UK Economic Outlook

▲ 0.1%	▼ 4.7%	▼ 3.1%	▶ 0.1%	▲ 1.2%
Real GDP MoM	Unemployment rate (June-August 2021)	CPI Inflation (annual average)	Bank Rate	10-year Gilt Yield (As of October 21)

Note: Arrows indicate change from previous release.

Key takeaways

- Recovery to continue despite the headwinds. We are forecasting real GDP growth of 6.9% in 2021 and 5% in 2022.
- We have taken the view that most people returning from furlough will return to their old jobs or quickly find new ones. If we have been too optimistic this remains a downside risk to the outlook.
- We believe that supply bottlenecks and rising energy prices will continue to put upward pressure on inflation, with inflation remaining elevated throughout the first half of 2022 before returning towards 2 per cent in the second half of 2022.
- The Bank of England has communicated that it is concerned about expectations of future inflation and stands ready to raise interest rates. The CBRE view is that the Bank of England will raise Bank Rate in the middle of next year.

UK Real GDP (February 2020 = 100),

Source: CBRE Macroeconomic House View, October 2021

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GDP

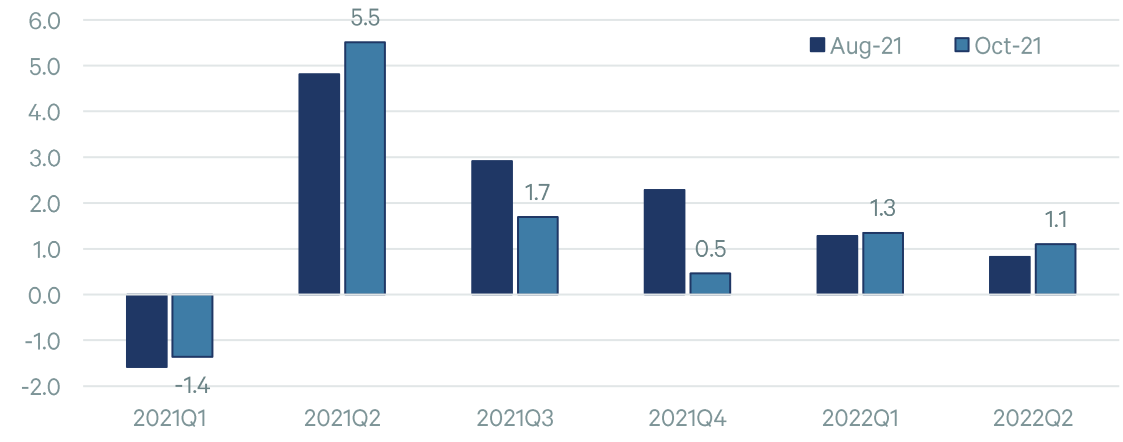
Headwinds such as supply bottlenecks and labour shortages continue to weigh on activity. Monthly real GDP grew by 0.4 per cent in August, and 2.9 per cent in the three months to August. GDP was boosted by a recovery in consumer-facing services, which had fared badly in July due to rising coronavirus cases and the resulting "pingdemic".

There was also growth in the manufacturing sectors enabled by an easing of pressures caused by as the global microchip shortage. However, construction output fell for the second consecutive month largely due to delays in the availability of steel, concrete, timber and glass. Adjusting for the NHS Test and Trace and vaccine programmes – which dragged down GDP by 0.3ppt – saw monthly real GDP grow by 0.7 per cent. Overall, the UK economy is 0.8 per cent below its pre-pandemic (February 2020) level.

Looking ahead, we remain optimistic that the recovery will continue despite the headwinds. We are forecasting slower growth of 0.5 per cent in Q4 as high energy costs and supply shortages bite, but UK GDP is still expected to grow by 6.9 per cent in 2021, and 5 per cent in 2022.

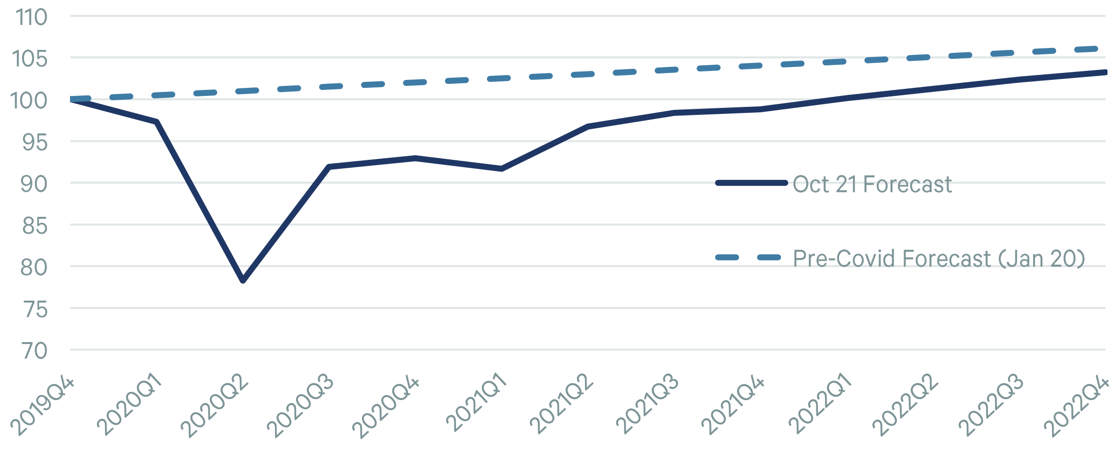
Despite our optimism, there are risks to the outlook. A bout of persistent inflation will squeeze household disposable incomes and lower consumer confidence. There is also uncertainty around the labour market and the extent to which furloughed workers will be reabsorbed.

