

## ECONOMIC REVIEW

OF NOVEMBER 2023



### OBR CUTS ECONOMIC GROWTH FORECAST

**Revised forecasts from the Office for Budget Responsibility (OBR) suggest the UK economy is set to grow more slowly over the next two years than previously predicted.**

Chancellor Jeremy Hunt unveiled the independent fiscal watchdog's latest projections during his Autumn Statement delivered on 22 November. The updated forecast predicts the economy will expand by 0.6% this year and then by 0.7% in 2024 and 1.4% in 2025. While the 2023 figure is a significant improvement on the OBR's previous prediction of a small contraction, the other two figures both represent large downgrades.

Forecasts published earlier in the month by the Bank of England (BoE) also point to a sluggish growth outlook. While not predicting a recession, the Bank expects almost no growth at all from now until 2025, with Bank Governor Andrew Bailey expressing concerns over the economy's potential to grow. Third quarter gross domestic product (GDP) figures released by the Office for National Statistics (ONS) also added to the subdued picture, with the economy flatlining between July and September.

Data from the latest S&P Global/CIPS UK Purchasing Managers' Index, however, was more encouraging, with the preliminary composite headline figure unexpectedly rising to 50.1 in November. This was significantly above October's 48.7 reading and moved the index back above the 50 threshold that denotes an expansion in private sector output.

S&P Global Market Intelligence's Economics Director Tim Moore said, "The UK economy found its feet again in November as the service sector arrested a three-month sequence of decline and manufacturers began to report less severe cutbacks to production schedules. Relief at the pause in interest rate hikes and a clear slowdown in headline measures of inflation are helping to support business activity, although the latest survey data merely suggests broadly flat UK GDP in the final quarter of 2023."

### INFLATION RATE FALLS SHARPLY

**The latest consumer price statistics revealed a significant drop in the UK headline rate of inflation, although the BoE Governor has warned that getting the rate to continue falling back to target will be "hard work."**

Data published last month by the Office for National Statistics (ONS) showed the Consumer Prices Index (CPI) 12-month rate – which compares prices in the current month with the same period a year earlier – stood at 4.6% in October. This represents a significant fall from September's 6.7% figure and was below analysts' expectations which pointed to a rate of 4.8%.

ONS said the decline, which was the largest monthly drop since April 1992, was mainly driven by a steep reduction in household energy bills compared to last year's levels. There was also some evidence of a wider softening of price pressures, with some sectors, such as overnight hotel accommodation, witnessing a notable easing in annual inflation rates.

Despite October's large fall, the CPI rate does remain significantly above the Bank's 2% inflation target and, in recent weeks, BoE policymakers have warned that the 'last mile' of getting it all the way back down to target is likely to be tough. For instance, commenting on this year's inflation decline during an interview with news website Chronicle Live, the BoE Governor said, "The second half, from there to two, is hard work."

Early last month, the BoE's Monetary Policy Committee (MPC) voted to keep interest rates on hold for a second consecutive meeting and stressed it will not be cutting rates any time soon. The Bank also warned inflation might not fall as quickly as some are hoping, with its latest forecasts predicting the CPI rate will only return to target by the end of 2025. The next MPC interest rate announcement is scheduled for 14 December.

## PAY GROWTH OUTSTRIPPING INFLATION

**Earnings statistics released last month showed real wages rising at the fastest rate for two years, although there are also signs that nominal pay growth may have started to ease.**

According to the latest ONS figures, average weekly earnings excluding bonuses rose at an annual rate of 7.7% in the July to September period. After adjusting for inflation, regular pay increased by 1.3% on the year; this represents the largest rise in real earnings since the three months to September 2021.

The data release did, however, suggest that nominal pay growth may now have peaked, with the latest figure slightly lower than the rate recorded during the previous three-month period. This slowdown has been particularly noticeable in certain industry sectors, including construction and manufacturing, as the jobs market begins to cool.

Last month also saw the Chancellor confirm that the National Living Wage will rise to £11.44 an hour from April 2024. The move, which equates to a 9.8% increase from its current level, will boost the earnings of around two million workers aged 23 and over. In addition, the Chancellor announced that, for the first time, the National Living Wage will also apply to those aged 21 and over from next April.

## RETAIL SALES FALL AGAIN

**Data recently released by ONS showed a further monthly decline in retail sales volumes and more recent survey evidence suggests little sign of an imminent revival in retail activity.**

Although economists had expected a small rise, official statistics revealed that the volume of products sold in the UK actually fell by 0.3% in October. This follows a downwardly revised decline of 1.1% in September to leave total retail sales at their lowest level since early 2021. ONS noted that retailers felt 'cost of living, reduced footfall and the wet weather in the second half of the month' all contributed to October's decline.

The latest CBI Distributive Trades Survey did report some improvement in sentiment across the retail sector during November. However, the headline measure of sales volumes fell year-on-year for the seventh consecutive month while a majority of retailers also said they expect sales volumes to be below seasonal norms in December.

Commenting on the findings, CBI Principal Economist Martin Sartorius said, "Retail sales have languished in negative territory for much of 2023, reflecting the impact of strained household finances on the sector's fortunes. Though sentiment has picked up slightly, firms do not feel that a revival in activity is imminent."



All details are correct at the time of writing (01 December 2023)

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