Office for National Statistics

Compendium

National accounts at a glance

A summary of recent trends and movements within the UK economy.

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1 . Introduction

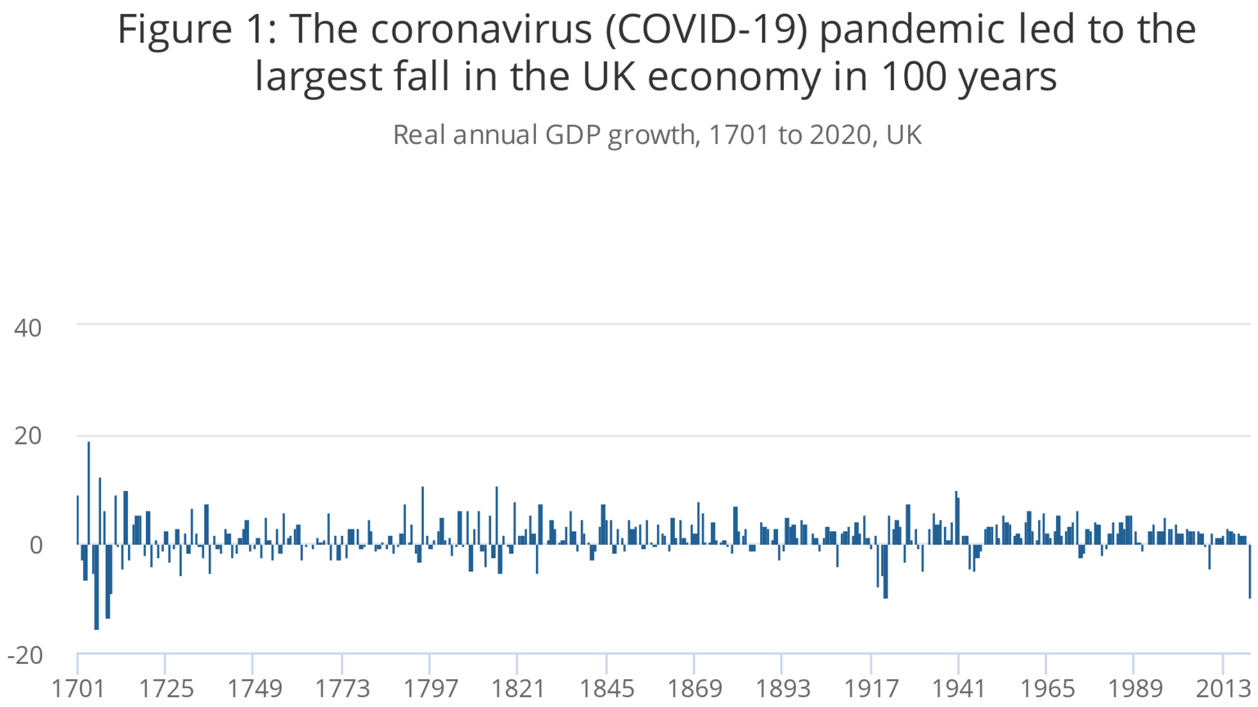
This section of the UK National Accounts, The Blue Book: 2021 edition looks at recent trends in the UK economy for a range of information that is published as part of the UK National Accounts. All UK figures referred to in this section are consistent with Blue Book 2021.

2 . Gross domestic product and the headline economy

The UK economy contracted by 9.7% in 2020 in response to the outbreak of the coronavirus (COVID-19) pandemic. This is the largest annual fall in UK gross domestic product (GDP) since 1921 (Figure 1)[1]. The introduction of public health restrictions and voluntary social distancing to reduce the spread of the virus explains the large fall in economic activity in 2020.

Figure 1: The coronavirus (COVID-19) pandemic led to the largest fall in the UK economy in 100 years

Real annual GDP growth, 1701 to 2020, UK



Source: Office for National Statistics – UK National Accounts, Bank of England

Notes:

1. Official UK GDP estimates from 1948.

The majority of G20 economies experienced a decline in GDP in 2020, reflecting the global nature of the pandemic. The size of these impacts likely reflects the extent to which coronavirus restrictions were in place over the year and the structural composition of these economies. Argentina and the UK experienced the largest falls. In contrast, China and Turkey were the only countries to have experienced a rise in GDP in 2020.

