

*UK economic outlook:  
Strong recovery in 2021, but risks from  
COVID-19 and EU trade talks*

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1. UK overview
2. Policy issues
3. Prospects for the UK/EU trade talks
4. Sectors and regions most affected by trade issues
5. Employment prospects by sector and by region

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**1. UK overview**

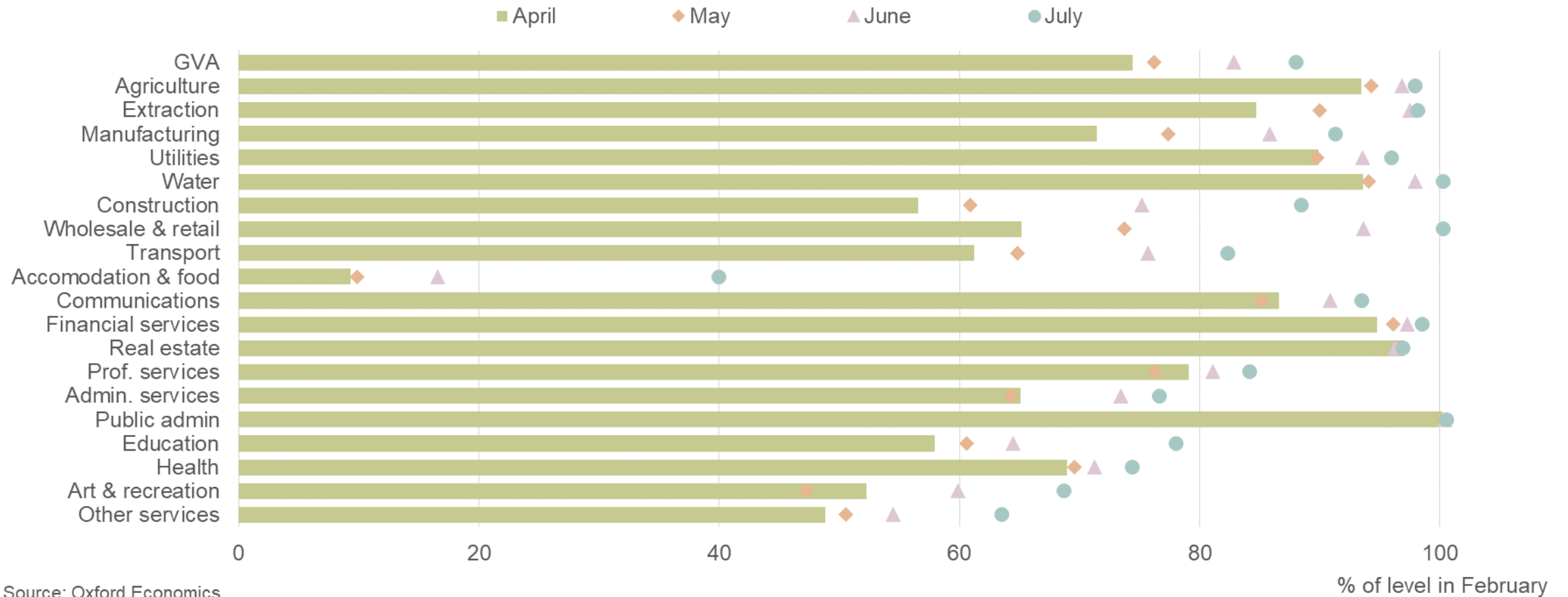
2. Policy issues

3. Prospects for the UK/EU  
trade talks

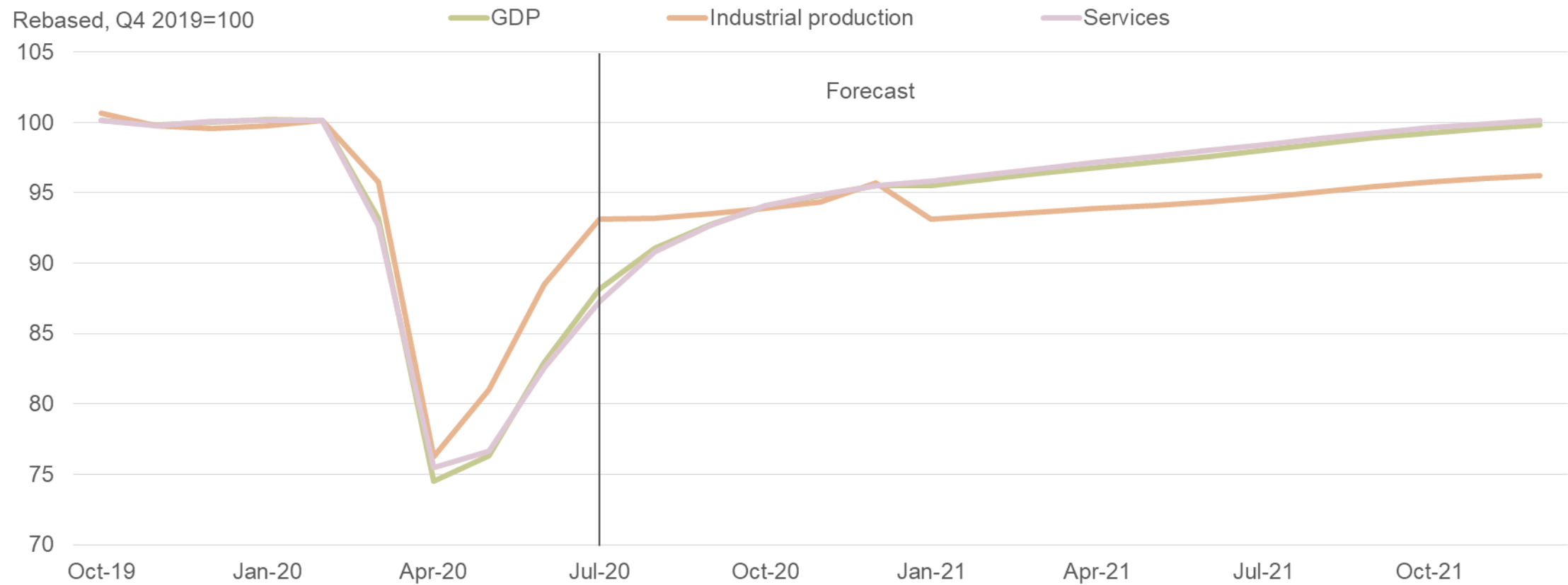
4. Sectors and regions most  
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sector and by region

