

UK Outlook

July 2020

Economic Update



Bank of
Ireland

Economy on the mend but risks remain

The shutting down of the UK economy to contain the spread of COVID-19 resulted in an unprecedented contraction in GDP and has upended the labour market. The collapse in activity was broad-based albeit consumer-facing sectors fared worst as, notwithstanding the significant support to household incomes provided by the Government's wage subsidy and other schemes, spending plummeted. April probably marked the trough of the downturn though, as the gradual re-opening of the economy since mid-May has seen an increase in activity according to a range of hard and survey data. While the monetary and fiscal policy actions taken to date, including the measures recently announced by the Chancellor, will support the recovery now underway, much uncertainty still surrounds the outlook which depends inter alia on the path of the virus. Assuming the latter remains broadly under control, the rebound in activity is expected to continue over the remainder of this year and into 2021, though GDP is still forecast to decline by 9.5% for 2020 as a whole before increasing by 6.7% next year. Consumer spending, investment and exports are all expected to contribute to the recovery, but a combination of physical distancing requirements, ongoing uncertainty, high unemployment and a sluggish global turnaround means output is unlikely to return to its pre-crisis level until 2022. Inflation is projected to remain subdued over the forecast horizon with the Bank of England potentially easing policy again. A key risk to the outlook is a renewed surge in the virus requiring the widespread re-imposition of restrictions, while a failure to reach even a limited trade deal with the EU (which we assume to be in place at the start of 2021) would dampen growth next year.

Recent Developments

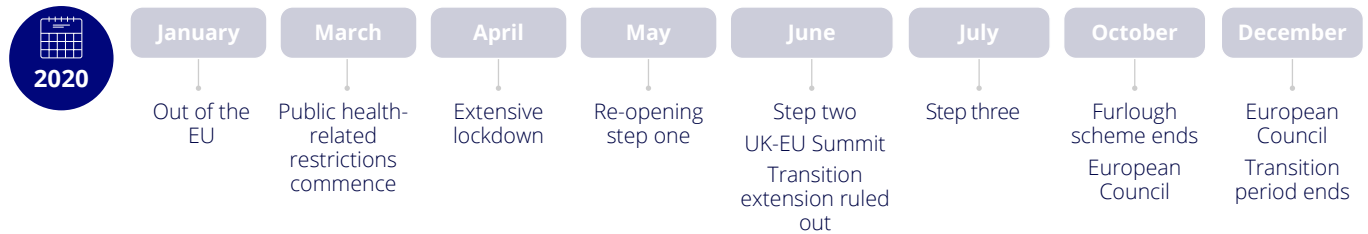
GDP
 **18.6%**
 YoY March-May 2020

Unemployment rate
 **@ 4.1%** May 2020
 Widespread furloughing of workers

Inflation
 **@ 0.6%**
 YoY June 2020

£ weakens
 to **91p**

COVID-19 & Brexit



Outlook

	GDP	Consumer Spending	Investment	Exports	Employment	Unemployment Rate	Inflation
2019	1.5%	1.0%	0.7%	5.0%	1.1%	3.8%	1.8%
2020f	-9.5%	-11.0%	-21.0%	-15.0%	-1.5%	5.8%	0.7%
2021f	6.7%	7.5%	12.0%	8.0%	-1.5%	7.0%	1.2%



