

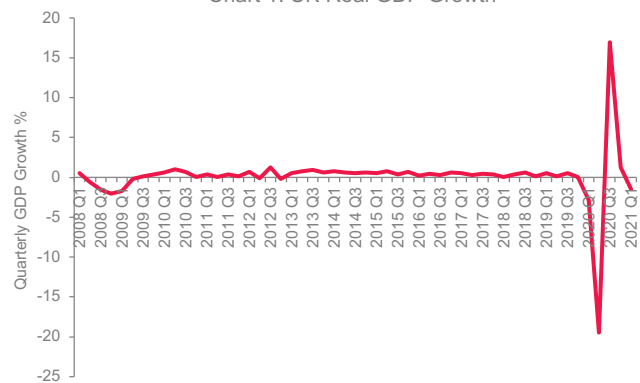
Monthly headlines:

- Outlook for UK economy improving, despite Q1 contraction
- UK inflation more than doubles in April as unemployment declines
- OECD forecasts record UK GDP growth for 2021 and a stronger global rebound

UK economy contracted in Q1...

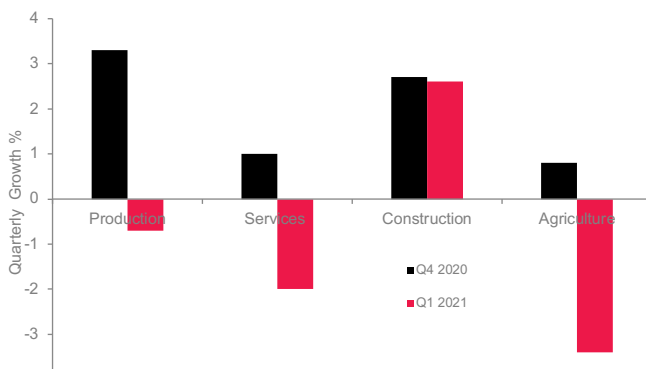
The first official estimate of UK GDP revealed that the UK economy contracted by 1.5% in Q1 2021, down from growth of 1.3% recorded in Q4 2020 (see Chart 1). UK economic output is now 8.7% below its pre-pandemic level. However, **the downbeat headline figure masks a renewed momentum through the quarter** from January's 2.5% drop in output, to growth of 2.1% in March as lockdown measures started to ease. The Q1 decline should be followed by a robust rebound in Q2 as the effects of the release of pent-up demand as restrictions ease are fully felt.

Chart 1: UK Real GDP Growth



Source: ONS UK GDP, March 2021

Chart 2: UK GDP Growth by Sector



Source: ONS UK GDP, March 2021

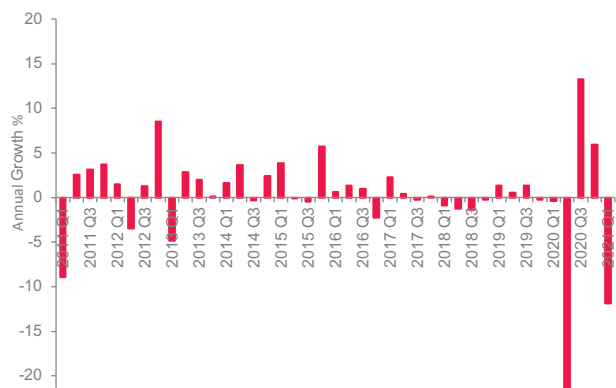
...as most sectors weaken...

Service sector output, which accounts for three-quarters of UK economic output, contracted by 2.0% in Q1 2021 (see Chart 2), as **lockdown measures drove a large fall in retail sales and an 11.8% fall in education output**. Industrial production declined by 0.4% in Q1, with output from the manufacturing sector down by 0.7% in the quarter. In contrast, construction sector output rose by 2.6% in Q1. On the monthly measure, services (+1.9%), industrial (+1.8%) and construction sector output (+5.8%) all rose in March.

... and business investment declines...

