

## 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

Source: Shutterstock

### 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).

---

*Fourth-quarter figures show quite clearly that the damage from restrictions has diminished since the initial lockdown*

---

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.

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto: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>.