Office for National Statistics

Article

# Quarterly economic commentary: April to June 2023

Economic commentary for the latest quarterly national accounts, prices and labour market indicators.

Contact:
Tom Evans
economic.advice@ons.gov.uk
+44 1633 651833

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# 1 . Main points

- Gross domestic product (GDP) increased by 0.2% in Quarter 2 (Apr to June) 2023, where the effects of historically high rates of inflation and tighter financial conditions explain the slowing in the economy over the last year.

- The UK borrowed 3.7% of GDP from the rest of the world in Quarter 2 2023; there has been an increase in how much the UK has had to pay to foreign investors who hold financial assets in the UK.

- There are indications of a loosening of the labour market; there was a fall in vacancies, and the unemployment rate rose to 4.3% in May to July 2023, although regular pay increased by 7.8% over the year in the same three-month period.

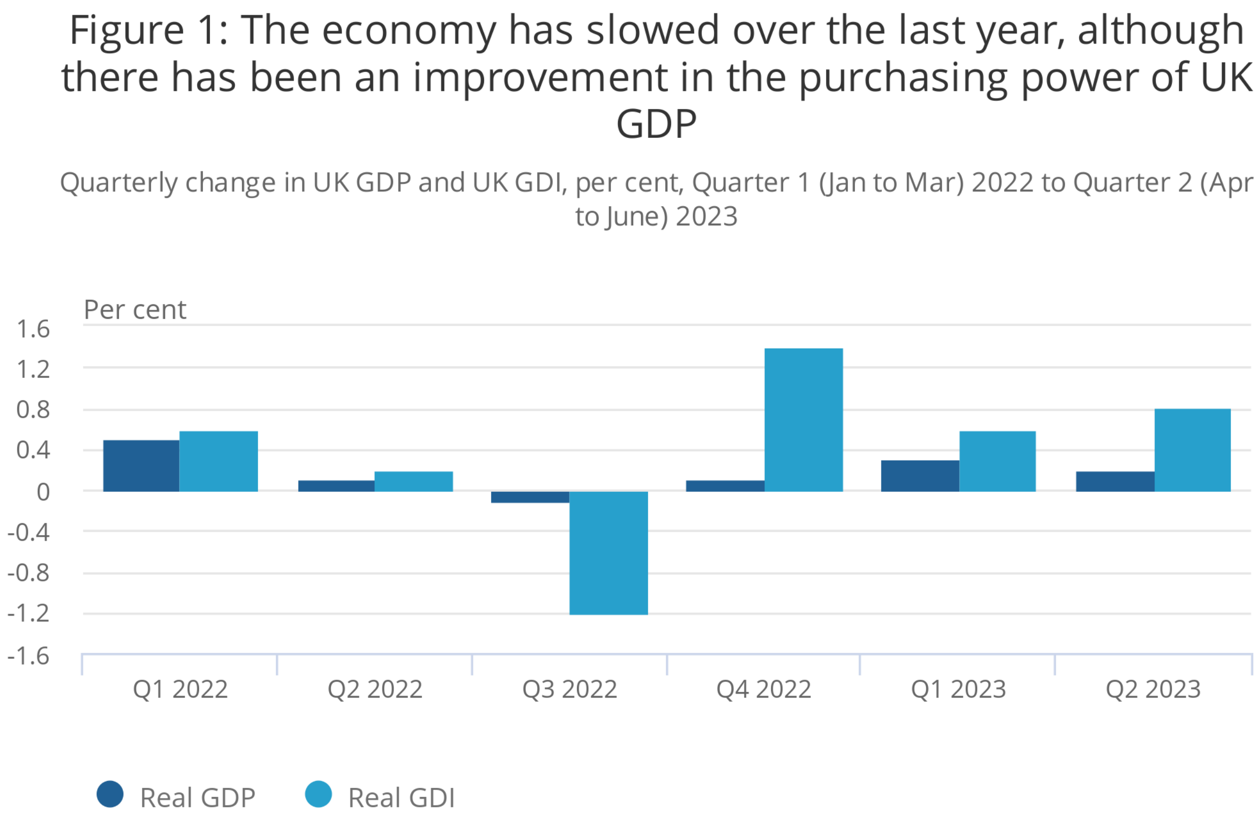
- Underlying inflationary pressures in the economy slowed down in August 2023, where core consumer price inflation (CPI) inflation was 6.2% in the year to August, down from the 6.9% in the year to July 2023.

