Enterprise M3: Understanding likely Coronavirus impacts

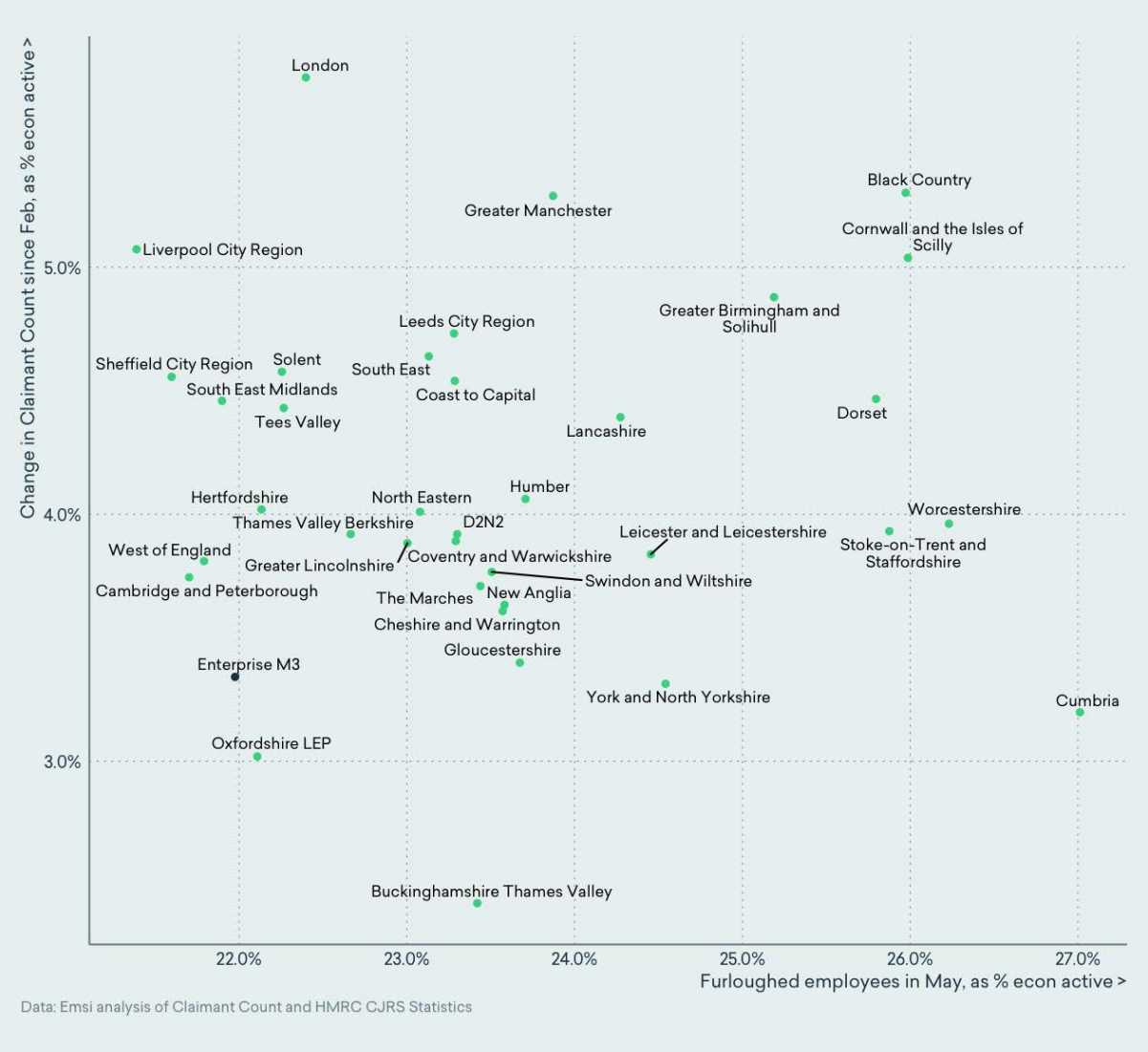
August 2020

Overview

- The Coronavirus pandemic and ensuing lockdown has created an economic disruption of unprecedented speed and scope. Enterprise M3 has not been immune, and within two months saw a doubling of Claimant Count and 22 per cent of resident workers furloughed.
- Analysis of industry data suggests the region's economy is somewhat more affected. At present, we don't know how much of the disruption suggested by furlough will translate into job loss – but we can look to understand its industry and occupation effects.
- We use a model which explores supply effects – workplaces less able to function because of restrictions – and demand effects – customers not spending money. Consumer-facing services bear the brunt on both counts; production sectors are mainly affected on the supply side; business services see supply and demand effects. 25 per cent of jobs are disrupted; alleviation of both supply and demand effects reduce this to 5 per cent.
- Translating industry effects to occupations, and exploring the ability of affected workers to move to different jobs, a large number of low and middle-skill roles are affected. Middle-skill roles are particularly vulnerable because of the lack of easily compatible job roles to move to which aren't also highly disrupted by the same problems.
- Conclusions set out the industry opportunities and risks, and the potential for employment and skills interventions to tackle the labour market consequences of Coronavirus.

Weathering the storm

- As of May 2020, the effects of the Coronavirus pandemic and lockdown are plain to see: for the Enterprise M3 LEP region there has been an increase of 3.5 per cent of the economically active population claiming benefits, and 22 per cent of the economically active population are furloughed under the Coronavirus Job Retention Scheme (CJRS).
- The level of disruption to economic activity is striking; the only positive is that Enterprise M3 is relatively less affected than almost every other LEP region.



