
Our Economy:

insights into the impact of
COVID-19 and EU transition on
the North East economy

Executive summary



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The economic shock caused by COVID-19 has been unprecedented. The pandemic has had a significant impact on the North East economy, with falls in business activity, consumer spending and employment on a scale rarely seen in modern times, and rising unemployment, insecurity and hardship experienced by many households, communities and businesses across the region.

While some sectors of the economy have been hit extremely hard, others have been able to continue trading almost as normal and some have benefitted from new opportunities, illustrating the highly uneven impacts of the pandemic. These changes coincided with the UK's exit from the European Union (EU), which has further impacted on some sectors.

As the vaccine roll out continues, restrictions are being removed and the economy and society begin to gradually return to growth, notwithstanding the likelihood of ongoing outbreaks and responses, it is now an opportune time to take stock, and to assess the post-COVID-19 'new normal'.

This summative report attempts to understand the impacts of the pandemic, alongside EU exit, on the regional economy, assess what has changed, and identify the key challenges and opportunities that lie ahead in planning a successful economic recovery in the North East.

It synthesises intelligence gathered by the North East LEP at regular intervals throughout the pandemic, covering the entire period from the first national lockdown in March 2020, up to date. It aims to summarise in a single document the key impacts of the pandemic on the North East economy. The intelligence gathered has been used by the North East Economic Response Group and the North East LEP to inform and support the region's economic response and recovery planning throughout the pandemic.

As the region looks forward and plans for the recovery, the report will be used to help shape future economic policy development. This insights report is being published alongside our annual state of the region report

– 'Our Economy' as a key source of regional evidence. Our Economy 2021 tracks performance of the North East LEP economy across almost 100 economic indicators.

It will inform future strategy development and policy asks and investment proposals to UK Government to support the regional recovery. This will help to ensure the regional economy is best placed to emerge better and stronger from the pandemic.

The report considers the impacts of the pandemic and EU exit on the follow aspects of the North East economy:

- Business activity and growth
- Labour market, employment and skills
- Innovation
- Connectivity
- Infrastructure and finance
- Places and local authority areas
- Sectors and areas of opportunity.

The report has been prepared by New Skills Consulting and Ortus Economic Research, working in partnership with the North East LEP. It draws on a range of official economic and labour market statistics and other datasets, sector intelligence from regional and national surveys, with the latest available data up until mid-July. Regular consultations with sector and Local Authority representatives were conducted throughout the pandemic, the latest of which took place during July and August 2021. It should be noted that the consultation feedback presented throughout the report represents the views of the consultees, rather than those of the North East LEP.

The full report is available on the North East Evidence Hub. A full list of organisations involved in the consultations and key themes explored are presented in the full report.

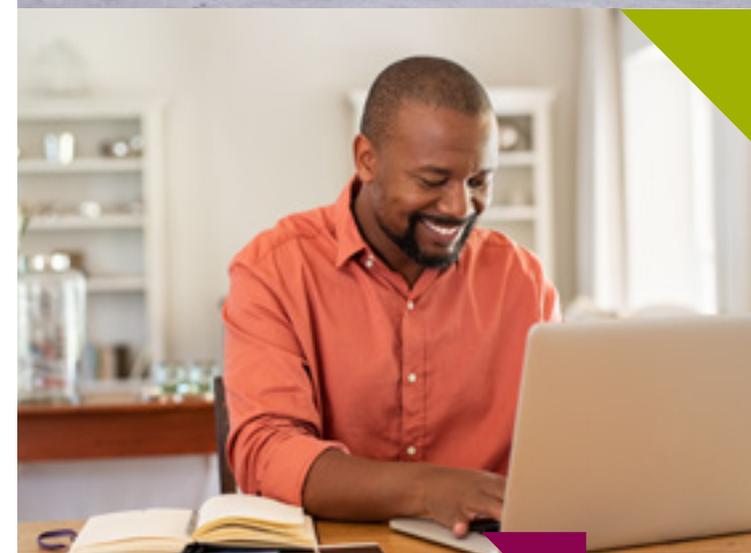
The UK was officially in a recession following two consecutive quarters of negative growth in Q1 and Q2 2020, reflecting significant declines in household spending and business investment activity caused by the national lockdown implemented in response to the emerging COVID-19 pandemic.

Initial recovery was rapid, but was interrupted by further national lockdowns in November 2020 and January 2021. There have been four consecutive months of growth since January 2021 as the latest restrictions have eased, though UK GDP remains 3.1% below the pre-pandemic levels seen in February 2020.

The pandemic had a similar impact on North East region's economy to that seen nationally. Regional output in Q4 2020 was 6.0% below the level seen in Q4 2019, compared with a difference of 6.8% in England.

NatWest PMI data shows that business performance was hit very hard at the start of the pandemic. Performance bounced back rapidly as firms reopened and ramped up operations following the initial lockdown, but this has been followed by fluctuating performance which reflects the changing nature of business conditions, driven by the pandemic and the restrictions that have been introduced periodically in order to suppress transmission.

Economic forecasters generally expect the economy to recover to pre-Covid levels relatively quickly, with confidence underpinned by the successful rollout of COVID-19 vaccines. However, there remains some uncertainty about the economic outlook.



