

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.

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