

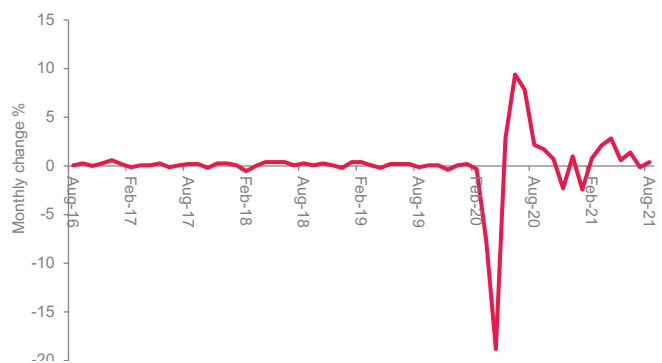
**Monthly headlines:**

- UK economic growth picks-up in August as service sector output accelerates
- UK inflation eases for now amid temporary data distortions as job vacancies reach new record high
- OBR forecasts a stronger UK economic recovery and an improved fiscal position

**UK GDP growth picks-up in August...**

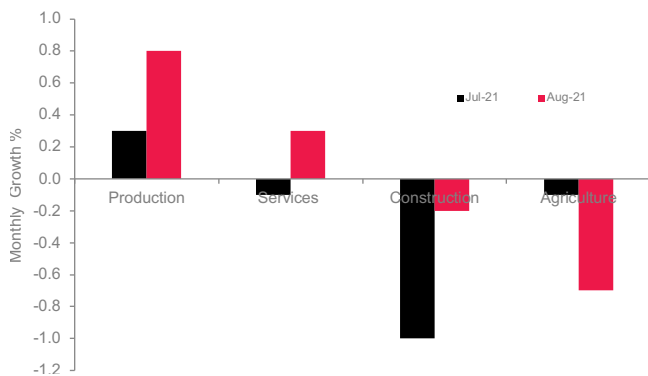
The first official estimate of UK GDP revealed that the UK economy grew by 0.4% in August 2021 (see **Chart 1**), up from a (downwardly revised) contraction of 0.1% in July. Due to upward revisions to earlier GDP data, UK economic output is now just 0.8% below its pre-pandemic level in February 2020. However, **UK economic output remains on track to moderate in the third quarter as staff shortages, supply chain disruption and rising cost pressures faced by consumers and businesses increasingly weighs on economic activity.**

Chart 1: Real UK GDP Growth



Source: ONS UK GDP, August 2021

Chart 2: UK GDP Growth by Sector



Source: ONS UK GDP, August 2021

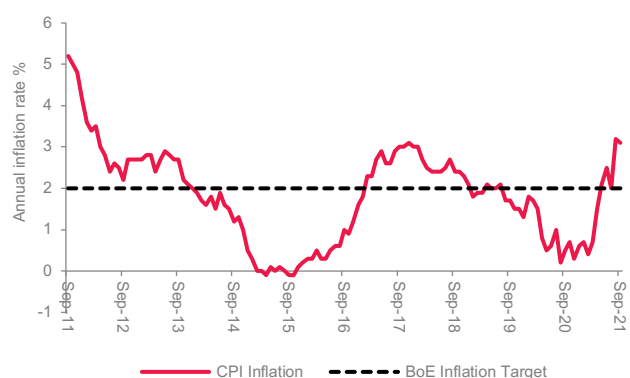
**...largely driven by stronger services output...**

Service sector output grew by 0.3% in August 2021, up from a revised fall of 0.1% in July (see **Chart 2**). **Output from consumer-facing services firms rose by 1.2% in August, driven by a 5.9% increase in food and beverage service activities, and a 47.9% increase in travel agency, tour operator related reservation services.** This more than offset declines in health output and retail sales. Industrial output rose by 0.8% in August. In contrast, construction sector output declined by 0.2% in the month, largely reflecting staff and supply shortages.

