

UK Outlook

July 2021

Economic Update

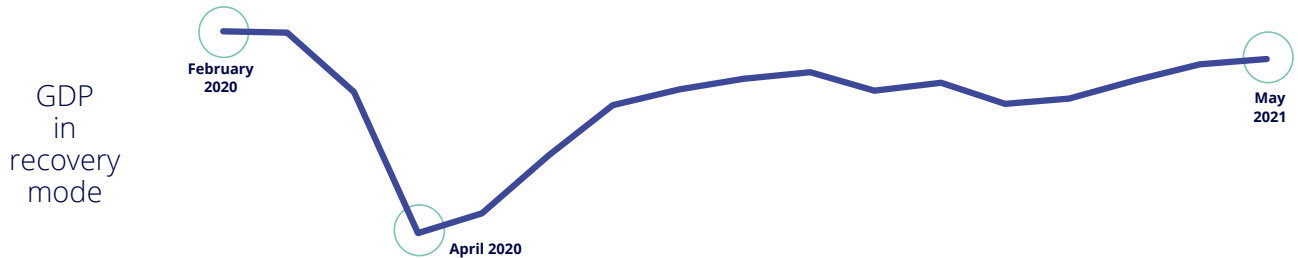


Bank of
Ireland

Economy on a recovery path

The relatively quick vaccine rollout and associated easing of public health measures have contributed to an improvement in consumer and business confidence in the UK, as well as a pick-up in economic activity following a decline in the first quarter of this year. While concerns over the Delta variant of COVID-19 resulted in a four-week delay to the final phase of the Government's re-opening roadmap, almost all restrictions have now been lifted. And so assuming there are no further 'lockdowns', we are forecasting very solid GDP growth of 6.8% this year (revised up from 6.2% in May) and 5.8% in 2022. A number of factors are expected to underpin the recovery from last year's unprecedented downturn, inter alia, a reduction in uncertainty, some unwinding of the excess household savings built up during the crisis and a return to growth in the global economy. Measures announced in the March budget, including the extension of the furlough scheme and new incentives to boost investment, will also provide support; while monetary policy is expected to remain accommodative with interest rates at historic lows. There are risks to this outlook of course. The spread of the Delta variant could dampen the pace of activity (if it induces greater caution amongst consumers for example), and trade with the EU may face further disruption as the UK introduces new customs checks. Moreover, consumer price inflation has spiked recently; this is likely to prove temporary but could prompt a tightening of monetary policy if not. By the same token though, momentum in the economy could turn out to be stronger than we have allowed for in our forecasts.

Recent Developments



Rapid vaccine rollout, restrictions lifted



Composite PMI

@ **57.7**

Flash July 2021

Upbeat consumer and business mood



Unemployment rate

@ **4.8%**

March-May 2021

Inflation



2.5%

YoY June 2021

Accommodative fiscal and monetary policy



Brexit after-effects



strengthens to **85p**

Outlook

	GDP	Consumer Spending	Investment	Exports	Employment	Unemployment Rate	Inflation
2020	-9.8%	-10.9%	-8.8%	-15.8%	-0.8%	4.5%	0.9%
2021f	6.8%	6.0%	7.8%	4.0%	-0.4%	4.8%	1.8%
2022f	5.8%	7.0%	6.0%	8.0%	0.7%	4.8%	2.2%

Strong economic rebound on the cards

Consumption & investment leading the way

Job gains ahead but price pressures

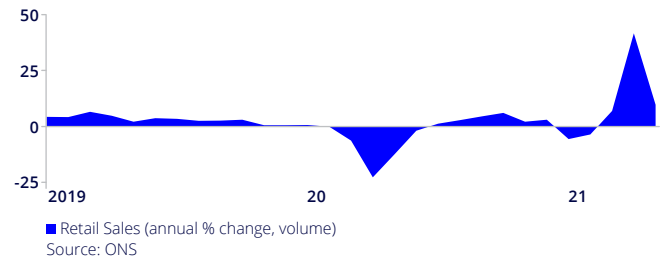
Risks

- ⬇️ Delta blues
- ⬆️ Pent up demand

Consumer

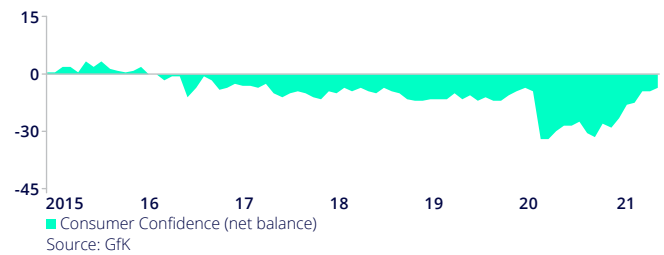
Spending rising

Retail sales rebounded strongly in Q2 2021 as shutters were raised again, increasing by 12.2% relative to the first quarter of the year and by 22.9% on an annual basis.



