Office for National Statistics

Article

Quarterly economic commentary: October to December 2023

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

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Table of contents

1. Main points

2. National accounts

3. Balance of payments

4. Labour market

5. Prices

6. Related links

7. Cite this article

1 . Main points

- Gross domestic product (GDP) contracted by 0.3% in Quarter 4 (Oct to Dec) 2023, 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 3.1% of GDP in Quarter 4 2023, which is a widening in the current account deficit from Quarter 3 (July to Sept), following a decrease in the UK's net investment income.

- There was a further cooling in labour demand, as job vacancies fell for the 20th consecutive period in December 2023 to February 2024, while annual growth in regular earnings was 6.1% in the three-month period from November 2023 to January 2024, following the peak of 7.9% earlier in the year.

- Headline 12-month consumer price inflation (CPI) slowed from 4.0% in January, to 3.4% in February 2024, while the annual rate of core inflation declined to 4.5% in February, which is the first time it has been below 5% in over two years.

2 . National accounts

The UK economy saw its second successive quarter of negative growth in Quarter 4 (Oct to Dec) 2023, as Gross Domestic Product (GDP) fell by 0.3%, where the tightening of financial conditions over the previous two years has fed through to the real economy.

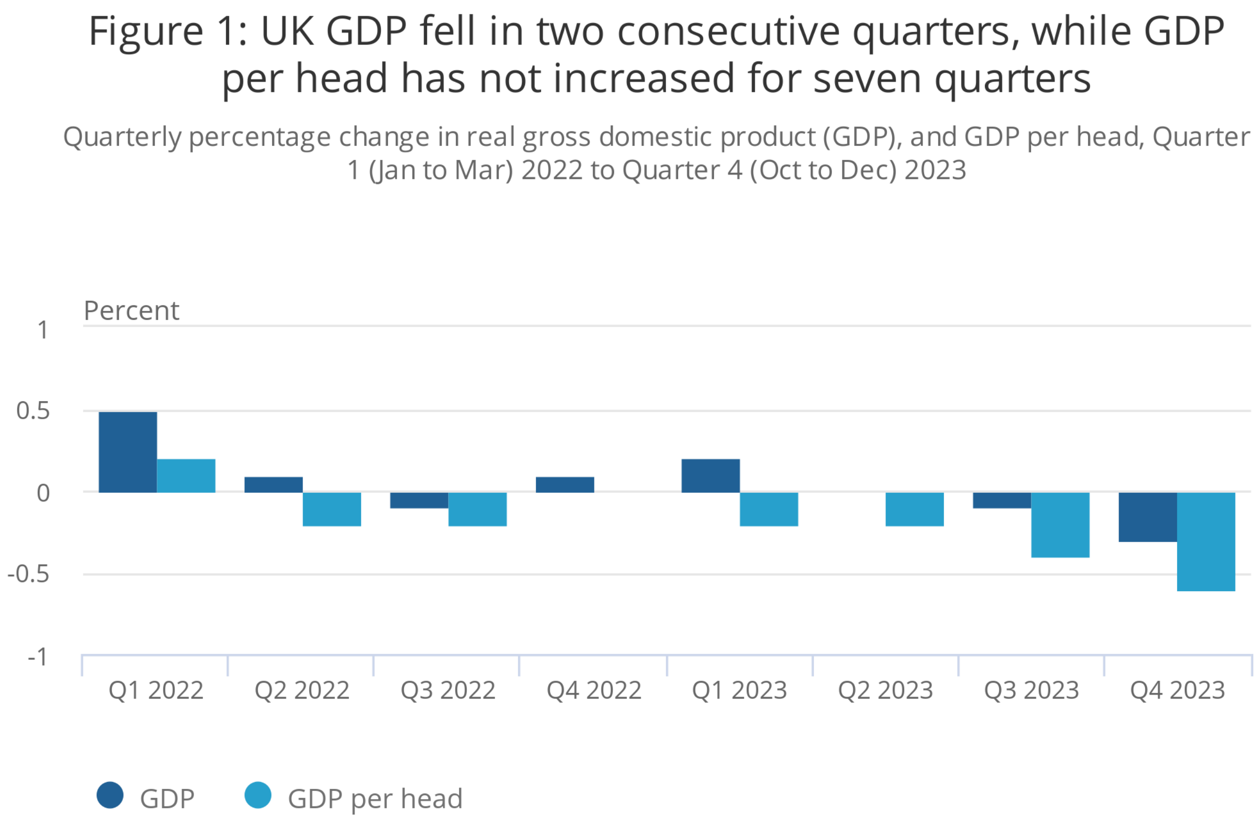
As explained in our Communicating the UK economic cycle methodology, the concept of a ”technical” recession includes two or more consecutive quarters of decreased output. Though, as noted in our blog Uncertainty and the ‘r’ word: What exactly is a ‘recession’?, most experts consider other factors in the broader picture, while accounting for the latest data, such as the depth, diffusion (how widespread), and duration of the change in GDP.

