



Hard times

UK Economic Outlook

June 2020

kpmg.com/uk/economicoutlook



Adjusting to a new future



These are difficult times. As lockdown takes its toll, many people and businesses are experiencing a significant disruption to their daily lives.

There's no clear end to the current crisis and considerable uncertainty remains around when we could have a vaccine or effective treatments to end the pandemic. That said, there are some tentative signs of a pick-up in activity.

As the lockdown eases and more businesses reopen, we start to leave some of the challenges behind. It may however not feel like it. Government's generous support, in particular the Job Retention Scheme, has held the economy together during what we hope were the most difficult times of the pandemic.

As that support is gradually withdrawn, the full scars of the pandemic will be revealed. Unemployment will continue to rise this year and businesses that would otherwise be healthy will close.

The pandemic will leave a lasting mark on the economy, accelerating changes that began prior to the crisis, such as online commerce, while also bringing new realities and preferences about.

The government is committed to support the economy in this difficult journey. To do so, any new schemes need to be more flexible and have the economy's future destination in mind.

We all need to adjust to a new future, not just to the current recession, and make the most of the hand we've been dealt to build something better for us all. That could be looking after the environment, investing more in our essential workers, or matching our universities with local businesses to improve regional productivity. If we get this right, the future may well be a lot brighter.

In the meantime, if you would like to be kept up to date with our short updates, please sign up to [Economic Insights](#) through the preference centre.

Yael Selfin
Chief Economist, KPMG in the UK

Executive summary 04

COVID-19 pandemic 06

Outlook for the economy 12

Pandemic divides the
outlook for sectors 16

COVID-19 crisis exposes
regional vulnerabilities 20

Labour market at the
centre of the storm 24

A new normal of low
inflation and loose
monetary policy 26

Public finances: the
elephant in the room? 28

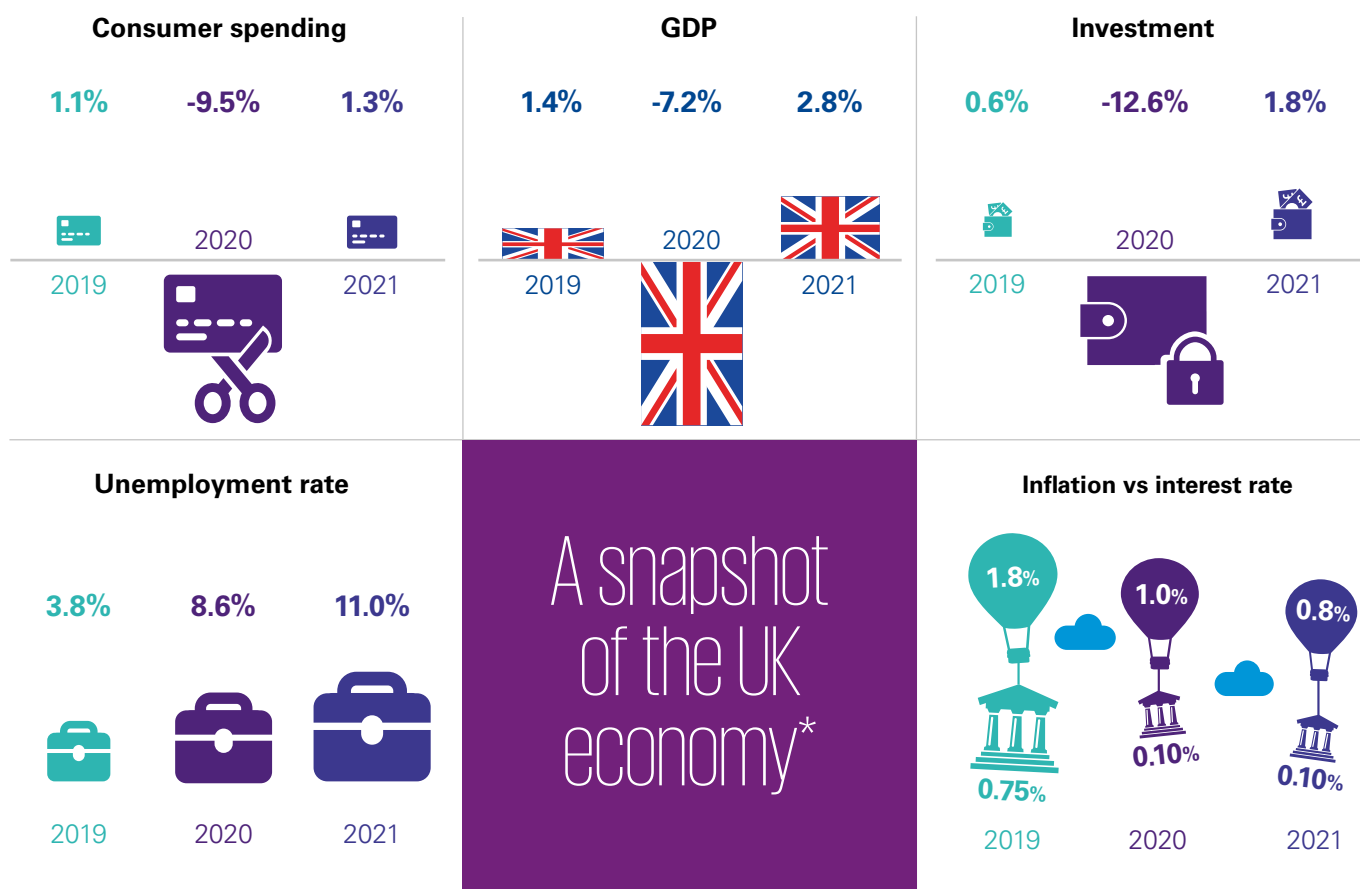
Appendix – Local
Authority forecasts 30



Current outlook

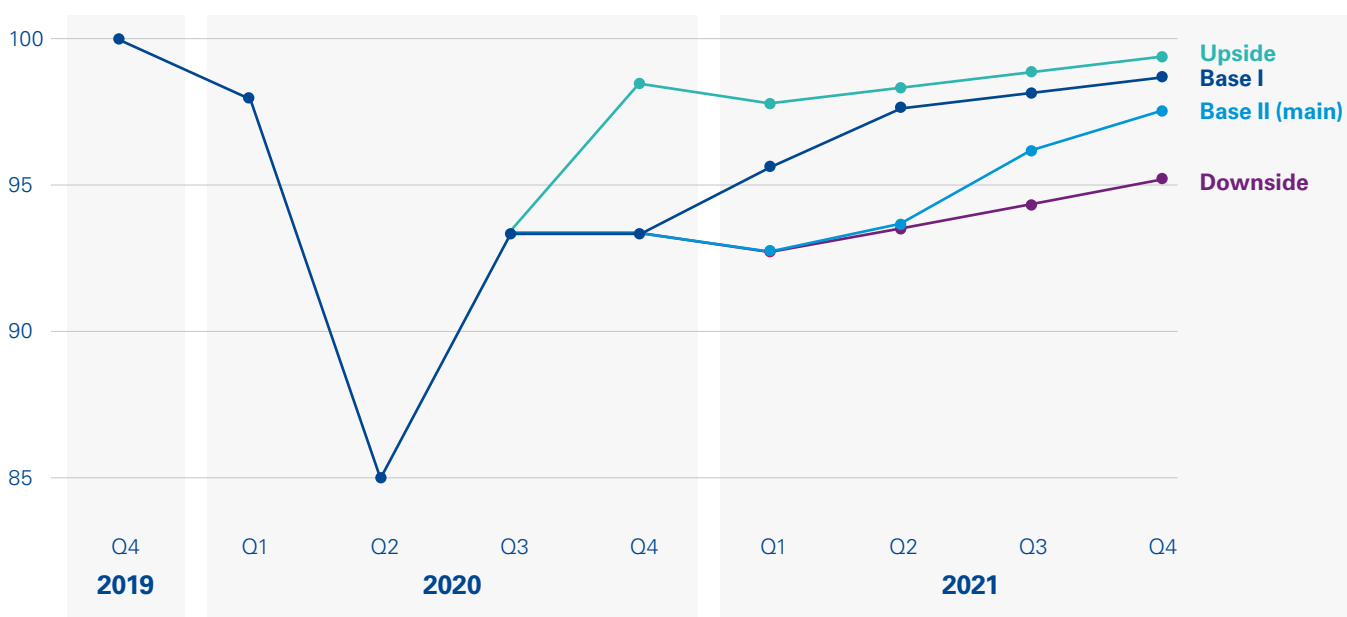
Executive summary

- The UK economy is in the midst of the most severe economic downturn in modern times. The nature of lockdown and social distancing restrictions has curtailed the ability of businesses to operate. Uncertainty around the future outlook is putting some spending on hold.
- A full resumption of activity is unlikely until a vaccine or effective treatments are available for COVID-19. The timing for such breakthrough is a major uncertainty, with far-reaching implications for the speed of the recovery and the extent of any permanent damage to the UK economy.
- We considered four alternative scenarios for the timing of the recovery, based on different potential dates of the pandemic being eradicated in the UK. Our main scenario currently assumes that a vaccine will be available from July 2021.
- As lockdown restrictions are gradually lifted during the summer, we expect to see a partial recovery from the second half of 2020. That said, Q1 next year could see another contraction due to the end of the transition period with the EU. **GDP** could fall by 7.2% in 2020 before rising by 2.8% in 2021.
- **Consumer spending** could fall by 9.5% in 2020 in our main scenario and recover modestly by 1.3% next year, as a vaccine or effective treatments would come too late in the year to boost spending significantly.
- The combination of significant uncertainty and the need of many businesses to conserve cash while revenues are low could see **investment** falling by 12.6% during 2020. We forecast it will recover only marginally, growing by around 1.8% next year.
- From the outset, lockdown and social distancing measures have caused considerable damage to the **hospitality** and **travel** sectors. The fact that a big share of spending in these sectors is not deemed 'essential' is likely to cause further curtailment in sales as customers cut back on discretionary spend to repair their finances over the medium term.
- The **West Midlands** could be the most heavily impacted region this year, with a 9.1% drop in output compared to 7.2% for the UK as a whole. This is due to the relatively high concentration of automotive and other transport manufacturing industries in the region, which are expected to be hit hard by the pandemic.
- Despite heavy government support, the current crisis is having a material impact on the labour market. Lockdown restrictions imposed to combat the pandemic created a weaker economic environment which could see the **unemployment** rate averaging 8.6% this year and 11% in 2021.
- Demand will remain subdued with consumers spending less – partly because they're unable to and partly because they are less willing to – until the threat of infection is eliminated. Rising unemployment will also reduce wage pressures. The weak economic environment is likely to keep **inflation** low, at just 1% this year and 0.8% next year.
- With inflation well below the Bank of England's target and the economy, including the labour market, reeling from the effects of the pandemic, monetary policy is likely to remain accommodative until at least the end of 2021. This means **interest rates** are likely to stay at their lowest level of 0.1% while the Bank of England continues with its programme of quantitative easing.



GDP growth in alternative scenarios

Real GDP index



* Figures for GDP, consumer spending, investment and inflation represent % change on previous year. Interest rates are quoted as of the end of the year.

COVID-19 pandemic

Over the past three months, COVID-19 has become one of the most significant global pandemics in history. By early June, the pandemic had spread to 213 countries and territories: there were more than six million cases and 388 thousand deaths globally. It's likely the number of reported cases is underestimated, especially in developing countries where they have a reduced ability to test suspected cases of the virus.

With no vaccine or effective treatment available so far, most governments recognise that non-pharmaceutical interventions, like rigorous social distancing, are key. By May 2020, estimates suggest that governments had instructed over a third of the world's population to stay at home at one time or another. This was an extremely costly response. It's one that no country can afford to enforce for too long.



Major economies started to ease lockdown measures as the number of cases declined

Most countries in the developed world have passed the initial peak of the pandemic. Major economies in East Asia, Western Europe and North America have started to ease restrictions, despite continuing concerns about the possibility of a second wave.

China and South Korea, which saw the earliest outbreak of the pandemic, appear to be the furthest ahead on the curve. Imposing the most stringent social distancing measures since January, China appeared to be able to suppress the spread of the disease by April. After putting much of the rest of the country back to work, China lifted the quarantine of the city of Wuhan, the original epicentre of the pandemic, on 8 April. Although schools, workplaces, hotels and restaurants are now allowed to open, strict public health measures – including contact tracing mobile phone apps, masks and temperature checks, disinfection of public spaces and restriction of international travel – are likely to remain in place for the near future. Official data suggests that these measures, so far, are quite effective in preventing a second wave, but the longer-term results are yet to be observed.

South Korea did not impose a widespread lockdown, but, with a combination of extensive testing, contact tracing and strict quarantine measures, was also successful in bringing down the number of new cases from its peak in early March to single digits by mid-April. However, the subsequent move by the South Korean government to ease restrictions was not as smooth as hoped. New clusters of outbreaks re-emerged in early May. Though the scale of the outbreaks was quickly contained, they reinforced the fear that looser restrictions risk a second wave of the pandemic.

South Korea is further ahead than most of Western Europe on the curve. Italy saw its daily number of cases peak in late March. Other major European countries, including Germany, France, Spain, Belgium and Netherlands, saw their peak in April. Lockdown and social distancing measures imposed in major Western European countries were generally successful in bringing the number of cases down by early May. Since then, major Western European governments introduced plans to ease their lockdown measures.

With one of the lowest fatality rates in Europe, Germany was among the star responders to the pandemic. After 20 April, it allowed shops with a retail space of up to 800 square metres to reopen with additional hygiene measures, gradually followed by other public spaces, such as museums, monuments and schools. Although there have been some small clusters of new outbreaks at high risk facilities since, such as meat processing plants and refugee housing, their scale was limited. Overall, the number of new infections reported is falling.

