ARBUTHNOT BANKING GROUP PLC

PERSPECTIVES

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Coronavirus crisis: unemployment and redundancies begin to rise

21st September 2020

Introduction: unemployment and redundancies begin to rise…

The ONS's latest labour market data, to July, showed increases in both unemployment and redundancies, though they were still quite muted (see annex table 1, data tracker). The data continued to appear deceptively strong, as the furloughed workers scheme continued to support employment and restrain unemployment rises. The ONS noted that the number of people who were estimated to be temporarily away from work (including furloughed workers) was still more than 5mn in July 2020, with over 2.5mn of these being away for three months or more, even though the number had fallen.[1] There were also around 250,000 people away from work because of the pandemic and receiving no pay in July 2020.

Concerning unemployment, the headline number rose by 62,000 (QOQ) in the three months to July to 1.4mn, to be 104,000 higher YOY.[2] The increase was concentrated in the young, with the estimated number of unemployed people aged 16-24 years increasing by 76,000 (YOY) to 563,000, whilst other age groups saw falls or very little change over the year. The unemployment rate (the proportion of the labour force that were unemployed) was 4.1%, compared with 3.9% in the previous three months and 3.8% a year earlier (chart 1a).

Redundancies increased by 48,000 (QOQ) in the three months to July, to be 58,000 higher YOY (chart 1b). The ONS noted that, while redundancies were still historically low, well below that seen during the 2008 downturn, both the quarterly and annual changes were the largest seen since 2009.The redundancies estimates measure the number of people who were made redundant or who took voluntary redundancy in the three months before the Labour Force Survey (LFS) interviews; it does not take into consideration planned redundancies.

The increases in the unemployment rate and redundancies (to the three months to July) were, therefore, relatively modest. But it should be noted that the ONS's single month estimate of the unemployment rate for the month of July (4.4%) was higher that June's (3.8%) and May's (4.0%),

suggesting a not-insignificant deterioration during the three-month period.[3] In addition, the increase in the Claimant Count has shown a significant rise since March. August's figure of 2.74mn was about 1.5mn (over 120%) higher than in March (1.24mn). (The data are from the DWP.) But the ONS noted that enhancements to Universal Credit (UC), as part of the UK government's response to the coronavirus pandemic, meant that an increasing number of people became eligible for unemployment-related benefit support, although still employed. Consequently, changes in the Claimant Count would not be wholly due to changes in the number of people who were not in work. The ONS stated that they were "…not able to identify the extent to which people who were employed (or unemployed) had affected the numbers".

But even more importantly, there are expectations of rapid rises in both unemployment and redundancies in coming months, partly reflecting the ending of the furlough scheme at end-October.[4-6] The ONS estimated that about 10% of the workforce (employed and unemployed) was still on furlough in late August/early September, very approximately 3.5 million.[7] If, for example, 1.5 million lose their jobs by year-end, then the unemployment rate would rise to around 8½%. Even the Bank's relatively optimistic (arguably) August Monetary Policy Report anticipated that the unemployment rate would increase to 7½% in 2020Q4, about 2.6 million unemployed, almost double the July rate.[8] The Bank commented recently vis-à-vis their August projection, "…there was limited evidence to alter that assessment materially, not least since the signal from the official unemployment data was hard to interpret currently".[9]

Chart 1a Unemployment rate (%), 3-month averages, so 2020Q3=3 months to July

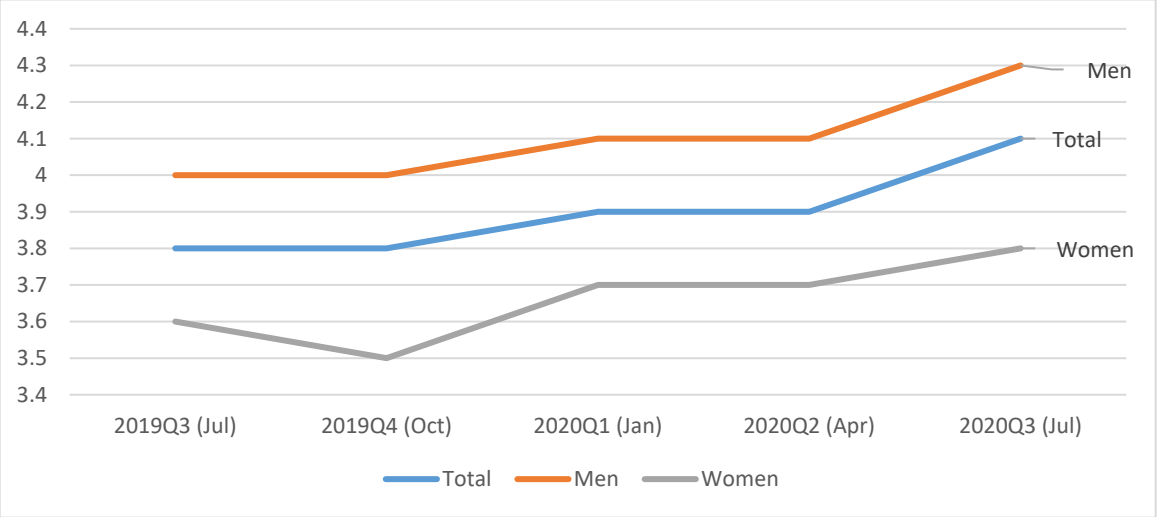
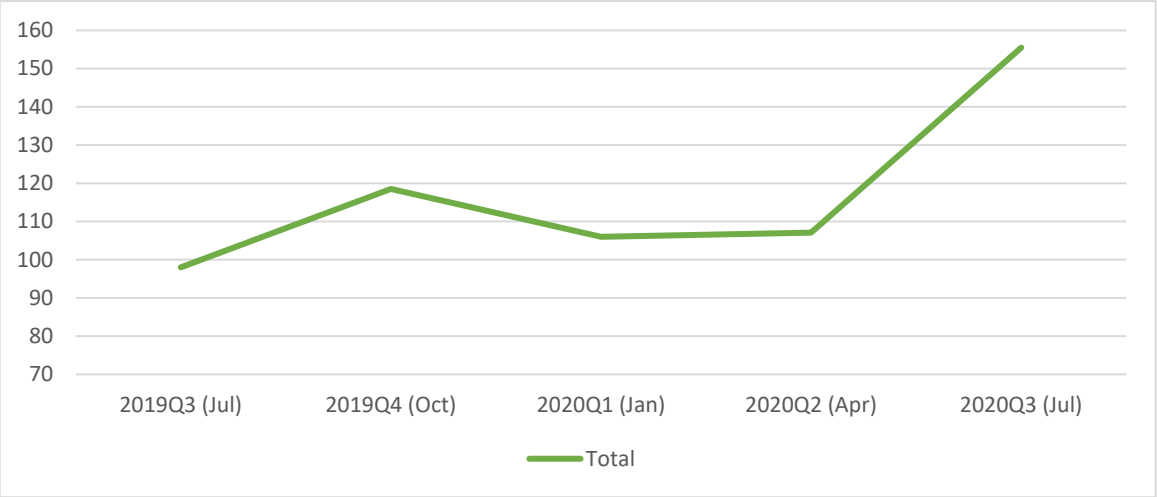


Chart 1b Redundancies (thousands), 3-month averages



Source: ONS, "Labour market overview: September", 15 September 2020.

