

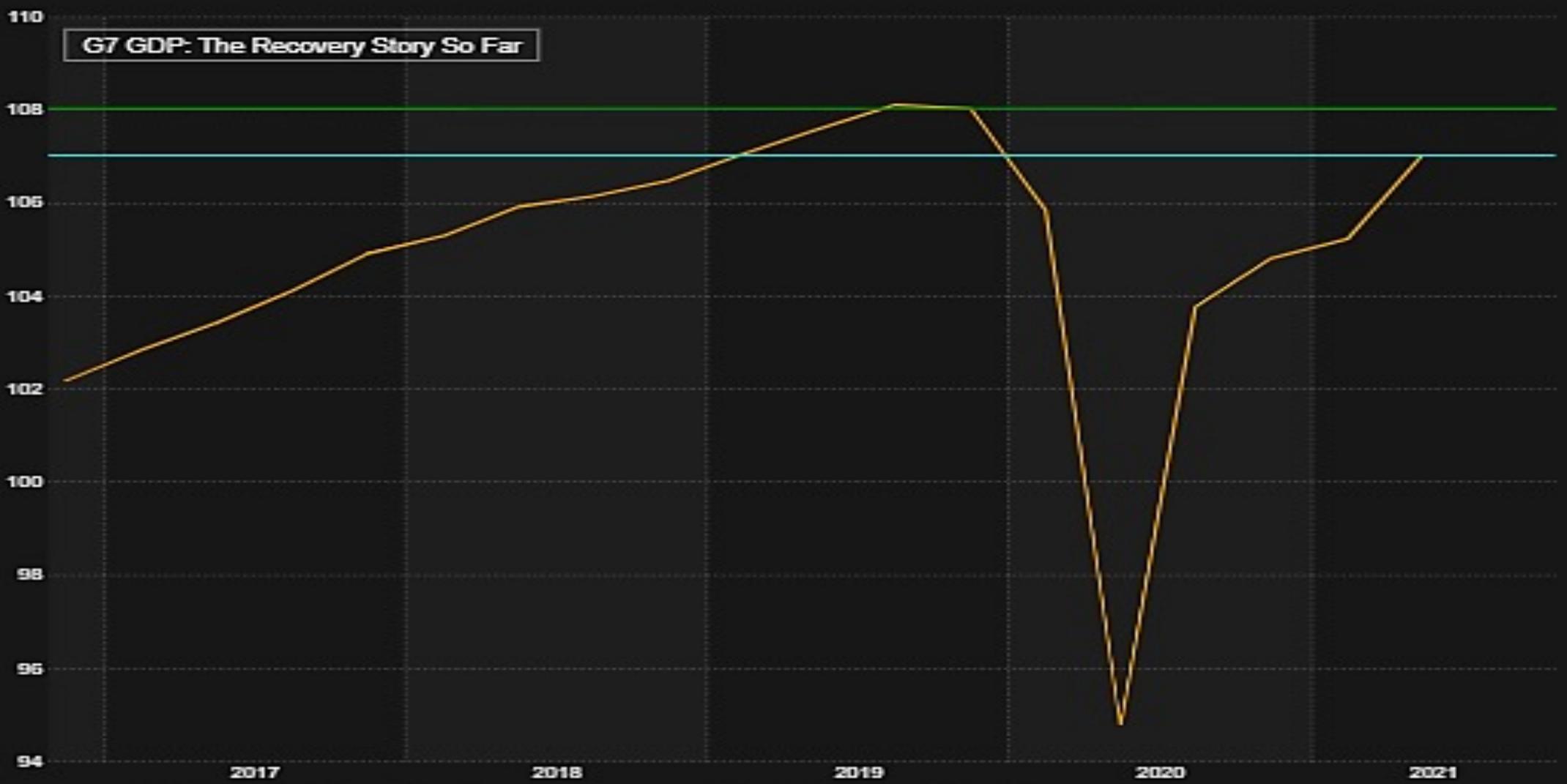
National BIDs Conference

The Economic Backdrop

Vicky Pryce

November 4, 2021

G7 GDP: The Recovery Story So Far

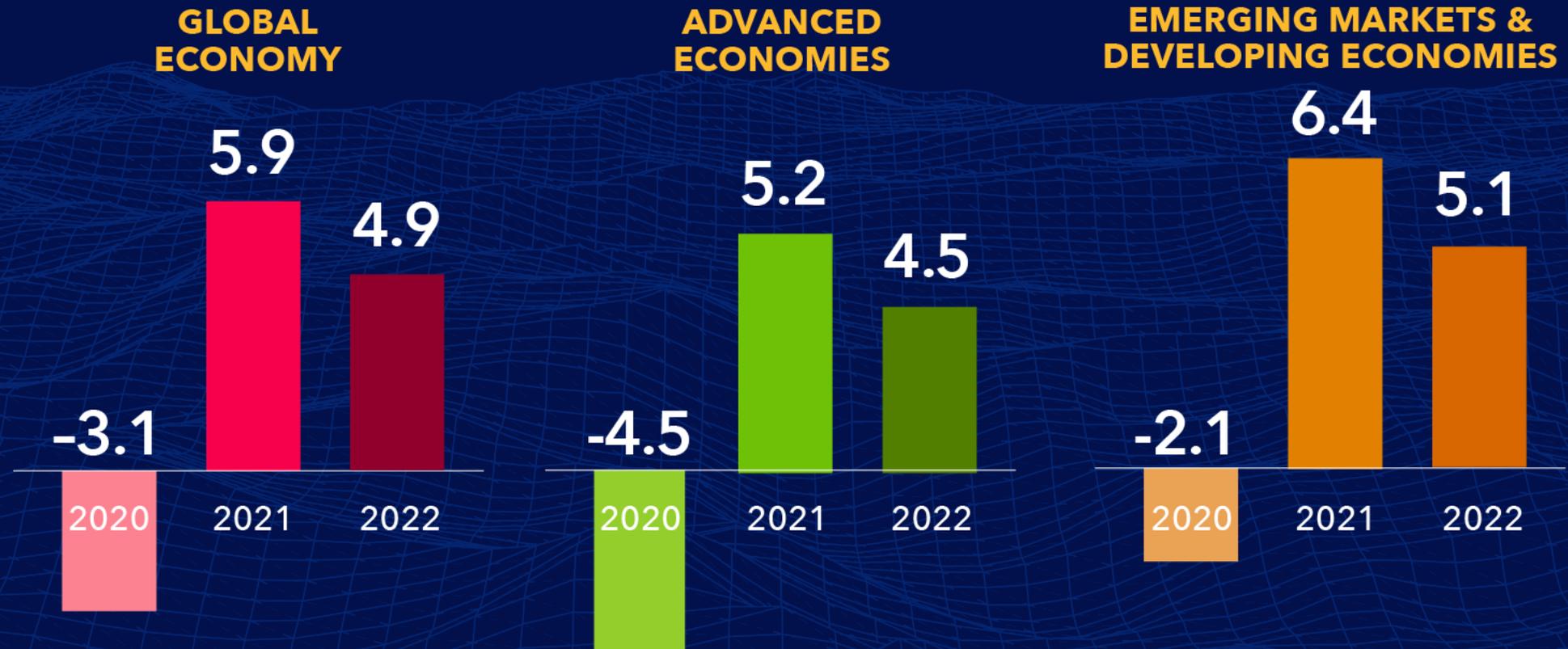


— GDP - CON : G7 Countries (aggregate) — Q2 2021 — Q4 2019

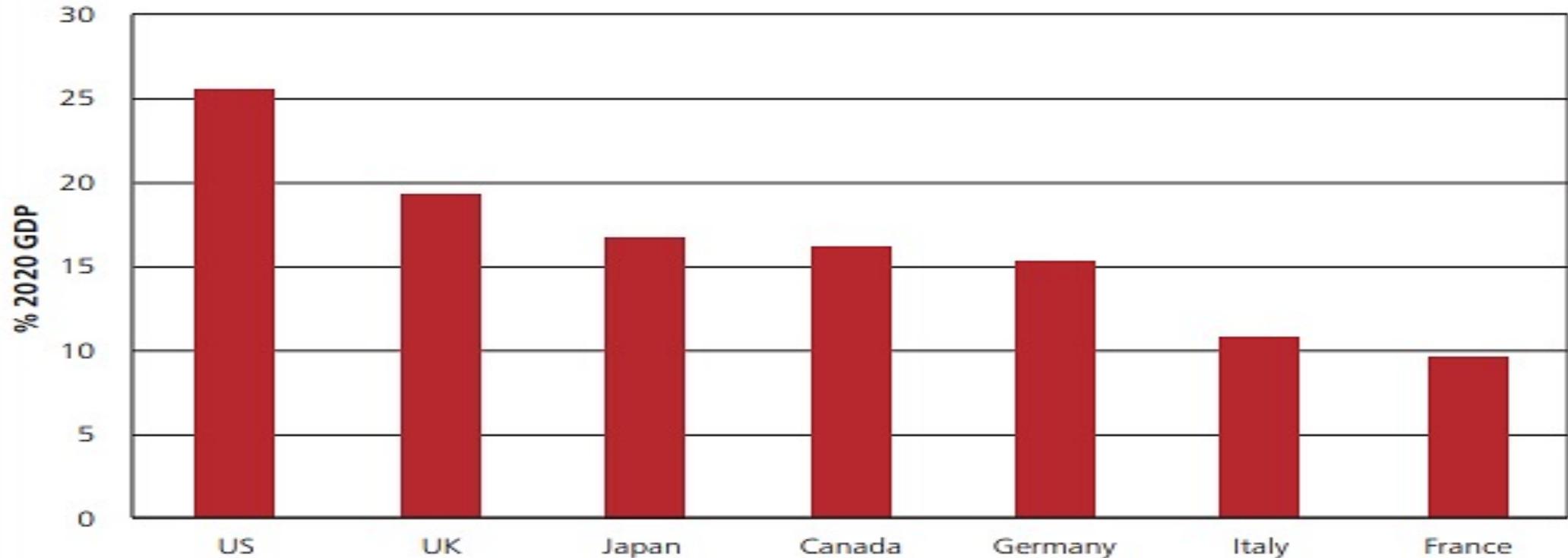
Source: Refinitiv Datastream

WORLD ECONOMIC OUTLOOK OCTOBER 2021

GROWTH PROJECTIONS



Discretionary fiscal expansion in response to COVID-19 in G7 economies - UK one of the largest.



Cumulative discretionary fiscal expansion (additional spending and foregone revenue) announced or taken by G7 governments in response to the COVID-19 pandemic as of 27 September 2021, from the IMF Fiscal