ARBUTHNOT BANKING GROUP PLC

PERSPECTIVES

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Further signs of economic recovery, but the Bank strikes a cautious note

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Introduction: a cautious tone from the Bank

There are further signs of economic recovery (discussed below), but various Bank personnel have adopted a cautious tone in their recent economic comments.

Firstly, Bank officials, including Governor Andrew Bailey, gave evidence to the Treasury Select Committee on 2 September.[1] The Governor noted that the Bank's latest (August) forecasts were highly uncertain, saying that it was unclear the extent to which "natural caution" would prevent people from going back to their normal lives and "reengaging" with the economy.[2-4] Concerning "scarring", the permanent loss of output, the Governor said the economy would be about 1.5% smaller in the long-run than it otherwise would have been (as currently pencilled into the Bank's forecasts), but Deputy Governor David Ramsden noted that it could be worse. This suggests that the Bank could revise its growth forecasts down in November. Bailey also noted that inflation was likely to be stronger in coming months than expected in August because companies had not passed on the VAT cuts as expected, whilst slightly higher oil prices could also push up inflation.

Secondly, external MPC member Michael Saunders's speech on 4 September also struck a cautious note.[5] Growth, he said, was likely to disappoint relative to August's forecasts, again suggesting downward revisions to the August forecasts, and the ending of the furlough scheme in October was likely to lead to a spike in unemployment. Concerning policy, he said "…I consider it quite likely that additional monetary easing will be appropriate in order to achieve a sustained return of inflation to the 2% target". Unsurprisingly, there are heightened expectations that there will be a further tranche of asset purchases in November.

In addition, the Governor, in a speech at the Jackson Hole Economic Policy Symposium (28 August), said the Bank was "not out of firepower" to tackle the coronavirus downturn "by any means".[6] He also noted that the Bank's toolbox included tools other than purchasing government bonds, including negative rates.[7] Interestingly, he added that it was important that central banks

appreciated the need to make sure they had enough "headroom" to deal with future crises. But he cautioned the implied unwinding the balance sheet "does not seem like an imminent issue in current conditions".

The economy: the housing market recovers…

One encouraging development recently has been a further improvement in the housing market (see annex table 1 for the data tracker).

Firstly, the Bank reported that the mortgage market showed continuing signs of recovery in July, though remaining weak compared with pre-Covid times.[8] Net mortgage borrowing by households increased by £2.7bn in July, up from June's £2.4bn, but below the average of £4.2bn in the six months to February 2020. Moreover, the number of mortgage approvals for house purchase picked up further in July, reaching 66,300, up from June's 39,900. They were, however, still 10% below the February level of 73,700, though more than seven times higher than the trough of 9,300 in May. Approvals for re-mortgage (which capture re-mortgaging with a different lender) were little changed in July (MOM) at around 36,000, but they remained 30% lower than in February.

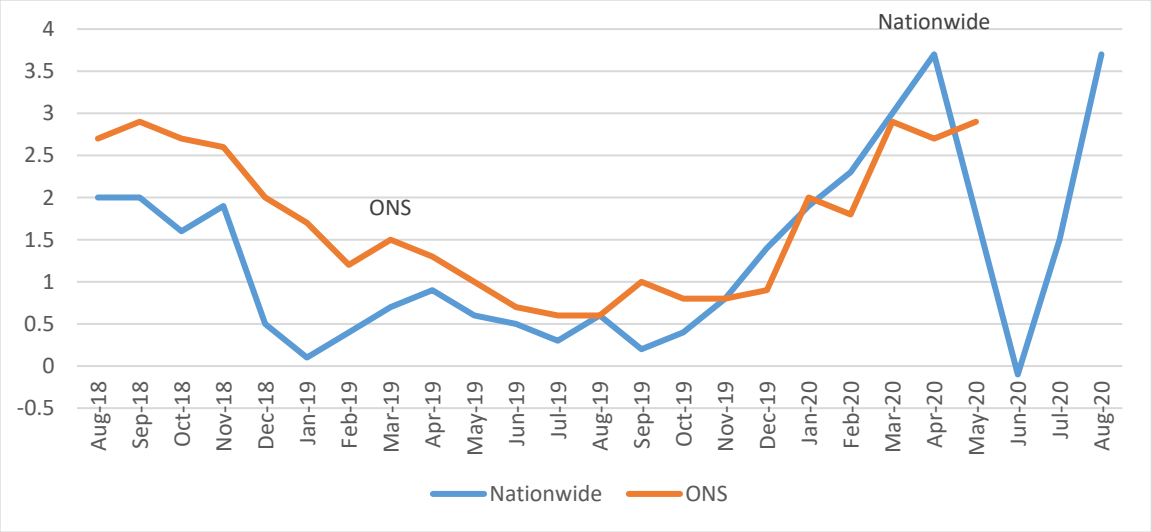
Secondly, the Nationwide Building Society reported a further pick-up in house prices in August.[9-10] They rose 2.0% (MOM) in August, the highest monthly rise since February 2004, after a 1.8% (MOM) increase in July. The increases in July and August reversed the falls recorded in May and June, to take prices to a new all-time high. Annual house price growth accelerated to 3.7% in August, from 1.5% in July. Nationwide attributed the recovery in the housing market to, firstly, "pent up demand coming through, where decisions taken to move before lockdown are progressing"; secondly, "behavioural shifts may also be boosting activity, as people reassess their housing needs and preferences as a result of life in lockdown"; and thirdly, a boost from the "stamp duty holiday, which will serve to bring some activity forward". (The threshold for the nil rate band of residential SDLT has been increased from £125,000 to £500,000, operative from 8 July 2020 until 31 March 2021.) Nationwide added a cautionary note, saying that housing market activity could be dampened in forthcoming quarters, if/when unemployment rises (as expected) and as government support schemes wind down.

