

BRITISH CHAMBERS OF COMMERCE

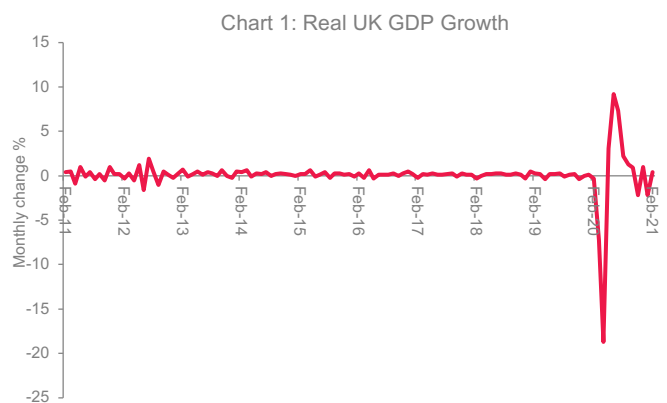
MONTHLY ECONOMIC REVIEW May 2021

Monthly headlines:

- UK economy returned to growth in February as most sectors recorded growth
- Concerns over inflation rise as manufacturers' price expectations reach 4-year high
- Eurozone in a double-dip recession, but China sees record GDP growth

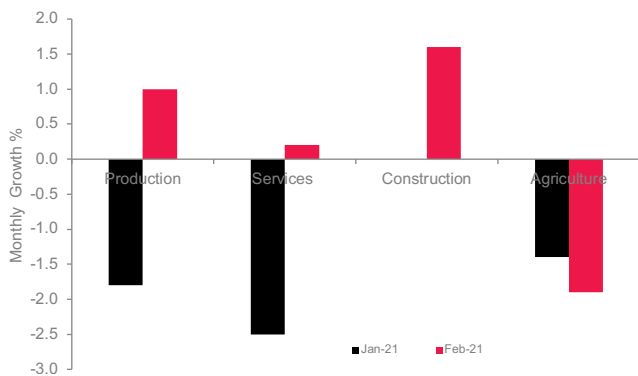
UK economy returned to growth in February...

The latest official monthly estimate for UK economic growth (GDP) revealed that the UK economy grew by 0.4% in February, partly offsetting the decline of 2.2% in January (see Chart 1). **UK economic output is now 7.8% below the pre-pandemic levels.** The release of pent-up demand as restrictions ease and the vaccine rollout will boost activity. However, hope of a sustained consumer-led revival may prove too optimistic as the damage caused by Covid may trigger a renewed reluctance to spend as government support winds down.



Source: ONS UK GDP, February 2021

Chart 2: UK GDP Growth by Sector



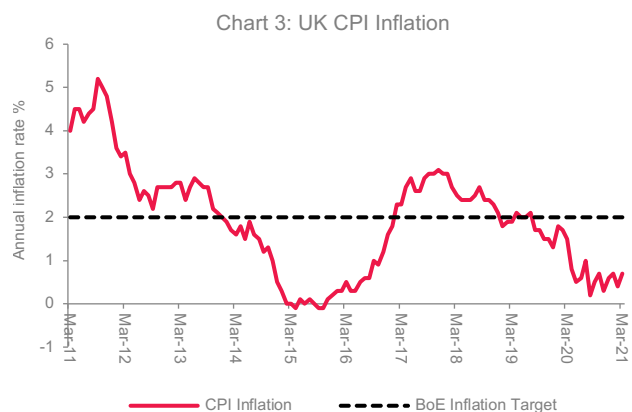
Source: ONS UK GDP, February 2021

...with output from most sectors increasing...

The services sector, which accounts for around 80% of UK economic output, grew by 0.2% in February (see Chart 2). However, despite this improvement **service sector output remains 8.8% below pre-pandemic levels.** Industrial production grew by 1.0% in February, with output from the manufacturing sector, which accounts for around 10% of UK economic output, increasing by 1.3% in the month. Construction sector output grew by 1.6% in February. In contrast, agricultural output declined by 1.9%, the fifth successive monthly decline.

