

BRITISH CHAMBERS OF COMMERCE

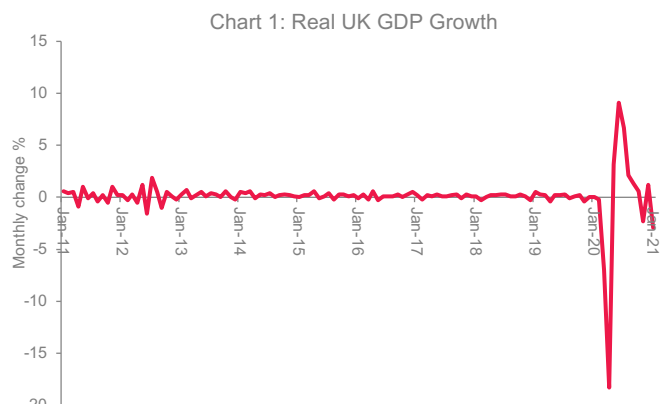
# MONTHLY ECONOMIC REVIEW April 2021

## Monthly headlines:

- UK GDP falls in January amid the squeeze on economic activity from the third lockdown
- Latest QES points to a 'difficult' Q1, but also sees a sharp uptick in business confidence
- First official post-Brexit trade data showed a record fall in UK exports to the EU in January

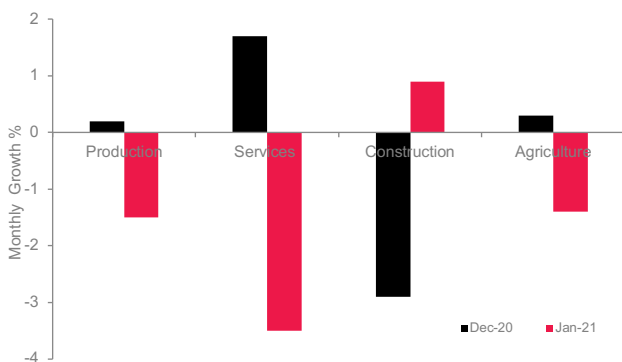
## UK GDP falls in January...

The latest official monthly estimate for UK economic growth (GDP) revealed that the UK economy contracted by 2.9% in January, down from growth of 1.2% in December as the third lockdown weighed heavily on economic activity (see Chart 1). **UK economic output is currently 9% below pre-pandemic levels.** The vaccine rollout and budget stimulus will boost output as restrictions ease. However, the lingering economic effects of covid, including elevated consumer and business debt levels, may limit the pace of any recovery.



Source: ONS UK GDP, January 2021

Chart 2: UK GDP Growth by Sector



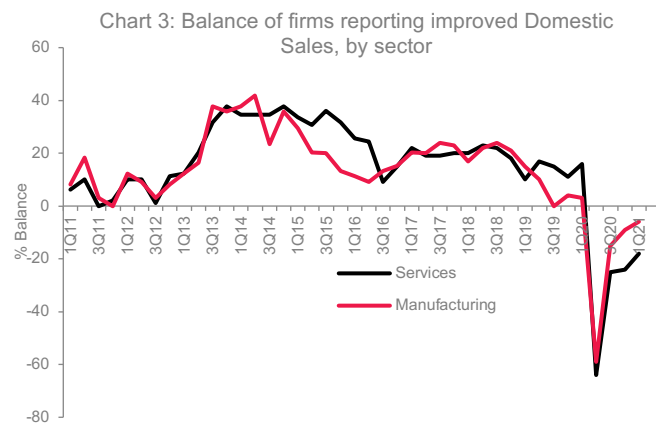
Source: ONS UK GDP, January 2021

## ...as services and industrial output declines...

January's contraction was largely driven by a **3.5% decline in service sector output in the month** (see Chart 2) amid significant falls in output from consumer-facing firms and the education sector. Industrial production fell by 1.5% in January, with output from the manufacturing sector, which accounts for around 10% of UK economic output, decreasing by 2.3%. In contrast, the construction sector output grew by 0.9% in January. The coronavirus testing and vaccine schemes boost health sector activity by 8.7% in January.

