20 December 2024

UK in Focus

Economics
United Kingdom

‘Twas a data nightmare before Christmas

- The UK economy contracted again in October …
- …and higher wage growth and inflation stoked stagflation fears
- Bank of England left Bank Rate unchanged but placed more weight on the weak activity data

A sombre mood to end 2024

As expected, the UK economy has seen a resurgence of some old fears – reaccelerating inflation and slowing economic growth – in what may feel like a nightmare before Christmas for policymakers. For a second consecutive month, the economy contracted in October by 0.1% m-o-m, driven by broad-based weakness across all three sectors: services, industrial production, and construction. Indeed, that means growth for Q4 has started on soft footing, although activity surveys still pointed to expansion in November and December. We now expect the UK economy to grow 0.1% q-o-q in Q4 and by 0.8% overall in 2024, while the Bank of England expects 0.0% Q4 growth.

In contrast, momentum in private sector wage growth reaccelerated to 5.6% 3m/3m annualised in October while the headline rate of inflation rose to 2.6% in November. However, we judge these prints to be less worrisome than they seem at first glance. To some degree, both were driven by base effects while inflation was impacted by higher motor fuel and tobacco duty announced in the October Budget.

More positively for inflation, services price inflation held steady at 5.0% and broader labour market metrics have pointed to a continued slowing in labour demand. Surveys showed firms opting to not replace voluntary leavers, vacancies continued to fall, and surveyed pay expectations for 2025 remain at 4.1%. At its latest meeting the Monetary Policy Committee (MPC) saw the labour market as broadly in balance – suggesting that the Committee thinks the labour market is no longer placing upward pressure on inflation.

Three turtle doves

Those challenging data dynamics, and uncertainty ahead, were reflected in the 6-3 vote split from the MPC which opted to keep the Bank Rate on hold at 4.75% at the latest policy meeting. The three members who voted for a rate cut cited that current high interest rates were restricting activity, while another member saw the possibility of a more activist (faster) approach if activity data continued to disappoint.

Bank Rate has been reduced by 0.5ppt in 2024 and markets expect only a further 0.5ppt drop in 2025. However, we think the MPC, at least for now, sticks with a stance whereby it cuts the Bank Rate by 0.25ppt cut per quarter. And from mid-2025, we think that pace of cuts can pick up, with Bank Rate ending next year at 3.25%.

Ultimately, the speed of rate cuts in 2025 will depend on the balance of risks – specifically, the risk of fiscal policy changes helping keep inflation sticky, versus the possibility of persistent weak demand and continued labour market loosening.

KEY UK DATA

► **0.1%**
GDP growth in 3m to October

▲ **2.6%**
Consumer Price Inflation, November y-o-y

▲ **4.3%**
Unemployment rate, October

► **4.75%**
Bank of England Base Rate

Source: HSBC

HSBC

Disclosure appendix

Important disclosures

1 This report is dated as at 20 December 2024.

2 All market data included in this report are dated as at close 18 December 2024, unless a different date and/or a specific time of day is indicated in the report.

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