

The Impacts of COVID-19: An Overview of the Research to Date

Updated 15th July 2020

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1. Introduction

This report provides an overview of research published exploring the potential and forecast impact of the ongoing COVID-19 outbreak and public health response, including the lockdown that was brought into force in March. In particular, the research focuses on the economic impact of the pandemic and restrictions, the implications for poverty, and summarises the situation in a range of international settings with focus on any lessons for Scotland.

This report was initially produced on the 20th of April and will be kept up to date with new research as this is published and the situation evolves.

2. The Economic Outlook

2.1 Key points

- The short and long-term economic impact is uncertain and will depend largely on the length and scope of the lockdown. Most forecasters predict that GDP will take a significant hit in quarters 2 and 3 of 2020, with a strong recovery predicted for 2021. The most recent economic showed that there was indeed a significant downturn in March. There is also a danger of a “W-shaped” recession with a further economic downturn in quarter 4 of 2020.
- The impact of the lockdown is also expected to be felt to varying degrees between different sectors of the economy. The sectors reporting particularly large downturns in output are accommodation and food; construction; and arts, entertainment, and recreation.
- Locally, the economic impact is therefore likely to vary depending on the balance of industries represented in each area. The Centre for Progressive Policy estimate that GVA will fall by between 42% and 18% for quarter 2 across Scotland’s local authorities.
- The largest economic impact will likely be seen in the labour market. All forecasters agree that unemployment is likely to increase sharply in 2020 and recover far more slowly than GDP. ONS and DWP data shows a very large rise in unemployment in March and April. Those on low incomes, women, and younger people are already seeing the largest impact, which is likely to continue after the immediate crisis ends.
- The effect on the housing market is predicted to be a short-term drop in prices due to a slowdown in current sales and the impact on income. In the longer term the housing market is expected to rebound strongly in 2021.
- A number of businesses are already reporting severe difficulties due to the current arrangements and could struggle to continue trading, particularly if the lockdown is extended beyond three months. Non-food retail could be especially affected, leading to a major impact on high streets.
- There is a real prospect that inward migration will not return to pre-crisis levels even in the long-term. This would have a major impact on Scotland’s population growth, which is wholly reliant on migration.

2.2 Update 5th June 2020

The latest outlook

There have been some signs of modest economic recovery, but the situation remains very challenging. The chief economist of the Bank of England, Andy Haldane, has said that recent data

was better than had been forecast, but that he now expects a protracted recovery.¹ Analysis by Fraser of Allander of the latest economic indicators highlights the modest, but still below trend increase in consumer demand, which has had a major impact on revenue for Scottish Businesses.²

Analysis by the Institute for Employment Studies of ONS data sourced from online job platform Adzuna and the latest Royal Bank of Scotland report on jobs both suggest that there has been a slump in demand for staff. The RBS reported that May was the fourth consecutive month of falling demand for permanent staff placements and the sixth for temporary staff, albeit at a slightly slower rate of decline than in April.³ Meanwhile, Adzuna data showed that the number of job adverts across the UK had fallen to 43% of the 2019 average, and to just 20% for catering and hospitality and 25% for wholesale and retail.⁴ In addition, this fall has come to the greatest extent amongst lower paid positions with the highest proportion of jobs, 65%, lost in the £15k-£24,999 salary band. Scotland also was disproportionately affected. Between March and May there was an over 60% decline in the number of job adverts in Scotland meaning that Scotland had over ten claimant unemployed people for every job vacancy. This was an increase from four in March, and the third highest across the regions and countries of the UK.⁵

Consumer confidence also remains low. A survey for BBC Scotland suggest 72% of people think the economy is going to 'get worse' over the next 12 months⁶. The survey also found that 78% of respondents were likely to avoid large crowds in future and 62% were unlikely to go to bars and restaurants. This emphasises that there is likely to be sustained impact on consumer confidence both due to economic fragility and the perceived health risk.

Supporting the local economy

Investment in local economies will be a crucial part of the recovery process. Glasgow City Region recently announced a £250 million funding boost for vital infrastructure work⁷. This funding forms part of the UK and Scottish Government funded City Deal and will support economic recovery in the area through job creation and business support. As well as local investment, local authorities have other levers which can be used to support economic recovery. A recent briefing by the Local Government Information Unit (LGIU) highlighted a range of actions local authorities could undertake

¹ Confederation of British Industry, "Daily Webinar", 26th May 2020, <https://www.bankofengland.co.uk/events/2020/may/andy-haldane-confederation-of-british-industry-daily-webinar>

² Fraser of Allander, 'Riding against the economic headwinds – latest real time indicators of the Scottish economy', 5th June 2020, <https://fraserofallander.org/covid/riding-against-the-economic-headwinds-latest-real-time-indicators-of-the-scottish-economy/>

³ Royal Bank of Scotland, 'Report on Jobs', 5th June 2020,

<https://www.markiteconomics.com/Public/Home/PressRelease/2b2a4c2b9077469faa7005949fde01a9>

⁴ Office for National Statistics, 'Coronavirus and the latest indicators for the UK economy and society', 28th May 2020,

<https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/bulletins/coronavirustheukconomyandsocietyfasterindicators/28may2020#online-job-adverts>

⁵ Institute for Employment Studies, 'Weekly vacancy analysis: Vacancy trends in week-ending 17 May 2020', 22nd May 2020, <https://www.employment-studies.co.uk/resource/weekly-vacancy-analysis-vacancy-trends-week-ending-17-may-2020>

⁶ BBC News, 'Coronavirus: Scots' fears over economic impact of lockdown', 27th May 2020, <https://www.bbc.co.uk/news/uk-scotland-52808676>

⁷ Glasgow City Region City Deal, 'Vital funding boost for City Region Economy', 21st May 2020, <http://www.glasgowcityregion.co.uk/article/10847/Vital-funding-boost-for-City-Region-economy>

in their economic recovery strategies⁸. This includes mapping local needs and flows of goods and services, using procurement to raise social, economic and environmental standards and updating local economic and industrial strategies for the new context. There is evidence that local authorities are already focussing efforts on some of the suggested recovery actions. As outlined later in this paper, local authorities are considering the use of private assets for social purposes such as using Airbnb properties to house homeless people⁹, and are strengthening careers support in partnership with Skills Development Scotland¹⁰.

The briefing also suggested that local authorities could work practically with local businesses as state support is withdrawn. Although local businesses have been offered support through the current restrictions, the risk for many businesses will not disappear as soon as restrictions are lifted completely. The Fraser of Allander Institute have also highlighted the importance of engaging with local businesses. They argue that while economic statistics tell part of the story of recovery, the reality is that economic hardship will hit many businesses and people in a way that is not captured by statistics. While the data may show recovery “the real peak of the crisis will not be reached for some time yet.” They argue that it is vital for policy makers to gather intelligence on the situation businesses find themselves in and their resilience over the coming period.¹¹

The Institute for Public Policy Research highlight that whilst the Government’s Coronavirus Businesses Interruption Loan Scheme offers short-term support to small and medium sized businesses, it does not necessarily alleviate the long-term risk of borrowing¹². Through the scheme, the government underwrites 80% of the value of loans (100% for the smallest loans) and pays the interest on the loan in the first year. This scheme protects lenders against defaults, however the business could still face bankruptcy and potential repossession of assets should it be unable to make the loan repayments. Therefore, many local businesses who have had to take on debt to survive the current restrictions, are likely to be vulnerable throughout the ongoing economic uncertainty, which could lead to further business closures in the longer term. This may be of particular concern for retail and hospitality businesses who are likely to suffer a disproportionate impact from lockdown restrictions. A potential mechanism through which local authorities could counteract economic decline from the closure of local businesses is through temporary leases. A recent LGiU briefing highlighted examples of how temporary leases can “offer a low-cost means of regeneration in the absence of typical consumer demand or capacity for funding by local government.”¹³

⁸ LGiU, ‘Briefing: Covid-19: Recovering from the virus – sustainable local economic strategies’, 21st May 2020, <https://lgiu.org/briefing/covid-19-recovering-from-the-virus-sustainable-local-economic-strategies/>

⁹ The Herald, ‘Coronavirus: Scottish Government ‘should reset housing agenda’ as MSPs to investigate homelessness’, 27th May 2020, <https://www.heraldscotland.com/news/18478718.coronavirus-scottish-government-should-reset-housing-agenda-msps-investigate-homelessness/>

¹⁰ Skills Development Scotland, ‘Vital extra support for workers and learners: Services boosted to offer help to people affected by the Covid-19 pandemic’, 13th May 2020, <https://www.skillsdevelopmentscotland.co.uk/news-events/2020/may/enhanced-offer-media-release-12-may/>

¹¹ Fraser of Allander Institute, ‘How Do We Define the Bottom of the Curve?’, 4th June 2020, <https://fraserofallander.org/covid/how-do-we-define-the-bottom-of-the-curve/>

¹² Institute for Public Policy Research – The Centre for Economic Justice, ‘Who wins and who pays? Rentier power and the Covid crisis.’, 13th May 2020, https://www.ippr.org/files/2020-05/1589291707_who-wins-and-who-pays-may20.pdf

¹³ LGiU, ‘Briefing: Using pop up & temporary leases to reactive local retail centres impacted by Covid-19’, 27th May 2020, <https://lgiu.org/briefing/using-pop-up-temporary-leases-to-reactivate-local-retail-centres-impacted-by-covid-19/>

The housing market

The Scottish Housing market is due to reopen on the 18th of June, later than in England where it reopened on the 13th of May. Across the UK, the period of closure appears to have had only a small impact on house prices. The Halifax House Price Index showed that house prices in May were 0.2% lower than in April, but still 2.6% higher than in May 2019.¹⁴

FAI have noted that the English housing market saw an 88% spike in demand in the week after reopening. It is therefore likely that there will be a similar bounce back in Scotland.¹⁵

Using Big Data to Measure Local Economic Activity

Finally, the Urban Big Data Centre and Policy Scotland outlines how big data could be used to examine the sub-national economic impact of lockdown and shoots of recovery. In Edinburgh and Glasgow, for example, Airbnb data shows a potential collapse in the tourism industry, which would have significant impacts on local economies. Similarly, CCTV data and traffic sensors show a slight uptick in traffic volume recently. These will be interesting sources to monitor as recovery takes place.¹⁶

Although these data are not without their weaknesses, they offer a useful source of real-time data to help inform policy making. The UBDC are currently trying to understand local authorities' needs for this data and would welcome any suggestions, which can be sent [here](#).¹⁷

2.3 Update 20th May 2020

Latest GDP figures and scenarios show the severe economic impact

On the 13th of May the Office for National Statistics published the latest monthly estimates for GDP growth. These showed a drop in GDP of 2% for the first quarter (January to March) of 2020, and a drop of 5.8% in March alone. This was the lowest GDP growth over a three month period since 2008, and the lowest monthly change since records began in 1997. The downturn has affected nearly all industries in quarter 1. As predicted, accommodation and food services have seen a particularly large fall in output at 9.5%.¹⁸

Despite the severity of this contraction, it was slightly lower than some of the figures used in projected scenarios, including those by the Bank of England, outlined below, and the Scottish

¹⁴ Halifax, 'House Price Index', 5th June 2020,

<https://www.markiteconomics.com/Public/Home/PressRelease/fa1709f8f68446bca669ab8fd56458ae>

¹⁵ Fraser of Allander, 'Riding against the economic headwinds – latest real time indicators of the Scottish economy', 5th June 2020, <https://fraserofallander.org/covid/riding-against-the-economic-headwinds-latest-real-time-indicators-of-the-scottish-economy/>

¹⁶ Urban Big Data Centre, 'Understanding the impacts of COVID-19 on the Glasgow City Region economy', 6th May 2020, <http://www.ubdc.ac.uk/news-media/2020/may/understanding-the-impacts-of-covid-19-on-the-glasgow-city-region-economy/>

¹⁷ Nick Bailey – UBDC, 'Tracking lockdown, supporting recovery: the potential and the pitfalls of big data' 1st May 2020, <http://www.ubdc.ac.uk/news-media/2020/may/tracking-lockdown-supporting-recovery-the-potential-and-the-pitfalls-of-big-data/>

¹⁸ Office for National Statistics, 'GDP Monthly Estimate, UK: March 2020', 13th May 2020, <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/march2020>

Government. The severity of the impact in April however, with lockdown measures only in force in late March, and on the Scottish economy specifically, remains to be seen.

The Bank of England also published their own illustrative scenario for 2020 and beyond on the 7th of May. Across the whole year this scenario sees GDP fall by 14%, with some recovery in the second half of this year and into 2021. Economic output is not expected to reach pre-crisis levels until the second half of 2021. This scenario assumes that social distancing measures remain in place until quarter 3 and that the Coronavirus Job Retention Scheme successfully limits the number of jobs lost. As a result, the Bank of England expect unemployment to rise from around 4% to 8% in 2020, before falling to 7% in 2021 and back to 4% in 2022.¹⁹

Unemployment and the claimant count have already hugely increased

Universal Credit claimant statistics released by the DWP²⁰ and claimant count figures, which measure the number claiming all unemployment related benefits, released by the ONS²¹ on the 19th of May show the impact of the lockdown on unemployment in Scotland in the early weeks of the lockdown. Analysis of new Universal Credit claims by the Fraser of Allander Institute shows the number of new claimants in Scotland rising from under five thousand on the 12th of March to over 40 thousand on the 26th of March and 2nd of April, and falling slightly to just under 24 thousand on the 9th of April.²² In total, new starts to Universal Credit in Scotland were almost 90 thousand in April, compared with just over 10 thousand in March.

