

**Cranfield**  
School of  
Management

# Outlook for the UK and Global Economy - Post Pandemic

Joe Nellis  
Professor of Global Economy

 **mha**  
MACINTYRE HUDSON

An independent member of  
 **bakertilly**  
INTERNATIONAL



Winner of:

- National Firm of the Year
- Tax Team of the Year
- Graduate and Non-Graduate Programme of the Year

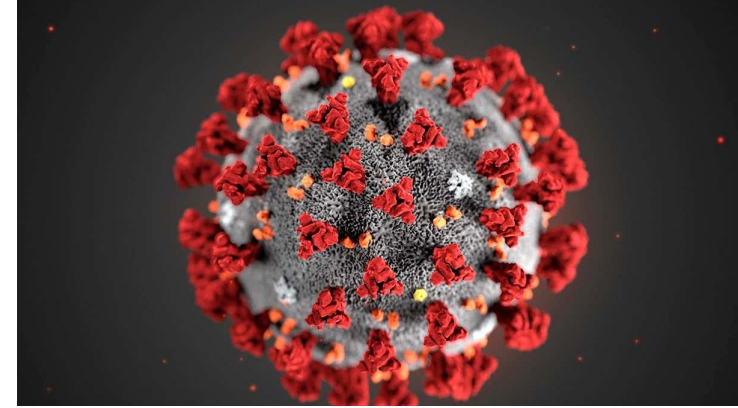
2020 Accountancy Age  
Resilience Awards winner:  
Best Advisory Services

**“Prediction is very difficult, especially if it's about the future”**

**Neils Bohr, Nobel Laureate (1922)**



# Economic Shocks of COVID-19 Crisis



## Global Supply-Side & Demand-Side Shocks

### Supply-Side Shocks

- Disruption in global supply chains
- Decrease in available labour supply:
  - Quarantine
  - Social distancing
  - Lockdowns
- Fall in business confidence

### Demand-Side Shocks

- Fall in consumer confidence coupled with uncertainty about:
  - The disease
  - Success of economic policies
- Loss of income for some workers
- Increase in precautionary savings
- Fall in investment spending

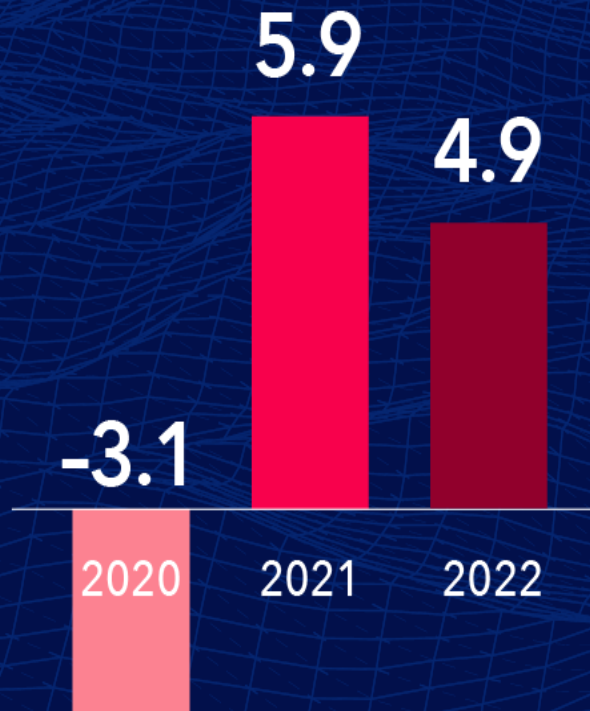


**Light at the end of the Tunnel!**



# Global Growth Forecasts

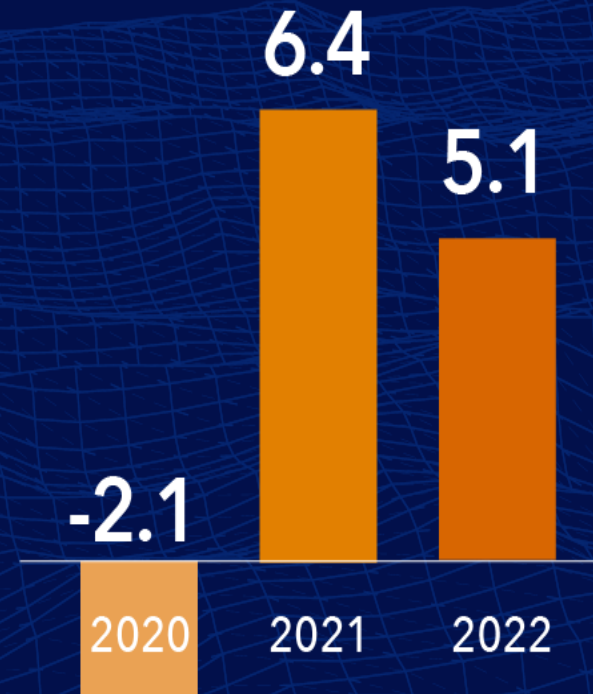
## GLOBAL ECONOMY



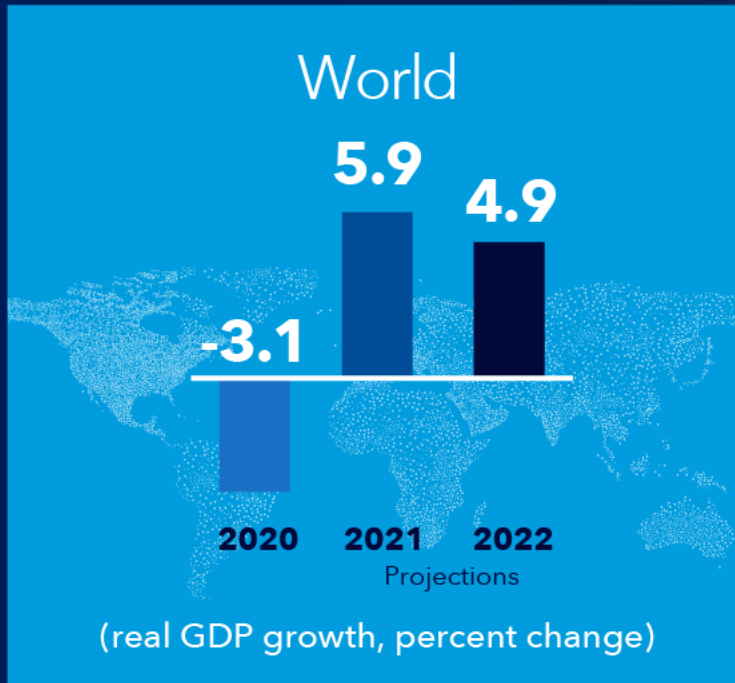
## ADVANCED ECONOMIES



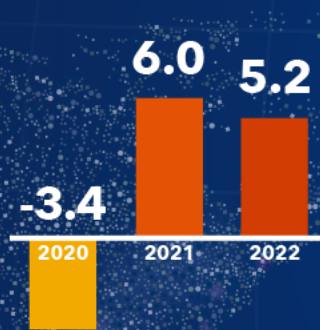
## EMERGING MARKETS & DEVELOPING ECONOMIES



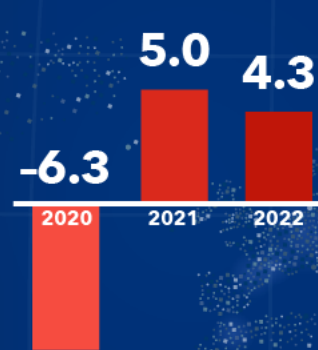
# Regional Growth Forecasts



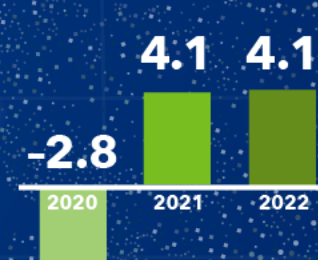
## UNITED STATES



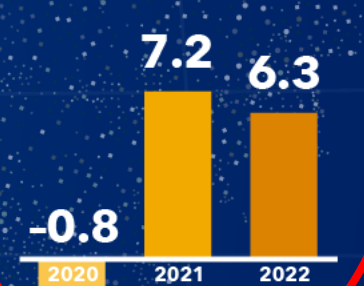
## EURO AREA



## MIDDLE EAST AND CENTRAL ASIA



## EMERGING AND DEVELOPING ASIA



## LATIN AMERICA AND THE CARIBBEAN



## SUB-SAHARAN AFRICA



Source: IMF, *World Economic Outlook*, October 2021.

Note: Order of bars for each group indicates (left to right): 2020, 2021 projections, and 2022 projections.

