United Kingdom

In Q1 2022, activity in the United Kingdom slowed (+0.8% after +1.3%, ►Figure 1). However, this slowdown masked some significant movements, partly of a statistical nature, in foreign trade (soaring imports and a sharp downturn in exports)[1] and changes in inventories (strongly positive contribution to change in GDP). Meanwhile, domestic demand excluding inventories increased at a similar pace to that at the end of 2021, with relatively few health restrictions in place. Household consumption, the main driver of growth in 2021, grew moderately, as in the previous quarter. Corporate investment fell back slightly in a context marked, among other things, by supply chain difficulties, and is still well below its 2019 average (–8.7%). Conversely, government investment in construction surged (+24%), resulting in a positive contribution by investment to GDP growth. Government consumption declined, however, as a result of the drop in health spending on Covid-19 (tests and vaccinations).

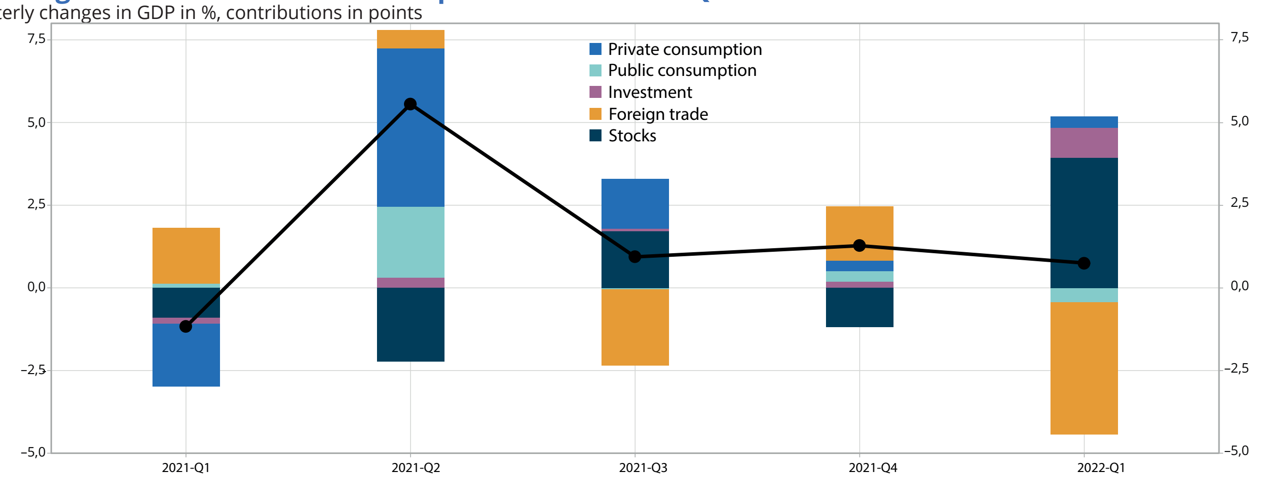
The UK economy entered Q2 2022 with a sharp rise in inflation. It reached +9.0% year-on-year in April after +7.0% in March, fuelled by the increase in the electricity and gas price cap, but also by the return to the full VAT rate for accommodation-catering. The dynamism of wages has also contributed to this change, in line with continuing tensions in the labour market[2] (in Q1, for example, the number of jobseekers had returned to its pre-crisis level, but was lower than the number of job vacancies, ►Figure 2). The Bank of England expects inflation to reach a peak of 11% at the end of the year: in particular, it is likely that the regulator will have to increase the energy price cap once again in October, in response to increases in energy prices following the war in Ukraine. In this context, the Bank of England continued its monetary tightening cycle in May and June, and fiscal support measures for households were announced in March then again in May.

In Q2, the rise in inflation is likely to cause consumption to fall back, while corporate investment is expected to remain sluggish, affected by the tightening of monetary policy, the increase in social contributions and the supply chain difficulties that businesses are encountering. Finally, the trade deficit is expected to widen due to sluggishness in exports, which are still affected by Brexit (►Focus Brexit). In this context, activity is likely to fall back in the spring, but then continue to be penalised for the rest of the year due to the decline in purchasing power and its impact on consumption. Thus in 2022, growth in the United Kingdom is expected to be +3.6%, after +7.4% in 2021. ●

1 In January 2022, UK foreign trade statistics underwent methodological changes in connection with Brexit. The ONS therefore recommends that quarterly changes at the start of the year be analysed with caution.

2 See https://www.bankofengland.co.uk/bank-overground/2022/what-factors-drove-underlying-pay-growth-in-2021.

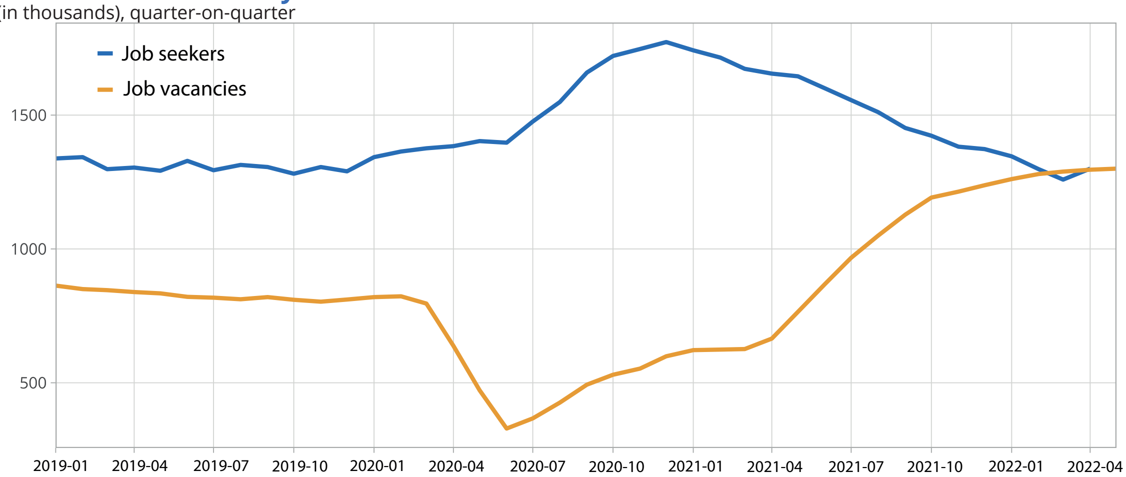
►1. UK growth suffered from developments in trade in Q1 2022
quarterly changes in GDP in %, contributions in points



How to read it: in Q1 2022, GDP increased by +0.8%. Private consumption accounted for 0.3 points of this growth.
Source: ONS, INSEE calculations

►2. While the number of jobseekers returned to its pre-crisis level, tensions in the labour market intensified at the start of the year

data in level (in thousands), quarter-on-quarter



Last point: May 2022 for job vacancies, April 2022 for jobseekers.
Source: ONS