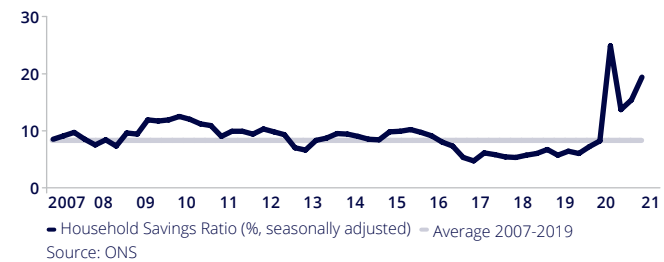
Sentiment strengthens

The widespread vaccination programme and easing of public health restrictions have boosted consumer confidence which is now back to its pre-COVID level.



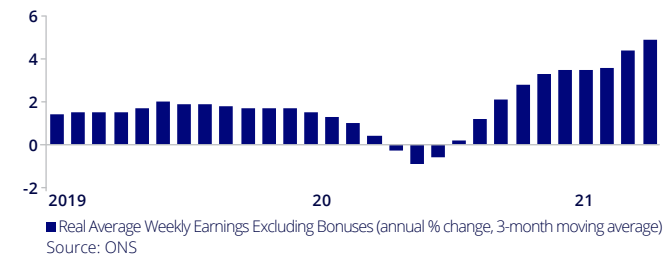
Savings above normal

The savings ratio remained elevated in Q1 but with spending avenues opening up, some of the pot accumulated by households during the crisis is likely to be tapped in the period ahead.



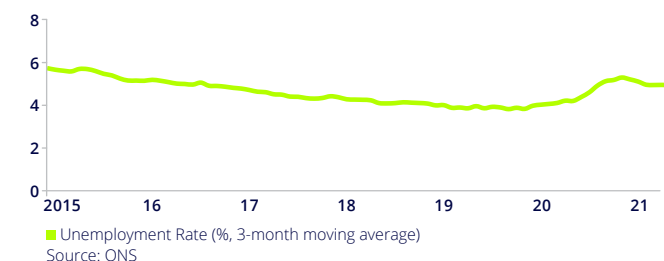
Earnings increasing

Wage growth has firmed lately, though this partly reflects compositional effects arising from the pandemic (i.e. a decline in lower paid jobs) and base effects.



Unemployment down

With economic activity improving, the unemployment rate has edged lower but may tick up temporarily when the furlough scheme - which has been supporting the labour market - ends in September.



Brighter picture

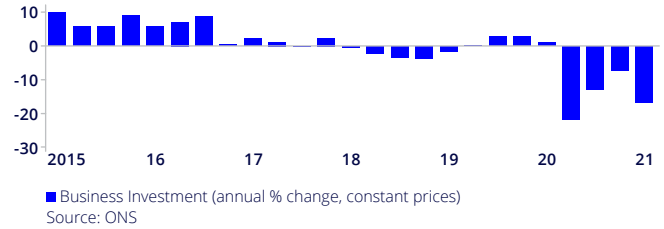
Consumer spending is expected to register strong growth this year and next, supported by pent up demand and households deploying some of the excess savings they have built up.



Business

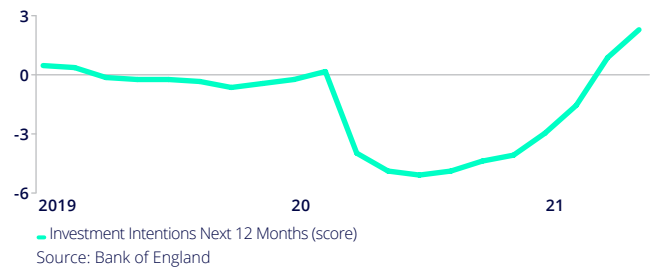
Business investment weak

Having recovered some ground over the second half of 2020, business capital spending weakened again in Q1 of this year with the annual rate of decline accelerating to 16.9%.