Recent analysis highlights the challenges of making international comparisons of GDP at this time and shows that it may be useful to compare nominal and real estimates of GDP, as well as estimates excluding government expenditure. Our initial international engagement has shown differences between national statistical institutes (NSIs) in how the challenges of non-market output have been addressed, particularly over the pandemic period.

Figure 2: Gross domestic product fell across most G20 countries in 2020

GDP growth rate, 2020, UK

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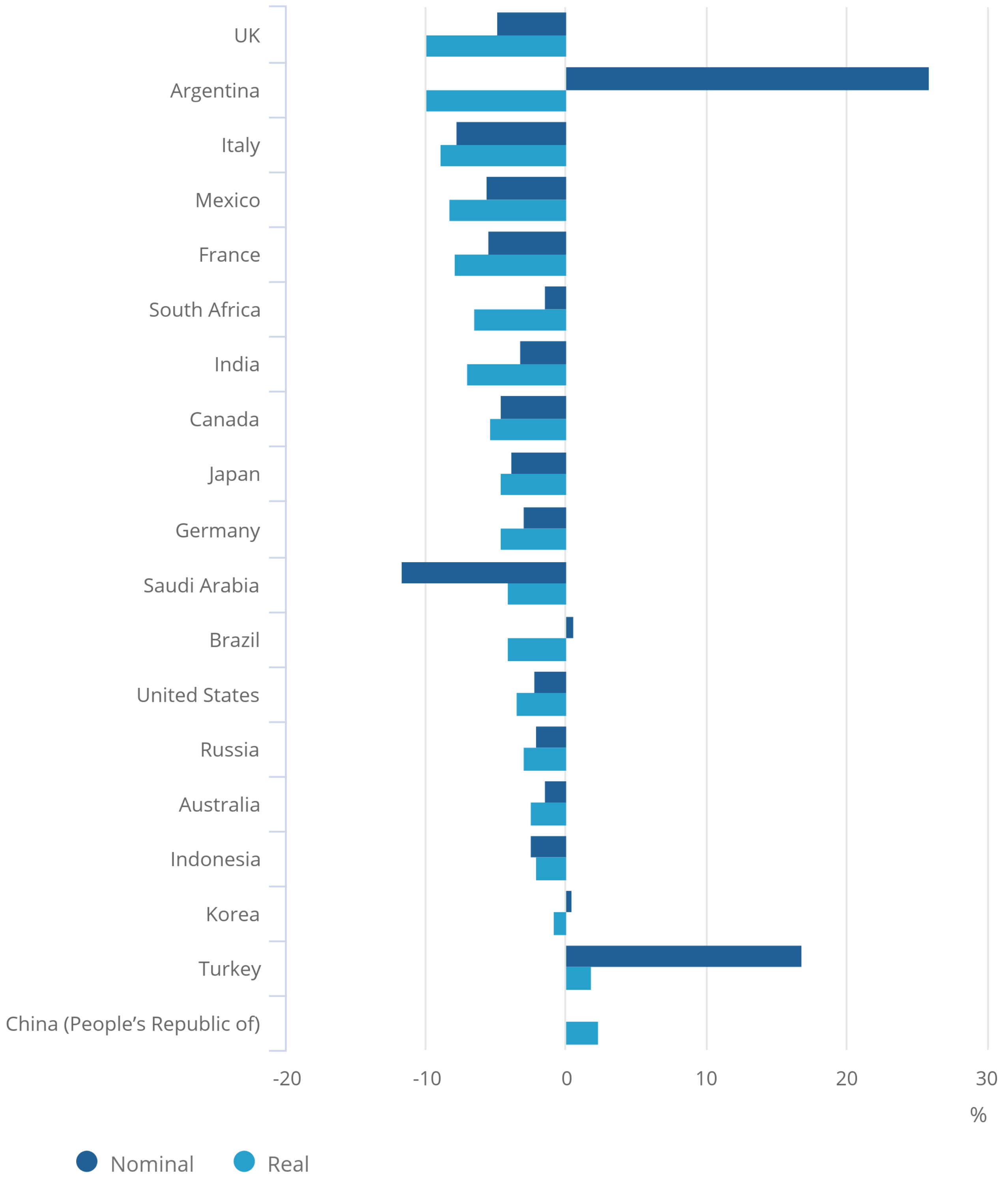
GDP growth rate, 2020, UK