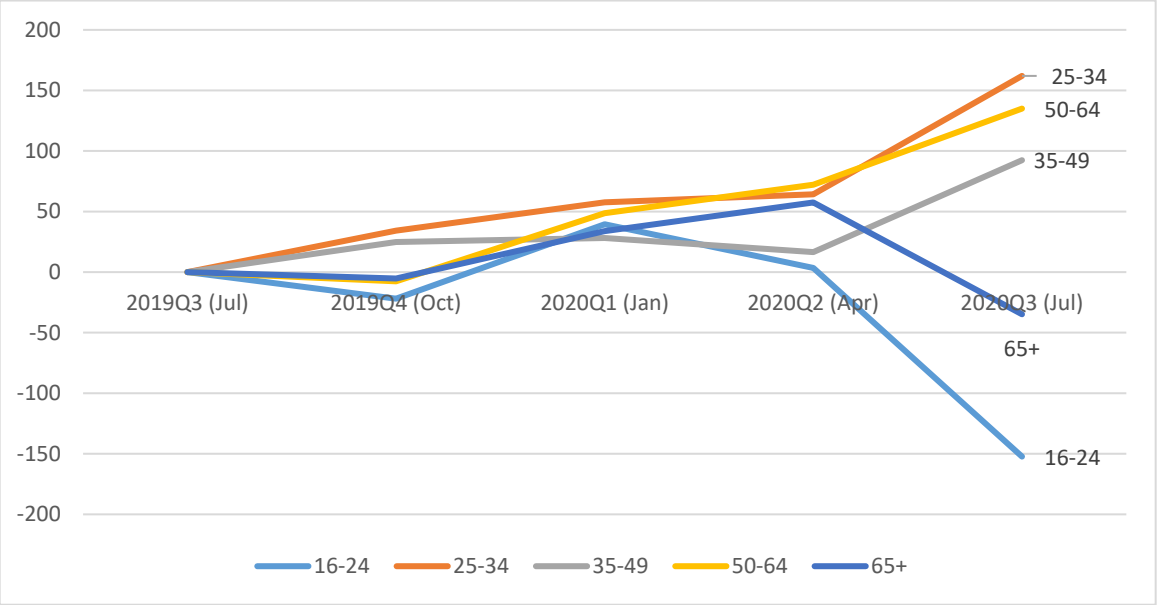
…employment is falling…

Concerning the ONS's headline employment figure (including the number of people temporarily away from work, including furloughed workers), employment fell by just 12,000 (QOQ) to 33.0mn in the three months to July (though was still 202,000 higher YOY).[10] The fall in employment was driven by workers aged 16-24 years, which is consistent with the unemployment data (above), and those aged 65 years and over (who are more likely to retire and drop out of the workforce). Chart 2 shows employment in the 16-24 age bracket was 152,000 lower in the three-months to July 2020 than a year earlier (having fallen by 156,000 QOQ), whilst employment in the 65+ age bracket was 35,000 lower than a year earlier (having fallen by 92,000 QOQ). In contrast, employment in the other three age brackets increased in the three months to July (QOQ) and was significantly higher than a year earlier.

One of the Government's responses to the prospect of higher youth unemployment is the new Kickstart Scheme (GB), details of which were released on 2 September when it opened for employer applications.[11-12] The Kickstart Scheme comprises a £2bn fund "to create hundreds of thousands of high quality 6-month work placements aimed at those aged 16 to 24 who are on Universal Credit and are deemed to be at risk of long term unemployment. Funding available for each job will cover 100% of the relevant National Minimum Wage for 25 hours a week, plus the associated employer National Insurance contributions and employer minimum automatic enrolment contributions."

The ONS's LFS data are not the only source of information on employment, flattered as they are by the furlough scheme. The HMRC's Pay As You Earn Real Time Information (PAYE RTI) indicated that the number of payroll employees fell by 36,000 (MOM) in August, with 695,000 (2.4%) fewer people in paid employment than in March 2020.

Chart 2 Employment changes (thousands), compared with 2019Q3 (3-months to July 2019), by age group, 3-month averages



Source: ONS, "Employment in the UK: September 2020", 15 September 2020.

…and other labour market metrics still weak

After the collapse of vacancies, hours worked and earnings at the height of lockdown there were modest signs of improvement in the latest data.

There were an estimated 434,000 vacancies in the UK in the three months to August 2020, 48,000 fewer than in the previous three months (QOQ, March-May 2020) and 383,000 down YOY. However, vacancies in June-August were nearly 30% higher than the record low in April-June 2020, with the monthly increase driven by small businesses (less than 50 employees).

Concerning hours worked in the May-July period, the ONS noted, that though still large, the reductions in total hours worked both on the year and the quarter were smaller than the previous month, with the May-July period covering a time when some of the coronavirus lockdown measures started to be eased. Even though there were some signs of recovery, however, average actual weekly hours were only 26.3 hours; 2.8 hours down (QOQ) to be 5.8 hours down (YOY). The "accommodation and food service activities" industrial sector experienced the biggest annual fall in average actual weekly hours; down 15.4 hours (YOY) to a record low of 13.5 hours per week.

Concerning earnings, in the three months to July:

- In nominal terms, earnings growth stood at -1.0% (YOY) for total pay (including bonuses) but was +0.2% for regular pay (excluding bonuses). The difference between the two measures reflected subdued bonuses, which fell by 21.4% (nominal terms, YOY). The ONS noted that nominal earnings growth had also been affected by lower pay for furloughed employees. But, with some furloughed employees returning to work, nominal regular pay growth was positive for May-July 2020 after being negative in the three months to June 2020.

- In real terms (inflation adjusted) growth was -1.8% (YOY) for total pay and -0.7% (YOY) for regular pay.

Average pay growth has varied very significantly by industry sector between May-July 2019 and May-July 2020. The public sector saw the highest estimated growth, at 4.5% for regular pay. Negative growth was seen in the construction sector (-7.5%); the wholesaling, retailing, hotels and restaurants sector (-3.2%); and the manufacturing sector (-1.7%). The ONS added that for the construction, manufacturing, and wholesaling, retailing, hotels and restaurants sectors, the single-month estimate of annual growth for July 2020 showed signs of improvement when compared with the average May-July 2020 period.

Retail sales edged firmer in August…

After last week's GDP data for July, there were signs activity was holding up in August.[13] Retail sales volumes edged up 0.8% (MOM) in August 2020, to be 4.0% higher than in February.[14] They were 1.4% higher YOY. Retail sales represent about one third of household consumption which, in turn, is around 62-63% of GDP.[15-16]

There was, however, a very mixed picture on different store types. Non-store retailing volumes were 38.9% above February's in August, but clothing stores were still 15.9% below February's pre-pandemic levels. Spending for home improvements continued to rise in the month as sales volumes within household goods stores increased by 9.9% when compared with February. Online retail sales fell by 2.5% in August when compared with July, but the strong growth experienced over the pandemic has meant that sales were still 46.8% higher than February's pre-pandemic levels. The proportion of money spent online slipped to 28.1% in August, compared with July's 28.9% and the peak of 33.5% recorded in May, but was still much higher than February's 20.1%.

…and inflation pressures remain very weak…

The Consumer Prices Index (CPI) YOY rate fell to 0.2% in August, compared with July's 1.0%, whilst the CPIH inflation rate fell to 0.5% (YOY) in August, compared with July's 1.1% (YOY).[17] August's inflation rates were the lowest since December 2015. The restaurants and hotels group made the largest downward contribution to CPI inflation in August, where the data reflected the effect of the Eat Out to Help Out Scheme, whilst the reduction in Value Added Tax (VAT) from 20% to 5% in the hospitality sector also contributed to the fall in prices (see annex table 2) . Smaller downward contributions came from falling air fares and clothing prices rising by less between July and August 2020 than between the same two months a year ago. The YOY inflation rates for goods and services in August were -0.2% (flat in July) and 1.0% (2.0% in July) respectively. The core rate inflation (excluding energy, food, alcoholic beverages & tobacco) fell to 1.0% (1.8% in July).

