Office for National Statistics

Article

Quarterly economic commentary: July to September 2020

Economic commentary for the latest quarterly national accounts, prices and labour market indicators.

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1 . Main points

- UK gross domestic product (GDP) increased by 16.0% in Quarter 3 (July to Sept) 2020, reflecting the easing of lockdown restrictions over this period, as well as some recovery of activity from the steep contraction in April, and is now 8.6% below its pre-coronavirus level.

- As restrictions were lifted through Quarter 3 2020, there was a sharp increase in household consumption that explains the relatively lower household net lending position of 8.6% in the latest quarter; the rebound in consumer spending explains the quarterly fall in the saving ratio to 16.9%, although this remains elevated by historical standards.

- The current account deficit was 2.9% of GDP in Quarter 3 2020, capturing large gross trade flows in finished manufactured goods this year as many economies reopened from the most stringent of lockdown restrictions, while there has been less of a rebound in the exports and imports of travel and transport services.

- Total employment in the three months to October 2020 has fallen by 551,000 since the three months to February, while the latest HM Revenue and Customs Pay As You Earn figures show a stronger fall between February and November 2020, as there are 819,000 fewer people in payroll employment.

- The annual rate of the Consumer Prices Index including owner occupier's housing costs (CPIH) inflation was 0.6% in November 2020; clothing and footwear was the largest driver of the fall in the annual rate of CPIH between October and November 2020, likely reflecting increased discounting in November.

2 . Gross domestic product (GDP)

UK gross domestic product (GDP) increased by 16.0% in Quarter 3 (July to Sept) 2020, reflecting the easing of lockdown restrictions over this period as well as some recovery of activity from the steep contraction in April 2020. There was a cumulative 21.2% fall in GDP in the first half of this year in response to the imposition of public health restrictions to contain the spread of the coronavirus (COVID-19), as well as voluntary social distancing by individuals to protect public health. The level of UK GDP in the Quarter 3 2020 was 8.6% below its pre-coronavirus level in Quarter 4 (Oct to Dec) 2019.

More timely estimates[1] point towards a slowing in the recovery in the UK economy in October 2020, as further local restrictions came into effect. While the UK economy has increased for six consecutive months following the record decline in April 2020, the 0.4% monthly increase in October was the slowest since then, as the imposition of further public health restrictions particularly weighed on services output in October. This was most notably reflected in a sharp fall in accommodation and food service activities. There was an increase in manufacturing output in October, particularly that of transport equipment, while there was a pickup in the volume of health activity on the month as patient services continued to increase.

The Office for Budget Responsibility expects a sharp fall in output in November 2020, with the path of GDP over the following few months depending upon "the effectiveness of the lockdown in bringing cases down, the severity of post-lockdown health restrictions necessary to keep the virus in check, and the response of households and businesses to both the path of the virus and the official restrictions".

The latest Business Impacts of Coronavirus Survey finds that 45% of businesses experienced a decrease in turnover compared with normal expectations for this time of year in late November 2020, an improvement from the period in late October when there was a tightening of local restrictions. The Flash UK Purchasing Manager's Index for December 2020 paints a subdued picture for the services industry towards the end of the year, highlighting "restrictions on hospitality, leisure and travel businesses". That said, there was evidence of an overall pickup in activity in the first half of December, which may have reflected the rebound in global trade as well as increased stockpiling in the run up to the end of the EU exit transition period.

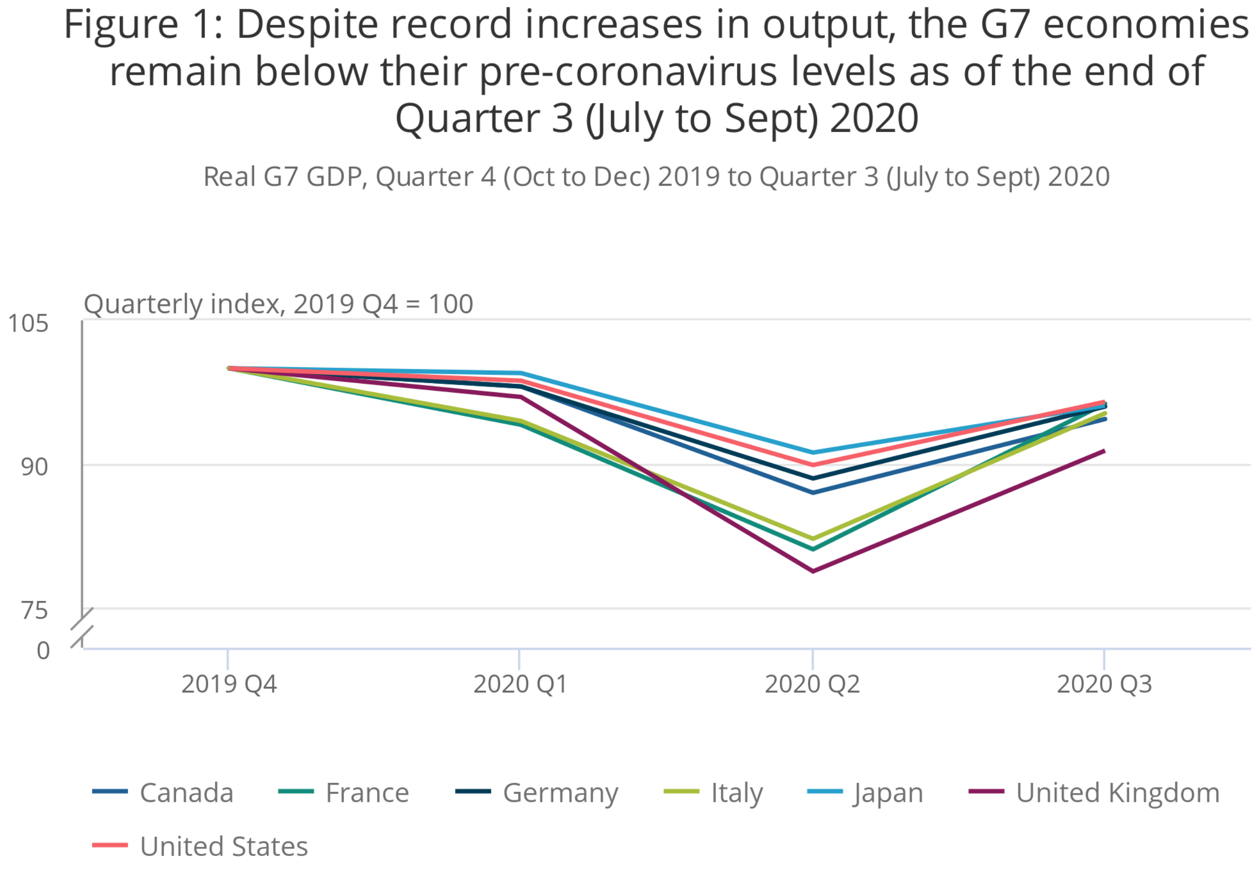
Figure 1 shows the positions of the G7 economies relative to their pre-coronavirus levels as of the end of 2019. It shows the peak-to-trough falls in output that were experienced in the first half of this year, as well as how much of this has been recovered in Quarter 3 2020. The profiles for each country primarily reflect the spread of the coronavirus, as well as how widespread voluntary and involuntary restrictions were imposed over this period. The pandemic has also had wide ranging effects on industries, as those most reliant on physical interactions experienced the largest contractions.

The UK economy has been hit relatively worse than other advanced economies, as it experienced the largest contraction over the first six months of the year. However, the measurement of non-market output is likely to have played a role, specifically the extent to which volume indicators are in place in the UK to record health and education output, as these have been affected by the response to the pandemic.

