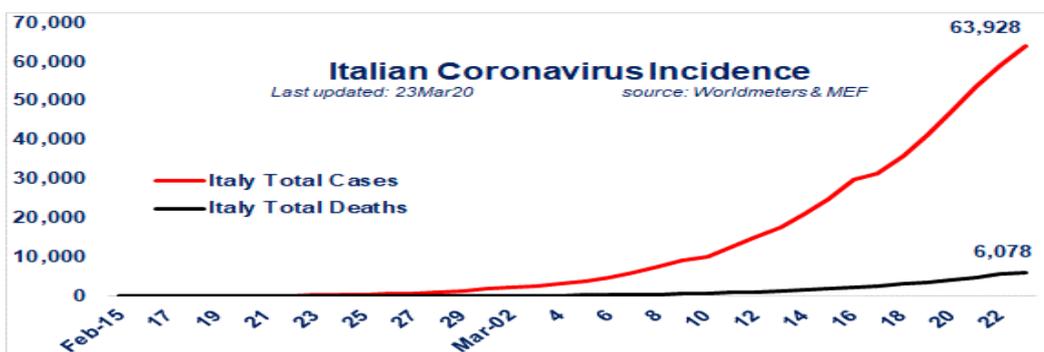


- **British government announces restrictive lockdown immediately superseding advisory programme, amid fears British pandemic trajectory set to replicate or exceed that of Italy or Spain**
- **WHO believes pandemic accelerating:**
  - First 100,000 confirmed infections took 67 days
  - Second 100,000 confirmed infections took 11 days
  - Third 100,000 confirmed infections took 4 days
- **Market volatility continues, £ heading for historic lows**
- **Severe global output downturn widely anticipated: some forecasts expect UK economy to contract 5% in Q1 & 15% in Q2 – today’s UK flash PMI fell from 53.0 to 37.1 – the largest, steepest decline in the indicator’s history**
- **British government, after three budgets in nine days & fourth imminent, rapidly evolves massive interventionist stabilisation programme, estimated to be equivalent to over 40% of GDP**
- **Food security potentially constrained by lockdowns in key import source markets, but supply-chain resilience sufficient to meet demand. Panic buying may force some form of informal or formal rationing**
- **Using the electoral register, helicopter money could be made immediately available to individuals, in days, to support domestic demand**



## Update

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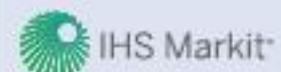
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Midland Regional PMI data provided with kind permission of



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## British Lockdown

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The British government has introduced a restrictive lockdown of British society, either meeting objectives of its bespoke strategy or responding to mounting political demands to tackle the pandemic. The government's stance is no longer to advise but to instruct. Time will tell whether this is an astute programme, that has gradually increased public awareness of the pandemic risks, gaining general public acceptance in the process for an imposed lockdown, or too little too late.

The restrictions will limit people to their homes, except for the following purposes:

- Essential shopping;
- A daily short period of solo (or only accompanied by fellow household members) exercise;
- Medical needs, either for own household or vulnerable individuals;
- Travel for essential work, deemed absolutely necessary and unable to be undertaken at home.

Furthermore, Police will have the authority for enforcing these rules, with the capacity to impose fines for transgressions and the ability to disperse gatherings of more than two people (other than people who share an abode as distinct from wider family members). Additionally, the government has announced the closure of all non-essential shops and other premises such as libraries, playgrounds and outdoor gyms, and places of worship. Most social events will be halted, including weddings, baptisms and other ceremonies, but excluding funerals although these will be limited to a few immediate family members. Although local authorities have already closed many municipal parks, the government has stated that parks will remain open for exercise but not for gathering.

The government has stated it will review the situation in three weeks, it seems more than probable the lockdown will be extended into the summer, and it has retained scope for yet further tightening.

