THE UK ECONOMY
Forecast summary

The economic outlook is extremely uncertain and depends critically on the effectiveness of policies to manage the economy while limiting the spread of Covid-19. It is almost certain that GDP will fall in 2020 and a material risk of a further fall in 2021.

The government's announced measures to limit the long-term economic effect of Covid-19 have a direct cost to the exchequer of about £75 billion in our main-case scenario. Borrowing is likely to rise above £200 billion in 2020–21.

Where it is safe to do so, the government could improve the trade-off between saving lives and saving the economy by easing the lockdown in the key 'upstream' sectors of the economy such as manufacturing, construction and non-essential retail.

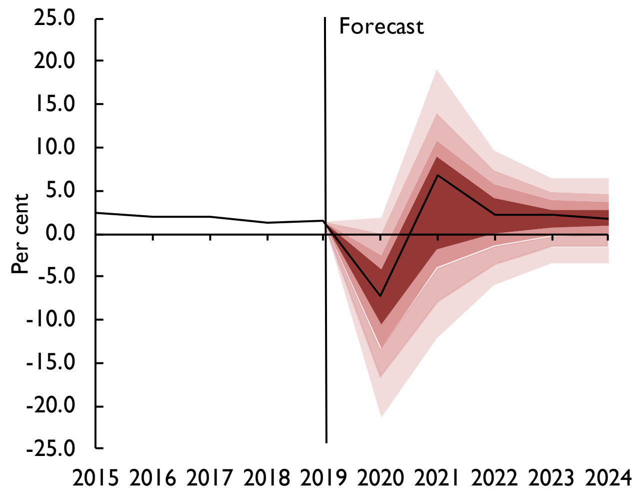
The most significant challenges are likely to come when the lockdown is eased and the government's supportive measures are withdrawn. Government schemes will then need to be adapted to prevent unnecessary business failures as the economy recovers.

GDP is estimated to be reduced by about 30 per cent when the lockdown is in operation. With the lockdown assumed to be in place from around the middle of March to the middle of May, UK GDP falls by around 5 per cent in 2020Q1 and 15 per cent in 2020Q2. On the assumption of a progressive relaxation of stay-at-home measures, GDP then recovers some of the lost ground and almost re-attains its 2019Q4 level by 2021Q4 but there are significant downside risks.

The Coronavirus Job Retention Scheme is assumed to be effective in limiting the fall in employment in 2020 to around 1½ million. Unemployment rises to around 3 million, about 8½ per cent of the labour force, and falls back towards 2 million in 2021.

Public sector borrowing rises from 2.6 per cent of GDP in 2019–20 to just over 10 per cent of GDP in 2020–21. The counterpart to higher public sector borrowing is higher private sector saving. The deficit on the current account of the balance of payments falls from 3.8 per cent of GDP in 2019 to around ½ per cent of GDP in 2020 as imports fall by more than exports.

GDP growth fan chart (per cent per annum)



Source: NIESR forecast and judgement. For notes see figure 4 of the UK chapter.

Summary of the forecast — *Per cent*

	Real GDP	CPI(a)	ILO unemployment	Bank Rate	External current balance	PSNB(b)
	annual growth	Q4/Q4	Q4	end-year	% of GDP	
2019	1.4	1.5	3.8	0.75	–3.8	2.6
2020	–7.2	1.7	10.5	0.10	–0.6	10.1
2021	6.8	0.5	5.8	0.10	–2.5	4.6

Notes: Calendar years unless otherwise stated. (a) Consumer price index. (b) Public sector net borrowing, financial years.

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THE WORLD ECONOMY
Forecast summary

The effects of the coronavirus pandemic and the control measures taken to combat its spread have changed the short-term global economic outlook in an unprecedented manner from that forecast just three months ago.

In these highly uncertain times, we now expect widespread falls in GDP, particularly in the first half of this year, as the lockdowns pause many forms of economic activity. Our outlook scenario assumes that the measures to control movement and social contact will be eased gradually, permitting a wider range of economic activities to be undertaken as 2021 dawns.

We project that global GDP will fall by 3½ per cent this year, a downward revision of around 6½ percentage points from our view in February. The fall in GDP is substantially larger than during the Financial Crisis (–0.1 per cent). The closest parallel is the Great Depression, when there was multi-year fall in output.

Once lockdowns are lifted, higher output could lead to marked year-on-year rises in GDP next year. We project an increase of some 7 per cent. But in many countries, even by 2022, GDP will still be lower than had the pandemic not occurred.

The coronavirus pandemic and the responses of governments to prevent its spread and reduce the number of fatalities, have paused much of economic activity. In order to shield households and companies from the worst effects of the economic downturn, monetary and fiscal policies have been mobilised. Despite these, unemployment rates are rising rapidly.

Our projections assume that governments, aided by virus testing and healthcare measures, will ease the lockdowns during the second quarter of this year and progressively into next year without a second wave of virus infections leading to the re-imposition of control measures. As a consequence, the worst effects of the downturn should be short-lived, and economic activity rises next year. But we are very mindful of the uncertainties, both medical and economic, around this assumption.

The severity and timing of the curtailment of economic activity will vary across countries, notably with China likely to see output rise in the second quarter after the sharp fall seen in the first quarter of this year. How quickly economies will be able to rebound is highly uncertain, as it depends upon the medical situation, the policies adopted by governments and the degree of damage suffered by businesses. At this stage, these are all unknown factors. Emerging economies, in particular, have seen rapid outflows of capital and falling commodity prices and more than 100 countries have approached the IMF already for access to Rapid Financing and Rapid Credit facilities.

Governments will see their indebtedness increase as a result of their actions to support their economies. These increases will be financed at ultra-low sovereign bond yields in many cases. However, while the policy response to the pandemic in the advanced world has been swift and broadly synchronous, it has been largely uncoordinated. Collectively, the measures taken will deliver positive spillovers by saving lives everywhere and supporting economic activity. Going forward, given the scale of the shock and the risk of long-term scarring, there is a compelling case for international policy coordination to restore both public health and the health of the global economy.

Summary of the forecast — Percentage change, year–on–year

	World economy			Real GDP growth in major economies				
	Real GDP[(a)]	Consumer prices[(b)]	World trade[(c)]	US	China	Japan	Euro Area	BRICS+[(d)]
2019	2.9	2.1	2.3	2.3	6.2	0.7	1.2	4.6
2020	–3.5	2.0	–10.1	–5.5	2.2	–6.3	–5.7	–1.2
2021	7.0	2.1	15.3	4.8	8.4	3.4	5.0	8.3

(a) Based on global PPP shares. (b) OECD countries, private consumption deflator. (c) Volume of total world trade. (d) Includes Brazil, Russia, India, China, Indonesia, Mexico, South Africa, Turkey

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