For the record, we note that the ONS's recently released latest house price data, which relate to May.[11] According to these data, UK average house prices rose by 0.3% (MOM) on a non-seasonally adjusted basis in May and were 0.2% (MOM) higher on a seasonally adjusted basis. The annual growth rate was 2.9% (YOY), compared with 2.7% in April.[12] The ONS explained that their House Price Index (HPI) was based on completed housing transactions. Typically, they said, a house purchase can take six to eight weeks to reach completion, therefore, the price data feeding into the May 2020 UK HPI would partly, even mainly, reflect those agreements that occurred before the government measures to reduce the spread of the coronavirus (COVID-19) took hold. House moving restrictions were initially introduced on 23 March and began to be lifted in mid-May. Under these circumstances, the data for June are likely to look weaker (as the Nationwide's June data were).

Chart 1 brings together the recent house prices annual inflation data from the Nationwide and the ONS and they track each other reasonably well. They both show the weakening of prices in mid-

2019, followed by the strengthening in early 2020, after the General Election. The disparate movement for May 2020 can partly be explained by the differing methodology. As stated above, the ONS use completed housing transactions data, whilst the Nationwide's data are drawn from their house purchase mortgage lending at the post survey stage.

Chart 1 House prices, annual inflation rate (%), from August 2018



Sources: (i) *Nationwide,* House prices recover from recent dip to reach new all-time high in August", 2 September 2020; (ii) *ONS*, "UK house prices index: May 2020", 2 September 2020 (to May 2020 only).

…and consumer credit picks up

The Bank also reported that household's consumer credit borrowing increased £1.2bn in July, following four months of net repayments.[13] However, the annual growth rate remained negative at -3.6% (-3.7% in June). Net borrowing on credit cards was £0.6bn, and other forms of consumer credit also rose £0.6bn in July. The annual growth rates both remained negative, at -10.6% and -0.3% respectively.

Markit indicators remain positive…

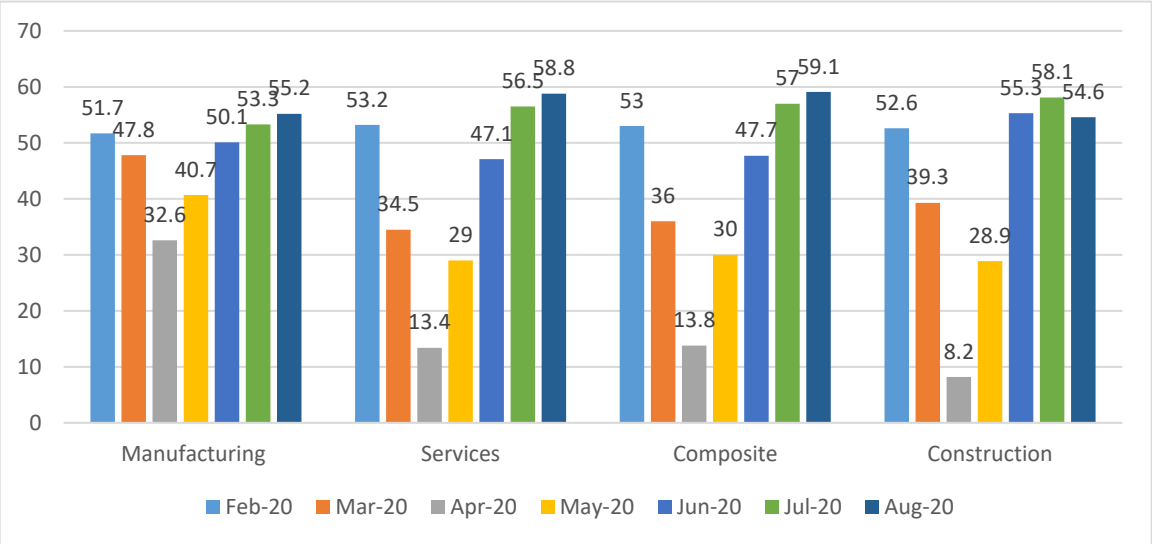
The much-followed Markit surveys for manufacturing and services suggested a further pick-up in growth in August, but construction, whilst still showing growth, slowed (chart 2).

- The Manufacturing PMI rose to 55.2 in August, after July's 53.3.[14] The main factors driving production and new orders higher were the re-opening of manufacturers and their clients following lockdowns, and a loosening of other restrictions in place to combat COVID-19. Manufacturing employment, however, fell for the 7th month running.
- The Services PMI Business Activity Index rose to 58.8 in August, after July's 56.5, and in expansion territory for the 2nd successive month.[15] Higher volumes of business activity were linked to a post-lockdown bounce in both business and consumer sending in August.

Employment remained a weak point, with the rate of job shedding across the service sector the steepest since May.

- The Composite index improved to 59.1 in August, compared with July's 57.0, marking the fastest pace of expansion since August 2014.[16] The Composite Output Index is a weighted average of the UK Manufacturing Output Index (not the PMI) and the UK Services Business Activity Index (PMI).
- The Construction Total Activity Index slipped to 54.6 in August, compared with 58.1 in July.[17] Survey respondents mostly suggested that a lack of new work to replace completed contracts had acted as a brake on expansion. Housebuilding was the strongest performing category, followed by commercial work and civil engineering.

Chart 2 UK Markit/CIPS PMIs, February-August 2020



Sources: (i) Markit releases for manufacturing, services and construction PMIs for August; (ii) previous releases for February-July.

…but car registrations disappoint

After some recovery in July, partly reflecting pent-up demand, the SMMT reported that new car registrations disappointed in August.[18] They were down 5.8% (YOY), within which private sales were down 1.7%, fleet sales were down 5.5% and business sales (a much smaller component) were down 57.9%. For the first eight months of 2020, registrations were 39.7% (YOY) lower.

