Economic Outlook for VRA webinar

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General Overview

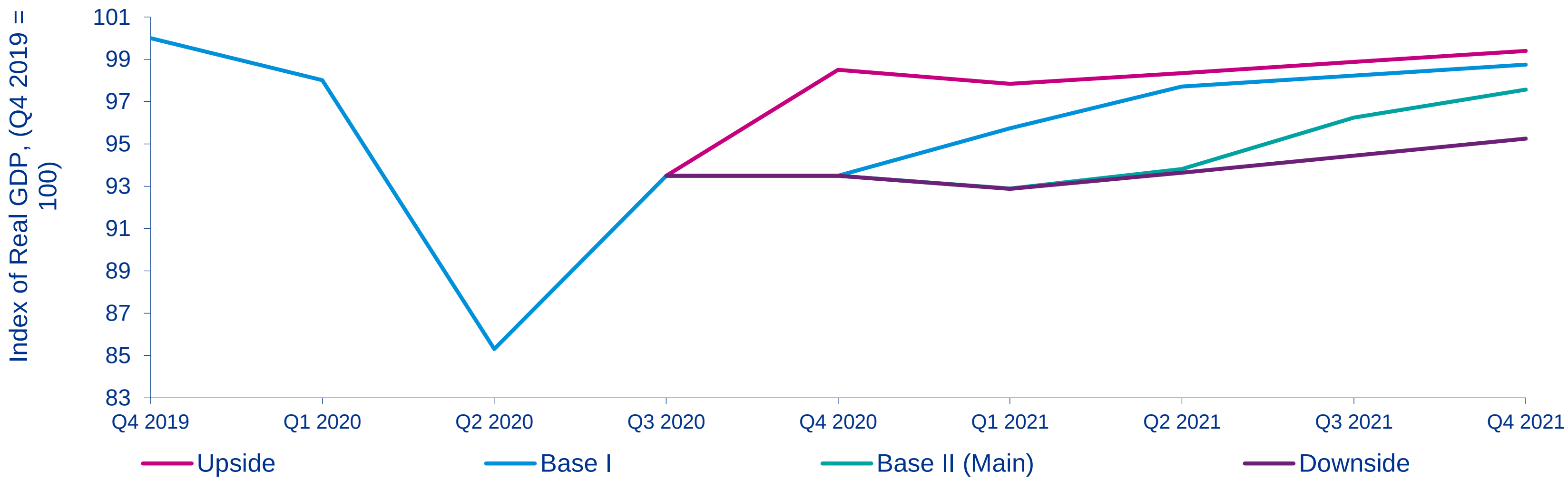
Key highlights

1. Most severe recession in modern times. Full resumption of activity unlikely until a vaccine is discovered
2. Partial recovery in H2 2020 but Q1 21 slow due to Brexit transition period ending
3. Consumer spending down 9.5% in 2020 and up 1.3% in 2021
4. Investment could fall by >12% in 2020 with modest recovery in 2021
5. Unemployment at >8% in 2020 and 11% in 2021
6. Impact will vary across sectors with hospitality and leisure worst affected
7. Regional differences in impact with West Midlands worst affected
8. Inflation remains low around 1% and interest rates staying at historic low levels

For full details please visit:- kpmg.com/UK/economicoutlook

KPMG's forecast for the UK economy under four scenarios of pandemic developments

We have considered four different scenarios and the impact they may have on the UK economy.



