UK Economic Outlook: Green shoots of a recovery?

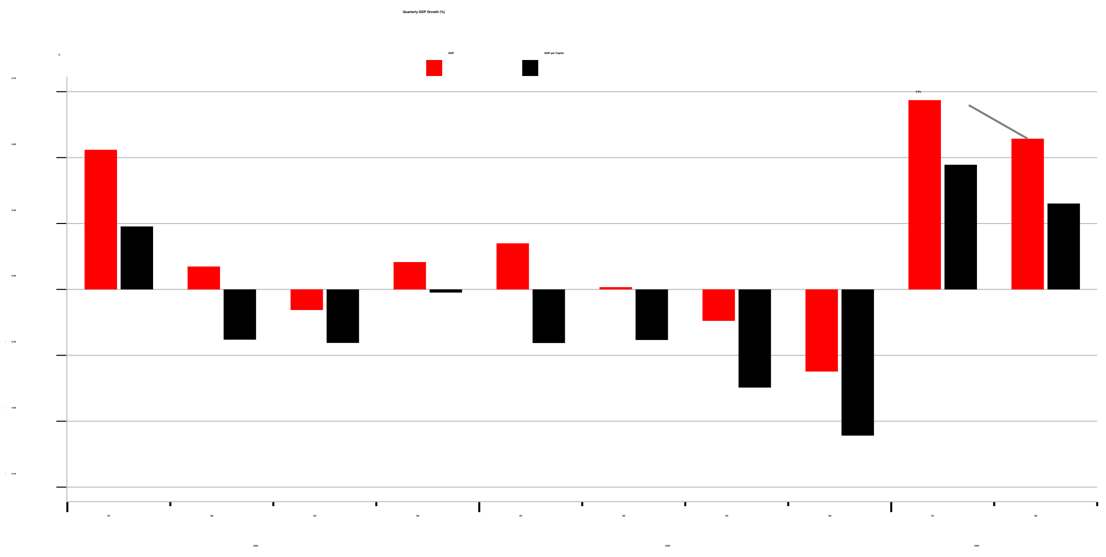
Housing Market Intelligence

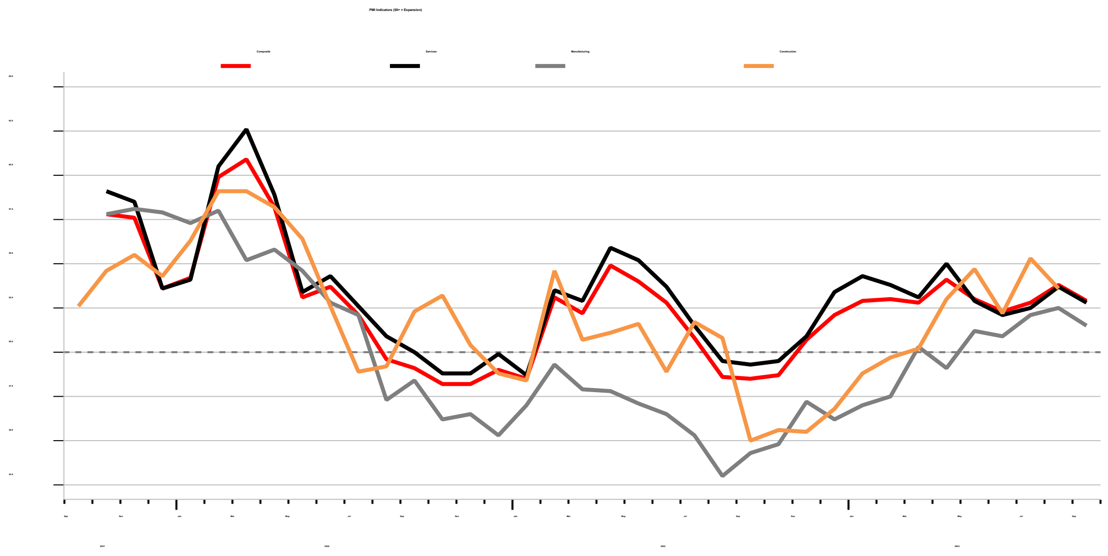
Presenter:

Frances Haque

Santander

The mild ‘*recession*’ is definitely over!





