United Kingdom

In Q3 2022, activity in the UK declined (-0.2%, after +0.2% in Q2, ►Figure 1), in a context of very high inflation, especially in energy, and with strikes in several sectors of the economy. Household consumption slipped back (-0.5%) as did corporate investment (-0.5%), reflecting supply chain difficulties, which remain significant, as well as the intensification of monetary tightening by the Bank of England. In addition, some strong movements have affected foreign trade: the net decline in imports (-3.2%) was accompanied by a sharp increase in exports (+8.0%), in line with variations in flows of non-monetary gold, which were very volatile. This phenomenon automatically generates major destocking (contribution of -3.9 points to GDP change, offsetting to a large extent the foreign trade contribution of +3.2 points).

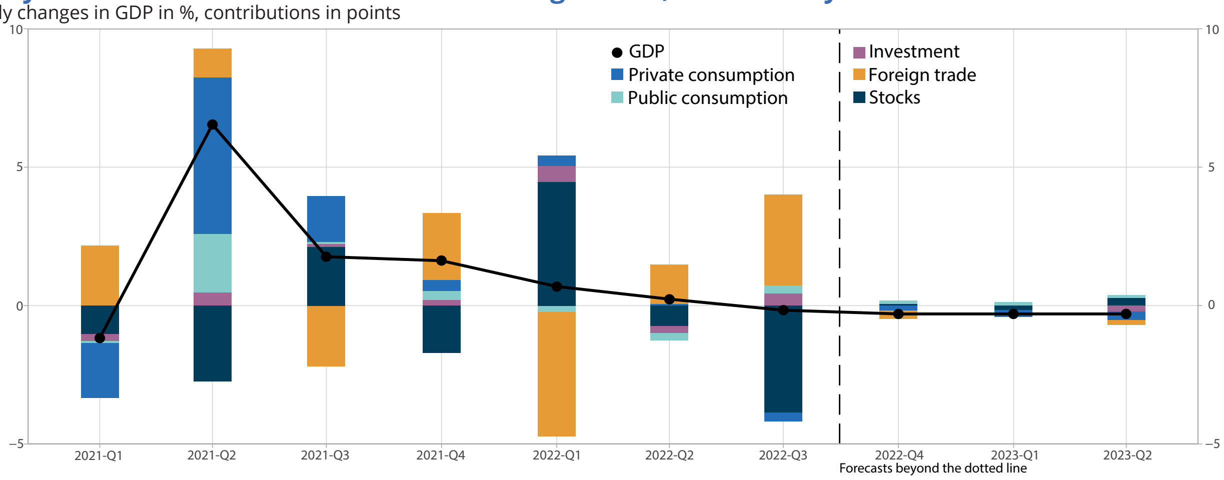
At the start of Q4, inflation was still very high in the United Kingdom: in October, the increase in the electricity and gas price cap (admittedly limited to +45% –against 80% originally planned– in accordance with the measures put in place by the authorities) took inflation to a new high (+11.1% year-on-year, ►Figure 2), while core inflation (excluding energy and food) remained stable (+6.5% year-on-year).

This rise in inflation is expected to lead to a further decline in household purchasing power in the last quarter of 2022, in line with a faster rise in consumer prices than in wages (+6% in September year-on-year) and this is despite a job market that remains tense. Over the last few quarters, the United Kingdom has been faced with a labour shortage: the unemployment rate reached its lowest level since 1975 (3.6% in Q3), in part because the labour force participation rate has been in decline since the health crisis (78.4% in Q3). Given this context, the confidence of UK households reached an all-time low in October, especially as the United Kingdom is also going through a political and financial crisis of confidence.

At year's end, activity is expected to contract further (-0.3%) with this decline carrying on into H1 2023. This contraction is likely to result from that in domestic demand. Household consumption looks set to continue to slip back, in line with a purchasing power in constant decline. Continuing monetary tightening is likely to weigh on household investment via the rise in mortgage rates. Corporate investment is also expected to be affected by these increases in rates, despite support provided through the Super-deduction programme (tax reduction on amounts invested) until next March.

►1. Beyond the statistical fluctuations in foreign trade, an economy in recession

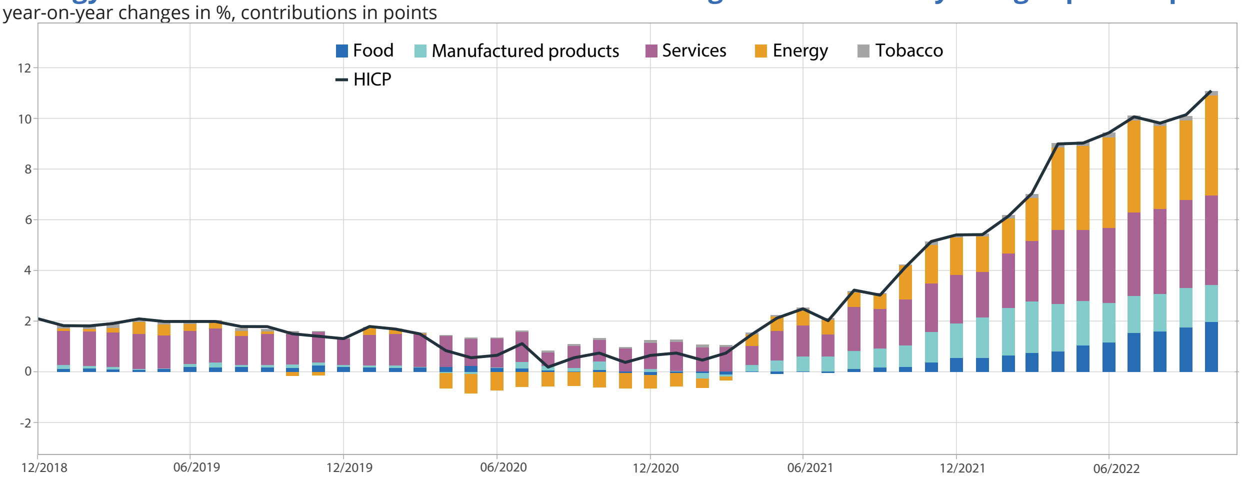
quarterly changes in GDP in %, contributions in points



How to read it: in Q2 2022, GDP increased by 0.2%. Foreign trade contributed 1.4 points to this growth.
Source: ONS, INSEE calculations

►2. Energy inflation increased in October with the raising of the electricity and gas price cap

HICP year-on-year changes in %, contributions in points



Last point: October 2022.
How to read it: in October 2022, consumer prices increased by 11.1% year-on-year.
Source: ONS, INSEE calculations