Alan Boswell Financial Planners

Market Update - July 2020

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UK GDP fell by 20.4% in April, not far off economists' expectations of 18.7% (according to a survey by Bloomberg), and much lower than the drop of 5.8% in March. In terms of level, this decline effectively erased 18 years of economic growth, bringing total GDP back to 2002 levels. The services sector fell 19% in the same month. Within services, distribution, hotels and restaurants fell the most, down 37.3%. Industrial and manufacturing production also tumbled in April, down 20.3% and 24.3% respectively.

These readings, albeit deeply negative, are backward-looking and have been largely expected - they confirmed the bleak economic backdrop as economic activities came to a sudden halt due to covid-19 lockdown measures since March 2020. For example, the Bank of England released its inflation report at its May policy meeting and warned that GDP could fall 25% in the second quarter, which translates to the worst recession since the "great frost" in 1709.

Looking ahead, it is likely that the month of April marks the trough for GDP as the UK starts to relax its lockdown measures. Manufacturing and construction will probably rebound first as they were called back to work since 13th of May. The recovery for services industries come later as the easing of some high street restrictions applied on 15th June and hospitality restrictions on 4th July.

Indeed, some data shows activities coming back to normal at a gradual pace. For example, the monthly Purchasing Managers Index, a proxy for economic growth, have rebounded in May for both the manufacturing and services sectors. They printed 40.7 and 29.0 compared to 32.6 and 13.4 in April, respectively. Although readings below 50 mean that purchasing managers are still in recession mindset, at least they generally feel better in May than April. Meanwhile, the Google Mobility Report, which tracks world traffic, shows that mobility in the UK has gradually picked up since middle of April.

As and when the UK fully lifts lockdown measures, the path to recovery could be further hastened by extremely supportive policies by both the UK Treasury and the Bank of England. The UK Treasury has already promised £350bn in support of the economy, whilst the Bank of England has reduced interest rates to almost zero, - a record low, which will boost interest rate sensitive sectors such as real estate.

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