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.

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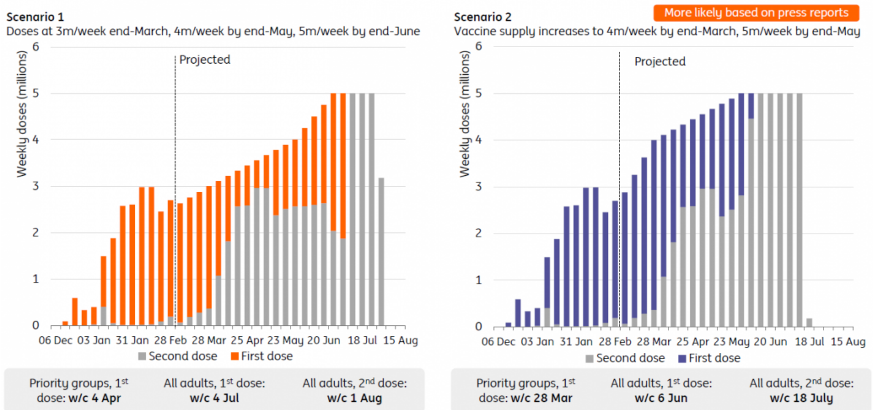
Speaking of the recovery, we should begin to see a marked improvement in the GDP figures from March. The return of schools this week will directly boost the 'education' section of the GDP numbers and indirectly boost other sectors via lower childcare needs. Meanwhile, latest reports suggest the UK's 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 jabs 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

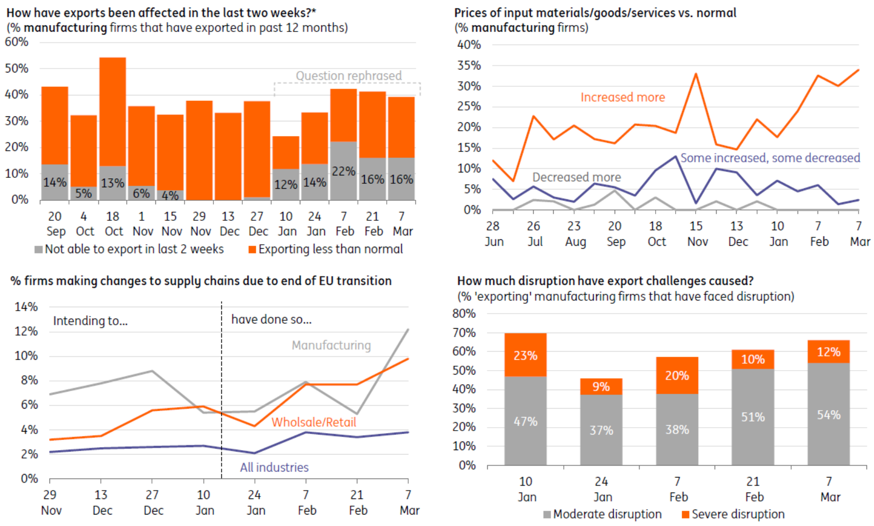
There was a huge fall - 40% and 29% in exports and imports to/from the EU in January, respectively (though the ONS has cautioned that the export data isn't directly comparable). In contrast, manufacturing output fell by 2.3% in January.

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

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