Making Business Sense

The Prospects Service

LEADING ECONOMIC ANALYSIS, FORECASTS AND DATA

UK Prospects, March 2021

Economic growth set for a boost as restrictions ease and government support continues

Toplines

- Following a 9.9% contraction in 2020, Cebr expects the **UK economy to grow 6.8% this year and 6.0% in 2022.** The 2021 forecast is more optimistic than the consensus and in line with our expectation that there will be a notable release of pent-up demand following the planned easing of restrictions in June.
- **The volume of retail sales contracted 8.2% month-on-month in January and stood 5.9% below the January 2020 level.** Comparing January's figures to those of November suggests that the third national lockdown has dealt a much stronger blow than the second. There are some similarities between the two periods, however, particularly in terms of the performance of retail subsectors. In both November and January, the clothing subsector saw the largest month-on-month fall in sales volumes while online sales as a proportion of all retailing spiked in both months. **We expect consumption expenditure as a whole to grow at a robust rate of 5.1% in 2021, supported by a spending spree in the second half of the year.**
- **The annual rate of inflation on the CPIH measure edged up from 0.8% in December 2020 to 0.9% in January.** The largest upward contribution came from the furniture, household equipment and maintenance division. Food prices also added a positive contribution, which could reflect increased demand for supermarket food in the absence of other options. **Cebr expects CPIH inflation to pick up more notably from May onwards and average 1.4% over 2021.**
- **The unemployment rate rose to 5.1% in the final quarter of 2020, up 0.3 percentage points compared to Q3 2020.** The furlough scheme has been extended into September which is set to both delay and dampen the anticipated spike in the unemployment rate. **Cebr now expects the unemployment rate to reach a peak of 6.9% this year, down from an earlier forecast of 7.2%.**
- **The February Monetary Policy Committee (MPC) meeting saw the Bank of England's base rate remain at 0.1%, while the Bank's asset purchase programme was maintained at £875 billion.** Cebr sees the base rate staying at its current level until late 2022, before starting to rise gradually.
- On **3 March the Chancellor delivered the 2021 Budget speech**. A summary of the biggest announcements is provided in the In Focus section of this report.

Forecast summary

- The third country-wide lockdown, including the closure of non-essential retail and hospitality, will leave its mark on consumer spending and push any consumer-led recovery into the second half of 2021 and beyond. After a double-digit contraction in 2020, we expect a partial recovery of 5.1% in 2021 as H2 sees households spend some of the savings accumulated over lockdown.
- Cebr anticipates that exports will grow 3.9% this year and 7.0% in 2022. The prolonged recovery reflects continually weak global demand as vaccination efforts around the world continue at a varying pace as well as the imposition of non-tariff barriers to trade with the EU.
- Imports contracted by around a fifth in 2020, thereby boosting the GDP growth figure. Cebr expects growth of 7.8% in 2021 as demand for foreign goods and services recovers in line with the overall rise in consumer demand.
- Business investment shrank by more than 10% in 2020 and is set to rebound by 5.1% this year and 12.6% in 2022. The recovery will be helped by the newly announced super-deduction, which allows businesses to deduct 130% of the value of certain investments from their tax bill and is expected to support capital spending.
- Nevertheless, the recovery remains contingent not only on the emergence from Covid restrictions, but also on the UK remaining an attractive place for businesses in the aftermath of Brexit and possible upcoming taxation hikes.

