

**Monthly headlines:**

- UK GDP growth slows in May as service sector output eased
- UK inflation continues to rise as job vacancies rise back above pre-covid levels
- IMF predicts an uneven global recovery as the Eurozone exits recession

**UK economic growth slows in May...**

The latest official monthly estimate for UK economic growth (GDP) revealed that the UK economy grew 0.8% in May, the fourth successive month of growth, but down from growth of 2.0% in April (see Chart 1). UK GDP remains 3.1% below the pre-pandemic levels. In the three months to May 2021, UK GDP was up by 3.6%. While the latest figures confirm the rebound in economic activity continued into May, the slowdown in growth suggests that **the recovery maybe losing a little steam as the temporary boost, from the earlier phases of reopening fades.**

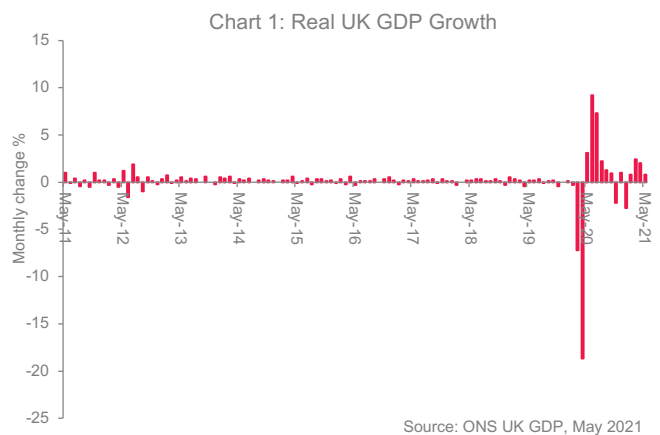
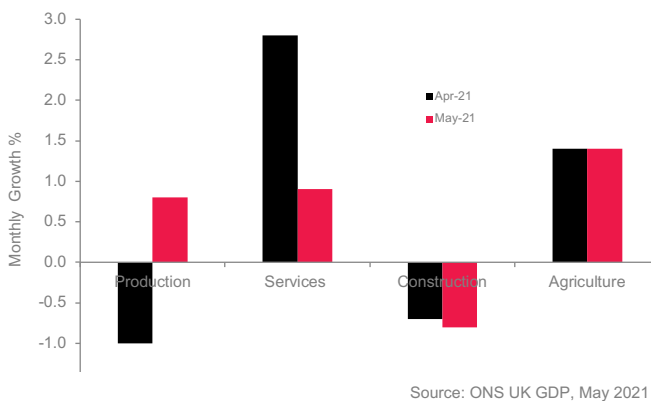


Chart 2: UK GDP Growth by Sector



**...as services output slows...**

Service sector output, which accounts for three-quarters of UK economic output, grew by 0.9% in May 2021, down from growth of 2.8% in April (see Chart 2). **Output from accommodation and food services rose by 37.1% in May as the easing of restrictions allowed pubs, restaurants and cafes to serve customers indoors.** Industrial production rose by 0.8% in May, but output from the manufacturing sector, which accounts for around 10% of UK economic output, fell by 0.1%. Output from the production of transport equipment fell by 16.5% as microchip shortages disrupted car production.

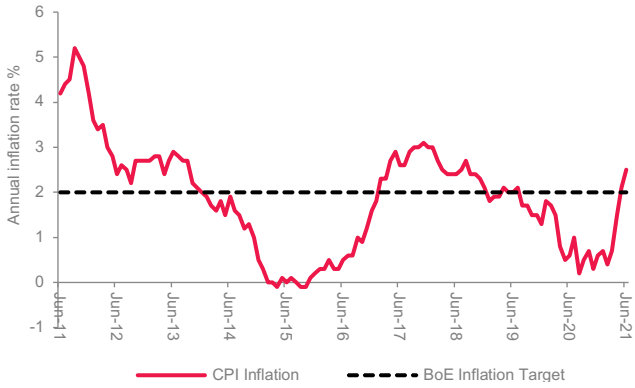
**...but retail sales rise amid Euro 2020 boost...**

Retail sales rose by 0.5% in June, following a decline of 1.3% in May (see Chart 3). The rise in retail sales in June reflected a boost to consumer activity from Euro 2020 as people spent significantly on food and drink, lifting food store sales by 4.2%. In contrast, non-food store sales fell by 1.7% in June, the first decline since the lockdown driven drop in January 2021. **The retail sector is set to provide a strong boost to Q2 UK GDP with sales up 12.2% in the 3 months to June 2021, the strongest outturn since Q3 2020.**