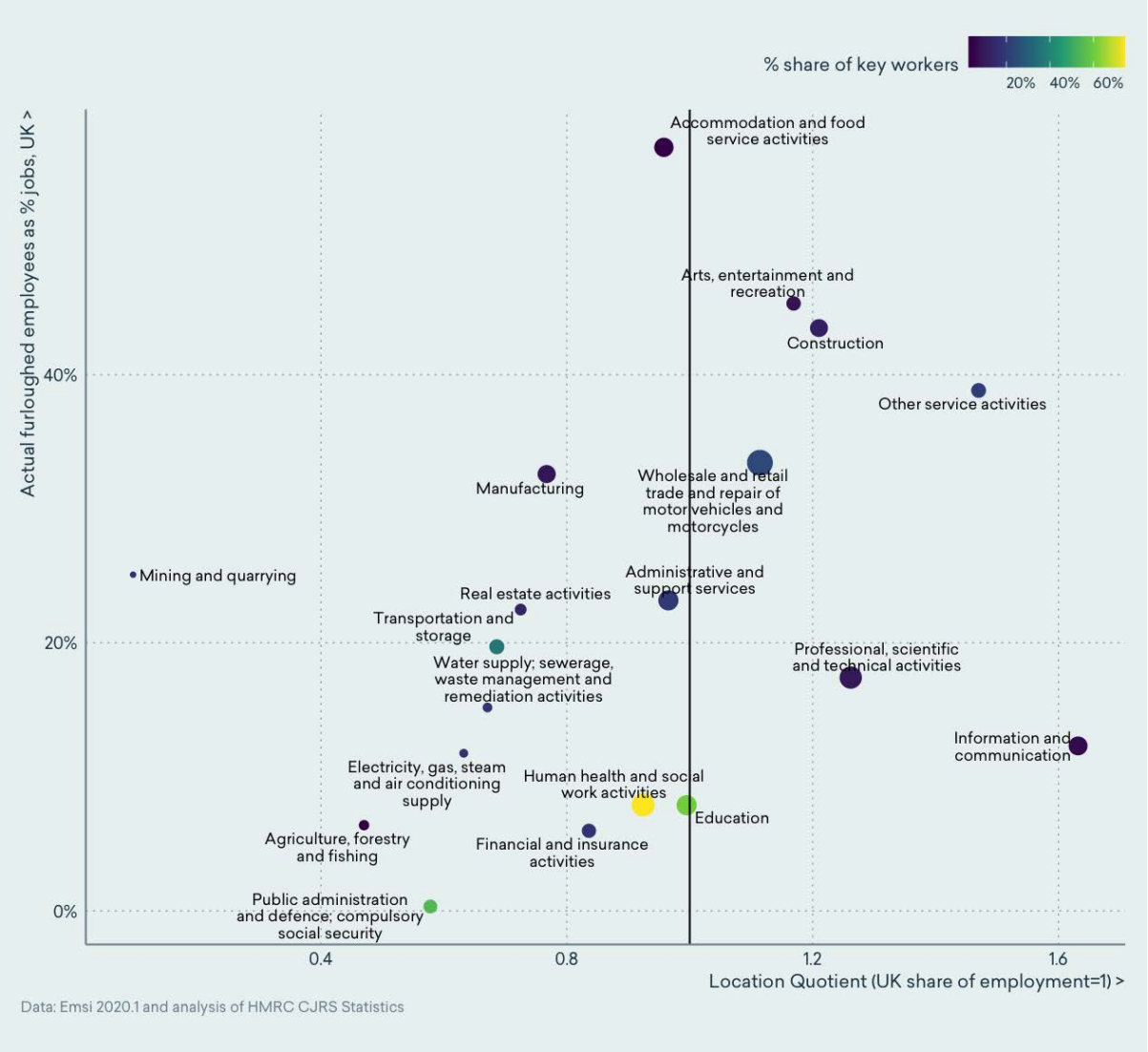
The economy and the workforce

- As known to the LEP, the position of the EM3 region as a high quality residential location for professional commuters leads to a significant difference between *resident* economic activity and *workplace* economic activity.
- Using industry data on furlough, we produce a modelled estimate of furlough-like disruption for the *workplace* economy and we can see that EM3 is significantly more affected: an estimated 24.5 per cent furlough for workplaces, compared to 22 per cent for residents.

Data: Emsi 2020.1 and analysis of HMRC CJRS Statistics

EM3's economy amid the Covid crisis

- We can see why the workplace economy is seeing an impact from the pandemic and lockdown here.
- Location Quotient is a ratio of how much jobs are concentrated in a regional economy, where e.g. an LQ of 1.2 means the region has 20 per cent more jobs than national levels would suggest.
- We can see here that the EM3 region has relatively more jobs in several high-furlough industries: arts, entertainment and recreation; construction; wholesale and retail trade.