As the number of cases are contained, major economies are on track to ease restrictions, although there remain questions over how far this can go.

On 4 May, Italy, one of the worst hit countries by the pandemic, moved from its nationwide lockdown to a phase two response. This allowed manufacturing industries and construction sites to get back to work, while keeping schools and shops closed. Shops, museums and libraries were allowed to reopen from 18 May, followed by hairdressers, bars and restaurants on 1 June. The number of new cases has continued its downward trend following the limited loosening of restrictions.

France also started easing its lockdown at a similar time. Schools and most businesses were allowed to reopen after 11 May. The plan to lift the lockdown cut the country into two: a red zone (the densely populated regions around Paris); and the green zone (the more sparsely populated parts of the country). Restrictions were loosened in the green zone first, with secondary schools, cafes and restaurants reopening from early June.

Other Western European countries, including Belgium, the Netherlands, Spain and Switzerland set out their own phased plans to ease restrictions around similar time.

Unlike China and South Korea, most Western European governments revealed plans to ease restrictions long before they were able to suppress the number of daily new reported cases to single digits. We have not observed significant surge in infection rates following the early easing of restrictions, but it is still too early to tell if the risk of a second wave has been forestalled.

The US now leads the world in the number of COVID-19 cases and deaths reported, yet concerns about the need to get the economy back on track mean it is not behind Western European countries in easing restrictions. Here, circumstances vary considerably by state: some governors eased restrictions earlier than others. While most US states introduced plans to lift their lockdown orders by the end of April, New York, the hardest-hit state, chose to keep the stay-at-home order in place at least until 13 June. The recent protests over the death of George Floyd may further complicate the reopening plans.

UK phased plan to recovery

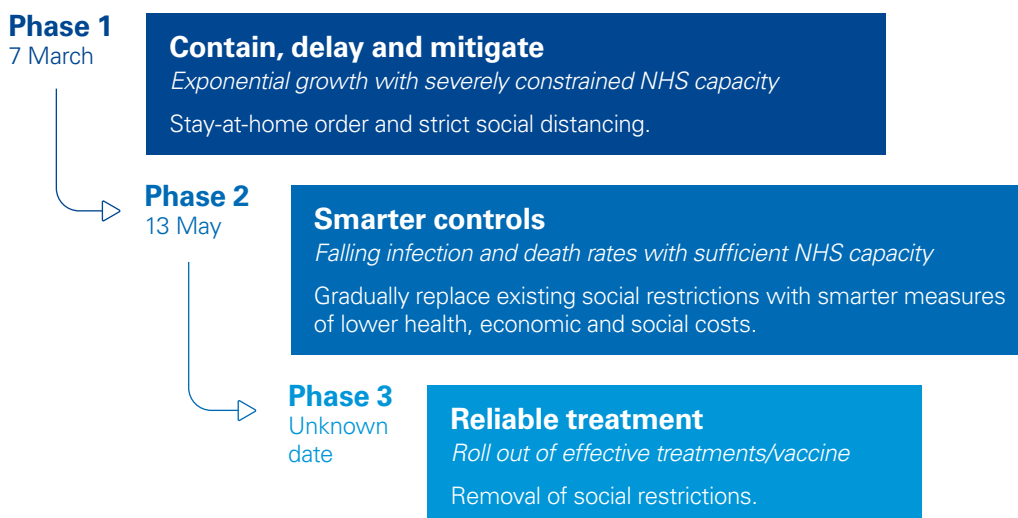
The UK Cabinet Office has published a phased recovery plan. Phase one started in March, when the epidemic was on track to reach an exponential growth that could overwhelm the NHS if not contained. Over a period of around 10 weeks, the government imposed tough lockdown measures to slow the spread of the disease. By 9 May, there were no regions in the country where the epidemic still appeared to be increasing.

From 13 May, England entered phase two¹ of its recovery plan. This involves the government gradually replacing tough social restrictions with smarter measures of lower health, social and economic cost. These measures are still helpful for controlling the epidemic.

Rolling out effective treatments and a vaccine will allow the UK to move onto phase three, when most of the social restriction measures can be removed. It is difficult to forecast the timing of phase three. It is highly likely that phase two, with limited social distancing measures, will be kept in place at least for the rest of this year.

Life under phase two is guided by the government's roadmap to lift restrictions step-by-step. This will see a gradual loosening of restrictions, starting with outdoor venues. From 1 June, England has entered step two, where people are allowed to gather in up to groups of six in outdoor spaces. If progress is good, the UK will transition from widespread social restrictions to more reactive and localised measures by the summer.

Figure 1: The UK's phased recovery



Source: HM Government, *Our Plan to Rebuild: The UK Government's COVID-19 recovery strategy*, May 2020.

Even after some restrictions are removed, life is unlikely to be fully back to normal. Throughout phase two, people must help minimise the spread of the disease by limiting social contact, reducing exposure of the vulnerable and following good public hygiene practices. Some measures that will continue to stay in phase two include:

- Following a set of 'COVID-19 Secure' guidelines setting out the standards for safety in workplaces and public spaces. Examples include the use of face coverings in enclosed public areas such as on public transport, restrictions on international travel and more remote working.
- Shielding specific groups considered clinically extremely vulnerable to the disease.
- Expecting people who are showing symptoms, however mild, to self-isolate at home.
- Tightening restrictions again if evidence suggests there is a resurgence of the spread.

Table 1: Highlights of the UK roadmap to lift restrictions

	Step 1	Step 2	Step 3
(Expected) Start date	13 May	1 June	4 July
Work	All workers who cannot work from home should travel to work if their workplace is open	Gradually allow non-essential commerce to reopen, as well as potentially some outdoor hospitality venues	Open as many businesses and public places as the data and information at the time allows, including personal care (such as hairdressers and beauty salons) and hospitality (such as food service providers, pubs and accommodation)
Schools	Encourage vulnerable children and the children of critical workers to attend school	Open for some primary school children and those preparing for key exams	
Travel	Everybody (including critical workers) should continue to avoid public transport wherever possible	Re-opening more local public transport in urban areas, subject to strict measures	
Public spaces	People can use outdoor open spaces subject to social distancing	Permitting cultural and sporting events to take place behind closed doors for broadcast	Open at least some closed-door public places (such as places of worship) and leisure facilities (like cinemas)

Source: HM Government, *Our Plan to Rebuild: The UK Government's COVID-19 recovery strategy*, May 2020.

A vaccine may be available by the end of the year

The time when the UK can move to phase three depends on the availability of an effective vaccine or treatment.

Major economies are racing to develop a vaccine. The WHO Landscape of COVID-19 Candidate Vaccines on 22 May lists ten registered candidates for clinical trials and another 114 candidates in pre-clinical evaluation.

The international scientific community has joined forces on an unprecedented scale to shorten the time required to deliver a solution. The earliest mover is the Institute of Biotechnology, Academy of Military Medical Sciences, China. It has finished a Phase I clinical trial of its COVID-19 vaccine with positive results published in *The Lancet* on 22 May. The results of a Phase II clinical trial should be ready by December 2020². Some close followers, including BioNTech and Pfizer (from Germany and the US respectively)³, National Institute of Allergy and Infectious Diseases (US)⁴, and Inovio Pharmaceuticals and Coalition for Epidemic Preparedness Innovations (South Korea and the US respectively)⁵, have also started Phase I clinical trials. On a global level, we expect to see reports on the Phase II clinical evaluation of more than one candidate vaccine by the end of this year.

Governments have placed high hopes on the development of a vaccine or more effective treatments to put an end to the deadlock in the global fight against the pandemic. Dr Gao Fu, the head of the China Centre for Disease Control, estimates that China may be able to roll out a vaccine among certain special groups before the end of the year.

In the UK, AstraZeneca has joined forces with Oxford University. One candidate vaccine started its Phase II clinical trial in May. At the daily news conference on 17 May, the Business Secretary Alok Sharma also raised plans to roll out a vaccine by mid-September if the trials are successful. This puts the UK ahead of most other countries in the vaccine development timeline.

The projected timelines represent the most optimistic scenario. There is no guarantee that a successful vaccine can be found, and even if one were found, vaccines historically take years to develop. Governments around the world are trying to speed up the process by offering regulatory support, research funding and manufacturing subsidies. The UK government has announced plans to mass-produce the Oxford vaccine before its clinical trial ends, so if the trial proves successful, dosages would be available for the UK population straight away.

Even if a vaccine is available, it may not be able to eradicate the pandemic. There are risks that the vaccine may not confer long-lasting immunity, may not be safe for the entire population, or may not be effective when the virus mutates. If a vaccine cannot protect enough of the population over a significant period of time to create herd immunity, we may have to live with some necessary restrictions even afterwards.

The time frame for developing an effective treatment is also highly uncertain at this stage. The World Health Organization (WHO) has launched the 'Solidarity Trial', a programme of internationally coordinated clinical trials to help find an effective treatment for COVID-19⁶. There are four prospective treatments covered by the Solidarity Trial:

- Remdesivir
- Hydroxychloroquine
- Lopinavir with Ritonavir
- Lopinavir with Ritonavir plus Interferon beta-1a.

The results of the clinical trial for Remdesivir so far suggest that it helps diminish the time to recovery for hospitalised patients by a modest degree. There is no clear indication that it helps reduce mortality. The WHO called for a temporary pause of the trial for hydroxychloroquine, after a study raised concern over its safety, and the trial resumed on 3 June. Studies on Lopinavir/Ritonavir have also been inconclusive.

² <https://www.clinicaltrials.gov/ct2/show/record/NCT04341389>

³ <https://www.clinicaltrials.gov/ct2/show/record/NCT04368728>

⁴ <https://www.clinicaltrials.gov/ct2/show/record/NCT04283461>

⁵ <https://www.clinicaltrials.gov/ct2/show/record/NCT04336410>

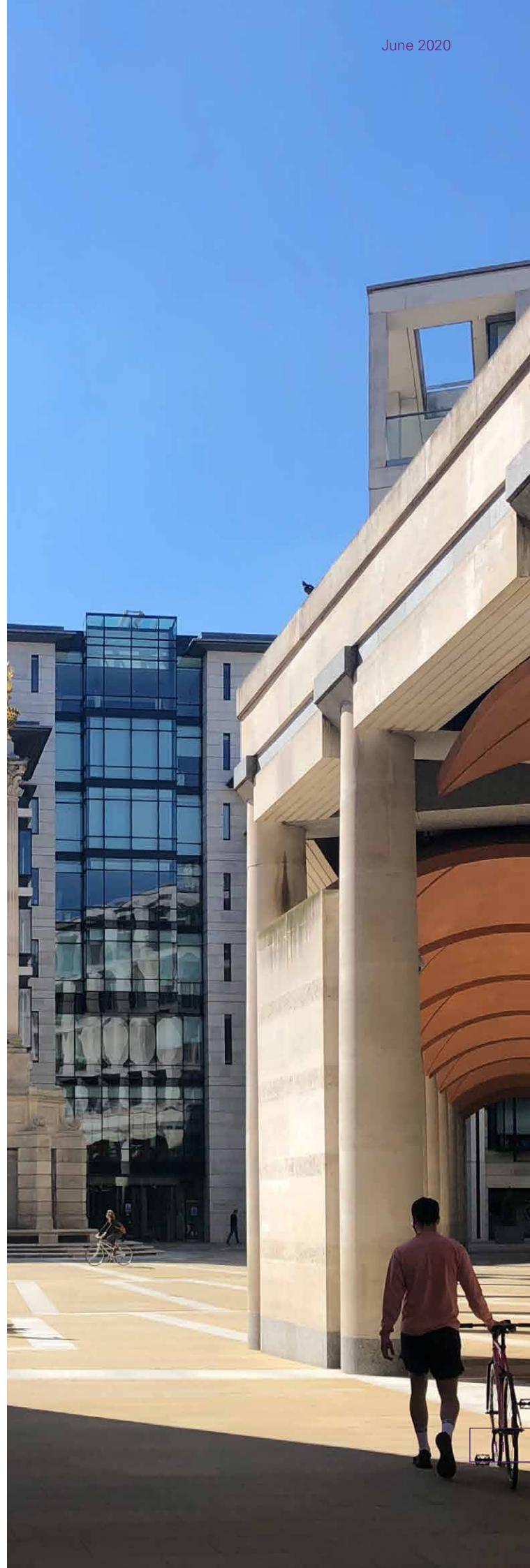
⁶ <https://www.who.int/emergencies/diseases/novel-coronavirus-2019/global-research-on-novel-coronavirus-2019-ncov/solidarity-clinical-trial-for-covid-19-treatments>

Pandemic scenarios

Taking into account the limited information available at present, we have generated four scenarios:

- In the upside scenario, an effective vaccine and/or treatment will be found by September this year, allowing the UK to remove most social restrictions from Q4. This is the most optimistic scenario possible but the likelihood of achieving this timeline is low.
- In our base I scenario, a vaccine will be available by the start of next year, after which most social restrictions can be removed. There are around a dozen candidate vaccines already enrolled in clinical trials. By the end of this year, we expect most of them to be able to report the results of their Phase II clinical trials, and possibly Phase III if the timeline is compressed. We consider the probability that at least one of them will be able to demonstrate positive results to be medium.
- In our base II scenario, the UK will access an effective vaccine and/or treatment and remove most social restrictions from July 2021. This accommodates a longer timeline for clinical research, manufacturing and roll-out. Other than those already registered for clinical trials, there are more than 100 candidate vaccines in the pipeline that are likely to kick start with clinical trials soon. We consider the probability that we will have at least one working solution by July 2021 to be relatively high.
- In our downside scenario, there will be no effective vaccine or treatment found by the end of next year. Given the extraordinary amount of resources that governments and the international scientific community are dedicating, we consider its probability to be lower, but significant.

