

BRITISH CHAMBERS OF COMMERCE

MONTHLY ECONOMIC REVIEW March 2021

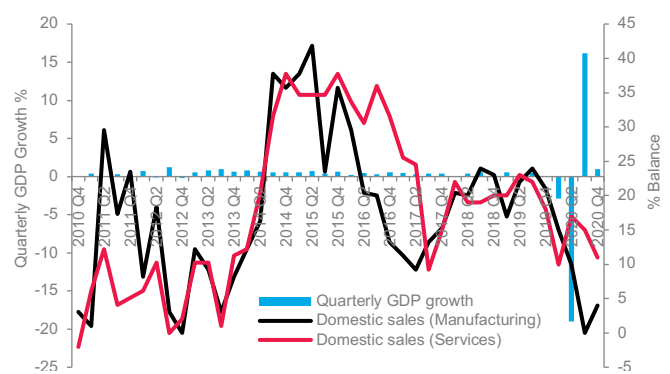
Monthly headlines:

- Largest annual fall in UK GDP on record in 2020 as OBR predicts a faster recovery
- UK unemployment rate increases to four-year high as inflation starts to rise
- Eurozone on course for a double-dip recession

UK economy continued to grow in Q4...

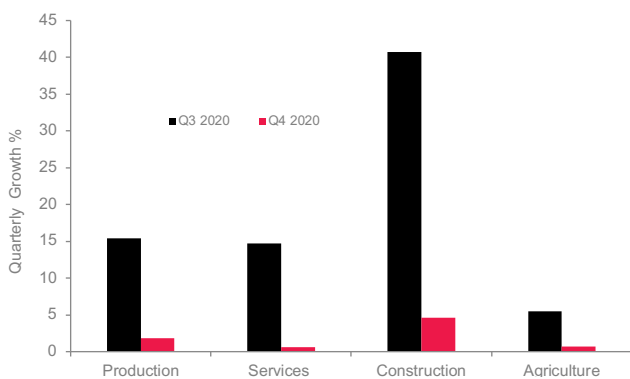
The first official estimate of UK GDP revealed that the UK economy grew by 1.0% in Q4 2020, down from growth of 16.1% recorded in Q3. (see Chart 1). UK economic output is now 7.8% below its pre-pandemic level. For 2020 as a whole, the UK economy contracted by 9.9%, the largest annual fall on record. Modest growth at the end of 2020 is set to be followed by a substantial fall in output in the first quarter of this year as the current lockdown, the unwinding of Brexit inventories and disruption to UK-EU trade flows combine to suffocate activity.

Chart 1: Real GDP and Domestic Sales



Sources: BCC QES, ONS UK GDP, December 2020

Chart 2: UK GDP Growth by Sector



Source: ONS UK GDP, December 2020

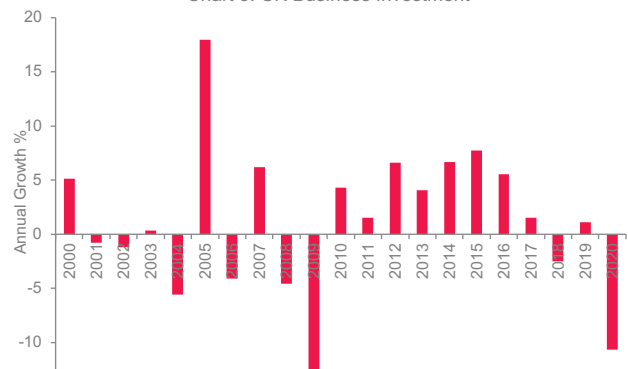
...as all the main sectors recorded growth...

Service sector output, which accounts for three-quarters of UK economic output, grew by 0.6% in Q4 (see Chart 2). Industrial production grew by 1.8% in Q4, with output from the manufacturing sector up by 3.3% in the quarter. Construction sector output rose by 4.6% in Q4. The dominant services sector contracted by 8.9% in 2020 as a whole, while industrial (-8.6%) and construction (-12.5%) output also fell sharply. On the monthly measure, services (+1.7%) and industrial (+0.2%) output rose in December, but construction output fell by 2.9%.

...investment still well below pre-crisis levels...

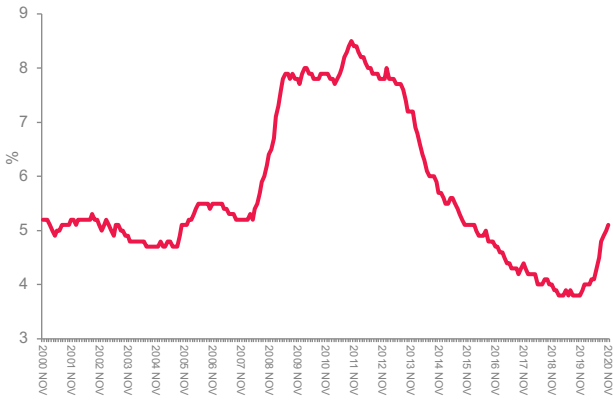
The latest UK GDP data also revealed that business investment in the UK increased by 1.3% in Q4, (see Chart 3). However, business investment is still 10.3% below its pre-pandemic level, larger than the gap for overall economic output (7.8%). Business investment fell by 10.7% for 2020 as a whole, the largest decline since the global financial crisis in 2009. Household consumption decreased by 0.2% in Q4, down from growth of 19.4% in Q3. For 2020 as a whole, household consumption fell by 10.7%, the weakest outturn on record.

