



Kallum Pickering, Senior Economist | [Kallum.pickering@berenberg.com](mailto:Kallum.pickering@berenberg.com) | +44 203 465 2672

## UK GDP: REBOUND STARTED IN FEBRUARY, EU TRADE PICKS UP

### Berenberg Macro View

**Signs of an early Spring this year for the UK economy:** Monthly GDP data released today shows that a modest economic recovery started in February already. The ONS estimates that real GDP increased by 0.4% mom after declining by an upwardly revised -2.2% (from -2.9%) in January. As the whole of the UK remained under lockdown in February, with major parts of the economy such as non-essential retail, restaurants and bars, and entertainment still closed, the rebound probably reflects improving confidence underpinned by a rapid rollout of vaccines and a sustained drop in SARS-CoV-2 infections across the UK. Survey data such as the [PMIs](#), [RICS housing activity](#) and [GfK consumer confidence](#) point to further gains in March.

**Still far off potential:** Despite the positive news that a recovery appears to be underway, economic output remains very depressed and heavily propped up by a host of aggressive fiscal and monetary policy measures. Real GDP in February still fell 8.2% short of its pre-pandemic January 2020 level – Chart 1. For perspective, real GDP contracted by 7.0% during the financial crisis - from February 2008 to March 2009.

### Industry and construction improve, services moves sideways – Chart 2:

- Industrial production gained 1.0% mom in February after contracting by 1.8% January. A 2.1% mom decline in mining and quarrying was offset by gains in manufacturing (1.3%), electricity, gas and steam (0.5%) and water supply and waste management (1.4%).
- Services output remained largely flat on the month (+0.2%) after contracting by an upwardly revised 2.5% in January (from -3.5% previously). A 3.3% mom gain in wholesale and retail trade offset a modestly negative performance, on average, across other parts of services. After the big hit from the winter lockdowns, the sub-sectors hit worst by restrictions such as accommodation and food services (up 2.6%) and arts and entertainment (up 0.4% mom) stabilised.
- Construction output gained 1.6% mom in February following a flat January - (Chart 2).

**EU trade picks up:** While trade with the EU improved [after the horrific performance in January](#), total volumes remain well below their pre-pandemic levels – Chart 3. Goods exports to the EU gained 53.1% mom after falling by 45.4% after the UK left the EU single market in January while imports rose by 6.7% in February. However, exports remained 12.7% below their January 2020 level while imports remained 15.7% down. Although the monthly improvement suggests some of the initial teething problems related to the new border protocols may have eased, it seems unlikely that UK-EU trade volumes can make a full recovery back to the levels that existed when the UK was in the EU Single Market any time soon.

**Upside risks to Q1:** If real GDP remained stable at the February level in March, that would imply a 2.1% qoq fall in Q1 2021 – less bad than our already above-consensus call for a 2.5% contraction (consensus is -3.5%). Because economic output would be recovering from a higher base, a less-bad-than-expected Q1 would also imply less of a bounce in Q2 than we currently expect (+5.0%



