

Who is winning from COVID-19?

Laurie Macfarlane and Christine Berry

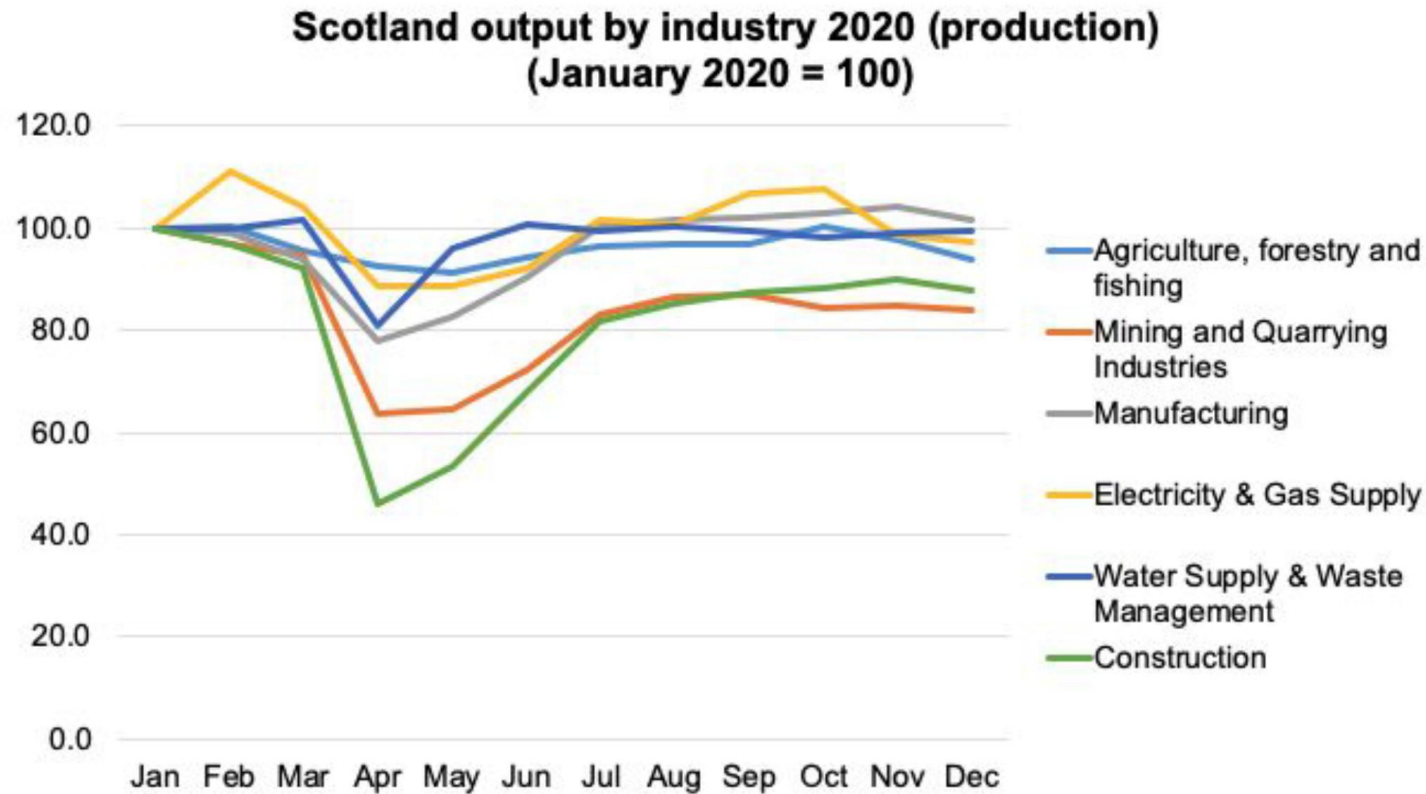
Key questions

- Does our analysis of COVID winners and losers reflect your experience in the sectors you represent?
- Are there any major winners from the pandemic that we have missed?
- Are there any key COVID-related economic trends that we have missed?
- Do you expect that the key trends we identify will be sustained after the pandemic subsides?
- If there are uncertainties around this, what policy decisions and organising strategies might influence the future direction of these trends?

