

Job losses at BA?

I have had a number of emails about the worrying situation at BA

I was shocked to read the statement from IAG on the publication of their first quarter results. I note they managed to lose a large sum on fuel and currency hedges as at that date, which presumably is a one off. I see that whilst they plan to cut the workforce at BA, they announce no such plans for Iberia, Aer Lingus, Vueling or LEVEL, their other airlines. This Spanish registered company singles out BA for bad treatment, at a time when the whole aviation industry has suffered a large loss of passengers owing to the closures.

The Group tells us it has Euro 6.95 billion in cash and cash equivalents, as well as access to substantial extra borrowings if needed. It is making liberal use of the UK government furlough scheme, with UK taxpayers paying most of the wages of 22,626 UK staff. Given this, I would expect a more sympathetic approach to all UK staff. I will pursue these matters with the top management of IAG.

They have benefitted over many years from the success of BA and from the profitable business they enjoyed out of UK airports. They should wish to be good UK corporate citizens, and as takers of UK government subsidy they should acknowledge their debt to UK BA employees and UK taxpayers who are helping pay for their business continuation. It is too early to know what the recovery prospects are for aviation. The presence of the furlough scheme provides a good means to keep the business ready to fly again when things change for the better.

The future of aviation

The UK has a successful aviation industry. Heathrow is one of the great hub airports of the world. Several other leading airports are substantial generators of jobs and an important part of the connectivity of a trading nation. The UK manufactures smaller planes and wings for large passenger jets. It has a number of important airlines offering good choice of carrier, route and fares. The large and successful UK service, tourist and leisure sectors need easy access to the UK for clients and partners.

Today the airline and civil aviation industry is one of the worst hit by the pandemic and the measures to contain it. There are many bans on flying in various countries around the world, and many people no longer wish to fly to countries that may not welcome visitors for the time being. There are also issues over how social distancing rules can be applied to the tight spaces inside the fuselage of a passenger jet.

So what does the future hold for this group of businesses? Will there be a permanent diminution in people flying around the world, with more virtual conferences and meetings? Will there be more national and less international leisure and tourism? Should the industry be planning for less volume, or will there be the usual bounce back as the virus fades?

During the period of gradual relaxation, what steps could the airline industry take to allow flights with greater social distancing? How practical is it to cut numbers on a flight, and what will that do to the economics of flying? Can the airlines increase the proportion of a plane given over to cargo? What damage is the collapse of passenger numbers doing to the economics of air freight?

It looks likely a larger number of older planes will now be retired. Cash strapped airlines are likely to avoid new commitments to buy new planes and to look for legal ways to cancel planes they had discussed buying. Airports will also struggle financially, as their revenues are badly depressed by the reduction in flight numbers and the small numbers of people using terminals and taking advantage of the shops. How should the different parts of the industry be financed from here?

The future of the High Street

Some High Streets were suffering badly before the anti virus policies closed down most of the shops. More people were buying more things on line. More were travelling to the best shopping centres to enjoy the choice and facilities they afford. Secondary and tertiary locations and ageing centres were losing custom and losing businesses. There were more empty properties and more rent reductions.

Investment in improving High Streets, relentless promotion of a location with events, discount and loyalty schemes and good restaurant and café back up were all important ways to retain life and footfall. Some succeeded, others were floundering. There was too much retail space for the customer base overall. As a result retail chains were shedding shops in marginal locations, and at the edges of Town Centres and shopping malls some property was gradually being converted to new uses. The process of conversion was slow because the shops were still expensive and commanding relatively high rents compared to alternative use values.

The damage done to shop retailers by the closures is two fold. There is the lost revenue, making investment in shop improvement and in stock more difficult to afford. There is the diversion of business from shops to on line, some of which may be difficult to reclaim. The issue becomes, what are shops now worth?

A simplified way of valuing a shop is to take the rent paid and multiply

that by a number of years purchase to get a capital value of the property. Let's take a case of two shops with rental income of £25,000 a year. One is in Smart City, the other larger unit is in Troubled Town. The Smart City unit might have been valued in February on a 5% rental income, or 20 years purchase. It would have had a capital value of £500,000. The Troubled Town Unit might have only commanded a 10% income yield or ten years purchase, giving a capital value of £250,000.