Producer prices inflation is also very well contained. The inflation rate for the output PPI (goods leaving the factory gate) was unchanged at -0.9% (YOY) in August.[18] This was the fifth consecutive month that the rate had been negative, following 45 consecutive months of positive annual inflation, whilst the ONS commented that "…petroleum products was the largest downward contributor to the annual rate of output." The inflation rate for the input PPI (materials and fuels used in the manufacturing process) was -5.8% (YOY) in August, compared with -5.7% (YOY) in July. The largest

downward contribution to the annual rate of input inflation was from crude oil. Crude oil prices fell 1.6% (MOM) in August and were 30.8% lower YOY. Note that the sterling effective exchange rate index (ERI) appreciated 1.6% (MOM) in August and was 4.5% higher YOY. Imported materials and fuels represent roughly two-thirds of overall materials and fuels (input prices) in terms of index weight.

…whilst the ONS's house price index improved in June

In recent Perspectives we have discussed the bounce in house prices as reported by the Nationwide and the Halifax.[19] According to the Halifax, house prices jumped 1.6% (MOM) in August, to be 5.2% higher YOY, to a new record high. And the Nationwide recently reported that, on their series, annual house price growth accelerated to 3.7% in August, from 1.5% in July.

Suffice to say, the ONS is still playing "catch up" after suspending the UK House Price Index in May. In any case, the ONS tends to lag the Halifax and the Nationwide by about a month. However, for the record, the official data showed that UK average house prices rose by 3.4% in June (YOY), compared with 1.1% in May.[20] Prices rose by 2.7% (MOM) on a non-seasonally adjusted basis in June and were 2.4% (MOM) higher on a seasonally adjusted basis. The ONS commented "…over the past three years, there has been a general slowdown in UK house price growth, driven mainly by a slowdown in the south and east of England. The beginning of 2020 saw a pick-up in annual growth in the housing market before the coronavirus restrictions were put in place at the end of March 2020". House moving restrictions were introduced on 23 March (updated on 26 March) and eased in mid-May.

Central Bank update: no change from the Bank…

At the meeting ending on 16 September 2020, MPC members voted unanimously for:[21]

- Maintaining the Bank Rate at 0.1%.
- That the Bank of England should continue with its existing programmes of UK government bond and sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, maintaining the target for the total stock of these purchases at £745bn.

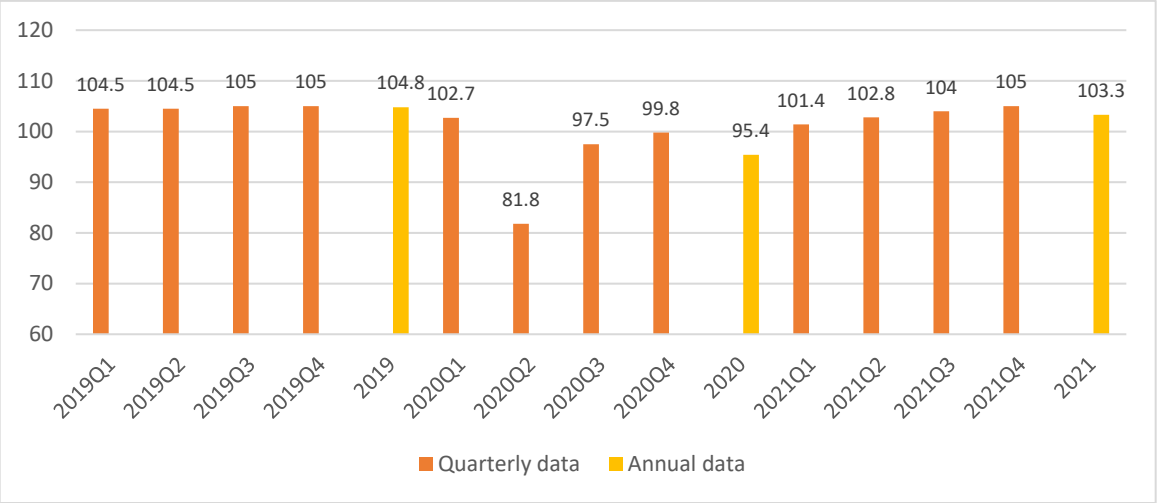
On the economy, the MPC minutes noted that "…the outlook for the economy remained unusually uncertain. The MPC's central projections in the August Monetary Policy Report (MPR) assumed that the direct impact of Covid-19 on the economy would dissipate gradually. They were also conditioned on the assumption of an immediate, orderly move to a comprehensive free trade agreement with the European Union on 1 January 2021. Conditional on those assumptions, UK GDP was projected to continue to recover". Suffice to say, there are doubts about both of these assumptions.

The Bank noted GDP in July was around 18½% above its trough in April, though still around 11½% below its 2019Q4 level. Moreover, high-frequency payments data suggested that consumption had continued to recover during the summer and was now at around its start-of-year level in aggregate, stronger than expected in the August Report.[22] However, investment intentions had remained very weak.[23-24] For 2020Q3 as a whole, Bank staff expected GDP to be around 7% below its 2019Q4 level, less weak than had been expected in the August Report. Chart 3 suggests an illustrative growth path, broadly based on the Bank's August forecast, incorporating this amended assessment of 2020Q3 GDP. Assuming 2+% (QOQ) growth in 2020Q4, GDP could fall by around 9% (YOY) in 2020, instead of the Bank's August projection of 9½%. In order to maintain the Bank's August view that GDP will not attain the pre-Covid level until 2021Q4, growth in 2021 (possibly around 8¼% to 8½%) could be less than the

Bank suggested in August, when they projected 9%.

Notwithstanding the fact that recent domestic economic data had been a little stronger than the MPC expected at the time of the August Report, "…given the risks, it was unclear how informative they (the recent data) were about how the economy will perform further out. The recent increases in Covid-19 cases in some parts of the world, including the UK, had the potential to weigh further on economic activity, albeit probably on a lesser scale than seen earlier in the year". In other words, given the rising Covid-19 positive tests, and the Government's latest restrictions on activity, the recovery could be damaged (see annex table 3 for latest Government measures).[25]

Chart 3 Illustrative quarterly growth path, GDP index, 2016=100



Sources: Bank of England, "Monetary Policy Report, August 2020", 6 August 2020, amended for MPC comment on GDP in 2020Q3 (17 September 2020).