**...as UK inflation slips slightly...**

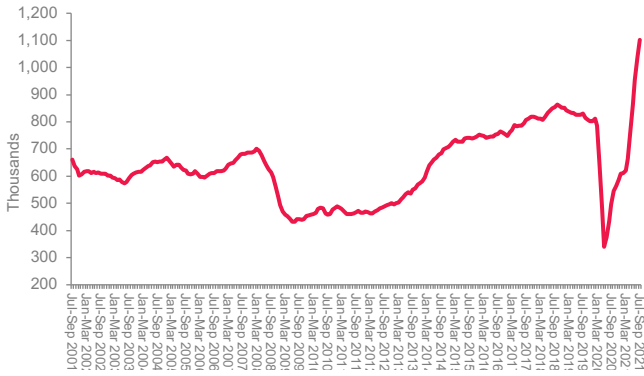
UK CPI inflation eased slightly from 3.2% in August to 3.1% in September 2021 (see **Chart 3**). The slowdown was largely due to strong base effects caused by dining out costing less last month in comparison with September 2020, when prices increased following the end of the Eat Out to Help Out scheme. A renewed inflationary surge is expected in the coming months. **The increase in the energy price cap, partial reversal of the VAT reductions for hospitality and tourism and persistent supply chain disruption is likely to push inflation above 4% by the end of 2021.**

Chart 3: UK CPI Inflation



Source: ONS Consumer Prices, September 2021

Chart 4: Job Vacancies



Source: ONS Labour Market Overview, October 2021

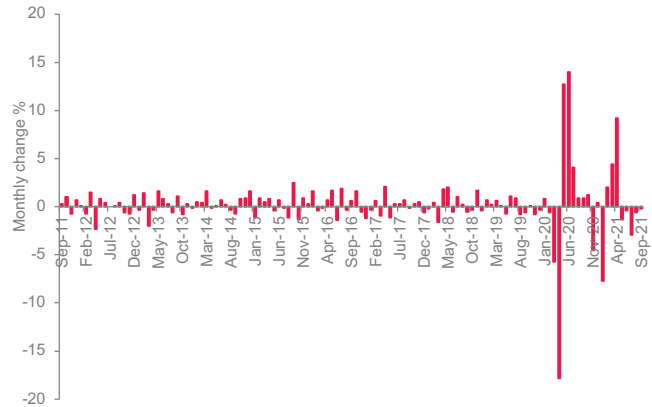
...as staff shortages increase...

The number of employees on payroll rose by 207,000 to 29.2 million in September 2021, 122,000 higher than pre-pandemic levels as demand for workers continued to rise. The number of job vacancies rose to 1,102,000 in the three months to September, a new record high (see Chart 4). However, across most sectors the rate of growth in vacancies has started to slow down. Overall, job vacancies increased by 27.7% in July to September, down from 38.9% in the previous three-month period. **A sustained period of staff shortages could limit the recovery by eroding firms' ability to fulfil orders and meet customer demand.**

...and retail sales continue to decline...

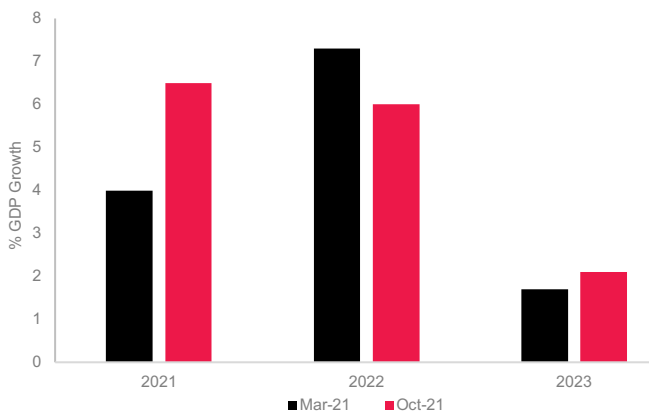
Retail sales dropped by 0.2% in September 2021, the fifth successive monthly decline (see Chart 5). Despite the fall in September, retail sales were still 4.2% higher than their pre-covid level. **September's drop was largely driven by a 9.3% fall in household goods store sales, such as furniture and lighting stores.** In contrast, fuel sales were up by 2.9% in the month and are now above pre-covid levels, amid concerns over shortages. Despite restrictions easing, in-store retail sales remain subdued with the proportion of retail sales online at 28.1% in September, up from 27.9% in August and still markedly higher than pre-pandemic levels.

