

Economic Impacts of Covid-19 in the South of Scotland: Emerging Evidence and Future Prospects

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1. Introduction

While the Covid-19 pandemic is first and foremost a public health crisis, attention has increasingly turned to the associated economic costs arising from the pandemic itself and the responses to it, both immediately and in the longer term. While a range of indicators have been used to quantify the aggregate economic impacts for the UK and Scotland, there are so far relatively few sources of data that allow us to say what has been happening at a more local level.

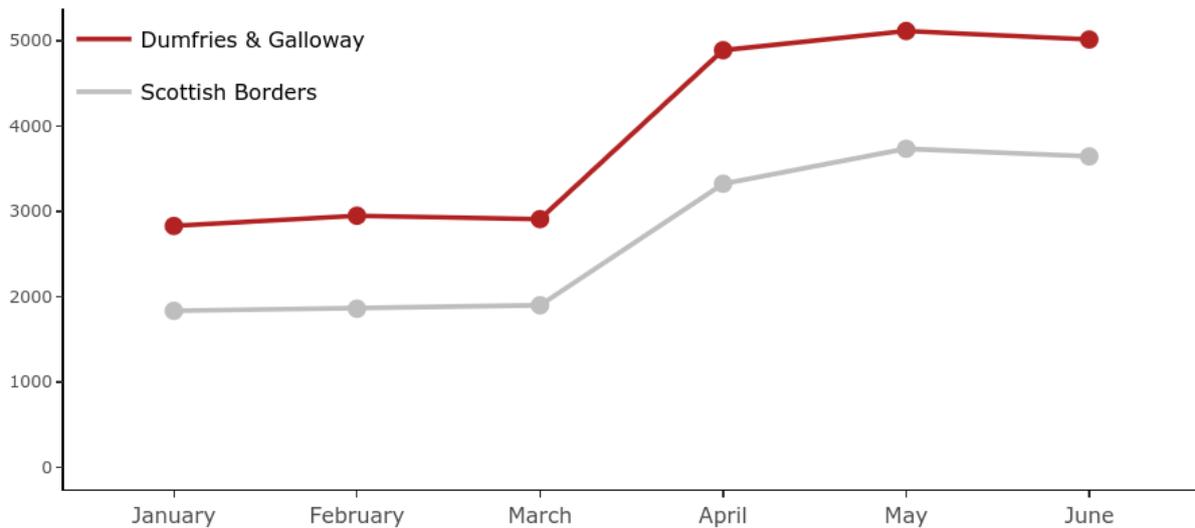
This paper briefly sets out some of the evidence that is currently available for how the pandemic has affected the South of Scotland¹, and for the region's economic prospects as we begin to emerge from the initial response phase into one of potential recovery. As a mostly rural region where the sectoral mix, business base and demographics are different from those of Scotland's city regions, it could be expected that the challenges posed by Covid-19 in the South will also be distinctive. At this stage, however, there remains a great deal of uncertainty about the impacts of the crisis, how different places will be affected, and the outlook.

2. Employment

One way in which we can understand the impact on local economies is through what is happening in the labour market. One of the few robust and current data sources at local authority level is the number of people claiming Universal Credit principally on the grounds of being unemployed. This unsurprisingly shows a sharp increase during April and May, with over 4,000 additional claimants across the South of Scotland (see Figure 1). This is complicated slightly by the fact that there have been changes to UC eligibility in response to the crisis that may also have increased the number of claimants - it is not currently possible to quantify this effect.

¹ Here defined as the local authority areas of Dumfries & Galloway and Scottish Borders, the area covered by South of Scotland Enterprise.

