‘UK recession to last until end of next year’

T
he UK economy is on track to shrink by 1.3% in 2023 amid a recession which is set to last until the end of next year, according to a new economic forecast.

Economists at KPMG have predicted that the UK has already entered a “shallow but protracted” recession amid continued inflation and higher interest rates.

Yael Selfin, chief economist at KPMG UK, said increases in food and energy costs this year have dragged back households’ spending power.

KPMG predicted that the country entered recession in the third quarter of 2022.

Official figures from the Office for National Statistics showed that the economy shrank by 0.2% in the third quarter, between July and September.

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A technical recession is defined as at least two consecutive quarters of contraction.

The latest economic outlook report predicted that output could also fall by 1.9% next year as businesses feel the pressure from reduced consumer spending and higher borrowing rates.

As consumers cut back on spending, we anticipate a sharp reduction in non-essential categories of spend by those households most affected by the rise in energy and food costs

Earlier this month, the Bank of England increased interest rates to a 14-year high of 3.5%. They are expected to reach at least 4% by next spring.

KPMG also predicted that the UK labour market will start deteriorating from the first half of next year.

It said the rate of unemployment, which rose to 3.7% for the three months to October, could reach 5.6% by mid-2023, representing an increase of around 680,000 people.

The new report also raised its predicted rate of inflation to 7% for next year, having previously forecast 5.6% for the year.

Mr Selfin said: "Households are expected to rein in spending on discretionary items in 2023 in response to the squeeze on income.

"As consumers cut back on spending, we anticipate a sharp reduction in non-essential categories of spend by those households most affected by the rise in energy and food costs, including spending on eating out and entertainment.

"The outlook could turn more positive, particularly if energy costs drop back to previous levels.

"However, risks are probably skewed to the downside, given the state of public finances as well as some companies' balance sheets, which could make it harder for them to absorb any potential further shocks in the short term."