

From the Coronavirus Support Hub:

What's next for business? The economic impact of coronavirus

The coronavirus pandemic has taken a huge toll on businesses around the world in recent months, with forced closures for many sectors meaning a massive drop in revenues. As a result, the economic impact of the pandemic is likely to last for years to come.

While managing the health risks of coronavirus has understandably taken precedence up to now, the fact that the UK is witnessing a sustained decline in infections means many sectors are now beginning to reopen. With this comes the chance to both look back at the economic impact of the virus so far, and to assess what the future holds for UK businesses.

What do we know so far?

According to the latest figures from HM Treasury (June 2020), the cost to the UK economy of the most high-profile business support packages in the wake of the coronavirus pandemic is:

- **Coronavirus Business Interruption Loan Scheme (CBILS):** £11.07 billion (facilities approved)
- **Coronavirus Large Business Interruption Loan Scheme (CLBILS):** £2.33 billion (facilities approved)
- **Bounce Back Loan Scheme (BBLs):** £29.51 billion (facilities approved)
- **Future Fund:** £320.6 million (convertible loans approved)
- **Coronavirus Job Retention Scheme (CJRS):** £11.1 billion (grant funding as end of May 2020)

Combined, these measures have cost the UK taxpayer billions of pounds in additional public spending as the government has moved to shore up the economy and to protect as many businesses and jobs as possible from the full impact of the nationwide lockdown and subsequent phased reopening of sectors.

At the same time, figures published by the Office for National Statistics in June showed a fall in UK GDP of **20.4% in April** - the largest monthly drop in economic activity on record. This highlights the dramatic effect of placing the country into lockdown at the end of March to slow the spread of coronavirus and the scale of the recovery that is now needed.

Disproportionate impact across sectors

According to the latest data from the Office for National Statistics (June 2020), a major impact has been witnessed during the last quarter across all industries, but especially for those in the service and recreation sectors.

Official data shows that in five industries in particular 75% or more of businesses said they had temporarily closed or paused trading:

- sports activities and amusement and recreation activities
- accommodation
- food and beverage service activities
- libraries, archives, museums and other cultural activities
- creative, arts and entertainment activities

Because of this, April 2020 saw a significant annual **surge in UK businesses declaring zero turnover**, rising from **5.7% to 16.4%** in comparison to the previous April.

Meanwhile, UK production output contracted by 20.3% in April 2020 - following a fall of 4.2% in March. This was the largest contraction in UK production on record, exceeding the second-largest decline seen in February 1972 following the UK miners' strike. Construction output also saw a major dip throughout the period of lockdown, falling by 5.9% in March and 40.1% in April 2020.

Perhaps most notably, UK **manufacturing was down by 24.3%** in April, contributing significantly to the nation's fall in total production output and GDP, given the sector accounts for 75% of the total UK production industry.

Global impact of COVID-19

Research published by the OECD has predicted the global impact of the coronavirus pandemic will have long-lasting and far-reaching consequences for economies around the world, with the UK set to be among the hardest hit nations among G7 members.

The body predicts an annual **reduction of 11.5%** in GDP for 2020 in comparison to the previous full year in a single-hit scenario (single spike of coronavirus cases resulting in a nationwide lockdown) for the UK. If a second spike is witnessed in the months ahead, this figure increases to a **14% annual loss** in GDP.

Elsewhere, only Italy and France are predicted to suffer greater falls in GDP this year among G7 members, while just Spain can be added to this list when all nations are accounted for.

Global GDP is forecast to reduce by **6%** (7.6% in a second-wave scenario) in 2020. Meanwhile, the OECD predicts it could take **at least two years** for worldwide GDP to recover to levels recorded in Q4 2019.

Where do we go from here?

Looking to the months and years ahead, it's clear that a return to pre-coronavirus levels of economic performance will **not be achieved easily or quickly**. However, with lockdown restrictions now easing across many parts of the UK, there is confidence that the long-term outlook for recovery remains positive.

McKinsey predicts those sectors able to demonstrate the necessary flexibility to learn from and adapt to the dramatic changes forced upon them by the pandemic will be in the best position to recover in the coming months and years.

Its research points to manufacturing and the transport and logistics industries as leaders in this area at present, with many firms in these sectors already taking the necessary steps to achieve this goal by viewing the pandemic as a '**catalyst for change**' rather than simply 'navigating the crisis' before resuming business as usual.

For the UK as a whole, a phased reopening of sectors is now underway - albeit with strict social distancing measures remaining in force that could limit the ability of some businesses to operate at full capacity. It means a slow and steady uptick in activity is now expected to help mitigate the long-term costs of coronavirus.

Business resilience has been severely tested in recent months; however, as the UK comes out of lockdown, there remain in place key government initiatives to support economic and business recovery, as well as to safeguard the millions of jobs placed at risk during the recent upheaval of COVID-19.

Useful resources:

- Gov.uk: [HM Treasury coronavirus \(COVID-19\) business loan scheme statistics](#)
- Gov.uk: [Latest figures show millions benefitting from Treasury coronavirus support schemes](#)
- Office for National Statistics: [Coronavirus and the impact on output in the UK economy: April 2020](#)
- OECD: [The world economy on a tightrope](#)
- EY: [Responding to COVID-19 - Now, Next and Beyond](#)
- McKinsey: [COVID-19: Implications for business](#)