United Kingdom

The UK economy improved a little in Q1 2023 (+0.1%, the same as in Q4 2022, ►**Figure 1**), despite a situation affected by high inflation, continuing social protests, especially in the public sector, and further monetary tightening. This backdrop is expected to remain the same, at least in part, until the end of the year, curbing private domestic demand: activity is likely to continue to make slow progress, but is not expected to decline.

In Q1 2023, domestic demand fell back sharply, despite the slight increase in activity at the start of the year. Household consumption was at a standstill, while government consumption declined significantly, penalised by strikes. Meanwhile household investment fell back further (-1.4% after -3.1% at the end of 2022), in a context of difficulties in accessing credit, as a result of monetary tightening. Conversely, corporate investment increased (+0.7%, before the end of the S*uper deduction* scheme in April), as did government investment (+9.7%, mainly in new and existing buildings). Foreign trade has been affected by major downward trends, both in exports (-8.1%, as a backlash to withdrawals of non-monetary gold in previous quarters) and in imports (-7.2%, notably in transport equipment after a substantial increase in Q4 2022). On the supply side, only construction improved significantly in Q1 (►**Figure 2**), while production in industry and in services is below its early 2022 level, affected by the disruption to supply chains, the increased cost of inputs and more recently by serious strikes from summer 2022 onwards.

At the start of Q2 2023, inflation remained high, but with the first signs of a decline (+8.7% year-on-year in April after +10.1% in March and +10.4% in February), mainly linked to base effects (consumer prices continue to rise, but less vigorously than a year ago). Food inflation remains very high, however (+19.1% year-on-year in April), maintained by shortages of certain foodstuffs.

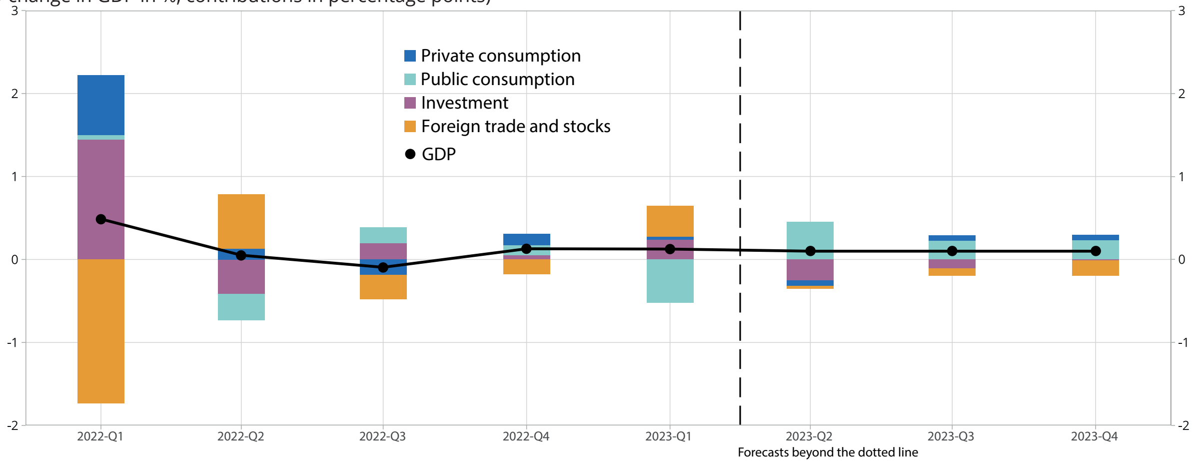
The effect of these price rises on income is expected to be partly offset by the ongoing increase in wages (reaching +5.8% year-on-year in March including bonuses) and by government measures to support purchasing power (including extending the cap on energy bills). In this context, household purchasing power is expected to fall back moderately before improving at the end of the year. Household consumption therefore looks set to deteriorate in Q2 then rebound slightly in H2.

The tightening of monetary policy is restricting households' access to credit, and hence household investment is likely to continue to decline throughout the forecasting period. Corporate investment too is expected to slip back due to the increase in the cost of capital and the end of the *Super deduction* scheme (despite the fact that this has been replaced since April by a new tax incentive for investment, called *Full Expensing*). Government investment meanwhile is expected to be buoyant, driven by growth in spending planned in the spring budget in the areas of health, defence and education.

Between now and the end of the year, UK activity is expected to improve slightly (+0.1% each quarter), driving annual growth to +0.3% in 2023. Domestic demand is likely to increase very modestly, with the momentum of consumption and government investment offsetting the decline in private demand, but supply is still expected to be curbed by persistent production constraints. On the foreign trade side, imports are expected to remain sluggish, like domestic demand, while exports look set to rebound slightly, driven by the modest upswing in demand for British products. ●

►1. Domestic demand is expected to continue to hamper activity until the end of 2023

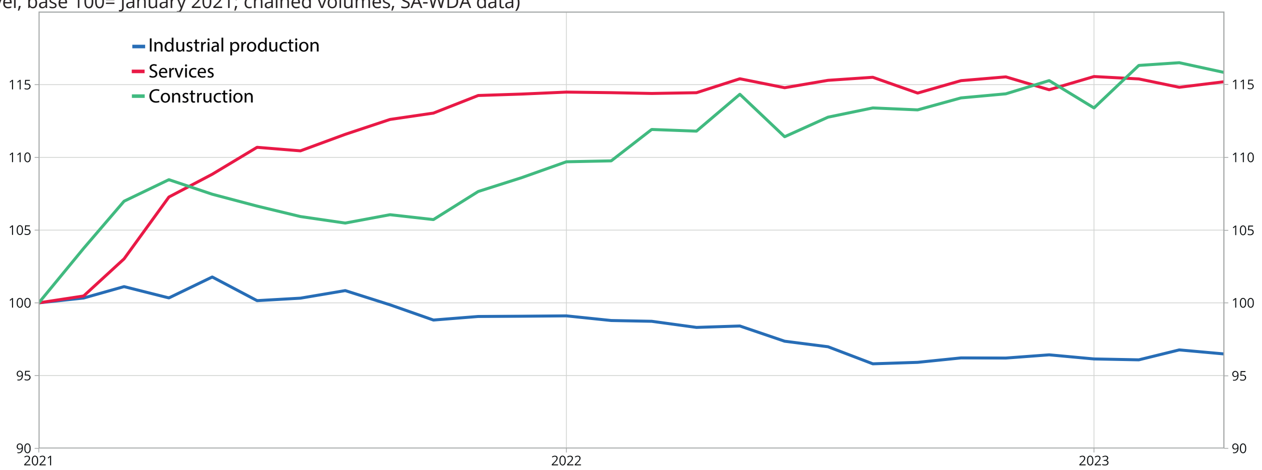
(quarterly change in GDP in %, contributions in percentage points)



How to read it: in Q1 2023, GDP increased by 0.1% and total investment contributed +0.2 points to this evolution.
Source: ONS, INSEE calculations.

►2. Industrial output was affected by strikes at the end of 2022, and remained sluggish this spring

(in level, base 100= January 2021; chained volumes, SA-WDA data)



Last point: April 2023.
How to read it: in April 2023, industrial output was 3.5% below its January 2021 level.
Source: ONS, INSEE calculations.