

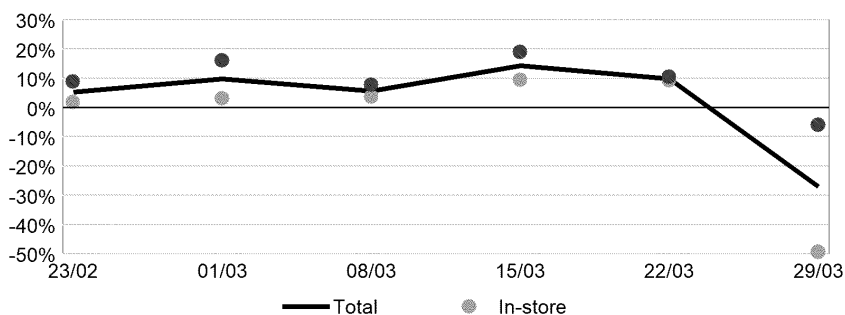
# HM Treasury economy Covid-19: Daily Update 01/04

- Card data shows **consumer spending** is down significantly, with only the food and drug spending holding up. Consumer confidence has fallen dramatically in March, suggesting spending will continue to fall as consumer activity has been curtailed.
- Universal credit claims are up and there's been a large increase in searches for '**unemployment benefit**', usually well correlated with redundancies.
- PMI data, lower footfall and lower electricity consumption suggests there will be a fall in **GDP** in March, and very sharp falls in GDP in Q2.
- **Business surveys** show a sharp fall in sentiment, with some sectors (aviation, tourism, events, media, consumer goods and automation) hardest hit. 45% of firms are reporting an abnormal fall in turnover in the first half of March. Business investment is likely to stop.
- **Financial markets** have been volatile in response to developments in the outbreak, data on the economy and policy measures announced globally.

## Chart of the day

Growth in card spending over the year to 29 March was down 27%, driven by large falls across most types of spending, with only food and drugs spending holding up, following strong growth in earlier weeks of March. Online spending, around 50% of all transactions by value, was 6% lower than a year ago, down from 10% growth in the previous week.

Year-on-year growth rates in value of UK card spending



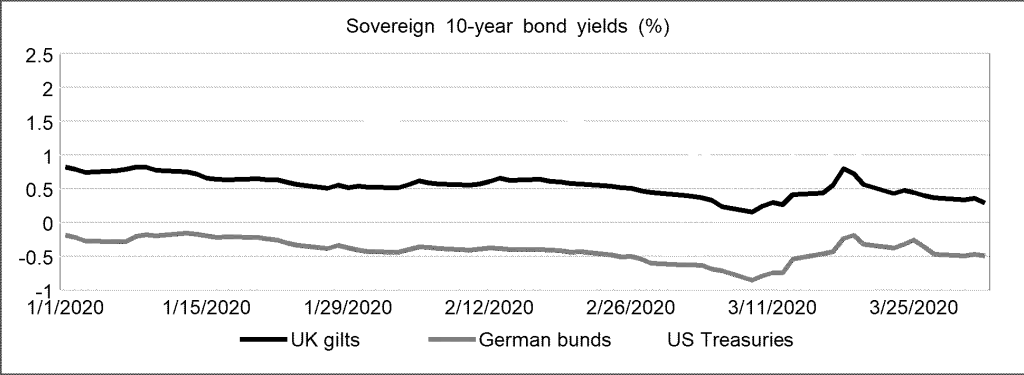
## Today's headlines

- New UC declarations were around 60,000 on Tuesday, around 18,000 lower than Monday, but remain significantly elevated (February average was 11,500).
- Growth in card spending over the year to 29 March was down 27%, driven by large falls across most types of spending, with only food and drugs spending holding up.
- ONS business survey data showed that 27% of firms were laying off staff in the short term and 45% said turnover was lower and outside its "normal range".
- The UK Manufacturing PMI reached a three-month low in March (47.8). New orders, export orders and output all contracted to the lowest levels since mid-2012. Business optimism for the year ahead fell to a record low.
- New external forecasts are expecting very sharp falls in GDP. The average of the three most recent forecasts is for a 13.5% decline in GDP in Q2 and a 5.5% decline in 2020 as a whole.
- Equity markets opened lower this morning, following weak economic data in Asia and new higher modelling estimates for Covid-19 casualties in the US. Banks' share prices have edged lower this week, following the announced dividends payment freeze for the rest of the year.

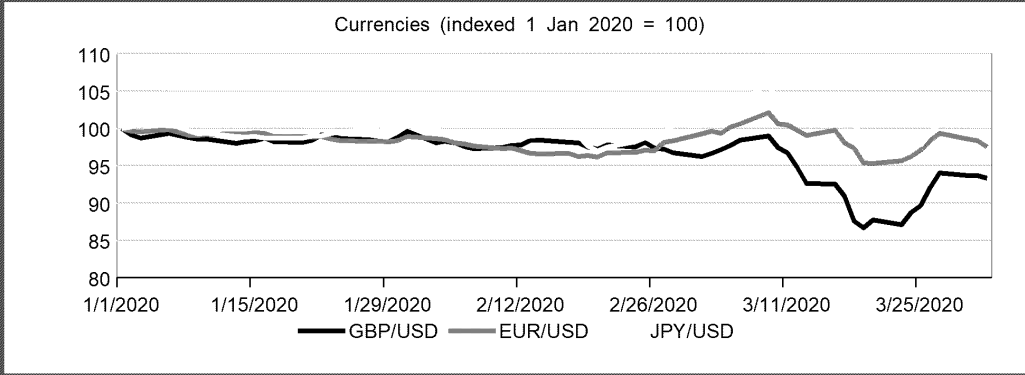
**Data expected Thurs 2:** ONS Faster Economic Indicators, BoE DMP Data, UC update, Daily Consumer Confidence, Forecasts for UK economy (tbc), ONS Transport activity

**Financial markets: markets have been volatile since early March, with strong risk-off sentiment on CV19-related fears driving equities down around the world.**

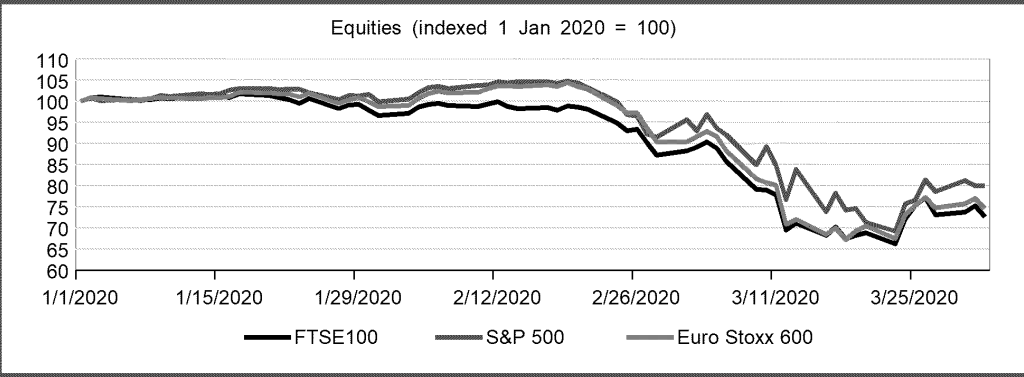
Yields on government bonds have fallen on lower-risk equivalent duration evidence on Covid-19 spreading significantly in the US.