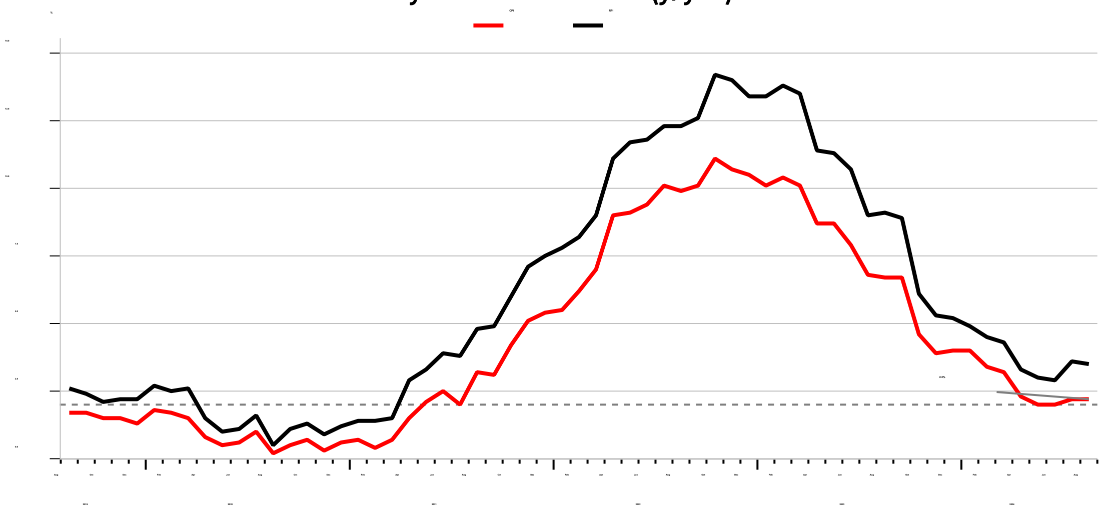
- The 0.6% q/q growth posted in Q2 followed strong growth of 0.7% q/q in Q1. June and July has seen flat GDP growth, but Q3 still likely to see expansion albeit at lower levels than H1.

- The PMI data fell in September to 52.9 compared to 53.4 in August but remains in expansionary territory and implies growth of 0.3% q/q for the economy in Q3.

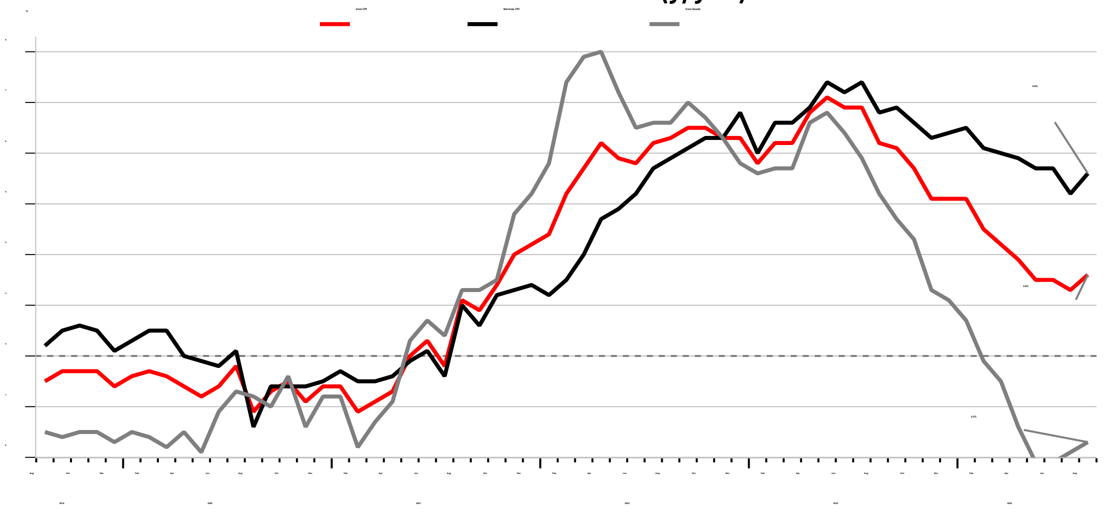
Sources: ONS and San UK

The inflation picture has improved

Key Inflation Measures (y/y %)



Core Inflation Measures (y/y %)