Chart 3: UK Business Investment



Source: ONS UK GDP, December 2020

Chart 4: UK Unemployment Rate



Source: ONS UK Labour Market Overview, February 2021

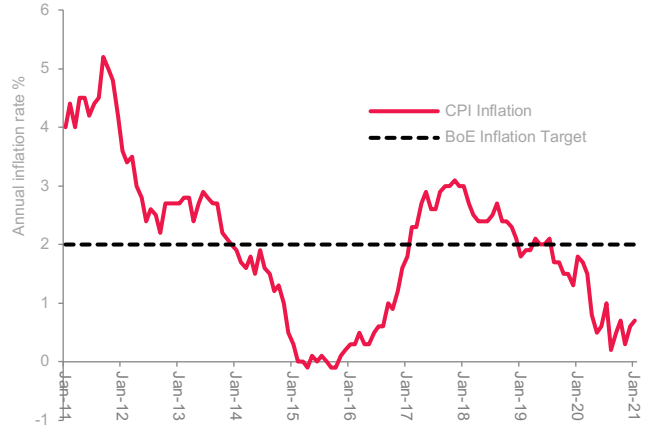
...UK unemployment continues to rise...

In the three months to December 2020, UK employment fell by 114,000. The number of people out of work increased by 121,000 over the same period. As a consequence, the UK unemployment rate rose to 5.1%, the highest rate since early 2016 (see Chart 4). However, there were also some signs of resilience with the number of employees on payroll rising by 0.3% (83,000) in January. While unemployment is likely to rise further in the near term, **extending the Job retention scheme to September should mean that the peak for unemployment will be markedly lower than previously expected.**

...UK inflation picks up...

CPI inflation stood at 0.7% in January 2021, up slightly from 0.6% in December (see Chart 5), but still less than half the Bank of England's 2% inflation target. Rising prices for food and household goods helped drive the increase in the 12-month rate in January. **The expected rally in consumer demand as coronavirus restrictions ease and post-Brexit border disruption are likely to push UK inflation markedly higher over the coming months**, particularly as the rise in the energy price cap enters the calculation in April. However, such drivers of inflation are typically transitory and given the amount of spare capacity in the economy, any price spike is likely to be temporary.

Chart 5: UK CPI Inflation



Source: ONS Consumer Price Inflation, January 2021

Chart 6: UK Government Borrowing



Source: ONS Public Sector Finances, January 2021

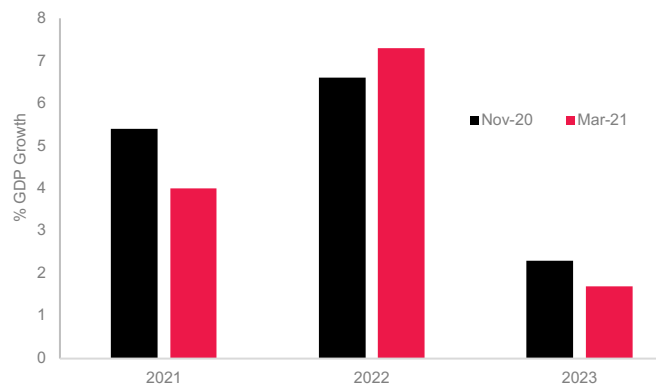
...public finances continue to weaken...

UK public sector net borrowing (excluding public sector banks) stood at £8.8 billion in January 2021 (see Chart 6), the highest January borrowing since monthly records began in 1993. This was also the first January deficit in 10 years - **January is typically a month where the public finances are in surplus due to the timing of self-assessed Income tax receipts.** In the current financial year-to-date, borrowing stood at £270.6 billion, the highest on record. Public sector net debt stood at 97.9% of GDP in January 2021, consistent with a level not seen since the 1960s.

...OBR forecasts a faster recovery...

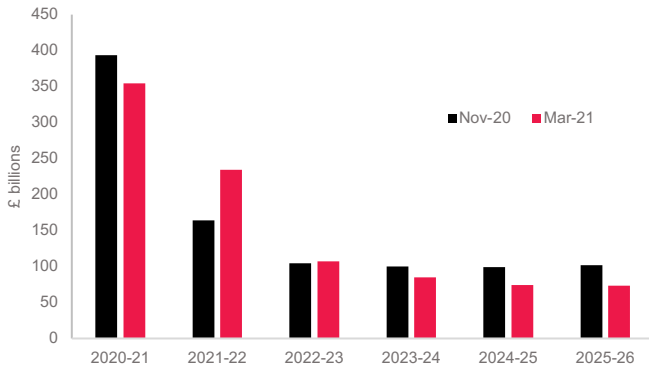
In its latest economic forecast, the Office for Budget Responsibility (OBR) expects UK GDP growth of 4.0% for 2021, lower than their previous forecast of 5.5% published in November 2020 (see Chart 7). However, the OBR's 2022 growth forecast has been upgraded from 6.6% to 7.3%. **The OBR expects UK economic output to return to pre-pandemic levels by mid-2022, six months earlier than previously forecast.** The OBR's more upbeat outlook for the recovery has been driven by the strong pace of the vaccine rollout and the fiscal stimulus announced at the 2021 Budget, particularly the super deduction investment incentive.

