

Surprise UK growth rebound means technical recession could be avoided

The UK economy grew faster than expected in January, though underlying volatility in the data means that GDP is effectively flatlining. Lower gas prices mean that any recession is likely to be very modest now – and may technically be avoided altogether



Source: Shutterstock

The economy grew by 0.3% in January

UK growth was stronger than expected in January, according to the latest monthly GDP numbers, though frankly these numbers are all over the place right now. Having fallen by 0.5% in December, economic output only partly recovered by 0.3% in January. And the vast majority of this volatility can be explained by a blip in education output, entertainment (the number of football matches in December fell due to the World Cup) and various strikes.

None of this tells us much about the underlying trend of the economy, and that means it's probably safer to look at the three-month moving averages, which show that output is essentially flatlining right now. That said there are a couple of notable weak points. Construction fell by 1.7%, and while one month doesn't make a trend, this is an obvious area of weakness this year as the housing market stalls. Manufacturing was weak too.

Overall though, today's figures raise the chances that UK growth could come in flat or only slightly negative in the first quarter overall. That means there's a growing possibility that the UK avoids a technical recession altogether – although it's a fairly moot point, given that even if it does happen, the depth of a recession would probably only be in the order of a few tenths of a percentage point.

Prospect of lower energy bills to minimise growth hit

That is helped by the fact that energy prices are so much lower. Reports suggest Chancellor Jeremy Hunt will, as has been widely anticipated for some time, scrap the planned increase in household bills previously announced for April. That still entails the removal of a fixed £67/month discount per household, though we assume the Chancellor will maintain plans to give new fixed payments to lower-income/vulnerable households. By the summer, the average annualised household energy bill is likely to have fallen to roughly £2,100 from £2,500 now, owing to lower wholesale prices.

What do today's figures mean for the Bank of England? In practice not much, with the Committee instead squarely focused on measures of “inflation persistence”. The next big test will be whether the wage growth data due on Tuesday next week show any clear signs of having peaked. We expect a 25bp hike at the forthcoming March meeting.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

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