What the UK's Covid-19 flare-up means for the economy in 15 charts

The UK economy has had a great second quarter, but rising Covid-19 cases threaten to press the pause button on the recovery over the summer

James Smith: Is Covid-19 about to stop the UK's economic party?

The UK economy has had a good run over the last couple of weeks. And even though, the final stage of the reopening has been delayed, that in itself won't make a huge economic dent. But we're watching for any signs that consumers are becoming a bit more reluctant to socialise once again.

Watch video

Delta dangers: Will Covid-19 push the pause button on the UK's recovery?

The UK economy has had a remarkably good run over recent weeks. The recent reopenings and vaccine-boosted confidence will likely drive GDP growth of over 5% in the second quarter. But Covid-19 cases are rising quickly again, and are showing few signs of slowing. If anything the reproduction 'R' rate has crept higher again as cases begin to rise more rapidly outside of the youngest age groups. The good - and somewhat surprising - news is that hospitalisations have been remarkably low, further proof that the vaccines are working well.

Nevertheless, the economic recovery is likely to slow over the summer months - and indeed that's already what the high-frequency data is hinting at. Spending data and mobility have pulled back a little from recent highs, and further gains likely rely on the virus going into retreat.

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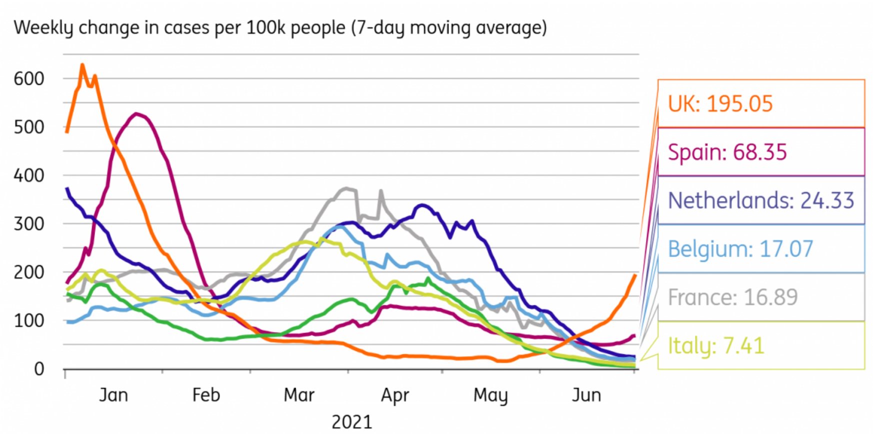
Admittedly the delay in the final stage of the reopening - now scheduled for 19 July - is unlikely to make much of a difference economically. Instead, we're watching for any signs that confidence is beginning to dip once again if consumers become more risk-averse, though so far we've not seen much sign of that in the surveys. But if nothing else, rising Covid-19 cases mean higher rates of contact tracing and self-isolation.

Is this enough to worry the Bank of England? We suspect not. A foray into negative rates remains very unlikely, even if we were to see more serious economic deterioration over the summer. And indeed the medium-term outlook still looks good, not least because no Covid-19 variant has yet shown itself to be significantly resistant to two doses of a vaccine. But the latest uncertainty is perhaps a reminder that market pricing on the timing of the first rate hike - in a little over a year - is probably a bit ambitious.

With inflation likely to dip back in 2022, we're still in the camp pencilling in the first rate rise in early 2023.