Project overview

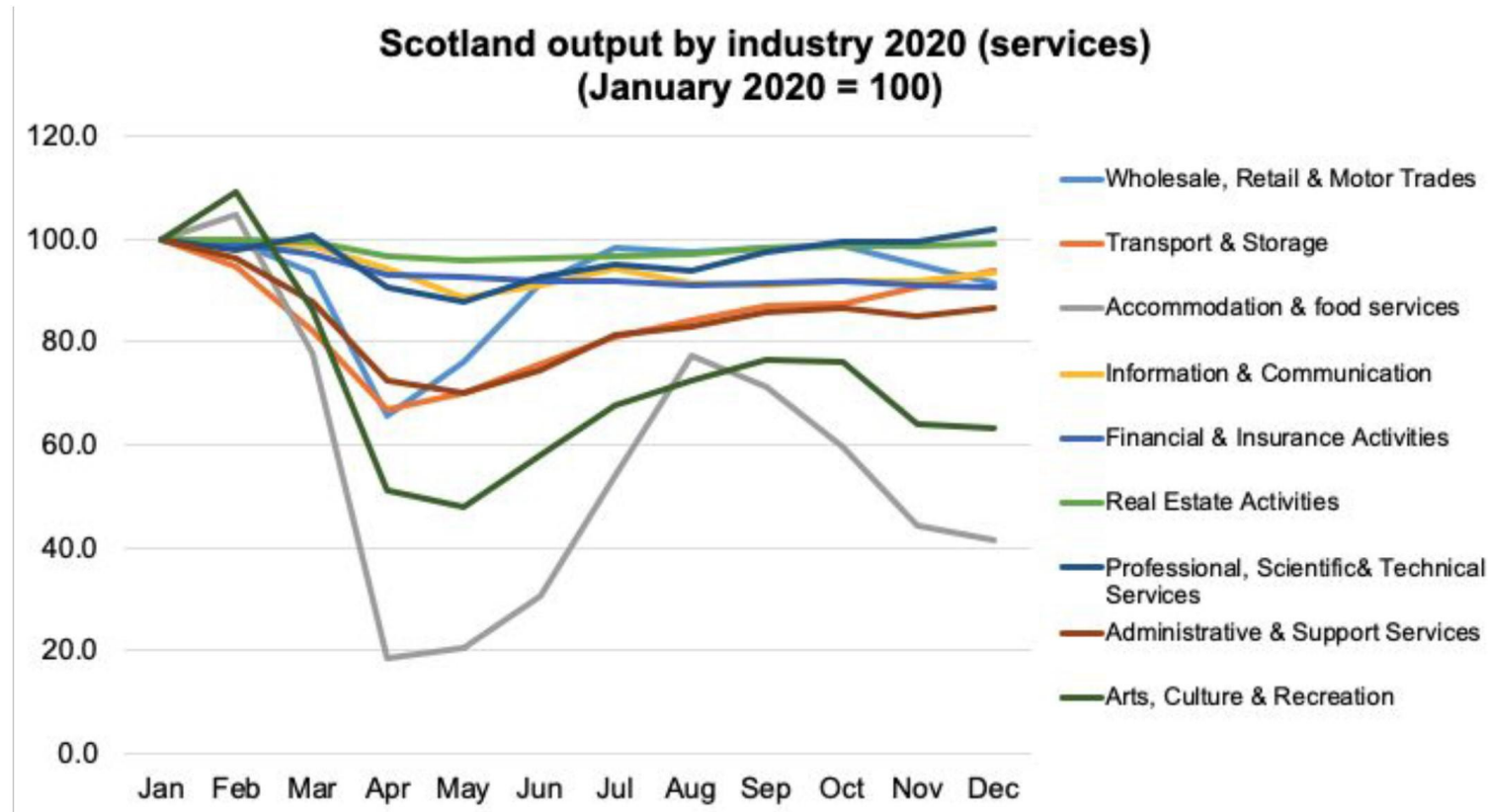
- COVID-19 began as a public health crisis, but quickly turned into a unique economic crisis
- Whole sectors of the economy have been shut down or restricted, while other sectors have experienced surging demand
- At the same time, the UK and Scottish Governments have injected billions of pounds into the economy to support businesses and households
- This disruption to flows of income and expenditure throughout the economy has created distinct sets of **winners** and **losers**
- While the economy may start recovering as vaccines are rolled out, it is likely that the pandemic will have an enduring structural impact
- This project aims to identify who the key winners and losers are, and assess the potential long-term impact on Scotland's economy and labour market

The pandemic has caused many sectors to contract (1)



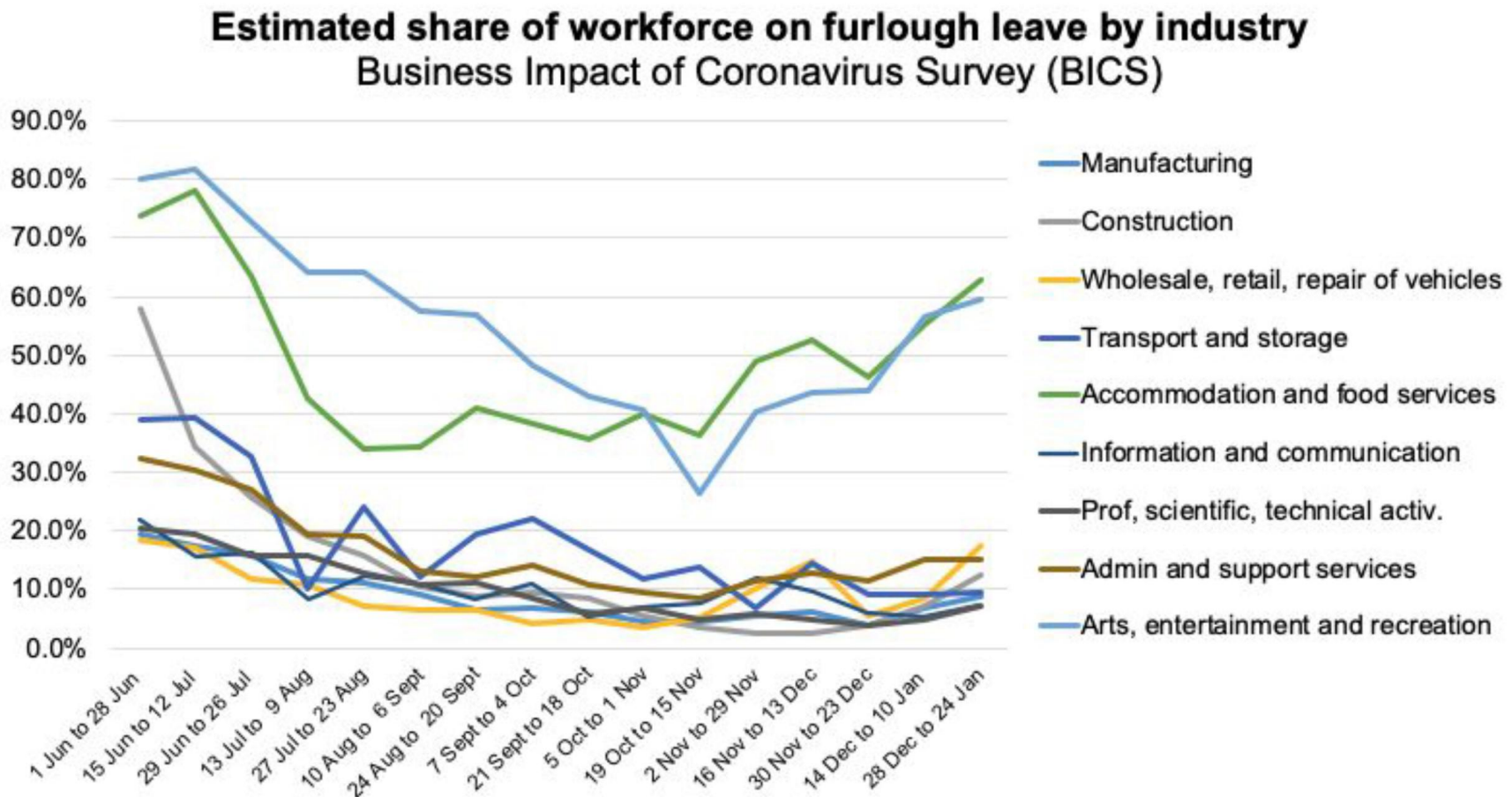
Source: Scottish Government

The pandemic has caused many sectors to contract (2)



