

UK Outlook

February 2021
Economic Update



Bank of
Ireland

Light at the end of the tunnel for the economy

After a record contraction last year, the UK economy is set to rebound in 2021 although it is shaping up to be a year of two halves. The recent deterioration in the public health situation and the associated tightening of COVID-19 restrictions are weighing on activity, albeit not to the same extent as during last spring's lockdown; while the new post-Brexit arrangements - a deal was agreed with the EU just before the end of the transition period - have inevitably given rise to trade frictions. At the same time, the earlier than expected and relatively rapid vaccine roll-out holds out the prospect of a notable pick up in activity later this year, particularly in hard hit contact-intensive sectors. Assuming the current restrictions remain largely in place through March but are gradually lifted during the second quarter in line with the Government's just announced four-step roadmap, we expect GDP to expand by 4.6% this year (a downward revision of almost a percentage point from our October forecast) and by 6.8% in 2022. Both fiscal and monetary policy are set to remain supportive, while some of the excess savings accumulated by households during the crisis are likely to unwind as caution recedes and opportunities to spend increase again. Along with reduced uncertainty, this boost to consumption should support investment, while rebounding global activity will help exports even as businesses trade on less favourable terms with the EU. The risks to the outlook are two-sided. Any setbacks in the inoculation programme and/or renewed waves/new variants of the virus could weigh on the economy. On the other hand, the vaccine-driven recovery over the second half of this year and into next could prove stronger than allowed for in our projections.

Recent Developments

Composite PMI
 **49.8**
 February 2021

Unemployment rate
 to **5.1%**
 Q4 2020

Inflation
 **0.7%**
 YoY January 2021

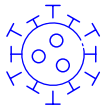
£ strengthens
 to **87p**

Brexit & COVID-19

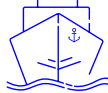
UK-EU trade deal
 agreed



Public health measures
 to contain virus



No tariffs or quotas
 on goods



Vaccine roll-out
 progressing



Policy Supports

Interest rates
 remain low

0.1%

Accommodative
 fiscal policy



Quantitative easing
 expanded



Furlough scheme
 in place



Outlook

	GDP	Consumer Spending	Investment	Exports	Employment	Unemployment Rate	Inflation
2020	-9.9%	-11.0%	-8.7%	-16.7%	-0.5%	4.5%	0.9%
2021f	4.6%	4.5%	4.0%	5.5%	-1.8%	6.0%	1.8%
2022f	6.8%	7.8%	5.4%	9.0%	0.7%	5.7%	2.0%

Economy rebounds as
 COVID-19 restrictions are lifted

Investment plans get the green light
 amid reduced uncertainty

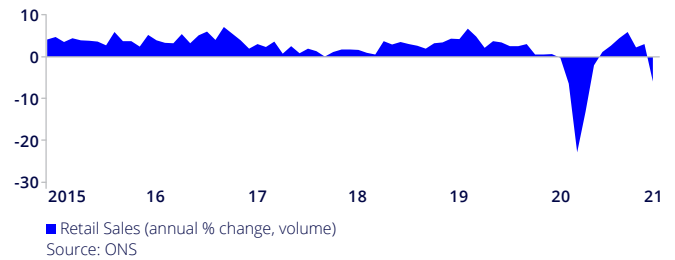
Pent up consumer demand &
 savings unlocked

Exports benefit from global recovery
 but post-Brexit red tape

Consumer

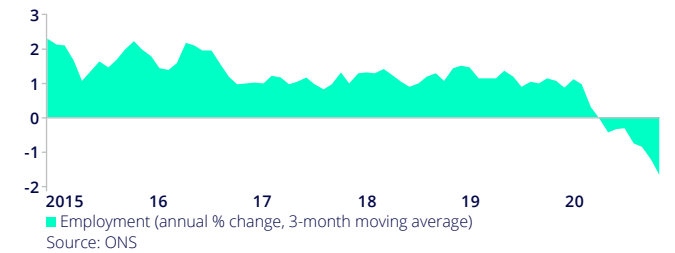
Spending under pressure

Retail sales ticked up last December when public health measures were eased but started 2021 on a weak note, dropping 8.2% in January as restrictions were tightened again.