The UK is bucking Europe's downward trend in Covid-19 cases

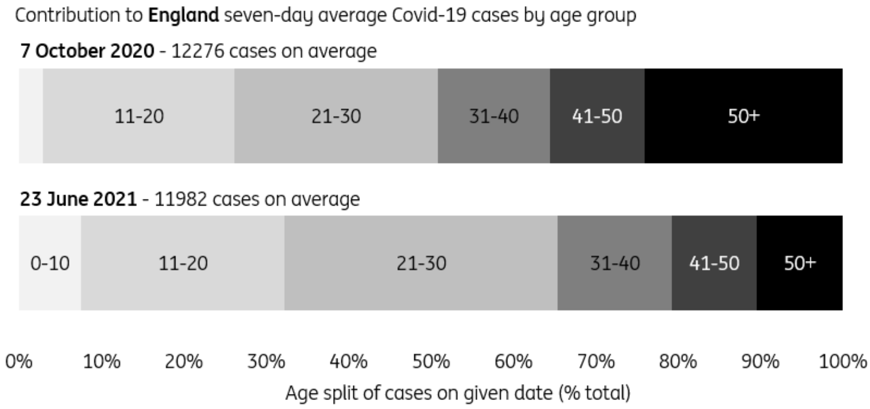
The now-dominant delta variant is driving up cases, pushing the pause button on the reopening



Source: Macrobond, ING calculations

Encouraging news #1: Cases now more concentrated in young people than in second wave

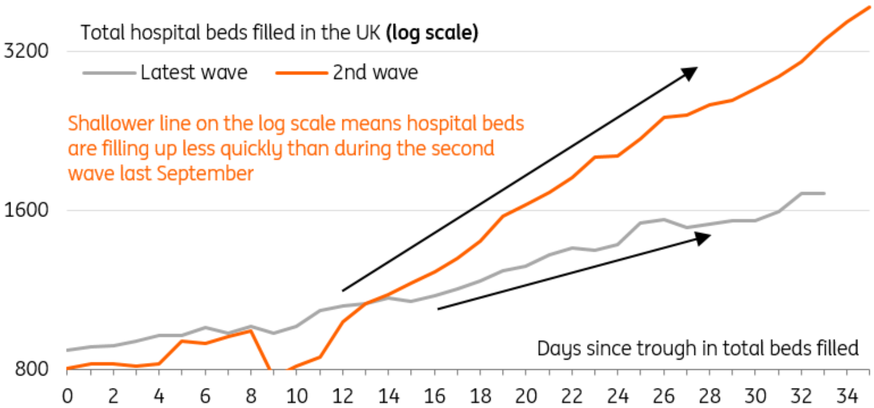
Vaccines are clearly working against the Delta variant in the UK.



Source: Gov.uk Coronavirus Dashboard, ING calculations

Encouraging news #2: Hospital beds filling up more slowly than at an early point in the 2nd wave

Even with vaccines, the recent rise in hospitalisations has been fairly modest given the sharp increase of daily cases

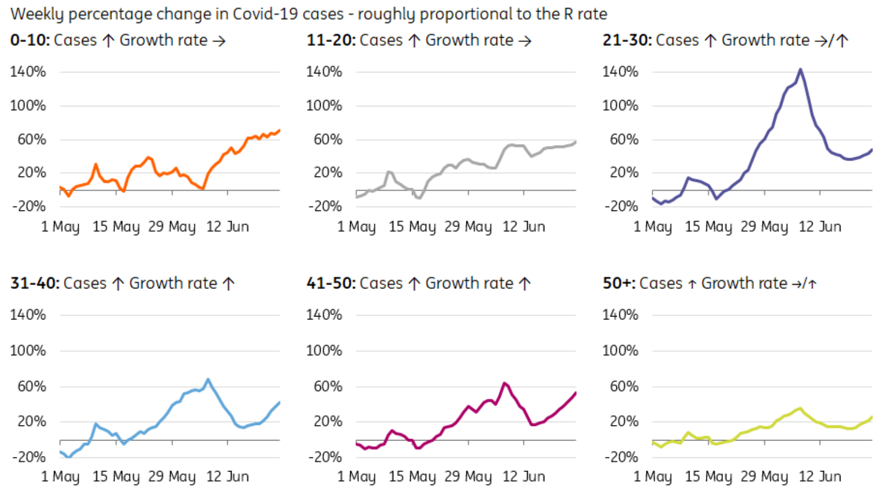


Source: Gov.uk Coronavirus Dashboard, ING calculations

Trough after first wave: 2 Sept 2020. Trough after second wave: 27 May 2021

Less encouraging: Accelerating case growth in 30-50s driving England's R (reproduction) rate higher again

