

Article

# Quarterly economic commentary: October to December 2020

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

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# 1 . Main points

- There was a 9.8% contraction in the UK economy in 2020, while the third national lockdown and the transition to the new trading relationship of the Trade and Cooperation Agreement (TCA) have had an impact on output produced and trade flows in early 2021.
- The coronavirus (COVID-19) pandemic has led to large movements in the income and expenditure of households, corporations, the government and the rest of the world in 2020, as well as financial flows.
- The number of payrolled workers declined by 693,000 between February 2020 and February 2021, while there are 4.7 million employees furloughed as of the end of February 2021 that are mostly concentrated in the accommodation and food service activities, and wholesale and retail trade industries.
- Clothing and footwear has made the largest negative contribution recently to the annual rate of Consumer Prices Index, including owner occupiers' housing costs (CPIH), largely reflecting changes in consumer spending habits during the coronavirus pandemic as the usual seasonal price trends have been affected by the latest national lockdown restrictions.

## 2 . Gross domestic product

The UK economy contracted by 9.8% in 2020, which is the largest decline since "The Great Frost" of 1709 (Figure 1). One of the major causes of these early historical shocks are industry-level shocks, particularly in agriculture. Historically, wars, financial crises and pandemics tend to be the other explanations for the largest falls in gross domestic product (GDP).

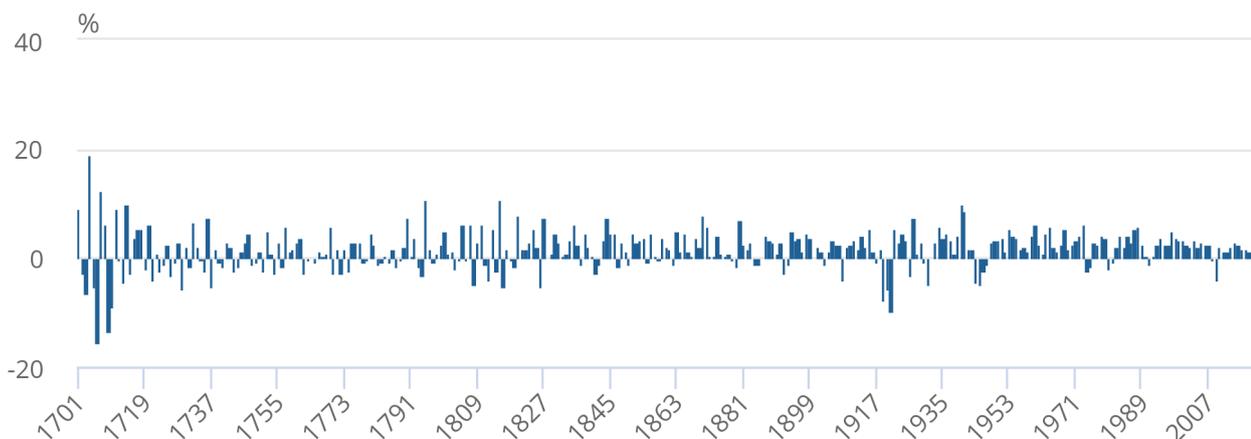
The contraction in 2020 reflects the impact of public health restrictions on the economy to contain the spread of the virus as well as voluntary social distancing by individuals to protect public health. There was a contraction of the UK economy of around a fifth in the second quarter (Apr to June) as these restrictions were in place, before a sharp rebound took place over the summer months as these were eased. The re-imposition of local and national restrictions led to a loss of momentum in the final months of the year, as GDP increased by 1.3% in Quarter 4 (Oct to Dec). Recent analysis by the International Monetary Fund finds that "[the adoption of lockdowns was an important factor in the recession](#)", but voluntary social distancing in response to rising infections also contributed very substantially to the economic contraction".

**Figure 1: The largest annual contraction in UK GDP in over 300 years**

Real annual GDP growth, 1701 to 2020

Figure 1: The largest annual contraction in UK GDP in over 300 years

Real annual GDP growth, 1701 to 2020



Source: Office for National Statistics, Bank of England

Notes:

1. Official UK GDP estimates from 1948.

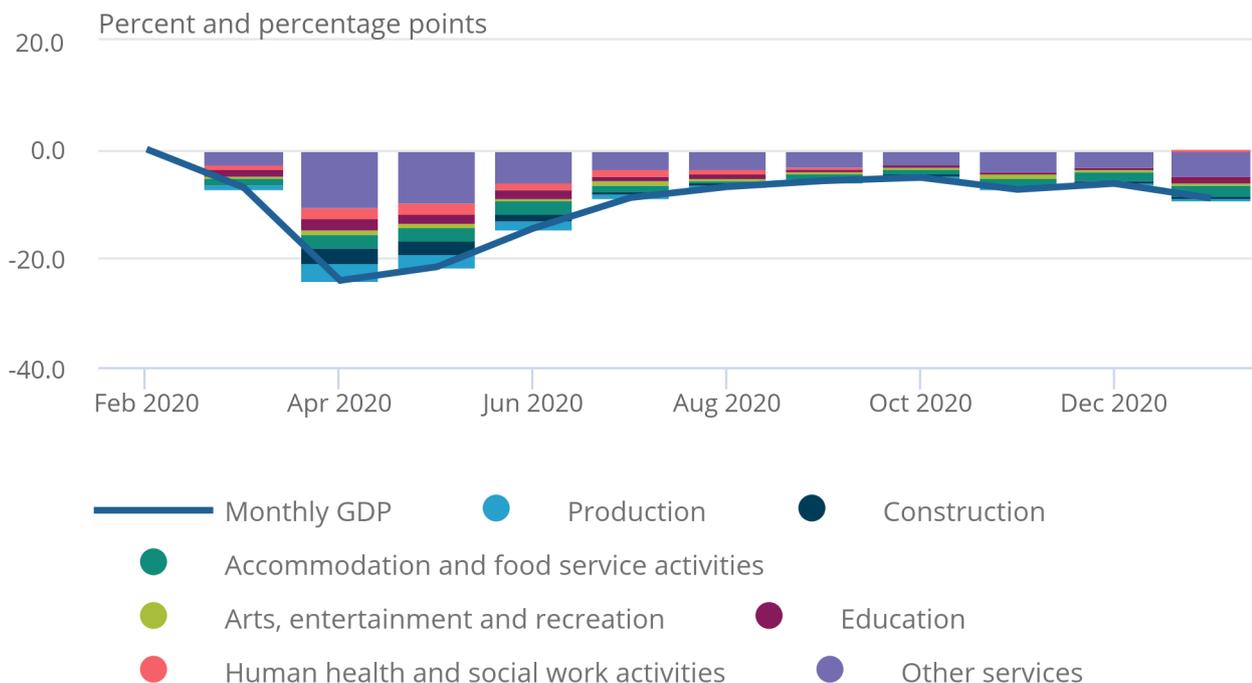
The latest [monthly GDP](#)<sup>1</sup> estimates for January 2021 show that there was a 2.9% contraction in the UK economy, as the third national lockdown weighed further on GDP (Figure 2). This was particularly driven by declines in the volume of output produced by the wholesale and retail trade, and education industries, reflecting the closure of non-essential retail and schools. However, these declines were partially offset by an increase in health output, capturing the effects of testing and tracing activities and the vaccination programme.

