# 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.

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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.
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> 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.

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