There were double digit declines in the first half of 2020 for all G7 economies, except Japan. None of these economies have yet returned to their pre-coronavirus levels, ranging from a shortfall of 3.5% for the United States up to 5.3% for Canada. The UK had the largest shortfall relative to its pre-coronavirus level as of the end of Quarter 3 2020.

Figure 1: Despite record increases in output, the G7 economies remain below their pre-coronavirus levels as of the end of Quarter 3 (July to Sept) 2020

Real G7 GDP, Quarter 4 (Oct to Dec) 2019 to Quarter 3 (July to Sept) 2020



Source: Office for National Statistics, Organisation for Economic Co-operation and Development

Notes:

1. All international figures correct as of 17 December 2020.

In its latest update, the International Monetary Fund (IMF) forecasts that the global economy will contract by 4.4% this year, then increase by 5.2% in 2021. However, these forecasts are inherently uncertain, particularly in relation to "the path of the pandemic, the adjustment costs it imposes on the economy, the effectiveness of the economic policy response, and the evolution of financial sentiment". The IMF expects that voluntary social distancing will persist into next year until the health concerns are tackled, while countries may have to further tighten the restrictions that are in place depending on the spread of the virus.

These are broadly in line with the latest projections by the Organisation for Economic Co-operation and Development (OECD), which expects output to remain persistently weaker than projected prior to the pandemic. While recent progress in developing an effective vaccine has improved the outlook, there is still much uncertainty. The outlook depends on the "magnitude, duration and frequency of new COVID-19 outbreaks, the degree to which these can be effectively contained, the time until an effective vaccine can be widely deployed, and the extent to which significant fiscal and monetary policy actions continue to support demand".

There has been an uneven impact of the pandemic on the economy, as reflected in the distribution of the change in how much output each industry has produced. This reflects how the pandemic has led to changes to what is consumed and what is produced. Figure 2 shows the levels of output produced by each services industry relative to its pre-coronavirus levels, capturing the initial effects of the coronavirus pandemic in the first half of this year and how this has evolved in Quarter 3 2020. One feature is how it has been the service industries that have experienced the largest impacts, which have tended to incur smaller declines in previous recessions. This reflects the nature of the public health response to this crisis as well as any behavioural changes, such as social distancing, as the response has been to slow the rate of transmission through physical interactions.

The latest Business Impacts of Coronavirus Survey finds that highest percentage of businesses that experienced a decrease in turnover compared with normal expectations for this time of year was in the accommodation and food service (78%) and the arts, entertainment and recreation industries (71%). The Organisation for Economic Co-operation and Development (OECD) finds a similar trend in other countries, where "output fell particularly sharply in service activities requiring close proximity between consumers and producers, or large crowds, or travel" in the initial months of the pandemic.

Figure 2: The services industries have tended to have experienced the larger declines in output this year

UK, Quarter 4 2019 to Quarter 3 2020

Notes

1. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).
2. Index is referenced to Quarter 4 (Oct to Dec) 2019.

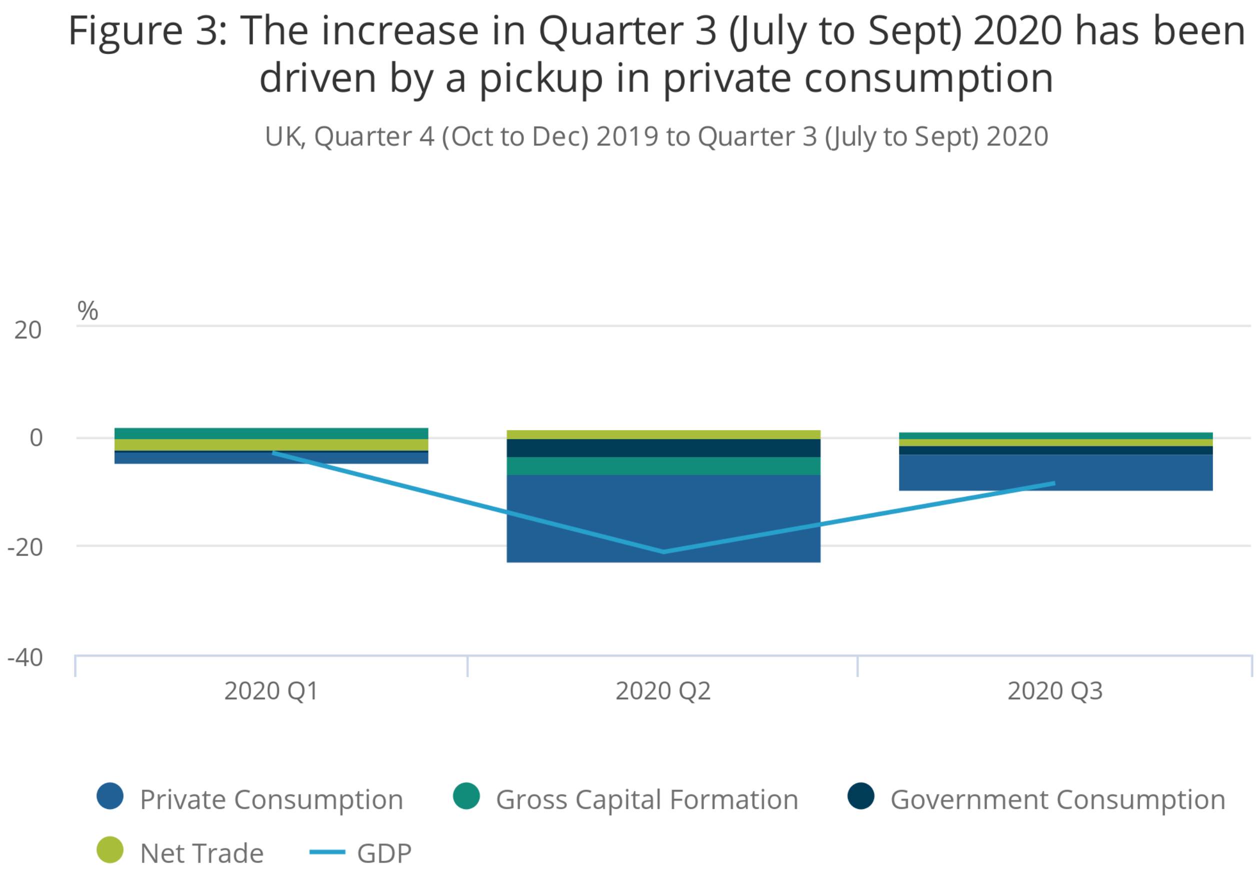
The bounce back in Quarter 3 2020 has been primarily driven by a recovery in private consumption. Figure 3 shows the how the economy has evolved relative to the end of 2019, capturing the cumulative change in GDP and its expenditure components since Quarter 4 2019. The coronavirus pandemic has led to not only large movements in spending this year, but also a change in spending patterns in UK, reflecting a move away from spending on social and work-related activities.

There was a record contraction in household consumption in Quarter 2 (Apr to June) 2020, particularly spending on restaurants and hotels, transport and recreation, reflecting the enforced restrictions and reduced operating capacity of businesses. Higher levels of consumer caution may have also played a role, leading to a voluntary reduction in social interaction.

There was a strong rebound in Quarter 3 2020, as household consumption increased by 19.5% as there was a lifting in the lockdown restrictions imposed over this period, which led to higher spending on restaurants and hotels and transport. Retail sales volumes fell by 3.8% on the month in November 2020, particularly in clothing stores and fuel sales, as further local and national restrictions impacted upon non-essential retail in this period. That said, retail sales are 2.6% above their pre-coronavirus levels, in part reflecting the shift to online sales.