Upside
Vaccine is available from Sept 20
Growth FY20: (5.9)%
Growth FY21: 4.4%

Base I
Vaccine is available from Jan 21
Growth FY20: (7.2)%
Growth FY21: 2.4%

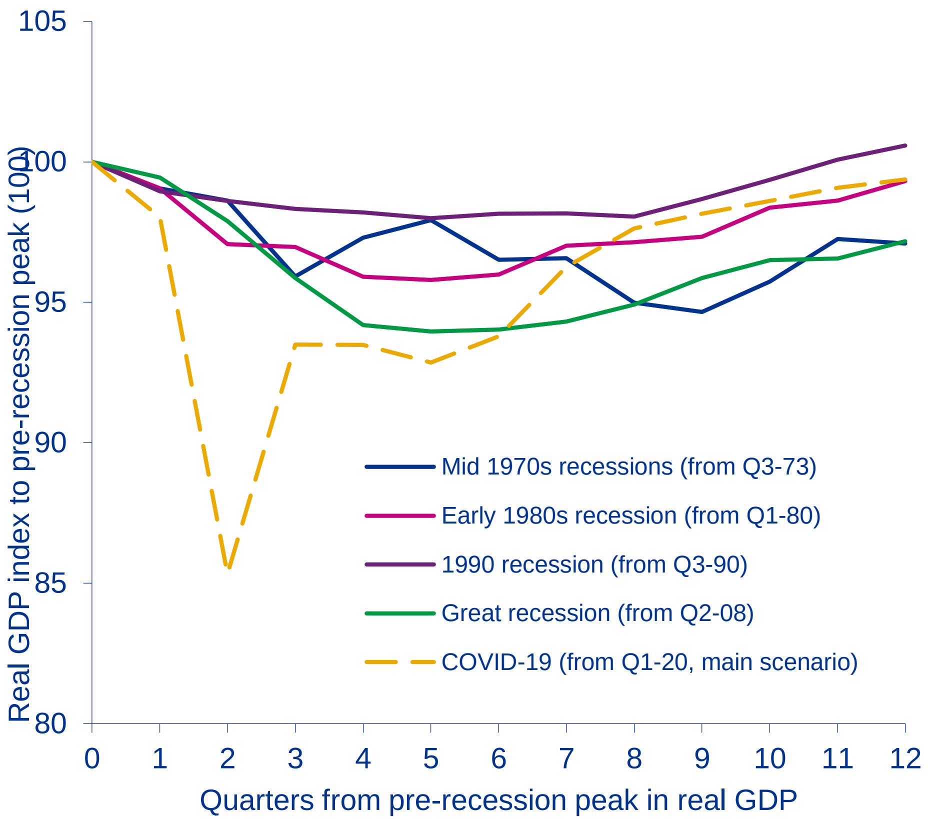
Base II
Vaccine is available from Jul 21
Growth FY20: (7.2)%
Growth FY21: 2.8%

Downside
No vaccine is available for 2021
Growth FY20: (7.2)%
Growth FY21: 0.9%

Source: ONS, KPMG forecast

Our forecast for the UK economy in the main scenario compared to past recessions

We expect the recovery to be relatively rapid, considering the depth of the recession.