Tax rises, HMRC's ready reckoner…

The robustness of the economic recovery is the first of the major uncertainties, and challenges, facing the economy. The second is if/when/how the Chancellor will start fiscal tightening in order to curb public sector borrowing and debt. He could do this with higher taxes, or tighter spending, or a combination of the two. As reported in last week's Perspective, there has already been speculation about which policies may be implemented/announced in the Autumn Budget.[19] More specifically, it has been reported that the Chancellor was considering putting up taxes, including

Corporation Tax, Capital Gains Tax, fuel duty and Inheritance Tax, as well as cutting pension tax relief.

Suffice to say, speculation continues with talk of an extra £30bn a year in taxes, amid various warnings that early tax rises would endanger the recovery.[20-21] Moreover, it was reported that Chancellor Rishi Sunak informed a meeting of Conservative MPs that they should expect some tax rises.[22] At this stage, however, no decisions have been made (apparently). We will return to the Autumn Budget (in October or, considered more likely, November) in future Perspectives, but at this point it is instructive to appreciate which tax changes yield significant increases in revenue, other things being equal, and which are less significant.

HMRC produces a 'ready reckoner' showing estimates of the effects of illustrative tax changes on tax receipts from FY2021 to FY2023, and table 1 (below) includes selected examples.[23] Various illustrative changes are presented for Income Tax, Tax Credits, Corporation Tax, Capital Gains Tax, Inheritance Tax and National Insurance Contributions. For the remaining taxes, the table shows a one per cent or one percentage point change, assuming other duties are unchanged.

These data need to be interpreted with caution as they were specifically updated in line with the OBR's economic and fiscal forecasts announced at Budget 2020 (tax revenues depend on a number of key economic variables, such as GDP, prices, earnings and consumer expenditure). As HMRC points out "…it is important to note that the Budget 2020 forecasts and the cost and yield estimates in this publication do not include any adjustments for the economic impact of COVID-19 or the policy measures announced since Budget 2020 in response to the pandemic. All estimates should therefore be interpreted with caution". Having said that, they give a fair representation of which are high-yielding tax changes, as opposed those that are not.

The following broad conclusions can be drawn from HMRC's work:

- The "big three" of revenue raisers are income tax (a 1p increase in the basic rate could yield £4.7bn in FY2021); National Insurance (a 1 percentage point increase in the employee main rate could yield £4.5bn in FY2021, whilst a similar increase in the employer rate could raise £6.6bn); and VAT (a 1 percentage point increase in the standard rate could yield £6.85bn in FY2021). But, significantly, the last Conservative Party Manifesto promised there would be no increases in income tax, VAT and NI rates.[24-25] Incidentally, the Manifesto also stated "…we will keep the triple lock [on state pensions], the winter fuel payment, the older person's bus pass and other pensioner benefits, ensuring that older people have the security and dignity they deserve".
- It has been mooted that the Corporation Tax rate could be raised from 19% (currently) to 24%.[26] This could yield £12.0bn in FY2021, other things being equal.
- CGT is currently charged on gains at 10% for basic-rate taxpayers and 20% for higher and additional rate taxpayers, or 18% and 28% respectively where the gains relate to residential property (above the tax-free allowance). In contrast, income tax is charged at a basic rate of 20%, rising to 40% and 45% for higher and additional taxpayers.[27] It has been widely mooted that CGT rates could be brought into line with income tax rates, which could yield significant revenue gains. Though the exact outcome would depend on the mix on residential property to non-residential property assets.
- There is speculation of an increase in fuel duties. A 1 per cent change in petrol/diesel duty could yield £265mn in FY2021.
- There has also been speculation that pension tax relief could be cut to 20% ("raising" £11bn).[28-29]

Table 1 Direct effects of illustrative tax changes (£mn), "ready reckoner": selected changes.

		FY2021	FY2022	FY2023
Income tax rates	Change basic rate by 1p	4,700	5,850	5,800
	Change higher rate by 1p	980	1,400	1,350
	Change additional rate by 1p:			
	1. Increase (yield)	105	210	180
	2. Decrease (cost)	120	240	210
Income tax allowances & reliefs	Change personal allowance by £100	565	730	720
	Change personal allowances by 1 per cent	800	1,000	975
Income tax limits	Change basic rate limit by 1 per cent	275	400	390
Corporation tax	Increase CT by 1 percentage point (pp)	2,400	3,100	3,400
Capital Gains Tax	Increase main lower CGT rate by 1 percentage point (pp)	Neg	15	15
	Increase main higher CGT rate by 1 percentage point (pp)	-10	75	45
Inheritance Tax	Increase standard rate for estates left on death by 1 percentage point (pp)	60	140	160
NI contribution rates	Change Class 1 employee main rate by 1 percentage point (pp)	4,500	4,600	4,700
	Change Class 1 employee additional rate by 1 percentage point (pp)	1,100	1,100	1,150
	Change Class 1 employer rate by 1 percentage point	6,600	6,800	7,000
Duties	Petrol, 1 per cent (pc) change (indicative level of current duty on litre (57.95p))	95	100	100
	Diesel, 1 per cent (pc) change (indicative level of current duty on litre (57.95p))	170	190	195
Vehicle excise duty	Increase rates by £1 for motorbikes & £5 for all other vehicles	200	200	200
Air passenger duty	Increase reduced rate by £1	145	140	145
VAT	Change reduced rate by 1 percentage point (pp)	330	340	350
	Change standard rate by 1 percentage point (pp)	6,850	7,050	7,300
Insurance premium tax	Change standard rate by 1 percentage point (pp)	470	480	490
Stamp duty land tax (SDLT)	Raise 2% marginal rate by 1 percentage point (pp), yield	565	615	650
	Raise 5% marginal rate by 1 percentage point (pp), yield	735	750	855

Source: *HMRC*, "Direct effects of illustrative tax changes", 1 May 2020.

