

National Institute UK Economic Outlook

Brexit Britain in Covid Recovery Ward

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National Institute of Economic and Social Research

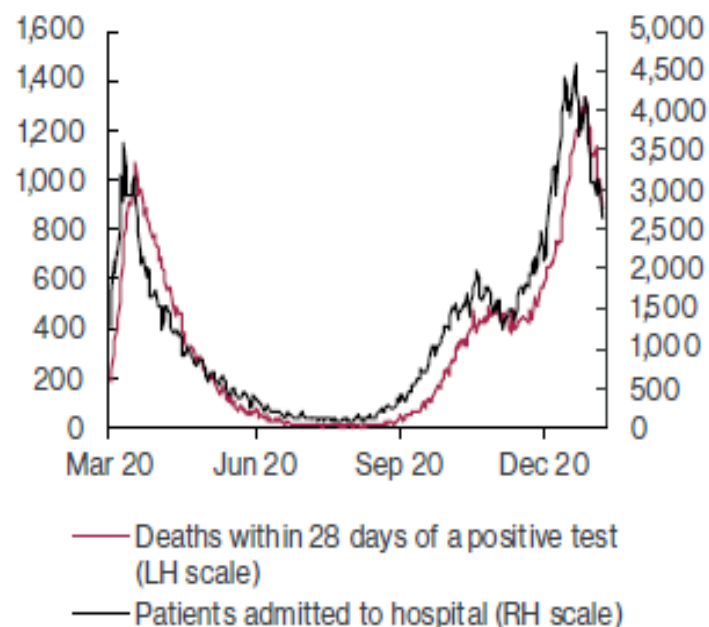
Headlines

- Major 'second wave' holding back economic recovery in the short-run.
- Downward revision in growth forecasts in 2021 from 5.9% to 3.4% following 10% contraction in 2020.
- Without further support, unemployment to rise to 7.5%, or 2.5 million people, at the end of the year.
- Policy-making should be focused on managing the economic effects of the two shocks: Covid-19 and Brexit.



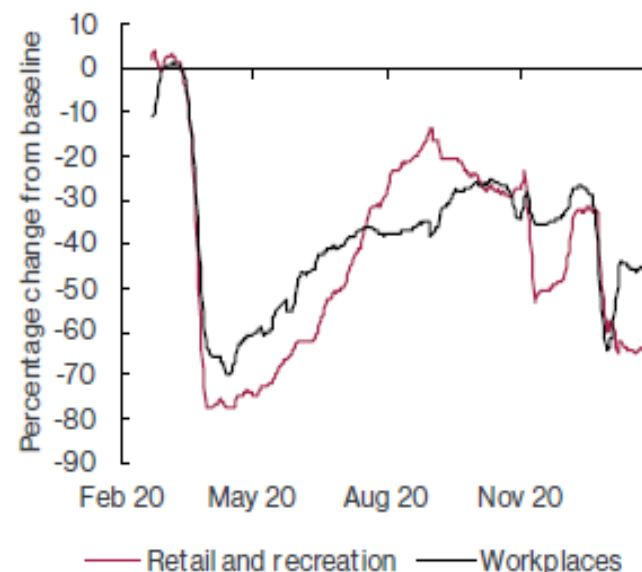
Waves of infection and lockdowns

UK daily Covid-19 statistics



Source: Data.gov.uk. See coronavirus.data.gov.uk for further information.

Google Mobility Indicators



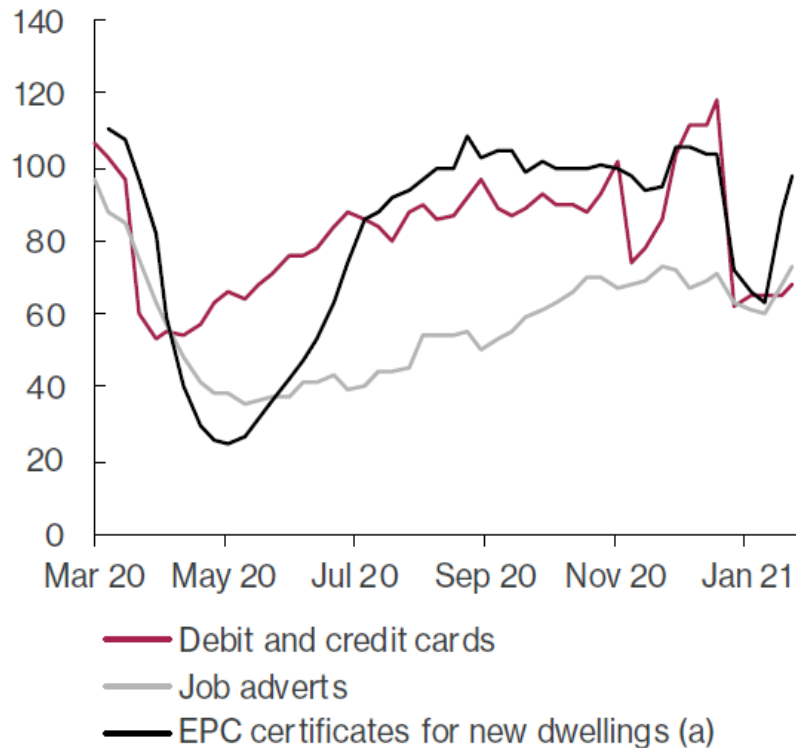
Note: Baseline is median value for the day of the week. Seven-day rolling average.

