ARBUTHNOT BANKING GROUP PLC

PERSPECTIVES

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Labour market continues to recover, and GDP grew 0.4% in August

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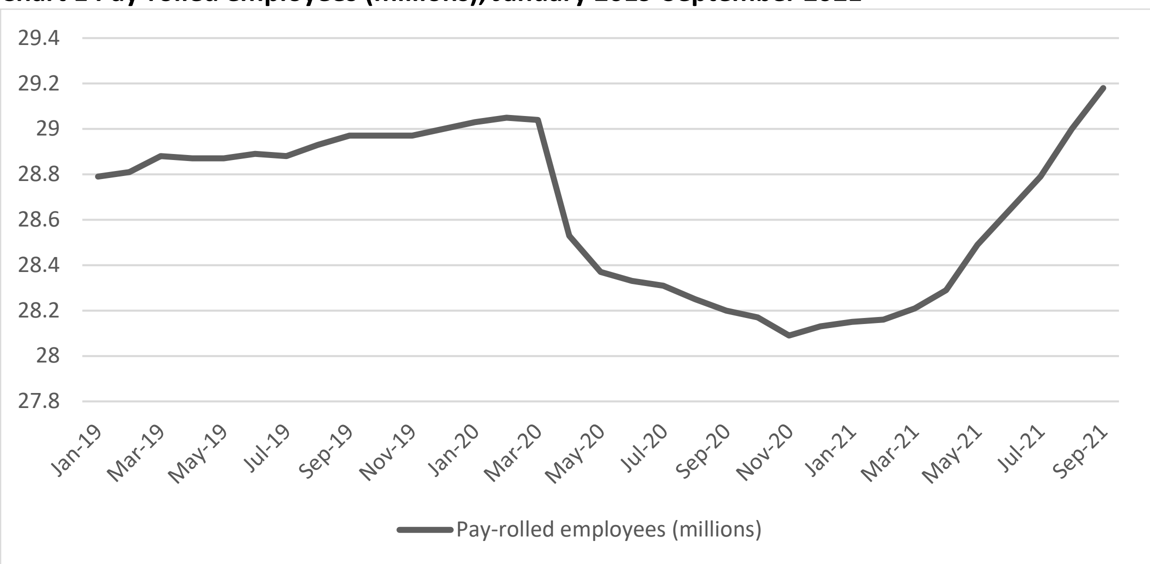
Introduction: the labour market continues to recover…

The latest data suggest that the labour market is continuing to recover. These data, of course, cover months when the market was still supported by the furlough scheme (ended end-September) and the "true" demand for labour can only be judged when comparable data start coming through for October onwards. But, as noted last week, according to the Insolvency Service, there seemed to be little evidence of large-scale redundancies on the ending of the furlough scheme.[1]

Firstly, early estimates from Pay As You Earn Real Time Information (PAYE RTI, HMRC data) showed the number of payroll employees increased by 207,000 to a record 29.2mn in September, exceeding pre-coronavirus pandemic (February 2020) levels, chart 1.[2-3] All regions except London and Scotland were above pre-coronavirus (COVID-19) (February 2020) levels.

Chart 1 Pay-rolled employees (millions), January 2019-September 2021



Source: *ONS and HMRC*, "Earnings and employment from Pay As You Earn real time information: UK, October 2021", 12 October 2021.

Secondly, turning to the data for the three months to August (LFS data), employment increased in the quarter, whilst the unemployment rate eased.[4]

Employment rose by 183,000 (QOQ) to 32.42mn and was only 49,000 lower YOY, whilst the employment rate (the proportion of people aged 16-64 who were in work) was 75.3%, 0.5 percentage points higher QOQ and only 0.1pp lower YOY. Total actual hours worked increased strongly in the quarter, rising by 39.9mn hours (QOQ) to 1,021.3mn, to be 137.2mn higher YOY, with the relaxation of coronavirus restrictions. However, this was still 30.9mn hours below pre-pandemic levels (the three months to February 2020). Partly corresponding to the rise in employment, unemployment fell by 126,000 (QOQ) to 1.51mn and was 33,000 lower YOY, whilst the unemploymentrate slipped to 4.5% (0.4 percentage points lower QOQ and 0.1pp lower YOY). Unemployment measures people without a job who have been actively seeking work within the last four weeks and are available to start work within the next two weeks. The inactivity rate (the proportion of people aged 16-64 who were economically inactive) was 21.1%, 0.2pp lower QOQ but still 0.2pp higher YOY, whilst the redundancy rate was similar to pre-coronavirus pandemic levels.

The ONS pointed out that young people (those aged 16 to 24 years) had been particularly affected by the pandemic, with the employment rate decreasing and the unemployment and economic inactivity rates increasing by more than seen for those aged 25 years and over. Over the last quarter, however, there had been a record increase in the employment rate and decreases in the unemployment and inactivity rates for young people.

…whilst vacancies are at record levels…

UK vacancies rose by 239,000 (QOQ) in the three months to September to a record high of 1,102,000 and were 318,000 above their pre-pandemic January to March 2020 level.[5] This was the second consecutive month that the three-month average has been over one million. All industry sectors were above or equal to their January to March 2020 pre-pandemic levels in July to September 2021, with accommodation and food service activities increasing the most, by nearly 50,000 (59%). The experimental single-month vacancy estimates recorded almost 1.2mn in September 2021, which was also a record high.

