

QUARTERLY ECONOMIC FORECAST Q4 2021

Headlines:

- UK outlook downgraded as supply shortages and surging inflation stifles activity
- Trade to drag on the recovery with Covid and Brexit disruption to weigh on UK exports
- UK inflation to rise above 5% with interest rates set to rise sooner rather than later

Outlook for the UK economy weakens...

The British Chambers of Commerce (BCC) has downgraded its expectations for UK GDP growth in 2021 from 7.1% to 6.8%. However, GDP growth of 6.8% would still be the strongest outturn since official records began in 1949. Following GDP growth of 1.3% in Q3 2021, UK GDP growth is forecast to slow to 0.5% in Q4 2021, as staff shortages, supply chain disruption and rising inflation stifle activity. Concern over the Omicron variant is also expected to weigh on Q4 growth by triggering some hesitancy among consumers to socialise and spend. Consequently, the UK economy is only expected to return to its pre-pandemic level in Q2 2022, one quarter later than predicted in the BCC's previous forecast. GDP growth is now projected to slow down by more than expected to 4.2% in 2022, from our previous forecast of 5.2%.

...with trade set to lag significantly behind the wider recovery...

Trade is forecast to make a negative contribution to UK GDP over the forecast period. BCC expects UK exports to decline by 2.8% in 2021, before growth of 4.9% in 2022 and 2.7% in 2023, compared to import growth of 1.2%, 6.2% and 3.1%. Consequently, UK exports are forecast to remain 14.9% (£27.7 billion) lower than their pre-pandemic level by the end of the forecast period in Q4 2023. In contrast, overall UK GDP is projected to be 3.4% higher than its pre-pandemic level by the end of the forecast period. This reflects the challenging outlook for UK exporters amid the ongoing disruption to international trade flows from Covid and continued post-Brexit disruption to trade with the EU.

...and inflation forecast to rise above 5% in 2022.

The rising cost of imported raw materials and higher energy prices, are expected to lift CPI inflation to a peak of 5.2% in Q2 2022, which if realised would be the highest rate since September 2011. However, if the current supply chain disruption eases in the second half of 2022 as assumed in the BCC's latest forecast, inflation is expected to drift back towards the Bank of England's 2% target by the middle of 2023. Two interest rate rises are forecast over 2022 – 15 percentage points in February 2022 and 25 percentage points in November 2022.

“Our latest outlook suggests that the loss of momentum in the third quarter was more than just a temporary blip, with UK growth forecast to be more subdued for a sustained period as supply disruption, staff shortages and surging inflation stifle activity.

The downgrades to our forecast reflect a moderating outlook for key areas of the UK economy, including consumer spending and trade. Trading conditions for UK exporters are expected to remain challenging over the forecast period with the lingering impact of Covid and Brexit expected to weigh on trade flows for some time to come.

While our latest forecast suggests that interest rates will rise sooner rather than later, with the current inflationary surge largely driven by supply side constraints and global price pressures, raising rates is expected to do little to curb the current spike in consumer prices. “The risks to the outlook remain tilted to the downside. The Omicron variant could stall the recovery if it triggers a prolonged reluctance among consumers to spend or a renewed supply shock by exacerbating current staff shortages through a new ‘pingdemic’ and driving more supply chain disruption.”

Suren Thiru, Head of Economics, British Chambers of Commerce

BCC ECONOMIC FORECAST SUMMARY Q4 2021

BCC Economic Full Forecast (Annual % change)				
	2020	2021	2022	2023
GDP	-9.7%	6.8%	4.2%	2.3%
Household Consumption	-10.8%	4.0%	6.9%	2.7%
General government	-6.3%	15.7%	2.8%	1.2%
Investment	-9.1%	5.3%	4.1%	3.2%
of which: Business Investment	-11.1%	-0.6%	5.1%	2.6%
Exports	-14.7%	-2.8%	4.9%	2.7%
Imports	-16.8%	1.2%	6.2%	3.1%
Total Production				
Total Production	-9.8%	5.4%	3.4%	2.3%
Manufacturing	-8.8%	6.8%	3.0%	2.5%
Construction	-16.1%	13.7%	2.9%	2.8%
Services	-8.8%	7.0%	4.8%	2.0%
Unemployment				
Unemployment rate %*	4.6%	4.5%	4.1%	3.8%
Unemployment 000's**	245	-17	-145	-88
Youth unemployment rate %*	13.8%	12.5%	11.4%	11.0%
Youth unemployment 000's**	86	-66	-36	-20
Inflation and Earnings				
CPI inflation (Q4)	0.5%	4.5%	3.1%	2.0%
Average earnings (Q4)	4.2%	1.9%	2.2%	2.4%
Interest rates (Q4)*	0.10	0.10	0.41	0.75
Trade and Balance of Payments				
NetTrade-Goods&Services-%GDP*	0.3%	-0.8%	-1.3%	-1.6%
BofP-CurrentAccount-%GDP*	-2.6%	-1.9%	-2.6%	-2.5%
PSNBex-BCC forecast-FinYears-%GDP*				
PSNBex-BCC forecast-FinYears-%GDP*	15.2%	7.9%	3.9%	
PSNBex-BCC forecast-FinYears-£bn*				
PSNBex-BCC forecast-FinYears-£bn*	319.9	187.5	97.0	

Sources: BCC, Cambridge Econometrics

* Reported as levels

** Change in levels

For more information, please contact Suren Thiru, Head of Economics
Email: s.thiru@britishchambers.org.uk.