Figure 3: The increase in Quarter 3 (July to Sept) 2020 has been driven by a pickup in private consumption

UK, Quarter 4 (Oct to Dec) 2019 to Quarter 3 (July to Sept) 2020



Source: Office for National Statistics – Quarterly National Accounts, UK: July to September 2020

The recovery in business investment over Quarter 3 2020 has been much weaker than that of household consumption. The level of business investment is still 19.0% lower than its pre-coronavirus level. Survey evidence cites how there are "concerns about the strength of the recovery, uncertainty about the outlook, and cash positions". Furthermore, there would have still been uncertainty around the future relationship with the European Union.

While there is some evidence that cash-flow deficits for businesses have significantly increased this year, the latest Financial Stability Report highlights how businesses have raised substantial external financing in recent months to help finance these cash-flow deficits. That said, given that some businesses may prefer to maintain their cash positions and that there may still be further restrictions on activity, this may still weigh on the ability and /or willingness to invest right now[2].

The volume of government consumption increased by 10.4% in Quarter 3 2020, reflecting a pickup in the volume of activity in health and education. Within healthcare, elective surgery and GP services have shown strong recovery in Quarter 3 2020, while the volume of activity in other areas such as dental services remains low because patient capacity is reduced when following coronavirus safety protocols. The volume of education consumption increased by 22.1% in Quarter 3 2020, as schools reopened after the summer holidays but attendance was lower than usual.

In Quarter 3 2020, nominal GDP increased by 13.4%. There was a large rise in taxes less subsidies, reflecting the record high level of subsidies in the previous quarter that related to the Coronavirus Job Retention Scheme (CJRS) and the Self-Employment Income Support Scheme (SEISS). There was a reduction in these subsidies in Quarter 3 2020, reflecting the profile of furloughing over the last two quarters. There has been a 9.4% increase in tax revenues in Quarter 3 2020, following the sharp fall in revenues from Value Added Tax (VAT), as well as from fuel, tobacco, stamp, and air passenger duties in the previous quarter.

Notes for: Gross domestic product (GDP)

1. The latest official estimates of monthly GDP do not reflect the revisions that have been incorporated as part of the latest Quarterly National Accounts released on 22 December 2020. Fully consistent figures will be released on 15 January 2021. An indicative monthly path for the first three quarters of 2020 has been made available.

2. Further information on the balancing challenges in the Quarterly National Accounts is available.

3 . Institutional Sector Accounts

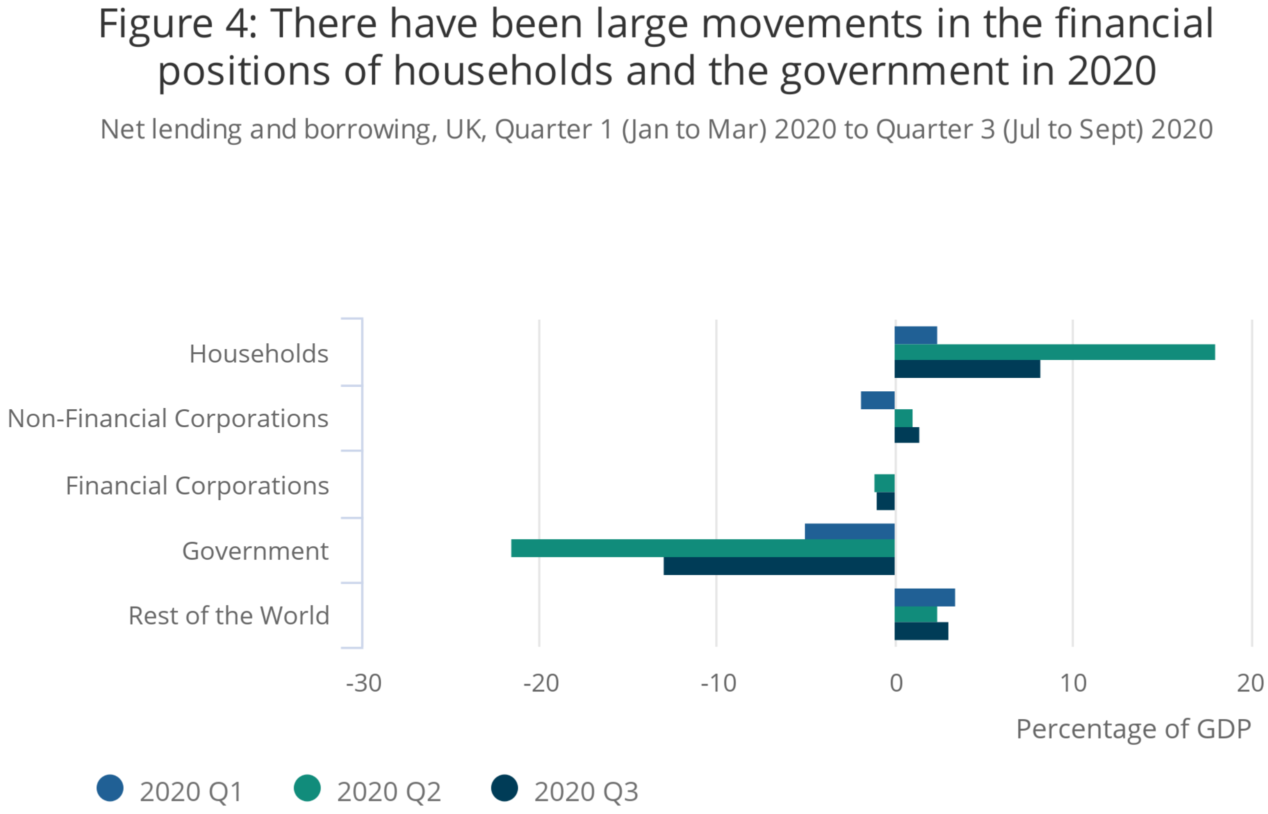
The coronavirus (COVID-19) pandemic has led to large movements in the non-financial and financial transactions of households, corporations, the government and the rest of the world[1] this year. Non-financial transactions have been significantly affected by the response to the pandemic, including how lockdown restrictions have evolved over this period as well as the package of government interventions. Heightened uncertainty is likely to have also had an impact on the behaviours of households and corporations, while financial transactions have also been responsive to the volatility experienced earlier in the year.

There have been unprecedented movements in the sectoral net lending or borrowing positions (Figure 4). Following a sharp increase in the net lending position of households in the previous quarter (Quarter 2 (Apr to June) 2020), reflecting the record contraction in consumption expenditure, this position partially unwound in response to the re-opening of the economy, although households still have a sizeable net lending position of 8.6% of gross domestic product (GDP).

In contrast, private non-financial corporations (PNFCs) experienced a further increase in their net lending position, having been net borrowers for much of the period following the global financial crisis. The household position is primarily the counterpart to the government position, which has a net borrowing position of 12.9% in Quarter 3 2020.

Figure 4: There have been large movements in the financial positions of households and the government in 2020

Net lending and borrowing, UK, Quarter 1 (Jan to Mar) 2020 to Quarter 3 (Jul to Sept) 2020



Source: Office for National Statistics – Quarterly Sector Accounts, UK: July to September 2020

Notes:

1. Households include non-profit institutions serving households (NPISH).

Households reduced their record net lending position of 18.6% of GDP from the previous quarter, which reflected how the imposition of lockdown restrictions led to a contraction in non-essential spending. As these restrictions were lifted through Quarter 3 2020, there was a sharp increase in household consumption, specifically on restaurants and hotels and transport, which explains the relatively lower net lending position of 8.6%.

