Forecast in detail

Fiscal policy

The immediate fiscal consequences of the coronavirus pandemic are likely to be greater than those of the financial crisis in 2008-09. This reflects both the damage to the economy from containment measures and the cost of government policies to support incomes. But with gilt yields close to record lows and demand for UK government debt bolstered by BoE purchases, the interest cost of a temporary surge in the deficit should be modest.

Even before the magnitude of coronavirus became evident, rising public sector borrowing had been on the cards. In his Budget of 11 March, the Chancellor, Rishi Sunak, announced a net fiscal loosening, accounted for entirely by extra spending, of £175bn over the five years from 2020-21. This was the biggest sustained fiscal loosening since the pre-election Budget of March 1992.

Around half of this increase was on investment spending, meaning that public expenditure on infrastructure will average close to the government’s self-imposed 3% of GDP cap over the next few years. Overall, the OBR forecast a deficit of 2.4% of GDP in 2020-21, up from 1.7% of GDP in the forecast made a year earlier.

But the consequences of coronavirus mean that this forecast is now of little more than curiosity value. Assuming containment measures are in place for three months, already-announced government fiscal support to the incomes and cashflows of households and firms is likely to cost at least £90bn or around 4% of annual GDP. If take-up of government schemes to subsidise the incomes of employees and the self-employed proves higher than we expect, this cost could be significantly more.

On the receipts side, a sharp decline in private consumption and taxable incomes will hit revenues from income tax, national insurance and VAT.

Overall, we think borrowing in the current fiscal year is now likely to run at around £220bn or 10.7% of GDP, above the previous post-war peak of 10.2% of GDP reached in 2009-10. But with a high degree of uncertainty over the intensity and duration of the pandemic and the resulting fiscal consequences, the risks around public finance projections are particularly high at present.

One silver lining in the fiscal outlook is the very low cost of borrowing presently faced by the government. Across all maturities, gilt yields are sitting close to record lows. In part, this reflects a consequence of the pandemic in driving a “flight to safety” among investors from risky assets like equities to assets perceived as safe, like government debt.

It is also reflects the BoE’s announcement on 19 March that it would buy £200bn of assets, of which at least half will be gilts, using newly created central bank reserves. The Bank has said that it will undertake more purchases if necessary. So the interest burden to the taxpayer from a temporary period of very high borrowing should be modest.
### Government Receipts

| Year   | 18-19 | 19-20 | 20-21 | 21-22 | 22-23 | 23-24 | 24-25 |
|--------|-------|-------|-------|-------|-------|-------|-------|
| Taxes on Income | 258.6 | 260.8 | 261.7 | 276.6 | 291.9 | 307.2 | 321.0 |
| Taxes on Expenditure | 250.4 | 253.1 | 233.9 | 259.9 | 269.9 | 278.6 | 288.0 |
| Council Tax | 35.1  | 36.9  | 38.7  | 40.3  | 42.0  | 43.7  | 45.5  |
| Social Security | 164.9 | 178.8 | 170.3 | 184.3 | 191.8 | 198.9 | 206.4 |
| Debt Interest | 23.7  | 23.8  | 24.1  | 24.3  | 24.5  | 24.4  | 24.2  |
| Other Receipts | 99.2  | 95.8  | 75.6  | 116.4 | 123.4 | 124.9 | 129.1 |
| Public Sector (£ billion) | 831.9 | 849.2 | 804.4 | 901.7 | 943.6 | 977.8 | 1014.3 |
| Current Receipts (% of GDP) | 39.9  | 39.2  | 36.3  | 42.2  | 40.5  | 40.3  | 40.4  |

