ECONOMIC PULSE

UNITED KINGDOM: A TIGHTER BUT LESS EFFICIENT LABOUR MARKET THAN BEFORE COVID

Despite a tight labour market, the UK economy is showing clear signs of a slowdown in growth as inflation hits a 40-year high. According to the monthly GDP estimate published by the ONS, on a three-month moving average UK growth was flat in July, marginally below expectations (+0.1%). This zero figure masks more substantial monthly changes: after rising in May (+0.4% m/m), GDP fell in June (-0.6% m/m) before recovering slightly in July (+0.2% m/m). In July, growth in the services sector (+0.4% m/m) was largely offset by new contractions in industry (-0.3%) and construction (-0.8%).

Paradoxically, the labour market is still operating at full employment levels and with a momentum which does not seem to be declining despite higher interest rates and the slowdown in business activity. The unemployment rate has continued to fall (-0.2 points between May and July), to 3.6%, its lowest level since 1974. However, this fall was not accompanied by an increase in the employment rate over the same period. On the contrary, the latter fell between May and July (-0.2 points) to 75.4%, still below its pre-Covid level (76.5% in December 2019). Rather, this drop in the unemployment rate can be explained by job-seekers leaving the labour market. The inactivity rate rose by 0.4 points to stand at 21.7% for those aged 16-64, which this time was above its pre-Covid level (20.4% in December 2019). This increase in inactivity can be explained by a return to studies by 16–24 years-old, as well as by health problems in the 50–64 years-old age group. These changes are contributing to the current labour shortages which are significantly limiting recruitment, leaving many jobs unfilled, all the more so as job creation remains buoyant in the UK (+290,000 jobs between April and June). Vacancies were at 4.2% in July, their highest level since 2001, and were mainly in the accommodation, healthcare and financial services sectors. These tensions in the labour market are supporting salary growth (+5.5% y/y in nominal terms between May and June), although earnings are still strongly negative in real terms (-2.6% y/y).

Although inflation slowed slightly in August (9.9% y/y), mainly reflecting a drop in fuel prices, it continues to be widespread, as evidenced by the increase in core inflation (6.3% y/y). At its monetary policy meeting, the Monetary Policy Committee (MPC) decided on a seventh consecutive hike in the key interest rate (+50 basis points), bringing it to 2.5%. In addition, and as expected, the MPC announced that it would sell EUR 80 billion of its portfolio of British Treasury bonds (gilts) over a twelve-month period starting from October.

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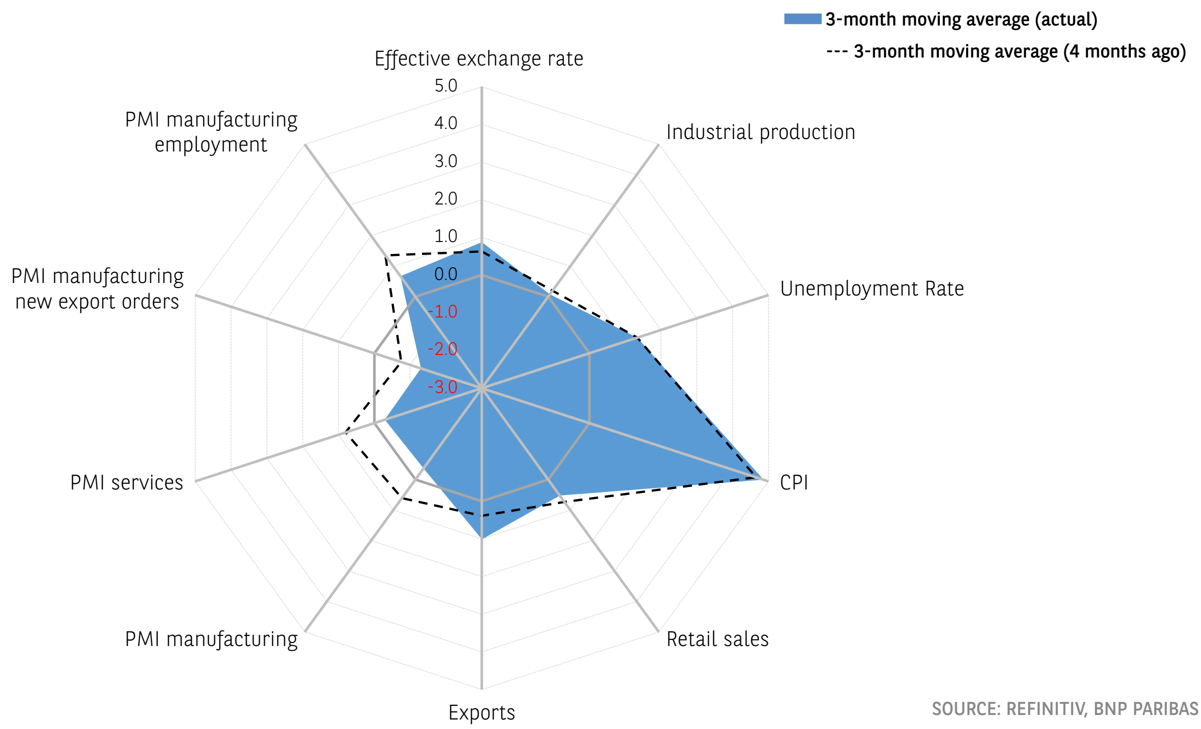
UNITED KINGDOM: QUARTERLY CHANGES



SOURCE: REFINITIV, BNP PARIBAS

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 -3 and +5. In the radar chart, the blue 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.