ARGYLL & BUTE COUNCIL

Housing Need & Demand Assessment Technical Supporting Paper 3.1

Core Output 1: Economic Impacts of Brexit and Covid-19

(Updated February 2021)

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1.0 Introduction[FK1]

In normal times, this economic overview would comprise of an analysis of economic indicators coupled with an examination of the economic landscape over time to enable robust and credible predictions of future growth or decline. The Council's Economic Development Strategy for 2019-2023 would then be considered to ascertain the economic direction for the next HNDA period. (This analysis was completed in March 2020 and can be viewed in the Economic Technical Paper 3.0). However, these are not normal times but rather times where the economic landscape is rapidly changing, being shaped by an unprecedented economic crisis caused by COVID-19 as well as enormous potential economic implications caused by the upheaval and uncertainty precipitated by Brexit. Hence, in July 2020, this supplementary economic technical paper was produced to take account of the impacts of Covid-19 and Brexit.

In terms of Brexit, the following reports have been referenced:

- Scottish Government State of the Economy report "Brexit uncertainty impacts on economic growth" 20th September 2019
- Scottish Government State of the Economy report "Brexit Impacts on Scotland's Economy" February 2020.
- Institute for Government- Implementing Brexit securing more time. May 2020
- Institute for Government -Preparing Brexit: the scale of the task left for UK business and government.17th July 2020

The Fraser of Allander Institute in a webinar, on the 6th May, laid out the current and likely future impacts of Covid-19. The Scottish Government also outlined their analysis and future forecast in the "State of the Economy Papers" published at the end of April, May, and June 2020.

The following world and UK wide reports were also taken into consideration:

- Office of Budgetary Responsibility (OBR) "Coronavirus Analysis and Commentary 2020".
- Organisation for Economic Co-operation and Development (OECD) "Coronavirus the world economy at risk 2020".
- ONS Coronavirus: The latest indicators for the UK economy and society

While the reports detailed below provided data and information at a Scottish or local authority level:

- Advisory Group on Economic Recovery (AGER)'s report: "Towards a Robust, Resilient Wellbeing Economy for Scotland: Report of the Advisory Group on Economic Recovery". Published June 2020.
- Skills Development Scotland: COVID-19 Labour Market Insights - Preparing for the 'new normal'. July 2020
- Glasgow Caledonian University's Scottish visitor attraction barometer 2019-2020.
- Improvement Service's COVID-19 data tool.

The sources section of this paper provides an inventory of the various ONS, and NRS statistics examined in this paper. In addition, this paper refers to Argyll and Bute Council's Economic Recovery Plan. The examination of all the aforementioned has enabled a relevant and timely economic picture to be developed.

2.0 Economic Implications for Argyll and Bute resulting from Brexit

Since the UK voted to leave the European Union, economic shock waves have flowed through the economy, the first of these occurred immediately after the Brexit vote when sterling fell to a 30 year low. (The markets have now seen a new low with the emergence of the Corona virus). The economic implications of such a weak pound are already being felt; in some sectors, the impacts are positive while on others the impacts are extremely negative.

On the positive side, the weak pound has initiated a rise in international tourists and increased demand for UK products. On the face of it, a weak pound increases the number of sales for exporting businesses as they became more competitive. However, it reduced profit margins, which means having to produce more to generate the same profit.

However, a wide variety of business sectors rely on imports which means that they have to absorb increased costs or pass these increases on to their customers, which will likely reduce sales. Under both scenarios, these businesses are less profitable and hence they are unable to reinvest and grow. This lack of profitability has had a knock on effects on wages, causing them to decline or stagnate. This reduction in disposal income causing further contraction in the economy as consumers are less confident and/or less able to purchase, this has been especially noticeable in the retail sector.

Although, in 2019, the country managed to avoid two consecutive quarters of negative grow and falling into a recession, the economy was very fragile. The ONS verified this precarious state saying, "While the economy had avoided a recession, GDP has flat lined between October-December 2019".

In 2019, the minority Government were unable to reach consensus in which actions they should take concerning the Country's future relationship with the European Union. This lack of political consensus made it impossible to negotiate a deal, with the EU, that parliament would sanction. This affected confidence and increased uncertainty in the markets resulting in economic stagnation in the first quarter of 2019. A new government was elected in July 2019, sporting a large majority[FK2], on the face of it, it should have provided confidence. However, the uncertainty over the trading arrangement post 2020 continued to hold the economy back and the economic condition of the country remained volatile into 2020. The new Government's first budget, the largest stimulus package since the war, promised investment in infrastructure. This stimulus package could facilitate economic growth but the protracted Brexit negotiations has caused years of low confidence. Scotland's Chief Economist stated this uncertainty has stalled investment and eroded confidence, growth in 2019 was at its slowest rate since the 'Financial Crisis' equating to 0.8% and was only half the average level over the last 30 years

(1.9%). Despite weak growth and low levels of investment, employment rates, in Scotland, in late 2019 and early 2020 were at near record levels.

The UK left the EU on the 29th March 2019 and entered into the transition period with few changes in real terms. The future economic position is dependent upon whether the country reaches agreement on a trade deal with EU, before the end of the transition period (31st December 2020). If an acceptable deal is negotiated, then the contents of the aforementioned deal will have implications for businesses depending on how frictionless the trading arrangements are and whether there are favourable tariffs. Even under a favourable trade agreement, the Scottish Government consider that Brexit will have a negative impact on Scotland's economy and will result in the loss of jobs and a considerable reduction of household income. If the Government fails to negotiate a trade deal then the UK will have to trade with the EU on WTO terms known as a "no deal Brexit". The Scottish Government estimate that a "no deal Brexit" could result in a reduction of 6.7% of UK GDP and would have severe economic implications for the country.

The Institute for Government (IfG) said in mid-July 2020 that three out of five firms had not even begun to prepare for the end of the transition period amid ongoing uncertainty about the future relationship with the EU. "Firms reeling from the economic consequences of coronavirus are poorly placed to prepare for Brexit: in many cases, in a worse position than in the months leading up to the potential no deal in October 2019."

Unfortunately, there is a real possibility that a deal will not be agreed due to the current stalemate and shortage of time. The deadline for extending the transition period has now passed so if a deal is not agreed the UK would trade with the EU on WTO terms from January 2021.

The outlook for 2021 and beyond is crucially dependent on whether there will be a deal, and if so, the shape of a deal has to be interrogated before the impacts of Brexit can be accurately forecast.

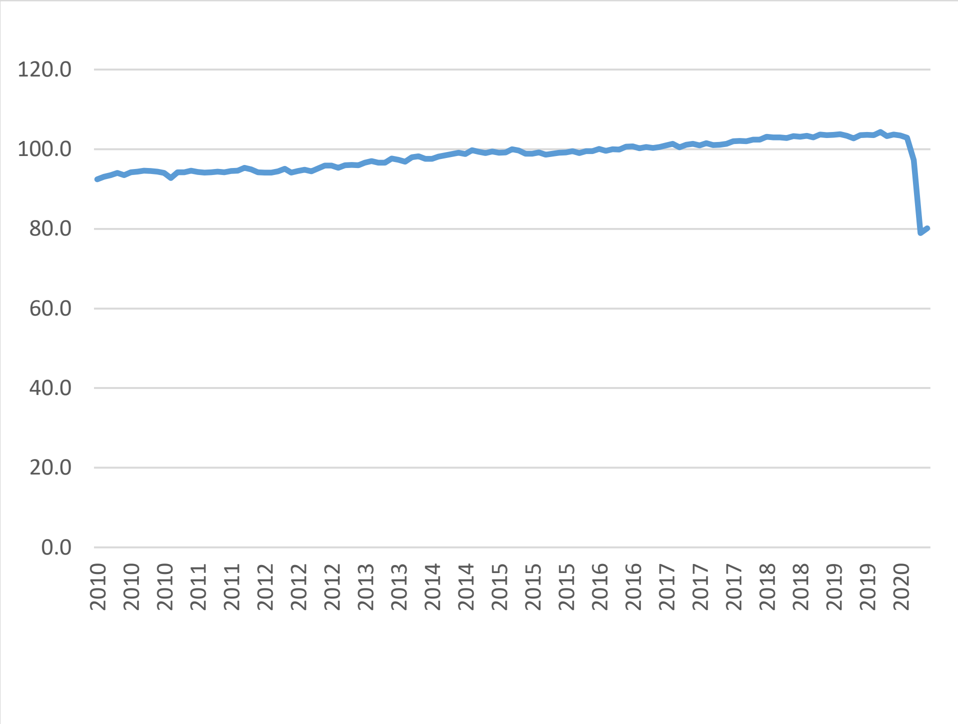
3.0 COVID-19: The national picture

The shockwaves caused by Brexit have been severe however; the economic tsunami caused by COVID-19 is unprecedented with the most severe and deep down turn on record. This is not like any ordinary economic downturn as productive, profitable and sustainable businesses have been required to close, facilitating a steeper and faster decline in economic activity than in previous downturns. In short, COVID-19 has provided a gigantic shock to the economy resulting in the following:

- In April 20[FK3]% of the workforce in place in February 2020 had been removed from the economy.
- In May 2020, the FTSE had fallen almost 30% from its January level.
- On the 15th May, the pound was at its lowest level ($1.21) against the dollar for 30 years, although it has rallied slightly it is still at a very low level ($1.25 on the 14th July).

- According to the ONS, GDP in the UK fell by 20.4% in April 2020. The Scottish Government's "Monthly Estimate" backs up this figure claiming that GDP in Scotland had fallen by 18.9% in April, which was an unpresented steep decline. (Figure 1).

Figure 1: Monthly GDP index in Scotland January 2010-May 2020



Source: Scottish Government (https://www.gov.scot/publications/monthly-gdp-may-2020/)

The situation is now improving albeit very marginally with Scotland's GDP estimated to have increased by 1.5% during May. Despite the increase in May, GDP remains 22.1% below the level in February[FK4] 2020.

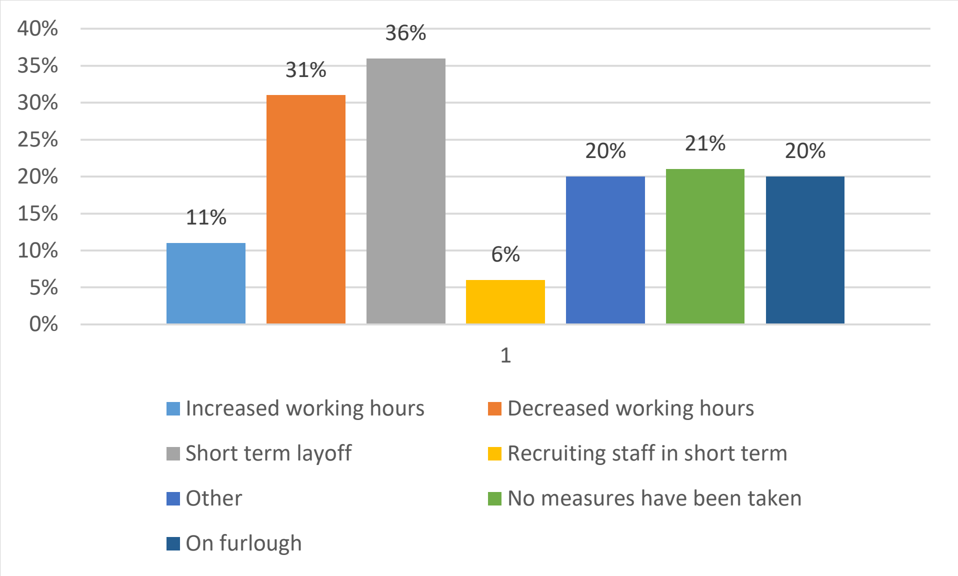
3.1 Measures taken to avoid mass unemployment

During the 'Corona virus lockdown', 36% of businesses have laid off employees as can be seen in Figure 2. Although many businesses have taken measures to prevent further unemployment[FK5], with 31% of businesses have decreased employee's hours and 20% of businesses have placed staff on furlough through the Coronavirus Job Retention Scheme (CJRS).

From August, employers have to contribute to CJRS, with the scheme being wound up completely in October therefore; there is potentially a significant amount of employees, who are currently on furlough, likely to lose their jobs. On the 30th June[FK6] 2020, according to Skills Development Scotland, 736,500 jobs in Scotland were furloughed. This equates to 30% of the eligible workforce in Scotland and is in line with the UK which has 31% of the workforce furloughed To mitigate against a steep rise in unemployment when

CJRS ends, the Government have announced a 'Job Retention Bonus' scheme where employers receive £1000 for each employee they retain.

Figure 2: The measures that employers have taken to manage their employees between the 4th and 17th May 2020.

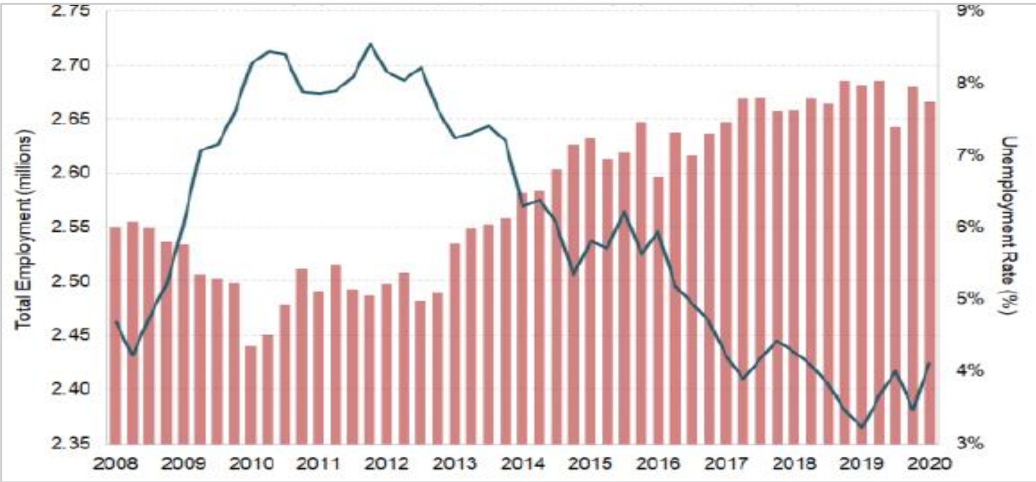


Source: ONS BICS survey

3.2 Unemployment rates

According to data published by the ONS on the 16th June, 2020 Scotland had a higher rate of unemployment (4.6%) than the UK as a whole (3.9%). Despite this as well as being in the midst of an economic crisis the current rate of unemployment, in Scotland, is lower than the levels of unemployment in 2012. In fact, Figure 3 shows, the unemployment rate in 2012 was more than double the 2020 level at over 8%. While in 1992, Scotland had an unemployment rate of nearly 11% so by this measure the unemployment rate remains low. However, this figure could surge in August when employers have to contribute to the CJRS and escalate yet further in October with the CJRS ends.

Figure 3: Employment and Unemployment rates in Scotland from 2008-2020

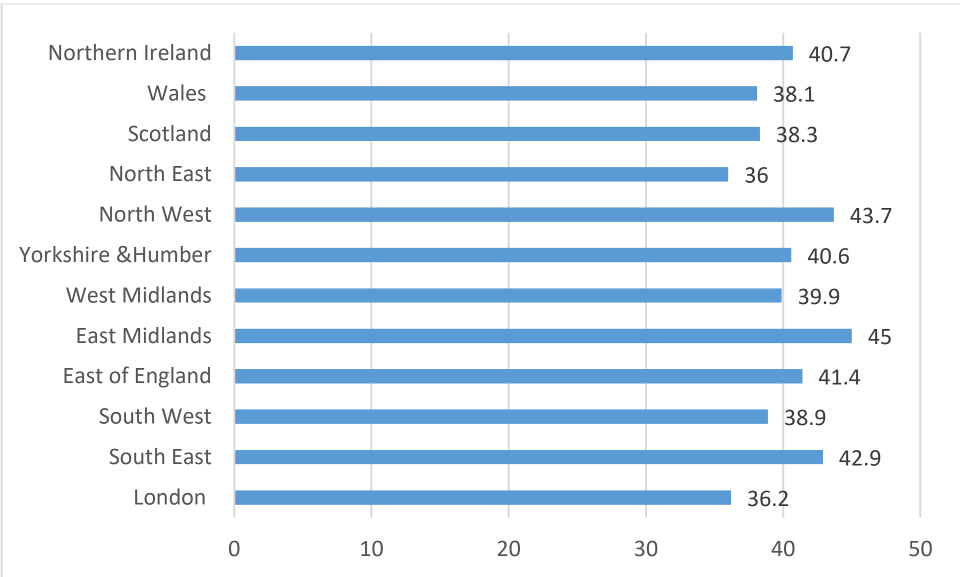


Source: Scottish Government

3.3 Employment levels

In May 2020, the Purchase Managers Index (PMI) showed Scotland had the third lowest decrease in employment according to Figure 4.

