KPMG UK Chief Economist's Note

How COVID-19 is affecting different sectors

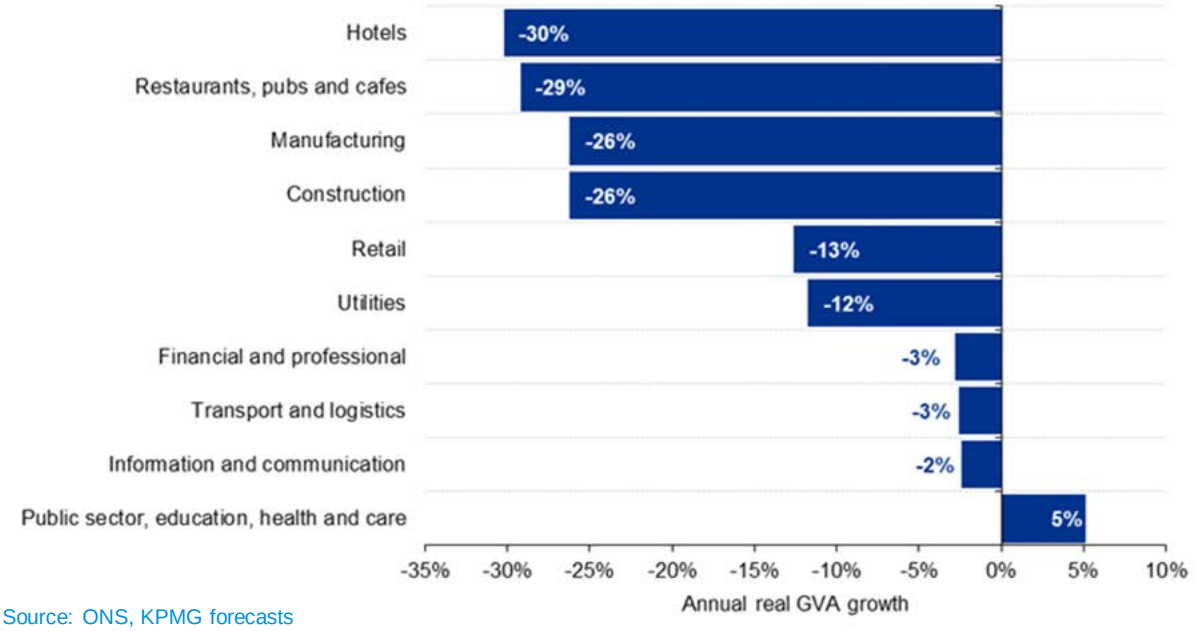
#askKPMG Webinar Series: Session 4 – 16 April 2020

Easter is now over but we are only at the early stages of the fight against Covid-19, with the unknowns still far outweighing the knowns in this journey. Our forecast for the UK remains unchanged, and assumes a lockdown to June and two subsequent periods of restrictions this year, and today I wanted to give you more flavour of what the headline figures mean for different industries.

Implications for sectors

While our forecast for the UK sees an overall fall in GDP of just under 8% in 2020, this figure masks a significant divergence in the performance across sectors (see chart). Curbs on social gatherings, including after the lockdown is lifted, could see a third of the output in hotels and restaurants lost this year. The hospitality industry will also find it harder to recover lost output next year; cancelled travel plans and restaurant bookings will mostly be gone for good, unlike manufacturing and construction, where there should be a stronger rebound already this year thanks to back orders that can be filled once the lockdown is over, even if the initial fall in output during the lockdown will also be very large.

Change in selected sectors' output in 2020



Source: ONS, KPMG forecasts

The drop in ***manufacturing*** production, and to some extent the temporary closure of many workplaces, will reduce the amount of energy required and lower utilities' output this year. ***Financial and professional services*** could see more muted reductions in output, although the type of services offered and the way they are delivered will change, with the majority of staff working from home and focusing on servicing clients' more immediate needs.

A surge in demand for home deliveries could offset some of the fall in travel this year, providing some support for the ***transport and logistics*** sector. Similarly, the sharp rise in online communications and virtual meetings will provide support for the ***information and communication*** services in the face of an overall fall in economic activity.

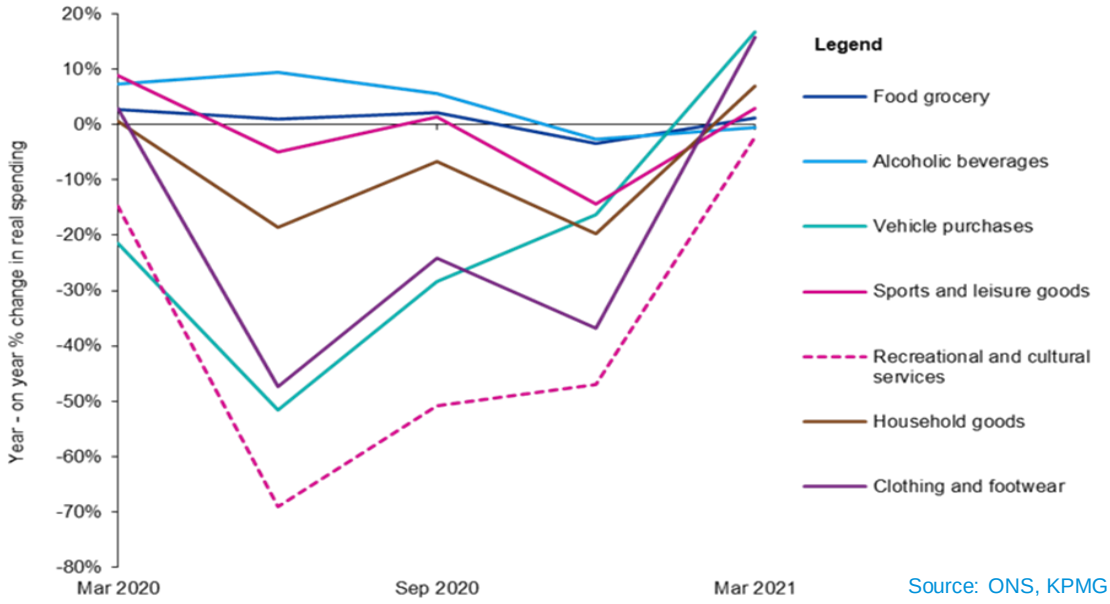
Unsurprisingly, given the nature of this crisis, the main rise in output will be concentrated in ***public health*** services. We have also factored in a small increase in public administration's output as it draws in more help to address the immediate challenges.

