CBI Economics

Economy in brief

For CEOs, FDs, and business leaders

Your monthly overview of the major trends impacting the UK's main business sectors

August 2023

Employment
(Apr – Jun '23)
75.7%

Unemployment
(Apr - Jun '23)
4.2%

Productivity growth
(Output per hour, flash estimate, Q2 2023 on a year ago)
0.1%

Real wage growth
(Apr – Jun '23 on a year ago, excl. bonuses)
0.1%

Britain's economy: soggy, like the weather...

As we look to the end of summer, we are seeing signs that the "strength" in activity over the past few months is fading. In the CBI's surveys, consumer services, and, elsewhere, the housing market, have been buoyed by an upward trend in consumer confidence, itself supported by a better trend in energy prices. Sadly, consumer confidence, house prices and spending have turned in more recent data, as ongoing increases in interest rates take their toll. For inflation, this pattern of good news petering out is flipped, with four successive inflation disappointments followed by a better-than-expected outturn in the June data (released 19th July). This was sufficient to lead the Bank to ease back on the pace of rate rises, going with a 25 basis point rise rather than 50 in their decision on the 3rd August. But we're back to the bad news again for the Bank, with the latest wage data coming in ahead of expectations, with private sector regular pay growth reaching 8.2%.

UK economy is battling on a number of fronts

The UK is sadly a global outlier when it comes to the sheer number of challenges facing the economy. Like its European neighbours, it has suffered the negative impacts of energy price rises, driving inflation to multi-decade highs. Like the US, it has a tight labour market, with the unemployment rate not far off multi-decade lows. But on both fronts, the UK's struggles are exacerbated by some 400 thousand people outside the labour market due to ill health, a factor driving down labour availability and driving up core inflation. Meanwhile, real incomes have stagnated since the financial crisis, and since the pandemic, business investment in the UK has lagged the G7 average, further undermining scope for broader productivity to improve and support living standards. And bureaucratic impediments in key institutions – e.g. in the planning system – seem to be slowing the delivery of the infrastructure necessary to support low carbon transition, with decisions on decarbonising heating, accelerating the roll out of charging points for EVs, supporting private sector capacity in battery manufacture, and HS2 seeming a lot slower than in comparable economies. And who is to pay for these has yet to be addressed. These factors are driving forecasts for meagre growth in the UK.

The policy prescription for the UK

As we head towards the autumn policy making peak in the UK, more crucial decisions than ever are needed to lift UK growth out of the doldrums. Tightness in the labour market, capacity and efficiency issues in the NHS, and workforce disagreements fuelling strikes, need urgently to be addressed. The CBI's "Going for Green" report lays out concrete recommendations to secure investment, boost supply chains and create green jobs, including setting a timetable for phasing out gas boilers, ensuring the UK has the right tax framework to incentivise the transition to net zero, and reform to the planning system to enable faster delivery of green infrastructure. But a particular challenge to addressing these issues will be the tight fiscal context in the UK: after substantial government support for the economy through the major shocks of recent years, UK net debt is above 100% of GDP for the first time in 62 years. As interest rates and RPI inflation have also risen sharply, the combined effect on debt repayments have driven them to 13% of total government expenditure in the June public finance release. These issues will make this Budget a particularly challenging one for the Chancellor.

Anna Leach
Deputy Chief Economist, CBI

Round-up of CBI July surveys*

CBI growth indicator: red

Private sector activity fell slightly in the three months to July, with output volumes going into reverse from the unchanged figure in June. Business volumes dipped in the services sector after a brief return to growth last month, owing to a sharp contraction in consumer services as business & professional services volumes were broadly flat. Distribution sales continued to fall at a broadly similar pace as last month, but manufacturing output stabilised. Private sector activity is expected to be broadly flat over the next three months (balance of -3%).

-6%

Past three months**

Retail, wholesale and motor trades***	-6%
Business and professional services	-2%
Financial Services****	+42%
Consumer services	-34%
Manufacturing	+3%

Next three months**

Retail, wholesale and motor trades***	-9%
Business and professional services	-2%
Financial Services****	+37%
Consumer services	-19%
Manufacturing	+9%

Growth indicator: sector detail

Manufacturing output volumes were flat in the quarter to July, ending five consecutive rolling months of decline. Growth was concentrated in just 4 out of 17 sub-sectors, including food, drink & tobacco, and motor vehicles & transport equipment. Manufacturing output is expected to return to modest growth over the next three months.

Distribution sales volumes fell slightly in the three months to July, reflecting contractions in the retail and motor trades sub-sectors over the quarter. Wholesale volumes remained broadly stable. Firms expect distribution sales to continue falling at the same modest pace led by a decline in retail volumes, with wholesaling and motor trades also expected to see contraction.

Services business volumes fell moderately in the three months to July, after a brief return to growth in last month's survey. Volumes growth stalled in business & professional services and declined sharply in consumer services. Looking ahead, volumes in the services sector are expected to fall at a broadly similar pace over the next three months.

** July surveys were in field between 26 June and 13 July.*
***Figures are percentage balances — i.e. the difference between the % replying 'up' and the % replying 'down'.*
**** CBI Growth Indicator uses three-month-on-three-month growth, rather than year-on-year as used in the Distributive Trades Survey.*
***** Financial services are not included in the growth indicator composite; the latest FSS was June 2023.*
Colour indicators illustrate whether the reported balance is positive (green), negative (red), or broadly stable (amber).