Source: Google, NIESR.



Impact of winter lockdown on activity

ONS Spending and Hiring Indicators



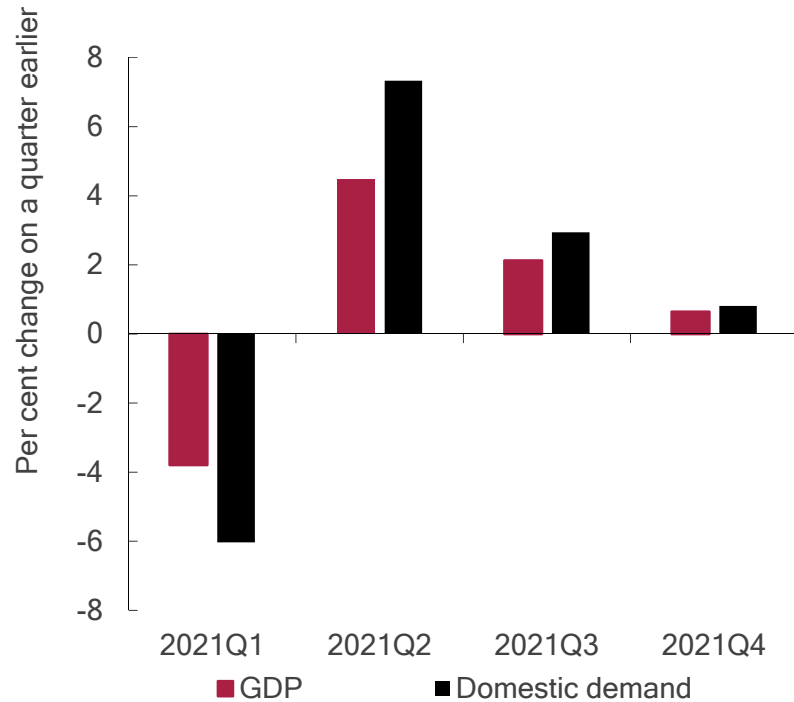
- Sequence of lockdowns
-23 March, 5 November, 4 January

- Impact of winter lockdown larger compared to November lockdown but smaller compared to spring lockdown

