

ECONOMIC PULSE

UNITED KINGDOM: RECORD FALL IN GDP IN APRIL

Having contracted by 5.8% in March, the UK's GDP plummeted by more than 20% in April, with industrial production and retail sales down 24.3% and 18.7%, respectively. This is its biggest monthly fall since the data series began in 1997. However, economic growth will probably return quickly, due to the gradual easing of lockdown measures – most 'non-essential' shops have reopened this week – and to monetary and fiscal support. At its meeting on 18 June, the Bank of England's Monetary Policy Committee increased its target stock of purchased government bonds by GBP 100 billion, taking the total stock to GBP 745 billion.

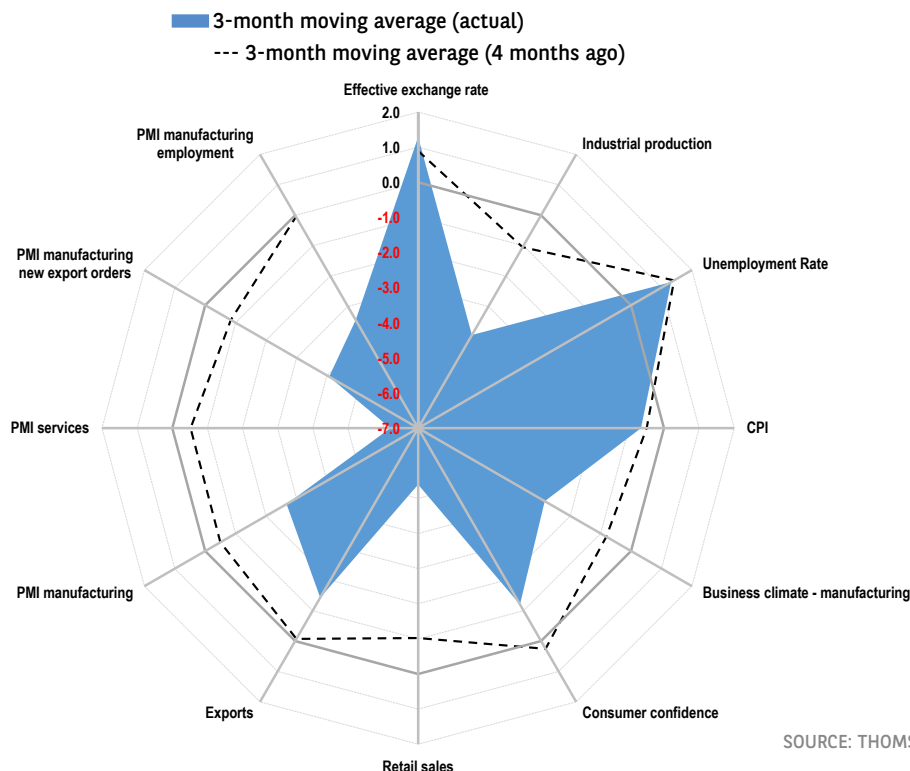
However, it seems unlikely that the economic situation will improve significantly before the second half, given the relatively late emergence from lockdown compared with the rest of Europe. In fact, although the Purchasing Managers Indices (PMI) were not as low in May as they were in April, they have remained well below 50, suggesting that conditions worsened further last month. In the services sector – which has been hit hard by restriction measures – the PMI was 13.4 in April and it remained under 30 in May. In the manufacturing sector,

the confidence index produced by the European Commission was still below its lowest during the global financial crisis in 2009. And while household spending will be one of the key drivers of the recovery, the consumer confidence index fell a little lower in May.

What's more, economic problems will not end with the return to growth. That at least is suggested by the latest employment figures from the Office for National Statistics (ONS). Although the unemployment rate remained stable at 3.9% in April – thanks to the government's furlough scheme – payrolls dropped by 600,000 between March and May, while the number of vacancies fell from around 800,000 to 320,000. A sharp rise in unemployment over the coming months therefore looks highly likely. Lastly, two major threats cloud the horizon and risk triggering a long-lasting crisis: a second wave of the pandemic and a failure in negotiating a free-trade agreement with the EU.

Hubert de Barochez

QUARTERLY CHANGES



The indicators in the radar and surprise charts are all transformed into z-scores. By construction, the z-scores have mean zero and their values, which indicate how far the indicator is removed from its long-term average, are in the interval between -3 and 3 in almost all cases. 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 signals an improvement.

