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The Global Economic Outlook For The United Kingdom (2021)

Introduction

The COVID-19 pandemic has had a stunning impact on the global economy, and has led to a permanent shift in the operating landscape for millions of businesses. As of early November 2020, over 47.4 million cases of COVID-19 have been recorded and over 1.2 million fatalities have occurred globally. At a time when the accelerating spread of COVID-19 is disrupting much of the developed world, IBISWorld has examined how this historic pandemic has permanently shifted the global economic landscape.

This report examines how the COVID-19 pandemic has influenced national economies across the globe, including analysis of GDP, unemployment, consumer sentiment, business confidence, household discretionary incomes, monetary policy and fiscal spending. It looks at the top five industries to fly and fall over the next 12 months. In addition, IBISWorld has investigated the outlook for COVID-19 restrictions and what a return to normal operating conditions will look like.

While COVID-19 may subside if a vaccine is developed and distributed, the economic impacts of the pandemic will likely continue for years to come.

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United Kingdom | Economic Summary

Real GDP

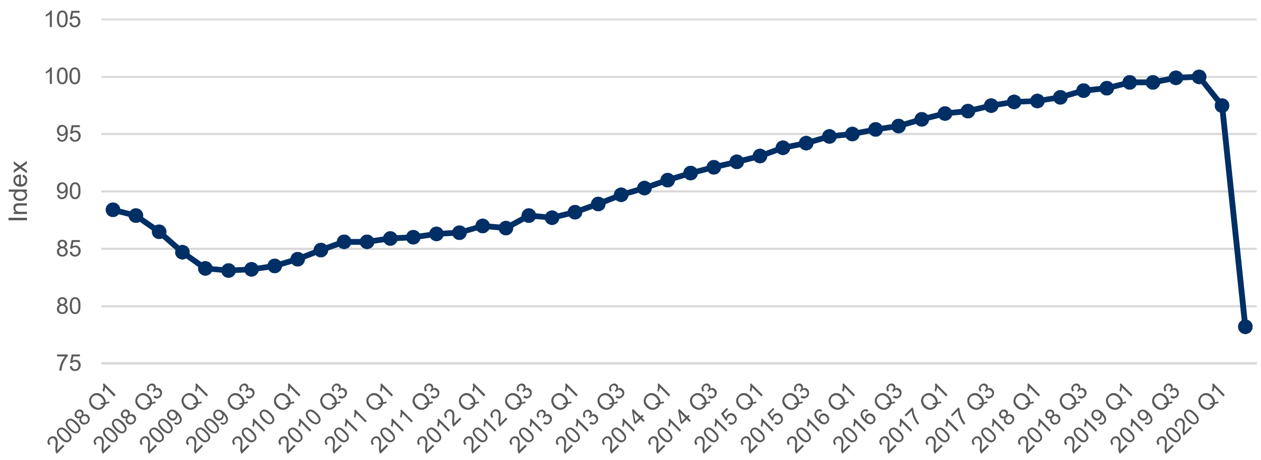
According to the Office for National Statistics (ONS), UK GDP contracted by 19.8% in Q2 2020, representing the largest quarterly contraction in the UK economy since records began in 1955, as well as the second consecutive quarterly decline after a fall of 2.5% in Q1 2020.

As the UK economy entered a technical recession, data from the Office for National Statistics (ONS) suggested the UK economy was 21.8% smaller at the end of June 2020 than at end of December 2019. According to the ONS's GDP monthly series, GDP grew by 2.1% month-on-month in August 2020, the fourth monthly increase following a record fall of 19.5% in April 2020; however, GDP in August remained 9.2% below the levels recorded in February 2020, before the full effect of the COVID-19 (coronavirus) pandemic was noted.

Overall, UK GDP is forecast to decline by 13.1% in 2020-21. However, as the effects of public health restrictions on the economy ease, GDP is expected to rebound by 11.5% in 2020-21 and continue on an upwards trajectory over the next five years.

UK GDP quarterly index

UK GDP is forecast to decline by 13.1% in 2020-21



National unemployment rate

The coronavirus pandemic has significantly affected the job market, with unemployment forecast to rise sharply in 2020-21. ONS estimates for the three months through August 2020 showed that over 1.5 million people were unemployed, approximately 209,000 more than a year earlier and 138,000 more than the previous quarter. This equated to a UK unemployment rate of 4.5%, 0.6 percentage points higher than a year earlier.

Despite government intervention intended to protect jobs, including the Coronavirus Job Retention Scheme (CJRS), job losses have been prevalent, as indebted and underperforming companies have undertaken significant layoffs. According to the ONS, redundancies increased in the three months through August 2020 by 113,000 on the previous year, and a by record 114,000 on the previous quarter, to 227,000. The annual increase was the largest since April to June 2009, with the number of redundancies reaching its highest level since May to July 2009. Unemployment is forecast to rise further over 2021-22 as government job support schemes end, but is forecast to slowly fall in the years following this.