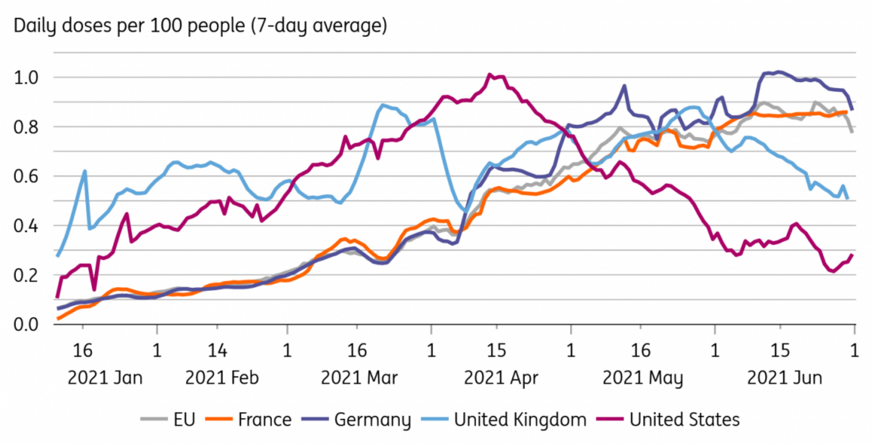
All age groups are seeing rising cases, but the rate of change (similar to the R rate) varies



Source: Gov.uk Coronavirus Dashboard, ING calculations

The pace of vaccinations has been stalling

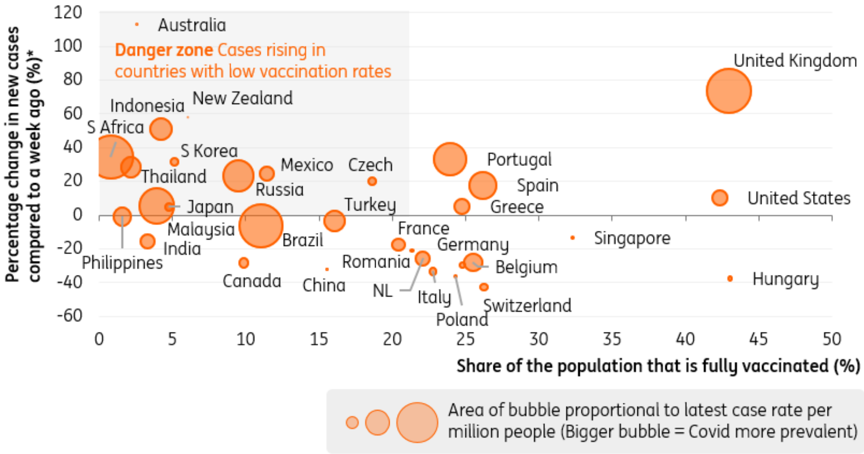
Restrictions on Astrazeneca vaccine usage in under-40s means programme more reliant on constrained Pfizer/Moderna supplies



