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 2024

Employment
(Apr – Jun '24)
74.5%

Unemployment
(Apr – Jun '24)
4.2%

Productivity growth
(Output per hour, Q2 2024 on a year ago, flash estimate)
-0.1%

Real wage growth
(Apr – Jun '24 on a year ago, excl. bonuses, CPI adjusted)
3.2%

Global markets saw a bout of summer turmoil

It's been an eventful month in global equity markets, which tumbled in early August. We put together a note for CBI members unpicking this, but to recap: disappointing jobs data in the US raised investors' concerns over recession risks, and whether the Federal Reserve was behind the curve in keeping interest rates unchanged in July. In contrast, the Bank of Japan raised rates unexpectedly on 31st July – this pushed the Yen higher, hitting the revenues of Japanese exporters which dominate its stock markets. The rate rise also led to an unwinding of "carry trades", where investors borrow in a country with low interest rates (Japan) to invest in ones with higher rates (US and elsewhere). The market rout was exacerbated by anxiety over the anticipated economic boost from artificial intelligence, hitting the stocks of tech companies, and thin summer trading volumes.

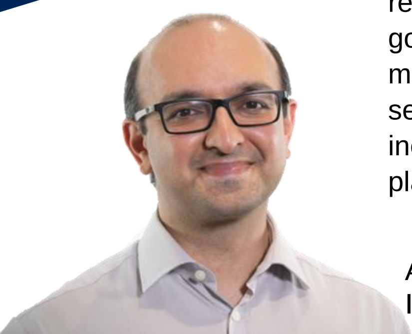
While the hit to markets was significant, it was short-lived – indices have now rebounded, with some even recovering their losses. Markets seem to have been reassured by more recent economic data, and fears of a recession in the US always looked overblown. However, the latest episode of volatility highlights how sensitive markets are to economic developments, particularly as global monetary policy starts to turn direction.

Bank of England takes its first step in loosening monetary policy…

Such an inflection point was hit in the UK, just days before the global market rout began. The Bank of England cut interest rates to 5% (from 5.25%), after having raised rates 14 times between December 2021 to August 2023. The cut is reflective of inflation now having fallen close to the Bank's 2% target, and their expectation that it'll fall below target in the medium-term. However, only a narrow majority of the Monetary Policy Committee voted to reduce rates, and even this bloc described the decision as "finely balanced". The main sticking point appears to be continued concern over the persistence of price pressures, with indicators such as services inflation and wage growth still too high for comfort (albeit moderating in the latest set of data). We still think more rate cuts will follow from the first reduction in August, but probably at a gradual pace. Indeed, risks to the inflation outlook remain to the upside – not least from economic growth picking up steam, with GDP registering another healthy expansion in Q2 (of 0.6%). See our note – published just after the Bank's announcement – which unpacks the decision in more detail.

…but fiscal policy is set to remain tight for now

In contrast to a loosening in monetary policy, it looks like fiscal policy will remain a drag on growth in the near-term. Following an audit of the public finances, the new Chancellor outlined an overspend of £22 billion on departmental budgets in the current tax year, relative to those in the March Budget (which was put together by the previous government). While identifying immediate savings of £5.5bn, this lays the groundwork for more tightening on the public finances at the next Budget on 30th October. It remains to be seen in what form this comes – the Labour government's pre-election pledges ruled out increases to income tax, national insurance contributions and VAT, and existing spending plans already implied hefty cuts to unprotected departmental spending.



Alpesh Paleja
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Round-up of CBI July surveys*

CBI growth indicator: **red**

Private sector activity fell in the three months to July, at a faster pace than in the three months to June. Services business volumes fell, as a slight fall in business & professional services was accompanied by a sharp decline in consumer services. Distribution volumes also fell sharply, whilst manufacturing output was broadly unchanged. More encouragingly, private sector firms expect modest growth in activity over the next three months (+9%). Growth expectations have been positive since the start of the year and have ticked higher over the last three months.

-14%

Past three months**

Retail, wholesale and motor trades***	Business and professional services	Financial Services****	Consumer services	Manufacturing
-32%	-6%	+22%	-30%	-3%

Next three months**

Retail, wholesale and motor trades***	Business and professional services	Financial Services****	Consumer services	Manufacturing
-14%	+17%	+53%	-3%	+25%

Growth indicator: sector detail

Manufacturing output volumes were broadly unchanged in the quarter to July. Output rose in 6 out of 17 sub-sectors, with growth in the motor vehicles & transport equipment, chemicals and mechanical engineering sub-sectors offsetting declines elsewhere. Output is expected to grow firmly in the next three months, with expectations at their strongest in over two years.

Distribution sales volumes fell sharply in the three months to July after falling only slightly in the three months to June. Within the sector, both retailers and wholesalers reported a notable contraction in sales, while motor trades also reported a fall after four consecutive rolling-quarters of growth. Distribution sales are expected to fall again over the next three months.

Services business volumes fell at a modest pace in the three months to July (similar to June), marking two full years of flat or falling volumes. Business & professional services volumes contracted only marginally, but consumer services volumes fell sharply. Looking ahead, volumes are expected to rise at a modest pace across the sector as a whole, driven by business & professional services.

** July surveys were in field between 25 June 2024 and 16 July 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 June 2024.*
Colour indicators illustrate whether the reported balance is positive (green), negative (red), or broadly stable (amber).