

Article

Quarterly economic commentary: January to March 2021

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

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1 . Main points

- The UK economy contracted by 1.6% in the first three months of 2021 as public health restrictions were in place for much of the quarter, while more timely figures show the effects of the re-opening of the economy.
- The labour market shows signs of recovery as payrolled employees have increased in recent months, particularly in April and May as lockdown restrictions have been eased.
- The Consumer Prices Index, including owner occupiers' housing costs (CPIH) annual rate rose to 2.1% in May 2021, in part reflecting the increase in pent-up demand as some industries of the economy have re-opened, while producer price inflation has risen considerably over recent months.

2 . National accounts

The UK economy contracted by 1.6% in the first three months of 2021, as [public health restrictions](#) were in place for much of the quarter in response to the rise in coronavirus (COVID-19) infections and hospital admissions around the turn of the year. The largest contributions to the quarterly decline in output were education, wholesale and retail, and accommodation and food services industries. Recent analysis shows that [the UK and global economy have increasingly adapted to these restrictions](#), such that there has been less of an economic impact than in the earlier stages of the coronavirus pandemic.

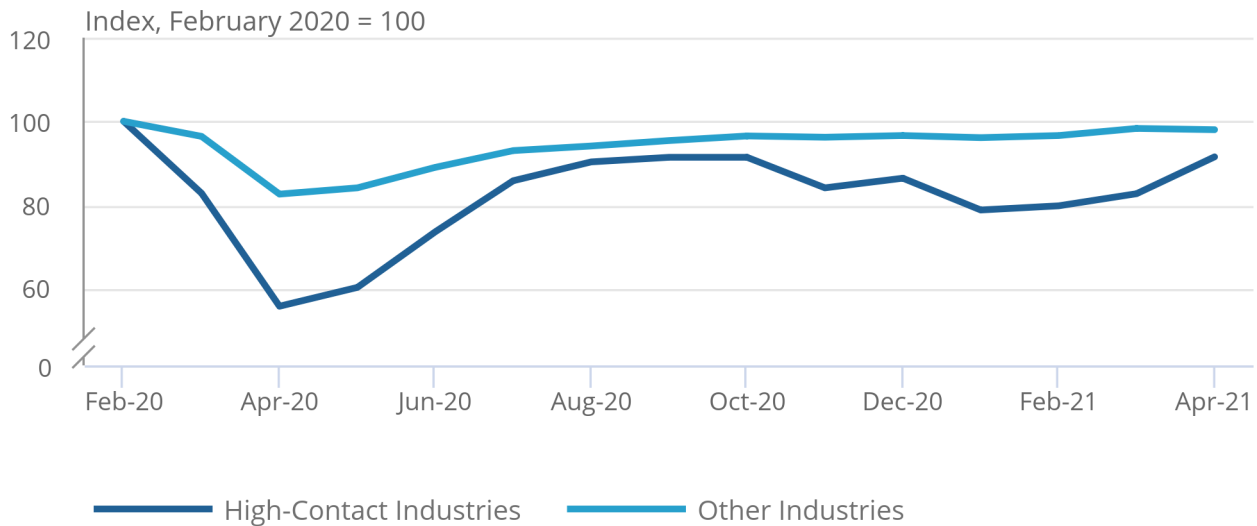
Figure 1 captures how selected [high-contact](#) industries have been most impacted by the tightening and loosening of restrictions over the pandemic. The latest [monthly gross domestic product \(GDP\)](#)¹ estimates show the effects of the re-opening of the economy on these industries in April 2021, including on non-essential retail and outdoor hospitality, as GDP increased by 2.3% on the month. The latest information on [card purchases](#) points to a further increase in expenditure in May, although these have slightly eased in recent weeks. The latest Business Insights and Conditions Survey shows an [improvement in the financial performance of trading businesses in late May](#), compared with normal expectations for this time of year, while the proportion of businesses open for trading has reached its highest level over the course of the pandemic.