…and the latest on the OBR's public finances projections

As we discussed at the time of the OBR's *Fiscal Sustainability Report* (FSR, 14 July 2020), the OBR's detailed projections for public sector net borrowing (PSNB) did not allow for the measures in the Chancellor's *Summer Economic Update* (SEU, 8 July) because the SEU was finalised, and the OBR notified, too late for them to be incorporated in their scenarios.[30-31] But they estimated, at the time, that the new measures would increase the grand total of coronavirus measures by over £50bn to give a total of £192.3bn in FY2020, adding a further £50bn to borrowing (see annex table 2). Of the £192.3bn, £178.2bn reflected spending decisions, whilst £14.2bn reflected tax reductions (there is some non-addition due to rounding errors).[32]

The OBR has recently released data fully incorporating the SEU measures, including its detailed monthly profiles (see annex table 3).[33] Charts 3a and 3b, show how the OBR's projections for borrowing (PSNB) and debt (PSND) for FY2020 have increased since the March Budget. And the latest estimates confirm that the projected PSNB was increased by over £50bn from £322.0bn to £372.2bn by the SEU measures, whilst the PSND was also increased by £50bn.

Chart 3a OBR's Coronavirus reference scenario: PSNB (both £bn, % of GDP), FY2020

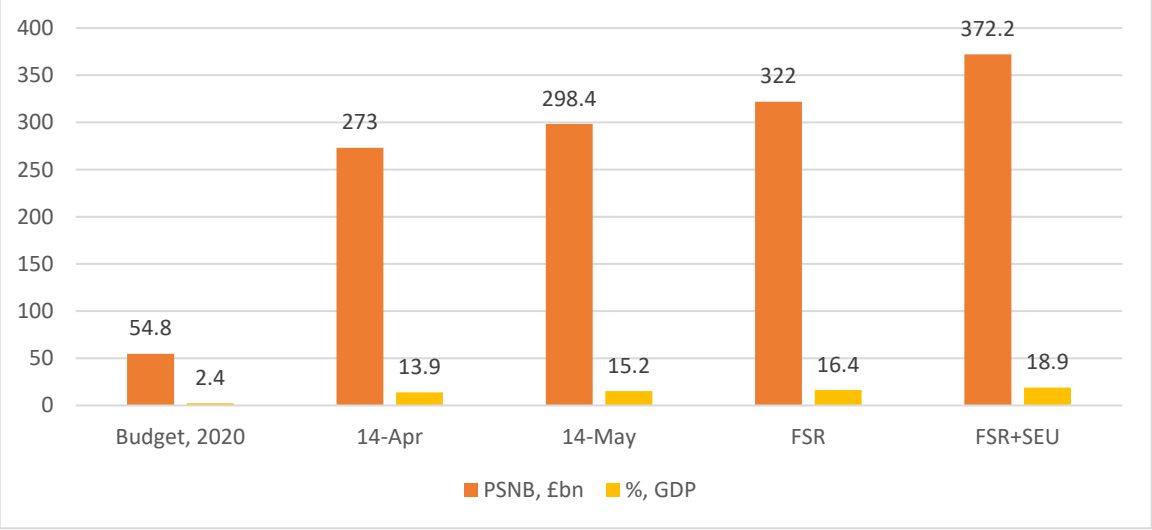
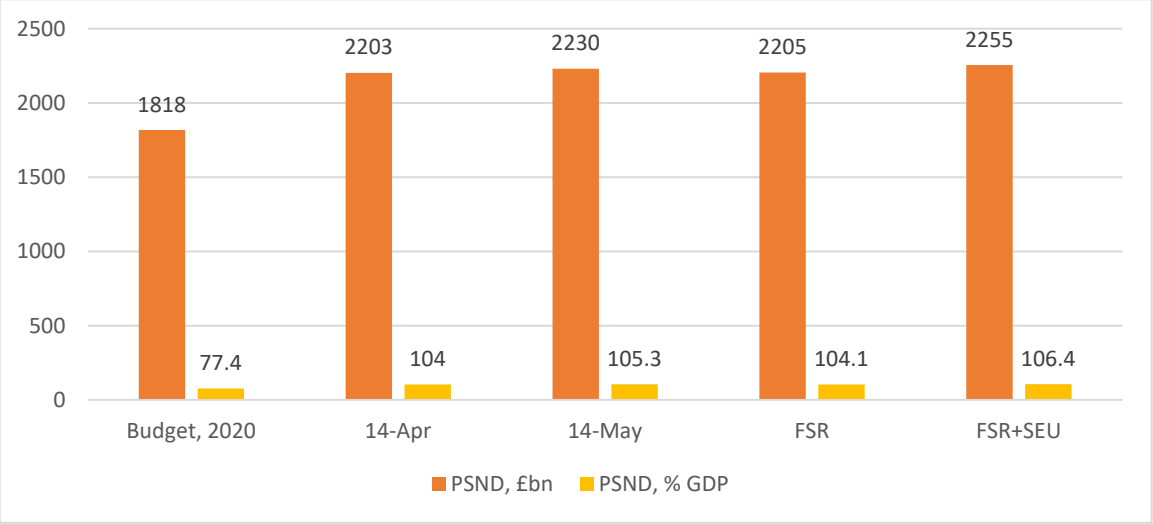