## Figure 2: The imposition of the third national lockdown led to a contraction in the UK economy in January 2021

Contribution to change in monthly GDP since February 2020

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Contribution to change in monthly GDP since February 2020



Source: Office for National Statistics – Monthly GDP, UK: January 2021

#### Notes:

1. These monthly GDP estimates do not incorporate any of the revisions published in the Quarterly National Accounts, including improved estimates of Education output.

The [government's Roadmap](#) provides the basis for a re-opening of the economy in England over the coming months, conditional on how the coronavirus pandemic will evolve. A proposed easing of restrictions are also in place for [Northern Ireland](#), [Scotland](#) and [Wales](#). This would be expected to lead to a pick-up in activity in the second quarter in the UK.

The latest Business Insights and Conditions Survey shows that [42% of trading businesses had experienced a fall in turnover](#) in early March 2021, compared with normal expectations for this time of year. This is an improvement from earlier in the year, implying that there might be a slight rebound in output in March. The Flash UK Purchasing Manager's Index for March paints a similar picture, finding [higher levels of business activity in March \(PDF, 166KB\)](#) underpinned by the prospect of the lifting of restrictions. This included "forward bookings from domestic consumers, while some manufacturers cited advanced orders from hospitality businesses and high-street retailers". More timely information on [debit and credit card purchases](#) show that there has been a gradual increase since the fall in spending in early 2021.

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Figure 3 shows how much GDP has contracted in 2020 for the G7 economies. The UK experienced the largest fall in volume GDP over the year, in part reflecting that the public health restrictions imposed have been in place for longer as well as having higher levels of stringency. Previous analysis explained that the [higher prevalence of the virus in the UK in 2020](#) might have led to voluntary social distancing being more prominent. The imposition of further national lockdowns in response to a second wave of infections led to a contraction in GDP in Italy and France in Quarter 4.

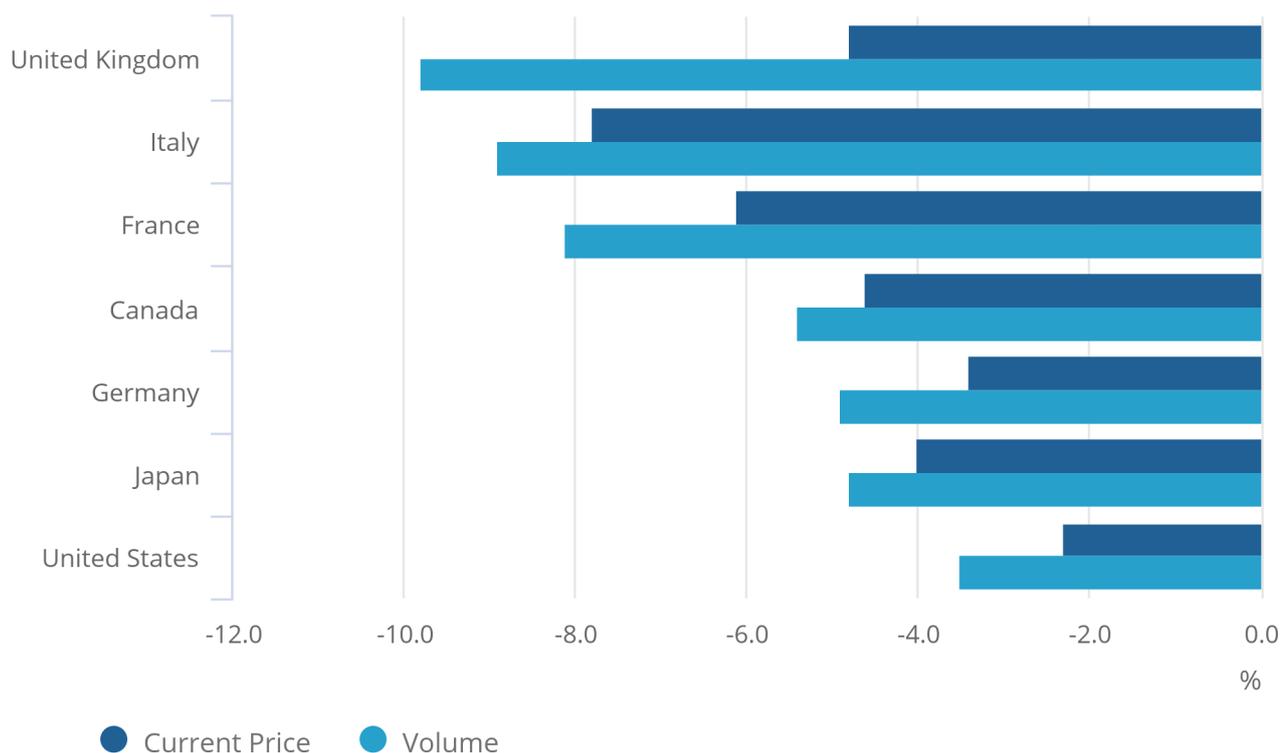
Before the pandemic, there was a relatively higher level of spending in the UK on eating out, leisure travel and cultural activities. Those economies that have relatively higher levels of [social consumption](#) have experienced the largest falls in final consumption expenditure. However, it is also the case that the contraction in volume GDP is relatively much larger than that for current price GDP in the UK, largely reflecting how [non-market output](#) is recorded by national statistical institutes. In particular, the recording of volume indicators of health and education output in the UK is likely to have reflected a larger impact of the pandemic on these services. It is also the case that there appears to have been comparatively higher current price spending on healthcare during the pandemic in the UK.