Figure 1: High-contact industries experienced the largest rebound in April 2021, as restrictions were lifted

Change in output since February 2020

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Change in output since February 2020



Source: Office for National Statistics - Monthly GDP estimate, UK, April 2021

Notes:

1. The International Monetary Fund identifies selected 'high contact' industries as accommodation and food services; arts, entertainment, and other service activities; wholesale and retail trade; and transportation and storage. This has been expanded to include education for these purposes.

Figure 2 shows the level of GDP relative to their pre-pandemic levels, where volume GDP remains below its levels in late 2019 for the G7 economies. These international comparisons capture how the pandemic has evolved in these countries as well as the structural composition of each economy.

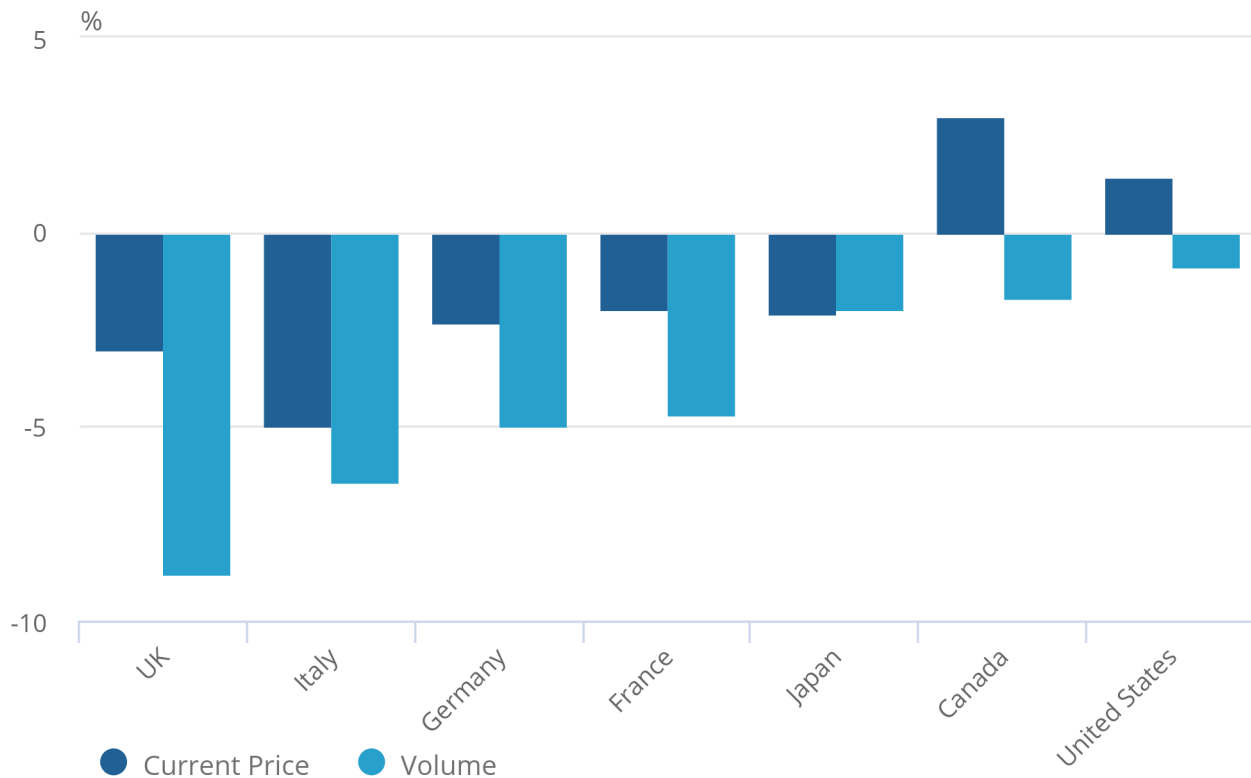
International comparisons have also been complicated by how [non-market output](#) is recorded by national statistical institutes. Recent forecasts show the [global economy to increase by 5.8% this year and 4.4% next year](#), primarily reflecting the deployment of effective vaccines and the stance of macroeconomic policy. However, the recovery is expected to vary by country while the "risk of last costs from the pandemic also remains high".

