United Kingdom

After the rebound in Q2 associated with the lifting of lockdown, activity in the United Kingdom slowed in the summer (+1.3% after +5.5%) settling at –1.8% compared to its average level for 2019[1] (► **Figure 1**). The recovery continued mainly as a result of buoyant household consumption and government spending. In contrast, trade has remained depressed since the implementation of *Brexit* on 1st January 2021, especially exports, which declined again in Q3. Overall, investment has been relatively dynamic since the crisis, but has presented some contrasting situations in the different institutional sectors (► **Figure 2**).

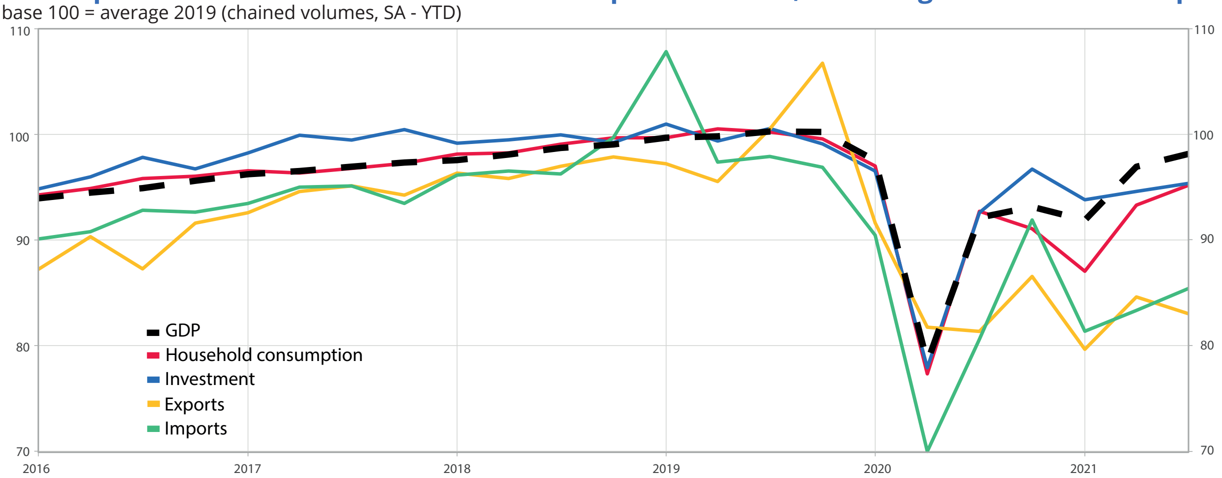
Since early Q4, the short-term outlook has deteriorated: the United Kingdom has faced growing supply chain difficulties, due to world shortages of inputs, and also hiring difficulties, which again were accentuated by *Brexit*. The labour market is therefore showing signs of tension (► **Box**). In addition, inflation rose sharply (+4.2% year-on-year in October after +3.1% in September), in the context of a global increase in energy prices. At the same time, the robustness of wages is likely to accentuate inflation further: the nominal median wage increased by +4.9% year-on-year in October (against an average annual increase of 3.2% between 2017 and 2020), and the workforce shortage is exerting upward pressures. Lastly, uncertainty surrounding the worsening health situation could affect growth.

At the end of 2021, activity in the United Kingdom is expected to slow further (+0.6%). Growth is likely to remain fairly modest in H1 2022, with household consumption still the main driving force, though limited by the increasing uncertainty over the health situation and the persistence of inflation in H1 2022. Corporate investment is likely to remain gloomy, penalised by supply chain problems and the increase in social contributions to be introduced from Q2 2022. In addition, exports are expected to remain depressed, and unlikely to close the gap in relation to imports (► **Figure 3**). ●

1 The pre-crisis level of trade, which was strongly disrupted at the end of 2019 by *Brexit*, is reflected more accurately by the figures for the whole year rather than for Q4 2019 alone. The reference to pre-crisis considered here is therefore the average for the whole of 2019.