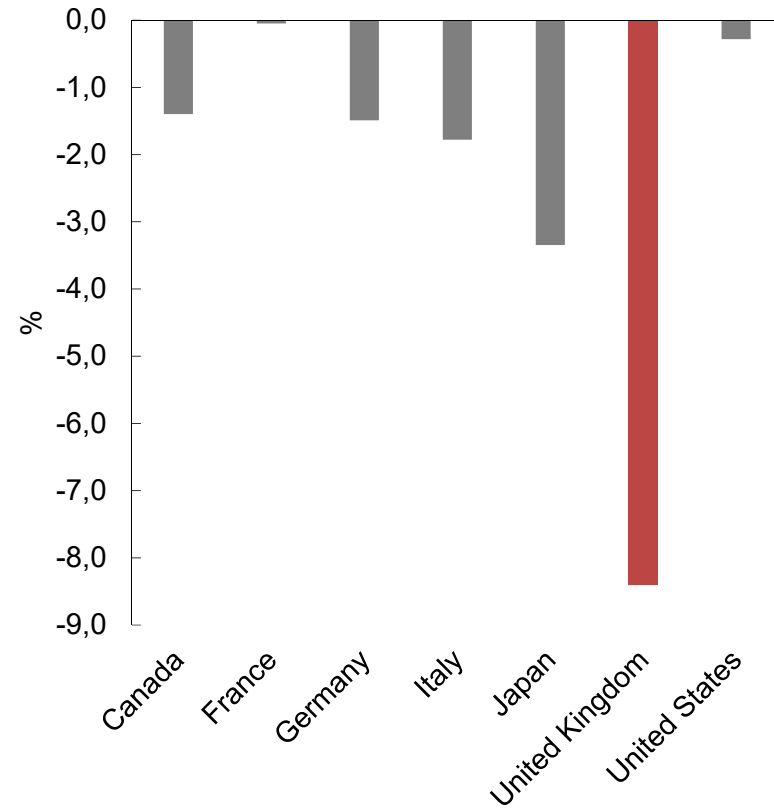


It will get worse before it gets better

2021 Quarterly Profiles

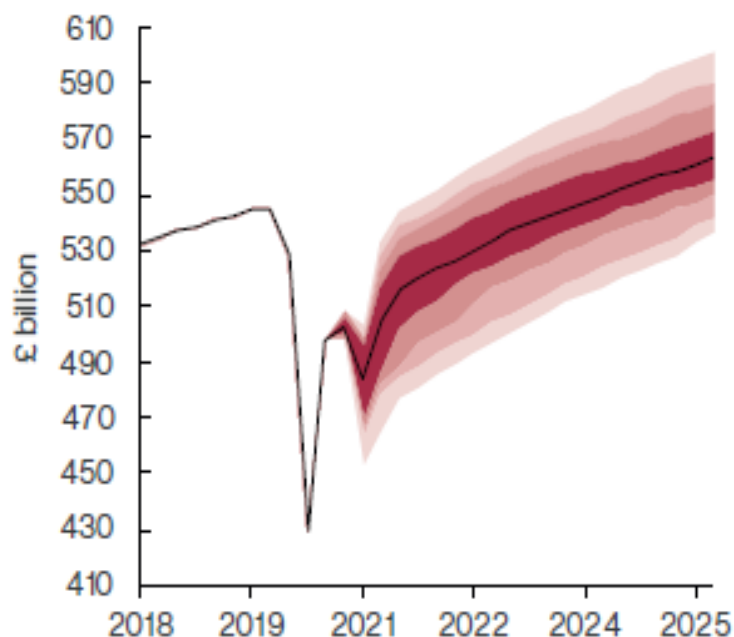


Annual GDP Growth in G7 Countries in 2021Q1



Slow recovery despite vaccine roll-out

GDP Fan Chart



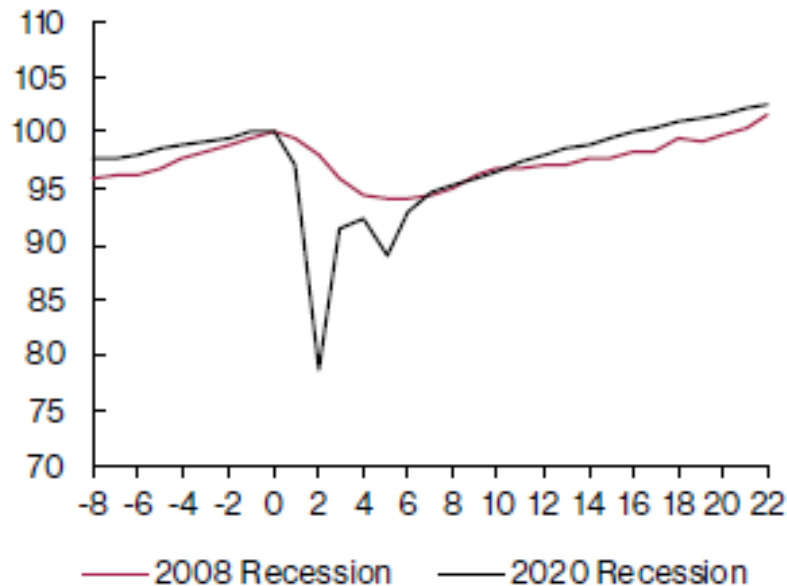
Source: NIESR forecast and judgement. There is a 10 per cent chance that GDP growth in any particular year will lie within any given shaded area in the chart. There is a 20 per cent chance that GDP growth will lie outside the shaded area of the fan.

- Main-case scenario for GDP growth: **3.4% in 2021 and 4.3% in 2022**
- Returning to pre-pandemic levels at end of 2023.
- Slow recovery reflects
 - uncertainty about the virus
 - continued social distancing and remote working
 - weak pre-pandemic trends
 - more barriers to trade with the EU
- Significant downside and upside risks.



