

# Prospects

No. 21/182 – 25 May 2021

## UNITED-KINGDOM – After a not-bad Q1, the recovery is looking strong

### Growth held up in the first quarter

**GDP fell 1.5% quarter-on-quarter in the first quarter of 2021, in line overall with our forecasts and the consensus (-1.6%).** It sits 8.7% below its pre-crisis level from the fourth quarter of 2019, a gap comparable to what is observed in Spain (-9.4%), but much more negative than in France (-4.4%) or Germany (-4.9%). Year-on-year, GDP declined 6.1%.

The third wave of COVID, which has been deadlier than the first and which began with the early-December discovery of the dangerous U.K. variant of SARS-CoV-2, led the U.K. government to enact a strict lockdown in early January, involving the closure of non-essential shops (until 12 April) as well as schools (until 8 March). Brexit was an additional downward factor, with the imposition of regulatory and customs controls on trade with the European Union (EU) on 1 January having hampered commerce with the United Kingdom's top trading partner.

The economic decline turned out to be smaller than was feared at the start of the year, given the duration and severity of the measures (as late as February, the Bank of England was anticipating a 4.2% decline for the first quarter 2021). **This relative resilience may be explained by economic players adapting somewhat to the restrictions, as suggested by the smaller decline in household consumption than in the second quarter of 2020 and a strong positive contribution from net foreign trade (though this was due to a significant decline in imports, which was larger than the fall in exports).**

### Domestic demand more resilient against the pandemic restrictions

**Household consumption fell 3.9% quarter-on-quarter in the first quarter of 2021, compared to a more than 20% decline in the second quarter of 2020.** The closure of non-essential shops heavily affected retail sales (-6.2% quarter-on-quarter), but after spending January in the red (-8.2% month-on-month), they recovered in February and March. Spending in hotels and restaurants declined sharply (-26% quarter-on-quarter) due to government measures as well as transport spending (-15%), in connection with mobility restrictions. On the other hand, households continued to spend on health care (8.1% quarter-on-quarter) and the consumption of household capital goods and household services grew 0.3% quarter-on-quarter. Overall, household consumption contributed -2.4 percentage points to quarterly growth in GDP and is 12.8% below its pre-pandemic level from the fourth quarter of 2019.

Another component – which was badly hurt by the pandemic restrictions and uncertainty about the future – was gross fixed capital formation (-2.3% quarter-on-quarter), including a sharp decline in investment in transport equipment (-51.8%). **Thus, business investment decreased heavily (-11.9%), while residential investment (+3.3%) and public investment (+19.7%) continued to grow. After significant inventory rebuilding prior to the end of the Brexit transition period, the reverse was observed in the first quarter.** Inventory variations took 1 percentage point away from GDP growth.

The decline in household consumption and investment was partially offset by public consumption, which continued to increase for the third quarter in a row (+2.6% quarter-on-quarter), although it did slow down

(+6.7% in the fourth quarter of 2020). **Overall, domestic demand fell 3.6% quarter-on-quarter (compared to -22.6% in the second quarter of 2020) and sits 6.9% below its fourth-quarter 2019 level.**

**Finally, and most importantly, net exports contributed significantly to GDP growth (+2.2 percentage points), due to imports falling more (-13.9% quarter-on-quarter) than exports (-7.5%).** Brexit seems to have severely impacted trade of goods and services between the United Kingdom and the EU (especially at the start of the quarter). However, the weakness of domestic demand hurt imports from both the EU and non-EU countries, while the decrease in exports was mainly the case for businesses trading with the EU. These movements led to a narrowing of the trade deficit in goods to 5.9% of GDP (£32 billion) compared to 7.7% in the fourth quarter, and the total trade deficit (both goods and services) to 0.5% of GDP (£2.7 billion).

### Foreign trade was severely disrupted by Brexit

**Exports of goods to European countries fell 18% quarter-on-quarter in the first quarter, while those to non-European countries grew 0.9%.** This divergent trend likely reflects the impact of regulatory and customs controls imposed by the EU on 1 January, as well as the repercussions of the inventory-building that took place in the month prior to Brexit. While imports of goods from the EU fell by 22% quarter-on-quarter, imports from non-European countries posted a much more limited decline (-4.1% quarter-on-quarter), in line with weakened domestic demand.

