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## UK: GDP HIT FROM NOVEMBER LOCKDOWN LESS BAD THAN IN SPRING

### Berenberg Macro View

#### Initial hit less bad than expected

UK real GDP contracted by 2.6% mom in November as the return of lockdowns to contain the spread of the SAR-CoV-2 virus curtailed economic activity. It follows a gain of 0.6% in October. Albeit from a much lower base - after only a partial recovery during the summer from the initial pandemic shock - the initial hit from the winter wave of the pandemic appears to be much less bad than expected. If economic output remained at the November level in December, real GDP would have increased by 0.3% qoq in Q4 - largely due to the big carry over from the rapid monthly gains through Q3. Although output probably declined modestly again through December under the weight of continued harsh restrictions from the second half of the month, today's estimate by the ONS suggests the economy held up much better in Q4 than our projection of a 3.5% qoq decline.

Looking at the headline numbers, two points are noteworthy:

- 1) The 2.6% mom drop compares favourably to the first lockdown when output slumped by 7.3% mom in March and by 18.9% in April. Despite the lockdowns, November output was 21.6% above the April level.
- 2) Real GDP in November remained 8.9% below its pre-pandemic January level - Chart 1. For perspective, real GDP contracted by 7.0% during the financial crisis - from February 2008 to March 2009.

#### Uneven performance across industries (Chart 2)

- Industrial production contracted by 0.1% mom in November after a 1.1% gain in October. Declines in mining and quarrying (3.5% mom), electricity, gas and steam (2.3%) and water supply (0.4%) offset a gain of 0.7% mom in manufacturing.
- Services output contracted by 3.4% mom after rising by 0.5% in October. All sub-components of the big and diverse services sector declined in November. Unsurprisingly, the three worst hit sub-sectors were accommodation and food services (-44.1% mom), arts and entertainment (-14.0%) and wholesale and retail trade (-5.6% mom).
- Construction output gained an impressive 1.9% mom in November after growing by 1.5% in October. By and large, the sector had made a full recovery by November - output was just 0.3% below the January level (Chart 2).

#### Less of a shock this time around

So far, the data suggest the ongoing winter lockdowns are not disrupting economic activity by as much the initial lockdowns during the first wave of the pandemic. Whether this continues through the winter in such uncertain times remains an open question, however. We need to watch out for a potentially large hit to real public sector output at the start of 2021 following the renewed closure of schools and the shift towards online learning. For now, however, major parts of industry and construction are operating mostly as normal and households have adjusted their



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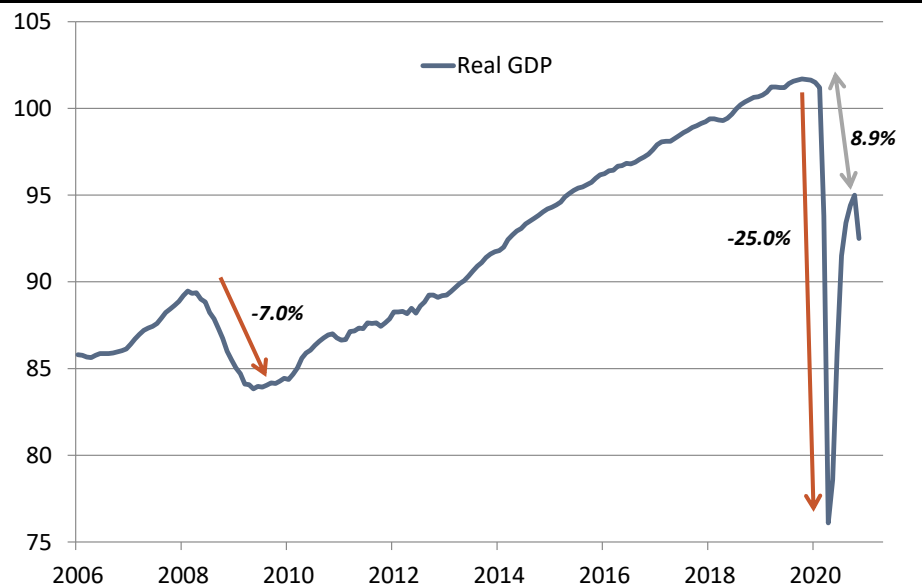
behaviour to the new restrictions by shifting retail spending to online and by purchasing more takeaway food services.