Monitor Database of Country Fiscal Measures in Response to the COVID-19 Pandemic. It includes COVID-19 related measures announced since January 2020 and covers measures for implementation in 2020, 2021, and beyond. Excludes automatic stabilisers. Estimates included here are preliminary as governments are taking additional measures or finalising the details of individual measures, and exclude the updated measures and forecasts announced in this Budget.

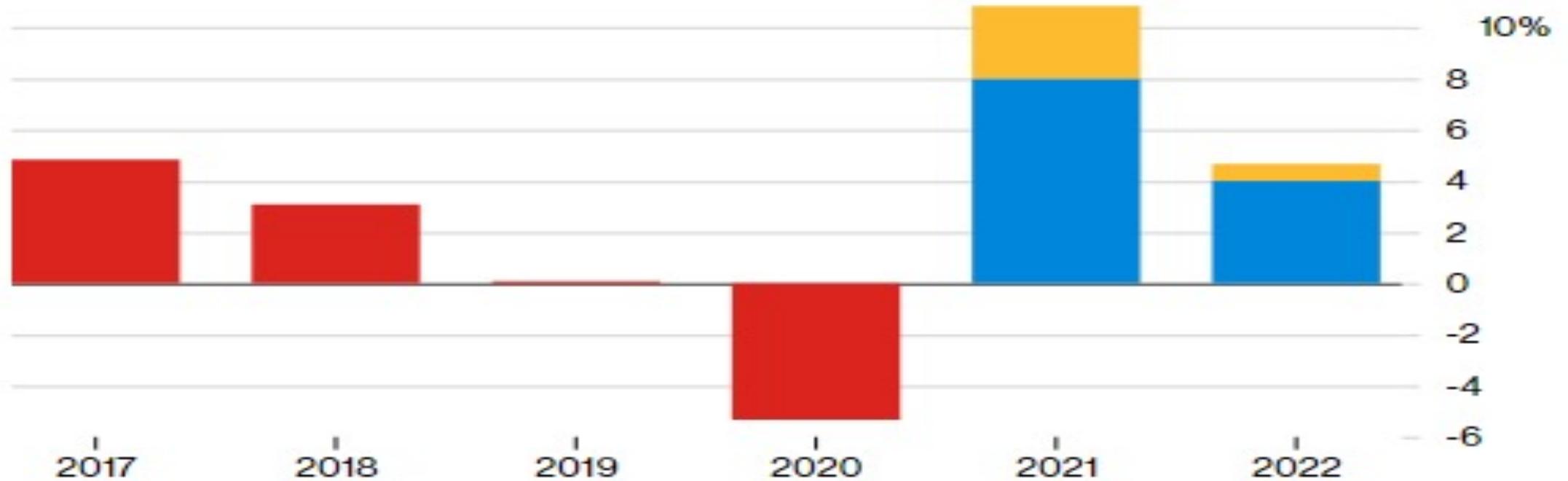
Source: IMF Fiscal Monitor October 2021.

WTO, October 2021 forecast

Stronger Bounce Back

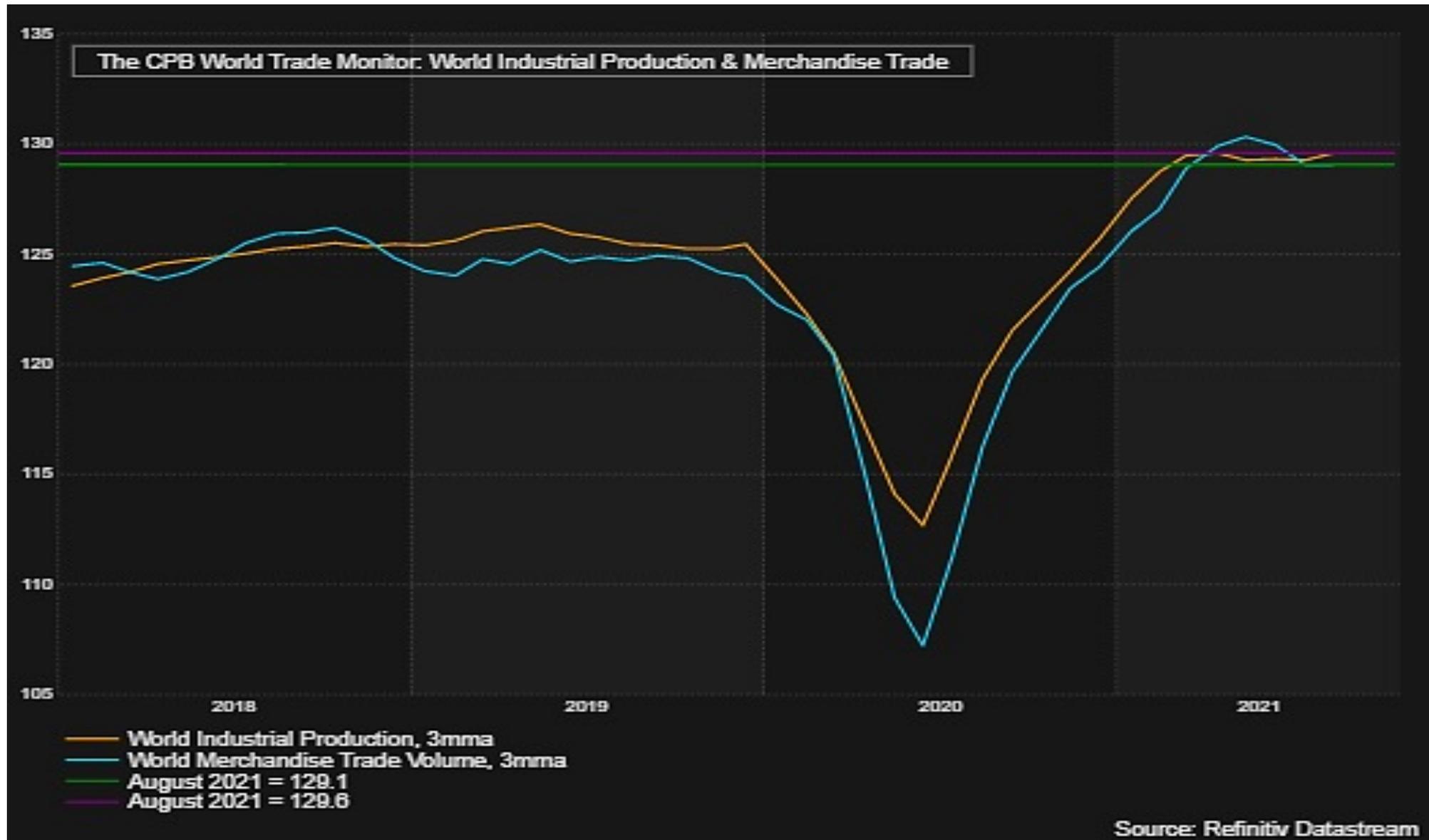
The WTO expects trade will rebound 10.8% in 2021 and 4.7% in 2022