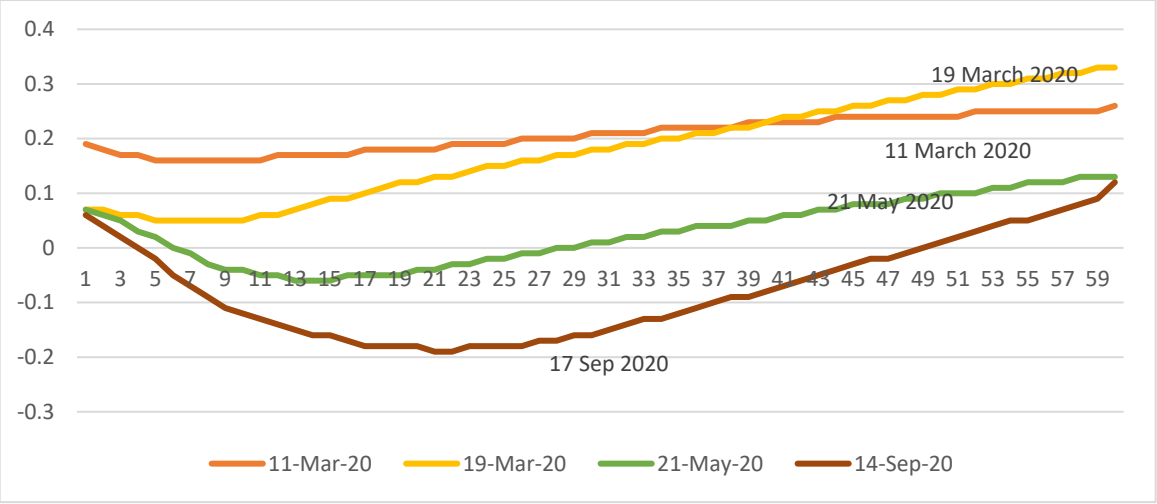
On policy, September's MPC meeting was something of a holding operation. They commented:

- The MPC would continue to monitor the situation closely and stood ready to adjust monetary policy accordingly to meet its remit. The MPC would keep under review the range of actions that could be taken to deliver its objectives.
- The MPC did not intend to tighten monetary policy until there was clear evidence that significant progress was being made in eliminating spare capacity and achieving the 2% inflation target sustainably.
- The Bank stood ready to increase the pace of purchases to ensure the effective transmission of monetary policy, should market conditions worsen materially again.
- The MPC had been briefed on the Bank's plans to explore how a negative Bank Rate could be implemented effectively, should the outlook for inflation and output warrant it at some point during this period of low equilibrium rates. The Bank and the Prudential Regulation Authority (PRA) will begin structured engagement on the operational considerations (of negative interest rates) in 2020Q4.

As we discussed in a recent Perspective, several Bank officials, including the Governor, struck a cautious tone about the economy and the appropriate policy responses in late August/early September.[26-27] Unsurprisingly, therefore, there continue to be heightened expectations that there will be a further tranche (£100bn) of asset purchases in November (the next meeting announcement is 5

November). And the markets are expecting negative interest rates sooner rather than later (chart 4).

Chart 4 UK instantaneous OIS nominal forward curve (%), months out to 60 months (5 years), at selected dates



Source: Bank of England, yield curve data, archive and latest. Overnight index swap (OIS) rate (latest data, 17/9/20).

…and no change from the Fed

The Fed pledged to continue its accommodative support for the US economy at its September meeting (15-16 September) and, as expected, there were no policy changes. Specifically, they said:[28]

- "The Federal Open Market Committee (FOMC) seeks to achieve maximum employment and inflation at the rate of 2% over the longer run. With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time and longer-term inflation expectations remain well anchored at 2%". This was the first meeting after the Fed's monetary policy framework had been changed to an average inflation target as opposed to a point inflation target.
- "The FOMC expects to maintain an accommodative stance of monetary policy until these outcomes are achieved. The Committee decided to keep the target range for the federal funds rate at 0-0.25% and expects it will be appropriate to maintain this target range until labour market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2% and is on track to moderately exceed 2% for some time. In addition, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses."

The economic projections were revised in September and were not as pessimistic as in June. But Fed Chairman Jay Powell warned the recovery could falter, unless politicians approve additional aid. "The real question is when and how much and what will be the content and no one has any certainty around that", he said, "…if we don't have that, then there would certainly be downside risks."[29]

Specifically, the fall in GDP for 2020Q4 was revised down to 3.7% (YOY), compared with a fall of 6.5%

in June (chart 5a). Similarly, the unemployment rate was modified to increase to 7.6% in 2020Q4, compared with June's 9.3% (chart 5b). Inflation was, however, revised up, but remained under the 2% target until 2023 (annex table 4). Finally, the appropriate Fed Funds rate remained at 0.1% (0-0.25%) throughout the forecast period (chart 5c).[30]

Chart 5a FOMC: US GDP growth (%), Q4 (median estimates), June, September 2020

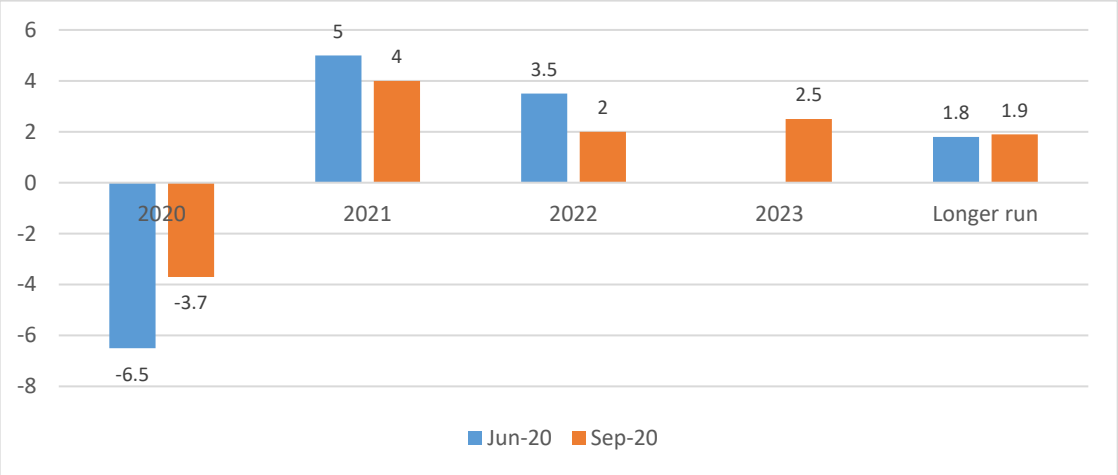


Chart 5b FOMC: US unemployment rate (%), Q4 (median estimates), June, September 2020

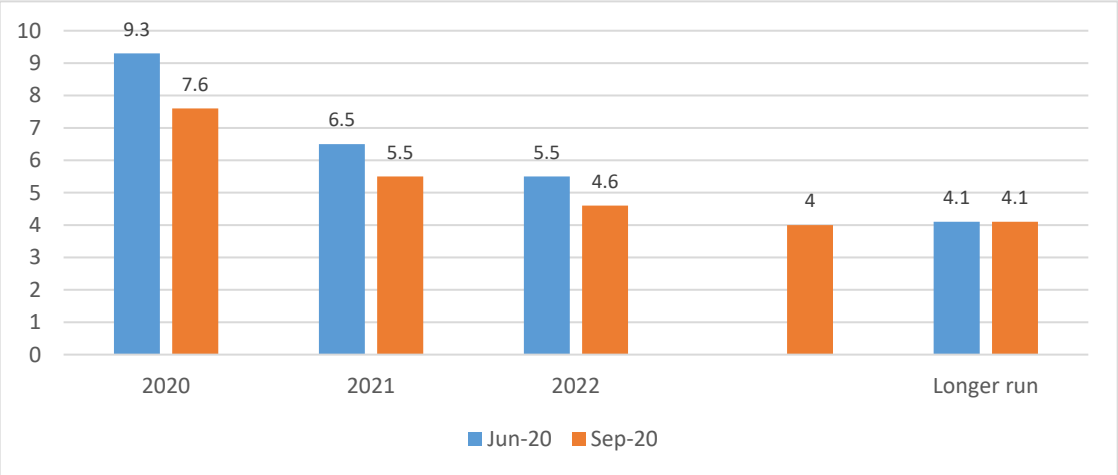
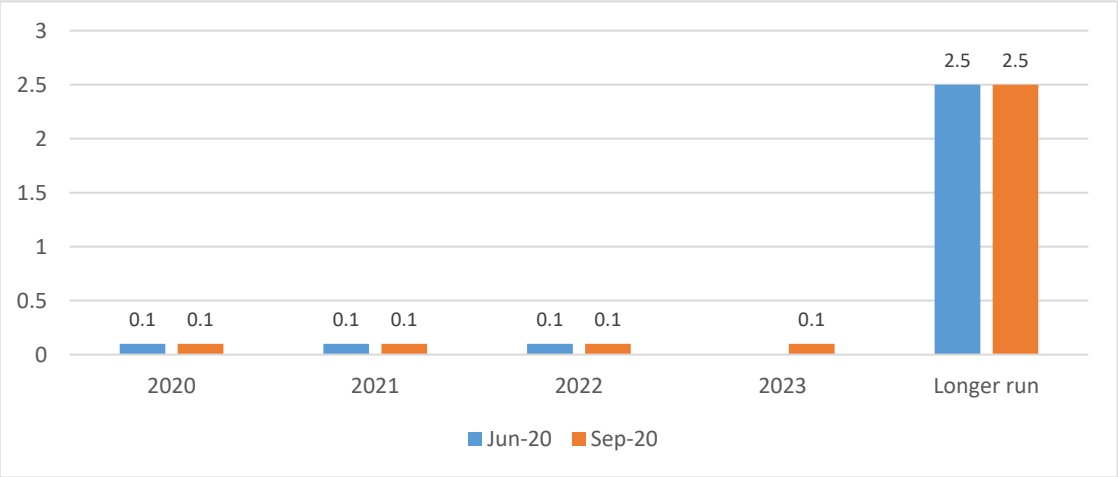