Recovery compared to previous recession

Recoveries Compared (whole economy)



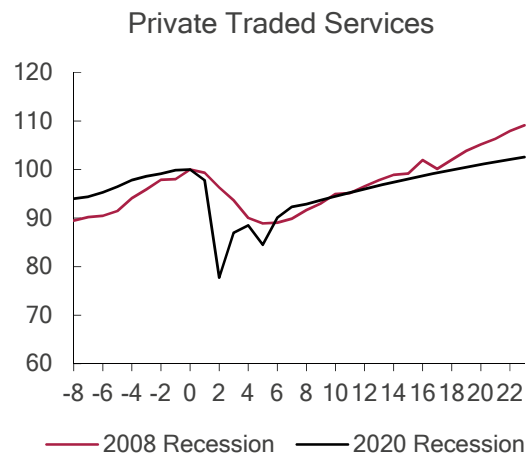
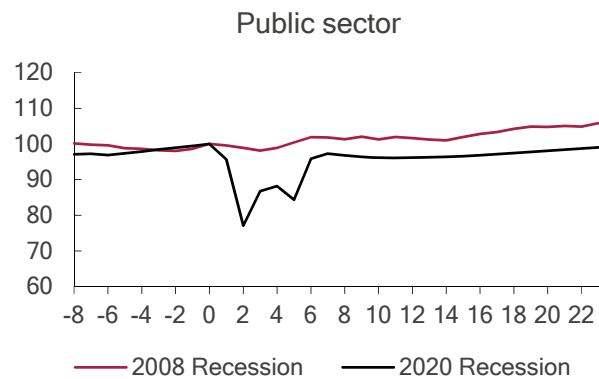
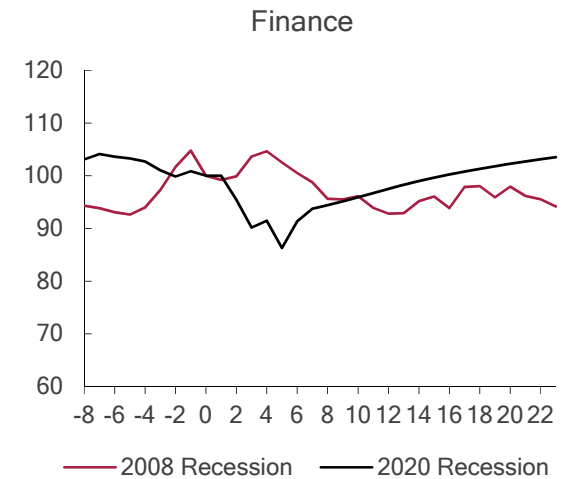
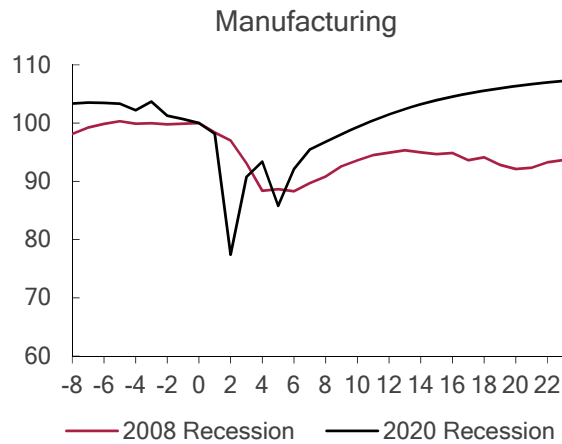
Note: Output is normalised to 100 in the pre-recession quarter (2008Q1 and 2019Q4). The pre-recession quarter is set at 0 on the x-axis.

Source: Lenoel and Young (2021)

- Recessions have long-lasting effects.
- Output did not recover pre-recession level for about 5 years after 2008.
- Slightly faster recovery in the current main-case forecast scenario, but with a larger cumulative loss of output.