## ...the latest QES points to a 'difficult' Q1...

The results of the latest BCC Quarterly Economic Survey (QES) suggest that UK economic conditions remained weak in Q1 2021 with most of the key indicators still in negative territory. In the services sector, the balance of firms reporting increased domestic sales rose to -18% in Q1, up from -24% in Q4 2020 (see Chart 3). In the manufacturing sector, the balance of firms reporting increased domestic sales rose to -6% in Q1 2021, up from -9% in Q4 2020. **Consumer focused services companies saw the largest falls** with 83% of hospitality and catering firms reported decreases in sales in Q1.



Source: BCC QES: Q1 2021

Chart 4: UK Unemployment Rate



Source: ONS UK Labour Market Overview, March 2021

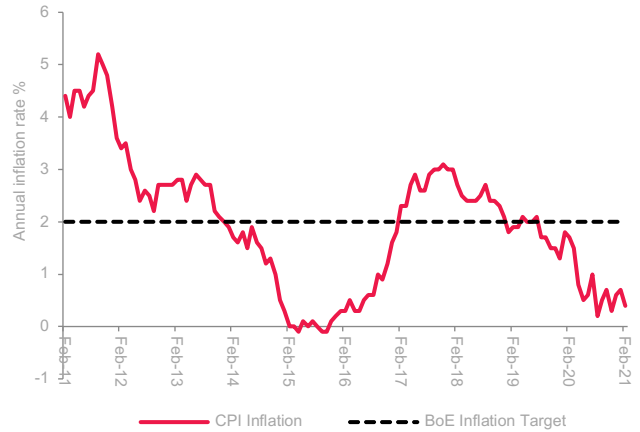
**...as furlough continues to limit job losses ...**

In the three months to January 2021, UK unemployment rose by 11,000. The unemployment rate fell from 5.1% to 5.0% (see Chart 4), driven by a 108,000 rise in the number of people classed as economically inactive. The number of payrolled employees rose by 0.2% in February, the third successive monthly increase. Although extending furlough will limit the peak in job losses, with many firms struggling with the damage done to their cashflow by a year of covid restrictions, unemployment is likely to continue to rise until well beyond a full reopening of the economy.

**...UK inflation slows for now...**

CPI inflation stood at 0.4% in February 2021, the lowest rate since November 2020 and down from 0.7% in January (see Chart 5). The slowdown was mostly driven by falling prices for clothing (which usually rise in February) and second-hand cars. However, price pressures in supply chains are increasing with the rate of output inflation for goods leaving the factory gate at 0.9% in the year to Feb 2021, up from 0.1% in January. The triple effect of the rise in the energy price cap in April, the release of pent-up demand as coronavirus restrictions ease and persistent post-Brexit border disruption is likely to drive inflation markedly higher over the near term.

Chart 5: UK CPI Inflation



Source: ONS Consumer Price Inflation, February 2021

Chart 6: Balance of firms expecting turnover to increase over the next twelve months



