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ECONOMICS

CORONAVIRUS: ECONOMIC IMPACT SCENARIOS FOR SOMERSET

A REPORT FOR SOUTH WEST COUNCILS

JULY 2020

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JULY 2020

The modelling and results presented here are based on information provided by third parties, upon which Oxford Economics has relied in producing its report and forecasts in good faith. Any subsequent revision or update of those data will affect the assessments and projections shown. The forecasts presented in this report were compiled on 5th June 2020 and include data and information available at that time.

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- Lockdown measures implemented to limit the spread of the coronavirus have led to **a sharp contraction in UK GDP**. Sectors most exposed to social distancing measures, such as accommodation & food services and arts, entertainment & recreation, are particularly affected. Other areas of the economy such as parts of the public sector and sectors where workers are most able to work from home are more resilient.

- Our baseline forecast anticipates that **activity will pick-up in the second half of 2020 and into 2021**, as social distancing measures are relaxed. The recovery will be supported by government policy measures, low inflation and loose monetary policy. Our baseline forecast implies that output will return to its 2019 level by early 2022.

- However, there is much uncertainty around the pace at which lockdown measures are relaxed, the severity of the near-term decline in activity and the degree to which government support schemes limit the increase in unemployment. The epidemiology is also highly uncertain, with the risk of a renewed increase in infections once lockdown measures are relaxed. For this reason, the report includes an upside and downside scenario to show a plausible range of outcomes around the baseline forecasts.

ECONOMIC OUTLOOK FOR THE SOUTH WEST REGION

- Emerging evidence on the impact of the coronavirus crisis indicates that the South West is likely to be hit harder than average by the pandemic. **The South West has high concentrations of sectors hardest-hit in the early parts of the crisis**, such as accommodation & food services and manufacturing.

- And a relatively small share of activity is in sectors that have been most resilient so far and which are expected to lead growth once the recovery phase is well established, such as business services.

- We forecast that the South West economy will contract more than the UK in 2020 and this will lead to substantial job losses and a rise in unemployment. Over the period 2020 to 2025, we forecast the regional economy will grow on average by 1.0% per year, ranking the South West among the weaker-performing UK regions. Brexit contributes to this relatively lacklustre outlook, particularly as the additional trade friction expected will particularly impact the manufacturing sector which is an important part of the South West economy.

SOMERSET

- Our baseline forecast shows that **the Somerset economy will suffer a severe recession in 2020**. GVA is expected to contract by around 8%, broadly in line with the South West economy, with the loss of over 10,000 jobs on average over the year. The Somerset economy will recover to pre-crisis levels by 2022 in terms of GVA and jobs – in line with the South West and UK average. Our baseline forecast is that GVA growth will average 1.0% per year between 2020 to 2025— in line with the South West and slightly weaker than the UK (1.2%).

- However, there exists a **high degree of uncertainty regarding both the depth of the crisis and pace of recovery**. For example, if the government delays the lifting of lockdown measures, or new measures are imposed or support schemes fail to limit a steep increase in unemployment, then the Somerset economy would face a more severe contraction in activity. Under the downside scenario, GVA could fall by almost 13%, taking it back to a level similar to 2012 and would see the economy return to pre-crisis size in 2027, slower than both the UK (2026) and in line with the South West. Employment would recover more quickly than GVA, returning to 2019 levels in 2025, slower than both the UK (2024) and in line with the South West. Local outbreaks and measures to control these are difficult to quantify but would further impact sectors most vulnerable to social distancing measures.

- **Whilst the risks are mainly on the downside, it is also possible that Somerset's economy recovers quicker than we are anticipating,** if restrictions are lifted faster than our baseline assumes. While it is unlikely that this scenario would have a marked impact on 2020, given the depth of the contraction in the first half of the year, it would see a stronger bounce-back in 2021 and GVA would recover to pre-crisis levels in that year, in line with the UK and South West. Employment would recover in 2022, in line with the South West and UK.

- **The Somerset economy has varied exposure to the sectors deemed most at risk to the negative impacts of the pandemic**. Somerset's economy is over-represented in manufacturing, which is experiencing a large contraction in activity as the sector grapples with multiple headwinds, including weak demand and disruption to supply chains. Some reliance on hospitality activity means Somerset is more vulnerable to any delay in the re-opening of the sector than the UK average. The Somerset economy is less active in typically more resilient sectors including business services (such as professional services), information & communication, and finance & insurance, relative to both the South West and the UK overall. Many workers in these sectors have been able to work effectively from home throughout the lockdown, meaning economic activity has been protected much more than in other parts of the economy. These sectors were expected to drive future growth prior to the crisis and areas better represented in these sectors are expected to exhibit stronger growth during the recovery phase and beyond in our latest forecasts. Alongside growth in business services, the public sector—in particular, human health & social work—will be key to Somerset's recovery over the medium term.

- The economic shock will inevitably be felt by Somerset's residents, most clearly illustrated by a sharp increase in unemployment, and a reduction in disposable incomes. **But different groups of the population will be impacted by the crisis in different ways**. Men are at a greater risk of losing their jobs than women, while a high proportion of young people work in sectors most acutely affected, and hence are more affected than older age groups. In particular, those who are 'Just About Managing' are particularly reliant on financial support mechanisms, and by extension are particularly vulnerable should the economic disruption last longer than anticipated.

- Although the coronavirus pandemic will cause significant short-term damage, the structure of the Somerset economy (*what* it looks like) is unlikely to change significantly. The crisis however may lead to changes in *how* the economy operates: social distancing measures and behavioural changes are necessary at least in the short-term, limiting the capacity of public spaces and transport, meaning that places will *feel* different to before the crisis. It may also lead to more permanent behavioural changes in the *way* we work, with anecdotal evidence suggesting firms may be more open to remote working, while firms previously reliant on integrated global supply-chains may review these operating models. Somerset has some pockets of poor digital connectivity and its sectoral structure may limit higher rates of home working in the future.

1. INTRODUCTION

This report was prepared by Oxford Economics to provide a concise-yet-comprehensive evidence base on the impact and implications of the coronavirus pandemic for the Somerset economy.

There remains a great deal of uncertainty regarding the scale of impact of the virus, and of the measures that were introduced to limit its spread.

There is huge uncertainty surrounding economic forecasts as, with no historical precedents, it is very difficult to forecast what happens next. So much will depend on the very unpredictable factors set to shape the wider economic outlook – the speed at which remaining public health restrictions are lifted, how consumers and firms respond, and the future course of the virus and medical advances to combat it.

While our baseline forecast represents our view of the most likely outcome, there is a sizeable risk of a more severe decline in activity. Alongside our *baseline forecast*, we have derived two plausible alternative scenarios: an *upside view* with a similar depth of impact in 2020 but faster recovery in 2021, and a *downside view*, which has a deeper initial impact in 2020 and more protracted recovery thereafter – reflecting the possibility of second wave of infection and further lockdown measures which would have knock-on effect on confidence and demand. As a result, the analysis provides a range of scenarios that help capture and assess the uncertainty for the UK, the South West and its local economies.

The approach draws on Oxford Economics suite of forecasting models and services and has been supplemented with additional data and research to assess the potential impact on the South West and Somerset, including Oxford Economics' coronavirus vulnerability index which assesses each districts' potential vulnerability to the pandemic. The index is not included in the forecast or scenario modelling assumptions.

This report presents the assumptions that underpin these forecasts and scenarios, as well as results for the UK, the South West region, and for Somerset upper-tier authority. A full methodology is included in the appendices.

The structure of the report is as follows:

- **Chapter 2** examines the UK economic outlook and provides the rationale for our baseline and alternative coronavirus scenarios.
- **Chapter 3** provides our baseline and alternative economic outlooks for the South West region.
- **Chapter 4** presents the baseline results for Somerset upper-tier authority—and then describes the scale of impact for different sectors, locations, and population groups within this area. It also provides commentary on potential lasting legacies of the coronavirus crisis and finally presents the alternative economic outlooks for Somerset.
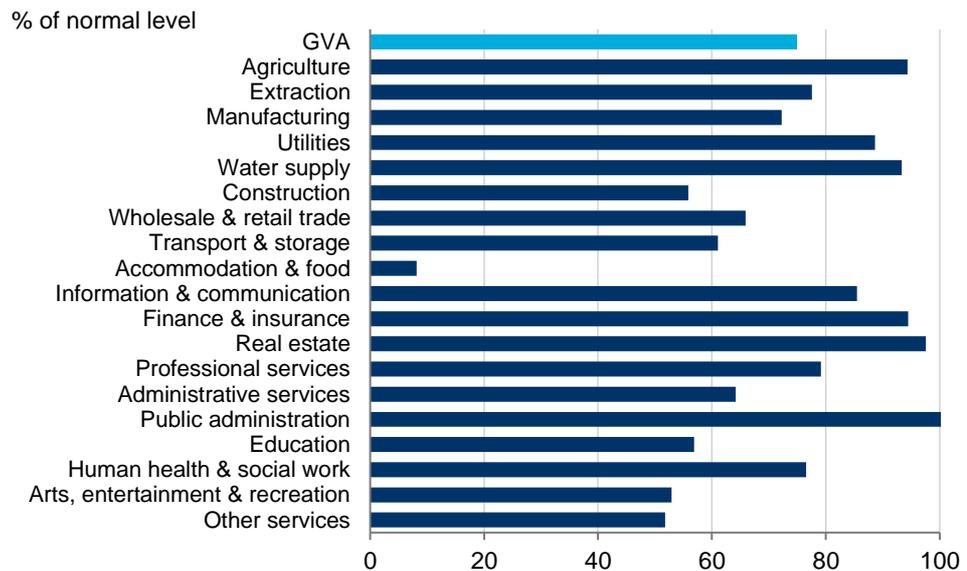
2. UK ECONOMIC OUTLOOK

2.1 BASELINE FORECAST

There is huge uncertainty surrounding economic forecasts as, with no historical precedents, it is very difficult to forecast what happens next. As a result, the baseline forecasts should be considered alongside the alternative scenarios presented for each area.

The coronavirus pandemic is creating unprecedented challenges for local and national governments across the UK. While it will be some time before there is enough hard data to fully evaluate the economic impact of the crisis, the UK economy is currently in a deep recession. This year, the UK will likely post its largest annual fall in GDP since the early 1920s.

April's GDP release indicates that the UK economy is operating at around 75% of its pre-pandemic level. This was almost entirely due to a 20% monthly decline in April alone, caused by the measures implemented towards the end of March to try to limit the spread of the coronavirus.

The data shows that during the week of lockdown at the end of April, UK GDP was around 25% lower than the average level for January and February. But this impact was highly variable across sectors, with those most exposed to social distancing measures—such as accommodation & food services—operating at only a fraction of normal levels (see Fig. 1). Other sectors, such as agriculture and public administration, saw little or no hit to their usual economic activity. Sectors that typically support a higher level of home working tended to be less affected.

Fig. 1. UK GVA[1] during lockdown as a % of 'normal' level

% of normal level

Source: Oxford Economics

Our baseline forecast assumes restrictions are gradually relaxed according to the timeline set out in mid-May, with shops opening in phases from the start of June.

The speed with which the lockdown is lifted, and the reaction of businesses and consumers to these relaxations, will strongly influence how deep the UK recession is, and the speed and nature of its recovery. Our baseline forecast assumes restrictions are gradually relaxed according

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[1] Gross value added (GVA) measures the contribution made to an economy by one individual producer, industry, sector or region. The figure is used in the calculation of gross domestic product (GDP).

to the timeline set out by the UK government in mid-May—i.e. opening shops in phases from the start of June, with some children being allowed to return to school at the same time, enabling more parents to return to the workplace. Pubs, restaurants, and other high-contact sectors will remain closed until at least the start of July.

On this basis, we expect that the UK's economic activity reached a trough in April. However, while we assume a recovery through May and June, **we still forecast UK GDP to fall by close to 15% in Q2 2020**. This is a smaller decline than the 35% and 25% falls estimated, respectively, by the Office for Budget Responsibility (OBR) and Bank of England in illustrative scenarios in April and May[2]—but they both:

(i)   assumed the lockdown would go beyond that indicated by the government;
(ii)   didn't reflect the easing of restrictions that has been seen since mid-May; and
(iii)   used differing estimates for the impact of the lockdown on the UK's economic activity.

Those forecasts are therefore towards the pessimistic end of the spectrum of scenarios and forecasts that have been produced by both public and private sector organisations.

We expect the UK's economic activity to rebound reasonably strongly in the second half of 2020 and into 2021, as social distancing measures are relaxed. though prospects for late-2020 and 2021 are heavily dependent upon the evolution of the pandemic. Some social distancing restrictions are unlikely to be fully lifted until a vaccine is available (we assume this will happen in early 2021). Therefore, during this period, many firms will be operating well below normal capacity, limiting the pace of the recovery. The recovery will be supported by:

We forecast UK GDP to fall by 15% in Q2. Activity should then rebound in the second half of 2020 and into 2021, as social distancing measures are relaxed—supported by government policy, low inflation, and loose monetary policy.

[2] For further details see https://obr.uk/coronavirus-analysis/ and https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/may/monetary-policy-report-may-2020.pdf
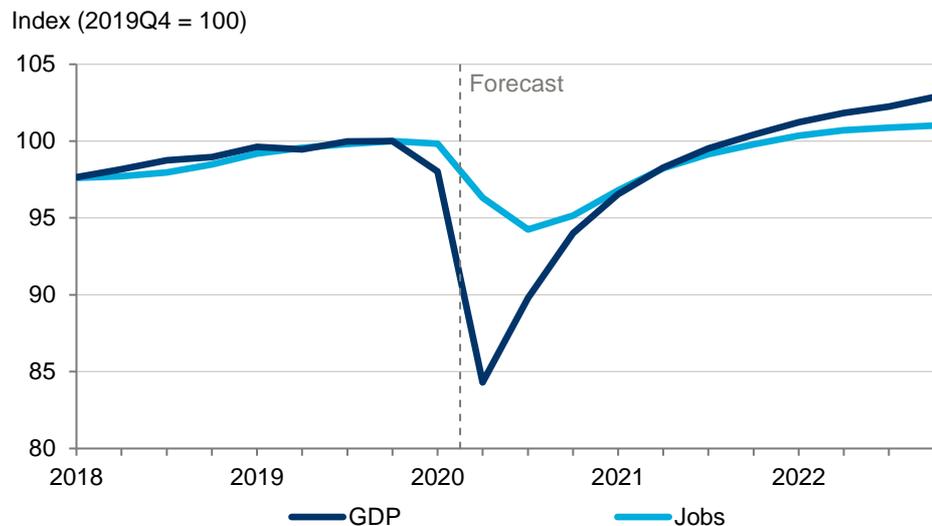
- **Government income support measures**—these have supported employment by introducing schemes that pay the bulk of the wages of furloughed workers, and support the income of the self-employed. They will limit the rise in unemployment and support household incomes. But the government's plans for the recovery phase are less convincing. The job retention scheme will be phased out by October and, with many sectors continuing to operate well below full capacity, there is a risk of a spike in lay-offs as the support is withdrawn. It is unlikely that the Job Retention Bonus, a payment of £1,000 to firms for each worker taken off furlough and kept employed until the end of January, will have a material impact on whether or not these staff are retained. Thus, we expect unemployment to rise sharply in H2 2020.
- **Very low inflation**—due to the collapse in the oil price and weak economic activity, this will provide an additional sizeable boost to household incomes.
- **Loose monetary policy**—interest rates at historically low levels and additional quantitative easing by the Bank of England are supporting consumer demand. The flip side to this is that returns on household savings and pension annuities will remain low, potentially impacting older households' ability and inclination to spend.
- **Extra trade frictions due to Brexit**: The new UK-EU trade relationship will become operational from January 2021. We assume a free-trade agreement will be agreed, but this will still introduce trade barriers in the form of customs bureaucracy and some regulatory barriers. Our modelling suggests these barriers will dampen the pace of the post-pandemic recovery by 0.4pp by end-2022.

We estimate that UK GDP will fall by around 8% in 2020, with the UK economy returning to its Q4 2019 size in early 2022. Jobs will fall by around 3% this year.

