Economic Research Digest Quarter 3 2021

The **Economic Research Digest** monitors recently published research across a number of economic areas relevant to the work of the Department for the Economy such as competitiveness, innovation, enterprise, trade, FDI, tourism and infrastructure. The Skills Research Digest deals separately with recently published skills and labour market research.

In each case, we provide a short summary of the key points and web links to the full article or report*. A full list of sources can be found at the end of the publication.

Highlights this quarter include:

- The unique nature of the pandemic has led to an increase in total household wealth, with higher savings and lower debts on aggregate, based on a report titled "Wealth Gap Year: The Impact of the Coronavirus Crisis on UK Household Wealth" published by the Resolution Foundation.
- According to the UK Research and Development Roadmap published by the Department for Business, Energy and Industrial Strategy, despite strong national performance, Britain is investing less in science and R&D than similar nations.
- Forecasts from the National Institute of Economic and Social Research predict levels of unemployment to peak in Q4 as a result of the concluding Job Retention Scheme.

** Links are correct at the time of publication, however it is likely that some will break over time. The list of sources has more general links, which should help the reader to track down the original report.*

Contents

The Economic Research Digest is issued by:
Analytical Services, Department for the Economy ✉ analyticalservices@economy-ni.gov.uk

Economic Outcomes

COMPETITIVENESS

***Levelling Up through Circular Economy Jobs*, published by the Green Alliance, outlines how the creation of a circular economy can generate green jobs across the UK.**

- The UK government has an opportunity to create new jobs and drive economic growth through expanding the circular economy. This sees products and resources kept in use for as long as possible through reuse, recovery, remanufacturing and recycling.
- The report states that the UK's current approach is unsustainable. Too many products and materials are cast aside without a structure in place to reclaim them or prolong their use. Too much value is lost through destruction and disposal. A reused iPhone, for example, retains around 48% of its original value, whereas as recycling it retains just 0.24%.
- Expanding to a circular economy by 2035 would create hundreds of thousands of new jobs across the country. Using current employment data and a methodology developed for a report in 2015, this report estimates that the government could help to create over 450,000 jobs in the circular economy by 2035. An ambitious approach to reuse, repair and remanufacturing would also lead to jobs being created more evenly across the regions of the UK.
- To realise this jobs potential by 2035, the government should consider the following measures to transform the circular economy:
    - Set targets and build an overarching plan - Set an ambitious target to halve UK resource use by 2050, with a clear plan to reach it in the industrial strategy; Co-ordinate circular economy supply chains, closing the information gap by providing a central materials data hub for businesses.
    - Make the circular economy a safe bet for business - Stimulate innovation through a £400 million circular economy starter fund; Unlock new technology through the UK Infrastructure Bank, making circular economy investment an explicit part of its portfolio; Increase consumer demand by zero rating VAT on repairs and refurbishment.
    - Support new skills development - Support workers transitioning into the circular economy with retraining programmes and work coaches; Provide strategic funding to universities and colleges to market and run new courses central to the circular economy.

PRODUCTIVITY AND GROWTH

***UK Economic Outlook July 2021*, published by CBRE, provides forecasts for the UK economy as of July 2021.**

- GDP was stronger than expected over the second and third lockdowns, demonstrating the resilience and adaptive nature of businesses during the months of restrictions. First quarter GDP fell by 1.6%, but the UK economy has been in recovery since January, with monthly GDP on a continuous upward path since then.
- Following May's GDP growth, the UK economy is around 3% below its pre pandemic level. Consumer-facing services continued to grow in May, and with the easing of hospitality restrictions there has been a notable shift in demand from food stores to restaurants and pubs. In contrast, manufacturing stalled in May because of problems with the supply of key components.
- The report estimates UK GDP to grow by 7.7% in 2021, with GDP returning to pre-pandemic levels in Q4 of this year. Rising Covid-19 cases continue to pose a downside risk to the outlook. Though the link between rising cases and hospitalisations has weakened, evidence suggests that consumer confidence can be impacted by rising case numbers and this may slow the return to normal patterns of leisure spending: eating out, theatres, holidays.
- The labour market continues to improve. The number of payrolled employees increased for the sixth consecutive month in May 2021 and the official unemployment rate edged down to 4.7% in the three months to May. Job vacancies are back at pre-pandemic levels, with many sectors now reporting labour shortages.
- If the view on GDP returning to pre-pandemic levels in Q4 of this year is correct, the end of the furlough scheme will coincide with a period of strong demand - supporting the demand for labour

and minimising the number of job losses towards the end of 2021. That said, it is inevitable that the winding down of the furlough scheme will lead to some job losses.

- Inflation has picked up in recent months, with annual CPI inflation rising to 2.5% in June. This is largely the result of base effects, with current prices being compared with the depressed prices during the initial pandemic period. In addition, reopening sectors have started to raise prices, which they were unable to do for more than a year. These effects will only have a temporary impact on inflation.
- The view remains that inflation will peak in H1 2022, gradually returning towards the Bank of England's 2% medium run inflation target. As such, it is expected that the Bank of England will look through the temporary increase in inflation, keeping short-term interest rates on hold.

