Virus brings UK economy to its knees

Analysts fear severe recession after shutdowns

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A boarded up pub in central London is symbolic of the depression that has descended on the dominant services sector

The economy is collapsing under the strain of the coronavirus crisis with activity in the dominant services sector tumbling in March, according to a closely watched survey.

Economists are bracing themselves for a "recession of unprecedented scale and depth" as government shutdowns have brought large parts of the key services sector in Britain and Europe to a standstill.

IHS Markit's purchasing managers' index for the UK fell to 34.5 from 53.2 in March, even weaker than an initial flash estimate of 35.7 and the fastest decline since the survey began in 1996. Any reading below 50 signals contraction.

Sterling fell sharply yesterday after the PMI figures were published, dropping by 1.3 per cent against the dollar to $1.223 and 0.7 per cent against the euro to €1.134.

The "flash" estimate based on responses collated between March 12 and 20 was already a record low, yet the index deteriorated further with the 16 per cent of responses that came when the country was under lockdown pointing to a reading of 28.2.

Capital Economics, the consultancy, said that a 15 per cent drop in quarterly GDP in the second quarter was now likely. That would be the largest contraction on record, worse than in the financial crisis a decade ago or the Great Depression in the 1930s.

“Our base case is that the recession won’t be as protracted as either of those episodes, but evidence that unemployment is shooting up despite the government response raises the risk that the recovery takes longer than we expect,” Andrew Wishart,of Capital Economics, said.

Business activity plunged to record lows across Europe. Italy’s services PMI suffered a sharp drop from 52.1 to 17.4 in March. Economists said the figures suggested that the British index would fall further in April. In Spain, one of the countries in Europe most affected by coronavirus, the services index fell from 52.1 to 23. France recorded a fall from 52.5 to 27.4 and Germany from 52.5 to 31.7.

Claus Vistesen, at Pantheon Macroeconomics, said: “We are struggling for words to describe these numbers, which are so far out of any reasonable range that they are difficult to interpret.”

He said that eurozone GDP could shrink by 4 per cent in the first quarter and 10 per cent in the second, plunging the region into a deep recession.

Across the eurozone, the composite PMI index, which combines both the manufacturing and services sectors, fell from 51.6 to a record low of 29.7.

Falling demand, factory closures and disruption to supply chains are also weighing on manufacturing. In Britain, the composite PMI fell from 53 to 36 in March. The latest figures suggest that the UK economy will contract by about 1 per cent in the first quarter, but only because January and February will soften the blow.

March alone was consistent with quarterly GDP of -2.5 per cent.