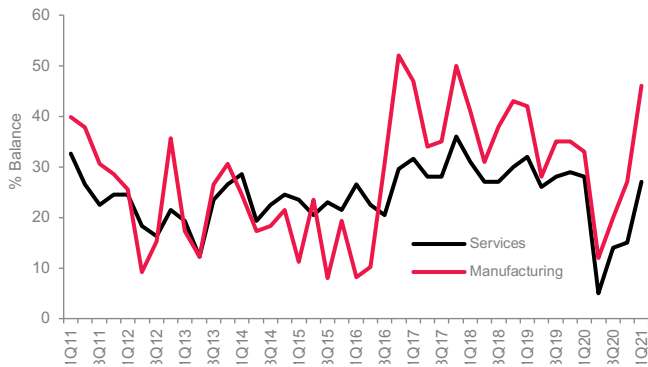
...as UK inflation starts to rise...

CPI inflation stood at 0.7% in March 2021, up from 0.4% in February (see Chart 3). The increase was mostly driven by the first upward contribution from fuel prices since February 2020. Supply chain price pressures continue to increase with the cost of raw materials prices rising by 5.9% on the year to March, up from 3.3% in February. **Inflation is likely to drift markedly higher from April as the rise in the energy price cap enters the calculation.** The release of pent-up demand as restrictions ease and post-Brexit disruption are likely to add to the upward pressure on inflation in the near term.



Source: ONS Consumer Price Inflation, March 2021

Chart 4: Balance of firms expecting to see their prices increase in the next three months



Source: BCC

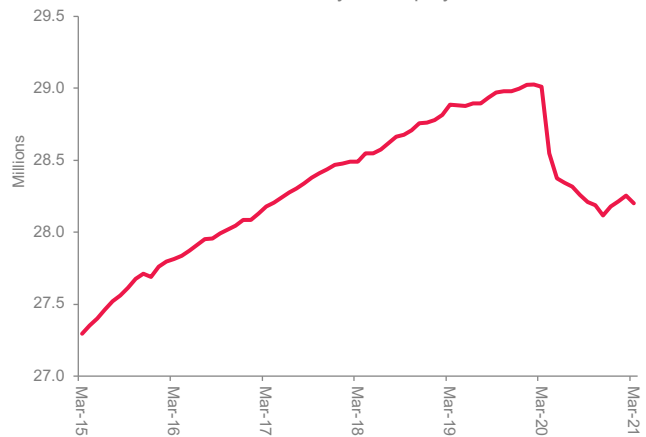
...as price expectations increase...

The BCC's latest Quarterly Economic Survey revealed that a rising number of firms are expecting their prices to increase significantly in the coming months. **The balance of manufacturing firms expecting prices to increase over the next three months rose to +46% in Q1 2021, up from +27% in Q4 and is now at its highest level since Q4 2017 (see Chart 4).** Raw materials costs are cited as the key driver of rising prices for manufacturers. In the services sector, the balance of firms expecting prices to rise over the next three months rose to +27% in Q1, up from +15% in Q4 and is now at its highest level since Q1 2020.

...number of payroll jobs falls in March ...

