

# UK Outlook

April 2022

Economic Update

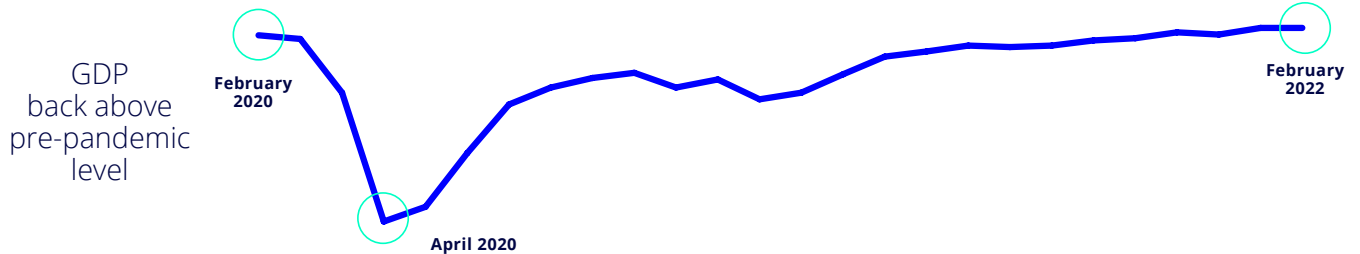


Bank of  
Ireland

## High inflation to temper growth

The UK economy grew strongly in 2021 and high frequency data point to further expansion in the first quarter of 2022 as public health restrictions were fully lifted. This has been accompanied by a steady improvement in the labour market, whereas consumer price inflation has accelerated rapidly due to a combination of global supply chain and post-Brexit bottlenecks, rising energy prices and pent up demand. The Bank of England has responded by tightening monetary policy, with more interest rate increases in the pipeline. In our February update, we expected continued GDP growth with inflation remaining elevated for much of this year before easing next year as the forces contributing to its rise abated. This remains the case, but the fallout from the war in Ukraine - increased uncertainty, a spike in global energy and non-energy commodity prices, and the impact of economic sanctions on Russia - implies downward revisions to the former and upward revisions to the latter. Assuming energy prices fall back in line with the futures market as of late April, growth of 3.8% and 1.5% is now envisaged for 2022 and 2023 (- $\frac{3}{4}$  and - $\frac{1}{2}$  a percentage point), while inflation is forecast to average 8.0% and 4.5% respectively (+1 $\frac{1}{2}$  percentage points for both years). Higher inflation will exert an additional drag on household incomes, though consumer spending is still expected to increase as savings are run down. Businesses are facing rising costs and greater uncertainty too, but the need to address capacity among other issues should see capital spending pick up. This outlook is subject to risks however, especially in the event of more restrictions on the supply of oil and gas from Russia.

## Recent Developments



Public health restrictions lifted



Excess savings unwinding



Spike in global energy prices



Inflation accelerates

to **7.0%**  
YoY March 2022

Composite PMI

@ **57.6**

Flash April 2022

Brexit after-effects



BoE interest rate

⬆️ to **0.75%**

at March 2022 meeting

Consumer confidence declines



## Outlook

	GDP	Consumer Spending	Investment	Exports	Employment	Unemployment Rate	Inflation
2021	7.4%	6.2%	5.9%	-1.3%	-0.5%	4.5%	2.6%
2022f	3.8%	4.0%	6.5%	5.3%	0.6%	3.7%	8.0%
2023f	1.5%	1.5%	4.5%	3.8%	0.5%	3.9%	4.5%

War clouding the economic picture

Inflation biting, more interest rate hikes to come

Lower but still positive GDP growth

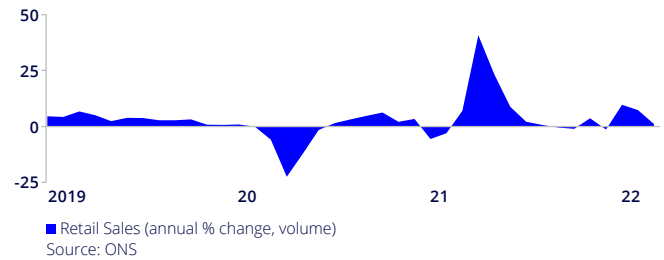
### Risks

- ⬇️ Geopolitics
- ⬇️ Persistent supply constraints

# Consumer

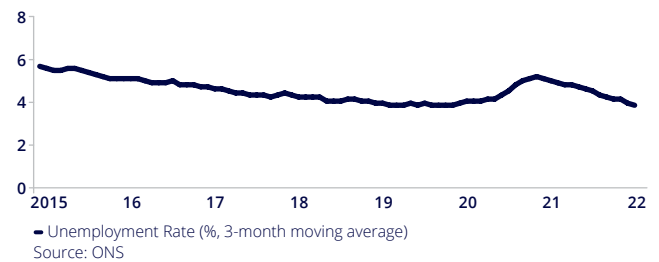
## Spending off to a solid start

Consumer spending staged a comeback last year after a large fall in 2020; retail sales were up 5.4% on an annual basis in Q1 2022 too, albeit there was a loss of momentum at the end of the quarter.