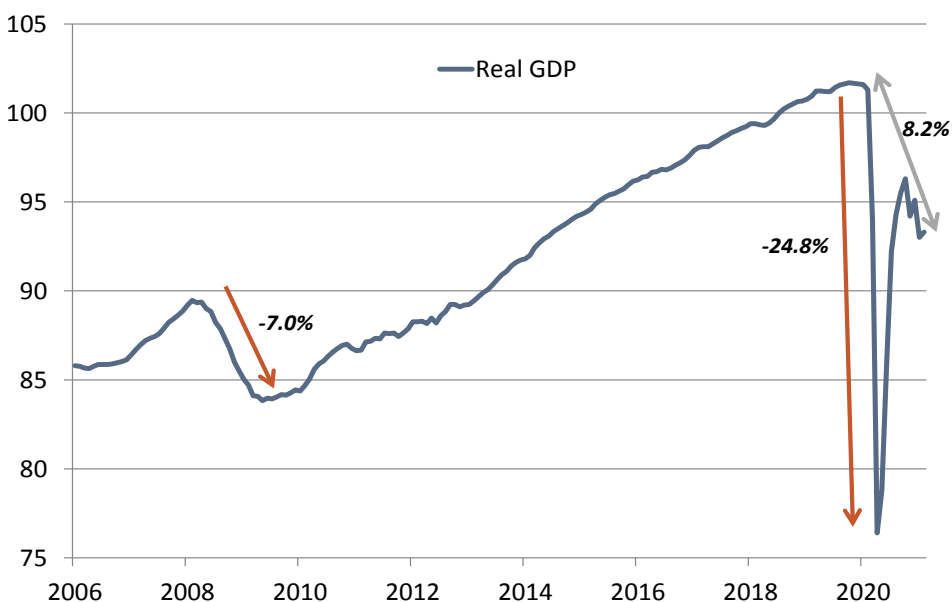
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qqq). While the upside surprise may affect the profile of near-term economic activity, it would imply only a modest upside risk to our 2021 annual call of a 6.2% gain. However, with a less lost ground to recoup, the UK may now make a full recovery slightly sooner than we currently expect (Q2-2022).

**Less of a shock the second time around:** The winter lockdown did not disrupt economic activity by as much the initial lockdowns during the first wave of the pandemic. Unlike in Spring 2020, major parts of industry and construction operated mostly as normal. Meanwhile, households adjusted their behaviour to the new restrictions by shifting retail spending online and by purchasing more takeaway food services. Confidence also plays a major role. Lockdowns and other such restrictions did not come as a major surprise the second time around.

**The economic wheel of fortune seems to be turning back in the UK's favour:** A successful vaccine rollout, aggressive policy support and a solid global backdrop set the stage for at least two years of rapid economic rebound from the massive pandemic shock of 2020. We project real GDP gains of 6.2% in 2021 and 5.6% in 2022. Thereafter, a strong global tailwind can help to offset the Brexit damage for a while and keep real GDP growth close to or even slightly above the post-Lehman average of 1.8%.

Chart 1: UK real GDP

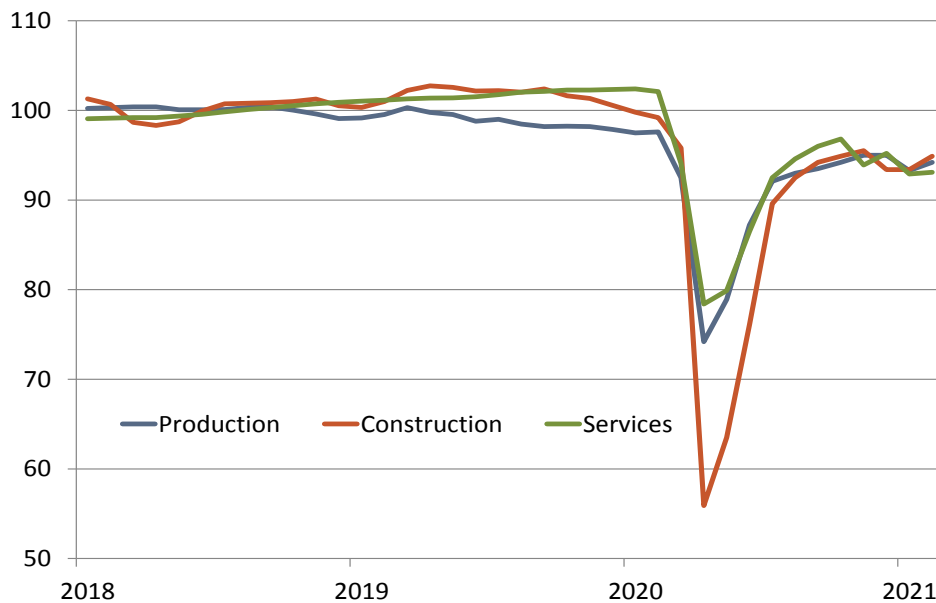


Note: Monthly data. 2018=100. Data up to 2020 data shows three-month moving average Source: ONS