The existence of increasing vacancies, and various indicators of recruitment difficulties, points to labour market mismatches as the economy recovers. As the minutes of the MPC's September meeting noted "…uncertainty around the [labour market] outlook had increased. Key questions included how the economy will adjust to the closure of the furlough scheme at the end of September; the extent, impact and duration of any change in unemployment; as well as the degree and persistence of any difficulties in matching available jobs with workers".[6]

… and annual average earnings growth remains elevated

Annual growth in average total pay (including bonuses) was 7.2% and regular pay (excluding bonuses) was 6.0% among employees for the three months to August 2021 (table 1).[7] However, the ONS pointed out that annual growth in average employee pay was still being affected by temporary factors that inflated the increase in the headline growth rate. These factors were base effects where the latest months are now compared with low base periods when earnings were first affected by the coronavirus pandemic, and compositional effects where (at least, initially) there was a fall in the number and proportion of lower-paid employee jobs, therefore increasing average earnings.

However, the ONS noted "…as we move through the year, the base effect will start to reduce. We have started to see this in the most recent data where for certain sectors the base effect is minimal, but for sectors such as manufacturing, construction, and wholesaling, retailing, hotels and restaurants, we are still seeing a base effect present in the August data". And the ONS added "…we estimate that the base effect will reduce the regular earnings growth rate by between 1.1 and 2.6 percentage points. In addition, we estimate the compositional effect at 0.7 percentage points below pre-pandemic levels".[8] This would give an "underlying" regular earnings growth rate of b etween 4.1% and 5.6% in nominal terms. Given the uncertainty around this range, interpretation should be treated with caution".

In real terms (adjusted for inflation), total and regular pay are growing at a faster rate than inflation, at 4.7% for total pay and 3.4% for regular pay. But note that average real-pay growth rates are also being affected by the base and compositional effects and should be interpreted with caution.

Average total pay growth for the private sector was 8.3% in the three months to August 2021, while for the public sector it was 2.5%. Since the end of 2019, the public sector generally had stronger growth than the private sector, but since April 2021 the year-on-year comparison with a low base period has meant the private sector now shows stronger growth. All sectors saw positive growth, including all the industry groups within each sector.

Table 1 Growth in employee earnings (YOY, %), 3 months to August 2021

	Nominal	Real
Actual:		
Total pay (including bonuses)	7.2%	4.7%
Regular pay (excluding bonuses)	6.0%	3.4%
Underlying:		
Total pay (including bonuses)	[5.3-6.8%]	…
Regular pay (excluding bonuses)	4.1-5.6%	…

Sources: (i) *ONS*, “Labour market overview: October 2021”, 12 October 2021; (ii) *ONS*, “Average weekly earnings in GB: October 2021”, 12 October 2021.

GDP rose 0.4% in August…

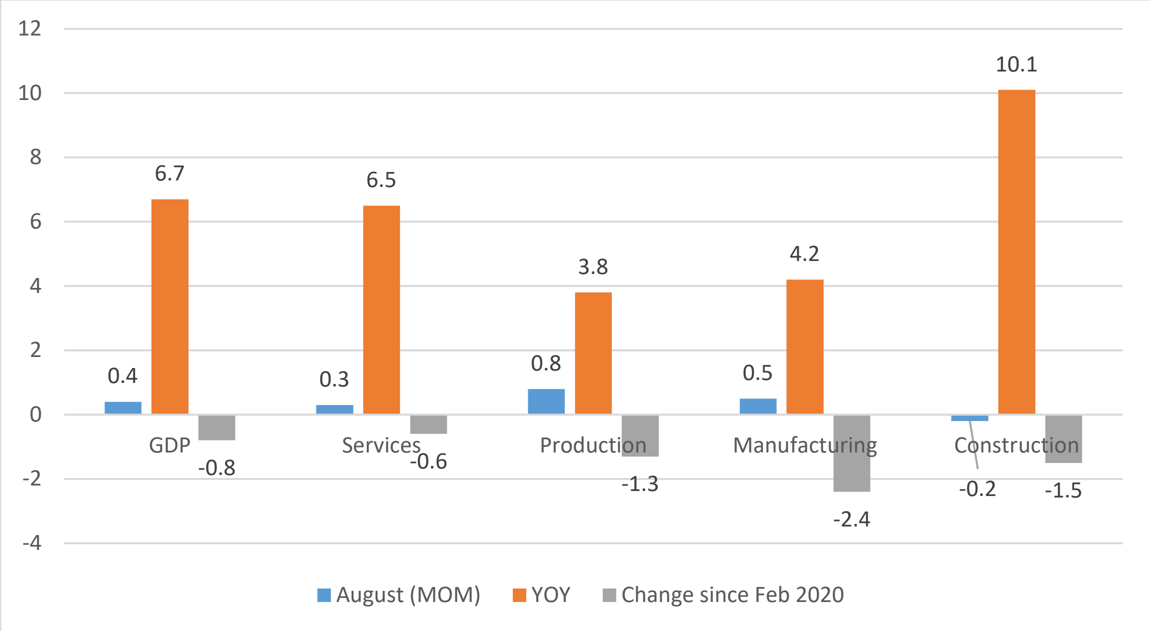
GDP increased by 0.4% (MOM) in August, marginally less than expected, but was still 0.8% below pre-pandemic February 2020.[9] The ONS revised the monthly GDP change in July from +0.1% to -0.1%.