# Changing 'Spheres of Influence'?



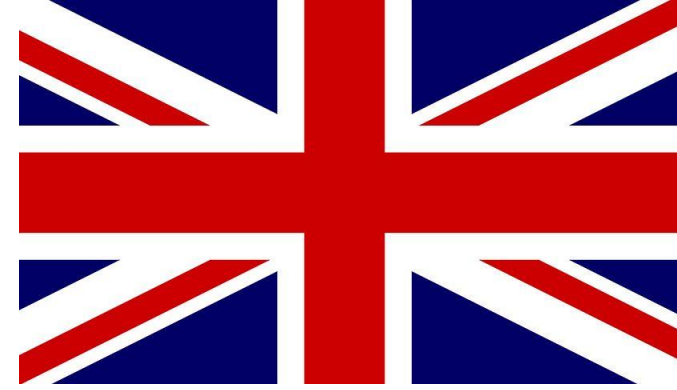
**USA**

**EU**

**China  
(& Russia)**

**Implications for:  
Balance of power?      Trade relationships?**

# Update on the UK Economy

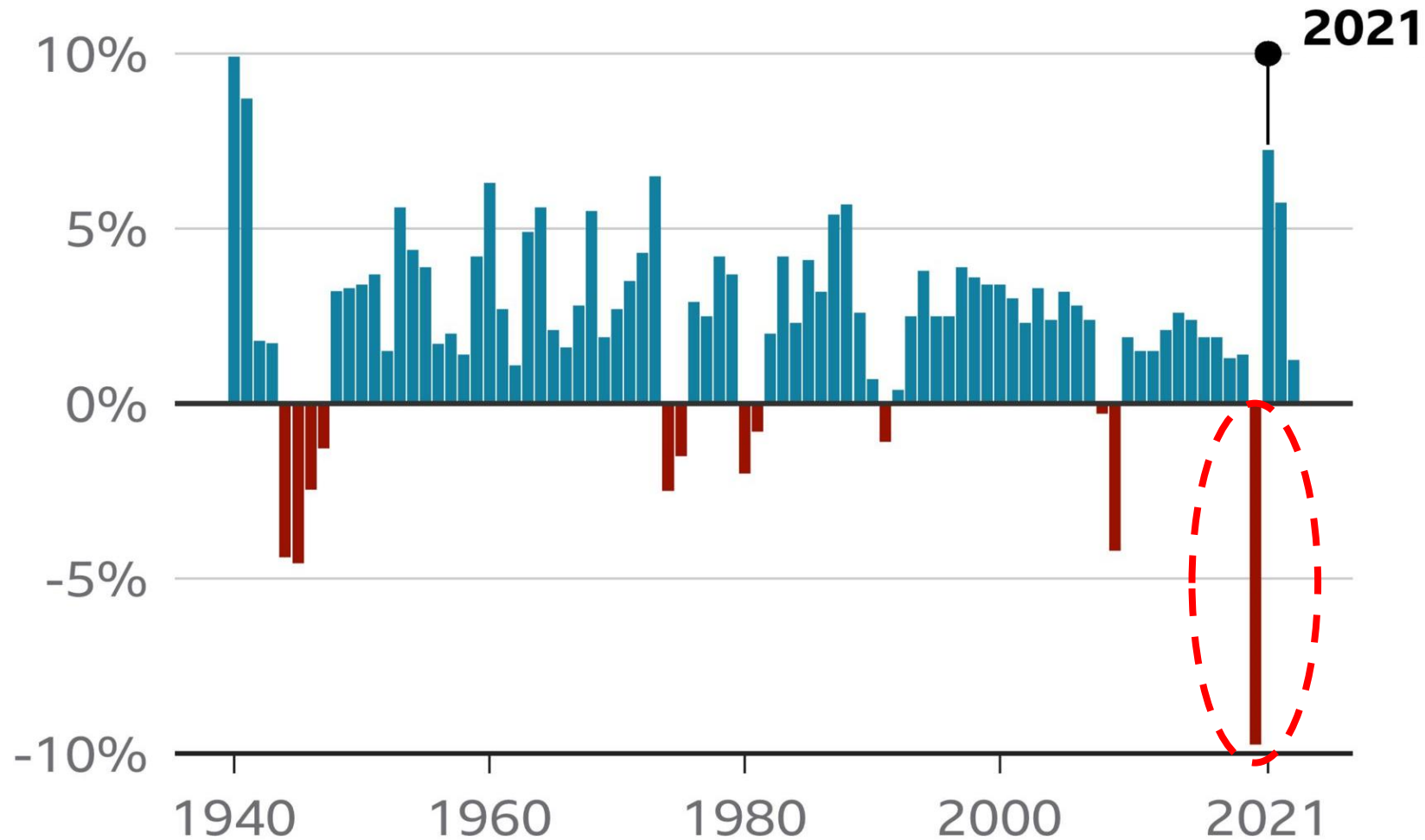
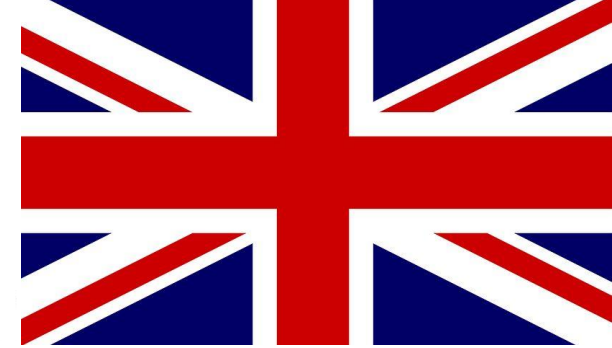


- **Economy contracted by nearly 10% last year - biggest fall in 300 years!**
- **V-shaped rebound in 2021– but Q3 GDP growth at 1.3% was disappointing**
  - **GDP growth of 6.5% in 2021 and 6.0% in 2022**
  - **But only back to pre-pandemic situation by early 2022**
- **Bounce-back reflects resilience of economy & labour market as well as:**
  - **Success of the vaccination programme**
  - **Consumer & business-led innovation**
- **But recovery will slow sharply: 2.1% in 2023, 1.3% in 2024 and 1.6% in 2025**



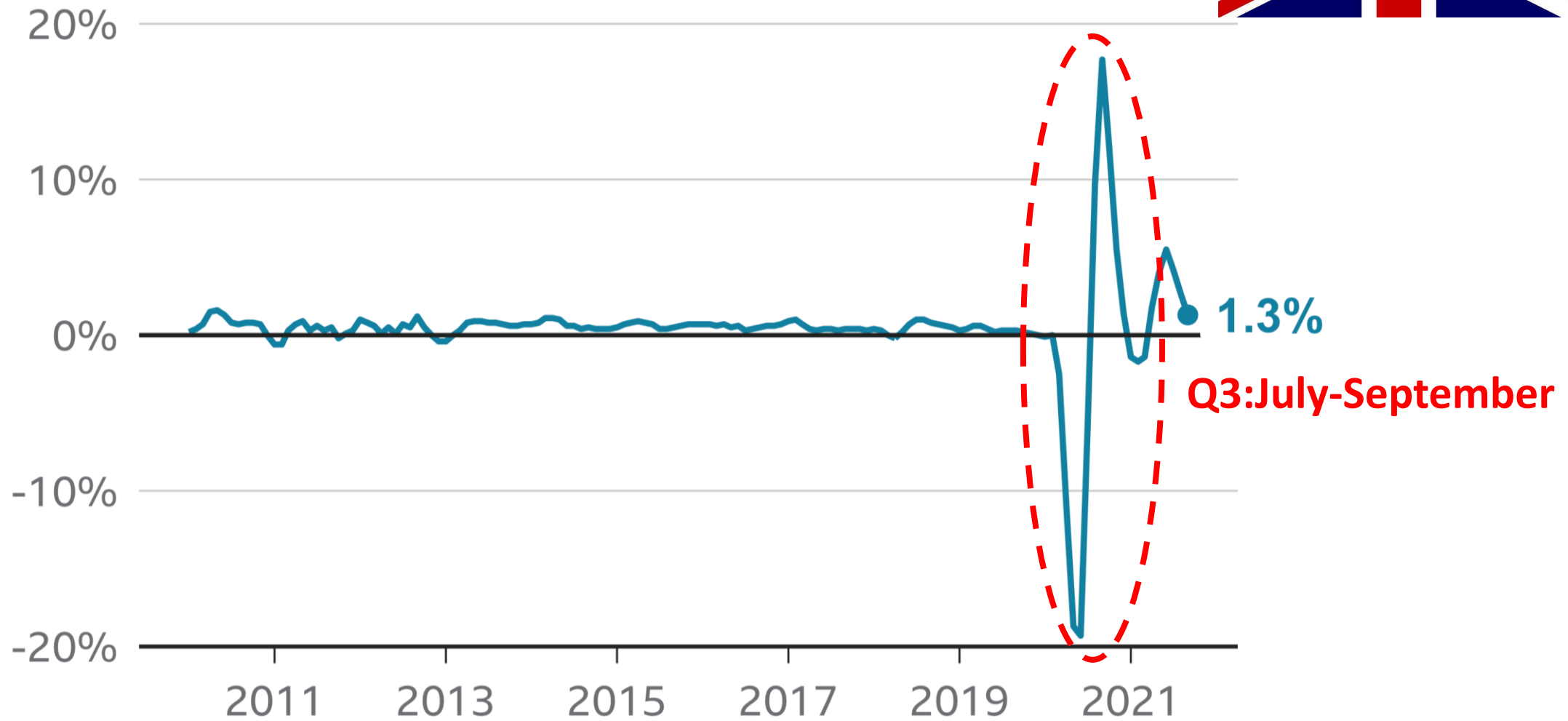
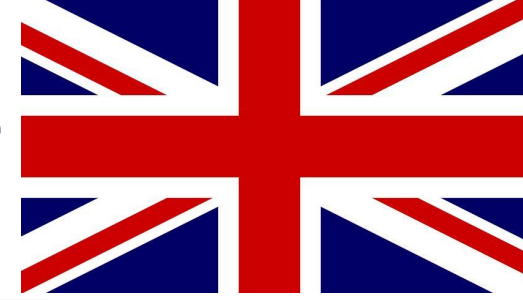
# Historical UK Annual Growth