Deep downturn as COVID-19 imparts huge shock to economy



Rebound in activity as society and business re-open



Fiscal and monetary policy highly supportive

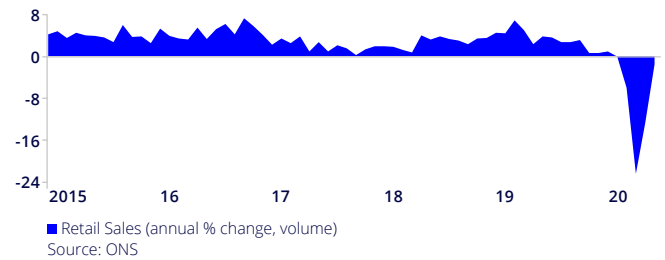


Virus and Brexit-related risks

Consumer

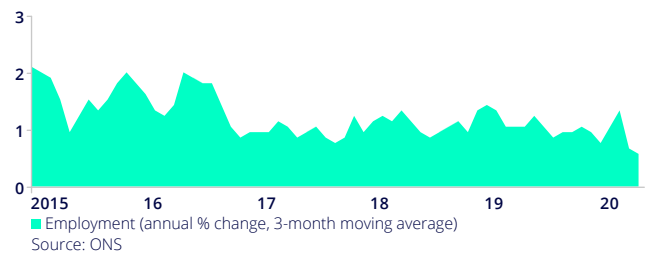
Spending falls sharply

Consumer spending plummeted as the country entered lockdown in late March 2020, with retail sales falling by 22.7% year-on-year in April but rebounding since.



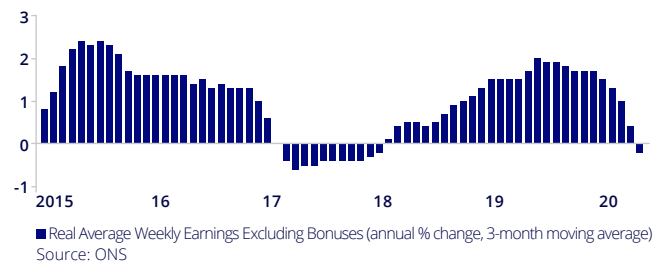
Labour market upended

Conditions in the jobs market have weakened and the unemployment rate is set to rise further as the furlough scheme starts to wind down and comes to an end in October.



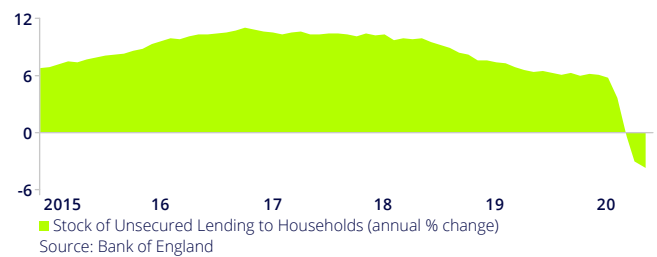
Incomes under pressure

Weekly earnings growth (excluding bonuses) has slowed significantly, though the government wage subsidy and other schemes are providing some support to households and inflation has also eased.



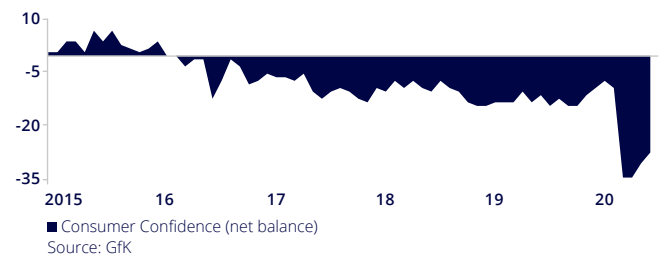
Consumer credit contracts

Consumer credit growth has weakened, with the annual rate dipping into negative territory in May and staying there in June.



Confidence on the turn

Having fallen to its lowest level since the global financial crisis in April/May, consumer sentiment has started to edge higher as aspects of economic life resume.



Expected rebound

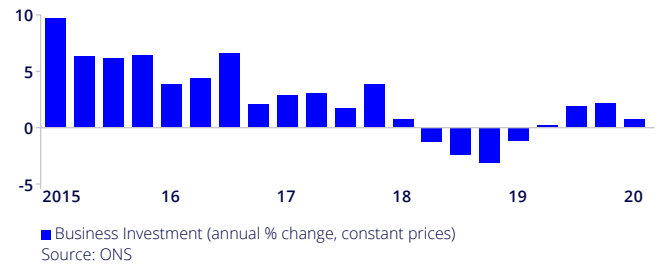
Some unlocking of savings and spending is expected over the remainder of this year and into 2021 as the economy re-opens and stimulus measures kick in.



