



THE IMPACT OF COVID-19 ON THE UK BUSINESS SECTOR

Summary of research compiled by Purple Market Research

Wave 4: October 2020

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In this document



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

This is the fourth 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 (waves 1 & 2) and June (wave 3) – contact us if you would like to receive the earlier reports

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

This current report has been compiled in week commencing 28th September 2020



A V-shaped recovery or an M-shaped one?



RECOVERY

Due to the Covid-19 crisis and the measures taken by the government, UK business activity slumped to record lows in March and April.

Government support, through a combination of the furlough scheme, loans and grants, has offered a lifeline to many businesses.

Since the end of the initial lockdown in July there have been signs of recovery in the UK economy and in business confidence and activity.

BUT WHAT KIND OF RECOVERY?

Government and business were hoping for a V-shaped recovery

However, there is still considerable uncertainty about the future and there are signs that the recovery is stalling

Business leaders estimate that recovery to pre-pandemic levels may take a year

Recovery may therefore be saucer- or M-shaped rather than V-shaped

Some sectors have fared better than others, with hospitality, education and arts / entertainment / recreation sectors continuing to struggle

People have started to travel to work again, but the way we work is likely to change, with more 'hybrid' working i.e. flexible hours and increased working from home

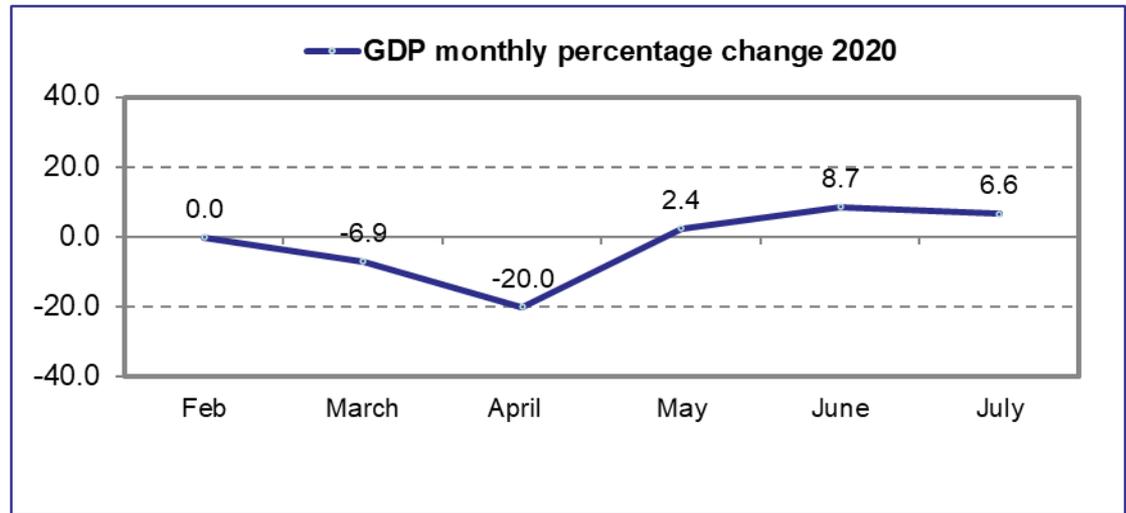


The UK economy has recovered but only partially

ONS reports that UK GDP for April contracted by 20% - the greatest monthly contraction on record (and three times that recorded during the 2008/9 downturn)

June and July saw some recovery, with GDP growing by 8.7% in June and flattening slightly to growth of 6.6% in July

Despite recent growth, the level of output has not fully recovered from the falls seen in March and April 2020 and in July was still 11.7% below the levels seen in February 2020, before the full impact of the Covid-19 pandemic



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

There was monthly growth in GDP May, June and July

Growth continued but slowed slightly in July

The UK economy lost some of its bounce in September, as the initial rebound from Covid-19 lockdowns showed signs of fading