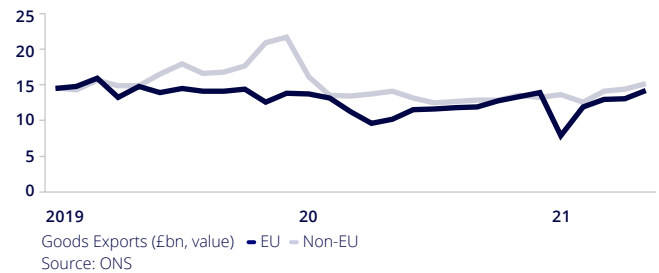
Intentions on the up

Business investment intentions have improved notably of late though, buoyed by the re-opening of the economy and the new incentives announced by Chancellor Sunak in the March Budget.



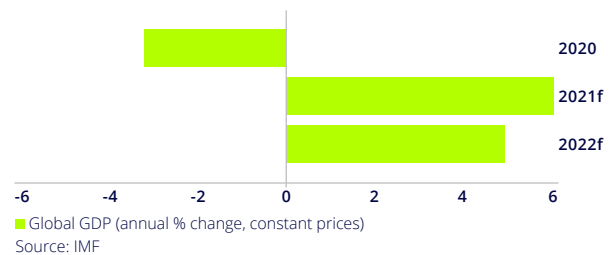
Exports improving

Goods exports to the EU fell sharply at the start of the year, not least because of implementation difficulties related to the new post-Brexit trading arrangements, but have ticked up recently.



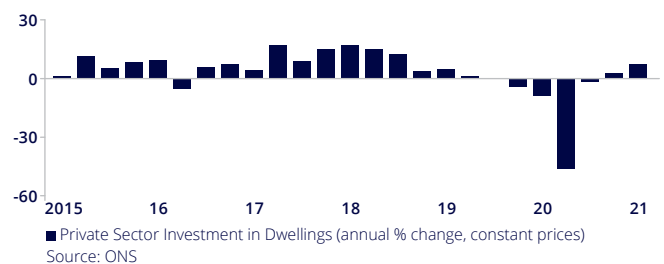
Global upturn

The IMF sees the global economy rebounding and has pencilled in GDP increases of 6.0% for this year and 4.9% for 2022, albeit it says the risks to growth are to the downside.



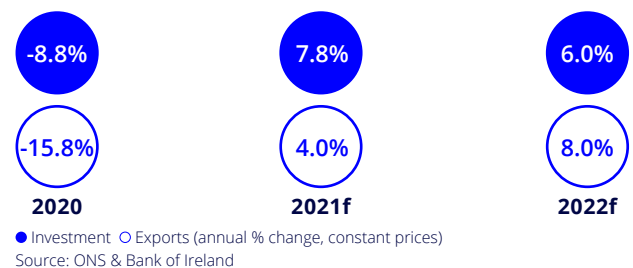
Dwellings advancing

Private sector housebuilding expanded in Q1 and house prices are rising strongly year-on-year, though with the stamp duty holiday coming to an end there may be some cooling ahead.



Recovery in prospect

Investment is forecast to expand robustly this year and in 2022. Export growth is also on the cards, though Brexit after-effects are expected to weigh on trade with the EU.



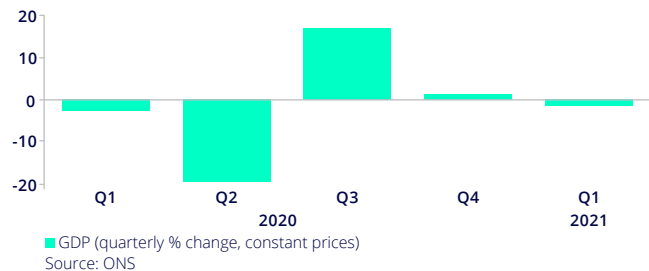
Overall Activity

Rebound underway

While output declined by 1.6% quarter-on-quarter in Q1 2021, economic activity picked up in Q2 and high frequency indicators such as the PMIs point to a strong start to Q3 as well.

Positive outlook

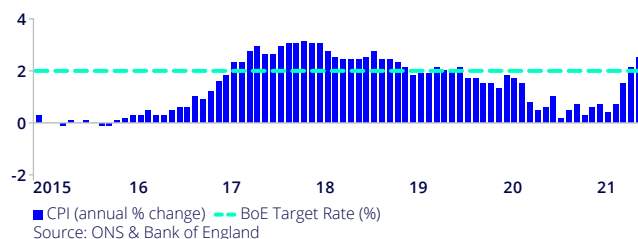
The economy is expected to put in a good performance this year and next, posting solid GDP growth as it emerges from a record-breaking downturn in 2020.



Policy & Markets

Price pressures

Annual consumer price inflation picked up to 2.5% in June, the highest rate in almost 3 years, with temporary supply bottlenecks and Brexit red tape adding to business costs.