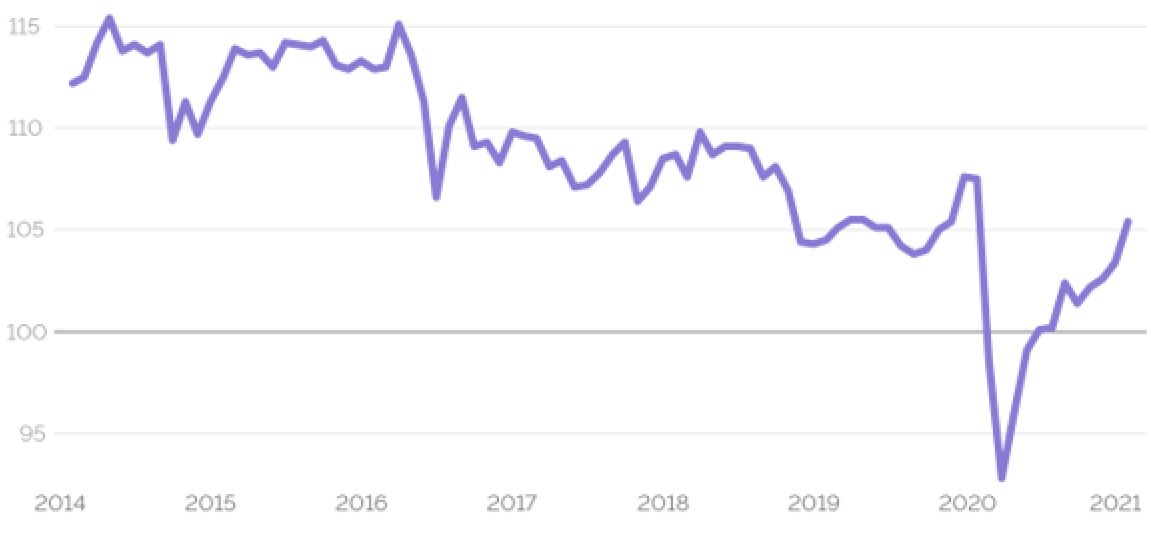
Industry outlook

- Real output in the wholesale and retail sector contracted 6.7% in 2020 and is set to partially recover this year with 4.7% growth. The sector is among the most impacted by the prolonged lockdown, although online sales have alleviated some of the commercial woes.
- Following a 12.5% contraction in 2020, real output in construction is set to bounce back with 10.0% growth this year. The housing market has been supported by changing household preferences leading to house moves and the stamp duty cut which has now been extended to June, with a smaller cut set to stay in place until October. Commercial real estate has suffered amid severely reduced footfall and increased home working.
- Real manufacturing output contracted 9.9% in 2020, in response to stifled domestic and international demand. A strong recovery of 9.7% is expected in 2021 as the sector has been relatively less impacted by the third national lockdown.
- While some parts of business services and finance have been adversely impacted by the pandemic, others have managed to thrive. Loose fiscal policy has played a big part in this and the 2021 Budget clarified that there will be no significant harmful changes in the near term. Real output in the sector contracted 5.2% in 2020, less than other sectors, and is set to grow 4.4% this year.

Leading indicators – consumer confidence

- Consumer confidence rose 2.0 points to 105.4 in February.
- Workers believing activity at their workplace will be higher a year from now provided the largest boost to the underlying metrics, at 5.4. The retrospective measure of business activity, which asks employees if activity went up or down in the past 30 days, also improved 2.7 points and is now in positive territory at 102.5.
- The only drop in confidence appears among homeowners estimating how the value of their property changed in the past 30 days, with the measure falling by 1.2 points. At 108.1, more homeowners than not remain positive, but the measure is still some way off a year ago (115.7).
- The outlook for house prices improved by 3.2 points to 116.6, with most owners believing their property will increase in value over the next year.
- Elsewhere, workers felt more secure in their jobs over the past 30 days, as job security improved by 2.4 to 89.7, although this means opinion is still primarily negative. They also feel more positive about the future, with outlook on job security a year from now improving by 0.9 to 112.2.
- A higher number of Britons said their money situation improved in February than in January, as household finances improved by 2.1 points to 93.1, which is the highest level since before the pandemic.
- People also feel more hopeful about what the next year has in store for their finances at 97.2 (+0.7), although a greater proportion still expect their finances to worsen than improve.

Cebr/YouGov Consumer Confidence Index



Economic risks over the coming 12 months

	Risk likelihood	Comment
Inflation rises above the target level	Medium	While we do not expect this under our central forecast, there is a possibility that the opening up of the economy is accompanied by a sharper uptick in inflation. It is also possible that the level of inflation at present is understated in the statistics because parts of expenditure within the consumption basket are not available for consumers to purchase.
Fiscal tightening weighs down on growth	Medium	The Budget largely focused on supporting growth, with any fiscal tightening measures still far off in the future. However, should the cost of refinancing debt suddenly rise, the government may need to consider acting sooner.