Figure 2: Volume gross domestic product for the G7 economies remains below its pre-pandemic levels

Nominal and real G7 GDP, Quarter 4 (Oct to Dec) 2019 to Quarter 1 (Jan to Mar) 2021

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Nominal and real G7 GDP, Quarter 4 (Oct to Dec) 2019 to Quarter 1 (Jan to Mar) 2021



Source: Office for National Statistics, Organisation for Economic Co-operation and Development

Notes:

1. All international figures correct as of 22 June 2021.

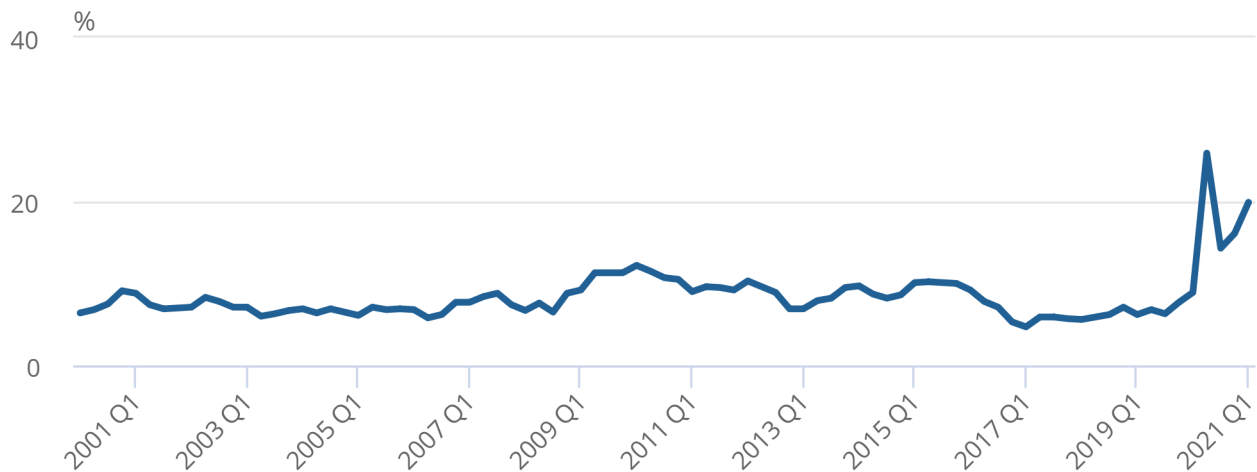
The household saving ratio increased to 19.9% in Quarter 1 (Jan to Mar) 2021 (Figure 3), the second highest on record, as restrictions constrained household consumption, which fell on the quarter, particularly in restaurants and transport. There is uncertainty around how any savings that have been accumulated over the pandemic will be spent this year, as restrictions are lifted. There is evidence that there has been [a rise in the proportion of households that are expecting to spend some part of those savings](#), which might finance pent-up demand, particularly if these additional savings are considered as additional income rather than wealth.

Figure 3: There has been an increase in household saving over the last year

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

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



Source: Office for National Statistics - Quarterly sector accounts, UK: January to March 2021

There was a decline of 10.7% in businesses investment in the first quarter, amidst elevated levels of uncertainty. Recent evidence shows that [investment is expected to increase over the coming year](#), although this is conditional on a recovery in demand and revenues. There was a small fall in the holding of currency and deposits by private non-financial corporations in the first quarter. There is some evidence of [a further withdrawal of deposits in April](#), following strong inflows over much of the last year.

