

BRITISH CHAMBERS OF COMMERCE

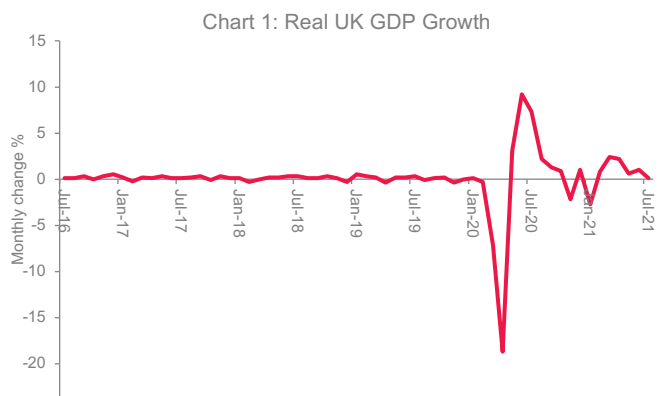
# MONTHLY ECONOMIC REVIEW October 2021

## Monthly headlines:

- UK economic growth weakened in July as service sector output flatlines
- Inflation in the UK reaches its highest rate since 2012 as job vacancies climb to new record high
- BCC forecasts a fall in business investment this year as headwinds mount

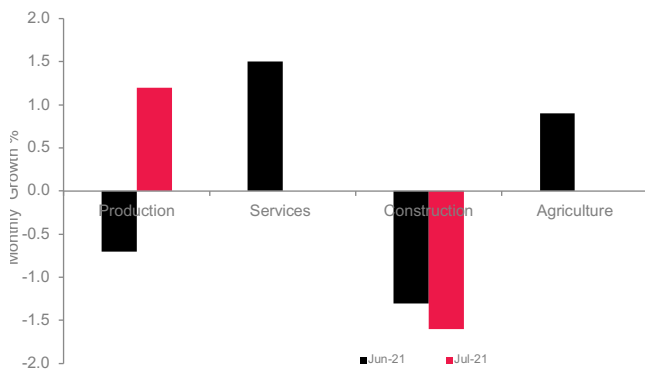
### UK GDP growth slowed sharply in July...

The first official estimate of UK GDP revealed that the UK economy grew by 0.1% in July 2021 (see Chart 1), the weakest outturn since the lockdown driven contraction of 2.7% in January 2021 and down from growth of 1.0% in June. UK economic output is now 2.1% below its pre-pandemic level in February 2020. In the three months to July, UK economic output was up by 3.6%. **UK's economic recovery is expected to slow in Q3 as rising cost pressures, staff shortages and supply chain disruption limits the gains from the lifting of restrictions in July.**



Source: ONS UK GDP, July 2021

Chart 2: UK GDP Growth by Sector



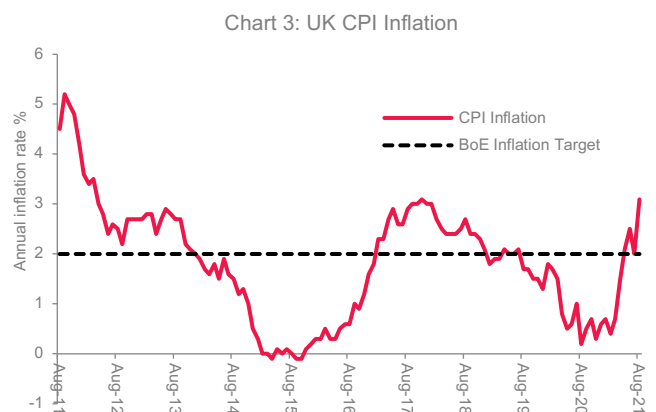
Source: ONS UK GDP, July 2021

### ...as service sector output weakens...

Service sector output, which accounts for three-quarters of UK economic output, recorded zero growth in July 2021 (see Chart 2). **Output in consumer-facing services firms fell by 0.3% in the month, the first decline since January and largely reflected a large drop in retail sales.** In contrast, output from arts, entertainment and recreation activities grew by 9% as social distancing restrictions eased. Construction output contracted for a fourth successive month, with output down by 1.6%. Industrial output rose by 1.2% in July.

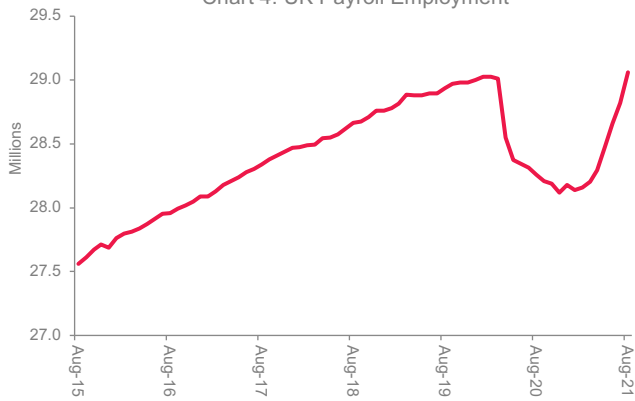
### ...as UK inflation surges...