Source: Macrobond, ING

How the UK's outbreak compares

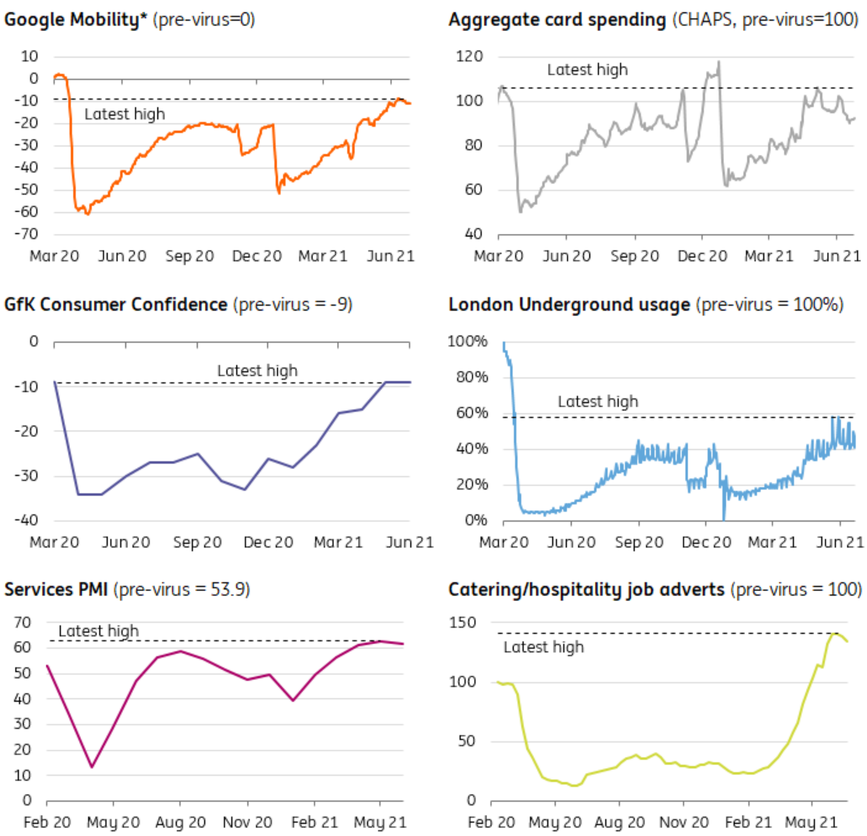
Several countries in difficult position of low vaccination rates and rising Covid-19 case numbers



Source: Macrobond, Our World in Data, ING calculations

UK activity data has plateaued having surged during April/May

Confidence is clearly the highest it has been at any point in the pandemic so far, including last summer when restrictions were also fairly relaxed. That's translated into higher mobility and social spending, but further progress probably relies on delta variant going into retreat



Source: Macrobond, ONS, Department for Transport, ING

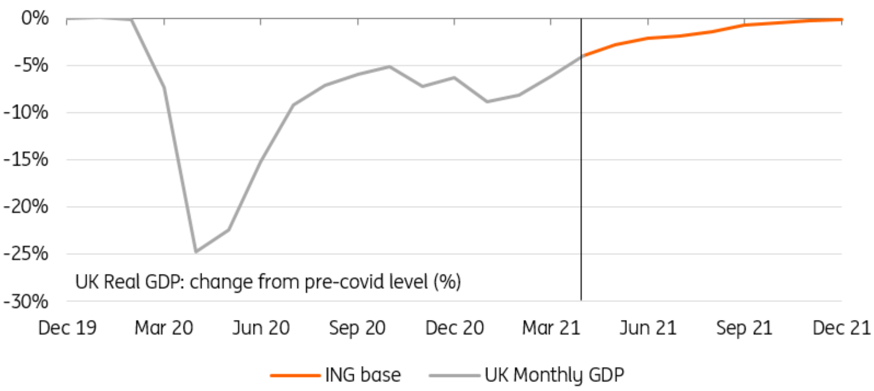
Limited effect of Delta variant on Covid-19 perceptions (so far)

A further meaningful recovery over the summer months relies on confidence and safety perceptions staying well supported. The risk is that consumers become more cautious amid rising cases and a higher risk of self-isolation via contact tracing.

Source: ONS Coronavirus and Social Impact survey, Macrobond

UK economy set for 5%+ second quarter growth

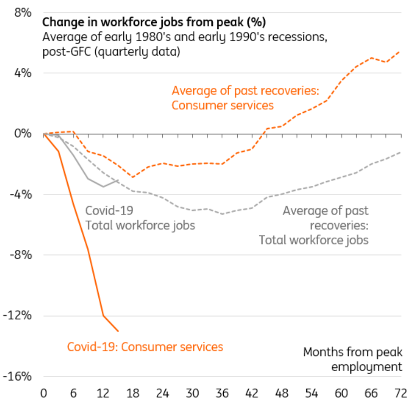
Summer growth pace set to moderate to 1.5-2% but economy now likely to be close to pre-virus level by year-end