***UK Economic Outlook Summer 2021: Emerging from the Shadow of Covid-19*, published by the National Institute of Economic and Social Research, provides a forecast for the UK economy as of Summer 2021.**

- The report forecasts that UK GDP grows by 6.8% in 2021, an upward revision of 1.1 percentage points since May's Spring Outlook, and 5.3% in 2022. The latest data suggest that – while headline growth and business optimism are strong – the recovery is not yet broad-based, being principally driven by the re-opening of a few sectors. Output is expected to return to its pre-Covid level in the first quarter of 2022.
- This reflects the main case forecast assumption that remaining domestic restrictions imposed by governments and businesses will be lifted over the course of the third quarter, with restrictions on international travel likely to persist for longer. The potential of further outbreaks of Covid-19 leading to either another national lockdown or persistent voluntary social distancing constitutes the largest downside risk.
- The construction sector is set to bounce back from 2020's fall strongly this year with estimated growth of 14%. This and the rise of 9% in private non-traded services provide the majority of 2021's growth. Manufacturing and private traded services, less badly affected in 2020, are forecast to grow by 6% and 5% respectively this year.
- CPI inflation is predicted to rise to 3.5% in the last quarter of 2021, peaking at 3.9% in the first quarter of 2022 but then falling again to settle around 2% in 2023. This forecast is conditional on policy rate starting to be normalised in the last quarter of next year in line with market expectations, and inflation expectations remaining well anchored.
- The unemployment rate is now forecast to peak at 5.4% in the fourth quarter of 2021, with the majority of furloughed staff either returning to their existing jobs or filling the current gaps in the labour market, but an increase of 150,000 in jobless figures following the end of the Coronavirus Job Retention Scheme. Real household incomes are forecast to grow by 2.8% this year after falling by 0.6% in 2020: strong earnings growth, driven by the return to full earnings of furloughed staff, is partially offset by higher inflation.
- Government debt continues to rise, with borrowing for the year expected to be 8.2% of GDP, but is forecast to peak at 98.6% of GDP next fiscal year. Debt interest payments are projected to be higher due to higher interest rate expectations, but tax receipts are also higher as a result of faster growth which acts to lower the ratio of debt to GDP. Additional public investment of around £30 billion per year would be consistent with stable public debt at the end of the forecast period.

LIVING STANDARDS, WELLBEING AND PROSPERITY

***Living Standards, Poverty and Inequality in the UK: 2021*, published by the Institute for Fiscal Studies, examines how household incomes have changed leading up to and after the Covid-19 pandemic.**

- Median household net income was finally growing steadily again prior to the COVID-19 pandemic, with growth of 3% in real terms over two years from 2017–18 to 2019–20. However, that still meant just 9% growth in total in the 12 years since 2007–08, prior to the previous recession. If the pre-financial-crisis trend of 2.2% growth per year had continued since 2007–08, by 2019–20 median income would have been almost 20% higher than it actually was.
- Since 2007–08, incomes of poor households have been pushed up by significant reductions in worklessness. The fraction of low-income people (excluding pensioners) who live in a workless household has fallen from 45% in 2007–08 to 33% in 2019–20. This boosted incomes at a time when cuts to working-age benefit entitlements (since 2010) have pushed in the other direction.

- This pattern of income growth means that overall measures of relative poverty (measured after housing costs are deducted) were essentially unchanged in recent years, at 22%, the same level as in 2007–08. However, relative child poverty has continued to creep up, and in 2019–20 was 4 percentage points higher than in 2011–12 (a rise of 700,000 children).
- Although there were large rises in the proportion of people not working at least one hour a week in 2020, there was very little rise in unemployment and economic inactivity (where people have no job at all). By 2021 Q1, 1.3 million more adults (aged 19–64) were not working at least an hour a week compared with 2019 Q4, whereas only 0.3 million more adults were unemployed or economically inactive. The furlough scheme has kept unemployment from rising sharply during the pandemic.
- People who continued to work through the pandemic experienced real earnings growth that was fairly similar to the immediate pre-pandemic years, and much higher than in the aftermath of the Great Recession. Real earnings growth has been supported by low measured inflation during the pandemic.
- The start of the pandemic saw rises in some measures of deprivation. But these rises were temporary, leaving deprivation measures in early 2021 similar to, or on some measures below, their pre-pandemic levels. For example, the proportion of people reporting they were in arrears on at least one of their household bills rose from 6.6% in 2018–19 to 8.1% in April–May 2020, a 22% rise, but then fell back to 7.0% by March 2021. Food-bank use also rose from 1.7% of the population in February 2020 to 1.9% in April–May 2020, before falling back to 1.4% in early 2021.
- Households that were in relative income poverty prior to the pandemic (measured between 2016 and 2019) saw the largest rises in deprivation at the start of the pandemic. In comparison, households that were not in poverty pre-pandemic saw little change on most of the measures. The proportion of poor households behind on their household bills rose from 15% in 2018–19 to 22% in April–May 2020, compared with a much smaller rise from 5% to 6% for households not in poverty pre-pandemic. By March 2021, the proportion of those in poor households behind on their bills remained higher, at 20%, than it was pre-pandemic.
- The group most clearly struggling, particularly at the start of the pandemic, was self-employed people who had lost all work by April 2020. The proportion of this group reporting being in arrears on household bills rose from 2% pre-pandemic to 13% in April–May 2020. There was also a rise for furloughed employees but it was much smaller and less persistent into early 2021. The self-employed who could not work in April 2020 were also a group that reported a big rise in the fraction experiencing financial difficulties, from 16% pre-pandemic to 24% by April–May 2020.

