

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

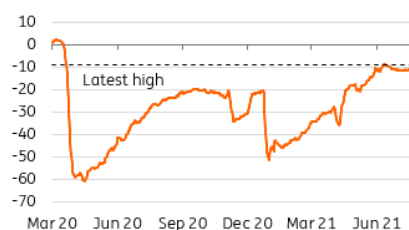
Source: Shutterstock

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.

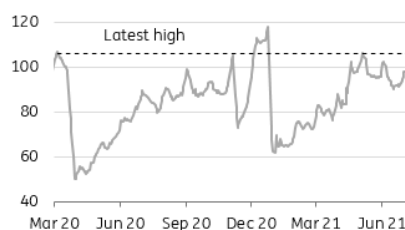
All of this is largely consistent with what we've seen in other high-frequency data. The likes of Google Mobility and the Bank of England's aggregate card spending data has plateaued or dipped over recent weeks.

High-frequency data has plateaued over recent weeks

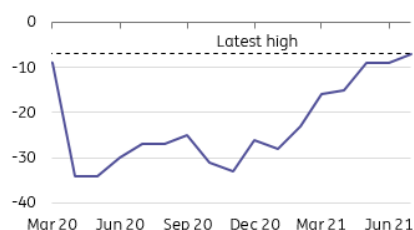
Google Mobility* (pre-virus=0)



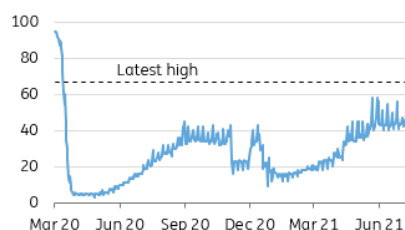
Aggregate card spending (CHAPS, pre-virus=100)



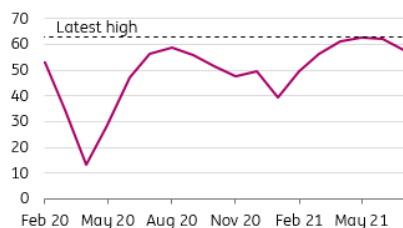
GfK Consumer Confidence (pre-virus = -9)



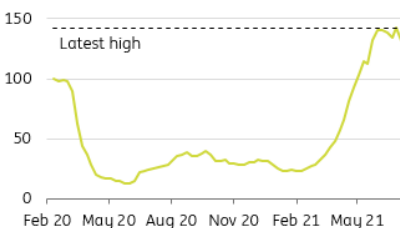
London Underground usage (pre-virus = 100%)



Services PMI (pre-virus = 53.9)



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



Source: Macrobond, ONS, Department for Transport, ING

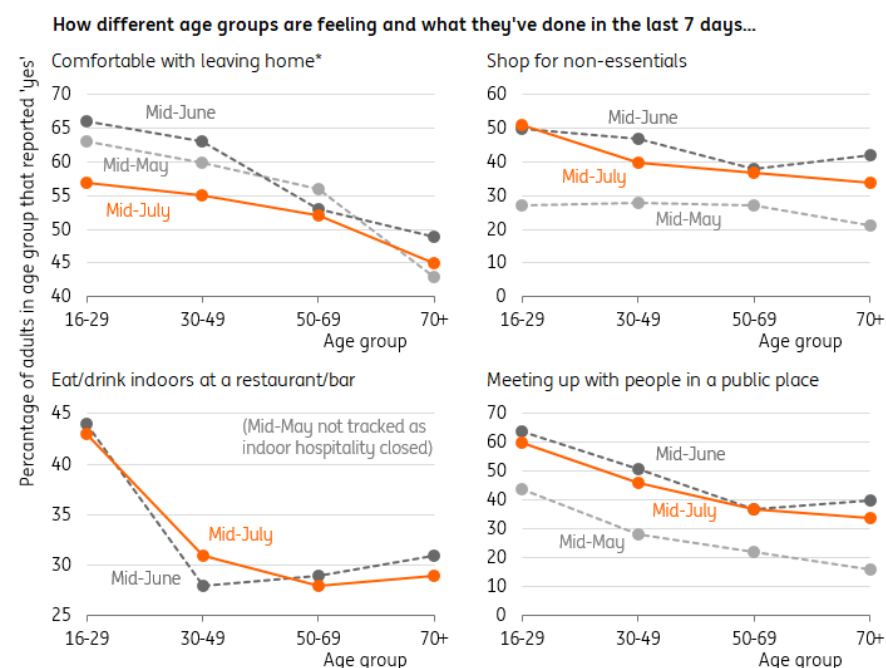
*Google mobility is a simple average of the retail/recreation, grocery and workplace sub-indices

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

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 www.ing.com.