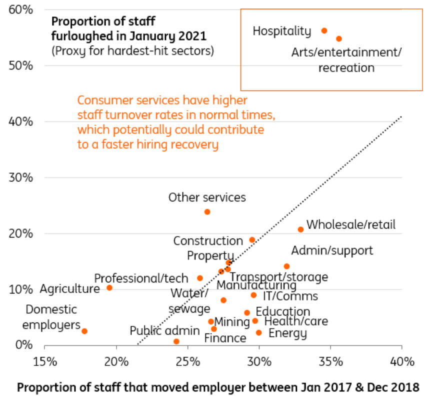


Source: Macrobond, ING

Consumer services employment tends to recover more quickly than other sectors after downturns

Consumer services - including hospitality - have tended to see employment return to pre-downturn levels more quickly than other areas. Jobs are perhaps created more quickly/dynamically, linked to below-average pay levels and more insecure forms of work. Staff turnover is also typically above average in those sectors hardest hit in this crisis. Given the concentration of recent job losses in areas like hospitality, these past trends potentially signal the overall jobs market will be quicker to recover than after the financial crisis.

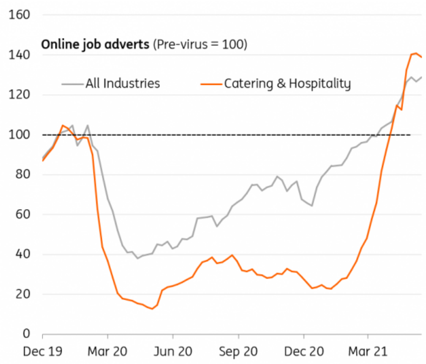


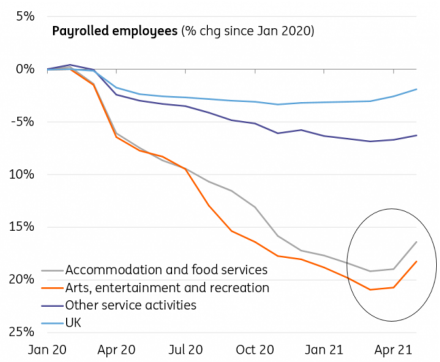


Source: Macrobond, ING

Hiring appetite rebounding consumer services

In fact we're already seeing signs of hiring returning, so much so that there's talk of staff shortages. We think this is mainly down to an outflow of EU workers at the start of the pandemic, given the reliance of hospitality on migrant work (especially in cities).