Source: BCC QES, Q1 2021

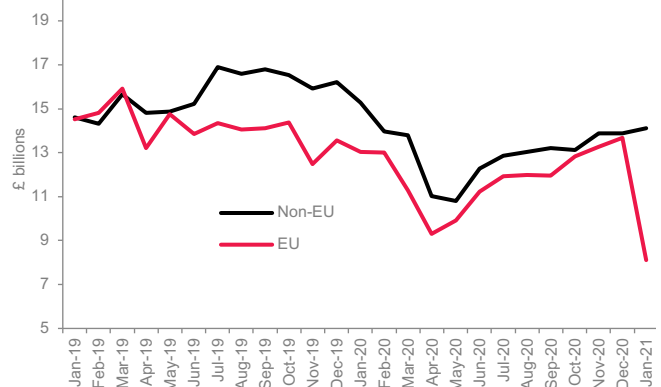
**...as business confidence rises...**

The BCC's latest QES also revealed that business confidence has been boosted in Q1 2021, amid the strong vaccine roll-out and the government's roadmap providing some ability for companies to forward plan. In the services sector, the balance of firms expecting turnover to increase over the next twelve months rose to +24% in Q1 2021, the highest since Q1 2020 and up significantly from -3% in Q4 2020 (see Chart 6). In the manufacturing sector, the balance of firms expecting turnover to increase over the next twelve months rose to +33% in Q1, also the highest since Q1 2020 and up significantly from +12% in Q4.

**...record fall in UK exports to the EU...**

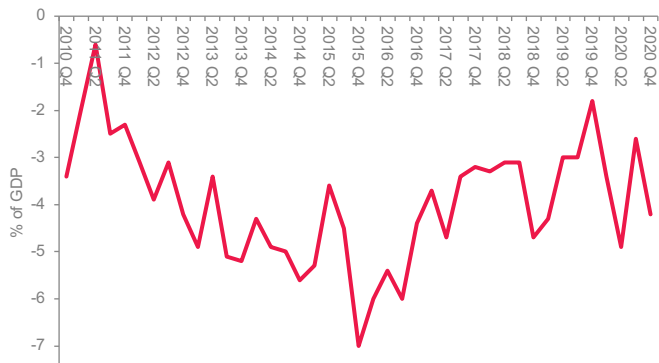
UK exports of goods, (excluding non-monetary gold and other precious metals) fell by 19.3% in January 2021, driven by a record 40.7% fall in exports to the EU (see Chart 7). In contrast, UK goods exports to non-EU countries rose by 1.7%. Although changes in data collection limit historic comparisons, the decline in UK exports of goods to the EU provides an indication of the damage being done to UK trade with the EU by the current border disruption. Continued coronavirus restrictions and the unwinding of Brexit stockpiling also added to the downward pressure on trade flows. With the disruption to UK-EU trade flows persisting, trade is likely to be a drag on UK GDP in Q1 2021.

Chart 7: UK exports to EU and Non-EU



ONS UK trade, January 2021

Chart 8: UK Current Account position (as a % of GDP)



Source: Balance of Payments, Q4 2020

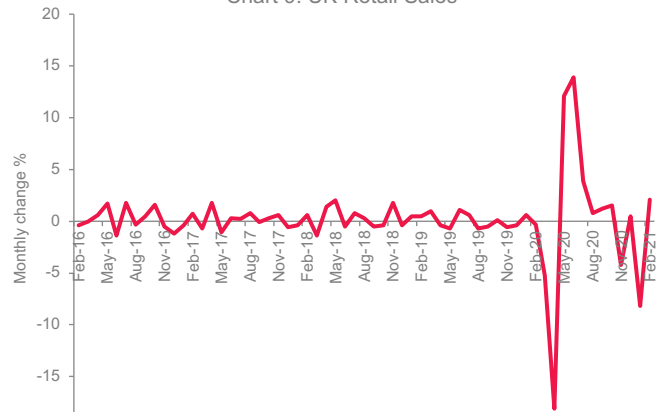
**...the UK's current account deficit widens...**

The UK ran a current account deficit (excluding non-monetary gold and other precious metals) of £22.8 billion in Q4 2020, £9 billion higher than the deficit of £13.8 billion Q3 2020. **The UK's current account deficit was equivalent to 4.2% of UK GDP in Q4, up from 2.6% in Q3 (see Chart 8).** The rise in the current account deficit reflected a deteriorating trade deficit amid a 9.9% rise in imports as business stockpiled ahead of the end of the Brexit transition period. For 2020 as a whole, UK's current account deficit widened to £73.9 billion, up from £68.6 billion in 2019.

