

## Delta a dent but not a disaster for the UK economy

The UK's third wave of Covid-19 has stalled the recovery but hasn't so far tempered consumer confidence dramatically. The fourth quarter will be a bigger test. Meanwhile, we're now pencilling in the first Bank of England rate rise in November 2022



The UK Prime Minister, Boris Johnson, at a visit to the British Foreign Office last week

### Delta has paused the recovery - but it's not been a disaster

As the summer slowly ends, there's little doubt that the UK recovery has stalled since our last monthly economic update in July. The spread of the Delta variant, and the high rates of self-isolation that entailed until the rules were changed mid-August, only served to amplify the staff shortages being reported in various corners of the UK jobs market. PMIs have fallen off recent highs.

---

*The UK economy has arguably weathered Covid-19's third wave slightly better than we'd feared*

---

But when it comes to consumer spending, the economy has arguably weathered Covid-19's third wave slightly better than we'd feared. The risk was that the renewed spread of the virus would seriously temper the newly-fostered confidence in socialising and leaving home. So far though, that hasn't really happened. Social spending on things like hotels and restaurants hit a fresh post-virus high in August, while a weekly [ONS survey](#) has registered only a small decline in willingness to leave home (though admittedly this is more pronounced among older age groups).

Spending on goods has slipped, though we think this is more likely down to a rebalancing towards newly-reopened services, and also marks a correction after the initial hype when shops opened up in April.

For now, we're comfortable with our 1.5% growth projection for the current quarter, though this was already low relative to other forecasters.

## The UK economic dashboard

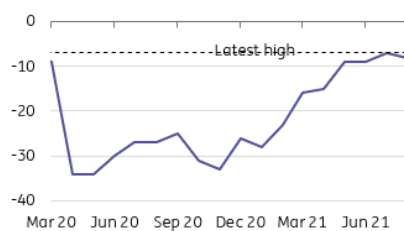
Google Mobility\* (pre-virus=0)



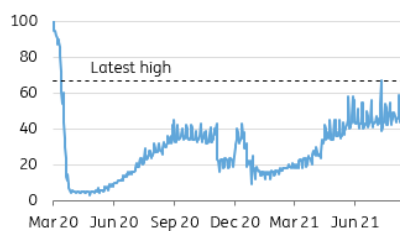
Aggregate card spending (CHAPS, pre-virus=100)



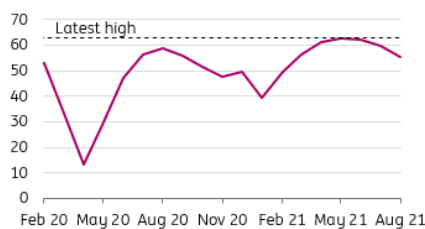
GfK Consumer Confidence (pre-virus = -9)



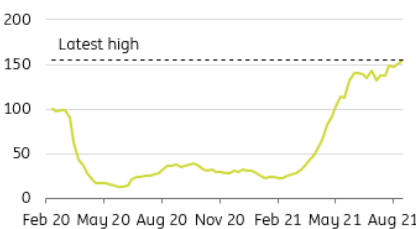
London Underground usage (pre-virus = 100%)



Services PMI (pre-virus = 53.9)



Catering/hospitality job adverts (pre-virus = 100)



Source: Macrobond, ING

## The fourth quarter is more of a question mark

The fourth quarter is more of an unknown. The positive news from recent weeks is that hospitalisations have stayed comparatively low, suggesting that vaccines will help avoid a lockdown this winter. The counterpoint is that the number of hospital beds occupied are considerably higher than this time last year. With flu expected to also take off, negative headlines about NHS pressure may translate into greater consumer caution than we're currently seeing.

Interestingly and despite the reasonably solid spending figures over recent weeks, consumers

haven't been running down the excess savings built up through successive lockdowns. And if it hasn't happened so far, then it's hard to see a 'big bang' moment where consumers begin to splash the cash this winter. Unemployment is also likely to drift back above 5% as the furlough scheme comes to an end.

In short, further gains in growth will be harder to achieve than during the bumper second quarter, when the economy grew by almost 5%. We expect GDP to recover to pre-virus levels early next year.

## Inflation set to peak close to 4%

The summer has also heralded higher inflation forecasts. We now expect inflation to come close to 4% towards the end of this year and stay there into early 2022. Partly that's because of supply chain issues, and the latest disruption in Asia points to renewed price pressure for Christmas shoppers. Higher wholesale gas prices have also led the regulator to announce a 12% hike in the energy price cap in October.

But the inflation picture should cool by this time next year. That suggests that talk of a rate hike in the first half of 2022 is a little premature, though we have brought forward our call to the fourth quarter of next year. Importantly, the Bank of England has said it will stop reinvestment proceeds from maturing gilts when rates hit 0.5%, and we expect that to happen in the second half of 2023. Policymakers have hinted they could actively sell gilts back into the market when Bank rate hits 1%, though in practice, that milestone feels very distant indeed.

### Author

#### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.