

UNITED KINGDOM

The recession is still ahead

According to the ONS, British GDP recovered by 0.3% m/m in January, after dropping 0.5% m/m in December. Services contributed 0.4 points, thanks in part to a return to normal working levels in January (end of the Christmas break, fall in the number of work days lost due to strikes). Manufacturing activity was down for the 3rd consecutive month in January (-0.4% m/m). Despite a generally positive January, economic activity is expected to decline over the quarter on the back of rising interest rates.

Consumer confidence is still at record low levels, but its recovery in February has provided grounds for optimism (-38 compared to -45 in January). The "Personal finances" (rising from -27 to -18) and "General economic situation" (rising from -54 to -43) components picked up significantly. However, households are still hesitant about making major purchases (falling from -40 to -37).

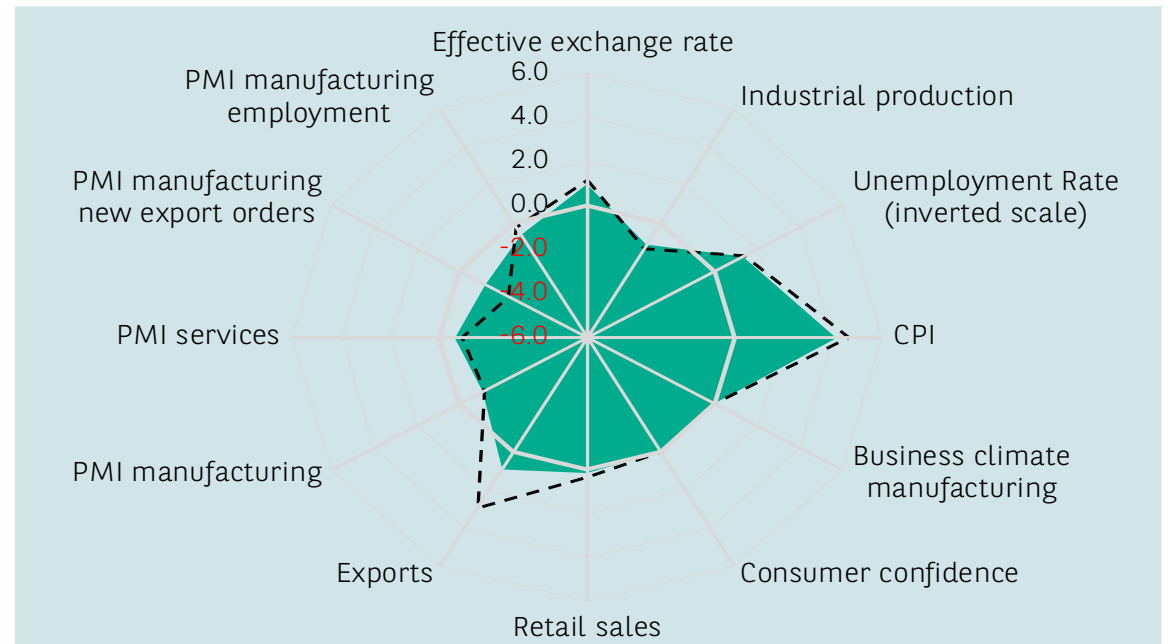
Disinflation came to a halt in February (+10.4% y/y compared to +10.1% y/y in January). This surprise rise is characterized by the sharp increase in food prices (+18.3% y/y) and in hotel and restaurant prices (+12.1% y/y) and, more generally, by more persistent inflation, as shown by the increase in core inflation to 6.2% y/y (compared to +5.8% y/y in January). The Bank of England (BoE) hiked its bank rate by a further 25 bps to 4.25% at its meeting on 23 March. We expect this level to be the terminal rate.

According to the ONS, 98,000 new jobs were created within the UK economy in February, a sign that the labour market is holding up well. Salaries rose 6.5% y/y in January, which was slightly down on December (+6.6% y/y). Even though this is a strong increase, it is still not keeping up with inflation and households have continued to lose purchasing power (with a wage decrease of 3.7% y/y in January in real terms).

Although the British economy kept holding up well during the early stages of Q1, we are still expecting a recession during the first half of 2023 (-0.3% q/q in Q1 and then -0.2% q/q in Q2), before a recovery during the second half of the year (+0.3% q/q in Q3 and then +0.2% q/q in Q4). The repercussions of the hike in interest rates on investment and the fall in real household incomes on consumer spending should be fully felt, before the economy rebounds in particular thanks to inflation abating.

Guillaume Derrien and Louis Morillon (article completed on 23/03/2023)

United Kingdom: 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.

United Kingdom: GDP growth

	Actual			Carry-over	Forecast			Annual growth forecasts (y/y)		
	Q2 2022	Q3 2022	Q4 2022		Q4 2022	Q1 2023	Q2 2023	Q3 2023	2022 (observed)	2023
	0.1	-0.2	0.0	-0.1	-0.3	-0.2	0.3	4	-0.4	1

Source: Refinitiv, BNP Paribas



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