

Economy in brief

For CEOs, FDs, and business leaders

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

September 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

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

0.0%

It's the economy Jim, but not as we know it...

We've just had a fresh bit of history-re-writing from the ONS, and it's so interesting that the ONS have reported themselves to their own regulator. Revisions occur typically because new data is incorporated, and because methodologies improve over time – revisions due to error are considerably rarer. And that's the case this time, plus the large swings in the economy during covid were likely to entail larger revisions to match. Getting back to the facts: the UK economy recovered its post-pandemic losses in Q4 2021 (earlier than thought): the economy grew by 8.7% in 2021, rather than 7.6% and the decline in 2020 has been reduced in scale from -11.2% to -10.4%. This better-than-thought pandemic performance makes the UK middle of the pack for the G7 rather than bottom. This may explain the surprising persistence in underlying inflation: if growth has been stronger relative to potential than previously expected, that would lead to stronger wage and price pressures.

Western economies are weakening

The US and UK economies have shown striking resilience to interest rate rises so far this year, with the Eurozone showing weaker momentum given greater exposure to the Ukraine war and to the weakness in the Chinese economy. The US economy has been supported by structural demand for housing in relation to an ageing population (older people tend to demand smaller housing units in larger numbers) and policy support for infrastructure (super conductors and the green transition in particular) in combination with onshoring. In the UK, the favourable tailwinds from the rapid fall in energy prices last winter have supported consumer confidence and spending this year, despite sticky inflation, reinforcing a strong labour market. All three economies are now showing signs that the pace of growth is slowing following rapid rises in interest rates. The jobs markets in both the US and the UK are turning, with job-to-job moves falling, and our surveys show that in the UK, private sector momentum is slowing, with firms pulling back investment plans in the face of rising concerns about financing costs. Strikes are also affecting public sector output in the UK, with knock-on effects for the private sector from having operations delayed and having to provide childcare when schools are closed.

Heading into the Autumn policy-making hiatus

The outlook for UK growth is pretty anaemic as sadly the UK's productivity challenge has not been entirely revised away by the ONS. Investment and innovation (broadly defined) are the driving forces behind productivity, and with the public finances tight and interest rates high, the broader policy landscape needs addressing to ensure that it is fully maximizing the potential for private investment to do the heavy-lifting. This includes implementing the Edinburgh reforms, reforming the tax system (as per our summer report), and practical steps to support the green transition (as per our other summer report) to bridge the gap between rhetoric and reality. It is clear from conversations with CBI members that the planning system is in desperate need of reform to significantly speed up major investment decisions, particularly large-scale infrastructure. And the state of the labour market, with many millions inactive with long-term health conditions, continues to constrain activity and drive up costs. All in all, plenty to get our teeth into.

Anna Leach
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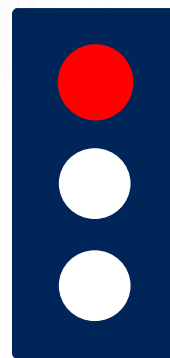


Round-up of CBI August surveys*

CBI growth indicator: red

Private sector activity fell in the three months to August, with output volumes declining at a similar pace to July. Manufacturing reported its sharpest contraction in output since September 2020 (when the sector was recovering from the worst of the pandemic). Business volumes also fell in the services sector, reflecting a sharp contraction in consumer services, with business & professional services volumes broadly stable. Distribution sales were broadly flat, stabilising after three rolling quarters of decline. Private sector activity is expected to fall slightly over the next three months (balance of -6%).

-8%



Past three months**



-2%

Retail, wholesale and motor trades***



-2%

Business and professional services



+42%

Financial Services****



-22%

Consumer services



-19%

Manufacturing

Next three months**



-8%

Retail, wholesale and motor trades***



-4%

Business and professional services



+37%

Financial Services****



-18%

Consumer services



-3%

Manufacturing

Growth indicator: sector detail

Manufacturing output volumes fell in the three months to August, at the fastest pace since September 2020. Output fell in 15 out of 17 sub-sectors, primarily driven by the motor vehicles & transport equipment and mechanical engineering sub-sectors. Manufacturing output is expected to be broadly stable over the next three months.

Distribution sales volumes flatlined in the three months to August, as an expansion in motor trades (the fastest since May 2022) was offset by mild contractions in the retail and wholesale sub-sectors. Sales are expected to contract at a modest pace over the next three months, driven by a decline in retail activity.

Services business volumes fell in the three months to August, at a broadly similar pace to July. Volumes were stable in business & professional services but declined sharply in consumer services. Looking ahead, services firms see these trends persisting, with business volumes expected to fall at a broadly similar pace over the next three months.

* August surveys were in field between 26 July and 14 August.

**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 June 2023.

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