So far, initial indications on the depth, diffusion, and duration of the decrease in output point to a mild recession by historical standards. It should also be noted that these estimates of GDP remain subject to revision (positive or negative), in line with the national accounts revision policy.

More timely monthly GDP figures (published in our GDP monthly estimate, UK: January 2024 bulletin) point to this downturn potentially being short lived, as output increased 0.2% in January 2024, recovering some of the decline. Figure 1 shows that there have been increased cost-of-living pressures over the last two years. GDP per head has not increased in the last seven quarters, including a fall of 1.3% in the year to Quarter 4 (Oct to Dec) 2023. GDP per head is also subject to revisions, owing to updates to both the national accounts and to official population projections.

Figure 1: UK GDP fell in two consecutive quarters, while GDP per head has not increased for seven quarters

Quarterly percentage change in real gross domestic product (GDP), and GDP per head, Quarter 1 (Jan to Mar) 2022 to Quarter 4 (Oct to Dec) 2023



Source: Quarterly national accounts from the Office for National Statistics

Notes:

1. Percentage change on previous period.

2. Q1 refers to Quarter 1 (Jan to Mar), Q2 refers to Quarter 2 (Apr to June), Q3 refers to Quarter 3 (July to Sept) and Q4 refers to Quarter 4 (Oct to Dec).

3. GDP per head is based on the chained volume measure. In line with the national accounts revision policy, year 2022 is consistent with 2020-based interim population projections as published on 27 January 2023. Year 2023 is consistent with 2021-based interim population projections as published on 30 January 2024.

The volume of household expenditure decreased by 0.1% in Quarter 4 2023, following a 0.9% fall in the previous quarter. This was despite some increase in real household disposable income (RHDI) in Quarter 4 2023, as households increased their savings rate towards the of end of 2023. Monthly retail sales indicate some recovery in household consumption in Quarter 1 2024, as sales volumes increased by a cumulative 3.7% in January and February 2024.

