specific - workers in hospitality, leisure, and non-supermarket retail much more likely to be out of work
- Faster increase among young people and older workers (age 55-59)
- Young people about 3 times more likely to be unemployed than people of working age

Absolute increase in unemployment (cc) since February

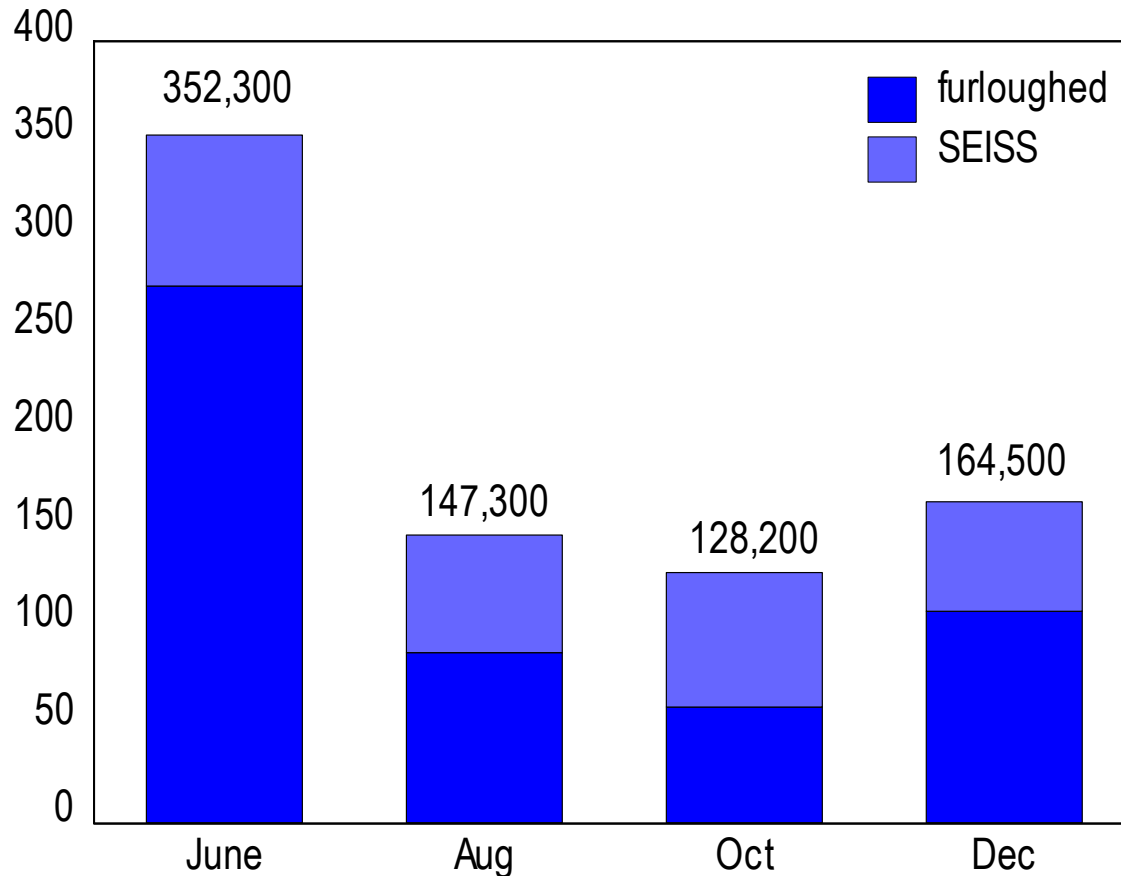


Recruitment demand



- Labour demand remains heavily subdued
- Online job postings at 76.5% of 2019 level (mid Feb)

Jobs directly supported by Government



- Furlough scheme extended until end of April
- Rising number of jobs supported by Government