In-focus: Budget 2021

- The focus of this year's Budget was mostly on supporting the economic recovery as the country emerges from the pandemic, with a nod towards the need to increase tax revenues in outer years. The Chancellor acknowledged that while businesses will – hopefully – be able to reopen in line with the roadmap laid out by the Government, the economic consequences will be felt for a long time after that. As such, the chancellor has offered support for an extended period:
  - The furlough scheme will be extended until the end of September, with increases in employer contributions starting in July.
  - The Universal Credit uplift will be maintained for a further six months.
  - Two further grants for self-employment income support scheme.
  - VAT will be kept at 5% for the hospitality sector until September; from October to March 2022 the rate will rise to 12.5%.
  - The business rates holiday will be extended until June at 100% for eligible businesses; for the rest of the 2021/22 financial year, a reduction of two-thirds applies.
- Apart from the support measures, the Chancellor also announced plans to increase tax revenues in future years. This will happen mainly through two channels. First, personal tax thresholds will be frozen from 2022/23 through to 2025/26. This applies to income tax, inheritance tax, pension lifetime allowance, capital gains tax as well as for the VAT registration threshold.
- Secondly, corporation tax will increase from currently 19% to 25% in April 2023. Only businesses with profits higher than £250,000 will need to pay the highest rates.

Further policy announcements include:

- The Stamp Duty holiday will be extended until the end of June. For Q3, the nil-rate band will be lowered to £250,000 before falling back to the original £125,000 in October 2021.
- The government will help to bring back 95% loan-to-value products by guaranteeing parts of the loans.
- All alcohol duties as well as fuel duty will be frozen.
- A 130% super-deduction allowance will be introduced, allowing businesses to deduct more than the original investment value from their tax bill.
- A UK Infrastructure Bank will be opened in Leeds, able to deploy up to £12 billion in equity and debt capital.
- Eight freeports in England have been announced with discussions ongoing regarding similar initiatives in the devolved nations.
- The UK's visa scheme for highly-qualified migrants will be streamlined.
- An additional £300 million will be made available for the government's culture recovery fund.

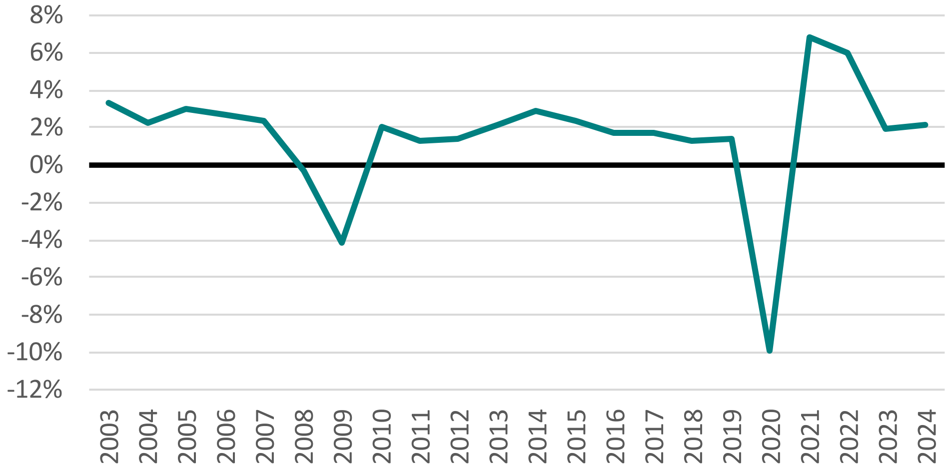
Forecast tables

Year-on-year change, unless otherwise indicated	2018	2019	2020	2021	2022	2023	2024
GDP	1.3%	1.4%	-9.9%	6.8%	6.0%	1.9%	2.2%
Consumer spending	1.3%	1.1%	-10.7%	5.1%	5.4%	1.9%	2.1%
Household disposable income	2.2%	1.8%	-0.4%	0.7%	1.8%	1.1%	1.4%
Business investment	-2.5%	1.1%	-10.7%	5.1%	12.6%	2.5%	1.6%
Imports	2.7%	2.7%	-19.9%	7.8%	9.3%	3.9%	1.3%
Exports	3.0%	2.7%	-13.6%	3.9%	7.0%	2.5%	2.4%
Unemployment rate (%)	4.1%	3.8%	4.5%	6.2%	5.9%	5.2%	4.9%
Average gross employee earnings (incl bonuses)	3.0%	3.4%	1.3%	1.1%	2.8%	2.7%	2.6%
CPI inflation	2.5%	1.8%	0.9%	1.3%	2.2%	2.5%	2.2%
Bank rate	0.60%	0.75%	0.21%	0.10%	0.10%	0.63%	1.13%
$/£	$1.34	$1.28	$1.28	$1.38	$1.34	$1.35	$1.37
€/£	€ 1.13	€ 1.14	€ 1.13	€ 1.13	€ 1.12	€ 1.14	€ 1.15
UK 10 year gilt yields, %	1.5%	0.9%	0.4%	0.5%	0.6%	0.6%	0.9%
Real output, manufacturing	1.2%	-1.8%	-9.9%	9.7%	5.6%	1.1%	1.9%
Real output, construction	0.1%	1.8%	-12.5%	10.0%	5.6%	0.8%	0.3%
Real output, financial & business services	1.1%	0.5%	-5.2%	4.4%	5.9%	3.0%	3.3%
Real output, wholesale & retail	3.2%	2.5%	-6.7%	4.7%	4.1%	1.7%	2.0%