Pace of recovery will differ across sectors



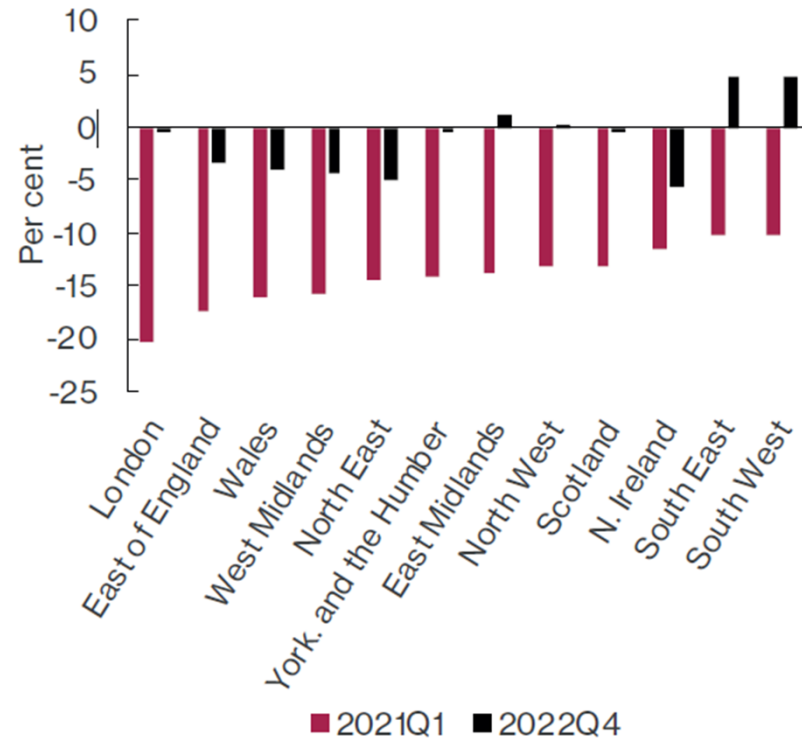
Source: Lenoel and Young (2021)



Regional outlook

- Bhattacharjee and Lisauskaite (2021)
- London, South East and South West will recover quickly.
- Northern Ireland, the North East, West Midlands and Wales suffer more longer term effects.
- Sectoral compositions explain the patterns

Figure 3.2 Regional GVA relative to 2019Q4

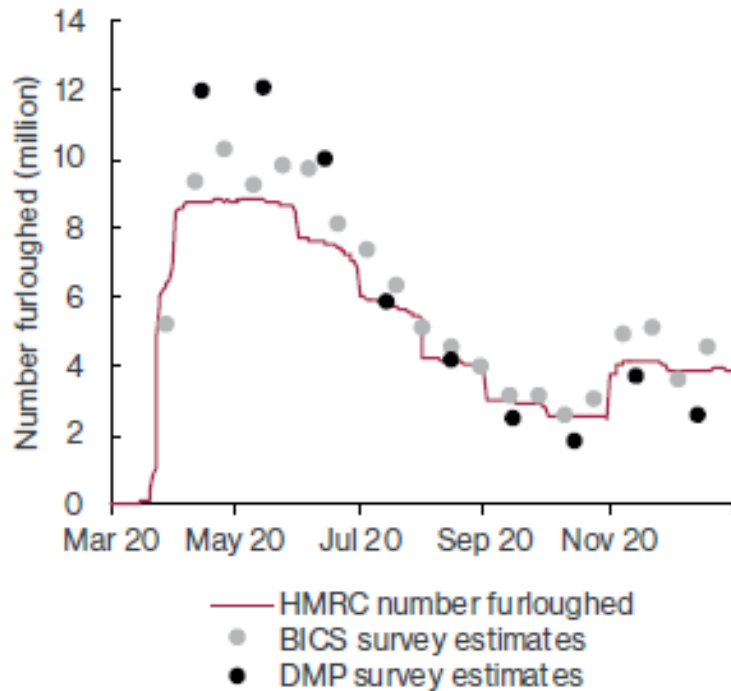


Source: ONS and NiReMS.



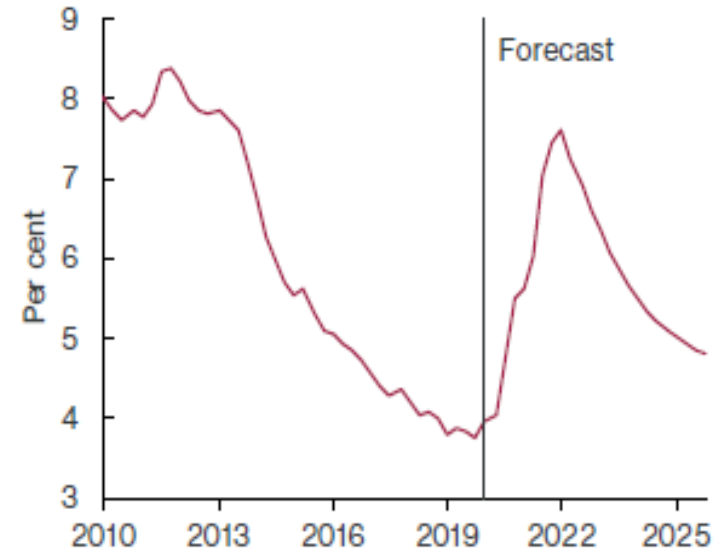
Unemployment to rise without further support

Number Furloughed



Source: HMRC, ONS Business Impact of Coronavirus Survey, Bank of England Decision Maker Panel survey.

