National Institute of Economic and Social Research

Press Release

## National Institute Economic Review No. 253 August 2020

# ‘Premature’ end to furlough to push jobless rate to 10%

**FOR IMMEDIATE RELEASE**

- 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is now entering a phase where activity is expected to be subdued at the same time as government support measures are withdrawn.

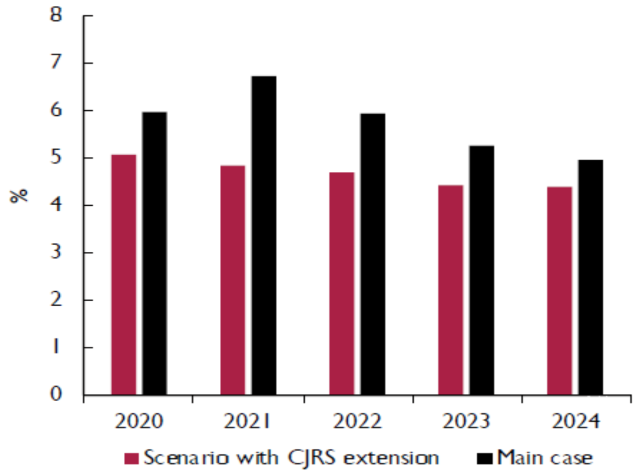
With the government furlough scheme ending in October, unemployment is set to rise to close to 10 per cent of the workforce by the end of this year. It then recedes as the recovery gathers speed in 2021, but remains above its recent level of 4 per cent. Unemployment would have stayed lower had the government 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.

“*The planned closure of the furlough seems to be a mistake, motivated by an understandable desire to limit spending,*” said Garry Young, NIESR Deputy Director. *“The scheme was intended by the Chancellor to be a bridge through the crisis and there is a risk that it is coming to an end prematurely.”*

“*The scheme has been an undeniable success in terms of keeping furloughed employees attached to their jobs. The incentives offered to employers by the Job Retention Bonus look too small to be effective given the uncertainty about the economic outlook – a one-off payment of £1,000 per employee compared to an average wage of £530 per week.”*

Unemployment with and without CJRS extension




Source: NiGEM model simulation.

Summary of the main-case forecast scenario — *Per cent*

| | Real GDP | CPI(a) | Unemployment rate | Bank Rate | External current balance | PSNB(b) |
|---|---|---|---|---|---|---|
| | annual growth | Q4/Q4 | Q4 | end-year | % of GDP | |
| 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.

**ENDS**

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**Notes for editors:**

The full forecast for the UK economy will be published in the National Institute Economic Review no. 253 on Wednesday 29 July. 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 / l.pieri@niesr.ac.uk / p.thornton@niesr.ac.uk / 07930 544 631 / 07941 443 781

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