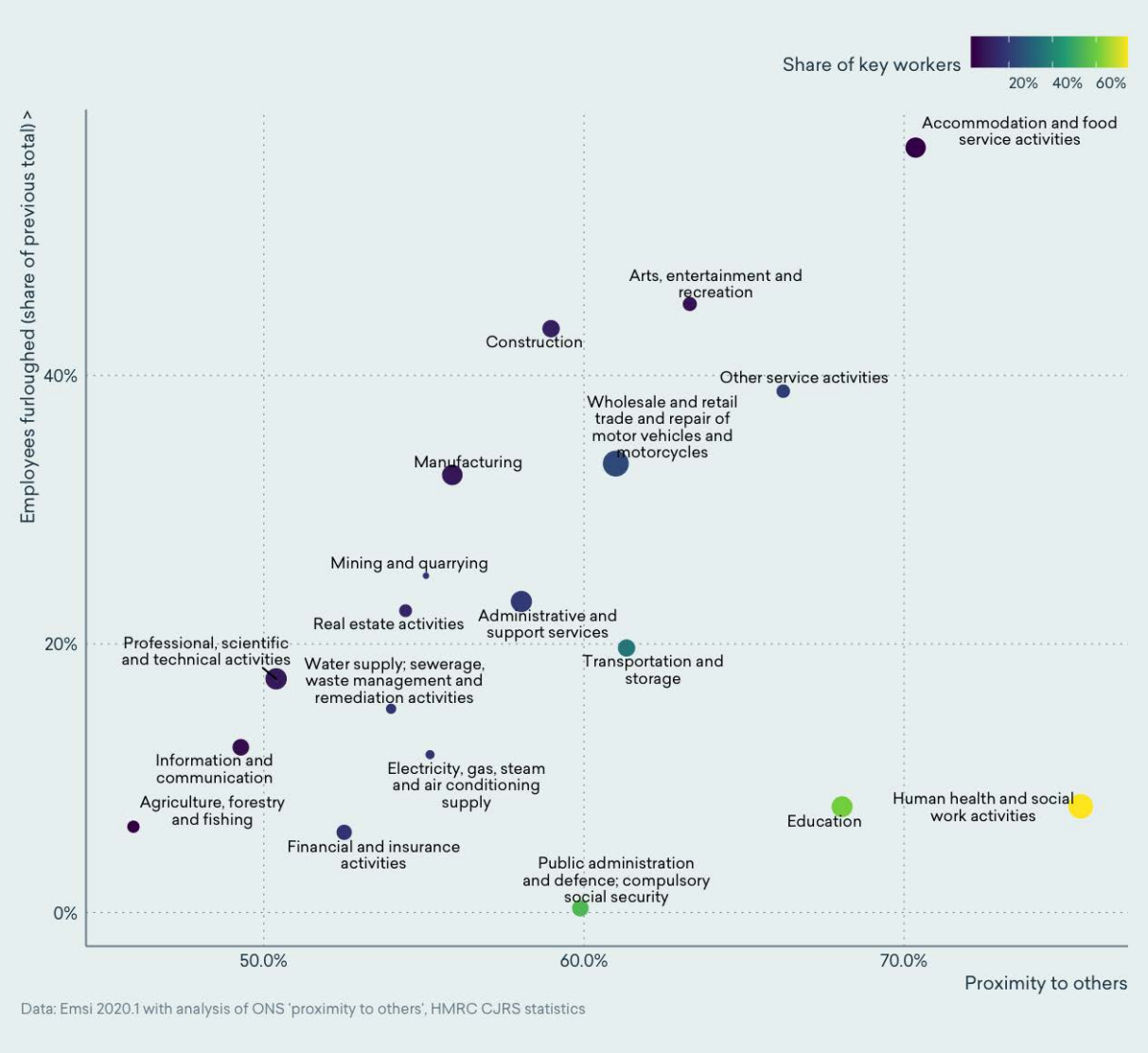


What we can and can't know right now

- A key feature of the Coronavirus crisis has been its speed – from lockdown starting in March, the Claimant Count had doubled in May and around a quarter of workers were in furlough.
- Labour market intelligence takes time to appear, and so we are working with the data that are available. Also, the introduction of furlough means a whole new category we've never had before.
- The critical question as we move ahead will be how much the signs of 'disruption' – i.e. employers choosing to furlough workers rather than keep them at work – reflecting a passing phrase during lockdown or are a sign of job losses to come. At present, we have no data on this either way.
- It is likely that the destinations of furloughed workers will vary by industry and place, and it will take time to find out. But even if we had a good model, we also have an additional uncertainty: as of writing, the UK is alleviating lockdown restrictions, but a resurgence of infections in the autumn or winter could cause their return.
- For that reason, in this analysis we use 'disruption' – as indicated by industries opting to furlough rather than continue operating – as our key metric, and we use the May high-point as our baseline, to understand the range of impact while leaving open the question of how and where this impact will become permanent (job losses) or remain temporary, and return to normal in the months ahead.

Industry disruption

- Using the data on furlough and the ONS measure of how much 'proximity to others' is involved in an industry's work, we can see a strong relationship: more required proximity means more furlough.
- The exception to this is in those industries with a high share of 'key workers': e.g. human health and social work has two-thirds of employees in key worker roles.
- The relationship between these variables builds our model of the supply-side effect of lockdown on industry activity.