Concerning the industrial breakdown, services and production grew, but construction contracted again (chart 2):[10-12]

- The service sector grew by 0.3% (MOM), to be 0.6% below February 2020’s level. The output of the consumer-facing services rose by 1.2% (MOM) but was still 4.7% below February 2020, whilst other services rose by just 0.1% (MOM) but were 0.4% higher than in February 2020. Accommodation and food service activities, and arts, entertainment and recreation contributed most positively to services growth in August 2021, partially offset by falls in health output and retail trade. Consumer-facing services comprise retail trade, food and beverage serving activities, travel and transport, and entertainment and recreation.
- Output in the production sector rose by 0.8% (MOM) and was 1.3% lower than in February 2020. The monthly rise mainly reflected the continued increase in the extraction of crude petroleum and natural gas following the recent temporary closure of oil field production sites for planned maintenance. Despite output levels in the extraction of crude petroleum and natural gas expanding to levels last seen in December 2020, they remained low by historical standards, with August 2021 output 16.3% below its August 2019 level. Within production, the manufacturing sector grew by 0.5% (MOM) in August, with output in 9 out of the 13 manufacturing sub-sectors increasing. Most of the contribution to growth came from a 6.6% increase in the manufacture of motor vehicles, as it continued to recover following supply side challenges predominantly caused by the global microchip shortage. However, output in the manufacture of motor vehicles remained 14.5% below its recent February 2021 (sic) local peak.
- Construction output contracted for a fifth consecutive month, with output down by 0.2% (MOM) in August. Construction output recently peaked to be 0.9% above its pre-coronavirus pandemic level in April 2021 but in August 2021 it was 1.5% below that level. The weakness reflected recent challenges faced by the construction industry from rising input prices and in delays to the availability of construction products (notably steel, concrete, timber and glass).

Overall, GDP grew by 2.9% in the three months to August 2021 (QOQ), mainly because of the performance of the services sector, which rose 3.7% (QOQ). This largely reflects the gradual reopening of accommodation and food service activities and a rise in underlying human health activities (for example, more GP appointments) compared with the previous three months (March to May 2021). Production was just 0.3% higher (QOQ), whilst construction fell 1.3% (QOQ).

Chart 2 GDP, main components, August 2021, MOM, YOY, change since February 2020 (%).



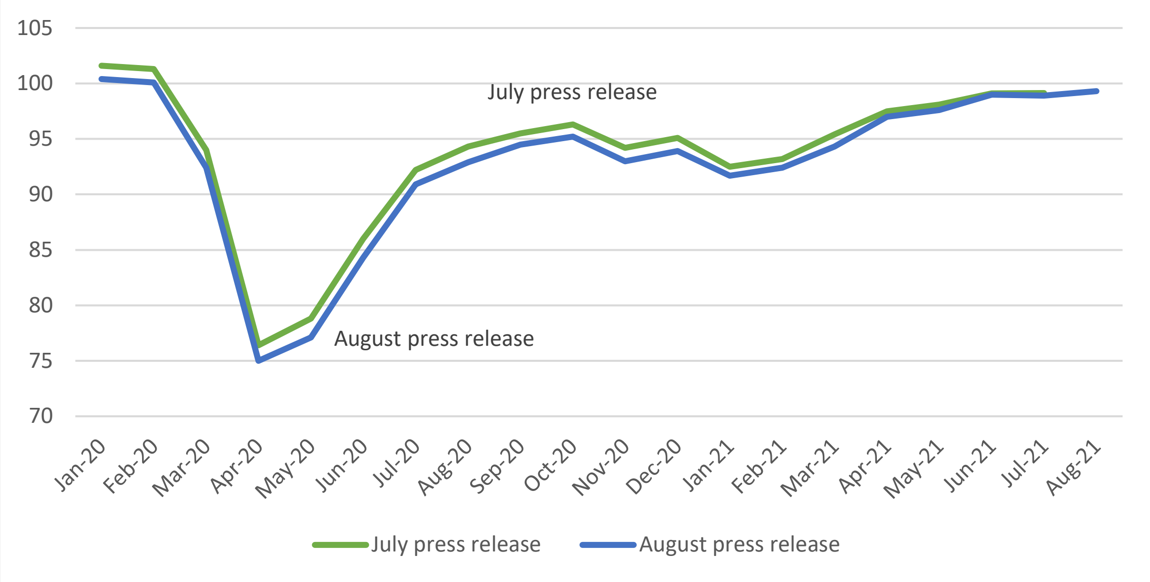
Source: *ONS*, "GDP monthly estimate: August 2021", 13 October 2021.

…and there were back revisions…

The August press release incorporated, for the first time, the revised back data from the quarterly GDP release for 2021Q2, which were consistent with the "UK National Accounts, The Blue Book 2021" (to be released on 29 October 2021).[13-14] Chart 3 shows that the GDP data in 2020 and into 2021 were revised down in the August press release compared with the July press release, thus effectively closing the "gap" between the January 2020 data and the estimates for July 2021. Specifically, GDP in July (sic) was estimated to be 1.5% below the pre-pandemic GDP peak (January 2020) in the August press release, compared with a gap of 2.4% as estimated in the July press release.[15]

In the run-up to the Budget (27 October), it has been reported that the Chancellor asked the OBR to produce the Budget forecasts using "out-of-date" figures.[16] (Reportedly, the OBR said that it had ended updates to its forecasts on 24 September and this was "…earlier than usual in response to a request from the Chancellor".) Specifically, this means that the OBR will be using the GDP data from the July press release, showing a gap of 2.4% between January 2020 and July 2021, rather than the data from the August press release, showing a 1.5% gap, for their forecasts. There was speculation that the decision could help the Chancellor "resist last-minute bids for extra public spending by government departments".[17] The Bank of England confirmed it will use up-to-date figures for the forecasts for the next MPC meeting in November (announcement on 4 November).