■ Annual change in volume of world merchandise trade ■ March 2021 forecast
■ October 2021 forecast

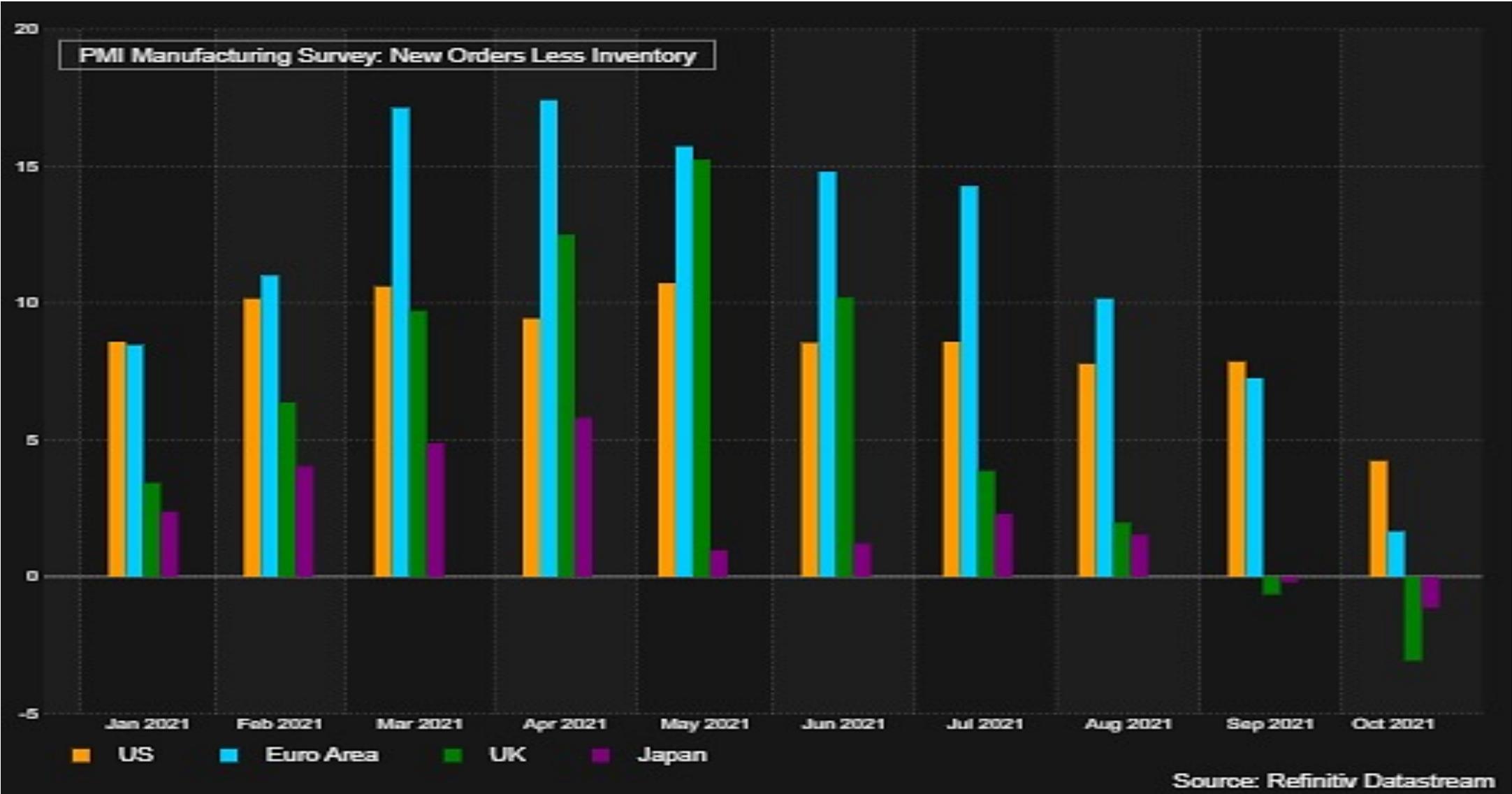


Source: World Trade Organization

But the pace of growth is slowing, with China leading on this. Supply side constraints, higher commodity prices, increased energy and transport costs.

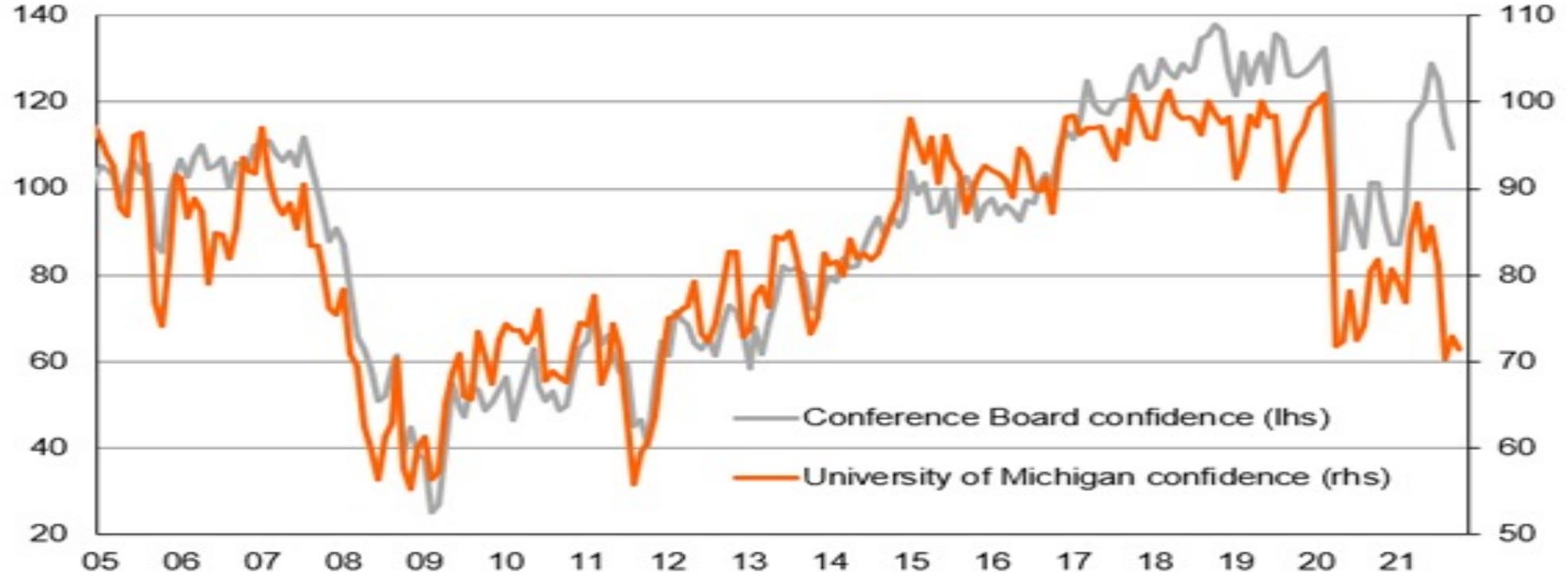


Supply chain issues are evident across the globe, particularly in the UK.

