

# ECONOMIC PULSE

## UNITED KINGDOM: WHILE THE ECONOMY IS RECOVERING, BREXIT CONCERNS ARE MOUNTING

According to data from the Office for National Statistics (ONS), GDP in the United Kingdom dropped by more than 20% in the second quarter, which was the worst performance in Europe. Over the first half of the year, only Spain did worse than the UK.

The government lifted restriction measures in the summer, so economic activity has logically been recovering since. According to ONS monthly data, GDP bounced back in May and then kept rising in June and July. Advanced economic indicators are also showing signs of improvement. The Purchasing Managers' Indices (PMIs) for the manufacturing and services sectors reached 55.2 and 58.8, respectively, in August - so they are now comfortably above 50, which marks the limit between deteriorating and improving conditions.

However, business and consumer confidence indices are struggling to return to pre-crisis levels. There are several reasons for that.

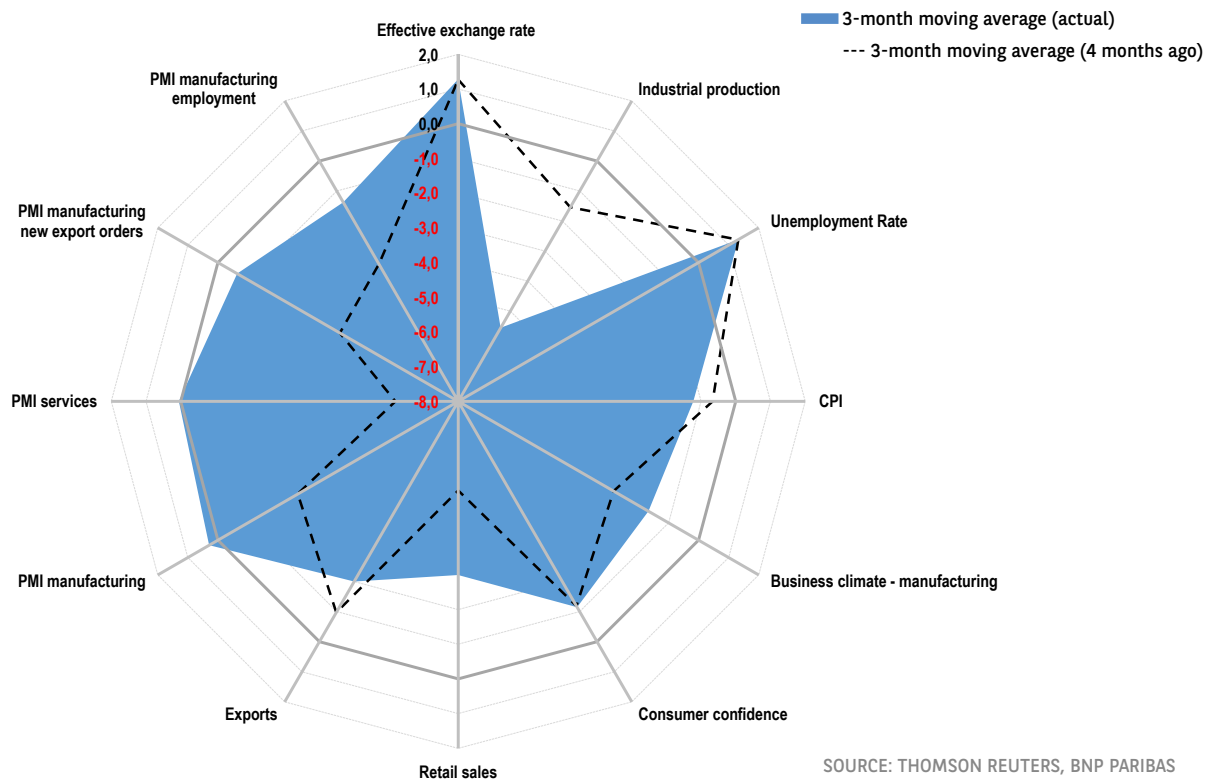
First, concerns remain about how the pandemic will evolve. The resurgence of Covid-19 cases over the past few days has raised fears about a second wave that would wipe out the current economic recovery. Moreover, the end of the government's furlough scheme (Coronavirus Job Retention Scheme, CJRS), planned for October, raises concern about

a surge in unemployment at the end of the year, which would certainly be followed by another fall in consumption. In fact, according to a study from the Chartered Institute of Personnel and Development and the Adecco Group, published last month, one out of three employers is planning to make redundancies in the third quarter.

Meanwhile, Brexit concerns are mounting. Prime Minister Boris Johnson has announced that the UK would "move on" if no deal was found before 15 October. What's more, the government has introduced legislation that would override parts of the Withdrawal Agreement reached with the EU, which would effectively break international law. While all this could only aim at obtaining concessions from the EU, there is a real possibility of a no-deal exit. As a result, the British pound has depreciated by nearly 4% against both the US dollar and the euro since the start of this month - even if its effective exchange rate has remained above its average since the Covid-19 crisis started.

**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.

