UK: Sharp decline to follow 3Q GDP bounce back

We expect a 6-7% decline in UK GDP through November, rendering the unprecedented bounce-back we saw in the third quarter 'old news'

Source: Shutterstock

Third quarter GDP already showed signs of strain

It's a bit of a cliche to say that GDP data is 'old news' on arrival, but this has arguably never been more true than in the case of the UK's third-quarter figures, which show a 15.5% quarter-on-quarter recovery over the summer months.

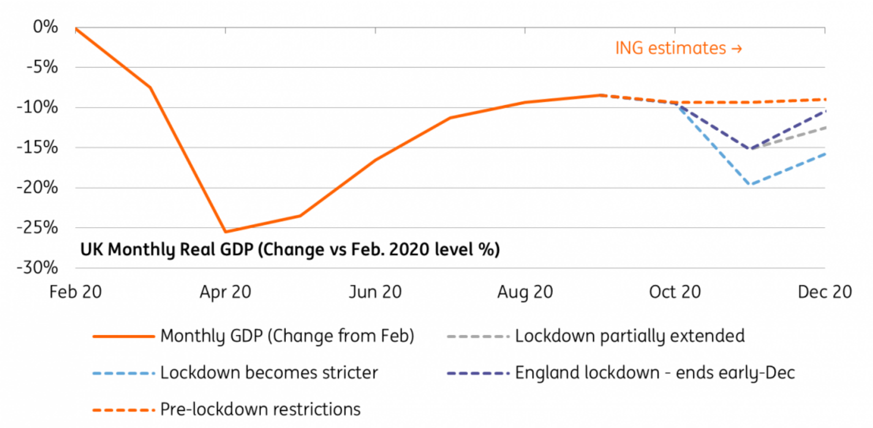
> *The fact that this figure is bigger than many countries in Europe is, in most part, a simple reflection of the UK's longer-lasting lockdown*

That this figure is bigger than many of those recorded within Europe is, in the most part, a simple reflection of the UK's longer-lasting lockdown that saw the level of GDP stay depressed for longer during the second quarter.

Having said that, there were already signs of trouble emerging in the monthly data for September, before many of the recent restrictions came into force. The overall growth figure for September (1.1%) was weaker than anticipated, reflecting a lower boost from education than we'd expected (when schools and universities returned properly for the first time since before lockdown).

It also showed a marked decline in output in the hospitality sector, echoing some of the recent Office for National Statistics survey data that indicated an increasing number of hotel/restaurant businesses were experiencing falling revenues towards the end of the third quarter.

UK GDP projections under different lockdown scenarios



Source: Macrobond, ING

November GDP plunge unlikely to be as a stark as March/April

All of this left the size of the UK economy some 8% below pre-virus levels in September, based on the monthly GDP data. Unsurprisingly, that's probably as good as it is going to get for the time being.

> *We expect the latest lockdowns to leave the size of the UK economy some 15% below pre-virus levels, as of November*

We are likely to see a modest fall in GDP during October, reflecting the introduction of 'tiered restrictions' in England (which will have acted as a further drag on hospitality) and a local lockdown in Wales. However, the decline will be amplified in November, where we estimate we're likely to see a 6-7% slide in monthly GDP on the month-long English lockdown. This will also result in a negative figure for Q4 as a whole.

Importantly this is not quite as stark as was the case back in March/April when the economy slid by 25%. This time, fewer sectors are shut, while arguably businesses are more geared up for this lockdown (takeaway and online/click-and-collect services are more-widespread, for example). With the economy also still well below pre-virus levels, there is also less ground to be lost.

We expect the latest lockdowns to leave the size of the UK economy some 15% below pre-virus levels, as of November.

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