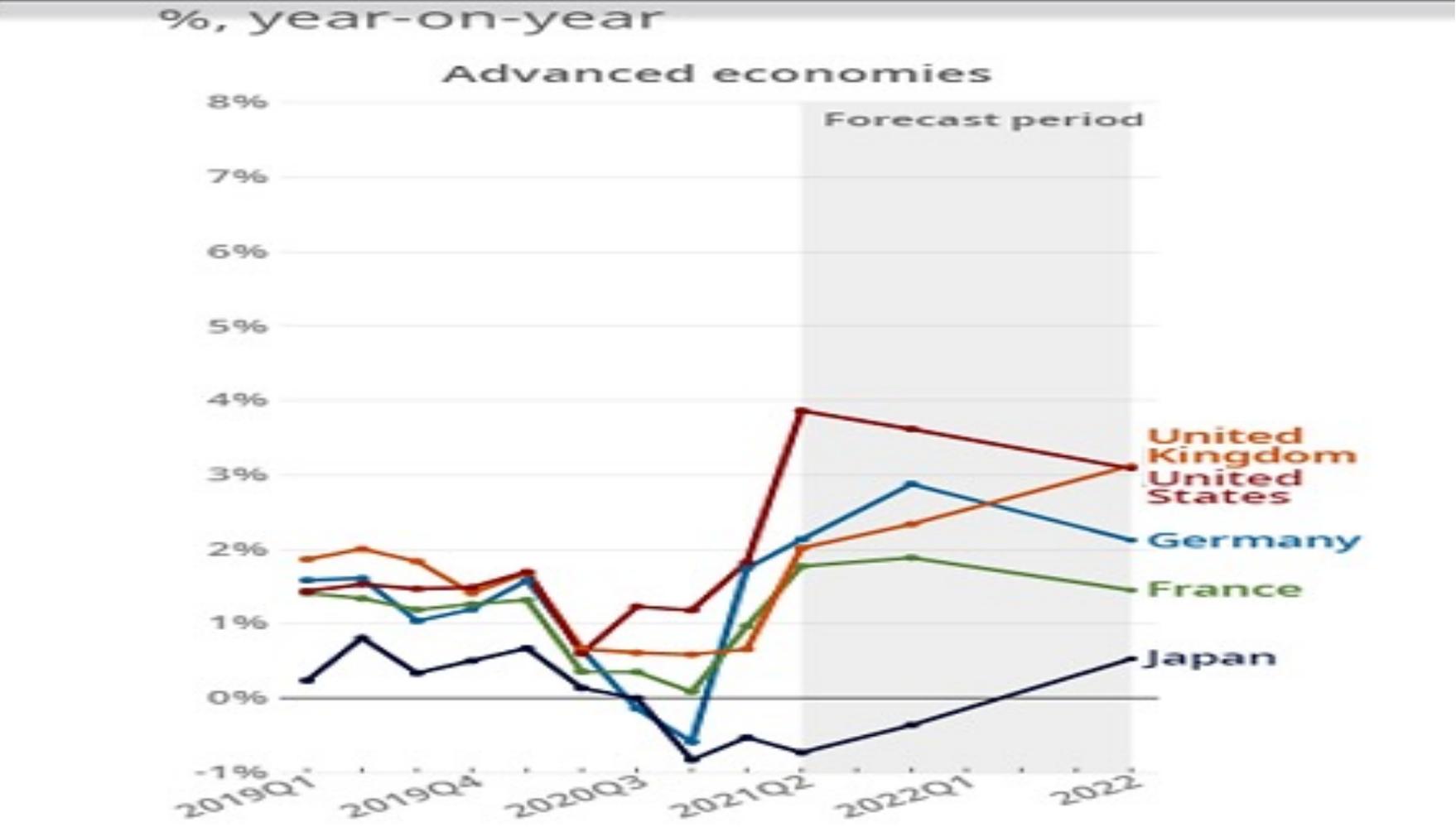


Higher inflation worries - US Consumer Confidence falls. *Source: ING*

Consumer confidence indices



Inflation prospects under-estimated – *US already at 5.4%, Europe at 4.1%, UK at 3.1% and rising.*



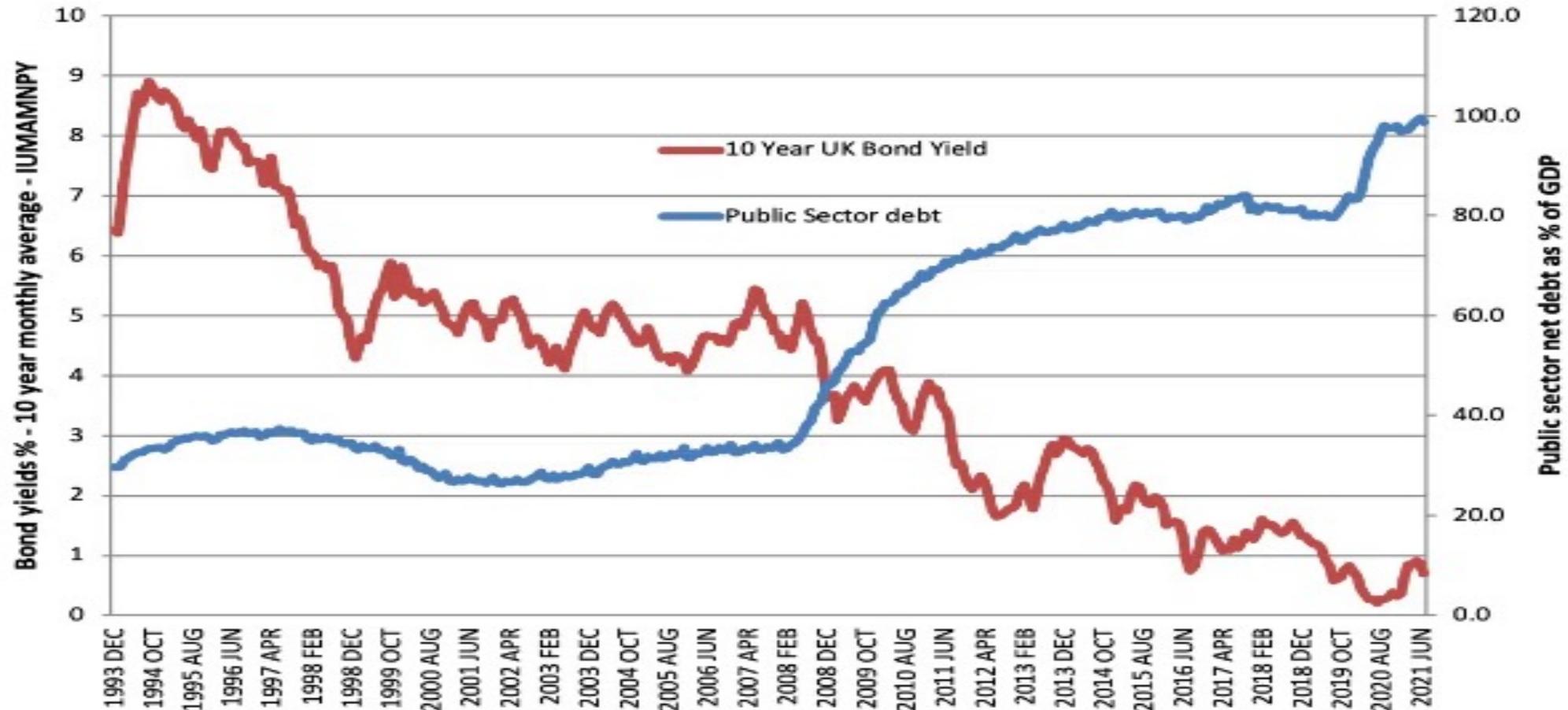
Source: [OECD Economic Outlook, Interim Report September](#)

