Economic Preview: Week of 25 May 2020

Publication date: 22 May 2020

Week Ahead Economic Preview

Global overview

- **Q1 GDP updates to take back seats to more timely survey data to gauge Q2 growth**
- **China PMI for May**
- **Eurozone and US inflation updates**

The week ahead sees a fresh estimate of US GDP in the first quarter, for which the decline is expected to be unrevised at a 4.8% annualised rate. Other GDP updates, including for India, Singapore, Taiwan, Germany, France and Italy, are also widely expected to show a similar picture of economies already hit hard by the COVID-19 pandemic in the first quarter.

However, these declines will be eclipsed by what's to come in the second quarter as lockdowns intensified in April. PMI surveys showed a record global economic contraction in April, pointing to recessions on unprecedented scales. Attention has thus turned to recovery paths, which will inevitably be determined by various factors including the speed with which the pandemic can be controlled, the timelines for an effective treatment or vaccine, the extent that lockdowns can be eased, the degree to which demand will continue to be affected, and the effectiveness of monetary and fiscal policy to support output and jobs. In this respect, flash PMI data for May showed rates of economic contraction easing markedly in the US, Europe and Japan, albeit remaining in steep decline, as lockdown restrictions started to be eased.

We will therefore be looking for further evidence to corroborate the PMI message that rates of decline bottomed out in April, including May updates to regional Fed business surveys and the University of Michigan consumer survey in the US (page 3).

In Europe, European Commission sentiment data for May are likewise set to provide corroborative evidence that most countries remained in decline but are showing some signs of picking up in May (page 4).

In Asia, the NBS China PMI will be eagerly awaited to gauge the extent to which weak global demand is dampening the recovery. Policy action is expected to come in the form of a rate cut at the Bank of Korea. Other key data include April retail sales and industrial production for South Korea and Japan (page 5).

Inflation trends will meanwhile be gauged via the eurozone flash CPI estimate and PCE prices in the US. Both are expected to show weakened price trends.

Special reports

Malaysia: The lockdown has created substantial economic shockwaves to the Malaysian economy, which is forecast to be in recession in 2020, but positive GDP growth forecast for 2021. (**page 6**).

Europe: How deep will downturns be due to the pandemic? We take a look at our revised forecasts, which reflect the grim reality of the situation (**page 9**).

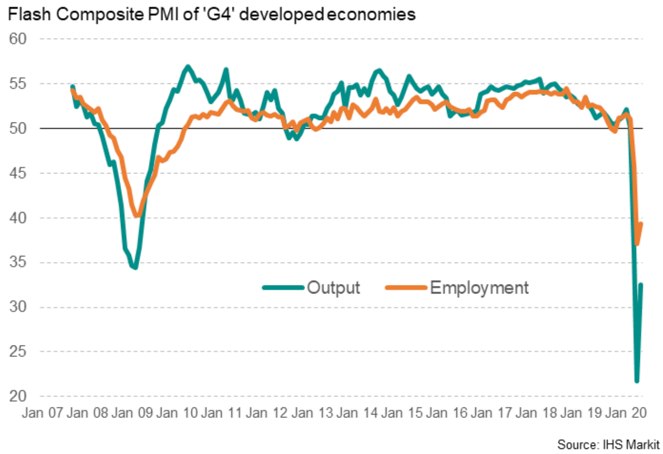
Upcoming PMI releases

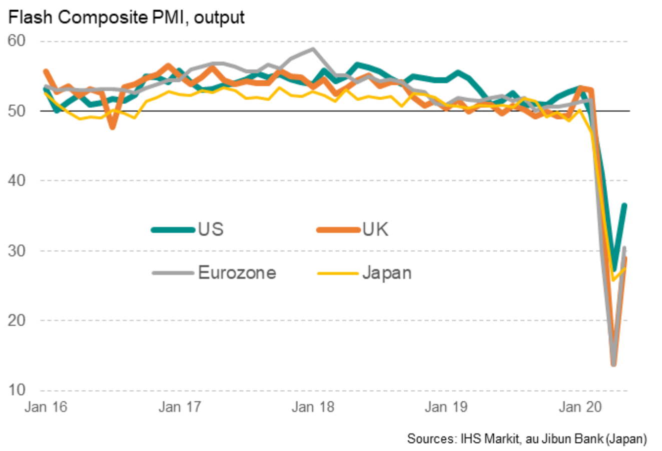
1st June: Final Global manufacturing PMIs

3rd June: Final Global services PMIs

5th June: Global, EU and Asia detailed sector PMI

Flash PMI surveys showed developed world output and employment falling at slower rates in May





Chris Williamson

Chief Business Economist, IHS Markit

Email: chris.williamson@ihsmarkit.com

Economic Preview: Week of 25 May 2020

Publication date: 22 May 2020

Key diary events (UTC)

Monday 25 May

Germany GDP (Final, Q1), Ifo surveys (May)
Hong Kong SAR trade (Apr)
South Korea consumer confidence (May) 21:00 UTC
New Zealand trade (Apr) 22:45 UTC

Tuesday 26 May

Singapore GDP (Final, Q1), current account (Q1), inflation, industrial output (Apr)
Germany consumer confidence (Jun)
France business confidence (May)
US new home sales, Chicago Fed national activity index (Apr), house price index (Mar)
US Dallas Fed manufacturing index (May)
South Korea business confidence (May) 21:00 UTC

Wednesday 27 May

China industrial profits (YTD, Apr)
Thailand industrial output (Apr)
France consumer confidence (May)
US Richmond Fed manufacturing index (May)
US Fed Beige Book

