

UK economy starts to rebound as outlook brightens

The UK economy grew for the second consecutive month in February, and we think this heralds a gradual improvement in the growth outlook for the remainder of this year



Strong manufacturing performance boosted UK monthly GDP

The UK's monthly GDP numbers have been on a wild ride over the past few months. But fresh data shows that the economy grew by 0.1% in February as widely expected. And that followed a decent rebound in activity in January after December was dragged down by a strangely weak Christmas trading period for retailers.

Assuming we get another slight pick up in activity during March, we think the UK economy is poised to grow by 0.3% for the first quarter as a whole. That would mark the end of a very modest technical recession, albeit one where the aggregate figures masked steeper falls in per capita output.

We shouldn't read too much into any given month's worth of data and it's worth remembering that the fourth quarter decline in overall GDP was partly down to volatility in this data. October's manufacturing data, for example, was unusually weak and weighed on overall quarterly activity, but has since been followed by a strong bounce back which includes a 1.2% increase in February

alone.

0.1% February GDP growth
MoM%

As expected

The growth outlook is looking better

Nevertheless, we think the outlook for the UK economy is undoubtedly improving. For one thing, the service sector PMIs, which represent the lion's share of UK activity, have been above the breakeven 50 level for five months now. Real wage growth is consistently positive, with headline inflation set to dip below 2% in the second quarter at a time where nominal wage growth will likely stay well north of 4%. That positive real wage growth is set to persist through the remainder of this year.

Admittedly, the impact of past rate hikes is still feeding through to the economy, though we think the majority of the mortgage squeeze is now behind us. By the summer, we think 80% of the passthrough of higher Bank Rate to mortgage holders will have happened, based on our forecasts for the average interest rates being paid by UK households.

The bottom line is that we're likely to see growth rates remain positive throughout 2024 and potentially gain momentum into the second half of this year. We shouldn't expect fireworks though, and we don't think the growth outlook is going to have much bearing on the timing of the first Bank of England rate cut. That'll be determined primarily by services inflation and wage growth, and with the potential for a bit of stickiness in the former in the near term, we're still narrowly favouring an August rate cut over June.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

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