

WEEKLY ANALYSIS

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LIKELY GROWTH SHOCK IN THE UK

Decline in growth prospects. Possible increase in inflation to +8%. Confidence and consumption under threat. Pressure on interest rates. BoE ready to raise rates further. Risk premium favourable to equities.

Key Points



- 2021 GDP -0.4% below its pre-pandemic level
- Q1 2022 potentially up +1%
- Surprisingly resilient PMI leading indicators
- Falling household confidence threatens consumption
- Inflation could reach +8% in 2022
- Return of pressure on sterling yields
- Three rate hikes for the BoE already
- Will the pound weaken further?
- House prices to decelerate in 2022
- UK equity risk premiums still attractive

UK GDP ends 2021 -0.4% below its pre-pandemic level

The UK economy finally ended 2021 with GDP growth of +6.5% year-on-year thanks to a final quarter that was still up by +1%. This result was slightly below expectations and may have already indicated that the deceleration in the pace of growth that had materialised at the end of the year might continue into the winter. Private consumption, which rose by +1.2% over the quarter, was not strong enough to support GDP, which was nevertheless bolstered by public spending (+1.9%) and exports, which rose by +4.9%, while imports contracted by -1.5%.

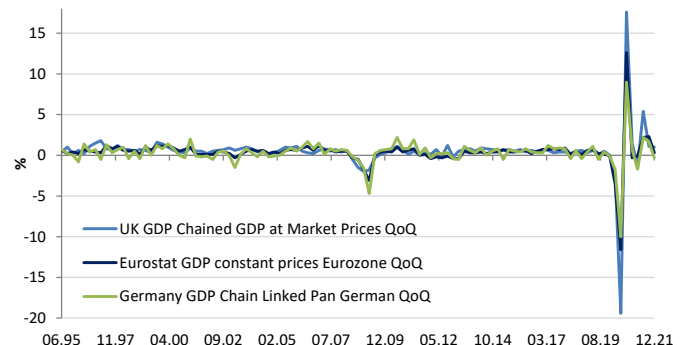
This increase in GDP in Q4 masks the slowdown that occurred under the influence of the Omicron variant at the end of the period. GDP contracted by -0.2% in December 2021, a slowdown that fortunately proved to be relatively transitory, as the UK economy reacted rather well in January, growing by a strong +0.8%, thus surprising economists who had only expected a limited increase of +0.1%.

The UK economy thus started 2022 positively, driven by the services sector and retail sales, as the health situation normalised more quickly.

The UK's real GDP still lags slightly behind its pre-pandemic level, but with a lag of -0.4%, the British economy is still making a slightly stronger recovery than economists were expecting at the end of 2021.

Industrial production also regained some strength in January (+0.7%) after the drop in December (+0.3%).

Quarterly GDP Growth—United Kingdom



Sources: BBGI Group SA

Q1 2022 potentially up +1%

The end of the Omicron episode will undoubtedly allow the economy to make further progress in Q1 2022, despite sustained inflationary pressures and the new uncertainties caused by the geopolitical crisis that has erupted in connection with the Russian invasion of Ukraine. The momentum of the beginning of the quarter will probably stall in March, thus limiting the growth outlook for the first three months of the year to +1%.

However, the outlook for Q2 is less encouraging. Consumer confidence is expected to deteriorate significantly in an environment already characterised by a clear upturn in inflation at the beginning of the year, which is expected to intensify further with the very negative effects expected on the rise in raw material and energy prices following the Russian crisis.