

# ECONOMIC PULSE

## UNITED KINGDOM: WEAK GROWTH AND RECESSION RISK

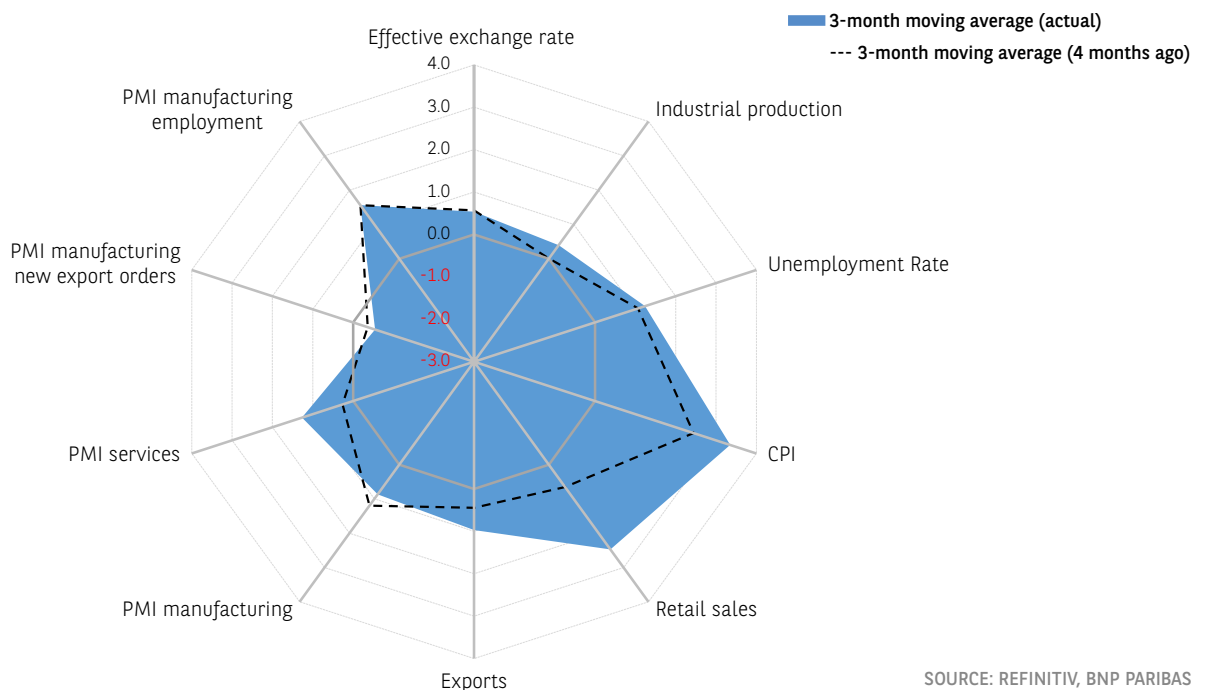
The UK economy grew 0.8% q/q in Q1 2022, taking GDP 0.7% above its pre-Covid level of Q4 2019 but falling short of the 1% expansion expected. Since the ONS also publishes monthly GDP figures, it is possible to see how the economy fared over the course of the quarter. After a positive January (+0.7% m/m), output was flat in February (growth of 0% m/m as opposed to the initial estimate of +0.1%), and GDP even contracted slightly in March (-0.1% m/m). Although Q1 GDP was disappointing, its composition is also worrying looking ahead. Q1 growth was mainly driven by an increase in inventories (positive contribution of 4 points) and investment (0.9 points), offset by a large trade deficit (negative contribution of 4 points). Consumer spending made a limited contribution to growth (+0.3 points), while public spending fell (-0.4 points).

Growth forecasts for Q2 also look limited, for three reasons. Firstly, inventories made a strongly positive contribution in Q1, opening up the possibility of a correction in Q2. Secondly, as regards foreign trade and exports in particular, a PMI reading of 47.7 suggests that manufacturing exports contracted again in April. Thirdly, the fall in real incomes caused by the surge in inflation is likely to continue depressing consumer spending. In April, the rising cost of living caused the GfK consumer confidence index to fall to -38, its lowest level since July 2008.

In addition, the Bank of England is expecting inflation to continue rising, peaking at around 10% in autumn 2022. It also expects growth to slow in Q2 (+0.1% q/q), and has even raised the prospect of a recession this year. In its May meeting, the central bank's Monetary Policy Committee (MPC) decided to continue normalising monetary policy, raising its key interest rate by 25 basis points to 1%, its fourth consecutive rate hike. As regards reducing its balance sheet, the MPC is still hesitating given the current economic and financial uncertainty, and is unlikely to put forward an asset disposal plan until August 2022.

Félix Berte

### UNITED KINGDOM: QUARTERLY CHANGES



The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -3 and +4. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