Figure 4: PMI Employment Index for June 2020



Source: PMI by "HIS Markit report"

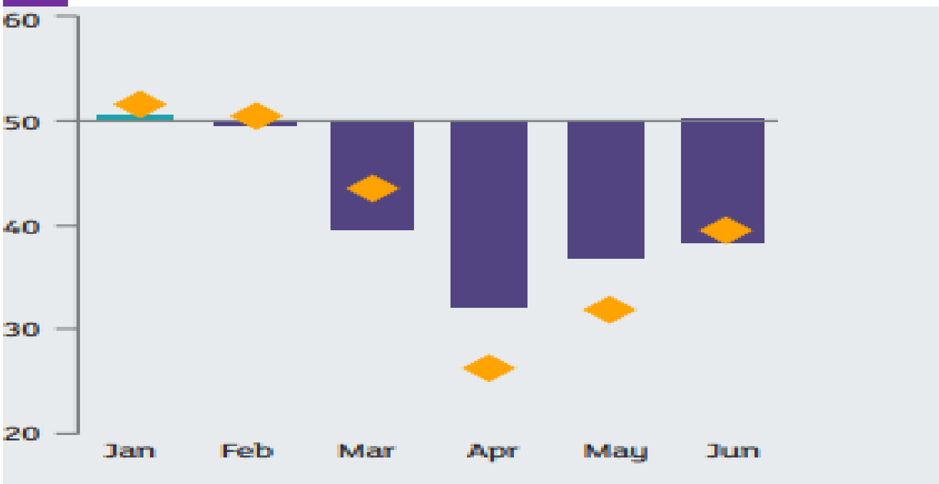
Figure 5, shows that Scottish businesses have retained more staff than businesses in the UK as a whole. Although firms continued to reduce staff levels in June, the rate of reduction has been slower than in previous months.

Figure 5: Employment Index in June 2020 for Scotland

Key:

Y- axis is UK Composite Output Index value for the UK [1]

Y-axis is Scotland Business Activity Index [2]

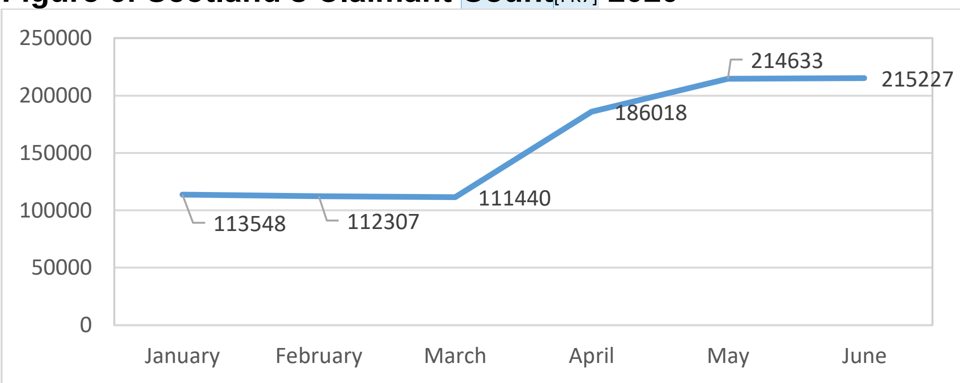


Source: Skills Development Scotland (originally from PMI Employment Index data).

3.4 Claimant Count [3]

Figure 6, shows that in June, Scotland’s claimant count continues to increase, albeit at a slower rate than in the previous two months.

Figure 6: Scotland’s Claimant Count[FK7] 2020



Source: ONS Claimant Count (not seasonally adjusted) experimental series[4].

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[1] The Scotland Business Activity Index is comparable to the UK Composite Output Index.

[2] The Scotland Business Activity Index is comparable to the UK Composite Output Index.

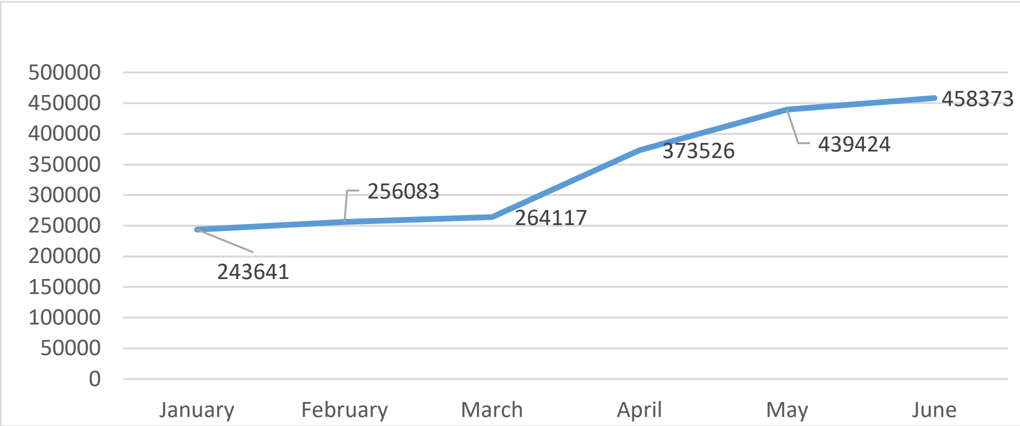
[3] “The Claimant Count is the number of people claiming benefit principally for the reason of being unemployed. This is measured by combining the number of people claiming Jobseeker's Allowance (JSA) and National Insurance credits with the number of people receiving Universal Credit principally for the reason of being unemployed. Claimants declare that they are out of work, capable of, available for and actively seeking work during the week in which the claim is made.” **Nomisweb.co.uk**

[4] This experimental series counts the number of people claiming Jobseeker’s Allowance plus those who claim Universal Credit and are required to seek work and be available for work

3.4 Universal Credit

The number of people claiming Universal Credit almost doubled from 243,641 in January to 458,373 in June as is portrayed in Figure 7.

Figure 7: Number of Universal Credit Claims in Scotland 2020



Source: Department for Work and Pensions (DWP)

The rate of monthly increase has not be equitably split between months as can be seen in Table 1. Between March and April, there was an unprecedented rise of 29% in the number of claimants. Following this, in April and May, was a further steep but less significant rise of 15%, preceded by a slower rise of 4% between May and June.

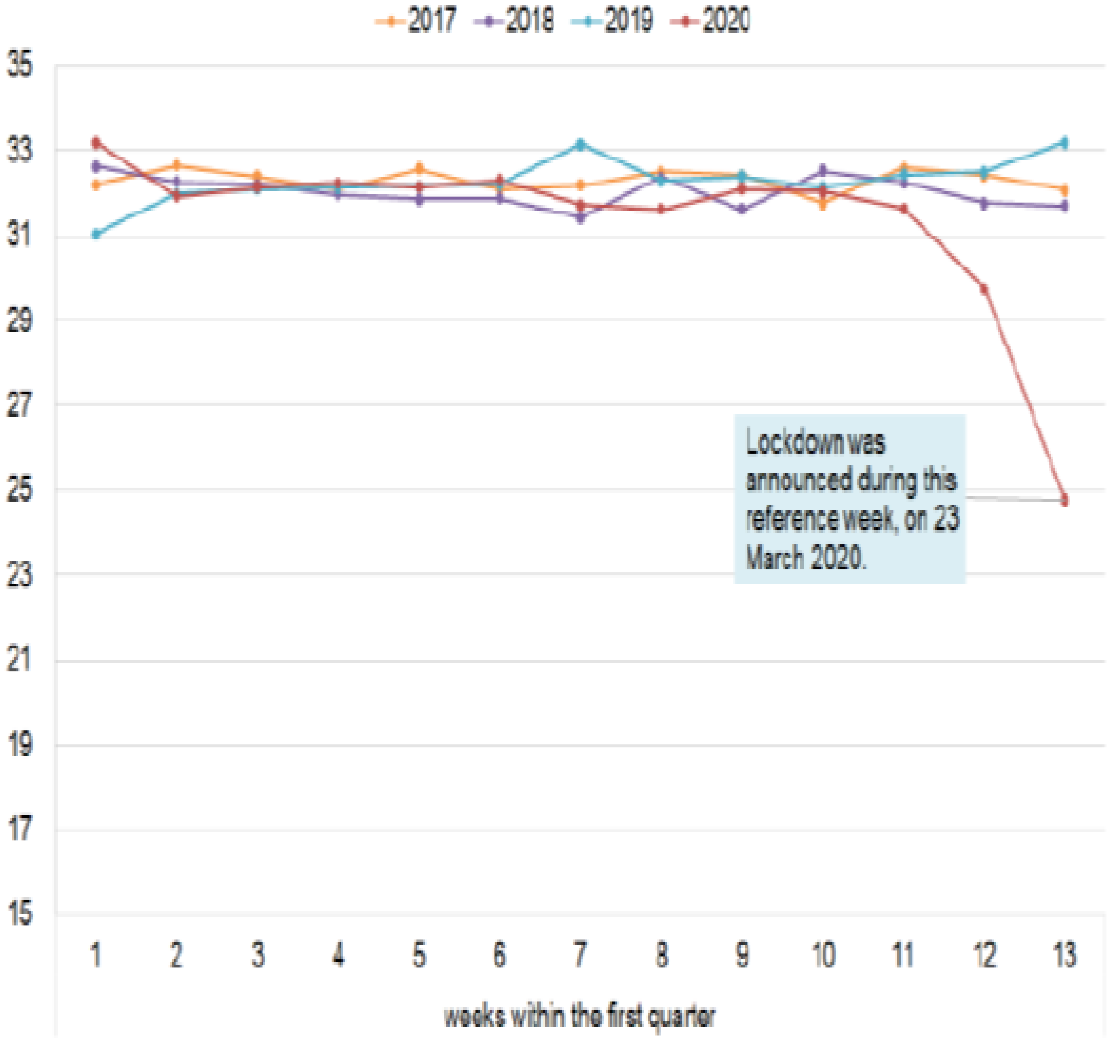
Table 1: Increase percentage of claims to Universal Credit[FK8] 2020

Time Period	Increase in claims
Jan -February	5%
Feb-March	3%
Mar-April	29%
April- May	15%
May-June	4%

Source: Department for Work and Pensions (DWP)

The number of working claimants also increased probably attributable to their employers reducing their hours or failing to 'top up' their 80% salary provided by CJRS. This assumption is validated by Figure 8 which shows a sharp reduction in average weelkly hours worked during the month of March when the lockdown was announced.

Figure 8: Average weekly hours worked 2017-2020



Source: ONS Labour Force Survey

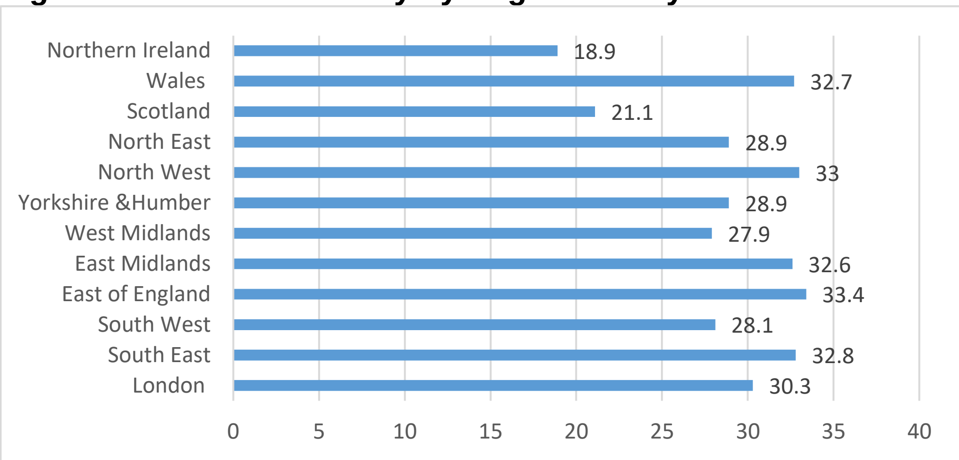
3.5 Business activity

The Purchasing Managers' Index (PMI) shown in Figure 9 highlights that Scotland's businesses were less active in comparison to Wales and English regions. Although more businesses were active in Scotland than in Northern Ireland.

According to the ONS BICS survey, Scotland has less businesses trading (81%) than in England (84%) but more businesses were trading in Scotland than in and Northern Ireland (76%) which was in line with the PMI survey but fewer businesses were trading in Wales (79%) than in Scotland according to the ONS BICS study.

The ONS repeated their business survey between the 15th-28th June, the findings were published on the 16th July 2020, and established that 89% of businesses were trading; the increase was attributable to the easing of the lockdown. It is important to note that the lockdown did not ease at the same pace in each administrative area of the UK. For example, Scotland's emergence from lockdown was at a slower more measured pace than in England. The impacts of different policy decisions have economic implications, which are demonstrated by Figure 10. In April, the level of business activity in Scotland and the UK as a whole were in line. Nevertheless, in May, the levels of activity diverged between the two countries and deviated even further in June. Scotland's economy being less active than the UK as a whole due to the more cautious policy.

Figure 9: Business Activity by Region in May 2020

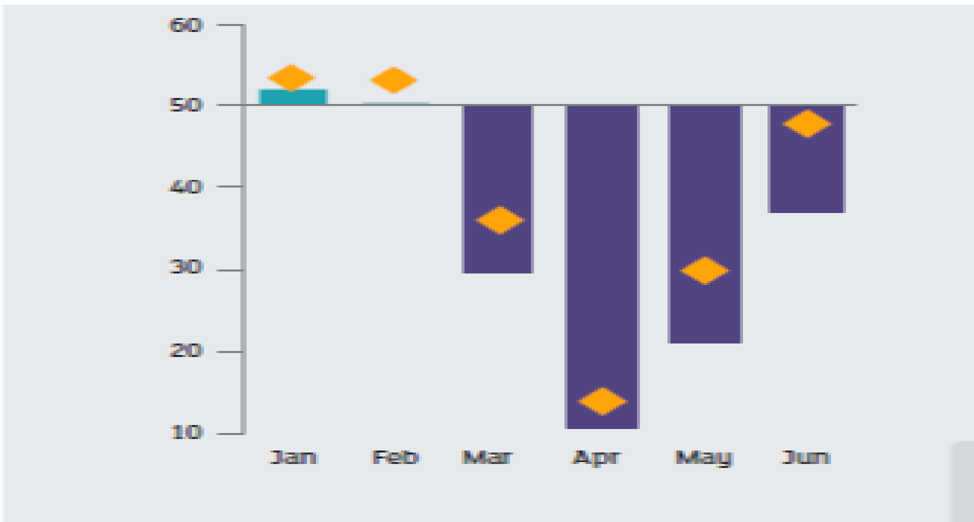


Source: PMI by "HIS Markit report"

Figure 10: Purchase Managers Index (PMI) in Scotland and the UK January to June 2020.
Key:

Y- axis is UK Composite Output Index value for the UK [5]

Y-axis is Scotland Business Activity Index [6]



Source: Skills Development Scotland -COVID-19 Labour Market Insights: Scotland in Context July 2020

[5] The Scotland Business Activity Index is comparable to the UK Composite Output Index.
[6] The Scotland Business Activity Index is comparable to the UK Composite Output Index.

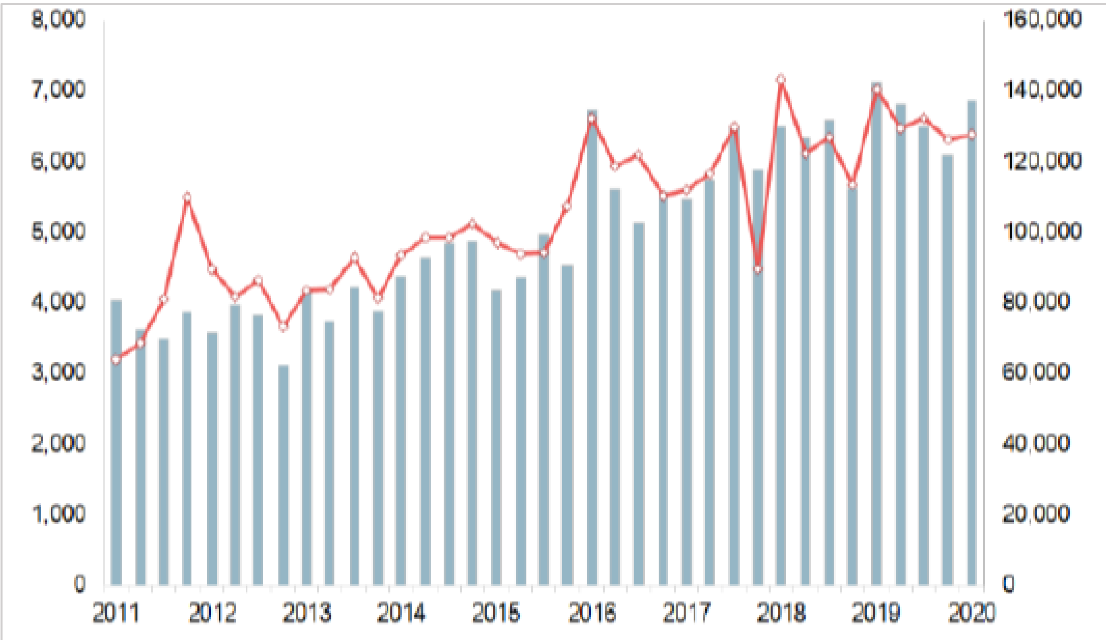
3.6 Companies that have been dissolved

Data from Companies House, seen in Figure 11, show that the rate of companies being dissolved during the first quarter 2020 was lower than it had been throughout 2019. Although it is important to remember that the first quarter was prior to lockdown and the turbulence of the pandemic were not yet apparent. It is forecast that figures for future quarters will be less favourable. The first quarter's figures although lower than 2019 are still high in comparison to 2011-2016 rates.