Business impact of COVID-19

A higher proportion of businesses in the North East region have continued trading through the COVID-19 pandemic than in England. Only around 90% of businesses in the region were trading from mid-November 2020 to early April 2021. This had risen to 98% of businesses in the two weeks to 11 July 2021.



During the pandemic, businesses in the North East region have had more confidence of surviving the next three months than businesses in England as a whole.

Just over 41,000 self-employed people in the North East LEP area had made Self-Employment Income Support Scheme (SEISS) 4 claims as of 6 June 2021, a take-up rate of 59%. Both the number of SEISS claims and take-up among the population estimated to be eligible by HMRC has fallen in each tranche.

Patterns of SEISS take-up by sector have been broadly similar in each tranche, with most claims from self-employed people working in construction, transportation and storage or the other services sector (including self-employed beauticians and hairdressers, for example).



Although only proxy indicators for the number of business starts are available, the data suggest an increase in the number of new business formations in 2020 compared with 2019.

There is some evidence of a 'COVID-19 economy', with increases in the number of new company registrations in manufacturing and retail of medical equipment, pharmaceutical goods, specialist clothing and PPE, and cleaning supplies, as well as cleaning and disinfecting services.

The value of exports and imports from and to the North East region showed strong recovery to pre-Covid levels in the second half of 2020, but have declined in Q1 2021, possibly as a result of EU exit. The North East England Chamber of Commerce reports that its members have experienced increased difficulties trading with the EU since January 2021.

There have been sharp rises in visits to retail and recreation venues as the Government has followed its 'routemap' out of the third national lockdown. But footfall remains slightly below pre-Covid levels.



The impacts of the pandemic on business activity in the region have been very mixed and uneven, with some sectors continuing to trade at close to pre-pandemic levels, while others have suffered a significant and sustained drop-in activity which will take a long time to recover.

While business activity across the economy has been below pre-pandemic levels, the overall impacts have not been as severe as first feared, and the regional economy has begun to bounce back strongly. Generally, the region's businesses have proven to be resilient through the pandemic.

As the economy recovers, businesses across many sectors are reporting intensifying supply chain problems, including difficulties in sourcing the supplies they need, long delays in delivery timescales, and increasing supply costs. These pressures could hamper the recovery.

Business and financial support

There has been a very high take-up among North East businesses of the financial support on offer from UK and local government. This has been crucial in safeguarding the regional economy, avoiding potentially thousands of business closures and job losses.

Overall, business confidence in the region is stronger now than at any time in the pandemic, although confidence and growth intentions vary widely between sectors.

Although business activity is now reaching more normal levels across many sectors, there is uncertainty about the extent to which activity will be sustained as Government financial support for the economy is withdrawn. There is some concern that the regional economy may be less strong than it appears, with the risk of additional business closures and job losses in late 2021 into 2022.

In many sectors, business investment has slowed down or halted. Businesses have suffered significant damage to their balance sheets, holding back investment, particularly among SMEs.

However, there are several sectors in which confidence is sound and investment is holding up well including low carbon energy, digital, health and life sciences, construction, and larger OEMs in automotive manufacturing.

Impact of leaving the European Union

The initial impacts on North East businesses of the UK's exit from the EU are gradually becoming clearer, although the full impacts will still take some time to unfold, and it is very difficult to disentangle the effects of EU exit from the impacts of the pandemic. Key impacts to date are:

- some firms facing additional costs and delays because of the new administrative systems required for trade between the UK and EU
- businesses facing uncertainty about the new UK regime for financial incentives and legislative requirements that will replace the previous EU arrangements
- recruitment difficulties and skills shortages, due in part to increased difficulties in recruiting EU workers.

Opportunities for North East businesses from EU exit include firms planning to relocate some production activities back in the North East;

increasing use of UK suppliers, and opportunities to grow export sales through new trade deals, including with Australia, Asia Pacific, and South America.

Opportunities

There have been a series of major investment announcements in the region during the pandemic, helping to build optimism about the potential for a strong recovery, including the investments by Nissan and Envision, Britishvolt, and Equinor and SSE Renewables.

The North East is receiving a healthy pipeline of inward investment enquiries, providing optimism about the prospects for new investment and job creation as the economy recovers.

There is some evidence of the region benefitting from north shoring (the re-location of jobs from the south of the UK to the north) as the economy emerges from the pandemic.

During the pandemic, there has been an increase in the number of new business starts in the region. The North East Growth Hub is seeing an increase in the volume and quality of new startups seeking advice and finance for growth.

Employment, unemployment and economic inactivity

The number of payrolled employees rose slightly (by around 1%) between February 2019 and February 2020, before falling sharply between March and April 2020, and continuing to fall to a low in November 2020. Employment has risen since January 2021, particularly as lockdown restrictions have eased, and there were 801,680 payrolled employees in the North East LEP area in June 2021. This was actually 940 higher than in February 2020, an increase of 0.1%.

Jobs growth is uneven by sector, with accommodation and food service activities; wholesale, retail and repair of motor vehicles; manufacturing and arts, entertainment and recreation shedding payrolled employees nationally between February 2020 and June 2021. In contrast, several sectors have seen employment growth during the pandemic, including health and social work, public administration and defence, administrative and support services and education.

