

United Kingdom: The economic situation remains tense

Business climate: further deterioration in industry, construction stalls. The manufacturing PMI (46.9) hit its lowest level in 14 months in February, but the recovery in services (51.0) enabled the composite to remain in expansion territory (50.5). The construction PMI recorded its sharpest fall in two months since August 2021.

Households: confidence up slightly. The GfK index rose in February (+2 points to -22), but did not erase January's fall. The balance of opinion on the one-year financial outlook is back in positive territory. Retail sales rebounded by 1.6% m/m in January, after four months of decline. This upturn was confirmed by the BRC/KPMG survey, which showed retail sales (smoothed over three months) up by 2.2% y/y in February.

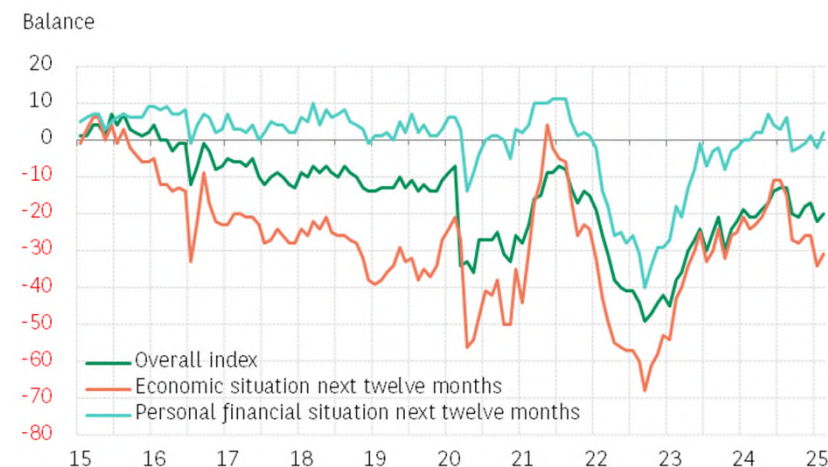
Labour market: first signs of stabilisation, to be confirmed. Payroll employment rose by 0.1% in February (preliminary estimate), while the number of job vacancies has stabilised over the past two months, despite contrasting trends between sectors. The slowdown in job creation is taking time to bring about a deceleration in wage growth, which will be moderately stimulated by the 6.7% increase in the National Living Wage on 1 April.

No let-up in inflation. The rise in food prices and the 6.4% increase in energy price cap in April will push up inflation in Q2 (3.2% compared with 2.9% in Q1). Inflation in services should remain moderate, despite a rebound in January. The Bank of England is expected to opt for the status quo at its meeting on 20 March. We expect the Bank rate to be cut by 25 bp per quarter this year.

We expect business activity to grow by 0.3% q/q in Q1, and more sustained quarterly growth overall in 2025 (between 0.3% and 0.4%). A growth rate of 0.2% should enable growth to return to above 1% (+1.1%).

Guillaume Derrien, article completed on 14/03/2025

GfK consumer confidence



Source: GfK

GDP GROWTH (q/q) : observed, carry-over, forecast

Actual				Carry-over	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	2024 (estimate)	2025	2026
0.9	0.5	-0.0	0.1	0.2	0.3	0.4	0.4	0.9	1.1	0.9

Source: Refinitiv, BNP Paribas