The dollar has strengthened overnight. While challenging, now trading weaker against the dollar, it remains 2.8% up on this time last week.



US and European equities opened lower this morning following more negative data in Asia and now, higher modelling estimates for Covid-19 deaths in the US.



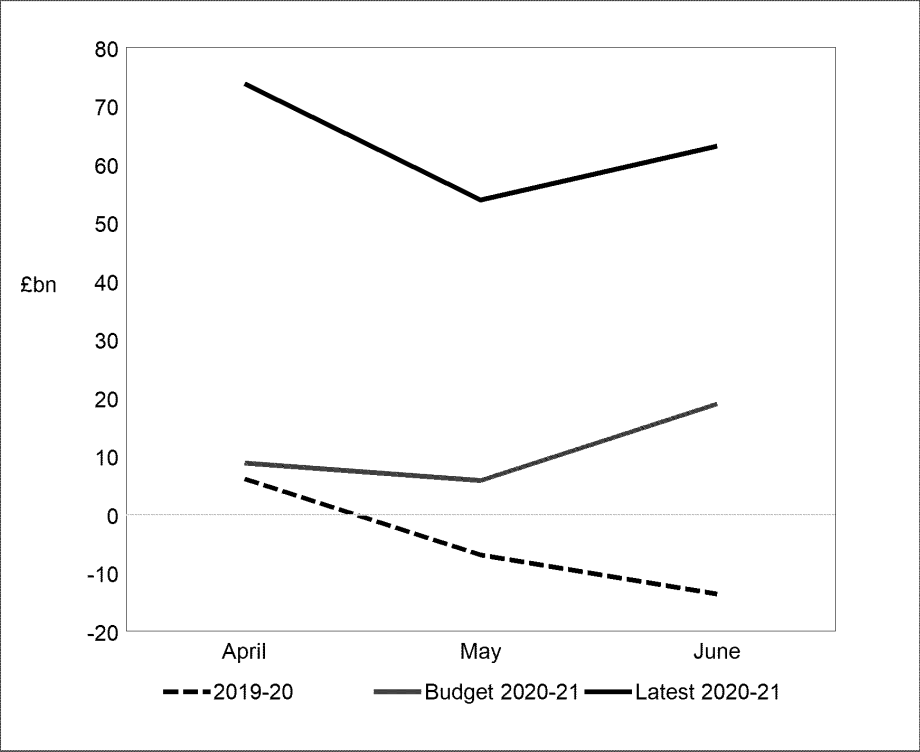
Bank share prices have edged lower this week following the announced dividends payment freeze for the rest of 2020.

- **UK banks' share prices** are currently down 4% to 10.1% from last week following a dividends pay-out freeze.
- **Corporate bond markets** have performed well this week, however spreads still remains significantly higher than pre-crisis levels.
- **Life and Health insurers** have continued to outperform the market over the week, however CDS premia remain elevated.
- **Asset managers share price indices** have been positive over the past week, reflecting broader risk-on attitudes in markets, however, conditions remain fragile. In total, 44 property funds have now been suspended, following valuation difficulties and quarter-end reporting.

Sources: Bloomberg, correct as of 1pm 01/04

**Government financing:** while UK gilt rates remain low there is always a limit to the market's short-term capacity to absorb significant and unexpected spikes in UK sovereign borrowing.

Financing needs in April seven times higher than expected at Budget, with elevated level likely to persist through the year as spending is up and tax receipts down.



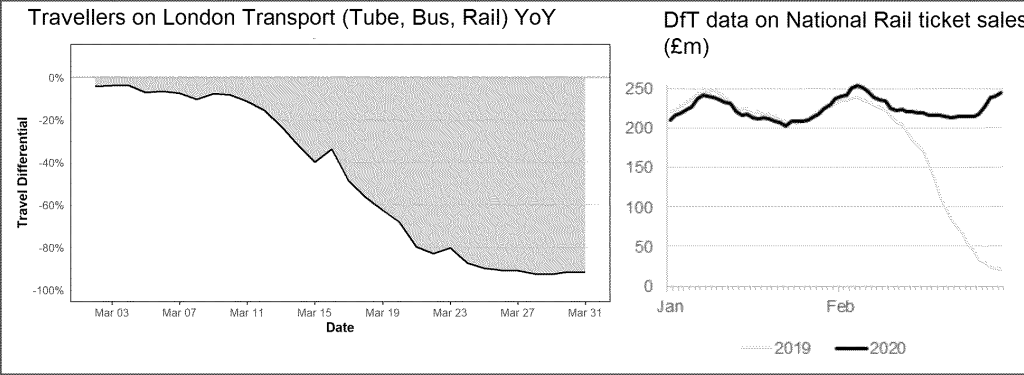
**Future Financing Operations**

Operation Date	Gilt Name	Cover ratio	Tail
1-Apr-2020	1½% Treasury Gilt 2028	3.45	0.8
2-Apr-2020	1¼ % Treasury Gilt 2041	Tbc	Tbc
3-Apr-2020	Treasury Bill tenders (1, 3 and 6 month)	Tbc	Tbc
7-Apr-2020	A new conventional gilt maturing on 31 January 2023	Tbc	Tbc
9-Apr-2020	Treasury Bill tenders (1, 3 and 6 month)	Tbc	Tbc
15-Apr-2020	0½ % Treasury Gilt 2029	Tbc	Tbc
17-Apr-2020	Treasury Bill tenders (1, 3 and 6 month)	Tbc	Tbc
21-Apr-2020	0½ % Treasury Gilt 2025	Tbc	Tbc
24-Apr-2020	Treasury Bill tenders (1, 3 and 6 month)	Tbc	Tbc
28-Apr-2020	0½ % Index-linked Treasury Gilt 2028	Tbc	N/A
28-Apr-2020	A medium conventional gilt	Tbc	Tbc
29-Apr-2020	A long conventional gilt	Tbc	Tbc
29-Apr-2020	A short conventional gilt	Tbc	Tbc

