‘Worst is yet to come on economy’

B
ritons were warned on Friday that the “worst is yet to come” as the UK economy slumped to its first quarter of negative growth since Covid restrictions were largely lifted in the spring of 2021.

Official GDP figures released on Friday morning showed output tumbled in June by 0.6 per cent. Despite hopes that the economy would bounce back strongly after the pandemic, the data showed that it was now going backwards with GDP shrinking by 0.1 per cent between April and June.

The figures underlined the darkening economic outlook for the country with the Bank of England last week forecasting a long recession as inflation soars to more than 13 per cent.

It also added to the pressure on the Government and the two Tory leadership candidates battling to become Britain’s next Prime Minister to set out urgent plans to deal with soaring energy bills – forecast to hit more than £5,300 a year next April.

Chancellor Nadhim Zahawi tried to put a brave face on the figures saying he was confident the UK would “pull through”, adding that he was determined to work with the Bank to get “inflation under control and grow the economy”.

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But economists and opposition politicians said that while the GDP figures were slightly better than feared, they were a clear warning of the tough times ahead. Suren Thiru, economics director for the Institute of Chartered Accountants, said: “The UK economy is sliding closer to recession and the worst is yet to come.”

Alpesh Paleja, lead economist at business group the CBI, added that while the economy could bounce back in the third quarter of the year, growth would not last. “The forthcoming hike in Ofgem’s energy price cap will push inflation to new highs, leading to a significant downturn,” he warned. “Vulnerable businesses and households will be squeezed further.”

In a further blow to families already bracing for a 70 per cent rise in the Ofgem price cap in October, energy market consultancy Auxilione today warned that annual average bills could peak at nearly £5,300 next April.

The consultancy said average annual energy bills could reach £3,628 in October, up from £1,971 today, before rising again to £4,538 in January and £5,277 in April. The sharp rise in prices has been linked to the invasion of Ukraine.

The growing cost of living crisis has dominated the Tory leadership campaign with both Liz Truss and Rishi Sunak signalling they will offer more direct support for millions of struggling households.

The former chancellor this morning set out a new three-point plan for tackling what former Labour Prime Minister Gordon Brown has described as a “national emergency”, committing to further financial assistance to help millions of the most vulnerable households if he wins the race for No10. Responding to the GDP data, Mr Sunak said: “These figures are a clear warning of how inflation brings economic slowdown. It is absolutely vital that inflation is gripped and I have a plan to do so.

“They also reinforce the need for a comprehensive plan to support people in the short term with the cost of living and a bold, realistic plan to deliver economic growth through business investment and that is what I will deliver as Prime Minister.”

Foreign Secretary Liz Truss, who is the clear favourite to replace Boris Johnson, has said she will do “all I can” to support people with inflation and surging energy bills but insisted it was her priority to slash taxes to boost economic growth.

One of her closest allies, the Work and Pensions Secretary Therese Coffey, admitted the GDP figures were concerning but added: “That’s why we need I think, with Liz as Prime Minister, to change course and to get a plan for growth – an element of reducing taxes both for working people, but also not putting up more corporation taxes, which can be a drain on investment into companies and businesses.”

The minister also dismissed criticism that the Tory leadership contest, which will not be settled until September 5, had created a vacuum at the top of government just as urgent action was needed.

She highlighted the existing support package, which is worth £37 billion, and added on Sky News: “It’s important to say government is working already to consider potential options that could be taken forward in order to potentially offer more support.” Yesterday Mr Johnson, Mr Zahawi and Business Secretary Kwasi Kwarteng met the leaders of the UK’s biggest energy firms to discuss how they might offer further help as bills rise, although no firm plan of action emerged from the talks.

The economy had been expected to recover strongly from the deepest recession in recent history in 2020 caused by the extreme measures taken to tackle the Covid crisis. However, that bounce quickly fizzled out, initially as a result of the Omicron variant outbreak last winter and more recently due to the squeeze on consumer spending. That has been caused by rocketing energy bills, inflation at 40-year highs and rising interest rates.

The Office for National Statistics said June’s decline in output was driven partly by the extra bank holiday to mark the Queen’s platinum jubilee and a reduction in health service activity as Covid testing and vaccine programmes continued to wind down.

With the extra bank holiday distorting the data, forecasters now expect a corresponding economic bounce in July. That means that the third quarter of the year overall is likely to see growth before what the Bank forecasts will be five quarters of contraction. A recession is usually defined as two consecutive quarters of negative growth.

Labour’s shadow chancellor Rachel Reeves said: “The economy shrinking. Inflation skyrocketing. It is clearer than ever that the Conservatives have lost control of the economy.” Liberal Democrat Sarah Olney MP said: “The warning lights are flashing red but the Government is missing in action.”