Chart 5c FOMC: appropriate Federal funds rate (median estimates), end-year, June, September 2020



Source: FOMC, "FOMC projections materials", 16 September 2020. See annex table 4. These are the economic projections of Federal Reserve Board members & Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy.

The OECD revises its forecasts: better than June

By way of introduction to their September interim forecast, the OECD explained "Global output collapsed in the first half of 2020 as the COVID-19 pandemic took hold, with declines of more than one-fifth in some advanced and emerging-market economies. Without the prompt and effective policy support introduced in all economies, the contraction in output would have been substantially larger. Output picked up swiftly following the easing of confinement measures and the initial re-opening of businesses, but the pace of the global recovery has lost some momentum over the summer months."[31] They emphasised the "considerable uncertainty" underlying their forecasts, which were dependent on assumptions about the spread of the COVID-19 virus and policy developments. They assumed that "…sporadic local outbreaks would continue, with these being addressed by targeted local interventions rather than national lockdowns; a vaccination is assumed not to become widely available until late in 2021".[32]

Specifically, on the GDP forecasts, the OECD forecast a global decline of 4.5% in 2020 (a 6.0% decline in June) followed by a 5.0% rebound in 2021 (5.2% in June) (chart 6a). Even though the drop in global output in 2020 was smaller than expected, it was still unprecedented in recent history. Moreover, it masked "considerable differences across countries, with upward revisions in China, the United States and Europe, but weaker-than-expected outcomes in India, Mexico and South Africa". They added that "…in most economies, the level of output at the end of 2021 is projected to remain below that at the end of 2019, and considerably weaker than projected prior to the pandemic, highlighting the risk of long-lasting costs from the pandemic. If the threat from the coronavirus fades more quickly than expected, improved confidence could boost global activity significantly in 2021. However, a stronger resurgence of the virus, or more stringent containment measures, could cut 2-3 percentage points from global growth in 2021, with higher unemployment and a prolonged period of weak investment".

Specifically, on the key non-European economies:

- Concerning the US, the OECD revised the fall in GDP for 2020 to 3.8%, compared with 7.3% in June. As we noted above, the Fed revised its projections of the decline in 2020 to 3.7% in September,

cannily similar, compared with 6.5% in June. If this turns out to be the case, then the US will be the "best" performing major economy (bar China) in 2020.

- There were minor changes to the projections for Japan.
- China is now expected to show some growth this year (1.8%), compared with a 2.6% fall in June.
- However, there is a major downgrade to the forecast for India. The OECD now expects a GDP fall of 10.2% in 2020, compared with just 3.7% in June.

Turning to the Eurozone and the UK:

- The decline in Eurozone GDP has been modified to 7.9% for 2020, reflecting less worse outlooks for the bloc's three major economies - Germany (-5.4%), France (-9.5%) and Italy (-10.5%).
- The OECD also softened its projection for the UK, and now expects a 10.1% decline in 2020 compared with one of 11.5% in June.[33]

Chart 6a OECD GDP forecasts for 2020 and 2021, June, September 2020 forecasts: world & selected non-European economies

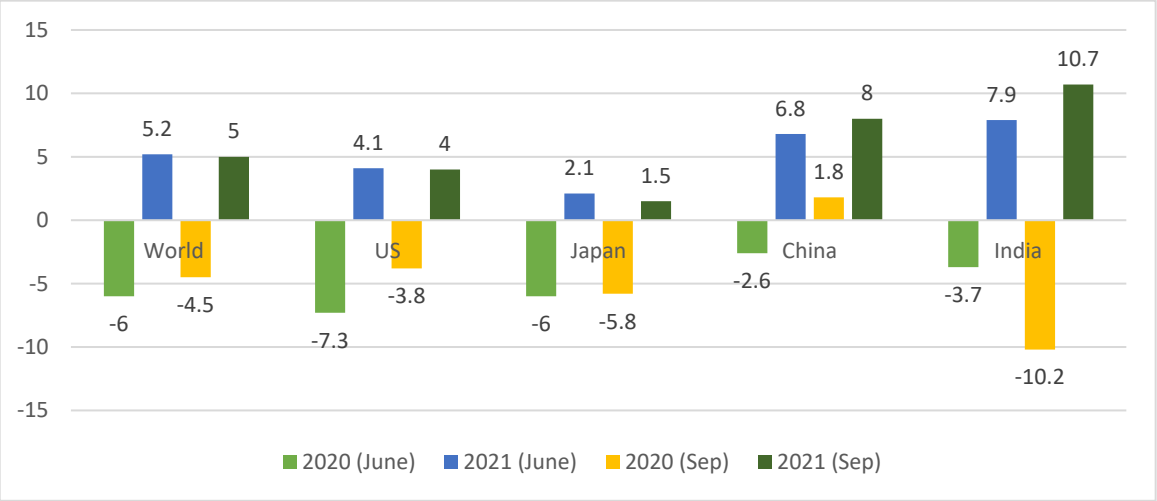
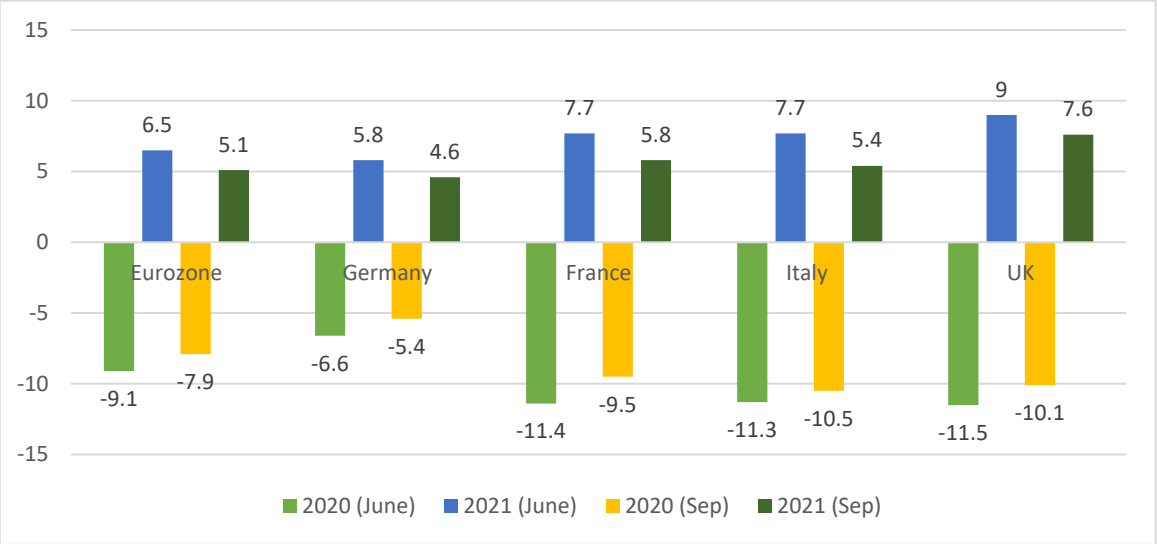


