

The GDP contraction should wait until the second quarter

UK GDP stagnated in February according to the ONS, after a 0.4% increase m/m in January. The drop in activity in services (-0.1% m/m) and industry (-0.2% m/m) was offset by the upturn in the construction sector (+2.4% m/m), which had contracted sharply in January (-1.7% m/m). The economy was therefore resilient, despite the negative impact of strikes in the public administration and education, which led to a drop in activity in these two sectors, of 1.1% m/m and 1.7% m/m respectively in February. At the same time, March's PMI indices showed an improvement in activity in services (52.8), while manufacturing sector shrank (47.9).

Retail sales, although remaining down 3.5% y/y, rose sharply in February (+1.2% m/m), driven by sales in non-food (+2.4% m/m, excluding fuel) and food retail (+0.9% m/m). Given these data, overall private consumption was therefore able to hold out in February, limiting the expected drop in GDP in Q1 2023.

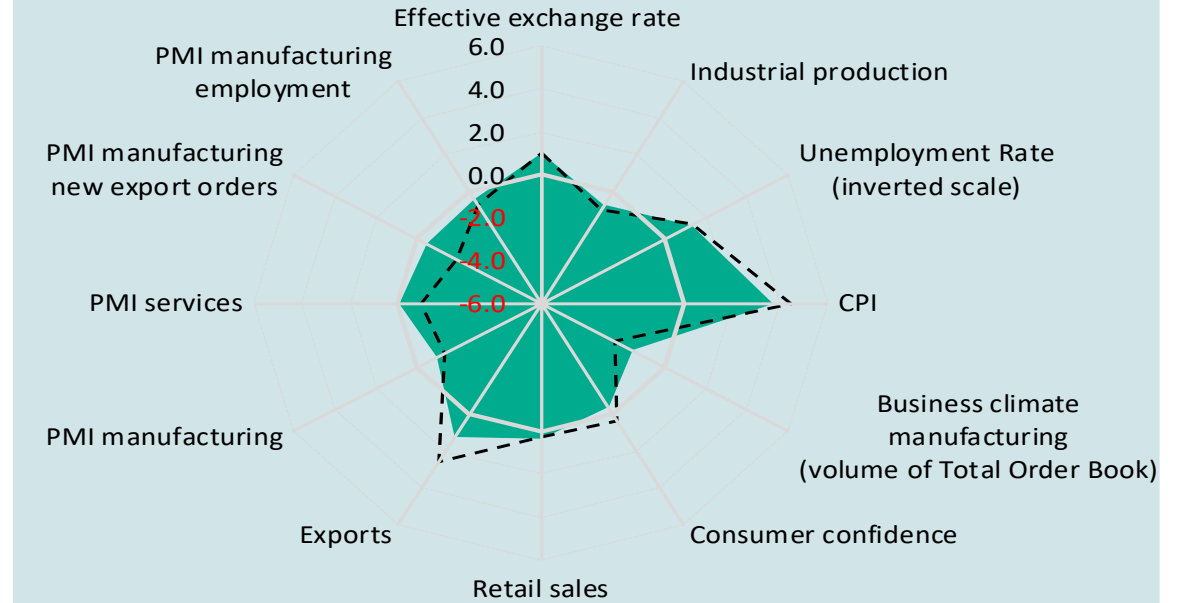
Inflation fell in March (+10.1% y/y), mainly due to the decrease of fuel prices and to favourable base effects on energy prices. However, this level remains exceptionally high and uncomfortable for the Bank of England. The persistence of core inflation (+6.2% y/y), the still high wage growth (see below), as well as the relatively good activity figures are all factors that will support its decision to raise rates by 25 bps at its next meeting in mid-May.

The labour market remains resilient but continues to slow. According to the ONS, the unemployment rate rose from 3.7% in January to 3.8% in February. Wage growth momentum is continuing at a sustained pace (+6.6% y/y in February), which has two implications. On the one hand, this means that jobseekers retain significant wage bargaining power and that their inflation expectations are staying high. On the other hand, this also means that wage pressure on prices will persist, slowing disinflation.

Defying forecasts, the British economy is holding up and does not seem to be heading towards the expected contraction in Q1. However, this contraction would not be avoided in Q2 (-0.2% q/q according to our forecasts), due to the effect of inflation on household purchasing power, and to the rise in interest rates which is impacting business investment.

Guillaume Derrien and Louis Morillon (intern). Article completed on 19/04/2023.

United Kingdom: economic indicators quarterly changes



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 green 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.

United Kingdom: GDP growth

Actual			Carry-over	Forecast			Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	2022 (observed)	2023	2024
0.1	-0.1	0.1	0.1	-0.3	-0.2	0.3	4.1	-0.4	1

Source: Refinitiv, BNP Paribas



BNP PARIBAS ECONOMIC RESEARCH

William De Vijlder
Chief Economist +33 1 55 77 47 31 william.devijlder@bnpparibas.com

OECD ECONOMIES AND STATISTICS

Hélène Baudchon
Deputy chief economist, Head - United States +33 1 58 16 03 63 helene.baudchon@bnpparibas.com

Stéphane Colliac
France, Germany +33 1 42 98 43 86 stephane.colliac@bnpparibas.com

Guillaume Derrien
Eurozone, Southern Europe, Japan, United Kingdom - International trade +33 1 55 77 71 89 guillaume.a.derrien@bnpparibas.com

Veary Bou, Tarik Rharrab
Statistics

ECONOMIC PROJECTIONS, RELATIONSHIP WITH THE FRENCH NETWORK

Jean-Luc Proutat
Head +33 1 58 16 73 32 jean-luc.proutat@bnpparibas.com

BANKING ECONOMICS

Laurent Quignon
Head +33 1 42 98 56 54 laurent.quignon@bnpparibas.com

Céline Choulet +33 1 43 16 95 54 celine.choulet@bnpparibas.com

Thomas Humblot +33 1 40 14 30 77 thomas.humblot@bnpparibas.com

Marianne Mueller +33 1 40 14 48 11 marianne.mueller@bnpparibas.com

EMERGING ECONOMIES AND COUNTRY RISK

François Faure
Head - Argentina, Turkey - Methodology, Modelling +33 1 42 98 79 82 francois.faure@bnpparibas.com

Christine Peltier
Deputy Head - Greater China, Vietnam - Methodology +33 1 42 98 56 27 christine.peltier@bnpparibas.com

Stéphane Alby
Africa (French-speaking countries) +33 1 42 98 02 04 stephane.alby@bnpparibas.com

Pascal Devaux
Middle East, Balkan countries +33 1 43 16 95 51 pascal.devaux@bnpparibas.com

Hélène Drouot
South Korea, Philippines, Thailand, Andean countries +33 1 42 98 33 00 helene.drouot@bnpparibas.com

Salim Hamad
Latin America +33 1 42 98 74 26 salim.hamad@bnpparibas.com

Cynthia Kalasopatan Antoine
Ukraine, Central European countries +33 1 53 31 59 32 cynthia.kalasopatan.antoine@bnpparibas.com

Johanna Melka
India, South Asia, Russia, Kazakhstan +33 1 58 16 05 84 johanna.melka@bnpparibas.com

Lucas Plé
Africa (Portuguese & English-speaking countries) lucas.ple@bnpparibas.com

CONTACT MEDIA

Mickaëlle Fils Marie-Luce +33 1 42 98 48 59 mickaëlle.filsmarie-luce@bnpparibas.com

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