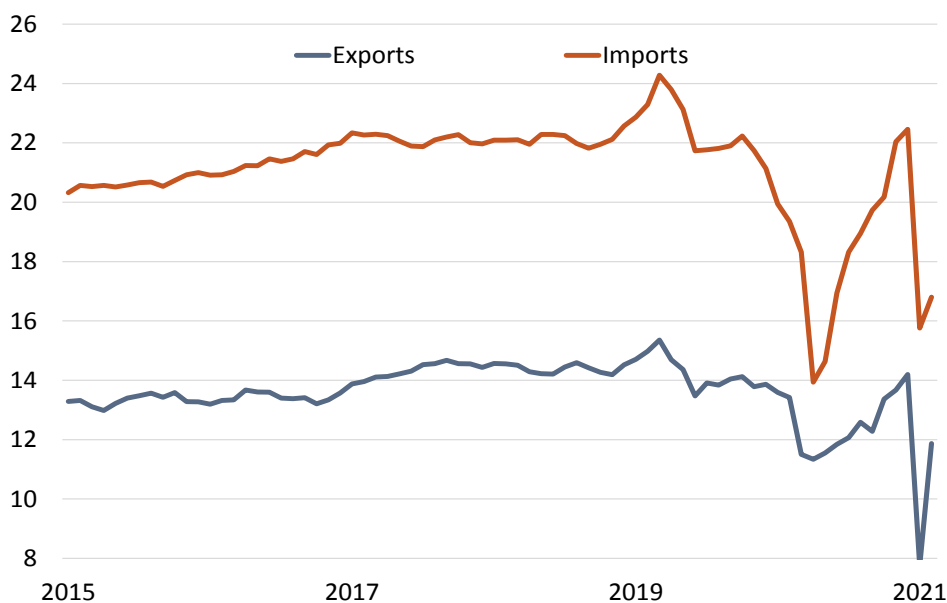
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**Chart 2: UK monthly real GDP by major sector**



Note: Monthly data. 2018=100. Data up to 2020 data shows three-month moving average Source: ONS

**Chart 3: Volume of goods trade with the EU (£ bn, 2018)**



Three month moving average up to January 2020. Source: ONS

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

	<i>Sep-20</i>	<i>Oct-20</i>	<i>Nov-20</i>	<i>Dec-20</i>	<i>Jan-21</i>	<i>Feb-21</i>
<b>GDP</b>						
<b>mom (%)</b>	1.3	0.9	-2.2	1.0	-2.2	<i>0.4</i>
<b>3m/3m (%)</b>	16.9	11.3	5.0	1.3	-1.4	<i>-1.6</i>
<b>Services</b>						
<b>mom (%)</b>	1.4	0.9	-3.0	1.4	-2.5	<i>0.2</i>
<b>3m/3m (%)</b>	15.6	11.0	4.8	1.0	-1.9	<i>-1.9</i>
<b>Ind. production</b>						
<b>mom (%)</b>	0.6	0.8	0.8	0.0	-1.8	<i>1.0</i>
<b>3m/3m (%)</b>	16.0	8.8	3.8	2.0	0.9	<i>-0.1</i>
<b>Construction</b>						
<b>mom (%)</b>	1.8	0.8	0.6	-2.2	0.0	<i>1.6</i>
<b>3m/3m (%)</b>	41.3	22.8	10.2	2.7	0.2	<i>-1.0</i>

Source: ONS

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Joh. Berenberg, Gossler & Co. KG  
60 Threadneedle Street  
London EC2R 8HP  
Phone +44 20 3207 7889  
[www.berenberg.com](http://www.berenberg.com)  
[holger.schmieding@berenberg.com](mailto:holger.schmieding@berenberg.com)