**Figure 3: The coronavirus pandemic has led to record falls in output in the G7 economies in 2020**

**Nominal and real G7 GDP annual growth, 2020**

Figure 3: The coronavirus pandemic has led to record falls in output in the G7 economies in 2020

Nominal and real G7 GDP annual growth, 2020



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

Notes:

- 1. All international figures correct as of 19 March 2021.

The latest forecasts produced by the Organisation for Economic Co-operation and Development (OECD) show [an improvement in the prospects for the global economy](#), which is now expected to increase by 5.6% this year. The improved recovery reflects the latest on vaccine production and development as well as the effects of fiscal policy, particularly in the United States. It also reflects that there was a stronger-than-expected rebound towards the end of 2020, in part reflecting that mobility restrictions were having less of an adverse impact on activity and that there has been an increasing adaptation of the economy to the virus.

Figure 4 shows how the economy has evolved relative to the end of 2019, capturing the cumulative change in GDP and its expenditure components. The coronavirus pandemic has led to large movements in spending through 2020, particularly in private consumption expenditure. There have also been notable changes in the composition of that spending, as households have responded to the restrictions in place and changed their spending behaviours.

For instance, there was a 18.3% contraction in services consumption in the first half of this year, particularly on transport, and restaurants and hotels, which have been most impacted by the lockdown policies that have been in place. There was a rebound in the second half of the year, recovering more than half of that shortfall in the third quarter as restrictions were initially lifted. However, there were further declines in these types of expenditure in the final quarter of the year as local and national restrictions were re-imposed in response to rising coronavirus (COVID-19) infection levels.

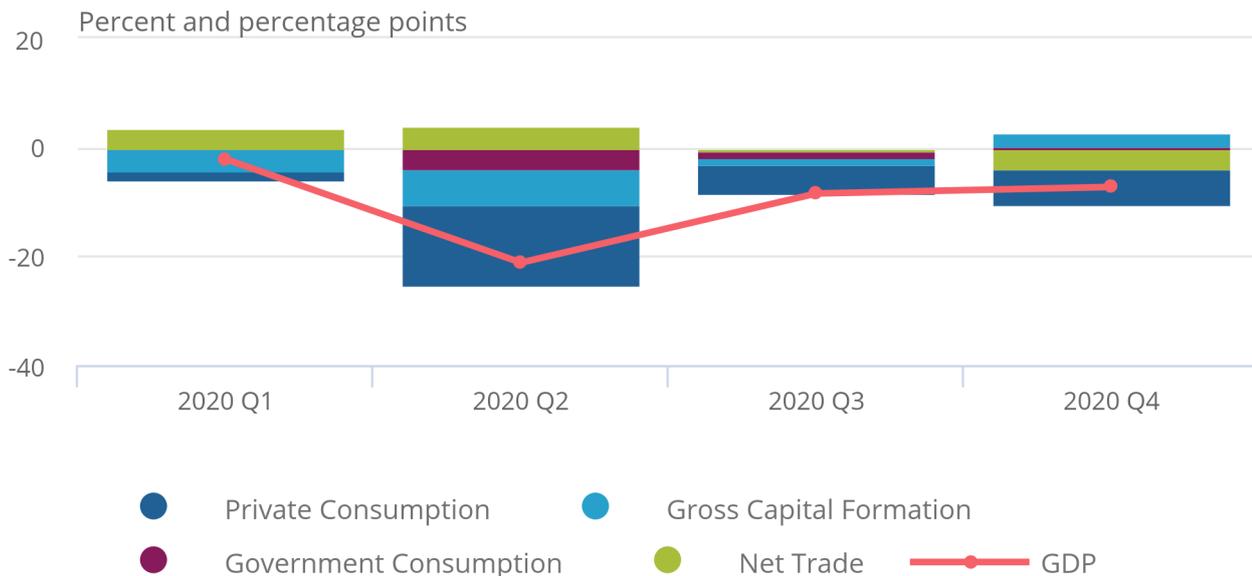
There have also been shifts to other types of household consumption, [reflecting a move away from spending on social and work-related activities](#) and a voluntary reduction in social interactions. There has been a large increase in spending on household goods and services over the last year, which includes furnishings, household equipment and routine maintenance of the house. One likely explanation is that this has reflected the change in housing needs in the pandemic, in which working from home has become much more prevalent. The relative strength in the housing market in recent months might also help explain the increase in this type of spending, as more expenditure takes places on these types of household goods and services as people move homes. The latest [consumer confidence](#) picked up to its highest level since the imposition of the first national lockdown was imposed last March, citing "well-received Budget announcements, the successful vaccine roll-out and roadmaps in place for ending lockdown".

**Figure 4: The coronavirus pandemic has led to large movements in spending in 2020 relative to the end of 2019, particularly in private consumption expenditure**

UK, Quarter 4 (Oct to Dec) 2019 to Quarter 4 (Oct to Dec) 2020

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UK, Quarter 4 (Oct to Dec) 2019 to Quarter 4 (Oct to Dec) 2020



Source: Office for National Statistics – Quarterly National Accounts, UK: October to December 2020

Notes:

1. Statistical discrepancy has been excluded so contributions will not sum to change in GDP.

Business investment is now 7.4% below where it was at the end of 2019. The latest Decision Maker's Panel finds that [businesses expect investment to be around a fifth lower in the first quarter of 2021 than it would have been in the absence of the pandemic](#), reflecting the adverse impact of coronavirus restrictions on sales revenues and cash positions as well as the effects of higher levels of uncertainty. The extent to which these impacts unwind as the vaccination programme is rolled out is expected to impact upon how quickly capital expenditure recovers in 2021. The latest Agents' Summary of Business Conditions highlights that [fewer businesses are cancelling or postponing investment](#), while more was being reinstated to increase efficiency and capacity.