Markets across expecting higher inflation and bond yields going up.
 Level and Change in 10 year bond yields - October 29 over October 28 2021. %

United States	1.5556	 0.023	-0.02%
United Kingdom	1.0340	 0.026	0.03%
Japan	0.0990	 0.010	0.01%
Australia	1.9420	 0.070	0.07%
Germany	-0.1050	 0.045	0.05%
Brazil	12.2450	 0.310	0.31%
Russia	8.1700	 0.030	0.03%
India	6.3880	 0.021	0.02%
Canada	1.7230	 0.050	0.05%
Italy	1.1297	 0.128	0.13%
France	0.2710	 0.074	0.07%
South Africa	9.6400	 0.035	0.04%
China	2.9840	 0.003	0.00%
Switzerland	-0.0058	 0.084	0.08%

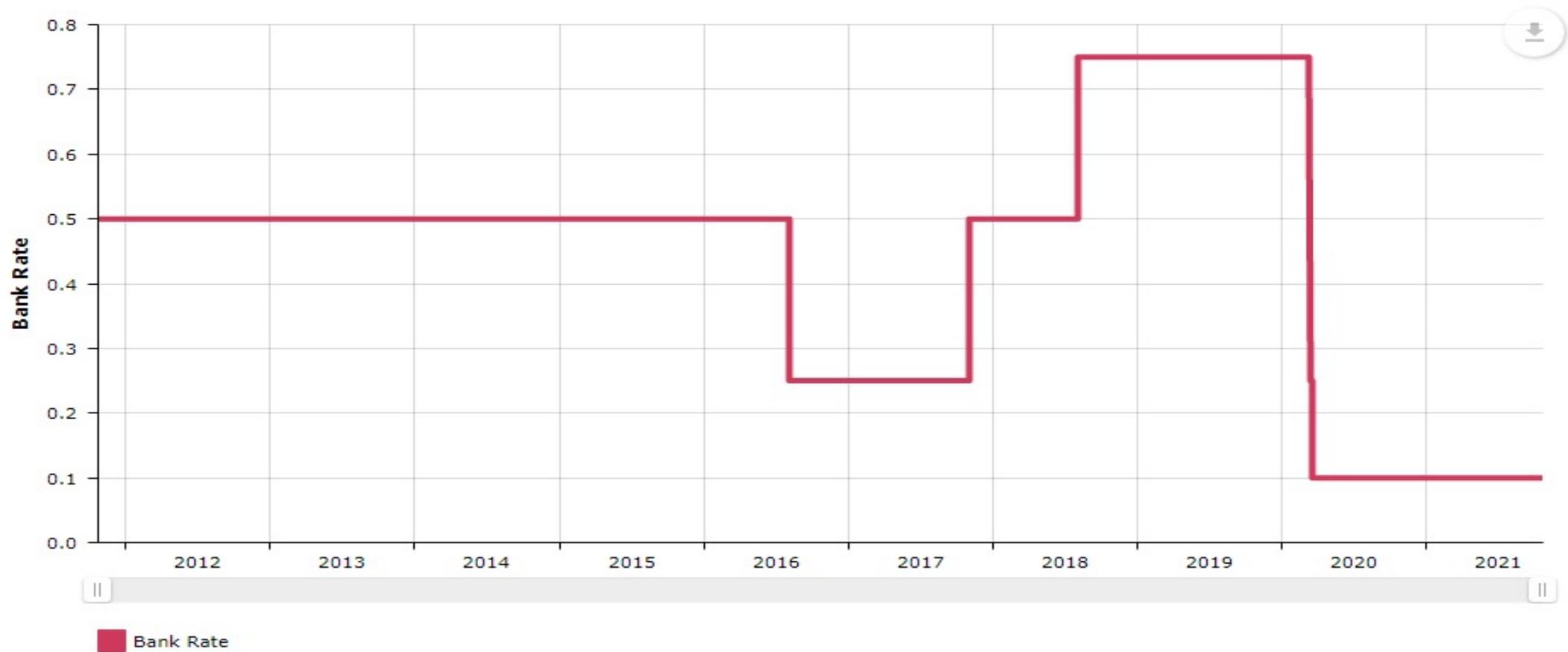
So far so good but UK 10 year yields at highest levels for 2 years.

Bond yields and public sector debt



And central bank interest rates may start rising soon. **Source: Bank of England- %**

