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

September 2024

Employment
(May – Jul '24)
74.8%

Unemployment
(May – Jul '24)
4.1%

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

Real wage growth
(May – Jul '24 on a year ago, excl. bonuses, CPI adjusted)
3.0%

A lopsided recovery

The UK economy stagnated in July, with GDP staying flat for the second month running. However, month-on-month growth rates carry more noise than signal. On a three month-on-three month basis, GDP rose by a healthy 0.5%. So far, this confirms that momentum will be maintained into the second half of 2024, albeit at a slower pace than the above-trend growth registered in H1.

However, it's worth noting that the UK's recovery so far has been a tad lopsided. Growth has largely been driven by the services sector: among the biggest contributors have been professional services and administration & support, which may in part reflect the revival of business-to-business activity. A healthy bump has also come from transport & storage and healthcare, the latter possibly reflecting fewer incidences of industrial action.

In contrast, many consumer-facing sectors are still struggling, a picture corroborated by the CBI's own Service Sector Survey. Manufacturing has also turned down, following a brief revival this year (again, chiming with our own survey data). Construction has remained persistently weak, though returned to growth in the three months to July.

A cooling labour market should facilitate more interest rate cuts

The theme of "more noise than signal" also reads across to the latest labour market data. On the face of it, UK employment rose strongly in the three months to July (by 265k), and the unemployment rate fell again (to 4.1%). But the ONS data continues to be plagued by sampling issues, which greatly limits its informational content. In contrast, other indicators point to a labour market that is cooling, albeit from a tight position. The number of job vacancies continued their two-year decline, although remain 5% above their pre-COVID level. HMRC data showed that the number of payrolled employees has fallen in most months since April. And pay pressures continue to soften: private sector wage growth eased to 4.9% (excluding bonuses) in the three months to July, the lowest in over two years.

A loosening labour market and softening pay growth will give further respite to inflation, supporting the Bank of England in cutting interest rates again in the months ahead (we expect the next rate cut in November). However, pay growth remains at levels higher than those consistent with CPI inflation at the 2% target. There are also very mixed views among the Monetary Policy Committee (MPC) around the degree of inflation persistence in the economy. On balance, both factors suggest that while the MPC will continue to cut interest rates, they will do so at a gradual pace.

Markets remain sensitive to economic developments

Elsewhere, US equity indices saw another bout of volatility in early September, following the deeper rout seen in August. The latest deterioration was once again stoked by concerns over the US economic outlook, following weaker-than expected jobs data. We continue to believe that fears of a recession across the Atlantic are overblown. But the latest gyrations in stock indices once again illustrate the sensitivity of financial markets to key economic indicators and developments, particularly as global monetary policy hits an inflection point.

Alpesh Paleja
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Round-up of CBI August surveys*

CBI growth indicator: **red**

Private sector activity fell in the three months to August with activity having been flat or falling for two full years. This was driven primarily by a sharp decline in distribution volumes and a modest decrease in manufacturing output. At the same time, business volumes in the services sector were broadly unchanged. Looking ahead, private sector activity is projected to see modest growth in the three months to November (+9%), with expectations now having remained positive throughout the year so far.

-8%

Past three months**

Retail, wholesale and motor trades***	Business and professional services	Financial Services****	Consumer services	Manufacturing
-33%	+2%	+22%	+1%	-9%

Next three months**

Retail, wholesale and motor trades***	Business and professional services	Financial Services****	Consumer services	Manufacturing
-4%	+19%	+53%	-4%	+9%

Growth indicator: sector detail

Manufacturing output volumes fell in the three months to August, after remaining broadly steady in July. Output fell in 10 out of 17 sub-sectors, including electrical goods and glass & ceramics. While output is anticipated to grow modestly in the three months to November, expectations have softened compared to July (which were the strongest in over two years).

Distribution sales volumes fell sharply in the three months to August, at a similar pace to July. Retail and motor trades reported significant contractions in sales while wholesalers saw a more modest decrease. Sales volumes are predicted to decline at a much slower pace across distributive trades in the next three months.

Services business volumes were broadly unchanged in the three months to August, following a modest decline in July. Services sector firms expect a modest rise in volumes over the next three months as business & professional services anticipate a return to growth, whereas consumer services expect a marginal fall.

** August surveys were in field between 26 July 2024 and 14 August 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).