### Government Expenditure

| Year   | 18-19 | 19-20 | 20-21 | 21-22 | 22-23 | 23-24 | 24-25 |
|--------|-------|-------|-------|-------|-------|-------|-------|
| Total Managed (£ billion) | 870.7 | 902.4 | 1031.3 | 992.6 | 1030.6 | 1064.5 | 1099.4 |
| Expenditure (% of GDP) | 41.7  | 41.7  | 46.5  | 46.4  | 44.2  | 43.9  | 43.8  |
| Public Sector (£ billion) | 776.8 | 802.3 | 918.1 | 868.0 | 900.0 | 928.1 | 958.6 |
| Current Expenditure (% of GDP) | 37.2  | 37.1  | 41.4  | 40.6  | 38.6  | 38.3  | 38.2  |
| Public Sector (£ billion) | 44.0  | 49.1  | 59.7  | 69.3  | 73.2  | 77.0  | 79.1  |
| Net Investment (% of GDP) | 2.1   | 2.3   | 2.7   | 3.2   | 3.1   | 3.2   | 3.2   |

### Government Borrowing

| Year   | 18-19 | 19-20 | 20-21 | 21-22 | 22-23 | 23-24 | 24-25 |
|--------|-------|-------|-------|-------|-------|-------|-------|
| Public Sector (£ billion) | 5.2   | -2.4  | -165.9 | -20.2 | -12.4 | -8.3  | -4.5  |
| Current Budget (% of GDP) | 0.3   | 0.1   | -7.5   | -0.9  | -0.5  | -0.3  | -0.2  |
| Public Sector (£ billion) | 38.9  | 51.5  | 225.6  | 89.6  | 85.6  | 85.3  | 83.6  |
| Net Borrowing (% of GDP) | 1.9   | 2.4   | 10.2   | 4.2   | 3.7   | 3.5   | 3.3   |
| Public Sector Net Debt (% of GDP) | 81.9  | 81.1  | 93.0   | 86.6  | 87.3  | 88.2  | 88.5  |
| Maastricht Measures |  |  |  |  |  |  |  |
| General Government (£ billion) | -38.8 | -53.2 | -226.9 | -90.9 | -87.0 | -86.7 | -85.1 |
| Financial Balance (% of GDP) | -1.9  | -2.5  | -10.2  | -4.3  | -3.7  | -3.6  | -3.4  |
| General Government Gross Debt (% of GDP) | 84.2  | 86.1  | 99.9   | 95.5  | 95.4  | 95.7  | 95.7  |
| Memo: OBR projections |  |  |  |  |  |  |  |
| Public sector current budget | 5.8   | 1.7   | 4.9   | 2.7   | 11.7  | 16.7  | 21.2  |
| Public sector net borrowing | 38.4  | 47.4  | 54.8  | 66.7  | 61.5  | 60.2  | 57.9  |
Monetary policy

The MPC has unleashed a substantial amount of monetary firepower in response to the economic shock of the coronavirus pandemic. Although monetary policy is a second-order remedy to disruption caused by social distancing and other containment measures, reductions in the official interest rate, quantitative easing (QE) and action to ease credit conditions will support liquidity and at least help in countering demand-side, financial, and disinflationary stresses.

March saw the MPC slash Bank Rate from 0.75% down to a new record low of 0.1%. The Committee also announced that the Bank of England would purchase £200bn of assets, the majority being government bonds, using newly issued reserves. In addition, the Term Funding Scheme with additional incentives for SMEs (TFSME) was introduced, designed to ensure that lower official interest rates are passed through to market rates.

Looking ahead, monetary policy may well enter a holding pattern until more evidence on the economic impact of the pandemic emerges. The MPC has said that further asset purchases could be undertaken, if needed. However, the odds of Bank Rate being cut into negative territory look low. The Committee has stated in the past that it judges the effective lower bound on the official UK interest rate to be “close to, but a little above, zero”. This reflects the risk that zero or negative rates could cause some banks and building societies to become loss-making, threatening financial stability.

Given the need to support the economic recovery once containment measures are relaxed or removed, we expect the MPC to keep Bank Rate at its current level until well into 2021. The case for keeping the official interest down will be reinforced by the disinflationary consequences of March’s crash in the oil price. We forecast CPI inflation to fall close to zero in the summer and average only 0.8% in 2020.