# *GVA as a percentage of February level*

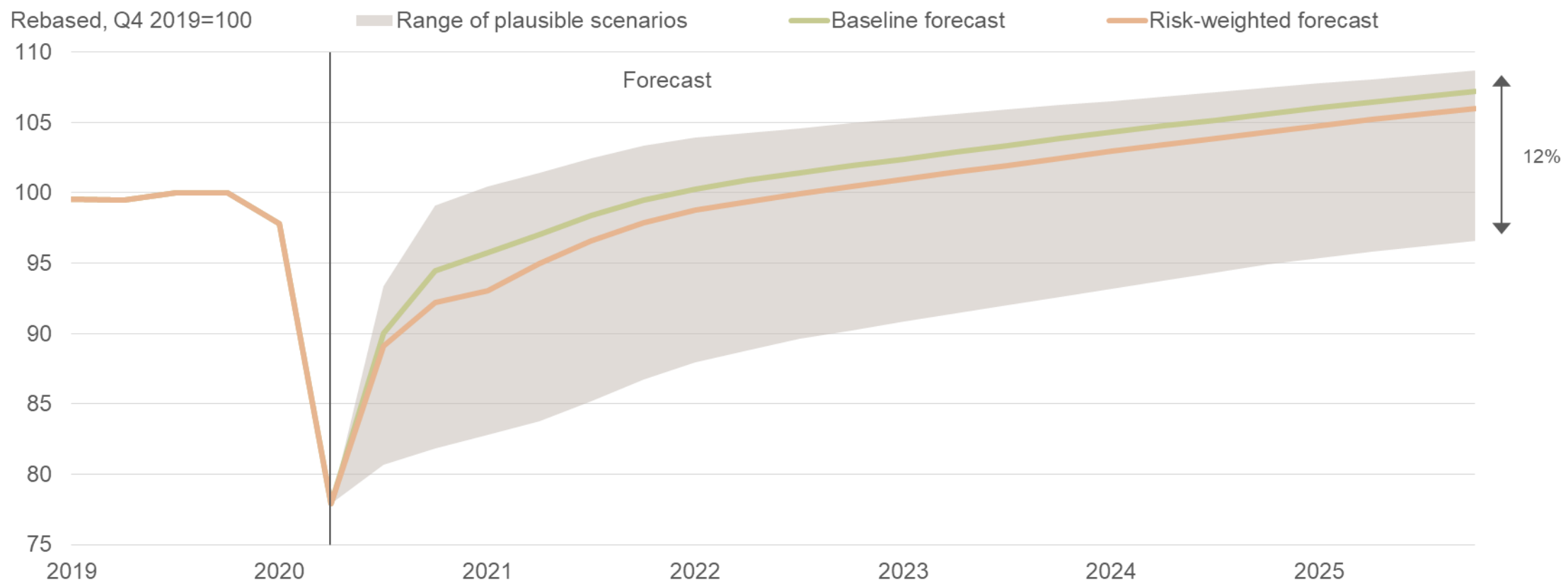


# Forecast for GDP growth



Source: Oxford Economics

# Scenarios for UK GDP growth



Source: Oxford Economics

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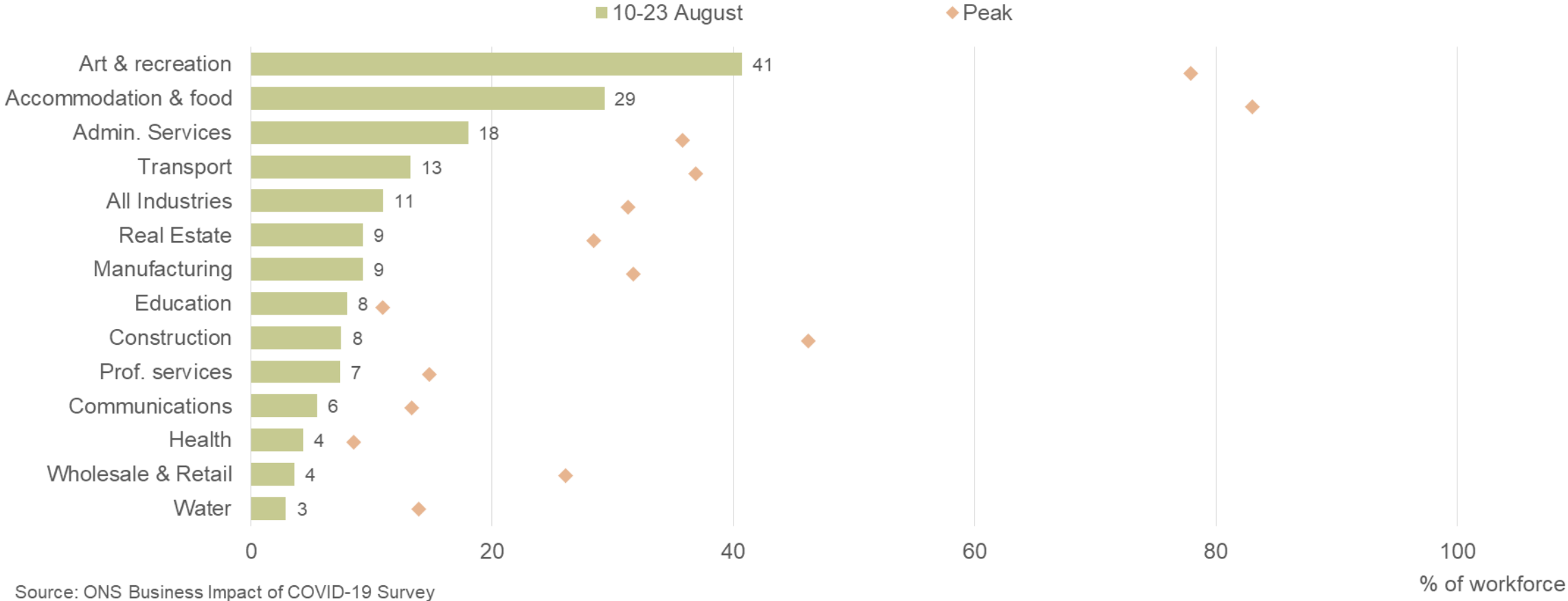
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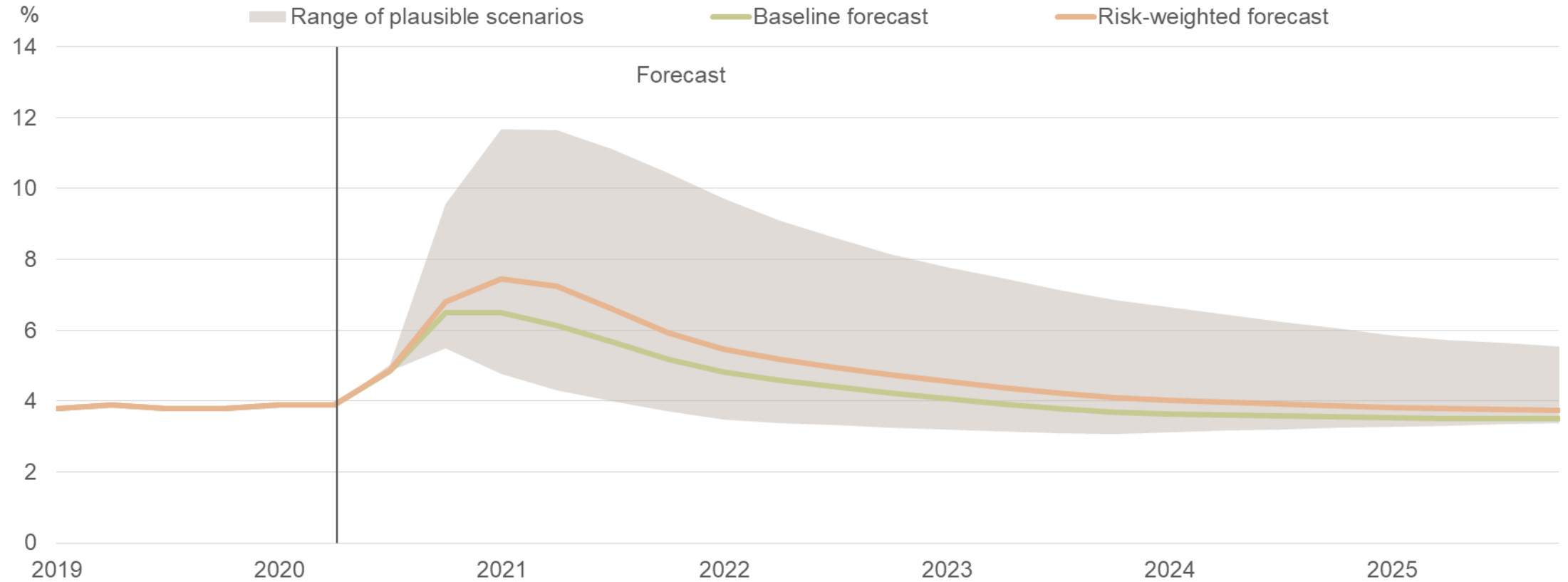
5. Employment prospects by sector and by region