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

Notes:

1. Figures for the European Union have not been included.

Notes for: Gross domestic product and the headline economy

1. Office for National Statistics: Quarterly economic commentary: October to December 2020.

3 . Industrial analysis

One feature of the pandemic has been how wide-ranging the industry-level effects have been. This reflects how specific industries have been more exposed to the effects of public health restrictions and social distancing, particularly those that might be considered as “high-contact”.

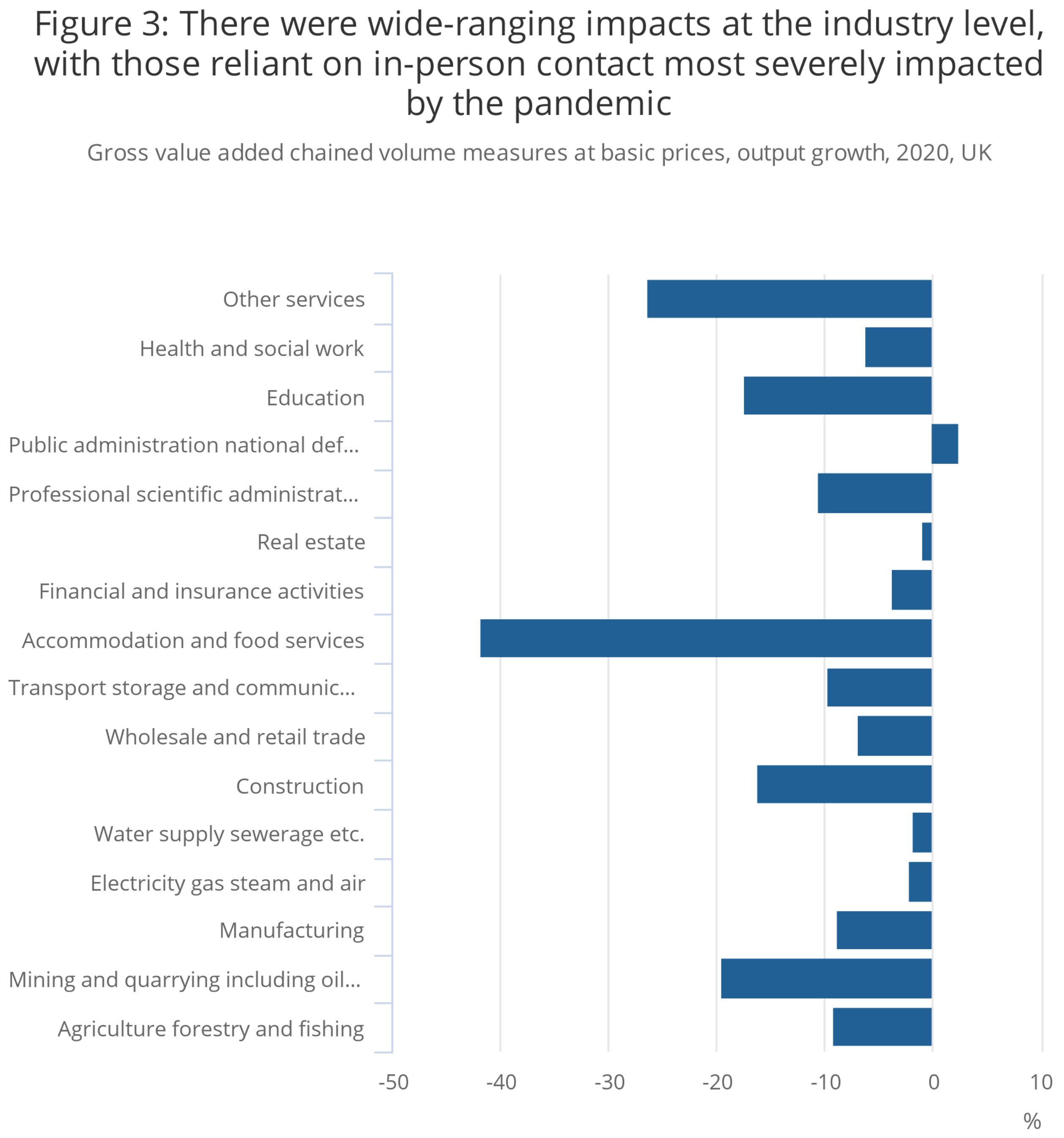
Those industries that rely on in-person customer contact or that were forced to stop trading were the most adversely impacted, as shown in Figure 3. The largest annual falls were in accommodation and food service activities (negative 41.7%); other services (negative 26.3%) (which includes arts, entertainment and recreation and other personal activities such as hairdressing); and education (negative 17.4%).

