

# UK growth is rebounding, but the big risk is the jobs market

We've revised up our UK growth forecasts as economic momentum returns. That's being driven by positive real wage growth and a less aggressive mortgage squeeze. But there are risks, not least from the jobs market which continues to cool



The UK economy, like these London marathon runners, is picking up speed

## The UK growth outlook is brighter

The UK's economic outlook is undoubtedly brighter than just a few months ago.

We're yet to get first-quarter growth figures at the time of writing, but judging by January and February's GDP data, it looks like we've seen a decent rebound in activity. Some of that is thanks to a surprising - perhaps too surprising - collapse in December retail sales, which fully recovered in January. However, the latest purchasing managers indices, which are now well above the breakeven 50 level, suggest some of this momentum is genuine.

Looking at fundamentals, that makes some sense. Like much of Europe, the UK is effectively enjoying a positive growth shock from lower natural gas prices. Headline inflation will be below the Bank of England's 2% target from May and is likely to stay there for most of this year, at a time

when nominal wage growth is up at 6% and coming down much more glacially. Retail sales are, accordingly, recording positive year-on-year growth for the first time in a while, albeit fractionally.

We also think the two-thirds of the mortgage squeeze is behind us. We judge that by looking at the average rate paid on outstanding housing debt, which has risen from 2% to roughly 3.5%. As more homeowners refinance off pandemic-era low rates, we estimate that that average will increase to 4%, but not until the end of 2025. Admittedly, the boost to savings income will also fall accordingly as we edge closer to Bank of England rate cuts, but this disproportionately affects higher earners who are less likely to change spending habits as a result.

## Growth is back into positive territory, but there are risks

We've revised up our growth forecasts accordingly, but we think there are three main uncertainties.

The first has to do with the data itself. We mentioned the volatility in the GDP numbers, but a quick glance at the PMIs suggests there is some 'residual seasonality' – that is, a seasonal pattern that's not being fully adjusted for by the adjustment algorithms. In both 2022 and 2023, we saw a similar winter rise followed by a drop over summer, which could be a legacy of lockdown timing. Other surveys have improved less noticeably than the PMIs.

Secondly, there's the level of savings. Judging by the national accounts, the savings ratio has risen sequentially recently. But if we look at savings in actual bank accounts and adjust for inflation, they are barely above pre-pandemic levels. It's an open question as to how far savings can boost growth this year, but we're a bit cautious.

Finally, there's the jobs market. The vacancy-to-unemployment ratio is back to pre-Covid levels, but redundancy levels have been contained so far. We'd expect a further gradual cooling of the jobs market, but there's a clear risk that we're seeing the early signs of past rate hikes translating into a more noticeable hit to jobs.

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