Business

Muted investment

The recovery in business investment evident in the second half of 2019 petered out in Q1 this year, as the COVID-19 outbreak started to disrupt commercial activity.



Intentions scaled back

With firms looking to preserve cash buffers, investment plans have been curtailed signalling further weakness in capital spending over the coming quarters.



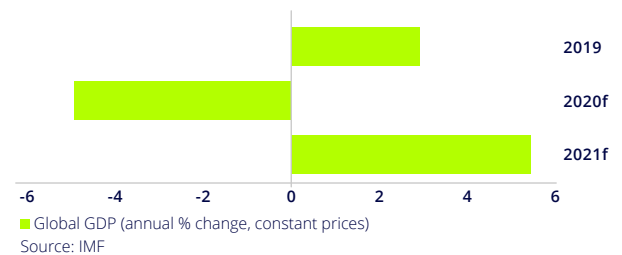
Exports decline

The COVID-19 shock is impacting trade, with exports down 6.6% in annual terms in Q1 and high frequency data pointing to a bigger drop in Q2.



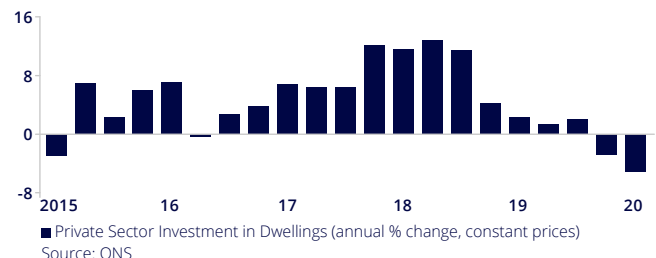
Global recession

The IMF says the pandemic will lead to the largest contraction in the world economy in many decades, with global GDP forecast to fall by 4.9% this year, before expanding by 5.4% in 2021.



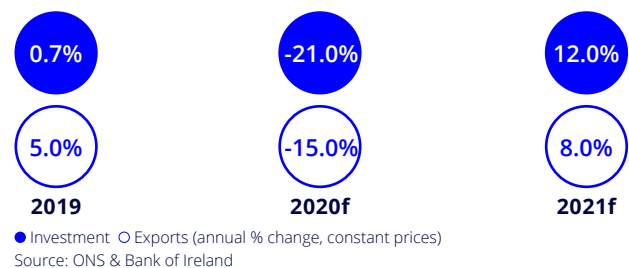
Housing market softens

Indicators point to lower housebuilding activity in recent months, though the newly announced cut to stamp duty should support demand going forward.



Tentative turnaround

Government schemes are facilitating access to credit and as demand recovers at home and overseas, investment and exports are set to regain some lost ground, even as the new trade regime with the EU takes effect.



Overall Activity

Deep downturn

GDP declined by 1.7% year-on-year in Q1 2020, and was down an unparalleled 25.3% in April as large swathes of the economy were shut down.



Gradual recovery

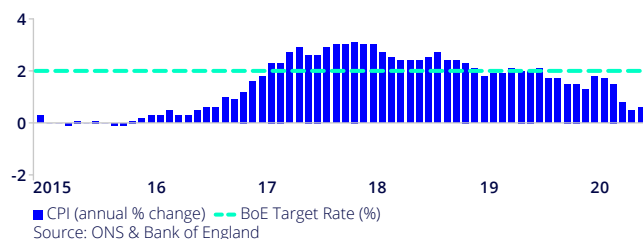
With the public health restrictions being lifted, activity has started to rebound (GDP was up 1.8% on the month in May) though there are virus and Brexit-related risks ahead.



Policy & Markets

Inflation subdued

Annual consumer price inflation registered 0.6% in June but is expected to pick up moderately as the economy recovers and more red tape in trade with the EU adds to costs in 2021.



Supportive monetary policy

The Bank of England is maintaining a highly accommodative policy stance, keeping interest rates at 0.1% and announcing an increase of £100 billion in bond purchases (to run until the end of 2020) at its June meeting.