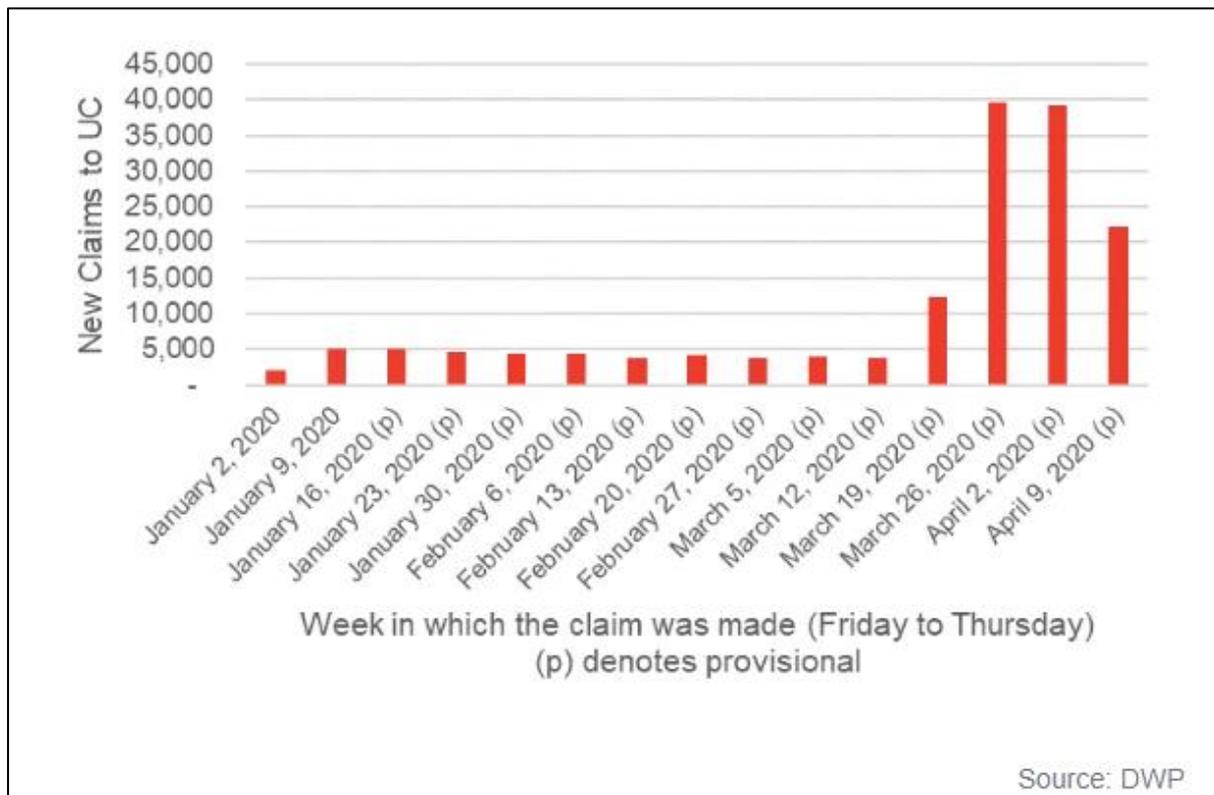
¹⁹ Bank of England, 'Monetary Policy Report May 2020', 7th May 2020, <https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/may/monetary-policy-report-may-2020.pdf>

²⁰ Department for Work and Pensions, 'Universal Credit Statistics', 19th May 2020, <https://www.gov.uk/government/collections/universal-credit-statistics>

²¹ ONS, 'Claimant Count: Scotland: People: SA: Percentage (%)', 19th May 2020, <https://www.ons.gov.uk/employmentandlabourmarket/peoplenotinwork/outofworkbenefits/timeseries/dpbq/unem>

²² Fraser of Allander Institute, 'Today's labour market and Universal Credit data give us a glimpse of the initial impact of CoVid-19 on Scotland', 19th May 2020, <https://fraserofallander.org/fai-publications/scottish-labour-market-trends/what-does-todays-labour-market-and-universal-credit-data-tell-us-about-the-impact-of-covid-19-on-scotland/>

Figure 1 - New Claims to Universal Credit. Chart Source: Fraser of Allander Institute



Meanwhile, the claimant count rate for Scotland in April rose to its highest level since January 1997 at 6.6%. This was higher than the rate for the UK of 5.8%. These figures show the scale of unemployment in Scotland, despite the UK Government’s Coronavirus Job Retention Scheme (furlough), which appears to have reduced the impact on unemployment.²³ ING have warned of the danger of further wave of redundancies as the scheme is phased out. In particular, they highlight that the risk is especially high for retail and hospitality, and Scotland’s higher claimant count may reflect the importance of hospitality in particular within the Scottish economy. ING also warn that the lowest paid sectors have made the most use of the furlough scheme, meaning those at the lower end of the income scale are likely to be hardest hit by any future unemployment.

The impact has been seen across the economy with one in five businesses temporarily closed. Further publications show the scale of the impact on business in Scotland. The Scottish Council for Development and Industry has warned of the difficult outlook for oil and gas, aviation, and tourism and hospitality, all of which contribute significantly to Scottish GDP. In particular, they highlight that Scottish hotel occupancy has fallen by 80% or more, while low oil prices could see one in five employees in that sector, 50 thousand people, lose their jobs across the UK.²⁴

The Scottish Government have also released the retail sales index for quarter 1, which showed a 1.1% decrease in the volume of retail sales, a lower decline than across the UK as a whole, but warn

²³ ING, ‘UK: Further challenges lie ahead for stricken jobs market’, 19th May 2020, <https://think.ing.com/snaps/further-challenges-lie-ahead-for-stricken-uk-jobs-market/>

²⁴ Scottish Council for Development and Industry, ‘State of the Nation: SCDI’s Economic Data Briefing May 2020’, May 2020, <https://www.scdi.org.uk/covid-19/>

that this is likely to fall further in quarter 2.²⁵ Similarly, the Monthly Business Turnover Index for March indicated that “a considerable proportion of companies in Scotland have reported lower turnover in real terms than 12 months ago” and the lowest levels since the series began in 2011.²⁶

Analysis by the Fraser of Allander Institute of the Business Impact of Coronavirus Survey (BICS) also showed the impact of the ongoing public health measures on businesses in Scotland up to the 19th of April. At that point over 20% of Scottish businesses had temporarily ceased trading, and 60% of those that were still trading saw a reduction in turnover. These figures also showed that over 70% of business in Scotland had made use of the Coronavirus Job Retention Scheme to furlough staff.²⁷

Finally, the Scottish Parliament Information Centre (SPICe) have highlighted how different industries are of relatively different importance between the Scottish and UK economies, meaning that the longer term impact of the shutdown could be different in Scotland.²⁸ In particular, tourism forms a large part of the Scottish economy, contributing 5% of GDP.²⁹ On the other hand, some of the industries likely to be less affected by the lockdown, such as agriculture, onshore mining, and public administration, all contribute to a GDP in Scotland to a larger extent than in the UK as a whole.

²⁵ Scottish Government, ‘Retail Sales Index: 2020 Q1’, 29th April 2020,

<https://www.gov.scot/publications/monthly-business-turnover-index-march-2020/>

²⁶ Scottish Government, ‘Monthly Business Turnover Index: March 2020’, 13th May 2020,

<https://www.gov.scot/publications/monthly-business-turnover-index-march-2020/>

²⁷ Fraser of Allander Institute, ‘What do the latest indicators tell us about the impact of the coronavirus on the Scottish Economy?’, 15th May 2020, <https://fraserofallander.org/covid/what-do-the-latest-indicators-tell-us-about-the-impact-of-the-coronavirus-on-the-scottish-economy/>

²⁸ SPICe, ‘Coronavirus (COVID-19) and Scotland’s Economy’, 7th May 2020, <https://spice-spotlight.scot/2020/05/07/coronavirus-covid-19-and-scotlands-economy/>

²⁹ SPICe, ‘Destination unknown: tourism, coronavirus (COVID-19), and getting to reboot’, 21st April 2020, <https://spice-spotlight.scot/2020/04/21/destination-unknown-tourism-coronavirus-covid-19-and-getting-to-reboot/>

The following sections were last updated 6th May 2020.

2.4 What might the economic impact be?

Overview – GDP likely to fall significantly

This is an evolving picture, and heavily dependent on the length and depth of the lockdown. Estimates of the likely reduction in UK GDP continue to change and vary between organisations. KPMG, for example, estimated an annual change of -2.6% for 2020 on the 23rd of March, which was then revised downward two weeks later to -7.8%.³⁰ Most projections point to a strong economic rebound in the latter half of 2020 with economic growth in 2021, however there will be longer term impacts on the labour market, businesses, and specific sections of the economy.

According to the OBR, a further one month of full economic lockdown is likely to result in a further 3% reduction of full-year GDP. Therefore, these figures are highly dependent on the ongoing measures to protect public health.³¹

On the 21st of April the Scottish Government published its own scenario outlining the potential economic impact based on different scenarios. This suggested that GDP for the current period of social distancing could fall by 33%, primarily focused in March and April, with some recovery expected in July. This analysis also highlights the possibility of a “W shaped” recovery where the economy picks up in quarter 3 of 2020, but faces a second contraction in quarter 4. The speed and extent to which the economy can recover, therefore, will depend strongly on how ongoing restrictions impact any initial recovery and whether there is a second peak of infections leading to new restrictions later in the year.³²

The Fraser of Allander Institute (FAI) estimated on the 7th of April that a three-month lockdown would impact the Scottish economy over the corresponding period by somewhere between a 20 to 25 percent contraction.³³ This was a lower impact than the OBR scenario, but implies a significant hit to Scottish GDP over the course of 2020.

Table 1 - Selected GDP Forecasts and Scenarios, figures refer to UK GDP unless stated

	2020 GDP	2021 GDP	Q1 and Q2 2020
KMPG (23 rd March)	-2.6%	1.7%	
KPMG (8 th April)	-7.8%	8.4%	
Oxford Economics (13 th April)	-5.1%	3%	
Office of Budget Responsibility Scenario (14 th April)	-12.8%	18%	-35%
IMF (20 th April)	-6.5%	4%	

³⁰ KPMG, ‘Chief Economist’s note: forecasts downgraded’, 8th April 2020, <https://home.kpmg/uk/en/home/insights/2020/04/chief-economist-s-note-forecasts-downgraded.html>

³¹ Office for Budget Responsibility, ‘Coronavirus scenario’ 14th April 2020, https://cdn.obr.uk/Coronavirus_reference_scenario_commentary.pdf

³² The Scottish Government, ‘State of the Economy: April 2020’, 21st April 2020, <https://www.gov.scot/publications/state-economy-april-2020/>

³³ The Fraser of Allander Institute, ‘Coronavirus: quantifying the impact on the Scottish Economy’ 7th April 2020, <https://fraserofallander.org/scottish-economy/coronavirus-quantifying-the-impact-on-the-scottish-economy/>

Fraser of Allander (Scotland) (7 th of April)			-20% to -25%
Scottish Government Scenario (Scotland) (21 st April)	-12%		-33%
EY Item Club (27 th April)	-6.8%	4.5% (assuming avoidance of a no-deal Brexit)	

Varying impact by sector

The Fraser of Allander Institute³⁴ on the 7th of April estimated how the effects of an ongoing lockdown will impact different sectors of the Scottish economy. In summary, a 3-month lockdown is estimated to have the following effects:

- Agriculture, which forms 1.3% of the Scottish economy, could see modest growth in output of between 2 and 5%
- Manufacturing, 11% of Scottish Economy, has a mixed outlook with potential growth in food and drink, but a fall in other areas such as petroleum
- Non-manufacturing production such as mining, gas, and electricity is likely to see a decline in output of between 25% and 30%
- Construction, which makes up 6% of the Scottish economy, is forecast to see a 40-50% contraction
- Services make up 76% of the Scottish economy and are expected to see a 15% to 20% contraction in output. This includes:
 - Retail – a retraction is forecast overall, with some growth in online and food retail
 - Transport – a significant contraction is likely
 - Accommodation and Food Services – a very significant fall is projected
 - Real estate – FAI project that there will be a contraction in Real Estate, but that it will be fairly modest compared to what one may expect.

The OBR’s projection for the impact on different sectors is shown in Figure 2.

³⁴ Ibid

Figure 2 - expected change in output by sector, OBR

Sector	Per cent	
	Weight in whole economy value added	Effect on output relative to baseline
Agriculture	0.7	0
Mining, energy and water supply	3.4	-20
Manufacturing	10.2	-55
Construction	6.1	-70
Wholesale, retail and motor trades	10.5	-50
Transport and storage	4.2	-35
Accommodation and food services	2.8	-85
Information and communication	6.6	-45
Financial and insurance services	7.2	-5
Real estate	14.0	-20
Professional, scientific and technical activities	7.6	-40
Administrative and support activities	5.1	-40
Public administration and defence	4.9	-20
Education	5.8	-90
Human health and social activities	7.5	50
Other services	3.5	-60
Whole economy	100.0	-35

Local economies

As a result of the differing impact on sectors of the economy the economic impact is likely to vary between local authorities. The Centre for Progressive Policy have used the OBR’s projections for the decline in output by industry to estimate the likely GVA decrease across quarter 2 within each local authority area.³⁵ In summary, the prediction shows local GVA falling by a range of 42% in Stirling Council to 18% in Orkney Islands Council. Although the economic impact is likely to vary considerably, clearly no area will escape significant economic harm.

2.5 The labour market

Overview – a major and sustained increase in unemployment

As with economic forecasts, there are a variety of estimates for the likely severity of the growth in unemployment that will be caused by an ongoing lockdown. In any case, the vast majority of commentators predict that unemployment will rise particularly quickly and is likely to recover more slowly than GDP. The Resolution Foundation have described the likely economic downturn as “a jobs recession”, which will disproportionately impact on specific sectors.

In the short-term there has been a spike in unemployment measured through claims to Universal Credit in March and April, which does, according to the Resolution Foundation, appear to be slowing.³⁶ Between mid-March and April there were over 100,000 new Universal Credit applications in Scotland, and the Scottish Government estimate that 920,000 jobs have already been impacted through furlough or job losses.³⁷ UK wide, the Institute for Employment Studies already estimate

³⁵ Centre for Progressive Policy, ‘Which local authorities face the biggest immediate economic hit?’, 16th April 2020, <https://www.progressive-policy.net/publications/which-local-authorities-face-biggest-immediate-economic-hit>

³⁶ Resolution Foundation, ‘The economic effects of coronavirus in the UK: Utilising timely economic indicators’, 10th April 2020, <https://www.resolutionfoundation.org/app/uploads/2020/04/The-economic-effects-of-coronavirus-in-the-UK-fast-indicators-3rd-ed.pdf>

³⁷ The Scottish Government, ‘State of the Economy: April 2020’, 21st April 2020, <https://www.gov.scot/publications/state-economy-april-2020/>

that employment has already fallen by between 1.5 to 2 million, more than double the fall in the last recession.³⁸ Over the medium to long-term, recovery in the labour market is expected to be far slower than for GDP. This will impact incomes, raise demand for social security and council services, and lower tax revenues.

Table 2 - Selected Projections of UK Unemployment – pre-crisis level c.3.9%

	2020	2021
KPMG (23 rd March)	4.7%	4.1%
KPMG (8 th April)	7.6%	6.3%
Oxford Economics	6%	
OBR scenario (14 th April)	7.3%	6%
Institute for Employment Studies (April)	7.5% (Q2)	
Scottish Government (Scotland) – V-shaped recovery scenario (21 st April)	10%	c.4%
EY Item Club (27 th April)	6.8% (Q3)	

The ONS Opinions and Lifestyle Survey covering the 27th March to the 6th of April showed that 39.7% of adults said their work had been affected. The main concerns were a reduction in hours, including those who had been placed on furlough, and working from home. The ONS Business Impact of Coronavirus Survey (BICS) for the period 23rd of March to the 5th of April suggested that in total 21% workers have been placed on furlough so far.³⁹ The government furlough scheme was expanded to cover a greater range of workers on the 15th of April, expected to benefit 200,000 additional employees. It is likely, therefore, that this percentage will grow in the coming weeks.

The impact will vary between population groups and industries

According to the Institute for Fiscal Studies and the Resolution Foundation any downturn in the labour market is likely to affect different sectors of the population to varying degrees, largely as a result of working in the industries most affected by public health measures.

