

Article

Quarterly economic commentary: April to June 2021

Economic commentary for the latest quarterly national accounts, prices and labour market indicators.

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1 . Main points

- The UK economy expanded by 5.5% in Quarter 2 (Apr to June) 2021, as the re-opening of the economy led to a rebound in consumer-facing service industries and health and education output.
- Early estimates show payrolled employees increased by 241,000 in August 2021 while vacancies have reached a record high, although there are reports of labour shortages in specific industries pointing to labour market mismatches.
- The Consumer Prices Index including owner occupiers' housing costs (CPIH) annual rate was 3.0% in August 2021, as base effects, the reopening of the economy and supply bottlenecks all played a role.

2 . National accounts

The UK economy expanded by 5.5% in Quarter 2 (Apr to June) 2021, as coronavirus (COVID-19) pandemic [restrictions](#) were lifted over this period. The re-opening led to a pickup in the wholesale and retail and accommodation and food services industries (Figure 1). There was also a rise in education output, reflecting the increase in in-person school attendance, while the increase in coronavirus related activity boosted health output.

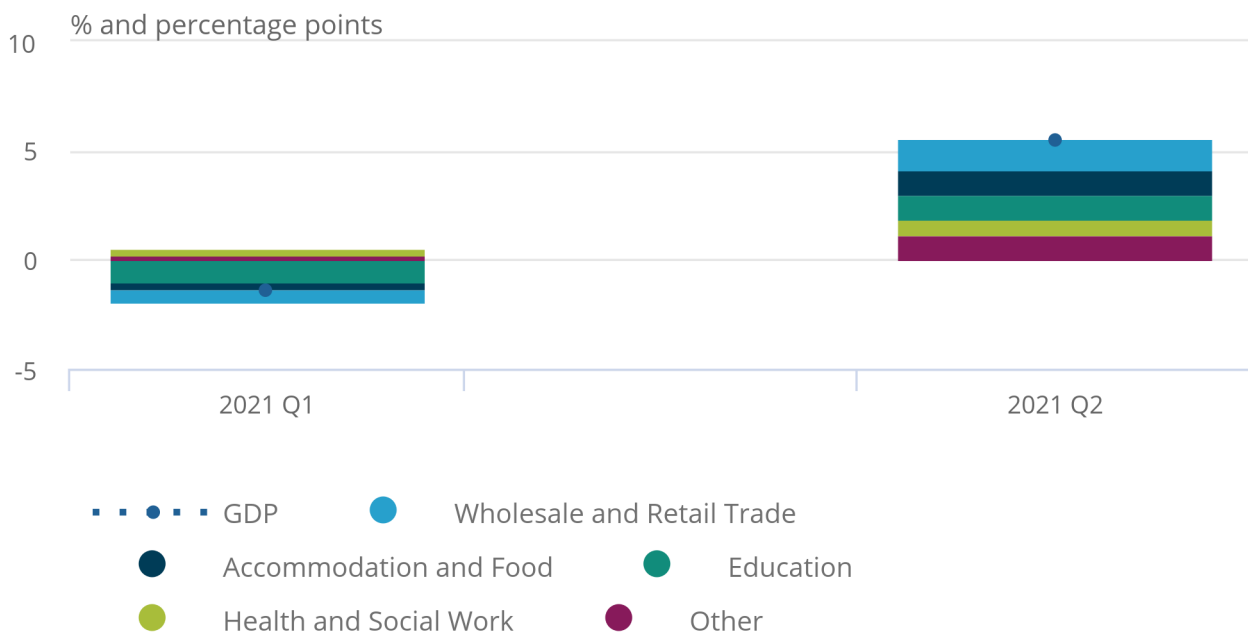
More timely [estimates](#) show a slowing in the economy, where output increased by 0.1% in July 2021. There was a rise in the output of arts, entertainment and recreation activities, following the further easing of restrictions, although there was a fall in retail sales. The slowing in gross domestic product (GDP) may have reflected the rise in coronavirus infections, particularly as this led to a rise in those who were required to self-isolate and which may have weighed on consumer confidence. Supply constraints may have also played a role, particularly in the manufacturing and construction industries.

Figure 1: There has been a resurgence in consumer-facing service industries and health and education output

Contributions to the quarterly change in gross domestic product (GDP), 2021

Figure 1: There has been a resurgence in consumer-facing service industries and health and education output

Contributions to the quarterly change in gross domestic product (GDP), 2021



Source: Office for National Statistics – GDP quarterly national accounts

Notes:

1. These 4 selected industries comprised 27% of UK gross value added in 2019.
2. “Other” includes agriculture, production, construction and all other services not included here.