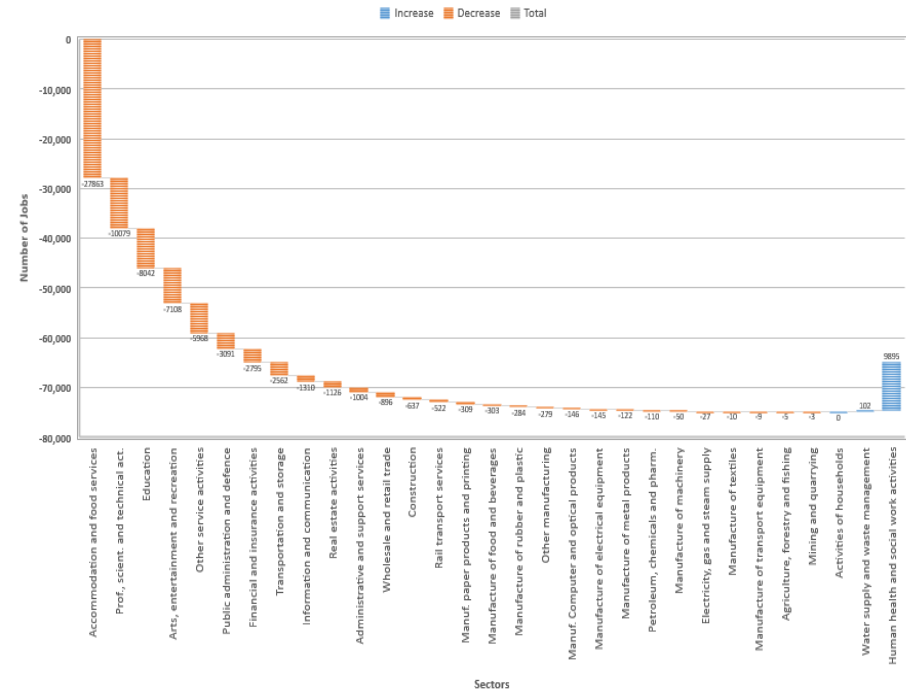
Sector differentiated impact

Hardest hit:

- Accommodation & Food, Leisure / Entertainment, Education, Transport, Retail (non-food), Construction

More resilient:

- The broad public sector (excluding education)
- Private knowledge intensive services – professional & technical services, information & communication, finance & insurance



Tourism and Hospitality

- 38.6% of HIOW businesses in accommodation and food trading in late December vs 77% of all businesses.
- Major visitor attraction financial losses
- Hotels severely impacted by combined loss of business and leisure travel – 4 years to recover?
- Major events cancelled or postponed
- Development plans on hold



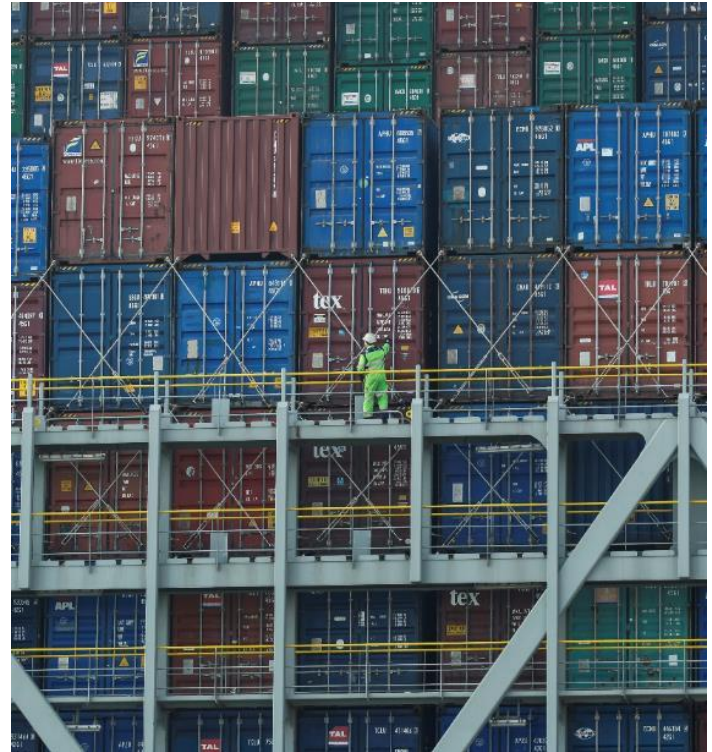
Cruise Sector

- Huge financial loss for cruise lines and shoreside & port services
- Carnival UK - 450 job losses
- Each cruise call worth £2m to local economy
- Impact on both Southampton and Portsmouth ports
- Cruise industry looks ahead to 'the year of recovery'



