UK growth surges in February despite tariff uncertainty

February's surprisingly upbeat GDP data is a reminder that despite all the tariff gloom, activity should remain supported in the near term by government spending and real-wage growth

Some good economic news at last: February's GDP rise was bigger than forecast

Finally, some good news to end the week: the UK economy grew substantially faster than expected in February. Monthly GDP was 0.5% higher than in January.

Admittedly, when you look into the details, it's a bit of a head-scratcher. Manufacturing accounted for about half of the overall growth, rising by 2.2% across the month. But that's massively at odds with the purchasing managers indices (PMIs), which have been consistently downbeat.

Is this surprise bounce related to frontloading tariffs? It seems unlikely, given the UK has a relatively low exposure to US goods demand, beyond a couple of key sectors (cars and pharmaceuticals).

Instead, it's a reminder that the monthly GDP figures are often more noise than signal. We saw something similar this time last year, where just two months drove the bulk of the overall growth in 2024, which doesn't feel particularly realistic.

If we're to take anything away from these latest figures, though, it's that there's probably a bit too much gloom surrounding the near-term outlook. Yes, tariffs are a headwind, but less so because of the direct impact they'll have on UK producers and more as a byproduct of what happens to the US economic outlook overall.

Lower demand in the US will, in time, wash up on UK shores. But in the meantime, remember that the UK government is dramatically increasing spending this year, both via day-to-day and capital budgets. For all the talk of spending cuts, departmental spending is increasing by 4% in real terms over the next fiscal year. Given that a lot of that will translate into wages, it will give the economy some underpinning.

Speaking of wages, bear in mind that pay is still rising in real terms. Nominal wage growth is at 6% and inflation is at 3%, even if that's likely to inch closer to 4% as the year goes on. The near-7% rise in the National Living Wage will keep some pressure on overall pay growth, even if the jobs market as a whole has been cooling. In theory, that all helps explain why the retail sector has performed well so far this year (though the same was true when retail was consistently falling in the latter parts of 2024...)

Ultimately, it's the jobs market which is the main uncertainty over the next few months. The major tax hike on employers that kicked in a few days ago has prompted a noticeable fall in hiring intentions, according to various surveys. But so far, there hasn't been any discernible rise in the weekly redundancy notification data we get from the government. Our working assumption is, therefore, that this tax rise will add further pressure on the job market but won't cause an abrupt rise in unemployment. If we're wrong, then that would be a key catalyst to materially revise down our growth forecasts for this year.

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