

## Improvement on the inflation front

Consumer price inflation fell sharply in October, from 6.6% y/y in September to 4.6% y/y. Nevertheless, this decrease remains limited by the strong increase in wages, which continue to put upward pressure on services prices. A 5% increase in gas and electricity prices from 1 January has also been announced. In addition, the transmission of interest rates to mortgage interest payments remains significant (+50% between October 2022 and October 2023 according to the retail price index, RPI), and is weighing heavily on households' financial situation.

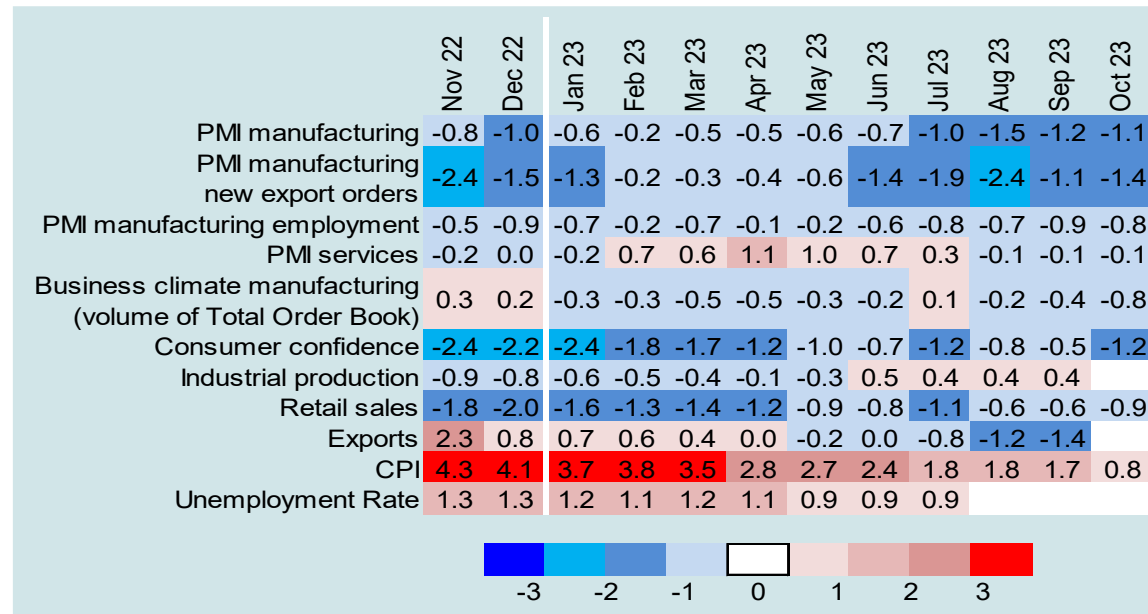
Against this very difficult backdrop for purchasing power, Jeremy Hunt, the Chancellor of the Exchequer, unveiled the budget plan for 2024 in his Autumn Statement. This includes a series of measure to support household income, including a 2-point reduction in the national insurance rate (which will fall to 10%), as well as an increase in the minimum wage and the state pensions.

Private consumption contracted by 0.4% q/q in Q3 and remains anchored below its 2019 levels. Yet the labour market is resilient: net job creation remained positive in September and October, according to the "experimental" data provided by the ONS. The unemployment rate stabilised at 4% in October, according to social security figures.

Real GDP growth stagnated in Q3, but the breakdown by expenditure item indicates a worse situation on the domestic demand front, offset by a positive contribution from net export. In addition to the decline in private consumption, corporate investment fell by 4.2% q/q in Q3 (the data is erratic, but it was still the strongest contraction in two and a half years). A recession in the first half of 2024 remains our central scenario. This would be followed by a slow recovery at the onset of the Bank of England's (BoE) monetary easing, with a first rate cut expected in June 2024. With negative growth that we estimate to be -0.1% in 2024 on an annual average (after +0.6% this year), the United Kingdom looks likely to remain one of the weakest links in the G7 next year.

Guillaume Derrien (article completed on 23/11/2023)

## 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)		
Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2022	Q4 2023	Q1 2024	2022 (observed)	2023	2024
0.1	0.3	0.2	-0.0	0.1	0.1	-0.2	4.4	0.6	-0.1

Source: Refinitiv, BNP Paribas