



Hit from the big freeze will be 2-3 thousand businesses going bust earlier

Much of the United Kingdom is paralysed under a blanket of snow today, in what is likeliest to be the heaviest fall since the early 1990s. Whilst this will undoubtedly be welcome news for the millions of children who get to stay home from school, the disruption does impose costs on the economy.

The most significant of these is the loss of productivity from those who might otherwise be working who are unable (or unwilling) to get to work, or who get to work and are less effective than they might otherwise be. GDP per day in the UK is about £4.5 billion, so if 20% of the population have zero productivity for the day, there is a loss of £900 million.

But cebr has researched various extreme weather episodes both in the UK and elsewhere in Europe in a paper presented to the Weather Risk Management Association in November 2004. This paper pointed out that the real cost of bad weather was almost always exaggerated. Much of the productivity lost is made up fairly soon after. Meanwhile there are offsets – consumers spend more on heating and on warm clothes and any damage from the bad weather from accidents, or structural damage leads to increased spending on repairs. Although the insurance companies will eventually have to raise premia to pay for their extra spending, in the short run the effect shows up as reduced corporate savings by the insurance sector. There will also be increased overtime worked by various rescue and recovery services which adds to economic activity.

Even the most extreme weather in the UK in the past 200 years - in February 1963 when it was so cold that as a small child I was able to walk across the frozen Thames at Old Windsor – had a non noticeable affect on GDP for the quarter. Our study concluded *'The extremely cold winter in the UK of 1962/63 reduced manufacturing output in February by 7% and in the Q1 1963 by 2.5%. Construction work in the quarter was reduced by 16%. But there was no net negative impact on GDP because of higher spending on heating'*.

The recession will also have an impact on how the weather effects feed through. Almost certainly this means that the effects on productivity will be mitigated. With very few businesses working at full capacity, it will be relatively easy for the lost productivity to be made up later in the week or in the month depending on how long the bad weather lasts.

But the recession also has a different effect – on business cashflow. The lost productivity is largely a cost to business. If, in addition, it leads to delayed payments the combined hit on profits and cashflow could send many businesses who might be close to the brink into premature bankruptcy. In addition the sectoral impact is important: many of the businesses that are close to failing are in the retail and construction sectors that are likely to be most affected by the snow and transport disruption. A quick back of the envelope calculation suggests that perhaps an additional 2-3 thousand businesses may fail in Q1 2009 as a result of bad weather.

Douglas McWilliams *chief executive*
centre for economics and business research ltd
dmcwilliams@cebr.com 0207 324 2860

This report is produced by centre for economics and business research ltd (cebr) as part of our macroeconomic trends, analysis and forecasting advisory membership service, the prospects service. This report and all associated material shall remain the property of cebr and are only made available to bona fide employees of organisations with a current and fully paid-up membership of the prospects service. Such materials may not be disclosed or transmitted to individuals or organisations outside the member organisation without prior written permission from a director of cebr. cebr is not licensed in the conduct of investment business as defined in the Financial Services and Markets Act 2000. Any client considering a specific investment should consult their own broker or other investment adviser. Any views on investments expressed by cebr, or on behalf of cebr, are intended to be generic only. cebr accepts no liability for any specific investment decision which must be at the investor's own risk. Whilst every effort has been made to ensure the accuracy of the material in this report, neither the authors nor cebr will be liable for any loss or damages incurred through the use of this report or associated materials.