Office for National Statistics

Article

Quarterly economic commentary: July to September 2023

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1 . Main points

- Gross domestic product (GDP) contracted by 0.1% in Quarter 3 (July to Sept) 2023, leaving the UK economy only marginally larger compared with a year ago, as higher prices and tighter financial conditions led to a slowing in the economy.

- The UK was a net borrower from the rest of the world of 2.5% of GDP in Quarter 3 2023; there was an improvement in the UK's net investment income, particularly in debt and equity investment, with higher global interest rates increasing the returns on those financial investments.

- There was a further cooling in labour demand, as job vacancies fell for the 17th consecutive period in September to November 2023, while annual growth in regular earnings was 7.3% in the three-month period August to October 2023, following the peak of 7.9% earlier in the year.

- Headline 12-month consumer price inflation (CPI) slowed from 4.6% in October to 3.9% in November 2023, while the annual rate of core inflation declined for a fourth consecutive month to 5.1% in November.

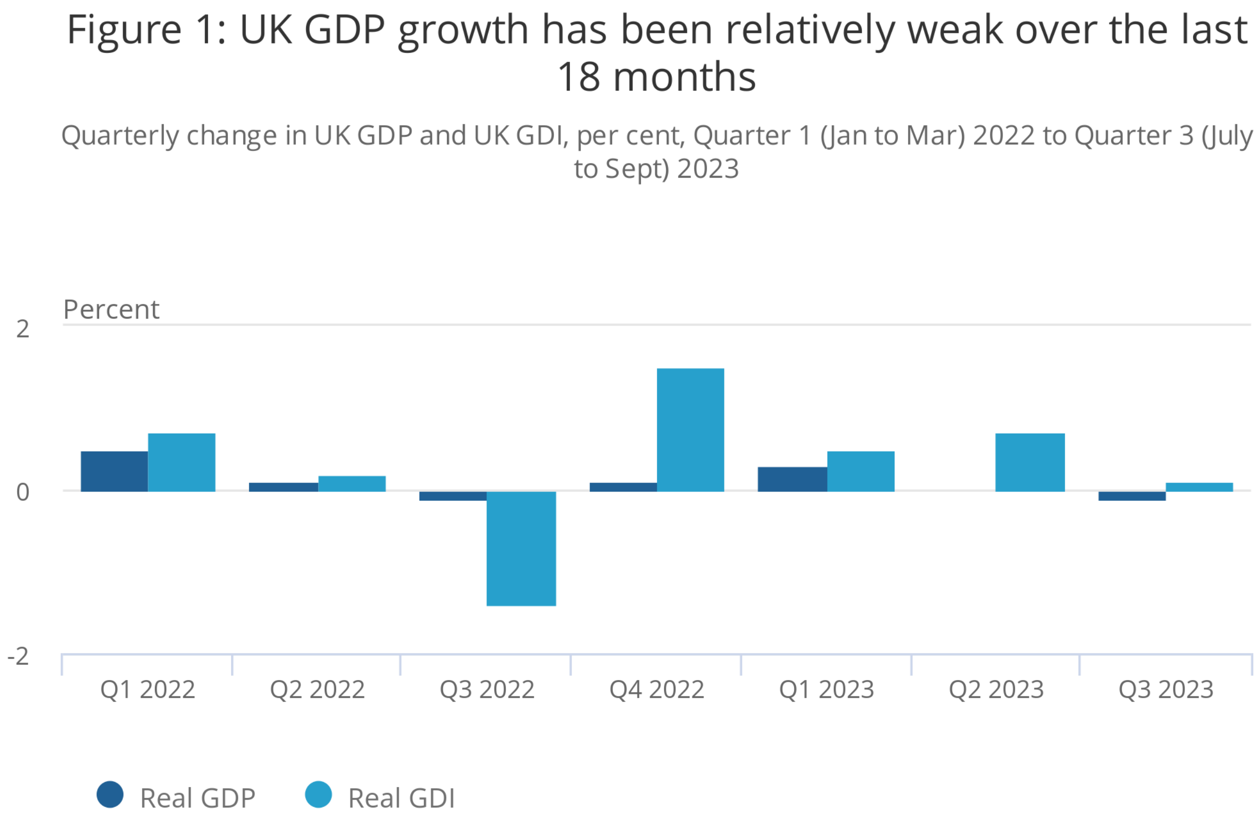
2 . National Accounts

Economic activity in the UK has been relatively weak over the last 18 months. Gross domestic product (GDP) fell by 0.1% in Quarter 3 (July to Sept) 2023, leaving the UK economy only marginally larger compared with a year ago.

