BCC ECONOMICS

BRITISH CHAMBERS OF COMMERCE

MONTHLY ECONOMIC REVIEW July 2021

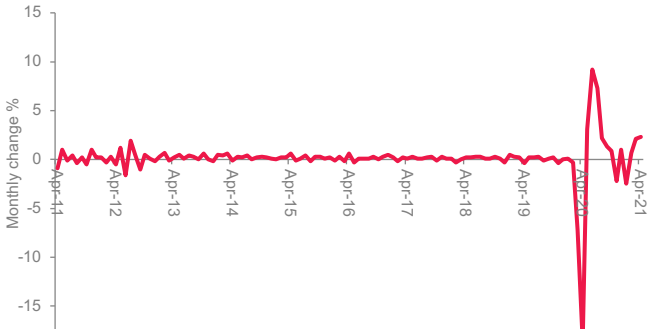
Monthly headlines:

- UK GDP growth picked up strongly in April as covid restrictions eased
- UK inflation rises above target amid the release of pent-up demand and supply chain disruption
- BCC forecasts record UK GDP growth in 2021, but an uneven recovery

Strong UK GDP growth in April…

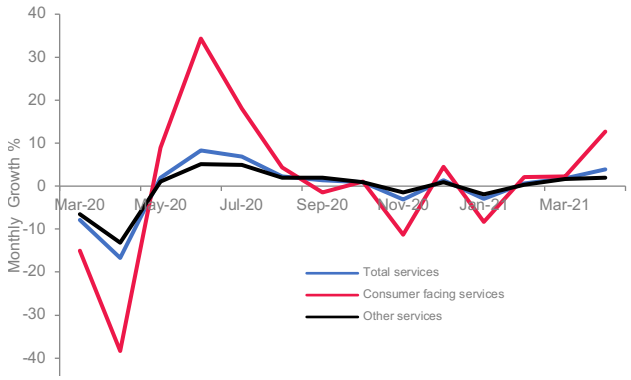
The latest official monthly estimate for UK economic growth (GDP) revealed that the UK economy grew 2.3% in April 2021, the fastest growth since July 2020 and up from growth of 2.1% in March **(see Chart 1)**. UK GDP grew by 1.5% in the three months to April 2021. **The UK economy is in a sweet spot right now with the boost from the release of pent-up demand as restrictions ease and government support expected to drive a substantial revival in economic activity** in the second quarter, underpinned by the rapid vaccine rollout.

Chart 1: Real UK GDP Growth



Source: ONS UK GDP, April 2021

Chart 2: UK Service Sector Growth



Source: ONS UK GDP, April 2021

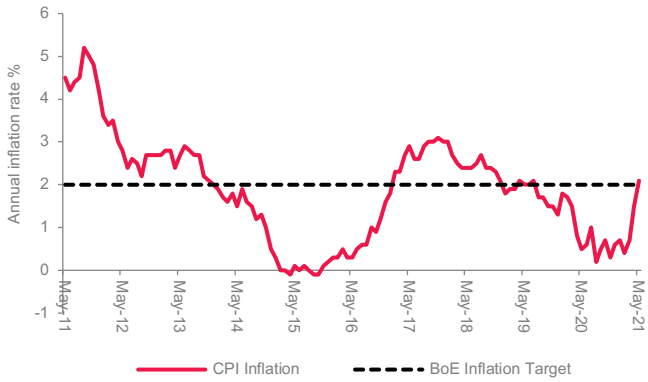
...reflecting a rebound in services output…

The service sector, which accounts for three-quarters of UK economic output, grew by 3.4% in April 2021 **(see Chart 2)**, with **output from consumer facing services firms increasing by 12.7% as restrictions eased**. Within consumer facing services, output from accommodation services rose by 68.6%. Output from pubs, restaurants and cafes grew by 39% as the easing in restrictions allowed them to serve customers outdoors. In contrast, industrial production declined by 1.3% in April, amid ongoing global supply chain disruption.

…as UK inflation rises above target…

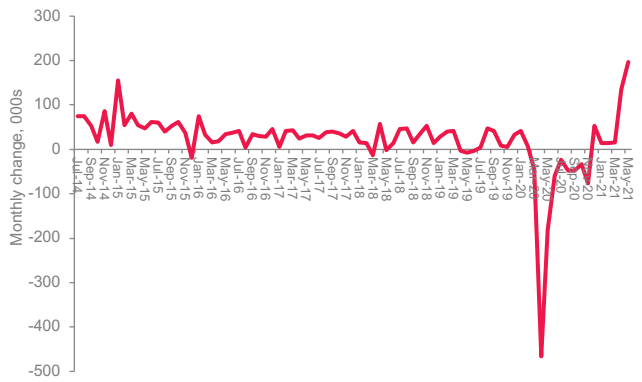
CPI inflation stood at 2.1% in May 2021, up from 1.5% in April and means that inflation is now above the Bank of England's 2% target for the first time since July 2019 **(see Chart 3)**. **May's inflation increase was largely driven by rising clothing and fuel prices as restrictions eased in the month**. Base effects, the release of pent-up demand and supply chain disruption are likely to push inflation markedly higher in the near term. However, the amount of spare capacity in the economy should drag inflation back towards target over the near term.

