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# ECONOMIC REVIEW

OF 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 PAY GROWTH SLOWS

#### Official data has revealed a surprise increase in sales volumes during January, although more recent survey evidence does suggest the retail outlook remains challenging.

According to the latest ONS data, total sales volumes in January rose by 0.5%, as shoppers sought to take advantage of New Year sales promotions. ONS said discounting helped lift sales at online retailers as well as jewellers, cosmetic stores and carpet and furnishing shops, although growth was also partly driven by an increase in fuel sales as prices at the pumps continued to decline.

Data revisions, however, saw December's figure fall more sharply than previously reported, with updated data showing a drop of 1.2% from November rather than the originally estimated 1.0% decline. Darren Morgan, Director of Economic Statistics at ONS, commented, "After December's steep fall, retail sales picked up slightly in January, although the general trend remains one of decline."

This challenging environment was also highlighted in the CBI's latest Distributive Trades Survey, with retailers reporting broadly unchanged sales volumes in February while expecting sales to fall this month. CBI Principal Economist Martin Sartorius said, "Whilst retail sales volumes were largely unchanged in the year to February, firms remain pessimistic about their business outlook."

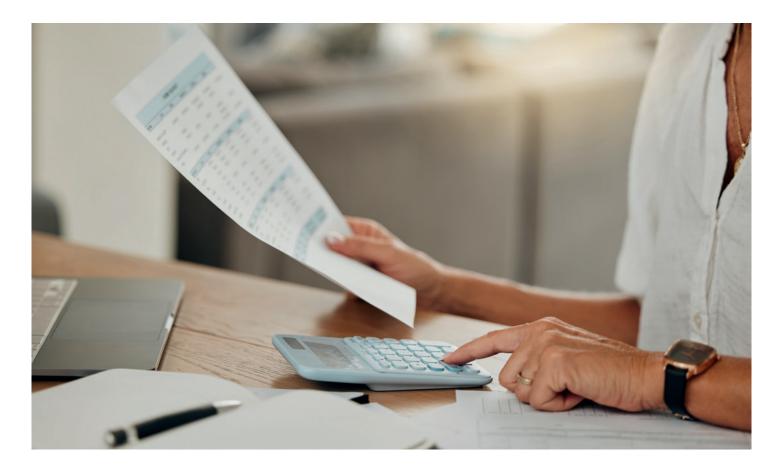
### **RETAIL SALES RISE IN FEBRUARY**

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."



#### Approver Quilter Financial Planning Solutions Limited. 13/04/23.

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

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