In our most likely scenario, we expect the UK to be able to access an effective vaccine for COVID-19 and end social distancing measures from July 2021.



Outlook for the economy from the trough of the COVID-19 recession

The outlook for the UK economy is closely intertwined with progress in combating the pandemic. While the second quarter of this year is dominated by lockdown, the gradual easing of restrictions should bring some light into more corners of the economy. However, with social distancing and uncertainty still present, a full return to normality is unlikely until a vaccine or treatment is found.

Our main scenario assumes that a vaccine will be available from July 2021. The timing of a vaccine, however, is a source of uncertainty, with major implications for the outlook for the economy. It will impact the timing and the speed of recovery, as well as the extent of any permanent damage to the economy.

In this section, we outline our main scenario in more detail, as well as explore three alternative scenarios for the next two years.

Our main scenario forecast for 2020 and 2021 – Base II

In our main scenario we assume a vaccine, which is available from July 2021, enables all social distancing measures to be removed and pandemic-related uncertainty to dissipate by August 2021.

Table 2: KPMG forecast – main scenario

	2019	2020	2021
GDP	1.4	-7.2	2.8
Consumer spending	1.1	-9.5	1.3
Investment	0.6	-12.6	1.8
Unemployment rate	3.8	8.6	11.0
Inflation	1.8	1.0	0.8
Base interest rate	0.75	0.10	0.10

Source: ONS, KPMG forecasts. Average % change on previous calendar year except for unemployment rate, which is average annual rate. Investment represents Gross Fixed Capital Formation, inflation measure used is the CPI and unemployment measure is LFS. Interest rate represents level at the end of calendar year.

The latest data points to one of the deepest economic recessions on record, with a record fall in GDP in the second quarter of 2020. While we expect a partial recovery in the second half of the year, as the lockdown eases, a full recovery will be delayed until after a vaccine becomes available.

The nature of lockdown and social distancing restrictions has curtailed the ability of households to spend on some goods and services. Spending more time at home also means that consumption patterns and needs are at least temporarily adjusted. In addition, increased uncertainty about the future means people are more cautious in their spending, while the loss of income and increased job insecurity as unemployment rises could weaken **consumer spending** for some time. These negative forces could see consumer spending fall by 9.5% in 2020 in our main scenario and recover modestly by 1.3% next year, as a vaccine or effective treatments come too late in the year to boost spending significantly.

At the same time, businesses are grappling with two types of uncertainty. In the short-term they need to cope without knowing how long and how far the restrictions imposed to contain the pandemic will be in place. This makes it hard to count on established supply chains and to anticipate customers' demand. Added to that, most businesses recognise that the crisis is likely to unleash longer-lasting changes and some will be reluctant to invest until future direction becomes clearer. Uncertainty around Brexit is also increasingly weighing on businesses' minds. The combination of all these factors, together with the need of many businesses to conserve cash while revenues are low, could see **investment** falling by 12.6% during 2020 and recovering only marginally as it grows by around 1.8% next year.

Recovery next year could be hampered by **Brexit**. Our forecasts assume that a deal will be reached by the end of this year and this will enable the UK to trade with the EU with no tariffs or quotas and will cover some services. However, even without tariffs, some additional trade friction may not be avoided due to the need for customs and other inspections. Our forecasts therefore expect exports to fall back at the start of next year despite some recovery in UK's export markets. An end to the transition period with no deal, or with a more limited trade deal, would see a much weaker economic recovery next year.



The negative shock to the economy from the pandemic will be alleviated somewhat by the forceful response from the government and the Bank of England that will see a significant increase in public spending and further loosening of monetary policy. As lockdown restrictions are lifted, we expect a partial recovery from the second half of this year, although Q1 next year could see another contraction due to the end of the transition period with the EU. This means that **GDP** could fall by 7.2% in 2020 before rising by 2.8% in 2021.

Comparing the current recession to past economic downturns highlights how this downturn is expected to be deeper, more sudden but also relatively briefer if a vaccine can be found by July next year. This is partially because a health shock triggered the recession, rather than an imbalance in the economy. The government's considerable support, to protect households and prevent permanent scarring of the economy, also plays a role in shortening the downturn.

Chart 1: GDP forecast in our main scenario compared to past recessions

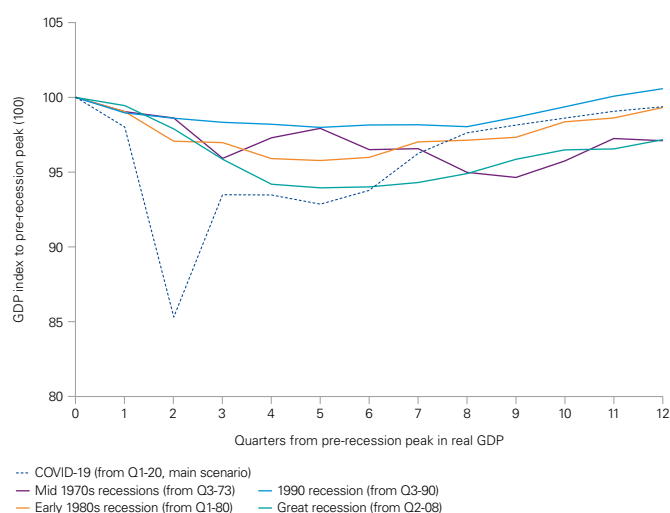


Chart 1 shows that between the peak of GDP in the fourth quarter of 2019 and the second quarter of this year, real GDP is expected to fall by almost 15%. This compares to a contraction of 6% over the course of five quarters during the Great Recession of 2008-09. We expect the recovery to be relatively rapid, considering the depth of the recession, with the previous peak of GDP in the fourth quarter of 2019 potentially reached again by the third quarter of 2023.

Alternative pandemic scenarios

The main source of uncertainty concerns the timing of the vaccine, or failing that, a range of effective treatments. Vaccine development is a risky and uncertain process; candidate vaccines may fail at any stage of the long process of development. We consider the possibility of one upside scenario, where a vaccine is available from September 2020; two base scenarios: base I, where a vaccine is available by January next year, and base II (currently our main scenario), where a vaccine is available by July 2021; as well as one downside scenario, where no vaccine is available by the end of 2021.

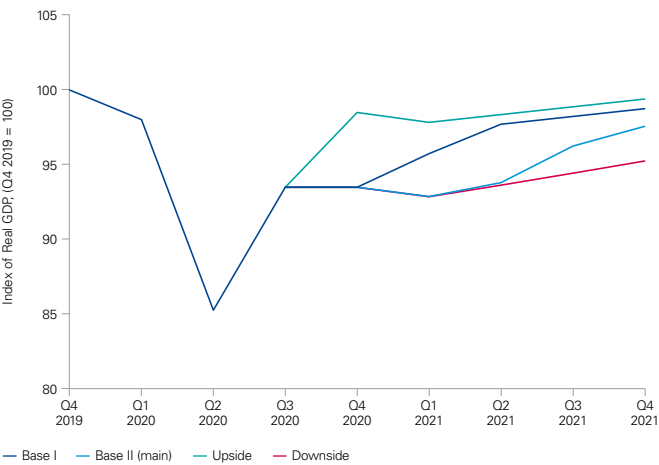
Table 3: GDP growth in alternative scenarios

	2020	2021
Upside	-5.9	4.4
Base I	-7.2	5.4
Base II	-7.2	2.8
Downside	-7.2	0.9

Source: ONS, KPMG forecasts.

If a vaccine were readily available from the fourth quarter of this year, this could turn the economy around relatively swiftly, leaving minimal lasting damage to the economy and leading to a drop in GDP of just under 6% in 2020. This is the scenario that comes closest to a V-shaped recession, which features a sharp drop in output and a similarly rapid recovery.

Chart 2: GDP growth in alternative scenarios



Source: ONS, KPMG forecasts

The other three scenarios, our two base scenarios and the downside scenario, all follow the same path during 2020, with different outcomes in 2021 dictated by our vaccine assumptions. There are two main impacts that need to be considered. Firstly, a later vaccine discovery delays the resumption of normal activity, when social distancing restrictions are lifted and people regain the confidence to return to their normal lives. Secondly, the longer it takes for a vaccine to be ready, the bigger the damage which is inflicted on the economy through the loss of businesses that were otherwise healthy and the loss of skills and links to the labour market of those who lose their jobs. These could have knock on effects on growth and productivity for many years to come.



Pandemic divides the outlook for sectors

The pandemic is not only triggering a major global recession. Its impact on businesses will be long lasting, leading to a rethink of business models in the face of supply chain challenges and changes in customers preferences. The impact is unlikely to be equally shared across sectors and businesses.

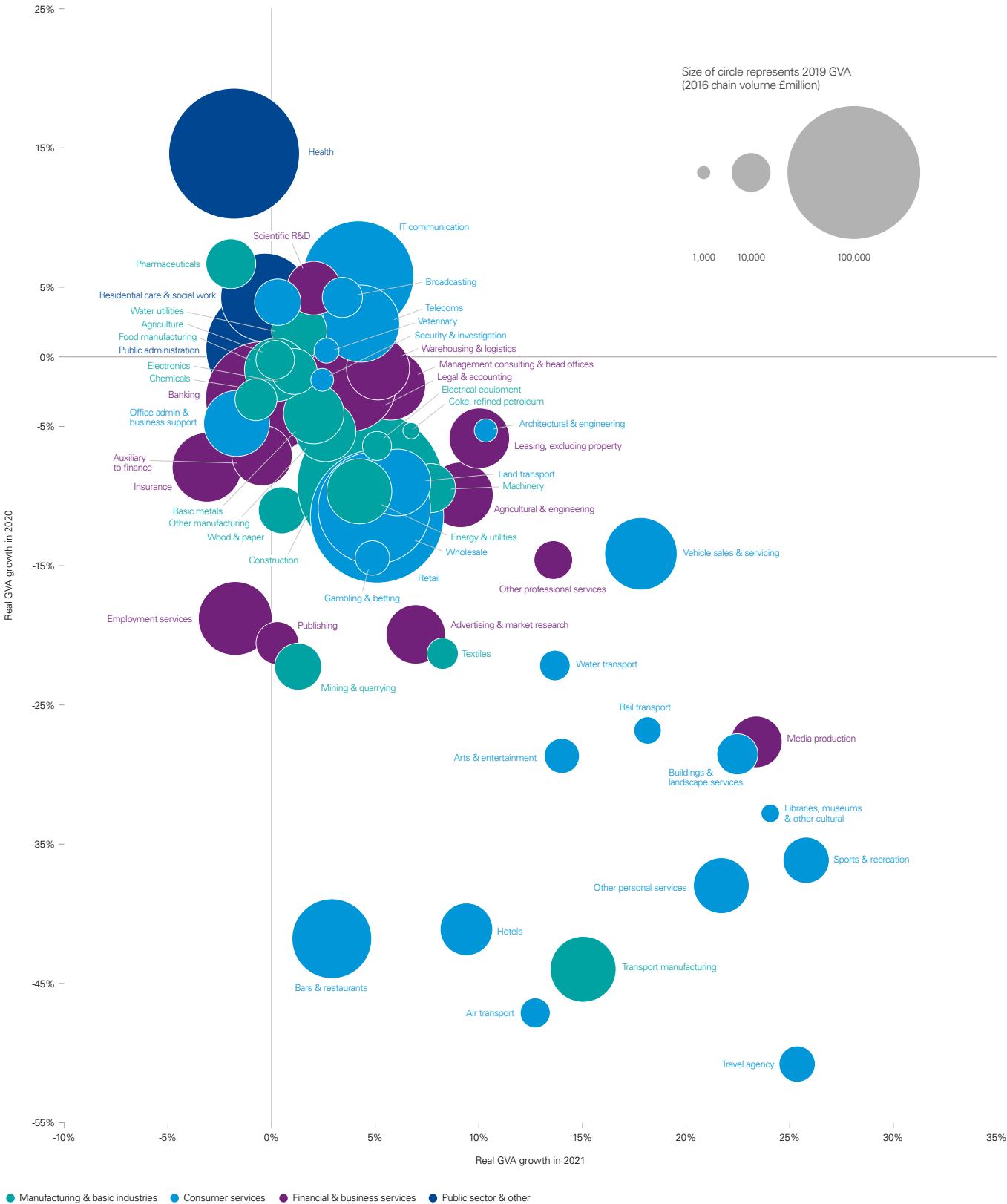
From the outset, the **hospitality** and **travel** sectors have been bearing a sizable share of the damage caused by the lockdown and the broader social distancing measures aimed at containing the pandemic. The fact that a big share of spending in these sectors is not deemed 'essential' is likely to cause further curtailment in sales as customers cut back on discretionary spend to repair their finances over the medium term. And as businesses embrace remote working and virtual meetings more permanently, the long-term prospects for business travel and associated hospitality spend are under threat.

Other sectors are likely to feel the strain from broader social distancing measures, these include parts of **manufacturing** and the **arts**, where activities are less easy to segregate. While the wider economy could see a partial recovery in the second half of 2020, once the lockdown eases, these sectors may experience a period of weak output until a vaccine is available, which we assume to be the case by July next year in our main scenario.

The recession will cause households and businesses to reassess their short-term spending. Sectors like **advertising & market research** could face weaker demand even as the need for social distancing ends by summer 2021. A more sluggish labour market could see demand for **employment services** remaining weak for a few years, while the **mining and quarrying** sector could be hampered by continued low oil prices.