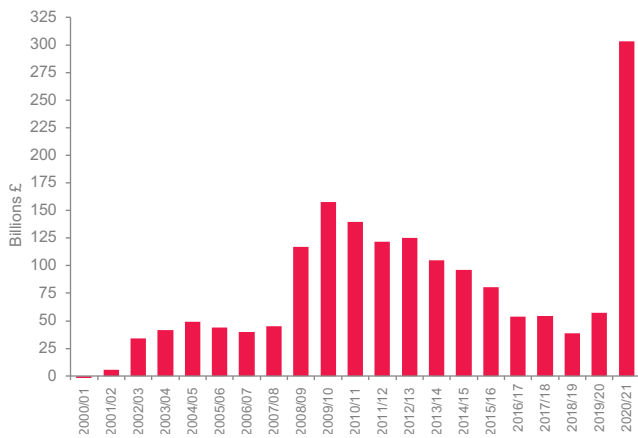
The number of employees on payroll fell by 0.2% (56,000) in March 2021, the first decline since November 2020 (see Chart 5). Over the past year, the number of payroll jobs has declined by 813,000 with **over half (53.7%) of those who have lost their job under the age of 25.** In the three months to February 2021, UK employment fell by 73,000. Total weekly hours worked in the UK fell by 2.1% over the same period, amid renewed covid restrictions. Unemployment remains on course to peak towards the end of 2021, once the furlough scheme expires and those who stopped job hunting during the pandemic look to return to the workforce as restrictions ease.

Chart 5: UK Payroll Employment



Source: ONS Labour Market Overview, April 2021

Chart 6: UK Public sector Net Borrowing



Source: ONS Public Sector Finances, March 2021

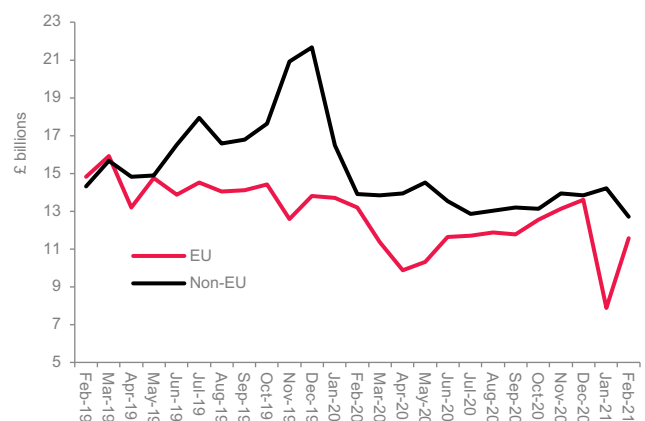
...government borrowing highest on record...

UK public sector net borrowing (excluding public sector banks) stood at £28 billion in March 2021, £21 billion higher in annual terms. As a consequence, **UK public sector net borrowing totalled £303.1 billion in 2020/21, the highest since records began in 1946/47 and £246.1 billion higher compared with the previous financial year (see Chart 6).** UK public sector net debt stood at 97.7% of GDP in March 2021, a level not seen since the early 1960s. While coronavirus continues to have a chilling effect on the public finances, a strong recovery as the economy reopens should drive a swift upturn in the UK's fiscal position.

...partial rebound in UK exports to the EU...

UK exports of goods, (excluding non-monetary gold and other precious metals) increased by £3.7 billion (46.6%) in February 2021, partly offsetting the record fall of £5.7 billion (-42%) in January (see Chart 7). UK goods exports to non-EU countries fell by £1.5 billion (10.5%) in February. Although there was a partial recovery in UK goods exports to the EU, this may reflect an unwinding of a number of temporary factors that weighed on the January outturn, including the running down of pre-Brexit stockpiling, rather than evidence of an underlying improvement in UK-EU trade flows. Overall, the UK's trade deficit for February 2021 widened by £0.5 billion to £1.4 billion.

Chart 7: UK Exports to EU and Non-EU



ONS UK trade, February 2021

Chart 8: Eurozone Real GDP Growth



Source: Eurostat

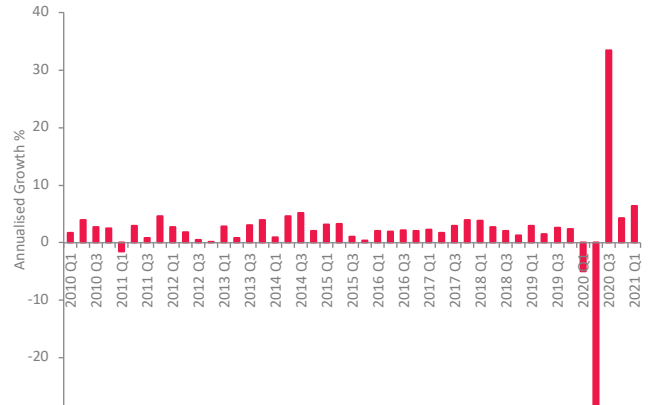
...Eurozone slips into a double-dip recession...