Figure 1: Claimant Count Unemployment

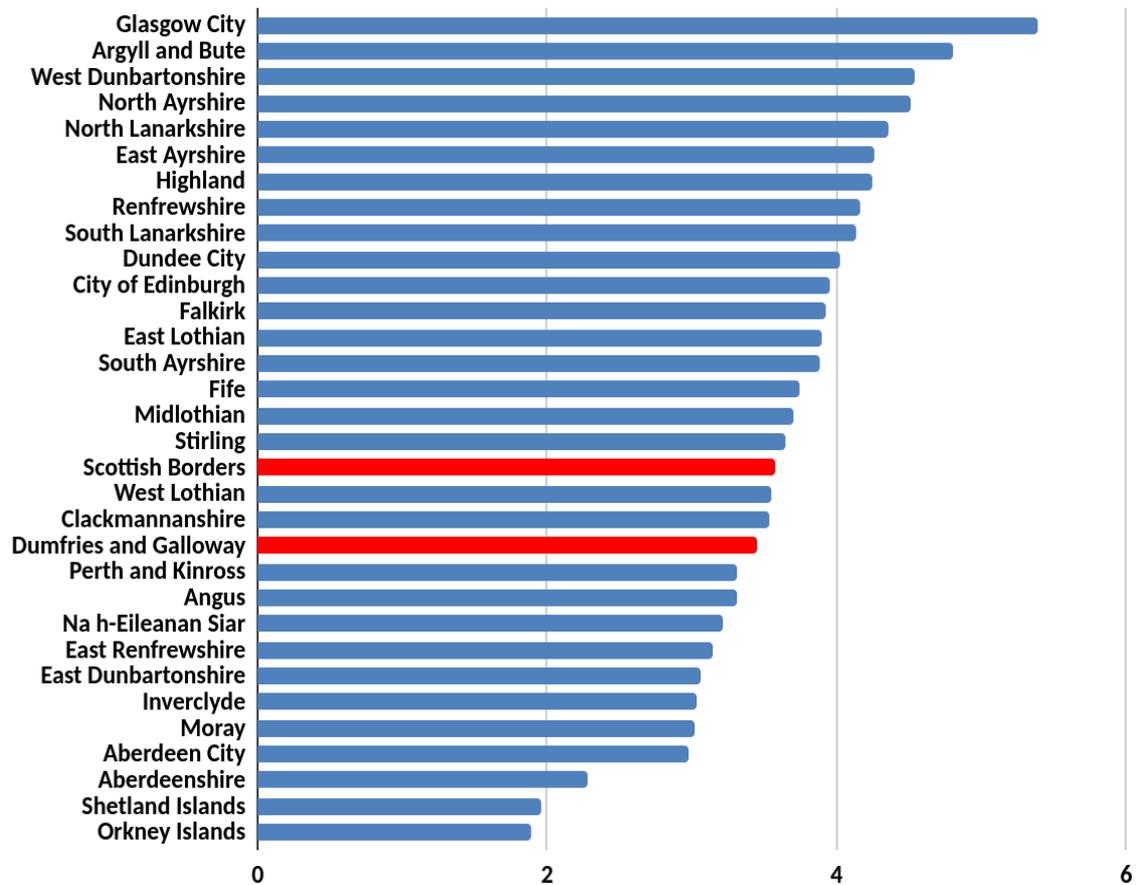


Source: *Unemployment Benefit Claimant Count, Accessed through Improvement Service Covid Economic Impact Tool² (Accessed 03/08/20)*

The proportional increase in unemployed claimants between March and May was somewhat higher in Scottish Borders (97%) than in Dumfries and Galloway (76%), partially because unemployment in D&G was already at a higher level (across the whole of Scotland, the increase was 88%). The figures remained fairly constant in June. Taking the number of new claimants as a proportion of the pre-pandemic workforce (Figure 2) - suggests that out of every 100 people in the South of Scotland who had been in employment before March, around 3.5 are now claiming benefits because they are unemployed. This is however unlikely to represent the full extent of the impact - despite the extension of UC eligibility, the claimant count does not capture all people who are out of work, and many others will have seen reductions in their hours and earnings.

² <https://scotland.shinyapps.io/is-covid-economic-impact/>

Figure 2: Increase in Claimant Unemployment (March-May 2020) as % of Total Employment