The pandemic impacted upon the health and social work industry in response to treating those infected, while there were also declines in more traditional types of health treatment given resource constraints. Public administration, national defence and social security was the only industry to see a rise in output (2.5%) in 2020, in part reflecting the government’s effort to provide support schemes during the pandemic.

Production output was hindered by closures of factories and warehouses as well as disruption to international trade causing delays in deliveries of inputs. There was also a large decline in construction output, impacted by the forced closure of working sites with little ability to shift to working from home.

Figure 3: There were wide-ranging impacts at the industry level, with those reliant on in-person contact most severely impacted by the pandemic

Gross value added chained volume measures at basic prices, output growth, 2020, UK



Source: Office for National Statistics – UK National Accounts

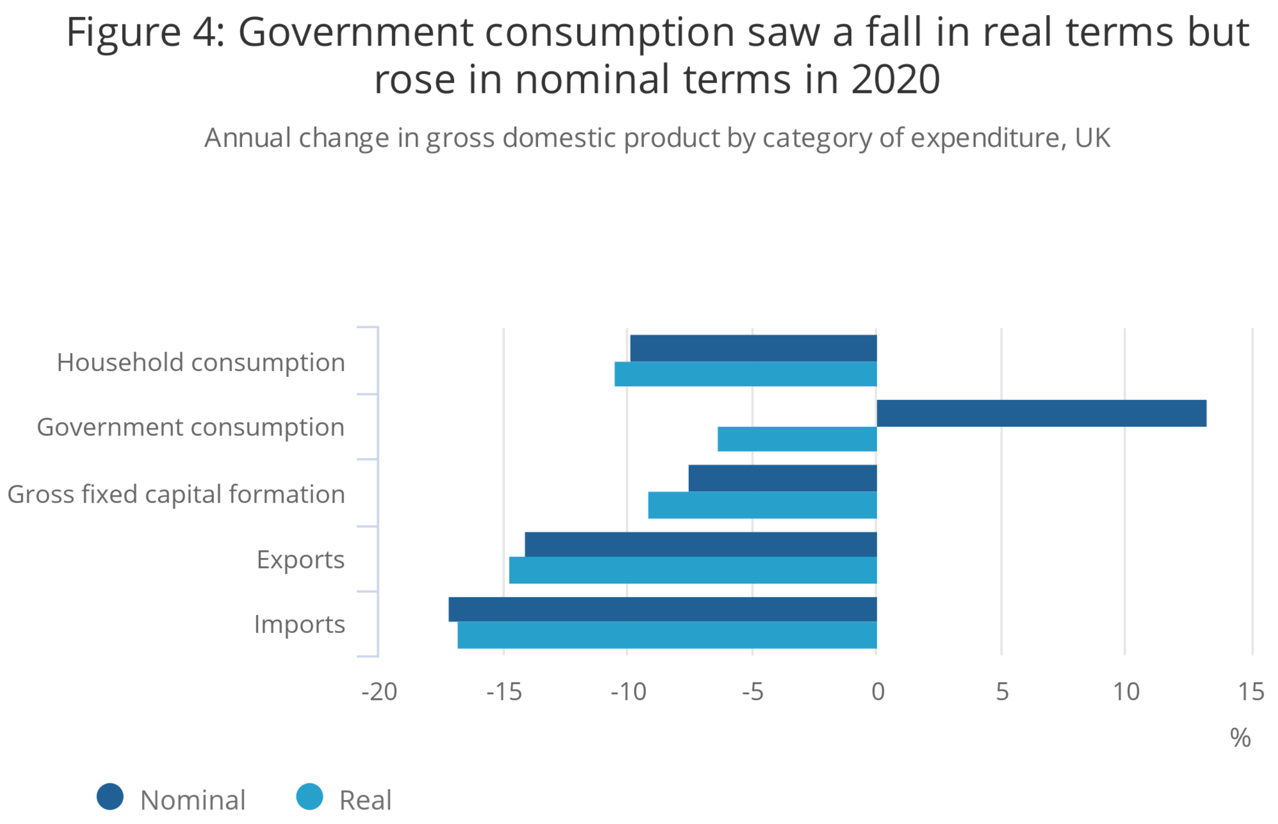
4 . Spending in the UK economy

Households' final consumption expenditure fell by 10.5% in 2020, as shown in Figure 4, reflecting the introduction of coronavirus restrictions along with voluntary social distancing to reduce the spread of the virus. This was particularly marked for household spending on services, which fell by 16.2% in 2020 and were more severely affected by these types of restrictions.

