



THE IMPACT OF COVID-19 ON THE UK BUSINESS SECTOR

Research compiled by Purple Market Research

February 2021

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In this document



This report has been compiled by secondary research specialist **Purple Market Research**

This is the fifth in a series of reports summarising research on the impact of the Covid-19 crisis on the UK business sector

Previous reports were issued in May, June and October 2020

The information collated in the reports has been mined from a range of sources available in the public domain – sources are referenced in the report

This current report has been compiled in week commencing 8th February 2021



Research headlines: recovery is expected, but not until the end of 2021



WHERE ARE WE NOW?

- UK GDP declined by nearly 10% in 2020, although it stabilised towards the end of the year.
- GDP declined in all major European countries, although the UK performed particularly badly.
- Business confidence has been up and down – at the moment it's down.
- UK business activity recovered in 2020 Q3, but has been steadily in decline since then.
- UK services have been particularly badly affected.

WHAT DOES THE FUTURE HOLD?

- The UK economy is expected to grow in 2021, albeit at a rate below the European average.
- UK CFOs expect the recovery to take time, with demand not returning to pre-Covid levels until the end of 2021 or later.
- The way we work is likely to change, with more 'hybrid' working i.e. flexible hours and increased working from home.



**WHERE ARE WE
NOW?**

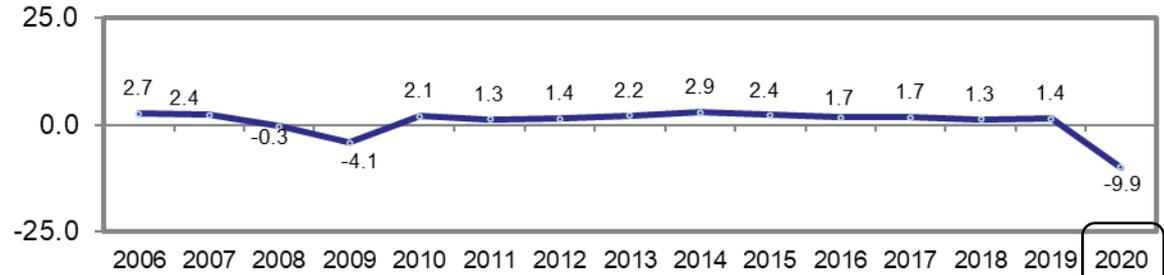


GDP: the UK economy has declined by nearly 10% in 2020, although it stabilised towards the end of the year

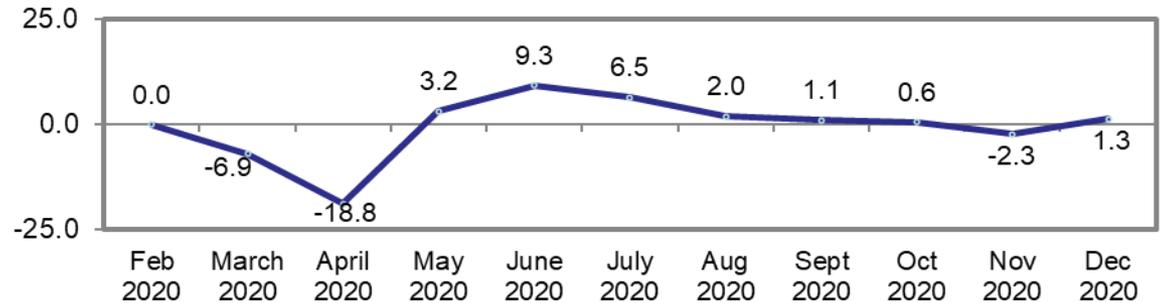
The UK's Gross Domestic Product (GDP) fell by 9.9% in 2020, more than twice the decline recorded after the 2008 financial crash.

The economy grew in 7 out of the last 8 months in 2020, albeit by an increasingly small amount.