Figure 11: Number of Company dissolutions in Scotland and the UK from 2011-2020.

Key

- Y axis on left hand side represents the values for Scotland
- Y axis on the right hand side represents the values for the UK

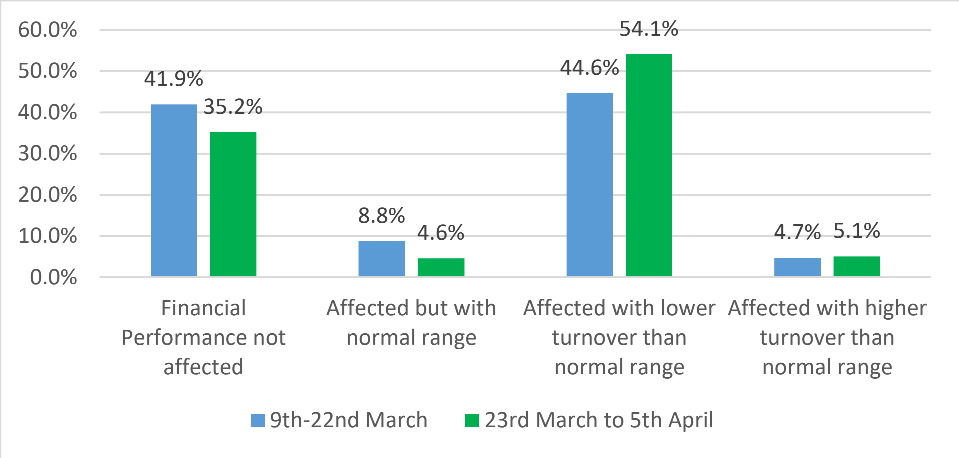


Source: Companies House

3.7 Business Turnover

Prior to lockdown 41.9% of businesses reported that their turnover was not affected by the pandemic, however this figure fell to only 35.2% as the lockdown started to bite. By the 5th of April, Figure 12 shows that, 65% of UK businesses reported that COVID-19 had affected their turnover.

Figure 12: Business Impacts of Covid-19 on Business Turnover 9th March to 5th April 2020



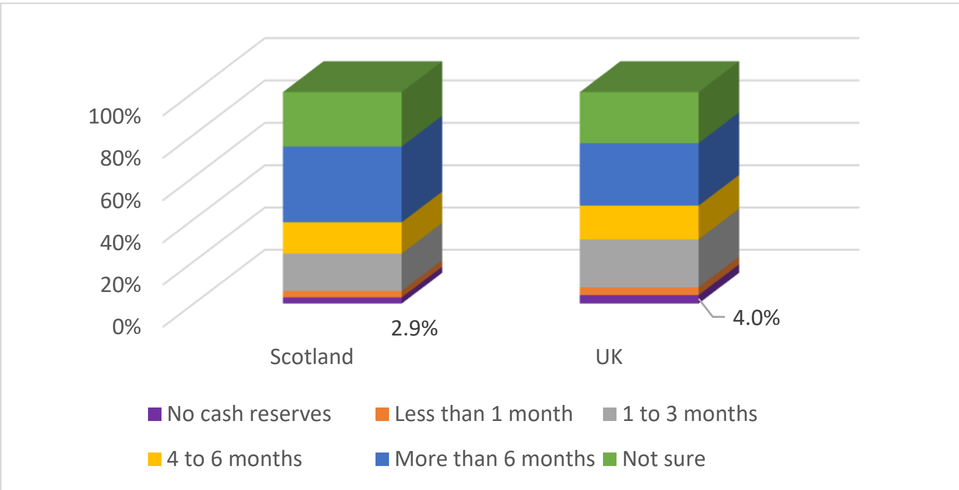
Source: ONS, Business Impacts of Coronavirus Survey

These findings are validated by a later study carried out by the Business Monitor, which established that 89% of Scottish businesses consider that their turnover has been affected by COVID-19.

3.8 Cash reserves

A study undertaken by the ONS in May found that Scottish businesses were more cautious as only 2.9% of Scottish businesses had no cash reserves compared to the UK average of 4%. Scotland's businesses were more likely to have savings to allow them to wait out a protracted slump than businesses in the rest of the as seen in Figure 13.

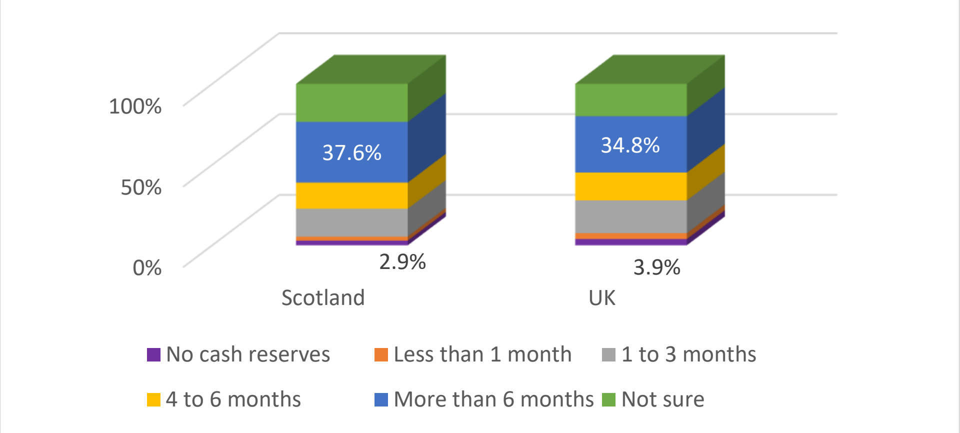
Figure 13: Cash Reserves of businesses in Scotland compared to the UK 4th May-17th May 2020



Source: ONS Business Impacts of Coronavirus survey

The same study is repeated each month and July's results follow the same pattern as can be seen in Figure 14. Therefore, this suggests that Scottish companies are more resilient if the downturn is longer lasting.

Figure 14: Cash Reserves of businesses in Scotland compared to the UK 29 June to 12 July 2020



Source: ONS Business Impacts of Coronavirus survey

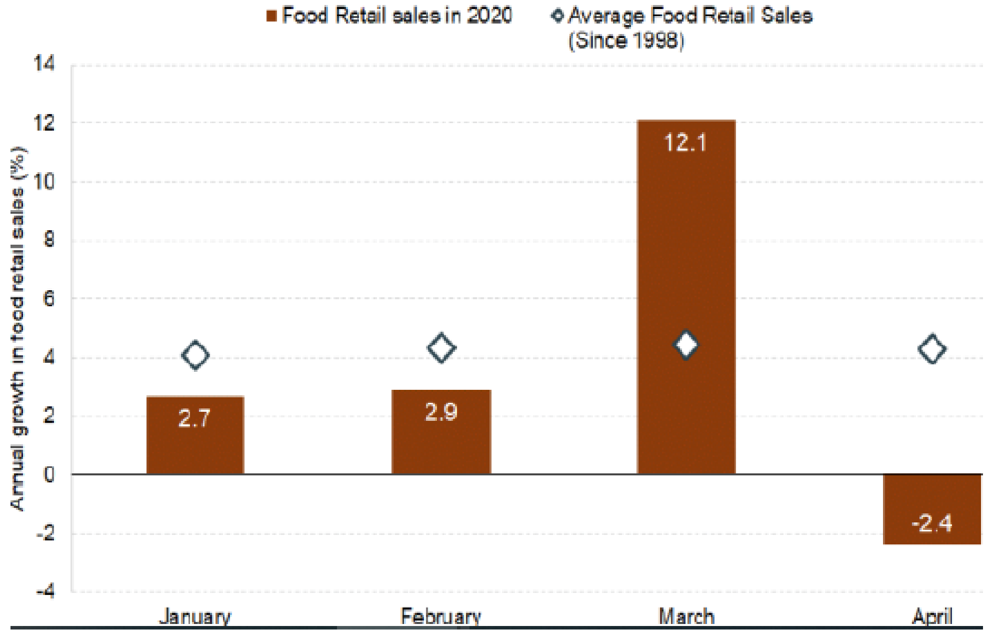
3.9 Impact on Small Businesses

Although the majority of businesses according to the ONS study have cash reserves small businesses are often less able to manage a dramatic change to their predicted cash flow. According to the Federation of Small Businesses, lockdown has had a substantial impact on cash flow, with 77% of small businesses in Scotland reporting cash flow issues. One in five small businesses are struggling to pay bills, rent or their mortgage or have had to sell assets to make these payments. These finding are supported by Skills evelopment Scotland who report that over half of small businesses have relied on additional borrowing from bank overdrafts(21%), credit cards (16%) and family and friends (16%).

4.0 COVID-19- The Sectoral Picture -Will the impact be felt equally?

The impacts on each economic sector will vary dramatically. For example, supermarkets were required to stay open but their competitors such as restaurants and cafés were legally required to close. This has resulted in supermarkets obtaining a larger market share and an upturn in spend. This coupled with panic buying in February and March has equated to 2.9% growth in February and a colossal 12.1% growth in March. April's data depicted in Figure 15 highlights that sales were slightly below the yearly average probably due to the heightened fear of going out once lockdown commenced coupled with people having a surplus of products owing to their over consumption in March.

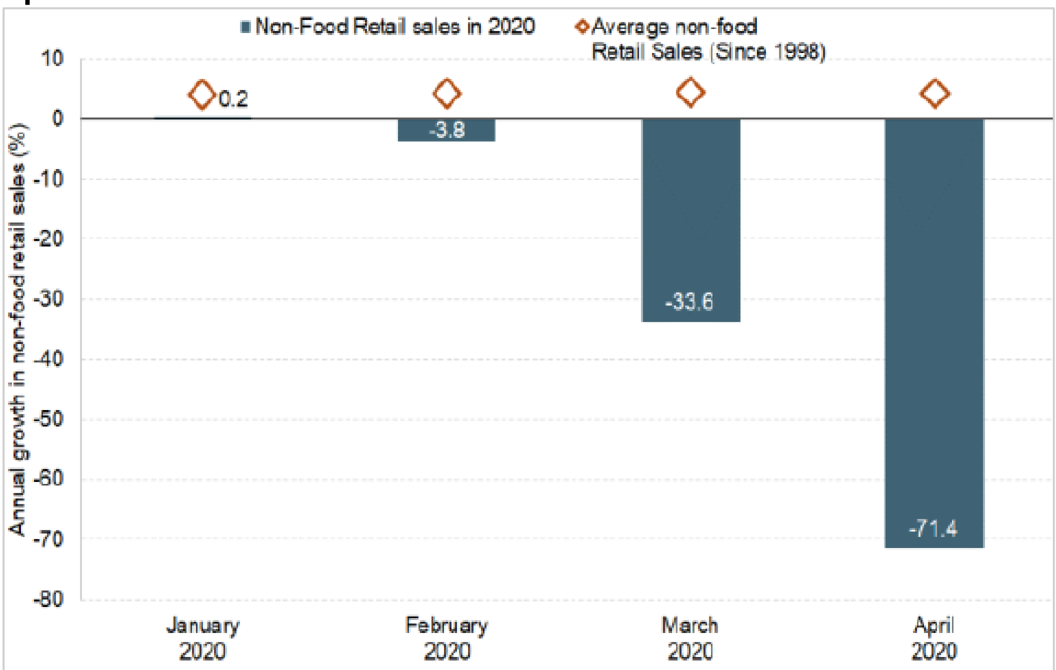
Figure 15: Annual growth in food retail sales in Scotland January to April 2020.



Source: SRC-KPMG retail sales

The inequality between sectors becomes apparent when growth in the food retail sector is compare to growth in the non-food retail sector (seen in Figure 16). The non-food sector contracted by 33.6% compared to average growth in March and the sector suffered an even stepper decline in April of 71.4% against the year on year comparison.

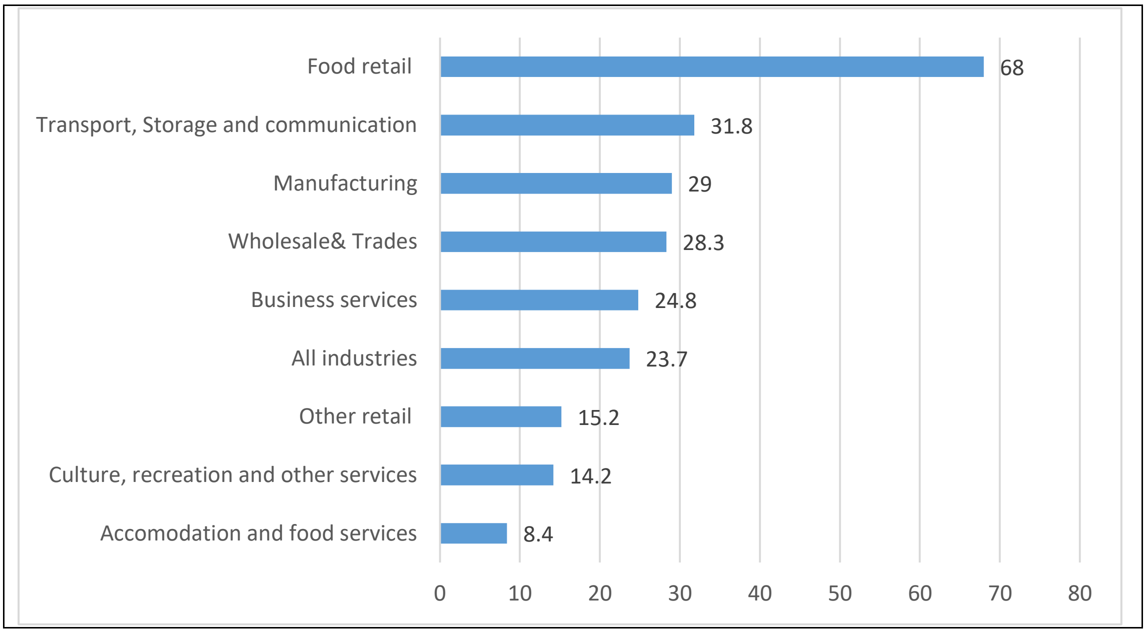
Figure 16: Annual Growth in non-food retail sales Scotland January-April 2020



Source: SRC-KPMG retail sales

The ‘Monthly Business Turnover Index’ reports the net balance of firms reporting increasing or decreasing turnover compared to 12 months ago. Values below 50 indicate that more companies are showing decreased turnover. Figure 17 shows that for most industries the index has fallen below 50 in May, reflecting the impact of the lockdown. The only exception to this is the food retail sector, which had increased turnover compared to the same time last year. The sector where turnover declined most acutely was the accommodation and food sector, where the value was a mere 8.4. Another sector that had a sharp reduction in turnover was the culture, recreation and other services sector, which had a value of 14.2 highlighting that turnover, was considerably lower than this time last year.

