

Fast Comment UK

Flatlining growth in Feb

- Monthly GDP flatlines in February
- Negative Q1 growth possible; technical recession in 2023 should be avoided
- Feb GDP figure does not move the dial on interest rate expectations

Monthly GDP flatlines in February

Monthly GDP (m-o-m) saw no growth in February by registering at 0%. This was roughly in line with consensus (0.1%). The services sector saw a marginal fall in growth of 0.1% after showing more promising expansion in January of 0.7%. Teacher strikes in February saw output from the education sector fall by 1.7%, which was the largest contributor to services showing a negative print. Were it not for industrial action, February probably would have posted a marginally positive GDP monthly figure. The disappointing services numbers were offset by more encouraging news elsewhere: for example, the construction sector grew by 2.4% in February, driven by growth in both repair and maintenance and new work.

Negative Q1 growth possible; technical recession in 2023 should be avoided

The underlying lackluster growth performance of the UK in February could signal that Q1's quarterly GDP figure comes in marginally negative. Even if this were to happen, the UK would not be in a technical recession as Q4 2022's growth figure was not in negative territory. Looking ahead to the rest of 2023, there are reasons to suggest that the growth outlook has somewhat improved in recent months. The latest UK Composite PMI number remains above 50, indicating private sector expansion, and a slight easing of fiscal policy at the Budget will help provide a boost to short-term growth prospects. This means the UK will in all likelihood, avoid a technical recession in 2023 (defined as two consecutive quarters of negative growth), yet the base case scenario remains for the UK economy effectively to flatline over the calendar year. Households will continue to face a challenging environment and business investment will struggle to pick up given that the capital allowances announced at the Budget are not as generous as the super-deduction that has recently been phased out.

Feb GDP figure does not move the dial on interest rate expectations

This data release does not move the dial on interest rate expectations. Data releases next week on the labour market and inflation will be far more consequential with respect to this. Our view remains that we are now at the peak of the interest rate cycle at 4.25%, while market expectations are for there to be a further hike of 25bp at the MPC's May meeting. Data releases next week will give a further indication as to which way the decision is headed.

Daniel Mahoney, +44 7890304377, daniel.mahoney@handelsbanken.co.uk

Research disclaimers

Handelsbanken Capital Markets, a division of Svenska Handelsbanken AB (publ) (collectively referred to herein as 'SHB'), is responsible for the preparation of research reports. SHB is regulated in Sweden by the Swedish Financial Supervisory Authority, in Norway by the Financial Supervisory Authority of Norway, in Finland by the Financial Supervisory Authority of Finland and in Denmark by the Danish Financial Supervisory Authority. All research reports are prepared from trade and statistical services and other information that SHB considers to be reliable. SHB has not independently verified such information.

In no event will SHB or any of its affiliates, their officers, directors or employees be liable to any person for any direct, indirect, special or consequential damages arising out of any use of the information contained in the research reports, including without limitation any lost profits even if SHB is expressly advised of the possibility or likelihood of such damages.

The views contained in SHB research reports are the opinions of employees of SHB and its affiliates and accurately reflect the personal views of the respective analysts at this date and are subject to change. There can be no assurance that future events will be consistent with any such opinions. Each analyst identified in this research report also certifies that the opinions expressed herein and attributed to such analyst accurately reflect his or her individual views about the companies or securities discussed in the research report. This research report does not, and does not attempt to, contain everything material that there is to be said about the company or companies described herein. For additional information about our research methodology please visit, <https://www.researchonline.se/desc/disclaimers>

Research reports are prepared by SHB for information purposes only. The information in the research reports does not constitute a personal recommendation or personalised investment advice and such reports or opinions should not be the basis for making investment or strategic decisions. This document does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any securities nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. Past performance may not be repeated and should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and investors may forfeit all principal originally invested. Investors are not guaranteed to make profits on investments and may lose money. Exchange rates may cause the value of overseas investments and the income arising from them to rise or fall. This research product will be updated on a regular basis.

No part of SHB research reports may be reproduced or distributed to any other person without the prior written consent of SHB. The distribution of this document in certain jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

The report does not cover any legal or tax-related aspects pertaining to any of the issuer's planned or existing debt issuances.