

UK: Summer GDP rebound unlikely to last as virus restrictions loom

The reopening of the UK economy gave GDP another modest boost in August, but the recovery looks set to stall in the fourth quarter as fresh virus measures loom. We reckon a two-week, national closure of hospitality could hit monthly GDP by 2 or 3%



Britain's prime minister Boris Johnson departs his official residence at 10 Downing Street in London

Source: Shutterstock

The UK economy regained further lost ground in August, as the continued reopening of the leisure and hospitality sector helped lift GDP by 2.1% on the month.

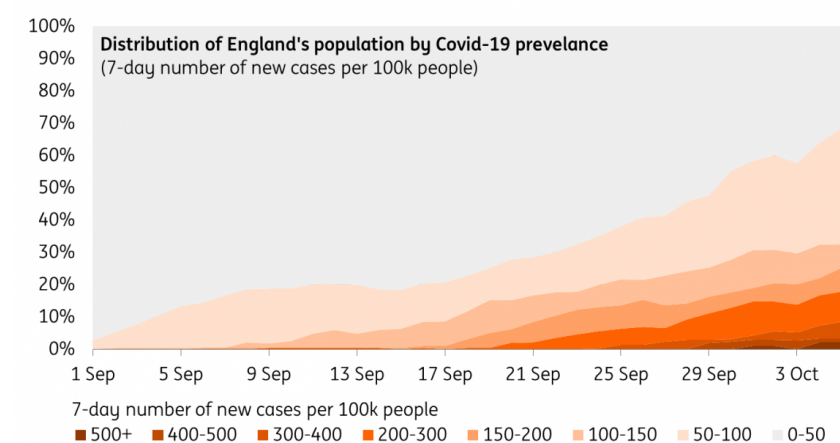
We're expecting another, similar-sized increase in September to reflect the reopening of schools and other education settings, which slightly strange though it may sound, is counted as part of the national accounts. Altogether, that probably means third-quarter growth should be in the region of 16%, which would leave the economy some 8-9% smaller than pre-virus levels.

We're expecting another, similar-sized GDP increase in September to reflect the reopening of schools and other

education settings, but reckon it is fairly likely that October's GDP will go into reverse

Ultimately though this is all 'old news', and with Covid-19 becoming more prevalent across the UK once again, we think it is fairly likely that October's GDP will go into reverse. Scotland has introduced new restrictions on pubs and restaurants for an initial two-week period, and reports suggest that parts of England are likely to follow. We estimate that roughly a fifth of England's population lives in areas with Covid-19 prevalence above 150 new weekly cases per 100k people (see chart).

Around 20% of the population is living in areas with more than 150 new weekly Covid-19 cases per 100k people



What would this mean for GDP?

According to some very rough-and-ready calculations, we reckon that a two-week closure of hospitality at a national level could drag monthly GDP lower by around 2-3%. That could rise to 5% if shops were also closed again (something that at the moment seems unlikely). However, there's clearly a risk is that such restrictions could inevitably last longer - and that could amplify the impact on growth.

According to some rough-and-ready calculations, we reckon that a two-week closure of hospitality at a national level could drag monthly GDP lower by around 2-3%. That could rise to 5% if shops were also closed again

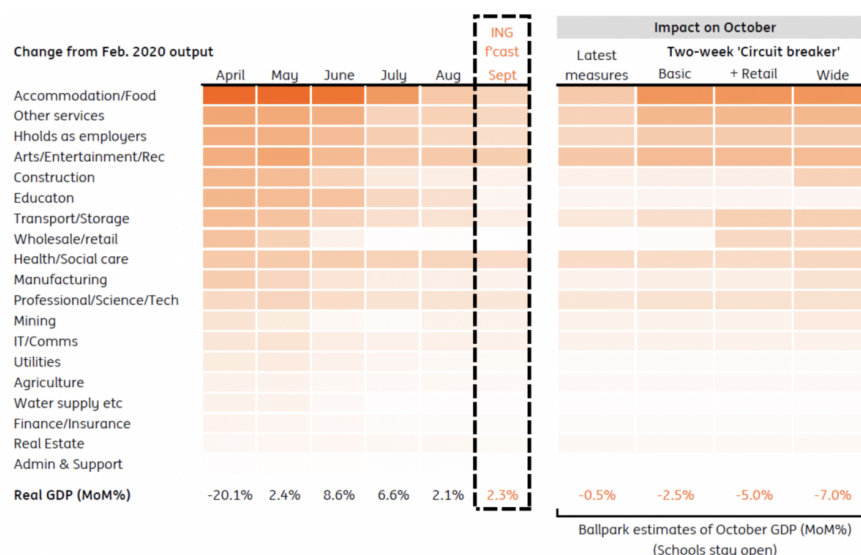
In other words, assuming the majority of sectors are kept open unlike the first lockdown in March/April, then the direct GDP hit would be more modest.

However, the indirect impact of rising Covid-19 cases will also be important. For instance, there's plenty of evidence from the first round of lockdowns that consumers voluntarily limited their movements, even in countries where restrictions were less strict. So far this hasn't really been the case second time around, although according to the latest ONS round-up, there are some early signs that footfall is beginning to move lower again across the UK. It's early days, but that could indicate that consumers are beginning to 'act with their feet' once again.

The threat of new restrictions, and the uncertainty that it brings, may well also hit hiring plans. It may also prompt some companies to take a more conservative approach to staffing levels as they bring employees back from furlough. Unfortunately, we currently expect that unemployment may rise to 9 or 10% later this year or early next.

All of this adds further pressure on the Bank of England to act at its November meeting. The unemployment rate looks set to rise further than its previous 7.5% forecast, while the recovery is likely to take longer than it had assumed in its August projections. We expect a further expansion of the Bank's asset purchase target.

What would two-week closures mean for monthly GDP?



Source: Macrobond, ING calculations/forecasts

Heatmap: England's Covid-19 spread



Source: Macrobond, ONS, ING calculations

Cases are broken down by UK unitary authority, adjusted by the 2019 population estimate published by the ONS.



Source: Macrobond, ONS, ING calculations

Cases are broken down by UK unitary authority, adjusted by the 2019 population estimate published by the ONS.

Author

James Smith

Developed Markets Economist, UK

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 www.ing.com.