Figure 17: Monthly Business Turnover Index May 2020



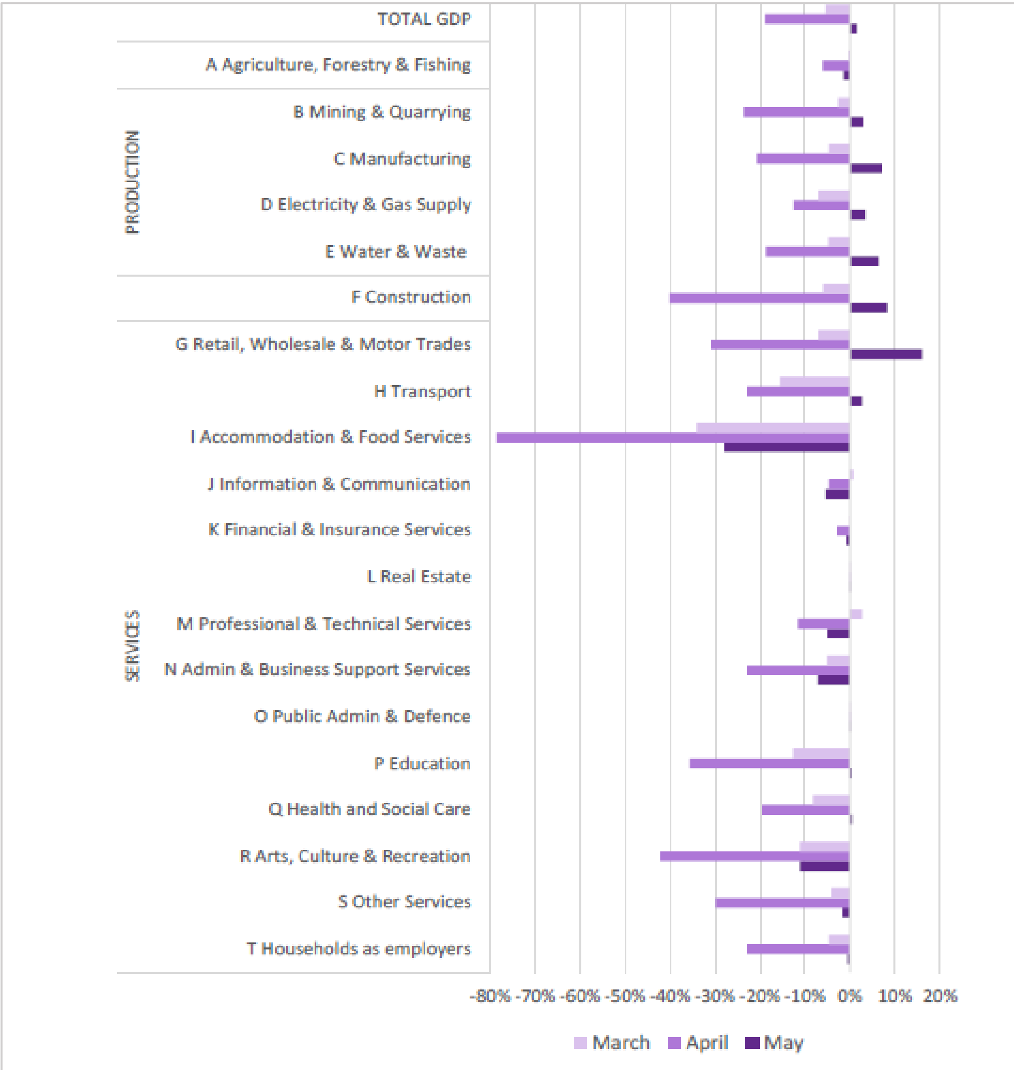
Source: Scottish Government (May 2020): https://www.gov.scot/publications/monthly-business-turnover-index-may-2020

The Scottish Government’s ‘GDP Monthly Estimate’ for May 2020 (published on the 17th July) confirmed that output had increased marginally in May but reinforced the point that not all sectors were affected equally. Figure 18 confirms manufacturing, construction, retail and motor trade sectors increased their output but this upturn was offset by further falls across other sectors. Some sectors experienced dramatic reductions in turnover, observing falls of over 50%, sectors such as:

- Arts, entertainment and recreation
- Accommodation and food services
- Transportation and storage

This is contrasted by businesses in the information /communications sector, or in the professional, scientific and technical sector where there were no changes to turnover. In these so-called “white collar” jobs, employees will overall have been able to relocate their office to home and continue working and earning. Whereas many unskilled or low skilled employees in the accommodation and food service sector will not have been able to relocate to home and hence have seen their income disappear, unless they have been furloughed. As is the case with most recessions, the most vulnerable are disproportionately affected and they are more likely to face “a downturn in growth prospects” which causes scarring and has a long lasting impact on these employees, according to the Fraser of Allander Institute.

Figure 18: GDP Monthly Estimates: March to May 2020 percentage change month on month

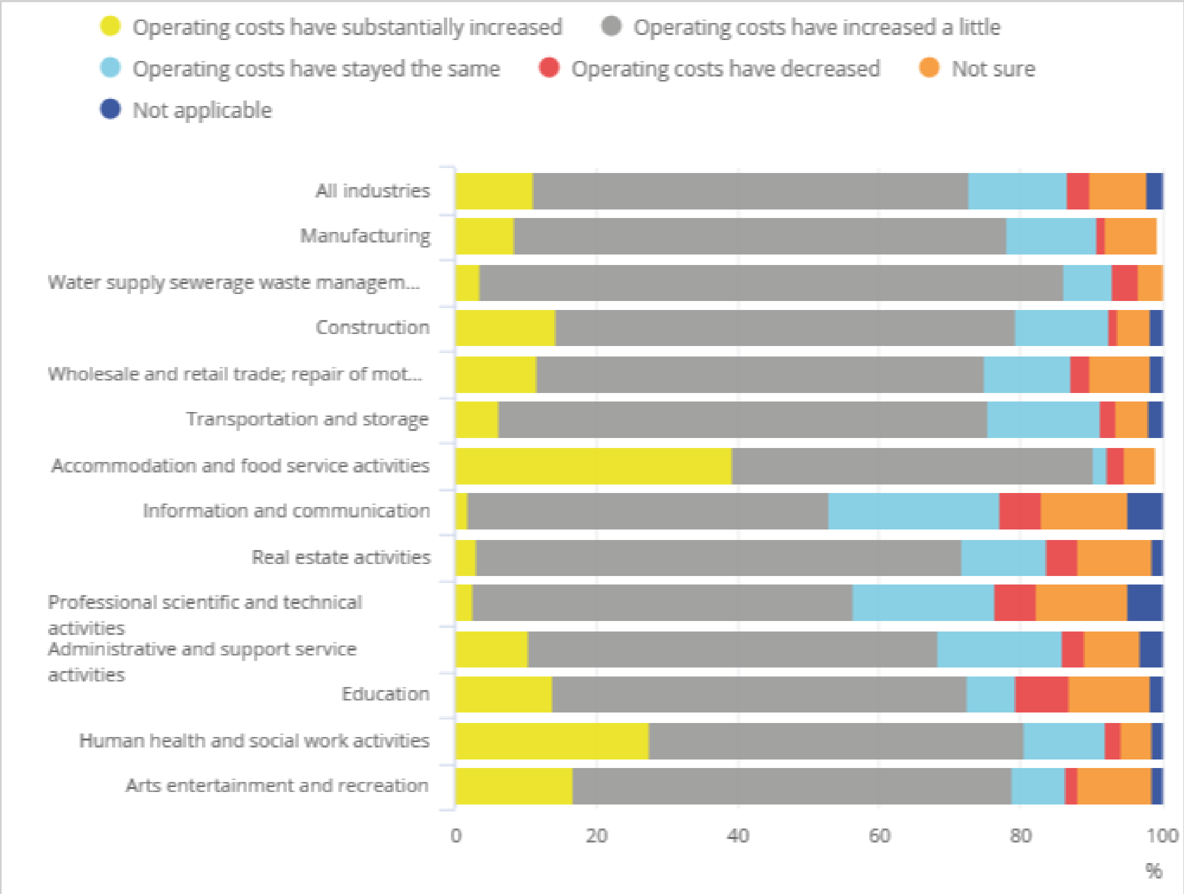


Source: Scottish Government GDP Monthly Estimates 17th July 2020

4.2 Amount each sector had to invest in order to trade

The ONS analysed the amount companies had to invest to enable their business to reopen. The findings highlighted the vast gulf of inequality between sectors. Figure 19 outlines that accommodation and food services invested a substantial amount to ensure they met the regulatory requirements, which was mandatory for them to implement in order to trade. Whereas businesses in the professional, scientific and technical industries were not obliged to invest in measures to allow them to trade but instead they could trade with reduced operating costs. The lack of parity between companies has meant that some industries operating cost have sored while others have reduced.

Figure 19: shows the cost implications of introducing safety measures to enable the company to trade[7]



Source: ONS- Business impacts of Coronavirus survey

4.3 Job retention scheme by sector

Different sectors have utilised the CJRS to vastly different levels with 74% of accommodation and food services staff, 72% of construction workers, and 66% of those who work in arts, entertainment and recreation have been

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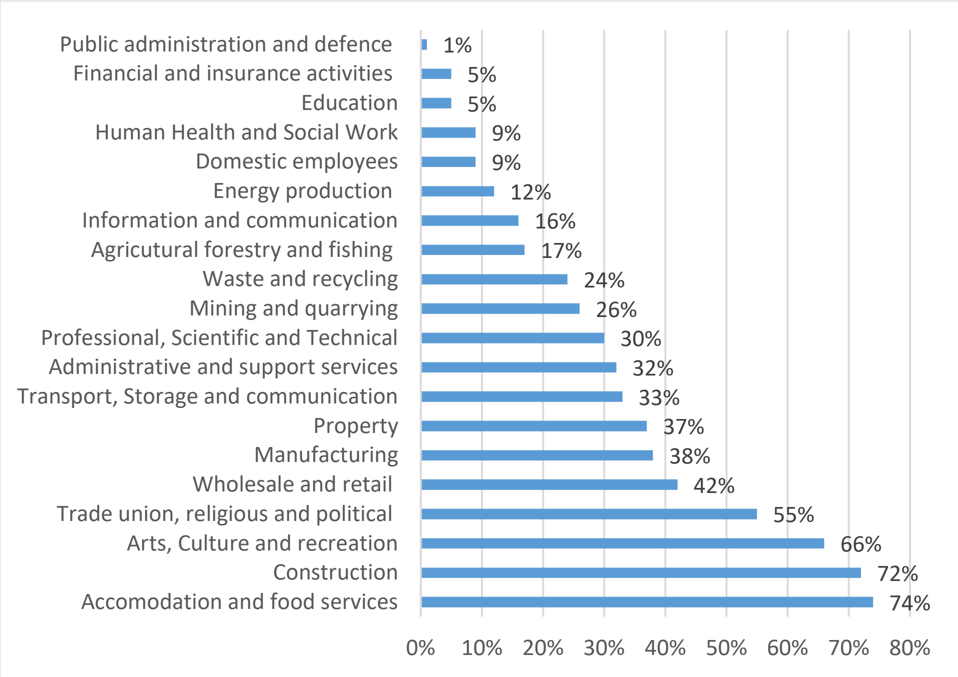
7 Bars may not sum to 100% because of rounding, and percentages of less than 1% have been removed for disclosure purposes.

Other services and Mining and quarrying have been removed for disclosure purposes, but their totals are included in "all industries".

furloughed. In contrast, only 1% of public sector and defence personnel were placed on the job retention scheme. Figure 20 demonstrates the disproportionate impact the lockdown has had on different sectors.

Figure 20: The percentage of workers in each industry who have been furloughed July 2020

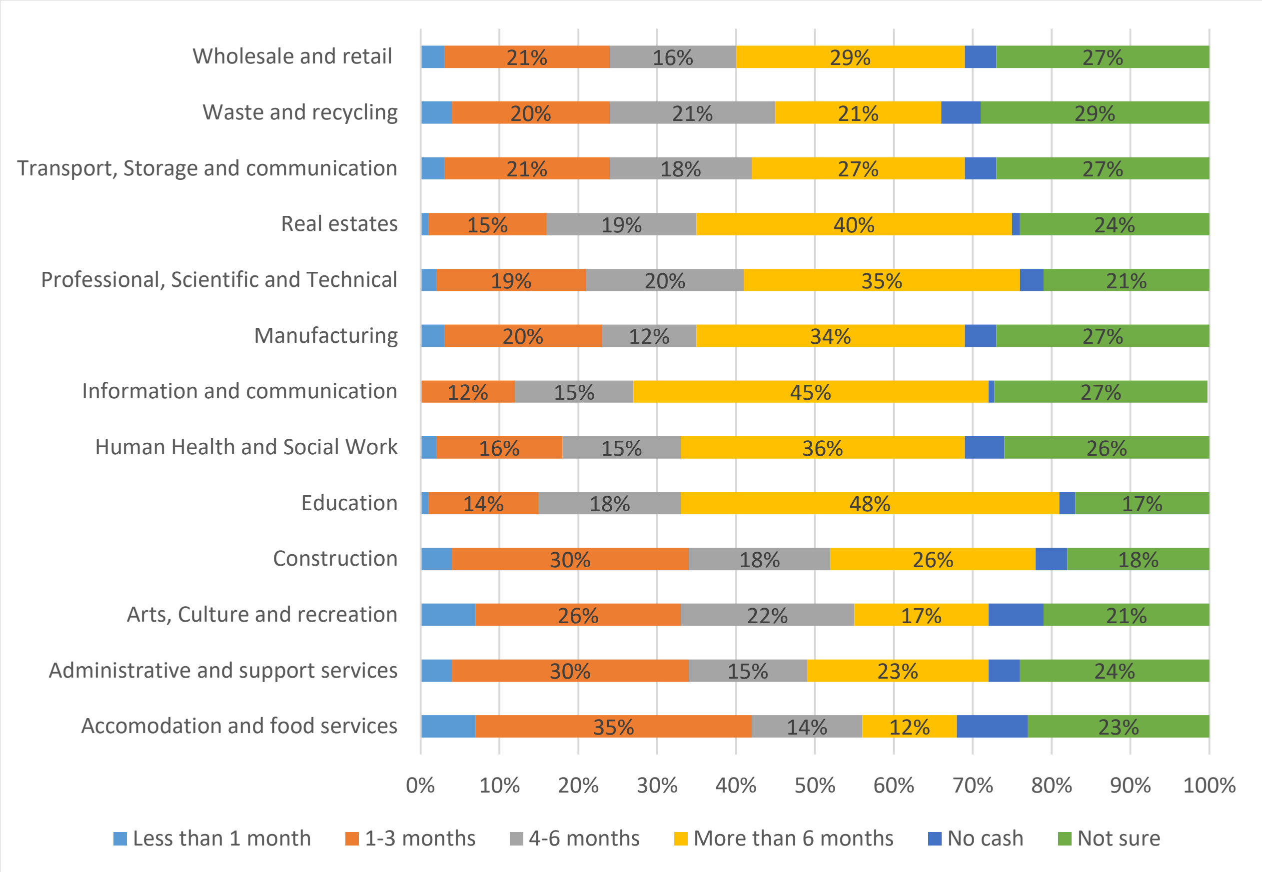


Source: HM Revenue & Customs (July, 2020): https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-july-2020

4.4 Cash reserves by business sector

Figure 21 illustrates the inequality across the different business sectors in terms of cash reserves. Businesses in the accommodation and food service sector or the arts, entertainment and recreation sector or the construction sectors in all probability have extremely limited or no cash reserves. Whereas businesses in the information and communication sector are more likely to have 6 months or more cash reserves, thus ensuring that these businesses can survive a prolonged downturn.

Figure 21: Percentage of businesses by sector indicating how long their cash reserves will last. Survey carried out 4th-17th May[FK9] 2020 (UK businesses)

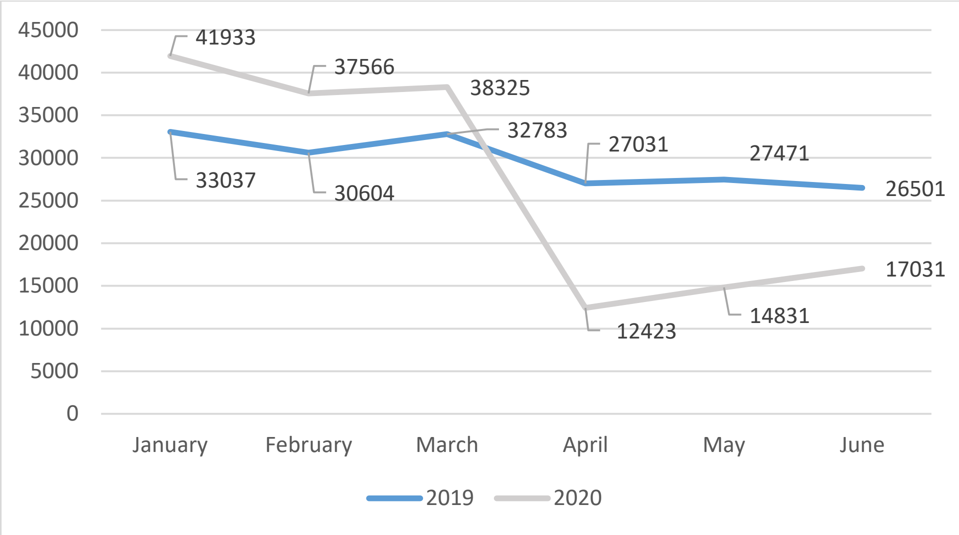


Source: ONS- Business impacts of Coronavirus survey

4.5 Businesses demand for labour

Examining online job search engines over time provides a good indicator of the demand for labour. Figure 22 illustrates that there was a marked reduction in the demand for labour between March and July 2020, in fact the volume of job adverts in April and May where only around half the amount in the same months a year ago. As the pandemic has evolved the quantity of new employment postings have increased, up by 37% in June compared to the first full month of lockdown. Although an increase in demand for labour is welcome the volume of demand is 36% lower than it was at the same time last year.

Figure 22: Job adverts posted for all industries from January 2019 to June 2020.



