

## UK: Spring recovery remains likely despite subdued December growth

The UK economy partially recovered in December, though the current lockdown probably means GDP is once again 10% below pre-virus levels. However, the current rules are succeeding in driving hospitalisations lower, and the rapid vaccine rollout raises the chances of a decent 4-5% second-quarter bounce, which makes negative interest rates look increasingly unlikely



A general view of the skyline and high-rise buildings in London

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### A subdued end to 2020

The UK economy was still some 6.5% below pre-virus levels in December, according to the latest GDP figures.

Unsurprisingly that marked only a partial improvement on November, when the economy was under full restrictions, given that in the end much of the country was back under stricter rules before the end of the year.

December's 1.2% growth was enough though to keep the overall fourth-quarter GDP figure positive, but it is worth remembering that this is compared to a third-quarter where the economy

was in the process of getting back on its feet, having only just emerged from the first lockdown.

## Economic activity is probably back to 10% below pre-virus levels

So what about 2021?

We expect January figures will show roughly a 4% decline in activity, taking the level of GDP back to around 10 or 11% below pre-virus levels. School closures are a large driver of this - both directly (because kids in school factor into the GDP calculation) and indirectly (childcare needs and the knock-on effect on businesses).

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Still, the fourth-quarter figures show quite clearly that the damage from restrictions has diminished since the initial lockdown in the spring - and is more heavily concentrated in a few hard-hit, largely consumer-facing industries (hospitality being the main one).

The obvious wildcard here is Brexit, and we think it's inevitable that we'll see a fall in manufacturing production at the start of the year - the main question is by how much. Firms have struggled under the weight of new paperwork and processes, and all the evidence suggests supply chains have faltered as a result.

### 5% second-quarter growth looks possible

The good news is that Covid-19 case rates, and more recently hospitalisations, are falling fast - arguably much faster than most would have expected when the current lockdown began. At the current trend, daily cases are likely to be in the low thousands by the end of March. Assuming all priority groups receive their first vaccine dose by Easter-time, then most sectors are likely to have largely reopened by May.

*We continue to think it will take much longer - probably mid-late 2022 - for the economy to return fully to its pre-virus size*

That reopening process is likely to trigger second-quarter growth in the region of 4-5%, following what we expect to be a 2.5/3% hit in the first quarter. As a result, it's increasingly unlikely that the Bank of England will implement negative interest rates in the autumn.

Nevertheless, we continue to think it will take much longer - probably mid-late 2022 - for the economy to return fully to its pre-virus size.

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