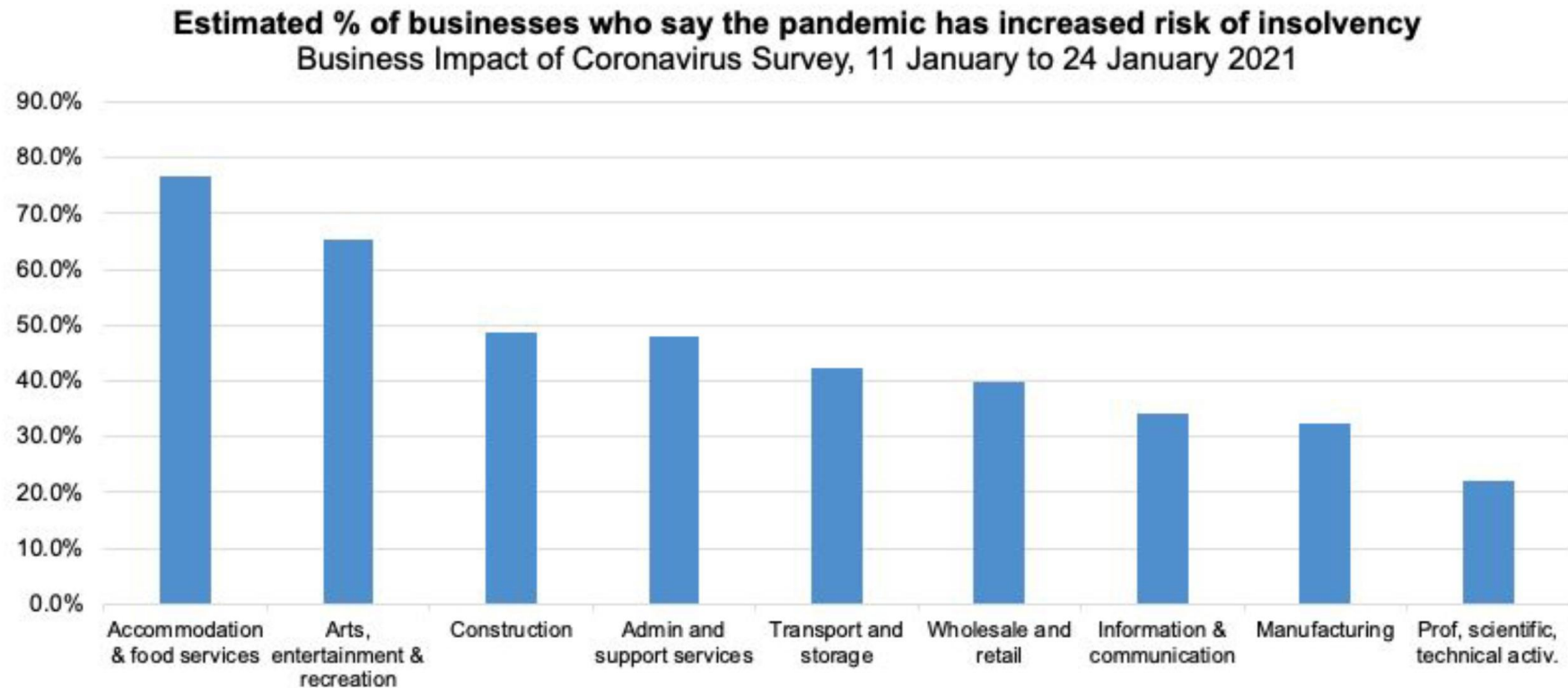
Source: Scottish Government

The furlough scheme has contained unemployment (so far)



