

## UK growth slows as falling health spending counterbalances Omicron bounce

The winding down of the UK's booster vaccine and Covid-19 test campaigns weighed on growth in February and will continue to do so for the next few months. Combined with the cost of living crisis, falling confidence, and the presence of an extra bank holiday, we expect second-quarter growth to come in slightly negative



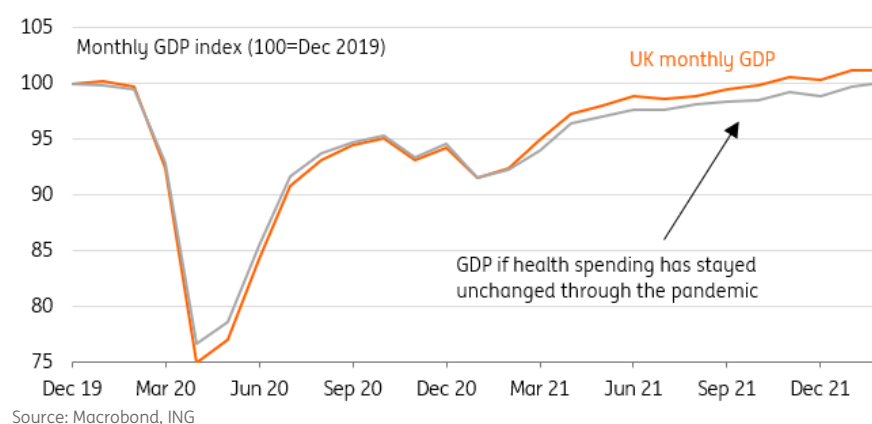
Shoppers in London

The pretty unexciting 0.1% UK growth figure recorded in February masked two large, offsetting underlying shifts in the data. Firstly – and not that surprisingly – consumer services recorded a strong bounce in what was really the first month of 'business as usual' again after Omicron. The bulk of Covid-19 restrictions (including work from home guidelines) had stopped, and card spending at social venues returned to comparable pre-virus levels. Both hospitality and arts/entertainment/recreation bounced by almost 9% compared to January – led by tourism-facing industries, according to the ONS.

Acting in the opposite direction was health spending, which fell by close to 5%. This category has

been driven almost solely by fluctuations in Covid testing levels and vaccine activity over the past year or so. Indeed even including the latest fall, monthly GDP is still over 1% higher than it would have been had health spending hypothetically stayed flat through the pandemic.

## If health spending hadn't risen through the pandemic, monthly GDP would be over 1% lower



And it's health that's likely to be the number one driver of these GDP figures over the next couple of months. That's especially true for April's figures, given that the NHS stopped free mass testing for the general public at the end of March. In other words, expect a negative GDP figure for April.

At the same time, the cost of living crisis is likely to begin to show through in some of the consumer spending categories – most notably, we suspect, in retail sales. Consumer confidence has fallen considerably in recent months. The second quarter also has an extra bank holiday, which will artificially depress quarterly GDP to some degree.

Putting that together, we expect first-quarter GDP to come in at roughly 1% before turning negative in the second quarter. We expect a small contraction of -0.2/-0.3%, though for now, the jury's out on whether that evolves into a technical recession (requiring a subsequent fall in GDP in the third quarter).

With the growth backdrop deteriorating, we expect the Bank of England to pause its tightening cycle by the summer following one or two more 25bp rate rises. Policymakers subtly began to lay the groundwork for this at the March meeting, where the overall tone was more cautious and the decision to raise rates was not unanimous.

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