## 2 . National accounts

Gross domestic product (GDP) increased by 0.2% in Quarter 2 (Apr to June) 2023, where the effects of historically high rates of inflation and tighter financial conditions explain the slowing in the economy over the last year (Figure 1). The UK economy is only 0.6% larger than a year earlier. There has been a larger increase in real gross domestic income (GDI) in recent quarters. This reflects the improvement in the UK terms-of-trade, which has increased the purchasing power of UK GDP, following the large fall in late 2022 in response to the initial increase in food and energy prices, leading to import inflation. There was a 0.5% fall in GDP in July 2023, although some of this reflects the volatile effects of industrial action, particularly in the health industry.

**Figure 1: The economy has slowed over the last year, although there has been an improvement in the purchasing power of UK GDP**

**Quarterly change in UK GDP and UK GDI, per cent, Quarter 1 (Jan to Mar) 2022 to Quarter 2 (Apr to June) 2023**




**Source: Quarterly national accounts from the Office for National Statistics**

**Notes:**

1. Real gross domestic income (GDI) is a measure that adjusts real gross domestic product (GDP) to reflect changes in purchasing power that arise from movements in the terms-of-trade, which capture the ratio of export prices to import prices.

2. The latest figures show UK GDP is now 1.8% larger than its pre-coronavirus (COVID-19) pandemic level.

There have been some indications of a cooling in the labour market in recent months, while real disposable incomes have been eroded by higher inflation over the last year. One uncertainty is if there will be an increase in precautionary saving in response to any change in the outlook for employment and income. There was a pickup in the saving ratio to 9.1% in in Quarter 2 2023, while real disposable incomes also increased on the quarter. One feature of the coronavirus (COVID-19) pandemic was the prevalence of "forced" savings, given the effects of restrictions on consumption expenditure. Household savings remain higher than prior to the pandemic.

Higher interest rates have led to a slowing in house prices and lower transactions. Recent [Bank of England money and credit figures] show that there was a decline in mortgage lending on the month, which was only partly offset by a fall in gross repayments. Net approvals for house purchases fell further in July, while there was a further increase in the interest rate paid on newly drawn mortgages and the stock of mortgages.

Private non-financial corporations (PNFCs) continued to be net lenders in Quarter 2. However, there was a fall in their income, including the effects of reduced energy subsidy payments on the quarter. There was also an increase in their capital expenditure on investment. [The Bank of England's summary of business conditions] suggests there is some evidence that investment intentions are still subdued, in part reflecting the squeeze on cash flow and profit margins. Tighter financial conditions as described by the [Bank of England] might have an impact on investment.

Public sector net borrowing excluding public sector banks (PSNB ex) was £11.6 billion in August 2023. For the first five months of this financial year, PSNB ex was £69.6 billion. This was higher borrowing than a year ago, in part reflecting the effects of inflation-linked benefits uprating and cost-of-living payments in recent months. However, it was lower than the latest forecasts produced by the Office for Budget Responsibility, which will be next updated in November. This reflected stronger-than-expected tax revenues, particularly on Value Added Tax (VAT). This was partly offset by higher central government spending, in part reflecting higher-than-forecast public sector pay awards. Public sector net debt (PSND ex) was provisionally estimated at around 98.8% of GDP, although this should be treated as a provisional estimate, which is likely to be revised in future publications because it partly relies on GDP estimates based on the latest forecasts produced by the Office for Budget Responsibility. Debt interest spending remains high, largely because of higher inflation on payments on index-linked gilts.

