

UK data shows the economic winter is finally thawing

UK PMIs, retail sales and other confidence data suggest that the reopening is boosting activity, but also that consumers and businesses are more optimistic about the durability of the recovery than they were last summer. We expect a 5% bounce in second-quarter GDP



Source: Shutterstock

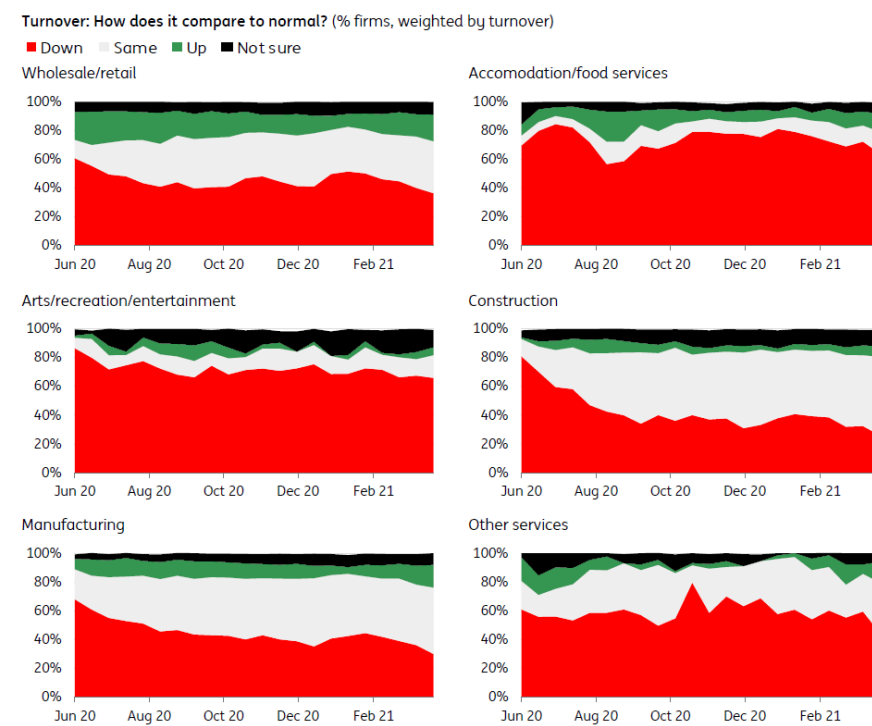
It's been a hectic week of UK data, but pretty much wherever you look, there are signs that the harsh economic winter is finally thawing.

Collectively this week's data – from PMIs to retail sales – suggests that the hit to first quarter GDP from the recent lockdowns has been milder than first thought, but also that we should be bracing for a strong, circa 5% bounce in economic activity during the second quarter.

Indeed, at 60.1, the services PMI is now the highest it's been since the pandemic began. Admittedly, the PMIs haven't been the best place to look for clues on the magnitude of GDP swings during the pandemic – more firms are reporting better conditions, but at such big turning points it doesn't necessarily tell us 'how much' things are improving.

That said, these improving PMIs tally with what we're seeing elsewhere. The ONS's bi-weekly business survey points to a (gradually) improving turnover backdrop, while the percentage of firms reporting a cash squeeze and low confidence about survival has been falling.