Chart 3: Sector performance in 2020 and 2021



Source: ONS, KPMG forecasts

While the extent of the economic damage caused by the pandemic is still unclear, our estimates based on initial data show that output of **travel agencies** could halve this year, and **hotels** could see over 40% drop in output, assuming that increased 'staycation' holidays compensate for some of the loss of international visitors this summer (chart 3). Social distancing and quarantine measures will continue to impact passenger traffic, potentially causing output for the **air transport** sector to nearly halve in 2020, with a recovery only starting very gradually once a vaccine or effective treatments are available.

Chart 3 also shows that the hardest hit sectors in 2020 tend to see a stronger recovery next year, although most won't see a return to pre-COVID-19 output level by the end of 2021.

For the majority of **manufacturing**, the pandemic represents a major shock to supply, as factories are forced to close or to operate under constraining social distancing measures, with some also facing difficulties with supply chain. This could represent a significant, though relatively small, drop in output this year compared to the more affected sectors – in line with the overall economy. **Transport manufacturing** is one exception. Transport manufacturing linked to air and rail travel could see a significant fall in demand, on top of the difficulties associated with the need for social distancing affecting the entire supply chain. This could see the sector as a whole lose around 44% of its output during 2020. There is a potential for some limited upside in demand in auto manufacturing, at least until a vaccine is widely available, as consumers who shun public transport due to the threat of infection could opt to invest in personal transport.

Banking, one of the UK economy's largest sectors, could see a relatively modest fall in output of around 3% this year. While banks have been under pressure to relax loan repayments for the duration of the crisis, these are still accruing interest. The severity of the crisis is likely to see a rise in non-performing loans with subsequent impact on profitability. Low interest rates are also eating into margins.

Given the nature of the current crisis, some sectors have seen an increase in the demand for their services. The **healthcare** sector has seen a spike in the demand and we expect this will last until backlogs are cleared following the introduction of a vaccine. Hence, the sharp rise in the output is likely to revert to pre-COVID-19 levels only gradually in the second half of next year. The sector which perhaps has higher chances of sustaining the increased demand is **pharmaceutical manufacturing**. We estimate it will grow by nearly 4% this year. Our view is that the current crisis may encourage increased spend on preparations for the next big global health threat.

Meanwhile, industries supporting infrastructure for working and staying at home, including **IT, telecommunications** and **postal** services could see growth of up to 10% in 2020. A crisis is often a catalyst for change and the current crisis could accelerate the trend of working from home even once a vaccine is found, lifting growth in IT and telecommunications services over the medium term.

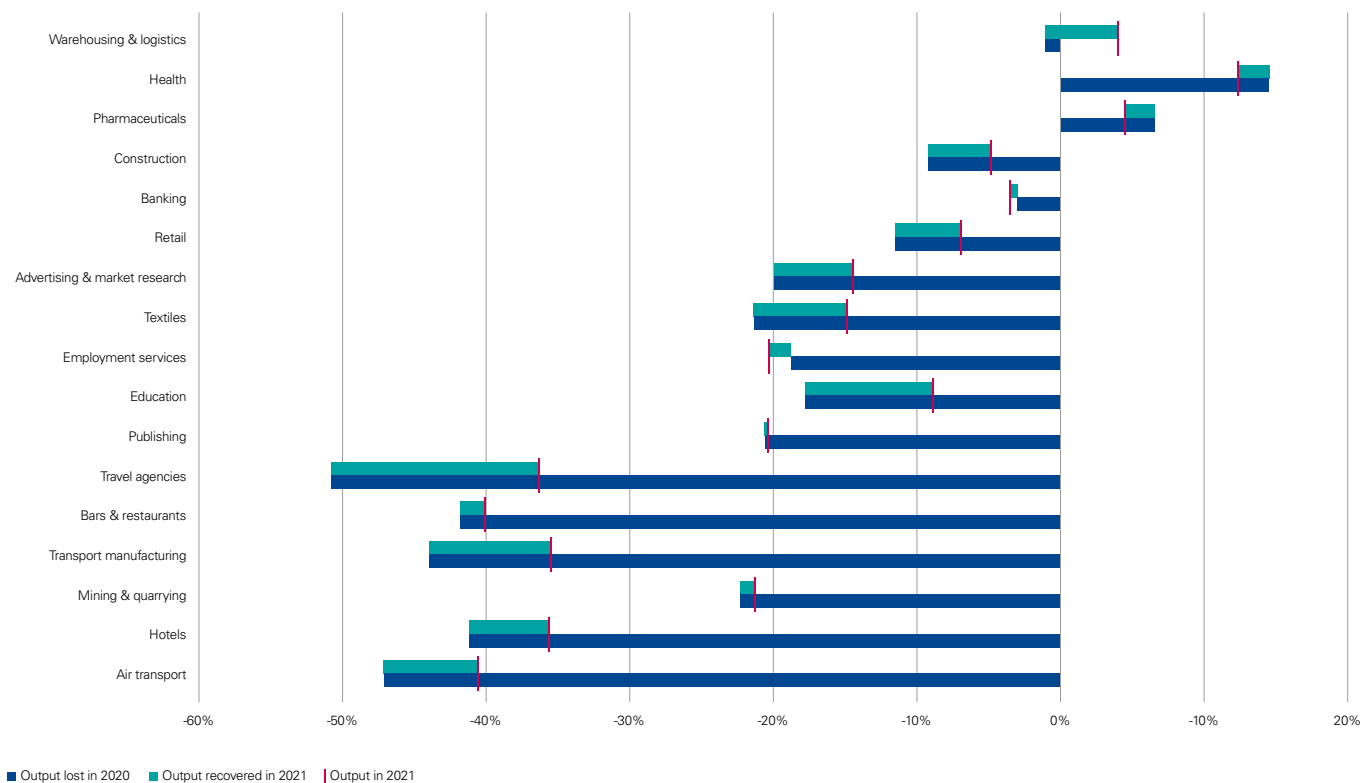
A similar trend may benefit **warehousing & logistics** and **postal** services. With a 60% surge in online retail during the lockdown, many shoppers will continue to buy their favourite products online. Furthermore, the impact of COVID-19 and the risks around Brexit have shown the vulnerabilities of just-in-time supply chains; businesses are likely to seek to build additional resilience into their supply chains. Increasing resilience is likely to bring higher costs and increase the demand for warehouse and storage space.

Another beneficiary of the lockdown is **broadcasting**, which could grow by 5% this year. It includes both on-demand streaming services as well as more traditional TV channels. There has been an increase in the number of users, as demand for home entertainment increased.

Looking beyond this year, chart 4 compares the expected output loss due the outbreak this year for a selection of sectors in dark blue with the proportion of output expected to be recovered next year in our main scenario in green. Some of the loss in output may represent permanent scarring that may never be recovered.

We expect the **education** sector to recover to about 90% of its 2019 level by the end of next year, with higher education carrying the brunt of the loss, as universities model a potential fall of up to 80% in international students and huge uncertainty about home/EU student behaviour for the start of the academic year in September. This could encourage universities to seek new sources of income, including greater collaboration with local businesses and this could greatly enhance innovation and productivity across UK regions. This may be just one example where the crisis brings about a long-term benefit for the UK economy.

Chart 4: Recovery patterns for selected sectors next year



Source: ONS, KPMG forecasts

COVID-19 crisis exposes regional vulnerabilities

Regional economies with a narrow concentration of certain industries are most at risk from the pandemic. Economies reliant on most transport manufacturing, travel and international tourism are likely to see the greatest economic damage this year. Parts of the Midlands, where there is a high concentration of automotive and other transport manufacturing industries, are likely to be highly exposed to the economic fallout of the pandemic. Towns such as Crawley in the South East, and those reliant on international tourism such as some areas of London, will also be hit.

On the other hand, areas with a high concentration of public sector employment or pharmaceuticals and food manufacturing could better weather the pandemic. Rural areas with a high proportion of agricultural output should also fare better, due to the essential nature of the industry. That is if they can overcome the challenge of attracting seasonal workers.

The location of transport and food manufacturing is shaping the regional economic impact of COVID-19. Businesses like hotels, retail and restaurants may have been hit the hardest, but they're spread more evenly across the UK so don't create such large regional economic variations. On the other hand, transport manufacturing tends to be highly concentrated: it makes up 5.4% of the economy of the West Midlands and only 0.4% of the economy of Scotland. Likewise, the relatively less impacted food manufacturing sector is heavily concentrated in Northern Ireland, where it makes up 5.2% of the regional economy.

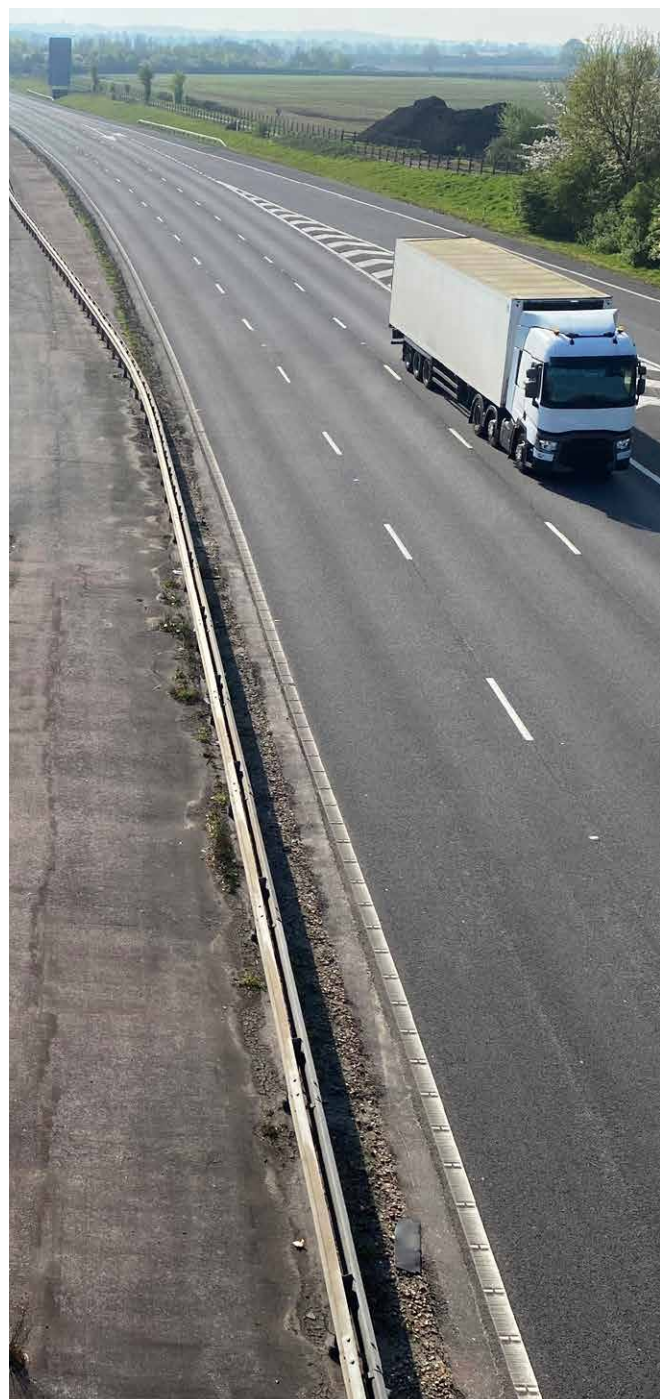


Table 4 shows the overall concentration of heavily impacted industries, as well as our forecasts for economic growth in these regions in 2020. The most heavily impacted sectors all see output fall by over 30% this year. They include sectors that rely on travel and tourism, such as hotels and travel, as well as transport manufacturers, many of which have experienced a sharp drop in demand. At the other end we expect sectors like health and pharmaceutical manufacturing, as well as postal and telecommunications to experience an increase in output this year.

The West Midlands could be the most heavily impacted region this year, with a 9.1% drop in output compared to 7.2% for the UK. The high concentration (10.3%) of heavily impacted industries located here, as well as a smaller share of the positively impacted sectors, means the overall economic impact will be significant.