# *Share of workforce furloughed by sector*



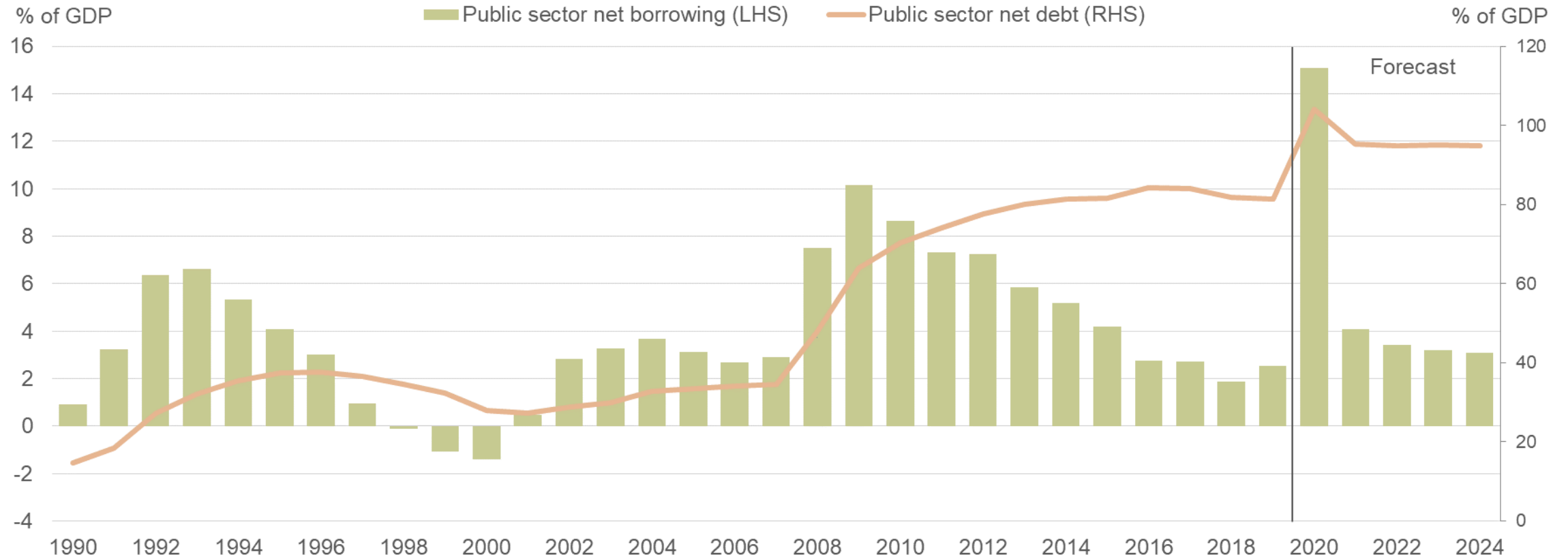


# *Scenarios for UK unemployment*



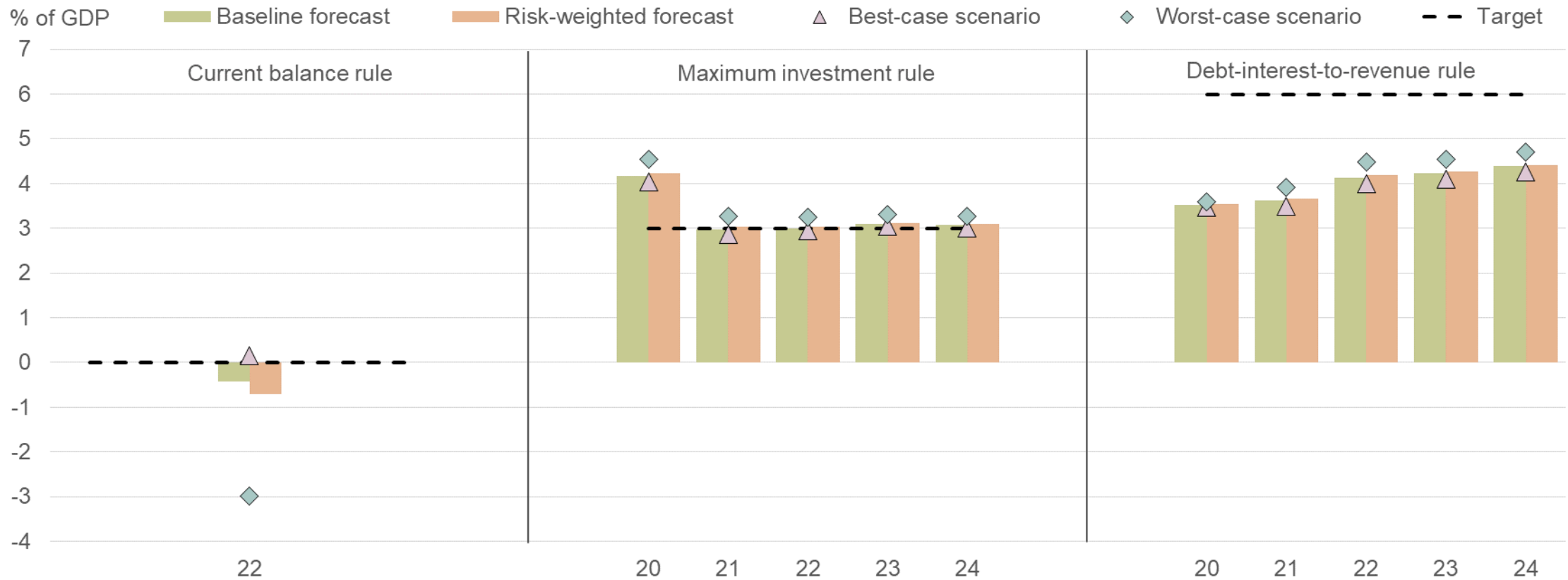
Source: Oxford Economics

# Government finances



Source: Oxford Economics

# *Oxford Economics' forecasts vs fiscal targets*



Source: Oxford Economics

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# ***We put the chances of a deal at 60%***

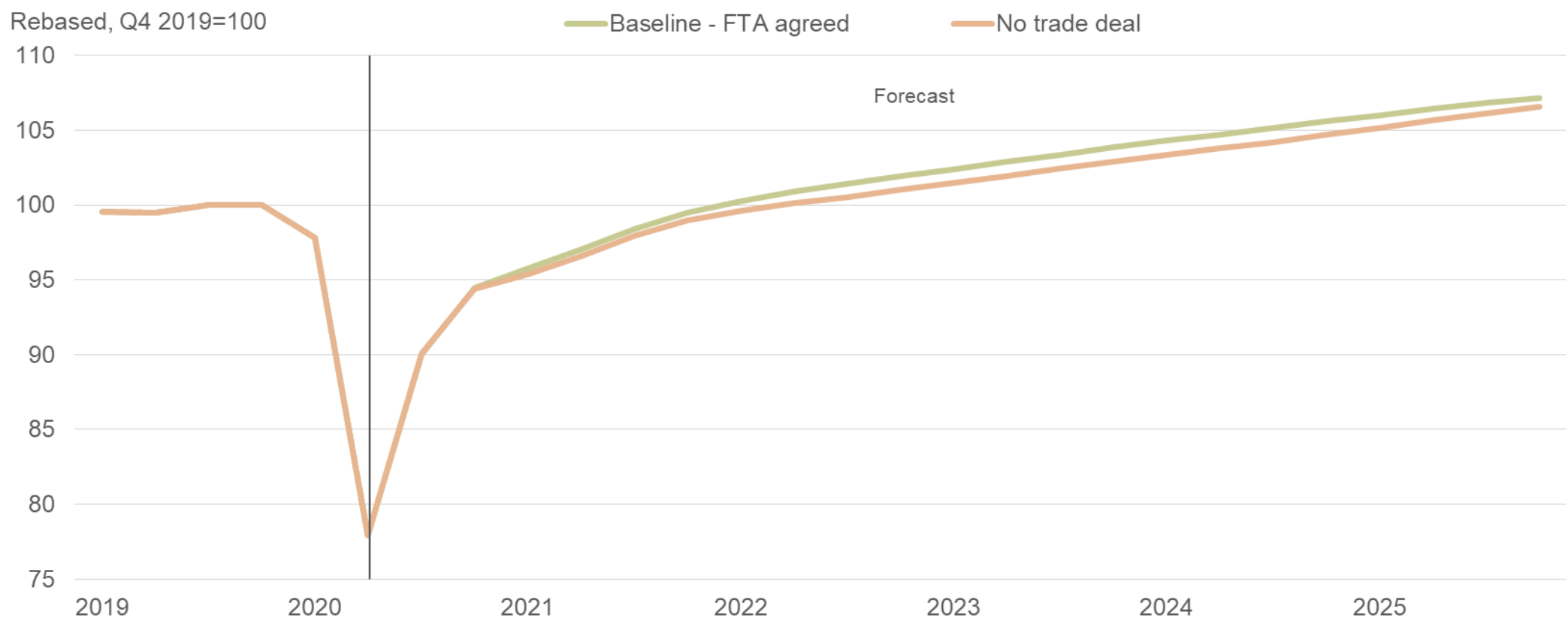
## **Why is a deal more likely than not?**

- The terms of the Withdrawal Agreement mean failure to agree a deal would increase frictions on trade between Great Britain and Northern Ireland.
- Sectors like chemicals, motor vehicles and aerospace are particularly vulnerable in the event of a no-deal outcome.
- The government has had a torrid year and it needs a success.

## **Why is the risk of no deal so high?**

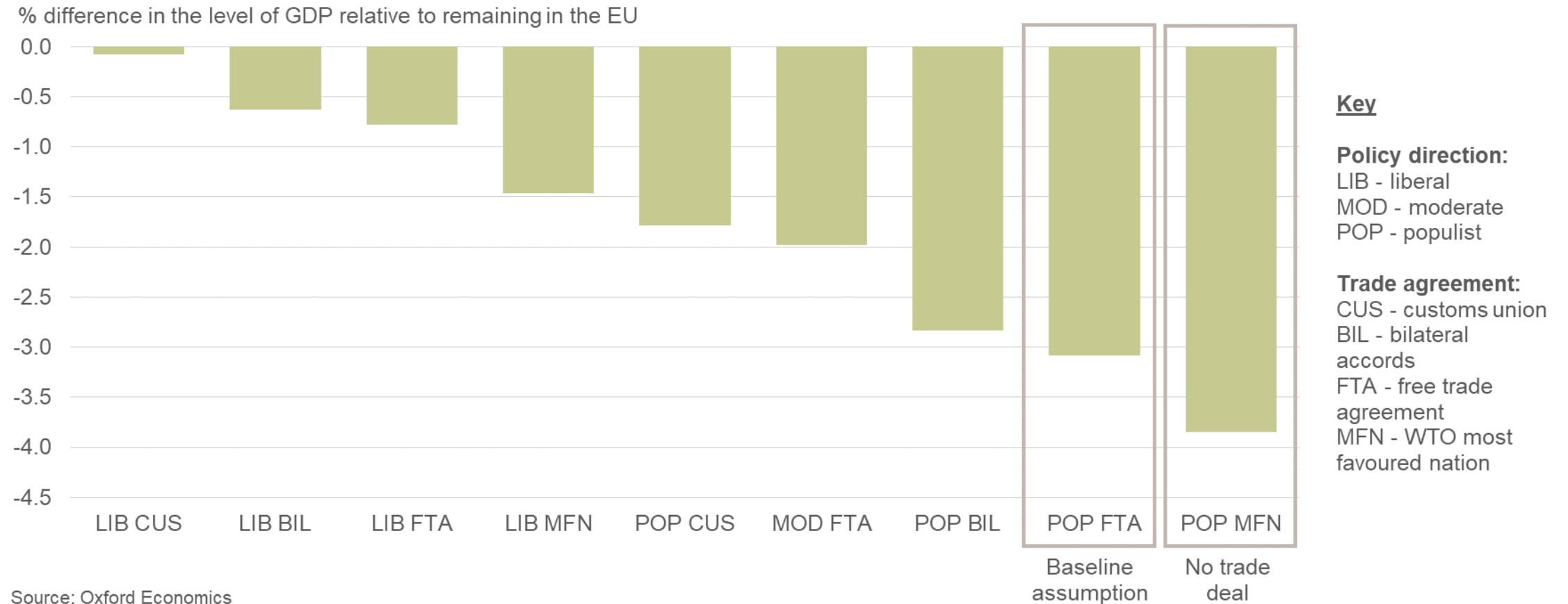
- This government has demonstrated that it does not always see economic considerations as being that important.
- In macroeconomic terms, the most damaging decision has already been made, i.e. to move outside of the single market and customs union. Once that decision was made, the benefit of agreeing an FTA is relatively small.
- The government's threats to ignore the Withdrawal Agreement risks destroying trust.

