

# UK economy grows in April

June 2023

***April's GDP figures met expectations of modest growth (0.2%), with output rebounding following March's decline, when activity was weighed down by poor weather and industrial action in health, education and the civil service. April's rise in GDP was driven by an expansion in services output, which offset declines in production and construction.***

While these figures re-affirm that the UK has side-stepped a recession so far, underlying growth (as measured on a 3-month rolling basis) was only 0.1%—weak from a historical perspective and leaving GDP just 0.3% above its pre-pandemic level in February 2020. A key contributor to this weakness is the fact that consumer-facing services are still nearly 9% below their pre-pandemic level. Looking ahead, we expect growth to be weak across Q2 as a whole—with the extra Coronation bank holiday likely to have weighed on activity in May—before the economy returns to growth in the latter half of the year. (See our latest [economic forecast](#) for more detail on the outlook).

One reason for optimism around the outlook is the continuing strength of the labour market. The total number of people employed rose to a record high of 33.1 million in the three months to April 2023, with an additional 250,000 people in work, helping to push the total number of hours worked in the economy back up to its pre-pandemic high. This was accompanied by signs of an improvement in labour supply, with 140,000 fewer people reported as economically inactive. Meanwhile, the unemployment rate edged up very slightly to 3.8%, well below its pandemic peak of 5.2% and not far above its historic lows.

As we anticipated in our economic forecast, we expect the tight labour market to put further pressure on wage growth in the near term. Average regular pay rose at the fastest pace on record (outside of the pandemic), with a particularly large jump in private sector pay growth. This partly reflected a large increase in the National Minimum Wage in April, but also reflected more persistent wage pressure in response to the strength in inflation.

This is something that the Bank of England have been watching closely, given the potential for rapid wage growth to keep inflation persistently high. Therefore, the latest strength in the pay data will put pressure on the Bank of England to raise interest rates further. We expect two further interest rate hikes of 25 basis points each (bringing rates to a peak of 5% in August). Businesses should be conscious of the impact of these additional rate hikes on broader financial conditions (for example, mortgage rates have already moved higher following April's inflation data) and therefore on spending in the wider economy.

## UK economy grows in April despite industrial action weighing on activity

- **UK GDP grew by 0.2% month-on-month (m/m) in April** following a 0.3% fall in March, and no growth in February. This leaves monthly GDP standing 0.3% above its pre-pandemic level (in February 2020).
- On a rolling 3-month basis – a better gauge of underlying growth – GDP grew by 0.1% This continues the broad trend of stagnation seen in the economy since Spring 2022.
- April's rise in GDP was driven by an expansion in the services sector (0.3% m/m growth following a 0.5% contraction in March), which offset falls in production and construction.
  - This was primarily driven by the distribution (contribution of +0.09 percentage points) and information & communication (+0.09 percentage points) sectors.
  - Output in the broader consumer-facing services category grew by 1%, following a 0.8% fall in March. This was driven by growth in distribution and hospitality (both rebounding after a weak March). However, consumer-facing services remain 8.7% below their February 2020 levels.
- The ONS noted that some themes have become common in their business surveys, which are difficult to quantify. Notably, businesses mentioned that industrial action had impacted operating capacity, with a separate survey showing that around 10% had been directly or indirectly affected by industrial action.
- The next couple of months will likely see some volatility in output: GDP is likely to fall in May due to the extra Coronation bank holiday, followed by a rebound in June. Our latest forecast expects GDP to fall by 0.1% over Q2 as a whole and the data for April seem broadly in line with this.
- Beyond this, we expect a more meaningful recovery in growth, as inflation falls back and real household incomes return to growth. For more detail, see our latest [economic forecast](#).

## The number of people in work hits a record high, as the labour market shows signs of loosening gradually

- Total employment rose by 250,000 in the three months to April, compared with the previous quarter, as increasing numbers of both employed and self-employed workers pushed the total number of people in work to a record high of 33.1 million. The employment rate increased by 0.2% points, to 76%, still some 0.6% points below its pre-pandemic level in December 2019 to February 2020.
- The unemployment rate stood at 3.8% having risen by 0.1% points from the previous quarter. Unemployment remains near historic lows and comfortably below its pandemic peak of 5.2%.
- In a sign of improving labour supply, the number of inactive workers fell by 140,000 to 8.7 million. This is still 348,000 people more than before the pandemic.
  - The overall decline masked an increase in the number of those inactive because of a long-term sickness, which rose to a record high (2.6 million). This was offset by a fall in the number of inactive for “other reasons” and in those looking after family/home.
- Total hours worked reached a record high in the three months to April (1,059 million hours) and means hours worked have finally exceeded (by 6.3 million hours) their pre-pandemic level in December 2019-February 2020.
- Although the labour market remains historically tight, there are signs of continued loosening, with job vacancies falling by 7% in the three months to May 2023 to

1,051,000, the 11<sup>th</sup> consecutive monthly fall (though vacancies are still 27% above pre-pandemic levels).

## Headline pay growth jumps to its fastest pace in two years, but wages still lag inflation

- Nominal regular pay (excl. bonuses) rose by 7.2% over the year to February-April 2023, the fastest rate of growth seen outside of the COVID-19 pandemic as April's 9.7% rise in the national minimum wage boosted pay packets.
  - Nominal regular pay growth stood at 7.6% in the private sector, rising from 7.1% in the three months to March. However, nominal pay growth in the public sector remained at its highest level since August-October 2003 (5.6%).
- Adjusting for inflation, real regular pay across the economy fell by 1.3% in the year to February-April, a less steep decline than during the three months to March (-2.0%).