Furthermore, the size of the EU export and import decreases over the quarter (11% and 14%) were much larger than the increases observed in the fourth quarter of 2020. **The good news is that the decline in trade with the EU was concentrated in January (-42% and -30% month-on-month for exports and imports of goods, respectively)** and was followed by two months of rebound, which suggests that companies probably adapted to the trade barriers that went into effect on 1 January.

### Leading indicators suggest a strong recovery underway

**The United Kingdom was on the way to recovery even before non-essential shops and outdoor seating at pubs and restaurants were opened on 12 April.** Monthly GDP data shows that after falling 2.5% month-on-month in January, February saw an increase (+0.6%) that picked up sharply in March (+2.1%). This allowed GDP to end the first quarter with a carry-over effect of 1.6% for the second quarter. **Due to this earlier-than-projected recovery, our 2% quarter-on-quarter forecast for second-quarter growth comes with upside risks.**

**The recovery that began in February in the service sector is expected to sharply accelerate with the easing of restrictions.** The sector's first-quarter decline (-2%) is mainly due to severe drops in the sectors directly affected by the restrictions, namely education, wholesale and retail, and hospitality (which all together contributed -2 percentage points to quarterly variation in the sector). Manufacturing, which saw a setback in the quarter (-0.8%) after being up two quarters in a row, also bounced back in February in March, leaving a positive 1.9-point carry-over effect for growth in the second quarter.

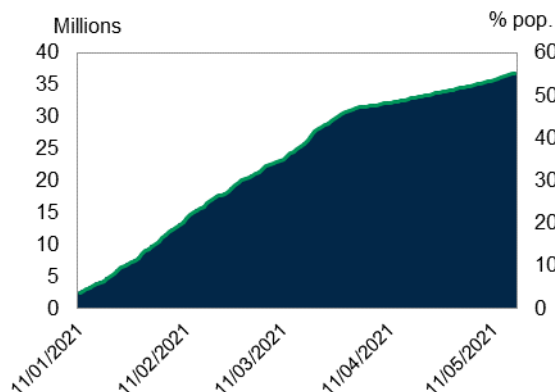
Leading indicators signal a strong recovery in the months ahead. **PMI business climate surveys of purchasing managers reached record levels:** the highest since July 1994 in industry (60.9 in April), and since October 2013 in services (61). Employment expectations are positive: the composite PMI indicates that net job creation is at its strongest level since October 2015. In April **consumer confidence rebounded to its highest point since the start of the crisis** (-15 according to the GfK index).

On 17 May, the government rolled out a third stage in its lockdown easing plan, including the opening of hotels and indoor dining at restaurants, the opening of museums and cinemas, and permission to gather indoors in groups of up to six people. The next and final stage of the plan is set for 21 June, with the hope of lifting all social distancing measures. However, this plan could be compromised by the government's concerns about the recent spread of the Indian variant (B.1.617.2) in several English cities.

## Health crisis as of 17 May 2021

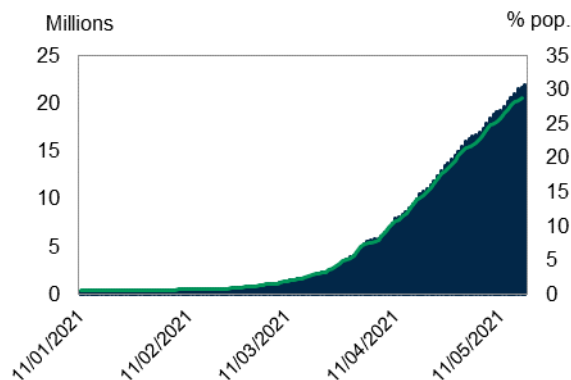
**The British population is approaching herd immunity.** According to the ONS, nearly seven in ten people in England have developed antibodies against COVID-19, either *via* vaccination or by contracting the virus. This percentage is slightly lower in Wales and Northern Ireland, but still significant (63% as of 19 April) and lowest in Scotland (59%).

**UK: vaccinated first dose**



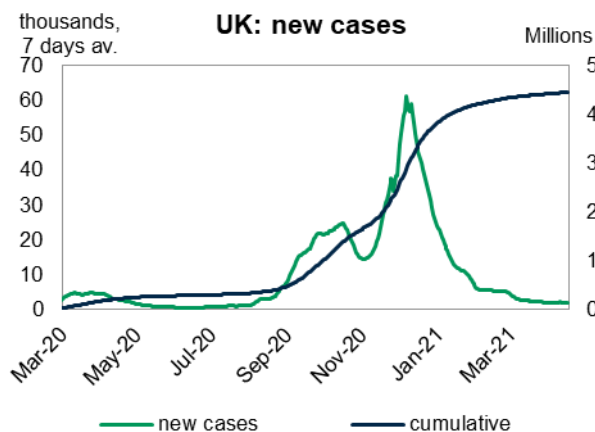
Sources: gov.uk, Crédit Agricole S.A.

