United Kingdom

The UK economy is going through a period of limited growth, and activity is tending to slow down, mainly due to the impact of interest rates. After modest growth of 0.2% in Q2 2023, GDP remained stable in Q3 (► **Figure 1**). However, the overall performance of the UK economy since the health crisis has been adjusted upwards following a revision of the accounts by the UK Office for National Statistics (linked to methodological improvements): until now, GDP has been estimated at below its pre-crisis level, but now, at the end of Q3, it is measured at 1.8% above its Q4 2019 level.

Domestic demand was still buoyant in H1, but in Q3 2023 it was struggling. Exports increased (+0.5%, sustained mainly by exports of services), but imports fell back (-0.8%) as a backlash after the strong rise in the spring (+2.2%) but also linked to the decline in the consumption of goods. Household consumption did indeed slip back (-0.4%, after some good performances in H1 2023), as did government consumption (-0.5%, hampered by strikes this summer in the hospital sector). In addition, total investment fell back significantly (-2.0%), affected by high interest rates. Corporate investment overall resisted fairly well in Q2, despite the ending of the Super deduction scheme (+4.1%, partly due to one-off factors, notably the purchase of planes), but it deteriorated in Q3 (-4.2%).

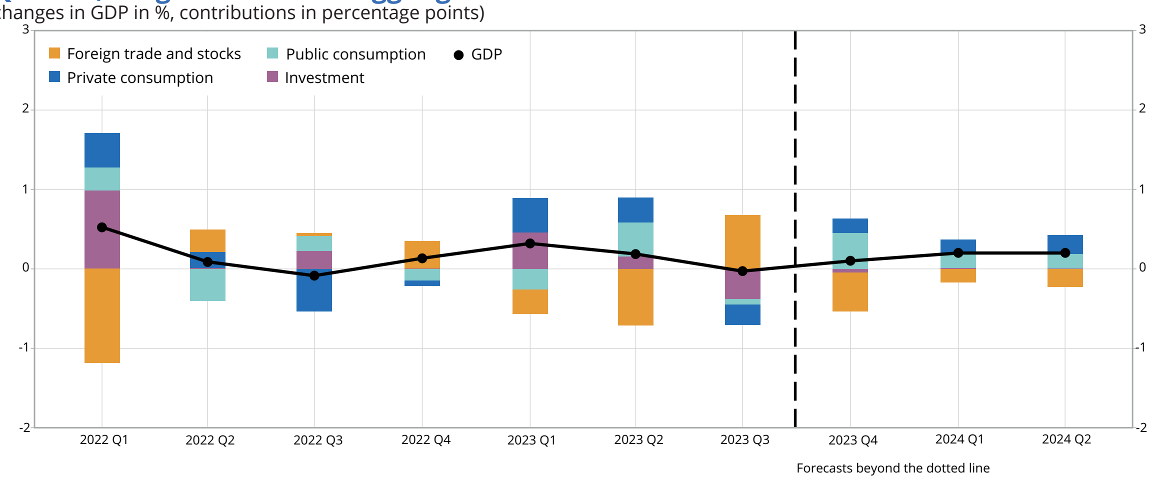
In October 2023, the decline in inflation intensified, at +4.6% year-on-year after +6.7% in September (► **Figure 2**). This sharp decline in inflation is mainly due to base effects in energy, as well as the slight reduction in the cap on electricity and gas prices (in October 2022, the major increase in this cap brought headline inflation to +11.1% year-on-year). Core inflation (excluding energy and food) is down slightly (+5.7% year-on-year). In fact, core inflation trends are still partly determined by the buoyancy of wages, which were up 7.2% year-on-year in October, including bonuses. The decline in inflation is expected to continue into Q4 2023.

The rapid rise in wages compared to that in consumer prices should mean that household purchasing power continues to increase in Q4 2023 and should support consumption. In the employment market, which until now has been suffering from a manpower shortage, the situation is expected to continue to ease slightly. The number of job vacancies continues to decline and hiring difficulties are reduced.

In this context, activity is expected to bounce back slightly (+0.1% forecast in Q4 2023, then +0.2% in each of the first two quarters of 2024). This modest growth should result in a relative upswing in domestic demand. On the one hand, consumption is expected to improve moderately, although this recovery is expected to be a little slower compared to H1. On the other hand, the tightening of monetary policy is expected to penalise corporate investment rather less as companies should start to derive benefit from the effects of Full Expensing (tax reduction for businesses decided in April 2023 following the end of the Super deduction scheme and extended in the autumn budget). Both imports and exports should be a little more vigorous. ●

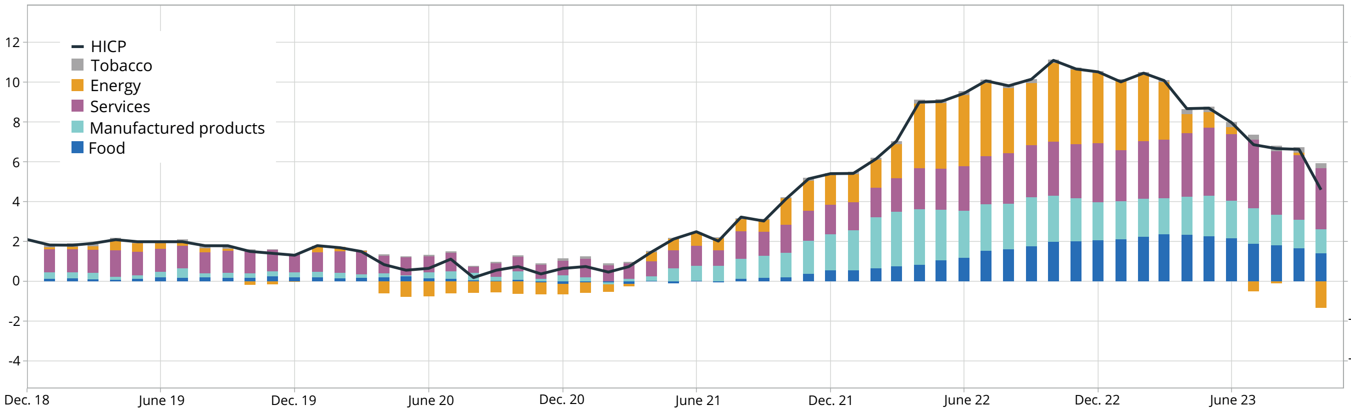
► 1. In Q3 2023, UK growth was struggling with the decline in domestic demand

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



How to read it: in Q3 2023, GDP remained stable and investment contributed -0.4 points to this stability.
Source: ONS, INSEE calculations.

►2. Inflation has generally fallen back since the end of 2022
(year-on-year change of HCPI in %, contributions in percentage points)



Last point: October 2023.
How to read it: in October 2023, consumer prices (according to the HICP) increased by 4.6% year-on-year, with food contributing 1.4 points to this growth.
Source: ONS, INSEE calculations.