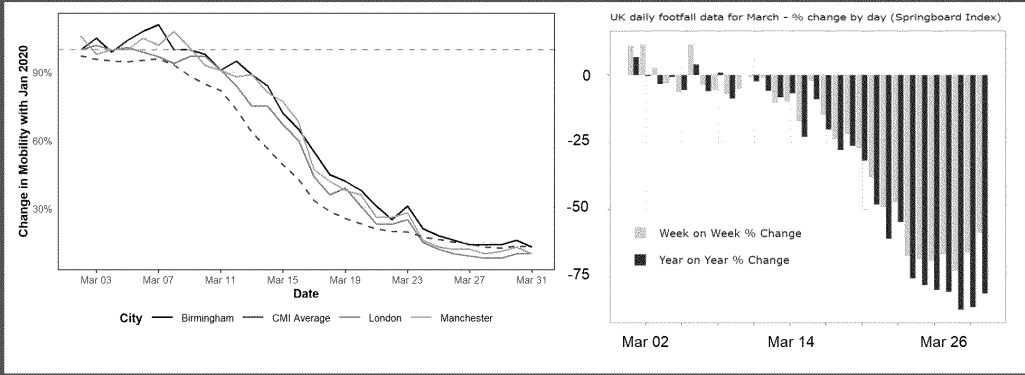
Cover ratio_	The ratio of the total amount of bids to the amount on offer at a gilt auction. The higher the number the more auction bids are received relative to the nominal amount on offer. A number below 1 means the sale is uncovered.
Tail	Difference between the yield at the weighted average accepted price and that at the lowest accepted price at an auction. Expressed in basis points.

**Social distancing and the economy:** the degree of compliance with measures will impact both their efficacy and their effect on the economy. There are some indications of ‘over-compliance’ which will increase the economic hit.

London Transport travel (Tube, Bus, Rail) has decreased by over 90% as of 31 March. Nationwide ticket sales are down 77% compared to last year.



Mobility is at ~15% of normal levels and is still recovering but still far off from what it was in January.

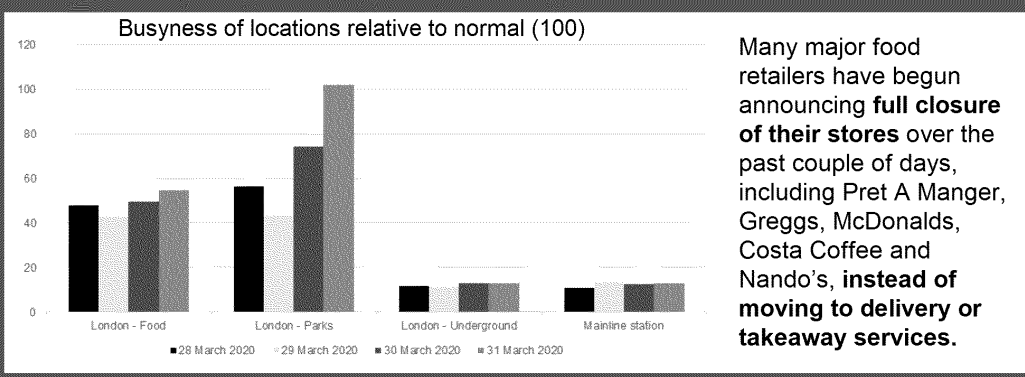


There has been a larger fall in the numbers of children in school than expected.

Date (all data as at 16:00hrs on the date specified)	Settings open	Total children attending	Children attending % of total pupil population (6.9 million)
25 March 2020	23,600	176,000	2.0%
26 March 2020	23,600	158,000	1.8%
27 March 2020	23,600	140,000	1.5%
30 March 2020	19,100	121,000	1.6%*
31 March 2020	18,900	128,000	1.7%*

\*Note that a methodology change took place from 30 March onwards.

There is some evidence of displacement activities like visiting parks, but also evidence of firms exceeding government guidance.

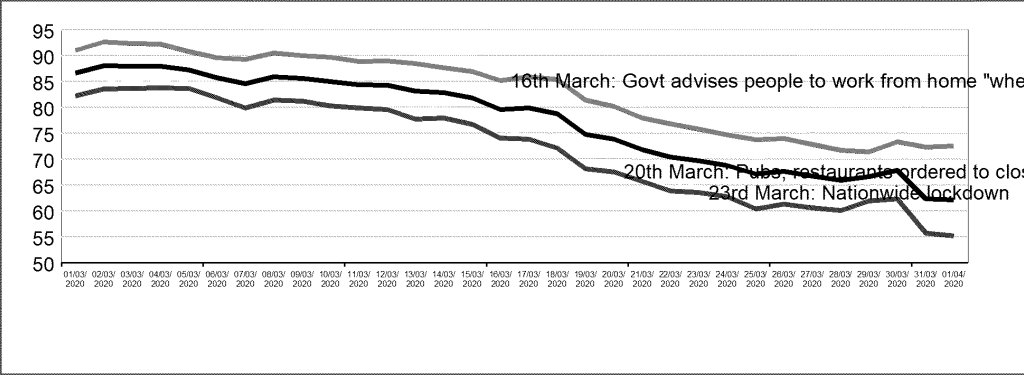


Sources: TfL, Network Rail, DfT, Citymapper, BT/EE, DfE, Google, ONS

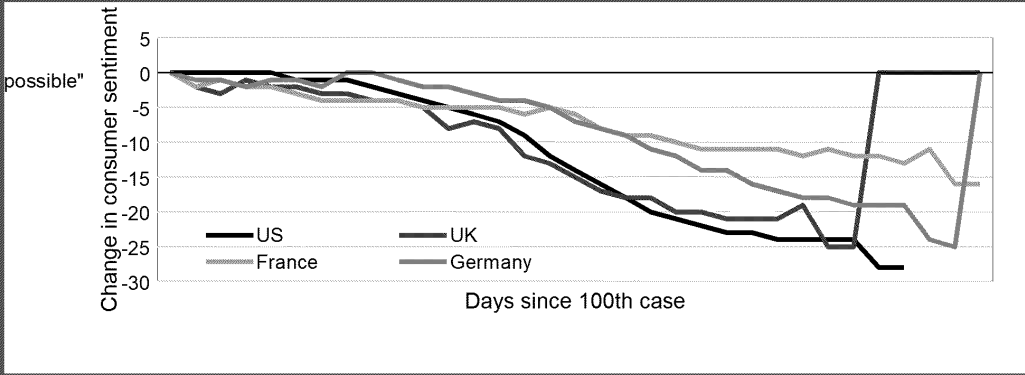


**Consumer sector:** despite social distancing measures, card spending is down (even online), though spending on essentials is holding up. Consumer confidence is falling, suggesting weakness in spending to come.

