

News in Review

19 April 2023

"The UK economy has lost momentum"

New data from the Office for National Statistics (ONS) shows that the UK economy flatlined in February as strikes by public sector workers weighed on growth. Despite consensus estimates from a poll of economists forecasting a 0.1% increase in the month. The flat month-on-month performance can be attributed to the offsetting of construction growth by striking workers.

In more positive news, ONS revised up its estimate for January's economic growth from 0.3% to 0.4%, meaning the UK is well positioned to avoid contraction in the first quarter of this year. This upward revision means the economy would need to reduce by 0.6% in March for Q1 to record a contraction. In response to the data release, Chancellor Jeremy Hunt said the economic outlook was "brighter than expected" with the UK "set to avoid recession."

Suren Thiru, Economics Director at the Institute of Chartered Accountants in England and Wales (ICAEW) expects recession fears "are likely to stalk the UK for some time" as borrowing costs and higher taxes offset falls in inflation and government support for energy bills. She commented, "These figures suggest that the economy has lost momentum as sky-high inflation and strike action continue to drag on key drivers of UK GDP, notably services and industrial production... a struggling economy and strong likelihood of materially lower inflation should give the Monetary Policy Committee sufficient scope to keep rates on hold next month."

Last week the International Monetary Fund (IMF) cautioned in their latest World Economic Outlook that they expect the UK to be one of the most poorly performing major economies in 2023, with expectations of a 0.3% reduction. The UK and Germany are the only two G7 countries predicted to contract this year.

"The system is in a much more robust condition"

After the recent unrest experienced in the financial sector, with the collapse of Silicon Valley Bank and the purchase of failing Credit Suisse, speaking at an IMF meeting last week, Bank of England (BoE) Governor Andrew Bailey commented, "I do not see the evidence that we've got on our hands what I would call the makings of a 2007/08 financial crisis. I think the system is in a much more robust condition - that's the first point of defence."

Believing that the reforms established following the 2008 financial crisis are being effective, Mr Bailey also feels that authorities are now better equipped to deal with any potential problems, "The post-crisis reforms to bank regulation have worked. Today I do not believe we face a systemic banking crisis. When I look at the UK banks, they are well capitalised, liquid and able to serve their customers and support the economy." A review is being conducted into the bank deposit insurance scheme.

Banknote demand at 20-year low

Worldwide demand for banknotes is at its lowest point in 20 years, according to De La Rue, which produces a third of the world's banknotes. With the rise of card and contactless payments, cash usage has fallen sharply in the UK. In 2017, debit cards overtook cash as the most popular payment method for the first time; only 15% of payments are now made in cash, compared with 60% a decade ago.

Unemployment rate rises again

Job vacancies have fallen for a ninth consecutive month, according to latest official unemployment data released by ONS on Tuesday. The uncertain economic outlook is impacting job certainty, the figures suggest, but the employment rate edged up to 75.8% in the three months to February.

About 220,000 more people were seeking work between December and February than in the three previous months. In the same period, however, the unemployment rate rose to 3.8%, up slightly from 3.7% in the previous quarter.

Annual growth in regular pay, excluding bonuses, was 6.6% between December and February, ONS said. However, with prices rising at more than 10% in recent months, regular pay fell by 2.3% when adjusted for inflation.

Here to help

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