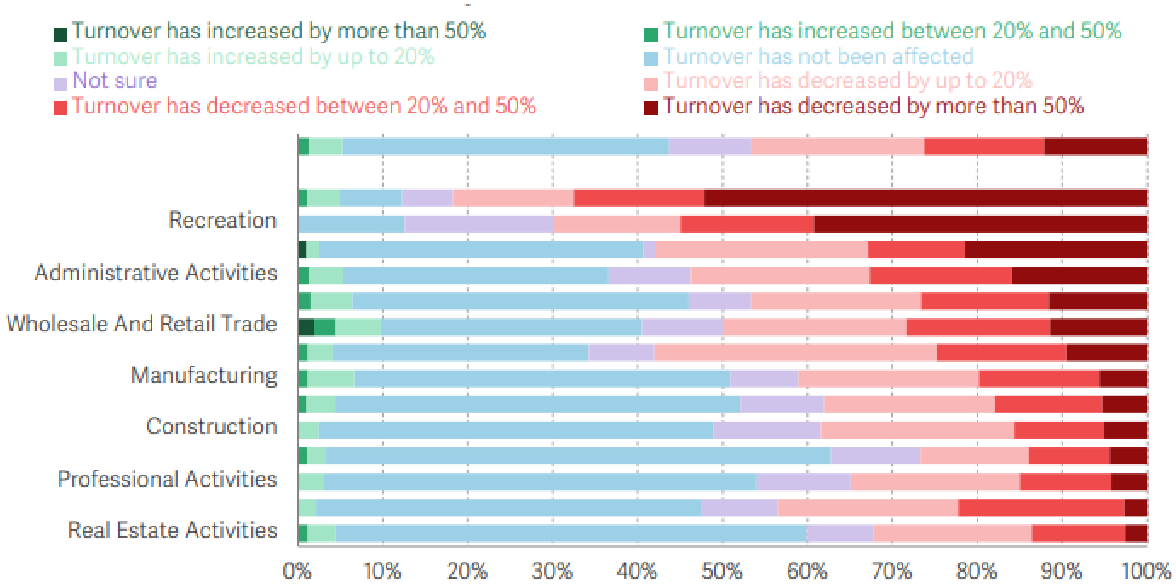
Covid-19: The effects on businesses

UK gross domestic product (GDP) declined by 9.8% in 2020, the steepest drop since records began in 1948. During the first lockdown, UK GDP was 24% lower in April 2020 than it was only two months earlier in February. Business activity picked up over the spring and summer of 2020 as the economy opened up after the first wave of Covid-19. However a second wave of Covid-19 infections led to more restrictions in autumn 2020 which was followed by some loosening around Christmas. As a new variant of the virus drove up Covid-19 infection rates in December, lockdowns were again introduced across the UK in early January 2021. This contributed to a further fall of 1.5% in GDP between January and March. 1 Since then the UK economy has grown by 4.8% as coronavirus restrictions have been gradually eased. 2

In 2020 output in all four main sectors of the economy saw a decline. Construction fell by 12.5%, agriculture by 9.4%, services by 8.9%, and manufacturing by almost 8.6%. In the first three months of 2021, service activities suffered another fall in output of 2.0% and in April 2021 were 8.7% below what they were at the end of 2019. Some personal service activities such as hairdressers and beauty treatment fell by 15.8%.

Compared to levels before the pandemic, manufacturing and construction by April 2021 were still 3.4% below what they were at the end of 2019. Output in the arts and entertainment sector fell sharply in the first three months of 2021 and was 36% below its February 2020 level, while the accommodation and food sector was 68% below. 3



The chart shows the proportion of businesses reporting how the pandemic affected their turnover during December 2020 and January 2021. 4 The decline of firms’ turnover was large and heavily concentrated in the service sectors, represented in the chart under ‘recreation’. Just over half of service firms reported that turnover had fallen relative to normal levels, and more than a quarter said turnover was down more than 20 per cent. Losses were particularly concentrated in hospitality where more than 81 per cent of firms had seen some fall and around half of firms had experienced a fall in turnover of over 50 per cent.

By June 2021, the percentage of businesses overall experiencing a decrease in turnover had fallen from 65% in June 2020 to 30%. In January 2021 the arts, entertainment and recreation industry, the accommodation and food service activities industry and other service activities had the highest percentage of businesses experiencing a decrease in turnover compared with normal expectations for this time of year. For the accommodation and food services industry, the proportion of businesses experiencing a decrease in turnover declined from 81% in January 2021 to 52% in June 2021. Similarly, in the arts, entertainment and recreation industry, the proportion of businesses experiencing a decrease in turnover fell from 73% in February 2021 to 63% in June 2021. 5

Some businesses however did well throughout the pandemic, particularly those operating online. The enforced closure of shops selling non-essential items led to a boost for online retailers. The Office for National Statistics reported that *"online sales reached higher than usual levels over the course of the pandemic"*. Online purchases represented 28.5% of total sales in October 2020 compared with 20.1% in February of that year. 6

Smaller firms were more likely than bigger ones to have had to close temporarily during the pandemic. More than 95% of UK businesses are small and medium-sized enterprises with fewer than 250 employees. They account for around 45% of total revenues and around 60% of private sector employment - so they make a large contribution to the UK economy. About 17.2% of micro businesses, that is those with fewer than 10 workers, had stopped trading or temporarily closed at the end of October 2020 compared with 6.1% of firms with 250 or more workers. According to the Bank of England, the pandemic reduced cash flows for companies, with smaller companies *"more likely than larger companies to operate in sectors that have been most affected by the shock, such as accommodation and food, arts and recreation, and construction"*. 7

In normal times smaller companies tend to have fewer options available for obtaining loans than larger companies. But during the pandemic government-guaranteed loan schemes, particularly the Bounce Back Loan Scheme (BBLS), significantly increased the provision of lending to small and medium sized businesses. More than a million loans have been given out under the scheme. As a result levels of business debt have risen significantly. According to the accountancy firm Ernst & Young, British businesses are expected to have borrowed five times as much as they did in 2019 because of the pandemic. The total by the end of 2021 is likely to exceed £60 billion. In response to this the Government has said that businesses would be given more time to make the repayments on state-backed loans. The particularly high level of borrowing was in most cases being used to help companies survive the crisis rather than to fund further expansion. Consequently there are fears that many firms will not be able to meet the required repayments. 8

Sources

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