Source: Skills Development Scotland

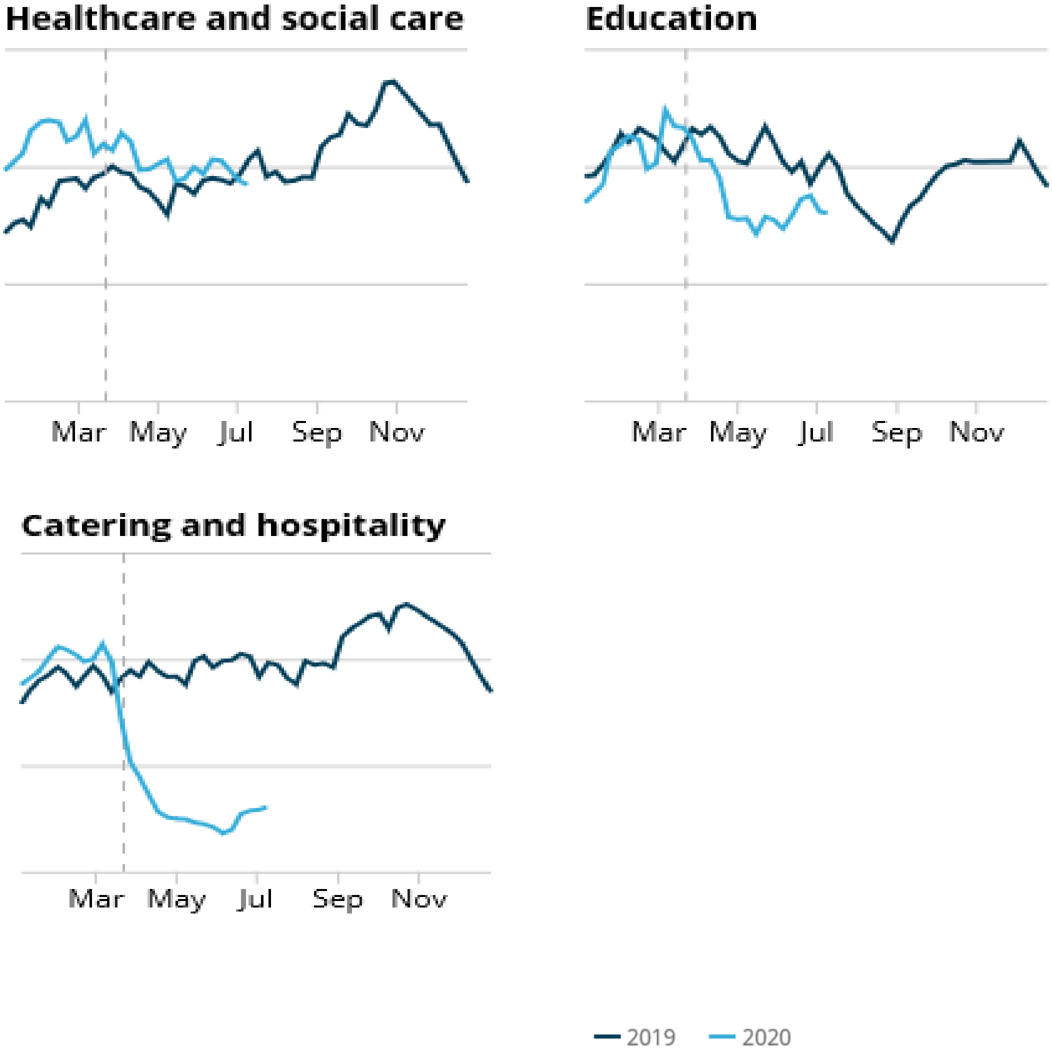
Nor is the demand for labour equally felt across employment sectors as can be seen by Figure 23. It is apparent that there was an increased demand for health and social care staff; only a slight decrease in demand in the Education sector; whereas the catering and hospitality sector experienced a dramatic decline in the demand for labour.

4.6 Summing up the sectoral picture

The inequality of the recovery can be summarised by the Scottish Government's 'Monthly Estimate', which stated, "output fell in nearly every industry during April, and the results for May are more mixed. Some parts of the economy are estimated to have seen a pickup in activity as firms and consumers adapted to physical distancing and some people returned to work. However, other industries across the services sector experienced further falls in output".

Figure 24 demonstrates that some sectors are highly reliant on international supply chains, while other are reliant on international sales, however there has been a softening in demand for their products or services both domestically and internationally. Other sectors have been extremely affected by labour market disruption. Manufacturing was the only sector, which was categorised as most exposed in three of the four aforementioned categories. While the accommodation and food sector; arts, entertainment and recreation sector and the construction are categorised as most exposed in two of the four categories. In contrast, the information and communication sector and the professional technical and scientific sector were not categorised as most exposed in any of the categories highlighting the unequal impact the pandemic has of various sectors.

Figure 23: Job adverts posted for health and social care, education and catering and hospitality from January 2019 to July 2020



.
Source: Adzuna

Figure 24: Level of exposure by business sector

Sector	International Supply	International Demand	Domestic Demand	Labour Market Disruption
Agriculture, forestry and fishing	Y	A	Y	Y
Mining and Quarrying Industries	Y	A	A	Y
Manufacturing	R	R	A	R
Electricity & Gas Supply	Y	Y	Y	A
Water Supply & Waste Management	Y	Y	Y	Y
Construction	Y	Y	R	R
Retail & wholesale	Y	Y	R	R
Transport & Storage	Y	Y	A	A
Accommodation & food services	Y	A	R	R
Information & Communication	A	Y	Y	Y
Financial & Insurance Activities	Y	Y	Y	A
Real Estate Activities	Y	Y	Y	A
Professional, Scientific& Technical Services	Y	A	Y	A
Administrative & Support Services	Y	Y	A	R
Public Administration and Defence	A	Y	Y	R
Education	Y	A	Y	R
Health and Social Work	A	Y	Y	R
Arts, entertainment and recreation	Y	Y	R	R
Other Services	Y	Y	A	R
Legend	Red [R]: Most Exposed			
	Amber [A]: Medium Exposure			
	Yellow [Y]: Least Exposed			

Source: Scottish Government Monthly Economic Brief

5.0 Mitigation Measures

Together the UK and Scottish Government have provided several schemes to mitigate against the most severe impacts of the economic crisis. The main schemes put in place are:

- The Coronavirus Job Retention Scheme (CJRS)
- Self-Employment income support scheme (SEISS)
- Business Support Fund

The Scottish Chambers of Commerce reported that 65% of UK businesses surveyed had used the CJRS while the Federation of Small Businesses found that over 70% of businesses where utilising the CJRS.

In Scotland 19% of businesses were awarded funding from the Business Support Fund and 20% of businesses accessed Government backed loans. These support measure coupled with a plethora of other mitigation measures have allowed 75% of businesses in Scotland to continue trading.

6.0 Recovery

In June 87.6% of Scottish businesses were trading while 11.8% remained closed or had paused trading. This demonstrates that most business are currently open due to the easing of lockdown restrictions. Therefore, output contraction experienced by many parts of the economy should start to be reversed. Early evidence is positive as the ONS' July report claimed a 13.9%

month on month rises in UK retail sales. UK private sector business activity grew more rapidly in July than in any other period in the last five years. The composite PMI of 57.1 proves that the economy is growing whereas in June the economy was contracting with a score of 47.7. Retail sales have experienced the strongest growth and have almost reverted to pre- lockdown levels.

However, not all sectors will come back immediately, according to the Scottish Government, as external demand, consumer tastes, and business models will have changed significantly. This will present challenges and opportunities for different segments of the business base. So, not all regions will be uniformly affected, as the impact on a region is dependent on the sectors that are most prevalent in the local economy.

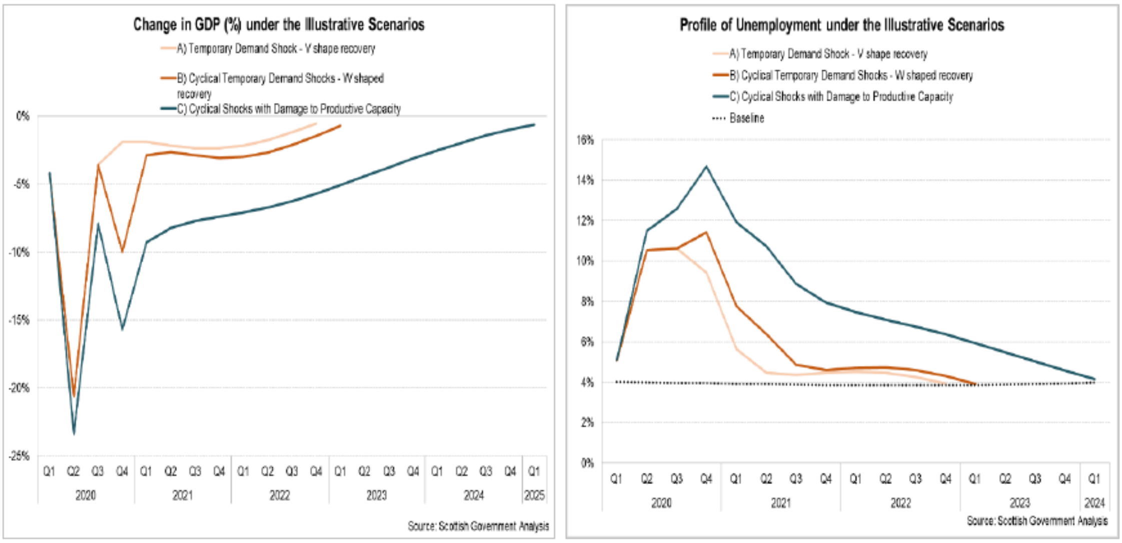
Companies across a variety of sectors are in a precarious position with limited savings and reserves due to the downturn in revenue causes by the lockdown. The overall economic impact is already significant. However, people are returning to work and supply chains are starting to operate again, however much of the economic activity that would have taken place during the lockdown will be lost forever. On the other hand, a large percentage of employees have been able to continue to work albeit from home and hence productivity in these sectors has be unaffected. Those whose income is unaffected, by the shutdown, are still spending albeit that their spending has been displaced from retail units to on-line and buying food in restaurants to buying food to cook at home. Deloitte hosted a webinar ‘Responding to COVID-19’ on 19 March, around 4,000 business representatives attended and almost three-quarters of them expected “activity to come back in the second half of this year”. Suggesting a ‘V’ shaped recession characterised by a sharp, steep downturn matched by an equally swift bounce back with little long-term damage to the economy. While other economists predict other types of recession will occur these are as follows:

- ‘W’ shaped recession often referred to as a double-dip recession. There is a downturn and the economy falls into recession it then recovers but only for a short period before falling back into recession this is followed by a sustained recovery.
- ‘U’ shaped recession, in this type of recession GDP may shrink for several quarters. This type of recession has a less-clearly defined trough and has a very protracted recovery. The IMF have said “a U-shaped recession is like a bathtub: You go in. You stay in. The sides are slippery. You know, maybe there's some bumpy stuff in the bottom, but you don't come out of the bathtub for a long time."
- ‘L’ shaped recession is the most pessimistic downturn and occurs when the economy has a very severe recession with an extremely elongated

recovery. In this type of recession, the economy does not return to the pre-recession position for a long time if ever.

The Fraser of Allander Institute consider it unlikely that a V shaped recession will occur and consider a more protracted slump with recovery occurring in the winter months. The Bank of England are less optimistic and consider the recovery will occur in the spring and summer of next year. This longer lasting shock increases the risk of longer-term damage to the economy however; this has to be balanced by moving out of the lockdown prematurely and risking a second wave of the virus forcing a second shutdown. If lockdown returned then the economy will experience another steep decline, which would be more detrimental to the economy as confidence is eroded. Figure 25 illustrates the various potential impact on GDP and employment depending on which shape of recession occurs.

Figure 25: GDP and Unemployment under various recession scenarios



Source: Scottish Government Analysis[FK10]

To conclude experts may disagree regarding the length of time it will take for the economy to recover with some believing it will be a quick bounce back while others consider it will be a slower more gradual recovery and others consider it will not return to pre-pandemic levels. There is however consensus that the make-up of the economy that emerges from the crisis will look quite different.

To facilitate the recovery process and enable Scotland to take advantage of the new economic landscape the Scottish Government commissioned an independent group called Advisory Group on Economic Recovery. The AGER group is chaired by Benny Higgins and its’ remit is to make recommendations about future mitigation measures and identify the actions required to enable the economy to recover. The group have reported their finding in a recent report “Towards a robust, resilient wellbeing economy for Scotland” and are awaiting the Scottish Government’s response. In their response, the Scottish Government will determine the type and level of future support and the actions it will undertake to steer the economy recovery.

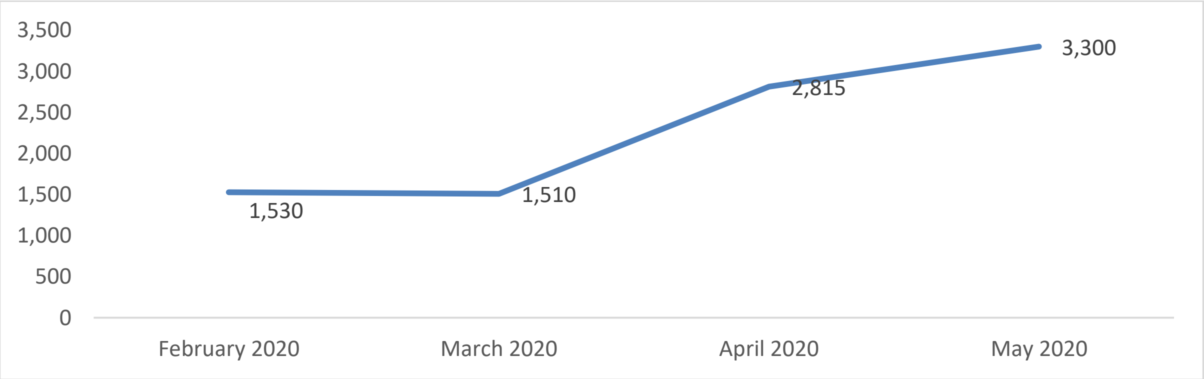
7.0 COVID-19- The Local Picture – the impact of the pandemic in Argyll and Bute.

The impact on regional economies will[FK11] somewhat be determined by the prevalence of particular sectors in that region and the number and variety of replacement job opportunities available locally.

7.1 Claimant Count In Argyll and Bute.

Argyll and Bute resembled all other areas in Scotland as it experienced an abrupt rise in unemployment benefits claims during the lockdown. While claims continued to rise between April and May, as can be seen in Figure 26, the intensity of the claims reduced.

Figure 26: Argyll and Butes claimant count 2020.



Source: Nomis

Pre-pandemic Argyll and Bute had low levels of unemployment demonstrated by Table 3. From January to March 2020, the unemployment rate was 3% or less with minor fluctuations between the months. With the arrival of Covid-19, there was an exceptionally steep rise in the unemployment rate between March and April and another less severe rise between April and May. In fact between January and May 2020 Argyll and Butes’ Unemployment Benefits claimants increase by 128.4% equating to an unemployment rate of 6.4%.

Table 3: Unemployment rates in Argyll and Bute in 2020.

Month	Unemployment rate
January	2.8%
February	3.0%
March	2.9%
April	5.5%
May	6.4%

Source: Improvement Service
https://isresearchnc.shinyapps.io/covid_economic_impact/

As previously stated pre-pandemic Argyll and Bute's rate of unemployment was below the Scottish average by contrast on the 31st of May the authority had a slightly higher than average rate with 6.4 claimants per working aged population compared to the Scottish average of 6.2. Suggesting that the shockwaves from the pandemic are greater in Argyll and Bute than in the country as a whole. Although this is not welcome news it could be considerably worse as neighbouring West Dunbartonshire has 8.4 claimants per working population and other rural areas such as North and East Ayrshire have 8.6 and 7.8 respectively as can be seen from Table 4.

Table 4: Claimants per 16-64 population 31st May 2020.

Local Authority	Claimants per 16-64 population
North Ayrshire	8.6
West Dunbartonshire	8.4
Glasgow City	8.2
East Ayrshire	7.8
Dundee City	7.2
North Lanarkshire	7.0
South Ayrshire	6.9
Clackmannanshire	6.8
Argyll and Bute	6.4
Scotland	6.2

Source: Improvement Service
https://isresearchnc.shinyapps.io/covid_economic_impact/

7.1.1 Claimant count by Argyll and Bute's Electoral wards

Although the authority as a whole has around average rates of claimants this is not universally the case throughout the authority's electoral wards. Some wards like South Kintyre have elevated rates of claimants equating to 9.2 claimants per 16-64 year old population. In comparison Helensburgh and Lomond south has only 3 claimants per its 16-64 population as can be seen in Table 5.

The level of increase in the number of claimants between March and April and from April to May is yet again not homogenous throughout the authority. Although, all wards did suffer an increase in claimants the rate of increase is extremely varied, with both Oban wards incurring the largest increase in unemployed claimants. This is evidenced by the fact that Oban South and the Isles increased its number of claimants by 4.3% between March and April.

This equates to an additional 310 claimants in the ward since the onset of the pandemic. Whereas Helensburgh and Lomond South had a mere 75 additional claimants and an increase of only 1.3% of claimants from March to April.

