

## UK GDP: Three takeaways from February's numbers

The UK economy remained in the doldrums in February, though clearly this won't last for long. We expect a near-5% increase in second quarter GDP assuming the reopening continues to go to plan. Meanwhile the trade situation improved after January's Brexit issues, though it's going to take some time before the economy has fully adapted to the recent changes



### 1 The UK economy modestly grew in February

The UK economy grew by 0.4% in February, only partially reversing January's 3% slide in activity when the new, strict lockdown began. There are no real surprises here - card spending data had ticked slightly higher as the lockdown wore on, as did the turnover readings in recent ONS business surveys.

This latest reading puts the size of the UK economy some 7.8% below pre-virus levels, though clearly that's unlikely to be the case for long. We expect growth to come in just shy of 5% in the second quarter, though there is scope for more. A lot depends on how much - and how quickly - consumers deploy some of the pent-up savings of recent months. Our assumption is that some of

this will get spent, but it's worth remembering that this cash buffer has disproportionately been built by higher-income earners, whose marginal propensity to consume is generally lower.

The good news though is that Covid-19 cases have continued to drift lower, despite the return of school children and the surge in testing that has accompanied it. Covid variants remain the big unknown, but for the time being the picture looks encouraging.

## 2 Test & trace and vaccines continue to throw the numbers around

The upshot is that the economy is likely to reach its pre-virus size by mid-2022, though in some respects this yard-stick is not particularly helpful. The level of GDP was lifted by 0.9% alone in January (though offset by a -0.1% contribution in February), by testing, contact tracing and vaccine deployment.

Roughly speaking this spending will dissipate as the economy returns to pre-virus levels - though presumably some testing, as well as booster vaccines, will continue into next winter. While it's really just an accounting point, it does have the potential to throw these pre-virus comparisons around quite a bit over coming months.

## 3 The trade situation improved - partially

Finally, these latest figures also suggest that UK-EU trade situation improved in February. In particular, we can see that UK exports to Europe recovered a fair chunk of the early-2021 declines - and remember it is this direction of trade flows that were arguably more heavily impacted by the changes in January (the UK has offered grace periods on many aspects of the new relationship for incoming goods). Imports from Europe stayed depressed, though this is perhaps linked to stockpiling activity during the fourth quarter.

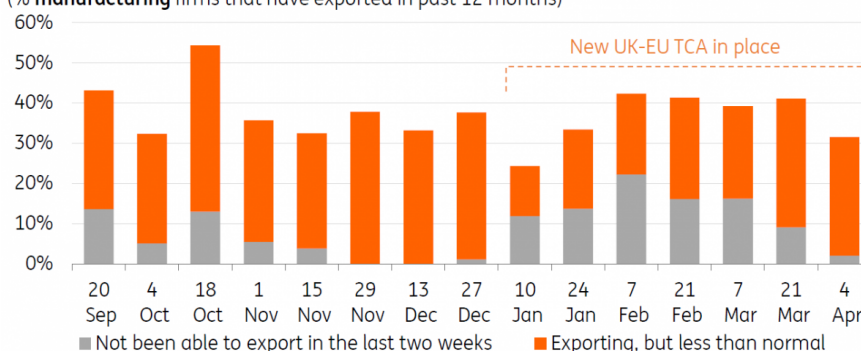
The recovery in exports tallies with what we saw in other data - including traffic across the Dover-Calais crossing. But just as the collapse in trade in January wasn't totally down to Brexit disruption, we'd caution the latest rebound in UK shipments to the EU probably doesn't tell us it was business as usual for firms.

ONS surveys through the first quarter showed a consistently high proportion of 'exporting' manufacturers and wholesalers exporting less than usual - with 15-20% failing to trade at all. The situation appears to have improved over recent weeks, but it's clear it is going to take some time for businesses to adjust, particularly for SMEs.

## 'Exporting manufacturers' struggled with Brexit changes in 1Q

How have exports been affected in the last two weeks?\*

(% **manufacturing** firms that have exported in past 12 months)



Source: ONS Business Impact Survey, ING calculations

Phrasing of question was changed slightly at the start of 2021 - previously it specifically related to Coronavirus

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