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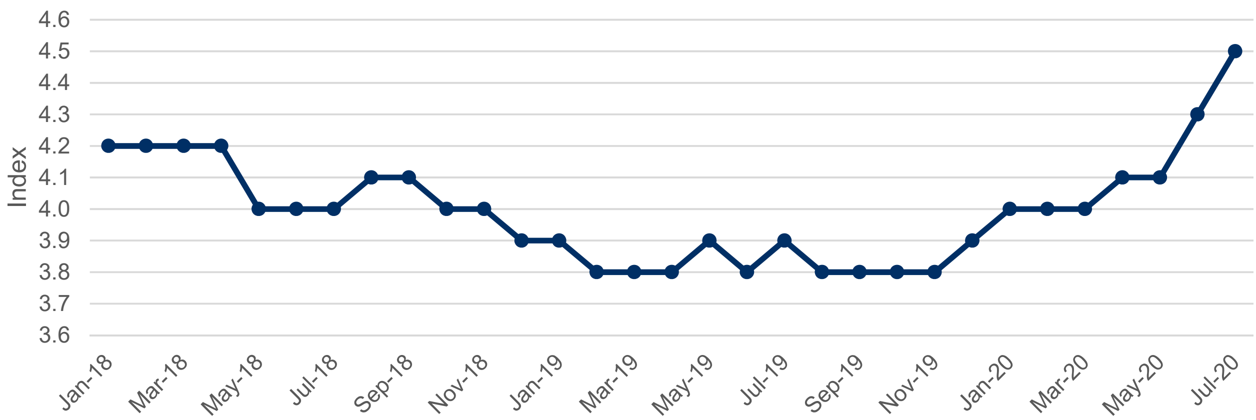
UK unemployment rate

Percentage of those aged 16 and over classified as unemployed



Consumer confidence index

The economic shock caused by the coronavirus pandemic has caused consumer confidence to plummet. Since lockdown measures were first introduced towards the end of March 2020, consumers have remained pessimistic, as they are concerned about the UK's economic prospects and their personal finances.

Since March 2020, changes to public health restrictions and the trajectory of confirmed coronavirus cases have been the two most prominent factors dictating consumer confidence levels. For instance, confidence, while weighed down by the general economic situation, showed signs of improvement as public health restrictions were relaxed, with consumers growing more confident that economic recovery may be on the horizon as the service sector slowly reopened. However, confidence is likely to be further dented in the coming months, particularly following the announcement of a new lockdown in England, as coronavirus cases have begun to upsurge.

Overall, consumer confidence is forecast to decline by 12% in 2020-21. Though future confidence levels depend on how long it takes for the pandemic to come under control, confidence is expected to quickly rebound, increasing by 11.2% in 2021-22 and continuing to grow over the next five years.

Business confidence index

Mandated supply chain closures, a temporary hiatus in much business activity, and commodity market volatility is expected to cause business confidence to decline in 2020-21. As the United Kingdom entered into lockdown on 23 March 2020, businesses feared lacklustre output and lost revenue would result in insolvency pressures. However, to allay such concerns, the government introduced a range of support schemes and mobilised funding packages to help businesses navigate the pandemic.

Emergency stimuli has helped to instil a degree of confidence among businesses. Meanwhile, the gradual relaxation of restrictions and the resumption of much business activity, with 86% of UK businesses trading during the two weeks through 20 September 2020 compared with 66% between 1 and 14 June 2020 according to the ONS, has been welcomed. However, as trading conditions remain difficult and the prospect of imminent economic recovery is weak, business confidence remains low. As operations gradually return to normal, business confidence is expected to rebound from its current historic low in 2021-22 and continue to rise over the next five years.