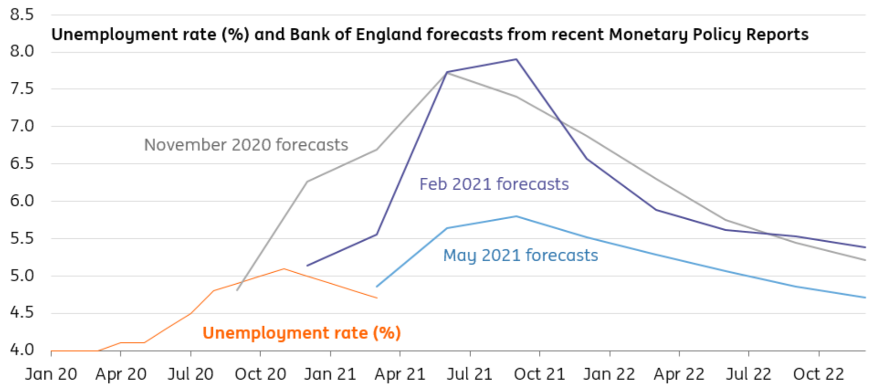




Source: Macrobond, ING

The Bank of England has consistently revised down its unemployment forecasts

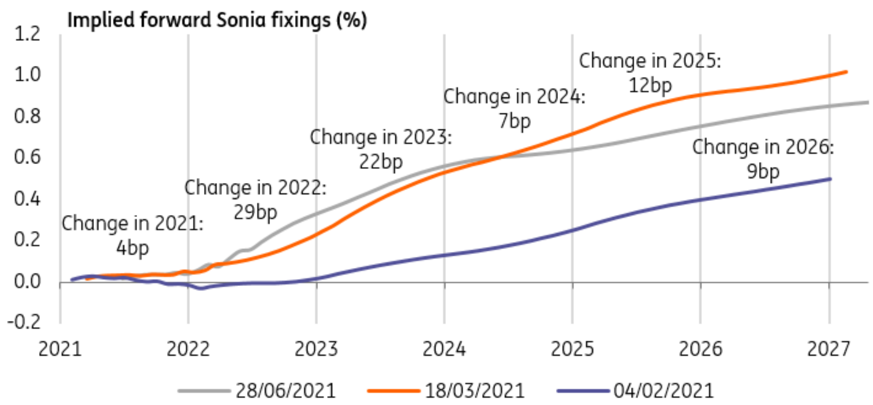
The fact the furlough scheme was extended until well after the April/May reopenings probably means the corresponding spike in joblessness will be milder than had support ended earlier. We expect approximately a one-percentage-point increase in the unemployment rate in the second half of the year.



Source: Bank of England

Markets may be getting ahead of themselves on Bank of England rate hike timing

We expect inflation to dip back to, and probably below, 2% by the middle of next year. That takes the pressure off the Bank of England to tighten early, and we're in the camp looking for the first rate-rise in early 2023.

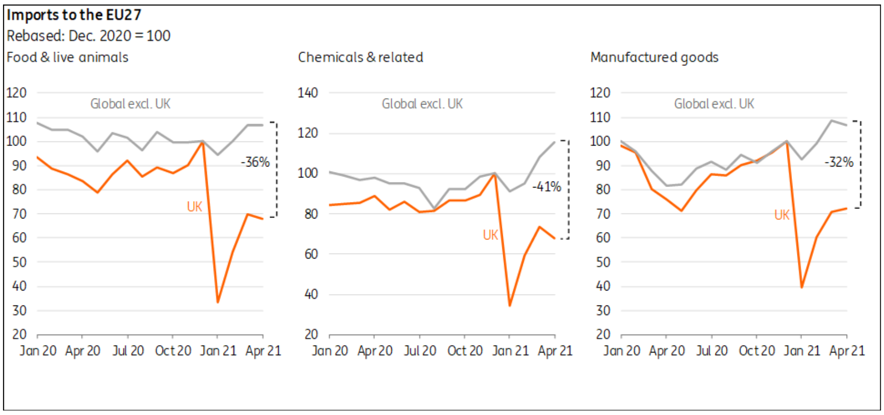


Source: Refinitiv, ING

Chart courtesy of ING's Rates Strategy Team

The UK is still lagging the rebound in trade globally

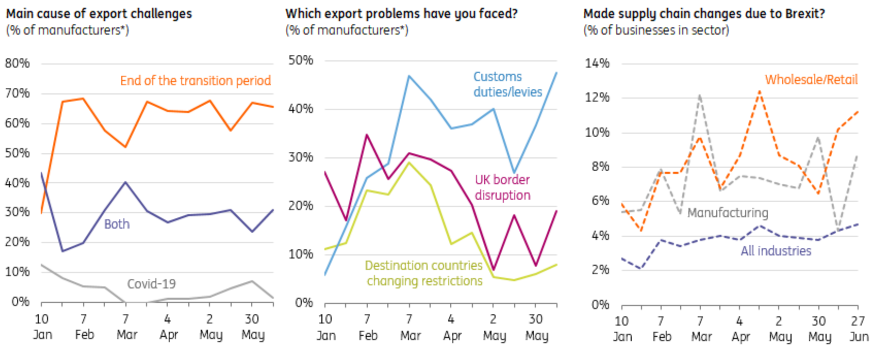
Away from Covid-19, the post-Brexit trade situation has improved drastically since January, though UK goods shipments to the EU (as measured by Eurostat at least) are lagging the overall recovery in European imports (that said, UK-produced data from the Office for National Statistics is more upbeat)



Source: Eurostat, ING calculations

Firms are still reporting challenges, albeit only a minority have made supply chain changes

The proportion of firms reporting export problems has generally fallen since January, but those that are still having issues are still predominantly linking it to the UK's EU exit and accompanying customs processes. The proportion of firms who've made supply chain changes in response has been creeping higher but is still fairly low.



Source: ONS Business Impact Survey

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