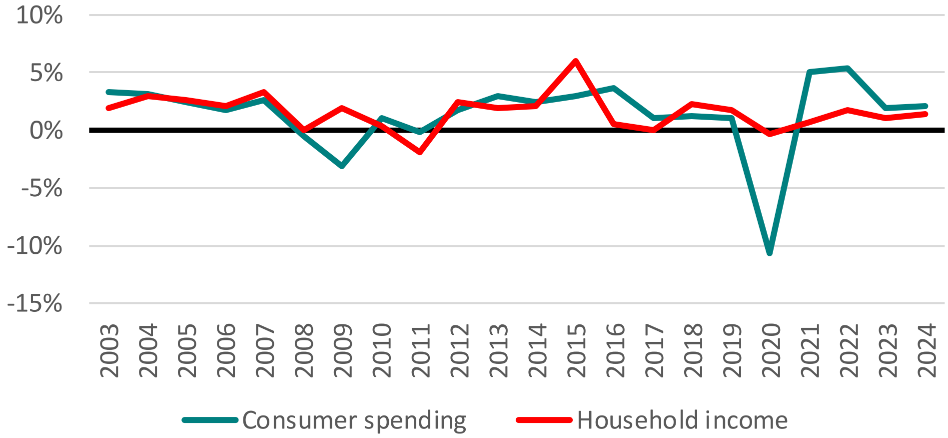
More forecasts can be found by accessing the Cebr databank via the TPS Members' Area of our website.