One indicator of economic welfare is changes in the purchasing power of GDP. There have been larger changes in gross domestic income (GDI) through 2022 and 2023 because of the increase in energy and commodity prices. This terms-of-trade effect was minimal in Quarter 3 (Figure 1). Monthly GDP fell by 0.3% in October, making for a weak start in Quarter 4 (Oct to Dec) 2023, while output was flat in the three months to October.

Figure 1: UK GDP growth has been relatively weak over the last 18 months

Quarterly change in UK GDP and UK GDI, per cent, Quarter 1 (Jan to Mar) 2022 to Quarter 3 (July to Sept) 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.

The volume of household expenditure contracted by 0.5% in Quarter 3. This reflects the effects of higher inflation (particularly on food and energy prices) and a tightening in financial conditions, which have squeezed real household disposable incomes. The distribution effects of these cost pressures are reflected in our new Household Costs Indices.

Households increased their savings in Quarter 3 to 10.1%, which is higher than pre-coronavirus (COVID-19) pandemic levels. Some of this reflects higher pension incomes, reflecting changes in financial conditions. Given the weak economic outlook and cooling in the labour market in recent months, there could be higher "precautionary" saving.

There has also been a boost to savings income from higher interest rates on new household deposits which have recently increased above 5%, according to the Bank of England. There has been an increase in household deposits in Quarter 3, while Bank of England money and credit figures show that there were more deposits in October, driven by net inflows to interest-bearing time deposits.

Private non-financial corporations (PNFCs) have become net borrowers, partly reflected in the reduction of corporate incomes, where there have been lower levels of gross operating surplus (GOS). This was partially offset by the decline in fixed investment in Quarter 3, particularly in business investment. The Bank of England's summary of business conditions suggests that firms are reducing their plans for investment over the coming year because of margin pressures, elevated financing costs, cost inflation, and uncertainty about future demand.

Public sector net borrowing excluding public sector banks (PSNB ex) was £14.3 billion in November 2023. This monthly borrowing is £0.9 billion lower than November 2022, although it is still the fourth highest on record for a November. For the first eight months of this financial year, PSNB ex was £116.4 billion where this cumulative borrowing is higher than a year ago, in part reflecting the effects of inflation-linked benefits uprating and cost-of-living payments and higher spending on pay and procurement.

Public sector net debt (PSND ex) was estimated at around 97.5% of GDP, although this should be treated as a provisional estimate, which is likely to be revised in future publications. Debt interest spending remains high, largely because of inflation affecting payments on index-linked gilts.