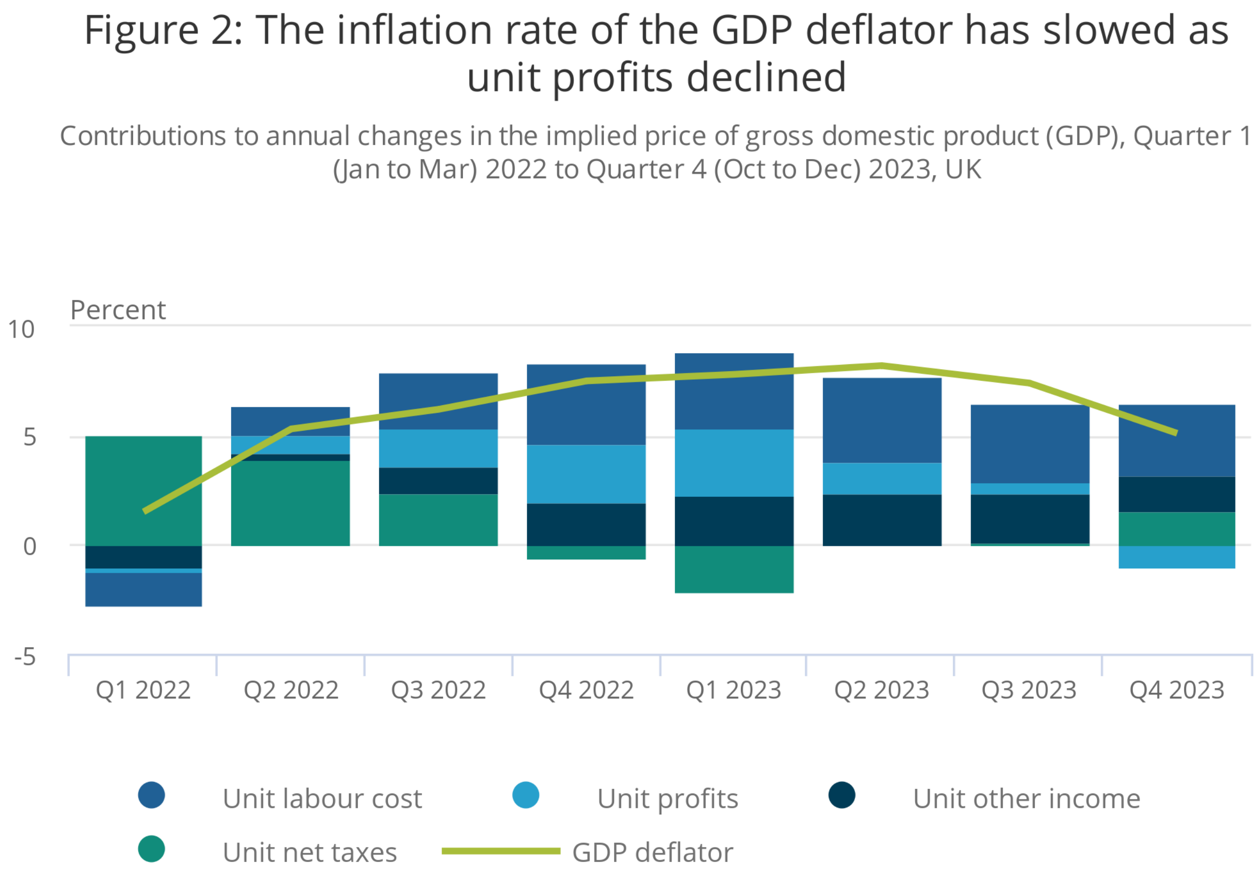
Private non-financial corporations (PNFCs) increased their borrowing in Quarter 4 2023, by more than in any given quarter over the past three years. This partly reflects a reduction in corporate incomes, where gross operations surplus (GOS) decreased for three consecutive quarters at end of 2023. It also reflects some increase in fixed investment in Quarter 4 2023, although firms also reduced some of their inventories.

The decline in corporate income was also the main driver of the slower rate of inflation of the implied GDP deflator, which increased by 5.1% in the year to Quarter 4 2023. Figure 2 shows that the contribution of unit profits turned negative in Quarter 4 2023, while unit labour costs are still increasing. This reflects the effects of a tight labour market and reduced productivity.

These trends in the implied price of GDP help to capture the contributions of labour costs and profit margins. More details about domestic inflation are explained in our The role of labour costs and profits in UK inflation: 2010 to 2023 article.

Figure 2: The inflation rate of the GDP deflator has slowed as unit profits declined

Contributions to annual changes in the implied price of gross domestic product (GDP), Quarter 1 (Jan to Mar) 2022 to Quarter 4 (Oct to Dec) 2023, UK



Source: Quarterly national accounts from the Office for National Statistics

Notes:

1. Unit labour costs are based on compensation of employees, which comprise wages and salaries, and employers' social contributions.
2. Unit profits are based on the gross operating surplus of corporations, excluding the alignment adjustment.
3. Other income includes mixed income and the operating surplus of non-corporations.
4. There is a residual that includes the alignment adjustment and statistical discrepancy in recent quarters.

Public sector net borrowing excluding public sector banks (PSNB ex) was £8.4 billion in February 2024. This monthly borrowing was £3.4 billion lower than in February 2023. For the first eleven months of this financial year, PSNB ex was £106.8 billion. This cumulative borrowing was £4.6 billion less than in the same eleven-month period a year ago, as published in our Public sector finances, UK: February 2024 bulletin.