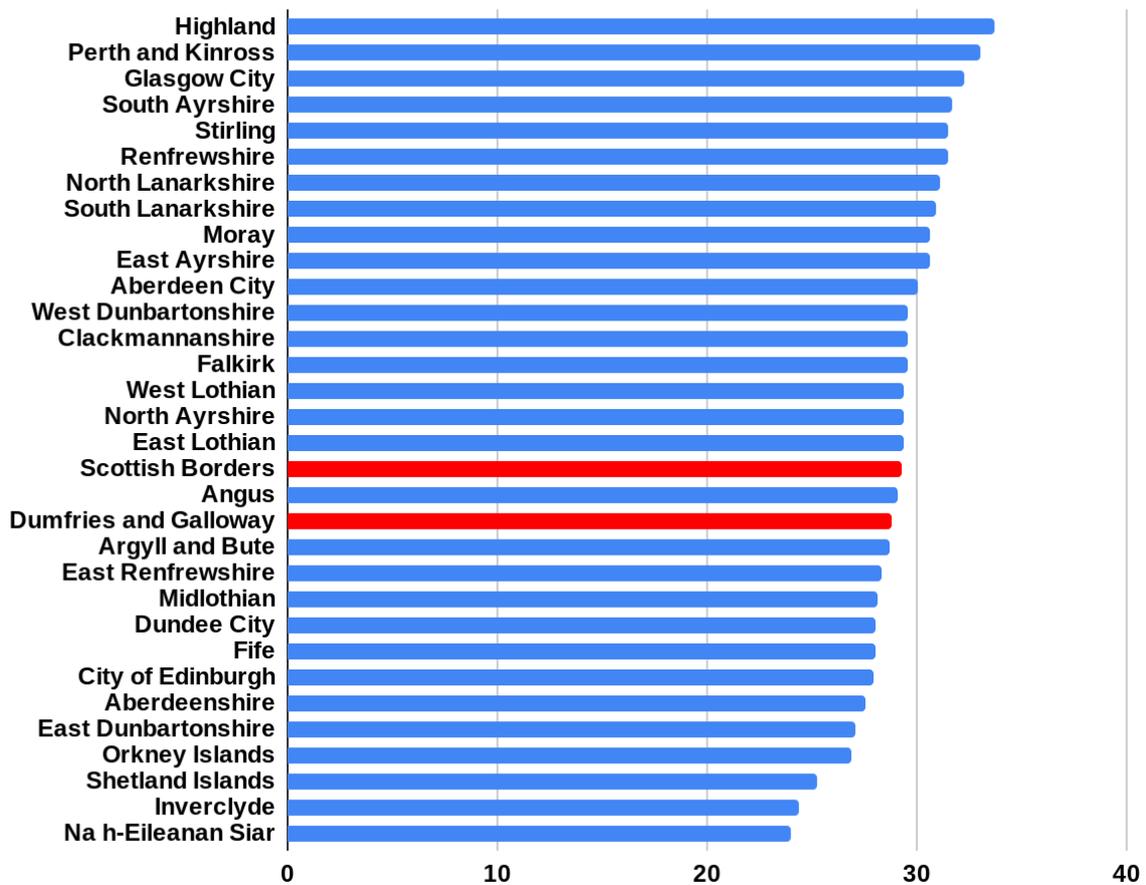


Source: NOMIS - Total Claimant Count, Not Seasonally Adjusted; Annual Population Survey Residence-Based Employment (2019)

The most substantial intervention to support employment through the lockdown has been the UK Government’s Coronavirus Job Retention (or ‘furlough’) Scheme. Up to the end of June, nearly 32,000 employees across the South of Scotland had been furloughed (14,500 employees in the Scottish Borders and 17,400 in Dumfries and Galloway)³. This is much larger than the increase in unemployment described above. The proportion of eligible workers in the Scottish Borders and Dumfries and Galloway is broadly in line with the Scottish average.

³ <https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-july-2020>

Figure 3: Furloughed Jobs as % of Eligible Employment



Source: HMRC CJRS Statistics, July 2020

Analysis of local authorities across the UK⁴ shows some correlation between the local increase in unemployment and take up of the furlough scheme – suggesting that the latter has been important in cushioning some of the impact in the worst affected places, although there is no way of knowing how many furloughed workers may otherwise have been made redundant (or indeed how many will return to employment as the scheme ends).

These impacts will not have been distributed equally across the labour force. Although a sectoral breakdown is not available for the South, across Scotland the HMRC data show that over two-thirds of those employed in the accommodation and food, construction and arts and recreation sectors have been furloughed. Analysis by the Scottish Government⁵ suggests that those aged under 25 are

⁴ <https://www.coronavirusandtheeconomy.com/which-parts-uk-have-been-hit-hardest-covid-19-crisis>

⁵ <https://www.gov.scot/publications/state-economy-april-2020/pages/6/>

most likely to work in one of the sectors that was shut down. Furthermore, the majority of those employed in these sectors are female.