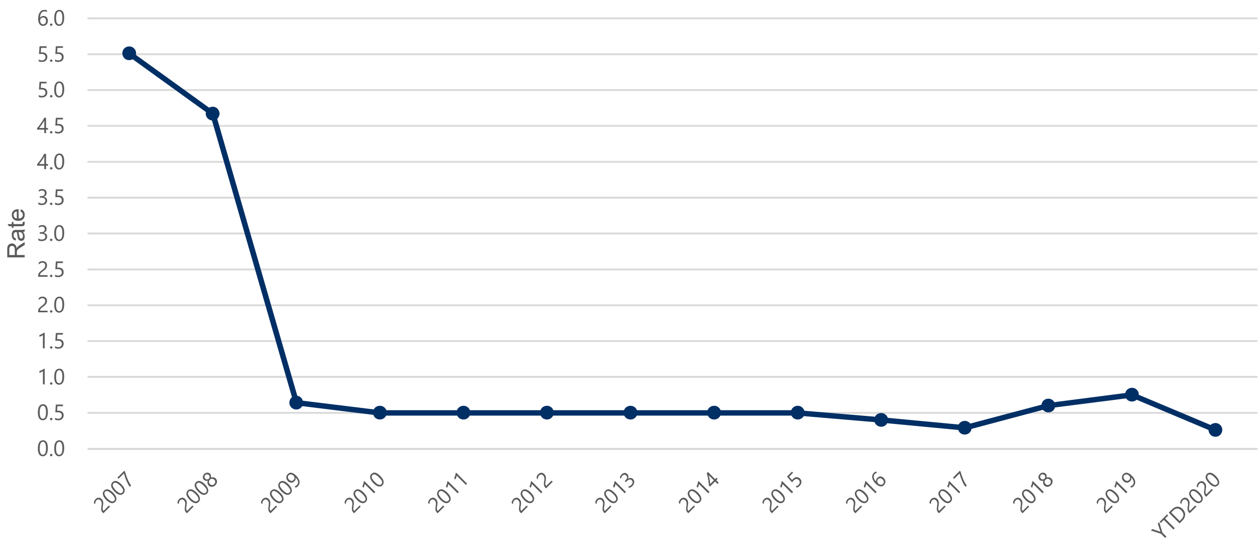
Official bank rate

As an emergency measure following the coronavirus outbreak, the official base interest rate, as set by the Bank of England (BoE) Monetary Policy Committee (MPC), was cut from 0.75% to 0.25% on 11 March 2020, aimed at supporting business and consumer confidence, bolstering the cash flow of businesses and households, and reducing the cost and improving the availability of finance. On 19 March 2020, the BoE MPC opted to cut the bank rate to an all-time low of 0.1%, warning the pandemic would result in a 'sharp and large' economic shock. As a result, the official bank rate is forecast to decline in 2020-21.

Having last met on 17 September 2020, the BoE MPC unanimously voted to maintain the base rate at 0.1% and to maintain its £745 billion quantitative easing programme, which had increased by £300 billion since March 2020. However, in what would be an unprecedented move in the UK market, in September 2020 the BoE MPC was exploring how a negative bank rate could be implemented effectively, seeking to overcome any obstacles and making preparations to allow the BoE to reduce the bank rate below zero in 2021. With the BoE MPC noting that latest data showed the economic recovery was on track, albeit that the outlook remained 'unusually uncertain', the prospect of the bank rate moving into negative territory would be met with considerable apprehension, particularly if economic conditions improve significantly. As the economy recovers, IBISWorld expects the official bank rate to increase over the next five years.

UK Official Bank Rate

Yearly average.



Real household disposable income

Real household disposable income is anticipated to fall by 3.3% in 2020-21. In a survey of British households conducted between 6 April and 1 May on behalf of the BoE, 28% of respondents stated that their income had decreased and 57% of respondents reported a reduction in spending. While government support schemes and payment holidays have provided substantial support to households with money worries, one in five respondents to the survey suggested they were experiencing financial difficulty due to the effects of the pandemic.

Furloughed workers, the self-employed, and those made redundant have been most exposed to a reduction in income. In particular, rising unemployment and use of the CJRS, in which more than 9.6 million workers were enrolled as of September 2020 according to HMRC, have contributed to reduced incomes. With unemployment forecast to rise in the short term as many UK businesses struggle with weak demand, disposable income is anticipated to decline further in 2021-22. However, it is expected to rise slightly overall during the next five-year period as the economy begins to recover.

Fiscal support and stimulus measures

The UK government has introduced a vast range of stimulus support intended to help households and businesses navigate the coronavirus pandemic to prevent irrecoverable economic losses. Presented on 11 March 2020, Budget 2020 took place against the backdrop of the global pandemic and set out an initial plan to support public services, individuals and businesses that were expected to be affected. Marking the end of a decade of austerity with promises of a significant increase in spending, Chancellor of the Exchequer, Rishi Sunak, unveiled a plan that would increase public-sector net investment from close to 2% of national income to 3%.

Measures targeted at combatting the effects of the coronavirus outbreak included a £12 billion emergency fiscal stimulus to counter an economic shock and the abolishment of business rates for one year for small businesses in heavily hit sectors. The government also launched the Coronavirus Business Interruption Loan Scheme, offering loans of up to £5 million to small and medium-size businesses, with no interest being incurred for 12 months.

However, as the domestic situation quickly worsened, the threat of an unprecedented economic downturn led to the government introducing a series of supportive measures in an attempt to prevent long-term economic damage as public health restrictions were tightened. Headlining the package of support measures, which included VAT payment deferral and modifications to the CBILS, was the Coronavirus Job Retention Scheme (CJRS). UK workers placed on the CJRS were able to keep their job, with the government paying 80% of a furloughed worker's wages up to a total of £2,500 per month. As of 20 September 2020, the value of claims made to HMRC totalled £39.3 billion across over 9.6 million employments by more than 1.2 million employers.

Much of the government stimulus support committed during the pandemic has been reviewed on a cyclical basis. The CJRS, for example, was initially open for three months and subsequently extended through October 2020. Although a successor for the CJRS was due to be introduced in November, following the Prime Minister's announcement on 31 October that England is to again enter into lockdown, the CJRS has been extended for a further month.

Although the timeline for a winding down of stimulus support is unclear while the coronavirus pandemic continues to disrupt the UK economy, the government has indicated that support will continue while the pandemic remains a prominent threat to both public and economic health.

Growth Industries

SP0.024 CRM System Providers in the UK

The CRM System Providers industry's revenue is forecast to rise by 49.1% in 2020-21, continuing a long-term trend of growth. In particular, rising demand for Software-as-a-Service (SaaS) is expected to drive the industry's expansion, as SaaS works on a subscription-based model, meaning it provides the industry with a steady source of revenue.

Despite many businesses struggling with weak demand and reduced operations amid the coronavirus pandemic, business software investment is anticipated to rise over 2020-21, as firms have had to adapt to enable employees to work from home full time. This has supported an increase in demand for CRM software as firms have sought to make their operations as efficient as possible. For example, major player Salesforce, which controls approximately 73.6% of the market, reported year-on-year growth of 38% in its European division over the three months through July 2020.

