

Covid-19, EU-Exit and the Greater Manchester Economy - Implications for the Greater Manchester Places for Everyone Plan

Nicol Economics, March 2021

Contents

1. Introduction	1
2. Summary of key points	2
3. How Covid-19 has and could impact on the GM Economy	5
4. The impacts of Covid-19 to date	6
5. Current and future impacts of the EU-UK Trade and Co-operation Agreement	15
6. Forecasting the future impacts of Covid-19 and EU Exit	20
7. Implications for the PfE 2021 Plan growth options	32

1. Introduction

- 1.1 This note is an update of an earlier note which was produced in August 2020 and published alongside the draft Greater Manchester Spatial Framework GMSF 2020 (October 2020). This responded to a request by the Greater Manchester Combined Authority (GMCA) to review the implications of the potential economic impacts of Covid-19 on the growth options for the Greater Manchester (GM) economy and, if possible, any wider spatial considerations in respect of the Places for Everyone Plan (PfE 2021).
- 1.2 This updated note considers: (a) the evidence on the economic impacts of Covid-19 to date at a UK and GM level; (b) the evidence of the impact of the new trading and other arrangements for the UK and the EU under the December 2020 Trade and Co-operation Agreement (TCA); (c) the evidence on the likely medium and longer term impacts of Covid-19 and EU-Exit; and then (d) reviews the implications for the PfE 2021 growth scenarios.
- 1.3 Since the previous note was produced in summer 2020, there have been a number of developments which are reflected in this updated note:
 - The path of Covid-19 which led to a second wave of infections during later autumn and winter 2020/21 leading to a second national lockdown in November 2020 and then a third national lockdown starting in January 2021.

- The UK Government’s response in economic and other terms, including the extension of the furlough scheme and other support for workers and businesses announced in previous updates and the March 2021 Budget.
- The development and successful roll-out of the UK vaccination programme.
- The [roadmap](#) announced on 22nd February 2021 for how the economy and society in England is expected to gradually return to normal.
- The conclusion of the EU-UK Trade and Cooperation Agreement on the 24th December 2020 and its subsequent implementation, replacing the alternative scenario and prospect of a “no-deal” Brexit.

1.4 These developments have led to changes in actual economic performance and also updated forecasts for the path of the UK economy that will have implications for the GM economy.

2. Summary of key points

1.5 At the heart of the issue addressed by the August 2020 note was the question of **uncertainty**. The note concluded that it was difficult to derive a robust alternative growth scenario for the future path of the GM economy, its housing and employment land needs because there were at least five types of uncertainty:

- Uncertainty 1: the medium term (1 to 4 years) path of the UK’s economic recovery from Covid-19.
- Uncertainty 2: the longer term implications of Covid-19 (if any) for the growth path and potential of the UK economy as a whole.
- Uncertainty 3: the ensuing implications for the overall GM economy over the whole PfE 2021 plan period.
- Uncertainty 4: the sectoral and land-use implications, particularly for sectors that drive demand for employment land in GM.
- Uncertainty 5: the potential implications for housing need and population change.

1.6 We review in brief below the updated evidence of each of these forms of uncertainty based on the analysis in the rest of this note.

Uncertainty 1: the medium term path of the UK’s economic recovery from Covid-19

1.7 The August 2020 note highlighted evidence on the path of future UK economic growth focussing on the possible effects of Covid-19. This analysis underlined the very considerable degree of uncertainty of the likely impact of Covid-19 on the UK economy during 2020 and in subsequent years. This update has shown:

- 1) We are now much clearer about the outcome of effects of Covid-19 during 2020. It has reduced overall economic output in the UK by 9% to 10%. We cannot be sure of the precise impact on the GM economy, but it very likely to have been of a similar order of magnitude.

- 2) There is now less emphasis by the Office of Budgetary Responsibility (OBR) on the range of scenarios describing possible growth paths of the UK economy from 2021 to 2025; however their analysis is still heavily caveated by the high degree of uncertainty about the path out of Covid.
- 3) The Bank of England continues to emphasise the exceptional uncertainties over their medium term forecasts for the growth rate of the economy.
- 4) The OBR have now estimated the long term “scarring” effect of Covid-19 on the UK economy to be 3% via its impact on productivity. The Bank of England express this slightly differently and have assessed that the medium to long term effects are being that “*the supply capacity of the economy [would be] around 1¾% lower than it would have been in the absence of the pandemic by the end of the forecast period*”. These two recent estimates are significantly different.
- 5) The short term uncertainty about the possibility of a no-deal Brexit has been removed; however there remain a range of views and assessment of the short and medium term implications of the TCA on the UK economy.

1.8 In summary, to some degree as we are now a further seven months into the pandemic there is slightly less uncertainty. In part this is because as a result of the vaccine roll out there is more certainty about a route out of the wider economic lockdown restrictions. Furthermore, a TCA has been reached with the EU removing the prospect of a no-deal Brexit. Nevertheless, in reality, **the path out of Covid-19 for the UK (and so GM) economy remains uncertain both in terms of speed and scale.**

Uncertainty 2: the longer term implications of Covid-19 (if any) for the growth path and potential of the UK economy as a whole

1.9 There is no real update on the expectations of the long term growth path of the UK economy from 2024 or 2025 onwards (by which time both the OBR and the Bank of England expect any Covid recovery period to have been completed). The OBR had already included in 2020 its assessment of the long term effects on the UK economy from exiting the EU with a Free Trade Deal (as now has happened)¹. There is, therefore, no real change in the assessment of the long term UK economic growth path since August 2020.

Uncertainty 3: the ensuing implications for the overall GM economy over the next 16 years

- 1.10 The previous assessment concluded that, at the time, it would be difficult to develop a new growth scenario to inform the PfE 2021 in a sensible manner given the degree of uncertainty over the UK growth path.
- 1.11 The most recent central assessment by the OBR suggests that the UK economy will be around 3% smaller in the future as a result of Covid-19 and the Bank of England around 2%. If these UK-wide reductions were applied to the GM economy over the PfE 2021 period (now the 16 years from 2021 to 2037) they would imply modest reductions in

¹ A 4% reduction in productivity in the long run compared to remaining within the EU

average annual growth of about 0.1% to 0.2%². The slower growth could be in the form of employment or, more likely, productivity (as this is way in which the longer “scarring effects” from Covid-19 are assessed by both the OBR and BoE).

- 1.12 However, there is no certainty that the longer term growth path of the GM economy over the PfE 2021 period would necessarily be reduced as a result of the events in 2020 and 2021. The growth path of AGS 2019 was in itself ambitious and as pointed out in the August 2020 note, investment and actions by partners in GM may work to offset at a local level the potentially damaging impacts of Covid-19 on longer term economic growth. Any assessment would be complicated by the effect of using 2021 as the starting point for assessing growth over the PfE 2021 plan period.

Uncertainty 4: the sectoral and land-use implications, particularly for sectors that drive demand for employment land in GM

- 1.13 As far as employment land is concerned as well as the overall size of the GM economy, the nature of demand for employment land will be driven by the pattern of sectoral growth and by changes of the organisation of economy activity within sectors. The August 2020 note highlighted four trends that could impact on the demand for employment space:
- 1) The acceleration of the previous trend of shift from that had seen a major squeeze on physical retail to the use of **internet shopping**, a previously well-established trend.
 - 2) The associated increase in **demand for warehousing and logistics space**, which also seen changes as a result of the need to increase supply chain resilience.
 - 3) The possible future increase in **re-shoring of manufacturing** activity.
 - 4) The potential **change in demand for office space**, or at least offices as configured today.
- 1.14 The evidence we have reviewed since August 2020 confirms that the impact of Covid-19 continues to reduce demand for physical retail and internet shopping has helped drive up demand for warehousing and logistics space. The evidence on the potential impact of re-shoring manufacturing to the UK is as yet inconclusive. Finally, the likely implications for the nature and location of demand for office space remains very uncertain, apart from the strong likelihood that it will be different in the future.

Uncertainty 5: the potential implications for housing need and population change

- 1.15 The longer term implications (if any) of Covid-19 on housing need and population change remain un-researched and not as yet understood.

² To put these into context the assumed path of GVA for GM under the Accelerated Growth Scenario (AGS-2019) used to inform the GMSF Growth Option 2: “Meeting assessed needs” was, over this period around 2.4% pa.

Overall conclusion

1.16 In spite of the changes since August 2020, we still conclude that, as of March 2021, given the high degree of uncertainty that exists about future events and their implications for GM, there is **not sufficient certainty/evidence currently available** to inform a robust “reasonable alternative” growth option for purposes of the PfE 2021 Plan.

3. How Covid-19 has and could impact on the GM Economy

1.17 Some recessions are what economists like to call cyclical recessions; others are produced by unexpected shocks to economies. All shock-induced recession have different characteristics and causes ranging from the oil prices rises of the early 1970s, the financial crisis of 2008 to the current Covid-19 induced recession. Covid-19 has led to an unprecedented disruption to the UK economy in a way that is very different from previous recessions for a combination of reasons:

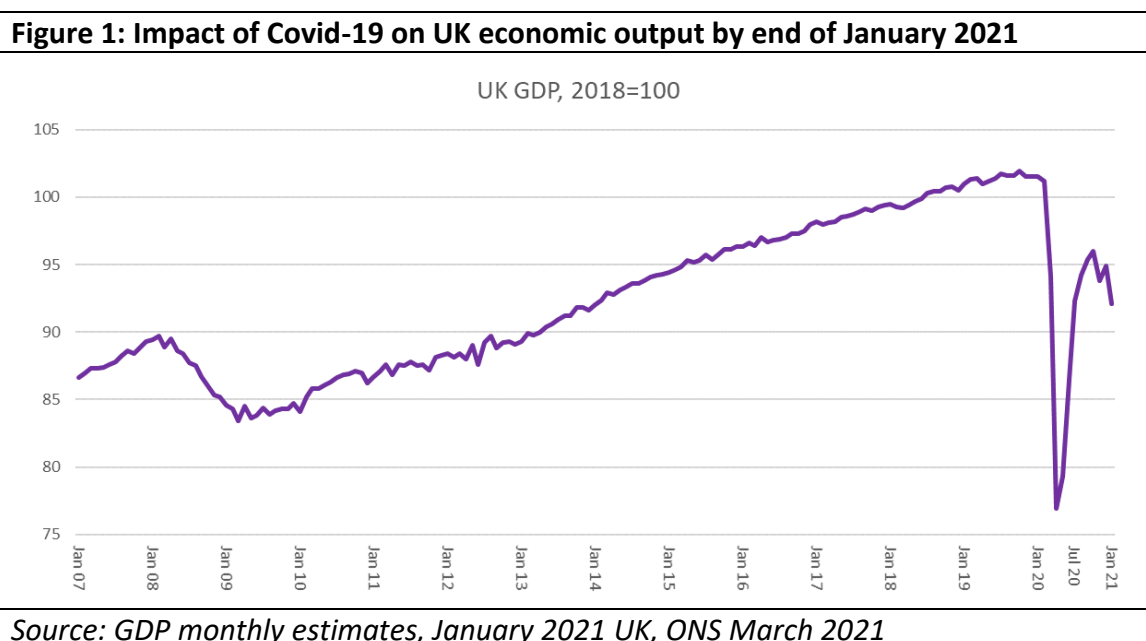
- 1) The primary reason is that Covid-19 has created a **health induced recession** where the indirect effects of the government and societal response to the health issues is the primary cause of the recession, not underlying economic issues.
- 2) Part of the recession is caused by a **dramatic fall in consumer demand** as a result of both government restrictions on what economic activity could take place (ie lock down measures) coupled with personal consumer choices in response to the health and economic impacts (people’s fear of catching coronavirus and the uncertainty and concerns over their financial futures). As we ease out of lock down, the government can control what citizens can and cannot do but they are unable make people return to previous spending patterns and levels if they do not want to do so.
- 3) Part of the recession has been caused by a **slow-down/pause of business investment and activity due** to health restriction, reduced demand and uncertainty and lack confidence about the future.
- 4) The recession was also in part caused by **disruptions to supply chains** caused by Covid-19 elsewhere in the UK or the world (particularly in China).
- 5) Finally, unlike most other recessions **all economies across the world** are being affected to significant degrees.

1.18 In the case of the UK, the impact of Covid-19 overwhelmed, initially, another factor that already acting as a drag on business investment which was **uncertainty over Brexit**.