Thursday 28 May

Australia business confidence (May)
South Korea interest rate decision
Taiwan consumer confidence (May)
Euro area business confidence, consumer confidence, economic sentiment (May)
France unemployment benefit claims (Apr)
Brazil unemployment rate (Apr)
Germany inflation (Prelim, May)
US GDP (2nd Est, Q1), jobless claims (23-May)
US durable goods orders, pending home sales (Apr)
US Kansas Fed manufacturing index (May)
Korea industrial output, retail sales (Apr) 23:00 UTC
Japan jobless rate, retail sales (Apr), industrial output (Prelim, Apr) 23:50 UTC
UK consumer confidence (May)

Friday 29 May

Vietnam industrial output, retail sales (May)
Japan consumer confidence (May), housing starts, construction orders (Apr)
Germany retail sales (Apr)
UK nationwide housing prices (May)
France and Italy GDP (Final, Q1), inflation (Adv, May)
Euro area inflation (Flash, May)
Taiwan GDP (Final, Q1)
Brazil and Canada GDP (Q1)
India GDP (Q4, FY19-20)
US PCE price index, personal spending, wholesale inventories (Apr)
US Chicago PMI (May), University of Michigan survey (Final, May)

Saturday-Sunday 30-31 May

30/5: Australia building permits (Apr)
31/5: China NBS PMI (May)
31/5: CBA/IHS Markit Australia manufacturing PMI (May) 23:00 UTC
31/5: Japan capital spending (Q1)

For further information:

If you would like to receive this report on a regular basis, please email economics@ihsmarkit.com to be placed on the distribution list.

For more information on our products, including economic forecasting and industry research, please visit the Solutions section of www.ihsmarkit.com

For more information on our PMI business surveys, please visit www.ihsmarkit.com/products/PMI

Click here for more PMI and economic commentary.

For all further information, please visit
www.ihsmarkit.com

IHS Markit®

United States Week Ahead

GDP, personal consumption, durable goods orders and jobless claims

By Siân Jones

Economist, IHS Markit, London

Email: sian.jones@ihsmarkit.com

Amid signs that April proved to be the nadir of the economic impact of the COVID-19 outbreak on the US economy, jobless claims data will be watched closely for signs that companies have eased back on layoffs. News of a record decline in retail sales meanwhile suggests downward pressure on spending and prices, results of which will be seen in updated PCE data. Meanwhile, durable goods data and regional Fed surveys are updated to provide insights into manufacturing, investment and spending trends. A second estimate of GDP in the first quarter will also be released as are new homes sales.

Initial Claims

Jobless claims data will once again be eyed to gauge the extent to which firms are still shedding workers. April saw the sharpest increase in unemployment claims on record, with over 38 million applying for benefits to date. Although COVID-19 restrictions are being slowly eased, concerns now turn to the very real possibility of sustained unemployment. It is hoped that many laid off temporarily will go back to work as soon as safety measures are in place, but much will also depend on the extent to which demand revives.

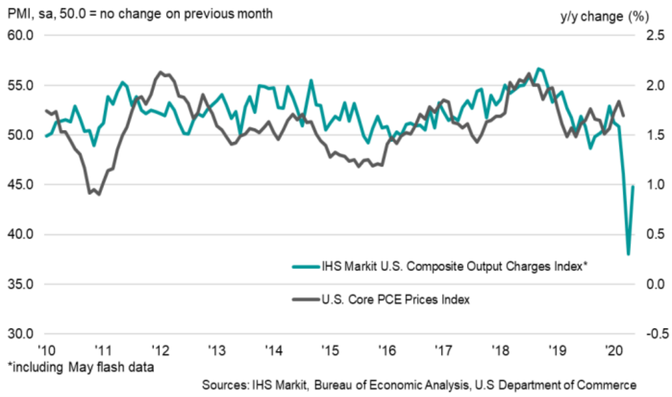
PCE data

With views split on the impact of the pandemic in inflation, PCE price data will be a notable release during the week. The outbreak of COVID-19 and related containment measures has put unprecedented pressure on retailers and service providers, with consumer demand dropping significantly. As a result, downward pressure on spending and prices has increased, but questions still lurk as to how reduced supply may feed through to higher prices.

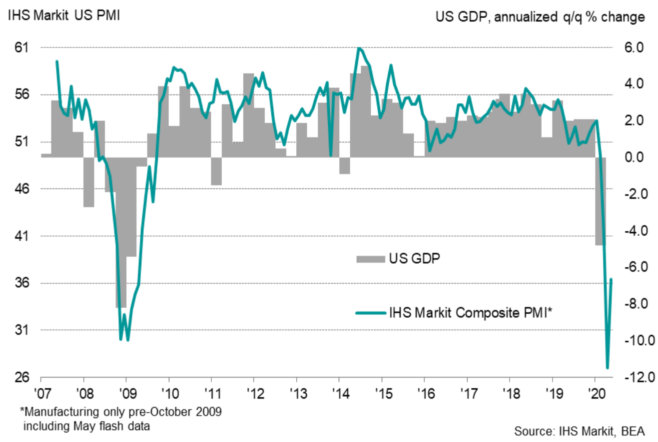
Durable goods, regional PMIs

Following dire industrial production data for April, an update to durable goods orders should give an insight into demand for US produced goods. Although April PMI data pointed to the fastest decline on record, May's 'flash' PMI figures signalled a slower rate of decline. Regional Fed surveys from Dallas and Richmond, plus the Chicago PMI and University of Michigan consumer survey will also provide new data on whether the downturn has bottomed out.