Chris Williamson, Chief Business Economist at IHS Markit



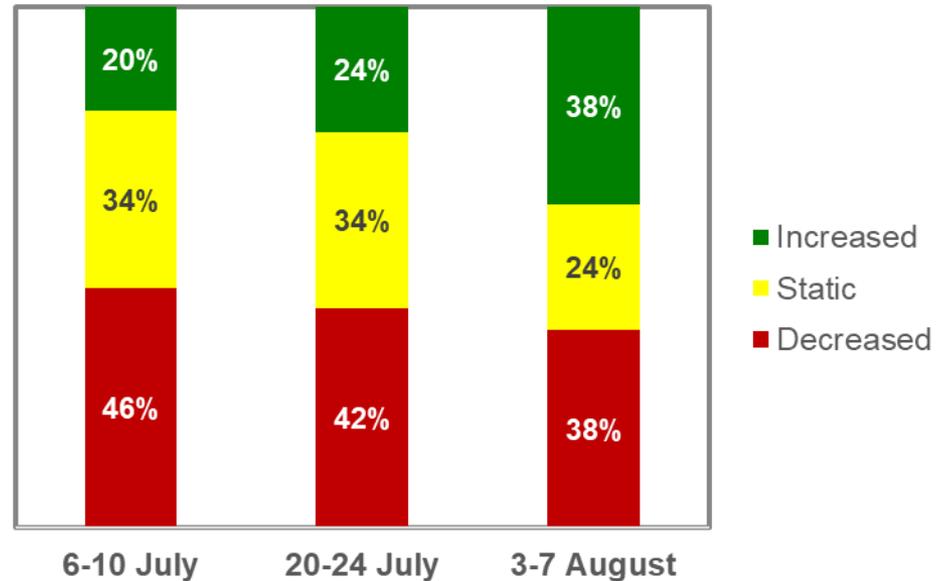
Businesses report that UK sales are increasing, although the British Chambers of Commerce offers only cautious optimism

Change in revenue from UK customers in the last month

The British Chambers of Commerce reports that sales have increased month on month

However the BCC expresses caution and recommends further support for businesses due to considerable future uncertainty in the business market

In July and August, the BCC reports businesses as operating at about half their pre-Covid 19 capacity



While some firms are seeing improvements in trading conditions, we are still very much in the eye of the storm, with further turbulence ahead. As the government's emergency measures begin to wind down over the coming weeks, and with the prospect of further local lockdowns still very real, businesses across the UK are going to need further support to weather uncertainty over the coming months.

BCC Director General Adam Marshall

Sources: The British Chambers of Commerce Business Impacts Tracker - based on 600 interviews per wave with businesses - mainly SMEs in the service sector (<https://www.britishchambers.org.uk/page/bcc-coronavirus-business-impact-tracker>)

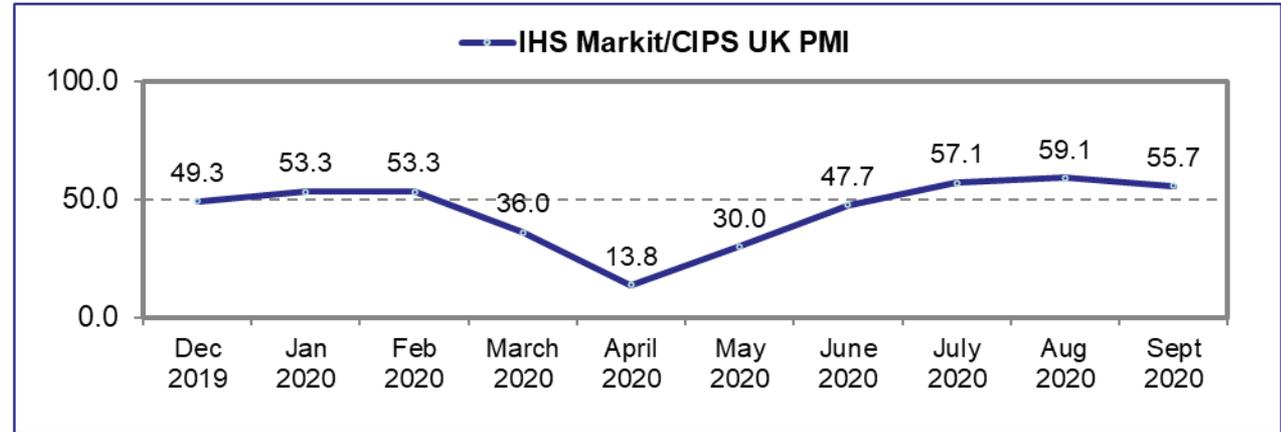


UK business activity has recovered in Q3 of 2020, although there are indications that the recovery is faltering

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

The PMI has recovered from the lows of March - May, although the trend is starting to look like an M rather than the V hoped for by UK government and business

Purchasing Managers believe that the recovery could take a year



The PMI recovered from pre-Brexit uncertainty to reach 53.3 in January and February

March and April saw an unprecedented downturn - April's index of 13.8 is the lowest recorded since the index was launched in 1996

July - September saw monthly growth, although growth started to slow in September

Positive signals for the recovery of course need to be considered in the context of UK GDP shrinking by around one fifth during the second quarter of the year. Survey respondents often noted that it could take more than a year to return output to pre-pandemic levels and there were widespread concerns that the honeymoon period for growth may begin to fade through the autumn months