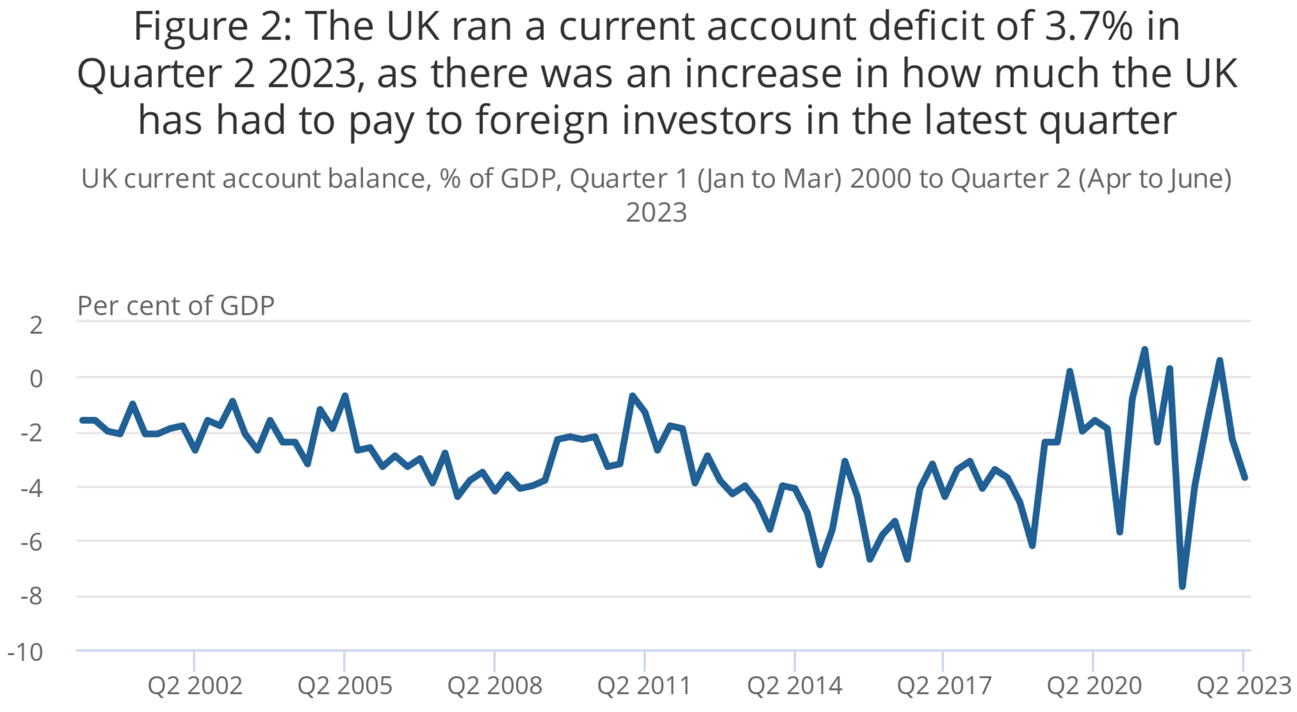
# 3 . Balance of payments

The UK was a net borrower from the rest of the world, running a current account deficit of 3.7% of gross domestic product (GDP) in Quarter 2 (Apr to June) 2023. The initial increase in energy prices in the first half of 2022 explained the widening of the underlying goods trade deficit last year. The goods trade deficit has narrowed recently, particularly for other fuels reflecting the fall in the price of natural gas from the highs in the middle of last year. The Organisation for Economic Co-operation and Development shows that there has been a fall in the trade intensity of production, where trade volumes have increased more slowly than expected in the first half of this year, given the pickup in global GDP.

The widening in how much the UK has borrowed from the rest of the world in Quarter 2 reflects the UK's net investment income, where there has been an increase in how much the UK has had to pay to foreign investors who hold financial assets in the UK. This is most evident in other investment income, which in part reflects the higher returns, as there has been an increase in interest rates in response to the high inflation environment. This tightening in financial conditions has also likely had some impact on the returns on these types of international investments.

**Figure 2: The UK ran a current account deficit of 3.7% in Quarter 2 2023, as there was an increase in how much the UK has had to pay to foreign investors in the latest quarter**