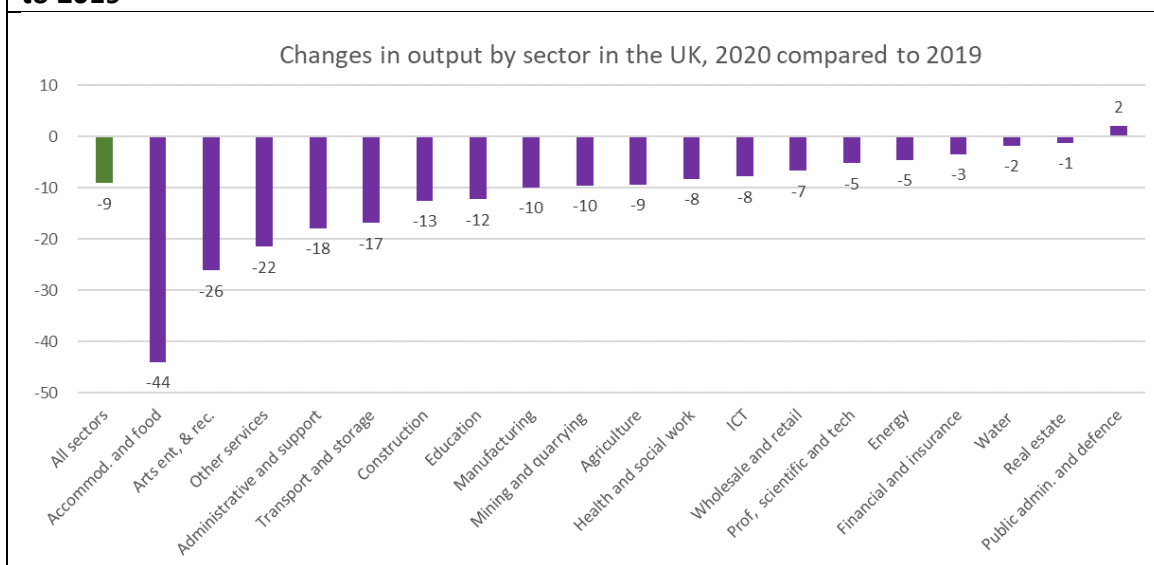
4. The impacts of Covid-19 to date

Impacts at a UK level to date

- 1.19 The impact of Covid-19 has had an unprecedented impact on the UK economy over what is a particularly short period of time compared to other recessions. The main economic effects started emerging in March 2020. Although the full formal lockdown started on 23rd March 2020, this had been preceded by earlier advice from government, the cancellation of many events and activities and changes in consumer and business behaviour. April and May 2020 were periods of near total lockdown and severe contractions in economic activity. There were signs of recovery towards the end of May and in June as the lockdown was loosened. The economy gradually recovered during the summer and early autumn, before a second national lockdown in England in November, and then the third one starting on 6th January 2021.
- 1.20 At the time of producing this paper, the latest official data on the impact of Covid-19 on UK economic output was available up to the end of January 2021. The ONS data shown that during 2020 the UK economy had shrunk overall by 9% to 10% compared to 2019 (depending on how exactly it is measured). As Figure 1 shows, after the collapse of economic activity in the spring and early summer of 2020 there was a recovery until October 2020, but then economic output fell again (by 4%) to the end of January 2021 as a result of further lockdowns.



- 1.21 This shrinkage across the UK economy in 2020 varied widely by sector as the direct impact of the lockdown and other Covid-19 related impacts varied. The accommodation and food sector and other people facing service sectors have been the hardest hit (see Figure 2). The impact on normally office-based financial, professional and financial services sectors has been more limited, as here activity can more readily be carried out from home.

Figure 2: Impact of Covid-19 on UK economic output (GVA) by sector in 2020 compared to 2019

Source: GDP monthly estimates, January 2021 UK, ONS March 2021

- 1.22 The impact of this massive reduction in economic activity on the labour market has been largely cushioned by the Covid-19 Job Retention Scheme (CJRS). By the end February 2021, the CJRS had been used since its inception by 1.3 million employers for 11.2 million “employments”³, or 31% of all potential employments. The cumulative cost by the 15th February 2021 was £53.8 billion and as of the end of January 2021 there were 4.7 million employments furloughed or 15.6% of all potential 30.2 million employments.
- 1.23 A further 7.2 million claims have been made under the Self-Employment Income Support Scheme (SEISS) over three tranches (about 70% of all potential eligible self-employed have claimed) with the value of claims being £7.6 billion first tranche, £5.9 billion for the second tranche and £6.2 billion for the third tranche (£19.7 billion in total). In the March 2021 Budget, the total overall cost of the CJRS and the SEISS was forecast to be around £104 billion during 2020/21 and 2021/22.
- 1.24 Even with the CJRS and the SEISS in place, there was a sharp rise in the number of unemployment benefit and Universal Credit claimants. In the UK the number of unemployment claimants (broadly people claiming work related benefits) rose by 1.4 million over the two months of 2020 from March to May, an increase of 111% or a 3.4 % points rise from 3.0% to 6.4% of all those aged 16 to 64. The rate of unemployment has broadly stayed at this level since May 2020 in spite of many forecasts that it would rise much higher (as a result of the cushioning effect of the CJRS).
- 1.25 The most recent data on vacancies shows that in the initial lockdown period they were running at only 40% of pre Covid-19 levels (see Figure 3). This speed and depth of drop of vacancies was unprecedented. The financial crash and associated recession in 2008 and 2009 saw vacancies fall by 40% to hit 60% of pre-recession levels but this took place over a 1 to 1½ year period rather than just three months. There has been a recovery in vacancies since the trough of mid-2020, the most recent data (for November 2020 to January 2021) shows they are still running at 25% to 30% below the pre Covid-19 levels.

³ In theory one person could be receiving furlough support for several jobs

The low level of vacancies is a forward indicator of likely adverse labour market effects. As people leave jobs or enter the labour market from school, college or university the low level of vacancies means they are unlikely to be able to access jobs.

- 1.26 Figure 4 shows that, generally, the sectors with the largest falls in output are also those, not surprisingly, where the number of vacancies has fallen most. However, what is noticeable is that even sectors such as ICT where output has held up well there have been falls in levels of recruitment (by nearly 20%). This shows how the effect of the Covid-19 contraction is impacting across the labour market. Overall, the latest data shows that 60% of the overall fall in vacancies at present is in the retailing and accommodation/food sectors.

Figure 3: Impact of Covid-19 on UK vacancies

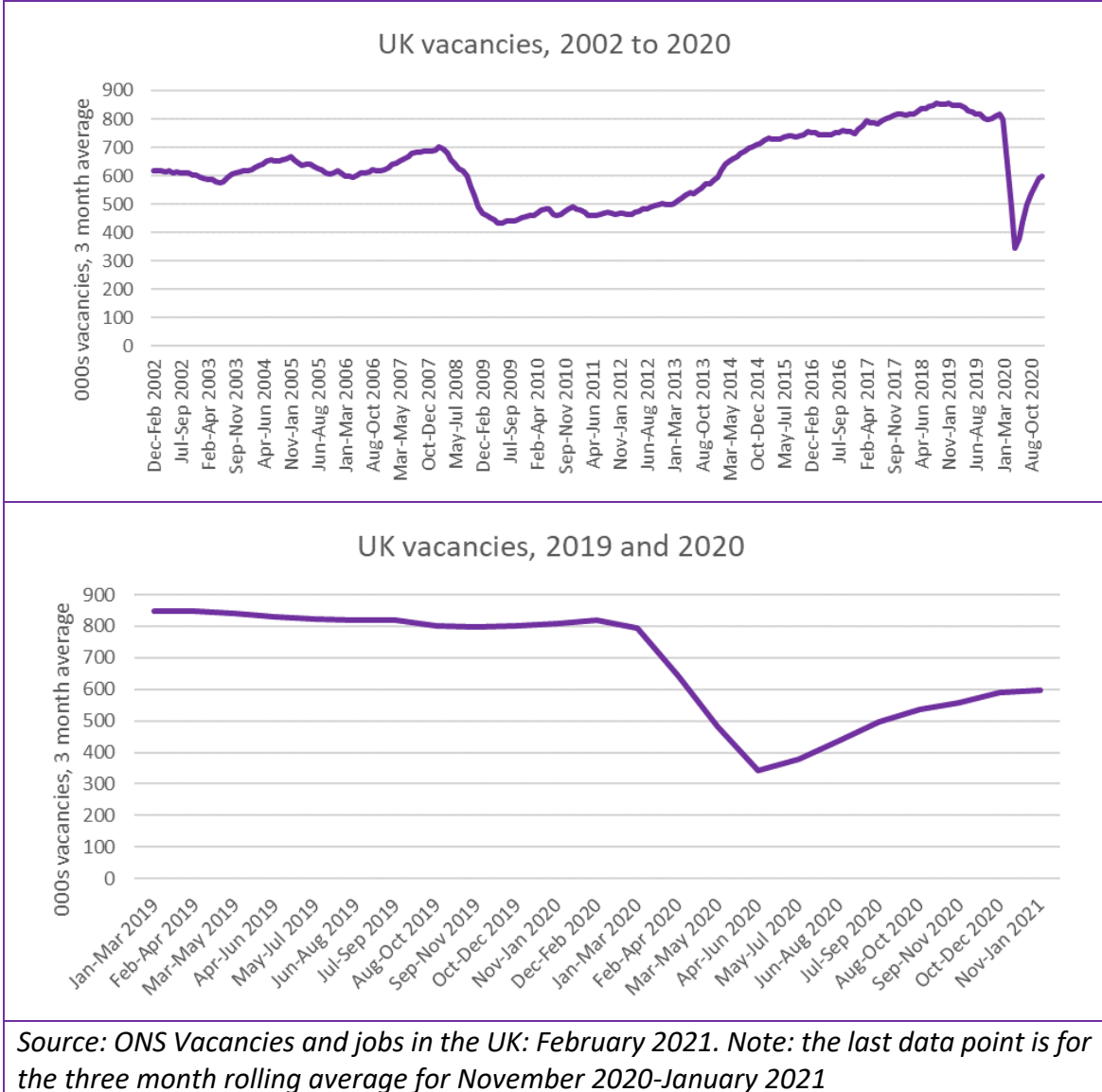
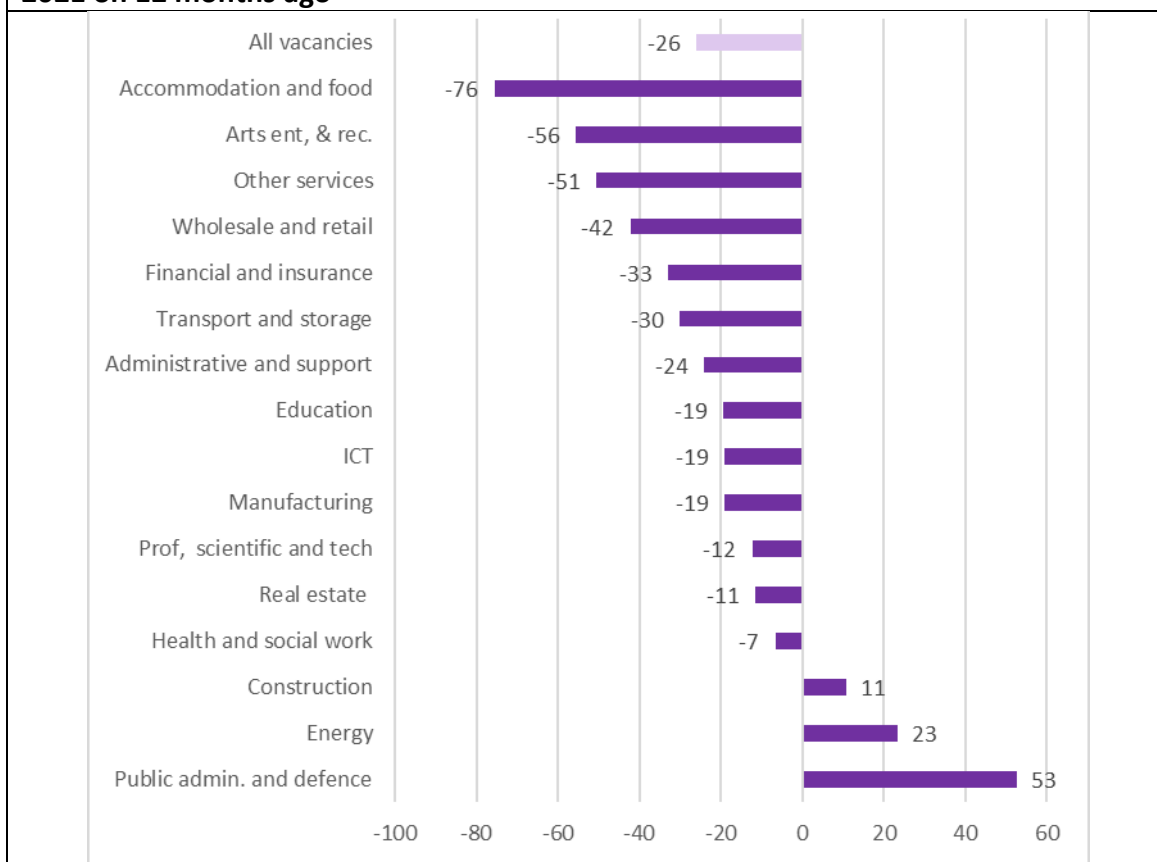