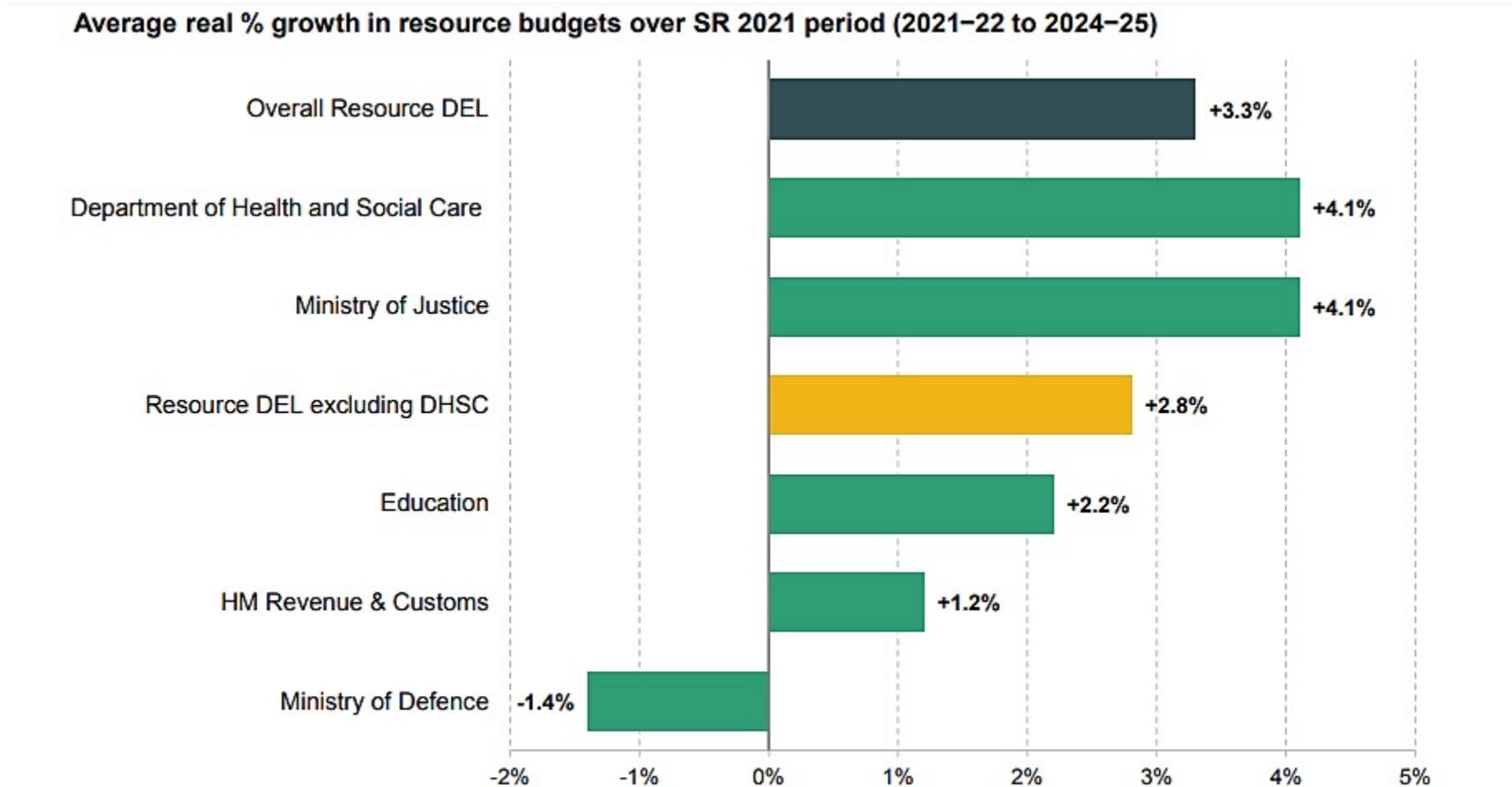
Official Bank Rate



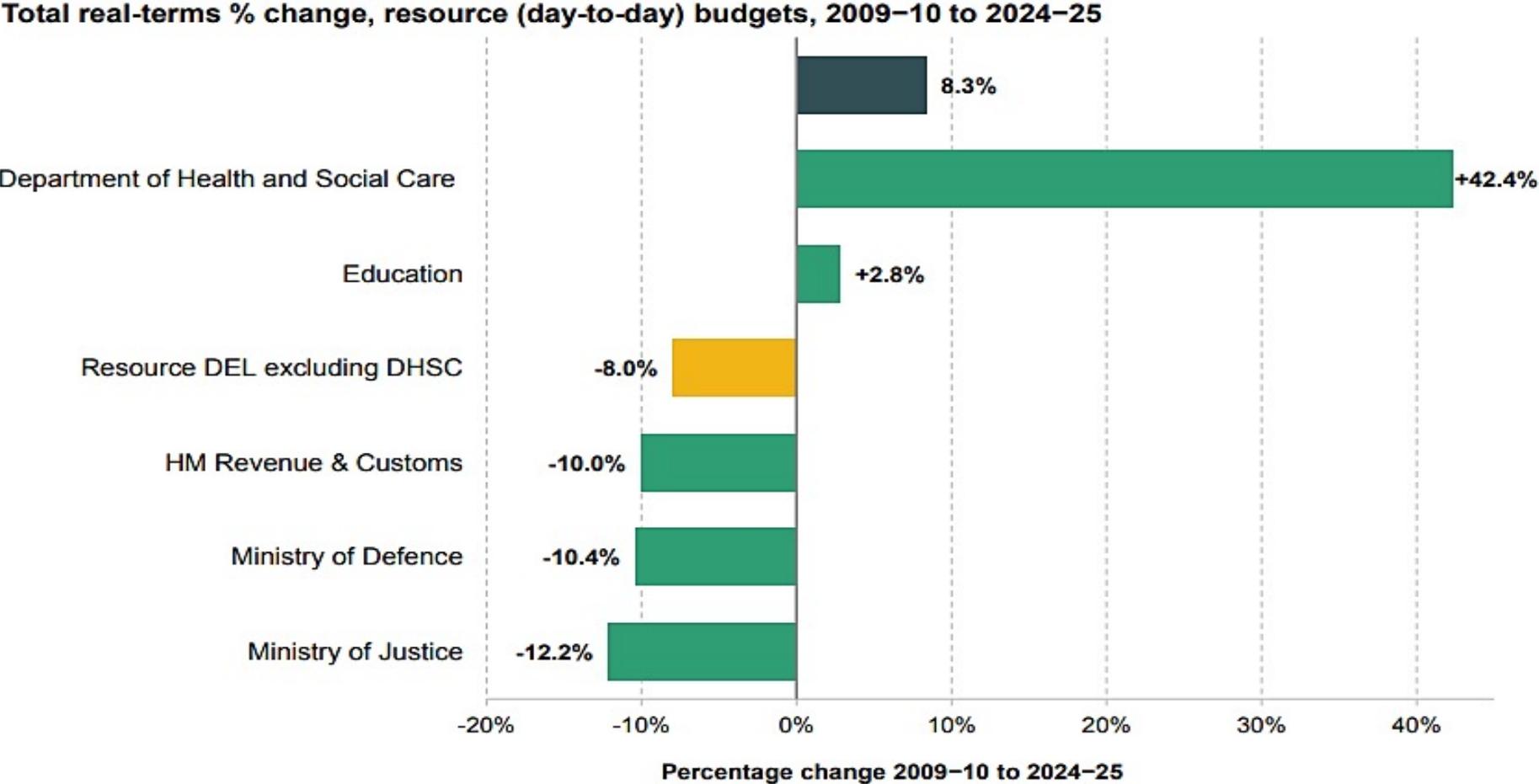
OBR Oct 2021: UK GDP revised upwards in Oct 27th budget - but inflation up and high public borrowing to continue though at lower pace as taxes go up - NI, freezing of income tax thresholds, corporation tax. Though welcome temporary cuts/changes to business rates.



Chancellor's spending review largesse over 3 years - mostly in health and though extra funds for 'levelling-up' in regions, cities and towns - includes 3% real terms increase in councils' annual funding - (1.8% if excluding social care reform funding- Grant funding for existing services up £1.6bn next year, then frozen). *Source: IFS*



But austerity cuts of the 2010s only partly reversed for most departments.



OBR: Oct 2021 economic forecast: Question mark as consumer confidence down and sharp fall in business optimism when NI rise announced. And after bounce back, investment and GDP back to modest growth later.

	Forecast						
	2020	2021	2022	2023	2024	2025	2026
GDP Growth	-9.8	6.5	6.0	2.1	1.3	1.6	1.7
GDP Growth per capita	-10.2	6.3	5.6	1.7	1.0	1.3	1.4
Main components of GDP							
Household consumption ²	-10.9	4.7	9.8	1.3	1.7	1.3	1.0
General government consumption	-6.5	14.7	2.0	1.5	1.2	1.7	2.1
Fixed investment	-8.8	5.7	8.9	3.3	-0.7	3.2	3.9
Business investment	-10.2	-2.4	15.7	4.7	-0.8	4.8	5.8
General government investment	3.5	14.7	-2.1	6.5	-1.0	1.1	1.8
Private dwellings investment ³	-13.1	16.3	4.6	-1.4	-0.5	1.4	1.5
Change in inventories ⁴	-0.5	0.1	0.2	0.0	0.0	0.0	0.0
Net trade ⁴	0.8	-0.8	-2.5	0.3	0.1	-0.1	-0.2
CPI Inflation	0.9	2.3	4.0	2.6	2.1	2.0	2.0
Employment (millions)	32.5	32.2	32.6	33.0	33.2	33.3	33.4
Unemployment (% rate)	4.6	4.9	4.8	4.3	4.2	4.2	4.2
Productivity per hour	0.6	0.5	0.9	1.3	1.3	1.3	1.4

¹ All figures in this table are rounded to the nearest decimal place. This is not intended to convey a degree of unwarranted accuracy. Components of GDP may not sum to total due to rounding and the statistical discrepancy.

² Includes households and non-profit institutions serving households.

³ Includes transfer costs of non-produced assets.

⁴ Contribution to GDP growth, percentage points.

Source: Office for Budget Responsibility.

Good news on employment front.. and job vacancies at record levels.

UK employment, unemployment and economic inactivity rates, seasonally adjusted, between June to August 2006 and June to August 2021

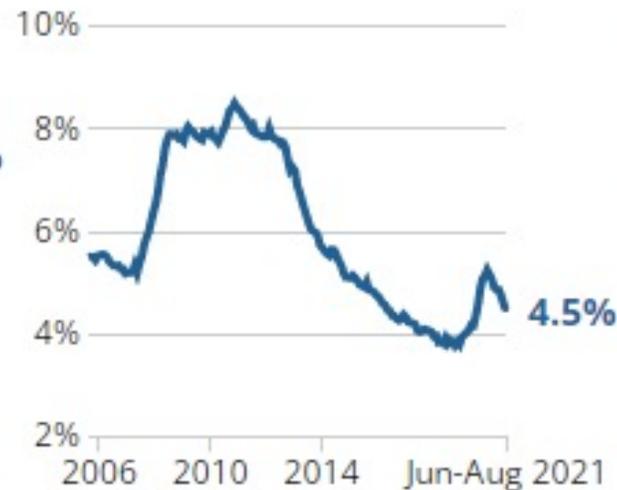
Employment (all aged 16 to 64)