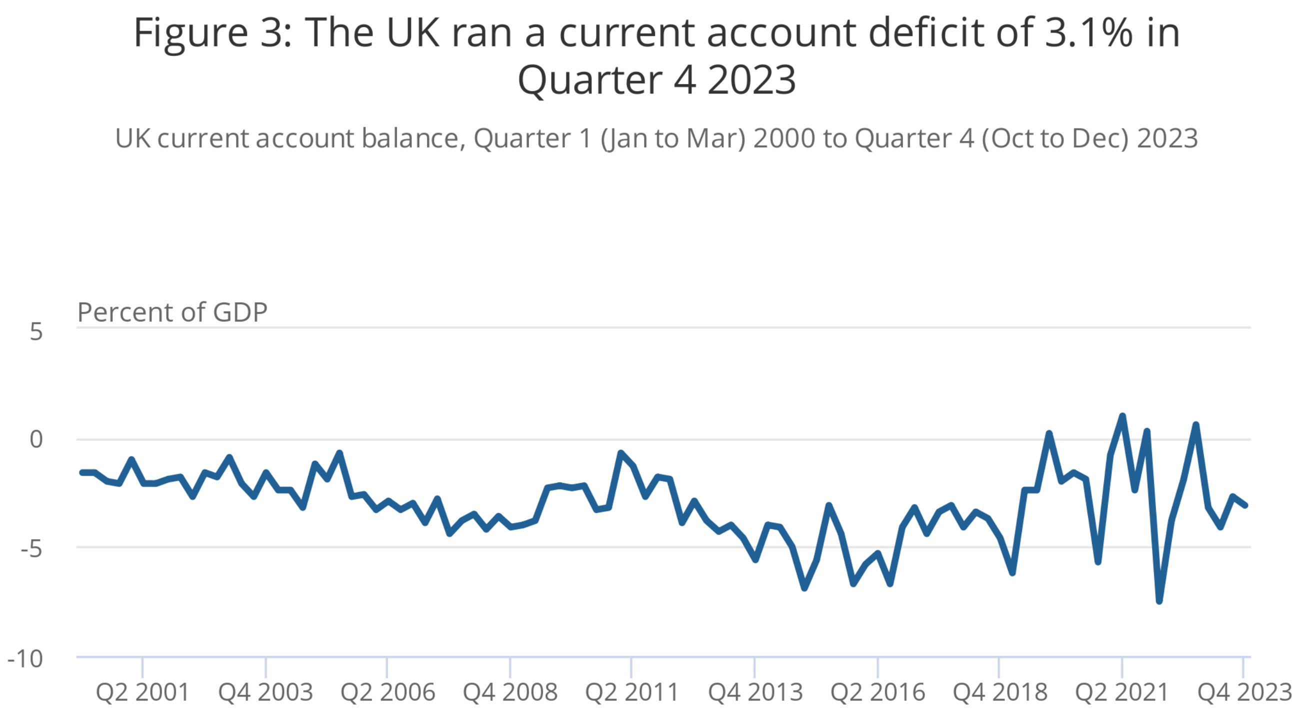
Public sector net debt excluding public sector banks (debt) was £2,659.4 billion at the end of February 2024, which is £157.4 billion more than at the end of February 2023. Debt was provisionally estimated at around 97.1% of the UK’s annual GDP, and remains at levels last seen in the early 1960s.

3 . Balance of payments

The UK was a net borrower from the rest of the world, running a current account deficit of 3.1% of gross domestic product (GDP) in Quarter 4 (Oct to Dec) 2023. This reflected a widening on the quarter and was mainly driven by a fall in net ("primary") investment income in Quarter 4 2023. Excluding precious metals, the trade deficit also widened in Quarter 4 2023.

Figure 3: The UK ran a current account deficit of 3.1% in Quarter 4 2023

UK current account balance, Quarter 1 (Jan to Mar) 2000 to Quarter 4 (Oct to Dec) 2023



Source: Balance of payments from the Office for National Statistics

Notes:

1. The current account balance includes precious metals.

There has been a structural decline in global trade openness, relative to its trend before the coronavirus (COVID-19) pandemic, as reported by the Organisation for Economic Co-operation and Development (OECD) in their Economic Outlook, Interim Report.

The decline in energy prices also contributed to the reduction in the UK's goods trade deficit compared with a year ago, reversing some of the impact from the initial increases in energy prices from 2022. There was also a decline in net investment ("primary") income, as income earned from UK investments abroad increased by less than UK payments to the rest of the world.

International financial flows tend to be volatile, which is most evident in mobile forms of capital, such as loans and deposits. These types of capital flows can be particularly large at times of more volatile movements in financial conditions. There was large movements in other investment flows in and out of the UK in Quarter 4 2023.