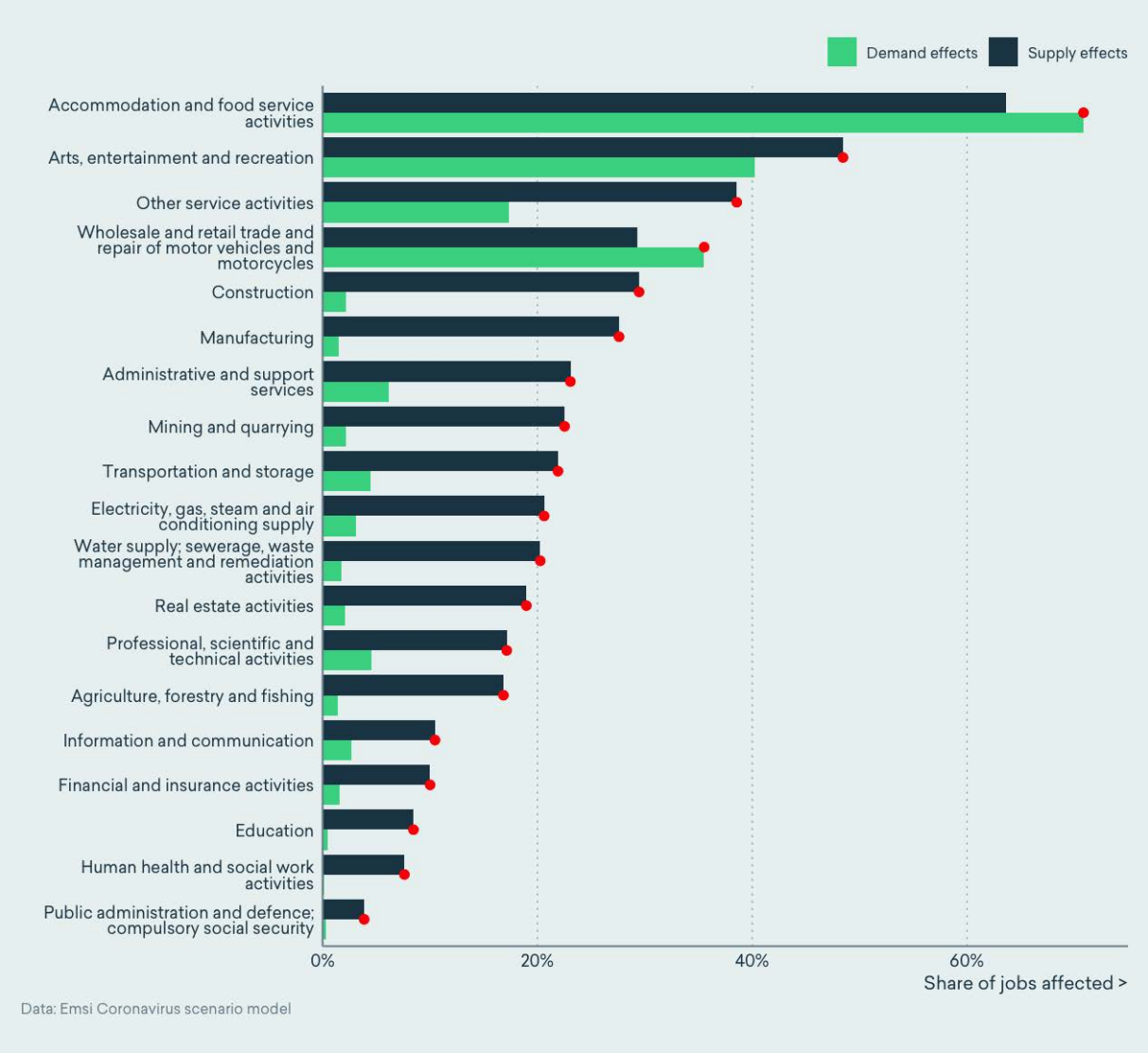


Supply and demand

- The Covid pandemic and lockdown has economic consequences on both the supply and demand sides of the economy.
- Often recessions are driven primarily from the demand-side as households choose to cut back on spending – but the Covid situation combines demand and supply effects.
- Supply-side effects are the result of lockdown restrictions making it difficult for businesses to operate. For example, if a workplace requires physical presence and lockdown restrictions make workers' presence impossible, then an industry is supply-constrained.
- Demand-side effects are the result of consumers not spending money. In the model used here, we look at substantial reductions in spending on accommodation and food service, High Street retail, arts and recreation, and personal services.
- Emsi's Input-Output Economic Model then translates those spending changes through 'multiplier' effects to see their impact on the wide range of industries – e.g. if hotels typically spend money on temporary employment agency services, then a fall in hotel spending will impact that industry also.
- In the full reports, we explore the interaction of supply and demand effects; a key point is that we see demand effects as prior – businesses may be able to work around supply restrictions, but there is no point in doing so if the customer demand is not there.

Baseline for disruption

- Putting together the 'demand' and 'supply' effects of the pandemic and lockdown, we can estimate effects for the EM3 region for each industry.
- This is the baseline of disruption, relevant to the period around May of this year. Green bars are demand effects – customers not spending money – and blue bars are supply effects, with workers not able to do their job.
- Consumer-facing services are hit hard on both; production industries are hit by supply far more than demand; business services are hit less by supply but somewhat by demand.