There is some evidence that stockpiling was undertaken in late 2020 in preparation for the end of the UK's transition period with the European Union, as external surveys highlighted that [clients had brought forward orders \(PDF, 172KB\)](#) in order to "guard against potential disruption caused by the end of the Brexit transition period". More timely estimates show [a substantial fall in the volume of goods trade in January](#) (Figure 5), particularly in the exports to and imports from the European Union. This might also reflect some unwinding of stockpiling that had taken place in late 2020 as part of their preparation in the absence of the Trade and Cooperation Agreement (TCA) being in place. This was particularly evident in machinery and transport equipment as well as chemicals.

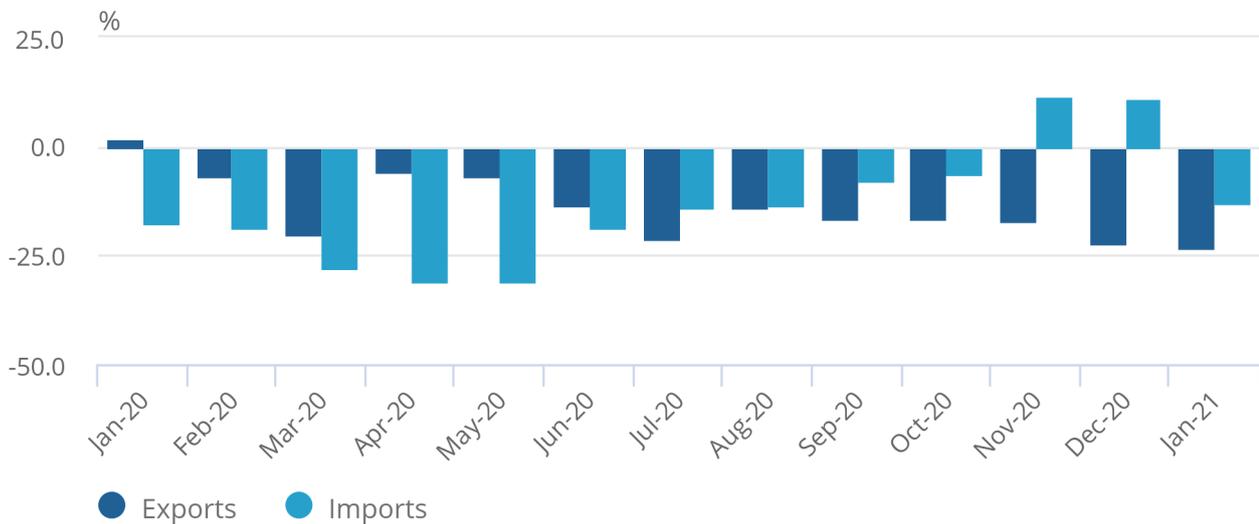
Another likely explanation is likely to be the transition to the new trading relationship of the Trade and Cooperation Agreement (TCA). The larger impact on exports could also reflect that full customs requirements to the European Union have now come into effect, while this has not yet been implemented in full by the UK on its imports from the European Union. Additional trade restrictions were also in place temporarily because of concerns about the new Kent variant of the coronavirus, which might explain the monthly declines in trade in January 2021.

## Figure 5: There have been large falls in the volume of goods trade flows in January 2021

Annual change in gross volume of trade flows, UK, January 2020 to January 2021

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Annual change in gross volume of trade flows, UK, January 2020 to January 2021



Source: Office for National Statistics – UK Trade: January 2021

#### Notes for: Gross domestic product

1. The latest official estimates of monthly GDP do not reflect the revisions that have been incorporated as part of the latest Quarterly National Accounts released on 31 March 2021. Fully consistent figures will be released on 13 April 2021. An indicative monthly path for 2020 has been made available.

### 3 . Institutional sector accounts

The coronavirus (COVID-19) pandemic has led to large movements in the non-financial and financial transactions of households<sup>1</sup>, corporations, the government and the rest of the world in 2020. This has been reflected in unprecedented movements in the sectoral net lending or borrowing positions, particularly for households and government (Figure 6).

Households became net lenders of 7.8% of gross domestic product (GDP) in 2020 as there was a record contraction in consumption expenditure as public health restrictions and voluntary social distancing took place. This is only the second time on record in which there has been an annual decline in household final consumption expenditure, following the global financial crisis.

The introduction of the Coronavirus Job Retention Scheme (CJRS) and Self-Employment Income Support Scheme (SEISS) helped maintain household income, in contrast to the impact on national income. The household position is primarily the domestic counterpart to the government position, which has a net borrowing position of 12.4% in 2020. The impact on private non-financial corporations (PNFCs) might appear relatively muted in 2020 rising to 0.2% but PNFCs had recently been net borrowers for much of the period following the global financial crisis. Furthermore, there are likely to be wide-ranging industry-level effects on income and expenditure that reflect the uneven business impacts of the coronavirus pandemic.

**Figure 6: There have been large movements in the financial positions of households and the government in 2020**

Net lending and borrowing, UK, Quarter 1 (Jan to Mar) 2020 to Quarter 4 (Oct to Dec) 2020

Figure 6: There have been large movements in the financial positions of households and the government in 2020

Net lending and borrowing, UK, Quarter 1 (Jan to Mar) 2020 to Quarter 4 (Oct to Dec) 2020



Source: Office for National Statistics – Quarterly Sector Accounts, UK: October to December 2020

Notes:

1. Households include non-profit institutions serving households (NPISH).

There was an increase in the net lending position of households in the final quarter of the year (6.7%), primarily reflecting the impact of further voluntary and involuntary restrictions on final consumption expenditure. This was most evident on restaurants and hotels, and transport in Quarter 4.

Households have mainly mirrored the record levels of net lending in 2020 by increasing the amount of currency and deposits placed with financial institutions (Figure 7), which was also the case in the final quarter of the year. Based on retail deposits, the Bank of England find that [households have accumulated an excess stock of savings of £125 billion \(PDF, 463KB\)](#) since March 2020, as "households have not been able to spend as usual, rather than because they actively chose to increase their savings". The Office for Budget Responsibility estimate that that [this could rise to £180 billion by the middle of this year](#).

