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News in Review

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"The Chancellor must use his Budget... to set out a clear pathway for firms and the economy to grow"

Data released last week from the Office for National Statistics (ONS) showed that UK gross domestic product (GDP) shrank by 0.3% in Q4 2023. Following a 0.1% contraction in Q3, the data shows that the UK slipped into a technical recession in the second half of 2023, measured by two consecutive quarters of GDP contraction. The fall in GDP in Q4 is steeper than expected, with economists widely predicting a milder 0.1% contraction.

The data showed a decline in all main sectors of the economy and a reduction in retail sales in the Christmas run-up, as consumers chose to cut back on spending, with increased living and borrowing costs weighing on personal finances. Widespread strikes held back productivity as public and private sector workers across various industries took action. Adverse weather conditions (heavy rainfall and strong winds) in the final three months of the year also negatively impacted economic output.

Liz McKeown, Director of Economic Statistics at ONS commented on the data, *"Our initial estimate shows the UK economy contracted in the fourth quarter of 2023. While it has now shrunk for two consecutive quarters, across 2023 as a whole the economy has been broadly flat."* She continued, *"All the main sectors fell on the quarter, with manufacturing, construction and wholesale being the biggest drags on growth, partially offset by increases in hotels and rentals of vehicles and machinery."*

The recessionary news came as a blow to the government. The Prime Minister defaulted on his pledge to kickstart economic growth, with the data showing GDP growth of just 0.1% during last year, the slowest annual growth recorded since 2009, outside the pandemic.

Responding to the ONS data, Director of Policy and Insight at the British Chambers of Commerce (BCC), Alex Veitch said, *"The Chancellor must use his Budget in just under three weeks' time to set out a clear pathway for firms and the economy to grow. Businesses are crying out for a long-term economic plan that reduces the cost pressures they are facing and unlocks the investment they so sorely need."*

Inflation holds steady

The latest Consumer Prices Index (CPI) inflation data was released last week and remained steady, rising by 4% in the 12 months to January 2024, matching the December rate. Despite Bank of England (BoE) expectations of a 4.1% increase, and still double its 2% target, there are predictions that CPI inflation will resume its downward trend next month and return to the 2% target in the following few months, according to the BoE.

The largest upward contributors to the monthly change in CPI were derived from housing and household services, primarily higher electricity and gas charges, while the largest downward contributors were from food and non-alcoholic beverages, and furniture and household goods.

When questioned about whether inflation remaining consistent in January was positive news, BoE Governor Andrew Bailey commented, *"Yes, to be honest we slightly overshot last month and undershot this month so it pretty much leaves us where we were,"* adding that he didn't think the figure *"broadly changes the picture"* on interest rates.

The next ONS inflation release date is due on 20 March, just one day before the conclusion of the Monetary Policy Committee meeting, when the next Bank Rate announcement will be made.

Retail rebounds in January

UK retail sales rebounded last month, rising by 3.4% following a record fall of 3.3% in December. The highest monthly rise since April 2021, this uptick *'returned volumes to November 2023 levels,'* according to ONS. Shoppers keen to enjoy new year offers flooded to supermarkets and department stores at the start of the year, in some positive news for the sector. Recovering from a record fall of 3.1% in December, food store sales volumes increased by 3.4% in January, while volumes in department stores increased by 5.4%.

Here to help

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