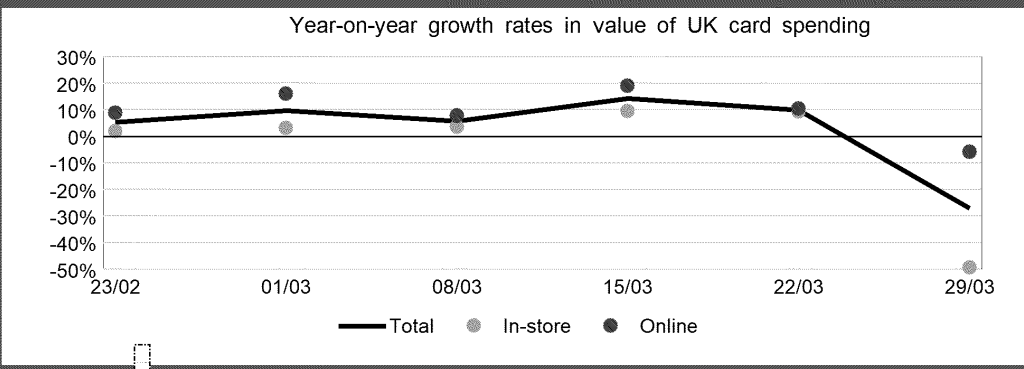
**Consumer confidence has fallen over March, reaching new lows in recent days...**



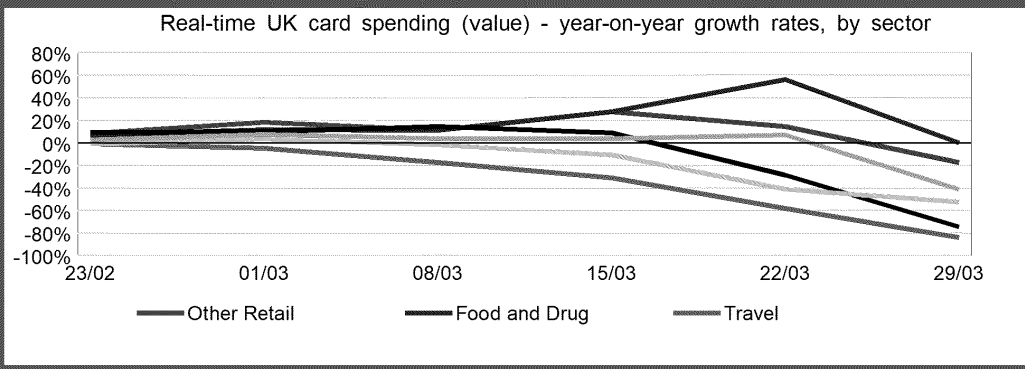
**... and has fallen relatively more sharply than in other major European countries at the same stage in the pandemic.**



**Growth in card spending over the year to 29 March was 22%, down by large fall across most types of spending.**



**... with only food and drug spending holding up.**

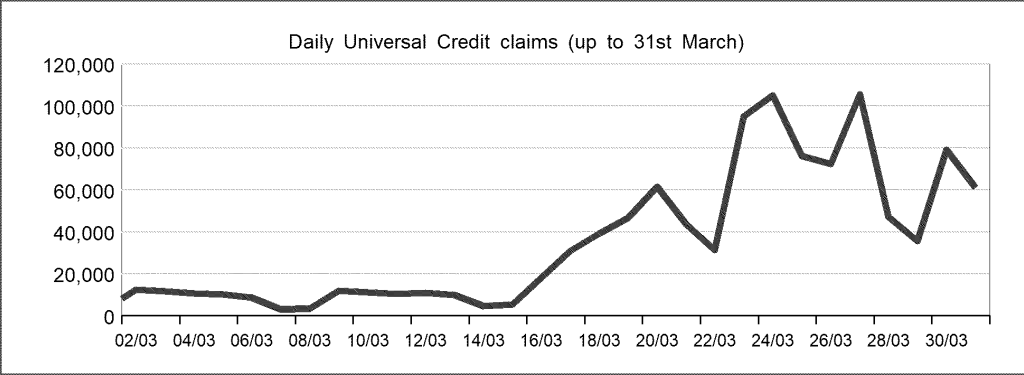


Sources: ONS, Commercially sensitive

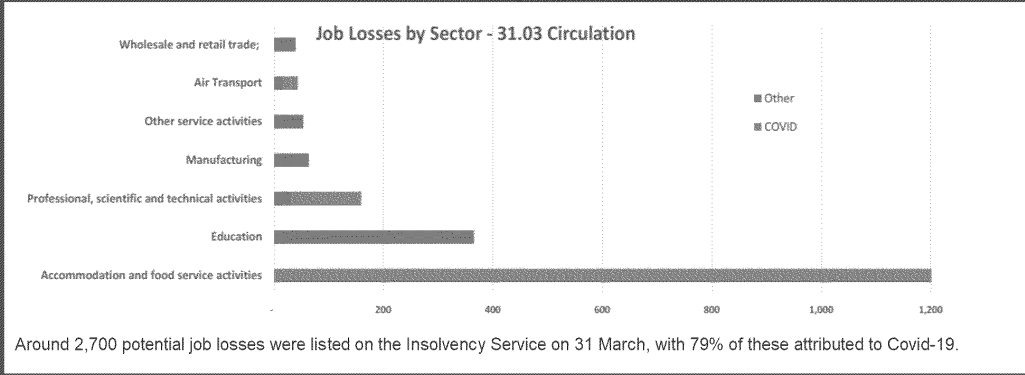
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**Labour market:** there are clear signs of the labour market weakening. UC claims are up and Google trends show a large increase in 'unemployment benefit', which is usually well correlated with an uptick in redundancies.