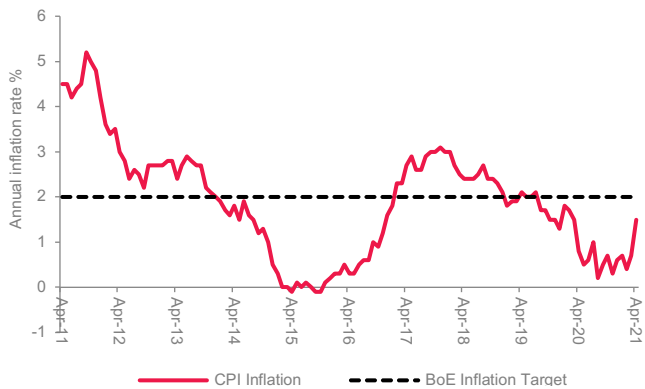
Business investment in the UK decreased by 11.9% in Q1 2021 (see Chart 3). **Business investment is now 18.4% below its pre-pandemic level**. Despite a weak first quarter, the introduction of the super-deduction investment incentive should boost investment as restrictions ease. Household consumption fell by 3.9% in Q1, following a 1.7% contraction in the previous quarter. The release of pent-up demand following the easing of restrictions should drive a significant revival in consumer spending in the second quarter of 2021.

Chart 3 UK Business Investment



Source: ONS UK GDP, March 2021

Chart 4: UK CPI Inflation



Source: ONS Consumer Price Inflation, April 2021

...as UK inflation rises sharply...

CPI inflation stood at 1.5% in April 2021, more than double March's reading of 0.7% (see Chart 4). Rising household utility (due to rise in Ofgem's energy price cap), fuel and clothing prices pushed inflation higher in April. Supply chain price pressures are also rising with the inflation rate for goods leaving the factory gate at 3.9% on the year to April 2021, up from 2.3% in March. **Inflation is set to rise higher in the near term as the release of pent-up demand as restrictions ease, post-Brexit trade friction and ongoing disruption to global supply chains increases the upward pressure on prices.**

...UK jobs market growing increasing resilient...

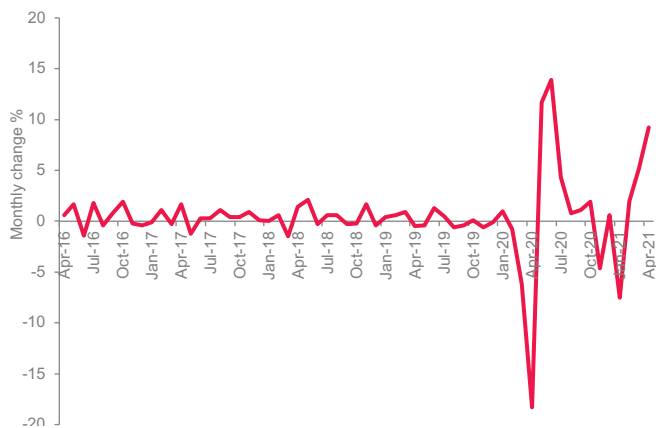
In the three months to March 2021, UK unemployment fell by 121,000. The unemployment rate declined from 5.1% to 4.8% over the same period (see Chart 5). The number of employees on payroll rose by 97,000 in April 2021, the fifth successive monthly increase, but still 772,000 below pre-pandemic levels. Demand for labour continues to increase with the number of job vacancies rising by 48,000 in the three months to April. While UK unemployment remains on track to peak at a much lower level than in recent recessions, **young people now entering the workforce and those whose lost their job during the pandemic remain at particular risk of longer-term unemployment.**

Chart 5: UK Unemployment Rate



Source: ONS Labour Market Overview, May 2021

Chart 6: UK Retail Sales



Source: ONS Retail Sales, April 2021

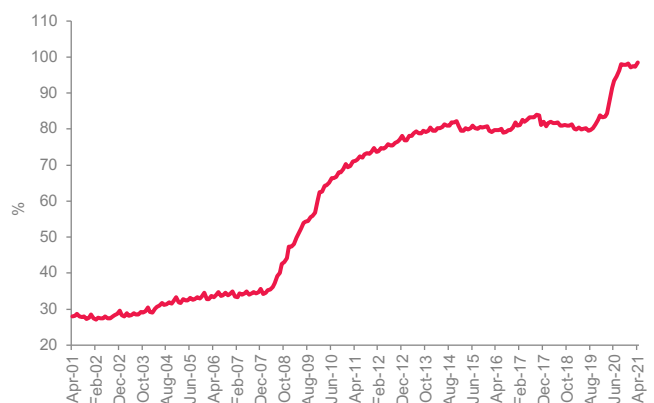
...retail sales rise as restrictions ease...