The households' saving ratio has risen sharply this year as household incomes have been relatively maintained by the CJRS and SEISS, hitting a record high of 16.3% this year. This is likely to have captured an increase in "enforced" and precautionary savings, given the elevated levels of uncertainty around the prospects for the economy. The extent to which this stock of additional savings is spent once voluntary and involuntary restrictions are lifted is unclear.

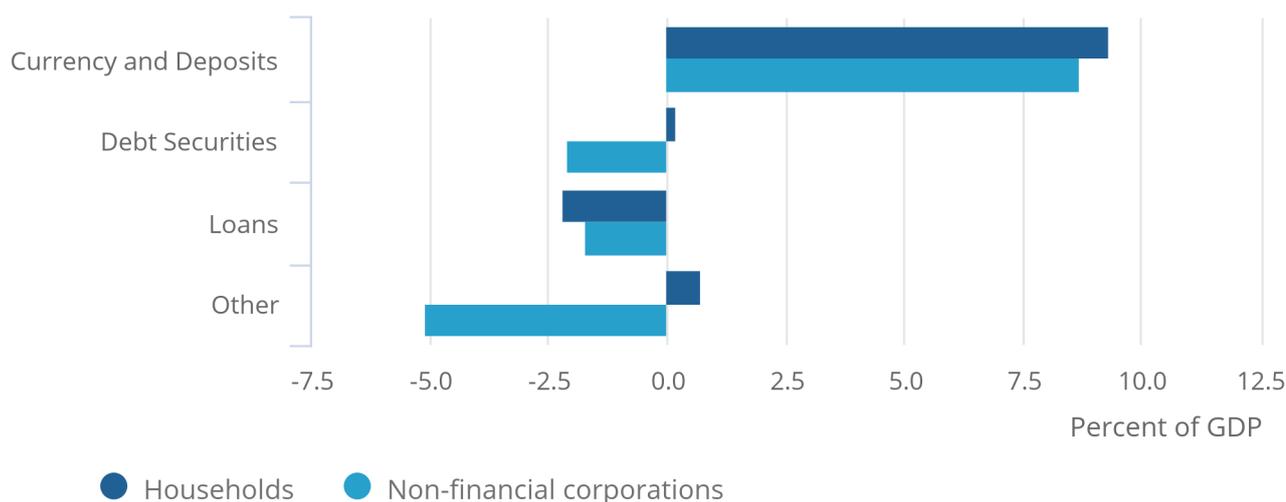
Recent analysis explains that that this in part will reflect whether [these savings are considered as additional income or wealth](#) as there tends to be a higher marginal propensity to consume out of income. This excess of savings has been held in the most liquid type of financial asset – for example, currency and deposits – which might be spent more easily. That said, it might be that this is not considered additional income "relative to what households may have been expecting before the pandemic". Another factor will be the distribution of these additional savings, given that lower income households typically have a higher marginal propensity to consume. The Bank of England highlights that [higher-income households have increased their savings, whereas low-income households have in many cases reported having saved less than usual](#), but that retired households who have also increased their savings may spend more relatively quicker given these individuals are more likely to have received their vaccination.

## Figure 7: Households and non-financial corporations have increased their net holdings of currency and deposits in 2020

Composition of financial flows, UK, 2020

### Figure 7: Households and non-financial corporations have increased their net holdings of currency and deposits in 2020

Composition of financial flows, UK, 2020



Source: Office for National Statistics – Quarterly Sector Accounts, UK: October to December 2020

#### Notes:

1. Households include non-profit institutions serving households (NPISH).
2. "Other" includes equity and investment fund shares; insurance, pensions and standardised guarantees; financial derivatives and employee stock options; and other accounts.

In the years prior to the coronavirus pandemic, private non-financial corporations (PNFCs) had been net borrowers to finance their investment. However, heightened levels of uncertainty and impacts on cash flow helped explain a contraction in capital investment in the year. This is particularly in the context of whether the changes in the level and composition of demand will persist in the future. In the final quarter of the year, there was a rise in capital expenditure as well as stockpiling taking place. More timely information shows that [this uncertainty has fallen from these high levels of late](#). The Bank of England highlight that the vaccination programme could lead to a rise in investment later this year.

This fall in capital expenditure more than offset the 3.4% fall in PNFC gross operating surplus (GOS) over the year, explaining the improved financial position of PNFCs in 2020. Furthermore, the profit share of PNFCs has ticked up on the year to 18.1%, reflecting that corporate profits have not been as adversely impacted as GDP in 2020. However, there have been uneven impacts amongst PNFCs, reflecting how the imposition of coronavirus restrictions has had more of an impact on certain industries. For example, the latest Business Insights and Conditions Survey finds that while [around 3 in 10 businesses have three months' cash reserves or less](#), this ratio is higher for some services industries including accommodation and food service activities. In contrast, the cash reserves position of businesses in real estate, and information and communications is much healthier.

Figure 7 also shows that PNFCs have increased their net holdings of currency and deposits, similar to households. This is despite PNFCs have not increased their net lending as much. This is reflected in PNFCs having also reduced their net holdings of debt and loans over the year, although there is once again more likely to be a mixed industry-level performance in these corporate financial positions.

The coronavirus pandemic has also had large consequences for the UK's public finances. General government was a net borrower in Quarter 4 2020 of 11.0% of GDP. The latest figures show that [public sector net borrowing \(PSNB\) for the first 11 months of this financial year is £278.8 billion](#), which is the largest deficit on record for any April to February period. The higher levels of government borrowing capture the increase in government spending in response to the coronavirus pandemic – for example, around two-fifths of the increase in current spending in the financial year-to-date reflects furlough payments. There has also been a fall in receipts, most notably in Value Added Tax (VAT). Although VAT estimates are provisional at this stage, the fall may reflect lower levels of consumer spending over the last year as well as the temporary reduced rate of VAT for hospitality, hotel and holiday accommodation and the admission to certain attractions.

Public sector net debt (PSND) has risen sharply over the last year and is 97.5% of GDP in February 2021. The debt interest to revenue ratio is relatively low by historical standards because of the decline in interest rates, although the Office for Budget Responsibility highlights that the "higher overall debt stock and the sharp reduction in the median maturity of that debt has markedly [increased the sensitivity of the public finances](#) to future changes in short-term interest rates".

