ECONOMIC PULSE

## UNITED KINGDOM: HOPES FOR A QUICK REBOUND ARE FADING

After falling by more than 25% between March and April, UK GDP rose by 1.8% in May. While restriction measures only started to be eased in mid-June, this increase still disappointed expectations. None of the forecasters polled by Reuters was banking on such a small rise, and the consensus expected a 5.5% rebound. This is explained by the services sector's poor performance. While the industrial production and services indices both fell by about 25% between March and April, the former rose by 6.0% in May whereas the latter ticked up by only 0.9%. It is very likely that conditions in the services sector will improve more rapidly in the coming months. After all, most non-essential shops started welcoming customers again on 15 June, and the tourism and hospitality sector reopened on 4 July.

That said, caution is warranted. Purchasing Managers' Indices (PMIs) rose again in June, but they are still far from levels indicative of a strong rebound in activity. The manufacturing PMI was only marginally above 50 – which marks the limit between deteriorating and improving conditions – and the services PMI is, at 47.1, still below that threshold. Similarly, consumer and industrial confidence indices increased last month, but they remain much below their pre-crisis levels.

It is true that the unemployment rate remained at 3.9% in May. That said, this is partly due to the rise in the number of people out of work but not currently looking for a job – who are not counted as unemployed. What's more, those who have been furloughed are still counted as employed. However, the furlough scheme will be phased out from next month and discontinued in October. The Office for Budget Responsibility (OBR) – which provides independent forecasts for the Treasury – expects the unemployment rate to peak at 11.9% at the end of the year in its central scenario. That would bring it back to its joint-highest level in more than fifty years (also reached in 1984). It is certainly with all that in mind, that the Chancellor, Rishi Sunak, unveiled on 8 July a GBP 30 bn plan to protect jobs. In his latest speech, Bank of England Chief Economist Andrew Haldane considered two scenarios for the second half of the year: one involving a negative feedback loop from higher unemployment to lower spending, the other a positive feedback loop from higher spending to lower unemployment.

Hubert de Barochez

QUARTERLY CHANGES

Legend: ▬ 3-month moving average (actual); --- 3-month moving average (4 months ago)
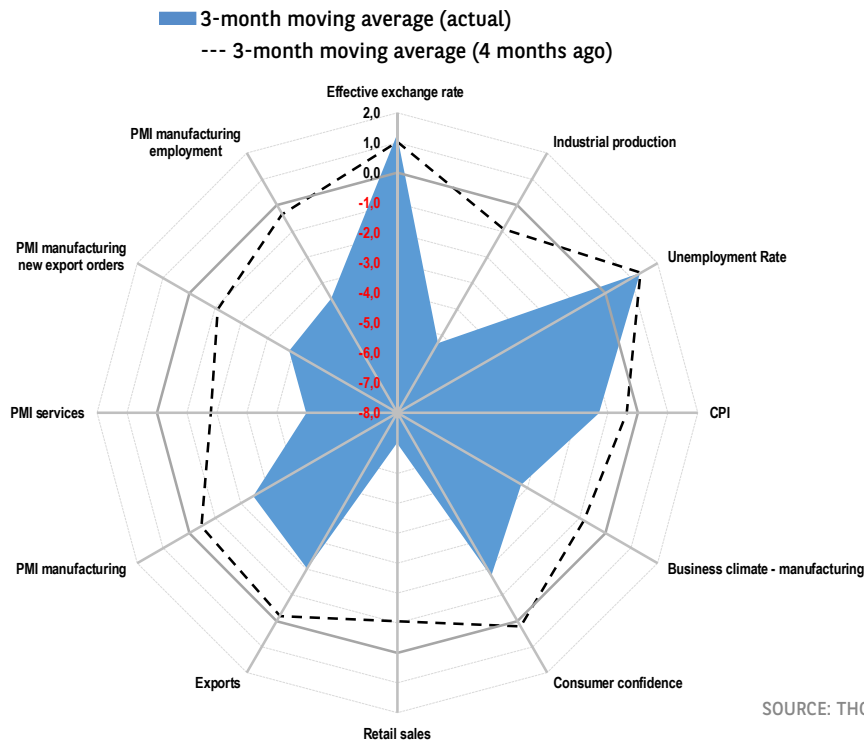
SOURCE: THOMSON REUTERS, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -8 and +2. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.