# UK growth numbers disappoint in July

The absence of a post-bank holiday rebound means July's GDP grew by only 0.2%, and we should expect further volatility over the next few months. But big picture, the announcement of an energy price guarantee should materially reduce the depth of a downturn this winter, even if it doesn't totally rule out the risk of a technical recession

UK growth should be volatile in the months ahead

## July's GDP figures are disappointing

The UK economy expanded by 0.2% in July, which was less than might have been expected. June had featured an extra bank holiday in recognition of the Queen's Jubilee, and that had triggered an artificial drop in activity in some key sectors – albeit less pronounced than during the equivalent holidays in 2002 and 2012. However, July's figures are largely absent of the mechanical rebound one might have expected, not least because that's what we saw after those previous jubilee holidays. For instance, manufacturing output grew only 0.1% in July, having fallen by 1.6% in June. It was a similar story in wholesale/retail and construction.

We're reluctant to pin any particular economic narrative to that, and instead, we think we'll need to take this and indeed the next few months' figures with a slight pinch of salt. The extra bank holiday this month, which coincides with Queen Elizabeth II's funeral on Monday, means we're likely to see similar volatility in the data during September and October.

That means we'll most likely need to wait until later in the fourth quarter to get a clearer sense of where the economy is headed, at least looking through the lens of the GDP numbers. For now, it looks like third-quarter growth will be largely flat, and the fourth quarter slightly negative.

## Government energy price guarantee should reduce the depth of a downturn

Bigger picture, the announcement of an energy price cap by the government last week should make a material difference to the outlook this winter. The average household will see their energy costs capped at £2500 for the next two years, which when you factor in some existing support, should mean bills stay roughly the same as they are now for the time being. Businesses will also receive similar support for an initial six-month period.

While we'd caution about automatically assuming this means the economy avoids a technical recession, it should help limit the depth of any downturn over winter to a few tenths of a percent. We're also hopeful that the announcement of business support can help insure against a material rise in unemployment. Hiring demand has been slowing, and the clear risk was that the sharp rise in energy bills would see redundancies (which are currently at their lows) begin to rise. Incidentally, with the GDP figures looking volatile, we suspect the Bank of England will put slightly more emphasis on other data, including tomorrow's jobs figures.

We expect a 50bp rate hike when the Bank meets next week, and we're pencilling another such move in November.

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