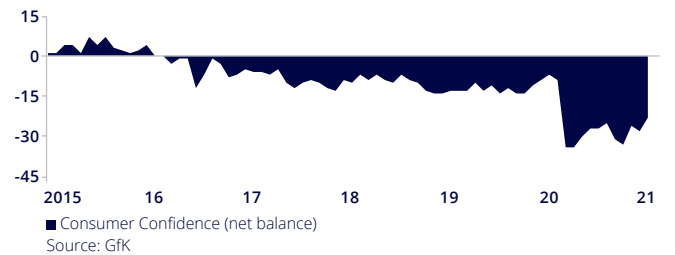
Labour market softens

While the furlough scheme has helped dampen the impact of the pandemic, employment has fallen and the unemployment rate has increased, reaching 5.1% in Q4 2020.



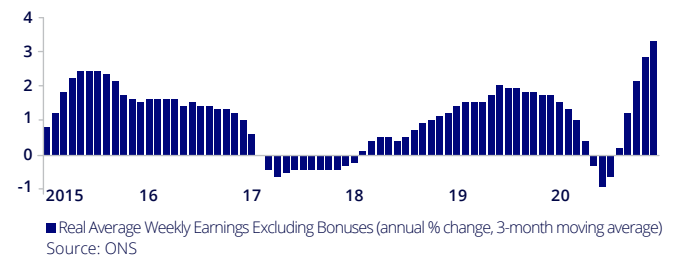
Sentiment still subdued

Notwithstanding some improvement, consumer confidence is at a relatively low ebb as the virus and associated restrictions continue to take a toll.



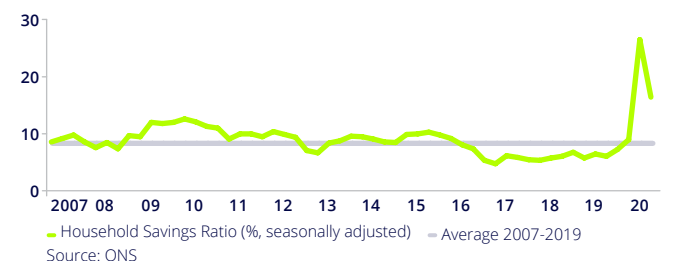
Earnings recover

Average earnings growth slowed sharply in the initial phase of the crisis but has rebounded recently, partly because of compositional effects (i.e. a reduction in lower paid jobs).



Savings elevated

Having hit a record high in Q2 2020, the household savings ratio fell in Q3 as the economy re-opened and spending resumed, though it remains above average.



Brighter outlook

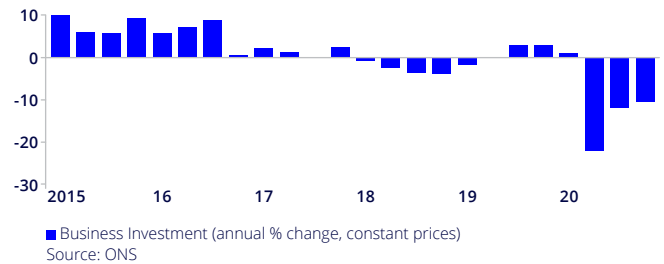
Consumer spending is set to rebound over the course of this year and next as widespread vaccination allows restrictions to be lifted and savings return to more normal levels.



Business

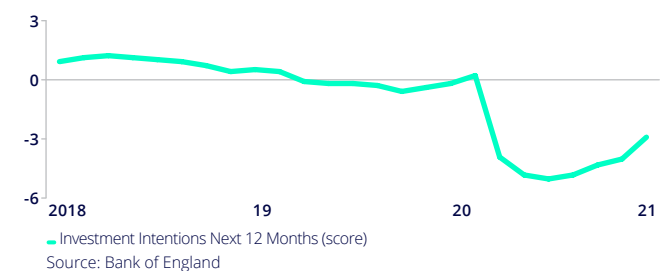
Business investment weak

Brexit-related uncertainty and COVID-19 disruption weighed on capital spending in 2020, with business investment ending the year 10.3% below its pre-pandemic level.



Intentions edge up

While firms remain cautious, investment intentions have improved, helped by reduced uncertainty and reflecting plans to invest in digital capability in order to sell online.



