Cebr

Making Business Sense

UK Prospects, April 2021

Economy on track for a strong Q2 as lockdown easing progresses according to plan

Toplines

- Following a 9.8% contraction in 2020, Cebr expects the **UK economy to grow 6.5% this year and 5.9% in 2022.** The 2021 forecast is now more in line with consensus expectations, as other forecasters have inched closer to our relatively optimistic outlook which assumes there will be a notable release of pent-up demand following the planned easing of restrictions over the coming months.
- **The volume of retail sales increased 2.1% month-on-month in February and stood 3.7% below the February 2020 level.** Many retailers and consumers have adjusted to shopping amid lockdown restrictions. The proportion of retail spending conducted online increased to 36.1% in February 2021, the highest on record and 16 percentage points higher than a year prior. **We expect consumption expenditure as a whole to grow by 4.8% in 2021, supported by a spending spree in the second half of the year.**
- **The annual rate of inflation on the CPIH measure fell from 0.9% in January to 0.7% in February. There is a considerable range in the rates of price growth exhibited by different goods and services, some of which is exacerbated by the indirect effects of the pandemic and associated restriction measures**. The clothing & footwear category proved to be a major source of downward pressure on the headline inflation rate in February, with prices being down by 5.6% annually. A partially offsetting upward contribution to the inflation rate stemmed from the transport category, driven by rising prices for motor fuels. **Cebr expects CPIH inflation to pick up more notably from May onwards and average 1.5% over 2021.**
- **The unemployment rate in the UK was 5.0% in the three months to January 2021,** 0.1 percentage points higher than during the previous three-month period between August and October 2020, but below the 5.1% unemployment rate registered in the three months to December 2020. Data from HMRC provide further evidence that labour market conditions have stabilised for the time being. Indeed, there were an estimated 68,000 more people in payrolled employment in February than in January, marking the third consecutive month of improvement. **Cebr now expects the unemployment rate to reach a peak of 6.5% this year, down from an earlier forecast of 6.9%.**
- **The March Monetary Policy Committee (MPC) meeting saw the Bank of England's base rate remain at 0.1%, while the Bank's total target stock of asset purchases stayed at £895 billion, comprised of £875 billion of government bonds and £20 billion of corporate bonds.** Cebr sees the base rate staying at its current level throughout 2021 and 2022, before starting to rise gradually.

Forecast summary

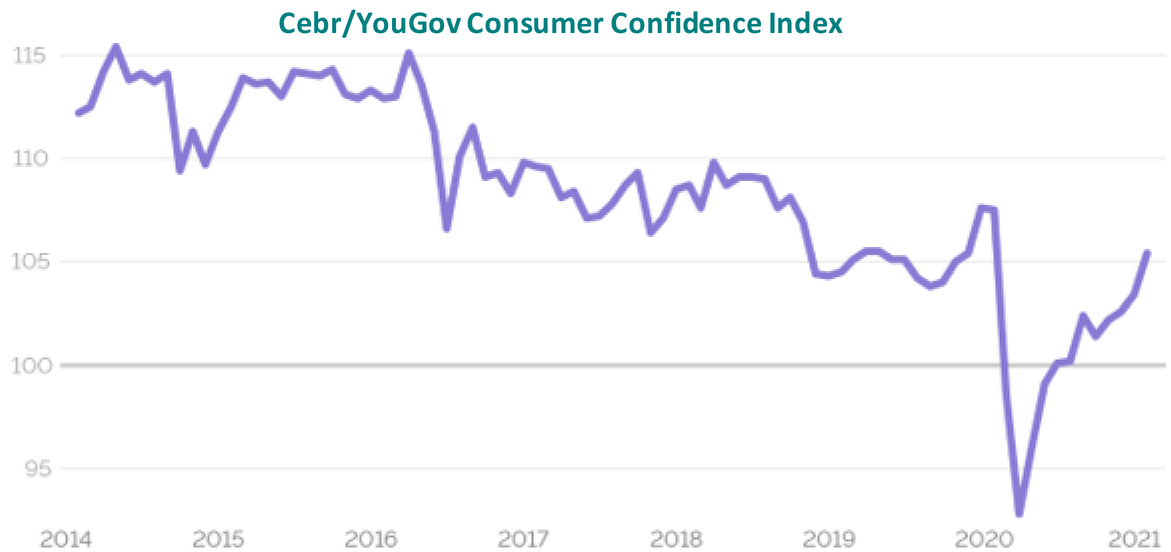
- With lockdown easing progressing as planned, consumer confidence at pre-pandemic levels and many sitting on increased savings, the second half of 2021 is set to see a consumer spending boost. After a double-digit contraction in 2020, we expect a recovery of 4.8% and 5.4%, in 2021 and 2022 respectively.
- Cebr anticipates that exports will grow 5.7% this year and 7.0% in 2022. The prolonged recovery reflects continued weak global demand as vaccination efforts around the world progress 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 6.9% in 2021 as demand for foreign goods and services recovers in line with the overall rise in consumer demand.
- Business investment shrank by around 10% in 2020 and is set to rebound by 5.2% this year and 10.5% in 2022. The UK's rapid vaccine rollout has attracted global attention and bodes well for the investment outlook. However, the effects of Brexit remains somewhat of an unknown, with many crucial sectors not covered by the relatively limited deal.

