

Q4 GDP: on a tightrope

Following a 0.5% m/m fall in GDP in December according to the ONS, activity in the UK deteriorated in January before making a strong rebound in February according to the PMI survey, particularly in the service sector. The PMI was 49.2 for the manufacturing sector and 53.3 for services. Among the bad news, company insolvencies (up 59% y/y in 2022) reached their highest level since 2009.

Concerning household consumption, retail sales held up well in January (up 0.5% m/m), following a modest but positive increase of 0.1% q/q in consumer spending in Q4 2022, according to the ONS.

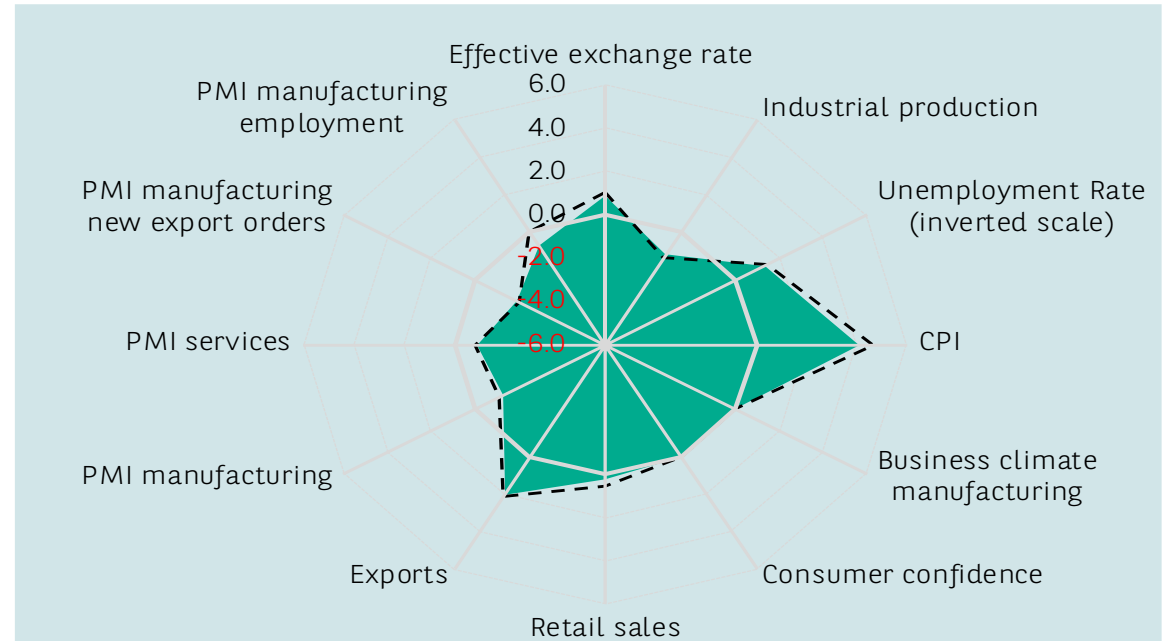
Inflation peaked in October at 11.1%. Further gradual disinflation was seen in January, with prices up 10.1% y/y (10.5% in December). The January CBI survey showed that expectations of selling price inflation had fallen further to 41. Faced with ongoing high inflation, the BoE raised its key rate by a further 50 basis points in early February. We expect a final 25 basis point hike in March, before stabilising at 4.25%.

The job market remains buoyant, with the average wage up 6.7% y/y excluding bonuses in December (compared with an estimated 6.5%). The United Kingdom added 102,000 jobs in January, the highest level since September 2021. However, the signs from CBI surveys for Q1 2023 were more contrasting, indicating a decline in retail employment over the next three months (-9) but growth in manufacturing (+24).

The UK economy avoided a technical recession in Q4 2022, achieving zero quarterly growth on initial estimates. Economic activity was supported by resilient business investment, which returned to pre-pandemic levels. A recession is still expected in the first half of 2023, with rate hikes likely to affect lending and inflation likely to erode household purchasing power.

Hélène Baudchon (in collaboration with Louis Morillon)

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.

GDP growth

Actual			Forecast	Carry-over	Forecast		Carry-over	Annual growth forecasts (y/y)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023	Q2 2023	Q3 2023	Q3 2023	2022 (observed)	2023	2024
0.1	-0.2	0.0	-0.6	-0.7	-0.2	0.2	-0.7	4.1	-0.9	0.8

Source: Refinitiv, BNP Paribas



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