

# UK economy shrank in August, now on brink of recession

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Britain's economy looks set to go into recession as data showed it unexpectedly shrank in August, underscoring the challenge for Prime Minister Liz Truss to make good on her promises to speed up growth.

Weakness in manufacturing and maintenance work in North Sea oil and gas fields contributed to a 0.3 per cent fall in gross domestic product from July, and the report also showed how a jump in inflation was hitting consumers.

A *Reuters* poll of economists had pointed to zero growth.

July's increase in output was revised down to 0.1 per cent from a previous estimate of 0.2 per cent, and in the



three months to August GDP fell 0.3 per cent, its first decline since early 2021 when the country was mired in the coronavirus crisis.

"The ongoing squeeze on household finances continues to weigh on growth, and likely to have caused the UK economy to enter a technical recession from the third quarter of this year," Yael Selfin, chief economist at KPMG UK, said.

The economy was now believed to be back at its size just before the pandemic, having previously been estimated at 1.1 per cent above that, the Office for National Statistics said. Manufacturing fell by 1.6 per cent from July and more maintenance than unusual in the North Sea hit the mining and quarrying sector which includes oil and gas. It slumped by 8.2 per cent.

"Many other consumer-facing services struggled, with retail, hairdressers and hotels all faring relatively poorly," ONS Chief Economist Grant Fitzner said.

GDP in September is likely to be weakened by a one-off public holiday to mark the funeral of Queen Elizabeth.

Further ahead, Britain's economy looks set to slow sharply as surging inflation hits households and forces the Bank of England to raise interest rates quickly, even as activity stagnates. Samuel Tombs, an economist with Pantheon Macroeconomics, said around one-third of households no longer had meaningful savings and the 30 per cent with a mortgage were likely to reduce expenditure as borrowing costs went up.

REUTERS

## Borrowing costs rise, £ slips after BoE chief rules out extending help

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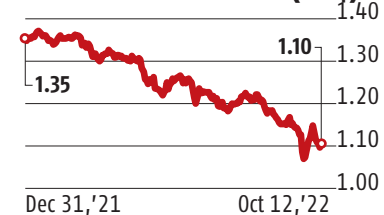
The pound sank against the dollar early on Wednesday after the Bank of England governor confirmed the bank won't extend an emergency debt-buying plan introduced last month to stabilise financial markets.

Andrew Bailey said the programme will end on Friday as scheduled.

The pound fell by almost 1 per cent to just below USD 1.10 after Bailey spoke, before rallying slightly. After the government's September mini-budget the currency hit a record low of USD 1.03.

My message to the (pension) funds involved you've got three days left now.

### THE FALLING POUND (VS \$)



You have got to get this done, he said. Part of the essence of a financial stability intervention is that it is clearly temporary.

The central bank stepped in after the British government on September 23 announced plans for 45 billion pounds (\$50 billion) in tax cuts without saying how it would pay for them. The

announcement spooked financial markets and sent the pound plunging to a record low against the dollar.

The Bank of England intervened to prop up the bond market and stop a wider economic crisis that particularly threatened pension funds.

Analysts say pension funds lobbied the central bank to extend the programme by two weeks, but Bailey stuck to the timeline in an appearance at the annual meeting of the Institute of International Finance in Washington.

The market turmoil has caused pain for many Britons especially prospective homebuyers, who have seen mortgage rates soar on the increased prospect of a big rate hike from the central bank when it meets next month.