United Kingdom

Since the start of 2022, the UK economy has been sluggish, in a deteriorating economic context and against a background of political and social tensions. In Q4 2022, affected by some major strikes in December, GDP remained stable (+0.0%, after -0.2% in Q3, ►Figure 1). Annual growth was 4.0% in 2022, driven mainly by the rebound in activity during 2021 as the country came out of the health crisis.

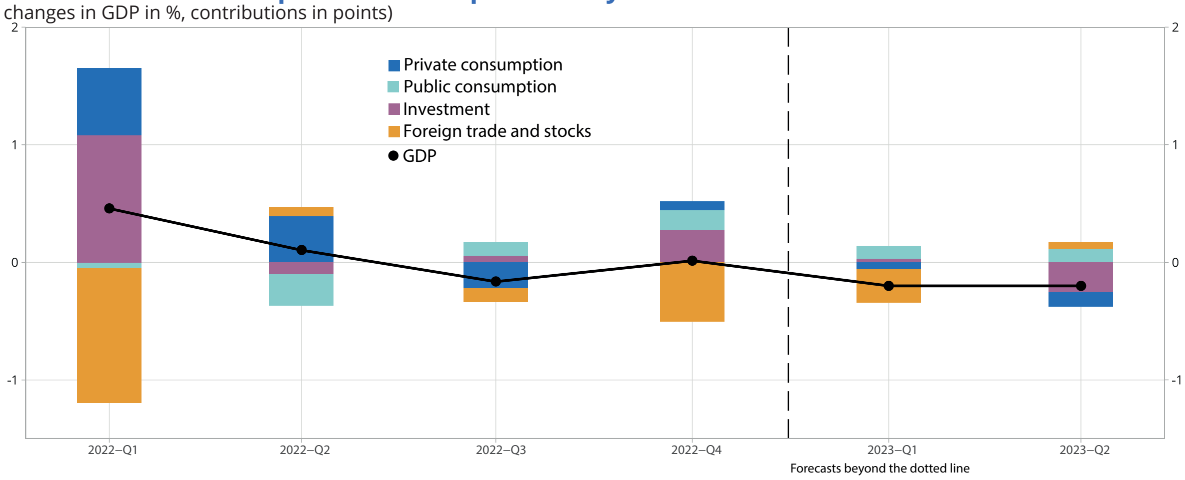
Consumption continued to be penalised in Q4 2022 (+0.1% after -0.4%) due to the continuing erosion of households' real income in a context of high inflation. Nevertheless, domestic demand was sustained at the end of the year by relatively dynamic investment (+1.5%) although with contrasting trends. Household investment (-4.3%, ►Figure 2) appeared to be particularly affected by the loss of purchasing power and by the Bank of England's monetary tightening policy. On the other hand, corporate investment rebounded (+4.8% after -3.2%), although returning only to its pre-health crisis level despite fiscal support (Super-deduction scheme) set up after Brexit. Foreign trade, however, which has shown a great deal of movement over several quarters, had a considerable effect on activity: imports rebounded (+1.5%, driven by imports of industrial and transport equipment, linked to strong corporate investment) while exports fell back (-1.0%), mainly in services.

At the beginning of 2023, inflation was still high (+10.1% year-on-year in January), despite falling back since October 2022, mainly due to the decline in world energy prices. However, in H1 2023, there are some factors that are likely to keep prices high. The support programme that the government put in place to cap household energy bills is to be revised downwards in April, while the labour market, which has been tense since the health crisis (unemployment at 3.7% in December with still more than a million vacant jobs), is likely to continue to promote wage growth. Wages are still less dynamic than consumer prices, however –wage increases were +5.9% including bonuses year-on-year in December– and purchasing power could therefore continue to decline in H1 2023.

In this context, activity is expected to fall back throughout H1 2023 (-0.2% per quarter). This recession would be due mainly to the decline in domestic demand: inflation is likely to weigh heavily on household consumption and residential investment is also expected to continue its decline as a result of the continuing rise in interest rates. Corporate investment, on the other hand, is expected to improve in Q1 before falling back in Q2, as the Super-deduction scheme comes to an end in April. In a context where world trade lacks vigour, exports are likely to remain weak, while imports look set to edge down in the wake of domestic demand. ●

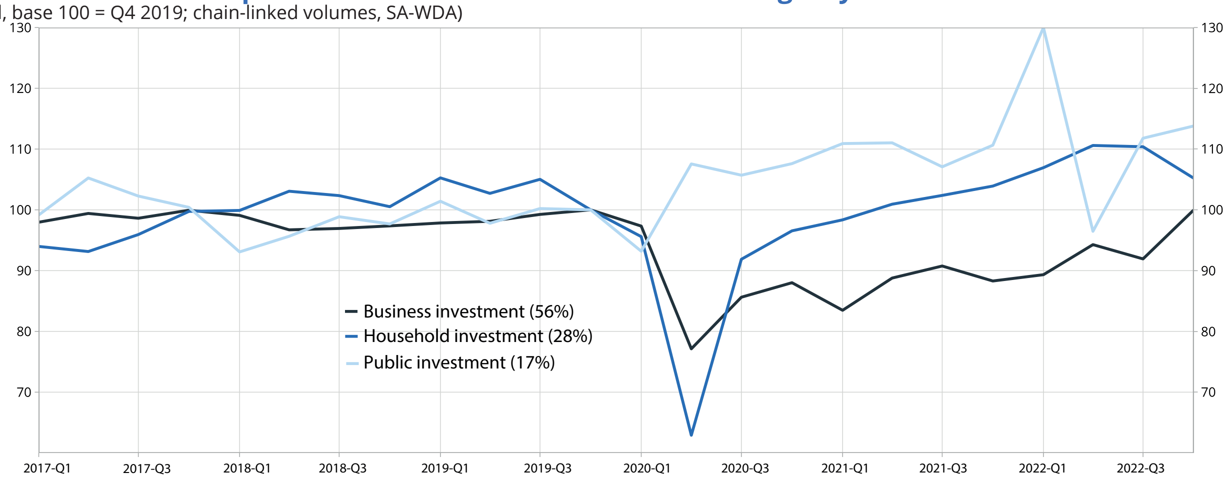
►1. Domestic demand is expected to hamper activity in H1 2023

(quarterly changes in GDP in %, contributions in points)



How to read it: in Q3 2022, GDP fell by 0.2% and private consumption contributed -0.2 points to this decline.
Source: ONS, INSEE calculations.

►2. Household and corporate investment evolved in contrasting ways at the end of 2022
(in level, base 100 = Q4 2019; chain-linked volumes, SA-WDA)



Last point: Q4 2022.
Source: ONS, INSEE calculations.