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## Overview

The rapidly accelerating pace of events, not least the rate of Coronavirus infection, ensures that the short-term is now measured in hours, the medium-term means by the end of the week and the longer-term sometime towards the end of the month.

The John Hopkins University, the principal monitoring authority of the pandemic, has calculated that 100,472 individuals who have contracted Coronavirus (Covid-19) have now recovered, with over half of these located in China. Although this analysis is heavily reliant on declared official data, which could grossly understate the pandemic extent, John Hopkins University have found that of the 345,677 confirmed cases, in addition to the recoveries, there are some 15,436 deaths confirmed to date. Worryingly, the World Health Organisation believes the pandemic infection rate is accelerating: taking 67 days from the first reported case for confirmed Coronavirus infections to reach 100,000, then 11 days for the second 100,000 cases to be confirmed and for the next 100,000 to be confirmed some 4 days later.



As a result, political institutions, used to time parameters measured in years, are struggling to keep pace. Consequently, most markets are highly volatile with many in free-fall, Sterling, for instance now approaching historic lows. Whilst state

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interventions regarded as beyond the pale a matter of weeks ago, are now being actively pursued, the latest being the effective nationalisation of railways today.

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The Coronavirus pandemic is not unprecedented, certainly not in historic terms, what is unusual, in modern or recent times, is the rapidity and rate at which a so far untreatable virus is sweeping across Europe, and in the next week or so probably the USA. Until a vaccine is available, hopefully in the next few months, but likely closer to 2022, simple traditional, non-technological, collective or altruistic measures need to be adopted. To achieve this however the government needs to direct and instruct, to take back control, to coin a phrase.

Three Budgets in nine days and a fourth anticipated this week suggests an administration less in control but one desperately seeking to catch up with events. However, given the exponential growth of the virus somewhat understandable in the circumstances. The government had until Monday relied on offering advice or belatedly reacting, rather than taking decisive executive action. There has been much rhetoric alluding to the near-wartime conditions we are entering, but rather than being Churchillian, whatever that means, governments risk replicating the incomprehension and incompetence of the Asquith administration confronted by the early demands of WWI. Indeed, one of the first measures taken by his replacement Lloyd George was to give priority to troop train movements over that of holiday train excursions – the lesson being that the government needs to direct the private sector providers rather than rely on them to devise solutions solely by themselves.

### **Coronavirus Incidence**

The government's alleged early response appeared to have been informed by a narrow almost Hobbesian perception of likely public behaviour, perhaps based on the assumption that there is no such thing as society, and the aspiration to create some so-called herd immunity to control the pandemic, seemingly by letting nature

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take its course. This would seem to be in conflict with the fundamental duty of a state to protect the lives of its people.

Global Coronavirus Incidence					
	Total Cases	Active	Recovered	Deaths	Cases per million pop.
World	372,572	254,888	101,371	16,313	
UK	6,650	6,180	135	335	98
Italy	63,927	50,418	7,432	6,077	1,057
Spain	33,089	27,527	3,355	2,207	708
China	81,093	5,120	72,703	3,270	56
Last updated: 23 March 20			Source: Worldmeters & MEF		

