Greater Manchester Economy, Business Growth & Skills Overview and Scrutiny Committee

Date: 9th July 2021

Subject: Economic Impact of Covid-19 & Brexit

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PURPOSE OF REPORT

- This report updates members the latest position on the economic impacts of Covid-19 and Brexit on Greater Manchester

RECOMMENDATIONS:

Members are asked to:

- Note and comment on the report.

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Risk Management – n/a

Legal Considerations – n/a

Financial Consequences – n/a

Financial Consequences – n/a

BACKGROUND PAPERS:

Greater Manchester Economic Resilience Dashboard

Available here: GM Economic Resilience Dashboard

GMCA GREATER MANCHESTER COMBINED AUTHORITY

1. Introduction

1.1. Brexit and Covid-19 continue to present a range of challenges to Greater Manchester's businesses and economy. This is closely monitored through the GMCA's Economic Resilience Dashboard which summarises the key data on the performance of the city region's economy. The data from the dashboard is brought together with feedback from key stakeholders in this report to provide commentary on:

- The labour market
- Business sentiment
- Wider economic and behavioural trends
- Specific Brexit impacts

2. GM Labour Market and Business Sentiment

2.1. The number of GM unemployment benefit claimants decreased by 4.5% to 135,605 between April and May. Although this was the most significant decrease since the start of the pandemic, the fall in GM was lower than that experienced nationally (5.5%). Tameside and Trafford experienced the largest reductions in their numbers of claimants (both over 6%). However, the claimant count remains well above pre-pandemic levels (+81% compared to March 2020)

2.2. There were 137,200 GM residents on furlough on 30th April 2021. This is a decrease of 31,200 (19%) since 31st March and remains below the 213,300 employments furloughed in July 2020, the earliest data available. Nationally 12% of residents eligible for the scheme were furloughed on 30th April, compared to an 11% take up rate in GM. From July, companies with furloughed workers will need to make a 10% contribution to the cost of hours not worked by furloughed workers (with the Government meeting the remaining 70%) increasing to 20% in August and September.

2.3. There were 66,400 claims to the fourth round of the Self-Employment Income Support Scheme (SEISS) up to 9th May 2021, currently 17,600 (21%) fewer than were made up to 31st January 2021. However, claims to the fourth round of the SEISS remained open until 1st June and therefore not all claims were captured in the latest data release. Current take-up rate for the fourth round is 55% in GM, compared to 50% for the UK.

2.4. The number of online job postings in GM increased by 29% to 7,351 in week ending 19th June. This is 66% above the equivalent week a year earlier. Feedback from the Growth Company and Chamber of Commerce suggests that businesses are continuing to report labour shortages in the tourism, hospitality and leisure, manufacturing, construction, digital and health and social care sectors. The Growth Company survey and their skills diagnostic work with Greater Manchester firms shows that these shortages are mainly concentrated in higher skilled and technical roles. Specific roles in hospitality including chefs and front of house staff have been identified as particularly challenging to recruit.

2.5. The Growth Company also notes that hiring trends have closely mirrored business activity growth, a sign of growing confidence in the recovery. Their survey shows that a quarter of all firms are actively recruiting for positions. In addition to challenges finding new staff with specialised skills, firms also reporting challenges closing skills gaps within their own workforce. It is also worth noting that hiring shortages are an expected consequence of the rapid acceleration in economic growth currently taking place and as yet there isn't specific evidence that these are more acute or structural shortages than might have been experienced in other periods of economic growth.

2.6. The number of firms that said they were considering making redundancies was 1.1% in the four weeks to 24th May, a slight increase of 0.1% since 26th April. Surveys conducted through April and May have found the lowest number of firms considering redundancies since the dataset began in September 2020. 5.9% of firms said that they had already made redundancies. '

3. Wider Economic and Behavioural Trends

3.1. Latest data from the Growth Company business survey shows reductions in the number of businesses reporting decreased cashflow issues and amongst the lowest levels reporting decreased sales since the start of the pandemic. Both measures suggest increasing business confidence, a finding corroborated by the GM Chamber of Commerce's Quarterly Economic Survey.

3.2. Since the easing of lockdown restrictions in early April, there has been a rapid increase in transport activity across Greater Manchester. All modes of transport have seen an increase in usage despite a slight decline in between week commencing 19th and 26th April. TfGM data shows that there were more passenger journeys in week commencing 12th June than in any week since the beginning of the pandemic. Google data on the number of journeys taking place across GM shows a continued recovery in the number of people travelling to retail/leisure locations which has reached pre-Covid levels in some districts (Bury, Rochdale). Travel to workplaces is not recovering in the same way – there are currently a third fewer journeys taking place to workplaces in GM than prior to the pandemic.

3.3. After more than doubling to 1.5% in April, the UK inflation rate rose again in May to 2.1% particularly driven by increased transport costs. Continuing inflation rises may limit the ability of consumer spending to support the recovery of the economy.

4. Brexit Impacts

4.1. The Growth Hub Survey conducted between 29th March and 21st May showed 14.1% of firms reporting a negative impact from Brexit, a 5% decrease from the previous survey. 44.3% of firms reported a 'neutral' impact, 39.3% were 'unsure' and 2.3% reported a 'positive' impact.

4.2. Key short-term issues identified from feedback to the Chamber of Commerce and the Growth Company include:

- Increasing number of EU companies threatening to take business away from UK companies due to ongoing delays of their goods in customs caused by additional paperwork and the resultant added costs they do not want to absorb.
- Many companies facing issues with procedures and guidance associated with the movement of goods between Northern Ireland and Great Britain.
- Companies facing issues with parcel operators with some companies complaining about how they are being charged duties or VAT for which they should be exempt.

4.3. Longer term issues include:

- UK Companies becoming less competitive with their EU counterparts, both from a customs perspective, but also regarding product regulation and the need for more certificates and licences to move goods.
- More UK businesses forced to set up operations in the EU to avoid the added costs of the UK not being in the customs union and single market. Some businesses are reporting that EU customers are saying they will not continue to do business with them.

4.4. The lifting of Covid-19 restrictions is also starting to crystalise some of the impacts on export of services. The GM Chamber of Commerce report that firms are starting to identify changes affecting them in the way they deliver their services in the EU and that the process may not be as simple as before. Specific issues identified affecting the export of services include:

- Some countries no longer automatically recognising UK qualifications.
- Specific issues for airlines who cannot operate internal flights across the EU area without setting up operations in the EU. Similarly UK based road passenger transporters cannot operate services with origins and destinations in the EEA.
- Additional administrative processes for those transporting goods temporarily overseas (such as taking sales samples to trade shows).
- Additional issues for firms providing audio-visual services as these do not form part of the Trade and Cooperation Agreement. This means that companies providing these service can no longer benefit from certain ‘passporting’ of licences and permissions that made the process for selling services across the EU more straightforward.

4.5. As is the case with many business issues associated with the EU exit, there are likely to be a wide range of other issues which are increasingly firm-specific and dependent on the services traded and the markets accessed within the EEA. One high profile example is the difficulty which bands are facing touring the EU in getting visas.

5. RECOMMENDATIONS

5.1 The recommendations are set out at the front of the report.