Industry outlook

- Real output in the wholesale and retail sector contracted 6.6% in 2020 and is set to partially recover this year with 4.9% growth. The sector is among the most impacted by the prolonged lockdown, although online sales have alleviated some of the financial woes.
- Following a 14.0% contraction in 2020, real output in construction is set to partially recover with 7.7% growth this year. The housing market has been supported by changing preferences leading to house moves and the stamp duty cut which has been extended to the end of June, with a smaller cut set to stay in place until the end of September. Commercial real estate has suffered amid severely reduced footfall and increased home working, but many businesses are planning a partial return to offices in the coming months.
- Real manufacturing output contracted 9.5% in 2020, in response to stifled domestic and international demand. A strong recovery of 9.0% 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 there are no indications that the taps will be turned off suddenly. Real output in the sector contracted 5.3% in 2020, less than other sectors, and is set to grow 4.1% this year and 5.7% in 2022.

Leading indicators – consumer confidence

- Consumer confidence rose 2.1 points to 108.5 in March – the highest level since August 2018.
- Workers reporting increasing activity at their workplace in the past 30 days drove the largest growth in the underlying metrics, with business activity rising to 108.5 (+5). The outlook for activity in the next 12 months only saw a slight improvement of 0.8, but at 126 it is by far the aspect that Britons feel the most optimistic about.
- The outlook among homeowners for the next 12 months also saw a healthy increase of 3.2 points, and remains high at 120.7. Homeowners are also more likely than not to believe their property increased in value in the past 30 days, with the corresponding metric seeing a boost of 2.2 to 111.4.
- For the first time during the pandemic, more households than not now believe their finances will improve over the next year, at 102.3 (+3.1). A higher number of families also say their finances improved in the past 30 days, with the measure rising by 1.2 points. At 94.1 it remains negative, but is much higher than a year ago (85.9).
- Workers also felt more secure in their job in the past month compared to February, with the metric rising by 1.8 points. At 90.9, it is approaching pre-pandemic levels – in February 2020 it was at 91.5. There was no change in the outlook on job security over the next year, which remains positive at 114.2.



Economic risks over the coming 12 months

	Risk likelihood	Comment
Change of advice on administering the AstraZeneca vaccine to those aged under 30 pushes back lockdown easing	Medium	The UK medicines regulator has advised that under 30s in the UK be offered Covid-19 vaccines by other manufacturers due to very rare possible side effects noted mainly among younger recipients. It is unclear if this change in guidance will have a notable impact on vaccination rates in the coming months. If vaccinations drop, either due to unavailability of alternative shots or due to increased reluctance to get vaccinated among younger age groups this could push back the later stages of lockdown easing, weighing on the economic recovery.
Workers continue to largely work from home even as restrictions ease	Medium	There has been much research examining the extent to which working practices adopted during the pandemic are here to stay. The next few months, however, are going to provide the first chance to gather real-time information on the share of workers back in the office. Should many of them continue to work entirely or mostly from home this will pose large challenges for dense urban areas in which many businesses depend on commuter footfall.

In-focus: Cebr research for Scottish Friendly

Cebr has conducted research with Scottish Friendly into how household saving and spending habits have been shaped by the pandemic. Key findings from the research are below. We ask TPS subscribers ***not to share them*** *with any non-subscribers as some are not yet in the public domain.*

The COVID-19 pandemic has transformed saving and spending habits in the UK. The temporary closure of parts of the UK economy has driven the savings ratio to record highs as it wiped out important components of consumer expenditure ranging from restaurant visits to holidays. This research examines these dynamics in greater detail, using a survey of 4,000 UK adults to shed new light on how the pandemic has reshaped Brits' saving and spending activities and the impacts this could have on the wider economy for years to come.

