

## UK March GDP beats expectations as green shoots appear

The hit to UK activity in the first quarter was less bad than first feared, and more recently we've seen a range of indicators pointing to more buoyant economic conditions. We're looking for growth of 5% in the second quarter



### 1 UK GDP poised for a near-5% bounce in the second quarter

Fresh lockdowns and Brexit-related disruption at the start of the year translated into a 1.5% contraction in the size of the UK economy during the first quarter. This is considerably 'less bad' than first feared though, and more importantly, things have begun to improve since.

We can already see signs of this in the March data, which saw a 2.1% rebound in GDP. Admittedly, this is heavily driven by the reopening of schools, given child numbers feed directly into the calculations of education output. But we also saw a sizable recovery in retail sales during March, even before shops had reopened. Meanwhile, construction bounced by over 8% across February and March, taking activity there above pre-pandemic levels for the first time.

Since the start of the second quarter, we've also seen a broader improvement in everything from consumer confidence to the number of people taking public transport. In many cases, these more-

timely indicators are now exceeding the level they reached last summer, which we think is linked to the public becoming more comfortable with going out and about again following the successful vaccine programme.

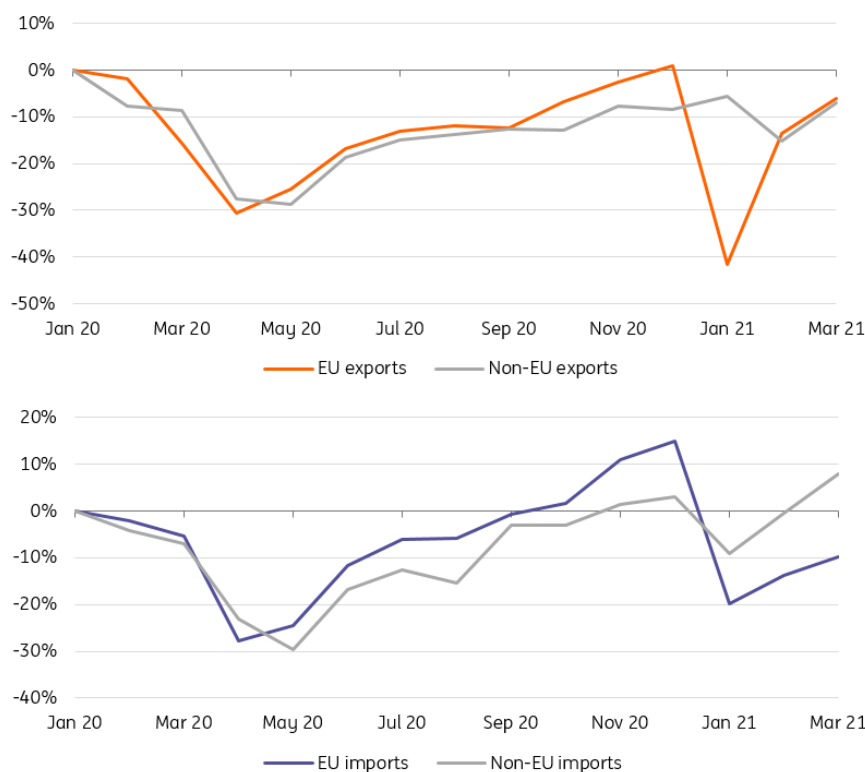
With a further reopening step now formally approved for Monday, we think GDP growth could come in just shy of 5% in the second quarter.

## 2 The economy could be close to pre-virus levels by year-end

We're a little more cautious than the Bank of England on this point, which thinks the economy will have exceeded pre-virus levels by the end of the year, though it all depends on three factors:

- Firstly, the level of pent-up demand is still fairly uncertain. Savings levels have risen and some of this buffer will undoubtedly get spent, though these cash balances have disproportionately benefited higher earners who tend to spend a smaller proportion of income gains.
- Secondly, the Treasury's 'super-deduction', a fairly generous tax incentive for firms to make investments in machinery/equipment, will boost (or more accurately perhaps, bring forward) CapEx this year – though again it's still fairly unclear by how much.
- And finally, the inclusion of Covid-19 testing and vaccines into the GDP figures has inflated the size of the UK economy, and by a big enough margin to make a difference to when the economy will return to pre-virus levels. Ultimately though, this is really just an accounting point.

### EU vs. non-EU trade - percentage change from January 2020 levels



Source: ONS  
Seasonally adjusted data. Jan 2020 = 0

### 3 UK trade situation improves as initial post-Brexit teething issues ease

One final piece of good news is that disruption stemming from the abrupt arrival of the UK-EU trade deal in January appears to have eased.

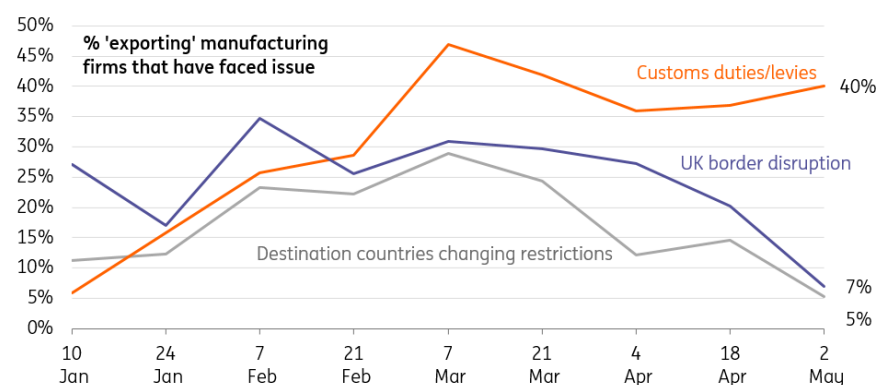
Exports to the EU – arguably the better barometer of difficulties, given most of the frictions so far have been on the EU-side – have recovered close to where they were at the tail end of last year. Imports are still lagging, but equally, there was evidence of stockpiling in 4Q last year, which distorts the picture.

This tallies with recent ONS survey data, which has shown a marked fall in the number of ‘exporting’ manufacturing firms reporting challenges with UK or overseas border disruption over recent weeks (though some of this may be Covid-related).

That said, other parts of the same survey show there’s still a small chunk of firms still struggling with the changes. Trade data still shows things like food/live animal exports lagging more heavily behind late-2020 levels, reflecting higher levels of paperwork and transportation issues being experienced by the sector. Things are likely to become trickier again for various sectors when the UK government introduces full customs requirements from late-2021/early 2022.

The bottom line is that there will continue to be a slow-burning impact of new trade frictions on the UK economy, even if the immediate teething problems have passed.

### The proportion of firms reporting export challenges from border disruption has fallen



Source: ONS Business Impact Survey, ING calculations

#### Author

**James Smith**

Developed Markets Economist, UK

[james.smith@ing.com](mailto: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>.