United Kingdom

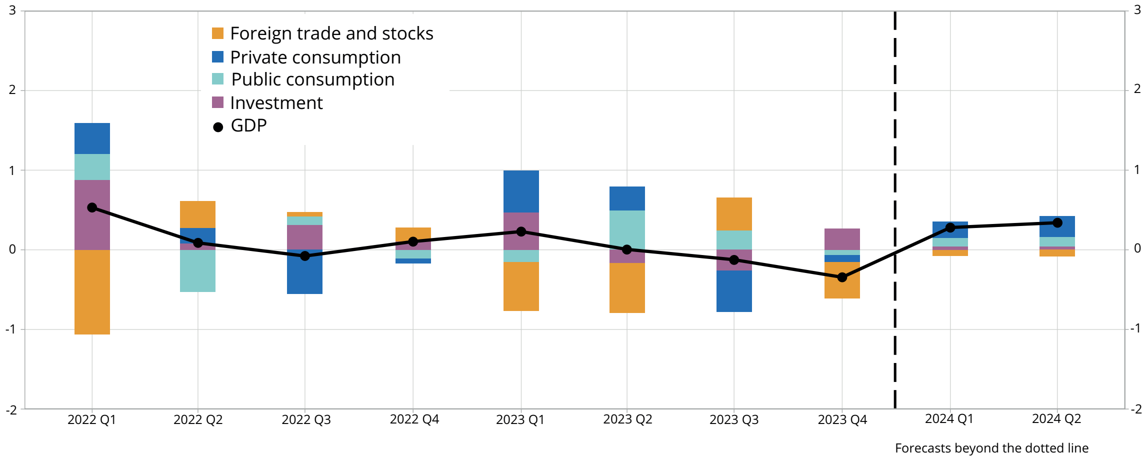
In Q4 2023, the United Kingdom entered recession, with activity shrinking for the second consecutive quarter (-0.3% after -0.1% in Q3, ►**Figure 1**). Across the whole of 2023, activity stagnated (+0.1%).

Household demand has been very much affected by the Bank of England's restrictive monetary policy. Home investment in particular continued to fall back sharply for the fifth consecutive quarter (-1.9% in Q4 after -2.0% in the previous quarter); across the whole of 2023, it declined by 6.8%. Household consumption, which had held up well in H1, was also depressed at the end of the year, shrinking over two consecutive quarters (-0.1% in Q4, after -0.9%). However, corporate investment, which was boosted by some one-off events (windfall effect of the ending of the Super deduction scheme, aircraft imports from the United States), was very dynamic (+1.5% in Q4), showing +6.1% growth in 2023. Meanwhile, foreign trade hampered growth in Q4, with exports shrinking more than imports (-2.9% and -0.8% respectively). However, its contribution was fairly neutral taken as an average over the year.

However, the short-term economic signals look fairly positive at the start of 2024 and suggest a probable upswing in activity. On the supply side, PMI levels continue to pick up (►**Figure 2**). On the demand side, household confidence has been trending upwards since the beginning of 2023: households have benefitted from the rapid decline in inflation, which fell to +4.0% in January and should reach the Bank of England's target of 2% by June. Wage increases reached 5.8% year-on-year in Q4, and this trend should continue, with the minimum wage due to rise by 9.8% on 1st April. Purchasing power should therefore improve substantially, enabling consumption to recover, although household investment is expected to continue to decline sharply, still hampered by high interest rates. As far as companies are concerned, the public support measures put in place by the government in March 2023 (Full expensing) should continue to bolster investment. Exports are expected to rebound moderately, increasing in a similar way to world demand for British products. Imports are expected to be a little more vigorous, with the result that foreign trade is likely to hamper growth slightly in H1.

Given this context, activity is expected to pick up in H1 2024 (+0.3% forecast in both quarters), driven by domestic demand, especially consumption. For 2024, the mid-year overhang for GDP growth is expected to be +0.2%.

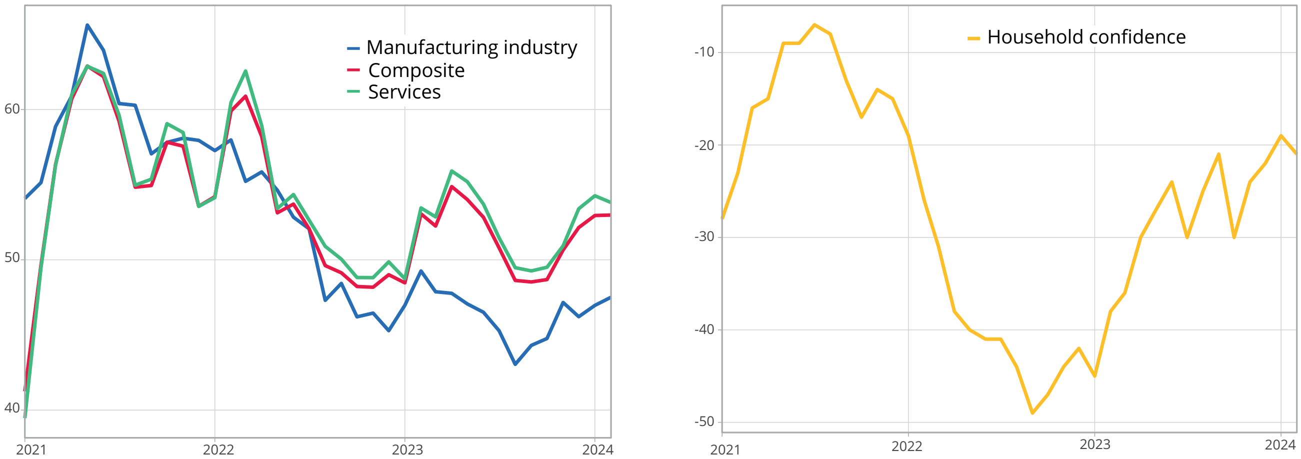
►1. United Kingdom expected to come out of recession in H1 2024
(quarterly changes in GDP in %, contributions in percentage points)



Last point: Q2 2024.
How to read it: in Q4 2023, GDP fell by 0.3%. Investment contributed +0.3 points to this decline.
Source: ONS, INSEE calculations.

►2. Business climate and household confidence have improved in the last few months

(PMI indices, in level) (Household confidence indicator, in level)



Last point: February 2024.
Note: the PMI gives a monthly evaluation of economic activity based on surveys of purchasing managers. An index higher than 50 indicates an expansion in activity, while an index below 50 suggests a contraction. The consumer confidence index provides a monthly snapshot of consumers' perceptions of their finances and the UK economy. It is constructed on the basis of their opinions on their financial situation over the last 12 months and that anticipated in the coming year.
How to read it: in February 2024, the composite PMI was 53 and the consumer confidence index was -21.
Source: S&P Global, GfK.