

Double-Dip Recession Fears For The UK

Contributed by Euromonitor International
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Preliminary estimates from UK national statistics predict that the economy dipped back into recession in Q1 2012 after a second quarter of negative growth.

Although the figures are subject to revision, the psychological impact of the first potential double-dip recession in more than 30 years is vital for confidence.

However, Euromonitor International predicts a slightly stronger first quarter result of 0.1% growth quarter-on-quarter, although the prospects for 2012 overall remain weak.

- A technical recession is recorded by two consecutive quarters of negative quarter-on-quarter real GDP growth. According to estimates from UK national statistics, the economy contracted by 0.2% quarter-on-quarter (seasonally adjusted) following a contraction of 0.3% in Q4 2011. This could mark the first double-dip recession in more than 30 years;

- According to national statistics, the downturn in Q1 2012 is estimated to have been driven by declines in construction and industrial output of 3.0% and 0.4% (quarter-on-quarter, seasonally adjusted) respectively, while the services sector managed meagre growth of 0.1% quarter-on-quarter;

- It is important to note that the figures from the national statistical office are preliminary estimates and so are subject to revision. Euromonitor International projects stronger underlying growth in Q1 2012 with 0.1% real GDP growth quarter-on-quarter (seasonally adjusted), which would mean that the UK would narrowly miss a return to technical recession.

Implications

The news of a potential double-dip recession will likely have more of a psychological impact by creating political tensions against the coalition government, while also damaging already fragile consumer and business confidence:

- The government is struggling to stimulate economic growth amid unpopular austerity measures and government spending cuts, aimed at reducing the budget deficit. The general government budget deficit stood at 8.4% of GDP in 2011, nearly three times higher than the 3.0% of GDP deficit ceiling recommended by the EU;

- The manufacturing sector has been lacklustre as global demand has weakened while uncertainty in the eurozone region as the sovereign debt crisis rumbles on will also continue to impact UK export demand. The manufacturing sector accounted for 10.2% of GDP in 2011 while 57.1% of UK exports were destined for the EU-27 in 2011;

- Fears about double-dip recessions will have the biggest negative impact on consumer confidence. UK consumers have been affected by persistently high unemployment, inflationary pressures and record petrol prices. Household disposable incomes are being squeezed, weighing on discretionary spending potential as consumers focus on the essentials. Consumer confidence is of paramount importance to the economy as consumer expenditure accounted for 61.1% of GDP in 2011;

- However, the UK economy is in a stronger position since the recession in 2008-2009 with more robust underlying growth in Q1 2012. The UK experienced five consecutive quarters of negative real GDP growth in 2008-2009 peaking in Q4 2008 with a severe contraction of 2.3% quarter-on-quarter (seasonally adjusted);

- Furthermore, trade sources indicate an upturn in business confidence in the first quarter of 2012 while national statistics reported a mild drop in the unemployment rate to 8.3% of the economically active population during December 2011 to February 2012 from 8.4% in the previous quarter.

Prospects

Although Euromonitor International forecasts that a double-dip recession will be avoided in Q1 2012, the outlook for the year overall remains subdued and a protracted recovery is expected. Final Q1 2012 figures from UK national statistics may yet be revised upwards although a potential hit to confidence will be less easy to reverse:

- The biggest risk to the UK economy is a further weakening of consumer confidence. As consumers continue to deleverage and real income growth remains weak, Euromonitor International forecasts per capita consumer expenditure to fall by 1.3% in real terms annually in 2012 before recovering to 1.4% real growth in 2013;

- Inflation is set to remain above the Bank of England target rate of 2.0% throughout 2012. Euromonitor forecasts annual inflation to average 3.2% per month over April-December 2012 (seasonally adjusted) with global oil prices also elevated

owing to ongoing international tensions with Iran;

- As a result of downside risks, Euromonitor projects a contraction in real GDP growth to take place in Q2 2012 instead with -0.8% growth quarter-on-quarter (seasonally adjusted), which also includes the effects of weaker productivity from the extra bank holiday for the Diamond Jubilee in June 2012;

- Q3 2012 will however see a temporary boost from one-off factors including the London 2012 Olympics, where real GDP growth will return to 0.9% quarter-on-quarter (seasonally adjusted). This will be insufficient to reverse the UK's economic slowdown generally, and Euromonitor International anticipates real GDP growth of 0.1% for 2012 on an annual basis before a stronger rebound of 1.8% takes place in 2013.

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