Source: Scottish Government

But many businesses many fear for the future



Source: Scottish Government

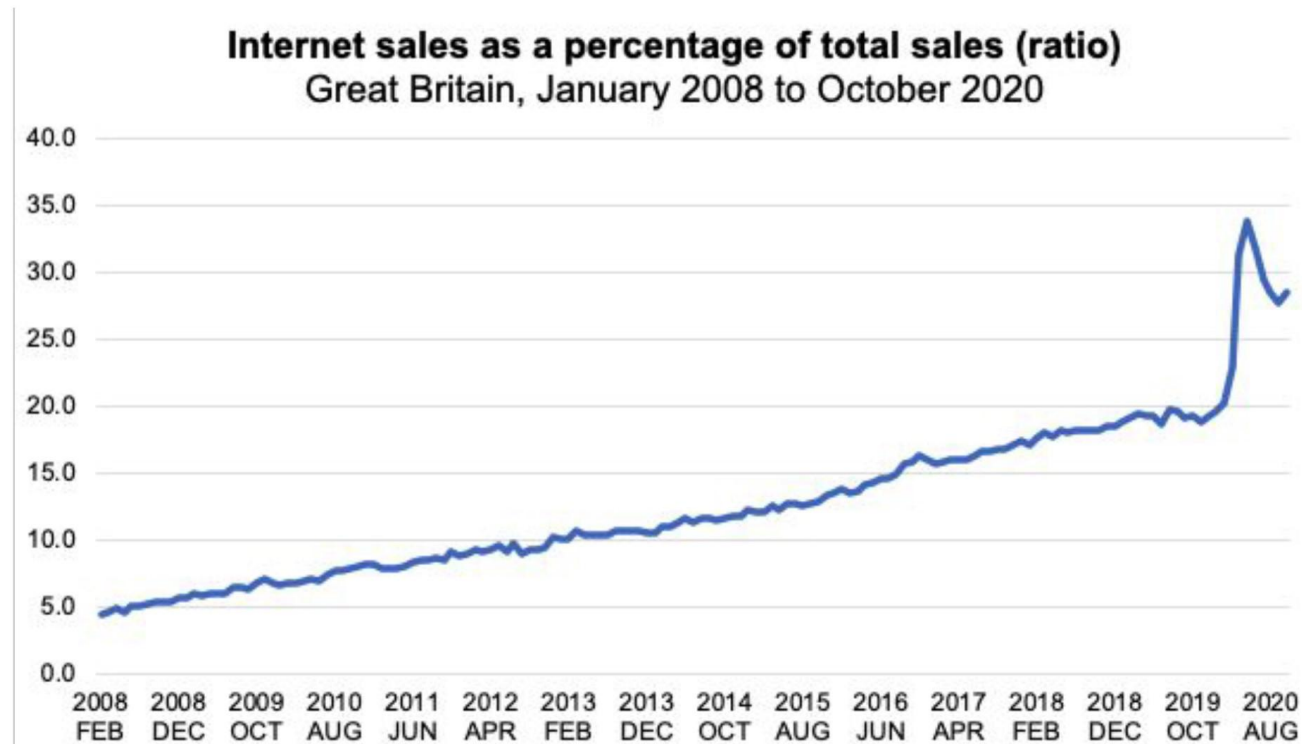
Sectoral summary

- The sectors that have been hardest hit by the pandemic in Scotland are accommodation and food services; arts culture and recreation; and to some extent construction
- Financial and insurance activities; information and communication; real estate; electricity and gas; water and waste; agriculture, forestry and fishing; and professional, scientific and technical services have to varying degrees proven fairly resilient to the pandemic – although output still remains below pre-pandemic levels
- Manufacturing; transport and storage services; and wholesale and retail all suffered at the start of the pandemic but have since significantly recovered. Manufacturing output has now exceeded pre-pandemic levels.

Underlying structural changes

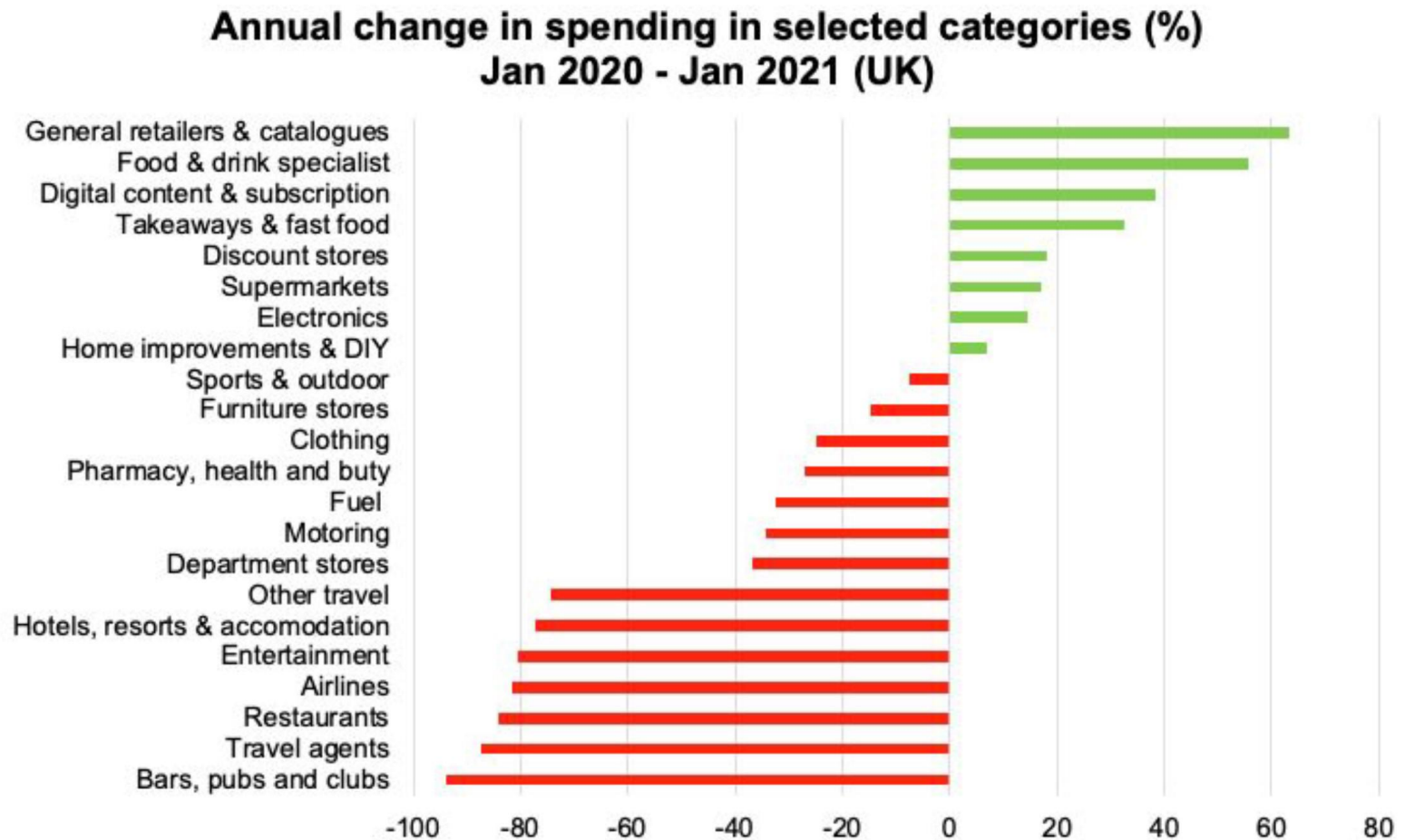
- A sectoral analysis provides insights into how the pandemic has impacted broadly defined sectors, but it does not capture some of the key structural changes that the pandemic has generated or accelerated
- Within certain sectors, some firms have prospered while others have struggled. This often reflects how they have responded to the COVID crisis; the products they sell; and how they deliver products to their customers
- The pandemic has also had a significant impact on household balance sheets, which has significant consequences for the shape of the economic recovery

