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The UK economy and Covid-19

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Bratislava, 18 February 2022

[bayes.city.ac.uk]



UK GDP

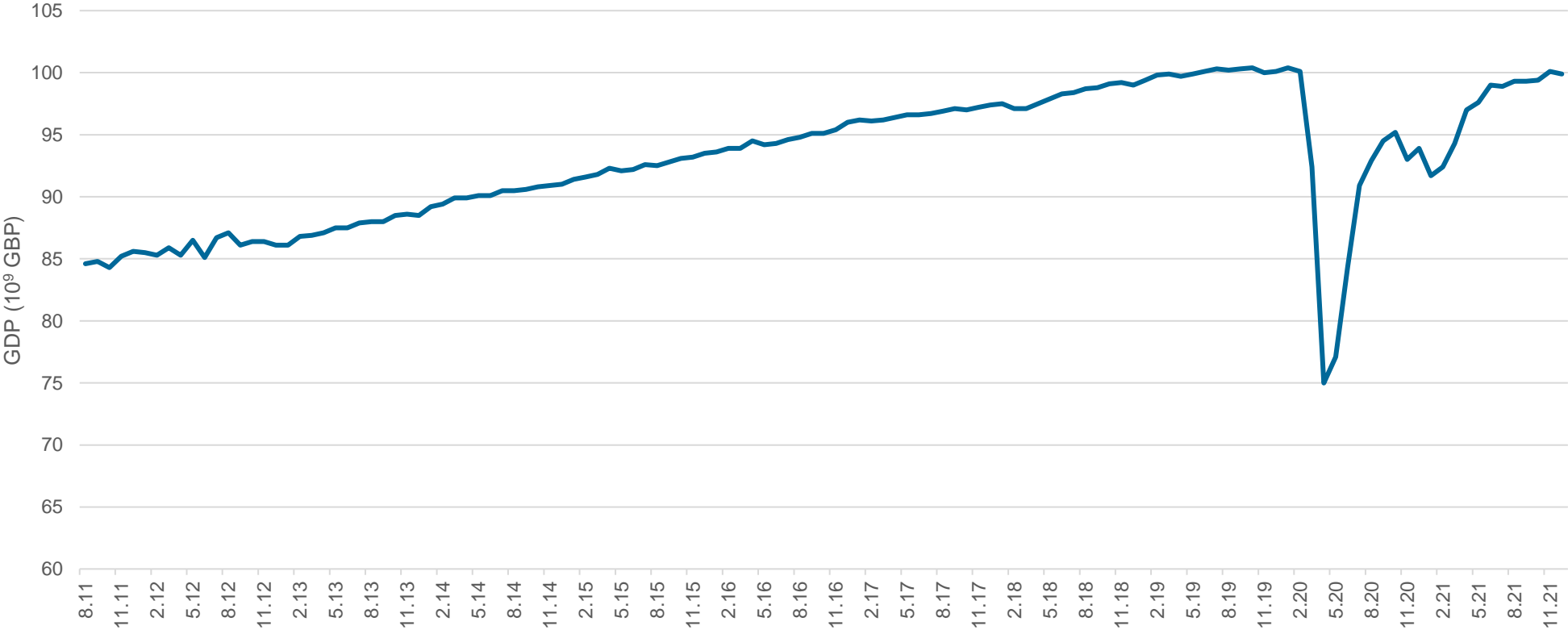
Impact of coronavirus

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The UK Economy

GDP Monthly Estimates 2011-2021



Source: Office for National Statistics



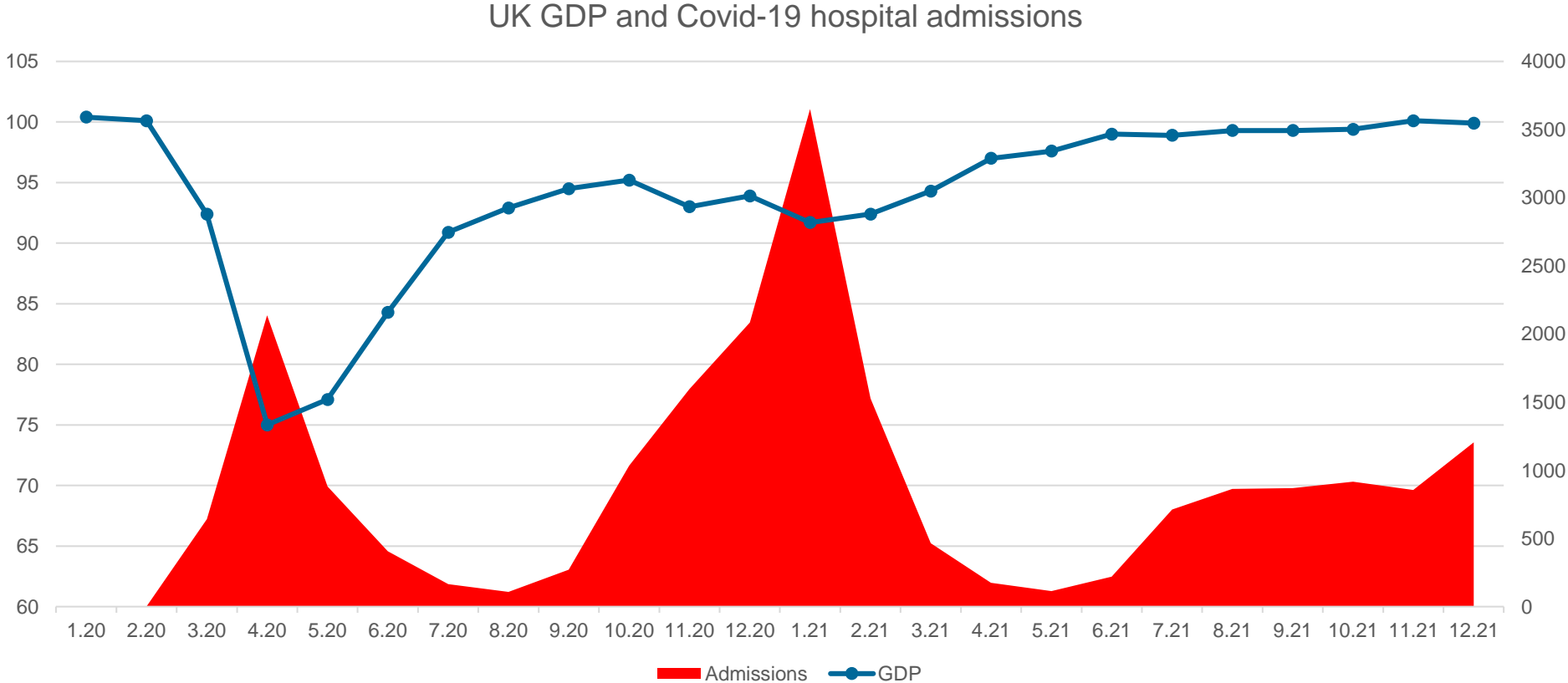
The UK Economy



Source: Office for National Statistics



The UK Economy



Source: Office for National Statistics



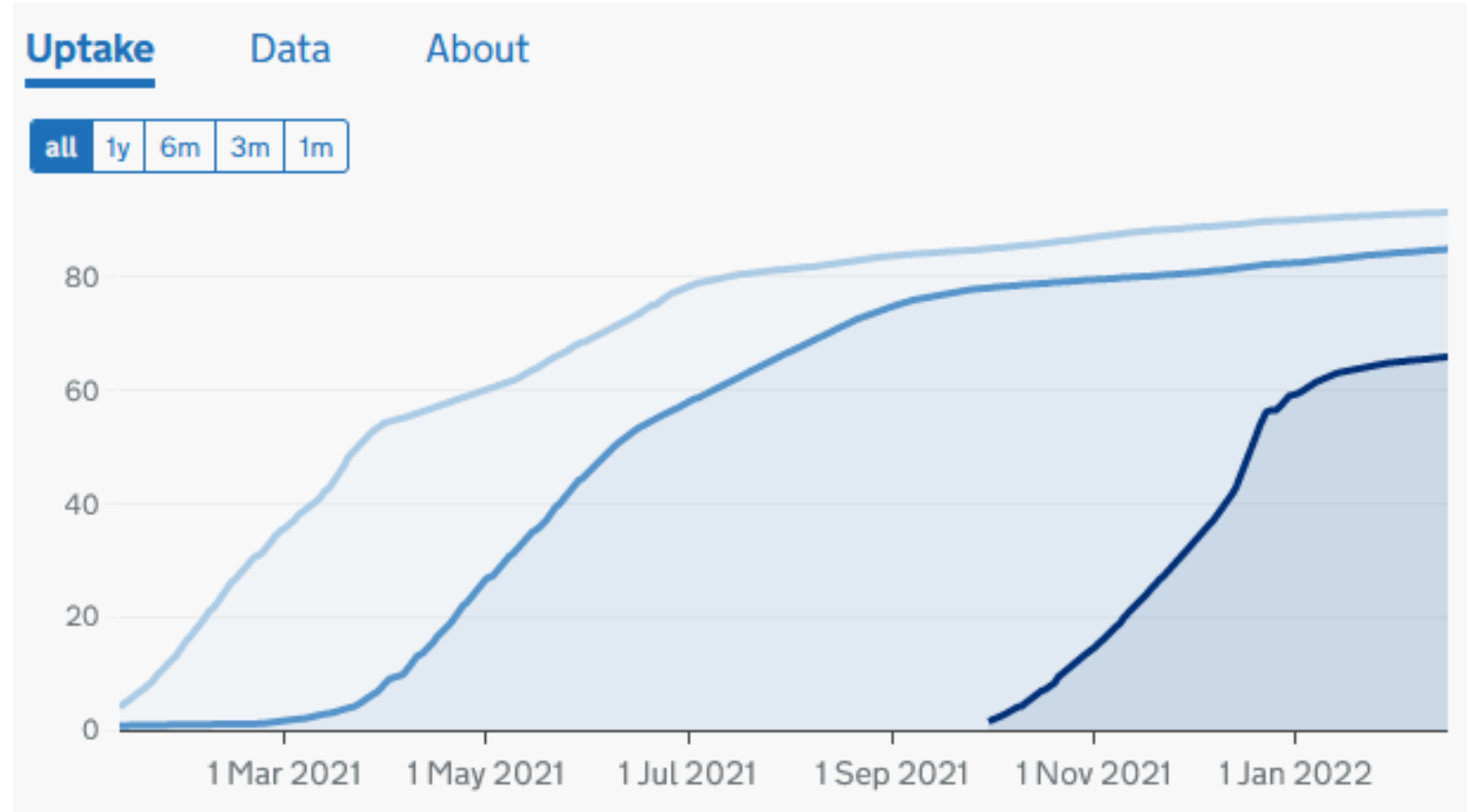
The UK Economy

- The graph on the previous page shows the strong link between hospital admissions and the GDP in the early days of Covid-19
- But, as hospital admissions increased in the winter of 2020/21, the economy was less severely impacted

