Weak UK growth makes a May rate hike a very tough sell

A surprisingly weak first quarter growth figure could well be the final nail in the coffin for a May rate rise

We don't believe a strong first half of the year is likely to change the course of Bank of England rate cuts in 2024

0.1% UK 1Q growth

(QoQ%)

Worse than expected

UK first-quarter growth was always going to be bad – but at just 0.1% QoQ, this is much worse than expected and is the weakest quarter since 2012.

It's tempting to put a lot of this down to the snowy weather. The series of cold snaps forced many shops to shut, in some cases for days on end, whilst the economy overall will have suffered from lower production and temporary staff shortages.

But interestingly enough, the ONS said that the snow impact was "limited". As always, given that over half of the first growth estimate is modelled, it is entirely possible that we see some revisions. And we'd also note that construction accounted for much of the negative surprise. For a sector that only makes up 6% of the GDP mix, a -0.2% contribution to overall growth is quite unusual.

But we also suspect that consumer caution played a big part. Evidence from the consumer sector suggests that it was one of the worst quarters for retailers since the crisis. It's also worth remembering that industrial production, which grew by 0.7% in the first quarter, will have been flattered by the recovery in oil output following the pipeline outage back in December. Without that, the economy may not have grown at all.

The upshot for the Bank of England is that a May rate hike would be a tough sell. Admittedly, we think the market reaction to this data has been a little extreme (first hike now priced in for December). After all, the Bank has been clear it wants to tighten policy to help combat the possible threat of higher wage growth. We'll also get the full raft of PMIs next week, which assuming the services index largely rebounds after the March distortions, might provide some reassurance.

It now looks more likely than not that the Bank will opt to wait until August to buy more time to see how things evolve. But policymakers will also be acutely aware that this might be one of the best opportunities they get to raise rates this year.

Brexit has the potential to get quite noisy as we head into the autumn, and the latest growth data sends a clear signal that the economy is not out of the woods just yet. With core inflation also set to fall back to target in the next two-three months, we still think it's pretty unlikely that the Bank will hike more than once this year.

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