## Yearly GDP Growth, %



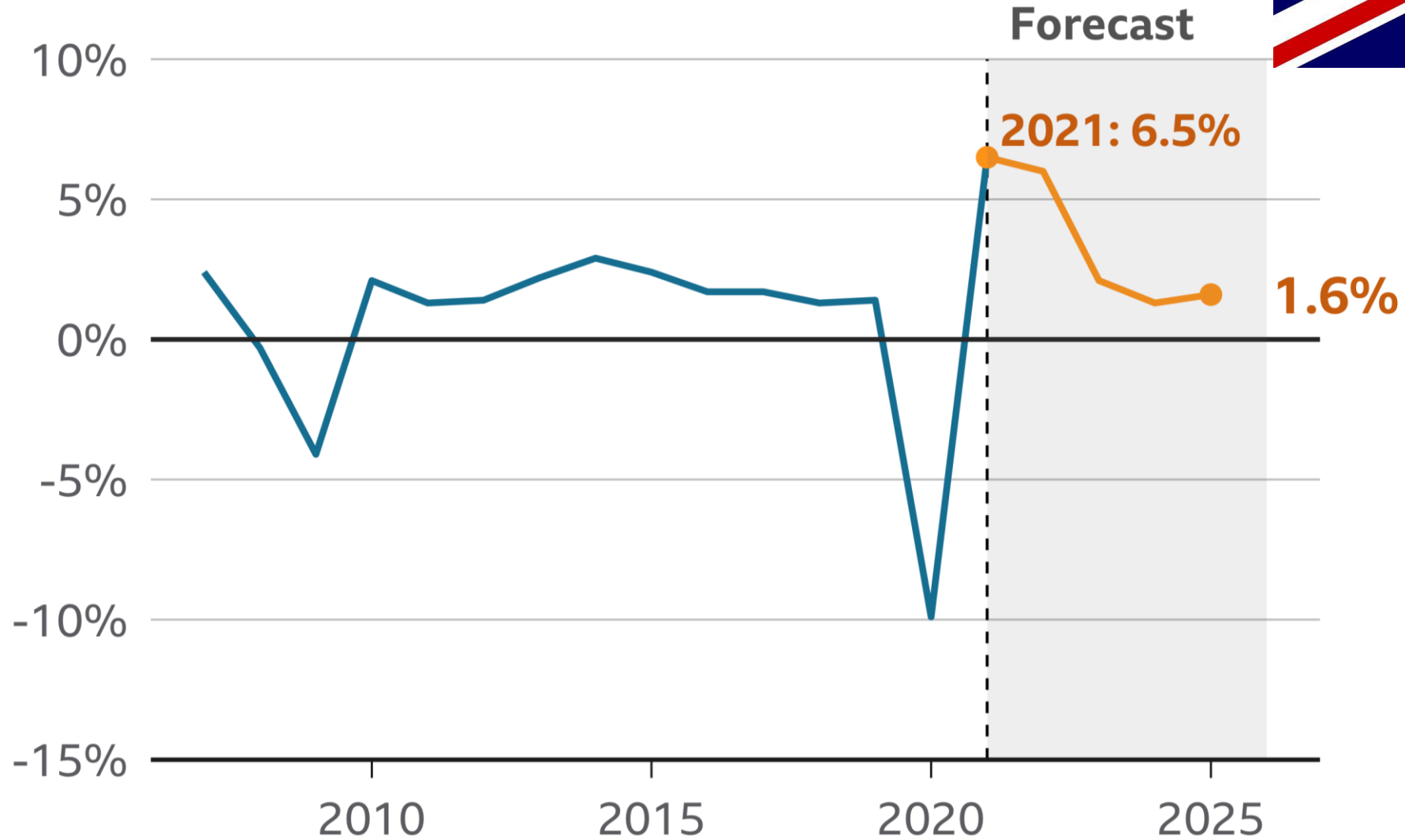
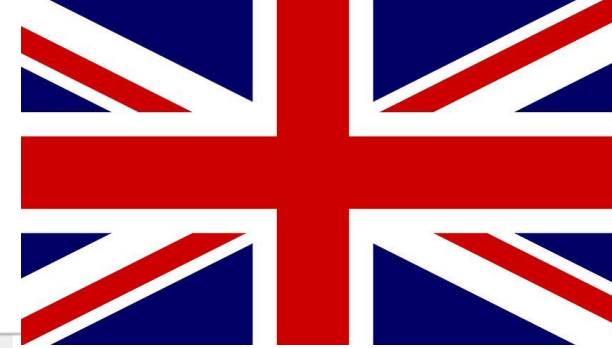
Source: Bank of England (estimates prior to 1949)

