

Article

Quarterly economic commentary: July to September 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 1.1% in Quarter 3 (Jul to Sept) 2021, while recent evidence of labour and product shortages might explain some of the recent slowing in October 2021.
- There have been further increases in employment and job vacancies, while the end of the Coronavirus Job Retention Scheme (CJRS) has not been followed by a strong rise in redundancies or unemployment so far.
- The annual rate of consumer price inflation has risen sharply in recent months, reflecting domestic and global price pressures, including higher energy prices.

2 . National accounts

The UK economy expanded by a revised 1.1% in Quarter 3 (Jul to Sept) 2021, leaving gross domestic product (GDP) 1.5% below its pre-coronavirus (COVID-19) pandemic level. The lifting of public health restrictions led to strong increases in the accommodation and food services and the arts, entertainment and recreation services industries (Figure 1). Labour and product shortages might explain the decline in construction and manufacturing output in Quarter 3 2021.

There was a slowing in the economy in October 2021, where shortages of material, components and labour are likely to have played a role. The continued increase in face-to-face GP appointments and an increase in temporary employment agency activities helped boost output on the month. The new Omicron COVID-19 variant is expected to have some impact on the UK economy in the coming months.

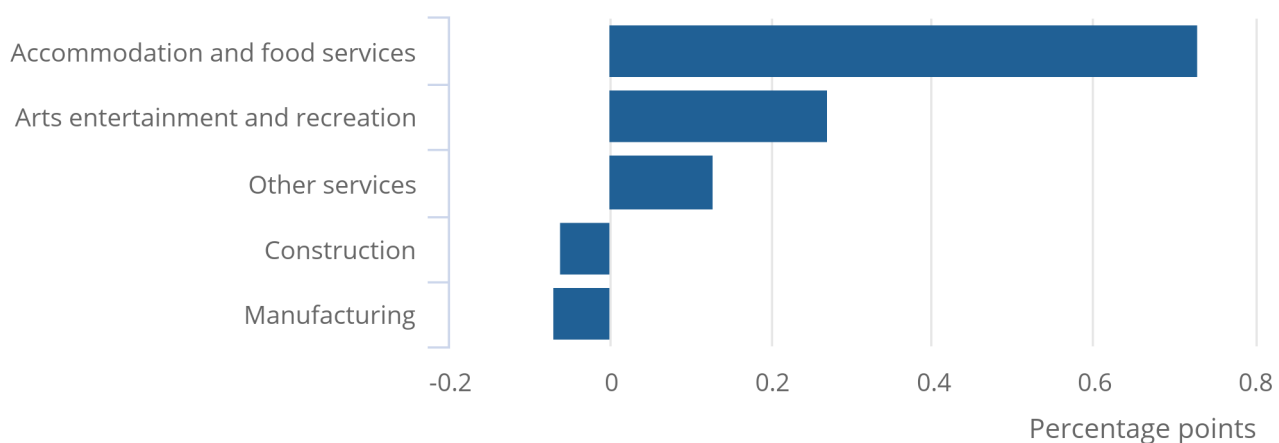
Revised estimates show that the UK economy contracted by 9.4% in 2020. The International Monetary Fund (IMF) expect the global economy to increase by 5.9% this and 4.9% next year, although these are highly uncertain given the threat of new COVID-19 variants. Recent price pressures are [expected to ease in 2022](#), although there is uncertainty around the "[path of the pandemic, the duration of supply disruptions, and how inflation expectations may evolve](#)".

Figure 1: The lifting of restrictions led to strong increases in specific consuming-facing services industries in the latest quarter

Contributions to quarterly change in gross domestic product (GDP), Quarter 3 (July to Sept) 2021

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Contributions to quarterly change in gross domestic product (GDP), Quarter 3 (July to Sept) 2021



Source: Office for National Statistics – GDP quarterly national accounts

Notes:

1. Agriculture and non-manufacturing production output have been excluded.

There was a sharp increase in household savings over the course of the coronavirus pandemic, reflecting the larger impact on consumption than on income. There was a fall in the household saving ratio in the latest quarter to 8.6%, although this is still elevated compared with before the coronavirus pandemic (Figure 2). There was a sharp recovery in household consumption in Quarter 3 2021, particularly in restaurants and transport following the further lifting of restrictions. There is still uncertainty around whether and how any accumulated savings will be spent in the future.