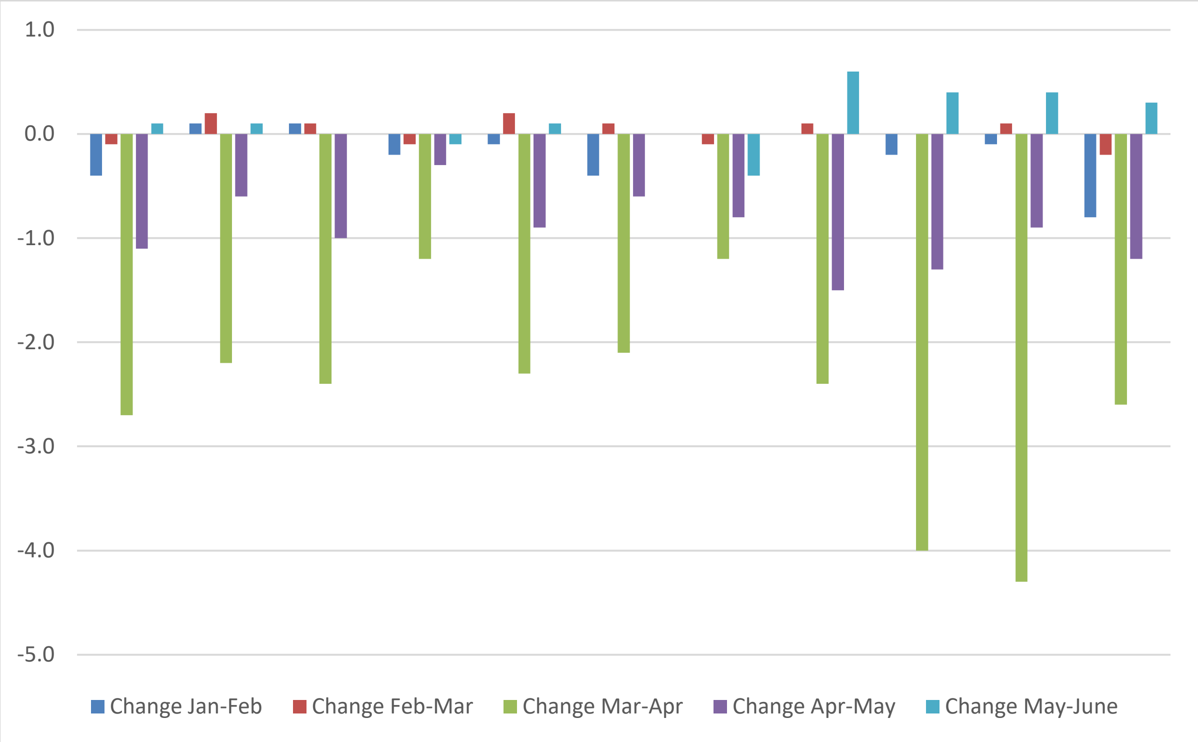
Table 5: Claimant count by Electoral Ward[FK12] 2020

Electoral wards	Claimants as a proportion of residents aged 16-64									
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Increase Mar-June**	**Change Mar-Apr**	**Change Apr-May**	**Change May-June**
Cowal	2.7	3.1	3.2	5.9	7.0	6.9	130	-2.7	-1.1	0.1
Dunoon	5.3	5.2	5.0	7.2	7.8	7.7	115	-2.2	-0.6	0.1
Helensburgh Central	3.5	3.4	3.3	5.7	6.7	6.7	165	-2.4	-1.0	0.0
Helensburgh and Lomond South	1.1	1.3	1.4	2.6	2.9	3.0	75	-1.2	-0.3	-0.1
Isle of Bute	5.7	5.8	5.6	7.9	8.8	8.7	100	-2.3	-0.9	0.1
Kintyre and the Islands	1.3	1.7	1.6	3.7	4.3	4.3	100	-2.1	-0.6	0.0
Lomond North	1.3	1.3	1.4	2.6	3.4	3.8	155	-1.2	-0.8	-0.4
Mid Argyll	2.9	2.9	2.8	5.2	6.7	6.1	150	-2.4	-1.5	0.6
Oban North and Lorn	1.9	2.1	2.1	6.1	7.4	7.0	280	-4.0	-1.3	0.4
Oban South and the Isles	2.6	2.7	2.6	6.9	7.8	7.4	310	-4.3	-0.9	0.4
South Kintyre	4.7	5.5	5.7	8.3	9.5	9.2	120	-2.6	-1.2	0.3

Source: Nomisweb.co.uk

The data in Table 5 suggests that there are some green shoots of recovery with the vast majority of wards witnessing a decrease in claimants between May to June 2020[FK13], although the two Lomond wards both continued to increase the number of claimants as is depicted in Figure 27.

Figure 27: Change in claimants as a proportion of residents aged 16-64 January-June 2020.



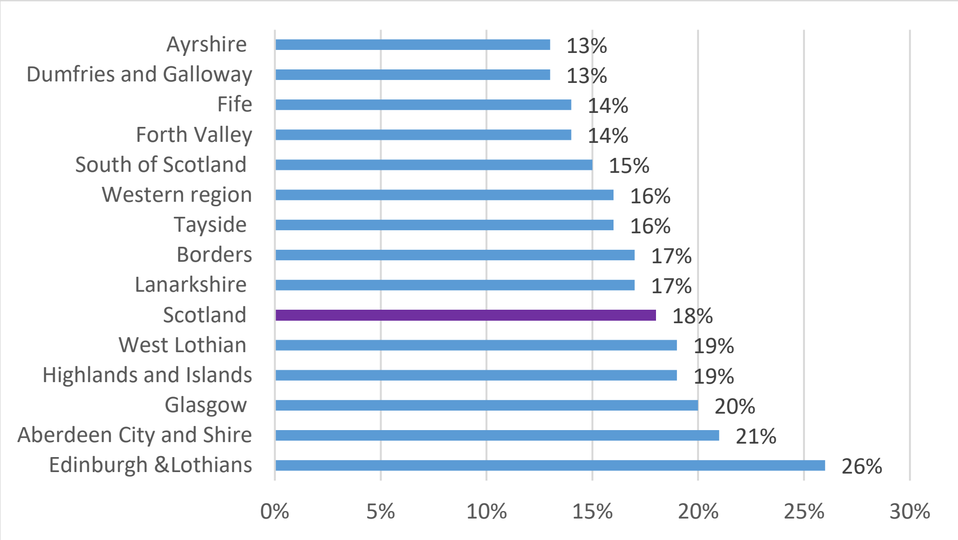
Source: Nomisweb.co.uk

7.2 People on Universal Credit

The Highlands and Islands like all other regions in Scotland saw an enormous surge in Universal Credit claims between April and May 2020. Figure 28 shows that the Highlands and Islands experienced a 19% increase in claims over the month, this is broadly in line with the country as a whole, which had an 18% surge in claims over the same period. However, only three regions had a higher increase in the number of claimants than Highlands and Islands namely Edinburgh and Lothian 26%, Aberdeen City and Shire 21% and Glasgow 20%. In contrast all rural areas such as Ayrshire and Dumfries and Galloway both only observed only a 13% rise.

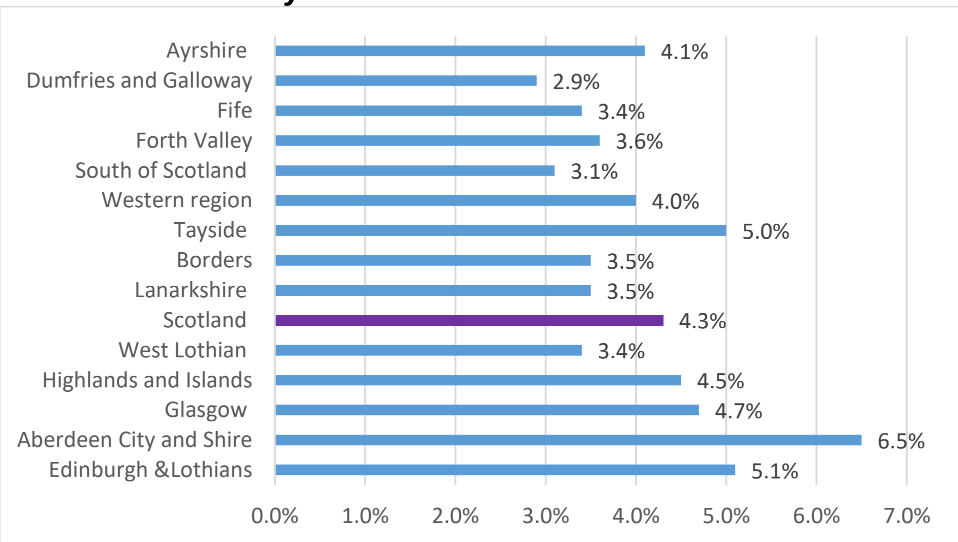
The subsequent month's figures demonstrated that the area continued to follow the same trend, as Highlands and Islands experiencing an additional 4.5% increase in Universal Credit claims. Figure 29 shows that this was only slightly higher than the increase in the country as a whole which had a 4.3% rise in claimants. The increase in claimants is most probably as a result of people returning to work due to the easing of lockdown measures. Although this return to work suggests there are some green shoots of recovery, employees have frequently experienced a reduction in their income. The reasons for this reduction is due to employers reducing the workforces' hours either due to social distancing requirements, which restricts the amount of people in a workplace or because there is a low level of demand for the business' products or services.

Figure 28: Percentage change of people on Universal Credit between April-May 2020



Source: Source: Department of Work and Pensions DWP

Figure 29: The percentage change by region of people on Universal Credit between May and June 2020



Source: Department of Work and Pensions DWP

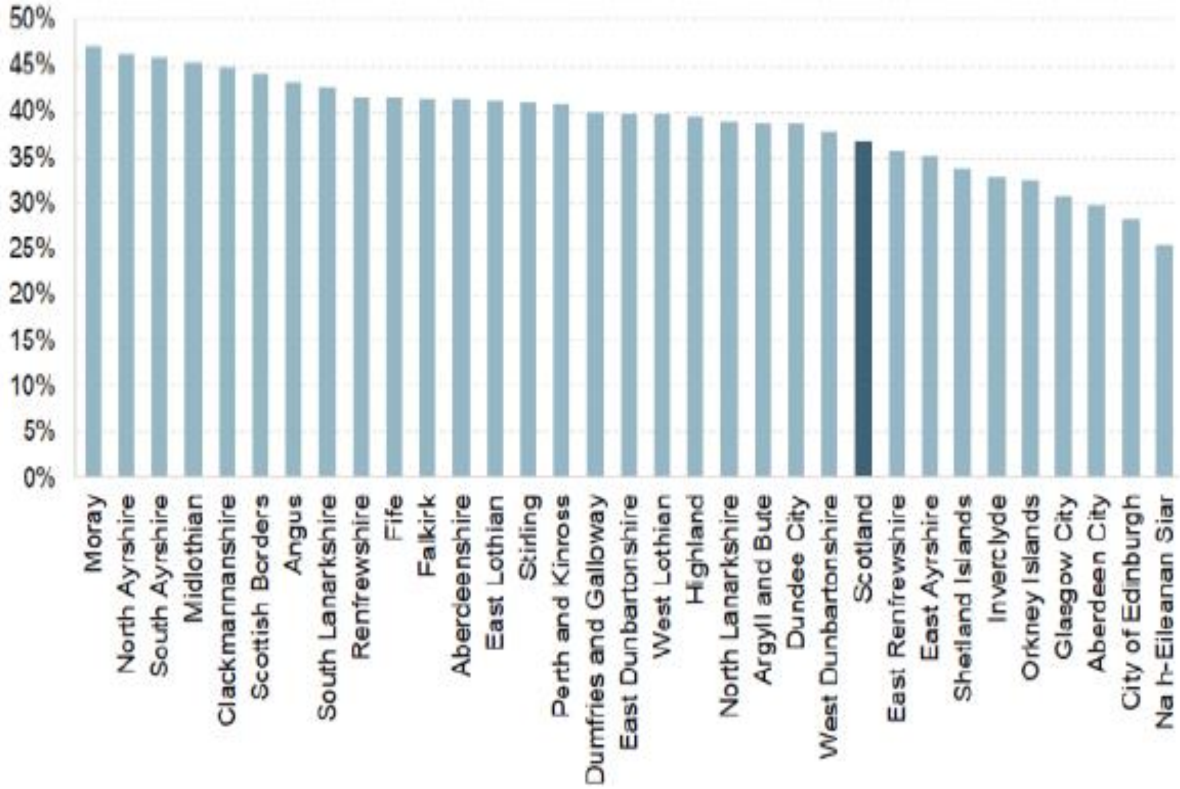
7.3 Share of employment in the most exposed sectors

The 'Business register and employment survey' aimed to identify sectors most exposed by the pandemic and then calculate how many jobs were in the most at risk category in each local authority area. The survey found that rural areas had a high percentage (40.7%) of jobs in the most exposed sectors of the economy whereas urban areas had only (35.2%) of jobs in the most exposed sectors.

Figure 30 shows that Argyll and Bute has a higher share of jobs in the most exposed sectors compared to the country as a whole. However, Argyll and

Bute fairs well when compared to other local authorities, as it has the 10th lowest share of jobs in the most exposed sectors equating to 15,250 jobs most exposed by the pandemic.

Figure 30: Percentage share of employment in most exposed sectors



Source: Business Register and Employment Survey

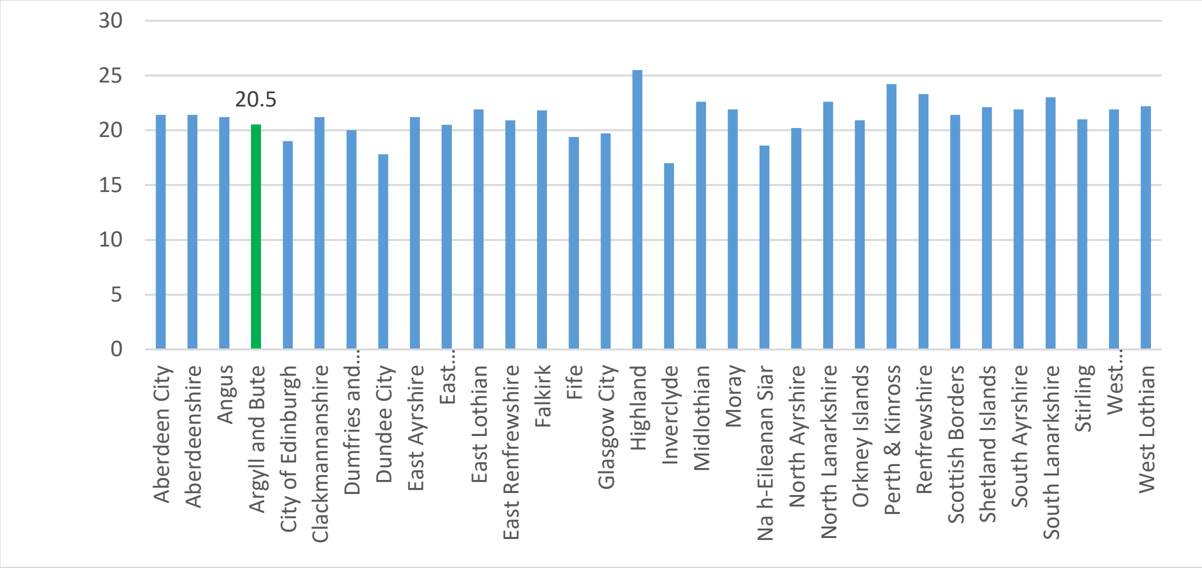
7.4 Prevalence of furloughed staff in Argyll and Bute

As of the 31st May, Argyll and Bute had 9,200 people on furlough that is in line with the levels in Scotland as a whole as Figure 31 illustrates.

7.5 Demand for labour

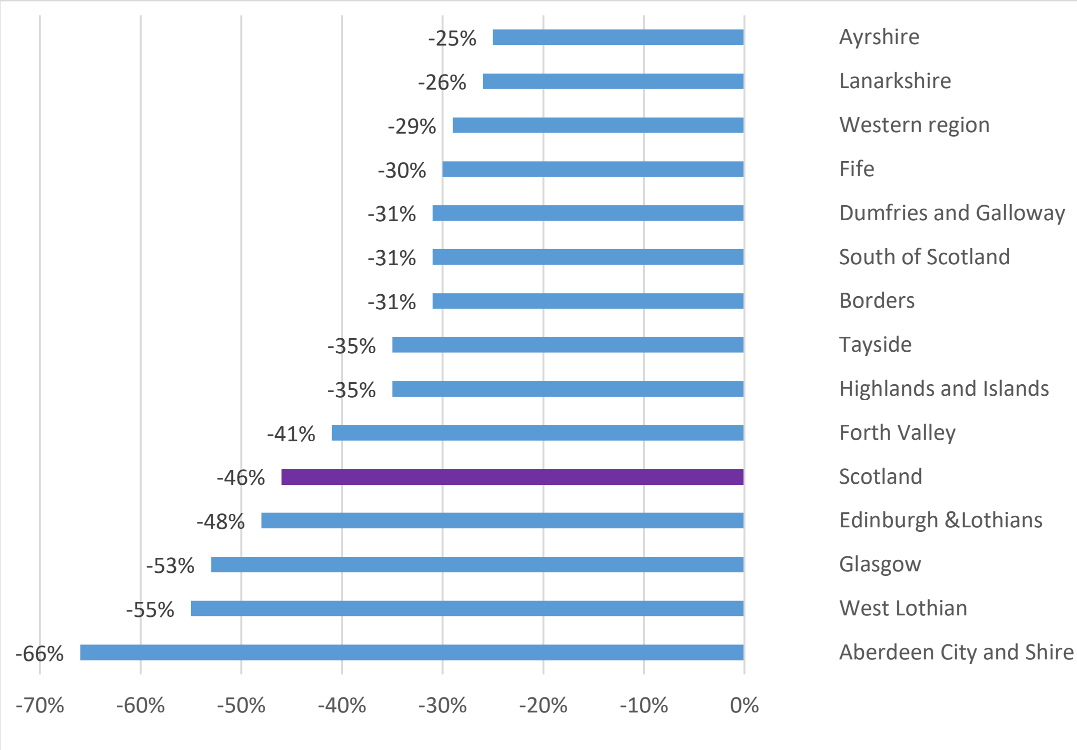
Job postings are effective indicators of the level of demand for labour and as Figure 32 portrays, Aberdeen experienced the steepest decline in demand for labour. This is most probably due to a combination of the oil price crash and the impacts of Covid-19. In contrast the number of job postings, in the Highlands and Islands, have only declined by 35% thus suggesting that the demand for labour in the area has not been as severely affected as has been the case in some other regions.