The share of online retail sales has surged, which has mainly benefitted international firms



Source: ONS

Spending has shifted away from social activities to 'at home' goods and services



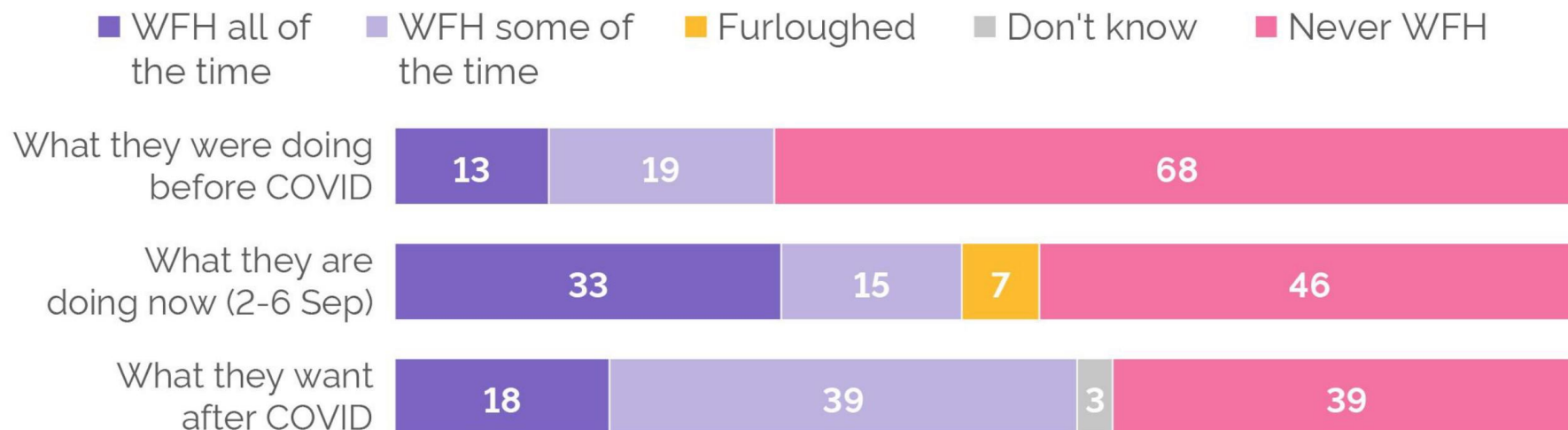
Source: Barclays

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Home working has surged at the expense of commuting

Most workers want to be able to work from home once coronavirus is over, at least some of the time

% of workers who were working prior to the coronavirus crisis and who also expect to still be in the workforce once the crisis is over



There is some (preliminary) evidence that a reshoring of supply chains is underway due to COVID and Brexit

Covid and Brexit could see UK manufacturers bringing it all back home

Up to £4.8bn worth of goods for British retailers can be made locally, says report

UK factories could be making up to £4.8bn more goods for British retailers in the next 12 months as the coronavirus pandemic and [Brexit](#) prompt businesses to bring home production.

The additional orders, largely of food and fashion but potentially including DIY products and homewares, would be equivalent to the country's entire current clothing manufacturing output, according to a report by advisory firm Alvarez & Marsal and research group Retail Economics.