Figure 2: Households have reduced savings, following the re-opening of the economy

Households' saving ratio, Quarter 1 (Jan to Mar) 2000 to Quarter 3 (July to Sept) 2021

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Households' saving ratio, Quarter 1 (Jan to Mar) 2000 to Quarter 3 (July to Sept) 2021



Source: Office for National Statistics– Quarterly Sector Accounts

Households further reduced the rate in which deposits had been made with UK banks and building societies, which had reached record highs earlier in the coronavirus pandemic. [Recent figures](#) show there was a further fall in the net flow in household deposits in October 2021, while there was a fall in net borrowing of mortgage debt in October 2021. However, this reflected borrowing being brought forward to September 2021 to take advantage of stamp duty land tax relief.

Private non-financial corporations (PNFCs) reduced their net lending in Quarter 3 2021, primarily reflecting an increase in dividend payments to shareholders. There was a contraction in businesses investment in Quarter 3 2021, although recent movements have been particularly volatile. [Survey evidence](#) points to a further recovery in investment intentions in response to capacity constraints and improved efficiency. There was a fall in the holding of deposits by private non-financial corporations in Quarter 3 2021, while there was a further net withdrawal of deposits in October.

Public sector net borrowing (PSNB) was £17.4 billion in November 2021. This was £4.9 billion lower than a year ago, when lockdown restrictions had been in place. This lower borrowing reflects higher income tax receipts and higher compulsory social contributions, while stronger Business Rates and Stamp Duty revenues point to a possible recovery in the economy. Corporation tax revenues are lower on the year, though this might reflect some uptake of the [super-deduction](#) capital allowance. There was a fall in furlough subsidy payments, although increases in inflation fed through into higher debt payments on index-linked UK government bonds, reflected in a rise in interest payments.

3 . Balance of payments

The current account deficit widened to 4.2% of gross domestic product (GDP) in Quarter 3 (Jul to Sept) 2021, reflecting movements in trade and investment income (Figure 3). Trade flows have not yet returned to the levels seen prior to the EU Exit and the coronavirus (COVID-19) pandemic. [Recent evidence](#) finds that the easing of travel restrictions had made it easier for UK businesses to provide services abroad and that there has been a slight improvement in international tourism, although travel restrictions continued to weigh on demand. Foreign investors received more income on their holdings on equity investment in the UK, as there was an increase in dividend payments over the quarter.

Figure 3: There was a widening in the current account deficit in the latest quarter

Current account balance, percentage of gross domestic product (GDP), Quarter 1 (Jan to Mar) 2000 to Quarter 3 (July to Sept) 2021

Figure 3: There was a widening in the current account deficit in the latest quarter

Current account balance, percentage of gross domestic product (GDP), Quarter 1 (Jan to Mar) 2000 to Quarter 3 (July to Sept) 2021



Source: Office for National Statistics – Balance of Payments

International financial flows tend to be volatile, which has been particularly evident over the course of the pandemic. The UK's net borrowing from the rest of the world has primarily been financed by foreign investors increasing their holdings of other investment in the UK in the latest quarter. This includes foreign investors increasing their deposits in UK banks and extending loans to UK residents. There were also large movements in equity investment flows, as UK investors disinvested their holdings and moved to debt securities, which might reflect a move to safety. Likewise, there was a rise in investment in UK government gilts by foreign investors. There was also an increase in UK reserve assets as the International Monetary Fund (IMF)'s new [Special Drawing Rights](#) (SDR) allocation became effective in August 2021.

4 . Labour market

The UK labour market has continued its recent recovery with further increases in employment and job vacancies. Early estimates show another rise in the number of payrolled employees in November 2021, although it is possible that those made redundant will still be on the payroll while they work out their notice period. The end of the Coronavirus Job Retention Scheme (CJRS) in late September 2021 has not been followed by a strong rise in [redundancies](#) or unemployment so far.

Vacancies reached a new record high of 1.2 million in September to November 2021, although there are some signs that the rate is slowing. The number of unemployed people per vacancy has fallen to another record low, pointing to businesses finding it challenging to fill vacancies. [Recent survey evidence](#) shows 41% of businesses with 10 or more employees reported vacancies were more difficult to fill in November 2021 compared with normal expectations for this time of year, and 15% of businesses reported a shortage of workers in late November.