The number of people claiming unemployment-related benefits in the North East LEP area rose by 65% between February 2020 and May 2020. After remaining relatively unchanged for several months, the claimant count has fallen since January 2021, with the rate of decline appearing to quicken in May and June.



Some 76,080 people were claiming benefits in June 2021; this remained 40% more than in February 2020.

The unemployment rate in the North East region was 5.8% in the period March to May 2021, compared with 5.0% in England. An estimated 74,500 people in the region were unemployed and actively seeking work. This was 5,600 more than the number in March to May 2020, an increase of 8%.

Women have been affected by a larger rise in unemployment in the North East region (and nationally) than among men during the COVID-19 pandemic. Between January to March 2020 and March to May 2020, the number of women who were unemployed rose by 33% (to almost 690,000) compared with a rise of 10% among men (to 735,000).

In March to May 2021, an estimated 383,300 people in the North East region were economically inactive. This was 24,000 more than in March to May 2020, an increase of 7%. The number of economically inactive women in the North East region rose by almost 16,600 in the same period (8%), compared with a rise of 7,400 (5%) among men.

Unemployment impacts have fallen most heavily on young people, and on the poorest communities, where low wage employment in the worst hit sectors is concentrated, such as retail and hospitality.

Although regional unemployment has risen, this has been well below the levels first feared. Employment has held up much better than expected, due to a number of factors including furlough, demand in the economy being supported by Government spending, the successful transition to home working, and businesses quickly putting Covid safe working in place.

Support Interventions

Since January 2021, the number of employments furloughed under the Coronavirus Job Retention Scheme has fallen, as lockdown restrictions have gradually lifted.

At end June 2021, provisional data show 50,800 employment furloughed in the North East LEP area, compared with 126,900 in July 2020.

In total, 39.5% of eligible employments in the North East LEP area have been furloughed at some point the scheme. At the end of June 2021, 6% of eligible employments in the North East LEP area were furloughed. These proportions are similar to those seen nationally.

There has been a high take-up of the Coronavirus Job Retention Scheme (CJRS) in the region, with around one-third of North East workers benefiting. This has had a significant impact, protecting many thousands of jobs that would otherwise have been lost during the pandemic. The take-up of CJRS has varied greatly between sectors, with most take-up in hospitality and leisure, tourism, aviation, arts and culture, non-essential retail, construction, and parts of the manufacturing sector. The use of furlough has reduced significantly since Spring 2021, as growing business activity has enabled businesses to bring staff back to work.

Despite the success of the furlough scheme, the regional labour market has seen some redundancies, albeit not at the very high levels first feared. **More redundancies are expected in the late 2021 and early 2022, when the furlough schemes ends.**

Skills supply and demand

ONS analysis shows that the number of online job vacancies in the North East region at end July 2021 was 165% of their level in February 2020 (in comparison, vacancies in England were at 127% of their February 2020 level). Demand varies by sector.

Reflecting the national picture, there was a significant spike in redundancies in the North East region in late 2020. An estimated 13,600 people were made redundant in the period September to November 2020, a higher number than in any period on record. This is likely to be a result of the expected end of the CJRS in October 2020, while the immediate fall in the number of redundancies in the period following this spike may reflect the subsequent extension of the scheme.



Job losses have been concentrated in sectors least able to operate through the pandemic, including high street retail, hospitality and leisure, arts and culture, and travel and tourism.

Nationally, redundancies have been concentrated in wholesale and retail, manufacturing, accommodation and food services, administrative and support services and professional, scientific and technical activities.

Despite the challenges faced by the labour market, the regional economy is now experiencing a period of strong job creation. Vacancy numbers are rising quickly in a number of sectors, including hospitality, tourism, retail, adding to the opportunities that were already being created by strongly performing sectors including digital, food and drink manufacturing, transport and logistics, healthcare, and energy.

However, as recruitment activity picks up, many North East businesses are experiencing skills shortages. The worst effects are being felt in hospitality, tourism, logistics, healthcare, construction, agriculture, and food and drink manufacturing.

In sectors experiencing skills shortages, there is evidence that people have voluntarily left during the pandemic to take up jobs in other sectors offering better pay, conditions, or work / life balance.

Impact on skills, training and workforce investment

The pandemic has had a significant disruptive impact on the education of the region's young people at school, college and university, impacting on their learning, attainment, well-being, and prospects.

DfE data shows that to date in 2020/21, the number of apprenticeship starts in the North East LEP area is at 76% of the number in 2019/20, while nationally the figure is 78%. Starts among women aged under 19 year olds, and starts among 19 to 24 year old men, are both lower in the North East than in England.

Apprenticeship recruitment has also reduced, running at around 20% below pre-pandemic levels, although there are early signs that this may begin to recover.

Businesses have reported a significant reduction in investment in staff training during the pandemic.



The shift to homeworking brought about by the pandemic is expected to become a permanent feature, although the approach is not consistent across all businesses.

Some are committed to a full return to the office phased in during late 2021, others have decided to close their offices and shift to a permanent homeworking model, while most will employ a hybrid approach.

Some firms have begun to recruit staff from outside the region on a homeworking business, which is helping to open up access to a larger skills pool, although they are also facing competition for North East staff from businesses outside the region.