Tim Moore, economics director at IHS Markit

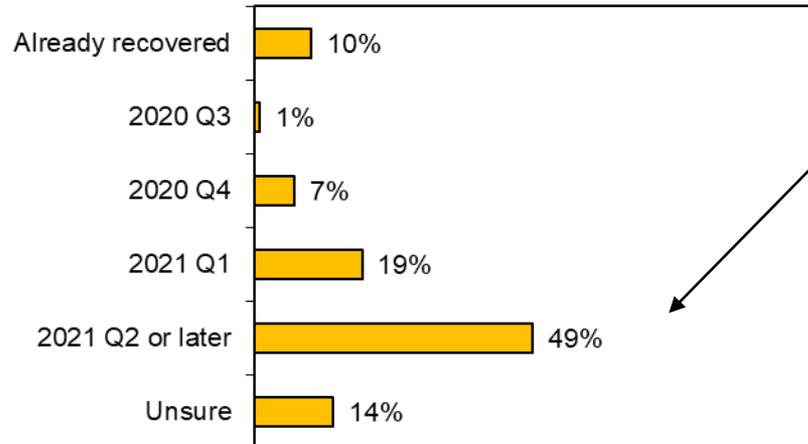


UK CFOs are slightly more positive, but expect the recovery to take time

Deloitte's quarterly CFO survey records a slight improvement in business confidence, in Q2, albeit from an all-time low in Q1
CFOs remain unwilling to take risk on to their balance sheet

CFOs...	2020 Q1	2020 Q2
...believe there is a high or very high level of uncertainty facing their business	90%	80%
...are unwilling to take risk on to their balance sheet	94%	91%

Percentage of CFOs expecting demand to return to pre-Covid 19 level in each quarter



CFOs are not anticipating a V-shaped recovery
Half of CFOs do not expect recovery to pre-pandemic levels until 2021 Q2 or later

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

Source: Deloitte Quarterly Survey of 109 CFOs in large firms, 2020 Q2 data collected June and July 2020
(<https://www2.deloitte.com/uk/en/pages/finance/articles/deloitte-cfo-survey.html>)



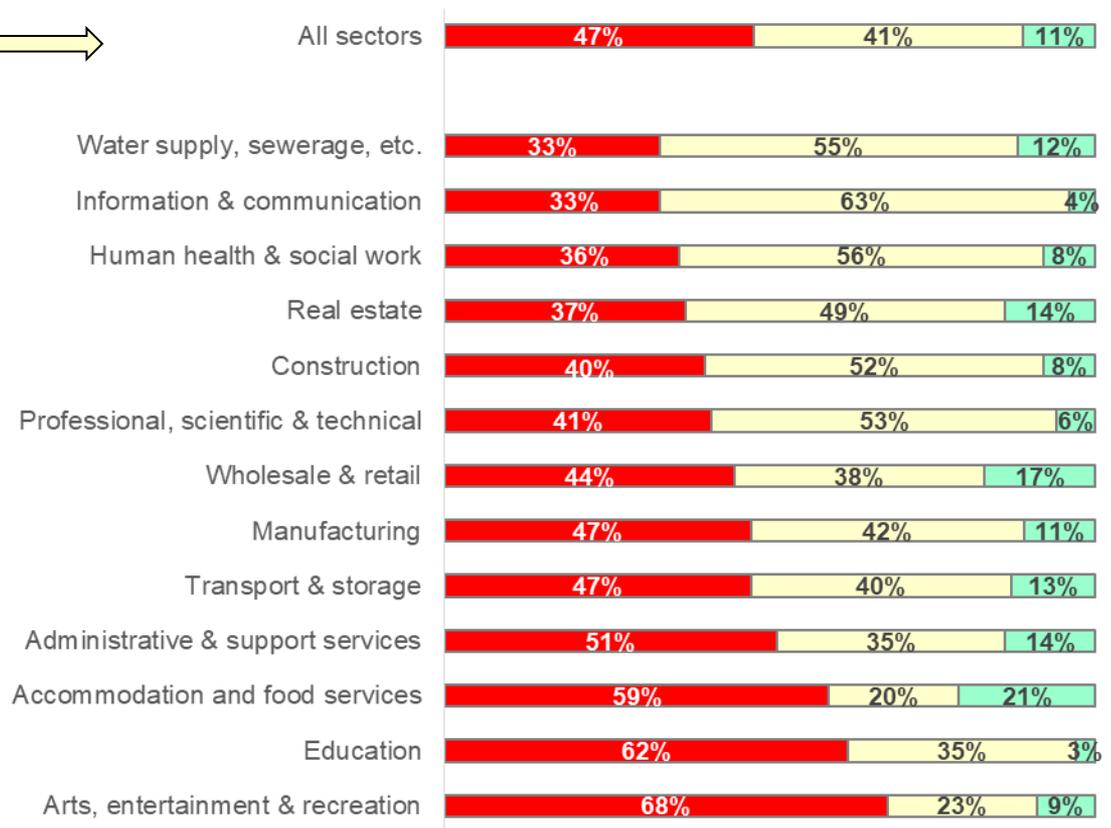
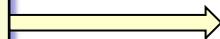
Business is down, but the decline varies hugely by sector