Overall, we estimate that UK GDP will fall by around 8% in 2020, before recovering by a little over 7% in 2021. A rebound of this magnitude implies the UK economy would return to its Q4 2019 size in early 2022.

A similarly volatile picture is expected for jobs. While we expect it to fall by about 3% on average in 2020, and expect unemployment to peak at around 6.5% in late 2020, the rise in joblessness would have been far higher without the government's furlough scheme The coronavirus job retention scheme has been extended to October and should support the labour market adjustment to the post-pandemic world. If our baseline assumptions are right, and lockdown measures are relaxed in line with the government timeline (which seems to be happening) and a second peak is avoided, we should see a gradual normalisation of economic activity which will align with the ending of the support schemes. Accordingly, jobs are likely to regain pre-coronavirus levels in early 2022 and unemployment will eventually return to the 2019 rate in 2023.

Fig. 2. UK GDP and jobs, baseline forecast

Index (2019Q4 = 100)

Source: ONS, Oxford Economics

Sectors that are most exposed to the social distancing measures, such as accommodation & food services and arts, entertainment & recreation, are likely to endure falls in economic activity of 25% in 2020.

Underlying these headline trends, we see contrasting fortunes for different sectors of the economy. Those most exposed to the social distancing measures—including accommodation & food services, and arts, entertainment & recreation—are likely to endure falls in economic activity of around 25% in 2020, despite a gradual recovery in the second half of the year. Manufacturing and transport & storage are also expected to contract more than the overall economy.

While the depth of the recession means few parts of the economy will avoid significant contractions, resilience is most likely in **parts of the public sector** as the government tackles the pandemic, and in **sectors where workers are most able to work from home**—most notably the information & communication sector, and parts of business services.

And while recovery from the coronavirus is the main issue facing the UK economy, **the short-to-medium term outlook is also shaped by Brexit**. We had previously expected the UK government to seek a deep trade deal with the EU to try to protect vulnerable sectors, which would take time. With the disruption caused by the coronavirus outbreak and resulting switch of political priorities, we had therefore envisaged that an extension of the transition period, or a political compromise (such as an interim deal until the end of 2022) to the same effect, would be agreed.

However, the government has rejected the option of seeking an extension to the Brexit transition period. It now looks likely the new UK-EU relationship will instead come into force at the start of 2021. Should this happen, the impact we see in 2023 in our baseline forecast will fall earlier in 2021, although it will be hidden by the strong rebound in growth next year. We estimate that these barriers will dampen the pace of the post-pandemic recovery by 0.4pp by end-2022. **But there remains a risk that talks break down, leaving the UK and EU to trade under WTO rules from 2021. The increased barriers to trade relative to a free trade agreement with the EU would further dampen UK economic growth and leave UK GDP around 1.8 percentage points lower**

at end-2022 than under our baseline forecast and also impact long-term growth.

Our medium-term outlook is for UK GDP to grow by an average of 1.2% per year during 2020-25, and jobs by 0.4%. This compares with our pre-coronavirus projections of 1.5% and 0.5% respectively, indicating that the pandemic will have a permanent impact on the UK economy. GDP in 2025 is projected to be 2% lower than our pre-coronavirus forecast, with the shortfall explained mainly by a weaker outlook for productivity rather than fewer jobs.

Fig. 3. UK GDP and jobs, baseline forecast

Average annual % growth

Source: ONS, Oxford Economics

GDP in 2025 is projected to be 2% lower compared with our pre-coronavirus forecast, indicating that the pandemic will have a permanent impact on the UK economy.
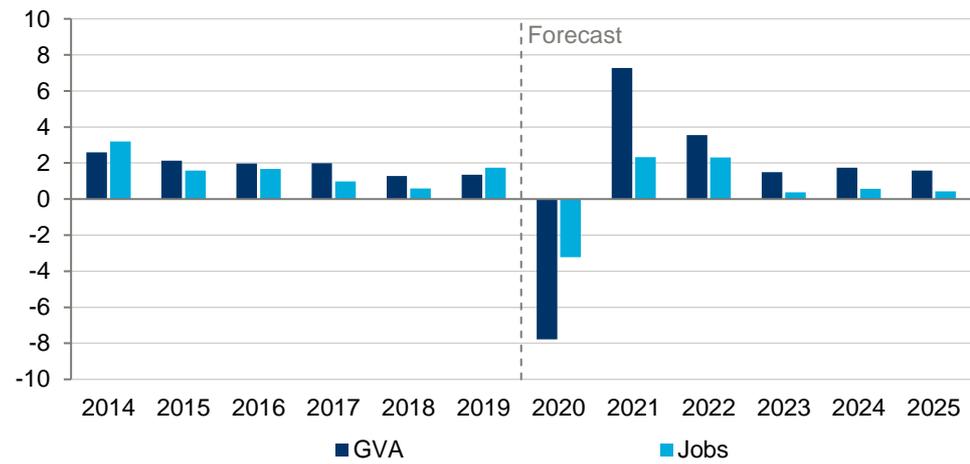
2.2 ALTERNATIVE SCENARIOS

Inevitably, there is considerable doubt surrounding the baseline forecast. There is much uncertainty around the pace at which lockdown measures will be relaxed, the severity of the near-term decline in activity, and the degree to which government support schemes limit the increase in unemployment. The epidemiology is also highly uncertain, with the associated risk of a renewed increase in infections once lockdown measures are relaxed. So while our baseline forecast represents our view of the most likely outcome, there is a sizeable risk of a more severe decline in activity.

Our downside scenario assumes an extension of lockdowns through Q3, precipitating a much weaker recovery in H2 2020. The impetus for this would most likely be that a second wave of the virus re-emerges, necessitating harsher containment measures and therefore a worse hit to economic activity. The scenario would also see an increase in redundancies relative to the baseline as government support schemes are phased out, resulting in a further increase in unemployment.

In this scenario, we also assume that the negative impact of the coronavirus is longer lasting than in the baseline. This is partly due to a financial crisis which limits credit supply to the economy and amplifies de-leveraging in the private sector. But it also reflects the government implementing austerity measures in

Under the downside scenario, the negative impact of coronavirus would be deeper and last much longer—with UK GDP taking more than five years longer than under our baseline forecast to recover to the 2019 Q4 level.

order to reduce overall debt. As public and private investment fall, productivity growth slows, exacerbating the losses in GDP over time.

In this scenario, UK GDP falls by more than 13% in 2020, and does not return to the level recorded in 2019 Q4 until 2027—more than five years later than in our baseline forecast. Jobs would also fare worse than in the baseline, falling by more than 4% in 2020, and also moderately in 2021. Unemployment would peak at 9% in 2021 before steadily falling over a number of years.

While risks to the outlook are mainly on the downside, **it is possible that the economy recovers quicker than we are anticipating**. An upside scenario is most likely if medical advances—such as increased testing capacity, enhanced therapeutics, and the discovery of a vaccine in H2 2020—lessen business and consumer fears. This would facilitate quicker easing of restrictions, allowing activity to resume faster than our baseline assumes. It is unlikely this scenario would have a marked impact on 2020, given the depth of the contraction in the first half of the year, but would instead see a stronger bounce-back in 2021.

Fig. 4. UK GDP, distribution of alternative scenarios

GVA (£bn, 2016 prices)
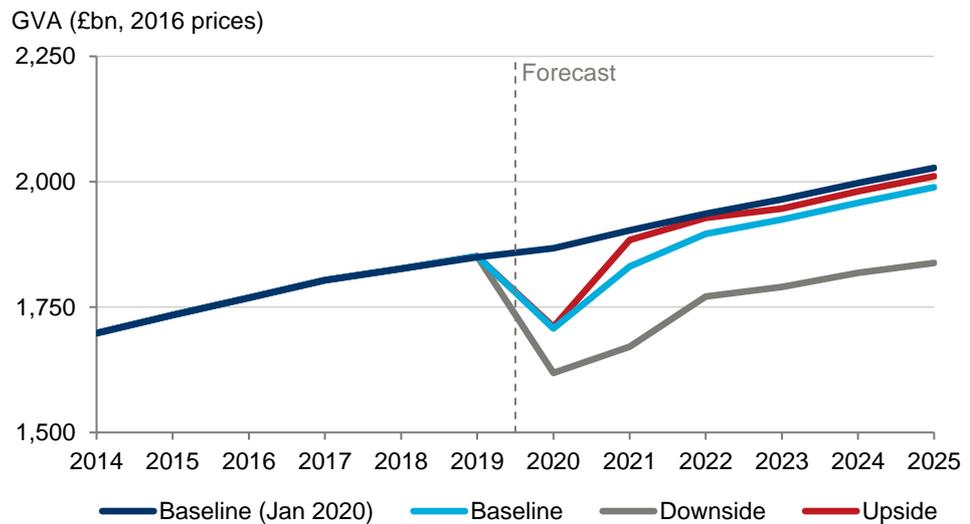
Source: ONS, Oxford Economics

3. ECONOMIC OUTLOOK FOR THE SOUTH WEST REGION

3.1 BASELINE FORECAST

There is much uncertainty surrounding the future yet the impact of coronavirus on the South West economy is already evident in claimant count statistics and business surveys, with the South West ranking among hardest-hit UK regions.

The South West is experiencing a sharp contraction in economic activity due to the coronavirus. As with the UK, it will be sometime before there is enough hard economic data to fully evaluate the impact of the crisis on the regional economy.
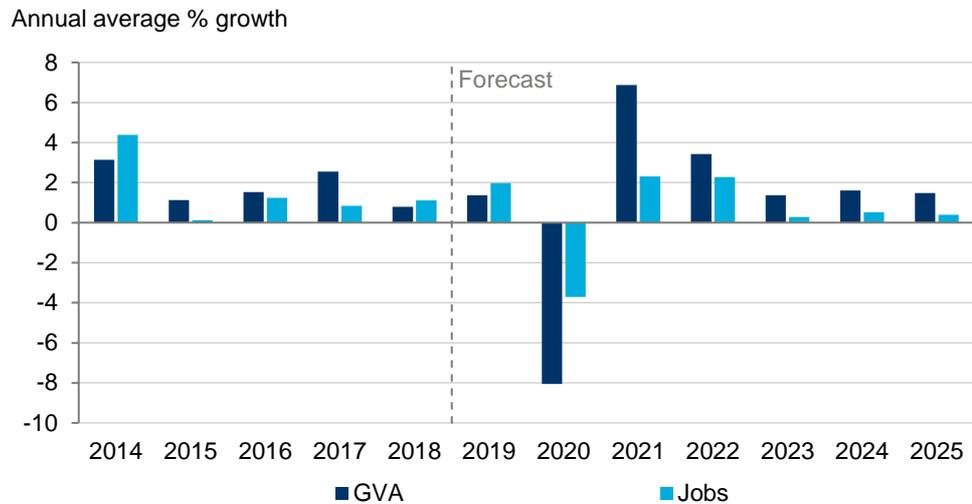
Nonetheless, the first signs of the impact are apparent in labour market data and business surveys. For example, the number of people registered on the unemployment claimant count in the South West was almost two-and-a-half times higher in May than in February. And according to the IHS Markit Purchasing Managers Index, private sector businesses in the region reported a substantial drop in activity. Furthermore, both measures suggest the South West was among the hardest-hit of all UK regions.

Whilst there remains a high degree of uncertainty about the future, our baseline forecast is for the South West economy to contract by 8.0% in 2020, with the trough in activity occurring in the second quarter, followed by a gradual recovery over the second half of the year. Jobs are projected to fall by 3.7%, or 112,900 jobs, and this will be accompanied by a significant increase in unemployment, from 2.6% in 2019 to an average of 4.5% for 2020, on the International Labour Organization (ILO) measure.

However, as for the UK as a whole, we anticipate a reasonably strong recovery in the South West, with **GVA growth of close to 7% in 2021.** This would be accompanied by a rise in jobs of 67,500, and unemployment falling to 3.8%. Over the period 2020-25, South West GVA growth is forecast to average 1.0% per year, and jobs 0.3%—somewhat weaker than recorded in the five years prior to the coronavirus outbreak. Under the baseline, GVA in 2025 is projected to be 1.9% lower than our pre-coronavirus forecast.

Fig. 5. South West GVA and job growth, baseline forecast

Annual average % growth

Source: ONS, Oxford Economics

Our baseline forecast for the South West is for GVA to contract by 8.0% in 2020, followed by a gradual recovery though the end of 2020 into 2021. Under the baseline, the South West economy will recover to its pre-crisis size in 2022.

Economic growth in the South West is expected to marginally lag the national average, in part due to its sectoral composition. The region has a relatively high share of activity in sectors that were hit hardest during the early stages.

Throughout this period, economic growth in the South West is expected to marginally lag the national average, as has generally been the case over the past decade. The reasons for this are complex, but one of the key factors is the industrial composition of the regional economy, and this is especially important when sectors of the economy are being affected very differently to each other throughout this recession and then recovery phase.

The South West has a relatively high share of economic activity in sectors that were hit hardest in the early parts of the coronavirus crisis, including accommodation & food services, and manufacturing. Furthermore, these sectors (especially manufacturing) are expected to grow more slowly than the overall economy in the medium term.

Exacerbating this, the most resilient sectors during the current recession, and those that are expected to lead growth once the recovery phase is well established, tend to be underrepresented in the South West. The clearest examples are the information & communication sector and professional services.

However, the South West does have a relatively large human health & social work sector which, even before the coronavirus outbreak, was likely to grow faster than the overall economy, so increased investment here should provide a more significant impetus locally than nationally.

Brexit is expected to have an impact on our regional outlook, as new trading rules cause disruption—especially in the manufacturing sector, which comprises around 11% of the South West's economy.

The lacklustre outlook for manufacturing is partly a consequence of Brexit. As noted in Section 2.1, our baseline assumption is that a UK-EU trade relationship will become operational from January 2021. It seems inevitable that there will be disruption as companies find the new arrangements—which will almost certainly include new barriers to trade—both difficult and costly to implement. If the two sides were to agree to delay the introduction of these trade barriers for two years, the pace of the post-pandemic UK recovery would be a little firmer. We estimate that the increase friction will dampen the post-pandemic recovery by 0.4pp by the end of 2022. This will affect activity, especially in the manufacturing sector, as companies adjust to the new trading

environment. Given manufacturing accounts for around 11% of the South West's economy (a little more than the national share), the impact on the region will be notable. And the prospects for the South West's manufacturing sector, and economy generally, will be weaker should the Brexit talks fail to reach an agreement, leaving the UK and EU to trade under WTO rules from 2021. In these circumstances, South West GVA would be about 2% lower than in the baseline forecast at the end of 2022, and this would have a detrimental impact on the pace of the labour market recovery as a result of weaker demand and lower investment.

The outlook for industries in the South West is reflected in the forecast for occupations. The occupations forecasts also provide some insight into the quality and types of jobs that are likely to be lost in the short term and those that will grow during the recovery phase. In 2020, over 20% of the total jobs lost in the region are expected to be in elementary occupations, highlighting that lower skilled jobs are likely to be hit the hardest. Sales occupations account for a further 10% of job losses – reflecting the outlook for the retail sector. During the recovery phase, the forecast for occupations is more mixed. As many as a quarter of new jobs are expected to be in caring occupations which tend to be lower paid, but a large proportion of new jobs will be created for health professionals. Outside of the health sector, growth is expected to be concentrated in higher skill occupations, such as business and public service professionals, culture media and sports occupations, corporate managers and managers and science and technology professionals.

Comparisons of the South West's economic performance against a national benchmark need to be interpreted with care. Our UK forecasts are heavily influenced by those for Greater London—not only because the capital region accounts for around a quarter of the UK's total economy, but because it has grown considerably faster than other regional economies over the past decade, and is expected to continue to do so. Indeed, **the baseline outlook for the South West is broadly comparable to the national average excluding London**—and is favourable when compared with parts of the Midlands, the North of England, and neighbouring Wales, although there is considerable variation within the South West.

