There’s good news for the UK economy – but not necessarily for the chancellor

At any other time, any other the chancellor would be quite delighted by the economic data out this morning.

According to a key measure of activity (the purchasing manager’s index), the economy is not contracting, but is expanding, at a decent whack too.

It may be too early to conclude that the UK will avoid a recession – but nor is it a crazy idea either.

Then there is the **public finance data**, which suggests both that households and businesses are doing a bit better than expected (they’re paying more in taxes) and that the deficit this year might not be quite as high as the Office for Budget Responsibility had hoped.

The key thing to look at here is the disparity between where the OBR expected the monthly deficit (the gap between what the government spends and raises in taxes) to be and where it has actually ended up.

As of January – the latest month for which we have data – the deficit was £22bn lower than the OBR’s forecasts.

Then factor in the fact that we know there’s an extra slug of money being transferred into the public finances (long story, but it’s a change in the valuation of student loans) and the gap is over £30bn.

Now, the past few years have been notable for big spending, to the extent that it’s quite easy to forget the significance of figures like this, but what it’s worth, £30bn is a big number – enough to finance a 5p cut in the basic rate of income tax.

Or plenty of other things too.

Reasons not to be cheerful

Which brings us to the reason why the chancellor might not be quite as jolly as he would usually be to see the government considerably less in the red than the OBR had predicted only a few months ago.

He is right in the middle of a battle with the unions, in which he has argued against double digit pay rises for nurses, doctors, rail guards and so on.

The idea that he couldn't afford these public sector pay increases is considerably weaker in the face of these figures.

The chancellor's other rationale for keeping public sector pay rises down is that inflation remains a clear and present threat to the economy.

Then again, the Bank of England has signalled that it is now very near the peak for interest rates, and inflation itself rose by **slightly less than expected** last month.

Either way, it's hard not to conclude that this data weakens the government's hand in the ongoing negotiations.

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Caution required for January figures

Still, it's worth noting a couple of reasons for caution. The first is that public finances data is especially volatile around this time of year.

January's figures are invariably boosted by tax revenues (it's a big month for payments) but we've yet to find out how high self-assessment revenues will be (they tend to hit the exchequer in February).

Moreover, one of the other reasons the government isn’t spending as much as expected is that wholesale gas prices have fallen.

That is great news for pretty much everyone, but there’s no guessing what happens to them next; that depends on Vladimir Putin as much as anyone in the UK.

Finally it’s worth remembering that while these numbers are certainly better than expected, they’re not exactly “good”.

The UK would still face a £140bn deficit this year – a very high figure by “normal” standards. Even if it manages to avoid a technical recession, UK output is very weak right now.

Even so, there’s no harm in taking a moment to enjoy the latest figures.

Good news is good news – unless, that is, you’re Jeremy Hunt.