**...retail sales rise...**

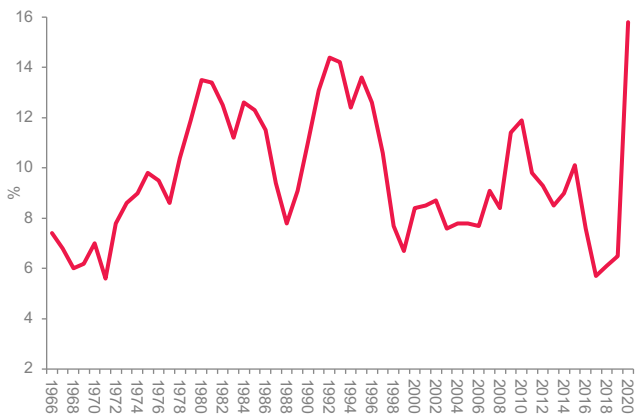
Retail sales increased by 2.1% in February, partly offsetting the decline of 8.2% rise in January (see Chart 9). The rise in February largely reflected increases in department stores (16.2%) and household goods store sales (16.1%) in the month. **The proportion spent online increased to 36.1% in February, the highest on record.** In the three months to February 2021, retail sales fell by 6.3% and were down by 3.7% in annual terms. Clothing retailers have been hit hardest by the pandemic, recording a 50.4% drop in sales in annual terms. Fuel sales reported a large annual decline of 26.5%, amid ongoing travel restrictions.

Chart 9: UK Retail Sales



Source: ONS

Chart 10: Household Savings Ratio



Source: ONS

**...as household savings strengthen.**

Household spending, which accounts for around two-thirds of UK economic output, fell by 1.7% in Q4. The household saving ratio (household savings as a proportion of household disposable income) increased to 16.1% in Q4 2020, up from 14.3% in Q3 2020. **For 2020 as a whole, the household saving ratio stood at 16.3%, an all-time high and more than double the 6.8% recorded in 2019 (see Chart 10).** Historically high household savings offers hope of a post-Covid consumer spending surge. However, much of the savings built-up during the pandemic is concentrated among higher earners who typically tend to spend a smaller proportion of their income.

**Bottom line:**

**Taken together, the latest data releases indicate that economic conditions remain particularly difficult. While the marked improvement in business confidence revealed by the BCC's latest QES suggests that the expected Q1 contraction in output will be the nadir for the UK economy in 2021, this is contingent on the government continuing to hit its target dates for re-opening the economy, a successful vaccine roll-out and providing ongoing support to businesses who have suffered throughout the crisis.**

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# ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21
Household	Retail Sales (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Consumer Confidence (GfK NOP)	■	■	■	■	■	■	■	■	■	■	■	■	■
	House Prices (Hallifax)	■	■	■	■	■	■	■	■	■	■	■	■	■
	New car sales (SMMT)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Mortgage approvals (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■
Business	Business confidence (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■
	Business lending (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Service sector output (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Production output (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Investment intentions (BCC)**	■	■	■	■	■	■	■	■	■	■	■	■	■
Labour market	Employment (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Unemployment (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Number of people on payroll (HMRC)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Earnings (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
Government	Public sector net borrowing (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Public sector net debt % of GDP (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Tax receipts (HMRC)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Current Budget Deficit (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■
External	UK trade balance (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Export Sales (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■
	Export orders (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■
Financial	Exchange rate (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Equity Prices (Bloomberg)	■	■	■	■	■	■	■	■	■	■	■	■	■
	10 year Government bonds (Bloomberg)	■	■	■	■	■	■	■	■	■	■	■	■	■

\*Colours indicate an improvement or deterioration of each indicator and refer to monthly changes unless stated. For example, an improvement in employment refers to an increase, while an improvement in unemployment refers to a fall. Also, a depreciation in the exchange rate refers to an improvement and an appreciation in the exchange rate refers to a deterioration. Dates refer to the release dates for each indicator.

\*\*Annual changes. \*\*\*Quarterly changes. \*\*\*\*Latest figures are estimate.