Chart 7: OBR UK GDP Growth Forecasts



Source: OBR

Chart 8: Public Sector Net Borrowing Forecasts



Source: OBR

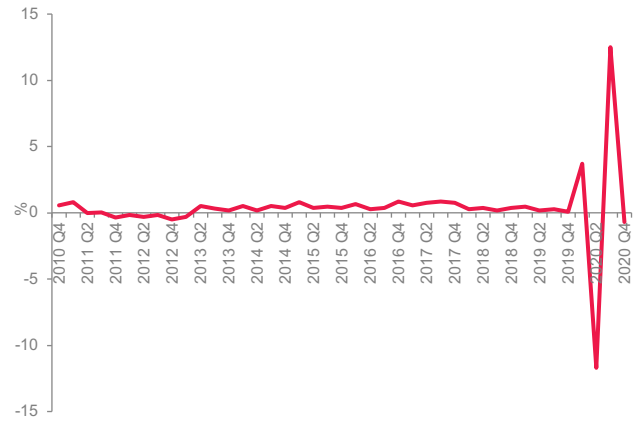
...but significant fiscal challenges...

The OBR expects public-sector net borrowing to reach £355 billion in 2020-21, a record high, but £39 billion lower than their November 2020 forecast (see Chart 8). The OBR now forecast that UK public-sector borrowing will be £35.2 billion lower over the forecast period, compared to their previous outlook. Public sector net debt as a share of GDP is forecast to peak at 109.7% in 2023-24, before falling to 103.8% of GDP in 2025-26. **While the OBR highlights the significant fiscal challenges facing the UK, if a strong and sustained economic recovery is achieved, this should drive a swift upturn in the public finances.**

...Eurozone economy contracts in Q4...

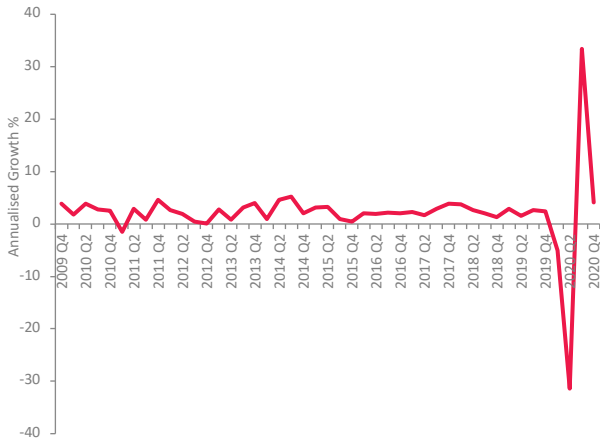
The Eurozone economy contracted by 0.7% in Q4 2020, compared to growth of 12.5% recorded in Q3 (see Chart 9). **The Q4 contraction means that the Eurozone is on course for a double-dip recession with a further fall in output likely in Q1 2021 amid continued lockdown restrictions.** In annual terms, the Eurozone economic output was down by 4.9% in Q4, compared to a 4.2% decline in Q3. Germany, the Eurozone's biggest economy, grew by 0.3% in Q4. In contrast, France, the second largest Eurozone economy, contracted by 1.4% over the same period. For 2020 as a whole, the Eurozone economy contracted by a 6.6%.

Chart 9: Eurozone Real GDP Growth



Source: Eurostat

Chart 10: US Real GDP Growth



Source: BEA

...as US GDP growth moderates.

The latest estimate of US GDP revealed that the US economy grew at an annualised rate of 4.1% in Q4 2020, down from growth of 33.4% recorded in the previous quarter (see Chart 10). Consumer spending, a key driver of the US economy, grew by 2.4% in Q4, down from the easing of restrictions driven growth of 41% in Q3. US exports grew by 21.8% in Q4, following a 59.6% increase in the previous quarter. The US economy contracted 3.5% in 2020 as a whole due, the largest decline since 1946. **The loosening of coronavirus restrictions, rising vaccinations and the expected \$1.9 trillion fiscal stimulus should help drive GDP growth through much of this year.**

Bottom line:

The latest data releases indicate that economic conditions remain difficult. Although a vaccine undoubtedly provides light at the end of the tunnel, the economic scarring already caused by the pandemic, including structural unemployment, rising private sector debt levels and weak business investment may mean that any recovery is slower and bumpier than many, including the Bank of England and the OBR, currently expect.

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ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

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

*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.