

UK: Lockdown and Brexit combine to drive GDP 3% lower

Despite a sizeable hit to January GDP, the economy looks poised for a decent recovery in activity through the second quarter. But Brexit disruption, which contributed to a huge hit to trade at the start of 2021, will be slower to resolve



Source: Shutterstock

UK monthly GDP fell by a sizeable 2.9% in January, though this is clearly quite a bit better than feared.

While the national lockdown shuttered a range of industries, the hit to consumer industries was not quite as bad as it could have been. But what really stands out is health expenditure, where the ramping up of the government's test and trace scheme and vaccine programmes added 0.9% to the GDP figures alone!

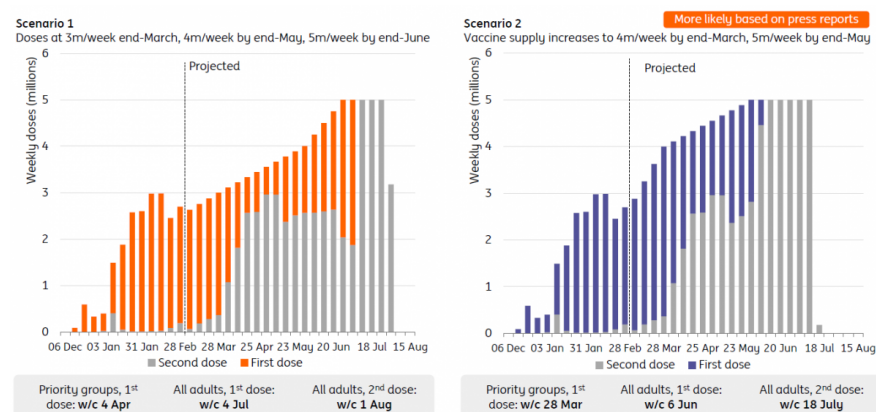
As a result, the economy is now around 9% below pre-pandemic levels. However, it's worth remembering that the impact of testing/tracing will presumably unwind as the recovery gathers pace and should theoretically dampen some of the improved growth figures later in the year.

The government's test and trace scheme and vaccine programmes added 0.9% to the GDP figures alone!

Speaking of the recovery, we should begin to see a marked improvement in the GDP figures from March. The return of schools this week will directly boost the 'education' section of the GDP numbers and indirectly boost other sectors via lower childcare needs. Meanwhile, latest reports suggest the UK's vaccine supply is set to increase substantially from next week, raising the possibility that all adults could receive their first dose of the vaccine by the end of May or early June (see scenario chart below).

That suggests both the April reopening - which will permit outdoor dining and shops to resume trading, among other things - and May - which should enable indoor dining, staying in hotels etc. - are likely to go ahead as planned. While we think the vision to remove most social distancing rules by mid-June is uncertain, we're still likely to see a sizable bounce in second-quarter GDP.

Vaccine pace set to double, raising prospect of first jobs for all adults by early June



Source: Coronavirus Dashboard, ING calculations

Note: Assumes government shortens dosage gap once all first-doses complete.

Based on format developed by FT

Adjusting to the new EU relationship, may take longer to improve

There was a huge fall - 40% and 29% in exports and imports to/from the EU in January, respectively (though the ONS has cautioned that the export data isn't directly comparable). In contrast, manufacturing output fell by 2.3% in January.

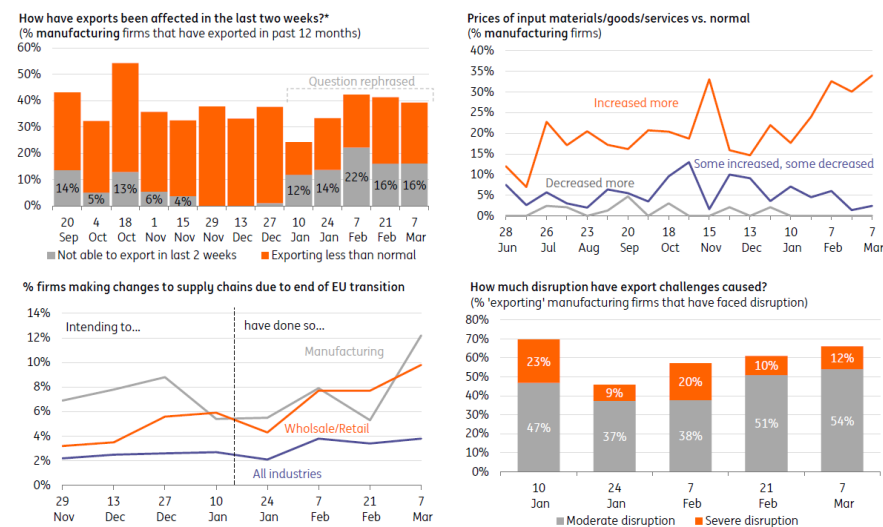
It's worth saying, though, that there's a lot of factors at play here. Among other things, the fall will be linked to a) stockpiling in late 2020, allowing businesses to avoid the need to trade in early January, and b) some ripple effects from the Covid-related closure of the ports back in December.

Still, there can be little doubt that some of this damage is down to disruption. Some things have probably improved in the weeks since, given that, for example, major haulage firms have largely

resumed deliveries between the UK and the continent (some had paused given the high percentage of wrongly filled-in paperwork).

But there are also signs that firms are still struggling. Recent ONS business surveys show that there is still a small chunk of manufacturers who haven't been able to export recently, while many are reporting fewer shipments than usual. Unsurprisingly input prices have also been rising more than normal, though some of this will be down to international shipping issues. What's also telling is that a small - but clearly rising - number of firms in affected sectors are saying they are making changes to their supply chains.

ONS survey data suggests Brexit disruption is taking time to ease



Source: ONS Business insights and impact on the UK economy

*Question was explicitly linked to Coronavirus during 2020. Responses to some questions were limited according to the ONS, hence should not be overinterpreted.

Wrapping all of that together, it's clear the UK economy is poised for a decent recovery from the spring, but Brexit will continue to slow things down. We expect the new 'super-deduction' measure contained within the recent budget to help manufacturing output recover over the coming months.

But overall, investment is likely to be slower to return than consumer spending once the economy reopens.

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 <http://www.ing.com>.