In addition, confidence plays a big part. Lockdowns and other such restrictions no longer come as a major shock. Incomes and credit are well supported by aggressive fiscal and monetary policies while the ongoing rollout of vaccines gives hope that the pandemic will soon be brought to an end.

After the relatively big hit to GDP during output during the first wave, we had projected that it would take longer for the UK to return to its pre-pandemic level (expected by Q4 2022) than the Eurozone (Q2 2022). Today's data casts some upside risk to this call.

For a detailed overview of the key UK issues for the year ahead see [‘UK macro themes: 10 cheat sheets for 2021’](#)

**Chart 1: UK monthly real GDP**

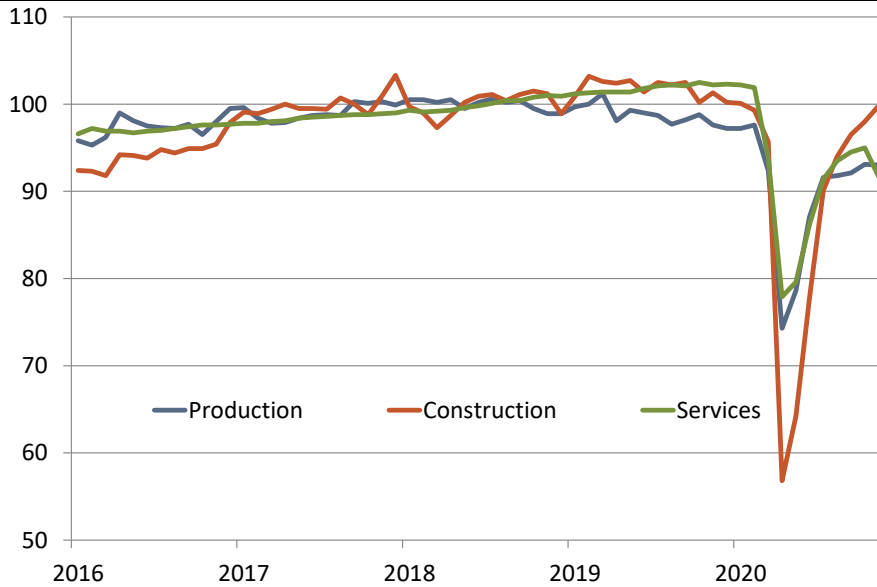


Monthly data. 2018 = 100. Source: ONS.



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**Chart 2: UK monthly real GDP by major sector**



Monthly data. 2018 = 100. Source: ONS.

**Table 1: Monthly real GDP by sector**

	May	Jun	Jul	Aug	Sep	Oct	Nov
<b>GDP</b>							
mom (%)	3.2	9.3	6.5	2.1	1.1	0.6	-2.6
3m/3m (%)	-18.3	-18.8	-5.6	8.9	16.0	10.5	4.1
<b>Services</b>							
mom (%)	2.2	8.3	6.0	2.2	1.1	0.5	-3.4
3m/3m (%)	-18.0	-18.2	-5.9	7.9	14.7	10.0	3.7
<b>Ind. production</b>							
mom (%)	5.9	10.8	5.1	0.2	0.4	1.1	-0.1
3m/3m (%)	-16.0	-16.4	-2.6	10.2	14.7	7.6	2.9
<b>Construction</b>							
mom (%)	13.0	21.2	15.9	4.3	2.6	1.5	1.9
3m/3m (%)	-27.7	-32.7	-7.8	20.9	41.2	24.3	12.4

Source: ONS.



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