***Nowcasting Poverty for Q1 2021*, published by the Legatum Institute, provides projections on the impact of Covid-19 on poverty and how government action has lessened that impact.**

- The report finds that UK poverty is a significant long-term issue. Prior to the pandemic, more than one in five people in the UK (22%) lived in families in poverty. This has hardly changed over the last 20 years. This means that prior to the pandemic 14.4 million people lived in poverty in the UK.
- As well as significant health and social impacts, the Covid-19 pandemic has had economic impacts. These have most clearly been seen in falling employment levels, wage reductions for furloughed workers and falling earnings for the self-employed. In general, those hardest hit have been young workers, those in relatively low-paying employment, and those working in sectors such as hospitality and retail.
- Poverty has risen as a result of the Covid-19 crisis. The projections suggest that, compared to the situation where the Covid-19 pandemic had not hit the country, 320,000 more people were in poverty in Q1 2021.
- However, the effects of Covid-19 have not been evenly experienced. The largest impacts have been felt by working-age adults, whilst there has been a notable reduction in the number of pensioners living in poverty. The distribution of economic impacts has meant that compared to the situation where Covid-19 had not hit the UK, 340,000 more working-age adults are in poverty in Q1 2021, whilst there has been a reduction of 70,000 pensioners living in poverty in the UK.
- Government policy has insulated many families from poverty. In an attempt to mitigate some of the financial impacts of the Covid-19 crisis, the Government has introduced a range of financial support for families and businesses. These include a temporary increase of £20 a week to Universal Credit and Working Tax Credits and the suspension the Minimum Income Floor (that applies to self-employed people claiming Universal Credit). The report estimates these policies alone have protected some 650,000 people from poverty in Q1 2021. This action from

Government has also reduced the levels of very deep poverty, with 270,000 fewer people living in families more than 25% below the poverty line.

- Poverty has reduced amongst some groups. The increases to benefits have also meant that some groups have seen a fall in poverty. This is because many non-working families have seen their benefits increase, meaning that they are less likely to be in poverty than would have been the case in the absence of the Covid-19 pandemic. Compared to the case where the Covid-19 crisis and resulting increases to benefit generosity had not happened, there has been a reduction of 140,000 in poverty in people living in lone-parent families and a reduction of 140,000 in poverty in people living in workless families in Q1 2021.
- The report recommends there is a clear need for the Government to push ahead with its creation of Experimental Poverty Statistics and to place a comprehensive anti-poverty strategy at the heart of its Covid-19-recovery response.

***Wealth Gap Year: The Impact of the Coronavirus Crisis on UK Household Wealth*, published by the Resolution Foundation, assesses wealth distribution in the UK during the Covid-19 crisis.**

- The unique nature of the pandemic has led to higher saving and lower debt in aggregate. The report estimates that total household wealth has increased by almost £900 billion – an increase of around 6% on pre-pandemic levels. Increasing wealth during a recession is unusual: this is the first UK recession in at least 70 years where this is the case. Two effects have driven that change: first, the direct effects it has had on saving and borrowing behaviour; and second, the indirect effects on the value of household balance sheets through asset price changes.
- However, not every family has been fortunate. Indeed, around 30% of families in the bottom 20% of the income distribution actually saw their savings decrease. This is three times higher than the proportion reducing savings for the top 20% of earners. Changes in debt are also skewed: around 10% of low earners reduced debt during the pandemic while over 25% of higher earners did the same.
- Changes in wealth from asset price appreciation depend, not on income or spending, but pre-existing wealth holdings. In this context, it is striking that while asset price volatility has been exceptionally high, the recovery in asset prices has been very rapid. Sharp falls in asset prices at the start of the pandemic have largely reversed and, for some assets like UK housing, prices are now substantially above pre-pandemic levels. Increasing asset prices directly raise the level of household wealth. The report finds that the pandemic's effects on asset prices raised wealth levels by as much as 7% in the middle of the wealth distribution.
- The rise in household wealth, particularly in the middle and top of the distribution, has further widened wealth gaps. While the median family has gained £7,800 in wealth per adult, those at the richest 10% of households have gained a little over £50,000. The poorest 30% of the wealth distribution gained just £86 per adult on average in additional wealth.
- Therefore, the gap between the richest 10% and the fifth decile of the wealth distribution has increased by over a further £40,000; and by £7,000 between the fifth decile and the poorest 10%. The typical gap in wealth per adult between the top and the middle of the distribution now stands at 55 times typical household income (measured after housing costs).
- The report concludes that the distribution of debt and savings changes provides extra justification for keeping the pandemic support of an additional £20 per week to UC; those in receipt of UC are low-income and are less likely to increased savings and more likely to have increased debt. More broadly, policies that are aimed at addressing specific aspects of the trends in wealth, for example Help to Buy, which aims to reduce the disadvantage that higher house prices pose for first time buyers, need to recognise the drivers behind changes in wealth.