Chart 3: UK Retail Sales



Chart 4: UK CPI inflation



Source: Consumer Price Inflation, June 2021

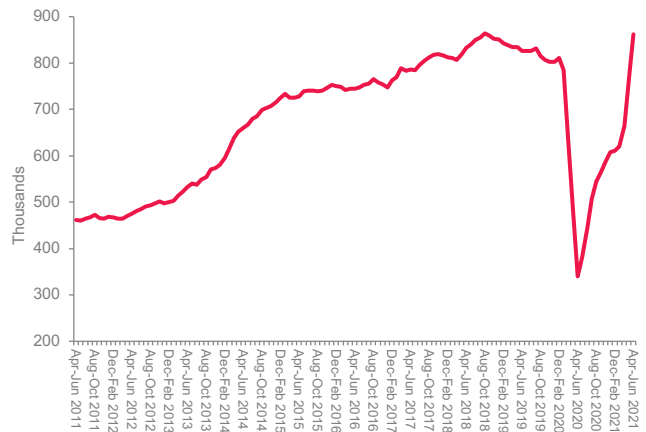
**...as inflation continues to rise...**

CPI inflation stood at 2.5% in June 2021, the highest rate since August 2018 and up from 2.1% in May (see Chart 4). Rising food and transport costs helped pushed inflation higher in June. However, **inflationary pressures in supply chains eased a little in June** with input prices growth at 9.1% in the year to June 2021, down from 10.4% in May. While consumer prices are set to rise higher in the near term amid persistent supply chain disruption, inflation is likely move back towards target over the near term as supply chains adjust and the temporary boost to demand from the economy reopening dissipates.

**...job vacancies back above pre-covid levels...**

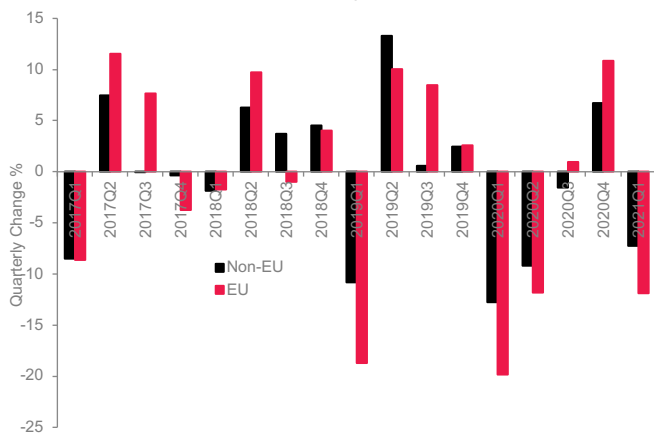
The number of employees on payroll rose by 356,000 in June 2021, the biggest increase since records began in 2014, but remains 206,000 below pre-pandemic levels. The number of job vacancies rose by 38.8% (241,200) to 862,000 in the three months to June 2021 and are now 77,500 above pre-pandemic levels (see Chart 5). The July reopening should further boost labour demand. However, **the UK jobs market is moving into a more turbulent period with unemployment likely to drift moderately higher in the near term as the furlough scheme winds down** and those who stopped looking for work during Covid return as restrictions end.

Chart 5: UK Job Vacancies



Source: ONS UK Labour Market Overview, July 2021

Chart 6: UK Services Exports to EU and Non-EU



Source: ONS Services Trade, Q1 2021

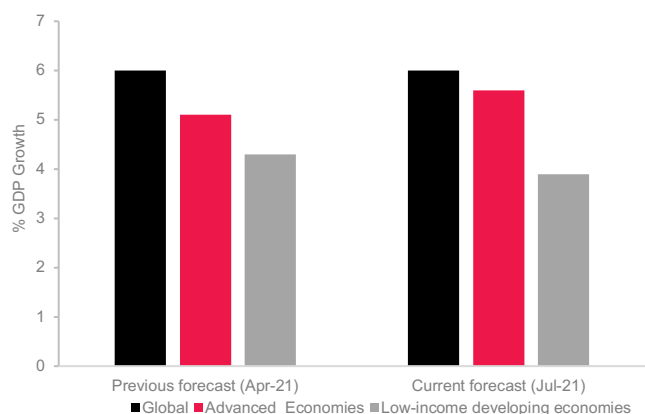
**...while UK's services exports declined in Q1...**