Households had mainly financed the record levels of net lending in Quarter 2 2020 by increasing the amount of currency and deposits placed with financial institutions, which were then significantly reduced in Quarter 3 2020 as households reduced their net lending position. This was also financed by an increase in loan liabilities in the most recent quarter.

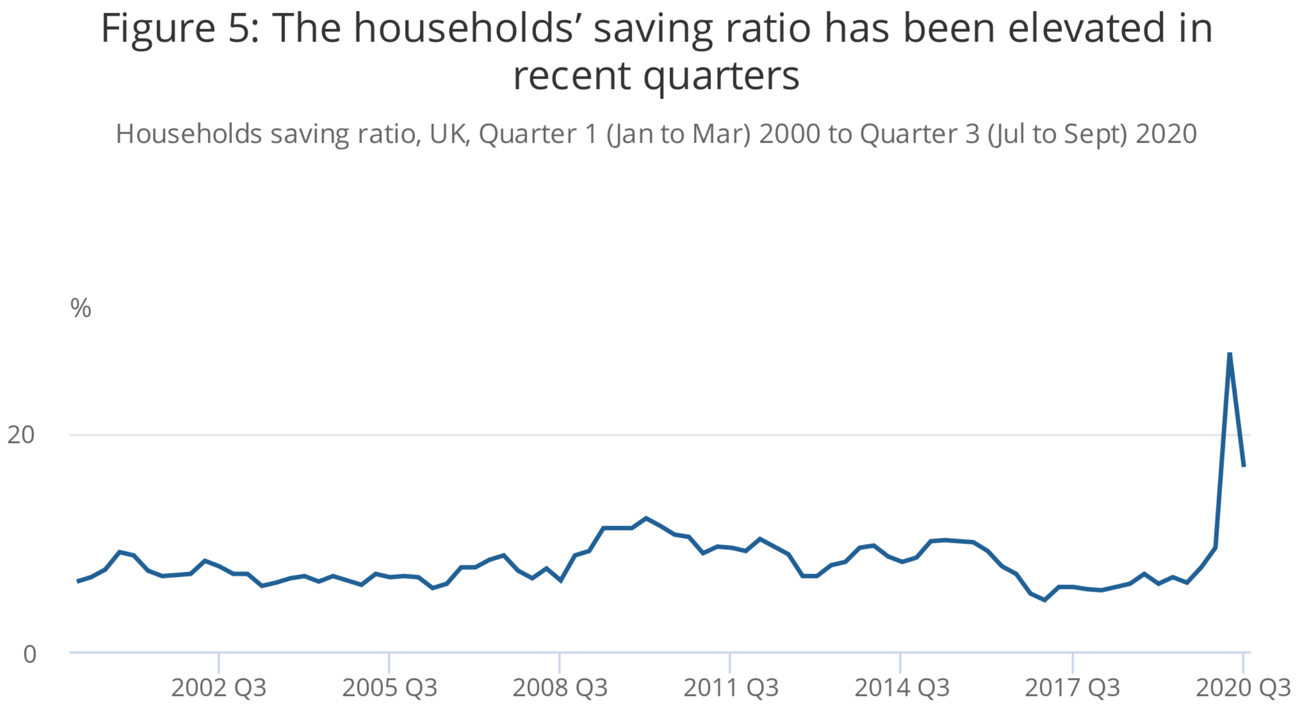
The Organisation for Economic Co-operation and Development (OECD) finds international evidence that there has been an increase in the amount of deposits held in banks by households earlier in the year, which had taken place at a faster rate than in recent years. It highlights the role of containment measures, where "some household purchases were impossible at a time when incomes were maintained by government support, thus increasing saving and bank deposits" and how this had also impacted upon the "consumption of some high-ticket services". Elevated levels of uncertainty may have also played a role, as household saving tends to be influenced by the economic outlook.

The households saving ratio has been elevated in recent quarters, which peaked at a record 27.4% in the previous quarter as there was a sharp contraction in spending on social and work-related consumption. At the same time, the job retention schemes helped to maintain household income. The public health restrictions led to some households being unable to spend as would have been the case otherwise. Elevated levels of uncertainty around the prospects for the economy may have also led to an increase in precautionary savings.

As public health restrictions were lifted in Quarter 3 2020, there was a rebound in consumer spending that explains the fall in the saving ratio to 16.9%. The higher levels of household savings this year does not necessarily reflect that this was the case for all types of households. There is some evidence that "considerably more households have seen their incomes fall rather than rise, especially among lower income groups" and that the rise in total household savings was concentrated among high-income households, who also tend to have a lower marginal propensity to consume.

Figure 5: The households' saving ratio has been elevated in recent quarters

Households saving ratio, UK, Quarter 1 (Jan to Mar) 2000 to Quarter 3 (Jul to Sept) 2020



Source: Office for National Statistics – Quarterly Sector Accounts, UK: July to September 2020

In the years before the coronavirus pandemic, private non-financial corporations (PNFCs) had been net borrowers to finance their investment. However, there was a marked improvement in the financial position of non-financial corporations who became net lenders in Quarter 2 2020, reflecting a contraction in capital investment amidst increased uncertainty.

PNFCs increased their net lending further in Quarter 3 2020 to 1.5% of GDP, reflecting a rise in their gross operating surplus in line with the reopening of the economy as restrictions were lifted. While there was a pickup in capital spending, this was much less pronounced than household final consumption expenditure.

The latest Decision Maker Panel survey finds that respondents expected their investment to be 25% lower than it would have been because of the pandemic. This might reflect that the higher level of uncertainty around the outlook, particularly in relation to whether the changes in the level and composition of demand will persist as well as around the future relationship with the European Union. However, it also reports that a rebound in sales over the coming quarters is expected.

The cash-flow position might also explain why PNFCs continue to be net lenders in Quarter 3 2020[2]. The Bank of England estimates that UK companies could face a cash-flow deficit of up to around £180 billion this financial year, considerably higher than what would be expected. While some PNFCs have available cash balances to finance their cash-flow deficits, the Bank of England finds that the extent to which they would choose to do so is uncertain given that that there might be a preference to preserve existing cash balances. While PNFCs reduced their holdings of currency and deposits after its record increase in Quarter 2 2020, which likely reflected the demand to hold higher levels of liquid assets in these conditions, PNFCs reduced their stock of other accounts payable and debt liabilities.

The coronavirus pandemic has not only had a profound impact on the economy, but it has also had large consequences for the UK's public finances. General government was a net borrower in Quarter 3 2020 of 12.9% of GDP. This reflects both increased government expenditure and reduced tax revenue during the quarter.

Public sector net borrowing[3] in the first eight months of this financial year is estimated to have been £240.9 billion, £188.6 billion more than in the same period last year. At the end of November 2020, public sector net debt stood at around 99.5% of GDP - the highest debt to GDP ratio since the financial year ending 1962.

The Office for Budget Responsibility highlights that the ratio of debt interest spending to revenue is at historical lows over the forecast, but it also finds that the public finances are now more vulnerable to future changes in the cost of financing this higher stock of debt, as "debt interest spending [is] twice as sensitive to changes in short-term interest rates than prior to the pandemic". It also explains that there has been an increasing reliance on foreign investors to finance the fiscal deficit, so that the cost of servicing the debt is more exposed to any changes in investor sentiment.

Notes for: Institutional Sector Accounts

1. Non-financial transactions are those that relate to production, income, consumption and capital investment. Financial transactions are those that capture the change of ownership in financial claims.