Key charts

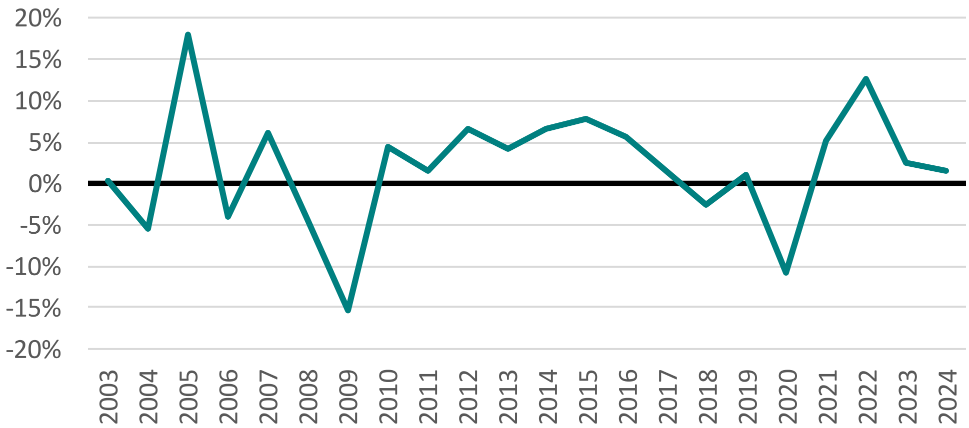
UK real GDP – annual % change



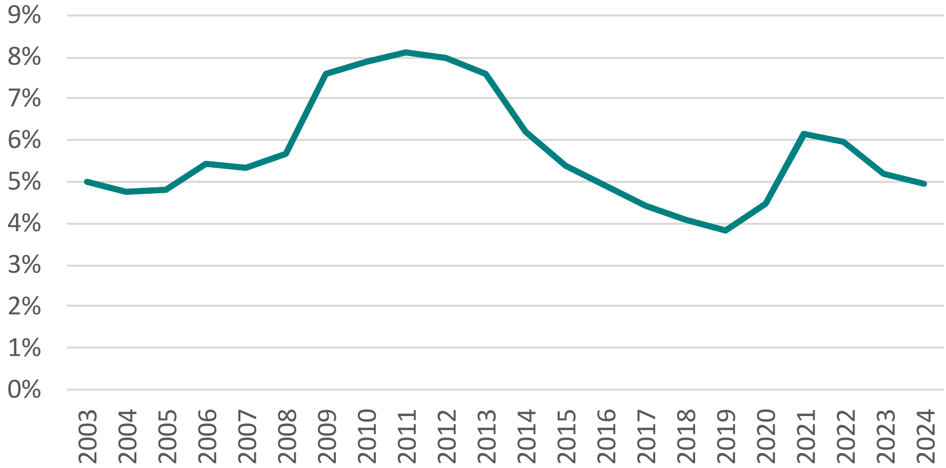
Total real consumer spending and household disposable income, annual % growth



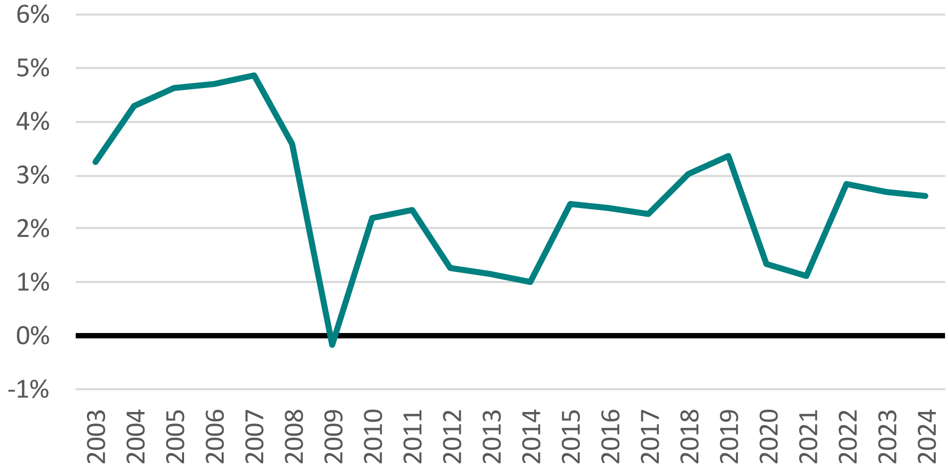
Real business investment, annual % change