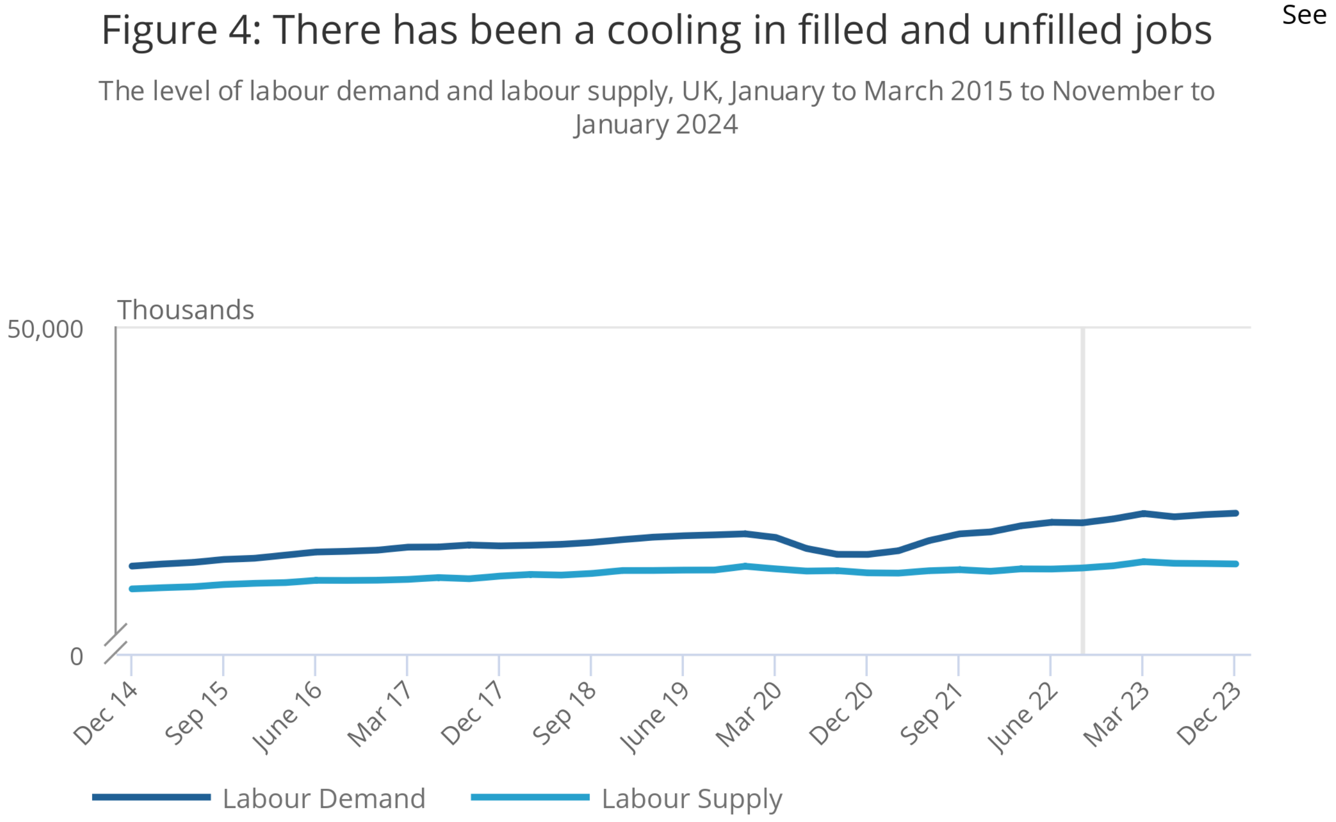
4 . Labour market

There continues to be an easing in labour demand, in line with the recent slowing in economic activity. However, economic inactivity continues to be higher, when compared with pre-coronavirus (COVID-19) pandemic levels.

Figure 4 shows the jobs-workers gap, which is an indication of how much spare capacity there is in the labour market. It compares the number of filled and unfilled jobs (labour demand) with the number of available workers (labour supply). This softening in the UK labour market helps to explain the slight moderation in the high rates of wage inflation.

Figure 4: There has been a cooling in filled and unfilled jobs

The level of labour demand and labour supply, UK, January to March 2015 to November to January 2024



Source: Labour market overview from the Office for National Statistics

Notes:

1. Labour demand is the sum of total workforce jobs and vacancies. Labour supply is the sum of employment and unemployment.