Quarterly change: 0.5pps ▲
Since Dec-Feb 2020: -1.3pps ▼



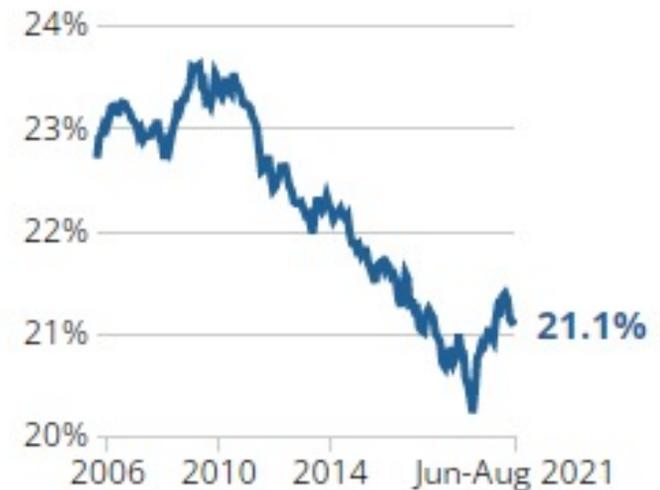
Unemployment (all aged 16+)

Quarterly change: -0.4pps ▼
Since Dec-Feb 2020: 0.5pps ▲



Economic inactivity (all aged 16 to 64)

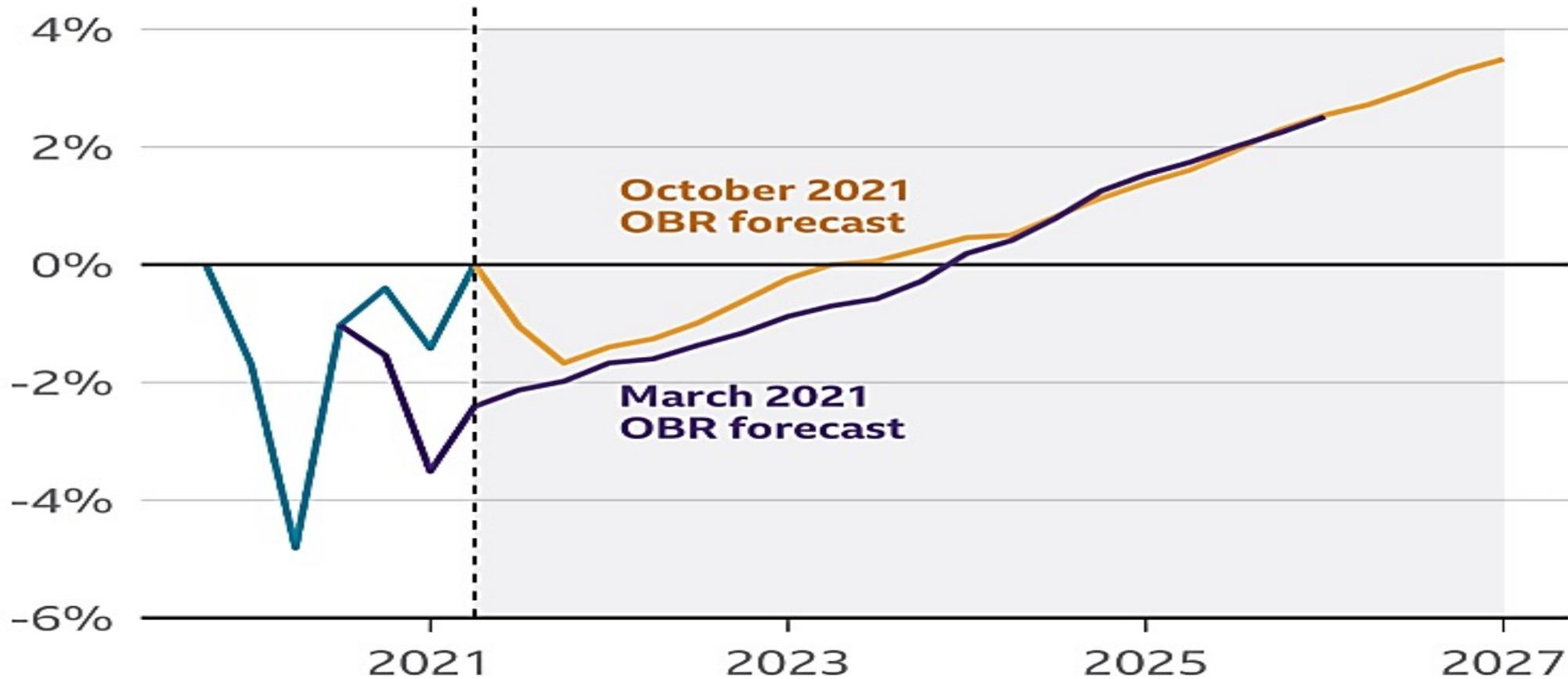
Quarterly change: -0.2pps ▼
Since Dec-Feb 2020: 0.9pps ▲



But... retail sales to Sept 21 falling for five consecutive months.

Disposable incomes won't recover before 2023

Changes in household income after taxes and price rises



Source: Office for Budget Responsibility

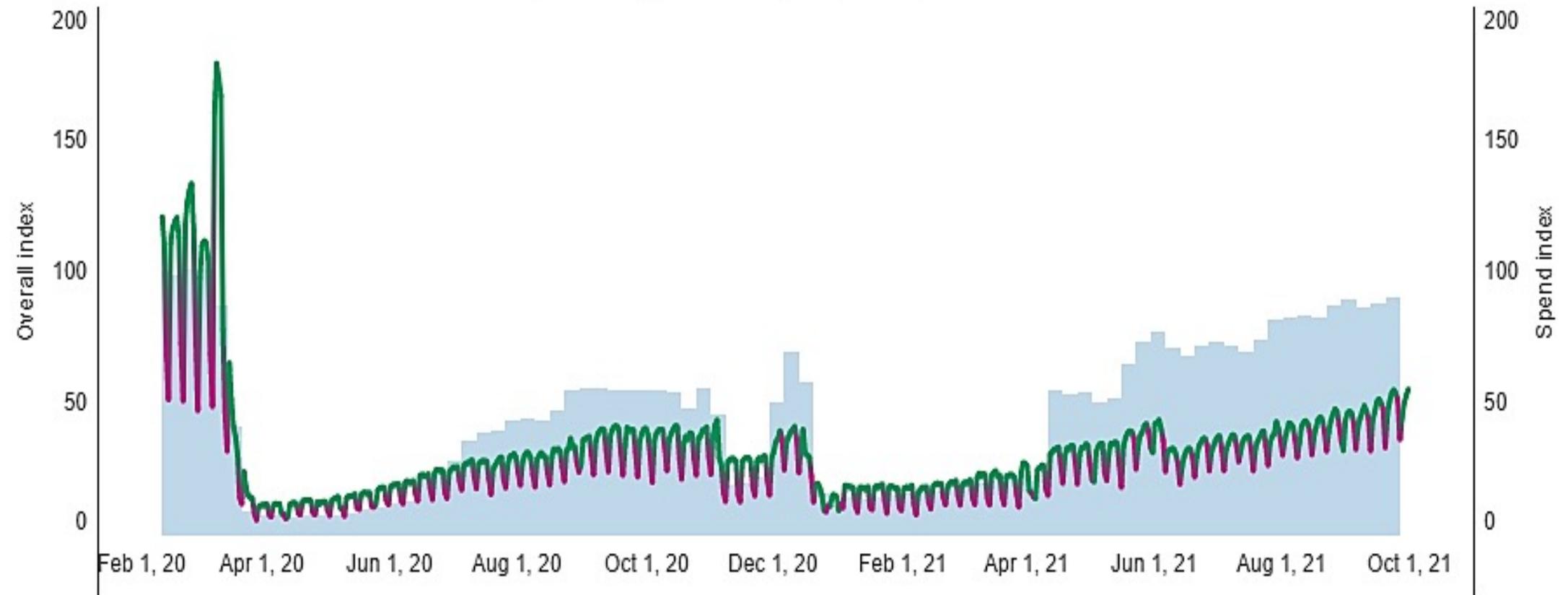
But moving slowly back to normality, though unevenly between regions/cities.

Source: Centre for Cities

Overall recovery and spend index

This index looks at everyone who was in the city centre at any time of the day, compared to a pre-lockdown baseline of 100.

The spend index looks at relevant offline sales made in the city centre at any time of the day, compared to a pre-lockdown baseline of 100.