**UK current account balance, % of GDP, Quarter 1 (Jan to Mar) 2000 to Quarter 2 (Apr to June) 2023**




**Source: Balance of payments from the Office for National Statistics**

**Notes:**

1. The current account balance includes precious metals.

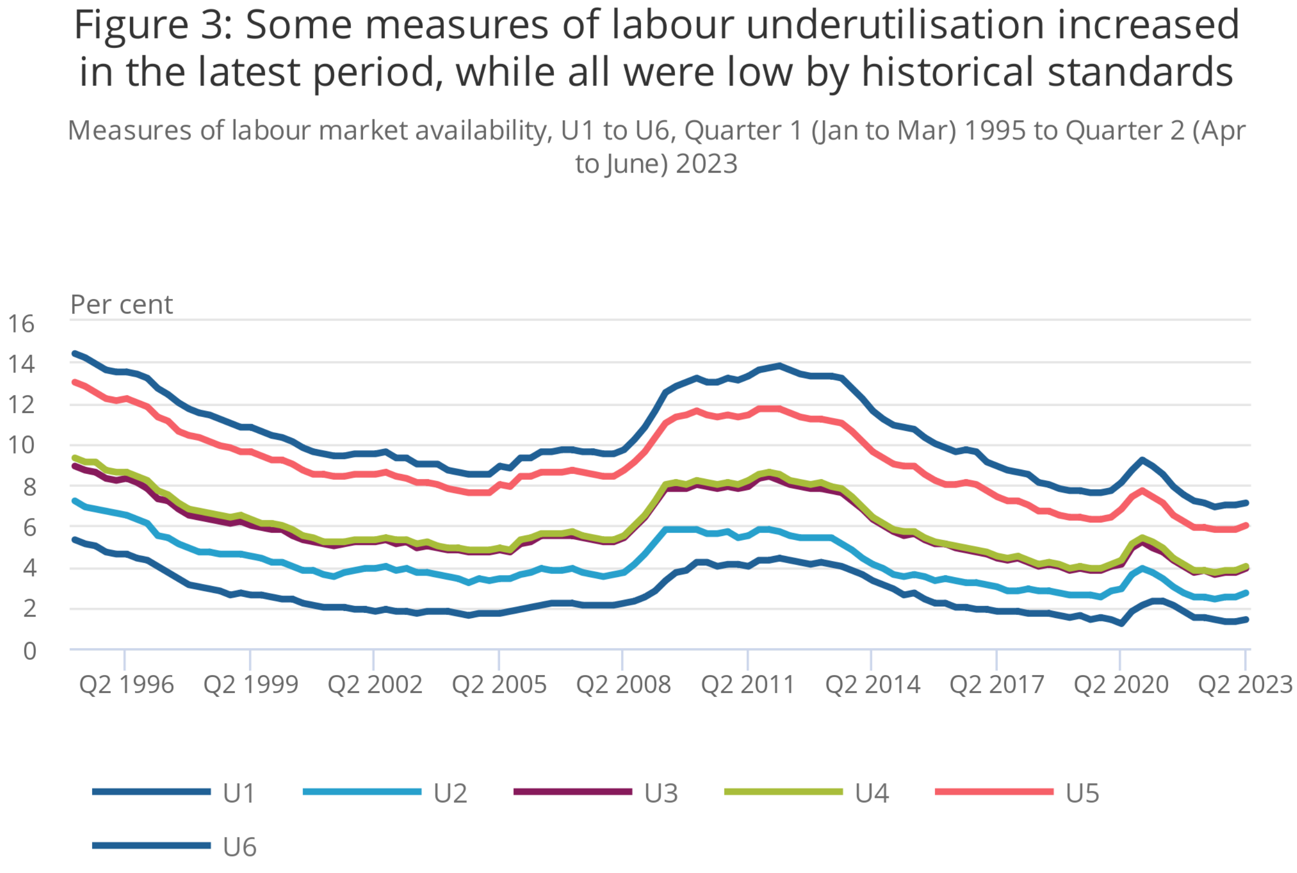
The UK must finance being a net borrower from the rest of the world. Internationalfinancial flows tend to be volatile, particularly in time of heightened uncertainty, such as the increases in global interest rates over the last 18 months reflecting the policy response to inflationary pressure. This is most evident in the most mobile forms of capital, like loans and deposits, but portfolio investment can also be volatile. There was a large net inflow of portfolio investment in Quarter 2 2023, particularly as debt investment.

# 4 . Labour market

There are indications of a loosening of the labour market. The unemployment rate rose to 4.3% in May to July 2023, the largest three-month increase since late 2020. The latest figures also show that there was an increase in flows from inactivity into unemployment, where some of this increase in unemployment reflects those that were previously inactive are now looking for work. Broader measures of labour market availability were still low by historical standards, although some did increase in the latest period (Figure 3). For more information on labour market availability, see our [Alternative measures of underutilisation in the UK labour market article](#).

**Figure 3: Some measures of labour underutilisation increased in the latest period, while all were low by historical standards**

**Measures of labour market availability, U1 to U6, Quarter 1 (Jan to Mar) 1995 to Quarter 2 (Apr to June) 2023**




**Source: Labour Force Survey from the Office for National Statistics**

**Notes:**

1. U3 refers to the headline unemployment rate.

2. Narrower measures (U1 and U2) reflect the implications of unemployment may be harder for some than others, such as those who are long-term unemployed and those who were previously employed rather than a new entrant to the labour market.