The global economy is [forecast](#) to increase by 5.7% in 2021 and 4.5% next year, although there is uncertainty around these projections. Global GDP is now above its pre-pandemic level, although the recovery continues to be uneven. The recent increase in global inflation has been largely driven by higher commodity prices, supply-side constraints and a rebound in consumer demand; this is forecast to ease by the end of 2022.

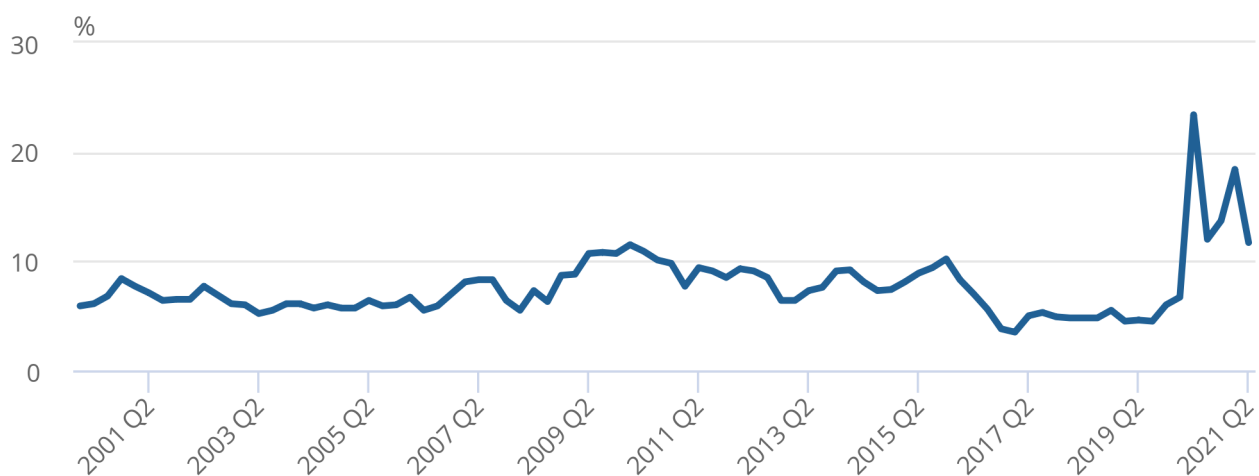
Figure 2 shows how the pandemic led to an increase in enforced savings as restrictions were in place. The household saving ratio stood at 11.7% in Quarter 2 2021 as there was a sharp recovery in household consumption, particularly in restaurants and transport. There is uncertainty around how any accumulated savings will be spent and if the higher level of infections might lead to some increased cautionary behaviour. Households reduced their holdings of currency and deposits in Quarter 2, while increasing their borrowing of loans, specifically mortgage lending. More [recent figures](#) show there was a net repayment of mortgage debt in July 2021, following record borrowing in June because of the tapering off of the stamp duty holiday.

Figure 2: Households have used up some of their accumulated savings, as consumption recovered following the re-opening of the economy

Households' saving ratio, Quarter 1 (Jan to Mar) 2000 to Quarter 2 (Apr to June) 2021

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Households' saving ratio, Quarter 1 (Jan to Mar) 2000 to Quarter 2 (Apr to June) 2021



Source: Office for National Statistics – GDP quarterly national accounts

Businesses investment rebounded in the second quarter. [Survey evidence](#) points to positive investment intentions, including how the reopening has led to the reinstatement of investment projects in consumer-facing industries which had been postponed in the pandemic. However, there was some evidence that those industries that were still being adversely affected were limiting their capital expenditure. There was a rise in the holding of deposits by private non-financial corporations in Quarter 2, although [timelier information](#) shows that there was a large withdrawal in deposits in July 2021.

Public sector net borrowing (PSNB) was £20.5 billion in August 2021, £5.5 billion lower than 12 months ago. The re-opening of the economy led to higher tax receipts, particularly in Income Tax, Value Added Tax and business rates. Government spending was slightly higher, including a rise in interest payments as the recent increase in inflation fed through into higher debt payments on index-linked UK government bonds. This was partially offset by a fall in furlough subsidy payments compared with last August.