2. The recent Labour Force Survey reweighting exercise creates a discontinuity in total workforce jobs between June 2022 and September 2022, where there will be a step change.

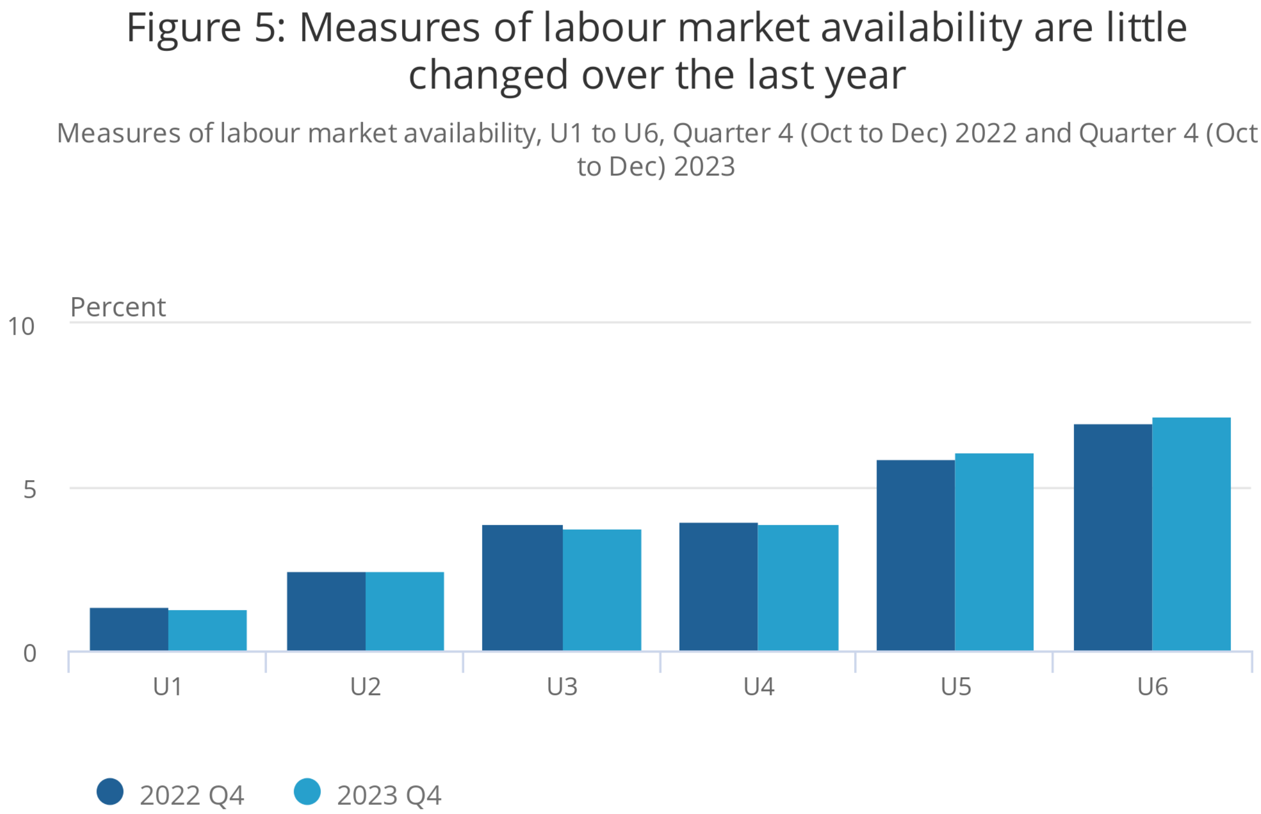
Real-time information shows that there has been a slowing in the increase of payrolled employees through 2023 and into 2024. The number of unfilled jobs is now at 908,000, which is 19.8% lower than a year earlier. There was a decline in the number of vacancies for 20 consecutive periods between December 2023 and February 2024. However, the number of unemployed persons per vacancy was still low (1.5) in November 2023 to January 2024, which suggests limited spare capacity in the labour market.

Figure 5 shows that broader measures of labour market availability have not changed much over the last year. Our Alternative measures of underutilisation in the UK labour market article provides more information about labour market availability.

