# 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.

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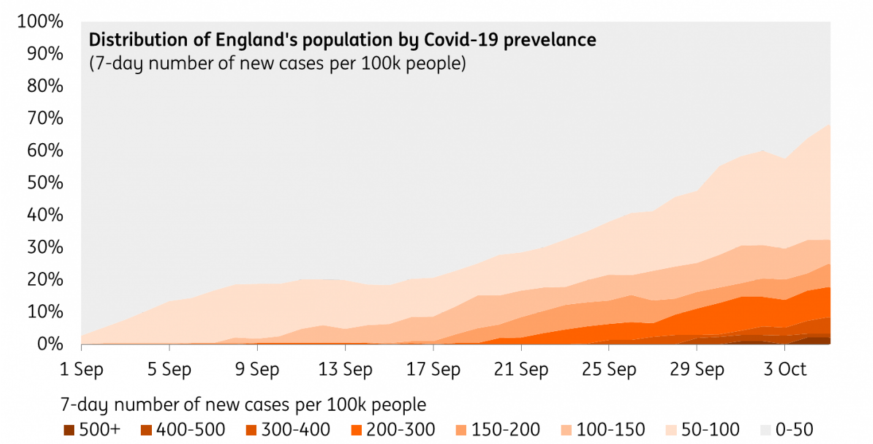
Ultimately though this is all 'old news', and with Covid-19 becoming more prevalent across the UK once again, we think it is fairly likely that October's GDP will go into reverse. Scotland has introduced new restrictions on pubs and restaurants for an initial two-week period, and reports suggest that 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




Source: Macrobond, ONS, ING calculations

## 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.

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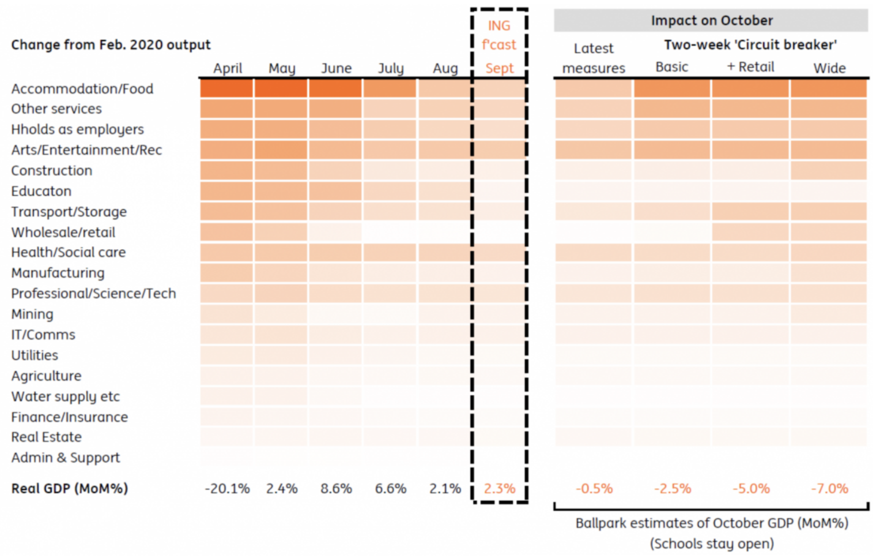
In other words, assuming the majority of sectors are kept open unlike the first lockdown in March/April, then the direct GDP hit would be more modest.

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.