Vaccinations

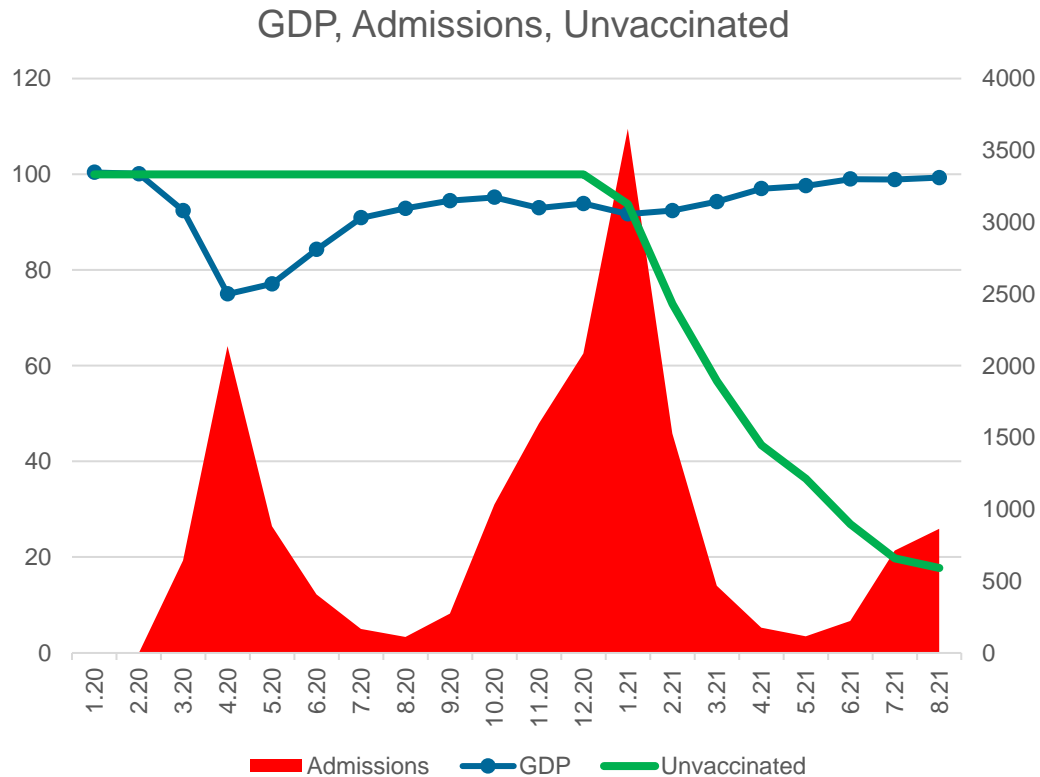
- The UK government would like people to believe that the return to more or less normal conditions is based on vaccinations
- And yet, vaccination does not really account for the difference

Vaccination of UK adult population (%)



Source: coronavirus.data.gov.uk

Vaccinations and the UK Economy



The peak of new cases in the winter of 2020/21 did not have the same effect on the economy as the peak in spring 2020.

But the vaccinations had only just started by that time, so do not really explain the observations.