► 1. Consumption and investment are closer to their pre-crisis level, but foreign trade remains depressed

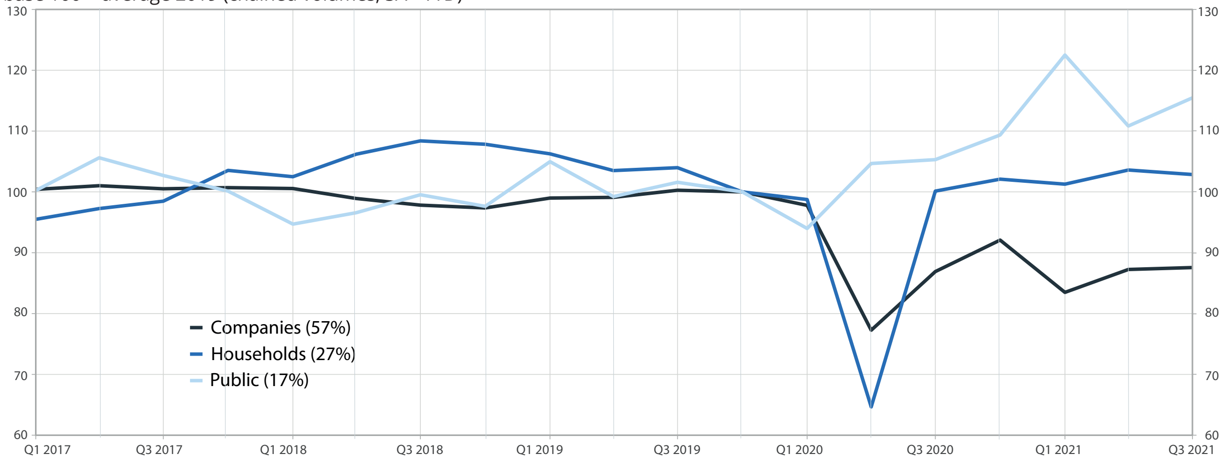
in level, base 100 = average 2019 (chained volumes, SA - YTD)



How to read it: in Q3 2021, the UK GDP stood at –1.8% below its average for 2019.
Source: ONS

► 2. Total GFCF is boosted by government spending, while corporate investment remains depressed

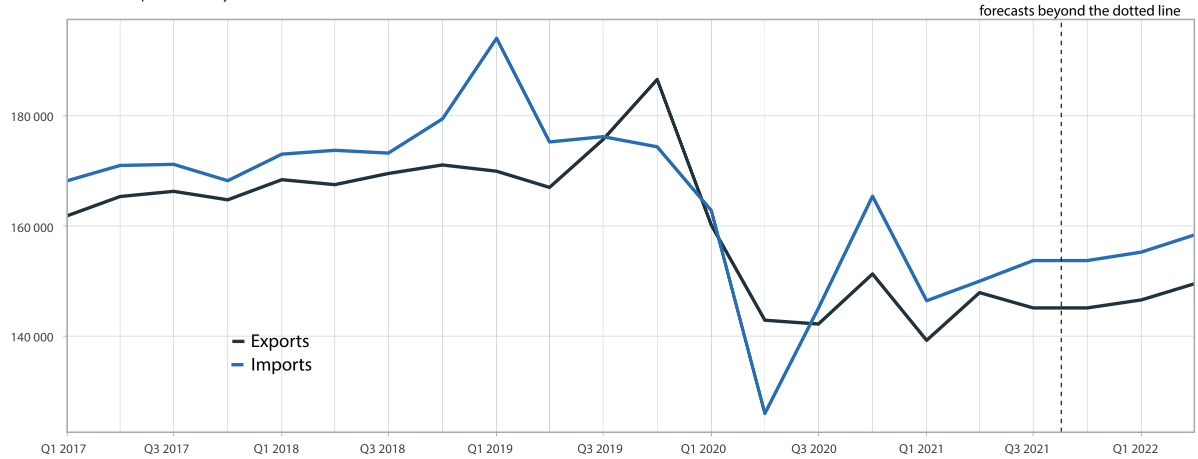
in level, base 100 = average 2019 (chained volumes, SA - YTD)



How to read it: in Q3, corporate investment was 12.4% below its level at the end of 2019.
Note: weightings shown in brackets are calculated for 2019. The total may not be 100 due to rounding
Source: ONS

► 3. Trade is expected to improve slightly over the forecasting period

in level (chained volumes, SA - YTD)



