CBI Economics

Economy in brief

For CEOs, FDs, and business leaders

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

November 2023

Employment
(Jun – Aug '23)
75.7%

Unemployment
(Jun - Aug '23)
4.2%

Productivity growth
(Output per hour, Q2 2023 on a year ago)
0.3%

Real wage growth
(Jun – Aug '23 on a year ago, excl. bonuses, CPI adjusted)
0.7%

Bank predicts flatlining economy amidst sticky inflation

Although we were relieved that rates were held in the November MPC meeting, there was otherwise little optimism from the Bank of England. The Bank expects GDP will be flat over the rest of 2023 and all of 2024 (0% – well below average consensus expectations for 0.5%) – before growing at only a feeble rate in both 2025 (0.3%) and 2026 (0.8%). Despite weaker growth expected than previously predicted, inflation was revised higher, with the Bank noting upside risks to energy prices following events in the Middle East. The latest forward guidance from the MPC was expanded to include the line "monetary policy was likely to need to be restrictive for an extended period of time". This is a more explicit signal that rates will remain higher for longer (the previous guidance stated that "monetary policy would need to be sufficiently restrictive for sufficiently long…"). Meanwhile three members voted for another rate rise, and the Governor was keen in the press conference to stress the potential for rates rising further, showing that the MPC on balance remain very much in tightening mode

What's happening in the labour market?

The ONS have received a lot of flack recently over the quality of statistics: first on GDP, and now the labour market. As survey practitioners ourselves, we do sympathise with the ONS's current predicament with the Labour Force Survey. The sample response rate for the Labour Force Survey has declined from 47.9% (79k responses) in summer 2013 to 14.6% (37k responses) in summer 2023. Response rates fell sharply during covid as the ONS were forced to switch from face-to-face interviews to phone calls (they've just made the decision to re-start face-to-face interviews).The risk is that the decline in the sample size reduces the extent to which the data is fully capturing the characteristics of the population. For example, non-UK nationals and renters are not responding as much as inactive older workers, who perhaps have more time on their hands for chatting to statisticians. These issues present particular challenges to the Bank's assessment of economic conditions which feed its interest rate decisions. They conclude that employment is somewhat lower and wage growth weaker than current ONS estimates, and they assess that private sector earnings growth will drop to 6% next Spring and 5% by the end of next year – rates consistent with the CBI's survey-based indicators.

The big issues ahead of Autumn Statement

What's notable from recent discussions with members is the commonality of issues being raised. The key impediments to growth have crystallised in: the planning system and its impact on infrastructure delivery (energy and transport); the stability of the policy environment and how the system needs to support growth (particularly via full expensing – which the government seems to be warming towards); reform to the apprenticeship levy to better support skills; and the rising cost of finance. Make sure you're registered to attend the [CBI's general election countdown conference] on 20 November, where we'll be joined by the Shadow Secretary of State for Business and Trade Johnny Reynolds.

Anna Leach
Deputy Chief Economist, CBI

Round-up of CBI October surveys*

CBI growth indicator: red

Private sector activity fell in the three months to October, at a similar pace to the previous three rolling quarters. All three sectors – non-financial services, distribution and manufacturing – reported falling activity. In services this reflected lower business volumes in business & professional services and consumer services. Distribution sales and manufacturing output also declined at a modest pace in the quarter. Private sector activity is expected to stabilise over the next three months (balance of 0%).

-7%

Past three months**

Retail, wholesale and motor trades***	Business and professional services	Financial Services****	Consumer services	Manufacturing
-7%	-7%	+27%	-10%	-6%

Next three months**

Retail, wholesale and motor trades***	Business and professional services	Financial Services****	Consumer services	Manufacturing
-13%	0%	+41%	-2%	15%

Growth indicator: sector detail

Manufacturing output volumes fell in the three months to October, though less steeply than in the three months to September. Output fell in 11 out of 17 sub-sectors, driven by the chemicals, metal products, building materials and furniture & upholstery sub-sectors. Manufacturing output is expected to return to growth in the next three months.

Distribution sales volumes fell in the quarter to October, marking a full year without growth in the sector. Retail led the decline in sales volumes, outweighing solid growth in motor trades. Firms do not expect to see a turnaround anytime soon, with sales expected to fall more quickly in the quarter to January.

Services business volumes fell in the quarter to October, broadly matching the pace of contraction seen since July. This reflected falling volumes across both consumer and business & professional services. Firms in both sub-sectors anticipate broadly flat business volumes over the next three months.

** October surveys were in field between 25 September and 13 October.*
***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).