UK GDP annual percentage change 2006 - 2020



UK GDP monthly percentage change 2020



GDP fell in March and April, with the April decline the greatest on record

There was monthly growth in GDP May, June and July

The economy continued to grow in all but one month, although by increasingly small percentages

Source: Office for National Statistics / ONS
(<https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/july2020>)



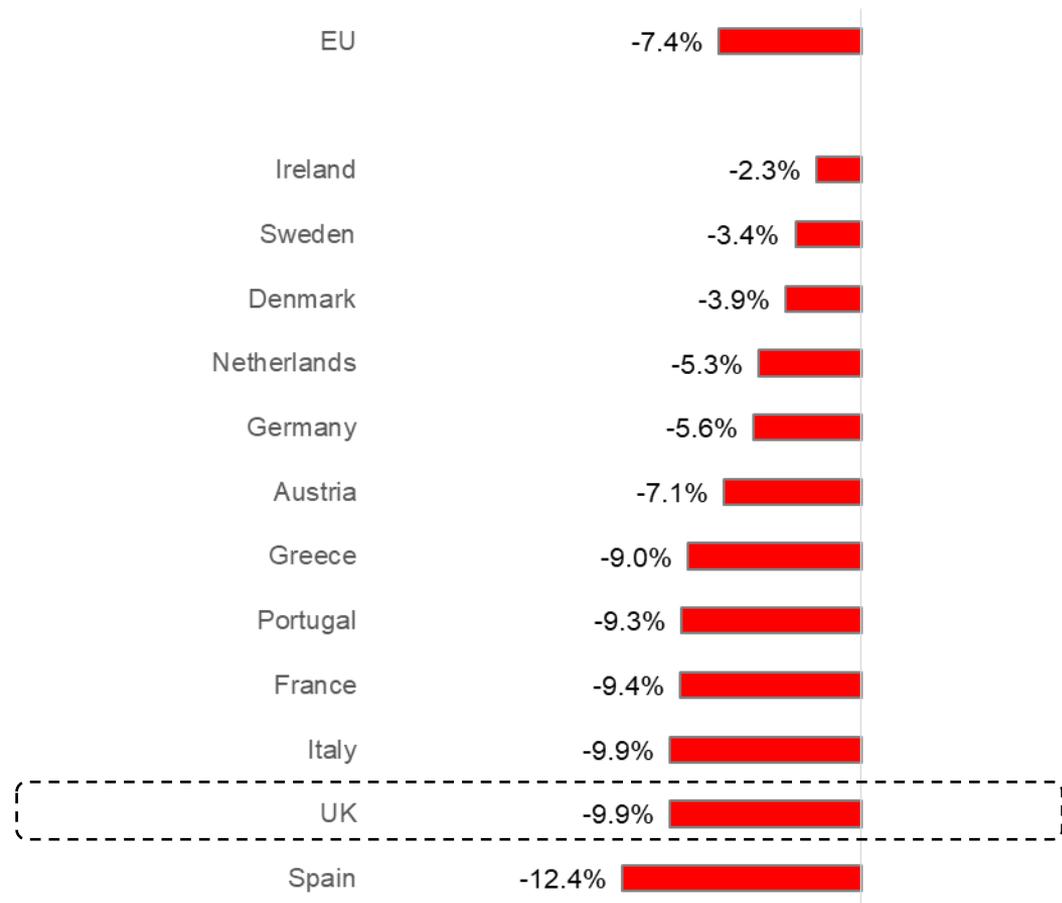
GDP declined in all major European countries, with the UK performing particularly badly

The economy of the European Union is estimated to have shrunk by 7.4% in 2020, following the outbreak of Covid-19 in early 2020.

Spain and the UK are the worst affected economies, seeing GDP decline by 12.4% and 9.9% respectively,

Ireland's GDP contracted by 2.3% and suffered the least damage.