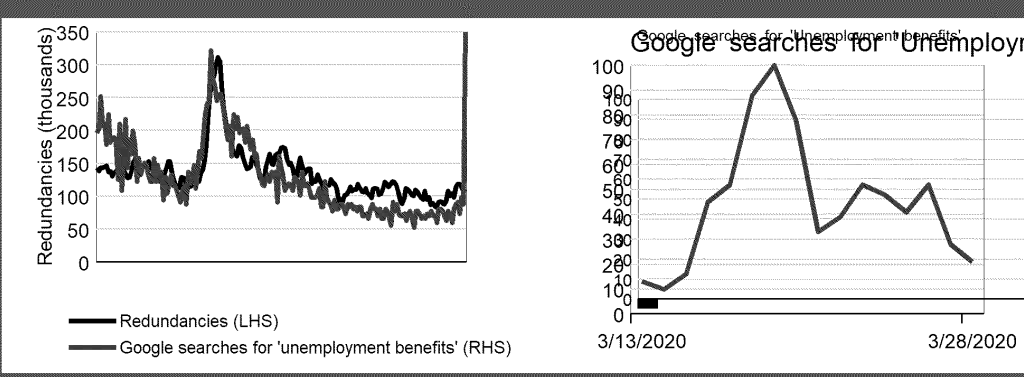
On Tuesday there were around 68,000 UC claims being made, 4% lower than Tuesday last week, but much higher than early March.



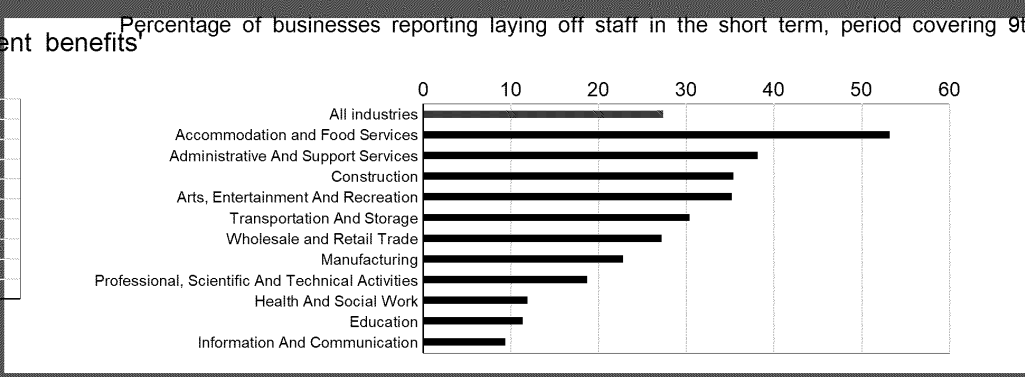
To date, job losses have hit the Wholesale and Retail Trade, and Accommodation and Food Services the hardest



Google trends show a big increase in searches, with a noticeable slowdown following the Government announcement on 20 March



Over half of businesses in the Accommodation and food services sector reported laying off staff in the short term



Sources: DWP, The Insolvency Service, ONS, Google, JobsOutlook

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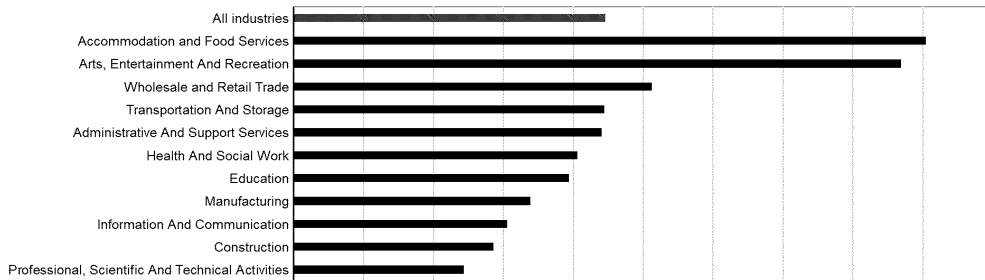
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**Business sector:** recent surveys suggest broad-based falls in turnover. Monthly surveys suggest large falls in output and future expectations, although these are less clear signals for GDP in times of stress.

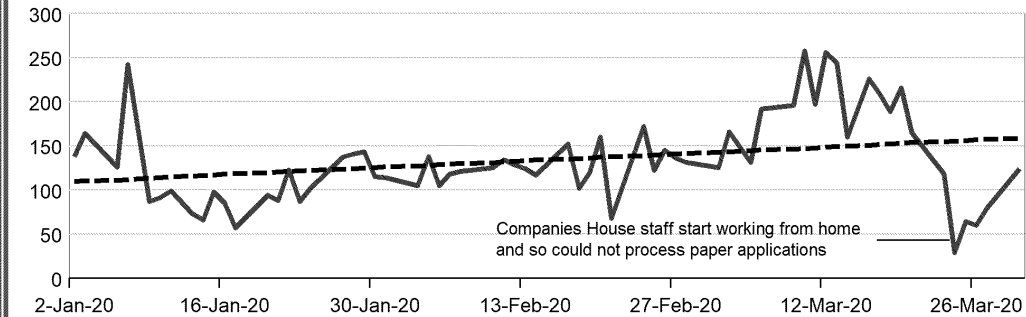
**ONS fortnightly survey data from early- to mid-March indicates a large proportion of firms have experienced an 'abnormal' fall in turnover**

Percentage of businesses reporting abnormal fall in turnover, period covering 9th - 22nd



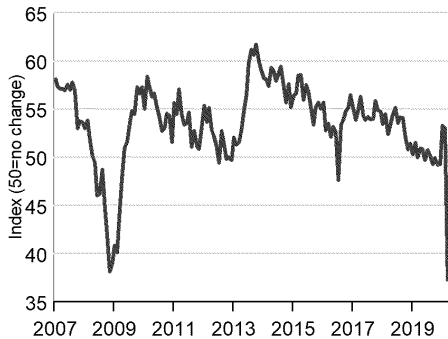
March, by industry (%)

Number of liquidations started

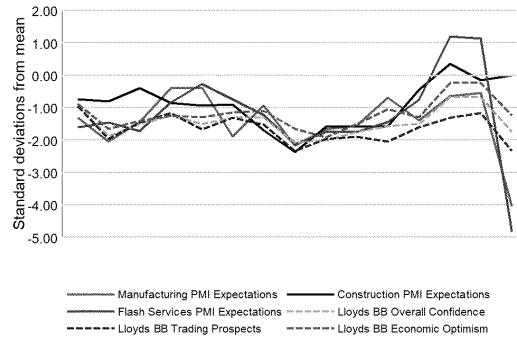


**The PMI survey of business output in March fell to a record low, and expectations for future output also weakened materially**

