

Autumn Update

Socio-economic Analysis of Wales 2020

Framework for Regional Investment in Wales

Welsh Government

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Executive Summary

- The coronavirus pandemic and the public policy response, implemented to stop the spread of the virus, have caused severe economic disruption to the Welsh and wider UK economy. After two consecutive quarters of negative growth at the start of this year (with GDP falling 19.8% in the second quarter), the UK economy officially entered a recession. The ONS has recently estimated that the UK economy came out of recession in the third quarter, with 15.5% growth in GDP. However this still left the UK GDP 9.7% below its pre-pandemic level.
- The nature of the restrictions and health protection measures needed to control the spread of the virus have led to hugely uneven impacts across sectors and industries. These include negative output impacts on areas of the “social economy”, such as hospitality and leisure – who are less able to operate effectively with social distancing measures. Trade has also been negatively impacted with disruption to importing and exporting activity throughout the pandemic so far.
- In response to the realities of the pandemic, the majority of businesses have been forced to adapt. This has led to an increase in home-working and a greater shift to online commerce. There are some concerns that such shifts could potentially disadvantage smaller businesses, who may lack digital capabilities. The impacts the shift to home-working will have on productivity remains unclear.
- In the face of future uncertainty and falling output, business investment has fallen considerably in the UK since the outbreak of the coronavirus pandemic. Such falls pose a possible risk to plans and investments by businesses that may help to raise firm-level productivity and assist the transition to a greener economy.
- Within the labour market, there have also been highly uneven impacts. Those workers who are employed within sectors worst affected have been disproportionately negatively impacted in terms of employment, income, and lost hours of work. The demographics of many of these workers mean that such impacts are also disproportionately being felt by the young, women, BAME groups, and those with disabilities.
- As well as differential labour market impacts, there have also been differential impacts in education settings, with those from poorer backgrounds facing greater levels of disruption to their education. There are serious concerns, based on evidence from previous crises, that these differential impacts could act to deepen existing inequalities and lead to long-term damage on the health, employment performance, and well-being of those negatively impacted by the crisis.

- Family finances have also been disproportionately impacted as a result of the crisis. Despite a rise in the overall household saving rate in the UK since the pandemic began, there is evidence that poorer households are less likely to have improved their household financial position throughout the crisis and more likely to be drawing down existing savings and using consumer debt products than richer households. While currently time-limited, uplifts in universal credit have provided much welcome support to households who rely on it. For those leaving employment, current welfare policies would still lead to a significant fall in household incomes for many groups.
- It is perhaps still too early to understand the impact that the pandemic will have on emissions globally and in Wales going forward. Emissions for this year are predicted to be 8% lower this year compared to 2019. However, cumulative emission levels matter more for averting the worst aspects of climate change than single-year falls. Increased levels of home-working offers the possibility of lower transport emissions going forward but may be offset by increased residential building emissions associated with energy use.
- The pandemic has brought further attention to and deepened existing health inequalities in Wales. These inequalities exist across a range of protected characteristics, such as gender, age, and ethnicity. Of particular concern is the sharp increases witnessed in people reporting negative mental health impacts throughout the pandemic.
- Finally, the importance of online connectivity has grown considerably as a means to access goods and services, as well as being able to effectively work and study remotely. While there are benefits from such a change, those without connectivity have the potential to be further disadvantaged. As well as issues surrounding rural connectivity, evidence suggests that the elderly and the economically inactive are less likely to have household internet – which could deepen feelings of isolation and loneliness.

Introduction

In February 2020 a consultation process was launched by the Welsh Government on a future framework for regional investment in Wales. In the draft framework, four priority areas were identified for future regional funding which were designed to address the most pressing issues facing Wales now and in the future. To accompany the consultation process a high-level socio-economic analysis was produced to provide information on trends and analysis relevant to the priority areas.¹

Since its initial publication the coronavirus pandemic and the associated policy response have had unprecedented economic and social impacts across Wales, which will have important implications for regional development spending that is due to replace EU funding as of next year. For that reason this document serves to provide a brief update on the predicted and possible impacts of the coronavirus public health crisis, within the context of the four priority areas currently identified within the framework.

The initial economic impacts of the crisis were felt both on the supply side (with the ability of firms to effectively produce being impaired by global supply chain effects, mandated firm closure, and necessary mitigation measures) and on the demand side (with consumers refraining from spending to income impacts and lifestyle/behavioural changes). As both households and firms have responded to these impacts the effects have been further amplified, with firms cutting back on investment/labour demand and with households reducing consumption, either by saving further in the face of rising uncertainty or due to loss of income brought about by deteriorating economic conditions.

The social impacts of coronavirus have also been considerable, with the health protection measures introduced to combat the virus and the virus itself leading to severe disruption to individuals' plans and expectations, increased levels of loneliness and isolation, and increased dependency on digital connectivity and skills.

It is important to state at the outset that going forward there still remains great uncertainty as to the form and extent of the impacts that will be felt as a result of the public health response to limit community transmission of the virus. In part this is due to the unprecedented nature of the crisis, with measures suddenly and dramatically constraining economic output. It is also complicated by the fact that the ability to determine many of the necessary immediate fiscal responses to the pandemic in Wales (especially with regard to employment support) currently sit within the remit of the UK Government. That being said, the Welsh Government

¹ The consultation documents, which include the socio-economic analysis, can be found here: <https://gov.wales/framework-for-regional-investment-in-wales>

will need to use the levers at its disposal to prepare for the possible longer-term changes brought about by this pandemic.

PRIORITY AREA I: Productive and Competitive Businesses

Context

How to increase productivity growth rates was a significant topic of concern before going into the coronavirus pandemic. Productivity was affected after the global financial crisis (GFC) in 2008/9 and the subsequent recession. As well as labour productivity suffering a fall throughout the recession in the UK, it also failed to continue growing at the pre-crisis trend growth rate (~2% per annum). This led to labour productivity at the end of 2018 being drastically below its pre-GFC growth path.²

Economic output

In the first two quarters of 2020, the UK economy contracted, meaning it officially entered a recession. UK GDP fell by 2.5% in the first quarter, followed by the sharpest quarterly fall on record in the second quarter of 19.8%, reflecting the impact that restrictions brought in to control the coronavirus pandemic have had on the economy.³ Recently published figures by the ONS estimate that GDP grew in the third quarter by 15.5%, however this is still 9.7% below what it was prior to the pandemic.⁴ The short-term output indicators for Welsh market services, production, and construction all experienced their largest quarterly drop in Q2 2020 since the series began. In Q2, the index of market services experienced a quarterly decrease of 14.8% (equivalent to a 6.0% fall year-on-year); the index of production showed a 13.7% decrease (-4.2% YoY); and the index of construction experienced a 31.2% decrease (-8.8% YoY).⁵

Monthly GDP estimates show that the majority of this fall occurred during the months of March and April when lockdown measures were at their most restrictive in all four UK nations.