Fig. 6. Regional GVA growth, baseline forecast, 2020 to 2025

Average annual % growth, 2020 to 2025

Source: Oxford Economics

The depth of the economic impact from coronavirus will be different for upper tier authorities within the South West, with GVA decline of between 6.5 and over 10% in 2020 and the relative depth of recession will shape the path to recovery.
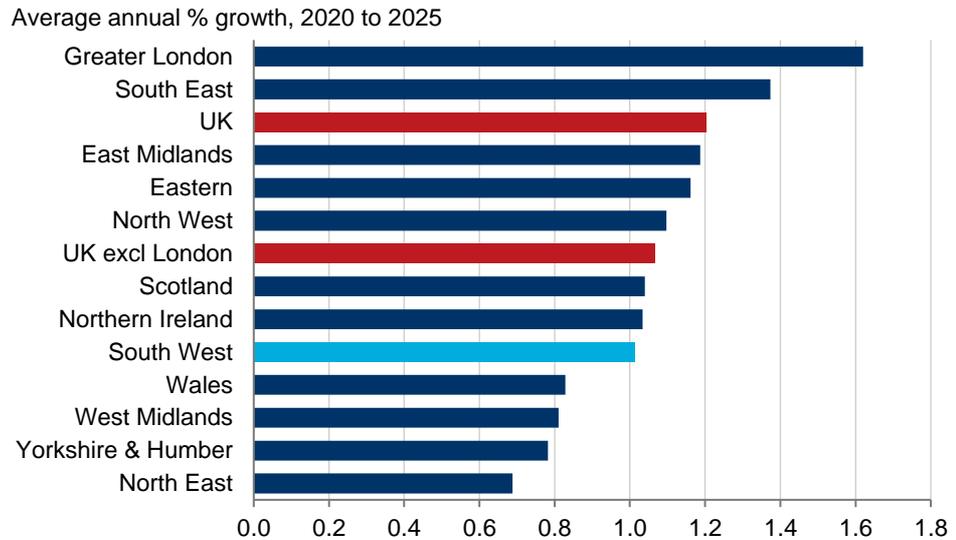
The impact of coronavirus on economy activity across the upper tier authorities in the South West will vary according to a range of factors but the areas with the highest proportions of sectors hit hardest during the early part of the crisis will see some of the largest falls in GVA in 2020. For example, Torbay has a large hospitality & leisure sector and GVA is expected to fall by 10%, whilst Swindon is expected to see a similar downturn in GVA in 2020, yet this is largely due to manufacturing decline. At the other end of the scale, Bristol is relatively less exposed to the most vulnerable sectors and is expected to experience GVA decline of 6.5% in 2020. The sectoral profile of each area will also shape the path to recovery for each area.

Fig. 7. Upper tier GVA growth, baseline forecast, 2019 to 2020

%

Source: Oxford Economics
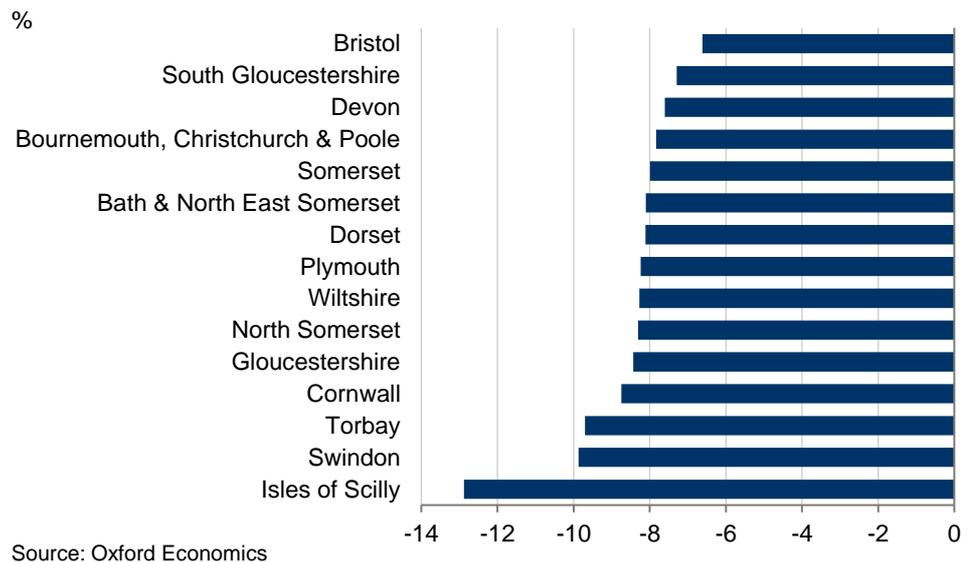
Looking past the immediate impact in 2020, Bristol is forecast to lead GVA growth in the South West, with average annual growth nearing 1.6% between 2020 and 2025, exceeding UK growth and nearly matching the rate of growth

expected in Greater London. Other upper tier authorities in the region fall short and only Bath & North East Somerset and Devon are expected to exceed or match UK growth over the period. GVA in Swindon and Isles of Scilly is forecast to decline over the period. Just as the regional forecast masks the variation in growth at the upper tier level, there will be even greater local variation, reflecting the local industry profile and characteristics of the area. This is explored in more detail in section 4.

Fig. 8. Upper tier GVA growth, baseline forecast, 2020 to 2025
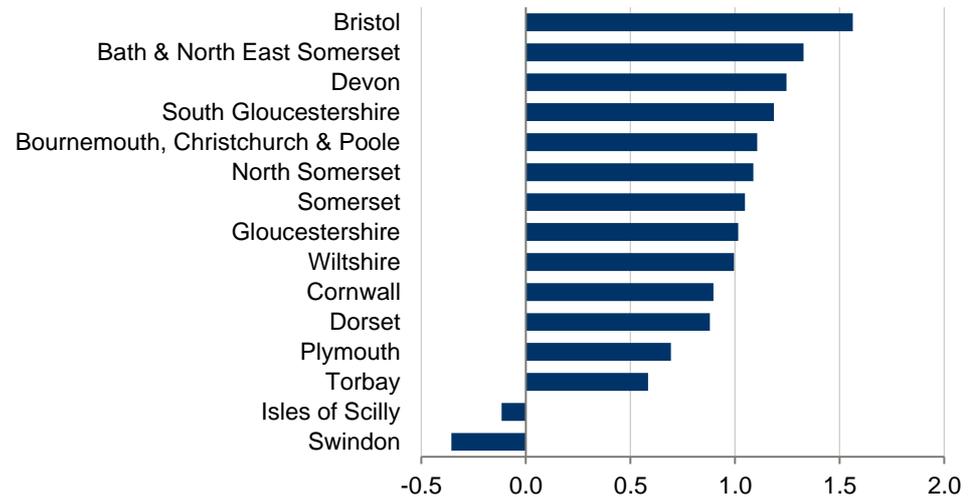
Average annual % growth, 2020 to 2025

Source: Oxford Economics

Oxford Economics has constructed a Coronavirus Vulnerability Index to assess the vulnerability of local authority areas to the impact of coronavirus. It summarises potential vulnerability across three themes—**economic diversity/industrial structure**, **business structure**, and **digital connectivity** to provide an indication of the characteristics of areas that could leave them more exposed to the economic impacts of coronavirus. Further information on the variables included in the index and the rationale for each is included in section 4 and in Appendix 3.

According to the index, the South West tends to be more vulnerable than elsewhere in Great Britain. More than two-thirds of local authorities have a score of over 100, indicating that they are more vulnerable than the average, while more than two-fifths (43%) rank among the top-25% most vulnerable— the highest of any region. Areas such as Mid Devon (5th), West Devon (12th), Isles of Scilly (15th) and Sedgemoor (19th) all rank among the most vulnerable nationally. The most vulnerable areas nationally according to the index are Eden (North West), Pembrokeshire (Wales) and Staffordshire Moorlands (West Midlands).

In general, coastal areas tend to be most exposed by our measure of economic diversity/industrial structure, reflecting a reliance on tourism-related activities. Business structure also appears to be a significant issue in some areas— mostly Devon, Cornwall and the Isles of Scilly—while Somerset and more rural areas of Gloucestershire tend perform less favourably on measures of digital connectivity.

The South West also has some relatively less vulnerable areas according to the index, including Exeter (17th least vulnerable), Gloucester (28th) and Bristol (33rd). The least vulnerable areas nationally according to the index are City of London, Reading and Cambridge.

Fig. 9. Coronavirus Vulnerability Index, South West[3]

Local authority area	Index (average=100)	Quartile
Bath & North East Somerset	83	25% to 50%
Bournemouth, Christchurch & Poole	81	Bottom 25%
Bristol	66	Bottom 25%
Cornwall	115	Top 25%
Devon:	-	-
East Devon	125	Top 25%
Exeter	55	Bottom 25%
Mid Devon	149	Top 25%
North Devon	137	Top 25%
South Hams	114	50% to 75%
Teignbridge	106	50% to 75%
Torridge	127	Top 25%
West Devon	140	Top 25%
Dorset	120	Top 25%
Gloucestershire:	-	-
Cheltenham	73	Bottom 25%
Cotswold	105	50% to 75%
Forest of Dean	127	Top 25%
Gloucester	63	Bottom 25%
Stroud	123	Top 25%
Tewkesbury	103	50% to 75%
Isles of Scilly	138	Top 25%
North Somerset	129	Top 25%
Plymouth	90	25% to 50%
Somerset:	-	-
Mendip	129	Top 25%
Sedgemoor	137	Top 25%
Somerset West & Taunton	112	50% to 75%
South Somerset	125	Top 25%
South Gloucestershire	66	Bottom 25%
Swindon	96	25% to 50%
Torbay	106	50% to 75%
Wiltshire	110	50% to 75%

Source: Oxford Economics

3.2 ALTERNATIVE SCENARIOS

Given the structure of the South West economy, any extension to the lockdown which delays the recovery in consumer spending and precipitates lower government and business investment will have a detrimental impact on the region. Under such a downside scenario, using the assumptions set out in Section 2.2, we forecast that **South West GVA would contract by around 13% in 2020**, reducing the regional economy to a size last seen almost a decade ago. This would be accompanied by 140,000 jobs losses in 2020—27,000 more than anticipated in the baseline forecast. And unlike in the baseline, further job losses would be expected in 2021, pushing up regional unemployment to 7.4%—above the peak hit during the previous financial crisis.

Under our downside scenario, GVA in the South West could contract by 13% in 2020, reducing its economy to a size last seen almost a decade ago—and accompanied by unemployment rates that exceed the peak of the previous crisis.

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[3] A higher score represents a greater degree of vulnerability. Those among the top-25% most- and least-vulnerable local authorities nationally are shown in red and blue respectively.

Job losses of this magnitude mean few sectors of the economy would be spared from falling employment. The largest job cuts would be expected in manufacturing, accommodation & food services and wholesale & retail trade, reflecting (i) their exposure to social distancing measures; (ii) falling consumer spending; and (iii) the inability for these sectors to benefit from their staff working from home. And unlike in our baseline forecast, in this scenario significant job cuts would also be likely in professional & technical services and administrative services—parts of the economy that have traditionally underpinned rising employment and which, in the baseline forecast, are expected to be the most resilient.

The downside scenario would also lead to longer term damage to the South West economy. While it would be expected to grow each year from 2021, the depth of the recession this year, combined with the sluggish recovery implied by weak spending and investment, would mean it is 2027 before regional GVA regains its pre-crisis level. The region's labour market would also be slower to recover, taking around five years for jobs to recover to 2019 levels—and even this would be insufficient for unemployment to return to pre-crisis levels at any time over the next decade.

Under our downside scenario, the South West economy would not recover to its pre-crisis level until 2027, while unemployment would not return to this level at any time over the next decade.

Fig. 10. South West GVA, alternative scenarios
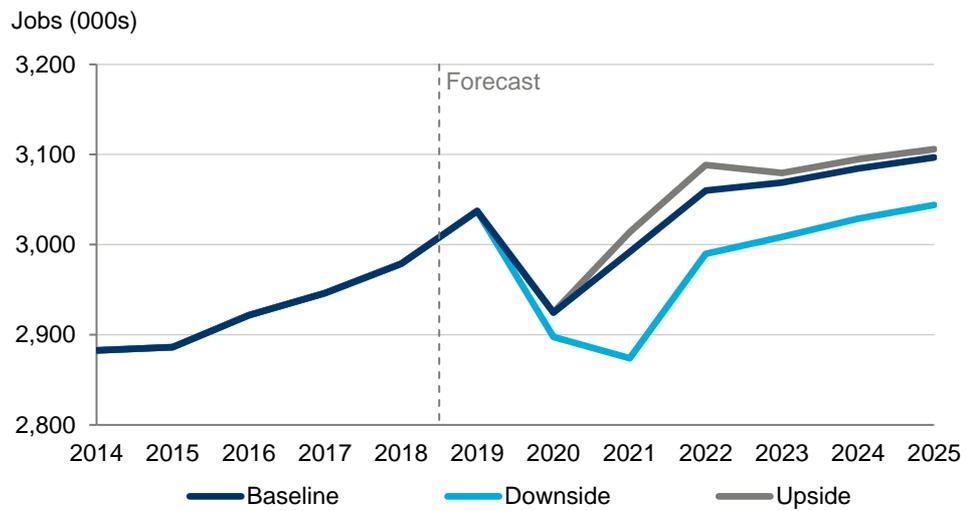
GVA (£m, 2016 prices)
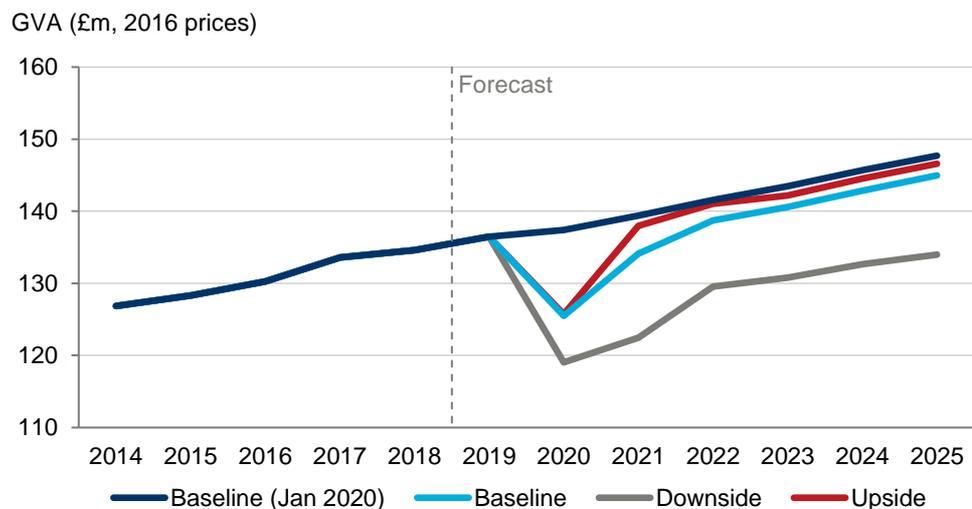
Source: ONS, Oxford Economics

The nature of the current crisis means the gains from an upside scenario are more modest than the losses in our downside scenario. Again, building on the assumptions outlined in Section 2.2, should there be faster progress in medical advances that allow quicker and more substantial easing of restrictions, providing a fillip to business and consumer confidence, the outlook for the South West economy would be brighter. In particular, the region would benefit from faster recovery in its important hospitality leisure sector, and also if its manufacturers are able to ramp-up production more quickly than anticipated.

Fig. 11. South West jobs, alternative scenarios

Jobs (000s)

Source: ONS, Oxford Economics

Under our upside scenario, the South West economy experiences most of the economic pain of the baseline in 2020, but recovers more quickly in 2021. Yet the challenges of Brexit remain, especially for its manufacturing sector.

Nonetheless, even in this upside scenario, 2020 will be a difficult year for the South West economy, given the severity of the downturn in Q2. Only in 2021 would the gains from a faster recovery become clear, with **GVA growing by about 10% and jobs by 3.0%.** And the challenges of Brexit will remain, especially for the region's manufacturing sector, even if the economy bounces back more quickly than expected from the coronavirus.