Survey indicators point to a drop in hiring activity, as shown in the UK Report on Jobs on the KPMG website, and a slight increase in job postings the start of 2024, as shown in the UK Labour Market Update article on the Hiring Lab website, where uncertainty around the economic outlook appears to be having some impact on hiring intentions.

Figure 5: Measures of labour market availability are little changed over the last year

Measures of labour market availability, U1 to U6, Quarter 4 (Oct to Dec) 2022 and Quarter 4 (Oct to Dec) 2023



Source: Labour market overview from the Office for National Statistics

Notes:

1. U3 refers to the headline unemployment rate.

2. Narrower measures (U1 and U2) reflect that 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 people who want a job, and those in employment but working fewer hours than desired.

Regular pay inflation is at 6.1% in the year to November 2023 until January 2024. There has been some slowing in these inflationary pressures in the labour market, reflecting the cooling in the labour market. The Bank of England expects a slowing in pay settlements to 5.4% this year, as “inflation and the ability to recruit and retain staff are expected to put less upward pressure on settlements than last year”. There is some evidence, as published in the Bank of England’s Monthly Decision Maker Panel data report, that firms expect wage inflation to continue to ease over the next year.

5 . Prices

Headline and core consumer price inflation (CPI) declined in February, after three consecutive months of largely unchanged inflation rates. The annual rate of headline CPI declined to 3.4% after a three-month period, at around 4% since November 2023. This is the lowest level of headline inflation since late-2021.

Similarly, core inflation declined to 4.5% in the year to February, its first outturn of less than 5% in over two years. Consumer price inflation in the UK remains above that in other G7 countries (Table 1). Out of the 85 CPI components, 48 had inflation above 4% in February, which is lower than it has been in recent months, but still higher than in some other advanced economies.

Table 1: UK CPI fell in recent months but remains higher than other G7 economies
Headline consumer price inflation (CPI), annual rate of change, September 2023 to February 2024, G7

%	Canada	France	Germany	Italy	Japan	UK	US
Sep	3.8	4.9	4.5	5.3	3.0	6.7	3.7
Oct	3.1	4.0	3.8	1.7	3.3	4.6	3.2
Nov	3.1	3.5	3.2	0.7	2.8	3.9	3.1
Dec	3.4	3.7	3.7	0.6	2.6	4.0	3.4
Jan	2.9	3.1	2.9	0.8	2.2	4.0	3.1
Feb	2.8	3.0	2.5	0.8	2.8	3.4	3.2

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

Notes

1. Figures for other countries are based on the national measures of consumer price indices, as reported by the Organisation for Economic Cooperation and Development (OECD).

Food and non-alcoholic beverages price inflation has declined in recent months, to 5.0% in the year to February 2024, down from a four-decade high of around 19% in March 2023. This moderation reflects some stabilisation in current prices in recent months, compared with sharp increases in food prices over the same period a year ago.