# *Short-term impact of different Brexit assumptions*



Source: Oxford Economics

# *Long-term impact of different Brexit assumptions*



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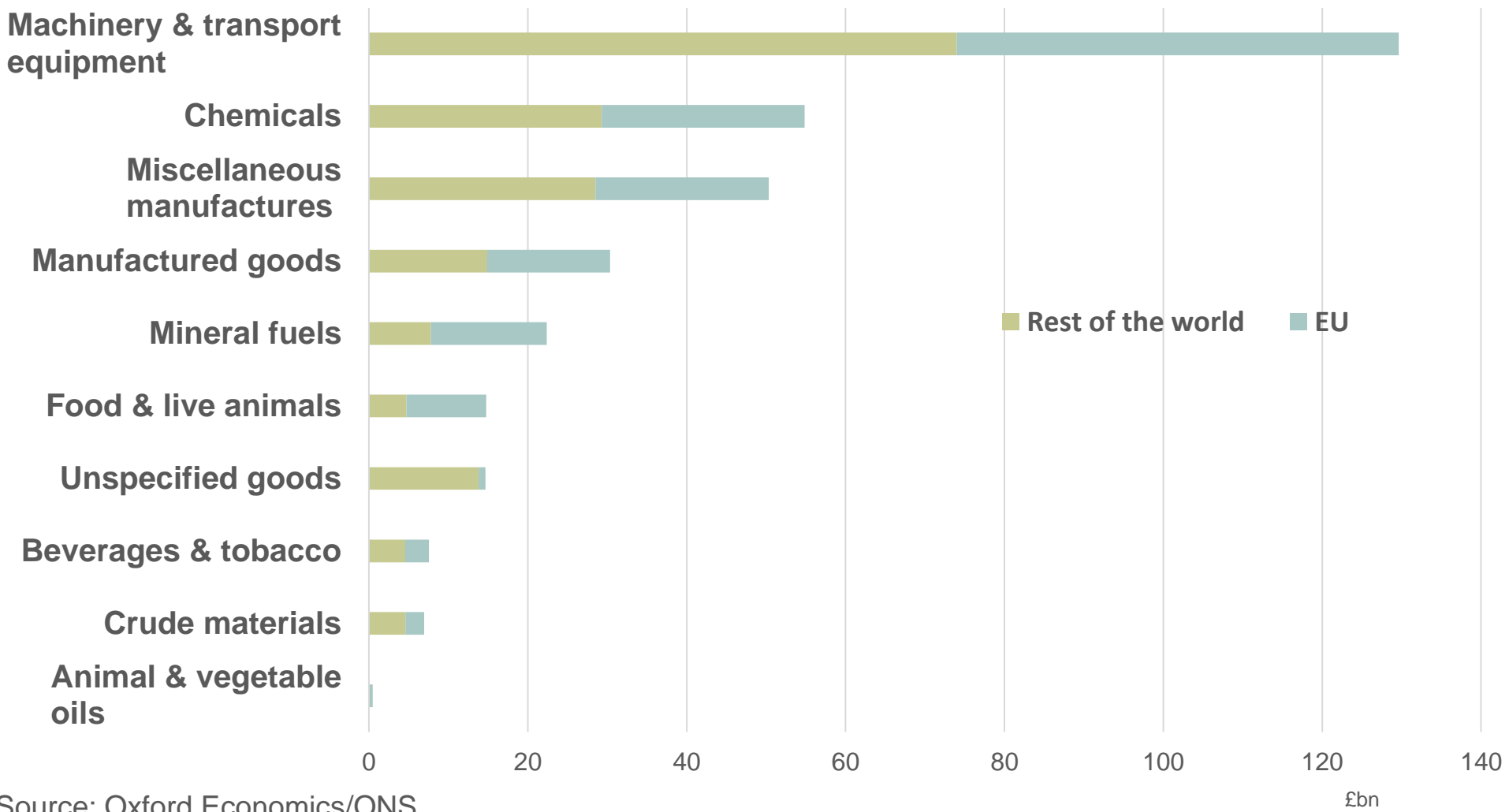


## ***UK exports goods and services by type, 2019 & 2020***

	Level, £ billion	Growth, (%y/y)		
	2019	2019	2020 Q1	2020 Q2
<b>Total exports - Goods</b>	<b>331.9</b>	5.0	-8.3	-6.2
Food and Live Animals	14.8	6.2	-11.6	3.0
Beverages and Tobacco	7.5	2.4	-17.7	-31.7
Crude Materials	6.9	-4.0	-8.2	-25.9
Mineral Fuels	22.4	-9.8	-11.8	6.6
Animal and Vegetable Oils	0.5	-6.5	3.4	4.2
Chemicals	54.8	1.3	-9.7	16.4
Manufactured Goods	30.4	0.9	4.6	-2.1
Machinery & Transport equipment	129.6	-1.0	-13.7	-32.6
Miscellaneous Manufactures	50.3	13.4	-11.5	-32.2
<b>Total exports - Services</b>	<b>308.2</b>	5.1	-4.8	-23.8