# UK GDP Growth - 3-month rolling average



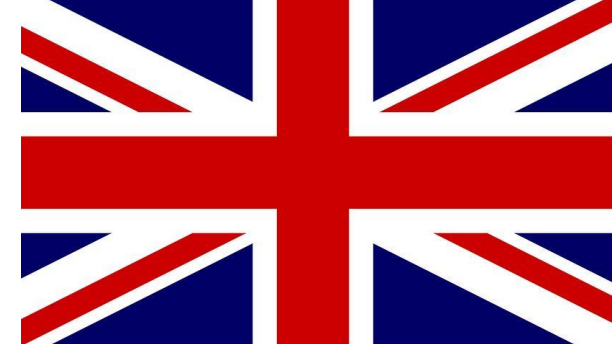
Source: Office for National Statistics

# UK Annual Growth Forecast



Source: Office of Budget Responsibility

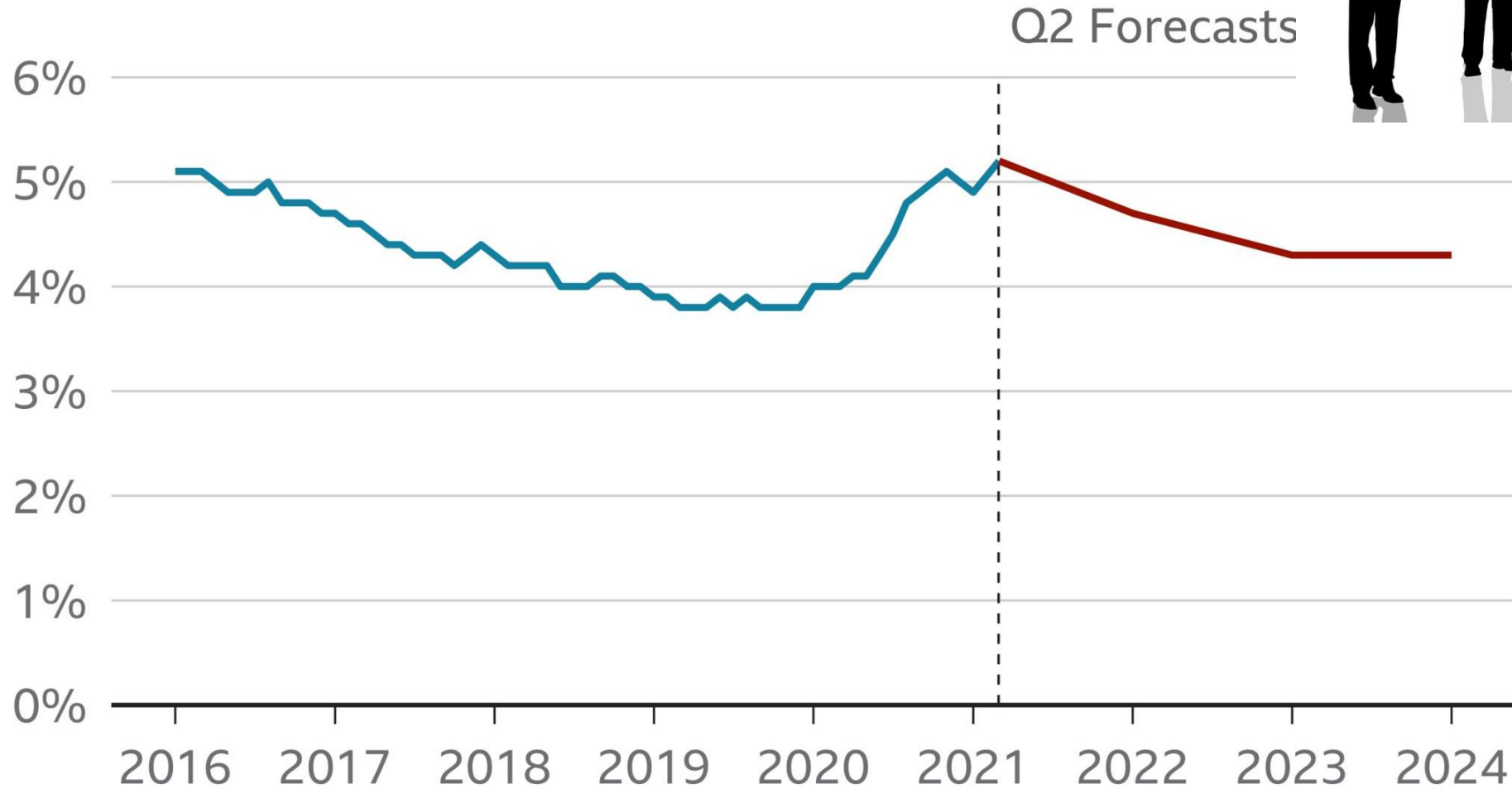
# Outlook for the UK Economy



- Unemployment is now at 4.3% - much better than had been expected
  - **And is likely to peak at just over 5%**
- Extra government spending has helped to limit job losses
- But labour shortages creating challenges:
  - **Capacity to satisfy demand and to grow**
  - **Inflationary pressures (a wage-price-wage spiral...)?**
- And long-term unemployment is at its highest rate since 2016
  - **Possible 'scarring effect' of the pandemic?**

# UK Unemployment Forecast

(% of economically active people aged 16-64 unemployed)



Source: Bank of England

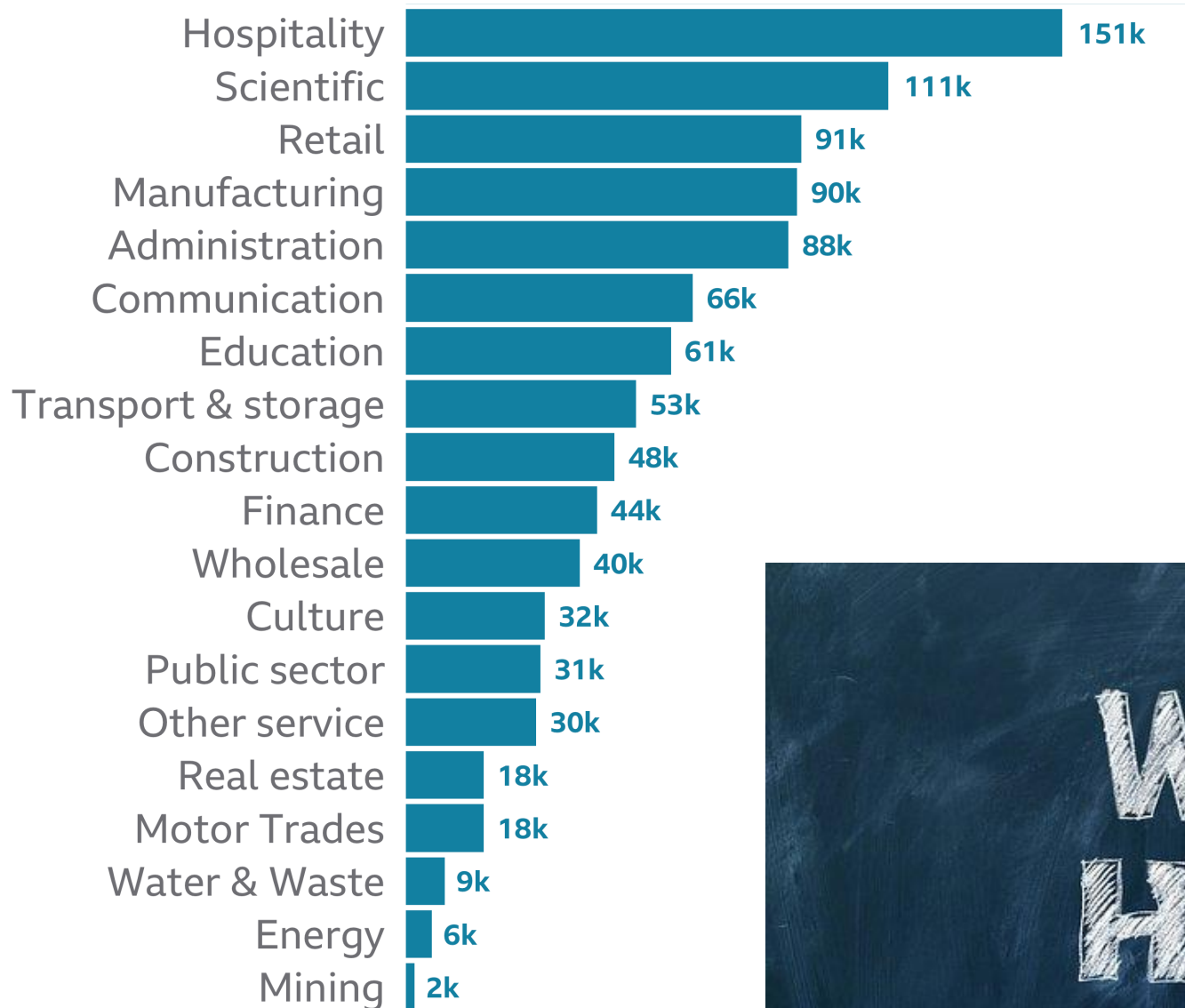
# UK Job Vacancies at Record High

Total number of job openings in the UK



Source: Office for National Statistics

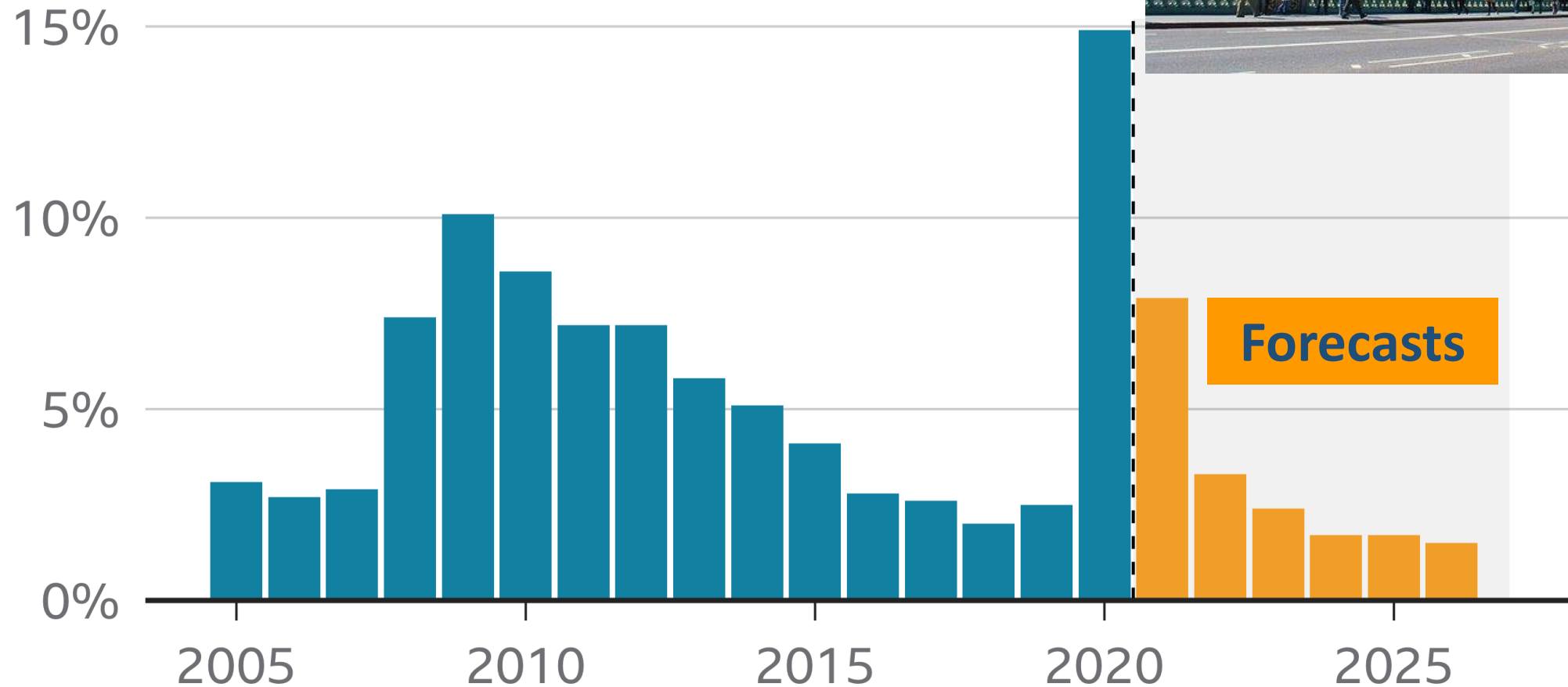
# Who's Hiring? Job vacancies by sector, August to October 2021



