



United Kingdom Macroeconomic Report



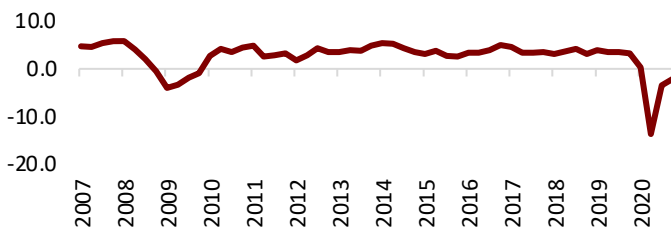
Economic Profile

Country	United Kingdom
Currency	Pound (GBP)
Population	68.10 million
Economy	Developed
GDP	\$2.829 trillion
GDP PPP	\$44,100
Largest Trading Partner	EU

Market Outlook

Point in Econ. Cycle	Right-of-Trough
Outlook	Bullish

UK GDP, Percent Change from a Year Ago



UK Gross Domestic Product, Percent Change from Year Ago (St. Louis Federal Reserve)

Macroeconomic Thesis:

After researching various economic indicators, be it leading, lagging or coincidental, I believe that the United Kingdom is currently right-of-trough in the business cycle. I am bullish on the UK economy for the near future due to the ongoing rollout of the COVID-19 vaccine in the country. It is my projection that we will see pent-up consumer demand unleashed once the vaccine is rolled out on a wider scale and lockdowns are lifted. This will stimulate the British economy and be one of many key drivers of growth over the next year.

I chose to focus on the United Kingdom's economy because it is the 5th largest in the world by nominal GDP (not counting the European Union). The U.K. is also deeply intertwined with the global economy, conducting trade with countries all over the world, as well as being home to a global financial hub. The latter allows the United Kingdom to host the world's 4th largest stock exchange, the London Stock Exchange.

While researching, I found that the U.K.'s unemployment rate was never as high as other countries' due to generous benefits extended by the government. Inflation, while always a concern, isn't on the mind of most bankers and policymakers, as seen by record amounts of stimulus from the government and the Bank of England holding interest rates right above 0 for the foreseeable future. A return to pre-pandemic levels of construction output, as well as optimism in the international trade sphere, were also noted.

International trade and COVID-19 continue to be factors influencing the British economy. However, we are seeing positive news in regards to both. The U.K., with its priority market for the AstraZeneca vaccine, has the 5th highest vaccination rate in the world. The U.K. is also in the process of finalizing several trade deals with various nations and trade blocks.