3. Business

As of 14th July, nearly 7,000 businesses in the South of Scotland had successfully applied for the Scottish Government’s COVID Business Support Grant Scheme⁶, being awarded a total of £73 million. The average grant per firm has been lower in the South than across Scotland as a whole, probably reflecting the region’s generally smaller businesses. Interestingly, the success rate for applications has been slightly lower in the Scottish Borders.

Figure 4: Scottish Government Business Support Grants, up to 14th July

	Applications	Awards	% of Applications Successful	Total Grants (£M)	Grant per Award (£)
Dumfries and Galloway	4,820	4,067	84.4	42.21	10,379
Scottish Borders	3,626	2,875	79.3	30.76	10,699
Scotland	105,585	86,505	81.9	969.62	11,209

Source: Scottish Government

A recent report from the Federation of Small Business included survey results specifically from firms in the South of Scotland. Although based on a very small sample, these suggest that while fewer firms may have closed in comparison with the rest of Scotland, a higher proportion of businesses in the South have experienced a significant impact on their cashflow, and are struggling to make payments to suppliers or mortgage/rent payments⁷.

The UK Government’s Self-Employment Income Support Scheme provides replacement income for those who owe the majority of their income to self-employment, on an equivalent basis to the furlough scheme for employees. As of 30th June, there had been around 6,000 successful claims from Dumfries and Galloway and 4,900 from Scottish Borders. However, in both areas the level of

⁶ <https://www.gov.scot/publications/coronavirus-covid-19-business-support-fund-grant-statistics/>

⁷ <https://www.fsb.org.uk/static/39fb3d09-223d-4866-bd4f507863277b15/Finding-our-Feet-Scottish-Small-Businesses-and-the-Coronavirus-Crisis.pdf>

claims as a proportion of those that would be eligible was slightly below the Scottish average (70% for D&G and 72% for Scottish Borders compared with 75%)⁸.

While there have been a variety of other support schemes for business launched by both UK and Scottish Governments, local data on the uptake of these is not yet available.

4. Other Indicators

A variety of new and experimental datasets have been used to provide some indication of the real-time and localised impacts of the crisis. Work by Policy Scotland⁹ has collated a variety of ‘big data’ indicators to track how the movement of people in the Glasgow City Region has been affected, as a proxy for economic activity. One of these new sources is Google’s mobility data¹⁰, which uses data collected from users’ mobile devices to produce aggregate estimates of visits to different types of places. The chart below (showing data from the first week of June, while most restrictions were still in place) shows how journeys to locations categorised by Google as ‘workplaces’ were much lower than usual across all parts of Scotland, although the reduction in recorded activity was much less substantial in the South of Scotland than in more urban areas. This could be because a shift to working at home has been more feasible in the types of jobs that tend to be concentrated in cities. Those in higher occupational categories are, in general, more able to work from home¹¹. There is also, however, a lack of clarity in how different types of places are classified by Google; this might account for some of the regional variation. More recent mobility data (up to the end of July) shows a slight increase in travel to workplaces on this basis, although it remains around 40% below baseline levels in both D&G and the Borders.