Exports struggling

With much of the world in deep recession, exports put in a poor performance last year falling 16.7% on an annual basis amid weak external demand.



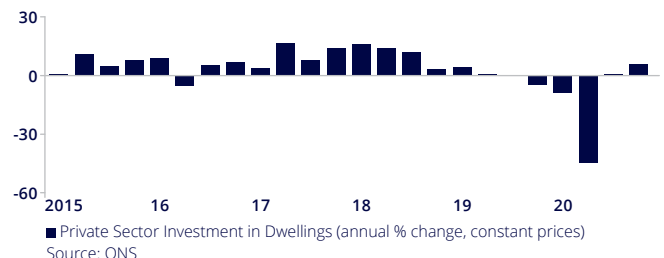
Global economy to rebound

The IMF expects the world economy to expand in 2021 and 2022, led by the US and China, and is projecting global GDP growth of 5.5% for this year and 4.2% for next year.



Housing market resilient

Activity in the housing market recovered during the second half of 2020, though there may be some payback when the stamp duty holiday - which has been supporting demand - ends.



Gradual recovery

Investment is forecast to increase this year and strengthen further next year. Export growth is also on the cards, albeit there will be frictions related to the new trading arrangements with the EU.



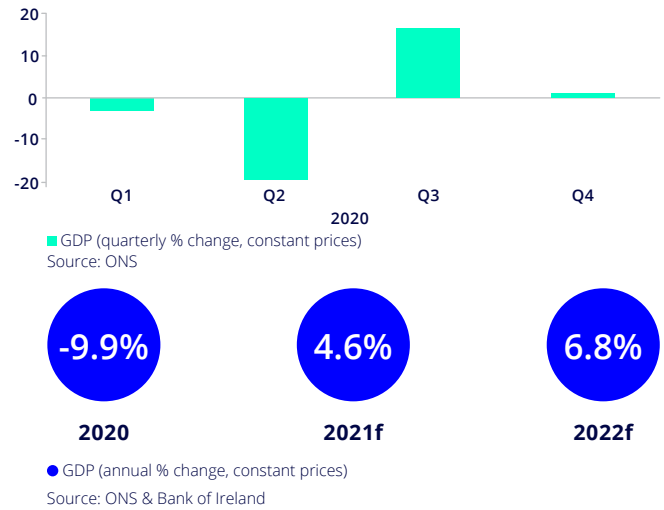
Overall Activity

GDP seesawing

Economic activity has oscillated over the past year as the country has gone in and out of 'lockdown', with GDP contracting by 9.9% in 2020 as a whole.

Recovery to firm

2021 has started on a soft note but with a no-deal Brexit avoided and the vaccine roll-out progressing rapidly, GDP is forecast to expand this year and next.



Policy & Markets

Higher inflation

Annual consumer price inflation was subdued in 2020 but is likely to pick up this year as energy prices rise, the VAT cut ends and post-Brexit red tape adds to business costs.

BoE ups QE

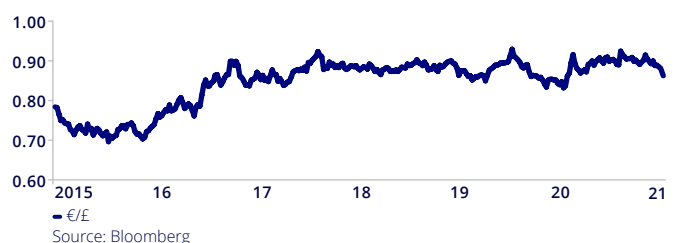
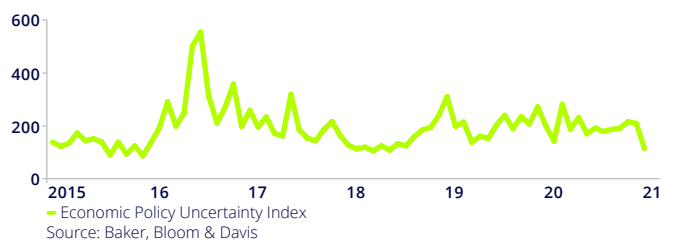
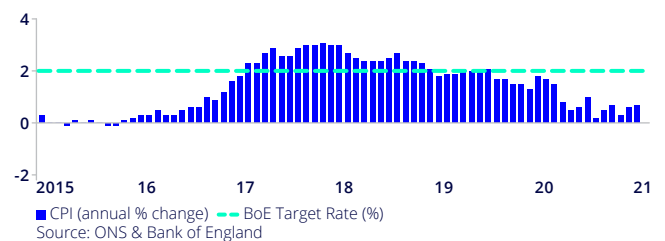
The Bank of England has kept interest rates low at 0.1% (going negative is also an option) and last November expanded its quantitative easing programme by a further £150 billion.

