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# Economic Review

# March 2023

## UK expected to avoid recession

Revised forecasts from the Office for Budget Responsibility (OBR) suggest the UK will not enter recession this year despite households facing a record drop in spending power.

Chancellor Jeremy Hunt unveiled the independent fiscal watchdog's latest projections during his Spring Budget statement delivered to the House of Commons on 15 March. Mr Hunt declared it was a *"Budget for Growth"* before announcing updated OBR figures which predict that, although the economy will contract this year, it will not now see two consecutive quarters of decline and thereby avoid the technical definition of a recession.

The updated figures suggest the UK economy will shrink by 0.2% over the course of this year – which represents a significant upgrade from last autumn's forecast of a 1.4% contraction – with growth then expected to hit 1.8% in 2024 and 2.5% in 2025. This improved outlook comes in spite of a sharp fall in real household incomes which the OBR said was *"the largest two-year fall in living standards since records began in the 1950s."*

Prior to the Chancellor's statement, the latest monthly gross domestic product figures published by the Office for National Statistics (ONS) had confirmed that the UK economy is currently performing better than analysts had feared. ONS said the economy expanded by 0.3% in January; this represents a sharp rebound from December's 0.5% decline and exceeded the consensus forecast in a Reuters poll of economists which had predicted a growth rate of 0.1%.

Survey data released towards the end of last month also suggests the economy is likely to have expanded across the whole of the first quarter. The preliminary headline figure from the S&P Global/CIPS UK Purchasing Managers' Index came in at 52.2 in March, a second successive monthly reading above the 50 threshold which indicates growth in private sector output.



## Inflation rises unexpectedly

The Bank of England's Monetary Policy Committee (MPC) has continued its efforts to contain price rises by sanctioning another interest rate hike but said it believes February's surprise jump in inflation was due to *"one off elements"* which will probably fade quickly.

Data released last month by ONS showed that the Consumer Prices Index (CPI) annual rate – which compares prices in the current month with the same period a year earlier – stood at 10.4% in February. This was a notable jump from January's figure of 10.1% and significantly higher than the consensus forecast in a Reuters poll of economists which had predicted the headline inflation rate would actually fall to 9.9%.

ONS said the cost of food and drinks had the largest upward impact on February's figure. Food prices rose at the fastest rate in 45 years partly due to shortages of some salad and vegetable items, while higher food and drink prices in pubs and restaurants also pushed the CPI rate up.

Prior to the unexpected inflation jump, analysts had been evenly divided over the outcome of March's MPC deliberations. However, after release of the inflation data, a rate rise seemed inevitable and the MPC duly obliged, increasing Bank Rate by 0.25 percentage points on 23 March, the eleventh rise in a row.

Minutes to the MPC meeting played down the significance of February's resurgence in inflation, reiterating the Committee's belief that CPI is *'likely to fall sharply'* across the rest of this year. Indeed, the minutes stated that inflation is expected to decline to a lower rate than previously anticipated due to the Chancellor's *'Energy Price Guarantee'* Budget announcement and further falls in wholesale energy prices, prompting speculation that the MPC may now pause its run of rate hikes. The Committee's next decision will be announced on 11 May.






UK markets responded positively at month end after the UK's 2022 Q4 GDP data was revised upwards, indicating that a recession had been avoided in the second half of 2022. Slower-than-expected inflation data in the US added to hopes of a pause in interest rate hikes from the Federal Reserve.

In the UK, the FTSE 100 ended March on 7,7631.74, a loss of 3.10% in the month. The domestically focused FTSE 250 closed the month down 4.90% on 18,928.30, while the FTSE AIM closed March on 809.27, a monthly loss of 5.83%.

Across the pond, the Dow Jones index closed March up 1.89% on 33,274.15, while the NASDAQ closed the month up 6.69% on 12,221.91. On the continent, the Euro Stoxx 50 closed the month on 4,315.05, registering a gain of 1.81%. In Japan, the Nikkei 225 closed March up 2.17%, on 28,041.48.

On the foreign exchanges, the euro closed the month at €1.13 against sterling. The US dollar closed at \$1.23 against sterling and at \$1.08 against the euro.

Gold closed the month trading at around \$1,979 a troy ounce, a monthly gain of around 8%. The gold price continues to rise as demand for the precious metal holds firm with expectations

| Index  | Value<br>(31/03/23) | % Movement<br>(since 28/02/23) |
|--|---------------------|--------------------------------|
|  FTSE 100         | 7,631.74            | ▼ -3.10%                       |
|  FTSE 250         | 18,928.30           | ▼ -4.90%                       |
|  FTSE AIM         | 809.27              | ▼ -5.83%                       |
|  EURO STOXX 50    | 4,315.05            | ▲ +1.81%                       |
|  NASDAQ COMPOSITE | 12,221.91           | ▲ +6.69%                       |
|  DOW JONES        | 33,274.15           | ▲ +1.89%                       |
|  NIKKEI 225       | 28,041.48           | ▲ +2.17%                       |

of the Fed easing interest rate hikes and a crisis of confidence in some major European lenders and US regional banks. Brent crude closed the month trading at around \$80 a barrel, a monthly loss of around 4.5%.

UK pay growth slows

Both official statistics and survey data released during the past month suggest that the rate of growth in wages may have started to stall.

The latest pay data published by ONS showed that average weekly earnings excluding bonuses rose at an annual rate of 6.5% in the three months to January. This compares with a figure of 6.7% in the October-to-December period, the first slowdown recorded in this measure of wage growth since late 2021.

Additionally, the data revealed that growth in pay levels continues to be outstripped by rising prices. After adjusting for inflation, regular pay actually fell by 2.4% in the three months to January compared to the same period a year earlier. This represents one of the largest falls in real wages since comparable records began in 2001.

Recently released research also suggests that the rate of growth in pay may now have passed its peak. According to a survey of 266 organisations conducted by HR specialists XperthR, UK employers expect to see a slight fall in pay awards over the course of this year, with pay settlements as a whole predicted to average 5% during 2023, down slightly from the current level of around 6%.

Retail sales rise in February

The latest official retail sales statistics have revealed another surprise monthly jump in sales volumes, while more recent survey evidence points to emerging “shoots of optimism” within the retail sector.

According to ONS data, sales volumes rose by 1.2% in February, the largest monthly gain since October last year. Data revisions also revealed that sales in the previous month grew more strongly than originally reported, with January's figure revised up to a 0.9% rise.

ONS Director of Economic Statistics Darren Morgan, however, did note that the broader picture remains “subdued” with price rises continuing to hit consumer spending power. Mr Morgan added, “In the latest month, discount department stores performed strongly with food shops also doing well as consumers, confronted with cost-of-living pressures, cut back on eating out or purchasing takeaways.”

Survey data released last month though did highlight further signs of positivity with GfK’s consumer confidence index hitting its highest level in a year. March’s CBI Distributive Trades Survey also reported the first positive sales expectations amongst retailers for seven months, with CBI Principal Economist Martin Sartorius commenting, “Activity in the retail sector showed signs of stabilising after a challenging winter. This resilience has helped inspire some spring shoots of optimism.”

All details are correct at the time of writing (03 Apr 2023).

The value of investments can go down as well as up and you may not get back the full amount you invested. The past is not a guide to future performance and past performance may not necessarily be repeated.

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