The largest declines in household consumption were experienced in restaurants and hotels (negative 42.2%); transport (negative 31.4%); and clothing and footwear (negative 12.8%). There were rises in spending on alcohol and tobacco (11.5%); food and drink (8.4%) and household goods and services (8.3%), which likely reflect changes in households' behaviour as people spent more time at home.

Figure 4: Government consumption saw a fall in real terms but rose in nominal terms in 2020

Annual change in gross domestic product by category of expenditure, UK



Source: Office for National Statistics – UK National Accounts

Notes:

1. Non-profit institutions serving households (NPISH), change in inventories and the acquisitions less disposals of valuables have been excluded.

Government consumption rose by 13.3% in current price terms but there was a fall of 6.3% in volume terms. This is largely explained by measurement challenges of non-market output, in particular healthcare and education. Estimates of healthcare and education in the UK are based on volume indicators, such as the number of treatments for healthcare or students enrolled for education. The fall in the volume of government consumption expenditure in part reflects the effects of school closures through much of 2020.

Gross fixed capital formation fell by 9.1%, including an 11.1% decline in business investment. Businesses have faced lower turnover and possible cashflow issues, while there is some evidence that the pandemic led to higher levels of economic uncertainty. The UK’s exit from the EU is also expected to have contributed to uncertainty for businesses.