Fiscal policy supportive

Government supports are continuing but may become more targeted as the economy re-opens (further details are to be set out in the upcoming Budget).

Sterling on the front foot

The pound has gained some ground since the trade deal was agreed with the EU at the end of last year, strengthening to around 87p against the euro.



Forecasts

	2020	2021 (f)	2022 (f)
Personal Consumption	-11.0%	4.5%	7.8%
Government Consumption	-5.7%	3.2%	4.5%
Investment	-8.7%	4.0%	5.4%
Exports	-16.7%	5.5%	9.0%
Imports	-18.1%	7.0%	8.8%
GDP	-9.9%	4.6%	6.8%
Employment	-0.5%	-1.8%	0.7%
Unemployment Rate (Average)	4.5%	6.0%	5.7%
CPI	0.9%	1.8%	2.0%

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

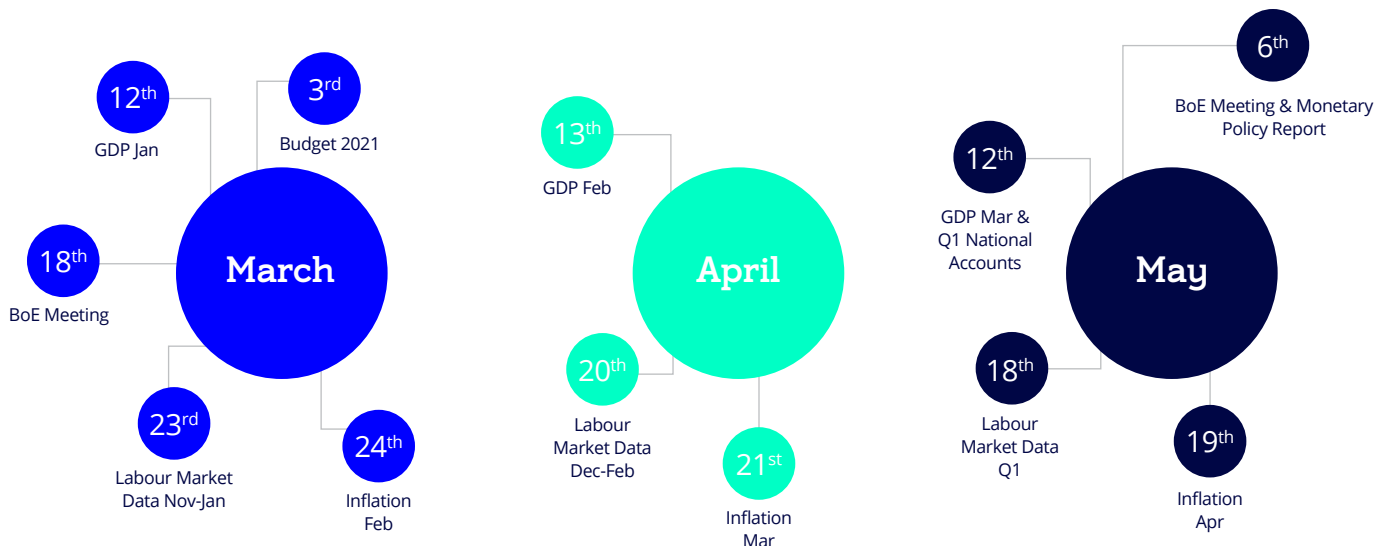
Northern Ireland

COVID-19 & Brexit

While the vaccine roll-out will allow restrictions to be eased and support economic recovery this year - after a sharp fall in activity in 2020 - the new trading arrangements resulting from the NI Protocol are causing some short-term disruption.



Upcoming Events



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