Figure 4: Impact of Covid-19 on UK vacancies by sector, November 2020 to January 2021 on 12 months ago

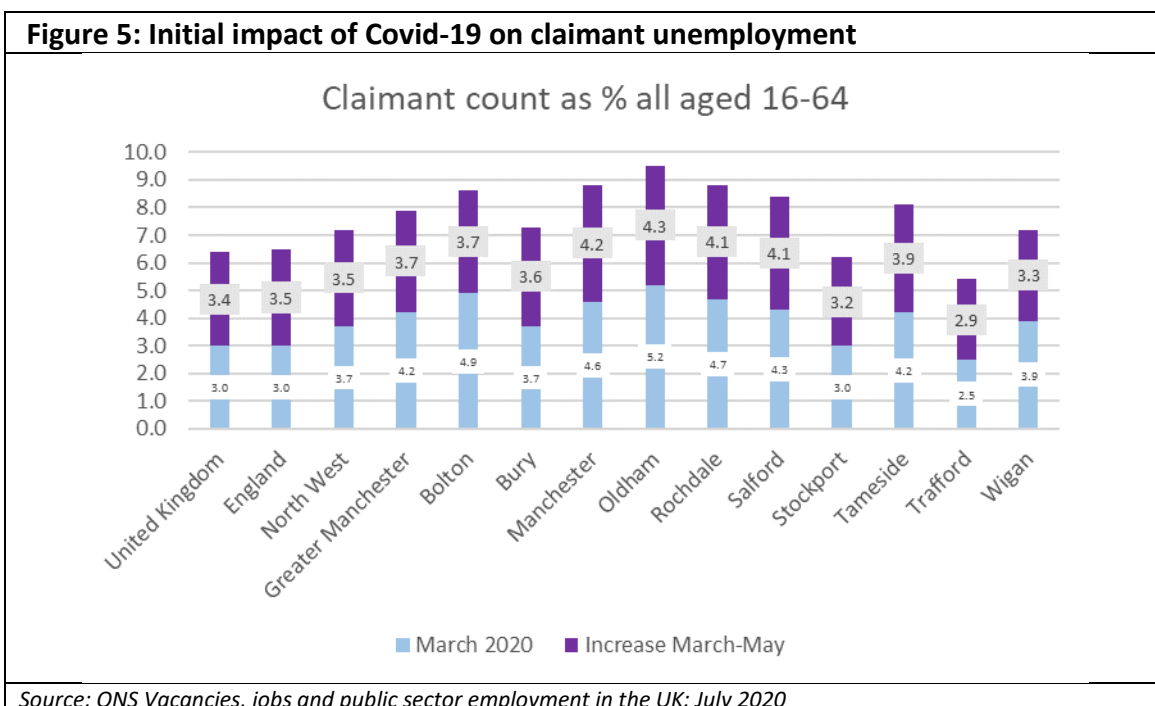


Source: ONS Vacancies and jobs in the UK: February 2021.

Evidence of economic impacts to date in Greater Manchester

1.27 There is less robust data on the economic effects of Covid-19 on the GM economy itself. We are able to draw on HMRC data on local take-up of the CJRS/SEISS and changes in the claimant rate to assess the impacts so far and to start to form a view about potential future impacts in the short term. As noted earlier, at a UK level there was a sharp increase in claimants for job related benefits (the claimant count) at the start of the first lockdown. This is a far from perfect measure of unemployment but at present it is one of the better measures to assess short term impacts. As Figure 5 shows, there have been significant increases in GM as well. Overall, the number of claimants across GM rose by 67,000 in April and May 2020 compared to March 2020 to reach 141,700 or 7.9% of all those aged 16 to 64. In percentage terms this rise at 90% might appear less rapid than the average UK rise (111%).

1.28 A better way to assess the scale of the rise is the percentage points change which, at 3.7% for GM, was slightly above the North West and England rises (3.5% in each case) and the UK rise (3.4%). This increase was on top of a rate which was already well above the national rate. Across GM the differential rate rises by district are likely to be reflective of the well documented differential impact of Covid-19 on people holding less well paid and jobs that require fewer qualifications (with lower rises in Stockport and Trafford). Since May 2020 the claimant rate has fallen slightly; in GM as of January 2021 it was 7.6 % or a fall of 0.2% points compared to May 2020, a similar fall to that for the UK as a whole.

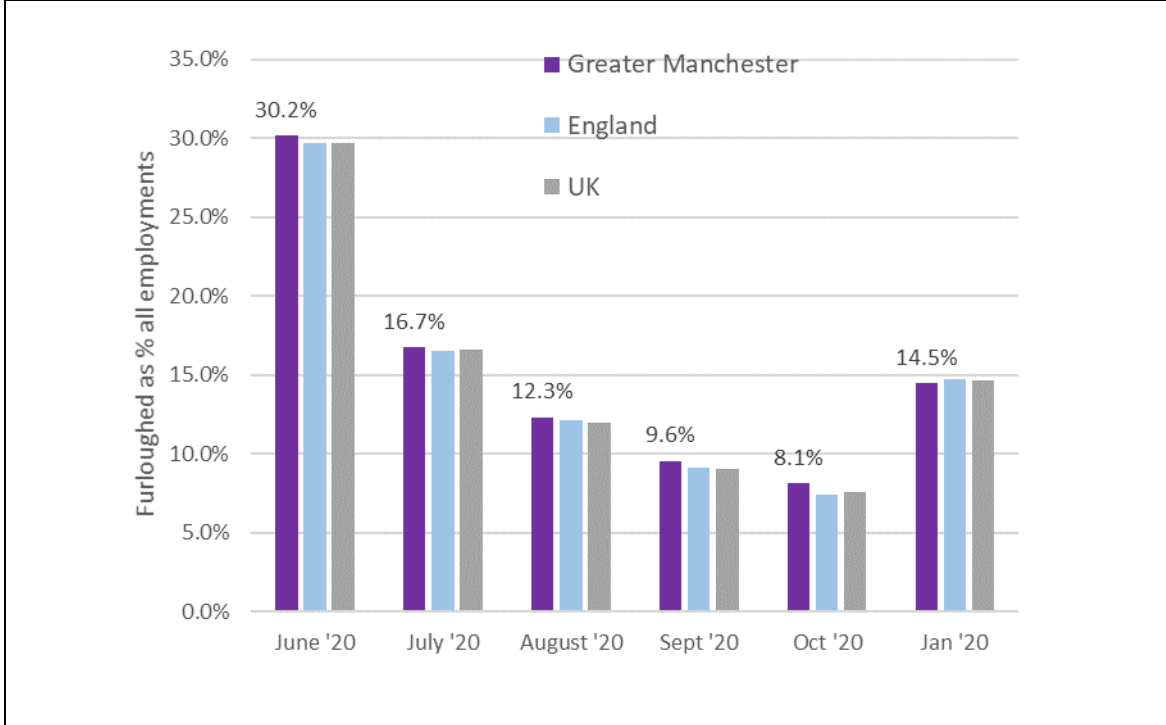


1.29 Across Greater Manchester there were 385,000 people claiming CJRS by the end of June 2020 and 88,000 claims for SEISS or 473,000 in total (26% of all those of working age). After June 2020 and the economy open as restricted were lifted, there was a rapid reduction in the number to 213,000 or 17% by the end of July.

1.30 As Figure 6 shows in terms of the % of employees being furloughed, GM has broadly followed the UK/England pattern. By the end of January 2021 around 185,000 people in GM (14.5% of all eligible employments) were furloughed. The slightly higher rates of employees furloughed in the autumn of 2020 compared to the UK as a whole may reflect the higher level of Covid restrictions applying to GM at the time as result of the, then, Tier system⁴. The current state of play in respect of the uptake and use of furlough suggests that GM is no more vulnerable than average to the impacts Covid-19 on the labour market.

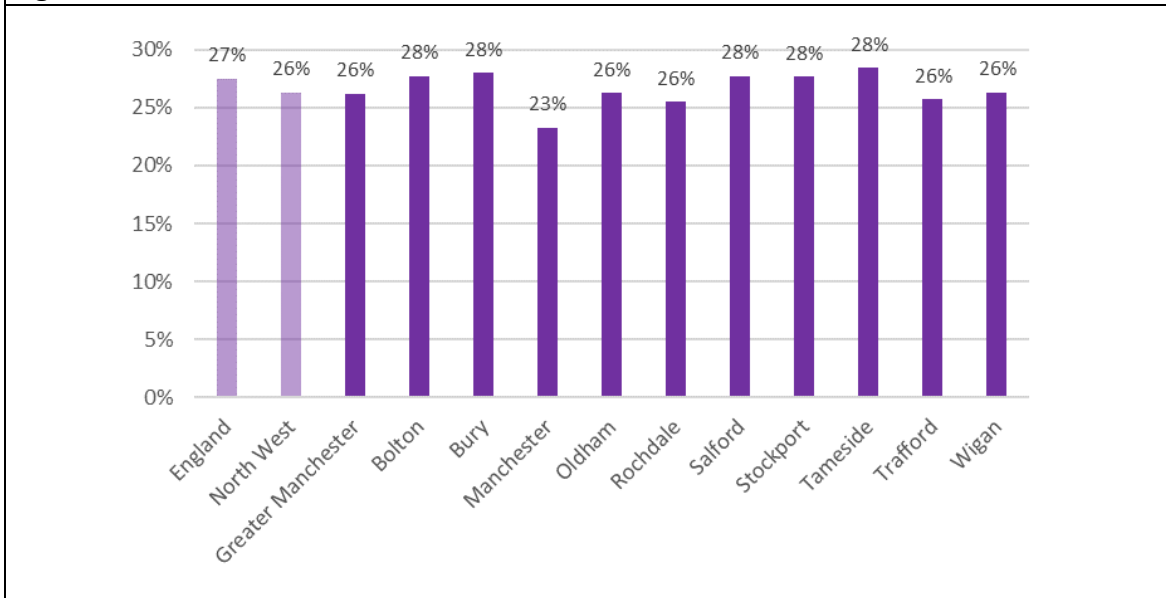
⁴ GM remained in a higher “tier” than most other parts of England throughout much of the summer and autumn of 2020

Figure 6: June 2020 Numbers claiming CJRS as a % of eligible, July 2020 to January 2021



Source: CJRS Statistics. Note the rate for the UK excludes those unallocated to a geography or gender which account for 6% of all those furloughed in the UK