The first official data on UK trade in services for 2021 revealed that UK exports of services totalled £62.5 billion in Q1 2021, down by 9% on Q4 2020. **UK services exports to the EU fell by 11.9% in Q1, greater than the 7.3% decline in UK services exports to non-EU countries over the same period** (see Chart 6). The squeeze on services exports in Q1 was particularly acute among service providers that are reliant on the movement of people, amid the ongoing impact of Covid-19. The long-term effects of Brexit on trade in services are likely to become more apparent when the easing of restrictions allow more business travel and supply of services.

**...IMF projects uneven global recovery...**

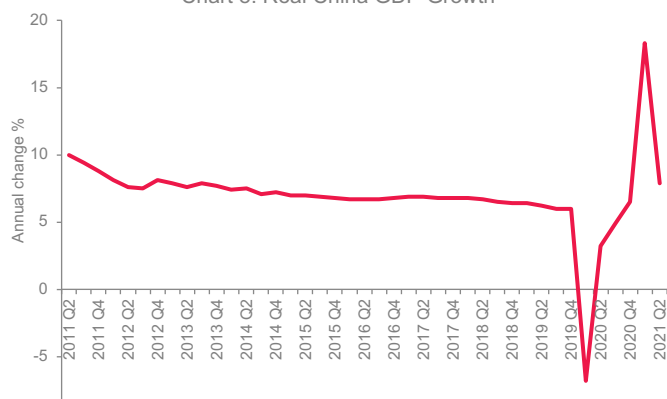
The International Monetary Fund (IMF) has forecast that the global economy will grow by 6.0% in 2021, unchanged from their previous forecast. However, the IMF predicts increasingly divergent economic prospects for developed and developing nations, amid differing access to Covid vaccines. The IMF expects advanced economies will grow by 5.6% in 2021, up from their previous forecast of 5.1% (see Chart 7). **The IMF projects that the UK economy will grow by 7.0% this year, in line with the BCC's latest forecast of 6.8%.** In contrast, low-income developing economies are expected to grow by 3.9% this year, down from the IMF's previous forecast of 4.3%.

Chart 7: IMF GDP Growth Forecast Revisions



Source: IMF

Chart 8: Real China GDP Growth



Source: National Bureau of Statistics of China

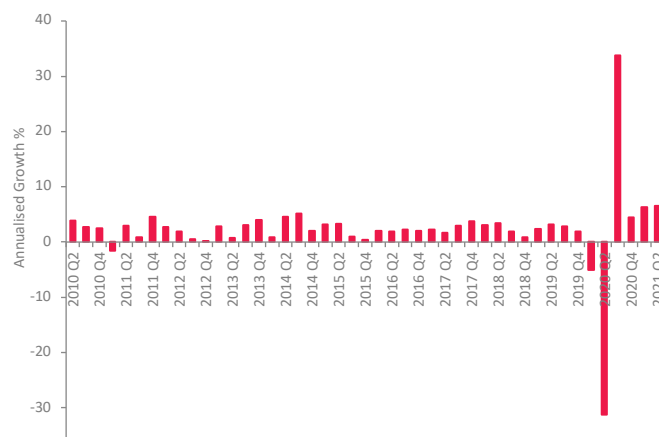
**...as China's economy continues to rebound...**

China economy grew at an annual rate of 7.9% in Q2 2021, slower than the record growth of 18.3% in the previous quarter (see Chart 8). On a quarterly basis, Chinese economic output grew by 1.3% in Q2, up from growth of 0.6% in the previous quarter, but still slower than the 2.6% growth recorded in Q4 2020. **Although China remains on track to meet the government's 2021 growth target of 6%, the recent rebound is likely to moderate in the coming quarters as the government tries to balance economic growth with the need for greater financial stability.**