Sources: Office for National Statistics and coronavirus.data.gov.uk



Inflation

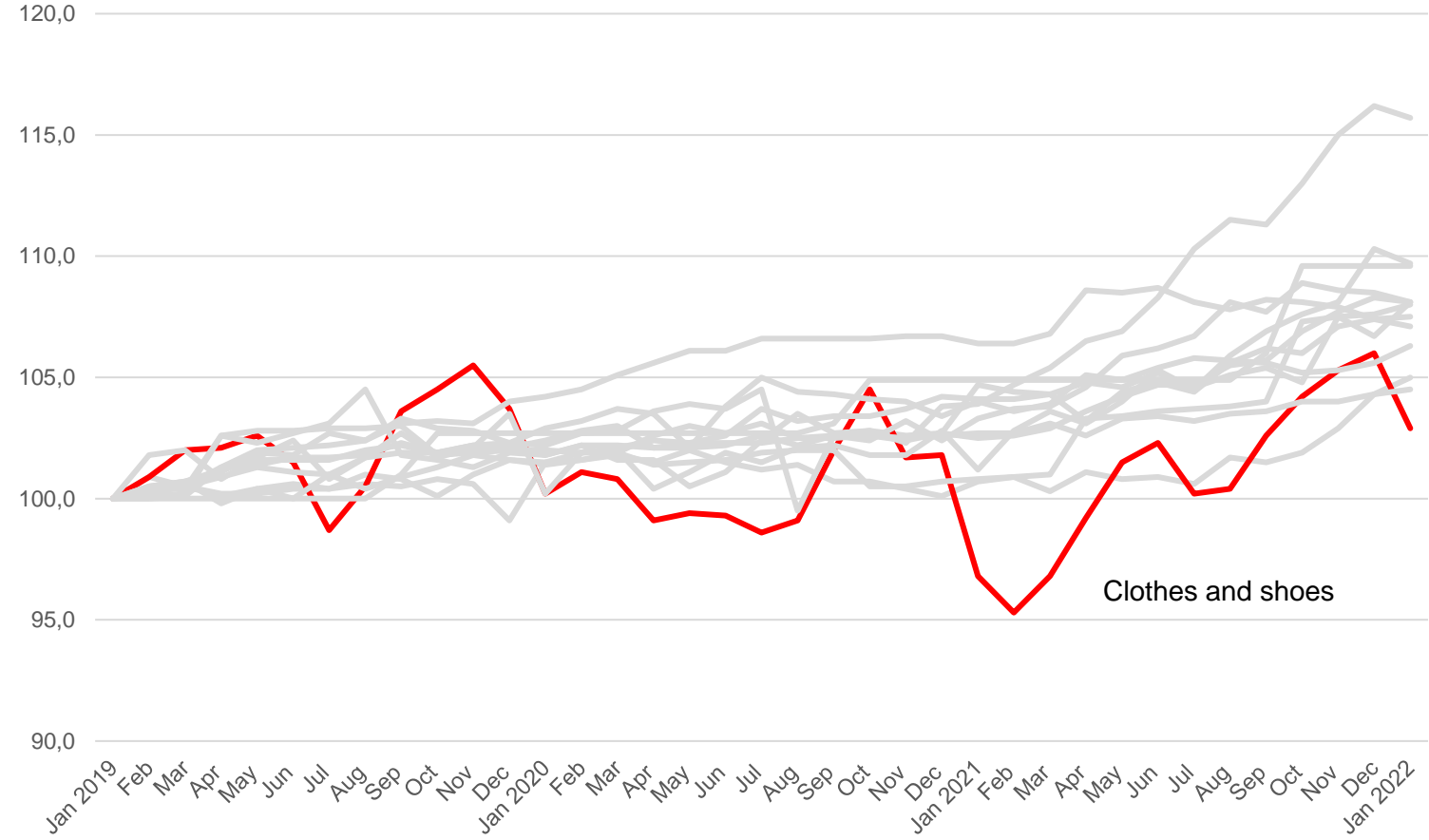
Recurrence of an old problem

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Consumer Prices Index

Consumer Prices Index by division



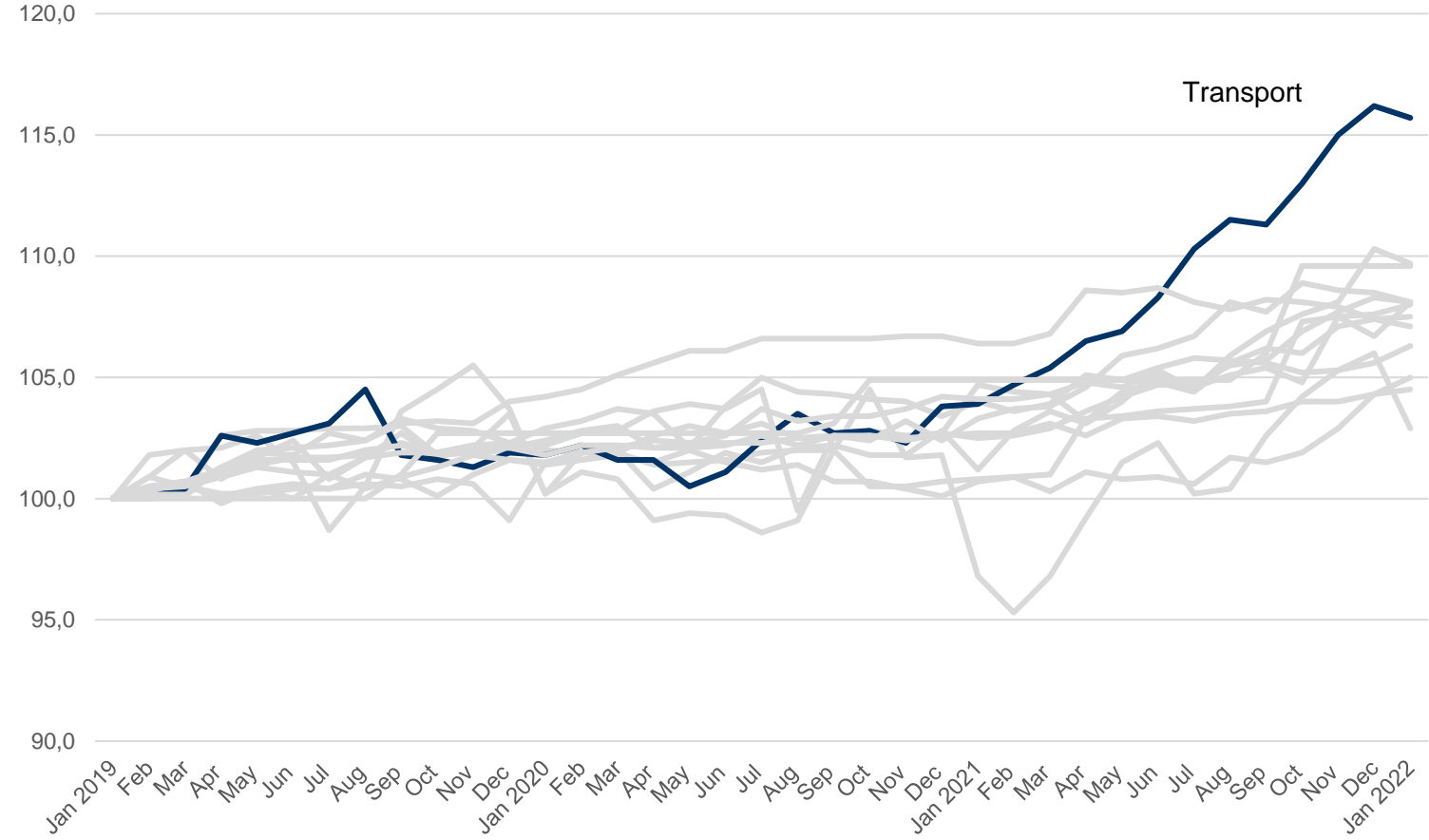
Price increases have been lowest on clothes and shoes

Source: Office for National Statistics



Consumer Prices Index

Consumer Prices Index by division

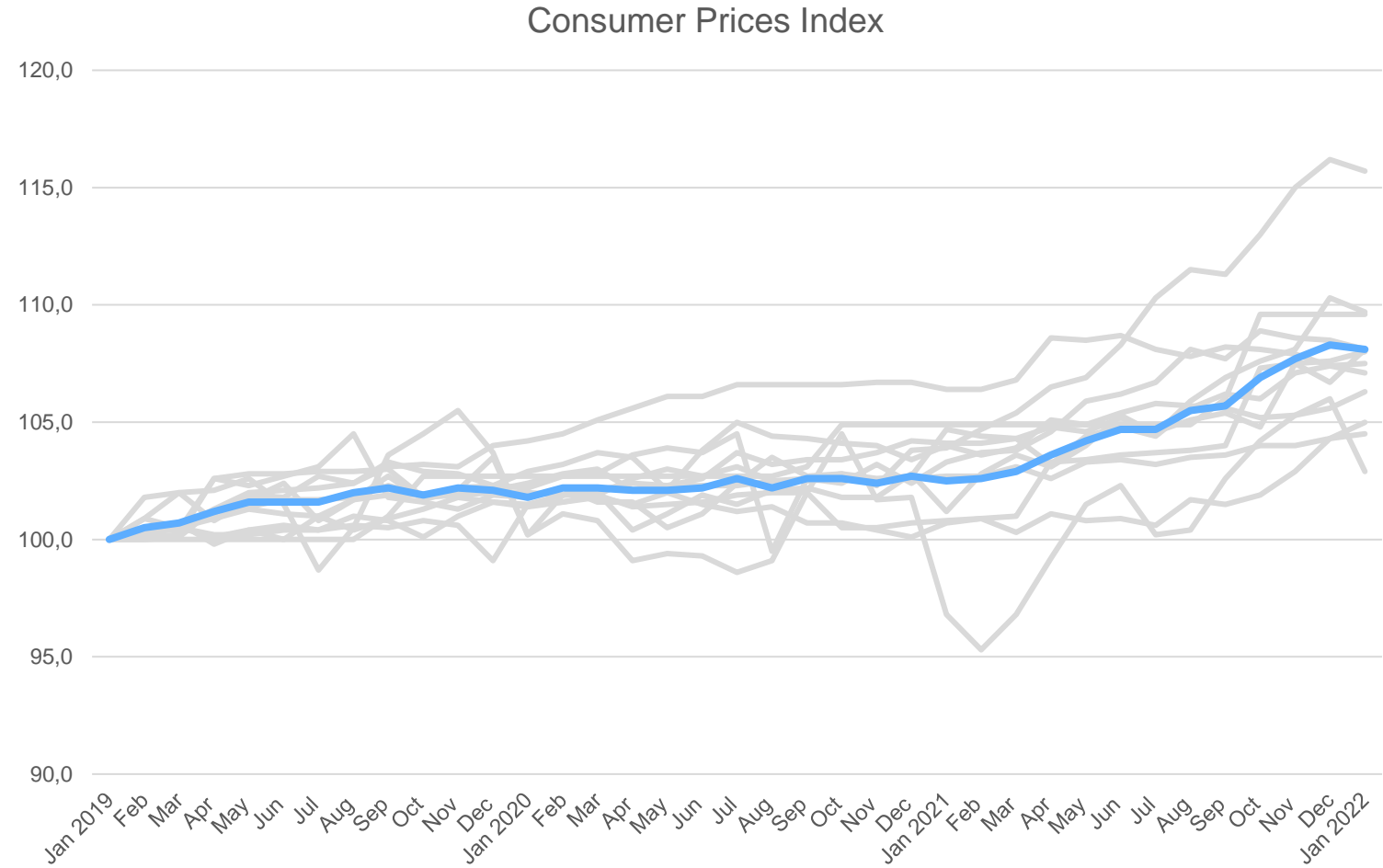


The highest price rises are linked with Transportation.

Source: Office for National Statistics



Consumer Prices Index



Source: Office for National Statistics

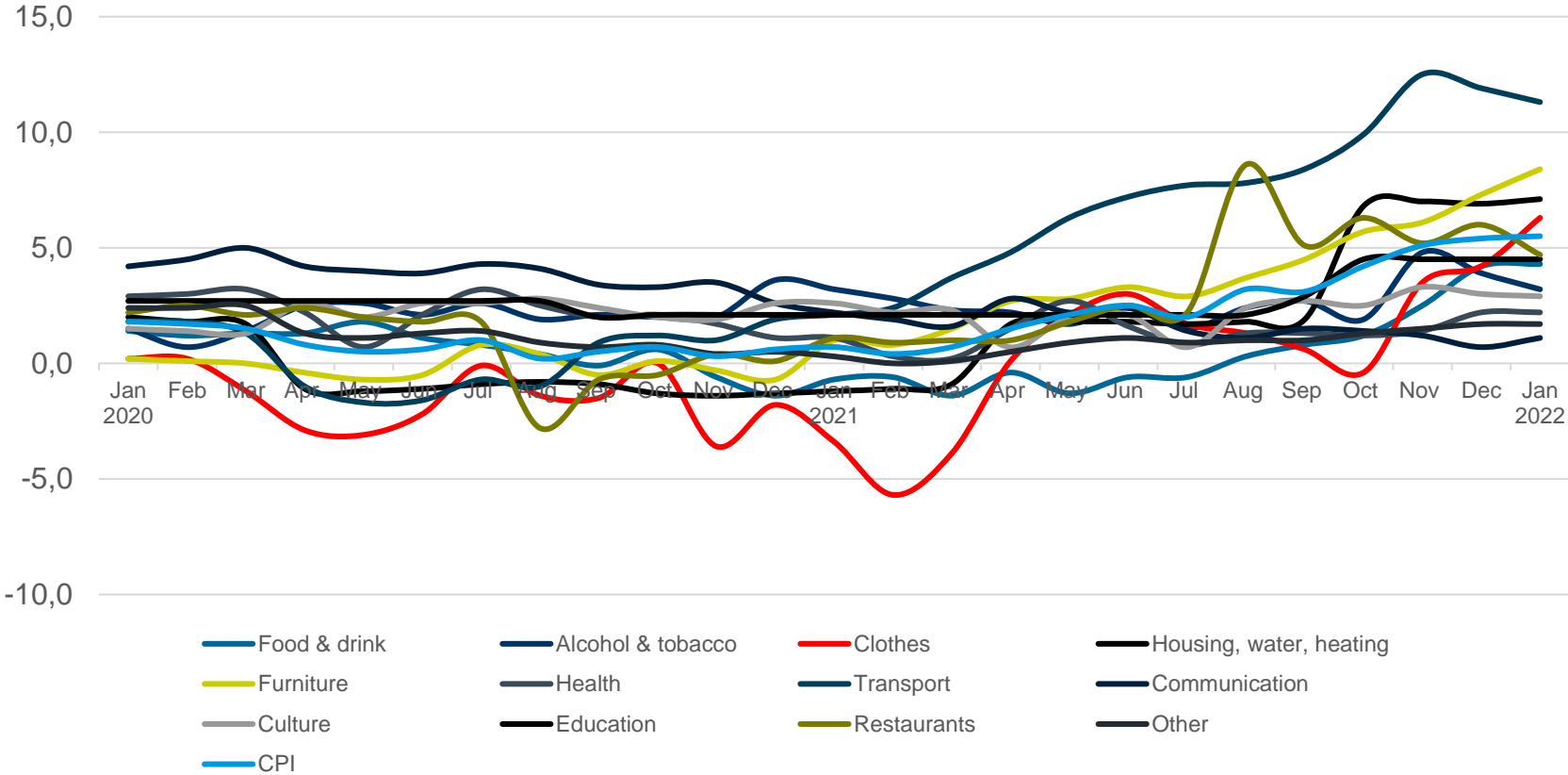
The CPI is the weighted average of the divisional indices



