



**2021 second half outlook:
are you ready for the
post-Covid boom?**

“The big times are now”

“The big times are now”. This is how KPMG described the landscape in its June 2021 UK Economic Outlook. Certainly for sectors such as hospitality, leisure and non-essential retail, we seem to be firmly within revenge buying mode as pent-up demand is unleashed.

But it isn't just gym owners and Airbnb landlords who have reasons to be cheerful. Upbeat predictions abound, with annual GDP growth expected to reach levels not seen since 1941, and optimism among CFOs hitting a record high.

Significant risks are still present, of course. Recovery is likely to be uneven across sectors and global markets. It's also important to note that the most optimistic forecasts are based on the assumption that government restrictions will be lifted in line with previous announcements; something that is currently far from certain.

But even factoring in these headwinds, the outlook is very encouraging.

Here's a closer look at the forecasts, and at the steps businesses can take to boost their ability to take advantage...

GDP

Back in February, the Bank of England was forecasting annual UK GDP growth of 5%. A month later, thanks largely to continued successful vaccine roll-out and the easing of restrictions, this was revised upwards to 7.25%.

A recent KPMG forecast suggests that the UK economy will grow by 6.6% in 2021 and by 5.4% in 2022. Given that the economy shrank by almost 10% last year, it is likely to be the second half of 2022 before economic output returns to pre-Covid levels.

Inflation is expected to rise slightly this year, but not to such an extent as to warrant BoE intervention. In fact, it is currently considered unlikely that the Bank will need to raise interest rates until at least 2023.

For businesses, these forecasts are all boosting positive sentiment. The most recent CFO survey from Deloitte suggests that optimism among CFOs is at a record high. The latest ICAEW Monitor also shows that business confidence is at its highest ever levels. The majority of businesses across the board expect to see a sharp annual rise in sales.

Sectors

Retail

Expected to grow by 3.5% this year and by 5% in 2022, according to a recent study from the Centre for Retail Research (CRR). This is driven largely by shoppers returning to physical shops (sales of non-food goods are expected to increase by 8.8%).

Manufacturing

The Markit/CIPS PMI (Purchasing Managers' Index) for May 2021 was 65.6 (rates above 50 denote an expanding manufacturing market). This was up from 60.9 in April and represents a record high since the survey began in 1992. Survey respondents report high demand.

Construction

Output fell sharply in Q2 2020 as a consequence of the first lockdown but had managed to largely recover by the end of the year (this is one of the sectors that was exempt from subsequent lockdowns). KPMG expects the market to grow by 16.2% and 5.4% in 2021 and 2022 respectively.



Talent acquisition

The continued resilience of the UK jobs market has been one of the most surprising aspects of the pandemic. Last year, the Office for Budget Responsibility estimated that unemployment would peak at 12% once the furlough scheme was fully wound down. Now, the OBR expects unemployment to peak at 6.5%. The reversal in immigration is thought to have played a big role in this (an estimated 650,000 overseas workers have left the UK over the last year).

There is actually a scramble for staff in some sectors and locations, with the number of job advertisements running way above pre-pandemic levels in areas such as construction, transport, logistics and hospitality.

Jobs-wise, this is not a rerun of the 2008 downturn. The upshot is that businesses should not assume that the recent recession has made recruitment quicker or easier. Workforce planning remains as important as ever for anticipating need and for allowing adequate time to fill your resource gaps.

Capitalising on recovery

Dealing with unpredictability

The headline figures are certainly strong. However, uncertainty and unpredictability are likely to remain. For instance, let's say your current budget is based on the assumption that particular restrictions will be removed by a certain date.

But what if those restrictions remain in place for one, two or three months longer than anticipated?

What if supply lines are hit due to a flareup in a particular country?

What if demand for your product or service offering turns out to be higher than expected in one area, but lower in another?

To ride out any setbacks throughout the remainder of 2021 and beyond, businesses need flexibility and fast reflexes. Comprehensive financial reporting capabilities are going to be more vital than ever. This includes the ability to see and communicate what is happening quickly, clearly and accurately, as well as the ability to ask "what if?" and get answers you can rely on.

Focusing on the essentials

Adapting our products and services to meet current customer needs. Making our customer experience the best it can be. Expanding our customer base. Bringing on board new investors...

These are typical objectives for many companies. And having come through the worst of Covid, this is precisely the right time to double-up on your efforts to focus on them.

But are your technical teams still grappling with 'keeping the lights on' instead of focusing on business transformation?

Is finance still tied up in transactional work with little time left for strategy?

To capitalise fully on the recovery, look carefully at what might be effectively outsourced, leaving you to focus on the essentials.

Next steps

For 25 years, Millennium Consulting has built a reputation for delivering successful change. This includes workable strategies to solve customers' most complex problems, along with the development of Target Operating Models that ensure successful implementation.

To get your organisational change project off to the right start, contact Millennium Consulting at: assist@millenniumconsulting.com