Chart 5: UK Retail Sales



Source: ONS Retail Sales, September 2021

Chart 6: OBR UK GDP Growth Forecasts



Source: OBR Economic Outlook, October 2021

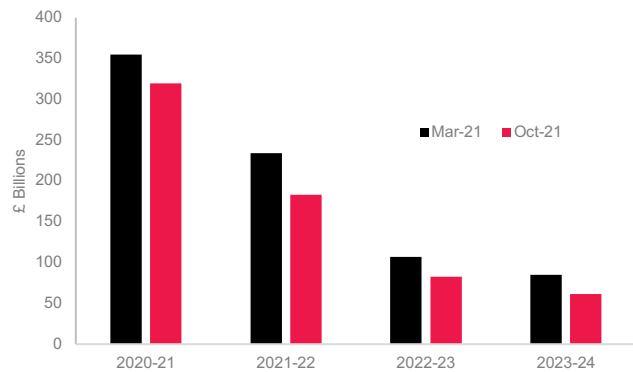
...OBR forecasts stronger recovery...

In its latest economic forecast, the Office for Budget Responsibility (OBR) expects UK GDP growth of 6.5% for 2021, higher than their previous forecast of 4.0% published in March 2021 (see Chart 6). The OBR's more upbeat outlook for the recovery has been largely driven by the rebound in consumer spending as restrictions were removed. However, the OBR's 2022 growth forecast has been downgraded from 7.3% to 6.0%. **The OBR expects UK economic output to return to pre-pandemic levels by early 2022, quicker than their previous forecast.** Forecasted growth in 2023 has been upgraded to 2.1%, from 1.7% in their previous forecast.

...and an improved fiscal outlook...

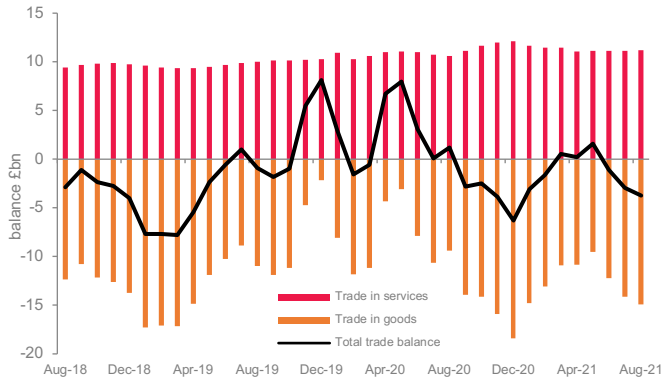
The OBR expects public-sector net borrowing to reach 183.0 billion in 2021-22, £50.9 billion lower than their March 2021 forecast of 233.9 billion (see Chart 7). Public sector net debt as a share of GDP is forecast to peak at 98.2% in 2021-22, before falling to 88.0% of GDP in 2026-27. **The stronger economic growth over recent quarters and lower expected long-term economic scarring from Covid-19 has delivered this improvement to the UK's projected fiscal position.** As such, there is scope for the future path of fiscal consolidation to be eased, to avoid suffocating the recovery.