GDP annual change 2020 v 2019

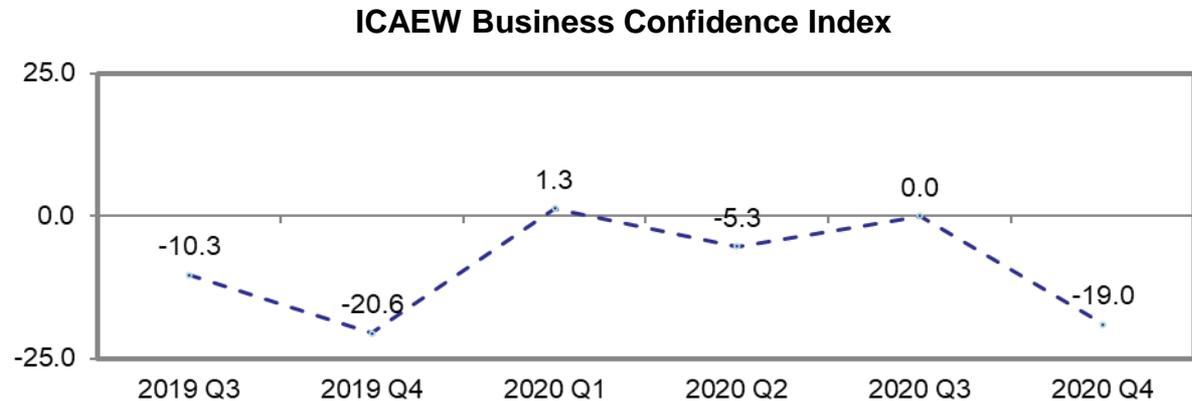




Business confidence has been up and down – at the moment it's down

Institute of Chartered Accountants England and Wales (ICAEW) Business Confidence Monitor measures confidence among members.

The Business Confidence Index is firmly in negative territory, reflecting the coronavirus pandemic and, for many businesses perhaps, the start of Brexit.



**Concern
about Brexit**

**Concern
about Brexit
and Covid**



UK business activity recovered in 2020 Q3, but has been steadily in decline since then

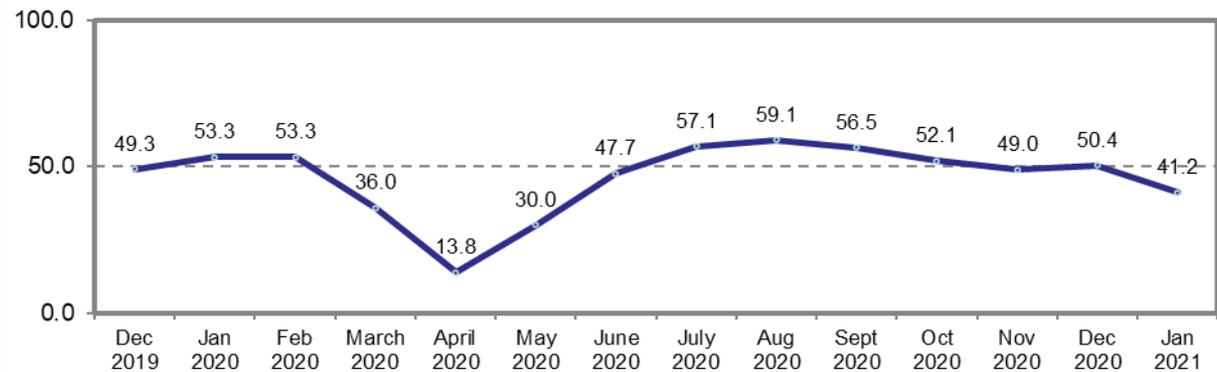
The Purchasing Managers Index is indicative of the health of the UK economy

An index above 50 indicates business growth and an index below 50 indicates contraction compared to the previous month

After a recovery in the summer of 2020, autumn and winter have seen a gradual decline.

January 2021 reflects not just the impact of Covid-19 but also supply chain concerns relating to Brexit.

IHS Markit / CIPS UK Purchasing Managers Index



The PMI recovered from pre-Brexit uncertainty in January and February

March - April saw an unprecedented downturn

June - August saw gradual monthly growth

October onwards saw a gradual fall in the PMI, and Jan 2021 saw the index fall below 50