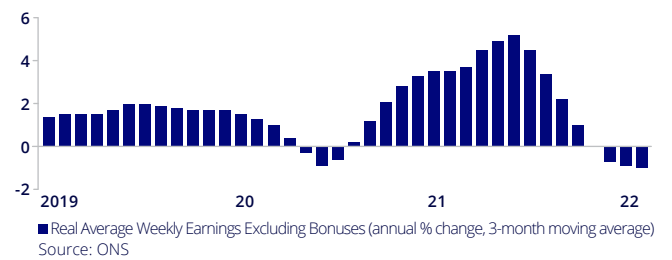
## Tight jobs market

The labour market has taken the ending of the furlough scheme in its stride, with employment rising by 1.0% year-on-year in the three months to February and the unemployment rate dipping to 3.8%.



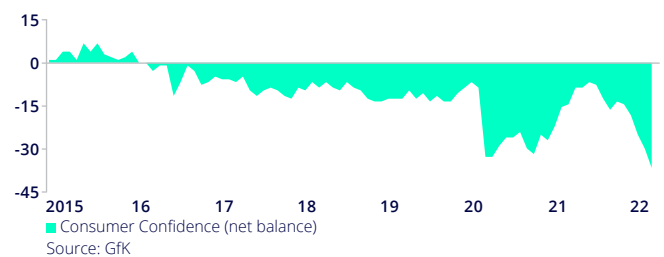
## Earnings under pressure

Real earnings growth remains in negative territory, though the Government has put measures in place to partially offset the impact of elevated inflation.



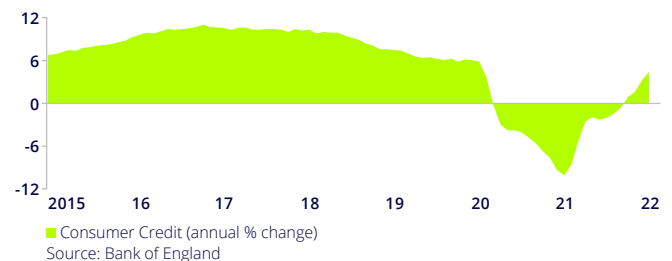
## Sentiment wanes

The increased cost of living, which is being exacerbated by the fallout from the war in Ukraine, is taking a toll on consumer confidence, which dropped to a near 14-year low in April.



## Credit on the up

Savings accumulated by households during the pandemic should help support spending over the forecast horizon, as should increased borrowing with consumer credit growth picking up of late.



## Further gains

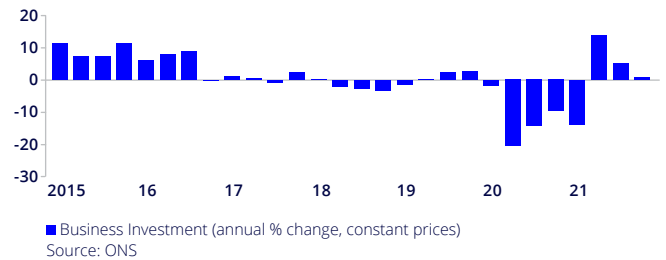
While consumers have become more cautious and price rises are squeezing incomes, spending is set to increase in 2022 and 2023 as the savings ratio normalises.



# Business

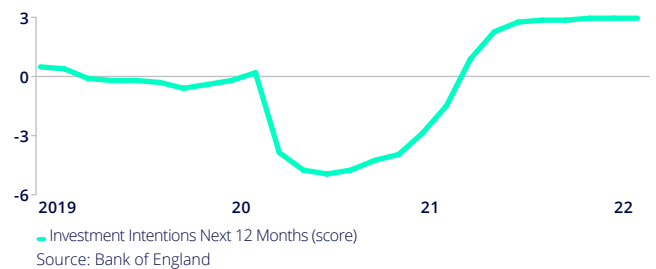
## Business investment muted

Capital spending by businesses has lagged the recovery in the broader economy to date, increasing by just 0.8% last year following a double-digit decline in 2020.



