

THE UK ECONOMY

Forecast summary

The economic outlook is extremely uncertain and depends critically on the effectiveness of policies to manage the economy while keeping down the Covid-19 infection rate.

In our main-case forecast scenario, UK GDP falls by 10 per cent in 2020 and then increases by 6 per cent in 2021. The level of economic activity in the final quarter of last year is not likely to be regained before the second half of 2023.

Government debt as a share of GDP is likely to be above 105 per cent next year.

Hours worked fall by 12 per cent in 2020 and rise by 10 per cent in 2021.

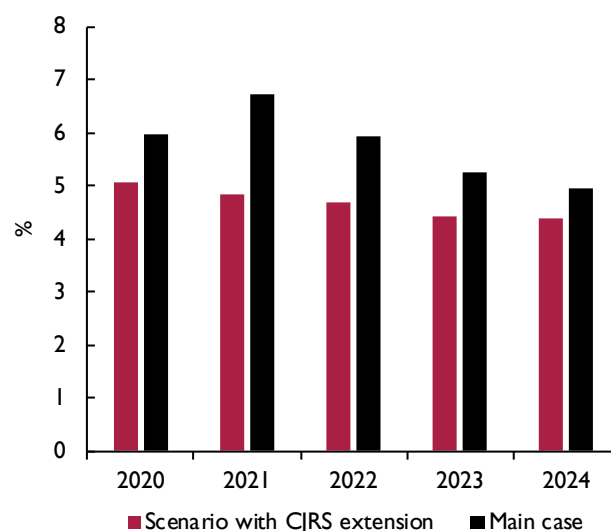
Unemployment is likely to rise to around 10 per cent later this year and could stay above its recent level in the coming years due to economic scarring and hysteresis in the labour market.

Having contracted by about 25 per cent when the lockdown was in operation, the economy is now entering a phase where activity is expected to be subdued at the same time as government support measures are withdrawn.

With the government furlough scheme ending in October, unemployment is set to rise to close to 10 per cent of the workforce by the end of this year. It then recedes as the recovery gathers speed in 2021, but remains above its recent level of 4 per cent. Unemployment would have stayed lower had the government extended the furlough scheme beyond the end of October. This would have been a relatively inexpensive measure, and by preventing a rise in long-term unemployment might have paid for itself.

Public sector borrowing is set to rise from 2.4 per cent of GDP in 2019–20 to 17 per cent of GDP in 2020–21. Higher public sector borrowing is effectively financed by higher private sector saving. The deficit on the current account of the balance of payments falls from 4 per cent of GDP in 2019 to around 2 per cent of GDP in 2020 as imports fall by more than exports.

Unemployment with and without CJRS extension



Source: NiGEM model simulation.

Summary of the main-case forecast scenario

Per cent

	Real GDP annual growth	CPI ^(a) Q4/Q4	Unemployment rate Q4	Bank Rate end-year	External current balance % of GDP	PSNB ^(b)
2019	1.5	1.5	3.8	0.75	-4.0	2.4
2020	-10.1	0.4	9.8	0.10	-2.2	17.1
2021	6.1	2.4	6.4	0.10	-3.9	5.9

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 Covid-19 pandemic and the effects of the measures taken to protect lives continue to dominate the short-term global economic outlook.

In still highly uncertain times, there are widespread falls in GDP as lockdowns pause many forms of economic activity. Some countries are now starting to unlock, permitting a wider range of economic activities to be undertaken and allowing increased mobility. The effects of unlocking are uncertain, especially with the number of people infected still rising.

We project that global GDP will fall by 5 per cent this year, a substantially larger fall than during the financial crisis, taking global GDP back to 2018 levels, with unemployment rising as a consequence.

Once economic activity re-establishes after lockdowns are lifted, the increase in output could result in substantial year-on-year increases in GDP next year. We project an increase of 6¼ per cent in global GDP. Even with such an increase, however, the level of GDP at the end of 2021 will be lower than had the pandemic not occurred.

The immediate economic outcomes from the pandemic and the containment measures to protect public health are evident in the sharp falls in economic activity being reported by countries in the first half of this year. The financial support measures to sustain economies during lockdown have prevented an even larger fall in global GDP than the 5 per cent we project for this year. Despite these, however, unemployment rates are rising.

Our projections assume that as the incidence of the virus recedes, governments, aided by virus testing and healthcare measures, will ease lockdowns and that this is achieved without a major second wave of virus infections occurring, which would lead to the re-imposition of control measures. As a consequence, the worst effects of the downturn should be seen this year. But we are very mindful of the huge uncertainties, both medical and economic, around these assumptions.

The severity and timing of the curtailment of economic activity has varied across countries, with China already seeing output rise in the second quarter after the sharp

fall in the first quarter. How quickly economies will rebound is highly uncertain, as it depends upon the medical situation, the stimulus measures adopted by governments and the degree of damage suffered by individuals and businesses.

As a result of the pandemic and actions to support their economies, governments will see their indebtedness increase with, in many cases, ultra-low sovereign bond yields helping to finance such borrowing. Policy interest rates look set to be low for longer and international trade may be persistently affected. While the economic policy responses have been swift and synchronous, they have not been coordinated. It is not obvious that policies to unlock economies will be coordinated either. While the health and economic measures taken will deliver positive spillovers by saving lives everywhere and supporting economic activity, given the risk of a second wave of the virus and of long-term economic scarring, there is a compelling case for international policy coordination to ensure that public health is restored and that the benefits of a global economic recovery are widely shared.

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	1.2	2.3	6.2	0.7	1.2	4.5
2020	-4.9	1.5	-13.1	-7.1	2.1	-4.9	-8.8	-1.9
2021	6.3	1.9	14.1	5.3	8.1	3.1	4.6	7.2

(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