

The storm has dissipated

The UK economy grew 0.1% q/q during Q1 2023, at the same pace as during Q4 2022. Growth was erratic in the first quarter. Real GDP initially bounced back in January (+0.5% m/m) following a contraction in December (-0.5% m/m), buoyed by the services sector (+0.8% m/m). The economy then stagnated in February, with growth in the construction industry (+2.6% m/m) being offset by a downturn in the services sector (-0.2% m/m). Finally, GDP fell in March (-0.2% m/m), with services (-0.5% m/m) once again being the main negative contributor. Compared to the period when the war in Ukraine started (Q1 2022), UK GDP has been virtually unchanged, posting a growth of only 0.2%.

The consumer confidence index continued to recover in May (-27, compared to -45 in January), returning to levels seen prior to the war in Ukraine. Nevertheless, this improvement has not yet resulted in more buoyant consumption: household spending stagnated in Q1, following an increase of 0.2% q/q in Q4 2022.

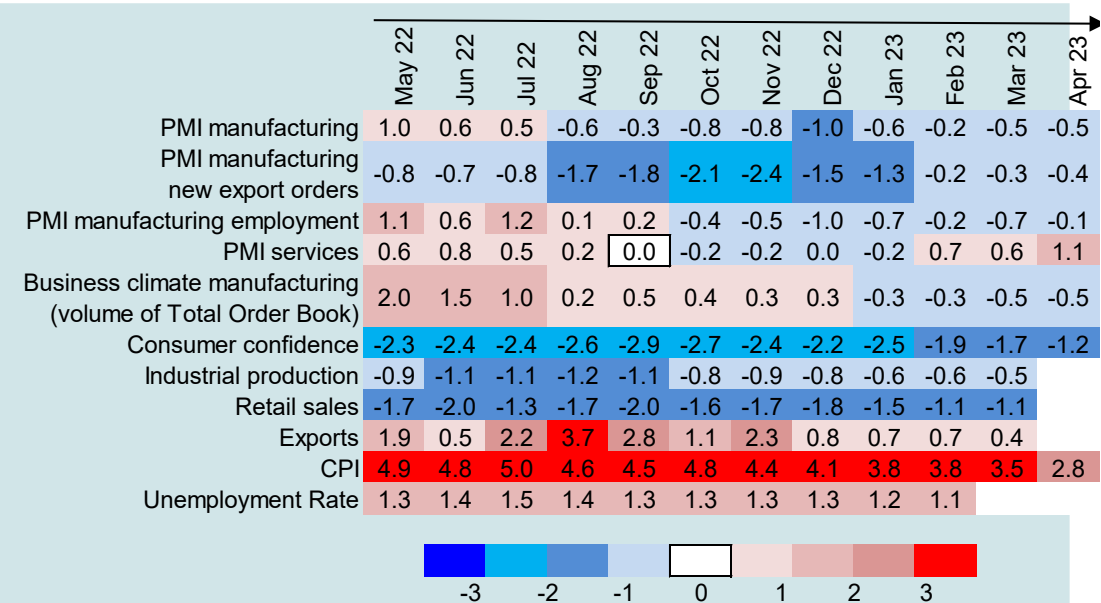
Headline inflation slowed in April (8.7% y/y), with the unfavourable base effects on energy prices vanishing. However, core inflation surprised on the upside (+6.8% y/y in April, compared to +6.2% y/y in March). The Bank of England decided to raise its key interest rate by a further 25 basis points in May. While this increase was expected, the new forecasts both on inflation (expected to be more persistent) and growth, (stronger in 2023), along with the current inflation data, suggest that it is likely to raise rates once again in June and then in August.

The labour market seems to be running out of steam. According to the ONS's initial estimates, 136,000 jobs were lost in April, which is the first drop since February 2021. In addition, wage growth in the private sector over the three months to March stabilised at a high level (+7.0% y/y), suggesting nonetheless that the wage-price spiral was starting to slow down.

The British economy therefore held up well during Q1 and should avoid a recession in 2023. However, we are anticipating weak growth of 0.4% this year. Monetary tightening will continue to undermine investment intentions while inflation will continue to weigh on household purchasing power.

Guillaume Derrien and Louis Morillon (intern). Article completed on 25 May 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)		
Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q4 2022	Q2 2023	Q3 2023	2022 (observed)	2023	2024
0.1	-0.1	0.1	0.1	0.2	0.1	0.3	4.1	0.4	0.7

Source: Refinitiv, BNP Paribas

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