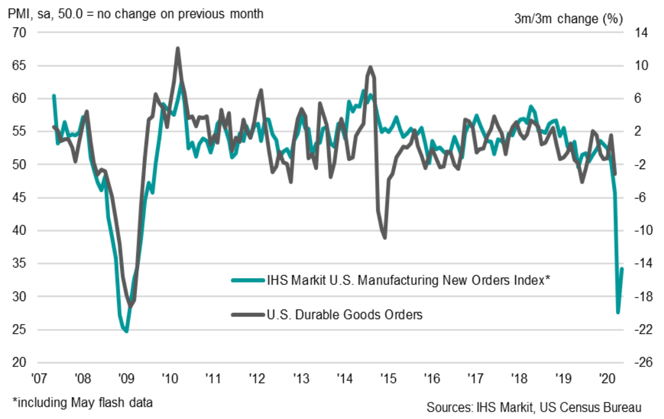
Downside inflationary pressures are expected to have persisted in April



May flash PMI data indicated a severe GDP decline to continue through the second quarter



Challenging demand conditions intensified in April



Europe Week Ahead

Eurozone sentiment surveys and inflation, Germany retail sales

By Joe Hayes
Economist, IHS Markit, London
Email: **joseph.hayes@ihsmarkit.com**

A slew of macroeconomic data for Europe will continue to help analysts and investors better understand the current economic picture, although attention has switched from gauging the economic impact of the COVID-19 pandemic to predicting the recovery path. Our flash PMI surveys for May show we're not in the recovery phase just yet, although the data suggest that the downturn has begun to ease in line with European countries partially lifting lockdown rules.

European sentiment surveys

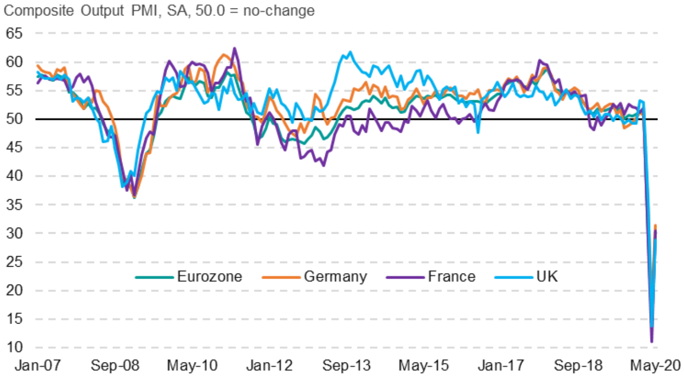
Sentiment data could contain some useful clues in the coming months as to the timing of the recovery. Consumer and business confidence surveys for May are due for the major euro area countries and the UK. Flash PMI data for May suggest that rates of decline in both manufacturing and service sector output eased from April in the euro area and the UK, but were still substantial and suggest the economic impact in the second quarter is going to be unprecedented in scale. That said, with parts of the economy opening up once again, improvements in sentiment could help drive a recovery on the demand side.

Eurozone inflation, Germany retail sales

The preliminary May inflation print is set to show a further easing of price pressures across the euro area, according to the signal from our flash PMI survey. Historical comparisons with the input prices PMI suggest that, at these levels, the headline rate of inflation could even fall into deflation territory. The drop in oil prices has caused energy-related prices to generate a drag, but the decline in input price pressures also suggests that the strong supply chain disruptions caused by the pandemic are not generating inflation, as one would suspect.

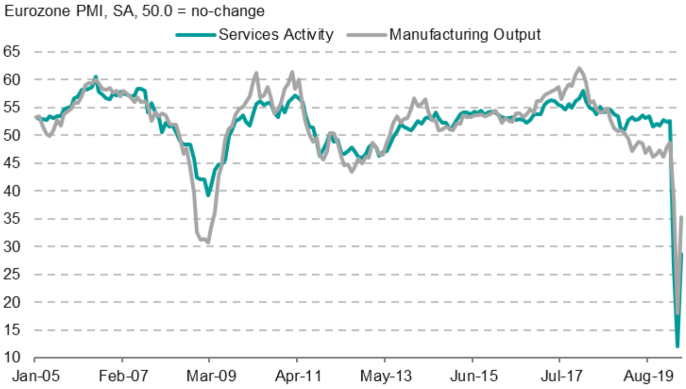
April retail sales data for Germany and Spain will also be closely watched as analysts try to gauge the likely impact on second quarter GDP. Elsewhere, France releases unemployment claims data for April, while the final estimate of first quarter Germany GDP is due.

European economic activity continued to contract sharply in May, although strength of decline eased amid partial lifting of some lockdown measures



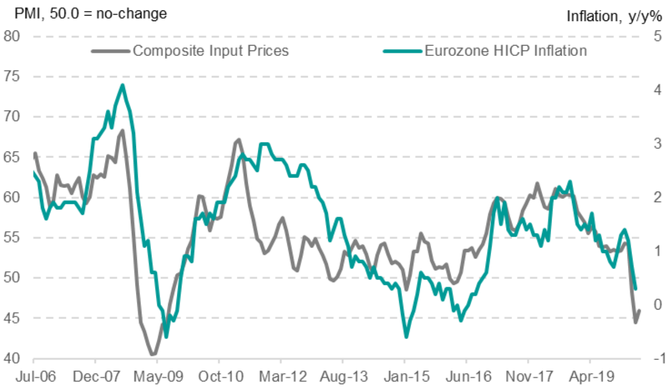
Source: IHS Markit

Downturns in both manufacturing and services lost steam in May, but output in both sectors still fell markedly



Source: IHS Markit

Inflationary pressures in the euro area have eased considerably



Source: IHS Markit, Eurostat

Asia Pacific Week Ahead

China PMI, India GDP, Bank of Korea and confidence surveys in focus

By Bernard Aw
Principal Economist, IHS Markit, Singapore
Email: bernard.aw@ihsmarkit.com

Analysts will be scouring leading indicators to assess the economic rebound trajectory as pandemic lockdowns ease. In this context, GDP releases for India, Singapore and Taiwan, while still important, will likely be overlooked in favour of forward-looking data such as consumer and business confidence surveys in a number of Asian economies. Policy action will come from the Bank of Korea.