**UK: vaccinated second dose**



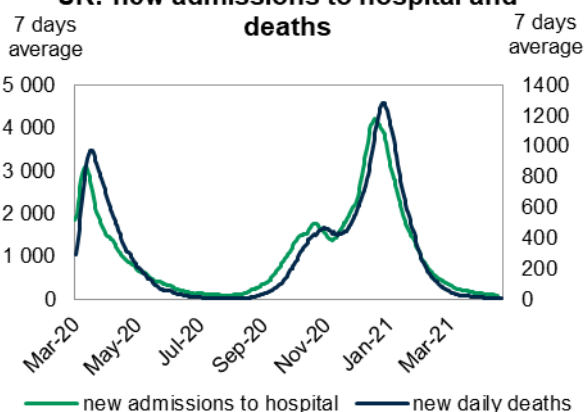
Sources: gov.uk, Crédit Agricole S.A.

**UK: new cases**



Sources: gov.uk, Crédit Agricole S.A.

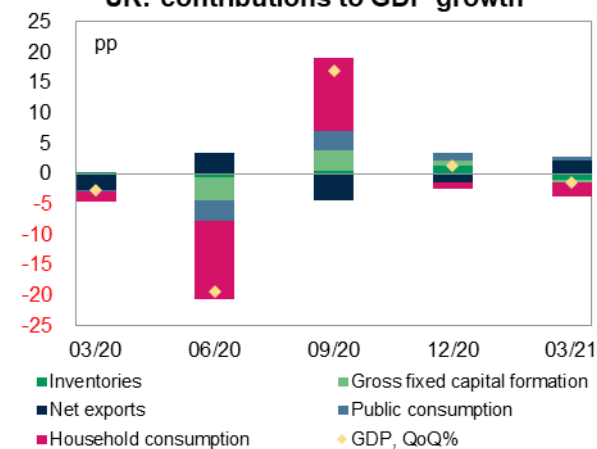
**UK: new admissions to hospital and deaths**



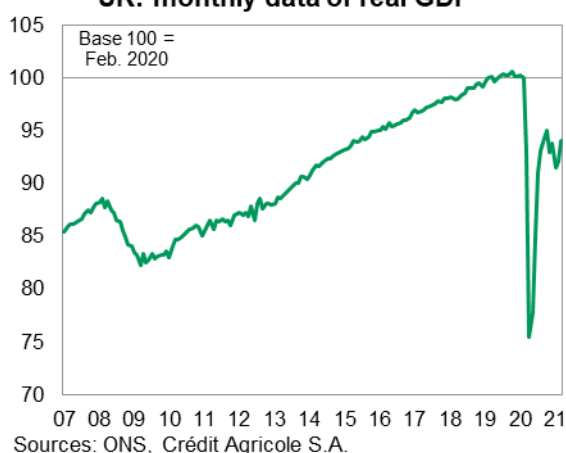
Sources: gov.uk, Crédit Agricole S.A.