UK Real GDP, q/q, %



Source: ONS, Macrobond, CBRE Research

UK Real GDP, 2019 Q4 = 100



Source: ONS, Oxford Economics, CBRE Research

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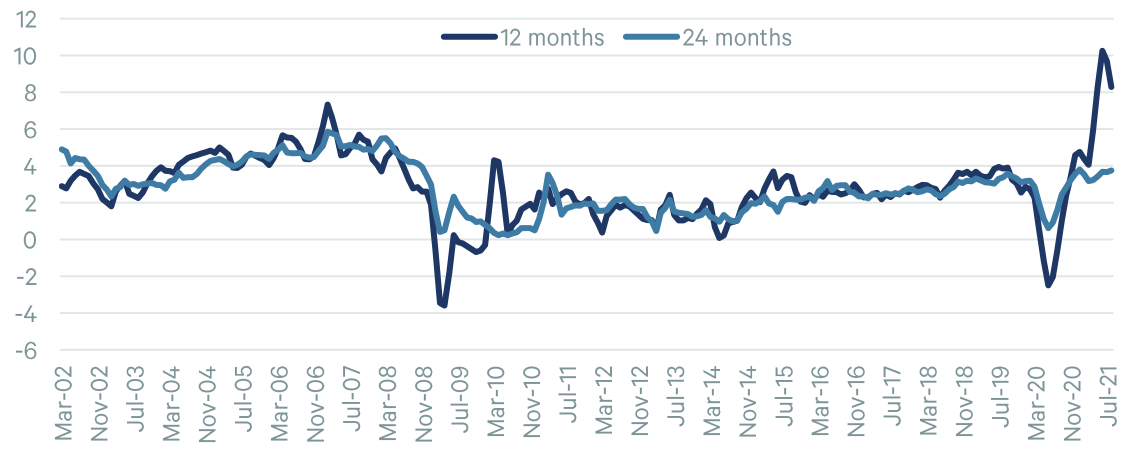
LABOUR MARKET

The labour market continues to recover. Employment has been growing since the spring, but it still 2 per cent below February 2020 levels according to the latest Labour Force Survey (June-August 2020). Total hours worked, which are arguably a better measure, have risen 7 per cent since February but remain 1 per cent lower than they were in February 2020.

At the same time, a large rise in the number of job openings has boosted the vacancy-to-unemployment ratio and is putting upward pressure on wages in some sectors. Headline average weekly earnings growth is inflated by base effects – comparing with depressed wages last year – and compositional effects where there has been a fall in the number and proportion of lower-paid employee jobs. That said, underlying wage growth has picked up and is nearing 4 per cent.

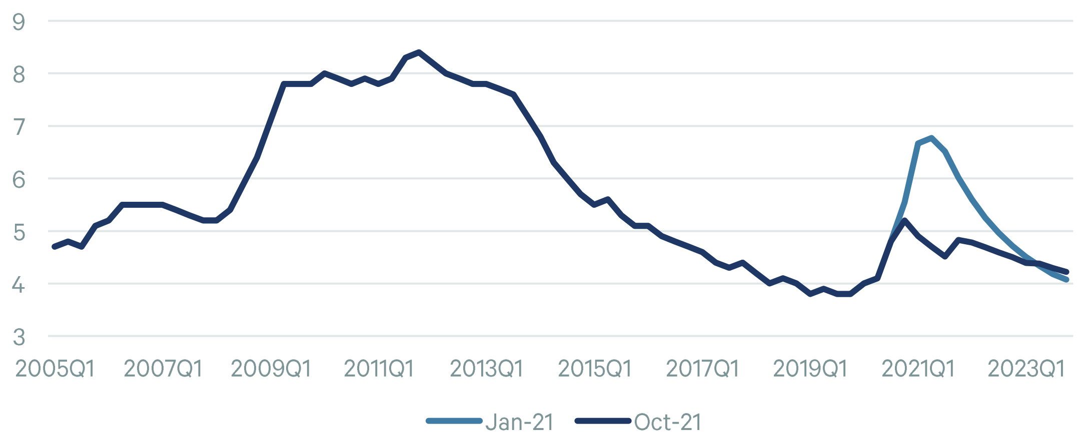
Some of the factors causing wage growth will prove temporary; firms responding to the faster-than-expected recovery in demand by restoring headcount are finding it challenging due to the limited pool of labour available. These frictions will dissipate as furloughed workers return to the labour market over the coming months. Other factors, such are the lower availability of EU workers may prove more structural.

UK: Private Sector Average Earnings Growth, % p.a.