Significant growth in demand has promoted the need for staff, with industry employment anticipated to rise in the current year as a result. Profit is also projected to rise, as the industry greatly benefits from economies of scale, with day-to-day running expenses expected to remain fairly steady over the year while revenue grows.

UK0.052 Respiratory Protection Equipment Manufacturing in the UK

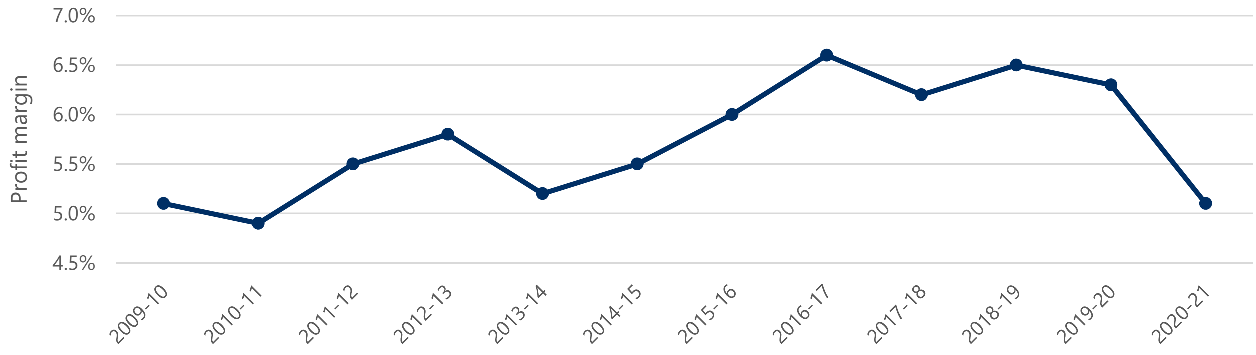
Unsurprisingly, the Respiratory Protection Equipment Manufacturing industry is expected to benefit from the pandemic, with demand for industry products surging in the initial months of 2020-21 as the government sought to procure enough personal protective equipment (PPE) for health-care workers and ventilators to treat the significant number of coronavirus patients. As a result, industry revenue is projected to increase by 25.8% over 2020-21.

The industry has benefited from a nationwide effort involving industrial powerhouses, such as Rolls Royce and McLaren, to ensure that sufficient PPE is provided to hospitals. Major government contracts have been awarded to industry players, which has encouraged the expansion of production lines and necessitated an increase in industry employment, which is forecast to rise by 10.6% over the current year.

However, the average industry margin is anticipated to decline over 2020-21, to 5.1% from 6.3% during the previous year, as surging industry demand is expected to encourage the entry of new players into the industry. The substantial initial costs faced by these firms are expected to weigh on industry profit.

Profit in the Respiratory Protection Equipment Manufacturing industry in the UK

The average industry margin is anticipated to decline over 2020-21, to 5.1% from 6.3% during the previous year.



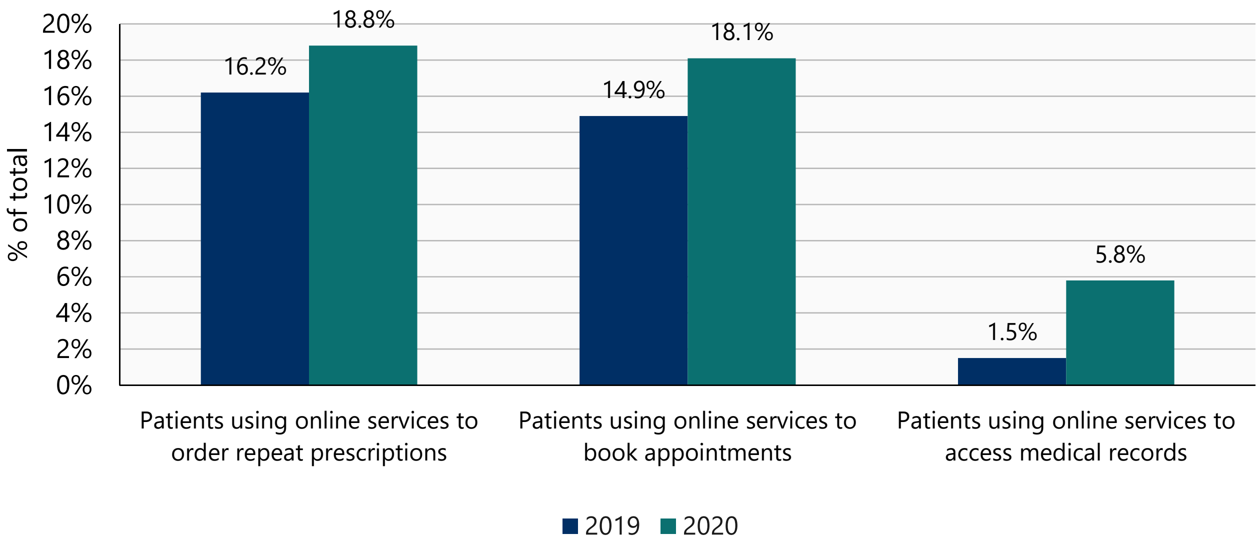
UK0.099 Telehealth Services in the UK

Traditionally, consumers have preferred to seek health-care advice in person. However, over the past five years, long waiting times have caused consumers to increasingly turn to over-the-phone and online services, while health-care providers have also sought to make greater use of telehealth services to relieve pressure on face-to-face provision. This trend is expected to have been greatly exacerbated in the current year, as the contagious nature of the coronavirus has led to both health-care providers and consumers seeking to limit in-person contact in order to reduce the risk of transmitting or catching the virus. As a result, revenue in the Telehealth Services industry is anticipated to rise by 22.2% in 2020-21, almost twice as fast as in the previous year.