4. SOMERSET

4.1 BASELINE FORECAST

The coronavirus pandemic is having a significant impact on Somerset's economy. There is limited official data available to measure the impact of coronavirus on local economies and it will be a while before data are available to show the extent of the recession in Somerset. This is particularly true of workplace-based measures such as jobs and GVA where there is a significant lag in the availability of official data. For example, local jobs data for 2020 will not be available until September 2021 and provisional GVA data will be released in December 2021.

Claimant count data[4]—one of the best indicators currently available to gauge the impact since February—shows a net increase of 9,000 claimants between February and May, a stark rise of 120%. This rate of unemployment growth across this period puts Somerset in between the South West region (which has seen a 143% rise) and the UK as a whole (113%). The number of people on Universal Credit in Somerset also rose sharply in April, with provisional figures suggesting a 35% increase over March—a rise of almost 9,800. Further increases on both measures are expected throughout the summer months.

Section 4.5 provides analysis of the alternative scenarios, however figure 12 below shows the range of forecast uncertainty for Somerset. It also shows that by 2025, Somerset's GVA in the baseline forecast will be 1.8% lower than in the January 2020 pre-pandemic forecast. In the downside scenario, GVA will amount to £1.15 billion or 9.3% less than the January 2020 forecast by 2025.

Fig. 12. Somerset GVA, distribution of alternative scenarios

GVA (£m, 2016 prices)
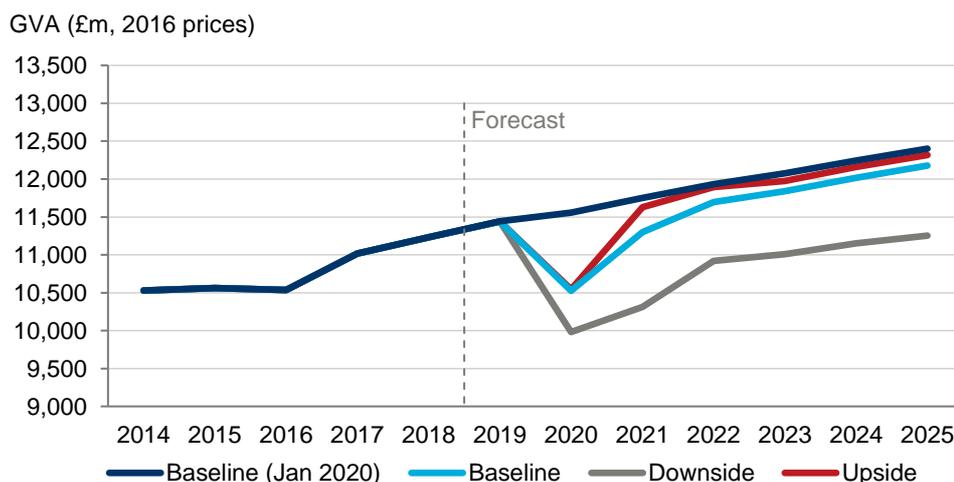
Source: ONS, Oxford Economics

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[4] Claimant count is a timely proxy for unemployment, particularly at a local level but is imperfect due to measurement issues and as such since June 2015 the Claimant Count has been designated as experimental statistics and has included out of work Universal Credit claimants as well as Jobseeker's Allowance claimants.

The decline in Somerset's economic performance in 2020 is expected to be broadly in line with the South West region, but it is expected to rebound slightly more strongly in 2021.

Whilst there remains a high degree of uncertainty about the future, our baseline forecast is for the Somerset economy to contract by 8.0% in 2020, due to a steep fall in activity in the second quarter. As throughout the South West, we expect this fall to be followed by a gradual recovery over the second half of the year, as social distancing restrictions are eased and businesses that were closed during the lockdown reopen.

After enduring a recession in 2020, however, we anticipate a relatively swift rebound in activity in 2021, with Somerset's GVA rising by 7.4% and employment by 2.5%. It will not be until the following year, however, that it returns to pre-crisis levels by these metrics. Over the period 2020 to 2025, GVA is expected to grow by an average of 1.0% per annum, in line with the South West but slightly lagging the national economy (1.2%).

Employment[5] is expected to be somewhat protected by government schemes with experimental ONS statistics showing that there were almost 65,000 employments furloughed in Somerset as of 31st May. A further 23,100 residents are also claiming on the Self-Employment Income Support Scheme. Nonetheless, Somerset's sharp contraction in GVA is expected to be accompanied by more than 10,000 job losses this year. However, there remains much uncertainty about the degree to which government support schemes limit the increase in unemployment. The risk is that a proportion of furloughed workers will lose their jobs when government support ends and either become unemployed or economically inactive. Whether this risk materialises will depend on the speed of recovery across different sectors, the extent to which labour can be reallocated, and whether further support will prove effective.

Fig. 13. Somerset GVA and job growth, baseline forecast

Average annual % growth
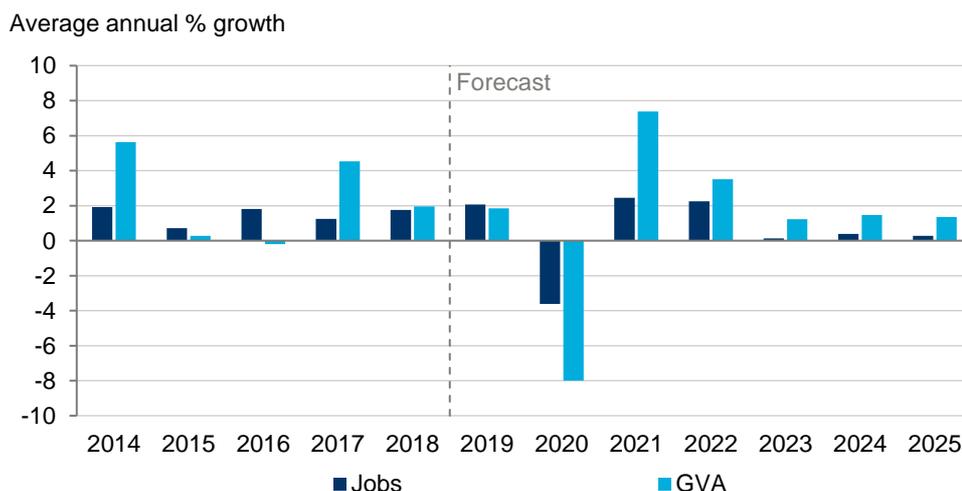
Source: ONS, Oxford Economics

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[5] Total employment is a workplace-based jobs measure and includes employees in employment, the self-employed and Her Majesty's Forces. This measure is used to refer to employment and jobs throughout this report unless otherwise stated.

The ILO unemployment rate is forecast to spike in 2020, reaching almost 5%, the highest rate reported since 2014. However, as employment growth returns in 2021, we expect to see this rate fall significantly; after a further fall in 2022, the rate will broadly return to pre-crisis levels. There are considerable risks of a slower recovery in employment and a protracted period of high unemployment and these are captured by the downside scenario in section 4.5.

Fig. 14. Somerset unemployment, baseline forecast

ILO unemployment (000s)   ILO unemployment rate (% of the labour force)
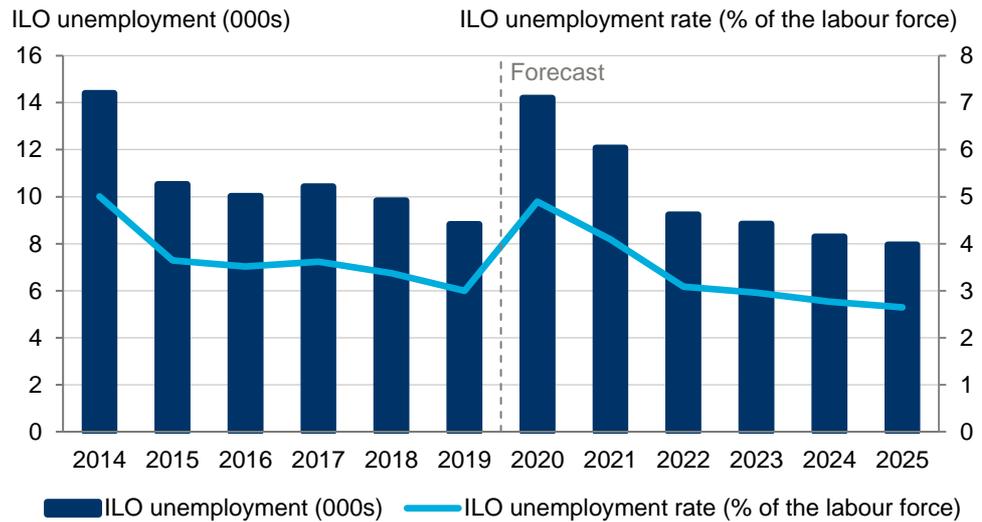
Source: ONS, Oxford Economics

4.2 SECTOR ANALYSIS[6]

The Somerset economy has varied exposure to the sectors deemed most at risk to the negative impacts of the pandemic. For example, Somerset is over-represented in the hospitality & leisure sector compared with the UK as a whole, with accommodation & food and arts, entertainment & recreation accounting for around 11.9% of employment in 2019. This is, however, slightly lower than the South West average (12.4%).

Somerset is also heavily reliant on the manufacturing sector as an employer, accounting for 11% of its jobs. Manufacturing is set to be one of the hardest-hit sectors in 2020, and Somerset is over 40% more dependent on this sector than the UK average.

Furthermore, Somerset is under-represented in a number of sectors which can easily switch to working from home and are therefore expected to remain more resilient over the lockdown period—such as professional services, information & communications, and finance & insurance.

On the other hand, the human health & social work sector is Somerset's largest employer, accounting for almost 15% of its total employment (with the bulk of these jobs pertaining to hospital activities in the district of Somerset West &

The Somerset economy is over-represented in manufacturing, which has experienced a large contraction in activity in 2020 as the sector grapples with multiple headwinds, including weak demand and disruption to supply chains.

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[6] The local forecasting approach uses broad 19 SIC2007 based sectors consistent with regional and UK data. This approach provides a robust and consistent forecasting framework across a variety of different geographies however where there are sub-industry concentrations in an area the approach may not adequately capture diverging trends between sub-industries.

Taunton). This sector is forecast to be relatively resilient in 2020, benefitting from increased expenditure to help combat the coronavirus—so Somerset's high share of employment in this sector will help to shield its economy from job losses elsewhere.

Fig. 15. Somerset share of jobs by sector, 2019
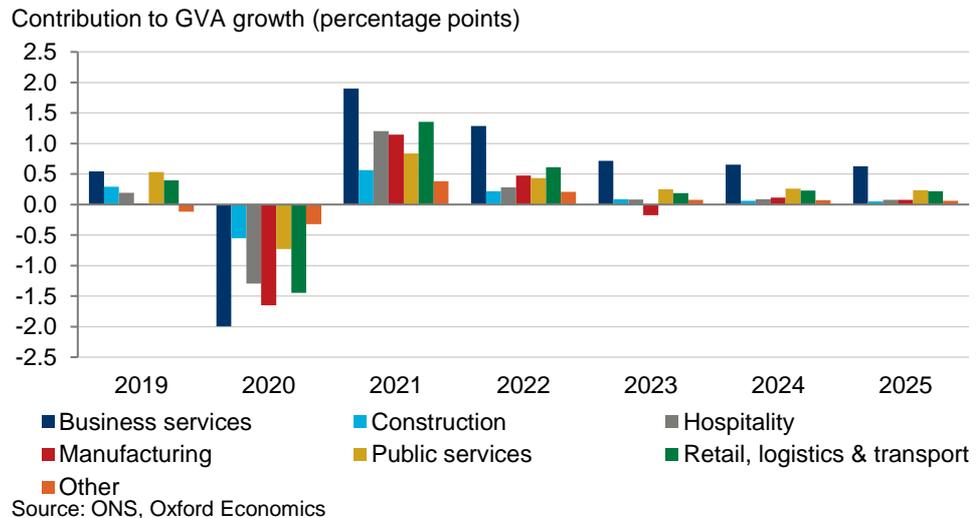

Source: ONS, Oxford Economics
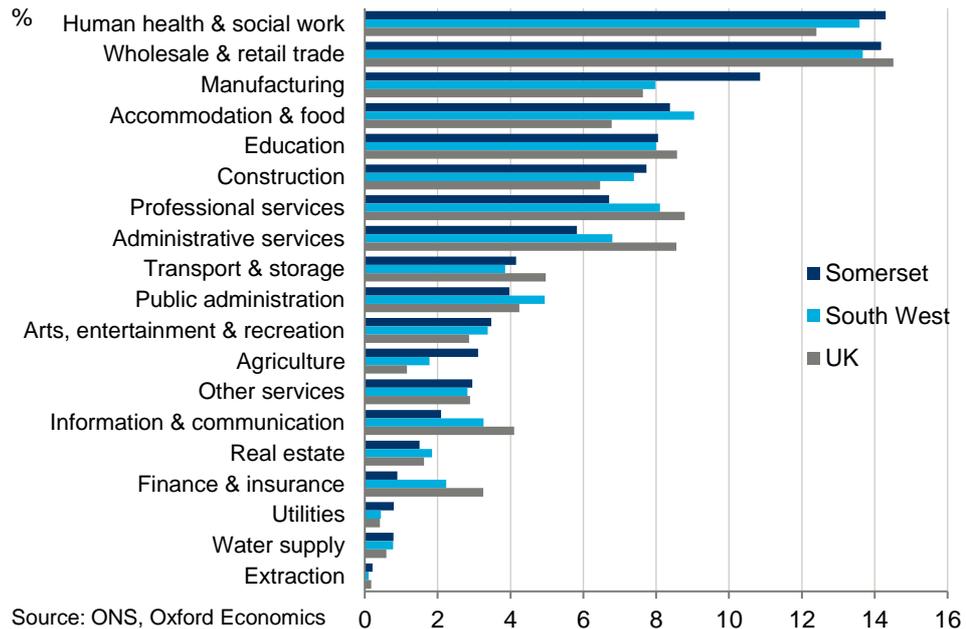
The sectors facing the most significant challenges in Somerset, and which are therefore likely to suffer the largest job losses this year, are those that have been hit hardest by the government's social distancing and lockdown measures. The local authority's hospitality & leisure sector, for example, is set to lose almost 5,000 jobs in 2020, with the largest decline (in level terms) being experienced in accommodation & food.

This will also adversely affect Somerset's wholesale & retail sector, which, although in some respects is less exposed as many essential shops stayed open during the lockdown period, still saw activity well down on normal levels. A sample of consumer spending data from bank account holders shows consumer spending was down by as much as 50% in parts of Somerset in April.[7] Overall, this sector is expected to suffer a GVA decline of close to 9% in 2020, with the accompanying loss of 2,400 jobs.
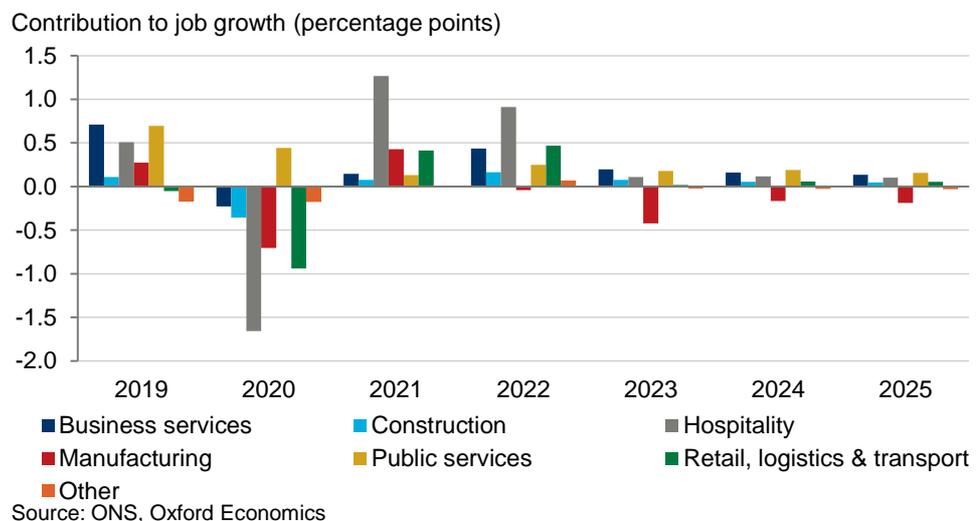
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[7] https://members.tortoisemedia.com/2020/04/21/corona-shock-tracker/content.html

A fall in economic activity across various sectors will cause Somerset's GVA to contract in 2020. Despite making the greatest contribution to GVA losses in 2020, growth in business services will drive the recovery in activity to 2025.

