

## Expect a slow UK recovery after shocking PMI figures

The sharp decline in UK PMIs emphasises the sheer scale of the economic hit from Covid-19. But the more important concern now is the recovery, and despite bold economic measures from the government and Bank of England, we expect this to be a slow process



### Like those across Europe, these are shocking figures

We've seen the purchasing managers indices (PMIs) collapse [across Europe so far this morning](#), and the story is no different in the UK. These figures are the first ones to fully take into account the lockdown period, and that saw the services index, which of course represents the bulk of UK economic output, slip down to 12.3. That's easily an all-time low.

According to IHS Markit, which produces these figures, a PMI is generated by adding together the number of firms saying output is 'higher' and half of those reporting 'no change'. In practice then, today's figures mean 81% of service providers are reporting worsening conditions, according to the press release.

## But the PMIs don't really help us refine GDP estimates

There's little doubt these are shocking figures, but the reality is they don't tell us an awful lot that we didn't already know. Being diffusion indices, PMIs aren't able to tell us the extent to which output has deteriorated (although clearly the answer is 'a lot').

In normal times though, we can still use PMIs fairly reliably to 'nowcast' GDP. But at times of rapid turning points in economic activity - as we saw after the Brexit referendum - the level of the PMI isn't always too meaningful.

That means gauging the full extent of the decline in GDP is still pretty tricky, although this is partly becoming an academic question anyway. The much more relevant question now is what the recovery might look like.

As lockdowns are unwound gradually over the next couple of months, we might see the PMIs begin to rebound as more firms report 'higher' output. We saw something similar happen with the Chinese business surveys.

But the reality is that the underlying economic recovery is going to be much more gradual.

While the government's response to the crisis has been bold, and all the signs are that the flagship Job Retention Scheme has been well utilised, there will inevitably be firms that slip through the safety net. That also unfortunately means unemployment will take time to come back down to the levels seen before virus hit.

We'd also expect businesses and consumers generally to remain very wary about spending decisions until the virus threat has gone, particularly given the increasing consensus that this could take quite some time.

### The recovery will be gradual

We do expect a partial rebound in economic growth in the third quarter assuming the harsher elements of lockdown are eased over the next couple of months. But more importantly, we don't expect the UK economy to recover to its pre-virus size until 2022 at the earliest.

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