Higher demand is expected to support growth in industry establishment and enterprise numbers, while the industry's labour requirements are also set to rise to cope with higher call volumes. The number of staff working in the industry is forecast to rise by 16.5% over the year. Despite this, wages are expected to remain steady as a share of revenue, and growing revenue is therefore expected to result in a corresponding rise in industry profitability.

Use of online GP services in the UK

Consumers have been making increasing use of online GP services in the current year.



SP0.040 Online Food Ordering & Delivery Platforms in the UK

Revenue in the Online Food Ordering and Delivery Platforms industry is forecast to rise by 13.5% in 2020-21, with demand risen as a result of the public health restrictions put in place to combat the spread of the coronavirus. The UK-wide lockdown, which began on 23 March 2020, resulted in the forced closure of hospitality establishments, including those in the food-service sector unless they were operating as takeaways. As a result, consumers staying at home that did not wish to cook their own meals had little alternative but to use the industry's services.

Booming business during the coronavirus lockdown has led to hiring sprees across the industry. For example, in September major player Deliveroo announced plans to recruit 15,000 new riders by the end of 2020, meaning its driver numbers are set to double from 25,000 to more than 50,000 over the year. With surging demand encouraging industry operators to expand, the associated costs are anticipated to weigh on profit, which has historically been low due to major players Deliveroo and UberEats having consistently operated at huge losses. However, the parent company of Just Eat, another major player, has reported that underlying profit surged by 133% over the first half of 2020.

Although the food-service sector was permitted to reopen on 4 July, social distancing guidelines limited capacity in restaurants and continued to support industry demand. Additionally, further restrictions have since been put in place. This is again expected to support industry demand and revenue growth.

G47.110 Supermarkets in the UK

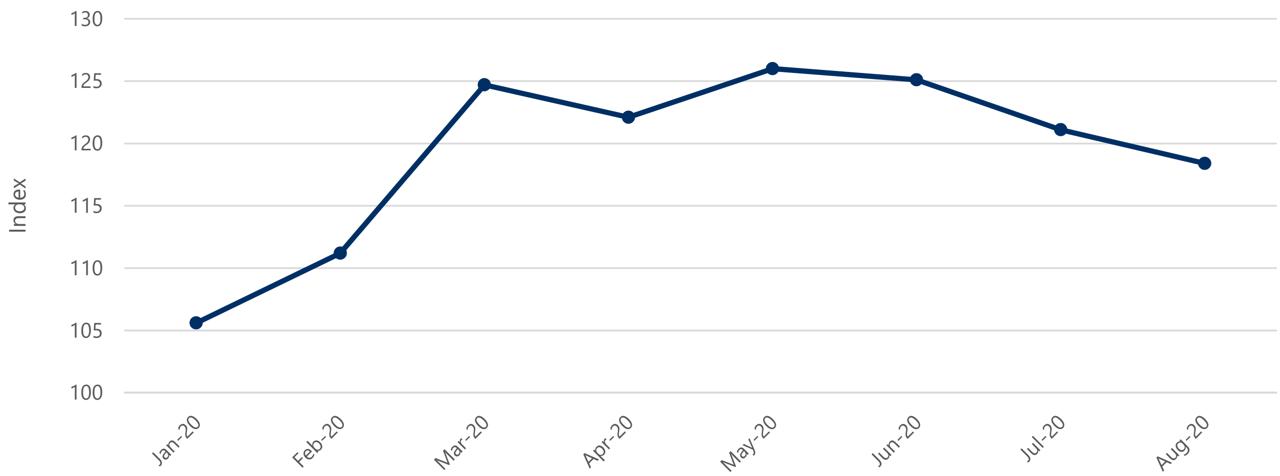
The Supermarkets industry has undoubtably benefited from the coronavirus pandemic, with the national lockdown and closure of the food-service sector causing industry demand to rise sharply at the beginning of 2020-21. Even before this, widespread panic buying as consumers anticipated lockdown measures being introduced caused the industry's revenue to rise in the latter weeks of the 2019-20 financial year, with ONS data showing that the value of supermarket sales grew by 10.2% in March 2020.

Both in-store and delivery revenue rose significantly during the lockdown period, with stay-at-home measures and the closure of the restaurants meaning consumers cooked more meals at home. Evidencing this, retail insight company Kantar reported that the average spend of a supermarket shopper had increased by 35% in the three months through mid-July on the year before.