Cuts in interest rates, the scale of additional QE and foreign investors’ need for cash combined to push down sterling to below $1.20 in March, the lowest since 1985. The pound has recovered modestly since. We forecast it to stabilise at around $1.25 over the remainder of 2020, with the pound-euro rate sitting at around €1.15.
Prices and wages

Although action to contain the spread of coronavirus represents a major, if temporary, hit to the economy’s supply-side, we think any inflationary pressure from this will be more than offset by a commensurate decline in demand from social distancing measures and the recent sharp fall in oil and commodity prices. Low inflation will support real incomes and help bolster a rebound in activity when containment measures are relaxed.

CPI inflation was 1.7% in February 2020. Prior to the impact of coronavirus, inflation was already set to fall further below the Bank of England’s 2% target, reflecting previous falls in the oil price, a strengthening in sterling following last December’s conclusive general election result and the announcement in March’s Budget that fuel and alcohol duties would be frozen in real terms.

The current environment means measuring inflation faces challenges in the near-term. 40% of the CPI basket is, under normal circumstances, physically collected by ONS staff in stores across 140 locations. And just over 40% of the same basket consists of clothing and footwear, restaurants and hotels, furniture and household equipment and recreation and culture, all areas where government-mandated shutdowns mean spending is severely curtailed at present. So innovations in measurement might be required, which could raise some concerns over data reliability.

Notwithstanding these complications, inflation will be influenced by several factors over the next few months. These include a simultaneous shock to supply and demand from measures to contain the spread of coronavirus. Lower demand in some sectors might lead some firms to cut prices, while restricted supply or high demand in others might put upward pressure on prices. And related, in part, to those demand and supply shocks, recent declines in the value of the pound and the price of oil will exert upward and downward pressure on inflation, respectively.

The net effect of these developments is that we expect inflation to slow sharply over the next few months. CPI inflation is forecast to move as low as 0.1% in the summer and to average 0.8% over 2020 as a whole.
But the marked deceleration in inflation this year will generate sizeable and positive base effects when we move into 2021. Combined with an expected steady recovery in the oil price, this is likely to mean higher rates of inflation next year. We expect CPI inflation to move back to the 2% target by the end of 2021.

Although RPI inflation is forecast to exceed the CPI measure, the wedge between the two will narrow significantly this year. While the so-called ‘formula effect’ (i.e. the different methods of aggregation between the RPI and CPI measures that place an upward bias on RPI) will persist, lower mortgage interest payments as a result of March’s cuts in interest rates will narrow the differential. We expect RPI inflation to average 1.1% in 2020.
Activity

The shock delivered by coronavirus and measures aimed at arresting its spread point to a severe contraction in the economy in the first half of this year. With the scale and duration of the pandemic unknown, the outlook for the economy in the near-term is highly uncertain. But support offered by monetary and fiscal policy to preserve the economy’s fabric should aid a strong rebound in activity when social distancing measures are relaxed.

GDP flattened in Q4 2019, down from growth of 0.6% in Q3. This left expansion in 2019 at 1.4%, the second slowest since 2009. And the three months to February recorded a negligible 0.1% rise in output, setting Q1 up for a weak performance. But the spread of coronavirus means that weakness now looks to have transmuted into an outright and significant contraction.

The imposition of social distancing measures has brought whole swathes of the services sector, including non-food retail, restaurants and hotels, to a sudden stop. Resulting job losses and the hit to sentiment has imparted a major shock to demand. And with similar disruption occurring in other countries, a hit to domestic activity has been accompanied by a sharp weakening in overseas demand and disruption to global supply chains.

With the public health response to coronavirus effectively putting the economy into hibernation for the time being, monetary and fiscal policy have been aimed at preventing a downward spiral of job losses and bankruptcies and ever lower spending. The Bank of England cut the official interest rate to a record low of 0.1% and announced a new programme of asset purchases. More importantly, the government announced a massive deficit-financed package of measures to support household incomes and firms’ liquidity.