3 . Balance of payments

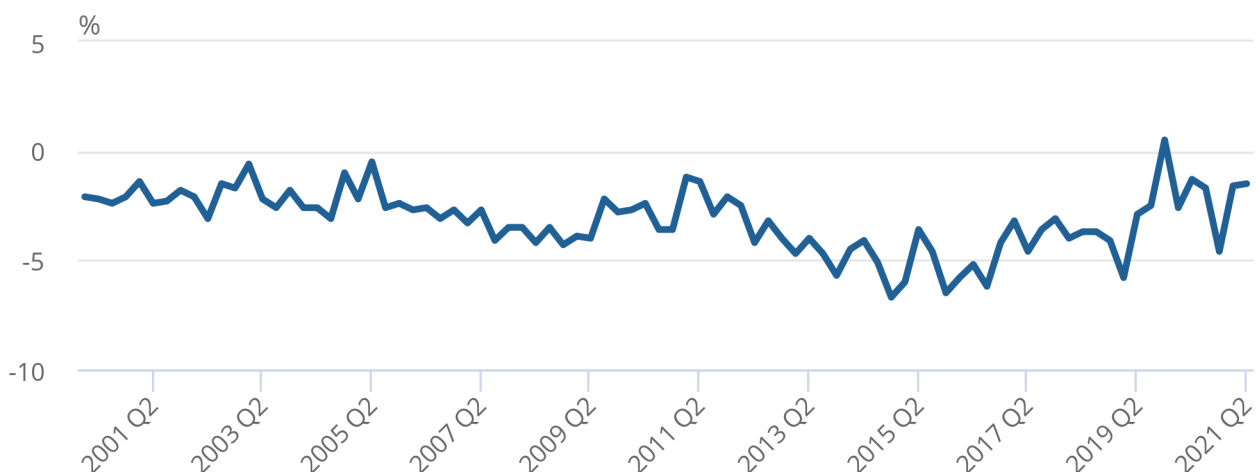
The current account deficit narrowed to 1.5% of gross domestic product (GDP) in Quarter 2 (Apr to June) 2021, although this in part reflects volatile movements in non-monetary gold (Figure 3). Following EU Exit and coronavirus (COVID-19) pandemic disruptions earlier in the year, there has been some rebound in goods trade flows. However, [survey evidence](#) highlights that there are still some challenges to international trade, particularly additional paperwork and transportation costs. There is also [some evidence](#) that supply-chain challenges were weighing on trade and that international travel restrictions were still affecting overseas tourism and the ability of UK businesses to provide services elsewhere. This would help explain why there has been less of a pickup in trade in services so far. There was a widening in the deficit on investment income in Quarter 2, as UK investors received less on their holdings on foreign direct investment.

Figure 3: There has been a narrowing in the current account deficit

Current account balance, Quarter 1 (Jan to Mar) 2000 to Quarter 2 (Apr to June) 2021

Figure 3: There has been a narrowing in the current account deficit

Current account balance, Quarter 1 (Jan to Mar) 2000 to Quarter 2 (Apr to June) 2021



Source: Office for National Statistics – Balance of Payments

Cross-border financial flows tend to be volatile, which was particularly evident in the first half of last year and the “dash for cash”. The UK’s net borrowing from the rest of the world in Quarter 2 was primarily financed by disinvesting in its holding of direct investment, specifically the paying down of intra-company loans. There was also disinvesting in other investments as non-residents paid down loans. There was an increase in external liabilities in portfolio investment as non-residents increased their investment in UK equities and in UK government bonds.

4 . Labour market

The labour market continued its recovery from the coronavirus (COVID-19) pandemic as restrictions were lifted. Early estimates show payrolled employees increased by 241,000 in August 2021. The accommodation and food service activities, arts and entertainment, and wholesale and retail industries have continued to see more recent monthly increases in payrolled employees, having experienced the largest falls.

There are estimated to be 1.6 million employees on furlough as of 31 July 2021. As the Coronavirus Job Retention Scheme (CJRS) comes to an end, it remains to be seen how this will further affect slack in the labour market. The latest Business Insights and Conditions Survey (BICS) insights show that 2% of all business expect to make some redundancies in the next three months. Around a fifth of businesses are uncertain of whether redundancies will be made over the next three months.

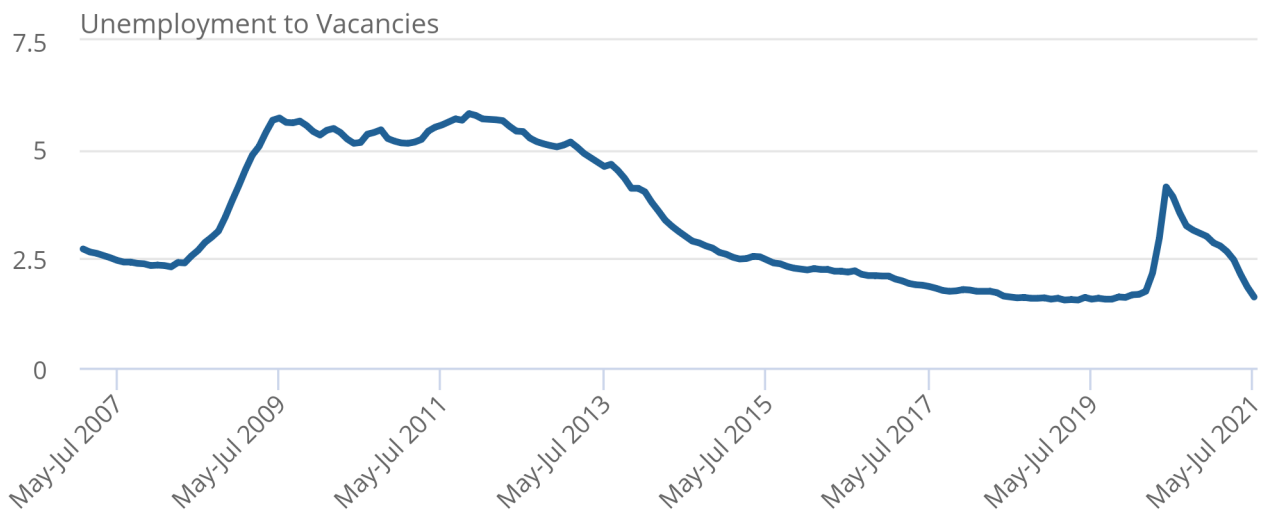
Vacancies have reached a record high, rising to over 1 million in June to August 2021. Figure 4 shows that the number of unemployed persons per vacancy in May to July 2021 has fallen sharply of late, implying a tightening of the labour market. However, there is increasing evidence of labour shortages in specific industries in the economy, pointing to labour market mismatches at industry and local level. There is also some evidence of reduced labour availability. The extent to which difficulties in matching available jobs with workers will continue is unknown.