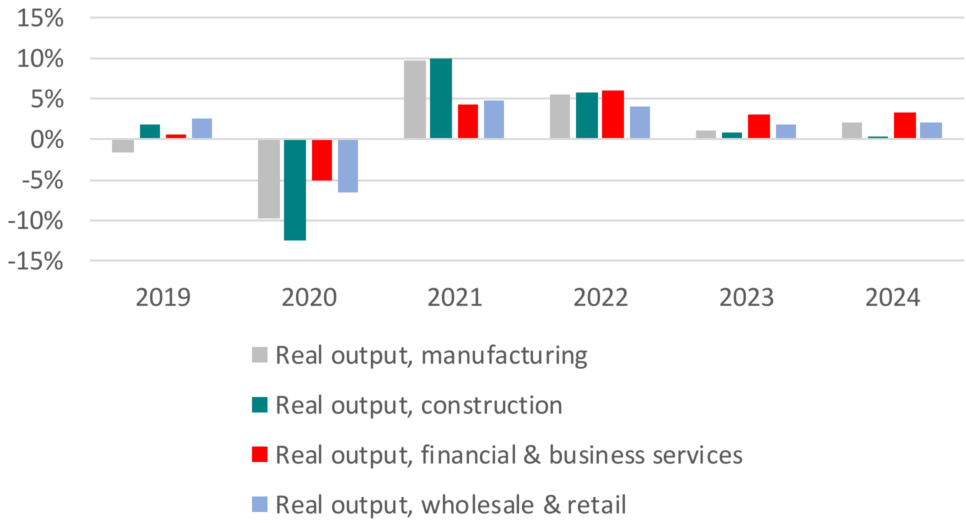
UK unemployment rate, %



Average gross employee earnings (incl bonuses), annual % change

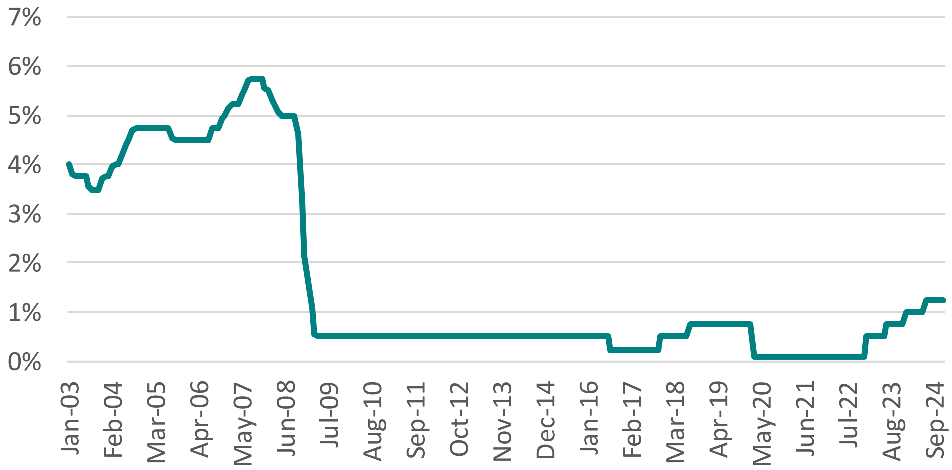


Real output, annual % change, by industry sector

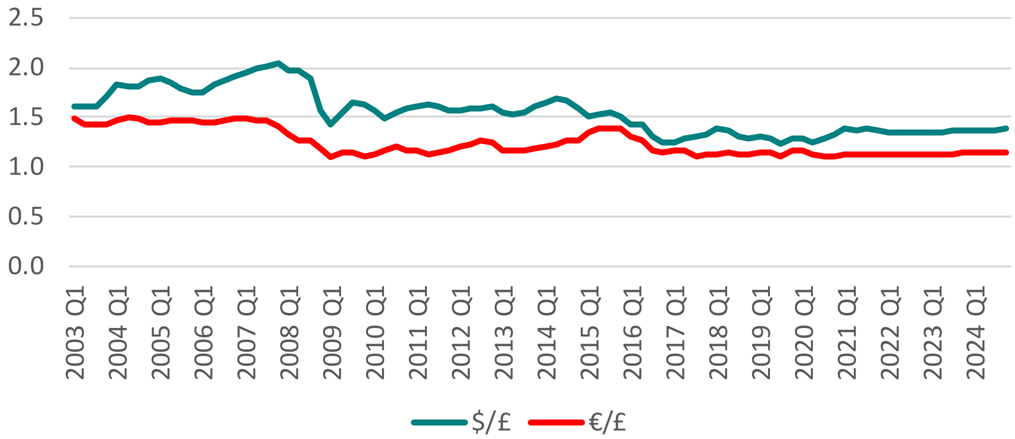


Consumer price inflation, annual % change

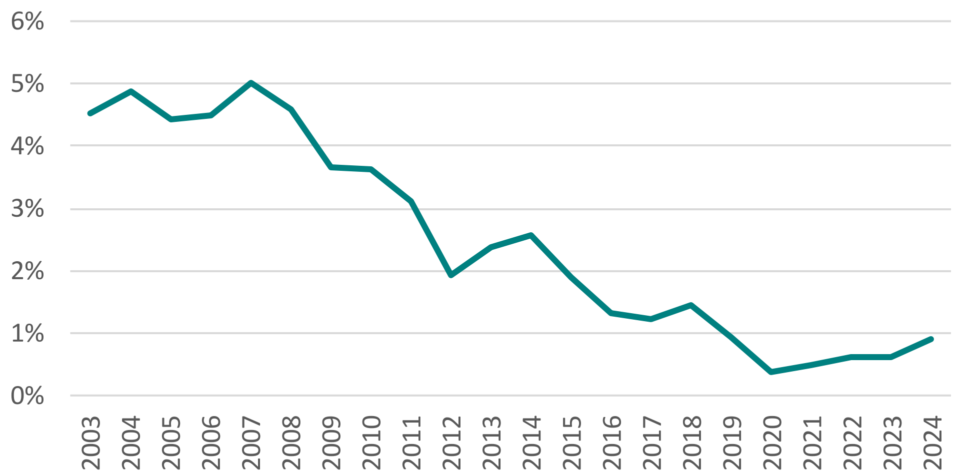
Bank of England base interest rate, %



Sterling exchange rate versus US dollar and euro



UK 10 year gilt yields, %



More forecasts can be found by accessing the Cebr databank via the TPS Members' Area of our website.

For more information, please contact…

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