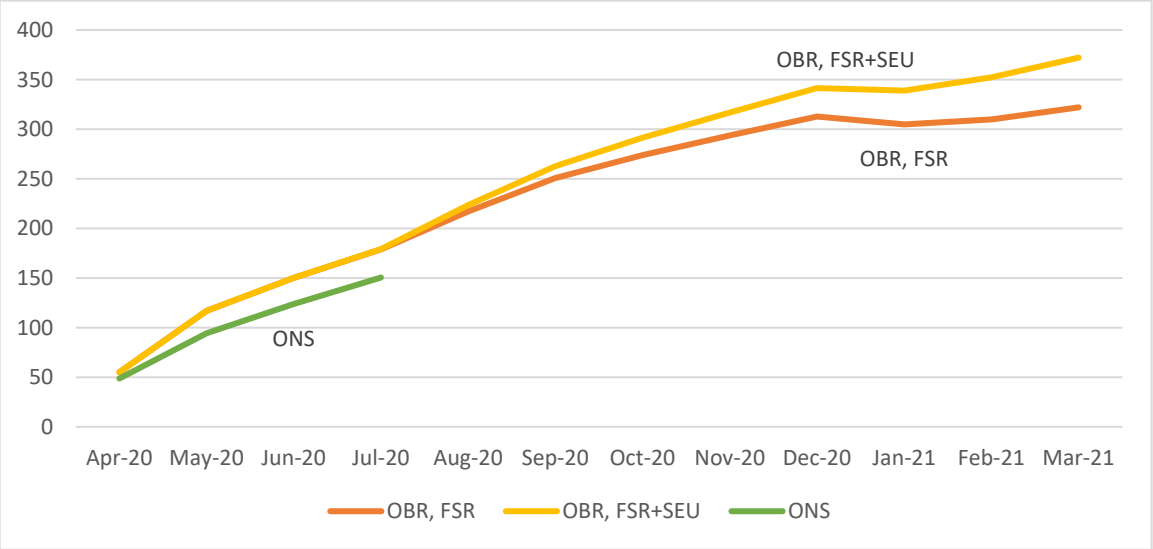
Chart 3b OBR's Coronavirus reference scenario: PSND (both £bn, % of GDP), FY2020



Source: *OBR*, "FSR and SEU monthly profiles", 21 August 2020. OBR's central scenario (FSR). Fiscal Sustainability Report (FSR), Summer Economic Update (SEU).

The ONS uses the OBR's monthly profiles to track the developments in public borrowing through the financial year. Data so far available for FY2020 relate to April-July 2020 and the cumulative borrowing data are shown in chart 4.[34-35] On the basis of these figures, borrowing to date is running about 15% below the OBR's projections. If this persists, then the cumulative borrowing for FY2020 could turn out to be around £320bn, even after allowing for the £50bn of SEU measures. (Note that the SEU measures have not, of course, really had an impact so far.) Suffice to say, the ONS will continue to track the borrowing against the OBR monthly profiles in forthcoming months.

Chart 4 Cumulative borrowing (£bn), FY2020: OBR projections and ONS outturns



Sources: (i) *ONS*, "Public sector finances: July 2020, 21 August 2020, for data to July 2020 for outturns and FSR projections (central scenario); (ii) *OBR*, "FSR and SEU monthly profiles", 21 August 2020, for OBR's central scenario. FSR=Fiscal Sustainability Report (July 2020); SEU=Summer Economic Update (July 2020).

Coronavirus policy measures update…

There have been a few policy changes in the past week:

- Coronavirus Job Retention Scheme (CJRS): employers began to contribute 10% of pay under the scheme, with the Government paying 70%, on 1 September. This will be tapered further in October, when employers will contribute 20% of pay, with the Government paying 60%. The CJRS is due to be phased out completely at the end of October.
- The Eat Out to Help Out Scheme, in which diners could obtain a state-backed 50% discount on meals and soft drinks up to £10 each on Mondays, Tuesdays and Wednesdays during August, ended on 31 August (began 3 August).[36] The Treasury said restaurants had made 130,000 claims so far worth £522mn, figures which are likely to rise as outlets have until the end of September to claim. [37]
- Details of the new Kickstart Scheme (GB) were released on 2 September. The Government said that it comprised a £2bn fund "to create hundreds of thousands of high quality 6-month work placements aimed at those aged 16 to 24 who are on Universal Credit and are deemed to be at risk of long term unemployment. Funding available for each job will cover 100% of the relevant National Minimum Wage for 25 hours a week, plus the associated employer National Insurance contributions and employer minimum automatic enrolment contributions."[38] A Kickstart Scheme application must be for a minimum of 30 job placements. If a single employer cannot provide this many job placements, they can either, firstly, join a group of other employers, nominating a representative for the group to submit the application, or, secondly, register their interest with existing representatives, such as local authorities, chambers of commerce or trade bodies. There are concerns that the scheme will discriminate against small firms.[39]

…and Brexit update

The eighth round of UK-EU future relationship negotiations will take place on 8-10 September.[40] There are few expectations of any major progress, with fisheries and "level playing field" requirements seen as the biggest obstacles to any agreement. EU negotiator, Michel Barnier, was reported as saying the UK would "have to move" if it wanted a post-Brexit trade deal by the end of 2020.[41-42]

References

1. *CityAM*, "Bank of England warns of "scarring" to the UK economy", 2 September 2020.
2. *Bank of England*, "Monetary Policy Report, August 2020", 6 August 2020
3. Ruth Lea, "The coronavirus crisis: retail sales continue to recover whilst public sector net debt exceeds 100% of GDP", *Arbuthnot Banking Group*, 24 August 2020.
4. Ruth Lea, "The coronavirus crisis: the Bank's projections improve, but cannot disguise the economic damage to date", *Arbuthnot Banking Group*, 10 August 2020.
5. Michael Saunders, "The Economy and Covid-19: Looking Back and Looking Forward", *Bank of England*, 4 September 2020, on the Bank's website.
6. *Bank of England*, "The central bank balance sheet as a policy tool: past, present and future", speech by Andrew Bailey, given at the Jackson Hole Economic Policy Symposium, 28 August 2020.