Fig. 16. Somerset contribution to GVA growth, baseline 2019 to 2025

Contribution to GVA growth (percentage points)

Source: ONS, Oxford Economics

Fig. 17. Somerset contribution to job growth, baseline 2019 to 2025

Contribution to job growth (percentage points)

Source: ONS, Oxford Economics

Jobs losses in 2020 will be concentrated in the hospitality, and to a lesser extent, retail, logistics & transport sectors. Job growth to 2025 will be primarily driven by growth in business and the healthcare element of public services.

Somerset's manufacturing sector is forecast to lose 2,100 jobs this year. Although a stark drop, it is sheltered from more significant job losses by its sizeable food production subsector—one of the best-performing manufacturing subsectors in 2020, thanks to both its continuity of demand and its relatively lower reliance on a global supply chain.

Employment in most other sectors is expected to remain relatively flat in 2020. The exception is construction (1,000 losses), in response to workers being unable to work on-site, and supply chain disruption through much of the spring quarter.

However, the estimates and forecasts for Somerset do not include Hinkley Point C nuclear new build. It is the largest construction site in Europe with a completion date for the first reactor due in 2025/6. Unlike the majority of other building projects, the Government confirmed that HPC was a nationally significant infrastructure project and that the site should remain open. They swiftly implemented the government guidance and through alteration of shift

patterns, transport, accommodation and working practices, focussed on key essential areas of the build. This resulted in minimal turbulence to the employed numbers with those not on essential tasks being furloughed. Pre coronavirus, the workforce in June 2019 was circa 4,800, it then reduced to 2,000 in April 2020 in response to coronavirus distancing measures and over May and June began to increase again bringing workers out of furlough and returning to being close to pre- coronavirus numbers for July/August. Whilst a projected peak workforce number cannot be confirmed, it will be in excess of 5,600. The build, the supply chain and support functions associated with the site mean that this project offers ongoing investment, employment and training opportunities, thus supporting the recovering economy (£1.67 billion spent with companies in the South West to date) and employment over the coming years[8].

Fig. 18. Somerset jobs by sector, baseline forecast, 2019 to 2025

Somerset	Jobs (000s)							2020 to 2025	
	2019	2020	2021	2022	2023	2024	2025	Change	%
Human health & social work	41.8	42.8	43.0	43.5	44.0	44.5	45.0	3.2	7.6
Accommodation & food	24.5	21.1	23.7	25.5	25.7	25.8	25.9	1.4	5.8
Administrative services	17.0	16.8	17.0	17.5	17.7	18.0	18.1	1.1	6.4
Professional services	19.6	19.3	19.5	20.0	20.3	20.5	20.7	1.0	5.2
Arts, entertainment & recreation	10.2	8.7	9.8	10.6	10.7	10.9	11.1	0.9	8.9
Education	23.6	23.7	23.9	24.1	24.1	24.2	24.2	0.6	2.8
Transport & storage	12.2	11.8	12.0	12.4	12.4	12.4	12.4	0.3	2.4
Information & communication	6.1	6.1	6.2	6.3	6.3	6.4	6.4	0.3	4.2
Other services	8.6	8.4	8.5	8.7	8.8	8.8	8.9	0.2	2.6
Real estate	4.4	4.4	4.4	4.5	4.5	4.6	4.6	0.2	4.3
Construction	22.6	21.6	21.8	22.3	22.5	22.7	22.8	0.2	0.8
Public administration	11.6	11.7	11.8	11.8	11.8	11.8	11.7	0.1	1.1
Water supply	2.3	2.3	2.3	2.3	2.3	2.3	2.2	-0.1	-2.7
Finance & insurance	2.6	2.5	2.5	2.5	2.5	2.5	2.5	-0.1	-2.9
Utilities	2.3	2.3	2.3	2.3	2.3	2.3	2.2	-0.1	-4.3
Extraction	0.6	0.6	0.6	0.6	0.6	0.5	0.5	-0.1	-19.0
Wholesale & retail trade	41.5	39.1	40.0	41.0	41.1	41.2	41.3	-0.1	-0.3
Agriculture	9.1	8.8	8.7	8.8	8.7	8.6	8.6	-0.5	-5.8
Manufacturing	31.7	29.7	30.9	30.8	29.5	29.0	28.5	-3.3	-10.3
Total	**292.5**	**281.9**	**288.8**	**295.3**	**295.7**	**296.9**	**297.7**	**5.2**	**1.8**

Source: Oxford Economics

Our medium-term outlook assumes that most of Somerset's significant sectors will have higher employment in 2025 than 2019, with its job losses heavily concentrated in the manufacturing sector. We expect to see around 3,300 fewer jobs in this sector by 2025, as the recession of 2020 is compounded by a gradual shift towards less labour intensive methods of production.

In contrast, the human health & social work sector will be a major contributor to Somerset's growth over this period, accounting for over 60% of all new jobs by 2025 and reporting some of the highest rates of GVA growth. The professional and administrative services sectors will also make significant contributions,

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[8] For additional info, please see 'Hinkley Point C: Realising the Socio-Economic Benefits'

each growing around twice as fast as Somerset's overall average for GVA and creating more than 1,000 net new jobs.

Another key feature of our forecast is the employment recovery in accommodation & food services, as the easing of lockdown restrictions enables this sector's businesses to reopen and staff to return to work. However, this turnaround simply reflects many businesses transitioning from almost no activity to a position still short of what would be considered 'normal', so growth figures in the short term must be interpreted accordingly. Nonetheless, we anticipate 1,400 more jobs in this sector in 2025 compared with 2019. Similarly, employment in the arts, entertainment & recreation sector is forecast to increase by 900 jobs over this period.

Fig. 19. Somerset GVA and jobs growth, baseline forecast, 2020 to 2025

Average annual % growth, 2020 to 2025

Source: Oxford Economics
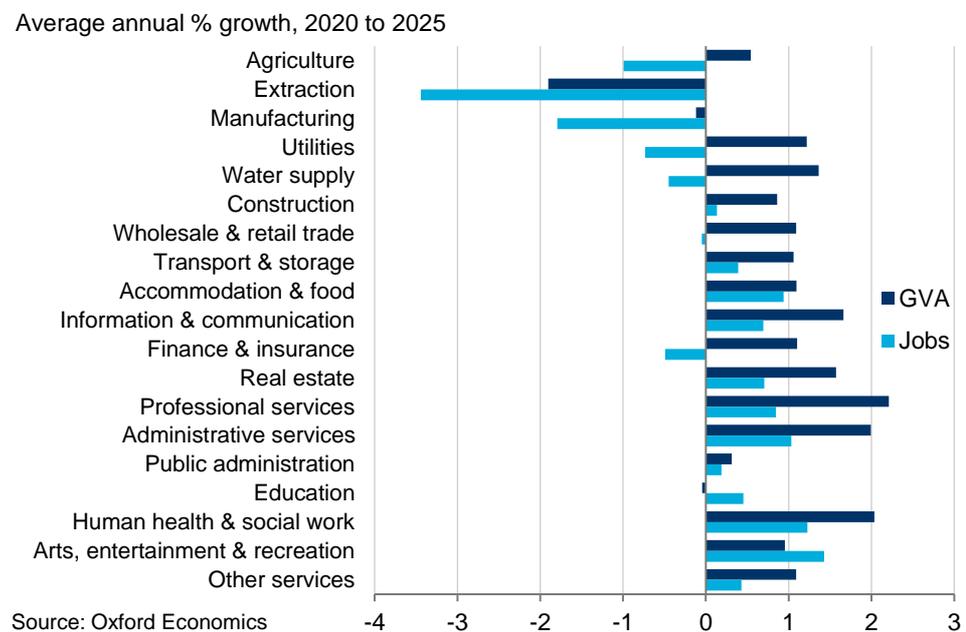
4.3 OCCUPATION FORECASTS

As with different sectors, the impact of the coronavirus pandemic differs across occupations. While all occupations will see employment contract in 2020, lesser-skilled occupations will be disproportionately affected: the bottom three occupational groups (sales & customer services, process, plant & machine operatives, and elementary occupations) will account for 46% of all job losses in 2020, despite accounting for just over a quarter of employment (28%) prior to the crisis. Alongside skilled trades, a loss of jobs in the latter two groups largely arises due to the sharp contraction in manufacturing employment, while a fall in sales & customer services can be largely attributed to a loss of employment in hospitality. Similarly, a fall in managers, directors & senior officials—that are typically employed across various industries—reflects the downturn in activity across most sectors of the economy in 2020.

Fig. 20. Somerset occupations, baseline forecast, 2019 to 2025

Change in jobs (000s)

Source: Oxford Economics
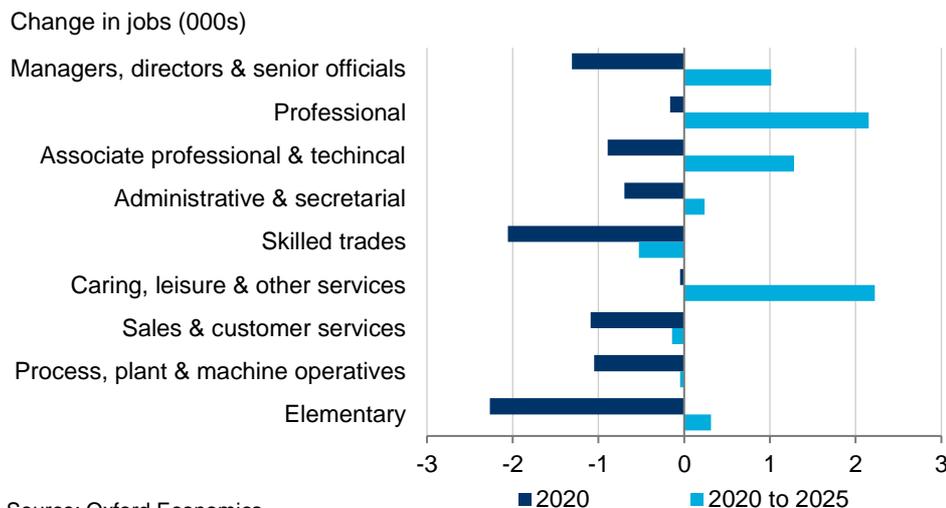
In contrast, the job recovery is mostly led by higher-skilled occupations. Over the period to 2025, more than two-thirds of additional employment (4,500 workers) will be in the managerial, professional or associate occupations—reflective of the growth in business services and human health & social work, which typically support higher-skilled occupations. The increase in caring, leisure & other services (2,200 workers) is also a reflection of growth in human health & social work in particular.

4.4 LOCATION ANALYSIS

Somerset is a mostly rural, upper-tier local authority with a large stretch of coastline on the Bristol Channel. The area comprises four districts: Mendip, Sedgemoor, South Somerset, and Somerset West & Taunton. Just as sectors have different exposures to the impact of the coronavirus, so do these districts, according to their differing characteristics.

4.4.1 Location forecasts

Somerset's four districts are all forecast to experience very similar rates of contraction in employment in 2020, ranging from 3.5% to 3.7%. There is more variation in their respective GVA declines, with Mendip and Sedgemoor expected to suffer the most significant falls of 8.6% in 2020.

Both are over-exposed to sectors that are relatively more vulnerable in 2020, such as accommodation & food and manufacturing, and under-exposed to sectors that are expected to remain more resilient, such as information & communications, professional services, human health & social work, and public administration. Sedgemoor has a high concentration of food manufacturing and the sub-sector is expected to suffer less than the broader sector in terms of the coronavirus impact. However, this is not explicitly modelled and as a result there is some upside to the baseline forecast for the district.

Somerset West & Taunton fares the best (albeit still seeing a 7.2% fall in its GVA in 2020), mainly thanks to its large human health & social work sector, which accounted for 13.1% of its total GVA in 2019, compared with 7.9% in the

While all of Somerset's districts will suffer deep recessions in 2020, Sedgemoor and Mendip will experience GVA declines greater than both the regional and UK averages.

wider South West region. It is also much less exposed to the ailing manufacturing sector than Somerset's other districts.

Fig. 21. GVA and jobs growth by district, baseline forecast 2019 to 2020

%

Source: Oxford Economics
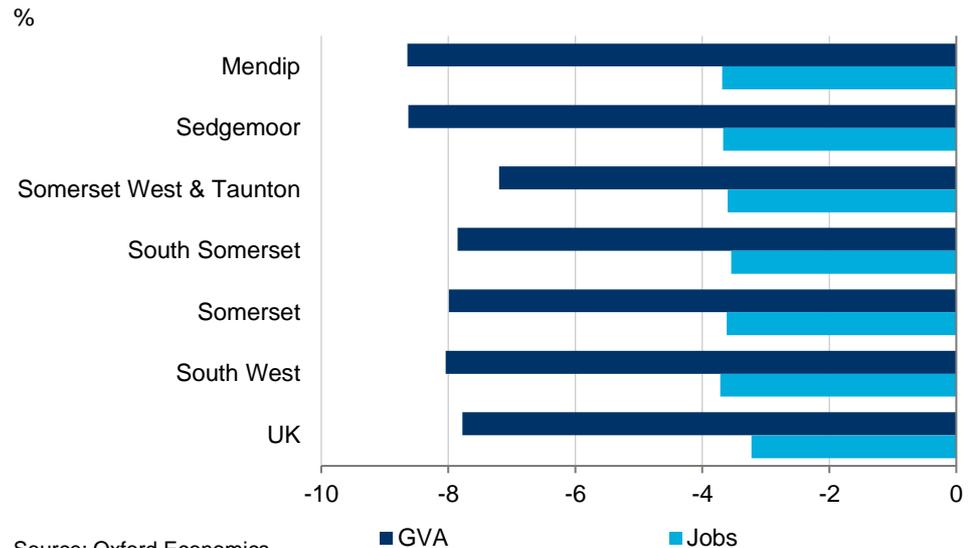
Over the period 2020 to 2025, South Somerset is forecast to be the worst performer in Somerset, with no growth in employment expected in the area over this time. South Somerset is more than twice as dependent on the manufacturing sector as an employer than the South West region as a whole, with the production of transport equipment and food dominating its activity in this sector. Aerospace activities in particular, account for a disproportionately large share of manufacturing jobs and output in South Somerset. The slump in global airline travel is expected to have a significant impact on the UK aerospace manufacturing industry, particularly those operating in commercial aviation rather than defence which has been buoyed in the UK by UK and US defence spending. Whilst the baseline forecast for employment in the aerospace sector are slightly stronger than the overall outlook for manufacturing, the risk to aerospace are on the downside.

Overall, manufacturing's expected shift towards less labour intensive methods of production over this period will result in significant job losses in South Somerset. We forecast the local authority will see 1,500 fewer jobs in the sector in 2025, with these losses cancelling out the anticipated job growth in its service sectors.