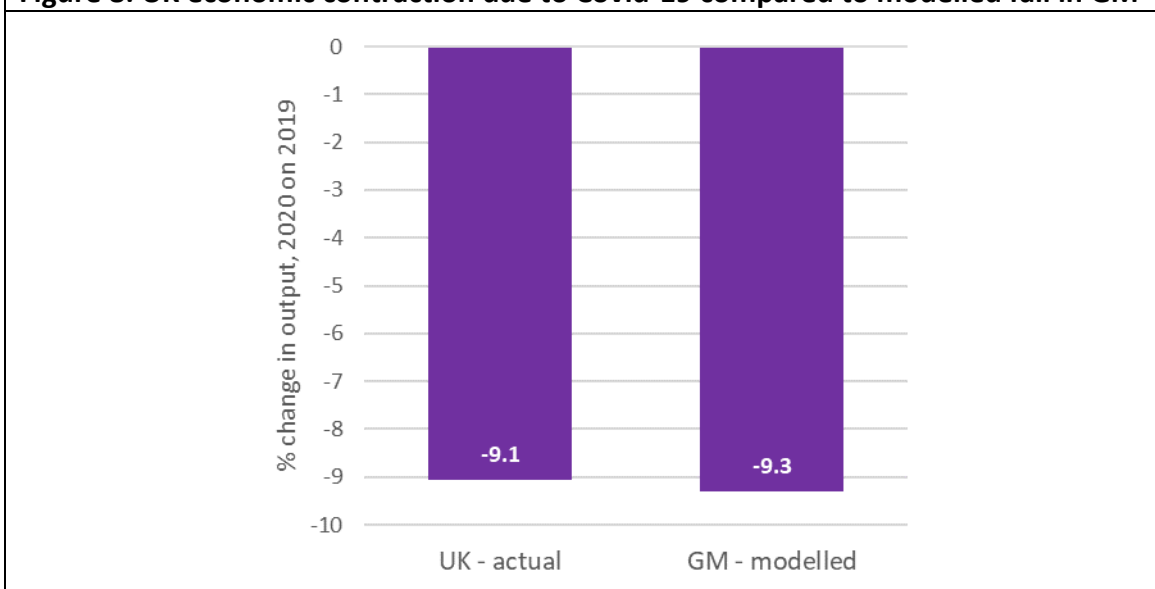
Figure 7: June 2020 Numbers claiming CJRS and SEISS by area as percent of population aged 16 to 64



Source: ONS Vacancies, jobs and public sector employment in the UK: July 2020. Note: low figure for Manchester likely to reflect the high proportion of students in the working age population

- 1.31 The final piece of analysis we have carried out is to apply the estimates of GVA falls by broad sector produced by the ONS for the UK economy to the GM economy to see if there is a potential “compositional” effect. This assesses what the overall impact would have been on GM output if each broad sector in GM had contracted by the same rate as the UK during 2020 compared to 2019. The modelling shown in Figure 8 indicates that the GM economy was very marginally more vulnerable to Covid-19 effects than the whole UK economy as a result of its broad sectoral composition. The scale of the modelled contraction was about 3% higher⁵ than for the UK as a whole (or 0.2% of the GM economy).
- 1.32 However, this analysis does not take into account the fact that impacts within these very broad sectoral might have been greater or lesser for the GM economy than for the UK⁶. At present there is no robust basis for assessing specific sectoral GM effects.

Figure 8: UK economic contraction due to Covid-19 compared to modelled fall in GM



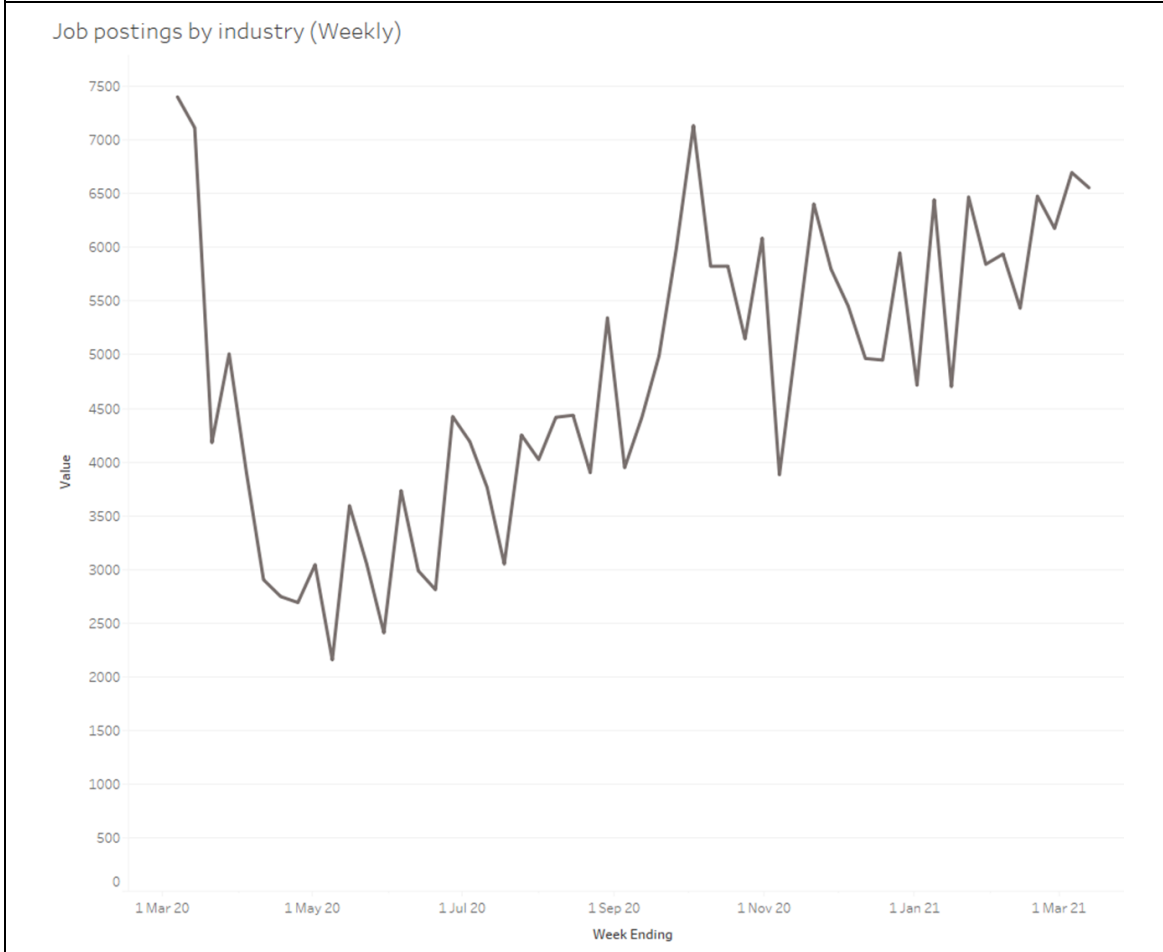
Source: ONS GDP monthly estimate, UK: May 2020 and modelling by Nicol Economics based on applying the ONS sectoral change figures for the UK to the estimated composition of GVA in GM in 2019

- 1.33 The GMCA collates and tracks the evidence of impacts of Covid-19 in its [economic resilience dashboard](#) and this has been shared with Nicol Economics. The dashboard tracks jobs postings (see Figure 9). This shows that in the most recent period (week to 13th March 2021) the number of online jobs postings was around 10% below the level pre-Covid (but has been gradually recovering since the rapid fall in March and April 2020).

⁵ i.e. 9.3% divided by 9.1%

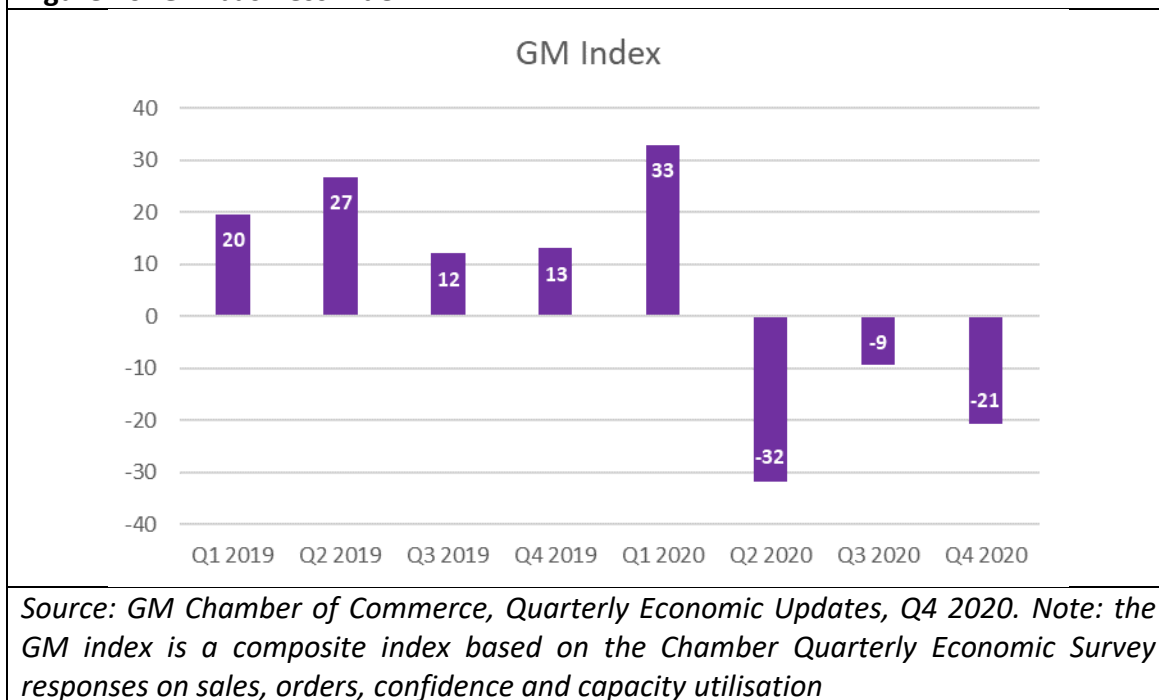
⁶ For instance at UK level the overall falls in output in transport and storage sector reflect the average from sectors where output has stayed the same or risen (logistics) and where it has fallen (passenger transport)

Figure 9: GM jobs postings March 2020 to March 2021



Source: GM Resilience Dashboard, accessed 25th March 2021

- 1.34 In addition, the GM Chamber of Commerce has been tracking local business and economic performance via its quarterly economic update and a more regular Covid tracker survey. The latest GM Chamber of Commerce economic update covers Q4 2020 (dated 16th December 2020). This registered that the composite business performance index dropped back in Q4 2020 reflecting the impact of Covid on the economy.

Figure 10: GM business index

Conclusion on impacts on GM to date

1.35 The GM economy is large and diverse and so, as such, we would not expect it to diverge too radically from the path of overall UK-level impacts from Covid-19 to date. The key conclusions are that:

- The labour market (in terms of claimant count) in GM has been **slightly harder hit** to date than the overall picture for the UK and this impact is on top of a labour market which, in parts, was slightly weaker than average.
- The evidence from the number and share of workers supported by the furlough scheme is that this levels of exposure in GM is in line with the national average.
- The structure of the GM economy at a broad level means it, potentially, has been very **slightly more susceptible to the economic shock of Covid-19** than the UK average. However, this conclusion needs to be treated cautiously as the actual impacts will depend on the detailed structure of the GM economy relative to the UK.

1.36 In summary the evidence to date suggests that GM has fared broadly in line with the UK economy so far and there are few “stand out” differences.

5. Current and future impacts of the EU-UK Trade and Co-operation Agreement

The UK and EU Trade and Cooperation Agreement

1.37 The TCA⁷ was finally agreed on 24th December 2020. As a result, the UK left the Single Market and the Customs Union at the end of 2020 after the end of the transition period. Rather than revert to WTO trading terms with the EU, the new 1,259 page TCA sets out the parameters for the UK's relationship with the EU in trade and range of other matters. The key points for the GM economy and its businesses are:

- 1) The UK has left both the Customs Union and the Single Market. As the EU press release on the TCA puts it the UK “will no longer benefit from seamless access to the EU Single Market and Customs Union, or from EU policies and international agreements (including its free trade agreements with other third countries)”.
- 2) The TCA critically ensures that **UK trade in goods with the EU** will be subject neither to tariffs nor quotas. This would have not been the case under a so-called “No Deal Brexit” if the UK had had to revert to WTO rules on trade with the EU. The EU is by far the largest market for UK goods (around half) so this is critical. For exporting (and importing) businesses in GM this means that there will be no tariffs on imports from or exports to the EU.
- 3) However, trade with the EU in goods will now face considerably more “friction” from a mixture of basic customs checks and procedures and what economists call **non-tariff barriers** as:
 - a) All exports to the EU have been subject to **customs formalities** from the 1st of January 2021 and need to comply with the customs rules of the EU. The same will happen to EU imports into the UK but the UK Government initially agreed a waiver for six months to ease the transition for businesses importing to the UK. The UK Government has recently extended this period of grace to January 2022 as the infrastructure is not in place across the UK to deal with the necessary checks. The TCA provides for mutual recognition of Trusted Trader Schemes, that may allow for more streamlined customs procedures for eligible traders.
 - b) All UK exports into the EU must meet all EU standards and so will be subject to **regulatory checks and controls** for safety, health and other public policy purposes. This means that UK agri-food exporters will have to meet all EU animal, food and plant sanitary and phytosanitary import requirements and be subject to official controls carried out by Member States' authorities at border control.
 - c) The “**rules of origin**” will apply to goods in order to qualify for preferential trade terms under the TCA (ie no tariffs). This means that the element of the product sold that is produced in the UK/EU will need to reach certain

⁷ A useful assessment of the TCA is to be found on the [Institute of Government](#) web site

minimum levels to avoid tariffs. This is particularly important for car manufacturing, but also important across a range of sectors.

