UK: Five charts show the growing economic challenge

The October PMIs are the latest indicator to suggest the UK's economic rebound is running out of steam. We expect monthly GDP to contract this month and that makes further Bank of England stimulus highly likely in November

A general view of the skyline and high-rise buildings in London

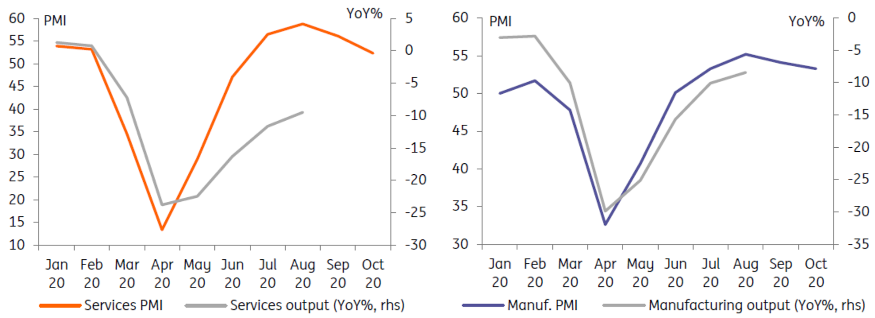
Source: Shutterstock

1 October PMIs hint that the recovery is running out of steam

The UK’s economic recovery from Covid-19 is faltering. That’s the core message from the latest purchasing managers’ index, which while technically still above the breakeven 50-level for both manufacturing and services, show early signs of moderation.

Admittedly the PMIs are probably not the best gauge of activity at the moment - the nature of the diffusion indicators means they don’t necessarily tell us accurately how rapidly growth is slowing at turning points in the economic story, only that more businesses are reporting issues.

Nevertheless, the IHS Markit/Cips press release that accompanies the data paints a picture of an economy beginning to feel the strain of new restrictions. And this corroborates what we are beginning to see in the data elsewhere.

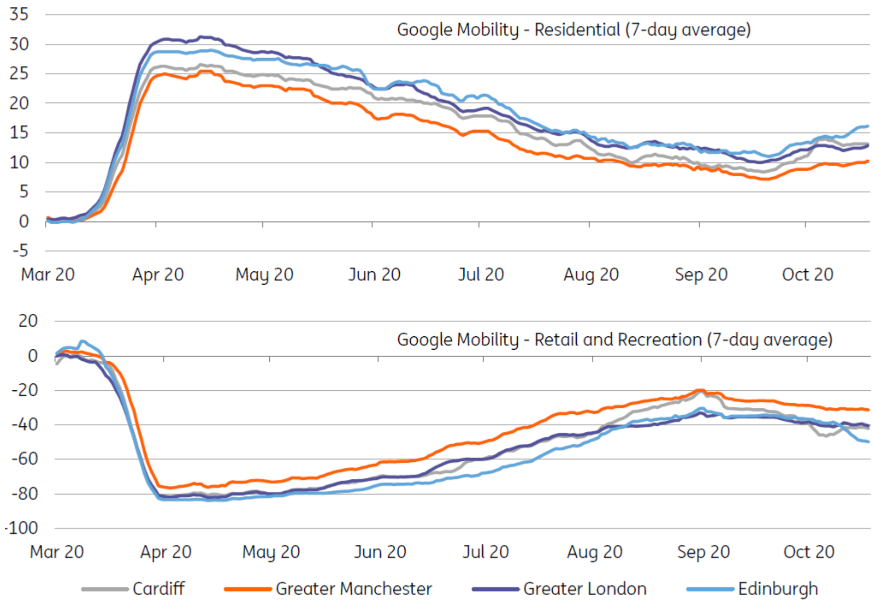


Source: Markit/CIPS, Macrobond

2 People are staying home more and going out less

Take the Google Mobility data, which has proven to be a fairly good proxy for activity during the earlier phases of lockdown. That tells us that in major UK cities, people are starting to stay at home more and go out less. That's also the tentative conclusion from the recent Springboard footfall data, published by the ONS.

As we wrote in more detail earlier, this poses a particular challenge for the high street and could spell trouble for the remarkable rebound in retail we've seen over the summer.



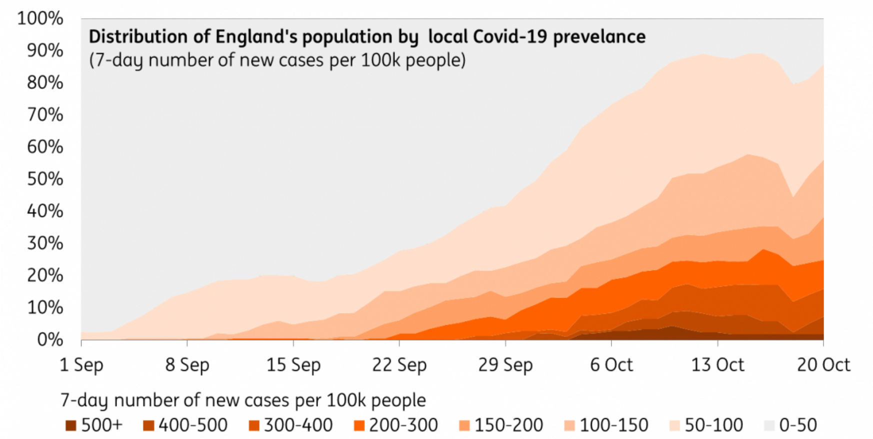
Source: Macrobond, ING calculations

3 Over a quarter of England's population live in areas with weekly cases above 200 per 100,000 people

This reduction in mobility shouldn't come as much of a surprise, given new local restrictions covering an increasing share of the UK.