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Inflation

Consumer Price inflation (% change in 12 months)



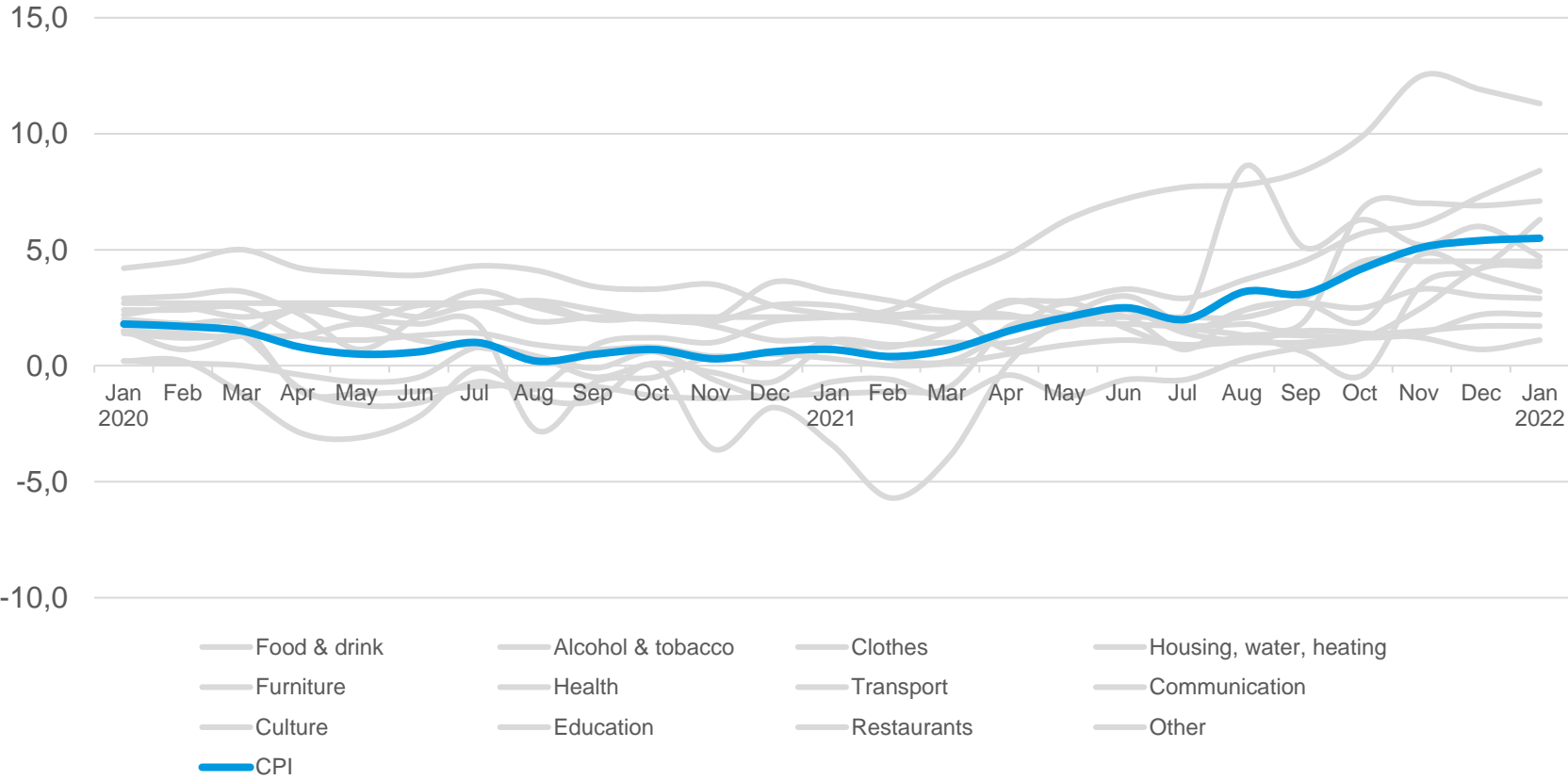
Now look at rates of change.

Source: Office for National Statistics



Inflation

Consumer Price inflation (% change in 12 months)



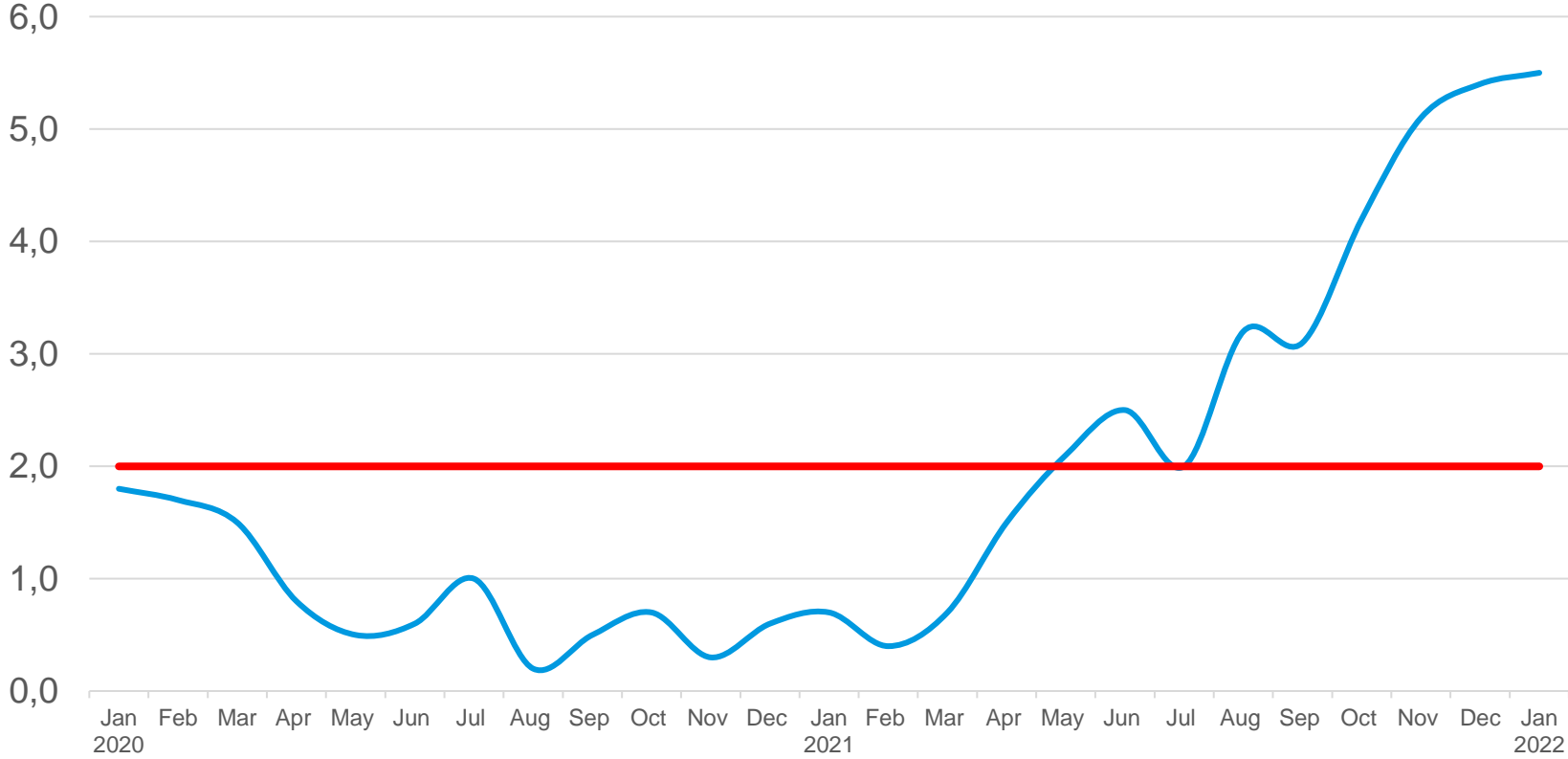
CPI inflation is representative of many people's experience

Source: Office for National Statistics



Monetary Policy Committee

Inflation (% change in CPI in 12 months)



