

Coronavirus (COVID-19) bulletin

08 June 2020 to 11 June 2020

"We face a huge economic problem. That's why we need to get moving, get this country going forward together."
Boris Johnson – PMQ's 10th June

Reopening the UK – Where are we now?

Hospital registered COVID-19 cases in England and associated deaths in the UK continue to decline (Figure 1). However the rate of decline has slowed over the past two weeks, likely in response to the good weather and partial relaxation of lockdown conditions. Regional and local variation in the rate of infection will affect whether the relaxation will lead to an increase in cases. ONS data, for example (Figure 2), indicates a greater risk in the North of England and aligns with data based on symptom tracking reported by the COVID-19 Symptom Study (Figure 3).

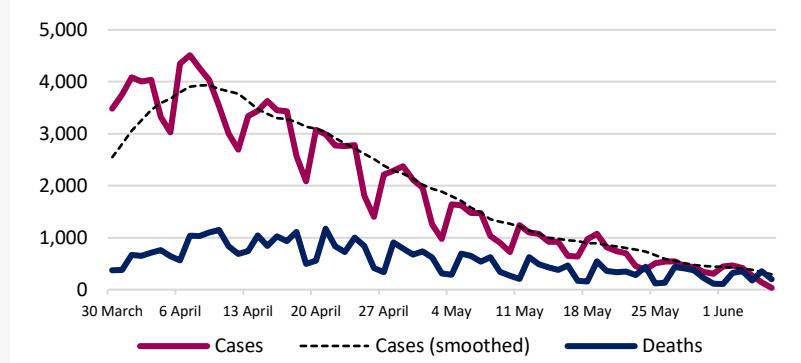


Figure 1: English hospital registered cases and UK deaths

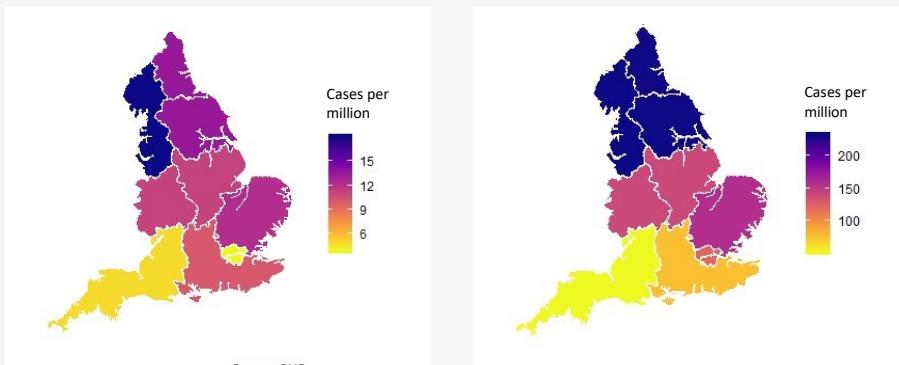


Figure 2: New English hospital registered cases by region (2 week average)

Figure 3: Symptom-based self-reported cases by region (2 week average)

16% of closed businesses plan to reopen imminently

An ONS survey shows the economy is gradually reopening:

- 82% of firms are still trading, up from 75.3% during the period 23 March - 5 April. Of the firms trading from 4 May - 17 May, 8% had reopened in the period.
- Of firms not trading, a substantial proportion of those in manufacturing (52%) and construction (43%) aimed to reopen in the two weeks following the survey.
- Arts, Entertainment and Recreation are the least certain around when they will start trading again. 46% of closed firms in the sector are not sure when they will be able to reopen. 37% of closed firms in accommodation and food services expressed similar uncertainty.
- Only 5% of responses were collected after the government announcement that non-essential retail could re-open on 15 June. 12% of businesses responding from 27 May had temporarily paused trading, but 36% intended to restart in the next two to four weeks.

Comparisons:
10/06/20 vs 02/01/20

1/1.27
GBP/USD  3%

6329
FTSE 100  16%

-0.05%
2Yr Yield  109bps

3190
S&P 500  2%

Bank of England Decision Makers Survey

The Bank of England has published a survey asking CFOs for their views on likely developments in the economy:

- The results reveal a pessimistic picture of the speed of the recovery and the likelihood of permanent scarring.
- Given the difficulty of re-opening in an age of social distancing, firms in accommodation and food expect sales to be 37% lower than previously expected in Q4 and employment to be down 22%.
- The figures suggest a big squeeze on profitability across all industries. This, together with a huge increase in corporate debt revealed in recent Bank of England figures, could depress investment for years to come.

PRA's guidance on payment holidays

At the end of last week the PRA issued updated guidance on payment holidays (PH's) in a letter to Chief Executives of UK deposit takers:

- First PH's are ending so guidance on how lenders should treat retail mortgage borrowers at the end of this initial deferral period has been issued by the FCA.
- This retains consistent principles to previous guidance for key assessment metrics, such as counting days past due, and ensures protection for customers who have utilised the COVID-19 payment holidays, emphasising the need for a holistic view of customers in the assessments made.
- The suggested framework for this holistic assessment is based on four elements: (a) economic conditions (b) historic information on borrowers (c) info gathered on customers using PH and (d) expert judgment.
- Lenders need to perform analysis to confirm models and Significant Increase in Credit Risk (SICR) rules continue to work. Although prior to COVID-19 a holiday would have been an SICR criteria, this no longer is the case, although some borrowers will now be in financial difficulty and will need to trigger SICR or impairment.
- Highlighted challenges exist in getting information on customers using PH's across large volume of customers within the short period of time required as well as the need for sense-checking of non-verified info.
- The PRA will be gathering bank specific provision levels ahead of Q2 reporting to understand the bigger picture.

Contact details

If you have any questions or would like to discuss anything further please contact the following

Keith Church
Head of Economic Modelling
keith.church@4-most.co.uk

Chintan Patel
Client Partner
chintan.patel@4-most.co.uk

Thomas Clarke
Principal Consultant
thomas.clarke@4-most.co.uk