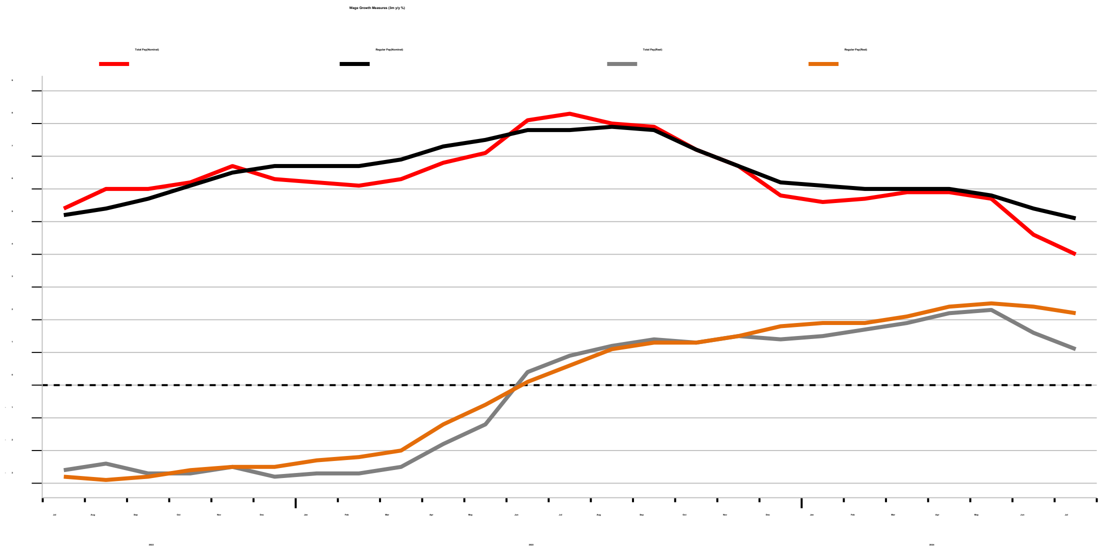
- CPI inflation for August stayed at 2.2%. However, the forecasts are for it to rise to finish 2024 at c.2.5%. This is partly due to base effects from falling food prices having worked through and increasing energy costs.

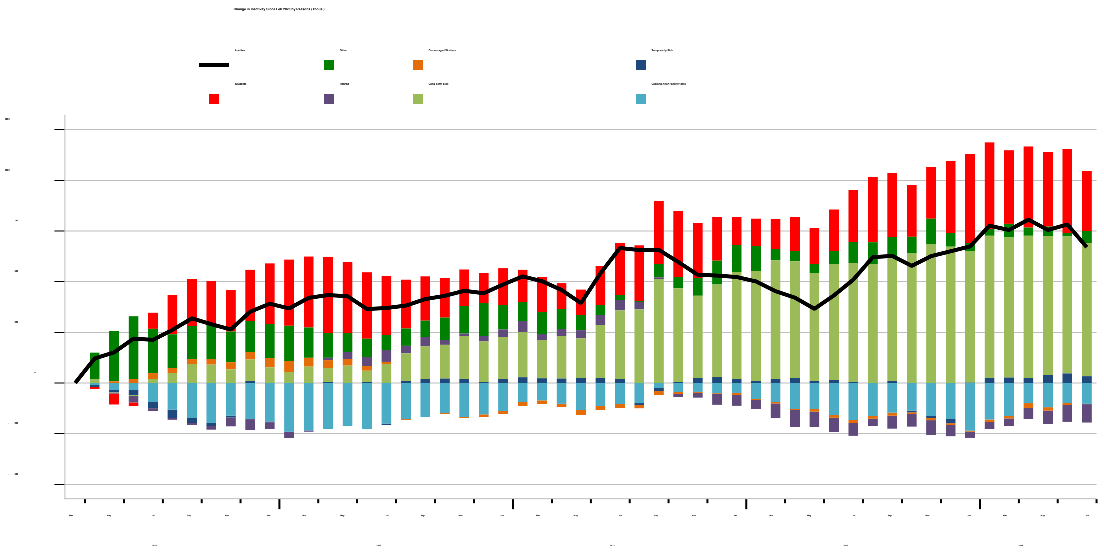
- But key measures of inflation persistence closely watched by the BoE are proving sticky and at rates inconsistent with the 2% inflation target.