The Eurozone economy contracted by 0.6% in Q1 2021, following a drop in output of 0.7% recorded in the previous quarter (see Chart 8). This means that the Eurozone is now in a double-dip recession having fallen back into recession for the second time in less than a year in Q1 2021. Renewed lockdown restrictions amid rising covid infections helped drive the quarterly contraction. Germany, the Eurozone's biggest economy, contracted by 1.7% in Q1, while Italian economic output (the third largest) fell by 0.4%. In contrast, France, the second largest Eurozone economy, grew by 0.4% over the same period.

...but US GDP growth accelerates...

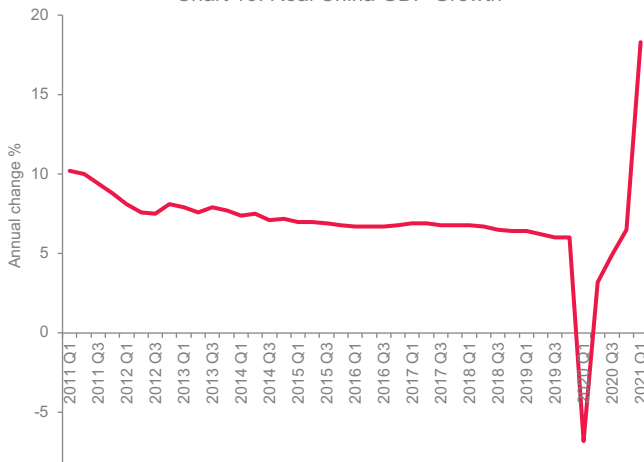
The first estimate of US GDP revealed that the US economy grew at an annualised rate of 6.4% in Q1 2021, up from growth of 4.3% Q4 (see Chart 9). Consumer spending, which accounts for around two-thirds of US economic output, grew by 10.7% in Q1, up significantly from growth of 2.3% in Q4. Rising vaccinations and fiscal stimulus helped drive stronger consumer spending. In contrast, international trade was a drag on the US economy in Q1 with exports declining by 1.1%. The easing of restrictions and rising vaccinations should continue to drive higher growth, particularly if the US government delivers the additional spending it is currently proposing.

Chart 9: US Real GDP Growth



Source: BEA

Chart 10: Real China GDP Growth



Source: National Bureau of Statistics

...and China sees record growth in Q1.

China's economy, the world's second largest, grew at an annual rate of 18.3% in Q1 2021. This was the highest growth since quarterly records began in 1992 and almost three times the growth of 6.5% recorded in the previous quarter (see Chart 10). The recovery in Chinese economic output has driven by strong retail sales, rising industrial output and investment. However, on a quarterly basis, economic output grew by 0.6% in Q1, down from growth of 3.2% in the previous quarter. While China's remains likely to meet the government's 2021 growth target of 6%, the recent rebound is likely to moderate in the coming quarters as government support winds down.

Bottom line:

Overall, last month's data releases suggest that economic conditions remain challenging, despite growing resilience to lockdown restrictions. Longer-term measures will be needed to support the rebuilding and renewal of the UK economy and limit the economic scarring from the pandemic. This should include supporting businesses to recruit and retain staff through a temporary cut in employer national insurance contributions.

For more information please contact Suren Thiru, Head of Economics.
Email: s.thiru@britishchambers.org.uk

ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

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

*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.