Composite PMI

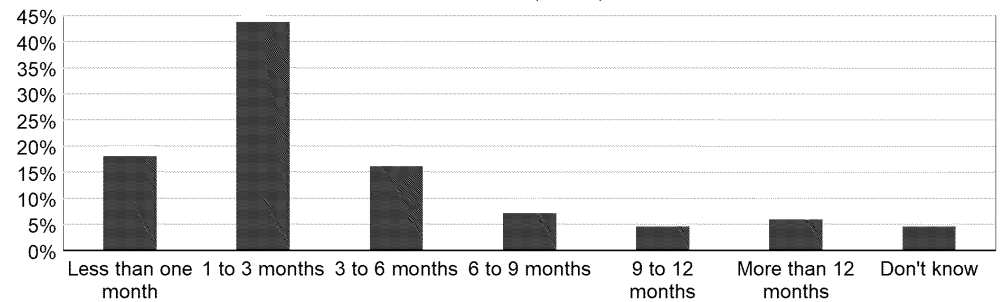


Business expectations of future output



**ONS's monthly COVID impacts model shows that the number of respondents have less than 3 months' worth of cash on hand**

Thinking about your business's cash reserves, approximately what period of time are you currently covered for? (N=615)



Sources: ONS, Companies House, Markit/IHS, BCC

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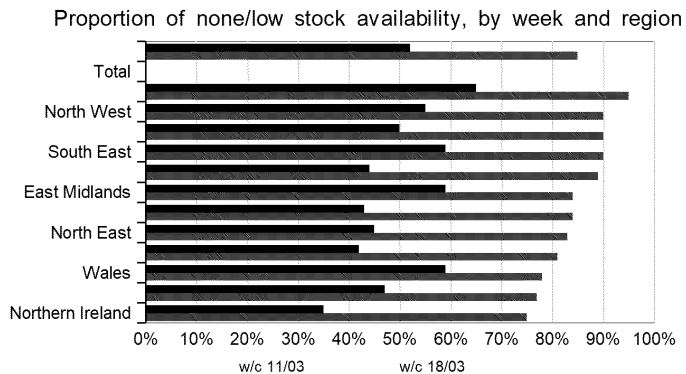
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**Business sector:** within the business sector, six sectors most acutely affected by C-19 covering 11% of GVA and 16% employment. Deterioration in Consumer Goods, Aerospace and Steel compared to the previous weekly intel from BEIS.

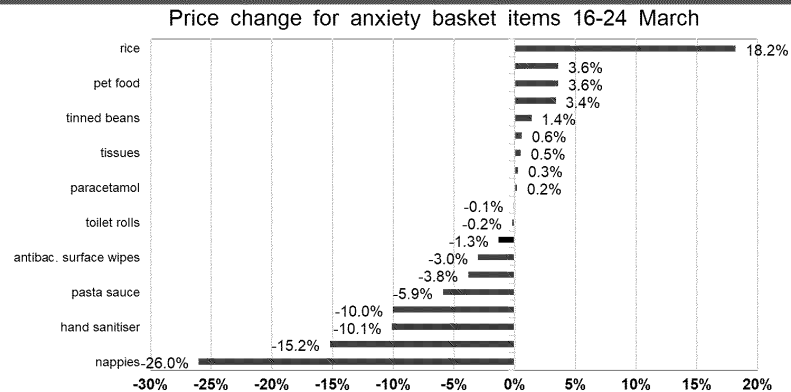
Consumer Goods ↓	<ul style="list-style-type: none"> <li>• Closure of all non-essential retail stores has already exacerbated drop in demand. Impact on online sales unknown but already negatively affected</li> <li>• For some manufacturers using airfreight, the impact of airlines suspending operations has resulted in supply being stuck in Hong Kong and other parts of Asia. Cost of airfreight has increased by 40% plus, and will now start to dissipate margins.</li> <li>• For some manufacturers, all steps in the supply chain have closed leading to closure of manufacturing sites.</li> </ul>
Automotive <b>STABLE</b>	<ul style="list-style-type: none"> <li>• All major UK OEMs have shutdown production temporarily due to falling demand and supply chain difficulties. All UK car dealerships now shutdown and sales will fall sharply in coming weeks. Labour exposure currently mitigated by production shutdowns and increased wfh on corporate side.</li> <li>• With falls in sales and production, cashflow issues reported across OEMs and UK supply chain. Expected to worsen over next month. There is one key manufacturer in particular difficulty we are working with</li> </ul>
Aviation <b>STABLE</b>	<ul style="list-style-type: none"> <li>• Some airlines expected to run out of cash in a matter of weeks, down from estimates of months (ranging from &lt;1-7 months for European airlines). Trade body has warned airports at risk of closing.</li> <li>• Early analysis (23 March) of flight schedules indicates reduction of 68,000 flights and around 12 million less seats to/from UK airports from start-Feb to end-June. As of 22<sup>nd</sup> March, average passenger load factors fell to 50% (North America) and 30-60% (Asia and Europe).</li> <li>• Labour exposure mitigated somewhat by sharp reductions in activity and temporary lay-offs etc.</li> </ul>
Hospitality & Tourism <b>STABLE</b>	<ul style="list-style-type: none"> <li>• With the closure of accommodation providers and attractions, there will be impacts on demand for food/drink etc and subsequent impacts on supply chains. Similar impacts for hospitality sector where restaurants/bars/events venues now closed unless offering takeaway/delivery service.</li> <li>• Economic support package has mitigated some of the most significant risks but further measures will be required.</li> <li>• Job Retention Scheme has been welcomed by industry, but some companies remain at risk. One large chain has now laid off 90% of staff.</li> </ul>
Sports/Live Events/Gambling <b>STABLE</b>	<ul style="list-style-type: none"> <li>• Swathes of live events sector will not survive the coming weeks. Lost revenue due to event cancellation (sports, games etc.) expected to surpass £2.3bn if cancellation extends to 6 months. Flexible contracts across much of sport sector are unclear in for furlough package; clarity needed on this to assess cash flow exposure.</li> </ul>
Creative Industries & Media <b>STABLE</b>	<ul style="list-style-type: none"> <li>• Press seeing 60-90% drop in advertising revenue (main income source), leading to expectations that 60% of local papers will close in next few months. 35% of fashion businesses don't think they will survive the next month. Supply chain disruption.</li> <li>• Approx. 700,000 self-employed workers in these sectors, who are ineligible for furlough scheme—e.g. 72% of those working in music, performing and visual arts are self-employed.</li> </ul>
Aerospace ↓	<ul style="list-style-type: none"> <li>• Supply chain disruptions, aircraft demand has collapsed, airlines deferring deliveries/unable to accept planes due to travel bans and/or cash preservation needs.</li> </ul>
Steel ↓	<ul style="list-style-type: none"> <li>• Significant and imminent liquidity concerns driven by credit availability and likely drop in demand (driven by sharp auto shut down, falling construction demand). Firms unlikely to be able to access HMG support as its stands. Blast furnace operations must maintain production (so cannot readily reduce fixed operational costs) or face large shutdown/restart costs</li> </ul>

