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

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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).

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