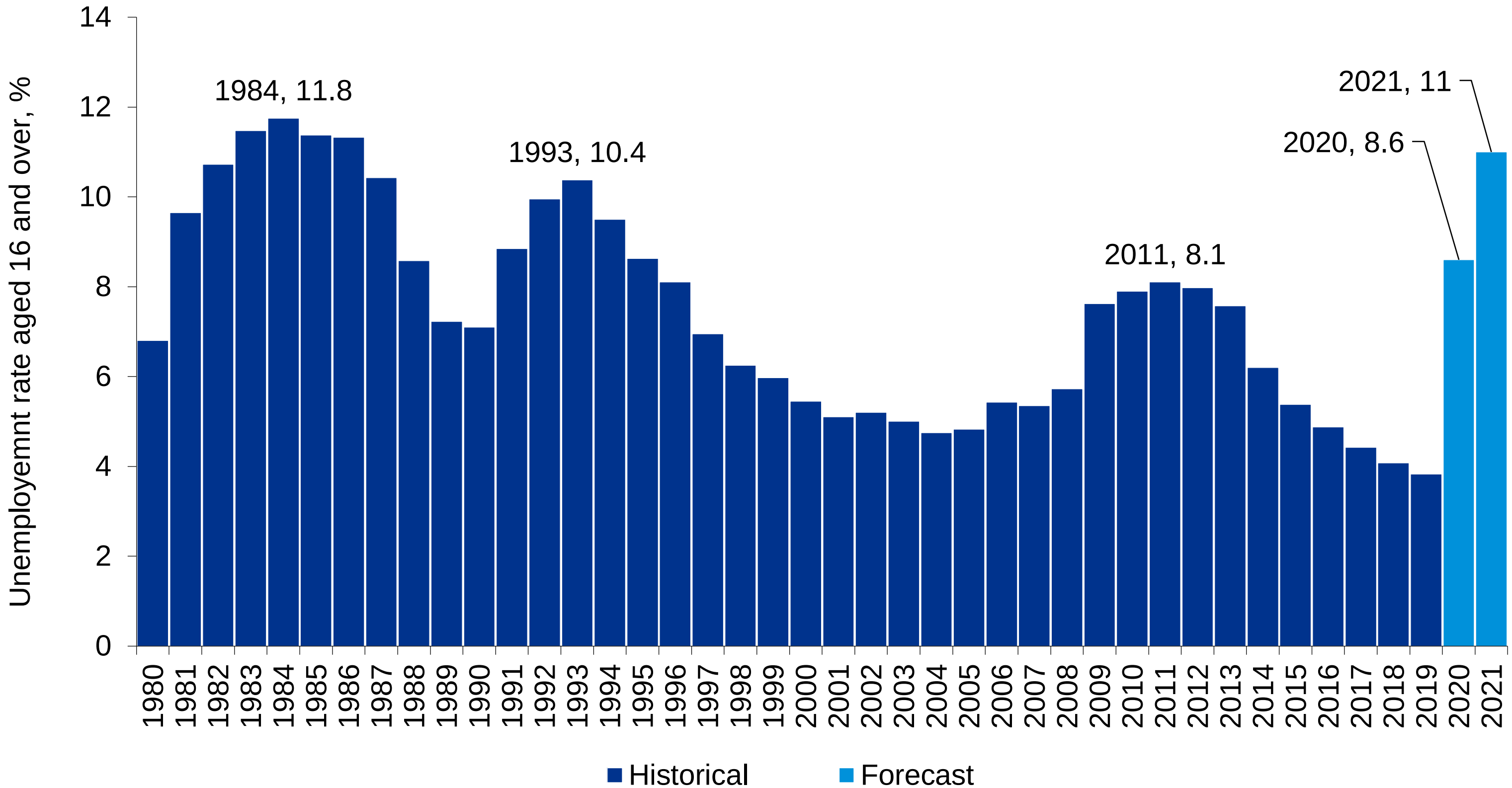
— The Covid-19 pandemic will cause a negative shock to the UK, regardless of the efforts from the Government and Bank of England.

— The downturn is expected to be deeper, sudden but briefer if a vaccine is found within a year, coupled with the considerable support from the Government to protect households and the economy.

— Real GDP is expected to fall by c.15% in Q4-19 to Q2-20, compared with a contraction of 6% (over 5 quarters) during the great recession of 2008-09.

— With the previous peak of GDP in the fourth quarter of 2019 potentially reached again by the third quarter of 2023.

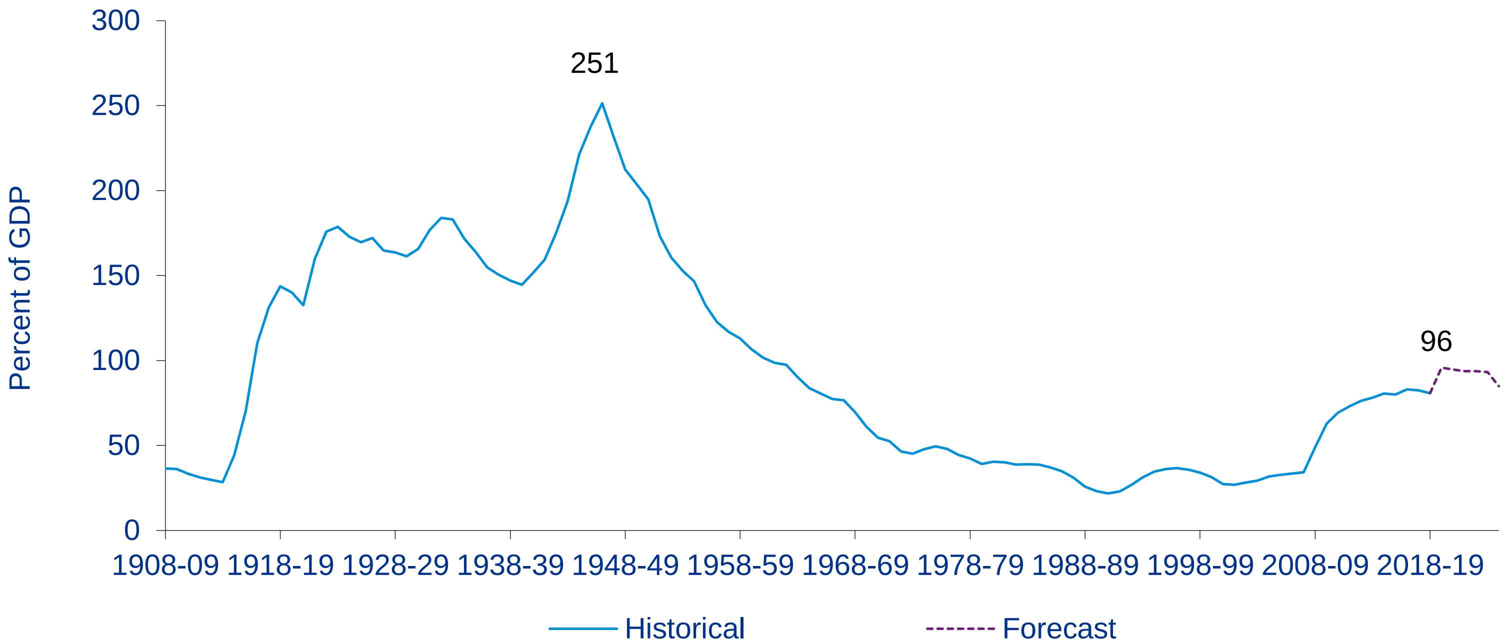
Unemployment is expected to hike this year and the next