3 . Balance of payments

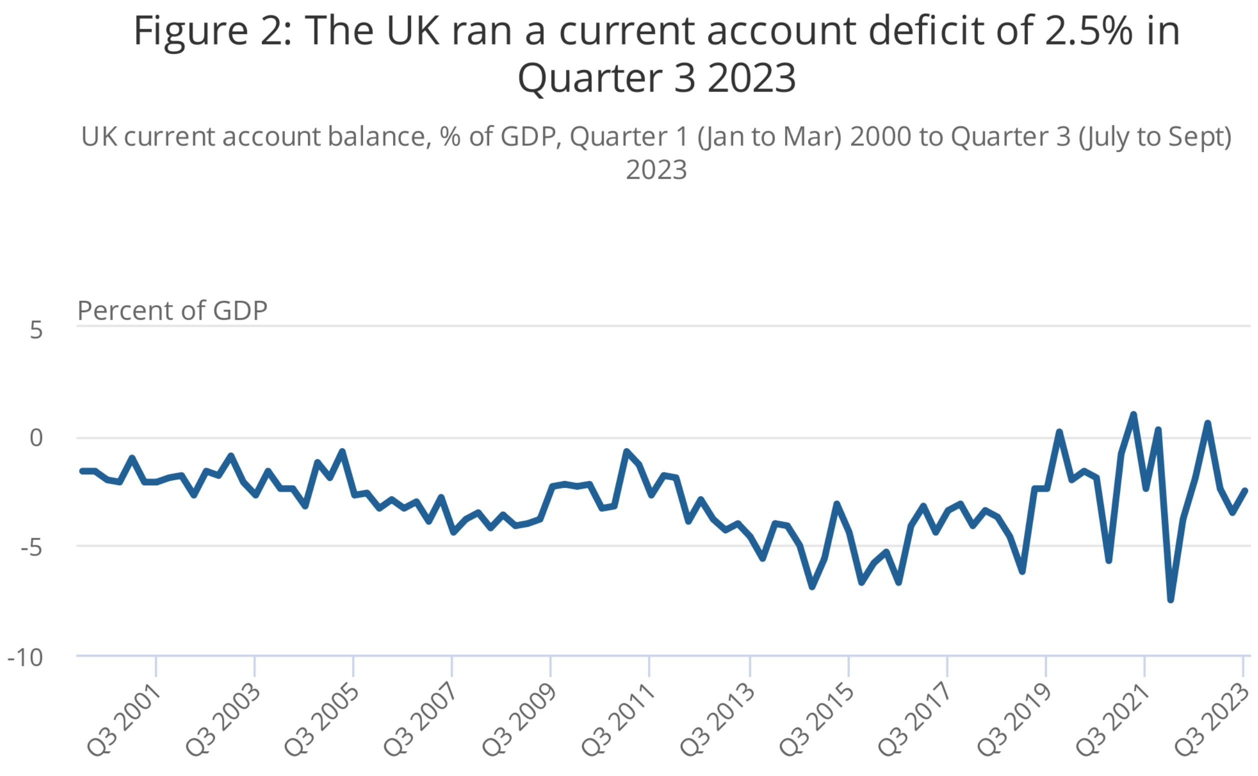
The UK was a net borrower from the rest of the world, running a current account deficit of 2.5% of gross domestic product (GDP) in Quarter 3 (July to Sept) 2023, down from 3.5% in Quarter 2 (Apr to June) 2023. The initial increase in energy prices in the first half of 2022 explained the widening of the underlying goods trade deficit last year.

There has been a narrowing in the goods trade deficit recently, reflecting the lower prices for natural gas imports. The Organisation for Economic Co-operation and Development's (OECD's) Economic Outlook report shows that there was a decline in trade openness relative to its trend prior to the coronavirus (COVID-19) pandemic, partly explaining the weakness in global trade over the past year.

The narrowing in how much the UK has borrowed from the rest of the world in Quarter 3 reflects an improvement in the UK's net investment income, particularly in debt and equity investment. There has been an increase in how much UK investors have received on their financial assets in the rest of the world, specifically in other investment. This in part reflects the higher returns, as higher global interest rates have increased returns on those investments. This tightening of UK financial conditions has also led to higher returns on other investment in the UK held by foreign investors.

Figure 2: The UK ran a current account deficit of 2.5% in Quarter 3 2023

UK current account balance, % of GDP, Quarter 1 (Jan to Mar) 2000 to Quarter 3 (July to Sept) 2023



Source: Balance of Payments from the Office for National Statistics

Notes:

1. The current account balance includes precious metals.

International financial flows tend to be volatile, particularly in times of heightened uncertainty. This is most evident in mobile forms of capital, such as loans and deposits, however portfolio investment can also be volatile. There was a big disinvestment of portfolio investment by UK investors in the latest quarter, which helped finance the UK's net borrowing position. There was also a large flow of other investment in and out of the UK in Quarter 3 2023, which might be in response to the higher returns because of higher UK and global interest rates.