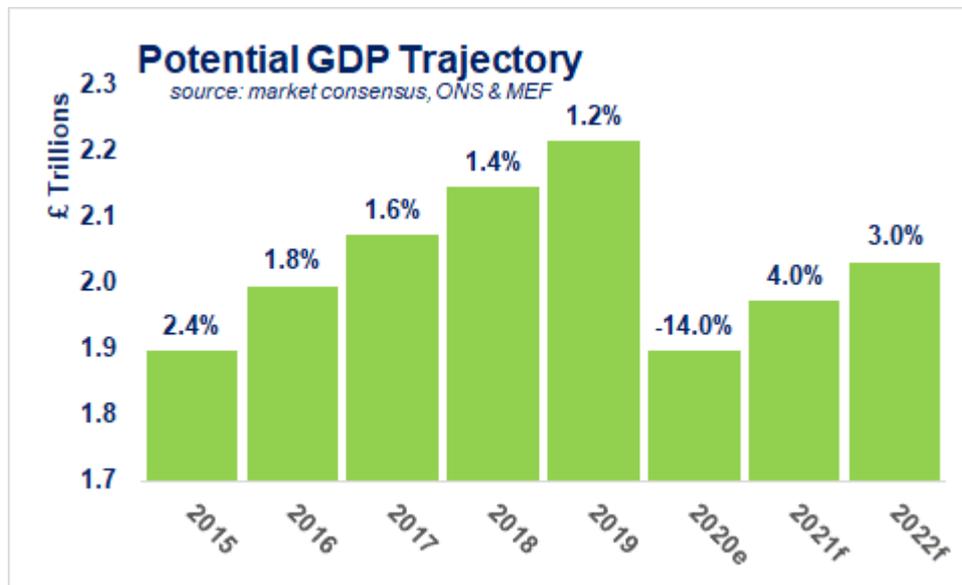
In contrast the more comprehensive, organised responses, that required public involvement, by the governments of South Korea, Hong Kong, Singapore and Taiwan appears to be much more successful. Attributed largely in part to the extensive early testing of their populations to identify those infected and isolate them and their contact chain, whereas the British government is still debating how many and whom to test. The delayed responses, and often conflicting advice proffered by the British government appears to have put the country on an infection trajectory currently worse than that of Italy, which is itself now worse than China. There is however anecdotal evidence, from Asia, that once social lockdowns are relaxed the infection rate starts rise again.

The impact of the virus, and the necessary shutdown of activities, economic, social and cultural, ensure it is no longer a case of stimulating the economy but of protecting the fabric of the economy. The Prime Minister has said that Britain can be expected to turn the corner on the coronavirus pandemic 12 weeks hence, although there is considerable scepticism with regard to this claim. However, if the assertion is correct, then the British peak can be expected to be reached in the second week

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of June, and if the profile of the pandemic is actually a sombrero then rates of infection could ease gradually enabling some return to a new normal sometime in September. Moreover, it should be noted that China seems to have been able to restore economic activity far quicker, and seemingly within the timeframes the Prime Minister is projecting, although it remains open to question whether the speed of the Chinese relaxation is prudent.

### Potential Economic Impact



Notwithstanding the rapid evolution of the Chancellor’s strategy, cumulatively the fiscal and monetary measures that have been announced are in themselves alone colossal. Whilst difficult to fully calculate, they are already probably equivalent to over £900 billion being pumped into the economy, or 41% of last year’s GDP and probably 50-60% of this year’s expected outturn. Noteworthy measures, amongst others, include large-scale government loan guarantees, new term-lending facilities, revived QE, corporate paper purchases, comprehensive easing of monetary policy, tax holidays and, what must be unprecedented, support to protect up to 80% of private sector employee income. Virtually every monetary and fiscal tool available is being utilised, and what has not, probably had yet to be invented, although it must be

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hoped the Chancellor can devise them soon. The interventions undertaken by the Johnson administration represent a fundamental break with economic orthodoxy of at least the past 40 years, and unseen since the wartime economic mobilisation in the 1940s – which it took until 1979 to start to reverse.

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In economic terms, though obviously the demographic impacts are far more important and unfortunately significant, it seems likely to be the fourth quarter at the year at the earliest before the economy can begin effective retooling and restocking. If the pandemic timeline is more protracted then the government will have to resort to even more extensive measures. The government introducing Emergency Measures Agreements, for the railways, for an initial 6 months would seem to be consistent with some form of normalisation being anticipated in September. Similar measures to protect other transport facilities, such airlines, airports, toll-roads and even buses may now be under consideration.