Source: ONS, KPMG analysis

Government debt

Government borrowings are expected to rise to 96% of GDP this fiscal year. The government's response to the pandemic has relied on debt issuance, and low interest rates have been instrumental in keeping the yields on government borrowing low.

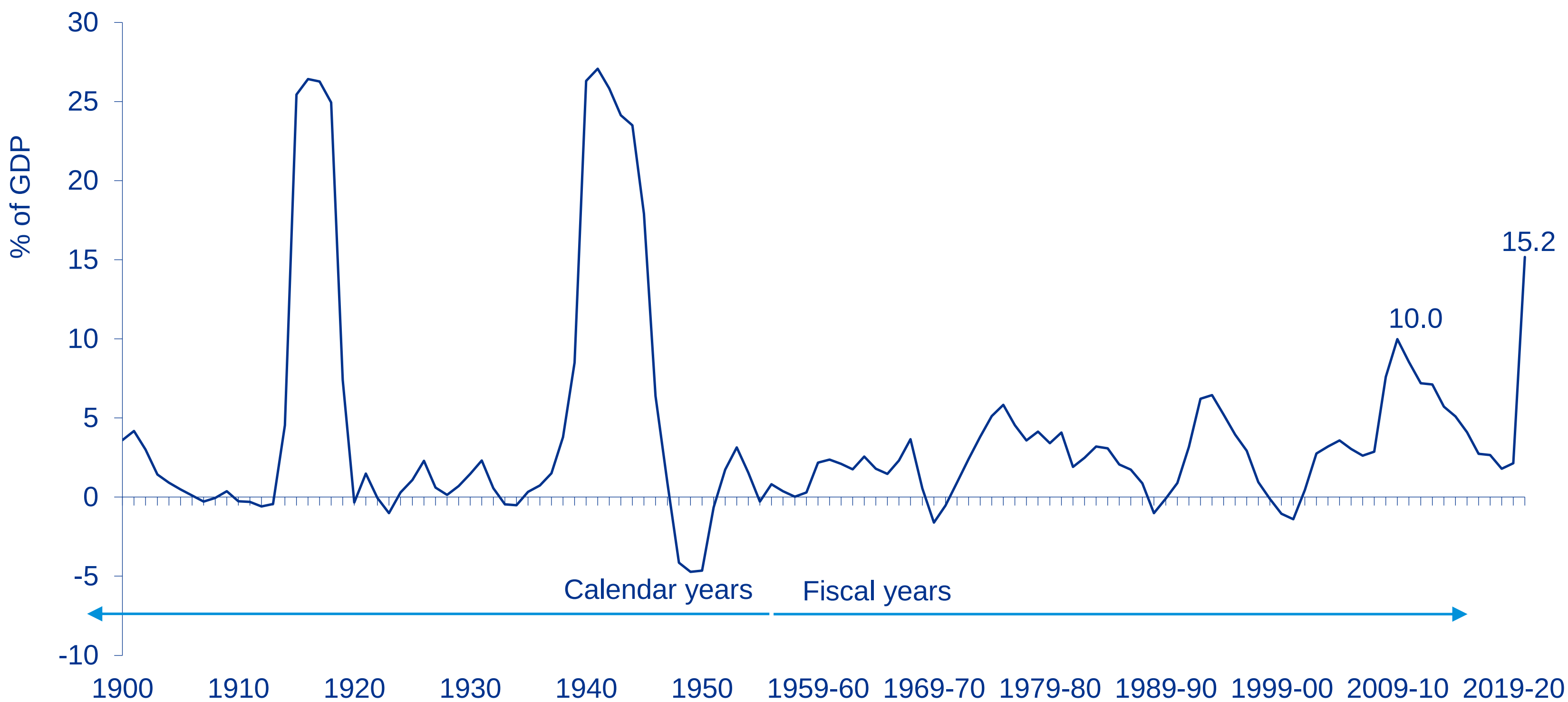


Source: ONS, Bank of England and OBR

Government debt

Government borrowing for 2020 expected to reach the highest proportion of GDP in peacetime.