2. Further information on the balancing challenges in the Quarterly National Accounts is available.

3. The PSNB and PSND cited here exclude public sector banks.

4 . Balance of Payments

The coronavirus (COVID-19) pandemic led to large falls in gross trade flows earlier in the year, reflecting the sharp contraction in UK and foreign demand as well as the adverse impacts of restrictions on global supply chains. The timing and stringency of restrictions that have been imposed in countries likely impacted upon the gross and net transactions.

The International Monetary Fund (IMF) forecasts global trade to contract by 10.4% this year, broadly in line with the declines experienced in the global financial crisis, despite the much larger fall in global gross domestic product (GDP). Given that it is those service industries that are reliant on physical interaction that have experienced the largest decline, which have low levels of trade intensity, the relative decline in trade flows is much lower than that seen around the time of the global financial crisis.

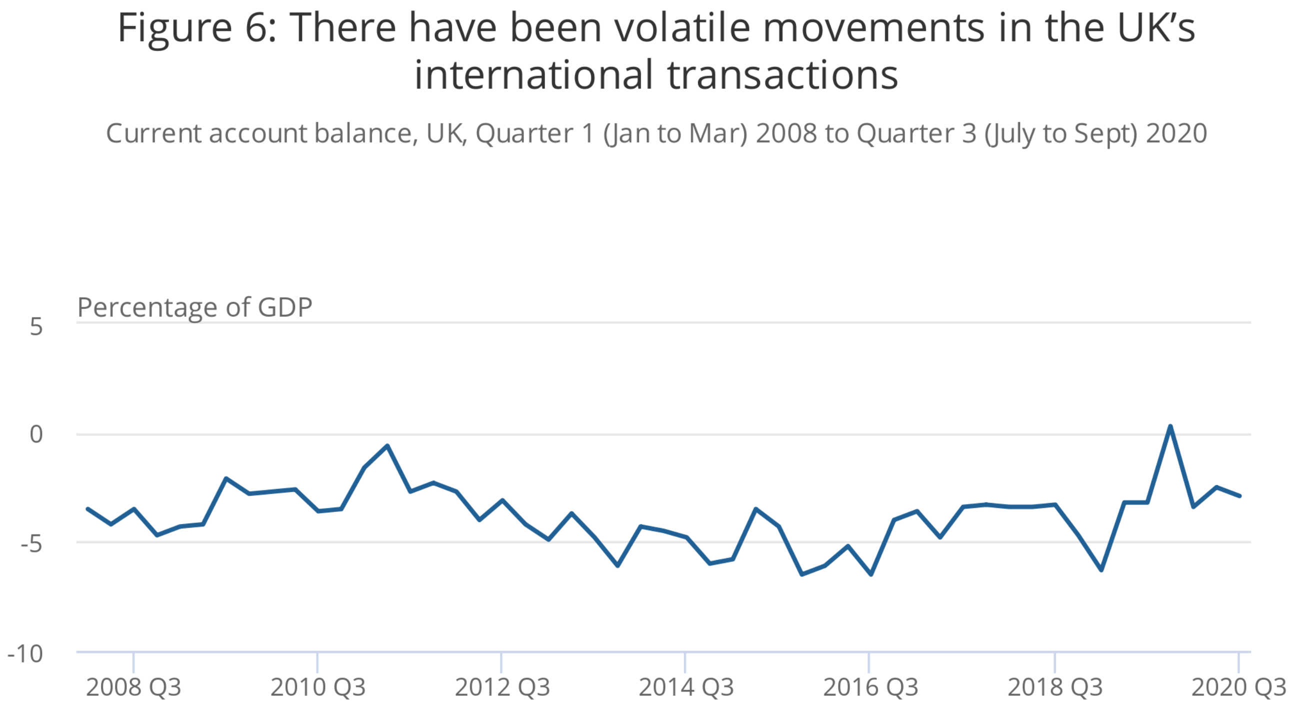
Figure 6 shows that net lending from the rest of the world stood at 2.9% of GDP in Quarter 3 (July to Sept) 2020. This is a slight widening from the previous quarter, but there have been large gross and net movements in the UK's international transactions in recent quarters. There have been large gross trade flows in finished manufactured goods this year. Following a sharp contraction in the previous quarter (Quarter 2 (Apr to June) 2020) reflecting the collapse in global demand, there has been a strong recovery in the international trade of these types of goods between the UK and the rest of the world as many economies reopened from the most stringent of lockdown restrictions.

There has been less of a rebound in the exports and imports of services, specifically in travel and transport. Having contracted sharply in Quarter 2 2020 in response to the restrictions imposed on international travel, similar levels of these trade flows were recorded in the latest quarter. The [Organisation for Economic Co-operation and Development] finds that global air passenger traffic and travel also remain exceptionally weak.

There had been a decline in investment income flows on the UK's external assets and liabilities in Quarter 2 2020, most notably on foreign direct investment (FDI). This may have reflected the lower interest rates that were imposed in many countries, while there was also some evidence that businesses may be responding by retaining a higher level of earnings, while reducing and/or cancelling dividend payments. There has been a rebound in these investment income flows in the latest quarter, particularly on FDI held in other countries, which explains the improvement in the net investment income position in Quarter 3 2020.

Figure 6: There have been volatile movements in the UK’s international transactions

Current account balance, UK, Quarter 1 (Jan to Mar) 2008 to Quarter 3 (July to Sept) 2020



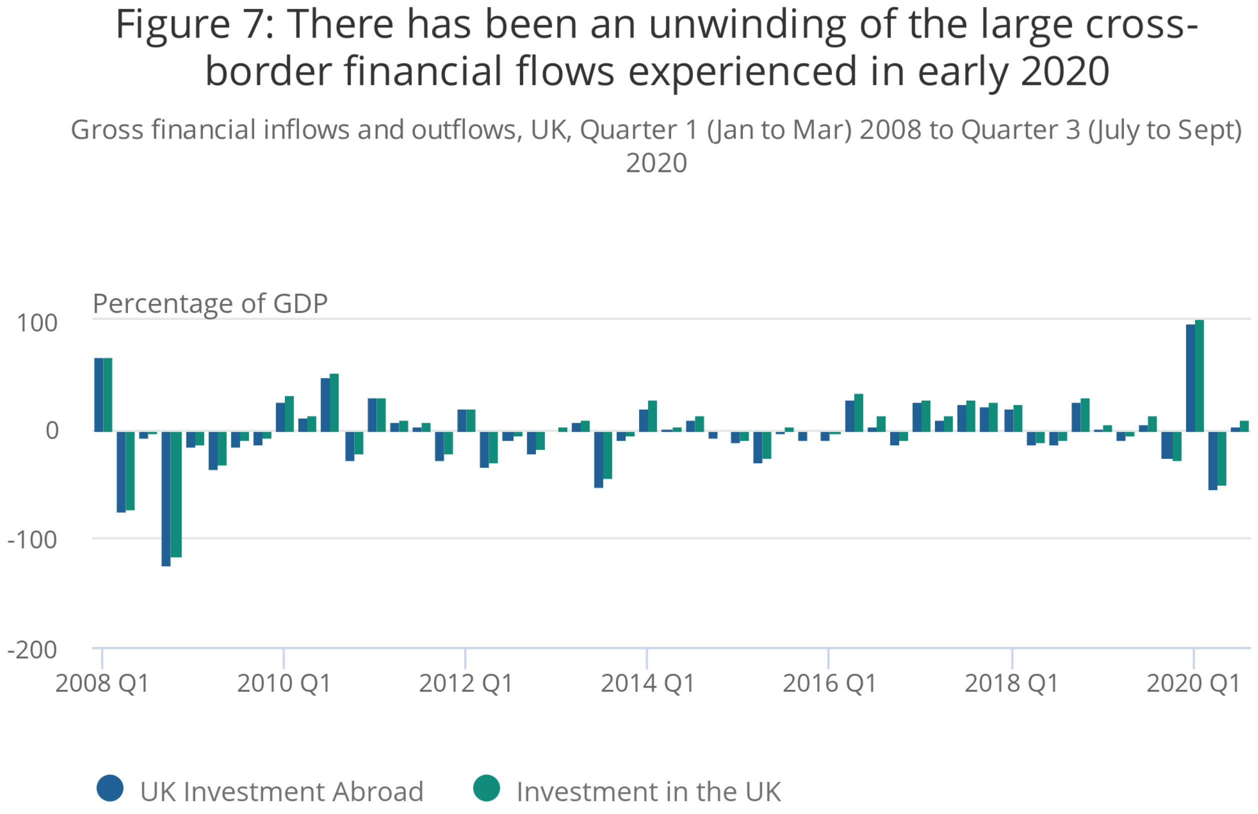
Source: Office for National Statistics – Balance of Payments, UK: July to September 2020

