

## UK GDP only fractionally lower due to Omicron

Another surge in health spending helped offset Omicron-related weakness in consumer services, to deliver only a modest hit to December's monthly GDP. The bigger economic challenge is now the cost of living crunch, which looks set to deliver steadier growth readings later this year



Source: Shutterstock

On the face of it, December's GDP data doesn't look bad at all given everything going on with Omicron. We saw only a very modest 0.2% fall in activity compared to November, and that means the size of the economy was still roughly at its pre-virus level.

That benign story does, admittedly, mask some pretty big shifts beneath the surface. Activity fell sharply everywhere you'd expect, including a 9% fall in hospitality output and a 4% slide in entertainment & recreation, all presumably down to increased caution before Christmas. But this was offset by another sizable increase in health output, owing to the ramping up of vaccines and testing before the end of the year. And in fact, if health spending had hypothetically remained unchanged through the pandemic, GDP would be some 1.3% lower than it is now.

It goes without saying that all of this is pretty ‘old news’ now. Virtually all of the more recent indicators we’ve been watching have staged a turnaround since the start of the year. Social spending has returned to comparable levels to the same time in January 2020. The percentage of people saying they have visited an indoor pub/restaurant recently has returned to levels seen through the autumn. And the latest ONS business survey has shown a marked drop in staff absences due to Omicron. January’s GDP may stage a further modest decline, but any losses are likely to have been mostly returned through February.

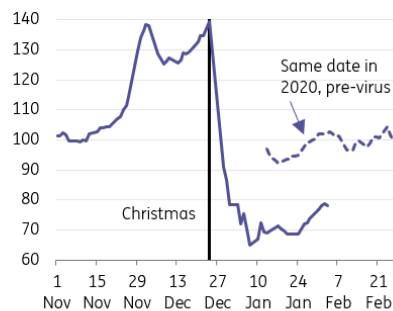
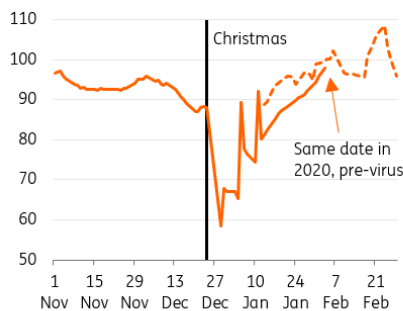
## UK social spending is close to Jan 2020 levels

Credit/debit card spending (100 = Feb 2020 average)

Note: data not seasonally adjusted

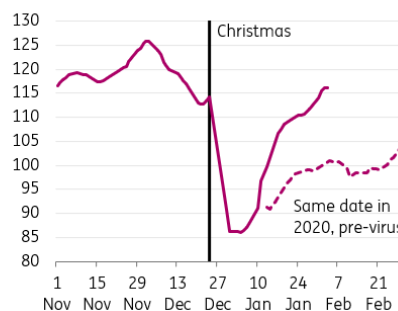
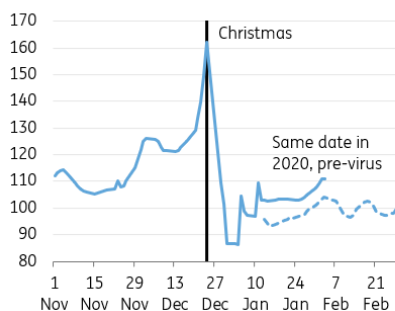
Social (incl. hospitality, hotels, air travel)

Delayable (incl. vehicles, furniture, clothing etc)



Staple (incl. food/drink & utilities)

Work related (incl. fuel/transport costs)



Source: Macrobond, ING

The bigger challenge now facing the economy is the cost of living crisis. Disposable incomes are set to decline noticeably this year on a combination of tighter fiscal policy and to a greater extent, higher inflation. Consumers have accumulated plenty of ‘excess savings’ during the pandemic – now totalling roughly 8% of GDP – and that will help to offset some of the income shock. However, it is worth remembering that this savings buffer is more heavily concentrated in higher-income earners, who are less likely to cut back their spending dramatically in response to the rising cost of living. Economic growth rates are likely to slow later this year.

Importantly though the Bank of England has already factored a lot of this into its forecasts. If anything policymakers may need to revise up their near-term growth projections due to the milder Omicron impact. That suggests that the Bank is on track to hike at the next two meetings. But a slower growth outlook is one of the reasons why we suspect policymakers will deliver less tightening than markets currently expect over coming months

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto: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 <http://www.ing.com>.