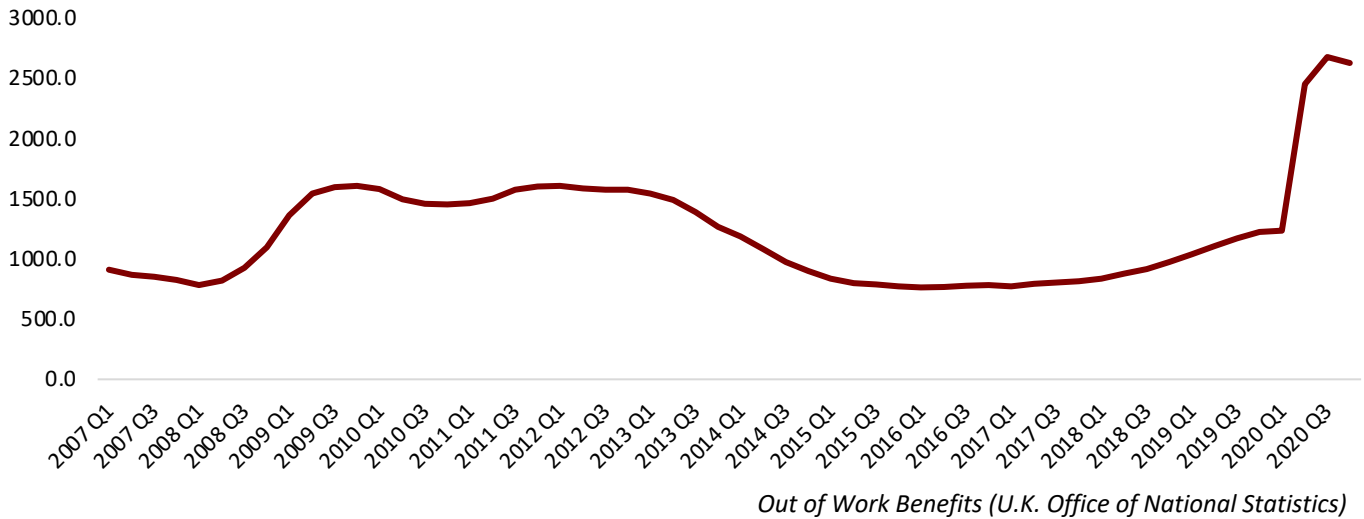
Economic Indicators

Unemployment

A tried and true indicator of an economy's performance, the United Kingdom's current unemployment rate is far better than many of its European counterparts. As we can see from the graph on the right, the U.K.'s unemployment rate peaked at over 8% during the Great Recession, then fell to a tad under 4% at its lowest. COVID-19 caused an increase in the unemployment rate the British economy hadn't seen in over 5 years, but the increase was not to the same extent of other countries. This was mainly due to a generous furlough scheme that paid the wages of workers who otherwise would have been laid off, which we will touch on more in the next section. On the surface level, this means that these numbers are potentially misleading.



Claimants of Unemployment Related Benefits (in Thousands)



Claimants of Unemployment Benefits

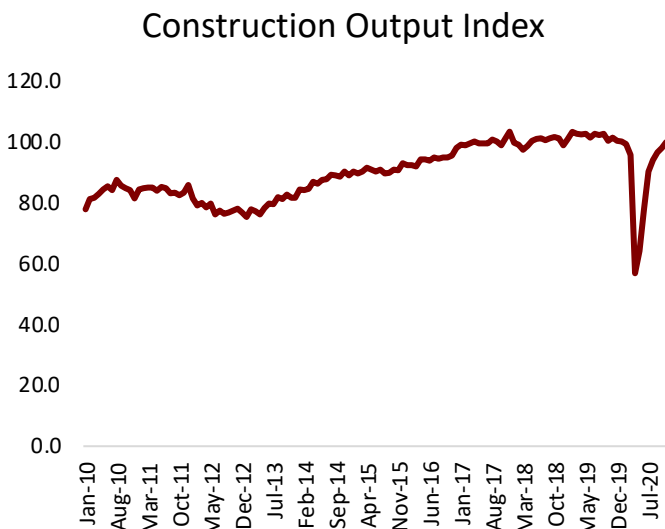
An interesting, and concerning, development that has come out of the COVID-19 pandemic is the amount of unemployment related benefits claims that have been filed by U.K. citizens. Even during the Great Recession we did not see numbers approaching what we have seen in our current recession. Chancellor of the Exchequer Rishi Sunak unveiled a furlough scheme in the Spring of 2020 designed to pay the wages of workers that would have otherwise been laid off. This scheme has supported over 9 million workers since its launch, and has been extended as the U.K. entered another national lockdown through this spring.



Economic Indicators

Inflation

Current levels of inflation in the U.K., like the much of the rest of the developed world, remain low by historical standards. There has been some sounding of the alarm when it comes to inflation, though. Slight increases in the inflation rate towards the end of 2020, along with the massive rounds of fiscal stimulus passed by Parliament, have some worried about a big future rise in inflation. Still, the Bank of England doesn't seem too concerned. It is keeping rates hovering right above 0, and has recently told regional banks to prepare for the possibility of taking rates negative.



Monthly All Work Index, Chained Volume Measure, Seasonally Adjusted (U.K. Office of National Statistics)

U.K.-E.U. Trade

The European Union accounted for 47% of the U.K.'s total trade in 2019, with Europe receiving 43% of British exports and with 52% of Britain's imports coming over from the mainland. Although the share of British trade with the E.U. has been slowly declining for some time now, there was a lot of concern over a potential no-deal Brexit. These concerns were quashed in late December when the U.K. and the E.U. agreed to a trade deal. There still are many concerns regarding trade between the E.U. and the U.K. that need to be hashed out though, as will be touched on in the 'Trade' writeup later on.