### **Notes for: Institutional sector accounts**

1. The net lending and borrowing figures for households include non-profit institutions serving households (NPISH).

## 4 . Balance of payments

The coronavirus (COVID-19) pandemic led to large declines in exports and imports flows in the first half of last year, reflecting the contraction in UK and foreign demand as well as the adverse impacts of restrictions on global supply chains. There has been some rebound in gross trade flows in the second half of the year, more so in goods trade. The Organisation for Economic Co-operation and Development (OECD) shows that there has been a [mixed global trade performance of late](#). Goods trade has returned to its pre-pandemic levels, in part reflecting the impact of medical supplies. However, the picture for services trade is much weaker, which reflects to some extent the more stringent restrictions on international travel.

Figure 8 shows that there was a widening in the current account deficit to 4.8% of GDP, primarily driven by an increase in the trade deficit. There has been a strong rebound in goods imports in the second half of the year, particularly in finished manufactured goods. There has been a strong recovery in the international trade as economies reopened from the most stringent of lockdown restrictions in the second half of the year. Stockpiling is also likely to have taken place in the final months of 2020, in preparation for the UK leaving the Single Market and Customs Union. There has been less of a rebound in the exports and imports of services in the second half of the year. This has been most evident in travel and transport services, reflecting the international restrictions that have been imposed for much of this period.

There has been a large fall in gross investment income flows in 2020. These effects have been larger on the income that is received by the UK, which has been most marked on the returns to foreign direct investment. There has been some rebound in net FDI income in the second half of the year. There has also been an impact on the returns on portfolio investment, reflecting a number of businesses not issuing dividend payments through the year as well as sizeable dis-investing in equities taking place. There are some signs that UK businesses are returning to paying dividends in Quarter 4 (Oct to Dec), as net portfolio income declined a little. Payments to EU institutions have increased in 2020 as the UK reaches the final year of the Multiannual Financial Framework (MFF) and to support the EU's coronavirus response.

## Figure 8: The current account deficit widened to 4.8% of GDP in the final quarter of 2020

Current account balance, UK, Quarter 1 (Jan to Mar) 2008 to Quarter 4 (Oct to Dec) 2020

### Figure 8: The current account deficit widened to 4.8% of GDP in the final quarter of 2020

Current account balance, UK, Quarter 1 (Jan to Mar) 2008 to Quarter 4 (Oct to Dec) 2020



Source: Office for National Statistics – Balance of Payments, UK: October to December 2020

A current account deficit must be financed by net financial inflows. This can be achieved by increasing external liabilities to the rest of the world and/or disinvesting in previously owned external assets. Cross-border capital flows are prone to large swings, particularly for the more mobile forms of capital such as loans and deposits. This has particularly been the case through the coronavirus pandemic, likely reflecting the response of financial markets around the start of the coronavirus pandemic, as there was a shift in the risk appetite of investors (Figure 9).

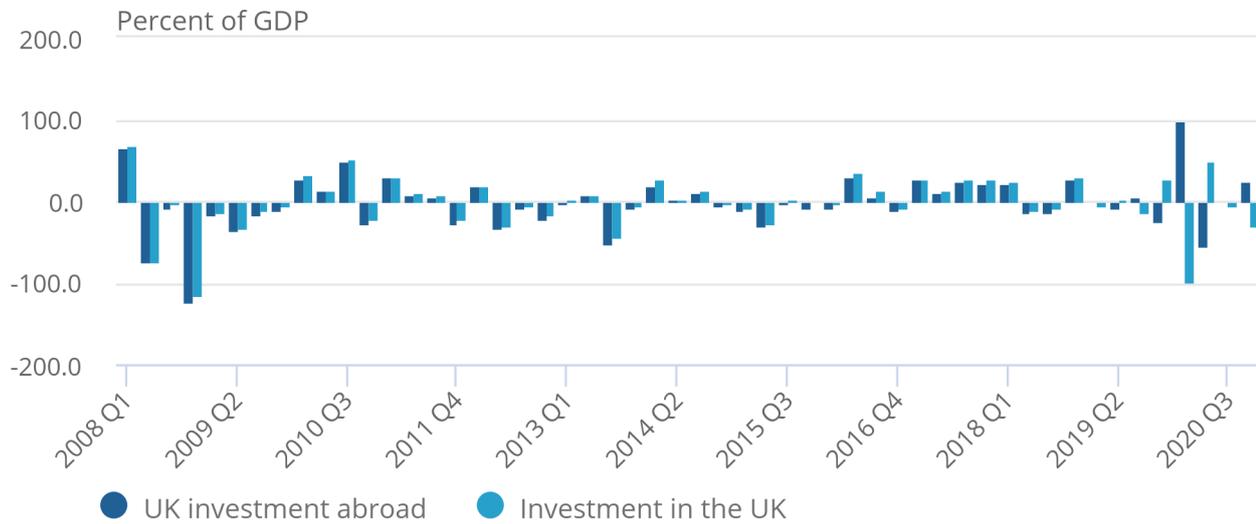
In Quarter 4 2020, there were large capital inflows and outflows, particularly in other investment, which tends to be the most mobile form of finance. The UK financed its net borrowing position in the final quarter of the year by increasing its external liabilities, as the rest of the world increased its foreign currency deposits in the UK, which is held in monetary financial institutions. There was also an increase in foreign financial flows into UK government bonds in Quarter 4.

**Figure 9: There were large capital inflows and outflows in Quarter 4 2020, particularly in other investment**

Gross financial inflows and outflows, UK, Quarter 1 (Jan to Mar) 2008 to Quarter 4 (Oct to Dec) 2020

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Gross financial inflows and outflows, UK, Quarter 1 (Jan to Mar) 2008 to Quarter 4 (Oct to Dec) 2020



Source: Office for National Statistics – Balance of Payments, UK: October to December 2020

## 5 . Labour market

The coronavirus (COVID-19) pandemic has impacted the labour market over the last year, as the contraction in output has led to lower labour demand. The latest HM Revenue and Customs' Pay As You Earn (PAYE) Real Time Information (RTI) estimates show that [the number of payroll workers declined by 693,000](#) between February 2020 and February 2021. More than half of that fall has been in the accommodation and food service activities industry (368,000), while there have also been large declines in the wholesale and retail trade; arts, entertainment and recreation; and manufacturing industries. There was an increase of 68,000 in payrolled employment on the month in February 2021, which is the third consecutive monthly increase. This has been driven by reduced labour market outflows.

