The big news last week was the UK narrowly avoiding a recession towards the end of 2022. But that’s not enough reason to celebrate. Businesses remain pessimistic, consumer confidence is at record lows, and policy is at its tightest in recent times. Even with energy prices set to retreat more quickly than previously, the squeeze is still being keenly felt. For now, most indicators suggests that conditions are going to get more difficult before the improvement comes.

To cry or not to cry? One cannot help but wonder when looking at the latest GDP print. Did we avoid a recession? Yes. Is GDP back to pre-pandemic levels? No. In fact, the UK remains the only G7 country that is yet to return to those levels, even if it was the fastest growing last year. The final quarter saw a flat GDP print, with December registering a 0.5% month-over-month drop, as services went from being the driver of growth to posing a drag. The sector tumbled 0.8% with strikes, industrial action and lower school attendance affecting public services such as healthcare and education. For now, the outlook remains difficult, with high borrowing costs and tight fiscal policy weighing on business activity and consumer confidence.

What goes up. While we contend with the mixed picture of GDP, more welcome news of late is the decline in wholesale gas prices, especially for 2023/4 (futures prices currently down by 70% from their August peak). Hark sighs of relief from Westminster to Waringstown. For households, that means the typical annual bill will be c.£600 below that once feared. And public finances will cheer that estimated costs for Government support could be perhaps 90% lower than estimated in November. Yet, lest we get carried away, 2023 will still hurt. Government support eases in April. And we should brace for energy bills higher this year than last.

Same old story. It is therefore not surprising that UK businesses are still worried about energy prices. The BICS survey revealed that nearly 1 in 5 (19%) businesses are still listing energy prices as their main concern, with 37% reporting that they have been forced to take action to reduce their energy costs or optimise their energy efficiency. To add to the stress, 1 in 6 businesses were affected by industrial action in December. And as strikes continue to spread across the public sector, almost a quarter of businesses are reporting difficulties in obtaining necessary goods or services.

A glimmer of light? In the latest period, nearly all UK consumer behaviour indicators showed an increase in activity. Debit card spending increased by 6ppts, with increases seen in all six sector categories in comparison to the previous week, in line with usual spending patterns. All categories, apart from "Entertainment" were above their pre-pandemic baseline. The total number of job adverts remained stable, with the largest increase seen in the 'part-time and weekend' category, at 7%, and the largest decrease seen in the "transport, logistics and warehouse" category at -25%. The System Average Price of gas and of electricity both fell 6% in the latest week and were both below their levels reported in the equivalent week of 2022, by 23% and 8%, respectively.

Subdued. UK house prices fell for the tenth month running last month according to the RICS. January’s house price balance was the lowest since April 2009. New buyer enquiries continued their decline for the ninth successive month. Given the surge in mortgage rates since last autumn that comes as no surprise. Northern Ireland’s residential market is faring rather better than the national average. Local house prices continued to climb in January, albeit at a much-reduced pace, extending the streak of increases to 32-months. But with demand waning and local sales falling back, surveyors are expecting prices to head south in the near-term but pushing higher in 12-months’ time.

Turning a tanker. Greenhouse gas emissions in the UK increased by 6% between 2020 and 2021 but were still 8% lower than in 2019. 39% of UK businesses reported being very, or somewhat, concerned about the impact of climate change on their business and only less than a third reported of taking no action to reduce emissions. In Transport the tide is slowly turning. In 2021 the number of newly registered battery electric vehicles increased by 80% while petrol and diesel vehicles dropped 8%. However, 41% of people reported lack of reliable, regular, or convenient public transport as the biggest barrier to using greener forms of transport.

Old dog, new trick. The net zero economy has been dubbed “the greatest commercial opportunity of our time” by Mark Carney. And according to a new report from the Energy & Climate Intelligence Unit there’s plenty of us across the UK capitalising on it. 20k businesses in fact, contributing £71bn in gross value added, supporting 840k jobs. And those jobs pay more, too, with wages of almost £43k compared to £33k for the average UK employee. The geographic hotspots stretch across the UK. Leicestershire & Warwickshire sit at the top in terms of the sector’s contribution, closely followed by the NE of Scotland

and Shetland. Can it be built on further and be the elixir for an economy struggling to generate economic growth?

What inflation? While the rest of the world fights inflation earnestly, China seems to have these pressures under control. Consumer prices rose by 2.1% y/y, up from 1.8% in Dec partially driven by China’s reopening and seasonal factors such as the Lunar New Year festival which spurred demand. In fact, China’s producer prices fell by 0.8% y/y, after a 0.7% drop in December. The fall suggests that the manufacturing sector was not yet running at full speed despite the rollback of zero-Covid measures. The downward trend could continue given weak export demand. A key risk is whether stronger growth from China’s reopening could boost global inflation. Here there are push and pull factors at work, the inflationary effect of rising commodity prices potentially offset by the easing of supply chain disruptions.

- Facebook
- LinkedIn
- Email