These measures should help preserve the fabric of the economy for when social distancing measures are relaxed. But they will not avert forecast falls in GDP of 10% and 5.1% in the first half of this year and 2020, respectively, both of which would be post-war records. However, conditional on the pandemic being brought under control, output should bounce back strongly later this year and into 2021, delivering forecast growth of 6% next year.
UK: CBI output expectations

Source: Haver Analytics

UK: Investment - GDP ratios

Source: Oxford Economics

UK: Output gap

Source: Oxford Economics

Potential GDP and Its Components

Average Percentage Growth

|                          | 2009-2018 | 2019-2028 |
|--------------------------|-----------|-----------|
| Potential GDP*           | 1.4       | 1.3       |
| Employment at NAIRU      | 0.8       | 0.5       |
| Capital Stock            | 1.6       | 1.3       |
| Total Factor Productivity| 0.4       | 0.5       |

*ln(Potential GDP)=0.65*ln(Employment at NAIRU)+0.35*ln(Capital Stock)+ln(Total Factor Productivity)

Contributions to GDP Growth

(Percentage points)

|                      | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|----------------------|------|------|------|------|------|------|
| Domestic Demand      | 1.2  | 1.7  | -4.9 | 6.7  | 2.7  | 1.6  |
| Private Consumption  | 1.0  | 0.7  | -4.7 | 4.7  | 1.6  | 1.0  |
| Fixed Investment     | 0.0  | 0.1  | -0.9 | 1.2  | 0.5  | 0.3  |
| Gov't Consumption    | 0.1  | 0.7  | 0.7  | 0.6  | 0.4  | 0.4  |
| Stockbuilding        | 0.2  | 0.2  | -0.1 | 0.2  | 0.1  | -0.1 |
| Net Exports          | -0.2 | 0.0  | 0.1  | -0.9 | -0.2 | -0.3 |
| Exports              | 0.4  | 1.4  | -3.0 | 1.5  | 0.8  | -0.1 |
| Imports              | -0.6 | -1.4 | 3.1  | -2.4 | -1.0 | -0.2 |
| Other                | 0.3  | -0.3 | -0.3 | 0.2  | 0.1  | 0.0  |
| GDP                  | 1.3  | 1.4  | -5.1 | 6.0  | 2.5  | 1.4  |
**Consumer demand**

Containment measures aimed at reducing the spread of coronavirus means the near-term outlook for consumer spending is particularly gloomy, with the first half of 2020 set to see a major contraction. But fiscal and monetary support to incomes should allow consumption to rebound strongly once containment measures are eased and affected firms restart activity.

Consumer spending ended 2019 on a weak note. Q4 recorded zero growth in the dominant element of GDP. Some revival in sentiment and decent gains in real incomes had pointed to a better performance in 2020. But the spread of coronavirus has put paid to that.

The containment measures put in place in response to the virus have curtailed consumption in two ways. First, with people required to stay at home and minimise interactions, “social consumption” such as restaurant meals, travel and recreation (collectively accounting for 40% of total UK consumer spending) has been severely curtailed or come to a complete halt. Some of this spending may be deferred until later in the year, but some has been lost entirely.

Second, a likely sizeable, if temporary, rise in unemployment has cut incomes and will increase precautionary savings.

How long these blows persist will depend on the duration for which containment measures are in place, the ability of firms to reopen once the measures are lifted and, in the meantime, the effectiveness of policy measures to support incomes.

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**UK: Consumer spending**

![Graph showing UK consumer spending](source: Haver Analytics)

**UK: CBI distributive trades survey**

![Graph showing CBI distributive trades survey](source: Haver Analytics)

**UK: Consumer confidence**

![Graph showing consumer confidence](source: Haver Analytics)

**UK: Personal sector saving and total wealth**

![Graph showing personal sector saving and total wealth](source: Oxford Economics)
On the latter, the package of fiscal measures announced by the government, including the Coronavirus Job Retention Scheme and a large rise in welfare spending, should cushion the temporary hit to incomes. They should also support a strong rebound in spending once restrictions are lifted.

