24 September 2024

UK in Focus

Economics
United Kingdom

On edge

- UK GDP growth stagnated and the outlook is less benign
- The rise in services inflation in August should be temporary but, alongside wage growth, is still elevated
- The risk of persistent domestic price pressures becoming entrenched kept the BoE on edge at their September meeting

Slowing growth and price momentum

UK GDP growth stagnated in July for the second consecutive month. The broad sector breakdown showed a near mirror image of the growth rates seen in June: the services sector up 0.1% m-o-m, construction +0.4% m-o-m, and industrial production -0.8% m-o-m. Notwithstanding the continued expansion signalled by S&P's Purchasing Managers Index, a lack of underlying momentum in the economy means we expect activity growth to slow in the second half of 2024. Consumer and business confidence appears to be deteriorating, GfK consumer confidence flatlined in August and then fell to a 6-month low in September. We revise down our 2024 GDP growth to 1.1% but see a pick-up from the middle of 2025 and into 2026.

Elsewhere, the headline CPI inflation rate rose in August to 2.2% y-o-y from 2.0% in July. That was largely driven by an expected acceleration in services price inflation to 5.6% y-o-y which should unwind in September (see *UK inflation briefing (Aug)*, 18 September 2024). More positively, underlying services inflation – which excludes volatile and indexed components – was unchanged on the month.

The latest labour market data continued to evidence the challenge in assessing the health of the jobs market. However, a pick-up in employment, a fall in the redundancy rate, and a still low participation – albeit slightly improved – rate all point to a resilient jobs market. Private sector wage growth moderated to 4.9% in the 3 months to July (see *Mixed signals*, 10 September 2024). That said, with both underlying services inflation and wage growth still elevated the risk of price pressures becoming more persistent remains.

Concerns of entrenched price pressures kept the BoE on edge

Although economic data released over the last month have been broadly in line with expectations, the risk that domestic price pressures become entrenched kept eight of the nine strong committee a little cautious. As such, and after a cut in policy rate in August, Bank Rate was left unchanged in September. We expect a cut in November and then a quicker pace of cuts next year.

We don't expect the absence of a further rate cut in September to weigh on optimism in the UK housing market. The RICS house price balance surged to +1 in August, its highest since November 2022, and with more expected rate cuts and housebuilding reforms the sector may have turned a corner.

Disclosure appendix

Important disclosures

1 This report is dated as at 24 September 2024.

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