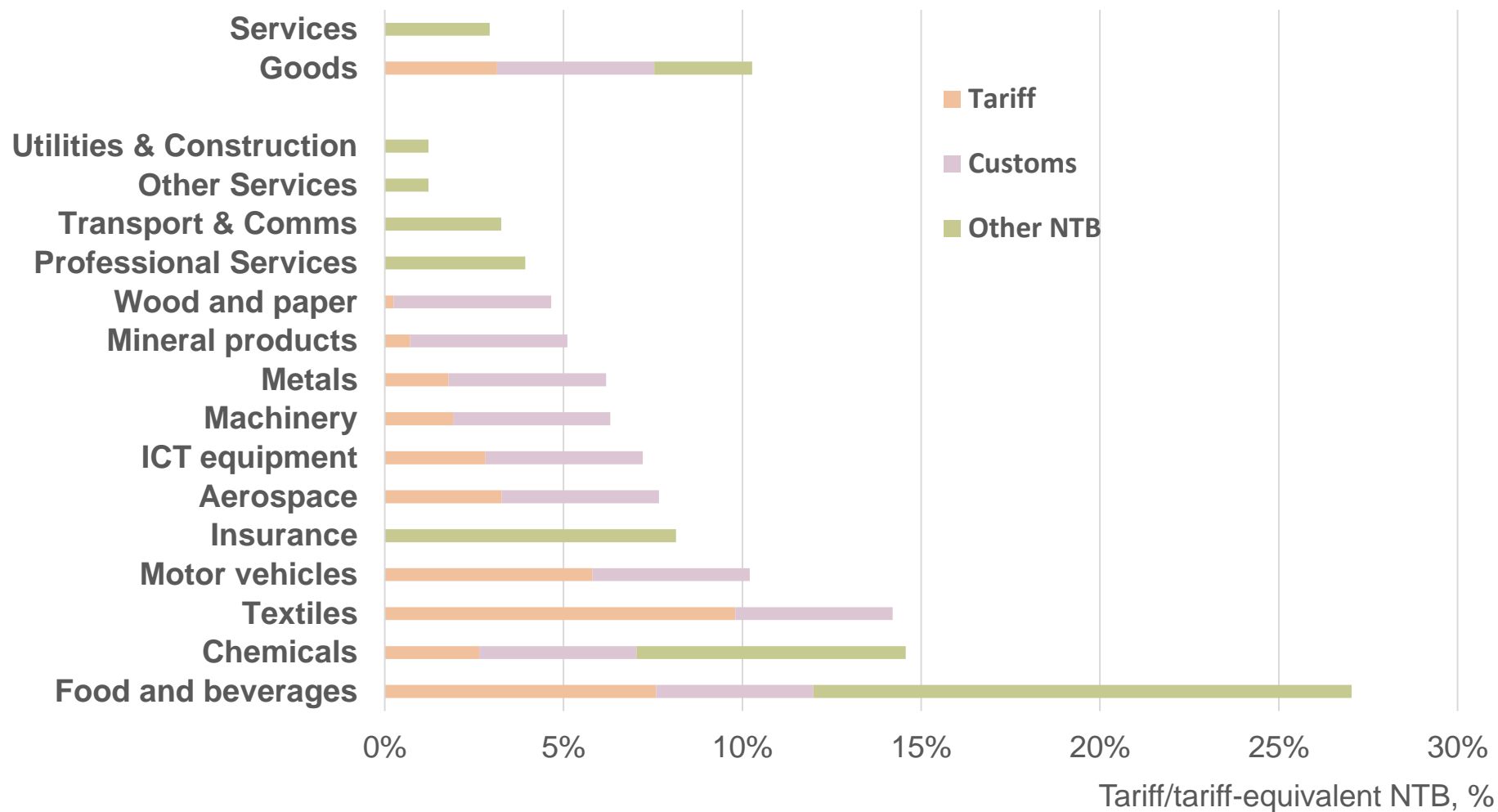
Source: ONS

# *UK goods exports to the EU and rest of world, 2019*



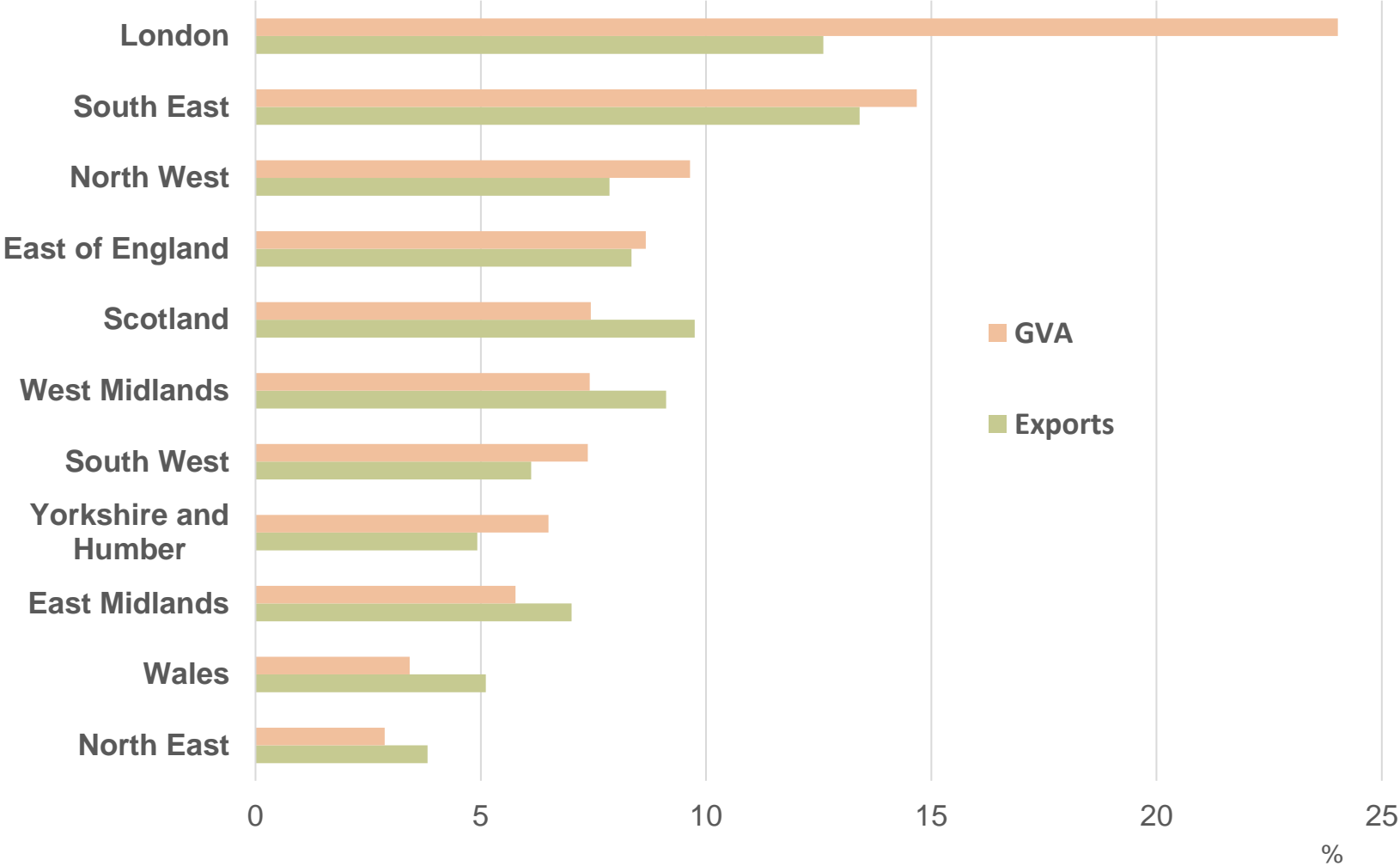
Source: Oxford Economics/ONS

# *Likely WTO tariffs and non-tariff barriers, exports to EU*



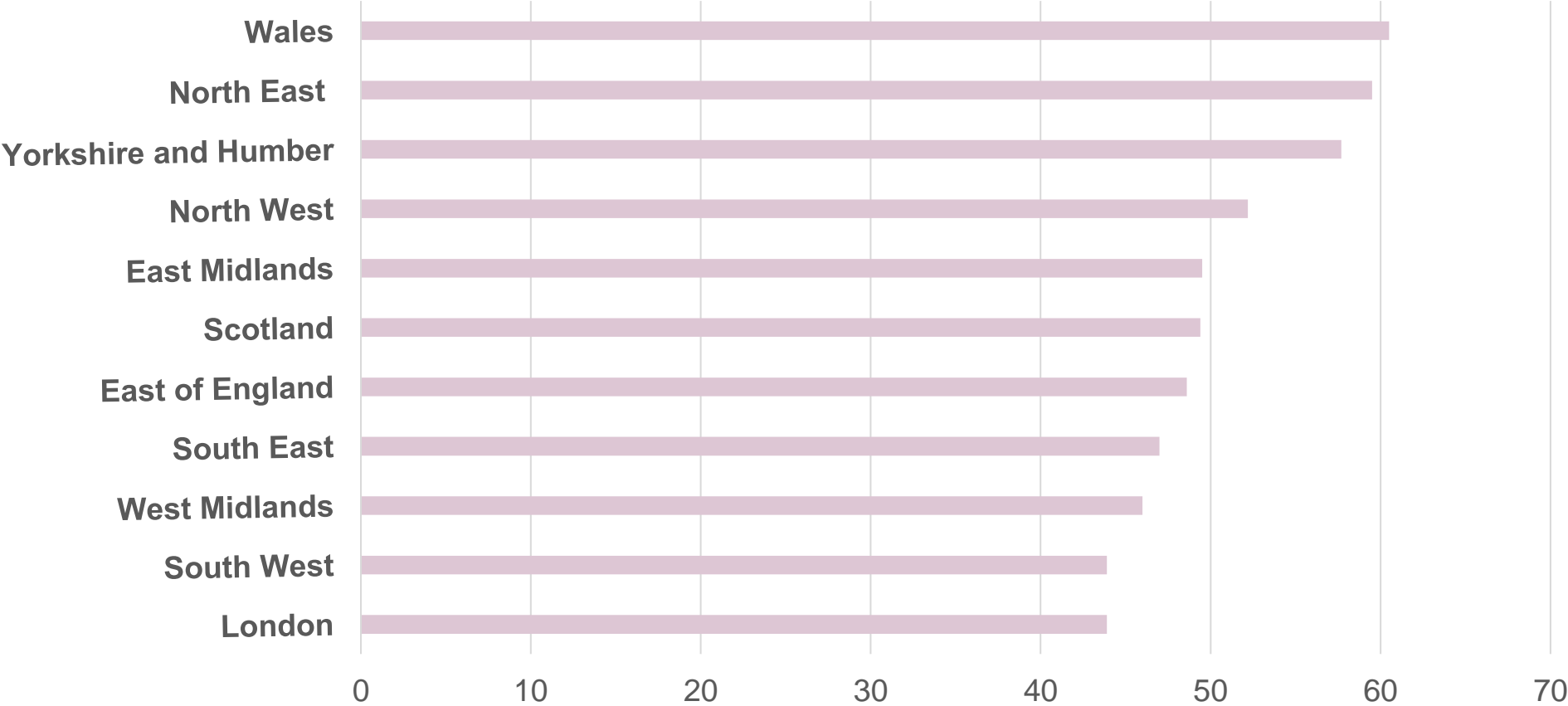
Source: Oxford Economics

# *Regions' shares of UK GVA and goods exports, 2019*



Source: Oxford Economics/ONS

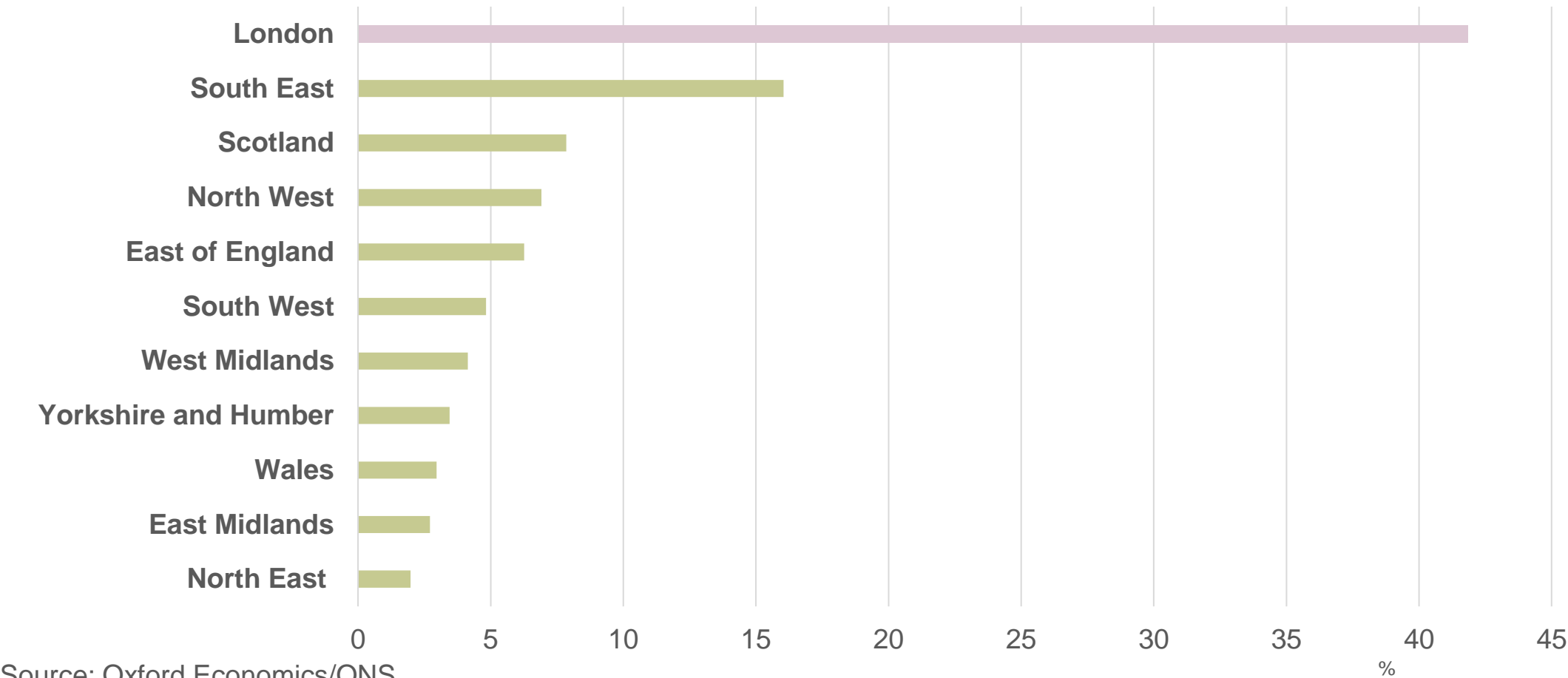
***Shares of regions' goods exports that go to EU, 2019***