COVID-19

Britain's textile industry gets an unexpected boost from COVID-19

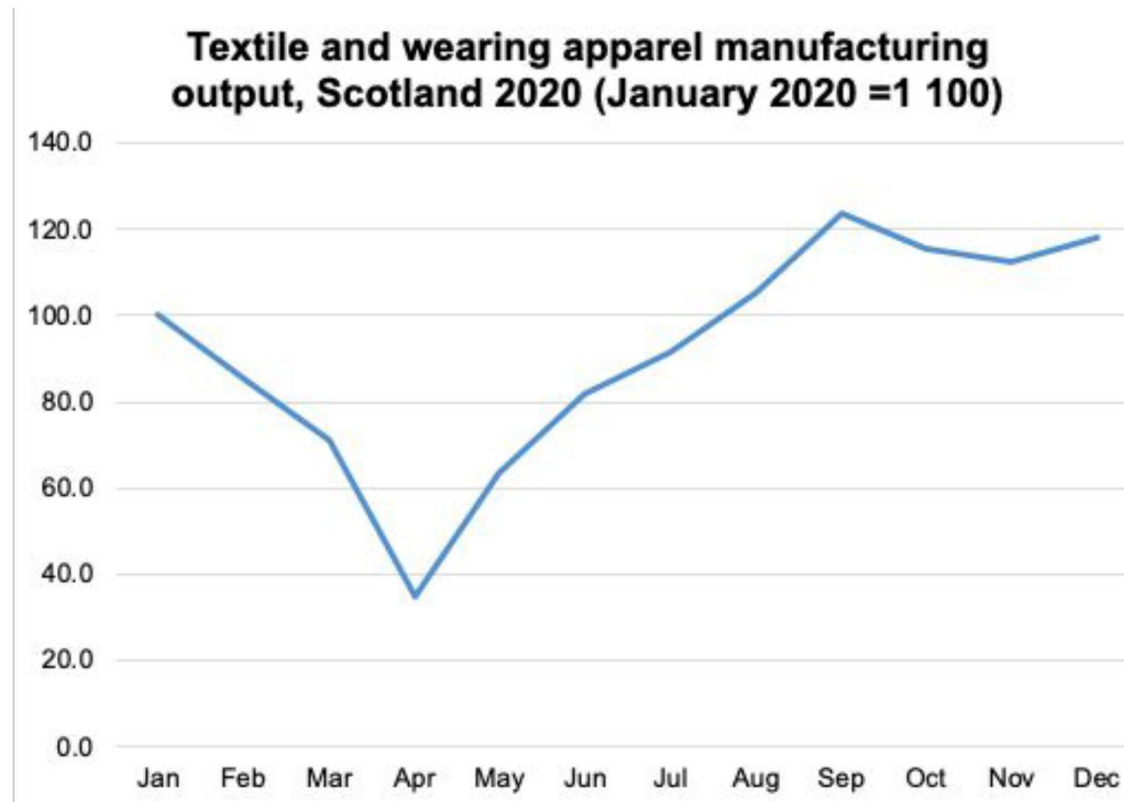
Stephen Beard

Apr 13, 2020

The coronavirus outbreak is a human tragedy and an economic disaster, but some businesses could in the long term do quite well out of it. Take Britain's textile industry. Throughout the 1990s, British textile companies lost a lot of business to China as clothing retailers and brands in the United Kingdom turned en masse to the Far East for cheaper production.

But now the disruption in trade with China has made some of those retailers reconsider the wisdom of having long supply chains, and they've been turning back to British manufacturers.

Including in Scotland...



Source: Scottish Government

Who has benefited from these trends? The global picture



Some global winners have operations in Scotland

- Amazon's global sales reached \$386bn in 2020, up from \$280bn a year earlier, due to surging demand in the pandemic. Net profit almost doubled to \$21bn.
- UK sales rose 51% to almost £20 billion, and Amazon is recruiting 10,000 extra UK staff to cope with surging demand. This means Amazon's UK workforce will rise from 30,000 to 40,000 this year, with a significant proportion based in Scotland.
- But these jobs are low paid and insecure: the company has been widely criticised for its use of zero hours contracts and exploitative employment practices, which has been described as "slave labour".

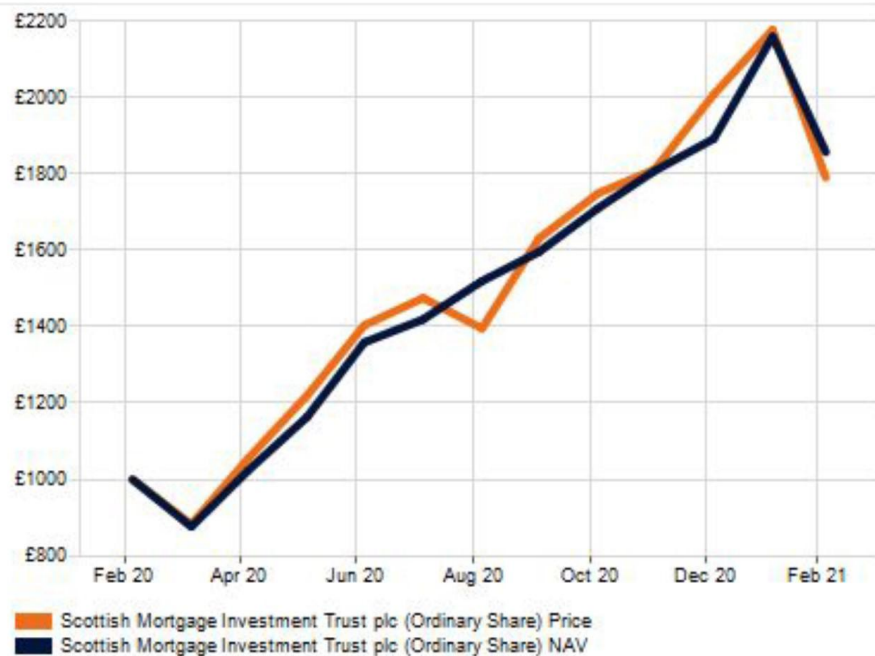
There are also domestic winners

- Supermarkets have seen revenue soar, leading many to pay back business rates relief granted by the government. Tesco's pre-tax profit increased by 28.7% driven by a doubling in online sales.
- Discount store chain B&M, which has 20 stores across Scotland, saw its revenue increased by 27% in 2020, and the company says it plans to open 18 more stores this year.
- Outsourcing companies like Serco have seen profits soar due to lucrative government contracts, however few of these have been in Scotland.

Some Scottish firms have benefited from the rally in global stock markets e.g. Baillie Gifford

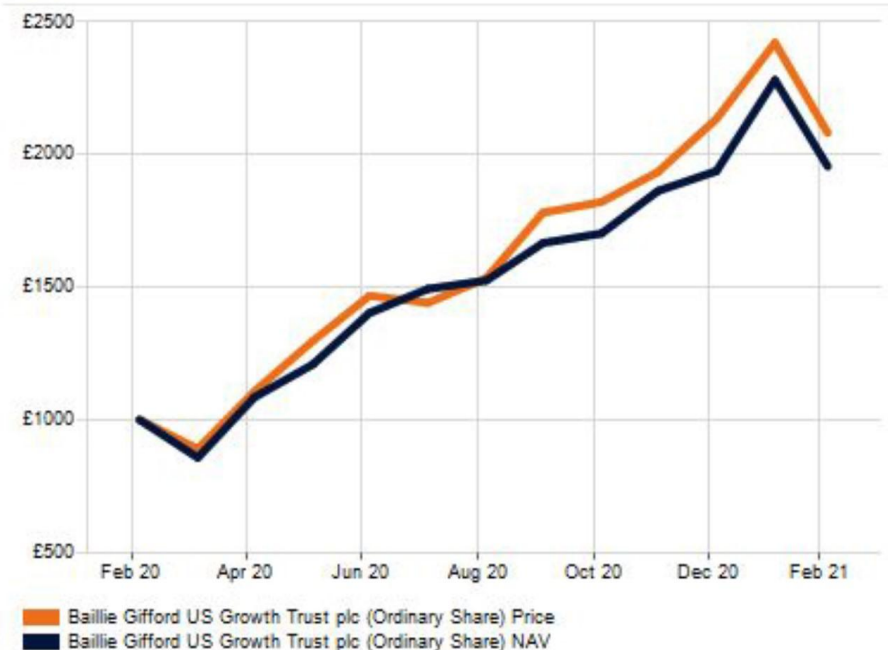
Scottish Mortgage Investment Trust

Total Returns on £1000 over the past 12 months



Baillie Gifford US Growth Trust

Total Returns on £1000 over the past 12 months



And the domestic surge in house prices...