The result is that those on low incomes, women, and younger people will and are bearing the brunt of the downturn in the labour market. In a survey carried out on the 25th of March 8% of respondents who had previously been in employment said that they had been made redundant due to COVID-19. This figure rose to 10% amongst under 30s compared to 6% of 45-55 year olds. Similarly, 58% of under 30s reported earning less over the previous week compared to 36% of 45-55

³⁸ The Institute for Employment Studies, 'Getting Back to Work: Dealing With the Labour Market Impacts of the COVID-19 Recession', April 2020, <https://www.employment-studies.co.uk/resource/getting-back-work-0>

³⁹ Office for National Statistics, 'Coronavirus, the UK economy and society, faster indicators: 16 April 2020', 16th April 2020, <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/bulletins/coronavirustheukeconomyandsocietyfasterindicators/16april2020>

year olds.⁴⁰ In addition, research by McKinsey shows that 80% of workers facing job insecurity do not have a university degree raising the prospect of widening inequalities between rich and poor.⁴¹

Analysis by the Institute for Fiscal Studies shows that workers under 25 were two and a half times more likely to work in a sector that is now shut down.⁴² In addition, low earners were seven times more likely to work in one of these sectors than high earners, and women were about a third more likely to work in one of the sectors that is now shut down. Analysis by the Scottish Government shows a similar pattern in Scotland with people aged under 25 and women more likely to work in a sector that is now shut down.

This inequality of outcome is consistent with the experience of previous recessions where those aged 18-29, and especially those leaving education in the previous year, were most likely to suffer the impacts of recession in terms of unemployment.

Low income sectors have already been especially affected by the lockdown. In total, according to the BICS for the period 9th March to 22nd March, 29% of businesses across all industries reported laying off staff in the short term, but this rose to 52% of businesses in the accommodation and food sector and 39% across the construction sector, arts, entertainment, and recreation sector, and administrative and support sector.⁴³ The Institute for Social and Economic Research estimates that employment in accommodation and food services could fall by over 75% and over 50% in all other services.⁴⁴

The CIPD on the 29th of April published results from their survey of more than 1000 employers. The results showed that already 70% of employers have made use of the Government's Coronavirus Job Retention Scheme (JRS) to furlough staff. This survey also warned that 60% of employers would like to see the scheme extended by at least three months, and the CIPD have warned that there could be "cliff edge" exit from furlough to redundancy once the JRS ends.⁴⁵ The Chancellor has suggested the scheme will be extended to July and gradually wound down, and so it remains to be seen what the impact will be on unemployment.

Local authority level employment

Changes in the local labour market will depend on the types of employment within each area. Context Economic and Social Research have carried out analysis on the 9th of April of the likely jobs at risk within each local authority area based on the vulnerability of industries and job types and the distribution of these between local authorities. In summary, they estimate that over 587,000 jobs

⁴⁰ Abi Adams-Prassl et al, 'Inequality in the Impact of the Coronavirus Shock: New Survey Evidence for the UK', 1st April 2020, https://abiadams.com/wp-content/uploads/2020/04/UK_Inequality_Briefing.pdf

⁴¹ The Guardian, 'Workers without degrees hardest hit by Covid-19 crisis – study', 20th April 2020, <https://www.theguardian.com/business/2020/apr/20/uk-workers-without-degrees-face-deeper-job-insecurity-amid-coronavirus-pandemic>

⁴² Institute for Fiscal Studies, 'Sector shutdowns during the coronavirus crisis: which workers are most exposed?', 6th April 2020, <https://www.ifs.org.uk/publications/14791>

⁴³ Office for National Statistics, 'Coronavirus, the UK economy and society, faster indicators: 16 April 2020', 16th April 2020, <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/bulletins/coronavirustheukeconomyandsocietyfasterindicators/16april2020>

⁴⁴ Institute of Social and Economic Research, 'New analysis of the impact of lockdown on UK jobs', 18th April 2020, <https://www.iser.essex.ac.uk/2020/04/18/new-analysis-of-the-impact-of-lockdown-on-uk-jobs>

⁴⁵ The CIPD, 'Employers call for furlough scheme to be more flexible and extended to September', 29th April 2020, <https://www.cipd.co.uk/about/media/furlough-scheme-flexible>

could be at risk across Scotland including over 104,000 self-employed jobs. Between local authorities the percentage of jobs at risk range from 15.2% to 24.1% of all jobs in VAT registered businesses, with an average of 20.3%.⁴⁶

Similarly, the Royal Society of Arts have also undertaken analysis of jobs likely to be at risk based on national data on which industries have furloughed staff and the industrial makeup of each local area. The analysis shows that areas with large proportions of employment in tourism have the greatest number of jobs at risk. In Scotland, Argyll and Bute is deemed to have the highest proportion of jobs at risk, 32%, with several other areas having between 28% and 29% of jobs at risk.⁴⁷

Google COVID-19 Community Mobility Reports show how movement in local authorities has changed, broken down by sector, and gives an insight into how behaviour and activity has been impacted. The data shows that at the 30th of April the impact on workplaces with movement to these locations was down by an average of around 65%.⁴⁸

Self-Employment

The Resolution Foundation has also predicted that self-employment is likely to go into decline. This is partly due to expected higher taxes on self-employed workers in the future.⁴⁹ The Fraser of Allander Institute, prior to the announcement of government support for the self-employed, warned of the risks to local authorities with high proportions of workers classed as self-employed, which included a number of rural areas.⁵⁰ Context Economic and Social Research estimate that more than 3000 self-employed jobs could be at risk per local authority on average. In any case, Annual Population Survey figures suggest that Scotland appears to have seen a relatively low and declining proportion of self-employed workers since 2016, which looks likely to continue as a result of the crisis.⁵¹

2.6 The housing market

Overview – a short-term fall in house prices

The housing market has ground to a halt partly due to Scottish Government guidance to delay property moves. Despite this, ESPC reports that across the first three months of 2020 in Edinburgh, the Lothians, Fife and the Borders average selling prices were up by 1.6% compared to a year previously while the average percentage of the Home Report valuation remained steady.⁵²

⁴⁶ Context Economic and Social Research, 'Jobs at Risk as a result of Covid-19 – Analysis', 9th April

⁴⁷ The RSA, 'Which Local Areas are Most at Risk of the Impacts of Coronavirus on Employment?' 27th April 2020, <https://www.thersa.org/discover/publications-and-articles/reports/local-areas-coronavirus-employment>

⁴⁸ Google COVID-19 Community Mobility Reports <https://www.google.com/covid19/mobility/>

⁴⁹ Resolution Foundation, 'Crystal balls vs rear-view mirrors: The UK labour market after coronavirus', 7th April 2020, <https://www.resolutionfoundation.org/app/uploads/2020/04/Labour-market-Spotlight.pdf>

⁵⁰ The Fraser of Allander Institute, 'Regional impacts of the coronavirus pandemic', 23rd March 2020, <https://fraserofallander.org/covid/regional-impacts-of-the-coronavirus-pandemic/>

⁵¹ The Scottish Government, 'Regional employment patterns in Scotland: statistics from the Annual Population Survey 2018', 21st May 2020, <https://www.gov.scot/publications/regional-employment-patterns-scotland-statistics-annual-population-survey-2018/pages/4/>

⁵² ESPC, 'Coronavirus COVID-19 and the Scottish property market: what we know so far', 10th April 2020, <https://espc.com/news/post/house-price-report-march-2020>

It remains to be seen what the longer-term impact will be, as house sales have dropped by 9.2% for the first quarter of 2020 with the number of new homes on the market down by 8.4%.

Knight Frank predict that based on a 4% contraction of the UK economy in 2020 house prices would be likely to fall by 3% across the UK as a whole and rebound by 5% in 2021.⁵³ The Centre for Economics and Business Research (CEBR), however, predict a more significant drop in prices of 13%, albeit varied by region.⁵⁴ A decline in construction output will also likely see a fall in new home completions this year, however research by Knight Frank suggests that “the disruption will be relatively short-term and, indeed, developers are still pursuing land opportunities.”

ESPC noted that in 2008/09 the Scottish and particularly Edinburgh property market proved particularly resilient with a fall in transactions, but relatively little impact on prices.

Rental market

Restrictions and an economic downturn are also likely to impact the rental market. ESPC reported that some short term or Airbnb landlords may be shifting towards longer terms rents partly due to travel restrictions, which could be in place for a longer period than other aspects of the lockdown. Overall, the CEBR argue that the private rental sector could be particularly exposed as a result of the economic downturn with 47% of private renters under the age of 35 and studies showing that those under 30 are much more likely to have already lost their job or be on reduced hours.⁵⁵

2.7 Businesses

Overview – many businesses in certain sectors at risk

As noted by NESTA “this recession will not be a ‘normal recession’: rather than clearing out less productive firms, this one will see the death of many good firms due to artificial/governmental constraints.”⁵⁶ The impact of the ongoing lockdown already appears to be a significant number of firms facing severe falls in revenue and potentially ceasing to trade. In addition, businesses in certain at-risk industries are most vulnerable.

The Fraser of Allander Business Monitor, which engaged with over 500 Scottish businesses between the 1st and 8th of April, highlighted that 54% of businesses said that they could continue to operate under current conditions for less than three months. In addition, the number of firms reporting an increase in their volume of business over the quarter fell to the lowest level since Q1 2009. The sectors reporting the fewest firms with an increase in business were manufacturing and accommodation and food.⁵⁷

The BICS carried out by the ONS reported a similar trend across the UK. Of the businesses that responded, 25% were temporarily closed or paused trading, while 0.4% had closed permanently in

⁵³ Knight Frank, ‘Residential Market Outlook Week Beginning 13 April 2020’, 14th April 2020, <https://www.knightfrank.co.uk/research/article/2020-04-14-residential-market-outlook>

⁵⁴ Centre for Economics and Business Research, ‘The coronavirus crisis is about to spill over into the UK’s housing market’, 14th April 2020, <https://cebr.com/reports/the-coronavirus-crisis-is-about-to-spill-over-into-the-uks-housing-market-but-not-all-regions-will-be-hit-equally-hard/>

⁵⁵ ibid

⁵⁶ NESTA, ‘There will be no back to normal’, 9th April 2020, <https://www.nesta.org.uk/blog/there-will-be-no-back-normal/>

⁵⁷ The Fraser of Allander Institute, ‘Scottish Business Monitor shows expected fall in activity and outlook’, 9th April 2020, <https://fraserofallander.org/scottish-economy/scottish-business-monitor-shows-expected-fall-in-activity-and-outlook/>

the period 23 March to 5 April 2020. The survey also reported that around 54% of firms had seen slightly or substantially lower levels of turnover. Businesses operating in similar sectors as the FAI survey reported high proportions of businesses being particularly affected by reduced turnover in the BICS carried out in late March: accommodation and food (90.7%); arts, entertainment and recreation (88.8%); and construction (59.9%).⁵⁸

In their economic commentary published on the 27th of April Scottish Enterprise note that results from the Natwest PMI Business Survey, Royal Bank of Scotland Business Survey, and their own insights from Account Managed businesses all show very poor results and a strong decline in business activity. The Natwest PMI Survey showed that Scotland has almost the weakest results amongst UK regions. Some other headline figures from these surveys were: the largest reduction in activity on record for the service industry; a record low number of new businesses; of companies reporting a fall in sales more than half of these reported sales down by over 50%; and for now companies relatively reluctant to lay off staff for fears that they will be hired by competitors.⁵⁹

Retail and the high street

The impact on businesses is likely to have a major impact on high streets. Retail output is predicted by KPMG to fall by 13%⁶⁰, with non-food retail likely to see a more precipitous decline compared with growth in the online and grocery sectors. In March alone UK retail sales are expected to have fallen 10%.⁶¹ The SRC-KPMG retail sales monitor for April showed a fall in retail sales for Scotland of 13% compared with March, when sales fell 3.7%.⁶² Adjusted for the effect of online sales, non-food sales were down by 27.9%. This was the largest decrease since 1999, when records began.

The Resolution Foundation and RTPI argue that this could see a permanent impact with several high street chains closing their doors or going into administration, and several other taking the opportunity to accelerate the move online. As a result, it is estimated that high street vacancies could double to one in every five shops in the coming months.⁶³ In addition, the British Property Federation warned at the end of April of a 50% reduction in the number of shops on a typical high street. The result, say the British Independent Retailers Association, could be that 20% of their members are unable to reopen.⁶⁴ This would likely see a further drop in employment in the retail

⁵⁸ Office for National Statistics, 'Coronavirus, the UK economy and society, faster indicators: 16 April 2020', 16th April 2020,

<https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/bulletins/coronavirustheukeconomyandsocietyfasterindicators/16april2020>

⁵⁹ Scottish Enterprise, 'Economic Commentary', 27th April 2020, <https://www.scottish-enterprise.com/learning-zone/research-and-publications/components-folder/research-and-publications-listings/economic-commentary>

⁶⁰ KPMG, 'Chief Economist's note: how COVID-19 is affecting different sectors', 15th April 2020, <https://home.kpmg/uk/en/home/insights/2020/04/chief-economists-note-how-covid-19-is-affecting-different-sectors.html>

⁶¹ The Guardian, 'British households face disposable income fall of £515 per month', 20th April 2020, <https://www.theguardian.com/business/2020/apr/20/british-households-face-disposable-income-fall-of-515-per-month>

⁶² BBC, 'Worst Retail Sales in Scotland', 22nd April 2020, <https://www.bbc.co.uk/news/uk-scotland-scotland-business-52375165>

⁶³ The Financial Times, 'Landlords and tenants feel the pain as coronavirus hits rents', 2nd April 2020, <https://www.ft.com/content/2cb8c64e-10e7-4ce2-aefe-a9d8bfb961d>

⁶⁴ The Guardian, 'Pandemic will "vastly accelerate" decline of UK high street, MPs told', 30th April 2020, <https://www.theguardian.com/business/2020/apr/30/pandemic-will-vastly-accelerate-decline-of-uk-high-street-mps-told>

sector, a trend which has been ongoing since 2003. The Centre for Retail Research estimates that 20,620 stores will close across the UK with a loss of 235,704 jobs lost as a result.

Analysis of Google mobility data shows that as of the 30th of April movement to retail locations was down by around 69% across Scotland and by a range of between 81% in Edinburgh to 54% in East Renfrewshire.

2.8 Population and migration

Overview – migration has fallen and is unlikely to recover

Due to restrictions on movement of people migration for work has already come to a halt. This is likely to have a particularly large impact on the agricultural sector that relies upon these workers. As argued by the Resolution Foundation, it is unlikely that migration will return to pre-crisis levels for several reasons. First, travel restrictions may continue longer than the general lockdown to help contain the virus. There are also likely to be lower levels of employment following the crisis, and so less demand for external labour. Lastly, a trend towards falling inward migration was already ongoing, particularly since the 2016 Brexit vote. This is likely to be reinforced by the UK government's introduction of additional limits and regulation of migration.⁶⁵

Scotland relies entirely on migration for population growth, and so there is a real risk of depopulation if restrictions reduce inward migration.

