

Combatting inflation remains difficult

The UK economy contracted in May (-0.1% m/m) according to the ONS, after growth of 0.2% m/m in April. The services sector stagnated, while industrial production and construction fell by 0.6% and 0.2% m/m respectively. According to the June PMI survey, activity increased in the services sector, but decreased in the manufacturing sector. While the extra bank holiday for King Charles III's coronation probably contributed to the downturn in activity in May, the UK economy remains in a more extended slowdown phase. The economy stagnated indeed on average over 3 months in May.

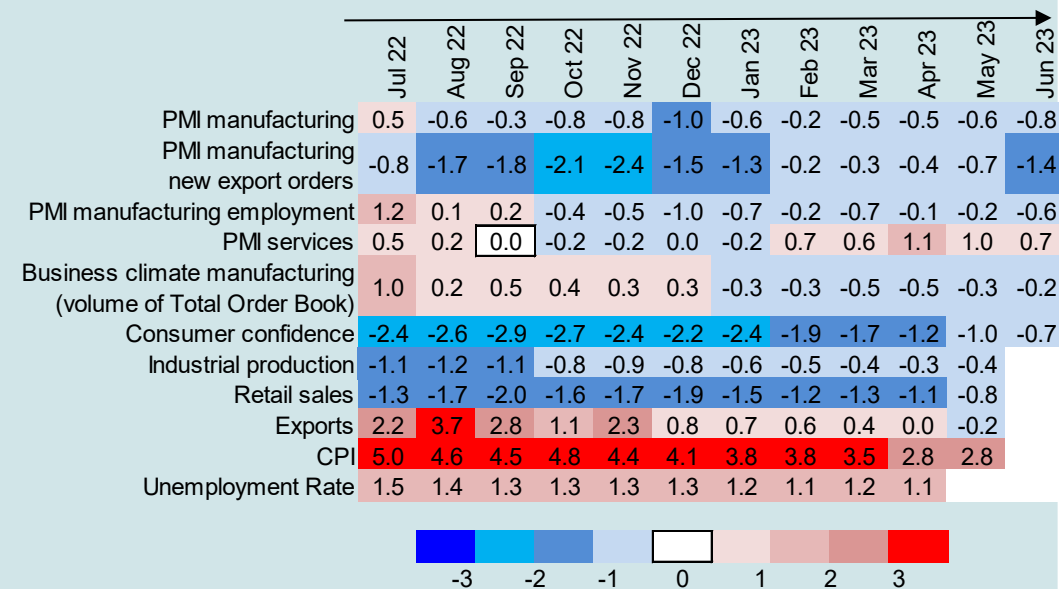
Inflation, after stabilising in May, slowed in June, from 8.7% to 7.9%, while its core measure fell from 7.1% to 6.9%. Although this report contains positive news such as the deceleration in prices for food products (17.3% y/y), hotels and catering (9.5% y/y) and household goods (6.5% y/y), it will not completely reassure the Bank of England (BoE). Inflationary pressures remain significant, even increasing in certain sectors, particularly in communications (9.5% y/y), health services (8.2% y/y) and culture and leisure (6.7% y/y). In annualised 3m/3m variation, the core index reached a new record of 11.6%, driven by services (+12.7%). We therefore expect the BoE's monetary tightening to continue in its August meeting, with a 50bps hike in its key rate.

As far as it was concerned, the labour market report for July was mixed. On the one hand, wage growth, stable at 7.3% y/y in May, was worrying due to its strength as well as its increasingly widespread nature, strengthening the wage-price spiral. The government's final proposal for wage increases in the public sector, (5 to 7% depending on the sector), should contribute to high wage growth in the country. Remuneration in the public sector was up 5.7% year-on-year in May. On the other hand, preliminary employment data shows a slowdown in the labour market which should play a medium-term role in reducing wage growth. The provisional estimate for June indicates a net loss of 9,000 jobs, while the unemployment rate exceeded the 4% threshold for the first time since January 2022. Finally, the number of vacancies fell by 85,000 (-7.6% 3m/3m) over the period from March to May.

Economic activity in the United Kingdom is expected to remain sluggish until the end of 2024 and to go through a period of technical recession in the first half of 2024 according to our forecasts. For 2023, we expect growth of 0.4%. The persistence of inflation should push the BoE to raise its key rate to 5.75% over the third quarter, which will weigh on investment.

Guillaume Derrien and Louis Morillon (intern) (article completed on 19 July 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) | | |
|---------|---------|---------|---------|------------|----------|---------|------------------------|------|------|
| 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 | 0.2 | 4.1 | 0.4 | 0 |

Source: Refinitiv, BNP Paribas