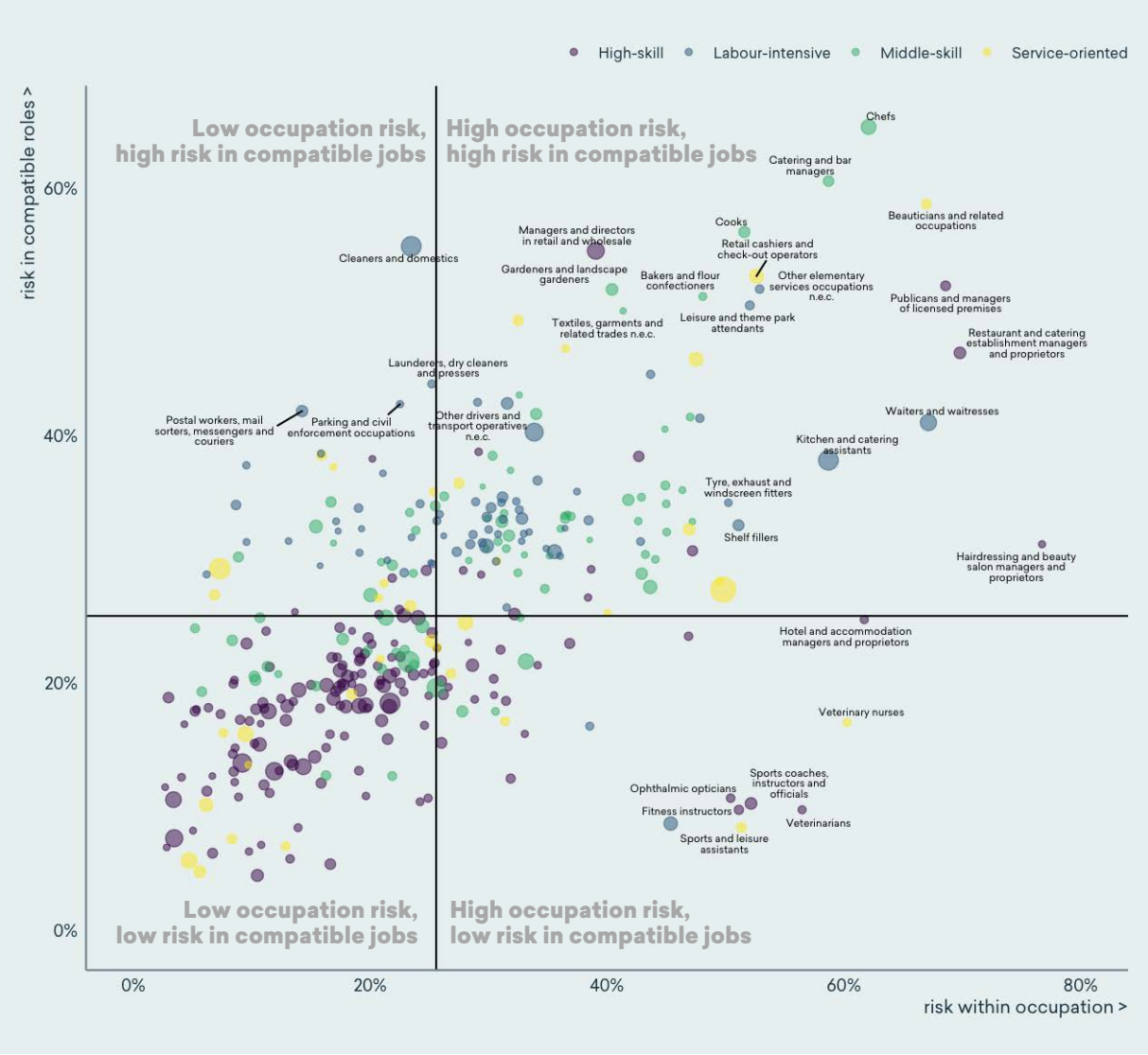


Model outcomes

- Presented is the baseline scenario, reflecting the situation in May – the model estimates 25 per cent of jobs disrupted. Different scenarios look at the alleviation of lockdown restrictions – moving the estimated total to 15 per cent – and then the return of most demand – moving the estimated total to 5 per cent.
- As noted above, these estimates reflect 'disruption' and not the lasting effects. Having been at around 25 per cent in April to June, even if government policy is successful in eliminating most lockdown restrictions and restoring demand, some of those jobs affected in the meantime may not be restored – we await data on this point.
- The combination of sheer size in terms of job numbers, and the confluence of demand and supply effects, mean that accommodation and food services and wholesale and retail trade dominate the numbers of disrupted jobs under all scenarios.