Impact on rural areas

FAI have also argued that rural areas may be particularly vulnerable to outward migration due to the high proportion of small businesses in sectors likely to be particularly impacted by the shutdown. This includes tourism, which may be affected by long-term by restrictions on movement. In the longer term, should people leave these areas in order to seek new opportunities in other locations, it may be difficult for these areas to recover.

Impact on higher education

Lastly, a drop in international student numbers in the short and long-term could have a significant impact on universities according to analysis by the Institute for Fiscal Studies. In 2018-19 one in five students at UK universities were international students and contributed fee income of over £7billion. If the flow of these students were to reduce or end, this could cause huge financial problems for those universities that are most reliant on fee income.⁶⁶

2.9 Inflation and Government Debt

Another emerging trend is growing price inflation amongst certain high demand products. Between week three (w/c 30th March) and week four (w/c 6th April) of the lockdown prices of these goods rose by 1.8%. Since week one of the lockdown prices for these good have increased by 4.4%. Amongst these goods, prices for food overall decreased slightly between weeks three and four, while demand for household and hygiene items saw prices rise by 1.1%. It remains to be seen what the longer-term impact will be given the likely ongoing effects of social distancing on supply networks.

⁶⁵ Resolution Foundation, 'Crystal balls vs rear-view mirrors: The UK labour market after coronavirus', 7th April 2020, <https://www.resolutionfoundation.org/app/uploads/2020/04/Labour-market-Spotlight.pdf>

⁶⁶ Institute for Fiscal Studies, 'Drop in international students would imperil university finances', 10th April 2020, <https://www.ifs.org.uk/publications/14805>

The OBR have projected public sector borrowing to rise by around £218 billion to £273 billion before the deficit falls back to the previously forecast level in 2021-22. As a result, government debt will be significantly higher than was forecast for the foreseeable future. The government response to this could have a major impact on the economy and the public sector in the years ahead. The Institute for Fiscal Studies have suggested that this will mean higher debt and taxation level, but have described another period of austerity on the spending side as “unlikely”.⁶⁷

3. Poverty

3.1 Key Points

- Prior to the crisis a large number of people were already living in poverty or were not in a position to cope with an unexpected change in income.
- The scale of the crisis and the restrictions put in place mean a large proportion of people have already or will see a change in their income and may struggle financially. Data shows that many households are already struggling to make ends meet.
- Both the UK and Scottish governments have already put in place substantial measures of support to mitigate against the impact of loss of income.
- However, even with these measures substantial numbers of people will experience a significant income shock, partly due to a large rise in unemployment especially amongst those with already lower incomes, and although some may cope in the short term there is likely to be longer term effects.
- If the labour market continues to be impacted so severely then it is possible that for some people, the measures put in place may only delay the hardship experienced. Already there has been a significant increase in demand for emergency food packages and use of food banks.

3.2 Update 15th July 2020

Moving out of lockdown

In recent weeks there have been positive changes to move the country out of lockdown and enable the economy to open up again. Nevertheless, these are still uncertain times and although the immediate health crisis may be coming under control, this is likely still only the beginning of a long period of financial insecurity for many households. Whilst the lifting of lockdown restrictions signals a return to work for many, it also signals the winding down of government support which has masked some of the financial impact that is now likely to be unveiled.

Recent data from Citizens Advice Scotland (CAS) shows there are already signs of employment uncertainty for many⁶⁸. The data indicates that 1 in 5 employment queries to the Citizens Advice network concern redundancy, with the proportion of employment advice relating to redundancy increasing 100 per cent since February. This highlights that with government support winding down, the risk of employees being made redundant is increasing, with the full impact of this still to be seen. As noted in previous updates, lockdown restrictions have already had a large impact on the finances

⁶⁷ Institute for Fiscal Studies, ‘IFS Director Paul Johnson responds to the Office for Budget Responsibility (OBR) Coronavirus reference scenario publication’, 14th April 2020, <https://www.ifs.org.uk/publications/14810>

⁶⁸ Citizens Advice Scotland, “Soaring demand for redundancy advice”, 2nd July 2020, <https://www.cas.org.uk/news/soaring-demand-redundancy-advice>

of many households, and with the increased risk of redundancy this is only likely to grow. Many organisations have been calling for further government support to avoid undue suffering. CAS highlight this growing need as Crisis Grant applications in May 2020 were 37% higher than in May 2019⁶⁹. This is echoed by Joseph Rowntree Foundation whose research with Save the Children found that “70% of families have had to cut back on food and other essentials”, while “six in 10 families on Universal Credit and Child Tax Credits have been forced to borrow money since the start of the crisis, with many relying on payday loans or credit cards”⁷⁰. Without intervention many families could sustain unmanageable debt and be pushed into poverty.

Given the increased risk of wide-scale redundancies, mass unemployment is becoming a growing concern. This will be of particular concern for young people entering the workforce for the first time. Analysis by the Institute for Public Policy Research suggests that over 50,000 people in Scotland will be leaving school, college or university this year and entering the workforce⁷¹. With unemployment set to rise from increased redundancies, these young people will be looking for work in an increasingly uncertain environment. This concern is evidenced by analysis by the Institute of Public Policy Research of Understanding Society data from April 2020 which showed that around 18 per cent of 18-29 year olds in Scotland expected to be worse off in the future compared to 7 per cent of those surveyed from 2017-19⁷². Additional intervention from government will be required to negate this assumption and avoid a new generation of Scots suffering the effects of long-term unemployment.

New Measures

In response to the growing financial uncertainty that lifting lockdown brings, the government has recently outlined a range of new measures. These measures are primarily aimed at protecting jobs through incentives for businesses, support for creating new jobs and encouraging consumer confidence in hard hit sectors where jobs are more at risk. Whilst there is general welcoming of these measures, there is critique of whether they are adequate.

Several of the UK Government’s measures which will apply to Scotland include the Jobs Retention Bonus scheme. This scheme enables employers to claim a £1,000 bonus for every employee brought back from furlough who is retained as an employee between November 2020 and January 2021⁷³. The Resolution Foundation suggest that although this scheme will provide a useful grant to struggling firms, it is unlikely to meaningfully impact unemployment levels due to the low level and temporary nature of the scheme⁷⁴. They highlight that the medium annual wage of a furloughed

⁶⁹ Citizens Advice Scotland, “Stronger safety net needed as Crisis Grant applications rise”, 7th July 2020, <https://www.cas.org.uk/news/stronger-safety-net-needed-crisis-grant-applications-rise>

⁷⁰ Joseph Rowntree Foundation, “Nearly two thirds of families on Universal Credit forced into lockdown debt ‘nightmare’”, 17th June 2020, <https://www.jrf.org.uk/press/nearly-two-thirds-families-universal-credit-forced-lockdown-debt-%E2%80%98nightmare%E2%80%99>

⁷¹ Institute for Public Policy Research Scotland, “What does Covid-19 mean for the labour market prospects of young people in Scotland?”, 16th June 2020, <https://www.ippr.org/blog/what-does-covid-19-mean-for-the-labour-market-prospects-of-young-people-in-scotland>

⁷² Institute for Public Policy Research Scotland, “What does Covid-19 mean for the labour market prospects of young people in Scotland?”, 16th June 2020, <https://www.ippr.org/blog/what-does-covid-19-mean-for-the-labour-market-prospects-of-young-people-in-scotland>

⁷³ LGiU, “Briefing: The Chancellor’s new menu: the summer economic statement”, 9th July 2020, <https://lgiu.org/briefing/the-chancellors-new-menu-the-summer-economic-statement/>

⁷⁴ Resolution Foundation, “Summer Economic Update July 2020 – Resolution Foundation overnight analysis”, 9th July 2020, <https://www.resolutionfoundation.org/publications/summer-statement-july-2020/>

worker is £16,000, therefore the Jobs Retention Bonus scheme will likely only cover around 21 per cent of wage costs for employers, compared with the Jobs Retention (furlough) Scheme which covers 82/73/64/55 per cent of wage costs in July/Aug/Sep/Oct. Therefore, struggling firms may still be forced to make redundancies. The Resolution Foundation point out that the bonus could in fact act as an incentive for employers to retain a furloughed employee over one not furloughed during lockdown. Therefore, as highlighted in previous updates, there is an imbalance of risk with this scheme, whereby some businesses may benefit but employees still risk losing jobs.

Although it is recognised that some redundancies are inevitable given the scale of the current crisis, this scheme not only seems to fall short in offering greater protection to jobs, but also looks to be extremely costly. The cost effectiveness of the scheme has already been questioned by HM Revenue and Customs boss Jim Harra, who said he had been “unable to conclude the policy represents value for money to the standards expected in the public spending guidebook”⁷⁵. It could be argued as wasteful for the government to test out an extremely uncertain scheme, when many called for a flexible extension to the Jobs Retention (furlough) scheme, which appears to have been working⁷⁶. The Resolution Foundation highlight the considerable deadweight this scheme will likely incur. They note that a recent employer survey suggested that “employers planned to make around 1 million furloughed workers redundant as the Jobs Retention (furlough) Scheme ends” whilst there are currently “9.4 million furloughed workers all potentially entitling their employer to a Jobs Retention Bonus”⁷⁷. As we move beyond immediate crisis, many would hope for well-thought out targeted intervention.

The UK Government will also be introducing a “Kickstart scheme” to help create new jobs for young people aged 16-24 years old⁷⁸. The approximately £2.1bn funding will pay 100% of the national minimum wage for these new employees for 6 months, which employers can top up. Given the wide uncertainty for young people entering the job market, this scheme has been widely welcomed for its focus on young people and the focus on ensuring there are new jobs that do not replace those of other lower-paid workers. However, delivering this scheme on such a scale will be difficult. Resolution Foundation suggest that local authorities will have to play a major role in creating these jobs, in order to meet the delivery challenge⁷⁹. This in itself will be challenging given the reduced capacity of local government over the past decade⁸⁰. Citizens Advice Scotland have also raised concerns about how the scheme will work in practice. They argue that the scheme must ensure “these new jobs are high quality, sustainable and provide employment beyond the initial six months”⁸¹.

⁷⁵ BBC News, “Tax boss questions value of Rishi Sunak’s job bonus and meal discount plans”, 9th July 2020, <https://www.bbc.co.uk/news/uk-politics-53348246>

⁷⁶ LGiU, “Briefing: The Chancellor’s new menu: the summer economic statement”, 9th July 2020, <https://lgiu.org/briefing/the-chancellors-new-menu-the-summer-economic-statement/>

⁷⁷ Resolution Foundation, “Summer Economic Update July 2020 – Resolution Foundation overnight analysis”, 9th July 2020, <https://www.resolutionfoundation.org/publications/summer-statement-july-2020/>

⁷⁸ LGiU, “Briefing: The Chancellor’s new menu: the summer economic statement”, 9th July 2020, <https://lgiu.org/briefing/the-chancellors-new-menu-the-summer-economic-statement/>

⁷⁹ Resolution Foundation, “Summer Economic Update July 2020 – Resolution Foundation overnight analysis”, 9th July 2020, <https://www.resolutionfoundation.org/publications/summer-statement-july-2020/>

⁸⁰ Resolution Foundation, “The Full Monty – Facing up to the challenge of the coronavirus labour market crisis”, 29th June 2020, <https://www.resolutionfoundation.org/app/uploads/2020/06/The-Full-Monty.pdf>

⁸¹ Citizens Advice Scotland, “Stronger security net missing from economic plan”, 8th July 2020, <https://www.cas.org.uk/news/stronger-social-security-net-missing-economic-plan>

Although the “Kickstart scheme” will be valuable in creating jobs for young people, there is little focus on supporting other disadvantaged groups, or to better value employees currently working in low-paying sectors. The Institute for Public Policy Research highlight that “UK workers from black African, black Caribbean, Pakistani and Bangladeshi backgrounds are not just at higher risk of unemployment, but face longer-lasting scarring effects when they have been unemployed”⁸². This is echoed by the Joseph Rowntree Foundation who stated, “we also need a plan to address the barriers holding back women, people from ethnic minorities and disabled people in the labour market. We also need to ensure that workers over 25 receive the support they need to obtain skills to succeed in the changing jobs market and escape poverty”⁸³. The Resolution Foundation suggest that investment in social care could facilitate large scale and fast job creation with low entry requirements for the type of workers most at risk of losing their jobs⁸⁴. They argue investment in this should also include improved pay and conditions to better recognise the value of this work, particularly during this crisis. Investment in social care would also support longer-term policy goals and therefore could be argued as good value for money.

What else is needed?

Although the new measures introduced will go some way in combatting the likely impact on unemployment, there has been little announced to support those who are already struggling as a result of lost income and rising costs⁸⁵. As highlighted above, and in previous updates, many households are already facing financial difficulties, and as support measures such as holidays on credit and mortgages start to lift, many will be left in a vulnerable position even if they retain their job. The UK Government did announce a new “Eat Out Help Out” scheme which will provide 50% discounted meals to those who eat out in participating restaurants Monday to Wednesday in the month of August. This scheme is argued to help support the struggling hospitality sector, and protect jobs, by incentivising the public to spend money in restaurants. However, again this will do more to support businesses than struggling families. This sentiment was expressed by Citizens Advice Scotland who stated, “the restaurant discount scheme will be of no use to those who cannot afford food at all and are relying on foodbanks”⁸⁶. With so many families facing poverty, it appears that more is needed, such as an end to the five week wait for Universal Credit and increases to the child element of Universal Credit and Child Tax Credit as both CAS⁸⁷ and the Joseph Rowntree Foundation⁸⁸ point out.

A recent report by Child Poverty Action Group in Scotland highlights that families have experienced increased costs throughout lockdown by having to provide technology and materials to support their

⁸² Institute for Public Policy Research Scotland, “What does Covid-19 mean for the labour market prospects of young people in Scotland?”, 16th June 2020, <https://www.ippr.org/blog/what-does-covid-19-mean-for-the-labour-market-prospects-of-young-people-in-scotland>

⁸³ Joseph Rowntree Foundation, “JRF response to the Summer Economic Update”, 8th July 2020, <https://www.jrf.org.uk/press/jrf-response-summer-economic-update>

⁸⁴ Resolution Foundation, “The Full Monty – Facing up to the challenge of the coronavirus labour market crisis”, 29th June 2020, <https://www.resolutionfoundation.org/app/uploads/2020/06/The-Full-Monty.pdf>

⁸⁵ Joseph Rowntree Foundation, “Good news on jobs, but families with children need extended lifeline”, 9th July 2020, <https://www.jrf.org.uk/blog/good-news-jobs-families-children-need-extended-lifeline>

⁸⁶ Citizens Advice Scotland, “Stronger security net missing from economic plan”, 8th July 2020, <https://www.cas.org.uk/news/stronger-social-security-net-missing-economic-plan>

⁸⁷ Citizens Advice Scotland, “Stronger security net missing from economic plan”, 8th July 2020, <https://www.cas.org.uk/news/stronger-social-security-net-missing-economic-plan>

⁸⁸ Joseph Rowntree Foundation, “Good news on jobs, but families with children need extended lifeline”, 9th July 2020, <https://www.jrf.org.uk/blog/good-news-jobs-families-children-need-extended-lifeline>

children’s learning⁸⁹. This will likely have a lasting impact on finances for many families, who had to cut back on other essential costs, and or borrow money to manage throughout the lockdown period. The report also discusses families experiences of Free School Meals during lockdown, and highlights that whilst this was a lifeline for many, many families in receipt of this support still struggle and there is frustration felt by families who do not qualify but are struggling as a result of changes to household income. Although a return to school is currently planned, the report argues that increasing numbers of families will be needing support and that an increase in child benefit would be the “most efficient and effective way of getting money to families and tackling child poverty”⁹⁰. There will be a large number of families needing support who have never needed to do so previously, therefore the report encourages local authorities to raise awareness of support available to families and design flexible and straightforward Free School Meal provision which removes stigma and encourages a high take up rate.