But a necessary, on public health grounds, reduction in social consumption means a sharp contraction in consumer spending in Q2 is unavoidable. We expect a decline of almost 12% q/q, by far the largest quarterly fall in post war history. But conditional on a relaxation of social distancing measures, the second half of the year should deliver a rebound. So following a fall in consumption of 7.4% this year, 2021 is forecast to see a 7.7% rise.

| UK: Consumer spending & income | % year |
|-------------------------------|-------|
| Real disposable income        |       |
| Consumer spending             |       |

Source: Oxford Economics

| UK: Personal debt and saving ratio |
|-----------------------------------|
| % income                          |

Source: Oxford Economics

| UK: Personal sector wealth-income ratio |
|----------------------------------------|
| Ratio to income                        |

Source: Oxford Economics

### Households' Income and Expenditure

(Annual percentage changes, unless otherwise specified)

|                        | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------------------|------|------|------|------|------|------|
| Wages and Salaries     | 4.8  | 3.4  | -3.2 | 6.6  | 4.6  | 3.6  |
| Personal Disposable Income | 5.0  | 2.6  | -1.1 | 5.5  | 3.9  | 3.4  |
| Real Personal Income   | 2.4  | 1.3  | -1.6 | 4.0  | 1.8  | 1.4  |
| Total Consumer Spending| 1.6  | 1.1  | -7.4 | 7.7  | 2.6  | 1.6  |
| o/w Non-Durables       | 1.6  | 1.0  | -7.8 | 4.9  | 1.9  | 1.7  |
| Durables               | 2.2  | 2.5  | -3.7 | 33.0 | 7.6  | 0.6  |
| Retail Sales           | 2.8  | 3.1  | -5.0 | 6.5  | 2.6  | 1.9  |
| Car Registrations      | -6.8 | -2.2 | -5.0 | 3.4  | 2.8  | 2.8  |
| Savings Ratio (% of income) | 5.8  | 5.7  | 10.6 | 7.1  | 6.2  | 6.0  |
| Financial Balance (% of income) | 0.4  | 0.5  | 6.2  | 2.9  | 2.2  | 2.0  |
The housing market

The public health response to the coronavirus pandemic means the housing market is, like much of the wider economy, set for a period of government-mandated hibernation. But with mortgage holders supported by public interventions to protect incomes, ultra-low interest rates and mortgage holidays, the prospect of a sharp correction in house prices is modest.

Before the coronavirus pandemic struck, the housing market had shown some signs of emerging from a period of sluggishness. February 2020 saw mortgage approvals for house purchase rise to 73,500, their highest level since January 2014 and significantly stronger than in recent years. And year-on-year grow in house prices had picked up on both the Halifax and Nationwide measures to around 3% in February and March, respectively, from close to zero in late-2019.

But the early part of this year is likely to prove the high-water mark for the housing market for the foreseeable future. Though some transactions that are already in train may continue to go through, the government has made clear that buyers and vendors should seek to delay completion unless moving is unavoidable for contractual reasons. Social distancing measures mean the scope for establishing new deals is virtually zero.

Therefore, we expect to see the number of new mortgage approvals slow sharply in early-Q2 and to remain very low for as long as social distancing measures remain in place. But pent-up demand means there is a good chance that we will subsequently see a strong rebound.

As for house prices, government support for workers’ incomes, the BoE cutting the official interest rate to a record low of 0.1% and commercial lenders’ decision to offer a three-month mortgage holiday for those in difficulty because of coronavirus suggest that forced selling won’t be a serious problem.

With housing demand and supply falling in lockstep, we do not expect any sharp correction in house prices. A period of stagnant activity is in prospect, with a bounce back once the period of crisis has safely passed and sentiment has recovered. But for this year and next, we anticipate close to zero growth in prices.
**UK forecast in detail**

**Loans outstanding to the Household Sector**

(£ billion, end year)

|        | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|--------|-------|-------|-------|-------|-------|-------|
| Total  | 1789.3| 1852.4| 1876.3| 1942.5| 2025.3| 2089.9|
| Mortgage| 1407.4| 1451.0| 1477.3| 1530.5| 1592.0| 1629.6|
| Non-Mortgage (1) | 381.9 | 401.4 | 399.0 | 412.0 | 433.2 | 460.4 |
| o/w Consumer credit | 219.1 | 224.3 | 214.7 | 220.2 | 233.7 | 252.7 |

Debt-income ratio

|        | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|--------|------|------|------|------|------|------|
| Total  | 1.2  | 1.2  | 1.2  | 1.2  | 1.2  | 1.2  |

(1) Loans by credit companies and retailers plus bank non-mortgage lending.