Investment

UK national account figures show that gross capital formation has contracted by 21.6% in the first quarter of 2020, with business investment (which fell by 26.5%)

² Equivalent to 18.3% lower for output per hour, and 16.0% lower for output per worker. See: ONS. (2019, April 5). Labour productivity, UK: October to December 2018

³ ONS. (2020, September 30). GDP quarterly national accounts, UK: April to June 2020. Retrieved from <https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/quarterlynationalaccounts/apriltojune2020>

⁴ ONS. (2020, November 12). GDP first quarterly estimate, UK: July to September 2020.

⁵ Welsh Government. (2020, October 22). Short-term output indicators: April to June 2020.

making the largest contribution to the decline.⁶ While the quality of investment (in terms of the nature and quality of innovation), as well as the ability for local firms and labour to absorb innovations, are likely to be integral factors in productivity benefits arising from such investments,⁷ significant falls in the overall investment levels could pose a threat to future productivity yields.

Figure I: UK business investment fell by 26.5% in Q2 of 2020

UK Business investment expenditure from GDP quarterly national accounts (2019 Q4=100)



Source: ONS

Firms reported macro-economic uncertainty and financial constraints as the two most significant impediments to adopting new technologies and practices in one survey conducted in the UK.⁸ When asked what ways government could best assist firms to engage in process and product innovation, the availability of grants/vouchers and introducing new tax incentives were strongly advocated by both small and medium/large firms surveyed, with grants being the most popular policy response for small firms in particular. A majority of medium/large firms also ranked investing in digital/professional skills for the younger work force as being beneficial to assist process innovation, and almost half viewed investment in telecommunications infrastructure as another important policy response.

⁶ ONS. (2020, September 30). GDP quarterly national accounts, UK: April to June 2020.

⁷ Huggins, R., & Izushi, H. (2020). Innovation and productivity: a multi-perspective assessment. From: Productivity Perspectives. Edward Elgar Publishing Limited.

⁸ Riom, C., & Valero, A. (2020). The Business Response to Covid-19: the CEP-CBI survey on technology adoption. Centre for Economic Performance. Note: CEP survey was conducted in July 2020.

Sectoral impacts

The largest falls in output were recorded over both of the first two quarters of 2020 for each of the services, production, and construction sectors in the UK.⁹ The largest relative fall of all three sectors was recorded by the construction sector, which is estimated to have seen output contract by 37.6% in the first half of 2020, while services and production saw falls of 21.3% and 18.1% respectively.¹⁰

While almost all service industries have been negatively impacted by the coronavirus pandemic, the direct and indirect effects of lockdown restrictions have been felt more acutely by certain service industries. Accommodation and food services output saw a dramatic decline in output of 85.7% in the second quarter of 2020, while other services (which contains many subsectors of the leisure and cultural economy) saw output fall by 45.1% in the same period.¹¹

Manufacturing represents a higher share of total GVA in Wales (17% in 2018) than in any of the other 12 UK countries and English regions.¹² ONS figures show that pandemic is affected most manufacturing subindustries in the UK. Of 55 manufacturing sub-industries, only 17 are estimated to have had higher output levels in July than in February (before restrictions were introduced).¹³

ONS data on the Coronavirus and the impact on output in the UK economy reports that food products industries saw output 3.8% lower in August than in February and alcoholic beverages and soft drinks output was 3.7% lower.¹⁴ The transport equipment sector saw output 25.8% weaker in August compared to February, with the motor vehicles, trailers, and semi-trailer subsector witnessing output 26.1% lower and the air, spacecraft, and related machinery subsector down 27.8%.¹⁵ The Society of Motor Manufacturers and Traders (SMMT) reported that car manufacturing was down 44.6% in August 2020 compared to the same month last year, due to ongoing weak global demand.¹⁶

Consumer behaviour and the retail sector

Looking at UK level data we can see that retail sector sales (in volume) fell heavily in the months following the initial health protection measures (down approximately 20% in April) but recovered strongly in the months after and were

⁹ ONS. (2020, September 11). GDP monthly estimate, UK: July 2020.

¹⁰ ONS. (2020, September 30). GDP quarterly national accounts, UK: April to June 2020.

¹¹ Ibid.

¹² StatsWales. (2019, December 23). Gross Value Added by area and industry.

¹³ ONS. (2020, September 11). Coronavirus and the impact on output in the UK economy: July 2020.

¹⁴ ONS. (2020, October 9). Coronavirus and the impact on output in the UK economy: August 2020.

¹⁵ ONS. (2020, October 9). Coronavirus and the impact on output in the UK economy: August 2020.

¹⁶ SMMT. (n.d.). Manufacturing Data. Retrieved October 21, 2020, from The Society of Motor Manufacturers and Traders: <https://www.smmmt.co.uk/vehicle-data/manufacturing/>

above pre-pandemic (February) levels in July.¹⁷ However not all retail sectors were affected uniformly and many are still experiencing sales volumes below their pre-pandemic level (such as department stores and clothing stores). Of particular interest is the retail sector that experienced rapid growth in the months following lockdown – non-store retail – is a sector for which online sales represent a majority of total sales. Indeed in August the year-on-year growth of online sales for all retail sectors was 51.6%.¹⁸

Using 2018 data, one study suggested that the proportion of total turnover estimated to derive from e-commerce sales increased with business size in the UK and micro/small businesses were less likely to have utilise a website at all (either their own or third party).¹⁹ In 2018, micro-enterprises were less likely to use a website, with just 45% using a website in comparison with 84% with 10 or more employees.²⁰ It is therefore possible that larger firms were better placed to maintain and grow their business activities as consumers turned to online shopping in greater numbers.

Impacts on modes of working (home working)

The impacts of the coronavirus pandemic have forced firms to facilitate their employees working from home, with as many as three-quarters of firms stating that staff were now working from home in some form (partially or completely) in a survey conducted in July 2020.²¹

According to the Labour Market Survey (launched by ONS at the end of March 2020) in April 2020, 40.7% of those in employment in Wales were estimated to be doing some work from home, compared to 46.6% for the UK as a whole.²² The Annual Population Survey estimates that prior to the pandemic, in 2019, only 4.4% of people in Wales reported mainly working from home.²³ That figure is estimated to be close to the proportion of workers who could work from home in Wales based on the characteristics of certain professions.²⁴

Certain sectors are more suited to enabling workers to work from home while others require on-site attendance – such as many customer facing roles within

¹⁷ ONS. (2020, September 18). Retail sales, Great Britain: August 2020.

¹⁸ ONS. (2020, September 18). Retail sales, Great Britain: August 2020.

¹⁹ Nguyen, D., & Tong, M. (2020, October 19). Are small businesses ready to compete as consumers move online? Retrieved from Economics Observatory: <https://www.coronavirusandtheeconomy.com/are-small-businesses-ready-compete-consumers-move-online>

²⁰ ONS. (2019, November 29). E-commerce and ICT activity, UK: 2018.