Somerset West & Taunton, by contrast, leads growth in Somerset over our forecast period. While the area's sizeable human health & social work sector heavily underpins this outlook, we expect positive contributions across most of its service sectors. Furthermore, the area's relatively small footprint in the manufacturing sector will reduce labour market headwinds.
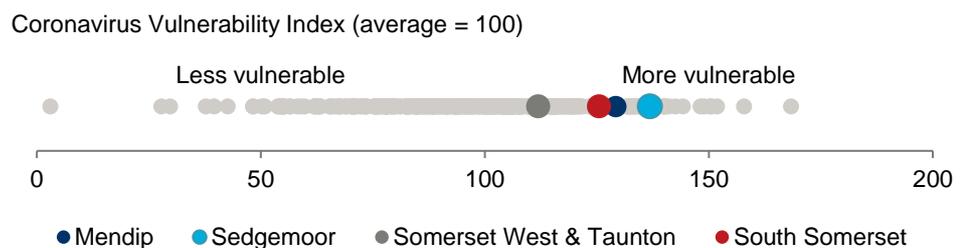
Fig. 22. Somerset GVA and jobs growth by district, baseline forecast, 2020 to 2025

Average annual % growth, 2020 to 2025

Source: Oxford Economics
■ GVA   ■ Jobs
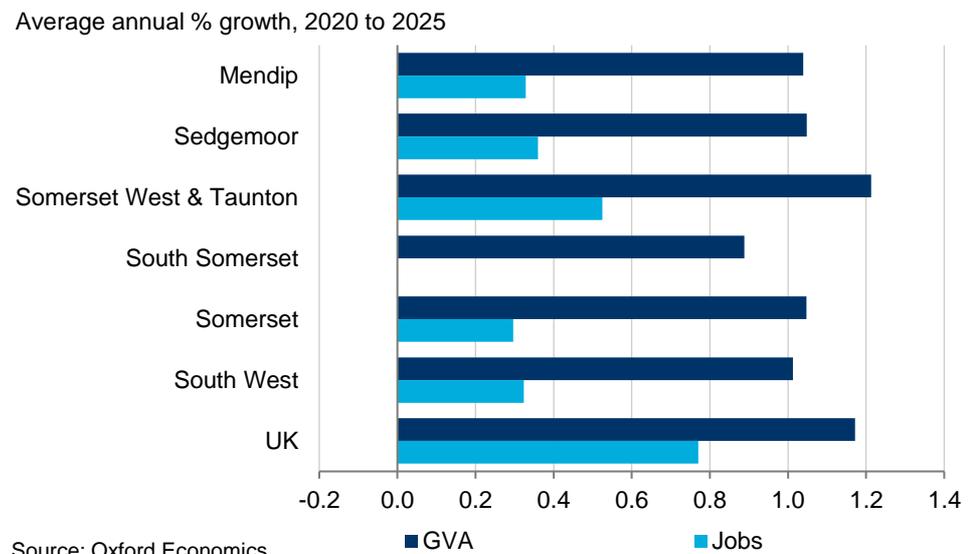
4.4.2 Coronavirus Vulnerability

Oxford Economics has constructed a Coronavirus Vulnerability Index to assess the vulnerability of local authority areas to the impact of coronavirus. The Index summarises potential vulnerability across three themes—**economic diversity/ industrial structure**, **business structure**, and **digital connectivity**—to give an indication of the characteristics that could leave some areas more exposed to the economic impacts of the pandemic. The Index represents a broad snapshot of vulnerability based on data prior to the crisis.

Fig. 23. Coronavirus Vulnerability Index

Coronavirus Vulnerability Index (average = 100)

Source: Oxford Economics

Districts in Somerset are potentially more vulnerable than average to the economic impact of coronavirus, mainly due to their sectoral and business mix and their limited broadband connectivity.

All four of Somerset's districts are potentially more vulnerable to the impacts of coronavirus than the national average, according to our Index. Indeed, Somerset contains some of the most vulnerable areas in the whole of Britain, with above-average scores across all three themes (see Fig. 24).

As we have seen, the sectoral profile of an area is an important factor in considering both the likely scale of impact, and its ability to recover. The potential vulnerability of each district on this measure is shown by their economic diversity score.

Fig. 24. Vulnerability index scores by theme (average = 100)

District	Economic diversity	Business	Connectivity
Mendip	134	123	131
Sedgemoor	159	118	132
Somerset West & Taunton	107	104	199
South Somerset	111	140	126

Source: Oxford Economics

While industrial mix is important, other factors may make areas more vulnerable to the impacts of the coronavirus. For example, districts in Somerset have higher-than-average incidences of both self-employment and small businesses—captured by the Index's business structure theme:

- Small businesses are at higher risk of bankruptcy due to their typically lower cash buffers and more restricted access to credit. Some 90% of firms in Somerset are micro businesses employing less than 10 people—a greater proportion than in both the wider South West region and the UK as a whole.

- The self-employed are generally more exposed to the negative consequences of the pandemic, both in terms of job security and support. Self-employment accounts for almost 19% of Somerset's total employment—higher than in the South West (16%) and the UK (13%), meaning it is again relatively more vulnerable by this metric. Our baseline forecast also suggests that self-employment job growth in Somerset will be weaker than the employee equivalent up to 2025, with growth averaging 0.1% per annum to 2025, compared with 0.3% for employee jobs.

Another important factor, the ability of people to work from home during lockdown, is captured by the Index's digital connectivity theme. All districts have areas of poor broadband connectivity which could limit the ability of workers and businesses to operate remotely during lockdown.

Overall, the Index highlights Sedgemoor as potentially the most vulnerable district in Somerset. While it scores poorly across all three themes, it scores particularly badly in terms of economic diversity. Indeed, it is among the least-diverse local economies in the whole of the UK on this measure, leaning heavily on the hospitality and manufacturing sectors.

There is emerging evidence on the characteristics of the places that tend to be worse affected economically by the coronavirus. The Centre for Towns has considered the exposure of towns and cities across the UK to the economic downturn, focusing on their reliance on four particularly exposed sectors: accommodation, arts & leisure, non-food retail, and pubs & restaurants.[9] It identified a particular reliance of small towns on these sectors, which together make up a fifth of their total employment—making small towns (21.5%) more exposed to lockdown than larger conurbations, such as large towns (19.0%), Core Cities (19.3%) and medium towns (19.4%).

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[9] Centre for Towns (2020), *The effect of the COVID-19 pandemic on our towns and cities.* https://www.centrefortowns.org/reports/covid-19-and-our-towns/download

Alongside size, the study also considered how exposure varies across different types of conurbation. Coastal towns are the most acutely affected, with average employment in the four highly-sensitive sectors amounting to 27.8% of their total—significantly above the next most-exposed type of conurbation, market towns (21.6%). Indeed, coastal towns are shown to have a higher employment concentration in each of the four sectors of focus.

Similarly, Tortoise Media's Corona Shock Tracker explores the impact of the pandemic on consumer spending across England and Wales' towns and cities.[10] By comparing spending in the week ending 27th April against the equivalent week in 2019, the Tracker highlights a sharp contraction in spending in most areas. While lockdown has almost universally led to an increase in grocery spending—as the restrictions on movement led to residents becoming more reliant on local providers, and substitute spending that would otherwise occur in pubs and restaurants—this has been more-than-offset by a loss of non-grocery spending.

The fall in economic activity during lockdown is most apparent in both Bridgwater and Taunton, where consumer spending has fallen by 50% and 45% respectively. Taunton has seen non-grocery spending fall by more than two-thirds. Other towns including Minehead (-24%) and Street & Wells (-28%) performed comparatively well, ranking among the least-affected towns and cities nationally, although the loss of this magnitude remains a significant economic shock. Yeovil appears somewhat of an outlier, in that spending has actually increased relative to last year—one of only three towns and cities across England and Wales where this is the case.

4.5 PEOPLE

The scale of the economic shock precipitated by the coronavirus pandemic is inevitably being felt by Somerset's residents. This is most clearly illustrated by the loss of jobs and the sharp increase in the unemployment rate this year. But these measures only tell part of the story, as other workers may have been furloughed, or moved to reduced hours and pay. The net effect of this is that we estimate the disposable incomes of Somerset's households will fall by around 5% in 2020, having grown at 1.5% per year over the last five years. This will have a detrimental, albeit potentially short term, impact on the living standards of Somerset residents.

Headline economic indicators also mask how different groups of the population will be impacted by the crisis. Although the absence of hard data means we don't yet have evidence on this, the nature of this economic shock allows us to make some assertions. We know that the lockdown has caused savings to surge - households who have been able to work from home and continued to receive their normal pay have saved more during lockdown – likely due to the reduced opportunities for normal day-to-day spending by action to contain the virus. For these households the pandemic has created a windfall in income. However, for those households that have seen their income fall, either to 80% through furlough or more significantly due to redundancy or business closure, then the opposite is true. The net result is that the impact of the coronavirus

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[10] https://members.tortoisemedia.com/2020/04/21/corona-shock-tracker/content.html

has fallen disproportionately on different groups, increasing inequality. Research to date (for example see IPPR[11]) suggests that the effect of the coronavirus is to exacerbate existing inequality whether that is by income, wealth, age, region or ethnicity.

The sector profile of job losses due to coronavirus suggests men are more exposed than women.

Our analysis shows that men are likely to be at more risk of losing their job than women, as they tend to work in sectors where the largest job cuts are expected. For example, workforce jobs data for the South West shows that men are six times as likely to work in construction than women, and three times as likely in manufacturing. By contrast, women are far more likely than men to work in sectors such as human health & social work and education, where employment is expected to rise rather than fall. Furthermore, men are more likely than women to be self-employed, and this group are offered less protection by government support packages than employees.

Young people are also more likely to work in exposed sectors, and some in this cohort will also face disruption to education and training.

The sector profile of job losses also suggests that young people may be more affected than older age groups. This is because they have a relatively high propensity to work in sectors such as accommodation & food services and arts, entertainment & recreation, where job cuts are most acute. They are also less likely than older workers to be employed in the public sector and in business services, where employment levels are expected to be more resilient. Furthermore, ONS research shows that younger households are less likely to have enough savings to cover a loss of income and less likely to be able to cut back on spending.[12] The challenges facing young people will be exacerbated should restricted access to education, training and apprenticeships persist for a prolonged period.

These labour market trends suggest the incomes of older age groups may be less exposed than those of their younger counterparts to the economic costs of the coronavirus. This is particularly true for those groups that rely less on employment for their incomes, especially those in receipt of state and private pensions. However, private pensions may be more exposed to the volatility evident in global stock markets during the pandemic and this could impact the income of some households. The value of annuities have also hit record lows so those dependent on private pensions for the bulk of their income may come under increased financial stress. Whilst the older population may be less vulnerable in purely economic terms, the size of the population in Somerset is significant – 25% of the population are aged over 65 compared with 19% in England. The confidence of the older population, many of whom will have been shielding during the lockdown period, to shop and use local services will therefore impact the speed of the local recovery. While the economic cost of the crisis may be borne most heavily by the younger age cohort, one must never lose sight of the cost that older age groups are bearing in terms of their much higher instances of hospitalisation and death due to COVID-19.

Another group likely to be particularly vulnerable to the crisis in economic terms comprises people referred to as 'Just About Managing'.

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[11] https://www.ippr.org/files/2020-07/transforming-the-economy-after-covid19-july2020.pdf

[12] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/articles/morethanonefifthofusualhouseholdspendinghasbeenlargelypreventedduringlockdown/2020-06-11

This term generally refers to families on low-to-middle incomes, typically with one member of the household in work and who have little spare disposable income and low savings. Since they are likely to have little room in their household budgets to mitigate the loss of employment income, they will be particularly reliant on the various support mechanisms such as the furlough scheme and mortgage repayment holidays. Research by the Resolution Foundation used working tax credit data to identify the concentration of low-to middle income households with children in local authorities.[13] More recent figures for 2017, show that 31% of children in Somerset are in working families claiming tax credits, compared with 36% in Great Britain. There was a lower concentration than nationally across all areas but West Somerset (41%). So, the effectiveness and longevity of these interventions will be especially important for this group, should the economic disruption from coronavirus last longer than anticipated.

4.6 ALTERNATIVE SCENARIOS

While our baseline forecast represents our view of the most likely outcome, there is a sizeable risk both of a more severe decline in activity this year, and a slower recovery over the medium term. In Section 2.2, we identified that the most likely impetus for a weaker outturn would be a second wave of the virus necessitating more restrictive containment measures in the near term, followed by financial concerns which hit business investment and consumer confidence, and which precipitate austerity measures from the government.

In our downside scenario, Somerset's GVA falls by almost 13% in 2020 and does not return to the level recorded in 2019 until 2027—five years later than in our baseline forecast. As a result, GVA growth would decline by an average of 0.3% per year between 2020 and 2025.

The employment level under the downside scenario is forecast to fall by 4.5% in 2020, compared with 3.6% under the baseline, with a further contraction of 0.7% in 2021 bringing Somerset's economy back to levels similar to 2016. Positive employment growth would only return in 2022, with pre-crisis employment levels not being reached until 2024.

The ILO unemployment rate under the downside scenario would rise sharply in both 2020 and 2021, hitting almost 8% next year—the highest rate recorded in Somerset in a decade. As employment growth returns in 2022, unemployment would begin to fall—however, we would not anticipate pre-crisis rates returning even over our medium-to-long term forecast.

Local outbreaks and measures to control these are difficult to quantify and not explicitly captured by the downside scenario but these would further impact sectors most vulnerable to social distancing measures and slow the pace of recovery.

Given the impact there has already been on the economy, and the government's guidelines regarding the easing of lockdown, there is limited scope for upside risk. Under our upside scenario, we forecast a fall in GVA in 2020 of 7.8%—only marginally better than the 8.0% fall that is forecast under
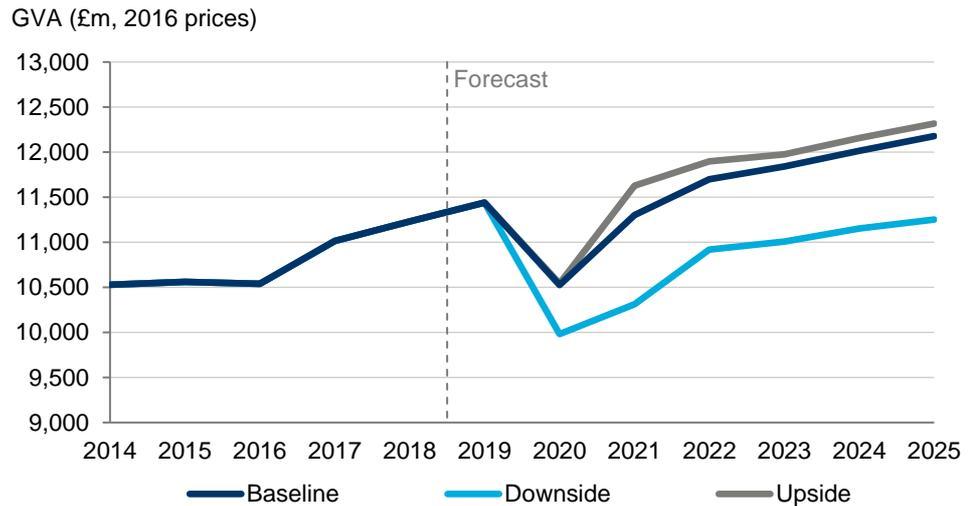
Under the downside scenario, the negative impact of coronavirus would be deeper and last much longer. Somerset's GVA growth is forecast to decline by an annual average of 0.3% over the next five years in this scenario.

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[13] https://pdfs.semanticscholar.org/0e75/11b011592d4a014e6d124d415156cd993cae.pdf

the baseline. The rebound in 2021 would see GVA growth of 10.3%, entirely making up the ground lost to the recession.

In terms of employment, our upside scenario forecasts a fall of 3.6% in 2020 (the same as under our baseline outlook), followed by a 3.2% rebound in 2021, compared with 2.5% under the baseline. As with our baseline, total employment would return to 2019 levels by 2022.

