

ECONOMIC PULSE

UNITED KINGDOM: BETWEEN RELAXATION AND STRESS

With a vaccination rate of more than 55%, the UK population's vulnerability to Covid-19 has been sharply reduced. The final death toll is thus stabilising, hopefully, at around 128,000 deaths for a total population of 67 million, making the UK one of the worst affected countries in the world. The double whammy of Brexit and the health crisis has hit the economy hard. In 2020, GDP contracted by 9.8%, the weakest performance by a G7 country and the UK's worst year since 1920. In the first quarter of 2021, GDP fell by a further 1.5%, due to lockdown measures introduced to tackle the second wave of the epidemic and despite considerable fiscal support (over a year, public sector consumption rose by nearly 5%). One remarkable feature was the steep decline in exports (down 7.5% in the first quarter) which held up well elsewhere, most notably in the European Union (EU).

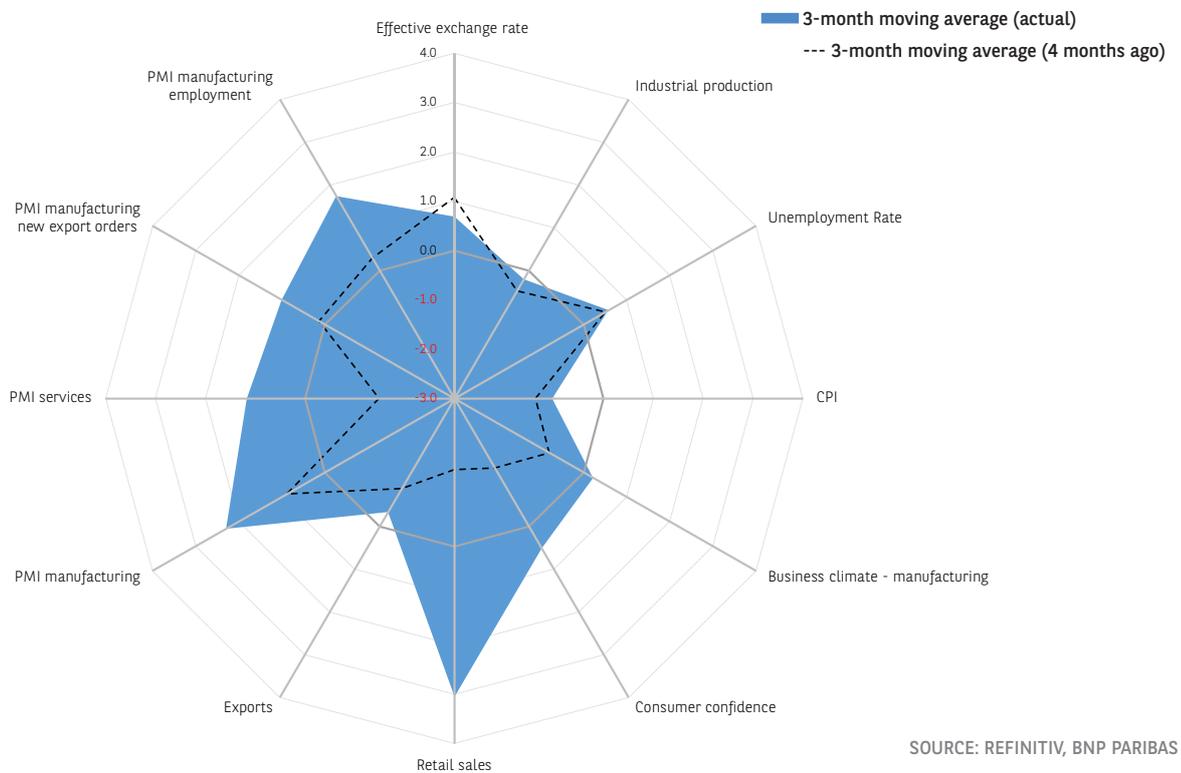
Thus, the initial consequences of Brexit, however much they have been mitigated by free-trade deals, are being seen. Affected by the reintroduction of border controls, often badly implemented at that, the volume of trade with the EU (i.e., the average of exports and imports) is at its lowest for twenty years. What happens next will depend on the ability of London and Brussels to put their agreements into action.

For the moment, there are few grounds for optimism. Having been appointed as Minister for Brexit after his role in negotiating its terms, David Frost has called for a review of the Northern Ireland Protocol contained within the Withdrawal Agreement. This was rejected by the European Commission President, Ursula Von Der Leyen. The fishing licenses allocated by the UK have come with "unexpected" clauses, which have limited both their number and their scope.

Though hostile to Brexit for the most part, British business leaders have welcomed the pandemic's retreat and the gradual loosening of the associated lockdown measures. As a result, our barometer this week shows a marked improvement in the business climate over the spring. In May, Purchasing Manager Indices even set new records, in both services and manufacturing. With the improvements shown by Google Mobility data, they are expecting a healthy recovery in the second quarter.

Jean-Luc Proutat

UNITED KINGDOM: QUARTERLY CHANGES



SOURCE: REFINITIV, 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 -3 and +4. 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.