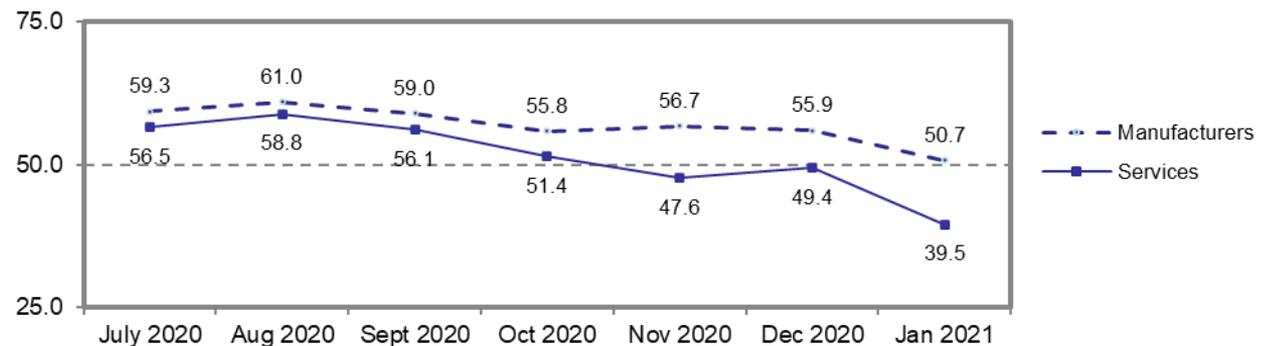


Services have been particularly badly affected

The gap in the Purchasing Managers Indices for services and manufacturers has widened over time.

Services have been particularly badly affected by lockdowns.

IHS Markit / CIPS UK Purchasing Managers Index



Service providers experienced a steep downturn in business activity due to the third national lockdown in January, although the speed of decline remains much slower than last Spring.

Tim Moore, Economics Director at IHS Markit



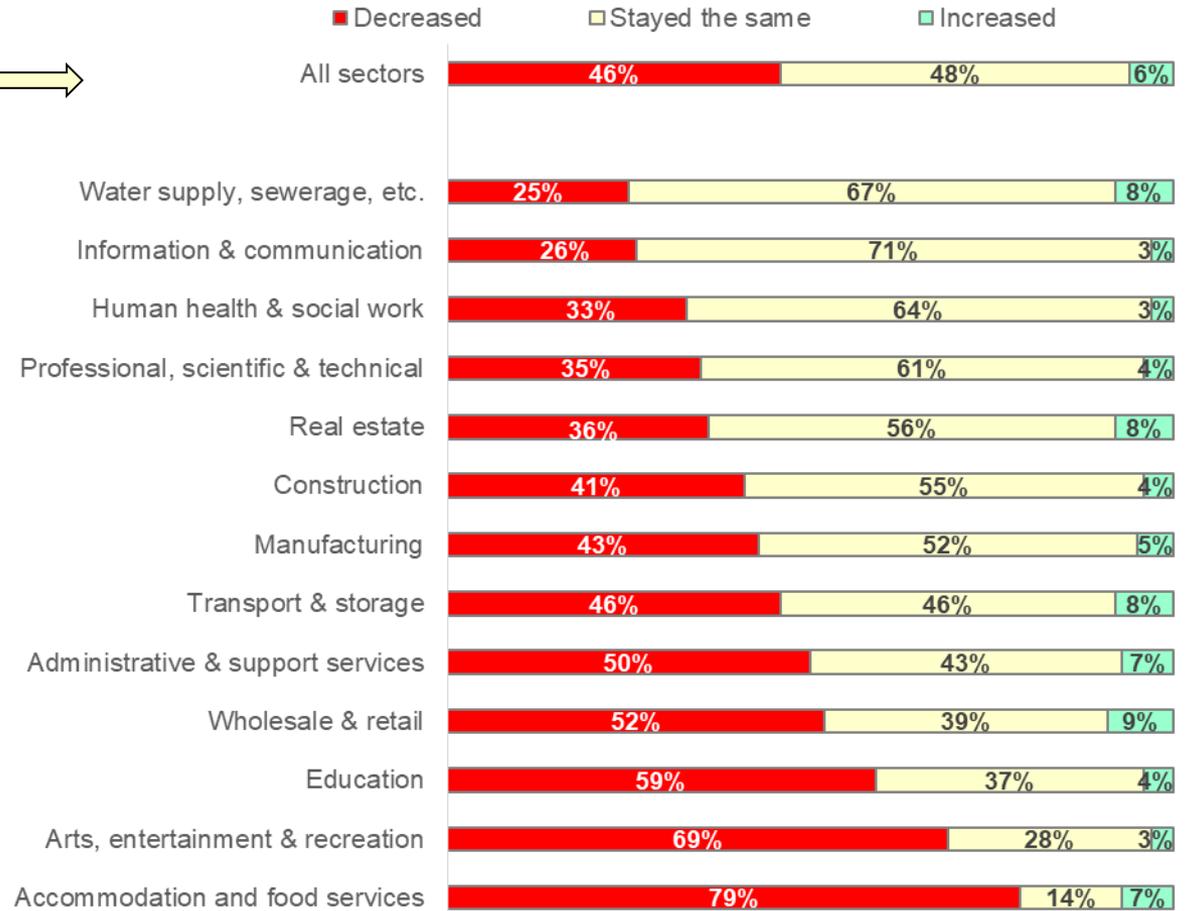
Specific service sectors have been particularly badly affected