Santander

Sources: ONS and San UK

Wage growth is the key





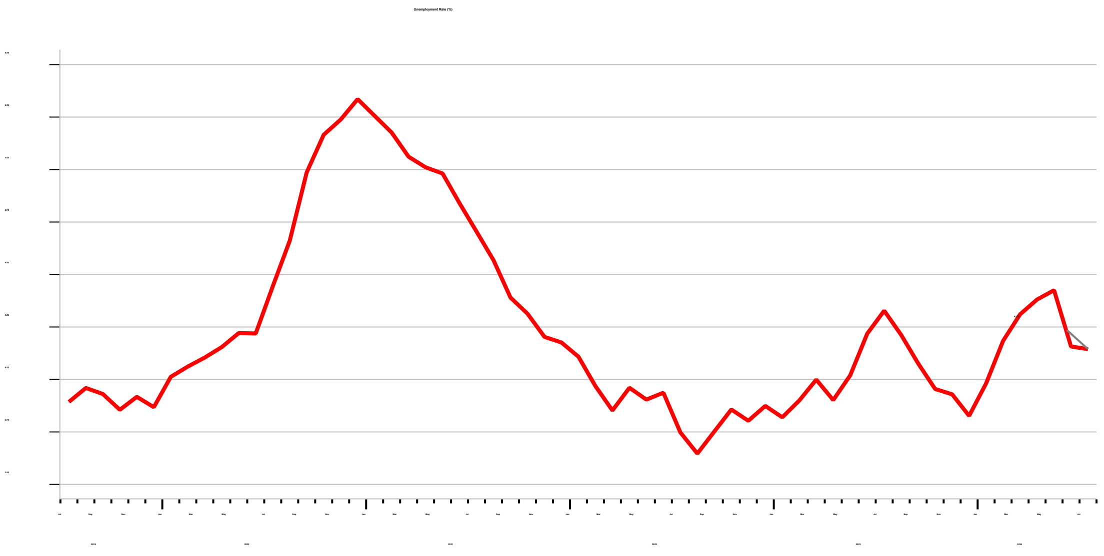
- Robust nominal wage growth is driving services inflation and is only slowing gradually. Although July data saw average regular pay growth (ex bonuses) fall from 5.4% 3m y/y in June to 5.1% 3m y/y in July. Growth in public sector pay outpaced private with public sector pay growth of 5.7% 3m y/y versus 4.9% 3m y/y in July.

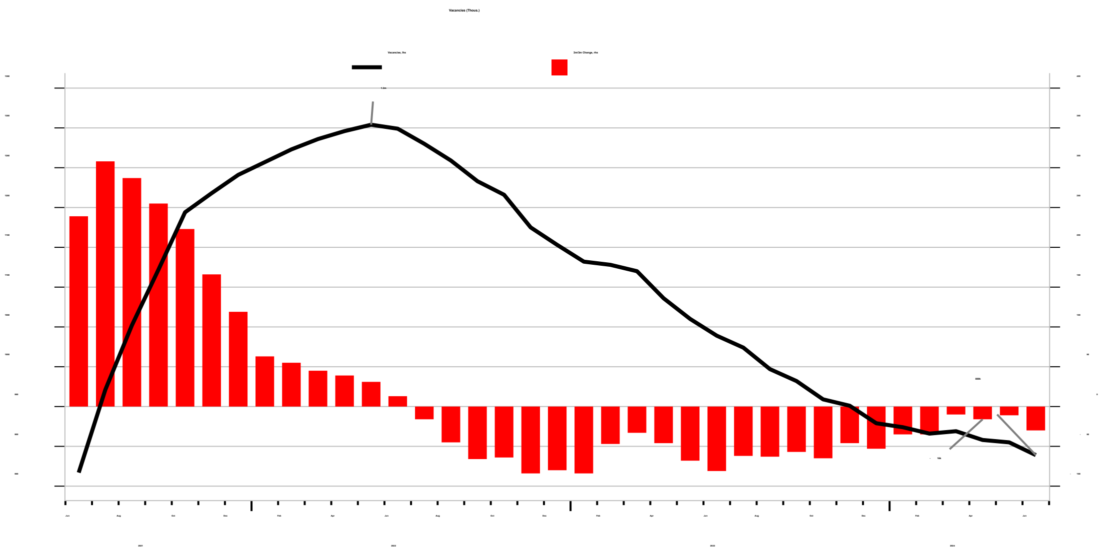
- Higher inactivity reduces labour supply and allows workers to demand higher wages. 750k people have become inactive since the pandemic, largely due to ill health and is linked to the rise in NHS waiting lists.