**Regional House Prices**

(Annual percentage changes)

|                  | Land Registry January 2020 | Nationwide 2020Q1 |
|------------------|-----------------------------|-------------------|
| North East*      | 0.9                         | -0.3              |
| Yorkshire & Humberside | 3.1                       | 4.3               |
| North West       | 2.1                         | 4.1               |
| East Midlands    | 2.3                         | 3.6               |
| West Midlands    | 2.6                         | 2.5               |
| East of England*| -0.6                        | 1.3               |
| South East       | -0.5                        | 1.7               |
| London           | 1.4                         | 1.0               |
| South West       | -0.1                        | 1.5               |
| Wales            | 2.0                         | 6.4               |
| Scotland         | 1.6                         | 0.8               |
| Northern Ireland | 2.5                         | 0.7               |

Source: Land Registry; Nationwide

* The data is reported by Government Office Region (GOR). The Nationwide publishes its data for Standard Statistical Regions (SSR), which were phased out by the ONS in the mid-1990s. We have aligned the Nationwide data to the GOR to which it most closely relates: North = North East; East Anglia = East of England.
Company sector

As with other components of GDP, the public health response to the coronavirus pandemic is likely to deliver a sizeable blow to spending by companies on investment in the first half of this year. The magnitude and length of the fall will depend on the success of containment measures. If those measures prove effective, we anticipate a sizeable bounce back later in 2020.

Business investment fell 0.5% in the last quarter of 2019, with uncertainty around both Brexit and the outcome of December’s general election probably holding back spending by firms on fixed assets.

Survey evidence had suggested a revival in investment intentions in early-2020. But restrictions on activity stemming from the coronavirus pandemic have upended what had previously been a more positive outlook.

The temporary shutdown of many non-essential businesses and restrictions on the movement of people is likely to result in a significant fall in investment in the near-term. And an environment of heightened uncertainty means that even firms which remain in operation have good reason to postpone investment decisions.

The timing of a recovery in investment is uncertain and depends on the success of containment measures and policies to preserve the capacity of the economy during a period of very weak demand.

The risk is that business cashflows will be severely affected in a way that threaten large numbers of businesses failing. The government and the Bank of England announced various initiatives in March to mitigate this risk, including the creation of the Coronavirus Job Retention Scheme and Covid Corporate Financing Facility, £20 billion of business rates support and grant funding to help companies and a deferral of the next quarter of VAT payments.

These policies will help keep firms afloat and able to respond to a revival in demand when the crisis eases. But a 10.5% fall in business investment is forecast in H1 2020. If containment measures are relaxed after Q2, the decline in 2020 should be limited to 6.5%, with 2021 forecast to deliver a rebound of 6.1%.
UK: GDP and industrial production
% year

Source: Oxford Economics

UK: Equity prices

Source: Oxford Economics

Company Finances
(£ billion)

|                      | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   |
|----------------------|--------|--------|--------|--------|--------|--------|
| Gross Operating Profits | 448.8  | 451.1  | 469.5  | 463.2  | 517.3  | 534.9  |
| Fixed Investment      | 51.7   | 53.8   | 51.1   | 55.0   | 57.1   | 59.2   |
| Financial Balance (% of GDP) | -42.2  | -52.5  | 77.8  | -54.6  | -27.5  | -21.3  |
| Profit share in GDP   | 20.9   | 20.4   | 22.0   | 20.1   | 21.5   | 21.5   |

The Company Sector and Real Expenditure
(Annual percentage changes at 2016 prices unless otherwise specified)

|                      | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   |
|----------------------|--------|--------|--------|--------|--------|--------|
| Total Fixed Investment | -0.2   | 0.6    | -5.2   | 7.2    | 2.9    | 2.0    |
| Business              | -1.5   | 0.6    | -6.5   | 6.1    | 2.2    | 1.8    |
| o/w Manufacturing     | 0.4    | -2.8   | 0.2    | 2.6    | 2.3    | 1.0    |
| Private Residential   | 9.8    | 0.8    | -7.8   | 7.2    | 3.2    | 2.8    |
| Public                | 1.3    | 1.4    | 2.6    | 10.9   | 4.6    | 1.8    |
| Stockbuilding (% of GDP) | -0.3  | -0.1   | -0.1   | 0.1    | 0.2    | 0.1    |
| Stock-output ratio (1995=100) | 86.8  | 86.7   | 87.8   | 83.4   | 82.2   | 82.5   |
Labour market