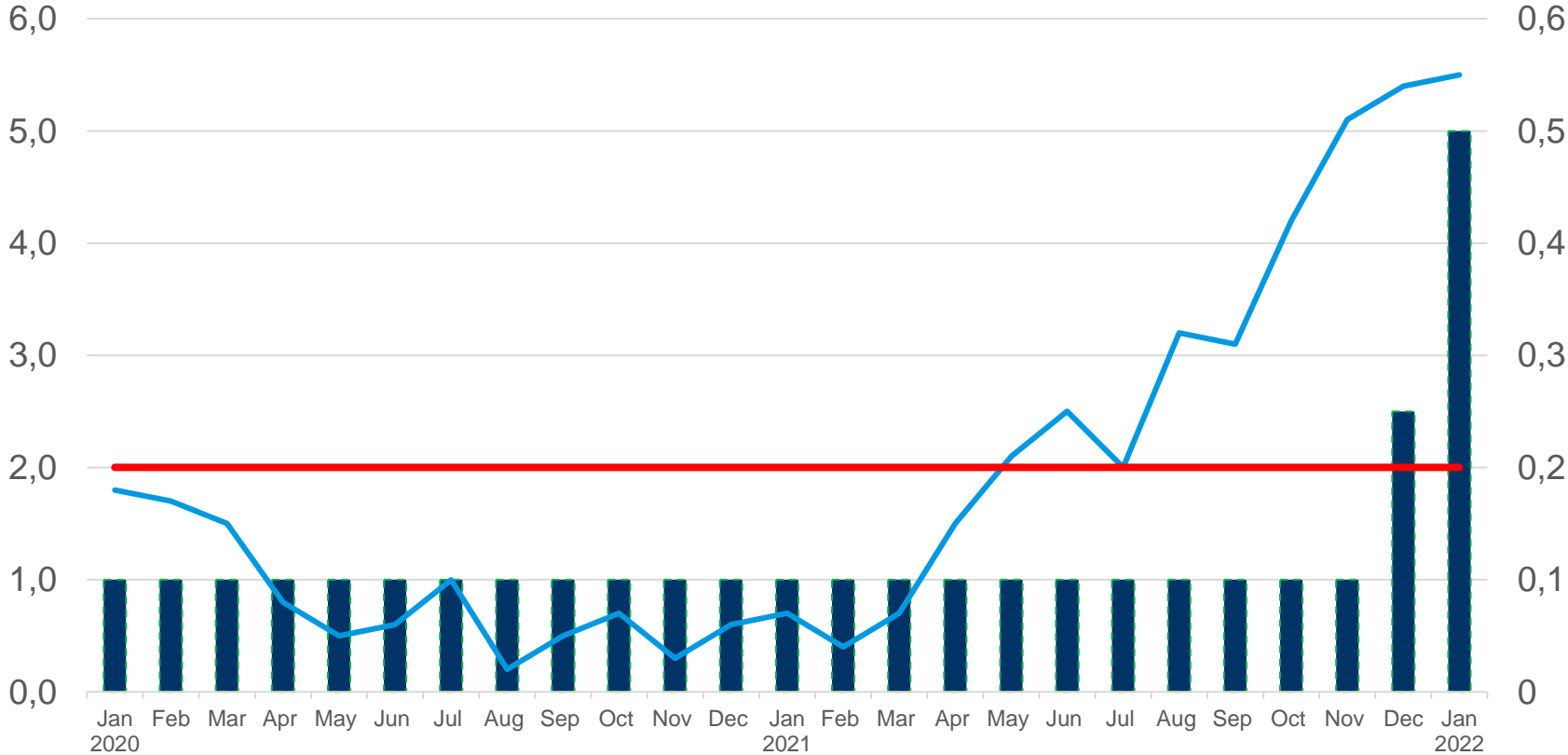
The task of the Bank of England's MPC is to keep inflation below 2%

Source: Office for National Statistics



Monetary Policy Committee

Inflation and the Minimum Lending Rate (%)



The only tool it has is the Minimum Lending Rate

Sources: Office for National Statistics and tradingeconomics.com



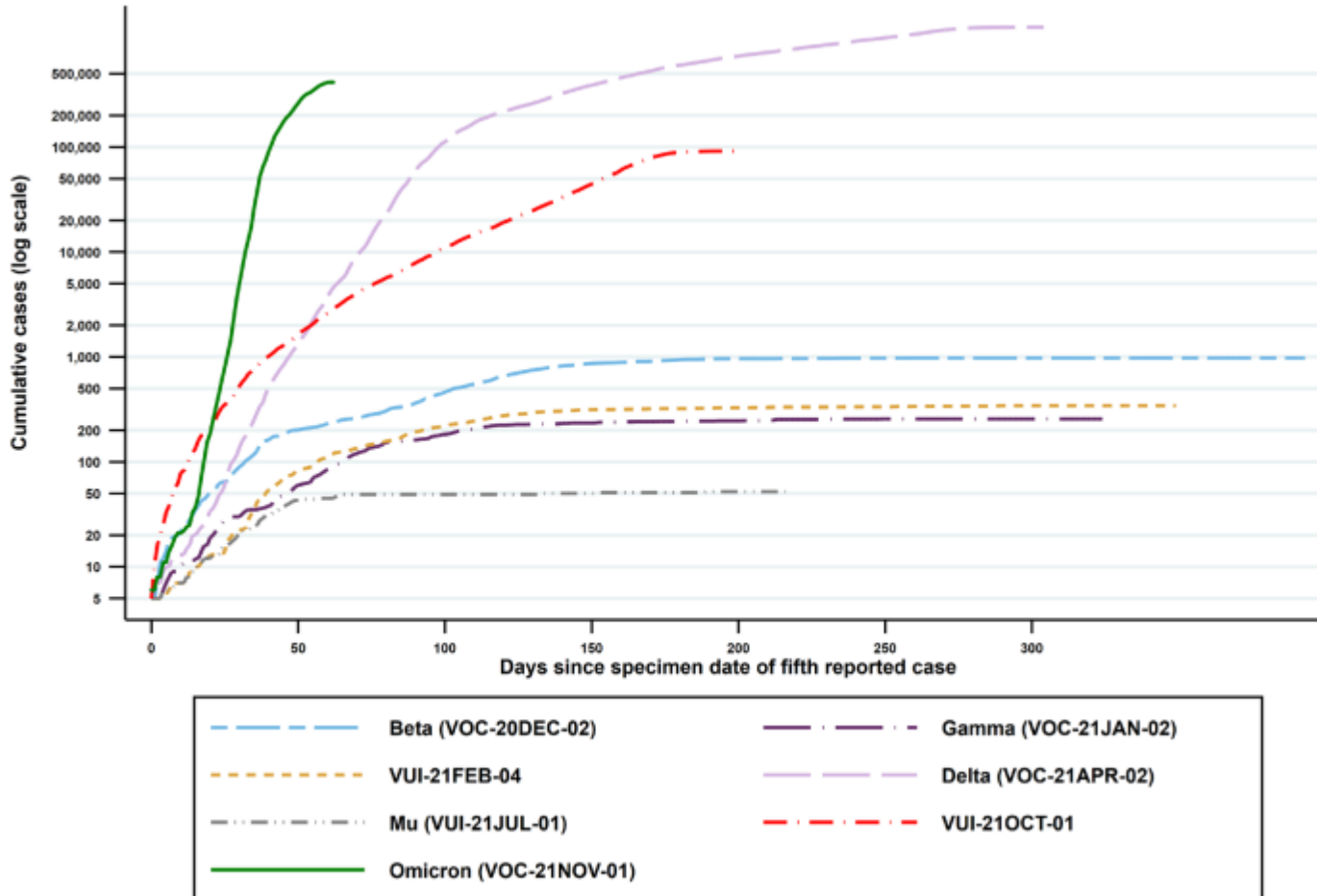
Omicron

The virus strikes back

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Variants



Omicron rapidly became the dominant variant in the UK.

It has led to a large increase in the number of positive tests.

But the severity of the cases is less.

