

# ECONOMIC PULSE

## UNITED KINGDOM: ENTERING RECESSION

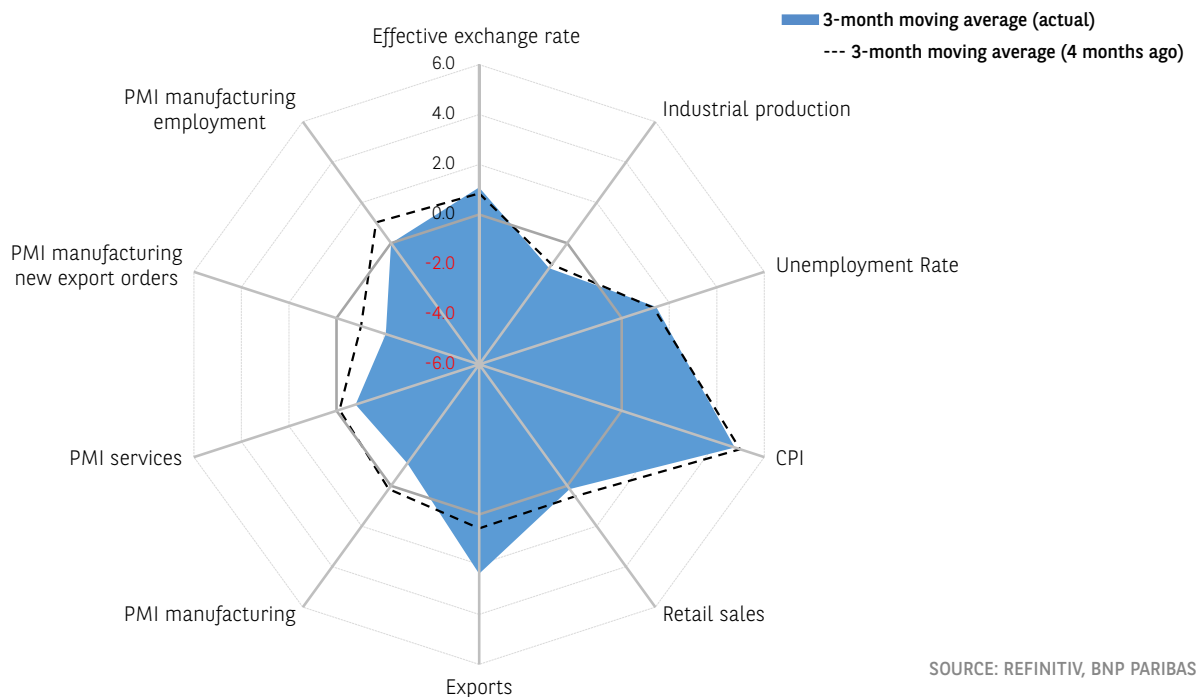
According to the preliminary estimate by the Office for National Statistics (ONS), quarterly growth in UK GDP fell by 0.2% (q/q) in Q3 (compared with +0.7% in Q1 and +0.2% in Q2). This contraction is mainly due to higher-than-expected destocking, particularly in the manufacturing and retail sectors. The fall in household consumption (-0.5% q/q), due to the rise in the cost of living, was fully offset by the strong upturn in public spending (+1.3%). For its part, gross fixed capital formation recovered sharply (+2.5% q/q, compared with -1.4% in Q2), buoyed by public investment (+7.6%) while private investment fell (-0.5%), against a backdrop in which uncertainty and the tightening of financial conditions delayed investments. Likewise, external trade contributed strongly to GDP growth (3.3 percentage points), thanks to a drop in imports (-3.2% q/q) while exports - mainly non-monetary gold - grew strongly (+8%).

Other bad news for the UK economy is that inflation is continuing to spread. The consumer price index (CPI) rose by one percentage point to +11.1% (y/y) in October (+2% m/m). The sharp rise in the cost of living was caused by the increase in gas and electricity prices, despite measures taken by the government, and food prices (+16.5% y/y), which are at their highest in 45 years. Core inflation remained stable year-on-year (+6.5%), but continued to rise month-on-month (+0.7%), which should justify a further rise in key rates at the December Monetary Policy Committee (MPC) meeting.

In his Autumn Statement, Jeremy Hunt, Chancellor of the Exchequer, announced that the UK is entering a recession, according to projections from the Office for Budget Responsibility (OBR). The Chancellor of the Exchequer also unveiled a plan for "stability, growth and public services" which is intended to support household purchasing power with targeted support of GBP 26 billion. On the other hand, companies are unlikely to benefit from new support measures or from the extension of existing measures. The plan also includes a significant budget consolidation of GBP 55 billion by 2027-2028, split between tax hikes (GBP 25 billion) and public spending savings (GBP 30 billion), to ensure the sustainability of public finances.

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### 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.