²¹ Riom, C., & Valero, A. (2020). The Business Response to Covid-19: the CEP-CBI survey on technology adoption. Centre for Economic Performance.

²² ONS. (2020, July 8). Coronavirus and homeworking in the UK: April 2020.

²³ ONS. (2020, March 24). Coronavirus and homeworking in the UK labour market: 2019.

²⁴ Taylor, K., & Griffith, R. (2020, May 23). Who can work from home and how does it affect their productivity? Retrieved from Economics Observatory: <https://www.coronavirusandtheeconomy.com/question/who-can-work-home-and-how-does-it-affect-their-productivity>

the social economy. Occupations that traditionally are carried out by those with higher skill levels were more likely to work from home than lower-skilled workers;²⁵ the amenability of certain occupations to working from home is also positively correlated with higher paid occupations.²⁶

It seems likely that the coronavirus pandemic has shifted the attitude of companies and employees regarding home-working. An IoD survey conducted in September asked company directors how many of the changes introduced due to pandemic they planned to now keep in place going forward. Nearly three-quarters (74%) of company directors reported that they would be keeping increased home-working practices, in some form, once the coronavirus pandemic was over. Just over two-fifths (43%) stated they would maintain increased flexible working.²⁷

Understanding at this stage what the impacts of increased homeworking is likely to be on current productivity levels and future growth trends is still highly uncertain. ONS' BICS survey evidence suggests that between 7-20 September UK businesses that had not permanently stopped trading had 26% more staff working from home as a result of coronavirus pandemic, approximately a quarter (24%) had experienced a decrease in productivity as opposed to 12% who had experienced an increase.²⁸

However, despite the possible negative productivity impacts firms may currently be experiencing as a result of a higher proportion of home working, it is important to appreciate the abnormality of conditions in which workers are currently working. As with other changes during the pandemic, the benefits and disbenefits of working from home will not be felt equally across the workforce. Many workers are currently effectively forced to work from home continuously, as opposed to opting to work from home (on a potentially occasional basis, for example). Many will also have caring responsibilities and have working environments at home unsuited to productive home working.²⁹ In one of the few studies conducted on home-working before the pandemic, evidence suggested that it could provide overall productivity benefits to firms under certain conditions.³⁰ These studies point to the potential of self-selection, with workers

²⁵ ONS. (2020, July 8). Coronavirus and homeworking in the UK: April 2020.

²⁶ Costa Dias, M., Farquharson, C., Griffith, R., Joyce, R., & Levell, P. (2020). Getting people back into work. Institute for Fiscal Studies.

²⁷ Institute of Directors. (2020, October 5). Home working here to stay, new IoD figures suggest. Retrieved from <https://www.iod.com/news-campaigns/news/articles/Home-working-here-to-stay-new-IoD-figures-suggest>

²⁸ ONS. (2020, October 8). Coronavirus and the economic impacts on the UK: 8 October 2020.

²⁹ Gorlick, A. (2020, March 30). The productivity pitfalls of working from home in the age of COVID-19. Retrieved from Stanford News: <https://news.stanford.edu/2020/03/30/productivity-pitfalls-working-home-age-covid-19/>

³⁰ For example, see Bloom, N., Liang, J., Roberts, J., & Ying, Z. J. (2013). Does working from home work? Evidence from a Chinese experiment. NBER Working Paper Series: 18871.

whose productive output benefits by working from home choosing to do so; something the current pandemic currently does not allow for.

There could be benefits that arise from co-location that will be harder to replicate while working remotely. These include characteristics of workplace-based working that foster individual and collective creativity (important for innovation) and that facilitate the formation and development of effective working relationships (social capital).³¹ However, the opportunity for self-selection should become more apparent post-pandemic and many factors that reduce productivity at home should lessen over time (with childcare responsibilities easing and workers being better equipped with the tools needed to WFH effectively). The forced push to home-working is likely to have resulted in many workers acquiring digital skills that will prove beneficial post-pandemic.³²

Trade and exports

Historically, trade normally drops more than output during global downturns.³³ The World Trade Organisation, in its most recent forecast, predicted that trade would fall 9.2% in 2020 followed by a 7.2% rise in 2021 – which would still leave it below its pre-pandemic level.³⁴ In all five of the previous global economic downturns since the second world war, world trade decreased by more than global economic output. This was particularly pronounced during the last global financial crisis, which has principally been attributed to large falls in demand from consumers and firms for durable goods. Historically while trade has plummeted during global economic downturns, it has also rebounded quickly.³⁵

Responses to the ONS' coronavirus business survey (covering 21 September to 4 October) suggest that trade impacts continue to be felt in the UK as a result of the coronavirus pandemic. The majority of UK businesses neither import (84.0% of firms reporting not having imported goods and services in last 12 months) or export (87.8% of firms had not exported goods or services in same period). However, for those that do, the coronavirus appears to have depressed the volume of import and export activity that firms are engaged in. The proportion of exporting firms reporting that they were exporting less, or not able to export at all, in the last two weeks was 34.9% and 19.1% respectively, as opposed to 2.4% who stated they were exporting more than normal. The proportion of importing firms that were importing less than normal or who had not been able to

³¹ Haldane, A. (2020). Is Home Working Good For You?. Speech at Engaging Business Summit and Autumn Lecture.

³² Ibid.

³³ Zymek, R. (2020, May 23). What happens to trade in a global downturn? Retrieved from Economics Observatory: <https://www.coronavirusandtheeconomy.com/question/what-happens-trade-global-downturn>

