UNITED KINGDOM

Growth relapses, the housing market stabilizes

With the more pronounced disinflation of consumer prices and wages, the Bank of England's decision to keep the bank rates unchanged at its meeting on 14 December was widely expected. Nevertheless, as in the euro area, the signal for a monetary pivot did not come. In fact, the three members of the MPC in favour of a rate hike in November maintained their position in December.

On a year-on-year basis, the consumer price index slowed from 4.6% in October to 3.9% in November. There are many drivers for this fall: more marked energy deflation (-1.2 percentage points to -16.9%) and stronger disinflation in both food products (-0.9 pp to 9.2%) and household equipments (-0.8 pp to 2.3%). Core inflation also fell (-0.6 points to 5.2%). In seasonally-adjusted terms, the monthly change in the core index has stalled in recent months, and even fell into negative territory for the first time since February 2021.

Economic activity remains very fragile and we do not expect an upturn before H2 2024, although this would be very moderate. According to preliminary figures from the ONS, real GDP contracted by 0.3% m/m in October, after stagnating in Q3. Despite the fact that aggregate real wages are now rising, household consumption of goods is lagging, and remains below its pre-pandemic level. Retail sales fell again in October (-0.3% m/m), reaching their lowest level since May 2020, in the middle of the lockdown period. Household confidence improved somewhat in December - the GfK consumer index climbed by 2 points (-22) - but the sub-index on intentions to purchase durable goods remains well below its long-term average.

The housing market is showing signs of stabilisation: the house price indices published by Nationwide and Halifax both rose in October and November. The RICS Survey for November showed clear improvements, particularly in the indices for sales and price expectations, which are at their highest since February 2022 and August 2022 respectively. However, downside risks remain significant in 2024. As the Bank of England pointed out in its latest Financial Stability Report, the effects of rising interest rates on household borrowing costs will continue to propagate over the coming year and until 2026 as interest rate adjustments are made. The average interest rate on variable-rate loans continued to rise very slightly in November, from 8.01% in October to 8.03%, according to the BBA.

According to our latest forecasts, economic activity is therefore expected to remain on a knife edge in 2024, and even stagnate. Differences in economic activity trajectory with respect to the euro area and the United States are therefore expected to widen next year.

Guillaume Derrien *(article completed on 20/12/2023)*

United Kingdom: economic indicators monthly changes*

	Dec 22	Jan 23	Feb 23	Mar 23	Apr 23	May 23	Jun 23	Jul 23	Aug 23	Sep 23	Oct 23	Nov 23
PMI manufacturing	-1,0	-0,6	-0,1	-0,4	-0,5	-0,6	-0,7	-1,0	-1,5	-1,2	-1,1	-0,6
PMI manufacturing new export orders	-1,5	-1,3	-0,2	-0,3	-0,4	-0,6	-1,4	-1,9	-2,4	-1,1	-1,4	-0,7
PMI manufacturing employment	-0,9	-0,7	-0,2	-0,7	-0,1	-0,2	-0,6	-0,8	-0,7	-0,9	-0,8	-0,6
PMI services	0,0	-0,2	0,7	0,6	1,1	1,0	0,7	0,3	-0,1	-0,1	-0,1	0,2
Business climate manufacturing (volume of Total Order Book)	-0,4	-0,3	-0,5	-0,5	-0,4	-0,2	0,1	-0,2	-0,4	-0,8	-1,3	
Consumer confidence	-2,4	-1,8	-1,7	-1,2	-0,9	-0,7	-1,2	-0,8	-0,5	-1,2	-0,7	
Industrial production	-0,8	-0,6	-0,5	-0,4	-0,1	-0,3	0,5	0,4	0,4	0,4	0,0	
Retail sales	-2,0	-1,6	-1,3	-1,4	-1,2	-0,9	-0,8	-1,1	-0,6	-0,6	-0,9	
Exports	0,8	0,7	0,6	0,4	0,0	-0,2	0,0	-0,8	-1,2	-1,4	-0,3	
CPI	4,1	3,7	3,8	3,5	2,8	2,7	2,4	1,8	1,8	1,7	0,8	
Unemployment Rate	1,3	1,2	1,1	1,2	1,1	0,9	0,9	0,9				

-3 -2 -1 0 1 2 3

* 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)			
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q1 2024	2022 (observed)	2023	2024	2025
0,1	0,3	0,2	-0,0	0,1	0,0	-0,1	4,4	0,5	0,0	1,1

Source: Refinitiv, BNP Paribas