

## UK economy records modest May growth despite reopenings

UK GDP rebounded only slightly in May, as falls in manufacturing, retail and construction helped to offset the reopening-rebound in consumer services. Rising Covid-19 cases pose a challenge for the recovery over the summer but the medium-term story still looks fairly solid



Source: Shutterstock

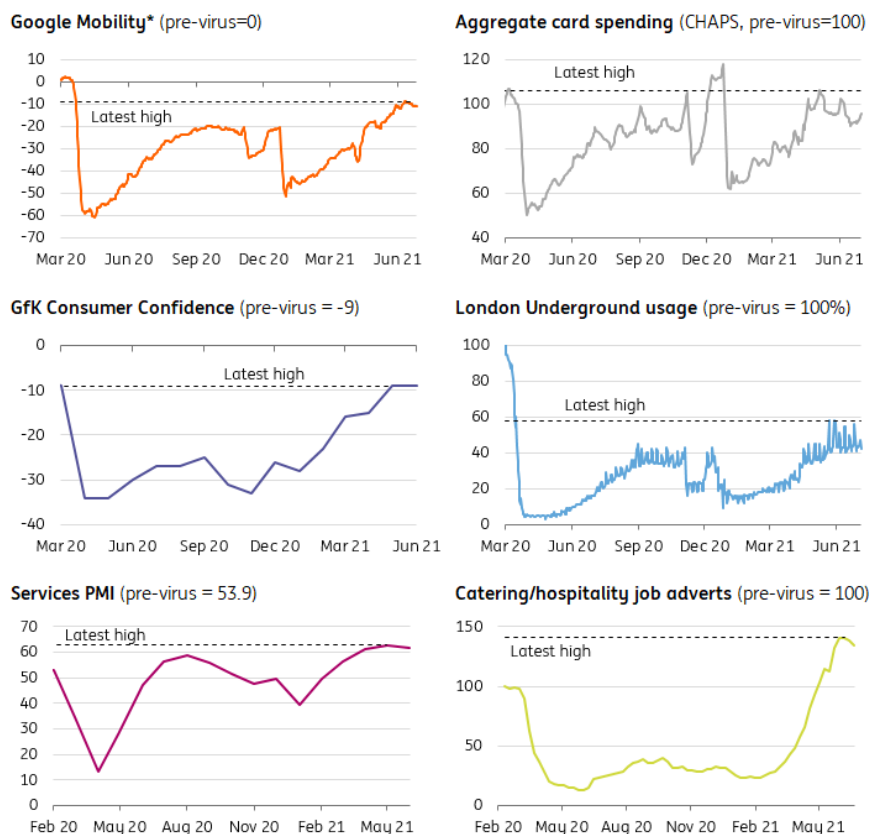
The latest UK growth data covering May was a tad disappointing, with economic activity increasing by 0.8% on the month, a little lower than the 1.3/1.4% figure we'd been looking for. The good, albeit unsurprising, news is that consumer services activity rebounded strongly again owing to the ongoing reopening, and the likes of hospitality and recreation indices are essentially back to where they were last summer with comparable levels of restrictions. Otherwise the picture was slightly lacklustre, with the likes of retail, construction and manufacturing all recording month-on-month falls. In the case of the latter, you'd probably put this down to some of the supply chain issues being encountered globally.

Nevertheless, we still expect the UK to record approximately 5% growth through the second quarter. But the outlook for the current third quarter is becoming trickier to predict. Covid-19 cases

are rising, albeit the growth rate may finally be showing some tentatively signs of slowing. And while the link with hospitalisations has weakened with the vaccines, there is growing concern about the number of people needing to self-isolate.

Around 600,000 people were pinged by the NHS app or told to isolate by contact tracers in the week to 30th June, and that's likely to be in the millions within days, if it isn't already. This risks amplifying the worker shortages that we're seeing in the consumer services sectors right now.

There's also a growing risk that consumers begin to 'act with their feet' and reduce socialisation again while cases are high. And this may be one contributing factor to the recent levelling off in UK high frequency data. Mobility and spending data have come off recent highs.



Source: Macrobond, ONS, ING calculations

We'd still expect positive third quarter growth of around 1.5%, especially given we're not currently looking at new restrictions – and indeed the government is planning a further relaxation on 19 July. And we'd still say the outlook beyond the summer looks reasonably good, assuming no significantly vaccine-evasive variants emerge in the near-term.

We expect the size of the economy to be more-or-less back to pre-virus levels by the end of the year.

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto: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 <http://www.ing.com>.