UK CPI inflation rose from 2.0% in July to 3.2% in August 2021 (see Chart 3), the largest percentage point rise on record. **The largest upward pressure on prices was from the significant base effect from last year's VAT cut & Eat Out to Help Out scheme, which lowered restaurant prices in August 2020, while this year prices rose.** CPI inflation remains on track to reach around 4% by the end of 2021. However, as supply chains adjust post-pandemic and demand moderates as government support fades and fiscal policy tightens, inflation should drift back towards target by Q4 2022.



Source: ONS Consumer Prices, August 2021

Chart 4: UK Payroll Employment



Source: ONS Labour Market Overview, September 2021

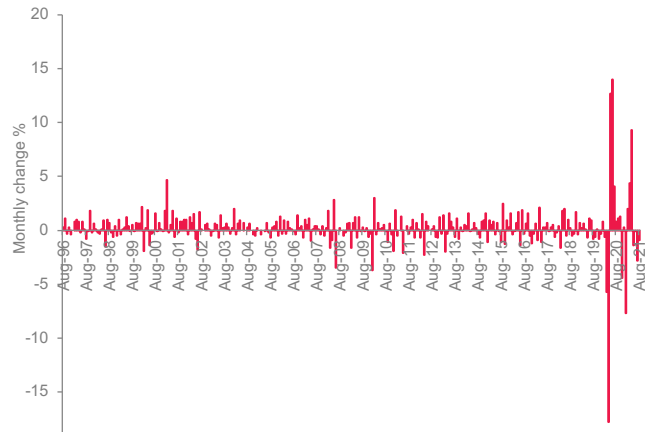
...as job vacancies reach new high...

The number of employees on payroll rose by 241,000 to 29.1 million in August 2021 (see Chart 4), higher than pre-pandemic levels as demand for workers surged following the easing of Covid restrictions. The number of job vacancies rose by 35.2% (269,300) to 1,034,000, the highest level since records began. **With rising cost pressures and an increasingly onerous tax burden likely to stifle firms' recruitment intentions, a rise in job losses now furlough has ended remains probable.** We expect the UK's unemployment rate to rise to a peak of 5.1% by early 2022.

...retail sales continue to fall...

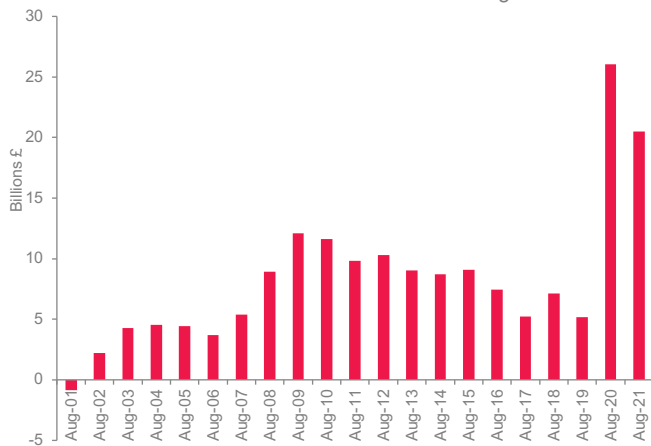
Retail sales fell by 0.9% in August 2021 (see Chart 5). This was the **fourth successive monthly decline, the longest period of falling sales on this basis since records began in 1996.** The decline in August was partly driven by consumers diverting rather than increasing their spending with food store sales down by 1.2% as people went back to restaurants and bars as restrictions eased. Non-food stores reported a fall of 1% in sales in August, driven by a 3.7% drop in department store sales. In contrast, fuel sales rose by 1.5% as travel increased as restrictions eased. Despite declining in August, retail sales were still 4.6% higher than pre-covid levels.

Chart 5: UK Retail Sales



Source: ONS Retail Sales, August 2021

Chart 6: UK Government Borrowing



Source: ONS Public Sector Finances, August 2021

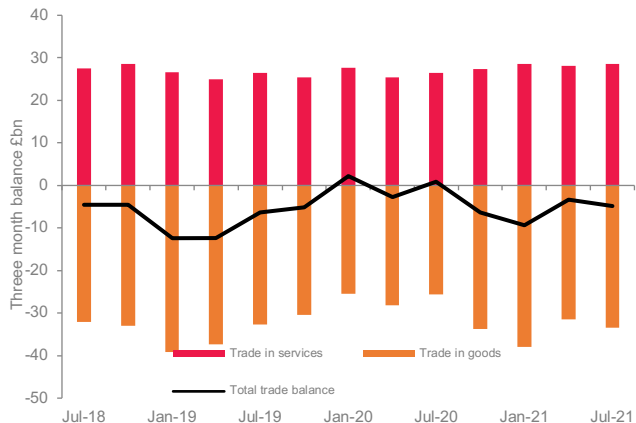
...as government borrowing declines...

Public-sector borrowing (excluding public-sector banks) stood at £20.5 billion in August 2021 (see Chart 6). This was £5.5 billion lower than in August 2020. UK public sector net borrowing totalled £93.8 billion in the financial year to August 2021, £88.9 billion less than in the same period last year. The strength of UK's economic recovery means a stronger fiscal outlook amid higher tax receipts. **The BCC therefore expects total public sector net borrowing across 2021/22 to total £215.5 billion, £18.4 billion lower than forecast by the Office for Budget Responsibility at the Spring Budget in March 2021.**

...as UK's trade deficit widens...