The shift to homeworking, home learning and digital delivery of services has highlighted the importance of digital skills, while also exposing severe problems of digital exclusion in the region.

One in three employers (29%) who responded to a Make It Click survey said that digital skills had never been more important in their organisation than during the COVID-19 pandemic.

Impact of exiting the European Union

The UK's exit from the EU has affected the regional labour market, although the full impacts will still take some time to unfold, and it is very difficult to disentangle the effects of EU exit from those of the pandemic. The key impact appears to be staff shortages in sectors that previously employed a significant number of EU workers (such as agriculture, food and drink manufacturing, hospitality, construction, and health care).

Catalysing innovative activities

There is opportunity for the region to build an innovation-led post-Covid recovery through targeted investment in R&D and the adoption of new technologies, focusing on the region's unique strengths in automotive manufacturing and electrification, low carbon energy, and digital technologies (including AI and automation).

Low carbon technology innovation in particular is creating opportunities for North East economic recovery and growth, especially in vehicle electrification and renewable energy generation. While these technologies and industries pre-date COVID-19, they present specific opportunities for innovation-led growth and recovery as the region emerges from the pandemic.



Businesses and SMEs across all sectors have shown great adaptability, demonstrating their capacity to innovate and make changes to the way they operate in the face of the pandemic. This includes the development of new products and services; entering new markets; and developing better and more efficient ways of working.

Some 71% of respondents to a GovGrant survey believed that COVID-19 represents an opportunity for innovation, with 26% citing it as "significant".

Digitalisation

The pandemic has demonstrated to businesses the benefits of new ways of working, including home working and digital delivery of services. These innovations have delivered significant productivity and financial benefits for many businesses which will ensure beyond the pandemic.



The pandemic has accelerated innovations and technologies that were in place before COVID-19 but have been adopted much more quickly than would otherwise have been the case. **The adoption of digital technologies has had a truly transformative impact on many North East businesses and sectors.**

Many digital businesses in the region have experienced strong growth through the pandemic by supporting firms in other sectors to adopt digital technologies.



Some businesses are concerned about a current lack of clarity regarding the UK's future R&D strategy and specific investment plans, following EU exit. **Continuing uncertainty risks holding back private sector innovation investment.**

The region will need to think in new and creative ways about the future role and use of its city and town centres, which has changed permanently as a result of the pandemic, particularly the hollowing-out of the retail core in many places



The use of public transport in the North East has fallen significantly during the pandemic. Nexus reports that, during summer 2021, public transport usage was down by between 20% and 40% compared to pre-pandemic levels.



The reduction in public transport usage is reflected in a significant increase in the use of private vehicles for travel to work, retail and leisure.



The pandemic has resulted in a greater propensity for cycling and walking in the North East.



The emerging view is that the pandemic has stimulated a car-led approach to mobility across the North East and the UK, which may be difficult to reverse.

This apparent shift away from public transport towards private vehicles has big implications for the region's ability to deliver on net zero targets and to minimise congestion on roads.

However, the shift to private vehicles offers a significant growth opportunity for the region's automotive sector if enough drivers can be persuaded and incentivised to shift to electric vehicles.

The region's aviation industry has been one of the sectors worst affected by the pandemic, although there are early signs of recovery and greater optimism for the sector's prospects from 2022.

The region's road haulage and shipping sectors are also facing significant challenges and disruption. These pressures are expected to ease as backlogs are cleared and the economy returns to equilibrium, but challenges are expected for the remainder of 2021 and into early 2022.



The importance of high-quality digital infrastructure and connectivity has been amplified by the pandemic in light of the shift to home working and the growing use of digital technologies by businesses across all sectors, as well as households.

Infrastructure

Demand for business property in the region has generally held up well during the pandemic. There is good evidence of sustained demand for both industrial and office property across local areas in the region.



The retail and leisure market has suffered most, with properties being vacated on the region's high streets and in shopping centres.

Research by the British Retail Consortium and Local Data Company found that **20.6% of retail premises in the North East were vacant in July 2021, giving the region both the highest vacancy rate in the country and the highest rise over the last year.**

Despite this, the level of vacancies to date is not as bad as was first feared in the early days of the pandemic, although there is concern that more vacancies will arise in future.



The region is benefitting from significant investment in key infrastructure, which will be an important driver of the recovery.

This includes investment in house building, roads, rail, ports, industrial sites, commercial developments, and town and city centre regeneration and re-purposing, supported by a mix of public and private funding. In addition, there is hundreds of millions of pounds of further infrastructure investment in the pipeline, to be delivered over the next few years.

There is a need to expand and accelerate investment in the region's digital infrastructure, which the pandemic has shown is critical to the region's future economic success.

There are some early anecdotal signs that the population in rural areas may be growing, as people choose to re-locate to the North East from other parts of the UK. Additional investment in rural communities may be needed to ensure housing, transport and local services are able to support this increase in activity.

Finance

There has been a very high take-up among North East businesses of the financial support on offer from UK Government and local authorities, which has had a significant impact in safeguarding the region's business and employment base.



There is a strong case to continue (on a focused basis) some of the financial support measures for businesses for months or years to come to secure the recovery and safeguard the business and employment base.

