

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



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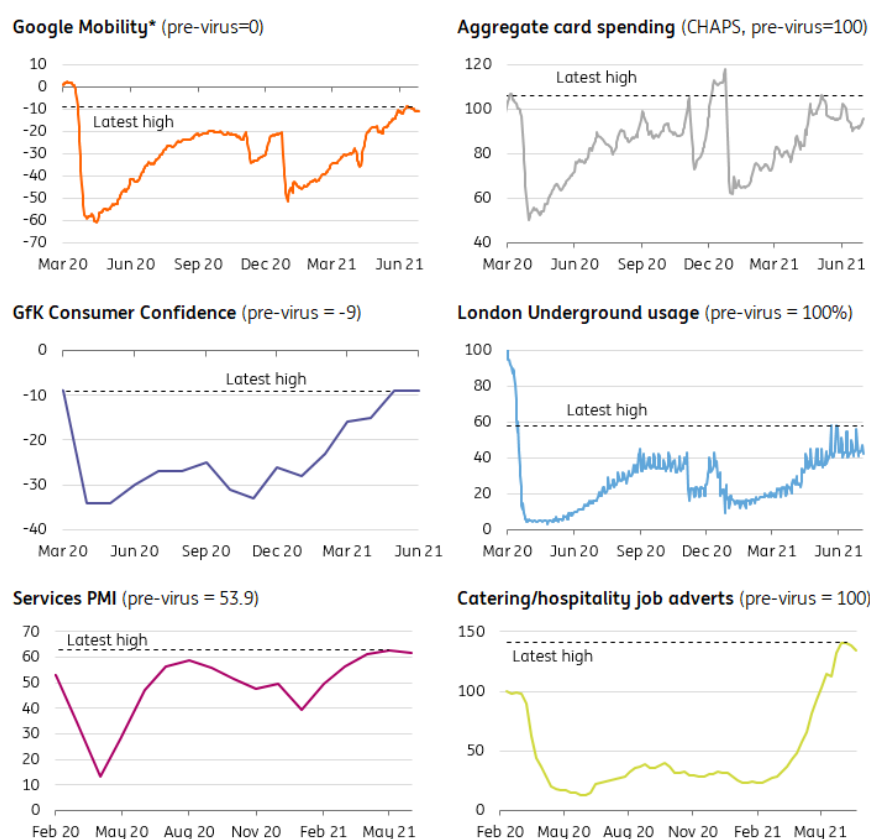
The latest UK growth data covering May was a tad disappointing, with economic activity increasing by 0.8% on the month, a little lower than the 1.3/1.4% figure we'd been looking for. The good, albeit unsurprising, news is that consumer services activity rebounded strongly again owing to the ongoing reopening, 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.

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