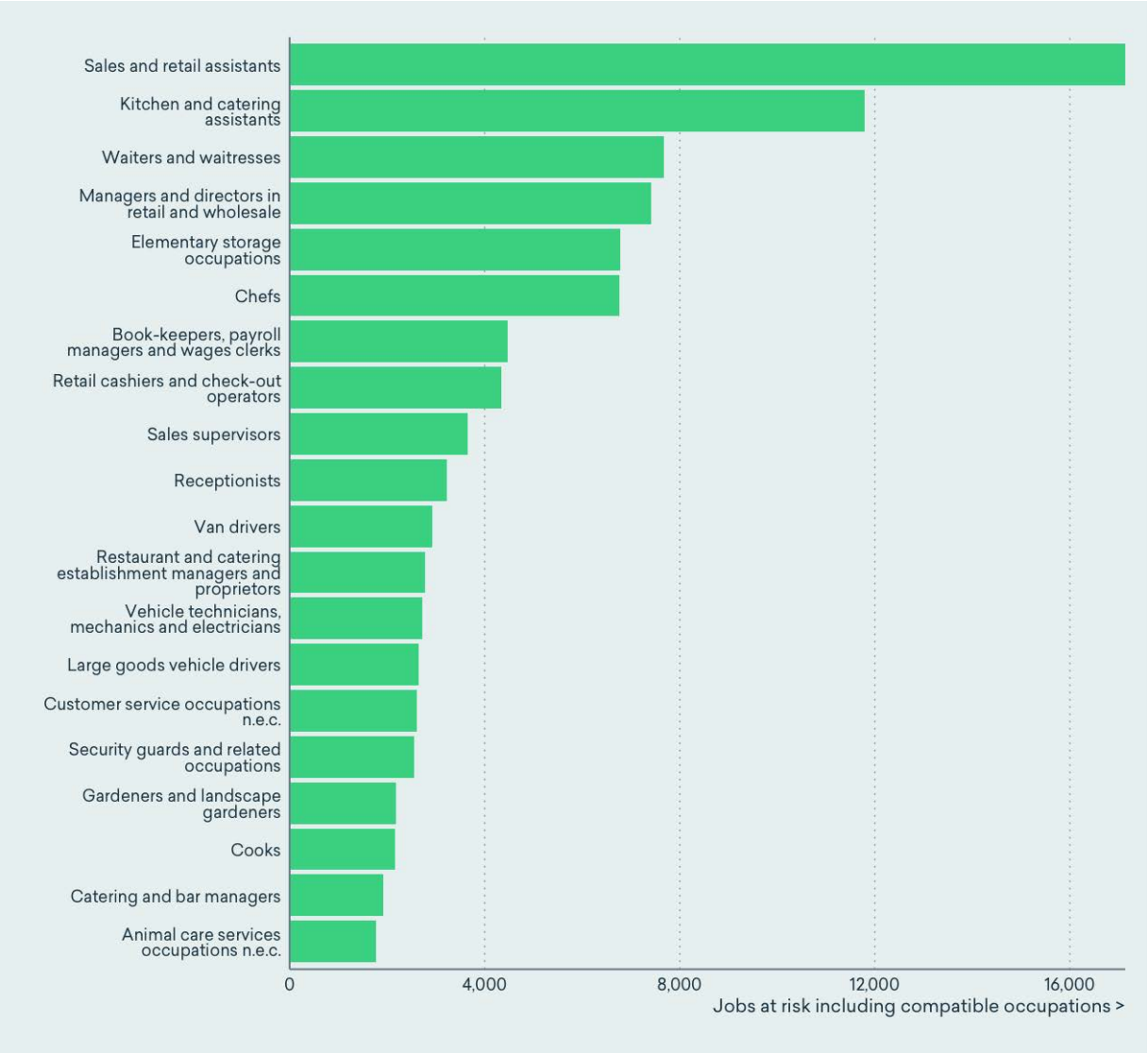
Translating industries to job roles

- We use industry staffing patterns to translate industry effects into the risk for individual occupations.
- We also look at the risk in 'compatible' roles: given the mix of skills an occupation has, what jobs could workers move to?
- We construct four quadrants from these two risk factors – those at top–right face high disruption risk in their own roles but also can only easily move to roles with a high level of disruption risk. High-skill roles are typically in the safest, bottom-left quadrant.