Innovation and Enterprise

INNOVATION

***UK Innovation Strategy: leading the future by creating it* published by the Department for Business, Energy & Industrial strategy sets out the government's vision to make the UK a global hub for innovation by 2035.**

- In this strategy the UK government seeks to generate disruptive inventions, the most tech-centric industry and government in the world and a nation of firms and people that all aspire to innovate. Beneath this overarching objective, the action is organised under four pillars outlined below:

- Pillar 1, titled “Unleashing Business” aims to fuel businesses who want to innovate.
- Pillar 1 has four key aims, which are to increase annual public investment on R&D to £22 million, reduce complexity for innovative companies by developing an online finance and innovation hub between Innovate UK and the British Business Bank, invest £200 million through the British Business Bank’s Life Sciences Investment Programme to target the growth-stage funding gap faced by UK life science companies and finally, consult on how regulation can ensure that the UK is well-placed to extract the best value from innovation.
- Pillar 2 titled “People” revolves around the idea of making the UK an exciting place for innovation talent. It aims to introduce new High Potential Individual and Scale-up visa routes and revitalise the Innovator route, to attract and retain high-skilled, globally mobile innovation talent.
- Pillar 2 also plans to support 30,000 senior managers of SME’s to boost business performance, resilience and growth through the “Help to Grow: Management” scheme.
- Pillar 3, “Institutions and Places” will ensure the UK’s research, development and innovation institutions serve the needs of businesses and places across the UK.
- This will be done by undertaking an independent review led by Professor Sir Paul Nurse which will look across the landscape of UK organisations undertaking all forms of research, development and innovation. There will also be an allocation of £127 million through the “Strength in Places Fund” to develop R&D capacity, and a further investment of £25 million to the “Connecting Capability Fund” to drive economic growth through university-business innovation.
- Pillar 4 is orientated around stimulating innovation in order to tackle major challenges faced by both the UK and the world, and driving capability in key technologies.
- Titled “Missions and Technologies”, it has set out the following goals: Establishing a new “Innovation Missions” programme to tackle some of the most significant issues facing the UK in the coming years, identifying seven key technology families that will transform the UK economy in the future and launch new “Prosperity Partnerships” to establish business-led research projects to develop transformational new technologies, with £59 million of industry, university and government investment.

RESEARCH AND DEVELOPMENT

UK Research and Development Roadmap **published by the Department for Business, Energy and Industrial Strategy outlines how, through the use of its roadmap, the UK can achieve a number of objectives related to research and development.**

- The UK’s R&D system is world-leading, but that the roadmap states we should be taking the lead in addressing problems which are visible in the R&D systems of all the leading nations and also address those which are specifically holding back the UK.
- These issues are centred around levels of public and private investment, bureaucracy, work culture and careers, development and innovation, regional imbalances and international context.
- Despite strong national performance in science, research and innovation (which British businesses invest less in than similar nations), UK R&D intensity and funding is concentrated in some regions. Regions outside of the “Golden Triangle” of London, the South East and the East of England, lag behind competitors in Northern Europe and some of our key cities underperform.
- The UK’s roadmap outlines the actions deemed necessary to achieve a number of objectives related to R&D. These actions include:
  - An increase in investment research to unlock new discoveries as well as applying research to solving the most pressing issues in government and across society as a whole.
  - The UK should aim to become “world-class” at securing the economic and social benefits of research, and support entrepreneurs and start-ups to increase the flow of capital into firms carrying out R&D, allowing them to scale up.
  - Attract, retain and develop the talented and diverse people/teams that are deemed essential to delivering the UK’s vision. Furthermore, greater accountability of place-based outcomes in terms of how the UK makes R&D decisions has been deemed a necessary action, which would ensure R&D systems make their fullest contribution to the levelling up agenda.

- Provide long-term, flexible investment into infrastructure and institutions, and be a partner of choice for other world-leading research and innovation as well as strengthening partnerships with developing countries.
- Engage in new ways to ensure science, research and innovation systems are responsive to the needs and aspirations of society.

SECTORS AND TECHNOLOGIES

***CBI/PwC Financial Services Survey*, published by PWC, analyses key challenges facing the financial services sector.**

- Following falls over the past year, employment in most Financial Services (FS) sectors rose for the first time since the outbreak of the COVID-19 pandemic in quarter 2 of 2021.
- Volumes rose at the fastest pace since Q4 of 2014 and profitability at the most rapid rate since Q1 of 2019. With much of the increase in business volumes coming from mortgage demand, it remains to be seen whether this can be sustained following the end of the stamp duty holiday on June 30th.
- Concerns over defaults appear to have eased, with most banks expecting non-performing loan rates to either stay the same or fall over the next three months. This will boost banks' ability to invest in economic recovery and longer term priorities such as 'Build Back Better' and Net Zero transition.
- A further question mark includes the impact of rising inflation over the coming year. This underlines the need to keep pace with shifting customer expectations whilst tackling operating costs.
- Technological proficiency and the ability to adapt to new technologies tops the list of skills FS organisations believe they will need over the next five years.

ENTREPRENEURSHIP

[No relevant material sourced for this quarter's release.]

BUSINESS GROWTH

***Agents' summary of business conditions - 2021 Q3* published by the Bank of England summarises intelligence gathered by the Bank's Agents between mid-July and early September.**

- Consumer spending continued to grow, supported by online sales and domestic tourism. Contacts reported continued growth in retail sales following the reopening of non-essential stores around the UK. Footfall was still markedly below pre-pandemic levels, however online spending remained robust.
- Business services activity grew at a broadly steady pace, despite some contacts turning down business due to staff shortages. Contacts in accountancy, legal and consultancy continued to report good levels of demand across a range of activities including for employment, corporate finance and mergers and acquisitions.
- Demand for IT services continued to be strong, in particular activity related to remote working and cyber security.
- Manufacturing demand remained strong, but output growth slowed due to shortages of materials, components and labour. A combination of strong worldwide demand for goods, global supply-chain issues, transportation issues and labour shortages constrained output and stretched lead times for many contacts, especially in the automotive sector.
- Construction output remained above pre-pandemic levels, but there were reports of materials and some labour shortages limiting activity. Contacts said activity was above pre-pandemic levels but was curtailed by supply-chain issues that affected the availability of materials and, to a lesser extent, labour shortages. However, sectors most affected by Covid reported that they had spare capacity.