**Prices:** availability of durable household items has declined, but overall prices for 'anxiety' basket is lower. CPI inflation will be pushed down by oil prices and deflationary impacts of lower spending. Large risks to data

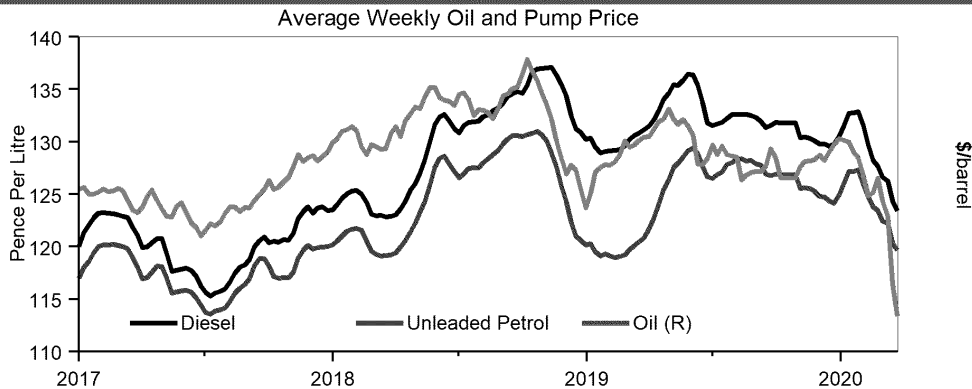
**COLLECTION**  
Availability has worsened for key durable items...



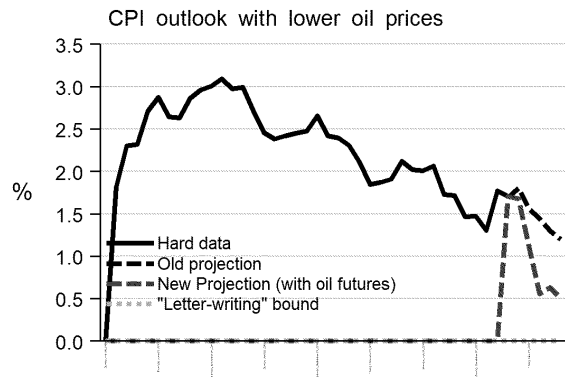
... but price changes show a net decline among anxiety items so far



Pump prices for petrol and diesel have fallen, tracking the recent decline in the oil price.



CPI will be pulled down by lower oil prices in the short term, pushed up by a weaker £ and down by weak demand further out.



Impact on inflation outlook	
Supply disruption	↑
Lower demand	↓

Sources: ONS, HMT analysis

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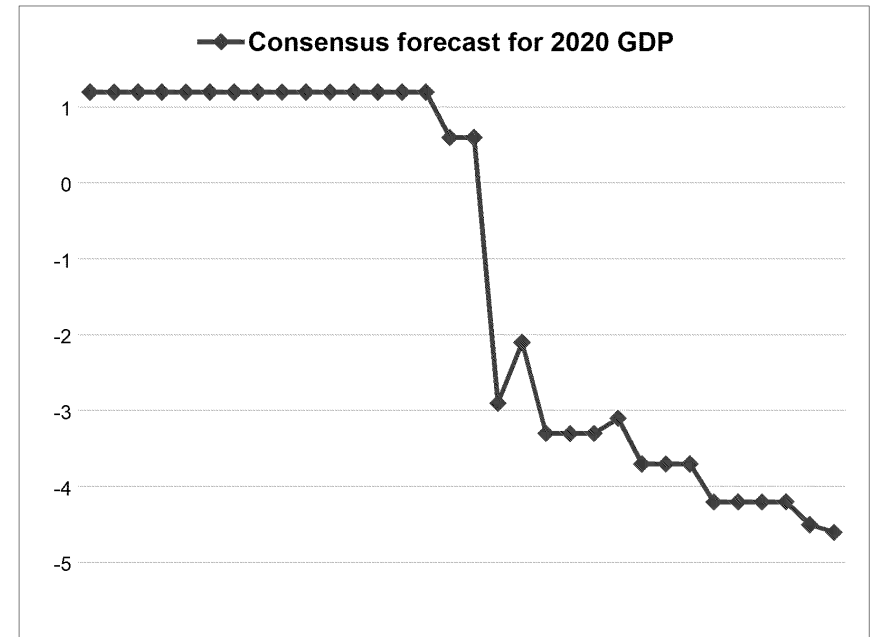
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**External forecasts:** external forecasters have marked down their expectations significantly, with the weakest forecasts pointing to a >10% GDP fall in Q2 and ~7% in 2020. Most expect NPIs to ease from Q3.

- All external forecasts since the introduction of social distancing guidance on 16 March expect a fall in GDP this year, with most expecting the contraction to be felt from Q1.
- The largest falls in GDP for Q2 are around 15% quarter-on-quarter, and around 7% year-on-year in 2020.
- Many forecasters have made relatively crude adjustments for the impact of social distancing and closures of specific industries.
- It is likely that these will evolve further and current estimates do not fully capture the impact of recent policy measures. In particular, most forecasters appear to expect shutdowns to have ended by Q3 (July).

