UK economic recovery effectively on pause as PMIs dip

The latest UK purchasing managers indices, while still healthy, hint at an economic recovery that's stalling as Covid-19 cases rise. We're still expecting a positive third-quarter growth figure in the region of 1.5%, though clearly further progress towards pre-virus levels relies on prevalence falling back once more

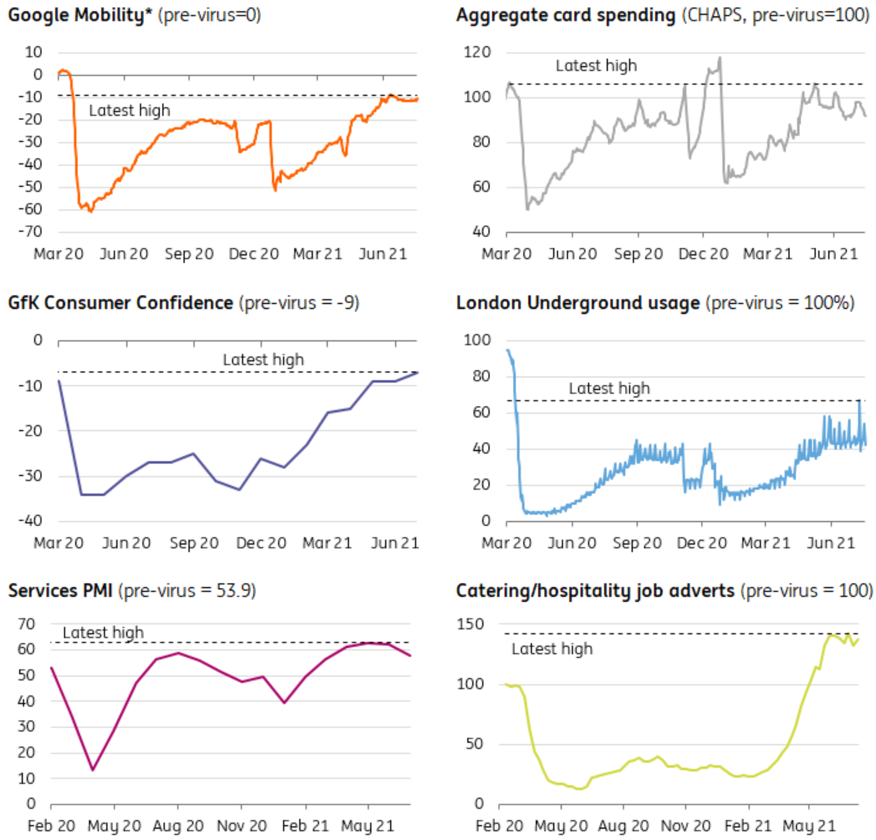
A general view of the skyline and high-rise buildings in London

Source: Shutterstock

The latest UK services PMI dipped noticeably in July, offering another hint that the recovery is effectively on pause as Covid-19 cases rise. The services index dipped to 57.8 from 62.4, while the manufacturing side was again held back by component shortages.

All of this is largely consistent with what we've seen in other high-frequency data. The likes of Google Mobility and the Bank of England's aggregate card spending data has plateaued or dipped over recent weeks.

High-frequency data has plateaued over recent weeks



Source: Macrobond, ONS, Department for Transport, ING

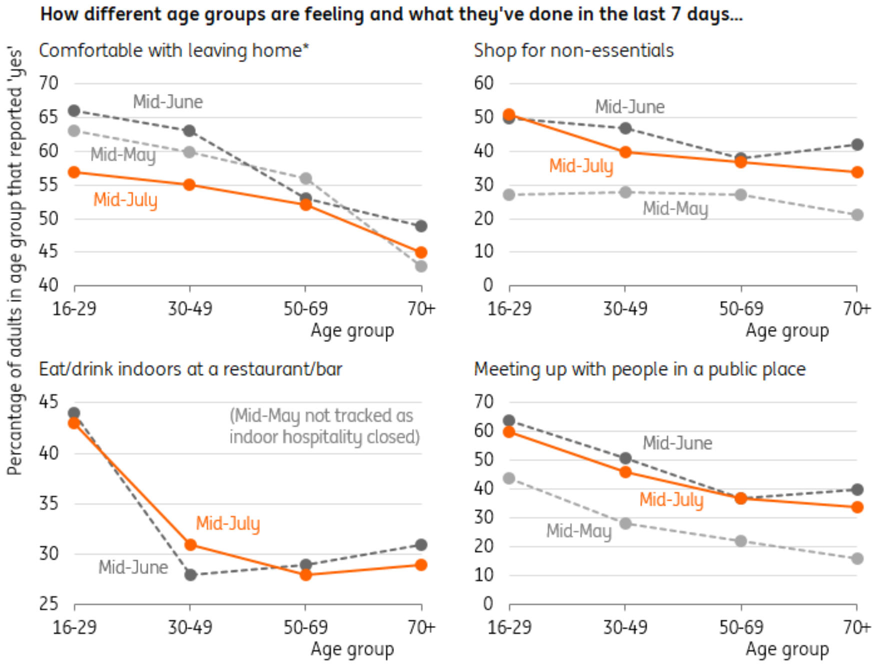
*Google mobility is a simple average of the retail/recreation, grocery and workplace sub-indicies

Despite the rise in self-isolation rates over recent weeks, the effect on confidence has been less pronounced than we'd have expected – so far anyway.

In place of new restrictions, the biggest risk factor from the Delta variant was always going to be the impact on confidence. From the past year of the pandemic, we know that the way people act and how cautious they behave is – if not perhaps more – important than the rules themselves.

If we look at the weekly ONS survey of social impacts, we can indeed see a bit of a decline in the proportion of people that are comfortable with leaving home – particularly among younger groups. That may be hinting at concerns about getting 'pinged', which is likely to be more prevalent in lower age groups, given that's where cases have been heavily concentrated. That said, if we look at actions – be it shopping or visiting hospitality – there's no real discernible change in attitudes compared to a few weeks ago.

Willingness to go to shops, hospitality etc hasn't fallen much (yet)



Source: ONS Coronavirus and the social impacts on Great Britain

* People 'very comfortable' or 'comfortable' with leaving home. Dates correspond to end-date of survey period

The major caveat when analysing much of this data is that it often pre-dates the noise surrounding self-isolation and the risk of getting pinged – much of which has really only emerged in the press over the past week or so. There's little doubt this is rapidly amplifying worker shortages in a variety of sectors. And we may well begin to see more pronounced signs of people reducing socialisation over coming weeks.

Still, the main takeaway when it comes to GDP is that this is very unlikely to be like the winter. In fact we're still likely to see a positive growth figure for the summer period. We're expecting 1.5% growth in the third quarter (following roughly 5% in the second), including average monthly growth rates of 0.3% across June and August – though the risk there is clearly to the downside. Assuming the virus situation improves into the early autumn, then the economy will still likely be close (or maybe back) to pre-virus levels by the end of the year.

However, there's little doubt that further progress in the recovery really relies on Covid-19 prevalence falling again. It's a reminder that the recovery is likely to be far from smooth.

It also suggests the Bank of England is unlikely to adopt more hawkish language at its August meeting, despite some upbeat comments from some MPC members recently.

Author

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

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