Public sector net borrowing (PSNB) was £24.3 billion in May 2021 and £53.4 billion in the financial year-to-May. Borrowing was lower than in the same period last year as the re-opening of the economy led to higher tax receipts, particularly in Value Added Tax, Income Tax and Fuel Duty. There was also lower government spending, particularly in furlough payments.

Notes for: National accounts

1. The latest monthly GDP estimates do not yet reflect the revisions that have been incorporated as part of the latest quarterly national accounts.

3 . Balance of payments

The current account deficit narrowed to 2.4% of gross domestic product (GDP) in Quarter 1 (Jan to Mar) 2021. There was a large fall in the volume of goods trade in January, particularly those to and from the European Union, reflecting, in part, the transition to the new trading relationship, before partially recovering in subsequent months. Furthermore, stockpiling is also likely to have taken place in late 2020, in preparation for the UK leaving the single market and customs union. This might explain why the imports of finished manufactured goods have fallen back in the first quarter. Services trade remains subdued, particularly in travel and transport.

In the first quarter of this year, there was a further pickup in gross investment income flows, although these remain below their levels prior to the coronavirus (COVID-19) pandemic. There was a widening in the deficit on investment income, reflecting higher earnings on inward foreign direct investment that were then reinvested.

Table 1 shows that the UK's net borrowing from the rest of the world in Quarter 1 was primarily financed by increasing external liabilities in debt investment and disinvesting in foreign equity investment assets. There were also large movements in other investment, particularly in the UK acquiring additional external assets.

Table 1: Capital flows continue to be large in Quarter 1 2021

Gross financial inflows and outflows, Quarter 1 (Jan to Mar) 2019 to Quarter 1 (Jan to Mar) 2021, percentage of GDP

	2019 Q1	2019 Q2	2019 Q3	2019 Q4	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1
Outward									
Direct	-0.6	-0.1	0.0	-6.0	-0.4	-0.4	-1.1	-3.2	0.7
Debt	8.7	9.4	4.1	-2.9	5.8	9.6	-1.6	5.4	2.0
Equity	3.2	-2.9	-7.5	6.8	-19.5	4.1	4.5	6.5	-9.8
Other	-8.6	-14.4	5.1	-22.4	109.4	-69.4	-3.1	14.7	24.8
Total	1.0	-9.2	6.4	-24.9	98.3	-54.9	-0.4	23.6	16.7
Inward									
Direct	-2.1	3.3	4.4	-5.0	2.5	0.9	-0.1	-0.5	2.2
Debt	-7.4	4.2	9.1	7.6	-2.3	6.7	-0.9	0.2	12.0
Equity	-0.4	-0.8	1.1	-0.7	0.2	2.1	2.0	4.0	2.2
Other	16.0	-10.6	-1.6	-28.7	99.4	-59.6	3.3	27.0	5.6
Total	6.0	-3.9	13.0	-26.8	99.8	-50.0	4.2	30.7	22.0

Source: Office for National Statistics - Balance of Payments, UK, January to March 2021

Notes

1. Reserve assets and financial derivatives and employee stock options are excluded.

4 . Labour market

The labour market shows signs of recovery as lockdown measures have been eased in recent months. Payrolled employees have increased each month since December 2020, particularly in April and May (Figure 4). The largest monthly increase in May was in the accommodation and food service activities industry. The number of furloughed employees fell by 1.3 million between February and April 2021 to 3.4 million, reflecting the partial re-opening of the economy.

Vacancies increased in the three months to May 2021 to 758,000, which was 6.5% lower than the level seen in the period January to March 2020. There was strong recovery in accommodation and food service activities and arts, entertainment and recreation in the latest quarter. The Recruitment and Employment Confederation finds that [lower worker availability was frequently linked to lingering pandemic uncertainty and a subsequent reluctance to seek out new roles, fewer EU candidates and furloughed staff](#) amidst some recruitment difficulties.