⁸ <https://scotland.shinyapps.io/is-covid-economic-impact/>

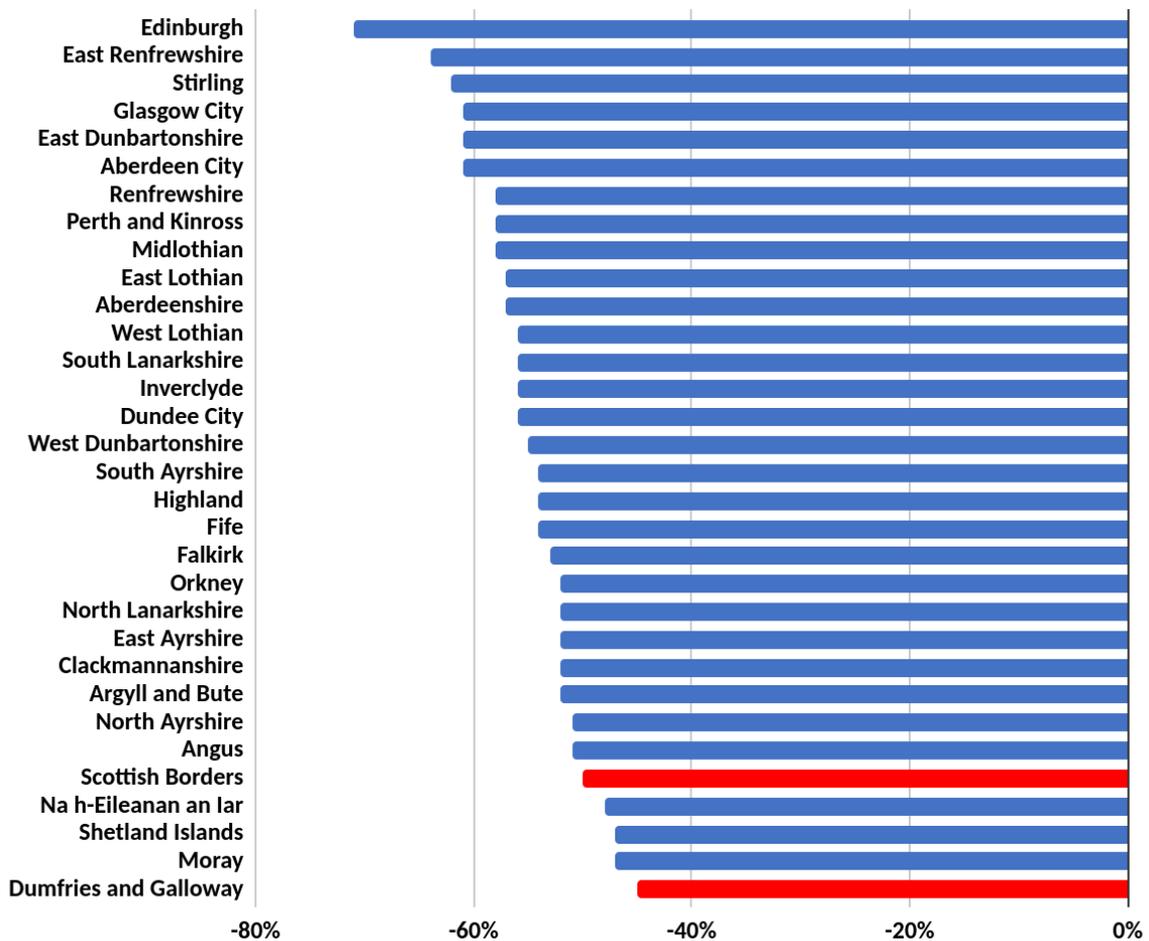
⁹ <https://policyscotland.gla.ac.uk/understanding-the-impacts-of-covid-19-on-the-glasgow-city-region-economy-through-big-data/>

¹⁰ <https://www.google.com/covid19/mobility/>

¹¹

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/coronavirusandhomeworkingintheuklabourmarket/2019>