Key financial support measures that North East businesses want to see continue in future include the VAT reduction for hospitality, and business rates relief.

More than 34,200 grant payments were made to hereditaments (premises) in the North East LEP area through the Small Business Grants Fund and the Retail, Hospitality and Leisure Business Grants Fund, with a value of more than £393 million.

This represented payments to 97% of the hereditaments identified as eligible, and 98% of identified eligible funding.

More than 3,100 grants were paid by local authorities in the North East LEP area from the Local Authority Discretionary Grant Fund, with a value of over £19.7 million.

There is growing concern that some firms may have become grant dependent, undoing many years of progress with North East businesses.

There is significant concern in the North East investment community about the lack of visibility regarding the future of publicly-backed investment funds in the region. A lack of investment finance for businesses could impede the regional recovery.

Additional incentives are needed to stimulate private angel investment in the region.

Overall, there is a need to provide significant additional business investment funding capacity in the North East to kick-start and de-risk business investment in sectors and projects with potential to create and safeguard jobs, with the aim of stimulating and accelerating the region's economic

Places

City and town centres across the region have suffered a significant reduction in footfall during the pandemic.

Many large towns, city centres, and out of town retail centres have been impacted by the closure of large national chains.

Larger towns and city centres have seen the greatest reductions in footfall, and an acceleration of the pre-COVID-19 decline of high streets. By contrast, some smaller towns and suburban high streets have seen a strong recovery and an increase in spending and footfall, driven by a move towards more local patterns of spending.

The region's rural and coastal communities have seen both positive and negative impacts from the pandemic. Some places with a strong tourism offer have benefitted from the boom in staycations, and some are seeing population growth as people re-locate to the region's rural communities in search of a better, more affordable quality of life. However, some rural communities have suffered specific impacts including the loss of significant numbers of hospitality jobs with few alternative opportunities to replace them.

Some local areas have seen an increase in business start-ups, including new social enterprises, compared to pre-pandemic levels.



Local areas have seen increasing use of private vehicles through the pandemic, for shorter, local journeys as well as for commuting. There has been a noticeable reduction in public transport use in local areas.

Poor digital connectivity has made it difficult for people and businesses in some rural areas to benefit fully from home working and increased use of digital technologies.

Communities

The most deprived parts of the region, with the highest unemployment rates and the lowest incomes and skills, are the ones impacted most severely by the pandemic.

Wealthier communities with a higher density of people in professional and technical occupations have fared much better, with the shift to homeworking enabling many to continue working and earning normally through the pandemic.

Young people in the region's most deprived communities have been particularly hard hit.

There is evidence that health inequalities in local areas have widened during the pandemic.

The voluntary and community sector has played a crucial role in local areas, providing support and services to help people from the most vulnerable communities through the pandemic.



Key messages, conclusions and implications for the future



Key messages, conclusions and implications for the future

The North East economy has experienced profound impacts during the pandemic which, alongside the UK's exit from the European Union, have resulted in challenges that will take many years to address.

However, the economic shock has also brought to the fore opportunities that offer potential for the North East to create a strong and sustained recovery, building on the region's established strengths.

The pandemic and EU Exit have also resulted in significant changes in patterns of business, work, education, travel, and leisure activity which, if sustained in the long-term, will have important implications for the future of the regional economy.

The evidence base presented in this report points to a number of key opportunities, challenges, and changes now confronting the North East economy. These are the key issues to be considered in planning the economic recovery and future regional priorities.



Opportunities

Opportunities

Investing to stimulate future growth in key sectors

Some sectors of the regional economy have performed well, continuing to grow during the pandemic or attracting significant new investment paving the way for future growth. This is particularly the case for those sectors in which the North East has existing unique strengths, including advanced manufacturing (especially automotive and electric vehicles), low carbon energy, health and life sciences, and digital technology. There is a strong case to continue investing in these existing regional priority sectors, providing a solid foundation for future job creation and productivity growth.



Innovation at the heart of the recovery

The pandemic and EU exit have underlined the importance of investing in innovation and R&D, which is the bedrock upon which the region's key priority sectors (such as low carbon energy, digital, and health and life sciences) are built. Many businesses in these industries have benefitted from bringing new products to market during the pandemic (e.g. new medicines, the latest digital products), underpinning ongoing growth and cushioning the impacts of the pandemic and EU exit. This highlights the importance of continued R&D investment in the region. Meanwhile, the pandemic has highlighted a growing spirit of innovation among the region's SMEs, many of whom have introduced new products and improved ways of working during the pandemic (e.g. adoption of new digital technologies). There is an opportunity to embed permanently this strengthening innovation culture, delivering growth and productivity improvements among the region's SMEs. It will be important to clarify as soon as possible UK Government's plans to support North East businesses and researchers to invest in innovation and R&D in future, including plans to replace the previous EU innovation funding programmes.

Low carbon growth and decarbonisation

The region's low carbon industries, such as renewable energy generation and vehicle electrification, have proven to be very resilient to the effects of the pandemic and EU exit. This reflects the long-term nature of the low carbon challenges to be addressed, and the continuing commitment of businesses and Government to invest in decarbonising the economy. With its unique renewable energy and electric vehicle assets in particular, the North East is well placed to capitalise on the low carbon opportunity, leading the region's economic recovery and future growth.