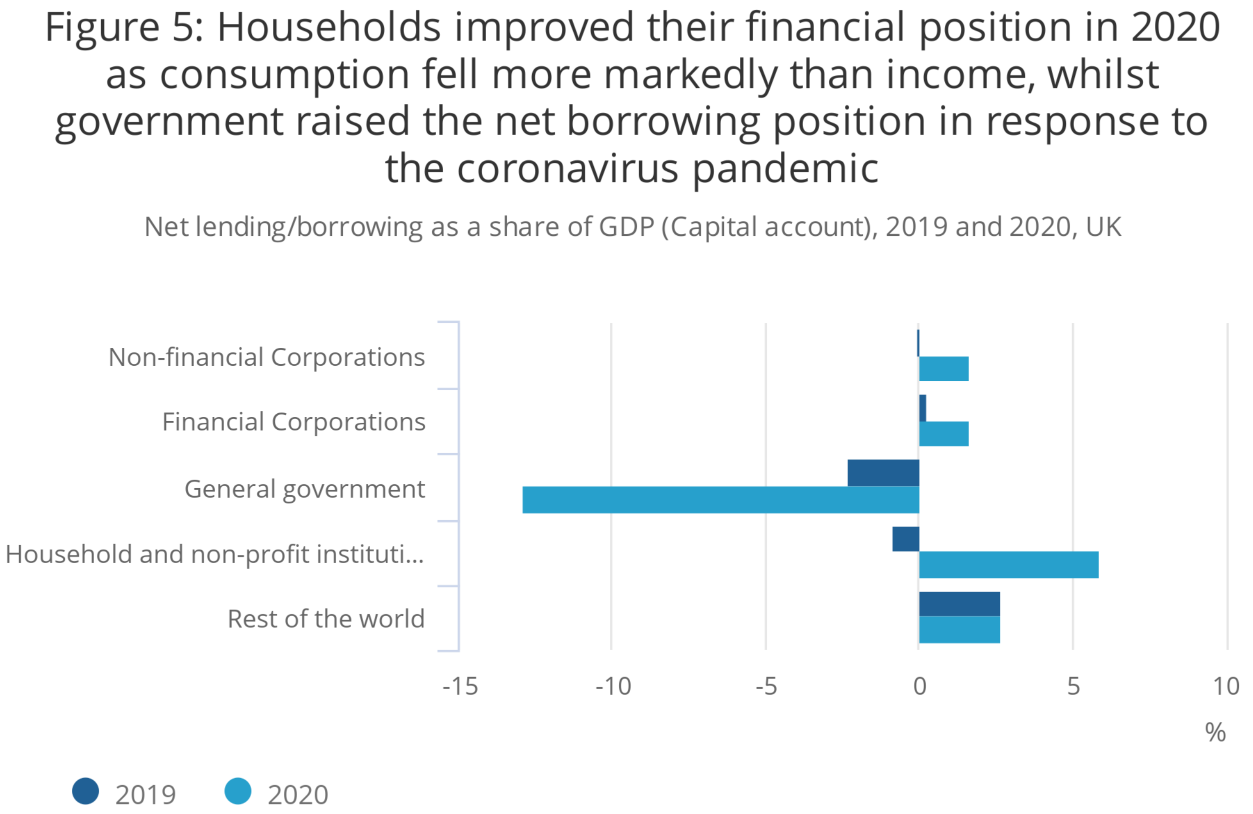
Exports fell by 14.7% while imports fell by 16.8% in 2020, reflecting the global impact of the pandemic. There has been a contraction in UK and global demand, while adverse impacts of restrictions on global supply chains would have likely impacted upon trade flows. International travel restrictions that have been in place for much of the year have also contributed to lower trade flows particularly for tourism. The UK’s exit from the EU (31 January 2020) is also expected to have had an impact on trade through 2020, as uncertainty led to UK and EU businesses engaged in stockpiling.

5 . Institutional sector accounts

The change in institutional sectors’ net lending/borrowing position between 2019 and 2020 is shown in Figure 5. The largest change was for the government, whose net borrowing increased, primarily reflecting the fiscal cost of the policy response to the pandemic, including the Coronavirus Job Retention Scheme (CJRS) and Self-Employment Income Support Scheme (SEISS) as well as lower tax receipts in response to the fall in economic activity. This was largely offset by the increase in net lending by households. While there was a record contraction in consumption expenditure in response to coronavirus restrictions, the CJRS and SEISS helped maintain household incomes.

