

UK follows Europe with sharp fall in business activity

Unsurprisingly, the UK PMI figures point to a sharp decline in business activity during March. But while the decline in GDP during the late-first and second quarters will undeniably be large, these PMIs only provide limited information on just how deep the fall will be



Source: istock

With the UK now formally in lockdown, the decline in second-quarter GDP will undoubtedly be large. The range of estimates from economists varies, but with the likes of travel, large chunks of retail, and restaurants/hospitality closed or operating at low capacity, it's not hard to envisage consumer spending now falling by 10% (non-annualised) or more through the second quarter.

The fall in the March PMI probably understates the loss to GDP we are likely to see in the short-term

That story of sharp deterioration is unsurprisingly reflected in the latest purchasing managers

indices (PMIs). At 35.7, the services PMI is the lowest since the survey began. The question for economists today is whether this data can help to refine estimates on the depth of the likely recession - and unfortunately, the answer is largely a 'no'.

Don't forget that like most survey measures, the PMIs are calculated as a diffusion index. That is, a sharp drop tells us that substantially more companies are seeing worsening conditions, but importantly it doesn't give us too much information on the size of the slowdown. That means at times of rapid turning points in growth - like after the Brexit referendum - the level of the PMI isn't always too meaningful.

If anything, the fall in the March PMI probably understates the loss to GDP we are likely to see in the short-term.

The manufacturing PMI stayed more resilient, rising to 48.0, but as was the case last month, this is largely down to a sharp rise in the time it is taking suppliers to make deliveries. In more normal times, delivery lags are taken as a positive sign, as it implies firms are flushed with orders. That's obviously not true this time around - businesses are struggling amid a lack of parts from Asia, but also increasingly staff shortages too. Mechanically though, longer delivery times still feed through as a positive factor in the PMI calculation. Strip that component out, and the picture would look much more negative.

Judging just how far GDP will fall amid the virus outbreak is still largely guesswork, although undoubtedly the hit will be quite large. However, the hope is that the fiscal measures announced over the recent days - in particular those announced last Friday to pay 80% of firms' wages amid the closures - will help foster a smoother rebound when the containment measures are unwound.

Ultimately though, the size of the hit will be more determined by the longevity of the containment measures, how quickly they may be unwound, and whether some aspects become more permanent to limit a second outbreak later in the year.

Author

James Smith

Developed Markets Economist

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>.