

Growth- what growth?

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So- what is happening to growth? Truth is, not very much . The latest data from the UK Office for National Statistics (ONS) showed a drop in GDP in the last three months of the year. A slightly bigger fall in October than originally estimated; a weaker than thought offsetting recovery in November; a small 0.1 % drop in December- and there you have it. A 0.3 % decline in economic activity in Quarter 4 after a 0.1% fall in Quarter 3- and a technical recession is upon us!(i) As a result, growth last year as a whole clocked in at just plus 0.1%. Not much to shout home about.

What does it all mean? The first thing to remember is how volatile data actually is. Monthly figures tend to be revised, up and down, as we saw in the latest quarter. There is arguably a serious question mark about the usefulness of monthly GDP statistics which were first published in the UK in July 2018, following the Independent Review of UK statistics by the former Bank of England (BoE) Chief Economist, Sir Charlie Bean two years earlier.(ii) Not surprisingly, few developed economies have copied the UK in publishing a monthly GDP index.

The problem is though that government policy decisions and those on interest rates by the BoE Monetary Policy Committee (MPC) are taken at frequent intervals(the MPC meets 8 times a year) and those decisions are , as we are often reminded, data dependant. Monthly ONS and other published statistics therefore matter.

Of course the UK is not the only country to have had poor growth. Japan also fell into recession late last year and the Eurozone just avoided it by a whisker, flatlining in the last quarter of 2023. China is struggling and facing deflation. The problems of Covid, post Covid and the energy crisis due to the war between Russia and Ukraine have had serious negative economic impacts across the globe. But a latest report from Goldman Sachs seems to reinforce earlier research results by the Centre for European Reform by calculating that GDP in the UK is now 5% below what it would have been against other comparable countries due to the decision to leave the EU which has negatively affected trade and investment amongst other things(iii). Difficult to grow fast and sustainably over the medium to long term if the positive conditions of being a member of the single market and the customs Union have now gone. The comparative picture looks even worse according to the Resolution Foundation if one focuses not on overall output but rather on GDP per capita(iv). That measure has been falling for 7 straight quarters. It is , according to their analysis ' the longest period of continuous decline on record'.

Still, over the short term the difference between zero and a very small drop is tiny . Not that zero is good enough in itself but the optics of recession matter and could sap confidence. But at least we have had stronger output indicators since the turn of the year, particularly in services. And for 2024, an election year, which is likely by its very nature to increase uncertainty for everyone, growth prospects hang on expectations of inflation continuing to drop and interest rates coming down fast,

aided by a Chancellor seemingly intent on cutting taxes- possibly at the expense of public services- to “prioritise growth”. (v)

This might indeed make a difference in the short term as consumers, already seeing wages begin to rise in real terms, have more disposable income as a result. But for growth to improve sustainably over a longer period requires a more stable policy environment post elections to reverse a general unwillingness of both businesses and the government to invest.

Can the UK easily break out of that? The country seems unlikely to be able to do so by itself, out of the EU and with new trade deals with third countries that in the end are unlikely to offer much help, particularly in sectors such as agriculture(vi). Whoever wins the election later this year may therefore have no option but becoming engaged in mending relations with our neighbours across the Channel.

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<https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/deceember2023#:~:text=Monthly%20GDP%20is%20estimated%20to,services%20output%20fell%20by%200.2%25>

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<https://www.ons.gov.uk/economy/grossdomesticproductgdp/methodologies/aguidetointerpretingmonthlygrossdomesticproduct>

iii <https://www.cnbc.com/2024/02/14/brexit-has-sliced-5percent-off-uk-economic-growth-goldman-sachs-says.html#:~:text=The%20U.K.%20economy%20is%20worse,comparable%20countries%2C%20the%20estimates%20showed.>

iv <https://www.resolutionfoundation.org/comment/recession-watch/#:~:text=Seven%20quarters%20of%20falling%20GDP,nothi%20to%20be%20chillaxed%20ab out.>

v <https://news.sky.com/story/chancellor-looking-to-cut-public-sector-spending-to-lower-taxes-sky-news-understands-13072003> vi <https://www.fwi.co.uk/news/eu-referendum/analysis-7-years-after-brexit-farmers-count-the->