4 . Labour market

There are further indications that the UK labour market continues to loosen. There was a further cooling in labour demand, as vacancies fell for the 17th consecutive period in September to November 2023. There was also a fall of 45,000 in unfilled jobs in the three months to November. However, vacancies are still above their pre-coronavirus (COVID-19) pandemic levels.

The ratio of vacancies per 100 employee jobs continues to fall to 3.0 in September to November 2023. The Recruitment and Employment Confederation's (REC's) Report on Jobs press release suggests that the relatively weak economic outlook has led to a reduction in hiring activity, with recent recruitment difficulties are easing.

Annual growth in regular earnings remained high at 7.3% in the three-month period August to October 2023, following the peak of 7.9% earlier in the year.

The Bank of England found that pay settlements for 2023 have tended to be lower in the second half of 2023 than the first half. This is expected to continue into 2024, reflecting a looser labour market, profitability concerns and lower expected headline inflation. For further information, see the Bank of England's Agents' summary of business conditions report.

Figure 3: There is evidence that nominal earnings growth is slowing, although it is still high

Annual change in average weekly earnings, Great Britain, January to March 2001 to August to October 2023

Source: Average weekly earnings from the Office for National Statistics

5 . Prices

There has been a decline in headline and core inflation in the UK in recent months. Headline 12-month consumer price inflation (CPI) slowed from 4.6% in October to 3.9% in November 2023, its lowest level since late-2021. The annual rate of core inflation declined for a fourth consecutive month to 5.1% in November 2023 (Table 1), which is its lowest level since early-2022.

However, core CPI in the UK remains high compared with other G7 economies. Out of the 85 CPI components, 52 had inflation above 4%, which is lower than it has been in recent months.

Table 1: UK core inflation fell in recent months, but remains high by international standards
Core consumer price inflation (CPI), annual rate of change, June 2023 to November 2023, G7

%	Canada	France	Germany	Italy	Japan	UK	US
Jun	4.0	3.7	5.6	4.6	2.8	6.9	4.8
Jul	3.8	3.6	5.5	4.2	2.8	6.9	4.7
Aug	3.9	3.3	5.5	3.9	2.9	6.2	4.3
Sep	3.4	3.1	4.5	3.9	2.8	6.1	4.1
Oct	3.7	3.1	4.2	3.5	2.9	5.7	4.0
Nov	3.8	2.8	3.7	3.1	-	5.1	4.0

Source: Consumer price inflation from the Office for National Statistics (ONS) and the Organisation for Economic Co-operation and Development (OECD)

Notes

1. UK figures are based on CPI inflation excluding energy, food, alcoholic beverages, and tobacco. Figures for other countries are based on the national measures of consumer price indices excluding energy and food as reported by the Organisation for Economic Cooperation and Development (OECD).