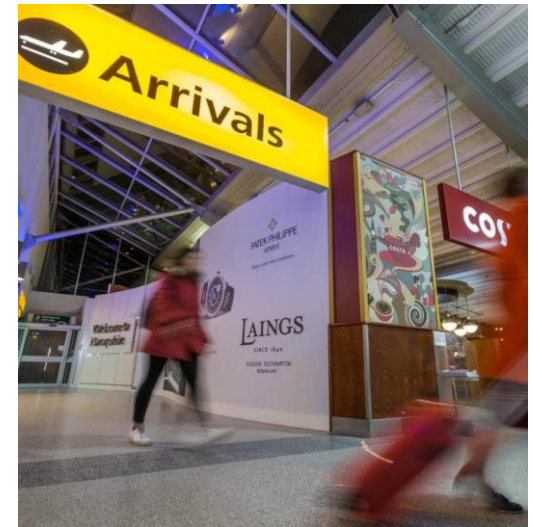
Ports

- Up to 50% reductions in freight volumes
- Initial stoppage of car exports – then recovery (MINI)
- Exxon Mobil – 25% reduction in volumes



Aviation

- Southampton Airport
 - Flybe collapse pre lockdown
 - Staff restructure
 - Skeleton staff
 - Only essential flights to Channel Islands
- Business aviation
 - More resilient but significant negative impact
 - Physical Farnborough Air Show cancelled



3. The shape of the response

Grants to local authorities

- £377.9m of business grants distributed across HIOW (September 2020)
- Local Restrictions Grants and Additional Restrictions Grants introduced December 2020.

Other support

- Job Retention Scheme – extended to 30 April 2021.
- Self-Employed Income Support Scheme
- Kickstart Scheme – Employers can receive up to six months salary for new job opportunities for young people (16-24).

Getting Building Fund - for investment in local, shovel-ready infrastructure projects to stimulate jobs and support economic recovery. Awarded to LEPs



Announcements

CSR 2020

- £4bn Levelling Up Fund (up to £600 million in 2021-22)
- £260 million for transformative digital infrastructure programmes
- UK Shared Prosperity Fund

Additional support announced on 5 Jan

- £4.6bn in grants to support businesses and protect jobs
- One-off (£9,000 per property) top up grants for retail, hospitality and leisure
- £594m discretionary fund to support other businesses

March 3rd Budget Announcement

- Freeports
- Shared Prosperity Fund



Consequences



- Tax revenues falling
- Public spending increasing - £280bn spend this year on response
- Budget deficit at a peace time record high 2020/21 – OBR central scenario £394bn (19% GDP)
- OBR central scenario suggests Govt debt at 105%+ of GDP at end of 2020/21 (80% going into pandemic)



Local response

EM3 LEP

Five projects were identified for progression

- Digital Skills £2.1m
- Digital Fibre Spine £4.5m
- Creative Tech Growth Booster £0.9m
- Park, Ride & EV Charge £5.6m
- Building Greener Futures £0.2m (pilot)

SOLENT LEP

- New fifth Cruise Terminal at the Port of Southampton
- £1.7m for plastic recycling research and innovation at the University of Portsmouth
- Creation of the Industrial Engagement Hub
- Fawley Waterside Digital - £1.5m to facilitate upgrades to the network resilience of the waterfront community.
- Branstone Farm, Isle of Wight – Rural Employment Hub.
- Woolston 'Silicon Wharf' – Low carbon marine logistics technology and control centre.
- Partnership for South Hampshire (PfSH) Nutrients.