Retail sales increased by 9.2% in April, following a rise of 5.2% in March (see Chart 6). **The increase in April largely reflected the partial release of pent-up consumer demand as restrictions eased in the month with the strongest monthly growth coming from clothing stores (69.4%).** In contrast, food stores (-0.9%) were the only sector to report a monthly decline. In the three months to April 2021, retail sales rose by 2.6% and were up by 42.4% in annual terms. All sectors within retail recorded a fall in their proportions of online sales with the total proportion of sales online falling to 30% in April 2021, down from 34.7% in March.

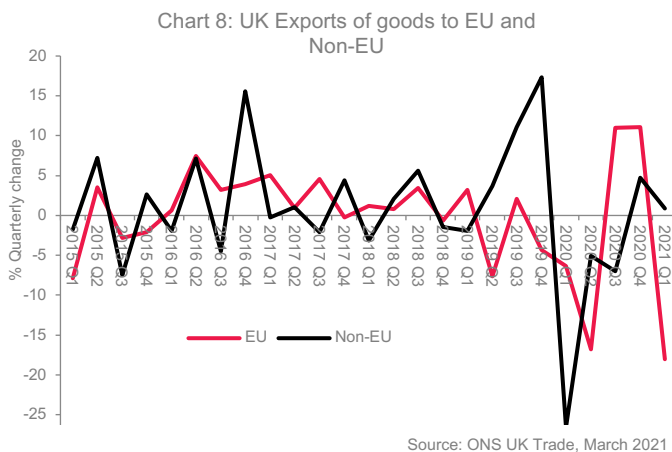
...as government borrowing falls...

Public-sector borrowing (excluding public-sector banks) stood at £31.7 billion in April 2021, £15.6 billion lower than in April 2020. This was the first decline in government borrowing since the start of the pandemic, but still the second highest April borrowing since monthly records began in 1993. UK public sector net borrowing totalled £300.3 billion in 2020/21, revised down by £2.8 billion from the previous estimate of 303.1 billion, but remains the highest since records began in 1946. Public sector net debt (excluding public sector banks) currently stands at 98.5% of UK GDP (see Chart 7), the highest ratio since March 1962.

Chart 7: UK Public Sector Debt as a % of GDP



ONS Public Finances, April 2021



...while UK's trade deficit narrows...

The UK trade deficit in goods and services was £1.4 billion in Q1 2021, a decrease of £8.4 billion on the previous quarter. Imports fell by £17.3 billion in Q1, exceeding the £8.9 billion fall in exports. **UK exports of goods to the EU fell by 18% in Q1 2021, while exports of goods to non-EU countries rose by 0.9% over the same period (see Chart 8).** Net trade is likely to be a drag on UK's economic recovery with post-Brexit disruption and the weak near term outlook for most countries within the EU expected to weigh on EU demand for UK goods and services.

...the OECD forecasts strong global growth...