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

■ Decreased □ Stayed the same □ Increased

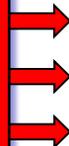
The ONS reports that almost half of organisations have seen a decline in revenue due to COVID-19

Only one in ten organisations have seen business *increase* compared to normal expectations



The hospitality, education, arts, entertainment and recreation sectors are particularly affected

There is some sign of growth in the hospitality sector



Source: ONS Business Impact of Coronavirus Survey / BICS wave 13 conducted 7-20 September (n=5998)



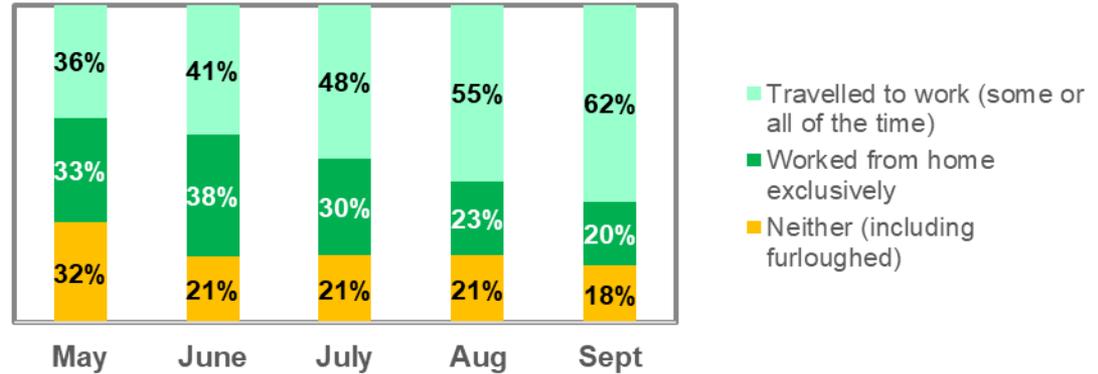
More people are travelling to work, although the way we work is likely to change

The Office for National Statistics reports that the number of people travelling to work (some or all of the time) has increased over time, and stands at 62% in September

However, 20% are still working from home exclusively

18% are not working, including 10% who remain furloughed

Proportion of adults travelling to work (in first week of each month)



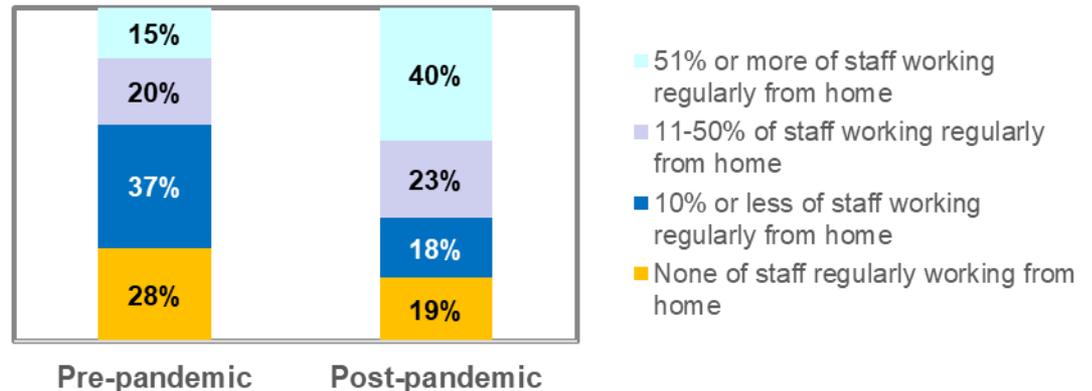
Source: Office for National Statistics
(<https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/conditionsanddiseases/bulletins/coronavirustheukeconomyandsocietyfasterindicators/17september2020>)

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)

Percentage of staff working from home regularly (at least once a day)



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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