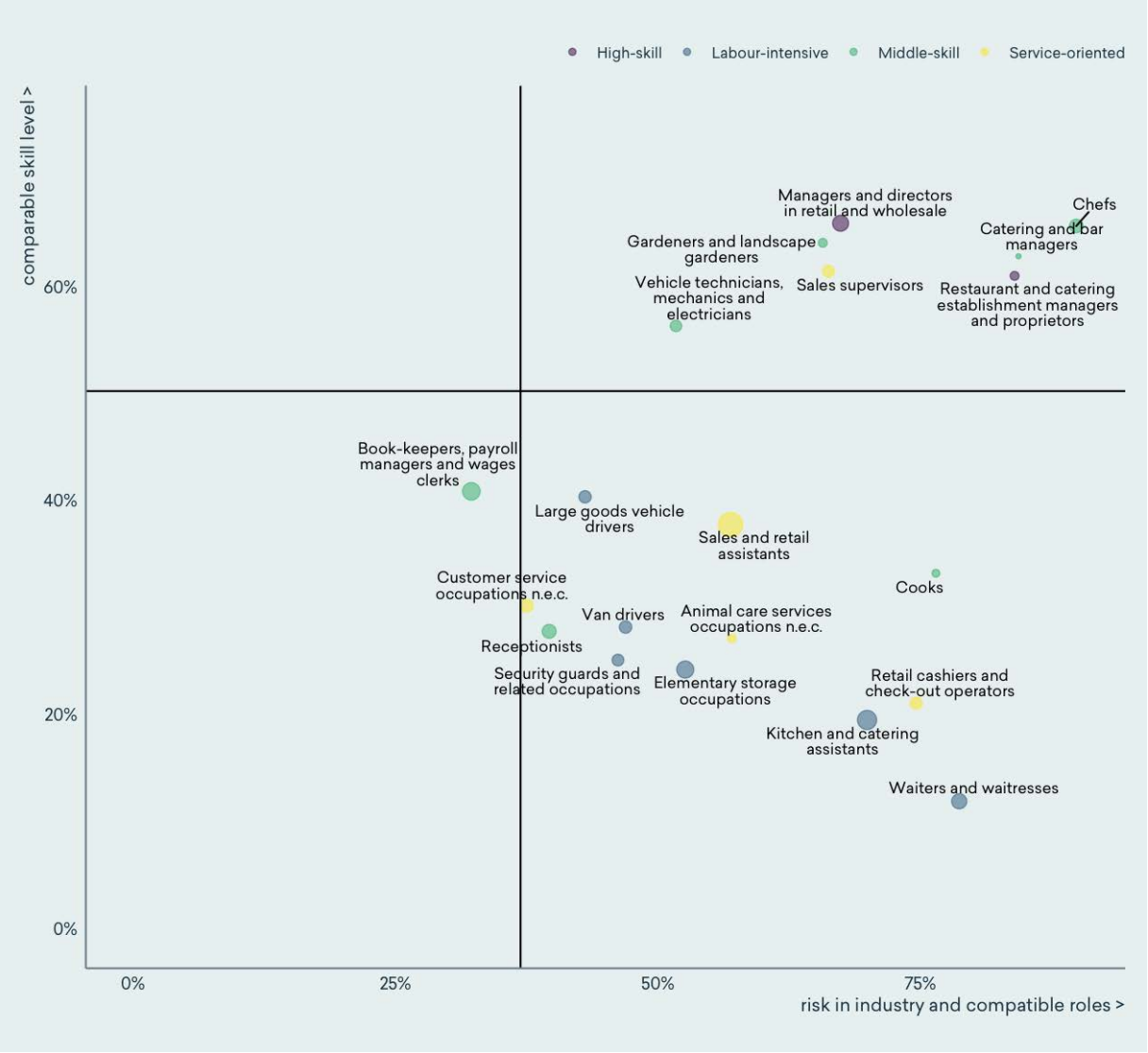
Key roles at risk

- Highlighting those roles in the top right and looking at the volumes of jobs involved, we find them dominated by roles in consumer-facing services: sales assistants, waiting staff, and so on.
- But there is a mix spreading through the supply chain, where significant numbers of other jobs are also at risk, including those associated with workplace presence – e.g. receptionists.