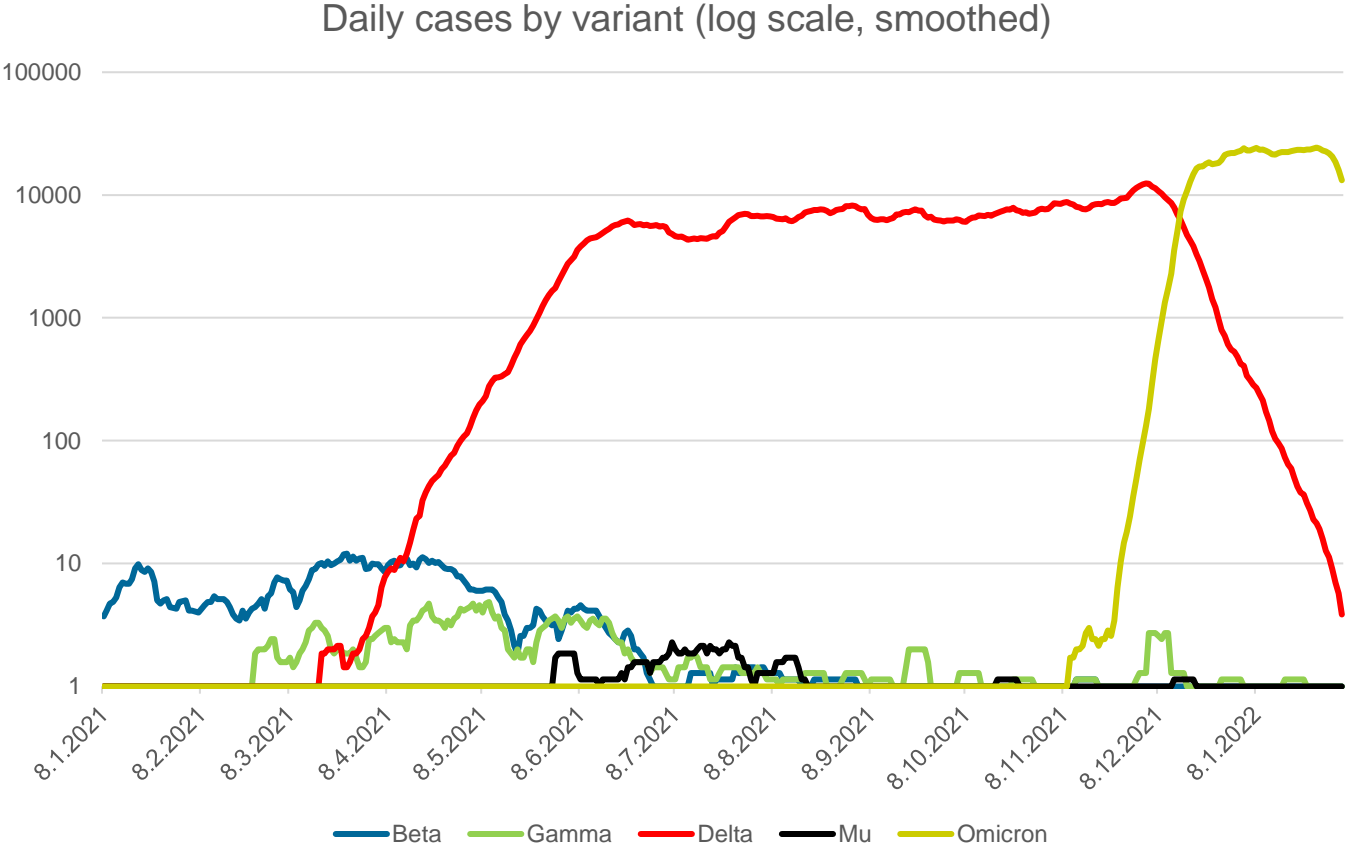


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Variants

Over 90% of new cases are now omicron.

As it is less dangerous, it is causing less disruption to the economy.



Source: UK Health Security Agency, data for Technical Briefing 36



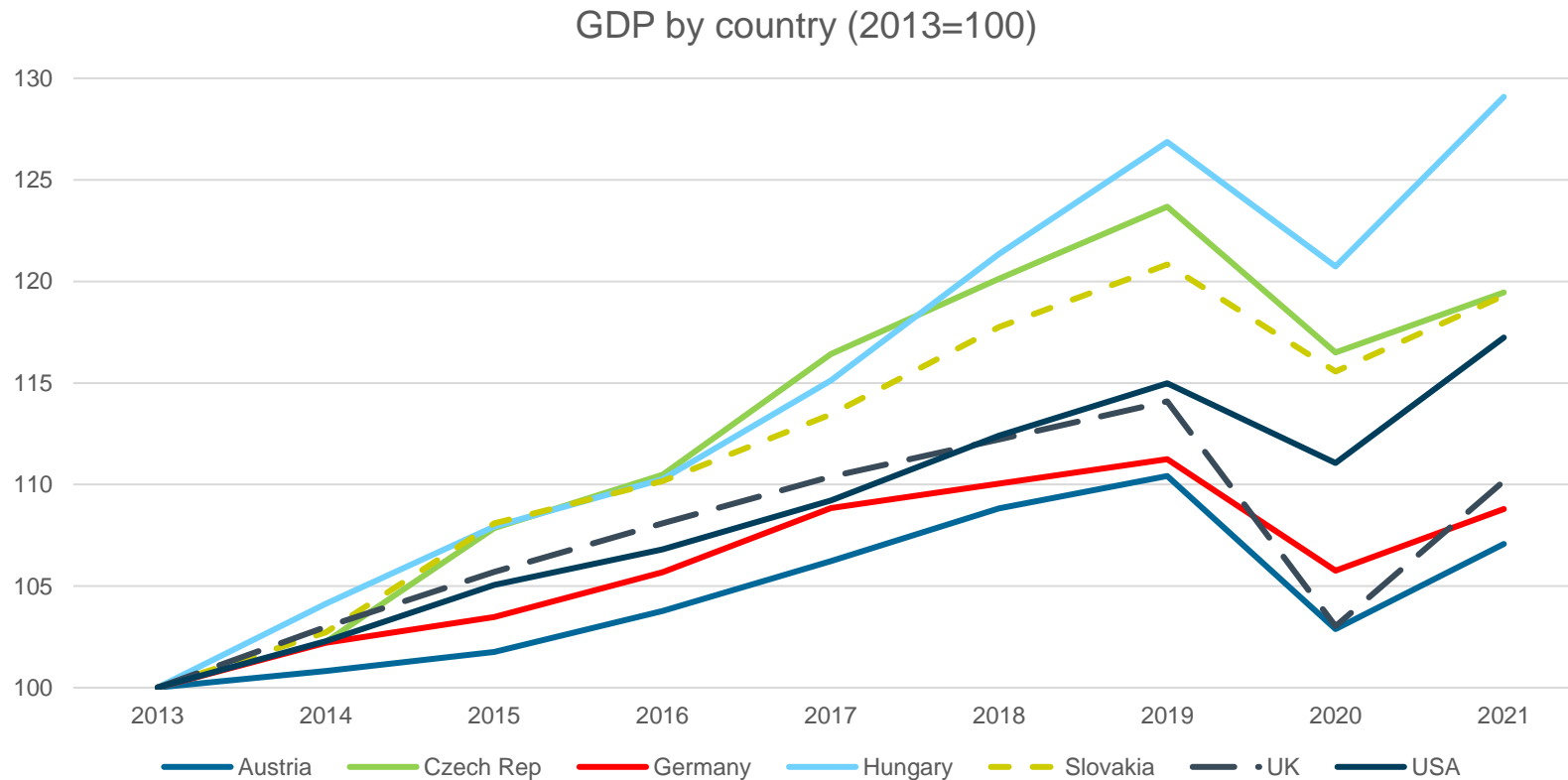
Comparisons

How does the UK compare?

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The UK economy in comparison with others



- The long-term consequences of Covid on the economy are unclear.
- In 2020 the UK economy suffered worse than most from Covid-19
- But it recovered strongly in 2021

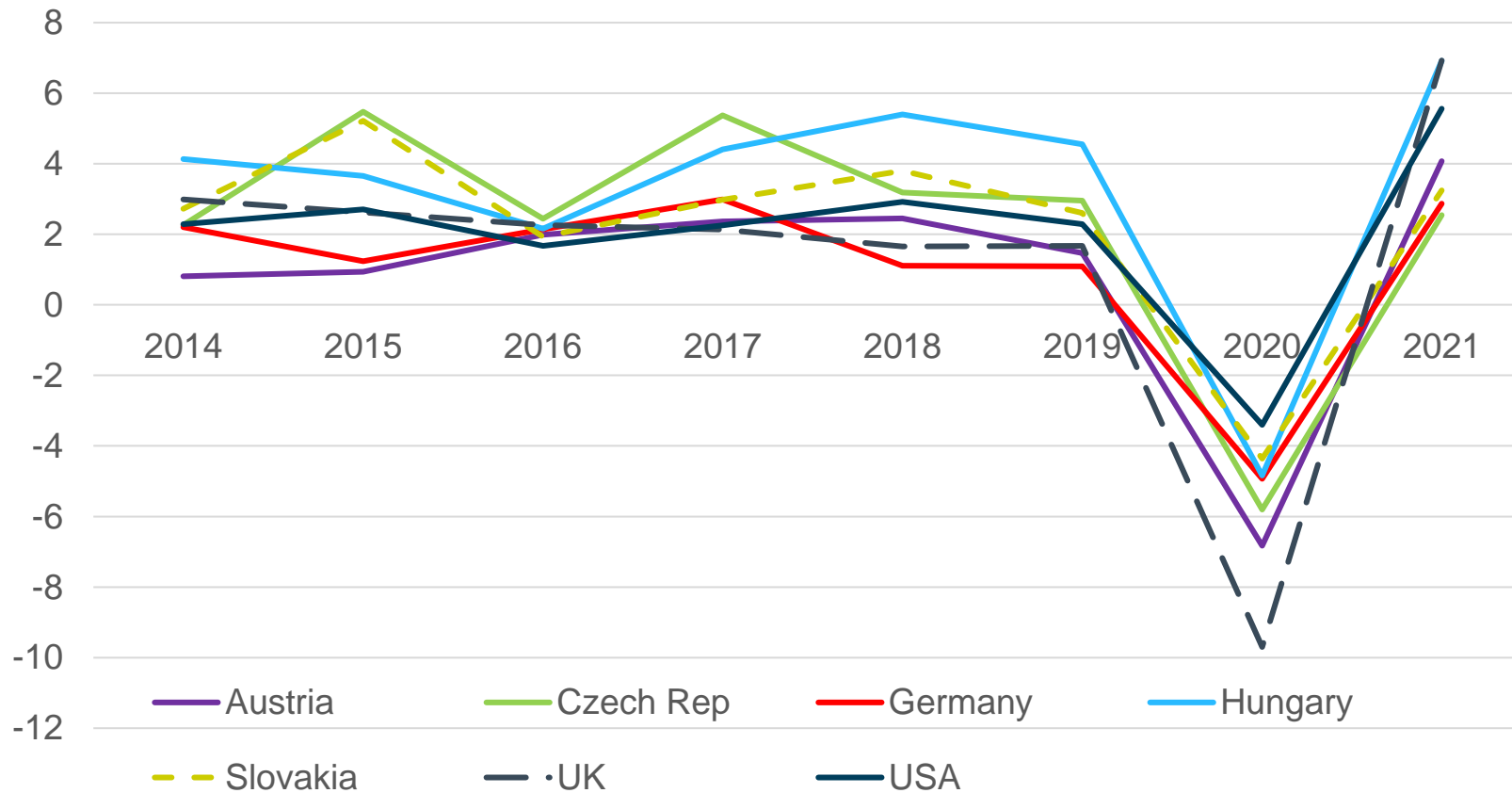
Source: OECD Economic Outlook No. 110, Dec 2021