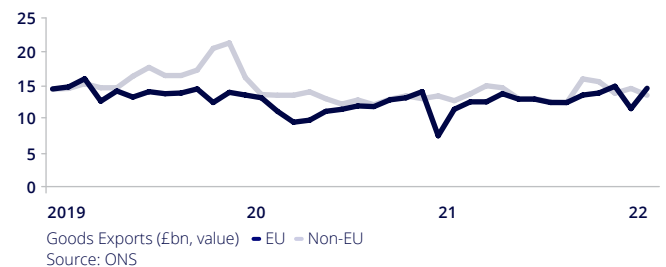
## Intentions steady

High costs and ongoing goods and labour shortages are holding current investment back, but firms' intentions remain solid and Government incentives are providing support.



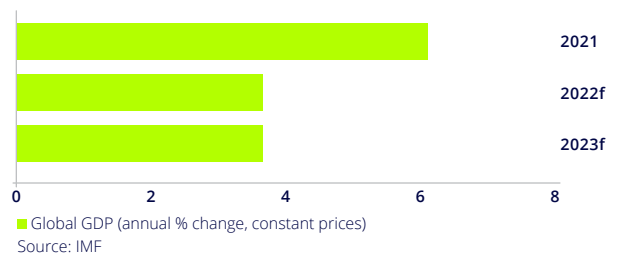
## Exports lagging

Exports performed poorly again in 2021 - goods and services volumes both declined for a second consecutive year - while new checks on EU imports may cause some disruption to trade this year.



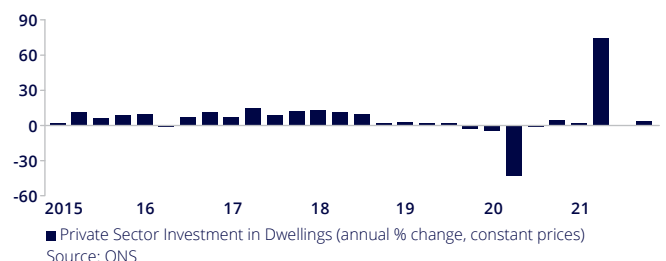
## Global picture

Although the war is a setback for the world economy, direct trade links with Russia and Ukraine are limited in aggregate and global growth remains on the cards for 2022 and 2023.



## Strong housing market

Private sector housing output rebounded strongly last year and house price growth has been robust, albeit higher interest rates will be a headwind going forward.



## Growth ahead

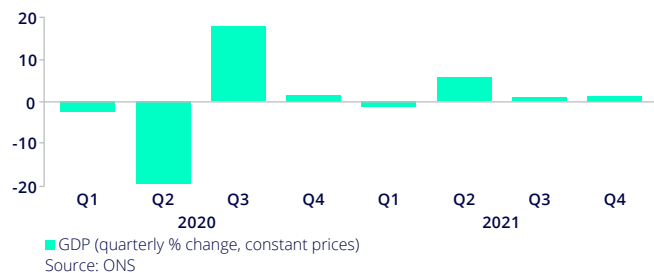
Notwithstanding the more uncertain environment, investment and exports are projected to rise this year and next, as the former benefits from strengthening business spending and the latter from the global recovery.



# Overall Activity

## Rebound continuing

GDP rose in the final quarter of 2021, despite a small Omicron-related fall in December, and high frequency data point to another increase in the first quarter of this year.



## More cautious outlook

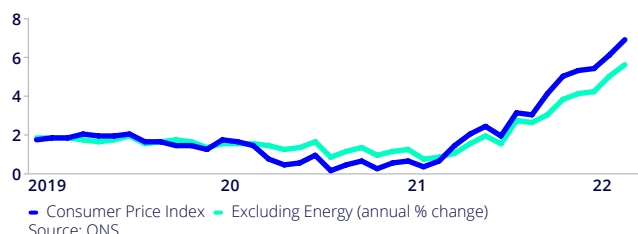
The fallout from the war in Ukraine has resulted in a downward revision to forecasts for economic growth in 2022 and 2023, though GDP is still expected to expand in both years.