However, it is rare if not impossible for all economic activity to halt, and indeed even with the lockdowns taking place in Italy, France and now Britain, some, if constrained economic activity will continue to take place. In the case of these lockdowns household expenditure, funded in part by large-scale fiscal transfers, and consequently demand for essential distribution, wholesale and retail services as well ramped up health-related expenditure will sustain some output activity.

What is unusual about the current crisis is that it is a non-economic factor that is causing output to fall. Globally most comparable examples are usually the impact of war, although the collapse of the Soviet Union or the absorption of East Germany into the Federal Republic provide examples of how economies can rapidly contract or even collapse as a result of what could termed civic factors. In Britain, in the immediate years following the cessation of hostilities after WW1 and WW2 output cumulatively fell 28% (1919-21) and 14% (1944-47) respectively. More recently as a result of the financial crisis output fell almost 5% in real terms (2008-09), similar non-

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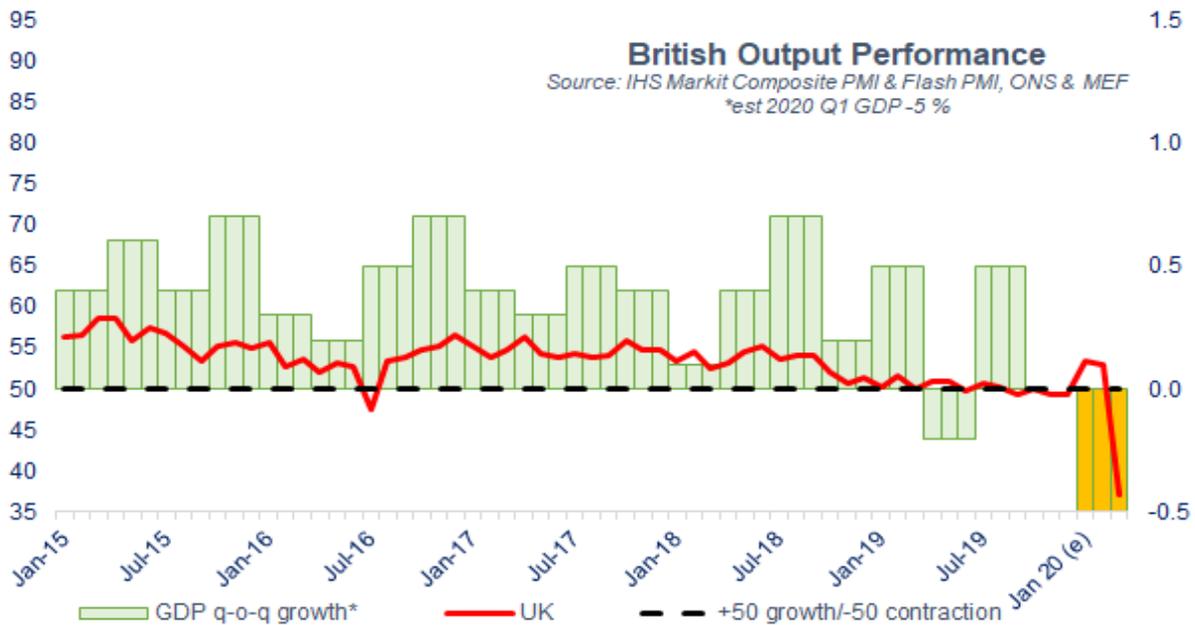


conflict civic impacts can be seen stemming from the General Strike or the Three-day week. The eleven-day General Strike in 1926, although far from comprehensive as well as associated events, contributed to a 3.25% contraction that year, whereas the imposition of the Three-day week in 1974, lasting for 66 days, as well as associated strikes led to output falling 3.7% over 1974-75.