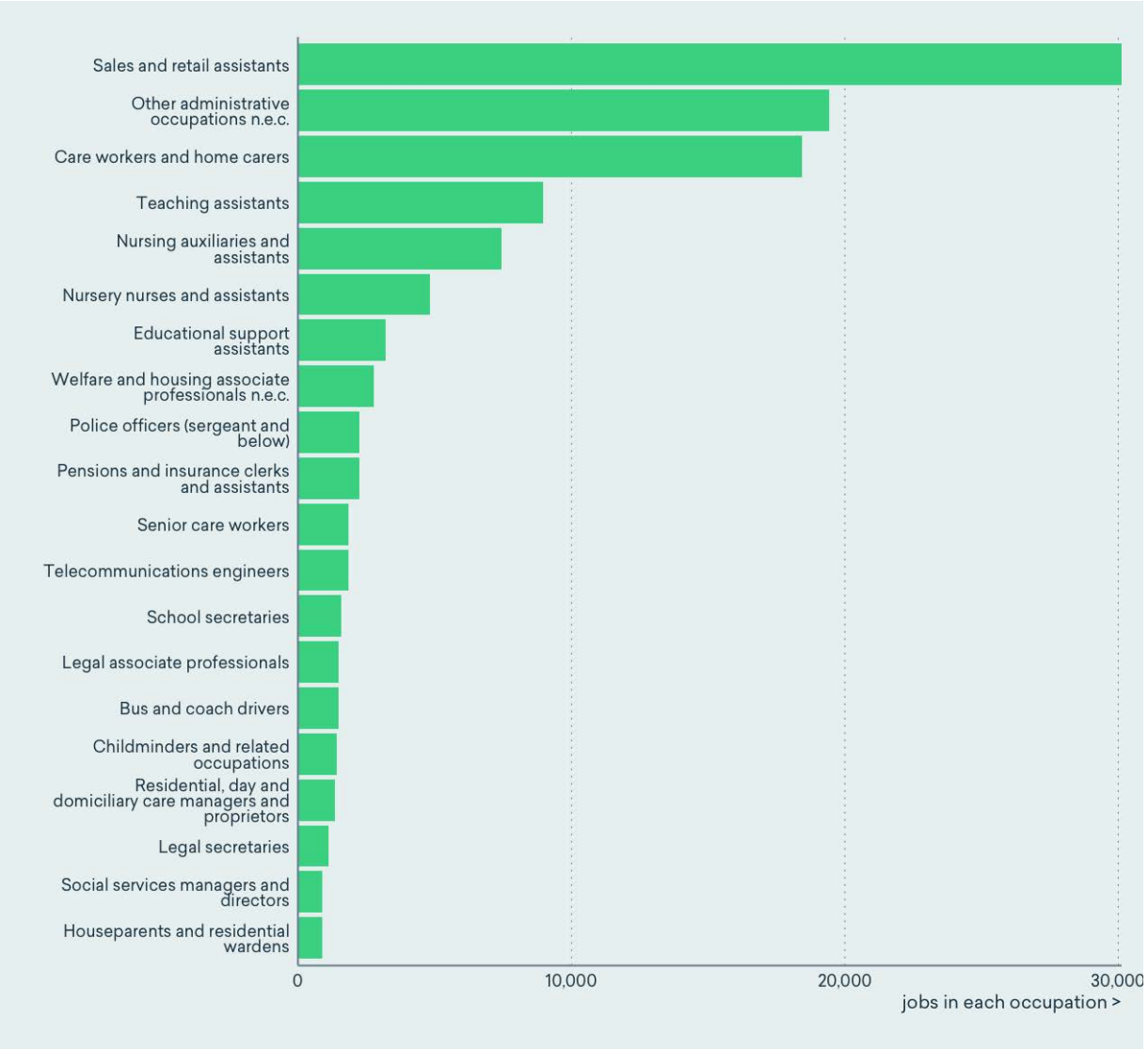
Skill levels and at risk roles

- We use a measure of overall general skills to look at the distinction between these at-risk roles, and they form specific low- and middle-skill groups.
- Analysis of the potential for job-switching shows that the middle-skill at-risk roles are the ones who are particularly vulnerable to disruption.
- Where low-skill roles can normally move to significant other labour markets, middle-skill roles like chefs or retail managers are constrained within their industry unless they 'bump down' and not use their current skills.



Public services dominate ‘safe’ roles

- Using the same analysis in reverse, we can identify the jobs where affected workers will find the least-risk options in the Covid labour market.
- Public services and ‘key worker’ roles understandably dominate the list -- this not only reflects their relative safety but also their size.
- Sales and retail assistants appear here as well as in the at-risk group – that reflects a feature of the wide range of this labour market, where supermarket retail is relatively safe, while High Street retail has been highly disrupted.



Conclusions

- The critical factor in the future path will be the Coronavirus itself. At one extreme, an effective vaccine is soon discovered and distributed and the economy can begin to heal. At the other extreme, there is limited progress on vaccine or therapy, and the economy must adapt to an ongoing threat of contagion. All economic scenarios take place within these scenarios for the virus.
- Assuming some continuation of current (August 2020) trends where there remains a threat but at a lower level, then the next important factor will be how much 'disruption' as analysed here translates into permanent damage to the industries it is found in. The path of unemployment and the recovery of different industries will become important to monitor in this case.
- While the threat of contagion remains, demand-side effects will linger, even if it at a much lower level than in April to June of this year. Supply-side effects will also persist in some ways, with a likely bias to working from home where possible – with significant effects on business operating practices and business location decisions.
- For a region like Enterprise M3 this may present opportunities as well as risks. The region's geography is a network of towns rather than a dense urban centre, making it potentially easier to reconfigure to support socially distanced life. Efforts to rethink transport and employment site infrastructure in this way will become highly valuable.

Conclusions

- Enterprise M3 has in its previous LIS work identified a need to make the region more attractive as a business location to those industries which employ many of its residents. A persistent shift towards home-working opens up opportunities to make progress on just this point – if that shift lasts into the future, the region could gain by developing relationships with those businesses seeking to change their location strategy away from central London and closer to where the workforce often live, if they can find the right operating model and Enterprise M3 can deliver upon it.
- Where such change is successful, it will also mean that those workers' current commuter spend – on transport, but also on other services – will also stay in the region, potentially mitigating the demand-side effect for service industries.
- Turning to the labour market, it seems likely that a substantial number of workers – the majority at low and middle skill levels – have already or soon will lose their jobs. Not all of those jobs will come back, or at least in the same form, or in a short enough time not to present problems.
- The government has announced intentions to invest in employment support for affected workers, and the key challenge will be to help workers adapt as quickly as possible to avoid prolonged 'scarring' – there is a valuable opportunity for the Careers Hub here to enable this process.

Conclusions

- Careers intelligence will be a critical part of this change, to size and value job opportunities and recognise the applicability of past career experience, skills and know-how. The speed of the change means that traditional sources of labour market information will not provide the necessary intelligence – the economy is likely to evolve faster than our traditional measures can monitor it.
- Helping young people leave education and make a successful labour market transition is critical – there is robust evidence on the damage of early career 'scarring' in terms of lasting employment and earnings prospects. Government has announced its Kickstart intervention, and using that effectively within the region will be important in getting young people 'activated' in a difficult labour market. Apprenticeships are always valued for this kind of transition but they do depend on employer demand and so are likely to be affected by disruption just as all employment is.
- In terms of helping those losing their jobs, the critical challenge will be in helping middle skill roles facing disruptions – chief among them we expect to find sales supervisors, retail managers and chefs. They can doubtless compete for low-skill jobs but the better outcome is to support the path to adapting to new roles at similar level – this may require investment in skills at Level 3, and sometimes Level 4 and 5. To do otherwise means seeing them 'bump down' in the labour market, and also adding to competition for low-skill workers.

Conclusions

- The development of the education offer across Levels 3, 4 and 5 will require concerted effort to change – and to do so rapidly, to ensure that interventions can be made at the start of the labour market disruption, and not after it has unfolded.
- Level 4 and 5 has long represented a weak point in the English labour market, which has incentivised supply at Level 3 and Level 6, leaving these levels – often well suited to technical roles – underdeveloped. The emerging situation offers a valuable opportunity to reset education to better meet these needs, and success will likely require contributions from further and higher education.
- None of this is to downplay the continuing value of full degree education and beyond. Enterprise M3's future lies in the development of its frontier industries which are knowledge-intensive, and so the success of the region's universities remains critical.