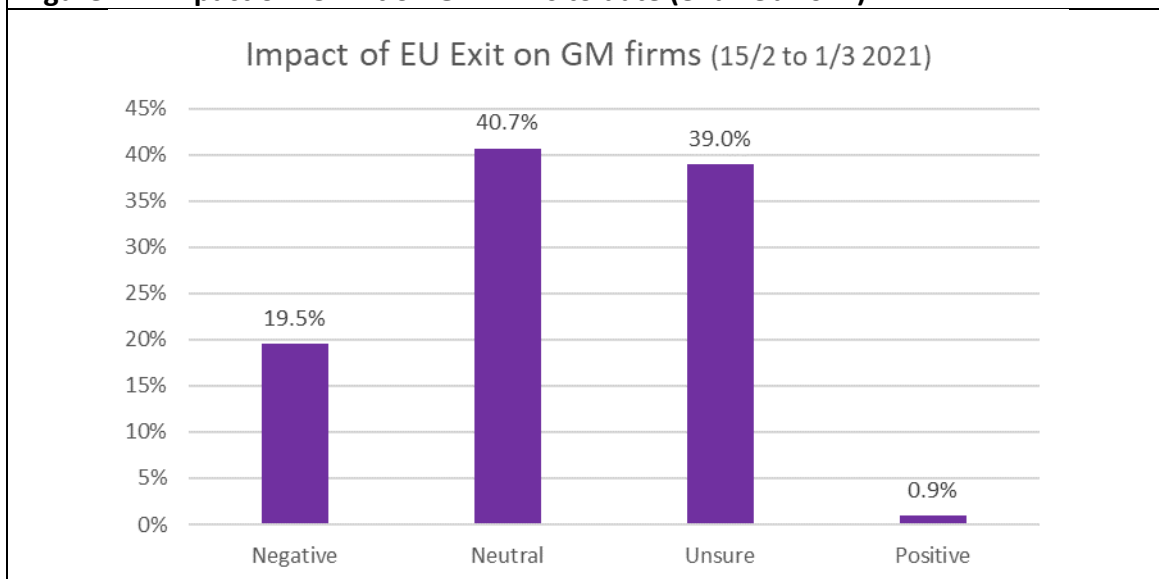
- 4) The TCA contains provisions to try and reduce the practical cost and effect of these non-tariff barriers and customs administration – reflecting the fact that the UK is starting off from having operated within the Single Market for many decades.
- 5) The situation is different in respect of trade in services. UK service exporters will lose their automatic **right to offer services across the EU**. They may need to establish themselves in the EU to continue operating. They will need to comply with the host-country rules of each EU Member State. However, the TCA goes beyond many free trade agreements and makes provision for trade in services. The non-discrimination obligations of the TCA ensure that service suppliers or investors from the UK will be treated no less favourably than other EU operators in the EU, and vice-versa.

Implications of the TCA for the GM economy

Short term

1.38 The TCA has avoided the “cliff edge” that would have been the consequence of a no-deal Brexit (in effect reverting to trade on WTO terms). However, there has still been significant disruption to trade with the EU since the start of 2021. The recent GM Growth Hub Survey conducted between 15th February and 1st March 2021 showed 20% of GM firms reporting a negative impact from EU -Exit, around 40% of firms reported a 'neutral' impact, with around 40% being 'unsure' and just 1% reported a 'positive' impact. The proportion reporting a negative impact had however fallen by 8% points compared to earlier in the year.

Figure 11: Impact of EU Exit on GM firms to date (end Feb 2021)



Source: GM Resilience Dashboard, accessed 25th March 2021

1.39 The key short term issues that were being reported were:

- a lack of familiarity with new requirements for exporting and importing and
- higher costs from increased red tape
- businesses considering alternative ways of trading in order to continue operating
- some businesses were also examining the feasibility of opening premises in the EU in order to better serve existing European contracts.

1.40 At a national level the evidence of short term disruption has included:

- Evidence of the fall in trade with the EU since the start of January 2021⁸. In January exports to the EU fell by £5.6 billion (40.7%) and imports of goods fell by £6.6 billion (28.8%). These are the largest monthly falls since records began in January 1997.
- The Head of the Food and Drink Federation in evidence to MPs in February 2021 noted "*food exports to the EU have probably declined by somewhere between 50% and 60% in January*", whilst the Road Haulage Association, estimated that exports through British ports to the EU fell by 68% in January compared to the same month last year. This estimate has been disputed by the Cabinet Office and the more recent data for February 2021 suggests that traffic flows of HGVs cross the Channel have returned to normal, although a higher percentage are travelling to the EU with empty loads.
- Part of the reason for these falls has undoubtedly been the stockpiling that took place in later 2020 as a precautionary measure, but nevertheless the falls are consistent with the post TCA challenges noted above.

1.41 Both the OBR and Bank of England have concluded there have been overall negative short-term impacts on UK economy from this disruption:

- The Bank concluded that "trade and activity will be lower in the first half of 2021 as firms adjust to the introduction of new UK-EU trading arrangements. The reduction in exports and the impact on domestic supply chains is projected to lower GDP by around 1% in 2021 Q1. That is assumed to reflect a reduction in demand as well as supply." (BoE, MPR, Feb 2021)⁹.
- The OBR in the report accompanying the March 2021 Budget noted that "the implementation of the agreement and introduction of health checks at the border has involved more short-term disruption to UK-EU trade than was assumed in our November forecast". The OBR does not separate out the impacts of EU-Exit but notes that the combined effects of the "resurgence in infections, imposition of another lockdown, and temporary disruption to UK-EU trade are expected to cause output to fall by 3.8% in the first quarter of 2021"¹⁰.

⁸ UK Trade: January 2021, ONS, 12 March 2021

⁹ Such an effect amounts therefore to a 0.25% reduction in GDP for the whole year

¹⁰ [Economic and fiscal outlook, OBR, March 2021](#)

- 1.42 In conclusion, there have undoubtedly been very significant early adjustment problems as a result of EU-Exit (and the late conclusion of the TCA) that have had an adverse impact on the UK economy in the first quarter of 2021 (on top of the impacts of Covid-19). The evidence from the Growth Company survey suggests as is to be expected this is highly likely to be the case for GM as well.

Longer term implications of EU-Exit on the GM economy

- 1.43 As far as the PfE Plan is concerned, what is of more import are any **longer term** effects on the growth path of the GM economy as a result of the EU-Exit deal that has now been agreed. Any assessment of the long term impacts of Brexit depends on the baseline against which the effects of this deal are compared (remaining in the EU, a soft Brexit, or a no-deal Brexit). There has been considerable work on the economic impact of the longer term effects of changes in trade policy, access to markets and to migration as a result of EU-Exit.
- 1.44 The consensus of this work is that even with a free trade agreement (FTA) (such as now been agreed with the EU) there is likely to be a reduction in the medium to longer growth rate of the UK economy as a result of EU-Exit. This is because the close economic integration brought about by the Single Market and Customs Union has helped enhance UK (and EU) growth. There is, however, inevitably uncertainty about any such estimates and so far no detailed estimates have been produced for the exact parameters of recent new TCA with the EU (which goes further than most FTAs)
- 1.45 The OBR in 2018 noted that: “studies of the impact of Brexit conclude that increased (tariff and non-tariff) trade barriers with the EU will leave output in the UK (and EU) lower than would otherwise have been the case. For the most part, these effects are likely to emerge gradually The limited literature on the adjustment process suggests that the full transition would take more than ten years, although the effect might be somewhat front-loaded in the earlier part of the period.... the scope for trade deals with non-EU countries to offset these effects is likely to be limited, as the affected trade flows are significantly smaller than UK-EU trade and these trade agreements generally reduce non-tariff barriers by significantly less than the EU’s single market”¹¹.
- 1.46 At a UK level, the OBR had already “baked in” the impact of EU-Exit into its 2020 scenarios for the growth path of the economy. In March 2021 it concluded that “*the terms of the agreement [were] broadly in line with the typical free-trade agreement assumed in our previous forecasts, which entailed a long-run loss of productivity of around 4% compared with remaining in the EU*”. (OBR, March 2021)
- 1.47 The review of estimates of longer term economic effects can be summarised as follows:
- The OBR had already “priced in” to their long term central forecasts for the UK a “4% long-run loss of output associated with leaving the EU with a typical free trade agreement”¹².

¹¹ Brexit and the OBR's forecasts, Discussion paper No. 3, OBR, October 2018

¹² Annex B Brexit Scenarios in “Economic and fiscal outlook”, OBR, November 2020

- HM Treasury’s earlier analysis of EU Exit scenarios suggested that the long term GDP effects of an “average FTA” on would be around a 5½% fall in UK per capita GDP UK GDP compared to remaining in the EU (ie no EU Exit) (with a range of around a fall of 4% to up to 7%)¹³. In this context it describes long term as being “*interpreted as around 15 years after the UK’s new relationship with the EU comes into effect*” – or by the middle part of the next decade.
- The IMF in 2018¹⁴ suggest that in a more “benign FTA scenario, output falls by between about 2½ and 4% relative to continued EU membership in the long run”.
- The UK in a Changing Europe report on the likely elements of the EU-Exit deal (similar to what has now been negotiated) assessed the long term impact on GDP per capita (under optimistic assumptions) as being around 2.3%¹⁵.

1.48 Therefore the estimates of the longer term effects of EU-Exit range from reductions of 2% to 3% in GDP up to reductions of 6% to 7% of GDP. These are not estimates of direct falls in GDP compared to now, but reductions in the future size of the UK economy and so the future rate of growth of UK GDP over a 5 to 10 year period compared to a no EU-Exit scenario.

1.49 At a GM level, in the longer term, the GM Chamber of Commerce and Business Growth Hub¹⁶ are both reporting longer term concerns amongst some companies about:

- 1) The ability to adapt to new trading costs - particularly in relation to the rules of origin requirements imposed by the Trade and Cooperation Agreement.
- 2) The inability of some business models to adapt to these requirements, which may impact on their future viability.
- 3) Whether to continue exporting at all - some smaller companies who generate a low percentage of their turnover from exports are examining whether to continue exporting given the additional costs.
- 4) Concern that some businesses do not have the financial resources or available personnel to comply with the new rules.

1.50 There is limited analysis or information on the longer term impacts of EU-Exit as it might impact on the GM economy, or whether the effects will be greater or less than at a UK level. There is also still a degree of uncertainty about the period over which impacts will occur and their sectoral focus. Previous work by the GMCA in 2018¹⁷ identified that exports of goods from GM to the EU were running at a higher proportion than for the UK as a whole (58% of goods exports from Greater Manchester firms – compared with 42%

¹³ “EU Exit: Long-term economic analysis, HM Treasury, November 2018

¹⁴ IMF Country Report No. 18/317, United Kingdom Selected Issues, December 2018

¹⁵ The economic impact of Boris Johnson’s Brexit proposals, The UK in a Changing Europe, October 2019

¹⁶ As summarised in the GM Resilience Dashboard, accessed 25th March 2021

¹⁷ [Brexit and Greater Manchester](#), GMCA, 2018

England as a whole), suggesting that the GM economy may be somewhat more vulnerable than average although this conclusion cannot be definitively drawn¹⁸.