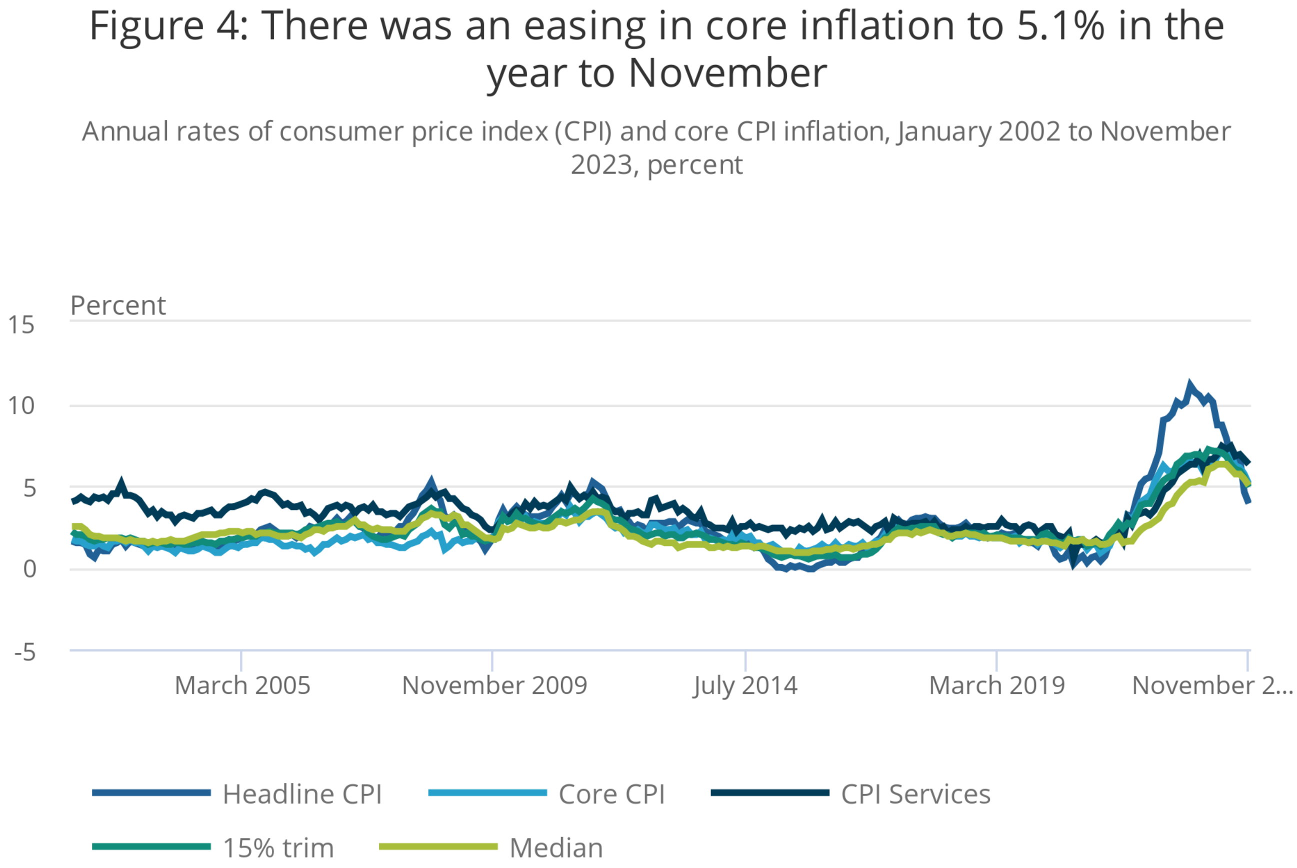
2. "-" Indicates that data were unavailable at the time of publication.

Food and non-alcoholic beverages price inflation has declined in recent months, falling from a 45-year high of 19.1% in March 2023 to 9.2% in the year to November 2023. This slowdown primarily reflected very high price levels from a year ago, while prices have been relatively stable for the latest six months compared with sharper rises over the previous year and a half. Energy prices also declined following the lowering of the Ofgem price cap in October 2023, although it is expected to increase again in January 2024.

The more domestically driven service price inflation also became lower in recent months, as prices for travel and recreation services slowed from their peak pace over the summer. The smaller movements in domestic inflation are also reflected in our alternative indicators of core inflation, where the median and 15%-trimmed mean inflation decreased from their peaks earlier this year (see Figure 1).

Figure 4: There was an easing in core inflation to 5.1% in the year to November

Annual rates of consumer price index (CPI) and core CPI inflation, January 2002 to November 2023, percent



Source: Consumer price inflation from the Office for National Statistics

There is some evidence of a decline in the latest one-year inflation expectations (3.3%), while five-year inflation expectations were at 3.2%. For further details, see the Bank of England's survey of public attitudes to inflation. There has also been a slowing in input and output producer price inflation in November 2023 from last year's peak. According to the Bank of England, there are continued easing of price pressures, particularly for consumer goods, with many retailers reporting a large stock of inventory going into Christmas. For more information, see the Bank of England's Agents' summary of business conditions report.

6 . Related links

GDP quarterly national accounts, UK: July to September 2023
Bulletin | Released 22 December 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: July to September 2023
Bulletin | Released 22 December 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: November 2023
Bulletin | Released 21 December 2023
How the relationship between UK public sector monthly income and expenditure leads to changes in deficit and debt.

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

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

7 . Cite this article

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