

# ECONOMIC PULSE

## UNITED KINGDOM: SOME LIGHT AT THE END OF THE TUNNEL

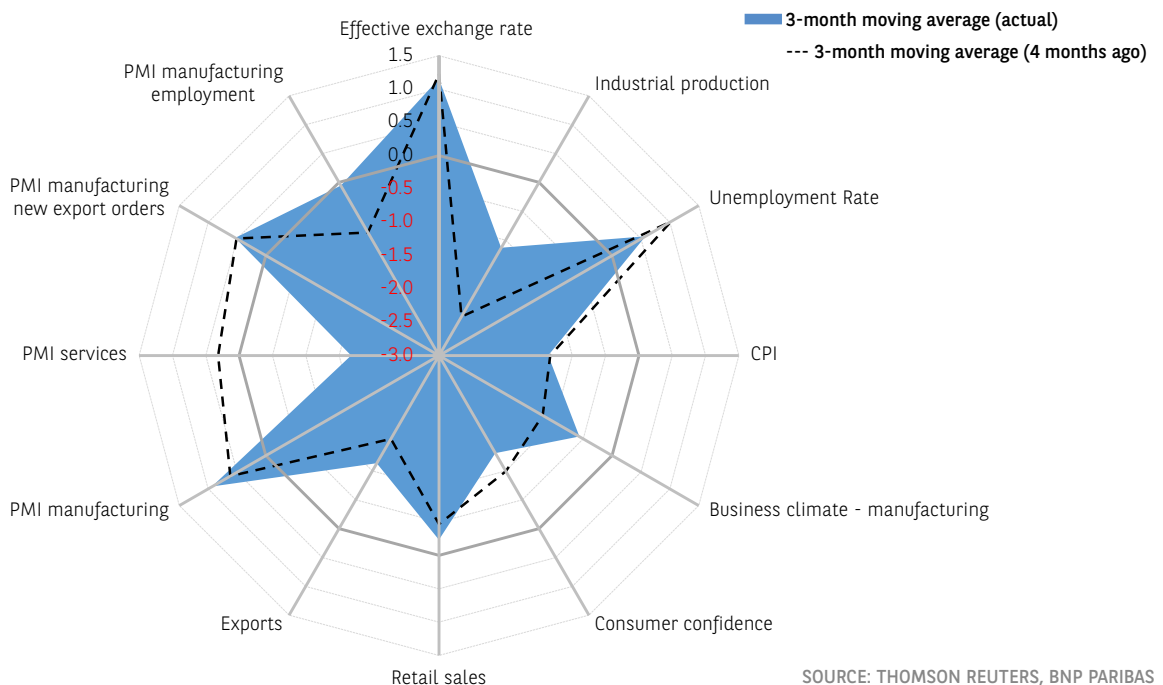
Unlike major European Union (EU) countries, UK still has not released its GDP for the fourth quarter of 2020. Nevertheless, the monthly indicator of the Office for National Statistics (ONS) gives a foretaste of how the economy fared during this period. In November, GDP contracted for the first time since April, falling by 2.6% as a second lockdown was imposed in England. This drop is due to the services sector, as the index for the production sector stagnated and the one for the construction sector increased. In fact, all services sub-sectors declined that month. Not surprisingly, the most affected sectors were accommodation and food service activities as well as wholesale and retail trade.

The second lockdown was lifted in early December, so it is possible that GDP increased a bit over the fourth quarter as a whole. However, GDP will certainly contract in the first quarter of 2021. Faced with another resurgence of the pandemic, the British government imposed a third lockdown in England at the beginning of January, and Prime Minister Boris Johnson has recently announced that it will remain in place until at least 8 March. In addition, the UK's exit from the EU's single market has markedly hindered the exchanges of certain goods - notably perishable goods - between the two parties. In its Monetary Policy Report for February 2021, the Bank of England estimates that UK GDP edged up by 0.6% in the fourth quarter of 2020 and forecasts that it will fall by more than 4% in the first quarter of 2021.

However, looking beyond the first months of this year, there is cause for optimism. Several vaccines that have proved to be effective against Covid-19 have now been approved by the British sanitary authorities, and the UK is vaccinating its population rapidly, indeed at a much quicker pace than EU countries. More than 15% of British have already been inoculated. Moreover, British companies will progressively adapt to their new trade relationship with the EU, which will certainly reduce frictions. In fact, this optimism can already be felt on foreign exchange markets. Over the past thirty days, the British pound has risen by about 3% against the euro.

**Hubert de Barochez**

### QUARTERLY CHANGES



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 -3 and +1.5. 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.