The government-sponsored China PMI data will be especially eagerly anticipated alongside Chinese industrial profit figures, while a slew of Japan's economic data, including job figures, retail sales, industrial output and housing numbers will gather some attention.

Other Asia data highlights included trade figures from Hong Kong SAR and New Zealand and Thailand's industrial output numbers.

China NBS PMI eyed

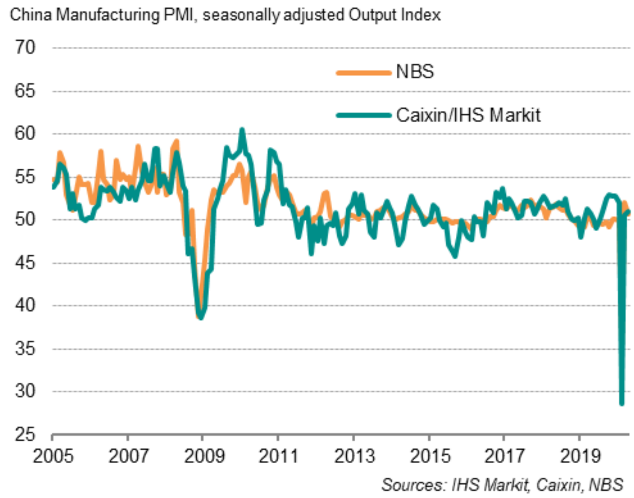
With weak global demand now standing in the way of the Chinese economic recovery, particularly in manufacturing, markets will monitor the May update to the China NBS PMI data ahead of the Caixin manufacturing PMI results on 1st June. It's worth keeping in mind that the PMI figure represents month-to-month changes, which highlights that a commensurately higher reading (in the 60s or 70s) is still required to offset the substantial drop in February after weak readings in March and April.

Bank of Korea poises to cut rates

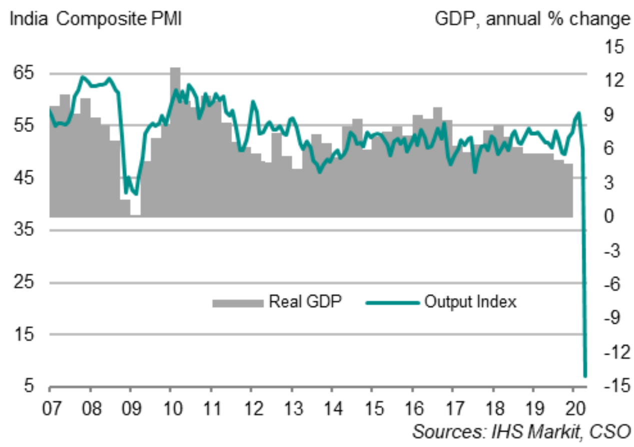
Bank of Korea is widely expected to reduce its policy rate when the Monetary Policy Board convenes next week. Recent economic data indicated a deepening downturn, with the PMI falling to a rate unsurpassed since the global financial crisis (GFC).

Meanwhile, GDP updates for India are projected to show annual economic growth slowing to a post-GFC low of 3.4% during fourth quarter FY19-20, according to IHS Markit's estimate. April PMI data suggest that FY20-21 was off to a terrible start amid lockdown measures, with private sector output falling at a record rate. Singapore and Taiwan will also publish their final GDP estimates following weak preliminary numbers.

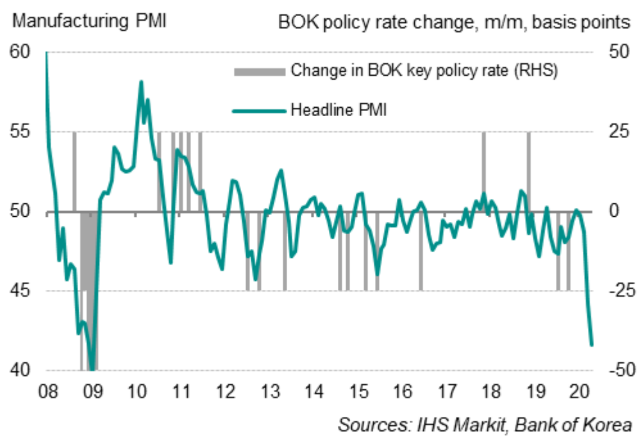
China manufacturing PMIs showed subdued output gains in April



India PMI and economic growth



April PMI deep in territory associated with looser monetary policy



Asia Pacific Special Focus

COVID-19: Malaysian Economy Gradually Emerges from Lockdown

By Rajiv Biswas

Asia-Pacific Chief Economist, IHS Markit

Email: Rajiv.biswas@ihsmarkit.com

The Malaysian government has eased its Movement Control Order (MCO) from 4th May due to the significant decline in new COVID-19 cases in recent weeks. Almost all economic sectors and business activities have been allowed to operate from 4th May. Although lockdown restrictions have been considerably eased, a conditional MCO remains in place until 9th June with significant restrictions still in place for households.