Sterling weakens

The pound sold off in March as the pandemic escalated and with limited progress on a UK-EU trade deal to date, is currently trading at around 91p against the euro.



Fiscal stimulus

Chancellor Sunak recently announced new fiscal measures totalling about £30 billion, including job retention incentives and a VAT cut for the tourism sector.



Forecasts

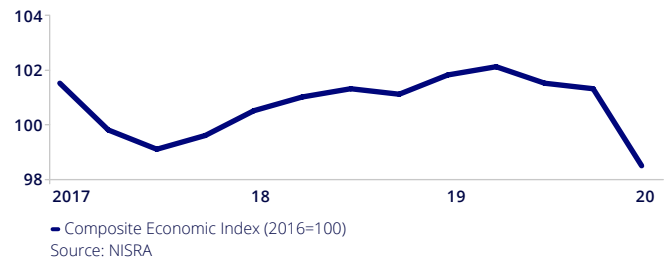
	2019	2020 (f)	2021 (f)
Personal Consumption	1.0%	-11.0%	7.5%
Government Consumption	3.4%	2.0%	6.0%
Investment	0.7%	-21.0%	12.0%
Exports	5.0%	-15.0%	8.0%
Imports	4.6%	-17.5%	11.7%
GDP	1.5%	-9.5%	6.7%
Employment	1.1%	-1.5%	-1.5%
Unemployment Rate (Average)	3.8%	5.8%	7.0%
CPI	1.8%	0.7%	1.2%

Annual % change unless otherwise stated; personal consumption, government consumption, investment, exports, imports and GDP are in constant prices

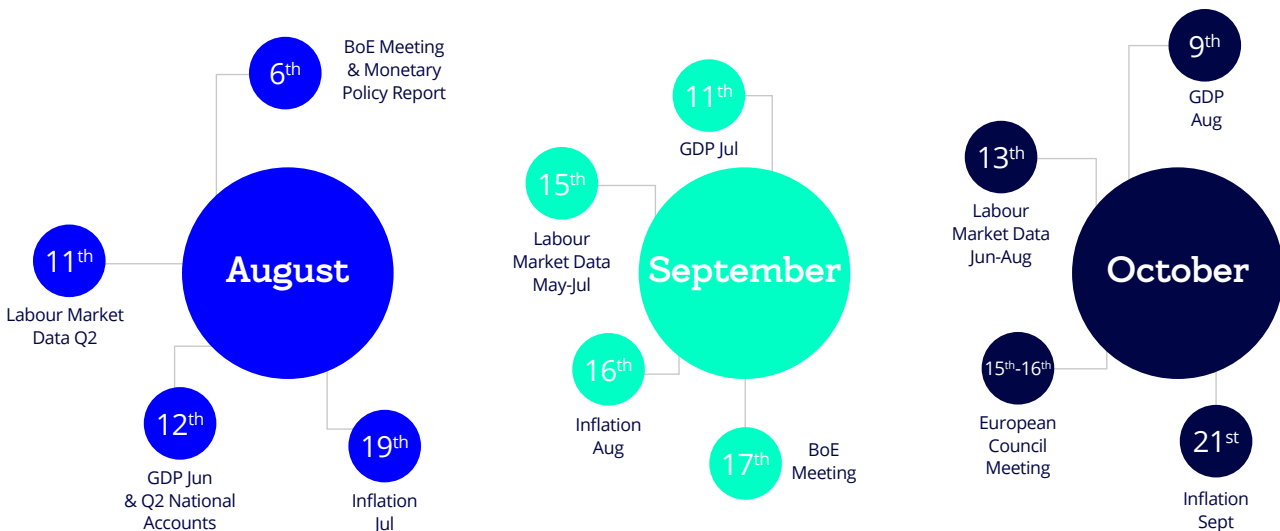
Northern Ireland

Activity falls sharply

The economy contracted in the first quarter of this year amid COVID-19 related disruption, while implementation of the Northern Ireland protocol will be on the agenda heading into next year.



Upcoming Events



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