



## **Social distancing and productivity: how to manage a volatile period of growth for the UK economy**

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# Social distancing and productivity: How to manage a volatile period of growth for the UK economy



*How can we boost productivity and help the economy grow during a period of social distancing? [Linda Yueh](#) writes that there is an urgent need for government and businesses to support technology investment. This will help change workplace norms as well as enable workers who can work from home do so more effectively.*

The Chancellor says the UK has fallen into a “significant” recession after the latest data for March showed a record drop in national output of nearly 6%. It’s a forecast that is in line with the consensus view on the economic outlook, which is that the UK faces the worst downturn since the Great Depression due to COVID-19.

The shape of the recovery is highly uncertain. It depends on the course of the pandemic and how the economy adapts to a new normal which includes remote working and social distancing. So, the UK likely faces a volatile period of growth. But, government support of technology to raise productivity and businesses changing their norms of working will help determine the growth rate of the economy during this uncertain time.

## Volatile growth

The International Monetary Fund (IMF) forecasts that the British economy could contract by 6.5%, the largest decline since the Great Depression. It is also more than the entire 6% contraction which occurred over 18 months between 2008 and 2009 in the global financial crisis. But the IMF expects the economy to bound and grow by 4% next year.

These figures are consistent with the Bank of England’s (BOE) forecast. Both are subject to great uncertainty. The BOE estimates that GDP will contract by around 30% in the first half of the year, e.g., first quarter GDP will decline by around 3%, followed by a 25% fall in the second quarter.

Indeed, the first release of GDP showed that the economy contracted by 2% in the first three months of 2020, which is the largest quarterly contraction since the 2008-2009 Great Recession. It was largely due to the record contraction of 5.8% in March, the largest monthly fall since records began in 1997. Considering the lockdown officially began on March 23, these figures capture just a week or so of restrictive measures. With the lockdown largely expected to continue through the second quarter, the BOE forecast of double digit falls in GDP would be consistent with the preliminary data.

As it was due to the lockdown, the decline in economic activity was across all sectors. The largest sector, services, saw output fall by 1.9% in the first quarter, which is the biggest fall since records began. Production fell by 2.1%, driven by manufacturing cessation, while construction fell by 2.6%. Household consumption fell by 1.7%, which is the largest contraction since the start of 2008 financial crisis. The UK had a stagnant quarter at the end of 2019, so it is not in technical recession. But the data for March gives an indication of the severity of recession we are in now.

The IMF and other forecasts are for growth to return by 2021. When the lockdown is largely lifted, economic activity is expected to rebound. In China which has exited lockdown, [industrial production rebounded in April](#) and grew by 3.9% year-on-year after declining by 13.5% earlier in the year.

But, as parts of China enter back into some form of lockdown due to new cases of COVID-19, economic activity will again be restricted. This is why the UK, like other countries, faces a period of volatile growth. Periods of tighter and looser lockdown will likely directly impact economic output.

## Productivity during a period of social distancing

Until a vaccine or treatment is found, we should expect social distancing measures to continue. If social distancing can prevent another outbreak, then that would lessen the need for a period of restrictive measures. This will require adapting businesses for remote working and for limitations on the number of customers on premises, as well as adjusting public transport and the provision of education, among many other changes.

If social distancing becomes part of the new normal way of working, then it will be more important than ever to boost productivity to adjust to it. Raising output per worker or hour has been a long-standing challenge for the UK. To do so, it will likely mean more tech investments to boost productive working from home as well as helping shops adjust to more online sales and deliveries. One challenge is that lower-paid jobs are less amenable to home-based work, according to [Brookings Institute research](#).

This suggests a need for government policy and businesses to support technology investment to help workers who can work from home to more effectively do so. This might involve helping workers with access to technology to enable home-based work, along with changing workplace norms to shift primarily to online meetings, among others. For shops and restaurants, e-commerce and takeaway services will likely grow and require tech assistance. Bespoke support will be needed for education, manufacturing, construction and charities as well as other sectors, so policies will need to be tailored. Also, [some parts of the UK will be more affected than others](#), so there will be a need for other policies to ensure that the new normal will not badly impact productivity and livelihoods.

This will require government investment in technology and continuing policies to support the recovery and not just cope with the COVID-19 crisis. This year, the budget deficit is forecast to be around £337 billion or about 17% of GDP, which is more than double the annual deficit of £150bn after the 2008 banking crash. But all economies, advanced and emerging, are facing the same health and economic challenge of protecting their citizens and their livelihoods.

As with all investment in productive areas, there should be a payoff in output for years to come. It might even help the economy better manage a volatile period if social distancing and remote working became established ways of working so that work and workplaces are able to more easily adapt to periods of lockdown.

Investing in ways to raise productivity with social distancing measures could help with economic growth. It would be worth government and business investment to adapt quickly to address this looming challenge that simultaneously tackles one of the ongoing issues for the UK economy around slow productivity growth.

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## About the Author



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