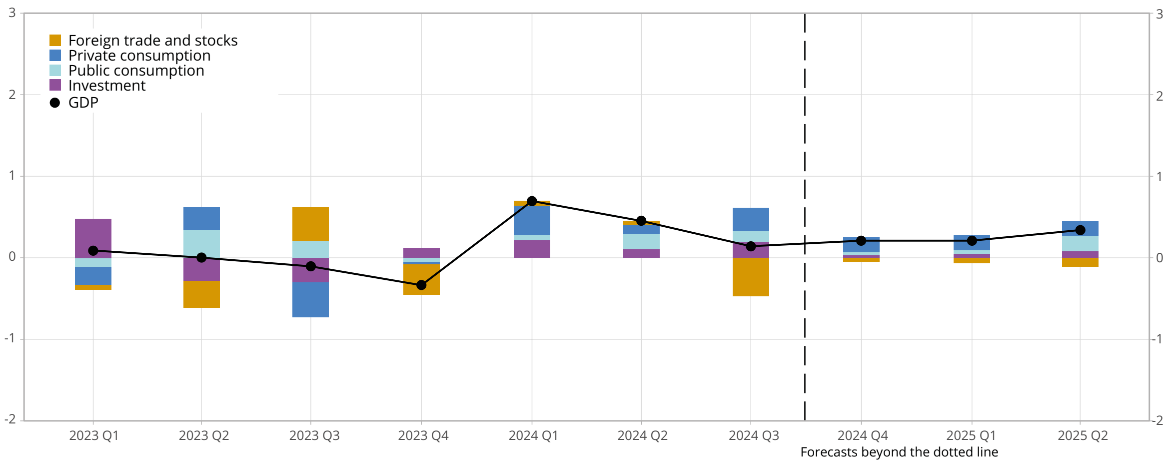
United Kingdom

In Q3 2024, economic activity in the United Kingdom scarcely grew at all (+0.1%), marking a substantial slowdown compared to the buoyancy seen in the previous half-year (+0.7% and +0.5% in Q1 and Q2 respectively, ►Figure 1). Domestic demand, which had driven activity in the previous two quarters, lost none of its vigour nevertheless, contributing 0.6 points to growth. Household consumption regained momentum (+0.5% after +0.2%), and public sector consumption continued to be stimulated by spending, especially on education (+0.6% after +0.9%). In addition, investment remained robust (+1.1%), thanks to the dynamism of public and corporate investment, even though residential investment continued to decline. Foreign trade also contributed positively to GDP growth (+0.4 points), reflecting a significant decline in imports (-1.5%) and virtual stability in exports (-0.2%). However, this positive contribution is affected by movements of non-monetary gold, which are matched by the contribution of inventory to growth (-0.9 points).

Short-term indicators such as PMIs (advance indicators of business activity) and household confidence have been slipping back since August, suggesting that the slowdown in activity observed this summer is likely to continue into the autumn: activity is expected to grow by only 0.2% in Q4 2024 and Q1 2025. However, it should pick up in the spring of 2025 (+0.3%) with the start of the new financial year, accelerating as a result of a generally favourable boost to activity in the short term (►Box "The United Kingdom 2025-2026 budget"), combining tax increases and strong momentum in public spending. GDP growth should thus reach +0.9% in 2024 with the mid-year carry-over +0.8% for 2025.

Payroll employment is expected to increase in line with activity at the end of 2024 and the beginning of 2025, before coming to a standstill in the spring: in fact the increase in employer contributions by 1.2 percentage points from April 2025, as announced in the budget, is likely to increase the cost of labour. This measure and the 6.7% increase in the minimum wage planned for the same date are expected to fuel an upturn in inflation from Q2 2025: after a significant downturn during the first three quarters of 2024, year-on-year inflation is expected to settle at around 2% at the end of 2024 and the beginning of 2025, then rise to 2.7% in the spring, stimulated by the prices of services (►Figure 2). Over the forecasting period, real wages are not expected to rise, with companies passing on the increase in labour costs through their prices, and purchasing power is only likely to increase modestly. Private consumption looks set to increase a little faster, however (+0.3% per quarter from the end of 2024). The savings ratio is expected to fall back slightly to 9.8% in mid-2025, after increasing sharply in 2024 (from 7.4% in Q2 2023 to 10.0% in Q2 2024), as a result of disinflation.