Source: Office for National Statistics



# UK Public Sector Borrowing (% of GDP)

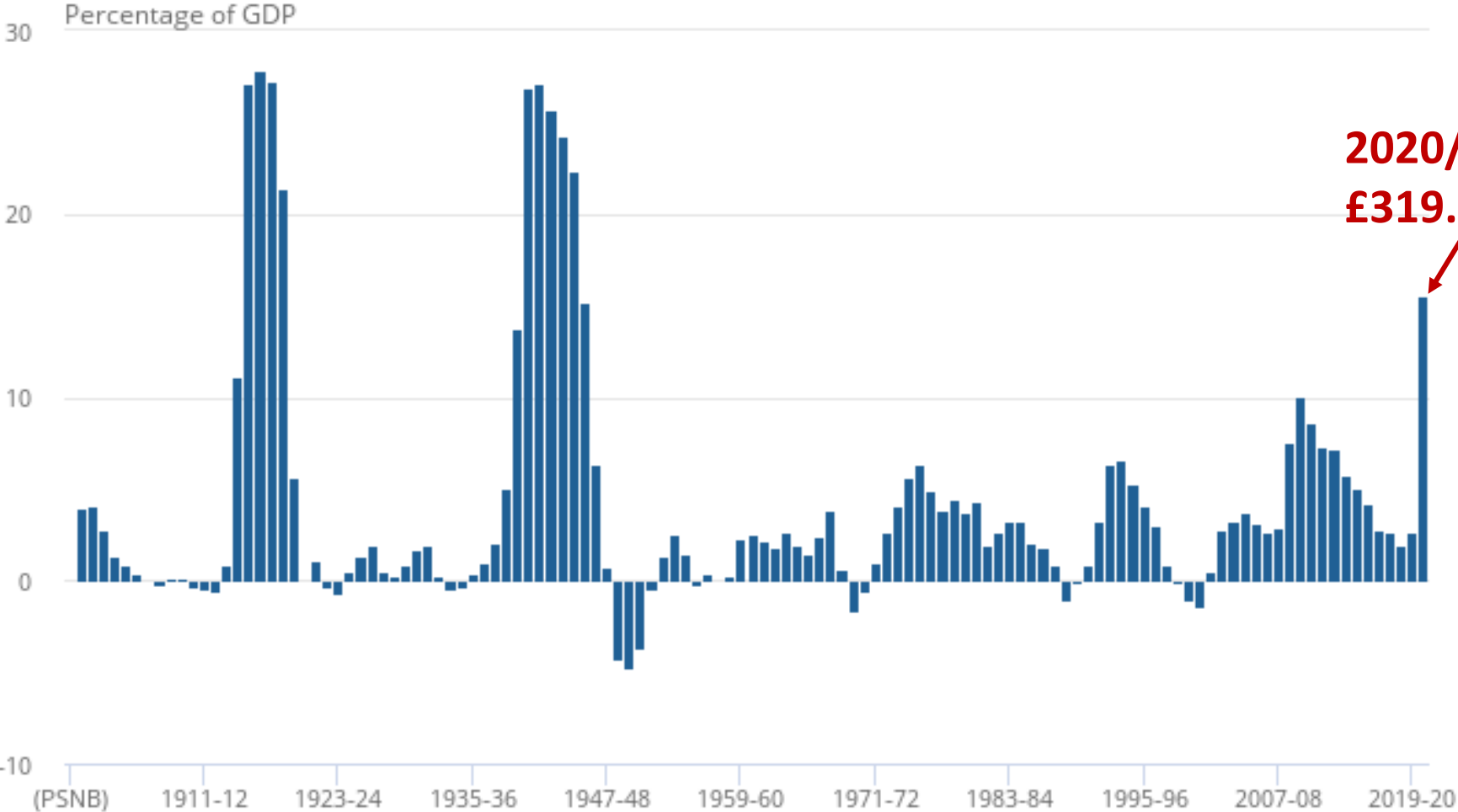


Source: Office for Budget Responsibility



# Annual UK Public Sector Net Borrowing - History

## Excluding public sector banks



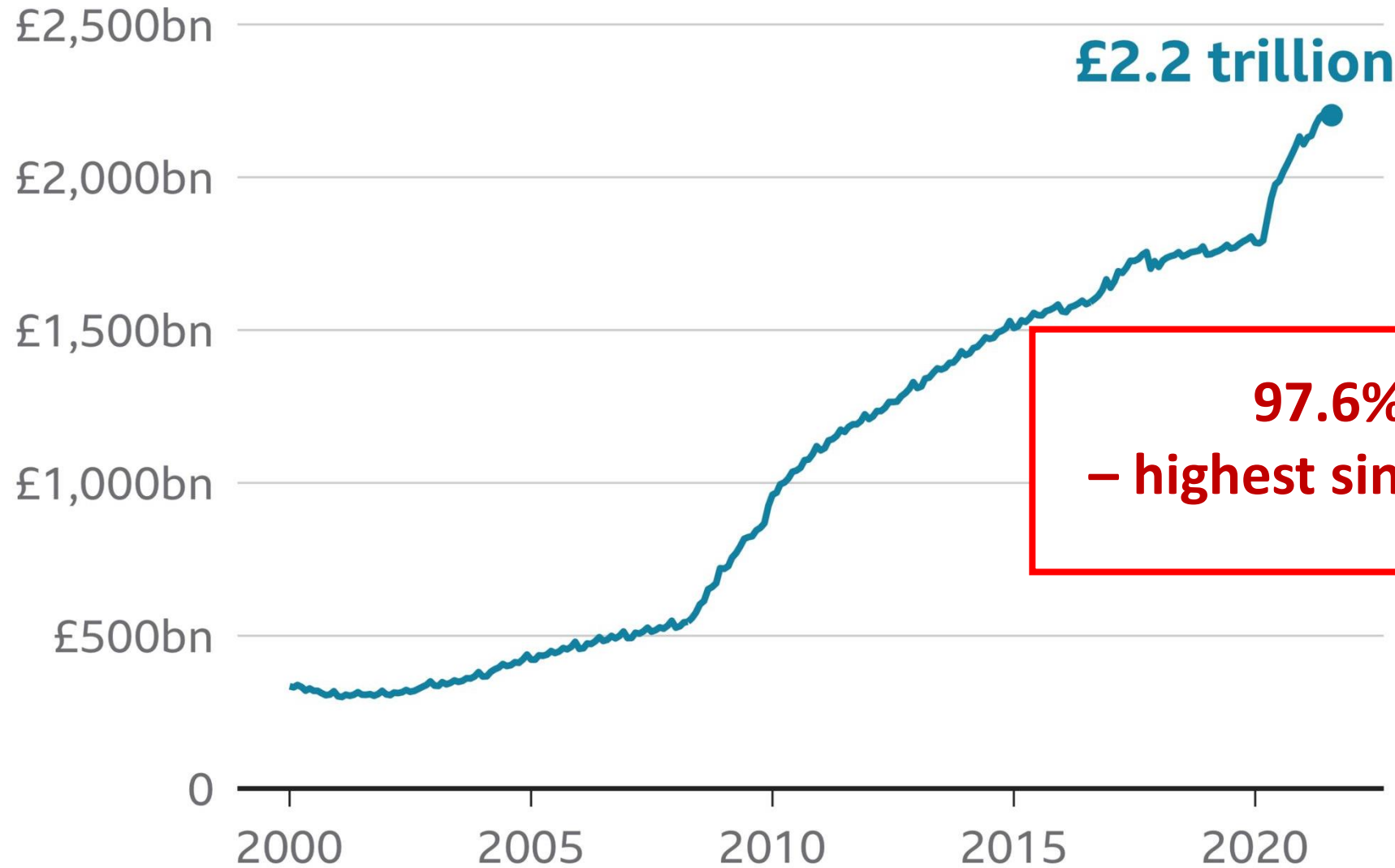
2020/21 financial year:  
£319.9bn



Source: Office for National Statistics and Office for Budget Responsibility

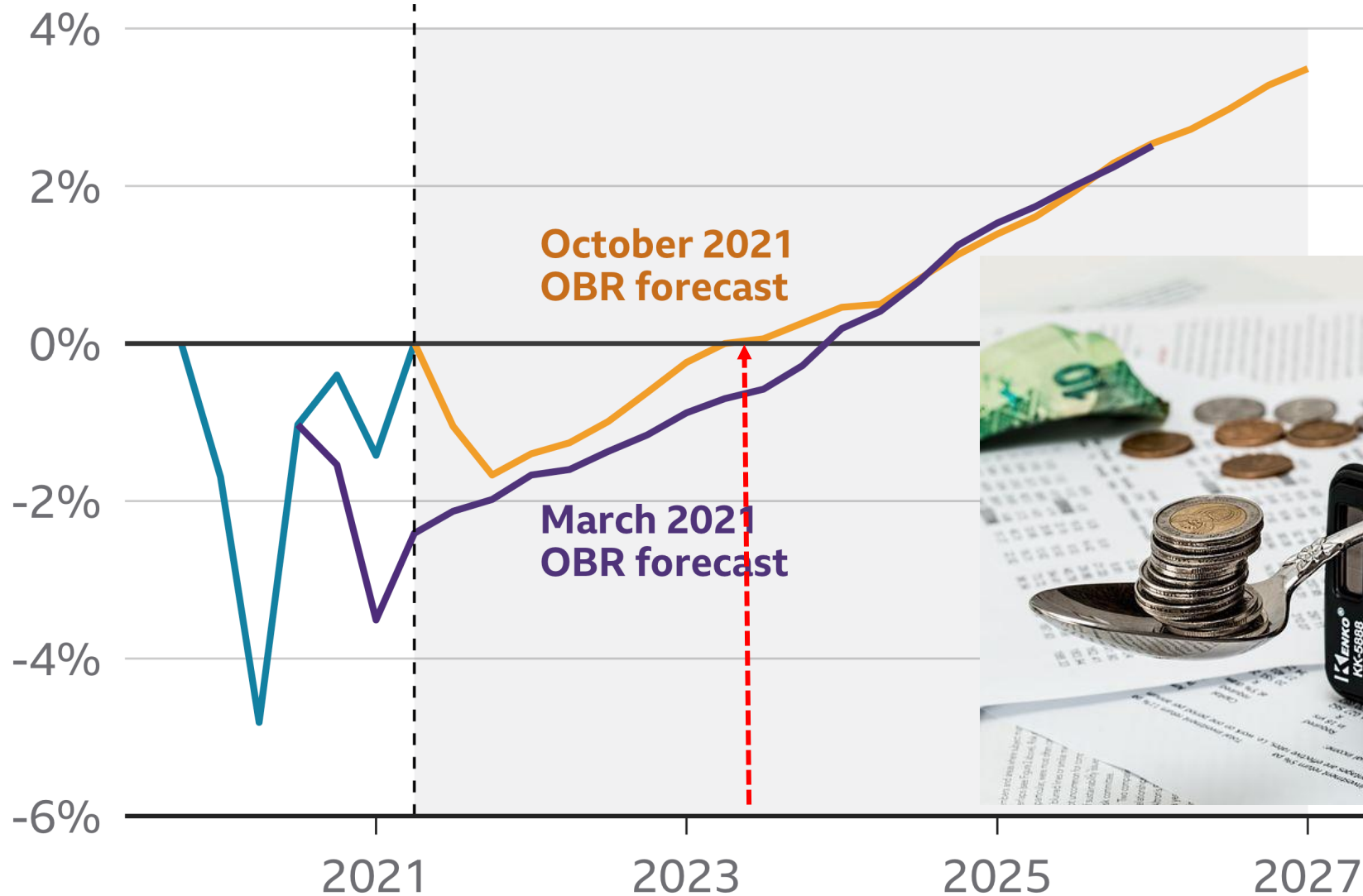
# Total UK Public Sector Net Debt

## Excluding public sector banks



# Disposable Income – Slow Recovery!