Figure 5: Households improved their financial position in 2020 as consumption fell more markedly than income, whilst government raised the net borrowing position in response to the coronavirus pandemic

Net lending/borrowing as a share of GDP (Capital account), 2019 and 2020, UK



Source: Office for National Statistics – UK National Accounts

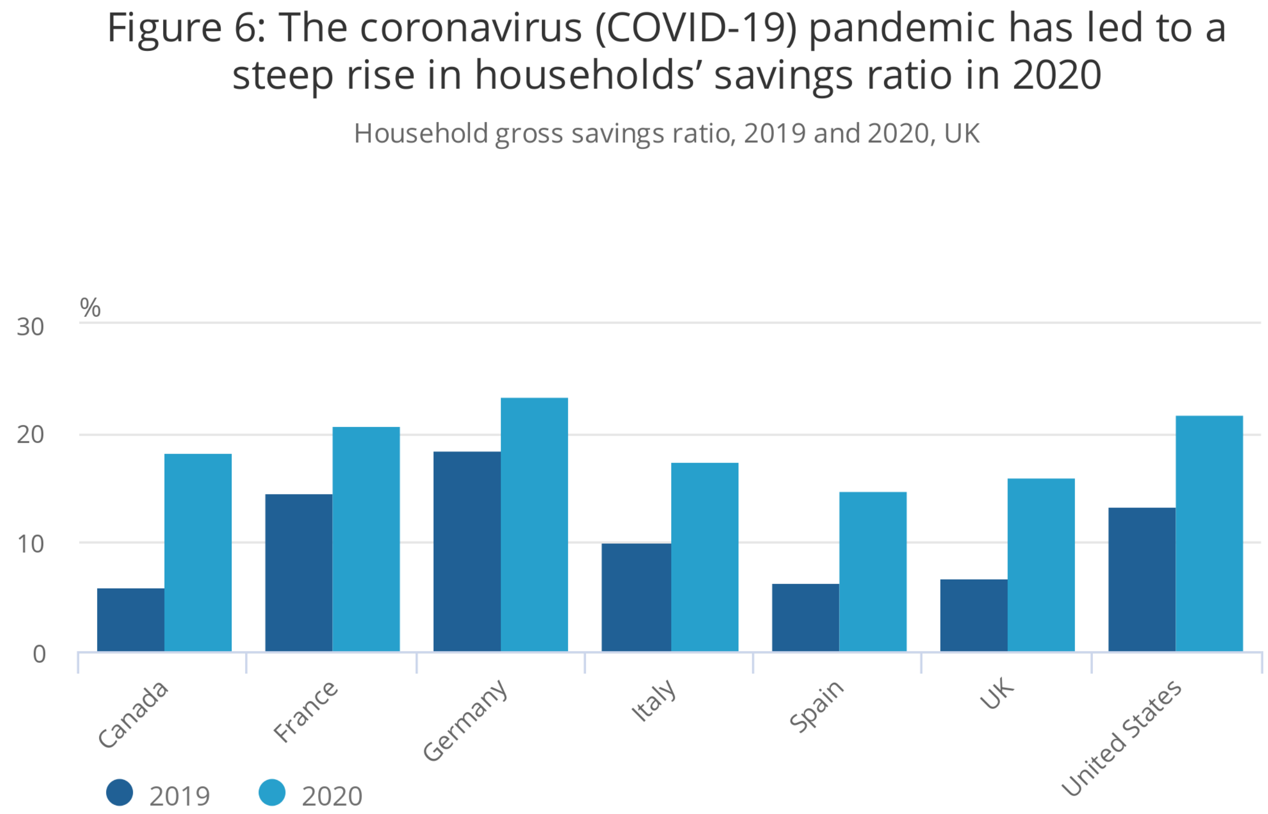
Notes:

1. This includes non-profit institutions serving households (NPISH).

The UK’s savings ratio rose to a record 16.1% in 2020. This is likely to reflect “enforced” and precautionary savings, given the nature of the pandemic. The combination of reduced spending and protected household incomes helped by the CJRS and SEISS has been important in raising households’ savings. This has been a common theme across G7 countries (Figure 6).