The new measures do not do enough to address those already living in poverty, they also do not appear to go far enough in planning for how household finances will cope with further impacts of the virus. As lockdown measures are lifted the virus is currently being controlled through Track and Trace systems which request individuals to self-isolate if they come into contact with the virus, and localised lockdowns in areas where cases of the virus surge. Without, additional support for household finances these policies are undermined. Policy in Practice highlight that low-income households would find it difficult to meet their immediate costs if requested to self-isolate, which could force individuals to choose between risking financial difficulties or potentially spreading the virus⁹¹. They argue that there needs to be an increase to Statutory Sick Pay to prevent households from facing difficulties and that local government should ensure at risk households are aware of support available. Without addressing the difficulties that may be faced by households asked to self-isolate we risk the virus surging, causing further detriment to the economy and poverty of households.

3.3 Update 5th June 2020

Imbalance of risk

Whilst the extensive support measures introduced by Government’s during the Covid-19 crisis have been a necessary and welcome move, it is becoming increasingly clear that there is an imbalance of economic cost and risk. As already highlighted in previous updates, those experiencing poverty and those who work in lower-paying and vulnerable sectors are at a greater risk of facing financial difficulties due to the crisis. Understandably support measures were designed to provide support to as many people as possible and as quickly as possible, therefore is inevitable there will be areas that require improvement. However, given the inequalities already experienced throughout the country, the structures in which these measures were designed make it possible for inequalities to widen as we move out of lockdown.

⁸⁹ Child Poverty Action Group in Scotland, “The Cost of Learning in Lockdown – Family experiences of school closures in Scotland”, June 2020, <https://cpag.org.uk/sites/default/files/files/The-cost-of-learning-in-lockdown-Scotland-FINAL.pdf>

⁹⁰ Child Poverty Action Group in Scotland, “The Cost of Learning in Lockdown – Family experiences of school closures in Scotland”, June 2020, <https://cpag.org.uk/sites/default/files/files/The-cost-of-learning-in-lockdown-Scotland-FINAL.pdf>

⁹¹ Policy in Practice, “COVID-19: Can working low-income households afford to self-isolate?”, 17th June 2020, http://policyinpractice.co.uk/wp-content/uploads/COVID-19_-Can-working-low-income-households-afford-to-self-isolate_.pdf

The Institute for Public Policy Research argue that in recent years there has been a shift in economic risk with policies moving risk onto individuals⁹². For example, cuts to welfare provision, social care and social security, paired with employment contracts which reduced entitlements such as parental leave and sick pay, have ensured that individuals bear the burden of ill health, unemployment, becoming a parent and having a disability. Therefore, entering into this crisis, individuals were already vulnerable to any shock to circumstances. Whilst support has aimed to mitigate against some historic policies, there are still structures in place that are not fit for the current climate. For example, Child Poverty Action Group, highlight that the benefit cap, originally introduced to incentivise people into work, is causing unequal harm to larger and single parent families⁹³. Additional support such as increases to Universal Credit, could push families into having their benefit capped, or won't reach families who are already living under the cap. The current economic climate means they are unlikely to find work, and therefore they argue that the cap cannot be justified as an incentive and only makes government support ineffective for the struggling families it is aimed to help.

Although support measures have aimed to mitigate economic risk, individuals are still likely to bear a greater risk of long-term difficulties. Whilst schemes such as mortgage holidays provide short-term respite for those facing difficulties, mortgage holders are still expected to repay these missed payments with interest. This scheme has recently been extended⁹⁴, meaning some households are likely to continue accumulating debt. This poses significant risk for households already struggling financially, whilst mortgage providers, although facing a short-term loss, are expected to recover any skipped payments further down the line. Households who are renting share an even greater risk of long-term hardship. Unlike mortgage holders, renters are not guaranteed any payments holidays and therefore face financial difficulties in order to make payments. The burden of risk falls unequally on renters whilst landlords are disproportionately protected. The Institute of Public Policy Research highlight that, according to a survey by Landlord Action, less than half of landlords rely on the income stream from their leased properties⁹⁵. It is argued that landlords with a mortgage on their leased properties who may struggle are eligible for a mortgage holiday, however, are not required to pass on this break in payments to tenants. Therefore, support for renters is dependent on positive relationships between tenants and landlords, which in recent years has been widely imbalanced.

The Government's Job Retention Scheme further decreases risk for banks and landlords. This scheme ensures that many households continue to make mortgage and rent payments, who otherwise wouldn't have been able to. The Institute of Public Policy Research estimate that, 'up to 45 per cent of the net cost of the furlough scheme will be spent on rent and debt repayments, amounting to £10 billion under a three-month shutdown, and £21 billion under a six-month

⁹² Institute for Public Policy Research, 'The decades of disruption: New social risks and the future of the welfare state', 25th May 2020, <https://www.ippr.org/files/2020-05/the-decades-of-disruption-may20.pdf>

⁹³ Child Poverty Action Group, 'Has the Government forgotten children during Covid-19?', 21st May 2020, <https://cpag.org.uk/news-blogs/news-listings/has-government-forgotten-children-during-covid-19>

⁹⁴ The Financial Conduct Authority, 'FCA announces support for customers who are struggling to pay their mortgage due to coronavirus', 22nd May 2020, <https://www.fca.org.uk/news/press-releases/fca-support-customers-struggling-mortgage-coronavirus>

⁹⁵ Institute for Public Policy Research – The Centre for Economic Justice, 'Who wins and who pays? Rentier power and the Covid crisis.', 13th May 2020, https://www.ippr.org/files/2020-05/1589291707_who-wins-and-who-pays-may20.pdf

shutdown⁹⁶. Although this scheme obviously supports individuals through protecting employment, without freezes towards housing payments this risk still lies disproportionately with individuals, but unequally so with those who are already disadvantaged. With income reduced to 80% for those on the furlough scheme, with no freeze for housing payments, those who are lower earners are likely to fall into debt whilst higher earners may actually save due to restrictions on discretionary spending. Furthermore, analysis by the ONS suggests that low-income households were likely to report a smaller increase in free time during lockdown compared with higher income households⁹⁷. This highlights that although everyone is likely to be impacted in some way by the crisis, those who are already vulnerable are likely experiencing significantly more stress and inequalities are likely already widening.

Long-term Support

As highlighted, individuals are likely to suffer long-term from the crisis, especially those who are vulnerable. Whilst we begin to move out of lockdown the focus for many is moving towards how people can be supported long-term. There is likely to be a significant increase in the number of people needing support. Recent analysis by the Institute of Public Policy Research suggests an additional 1.1 million people in the UK, including 200,000 children, could be below the pre-Covid poverty line by the end of 2020⁹⁸. With more people facing financial difficulties and moving into poverty, there is increased risk of the severe harm this can cause. A recent study published by the charity Agenda highlights that ‘Young women (16-34) living in the most deprived households are five times more likely to self-harm, compared with those in the least’, and, ‘One in five women with severe money problems has self-harmed in the past year’⁹⁹. This demonstrates the need for ongoing support for both financial and emotional wellbeing as many more people become at risk of facing circumstances that could trigger self-harm behaviours and undue suffering.

The Edinburgh Poverty Commission highlight the need to ensure that people are connected with the right organisations who can offer support¹⁰⁰. They highlight that difficulties currently lie in ensuring coordination of resources as often it is only those who are already known to local organisations who will readily access support, and while the need for support grows, there will be many who do not know where they can access this. This is further emphasised by the charity StepChange in their recent report, which demonstrates how drastic life events, such as many are currently experiencing,

⁹⁶ Institute for Public Policy Research – The Centre for Economic Justice, ‘Who wins and who pays? Rentier power and the Covid crisis.’, 13th May 2020, https://www.ippr.org/files/2020-05/1589291707_who-wins-and-who-pays-may20.pdf

⁹⁷ ONS, ‘Coronavirus (COVID-19) roundup: Life under lockdown’, 27th May 2020, <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/articles/coronaviruscovid19roundup/2020-03-26>

⁹⁸ Institute for Public Policy Research, ‘1.1 million more people face poverty at end of 2020 as a result of coronavirus pandemic, finds IPPR,’ 4th June 2020, <https://www.ippr.org/news-and-media/press-releases/1-1-million-more-people-face-poverty-at-end-of-2020-as-a-result-of-coronavirus-pandemic-finds-ippr>

⁹⁹ NatCen Social Research & Agenda, ‘Often Overlooked: Young women, poverty and self-harm’, 26th May 2020, <https://weareagenda.org/wp-content/uploads/2017/03/Often-Overlooked-Young-women-poverty-and-self-harm-2.pdf>

¹⁰⁰ Edinburgh Poverty Commission, ‘Poverty and Coronavirus in Edinburgh – Interim Report’, 19th May 2020, https://edinburghpovertycommission.org.uk/wp-content/uploads/2020/05/20200519_EPC_Coronavirus_Report.pdf

can lead to unsustainable debt problems¹⁰¹. They argue that there is a need for increased signposting to free debt advice to help encourage people to seek advice earlier and ensure this is far reaching.

Throughout the crisis there has already been a wide range of positive work done to support people. As the situation progresses and restrictions ease, there is growing agreement that we need to hold onto the positive gains made and continue to build on these. The Institute of Public Policy Research point out that the recent increase to the base line payment of Universal Credit raises the question of why previous lower payments were acceptable¹⁰². Their analysis suggests that had this increase been introduced in 2015 there would be 500,000 fewer people in poverty than there are today. They argue that continued changes are needed to these historic measures to avoid further increases to poverty. 'IPPR's analysis finds that removing the two-child limit and the benefit cap, imposed in 2015 as part of the government's austerity measures, combined with increasing Child Benefit by £5 per week per child, could entirely prevent the expected rise in child poverty - and could instead induce a modest fall'¹⁰³. The unprecedented measures taken during the crisis make it difficult to argue that more cannot be done for vulnerable people when it is needed. The Edinburgh Poverty Commission also warn against reversing the progress made during the pandemic¹⁰⁴. Quick action was taken to secure temporary accommodation for rough sleepers in hotels and private flats. Edinburgh Council are currently looking at how this positive move can be sustained, including using a private sector leasing scheme to repurpose Airbnb properties in the city that will have seen a cut in demand¹⁰⁵. Continued support for rough sleepers, as well as those in temporary accommodation, is necessary as demand increases. A recent survey by homelessness charity Crisis indicates that around three quarters of frontline services have seen a rise in demand¹⁰⁶.

As well as ensuring access to support and building on current crisis measures, local authorities will also be looking at how they can support their citizens in their local economy. Although there are many industries facing significant job losses, there are likely to be new opportunities arising in industries such as health and social care, food production, online retail, home entertainment, utilities, and telecoms and digital services¹⁰⁷. Furthermore, prior to the current economic downturn, skills shortages such as complex analytical skills, digital skills, self-management and leadership skills,

¹⁰¹ StepChange, 'Scotland in the Red 2019 Report', May 2020,

<https://www.stepchange.org/Portals/0/assets/pdf/stepchange-scotland-in-the-red-2019-report.pdf>

¹⁰² Institute for Public Policy Research, 'The decades of disruption: New social risks and the future of the welfare state', 25th May 2020, <https://www.ippr.org/files/2020-05/the-decades-of-disruption-may20.pdf>

¹⁰³ Institute for Public Policy Research, '1.1 million more people face poverty at end of 2020 as a result of coronavirus pandemic, finds IPPR,' 4th June 2020, <https://www.ippr.org/news-and-media/press-releases/1-1-million-more-people-face-poverty-at-end-of-2020-as-a-result-of-coronavirus-pandemic-finds-ippr>

¹⁰⁴ Edinburgh Poverty Commission, 'Poverty and Coronavirus in Edinburgh – Interim Report', 19th May 2020, https://edinburghpovertycommission.org.uk/wp-content/uploads/2020/05/20200519_EPC_Coronavirus_Report.pdf

¹⁰⁵ The Herald, 'Coronavirus: Scottish Government 'should reset housing agenda' as MSPs to investigate homelessness', 27th May 2020, <https://www.heraldscotland.com/news/18478718.coronavirus-scottish-government-should-reset-housing-agenda-msps-investigate-homelessness/>

¹⁰⁶ LocalGov, 'Frontline services warn of rise in homelessness', 4th June 2020, <https://www.localgov.co.uk/Frontline-services-warn-of-rise-in-homelessness/50562>

¹⁰⁷ LGiU, 'Briefing: Covid-19: Recovering from the virus – sustainable local economic strategies', 21st May 2020, <https://lgiu.org/briefing/covid-19-recovering-from-the-virus-sustainable-local-economic-strategies/>

made a large contribution to vacancies for UK employers¹⁰⁸. Therefore, investment in retraining and upskilling as well as effective signposting of opportunities is likely needed to ensure individuals can access what opportunities are available. Local authorities could have a role in facilitating this, both in their capacity as employers through redeployment and upskilling of their own labour force, but also in supporting individuals in their local area. Work is already underway in this area with a partnership between Scottish local authorities and Skills Development Scotland, which has made available a wide range of tailored information and advice, learning courses, support with CV's and job applications and links to local support¹⁰⁹. Skills Development Scotland have also created a careers education programme to support teachers and pupils in considering career options¹¹⁰. Support such as this will be crucial going forward as the impact on employment becomes clearer.

3.4 Update 20th May 2020

The most vulnerable are already struggling

Evidence suggests that households are experiencing difficulties living on a reduced income. Scottish Government data highlights the immediate impact that restrictions have had, with crisis grant applications increasing 60% in March this year, when lockdown first began, compared with March 2019¹¹¹. Data from Citizens Advice Scotland (CAS) suggests this trend has likely continued throughout the current lockdown period. In April, CAS experienced large increases in people seeking advice in relation to crisis grants, foodbanks and difficulty making housing payments¹¹². These figures highlight the significant impact lower income households are currently facing and the risk for many of falling into severe poverty.