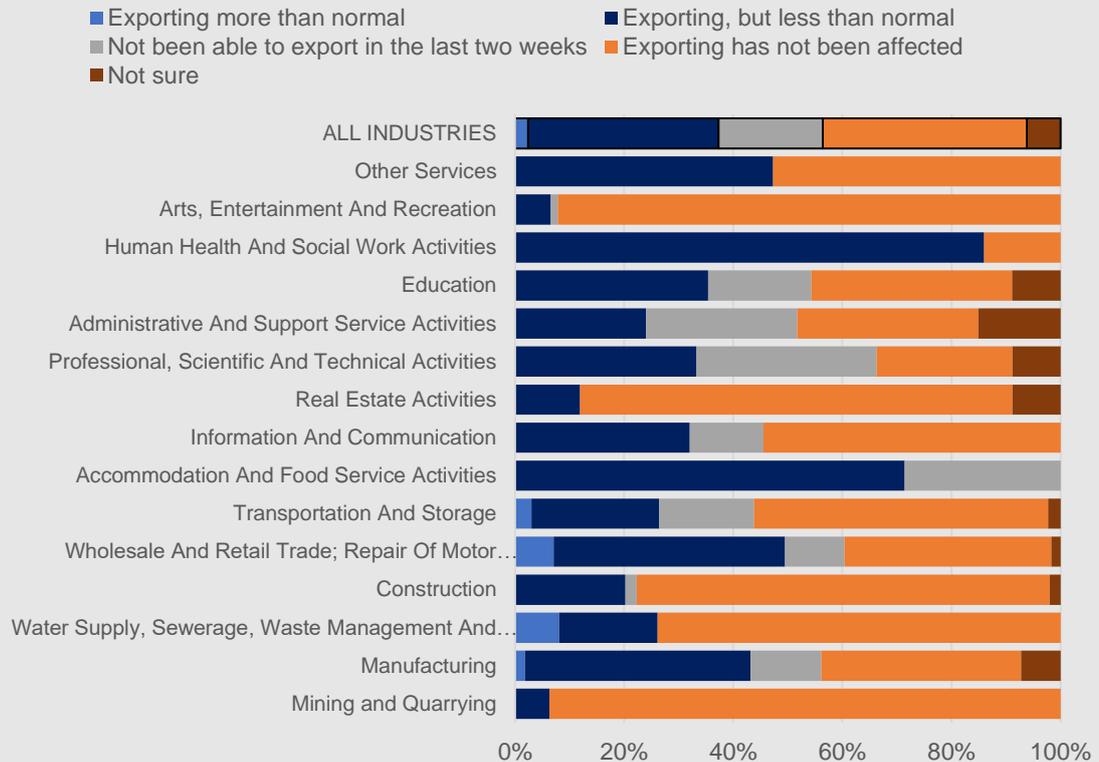
³⁴ WTO. (2020, October 6). Trade shows signs of rebound from COVID-19, recovery still uncertain. Retrieved from World Trade Organization: https://www.wto.org/english/news_e/pres20_e/pr862_e.htm

³⁵ Zymek, R. (2020, May 23). What happens to trade in a global downturn? Retrieved from Economics Observatory: <https://www.coronavirusandtheeconomy.com/question/what-happens-trade-global-downturn>

import at all in the last two weeks was 22.0% and 3.0% respectively, as opposed to 9.5% who reporting importing more than usual.³⁶

Figure 2: Evidence of continued disruption to trade for UK businesses as a result of the coronavirus pandemic

Percentage of UK businesses currently trading and have exported in the last 12 months, by industry, weighted by count (21 September to 4 October 2020)



Note: Rows might not sum to 100% due to rounding. Businesses were asked for their experiences for the reference period 21 September to 4 October 2020. However, for questions regarding the last two weeks, businesses may respond from the point of completion of the questionnaire (5 to 18 October 2020).

Source: ONS (BICS)

While the last global financial crisis did lead to the adoption of some protectionist policies (with firms placing tariffs on certain goods), these measures were still deemed to have contributed marginally to fall in world trade witnessed.³⁷ It remains to be seen how firms will respond in the aftermath of this crisis in which the resilience of global supply chains have been questioned by some. Should countries move globally towards adopting protectionist trade policies or attempt to repatriate elements of existing supply chains, this would likely depress global trade levels and could hurt exporters in Wales.

³⁶ ONS. (2020, October 22). Business Impact of COVID-19 Survey (BICS) results: Wave 15 (21 September to 4 October 2020).

³⁷ Zymek, R. (2020, May 23). What happens to trade in a global downturn?

PRIORITY AREA 2:

Reducing the Factors That Lead to Economic Inequality

Context

After the global financial crisis (GFC) in 2008/9, average weekly wage growth stagnated in Great Britain and failed to keep up with inflation for many years after. It wasn't until the last quarter of 2019 that real wages finally reached their pre-GFC peak.³⁸

Unemployment is expected to increase following economic downturns, as it did in Wales in the years following the GFC. As well as a general increase in the level of unemployment is an increase in the proportion of those who are in long-term unemployment. In the year ending 30 June 2008, 24.3% of those unemployed in Wales had been for 12 months or more, by 2013 that figure had risen to 34.9% - with the level more than doubling from 19,200 to 42,100.³⁹

Labour market impacts

The unemployment rate rose by 1.9 percentage points to 4.6% in the three months leading up to September 2020 (Q3) compared with the previous quarter and is up 0.8 percentage points on the year. This is the largest quarterly increase since records began in 1992. The unemployment rate for the UK as a whole rose by 0.7 percentage points to 4.8% over the quarter, and up 0.9 percentage points on the year. The employment rate in Wales also experienced its largest quarterly drop on record down 2.5 percentage points in Q3 to 72.1%; and down 1.8 percentage points on the year. In the UK the employment rate dropped by 0.6 percentage points in Q3 to 75.3%.⁴⁰

Unemployment would likely be much higher without the unprecedented income support that has been provided throughout the crisis, in particular the UK government's Coronavirus Job Retention Scheme (JRS) and the Self Employment Income Support Scheme (SEISS). In the case of the JRS, the UK Government covers 80% of the wage of workers who are no longer able to work and are furloughed (with the option for the employer to pay the remainder of the wage, should they choose). As at 31 August 2020, 130,400 employments in Wales were furloughed under the Coronavirus Job Retention Scheme, a take up

³⁸ ONS. (2020, September 15). Average weekly earnings, taken from Monthly Wages and Salaries Survey.

³⁹ StatsWales. (2020, September 24). Unemployment in Wales and the UK by duration and year.

⁴⁰ Welsh Government (2020, November 10). Key economic statistics: November 2020.

rate of 10%; broadly similar to the take up rate across the UK.⁴¹ The JRS was originally intended to end in October but the UK Government has extended the scheme across the UK until March, in response to rising cases and the reintroduction of national lockdowns.

There is evidence that despite the income support measures introduced there have already been impacts on the labour market in Wales. Recently released data on payroll employee numbers in Wales (i.e. PAYE data, which excludes groups like the self-employed who are not on payroll) provides an early estimate that employee numbers were down 27,100 (2.1%) on February 2020. While this is a large fall, there has been slight evidence of growth in August and September as numbers were lower in July (where the decrease was 29,700 or 2.4% on February).⁴²

Job vacancy levels can also provide a useful insight into the possible impacts the pandemic is having on the dynamics of Wales' labour market. In the first week of November the number of online job advertisements was down over 23.3% in Wales when compared to the average weekly level in 2019. While this was a steep fall it was less pronounced than the fall seen for the UK as a whole, which had seen weekly vacancies decline by 33.2%.⁴³

Data published jointly by HMRC and ONS on 13th of October showed that the average (median) monthly pay of payroll employees in Wales has been above pre-pandemic levels since June 2020. Early estimates for September suggest that median pay was £1800, up £64 compared to February of this year. Compared with the same month in the previous year, this represented an increase in monthly pay of 5.6% which was the highest recorded of the 12 UK countries and English regions.⁴⁴ However, between February and August, public sector wages had risen twice as fast as private sector wages (1.8% vs 0.9%) and initial forecasts point to this trend continuing over the coming months.⁴⁵ There remains a risk that post-pandemic private sector wage growth will be negatively impacted as firms service debt accumulated during this period.

