Weak UK PMIs hint at slow road to recovery

Ultra-low PMI readings add to the evidence from Google's mobility data that activity in the UK economy is still down significantly on pre-virus levels. That points to a steep drop in second-quarter GDP, and hints at a slow recovery. A 'V-shape' rebound looks unlikely

A factory worker in the UK works while wearing a mask

The UK economy is still suffering from a severe fall in activity. That continues to be the message from the Markit/CIPS purchasing managers indices (PMIs), which shows that the service sector in particular, is still operating well below capacity.

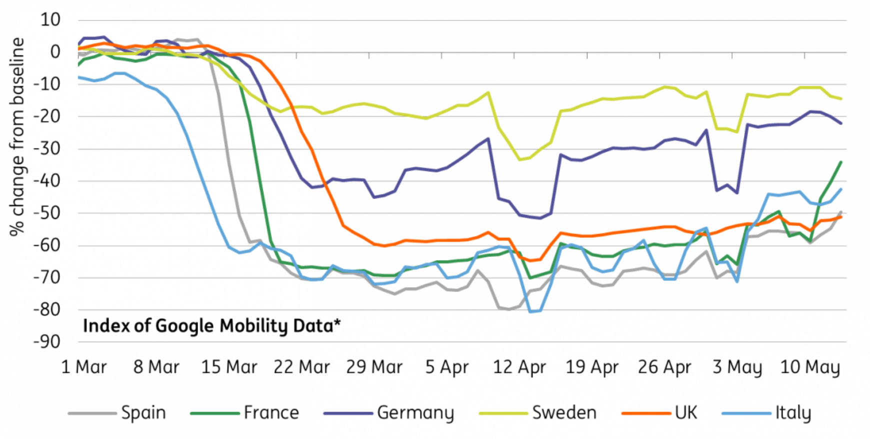
At 27.8, the service-sector PMI is still considerably below the breakeven 50 level. As we've seen over recent months, the manufacturing index (which now sits at 40.6) is higher only because of a quirk with supplier delivery times. In normal times an increase in the time it takes to make shipments would be associated with high demand, which clearly isn't the case at the moment.

Admittedly these numbers are an improvement on the shocking April data, although this provides little comfort. PMIs are constructed by asking respondents whether they are seeing conditions improve or deteriorate. Last month's plunge showed firms en masse reporting worsening activity levels. It's perhaps not surprising to see some 'improved' responses this time, even if they reflect fairly marginal increases off a very low base. The message from the official press release is that these figures are still far worse than anything seen before the virus struck.

All of this also echoes what we are seeing from the Google Mobility data. A simple average of retail, recreation, groceries and workplace mobility, shows UK movement is still only around 50% of where it was pre-virus. That's comparable with other countries in Europe that experienced tough lockdowns, although it is notably lower than Germany, which has seen a return to around 80% of normal mobility levels.

As our Eurozone colleagues wrote at the time, these mobility indices provided quite a reliable framework for estimating differences in first-quarter GDP across Europe. Us

UK mobility is still significantly down on usual levels according to Google



Source: Google Mobility Report, ING

Mobility index is an average of Retail and Recreation, Grocery and Pharmacy, and Workplaces, from Google's Mobility Report. Baseline is the median value for the corresponding day of the week between 3 Jan-5 Feb. Figures are a three-day moving-average

Don't expect a fast UK economic recovery

The bottom line is that we are going to see another steep drop in UK GDP in the second quarter. We had been pencilling in a peak-to-trough fall of around 15%, although the growing body of data suggests the damage will probably prove to be greater.

More importantly though, the recovery is likely to be very slow. With social distancing likely to remain a feature of day-to-day life for some time, businesses will find operating more costly, and for some sectors, returning to more normal levels of demand is a fairly distant prospect. That has, in turn, raised concerns that we could see a second wave of unemployment later in the year, depending on how the UK government's job retention scheme evolves.

We don't expect the UK economy to return to its pre-virus size until 2022 at the earliest.

Britain, breakout and Brexit

The prospect for a 'V'-shaped recovery in the UK is fading as the country still searches for a breakout from the coronavirus shutdown. And there's a more pressing matter for retailers as surveys suggest people are still scared about going back into shops even after stringent restrictions are lifted. And don't forget about Brexit. Talks don't seem to be going well with the European Union. And as ING's James Smith explains, we don't expect the British economy to return to pre-crisis levels until 2022.

Watch video

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