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The market consensus forecasts, being articulated by leading finance institutions, regarding the potential impact of coronavirus can therefore be seen, at the moment, to be at the more pessimistic end of the range of probabilities. Some forecasters are suggesting that the British economy could contract 5% in the first quarter and as much as 15% in the second, although these are likely to need updating as the scale of the virus impact becomes more apparent. It is also assumed that recovery will be V-shaped in the second half of the year. Yet in the absence of hard economic data there are obviously profound difficulties in making accurate forecasts, other than state that based on anecdotal evidence the disruption is expected to be severe. Indeed, the first British indicative economic data, that covers March, the PMIs will not be released until April 1<sup>st</sup>-3<sup>rd</sup> by which time the virus is expected to have reached current Italian-scale proportions.

Indeed, the first British indicative economic data, that covers March, the PMIs will not be released until April 1<sup>st</sup>-3<sup>rd</sup> by which time the virus is expected to have reached current Italian-scale proportions. Early flash PMIs around the globe indicate severe corrections, with the British flash Composite PMI today falling to 37.1 in March from 53 previously. The collapse is much greater than immediately post-2016 referendum when the indicator fell from the 52.7 recorded in June 2016 to 47.6 in July. Moreover, the gradient of the decline is far more acute than during the financial crisis, when the Composite PMI fell from 50.3 in January 2008 to bottom at 38.09 by the November.



If indeed the restrictions persist well into the second half of the year, the government will need not just to provide funding, but also identify and undertake protective measures to support which sectors of the economy are essential to sustain activity; which can be reduced to a care and maintenance basis and; which can be mothballed and restored post-crisis. It then needs to prioritise these sectors and provide resources to them proportionately. A key component of ensuring that the economy can recover, will be enabling companies to retain their staff establishments. The government has gone some way to ensure this by making available funding, although some bureaucratic inertia seems to have crept in to delay not only disbursements but business understanding of the mechanisms needed to be triggered to access the support. Any delay, given the circumstances, can be expected to result in further job losses. Unfortunately, it could take some weeks, or months for the bureaucratic response to be affected.

For those that have already lost their jobs, especially for those previously employed on zero-hours contracts, as well as the self-employed there is an urgent need to provide financial support. So far, these groups have been largely ignored, although

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the government is expected announce a fourth set of emergency fiscal measures to address these. It could however take months for a designated support system to be put in place. There is however the option of so-called helicopter money, by issuing funding directly to individuals. This could be achieved immediately by issuing secured cheques to everyone on the electoral register, providing funding for exposed individuals and families (at an estimated cost of £92 billion), but at the same time giving breathing space to the public sector to devise more appropriate mechanisms. The money could eventually be recouped through taxation when the economy eventually recovers.

Nationally there are close to a million people, 3.0% of those employed, on zero-hours contracts (974,000 as of December 2019) and over 5 million (5.03 million as of December 2019) equivalent to 18% of the those economically active. In the West Midlands some 67,000 are on a zero-hours contract, 2.4% of those in employment and 100,000 in the East Midlands, 4.2% of those employed. In terms of self-employment, some 14% of both the West and East Midlands are economically active in this way, approximately equivalent to 396,000 and 325,000 people respectively.

## **Food Security**

Notwithstanding Brexit, the relative stability of food markets and the assumed resilience of supply-chains has ensured that food security has not been a major preoccupation of government policy for a number of years, other than with regard to the potential impact of future tariff regimes and of global prices. The latest British Food Security Assessment being made in January 2010.

Origin of British Consumed Food	
2018	% of total
UK*	53
EU	28
Africa	4
North America	4
South America	4
Asia	4
Rest of Europe	2
Oceania	1
<b>Total</b>	<b>100</b>
*UK production less Food Exports	
source: DEFRA & MEF	