Figure 10 shows the extent of furloughing that has taken part through the Coronavirus Job Retention Scheme (CJRS). The latest figures show that there are [4.7 million employees furloughed as of the end of February 2021](#), which was mostly concentrated in the accommodation and food service activities, and wholesale and retail trade industries. Those industries rely on face-to-face contact between businesses and their customers have been required to close under lockdown restrictions.

There was an increase in furloughed employees of over 900,000 in January 2021, which was mostly concentrated in wholesale and retail as the imposition of the third lockdown restrictions impacted on non-essential retail. There has been a reduction of 233,000 in February. Figure 10 shows that the level is lower than the peak levels of furloughing experienced in the first lockdown, in part reflecting that more businesses have continued to trade of late as well as an increase in redundancies. More timely information is available from the latest Business Insights and Conditions Survey (BICS) which shows that [19% of the business workforce has been on furlough in early March](#).

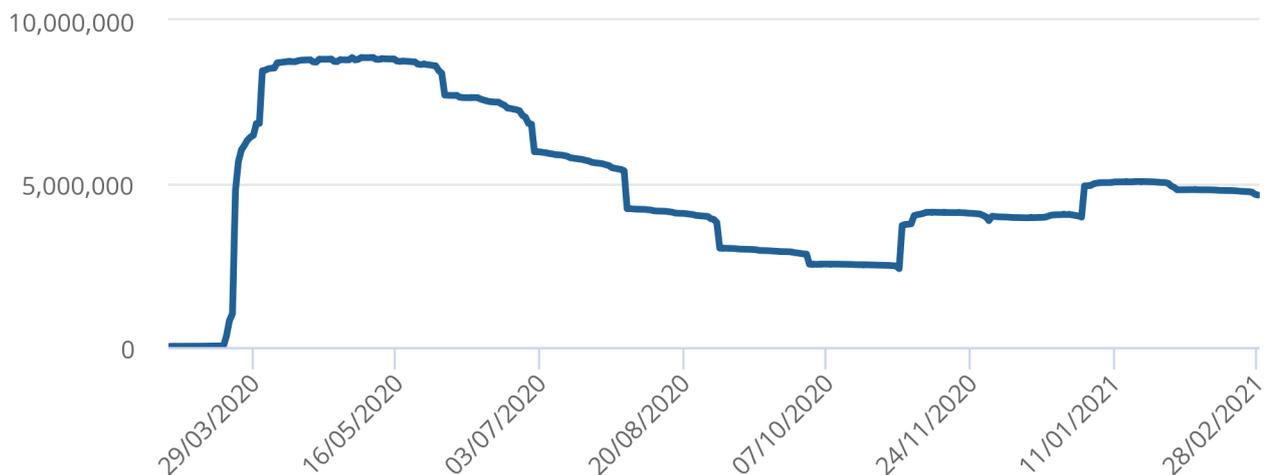
The Office for Budget Responsibility explain that the CJRS has allowed "[total hours worked to move with fluctuations in output](#) without causing correspondingly large movements in employment", which is why there has been more of an impact on average hours worked than on employment. The latest figures show that the unemployment rate has risen over the last year to 5.0% for the period November 2020 to January 2021.

**Figure 10: There was an increase in furloughed employees in early 2021, following the introduction of a third national lockdown**

Furloughing supported by the Coronavirus Job Retention Scheme

Figure 10: There was an increase in furloughed employees in early 2021, following the introduction of a third national lockdown

Furloughing supported by the Coronavirus Job Retention Scheme



Source: Her Majesty's Revenue and Customs – Coronavirus Job Retention Scheme Statistics: March 2021

Recent analysis shows that [redundancies increased faster during the pandemic than in the 2008 global financial crisis](#). In November 2020 to January 2021, reports of redundancies increased, following a large rise in notifications of redundancy over the summer months. However, there has been a decline on the quarter and the Chartered Institute of Personnel and Development finds that there has more recently been [a sharp fall in redundancy intentions \(PDF, 709KB\)](#). A fifth of employers are now expecting to cut jobs over the next three months, although there is a more mixed industry-level outlook.

In the three months to February 2021, there were 220,000 fewer vacancies in the economy than a year earlier, capturing the reduction in the availability of jobs as employers have reduced their demand for labour. The latest Recruitment and Employment Confederation shows that [there is a decline in permanent staff appointments in February](#), although the pace of decline was slower than in the previous month, which likely reflects the effects of the latest lockdown restrictions. There was also a slowing in the increase in temporary billings. These placement figures might reflect that employers are being more cautious in their recruitment, reflecting the ongoing uncertainty.

The higher levels of labour market slack would have been expected to put downward pressure on earnings. However, the latest figures show that there was an annual increase in regular nominal pay of 4.2% in the three-month period of November 2020 to January 2021. This partly reflects compositional effects in the labour market, as there has been a fall in the number and proportion of lower-paid jobs compared with before the coronavirus pandemic, such as those in hospitality and retail. There has also been a decline in the relative number of people who are working part-time, which have a lower average pay. Recent analysis shows that once these compositional effects are taken into consideration, [there is an underlying wage growth of around 2.5% for regular pay](#).



## 6 . Prices

Consumer price inflation has remained low in recent months, reflecting the effects of the coronavirus (COVID-19) pandemic on the economy. Recent analysis shows that there is international evidence that [disinflationary pressures have been more prominent in services](#), reflecting how these have been relatively more impacted by the coronavirus restrictions in place.

The annual rate of the Consumer Prices Index including owner occupiers' housing costs (CPIH) slowed to 0.7% in February 2021. Clothing and footwear has made the largest negative contribution recently, largely reflecting changes in consumer spending habits during the coronavirus pandemic. This has been most pronounced during the periods of national lockdowns, which have disrupted the usual seasonal price trends for clothing and footwear.