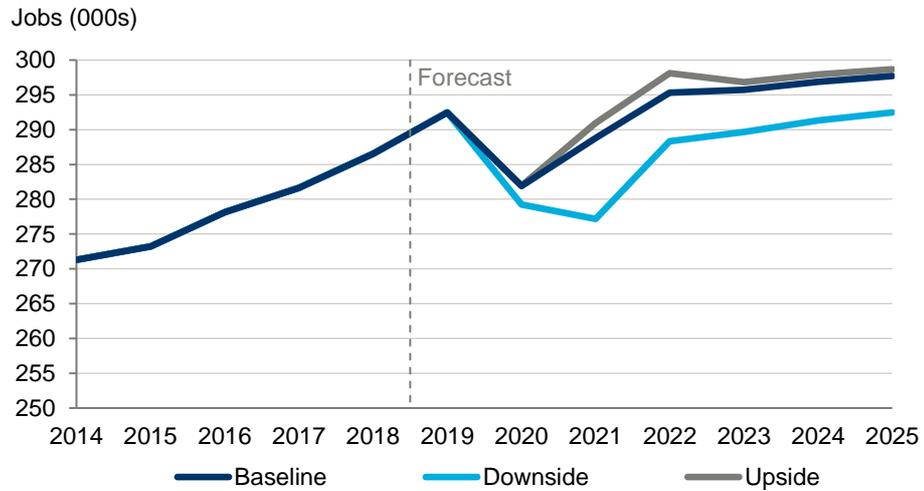**Fig. 25. Somerset GVA, alternative scenarios**

GVA (£m, 2016 prices)

Source: ONS, Oxford Economics

Under the downside scenario, the employment outlook for most sectors in Somerset is weaker than under the baseline for 2020-2025. However, two notable exceptions are the human health & social work and (to a lesser extent) the public administration sectors. Both see additional growth under the downside scenario as a result of increased government spending to help combat the coronavirus and mitigate economic decline.

In contrast, the most significant downgrade comes in the wholesale & retail sector, which would have 1,100 fewer workers by 2025 under the downside scenario compared to the baseline. The manufacturing and construction sectors follow closely behind, each with around 800 fewer workers than the baseline by 2025.

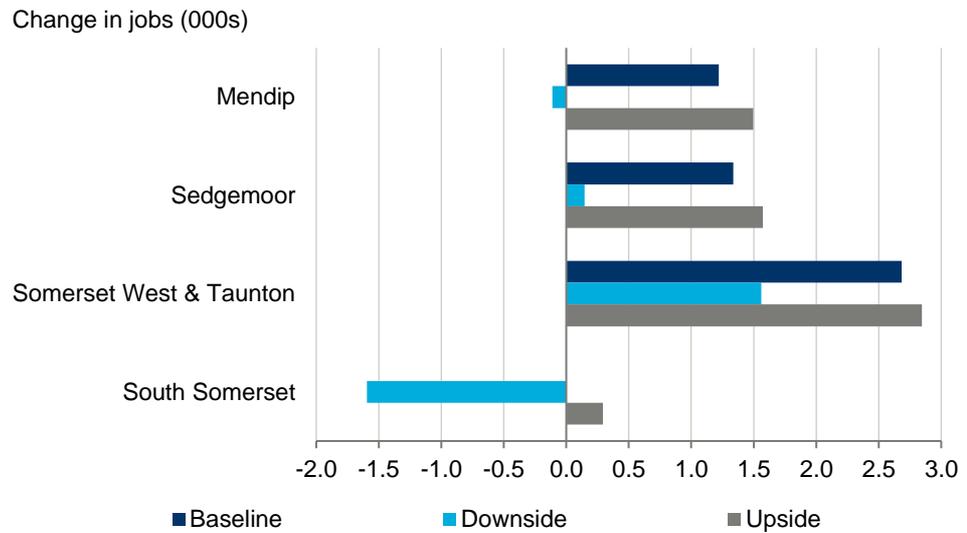**Fig. 26. Somerset jobs, alternative scenarios**

Jobs (000s)

Source: ONS, Oxford Economics

Fig. 27. Somerset change in jobs, alternative scenarios, 2020 to 2025

Change in jobs (000s)
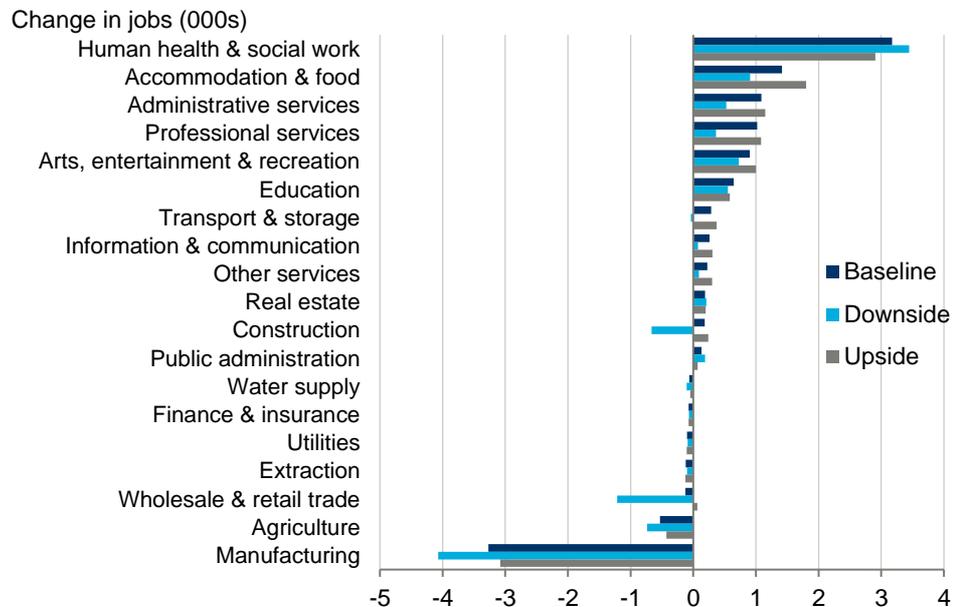
Source: ONS, Oxford Economics

While every district will be worse off under the downside scenario, Somerset West & Taunton is less affected than the other three. Its large human health & social work sector means the area is heavily shielded by the stronger outlook for that sector under this scenario. The biggest downgrade in jobs terms is in South Somerset, on account of its reliance on the manufacturing and wholesale & retail sectors, and its weak representation in some of the more resilient private service sectors.

Fig. 28. Jobs by district, alternative scenarios, 2020 to 2025

Change in jobs (000s)

Source: Oxford Economics

Fig. 29. Somerset job and GVA, alternative scenarios, 2020 to 2025

	Change in jobs (000s)			GVA (% y/y)		
	Baseline	Downside	Upside	Baseline	Downside	Upside
Mendip	1.2	-0.1	1.5	1.0	-0.3	1.2
Sedgemoor	1.3	0.1	1.6	1.0	-0.3	1.2
Somerset West & Taunton	2.7	1.6	2.8	1.2	0.0	1.4
South Somerset	0.0	-1.6	0.3	0.9	-0.5	1.1
Somerset	5.2	0.0	6.2	1.0	-0.3	1.2
South West	59.5	6.8	68.7	1.0	-0.3	1.2
UK	1,627.3	829.6	1,959.0	1.2	0.0	1.5

Source: Oxford Economics

4.7 LEGACY

The legacy of the coronavirus crisis will be changes in the way people live and work. These changes may be more significant than the amount, or composition, of economic growth.

In this report, we have set out our assessment of the impact the coronavirus pandemic will have on the UK, South West, and Somerset economies. While the short-term damage to the economy is significant, and there is also likely to be a permanent loss of economic activity over the medium term, **the structure of the Somerset economy (*what* it looks like) is unlikely to change significantly**. For example, its industrial composition in 2025 will be comparable to that of 2019, and the main sectoral drivers of economic growth are likely to be as anticipated prior to the crisis.

However, this profound event may well lead to changes in *how* the Somerset economy operates, and this has initiated much debate about what the 'new normal' will look like. While it is beyond the scope of this report to map out in detail what this new future will look like, there are already some emerging trends that businesses and those involved in economic development will likely need to tackle.

As those parts of the economy that have been closed begin to reopen, there are warnings that social distancing measures and behavioural changes may be necessary until there is a widely-available vaccine. This may limit the capacity

of public spaces, including retail and leisure hubs, and also public transport—potentially leading to longer queues and lower sales, or lower footfall and a shift to more online spending, further increasing pressure on the high street. Furthermore, there is an expectation that stricter hygiene measures and the wearing of masks and other protective clothing in public may become normal, like the wearing of masks post-SARS in South East Asian countries. **This will make places *feel* different too.**

There will also be changes to the *way* we work. Prior to the pandemic, we estimate that about 9% of people in Somerset worked regularly from home, and about a quarter did so sometimes[14]. This means about 65% of workers have never worked from home. However, a key feature of the response to the coronavirus has been a substantial increase in the number of people working from home in sectors such as business services, where remote working has proven to be effective. It is likely that some employees will have seen the benefits this has afforded to their work-life balance, and will reconsider their future working arrangements once the disruption caused by the lockdown has passed. Anecdotal evidence suggests that employers are also open to more remote working, at least for some of the time, and are actively reviewing the amount of office space they require and how that space may need to be used in different ways. Indeed, a recent survey by the Royal Institution of Chartered Surveyors found that 93% of respondents envisage businesses reducing their office footprint over the next two years.[15] A more permanent shift towards remote working will have implications for those sectors of the economy reliant on supporting commuters and office workers, particularly in town centres.

Another impact of the coronavirus may be that firms reliant on integrated supply chains review their operating models. There may be a shift towards self-sufficiency and repatriating supply chains. Where possible, they may seek to replace convoluted global supply chains with domestic sources to achieve greater certainty over their supply. Improving supply chain security may combine with Brexit to encourage a more 'national', if less dynamic, economy. The government has already tightened takeover laws to make foreign acquisitions of certain UK firms more difficult, giving an inkling of this focus. A more 'UK-first' approach could be given added impetus by the extra barriers to trade created by the bare-bones trade deal that we anticipate will be agreed between the UK and the EU by the end of this year.

Firms may also choose to operate with larger inventories to ensure there is enough stock in case of an interruption to their supply. So, in the same way that changes to working practices in business services may affect the demand for and use of office space, firms in the production sector may review their use of industrial space too.

The pandemic may also lead to a more interventionist approach by government, manifesting itself in a more permanent shift towards higher public

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[14] Oxford Economics has estimated home working based on residents' industry of work data taken from the APS and UK propensity to work from home published by ONS. These estimates have been aligned to Eurostat statistics on working from home by NUTS3 area.

[15] https://www.rics.org/globalassets/rics-website/blocks/surveys/gcpm/rics-uk-commercial-property-market-survey---q2-2020.pdf

sector spending. Indeed, even prior to the crisis, the government achieved re-election on a mandate that veered away from the 'austerity' policies of the 2010s. Higher public sector spending may manifest itself in various ways. The pandemic has revealed the importance of spare capacity in the health system, and the drawbacks of prioritising static 'efficiency' over resilience. More broadly, many of the jobs currently protected by the furlough scheme may have otherwise been lost, bringing into focus the precarious nature of employment and incomes for those at risk, a realisation that may encourage demands for a more generous welfare system into the future.

These are just a few examples of how the medium-term impact of the coronavirus is likely to extend beyond its impact on levels of GVA, employment, and unemployment. Other factors will doubtless also emerge as the Somerset economy navigates its way through this period of unprecedented economic uncertainty.

APPENDIX 1: METHODOLOGY

The baseline forecasts are drawn from our local authority district forecasting model (see Appendix 2).

We have adopted a top down approach to the scenario analysis. The upside and downside scenarios were produced within our Global Economic Model which estimated the impacts for the UK. Our industry model was used to produce consistent industry results for the UK for the scenarios. Both sets of UK results were then run through the UK regional model which were in turn run through our local authority models to estimate the results at the district level. Figure A1.1. below summarises the linkages within our suite of models.

Unless otherwise stated, major investment projects or local interventions are not included in the baseline or scenarios.


Figure 1.1: Hierarchal structure of Oxford Economics' suite of models
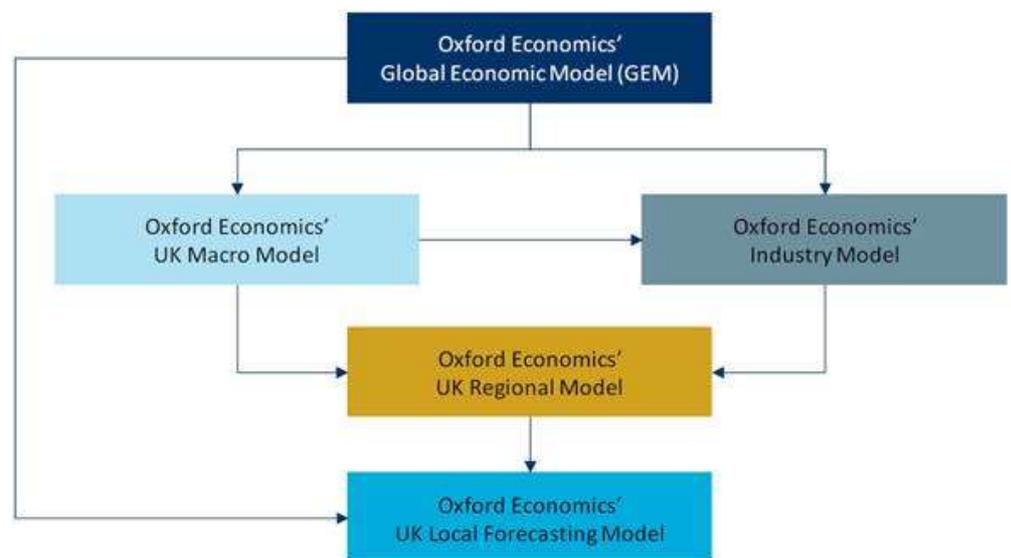
APPENDIX 2: LOCAL AUTHORITY DISTRICT FORECASTING MODEL

Oxford Economics Local Authority District Forecasting Model sits within the Oxford suite of forecasting models. This structure ensures that global and national factors (such as developments in the Eurozone and UK Government fiscal policy) have an appropriate impact on the forecasts at a local authority level. This empirical framework (or set of 'controls') is critical in ensuring that the forecasts are much more than just an extrapolation of historical trends. Rather, the trends in our global, national and sectoral forecasts have an impact on the local area forecasts. In the current economic climate this means most, if not all, local areas will face challenges in the short-term, irrespective of how they have performed over the past 15 years.

**Figure A2.1: Hierarchal structure of Oxford Economics' suite of models**
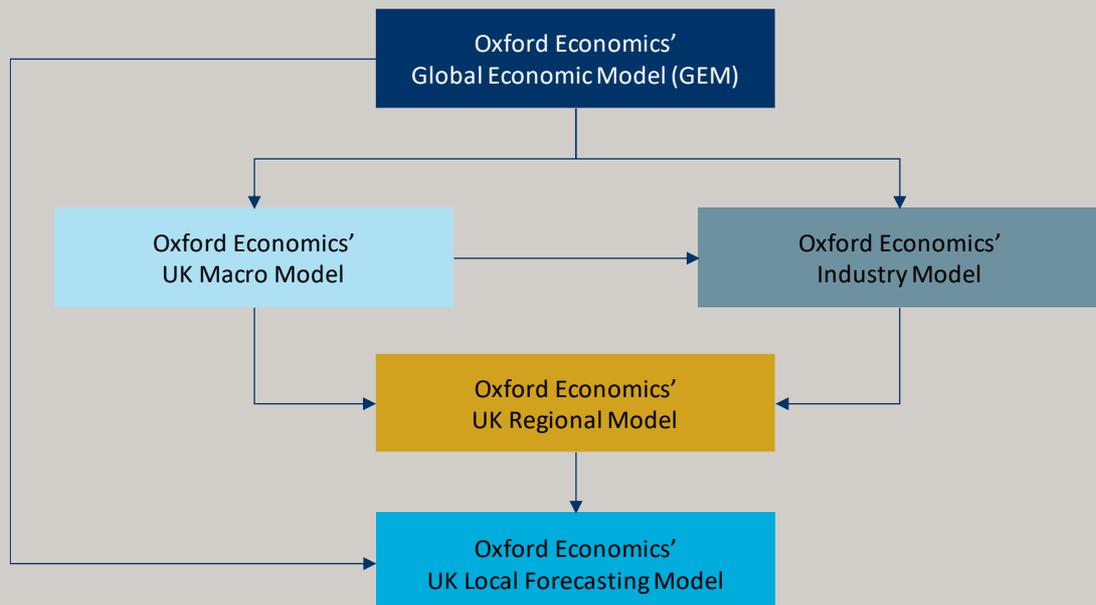
Our local forecasting model depends essentially upon three factors:

- National/regional outlooks – all the forecasting models we operate are fully consistent with the broader global and national forecasts which are updated on a monthly basis.
- Historical trends in an area (which implicitly factor in supply side factors impinging on demand), augmented where appropriate by local knowledge and understanding of patterns of economic development built up over decades of expertise, and
- Fundamental economic relationships which interlink the various elements of the outlook.