Chart 3 GDP (volume, 2018=100), monthly data, July and August press releases



Sources: (i) *ONS*, "GDP monthly estimate: July 2021", 10 September 2021; (ii) *ONS*, "GDP monthly estimate: August 2021", 13 October 2021.

…whilst the trade balance deteriorated modestly in August

The total trade (goods & services, including precious metals) balance showed a deficit of £3.7bn in August 2021, as the goods deficit continued to outweigh the services surplus, compared with a deficit of £2.9bn in July.[18] The services surplus was very marginally higher at £11.2bn (£11.1bn in July), as exports grew by 0.9% (MOM), though imports grew by 1.2%.

Concerning August's goods data (including precious metals), see table 2:

- The visible (goods) deficit widened to £14.9bn (from £14.1bn in July), as exports slipped by 4.6% (MOM) whilst imports eased by 1.0%. The deterioration reflected worsening EU and non-EU balances, though the deterioration was greater in the EU balance.
- The deficit with the EU widened to £6.5bn (from £6.0bn). Exports fell 4.3% (MOM), whilst imports were down just 0.1%. Decreased exports were almost entirely driven by falls in exports of machinery and transport equipment. The marginal fall in imports reflected decreased imports of chemicals and material manufactures, which were offset by an increase in machinery and transport equipment.
- The deficit with non-EU countries widened to £8.4bn (from £8.1bn). Exports fell 5.0%, again driven by almost entirely driven by falls in exports of machinery and transport equipment, whilst imports fell 1.8%. Imports of fuels, machinery and transport equipment, material manufactures, chemicals and food and live animals all declined in August 2021, but there was a significant increase in imports of precious metals.

On the EU/non-EU split, the ONS commented that "…exports (excluding precious metals) to non-EU countries were £0.2bn higher than exports to EU countries in August 2021. While imports from non-EU countries continue to be higher than from EU countries, the gap is now at its narrowest since the end of the Brexit transition period (£0.2bn, excluding precious metals). With the ongoing pandemic and recession, it is difficult to assess the extent to which this reflects short-term trade disruption or longer-term supply chain adjustments". The ONS also generally commented that "…factors that continue to affect both imports and exports in August are staff shortages across a number of industries because of self-isolation and a significant shortage of HGV drivers."

The ONS points out another complicating factor relating to the trade data in that they are potentially distorted by swings in trade of precious metals (including non-monetary gold (NMG)). They, therefore, publish two sets of data: a total series (including precious metals, see above) and their preferred "underlying" series (excluding precious metals). The distorting effects were quite significant between July and August. The "underlying" goods and services deficit was unchanged in August, at £1.6bn, and the "underlying" goods deficit was unchanged at £12.8bn. But there was a deterioration in the balance on precious metals, giving a deficit of £2.1bn in August (from £1.3bn in July), which effectively accounted for the deterioration in the total (including precious metals) trade deficit. The distorting effects on trade caused by precious metals overwhelmingly related to non-EU trade.

Table 2 Trade (goods and services) in August, balances (£bn), exports and imports (% change)

	Monthly balances (£bn)			Exports and imports (Aug, MOM, %)	
	July 2021	Aug 2021	Change	Exports	Imports
Total balances:					
Goods (total): of which EU/non-EU:	-14.1	-14.9	-0.8	-4.6%	-1.0%
• EU	-6.0	-6.5	-0.5	-4.3%	-0.1%
• Non-EU	-8.1	-8.4	-0.3	-5.0%	-1.8%
Services	11.1	11.2	+0.1	0.9%	1.2%
Goods and services	-2.9	-3.7	-0.8	…	…
"Underlying" balances:					
Goods (excluding precious metals): of which EU/non-EU:	-12.8	-12.8	0	…	…
• EU	-5.9	-6.4	-0.5	…	…
• Non-EU	-6.9	-6.4	+0.5	…	…
Services	11.1	11.2	+0.1	…	…
Goods and services	-1.6	-1.6	0	…	…
Precious metals: of which EU/non-EU:	-1.3	-2.1	-0.8	…	…
• EU	-0.1	-0.2	-0.1	…	…
• Non-EU	-1.2	-2.0	-0.8	…	…

Source: *ONS*, "UK trade: August 2021", 13 October 2021. There are rounding errors in the table.

The Budget: the IFS Green Budget

We will include a preview of the Budget, due on 27 October, in next week's Perspective. However, in the meantime, the Institute for Fiscal Studies (IFS) has released its *Green Budget*, which concludes"…despite planning biggest tax rises in more than 25 years, and an historic increase in size of the state, the Chancellor is still likely to have little money for hard-pressed public services".[19-21]

On the public finances, the IFS's main findings were, noting that "uncertainty remains incredibly high":

- Public sector net borrowing (PSNB) in FY2021 could be more than £50bn lower than the OBR forecast in the March 2021 Budget (which was £233.9bn). But a slowing recovery thereafter, alongside rising costs of financing much-elevated debt, could limit the medium-term improvement in the public finances to less than half of that amount.
- Borrowing should, however, continue to run at least £20bn a year below the March 2021 Budget forecast from FY2022 onwards, and the current budget should return to surplus from FY2023. Debt would then fall, but at 89% of national income in FY2025 it would still be 17 percentage points of national income above its pre-pandemic share.
- High debt, combined with rising interest rates and RPI inflation in FY2021, pushes up forecast debt interest spending by around £15bn in this and future years compared with the March 2021 Budget forecast. Each additional 1% on interest rates adds £10bn to annual debt interest spending. Each additional 1% on the RPI adds £6bn.