The lockdown has created substantial economic shockwaves to the Malaysian economy, which is forecast to be in recession in 2020. A gradual recovery is expected over the second half of 2020 with positive GDP growth forecast for calendar 2021.

Extended lockdown has hit the Malaysian economy hard

Reflecting the considerable progress in reducing the number of daily new COVID-19 cases made since the lockdown was originally implemented on 18th March, the Malaysian government decided to ease its Movement Control Order from 4th May.

By 20th May, the number of COVID-19 cases in Malaysia had reached a cumulative total of 7,009 with 5,706 patients having already recovered and discharged from medical care. Eleven patients are currently in intensive care units, and Malaysia's total deaths from COVID-19 have been 114 to date, or 1.6% of total COVID-19 cases, attesting to the remarkable success of the Malaysian government in managing the epidemic.

The easing of MCO restrictions on economic activity have allowed the reopening of industries such as construction, which had been shut down since 18th March. Although retail stores and restaurants have been allowed to reopen, large gatherings such as entertainment venues or sports events are still not allowed. Social, community and cultural activities which involve gathering of a large number of people are also still not permitted.

With international and domestic travel still heavily restricted, the tourism industry has continued to suffer significant economic shockwaves from the pandemic. With international and domestic tourism estimated to have directly accounted for around 6.5% of Malaysian GDP prior to the pandemic, the negative impact to the economy from the collapse of tourism will be a major drag on GDP growth in 2020. Taking into account indirect output and employment effects from tourism spending, the effects on the broader economy are significantly higher.

The economic costs of the protracted lockdown have been substantial, with Prime Minister Muhyiddin Yassin having stated that government estimates indicate that the economy suffered Ringgit 2.4 billion in lost output daily during the MCO period until 4th May, with total output lost estimated at Ringgit 63 billion by early May. In early April, the Malaysian central bank, Bank Negara Malaysia (BNM), projected that Malaysian GDP growth for 2020 would be in the range of -2.0% to +0.5%, including an estimated 2.8% boost to GDP from fiscal stimulus measures.

In order to mitigate the economic impact of the pandemic and lockdown on households and businesses, the Malaysian government has announced three fiscal stimulus packages to date, amounting to a total of 260 billion Ringgit (USD 60 billion) of fiscal stimulus measures. These measures are estimated to increase the fiscal deficit in 2020 to 4.7% of GDP, according to statements by Malaysia's Minister of Finance Tengku Zafrul Aziz. The government's direct fiscal injection is estimated to be Ringgit 35 billion.

BNM has also eased monetary policy by a total of 100bp in response to the economic shocks from the pandemic, with two 25bp rate cuts on 22nd January and 3rd March, followed by a 50bp rate cut on 5th May. Since March 2020, BNM has provided additional liquidity of approximately Ringgit 42 billion into the domestic financial markets.

The pace of Malaysian GDP growth in Q1 2020 moderated to 0.7% year on year (y/y), the weakest quarterly pace of economic growth since Q3 2009 during the depths of the Global Financial Crisis. On a quarter-on-quarter seasonally adjusted basis, Q1 2020 GDP declined by 2.0%. Construction sector output fell by 7.9% y/y in Q1 2020, mining output contracted by 2.0% y/y and manufacturing sector output growth slowed to 1.5% y/y. In the services sector, output moderated to 3.1% y/y, which was the slowest pace of expansion since the Global Financial Crisis in 2009.

Economic Preview: Week of 25 May 2020

Publication date: 22 May 2020

With continued severe lockdown conditions having remained in place throughout April, Q2 2020 GDP will also be heavily impacted by the negative economic effects of the lockdown.

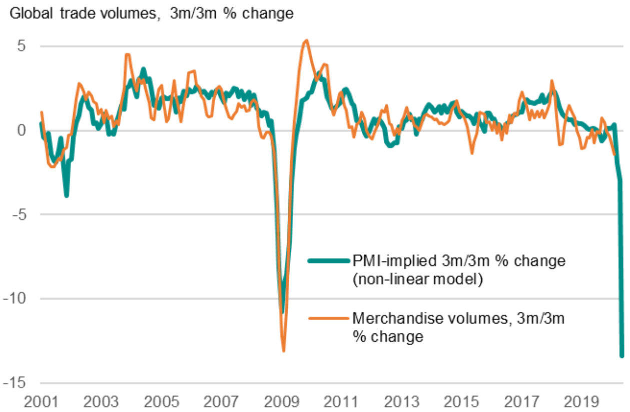
Industrial production slumps

With the MCO having come into effect from 18th March, Malaysian industrial production contracted by 4.9% y/y in March. PMI data also highlight how industrial output in April has also been badly hit by the combined shockwaves of the domestic lockdown and a severe global economic slump due to the escalating COVID-19 pandemic.

With the domestic lockdown already substantially eased in early May and industrial production activity resuming, gradual recovery in domestic manufacturing orders is expected over coming months, as domestic economic activity returns towards more normal levels. However, the deep recession in the world economy and severe economic contractions in the US, EU and Japan during Q2 2020 will continue to hit Malaysian industrial exports hard in coming months, since much of Europe and the US have been in protracted lockdowns during Q2 2020.

The latest Global Manufacturing PMI New Export Orders index plunged in April due to the impact of widespread lockdowns in major economies worldwide. This signals a sharp slump in world manufacturing exports during the remainder of Q2 2020.

Global Manufacturing PMI New Export Orders



Sources: IHS Markit, CPB World Trade Monitor.