Chart 6b OECD GDP forecasts for 2020 and 2021, June, September 2020 forecasts: Eurozone and the UK



Sources: (i) OECD, "Economic Outlook: The world economy on a tightrope walk to recovery", 10 June 2020 ("one-hit" scenario); (ii) OECD, "Coronavirus: living with uncertainty: Interim Economic Assessment", 16 September 2020. See also annex table 5.

Brexit update: the Internal Market Bill makes progress

In last week's Perspective we discussed the announcement of the Internal Market Bill by the BIES in Parliament on 9 September, when it was given its First Reading (in the Commons).[34]

The Bill proposes:

- No new checks on goods moving from Northern Ireland to Great Britain.
- Giving UK ministers powers to modify or "disapply" rules relating to the movement of goods that will come into force from 1 January if the UK and EU are unable to reach an alternative agreement through a trade deal.
- Powers to override previously agreed obligations on state aid.

Since then there have been two developments. Firstly, MPs backed the Internal Market Bill by 340 votes to 263 at the Second Reading (14 September).[35] Secondly, the Government published an amendment to the Bill (17 September) which would prevent ministers from activating powers in the Bill to override the Withdrawal Agreement (as agreed in October 2019) until MPs had voted to approve the decision first.[36]

References

1. ONS, "Labour market overview: September", 15 September 2020.
2. 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 unemployment rate can also be defined as the proportion of the economically active population (those in work plus those seeking and available to work) who are unemployed).
3. ONS, "Single-month and weekly Labour Force Survey estimates: September 2020", 15 September 2020.
4. Daily Telegraph, "Jobs storm beginning to break over UK economy", 16 September 2020.
5. Daily Mirror, "Furlough 'D-Day' with millions to be told today if they still have a job after October", 15 September 2020, reported that "all firms looking to lose 100 workers or more before furlough ends must offer staff a 45-day consultation period, which would start this week. Current employment laws state that staff must be given 45-days' notice where more than 100 redundancies are likely. This falls to 30-days for employers looking to make 20 to 99 redundancies."
6. Sun, "Wage worries: furloughed workers should find out this week if they'll face redundancy when scheme ends in October", 14 September 2020, reported that "…a consultation period must start at least 45 days before the first job loss when more than 100 staff are made redundant. The coronavirus job retention scheme…ends on Saturday 31 October. Wednesday 16 September marks 45 days before this. Companies can still make staff redundant after this date, but they will have to pay full wages from 1 November onward without furlough scheme support."
7. ONS, "Coronavirus and the latest indicators for the UK economy & society", 17 September 2020 covered the initial results from Wave 13 of the Business Impact of Coronavirus Survey (BICS) for the period 24 August to 6 September 2020. It estimated that 10% of the workforce remained on furlough leave – about 3.5 million.
8. Bank of England, "Monetary Policy Report, August 2020", 6 August 2020.
9. Bank of England, "Monetary policy summary and minutes of the MPC meeting ending 16

September 2020", 17 September 2020.
10. ONS, "Employment in the UK: September 2020", 15 September 2020.
11. HM Government, "Kickstart Scheme", 2 September 2020, updated 8 September.
12. Ruth Lea, "Further signs of economic recovery, but the Bank strikes a cautious note", Arbuthnot Banking Group, 7 September 2020, discussed the Kickstart scheme. A Kickstart Scheme application must be for a minimum of 30 job placements. If a single employer cannot provide this many job placements, they can either, firstly, join a group of other employers, nominating a representative for the group to submit the application, or, secondly, register their interest with existing representatives, such as local authorities, chambers of commerce or trade bodies. There are concerns that the scheme will discriminate against small firms.
13. Ruth Lea, "Coronavirus crisis: GDP recovers further in July", Arbuthnot Banking Group, 14 September 2020.
14. ONS, "Retail sales, August 2020", 18 September 2020.
15. Data from the ONS database: Value retail sales in 2019 was £441.6bn; household consumption in 2019 (value) was £1,388.8bn), 31.8%.
16. Reuters, "UK retail spending rebounds to near pre-lockdown levels", 24 July 2020, reported that "…retail sales represent only about a third of consumer spending, however, and other figures suggest people remain cautious about returning to places like bars and restaurants".
17. ONS, "Consumer price inflation, UK: August 2020", 16 September 2020. CPIH is the Consumer Prices Index including owner-occupiers' housing costs and is the ONS's preferred measure of consumer prices inflation.
18. ONS, "Producer price inflation, UK: August 2020", 16 September 2020.
19. Ruth Lea, "Coronavirus crisis: GDP recovers further in July", Arbuthnot Banking Group, 14 September 2020.
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23. Bank of England, "Agents' summary of business conditions: 2020Q3", 17 September 2020.
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25. BBC, "Rising virus rates threaten economy, says Bank of England", 17 September 2020.
26. Ruth Lea, "Further signs of economic recovery, but the Bank strikes a cautious note", Arbuthnot Banking Group, 7 September 2020.
27. Daily Telegraph, "'Big and fast' QE can tackle any future downturn, claims Governor", 29 August 2020, reported the Governor's Jackson Hole symposium comments on its arsenal of tools.
28. Federal Reserve, "Federal Reserve issues FOMC statement", 16 September 2020.
29. BBC, "Fed vows prolonged economic support for US", 16 September 2020, reported that "Mr Powell's comments came as lawmakers in Washington remain at an impasse over further spending, with Democrats calling for more aggressive action than many Republicans support".
30. Daily Telegraph, "Fed braces US for three years of low rates", 17 September 2020.
31. OECD, "Coronavirus: living with uncertainty: Interim Economic Assessment", 16 September 2020.

32. OECD, “Economic Outlook: The world economy on a tightrope walk to recovery”, 10 June 2020 included two scenarios. They were one in which the virus is brought under control (the “one-hit” scenario, single hit), and one in which a second global outbreak hits before the end of 2020 (the “two-hit” scenario, double hit).
33. CityAM, “OECD: Global economy faring better than thought but UK lags behind”, 16 September 2020.
34. Ruth Lea, “Coronavirus crisis: GDP recovers further in July”, Arbuthnot Banking Group, 14 September 2020.
35. BBC, “Brexit: Internal Market Bill clears first hurdle in Commons”, 15 September 2020.
36. BBC, “Brexit: PM in compromise with Tory critics over Internal Market Bill”, 17 September 2020.