Source: ONS, Macrobond, CBRE Research

UK: ILO Unemployment Rate, %



Source: ONS, Oxford Economics, CBRE Research

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INFLATION AND INTEREST RATES

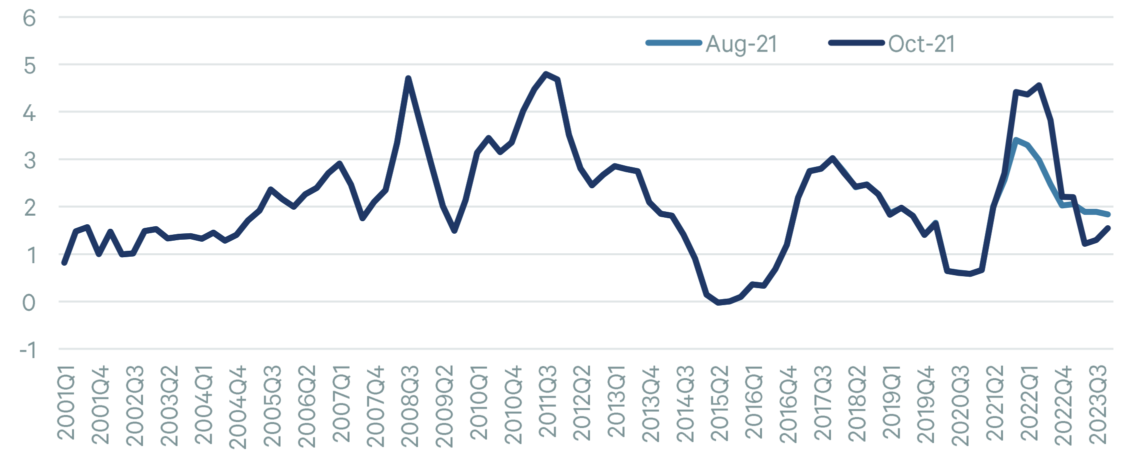
Inflation, which had been below the Bank of England's 2 per cent target for most of 2020 and into 2021 has risen sharply in recent months, with annual average CPI inflation at 3.1% in September 2021. Much of the latest rise in inflation still reflects base effects from last year, though we have seen strong relative price changes in some items such as used cars and accommodation.

Looking ahead, survey measures of price pressures, producer prices and rising energy prices mean that inflation will continue to rise by year-end and will remain elevated throughout the first half of 2022. That said, we maintain that these supply-side causes of inflation: supply chain disruptions, re-opening effects and rising energy prices are transitory.

The Bank of England has flagged concerns about how expectations of future inflation are responding to these supply shocks, communicating to the market that it stands ready to raise interest rates to mitigate any second-round effects that would put additional upward pressure on inflation. Because of this, the possibility of a December interest rate rise is live. The CBRE view is that the Bank will avoid a rate rise in December pending further information on the labour market – but we have brought forward the first interest rate rise to the middle of 2022.

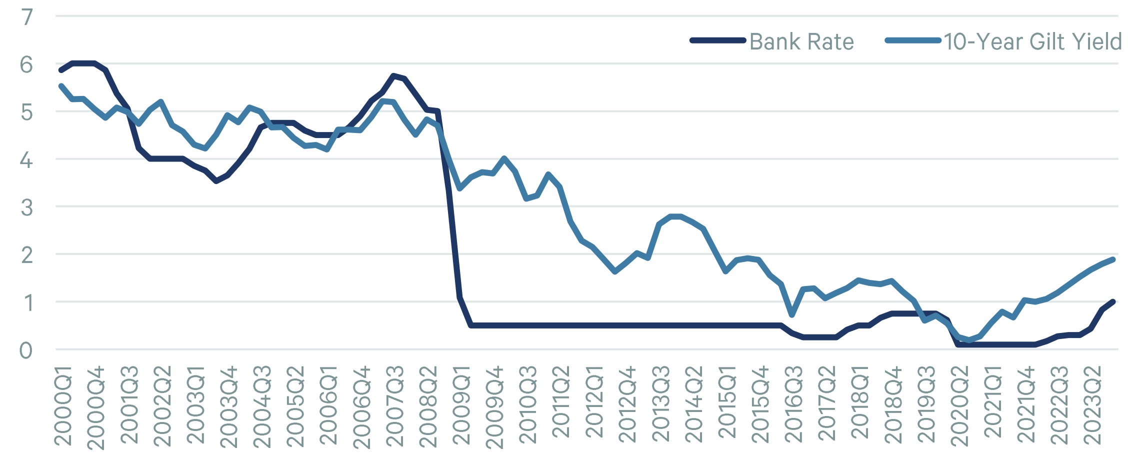
Long-term interest rates have drifted up from the very low levels seen at the height of the pandemic but remain low by historical standards. We expect that they will continue to rise, reaching 1.4 per cent by end-22. We expect that this will have very little impact on prime property pricing.

UK: Consumer Price Inflation (CPI), Annual Rate, %



Source: ONS, Macrobond, CBRE Research

UK: Bank Rate and 10-year Government Gilt Yield, %



Source: ONS, Oxford Economics, CBRE Research

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