

Economy in brief

For CEOs, FDs, and business leaders

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

July 2023



Employment

(Mar – May '23)

76%



Unemployment

(Mar – May '23)

4%



Productivity growth

(Output per hour flash estimate,
Q1 2023
on a year ago)

-0.6%



Real wage growth

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

-1.2%

Economic growth remains resilient, but underwhelming

Recent data has painted a familiar picture of the UK economy: resilient (but tepid) growth, high (but falling) inflation and a tight (but loosening) labour market.

Latest GDP data showed that the economy contracted slightly in May (-0.1%), which was widely expected given the extra bank holiday for the King's coronation. In underlying terms, activity has been broadly flat since mid-2022 – which has nonetheless surpassed earlier forecasts of a recession this year by most economists (including us). Weak activity reflects headwinds from high inflation and widespread supply-side disruption: previously from global supply chain pressure, and more recently from labour shortages and strikes across the public sector.

Inflation is falling, but domestic price pressures remain persistent

These headwinds have started to recede. CPI inflation fell to 7.9% in June, its lowest in fifteen months. The decline was larger than most analysts expected (a fall to 8.2% was projected), after a run of a few months where inflation had surprised to the upside.

But one swallow doesn't make a summer. Even after the latest fall, inflation in the UK remains the highest in the G7. Measures of more domestically-generated price pressures remain stubbornly high: both core and services inflation also eased in June (to 6.9% and 7.2% respectively) but to a much lesser extent than the headline CPI rate.

This will concern the Bank of England, who are worried that the persistence of domestic price pressures is a sign that previously high inflation is becoming embedded in price and wage setting. Indeed, pay growth also remains sticky: excluding bonuses, annual growth was at a multi-decade high of 7.3% in the three months to May.

Further rate rises will tighten the screw on mortgage payments

Taken together, this means that it's not a question of "if" the Bank of England will raise interest rates again in August, but by "how much". Up until now, most analysts expected another hefty hike in rates (of 50 basis points, bringing Bank rate to 5.5%). But the latest fall in inflation, accompanied by a nascent loosening in the labour market – with vacancies falling, unemployment edging up, and inactivity declining – may take some of the pressure off the Bank. So a smaller rate rise (of 25 bp) is now back on the table.

But this doesn't change the bigger picture, which is still one of more monetary tightening ahead. Financial markets are expecting Bank rate to peak just below 6% in early 2024 – though market expectations are very reactive to economic data flow and developments.

It's widely documented by now that a larger number of households will be rolling off fixed mortgage contracts this year, and so will be feeling the pinch of higher rates for the first time. As yet, the macroeconomic impact of this is unclear – the hit to household incomes may be at least partially offset by further falls in inflation, and a tight labour market. But either way, it looks like tighter financial conditions are here to stay for the time being.

Alpesh Paleja
Lead Economist, CBI

Round-up of CBI June surveys*

CBI growth indicator: **amber**

Private sector activity was broadly stable in the three months to June, putting an end to ten successive rolling quarters of falling activity. Business volumes in services rose for the first time in 11 months driven primarily by business & professional services, with consumer services volumes broadly unchanged. Distribution sales volumes fell moderately, but at a slower pace than last month. Manufacturing output also continued to fall, but at a slightly slower pace than last month. Private sector activity is expected to pick up slightly over the next three months (balance of +4%).

+0%



Past three months**



Next three months**



Growth indicator: sector detail

Manufacturing output volumes fell marginally in the three months to June. Output fell in 12 out of 17 sub-sectors, with the mechanical engineering and food, drink & tobacco sub-sectors driving the decline. Output is expected pick up in the three months to September. Barring a dip in May, output growth expectations have been positive since the start of the year.

Distribution sales volumes saw a milder contraction than last month. Activity in motor trades expanded robustly, wholesaling volumes fell marginally, while activity in retail was down sharply. Distribution sales are expected to contract over the next three months as activity in retail, wholesale and motor trades are all expected to decline.

Services business volumes returned to growth, albeit marginally, for the first time since July 2022. Business & professional service volumes grew modestly, while consumer service volumes were broadly unchanged (after having falling for 12 consecutive rolling quarters). Volumes are set to grow at a faster pace in both business & professional services and consumer services over the next three months.

* June surveys were in field between 25 May and 16 June.

**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).