The labour market impacts have already been felt more disproportionately by workers in those sectors worst affected by the coronavirus pandemic, such as hospitality and the leisure sector. Workers in these sectors are more likely to be

⁴¹ Welsh Government (2020). Coronavirus Job Retention Scheme and Self-Employment Income Support Scheme statistics: 30 September 2020

⁴² Welsh Government. (2020). Key Economic Statistics – October 2020.

⁴³ ONS. (2020, November 12). Coronavirus and the latest indicators for the UK economy and society: 12 November.

⁴⁴ Welsh Government. (2020). Key Economic Statistics – October 2020.

⁴⁵ NIESR. (2020, October 13). NIESR Wage Tracker - October 2020.

on furlough or no longer working than in other areas of the economy.⁴⁶ Survey evidence from September suggested that workers from the worst-affected sectors (either in employment or who worked in those sectors before the outbreak of the pandemic) were still more likely to be looking for work in those very same sectors.⁴⁷ While the future economic outlook for these sectors remains unclear it is possible that the dynamics of the crisis increase the need for workers to move across sectors, in order to improve their own employment prospects. The ease with which workers will be able to do so will vary, but employment support and retraining may be required.

Differential impacts

Due to the sectors of the economy most affected by lockdown restrictions, and the nature of income support provided by the UK Government, the effects of the coronavirus pandemic have generally had a disproportionately negative effect on minority groups.⁴⁸ The same distributional effects appear to be occurring in Wales, with the poorest, youngest, BAME individuals, women, and those with a disability more represented in lockdown sectors.⁴⁹

The impacts of the crisis on younger cohorts (in or entering the labour market) is particularly concerning given the lengthy repercussions experienced by previous generations of young people during economic downturns. Recent survey evidence of UK workers from September suggested that those aged 18-24 were disproportionately more likely than all other age cohorts to have either be no longer working, on furlough (partially or fully), or having lost working hours due to coronavirus impacts.⁵⁰ This was also pronounced for those in insecure work (which, as well as the young, is more likely to be those from BAME backgrounds and the lowest paid).⁵¹

As well as in the labour market, coronavirus has had differential impacts within educational settings. University students from lower income backgrounds lost more teaching hours as a result of the lockdown than those from the highest income groups (52% compared to 40%). And state school pupils were far less likely to be benefiting from full school days during lockdown than those in private

⁴⁶ Brewer, M., Cominetti, N., Henehan, K., McCurdy, C., Sehmi, R., & Slaughter, H. (2020) Jobs, Jobs, Jobs: Evaluating the effects of the current economic crisis on the UK labour market. Resolution Foundation.

⁴⁷ Ibid.

⁴⁸ Brewer, M. (2020, September). What are the effects of Covid-19 on poverty and inequality? Retrieved from Economics Observatory: <https://www.coronavirusandtheeconomy.com/question/what-are-effects-covid-19-poverty-and-inequality>

⁴⁹ Ifan, G., Siôn, C., Rodriguez, J., & Phillips, D. (2020, October 8). How is coronavirus affecting the Welsh economy? Retrieved from Economics Observatory: <https://www.coronavirusandtheeconomy.com/question/how-coronavirus-affecting-welsh-economy>

⁵⁰ Brewer, M., Cominetti, N., Henehan, K., McCurdy, C., Sehmi, R., & Slaughter, H. (2020) Jobs, Jobs, Jobs: Evaluating the effects of the current economic crisis on the UK labour market. Resolution Foundation.

⁵¹ Ibid.

schools (38% compared to 74%). This raises concerns that these distributional impacts coupled with labour and education impacts could act to depress social mobility of young people from poorer families.⁵²

The effects of such impacts could have long-term consequences. Additional research has projected negative impacts on the earnings potential and social mobility of children from poorer socio-economic backgrounds. The impacts are expected to be especially pronounced for those from lower socio-economic groups who don't go on to university after school.⁵³

Family finances

Initially in response to the health protection measures households in the UK appear to have cut back on consumption and increased levels of saving. The UK household saving ratio (the proportion of household disposable income that is saved) increased to a record 29.1% in the second quarter of 2020, a sharp increase on the 9.6% rate seen in the first quarter.⁵⁴

However, while the household savings ratio may have risen sharply in the second quarter of 2020, there are reasons to suspect that the impacts on family finances have been unevenly distributed. Research by the Resolution Foundation suggests that, in May, higher income households were over twice as likely to have increased their saving rate than lower income households, when asked to compare to their saving rate before the coronavirus breakout; lower income households were also more likely to have decreased their saving than higher income households.⁵⁵ Leading on from that, those families with the lowest levels of existing savings before the crisis hit were also less likely to be saving in May.

Perhaps as expected, given the distributional picture for household saving, research suggests that lower and middle income households have been the most likely to be spending existing savings, and/or increasing their use of consumer debt since the coronavirus outbreak, than higher income households.⁵⁶

Data from July suggested that adults in Great Britain under the age of 60 were less likely to be able to pay for an unexpected expense of £850 than those aged 60 and above (41.6% for those aged 30 to 59, 36.5% for those aged under 30,

⁵² Major, L. E., Eyles, A., & Machin, S. (2020). Generation COVID: Emerging Work and Education Inequalities. Centre for Economic Performance.

⁵³ Halterbeck, M., Conlon, G., Patrignani, P., & Pritchard, A. (2020). Lost Learnings, Lost Earnings. London Economics (for The Sutton Trust).

⁵⁴ ONS. (2020, September 30). GDP quarterly national accounts, UK: April to June 2020.

⁵⁵ Bangham, G., & Leslie, J. (2020). Rainy days: an audit of household wealth and initial effects of the coronavirus crisis on saving and spending in Great Britain. Resolution Foundation.

⁵⁶ Brewer, M., Corlett, A., Handscomb, K., McCurdy, C., & Tomlinson, D. (2020). The Living Standards Audit 2020. Resolution Foundation.