Annex

Table 1 UK economic data tracker

Date	Release	Source	Quarter, year	Outcome
30 Jun	Current Account, Balance of Payments (2020Q1):	ONS	2020Q1	Balance: -£21.1bn (3.8% of GDP), -£9.2bn (1.7% of GDP, 2019Q4)
30 Jun	• Trade (goods & services) balance:	ONS	2020Q1	Balance: -£1.2bn (2020Q1), +£8.4bn (2019Q4)
30 Jun	○ Visible trade balance	ONS	2020Q1	Balance: -£29.3bn (2020Q1), -£15.4bn (2019Q4)
30 Jun	○ Services balance	ONS	2020Q1	Balance: +£28.1bn (2020Q1), +£23.8bn (2019Q4)
30 Jun	• Primary income balance	ONS	2020Q1	Balance: -£13.6bn (2020Q1), -£11.2bn (2019Q4)
30 Jun	• Secondary income balance	ONS	2020Q1	Balance: -£6.3bn (2020Q1), -£6.4bn (2019Q4)
12 Aug	Labour productivity (output per hour) (2020Q2)	ONS	2020Q2	-2.5% (QOQ), -3.0% (YOY)
12 Aug	Labour productivity (output per worker) (2020Q2)	ONS	2020Q2	-19.9% (QOQ), -22.0% (YOY)
12 Aug	GDP (2020Q2)	ONS	2020Q2	GDP: -20.4% (QOQ), -21.7% (YOY)
12 Aug	GDP, industrial breakdown (2020Q2):	ONS	2020Q2	
12 Aug	• Services	ONS	2020Q2	-19.9% (QOQ)
12 Aug	• Production	ONS	2020Q2	-16.9% (QOQ). Manufacturing: -20.2% (QOQ)
12 Aug	• Construction	ONS	2020Q2	-35.0% (QOQ)
12	GDP, expenditure breakdown	ONS	2020Q2	

Aug	(2020Q1):			
12 Aug	• Household consumption	ONS	2020Q2	-23.1% (QOQ).
12 Aug	• Government consumption	ONS	2020Q2	-14.0% (QOQ).
12 Aug	• GFCF	ONS	2020Q2	-25.5% (QOQ). Business investment: -31.4% (QOQ).
12 Aug	• External trade	ONS	2020Q2	Exports: -11.3% (QOQ), imports -23.4% (QOQ), positive external trade contribution.
21 Aug	Public Sector Net Borrowing (PSNB) (Jul)	ONS	2020Q3	£26.7bn (Jul 2020), compared with -£1.6bn (Jul 2019)
21 Aug	Public Sector Net Borrowing (PSNB) (4 months to Jul)	ONS	2020Q3	£150.5bn (4 months to Jul 2020), compared with £22.1bn (4 months to Jul 2019)
21 Aug	Public sector finances, public sector net debt (PSND) (end-Jul)	ONS	2020Q3	£2,004.0bn (end-Jul 2020, 100.5% of GDP), compared with £1,776.4bn (end-Jul 2019, 80.1% of GDP)
21 Aug	Public sector debt interest/revenue ratio (DIR), 12-months to Jul	ONS	2020Q3	2.8% (12-months to Jul 2020)
21 Aug	Flash composite output index (Aug)	Markit-CIPS	2020Q3	Index: 60.3 (Aug), 57.0 (Jul). COI covers services business activity index & manufacturing output index
1 Sep	Unsecured credit (July)	BoE	2020Q3	Growth rate (YOY): -3.6% (Jul), -3.7% (Jun)
1 Sep	Net mortgage borrowing (July)	BoE	2020Q3	Growth rate (YOY): 2.9% (Jul), 3.1% (Jun)
1 Sep	Mortgage approvals for house purchase (July)	BoE	2020Q3	66,300 (Jul), 39,900 (Jun)
1 Sep	Net bank lending to non-financial businesses, including public sector (July), of which:	BoE	2020Q3	
1 Sep	• SMEs	BoE	2020Q3	Growth rate (YOY): 20.7% (Jul), 17.5% (Jun)
1 Sep	• Large businesses	BoE	2020Q3	Growth rate (YOY): 3.7% (Jul), 4.8% (Jun)
1 Sep	Broad money (M4ex, excluding IOFCs)) (July)	BoE	2020Q3	Growth rate (YOY): 12.4% (Jul), 12.0% (Jun)
1 Sep	Manufacturing PMI (Aug)	Markit-CIPS	2020Q3	Index: 55.2 (Aug), 53.3 (Jul)
3 Sep	Services PMI (Aug)	Markit-CIPS	2020Q3	Index: 58.8 (Aug), 56.5 (Jul)
3 Sep	Composite PMI (Aug), weighted average of services PMI & manufacturing output	Markit-CIPS	2020Q3	Index: 59.1 (Aug), 57.0 (Jul)

	index			
4 Sep	Construction PMI (Aug)	Markit-CIPS	2020Q3	Index: 54.6 (Aug), 58.1 (Jul)
11 Sep	GDP, monthly (Jul)	ONS	2020Q3	GDP: +6.6% (MOM), -11.7% (YOY). It is also 11.7% down on Feb 2020 level.
11 Sep	GDP, industrial breakdown (Jul):	ONS	2020Q3	
11 Sep	• Services	ONS	2020Q3	+6.1% (MOM)
11 Sep	• Production	ONS	2020Q3	+5.2% (MOM). Manufacturing: +6.3% (MOM)
11 Sep	• Construction	ONS	2020Q3	+17.6% (MOM)
11 Sep	Total trade in goods & services (3 months to July):	ONS	2020Q3	
11 Sep	• Goods & services	ONS	2020Q3	Surplus: £12.0bn (3 months to July), £0.9bn (3 months to Apr)
11 Sep	• Goods	ONS	2020Q3	Deficit: £17.6bn (3 months to July), £26.3bn (3 months to Apr)
11 Sep	• Services	ONS	2020Q3	Surplus: £29.6bn (3 months to July), £27.2bn (3 months to Apr)
11 Sep	Trade excluding precious metals (3 months to July):	ONS	2020Q3	
11 Sep	• Underlying trade in goods & services	ONS	2020Q3	Surplus: £6.4bn (3 months to July), £0.5bn (3 months to Apr)
11 Sep	• Underlying trade in goods	ONS	2020Q3	Deficit: £23.2bn (3 months to July), £26.6bn (3 months to Apr)
11 Sep	Memo item: trade in precious metals (3 months to July)	ONS	2020Q3	Surplus: £5.6bn (3 months to July), £0.3bn (3 months to Apr)
15 Sep	Unemployment (3 months to July)	ONS	2020Q3	+62k (QOQ), +104k (YOY)
15 Sep	Unemployment rate (3 months to July)	ONS	2020Q3	4.1%, +0.2pp (QOQ), 0.3pp (YOY)
15 Sep	Redundancies (3 months to July)	ONS	2020Q3	155.5k, +48.4k (QOQ), +57.5k (YOY)
15 Sep	Employment (3 months to July)	ONS	2020Q3	-12k (QOQ), +202k (YOY)
15 Sep	Total weekly hours worked (3 months to July)	ONS	2020Q3	866.0mn, -93.9mn (QOQ), -183.8mn (YOY)
15 Sep	Average weekly hours worked (3 months to July)	ONS	2020Q3	26.3 hours, -2.8 hours (QOQ), -5.8 hours (YOY)
15 Sep	Nominal earnings growth (3 months to July):	ONS	2020Q3	
15 Sep	• Total pay, including bonuses	ONS	2020Q3	-1.0% (YOY)