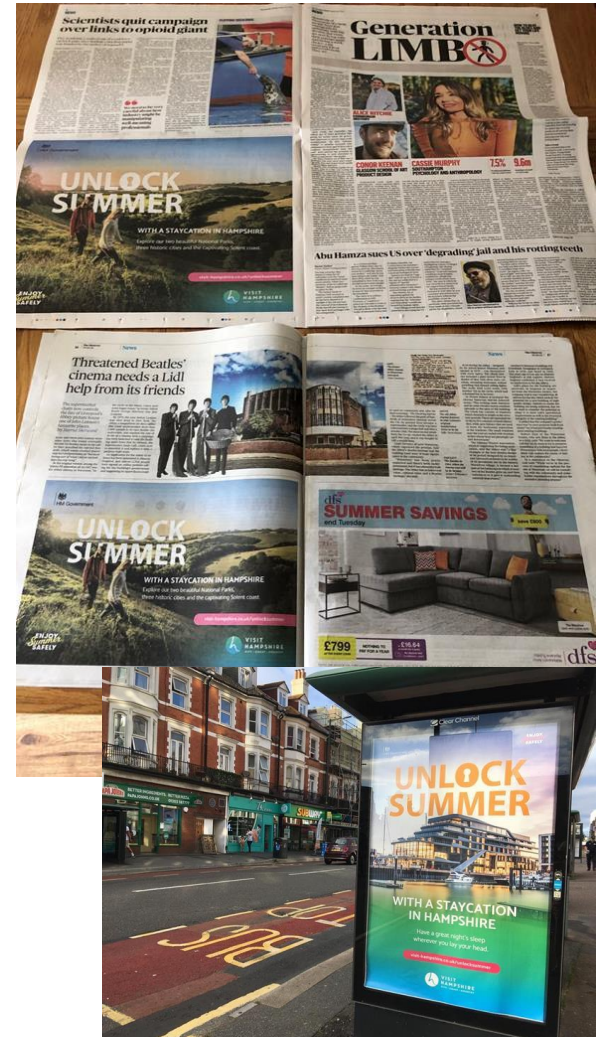
Stay Local Campaign



UNLOCK SUMMER



- £300k Cabinet Office media spend won for late Summer Hampshire campaign
- Visit Hampshire led bid and delivery
- Multi-channel campaign focussed on Hampshire residents & visitors within-hours
- 22.6m digital adverts served; 3 million (Sunday Times, Observer) readership & >2.3m billboard impacts
- 176k landed on Visit Hampshire website = +75% Year on Year growth
- Strong Cabinet Office & Visit England feedback



Inward Investment - Gulfstream



Inward Investment - Ocean Infinity's Armada



Regeneration - Fawley Waterside



HAMPSHIRE 2050

VISION FOR THE FUTURE



Economy



Hampshire
County Council

4. The shape of recovery

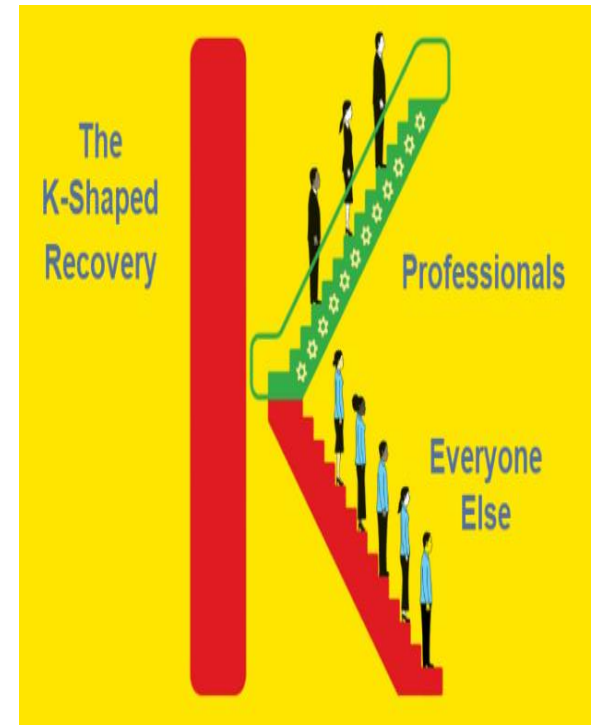
Shake-Out

- The pulling up of the drawbridge - the ending of business support and furlough scheme
- The acceleration of trends – digital, automation, green