On public spending, the IFS said:

- Following the announcements in Spending Reviews of 2019 and 2020, planned spending increases over the five years to FY2024 were in the same ballpark as increases announced during the New Labour years of 2000 to 2007.
- A combination of planned spending increases that pre-date COVID-19 and the fact that the economy was now projected to be smaller than previously meant “a lasting increase in the size of the state of around 2% of GDP”.
- Spending will settle at 42% of national income, more than 2% above its pre-pandemic level and its highest level in ‘normal times’ since 1985. These were more the inevitable consequences of population ageing and pressures on health and care spending, than they were consequences of the pandemic.
- Sticking to the Chancellor’s planned spending totals for the next two years could, however, require cuts to ‘unprotected’ day-to-day budgets of more than £2bn (2.5%) next year. Whilst the totals appear more generous in FY2024, in reality “…an ever-growing NHS budget, top-ups needed elsewhere, and the billions of spending likely required to deliver on priorities such as net zero, levelling up and social care reform will eat into what is available”.[22]
- Decisions over NHS funding increasingly drive not just the funding outlook for other departments, but also overall fiscal policy. Health spending had grown to account for an ever-growing share of day-to-day public service spending: an estimated 44% by FY2024, up from 42% in FY2019, 32% in FY2009 and 27% in FY1999.

On taxation:

- The IFS estimated that, if the new health and social care levy is to rise to meet future health and social care pressures, its rate may need to more than double from 1.25% to 3.15% by the end of this decade.[23] Other revenue-raising options were, of course, available but, regardless of the specifics, demographic pressures pointed to a need for future tax rises, not tax cuts.
- The IFS noted that the March 2021 Budget was the biggest tax-raising Budget since Lord Lamont’s Spring Budget of 1993. An increase in the main rate of corporation tax from 19% to 25% in April 2023 was expected by the government to raise around £17bn by FY2025. And on income tax, a four-year cash freeze in both the personal allowance and the higher-rate threshold was expected to raise £8bn by FY2025.
- They also noted that “…this year’s historic, and manifesto-breaking, announcements of tax rises will increase the UK’s tax take to its highest sustained level in peacetime.”

All in all, the IFS warned the Chancellor “…will have little room for manoeuvre in this month’s Budget and Spending Review. To meet his stated objective of achieving current budget balance, the Chancellor will have to increase spending on services other than health, defence, schools and aid by less than he was planning pre-pandemic, despite greater pressures across a range of areas. Indeed, to keep to currently planned totals, he may even have to implement cuts to some budgets over the next two years”. And, the IFS judged, the Chancellor “…is presiding over an increase in the tax burden to record levels in the UK and an increase in the size of the state (public spending as a fraction of national income) to levels not seen since the days of Mrs Thatcher”.

The IMF’s October update…

In their October *World Economic Outlook* forecast, the IMF concluded that “…global recovery continues but the momentum has weakened, and uncertainty has increased. The rapid spread of Delta and the threat of new variants had increased uncertainty about how quickly the pandemic can be overcome.”[24] The global economy was, however, still projected to grow in 2021 by 5.9% (marginally down on 6.0% in July) and by 4.9% in 2022 (no change), chart 4a, annex table 1. The downward revision for 2021 reflected a downgrade for advanced economies, partly due to supply disruptions, and for low-income developing countries, largely due to “worsening pandemic dynamics”. The downward revisions were partially offset by stronger near-term prospects among some commodity-exporting emerging market and some developing economies.

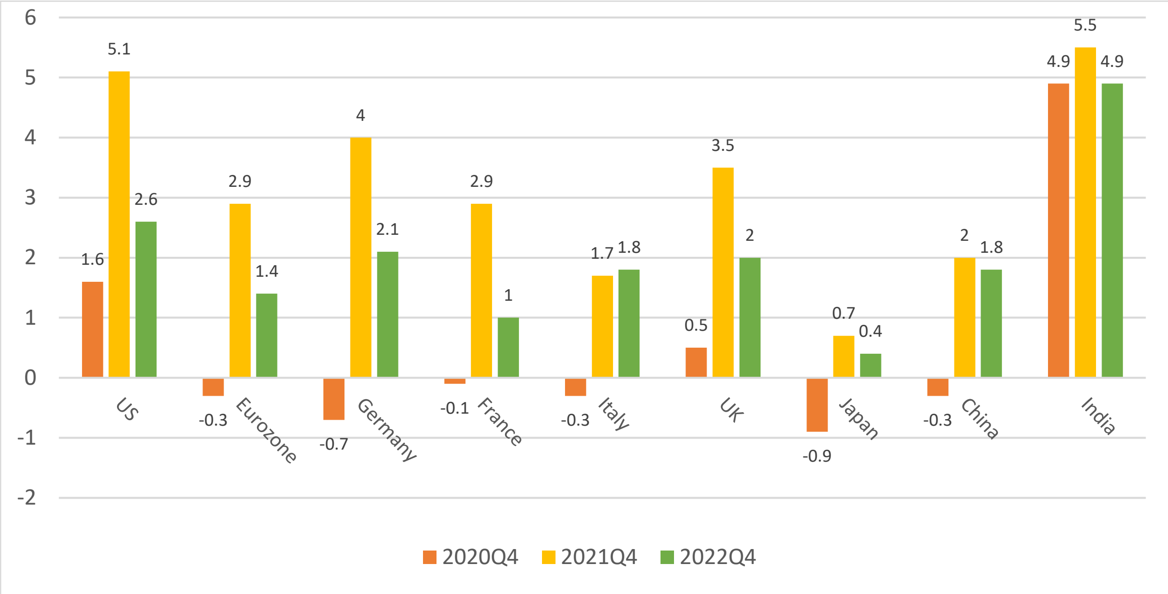
Turning to country-specific forecasts, US GDP was projected to rebound by 6.0% in 2021 (7.0% in July), followed by growth of 5.2% in 2022 (4.9% in July), whilst Eurozone growth was upgraded to 5.0% for 2021, followed by 4.3% growth in 2022. The US outlook incorporated the infrastructure bill recently passed by the Senate and anticipated legislation to strengthen the social safety net, equivalent to about $4tn in spending over the next 10 years, whilst the baseline forecast also included the expected Next Generation European Union (NGEU) grants and loans for EU economies. Concerning the UK, the IMF marginally modified GDP growth to 6.8% for 2021 (7.0% in July), followed by 5.0% for 2022 (4.8% in July). Of the EMDEs (Emerging market & developing economies), China was expected to grow by a buoyant 8.0% in 2021 and India by 9.5% (after a significant 7.3% fall in 2020).