3. Broader measures (U4, U5, and U6) reflect that official unemployment figures may understate the full extent of labour availability. For example, by excluding inactive persons who want a job and those in employment but working fewer hours than desired.

The cooling in the labour market was reflected in a further decline in the vacancies-to-unemployment ratio (read more in our Alternative measures of underutilisation in the UK labour market article). There was a further decline in the number of unfiled jobs in the three-month period of June to August 2023, where it is now below 1 million vacancies for the first time since the three months to July 2021, when there was an increase in labour demand as the economy re-opened from coronavirus (COVID-19) restrictions. The three-month change in vacancies has now declined for 14 consecutive months, albeit from those historically high levels.

External evidence from KPMG and REC reports points towards reduced recruitment activity, which shows there was a fall in permanent placements and temporary billings in August, reflecting how recruitment has been affected by "the weaker economic outlook and cautious hiring policies". This might also explain why businesses have reported to the Bank of England an easing in recruitment difficulties, as there are more available workers for those unfilled jobs that employers are recruiting for. That said, the number of people of who are economically inactive because of long-term sickness increased, and is 491,000 above its pre-pandemic level.

However, cooling in the labour market is not evident in earnings inflation. Regular pay increased by 7.8% over the year in the three-month period of May to July 2023, marking the highest increase since comparable records began in 2001, reflecting the inflationary pressures in the labour market. Total pay increased by 8.5% over the same period, although this was boosted by one-off payments to workers in the NHS and Civil Service. Survey indicators point to a potential softening in earnings expectations in the coming year. Some indicators from the Bank of England's summary of business conditions show that pay settlements for this year are around 6% to 6.5%, which was expected to fall over the rest of this year and next year. This reflects expectations of lower inflation, reduced demand and a further easing in recruitment difficulties.

# 5 . Prices

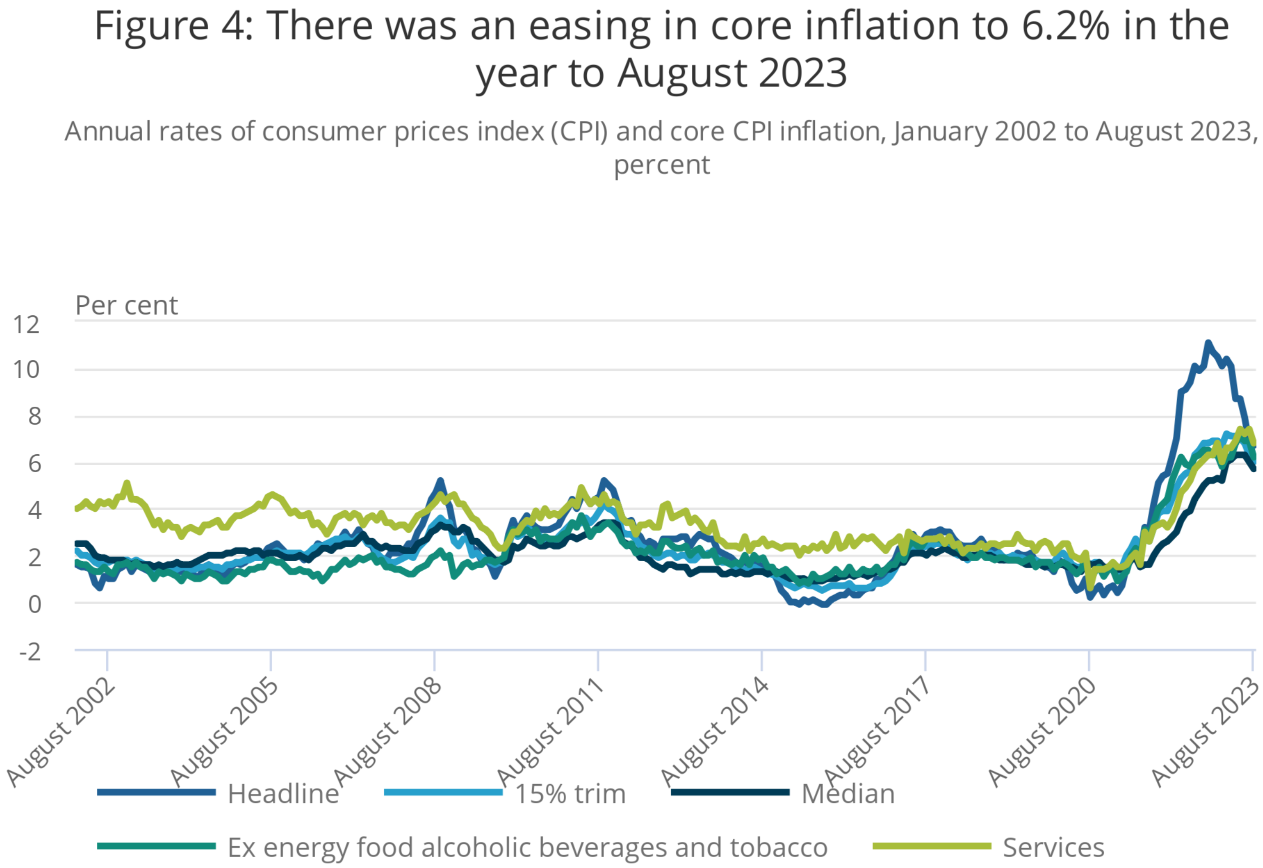
There has been a slowing in consumer price index (CPI) inflation since its peak towards the end of last year, primarily reflecting lower energy price inflation. The 12-month CPI inflation was 6.7% in August 2023. Of the 85 CPI classes, 53 recorded inflation of at least 5%, which is lower than it has been in recent months. Food and non-alcoholic beverages price inflation has continued to slow in August, although these prices are still increasing at a considerable rate (13.6%). Energy price inflation rose in August following nine consecutive months of decline as motor fuel prices increased. The Bank of England's Ipsos inflation attitudes survey shows a fall in one-year ahead inflation expectations over the last year (3.6%), while five-year ahead inflation expectations are now at 2.9%.