How has business turnover changed due to COVID-19 compared to what is normally expected at this time of year?

The ONS reports that almost half of organisations have seen a decline in revenue due to COVID-19

Only 6% have seen business *increase* compared to normal expectations

The retail, education, arts & entertainment and hospitality sectors are particularly badly affected



Source: ONS Business Impact of Coronavirus Survey (BICS) wave 23 February 2021 (Business insights and impact on the UK economy - Office for National Statistics (ons.gov.uk))



**WHAT DOES THE
FUTURE HOLD?**



GDP forecasts for 2021 – the UK economy is expected to grow in 2021, albeit below the European average

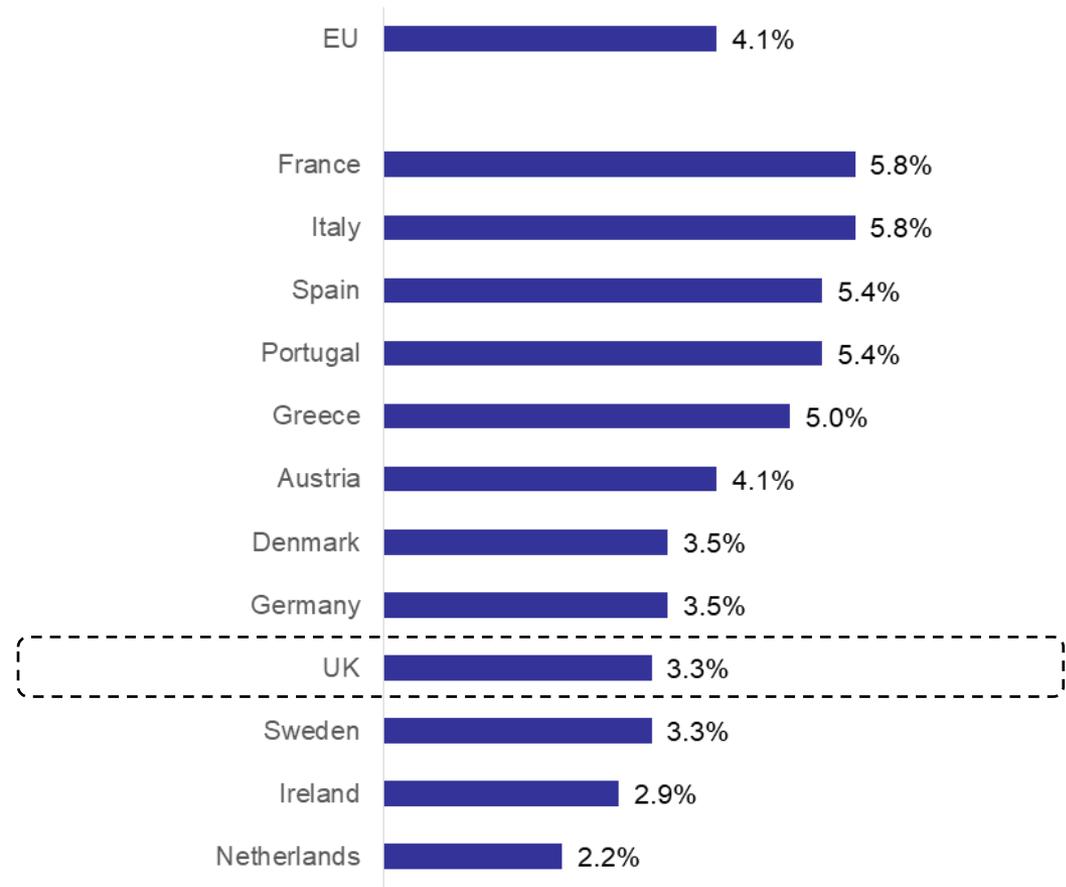
With so many unknowns regarding the Coronavirus (COVID-19) pandemic it is difficult to say when the economy will recover, and how strong that recovery will be.