Source: Oxford Economics/HMRC

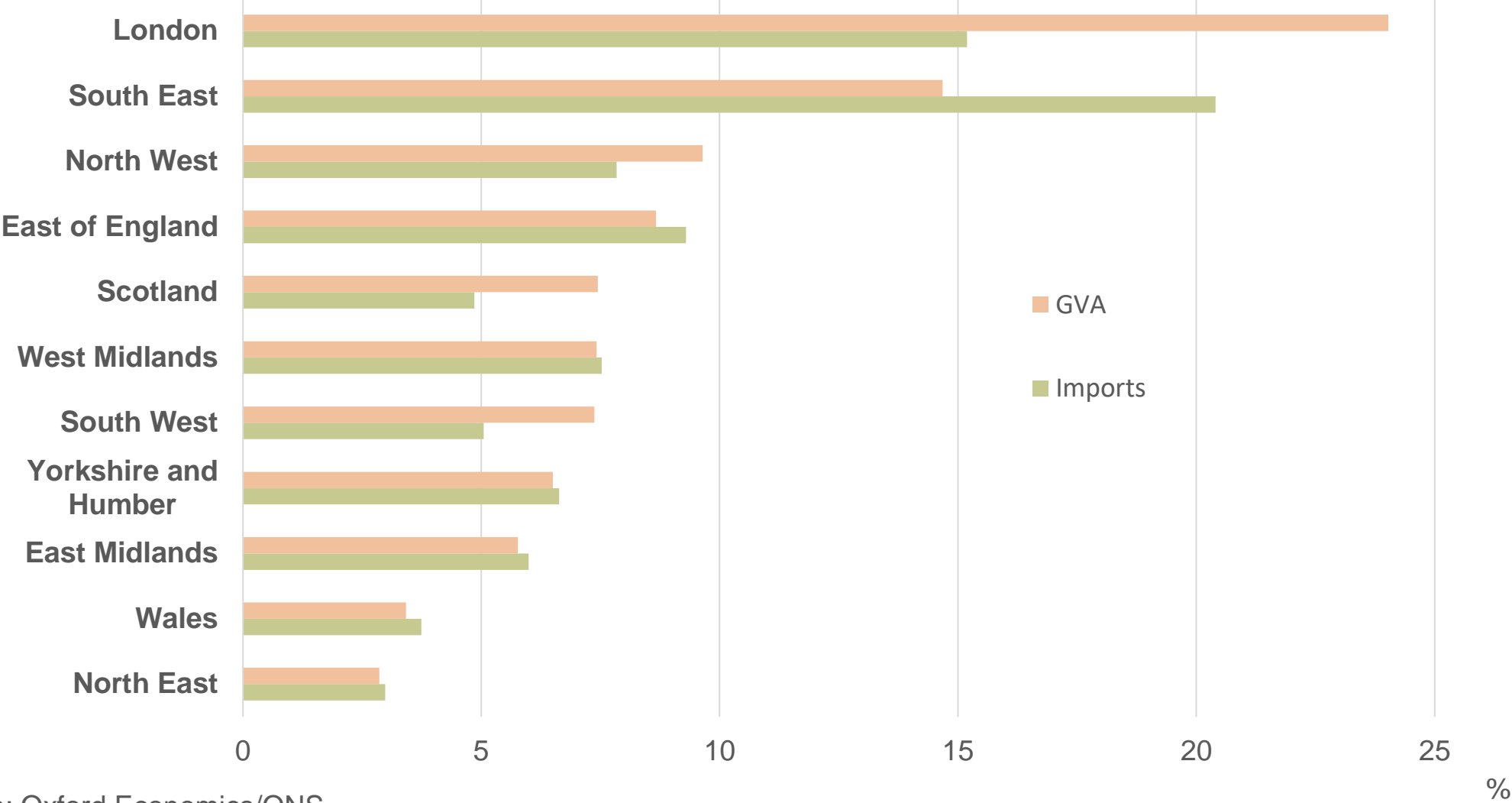
%

# *Regions' shares of UK service exports, 2017*



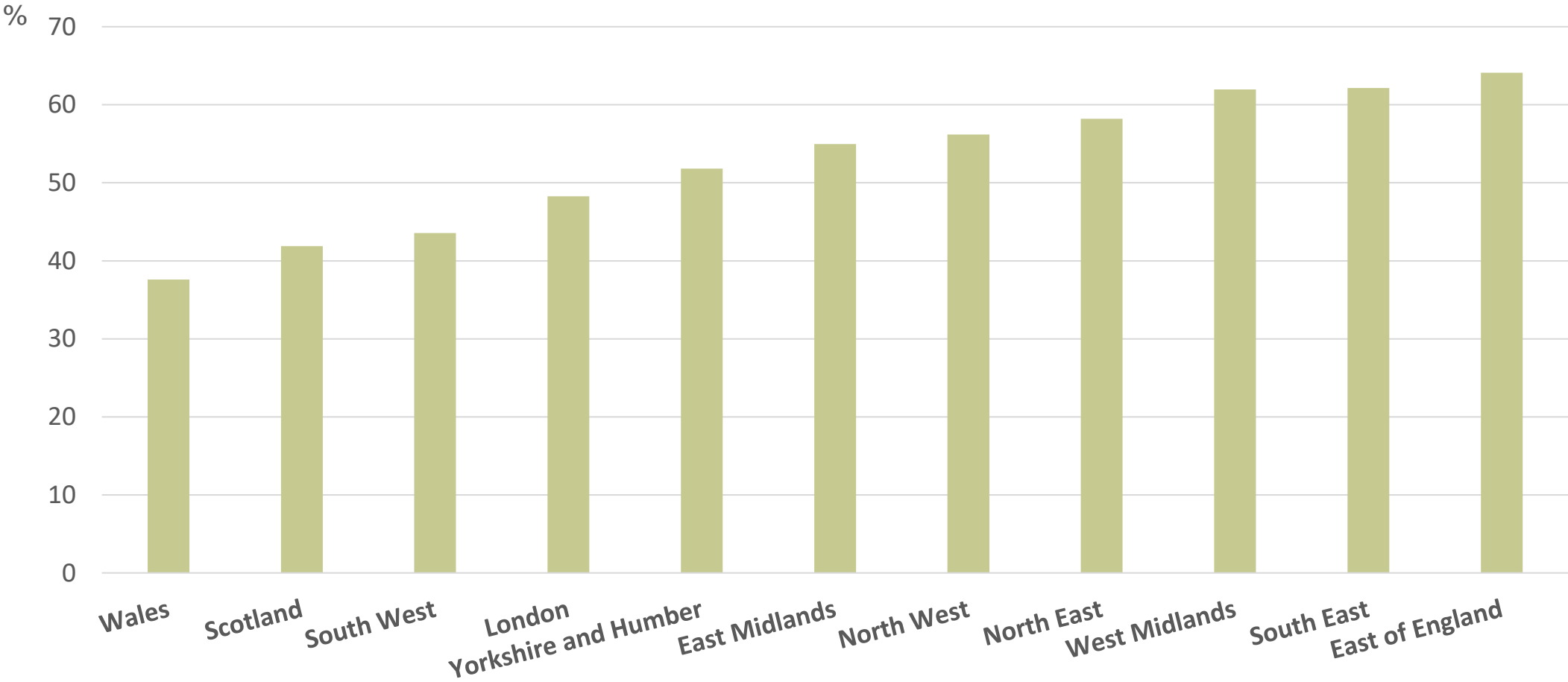
Source: Oxford Economics/ONS

# *Regions' share of UK GVA and goods imports, 2019*



Source: Oxford Economics/ONS

