

Economy in brief

For CEOs, FDs, and business leaders

Your monthly overview of the major trends impacting the UK's main business sectors

October 2023



Employment

(May – Jul '23)

75.5%



Unemployment

(May – Jul '23)

4.3%



Productivity growth

(Output per hour, flash estimate, Q2 2023 on a year ago)

0.1%



Real wage growth

(May – Jul '23 on a year ago, excl. bonuses)

0.0%

Autumn brings unsettled economic conditions

Resilient economic data has recently driven markets to accept that central banks are unlikely to bring down rates any time soon, with rates likely to plateau at their highest levels since the financial crisis. US Treasury yields reached a 16 year high on 6th October following the publication of unexpectedly strong jobs data in the US. Markets in the UK and Eurozone have mirrored US trends, although to lesser degrees, given that growth performance is more lacklustre in both regions. These developments in the near-term raise borrowing costs for government, particularly pertinent in the UK as we look towards the Autumn Statement on the 22nd November. However, it is worth noting that UK public sector borrowing this financial year is £11.4 billion below the OBR's Spring forecast, reflecting stronger than expected pay growth driving income tax receipts, while strong VAT receipts are likely to reflect strong real-terms consumer spending and strong inflation.

IMF update highlights ongoing risks to the outlook

The IMF have published their latest update on the global outlook, just days after the distressing developments in Israel. The IMF points to ongoing weakness in global growth, which it expects to drop from 3.5% in 2022 to 3.0% in 2023 and 2.9% in 2024, well below the historic (2000–19) average of 3.8%. The growth prospects of developed economies are particularly weak, with growth for those regions expected to come down to 1.5% in 2023 and 1.4% in 2024 from 2.6% in 2022. By contrast, growth in developing economies is expected to be stable at around 4% across 2023 and 2024, matching 2022 growth rates – the impact from conditions in China's property market knocks 0.1% points off global growth this year. The UK gets a pretty downbeat projection, with growth in 2024 at 0.6% marking little improvement on the 2023 expectation of 0.5% marketing the UK with the weakest growth amongst advanced economies in 2024. It's worth noting though that these projections do not take on board the ONS's recent substantial revisions to GDP. The IMF highlights several global headwinds to growth: tighter monetary and fiscal policy; long-term consequences of the pandemic; the Ukraine war; and geo-economic fragmentation.

UK political parties set out their stalls

Party conference season has seen the parties focussed principally on driving up the country's growth prospects. Unfortunately, Conservative party conference headlines were dominated by the cancellation of HS2's northern leg, albeit accompanied by the hastily cobbled together list of alternative investments. The Labour party spoke with encouraging passion about driving business investment. Following significant engagement on these issues from our recent regional council round, we were particularly pleased to hear of their focus on planning, infrastructure delivery and grid capacity (all interlinked of course). We were a little less convinced on their suggestion of windfall taxes and some of their approach to business rates. For all parties, we continue to recommend an approach to taxation, and indeed government policy making in general, which delivers much-needed stability and predictability to underpin business planning as the global economy continues to battle high inflation, conflict-led instability and financial market risk.

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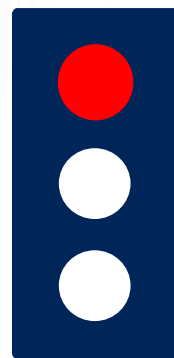


Round-up of CBI September surveys*

CBI growth indicator: red

Private sector activity fell in the three months to September, at the same pace as in August and extending the mild downturn seen over the last year. Services reported another fall in business volumes reflecting modest contractions in both business & professional services and consumer services. Manufacturing also saw output decline in the quarter, while distribution sales were broadly unchanged. Private sector activity is expected to be broadly unchanged over the next three months (balance of -1%).

-8%



Past three months**



-3%

Retail, wholesale and motor trades***



-9%

Business and professional services



+27%

Financial Services****



-7%

Consumer services



-10%

Manufacturing

Next three months**



-10%

Retail, wholesale and motor trades***



+4%

Business and professional services



+41%

Financial Services****



-9%

Consumer services



0%

Manufacturing

Growth indicator: sector detail

Manufacturing output volumes fell in the three months to September. Output fell in 9 out of 17 sub-sectors, driven by the motor vehicles & transport equipment, chemicals and paper, printing & media sub-sectors. Manufacturing output is expected to be unchanged over the next three months.

Distribution sales volumes were broadly flat for the second rolling quarter in September, as strong growth in motor trades offset falling sales in retail and wholesale. However, distribution firms expect sales to fall at a modest pace over the next three months with declines across all three sub-categories.

Services business volumes fell in the three months to September, at a broadly similar pace to August. Consumer services volumes fell for the third consecutive month while business & professional services volumes dropped after flat volumes were reported in the three months to August. Looking ahead, service sector volumes are expected to remain broadly flat over the next three months.

* September surveys were in field between 24 August and 13 September.

**Figures are percentage balances — i.e. the difference between the % replying 'up' and the % replying 'down'.

*** CBI Growth Indicator uses three-month-on-three-month growth, rather than year-on-year as used in the Distributive Trades Survey.

**** Financial services are not included in the growth indicator composite; the latest FSS was September 2023.

Colour indicators illustrate whether the reported balance is positive (green), negative (red), or broadly stable (amber).