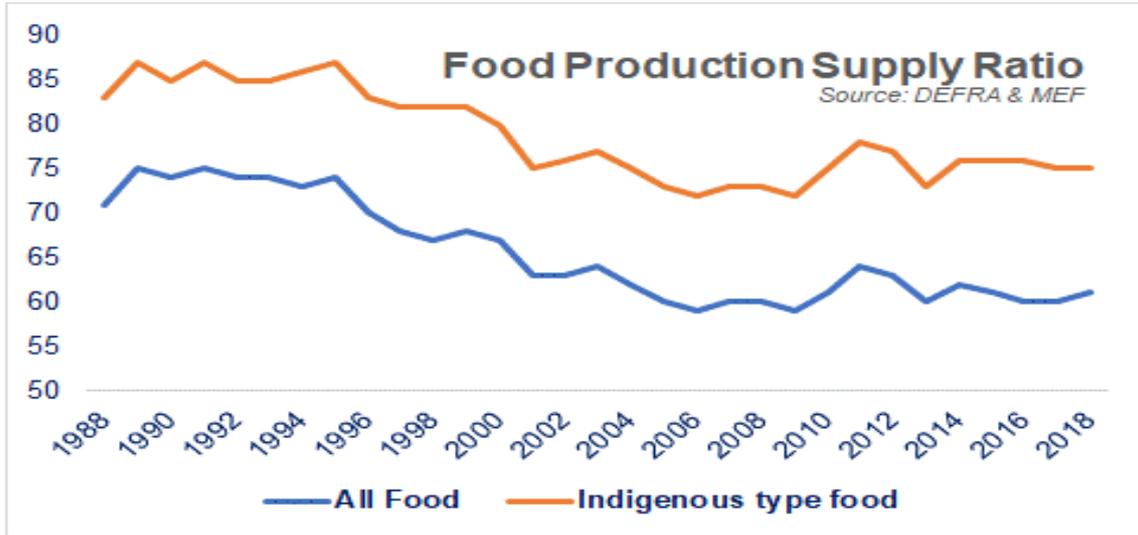
However, currently Britain provides, in monetary terms, only 53% of domestic food consumption, with some 28% originating from the EU and an estimated further 11% from economies that enjoy trade deals with the EU. With increasingly severe lockdowns tightening in Italy, France and Spain (the latter two being principal fresh food suppliers in the autumn-to-spring period) some constraint on import capacity may be experienced.

Similarly, an equally comprehensive shutdown in the Irish Republic, which supplies approximately a quarter of all meat and dairy imports, could have a similar impact. Indeed, Ireland, France and Spain provide

UK Food & Beverage Imports (2019)		
		%
Total	47,008,975	
EU	33,516,620	71.30
Netherlands	8,114,190	17.26
Ireland	4,855,521	10.33
Germany	4,625,386	9.84
France	4,436,831	9.44
Spain	3,322,253	7.07
Italy	2,892,839	6.15
Belgium	2,502,689	5.32
Denmark	1,246,495	2.65
Other EU	1,520,416	3.23
Source: HMRC & MEF		

10.3%, 9.4% and 7.1% of food and beverage imports respectively. Overall EU countries provide about 71.3% of all such imports into Britain. Total British food production (domestic consumption and exports) is equivalent to approximately £87.1 billion in monetary terms, which roughly leaves a domestic production-consumption deficit of £32.6 billion, excluding all imports. Despite this monetary equivalent shortfall, Britain is not likely to experience a real shortfall of food supply, although the range and variety of

products available may become compressed and traditional or indigenous food products increase in dietary importance.



Indeed, in terms of indigenous types of food, and of all food types, Britain will be able to meet the bulk of domestic demand. Moreover, according to the latest available information provided by DEFRA, most retail supply chains hold between a week and four weeks stock, and this excludes stock held by producers and in the supply-chains or the capacity of these supply-chains to ramp up production. Nevertheless, for much fresh produce, and depending on seasonality often sourced from the continent, stock may only be a little over 24 hours by retailers, although suppliers hold higher stock levels. Notwithstanding that the food supply chain can continue to meet normal demand flows, and holds sufficient throughput to meet future demand, recent so-called panic buying could lead to some informal or even formal rationing system to flatten the spike in demand. In France, single shops are in some regions limited to €100 and to one shop once every 48 hours.

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