

The Bank of England is flexing its muscles

British economic activity recovered by 0.2% m/m in April. This recovery follows a 0.3% m/m contraction in March. This should be put into perspective since monthly GDP remains 0.1% below the level reached in January and February. The services sector returned to growth (+0.3% m/m) after two months of contraction. Within this sector, consumer-facing services rose the most (+1% m/m), highlighting a certain resilience of household consumption in the face of inflation and interest rate shocks. Industrial production, on the other hand, fell a third time in four months since the beginning of 2023 (-0.3% m/m in April).

The effects of monetary tightening are beginning to be felt in the dynamics of household credit. According to the Financial Conduct Authority, new mortgage loans were down 28% q/q in Q1 and reached a level not seen since Q2 2018 (except Q2 2020).

Inflation stagnated in May (8.7% y/y), strengthening fears about its persistence. Indeed, it remains above the Bank of England's (BoE) forecast of 8.3% y/y. Core inflation continued to rise (7.1% y/y), as did that of services (7.4% y/y), under close scrutiny by the BoE. Faced with persistent inflation, the BoE raised its key rate by 50 bps at its June meeting and is expected to add 50 bps at its August meeting and 25 bps at its September meeting.

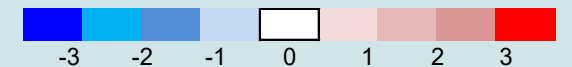
The labour market is showing signs of relaxation, which is, however, insufficient for the time being to slow down wage growth, maintaining the risk of a price-salary loop. The UK economy created 7,000 jobs in April, the lowest since the decline in February 2021. Labour shortages are now reducing, as evidenced by the drop in the number of vacancies since the April 2022 peak (-19.3% y/y in April). The ratio of vacant jobs to the number of unemployed continued to fall in March, with 0.85 vacant jobs for one unemployed person (compared to a high of 1.07 in July). Wage growth continued in the private sector (7.6% y/y) and in the public sector (+5.6% y/y) in April.

We expect modest but positive growth in Q2 (+0.1% q/q). Despite the shocks, the British economy should escape a recession thanks in particular to public support. Growth should nevertheless remain slightly positive, with most of the effects of past rate hikes still to come.

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United Kingdom: economic indicators monthly changes

	Jun 22	Jul 22	Aug 22	Sep 22	Oct 22	Nov 22	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23
PMI manufacturing	0.6	0.5	-0.6	-0.3	-0.8	-0.8	-1.0	-0.6	-0.2	-0.5	-0.5	-0.6
PMI manufacturing new export orders	-0.7	-0.8	-1.7	-1.8	-2.1	-2.4	-1.5	-1.3	-0.2	-0.3	-0.4	-0.7
PMI manufacturing employment	0.6	1.2	0.1	0.2	-0.4	-0.5	-1.0	-0.7	-0.2	-0.7	-0.1	-0.2
PMI services	0.8	0.5	0.2	0.0	-0.2	-0.2	0.0	-0.2	0.7	0.6	1.1	1.0
Business climate manufacturing (volume of Total Order Book)	2.0	1.5	1.0	0.2	0.5	0.4	0.3	0.3	-0.3	-0.3	-0.5	-0.5
Consumer confidence	-2.3	-2.4	-2.4	-2.6	-2.9	-2.7	-2.4	-2.2	-2.5	-1.9	-1.7	-1.2
Industrial production	-1.1	-1.1	-1.2	-1.1	-0.8	-0.9	-0.8	-0.6	-0.6	-0.5	-0.4	
Retail sales	-2.0	-1.3	-1.8	-2.0	-1.6	-1.8	-1.9	-1.5	-1.2	-1.2	-1.1	
Exports	0.5	2.2	3.7	2.8	1.1	2.3	0.8	0.7	0.7	0.4	0.0	
CPI	4.8	5.0	4.6	4.5	4.8	4.4	4.1	3.8	3.8	3.5	2.8	2.8
Unemployment Rate	1.4	1.5	1.4	1.3	1.3	1.3	1.3	1.2	1.1	1.2		



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)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q3 2023	2022 (observed)	2023	2024
0.1	-0.1	0.1	0.1	0.2	0.1	0.3	4.1	0.4	0.7

Source: Refinitiv, BNP Paribas