- 1.51 The previous forecasts to inform the then GMSF were produced in 2018¹⁹. They were therefore produced at a time when Brexit was a known fact, but its final form was unknown. The forecasting model used and baseline forecast prepared by Oxford Economics assumed *“a successful completion of the withdrawal agreement, meaning that after the UK formally leaves the EU in March 2019, there is then a 21-month transition period during which trading arrangements remain unchanged, followed by a form of free trade agreement (FTA)”*. This assumption is very close to what has actually happened. Therefore the baseline forecasts produced in 2018 for GM had built into them **a reasonable assessment of the long term impacts of Brexit on the UK and so GM economies**. (However, they did of course predate the impacts of Covid).
- 1.52 The modelling in 2018 assumed that EU-Exit would weigh (downwards) on productivity growth, with negative effects building over time. The reasons given for this included:
- Trade reduction impact: the UK is likely to see some “trade destruction” post-Brexit for the following reasons:
 - 1. Friction in trade and supply chains
 - 2. Other non-tariff barriers and border checks
 - 3. Loss of trade agreements:
 - Reductions in foreign direct investment (FDI) which is generally thought to enhance economy-wide productivity. The UK could be a less attractive destination for FDI due to lesser access to EU markets.
 - Lower immigration: Oxford Economics assumed (as indeed is now the case) that a more restrictive immigration policy will be introduced once the UK leaves the EU. As well as the negative on quantity of labour they noted that it might also lead to a deterioration in the quality of the labour force, if Brexit discourages skilled workers from working in the UK.
- 1.53 Our overall conclusion is that EU-Exit has already had some negative economic impacts and in the longer term is likely to weigh down on UK (and so potentially GM) economic growth. However, these effects were largely already “baked in” to the forecasts used previously for the previous GMSF and so do not need specifically to be taken into account in the new PfE Plan.

6. Forecasting the future impacts of Covid-19 and EU Exit

- 1.54 There are particular challenges in forecasting the impacts of Covid-19 on the future path of the GM economy and so the implications for the PfE 2021 because there are at least four levels of uncertainty:

¹⁸ The effect on exports of services and changes in EU migration are also important

¹⁹ Explained by the GMCA in the [January 2019 paper](#) on forecasts

- Level 1: the uncertainty over the overall implications for the medium term (1 to 4 years) path of UK economic recovery from Covid-19.
- Level 2: the uncertainty over longer term implications (if any) for the growth path and potential of the UK economy as a whole from Covid-19 and EU Exit.
- Level 3: the uncertainty over the ensuing implications for the overall GM economy over the next 16 years of the new PfE 2021 Plan period (2021 to 2037).
- Level 4: the uncertainty over any sectoral implications, particularly for sectors that drive demand for employment land in GM.

Level 1: Short to medium term implications for the UK

- 1.55 There has been a succession of assessments of the likely impact of Covid-19 on the UK economy by a range of private forecasting, consultancy and research firms, think tanks such as the IFS and NIESR, and by the Bank of England and the OBR that have been updated as the path of the pandemic unfolds. We have focussed on the initial assessment by the OBR in July 2020²⁰ (that also covered longer term impact for the UK economy) and then the most recent forecasts for the UK economy that accompanied the March 2021 Budget as it is the most recent and probably the most definitive and also considers a summary of views of independent forecasters.
- 1.56 It is important to stress that all those attempting any assessment of likely economy effects emphasise the **high level of uncertainty at present**. The normal forecasting tools and models are not well designed to assess a shock like Covid-19. This stems from the fact that this is health-driven economic shock and the OBR summarised the uncertainties as being:
- the **course of the pandemic** and the development of effective vaccines and treatments
 - the speed and consistency with which the Government can **lift public health restrictions** (ie “lockdown” measures)
 - the response of **individuals and businesses** as it does so (in terms of consumer confidence), and
 - the **effectiveness of the policy measures** put in place to protect viable businesses, foster new opportunities and sustain employment.
- 1.57 These uncertainties therefore feed into any view about the speed and nature of the economic recovery. In July 2020 OBR developed **three scenarios** for what the path of UK economic recovery might look like (primarily in the context of the implications for the UK public finances). These three scenarios were:
- An **upside** scenario with a rapid rebound in economic activity by the first quarter of 2021, with no adverse long term effects on growth and there is no “scarring” (see Box 1 below). They note that this scenario would require a very rapid resolution of the threat from the coronavirus.

²⁰ See the Fiscal Sustainability Report, Office for Budget Responsibility (OBR), July 2020

- A **central** scenario, output recovers more slowly. The ONS suggest this might be consistent with an effective vaccine or treatment taking around a year to deliver, or with a faster resolution of the health threat but greater persistence in its economic consequences.
- A **downside** scenario, where output recovers even more slowly. This might be consistent with the indefinite maintenance of strong social distancing measures if the virus became endemic and without an effective treatment.

1.58 It is helpful to quote what the OBR say about these scenarios: “these scenarios are intended to provide a plausible range of outcomes ... but there is no good basis for forming a judgement as to their relative likelihood. In particular, we would not claim that the central scenario is the most likely of all possible outcomes. The upside scenario is probably about the best that can be hoped for, but even worse outcomes than the downside scenario are certainly possible”.

Box 1: What is economic scarring?

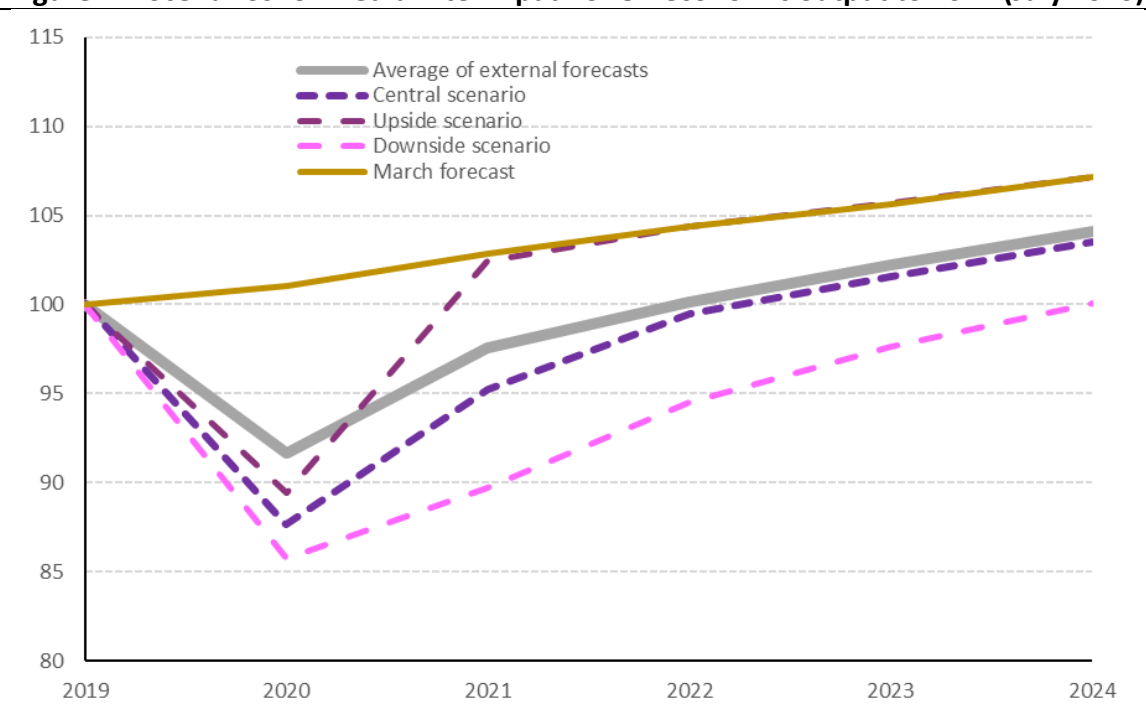
The reference to “scarring” above is important and a source of extra debate and uncertainty. The concept is that an economic shock can have longer lasting effects of the productive potential and so growth rate of an economy. The recent Bank of England Monetary Policy report²¹ discussed these in detail and the potential effects can be summarised as:

- Reductions in **business R&D and other investment** (eg in workforce development) which is not made back as the economy recovers, as firms focus on shorter term investment activity – reducing longer term productivity growth.
- Reductions in the rate of **formation of new firms** - which could reduce productivity growth, as there is some evidence that younger firms tend to be more productive and innovative.
- Firm **failures** which could lead to a permanent loss of output if it is not possible to reallocate capital to another firm, and if intangible capital, such as established supply chains, are lost.
- **Labour market effects** as workers that are laid off could lose skills and become detached from the labour market, lowering labour productivity; whilst people who experience periods of unemployment (eg new entrants) are likely to have lower future earnings.

1.59 The OBR considered these scenarios to 2024 (see Figure 12). The OBR forecast that under the central scenario by 2024 the UK’s overall economy would be 3% smaller than had previously been forecast to be by the OBR pre-Covid 19 in March 2020, it would be 7% smaller under the downside scenario and the same as previous forecasts only under the upside scenario. In other words under two out of the three scenarios the lost ground as a result of Covid-19 in 2020 was not made up.

²¹ Monetary Policy Report, Bank of England, May 2020, see Section 3 “In focus the economic effects of Covid-19”

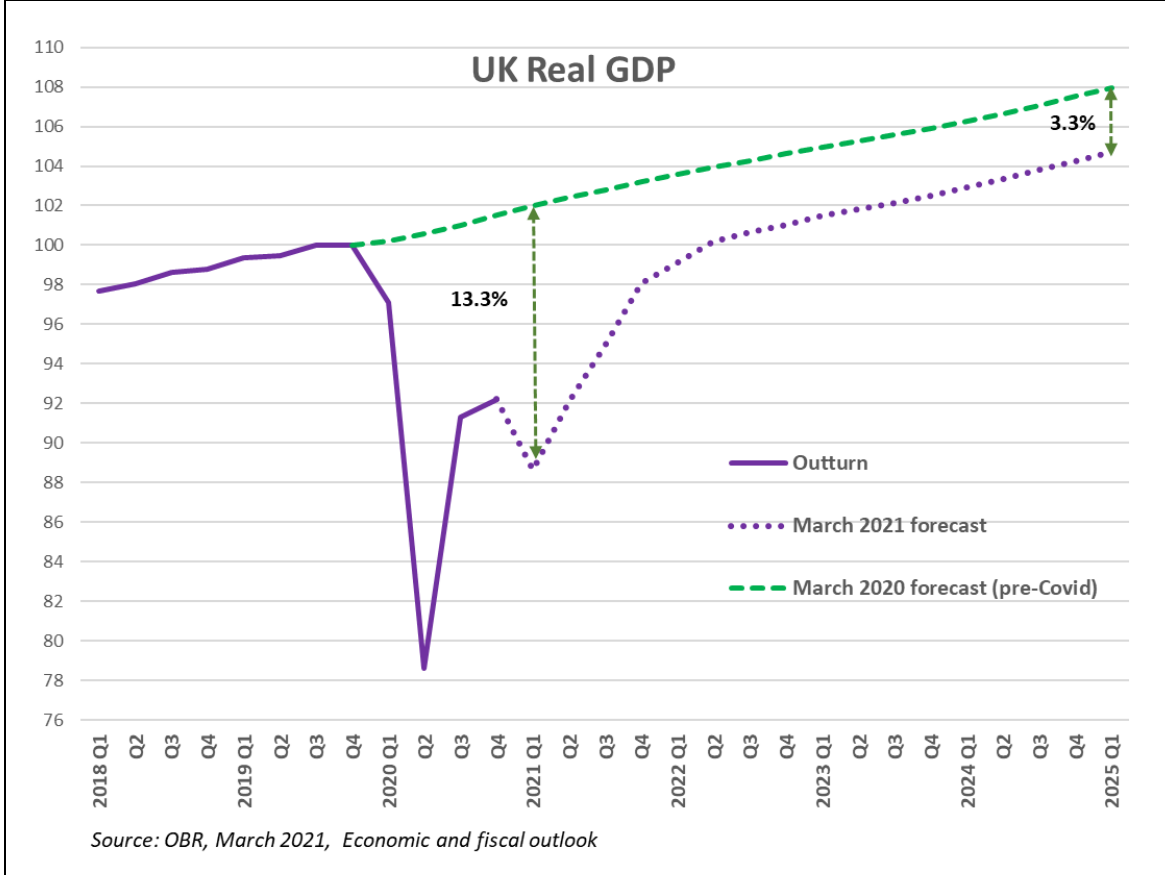
Figure 12: Scenarios for medium term path of UK economic output to 2024 (July 2020)



