

UK Outlook

October 2020
Interim Update



Bank of
Ireland

Economy rebounds but path ahead uncertain

Having plunged in the spring when stringent measures to contain the spread of COVID-19 were imposed, the UK economy is expanding again. Helped by substantial monetary and fiscal policy support, GDP rose for a fourth consecutive month in August and survey data point to another increase in September. The outlook has become increasingly clouded however amid a resurgence in the virus - requiring targeted restrictions (affecting the hospitality sector in particular) and local lockdowns to be put in place - and an increase in tensions between Downing Street and the EU as the end of the Brexit transition period approaches. Assuming restrictions along current lines continue into the middle of next year and a 'bare bones' free trade agreement comes into effect in January, GDP is forecast to contract by 10.5% in 2020 before increasing by 5.5% in 2021 (a downward revision of 1 and 1¼ percentage points respectively from our July forecasts). Unemployment is expected to rise by less than previously projected though, partly reflecting the Chancellor's decision to replace the existing furlough scheme with a new (and subsequently enhanced) Job Support Scheme. Even so, consumer spending is likely to be constrained to some extent by a combination of public health measures, precautionary behaviour and uncertainty over the coming months, which will also weigh on firms' investment decisions. Key risks to this picture are a shutdown of the economy similar to earlier this year and a move to trading on WTO terms with the EU, which in the case of the latter could lower GDP growth by up to 2 percentage points in 2021.

Forecasts	2019	2020 (f)	2021 (f)
GDP	1.3%	-10.5%	5.5%
Employment	1.1%	-0.5%	-1.8%
Unemployment Rate (Average)	3.8%	4.7%	6.2%
CPI	1.8%	0.7%	1.2%

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

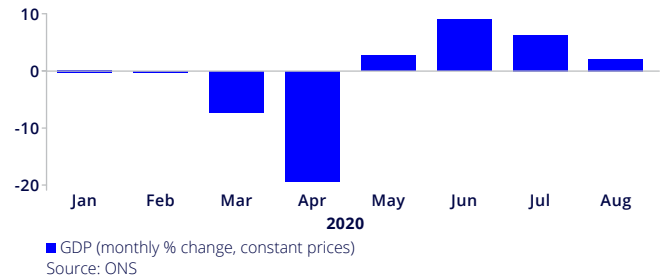
The UK and EU are assumed to reach a limited trade deal by the end of the transition period

Source: ONS & Bank of Ireland

Economy

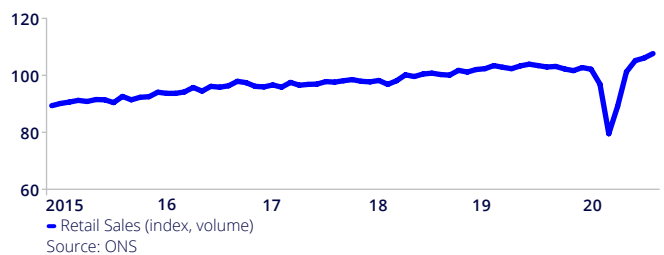
Recovery underway

Activity has been rebounding since the economy began to re-open in early summer. GDP in August was up 21.7% from its low point in April though it was still below its pre-pandemic level.



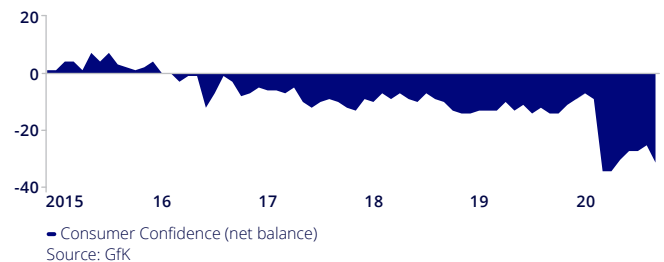
Policy measures helping

Retail sales have been buoyed by the release of pent-up demand, with the Eat Out to Help Out scheme also encouraging households to spend and the monetary policy stance remaining very accommodative.



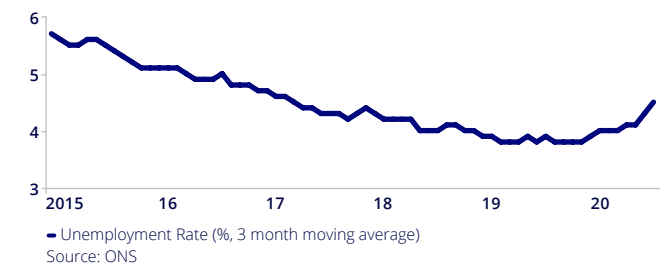
Virus woes re-emerging

While consumer and business confidence indices have recovered some of their COVID-related losses, the increase in virus cases and public health restrictions may weigh on sentiment over the coming months.



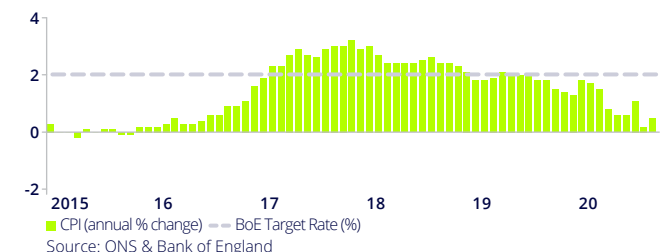
Unemployment on the rise

The unemployment rate ticked up to 4.5% in June-August and a further increase is likely when the furlough scheme ends, though the new Job Support Scheme should soften the blow somewhat.



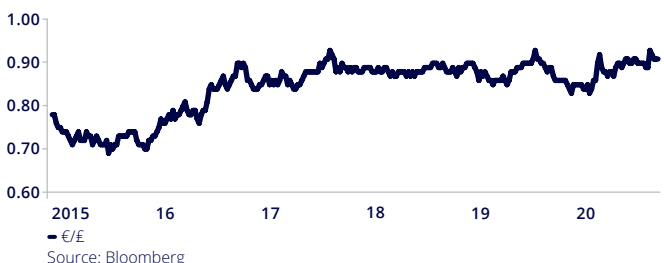
Inflation well below target

Annual consumer price inflation stood at just 0.5% in September but price pressures are expected to pick up next year as demand strengthens and more red tape in trade with the EU adds to costs.



Brexit deal in the balance

Negotiations on a post-Brexit relationship with the EU are coming to a crunch, with the failure to agree a deal meaning trade would move to WTO terms, dampening growth next year and weighing on the pound.



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