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Economic Review

April 2024

UK economic recovery gains momentum

Official statistics published last month showed the UK economy returned to growth in the first two months of 2024, while more recent survey data suggests the recovery from last year's shallow recession continues to gather momentum.

The latest gross domestic product (GDP) figures released by the Office for National Statistics (ONS) revealed that the economy grew by 0.1% in February. This expansion was largely driven by a stronger than expected rise in manufacturing output, with activity in this sector increasing by 1.2% across the month.

ONS also upwardly revised its previous growth estimate for January from 0.2% to 0.3%, confirming that the UK economy has started 2024 on a much more solid footing than it ended last year. Indeed, the three-month average GDP growth rate stood at 0.2% in February, up from zero in January and the highest recorded reading since last summer.

Survey evidence also suggests the economy continues to bounce back from the technical recession witnessed during the second half of last year, with flash data from the closely-monitored S&P Global/CIPS UK Purchasing Managers' Index (PMI) pointing to a stronger rebound than economists had been expecting.

The preliminary PMI headline economic growth indicator jumped to an 11-month high of 54.0 in April, up from March's final reading of 52.8 – any figure above the 50 threshold denotes an expansion in private sector output. April's improvement was due to a strong rise in service sector activity which offset a renewed downturn in manufacturing output.

Commenting on the data, S&P Global Market Intelligence's Chief Business Economist Chris Williamson said, *"Early PMI survey data for April indicate that the UK economy's recovery from recession last year continued to gain momentum. April's expansion is broadly consistent with GDP growing at a quarterly rate of almost 0.4% at the start of the second quarter."*



Inflation data dampens rate cut hopes

While the latest inflation statistics did reveal that consumer prices are now rising at their lowest rate in two and a half years, the monthly decline was less than analysts had anticipated and thereby dampened hopes of an imminent cut in interest rates.

Data published last month by ONS showed the Consumer Prices Index (CPI) 12-month rate – which compares prices in the current month with the same period a year earlier – dropped from 3.4% in February to 3.2% in March. ONS said the fall was primarily driven by slowing food price rises which recorded their weakest rate of growth since November 2021.

The decline in the CPI rate though was below analysts' expectations, with both the Bank of England (BoE) and a Reuters poll of economists predicting a fall to 3.1%. As a result, markets pushed back their bets on the likely timing of the first cut in UK interest rates. Although analysts do still expect the BoE to begin reducing rates in the coming months, a recently released poll found a slim majority of economists now expect the Bank to wait until the third quarter before sanctioning its first move.

Recent comments made by two members of the Bank's interest rate setting committee, however, suggest the timing of any cut remains a close call. BoE Governor Andrew Bailey, for instance, said there is *"strong evidence"* of falling inflation and that the question now was how much more evidence was required before the Bank can start cutting rates.




BoE Chief Economist Huw Pill, however, struck a more cautious note during a speech at the London campus of the University of Chicago Booth School of Business. Mr Pill said there were greater risks from cutting rates too quickly rather than too late and suggested the time for cutting Bank Rate remained *"some way off."*

As April drew to a close, UK markets outperformed in European trading. UK indices hovered around recent highs at month end, supported by some positive corporate updates, while a stronger pound boosted mid-caps. Signs that inflation is coming under control has improved sentiment.

The FTSE 100 index closed the month on 8,144.13, a gain of 2.41% in April, while the mid-cap focused FTSE 250 closed the month 0.41% higher on 19,965.39. The FTSE AIM closed on 760.74, a gain of 2.35% in the month.

Stocks in the euro zone lagged despite upbeat economic data pointing to slowing inflation and better-than-expected economic growth. The Euro Stoxx 50 closed April on 4,921.22, down 3.19%. In Japan, the Nikkei 225 closed the month on 38,405.66, a loss of 4.39%.

In the US, newly released data shows consumer confidence is receding. At month end the next Federal Reserve policy meeting outcome is awaited, with investors seeking guidance on the Fed's latest views on the recent inflation disappointments. The Dow closed the month down 5.00% on 37,815.92, meanwhile the NASDAQ closed April down 4.41% on 15,657.82.

Index	Value (30/04/24)	% Movement (since 28/03/24)	
 FTSE 100	8,144.13	▲	+2.41%
 FTSE 250	19,965.39	▲	+0.41%
 FTSE AIM	760.74	▲	+2.35%
 EURO STOXX 50	4,921.22	▼	-3.19%
 NASDAQ COMPOSITE	15,657.82	▼	-4.41%
 DOW JONES	37,815.92	▼	-5.00%
 NIKKEI 225	38,405.66	▼	-4.39%

On the foreign exchanges, the euro closed the month at €1.17 against sterling. The US dollar closed at \$1.25 against sterling and at \$1.06 against the euro.

Gold closed April trading around \$2,307 a troy ounce, a monthly gain of 4.53%. Brent crude ended the month trading at \$86.29 a barrel, a small loss of 0.70%.

Jobs market cools again

Last month's release of labour market data revealed a further softening in the UK jobs market, with an increase in the number of people out of work and another decline in the number of vacancies.

Recently released ONS figures showed that the rate of unemployment jumped to 4.2% in the three months to February. Although ONS warned that quarterly changes in the data currently need to be treated with caution due to smaller Labour Force Survey sample sizes increasing the volatility of its estimates, this was a notable increase from the previous quarter and left the unemployment rate at its highest level for six months.

In addition, the overall number of job vacancies fell, with 13,000 fewer reported in the January to March period compared to the previous three months. While at 916,000, the total does still remain significantly above pre-pandemic levels, this latest fall did represent the 21st consecutive monthly decline in the level of vacancies.

A further rise in economic inactivity among 16 to 64-year-olds was also reported, with the rate climbing to 22.2% in the December to February period. This is the highest figure since mid-2015 and equates to 9.4 million working-age people who are neither in employment nor seeking work.

Retail sales stall in March

Although the latest set of retail sales statistics shows sales volumes have stagnated in recent months, survey evidence continues to report relatively strong levels of consumer sentiment as falling inflation provides a boost to real household incomes.

Statistics released last month by ONS revealed that retail sales volumes recorded no growth at all in March after rising by an upwardly revised 0.1% in February. March's figure came in below analysts' expectations, with the consensus forecast from a Reuters poll of economists pointing to a 0.3% rise.

The latest CBI Distributive Trades Survey also suggests the retail environment remains challenging with year-on-year sales volumes falling sharply in April. CBI Lead Economist Alpesh Paleja, however, said the decline was partly due to *"the earlier timing of Easter this year"* and actually struck a somewhat optimistic air, adding that the retail sector *"is likely to benefit from some favourable tailwinds this year, as falling inflation continues to drive growth in households' real earnings."*

Data from the latest GfK consumer confidence index also suggests consumer sentiment is holding firm. Indeed, April's headline confidence figure actually rose to a two-year high as households took a more positive view of both the economy and their own finances.

All details are correct at the time of writing (30 April 2024)

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