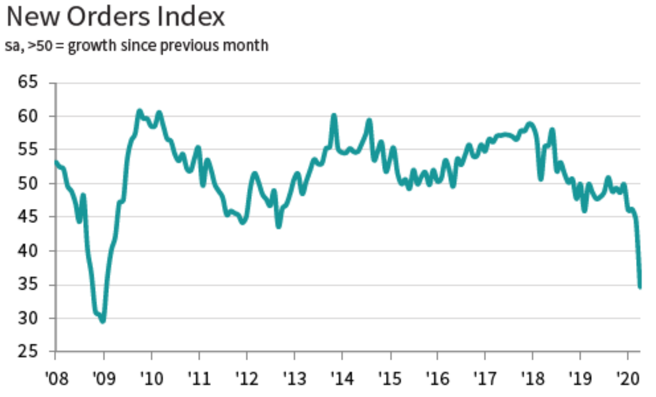
As lockdowns are eased across Europe and the US, Malaysian manufacturing export orders should gradually recover during H2 2020, although due to the severe slump in the world economy, new export orders are not expected to recover to pre-COVID levels until the middle of 2021.

Malaysia's Electrical and Electronics Sector Faces Sharp Downturn in Orders

Electrical and electronics exports are the largest manufacturing export sector for Malaysia and accounted for 37.8% of total merchandise exports in 2019. With global consumer demand having been badly hit by lockdowns in many major economies worldwide, the electronics sector has been badly impacted by falling new export orders. For Malaysia's electrical and electronics sector, world demand for electrical and electronic equipment is only expected to recover at a gradual pace during H2 2020. The impact of protracted global lockdowns and large-scale job losses across many major economies will result in a relatively moderate and protracted pace of recovery in world consumer demand over H2 2020 and during 2021, constraining the pace of recovery in global export orders for this sector, which is a key part of Malaysia's manufacturing industry.

The COVID-19 pandemic had a severe impact on the global electronics sector in April, with the latest IHS Markit Global Electronics PMI data pointing to the steepest decline in business conditions since the global financial crisis. Firm recorded a deep contraction in output and new orders continued to plunge.

IHS Markit Global Electronics PMI



Source: IHS Markit

Near-term Economic Outlook

The Malaysian economy has been severely hit by the impact of lockdown measures to prevent the escalation of the COVID-19 pandemic. Q1 2020 GDP contracted on a quarter-on-quarter basis, and Q2 2020 GDP is also expected to show a sharp contraction due to the impact of the protracted lockdown. This is expected to push the Malaysian economy into a recession for the 2020 calendar year.

However, GDP growth momentum is expected to gradually improve during the second half of 2020, as domestic industrial production and consumption expenditure recover following the easing of lockdown restrictions, while export orders gradually improve as lockdowns are eased in major export markets, notably Europe and the US. However, the tourism economy is expected to face a protracted period of economic distress due to the restrictions on international visitors still in force, as well as the widespread international travel bans that are expected to restrict international tourism for a protracted period of time.

A key downside risk to the near-term outlook would be from any new waves of COVID-19 cases, which could result in renewed tightening of lockdown restrictions, further dampening the path of economic recovery.

Europe Special Focus

How big will GDP contractions be in 2020?

By Ken Wattret

Chief European Economist, IHS Markit

Email: ken.wattret@ihsmarkit.com

Given the devastation caused by the COVID-19 shock and related containment measures, western European economies are undergoing exceptionally deep declines in output and expenditure. We have updated our forecasts to reflect the grim reality of the situation.

National variations in our European forecasts reflect differences in economic structure, policy space and COVID-19 trends. Even with an expected rebound in the second half of 2020, double digit annual declines in GDP are forecast in 2020 in some of the larger economies, including Italy and the UK.

Record Q1 GDP contractions will be followed by much worse in Q2

Eurozone GDP contracted at a record 3.8% quarter-on-quarter (q/q) rate in Q1 2020 (Charts 1 and 2) and a much larger, 10.8% q/q, decline is forecast for Q2 2020, ahead of a partial rebound from Q3 onwards as restrictions progressively ease. On an annual basis, eurozone GDP is forecast to contract by 8.6% in 2020, below the current market consensus expectation (-7.9%).

Chart 1: Record fall in eurozone GDP

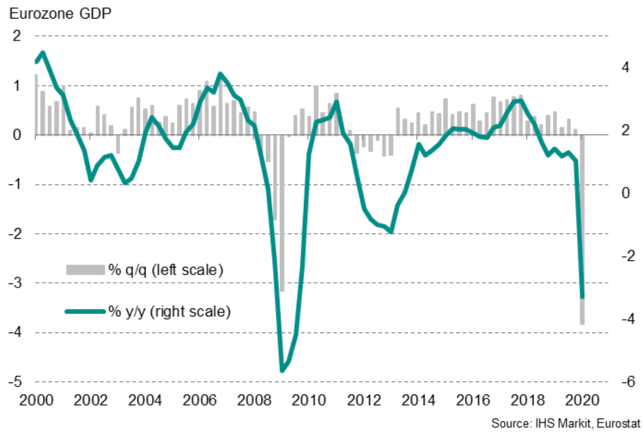
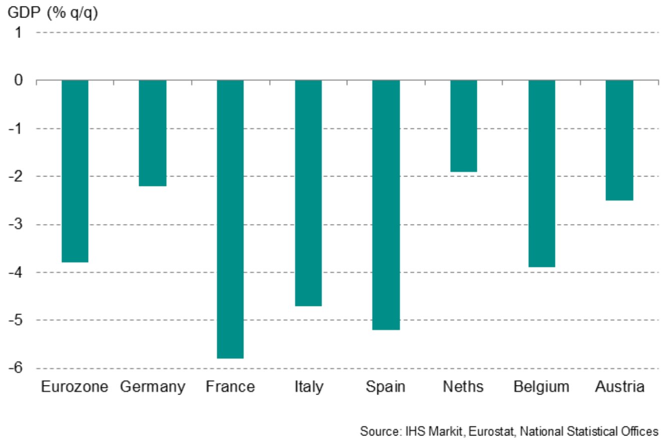