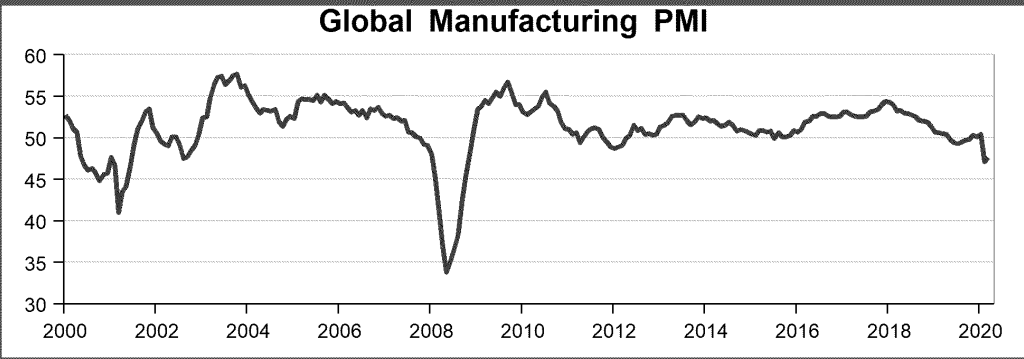
	Date	Annual GDP		Quarterly GDP			
		2020 GDP	2021 GDP	2020 Q1	2020 Q2	2020 Q3	2020 Q4
Morgan Stanley	18 March	-5.1	-	-	-9.7	-	-
HSBC	19 March	-2.0	2.0	-0.3	-3.8	-	-
JP Morgan	19 March	-3.7	4.1	-2.6	-8.5	10.6	0.6
Heteronomics	19 March	-	-	-	-0.6	-0.4	-
Deutsche Bank	20 March	-4.2	3.3	-	-7.3	-	-
Barclays	20 March	-1.1	2.3	0.1	-4.0	2.5	1.3
Moodys	20 March	-1.3	-	-0.4	-4.0	-0.8	2.7
Schroders	20 March	-7.2	10.3	-7.8	-11.9	19.2	3.2
Bloomberg Economics	23 March	-2.7	4.9	-0.9	-9.0	9.3	1.1
Commerzbank	24 March	-2.8	1.1	-0.3	-5.2	2.3	0.4
Pantheon	24 March	-5.7	6.0	-1.5	-13.0	10.0	4.0
Goldman Sachs	24 March	-7.5	7.3	-2.9	-10.3	-	-
UBS	27 March	-3.9	1.5	-	-	-	-
Capital Economics	27 March	-7.0	8.5	-	-15.0	5.0	8.5
Nomura	30 March	-7.8	-	-3.7	-13.4	12.0	1.7
CEBR	30 March	-4.1	3.4	-0.3	-15.3	14.6	4.9
EY Item Club	31 March	-5.8	4.2	-0.5	-12.0	-	-
Natwest Markets	1 April	-6.6	5.1	-0.8	-13.1	6.5	4.0
<b>Average since Monday 16 Mar</b>		<b>-4.6</b>	<b>4.6</b>	<b>-1.3</b>	<b>-9.2</b>	<b>7.6</b>	<b>2.9</b>
<i>Minimum</i>		<i>-7.8</i>	<i>1.1</i>	<i>-7.8</i>	<i>-15.3</i>	<i>-0.8</i>	<i>0.4</i>



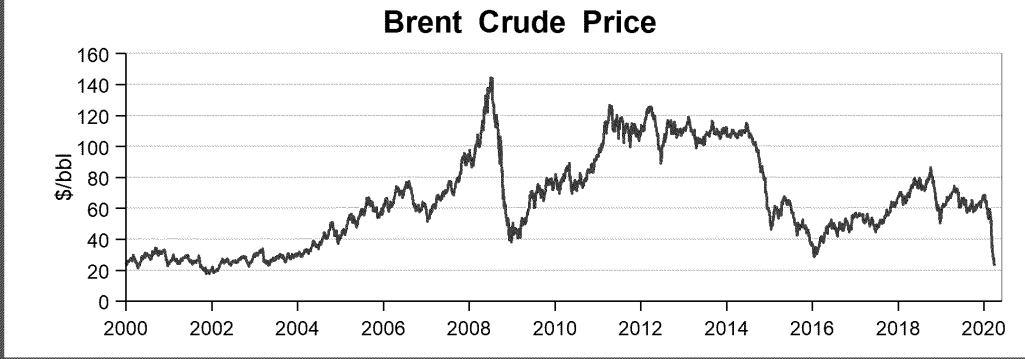


**International outlook:** Early data releases suggest the short-term impact of covid-19 on the global economy is significantly larger than that of the global financial crisis.

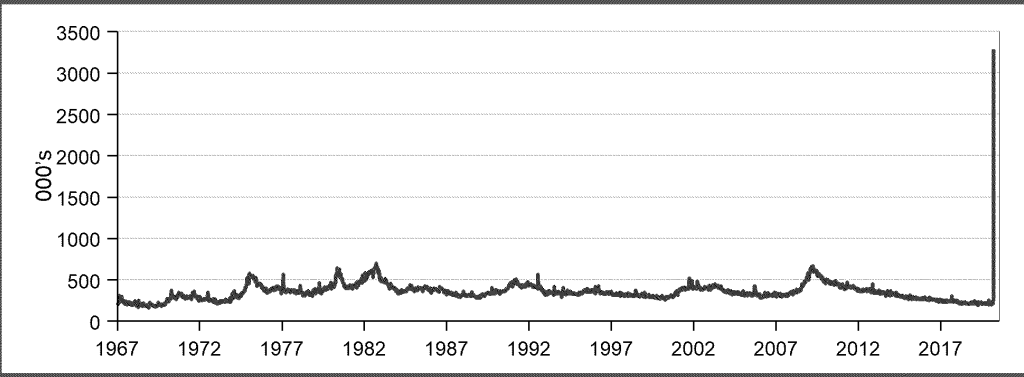
The Global Manufacturing Purchasing Managers' Index (PMI) in March fell to 47.6, down almost entirely to the contraction of the PMI for China (from 50.5 to 49.7).



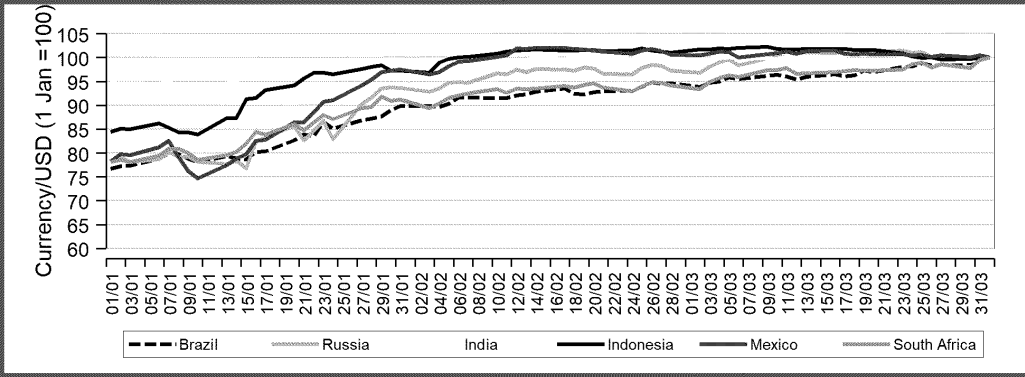
Brent crude oil falls 17% in 2020, to the lowest price in 18 years



US data for week 10 March showed a record 3 million increase in new house starts, compared to the week during the GFC of 0.6 million.



Some emerging market currencies have weakened around 10% against the US dollar



Sources: IHS Markit, Bloomberg, Thomson Reuters Eikon