Santander

Sources: ONS and San UK

The labour market is loosening slowly





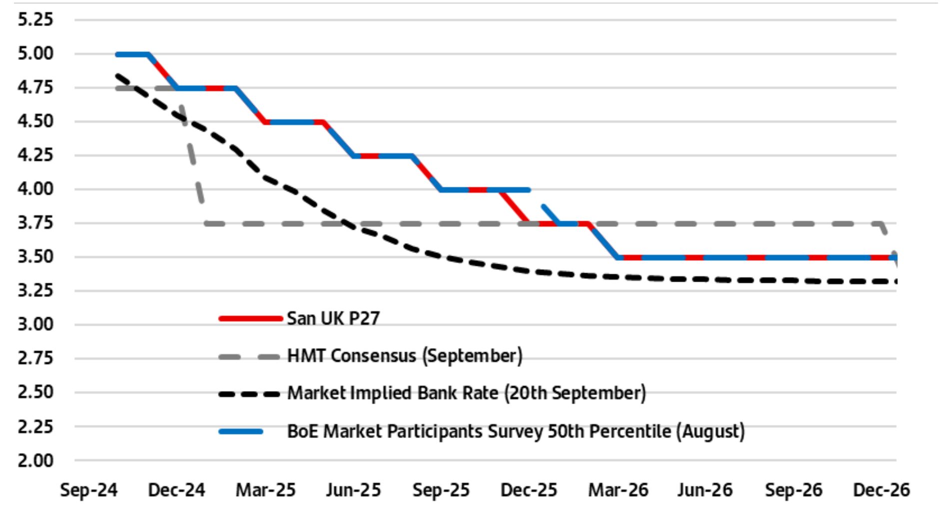
- The unemployment rate has started to fall with 3m/3m unemployment in July now at 4.1%, which remains low in a historical context despite a rise in business insolvencies. But the LFS are updating the survey data that is used to determine (un)employment numbers due to issues with the current methodology so the actual data may be subject to revision once these changes take effect.

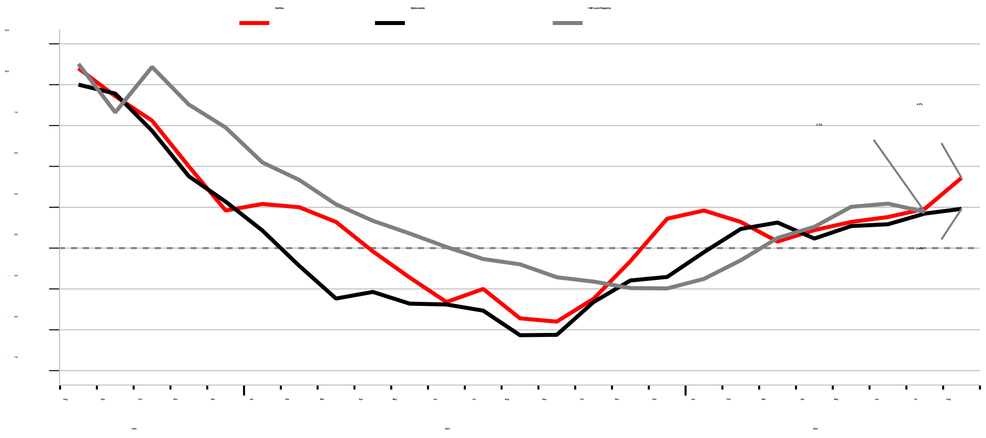
- The number of vacancies has been falling consistently since mid-2022 suggesting that there is some loosening of the labour market.

Santander

Sources: ONS and San UK

Further rate cuts are expected





- We saw Bank Rate finally cut in August by 25bps. Market is pricing in the next cut (along with economists/commentators) for November. With steady decreases over 2025.

- House prices have proved remarkably resilient with published indices showing small rises in prices. Growth should continue in H224 now cuts to Bank Rate have started.

Santander

Sources: Bloomberg, ONS, Nationwide and Halifax

What are the key risks to the UK outlook?

- **Geopolitical breakdown** – escalation of conflicts and increasing security issues including cyber threats
- **Structural risk** – Rising government debt costs and low productivity growth continuing
- **Climate uncertainty** – further cutbacks by the UK government on net-zero policies means a disorderly transition becomes more likely
- **Unpredictable inflation** – rising energy prices and potential for wage growth to remain at levels inconsistent with the 2% inflation target
- **Stagnation returns** – higher for longer interest rates caused by increased inflation weigh on economic activity in the economy weakening growth levels.

External Forecasts for UK economy

GDP (annual %)	2023 (Actuals)	2024	2025
Bank of England (MPR Aug)	0.1	1.2	1.0
HMT Consensus (Sept)	0.1	1.1	1.3

Unemployment Q4 (%)	2023 (Actuals)	2024	2025
Bank of England (MPR Aug)	3.8	4.4	4.7
HMT Consensus (Sept)	3.8	4.3	4.4

CPI Q4 (%)	2023 (Actuals)	2024	2025
Bank of England (MPR Aug)	4.2	2.7	2.2
HMT Consensus (Q4) (Sept)	4.2	2.6	2.2

Bank Rate Q4 (%)	2023 (Actuals)	2024	2025
HMT Consensus (Sept)	5.25	4.75	3.75

Santander

Source: Bank of England MPR August 2024 and HMT Consensus Forecasts August 2024 .