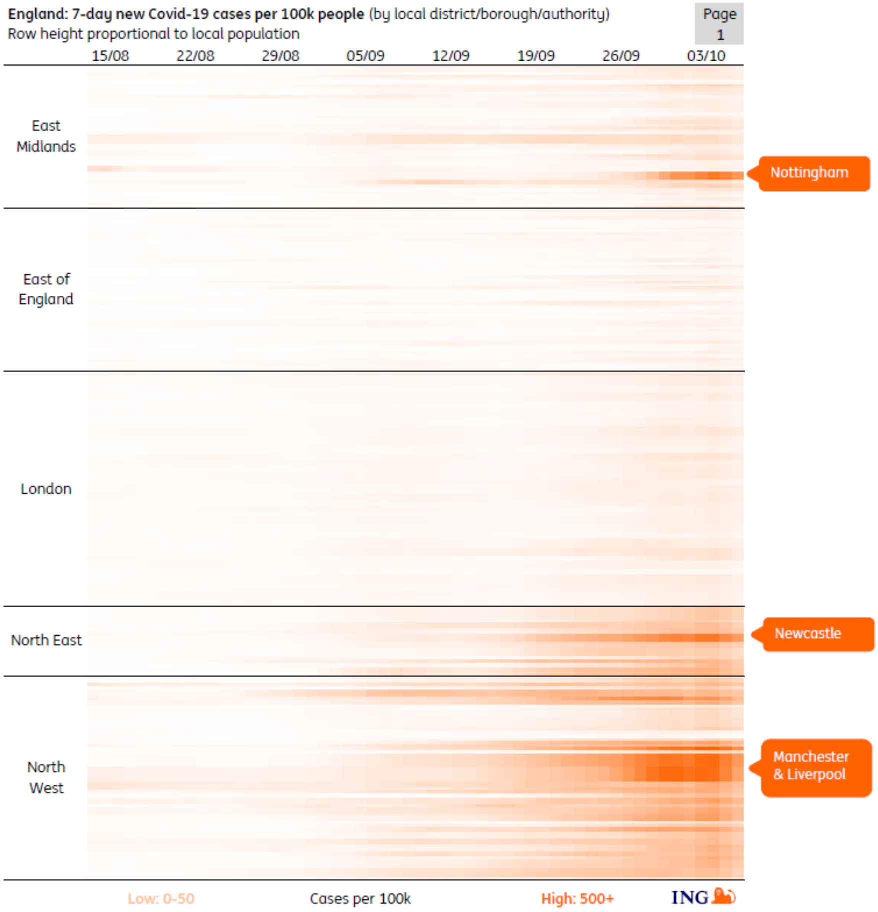
All of this adds further pressure on the Bank of England to act at its November meeting. The unemployment rate looks set to rise further than its previous 7.5% forecast, while the recovery is likely to take longer than it had assumed in its August projections. We expect a further expansion of the Bank's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

## What would two-week closures mean for monthly GDP?



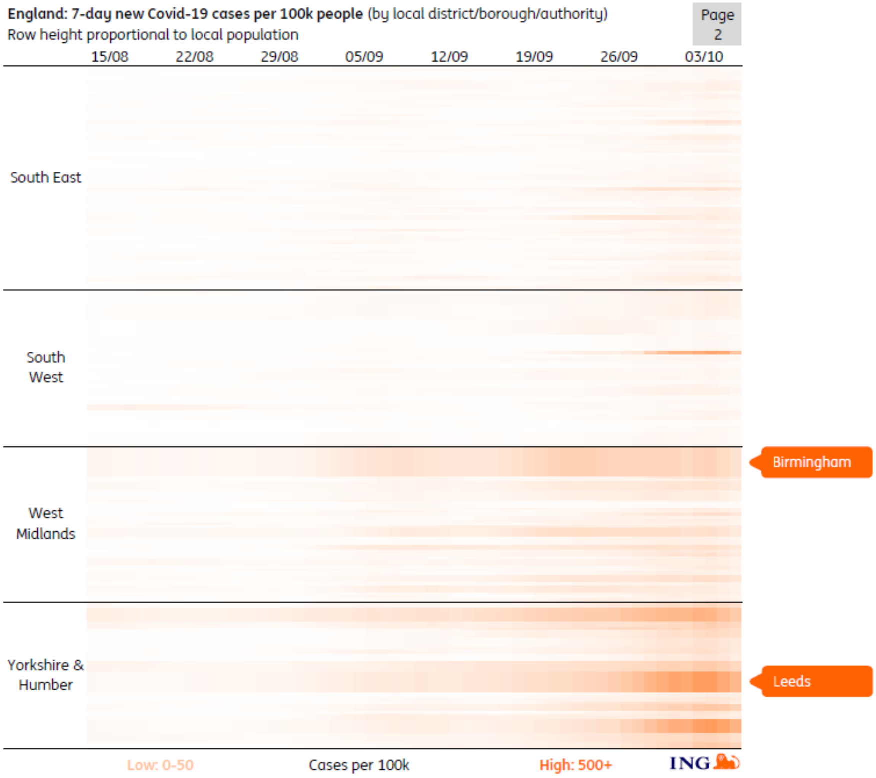

Source: Macrobond, ING calculations/forecasts

## 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.

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