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The UK economy in comparison with others

Annual Growth in GDP



- The long-term consequences of Covid on the economy are unclear.
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- But it recovered strongly in 2021

Source: OECD Economic Outlook No. 110, Dec 2021



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Brexit

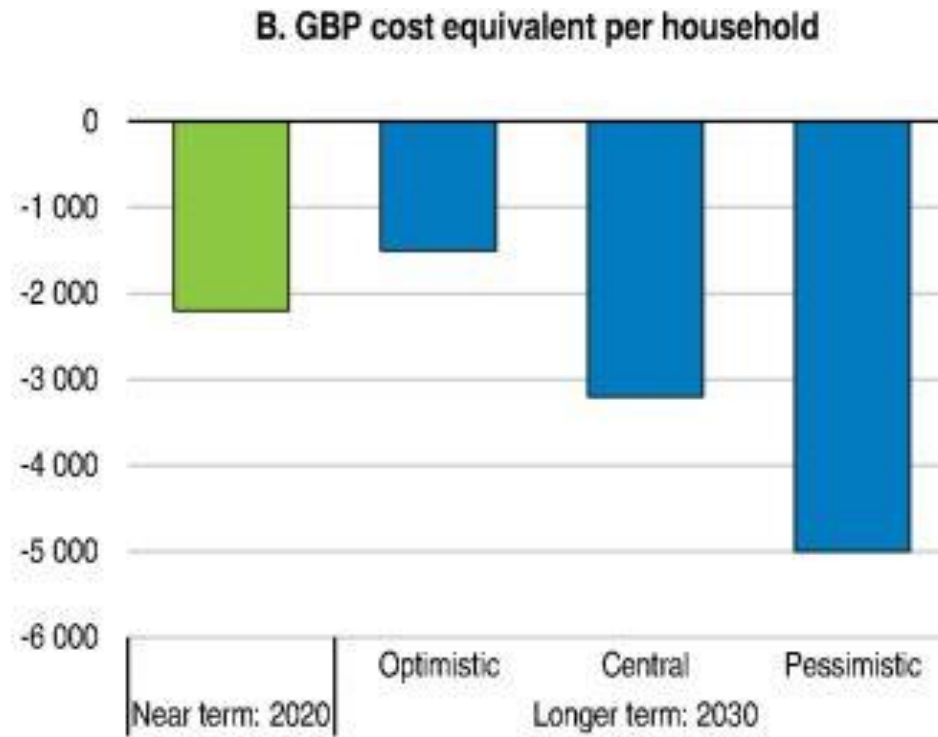
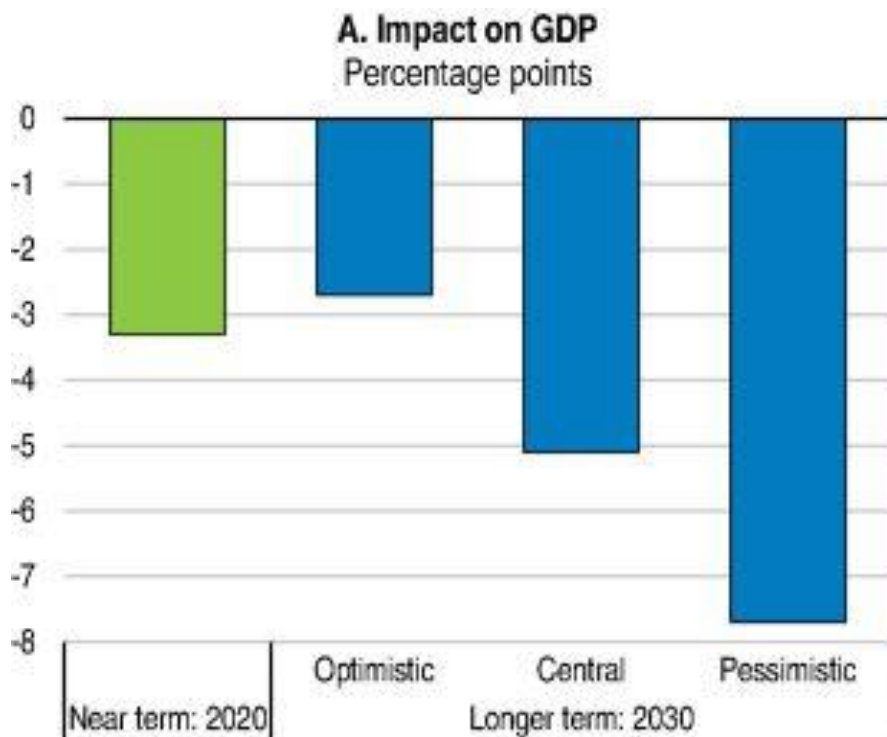
An economic disaster?

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Predicted impact of Brexit

■ The OECD believed in 2016 that the impact of Brexit on the UK economy would be negative and long-lasting



Actual impact of Brexit

- Trying to disentangle the effect of Brexit and the effect of coronavirus is difficult
- The Office for Budget Responsibility has come up with an estimate of the economic impact
- This is worse than the OECD's prediction from 2016

Just a Year of Brexit Has Thumped U.K.'s Economy and Businesses

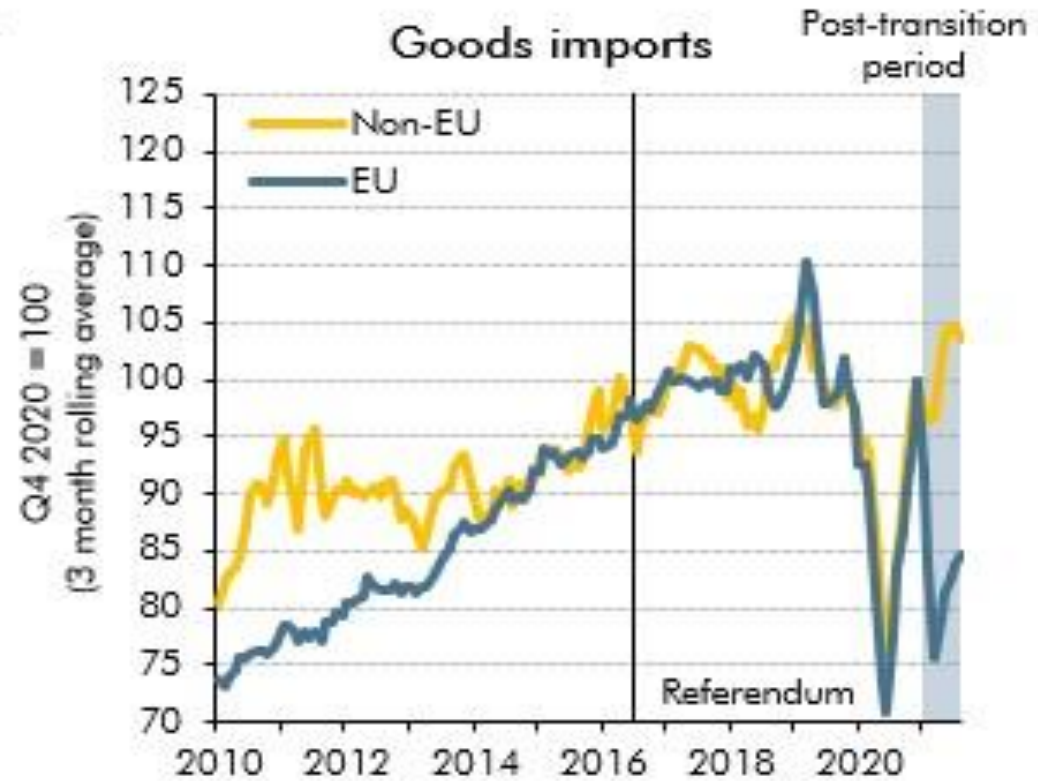
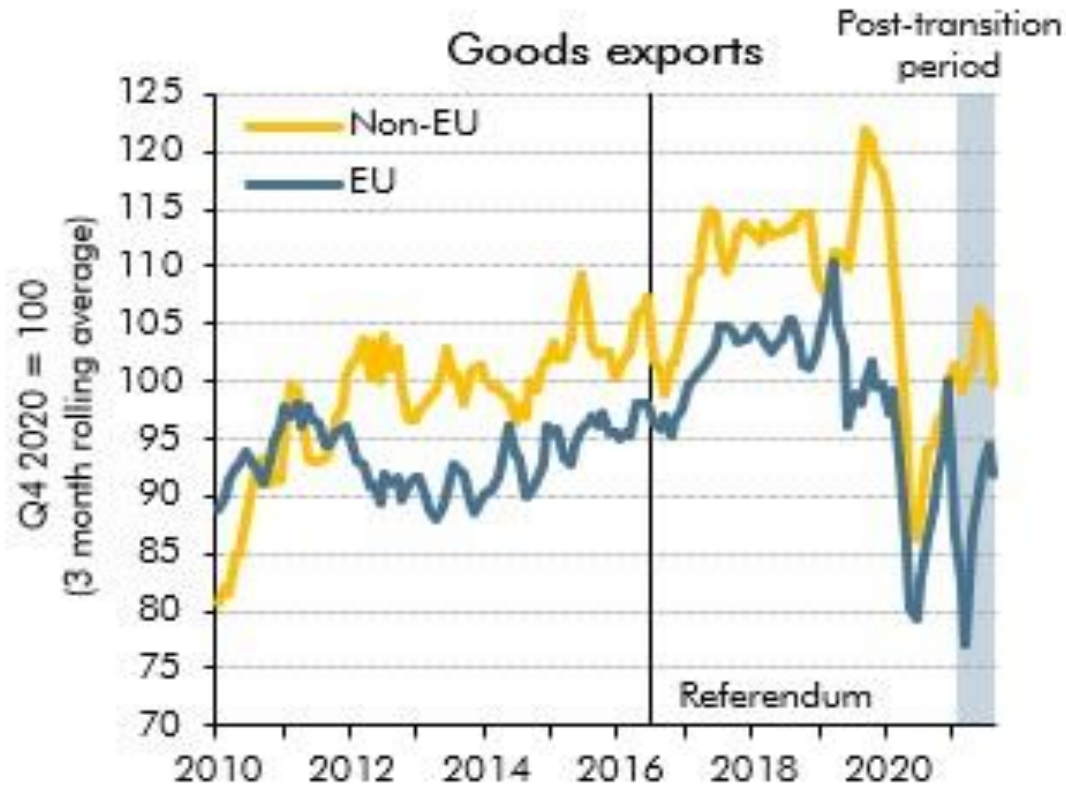
- Boris Johnson's trade deal has proved to be a drag on growth
- A majority of voters now favor re-joining the European Union