The key findings of the research include:

- Nearly half (46%) of people in the UK have seen an increase in the value of their cash savings over the past 12 months. Younger savers appear to have played a larger role in the savings boom during the COVID-19 crisis than they have done during past recessions when higher saving ratios were predominantly driven by older age groups.

- 18% of those that have seen a rise in their cash savings since last January plan to spend all of these excess savings during the course of 2021. Meanwhile, a third (33%) anticipate spending at least some of these savings. Cebr estimates that the release of lockdown savings will lead to more than £50 billion of additional spending in 2021.

- The release of pent-up demand in 2021 will likely be counterbalanced by the presence of restrictions throughout the first half of the year alongside the continued fragility of the wider economy. Cebr projects that the household saving ratio will be 11% in 2021 – below the 16% recorded in 2020 but significantly above the pre-pandemic level.

- Pent-up demand is greatest in the category of overseas holidays, with more than a third (34%) of those who said they planned to spend more this year saying that part of this additional spending would be channelled towards travel & accommodation for overseas holidays.

- Nearly two in five (39%) Brits plan to save a higher share of their income after the pandemic than they did before, including nearly a quarter (22%) who are intending to save a significantly higher share of their income than they did before. The pandemic is set to have the greatest impact on the saving habits of younger generations, with 47% of respondents aged 18-24 indicating that they plan to save a higher share of their income after the pandemic than they did before, rising to 55% among those aged 25-34.

- Brits are expecting to spend less money in the future in nine out of the twelve categories analysed. The longer-term picture is particularly troubling for the UK's restaurants, cafes, pubs and bars. Indeed, two in five (40%) Brits expect that they will spend less in pubs & bars after the pandemic than they did before, while a similar share (38%) anticipates spending less in restaurants & cafes.

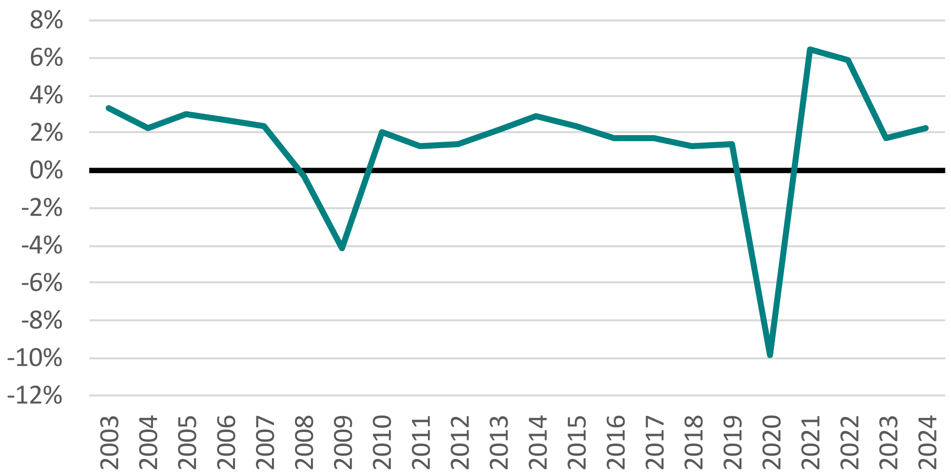
Forecast tables

Year-on-year change, unless otherwise indicated	2018	2019	2020	2021	2022	2023	2024
GDP	1.3%	1.4%	-9.8%	6.5%	5.9%	1.7%	2.3%
Consumer spending	1.3%	1.1%	-10.6%	4.8%	5.4%	1.4%	2.3%
Household disposable income	2.2%	1.8%	0.2%	2.1%	1.8%	1.1%	1.5%
Business investment	-2.5%	1.1%	-10.2%	5.2%	10.5%	2.5%	1.6%
Imports	2.7%	2.7%	-17.8%	6.9%	7.2%	3.6%	1.4%
Exports	3.0%	2.7%	-15.8%	5.7%	7.0%	2.5%	2.4%
Unemployment rate (%)	4.1%	3.8%	4.5%	5.6%	5.5%	4.8%	4.5%
Average gross employee earnings (incl bonuses)	3.0%	3.5%	1.8%	1.0%	2.4%	2.7%	2.6%
CPI inflation	2.5%	1.8%	0.9%	1.3%	2.3%	2.6%	2.2%
Bank rate	0.60%	0.75%	0.21%	0.10%	0.10%	0.63%	1.13%
$/£	$1.34	$1.28	$1.28	$1.39	$1.34	$1.35	$1.37
€/£	€ 1.13	€ 1.14	€ 1.13	€ 1.15	€ 1.13	€ 1.14	€ 1.15
UK 10 year gilt yields, %	1.5%	0.9%	0.4%	0.8%	0.6%	0.6%	0.9%
Real output, manufacturing	1.2%	-1.8%	-9.5%	9.0%	5.3%	0.9%	2.0%
Real output, construction	0.1%	1.8%	-14.0%	7.7%	4.4%	0.7%	0.3%
Real output, financial & business services	1.1%	0.5%	-5.3%	4.1%	5.7%	2.8%	3.3%
Real output, wholesale & retail	3.2%	2.5%	-6.6%	4.9%	3.8%	1.3%	2.1%

