UK economy avoids technical recession - for now

A poor December GDP figure makes a first-quarter contraction in output look fairly inevitable. But these figures are undoubtedly noisy, and that means the Bank of England will be much more focused on wage and price data due next week

Source: Shutterstock

Recession dodged - just about

The UK economy flatlined in the fourth quarter, though in truth it's a quarter where the underlying picture was particularly noisy.

Indeed, December's 0.5% contraction in monthly GDP, which was worse than expected, can be largely blamed on either strikes (visible most clearly in transport and health, both of which shrank by close to 3% on the month) or, more bizarrely, a lack of Premier League football games in December due to the World Cup. That was enough to drive the recreation/entertainment category down almost 8%, though admittedly this is a volatile series.

In short, following a couple of months of distortion surrounding the Queen's funeral last September, it's hard to discern the true underlying trend in the economy from this data. The reality is probably a very gradual deterioration in activity levels.

The fact that the fourth quarter's weakness was heavily concentrated in December means the starting point for the first quarter is pretty low, and means we'll almost certainly get a contraction in the first quarter – even if activity effectively stagnates. Following this data, we're pencilling in a 0.3-0.4% decline in GDP over that period, and this will probably be followed by a very modest hit in the second quarter too.

Recession is still narrowly the base case for the first half of this year

That suggests recession, or at least a technical one, remains the base case, especially if we include the contraction in the third quarter of last year. But this looks like it is going to be very mild by historical standards, helped of course by the collapse in wholesale gas prices. We think the UK government will most likely scrap the planned increase in household energy prices in April, and current wholesale gas/electricity costs suggest the average annual bill will have fallen by 15-20% by the summer from current levels. That should help the economy avoid a deeper output hit through the spring/summer.

What does all of this mean for the Bank of England? Honestly, probably not a great deal. The noisy picture presented by the GDP figures just means that policymakers will put more emphasis on the wage and price data we'll get next week. Read more on what we think officials are looking for here.

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