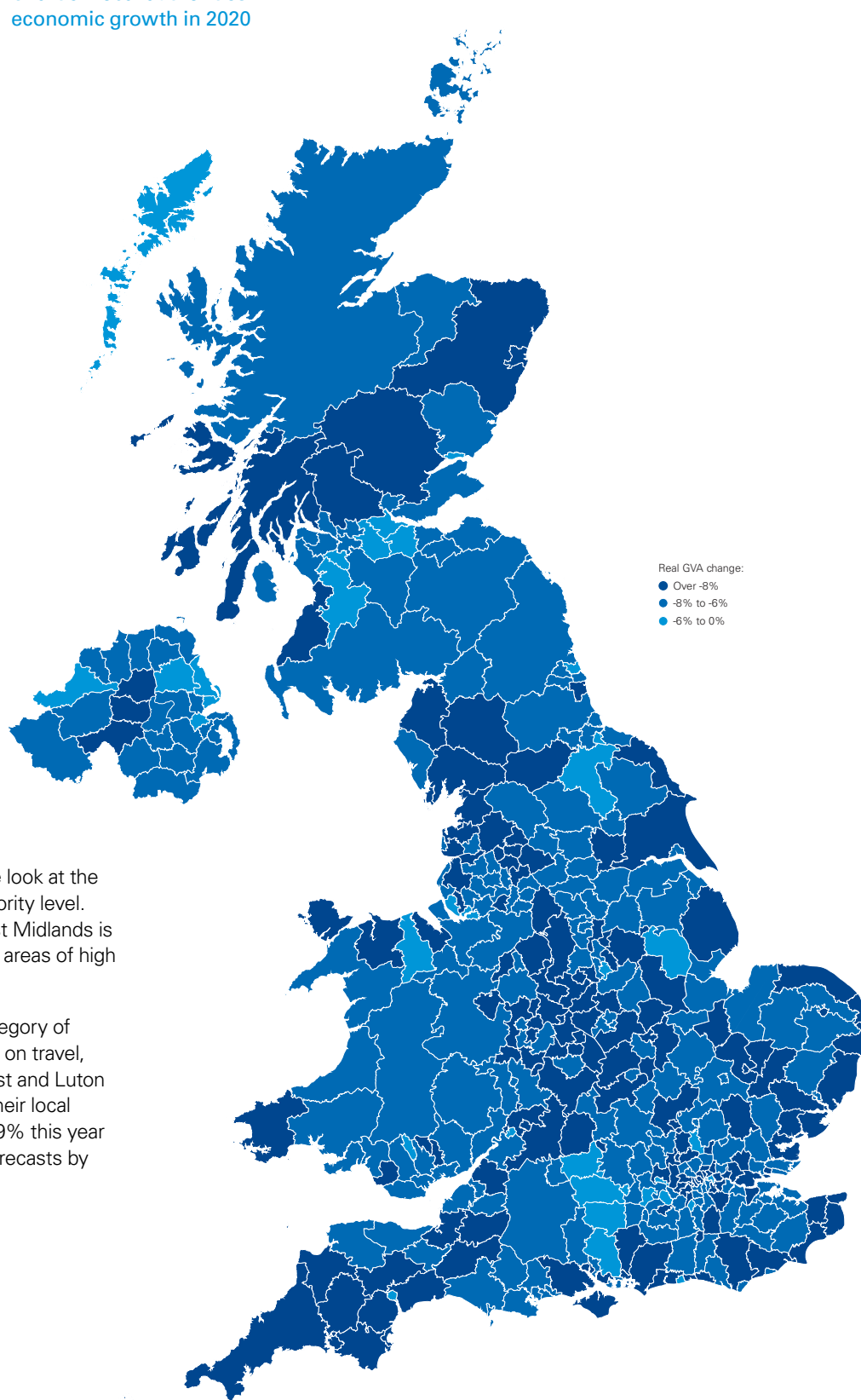
In contrast, regions such as Northern Ireland have very few badly affected sectors and a good proportion of relatively unaffected or growing sectors (e.g. food production, public sector). This should help ensure the fall in output is smaller. We forecast the region will contract by 6.4% this year compared to the UK's average of 7.2%.

Table 4: Sectoral concentration and regional forecasts in 2020

	2020 GVA growth, %	Proportion of heavily impacted sectors	Proportion of essential and least impacted sectors
West Midlands	-9.1%	10.3%	21.2%
London	-8.1%	5.8%	19.6%
East of England	-7.9%	6.1%	19.9%
South West	-7.9%	8.0%	23.0%
East Midlands	-7.8%	6.6%	20.8%
North West	-7.6%	8.1%	24.5%
South East	-7.4%	6.2%	24.6%
Wales	-7.2%	7.8%	26.5%
Yorkshire & The Humber	-7.1%	5.4%	22.3%
Scotland	-6.8%	6.1%	26.1%
North East	-6.8%	6.8%	29.2%
Northern Ireland	-6.4%	5.3%	26.3%

Source: ONS, KPMG analysis

Chart 5: Local authorities' economic growth in 2020



This picture is mirrored when we look at the economic exposure at local authority level. The high vulnerability of the West Midlands is clearly visible, although there are areas of high exposure in all regions.

Chart 5 also shows a second category of affected regions. Places that rely on travel, such as Crawley in the South East and Luton in the East of England, will see their local economies shrink by more than 9% this year (see the Appendix for detailed forecasts by local authority).



A new normal for regional cities after the pandemic

Longer term, the pandemic challenges some of the assumptions of past regional development policy. If the government is to carry on with its levelling-up ambitions, it will need to be sensitive to these changes.

People who can work from home are likely to do so more often, while businesses will look to downsize real estate requirements, replacing traditional office space with smaller collaboration workspaces. The role of city centres and the activities within them will change. Big cities will continue to have a role to play as a convening place. They're relatively easy to reach, thanks to existing infrastructure, and they have a ready supply of venues and hospitality offerings.

As businesses scale down their need for office space, this could lower the cost of real estate, meaning other tenants could step in. Universities and further education colleges will be able to expand labs and research workshops and create more spaces to collaborate with businesses and communities that are based across their region. Start-up centres could be set up side-by-side, with incubator-style support such as business and funding advice. This will help transform the wider region, increase business innovation and lift productivity. Similarly, large cities will continue to be the best home for major cultural assets, like museums and performance venues, where their use by the whole region can be maximised. This may mean a greater emphasis needs to be made on improving digital network infrastructure, while there will be less need for increased capacity on public transport during rush hour.

Labour market at the centre of the storm

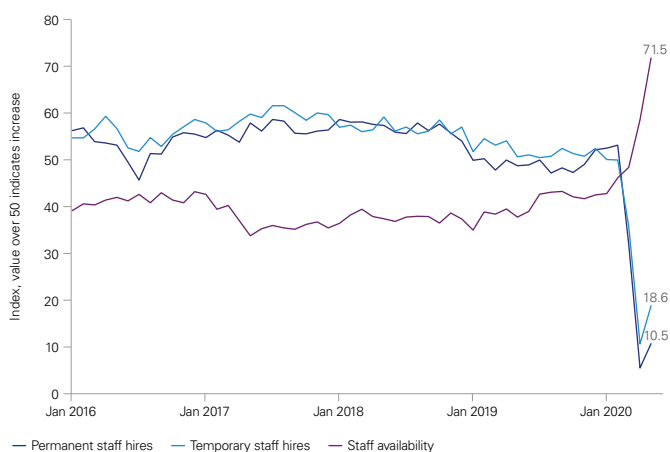
Despite heavy government support, the current crisis is having a material impact on the labour market. The restrictions imposed to combat the pandemic created a weaker economic environment which could see the unemployment rate rising until the end of the year.

While the government's Job Retention Scheme (JRS) could help shield millions of workers from redundancy, further job losses during 2020 may be inevitable as the economy adjusts to the new economic environment. In addition, it is likely that the scheme will end before employers can absorb all furloughed workers, triggering a fresh spike in unemployment later this year.

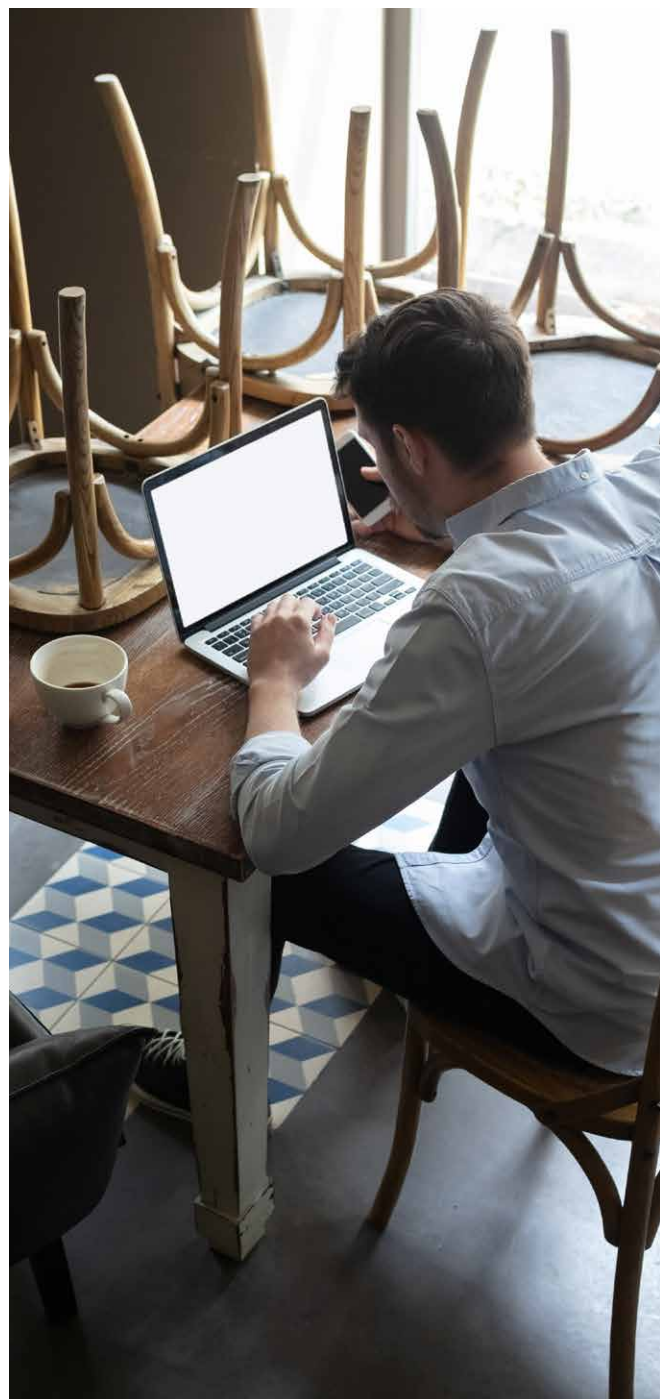
Pandemic and lockdown shock to the labour market

Data from a survey by the Recruitment and Employment Confederation (REC) and KPMG in May shows a record drop in both permanent and temporary hires. The indices for the rate of change in hiring are near their lowest ever levels, which were reached in the first full month of lockdown. There was also a major jump in the level of staff availability, which increased at its fastest pace since mid-2009. The extremely rapid deterioration in these indicators shows the scale of the shock to the labour market: new hiring is almost at a complete stop (chart 6).

Chart 6: Survey indicators show sudden stop in hiring



Source: KPMG-REC



Government measures to support workers

The government introduced the Job Retention Scheme (JRS) to protect workers' jobs. The latest data shows that over eight million employees have been put on furlough through the scheme. And while the scheme helps businesses with salary costs, a loss of revenues and cash-flow pressures mean some businesses have had to make permanent redundancies. The problem is particularly acute for the airline industry which, according to the IATA, could see a loss of 55% of global revenues this year. A number of airlines have announced large-scale redundancies this year.

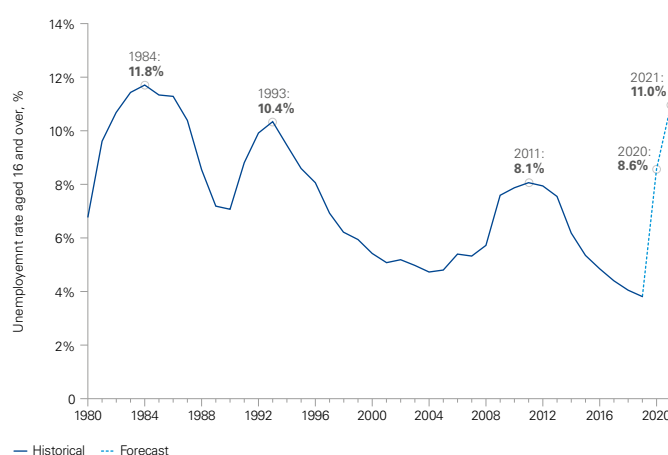
Businesses in sectors that are particularly affected by continued social distancing measures, such as hospitality and travel, may continue operating at severely reduced levels after the lockdown. Some may decide to shut altogether, letting go of all their staff, which will increase the unemployment rate.

It is inevitable that some jobs will be lost as a result of the structural changes unleashed by the crisis. The scale of the shock triggered by the pandemic is likely to make the business model of some companies obsolete. This will require an overhaul of operations including personnel requirements. But the temporary drop in demand will mean that jobs that are otherwise viable could also disappear in the medium term.

Our forecasts for unemployment over the next two years

According to our analysis, unemployment could average 8.6% this year and 11% next year, which would be the highest since 1984, when it reached 11.8%.

Chart 7: Our forecast of unemployment



Source: ONS, KPMG analysis

A new normal of low inflation and loose monetary policy

We expect inflation to stay subdued throughout 2020 and 2021, averaging just 1% this year and 0.8% next year. This is well below the Bank of England's target rate of 2%. Despite price increases of some goods in high demand, the overall impact of the pandemic has been to dampen inflation as the economy wanes. There is increased expectation that the Bank of England will intervene further to support the economy.

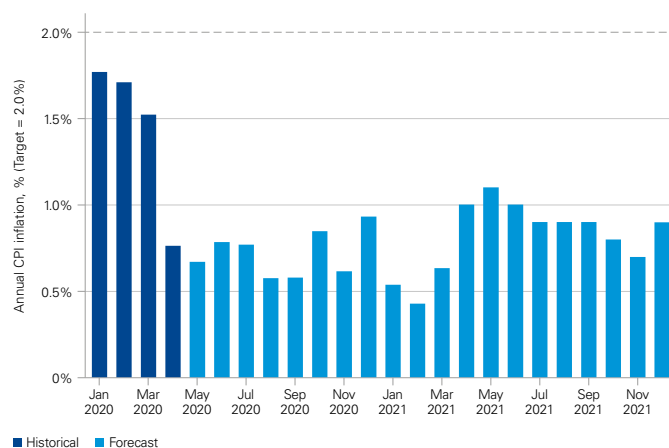
The initial drop in inflation was due to lower energy and Ofwat tariff prices in April, and these will continue to affect the annual rate until the end of the first quarter of 2021. Oil prices, which fell by almost 40% compared to the average value in February, will also have a dampening effect on inflation for the first half of this year as fuel prices and production costs drop. This could bring the annual rate of inflation down to a low of 0.4% in February 2021, before it rises again from March onwards.

Looking ahead, the weak economic environment is likely to keep inflation low. Demand will remain subdued with consumers spending less – partly because they're unable to and partly because they are less willing to – until the threat of infection is eliminated. Rising unemployment will also reduce wage pressures.

