

# UK in Focus

Economics  
United Kingdom

## Is good news, bad news?

- ◆ UK GDP is on track to meet our 0.4% q-o-q forecast in Q1
- ◆ Downtrend in wage growth and unfilled vacancies stalls, while services inflation surprised to the upside ...
- ◆ ... raising the risk that 'good' economic data is 'bad' news for interest rate cuts

### UK data review (Jan/Feb 2024)

- **GDP** rose 0.1%m-o-m in February following an upward revision to the growth rate in January to 0.3% from 0.2%m-o-m. The manufacturing sector was the star performer, rising 1.2%m-o-m led by car production which was reported to have had its strongest February in over 20-years. Notably, the tentative recovery in manufacturing seems to be driven by business demand rather than consumers. Consumer facing services were also weak, -0.1%m-o-m, with sharp falls in accommodation and food & beverage services. Nonetheless, the UK economy is on track to grow 0.4% in the first quarter of 2024.
- **UK Labour Market** for the three months to February was mixed. The jobs data was weak with employment falling 156k and the unemployment rate rising to 4.2% from 3.9%. However, the rate of inactivity – those not looking for work – rose to 22.2%, its highest rate since 2015 and vacancies stabilised, rising slightly +6k in March. On pay, total pay growth surprised to the upside remaining unchanged at 5.6% 3m/yr versus expectations of a fall to 5.5%. Meanwhile, 3m/3m annualised regular pay, a better measure of underlying momentum, rose to 4.8%, well above the likely comfort zone of around 3.5% for the Bank of England.
- **CPI inflation** fell to 3.2% y-o-y in March from 3.4% in the prior month. The slowdown was largely driven by softer goods price inflation across food, clothing, and households goods. More concerning, the moderation in services prices was more muted, falling to 6%y-o-y in March from 6.1% in the month prior indicating a degree of price stickiness remains. As such, core inflation – that excludes food and energy – fell to 4.2% from 4.5% previously. Looking ahead, the rate of inflation in April is expected to slow sharply to near 2%, in line with the Bank of England's target, although, in the near term, services price growth is expected to remain too high for inflation to remain at 2% sustainably.
- **Housing Market RICS survey** signalled further expansion in March with both demand and supply showing higher activity. However, with mortgage rates a touch higher on the month, agreed sales struggled and overall house prices dipped slightly in March, the Nationwide and Halifax indices fell, 0.2% and 1.0% m-o-m respectively. Nonetheless, we expect house prices to rise modestly this year as buyers and sellers return to the market.

## Non-UK nationals in the labour force

Immigration is a hot topic in politics...

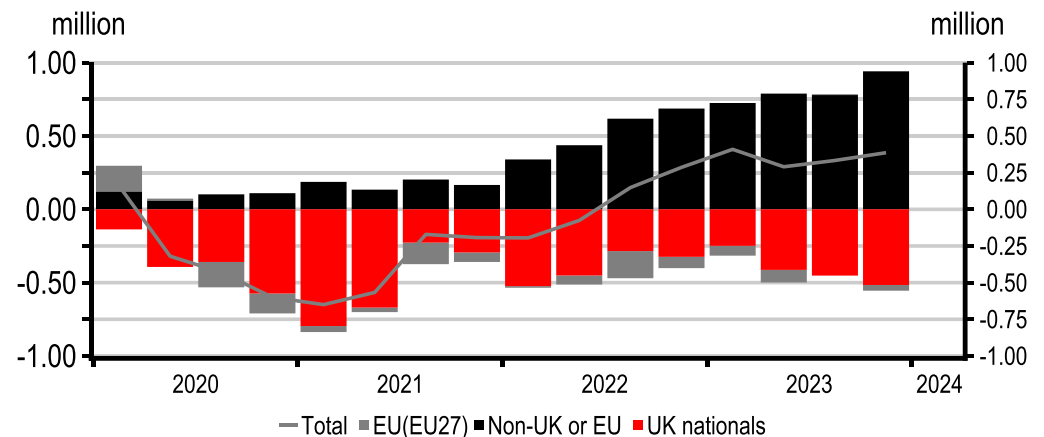
Immigration is once again top of mind for many voters around the world as they head to the polls in this record year for elections. But immigration is not just a highly charged social and political issue, it is also a big macroeconomic one, not least because population projections look awful across much of the world. That matters for potential economic growth – which is driven by people and productivity – and not just over the long term.

During the pandemic and since, the degree and type of immigration has impacted significantly on the growth-inflation trade off in many advanced economies, especially the US and UK, so it also has a role to play in determining the labour market outcomes and hence the timing and magnitude of interest rate cuts in 2024-25.

... UK labour force has been reliant on migrant workers...

According to the ONS, all of the net increase in jobs created in the UK since the onset of the pandemic have been filled by non-EU or UK nationals. Since 2019, on a net basis over 900k non-UK nationals were employed compared to a net fall of half a million UK nationals. Its worth noting that some caution should be taken when inferring these numbers due to issues surrounding their source. However, they are also in line with the data on visa applications, with over 1million skilled-work visas being granted since 2019, and workforce jobs that shows that the healthcare sector was responsible for more than 40% of the jobs gained in the UK in 2023. Agriculture, education and finance were the next biggest sectors for employment growth.

### 1. Cumulative contribution to growth in employment since 2019, by nationality



Source: ONS, Macrobond

### Higher wage costs place greater focus on productivity

... although that may become harder going forward

With more non-UK skilled workers joining the UK workforce last year than ever before, we may think that the labour supply and wage challenge would be going some way to being resolved. However, the level of inactivity in the UK has risen by over 700k over the same period, since 2019, of which the vast majority are reporting as suffering from long-term sickness. Therefore, the prospect of a swathe of possible workers returning to the workforce to meet any uptick in demand this year seems unlikely.

Moreover, the minimum salary threshold for foreign workers has risen by nearly 50% in April 2024, potentially reducing the ability of firms to rely on overseas workers to fill roles. As such there is a risk that hiring difficulties become more entrenched adding to near-term wage pressures and possibly inflation persistence. Over the longer-term, surging unit labour costs raise questions as to where UK economic growth will come from without stoking inflation, increasing focus on the need to revive UK investment and productivity growth.

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