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News in Review

15 March 2023

"Confidence is returning"

UK gross domestic product (GDP) grew by 0.3% in January, according to the latest official figures released by the Office for National Statistics (ONS) on Friday.

Higher school attendance and the return of Premier League football helped growth return after a 0.5% contraction in December, though quarterly figures show that the economy stagnated between November and January compared with the previous three months.

The 0.3% growth exceeded City forecasts of 0.1%, which led KPMG to upgrade its outlook for the year ahead. The figures boosted hopes that the UK might avoid the shallow recession the Bank of England is forecasting.

Darren Morgan, Director of Economic Statistics at ONS, said the main factors behind the growth were *"the return of children to classrooms, following unusually high absences in the run-up to Christmas, … Premier League clubs returned to a full schedule after the end of the World Cup and private health providers also had a strong month"*.

Ahead of the Budget, the boost provides good news for Prime Minister Rishi Sunak. Commenting on the GDP data, he said, *"If you look at some of the things that have been coming out in the last month, they're all showing encouraging signs that things are better than people had feared, that sentiment is improving, confidence is returning. The underlying fundamentals of the economy are strong."*

Labour market latest

The latest labour market overview, released on Tuesday by ONS, revealed that job vacancies have fallen for the eighth time in a row, though there are still 328,000 more vacancies compared with Q1 2020.

The rate of economic inactivity likewise dipped in the three months from November 2022 to January 2023 to 21.3%, while the unemployment rate remained largely unchanged at 3.7%. The data also point to stalling pay growth, with the average weekly salary, excluding bonuses, £589 in January, up by £1 month-on-month.

Darren Morgan commented *"The number of people neither working nor looking for a job fell overall, driven by a drop in young people. However, a record number of people were completely outside the labour market due to long-term sickness. Although the inflation rate has come down a little, it's still outstripping earnings growth, meaning real pay continues to fall."*

Budget build-up

On 15 March, Chancellor Jeremy Hunt will deliver his first Budget, outlining the government's plans for tax and spending for the coming year.

In response to newly released jobs data, Mr Hunt reiterated the importance of tackling inflation. He said, *"Tomorrow at the Budget, I will set out how we will go further to bear down on inflation, reduce debt and grow the economy, including by helping more people back into work."*

Several policies that will come into effect from April have already been announced, including the new £900 cost-of-living payment for the poorest households and the uprating of benefits and pensions in line with inflation. The Treasury has also confirmed that energy costs for those with prepayment meters will be brought in line with customers who pay by direct debit.

As a plan to keep people in work for longer, or encourage them to return to work, the Chancellor is expected to increase the pension Lifetime Allowance. The £40,000 Annual Allowance could also be increased.

Alongside the Chancellor's speech, the Office for Budget Responsibility (OBR), will release a forecast.

SVB collapse shakes markets

Bank shares in Asia and Europe slumped on Monday after the collapse of the US-based Silicon Valley Bank (SVB), the largest failure of a US bank since 2008. Despite reassurances from Joe Biden that America's financial system is safe, investors were concerned that other lenders could still be hit by the fallout.

After the UK arm of SVB was put into insolvency on Sunday evening, UK tech firms warned they could go bust without help. On Monday, HSBC bought the UK subsidiary following talks led by the government and Bank of England.

Here to help

Financial advice is key, so please do not hesitate to get in contact with any questions or concerns you may have.