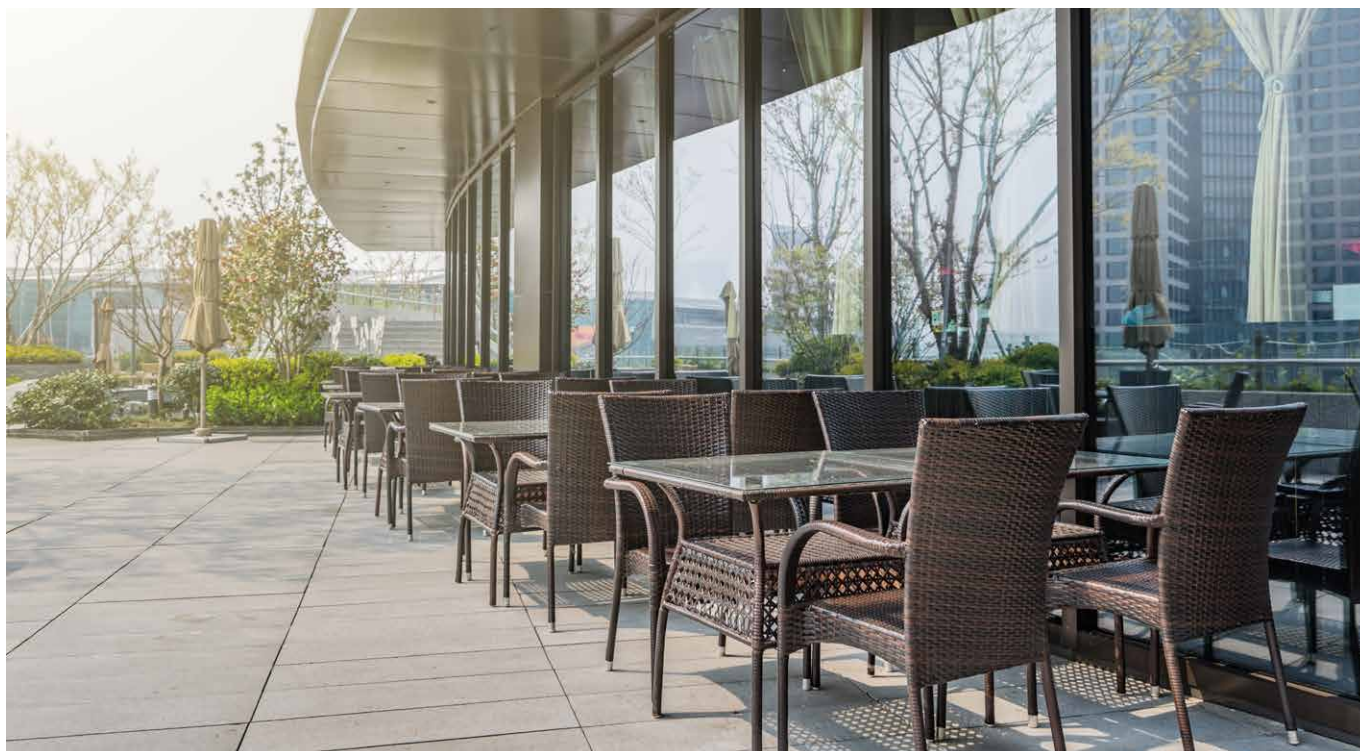
With inflation well below the Bank of England's target and the economy, including the labour market, reeling from the effects of the pandemic, monetary policy is likely to remain accommodative until at least the end of 2021. This means interest rates are likely to stay at their lowest level of 0.1% while the Bank of England continues with its programme of quantitative easing (QE).

The prospect of inflation well below target, and the level of damage the pandemic is expected to inflict on the economy, make it likely that the Bank of England will act again. One option is for interest rates to be cut further, potentially entering negative territory for the first time. While negative rates have already been used by some central banks, such as the ECB and the Bank of Japan, evidence on their effectiveness in stimulating the economy is mixed and we don't expect this in our main scenario for the UK. Meanwhile, government's response to the pandemic has relied on debt issuance, and here low interest rates and QE have been instrumental in keeping the yields on government borrowing low. It was enough to calm markets in March, when yields on 10-year gilts rose to 0.8%.

Chart 8: Our inflation forecast



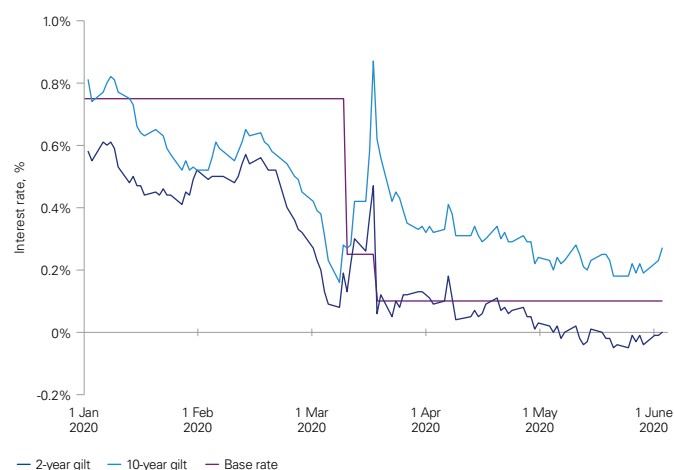
Source: ONS, KPMG forecast



In May this year, the Debt Management Office was able to issue debt at negative interest rates, with the UK selling £3.8 billion three-year gilts with a yield of -0.003%, with yields on two-year gilts also negative, while 10-year gilts were close to only 0.25%.

Interest rates will stay low while the economy continues to deal with the effects of the pandemic and operates below its full capacity.

Chart 9: UK base rate and government bond yields



Source: Bank of England and Reuters via Haver

Public finances: The elephant in the room?

The cost of supporting the UK's economy through the pandemic has reached record levels, and while borrowing has so far been aided by the Bank of England's enlarged QE programme, high public debt may be here to stay.

Lower government revenues due to weaker economic activity, combined with increased outlays, will see government finances deteriorate significantly this year. The cost of policies set up to alleviate the economic effects of the pandemic are becoming clearer as claims made to the Self Employed Income Support Scheme, for example, amounted to £7.2 billion by early June. The extension of the Coronavirus Job Retention Scheme (JRS) from June to the end of October could cost the government about £10.5 billion every month until the changes in July, when businesses have to start contributing, bringing the total cost of the scheme to around £60 billion.

As a result, the UK government's borrowing for 2020 is expected to reach the highest proportion of GDP in peacetime, at 15.2%, even larger than that seen during the global financial crisis in 2008-9 when borrowing reached 10.2% of GDP.

So far, the increased issuance of debt by the Debt Management Office (DMO) on behalf of the UK government has been more than matched by the Bank of England's (BoE) purchases through QE. Between the 1 April and 19 May, the DMO issued £90.2 billion of debt, while the BoE purchased £119.6 billion of gilts from the market, or £29.4 billion more than was issued. So in the short term, the large-scale rise in financing requirements may not pose a significant problem for the UK government.

The question is what happens further down the line. The Bank of England's objective to meet its inflation target means that its actions will stay aligned only while inflation is low. Fortunately, our base scenario expects inflation to stay below target at least until the end of 2021, so the urgency to repair public finances is not there yet.

However, without a V-shaped recovery, government revenues are unlikely to recover quickly, while increased spending will be difficult to curtail quickly. April's update by the Office for National Statistics (ONS) indicated, for example, that PAYE Income Tax in April 2020 was lower than usual due to lower earnings and employment and non-payment of liabilities.

Coronavirus support schemes

Coronavirus Job Retention Scheme (JRS)

8.7 million jobs furloughed, £17.5 billion claimed so far.

Self-employment Income Support (SEISS)

2.5 million claims worth £7.2 billion

Bounce Back Loan Scheme (BBLs)

699,354 approved loans worth £21.29 billion

Coronavirus Business Interruption Loan Scheme (CBILS)

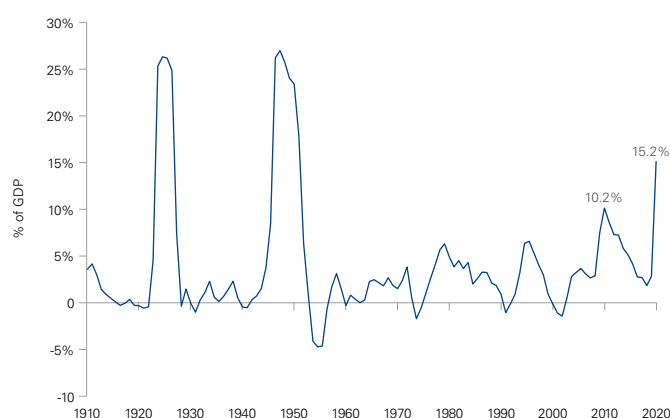
45,843 loans approved worth £8.92 billion

Coronavirus Large Business Interruption Loan Scheme (CLBILS)

191 approved loans worth £1.11 billion

Source: HM Treasury, 2 June 2020 update

Chart 10: Ratio of UK public sector net borrowing to GDP



Source: Bank of England, OBR

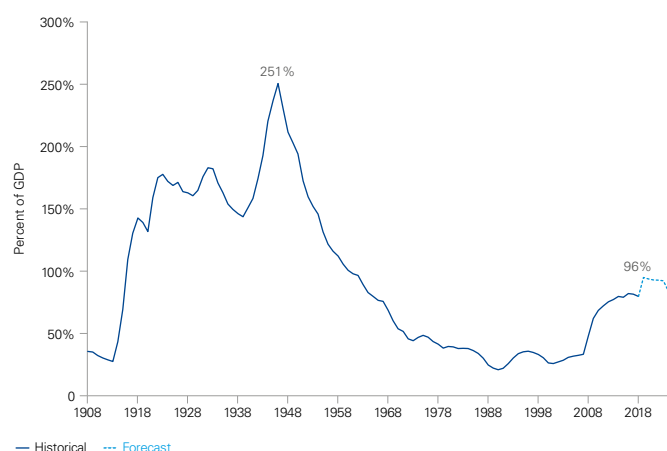
Note: Borrowing calculated for calendar years from 1900 to 1959, and fiscal years from 1959 onwards.

ONS figures show that at the end of April 2020 public sector net debt (excluding public sector banks), was equal to 97.7% of GDP due to an increase of £118.4 billion since April 2019. This constituted the largest year-on-year increase in debt as a percentage of GDP since records began in 1993. The last time the UK experienced similar levels of government debt, it took a decade to reduce it by half.

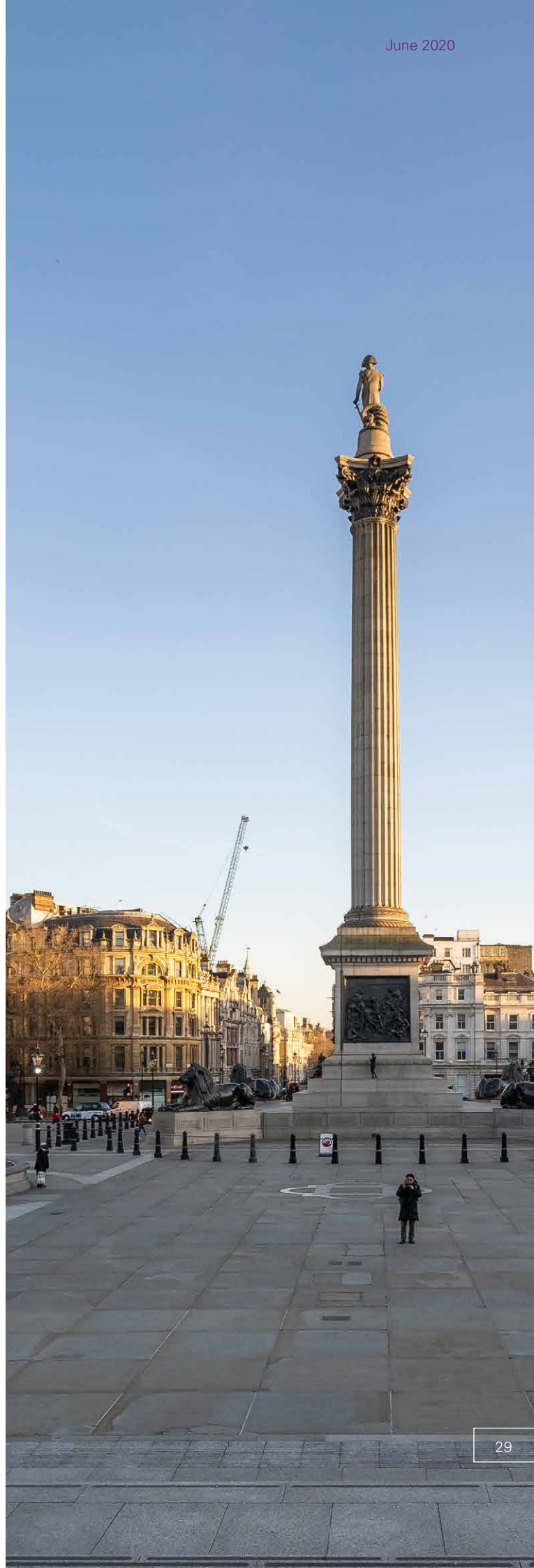
The OBR, in its May update, estimated that government debt could rise to 96% of GDP this fiscal year, the highest level since 1962-63 fiscal year. This, however, could be an underestimate. The full cost of loan guarantees for businesses is still unknown, for example. If some of these loans are not repaid, the government could end up picking up the tab for loans with a current total value of over £30 billion. Alternatively, it could opt to exchange some loans with an equity stake in the businesses.

Clearly, the policies aimed at mitigating the economic impact of the pandemic will have significant implications on public finances. Even after the health crisis has ended, the economic repercussions, including the public debt burden, will be felt for much longer.

