

## UNITED KINGDOM: RECOVERY ALREADY SHOWING SIGNS OF WEAKNESS

Most economic activity indicators have continued to improve recently. The blue area, which informs on the economic conditions over the past three months, is much bigger than it was four months ago – its level then is indicated by the dashed line. That said, the idea of a V-shaped recovery is already forgotten. While the economy is still far from its pre-crisis level, the recovery seems to be running out of steam.

While the consensus expected a near-5% increase, UK GDP rose by only 2.1% in August, according to data from the Office for National Statistics (ONS). That reflected a slowdown across most sectors of the economy. The ONS Index of Services rose by just 2.4%, after a near-6% increase in July ; meanwhile, its Index of Production edged up only slightly in August, by 0.3%, while it had risen by more than 5% the previous month.

The labour market is also showing signs of weakness. Between June and August, redundancies increased by a record 114,000 compared to the three previous months, reaching their highest level since 2009. During this period, the unemployment rate rose by 0.4 percentage point to 4.5%. Given the fact that the new Job Support Scheme (JSS) is less

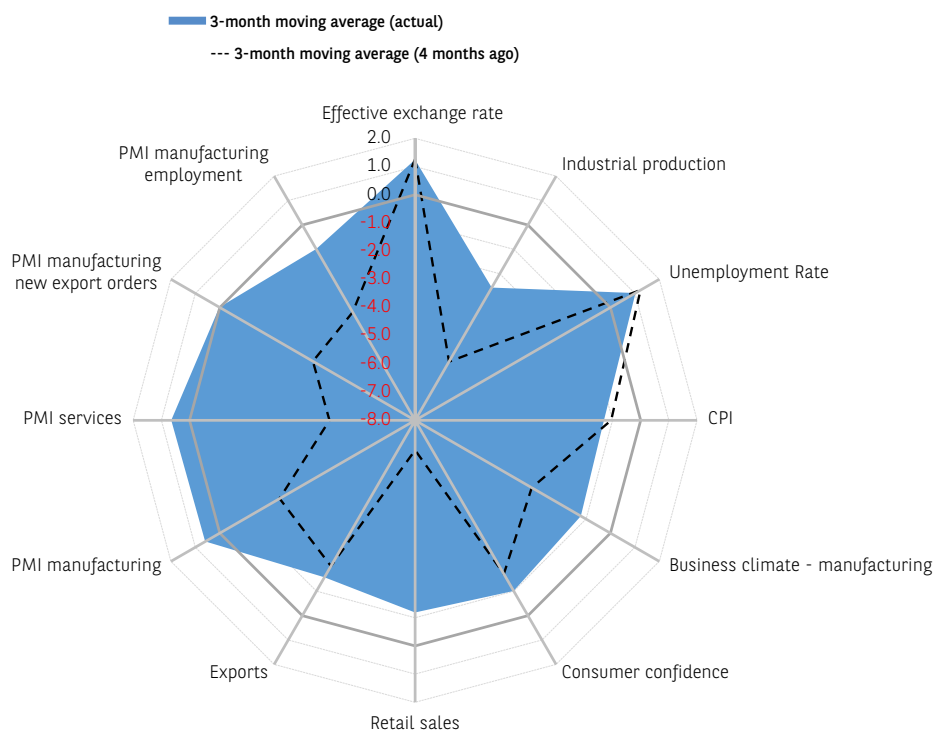
generous than its predecessor (the Coronavirus Job Retention Scheme, CJRS), the ratio is very likely to continue to rise in the coming months.

What’s more, there is little comfort to draw from survey data. While Purchasing Managers’ Indices (PMIs) still suggest an expansion of activity, they dropped back a bit in September. Similarly, despite rising slightly recently, business and household consumer confidence indices are still indicative of a lack of optimism. Given the acceleration in the spread of the virus and the additional restriction measures announced by Prime Minister Boris Johnson, confidence could very well deteriorate again.

Meanwhile, EU and UK negotiators have still not reached a free-trade agreement. While Prime Minister Boris Johnson had announced at the start of September that the UK would “move on” if no deal was found by 15 October, negotiations are likely to continue after the EU Summit that ends today (Friday 16 October).

**Hubert de Barochez**

### QUARTERLY CHANGES



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.