The European Commission forecasts that the EU economy will grow by just over 4% in 2021, with all of Europe's major economies returning to growth.

The highest growth is forecast for France, Italy, Spain and Portugal.

Growth in the UK is forecast at a more modest 3.3%, which is lower than the EU in general.

Forecast GDP growth in 2021



Sources: Statista ([• Coronavirus: economic impact in Europe 2020 | Statista](#)) / European Parliament February 2021 ([EU economic developments and projections \(europa.eu\)](#))



UK CFOs expect the recovery to take time, with demand not returning to pre-Covid levels until the end of 2021 or later

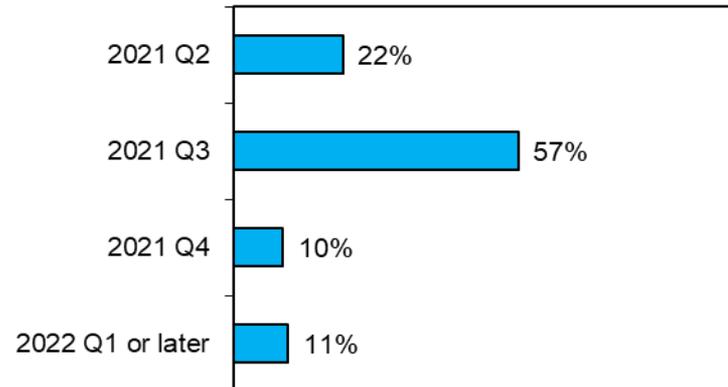
Most CFOs anticipate Covid-19 restrictions to be lifted in 2021 Q3 or later.

Half of CFOs think it will take until the last quarter of 2021 or later for their own revenues to return to pre-pandemic levels.

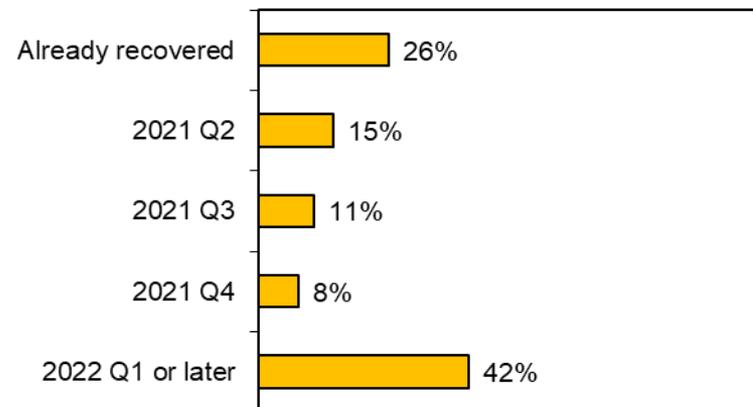
Major corporates are expecting a long haul back to pre-COVID levels of revenue. Almost half of them believe their own revenues will not recover for at least a year. COVID-19 overshadows all other sources of risk for UK CFOs, and by a wide margin

