

MONTHLY ECONOMIC REVIEW

October/November 2020



Forecasting from the figures in **October/November 2020**

In this latest Economic Review, **BFM MD Nick Garratt** highlights trends and forecasts in the financial world.

With a lockdown, Brexit, news of a potential COVID-19 vaccine and the rising cost of materials, there's much to consider.

ECONOMY

Both the lockdown measures and uncertainty are pushing economies back downwards – the UK is expected to experience its worst year for GDP since the 1700s. The impact of the latest lockdowns in the UK will be a lot less damaging than the first, with businesses required to close equating to around 10% of the economy, compared to the 40% that were closed in the spring.

EY ITEM Club now expects the economy to contract 10.1% in 2020, an improvement from the 11.5% contraction forecast in the summer.

Government intervention continues to provide much-needed support but, even with this boost, many of the factors that supported the pick-up in growth in Q3 are now beginning to fade, notably the release of pent-up demand and relaxation of lockdown restrictions.

Capital Economics has stated that, while encouraging, the vaccine is unlikely to boost economic activity until next year. It added that given the breakthrough has led to "light at the end of the tunnel" and a belief that the virus can soon be controlled, it might encourage countries to impose more intense lockdowns in the interim.



CONSUMER SPENDING

Retail sales volumes in the UK rose by 1.2% in October, the Office for National Statistics said on November 20 – the sixth consecutive month of increases. The growth came in well ahead of consensus expectations, which were for sales to remain flat, with DIY and household furnishing stores benefiting from consumers' move to improve their living space. That continues the strong rebound seen in sales since the spring lockdown. As a result, the retail sector is one of the few parts of the economy where activity is back above its February level.

Despite the resilience of retail sales so far, there are concerns that they may slow more sharply over the winter. The November GfK consumer confidence reading, which will have been collected in the first two weeks of November, slipped to -33 from -31 as new restrictions started to bite. It remains to be seen how the news of the vaccination will affect this.

According to Equifax 12 million people have low financial resilience, up 2 million since February. A third of people's income has fallen, with household's income dropping by a quarter, on average.

Flying the flag for British manufacturing

www.bfm.org.uk

@BritishFurnitureManufacturers

@BFM_LTD

British Furniture Manufacturers

Stronger together

EMPLOYMENT

Official data shows the UK unemployment rate averaged 4.8 per cent over the three months to the end of September, up from 3.9 per cent a year earlier. Official figures are out of date and redundancy plans announced by big employers over recent months show that large-scale job cuts are under way, and are likely to drive a sharp rise in unemployment. In its most recent set of forecasts the Bank of England said that unemployment would most likely peak at about 7.7% in April to June of next year.

In the BFM trade survey, short time working was implemented in over one-third of companies as was predicted in the BFM's July survey. One in four companies made redundancies, which was less than the last survey anticipated. However, further redundancies and reductions in the working week are expected as we move forward.

INTERNET SALES

The pandemic-induced shift to online shopping gathered pace again in October, with sales in stores with no physical presence up 6.4 per cent over the previous month and up a remarkable 45 per cent compared with February's level. Department stores embraced the digital shift with their internet sales nearly doubling compared with October last year and accounting for nearly one-third of all their sales in the month.

ECONOMIC SNAPSHOT

0.2%

Inflation Rate
(CPI)

4.1%

ILO
unemployment rate

-19.8%

GDP growth rate
(Q2 2020)

0.1%

Bank of England
base rate

BREXIT

British and European Union negotiators resumed talks on November 23, with the focus still squarely on dividing up fishing quotas and ensuring fair competition for companies, including on state aid. The fishing industry, makes up only 0.1% of the UK economy is it a big deal or a red herring?

NICK GARRATT'S ANALYSIS

"Since the lockdown in Spring, the furniture sector has clearly been a big beneficiary of consumers' switch from services to buying goods, and in particular the desire to improve their living space.

"Looking forwards, people are beginning to lose their nerve regarding their personal finances and as job losses begin to bite this will create a headwind for future recovery. The vaccine will provide a much-needed boost.

"In the recent BFM trade survey, a balance of 81% of manufacturers reported rising material costs and almost all the respondents expected further rises as we approach Christmas and enter the New Year."

