

UK Outlook

April 2020
Interim Update



Bank of
Ireland

A shutdown-induced downturn in the economy

While there was a collective sigh of relief after the worst case outcome of a 'no deal' Brexit was avoided at the start of this year, the UK economy has since been turned on its head because of the necessary public health measures to contain COVID-19. Social distancing and non-essential business closures have resulted in a sharp reduction in the demand and supply of goods and services, job losses, falls in income for households and firms, collapsing confidence and heightened uncertainty. The Government and the Bank of England have acted forcefully to mitigate the impact but this will not prevent a recession, though the policies implemented will help GDP recover from what is a severe but 'transitory' shock. In constructing a scenario for the economy - which can only be tentative given the virus-related and other unknowns - it is assumed the current restrictions remain in place through the middle of this quarter or so and are only lifted in a gradual manner thereafter. On this basis, after nosediving in Q2, activity starts to rebound over the remainder of the year and into next, with some sectors picking up earlier and faster than others. GDP still contracts by 8.5% in 2020 but expands by 6.5% in 2021 as the recovery broadens out (which helps to partially unwind the rise in unemployment). At this juncture, the risks are tilted to the downside. If the lockdown were extended for example, or substantial restrictions re-imposed, the downturn would be deeper and the recovery potentially more modest, while unemployment would be elevated for longer.

Forecasts	2019	2020 (f)	2021 (f)
GDP	1.4%	-8.5%	6.5%
Employment	1.1%	-6.0%	4.5%
Unemployment Rate (Average)	3.8%	9.0%	6.2%
CPI	1.8%	0.3%	0.8%

Annual % change unless otherwise stated; GDP is in constant prices

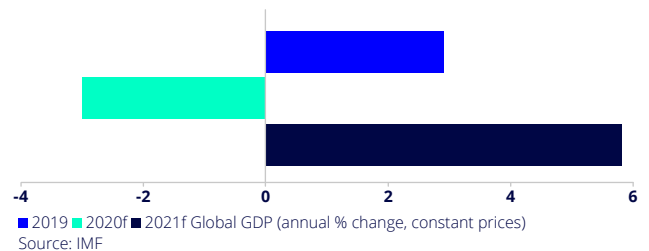
The UK and EU are assumed to reach a limited trade deal - mainly covering goods - by the end of the transition period

Source: ONS & Bank of Ireland

Economy

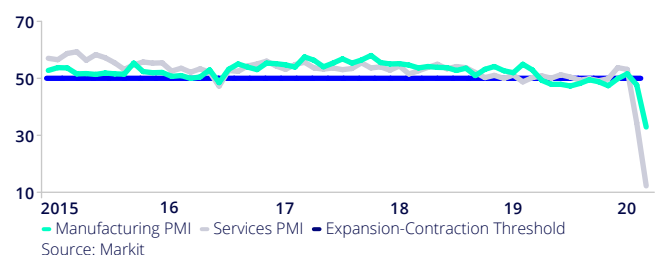
Changed external environment

The COVID-19 pandemic is imparting a significant shock to economies across the world, with the IMF now projecting that global GDP will decline by 3.0% in 2020 (much worse than in 2009).



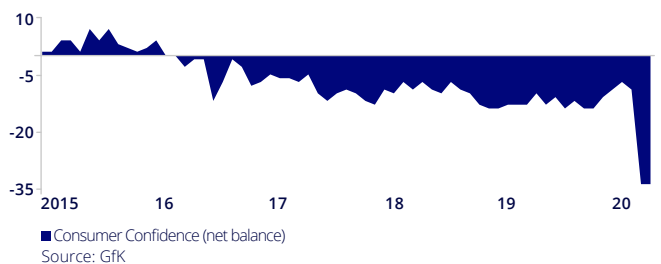
Output down sharply

Domestically, measures to limit the spread of the virus are severely curtailing economic activity, with the 'flash' manufacturing and services PMIs both falling to their lowest ever levels in April.



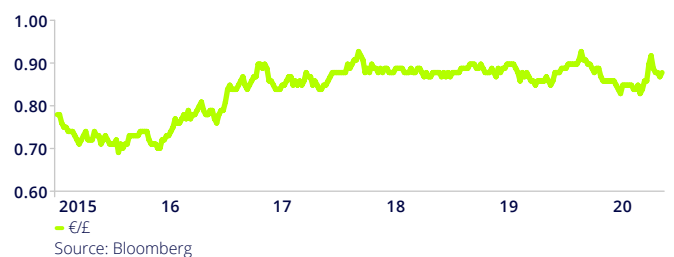
Unemployment rising

Consumer confidence has plummeted to its weakest reading since the global financial crisis as many businesses furlough staff, while applications for the universal credit payment have surged.



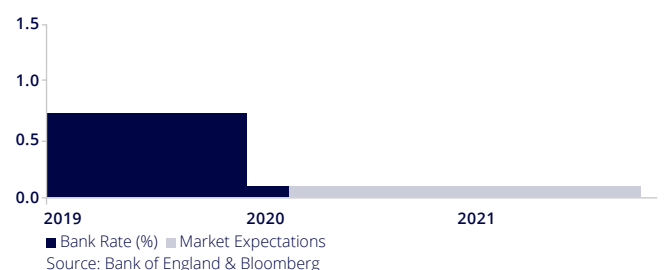
Financial market turbulence

The FTSE 100 is down more than 20% year to date, while oil prices have slumped which will dampen inflation. Sterling depreciated initially following the imposition of restrictions but has partially recovered since.



Policy responds

The Bank of England has cut interest rates to 0.1% and re-activated its quantitative easing programme, while fiscal policy has been loosened with increased funding for the NHS, a wage subsidy scheme and other business supports.



Uncertain outlook

A deep downturn is on the cards for this year followed by a rebound in 2021, but with the public health emergency still playing out, risks to the economic picture are elevated and will be for some time.



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