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## Prospects Deeply Uncertain for the UK economy

### FOR IMMEDIATE RELEASE

- 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most significant challenges are likely to come when the lockdown is eased and the government's supportive measures are withdrawn.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, alongside uncertainties that cannot be easily resolved.

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.

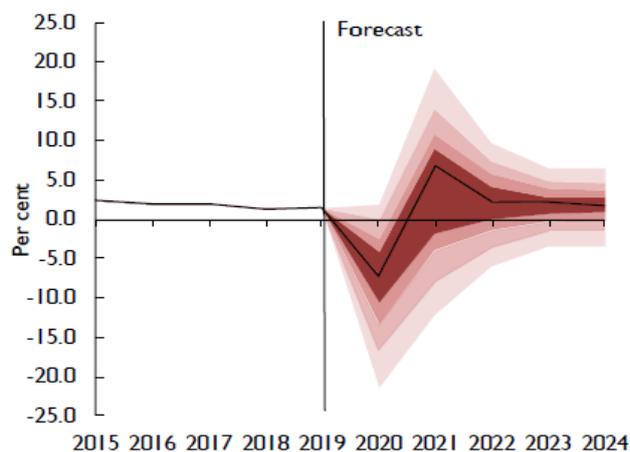
Public sector borrowing rises from 2.6 per cent of GDP in 2019–20 to just over 10 per cent of GDP in 2020–21. The counterpart to higher public sector borrowing is higher private sector saving. The deficit on the current account of the balance of payments falls from 3.8 per cent of GDP in 2019 to around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

Despite the large rise in unemployment and contraction in output, CPI inflation falls only a little below the 2 per cent inflation target in the main-case forecast scenario. The household saving ratio rises from around 6 per cent in 2019 to 17 per cent in 2020, when spending opportunities are limited, before falling back to 8 per cent in 2021.

“There is massive uncertainty about how long and how severe this crisis will be. For our reassuring main-case forecast scenario to come true it is necessary to believe that the complex network of relationships that make up the economy can be restored after the lockdown without any significant long-term damage,” said Garry Young, NIESR Deputy Director.

“So far the signs are promising, but the most significant challenges are likely to come as we approach end or winding down of the lockdown and the supportive schemes are withdrawn. In those circumstances, the government schemes will need to be adapted to help businesses survive in a partially recovered economy.”

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 annual growth	CPI <sup>(a)</sup> Q4/Q4	ILO unemployment Q4	Bank Rate end-year	External current balance % of GDP	PSNB <sup>(b)</sup>
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.

ENDS

Notes for editors:

The full forecast for the UK economy will be published in the National Institute Economic Review no. 252 on Wednesday 29 April. Details of NIESR's previous UK economic forecast can be found [here](#).

For a full copy of the world economic forecast or to arrange interviews, please contact the NIESR Press Office: [press@niesr.ac.uk](mailto:press@niesr.ac.uk) / [l.pieri@niesr.ac.uk](mailto:l.pieri@niesr.ac.uk) / [p.thornton@niesr.ac.uk](mailto:p.thornton@niesr.ac.uk) / 07930 544 631 / 07941 443 781

For technical questions related to the forecast, please contact:

- Garry Young on +44 (0)7974 692691 / [g.young@niesr.ac.uk](mailto:g.young@niesr.ac.uk)
- Cyrille Lenoel on +44 (0)20 7654 1944 / [c.lenoel@niesr.ac.uk](mailto:c.lenoel@niesr.ac.uk)

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