ONS survey data points to gradually improving revenues



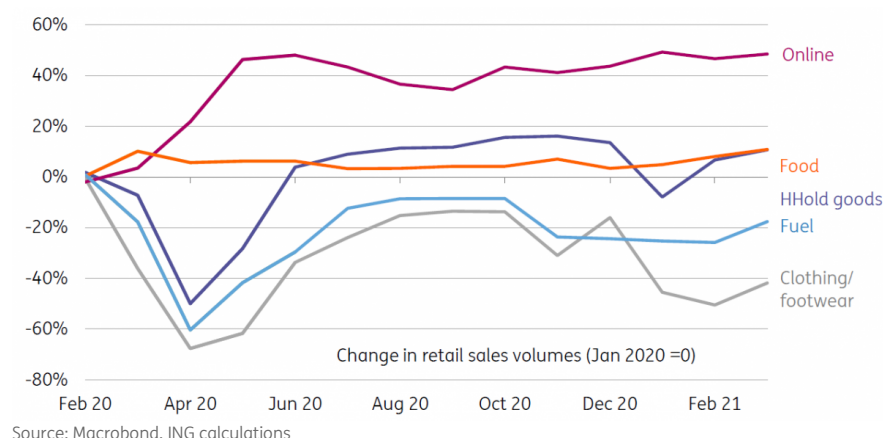
Source: ONS Business Impact Survey, ING calculations

Admittedly none of this should come as much of a surprise with the economy now in the midst of a gradual reopening. But what's interesting is that now – unlike last summer – there appears to be greater optimism about the durability of the recovery. The press releases that accompanies the PMIs said exactly that, and we can see something similar in recent consumer confidence readings too.

Last summer, it's fairly clear that consumers were still wary about the winter to come. Confidence remained depressed and that showed through in Google mobility data too. However with the vaccination programme well under way, confidence levels have increased noticeably, and today's 5% bounce-back in retail sales shows that consumers are willing to spend. Incidentally, the level of retail sales had exceeded pre-virus levels in March even with shops still closed, albeit this still reflects a big shift to online shopping.

Whether or not this optimism holds will, unsurprisingly, depend on whether case numbers stay low into the summer months, but also on how the narrative on new Covid-19 variants evolves.

UK retail sales bounce-back masks big underlying shifts



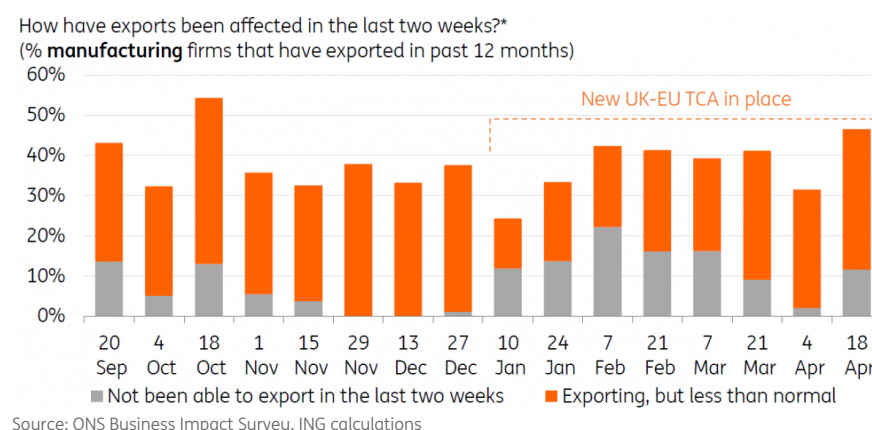
Still, one positive consequence of this renewed consumer optimism is that hiring appetite is increasing. While the unemployment rate will inevitably rise when the furlough scheme is unwound in September, the hope is that businesses should be sufficiently back of their feet to support most viable roles back to work. [As we wrote earlier in the week](#), we think the jobs market is likely to stage a quicker recovery than after past recessions.

It's not all positive though. Brexit is continuing to cause issues for a multitude of businesses, and the jury's still out on how much things have improved since the issues in January. On the plus side, trade data partially recovered in February, and the latest PMIs suggest manufacturing output has risen further.

But firms are also still reporting long supplier delays, partly as a consequence of the global shipping issues. And it's also clear that the new processes and rules are still causing issues for businesses, either operationally or through higher costs. As the chart below shows, a fair proportion of 'exporting manufacturers' are still experiencing difficulties sending goods overseas.

While the wider economic outlook still looks fairly bright for 2021, the drag from new trade rules is likely to persist, particularly as the UK side is still yet to introduce full customs processes.

Survey data reveals manufacturers are still facing export issues



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