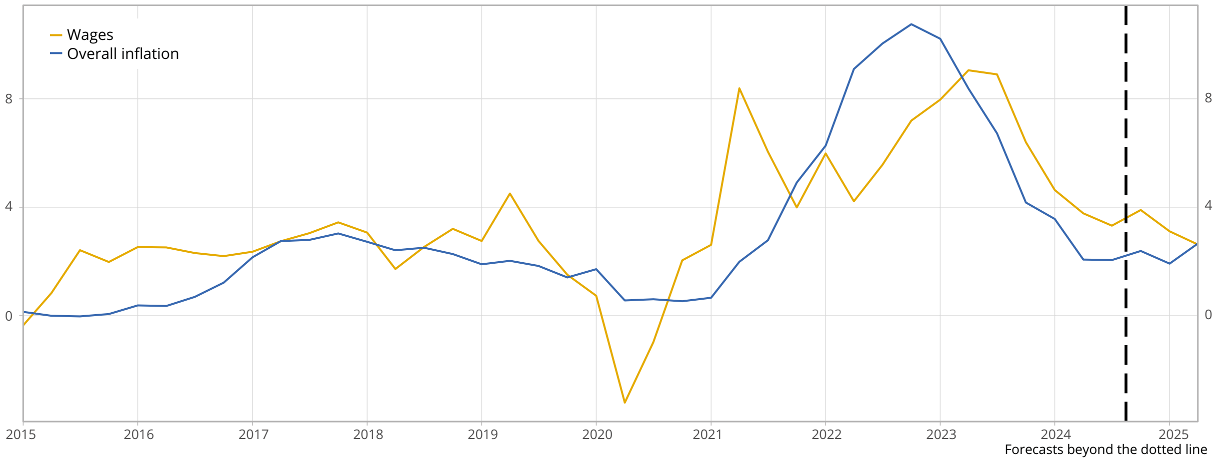
►1. UK activity is expected to be stimulated by budgetary policy from Q2 2025
(quarterly change in GDP in %, contributions in percentage points)



Last point: Q2 2025 (forecast from Q4 2024).
How to read it: in Q3 2024, GDP grew by +0.1% and private consumption contributed 0.3 points to this increase.
Source: ONS, INSEE calculations.

The Starmer government's first budget pledged a substantial increase in public spending, especially on the National Health Service, to be funded in part by the increase in employer contributions. Thus public consumption and investment are expected to continue to boost activity. Corporate investment should grow at a moderate pace throughout the forecasting period, torn between the stimulation in demand, made possible by the rise in public spending, and the increase in employer contributions, which will strain financial capabilities. Due to monetary easing, residential investment is expected to gradually stop falling by the beginning of 2025 then increase slightly in the spring. Exports should continue to grow but at a slower rate than demand for UK products and imports look set to remain stimulated by domestic demand, which is relatively solid: by mid-2025, the contribution of foreign trade to the growth overhang is expected to be -0.4 points. ●

►2. Fairly dynamic nominal wages and inflation up slightly
(year-on-year change)



Last point: Q2 2025 (forecast from Q4 2024).
Note: the nominal wage is calculated as the ratio of payroll by value to payroll employment. Inflation is seasonally adjusted.
How to read it: in Q2 2025, nominal wages are expected to rise by +0.8%.
Source: ONS, INSEE calculations.

The United Kingdom 2025-2026 budget

The United Kingdom public sector deficit stood at 4.5% of GDP in the 2023-2024 financial year:[1] by adopting the Starmer government's first budget, it should be possible, according to the Office for Budget Responsibility[2] (OBR), to stabilise the deficit during the 2024-2025 financial year, then bring it down to 3.6% of GDP in 2025-2026. However, fiscal consolidation would have been faster without the measures proposed in this budget, hence their effect on growth is positive (**►Figure 3**).

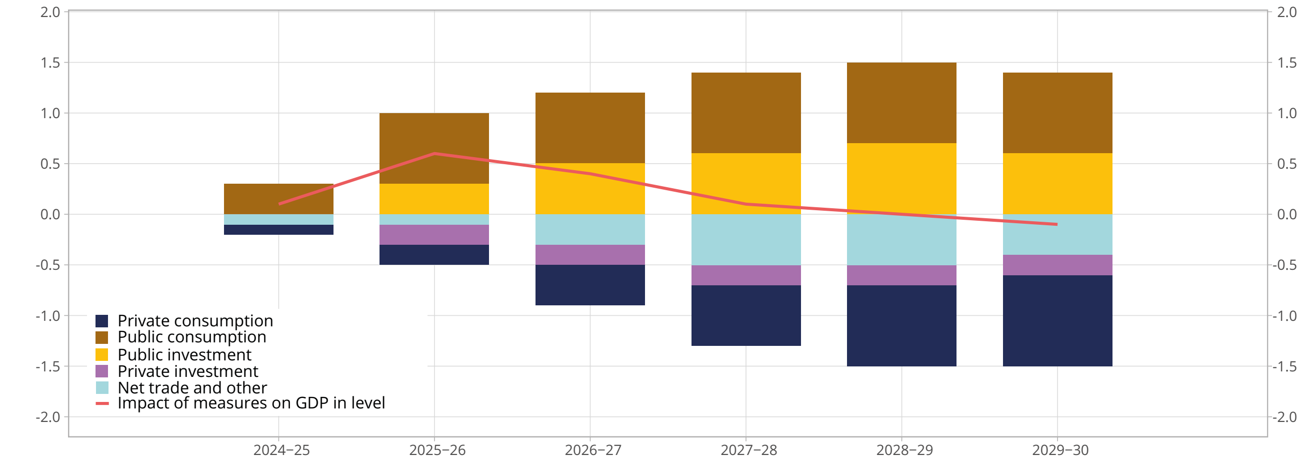
The UK government plans to increase public consumption and investment between the 2024-2025 and 2025-2026 financial years by £35 bn, or around +1.3% of GDP, financed in part by increased tax revenue (+£25 bn, **►Figure 4**). The OBR notes that the increases in public consumption and investment planned for in the budget are mainly in the health, education and infrastructure sectors.

