

QUARTERLY ECONOMIC FORECAST Q2 2021

Headlines:

- UK GDP forecast to grow by 6.8% in 2021, 5.1% in 2022 and 2.1% in 2023
- Household spending expected to surge if restrictions are lifted as planned
- Recovery expected to be uneven, amid 'notable' economic scarring

Record UK GDP growth expected

Following the historic economic shock in 2020, BCC forecasts UK GDP growth for 2021 of 6.8%, which if realised would be the strongest outturn since official records (produced by the Office for National Statistics) began in 1949. If covid restrictions continue to be eased, UK GDP growth will be strongest over Q2 2021 and Q3 2021. The UK economy is then expected to return to its pre-pandemic level in Q1 2022 with growth of 5.1% projected for 2022. UK GDP growth is projected to slow to 2.1% in 2023 as the economy begins to move back towards long run growth rates. **The BCC forecast assumes that the UK Government's roadmap out of lockdown restrictions proceeds as currently planned. Another scenario would lead to revisions in the next forecast.**

Surge in household spending to fuel UK economic rebound

Consumer spending is expected to be the main driver of this year's economic rebound with the release of pent-up demand as restrictions ease and the vaccine rollout helping to drive the strongest growth in spending since 1988, as consumers spend some of the 'unanticipated' savings accumulated during lockdowns. Business investment is forecast to rebound in 2021 and 2022, driven by the boost from the reopening of the economy and the introduction of the super-deduction incentive. However, business investment is projected to slow sharply in 2023 as the super-deduction incentive ends and corporation tax increases. International trade is projected to make a negative contribution over the forecast period amid post-Brexit trade friction.

Economic scarring to drive an uneven recovery

UK's unemployment rate is expected to peak at 6.0% in Q4 2021, after the furlough scheme expires. Youth unemployment is expected to lag the wider recovery with the UK's youth unemployment rate projected to average 10.1 percentage points higher than the overall unemployment rate across the forecast period, a quarter (25%) higher than the pre-covid average (7.6 percentage points). Output from catering and hospitality are forecast to only return to its pre-pandemic level in Q2 2023. In contrast, manufacturing output is projected to return to its pre-pandemic level in the third quarter of this year.

“Our latest outlook points to a historically robust short-term outlook for the UK economy. The UK economy is in a temporary sweet spot with the boost from the release of pent-up demand if restrictions ease as planned and ongoing government support expected to drive a substantial summer revival in economic activity, underpinned by the rapid vaccine rollout.

“Beyond the strong short-term outlook, notable economic scarring from the pandemic is projected to weigh on economic activity once government support winds down and drive an uneven recovery across different sectors and groups of people. The UK economy is expected to be increasingly unbalanced through the forecast period with a growing dependence on consumer expenditure to drive growth, while net trade is projected to be a drag on the economy.

“The risks to the outlook are on the downside. A more significant surge in inflation would weigh on a consumer led revival by eroding their spending power. The squeeze on activity and the damage to confidence from a marked delay to the planned full reopening or further measures to combat new covid variants would materially slow the recovery.”

Suren Thiru, Head of Economics, British Chambers of Commerce

BCC ECONOMIC FORECAST SUMMARY Q2 2021

Current forecast (2021 Q2)				
BCC Economic Full Forecast (Annual % change)				
	2020	2021	2022	2023
GDP	-9.8%	6.8%	5.1%	2.1%
Household Consumption	-10.9%	5.5%	7.8%	2.9%
General government	-6.5%	12.0%	1.4%	0.8%
Investment	-8.8%	9.0%	5.1%	1.6%
of which: Business Investment	-10.2%	4.1%	6.8%	1.2%
Exports	-15.8%	0.7%	4.2%	1.5%
Imports	-17.8%	5.1%	8.3%	2.9%
Total Production	-9.3%	7.0%	4.2%	1.9%
Manufacturing	-9.5%	8.5%	4.5%	2.0%
Construction	-14.0%	12.4%	4.5%	2.8%
Services	-9.0%	6.3%	5.2%	2.0%
Unemployment rate %*	4.5%	5.5%	5.2%	4.8%
Unemployment 000's**	223	362	-96	-139
Youth unemployment rate %*	13.5%	15.6%	15.4%	15.0%
Youth unemployment 000's**	78	76	-8	-18
CPI inflation	0.8%	2.0%	1.9%	1.8%
Average earnings	0.9%	1.8%	2.1%	2.4%
Interest rates (Q4)*	0.10	0.10	0.10	0.25
NetTrade-Goods&Services-%GDP*	-0.3%	-1.6%	-2.7%	-3.3%
BofP-CurrentAccount-%GDP*	-3.5%	-3.9%	-4.9%	-4.7%
PSNBex-BCC forecast-FinYears-%GDP*	13.5%	9.9%	3.9%	
PSNBex-BCC forecast-FinYears-£bn*	276.7	233.9	106.9	

Sources: BCC, Cambridge Econometrics

* Reported as levels

** Change in levels

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