Unemployment Rate and Forecast

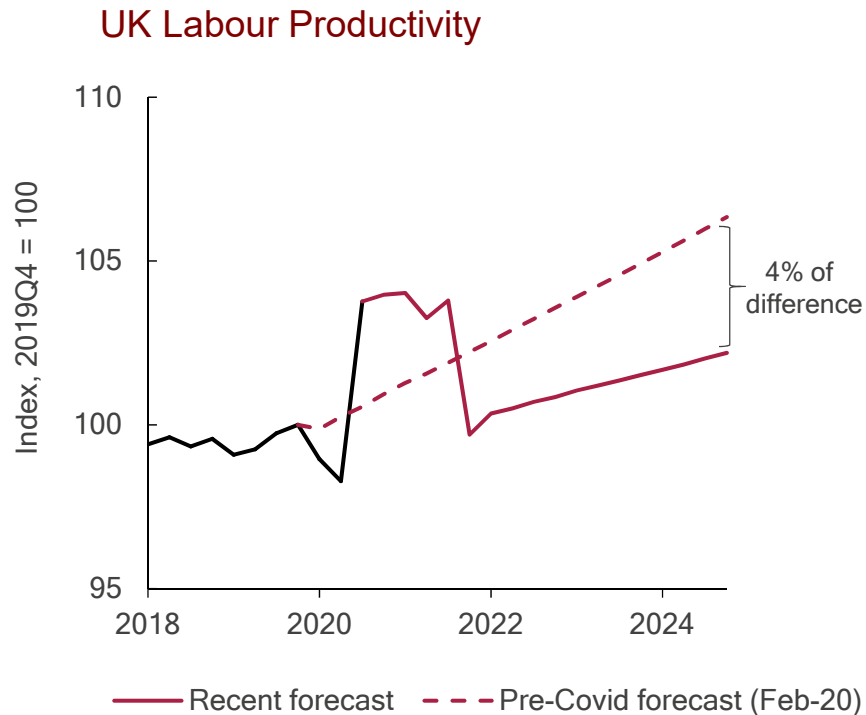


Note: Unemployment rate is the number of unemployed people (aged 16+) divided by the economically active population (aged 16+).

Source: NiGEM database and NIESR forecast.



Covid will have long-lasting effects



- Persistent unemployment and weak capital accumulation to lead to permanent effects in productivity
- 4% scarring compared to our pre-Covid forecast by 2022 due to
 - Bare-bones Trade and Cooperation Agreement with the EU
 - Long-term impact of Covid.

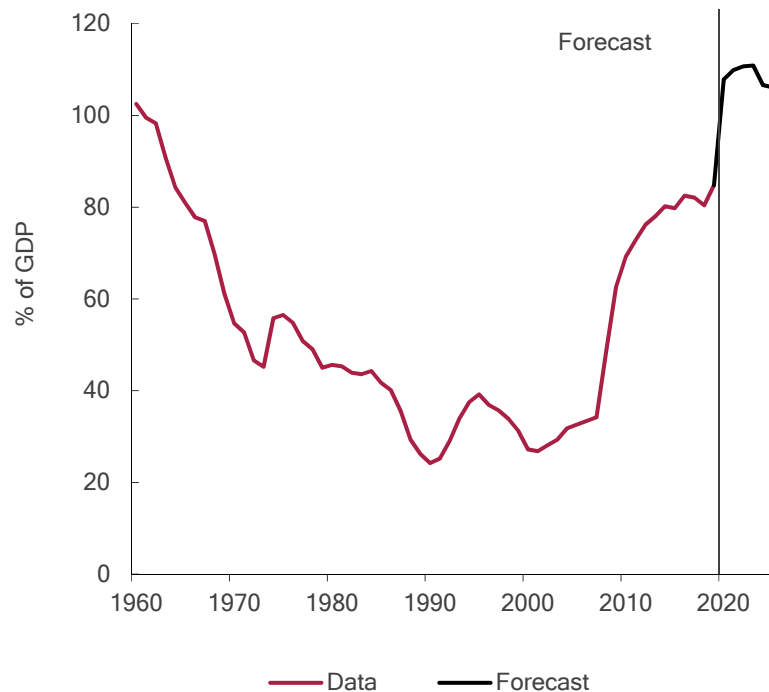
Source: NIGEM database and NIESR forecast.



