

UK growth disappoints despite cautious reopening in some sectors

Despite the reopening of construction and manufacturing, the UK's May GDP figures were underwhelming to say the least. Admittedly this is 'old news' now, and we should see a sharper rebound in June and July. But it does serve as a reminder that economic recovery from Covid-19 is going to be very protracted



Woman passes parked buses near Oxford Street in London

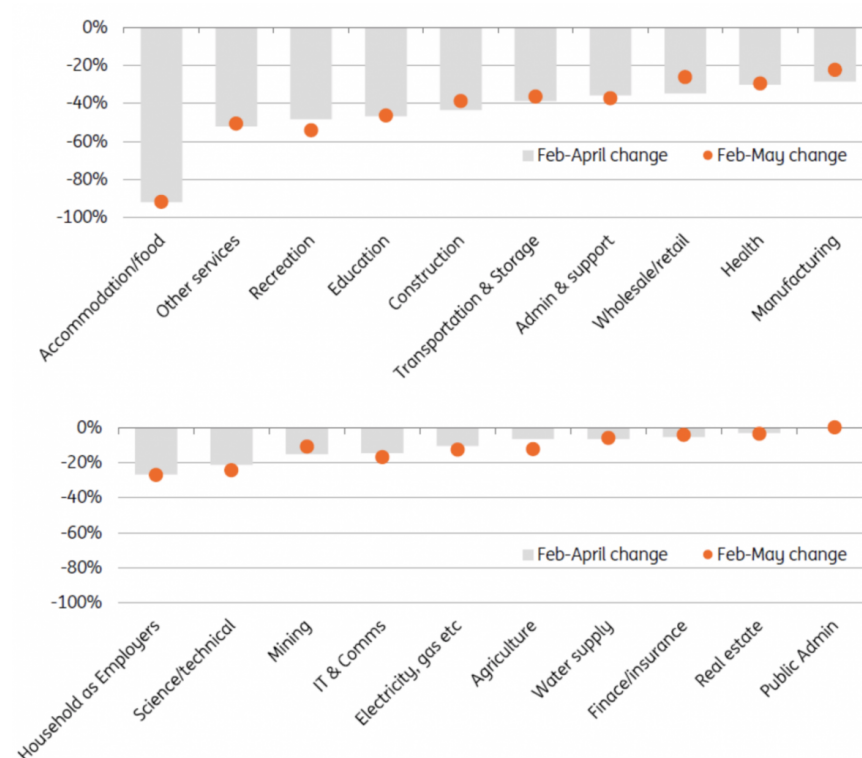
Source: Shutterstock

There's little doubt that the latest UK GDP figures for May are underwhelming. Output rebounded by a mere 1.8%, having shrunk by 25% during March and April.

It's true though that the pick-up was never going to be spectacular, given that unlike some other European countries, the majority of the restrictions remained in place through May. Google's Mobility Index - which up until now has been a reasonable proxy for activity in this crisis - had only pointed to a rebound in activity in the region of 4%.

Like other economists however, we had thought that the reopening of construction and manufacturing might have contributed to a slightly sharper rebound. In the event, 30% of construction firms were still not operating in May, according to these latest figures.

Most sectors barely recovered from April's low



Source: Macrobond, ING calculations

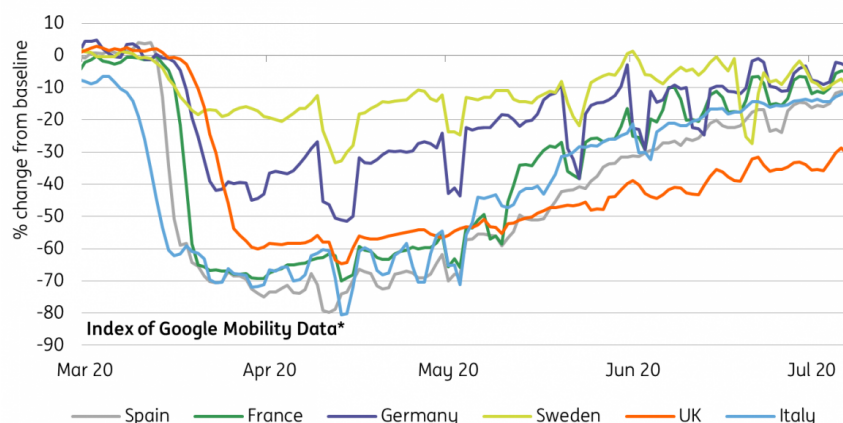
Of course, a lot has changed since then. The reopening of retail during June should have contributed to a sharper rise in output, and we suspect there will be some evidence of pent-up demand in forthcoming figures. According to Google's data, trips to retail/recreation have recovered to some degree in parts of England, outside of the major cities.

But with overall footfall numbers still well down on last year, we should be cautious in assuming that any rebound in retail activity will prove to be fully sustainable.

We suspect that when we get the June GDP figures, the economy will still have been around 20% smaller at the end of the second quarter than it was pre-virus. And while we should see some further recovery through the summer as more industries are allowed to open, it's clear that the economy is going to continue operating well below pre-virus levels for some time - probably a couple of years at the minimum.

There are mounting concerns about unemployment, as firms begin to make adjustments to their operations reflecting ongoing social distancing constraints and lower demand. That, combined with the ever-present risk of more-widespread local lockdowns, as well as the significant changes in UK-EU trade terms next year, all pose significant risks during the Covid-19 recovery phase.

The UK has been slower to getting moving again than other parts of Europe

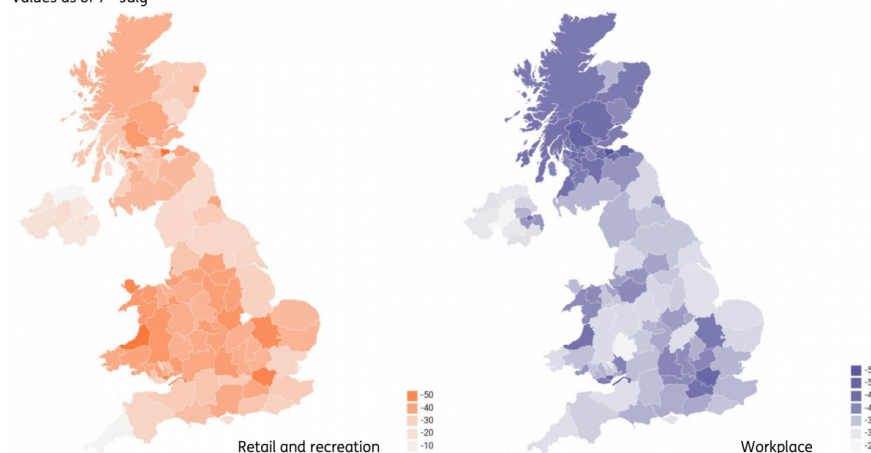


Source: Google Mobility Report, ING

Mobility index is an average of Retail and Recreation, Grocery and Pharmacy, and Workplaces, from Google's Mobility Report. Baseline is the median value for the corresponding day of the week between 3 Jan-5 Feb. Figures are a three-day moving-average

Retail/recreation trips have been slower to recover in major cities and Wales/Scotland

Change in mobility, compared to pre-virus (Jan-Feb) levels
Values as of 7th July*



Source: Google Mobility Report, ING

Workplace mobility is a 7-day average to smooth-out weekend-related volatility

Author

James Smith

Developed Markets Economist, UK

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 www.ing.com.