- Investment intentions continued to be positive, supported by new spending as well as paused projects being reinstated. In manufacturing, contacts reported investing in automation, upgrading machinery and in research and development. In some cases, this was to address skills and labour shortages, though some contacts said that labour and materials shortages and the associated cost increases had caused delays and revisions to investment projects.
- Demand for new bank credit was subdued, but supply-chain issues and rising input costs have led to increased demand for working capital finance among small companies.
- Contacts in most sectors of the economy reported a pickup in hiring and staff turnover. Demand for staff was particularly strong in professional services, hospitality, logistics distribution and warehousing, construction and engineering. In hospitality, some contacts reported needing to recruit workers to replace furloughed staff who had switched jobs during closed periods.
- Commodity and land, sea, and air transport costs have been increasing for some time. Contacts also reported that costs for a wide range of materials and components were elevated. Such past cost rises were reported to be increasingly passed through into prices. This was particularly the case for supplies for the manufacturing and construction sectors, where customers were more willing to accept higher prices in order to avoid supply-chain disruption.

Industry Outlook Survey **published by the FLA (Finance & Leasing Association) gauges the opinions of senior executives across the asset finance, consumer finance and motor finance markets on the outlook of the UK economy and the markets they represent.**

- The latest outlook survey results show that overall FLA members remain optimistic about the outlook for the economy and opportunities for growth in their markets over the next year despite concerns about disruption to the economic recovery from further waves of Covid-19.
- The Q3 2021 survey shows that 92% of respondents expected some increase in new business over the next twelve months, with 69% anticipating growth of more than 10%.
- A continued strong economic recovery, led by both business investment and household spending, would provide significant growth opportunities for FLA markets.
- The pandemic has accelerated the digitalisation of businesses and processes and this will provide further opportunities for FLA members to help companies invest in new technology and to enhance their own digital offerings.
- The pandemic was likely to lead to some consolidation across financial services and reduced appetite to lend in some instances. This would provide opportunities for member companies to support underserved customers, including consumers in non-prime markets and SMEs seeking to rebuild their businesses following the crisis.
- Component shortages have led to supply chain disruptions and members have also been affected by a general lack of availability of assets.
- Respondents continued to highlight the risks of higher unemployment and insolvencies leading to increases in default rates and bad debts once Government support schemes come to an end. Government subsidised lending over the last year may also lead to "debt overhang", particularly among SMEs, and consequently reduce demand for asset finance.
- Overall, members have maintained their optimism about the outlook for the economy, with 84% of respondents to the Q3 2021 survey expecting some improvement in economic conditions over the next twelve months.

BUSINESS REGULATION

Digital Regulation: Driving growth and unlocking innovation **published by the Department for Digital, Culture, Media & Sport sets out the government's aim to "build on the UK's world-leading regulatory regime by setting out a pro-innovation approach to regulating digital technologies - one that drives prosperity and builds trust in their use."**

- The UK government believes a clear cross-government effort is vital in order to deliver on its three key objectives which are as follows:
- To drive growth, by promoting competition and innovation across the digital sector, to ensure this growth and innovation does not harm citizens or businesses and finally, to protect the

fundamental rights and freedoms, by shaping a digital economy that promotes a flourishing, democratic society.

- Where necessary to intervene, government must: (i) actively promote innovation; (ii) achieve forward-looking and coherent outcomes; and (iii) address international opportunities and challenges.
- The government is committed to proportionate regulation and, where appropriate, deregulation. The government will also explore a range of mechanisms, including improving the policymaking process in government, examining changes to the legal duties of regulators to encourage coherence, and promoting their approach through bilateral and multilateral relationships. "Our response to the risks of digital technologies will be proportionate and will not overshadow the huge benefits that digital technologies bring."

Succeeding Globally

TRADE

Inward Investment Report 2020/21 **published by the Department of International Trade**

- The UK-Japan Comprehensive Economic Partnership Agreement (CEPA) marked a historic moment. It was the UK's first major trade deal as an independent trading nation and offers a glimpse of Global Britain's potential.
- Digital trade forms the basis of many of the UK's leading sectors. This agreement will create new opportunities for UK tech and digitally-savvy firms to export to Japan, whilst also attracting greater investment into the UK from Japan's leading digital industry, supporting a digital sector that employed an estimated 1.6 million people across the UK in 2019, an increase of 20.6% from 2018.
- In June 2021, the nations of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) agreed to the UK's bid to begin the accession process to join the CPTPP. Accession to the CPTPP will be a key moment in Britain's trading future, unlocking and strengthening global trading relationships. It will mean stronger trading links with the Indo-Pacific region, which is vital to achieving goals for trade, investment, supply chains as well as supporting green growth, women's economic empowerment and high standards for UK workers.
- In June 2021, the UK and Australia agreed in principle a trade deal that removes tariffs on all UK exports, from cars and whisky to ceramics, which deepens access for UK services providers and creates new opportunities for the tech industry, supporting millions of jobs across the country.