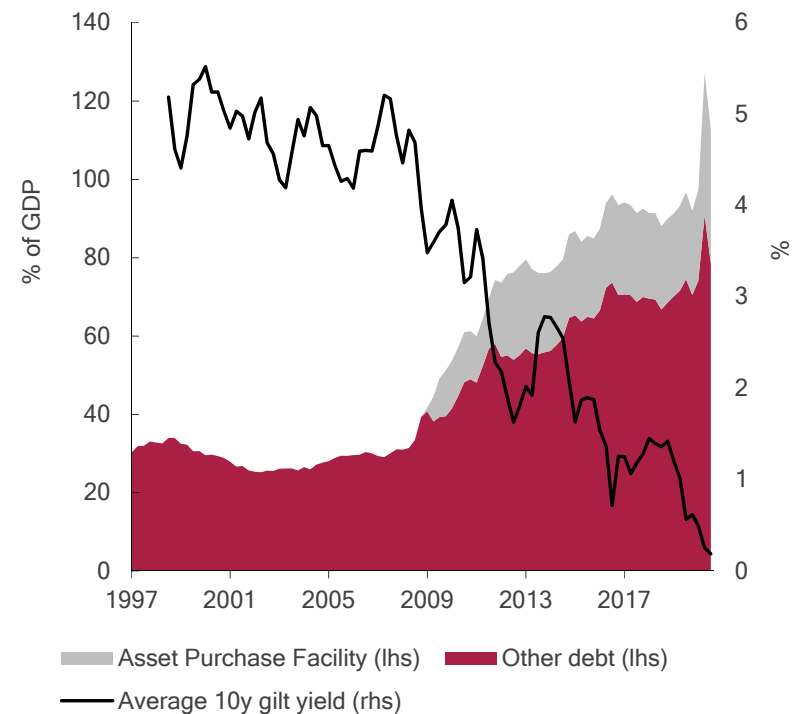
Fiscal support is money well spent

- Public sector net debt (99.4 % as of Dec) will peak at 110% in 2021–22.
- Low gilt yields supported by Bank of England's asset purchases.

Public Sector Net Debt (% of GDP)



Public Sector Net Debt and 10-year Gilt



Premature fiscal consolidation would delay recovery

- Fiscal multipliers can be larger when output is below its potential level and interest rates are at effective lower bound.

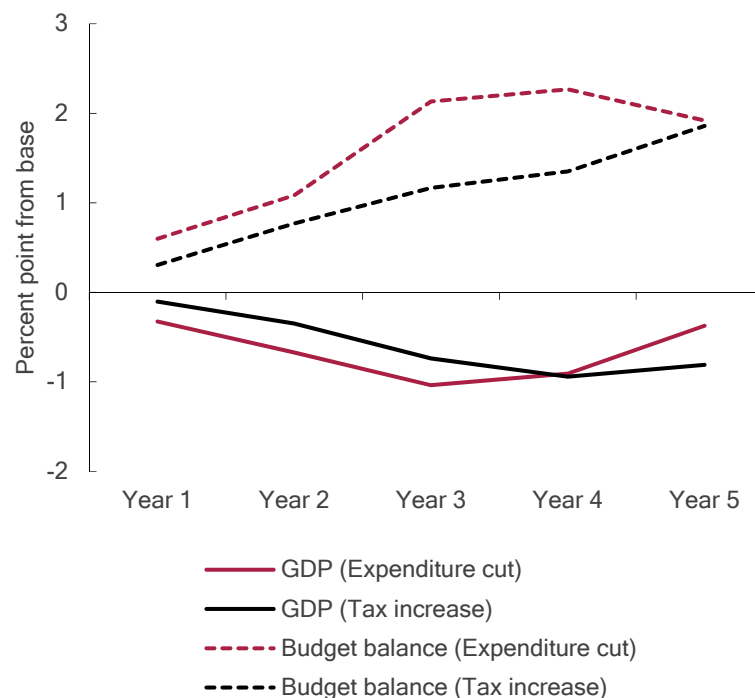
Third Year Cumulative Multiplier



Note: Absolute value of the change in 3rd year GDP for a change in tax revenues or in spending of 1 per cent of GDP spread over 3 years.

