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

December 2024

Employment
(Jul – Sep '24)
74.8%

Unemployment
(Jul – Sep '24)
4.3%

Productivity growth
(Output per hour, Q3 2024 on a year ago, flash estimate)
-0.3%

Real wage growth
(Jul – Sep '24 on a year ago, excl. bonuses, CPI adjusted)
2.7%

The economy sees a subdued end to 2024…
The economy has ended 2024 on a damp note. The CBI's growth indicator – a composite of our monthly business surveys – showed that expectations for growth turned negative in the three months to November, for the first time in almost a year. Our data chimes with the S&P Purchasing Managers' Index for November, which deteriorated for the third month running.

Significantly, hiring intentions in our surveys also deteriorated. Businesses now expect to reduce headcount into the new year, with expectations at their weakest since early 2021. Once again, this chimes with other business surveys: the Bank of England Decision Makers' Panel (DMP) expects to reduce headcount slightly in the year ahead, for the first time since the height of the COVID-19 pandemic. At least some of this may be an early reaction to the rise in employment costs from measures announced in October's Budget.

…and Budget measures are set to weigh on private sector activity ahead
Higher employment costs are set to be a key influence on the economic outlook, according to our latest forecast. We expect the economy to grow at a relatively steady pace over the next couple of years, with GDP growth averaging 1.6% over 2025-26. Household spending is a key driver, as growth in real incomes powers spending. We also expect more support from government investment in 2026, reflecting announcements in the October Budget.

However, the Budget itself has altered the composition of growth in our forecast, with government spending and investment now a greater driver of the expansion, at the expense of private sector activity. Indeed, we expect higher employment costs to reduce jobs in the private sector by 176,000 at the end of 2026, and for business investment to be £6 billion lower. The fiscal loosening (compared to the previous Budget in March) also means that we expect inflation to remain above the Bank of England's 2% target to the end of 2026, and for interest rates to be cut at a slower pace.

Issues with official labour market data set to persist
Making judgements around the current and future state of the labour market is particularly tricky, given ongoing sampling and methodological issues with the ONS' Labour Force Data (LFS). The ONS recently published estimates of the impact of re-weighting the LFS using new population data from 2022. While there is little impact on the level of unemployment, employment is now thought to be 400,000 higher in mid-2024, largely due to faster growth since 2023 than previously expected. Inactivity is also higher as a result of re-weighting, though to a lesser degree (60,000).

This is likely just the tip of the iceberg. The new population weights do not account for recent estimates of much higher net migration (so the true level of employment could be higher still), and the LFS itself still suffers from persistently low response rates. Indeed, a recent study by the Resolution Foundation, cast into doubt whether labour market inactivity has risen to the extent implied by the existing LFS data. An update from the ONS said that improvements to the survey would not be complete until 2027, suggesting that we may be left without reliable labour market data for some time yet.

Alpesh Paleja
Interim Deputy Chief Economist, CBI

Round-up of CBI November surveys*

CBI Growth Indicator: **red**

Private sector activity fell in the three months to November, at a faster pace than in the three months to October. The decline reflected weaker activity across all sectors, driven by significant falls in distribution sales and consumer services, while manufacturing output and business & professional services volumes fell more modestly. Looking ahead, private sector activity is expected to fall further in the three months to February, which marked the first time that growth expectations have been negative in 2024.

-13%

Past three months**

Retail, wholesale and motor trades***	Business and professional services	Financial Services****	Consumer services	Manufacturing
-22%	-5%	+6%	-33%	-12%

Next three months**

Retail, wholesale and motor trades***	Business and professional services	Financial Services****	Consumer services	Manufacturing
-20%	-7%	-1%	-33%	+9%

Growth Indicator: sector detail

Manufacturing output volumes fell in the quarter to November, at a faster pace than in the quarter to October. Output fell in 14 out of 17 sub-sectors, with the fall driven by the chemicals, mechanical engineering and metal products sub-sectors. Firms expect output volumes to rise at a modest pace in the three months to February, with expectations turning positive again for the first time since September.

Distribution sales fell in the three months to November, at a faster pace to the three months to October. Sales performance across the three distributive trades sectors was poor, with retail, wholesale and motor trades volumes all seeing declines. Distribution sales are expected to fall again over the next three months, at a similar pace.

Services business volumes fell in the three months to November, maintaining a trend for flat or falling volumes that extends back to mid-2022. Business & professional services volumes fell marginally, while consumer services volumes fell at a rapid pace. The outlook for the quarter ahead is weak, with both business & professional and consumer services firms expecting volumes to fall again, at similar rates.

** November surveys were in field between 25 October 2024 and 14 November 2024.*

***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 September 2024.*

Colour indicators illustrate whether the reported balance is positive (green), negative (red), or broadly stable (amber).