## Changes in household income after taxes and price rises



Source: Office for Budget Responsibility

# Monetary Policy

- **Monetary policy has supported recovery with:**
  - **QE and Base Rate (at a record low of 0.1%)**
- **Interest rates on hold....for now!**
  - **But will only rise very slowly...hopefully**
  - **Fine balance between inflation V economic recovery**



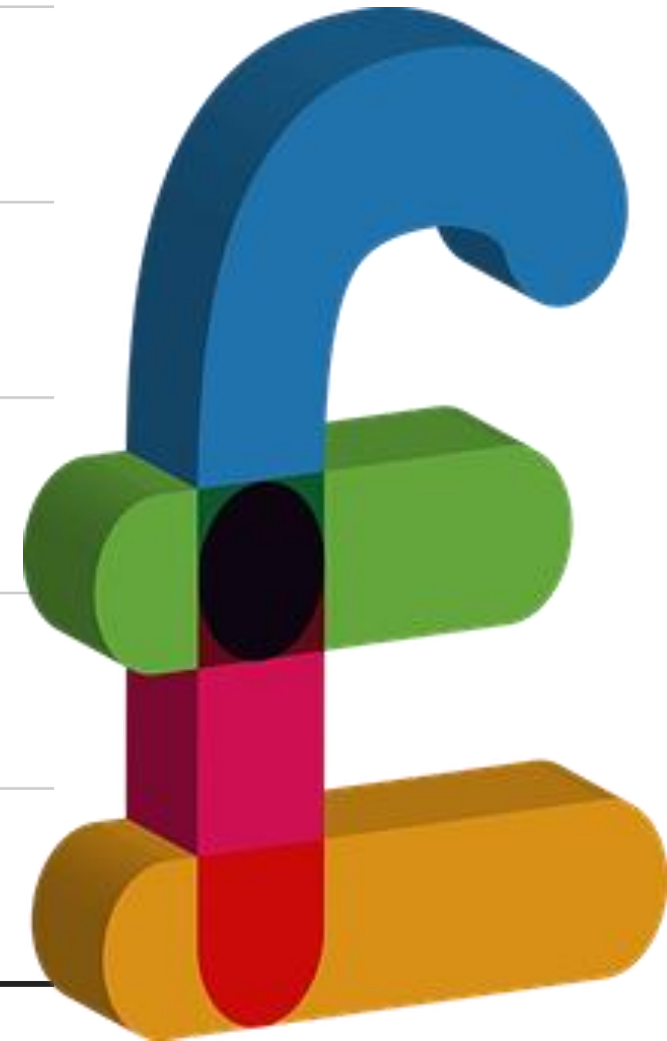
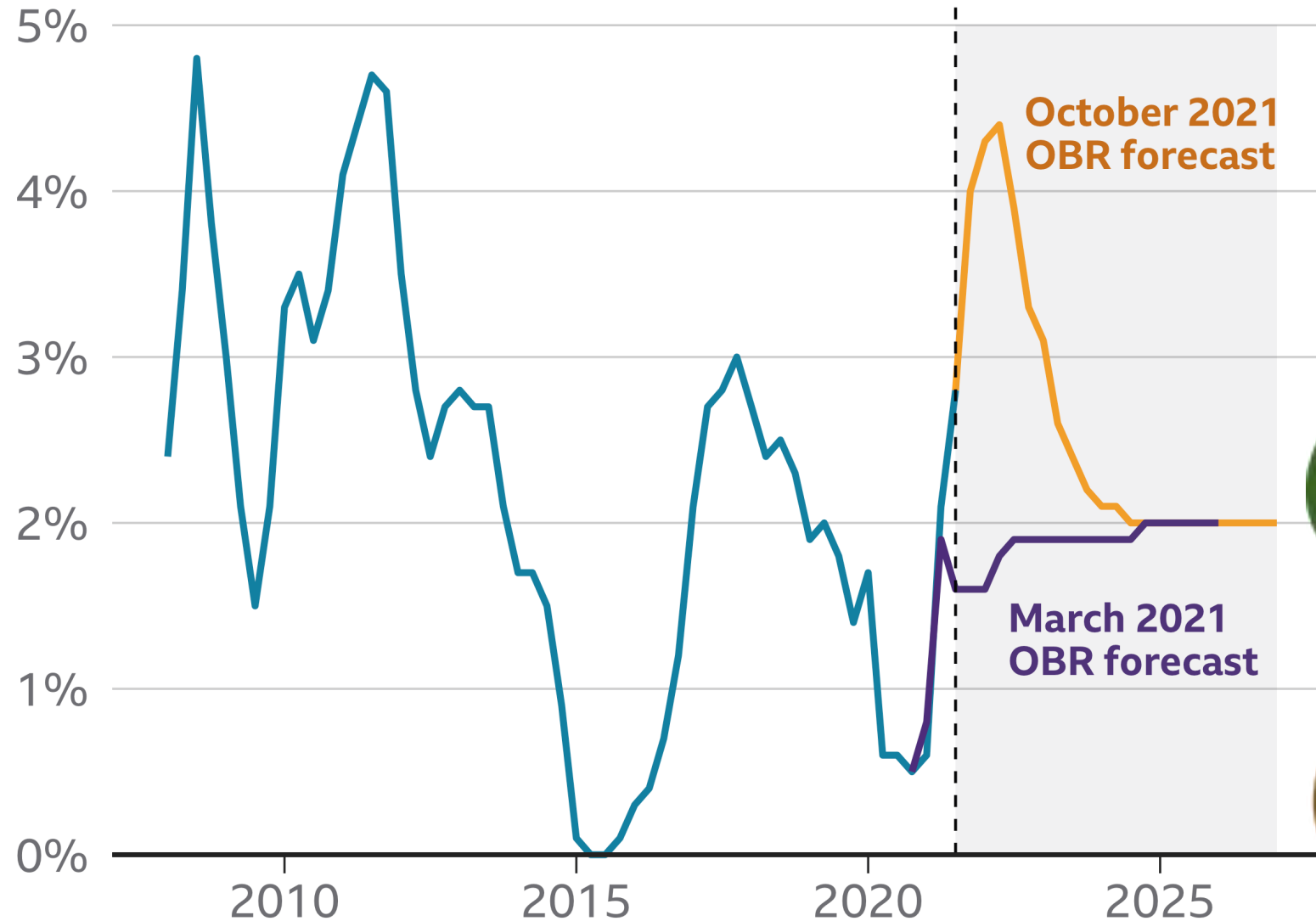
‘The MPC ‘does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably’