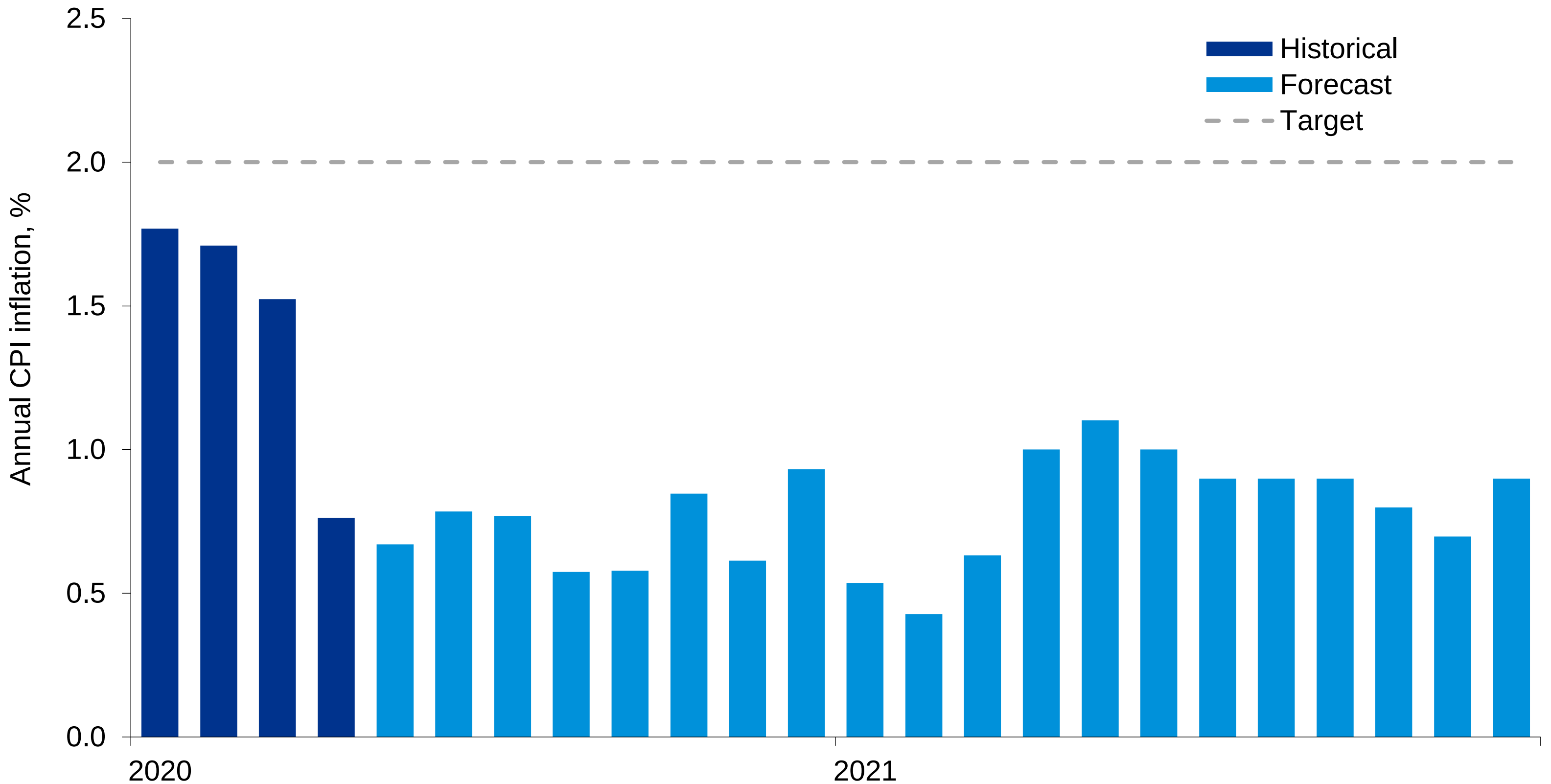
Public sector net borrowing, % of GDP



Source: Bank of England, OBR

Inflation

Inflation is forecast to stay under target and is going to stay low at an average of 1% in 2020 and 0.8% in 2021.

