

UK's surprise GDP contraction not quite as bad as it looks

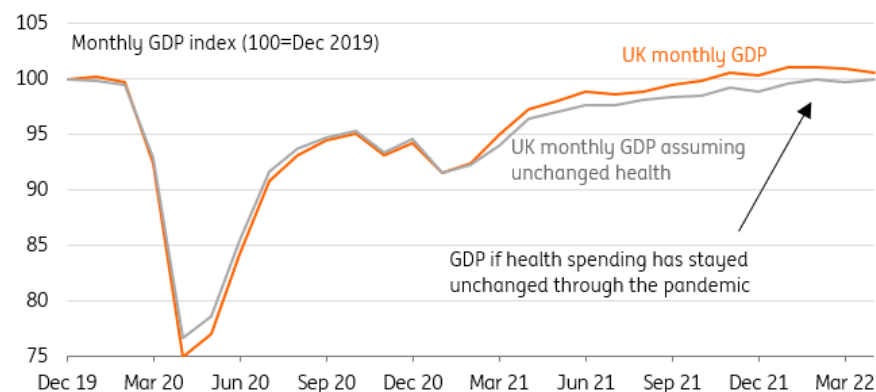
Unsurprisingly, the ending of free Covid testing in March means April's UK GDP figures look worse than they are. The Bank of England will be focusing more on how bad the consumer story could get in coming months, but the recent announcement of extra government support should help insure against a consumer-led recession



April's UK GDP figures were always going to look worse than reality. Free Covid-19 testing stopped the previous month and according to the ONS that meant there was a 70% fall in test and trace activity. Pandemic-related health spending shaved a full 0.5 percentage points off GDP growth in April. And if we strip that out, the headline 0.3% decline in monthly GDP should actually have been marginally into growth territory.

In short, just as health-related spending gave the level of GDP an artificial boost last year, helping the economy appear to recover to pre-virus levels more quickly than it actually had, these categories are now making the picture look superficially worse.

UK monthly GDP has been virtually flat once volatile health spending stripped out



Source: Macrobond, ING

Elsewhere, the story is mixed – a rise in new car registrations was offset by falls in manufacturing and construction, and in the case of the former, this was the third consecutive month-on-month fall.

When you throw in the impact of the extra bank holiday a couple of weeks ago, we’re likely to get a negative growth figure for the second quarter overall, probably in the region of -0.5%. That’s a fair bit below the Bank of England’s 2Q forecast, though given the highly artificial nature of the undershoot, it’s questionable how fazed policymakers will actually be.

The bigger question in their minds will be how bad the consumer situation is likely to be through the rest of the year. Confidence is at all-time lows, and we’re starting to see an impact in the retail figures. Then again, the jobs market remains tight and given the widespread labour shortages, we think the bar for firms to make widespread redundancies in the face of lower demand is higher than usual. Assuming employment remains solid, and factoring in the recent government support package, we think a consumer-led recession may be avoided – though ultimately a lot depends on whether we get another leg higher in wholesale energy prices this autumn.

The arrival of extra government support probably means the Bank of England will again unanimously vote to hike rates again this Thursday, though we think the committee overall will come down in favour of another 25bp hike over a faster 50bp move.

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 <http://www.ing.com>.