(Bank of England, August 2020)

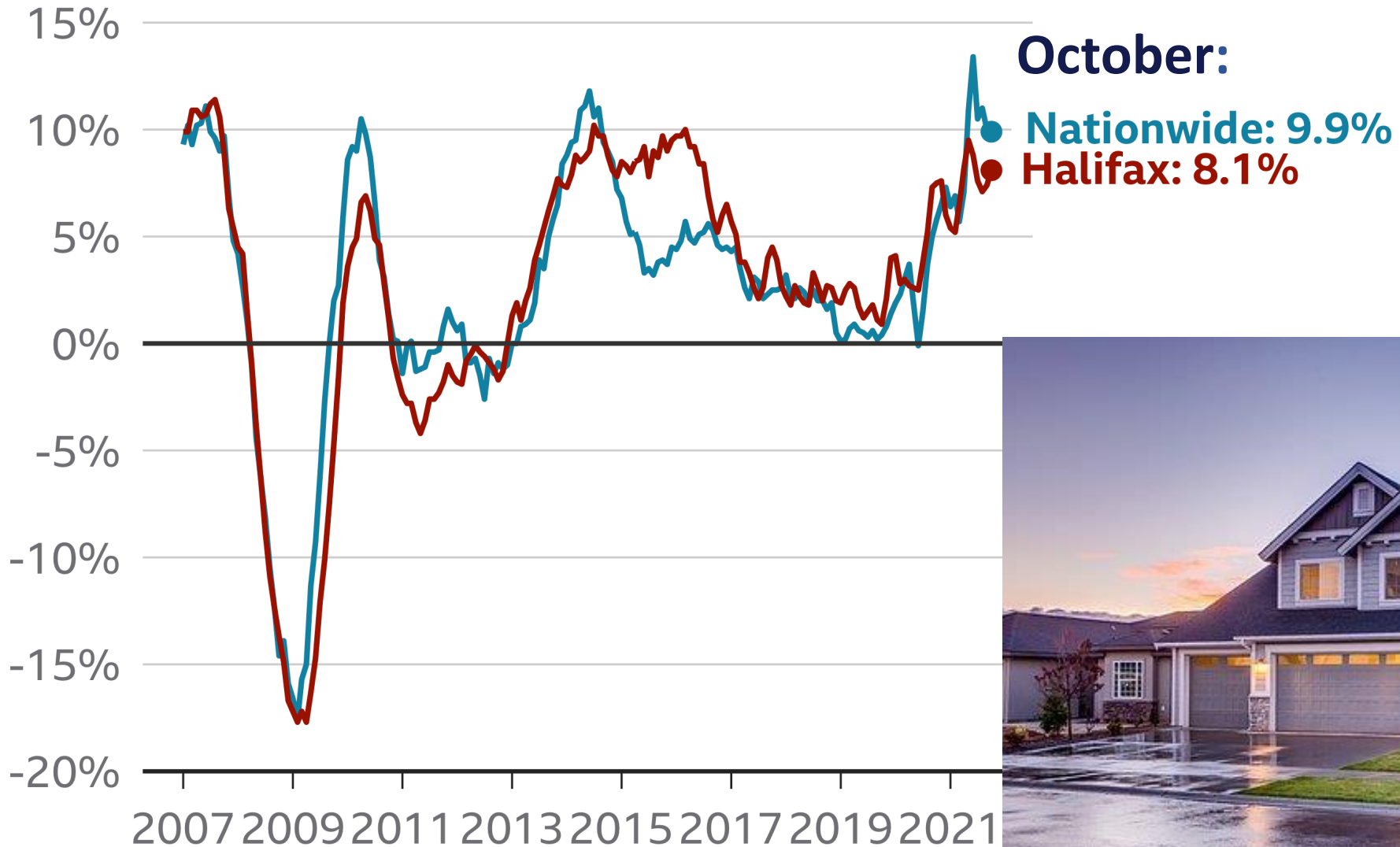
Next MPC meetings:

- 16 December
- 3 February

# UK Inflation Projections – Consumer Prices Index (OBR)



# UK House Price Inflation (year-on-year % change)

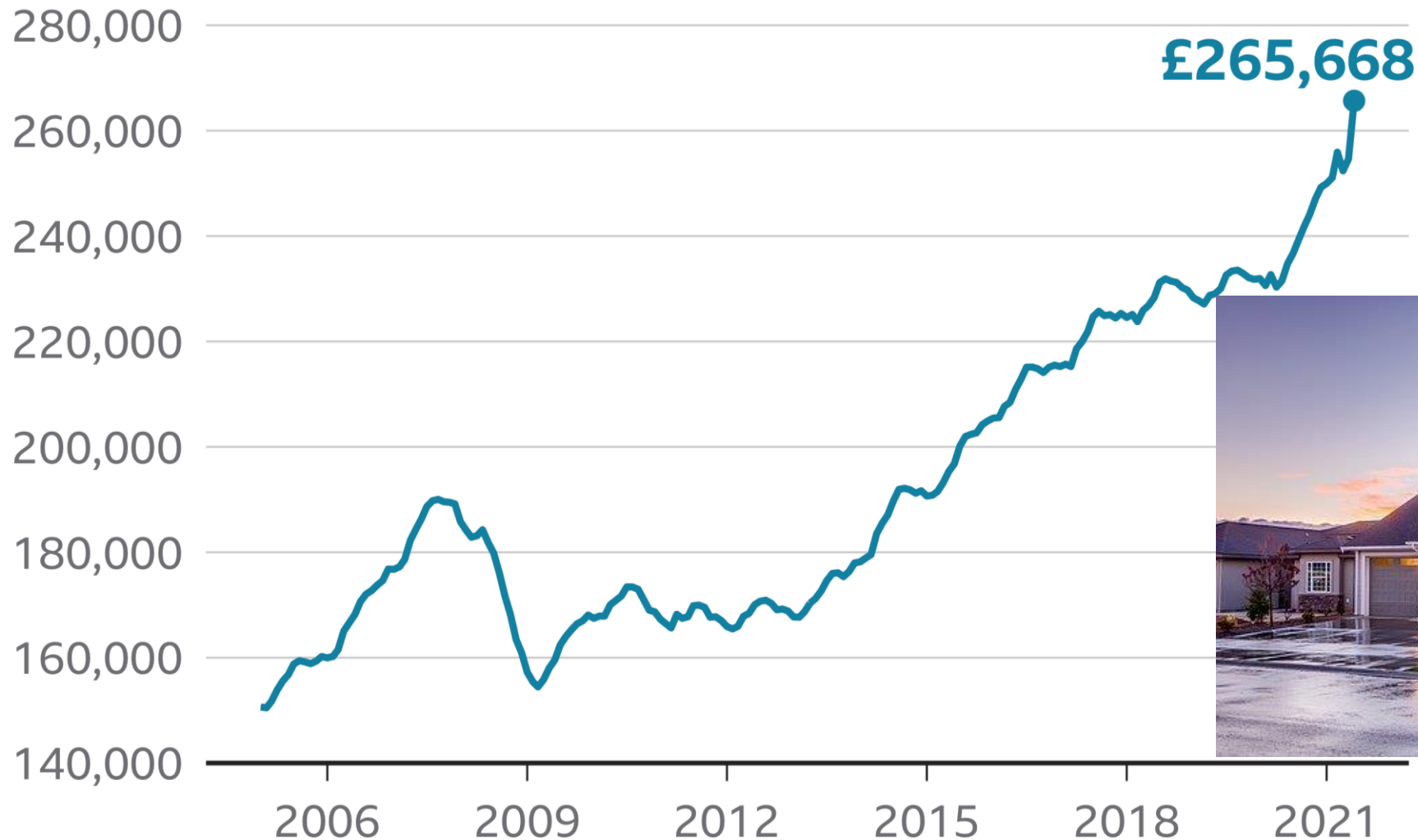


Source: Nationwide, Halifax



# UK House Prices Have Soared!

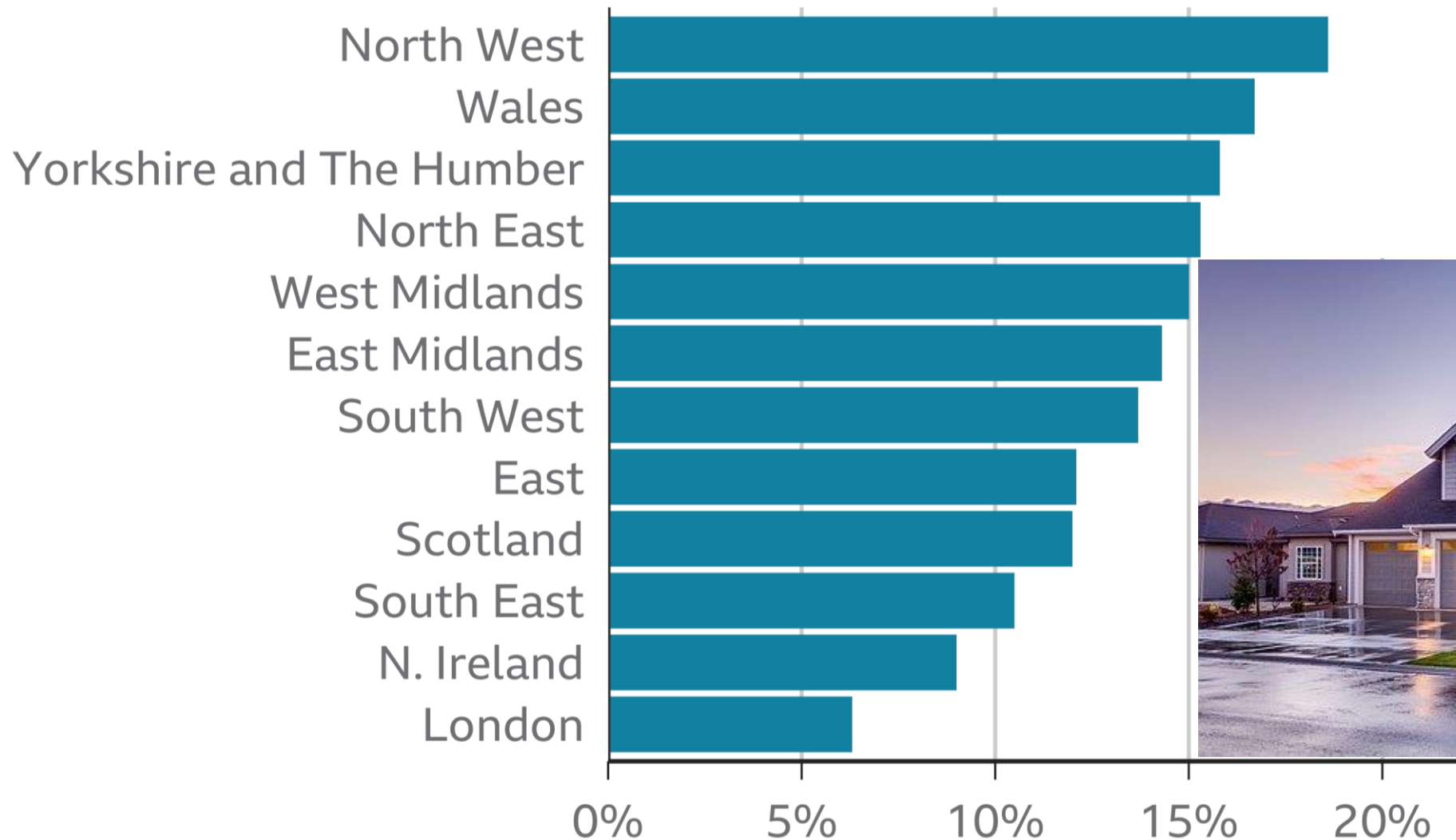
(Average UK house price £)



Source: Office for National Statistics, HM Land Registry

# Regional House Price Inflation

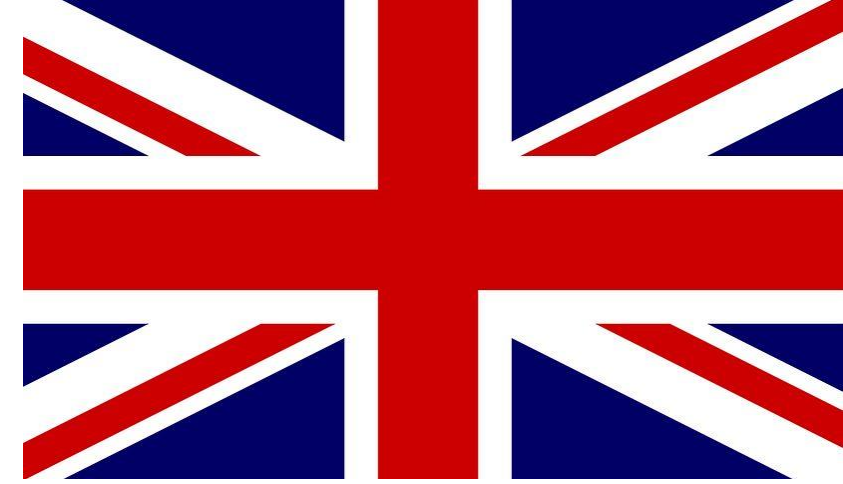
(Year-on-year percentage change)



Source: Office for National Statistics, HM Land Registry



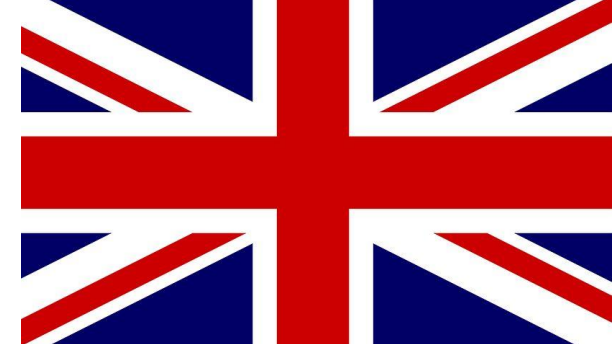
# Outlook for the UK Economy



- Consumer spending uplift likely to continue due to:
  - High household savings
  - More than £200bn in extra savings during the pandemic
  - Bank of England expects about 10% of this extra cash will be spent as economy returns to normal – a ‘multiplier effect’
- Business investment up due to March 2021 Budget’s ‘super deduction’ in form of a first-year relief of 130% on capital spend from 1 April 2021 to 31 March 2023 – but much more is needed!

**Investment is the ‘Engine of Growth’**

# Challenges Ahead ....



**Social impact of  
the pandemic**

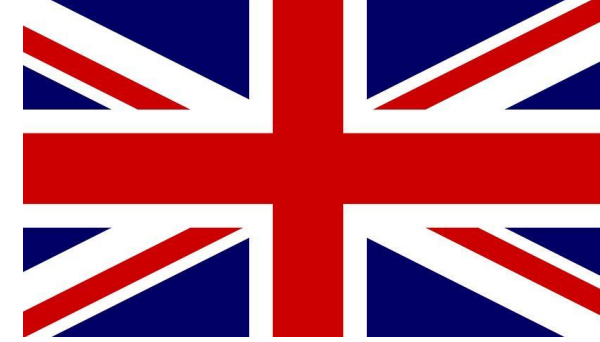
**NHS &  
Social Care  
Costs**

**Managing  
return to the  
office**

**'Levelling up'  
agenda**

**'Normalising'  
relationships  
with the EU**

# And Some Risks Ahead ....



Sluggish economic growth

Weaker business investment & low productivity

Rising inflation & interest rates

Cost of servicing government debt

Extent of 'scarring' effect

Supply chain bottlenecks & labour shortages

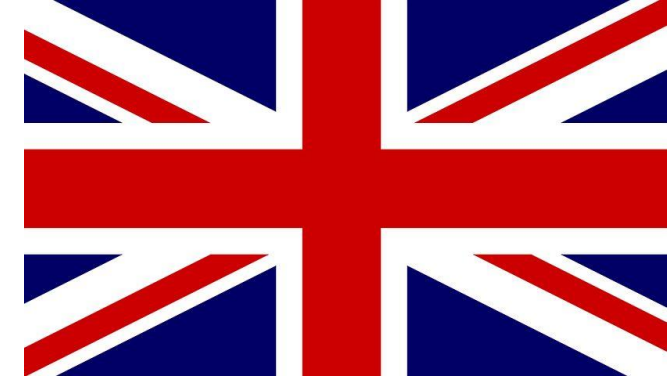
Future tax increases

New COVID variants?

Slow improvement in household finances

Trade Frictions with the EU

## In Conclusion....



**‘Adjustment to a post-COVID, post-BREXIT  
new normal will have economic costs  
that last into the long term’**

**Institute for Fiscal Studies**