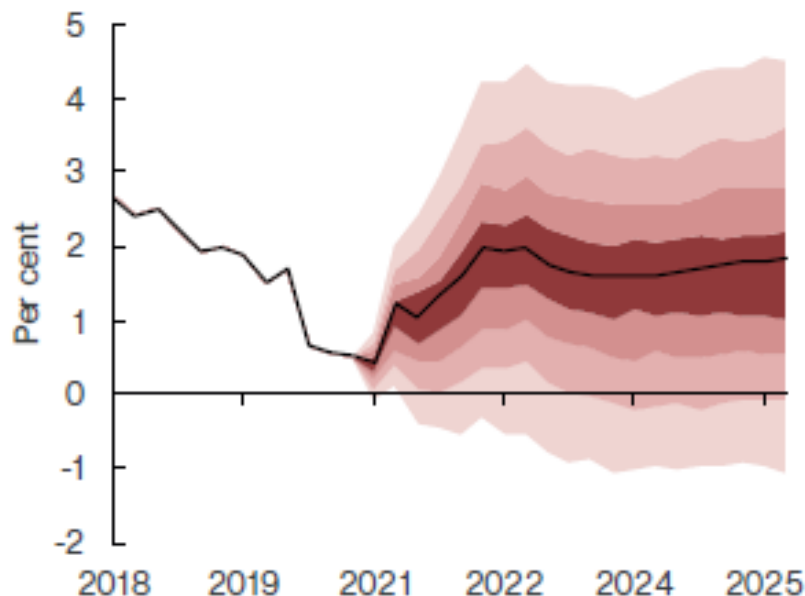
Source: Box A by Lenoel and Whyte (2021)

GDP and Balance Budget



Inflation and monetary policy risks

Inflation Fan Chart



Source: NIESR forecast and judgement. There is a 10 per cent chance that CPI inflation in any particular year will lie within any given shaded area in the chart. There is a 20 per cent chance that CPI inflation will lie outside the shaded area of the fan.

- Underlying inflation at its lowest levels since the start of the pandemic
- Inflation to rise gradually to 1.3% by end-2021 and 2% by end-2022.
- Bank Rate to remain at 0.1% until 2024, further extensions to QE likely.
- Upside risks due to a possible consumer boom driven by accumulated savings.



Brexit - trade

- Brexit deal better than a no-deal: no tariff, no quota
- But non-trade barriers still imply significant losses through trade and productivity
- They could lead to further negotiations in some sectors.
- Northern Ireland remains a contentious issue. The Commission triggering article 16 after just 29 days is an example.
- Export and import volumes fell by resp. 15% and 20% in 2020. Brexit disruptions will prevent a strong recovery this year. We forecast exports and imports to grow by 3.1 and 9.2% resp. in 2021
- UK looking for trade opportunities outside the EU. UK applied to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)



Summary of the forecast

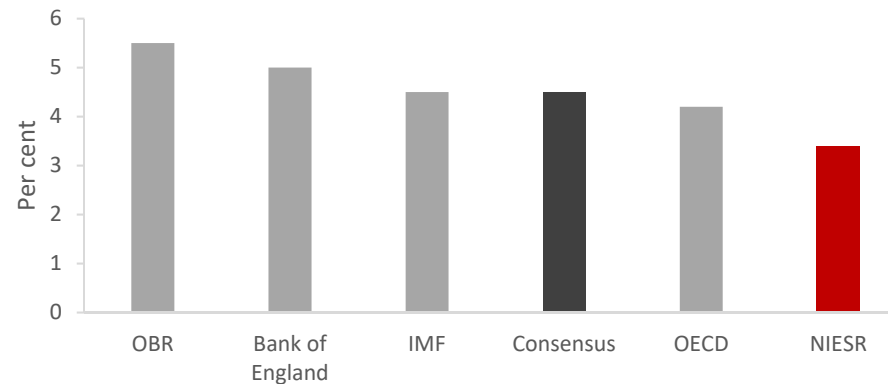
Summary of the forecast

	Real GDP	CPI (a)	ILO unemployment	Bank Rate	External current balance	PSNB (b)
	annual growth	Q4/Q4	Q4	end-year	% of GDP	
2020	-9.9	0.5	5.5	0.10	-3.3	17.7
2021	3.4	1.3	7.5	0.10	-3.5	6.1
2022	4.3	2.0	6.6	0.10	-4.5	5.1

Notes: Calendar years unless otherwise stated. (a) Consumer price index. (b) Public sector net borrowing, financial years.

Source: NiGEM database and NIESR forecast.

2021 GDP growth forecasts (UK)



Conclusion

- The pace of recovery depends critically on the success in controlling the virus.
- Policy-making should be focused on managing the economic effects of the two shocks: Covid-19 and Brexit.
- The Chancellor should soon be announcing policies to support the labour market beyond April.
- Need for structural policies and mitigation policies to address the gaps opened by the Trade and Cooperation Agreement with the EU.