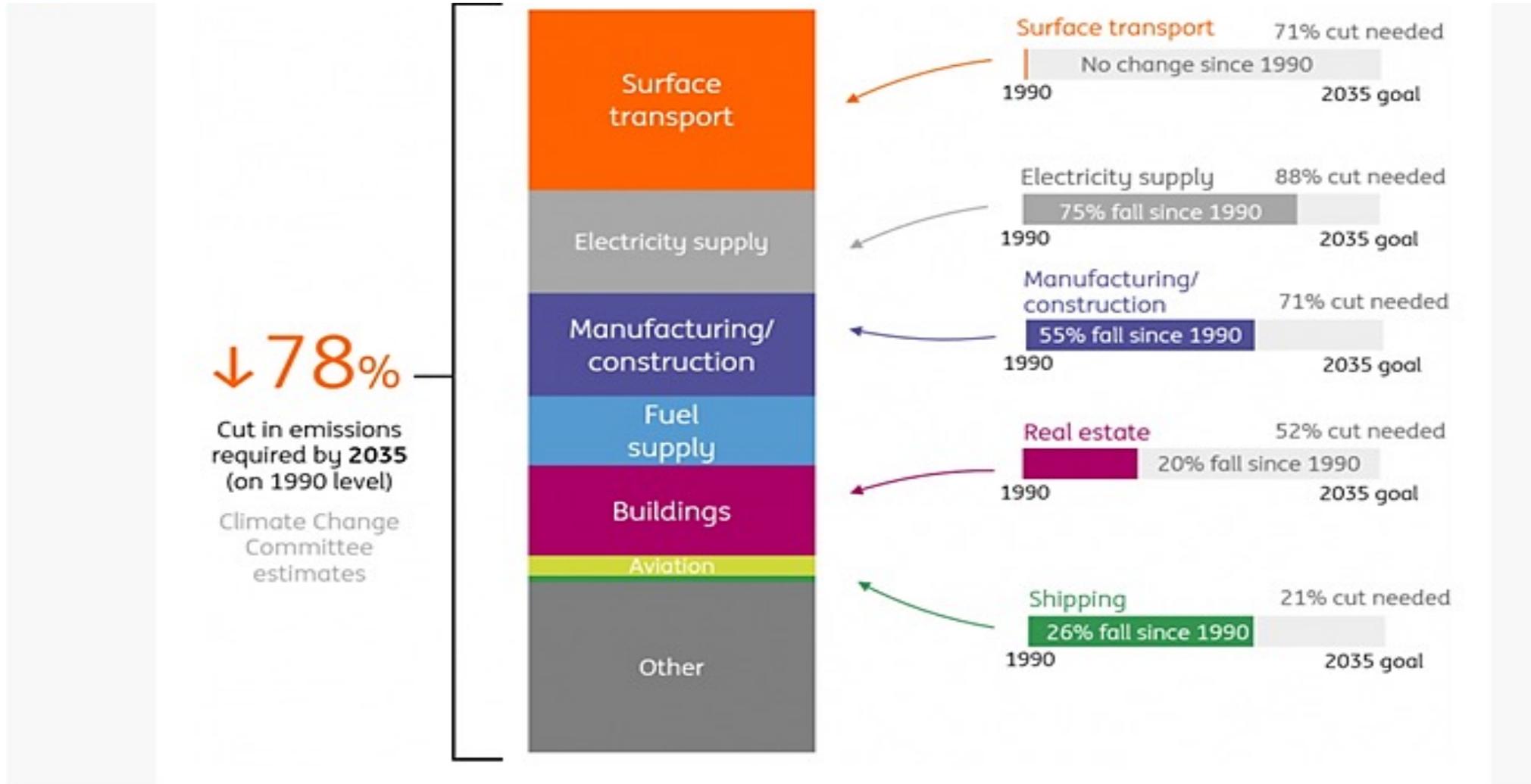


● Weekend ● Weekday

Overall index: 49 **Spend index: 90**

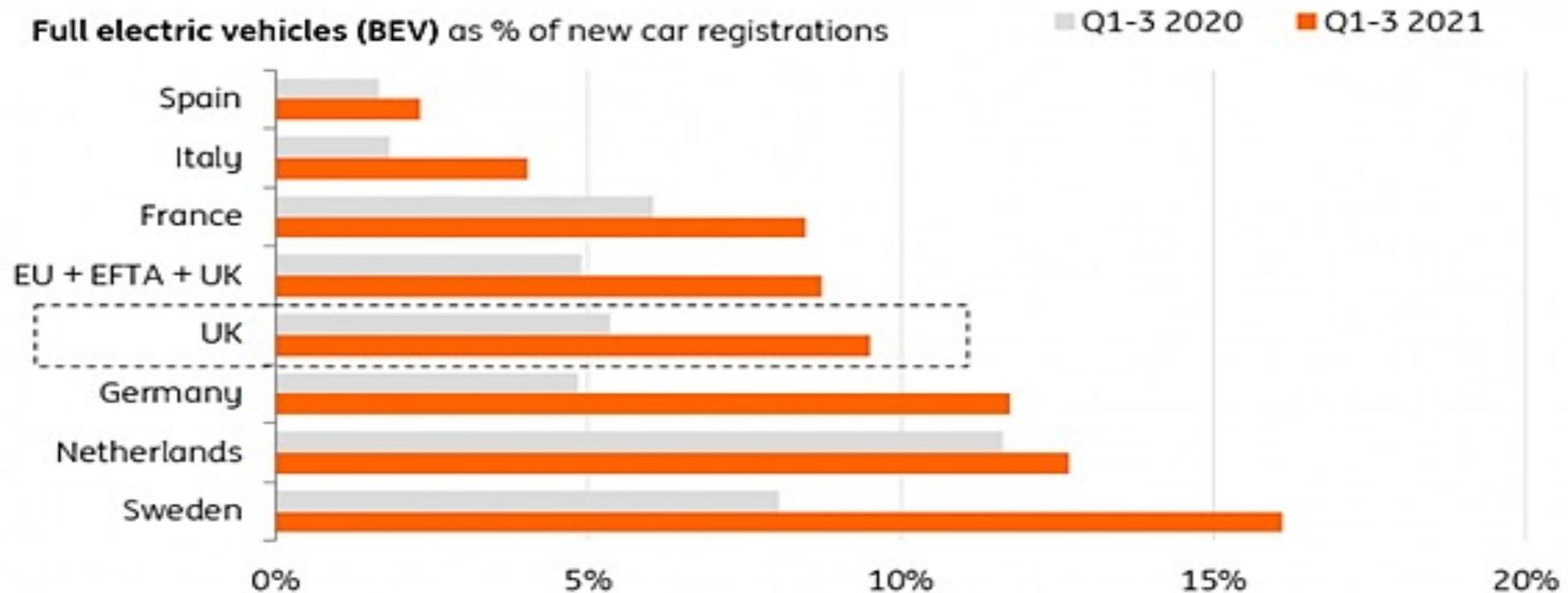
And then there is COP26 - **Climate Change Tracker** says that current UK plans are insufficient for net-zero. Transport and buildings will be major focus but reconfiguring business districts - and town centres and high streets will be key.

*(Required emissions' cuts are based on historical data and 'balanced pathway' projections from the **Climate Change Committee's** Sixth Carbon Budget)*



Ready for the EV revolution? Enough charging points?

Battery electric vehicles were almost 10% of sales in the first three quarters of 2021



Looking ahead:

- Faster growth now due to post-Covid bounce back, less 'scarring' though back to below trend growth in later years
- Extra investment in regional infrastructure and business rates changes, however temporary, should help
- Govt real departmental spending to 2024 up from previous forecasts, partly reversing cuts since 2010
- However, consumer and business confidence fragile – tax increases and higher prices will hit pockets
- Inflation/input costs/ staff shortages/Brexit – worries about interest rates, withdrawal of monetary support
- More than half a million firms in 'significant financial stress' (Begbies Traynor analysis, Oct. 2021)
- Regional, cities/towns inequalities to remain despite extra support. Still massive productivity differences
- How serious is the 'levelling up' agenda? And who will bear the cost of net-zero
- But BIDs' important role acknowledged in Govt 'Build Back Better High Streets' of July 2021