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FORECASTS FOR UK BUSINESS FOR 2021 AND BEYOND | EULER HERMES UK

UK recovery will be relatively strong, but costs will stay high for some time, according to Euler Hermes economic forecasts

- A strong UK recovery means firms will have plenty of opportunities in their home market
- Businesses will face high prices for labour, raw materials and transport at least until 2022
- Insolvencies were postponed by government support but should be back to pre-crisis levels by end-2022; we have already seen signs of a rise as the government support becomes more targeted

The speed of the UK recovery, the pain of high prices, and the rise in business insolvencies: these were among the topics discussed in a Euler Hermes UK & Ireland webinar in July.

The webinar “The reopening of the economy: opportunities and challenges” had a mix of good and bad news for UK business and was hosted by Ana Boata, head of macroeconomics research at Euler Hermes. Ms Boata is regularly cited as an economic expert in Financial Times and other leading publications.

The relative strength of the UK’s economic recovery plus the post-lockdown catch-up in consumer spending means that many firms will find good opportunities in the domestic market, Ms Boata said.

This was underlined by an audience poll, which showed lukewarm enthusiasm about exports, with just 9% sure they would boost exports in the year.

Will your export turnover increase in 2021?

Yes, for sure	9%
Yes, maybe	37%
No, probably not	33%
No	22%

Source: Webinar audience poll

(If you are pushing ahead with exports, listen to our podcast [How to export with confidence: tips and best practices.](#))

Ms Boata sees UK economic growth this year at 6%, against 3.4% in Germany and 5.4% in France. Ms Boata commented: "While the export market seems to be not so conducive for UK companies, at least in 2021, the domestic economy, on the other hand, is open for a lot of new opportunities."

She sees Ireland's 2021 economic growth at 3.5%, after being one of few countries to avoid recession in 2020.

Some of the difference is driven by the size of government support programmes, with the UK's being among the largest based on population size. Another is the degree of bounce-back, with economies hardest hit in 2020 having the most robust recoveries. And some of the difference is driven by the speed at which countries are opening up, which is partly driven by vaccination rates. But she added a note of caution: "Of course, downside risks remain even in the countries where the vaccination rate is high."

Recovery is also being fuelled by catch-up spending, sometimes dubbed "revenge spending", with consumers spending the excess savings some amassed during lockdowns. Here again the UK outlook is relatively positive.

What is the catch-up spending by consumers?

UK	€68 billion (£58 billion)
Germany	€42 billion
France	€29 billion

Source: Eurostat, Euler Hermes, Allianz Research

Very strong 2021 economic recovery of 6.3% is seen in the United States, helped both by strong vaccination rates and the \$1.2 trillion infrastructure plan agreed late June, which sees massive investment in roads, bridges, and broadband.

For firms in the UK and Ireland, however, this plan has a negative: it is in part contributing to high global demand for raw materials which is in turn pushing up costs. Many UK firms say costs are higher in many areas: compared to a year ago, structural steel is 30% more expensive, wages have risen 5%, and some firms say that shipping costs from China have risen five-fold. Ms Boata warned that respite from higher costs won't come any time soon.

- On **raw materials**, Ms Boata said restocking in the US and Europe and the US infrastructure plan were among the factors pushing demand higher than supply: "Demand will remain high, which also means that prices will remain above pre-crisis levels probably for the next few years."
- On **wages**, Ms Boata said the labour shortages, partly caused by Brexit, would push wages up throughout the post-Covid-19 recovery. Wage growth already stands at its highest level since 2007.
- On **shipping costs**, she offered a more optimistic prediction. As recovery spending shifts from goods to services, demand may ease. Also, shipping firms are building new capacity. "Shipping costs will not normalise fully until 2023, but they will peak at around the turn of the year, and then freight rates will go lower."

It may seem a gloomy prediction. The question is whether firms pass on these extra costs in terms of higher prices? Ms Boata had some positive news, saying UK firms seemed to have more pricing power than those in the Eurozone (but less than in the US). She calculates that in June, UK firms were passing on more than 50% of the higher costs to customers against 80% in the US.

Read our guide on [managing cash flow as business open up](#)

One key question is when business insolvencies will start to rise. Government support and the difficulty of obtaining winding-up orders from the courts have kept business failures during the pandemic were low. However, the latest official data in the UK shows a modest tick up.

Ms Boata said it was not yet clear whether this marked the start of an upswing, but like other forecasters she believes insolvencies will rise next year: "We see around 23,500 insolvencies in 2022 [in the UK], which would mean that we are close to what we have pre-crisis. So this is why we call it a normalisation, rather than a real acceleration in business insolvency."

Worried about a major customer failing? Read our guide [How to protect your business from the insolvency domino effect](#)