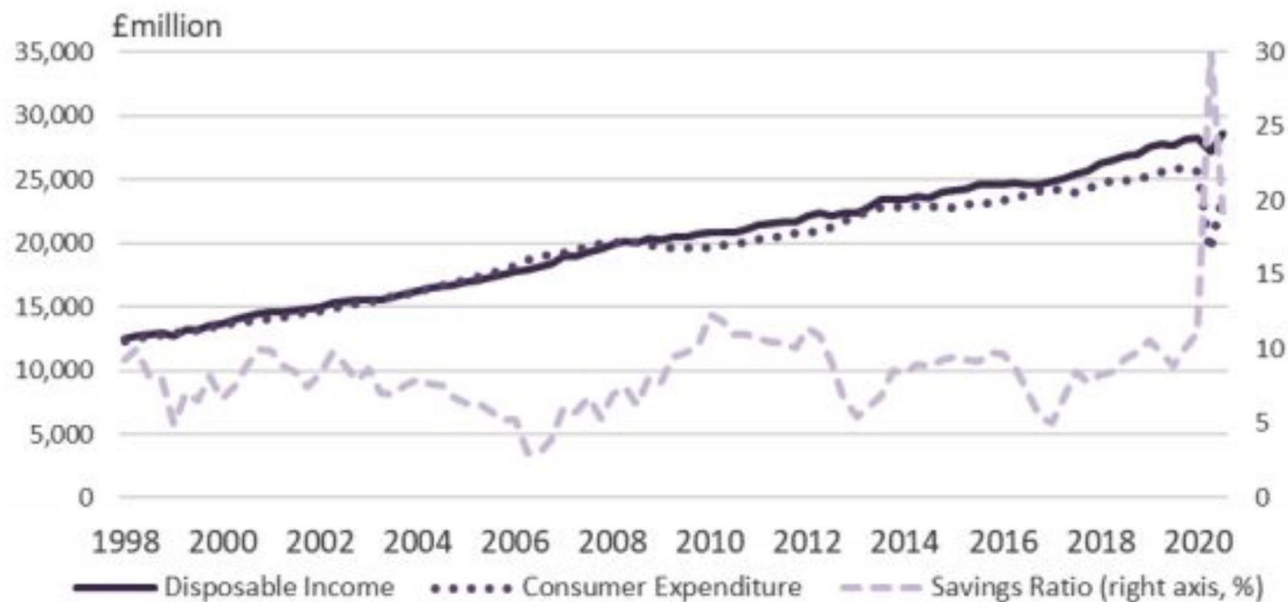
- Property developers and estate agents saw revenues collapse in the first half of 2020 due to lockdown restrictions. However, activity soared in the second half of the year as the UK experienced a mini housing boom.
- This boom has been attributed to the combination of pent up demand from the lockdown, the accumulation of household savings, and a 'one-off' reassessment of housing need triggered by the experience of the pandemic.
- It has also been actively stimulated by UK and Scottish government policies such as the cutting of stamp duty and Land and Buildings Transactions tax (LBTT), and the introduction of a new 'mortgage guarantee scheme' to subsidise mortgages on home purchases valued up to £600,000.

Commercial property is more uncertain

- An estimated £4.5 billion of commercial rent has gone unpaid since the pandemic began across the UK, as high streets have been devastated by a rise in remote working, a decline in footfall and rise in online retail
- According to a recent market survey, 69% of hospitality and leisure operators are weighing up the prospect of insolvency because they cannot afford their rent.
- A key determinant of the shape of the recovery and future labour market is whether commercial landlords or tenants are made to absorb the cost of the crisis – or whether the state intervenes to steer the recovery in a particular direction (e.g. to protect high street businesses over landlords)

The household sector has accumulated c£15bn of cash savings since the pandemic began

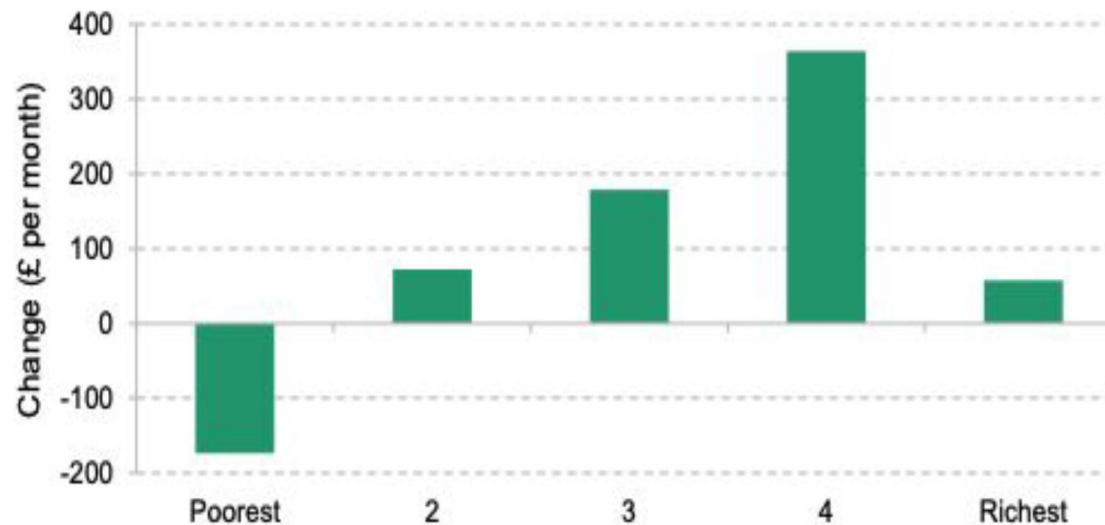
Household sector income, expenditure and saving



Source: Scottish Government

But this has not been distributed evenly...

