

UK PMIs point to shallower downturn than the spring

While we shouldn't read too much into the latest PMI levels when assessing the impact of fresh lockdowns, they do indicate that the latest restrictions are unlikely to be quite as devastating for GDP as in the spring. We expect a 6-7% decline in GDP during November



Source: Shutterstock

PMIs indicate second downturn likely to be less steep

With most of the UK back in some form of lockdown during November, it comes as no surprise that the PMIs have dipped once again. The series are fairly binary in their calculation, in that firms are asked to report whether things are getting better or worse (or the same), and with sectors temporarily shuttered, it's not surprising that an increasing number are saying conditions are deteriorating.

That said, it is worth noting that the deterioration is considerably less severe than we saw during the first round of restrictions back in the spring. While the services PMI is now at 45.8 (down from just above 50), it is light years away from where it bottomed out in April at 13.4. We're likely to see a similar pattern when we subsequently get the GDP data for this month, where we expect to see a 6 or 7% contraction. A severe drop, but one that is considerably less steep than that of

March/April where the economy contracted by 25%.

45.8 UK services PMI

Higher than expected

This is partly explained by the fact that the economy never came close to regaining all the lost ground post-lockdown. GDP was still down some 8% on pre-virus levels in the September data.

But it's also because more of the economy is open this time - the likes of construction and manufacturing have continued to run (the manufacturing PMI actually increased this month). We know too that the businesses that have been forced to close are more prepared than last time - takeaway and click-and-collect services are more widespread.

In short, we expect the blow to GDP in November to knock the economy back to 14-15% below pre-virus levels. We should see a solid rebound in December (perhaps around 5%) assuming non-essential retail does reopen.

2021 outlook hinges on Brexit and furlough deadlines

For 2021, the outlook looks better, albeit still mixed. Initial supply chain disruptions from Brexit remain a clear possibility with or without an agreement (although this would be much worse under 'no deal'). While this is unlikely to deliver a Covid-19 style hit to GDP, it will drag on the recovery. Interestingly, the PMI press release indicates that manufacturers have begun stockpiling in advance of the end of the transition.

Meanwhile, the news on vaccines offers a clear upside to 2021, but for the economy, a lot will also hinge on how and when the unprecedented furlough support is unwound. If wage subsidies are tapered while some sectors are still fully closed due to social distancing, then we could still feasibly see a renewed spike in unemployment (which may rise to around 6% by year-end).

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>.