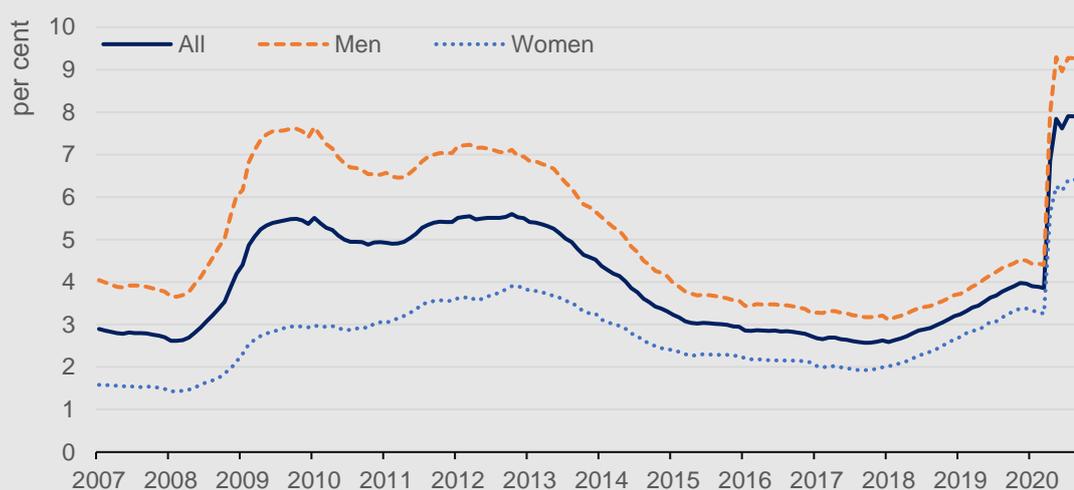
and 16.1% for those aged 60 and over). Adults with children appear to be particularly vulnerable to financial shocks with 47.5% reporting they would be unable to pay for an unexpected expense of £850 and around one in five (22%) stating that they had had to borrow or use credit products more than before the coronavirus pandemic began.⁵⁷

The benefit system

In April there appears to have been a sharp increase in the claimant count in Wales, rising 3 percentage points from March (3.9% to 6.9%).⁵⁸ By September the rate sat at 7.9%.⁵⁹ As has been the case historically the claimant count rate continues to remain much higher for men than for women (in September it was 9.2% for men and 6.4% for women). These increases represent a far quicker and steeper increase than that seen throughout the whole of the last economic recession and subsequent recovery in the UK.

Figure 3: Sharp rise in claimant count rate in Wales

Claimant count rate in Wales (experimental statistic)



*Note: The experimental Claimant Count consists of claimants of Jobseekers Allowance (JSA) and some Universal Credit (UC) Claimants. The UC claimants that are included are 1) those that were recorded as not in employment (May 2013-April 2015), and 2) those claimants of Universal Credit who are required to search for work, i.e. within the Searching for Work conditionality regime as defined by the Department for Work & Pensions (from April 2015 onwards); Denominator = Claimant Count + Workforce jobs; September 2020 data is provisional
Source: ONS (HI10-8 Claimant Count [Experimental Statistic])*

At the beginning of the pandemic response, the UK Government uplifted the standard allowance for Universal Credit by £20 a week, equivalent to an annual rise of £1,040 – this is currently a temporary increase due to end as of April

⁵⁷ ONS. (2020, September 10). Personal and economic well-being in Great Britain: September 2020.

⁵⁸ Note this is according to an experimental ONS statistic (see Figure 3). ONS. (2020, October 13). HI10 Regional labour market: Headline indicators for Wales.

⁵⁹ September 2020 data is provisional.

2021. Other benefit improvements were also introduced, such as increasing Local Housing Allowance rates so that they match the 30th percentile of rents in each local area.

Analysis by the Resolution Foundation suggests that while the uplift in universal credit will relieve some of the economic hit for families of a household earner entering unemployment, it will still not prevent deep cuts in income for many households. Single person households stand to replace approximately 30% of their income on average in the UK should they be forced to stop working and claim benefits; the same figure for couples stands just above 50%.⁶⁰

⁶⁰ Brewer, M., & Handscomb, K. (2020). This time is different – Universal Credit’s first recession. Resolution Foundation.

PRIORITY AREA 3:

Supporting the Transition to a Zero-carbon Economy

Effect of the pandemic on emissions

The pandemic, and the associated global policy response, has caused sharp falls in trade, travel, and output across the world and, as a result, led to emissions dropping sharply in the first half of 2020.⁶¹ It is estimated that global CO₂ equivalent emissions could decline by as much as 8% this year, which would be the largest year-on-year reduction on record.⁶² Despite this, single-year emission drops are less important in averting the worst possible consequences of climate change as is reducing cumulative emission levels.⁶³

Analysis, published in July, of air quality across Wales suggested some falls in the concentration of air pollutants as a result of regulations and restrictions introduced in response to the coronavirus pandemic. However the report, published by Public Health Wales, stated *“Establishing the impact of the lockdown on air quality, and people’s exposure to it, is complex and challenging. Measured reductions in transport-related air pollutant emissions (resulting from more people staying at home and travelling less) may be offset by increases in other outdoor pollutants as well as potential increases in exposure to indoor air pollutants”*.⁶⁴

Investment towards a zero-carbon future

As mentioned previously, the coronavirus pandemic led to a large drop in business investment spending in the second quarter of this year. Such falls in investment have the potential to delay and reduce the scale of business expenditure on those technologies necessary to reduce emissions. Lower investment spend may also slow the pace at which innovations improve in terms of their cost and efficiency.⁶⁵ For example, a possible impediment of low

⁶¹ Engineering & Technology. (2020, October 15). Largest CO₂ emissions drop in history due to Covid-19 pandemic. Retrieved from <https://eandt.theiet.org/content/articles/2020/10/covid-19-pandemic-caused-largest-co2-drop-in-history/>

⁶² IEA. (2020, April). Global Energy Review 2020. Retrieved from <https://www.iea.org/reports/global-energy-review-2020>

⁶³ Matthews, H. D., Zickfeld, K., Knutti, R., & Allen, M. R. (2018). Focus on cumulative emissions, global carbon budgets and the implications for climate mitigation targets. *Environmental Research Letters*, 13(1).

⁶⁴ Public Health Wales. (2020). Air pollution impacts of Covid-19 response (Wales): A public health opinion.

⁶⁵ Comerford, D. (2020, July 18). Can recovery from Covid-19 help transition to a zero-carbon economy? Retrieved from Economics Observatory: <https://www.coronavirusandtheeconomy.com/question/can-recovery-coronavirus-help-transition-zero-carbon-economy>

investment to the roll-out of zero-carbon infrastructure is the complementary nature of much of the technologies, such as energy storage and generation; therefore falls in investment in one technology can reduce the attractiveness of investment in other technologies. Falls in business investment may also hinder industry in developing more efficient and sustainable methods of production.

Should post-pandemic conditions lead to low-business investment and high-unemployment, increasing levels of public investment in green technologies may be desirable and indeed necessary to successfully navigate towards a zero-carbon economy. In these conditions it is less likely that the public sector will crowd out private sector investment.⁶⁶

Transport and modal shifts

It is perhaps too early to determine the exact impact that coronavirus will have on transport behaviour post-pandemic. Increased levels of remote working and increased adoption of teleconferencing facilities have the potential to reduce the derived demand for transport and fuel, and by extension reduce travel emissions. Equally, it could be fully or partially offset by increases in residential energy demand (with workers at home throughout the day).

