

UK economy springs back into life

The UK economy is faring much better so far in 2024 after a technical recession last year



The UK economy grew more than expected in May, up 0.4% across the month. This is the latest in a line of much better growth figures since the start of the year. Indeed, the economy has grown by 1.5% cumulatively since December, a remarkable outcome having been in a modest technical recession through the second half of last year.

It's always tempting to put some of this down to volatility in the data, and we're highly reticent to say much on the basis of one or two month's figures. But the unavoidable conclusion after five month's data is that the economy is faring much better so far in 2024. Decent real wage growth is undoubtedly playing a role and consumer-facing services saw output grow by 0.7% in May, although these figures have been highly volatile this year.

The result is that overall second-quarter GDP is on track to rise by 0.5-0.6 after 0.7% growth in the first quarter. We're sceptical that these sort of growth figures can be sustained into the second half of the year, but we expect growth to remain reasonable nevertheless. One important factor is that the impact of past rate hikes has largely taken its course now; we estimate that 80% of the mortgage squeeze is behind us.

Does this change the story for the Bank of England? Probably not. Policymakers are still almost exclusively focused on services inflation, and it's the one remaining release of this data that will

determine whether the Bank can cut rates in August. BoE Chief Economist Huw Pill, perhaps unsurprisingly, refused to be drawn on what he thought in comments made yesterday. But barring any big surprises in those inflation numbers, we think the Bank's preference will be to start cutting rates and we expect three cuts in total this year.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.