

ECONOMIC PULSE

UNITED KINGDOM: AN UNEXPECTED RETURN TO GROWTH

The three-month moving average growth for the UK was 0.4% in May (3.5% y/y), above the expectations (0%). The Office for National Statistics (ONS) provides a detailed analysis of monthly changes in economic activity. After contractions in March (-0.1% m/m) and April (-0.2% m/m, against the initial estimate of -0.3%), GDP returned to growth in May (+0.5% m/m). This growth was driven by the three main sectors: services (+0.4% m/m in May), production (+0.9% m/m) and construction (+1.5% m/m).

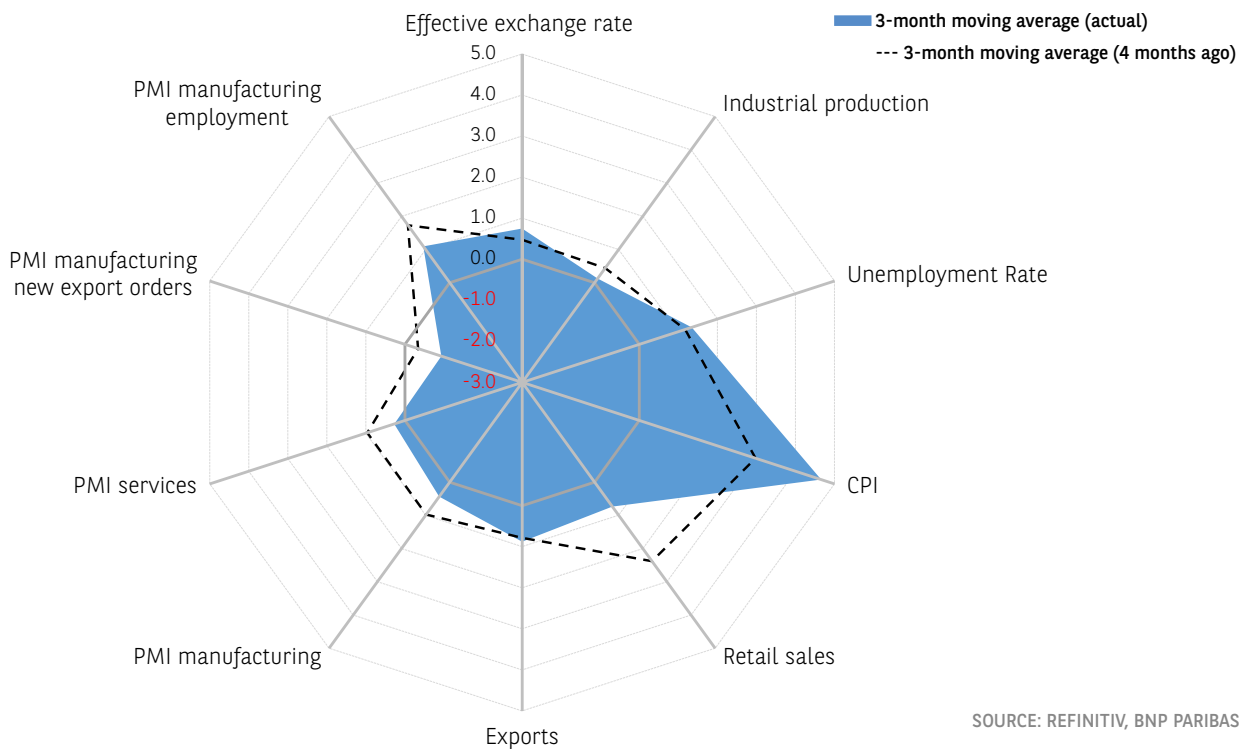
This rebound indicates that the economy has shown some resilience in the face of high inflation, but nevertheless remains fragile. PMI surveys have confirmed declines in business activity levels and confidence in June. The slowdown in the manufacturing sector is continuing, with the PMI dropping from 54.6 in May to 52.8, its lowest level for two years, in June. The Output Index is now close to 50, whilst the New orders index has dropped into contraction territory.

The trend in services is more favourable, for the short term at least. The services PMI improved in June to 54.3 (from 53.4 in May), putting it above the consensus estimate of 53.4. Companies reported an increase in activity in June, but at a slower pace of growth than in the first quarter. With incoming new business falling to their lowest level since February 2021, we could soon see a steeper slowdown. In the face of inflationary pressures and falling consumer demand, companies' Future Business Expectations Index was at its lowest since May 2020.

Inflation continues to drag on growth prospects, and remains at a 40-year high (9.1% y/y in May). The latest forecasts from the Bank of England's Monetary Policy Committee (MPC) suggest that inflation will continue to rise, peaking at around 11% y/y in October. This bounce in UK growth in May will encourage the MPC to continue to raise the Bank's policy rate. Should growth continue into June, it might prompt the BoE to raise bank rates by 50 basis point (bp) at the August meeting, rather than the 25bp hikes approved at each of the last five meetings.

Félix Berte

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.