## Economic overview

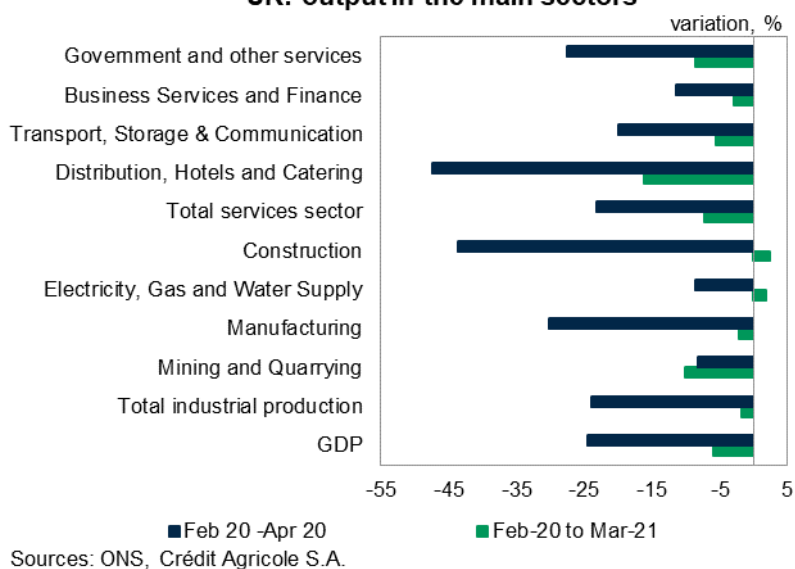
UK: contributions to GDP growth



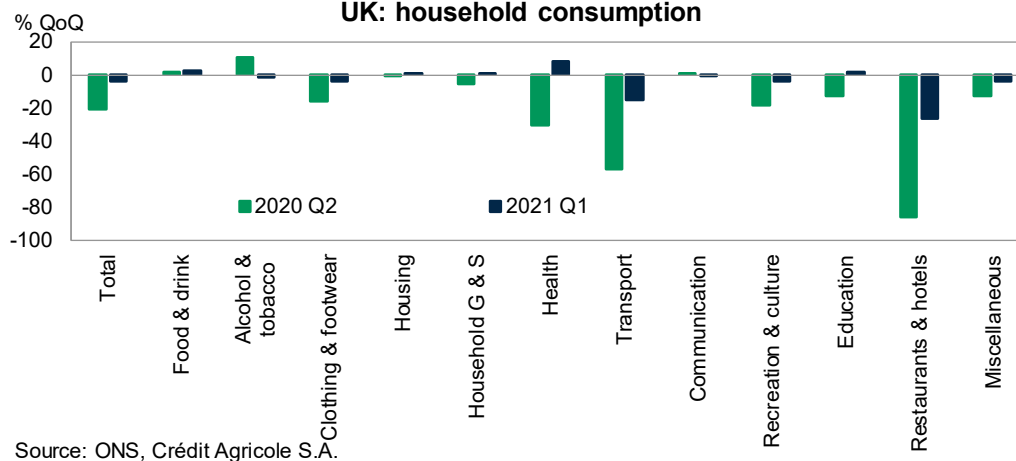
UK: monthly data of real GDP



UK: output in the main sectors

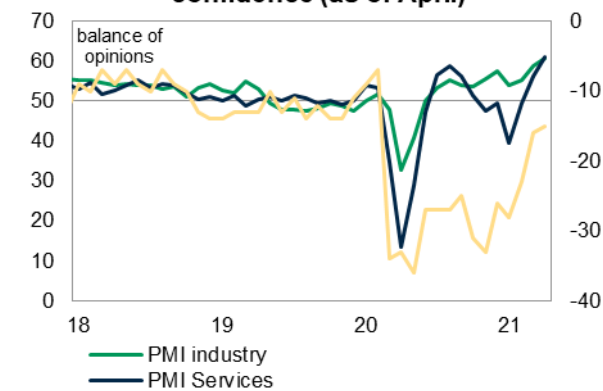


UK: household consumption



## Economic overview

**UK: business and consumer confidence (as of April)**



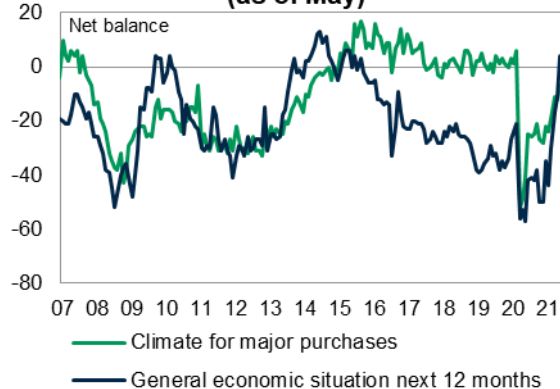
Sources: IHS Markit, GfK, Crédit Agricole S.A.

**UK: investment intentions (end of March, quarterly data)**



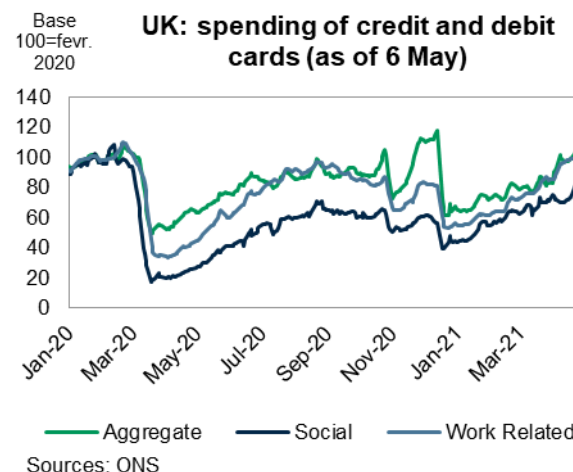
Sources: BCC, Crédit Agricole S.A.

