

23 June 2020

Snap

## UK: Improving PMIs mask much slower recovery

The UK PMIs have returned to more 'normal' levels (albeit still below the break-even 50 level). But judging by other measures of activity, we suspect the size of the UK economy will still be 15-20% smaller at the end of the second quarter than it was pre-virus. We don't expect a full recovery until 2022 at the earliest



Source: Shutterstock

### Improving PMIs won't tell us too much about GDP rebound

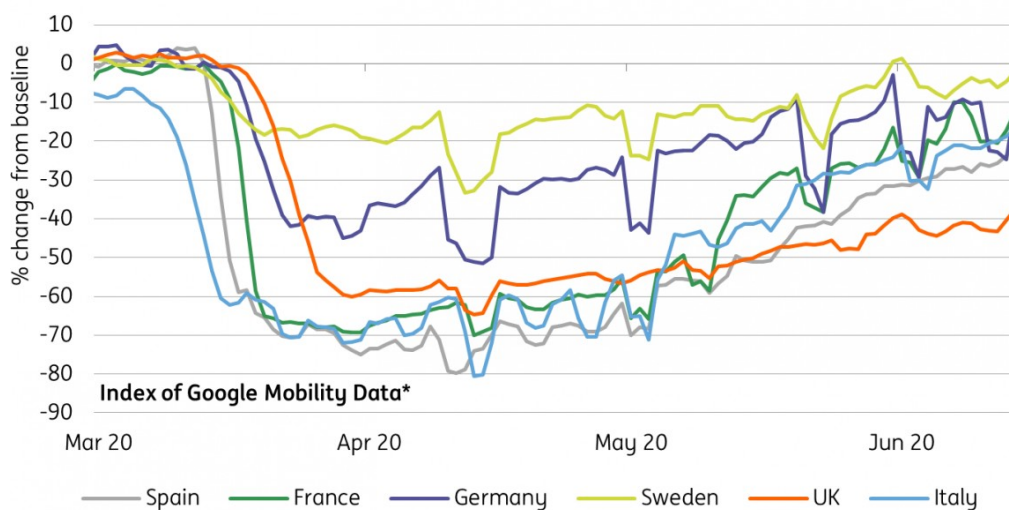
At face value, the latest UK PMIs, [like those in Europe](#), appear modestly encouraging. At 47.6, the composite PMI is much more 'normal' than the readings in May (30) and April (13.8). This may help rekindle the idea of a 'V-shaped' recovery, although in reality this is probably not what the data is telling us.

Of course, it's worth remembering that the index is still below the 50 level, which in normal times would indicate that output is falling, albeit at a much slower rate. The binary way in which the sentiment indices are formulated also potentially means the return to normality is being overstated.

PMIs are constructed by asking respondents whether they are seeing conditions improve or deteriorate - and unsurprisingly in June a much greater share of firms reported things getting better. However this improvement comes off a very low (in some cases, zero) base, and it also doesn't tell us anything about the magnitude of the rebound.

We'd therefore treat these figures with some caution, and in reality we think the size of the economy is still well down on its pre-virus size. Judging by the Google Mobility data, which has thus far proven to be one of the better proxies for activity, travel to places of economic significance is still down by around 40%.

## Google Mobility Index points to steady recovery



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

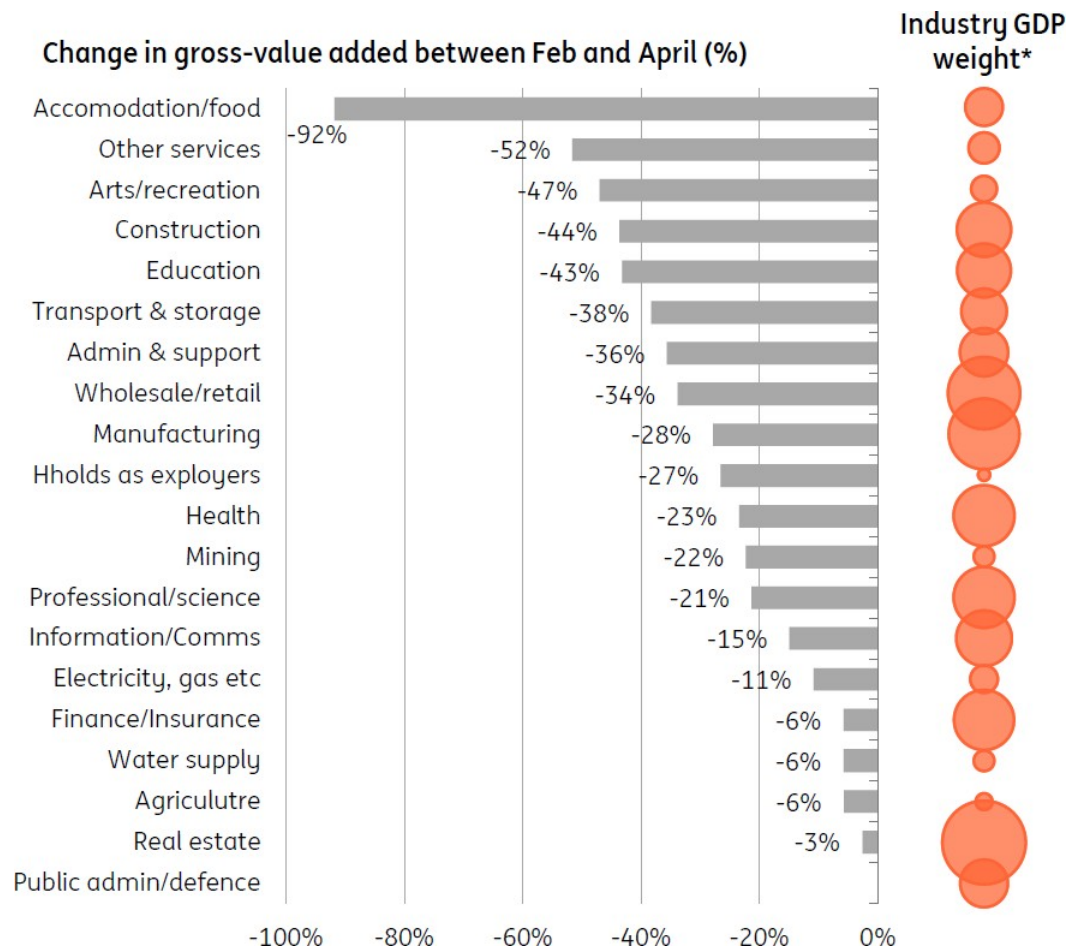
The size of the UK economy fell by 25% through March and April, and Google's mobility data indicates that only around 4-5% was regained in May (we may see a similar increase in June). Having said that, both construction and manufacturing accounted for a fairly sizeable proportion of the decline in April's output, and given that both sectors were given the green light to resume operations in May, they might have contributed to a slightly faster rebound over recent weeks.

Either way, our best guess is that at the end of the second quarter, the size of the UK economy will still be some 15-20% smaller than it was back at the start of this year before the virus hit. And while some additional lost ground will be made up as a wider swathe of the economy reopens from July, the broader recovery is likely to take much longer.

With firms in a range of sectors likely to find it hard to return to profitable levels of operation, there is a growing risk of a second wave of redundancies over the summer/autumn as companies are forced to make longer-lasting changes to their business models. That points to a slow recovery in consumer spending, while the forthcoming end to the post-Brexit transition period also has the potential to cause turbulence in 2021.

As a result, we don't expect the UK economy to return to its pre-virus size until 2022 at the earliest.

## Construction and manufacturing may have seen solid rebound since April plunge



Source: ONS, ING

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