15 Sep	• Regular pay, excluding bonuses	ONS	2020Q3	+0.2% (YOY)
15 Sep	Real earnings growth (3 months to July):	ONS	2020Q3	
15 Sep	• Total pay, including bonuses	ONS	2020Q3	-1.8% (YOY)
15 Sep	• Regular pay, excluding bonuses	ONS	2020Q3	-0.7% (YOY)
15 Sep	Vacancies (3 months to Aug)	ONS	2020Q3	Total vacancies: 434k, -48k (QOQ), -383k (YOY)
15 Sep	Claimant count (Aug)	ONS	2020Q3	Total: 2.74mn (Aug), +73.7k (MOM)
15 Sep	Employment, PAYE RTI, HMRC (Aug)	ONS	2020Q3	Total: 28.3mn (Aug), -36k (MOM); -695k (compared with March)
16 Sep	CPI (Aug)	ONS	2020Q3	YOY inflation: 0.2% (Aug), 1.0% (Jul)
16 Sep	CPIH (Aug)	ONS	2020Q3	YOY inflation: 0.5% (Aug), 1.1% (Jul)
16 Sep	PPI (output) (Aug)	ONS	2020Q3	YOY inflation: -0.9% (Aug), -0.9% (Jul)
16 Sep	PPI (input) (Aug)	ONS	2020Q3	YOY inflation: -5.8% (Aug), -5.7% (Jul)
16 Sep	Sterling effective exchange rate index (EERI) (Aug)	ONS	2020Q3	Aug: 1.6% (MOM), 4.5% (YOY)
16 Sep	Crude oil prices (Aug)	ONS	2020Q3	-1.6% (MOM), -30.8% (YOY)
16 Sep	House prices (June, official)	ONS	2020Q2	YOY growth: 3.4% (Jun), 1.1% (May)
16 Sep	House prices (June, official)	ONS	2020Q2	+2.7% (MOM, non-seasonally adjusted), +2.4% (MOM, seasonally adjusted)
18 Sep	Retail sales (Aug)	ONS	2020Q3	Volume: +0.8% (MOM), +2.8% (YOY)
18 Sep	Retail sales (3 months to Aug)	ONS	2020Q3	Volume: 16.7% (QOQ), 0.7% (YOY)
18 Sep	Retail sales, online sales proportion (Aug)	ONS	2020Q3	Online sales/total: 28.1% (Aug), 28.9% (Jul)

Table 2 Summer Economic Update, plan for jobs, measures

Protecting Jobs	
Eat Out to Help Out scheme	Will entitle every diner to a 50% discount of up to £10 per head on their meal, for August 2020 (UK).
Temporary VAT cut for	Reduced (5%) rate of VAT will apply to supplies of food & non-

food & non-alcoholic drinks	alcoholic drinks, 15 July 2020 to 12 January 2021 (UK).
Temporary VAT cut for accommodation & attractions	Reduced (5%) rate of VAT will apply to supplies of accommodation & admission to attractions, 15 July 2020 to 12 January 2021 (UK).

Source: Ruth Lea, "Coronavirus crisis: fiscal cost of support measures since the Budget nearly 190bn", Arbuthnot Banking Group, 13 July 2020, discussed the was Summer Economic Update.

Table 3 Coronavirus policy decisions: timeline from September

Date	Key decisions
SEPTEMBER	TIGHTENING OF RESTRICTIONS
9 September 2020, announcement	New restrictions announced. **From 14 September, social meetings with other households limited to groups of 6 ("rule of six").** New rule **applies to people in private homes, indoors & outdoors,** & places such as pubs, restaurants, cafes & public outdoor spaces. The rule **does not apply to schools & workplaces,** or weddings, funerals & organised team sports.
9 September 2020	New slogan: hands (wash your hands regularly and for 20 seconds), face (wear a face covering in indoor settings where social distancing may be difficult and where you will come into contact with people you do not normally meet), and space (stay 2 metres apart from people you do not live with where possible, or 1 metre with extra precautions in place).
11 September 2020	Local lockdown in Birmingham.
14 September 2020	New restrictions introduced, "rule of six" for socialising.
18 September 2020	Pubs and restaurants must shut early and household-mixing has been limited in Northumberland, Newcastle, Sunderland, North and South Tyneside, Gateshead and County Durham council areas.
22 September 2020	Tighter restrictions will come into force in North West (including Lancashire, Merseyside), parts of the Midlands and West Yorkshire. The new rules ban separate households from meeting each other at home or in private gardens. Pubs and restaurants must also shut early in parts of Lancashire and Merseyside (announced 18 September).

Sources: various. Note the dates mainly refer to England.

Table 4 Federal Reserve: economic projections June, September 2020, median estimates

	2020	2021	2022	2023	Longer-run
GDP % change, Q4 (YOY):					
Jun 2020	-6.5	5.0	3.5	…	1.8

Sep 2020	-3.7	4.0	3.0	2.5	1.9
Unemployment rate, Q4 (%):					
Jun 2020	9.3	6.5	5.5	…	4.1
Sep 2020	7.6	5.5	4.6	4.0	4.1
PCE inflation (%), Q4 (YOY):					
Jun 2020	0.8	1.6	1.7	…	2.0
Sep 2020	1.2	1.7	1.8	2.0	2.0
Core PCE inflation (%), Q4 (YOY):					
Jun 2020	1.0	1.5	1.7	…	Na
Sep 2020	1.5	1.7	1.8	2.0	Na
Projected appropriate policy path, Federal funds rate (%), end-year:					
Jun 2020	0.1% (0-0.25%)	0.1% (0-0.25%)	0.1% (0-0.25%)	…	2.5%
Sep 2020	0.1% (0-0.25%)	0.1% (0-0.25%)	0.1% (0-0.25%)	0.1% (0-0.25%)	2.5%

Source: FOMC, "FOMC projections materials", 16 September 2020. PCE = personal consumption expenditures, core excludes food & energy. The Federal funds rate is the midpoint of the targeted range. These are the economic projections of Federal Reserve Board members & Federal Reserve Bank presidents under their individual assessments of projected appropriate monetary policy.

Table 5 OECD GDP forecasts, growth rates (%)

	September 2020, interim			June 2020, forecast, one-hit			March 2020, interim		
	2019	2020	2021	2019	2020	2021	2019	2020	2021
World output	2.6	-4.5	5.0	2.7	-6.0	5.2	2.9	2.4	3.3
World trade	…	…	…	1.1	-9.5	6.0	…	…	…
US	2.2	-3.8	4.0	2.3	-7.3	4.1	2.3	1.9	2.1
Eurozone, of which:	1.3	-7.9	5.1	1.3	-9.1	6.5	1.2	0.8	1.2
Germany	0.6	-5.4	4.6	0.6	-6.6	5.8	0.6	0.3	0.9
France	1.5	-9.5	5.8	1.5	-11.4	7.7	1.3	0.9	1.4
Italy	0.3	-10.5	5.4	0.3	-11.3	7.7	0.2	0	0.5
Japan	0.7	-5.8	1.5	0.7	-6.0	2.1	0.7	0.2	0.7
Canada	1.7	-5.8	4.0	1.7	-8.0	3.9	1.6	1.3	1.9

UK	1.5	-10.1	7.6	1.4	-11.5	9.0	1.4	0.8	0.8
China	6.1	1.8	8.0	6.1	-2.6	6.8	6.1	4.9	6.4
India	4.2	-10.2	10.7	4.2	-3.7	7.9	4.9	5.1	5.6
Brazil	1.1	-6.5	3.6	1.1	-7.4	4.2	1.1	1.7	1.8
Russia	1.4	-7.3	5.0	…	…	…	1.0	1.2	1.3

Source: (i) OECD, "Economic Outlook: Coronavirus: the world economy at risk, interim economic assessment", 2 March 2020; (ii) OECD, "Economic Outlook: The world economy on a tightrope walk to recovery", 10 June 2020; (iii) OECD, "Coronavirus: living with uncertainty: interim economic assessment", 16 September 2020.