Source: ONS

Workforce shortages reflect a tense labour market

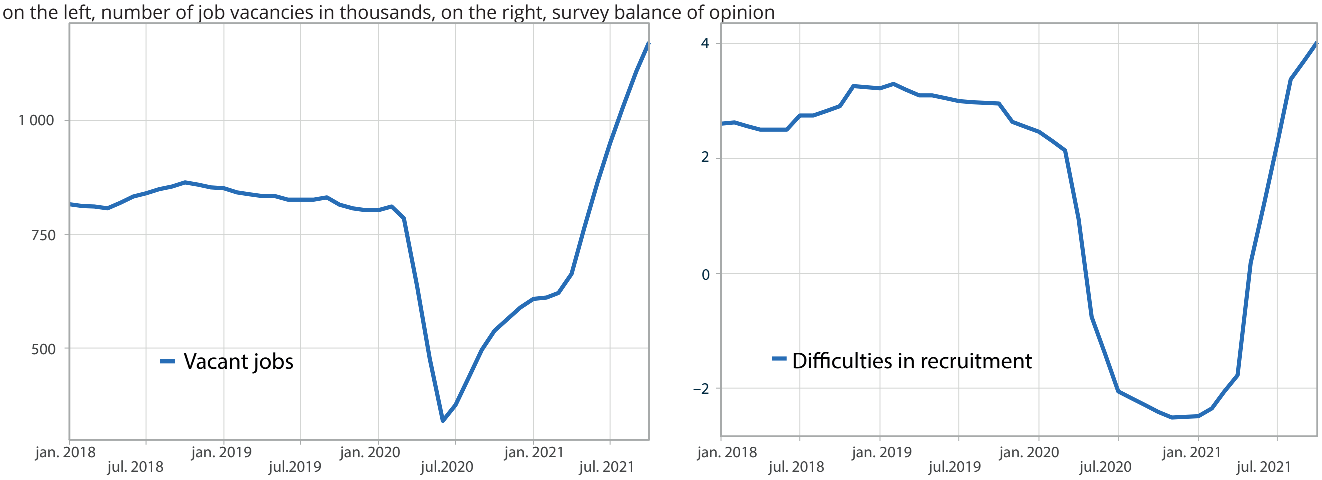
Although the unemployment rate is back to a fairly low level (4.3% in Q3) thanks to the recovery in employment, companies reported increasing hiring difficulties during the summer. These workforce problems appear to have intensified: job vacancies reached a record level between August and October, and the results from a survey on hiring difficulties published by the Bank of England were at their highest in October, after increasing throughout H1 (► **Figure 4**). In addition, "high-frequency" data from the *Indeed* hiring platform suggest that this trend has continued since October, with the number of job offers continuing to increase right up to the end of November (► **Figure 5**).

It would seem that Brexit has intensified these labour shortages, as the conditions for entering the UK have become much stricter since 1st January 2021, thus limiting arrivals of European workers. The road transport sector, where more than 10% of workers are from EU member countries, has been particularly hard hit by these problems.[1]

According to the indicators mentioned above, the tension in the labour market would appear to have intensified in Q4. ●

► 4. In October, the number of job vacancies reached a record level, and hiring difficulties were at their most severe

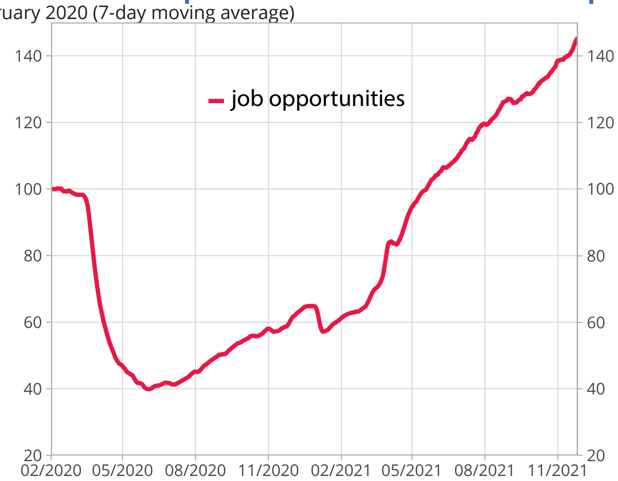
on the left, number of job vacancies in thousands, on the right, survey balance of opinion



Note: the balance of opinion on hiring difficulties is not seasonally adjusted. Companies respond by comparing the situation in the last three months to the same period one year earlier. Since August 2016, balances have not been published in March, June, September or December (the missing points have been replaced by taking the averages of the two neighbouring points).
Source: ONS, Bank of England

► 5. The number of job offers on the *Indeed* platform continued to increase up to the end of November

number of job offers; base 100 = 1er February 2020 (7-day moving average)



How to read it: during the week of 26 November 2021, there were 46% more job offers on the Indeed job search platform compared to the week of 1st February 2020.
Source: INEED Hiring Lab

1 All sectors combined, the share of foreign workers from the European Union in the United Kingdom workforce is less than 0.1%.