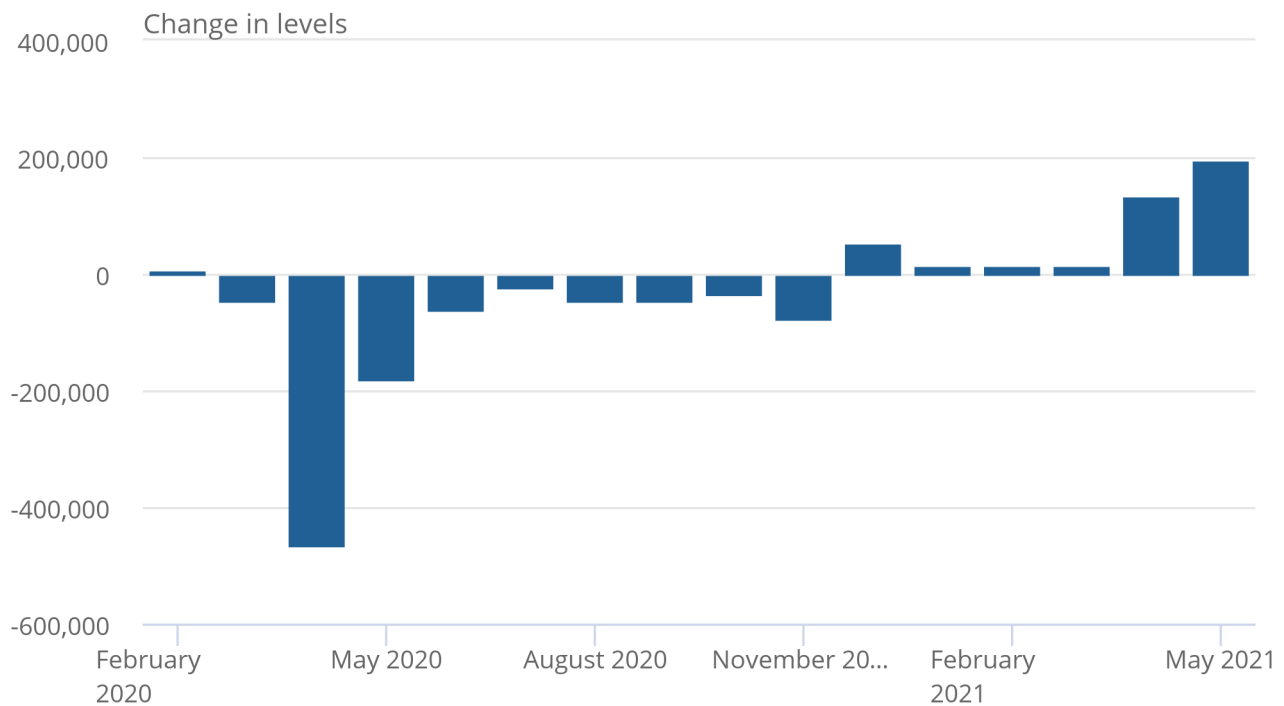
Regular pay increased by an annual rate of 5.6% in the three-month period February to April 2021, although this in part reflects base and compositional effects. The size of the furloughing effect on wages will reflect how many employees have been on furlough and the extent to which employers have topped up wages, including how this has changed over the last year.

Figure 4: The number of payrolled employees has been increasing since December 2020, picking up in recent months

Monthly change in the number of payrolled employments, UK, February 2020 to May 2021

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Monthly change in the number of payrolled employments, UK, February 2020 to May 2021



Source: Office for National Statistics, Her Majesty's Revenue and Customs

5 . Prices

The Consumer Prices Index including owner occupiers' housing costs (CPIH) annual rate rose to 2.1% in May 2021, from 1.6% in April 2021 (Figure 5). The largest drivers of this change were clothing, motor fuels, recreational goods and meals out. This partly reflects the increase in pent-up demand as some industries of the economy have re-opened, including restaurants. This was partially offset by food and non-alcoholic beverages, where prices fell this year but rose a year ago. These [base effects](#) reflect unusual price movements at the start of the coronavirus (COVID-19) pandemic, which are now feeding into annual rates a year on.