The main internal relationships between variables are summarised in Figure 1.2. Each variable is related to others within the models. Key variables are also related to variables in the other Oxford Economics models.

**Figure A2.2: Main Relationships**
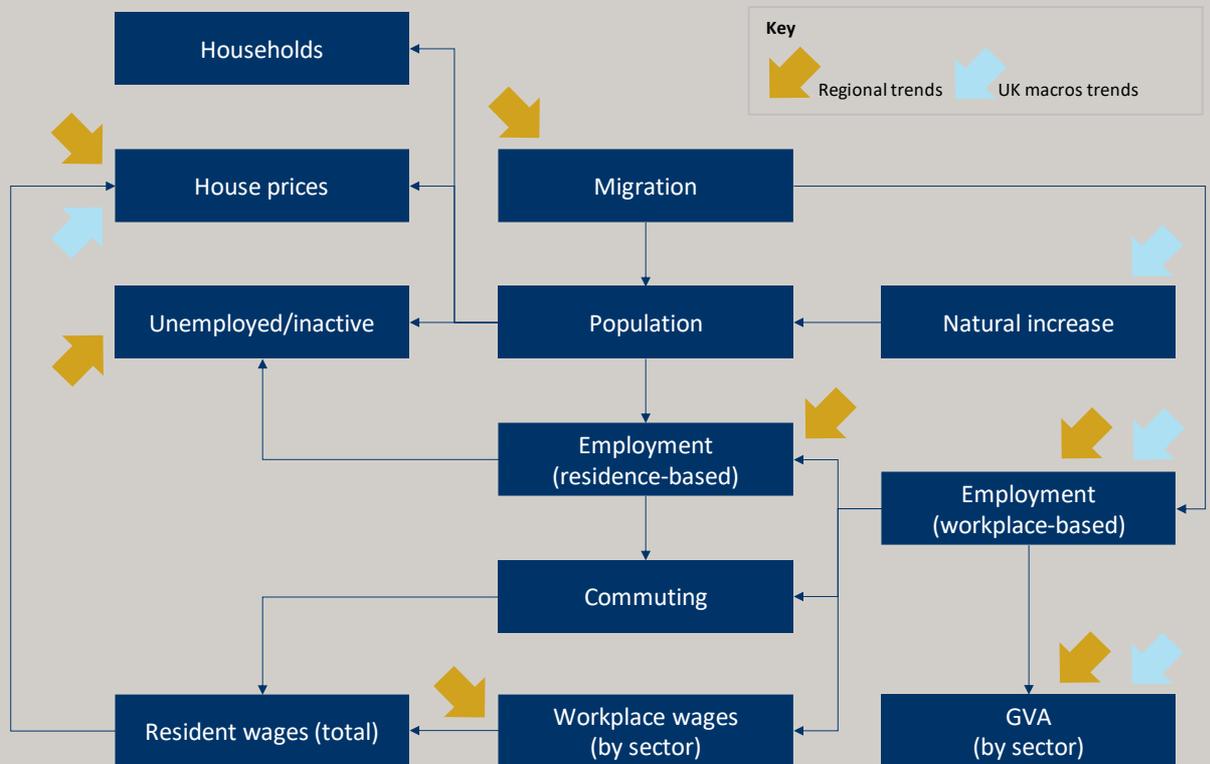
The forecasts are produced within a fully-integrated system, which makes assumptions about migration, commuting and activity rates when producing employment and population forecasts.

Data and assumptions

Population

Population data is collected from the Mid-Year estimates (MYE) for each area up to 2018.

Oxford Economics produce their own forecasts of population which are economically driven and thus differ from the official population projections. Official births and deaths projections from the 2018-based population projections are used but we have our own view on UK migration. The chart below sets out the Oxford migration forecast for the UK compared with the 2018-based population projection. Oxford Economics expect UK net migration to average 90,000 per annum compared to 190,000 in the official projections.
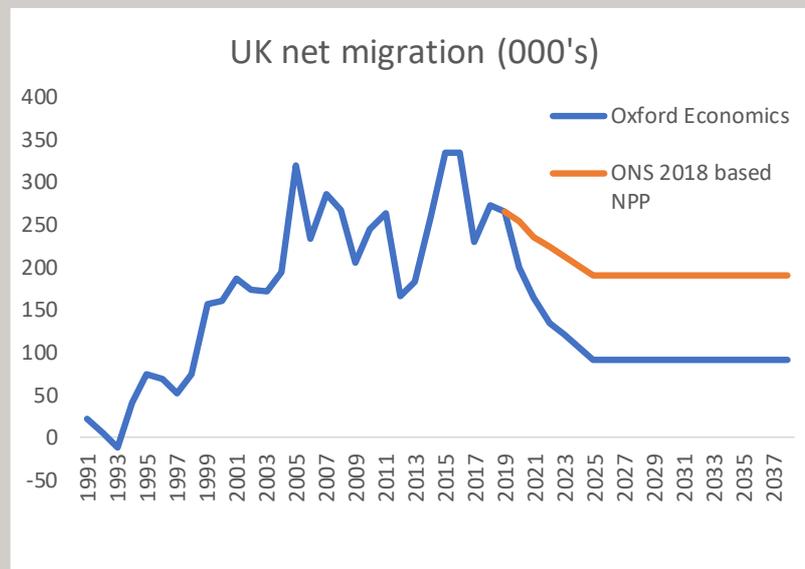
Oxford Economics population forecasts are derived from an economically driven model whereas official projections are trend based and do not consider how demand in the economy (and the likely impact on employment rates) affects migration.

At the local level, migration is linked to the employment rate forecast. If the employment rate within an area is falling too fast, migration reacts as the model assumes that people would not be attracted into this area to live, given that the employment prospects are weak. This ensures that the relationship between the labour market outlook and the demographic forecast is sensible. This series is scaled to be consistent with the migration forecast for the region from the UK Regional Model.

The total population forecast is then constructed using the forecast of migration and the natural increase assumptions. Natural increase for local areas is forecast based upon recent trends in both the historical data and the official projections.

Working age population

Working age population data is also collected from the Mid-Year estimates (MYE) for each area up to 2018. It is defined at all people aged 16 to 64.

The share of working age to total population is forecast using both trends in the official projections and trends in the regional forecast from our UK Regional Model. This is applied to the total population forecast and scaled to be consistent with the working age population for the region and UK.

Population aged 16 plus

Population aged 16 plus data is also collected from the Mid-Year estimates (MYE) for each area up to 2018.

The share of population aged 16 plus to total population is also forecast using both trends in the official projections and trends in the regional forecast from our UK Regional Model. This is applied to the total population forecast and scaled to be consistent with the forecast of population aged 16 plus the region and UK.

Employees in employment

There are two key sources for the employee jobs data – ONS Workforce Jobs (WFJ) and the Business Register and Employment Survey (BRES):

- The WFJ series is reported on a quarterly basis, providing estimates of employee jobs by sector (based on the 2007 Standard Industrial Classification – SIC 2007) for the UK and its constituent regions, over the period 1981 Q3 to 2019 Q4.
- The BRES is an employment survey which has replaced the Annual Business Inquiry (ABI). Similar to WFJ, BRES data is based upon SIC 2007, but it is only published for the years 2008-18. Prior to this, ABI and Annual Employment Survey (AES) data is available for employee jobs data, however this is based on an older industrial classification (SIC 2003). Data is available at local authority level and more detailed sector definitions. It is worth noting that the BRES is first and foremost a survey and is therefore subject to volatility, particularly when the level of detail becomes more refined. The survey is collected in September of each year and not seasonally adjusted.

There are a number of steps in constructing regional employee jobs, due to changes in sectoral classifications across the various sources, and restrictions on data availability over particular periods of time. Initially, we take employee jobs data for each sector directly from the BRES over the years 2009-18 which reflects recent methodological changes to the BRES in accounting for working proprietors. This relates to September figures and is based upon SIC 2007 sectors. In 2008, levels of employee jobs are constructed by extrapolating back the trend in the old BRES. Data from the ABI and AES is used to construct the data back to 1991.

This constructed local dataset is then scaled to be consistent with the UK employee jobs series from WFJ, by applying an adjustment factor to all sectors which converts the data to annual average values (seasonally adjusted). This is measured on a workplace basis.

The starting point in producing employment forecasts is the determination of workplace-based employees in employment in each of broad 19 SIC2007 based sectors consistent with the regional and UK outlooks. At local authority level some of the sectors are driven predominantly by population estimates, others by total employment in the area and the reminder relative to the regional performance (largely exporting sectors). All sectors are also influenced by past trends in the local area. Taken in totality, employment is cross referenced with a number of variables (including population, relative performance across similar areas, historical cyclical performance and known policy) for checking and validation purposes. Where necessary, manual adjustments are made to the projected trends to reflect this validation process. The methods of sectoral projection are as follows, each of which are forecast based upon recent trends:

- Agriculture - share of the region
- Mining and quarrying - share of the region
- Manufacturing - share of the region

- Electricity, gas, & steam - share of the region
- Water supply; sewerage, waste management - share of the region
- Construction - location quotient based upon total employment
- Wholesale and retail trade - location quotient based upon consumer spending
- Transportation and storage - location quotient based upon consumer spending
- Accommodation and food service activities - location quotient based upon consumer spending
- Information and communication - share of the region
- Financial and insurance activities - share of the region
- Real estate activities - location quotient based upon total employment
- Professional, scientific and technical activities - location quotient based upon total employment
- Administrative and support service activities - location quotient based upon total employment
- Public administration and defence - location quotient based upon population
- Education - location quotient based upon population
- Human health and social work activities - location quotient based upon population
- Arts, entertainment and recreation - location quotient based upon consumer spending
- Other service activities - location quotient based upon consumer spending

Self-employment

Self-employment data by region is taken from Workforce jobs (19 sector detail). The data is broken down into detailed sectors using both employee trends and the UK data for self-employment by 2 digit SIC2007 sector. Data for the local authorities is Census based (and scaled to the regional self-employed jobs estimates) and is broken down using the employees in employment sectoral structure. The sectors are forecast using the growth in the sectoral employees in employment data and the estimates are scaled to the regional estimate of self-employment by sector.

Total employment (jobs)

Total employment includes employees in employment, the self-employed and Her Majesty's Forces. This is measured on a workplace basis. No specific forecasting for this measure is required - it is calculated from the forecasted elements discussed above.

Note that this estimate is a jobs and not people measure (i.e. one person can have more than one job and would be counted more than once in this indicator).

ILO Unemployment

ILO unemployment data is taken from the Labour Force Survey via NOMIS. The latest year of available data is 2018.

Unemployment is projected based on regional trends and a measure of overall labour market tightness (relative employment rate) in the local area. It is not at present directly affected by migration though they do impact indirectly through the employment rate (which has working age population as its denominator).

ILO unemployment rate is defined as ILO unemployment as a percentage of the economically active. No specific forecasting of this measure is required.

Claimant Count Unemployment

Claimant count unemployment data is taken from ONS, via NOMIS. Annual average values are calculated from the monthly data. The latest data available is March 2020.

Claimant count unemployment is forecast based upon trends in the ILO series and controlled to the regional claimant count unemployment forecast.

The claimant count unemployment rate is defined as claimant count unemployment as a percentage of the working age population. No specific forecasting of this measure is required.

Resident employment

This is a measure of the number of people living in an area who are in work. Resident employment data is taken from the Annual Population Survey. The latest year of available data is 2018. Given that this data is survey based and tends to be very volatile, data is 'smoothed' by taking a 3 year average.

Residence employment is based on a commuting matrix taken from the 2011 Census. This matrix tells us where employed residents of an area work. Using this information each available job (see workplace employment people based above) is allocated to a resident of a given authority. This method assumes the proportions of commuting do not change over time.

Employment rate is defined as residence employment as a percentage of the population aged 16 plus. No specific forecasting of this measure is required.

Gross Value Added

GVA forecasts are available for detailed sectors for the UK regions from our UK Regional Model. For areas within the region, data on GVA is available at local authority level. Our forecasts at local authority level are obtained firstly by calculating an 'expected' GVA in each area. This is calculated by multiplying the region's GVA per employee in each sector by workplace employment in each sector within each local authority area. An adjustment factor based upon relative earnings is also applied as areas with higher wages should produce higher levels of GVA.

Household incomes

Data on household incomes at a local authority level is published up to 2017 by the ONS in their Regional Accounts. The individual components are forecast separately – the forecasts of income from employment, income from self employment, rest of household income and the deductions from household income are driven by the employment and self employment forecasts for that area and controlled to the regional forecast.

APPENDIX 3: CORONAVIRUS VULNERABILITY INDEX

Our Vulnerability Index is designed to help identify the ability of an area to withstand and respond to the economic shock resulting from the coronavirus pandemic. It is based on three key themes; Economic Structure, Business Characteristics, and Digital Connectivity. We have developed this in order to compare local authorities across Great Britain on a comparable basis, rather than tailoring it to the South West specifically.

The variables included under each theme and the rationale for inclusion are summarised below:

Theme	Variables	Rationale	Source
Economic structure	Share of GVA in arts, entertainment, & recreation, and accommodation & food services	Tourism and hospitality services will take a significant hit as people suspend their travel plans and social activities.	ONS, Oxford Economics
	Share of GVA in manufacturing	Manufacturing will be the most hit by supply-chain disruptions	ONS, Oxford Economics
	Share of GVA in transportation & storage	Transport & storage activity will fall as a result of reduced economic activity during lockdown.	ONS, Oxford Economics
Business characteristics	Share of small firms: share of businesses with 0-9 persons employed of the total number of businesses	Small firms are at a higher risk of bankruptcy due to lower cash buffers and more restricted access to credit.	ONS Business Demography
	Share of employment who are self-employed	The self-employed are generally more exposed to the negative consequences of the pandemic both in terms of job security and support.	ONS, Oxford Economics
	Share of high-growth businesses as a proportion of all firms over 10 persons employed	Areas with small proportions of high-growth firms are potentially more vulnerable as these firms play an important role in contributing to economic growth in an area.	ONS Business Demography
Digital connectivity	Share of properties that are unable to receive a 10Mbps broadband connection.	As lockdown is imposed, many people (especially in services) will work from home and connectivity of at least 8Mbps is recommended for reliable video conferencing.	OFCOM, Connected Nations update: Spring 2019
	Share of workers that never work from home.	Areas with large proportions of workers who have never worked from home could be more vulnerable during lockdown.	Eurostat, Annual Population Survey, Oxford Economics

Coronavirus Vulnerability Index by domain and area, South West

Local authority area	Scores by theme (average = 100)		
	Economic diversity	Business	Connectivity
Bath & North East Somerset	72	83	99
Bournemouth, Christchurch & Poole	89	100	41
Bristol	79	57	58
Cornwall	105	135	99
Devon:	-	-	-
East Devon	103	155	113
Exeter	43	48	85
Mid Devon	128	190	118
North Devon	124	162	117
South Hams	92	142	103
Teignbridge	99	115	102
Torridge	115	141	123
West Devon	122	174	116
Dorset	97	155	100
Gloucestershire:	-	-	-
Cheltenham	78	67	74
Cotswold	65	138	113
Forest of Dean	78	155	158
Gloucester	69	40	87
Stroud	137	109	123
Tewkesbury	125	70	118
Isles of Scilly	165	187	23
North Somerset	147	119	116
Plymouth	129	65	70
Somerset:	-	-	-
Mendip	134	123	131
Sedgemoor	159	118	132
Somerset West & Taunton	78	135	129
South Somerset	111	140	126
South Gloucestershire	79	44	80
Swindon	92	80	127
Torbay	103	139	60
Wiltshire	104	115	111

Source: Oxford Economics

OXFORD ECONOMICS