Locking in digitalisation and productivity improvements

The rapid adoption of digital technologies and automation during the pandemic, alongside the shift to remote working and homeworking, have delivered significant productivity benefits for many sectors and businesses. The pandemic has demonstrated the benefits of digitalisation for businesses across all sectors and types, shifting attitudes and building confidence in the transformational potential of digital technologies. There is an opportunity for the region to capitalise on this trend, encouraging and supporting more businesses to go further and faster in adopting digital technologies, securing regional productivity benefits on a permanent basis.

A renewed focus on growing the business base through start-ups

The pandemic has seen growing interest in business start-up, and a new-found enthusiasm among some people to leave their current jobs and start new ventures. This has coincided with an increase in the quality of start-up businesses with scale-up potential coming forward for advice and support, including more people in higher-skilled, professional occupations considering business start-up. The North East can capitalise on this opportunity to create more private sector enterprises and jobs, helping to strengthen the region's business base.

Attracting inward investment

Investors have continued to show interest and confidence in the North East economy throughout the pandemic. The volume and quality of inward investment enquiries has held up well, and a number of important investment and job creation projects have been confirmed. This indicates that the fundamentals of the regional economy (attractive workforce, good quality infrastructure and connectivity, cost competitiveness) remain intact. There is an opportunity for the region to capitalise on inward investment as an important tool in securing and accelerating the recovery, particularly in sectors such as low carbon energy, vehicle electrification, digital technologies, health and life sciences, and business services, where the region offers specific strengths to potential investors.

Capitalising on international trade opportunities

- While EU Exit has clearly had an impact on reducing trade flows between North East businesses and the EU, firms in some sectors (e.g. agriculture, manufacturing) do expect new opportunities in the coming months and years to grow export sales via new trade deals, including with Australia, Asia Pacific, and South America.

Improving the region's infrastructure

During the pandemic, private businesses and national and local Government have invested heavily in major infrastructure projects, providing an important source of continuing spending and activity in the economy, and beginning to deliver on the levelling-up agenda. All aspects of the region's infrastructure have benefitted, including house building, roads, rail, ports, industrial sites, and commercial developments. National and local Government-backed regeneration programmes, such as Town Deals, Future High Streets Fund, and Getting Building Fund are also underway, providing a boost to the region's towns and city centres. Coming out of the pandemic, there is an opportunity to continue investing in this area, ensuring the region has the physical infrastructure needed to support growth in the long-term, as well as providing a valuable short and medium-term boost to the construction sector.



Challenges

Challenges

Supporting recovery in important sectors

In sharp contrast to the strong performers, some sectors of the regional economy have suffered significant damage from the combined effects of the pandemic and EU exit. Those most impacted are: hospitality and leisure; high street retail; arts and culture; and tourism. These sectors are very important to the economy, employing a significant proportion of the regional workforce, and providing entry level jobs which are particularly valuable to young people entering the workforce. There is a need to support firms in these sectors to repair and recover as the economy moves beyond the pandemic, ensuring this important part of the region's business and employment base is safeguarded, whilst at the same time learning from some of the issues which could have enhanced their resilience including the nature of the employment offer and building on the innovation which was inherent in

the more successful responses such as new on-line services and enhanced penetration of domestic tourism markets. For policy makers, given the essential role these sectors play in the economy, there is a need to support businesses to repair their balance sheets as they repay debts taken on during the pandemic, with some need to lobby UK Government to extend the duration of some of the financial support measures for businesses in these sectors (e.g. VAT reduction for hospitality, business rates relief), and to support businesses to embed innovation. There is a separate and specific case to support the recovery of the region's aviation sector which has been particularly hard hit because of international travel restrictions. It will be important to support aviation to recover as quickly as possible, restoring the region's international transport links for both passengers and freight.

Addressing acute skills shortages in the worst affected sectors

Some sectors of the regional economy are being heavily impacted by ongoing skills shortages resulting from a combination of staff leaving their jobs during the pandemic (including to take jobs in other sectors), Covid international travel restrictions, and the effects of migration controls following EU Exit. The sectors most affected include logistics, health and social care, construction, hospitality, tourism, agriculture, and food and drink manufacturing. There is a need to support businesses in these sectors in particular to attract new workers to address skills shortages, including re-training workers made redundant from other jobs during the pandemic, and to develop long term plans to support resilience in labour supply or transition to less labour-intensive business models.

Securing finance for business investment

While there are opportunities to invest in business growth, particularly in the region's key sectors such as advanced manufacturing, low carbon energy, digital, and health and life sciences, the evidence base highlights a key challenge in the form of a lack of private venture capital to support the region's growing businesses. This is compounded by a lack of certainty about the future of publicly-backed investment funds, once the EU funding for current programmes (such as Jeremie) comes to an end. There is also a view in the investment community that the region should focus publicly-backed investment funds on supporting a smaller number of higher potential scale-up businesses. If the region is to provide the necessary investment to support priority sectors as a key driver of post-pandemic recovery, solutions to these investment challenges will need to be identified.

