Worst still to come for UK GDP

The UK economy slipped by 2% in the first quarter, but the period between April and June will see a much steeper decline. It's now very hard to imagine a rapid 'V-shape' recovery, and we don't expect a return to pre-virus levels of activity until 2022 at the earliest

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The UK economy shrank by 2% in the first quarter of 2020 as a whole, but by almost 6% in March alone. For context, this latter figure is roughly the same amount shed from peak-to-trough during the financial crisis, which occurred over the course of several quarters. The speed by which this crisis has onset has been alarming.

-2% UK 1Q GDP

(QoQ%)

Admittedly the 2% quarterly decline is less severe than we saw in other parts of Europe, where lockdowns kicked in earlier in March, and in some cases measures were more stringent.

However, there's little doubt that the worst is still to come. The second quarter is likely to see a decline in GDP in excess of 10%, and with the vast majority of lockdown measures likely to persist into June, the risk is that the damage is greater.

The more important question now is what the recovery will look like. In our opinion, the prospects of a 'V-shape' recovery have long since faded, and we don't expect the size of the UK economy to return to pre-virus levels until at least 2022.

There are several reasons for this, but in particular, it is clear that the landscape for many sectors has changed for the foreseeable future, given social distancing measures are likely here to stay until a vaccine or equivalent medical breakthrough occurs. For the hospitality sector for instance, which may be able to open in a limited way from July, returning to a profitable operation could be very challenging in this environment. The likes of restaurants and bars often rely on high-volume, low margin models.

For the wider high street, which the prime minister has signalled could begin to reopen in June, the more immediate challenge will be enticing consumers to visit at all. Recent YouGov surveys have highlighted just how wary individuals are about returning to a range of consumer-facing businesses after lockdown measures have been eased.

> This mix of challenges means the economy is entering another highly uncertain phase. The risk now is that a wider proportion of firms begin to make more permanent changes to their business models, now the potential longevity of the crisis is becoming clearer.
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> In that regard, the announcement yesterday to extend the Job Retention scheme, where businesses are able to furlough staff and receive the bulk of the wage costs back from the government, should be a key factor in insulating the economy against further job losses in the near-term.

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