Let us suppose that both were independent shops, and both have now notified their landlords they cannot afford to pay any rent for the time being. At the very least they want a rent holiday for the period of closure, followed by a rent reduction to reflect lower earning potential in a recovery period to follow the end of lock down.

So what are these shops now worth? What discount should you apply to the past rent to allow for the likelihood that a deal has to be done for lower rent? Might it be that the unit in Smart City still has a retail future at a lower rent, but the unit in Troubled Town does not? Do the values of either now fall to a level where conversion to another use is viable?

And what outcome would you like to see for these two independent traders and two shop units?

Some questions on the numbers

In the week ahead Parliament will debate the lock down, and government will determine a back to work policy. To do so, they need to examine some of the numbers they are using carefully.

1. Comparative deaths globally. It is quite wrong to say the UK after the US will have the most deaths. The government must adjust the death figures for population, which so far shows Belgium heading the lists, and the USA still relatively low
2. The government needs to do more work on trying to get comparable death rates. Some other countries only list hospital deaths. There are different views on whether dying with Covid 19 is the same as dying of Covid 19. The UK figures for deaths have probably been boosted in recent days and weeks by counting more deaths where the patient died without a Covid 19 test as a Covid death, and by adding in non hospital deaths to the total. It is a bad idea to change the way you calculate numbers over time for a series when you are using the curve of that series over time to determine policy.
3. Now there are so many more tests available the government needs to start testing a sample of the total population to get figures for how common this disease is, and to chart that over time.
4. The accuracy of the tests. I have been given widely different figures for how many false negatives the tests might provide. There are

apparently issues about how to secure a good sample so any disease does show up.

5. How good are the returns reported centrally from Care Homes, as most of these are privately owned institutions that are not formally part of NHS management and reporting systems.
6. Future capacity of the NHS. The government is right to want reassurance that the NHS can cope in future as it has done so far. There needs to be a rebased figure for Covid care beds and Covid Intensive care beds in the system in a world where there is also capacity for other serious medical conditions. Will the NHS move to identifying specialist Covid hospitals and units, to free more District General Hospitals to do everything else?
7. The value of R or the reinfection rate. We were told this week it is currently 0.6 to 0.9. That is a very wide range. How can it be more precisely and accurately be discovered, where there are not sampled tests of the whole population over time? Doesn't it need regular sampled testing to get it more accurate? As great stress is placed on R, it is crucial to get it right.
8. Will the government publish the range of forecasts of deaths from the disease their experts have come up with, and show us the trend in these forecasts? That too is important in making a judgement.

[The US pulls out all the stops to abate the deep recession](#)

There is a much greater sense of urgency in the USA to offset some of the damage done to the economy by anti CV 19 policies. The Central Bank, the Fed, has ridden to the rescue. It has printed money and bought bonds on a huge scale. It has supplied the world with dollars, driven down rates and stabilised the market for financing companies.

Its balance sheet has soared from \$4.3 trillion on March 11th to \$6.6bn by mid April, a massive expansion of more than 50%. In contrast the Bank of England has gone from £580 billion in early March to just £647 bn in mid April, an increase of 11%.

The US sent everyone below \$75,000 a year a cheque for \$1200 as well as setting up business grant schemes and a furlough scheme. The UK has also set up grant and employment retention schemes.

The US money supply leapt by an annualised 20.9% in the first quarter. The UK's increased modestly to a 5% rate of growth. Which of these institutions is right?

In the short term I fear the US is correct. The huge downturns the fashionable anti Covid 19 policies generate are designed to do maximum

economic damage to all but health, food and essentials and the public sectors. All out of home entertainment, tourism, most travel and hospitality and most non food retail are simply shut down. Consumer demand plunges. Many people lose their jobs and can only afford the basics. Those who keep their pay are very restricted in what they can buy so they end up saving.

Printing money does not bring the closed businesses back to life, and it cannot in the short term generate more demand where business is banned. It does however make borrowing more affordable for the government and for companies fighting to stay alive. It is better than doing nothing and watching more job losses and bankruptcies.

There are many arguments over the details and duration of the current health policy. There are no arguments over its economic impact. Everyone agrees it is a disastrous economic policy. The US is right to fling money at people and companies to try to offset some of the damage. You cannot go on doing that for very long. The huge budget deficits, the big expansions of money can only be short term palliatives. The only sensible economic policy is to get many more people back to work as soon as possible. The Fed will need to rein in the extra money as the economy starts to recover to prevent inflation.