A current account deficit must be financed by net financial inflows. This can be achieved by increasing external liabilities to the rest of the world and/or disinvesting in previously owned external assets. Cross-border capital flows are prone to large swings, particularly for the more mobile forms of capital such as loans and deposits. This has particularly been the case through the coronavirus pandemic, likely reflecting the response of financial markets around the start of the coronavirus pandemic, as there was a shift in the risk appetite of investors (Figure 7).

There was an apparent unwinding of these large flows in Quarter 2 2020, as the UK reduced its gross external assets and gross external liabilities in loans and deposits. In Quarter 3 2020, there was some stabilisation in these flows as the UK financed its external position by increasing its liabilities, specifically in other investment.

Figure 7: There has been an unwinding of the large cross-border financial flows experienced in early 2020

Gross financial inflows and outflows, UK, Quarter 1 (Jan to Mar) 2008 to Quarter 3 (July to Sept) 2020



Source: Office for National Statistics – Balance of Payments, UK: July to September 2020

5 . Labour market

The UK labour market continues to be impacted by the coronavirus (COVID-19) pandemic. Total employment in the three months to October 2020 has fallen by 551,000 since the three months to February, primarily driven by a fall in the number of self-employed workers, while the number of employees has been largely the same. However, the latest HM Revenue and Customs (HMRC) Pay As You Earn figures show a stronger fall between February and November 2020, as there are 819,000 fewer people in payroll employment.

There has been a rise in the unemployment rate on the quarter to 4.9% in the three months to October 2020. Given the size of the contraction in output, the increase in unemployment has not been as large as would have been expected. For example, the Office for Budget Responsibility highlights how in previous recessions the adjustment to a fall in output has been split between employment and average hours worked. However, this has not been the case in this pandemic, primarily because of the government's job retention schemes as "firms have furloughed employees rather than cut jobs" and so the impact has primarily been on average hours.

The latest HMRC figures show that 2.4 million jobs have been furloughed on the Coronavirus Job Retention Scheme (CJRS) as at the end of October 2020. A further 2.3 million of the potentially eligible population had claimed a second Self-Employment Income Support Scheme (SEISS) payment by the end of October 2020. The latest Business Impact of COVID-19 Survey (BICS) shows that while the proportion of workers on furlough has been falling consistently between April and October 2020, around 16% of employees were still on furlough in late November.

Average weekly hours continued to recover in the three months to October 2020, as more workers returned from furlough and lockdown restrictions were lifted. The quarterly change in average weekly hours was strongest for the accommodation and food service activities industry, as restaurants and hotels re-opened at the beginning of July 2020 while the Eat Out to Help Out scheme boosted demand for food services in August. That said, the accommodation and food service activities industry fared worst on the year, as average hours worked were about 30% lower in the three months to October 2020 when compared with the same period in 2019.

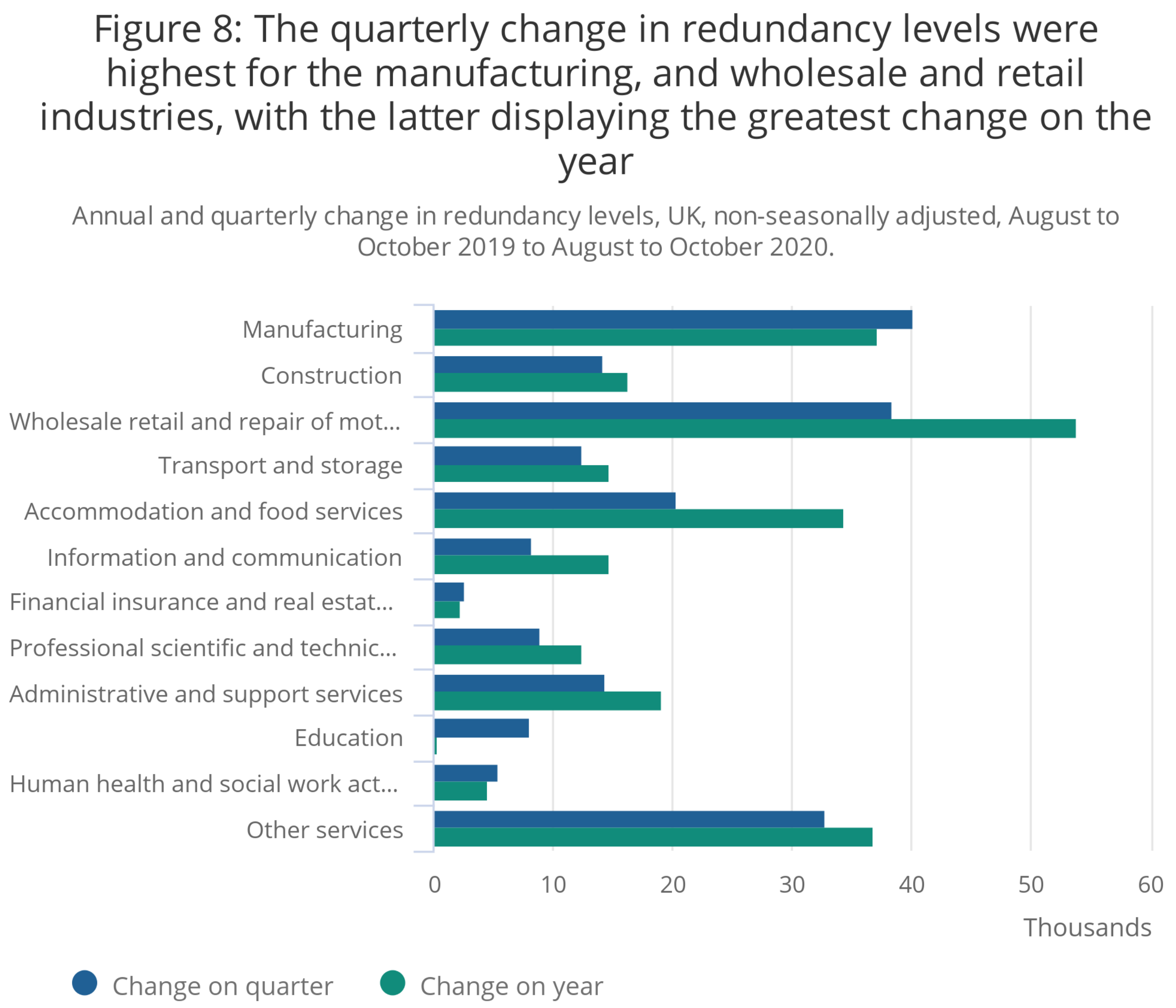
In the three months to November 2020, there were an estimated 547,000 vacancies. This reflects a quarterly increase of 110,000 vacancies, indicating a pickup in labour demand. The level ofvacancies remains about two thirds of what they were in the same period a year ago.