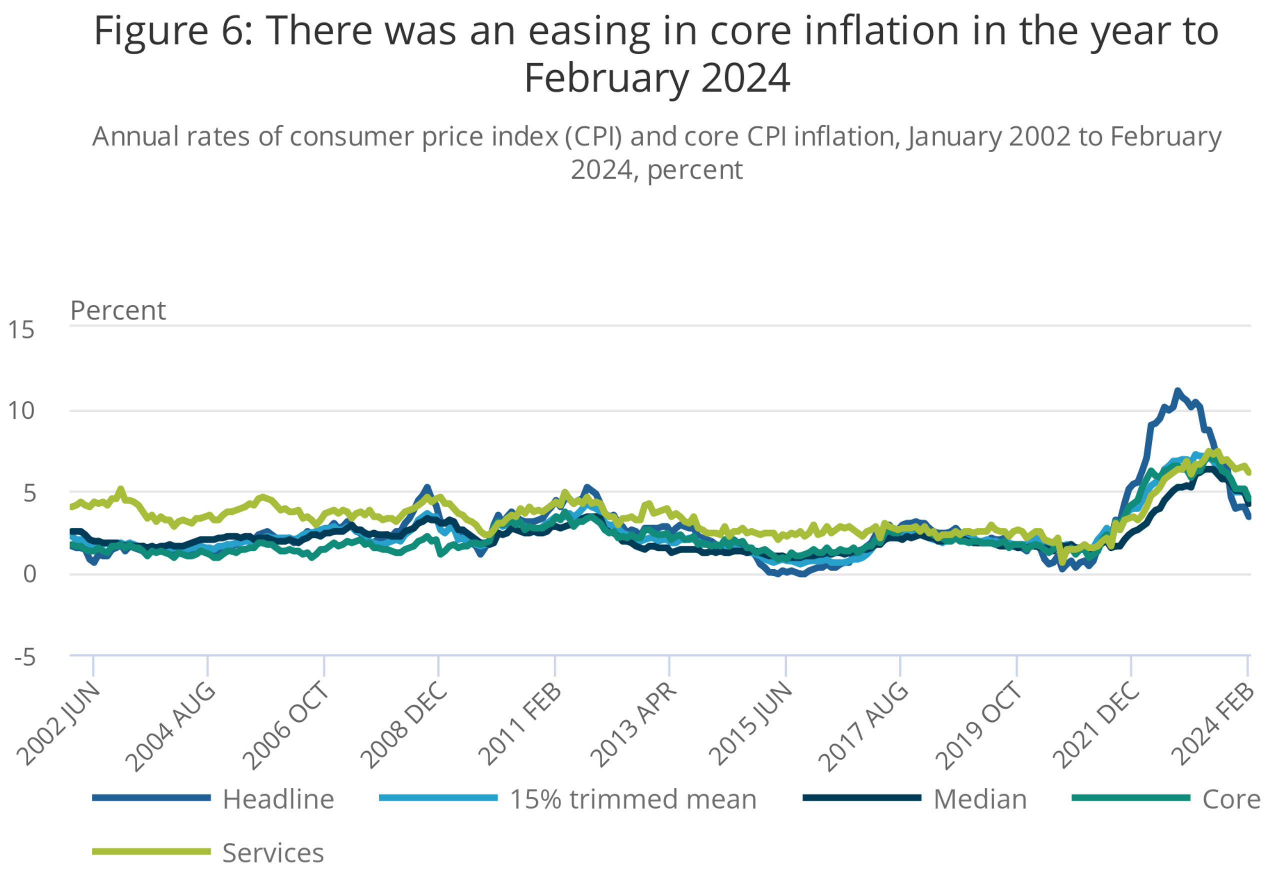
Energy prices increased with the Ofgem cap for electricity and gas prices in January, while higher oil prices pushed up gasoline and diesel prices. A reduction in the Ofgem price cap in April has been announced, but oil prices have continued to increase in March.

The more domestically driven service price inflation edged lower in recent months as prices for travel and recreation services slowed from last year’s highs. Core goods price inflation also continued to decline, with little impact from Red Sea disruptions on consumer good prices observed so far, possibly because of declining producer prices in Asia.

The moderation in underlying inflation is also reflected in our alternative indicators of core inflation, where the median and 15% trimmed mean inflation (meaning that the most extreme price changes on both sides of the distribution are removed) decreased from their peaks from last year (see Figure 1).

Figure 6: There was an easing in core inflation in the year to February 2024

Annual rates of consumer price index (CPI) and core CPI inflation, January 2002 to February 2024, percent



Source: Consumer price inflation from the Office for National Statistics

Notes:

1. The official core 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.

The Bank of England and Ipsos Inflation Attitudes Survey points to some decline in inflation expectations, with one-year-ahead expectations at 2.8%, and five-year-ahead expectations at 3.1% in February 2024.

There was also a slowing in input and output producer price inflation last year, from their peak around mid-2022. Producer prices have largely stabilised over the past nine months, which is influencing consumer prices with a delay. The Bank of England's Agents' summary of business conditions report shows that inflation for consumer goods continues to decline more quickly than for services.

6 . Related links

GDP quarterly national accounts, UK: October to December 2023
Bulletin | Released 28 March 2024
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: October to December 2023
Bulletin | Released 28 March 2024
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: February 2024
Bulletin | Released 21 March 2024
How the relationship between UK public sector monthly income and expenditure leads to changes in deficit and debt.

Labour market overview, UK: March 2024
Bulletin | Released 12 March 2024
Estimates of employment, unemployment, economic inactivity, and other employment-related statistics for the UK.

Consumer price inflation, UK: February 2024
Bulletin | Released 20 March 2024
Price indices, percentage changes and weights for the different measures of consumer price inflation.

7 . Cite this article

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