Concerning inflation, as we reported last week, the IMF said "…despite recent increases in headline inflation in both advanced and emerging market economies, long-term inflation expectations remain anchored. Looking ahead, headline inflation is projected to peak in the final months of 2021 but is expected to return to pre-pandemic levels by mid-2022 for most economies."[25] But they added, that "…inflation risks are skewed to the upside and could materialize if pandemic-induced supply-demand mismatches continue longer than expected…leading to more sustained price pressures and rising inflation expectations that prompt a faster than-anticipated monetary normalization in advanced economies." The IMF's baseline forecasts for advanced economies showed headline inflation peaking at 3.6% in Autumn 2021 and declining to about 2% by mid-2022. As chart 4b shows, inflation for the US is specifically projected to fall significantly in 2022 after recording 5.1% for 2021Q4, whilst UK inflation, projected to reach 3.5% in 2021Q4 (lower than the Bank's expectations), will have fallen to the 2% target by 2022Q4.

Whilst on the topic of inflation, the IMF noted in its latest *Global Financial Stability Report* "…financial stability risks have been contained so far thanks to ongoing policy support that has fuelled the global rebound. Investors, however, have become increasingly concerned about the economic outlook amid rising virus infections and greater uncertainty about the strength of the recovery. After declining notably through the summer, global long-term yields have risen in late September…on concerns that price pressures may be more persistent than initially anticipated".[26]

Chart 4a IMF GDP growth forecasts (%), October 2021, selected economies, 2020-2022

Chart 4b IMF CPI inflation forecasts (%), October 2021, selected economies, 2020Q4, 2021Q4, 2022Q4



Source: *IMF*, "World Economic Outlook, October 2021: Recovery during a pandemic: health concerns, supply disruptions and price pressures", 12 October 2021. See annex table 1.

…and their latest Fiscal Monitor

In their October *Fiscal Monitor*, the IMF commented "…primary fiscal deficits in 2021 continue to be large by pre-pandemic standards, although they have begun to decline and are expected to contract more in 2022. Most of the $16.9tn in fiscal measures announced to fight the pandemic are set to expire this year. Global government debt (gross) has stabilised at just below 100% of GDP, a record level. However, underneath the aggregate figures there is significant variation in fiscal and economic developments across countries, both in recent months and in terms of what is expected over the next few years."[27]

The IMF expected that over the forecast period (to 2026), fiscal deficits (% GDP) should continue to improve as economies recover and support packages are withdrawn (annex chart 1a), whilst net government debt (% GDP) should very broadly stabilise (overall), but at significantly higher levels than pre-pandemic (annex chart 1b for selected countries). But note, the debt/GDP ratio in the UK was 75.3% in 2019, increased to 91.8% in 2020 and is projected to be nearly 100% by 2026. The IMF warned of the particular risks to the public finances of higher interest rates, given the greater government indebtedness.

Brexit update

Annex table 2 outlines the main changes post-transition period in UK-EU trading relations.[28-29] There have been two recent developments. The first related to Lord Frost's speech in Lisbon on 12 October, which included proposed changes to the Northern Ireland Protocol.[30-31] Lord Frost offered a new legal text of an amended Protocol, reflecting the proposals of the July White Paper.[32] He commented, in particular, on two aspects of the text. Firstly, it was forward-looking. And, secondly, "…our proposal looks more like a normal Treaty in the way it is governed, with international arbitration instead of a system of EU law ultimately policed in the court of one of the parties, the European Court of Justice."

The second development related to the EU's proposals, released on 13 October, on checks for GB to NI trade.[33-34] The Commission explained the College of Commissioners had approved four "non-papers" (non-legislative texts) covering the following areas:[35]

- A bespoke solution for NI on food, plant and animal health ("Sanitary and Phytosanitary (SPS) issues"), leading to approximately an 80% reduction in checks.
- Flexible customs formalities to facilitate the movement of goods from GB to NI, leading to a 50% reduction in paperwork.

- Enhanced engagement with NI Stakeholders and Authorities.
- Uninterrupted security of supply of medicines from GB to NI for the long-term.

These "non-papers" form the basis for detailed UK-EU discussions. Lord Frost travelled to Brussels on 15 October to begin the discussions, saying the EU had "…definitely made an effort in pushing beyond where they typically go in these areas, and we're quite encouraged by that".[36] But, he continued, "…there is still quite a big gap and that's what we've got to work through today and in the future."

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32. *HM Government*, “Northern Ireland Protocol: the way forward, July 2021”, CP502, 21 July 2021
33. *European Commission*, “Speech by Vice-President Šefčovič on the Commission’s proposal on bespoke

arrangements to respond to the difficulties that the people of Northern Ireland have been experiencing because of Brexit", 13 October 2021.