Chart 3: UK CPI Inflation



Source: ONS UK Consumer Prices, May 2021

Chart 4: UK Payroll Employment



Sources: HMRC PAYE RTI, ONS

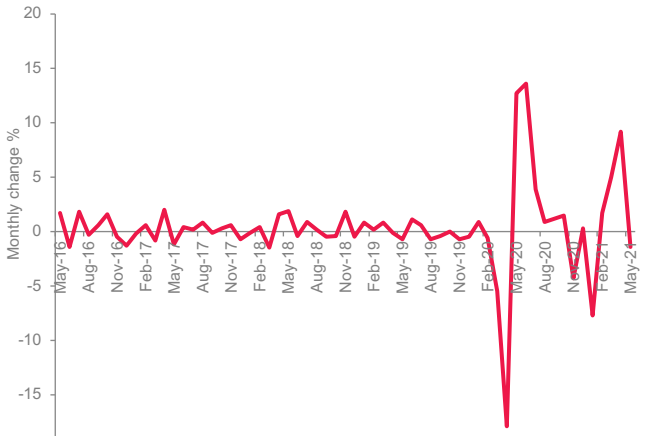
…record rise in payroll employment...

The number of employees on payroll rose by 197,000 in May 2021 **(see Chart 4)**, the biggest rise since records began in 2014, but still 553,000 below pre-pandemic levels. There is further confirmation of increasing skills shortages with job vacancies up by 24% (146,600) in the 3 months to May 2021, the strongest rise since August to October 2020. There is evidence of rising longer-term unemployment **– the number of people unemployed for more than 12 months stood at 408,000 in the 3 months to April 2021, the highest since August to October 2016** and up by 48,000 on the previous 3 months.

...while retail sales decline in May…

Retail sales fell by 1.4% in May 2021, following an increase of 9.2% rise in April **(see Chart 5)**. **The decline in May partly reflected consumers diverting rather than increasing spending in the month** with food store sales dropping by 5.7% as people opted to spend in restaurants and bars instead of buying food at supermarkets as restrictions eased. Despite the monthly decline, retail sales were up by 8.3% in the three months to May 2021 and 24.6% higher in annual terms. All sectors within retail (except food stores) recorded a fall in their proportions of online sales with the total proportion of sales online falling to 28.5% in May, down from 29.8% in April.

Chart 5: UK Retail Sales



Source: ONS Retail Sales, May 2021

Chart 6: Domestic Sales

Source: BCC QES, Q2 2021

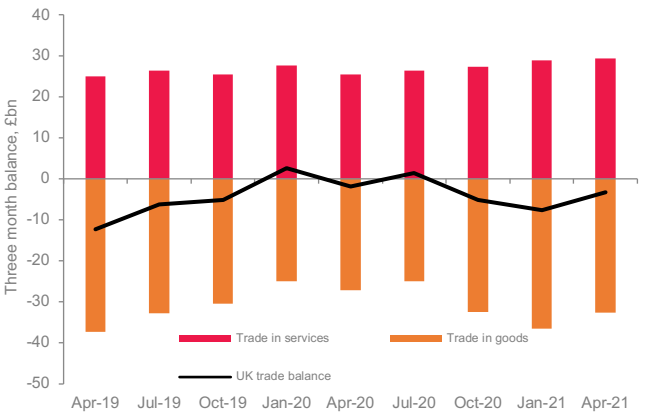
...the latest QES points to a very strong Q2…

The results of the latest BCC Quarterly Economic Survey (QES) pointed to a strong rebound in underlying economic conditions in the second quarter of 2021. In the manufacturing sector, the balance of firms reporting growth in domestic sales is at its strongest since Q1 2015 **(see Chart 6)**. In services sector, the balance of firms reporting higher domestic sales is at its highest level since Q3 2018. Marketing and media, at 52%, had the highest proportion of firms reporting increased domestic sales in Q2, while consumer services (35%) had the smallest proportion of firms reporting increased domestic sales in the quarter.

...while UK's trade position improves...

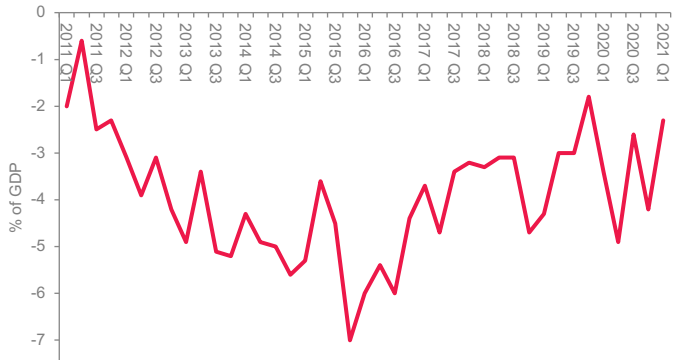
The UK trade deficit in goods and services was £3.2 billion in the three months to April 2021, a narrowing of £4.4 billion on the previous three months **(see Chart 7)**. The improvement was driven by a £4 billion decline in imports and a £0.4 billion rise in exports. On a monthly basis, UK goods exports to the EU grew by £0.3 billion in April, but exports to non-EU countries fell by £0.4 billion. **Goods imports from non-EU countries totalled £20.1billion in April, the highest since records began in 1997**. Trade is likely to drag on UK GDP over the medium term, reflecting the anticipated decline in exports to the EU amid post-Brexit disruption and the weak near-term outlook for the euro area.