There are potential labour market mismatches at industry level. The majority of industries remain below the pre-coronavirus (COVID-19) pandemic level of jobs, while 13 of the 18 industries show record high vacancies. Looking at the number of vacancies per 1,000 people employed, these are higher now for most industries than they were before the coronavirus pandemic (Figure 4).

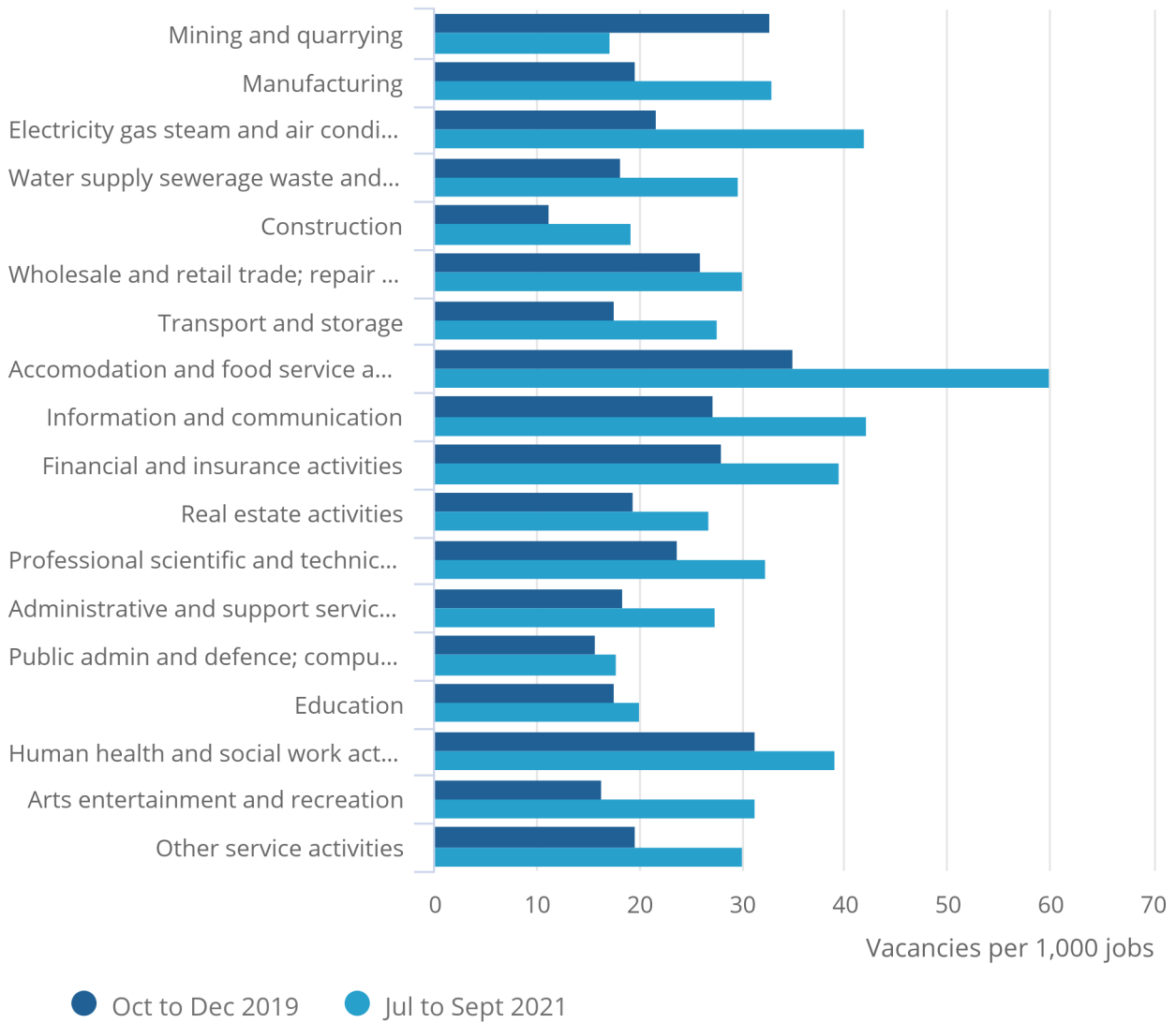
There is some evidence that this tightening in the labour market may be feeding through into higher pay, particularly for [new recruits](#). For example, the latest [BICS insights](#) show that 9% of businesses reported wages were higher for existing employees over the last month, compared with normal expectations for this time of year. Regular pay increased by 4.3% on the year in the three months to October 2021. However, this may have been affected by temporary composition effects caused by changes in the workforce and the CJRS.