Figure 31: Total furloughed per 100 of the 16-64 population in Argyll and Bute on 31st May[FK14] 2020



Source: The Improvement Service
https://isresearchnc.shinyapps.io/covid_economic_impact/

Figure 32: Change in job postings between May 2019 -2020.

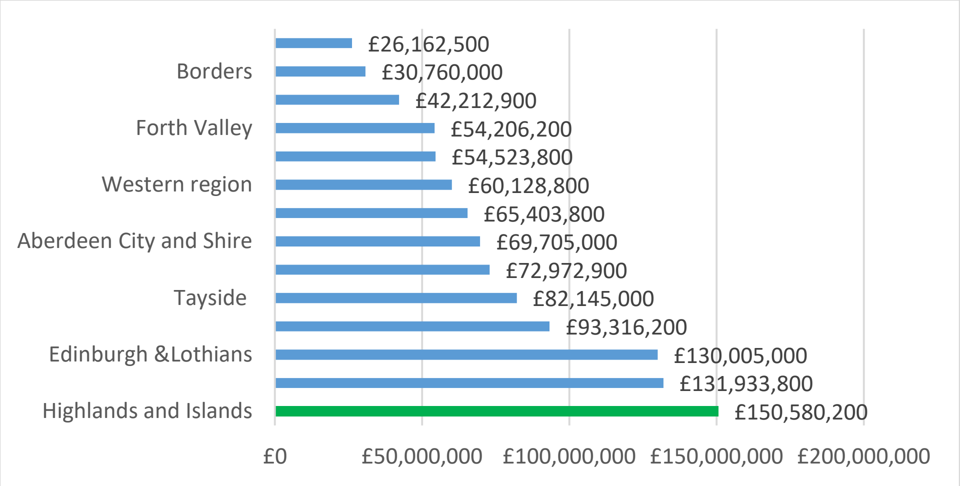


Source: Skills Development Scotland- Covid-19 Dashboard

7.6 Impact of mitigation measures in Argyll and Bute

Figure 33 highlights that by the 14th July the Highlands and Islands region had been awarded the largest proportion of the Governments' financial assistance packages, with grant awards totalling over £150 million.

Figure 33: Total value of COVID-19 mitigations grant awarded allocated to Regions in Scotland as of the 14th July[FK15] 2020.

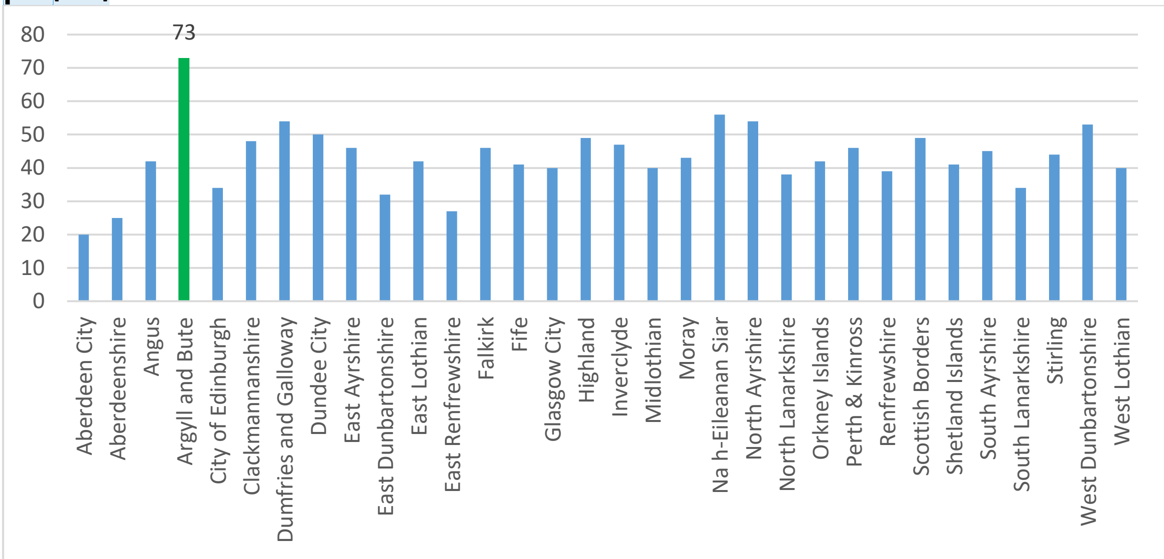


Source: Scottish Government (July, 2020): https://www.gov.scot/publications/coronavirus-covid-19-business-support-fund-grant-statistics/

When we drill down into local authority level, a similar picture emerges. Figure 34 demonstrates that by the 30th June the Council had allocated 3,117 Business Support Fund grants to small and micro businesses, which is substantially above the Scottish average and considerably more than any other local authority.

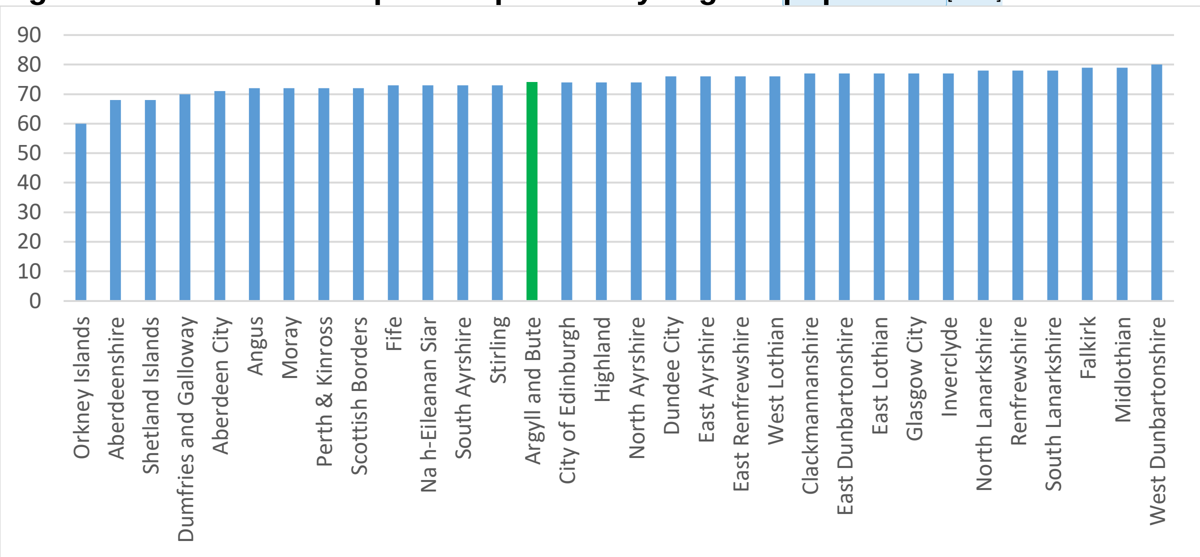
Although the amount of grant awarded through the Self-Employment Income Support Scheme (SEISS) was slightly less than the Scottish average as can be seen by Figure 35.

Figure 34: Business Support Fund grants allocated as of 14th July 2020 per[FK16] 100 small and micro business



Source: The Improvement Service
https://isresearchnc.shinyapps.io/covid_economic_impact/

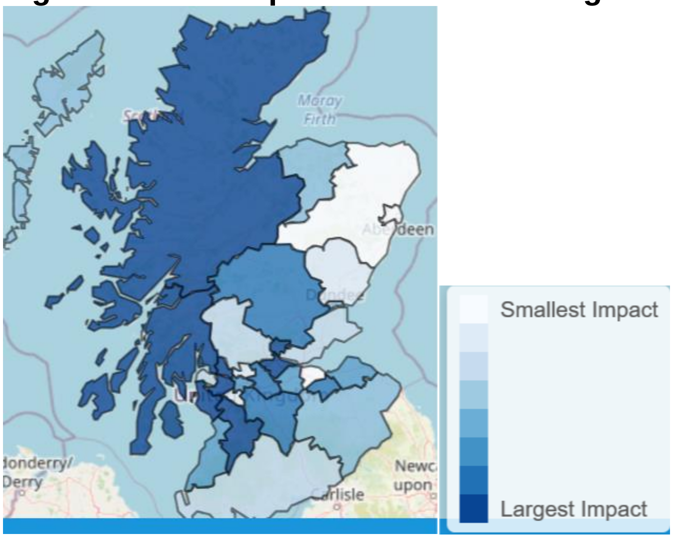
Figure 35: SEISS claims per 100 potentially eligible population[FK17]



Source: The Improvement Service
https://isresearchnc.shinyapps.io/covid_economic_impact/

When the impact of the combined COVID-19 mitigations measures were examined by the Improvement Service, they concluded that Argyll and Bute along with Highland Council had seen the largest impact from the mitigation funding package as can be seen in Figure 36.

Figure 36: The Impact of Covid-19 mitigation measures



Source: The Improvement Service

8.0 CONCLUSIONS

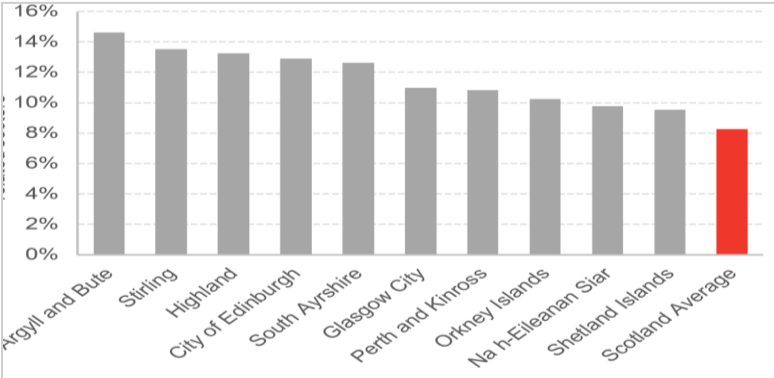
While this paper recognises that there will be severe and deep economic impacts of both Brexit and COVID-19 it also acknowledges that the full extent of these are currently unclear and subject to change so it is important for policy to adapted to address these issues as they evolve. The economic assistance packages provided by the Government has plugged the gap in the short term however the longer-term situation remains very uncertain. The Scottish Government's report "State of the economy" published in April 2020 analyses of the economic impacts of COVID-19. It paint a very bleak picture for the country as a whole, with a 33% reduction in GDP coupled with a significant escalation of unemployment and predictions of a 12% reduction in growth. How the Government plan to mitigate against these bleak forecasts will become apparent when the Scottish Government respond to the recommendations of the Advisory Group on Economic Recovery.

Nor is it possible to assess the full economic implications of Brexit until after the transition period, which terminates in December[FK18] 2020.

8.1 The crash of the tourism sector what does this mean for Argyll and Bute?

Prior to the pandemic the tourism sector in Argyll and Bute had shown strong performance and growth which was important to the local economy due to Argyll and Bute being more reliant on tourism than any other area in Scotland (as depicted by Figure 37).

Figure 37: Percentage of employment in tourism related services[FK19] **in 2020**



Source: Fraser of Allander Institute

A substantial proportion of Argyll and Bute's GVA comes from the tourism sector; hence, the Government's lockdown policies in the first few months of the tourism season had a catastrophic impact on the sector. ONS reported that sectors most reliant on tourism had been most severely affected namely Accommodation & Food Services (down 89.8% over three months) and Arts, Culture & Recreation Services (down 54.3% over three months).

According to the Scottish Chambers of Commerce, cash flows in tourism businesses in Scotland have declined by 95% demonstrating the extent of the crisis. The sector reopened on the 15th July 2020, but revenues that would have been gained in the first half of the season have been lost and although cash flows will improve, they will not return to pre-pandemic levels this season.

These findings validated by a survey, which examined the number of debit card transactions in various towns across Scotland. The extent of the decline is extremely varied with Oban seeing a 68%[8] reduction in spend while Helensburgh only saw expenditure reduce by 31% and Campbeltown's expenditure only decreased by 28% compared to the previous year.

This indicator suggests that the impact of the pandemic is more severe in Oban than in Helensburgh or Campbeltown this may be due to Oban being more reliant on tourism.

According to the Glasgow Caledonian University 'Scottish Visitor Attraction Barometer', in 2019, Argyll and Bute's 38 attractions received 61,423 visitors. Due to lockdown, the 2020 season was unable to start until mid-July and attractions did not receive any visitors until then. This reduction in visitors, at attractions, is one reason why spend in the area has diminished. Tourism is not just important in itself with visitors' spending money in the local economy

[8] Source: https://www.sundaypost.com/fp/town-and-out-spending-data-reveals-savage-impact-of-covid-across-scotland/

but tourism supports jobs and economic activity throughout the supply chain. In addition, employees spend money in the local economy, which in turn contributes to local businesses viability. The Fraser of Allander Institute state tourism activities “make up a disproportionate number of jobs in these local areas, and have large local footprints in their communities”. The lockdown has precipitated a sharp loss of employment in communities reliant on tourism; this could force people out of the area to find employment elsewhere. Tourism is a significant employer in rural Scotland, representing 15% of the workforce in Argyll and Bute. In addition, 40% of employees in this sector are under 25 years old; this group finds it easier to relocate outside the authority to find work. However, the impact of this on the local area would be extremely negative as it accelerates population decline.

Economists consider that tourism is the sectors most negatively impacted by COVID-19 and when all of the indicators in the sectorial section of this paper are analysed it found that the accommodation and food sectors and the arts, recreation and leisure sectors are the worst affected and these are the sectors most supported by tourism. However, the Scottish Government has provided specific financial support to this sector to plug the gap in the short term and ensure that a many businesses in this sector continue to trade. In addition on the 29th July 2020 the Scottish Government announced millions in support packages to provided financial incentives to hotels to retain their staff. The tourism sector will also be supported by the complementary pledges, made by the Scottish Government over the last week, providing a considerable fiscal stimulus package for the leisure and recreation sector. This targeted support should protect tourism businesses and jobs in the short term. In the medium to longer term, the OBR forecast that the sector would bounce back as there is a pent up demand for holidays.

8.2. What does this all mean for Argyll and Bute’s productivity?

There is a considerable variation in sectorial productivity as well as variation between the sectors that are productive for the authority and the sectors, which contribute to the nation’s productivity. Argyll and Bute relies on agriculture, forestry and fishing, public sector and accommodation and food sectors considerably more than Scotland as a whole conversely it relies less on retail, and financial and insurance services.

The GVA in Argyll and Bute has increased by a 1/3 from 2008-2017 however it remains low when compared with the national figure. Although the authority is closing the gap, and moving closer to Scotland’s level of productivity. According to the Federation of Small Businesses as of the 31st May[FK20] 2020 the Highlands and Islands and Argyll had the highest number of businesses equating to 64% which were closed. This is significantly higher than the Scottish average of 53% which could see a widening of the gap next year. However, this may be a very short term blip as a large proportion of businesses in Argyll and Bute are in the tourism sector and the law prohibited them from opening until the 15th July[FK21] 2020.

8.2.1 Tourism productivity

Prior to Covid-19 economic forecasts predicted that tourism would be the main contributor to the areas output. In the current climate, this prediction is a cause for concern, as the sector does not present well against any economic indicators. Output collapsed in the first half of the season however, the sector has reopened and there is likely to be a rise in ‘staycations’. This rise in staycations has been precipitated by fear or travelling due to the Corona virus and the uncertainty about the need to isolate after returning from aboard thus reducing the demand for foreign holidays. The Government’s support packages and the increasing demand fuelled from staycations will rally the sector this season and as stated above the OBR forecast that the sector will bounce back and will not suffer any lasting damage so output will not be affected in the medium to long term.

8.2.2 Agriculture, Forestry and Fishing

The agriculture, forestry and fishing sector’s future is ambiguous as it prepares to leave CAP (Common Agricultural Policy) at the end of the transition period. Expert’s views vary widely on the implications of this exit from CAP but they all conclude that impacts will only be fully realised next year. The severity of the impact is dependent whether a favourable trade deal is negotiated with the EU and third countries. While the impacts on the sector from Brexit could be negative, the impacts of COVID-19 is the medium to longer term could potentially provide new opportunities for this sector, as there is a desire to be more self-sufficient in food production and having more reliable local supply chains. Unfortunately, in the short term the sectors output has fallen by 7.7% since February although this appears a sharp decline it is not particularly significant when compared to other sectors for example the construction sector experienced a 39% plummet in output. The decrease in output in the agriculture forestry and fishing sector is primarily due to the sharp reduction in fish landings during April, although this picked up in May the fishing industry remained subdued. Agricultural output also reduced as the demand for some products softened during lockdown.