**UK: consumer confidence (as of May)**



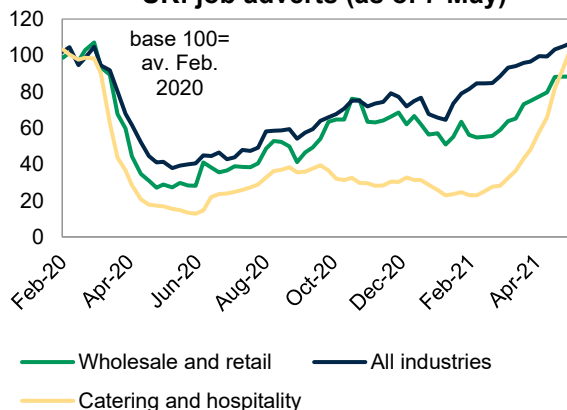
Sources: GfK, Crédit Agricole S.A.

**UK: spending of credit and debit cards (as of 6 May)**



Sources: ONS

**UK: job adverts (as of 7 May)**



Sources: ONS

**UK: PMI surveys of employment**



Sources: IHS Markit, Crédit Agricole S.A.

## Consult our last publications:

Date	Title	Theme
21/05/2021	<u>Battery metals under pressure</u>	Mines & metals
18/05/2021	<u>France – 2021-2027 Stability Programme: Public debt ratio stabilised at high level</u>	France
06/05/2021	<u>Italy – 2021-2022 Scenario: Exiting the third wave</u>	Italy
05/05/2021	<u>United-Kingdom – Coming Scottish elections: putting independence to the test</u>	United Kingdom
29/04/2021	<u>Sub-Saharan Africa: the challenge of financing the recovery before the crisis is even over</u>	Emerging countries
28/04/2021	<u>Eurozone – 2021-2022 scenario: a uniform exit from the pandemic, an uneven exit from the economic crisis</u>	Eurozone
26/04/2021	<u>Spain – 2021-2022 Scenario: a still-disrupted start to the year</u>	Spain
22/04/2021	<u>United Kingdom 2021-2022 outlook: brighter outlook thanks to the vaccine rollout</u>	United Kingdom
22/04/2021	<u>Germany – Scenario 2021-2022: Growth on the starting blocks but still held back by the pandemic</u>	Germany
21/04/2021	<u>France - Scenario 2021-2022: A light at the end of the tunnel</u>	France
13/04/2021	<u>World – Macroeconomic Scenario for 2021-2022: a (very) disorderly exit from the crisis</u>	World
13/04/2021	<u>Italy – Monthly News Digest</u>	Italy
08/04/2021	<u>Geopolitics, pandemic and contextual intelligence</u>	Geopolitics
01/04/2021	<u>Asia: the great divide?</u>	Asia

### Crédit Agricole S.A. — Group Economic Research

12 place des États-Unis – 92127 Montrouge Cedex

**Publication manager:** Isabelle Job-Bazille

**Chief Editor:** Armelle Sarda

**Information centre:** Dominique Petit – **Statistics:** Robin Mourier

**Editor:** Fabienne Pesty

Contact: [publication.eco@credit-agricole-sa.fr](mailto:publication.eco@credit-agricole-sa.fr)

Consult Economic Research website and subscribe to our free online publications:

**Website:** <https://etudes-economiques.credit-agricole.com/en>

**iPad :** [Etudes ECO application](#) available on App store platform

**Android :** [Etudes ECO application](#) available on Google Play platform

*This publication reflects the opinion of Crédit Agricole S.A. on the date of publication, unless otherwise specified (in the case of outside contributors). Such opinion is subject to change without notice. This publication is provided for informational purposes only. The information and analyses contained herein are not to be construed as an offer to sell or as a solicitation whatsoever. Crédit Agricole S.A. and its affiliates shall not be responsible in any manner for direct, indirect, special or consequential damages, however caused, arising therefrom. Crédit Agricole does not warrant the accuracy or completeness of such opinions, nor of the sources of information upon which they are based, although such sources of information are considered reliable. Crédit Agricole S.A. or its affiliates therefore shall not be responsible in any manner for direct, indirect, special or consequential damages, however caused, arising from the disclosure or use of the information contained in this publication.*