# *Shares of regions' goods imports that come from the EU, 2019*



Source: Oxford Economics/HMRC

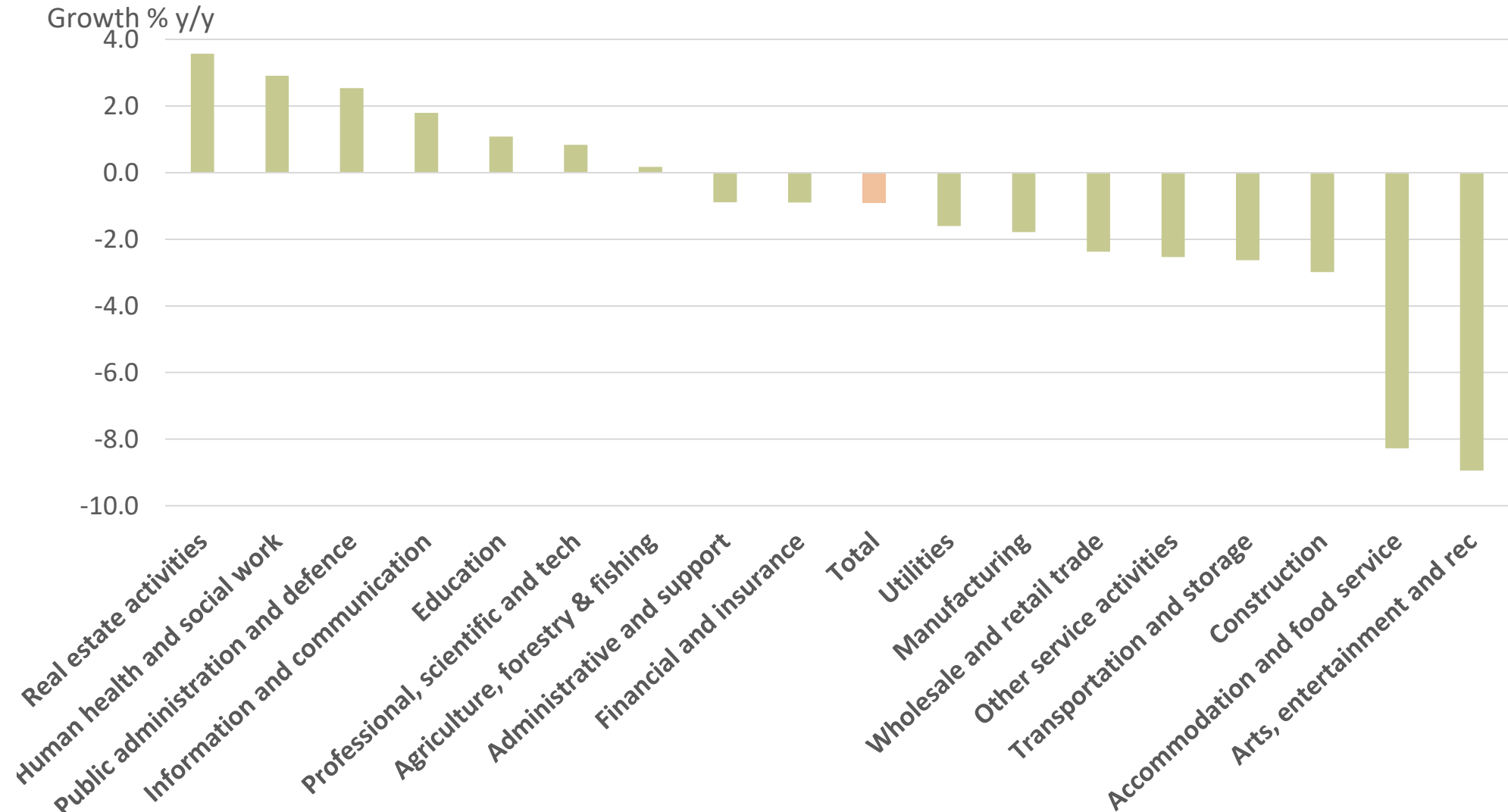


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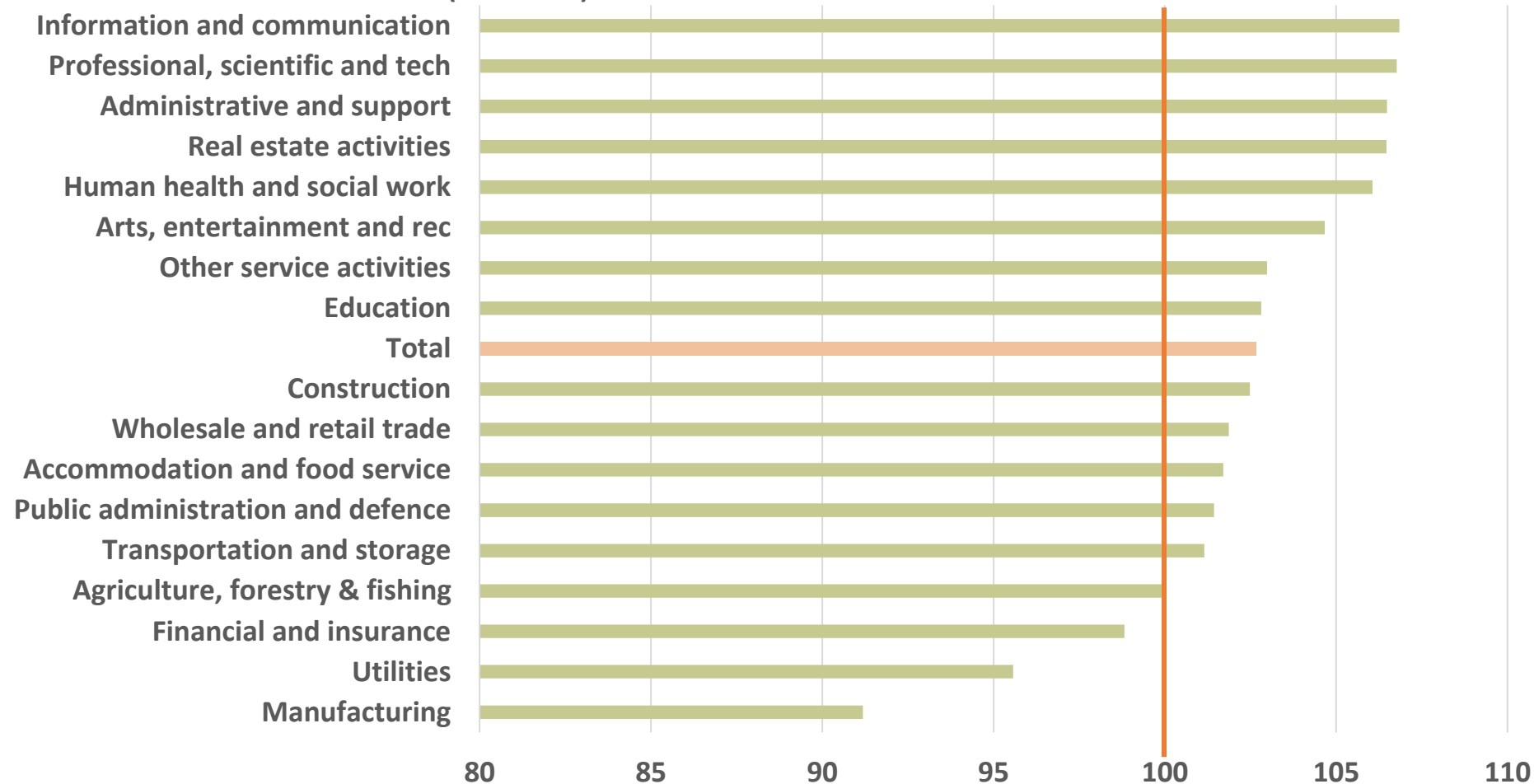
# *2020 Employment change by sector, % y/y*