# Policy & Markets

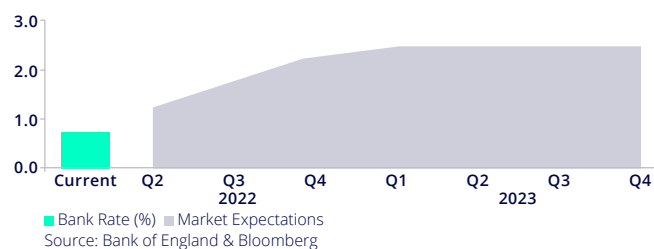
## Inflation accelerates

Consumer price inflation has risen sharply driven by energy and durable goods prices in particular, with the headline rate registering 7.0% in the year to March and the ex-energy measure coming in at 5.7%.



## BOE in tightening mode

The Bank of England terminated bond purchases at the end of last year and increased the policy interest rate at each of its recent meetings, with further hikes on the cards.



## Sterling rangebound

Amid ongoing UK-EU negotiations in relation to the Northern Ireland protocol, sterling has been relatively stable against the euro lately (mostly trading between 83p and 84p).



## Uncertainty increases

After falling back at the start of this year as public health measures were fully lifted, Russia's invasion of Ukraine has resulted in a renewed jump in uncertainty.



# Forecasts

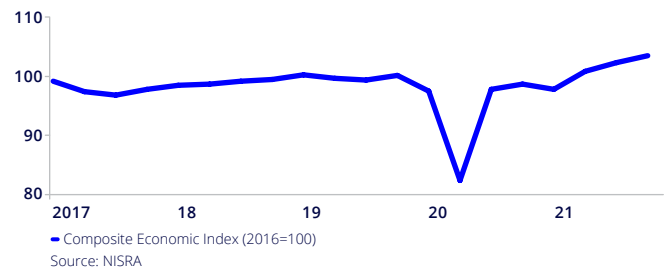
	2021	2022 (f)	2023 (f)
Personal Consumption	6.2%	4.0%	1.5%
Government Consumption	14.3%	2.5%	1.5%
Investment	5.9%	6.5%	4.5%
Exports	-1.3%	5.3%	3.8%
Imports	3.8%	7.0%	4.5%
GDP	7.4%	3.8%	1.5%
Employment	-0.5%	0.6%	0.5%
Unemployment Rate (Average)	4.5%	3.7%	3.9%
CPI	2.6%	8.0%	4.5%

Annual % change unless otherwise stated; personal consumption, government consumption, investment, exports, imports and GDP are in constant prices

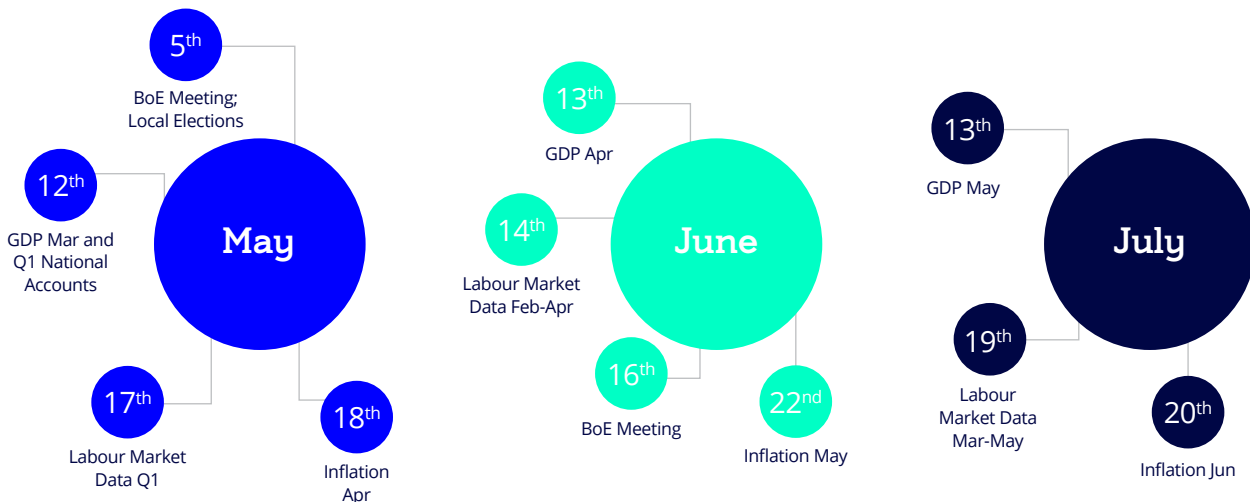
# Northern Ireland

## Activity picks up

While the economic recovery has continued, with output rising and unemployment declining, political uncertainty has increased following the collapse of the Assembly and ahead of fresh elections in May.



## Upcoming Events



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