



Spotlight: The impact of the pandemic on the economy

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The pandemic and associated NPIs have driven the deepest recession in three centuries. There has been significant economic disruption, with business closures and changes in consumer behaviour in response to the evolving health news and government guidance and interventions. After a partial recovery during the summer, tighter restrictions and ongoing uncertainty are suppressing economic activity, which the OBR projects will remain below pre-pandemic levels until Q2 2022.

- The COVID-19 pandemic and the non-pharmaceutical interventions (NPIs) required to mitigate the public health impacts have driven the deepest UK recession on record. NPIs closed large swathes of the UK economy, driving a 19.0% fall in GDP in Q2 2020, equivalent to reversing 18 years of growth. Economic output initially recovered quickly, with record growth of 16.1% in Q3 2020 as the economy reopened and businesses adapted to new working practices. Growth has since stalled as NPIs were tightened, with GDP increasing 1.0% in Q4 2020 and remaining 6.3% below its pre-pandemic level in December (Figure 1).^{1,2}
- Leading indicators suggest that economic activity has since fluctuated, reflecting changing restrictions.³ Early indicators, including card spending data and business surveys, suggest that the current lockdown is having an impact between that of the Spring lockdown and the November restrictions. Most external forecasters expect output to fall again in Q1 2021, with current consensus for a 3.5% contraction.⁴
- The pandemic has delivered a shock to economies worldwide, creating a severe global recession. The IMF estimates that world GDP fell 3.5% in 2020, with the contraction in the UK economy expected to have been the largest among the G7.⁵ This likely reflects in part the UK's large service sector, but the use of different methodologies for measuring government output across countries is another contributing factor.⁶
- It is difficult to isolate the impacts of individual NPIs, with varying combinations of restrictions in effect across the country throughout the year. This is compounded by voluntary social distancing in response to the pandemic, which the IMF estimates accounted for as much as half of the decline in activity in advanced economies in the first wave of the pandemic.⁷
- Nonetheless, it is clear that the impact of the pandemic has been felt across all sectors of the economy, with those subject to the tightest public health restrictions - including hospitality and creative industries - experiencing the biggest losses of output (Figure 2).²

Comment: Widespread uncertainty remains about the trajectory for the pandemic and NPIs, and consequently the pace and extent of economic recovery. In their March forecast, the OBR estimated that GDP will be 3% lower in 2025 compared to their pre-pandemic forecast.⁸ A smaller economy will exacerbate the challenges of responding to the impacts of the pandemic, as well as pre-pandemic economic objectives including raising productivity and reducing regional disparities.

Figure 1: Monthly GDP, January 2000 - December 2020

UK economic activity has been severely affected by Coronavirus and lockdown measures. Output initially recovered quickly as closed sectors of the economy reopened but growth slowed through the Autumn, as the pandemic entered its second wave and NPIs were tightened. The economy contracted again in November when national restrictions were in effect across most of the UK.²