It is likely that the short-term changes to income are having a disproportionate impact on certain households. A recent survey for the Scottish Government highlighted that whilst a substantial proportion of Scottish households have seen a negative impact on their household finances (41%), this impact is more profound for semi-skilled, unskilled, and casual workers (48%), compared with managerial occupations (34%)¹¹³. Furthermore, a survey by IPPR Scotland and the Standard Life Foundation highlighted the disproportionate impact on Scottish families with dependent children. 49% of these families were struggling financially with 29% struggling to make ends meet and 20% in serious financial difficulty¹¹⁴. This presents a significant concern for how those already struggling will

¹⁰⁸ Institute for Public Policy Research, 'The decades of disruption: New social risks and the future of the welfare state', 25th May 2020, <https://www.ippr.org/files/2020-05/the-decades-of-disruption-may20.pdf>

¹⁰⁹ Skills Development Scotland, 'Vital extra support for workers and learners: Services boosted to offer help to people affected by the Covid-19 pandemic', 13th May 2020, <https://www.skillsdevelopmentscotland.co.uk/news-events/2020/may/enhanced-offer-media-release-12-may/>

¹¹⁰ Skills Development Scotland, 'SDS creates new careers education programme: Support for pupils and teachers during these challenging times', 20th May 2020, <https://www.skillsdevelopmentscotland.co.uk/news-events/2020/may/career-education-programme/>

¹¹¹ Fraser of Allander Institute, 'What do the latest indicators tell us about the impact of the coronavirus on the Scottish Economy?', 15th May 2020, <https://fraserofallander.org/covid/what-do-the-latest-indicators-tell-us-about-the-impact-of-the-coronavirus-on-the-scottish-economy/>

¹¹² Citizens Advice Scotland, 'Impact of Covid-19 on the advice sought from the Scottish Citizens Advice Network – April 2020', 12th May 2020, https://www.cas.org.uk/system/files/impact_covid19_april_2020.pdf

¹¹³ Fraser of Allander Institute, 'What do the latest indicators tell us about the impact of the coronavirus on the Scottish Economy?', 15th May 2020, <https://fraserofallander.org/covid/what-do-the-latest-indicators-tell-us-about-the-impact-of-the-coronavirus-on-the-scottish-economy/>

¹¹⁴ Institute for Public Policy Research, 'Covid-19: How are families with children faring so far?', 14th May 2020, <https://www.ippr.org/blog/covid-19-how-are-families-with-children-faring-so-far>

manage throughout the crisis and the wellbeing of the growing number of people now living in poverty. Whilst some households may be able to cope with a short-term reduction in income, even those with savings would have been unlikely to anticipate a longer-term change that we find ourselves in.

Mortgage holders are drawing on the available support, while more households are repaying credit

Many households are also having to make use of schemes from mortgage providers and creditors. One in seven mortgages in the UK are currently subject to a payment holiday¹¹⁵ and payment holidays have been provided on almost 700,000 credit cards and 470,000 personal loans¹¹⁶. Additional support for mortgage holders has also now been announced. Mortgage holders are now eligible for a product transfer even if they are currently on a payment holiday or furloughed. Prior to the crisis this was not permitted, so this change will help those struggling avoid expensive variable rate mortgages if they are coming to the end of their fixed term product¹¹⁷. Whilst many households are struggling, some may currently find themselves in a better position to cope. Despite many needing support with credit payments there has also been a substantial increase in households repaying credit. In March, £3.8 billion of consumer credit was repaid, accounting for the highest repayment levels recorded by the Bank of England since records began¹¹⁸. Resolution Foundation note that this may reflect those households whose income has not been reduced but whose options to spend money are limited by the restrictions in place. It also highlights the sharp fall in consumer confidence.

The Coronavirus Job Retention Scheme has been extended, but uncertainty over employment remains

The UK Government recently announced an extension of the Coronavirus Job Retention Scheme which will now run until October¹¹⁹. This announcement provides some longer-term security for approximately 7.5 million workers currently dependent on this scheme and will help mitigate wider scale unemployment. However, the extension to the scheme reflects the vulnerability surrounding the crisis. It highlights how restrictions in some shape will be required for longer than perhaps many had anticipated, and longer than many households can manage financially. Although the scheme ensures households receive an income for those who may otherwise have been made unemployed, many households cannot survive on reduced income for a period as long as the current end date of October. The extension to October is set out in line with gradual lifting of restrictions, with flexibility

¹¹⁵ UK Finance, 'Lenders grant 1.6 million payment holidays to mortgage holders', 28th April 2020, <https://www.ukfinance.org.uk/press/press-releases/lenders-grant-1-6-million-payment-holidays-to-mortgage-holders#summary>

¹¹⁶ UK Finance, 'Lenders offer hundreds of thousands of customers payment holidays on credit cards and personal loans', 8th May 2020, <https://www.ukfinance.org.uk/press/press-releases/lenders-offer-payment-holidays-on-credit-cards-and-personal-loans>

¹¹⁷ UK Finance, 'Lenders grant 1.6 million payment holidays to mortgage holders', 28th April 2020, <https://www.ukfinance.org.uk/press/press-releases/lenders-grant-1-6-million-payment-holidays-to-mortgage-holders#summary>

¹¹⁸ Resolution Foundation, 'The economic effects of coronavirus in the UK – Utilising timely economic indicators', 8th May 2020, <https://www.resolutionfoundation.org/app/uploads/2020/04/The-economic-effects-of-coronavirus-in-the-UK-fast-indicators-7th-ed.pdf>

¹¹⁹ UK Government, 'Chancellor extends furlough scheme until October', 12th May 2020, <https://www.gov.uk/government/news/chancellor-extends-furlough-scheme-until-october>

proposed from August onwards to allow a return to work for some on a part-time basis. However, there is still uncertainty about when some industries will be able to return to work. For those already on low incomes, and already facing difficulties, a reduced income until October could have devastating effects. Even with support, not all businesses will survive through this period and therefore even with staff being furloughed some may still become unemployed by the time restrictions are lifted. Resolution Foundation highlight that whilst the majority of businesses have applied to defer VAT tax payments, other support has been less often utilised with only around 10% of UK businesses currently seeking loans¹²⁰. This may suggest that whilst some firms have managed in the short-term through reliance on cash reserves, they may need further support as the situation progresses. Furthermore, there are still workers who are unable to access support. Citizens Advice Scotland highlight a substantial increase in people seeking advice for employment issues, despite the support available. This could reflect difficulty for some in understanding what is available, some having difficulty accessing support they are entitled to, and those who are ineligible for support¹²¹. Therefore, despite substantial support, the scale of this crisis means some long-term implications are unavoidable.

Significant impact will be seen across a range of vulnerable groups, including young people, for whom there is likely to be long-term economic implications. The sustained impact on the labour market will have significant consequences for younger generations entering the workforce for the first time. Evidence from the previous recession highlights that those entering the labour market faced more severe and prolonged impacts from downturn in the labour market. Non-graduates entering the workforce were predominately impacted by lower rates of employment, whilst graduates were likely to see an impact on pay and occupation levels. Resolution Foundation highlight that whilst these effects are also likely to occur in the current crisis, the effects are likely to be exacerbated by the impact on lower paying industry sectors¹²². Jobs in industries such as tourism, non-food retail and hospitality, which in previous recessions would have been filled by graduates, may not exist on the same scale. Opportunities will also be in demand from those made unemployed during the crisis. This presents an increased risk of unemployment and poverty for those entering the workforce. Other opportunities for this group may also be impacted with apprenticeships less likely to go ahead and support such as careers advice, interview preparation and job fairs cancelled due to restrictions¹²³. This group are likely to be significantly impacted by the long-term impacts of the economic downturn and cannot benefit from some of the government schemes that those in employment can.

COVID-19 has exposed inequalities in health outcomes

Whilst concern for long-term economic uncertainty is at the forefront for many, this is coupled with continued uncertainty for health. Although there is growing urgency to restart the economy, this needs to be balanced with the risk it poses to people's lives. Not only are those on low incomes likely to suffer as a result of reduced income, they may also be at higher risk of seeing the direct impact of

¹²⁰ Resolution Foundation, 'The economic effects of coronavirus in the UK – utilising timely economic indicators', 8th May 2020, <https://www.resolutionfoundation.org/app/uploads/2020/04/The-economic-effects-of-coronavirus-in-the-UK-fast-indicators-7th-ed.pdf>

¹²¹ Citizens Advice Scotland, 'Impact of Covid-19 on the advice sought from the Scottish Citizens Advice Network – April 2020', 12th May 2020, https://www.cas.org.uk/system/files/impact_covid19_april_2020.pdf

¹²² Resolution Foundation, 'Class of 2020 – Education leavers in the current crisis', 6th May 2020, <https://www.resolutionfoundation.org/app/uploads/2020/05/Class-of-2020.pdf>

¹²³ Resolution Foundation, 'Class of 2020 – Education leavers in the current crisis', 6th May 2020, <https://www.resolutionfoundation.org/app/uploads/2020/05/Class-of-2020.pdf>

the virus on their health. Data from the National Records of Scotland highlights that people living in the most deprived areas in Scotland are 2.3 times more likely to die as result of COVID, compared with those in the least deprived areas¹²⁴. Therefore, whilst the virus and associated restrictions are currently impacting on everyone in some way, stark inequalities do exist, and this is likely to worsen as more people are pushed into poverty.

¹²⁴ National Records of Scotland, 'Deaths involving coronavirus (COVID-19) in Scotland – Week 19 (4th May to 10th May 2020)', 13th May 2020, <https://www.nrscotland.gov.uk/files//statistics/covid19/covid-deaths-report-week-19.pdf>

The following sections were last updated 6th May 2020.

3.5 What was the risk of poverty before the pandemic and how is the pandemic likely to increase the risk of poverty?

Prior to the outbreak of COVID-19 a large proportion of people in the UK were already living in poverty or were struggling with finances. The latest Scottish Government poverty statistics highlight that before the outbreak 19% of the Scottish population were living in relative poverty. The figures also show that 24% of children were living in relative poverty¹²⁵. In addition, increasing numbers of people were experiencing severe financial issues. A total of 32,995 Crisis Grants were awarded from April to June 2019, an increase of 11% since the previous year, highlighting an increasing number of people requiring support for basic essentials¹²⁶. Figures from the Scottish Household Survey show the variation between local authorities in respondents who were in deep financial trouble or not managing well, ranging from 4% up to 19%.¹²⁷

Not only are there a high number of households already experiencing financial difficulties, but also a high number at risk who are not in a position to cope with unexpected changes to income. The Fraser of Allander Institute estimate that only 42% of Scottish households in the bottom income decile would be able to cover 1 month of their regular income from savings¹²⁸. Further evidence from the Money Advice Service suggests that a lack of financial buffer is not restricted to only those on a low income. The Money Advice Service estimate that around 21% of the UK population rarely or never save, meaning that around 22% have less than £100 in savings. Of those working age adults with less than £100 in savings, nearly 20% had a household income of £30,000 or more, suggesting low income is not the only driver for a lack of savings¹²⁹. This research also highlighted reliance on borrowing, with an estimated 17% of the adult population borrowing money to buy food or pay their bills. Again, this was not restricted to low income households as 20% of those borrowing had a household income above £50,000. In local authority funded money and welfare rights advice services, roughly 29% of clients accessing services were in some form of employment¹³⁰.

As highlighted above, for many households, a change in income will greatly affect their ability to pay bills. With the country currently on lockdown, unprecedented numbers of people are unable to work. This is particularly true for lower earners who are less likely to be able to work from home, predominantly in industries such as hospitality and retail¹³¹. Research by the Fraser of Allander Institute on the tourism and hospitality sector shows that the 155,000 people who work in these

¹²⁵ Scottish Government, 'Poverty and Income Inequality in Scotland 2016-19',

<https://www.gov.scot/publications/poverty-income-inequality-scotland-2016-19/>

¹²⁶ Scottish Government, 'Scottish Welfare Fund Statistics: Update to 30 June 2019'.

<https://www2.gov.scot/Resource/0054/00548713.pdf>

¹²⁷ Scottish Government, 'Scottish Household Survey (SHS) – Annual Report 2018 – Local Authority Tables',

<https://www2.gov.scot/Topics/Statistics/16002/LATables2018/2018Excel>

¹²⁸ Fraser of Allander Institute, 'Economic Commentary – Vol 44 No. 1 – Coronavirus Special Edition', March 2020,

<https://www.sbs.strath.ac.uk/download/Fraser/202003/20200325-Commentary.pdf>

¹²⁹ The Money Advice Service, 'Building the financial capability of UK adults – Initial findings from the 2018 Adult Financial Capability Survey',

<https://www.fincap.org.uk/en/articles/financial-capability-survey>

¹³⁰ The Improvement Service, 'Common Advice Performance Management Reporting Framework 2018/19 Annual Report',

https://www.improvementservice.org.uk/data/assets/pdf_file/0015/11751/capmrf-annual-report-2018-19-final.pdf

¹³¹ Resolution Foundation, 'Doing what it takes – Protecting firms and families from the economic impact of coronavirus', 19th March 2020, <https://www.resolutionfoundation.org/app/uploads/2020/03/Doing-what-it-takes.pdf>

areas are on average much younger than other sectors, have the highest proportion of women, are paid the lowest hourly pay of any sector with the lowest hours worked per week, and are far more likely to be in poverty. The poverty rate for households with a worker in these sectors was 28%, compared to the Scottish average of 19%, with child poverty at 41% amongst these households, compared to 24% across Scotland.¹³² Therefore, there is an immediate risk of unemployment for a large number of people and it is the lowest paid who are already likely to be financially struggling and least able to cope with any sudden shocks to their income who are most likely to bear the brunt of this.

This impact can already be seen by the overwhelming increase in the number of applications for Universal Credit. The Resolution Foundation highlight that in the first fortnight of increased social distancing measures, the number of new claims for Universal Credit was over five times higher than the peak number of successful claims for Job Seekers Allowance during the 2008 financial crisis¹³³. This shows the swift impact closures are having on unemployment. For those recently unemployed and looking for work, this will be exacerbated by the ongoing nature of the current crisis, and the likely prolonged effect on the job market. The non-food retail sector may be at particular risk as many high street chains struggled prior to the crisis and may not survive sustained closures¹³⁴. This could mean long-term hardship for many lower earners.

For those who do not lose their job there is still a risk of reduced income. Recently published survey data from ONS shows that among people who agreed that the coronavirus outbreak was affecting their household finances, 72.9% reported a reduced income¹³⁵. For those whose incomes were already stretched and those with a lack of savings, any reduction is likely to put immediate pressure on resources which will be unsustainable long-term. This profound impact is already seen with 31.9% reporting using their savings to cover living costs and 22.1% reporting struggling to pay bills.

