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

June 2023

Employment
(Jan – Mar '23)
75.9%

Unemployment
(Jan – Mar '23)
3.9%

Productivity growth
(Output per hour flash estimate, Q1 2023 on a year ago)
-0.6%

Real wage growth
(Jan – Mar '23 on a year ago, excl. bonuses)
-2%

UK economy: too hot to handle?

As we look to the second half of 2023, it's a good time to take stock of economic performance to-date and consider how the outlook is shifting. We recently put out our latest forecast for the UK and global economies, in which we've upgraded growth for this year to +0.4% (from -0.4% previously) and to 1.8% for next year (from 1.6% previously). Unfortunately, the downside of this better growth, is that it is driving up inflation. The lower level of gas prices and lower supply chain disruption have provided a tailwind for business confidence and spending this year, supporting consumer spending, employment and wages. The downside is that, without material additional supply side capacity coming on stream – from the labour market in particular – the higher rates of activity have stoked domestic inflationary pressures further forcing the MPC to raise rates by 50 basis points in their most recent meeting.

UK growth: both too high and too low

Weak growth in the UK and the apparent necessity for higher interest rates are uneasy bed fellows. Household incomes in real terms fell 1.7% last year and we're forecasting that they'll fall again this year, going from being eroded by high inflation to being constrained by higher interest payments on borrowing. Businesses will likewise go from feeling pressure from higher energy costs, supply chain inflation and high labour costs, to higher borrowing costs, lower demand and still high labour costs. The overarching challenge is the UK's supply potential, i.e. the capacity of the economy to grow without generating inflation. The UK has experienced a number of significant shocks to its supply capacity in recent years, the impacts of which have significantly eroded its potential to grow without driving up inflation. The "trade intensity" of UK growth, i.e. exports + imports as a % of GDP, has drifted down relative to G7 counterparts since 2012, and may be contributing to the UK's productivity malaise. The level of migration into the UK has continued to be relatively high, but its composition has changed, making it difficult to unpack what the impact has been on skill availability at a macro level.

Nonetheless, there is a concern that the composition of inward migration is no longer as efficient in supporting employment as it was in past years. And then post-pandemic, the significant increase (442 thousand in the latest data) in the number of working age people who are outside the active labour market due to sickness has significantly affected worker availability: despite a weaker economic environment starting to bring down vacancy levels, there is only one unemployed person per vacancy against an average of 3, contributing to private sector regular earnings growth of 7.6% on the year.

It's already time to prep for the Autumn Budget

We're already looking to the Autumn Budget to refine the policy recommendations needed to get the UK on a firmer footing to deliver sustainable growth. We'll be running roundtables with members to refine our recommendations over the summer in a range of areas, including on labour market activation, infrastructure delivery, green competitiveness and the role of AI in the economy. And as a politically neutral organisation, we're engaging across the political landscape as we look to the next general election. If you'd like to get involved, please email Jordan.Cummins@cbi.org.uk.

Anna Leach
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Round-up of CBI May surveys*

CBI growth indicator: red

Private sector activity fell in the three months to May, meaning that activity has contracted for ten successive rolling quarters. Distribution sales resumed their downward trend after two flat months. Service business volumes declined, reflecting a mild contraction in business & professional services and a sharper fall in consumer services. Manufacturing output continued to fall, but at a slightly slower pace than last month. Private sector activity is expected to pick up over the next three months (balance of +8%).

-10%

Past three months**

Retail, wholesale and motor trades***	-17%
Business and professional services	-4%
Financial Services****	+12%
Consumer services	-24%
Manufacturing	-10%

Next three months**

Retail, wholesale and motor trades***	-1%
Business and professional services	+20%
Financial Services****	+53%
Consumer services	-3%
Manufacturing	-5%

Growth indicator: sector detail

Manufacturing output volumes fell modestly in the three months to May. Output fell in 9 out of 17 sub-sectors, with the motor vehicles & transport equipment, chemicals, and food, drink & tobacco sub-sectors driving the decline. Output is expected to fall moderately again in the three months to August, ending four consecutive rolling quarters of positive expectations.

Distribution sales volumes resumed their downward trend in the three months to May, after two flat months. Motor trades activity expanded, but wholesaling saw a moderate decline, while activity in retail fell sharply. Distribution sales are expected to be broadly unchanged over the next three months. Wholesale and retail growth is expected to be flat, while motor trades activity is expected to contract.

Services business volumes continued to fall slightly in the three months to May, reflecting a marginal contraction in business & professional services and a sharp decline in consumer services. Looking ahead to the next quarter, the outlook is mixed as business & professional services are expected to return to growth as consumer services are flat.

** May surveys were in field between 2 May and 16 May.*
***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 March 2023.*
Colour indicators illustrate whether the reported balance is positive (green), negative (red), or broadly stable (orange).