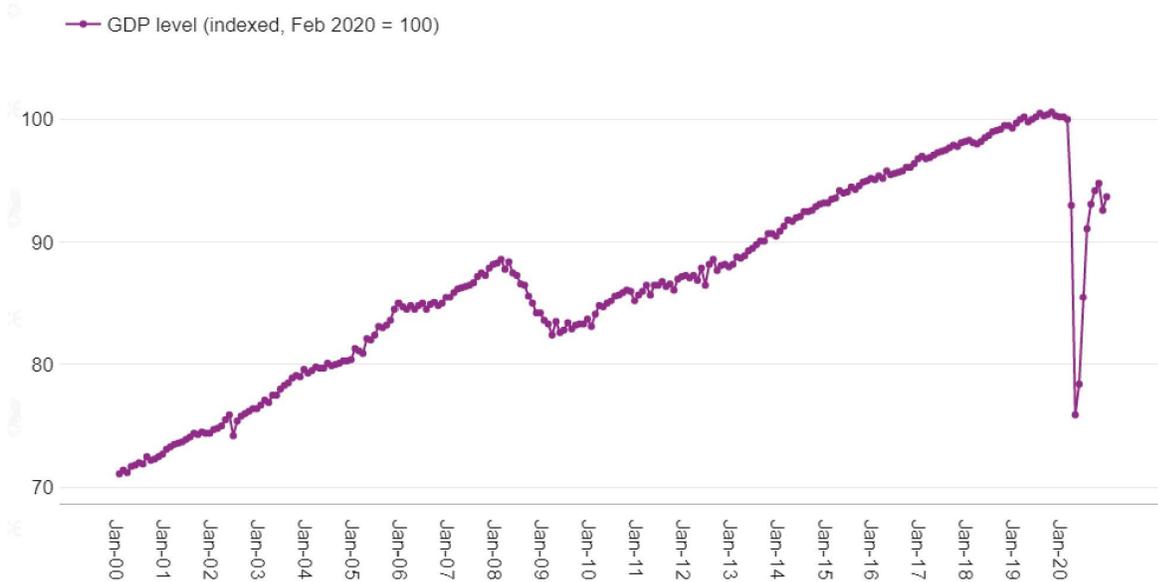
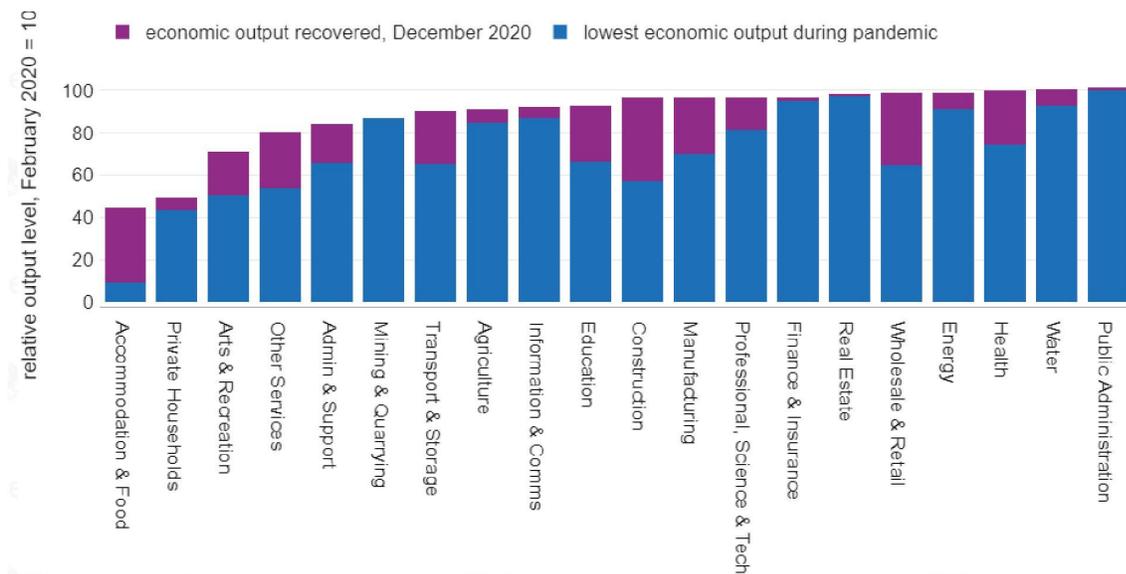


Figure 2: Sectoral output, February 2020 - December 2020

Output fell from pre-pandemic (February 2020) levels in all subsectors and remains substantially lower than in February across most of the economy. *Accommodation & Food* is the hardest hit subsector, remaining nearly 60% below its pre-pandemic output level in December. Other industries, such as *Construction*, have experienced a more significant recovery, with firms choosing to close in the Spring but since adapting to public health guidance and remaining open through the Autumn restrictions.²



References:

- ¹ ONS, [GDP first quarterly estimate, UK](#), 12 February 2020.
- ² ONS, [GDP monthly estimate: UK](#), 12 February 2021.
- ³ ADD(21)012, [Assessment of Tier 4 so far](#), 15 January 2021 [C-19 Taskforce only].
- ⁴ HMT, [Forecasts for the UK economy](#), 17 February 2021.
- ⁵ IMF, [World Economic Outlook Update](#), 26 January 2021.
- ⁶ ONS, [International comparisons of GDP during the coronavirus \(COVID-19\) pandemic](#).
- ⁷ IMF, [World Economic Outlook](#), 7 October 2020.
- ⁸ OBR, [Economic and fiscal outlook](#), 3 March 2021.

Confidence Statement

<p>Official statistics are in line with international best practice but are subject to revisions, which may be larger than usual due to heightened uncertainty and data collection difficulties during the pandemic. Confidence is higher in the direction and broad magnitude of impacts. Novel sources provide high frequency and more granular data, and have performed well as leading indicators over the last year, but have short time series and experimental methodology.</p>	<p>Medium</p>
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Probabilistic language