Figure 4: There are potential labour market mismatches

Number of vacancies per 1,000 jobs by industry

Figure 4: There are potential labour market mismatches

Number of vacancies per 1,000 jobs by industry



Source: Office for National Statistics –WorkforceJobsandVacanciesSurvey

5 . Prices

The annual Consumer Prices Index including owner occupiers' housing costs (CPIH) rate has risen sharply in recent months, reflecting domestic and global price pressures. The CPIH annual rate hit 4.6% in November 2021, which is the highest the rate has been since September 2008 (Figure 5). Consumer price inflation is being driven by a broad range of factors, but notable upward pressure has come from motor fuels and electricity, gas and other fuels.

Consumer prices for electricity and gas in the UK are partly regulated by the [Office of Gas and Electricity Markets](#) (Ofgem) in the form of price caps, which are adjusted twice a year in part to reflect movements in wholesale energy prices. The cap on retail energy prices is next adjusted in April 2022.

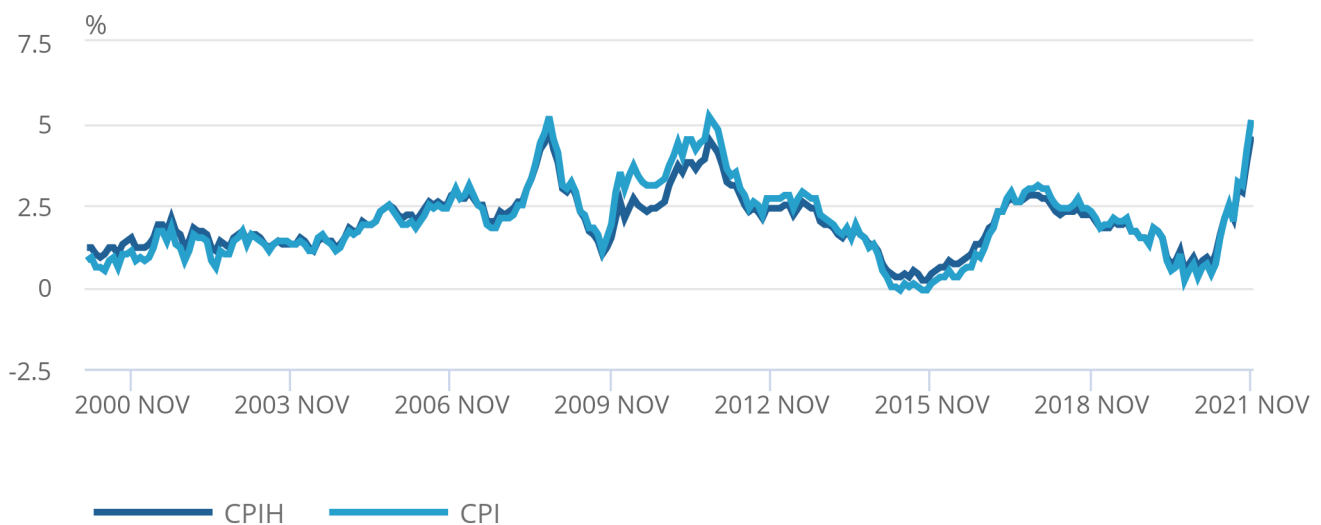
Consumer prices have also been affected by recent bottlenecks, reflecting a shift in consumer demand from services towards goods during the coronavirus (COVID-19) pandemic, while there have also been supply disruptions. Prices for motor fuels also continue to increase from their 2020 coronavirus pandemic-induced lows, while crude oil and petroleum also have seen record price increases reflecting current high prices and the relatively low prices seen a year ago.

Figure 5: The annual CPIH inflation rate is at its highest since September 2008

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

Figure 5: The annual CPIH inflation rate is at its highest since September 2008

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



Source: Office for National Statistics– Consumer Price Inflation

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: July to September 2021](#)

Bulletin | Released 22 December 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: July to September 2021](#)

Bulletin | Released 22 December 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.

[Public sector finances, UK: November 2021](#)

Bulletin | Released 21 December 2021

How the relationship between UK public sector monthly income and expenditure leads to changes in deficit and debt.

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

Bulletin | Released 15 December 2021

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

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

Bulletin | Released 14 December 2021

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