Short-term

- Vaccination raises hopes of a turnaround in the pandemic
- Household savings - risen from 7.7% in Q4 2019 to 27.4% in Q2 2020.
- Economic outlook over the short-term substantially weaker than expected
- More partial responses such as flexibilities for pay back of loans or support to keep on staff not strong enough?
- But scope for pent-up demand and consumer boom once the shake out has settled
- The strength of the recovery to vary across sectors
- Labour demand could remain weak over the short-term
- Subdued business investment and productivity growth

- **V, L, U, reverse square root sign, W, K.**



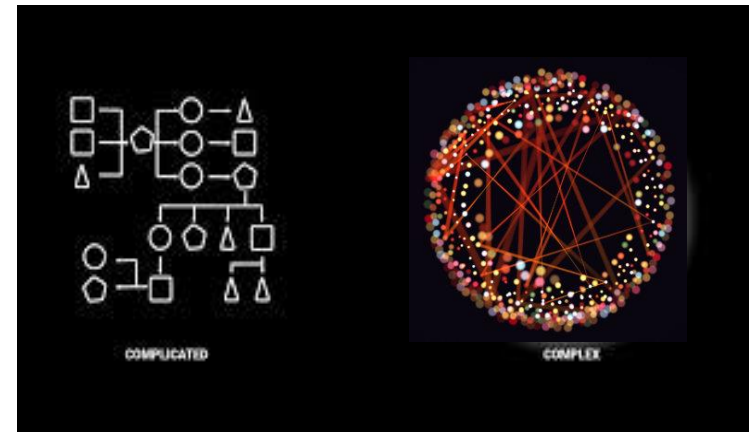
Structural shifts

- Increase in the prevalence of working from home
- Specific economic sectors such as hospitality, travel and international tourism seeing lower growth compared to pre-covid expectations
- An acceleration of on-line commerce growth

Dynamics

- New normal
- Bounce back
- Green recovery
- Rapid acceleration of existing trends, digital, automation
- Shake out and scarring

Sense-making in a complex adaptive system



Living standards

2021 Year of Recovery?

- Yes for GDP not for household incomes (Resolution Foundation, Living Standards Outlook 2021)
- Living standards will decline – especially low income households as unemployment rises and benefits are reduced.

Scarring channels

- reduced business investment and dynamism hitting stock of physical capital
- High unemployment depleting the skills of the workforce depleting the stock of human capital
- Unwinding of global value chains



Green Economic Recovery

New Economics Foundation

- Improve living standards rather than simply targeting GVA growth.
- Support the creation of good, secure jobs.
- Reduces greenhouse gas emissions in Hampshire.



5. Towards a Strategy

HAMPSHIRE 2050

VISION FOR THE FUTURE

Climate Change Strategy

LTP4

Economic Recovery
& Growth
Framework

LEP Recovery Plans
and Strategies

Hampshire
Skills Strategy

Philosophies

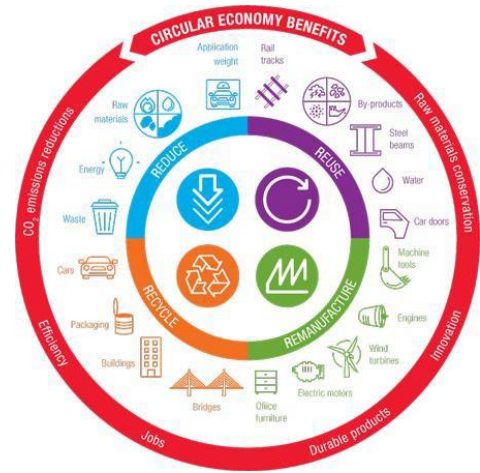


CREATING A GOOD LOCAL ECONOMY
THE ROLE OF ANCHOR INSTITUTIONS

Economic Recovery & Growth Framework

We need an Inclusive Economy not Inclusive Growth

Policy Provocation



Trends and Opportunities

Business investment

- Behavioural impact of Covid-19 on businesses locating in dense populated areas
- COVID19 has exposed vulnerabilities of global supply chains
- Increased attractiveness of Hampshire (lower density, sector strength, major ports..)

Hampshire Initiative

- Investment initiatives
- Satellite offices

Retention of Skilled Labour

- Historic outflow of skilled labour from Hampshire to London
- Opportunity to retain and attract skilled labour to Hampshire.

Thank You

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