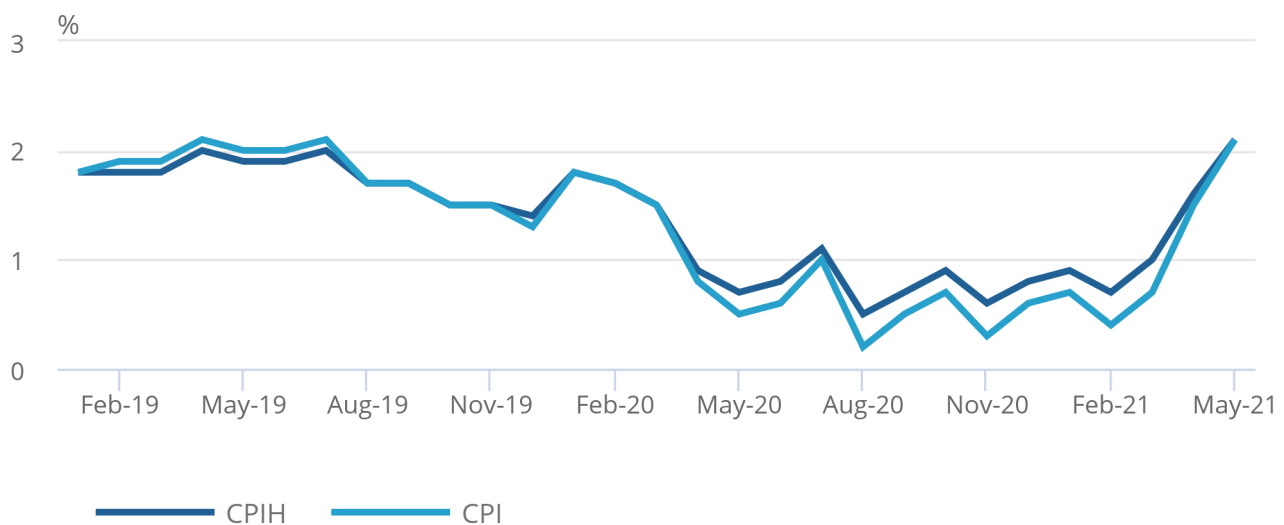
Producer price inflation has [risen considerably over recent months](#), particularly for crude oil and petroleum products. There have been recent increases in input costs, including freight costs and warehousing costs and higher commodity prices. Recent analysis explains that there might be [some erratic price moves as not all sectors experience a return of demand at the same speed, which may cause temporary bottlenecks](#). This might feed through to consumer prices later this year, as there is some evidence that [more of these cost increases are being passed through into selling prices](#).

Figure 5: There has been an increase in consumer prices, in part reflecting the effects of the reopening of the economy

Annual rates for CPI, CPIH, January 2019 to May 2021

Figure 5: There has been an increase in consumer prices, in part reflecting the effects of the reopening of the economy

Annual rates for CPI, CPIH, January 2019 to May 2021



Source: Office for National Statistics - Consumer Price Inflation, UK May 2021

More about coronavirus

- Find the latest on [coronavirus \(COVID-19\) in the UK](#).
- [Explore the latest coronavirus data](#) from the ONS and other sources.
- All ONS analysis, summarised in our [coronavirus roundup](#).
- View [all coronavirus data](#).
- Find out how we are [working safely in our studies and surveys](#).

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: January to March 2021](#)

Bulletin | Released 30 June 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: January to March 2021](#)

Bulletin | Released 30 June 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: May 2021](#)

Bulletin | Released 16 June 2021

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

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

Bulletin | Released 16 June 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: June 2021](#)

Bulletin | Released 15 June 2021

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

[UK trade: April 2021](#)

Bulletin | Released 11 June 2021

Total value of UK exports and imports of goods and services in current prices, chained volume measures and implied deflators.