Overall, industry revenue is forecast to rise by 12% over 2020-21. Employment is also expected to rise, by an estimated 6.2%, as industry operators have embarked on hiring sprees to keep shelves stocked and expand their home delivery services. However, industry profit is expected to fall over the year due to higher costs associated with implementing social distancing measures, such as plastic screens between checkouts.

Food And Drink Sales Within Large UK Business

Stay-at-home measures have increased food and drink sales for large retailers in 2020.



Decline Industries

SP0.087 Festivals in the UK

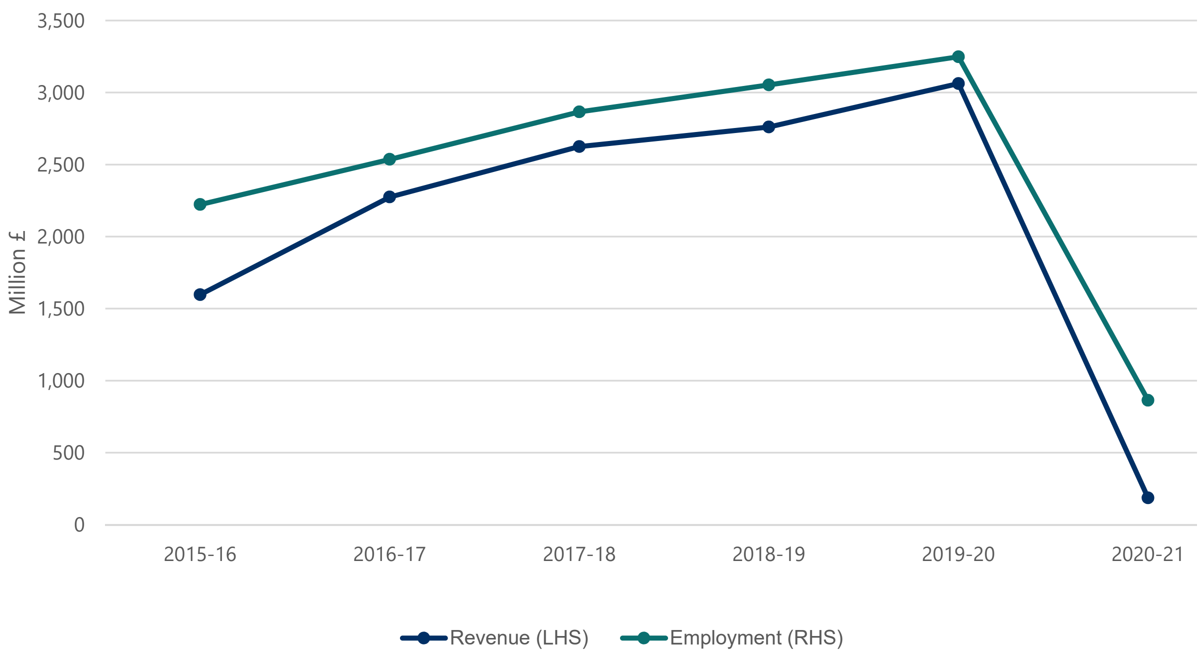
The Festivals industry has been decimated by the coronavirus pandemic. Though the industry had been performing well prior to the current year, with revenue having grown consistently over the past five-year period, the widespread cancellation of events is expected to cause revenue to plummet in 2020-21.

Although socially distanced outdoor and indoor events were permitted to occur from 11 June and 15 August respectively, the impracticability of enforcing social distancing at large-scale events means the vast majority of major festivals, including Glastonbury, which is usually attended by approximately 200,000 people, were called off. Though some festivals opted to hold virtual events in place of their usual offerings, this has done little to protect the industry's revenue, which is forecast to fall by 93.9% in the current year.

Due to the financial pressures placed on the industry, the government launched a £1.6 billion fund, giving industry firms up to £3 million each. Despite this, profit is projected to decline to just 0.4% of revenue as revenue falls while many costs remain in place. Although industry operators' use of the government's Coronavirus Job Retention Scheme (CJRS) has helped to limit wage expenditure and protect some jobs, the cancellation of events has rendered many positions unviable in the short term, with employment numbers anticipated to drop by 73.1% over 2020-21.

Revenue and Employment in the Festivals industry in the UK

industry revenue is forecast to decline by 93.9% in 2020-21, with employment set to fall by 73.4%.



H51.102 Non-Scheduled Passenger Air Transport in the UK

Revenue in the Non-Scheduled Passenger Air Transport industry is anticipated to drop by 63% in 2020-21 as a result of the coronavirus pandemic. This is unsurprising, given the global spread of the virus led to widespread border closures and travel bans.