Source: OBR, July 2020

- 1.60 The OBR has revised and updated its forecasts and the latest ones are summarised in Figure 13 below. Currently (Q1 2021) it estimates that the UK economy is around 13% smaller than it had been forecast pre-Covid. The economy is expected to recover during 2021 to reach its pre-Covid level in Q2 2022. However, unlike the upside scenario from 2020 the economy is not expected to make up the lost ground fully and the growth path of the UK economy will remain at least 3% lower than it would have been pre-Covid (this reflects around 1.5 years of “normal” growth).
- 1.61 The OBR have focused less on the range of uncertainties in March 2021 than in July and November 2020 but still note:
- *“there remains considerable uncertainty surrounding the future path of the pandemic and the economy”. ...“it is possible that the vaccines bring a quicker end to the pandemic than anticipated, consumers spend more of their savings, and the economy rebounds faster with minimal scarring of potential output. In this case the outcome may be closer to our November upside scenario.*
 - *“ But, on the other hand, it is possible that mutations in the virus and reduced vaccine effectiveness result in further waves of hospitalisations, necessitating the periodic reimposition of health restrictions and further blows to the recovery, generating more scarring of potential output. In this case, the outcome may be closer to our November downside scenario”.*

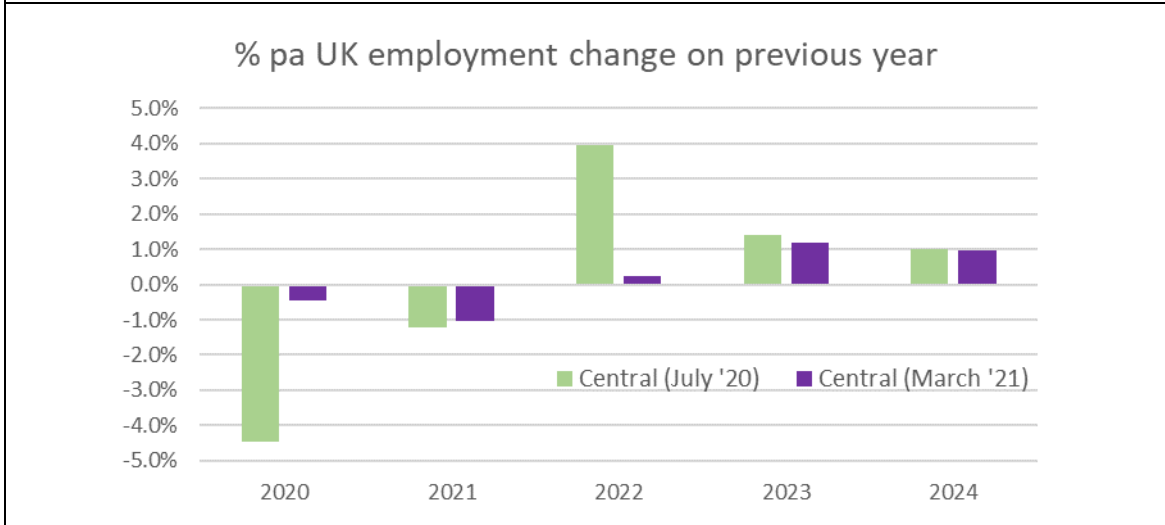
Figure 13: OBR Forecasts for the path of the UK economy to 2025



Source: OBR, March 2021

1.62 Figure 14 compares the central scenario assumption in July 2020 of the path of total employment in the UK with the most recent ones from OBR. The assumed level of total employment in the UK 2024 (by which time the recovery from Covid is assumed to have occurred) is now about 0.4% higher overall (33.1 million compared to 33.0 million) than was assumed in July 2020.

Figure 14: OBR Forecasts for total UK employment



Source: OBR, July 2020 and March 2021

1.63 The Bank of England also conclude that the supply (i.e. productivity) capacity of the UK economy is affected in the medium term by some longer-lasting scarring effects of Covid as well as the UK's withdrawal from the EU. The Bank assesses that lower investment could reduce innovation and weigh on the productive capacity of the economy over time. The UK's withdrawal from the EU is also projected to have a persistent effect on supply, as trade barriers result in lower cross-border trade, which in turn dampens investment and productivity growth.

1.64 The Bank of England have also highlighted the particularly high level of uncertainty about projections in the medium term.

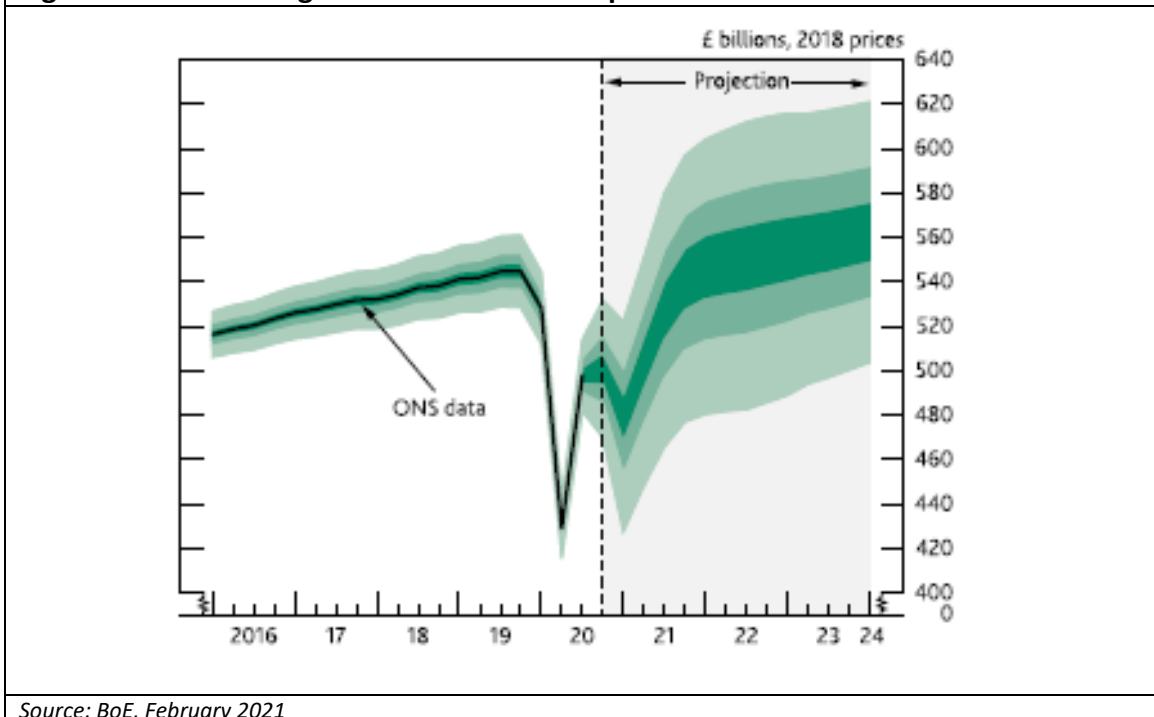
“central case projections for the UK are conditioned on an assumption that current Covid restrictions are in place until the end of Q1 2021, before being eased over Q2 and Q3 as an increasing proportion of the population is vaccinated. In the rest of the world, the evolution of restrictions is assumed to differ across countries, although measures are generally assumed no longer to be in effect by late 2021.

The uncertainty around how the pandemic might evolve – including the potential emergence of further new strains of the virus – and how government measures change in response, means that there are substantial risks around these assumptions. Different developments could have material effects on the paths of UK and global activity.

As a result, the MPC judges that the outlooks for the UK and global economies continue to be unusually uncertain. Reflecting that, the MPC's forecast fan charts remain wider than usual, particularly in the near term”. [BoE, February 2021, emphasis added]

1.65 This uncertainty is reflected in the fan chart for GDP growth (Figure 15). This shows that the UK economy could return to pre-Covid levels (Q4 2019) by the end of 2021. However the recovery might be significantly slower and take until 2024 before recovering to the 2019 pre-Covid levels.

Figure 15: Bank of England Forecasts for the path of the UK GDP to 2025



Source: BoE, February 2021

Level 2 : longer term implication for the UK economy

- 1.66 The July 2020 OBR scenarios were only extended as far as 2024 and the March 2021 forecasts as far as the end of 2025. These latest medium term forecasts only cover therefore five years (c. 30%) of the 16 year PfE 2021 Plan period. The OBR also considered the potential **longer term implications** of Covid-19 on the UK economy as part of their review of public finances to 2070 in July 2020. These are effects over and above the short to medium terms effects and are about the long term trajectory of productivity and the workforce (that could be affected by the potential scarring effects discussed earlier).
- 1.67 The OBR’s long term assumptions about average UK productivity growth in July 2020 remained as it was in March 2020 at 1.5%²² and just 0.05% pa workforce growth and overall 1.5% pa real GDP growth. As a reference point, the rates of growth assumed in AGS-2019 for the GM economy over the period 2020 to 2037 (ie pre Covid-19) were 1¾ % pa productivity growth (slightly higher than the long term OBR assumption for the UK economy) and 0.6% workforce growth (which is considerably higher than the current long term ONS assumption), giving an assumed overall economic growth rate of 2.4% pa.
- 1.68 These long term assumptions have yet to be revised. As noted earlier, the March 2021 OBR report concluded that the medium term scarring effects from Covid-19 could account for 3% of GDP, but the implication is that there are no further longer term effects beyond these on long term growth.

²² This had been reduced from 2.0% pa in the 2018 OBR long term review of the economy and fiscal sustainability.

Level 3: implications for the GM economy overall

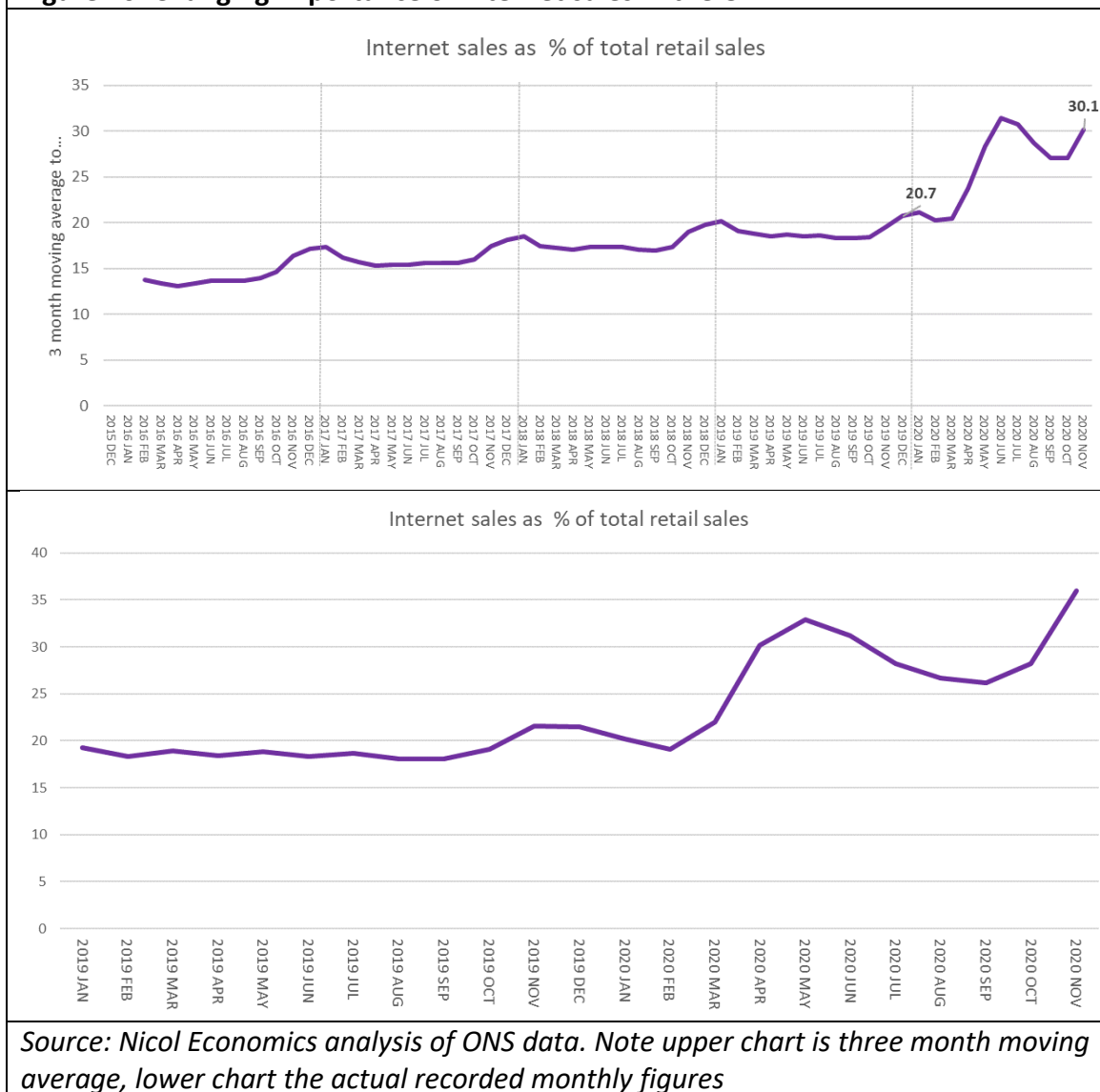
- 1.69 In considering the longer implications for the GM economy, the first consideration is the likely medium term path of the GM economy. Although the OBR have placed less emphasis on their range of scenarios as noted above they still highlight the uncertainty at a UK level which certainly applies at as GM level.
- 1.70 The PfE 2021 growth options included “Meeting assessed needs” which was based in part on AGS-2019. Here, as started in the August 2020 note, the role of AGS 2019 is best seen as a **longer term view of the potential growth for the GM economy over the next couple of decades**. To this extent the medium term growth rate is less relevant. Under AGS 2019, the assumptions were deliberately more bullish about the growth of both productivity and employment than the UK economy as a whole over the longer term.
- 1.71 The likelihood that the GM economy could achieve the AGS 2019 forecast growth in overall GVA and jobs over the period 2021 to 2037 has clearly been significantly impacted by Covid-19. It is likely, but not certain, that by 2024 the size of the economy and total employment would be lower than it would be otherwise been pre Covid-19. Therefore to reach the same end point by 2037, the rate of growth in GM post 2024 would have to be somewhat faster than previously forecast to achieve full “catch-up”.
- 1.72 The UK Government has announced that it is committed to the levelling up agenda and to see substantial infrastructure investment continue and indeed accelerate to help this process. Investments and actions by partners in GM may work to offset at a local level the potentially damaging impacts of Covid-19 on longer term economic growth. GM Local Enterprise Partnership (LEP) has set out a new, post-Covid vision for GM²³.
- 1.73 As noted earlier, the most recent central assessment by the OBR suggests that the UK economy will be around 3% smaller in the future as a result of Covid-19 and the Bank of England around 2%. If these UK-wide reductions were applied to the GM economy over the PfE 2021 period (the 16 years from 2021 to 2037) they would imply modest reductions in average annual growth of about 0.1% to 0.2%. To put these into context the assumed path of GVA for GM under the Accelerated Growth Scenario (AGS-2019) used to inform the then GMSF Growth Option 2: “Meeting assessed needs” was, over this period around 2.4% pa.
- 1.74 There are no such comparable assessments of employment change. The slower growth could be in the form of employment or, more likely, productivity (as this is way in which the longer “scarring effects” from Covid-19 are assessed by both the OBR and BoE).
- 1.75 The analysis has shown that there is a wide range of uncertainty around the most likely growth path of the GM economy in the medium as well as the longer term. It is quite possible that over the PfE 2021 Plan period the effect of Covid would be to reduce the size of the GM economy compared to the pre-Covid 19 assumptions. However, the reductions in growth rate would be modest compared to the difference between the rates of growth in Growth Option 1 compared to baseline forecasts.