Chart 11: Historical ratio of UK government debt to GDP



Source: ONS, Bank of England and OBR



Appendix: Local authority forecasts

Local authority	2018 GVA, £ million (nominal)	2019	2020	2021
East Midlands				
Derby	7,209	0.2%	-11.4%	4.8%
Leicester	8,216	1.6%	-6.4%	3.6%
Nottingham	11,278	1.7%	-5.7%	3.3%
Rutland	738	1.3%	-10.1%	4.7%
Amber Valley	2,688	1.1%	-7.9%	4.1%
Bolsover	1,442	1.0%	-8.8%	4.9%
Chesterfield	2,546	1.3%	-6.1%	3.9%
Derbyshire Dales	1,798	1.2%	-8.2%	3.7%
Erewash	2,005	1.1%	-9.4%	4.9%
High Peak	1,721	0.9%	-9.1%	4.3%
North East Derbyshire	1,472	1.1%	-7.6%	4.4%
South Derbyshire	1,727	0.5%	-11.8%	5.0%
Blaby	3,171	1.0%	-6.7%	3.5%
Charnwood	3,283	1.8%	-8.6%	4.7%
Harborough	2,050	1.4%	-8.2%	4.6%
Hinckley and Bosworth	2,393	1.2%	-8.7%	4.5%
Melton	1,270	0.8%	-7.5%	3.7%
North West Leicestershire	3,470	1.1%	-9.8%	4.3%
Oadby and Wigston	951	1.6%	-7.9%	4.1%
Boston	1,549	1.5%	-7.2%	3.2%
East Lindsey	2,245	0.7%	-11.3%	4.7%
Lincoln	2,758	1.2%	-6.4%	3.7%
North Kesteven	2,714	1.5%	-4.8%	3.2%
South Holland	2,006	1.6%	-6.9%	3.2%
South Kesteven	2,900	1.2%	-8.2%	4.1%
West Lindsey	1,515	1.0%	-7.8%	4.0%
Corby	1,707	1.4%	-8.3%	4.2%
Daventry	2,237	1.7%	-8.6%	4.6%
East Northamptonshire	1,579	1.4%	-9.1%	4.9%
Kettering	2,258	1.3%	-7.0%	3.6%
Northampton	7,034	1.3%	-6.5%	3.4%
South Northamptonshire	1,925	1.5%	-8.5%	4.6%
Wellingborough	1,756	1.2%	-9.4%	4.6%
Ashfield	2,664	1.0%	-7.5%	4.2%
Bassetlaw	2,557	1.3%	-6.8%	3.8%
Broxtowe	2,019	1.4%	-6.7%	3.7%
Gedling	1,570	1.1%	-9.2%	4.5%
Mansfield	1,900	1.6%	-9.3%	4.2%
Newark and Sherwood	2,470	1.0%	-8.6%	4.3%
Rushcliffe	2,174	2.2%	-6.8%	4.2%
East Midlands	108,963	1.3%	-7.8%	4.0%

Local authority	2018 GVA, £ million (nominal)	2019	2020	2021
East of England				
Bedford	5,122	1.2%	-6.2%	3.7%
Central Bedfordshire	6,508	1.2%	-9.4%	4.8%
Luton	5,678	0.9%	-12.0%	4.8%
Peterborough	6,524	1.3%	-7.4%	3.6%
Southend-on-Sea	3,682	1.4%	-6.6%	3.6%
Thurrock	3,696	1.7%	-8.4%	4.9%
Cambridge	5,566	1.7%	-7.7%	4.5%
East Cambridgeshire	1,862	1.0%	-8.2%	4.6%
Fenland	2,091	1.1%	-8.0%	3.7%
Huntingdonshire	4,786	1.0%	-6.9%	4.0%
South Cambridgeshire	4,843	1.5%	-6.6%	4.0%
Basildon	5,083	1.1%	-7.1%	4.2%
Braintree	3,426	1.1%	-7.7%	4.0%
Brentwood	2,180	1.0%	-8.0%	4.4%
Castle Point	1,146	1.4%	-9.6%	5.4%
Chelmsford	5,061	1.4%	-6.6%	3.8%
Colchester	4,967	1.2%	-8.0%	4.2%
Epping Forest	3,669	1.3%	-7.8%	4.2%
Harlow	2,036	1.6%	-6.5%	4.0%
Maldon	1,362	1.1%	-9.0%	4.6%
Rochford	1,623	1.1%	-7.0%	4.1%
Tendring	2,314	1.0%	-9.6%	4.9%
Uttlesford	2,391	1.2%	-12.4%	5.4%
Broxbourne	2,081	1.6%	-8.5%	4.6%
Dacorum	3,917	2.2%	-6.9%	4.4%
East Hertfordshire	5,399	2.1%	-6.3%	3.5%
Hertsmer	3,549	1.6%	-8.1%	4.2%
North Hertfordshire	3,418	0.7%	-7.9%	4.0%
St Albans	3,771	1.7%	-9.3%	5.3%
Stevenage	2,462	1.1%	-7.7%	3.7%
Three Rivers	2,860	1.6%	-8.1%	4.5%
Watford	4,936	3.2%	-8.8%	2.8%
Welwyn Hatfield	5,308	1.2%	-5.2%	4.4%
Breckland	3,051	1.4%	-6.5%	3.4%
Broadland	3,627	0.0%	-7.5%	1.9%
Great Yarmouth	1,941	0.8%	-8.9%	4.5%
King's Lynn and West Norfolk	3,363	0.9%	-7.6%	3.8%
North Norfolk	2,042	1.0%	-9.7%	4.4%
Norwich	5,238	1.6%	-8.4%	4.2%
South Norfolk	3,187	1.0%	-6.3%	3.3%
Babergh	1,817	0.8%	-9.0%	4.7%
Ipswich	4,046	1.0%	-7.3%	3.7%
East Suffolk	5,405	0.7%	-8.3%	4.7%
Mid Suffolk	2,262	1.0%	-7.9%	4.5%
West Suffolk	5,282	1.1%	-8.0%	4.2%
East of England	164,576	1.3%	-7.9%	4.1%

Local authority	2018 GVA, £ million (nominal)	2019	2020	2021
London				
Camden	31,520	2.6%	-9.9%	5.1%
City of London	64,327	-0.3%	-5.6%	1.4%
Hackney	10,616	2.3%	-8.9%	4.8%
Hammersmith and Fulham	11,292	3.3%	-11.9%	6.6%
Haringey	5,419	1.8%	-9.3%	4.9%
Islington	19,955	2.2%	-9.0%	4.4%
Kensington and Chelsea	10,997	2.3%	-8.9%	4.4%
Lambeth	10,121	2.2%	-7.9%	4.3%
Lewisham	4,710	2.1%	-8.4%	4.5%
Newham	8,091	2.0%	-8.4%	4.2%
Southwark	20,489	2.2%	-7.5%	4.1%
Tower Hamlets	32,331	0.3%	-5.4%	2.4%
Wandsworth	8,560	1.9%	-8.0%	4.4%
Westminster	70,229	1.8%	-8.4%	4.0%
Barking and Dagenham	4,935	1.2%	-9.7%	4.6%
Barnet	11,061	1.8%	-7.3%	4.2%
Bexley	6,038	1.8%	-7.3%	4.3%
Brent	9,401	2.0%	-7.4%	4.3%
Bromley	7,738	1.5%	-8.4%	4.4%
Croydon	8,725	1.8%	-7.8%	4.2%
Ealing	10,235	2.1%	-8.7%	4.6%
Enfield	7,342	2.0%	-7.9%	4.4%
Greenwich	5,460	2.1%	-8.7%	4.8%
Harrow	5,746	2.0%	-7.3%	4.3%
Havering	5,603	1.8%	-8.9%	4.9%
Hillingdon	12,751	2.3%	-9.7%	4.8%
Hounslow	13,744	2.1%	-10.6%	5.1%
Kingston upon Thames	5,492	2.5%	-10.9%	4.5%
Merton	6,011	2.1%	-9.6%	4.8%
Redbridge	5,788	2.2%	-7.4%	4.2%
Richmond upon Thames	6,051	2.4%	-10.9%	5.7%
Sutton	4,589	2.1%	-7.7%	4.5%
Waltham Forest	4,911	2.1%	-8.3%	4.6%
London	450,278	1.6%	-8.1%	3.9%

North East

Darlington	2,586	0.9%	-6.0%	3.2%
County Durham	8,992	1.1%	-7.1%	3.5%
Hartlepool	1,388	0.9%	-7.9%	3.6%
Middlesbrough	2,987	1.5%	-4.5%	2.8%
Northumberland	5,336	1.1%	-6.9%	3.4%
Redcar and Cleveland	2,059	1.0%	-7.6%	4.1%
Stockton-on-Tees	4,484	1.0%	-6.8%	3.7%
Gateshead	4,668	1.2%	-6.8%	3.8%
Newcastle upon Tyne	9,082	1.4%	-6.3%	3.3%
North Tyneside	4,851	1.0%	-3.9%	3.0%
South Tyneside	2,052	1.1%	-7.6%	4.0%
Sunderland	6,146	0.0%	-9.8%	3.8%
North East	54,631	1.0%	-6.8%	3.5%

Local authority	2018 GVA, £ million (nominal)	2019	2020	2021
North West				
Blackburn with Darwen	3,679	1.4%	-6.1%	3.2%
Blackpool	2,831	1.7%	-7.0%	3.4%
Cheshire East	11,540	1.7%	-7.6%	3.6%
Cheshire West and Chester	9,878	1.0%	-7.6%	3.7%
Halton	4,450	2.2%	-3.7%	0.5%
Warrington	7,041	1.7%	-7.1%	4.1%
Allerdale	1,837	1.1%	-10.1%	4.7%
Barrow-in-Furness	1,942	0.7%	-8.3%	3.3%
Carlisle	2,875	1.5%	-6.8%	3.8%
Copeland	1,603	0.6%	-6.3%	3.5%
Eden	1,241	1.5%	-10.2%	4.3%
South Lakeland	2,943	1.9%	-8.6%	3.6%
Bolton	6,365	1.3%	-6.3%	3.5%
Bury	3,885	1.2%	-7.2%	3.9%
Manchester	21,193	1.7%	-7.6%	3.5%
Oldham	4,256	1.4%	-7.5%	4.0%
Rochdale	4,231	1.3%	-8.1%	4.0%
Salford	7,662	1.1%	-6.2%	3.3%
Stockport	7,495	1.0%	-7.2%	3.9%
Tameside	3,828	1.1%	-6.6%	3.6%
Trafford	8,929	1.5%	-8.3%	4.4%
Wigan	5,411	1.5%	-7.7%	4.0%
Burnley	2,141	0.5%	-10.8%	4.6%
Chorley	1,962	1.7%	-7.8%	4.7%
Fylde	2,389	-0.6%	-17.1%	5.8%
Hyndburn	1,415	0.3%	-10.2%	4.9%
Lancaster	2,705	1.5%	-8.2%	4.3%
Pendle	1,840	0.1%	-10.3%	4.6%
Preston	4,489	1.7%	-6.8%	3.4%
Ribble Valley	1,904	-0.1%	-13.6%	4.7%
Rossendale	1,148	0.8%	-9.1%	4.6%
South Ribble	3,292	0.9%	-8.9%	4.6%
West Lancashire	2,528	1.0%	-8.8%	4.2%
Wyre	1,654	1.1%	-8.8%	4.1%
Knowsley	3,429	-0.2%	-11.7%	4.5%
Liverpool	14,294	1.9%	-5.7%	2.9%
Sefton	4,668	1.4%	-6.6%	3.3%
St. Helens	3,038	1.5%	-7.5%	4.1%
Wirral	5,156	1.3%	-6.8%	3.7%
North West	183,165	1.3%	-7.7%	3.8%

Northern Ireland

Belfast	13,532	1.7%	-5.2%	2.9%
Armagh City, Banbridge & Craigavon	3,797	1.4%	-6.5%	3.3%
Newry, Mourne and Down	2,840	1.5%	-7.4%	3.7%
Ards and North Down	2,013	1.1%	-7.5%	3.3%
Derry City and Strabane	2,710	1.5%	-5.3%	2.8%
Mid Ulster	3,240	0.3%	-9.8%	4.4%
Causeway Coast and Glens	2,165	1.6%	-7.4%	3.5%
Antrim and Newtownabbey	3,062	1.6%	-7.0%	3.9%
Lisburn and Castlereagh	3,382	0.8%	-6.9%	3.5%
Mid and East Antrim	3,310	1.4%	-5.4%	2.5%
Fermanagh and Omagh	2,150	1.5%	-6.4%	3.4%
Northern Ireland	42,201	1.4%	-6.4%	3.3%