With many businesses suspending operations and a surge in applications for universal credit pointing to a spike in unemployment, the impact of the coronavirus pandemic has been quickly felt in the labour market. The duration of containment measures and the effectiveness of government interventions will determine whether higher joblessness proves temporary or long-lasting.

2020 began on a healthy note for jobs. The three months to January saw the employment rate at a joint record high of 76.5% and the LFS jobless rate of 3.9% close to a 46-year low. But this picture is set to darken.

As of the time of writing, official labour market data for the period since social distancing measures were announced in late-March is lacking. But that 950,000 successful claims for universal credit (UC) were made between 16 March and the end of the month, compared to around 100,000 claims in a normal two-week period, points to a significant number of laid-off workers.

Granted, not all those applying for UC will have lost their jobs. Some of the applications came before the announcement of the government’s Coronavirus Job Retention Scheme (CJRS), which provide capped grants covering 80% of the wages of at-risk workers. And there may be some offsetting job increases in sectors such as supermarkets and logistics.

But a spike in the unemployment rate is highly likely. And with sectors of the economy subject to shutdowns disproportionate employers of young people and the low paid, those two groups may suffer the most. The extent to which higher unemployment is quickly reversed will depend on the length of time that social distancing measures persist and the success of government support for the corporate sector, including the CJRS.

Since those workers availing of the government’s wage subsidy scheme will not meet the official ILO definition of unemployment, the official jobless rate is likely to understate the economy’s unused labour resources. Hence, our forecast that the LFS unemployment rate will rise to 6% in Q2 and average close to that in 2020 understates the shock to the jobs market.
Trade and the balance of payments

Given the economic damage done domestically and overseas by the coronavirus pandemic and the public health response to the virus, UK trade is likely to contract severely in the near-term. But with both exports and imports likely to be impacted in a similar manner, the overall effect on the trade balance is likely to be small.

Interpreting UK trade data in late 2019 was complicated by the distortive effect of large flows of non-monetary gold. Those flows accounted for most of the swing in the balance of trade in goods and services from a deficit of 0.6% of GDP in Q3 2019 to a surplus of 1.4% of GDP in Q4, the largest surplus since Q2 1995.

For the near-future, the economic consequences of the coronavirus pandemic will be the dominant influence on trade. Exports will be hit via two channels. First, social distancing measures will impede or eliminate entirely the output of some UK exporting firms. Second, sharp economic contractions in many of the UK’s major trading partners will reduce their demand for UK products. We forecast world trade (weighted by UK export shares) to drop almost 11% q/q in H1 2020 and by just over 5% y/y in 2020, compared to growth of 1.6% in 2019.

However, the prevalence of imports in consumer products and the likelihood of a plunge in consumer spending means that imports are likely to fall at a similar pace to exports, implying little effect on the balance of trade. So after an unwinding of distortions caused by flows of non-monetary gold, we expect the broader current account deficit to stabilise at 3-3.5% of GDP this year and next.
### Exports of Goods and Services

(Annual percent changes at 2016 prices unless otherwise specified)

|                  | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------------|------|------|------|------|------|------|
| Fuels            | -1.2 | -9.7 | -8.6 | 2.1  | -1.7 | -1.9 |
| Other goods      | -0.1 | 6.2  | -8.1 | 4.6  | 2.8  | -2.5 |
| o/w Manufactured goods | 0.1  | 2.2  | -15.5| 4.6  | 2.8  | -2.5 |
| Services         | 2.8  | 4.7  | -11.7| 6.4  | 2.7  | 2.3  |
| Total            | 1.2  | 4.8  | -9.9 | 5.3  | 2.6  | -0.2 |

| Relative Unit Labour Costs (2008=100) | 87.4  | 87.2  | 93.8  | 90.2  | 89.2  | 88.5  |
| World Trade      | 5.0   | 1.6   | -5.2  | 8.1   | 4.1   | 3.3   |