34. *BBC*, "Brexit: most NI checks on British goods to be scrapped", 13 October 2021.
35. *European Commission*, "Protocol on Ireland/Northern Ireland: Commission proposes bespoke arrangements to benefit Northern Ireland", 13 October 2021.
36. *Sky News*, "Brexit: Lord Frost says a "big gap" remains between UK and EU over Northern Ireland Protocol", 15 October 2021.

Annex

Table 1 IMF GDP forecasts, growth rates (%), October 2021

	October 2021 forecast			July 2021 update		
	2020	2021	2022	2020	2021	2022
World output (GDP)	-3.1	5.9	4.9	-3.2	6.0	4.9
Advanced economies:						
US (G7)	-3.4	6.0	5.2	-3.5	7.0	4.9
Eurozone, of which:	-6.3	5.0	4.3	-6.5	4.6	4.3
Germany (G7)	-4.6	3.1	4.6	-4.8	3.6	4.1
France (G7)	-8.0	6.3	3.9	-8.0	5.8	4.2
Italy (G7)	-8.9	5.8	4.2	-8.9	4.9	4.2
Japan (G7)	-4.6	2.4	3.2	-4.7	2.8	3.0
UK (G7)	-9.8	6.8	5.0	-9.8	7.0	4.8
Canada (G7)	-5.3	5.7	4.9	-5.3	6.3	4.5
EMDEs:						
China	2.3	8.0	5.6	2.3	8.1	5.7
India	-7.3	9.5	8.5	-7.3	9.5	8.5
Russia	-3.0	4.7	2.9	-3.0	4.4	3.1
Memo: world trade	-8.2	9.7	6.7	…	…	…

Source: *IMF*, "World Economic Outlook, October 2021: Recovery during a pandemic: health concerns, supply disruptions and price pressures", 12 October 2021.
There are four forecasts a year: Jan update, April forecast, July update, October forecast. EMDEs = Emerging market & developing economies.

Chart 1a IMF fiscal balances (%, GDP), October 2021, selected economies, 2020-2026

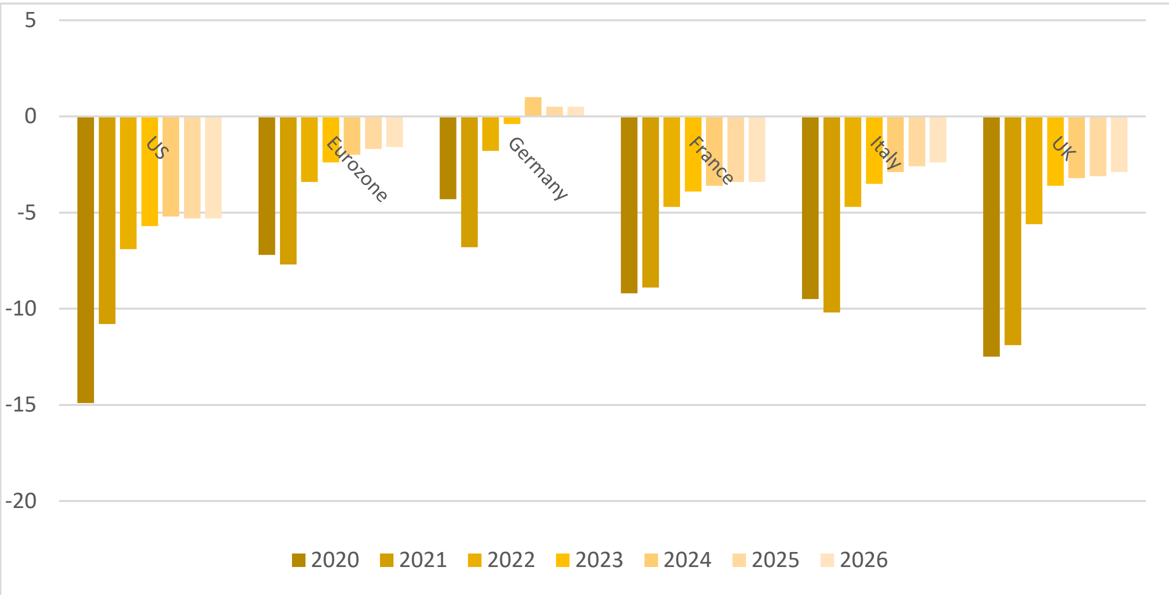
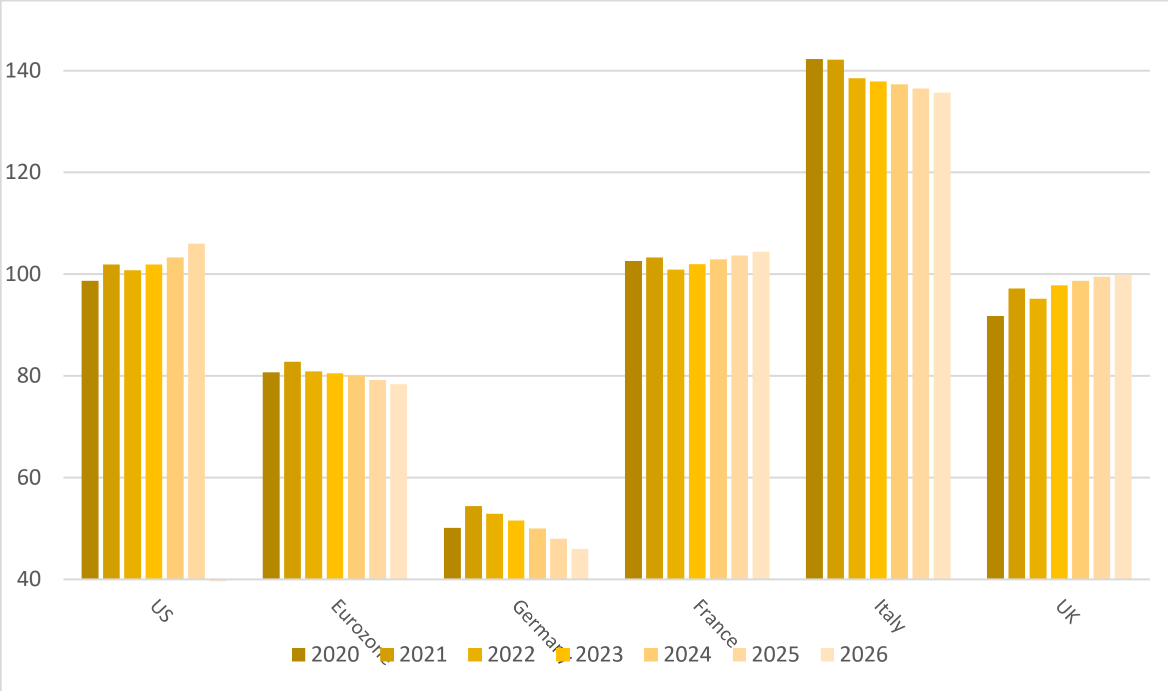


