

UK economic recovery stalls and tough winter may loom

THE UK economic recovery from Covid is fading fast and there are rising fears of a tough winter ahead as consumers turn cautious and businesses scramble for parts.

GDP rose by just 0.1% in July, far lower than the 1% growth in June and below City expectations. It is the worst monthly figure since January, and means the economy remains 2.1% smaller than it was before pandemic restrictions came into place.

The figures come at an awkward time for the government, as it forces through tax rises.

While there was a boost from the return of festivals, concerts and sports events, most areas of the economy are in retreat.

Retail, construction and services were all weak. Only a 22% surge in mining prevented the overall size of the economy from falling.

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Paul Dales at Capital Economics said: “The economic recovery has stalled. More timely evidence suggests August may not have been much better.”

Alpesh Paleja, lead economist at the Confederation of British Industry, said: “The UK’s economic recovery continued in July against the backdrop of the ‘pingdemic’ gathering pace.

“Labour shortages and supply chain disruption have continued since, and are likely to have taken the edge off growth as we head into autumn.

“Businesses hope the bulk of supply disruption will prove temporary, but firms are not confident that all shortages will fade any time soon.”

The figures raise the prospect of stagflation – declining growth on top of rising inflation.

Ed Monk at Fidelity International, said: “What’s concerning is that these numbers may not yet be showing the full effect of sustained supply-chain bottlenecks. The problem spans multiple sectors, with concerns growing over shortages in manufacturing and construction materials, as prices of concrete, aluminium, steel, timber, and fuel continue to rise.”

Yesterday, the European Central Bank said it would slow its emergency support for the economy via Quantitative Easing.

Some say today’s figures show that the Bank of England should not do the same here. And note that the end of lockdown restrictions didn’t deliver the sort of bounce hoped for. That suggests consumers are cautious, both about the virus and about their own finances.

Martin Beck at the EY ITEM Club said: “The bulk of the gains from the reopening of the economy are now behind us, so a tougher phase of the recovery beckons.”