The ***retail*** sector is a story of three parts; while groceries and online shopping go from strength to strength, the High Street will experience an accelerated decline, which is likely to accelerate the process of its longer-term transformation across cities and towns in the UK.

All change for consumer preferences

Our forecasts for consumer spending reflect the increased focus on essentials, as the lockdown restricts consumers' opportunities to spend, and lower earnings coupled with changing preferences take their effect. Purchases of food and alcoholic beverages show mild increases (see chart) owing to the closures of pubs and restaurants, with the latter relying on home delivery to retain some business during lockdown. The impact of the lockdown also shows up in the sharp fall in demand for recreational and cultural services, which are limited to what can be supplied online. For many of these businesses, we expect the recovery to be more gradual than the recovery of the overall economy, as the threat of reinfection may keep people away beyond the lockdown period until a vaccine becomes available.

Change in households' spending during and after COVID-19 crisis



Source: ONS, KPMG forecasts.

While output of recreational and cultural services is likely to take a big hit, it is partially offset initially by strong demand for sports and leisure goods that can be used at home instead. Demand for household goods that improve home stay also remains relatively resilient.

Clothing and footwear purchasing could see a significant drop, as working from home during the warmer months will eliminate the need to update one's summer wardrobe, while a large proportion of car purchases could be postponed until next year.

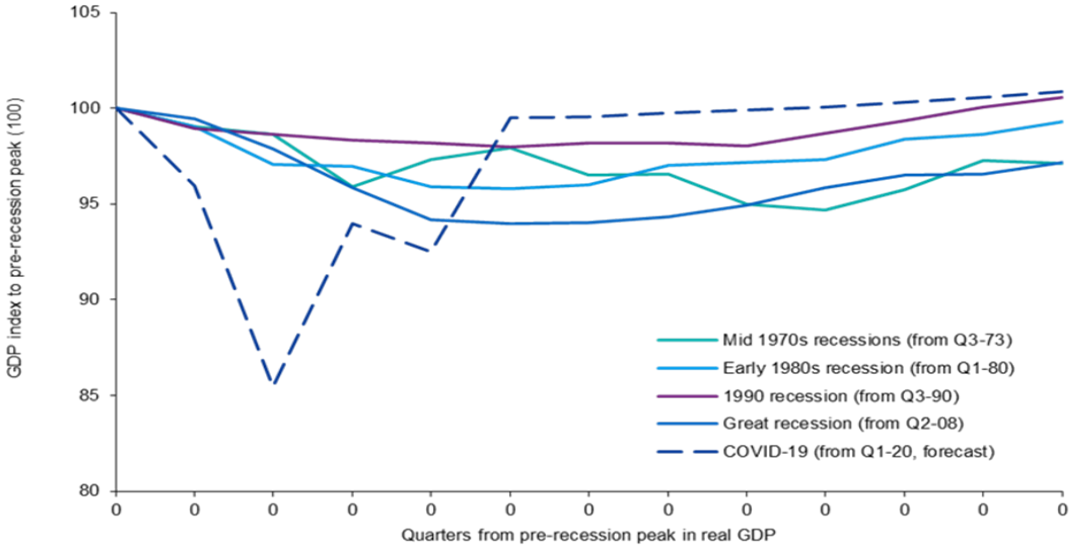
The big unknown is whether there will be any lasting changes in consumers' preferences when this pandemic is over. After learning to cope with life on lockdown, the consumer of 2021 may be very different to the consumer of 2019.

Putting things in perspective

The current slowdown is unprecedented on a number of levels. One of them is the scale of contraction in output that is expected, due to the lockdown and continued social distancing measures anticipated until a vaccine is found, which will also cause fluctuations in output to be sharper than in previous recessions.

The good news is that, despite the severe shock to the economy, output is expected to return to pre-crisis level sooner than in previous recessions (see chart below).

Current slowdown compared to previous recessions



Source: ONS, KPMG forecasts

Despite the fast recovery, life pre- and post-Covid-19 will not be the same. The pandemic and the economic slowdown it triggers are likely to leave a scar and change the course of things we have taken for granted. Households, businesses and investors are likely to be more risk-averse in the medium term, as they focus on rebuilding their balance sheets. Supply chains are likely to be reviewed as future risks are reappraised, and products' specifications are likely to be re-examined in light of new consumers' preferences and priorities. There will be winners and losers emerging over the longer term from this crisis.

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