Ian Stewart, Chief Economist, Deloitte

When CFOs expect Covid-19 restrictions to be lifted



When CFOs expect demand to return to pre-Covid-19 level



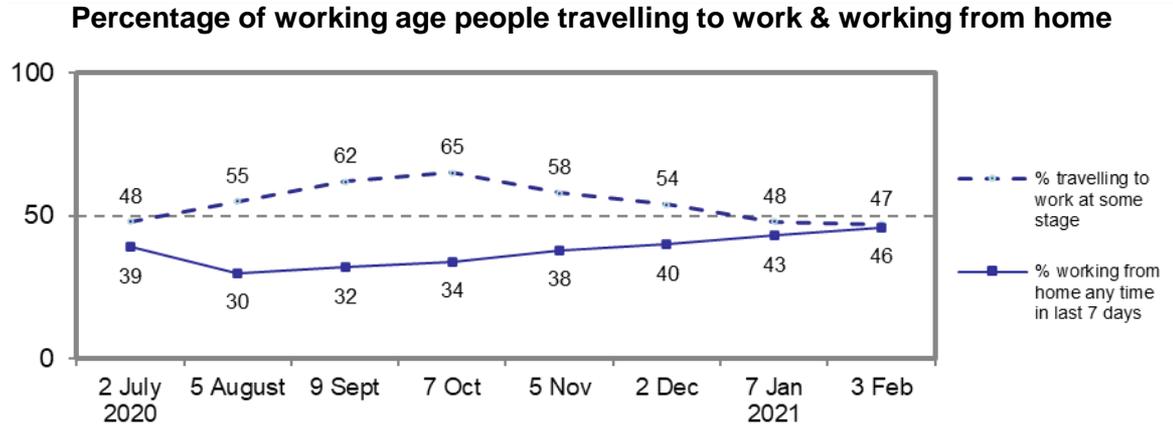
Source: Deloitte Quarterly Survey of CFOs in large firms, 2020 Q4 data collected December 2020
(<https://www2.deloitte.com/uk/en/pages/finance/articles/deloitte-cfo-survey.html>)



The way we work is likely to change

The Office for National Statistics reports that the percentage of working age people travelling to work (some or all of the time) has been steadily falling since October, particularly in the third lockdown.

At the same time, the percentage working from home has steadily increased, with half having worked from home some time in the last week.



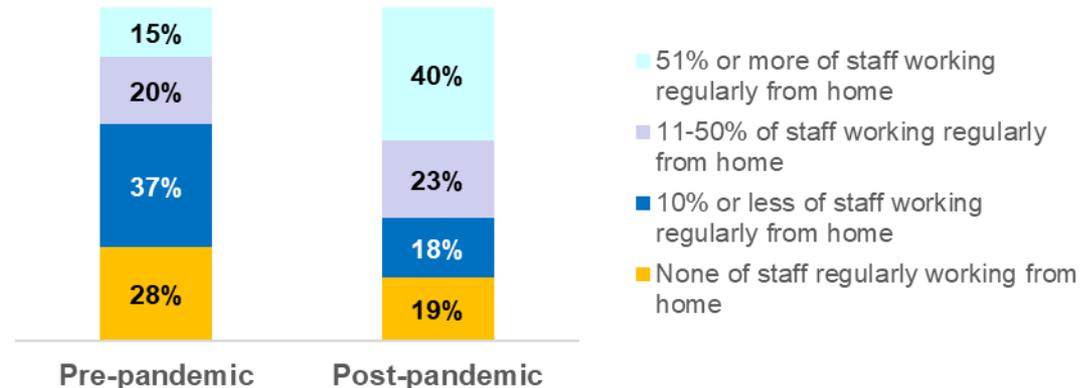
Source: Office for National Statistics ([Coronavirus and the social impacts on Great Britain - Office for National Statistics \(ons.gov.uk\)](https://www.ons.gov.uk/coronavirus))

Post-pandemic, 40% of employers expect over half of their staff to be working regularly from home i.e. at least once a week.

At the peak of lockdown, around 20m people were working from home in the UK (pre-Covid 19 there were around 1.7m home workers).

Senior HR and business leaders expect more **'hybrid' working** - a mixture of home and office working, with teamwork taking place in 'activity-led' workspaces (i.e. the office, as was).

Home working before and after pandemic



Source: Chartered Institute of Personnel Development / CIPD (https://www.cipd.co.uk/Images/embedding-new-ways-working-post-pandemic_tcm18-83907.pdf)



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