

Handling the economic damage

The epidemiologists advising the government have succeeded in persuading them to lock down as much of the country as possible. The aim is to stop the spread, and so reduce the numbers needing hospital treatment. The earlier policy of trace and isolate did not prevent escalation, though it may have slowed the progress of the disease as the advisers hoped.

Given this, the best outcome now must be a severe but short lived clampdown with a resulting drop in numbers getting the disease, followed by some relaxations to get more people back into work. The worst outcome would be little progress with getting numbers down and a decision to carry on with many closures in the hope that the policy will sometime start to work as planned. A middle course is likely with a longer period of clampdown and some success with braking the rate of increase.

What does this do to the economy? More than 40% of it, the private sector not involved in food and food retail , pharmaceuticals, utilities and other basics will take a big hit. The obvious sectors that have been closed down will lose all their revenue, but it is likely new cars, new homes, discretionary purchases will all be cut back, some severely. We will see falls in output and incomes of a magnitude we have never seen before in a recession. They have come on us suddenly.

If the government aid for companies is administered well and promptly, and extended to the self employed, then many businesses will survive and be available to supply and serve us again as soon as restrictions are lifted. If the banks use the government guarantees well and make some of the ample liquidity to them available as affordable loans, that too will help see many more companies through the low or no turnover phase.

It is going to be much easier for companies to revive and bounce back if the gap is not too long. More visibility on timetables would be helpful to those deciding whether their business can battle on and on how much they need to borrow to bridge the gap.

The government should give us scenarios based on better control of the virus to give some hope that these restrictions are temporary. They can say that the short term closure model is more likely if we all co-operate and observe as much social distancing and isolation as our roles allow.

As of today we face the loss of a large number of self employed businesses without more financial support, and even the loss of businesses covered by the financial support scheme announced who nonetheless are losing so much business from virus related effects and have large non employee costs..

It is nonetheless the case that the UK economy will lose a lot of output from March onwards and that cannot return until the bans are lifted. Jobs will also be lost if the government financial support is not readily available at scale. The longer the closures and bans continue, the more

businesses will give up and make their staff redundant to stop the losses.

Commercial rents will fall, dividends will be cut, pension funds will have much bigger deficits and businesses in trouble will have problems raising capital. There will be large falls in investment.

This is now happening all over the advanced world where similar policies are being followed. I wish the experts and governments every success in limiting this disease . They also need to recognise that the serious economic damage being done to try to arrest the progress of the disease is going to get very severe unless there is a relatively short time limit on the shut downs and financial help for all in the meantime.