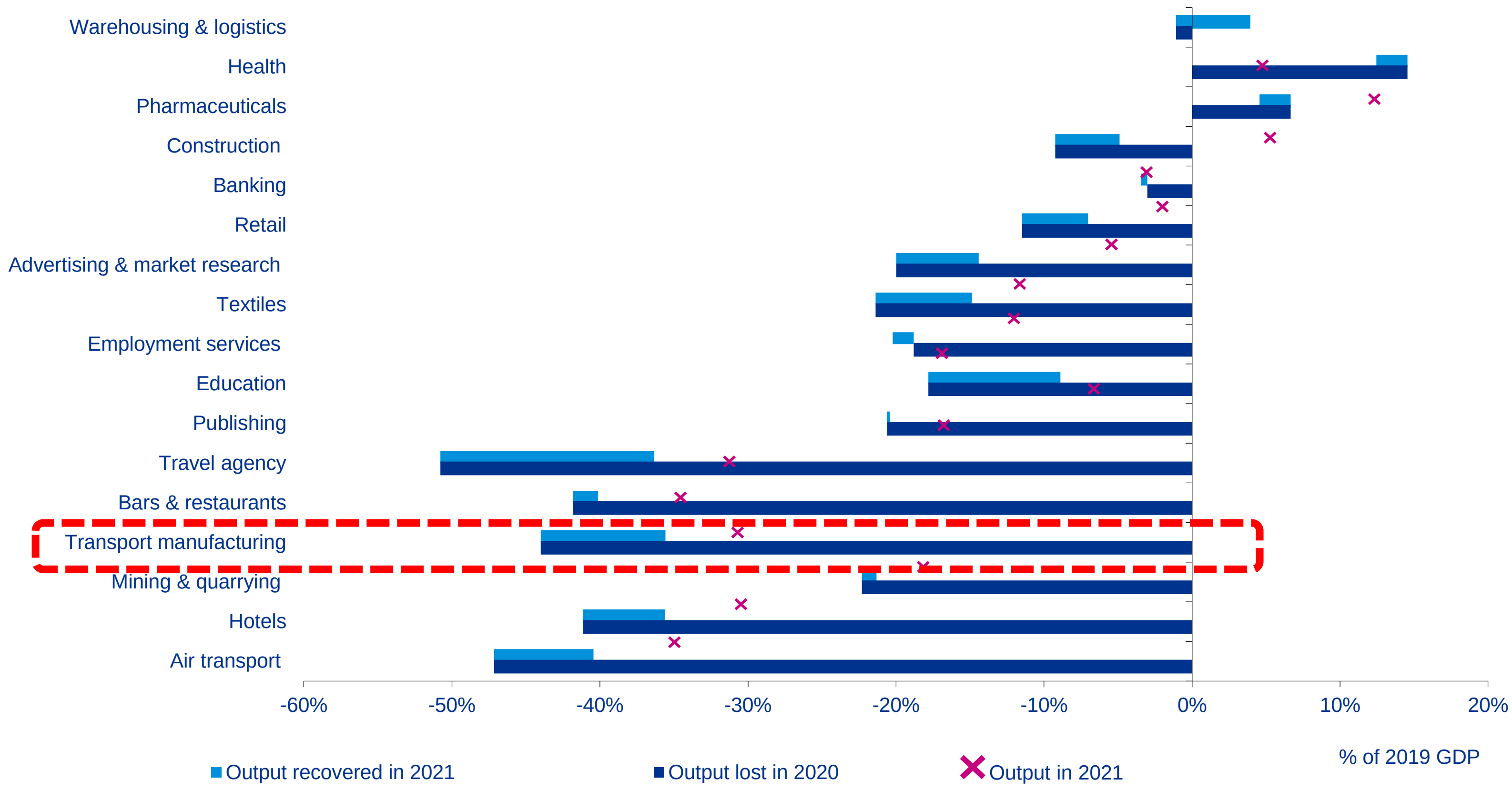


Source: Bank of England and Reuters via Haver

Sectors

Recovery patterns for sectors in 2021

We have considered the impact of the pandemic on a range of sectors as it is unlikely that the impact would be shared equally across all sectors.



Source: ONS

Recovery patterns for sectors in 2021

The pandemic is not only triggering a major global recession. Its impact on businesses will be long lasting, leading to a rethink of business models in the face of supply chain challenges and changes in customers preferences.

Hospitality, Travel and the Arts: Spend in these sectors is not deemed essential. Sales will continue to be impacted as customers will cut back on discretionary spending in the medium term. Hotels could see up to a 