Chart 2: Initial estimates of declines in Q1 GDP

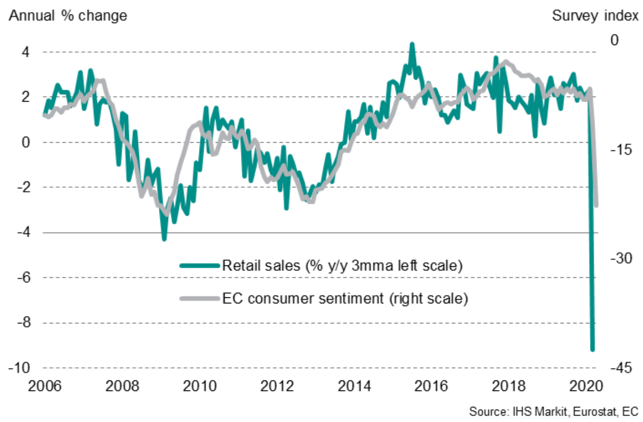


We see the risks still skewed on the downside, given the possibility of Q2 being even more extreme than we have forecast. March's recent "hard" activity data showed double digit month-on-month falls in industrial production, retail sales and construction output, with April set to be even worse given the relative duration of the lockdowns over the two months.

In the event of much larger declines in GDP in 2020 than we currently forecast, there should be a partial compensation in the form of a larger subsequent rebound as areas of activity decimated by the containment measures partly rebounds. We currently forecast eurozone annual growth in 2021 of 3.5%, with a return to 2019 levels of GDP not forecast until 2024.

While consumer sentiment has collapsed (Chart 3), expenditure has fallen ever further than signalled by the survey data, highlighting the impact of COVID-19 related restrictions. Additional damage to household incomes and sentiment due to contracting employment is an additional, more persistent, headwind to eurozone growth. Surveys of employment intentions have plunged across sectors, including in industry, potentially impacting on higher value added jobs (Chart 4).

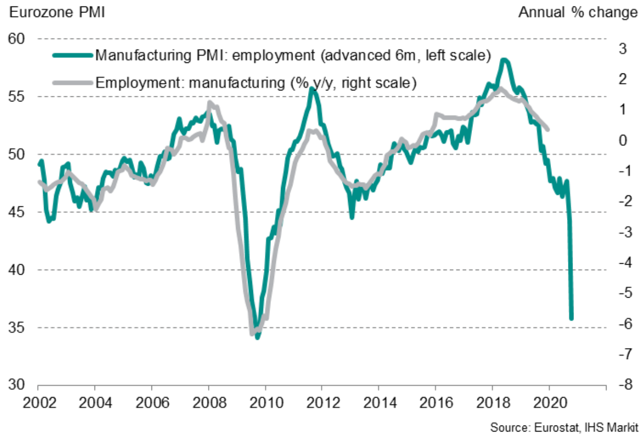
Chart 3: Eurozone consumer spending in freefall



Economic Preview: Week of 25 May 2020

Publication date: 22 May 2020

Chart 4: Eurozone industrial employment to contract markedly



Policy responses across the eurozone have of course been stepped up, including substantial increases in ECB asset purchases via the new Pandemic Emergency Purchase Programme (PEPP), along with large-scale fiscal stimulus in many member states. At inter-government level, the difficult negotiations over a collective response to the shock have been reminiscent of the multiple policy failures during the global financial crisis (GFC) and the subsequent eurozone crisis. Recent progress in the form of a Franco-German agreement on a recovery fund have been welcome but the details still need to be agreed by other member states, which could result in a watering down.

Monetary and fiscal stimulus will not prevent huge output losses near-term, though they can help to mitigate some of the second-round risks. Nonetheless, increases in debt burdens from already high levels threaten to weigh on longer-term growth prospects in many member states, along with challenging demographics and poor productivity performance.

Italy's vulnerabilities back in the spotlight

On the subject of which, Italy's economy was already in mild recession prior to the COVID-19 shock and the country has exhibited a long history of growth underperformance since joining the eurozone in 1999, reflecting multiple problems including persistent competitiveness losses (Chart 5) against its fellow member states of the eurozone. By Q4 2019, Italy was yet to even make up the GDP losses suffered during the Global Financial Crisis (Chart 6).

Given the extreme disruption to activity caused by relatively severe containment measures, plus its various other vulnerabilities, we forecast a much larger than eurozone average GDP contraction in Italy in 2020, running well into double digits (-11.3%). Again, our expectations are well below the current market consensus (-9.9%).

Given revenue losses due to the plunge in activity, plus the additional expenditure required to contain the virus and support vulnerable parts of the economy (and potentially support the banking sector), worries about public sector debt sustainability have understandably returned, with risk premia in sovereign markets having widened, in part due to re-emerging redenomination risk. The uncertain political outlook in Italy has the potential to exacerbate those concerns even after the acute phase of the COVID-19 shock has dissipated.