Difference in average monthly saving by income quintile
March to September, between 2019 and 2020



Source: IFS

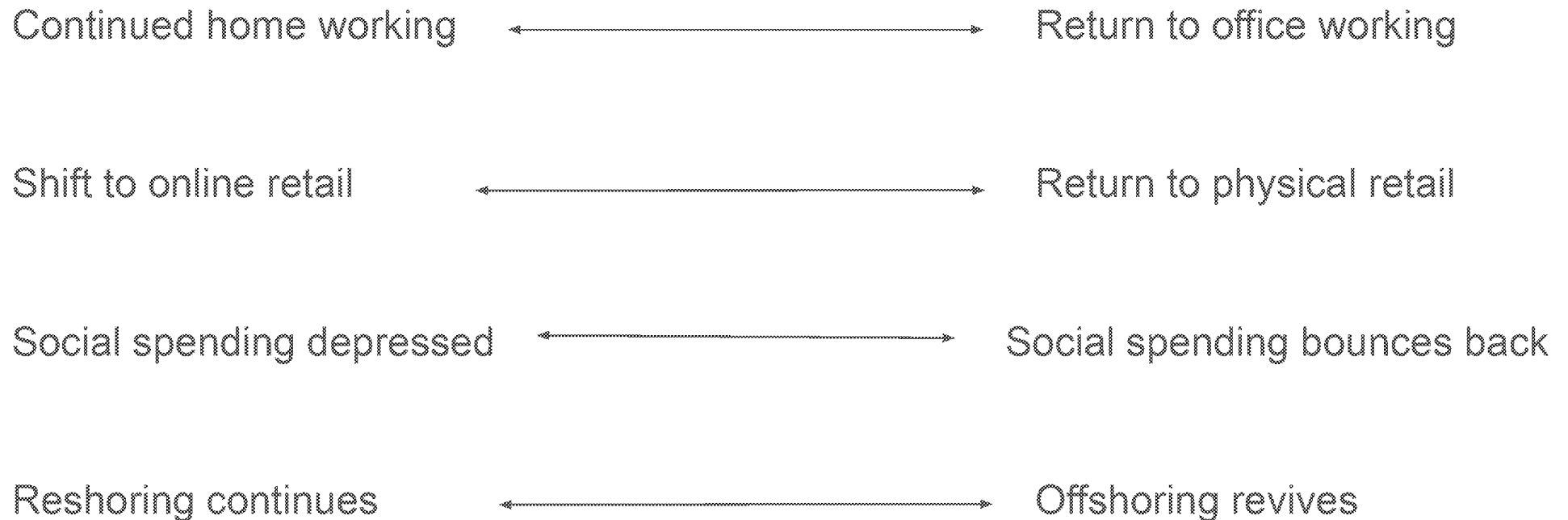
Potential long-term implications (1)

- The long-term impact of the pandemic depends on the extent to which COVID trends such as the shift to **remote working and online retail** are sustained after the pandemic subsides
- In the medium term it is likely that ongoing legal and voluntary social distancing restrictions will depress demand (and employment) in **social sectors** such as accommodation and food, and arts culture and recreation
- Combined with a permanent shift towards remote working and online retail, this poses significant challenges for local high streets and the commercial property sector
- Many of the biggest winners from COVID are **global information technology or e-commerce firms** whose growth is at the expense of local economy spending.

Potential long-term implications (2)

- The combined effect of COVID-19 and Brexit is creating incentives to **reshore manufacturing** to reduce dependency on global supply chains, particularly in food and textiles but potentially also machinery and homewares. This is potentially a significant opportunity for Scotland.
- On the other hand, **poor job quality** is a significant potential issue in these sectors and in others that are doing well (e.g. Amazon warehouse workers)
- How **built up household savings** are spent or invested will have a significant impact on the shape of the economic recovery. Spending on holidays or online retail would see this money leave the Scottish economy permanently.
- The shape of the overall recovery is ***policy dependent***. The UK government is aiming to incentivise a boom in consumer spending and house prices. What should the Scottish Government's approach be?

Key uncertainties



Implications for policy and organising

In any scenario, there are some obvious key issues re. good employment:

- Addressing job quality / labour rights issues in factories, warehouses and retail environments where output, employment and profits are up
- Addressing potential rise in unemployment for sectors where output is down

But how policymakers go about this will both depend on and determine wider trends:

- Use of furlough to maintain viability of existing hospitality and retail jobs vs industrial strategy to reskill people for new green manufacturing jobs
- 'Bridging' support for face-to-face retail vs supporting local retailers to shift activity online and compete with big tech firms
- Banking on revival of city-centre development models vs pivoting to more distributed patterns of working and spending

Questions

- Does our analysis of COVID winners and losers reflect your experience in the sectors you represent?
- Are there any major winners from the pandemic that we have missed?
- Are there any key COVID-related economic trends that we have missed?
- Do you expect that key trends such as the rise in home working, online retail, reshoring of manufacturing, and decline of food and accommodation and culture and leisure will be sustained?
- If there are uncertainties around this, what policy decisions and organising strategies might influence the future direction of these trends?

Key issues for policymakers and trade unions

- How Scotland maximise the opportunities for reshoring of manufacturing and building local supply chains, and ensure jobs created are high quality?
- If sectors such as accommodation, food, culture and recreation are going to sustain less employment going forward, how can jobs be created elsewhere to ensure we avoid a harmful spike in unemployment?
- How should policymakers and unions respond to the accelerating decline of high streets to protect jobs, local communities and livelihoods?
- Where companies operating in Scotland have profited significantly from the pandemic, how can they be made to contribute?
- How can household savings be mobilised to support local job creation?