

# ECONOMIC PULSE

## UNITED KINGDOM: RESIGNATIONS AND INFLATION

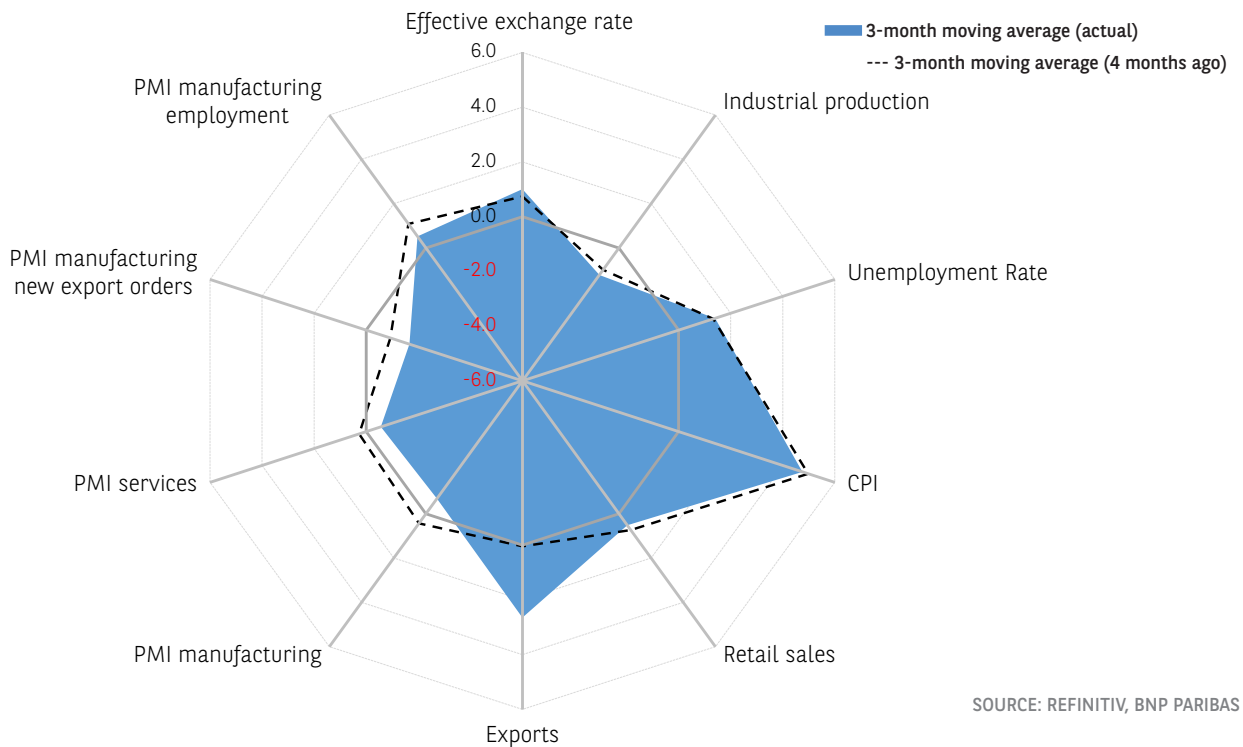
Inflation jumped sharply in September, moving into the symbolic territory of double digits (10.1% y/y), slightly above expectations (10%). The rise in inflation is expected to continue as it is widespread in the economy. Furthermore, core inflation rose significantly in September (+0.5 points) to 7.5% y/y.

Nevertheless, inflation continues to weigh on economic activity. Household confidence remained largely negative (-47 points) although it recovered slightly (+2 points) in October, thanks to the first support measures, such as the gas and electricity price caps, coming into force. On the corporate side, surveys show the business climate remains close to a tipping a point. While the manufacturing sector index is already in contraction territory for the second consecutive month (48 points), the services sector remains balanced (50 points) thanks to hopes for a potential recovery in activity. Another area of concern is the rise in the price of imports (+3.1% m/m and +21% y/y in September), partly due to the fall in the pound since the beginning of the year but especially since early September, which could have a negative impact on domestic inflation. However, the UK is not reducing its imports, on the contrary. According to the latest publication by the Office for National Statistics (ONS), the British trade deficit widened to GBP -25.6 billion in for the three months to August, mainly due to the sharp increase in imports (+5.7% m/m) from countries outside the European Union (EU) (+13.3% m/m). Exports grew well, but to a lesser extent (1.2% m/m), mainly destined for countries outside the EU (4.1%). To cope with the widening trade deficit, the UK Government recently accelerated ongoing trade negotiations to encourage its export opportunities and to reduce the cost of its imports, particularly with India and the Gulf countries, but also by joining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

The recent fall in the value of the British pound and the rise in gilt yields, British sovereign bonds and, more widely, the worrying economic situation of the United Kingdom partly explain Prime Minister Liz Truss' resignation and the withdrawal of many of tax cuts from the growth plan. This withdrawal has restored some confidence in the control of public finances. Although the transition is faster than when Boris Johnson was replaced, the UK now finds itself in a weaker economic environment.

Félix Berte

### UNITED KINGDOM: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

The indicators in the radar are all transformed into 'z-scores' (deviations from the long-term average, as standard deviations). These z-scores have mean zero and their values are between -6 and +6. In the radar chart, the blue area shows the actual conditions of economic activity. It is compared with the situation four months earlier (dotted-line). An expansion of the blue area compared to the dotted area signals an increase in the variable.