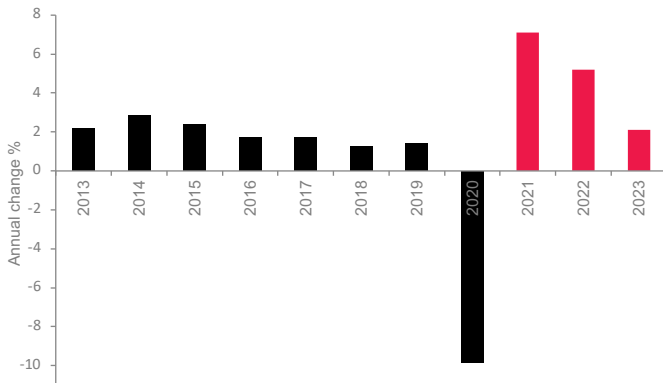
The UK trade deficit in goods and services (excluding precious metals) widened by £1.5 billion to £4.9 billion in the three months to July 2021 (see Chart 7). The widening deficit was driven by imports rising by £6 billion to £151.4 billion in July, more than offsetting the £4.5 billion rise in exports over the same period. On a monthly basis, **total exports of goods fell by 1% in July, driven by a 6.5% fall in exports to the EU which more than offset a 5% rise in exports to non-EU countries.** International trade's contribution to UK's economic recovery is likely to be limited amid ongoing driver shortages and supply chain disruption.

Chart 7: UK's Net Trade Position



Source: UK trade, July 2021

Chart 8: BCC UK GDP Growth Forecast



Source: BCC

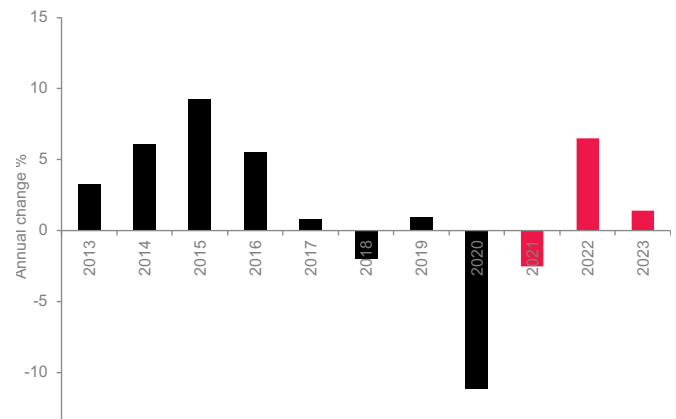
**...the recovery is forecast to lose momentum...**

In its latest economic forecast, the BCC predicts UK GDP growth for 2021 of 7.1% (see Chart 8), which, if realised, would be the strongest outturn since official records began in 1949. However, following strong GDP growth of 5.5% in Q2 2021, the UK's economic recovery is projected to slow into the autumn as staff shortages and supply chain disruption 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.

**...and business investment is expected to fall...**

The BCC expects the recovery to be driven by strong consumer and government spending. In contrast, business investment is forecast to decline by 2.5% this year (see Chart 9). The damage done to firms' finances by the pandemic together with a more burdensome tax regime and concerns over the potential for future covid restrictions are expected to weigh on investment intentions. Consequently, business investment is forecast to remain 5.4% lower than its pre-pandemic level by the end of the forecast period in Q4 2023. In contrast, consumer spending is projected to be 5.1% higher than its pre-pandemic level over the same period.

Chart 9: BCC UK Business Investment Forecast



Source: BCC

Table 1: OECD GDP Growth Forecast

GDP Growth (Annual % change)	2021	2022
World	5.7	4.5
UK	6.7	5.2
France	6.3	4.0
US	6.0	3.9
Italy	5.9	4.1
Canada	5.4	4.1
Germany	2.9	4.6
Japan	2.5	2.1

Source: OECD

**...the OECD forecasts strong global growth...**

The Organisation for Economic Co-operation and Development (OECD) are currently forecasting global GDP growth of 5.7% for this year, down slightly from their previous forecast of 5.8%. The OECD then expect global growth will slow in 2022 to 4.5% (see Table 1). The OECD said that the global recovery was underpinned by the strong vaccine rollout, ongoing government support and the boost to activity from the easing of restrictions. The OECD expects the UK economy to grow by 6.7% in 2021, which if realised would mean that the UK will be the fastest growing G7 economy this year. The OECD expects inflation among G20 economies to reach 4.5% at the end of 2021.

**Bottom line:**

Taken together, September's data releases indicate that the UK economy remains on course for continued growth in the third quarter. However, rising cost prices and increasingly acute supply and staff shortages mean that economic conditions are becoming more challenging. Against this backdrop, the focus of the 2021 Spending Review and Autumn Budget should be on injecting momentum and confidence across all regions and nations of the UK, with measures aimed at underpinning a sustained economic revival to enable businesses to drive our success through Covid and beyond.

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# ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

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