INWARD INVESTMENT

Inward Investment Report 2020/21 **published by the Department of International Trade**

- The creation of the Oxford University/AstraZeneca vaccine was a landmark moment in turning the tide against COVID-19, and investors globally recognised this, with FDI producing 32% more jobs in biotechnology and pharmaceuticals than in 2019.
- The economy showed strong signs of recovery and growth across both Q3 and Q4 of the last year, outpacing the EU by nearly 5% in Q3.
- The UK's strength and ambition for growth has been recognised by investors across the world. Despite a global downturn in FDI of 35% in 2020, and predictions that UK FDI projects would dip between 30 and 45% from 2019, investors still chose the UK - overall FDI projects only decreased by 17%.
- In 2020, the UK continued to demonstrate its appeal to investors across the globe through accruing 1,538 projects, resulting in 55,319 new jobs and 18,187 safeguarded jobs.
- Since leaving the EU, the UK has risen in rankings, becoming the 4th most favoured investment destination for CEOs in 2021.
- In 2020, Northern Ireland garnered an additional 29 new FDI projects, securing 1,326 new jobs.

- The strong market, growing demand and business-friendly environment meant that 75% of new investors choose to reinvest.

TOURISM

[No relevant material sourced for this quarter's release.]

Economic Infrastructure

ENERGY

Digest of UK Energy Statistics Annual Data for UK, 2020 **published by the Department for Business, Energy & Industrial Strategy**

- Last year saw an unprecedented drop in energy demand as lockdown restrictions in place to curb the spread of Covid-19 affected economic output, leisure, and travel. The demand for energy in 2020 was similar to that seen in the 1950s when the UK had a far smaller population and notably, different demands.
- Total final consumption was down 13% on last year, and 11% on a temperature and seasonally adjusted basis.
- Transport demand dropped by 29% compared to 2019, led by a fall in aviation demand, down 60%. Diesel demand was down 17% and petrol demand down 21%, taking demand for all transport fuels back to the 1980s.
- The reduced demand for fuel was most evident in the second quarter of the year and demand increased month-on-month from June through to the end of the year as activity levels returned to closer to normal.
- Energy production dropped 3% in 2020, with falls in petroleum production and nuclear production, the latter dropping to a record low due to maintenance outages.
- Coal production also reached a new record low, down to 1.7 million tonnes from 18.3 million tonnes in 2010. The Covid-19 pandemic led to a significant fall in demand for electricity, and therefore a fall in demand for coal from power stations for coal-fired generation.
- Oil formed one-third of total energy demand in 2020 compared to nearly half in 2019. Demand for petroleum products reached a record low in 2020, down 23% compared to 2019 as restrictions from the Covid-19 pandemic limited activity.
- The impact of the Covid-19 pandemic also affected trade. Net imports of petroleum products halved in 2020 as the UK imported less fuel to meet the reduced demand. The UK became a net exporter of primary oils, by 0.5 million tonnes, for the first time since becoming a net importer in 2004.

TELECOMS

Communications Market Report 2021 **(published by Ofcom) is an interactive data portal, which allows users to interrogate data collected from industry by Ofcom, data from Ofcom's consumer research, and headline figures from selected third parties (including BARB, the Broadcasters' Audience Research Board).**

- The pandemic has reversed the downward trend of use of calls. The total volume of outgoing calls from landlines grew by 15% in 2020, the first recorded increase since 2003, while call volumes from mobile calls grew by 18%.
- By the end of 2020, 78% of all UK broadband connections were superfast or ultrafast (i.e. lines providing download speeds of 30 Mbit/s or higher) and more than four-in-five connections were fibre-to-the-cabinet, cable or full-fibre lines.
- The average monthly data consumption per fixed broadband connection was 429 GB per month in 2020 (36% higher than in 2019), and the average monthly data used per mobile data connection was 4.5 GB (up 27%).

- Messaging appears to be moving online as SMS and MMS use continues to decline rapidly. The average mobile connection sent 51 messages per month in 2020, 17 fewer than in 2019. The main driver of this decline is the popularity of online messaging services like WhatsApp, Facebook Messenger and Instagram.
- Telecoms revenues make a £31.5 billion contribution to the UK economy. Retail fixed and retail mobile services generated £14.0bn and £12.5bn in revenue respectively in 2020, with the remaining £5.1bn coming from wholesale services.
- UK households are spending very slightly less on both mobile and fixed services. The average UK household spent £79.08 per month on telecoms services in 2020, a 0.3% decrease since 2019 and equivalent to 3.1% of average total monthly household spend.

AIR ACCESS

Overseas travel and tourism: January to March 2021 **published by the Office for National published by the Office for National Statistics estimates visits to the UK by overseas residents, air visits abroad by UK residents and spending estimates by travellers, using the International Passenger Survey and administrative sources of passenger travel covering April to December 2020.**

- This release only includes visits by air as insufficient sea and tunnel data were collected due to coronavirus restrictions.
- Overseas residents made 195,000 visits by air to the UK in Quarter 1 (Jan to Mar) 2021; this was 96% less than Quarter 1 2020 as travel continues to be restricted because of coronavirus (COVID-19).
- Overseas residents spent £248 million on their visits to the UK in Quarter 1 2021; this was 94% less than in Quarter 1 2020.
- UK residents made 774,000 visits abroad by air in Quarter 1 2021, which was 94% fewer than the corresponding period the previous year, which is attributable to Covid-19. The largest number of visits was made to Europe (396,000), but they still saw a fall of 95%.
- UK residents spent £817 million on visits abroad in the first quarter of 2021; this was 90% less than in Quarter 1 2020.