Figure 6: The coronavirus (COVID-19) pandemic has led to a steep rise in households’ savings ratio in 2020

Household gross savings ratio, 2019 and 2020, UK

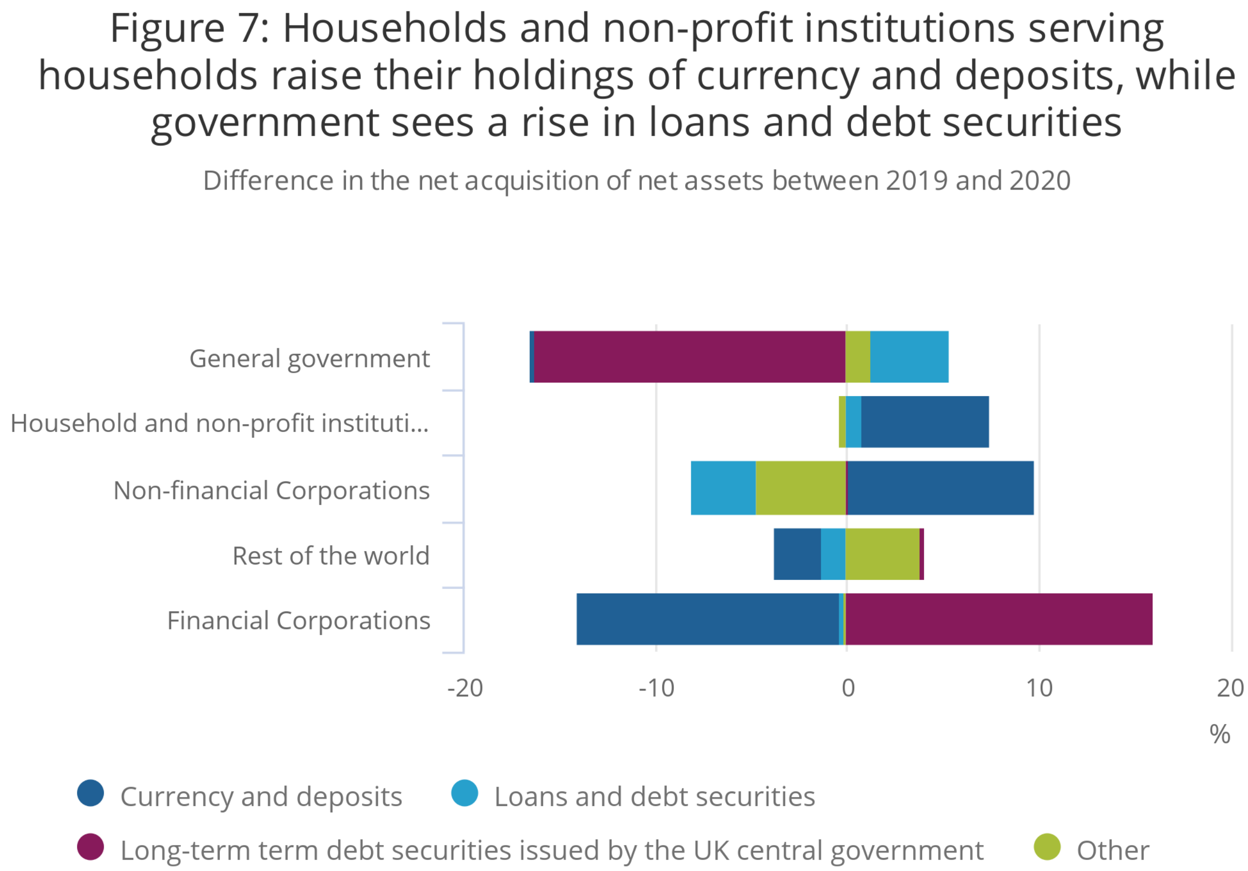


Source: Office for National Statistics – UK National Accounts, Organisation for Economic Co-operation and Development

There was a record increase in the holding of deposits, driven by households and non-financial corporations, shown in Figure 7. This was also then reflected in the change in the financial position of financial corporations, as restrictions on spending led to an “enforced” accumulation of deposits by households and non-financial corporations. The government primarily financed its increase in net lending by its issuance of gilts, that is, long-term debt securities in 2020.

Figure 7: Households and non-profit institutions serving households raise their holdings of currency and deposits, while government sees a rise in loans and debt securities

Difference in the net acquisition of net assets between 2019 and 2020



Source: Office for National Statistics – UK National Accounts