While the need to observe social distancing measures on public transport is constraining effective capacity currently, how commuters will feel regarding using communal forms of transportation could be negatively affected by the realities of a post-pandemic world. Great Britain travel data from the UK Department for Transport suggests that while car travel had almost recovered to pre-pandemic levels by the last week of August (at which point many restrictions had been lifted), the use of public transport, such as rail and bus travel, was still much lower – with weekday levels down approximately 60% for National Rail.⁶⁷ Lower levels of public transport utilisation of available capacity act to increase the level of emissions per passenger (with fewer passengers being transported per journey).⁶⁸

Data suggests that as lockdown restrictions were eased in Great Britain, in the middle of this year, the proportion of workers who only worked from home decreased from 38% in mid-June to 20% at the end of August (although there is evidence the proportion was rising again in September as cases rose). The number of workers who only travelled to work increased over the same period.

⁶⁶ Comerford, D. (2020, July 18). Can recovery from Covid-19 help transition to a zero-carbon economy? Retrieved from Economics Observatory: <https://www.coronavirusandtheeconomy.com/question/can-recovery-coronavirus-help-transition-zero-carbon-economy>

⁶⁷ *Based on an equivalent day/week.* Department for Transport (2020, November 4). Transport use during the coronavirus (COVID-19) pandemic. Retrieved from UK Gov: <https://www.gov.uk/government/statistics/transport-use-during-the-coronavirus-covid-19-pandemic>

⁶⁸ Air Quality News (2020, July 24). Social distancing is making public transport worse for the environment. Retrieved from: <https://airqualitynews.com/2020/07/24/social-distancing-is-making-public-transport-worse-for-the-environment-than-car/>

Since the end of May, the proportion of workers who both worked from home and travelled to work has remained fairly consistent, at around one-in-ten.⁶⁹

As mentioned previously, while home-working levels are likely to decrease relative to those seen at the height of the pandemic, it is also probable that the proportion of employees that work all or some part of their working hours at home will increase. It will be important to monitor the impacts this has on the conurbation types where people choose to live going forward. If households increasingly opt for accommodation that offers greater space, areas of high-urban density may become less attractive. This has the potential to increase emission levels given the higher emission levels associated with housing and transport in less highly populated areas.⁷⁰ These changes could be mitigated, however, by increases in zero-emission vehicle usage.

⁶⁹ ONS. (2020, October 2). Coronavirus and the social impacts on Great Britain: 2 October 2020.

⁷⁰ BBC (2019) Are cities bad for the environment?. Retrieved from: <https://www.bbc.co.uk/news/science-environment-49639003>

PRIORITY AREA 4:

Healthier, Fairer, More Sustainable Communities

Impacts on health

The coronavirus pandemic has brought attention to already existing health inequalities. For example, latest life expectancy data for Wales covering the period 2016 to 2018 estimates that the difference in expected life expectancy (LE) at birth between the least deprived decile and most deprived decile stands at nine years for men and eight years for women.⁷¹ Even more stark is the difference in estimated healthy life expectancy (HLE) – the number of years an individual is expected to remain in “good” health at birth – which, between the least and most deprived, is 18 years for men and 20 years for women.⁷²

The coronavirus pandemic and health policy response have led to concerns over increasing levels of loneliness, isolation, anxiety, and other mental health issues. ONS analysis for Great Britain compared rates of depression in June of this year to just before the pandemic (July 2019 to March 2020). It found that the proportion of people who were experiencing some form of depression, based on moderate to severe depressive symptoms, had almost doubled from one in ten (9.7%) to one in five (19.2%). Younger adults (aged 16 to 39) saw a notable increase in those experiencing some form of depression with one in three (31%) experiencing moderate to severe depressive symptoms during the pandemic as opposed to one in nine before it (10.9%). Women, those with a disability, those of working-age not currently working, those living alone, and those who could not afford an unexpected expense of £850 were also disproportionately affected.⁷³ Many of these groups are those that have been disproportionately impacted by the economic consequences of the pandemic to date. In April, Public Health Wales have also found mental health inequalities between BAME residents and white residents in Wales during the pandemic, with BAME residents more likely to feel anxious, isolated, and worried about their mental health and losing their job/no being able to find a job.⁷⁴

With evidence that unemployment is beginning to rise, and the threat of larger rises in the future, the link between unemployment and health is important to recognise. Global studies have found that several indicators of poor mental health (such as depression, anxiety, subjective well-being, and self esteem) have

⁷¹ ONS. (2020, March 27). Health state life expectancies by Welsh Index of Multiple Deprivation (WIMD 2014 and WIMD 2019), Wales, all ages.

⁷² Difference is for most deprived and least deprived decile according to WIMD 2014 and WIMD 2019. Male LE at birth is 73 for most deprived and 82 for least deprived, HLE is 52 and 70. Female LE at birth is 78 for most deprived and 86 for least deprived, HLE is 50 and 70.

⁷³ ONS (2020, August 18). Coronavirus and depression in adults, Great Britain: June 2020.

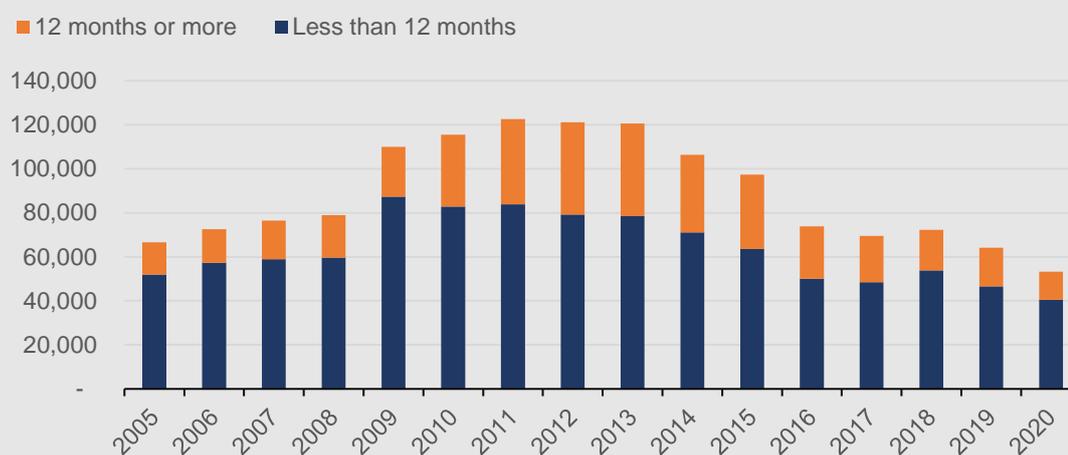
⁷⁴ Public Health Wales (2020). How are we doing in Wales? Public engagement Survey on Health and Wellbeing during Coronavirus Measures: A focus on ethnicity.