Government

NORTHERN IRELAND

Research on Economic Recovery from Covid-19 and Restrictions**, published by the Department for the Economy, outlines the potential recovery of the NI economy from the Covid-19 pandemic.**

- The Centre for Economics & Business Research (CEBR) has estimated that lost economic activity due to Covid-19, from March 2020 to March 2021 for Northern Ireland amounted to £6.1bn. Output fluctuated throughout the year, especially as restrictions changed, but on average this works out at over £100m, per week, of lost output. Over 10,000 businesses were closed / impacted by the Covid-19 restrictions from 26 December 2020, to April / May 2021 reopening.
- Despite the severe turbulence, a number of sectors have recovered / are recovering and many businesses have adapted their business model. Some industries remain in difficulty. For example, air travel has been severely disrupted, major events have been cancelled, and remaining restrictions continue to constrain how many businesses function.
- The Claimant Count doubled during 2020, to around 60,000 people. This has fallen slightly, but slowly thus far. Unemployment would have been much higher, but for the Coronavirus Job Retention Scheme (CJRS) & Self-Employment Income Support Scheme (SEISS). Over 200,000 employments were furloughed in spring 2020. Despite thousands returning to jobs in summer 2020, many were re -furloughed in late 2020 and early 2021. In some good news, furlough numbers fell considerably in May and June 2021.
- Impacts on workers were widespread, but closures have most adversely impacted younger workers and those who are lower paid. Overall, research suggests that females were more

adversely impacted than males, both in terms of those businesses impacted by regulations, but also in terms of working from home / juggling childcare etc.

- Despite a strong rebound across a range of economic indicators, risks remain. A key risk to sustained recovery includes the maintenance of restrictions on businesses for longer than is necessary or the imposition of further restrictions. Another associated risk is a risk of 'scarring'.
- Scarring is when physical and human capital is damaged by recessions and reduces the ability for an economy to grow and get back to its pre-crisis growth path. Even as companies are trading again, there are still worries over debt repayments, cash flows and possible future tax rises. For example, firms in Northern Ireland have borrowed over £2bn in two Government loans schemes since Covid-19 struck (Bounce Back Loan Scheme (BBLS) & Coronavirus Business Interruption Loan Scheme (CBILS)).
- A return to normality and getting 'back to business' provides the best opportunity for economic recovery and renewal. Recent forecasts by local organisations show optimism for the remainder of 2021 and beyond, but a full recovery will take time. The CJRS (furlough) scheme and the SEISS scheme are due to end on 30 September 2021. This, in tandem with the continued operation of restrictions / mitigations in many sectors and the possibility of further restrictions in the future represents the greatest risk to unemployment in the second half of 2021 and into 2022.

***Research to Inform the Northern Ireland High Street Scheme*, completed by Retail Economics on behalf of the Department for the Economy, provides an assessment of the retail voucher scheme.**

- As a result of the pandemic, large parts of the retail and hospitality sector remain in survival mode. As Covid-19 restrictions are relaxed, a forensic-like approach to cost cutting will be adopted as businesses preserve working capital and start to recoup losses. The survival of many retail and hospitality businesses will depend on how quickly consumer spending ramps up, following the easing of restrictions and fewer government support mechanisms (e.g. furlough scheme, end of grant schemes, and reaching cut off dates for grant applications).
- Now is the time for innovative and creative thinking where stakeholders adopt a collaborative approach to revitalise the high street. The proposed High Street Scheme in Northern Ireland could form part of that solution.
- In early September 2020, every eligible adult and child in Jersey received a £100 Spend Local card which they could spend in shops, in cafes and businesses, and on services and experiences. This was part of a £150 million fiscal stimulus package, aimed at supporting the local economy after the impact of Covid-19. Data from this scheme shows that:
  - 78% of all spending was attributed to just three categories: (1) Wholesale & Retail; (2) Supermarket Fast Food and Food Retail; and (3) Hotels, Restaurants & Bars.
  - The average transaction value was £28.14 and the average card was used 3.6 times.
  - Card transactions peaked on the first Saturday of the scheme with around 20,000 transactions, about 6% of all transactions over the lifetime of the scheme.
- The timing of the launch of the High Street Scheme will be an important factor determining its effectiveness. Aggregating sales data over the last 10-year period, average weekly sales gain momentum each month from January to July, before slipping back in August as consumers cut back discretionary spending. Average weekly sales in September remain at broadly similar levels to August before retail sales then gathered momentum in the final quarter of the year in the run-up to Christmas.
- Indeed, in eight of the ten years covered in the analysis, average retail sales consistently rose (month-on-month) from January to July. But then in all of the 10 years observed, average retail sales fell from July to August, on average by 2.9%. August is the only month of the year that showed a consistent decline on the previous month (excluding January).
- Survey results from Retail Economics shows that the spending intentions for a proposed high street stimulus across a range of spending categories. The analysis found that, on average, households would spend the £100 per person voucher most across food and groceries (£25.50), followed by clothing and footwear (£18.30) and restaurants and hotels (£15.70). Indeed, these three categories accounted for 59% of proposed voucher spending.
- The report concludes, recommending that the Northern Ireland High Street Scheme runs during the months of August, September and October. It is believed that this will capture a period where retail sector sales are in a transitional period between seasons when underlying demand is softened and creates important momentum running into the seasonal build-up of Christmas sales.

ENGLAND

SCOTLAND

[*Digital Economy Business Survey 2021: Findings*] published by the Office of the Chief Economic Advisor summarises the DEBS 2021 and includes the high level DEBS report, accompanying data tables and the Digital Economy Maturity Index 2021.