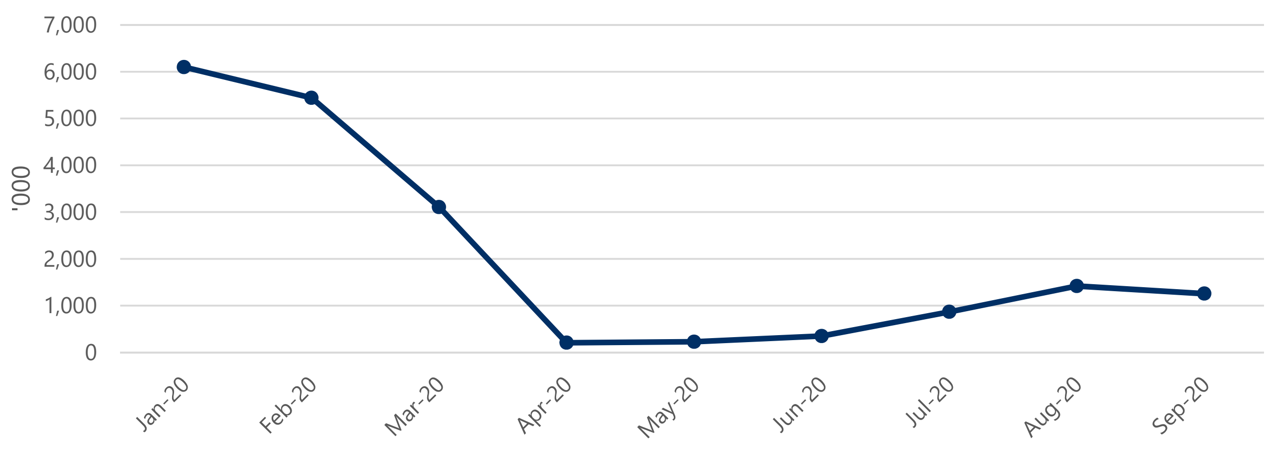
The UK public was advised against all but essential travel after the national lockdown was imposed on 23 March 2020, which triggered many customers to apply for refunds for upcoming flights and caused airlines to temporarily cease operating. For example, major player TUI Airways cancelled all flights from late March through 11 July. Ongoing travel disruption and further flight cancellations are continuing to eat into revenue.

Although holidays abroad were permitted from 10 July, the need for people to self-isolate for 14 days upon returning from any country not on the UK's COVID-19 travel corridors list is restricting demand. Resultantly, profit is forecast to decline over 2020-21, as operators will have to spread high fixed costs across a much lower revenue base.

Despite airlines initially making use of the government's CJRS, continued weak demand has meant keeping all staff on has been unsustainable and employment is expected to fall over 2020-21. For example, TUI has announced plans to cut approximately 8,000 jobs. The industry is unlikely to fully recover while the coronavirus remains prevalent both in the United Kingdom and further afield.

Passenger Number at Heathrow Airport in 2020

Airport passenger numbers have dropped significantly over the current year as a result of travel bans.



L68.202 Conference Centres Letting & Operating in the UK

The Conference Centres Letting and Operating industry typically generates the majority of its revenue from businesses holding events in its venues. However, with the coronavirus pandemic leading to a large proportion of the UK workforce working from home and people being told to reduce social interaction, the number of these events held has dropped significantly so far over the current year.

The coronavirus outbreak forced industry establishments to close, which is expected to lead to huge revenue losses, despite some of the venues being turned into temporary hospitals, known as Nightingale hospitals, to cope with high levels of in-patient numbers. Industry revenue is subsequently expected to decrease by 56.6% in 2020-21.

Employment numbers are expected to fall as a result of widespread venue closures as operators attempt to protect their cash flow, but the resultant decline in total industry wages is not expected to be enough to prop up industry profitability. The average industry margin is forecast to fall sharply, from 16.5% in 2019-20 to 3.7% in the current year. This is expected to be partially the result of some industry venues being used as Nightingale hospitals, as operators provided their establishments to the government free of charge, with many also covering the running costs.

I56.301 Nightclubs in the UK

The forced closure of establishments in the Nightclubs industry due to the spread of the coronavirus is expected to cause revenue to fall by 51.4% in the current year. Industry profit is also set to decline over the year as fixed costs, which must be spread across a shrinking revenue base, eat into margins. The industry was already performing poorly, with revenue having fallen consistently over the past decade due to consumers preferring to frequent cheaper pubs and bars or drink at home. The coronavirus pandemic is expected to further this trend, with revenue unlikely to return to pre-COVID levels over the coming years.

Nightclubs have remained closed since they were ordered to do so by the government on 20 March 2020 and are not expected to open in the immediate future, though those with rooftop terraces and non-industry-related operations, such as restaurants, have been permitted to partially reopen. However, this has done little to support the industry's revenue, particularly as many firms have opted not to restart these operations due to social distancing measures making them commercially unviable. As a result of reduced activity, many industry employees have been released from their jobs, though government support means that employment levels are forecast to drop at a much slower rate than industry revenue over the year, at an estimated 21.6%.