By our calculations, over a quarter of England's population is living in local areas with weekly Covid-19 cases above 200 per 100,000 people. If those areas were all to see Tier 3, or 'Very High', restrictions imposed over the coming weeks, that could potentially affect (either directly or partially) around 200,000 workers in licensed restaurants/pubs alone.

But aside from the direct effects, there's a clear question mark over how consumers behave over the coming weeks. The first phase of the pandemic showed that rising case numbers could translate into greater consumer caution, even without fresh government intervention. So far there's limited evidence that this is happening in the second wave, although consumer confidence has begun to turn lower again.



Source: Macrobond, ONS population data, ING calculations

Covid-19 case growth based on Local Authority District level data

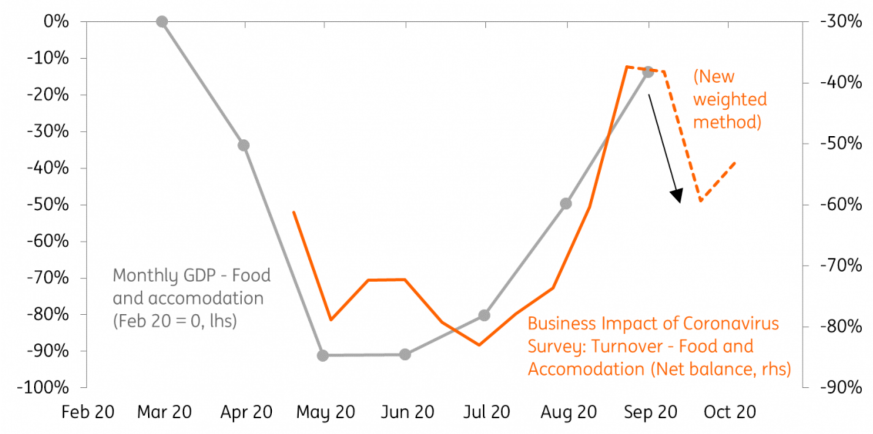
4 A rising number of firms are seeing revenues underperform in the hospitality sector

Away from the major hotspots, it's become increasingly clear over recent weeks that hospitality businesses across the UK are already encountering challenges, amid restrictions on household gatherings indoors.

The latest ONS business impact survey indicates that a greater share of firms in this sector are encountering lower-than-usual turnover - and that points to a fall in hospitality output when we get the October GDP numbers.

Wrapping all of this together, the fourth quarter looks set to be very challenging for the UK economy. We now expect October GDP to contract by at least 1%. While this is clearly much less than the damage earlier in the year, November could see further hit if the UK as a whole were to enter a 'circuit-breaker' style lockdown.

A national situation resembling that coming into force Wales, where non-essential retail, hospitality and other services will be closed again for a couple of weeks, could easily shave between 5-7% off monthly GDP depending on how wide-ranging it ended up.



Source: ONS Business Impact Survey, ING calculations

Net balance = Number of foot/accommodation businesses reporting higher revenue that normal, less those reporting less revenue

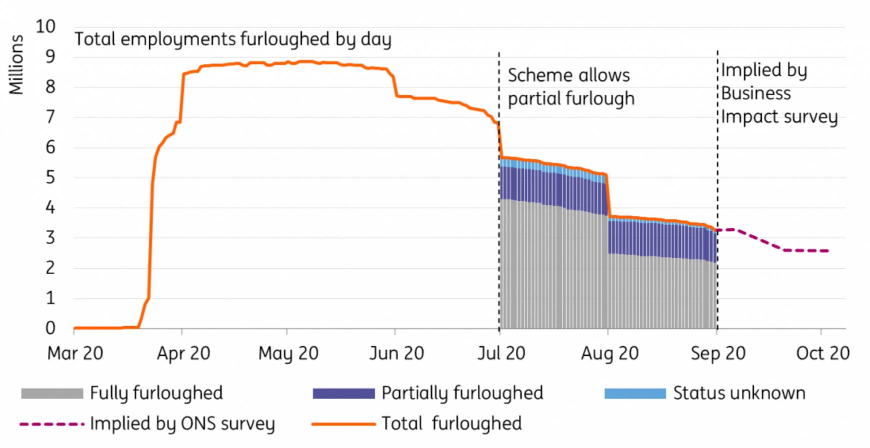
5 1.7 million people may still be on 'full furlough' according to latest data

If there's one piece of better news, it's that the latest measures announced by the Chancellor should limit the rise in unemployment over the Winter.

The new terms of the Job Support Scheme, which allow businesses to bring-back workers part-time and claim government support for the hours not worked, is not a million miles off the terms of the existing furlough scheme as it stands in October.

Admittedly these changes will come too late for some firms - redundancies have already begun to rise. However, we think there could be as many as 1.7 million people still potentially benefitting from 'full furlough', according to our estimate from the latest ONS Business Impact survey and August's furlough data. The new, more generous support terms (combined with the ability to fully furlough staff where businesses are closed), should help limit the number of these workers moving from the Job Retention scheme into unemployment.

So while unfortunately there will still inevitably be a rise in the jobless rate over coming months, it's now less likely to peak at 9-10% as we had previously anticipated.



Source: HMRC, ONS Business Impact survey, ING calculations

Implied figures based on ONS survey and total UK employment (excl self-employees)

Expect more Bank of England QE in November

Nevertheless, the backdrop of slowing economic activity, the forthcoming hurdles presented by the end of the transition period, as well as the strains in the jobs market, all point to more Bank of England stimulus.

We expect an addition £100bn worth of quantitative easing to be announced in November. However we think the Bank of England will opt against negative rates at this stage.

Author

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Disclaimer