Securing finance for business investment

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Supporting international trade

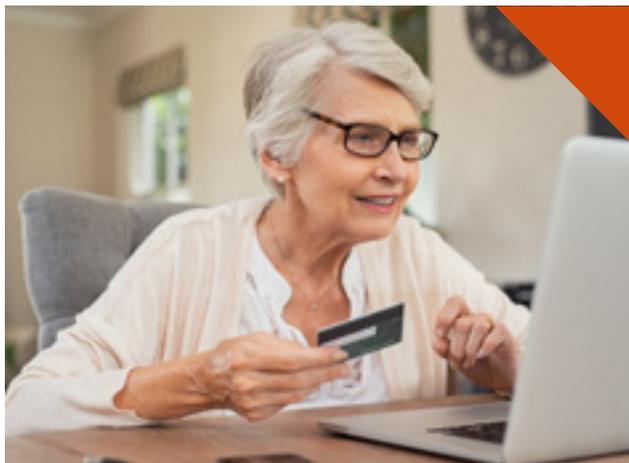
The effects of EU Exit to date, in parallel with the pandemic, have introduced new challenges for North East exporters who are adjusting to additional administrative requirements and costs, border delays, and falling demand in the EU for some UK products. Larger businesses have generally adjusted better to the changes, while some smaller firms have been significantly impacted, largely because they lack the resources to manage the additional requirements and costs. Some small businesses have lost a significant amount of trade with EU customers, while others have chosen to stop exporting altogether as the additional costs outweigh the benefits. There is a need to provide support to small exporters in particular to enable them to overcome the practical barriers to trading with the EU. At the same time, the strengthening of service sector exports and increasing use of digital platforms for trade creates an opportunity for the region to add new markets to its export portfolio, including taking advantage of its strengthening international digital connections and new trade deals.

Tackling rising inequality

It is clear that the impacts of the pandemic have fallen most heavily on those that were already disadvantaged before COVID-19, including young people, those in low-wage, low-skill occupations, unemployed people, some women in the labour market, and those living in the region's most deprived neighbourhoods. The current livelihoods and future prospects of these people have been impacted most by rising unemployment and reduced incomes during furlough. There is a need to support these most disadvantaged groups by supporting people back into work, and by providing help to improve skills to secure better paid work in growing sectors of the economy. There is an important role for the VCSE sector and for local authorities in particular in helping to address these issues. As well as local support and intervention, this will require lobbying UK Government to provide additional targeted investment to support the most deprived target groups and communities in the region to improve opportunity and prosperity, delivering on the levelling-up agenda.

Supporting young people

The region's young people have been badly impacted by the pandemic. Sectors such as retail and hospitality which employ a high proportion of young workers have been the first to let staff go, and they were not hiring during the depths of the pandemic. This has made it even more difficult than normal for school and college leavers to find their first job, further compounded by the drop in apprenticeship vacancies during the pandemic. Young people at school, college and university have also suffered from more than a year of lost or disrupted education. Young people are the future workforce and a vital asset for the region. There is a need to provide targeted support for young people as the economy recovers, helping them to enter or re-enter the labour market through Apprenticeships, technical education and other training programmes, supporting activities to catch-up on lost education, providing good quality careers information to identify appropriate education and employment pathways, addressing digital exclusion, and supporting wellbeing.



Addressing digital exclusion

The digital divide in the region, which pre-dated COVID-19, has been accelerated and deepened by the pandemic, with a growing gap between wealthier households with good digital capabilities, and those disadvantaged groups and communities who lack access to devices, reliable connectivity, and digital skills and confidence. While the shift to online working, education, and service delivery during the pandemic worked smoothly for many, a significant proportion of the region's population and workforce were locked out of digital activity, with the impacts felt most by young people, low-income households, and low skilled members of the workforce. This has compounded pre-existing inequalities, locking people out of employment and education opportunities, impacting on their current situation and future life chances. There is a need to implement a comprehensive regional response to the problem of digital exclusion to avoid the risk of long-term damage to the regional economy and society.

Enhancing digital connectivity and infrastructure

The pandemic has highlighted the extent to which businesses and households are now reliant on digital technology, and the disruption and inefficiencies caused when digital connectivity is not available. A successful shift to homeworking or hybrid working, which is expected to continue after the pandemic, relies heavily on people and businesses being able to access a reliable, high speed broadband connection. This must be available in rural communities as well as in urban areas. For businesses that are increasingly digitising their processes (for example, the use of digital automation in manufacturing), high-capacity digital infrastructure is increasingly important. If the region is to capture the full productivity, work and education benefits of digitalisation revealed by the pandemic, there is a need to further improve digital infrastructure, providing reliable, affordable, high-speed connectivity in all parts of the region.

Re-purposing town and city centres

While some city and town centres have been impacted less badly by the lockdowns than was first feared, it seems clear that some of the changes to the high street will be permanent, including a reduction in retail activity (driven by the accelerating take-up of online shopping), and less hospitality activity. High streets were already changing pre-Covid, but the pandemic has accelerated these impacts. To maintain the viability of town and city centres, which play such an important role in local economies and communities, local areas and the region more widely will need a clear plan. This will require a carefully thought through approach to introducing new, sustainable end uses, including residential, flexible use business accommodation, leisure, and culture, to offset an expected reduction in retail and hospitality footfall.