There was a fall in ratio of unemployment to vacancies to 3.2 in the three months to October 2020, but it is still higher than the 1.6 seen in the same period in 2019, highlighting the increase in slack in the labour market over the last year. However, the Recruitment and Employment Confederation provides some evidence that there has been a more recent fall in labour demand for permanent staff in November 2020. This might reflect the heightened levels of uncertainty and the tighter restrictions that have been imposed, given demand for temporary staff increased in November as employers may have been "opting for short-term workers for current business needs".

Redundancies hit a record high of 370,000 in the three months to October 2020. Figure 8 shows that the manufacturing, and wholesale and retail industries experienced the largest increases in redundancy levels across the quarter. Those employed in accommodation and food services, and administrative and support services were also at increased risk of redundancy, with these industries displaying the highest redundancy rates during the same period.

Figure 8: The quarterly change in redundancy levels were highest for the manufacturing, and wholesale and retail industries, with the latter displaying the greatest change on the year

Annual and quarterly change in redundancy levels, UK, non-seasonally adjusted, August to October 2019 to August to October 2020.



Source: Office for National Statistics – Labour Force Survey

Notes:

1. The redundancy level is the number of people who were made redundant in the three months prior to interview.

2. The quarterly change is compared with the previous three-month non-overlapping period (May to July 2020).

3. "Agriculture, fishing, energy and water" and "Professional, scientific and technical activities" estimates have been suppressed on disclosure grounds.

In the three months to October 2020, regular nominal pay increased at an annual rate of 2.8%. The movements in earnings have been particularly volatile through 2020, in part reflecting the changes in the number of people on furlough over that time. There are also compositional effects, as there has been a decline in lower-paid jobs in industries such as accommodation and food services, administration and support services, and wholesale and retail. The latest Recruitment and Employment Confederation report finds that average starting pay for workers continued to the fall in November 2020, linked to the increase in labour supply and subdued demand for workers.

6 . Prices

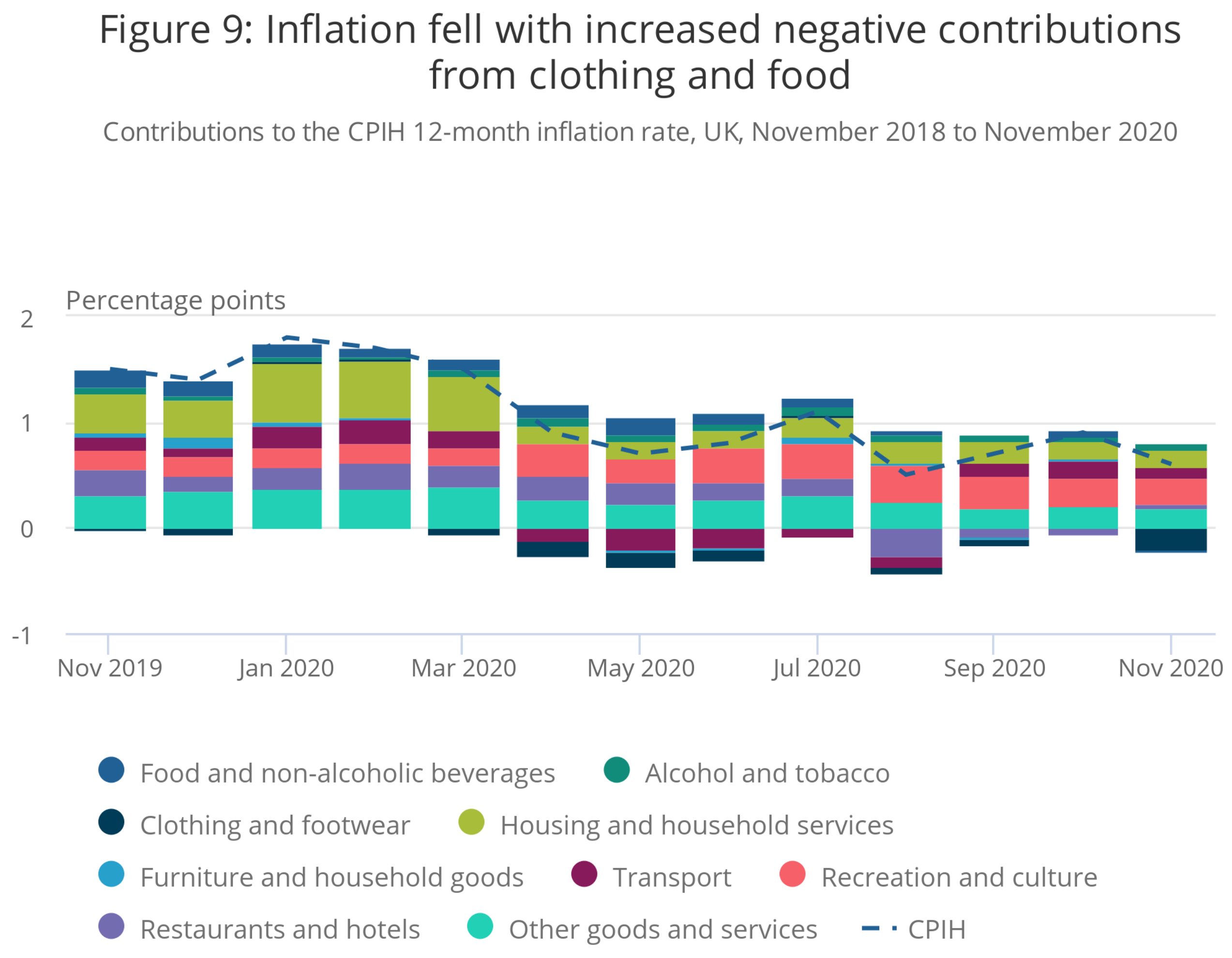
Consumer price inflation has been somewhat volatile in recent months, though there is some evidence that there is an underlying softening in prices. The annual rate of the Consumer Prices Index including owner occupier's housing costs (CPIH) inflation increased from 0.7% in September 2020 to 0.9% in October before falling back to 0.6% in November. The National Institute of Economic and Social Research (NIESR) finds that its estimate of underlying inflation experienced its largest fall of the pandemic in November.

Figure 9 shows that restaurants and hotels have generally made negative contributions to the annual rate of CPIH over recent months. This downward pull on inflation was initially driven by policy interventions including a cut in Value Added Tax (VAT) for the hospitality industry and the Eat Out to Help Out[1] (EOHO) scheme, which was in effect for much of August 2020, with the government supporting restaurants to offer 50% discounts on food and non-alcoholic beverages consumed on the premises, up to the value of £10 per person from Monday to Wednesday.

Once the scheme ended in September, many restaurants continued to offer discounts on the same terms as the EOHO scheme and the VAT reduction remained in effect. That said, the overall reduction in discounts saw the contribution from restaurants and hotels rise considerably and drive the increase in CPIH between August and September 2020.