40% reduction in output partly driven by lack of business travel and corporate "belt tightening". Food to go will be down; food delivery will increase.

Manufacturing: Factories were forced to close during the lockdown and are still having to operate under social distancing measures as well as supply chain issues. This could cause a small drop in output for the year and will depend on demand for products returning. Some good and some bad sub-sectors.

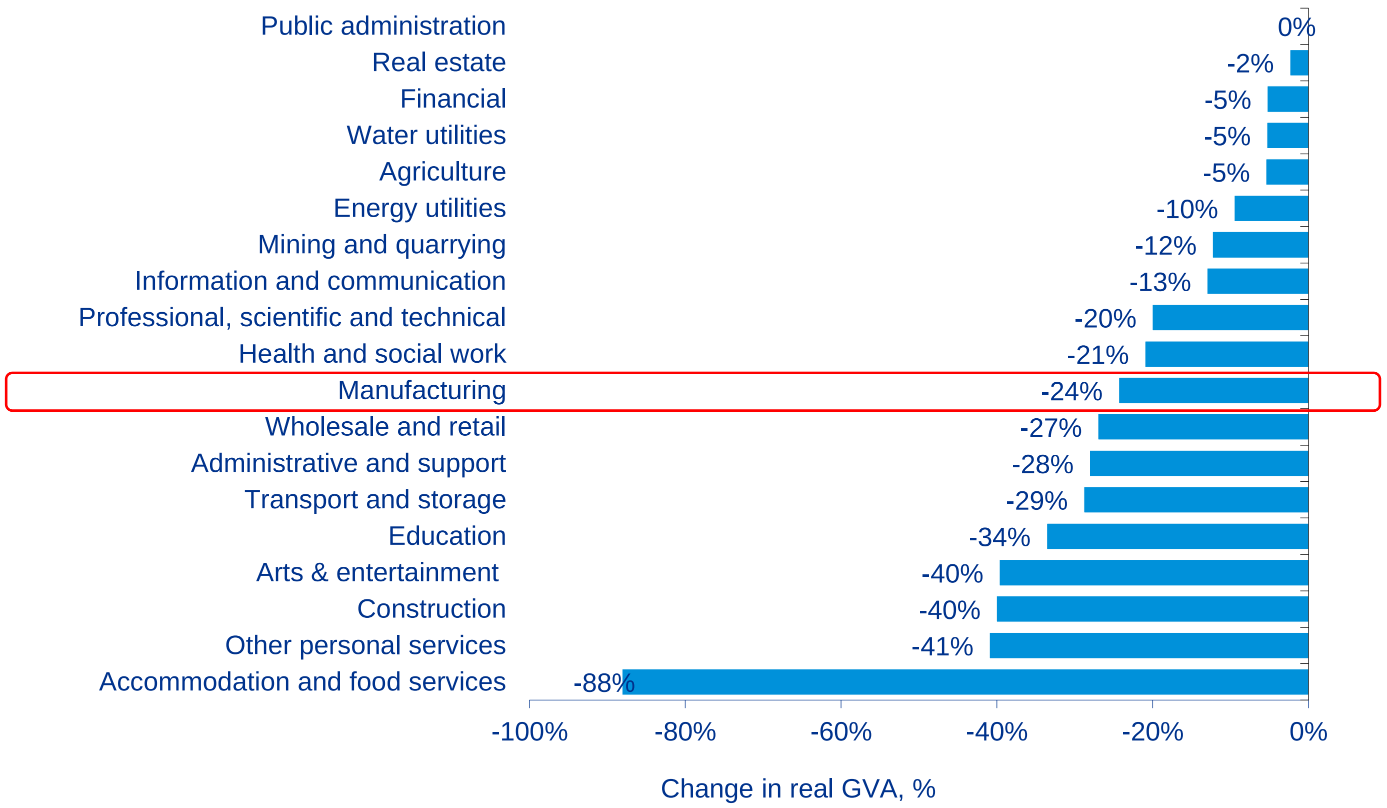
Transport manufacturing: One exception to the above. This sector is linked to automotive, air and rail travel and therefore could see a fall in demand due to the reduced operations/ capacity of the sectors mentioned due to their supply chain or the social distancing measures necessary.