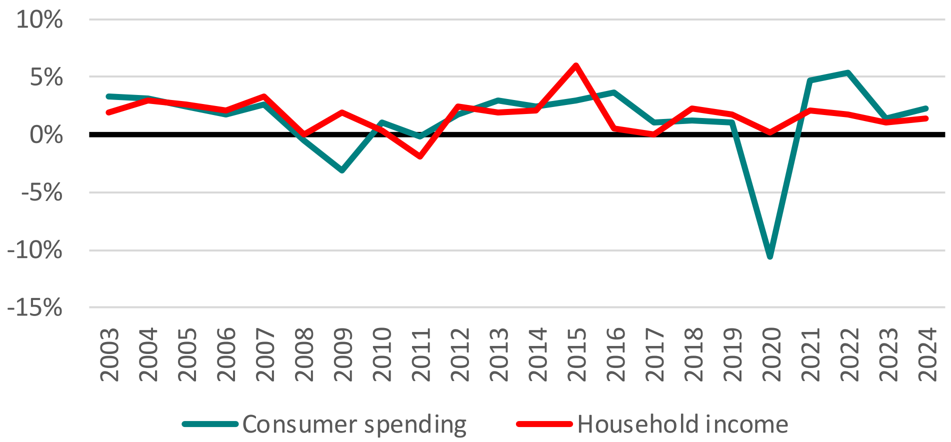
More forecasts can be found by accessing the Cebr databank via the TPS Members' Area of our website.