Research by Citizens Advice Scotland carried out between the 9th and 12th of April also found that people in Scotland are concerned about reductions in their income. The survey found that 14% of respondents were very concerned about their incomes as a result of the crisis, with a further 27% fairly concerned. Moreover, those from C2, D, and E social grades were more likely to be concerned with 47% concerned about their incomes compared to 41% amongst the whole population, and 35% concerned about being able to buy food and essentials compared to 27%.¹³⁶ Another survey carried

¹³² Fraser of Allander Institute, 'Workers in the tourism and hospitality sector: who are they and what support may they need in the future?', 22nd April 2020, <https://fraserofallander.org/scottish-economy/labour-market/workers-in-the-tourism-and-hospitality-sector-who-are-they-and-what-support-may-then-need-in-the-future/>

¹³³ Resolution Foundation, 'No work, no pay – Supporting the unemployed through coronavirus', 2nd April 2020, <https://www.resolutionfoundation.org/app/uploads/2020/04/No-work-no-pay.pdf>

¹³⁴ Resolution Foundation, 'Crystal balls vs rear-view mirrors – The UK labour market after coronavirus', 7th April 2020, <https://www.resolutionfoundation.org/app/uploads/2020/04/Labour-market-Spotlight.pdf>

¹³⁵ ONS, 'Coronavirus and the social impacts on Great Britain: 16th April 2020 (Opinions and Lifestyle Survey Covid-19 module)',

<https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandwellbeing/datasets/coronavirusandthesocialimpactsongreatbritaindata>

¹³⁶ Citizens Advice Scotland, '41% worried about their finances during coronavirus', 9-12 April 2020, <https://www.cas.org.uk/publications/scotpulse-opinion-poll-results-9-12-april-2020>

out by comparethemarket found that 72% of households across the UK have seen an increase in energy usage with an average additional cost of £32 per month.¹³⁷

In total, the CEBR predict that disposable income will be reduced by 17% for the period between April and June. This would translate to a reduction in disposable income of £515 per household per month.¹³⁸

Across the UK, as a result of falling incomes and increased costs, there has been a huge spike in demand for emergency food from foodbanks. While demand for emergency food parcels has already risen over the last five years, the last two weeks in March saw an 81% increase in demand for emergency food parcels from the Trussell Trust compared to a year previously. Similarly, the Independent Food Aid Network reported an increase in food bank use between February and March of 59.3%, seventeen times higher than the change a year previously.¹³⁹ It would appear then, that already in March a significant number of people had been pushed into severe poverty by the effects of the crisis.

3.6 What measures have already put in place to mitigate against these potential risks?

In recognition of the significant impact many households will now be facing as a result of the COVID-19 outbreak, the government has already put in place extensive measures to help those in need. One of these significant measures is the UK government's Coronavirus Job Retention Scheme which allows companies to furlough workers at 80% of their basic pay. The Resolution Foundation highlight that a fifth of all firms are intending to furlough their entire workforce and a further 17% are furloughing more than three quarters of their staff¹⁴⁰. Although there are still a significant number of people who will lose their jobs as a result of the crisis, the data suggests that without this scheme unemployment would likely have been substantially worse.

For those whose jobs are not protected by the job retention scheme, support is available through the welfare system, in particular Universal Credit. As highlighted above, a significantly higher number of people are now in need of Universal Credit, and therefore changes have been made to ensure this can be made more adequate to those facing a substantial income shock. This includes an increase to the standard allowance in Universal Credit by £1,040 per year, an increase to the Local Housing Allowance, and a removal of the Minimum Income Floor for those who are currently self-employed, meaning awards will be based on actual income rather than an notional income¹⁴¹. These changes not only help those moving onto Universal Credit for the first time but also those who were already in receipt of this benefit and have struggled since the benefit freeze in 2016. Policy in Practice indicate that this increase more than covers the loss in real income from the previous

¹³⁷ Citizens Advice Scotland, 'New survey reveals high cost of energy bills during lockdown', 4th May 2020, <https://www.cas.org.uk/news/new-survey-reveals-high-cost-energy-bills-during-lockdown>

¹³⁸ https://www.theguardian.com/business/2020/apr/20/british-households-face-disposable-income-fall-of-515-per-month?CMP=Share_AndroidApp_Gmail

¹³⁹ The Trussell Trust, 'Food Banks Report Record Spike in Need As Coalition of Anti-Poverty Charities Call for Strong Lifeline to be Thrown to Anyone Who Needs It', 1st May 2020, <https://www.trusselltrust.org/2020/05/01/coalition-call/>

¹⁴⁰ Resolution Foundation, 'The economic effects of coronavirus in the UK – utilising timely economic indicators', 10th April 2020, <https://www.resolutionfoundation.org/app/uploads/2020/04/The-economic-effects-of-coronavirus-in-the-UK-fast-indicators-3rd-ed.pdf>

¹⁴¹ Policy in Practice, 'The impact of the Covid-19 welfare support measures on household income', 23rd March 2020, <http://policyinpractice.co.uk/wp-content/uploads/The-impact-of-welfare-support-increases-in-response-to-Covid-19-9-pub.pdf>

benefit freeze¹⁴². The Fraser of Allander Institute suggests that for households where a substantial portion of income is already made up by welfare support, income will not fall as substantially than in households reliant on earnings as the changes to the social security system are likely to compensate for any loss in earnings¹⁴³. This suggests that these measures may protect some of the lowest earners in the short-term. The Scottish Government have also made money available to local authorities, charities, businesses and community groups to enable them to support those who are most vulnerable. This includes £45m added to the Scottish Welfare Fund which will support those in immediate need through Crisis Grants¹⁴⁴.

These measures have been vital in protecting income for a large number of people; however, it is inevitable that for many whose income already could not sustain any changes, financial insecurity will still be experienced. For this reason, alongside measures to support income, several changes have also been made to help those struggling with bills. This includes a three-month mortgage break for those facing difficulties making mortgage payments as a result of lost income¹⁴⁵. In Scotland, 29% of households are owner occupied where the owners are buying with help of a loan/mortgage¹⁴⁶. This support will be valuable for households reliant on income from earnings who may face a substantial income shock.

However, households with mortgages are more likely to be able to cope with a reduced income. More than one-quarter of households with a mortgage have over £10,000 in savings compared with 7% of those who rent¹⁴⁷. Renters also on average spend more of their income on housing costs and therefore will struggle more as a result of a reduced income and are more likely to be in the groups of workers who may experience reduced income. Analysis by Resolution Foundation indicates 26% of employed people who are socially renting, and 24% privately renting, are likely to be workers in shutdown sectors¹⁴⁸. The Scottish Government have introduced emergency legislation meaning that private and social tenants must be given a minimum of a 6 months' notice period for eviction¹⁴⁹. This should protect struggling renters from eviction. However, both these measures ease pressure on those experiencing a short-term change in income but may not mitigate against a sustained change such as unemployment or longer term reduced income.

In addition to support with housing costs, the UK government is also ensuring support is available for gas and electricity bills. Given the increased time people are spending at home, gas and electricity

¹⁴² Policy in Practice, 'The impact of the Covid-19 welfare support measures on household income', 23rd March 2020, <http://policyinpractice.co.uk/wp-content/uploads/The-impact-of-welfare-support-increases-in-response-to-Covid-19-9-pub.pdf>

¹⁴³ Fraser of Allander Institute, 'Economic Commentary – Vol 44 No. 1 – Coronavirus Special Edition', March 2020, <https://www.sbs.strath.ac.uk/download/Fraser/202003/20200325-Commentary.pdf>

¹⁴⁴ LGIU, 'Local government and Covid-19: issues for disadvantaged groups', 9th April 2020, <https://lgiu.org/briefing/local-government-and-covid-19-issues-for-disadvantaged-groups/>

¹⁴⁵ Policy in Practice, 'The impact of the Covid-19 welfare support measures on household income', 23rd March 2020, <http://policyinpractice.co.uk/wp-content/uploads/The-impact-of-welfare-support-increases-in-response-to-Covid-19-9-pub.pdf>

¹⁴⁶ Scottish Government, 'Scottish Household Survey (SHS) – Annual Report 2018 – Local Authority Tables', <https://www2.gov.scot/Topics/Statistics/16002/LATables2018/2018Excel>

¹⁴⁷ Resolution Foundation, 'Housing Outlook Q2 2020 – Housing and the coronavirus income shock', 9th April 2020, <https://www.resolutionfoundation.org/app/uploads/2020/04/Housing-Outlook-April-2020.pdf>

¹⁴⁸ Resolution Foundation, 'Risky business – Economic impacts of the coronavirus on different groups of workers', 28th April 2020, <https://www.resolutionfoundation.org/app/uploads/2019/10/Risky-business.pdf>

¹⁴⁹ Scottish Government, 'Tenants to be given extra protection', 29th March 2020, <https://www.gov.scot/news/tenants-to-be-given-extra-protection/>

bills are likely to rise due to the increase use of heating, cookers and ovens. For those struggling with these bills, energy companies are offering to reassess, reduce or pause payments. Specific help is also offered for some of the most vulnerable who use prepayment meters, with different options offered to ensure households do not have their supply cut off¹⁵⁰. Another expense which will be a concern for many is payments for credit products. The Financial Conduct Authority (FCA) has put in place a range of temporary measures to support consumers facing payment difficulties. These include a three-month payment freeze on loans and credit cards, up to £500 overdraft charged at zero interest for three months for those who already have an arranged overdraft in place and assurance that use of these temporary measures will not affect the consumers credit file¹⁵¹. The FCA is also proposing similar measures which will support those with motor finance and high cost credit agreements such as payday loans¹⁵². These measures will help avoid people falling into further financial difficulties.

Whilst all these measures are vital in mitigating the financial impact of the crisis as much as possible, for these measures to succeed people need to know what support is available and how to access this. To facilitate this, Citizens Advice Scotland have launched a national advice helpline with support from the Scottish Government's Wellbeing Fund¹⁵³. This free to call helpline will enable people to access one-on-one advice from trained advisors and will complement existing advice services including local authority services.

Together, this large package of support is intended to help people avoid falling into poverty and avoid worsening the financial situation of those who are already vulnerable.

3.7 What is missing from the current measures?

There are two pressing issues when considering the poverty impact of the crisis: accessing support in the short term and the longer-term impact of changes to income.

In the short-term, there is a requirement to ensure that those needing support can access this and in a timely manner. For people who have never used the welfare system before it is possible that they will be unsure of what they are entitled to and how to access this. The recently launched advice helpline and support being offered from local advice services can help people access what they need. However, these advice services need to be visible to people and equipped to cope with growing demand. In 2018/19, local authority funded money and welfare rights advice services in Scotland supported 4,098 claims for Universal Credit, accounting for 6% of all welfare rights claims supported by these services¹⁵⁴. Given the increasing demand for Universal Credit it is likely these services will be required to support more individuals, especially for those who may struggle with the

¹⁵⁰ Which, 'Help with energy bills announced by UK government', 19th March 2020,

<https://www.which.co.uk/news/2020/03/help-with-energy-bills-announced-by-uk-government/>

¹⁵¹ Financial Conduct Authority, 'FCA confirms temporary financial relief for customers impacted by coronavirus', 9th April 2020, <https://www.fca.org.uk/news/press-releases/fca-confirms-temporary-financial-relief-customers-impacted-coronavirus>

¹⁵² Financial Conduct Authority, 'FCA proposes help for motor finance and high cost credit customers', 17th April 2020, <https://www.fca.org.uk/news/press-releases/fca-proposes-help-motor-finance-high-cost-credit-customers-coronavirus>

¹⁵³ Citizens Advice Scotland, 'Launch of Scotland's Citizens Advice Helpline', 14th April 2020, <https://www.cas.org.uk/news/launch-scotlands-citizens-advice-helpline>

¹⁵⁴ The Improvement Service, 'Common Advice Performance Management Reporting Framework 2018/19 Annual Report', https://www.improvementservice.org.uk/_data/assets/pdf_file/0015/11751/capmrf-annual-report-2018-19-final.pdf

application process which is digital only. In Scotland, 13% of households have no home internet access and 13% also said that they do not use the internet¹⁵⁵. Increased demand is likely to have implications for capacity, especially as services will also have to change the way they operate whilst face to face advice is not possible. Of the contacts received by local authority funded money and welfare rights advice services, 55% were face to face¹⁵⁶. Therefore, it will be necessary to closely monitor whether people are receiving the support they need.

Increased demand may also impact on how quickly people can access support. As highlighted, many people do not have the financial buffer to cope with an unexpected change in income, and therefore will need access to funds quickly. This could be an issue given there is five-week wait to receive an initial payment of Universal Credit. When making a claim an advance can be requested which should be paid within a week of completing the claim. However, this advance must be repaid, which could cause problems for those whose financial difficulties are likely to last longer term¹⁵⁷.

Despite the wide range of additional support being offered, there are still individuals who will struggle to receive anything. Households with savings may not be entitled to Universal Credit as this is a means-tested benefit and is therefore assessed against both income and savings. Households are eligible for reduced payments if they have savings above £6,000 but will receive nothing if their savings are above £16,000¹⁵⁸. This will disadvantage self-employed households who have put aside earnings to cover future bills of VAT, tax and National Insurance and for households with large savings put aside to cover a deposit on a house¹⁵⁹. This could force some households to use their savings to cover the cost of living, which although may be manageable in the short-term, is likely unsustainable longer term.

Given the ongoing nature of the crisis, there is still much uncertainty about what the impact will be long term. For some, the measures put in place may be enough to get them through the short-term crisis, if they remain in employment when restrictions are lifted. However, those who are made unemployed or are unable to cope on a reduced income are likely to suffer long term. Most measures are temporary and when support for bills such as mortgages and credit cease, individuals with a reduced income are likely to face financial difficulties. This is a particular risk if there is a sustained impact on the labour market. Evidence suggests that labour market vacancies have already reduced by around 60%, therefore this will cause significant problems if there is no change¹⁶⁰.

¹⁵⁵ Scottish Government, 'Scottish Household Survey (SHS) – Annual Report 2018 – Local Authority Tables', <https://www2.gov.scot/Topics/Statistics/16002/LATables2018/2018Excel>

¹⁵⁶ The Improvement Service, 'Common Advice Performance Management Reporting Framework 2018/19 Annual Report', https://www.improvementservice.org.uk/_data/assets/pdf_file/0015/11751/capmrf-annual-report-2018-19-final.pdf

¹⁵⁷ Resolution Foundation, 'No work, no pay – Supporting the unemployed through coronavirus', 2nd April 2020, <https://www.resolutionfoundation.org/app/uploads/2020/04/No-work-no-pay.pdf>

¹⁵⁸ Resolution Foundation, 'No work, no pay – Supporting the unemployed through coronavirus', 2nd April 2020, <https://www.resolutionfoundation.org/app/uploads/2020/04/No-work-no-pay.pdf>

¹⁵⁹ Policy in Practice, 'The impact of the Covid-19 welfare support measures on household income', 23rd March 2020, <http://policyinpractice.co.uk/wp-content/uploads/The-impact-of-welfare-support-increases-in-response-to-Covid-19-9-pub.pdf>

¹⁶⁰ Resolution Foundation, 'The economic effects of coronavirus in the UK – Utilising timely economic indicators', 10th April 2020, <https://www.resolutionfoundation.org/app/uploads/2020/04/The-economic-effects-of-coronavirus-in-the-UK-fast-indicators-3rd-ed.pdf>

4. The International Context

Countries across the globe are dealing with the impacts of COVID-19 by imposing a range of restrictions and measures to manage the spread of the virus and mitigate the likely economic impact these will have. This is an evolving subject with extensive research being completed as COVID-19 unfolds (so many statistics and estimates could change as it progresses). Below is a summary of the impacts of lockdowns due to COVID-19, government responses and the lockdown exit plans and future impacts, as well as some key points and other useful sources.