UK0.015 Bridal Stores in the UK

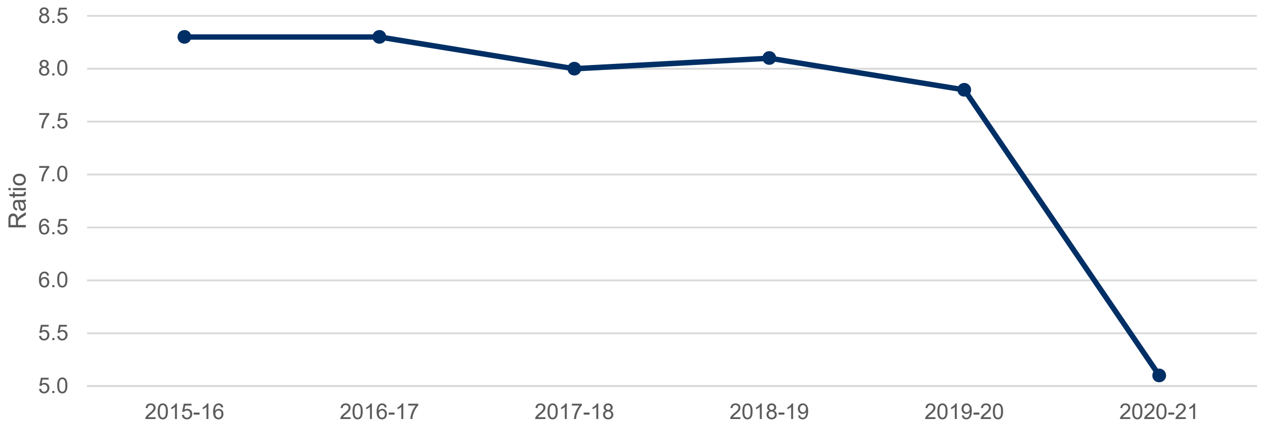
The coronavirus pandemic led to the widespread cancellation of weddings over the summer of 2020, which would normally have been the busiest season. Even as public health restrictions have gradually been lifted, limits on the number of people permitted at wedding ceremonies have meant that many would-be newlyweds have opted to postpone their nuptials rather than holding smaller ceremonies.

At the time of writing, wedding ceremonies in England are only permitted to have a maximum of 15 people present and when the new lockdown is implemented on 5 November, weddings will once again not be allowed to take place. IBISWorld expects that the vast majority of marriages that have taken place in 2020-21 have been small affairs with the intention of carrying out the legal process, rather than holding the traditional wedding celebration. Expenditure on the products sold by the Bridal Stores industry is therefore expected to have fallen as couples postpone their wedding celebrations until guests are able to attend. Consequently, industry revenue is projected to decline by 48.5% in 2020-21.

The industry is highly reliant on sales of expensive, high-margin goods to support its profitability, so reduced demand is expected to cause profit to fall sharply in 2020-21, to just 0.3% of revenue. At the same time, employment numbers are expected to drop as weak in-store traffic reduces the need for staff.

UK Marriage Rate

The number of persons marrying per 1,000 people.



Outlook for COVID-19 Restrictions

Following 23 March 2020, when the United Kingdom entered into a lockdown with people only allowed to leave their home for limited reasons and non-essential businesses told to close their doors, public health restrictions pertaining to the UK market were gradually relaxed to allow economic activity to resume. However, in some regions, restrictions have been reinstated and or restructured in response to a resurgence in coronavirus cases.

The devolved nations of the United Kingdom have taken different approaches with restrictions varying from country to country, though local lockdowns have occurred in each country. In England, a range of general public health restrictions are in place. For instance, social distancing guidelines remain in place to reduce social contact; face coverings must be worn in shops, on public transport and when moving around hospitality establishments, unless exempt for medical reasons; gatherings between people remain limited to six or less; hospitality establishments must abide by a 10pm curfew; and people must self-isolate if they enter the United Kingdom from countries not specified on the list of travel corridors.

On 14 October 2020, rules based on new Local COVID Alert Levels were applied in England, setting out information for local authorities, residents and workers about what to do and how to manage an outbreak in their area. To ensure the correct levels of intervention in the right places to manage outbreaks, this system is split into three tiers: tier 1 has a medium alert level, tier 2 high and tier 3 very high. Areas in tier 1 must abide by national restrictions while tiers 2 and 3 include further restrictions. For example, people in tier 2 areas are not permitted to socialise in any indoor setting with anybody outside their household or support bubble, and in regions where the risk level is very high, pubs and bars are closed, though establishments serving meals are permitted to remain open.

However, due to a resurgence in coronavirus cases and associated deaths, on 31 October the Prime

Minister announced that England was to again enter into lockdown on 5 November for a period of four weeks, similar to the 17-day ‘fire break’ lockdown put into place in Wales from 23 October. Non-essential shops have again been instructed to shut while pubs and bars must also close their doors to customers, though takeaway services are permitted to continue. However, unlike the initial lockdown, schools, colleges, universities, and workplaces where employees cannot work from home, such as construction and manufacturing facilities, are allowed to remain open. It is expected that England will re-enter the Local COVID Alert Levels system when the second lockdown ends.

The timeline for how long coronavirus restrictions will remain in place, and in turn the timeline for when economic activity will fully resume, will ultimately be determined by the rate and trajectory of confirmed coronavirus cases. Though it is difficult to forecast when the coronavirus will no longer be a threat to public health, the effects of efforts to mitigate its spread are expected to determine if and when the economy recovers.

If the number of confirmed cases drops, public health restrictions are expected to be relaxed; in turn, the easing of restraints on the movement of people and business activity should kickstart an economic recovery. Alternatively, if case numbers are unable to be brought under control, the recovery of the economy will likely depend upon an effective COVID-19 vaccine being made available. Meanwhile, the end of the UK’s transition period with the European Union, currently set for 31 December 2020, and the nature of trade agreements reached will also influence the UK’s economic performance.