Chart 7: Public Sector Net Borrowing Forecasts



Source: OBR Fiscal Outlook October 2021

Chart 8: UK's Net Trade Position



Source: ONS UK Trade, August 2021

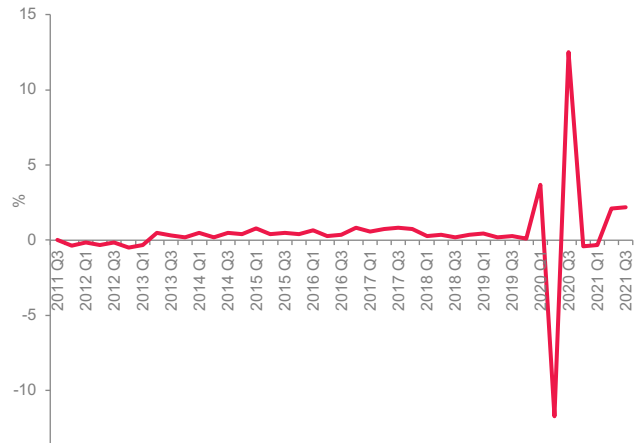
**...as UK's trade deficit increases...**

The UK trade deficit in goods and services widened by £768 million to £3.7 billion in August 2021 (see Chart 8). This deterioration was largely driven by a 2% fall in exports, which more than offset a 0.5% decline in imports over the same period. **Acute labour shortages across the economy, including ongoing HGV driver shortages, helped drive the decline in imports and exports in the month.** Total exports of goods to the EU (excluding precious metals) fell by 4.3% in August, lower than the 5.0% drop in exports to non-EU countries over the same period.

**...eurozone's economic rebound continues...**

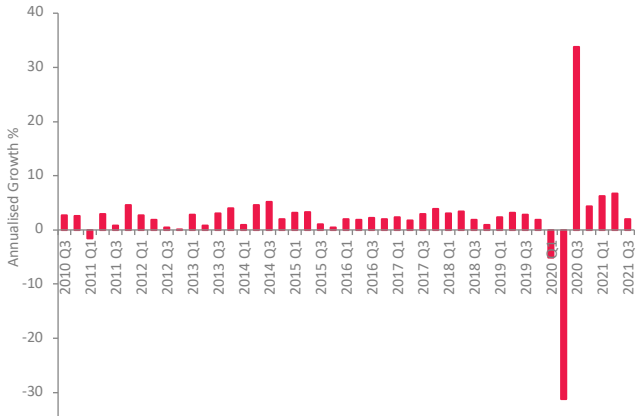
The eurozone economy grew by 2.2% in Q3 2021, up slightly from growth of 2.1% recorded in Q2 (see Chart 9). In annual terms, eurozone economic output grew by 3.7% in Q3, down from growth of 14.2% in Q2. Germany, the eurozone's biggest economy, grew by 1.8% in Q3. France, the second largest economy, grew by 3.0% in Q3, more than double the growth of 1.3% recorded in Q2. **Despite a generally strong third quarter, economic activity in the eurozone is likely to moderate over the coming quarters as staff shortages, supply chain disruption and rising inflation (currently at a 13-year high) drags on output.**

Chart 9: Eurozone Real GDP Growth



Source: Eurostat

Chart 10: US Real GDP Growth



Source: BEA

**...but US GDP growth slows in Q3.**

The first estimate of US GDP revealed that the US economy grew at an annualised rate of 2.0% in Q3 2021, down sharply from growth of 6.7% recorded in the previous quarter (see Chart 10). **Ongoing supply chain disruption and a rise in Covid cases, which resulted in delays to the reopening of establishments in some parts of the US, limited activity in the third quarter.** Consumer spending, which accounts for over two-thirds US economic output, grew by 1.6% in Q3, down from growth of 12% in Q2. US exports declined by 2.5% in Q3, following a 7.6% increase in the previous quarter. Business investment in the US rose by 1.8% in Q3, down from growth of 9.2% in Q2.

**Bottom line:**

**Last month's data indicates that while the UK economy continues to recover, the headwinds facing consumers and businesses are growing. Despite several welcome announcements in the Autumn Budget and Spending Review, there was little action to ease ongoing shortages and rising cost pressures. Notwithstanding some positive measures, the changes to the business rates system fell short of the fundamental reform that firms were promised. More needs to be done to relieve the immediate pressures on businesses, deliver more fundamental reform of business rates and a longer term rebuild strategy to boost growth post-Covid.**

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# ECONOMIC SUMMARY CHART

Deteriorating ■ No change ■ Improving ■

Sector	Indicators (sources)	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-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.