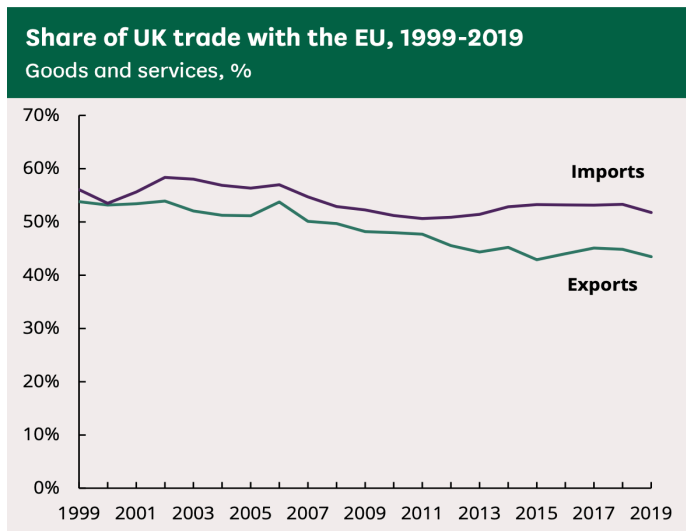
Consumer Price Index



Consumer Price Index for All Items in the United Kingdom, Percent Change from Year Ago (St.. Louis Federal Reserve)

Construction Output

After a record decline of over 40% in April of 2020, construction output in the U.K. continued its positive streak, with November of 2020 being its 7th straight month of growth. Construction output in the U.K. has also returned to pre-pandemic levels. It was again November 2020 that saw construction output levels higher than those of February 2020, the last full month before COVID-19 took a hold in the U.K. However, new construction work is still below pre-pandemic levels. There are encouraging signs on this front as well, though, as the most recent report on construction output from the ONS shows new work steadily recovering as the year progresses.



Briefing Paper, Statistics on UK-EU Trade (House of Commons Library)



International/Geopolitical Factors

Trade

On December 24, 2020, the European Union and the U.K. agreed to a Trade and Cooperation Agreement after years of back and forth. After ratification by both the British Parliament and the E.U. Council, the provisional agreement took effect on January 1, 2021. This agreement was necessary for the two parties, but mainly the U.K., in order to not face the drastic economic consequences stemming from a no-deal Brexit and the potential hard borders they would result in. However, the deal had dashed all the negative effects of the U.K.'s leaving of the bloc. There remain massive nation-wide shortages of certain goods that come from mainland Europe, things like fresh fruits and vegetables. This is particularly pronounced in the British countryside, which has historically lagged behind metropolitan areas such as Greater London. You are also seeing multinationals firms be hurt by the effects of leaving the Union. Companies and countries that drive the European economy such as Germany have a negative outlook on doing business with Britain due to things such as logistics, legal uncertainties, customs bureaucracies and tariffs. There is also the concern that with the U.K. out of the E.U. it will have to negotiate new trade deals with nations. The U.K. has reached agreements with 63 countries to keep trading in the same way as before, and the U.K. has deals in place with countries like Canada and Mexico that will soon take effect. The U.K. also has reached a deal with Japan, and has signaled its intention to apply for membership in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Joining the CPTPP would push Britain into a free trade agreement with 11 other countries in the Asia-Pacific region, with some heavy-hitters such as Canada, Australia, New Zealand and Japan being current members. The U.K. also is negotiating with Australia and New Zealand separately as well. However, trade with biggest trading partner outside of the E.U., the United States, remains subject to WTO rules currently (as do all nations in which there is no present trade agreement). With a new administration in Washington, the British government loses what was a friendly voice in the White House. The current Biden administration has repeatedly said there will be no U.S.-U.K. trade agreement if the Good Friday Agreement that ended the Troubles is violated. With a hard border currently in place between Northern Ireland and the rest of the U.K., it remains to be seen what the new American administration will do from here. Optimism is abundant here though, as the U.S. look to reassert itself again on the world stage and bring together free-market democracies around the world to counter China. The U.K. is very eager to get an agreement done with its closest ally.

COVID-19

Like the rest of the world, COVID-19 has been a massive detriment to British life and the U.K.'s economy. The result has been over 4 million current cases and close to 120,000 deaths in the U.K. The U.K. is currently third in the world for highest death rate per capita (it was first less than a month ago). Britain is also currently in the midst of another national lockdown, with late February-early March being the potential dates in which the national lockdowns are lifted, depending on where you reside in the U.K. The hope is that once the COVID-19 vaccine is more distributed, the lockdowns can be eased. The good news is the U.K. has administered almost 15 million first dosages of the vaccine throughout the nation, and currently boasts the 3rd highest vaccination rate in the world. This includes everyone over the age of 70, people who are frontline healthcare workers, people in care homes and those extremely vulnerable. Adults over 50 and any other remaining risk groups are on track to receive their first dose of the vaccine by the end of April, according to Prime Minister Boris Johnson. Because of an agreement with British pharmaceutical company AstraZeneca, who manufactures a variant of the vaccine, Britain will be a prioritized market. This vaccine variant has also proven effective against the new, more transmissible 'British' strain of COVID-19.