

MONTHLY ECONOMIC REVIEW

March 2021



Forecasting from the figures in **February 2021**

BFM MD Nick Garratt examines emerging trends in Q1 of 2021, in relation to furniture manufacturing in Britain and the wider economy.

As the UK's COVID-19 vaccination roll-out continues, a swift recovery could follow the short-term challenges of the pandemic.

CONSUMER SPENDING

Spending in January was at its weakest since May according to both the British Retail Consortium and Barclaycard, as online spending failed to compensate fully for the closure of stores.

According to Barclaycard, online retail surged 73.2%, accounting for 54% of all retail spend in January, although furniture sales dropped by 15%.

Helen Dickinson, the BRC's chief executive, said: "January saw retail sales growth decline to its lowest level since May of last year. The current lockdown has hit non-essential retailers harder than in November, with the new variant hampering consumer confidence and leading customers to hold back on spending – especially on clothing and footwear."

However, the latest survey from market research firm GfK reported a five point rise in the consumer confidence index to -23 following a 14-point improvement in views about the economy over the next 12 months buoyed by the UK's vaccinations programme.

Joe Staton, GfK's client strategy director, warned that it was more realistic to look at the challenges ahead than think about a return to normality. He said: "We need to be cautious because the positive tailwinds of the vaccination roll-out are being met by the very strong headwinds of unemployment, the threat of inflation and the difficulty that many face in affording day-to-day living costs."



ECONOMY

The Bank of England Monetary Policy Report voted to retain the interest rate at 0.01% and quantitative easing introduced at the beginning of the pandemic at its meeting on February 3 and has asked banks to be prepared for negative interest rates if required, although this is not expected to be necessary.

UK GDP growth slowed in Q4 of 2020, but activity is projected to have risen a little, to around 8% below its 2019 level. In total GDP is expected to fall by around 4% in Q1 of 2021, much less than the plummet of around 20% in Q2 last year.

And GDP growth is forecast to pick up strongly in Q2-Q4 as restrictions ease, allowing consumer spending to rise, with GDP expected to reach pre-pandemic levels by Q1 2022.

Households have increased their savings markedly between March and November 2020, with consumers accumulating more than £125 billion in excess of what might otherwise have been the case.

While a bounce back in spending on consumer durables and furniture in particular looks likely over Q2 and Q3, consumers are likely to return to more normal spending patterns as social spending opportunities open up.

Flying the flag for British manufacturing

www.bfm.org.uk

 @BritishFurnitureManufacturers

 @BFM_LTD

 British Furniture Manufacturers

Stronger together

INFLATION

British inflation edged up in January and annual consumer price inflation rose to a three-month high of 0.7% last month.

Many economists expect it to overshoot the Bank of England's 2% target later this year as temporary tax cuts and a cap on household fuel bills expire. This matches furniture-makers experience of rising material costs.

ECONOMIC SNAPSHOT

0.7%

Inflation Rate
(CPI)

5.1%

ILO
unemployment rate

-7.8%

GDP growth rate
(Q4 2020)

0.1%

Bank of England
base rate

EMPLOYMENT AND PAY

Unemployment rose to 5.1% in the last three months of 2020, its highest in almost five years.

Separate data from the Office for National Statistics showed the number of employees on company payrolls in January rose by 83,000 – the second monthly increase and the biggest since January 2015.

The government's Job Retention Scheme is supporting around one in five employees, but the number of employees on business payrolls has fallen by 726,000 since February 2020 – equivalent to around 2% of the workforce.

The majority of job losses are among workers under the age of 25 and the Bank of England has forecast the unemployment rate could rise to almost 8% in mid-2021 after the furlough scheme ends.

In 2020 pay increases were severely impacted by lockdowns and high levels of uncertainty, which translated into lower pay increases and in many cases, pay freezes.

In the first two weeks of February, BFM surveyed members on their wage intention for 2021 and what, if any, impediments there may be to making an award.

Key findings were that COVID-19, material prices and lack of orders will make pay freezes more likely, with any pay awards set to be well below the rate of inflation this year.

NICK GARRATT'S ANALYSIS



"The speed and success of the vaccination programme means that there are brighter times ahead.

"After eleven months of operating under COVID-19 restrictions and national lockdowns, this week's roadmap announced by Boris Johnson, the Prime Minister offers hope that normality can return.

"The roadmap delivers a pragmatic, safe route out of lockdown but there is a challenging short-term future ahead, particularly with furniture stores closed right through the normally busy Easter trading period.

"Next week's Budget is the second half of this announcement - extending business support in parallel to restrictions will give firms a bridge to the other side.

"BFM is campaigning through both BFC and CBI to the Chancellor, the Rt Hon Rishi Sunak MP, to avoid the financial cliff edge, with several crucial support packages currently due to end on 31 March. This includes extending the Job Retention Scheme and Business Rates holiday and lengthening the VAT deferrals window."