Figure 5: Level of Workplace Activity Relative to Baseline, Week Ending 5th June

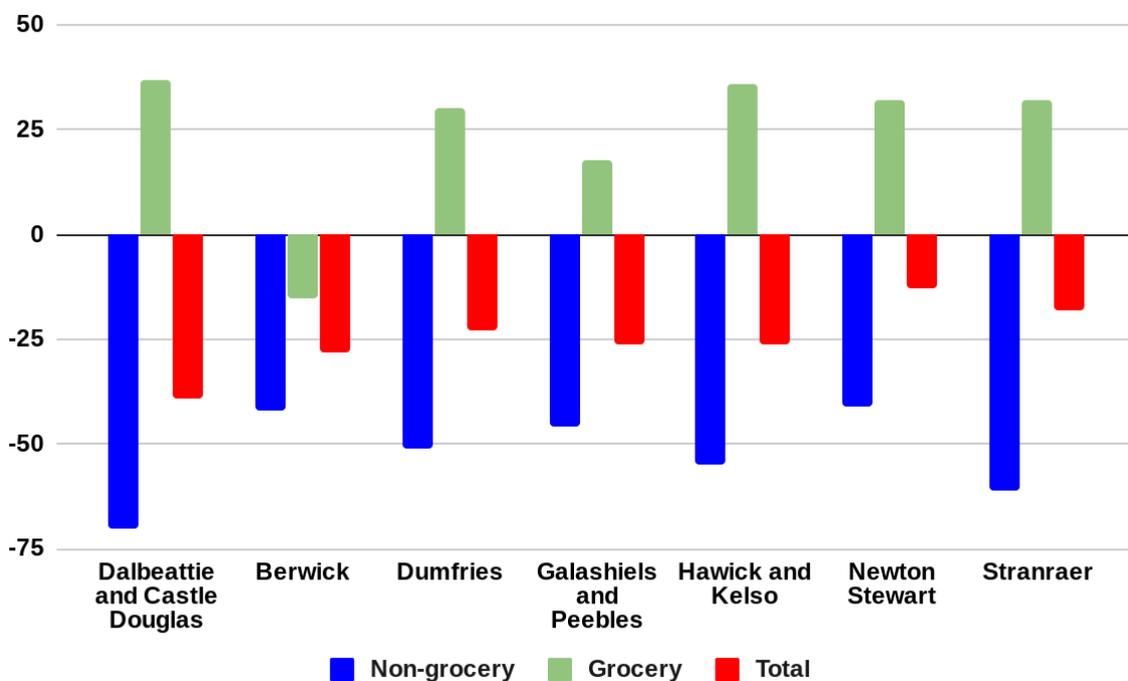


Source: Google Covid-19 Community Mobility Report, 5 June 2020 (accessed 12/06/20)

A further innovative source of evidence has been generated by the media organisation Tortoise, who have analysed data based on a sample of debit card sales to give an indicator of how consumer spending on different types of goods compares with the equivalent period from last year¹². This is illustrated below for travel-to-work areas - one way of defining local functional economic areas - across the South of Scotland.

¹² <https://members.tortoisemedia.com/2020/04/21/corona-shock-tracker/content.html>

Figure 6: Consumer Spending, Week Ending 26th May (% Change Relative to Same Week in 2019)



Source: Tortoise - Corona Shock Tracker (Accessed 10/07/20)

This shows large reductions in non-grocery spending across the South of Scotland - as there was across the UK - resulting from the enforced closure of bars, restaurants, and shops not selling goods deemed 'essential'. Conversely, most localities saw increases in grocery spending as households were eating more at home. The exception to this in the South of Scotland is the area close to Berwick, where grocery spending also fell – this could be because of a high concentration in self-catering accommodation, caravan parks etc., where there would usually be visitors shopping for groceries locally. Although there is no data to support this, it could be assumed that much of the extra grocery spending will be with large national supermarket chains, rather than locally-owned retailers. Overall total consumer spending has fallen all across the South.

5. Outlook

The outlook for the economy as a whole remains highly uncertain, with a range of possible scenarios depending on the level of the pandemic and the restrictions imposed to control it. We have already seen the temporary imposition of localised restrictions in parts of Dumfries and Galloway in response to a small cluster of cases. At a national level, forecasts suggest a substantial fall in GDP, and large increases in unemployment, particularly as the Job Retention Scheme comes to an end – it is as yet uncertain what proportion of those currently furloughed will find that they have jobs to return to. The latest Scottish Government analysis suggests that a recovery to pre-crisis levels could take 3-4 years¹³. The crisis could also possibly lead to or accelerate existing more fundamental long-term changes in the economy, society and policy, for example in terms of changing working practices or a reversal of trends towards greater globalisation¹⁴.

More immediately, however, it has been suggested that there are two broad variables that are likely to determine the vulnerability of local economies to the crisis – their sectoral makeup and the resilience of businesses¹⁵. The two are of course inter-related.

At the level of individual businesses, it can be expected that in general smaller firms will be most vulnerable to closure, being less likely to have reserves to draw on and more likely to close because of cash flow problems. In addition, self-employed people will have faced an immediate loss of income. The South of Scotland has both higher proportions of small firms and of self-employment than the Scottish average, although there is evidence from previous crises, such as foot and mouth disease, that some rural businesses are able to survive significant disruption¹⁶. Firm closures not only mean immediate job losses, but potentially longer term scarring effects on the economy. This could include, in rural areas, the loss of businesses such as pubs or shops that are important for places' resilience.