8.2.3 Energy productivity

The Rural Growth Deal predicted that the energy sector would contribute almost as much as tourism to the area’s output. This a welcomed forecast, as generation of renewable energy has not been dulled by the pandemic, hence the authority may be less vulnerable to the economic shock, caused by COVID-19 than the nation as a whole.

In the short term, it may not be an attractive sector to invest in due to the low oil price. Although it could be an important sector in medium term as some economists believe that the COVID-19 crisis has hastened the demise of the oil and gas industry paving the way for more opportunities for green energy generation. In addition the Scottish Government’s requirement to be net carbon zero by 2045 to mitigate the climate change and this will require not only greener energy generation but also implementing energy saving measures. All of these activities would considerably benefit Argyll and Bute's economy.

8.2.4 Food and Drink

The food and drinks sector is a significant contributor to the Argyll and Bute economy. The sector was a strong performer prior to COVID-19 however; the manufacture and distribution of food and drinks produce has been severely impacted by the closure of cafes and restaurants. The impact however could been mitigated or businesses could even have experienced growth if they had a strong online trading presence, companies who already traded on-line had the potential to obtain market share from those companies who had no experience of on-line trading. If businesses in this sector were agile, they will have been able to benefit from new market opportunities.

8.3 What does it mean for Argyll and Butes' occupations and employment?

Argyll and Bute is characterised as an area of low wages, this is especially true for women. To exacerbate problems of low wages, the area saw a reduction in full time employment in the last few years. Coupled with low wages and part-time employment, employment patterns also incorporate a high degree of seasonal employment. Citizens, who have low wages, part time work and seasonal work find it extremely difficult to get onto the housing ladder, as lenders' are often unwilling to provide mortgages to those with this type of employment pattern. Covid-19 has exacerbated these challenges, as it has had a disproportionate economic impact on low paid sectors like non-essential retail, catering and hospitality although those working in other low paid sectors such as food retail and the care sector have not had their income affected by the pandemic.

The authority has lower rates of unemployment that Scotland as a whole, the numbers of those unemployed have been consistent and relatively low. The economic implications of Covid-19 has resulted in the rate of unemployment surpassing the national average. In the short-term, the economy has suffered more severely than other parts of the country as the change in employment rate is most marked in Argyll and Bute. The collapse of the tourism sector in the first half of the season as well as closing non-essential retail are possibly the reasons for the steep rise in unemployment. With the reopening of both sectors, it is feasible that unemployment will decrease and the OBR's prediction that the tourism sector will bounce back quickly and will not suffer lasting damage will be realised. The PMI figures in July also demonstrate the retail sector has bounced back with record levels of monthly growth is it almost reached pre-pandemic levels of sales. Therefore, in the medium to long term, Argyll and Bute may see a widening gap between itself and the nation as other sectors in other parts of the country may not be able to recover so quickly.

So, Argyll and Bute's economy could be insulated from the most sever impacts of the Covid-19 crisis if important sectors like tourism bounce back and the opportunities in renewable energy are realised. Employment decline could be mitigated as a high proportion of employment, in the area, is in the Public sector. Employees in this sector have been able to continue to work through the health crisis albeit from home. Employees in the public sector have not had a reduction in income due to the pandemic. In contrast, those employed in the hospitality sector and non-essential retail sectors have been servery impacted by the downturn. Now that most sectors have reopened Public sector employees have spending power to prime the economy. In the medium to long term, having a large proportion of employment on the public sector payroll may constitute an economic weakness as the enormous costs of the pandemic borne by Government will have to be repaid and this could result in tightening of budgets and reducing funding for some sections of the public sector.

Argyll and Bute has a greater share of it population in self-employment than the country as whole. Survival rates of new businesses suggest that this is a more precarious employment option however in Argyll and Bute survival rates are higher than the Scottish average and local businesses have demonstrated that they are adaptable and resilient. Although business confidence due to the impending exit from the Brexit transition period was lower than it had previously been, ¾ of businesses in late 2019 still felt optimistic about the future and over half of the businesses planned to grow suggesting the economy was in good shape.

Then Covid-19 arrived. The Fraser of Allander Institute consider that the self-employed are more vulnerable as many of these small businesses have little or no reserves to wait out a protracted slump. As Argyll and Bute has an elevated rate of self-employment, it is reasonable to assume that the area would be more vulnerable. However, in the short term these vulnerabilities should be mitigated as the Council awarded a far greater number of Business Support Funding to small and micro businesses. Also according to the Improvement Service Argyll and Bute has had the largest impact from mitigation funding packages. In the medium to longer-term, however the risks are still very real. Therefore, as Argyll and Bute has a disproportionate amount of self-employment this means that the area’s economic future could be more fragile.

Historically the area also has had less of the population employed in higher paid professional occupations. However, the ‘new normal’, which we have emerged from after the Covid-19 lockdown, may increase the number of professional occupations in Argyll and Bute. If homeworking is established employees who are able to work from home may choose to relocate to a less populated area like Argyll and Bute.

Although only a small percentage of the population are employed in the renewable energy sector the area has huge potential to grow, and as such could be the source of future employment opportunities.

8.4 What does this mean for Argyll and Bute's demography?

The declining and ageing population will have a critical impact on the economic base within Argyll and Bute. The working age section of the local population is reducing significantly and natural factors alone will not be sufficient to counter this trend. Net in migration is the key solution. The concern is that housing investment is constrained by demographic trends, resulting in insufficient supply of suitable housing. This in turn prevents businesses being able to recruit and retain essential incoming workers who are required to sustain the fragile rural communities resulting in a spiral of decline. To precipitate in migration the Council established the 'Rural Resettlement Fund" to attract people to live and work in Argyll and Bute. As of the 24th May 2018, the 'Rural Resettlement Fund' had successfully encouraged more than 170 new residents to move to Argyll and Bute.

The COVID-19 pandemic has changed the way people work. Home working has become established; even in organisations previously resistant to this way of working. Being able to work at home may enable more people of working age to relocate to the area and continue to work remotely. This could provide the area with an increase in families and higher income earners. To this end, the Council are investigating how it could use the Strategic Housing and Investment Programme (SHIP[FK22]) to incorporate homework spaces into new build homes.

8.5 What does this all mean for housing?

Pre-pandemic improving access to affordable housing was cited a key government policy and the infrastructure stimulus could have resulted in considerable new build programmes. However, since the arrival of the pandemic and resultant health crisis which has facilitated an economic crisis. It is far from clear if the infrastructure stimulus will still be available as the economic damaged caused by the pandemic may prevent the Government from being able to invest in infrastructure and this may meant that the country returns to a programme of fiscal contraction measures, better known as austerity.

The Fraser of Allander Institute believe there will be a softening of demand for housing with a sluggish housing market however others predict that house prices will move significantly downwards due to the high levels of uncertainty caused by COVID-19 and Brexit. The precarious economic situation has caused lenders to reduce the level of risk they are exposed to when lending. Hence, new mortgage applicants are required to contribute a larger proportion of the mortgage to reduce the lenders risks, which will increase the difficulty in purchasing housing resulting in more demand for rented accommodation.

On the other hand, if there is a surge in the number of 'home workers' currently located elsewhere to relocate then Argyll and Bute this could precipitate an increased demand for housing.

In addition, due to Covid-19 retired people maybe even more attracted to move to the area as it has low population density and vast amounts of outdoor space providing a safer and healthier environment will would also precipitate an increase in demand for housing.

8.6 Economic Recovery Plan

The impacts of the pandemic and the rapidly impending termination of the Brexit transitions period could have severe economic implications; there will be casualties however, there will also be economic opportunities to grasp. The Council is working with key economic partners to develop an economic recovery plan to mitigate the severity of the impacts and identify emerging opportunities.

8.5 Implications for the Housing Needs and Demands Assessment (HNDA[FK23]) – future scenarios

To calculate the requirement for new build housing over the next five to ten years, local authorities must agree on a range of potential scenarios for future demographic and economic trends. Based on the analysis of the available data presented in this paper it is proposed that the following four scenarios should form the basis of the economic component of the HNDA.

Scenario 1: Rapid decline- This downturn is the deepest in history. The OBR, the Bank of England and the Fraser of Allander Institute estimate that the COVID-19 pandemic will result in a national reduction in growth of around 12-13% in 2020. Growth projections for subsequent years will be dependent upon how quickly the economy bounces back. The lockdown facilitated behavioural change and growth will be dependent upon whether these changes are permanently adopted, even if changes are reversed the speed at which they do so will have an impact on growth. Some economists predict that in Scotland could lose 180,000 jobs and have unemployment rates of 10% levels, which have not been seen since 1994. Although pre pandemic Argyll and Bute had a lower than average level of unemployment the pandemic has accelerated unemployment in the area to be slightly above national levels and hence if this continues long term then the area would have unemployment rates of more than 10% forcing people to relocate to find work. To compound the difficulties outlined above it is a realistic possibility that there will be a second wave of the pandemic later in the year or early next year. It is also looking increasingly likely that the UK will fail to negotiate a favourable deal with the EU. Therefore, this would mean that when the Brexit transition period ends in December the UK would trade with the EU on less favourable terms. If either or both of these situations are realised, this would have severe impacts on an already damaged economy struggling to recover and would result in many economic sectors returning to chaos and decline in a double dip recession.

Scenario 2: Slow decline –Prior to COVID-19, Argyll and Bute’s economy was precarious and fragile due to the structure of the local economy and the demographic trends, which were likely to facilitate economic decline. Post

COVID-19 on the face of it Argyll and Bute's economic outlook is bleak as the area has a large tourism sector, which has been hardest hit by the pandemic. There is optimism that this is only temporary and the tourism sector will bounce back but there is divergent opinions on how quickly the bounce back will occur. In this scenario the economy has sharply declined but to a lesser extent than forecast nationally, due to the fact that public sector employment account for a third of Argyll and Bute's employment and this is predominately unaffected by the unprecedented downturn. In addition, the short-term downturn in the tourism sector could be somewhat offset by the new opportunities for growth in the renewable energy sector. The new legislation, which is shelfed in the short term, requiring Councils to provide childcare provision for 2 year olds also creates new economic opportunities in the medium term. Over the 5 year period the sharp decline caused by the pandemic will be offset by a relatively quick bounce back. However, the economy will not return to previous levels and hence over the period growth would equate to minus 1% to minus 2%.

Scenario 3: Flat /static /following Inflation– This is a more optimistic view where the economy is flat or static. In 2019, the economy grew by 0.8% but inflation was 0% meaning that if the economy followed the inflationary curve, it would remain static. The Government in the wake of the COVID-19 economic crisis has made unprecedented level of fiscal support to plug the gap in the short term, thus keeping businesses on a stable footing at least in the short term. In subsequent years, there would be a quick bounce back to pre COVID-19 levels, as the decline was not caused by economic instability but rather due to Government policy to shut down the economy. In this scenario, economic activity has just been temporarily paused, creating a V shaped recession characterised by short-term steep decline followed by a steep recovery, resulting in the economy over the medium term remaining static. The areas economic recovery plan in this scenario would effectively mitigate the impacts of Covid-19 and Brexit. In this scenario, there would be zero growth.

Scenario 4 Low growth – This is an optimistic view where the area effectively capitalises on the potential opportunities arising from the aftermath of the pandemic. With considerably more employees provided with the tools to work at home and the improved connectivity, due to the rise in fibre broadband in many locations, coupled with the rapid rise of technological solutions it is feasible that employees could relocate to Argyll and Bute from other areas and continue to work remotely. In addition, the publics increased concern about the "Climate Emergency" declared by the Government and the resultant net zero carbon emissions targets may also be a driver for employees to take the opportunity to work remotely in an area with a healthy environment.

The climate emergency also creates fertile ground for the area to expand its renewable energy generation capacity and maximise opportunities related to this sector. COVID-19 may also have hastened the demise of the oil and gas industry thus creating new opportunities in the renewables sector.

There is a likelihood that staycations will become more common due to the health implications of travel, and very changeable quarantine requirements for those returning from abroad. In addition, there is a prediction of higher priced air travel in the medium to longer term due to a smaller industry with less competition. Argyll and Bute is well placed to attract these tourists. If the infection rate in the UK falls then international tourists will be attracted to the area due to the low value of sterling.

[FK24]Prior to COVID-19 the Scottish Government introduced legislation requiring local authorities to provide nursery provision to all 2 years olds. This has been on hold in the short term due to the pandemic but will result in growth in the medium term according to economic forecasts. Some of the areas local businesses have considerable experience of on line trading due to their remoteness from market and they could potentially grow if they are able capitalise on the fact that many competitors were unable to or are not used to trading in this way. This could result in businesses increasing their market share and hence growing their business. If other local businesses are agile and able to adapt they could capture some of these new opportunities.

In addition, the Argyll Rural Growth Deal can invest in sectors, which will promote local growth. The areas economic recovery plan in this scenario would not only mitigate against the impacts of Covid-19 and Brexit but also grasp the emerging opportunities. In this scenario, growth over the 5-year period would be around 1%-2%.

Other scenarios proposing say “modest” or “reasonable” growth over the next five years are highly unlikely given the economic uncertainties that still exist from the Brexit process as well as the economic impacts from COVID-19.

8.6 Key issues for the Local Housing Strategy (LHS[FK25])

Economic forecasts are extremely uncertain with the current economic environment in complete upheaval. This paper aims to summarise the broad economic issues against which planning and spatial policy decisions will be taken over the life of the next LHS. The following strategic considerations arise from the preceding analysis and data trends.

- There is a danger that lower housing needs assessments, predicated on declining population and economic trends, will lead to a self-fulfilling spiral of downward investment which in turn further stifles potential household formation and in-migration. It is important that housing investment is maximised. Housing and economic growth are intrinsically linked and a lack of suitable housing can be a key contributor to businesses being unable to recruit and retain staff to grow their businesses and in turn grow the local economy. Therefore, housing has an important contribution to make to the sustainability and growth of the local economy, ensuring that the essential incoming workers necessary to help sustain fragile rural communities can access suitable, affordable accommodation in appropriate locations. This means, in addition to addressing immediate and backlog needs, the development strategy and housing management policies must facilitate aspirational growth in supply of housing for young families and working age households.

- The LHS should assess the availability and supply of housing suitable for professionals who might relocate to the area if they are able to continue to work from home.

- Research carried out by the tourism industry found there was a marked increase in tourists requesting self-catering accommodation; the growth in this type of tourism could further increases the pressure on local housing stock as people invest in properties to rent for tourism. This increased demand drives up house prices making it often unaffordable for local people. COVID-19 has seen the shutdown of the tourism sector in the first half of the season, which in normal times such a sharp decline in the sector would most likely result in a glut of houses previously used for tourism coming onto the market and being purchased as homes. However, the financial packages provided to the tourism sector may have stemmed the flow of property owners wishing to sell. The reopening of the sector for the second half of the season has resulted in an increased demand for self-catering accommodation as customers have more confidence in the safety of this type of accommodation. The LHS should assess if there is a change in demand for short-term holiday lets and ascertain whether more or less properties, previously used for tourism, are available for sale or for rent in the aftermath of the pandemic.

- The economic crisis resulting from COVID-19 has and will continue to result in higher levels of unemployment. In some sectors, employment opportunities may not become available quickly thus ensuring a higher proportion of the population is out of work for a significant length of time. The impacts of this could reduce demand for mid-market rents and increase demand for social housing.

- Another impact of the economic crisis facilitated by COVID-19 is that lenders are more risk averse and hence are less keen to provide mortgages to those they considers higher risk. To limit their exposure, lenders, require borrowers to either provide a higher contribution of their loan. For buyers this requirement to provide a larger deposit to purchase a house will be a further barrier to purchasing and will exclude a greater number of people from being able to get onto the housing ladder. Hence, owner occupation is likely to remain an unachievable aspiration for many local households and there will be a need to ensure that the rented sectors have sufficient capacity to meet increased levels of demand.

- COVID-19 and Brexit will cause a down turn in the economy and as with any downturn some people’s ability to afford their mortgage becomes more challenging and in some case it becomes unaffordable and there is a risk of repossession. In the short term, this risk has been mitigated by the provision of mortgage holidays and other fiscal support packages however this risk remains a real one in the medium to long term.

- COVID-19 and Brexit's impacts will not be universally felt in each of the HMAs. For example Helensburgh has a considerably lower numbers of self-employed and a larger proportion of the population employed in the public sector e.g. defence whereas Oban has a tourism centred employment structure with a high percentage of self-employed and a low percentage of public sector employees. Brexit too will have inequitable impacts on businesses, those who export will be subject to tariffs and barriers to frictionless trade while those businesses who only trade within the UK will be less affected. In both COVID-19 and Brexit some businesses will be winners and others losers. Hence, it is important that local solutions be developed for each HMA rather than a blanket approach being used to tackle the impacts and issues arising from Brexit and COVID-19.

- Increased availability of affordable family-sized accommodation is likely to provide one of the key attractions to potential migrants to Argyll and Bute. It is evident from current population profiles and projections that natural, internal trends (e.g. mortality over birth rates) cannot mitigate the significant population decline, and promoting net in-migration is the only real solution. Housing must play a role in supporting this policy objective.

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