**...as US GDP returns to pre-pandemic levels...**

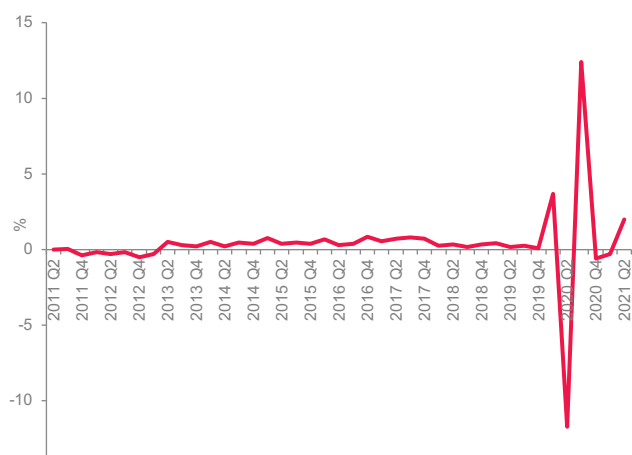
The first estimate of US GDP revealed that the US economy grew at an annualised rate of 6.5% in Q2 2021, up slightly from growth of 6.3% in Q1 (see Chart 9). On a quarterly basis, the US economy grew by 1.6% in Q2. Strong Q2 growth means that US economic output has now surpassed its pre-pandemic level. **Consumer spending, which accounts for around two-thirds of US economic output, was the primary driver of economic activity, growing by 11.8% in Q2, up from growth of 11.4% in Q1.** Stronger consumer spending was boosted by the release of pent-up demand as businesses reopened and continued government support.

Chart 9: US Real GDP Growth



Source: BEA

Chart 10: Eurozone Real GDP Growth



Source: Eurostat

**...as the Eurozone exits recession.**

The Eurozone economy grew by 2.0% in Q2 2021, following the decline in output of 0.3% recorded in the previous quarter (see Chart 10). The return to growth means that the Eurozone is now out of recession, having contracted in the previous two quarters. However, economic output is still 3% down from its pre-pandemic level. In annual terms, Eurozone economic output was up by 13.7% in Q2. **The pick-up in Eurozone growth in Q2 was partly driven by strong outturns for Italy (+2.7%) and Spain (+2.8%),** the third and fourth largest Eurozone economies respectively. Of the available country data, Portugal (+4.9%) recorded the strongest growth in Q2.

**Bottom line:**

**Taken together, the latest data releases indicate that the UK economy remains on track for a strong rebound in the second quarter. Although the July reopening should provide a further boost, any recovery may lose momentum if persistent staff shortages and supply chain disruption stifles business activity and rising covid cases prompt a renewed reluctance among consumers to interact and spend.**

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# ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21
Household	Retail Sales (ONS)	Improving	Improving	Improving	Improving	Improving	Deteriorating	Improving	Deteriorating	Improving	Improving	Improving	Deteriorating	Improving
	Consumer Confidence (GfK NOP)	Improving	Improving	No change	Improving	Deteriorating	Deteriorating	Improving	Deteriorating	Improving	Improving	Improving	No change	Improving
	House Prices (Halifax)	No change	Improving	Improving	Improving	Improving	Improving	No change	Deteriorating	Improving	Improving	Improving	Improving	Deteriorating
	New car sales (SMMT)**	Deteriorating	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving
	Mortgage approvals (Bank of England)	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving
Business	Business confidence (BCC)***	Deteriorating	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving
	Business lending (Bank of England)	Deteriorating	Improving	Improving	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Deteriorating	Deteriorating	Improving
	Service sector output (ONS)	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating	Improving	Improving	Improving	Improving
	Production output (ONS)	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Deteriorating
	Investment intentions (BCC)**	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving
Labour market	Employment (ONS)	Deteriorating	Deteriorating	Deteriorating	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving
	Unemployment (ONS)	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving
	Number of people on payroll (HMRC)	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving
	Earnings (ONS)	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving	Improving
Government	Public sector net borrowing (ONS)**	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving
	Public sector net debt % of GDP (ONS)**	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating
	Tax receipts (HMRC)**	Deteriorating	Deteriorating	Deteriorating	Improving	Deteriorating	Deteriorating	Improving	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving
	Current Budget Deficit (ONS)**	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving
External	UK trade balance (ONS)	Deteriorating	Deteriorating	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Deteriorating	Improving	Improving	Improving
	Export Sales (BCC)***	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving
	Export orders (BCC)***	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving
Financial	Exchange rate (Bank of England)	Deteriorating	No change	Improving	Deteriorating	Improving	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving	Improving	Improving
	Equity Prices (Bloomberg)	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Deteriorating	Improving	Improving	Improving	Improving	Deteriorating
	10 year Government bonds (Bloomberg)	Deteriorating	Improving	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Deteriorating	Improving	Improving	Improving	Improving

\*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.