7. Ruth Lea, "The coronavirus crisis: the Bank's projections improve, but cannot disguise the economic damage to date", *Arbuthnot Banking Group*, 10 August 2020, discussed the Bank's monetary policy including negative interest rates.
8. *Bank of England*, "Money and Credit: July 2020", 1 September 2020.
9. *Nationwide,* House prices recover from recent dip to reach new all-time high in August", 2 September 2020.
10. *BBC*, "House prices at all-time high, says Nationwide", 2 September 2020.
11. *ONS*, "UK house prices index: May 2020", 2 September 2020. June data will be released on 16 September, July data on 7 October and August data on 21 October.
12. The inflation rates for the UK's four countries in May were: England (2.9% YOY), Wales (4.8% YOY), Scotland (2.1% YOY) and Northern Ireland (3.8% (2020Q1, YOY)). In England, there was, as always, a significant range across the regions (figure 4). The complete list of annual price changes is: Yorkshire & Humberside (4.9%), North East (4.4%), West Midlands (3.4%), South West (3.4%), London (3.3%), East Midlands (2.9%), North West (2.6%), South East (2.0%), East (0.7%).
13. *Bank of England*, "Money and Credit: July 2020", 1 September 2020.
14. *Markit/CIPS manufacturing PMI*, "Manufacturing production rises at fastest pace since May 2014 as re-opening of economy continues", 1 September 2020.
15. *Markit/CIPS services PMI*, "Sharpest increase in service sector activity since April 2015", 3 September 2020.
16. *Markit/CIPS services PMI*, "Sharpest increase in service sector activity since April 2015", 3 September 2020.
17. *Markit/CIPS Construction PMI*, "Construction growth slows in August", 4 September 2020.
18. *SMMT*, "New car registrations down 5.8% despite new model boost to electric vehicle demand", 4 September 2020.
19. Ruth Lea, "The coronavirus crisis in the UK: an unprecedented recession", *Arbuthnot Banking Group*, 1 September 2020.
20. Jeremy Warner, "Nightmare of tax & spend choices threatens stability of Project Boris", *Daily Telegraph*, 2 September 2020.
21. *Daily Mail*, "Delay tax rises for 2 years, Sunak told", 1 September 2020.
22. *Daily Telegraph*, "We must be honest to public about taxes, Sunak tells MPs", 3 September 2020
23. *HMRC*, "Direct effects of illustrative tax changes", 1 May 2020. Estimates are shown on a National Accounts basis, which aims to recognise tax as the tax liability arises, irrespective of when the tax is received by HMRC. However, for some taxes the National Accounts basis is actually when HMRC receives the payment, reflecting the difficulty in assessing the period to which the liability relates. These taxes include self-assessment Income Tax, Inheritance Tax and Capital Gains Tax. They were based an April 2021 implementation.
24. *Conservative & Unionist Party*, "Get Brexit Done: Unleash Britain's Potential, Manifesto 2019", 24 November 2019.
25. Ruth Lea, "The 2019 General Election: clear blue water between the two main parties", *Arbuthnot Banking Group*, 2 December 2019, discussed the Conservative Manifesto.
26. *Small Business*, "Rishi Sunak weighs increasing corporation tax to 24%", 1 September 2020.
27. *FT*, "UK review of capital gains tax heralds future rises, experts say", 14 July 2020.
28. *Daily Telegraph*, "Sunak urged to extend Eat Out scheme in ailing cities as offer ends", 31 August 2020.
29. *Daily Telegraph*, "Missing the target: pressure mounts for digital tax rethink with small firms caught in crossfire", 4 September 2020, reported that 2% digital services tax was introduced in April 2020. Amazon, Google and Apple have said they will pass the tax on to those using their

sites to sell goods or run adverts.
30. *OBR*, "Fiscal sustainability report, July 2020", 14 July 2020.
31. Ruth Lea, "Next steps in Government's recovery strategy, disappointing GDP data and OBR expects £370bn borrowing this year", *Arbuthnot Banking Group*, 20 July 2020, discussed the FSR.
32. *OBR*, "Coronavirus policy monitoring database", 14 July 2020.
33. *OBR*, "FSR and SEU monthly profiles", 21 August 2020.
34. *ONS*, "Public sector finances: July 2020", 21 August 2020.
35. Ruth Lea, "The coronavirus crisis: retail sales continue to recover whilst public sector net debt exceeds 100% of GDP", *Arbuthnot Banking Group*, 24 August 2020, discussed the July PSNB and PSND data.
36. *Daily Telegraph*, "Sunak urged to extend Eat Out scheme in ailing cities as offer ends", 31 August 2020.
37. *BBC*, "Eat Out to Help Out: Diners claim 100 million meals in August", 4 September 2020
38. *HM Government*, "Kickstart Scheme", 2 September 2020.
39. *Daily Telegraph*, "Dismay at 30 jobs rule for help scheme", 3 September 2020.
40. *UK Government*, "Eighth round UK-EU future relationship negotiations: 8-10 September 2020", 4 September 2020, for the agenda.
41. *BBC*, "Michel Barnier: UK risks no-deal on post-Brexit trade unless it compromises", 2 September 2020.
42. *Daily Telegraph*, "EU 'to side-line Barnier' in last push for deal", 4 September 2020, reported that there was some speculation that Commission president Ursula von der Leyen may "set the scene to side-line Barnier and Frost to find a high-level political solution" in her "State of the Union" speech on 16 September.

