

QUARTERLY ECONOMIC FORECAST Q3 2021

Headlines:

- UK GDP forecast to grow by 7.1% in 2021, 5.2% in 2022 and 2.1% in 2023
- Stronger consumer and government spending expected to drive the UK recovery
- Business investment projected to decline in 2021 amid rising cost pressures

The UK remains on course for record GDP growth in 2021

The BCC forecasts UK GDP growth for 2021 of 7.1%, which if realised would be the strongest outturn since official records (produced by the Office for National Statistics) began in 1949. Following robust GDP growth in the second quarter, the UK's economic recovery is projected to slow into the autumn as staff shortages and supply chain disruption partly limit the gains from the lifting of restrictions in July. Consequently, the UK economy is only expected to return to its pre-pandemic level in Q1 2022 with growth of 5.2% forecast for 2022. UK GDP growth is forecast to moderate to 2.1% in 2023 as UK's growth trajectory starts to drop back towards long run growth rates. **The BCC forecast assumes no renewal of lockdown restrictions. Another scenario would lead to revisions in the next forecast.**

Historically strong consumer and government spending expected

Despite signs of renewed consumer caution amid rising Covid cases, the momentum from the ending of restrictions is projected to deliver the strongest growth in household spending in 33 years as consumers rundown some of the savings built-up during lockdowns. Government spending is expected to grow by 13.1% in 2021, which would be the strongest growth on record. This includes covid related expenditure such as the vaccine rollout and the test and trace programme. In contrast, business investment is forecast to decline by 2.5% this year. The damage done to firms' finances by the pandemic, a more onerous tax regime and concerns over the potential for future covid restrictions are expected to weigh heavily on investment intentions, despite the introduction of the super-deduction incentive.

UK inflation to rise to 10-year high

The upward pressure on prices from a range of factors, including the release of pent-up demand as restrictions eased and the rising cost of raw materials amid ongoing supply chain disruption, are expected to push CPI inflation to a peak of 4.0% in Q4 2021, which if realised would be the highest rate since Q4 2011. However, as supply chains adjust post-pandemic and demand moderates as government stimulus fades, inflation is expected to drift back to target by the end of 2022.

“The UK economy remains on course for a historic revival this year as the release of pent-up consumer demand as restrictions end, and higher government spending helps drive a substantial surge in economic activity. However, our latest outlook also points to a loss of momentum in the coming months as staff shortages, supply chain disruption and rising cost pressures limit output from many sectors. It is concerning that business investment looks like being the weak point of the recovery because it undermines the UK's ability to raise productivity and increase our long-term growth prospects.

Our latest forecast also suggests that the UK economy will emerge from Covid more unbalanced with a growing dependence on household consumption to drive growth. Such imbalances leave the UK more susceptible to future economic shocks, such as renewed lockdown restrictions.

Heightened uncertainty still looms over UK's economic outlook. A prolonged period of acute supply and staff shortages could derail the recovery by forcing firms into a more permanent reduction in their operating capacity, eroding their ability to fulfil orders and meet customer demand. Renewed restrictions to tackle rising Covid cases would also weaken the projected economic revival by damaging confidence and limiting activity.”

Suren Thiru, Head of Economics, British Chambers of Commerce

BCC ECONOMIC FORECAST SUMMARY Q3 2021

Current forecast (2021 Q3)				
BCC Economic Full Forecast (Annual % change)				
	2020	2021	2022	2023
GDP	-9.8%	7.1%	5.2%	2.1%
Household Consumption	-10.9%	5.5%	7.6%	2.8%
General government	-6.5%	13.1%	0.9%	0.8%
Investment	-8.8%	5.9%	5.1%	1.7%
of which: Business Investment	-10.2%	-2.5%	6.5%	1.4%
Exports	-15.8%	1.0%	5.9%	1.5%
Imports	-17.8%	3.4%	8.2%	2.4%
Total Production	-9.3%	6.1%	4.9%	1.9%
Manufacturing	-9.5%	8.6%	5.1%	2.0%
Construction	-14.0%	13.8%	3.8%	2.8%
Services	-9.0%	7.0%	5.6%	2.0%
Unemployment rate %*	4.6%	4.9%	4.7%	4.4%
Unemployment 000's**	245	95	-37	-113
Youth unemployment rate %*	13.8%	13.7%	13.5%	13.1%
Youth unemployment 000's**	86	-28	-6	-18
CPI inflation	0.8%	2.4%	2.7%	2.0%
Average earnings	1.2%	2.1%	2.2%	2.3%
Interest rates (Q4)*	0.10	0.10	0.35	0.60
NetTrade-Goods&Services-%GDP*	-0.3%	-1.0%	-1.7%	-2.1%
BofP-CurrentAccount-%GDP*	-3.5%	-3.4%	-3.9%	-3.7%
PSNBex-BCC forecast-FinYears-%GDP*	14.5%	9.0%	3.9%	
PSNBex-BCC forecast-FinYears-£bn*	297.7	215.5	97.0	

Sources: BCC, Cambridge Econometrics

* Reported as levels

** Change in levels

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