Chart 1b IMF net government debt (%, GDP), October 2021, selected economies, 2020-2026



Source: *IMF*, "Fiscal Monitor, October 2021: Strengthening the credibility of public finances", 7 October 2021.

Table 2 Key Brexit dates since January 2020

Dates	Key events
31 Jan 2020	UK leaves EU, start of transition period.
24 Dec 2020	UK-EU Trade and Cooperation Agreement (TCA), with Joint Declaration on Financial Services Regulatory Cooperation, agreed. Source: *HM Government*, "UK-EU Trade and Cooperation Agreement: summary", 24 December 2020.
30 Dec 2020	UK-EU Trade and Cooperation Agreement (TCA) signed.
1 Jan 2021	End of transition period, TCA provisionally became operative.
3 Mar 2021	Northern Ireland Secretary unilaterally announced current grace periods for checks on "imports" of certain goods (food, animal products) from GB to NI would be extended until "at least 1 October 2021".
4 Mar 2021	HMRC unilaterally announced its "temporary approach to applying declaration requirements for the movement of goods in parcels" from GB to NI would be extended to 1 October 2021.
15 Mar 2021	European Commission sent a letter of formal notice to UK saying unilateral actions breached Northern Ireland Protocol as well as good faith obligation under Withdrawal Agreement.
26 Mar 2021	Technical discussions on Memorandum of Understanding (MoU) on financial services (agreed in Joint Declaration on Financial Services Regulatory Cooperation) concluded. Source: *HM Treasury*, "Technical negotiations concluded on UK – EU Memorandum of Understanding", 26 March 2021.
28 Apr 2021	Announcement of European Parliament's ratification of TCA. Source: *European Parliament*, "Parliament formally approves EU-UK trade and cooperation agreement", 28 April 2021.
30 Jun 2021	It was agreed that chilled meats from GB, such as sausages, which would otherwise be prohibited in NI, would continue to move from GB to NI after the UK and the EU had agreed to extend the grace period, allowing this until 30 September. In addition, the Commission put forward "solutions" in a number of difficult areas, including the continued supply of medicines, guide dogs and the movement of livestock, as well as a decision waiving the need to show an insurance green card. *European Commission*, "EU-UK relations: solutions found to help implementation of the Protocol on Ireland and Northern Ireland, 30 June 2021.

1 Jul 2021	The Chancellor in his Mansion House speech (1 July) conceded that "…as I said in Parliament in November, our ambition had been to reach a comprehensive set of mutual decisions on financial services equivalence. That has not happened".
21 Jul 2021	*HM Government*, "Northern Ireland Protocol: the way forward, July 2021", CP502, White Paper, which sought significant changes. These were: removing the burdens on trade in goods within the UK; ensuring businesses and consumers in NI can continue to have normal access to goods from GB; and normalising governance basis of the Protocol so the UK-EU relationship is not ultimately policed by the EU institutions including the Court of Justice.
6 Sep 2021	The grace period for checking chilled meats such as sausages and other meat products, from GB to NI will continue until further notice.
14 Sep 2021	Requirement to submit a pre-notification for sanitary & phytosanitary (SPS) goods postponed from 1 Oct 2021 to 1 Jan 2022. (The requirement to make full customs declarations & controls on imports will be implemented, as originally planned, from 1 Jan 2022.) Requirement to submit Export Health Certificates & wider health and phytosanitary certificates delayed from 1 Oct 2021 to 1 Jul 2022. The carrying out of physical checks on SPS goods at Border Control Posts delayed from 1 Jan 2022 to 1 Jul 2022. Entry Safety and Security declarations for imports also delayed from 1 Jan 2022 to 1 Jul 2022.
16 Sep 2021	*HM Government*, "Government launches plans to capitalise on new Brexit freedoms", press release, 16 September 2021. *HM Government*, "Brexit opportunities: regulatory reforms", 16 September 2021.
12 Oct 2021	*HM Government*, "Lord Frost speech: observations on the present state of the nation", 12 October 2021, which proposed a new text for the NI Protocol.
13 Oct 2021	*European Commission*, "Protocol on Ireland/Northern Ireland: Commission proposes bespoke arrangements to benefit Northern Ireland", 13 October 2021.