Annex

Table 1 UK economic data tracker

Date	Release	Source	Quarter, year	Outcome
30 Jun	Current Account, Balance of Payments (2020Q1):	ONS	2020Q1	Balance: -£21.1bn (3.8% of GDP), -£9.2bn (1.7% of GDP, 2019Q4)
30 Jun	• Trade (goods & services) balance:	ONS	2020Q1	Balance: -£1.2bn (2020Q1), +£8.4bn (2019Q4)
30 Jun	○ Visible trade balance	ONS	2020Q1	Balance: -£29.3bn (2020Q1), -£15.4bn (2019Q4)
30 Jun	○ Services balance	ONS	2020Q1	Balance: +£28.1bn (2020Q1), +£23.8bn (2019Q4)
30 Jun	• Primary income balance	ONS	2020Q1	Balance: -£13.6bn (2020Q1), -£11.2bn (2019Q4)
30 Jun	• Secondary income balance	ONS	2020Q1	Balance: -£6.3bn (2020Q1), -£6.4bn (2019Q4)
11 Aug	Employment (3 months to June)	ONS	2020Q2	-220k (QOQ), +113k (YOY)
11 Aug	Employment rate (3 months to June)	ONS	2020Q2	76.4%, -0.2pp (QOQ), +0.3pp (YOY)
11	Unemployment (3 months	ONS	2020Q2	-10k (QOQ), +9k (YOY)

Aug	to June)			
11 Aug	Unemployment rate (3 months to June)	ONS	2020Q2	3.9%, 0pp (QOQ), 0pp (YOY)
11 Aug	Activity rate (3 months to June)	ONS	2020Q2	79.6%, -0.2pp (QOQ), +0.4pp (YOY)
11 Aug	Inactivity rate (3 months to June)	ONS	2020Q2	20.4%, +0.2pp (QOQ), -0.4pp (YOY)
11 Aug	Total weekly hours worked (3 months to June)	ONS	2020Q2	849.3mn, -191.3 (QOQ), -203.3mn (YOY)
11 Aug	Average weekly hours worked (3 months to June)	ONS	2020Q2	25.8 hours, -5.6 hours (QOQ), -6.3 hours (YOY)
11 Aug	Nominal earnings growth (3 months to June):			
11 Aug	• Total pay, including bonuses	ONS	2020Q2	-1.2% (YOY)
11 Aug	• Regular pay, excluding bonuses	ONS	2020Q2	-0.2% (YOY)
11 Aug	Real earnings growth (3 months to June):			
11 Aug	• Total pay, including bonuses	ONS	2020Q2	-2.0% (YOY)
11 Aug	• Regular pay, excluding bonuses	ONS	2020Q2	-1.0% (YOY)
11 Aug	Vacancies (3 months to Jul)	ONS	2020Q3	Total vacancies: 370k, -274k (QOQ), -453k (YOY)
11 Aug	Claimant count (Jul)	ONS	2020Q3	Total: 2.69mn (Jul), 2.59mn (Jun), 1.24mn (Mar)
11 Aug	Employment, PAYE RTI, HMRC (Jul)	ONS	2020Q3	Total: 28. 27k (July), -115k (MOM); -730k (compared with March)
12 Aug	Labour productivity (output per hour) (2020Q2)	ONS	2020Q2	-2.5% (QOQ), -3.0% (YOY)
12 Aug	Labour productivity (output per worker) (2020Q2)	ONS	2020Q2	-19.9% (QOQ), -22.0% (YOY)
12 Aug	GDP, monthly (Jun)	ONS	2020Q2	GDP: +8.7% (MOM), -16.8% (YOY)
12 Aug	GDP, industrial breakdown (Jun):	ONS	2020Q2	
12 Aug	• Services	ONS	2020Q2	+7.7% (MOM)
12 Aug	• Production	ONS	2020Q2	+9.3% (MOM). Manufacturing: +11.0% (MOM)
12 Aug	• Construction	ONS	2020Q2	+23.5% (MOM)
12 Aug	• GDP (2020Q2)	ONS	2020Q2	GDP: -20.4% (QOQ), -21.7% (YOY)
12 Aug	GDP, industrial breakdown (2020Q2):	ONS	2020Q2	
12	• Services	ONS	2020Q2	-19.9% (QOQ)

Aug				
12 Aug	• Production	ONS	2020Q2	-16.9% (QOQ). Manufacturing: -20.2% (QOQ)
12 Aug	• Construction	ONS	2020Q2	-35.0% (QOQ)
12 Aug	GDP, expenditure breakdown (2020Q1):	ONS	2020Q2	
12 Aug	• Household consumption	ONS	2020Q2	-23.1% (QOQ).
12 Aug	• Government consumption	ONS	2020Q2	-14.0% (QOQ).
12 Aug	• GFCF	ONS	2020Q2	-25.5% (QOQ). Business investment: -31.4% (QOQ).
12 Aug	• External trade	ONS	2020Q2	Exports: -11.3% (QOQ), imports -23.4% (QOQ), positive external trade contribution.
12 Aug	Total trade in goods & services (2020Q2):	ONS	2020Q2	
12 Aug	• Goods & services	ONS	2020Q2	£18.8bn surplus (2020Q2), £1.2bn deficit (2020Q1)
12 Aug	• Goods	ONS	2020Q2	Deficit: £10.5bn (2020Q2), £29.3bn (2020Q1)
12 Aug	• Services	ONS	2020Q2	Surplus: £29.3bn (2020Q2), £28.1bn (2020Q1)
12 Aug	Trade excluding precious metals (2020Q2):			
12 Aug	• Underlying trade in goods & services	ONS	2020Q2	£8.6bn surplus (2020Q2), balance (2020Q1)
12 Aug	• Underlying trade in goods	ONS	2020Q2	Deficit: £20.7bn (2020Q2), £28.0bn (2020Q1)
12 Aug	Memo item: trade in precious metals (2020Q2)	ONS	2020Q2	£10.2bn surplus (2020Q2), £1.3bn deficit (2020Q1)
19 Aug	CPIH (Jul)	ONS	2020Q3	YOY inflation: 1.1% (Jul), 0.8% (Jun)
19 Aug	CPI (Jul)	ONS	2020Q3	YOY inflation: 1.0% (Jul), 0.6% (Jun)
19 Aug	PPI (output) (Jul)	ONS	2020Q3	YOY inflation: -0.9% (Jul), -0.9% (Jun)
19 Aug	PPI (input) (Jul)	ONS	2020Q3	YOY inflation: -5.7% (Jul), -6.7% (Jun)
19 Aug	Sterling effective exchange rate index (ERI) (Jul)	ONS	2020Q3	July: n/c (MOM), +1.3% (YOY)
19 Aug	Crude oil prices (Jul)	ONS	2020Q3	+11.9% (MOM), -31.9% (YOY)
21 Aug	Public Sector Net Borrowing (PSNB) (Jul)	ONS	2020Q3	£26.7bn (Jul 2020), compared with -£1.6bn (Jul 2019)
21 Aug	Public Sector Net Borrowing (PSNB) (4 months to Jul)	ONS	2020Q3	£150.5bn (4 months to Jul 2020), compared with £22.1bn (4 months to

