

# Economy in brief

For CEOs, FDs, and business leaders

Your monthly overview of the major trends impacting the UK's main business sectors

February 2020



## Employment

(Sep '20 – Nov '20)

75.2%



## Unemployment

(Sep '20 – Nov '20)

5.0%



## Productivity growth

(Output per hour, Q3 2020 on a year ago, flash estimate)

+3%



## Real wage growth

(Sep '20 – Nov '20 on a year ago)

+2.8%

## Of lockdowns and Brexit

It's not quite been the start to the year that we had been hoping for, to put it mildly. A lockdown in January is a very different beast. Still, the economic hit from this lockdown will be milder than the original: more of the economy has remained open – such as manufacturing and construction, but also cafes for takeaways. And we're all a bit more used to the rigmarole of home working and home schooling. But, with deaths now having surpassed 100,000, and the latest virus variant in the UK judged to be more dangerous than the original, it remains hard to judge when the worst will be behind us. Meanwhile, companies are now starting to experience the reality of the UK's new trading relationship with the EU.

## The UK's been hit harder by COVID-19 than other countries

The IMF recently published its spring World Economic Outlook update. The UK's longer lockdowns and extensive school closures, coupled with a higher weight of consumer-facing industries, and complicated by a different approach to the measurement of health and education output, have left it one of the worst performing advanced economies in 2020.

But there are grounds for optimism once lockdown begins to ease. From our observation of the UK's economic performance during the ebb and flow of lockdowns over the past year, we have seen the responsiveness of consumer spending in operation. As the economy reopened during the summer, retail sales recovered such that they'd exceeded February's pre-pandemic levels by July. Meanwhile, the UK's been a global leader when it comes to vaccine rollout so far, and this gives grounds for hope that the infection may be brought under control in 2021, allowing for a more sustained re-opening.

But companies are struggling to ride the tide of restrictions, and this is now coupled with increasingly apparent disruptions from Brexit. The most recent labour market data saw redundancies rise to a record rate of 14.2 per thousand in the quarter to November, despite the ongoing support from the Job Retention Scheme (JRS), while the unemployment rate picked up to 5.0% – the highest since 2016. And we're seeing more and more reports from companies of difficulty trading with the EU – from rules of origin, and daily changes in approach, to the necessary forms not yet existing.

## Reopening the economy

Support from the government and the Bank of England has been vital during the pandemic. It's why the rise in unemployment so far has been modest by historical standards and we have yet to see a material rise in company insolvencies. But with uncertainty stretching ever onward, companies need the comfort of knowing that support will sustain them through to the reopening and clarity over the phasing and timing of the reopening. That's why the CBI has called for support to be extended further and for the government to work with business to plan for reopening the economy.

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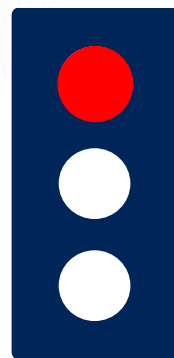


# Round-up of CBI January surveys

## CBI growth indicator: red

Private sector activity fell at a broadly similar pace to the previous month. Within this, manufacturing activity was broadly flat, business & professional services activity fell at a slower pace, and consumer services saw a similar pace of decline. Distribution volumes fell after being broadly flat last month. Private sector activity is expected to decline at a sharper pace in the three months ahead.

# -18%



### Past three months\*



## -14%

Retail, wholesale and motor trades\*\*



## -12%

Business and professional services



## +34%

Financial Services\*\*\*



## -59%

Consumer services



## -2%

Manufacturing

### Next three months\*



## -45%

Retail, wholesale and motor trades\*\*



## -6%

Business and professional services



## +39%

Financial Services\*\*\*



## -79%

Consumer services



## -24%

Manufacturing

## Growth indicator: sector detail

Manufacturing output was broadly flat in the quarter to January after falling in the previous rolling three-month period. Manufacturers expect a return to negative growth next month.

Distribution volumes fell after broadly unchanged volumes last month. Within this, retailers and motor traders reported falling volumes while wholesalers reported the second consecutive month of growth. In the coming three months, each sub-sector expects a decline in volumes.

Business volumes across the service sector fell at a gentler pace in the three months to January, driven by business & professional services. Consumer services saw volumes fall at a similarly significant pace to last month. Both sub-sectors expect a deterioration in the next three months.

\*Figures are percentage balances — i.e. the difference between the % replying 'up' and the % replying 'down'.

\*\* CBI Growth Indicator uses three-month-on-three-month growth, rather than year-on-year as used in the Distributive Trends Survey

\*\*\* Financial services are not included in the composite; the latest survey was December 2020.