The most significant increase in government spending concerns the health system, with an additional £11 bn of funding to boost the National Health Service (NHS). Set against this, employers' national insurance contributions are expected to rise from April 2025 (contribution rate set to increase from 13.8% to 15% combined with a lowering of the contribution threshold), for an annual return of £25 bn. In addition, there are expected to be increases in capital gains tax (the lower rate will increase from 10% to 18% and the higher rate from 20% to 24%), the energy profits levy (from 35% to 38%) and inheritance tax. ●

1 In the United Kingdom, the financial year does not coincide with the calendar year but runs from April to March.
2 Independent body responsible for producing economic forecasts and evaluating the sustainability of public finances, in particular by analysing the budgetary impact of government policies.

►3. Impact of measures announced in autumn 2024 on GDP and its components according to OBR estimate

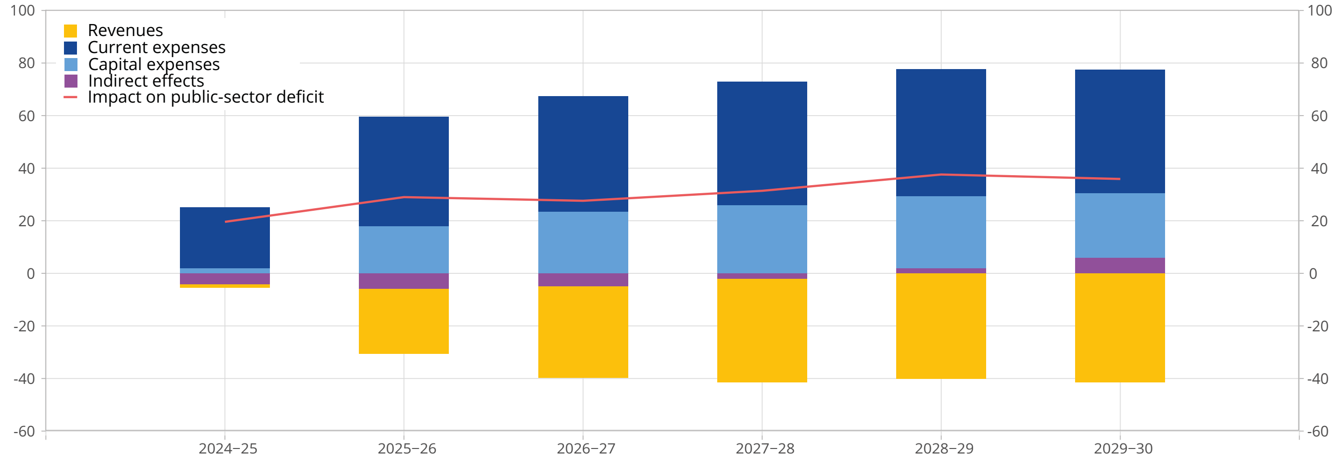
(contributions in percentage points)



Note: for each upcoming financial year, the graph indicates the effect of the measures announced in autumn 2024 on GDP and its components.
How to read it: the measures announced in autumn 2024 would raise GDP by 0.6 points in the 2025-2026 financial year. Public consumption would contribute +0.7 points.
Source: Office for Budget Responsibility (OBR).

►4. Effect of budgetary measures announced in autumn 2024 on the UK public deficit according to OBR estimates

(in billions of pounds)



Note: the UK financial or tax year is the base used to record tax revenues, public spending and other public finance measures. It runs from 6 April of the current year to 5 April of the following year. The current deficit (Public Sector Net Borrowing) corresponds to the scale of annual public sector borrowing: it is gross borrowing adjusted for tax revenue, public spending, debt repayments, etc. Indirect effects include all effects not directly measurable (e.g. in revenue or expenditure) on economic performance, productivity, employment, short-term and long-term competitiveness. In the context of this budget, later effects reflect the increase in employer contributions on wages, employment, profits and additional expenditure related to interest on the debt.
How to read it: measures announced in autumn 2024 boost current spending by £23.1 billion over the 2024-2025 financial year.
Source: Office for Budget Responsibility (OBR).

Bibliography

Office for Budget Responsibility (OBR), Economic and fiscal outlook, October 2024.