Chart 5 Eurozone-11 competitiveness indicators

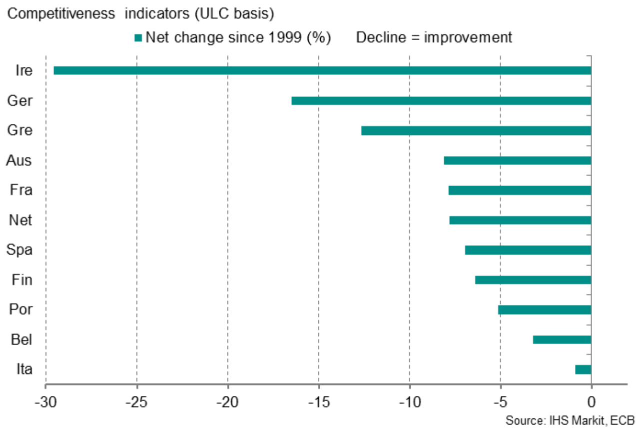
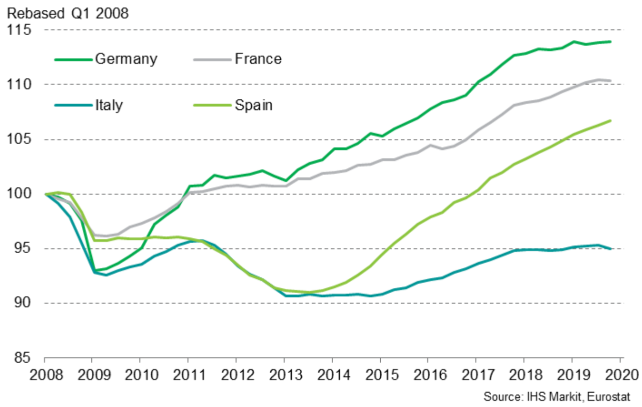


Chart 6: Eurozone-4 GDP relative to pre-Global Financial Crisis peaks



Additional ECB measures have helped to improve funding conditions and to limit the rise in yield spreads, but asset purchases are addressing the symptoms of Italy's frailties, not the underlying causes. Given economic, sovereign and banking sector vulnerabilities, the risk of an escalating crisis in Italy remains a significant concern, with potentially large spillover effects.

Germany outperforming but still hit hard

German's economy had already been flirting with recession during 2019 and the COVID-19 related lockdowns have hit domestic and external demand hard, as elsewhere. On the positive side, though, Germany has considerable fiscal space available which it is now utilising and domestic containment of COVID-19 has been comparatively successful.

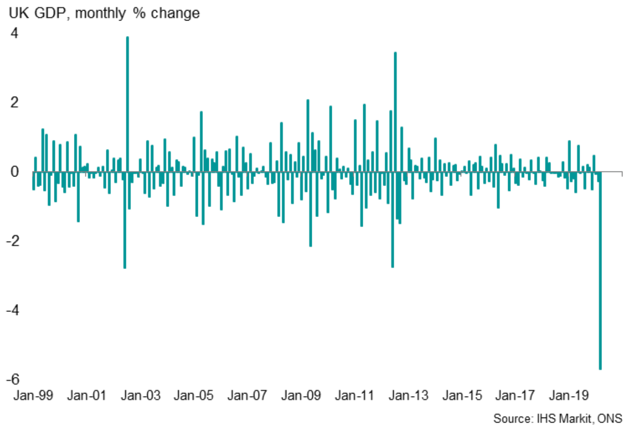
While we expect a very large drop in GDP in 2020 by historical standards, this is forecast to be somewhat smaller than in the other largest western European economies (-6.5%, marginally below consensus). Q1's q/q fall of 2.2% was large but well below its peers (Chart 2). While the near-term signals for global manufacturing production and trade look bleak, successful containment of the virus globally and a rebound in global trade would be highly significant given Germany's openness to trade.

Germany's labour market has also been resilient to industrial sector weakness previously, helped by effective automatic stabilisers (including the Kurzarbeit scheme, which allows for public subsidies to compensate for reductions in employee working hours). However, a key risk is that prolonged weakness in some sectors of the economy, including autos, spills over to employment, exacerbating the damage to private consumption and offsetting improving trade dynamics.

UK struggling to contain the crisis and economic spillovers

The UK economy had already been weighed down by uncertainty over Brexit-related developments during 2019 and, as elsewhere, extreme disruption caused by COVID-19 containment measures has pushed the UK economy into an exceptionally severe recession in spring 2020. GDP plunged at a record 5.8% m/m rate in Q1 2020 (Chart 7) and, with much worse to come in April, we forecast a double-digit decline in 2020 overall (-11.9%, well below the current consensus of -7.9%).

Chart 7: UK GDP plunged at a record pace in March 2020



While the UK economy is less open to trade, and so less vulnerable to global trade spillovers from the COVID-19 shock, private consumption and services are bearing the brunt of the disruption and they account for a relatively high share of GDP compared to most European economies. Household balance sheets are also vulnerable, given high debt, low savings and inflated house prices.

Moreover, the UK's higher level of COVID-19 cases and fatalities has led the government to announce a more elongated unwind of restrictions, with some areas of retail reopening only from the beginning of June and cafes, restaurants, etc, to follow from early July. The second quarter's GDP contraction looks like being far bigger than those in western European neighbours who have made changes earlier.

Significant monetary and fiscal easing is being implemented in the UK but again, this can mitigate some adverse effects but cannot prevent the severe recession now unfolding. The UK is also vulnerable to failure to progress negotiations with the EU. Beyond the COVID-19 fallout, an adverse trade shock due to a shift to trading on WTO terms after the end of the transition period in December 2020 remains an additional downside risk.

For more information contact economics@ihsmarkit.com.