- Many Scottish businesses differed in terms of their size, sector, location, length of operation and future growth aspirations. Digitally mature businesses, ie. Those creating value through digital, tended to be larger, with expectations of growth in the next 12 months. They were more likely than average to be working in business activities, and to be based in Glasgow, Lothians, Central Scotland or the North East. Conversely, the less mature tended to be smaller and with expectations to remain at the same level or contract in the next 12 months. They were more likely than average to be working in agriculture or construction, and to be based in the South of Scotland.
- 97% of businesses surveyed in 2021 had an internet connection. Whilst this figure is unchanged from 2017, it is higher than the 94% of businesses surveyed in 2014.
- As in 2014 and 2017, the most widely adopted digital technologies were making use of mobile technologies (83%), and having a company website (76%). The share of businesses using Cloud computing almost doubled from 2017 (74% up from 38%) and overtook social media (72%) as the third most used technology in 2021. Only 2% of businesses used none of the listed digital technologies compared to 10% in 2014, with the most commonly cited being that the technology in question was not relevant to the business (65%).
- The perceived benefits from making use of digital technologies were similar to those cited in 2014 and 2017. Benefits included:
    - Generating exposure of the company and increasing responsiveness to customers
    - Allowing for greater flexibility and remote working
    - Increased efficiency (management software)
- Three quarters of businesses reported that digital technologies had positively impacted their productivity, innovation and/or low carbon working. One third of businesses reported that digital technology had both impacted innovation by helping the business create new or significantly improved products or services and supported a shift to low carbon working. Businesses in the business activities and health/social work sectors were more likely than average to report that it has helped a shift to low carbon working.
- 40% of businesses stated that digital technology was essential to the operation of the business in responding to the Covid-19 pandemic and 38% stated that it was important or very important in their response.
- Overall, 35% of businesses surveyed in 2021 made sales via e-commerce in the last 12 months, an increase from 30% in 2017. Of those businesses, 63% had made e-commerce sales to other businesses (B2B). The most common action being taken by businesses using e-commerce to maximise their digital presence and support e-commerce activity was search engine optimisation (53%).
- 27% of businesses sold their goods or services to markets internationally (outside of the UK), with 24% of businesses selling within the EU and 20% outside of the EU.
- 21% of businesses stated that their employees were fully equipped with the skills to meet the business' digital technology needs, down from 26% in 2017 and 37% in 2014. This is likely linked to a drop of 5% from 2014 figures in the number of businesses taking action to develop their existing employees' digital technology skills. 26% of businesses reported that they needed to improve basic technology skills such as email, internet navigation, Microsoft Office and Excel.

WALES

[No relevant material sourced for this quarter's release.]

REPUBLIC OF IRELAND (ROI)

[No relevant material sourced for this quarter's release.]

Sources

Catalyst Inc

CBI UK

CBRE

CBRE UK

Centre for Business Research (CBR)

Centre for Economic Policy Studies (CEPS)

Centre for Economics and Business Research (CEBR)

Centre for Enterprise and Economic Development Research (CEEDR)

Centre for European Economic Research (ZEW)

Department for Digital, Culture, Media and Sport

Department for Exiting the European Union

Department for the Economy

Department of Finance

Department of Jobs, Enterprise and Innovation (DJEI)

Department of Transport, Tourism and Sport

Dept for Business, Energy & Industrial Strategy (BEIS)

Economic Advisory Group (EAG)

Economic and Social Research Council (ESRC)

Economic and Social Research Institute (ESRI)

Economics Ejournal

Economist Intelligence Unit

Enterprise Research Centre (ERC)

European Association of Research and Technology Organisations (EARTO)

European Commission - Enterprise and Industry - Growth publications

European Investment Bank (EIB)

Eurostat

Federation of Small Businesses (FSB)

GEM Consortium

Green Alliance

HM Treasury (HMT)

Imperial College London - Business School

Institute for Fiscal Studies (IFS)

Institute for Government

International Institute for Management Development (IMD)

International Monetary Fund (IMF)

InterTradeIreland

Invest NI

Ipsos MORI

Irish Exporters Association (IEA)

Joseph Rowntree Foundation

Journal of Business Research

Kiel Institute

Legatum Institute

LSE - Centre for Economic Performance (CEP)

LSE - Spatial Economics Research Centre (SERC)

McKinsey UK

National Assembly for Wales

National Competitiveness Council (NCC)

National Economic and Social Research Council (NECS)

National Institute of Economic and Social Research (NIESR)

Nesta

Nevin Economic Research Institute (NERI)

NI Assembly Research and Information Service (RaISe)

NI Council for Voluntary Action (NICVA)

NI Science and Industry Panel – MATRIX

NISRA

OECD iLibrary

Open Europe

Organisation for Economic Development and Co-operation (OECD)

Oxera

Oxford Economics

Oxford Review of Economic Policy

Parliament Briefings

Peterson Institute for International Economics (PIIE)

PricewaterhouseCoopers (PWC NI)

PricewaterhouseCoopers (PWC)

Queen's University Belfast – Economics

Queen's University Belfast - Research Centre in Sustainable Energy

Resolution Foundation

ResPublica

Scottish Enterprise

Scottish Government

Small Business Research Centre (Kingston University London)

Taxpayers Alliance

Technical Research Centre of Finland (VTT)

Technopolis

The Executive Office (TEO)

Tourism NI

Trinity College Dublin

Ulster University Economic Policy Centre

University College Dublin (UCD)

University of Ulster - Business Management Research Institute (BMRI)

Visit Britain

Visit Scotland

Wavteq

Welsh Government

World Bank

World Economic Forum (WEF)