Source: Oxford Economics

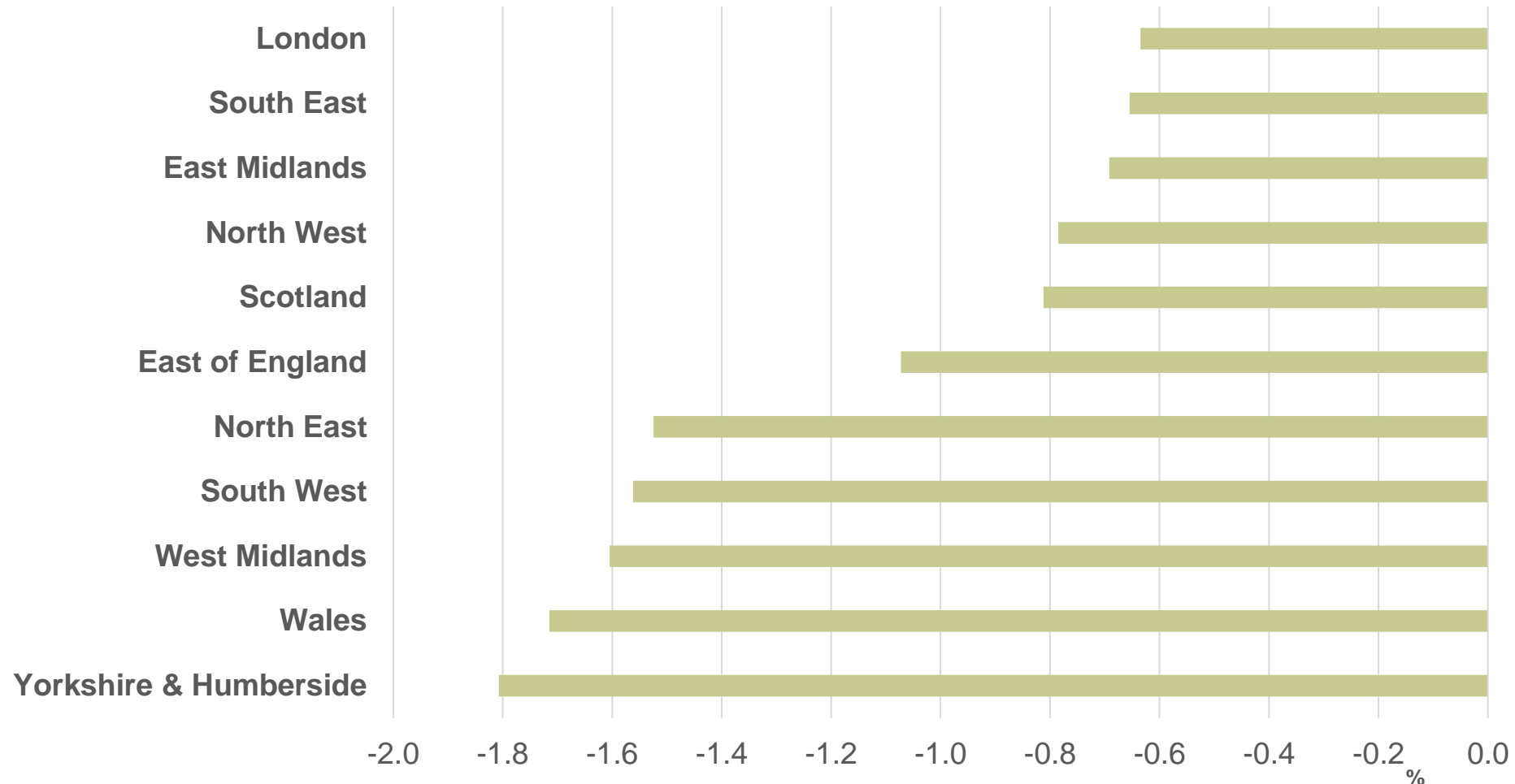
# *Comparison of employment levels by sector, 2019 & 2025*

Size in 2025 relative to 2019 levels (100=2019)



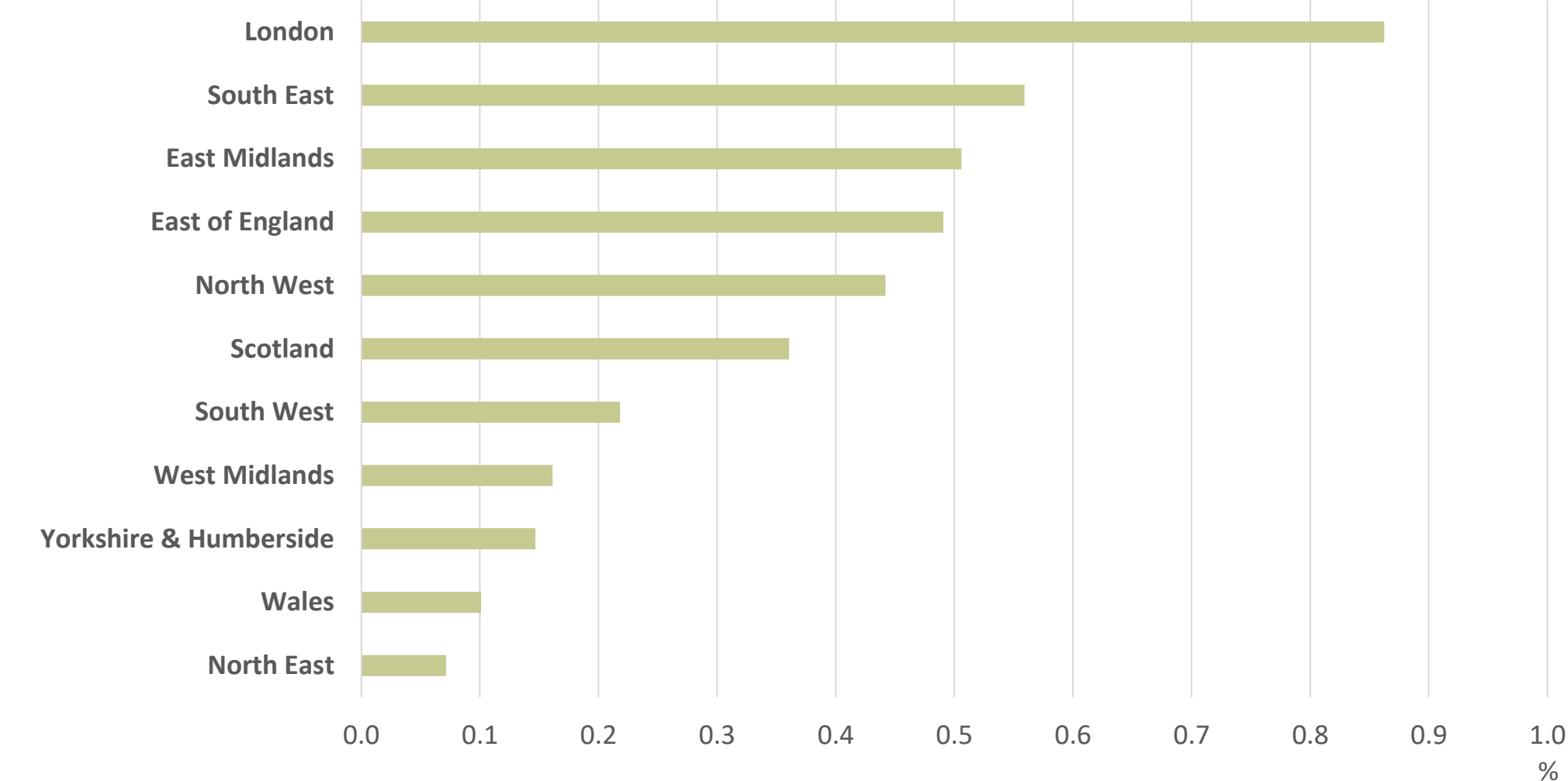
Source: Oxford Economics

# *2020 employment change by region, % y/y*



Source: Oxford Economics

***2020-25 employment growth by region, % y/y***



Source: Oxford Economics

*KEY MESSAGES*



## *Key messages*

- After a strong initial rebound, recovery slows from Q4. It could relapse if there is a second wave of the pandemic.
- End of the Job Retention Scheme is likely to cause unemployment to spike. Decision to close it a political one: public finances are not heading off track at the moment.
- Only a 60% chance of the UK & EU agreeing a FTA. “No deal” would cause damage to growth in the short- and long-term.
- Wales, North East, and to a lesser extent East and West Midlands, are most dependent on exporting. Wales is particularly reliant on the EU market.
- In employment terms, London set to be the fastest growing region to 2025, after experiencing the smallest fall in employment in 2020.
- Yorkshire & Humber, Wales, West Midlands may see the largest falls in employment this year, and may be among the slowest to recover.
- But North East will probably show greatest under-performance to 2025, reflecting its long-standing structural challenges.

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# *Further resources*

- **Economic Outlook UK report**

<https://www.icaew.com/technical/economy/economic-insight/uk-economic-outlook-strong-recovery-in-2021-but-risks-from-covid-19-and-eu-trade-talks>

- **Global Economic Outlook report**

<https://www.icaew.com/technical/economy/economic-insight/global-economic-outlook-report>

- **COVID-19 – crisis with a legacy podcast**

<https://www.icaew.com/about-icaew/who-we-are/more-than-a-number/covid19-crisis-with-a-legacy>