Local authority	2018 GVA, £ million (nominal)	2019	2020	2021
Scotland				
Aberdeen City	9,022	1.0%	-8.6%	3.8%
Aberdeenshire	5,794	0.7%	-8.5%	4.0%
Angus	1,905	1.0%	-7.7%	3.8%
Argyll and Bute	1,951	1.2%	-8.6%	3.9%
Clackmannanshire	797	1.4%	-6.5%	3.3%
Dumfries and Galloway	3,412	1.2%	-6.7%	3.4%
Dundee City	4,043	1.7%	-5.4%	3.1%
East Ayrshire	2,057	1.1%	-5.9%	3.2%
East Dunbartonshire	1,568	1.6%	-7.5%	3.7%
East Lothian	1,676	2.1%	-7.2%	3.9%
East Renfrewshire	1,516	1.5%	-6.0%	3.5%
City of Edinburgh	21,173	1.1%	-6.4%	2.6%
Na h-Eileanan Siar	758	1.3%	-5.8%	3.2%
Falkirk	3,500	1.2%	-5.8%	3.3%
Fife	7,190	0.9%	-7.2%	3.8%
Glasgow City	23,360	1.2%	-6.7%	3.4%
Highland	6,400	1.4%	-6.9%	3.4%
Inverclyde	1,841	0.8%	-6.6%	3.4%
Midlothian	1,745	2.5%	-6.7%	4.1%
Moray	2,077	1.2%	-6.6%	3.3%
North Ayrshire	2,380	1.4%	-6.8%	3.2%
North Lanarkshire	7,578	1.2%	-5.4%	3.4%
Orkney Islands	636	1.3%	-7.9%	4.2%
Perth and Kinross	3,604	1.2%	-8.3%	3.8%
Renfrewshire	4,980	1.3%	-7.4%	4.1%
Scottish Borders	2,421	1.3%	-6.2%	3.3%
Shetland Islands	736	1.3%	-7.4%	4.0%
South Ayrshire	2,404	1.1%	-8.3%	4.0%
South Lanarkshire	6,507	1.1%	-6.6%	3.5%
Stirling	2,750	1.4%	-8.2%	3.2%
West Dunbartonshire	1,771	0.8%	-6.4%	3.1%
West Lothian	4,567	1.7%	-5.0%	3.6%
Scotland	142,121	1.2%	-6.8%	3.4%

South East

Bracknell Forest	4,687	2.9%	-4.5%	4.3%
Brighton and Hove	9,404	1.1%	-8.1%	3.5%
Isle of Wight	3,130	0.9%	-10.7%	4.8%
Medway	6,043	1.2%	-6.9%	4.0%
Milton Keynes	11,655	1.8%	-6.6%	4.2%
Portsmouth	6,930	1.6%	-7.3%	4.1%
Reading	7,341	2.5%	-4.4%	3.6%
Slough	5,442	2.4%	-5.4%	3.8%
Southampton	8,384	1.3%	-8.0%	4.4%
West Berkshire	7,406	1.3%	-5.9%	4.5%
Windsor and Maidenhead	5,982	2.1%	-7.8%	4.7%
Wokingham	5,519	3.1%	-6.3%	5.0%
Aylesbury Vale	4,975	1.7%	-7.7%	4.0%
Chiltern	2,389	2.0%	-7.1%	4.5%
South Bucks	2,543	1.8%	-9.6%	5.2%
Wycombe	5,848	1.8%	-6.5%	4.4%
Eastbourne	2,124	1.6%	-8.0%	4.2%
Hastings	1,988	1.3%	-6.3%	3.4%
Lewes	2,484	1.5%	-6.5%	3.8%

Local authority	2018 GVA, £ million (nominal)	2019	2020	2021
South East (continued)				
Rother	1,668	1.2%	-9.0%	4.4%
Wealden	3,189	1.5%	-8.7%	4.6%
Basingstoke and Deane	5,937	2.1%	-5.0%	3.6%
East Hampshire	3,023	1.0%	-8.1%	3.9%
Eastleigh	4,609	1.2%	-7.5%	4.1%
Fareham	3,099	1.3%	-8.3%	4.5%
Gosport	1,181	1.6%	-7.7%	4.1%
Hart	2,549	1.8%	-8.0%	4.7%
Havant	2,803	1.2%	-8.4%	4.4%
New Forest	4,941	1.2%	-8.6%	4.7%
Rushmoor	3,779	2.4%	-6.1%	4.5%
Test Valley	4,183	1.2%	-6.9%	3.8%
Winchester	5,508	1.8%	-5.5%	3.8%
Ashford	3,559	1.3%	-7.4%	4.2%
Canterbury	3,675	1.7%	-8.8%	4.7%
Dartford	3,521	1.6%	-7.3%	4.3%
Dover	2,537	1.5%	-9.7%	5.6%
Gravesham	1,899	1.7%	-8.8%	4.7%
Maidstone	4,792	1.6%	-6.8%	3.8%
Sevenoaks	3,717	1.4%	-7.7%	4.4%
Folkestone and Hythe	2,265	1.1%	-10.5%	4.9%
Swale	3,416	1.7%	-7.2%	3.9%
Thanet	2,413	1.3%	-8.6%	4.3%
Tonbridge and Malling	4,244	1.3%	-7.8%	4.1%
Tunbridge Wells	3,526	1.0%	-7.2%	3.2%
Cherwell	5,063	1.6%	-7.9%	4.2%
Oxford	6,848	2.0%	-9.4%	4.7%
South Oxfordshire	4,152	2.0%	-7.8%	4.5%
Vale of White Horse	5,041	3.2%	-4.9%	3.9%
West Oxfordshire	3,335	1.2%	-8.1%	4.7%
Elmbridge	4,103	1.8%	-8.0%	4.7%
Epsom and Ewell	2,359	1.6%	-5.4%	3.9%
Guildford	5,138	2.0%	-7.1%	4.5%
Mole Valley	3,126	1.1%	-7.5%	4.0%
Reigate and Banstead	4,897	1.2%	-6.8%	3.1%
Runnymede	3,967	2.6%	-5.6%	4.2%
Spelthorne	2,759	1.9%	-7.3%	4.7%
Surrey Heath	3,248	2.1%	-6.5%	3.8%
Tandridge	1,937	1.7%	-8.5%	4.9%
Waverley	3,381	1.9%	-8.0%	4.7%
Woking	2,935	2.0%	-9.4%	5.2%
Adur	1,305	0.8%	-8.6%	4.9%
Arun	2,740	1.6%	-9.6%	4.4%
Chichester	4,063	1.2%	-8.8%	4.1%
Crawley	5,373	1.1%	-13.8%	5.6%
Horsham	3,991	1.6%	-7.3%	4.2%
Mid Sussex	3,669	1.4%	-7.7%	4.1%
Worthing	3,517	2.0%	-3.1%	3.4%
South East	277,255	1.7%	-7.4%	4.2%

Local authority	2018 GVA, £ million (nominal)	2019	2020	2021
South West				
Bath and North East Somerset	4,538	1.3%	-8.0%	4.2%
Bournemouth, Christchurch & Poole	10,731	0.7%	-7.7%	3.4%
Bristol, City of	14,620	1.3%	-6.8%	3.7%
Cornwall	11,367	1.3%	-9.0%	4.2%
Isles of Scilly	66	1.4%	-11.2%	4.4%
North Somerset	5,217	1.3%	-7.0%	4.0%
Plymouth	5,985	0.6%	-10.1%	4.5%
South Gloucestershire	9,201	0.9%	-8.0%	4.2%
Swindon	7,017	0.9%	-7.4%	3.3%
Torbay	2,273	1.4%	-8.4%	4.0%
Wiltshire	12,258	2.0%	-6.5%	3.9%
East Devon	2,863	1.3%	-8.8%	4.3%
Exeter	5,455	1.2%	-5.5%	3.8%
Mid Devon	1,465	1.1%	-8.4%	4.2%
North Devon	2,490	1.6%	-7.4%	3.4%
South Hams	2,157	0.8%	-8.8%	4.2%
Teignbridge	2,472	1.2%	-9.9%	4.6%
Torridge	1,105	0.9%	-9.4%	4.4%
West Devon	960	1.3%	-8.3%	3.9%
Dorset	8,325	1.3%	-7.9%	4.1%
Cheltenham	3,112	1.1%	-8.7%	4.5%
Cotswold	2,640	1.1%	-9.1%	3.8%
Forest of Dean	1,418	0.9%	-7.8%	4.2%
Gloucester	3,478	1.0%	-5.7%	3.1%
Stroud	2,862	0.9%	-7.7%	4.1%
Tewkesbury	3,030	0.3%	-9.4%	4.6%
Mendip	2,452	1.4%	-9.2%	4.6%
Sedgemoor	2,427	1.1%	-8.5%	4.4%
South Somerset	3,851	0.6%	-10.0%	4.6%
Somerset West and Taunton	3,551	1.1%	-6.8%	3.6%
South West	139,384	1.2%	-7.9%	4.0%

Wales				
Isle of Anglesey	1,437	0.8%	-8.2%	4.1%
Gwynedd	2,741	1.5%	-6.7%	3.2%
Conwy	2,116	1.5%	-8.3%	3.8%
Denbighshire	2,186	1.1%	-5.6%	2.8%
Flintshire	4,004	-0.1%	-12.5%	4.1%
Wrexham	2,837	1.1%	-6.3%	2.9%
Powys	2,474	1.2%	-7.1%	3.6%
Ceredigion	1,346	1.7%	-7.6%	3.7%
Pembrokeshire	2,055	1.2%	-9.0%	4.2%
Carmarthenshire	3,189	1.0%	-7.5%	3.6%
Swansea	5,410	1.0%	-6.2%	3.0%
Neath Port Talbot	2,453	1.0%	-6.1%	3.2%
Bridgend	2,913	0.7%	-8.7%	3.9%
Vale of Glamorgan	2,110	1.0%	-7.3%	3.4%
Cardiff	10,871	1.0%	-6.4%	3.0%
Rhondda Cynon Taff	3,762	1.0%	-6.8%	3.5%
Merthyr Tydfil	1,182	0.8%	-5.8%	3.4%
Caerphilly	2,806	0.7%	-7.2%	3.3%
Blaenau Gwent	1,012	0.7%	-8.5%	3.3%
Torfaen	1,978	0.4%	-8.1%	3.4%
Monmouthshire	1,952	1.2%	-6.4%	3.5%
Newport	4,253	1.0%	-6.0%	2.9%
Wales	65,087	1.0%	-7.2%	3.3%

Local authority	2018 GVA, £ million (nominal)	2019	2020	2021
West Midlands				
Herefordshire, County of	4,334	1.0%	-7.9%	3.9%
Shropshire	6,880	1.2%	-7.6%	4.1%
Stoke-on-Trent	6,324	1.0%	-6.6%	3.8%
Telford and Wrekin	4,950	0.7%	-9.9%	3.9%
Cannock Chase	2,166	1.5%	-8.8%	4.7%
East Staffordshire	3,320	1.0%	-8.3%	4.1%
Lichfield	2,392	0.9%	-9.3%	4.7%
Newcastle-under-Lyme	2,364	1.6%	-8.6%	4.6%
South Staffordshire	2,078	0.3%	-12.3%	5.0%
Stafford	3,038	1.4%	-6.5%	3.8%
Staffordshire Moorlands	1,724	0.5%	-10.2%	4.8%
Tamworth	1,510	1.1%	-10.2%	5.1%
North Warwickshire	2,557	0.9%	-12.1%	6.0%
Nuneaton and Bedworth	2,688	0.6%	-9.9%	4.3%
Rugby	2,490	1.5%	-9.2%	4.5%
Stratford-on-Avon	4,650	-1.0%	-18.7%	6.3%
Warwick	4,763	1.4%	-7.5%	4.4%
Birmingham	27,266	1.1%	-8.0%	3.8%
Coventry	8,979	0.3%	-12.0%	5.0%
Dudley	6,066	1.0%	-7.8%	4.1%
Sandwell	6,729	0.9%	-8.5%	4.4%
Solihull	7,529	0.1%	-14.0%	5.5%
Walsall	5,742	1.1%	-8.3%	3.8%
Wolverhampton	6,075	1.0%	-7.0%	3.6%
Bromsgrove	2,551	0.9%	-9.5%	4.1%
Malvern Hills	1,675	1.8%	-7.7%	3.9%
Redditch	2,199	0.7%	-8.0%	4.5%
Worcester	3,102	1.3%	-6.8%	3.5%
Wychavon	3,504	1.0%	-7.7%	4.0%
Wyre Forest	1,759	1.0%	-9.9%	4.7%
West Midlands	141,404	0.9%	-9.1%	4.3%

Yorkshire & The Humber				
East Riding of Yorkshire	6,412	1.1%	-8.1%	3.9%
Kingston upon Hull, City of	6,771	1.5%	-6.2%	3.3%
North East Lincolnshire	3,399	1.1%	-7.3%	3.8%
North Lincolnshire	3,841	1.1%	-7.2%	4.0%
York	5,361	1.4%	-7.4%	3.6%
Craven	1,705	1.3%	-7.5%	3.1%
Hambleton	2,469	1.2%	-5.8%	3.1%
Harrogate	4,047	1.9%	-7.4%	4.1%
Richmondshire	1,063	1.7%	-8.8%	4.3%
Ryedale	1,482	1.6%	-7.6%	3.8%
Scarborough	2,051	1.2%	-9.2%	3.8%
Selby	1,881	1.2%	-8.2%	4.1%
Barnsley	4,119	1.1%	-7.0%	3.7%
Doncaster	5,558	1.4%	-7.2%	4.2%
Rotherham	4,838	1.3%	-7.3%	3.8%
Sheffield	13,432	1.2%	-6.3%	3.7%
Bradford	10,359	0.9%	-7.0%	3.6%
Calderdale	4,907	0.4%	-8.3%	3.4%
Kirklees	8,322	1.1%	-7.7%	4.1%
Leeds	23,722	1.3%	-7.0%	3.8%
Wakefield	7,873	1.4%	-6.6%	3.9%
Yorkshire & The Humber	123,612	1.2%	-7.1%	3.8%

Contact details

Yael Selfin

Chief Economist, KPMG in the UK

T +44 (0)20 7311 2074

E yael.selfin@kpmg.co.uk

Dennis Tatarkov

Senior Economist, KPMG in the UK

T +44 (0)20 7311 2210

E dennis.tatarkov@kpmg.co.uk

Weiye Kou

Economist, KPMG in the UK

T +44 (0)20 7311 5073

E weiye.kou@kpmg.co.uk

We would like to thank Zack Demchenko and Edgar Mata-Flores for their contribution to this report.

© 2020 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in the United Kingdom.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

CREATE | CRT127416 | June 2020