Headline on Bloomberg.com 22 Dec 2021



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Actual impact of Brexit: reduction in EU trade



Note: Excludes unspecified goods.
Source: ONS, OBR

■ Source: the Office of Budget Responsibility



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The future

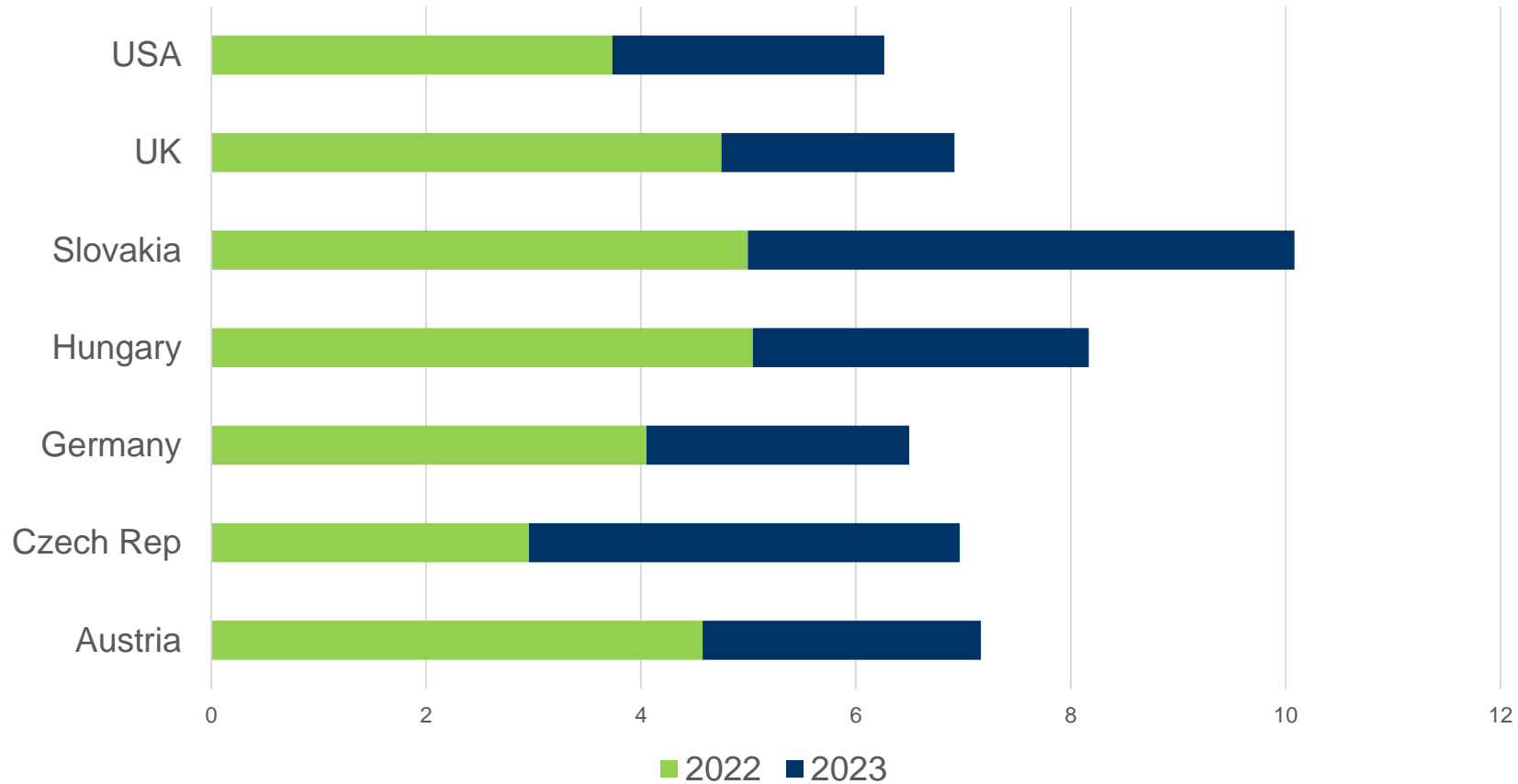
Slowish recovery

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The future

OECD 2-year GDP growth projections (%)


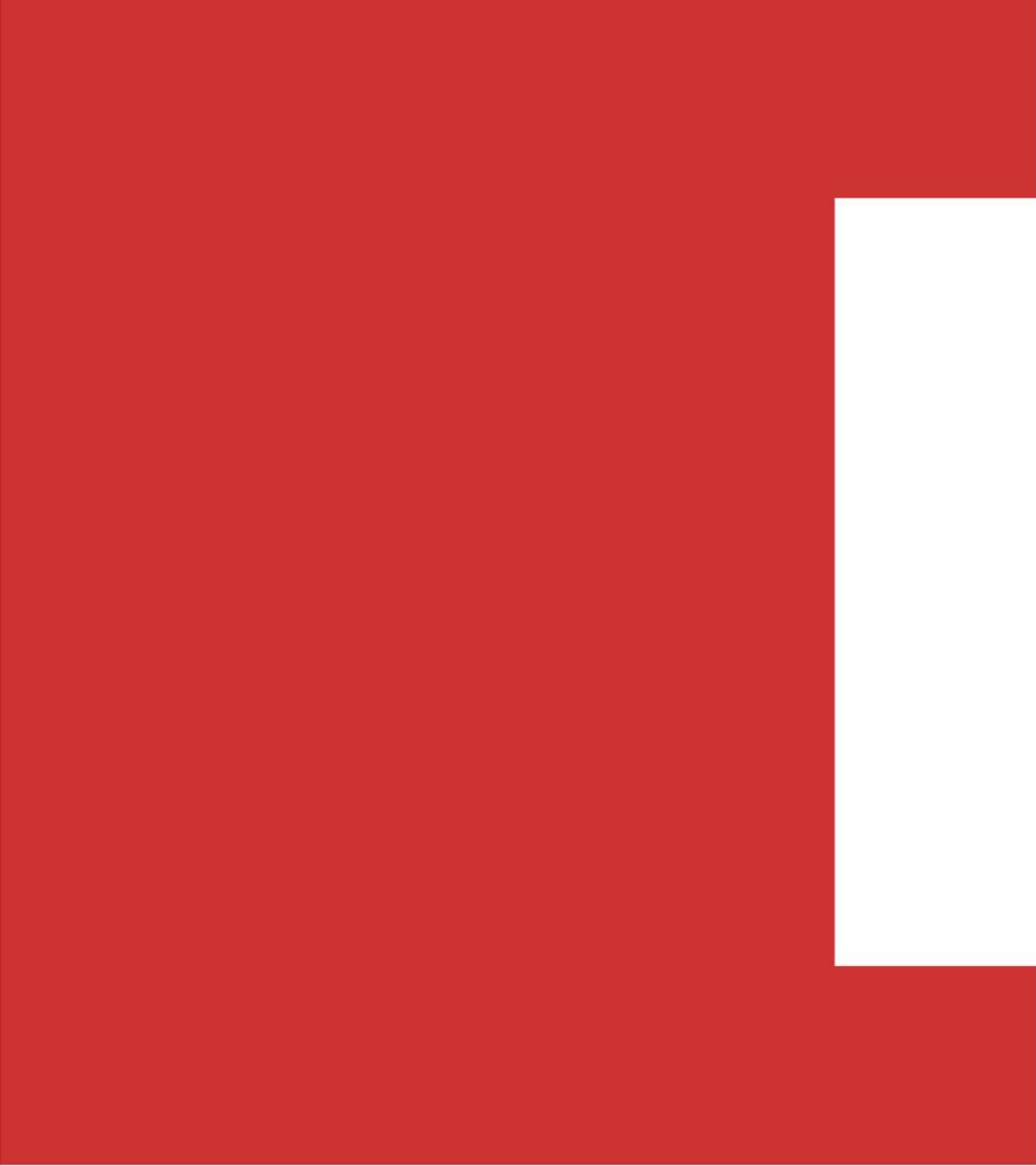


- The OECD is optimistic about the growth potential this year and next
- But the UK economy will grow more slowly than many EU countries

Source: OECD Economic Outlook No. 110, Dec 2021



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