Changes

Changes

Homeworking and hybrid working

The pandemic necessitated a rapid shift to home working on a scale not previously seen, with most people in management, professional, and administrative roles required by Government regulations to work from home during national lockdowns. This shift has highlighted a number of benefits for businesses (improved productivity, flexibility, reduced overheads) and for workers (greater flexibility, less time and money spent commuting) which many would like to retain in future. Evidence from ONS suggests that homeworking may become a permanent feature, with 38% of businesses in the North East intending to use increased homeworking as a permanent business model going forward, while 37% do not (the rest are unsure). Among adults who are currently homeworking, 85% want to use a "hybrid" approach combining both home and office working in future.

Although uncertain, the effects of this change in working patterns may include: reduced commuting and road congestion; reduced use of public transport; growing demand for reliable digital connectivity and high speeds across rural and urban areas alike; and increased demand for office workspaces able to accommodate hot-desking and more flexible working patterns. Homeworking could also impact on recruitment patterns and labour demand and supply. For example, it is already opening up opportunities for North East-based businesses to recruit homeworkers from a wider UK skills pool, and for people based in the North East to work more easily for employers based elsewhere in the UK, opening up new job opportunities.

Changing patterns of transport and movement

The pandemic has changed the way people travel, with a significant reduction in public transport usage and an increase in the use of private cars. There has also been an increase in walking and cycling, with more people using these methods for work commuting and leisure. It is too early to tell whether these new travel patterns will persist in the long-term, but if they do there will be significant implications for the provision of transport infrastructure and services in the region.



Re-thinking physical transport and digital connectivity

At the same time as the use of public transport, private cars, and walking and cycling is changing, digital tools such as MS Teams are reducing the frequency and necessity for face-to-face meetings for some businesses and workers, reducing the need to travel for work purposes. If these patterns persist, the balance between physical transport and digital connection may change permanently, with important implications for both physical transport and digital infrastructure and services. Trading activity is also being conducted increasingly via digital platforms and there may be an opportunity for the North East to capitalise on this trend, given the region's strengthening digital connectivity to the US and Europe, and the presence of significant data centres in the North East.

Environmental impacts

The environmental impacts of the changes brought about by the pandemic are far from certain at this time. During the national lockdowns, the significant reduction in road transport volumes and congestion increased hopes of permanently lower carbon emissions. However, as the restrictions have eased, there has been a reduction in public transport use and an apparent shift to private cars, the use of which is increasing, taking road usage and congestion back to pre-pandemic levels. The shift towards greater homeworking may contribute to a long-term reduction in commuting and car usage. However, a settled picture has not yet emerged.



The changing nature of some job roles

The evidence base has highlighted that the content of some job roles in the regional economy is changing fundamentally. For example, the construction sector needs to re-train thousands of heating engineers, plumbers and project managers to enable the sector to adopt new low carbon building technologies at scale. Jobs roles in other sectors, such as manufacturing and energy generation, are also adapting to new low carbon technologies. Similarly, the growing adoption of digital technologies across businesses in all sectors is changing the nature of some job roles. Although not a direct result of the current economic shock, the pandemic has accelerated the pace at which these changes are taking place. The region will need to be ready for these changes, preparing businesses and skills providers to support workers to re-skill as the needs of the economy change.

Growing domestic tourism

The pandemic has provided a significant boost to the region's tourism industry, which prior to the pandemic relied largely on visits from within the region and elsewhere in the UK, with a relatively small number of overseas visitors. The growth in staycations has meant more people holidaying in North East England, with coastal and rural locations experiencing particularly high visitor numbers. When international travel returns it seems likely that many UK residents will again travel overseas for holidays. Nevertheless, tourism industry feedback suggests the emerging view is that UK domestic tourism visitor numbers will remain above the pre-Covid baseline for some time to come, as reluctance to travel overseas will persist among some groups. There is likely to be an opportunity here for the region to grow the tourism sector on the back of a strong domestic visitor market.

Changing attitudes to workforce health and wellbeing

The pandemic has highlighted that a healthy population is a pre-requisite for a successful economy. Absence due to self-isolation and Covid-related illness has taken a heavy toll on the workforce capacity of many businesses. Meanwhile, a significant number of staff days have been lost due to stress and mental wellbeing problems associated with the pandemic. This underlines the damaging impact of workforce ill health on regional economic productivity. While the long-term impacts of COVID-19 on the workforce are currently unknown, there is a case to support broader public health measures to safeguard the health, wellbeing and productivity of the workforce.

Quality of life and quality of place

The pandemic has caused people to think again about what is important to them, including the types of jobs they want to do and how, when and where they work, the quality of the places they live in, the local environment, and how and where they spend their leisure time. These changes are already impacting on the regional economy. For example: some sectors are experiencing skills shortages (e.g. logistics, hospitality, social care) because some workers have decided they no longer want to do these jobs; the coastal and rural visitor economy is experiencing a significant increase in local visitor numbers; and house prices are increasing driven by growing demand from people choosing to re-locate. In considering the region's economic recovery and future growth plans it will be important to consider how quality of life in the North East can be enhanced, making the region a better place to live, work, visit and invest. There is an economic opportunity here to attract more people and businesses to the region, based on quality of life and affordability.