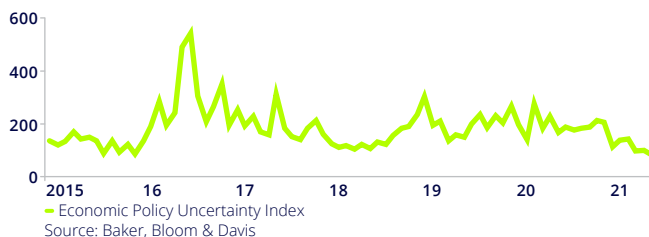
Accommodative monetary policy

The Bank of England remains very supportive keeping interest rates at a record low, though the market sees it taking the foot off the accelerator a little next year.



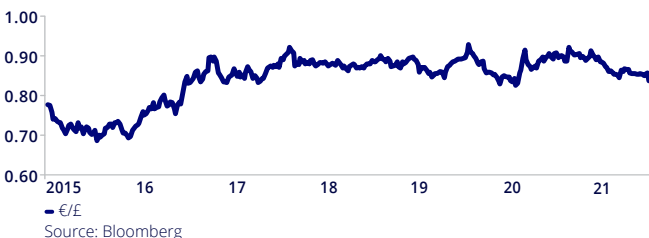
Uncertainty eases

The resolution to Brexit, lifting of public health restrictions and support from fiscal and monetary policy have contributed to a reduction in uncertainty, boding well for the recovery.



Pound resilient

While businesses and supply chains have been adjusting to the new UK-EU trading arrangements, sterling has been trading in a narrow range of 85p to 87p against the euro recently.



Forecasts

	2020	2021 (f)	2022 (f)
Personal Consumption	-10.9%	6.0%	7.0%
Government Consumption	-6.5%	9.0%	1.7%
Investment	-8.8%	7.8%	6.0%
Exports	-15.8%	4.0%	8.0%
Imports	-17.8%	7.5%	7.0%
GDP	-9.8%	6.8%	5.8%
Employment	-0.8%	-0.4%	0.7%
Unemployment Rate (Average)	4.5%	4.8%	4.8%
CPI	0.9%	1.8%	2.2%

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

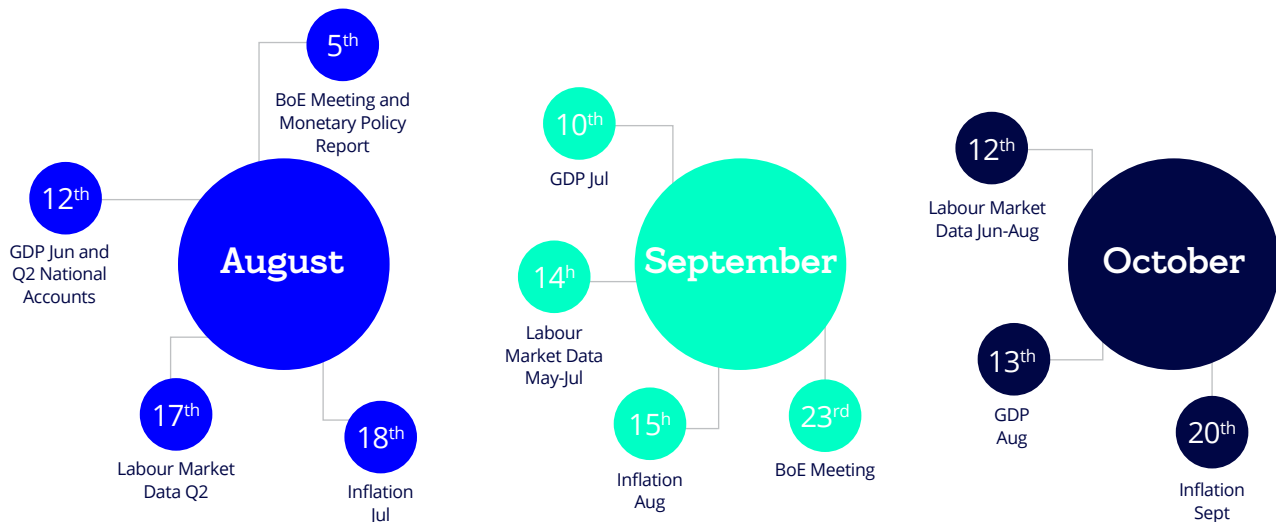
Northern Ireland

Activity picking up

High frequency data point to increased economic activity as public health restrictions have been eased, though the workings of the NI Protocol continue to cause some disruption.



Upcoming Events



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