²³ “Building a Greater Manchester, making a Greater Britain, Greater Manchester’s plans for a fairer, greener, growing economy”, GMLEP, November 2020

Level 4: Evidence of (shorter and longer term) sectoral effects of Covid-19

- 1.76 So far the focus in this note has been on overall economic activity in GM. It is clear that Covid-19 has had and will have **differential sectoral effects** as a result of changes in behaviour partner of consumers, workers (eg travel to work patterns) and businesses. Some of these changes have been immediate responses to the lockdown and other measures, brought in by the government, others are response to the actual or perceived risks.
- 1.77 It is still too early on in the coronavirus pandemic crisis to really be able to determine what the trends are and some may take many years to fully materialise. The messages highlighted in the August 2020 note related to:
- 1) Trend 1: The likely acceleration of the previous trends that had seen a **major squeeze on physical retail** (whether high street or out of town). This is primarily as result of the acceleration of the use of internet shopping, a previously well-established trend.
 - 2) Trend 2: The associated increase in **demand for warehousing and logistics**, which have also seen changes as a result of the need to increase supply chain resilience.
 - 3) Trend 3: The possible future increase in **re-shoring of manufacturing** activity as a result of concerns about excessive reliance on global supply chains with their inherent potential for disruption
 - 4) Trend 4: The potential **fall in demand for office space**, or at least offices as configured today in major city centres, as fewer people travel in to work every day and more work from home in a flexible way.
- 1.78 All the more recent evidence suggest that Covid-19 has indeed accelerated Trends 1 and 2. There has continued to be a shift towards **home based distribution via internet shopping** rather than high street retail. This change has required a strong and expanding logistics and distribution sector (as evidenced by the growth of the amount of warehousing floorspace needed by Amazon and the requirements for extra warehousing space from the main food retailers).
- 1.79 The importance of a strong and robust distribution sector to support the economy has been, if anything, emphasised by Covid-19. As can be seen from Figure 16, prior to the onset of Covid-19 there had been a steady growth in the importance of the internet for shopping, reaching around 20% of all sales in early 2020. The effect of Covid-19 and the lockdowns has been to “supercharge” what was already an established trend and the share of on-line sales rose to over 30% in the first national lockdown, it then only fell back to 26% in September 2020 as all retail re-opened, but still over 5% points higher than previous levels.

Figure 16: Changing importance of internet sales in the UK



Source: Nicol Economics analysis of ONS data. Note upper chart is three month moving average, lower chart the actual recorded monthly figures

1.80 Any negative aggregate demand effect on warehousing and logistics as result of the overall economic contraction has been more than off-set by two major economic structural responses to Covid-19 which appear likely to continue into the medium to longer term:

- The **rise in internet retailing** is a key driver of warehousing demand. With less stock held on the high street or in out of town retail locations there needs to be more warehousing space. The summer 2020 Big Sheds report by Savills²⁴ notes that around 45% of demand for logistics space in the first half of 2020 has been from on-line retailers. and the Cushman and Wakefield review in the summer of 2020 report puts this at 48%. JLL’s review of 2020²⁵ found that overall 42% of all

²⁴Big shed briefing, Summer 2020, Savills, July 2020

²⁵ Big Box Logistics market update, JLL, January 2021

take-up of UK Grade A logistics space nationally was “directly linked to online fulfilment”.

- Covid-19 has led to **major disruptions in global supply chains** which started when China entered lockdown in January 2020. UK manufacturers and other businesses are seeking greater resilience which means higher stock levels need to be held in the UK (given that so much of our goods are imported). This is pushing up the demand for space at present and this effect is likely to be sustained. In addition the impact of Brexit has produced uncertainty about supply chains so increasing this driver. Although there is now a UK-EU Trade and Cooperation Agreement, this has added considerable “friction” to the trade between the UK and the EU and so is likely to increase the need for stockholding within the UK.

1.81 As a result of these factors Covid-19 has accelerated demand for large scale logistics and warehousing across the UK:

- JLL’s review of 2020²⁶ highlighted the strength of logistics demand in the UK noting that overall take-up in 2020 was 64% up on 2019 and 43% higher than the five-year annual average as a consequence the overall UK vacancy rate fell from 9% at end-2019 to 7% at end-2020²⁷.
- Cushman and Wakefield's Summer 2020 Logistics & Industrial Regional Outlook presents a similar picture. Excluding short term deals, take-up in H1 2020 was 11% above the 10-year, but including short term lets they note that total take-up was the strongest H1 on record.
- Savills review of 2020²⁸ concluded that overall take-up of space across the UK in 2020 was a “record breaking year” and 80% above the long term average.

1.82 Savills has also produced a global overview assessing the long term impact of Covid-19 on real estate by different sectors. In relation to logistics this states “*with more people than ever before using online retail, the market is forecast to deepen longer term. Further investment in logistics space to service this demand and ensure resilience against future surges of demand will follow*”²⁹.

1.83 At a North West level the review of 2020 by Savills noted that for the region as a whole:

- During 2020 the overall vacancy rate across the region fell to 5.19%, which is described by Savills as “the lowest level ever recorded”.
- Total take-up in 2020 reached 5.16 million sqft (480,000 sqm) which was 52% above 2019 levels and 38% above their recorded long-term average.

²⁶ “Big Box Logistics market update”, JLL, January 2021

²⁷ This vacancy rate is for Grade A space and includes units that were speculatively under construction at the end of 2020; JLL note that if these were excluded, the vacancy rate would have been 5%.

²⁸ Big shed briefing, January 2021, Savills

²⁹ “Impacts: The Future Of Global Real Estate”, Savills, Issue 03. May 2020

- 1.84 There is less clear emerging evidence about Trend 3 – **reshoring manufacturing**. A recent report on manufacturing skills for GM highlighted this potential trend³⁰. However, although the effects of Covid (and Brexit) on globalised supply chains and some other consumer and production trends provide an opportunity to date there is limited evidence of the practical manifestation of these opportunities.
- 1.85 The assessment of the potential **future demand for office space** (Trend 4) is much more complex. The impact of Covid-19 and the use of home-based working has created uncertainties about the future role of office-based working. The evidence during 2020 was certainly that take-up of city centre office space, as would be expected, dropped significantly. Over the whole of 2020 total take-up in Manchester city centre was around 800,000 sqft (74,000 sqm)³¹ in part as a result of a stronger Q4 which accounted for 43% of total take-up during the year. Over the year as a whole this level of take-up is about 50% of that of previous years, which is described as “consistent with other markets across the UK including London”.
- 1.86 There have been announcements by several large users of office space (eg HSBC) that they do not intend to return to expecting workers to work five days a week in offices, but other companies have indicated other plans. It is likely that the way in which offices are used will change and there will be a shift to more flexible working patterns³². However, at present it is difficult to draw any firm conclusions about the future scale and location of future demand for offices in GM.

Housing and economic growth

- 1.87 In August 2020 we noted that the effects of Covid-19 on future housing need, in contrast to the research on immediate economic effects, had been subject to little consideration. Many of the underpinning demographic changes that drive housing need and demand are likely to remain unchanged and are driven by long term trends. Covid-19 may impact on household formation rates as a result of changes in household incomes and economic opportunities in the short term (associated with the rise in unemployed expected in 2021). However, equally the impact of Covid-19 may be to reduce somewhat house prices and so improve affordability levels.
- 1.88 As far as we are aware, there is no robust research on these possible implications. Furthermore most methods of projecting housing need are based on some extrapolation of past trends and data. There is certainly no data on any impacts of Covid-19 demographic effects (such as migration) and household formation. It will be some time before the actual effects of Covid 19 on household formation is apparent that will feed into household modelling tools (possible only after the 2021 Census data can be analysed in 2022).

³⁰ “*Industry Labour Market and Skills Intelligence Report, Manufacturing*”, GMCA, January 2021

³¹ “*Office snapshot Manchester city centre Q3 2020*”, JLL
<https://businessmanchester.co.uk/2021/01/25/manchester-office-agents-report-positive-2021-outlook/> data from the Manchester Office Agents Forum

³² <https://www.ft.com/content/d2ad4ae3-6b40-4051-a6fe-6f8a75924e30>

7. Implications for the PfE 2021 Plan growth options

- 1.89 As of March 2021, our conclusion remains broadly similar to that set out in August 2020. This was that given the significant degree of uncertainty that exists about future events and their implications for GM, there is **not sufficient certainty/evidence currently available** to inform a robust “reasonable alternative” growth option for purposes of the PfE 2021 Plan.
- 1.90 We continue to draw this conclusion due to the following factors:
- Events continue to unfold and data to emerge on how the UK and GM economy is performing and what are the health, social and economic consequences of Covid-19.
 - There is still an unusually wide range of uncertainty about the short to medium economic effects at a UK level and its recovery and growth path. There are a range of views, for instance as between the OBR and the Bank of England, as to the medium and longer term implications of Covid-19 on UK growth prospects.
 - There are also unfolding impacts on the relationship between the economy, consumer and business behaviour and property needs that will have land-use implications. However, it is not clear at present what the net effects will be and to what extent very recent effects will prove long lasting.
 - Finally, the longer term implications of Covid-19, if any, on future housing need are not clear.
- 1.91 The conclusion of the TCA and the move into the reality of EU-Exit has not fundamentally changed any of the earlier (August 2020) conclusions, as to a large degree the likely effects of EU-Exit were already factored into UK and GM economic forecasts.

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