UK monthly growth slips as cost of living squeeze builds

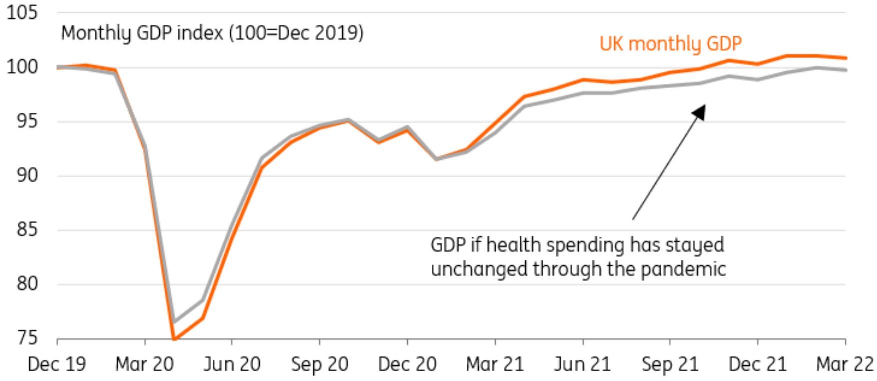
While the UK economy grew by a little under 1% through the first quarter, much of this was frontloaded in January and activity has begun to stagnate as the cost of living squeeze builds. A widely expected fall in health output is likely to deliver a negative second-quarter growth reading

Source: Shutterstock

The UK's relatively short-lived economic impact from Omicron meant that the economy ended up growing by 0.8% through the first quarter. But perhaps more interestingly, almost all of the growth came in January and since then, things have stagnated. Output slipped by 0.1% during March, which was overwhelmingly driven by that disappointing retail sales figure from a couple of weeks ago.

We should expect a second consecutive decline in April, which will coincide with the ending of free Covid-19 testing. Surprisingly, health output actually increased in March despite the ongoing wind-down of Covid-related activities, but clearly, that's unlikely to last. Health spending has been a key driver of GDP through the pandemic, and in fact, the overall size of the economy would be around 1% smaller had output in this sector stayed flat since early-2020.

UK GDP would be lower if health output hadn't increased due to Covid testing/vaccines



Source: Macrobond, ING

Throw in the distortion of the extra bank holiday scheduled for June, as well as the ongoing impact of the consumer spending squeeze, and we're likely to see a modestly negative GDP figure for the second quarter as a whole. An artificial bounce in activity when the bank holiday effect reverses might mean the economy narrowly avoids a technical recession – two quarters of successive negative growth. But as the Bank of England's forecasts hinted last week, the growth outlook for this year looks far from encouraging.

With four rate hikes under its belt, the BoE has become more cautious in recent weeks and it's pretty clear that it doesn't expect to fulfil market rate hike expectations. Investors expect another five hikes by next spring. More likely we think, the Bank will hike a couple more times before pressing the pause button.

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