

The labour market is deteriorating

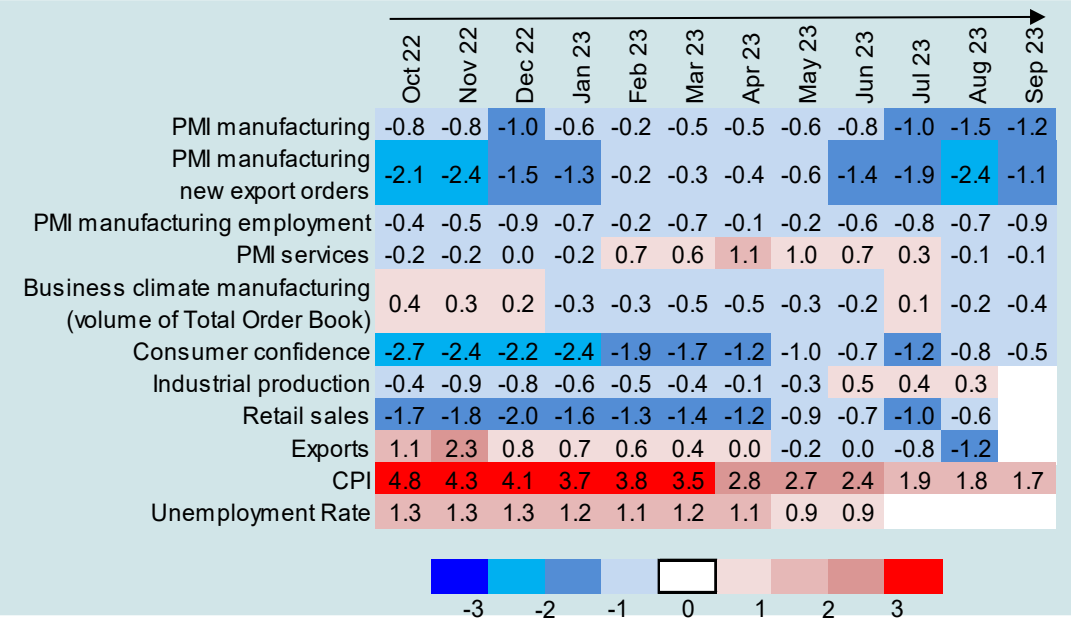
The UK labour market has reached a tipping point. For the Bank of England (BoE), in addition to the slowdown in the housing market, this is a further indication of the wider transmission of the rise in interest rates to the real economy. The ONS labour market report for September was postponed until October 24th. Nevertheless, data from the HMRC indicated an 8,360 drop in employees last month; this is the second consecutive monthly fall and a steeper decline than in the previous month (-5,071). Furthermore, the PMI employment indices fell sharply in September, pulled down by services (-3.3 points to 47.9), which slipped below the rate of expansion for the first time since the beginning of the year.

In addition, inflation surprised on the upside in September, remaining at 6.7%. A drop is nevertheless expected in the coming months: on a 3m/3m annualised rate, the rise in consumer prices has slowed sharply below the 2% mark, to 1.9%). Nevertheless, the extent of disinflation remains uncertain due to the recent rebound in oil prices. Growth in regular pay fell slightly to 7.7% y/y in September, but is expected to remain above inflation, at least until the end of the year. With regards to the housing market, the y/y drop in prices intensified in September to -4.7% according to Halifax, while it stabilised at -5.3% according to the Nationwide Index.

Against this backdrop, the UK economy is expected to record very weak growth in Q3, which we currently forecast at 0.1% q/q. To achieve this figure however, the end of Q3 will need to be better than the start. According to ONS monthly figures, real GDP rose slightly by 0.1% m/m in August. However, this only partially offsets the 0.6% m/m contraction recorded the previous month (N.B. the monthly figures are based on value added and not real GDP).

Guillaume Derrien (completed on 18 October 2023)

United Kingdom: economic indicators monthly changes



The indicators are all transformed into "z-scores", i.e. deviations from the long-term average value (expressed in standard deviation), the average of which is zero (except for the PMI/ISM indices where the average is 50, the threshold between the expansion zone and the contraction zone of the activity). Positive (negative) values indicate the number of standard deviations above (below) the mean value. Reading note: the red colour indicates dynamic activity, high inflation and low unemployment, the blue colour indicates slower activity, low inflation and high unemployment.

GDP growth

Actual				Carry-over	Forecast		Annual forecasts (y/y)		
Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q4 2022	Q3 2023	Q4 2023	2022 (observed)	2023	2024
-0.1	0.1	0.3	0.2	0.1	0.1	0.1	4.4	0.6	0

Source: Refinitiv, BNP Paribas

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