IT, telecommunications and postal: a growth of 10% could be seen by the end of 2020 due to the increase of home working which could be continued in the medium term. Online shopping drives demand for last mile parcel delivery services.

Warehousing and logistics: There has been a surge of 60% in online retail during the pandemic, and shoppers will likely continue to buy these products online. Businesses in this sector are likely going to build resilience which will come at increased costs and increase the demand for warehouse and storage space.

Contraction in Q2

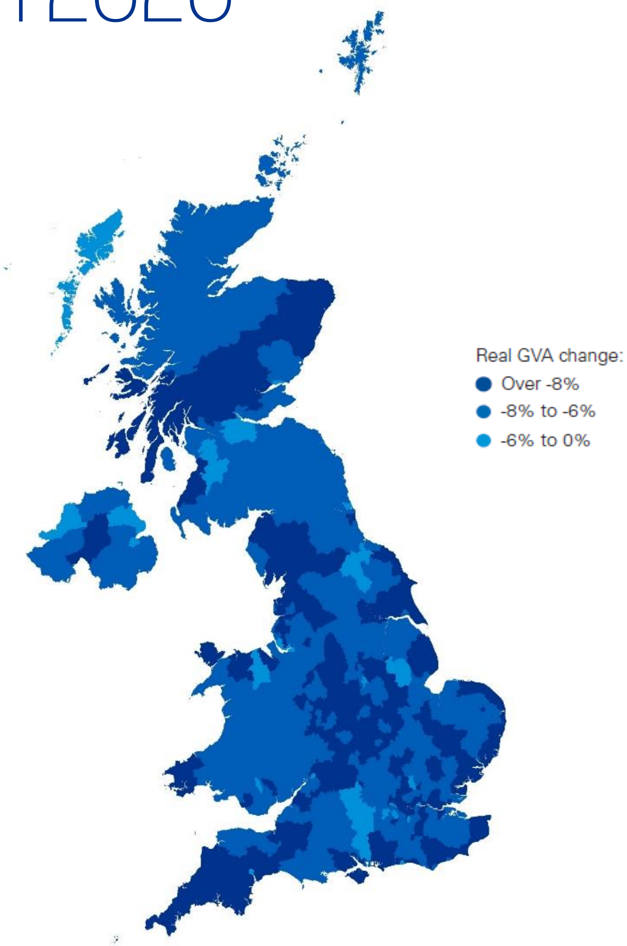
Contractions in Q2 have hit accommodation and food service industries the hardest with an 88% contraction whereas real estate has only felt a 2% contraction.



Source: ONS

Regions

Local authorities economic growth forecast in 2020



- The West Midlands is expected to be heavily impacted by the Covid-19 pandemic (9.1% cf to 7.2% national), due to its large proportion of automotive and other transport manufacturing.
- Hotels, retail and restaurants may have been hit hard by the pandemic, however given their widespread geographical locations, it is likely that all regions will be somewhat impacted.
- Rural areas with a high proportion of agricultural output should fare better, due to the essential nature of the industry.
- Some areas of London, which are highly dependent on international tourism will also be affected, in particular towns such as Crawley.

Source: ONS, KPMG analysis

Q&A

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