been found to be more prevalent amongst the unemployed than their employed counterparts. One review of existing studies carried out in 2009 stated that unemployment likely contributes to poor mental health.⁷⁵

Some studies have found that the negative health impacts of unemployment increase with the duration individuals find themselves unemployed. However, the evidence is still mixed. How individuals respond to long-term unemployment is mixed, with the consequences on health increased with duration for some (known as a dose-response) and leading to adaptation for others. Women have been found to be more likely to have a dose response to long-term unemployment than men, who are more likely to adapt.⁷⁶

Figure 4: Long term unemployment rose absolutely, and as a proportion of all unemployment, in the years after the 2008/9 great recession

Unemployment in Wales, by duration and year



Note: all figures are for year ending 30 June

Source: StatsWales

Long-term unemployment in Wales increased in the years following the last recession in 2008/9, both absolutely and as a proportion of all those unemployed. In 2007 the number of those who had been unemployed for 12 months of more stood at 17,500, which was 22.9% of all in unemployment; by 2013 this number had increased to 42,100, 34.9% of all those in unemployment, before falling in subsequent years.⁷⁷

The coronavirus pandemic has also led some to highlight the possible role that housing quality and overcrowding may have played in Covid-19 related mortality.

⁷⁵ Karsten, P., & Moser, K. (2009). Unemployment impairs mental health: Meta-analyses. *Journal of Vocational Behaviour*, 74(3), 264-282.

⁷⁶ The Health Foundation. (n.d.). Employment and unemployment: How does it affect our health? Retrieved from <https://www.health.org.uk/news-and-comment/charts-and-infographics/unemployment>

⁷⁷ Figures are for year ending in June. See: StatsWales (2020, September 24). Unemployment in Wales and the UK by duration and year.

With a relationship observed between Covid-19 death rates and housing overcrowding, the prevalence of houses in multiple occupation (HMOs), and social housing shortages.⁷⁸

Impacts on the Welsh language

There currently is no comprehensive detailed analysis on the impacts that the coronavirus pandemic and public health response have had on all aspects of the Welsh language to date. However, the Welsh Government has recently conducted a survey to measure the impact of Covid-19 on Welsh language community groups.⁷⁹ Findings from the survey are expected to be published before the end of 2020.

It is highly likely that the health protection measures introduced have reduced the settings in which Welsh can be spoken and practiced, given the limits it has placed on movement and gatherings. School closures are likely to have impacted speakers and learners differentially. Those who attend Welsh-speaking schools, for example, may not have parents who are fluent or comfortable using the language at home. However, what the long-term effects of such impacts are remains unclear at this stage.

Access to the internet

With the increased necessity of home-working and the migration of many services online, as well as the need for students to access vital educational resources online, the impacts of not having household internet access have been magnified. According to the latest National Survey for Wales yearly data (2019-20), approximately 12% of households in Wales did not have internet access. The level of access across the economic development regions was broadly similar. The proportion of households without internet access was highest in North Wales at 13% and lowest at 11% in South East Wales.⁸⁰

Across age-groups, household internet access decreased with age. The age group least likely to have access to the internet were the over 75s, with approximately 41% without access to the internet within their home. Working age adults were much more likely to have access to the internet, with the percentage of those aged 45-64 and those aged 25-44 without the internet 6% and 3%

⁷⁸ Barker, N. (2020, May 29). The housing pandemic: four graphs showing the link between COVID-19 deaths and the housing crisis. Retrieved from Inside Housing: <https://www.insidehousing.co.uk/insight/the-housing-pandemic-four-graphs-showing-the-link-between-covid-19-deaths-and-the-housing-crisis-66562>

⁷⁹ Welsh Government. (2020, September 14). Press release: Welsh Government launches survey to determine the impact of Covid-19 on the use of the Welsh language in the community. Retrieved from <https://gov.wales/welsh-government-keen-determine-impact-covid-19-use-welsh-language-community>

⁸⁰ Welsh Government. (2020). National Survey for Wales: full-year survey 2019/20. Retrieved from <https://gov.wales/national-survey-wales-results-viewer>

respectively. This increased importance of digital connectivity has potential to deepen feelings of isolation for older people. The Older People's Commissioner for Wales has raised concerns that while some older people may choose to be digitally excluded, many still face barriers to getting connected should they so wish,⁸¹ this includes financial barriers, digital skill deficits, and (even in pre-pandemic circumstances) a lack of locally available sources of free internet access.

Also of concern is the statistic that the unemployed were less likely to have access to household internet than those in employment, with 14% lacking internet access compared to 3% for those in employment. The economically inactive were the most likely not to have a household internet connection at 21%.⁸² Not only does a lack of household internet have the capacity to isolate these groups further but, for those unemployed, it also may impede their ability to more easily access labour market opportunities and support.

Spatial impacts

Mobility trend data shows that there were sharp falls in footfall in Wales to a number of key locations following lockdown restrictions first being introduced, although levels gradually (but continually) recovered in subsequent months. Footfall trends were broadly in line with those seen in the UK with evidence that there was a faster recovery in Wales for certain locations than in the UK (for example, for retail and recreation localities and grocery and pharmacy where pre-pandemic levels of mobility were witnessed at the end of August). Despite the contrast in the Welsh Government's messaging on home-working to that of the UK Government, mobility trends for workplaces were broadly in line with each other in Wales and the UK as a whole.⁸³

The Centre for Towns produced research towards the beginning of lockdown showing the proportion of people employed in lockdown sectors by conurbation type. The workforces in smaller towns were judged to be marginally more concentrated in lockdown sectors (21.5%) than in cities or large and medium sized towns (19 to 19.4%). The report went on to identify coastal town workforces as being the most concentrated in lockdown sectors (27.8%). The report identified the twenty towns in the UK with the highest employment

⁸¹ Herklots, H. (2020, October 20). Urgent and radical action is needed to increase digital inclusion in Wales. Retrieved from Wales Co-operative Centre/Canolfan Cydweithredol Cymru:

<https://wales.coop/urgent-and-radical-action-is-needed-to-increase-digital-inclusion-in-wales/>

⁸² Welsh Government. (2020). National Survey for Wales: full-year survey 2019/20. Retrieved from <https://gov.wales/national-survey-wales-results-viewer>

⁸³ Ifan, G., Siôn, C., Rodriguez, J., & Phillips, D. (2020, October 8). How is coronavirus affecting the Welsh economy? Retrieved from Economics Observatory: <https://www.coronavirusandtheeconomy.com/question/how-coronavirus-affecting-welsh-economy>

exposure to shutdown sectors, these included the Welsh towns of Aberystwyth, Porthcawl, Llandudno, and Kimmel Bay.⁸⁴

⁸⁴ Centre for Towns. (2020). The effect of the COVID-19 pandemic on our towns and cities.