

## 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.

### 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 [www.ing.com](http://www.ing.com).