### Imports of Goods and Services

(Annual percentage changes at 2016 prices unless otherwise specified)

|                  | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|------------------|------|------|------|------|------|------|
| Fuels            | 1.9  | -15.1| -8.6 | 4.5  | 0.5  | 0.4  |
| Other goods      | -0.1 | 3.6  | -14.4| 8.2  | 3.3  | -0.6 |
| o/w Manufactured Goods | -0.9 | 0.6  | -11.0| 8.2  | 3.3  | -0.6 |
| Services         | 6.9  | 10.5 | -0.3 | 8.1  | 3.2  | 2.8  |
| Total            | 2.0  | 4.6  | -9.7 | 8.0  | 3.1  | 0.7  |

| Import Penetration (%) | 23.6 | 24.1 | 23.2 | 23.5 | 23.6 | 23.5 |

### Current Account

(£ billion)

|                          | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|--------------------------|------|------|------|------|------|------|
| Visible Trade Balance (exc. fuels) | -123.5 | -116.4 | -77.7 | -94.7 | -98.9 | -105.1 |
| Fuels Balance            | -15.8 | -13.3 | -6.7 | -7.9 | -9.7 | -10.7 |
| Services                 | 109.6 | 103.8 | 69.5 | 70.7 | 72.1 | 73.4 |
| IPD                      | -27.5 | -30.3 | -26.4 | -23.1 | -17.4 | -14.1 |
| Transfers                | -25.6 | -27.5 | -22.1 | -24.1 | -25.3 | -19.3 |
| Current Account          | -82.9 | -83.8 | -63.4 | -79.3 | -79.1 | -75.8 |
| Current Account (% of GDP) | -3.9 | -3.8 | -3.0 | -3.4 | -3.3 | -3.0 |
Sectoral balances

The table below shows the pattern of sectoral financial balances. Apart from data errors and omissions, a deficit in one sector should be matched by surpluses elsewhere in the economy.

The household sector ran a succession of sizeable surpluses in the aftermath of the financial crisis of 2008-09, reflecting consumer deleveraging. However, that surplus has narrowed sharply since 2015, possibly reflecting the squeeze on household incomes from public sector austerity and the disincentive to save presented by very low interest rates. Companies briefly moved into surplus after the financial crisis but have largely run deficits over the past five years. Meanwhile, the automatic stabilisers meant that the public sector deficit widened rapidly after the crisis. That shortfall narrowed in subsequent years. But a relaxation of austerity and methodological changes, including to the treatment of student loans, have recently caused the narrowing of the public sector deficit to come to a halt.

The economic impact of coronavirus is set to result in some major swings in sectoral balances in the near-term. With household incomes supported by various government initiatives but the scope to spend restricted by social distancing measures, the household surplus is likely to widen dramatically in Q2 before, assuming economic conditions subsequently return to normal, falling back. The counterpart to this will be a massive increase in the government deficit. However, with corporate income supported by government initiatives and investment set to drop sharply, the corporate financial balance is likely to move heavily into surplus.

| Financial Surpluses/Deficits (£ billion) |
|------------------------------------------|
|                                          |
| 2018 2019 2020 2021 2022 2023            |
|------------------------------------------|
| **Personal Sector**                      |
| 6.5 7.1 90.7 45.7 34.9 32.9              |
| **Company Sector**                       |
| -42.2 -52.5 77.8 -54.6 -27.5 -21.3       |
| **Total Private Sector**                 |
| -35.7 -45.4 168.5 -8.9 7.4 11.6          |
| **Government Sector**                    |
| -46.1 -45.7 -236.4 -72.3 -87.3 -87.7     |
| **Overseas Sector**                      |
| 82.9 83.8 63.4 79.3 79.1 75.8            |
| **Other, including balancing item**      |
| -1.1 7.3 4.5 1.9 0.8 0.3                 |