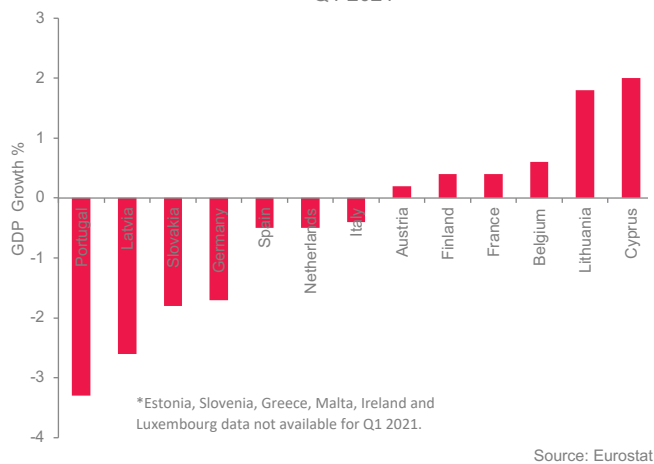
The Organisation for Economic Co-operation and Development (OECD) are currently forecasting global GDP growth of 5.4% for this year, down from their previous forecast of 4.2%. The OECD then expect global growth will slow in 2022 to 4.4% (see Table 1). **The OECD said that upgrade reflected the strong vaccine rollout in most advanced economies and the impact of the US fiscal stimulus package.** The OECD expects the UK economy to grow by 7.2% in 2021, which would be the strongest growth since official records began in 1948. The latest OECD growth forecasts suggests that the UK will be the fastest growing G7 economy this year.

Table 1: OECD GDP Growth Forecasts, G7

GDP Growth (Annual % change)	2021	2022
World	5.8	4.4
UK	7.2	5.5
US	6.9	3.6
Canada	6.1	3.8
France	5.8	4.0
Italy	4.5	4.4
Germany	3.3	4.4
Japan	2.6	2.0

Source: OECD

Chart 9: Eurozone GDP growth by member country*, Q1 2021



...Portugal sees the biggest GDP drop in Q1.

Eurozone GDP contracted by 0.6% in Q1 2021, from a 0.7% decline in output in the previous quarter. **This is confirmation that the Eurozone is in a double-dip recession having fallen back into recession for the second time since Q1 2021.** In annual terms, GDP growth across the EU stood at 1.4% in Q1. Seven countries in the Eurozone (where data is available) recorded a contraction in GDP in the first quarter (see Chart 9). Portugal (-3.3%) recorded the biggest contraction in Q1, followed by Latvia (-2.6%) and Slovakia (-1.8%). In contrast, Cyprus (+2.0%) recorded strongest growth in the first quarter, followed by Lithuania (+1.8%) and Belgium (+0.6%).

Bottom line:

The latest data releases suggest that despite the first quarter contraction in UK GDP, economic conditions are improving amid the rapid vaccine rollout, the boost from the easing of restrictions and continued government support. However, with many firms struggling with the damage done to their cashflow by over a year of covid restrictions, the risk of a marked slowing in economic output as government support winds down remains uncomfortably high.

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ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21
Household	Retail Sales (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Consumer Confidence (GfK NOP)	■	■	■	■	■	■	■	■	■	■	■	■	■
	House Prices (Halifax)	■	■	■	■	■	■	■	■	■	■	■	■	■
	New car sales (SMMT)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Mortgage approvals (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■
Business	Business confidence (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■
	Business lending (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Service sector output (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Production output (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Investment intentions (BCC)**	■	■	■	■	■	■	■	■	■	■	■	■	■
Labour market	Employment (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Unemployment (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Number of people on payroll (HMRC)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Earnings (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
Government	Public sector net borrowing (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Public sector net debt % of GDP (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Tax receipts (HMRC)**	■	■	■	■	■	■	■	■	■	■	■	■	■
	Current Budget Deficit (ONS)**	■	■	■	■	■	■	■	■	■	■	■	■	■
External	UK trade balance (ONS)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Export Sales (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■
	Export orders (BCC)***	■	■	■	■	■	■	■	■	■	■	■	■	■
Financial	Exchange rate (Bank of England)	■	■	■	■	■	■	■	■	■	■	■	■	■
	Equity Prices (Bloomberg)	■	■	■	■	■	■	■	■	■	■	■	■	■
	10 year Government bonds (Bloomberg)	■	■	■	■	■	■	■	■	■	■	■	■	■

*Colours indicate an improvement or deterioration of each indicator and refer to monthly changes unless stated. For example, an improvement in employment refers to an increase, while an improvement in unemployment refers to a fall. Also, a depreciation in the exchange rate refers to an improvement and an appreciation in the exchange rate refers to a deterioration. Dates refer to the release dates for each indicator.

Annual changes. *Quarterly changes. ****Latest figures are estimate.