				Jul 2019)
21 Aug	Public sector finances, public sector net debt (PSND) (end-Jul)	ONS	2020Q3	£2,004.0bn (end-Jul 2020, 100.5% of GDP), compared with £1,776.4bn (end-Jul 2019, 80.1% of GDP)
21 Aug	Public sector debt interest/revenue ratio (DIR), 12-months to Jul	ONS	2020Q3	2.8% (12-months to Jul 2020)
21 Aug	Retail sales (Jul)	ONS	2020Q3	Volume: +3.6% (MOM), +1.4% (YOY)
21 Aug	Retail sales (3 months to Jul)	ONS	2020Q3	Volume: 6.1% (QOQ), -4.1% (YOY)
21 Aug	Retail sales, online sales proportion (Jul)	ONS	2020Q3	Online sales/total: 28.9% (Jul), 31.9% (Jun)
21 Aug	Flash composite output index (Aug)	Markit-CIPS	2020Q3	Index: 60.3 (Aug), 57.0 (Jul). COI covers services business activity index & manufacturing output index
1 Sep	Unsecured credit (July)	BoE	2020Q3	Growth rate (YOY): -3.6% (Jul), -3.7% (Jun)
1 Sep	Net mortgage borrowing (July)	BoE	2020Q3	Growth rate (YOY): 2.9% (Jul), 3.1% (Jun)
1 Sep	Mortgage approvals for house purchase (July)	BoE	2020Q3	66,300 (Jul), 39,900 (Jun)
1 Sep	Net bank lending to non-financial businesses, including public sector (July), of which:	BoE	2020Q3	
1 Sep	• SMEs	BoE	2020Q3	Growth rate (YOY): 20.7% (Jul), 17.5% (Jun)
1 Sep	• Large businesses	BoE	2020Q3	Growth rate (YOY): 3.7% (Jul), 4.8% (Jun)
1 Sep	Broad money (M4ex, excluding IOFCs)) (July)	BoE	2020Q3	Growth rate (YOY): 12.4% (Jul), 12.0% (Jun)
1 Sep	Manufacturing PMI (Aug)	Markit-CIPS	2020Q3	Index: 55.2 (Aug), 53.3 (Jul)
2 Sep	House prices (May, official)	ONS	2020Q2	YOY growth: 2.9% (May), 2.7% (Apr)
2 Sep	House prices (May, official)	ONS	2020Q2	+0.3% (MOM, non-seasonally adjusted), +0.2% (MOM, seasonally adjusted)
3 Sep	Services PMI (Aug)	Markit-CIPS	2020Q3	Index: 58.8 (Aug), 56.5 (Jul)
3 Sep	Composite PMI (Aug), weighted average of services PMI & manufacturing output index	Markit-CIPS	2020Q3	Index: 59.1 (Aug), 57.0 (Jul)
4 Sep	Construction PMI (Aug)	Markit-CIPS	2020Q3	Index: 54.6 (Aug), 58.1 (Jul)

Table 2 Coronavirus crisis: direct effects of Government decisions

	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Fiscal Sustainability Report (FSR):						
Public services spending	-1.7	-18.8	-0.6	-0.6	-0.6	0
Employment support measures	-2.3	-62.2	-2.8	-	-	-
Business support measures: loans & guarantees	-	-20.0	01.	0.1	0.1	0
Business support measures: tax & spending measures	0.2	-30.2	0.2	-0.1	-	-
Costings for welfare spending measures	-	-9.3	-1.0	-0.9	-0.9	-0.9
Other tax measures	0.2	-1.7	0.5	0	-0.1	-0.1
Direct effect of Government decisions	**-3.6**	**-142.2**	**2.0**	**-1.5**	**-1.4**	**-0.9**
Summer Economic Update (SEU):						
Plan for Jobs	-	-19.8	-1.4	+1.3	0	0
Other measures	-0.5	-30.4	-0.6	-	-	-
Direct effect of Government decisions	**-0.5**	**-50.2**	**-2.0**	**+1.3**	**0**	**0**
Grand total of measures	**-4.1**	**-192.3**	**0**	**-0.2**	**-1.4**	**-0.9**

Source: *OBR*, "Fiscal sustainability report, July 2020", 14 July 2020, database. There are rounding errors. Sign convention: + = net receipts; - = net spending

Table 3 Coronavirus reference scenario: receipts & spending (£bn) profiles for FY2020, annual totals only

	Budget	14 April update	14 May update	FSR (14 July)	updated for SEU measures
CG current receipts	799.4	675.6	672.2	673.9	670.0
CG spending	845.2	941.2	963.9	980.9	1,027.1
CG borrowing	45.8	265.5	291.6	306.9	357.1
LA borrowing	10.9	10.9	10.9	16.9	16.9
PC borrowing	-1.9	-4.2	-4.2	-1.9	-1.9

Public sector net borrowing (PSNB)	54.8	273.0	298.4	322.0	372.2
Public sector net debt (PSND)	1,818	2,203	2,230	2,205	2,255
PSNB, % GDP	2.4%	13.9%	15.2%	16.4%	18.9%
PSND, % GDP	77.4%	104.0%	105.3%	104.1%	106.4%

Source: OBR, "FSR and SEU monthly profiles", 21 August 2020. OBR's central scenario (FSR). Sign convention for borrowing: + = net borrowing; - = net saving.