Analysis carried out by the Scottish Government identified the sectors likely to be most exposed to risks associated with the pandemic, including disruption to international supply chains, international and domestic demand, and the labour market. These were identified as manufacturing,

¹³ <https://www.gov.scot/publications/monthly-economic-brief-july-2020/>

¹⁴ <https://policyscotland.gla.ac.uk/post-pandemic-new-normal/>

¹⁵ http://www.camecon.com/wp-content/uploads/2020/04/2020-04-16_COVID-19_Local-economic-exposure.pdf

¹⁶ <https://www.ncl.ac.uk/media/wwwnclacuk/centreforruraleconomy/files/researchreports/CRE-briefing-Covid19-and-rural-economies.pdf>

construction, retail & wholesale, accommodation & food services and arts, entertainment and recreation¹⁷. In total there are around 48,000 jobs in these sectors across the South of Scotland - as a share of total employment this is higher than the Scottish average in both Dumfries and Galloway and the Scottish Borders¹⁸.

The impact on tourism and related businesses is likely to be a particular concern in the South. By the first two weeks of June, across the UK around 65% of businesses in accommodation and food, and 70% in arts and entertainment had paused trading, with only a small minority planning to reopen in the next two weeks¹⁹. International travel in particular has been significantly affected globally, and may not fully recover for several years²⁰, depending on restrictions on travel to and from the UK, the progress of economic recovery, and attitudes in key tourism markets. The Scottish Government allowed tourism businesses to reopen from mid-July²¹, but while the return of domestic tourism will be important, it may be unlikely to fully compensate for reduced numbers of international visitors. Also, if social distancing measures are going to be maintained over a significant period going forward, this could require major adaptations in the hospitality sector. Some firms, particularly those in smaller premises or lacking resources, may find it difficult or impossible to implement these. There is also the possibility that restrictions may be reimposed on the hospitality sector.

Tourism of course represents only one element of the regional economy, and there are other sectors with potential vulnerabilities – for example agriculture (and food and drink production), which could also be affected by the likely end of the Brexit transition period²². More broadly, the South of Scotland was already facing a set of well documented challenges before the pandemic - manifested in low average wages and productivity, relatively few high-skill, high value jobs, and out-migration of young people. The creation of South of Scotland Enterprise earlier this year was in part a response to these issues, and the presence of a dedicated economic development agency has the potential to be a significant asset as the region moves towards the ‘recovery’ phase. Economic recovery, however, will be strongly influenced by policy decisions taken by the UK and Scottish Governments, as well as national and international conditions.

¹⁷ <https://www.gov.scot/publications/state-economy-april-2020/>

¹⁸ <https://www.gov.scot/publications/monthly-economic-brief-2/pages/7/>

¹⁹

<https://www.ons.gov.uk/businessindustryandtrade/business/businessservices/bulletins/coronavirusandtheeconomicimpactsontheuk/18june2020>

²⁰ https://read.oecd-ilibrary.org/view/?ref=124_124984-7uf8nm95se&title=Covid-19_Tourism_Policy_Responses

²¹ <https://www.gov.scot/news/support-for-tourism-industry/>

²² <https://www.ncl.ac.uk/cre/news/item/covid-19andruraleconomies.html>

In the longer term, there may be opportunities for more rural places in the post-pandemic economy. There has been some speculation that, for example, the rapid shift to online activity and communication may begin to erode what has traditionally been seen as the source of cities' competitive advantage – agglomeration, or the clustering of businesses and physically attracting people to them²³. There may be the potential to support businesses outside cities to adopt alternative business models to take advantage of these changes.

6. Conclusions

This briefing has presented the currently available evidence on the scale of economic impacts in the South of Scotland arising from the Covid-19 crisis. The picture that these provide is an incomplete one. While there have been substantial increases in unemployment – with around 4,000 more people across the South now claiming unemployment benefits - this does not capture the full extent of how employment, and incomes, have been affected. The numbers of claims made to the furlough and self-employment support schemes – a combined total of nearly 43,000 – gives a better indication of the scale of disruption resulting from shutting down large sections of the economy, and suggests that these interventions prevented huge increases in unemployment in the short term. How many of the affected individuals will return to work as this support is withdrawn is not yet known, but it seems likely that at least a proportion will be joining those who have already entered unemployment.

The indications are that parts of the South of Scotland may have a relatively high level of exposure to the negative impacts of Covid-19, particularly due to the importance of tourism. These will, however, not be felt equally across the region, which includes many diverse types of places with different sectoral mixes, assets and vulnerabilities. More detailed local data and analysis would be required to more fully understand the different circumstances across the South, as an evidence base for place-based responses to support recovery.

²³ <https://rural-urban.eu/news/discussion-post-rural-re-advantages>