

ECONOMIC PULSE

UNITED KINGDOM: TUNED IN TO BBC - BUDGET, BREXIT, COVID

According to the first estimate from the Office for National Statistics (ONS), United Kingdom GDP rose by 15.5% in the third quarter, in line with consensus estimates, as restriction measures were progressively lifted following the first lockdown. Despite this record increase, the level of GDP was still nearly 10% below where it was at the end of 2019. While Spain is in a similar position, the GDPs of the United States, France, Germany and Italy have all returned to about 5% below where they were back then.

Monthly GDP data show that, after a sharp rebound in June and July, the recovery showed some signs of weakness. Admittedly, Purchasing Managers' Indices (PMIs) came out higher than expected in November - the manufacturing index even rose above 55. But that will probably not be enough to prevent another fall in GDP in the fourth quarter. In light of the sanitary crisis, the government has imposed another lockdown in the entire country since 5 November.

Nevertheless, this second lockdown should cause less economic damage than the first one. For a start, it will be shorter - Boris Johnson has confirmed this week that it will end on 2 December - and somewhat less restrictive. What's more, the level of activity was lower

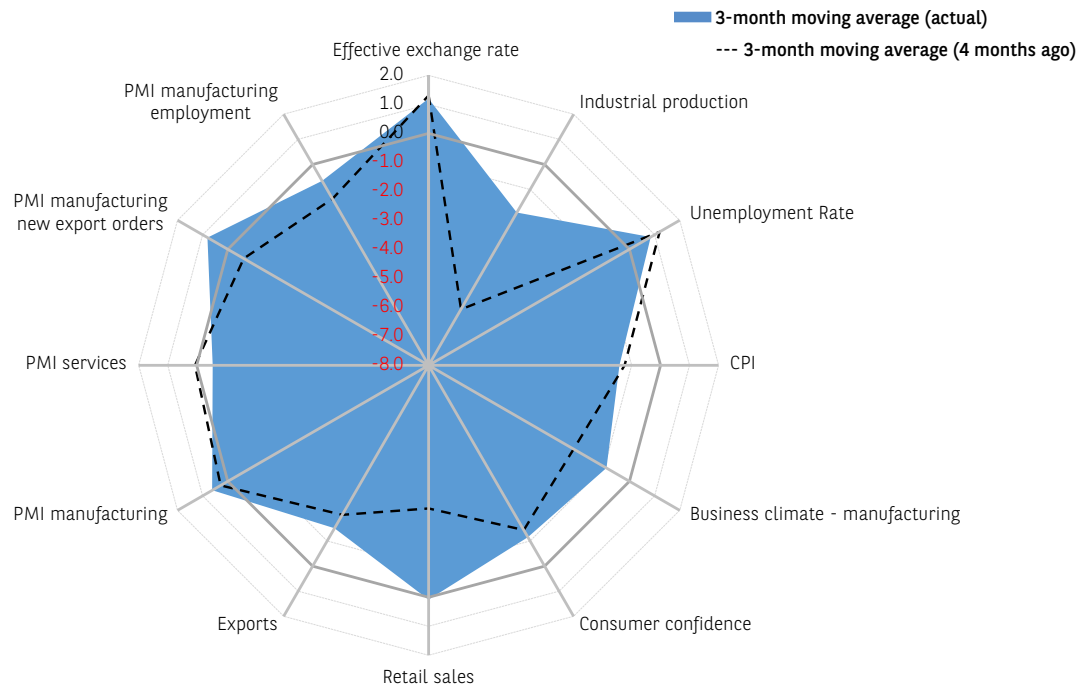
at the start of this lockdown than it was before the first one. Overall, BNP Paribas forecasts that GDP will fall by "only" 3.7% in the fourth quarter - activity dropped by nearly 20% in the second quarter.

Meanwhile, the end of the transition period that maintains the UK in the EU's single market and customs union is approaching rapidly. While there is a sense of optimism, a free-trade agreement still has not been found. In a study published last week, KPMG estimated that GDP would rise by 7.2% next year in the scenario of a deal, and by only 4.4% if the UK leaves without one.

It is against that background that Chancellor Rishi Sunak presented on Wednesday the spending review for the fiscal year 2020-21. This "mini-budget" provides GBP55bn of support for the public services response to Covid-19; the fastest rise in day-to-day spending in 15 years; and a rise in capital spending to GBP100bn, which corresponds to a GBP27bn increase compared to 2019-20.

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.