4.1 Update 5th June

Analysis by the Centre for Global Development shows that across twenty countries where schools have reopened there are only three where this looks to have had any impact on the trend of new Coronavirus cases. There does appear to be some regional effect, however, with schools around Seoul in South Korea closed after a spike in cases, while they remained open in the rest of the country. The authors caution, however, reading too much into the impact of schools in isolation, as reopening has often been tied up with other interventions.¹⁶¹

Across Europe as lockdowns are lifted there have been several clusters of new cases within small areas. Outbreaks have been seen in France, Germany, and Spain within individual workplaces or towns. In Italy, the Lombardy region also saw a large increase in infections as lockdown restrictions were lifted.¹⁶²

4.2 Update 20th May 2020

Germany

Since the initial publication of this document a number of countries have taken several steps to exit and ease their lockdown restrictions. In Germany, easing of the lockdown began in April with some smaller shops allowed to open from the 20th of April, and all shops now able to open. Germany has also begun to ease its travel restrictions along some of its borders, with restrictions due to be lifted on the 15th of June.¹⁶³ Germany has had, as at the 19th of May, significantly fewer deaths than the UK at just over 8000.¹⁶⁴ While easing of restrictions does appear to have increased the reproduction rate of the virus in Germany, the R-rate remains below 1, the level at which the virus spread can be kept under control.¹⁶⁵

Italy

In Italy, where deaths are just below the UK total at 32000, has also begun to ease its lockdown. Travel to and from the country will be allowed from the 3rd of June, and bars, restaurants and hairdressers opened from the 18th of May. However, schools will not reopen until September.

¹⁶¹ Centre for Global Development, 'Back to School? Tracking COVID Cases as Schools Reopen', 29th May 2020, <https://www.cgdev.org/blog/back-school-tracking-covid-cases-schools-reopen>

¹⁶² The Guardian, 'Covid-19 clusters emerge as lockdowns ease across Europe', 28th May 2020, <https://www.theguardian.com/world/2020/may/28/covid-19-clusters-emerge-as-lockdowns-ease-across-europe>

¹⁶³ BBC, 'Coronavirus: How lockdown is being lifted across Europe', 19th May, <https://www.bbc.co.uk/news/explainers-52575313>

¹⁶⁴ Statista, 'COVID-19/Coronavirus Facts and Figures', 19th May, <https://www.statista.com/page/covid-19-coronavirus>

¹⁶⁵ Robert Koch Institute, 'Coronavirus Disease 2019 Daily Situation Report of the Robert Koch Institute', 19th May 2020, https://www.rki.de/DE/Content/InfAZ/N/Neuartiges_Coronavirus/Situationsberichte/Gesamt.html

Republic of Ireland

The Republic of Ireland began to ease its lockdown on the 18th of May, with deaths there slightly lower than in Scotland. Irish schools will remain shut until September, but nurseries will reopen for key workers from the 29th of June and for all children from the 20th of July. In addition, social visits will be allowed to other households from the 8th of June and smaller shops will reopen on the 8th June with all shops open on the 29th.¹⁶⁶

Ireland has been hit hard economically by the outbreak, with GDP expected to decline by 10.5% and unemployment expected to rise to 22% in quarter two of 2020.¹⁶⁷ As in Scotland, certain Irish industries are likely to be most impacted and therefore the worst hit areas will be those with the greatest reliance on these industries economically. The Three Regional Assemblies of Ireland have undertaken analysis to identify these areas and called for policy solutions to be targeted and based on this evidence.

UNICEF have published a dashboard summarising all the socio-economic impacts of the virus, including lockdown restrictions, the effect on education, and current travel restrictions.¹⁶⁸

The following sections were last updated on the 20th of April.

4.3 China

Key Points

- China was the first country to implement a lockdown in January.
- The impact of the lockdown on the Chinese economy has been a 6.8% contraction in the first quarter of 2020, the largest decline in Chinese GDP on record. Unemployment has increased to 6.2% and seen 1.5 trillion yuan in lost wages during the lockdown period.
- The Chinese government has introduced many policies to cushion the effects of the lockdown such as ensuring salary payments continue to be made, a subsidised 300-billion-yuan credit facility for producers of masks and other health-related items, imposing restrictions on terminating employment for migrants, and a new social assistance benefit.
- China has successfully flattened the curve of COVID-19 due to the 2 months of lockdown. Economic activity is rising, and property sales are beginning to rise. The manufacturing industry is active but the service sector less so.

Impacts During Lockdown Period

China's lockdown began in Wuhan City, the centre of the outbreak, beginning on the 23rd of January. During the lockdown, retail sales fell by 20%, while fixed-asset investment fell by 24.5% and industrial output dropped by 13.5%. As a result, the Chinese economy shrank by 6.8% in the first quarter, and unemployment reached 6.2% between January and February. Research company Gavekal Dragonomics highlighted that travel restrictions cost migrant workers around 800 billion yuan in lost wages in February and March 2020 alone and if self-employed losses were added, the figure could increase to 1.5 trillion yuan, or between 3-4% of China's total household disposable income.

¹⁶⁶ BBC, 'Coronavirus: How lockdown is being lifted across Europe', 19th May, <https://www.bbc.co.uk/news/explainers-52575313>

¹⁶⁷ The Three Regional Assemblies of Ireland, 'COVID-19 Regional Economic Analysis', 13th May 2020, <http://www.southernassembly.ie/uploads/general-files/CV19-Regional-Economic-Analysis.pdf>

¹⁶⁸ UNICEF, 'Rapid Situation Tracking for COVID-19 Socioeconomic Impacts', 20th May 2020, <https://data.unicef.org/resources/rapid-situation-tracking-covid-19-socioeconomic-impacts-data-viz/>

During the lockdown, sales for Chinese property developers also plunged 38% in February compared with the same month a year earlier. On a month-to-month basis, February sales plunged by an even higher 44% when compared with January. Official statistics also show jobless numbers have soared, with roughly 5 million more people out of work between December and February.

Government Response

- Salary payments should be made to workers who are unable to work due to quarantine or illness.
- The government has set up a subsidized 300-billion-yuan credit facility for producers of masks and other health-related items.
- Issued a notice to ensure that the contracts of migrant workers are not terminated in the case of illness or containment measures.
- In Hong-Kong adult residents will receive a one-time cash transfer (social assistance benefit) of \$1,280, which is expected to boost the economy by 1%.

Lockdown Exit Plan and Current Situation

China appears to have “flattened the curve” of COVID-19 infections and deaths. This was due to China’s strict restrictions, large testing and long lock-down period of around 2 months. China has begun to ease out of lockdown and back to ‘normal’ production and life.

Coal consumption by Chinese power plants acts as a good indicator of broader economic activity. The latest data shows that whilst levels have yet to return to pre- COVID-19 levels they are back to 57,000 tonnes – 88% of the average output for 2019. Data from the service sector has shown less activity compared to China’s manufacturing industry.

The number of property sales in 30 major Chinese cities reached 5,976 on 31 March, its highest daily rate since the 8th of January, up from a low of 22 sales on 8th of February and above December 2019’s average of 5,760 daily sales. Prices have yet to reflect the decline in sales volumes in March. The latest data published by China’s National Bureau of Statistics (NBS) shows residential prices were still rising in February 2020. Data for March is expected to show a marked decline quarter-on-quarter.

4.4 Spain

Key Points

- Spain declared a lockdown on the 14th of March, just over one week before the UK, which has been extended to at least the 9th of May.
- The lockdown is predicted to reduce GDP by 10% in 2020 and it is estimated that each month of lockdown will reduce GDP by a further 1%. 834,000 jobs were lost in March due to the national lockdown.
- The Spanish government has introduced guidance around supporting local services/shops in neighbourhoods, rent breaks and tax cuts during lockdown (and some months after). As well as prohibiting firing of employees and instead introducing ‘Erte’ – temporary layoffs.

Impacts During Lockdown Period

Spain declared a lockdown on the 14th of March. Research institutions in Spain estimate that GDP may fall by between 3 and 4% with every additional month of confinement seeing a further loss of 1%.

In March, 834,000 jobs were lost due to the national lockdown. The services sector has been the most affected with an increase of 206,016 unemployed people. The second most affected sector was construction with a 22.92% increase in unemployment, followed by agriculture.

Government Response

- Postponing the collection of rent - Madrid has announced the council will postpone the collection of rent for the month of April in all public housing. Barcelona is postponing the collection of rent for the months of April, May and June which will be apportioned after the June bill for the next 18 months until December 2021. In the case of Barcelona, the adjournment of rent collection extends to business and organisations renting government buildings.
- The impact of COVID-19 in Barcelona and Madrid is likely to fall predominately on young workers and families who still haven't recovered from the economic crash of 2008. Both local authorities have [programmes](#) to inform local firms about national and international bursaries to support their economic activities. Madrid City Council has launched the platform '[Compartimos Barrio](#)' to encourage buying locally by connecting citizens with stores and services in their neighbourhood that remain open during the lockdown. Barcelona has also adopted a package of [extraordinary measures](#), such as direct public investments and tax cuts, to alleviate the impact of COVID-19.
- Spain has prohibited companies from firing employees during the health crisis and is instead encouraging employers to offer temporary layoffs called Erte, of which 620,000 have already been processed.

Lockdown Exit Plan and Future Impacts

The curve of COVID-19 in Spain is slowly flattening. Indicators such as health practices and care beds reducing shows a slowing of the virus, but more testing must be done, and further evaluation must be carried out. Some factory and construction workers have returned to work, but most shops and services remain closed and office staff are still working from home.

The lockdown has now been extended until at least the 9th of May. The economy looks set to pick up in the fourth quarter of the year and early 2021.

4.5 Germany

Key Points

- Bavaria was the first German state to implement lockdown measures on the 20th March.
- It has been predicted that the country's GDP could shrink by 6.6% in 2020 due to COVID-19 and more than 12% of jobs at car manufacturers and suppliers could be at risk.
- The German government has introduced some policies such as resources for individuals offering ad hoc child-care, "unlimited" support for enterprises, a ban on rent increases, and the passing of Economic Stabilisation Funds Act (WSF).
- Germany has recently established an exit plan with social distancing rules likely to be extended to May 3rd and sports stadiums and concert halls remaining shut until 31st August, but some smaller shops able to reopen in mid-April. Schools will gradually start to open from the 4th of May.

Impacts During Lockdown Period

Bavaria was the first German state to implement lockdown measures on the 20th March, and each German state has their own epidemic plan.

The German Council of Economic Experts (GCEE), the advisory council of the German government, predicted that the country's GDP would shrink by 2.8% in 2020 due to the coronavirus pandemic. More recently on the 28th of April, Ifo, the German economic institute predicted a 6.6% contraction in 2020. The pandemic is also likely to have substantial effects on the labour market with the number of people in employment expected to fall for the first time in 15 years.

The lockdown has also caused price declines in the property market with reduced demand for residential properties due to people being less willing to move or to buy a home along with construction and manufacturing of materials being halted and labour force not working.

Government Response

- Resources have been offered to offer ad hoc child-care.
- Benefits compensating workers for hours not worked are being expanded and simplified.
- Rent increases have been banned.
- Payment obligations due by 30 June 2020 are to be deferred for three months – until 30 September 2020 - if the debtors' livelihood or the economic basis of their businesses are at risk.
- On 28 March 2020, the German Parliament adopted the Economic Stabilisation Funds Act (WSF). The Act offers support to manage the impact to the economy from COVID-19. In order to meet the WSF's objective of stabilising companies in the real economy, it is equipped with stabilisation instruments supporting refinancing on the capital market and create framework conditions for strengthening the capital base of companies whose existence is of considerable importance for Germany as a business location or for the labour market.

Lockdown Exit Plan and Future Impacts

Germany is flattening the curve in terms of slowing the spread of COVID-19 as there has been a linear increase in the number of cases in April. Germany has recently established an exit plan. Social distancing rules are likely to be extended to the 3rd of May, with sports stadiums and concert halls remaining shut until 31st August. Schools will gradually start to open on the 4th May.

GCEE has predicted that a normalisation of the economic situation over the summer will be the most likely development. It also predicted that in 2021, catch-up effects and a large carry-over effect could drive GDP growth back to 3.7%. It is expected that the German economy will be pushed into recession and shrink by 1.5% in 2020.

While Germany's GDP would still increase slightly during the first quarter of 2020, the crisis would take full effect in the second quarter and lead to a 4.5% fall in GDP. Production of goods and services would only gradually return to a normal level by the first half of 2021. Excluding long-term effects like company bankruptcies, it is expected the overall damage of the pandemic to the German economy to be at a total of around 115 billion euros (123.7 billion U.S. dollars) by 2021.

4.6 Italy

Key Points

- Italy's lockdown began on the 9th March, around two weeks before the UK.
- GDP is expected to drop by 6% in 2020. However, if the lockdown continues beyond May, national GDP is expected to drop by a further 0.75% for every additional week that

production is at a standstill. The unemployment rate in Italy could reach 11.2% in 2020 due to lockdown restrictions.

- The Italian government has introduced policies to cushion COVID-19 impacts such as staggered hours and teleworking, childcare vouchers, tax breaks and waivers for social security contributions.
- A slowing in the spread of COVID-19 cases has allowed Italy to begin plans to lift the lockdown on the 4th of May. As of the 18th of May, bars, restaurants, and hairdressers have been opened. Schools will not be opened until September, however.

Impacts During Lockdown Period

Italy's lockdown began on the 9th March. In the first quarter of 2020 GDP is expected to contract by 5.4%, the largest drop in 11 years. The impact of COVID-19 and the measures to contain the infection have been devastating in March, with industrial activities decreasing by 16.6% compared to February. It is estimated that GDP will fall by 10% in the first two quarters of 2020 compared to the end of 2019 and by 6% across the year. However, if the emergency continues beyond May, national GDP will likely drop by a further 0.75% for every additional week that production is at a standstill due to the coronavirus pandemic.

According to a forecast from March 2020, the unemployment rate in Italy could reach 11.2% in 2020, due to the impact of the coronavirus outbreak. It is then expected to decrease to 9.6 % in 2021.

Government Response

- Staggered hours and teleworking (also used in Japan).
- Childcare vouchers are being provided during kindergarten and school closures.
- Tax breaks and waivers for social security contributions have been provided, as well as extensions of deadlines for repayment of mortgages.
- Paid reductions in working time/partial unemployment benefits, which compensate workers for hours not worked, are being expanded and/or simplified.

Lockdown Exit Plan and Future Impacts

The spread of COVID-19 appears to be slowing in Italy. As a result, there has been a partial lifting of restrictions with bookshops, laundries, stationers, children's clothes stores reopening in some regions. In addition, forestry workers and IT manufacturers are now back at work. The full lockdown is set to end 4 May.

5 Other Resources

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