Key charts

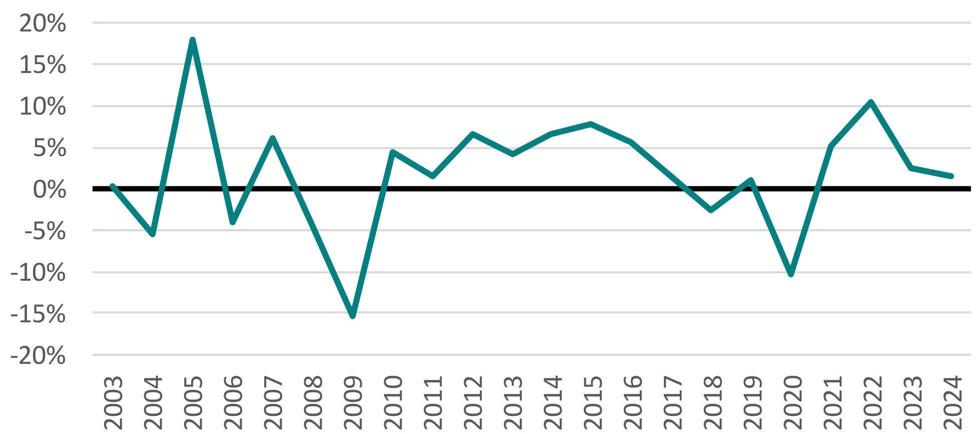
UK real GDP – annual % change



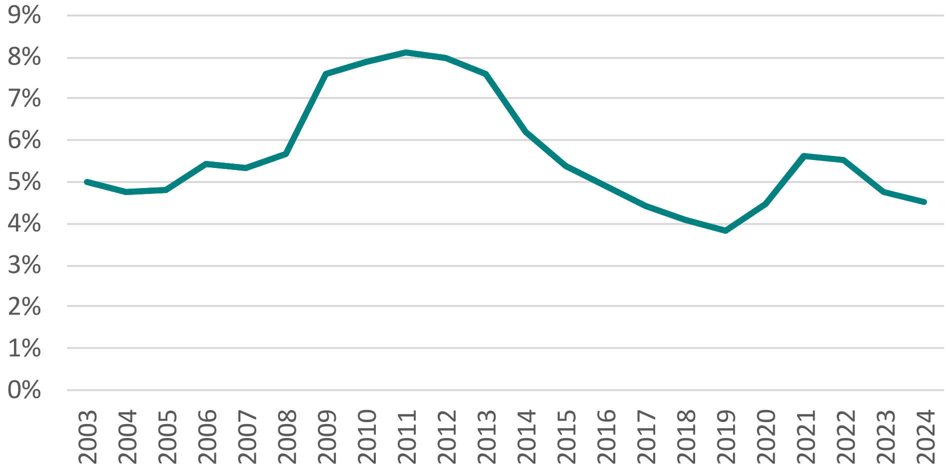
Total real consumer spending and household disposable income, annual % growth



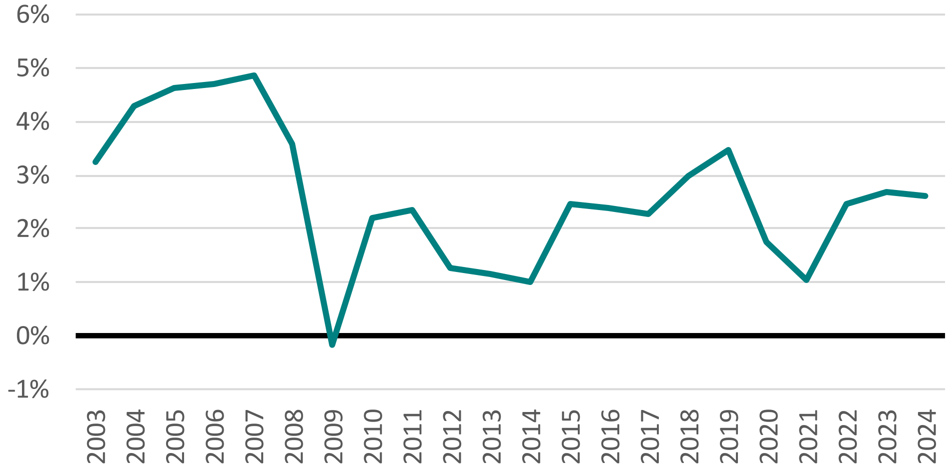
Real business investment, annual % change



