Easing of business concerns and continued (although softer) consumer spending growth signal better-than-expected economic performance in the second quarter. But in the medium run, higher debt repayment burden for the government amid elevated rates could limit fiscal space, barring election-related pump priming. That’s bad news for productivity, a long-running painpoint for the UK economy. Globally too, the growth momentum is slowing.

A pound or two to spare? The government rounded off the fiscal year just past borrowing £21.5bn over March, a sharp jump from the previous year’s £5.2bn, but with the statistical treatment of student loans and energy subsidy costs playing a role. However, there was good news. Revisions to previous months meant full-year borrowing came in at £139.2bn, well below the Office for Budget Responsibility’s forecast of £152.4bn. While that trend may not continue through the new financial year (for one, higher rates than the OBR predicted will likely push up debt interest payments), it might just help create a bit of space for tax cuts next year. Governments have in the past been known to loosen policy in the run-up to elections!

Lukewarm. A slowdown in consumption seems imminent, as reflected in real-time indicators. Growth in spending on credit and debit cards, based on the CHAPS spend index, eased for a second month to a mere 0.5% on average in the first half of April. Footfall in shopping centres and retail park categories in the week to 23rd Apr declined. Consumer spending is likely to remain lukewarm as labour market conditions weaken. Online job adverts on 21st Apr were 17% lower than the equivalent week in 2022, while part-time roles continue to benefit from cautious firms seeking to reduce labour costs. Redundancies are also on the rise, the number of employers proposing them 69% above the equivalent 2022 levels.

Covid disparities. The pandemic introduced many dramatic changes to the economy, not least disrupting patterns of where people worked, lived, and spent their money. So, the latest detailed regional GDP statistics give us a window into the winners and losers from these effects. For 2021 UK GDP as a whole was still roughly 4% lower than pre-Covid levels with most of the UK’s big regions and countries showing only relatively minor variations around that trend, led by the East Midlands where the deficit to 2019 output was only 2%. At a more detailed level though the disparities were far wider. Areas that grew fastest tended to have a good mix of activities and be close to cities. Bedford, Telford and Barnet all scored well in this regard managing to surpass their pre-pandemic peaks. But it was Wrexham that came top of the league, whose economy was more than 7% bigger than its 2019 level, giving yet another cause for celebration.

Buoyed. Optimism follows a virtuous cycle. So, it was heartening to see business enthusiasm on the back of improving economic outlook. Deloitte Q1 CFOs survey revealed that business concerns related to uncertainty, supply chain disruptions, recruitment difficulties and inflation expectations – all eased over the quarter. Revenue and margin expectations also improved. Despite the rebounding optimism, businesses maintain a defensive posture with cost reduction and cash flow being the focus. Investments are likely to be directed towards IT, skilled workforce, and productivity. AI touches all 3 areas, so naturally businesses are quite hyped about its potential, though they are still unsure about its impact on the number of jobs.

The Puzzle Continues. But for now, UK labour productivity remains anaemic. Output per worker and output per job in Q4’22 fell slightly year-on-year, as workers took more days off due to sickness or injury in 2022 than at any point during the pandemic. Looking further back, output per hour in Q4 2022 was 2.1% above the UK’s 2019 average, but this owes more to a fall in the average number of hours worked per person (1.6%), rather than a rise in output (just 0.5%). Economists cite weak business investment, Brexit-related trade barriers and deficiencies in employee and management skills as among the long-standing problems. The Bank of England predicts stagnant productivity growth in the next 3 years, making it a key issue that will continue to affect living standards.

Slowdown. The US economy is feeling the effect of the Federal Reserve’s (Fed) monetary tightening campaign, as GDP growth slowed to 1.1% in Q1 on an annualised basis – a deterioration from the 2.6% growth observed in Q4’22. The drag came from slowdown in business investment growth, declining inventories, and an 8th consecutive contraction in residential fixed investment. But there were pockets of growth, especially in consumer spending, bolstered by a tight labour market. But officials believe that returning inflation to the 2% target requires a period of below-trend growth and softening in labour market conditions. That said, they do not forecast a recession yet.

Growing, just. It’s not much, but the 0.1% expansion in GDP represents a step in the right direction for the Eurozone economy, which narrowly avoided recession in Q1. Germany dashed hopes for a return to growth, with output merely stagnating. But the economies of both Italy and Spain performed well (growing 0.5% q/q). France also saw an uptick in growth, to 0.2% q/q, on the back of a strong export performance. Yet, with inflation still uncomfortably high, the GDP data leave the ECB’s upcoming decision on whether to slow the pace of interest rate rises from 0.5% to 0.25% in the balance.

Mixed bag. Manufacturing activity in China declined unexpectedly in April, with The NBS PMI manufacturing index down to 49.2, from 51.9 in Mar – amid slowing global demand for goods and persistent property market weakness. On the other hand, services are still benefiting from removal of harsh Zero-Covid restrictions last year, with the non-manufacturing index reading 56.4, down from 58.4 in Mar. Construction activity is also recovering, partly driven by infrastructure. But confidence in the property sector remains fragile while export growth could fade amid weakening of advanced economies. China’s economy grew faster than expected in Q1, but forward-looking PMIs suggest that rapid recovery could be losing steam and pockets of weakness remain intact.

Share this:

- Twitter
- Facebook
- LinkedIn
- Email