Figure 4: The number of unemployed persons per vacancy has fallen sharply

Number of unemployed persons per vacancy, UK, December to February 2007 to May to July 2021

Figure 4: The number of unemployed persons per vacancy has fallen sharply

Number of unemployed persons per vacancy, UK, December to February 2007 to May to July 2021



Source: Office for National Statistics, HMRC

5 . Prices

The Consumer Prices Index including owner occupiers' housing costs (CPIH) annual rate was 3.0% in August 2021, up from 2.1% in July (Figure 5). The recent increase in consumer prices has coincided with a reopening of the economy. Transport was the largest driver of the annual rate in August 2021, with second-hand car prices continuing their recent upward trend, a cumulative increase of 18.4% since April 2021. The reports of a global semiconductor shortage has led to a fall in the production of new cars, which has seen consumers turn to the used car market. Motor fuels have also been a big driver of inflation movements in recent months, driven by unusual trends in both 2020 and 2021.

Figure 5: Consumer prices have risen at their fastest annual rate since March 2012

CPIH and CPI 12-month inflation rates, UK, January 2000 to August 2021

Figure 5: Consumer prices have risen at their fastest annual rate since March 2012

CPIH and CPI 12-month inflation rates, UK, January 2000 to August 2021



Source: Office for National Statistics – Consumer Price Inflation

Notes:

1. CPI stands for Consumer Price Inflation.
2. CPIH stands for Consumer Prices Index, including owner occupiers' Housing costs.

Restaurants and hotels made the largest contribution to the change in the 12-month CPIH rate in August 2021, mostly driven by a base effect as prices fell considerably during the Eat Out to Help Out scheme a year earlier. [The partial reversal of the VAT cut for the tourism and hospitality industry](#), which begins on 30 September 2021 may put upward pressure on prices. Similarly, the [increase in the Ofgem energy price cap on 1 October 2021](#) will lead to higher gas and electricity prices.

Annual price inflation for the output and input Producer Price Index (PPI) has risen steadily over the last year, amidst recent reports of widespread supply bottlenecks and concerns over [the cost and availability of materials and components](#). There may be some further pass-through from these higher cost pressures to consumer prices.

6 . Related links

[Coronavirus \(COVID-19\)](#)

Web page | Updated as and when data are available

Our latest data and analysis on the impact of the coronavirus (COVID-19) on the UK economy and population. This is the hub for all special coronavirus-related publications, including the fortnightly Business Insights and Conditions Survey (BICS).

[GDP quarterly national accounts, UK: April to June 2021](#)

Bulletin | Released 30 September 2021

Revised quarterly estimate of gross domestic product (GDP) for the UK. Uses additional data to provide a more precise indication of economic growth than the first estimate.

[Balance of payments, UK: April to June 2021](#)

Bulletin | Released 30 September 2021

A measure of cross-border transactions between the UK and rest of the world. Includes trade, income, capital transfers and foreign assets and liabilities.

[Consumer price inflation, UK: August 2021](#)

Bulletin | Released 15 September 2021

Price indices, percentage changes and weights for the different measures of consumer price inflation.

[Producer price inflation, UK: August 2021](#)

Bulletin | Released 15 September 2021

Changes in the prices of goods bought and sold by UK manufacturers including price indices of materials and fuels purchased (input prices) and factory gate prices (output prices).

[Labour market overview, UK: September 2021](#)

Bulletin | Released 14 September 2021

Estimates of employment, unemployment, economic inactivity and other employment-related statistics for the UK.