Figure 9: Inflation fell with increased negative contributions from clothing and food

Contributions to the CPIH 12-month inflation rate, UK, November 2018 to November 2020



Source: Office for National Statistics – Consumer price inflation including owner occupier's housing costs

Notes:

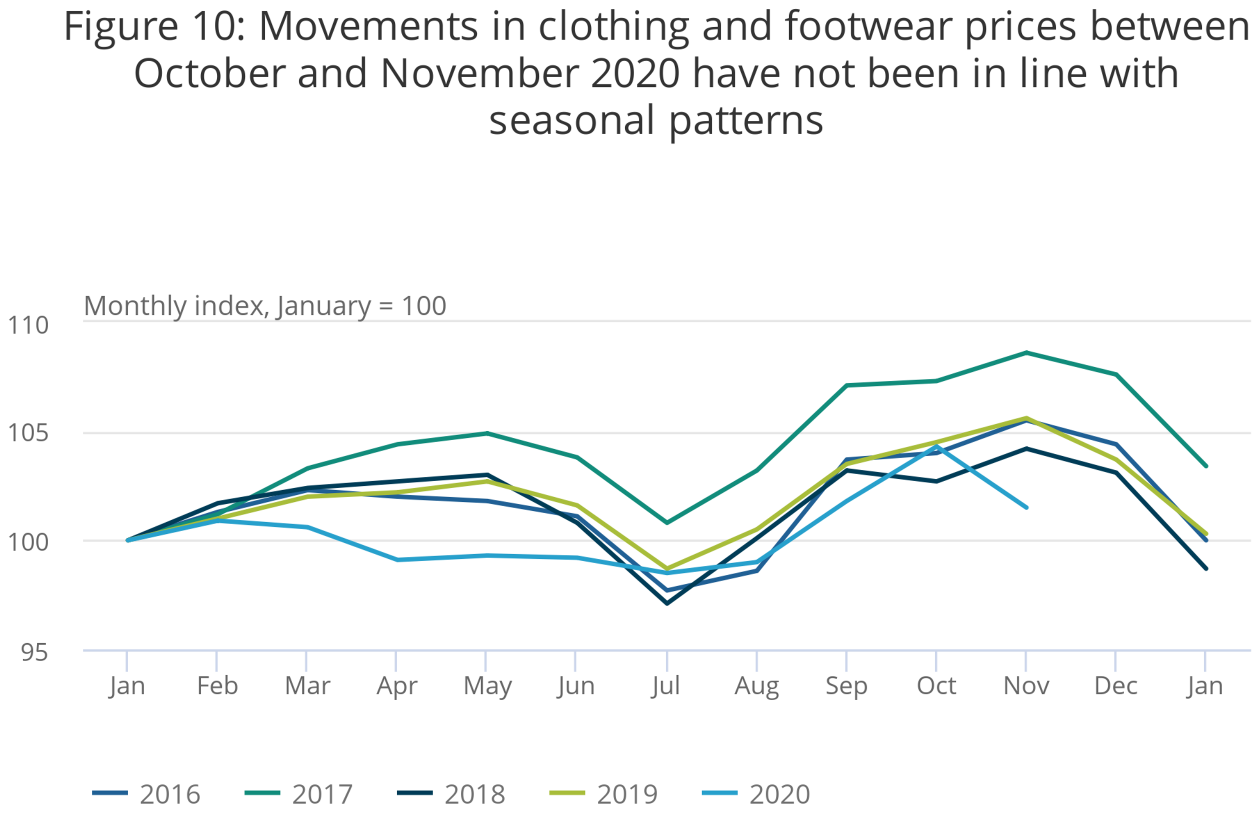
1. Individual contributions may not sum to the total because of rounding.
2. More information on the contents of each group can be found in Table 3 in the accompanying Consumer price inflation dataset.
3. Other goods: Health (60000), Communication (80000), Education (100000), Miscellaneous goods (120000).

Clothing and footwear was the largest driver of the fall in the annual rate of CPIH between October and November 2020. Prices overall fell by 2.6% between October and November 2020, compared with a rise of 1.0% between the same two months a year ago.

There has been a notable change to the pricing behaviour in clothing and footwear this year, which usually follows a fairly consistent seasonal pattern but has moved very differently in 2020. Figure 10 shows how prices have moved across the year for each of the past five years. The fall in November 2020 likely reflects increased discounting and there have been anecdotal reports of Black Friday sales spreading across the month.

In its analysis of underlying inflation, NIESR finds that the largest declines were recorded in clothing and footwear, which was likely impacted by the closure of all non-essential retail with further restrictions imposed in November 2020.

Figure 10: Movements in clothing and footwear prices between October and November 2020 have not been in line with seasonal patterns



Source: Office for National Statistics – Consumer price inflation including owner occupier's housing costs

Similar trends were seen earlier in the year. Prices fell between February and April 2020 as non-essential businesses were forced to close during the first national lockdown and remained low until the summer. Retailers offered higher levels of discounting in response to a sharp fall in consumer demand as people were advised to stay at home. Between July and October, movements began to converge back to usual trends before falling back again in November.

We have seen considerable changes in consumer spending patterns since the start of the pandemic, with much larger changes than would typically be seen in one year. Our reweighted basket measure of inflation seeks to address this by adjusting weights across the basket each month to reflect changes in expenditure. Our latest results found very little difference in growth rates between the reweighted basket and a comparably chain-linked version of the official rate.

The pandemic has also had considerable impact on business prices. The annual rate of input and output Producer Price Inflation (PPI) remained negative, which have been falling for much of the last year. These prices continue to be driven by crude oil and petroleum products, which have seen large effects from the coronavirus pandemic and measures taken across the world to curb its spread. While the prices of crude oil and petroleum products have risen from their lowest point in April 2020, they remain 34.0% and 31.3% below November 2019 levels respectively.

Average house prices in the UK increased by 5.4% in the year to October 2020, following a sharp fall in April 2020 and a relatively muted picture over the summer. This reflects the unusual conditions in the housing marking during the coronavirus (COVID-19) pandemic, including restrictions that were put in place from 23 March 2020. Subsequently, the property market has been re-opened including during recent lockdowns across the country.

Pent-up demand, reduced property transaction fees because of recent changes to property transaction taxes and a possible change in housing preferences, have contributed to a rise in housing demand. As some households may want larger properties given changes to how we work, this might explain why detached house prices increased by 6.8% in the year to October 2020, which can accommodate working from home, garden space or more attractive neighbourhoods. This compares to the 2.3% increase in flats over the same period.

Notes for Prices

1. Further analysis shows that consumers changed their behaviour in August shifting a proportion of their transactions from the traditional commercial weekend (Friday to Sunday) to the beginning of the week on discounted days (Monday to Wednesday). The proportion of weekly expenditure being spent on Monday to Wednesday was also higher during August 2020 than at any other period, despite a 50% discount being in effect. This may partly reflect a change in the type of purchases being made at this time with a shift towards sit-down meals.

7 . Related links

Coronavirus (COVID-19)
Web page | Updated as and when data are available
Our latest data and analysis on the impact of the coronavirus (COVID-19) on the UK economy and population. This is the hub for all special coronavirus-related publications, including the fortnightly Business Impact of Coronavirus (COVID-19) Survey (BICS).

GDP quarterly national accounts, UK: July to September 2020
Bulletin | Released 22 December 2020
Revised quarterly estimate of gross domestic product (GDP) for the UK. Uses additional data to provide a more precise indication of economic growth than the first estimate.

Business investment in the UK: July to September 2020 revised results
Bulletin | Released 22 December 2020
Estimates of short-term indicators of investment in non-financial assets, business investment, and asset and sector breakdowns of total gross fixed capital formation.

Consumer trends, UK: July to September 2020
Bulletin | Released on 21 December 2020
Household final consumption expenditure (HHFCE) for the UK, as a measure of economic growth. Includes all spending on goods and services by members of UK households.