United Kingdom: The labour market is bending but not breaking

The momentum of consumption and industrial production remains unfavourable. Retail sales (excluding motor-fuel) were down by 0.5% m/m in December and by 1.1% in Q4 compared to Q3. The momentum of industrial production, which had posted three consecutive months of decline between September and November, remains very sluggish at the start of 2025. Although the manufacturing PMI is improving (+1.3 points to 48.3), as is the monthly CBI survey, thequarterly CBI data worsened sharply again in Q1 (-23 points to -47, the lowest level since Q4 2022). This survey generally anticipates trend reversals better than monthly figures. In addition, household confidence (GfK index) has been deteriorating since last August, with January posting a 13-month low.

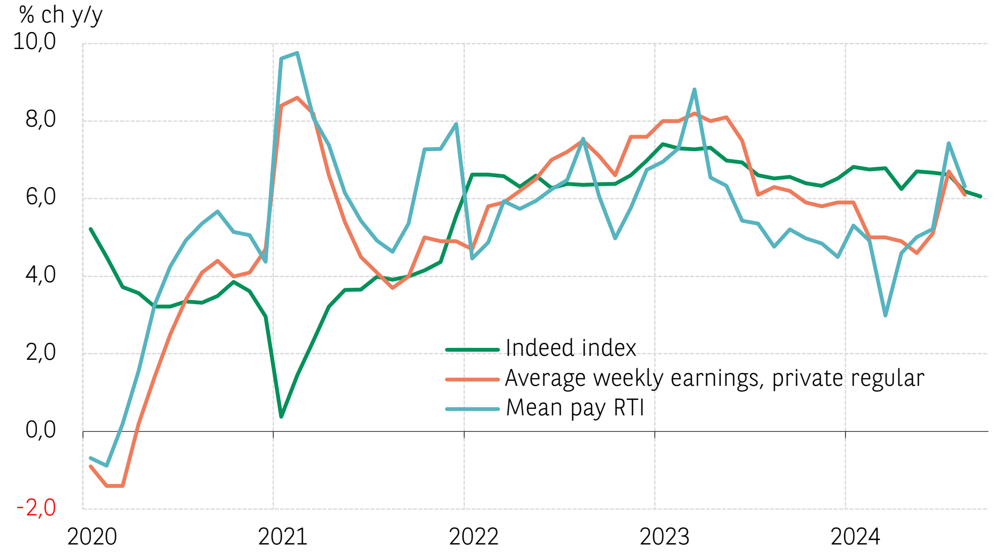
While the deterioration remained contained in 2024, the labour market is gradually starting to bend under the weight of the economic slowdown, the persistently high rise in labour costs and fears about the effects of the restrictive fiscal measures that will come into force on 1 April. The number of employees fell by 0.3% over the last two months of 2024, the biggest drop post-COVID[1]. **Wages, on the other hand, are still very buoyant**, with indicators (Indeed wage tracker, PAYE, average weekly earnings) posting a a year-on-year increase of 6% or more in November-December (*see chart*). While the rise is slow to abate for now, it should eventually become more moderate due to the easing of labour market pressures and less support for public sector wages in 2025. **Inflation fell slightly at the end of the year** (from 2.6% in November to 2.5%), with a significant slowdown in services (from 5.0% to 4.4%), half of which was attributable to the drop in airfares.

Our growth forecasts for 2025 continue to predict a slight strengthening, of 1.1% as an annual average (compared to 0.8% in 2024) in favour of the **continuation of the gradual cycle of monetary easing**. The BoE has just cut its key rates by 25 basis points; three further cuts are expected by the end of the year, at a rate of one per quarter. However, the risks around the inflation scenario are rising, given the developments on the labour market and the introduction of protectionist measures in the United States. Even if the United Kingdom was spared sanctions, the country would suffer the indirect negative impacts of a trade war between the United States and the European Union.

1 Ecoflash, United Kingdom: the downturn in the labour market is becoming clearer and reinforces rate cuts, 21 January 2025.

Guillaume Derrien, article completed on 3 February 2025

Wage indicators in the UK



Source: Indeed, ONS

GDP growth

Actual				Carry-over	Forecast			Annual forecasts (y/y)		
Q1 2024	Q2 2024	Q3 2024	Q4 2024 (estimate)	Q4 2024*	Q1 2025	Q2 2025	Q3 2025	2024 (estimate)	2025	2026
0.7	0.4	0.0	0.3	0.3	0.3	0.4	0.4	0.8	1.1	0.9

* Calculate with the Q4 2024 estimate

Source: Refinitiv, BNP Paribas