Chart 7: UK's Net Trade Position



ONS UK Trade, April 2021

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



Source: ONS Balance of Payments, Q1 2021

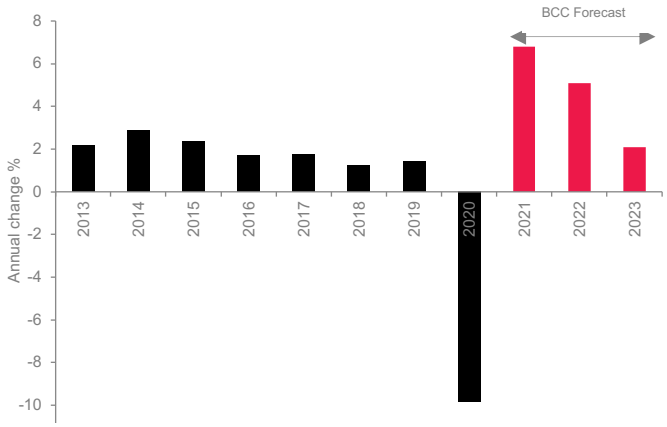
...UK's current account deficit narrows…

The UK ran a current account deficit (the difference between what we earned from other countries and what we spent) of £12.7 billion in Q1 2021, £10.1 billion lower compared to the previous quarter. **The UK's current account deficit was equivalent to 2.3% of UK GDP in Q1 2021, down from 4.2% in Q4 2020 (see Chart 8)**. The improvement largely reflected a £9.5 billion narrowing in UK's trade deficit as imports fell by more than exports. This reflected the squeeze on import demand from the reintroduction of covid restrictions and the running down of excess stock built up in the run up to the end of the Brexit transition period.

…as BCC forecasts record UK growth…

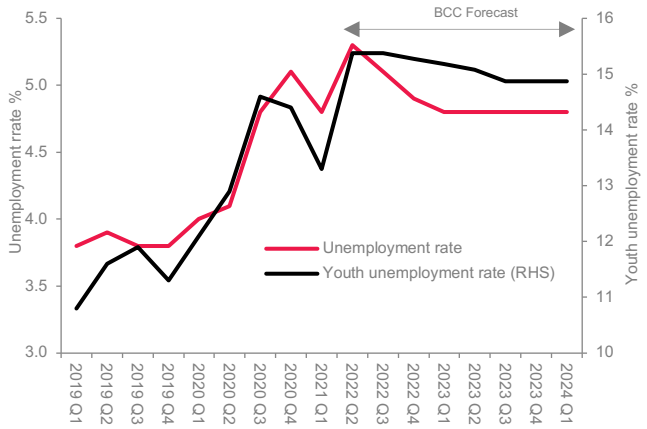
In its latest economic forecast, the BCC expects UK GDP growth for 2021 of 6.8% **(see Chart 9)**, which if realised would be the strongest outturn since official records began in 1949. **Consumer spending is expected to be the main driver of this year's economic rebound** with the release of pent-up demand as restrictions ease and the vaccine rollout helping to drive the strongest growth in spending since 1988, as consumers spend some of the 'unanticipated' savings accumulated during lockdowns. Business investment is forecast to rebound in 2021 and 2022, driven by the boost from the reopening of the economy and the introduction of the super-deduction incentive.

Chart 9: BCC UK GDP Growth Forecast



Sources: BCC, ONS

Chart 10: BCC Labour Market Forecasts



Sources: BCC, ONS

…but an uneven recovery.

BCC's latest forecast also projects an uneven recovery. **Output from catering and hospitality is forecast to only return to pre-pandemic levels in Q2 2023. In contrast, manufacturing output is projected to return to its pre-pandemic level in the Q3 2021**. UK unemployment is forecast to remain at a much lower level than in recent recessions. However, youth unemployment is expected to lag the wider recovery with the UK's youth unemployment rate projected to average 10.1 percentage points higher than the overall unemployment rate across the forecast period, 25% higher than the pre-covid average of 7.6 percentage points **(see Chart 10)**.

Bottom line:

The latest data releases indicate a strong rebound in economic conditions in the second quarter. However, the second quarter maybe the high point for the UK economy with momentum likely to fade somewhat later this year when government support ends and the transient boost from the economy reopening dissipates.

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ECONOMIC SUMMARY CHART

Deteriorating | No change | Improving

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