There was a slowing in the underlying inflationary pressures in the economy in August. Core CPI inflation was 6.2% in the year to August, down from the 6.9% in the year to July. Our newtrimmed-mean measure(see our New estimates of core inflation article) also indicates that there has been some easing in the broader inflationary pressures in the economy, which fell to 6.0% over the same period (Figure 4). One proxy of domestic inflation is services inflation, which tends to show higher level of inflation persistence, particularly in restaurants and cafes, as shown in our Persistence in consumer prices inflation article. Services price inflation was 6.8% in the year to August, coming off the 30-year high of 7.4% in July. There has been some volatility in some of these price movements in recent months, such as for airfares and accommodation. These prices can be volatile over the summer holiday period.

Producer price inflation has been slowing over the last year. Input prices fell by 2.3% and output prices declined by 0.4% in the year to August. This is a smaller decline compared with July, as petroleum prices increased in August. There is some uncertainty around the timing and extent to which lower costs pass through to consumer prices. The Bank of England's summary of business conditions suggests that businesses had been unable to fully pass higher costs through to output prices, where scope for rebuilding profit margins might be limited given business expectations of weaker demand over the next year.

**Figure 4: There was an easing in core inflation to 6.2% in the year to August 2023**

**Annual rates of consumer prices index (CPI) and core CPI inflation, January 2002 to August 2023, percent**




**Source: Consumer price inflation from the Office for National Statistics**

**Notes:**

1. The official core consumer price index (CPI) inflation measure excludes energy, food, alcoholic beverages, and tobacco.

2. The alternative trimmed mean core inflation measure removes the top 15% and bottom 15% of the distribution of CPI item price changes in every month.

## 6 . Related links

GDP quarterly national accounts, UK: April to June 2023
Bulletin | Released 29 September 2023
Revised quarterly estimate of gross domestic product (GDP) for the UK. Uses additional data to provide a more precise indication of economic growth than the first estimate.

Balance of payments, UK: April to June 2023
Bulletin | Released 29 September 2023
A measure of cross-border transactions between the UK and rest of the world. Includes trade, income, capital transfers and foreign assets and liabilities.

Public sector finances, UK: August 2023
Bulletin | Released 21 September 2023
How the relationship between UK public sector monthly income and expenditure leads to changes in deficit and debt.

Labour market overview, UK: September 2023
Bulletin | Released 12 September 2023
Estimates of employment, unemployment, economic inactivity, and other employment-related statistics for the UK.

Consumer price inflation, UK: August 2023
Bulletin | Released 20 September 2023
Price indices, percentage changes and weights for the different measures of consumer price inflation.

## 7 . Cite this article

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