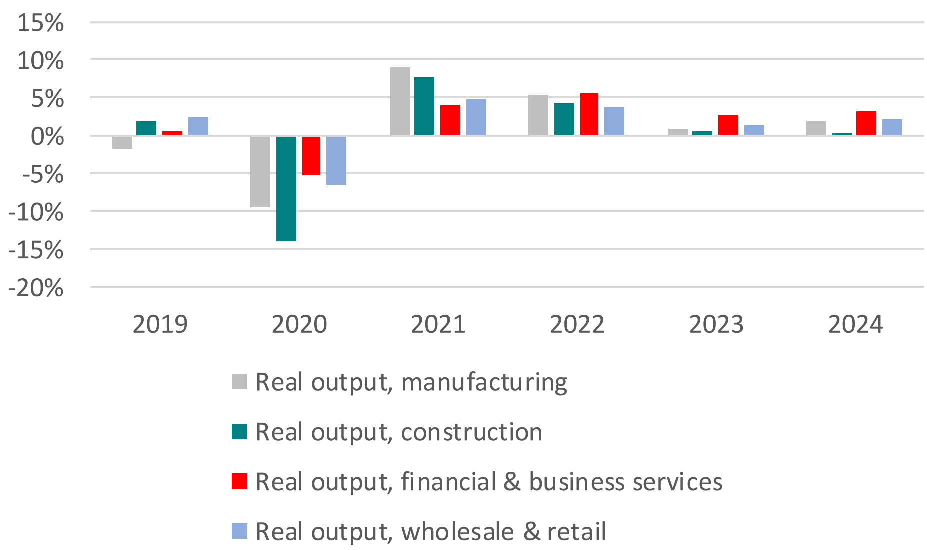
UK unemployment rate, %



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

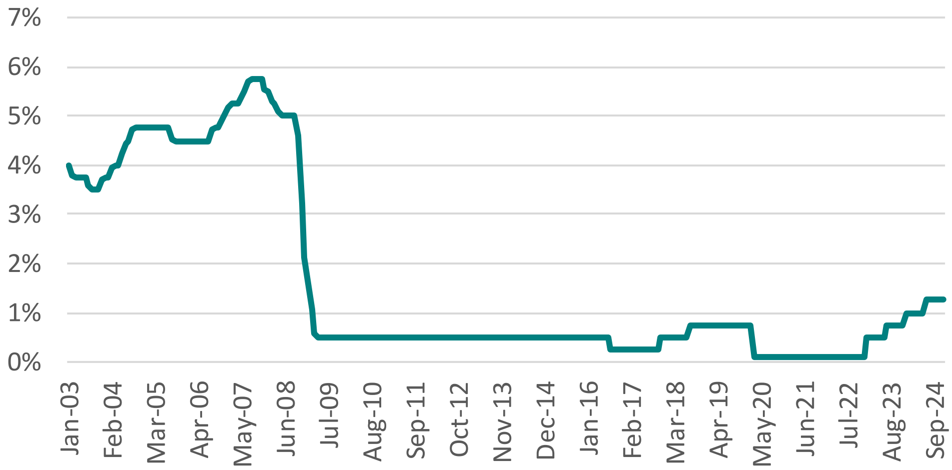


Real output, annual % change, by industry sector

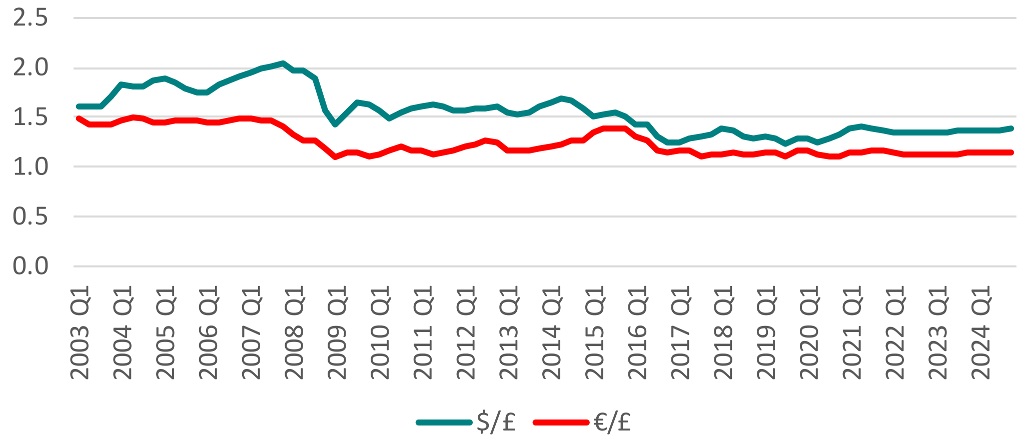


Consumer price inflation, annual % change

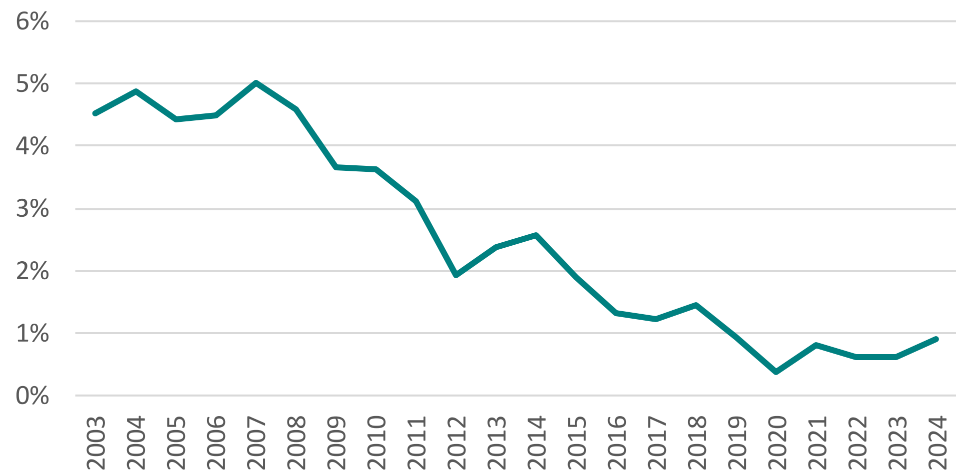
Bank of England base interest rate, %



Sterling exchange rate versus US dollar and euro



UK 10 year gilt yields, %



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For more information, please contact…

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