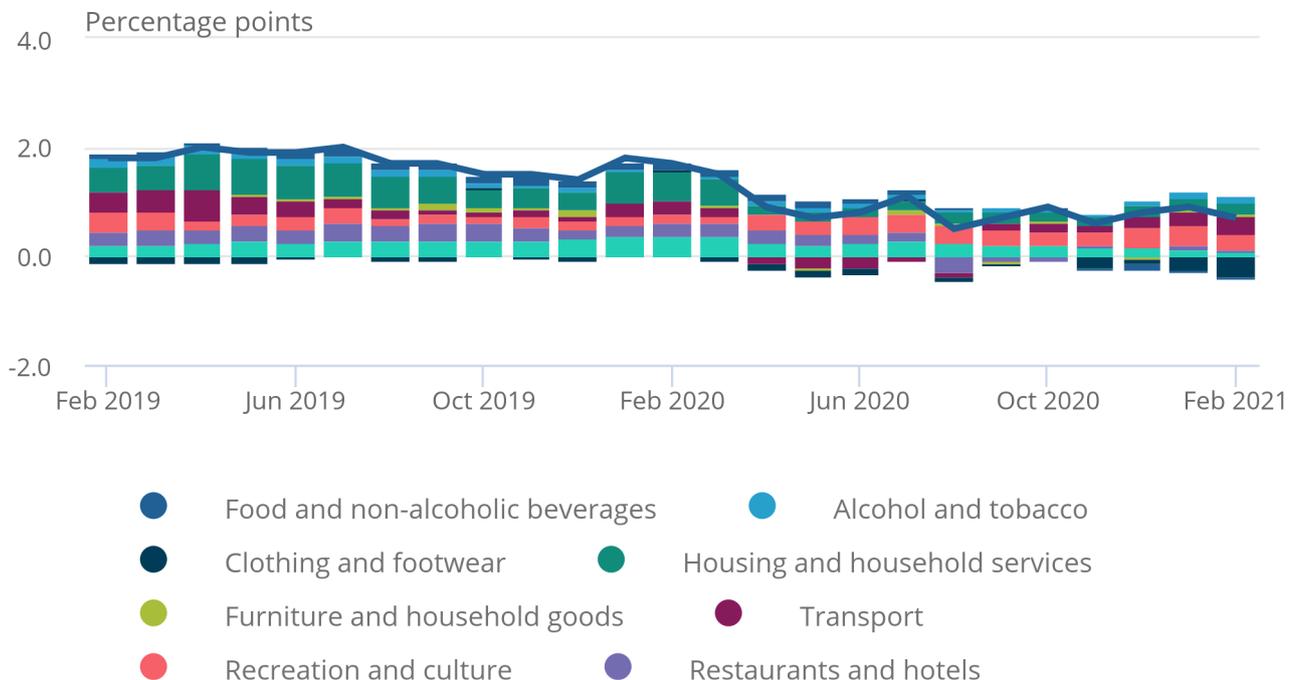
For example, it has typically been the case that higher consumer price inflation is recorded in February, reflecting the unwinding of January sales. However, this has not been the case this year as the imposition of the latest national lockdown restrictions has impacted on non-essential retail, such that there was a fall in annual headline inflation in February. The arrival of new seasonal clothing items at this time of year would also typically impact upon consumer price inflation in February 2021, which might have been impacted too.

**Figure 11: Clothing and footwear has made the largest negative contribution recently, largely reflecting changes in consumer spending habits during the coronavirus pandemic**

Contributions to annual rate of CPIH, February 2019 to February 2021

Figure 11: Clothing and footwear has made the largest negative contribution recently, largely reflecting changes in consumer spending habits during the coronavirus pandemic

Contributions to annual rate of CPIH, February 2019 to February 2021



Source: Office for National Statistics – Consumer Price Inflation, UK: February 2021

The contribution of transport services and the purchase of vehicles have increased over the year, more than offsetting the annual fall in prices for fuels and lubricants. However, the prices for fuels and lubricants have risen for three consecutive months and are now the highest they have been since February 2020.

Positive contributions from housing and household services over recent months have been driven entirely by actual rents from housing and owner occupiers' housing costs, which consist of imputed rents and Council Tax. These rises have been partially offset by falling prices for gas, electricity and other fuels. The Office of Gas and Electricity Markets (Ofgem) price cap fell by 1% in April 2020 and 7% in October 2020. In February 2021, Ofgem announced that [the cap would increase by 9% from April 2021](#) (PDF, 338KB). Consumer price inflation is also expected to pick up over the first half of this year because the [sharp falls in oil and fuel prices seen early in the pandemic fall out of the annual comparison](#).

The coronavirus pandemic continues to also have an impact on business prices. Metals have made the largest contribution to the annual rate of input Producer Price Index (PPI) over recent months, driven by non-EU imports of precious metals. Some of these metals are used in the manufacture of catalytic converters for petrol-fuelled and hybrid cars and demand for the likes of palladium have outstripped supply for the past decade. Crude oil and metals were also the main positive contributors to the monthly rate in input PPI with the third-largest contribution coming from home food materials, prices for which were up 1.2% on the month and 3.9% on the year. This was partly because of [concerns about post-Brexit trade](#), which led farmers to sell more lambs than usual at the end of 2020 resulting in scarcity more recently.

The latest Agents' Summary of Business Conditions cites [widespread increase in the costs of inputs](#), reflecting higher transportation and storage costs, while a recovery in the global economy was leading to higher commodity prices. However, there was not much evidence so far that there has been a pass-through of these higher costs to consumer prices given the levels of competition and uncertainty about demand.

Annual house price inflation remains high, despite falling back slightly to 7.5% in January 2021. This follows a sharp decrease between March and April 2020 as the first national lockdown came into effect, restricting people's ability to purchase properties. Since picking up in June 2020, the housing market has remained buoyant, likely reflecting [pent-up demand and a response to the temporary property transaction tax holiday](#).

## 7 . 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: October to December 2020](#)

Bulletin | Released 31 March 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: October to December 2020](#)

Bulletin | Released 31 March 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: February 2021](#)

Bulletin | Released 24 March 2021

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

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

Bulletin | Released 24 March 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: March 2021](#)

Bulletin | Released 23 March 2021

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

### [UK trade: January 2021](#)

Bulletin | Released 12 March 2021

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