

News in Review

15 February 2023

“Our economy is more resilient than many feared... However, we are not out the woods yet”



The UK has narrowly avoided entering a recession by the slimmest of margins, as figures from the Office for National Statistics (ONS) show the economy had zero growth in the last three months of 2022. The official figures for December alone indicate that the economy fell by 0.5%, with strike action totalling 843,000 working days contributing to the squeeze.

The decline in gross domestic product (GDP) in December was offset by increases in the two previous months. On Friday, ONS also revised up its figures for the July to September quarter, to show that the economy shrank by 0.2% instead of the previous estimate of a 0.3% fall. For the whole of 2022, GDP increased by an estimated 4.0% following a 7.6% increase in 2021.

Negative growth in the fourth quarter of 2022 would have signalled recession – which is generally defined as two consecutive quarters of negative growth.

Commenting on the figures Chancellor Jeremy Hunt said, *“The fact the UK was the fastest growing economy in the G7 last year, as well as avoiding a recession, shows our economy is more resilient than many feared. However, we are not out the woods yet, particularly when it comes to inflation.”*

Strong wage growth

The latest employment and earnings figures from ONS, released on Tuesday, show that regular pay has grown at the fastest rate in more than 20 years, but is still failing to keep up with rising prices.

Growth in pay, excluding bonuses, rose to 6.7% in the final three months of 2022, compared to the same period in 2021. That was the strongest regular pay growth outside the pandemic period and exceeded a 6.5% forecast by economists polled by Reuters. However, when adjusted for inflation, regular pay fell by 2.5%.

The gap between private and public sector pay continues, with private regular pay up by 7.3% year-on-year compared with a 4.2% rise in the public sector. Darren Morgan, ONS Director of Economic Statistics said, *“Although there is still a large gap between earnings growth in the public and private sectors, this narrowed slightly in the latest period. Overall, pay, though, continues to be outstripped by rising prices.”*

The UK’s unemployment rate remained unchanged at 3.7%, the ONS figures showed.

Record high for services exports

During a trip to Mexico to renegotiate the Free Trade Agreement, first agreed 20 years ago, Business and Trade Secretary Kemi Badenoch welcomed latest figures showing UK services exports have reached record high levels, saying that they *“cement the UK’s position as a global services superpower”* and adding *“Services are the lifeblood of our economy, employing over eight in ten of our workforce. To see services trade reaching these heights is a firm reminder of the resilience of our strong services economy and shows significant progress in our race to export over a trillion pounds of British goods and services a year by 2030.”*

The ONS trade data shows that UK services exports reached record highs in 2022, totalling £397bn. In current prices, it means an increase of 20% compared to 2021, and 23% up in exports compared to 2018. The UK is the second biggest services exporter in the world – behind only the US, and the services sector contributes around 80% of the UK’s GDP.

On her trip, Badenoch has also been discussing the UK’s accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) – the Indo-Pacific trade bloc made up of some of the world’s biggest current and future economies, which could give UK businesses tariff-free access on over 99% of goods to a market of around 500 million customers.

Markets

After several days of setting new record highs, the FTSE 100 edged even closer to the 8,000 mark for the first time on Tuesday, as investors mulled the latest UK jobs numbers and looked to the imminent release of US inflation figures. The index closed up 0.08% on 7,953.86, while the domestically-focused FTSE 250, which is more sensitive to shifts in the UK economy, dropped 0.53% to finish on 20,018.23.

Here to help

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