UNITED KINGDOM
2024-2025 SCENARIO

START OF A SLUGGISH GROWTH CYCLE

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WORKING EVERY DAY IN YOUR INTEREST AND FOR SOCIETY

GROUP ECONOMIC RESEARCH

SUMMARY: START OF A SLUGGISH GROWTH CYCLE

Scenario highlights

- **Inflation is decelerating thanks to energy and industrial goods prices**
- **Real wage growth is set to fuel private consumption**
- **Future rate cuts will support investment, especially in real estate**

- **Inflation stickiness in service sectors will slow monetary easing**
- **Fiscal policy will remain tight irrespective of the next government administration**
- **Foreign trade will contribute negatively to growth**

	2022	2023	2024	2025
% annual change				
GDP	4.3	0.1	0.5	1.4
Household consumption	4.8	0.2	0.9	2.0
Public consumption	2.3	0.5	1.8	1.6
Investment	8.0	2.2	1.1	3.3
Inflation	9.1	7.3	2.3	1.9
Unemployment rate	3.9	4.0	4.0	3.9
contribution to GDP growth, pp				
Domestic demand	4.8	0.0	0.9	2.2
Net exports	-1.7	0.3	-0.4	-0.7
Change in inventories	1.0	-0.9	-0.1	0.0

Sources: ONS, Crédit Agricole S.A./ECO

The UK experienced almost zero growth in 2023, posting a slight recession in the second half as tight monetary policy weighed on demand. Inflation fell more sharply than expected, from 11.1% year-on-year in October 2022 to 4% in December 2023, pulled down by energy prices and moderating inflation in industrial goods.

Inflation is expected to drop below target in Q2 2024 due to another decline in gas and electricity prices on April 1st, before returning slightly above target in H2 2024. This should not prevent the BoE from embarking on a very gradual monetary easing cycle in June.

Household consumption is likely to be the main driver of the expected recovery this year, driven by solid growth in real income, supportive labour market conditions and signs of improvement in the housing market. The acceleration in economic activity should boost employment, keeping the unemployment rate low. That said, the potential for economic recovery may be hampered by high rates, weak external demand and deteriorating competitiveness.

SUMMARY: START OF A SLUGGISH GROWTH CYCLE

THE ECONOMY IS ON THE MEND, ACCOMPANIED BY DISINFLATION AND UPCOMING RATE CUTS

Our scenario now forecasts UK GDP growth of 0.5% for 2024 and 1.4% for 2025, versus 0.3% and 1.2%, respectively, three months ago. The main factors behind this improvement are the slight fiscal easing announced in the Spring Budget, presented in March, alongside downward revisions to inflation forecasts and the Bank of England (BoE) key rate relative to three months ago.

After posting a technical recession in H2 2023, with GDP shedding a cumulative 0.5% in Q4 2023 versus Q2 2023, the UK economy began to recover. GDP rose 0.3% MoM in January and 0.1% MoM in February. Growth in Q1 2024 may even exceed our new forecast by 0.3% (raised by 0.2 points). Household consumption could pick up significantly, as suggested by the strong rebound in retail sales in the first two months of the year (+3.7% between end-December and end-February). Domestic demand fundamentals, and particularly purchasing power, have gradually improved, setting the stage for a recovery in private consumption. Conditions on the labour market remain tight, but have been slowly easing: at 3.9% on average over the three months to end-January, the unemployment rate is close to its record lows and below its non-inflationary level. Wage growth is around 6% YoY; real disposable income growth has now been positive for three quarters (2.5% YoY in Q4 2023); the savings rate (up to 10.5%) is higher than before the health crisis; mortgage rates have peaked and the housing market is slowly starting to recover.

Furthermore, in March, the Chancellor announced further fiscal easing of 0.2% of GDP per year on average: though certainly lower than announced in previous budgets (e.g. 0.6% announced in the Autumn Statement issued in November), this is nevertheless the third consecutive easing move. The main tax relief measures consist of a 2-point reduction in National Insurance Contributions (NICs) for employees and independent workers starting in April, following a similar reduction in the Autumn Statement, as well as another one-year extension on the fuel duty cut. They are partly offset by tax increases.

In the short term, these government measures should support domestic demand, as should the 10% minimum wage hike in April and a sharp drop in inflation expected in Q2 2024. In the medium to long term, it is expected that by stimulating an increase in labour supply, these measures will slightly improve potential growth prospects (by around 0.25 percentage points) and thus have a disinflationary effect.

SUMMARY: START OF A SLUGGISH GROWTH CYCLE

RISKS WEIGHING ON CONFIDENCE

On the downside, there are still significant risks at play for the economic and fiscal outlook. First, geopolitical risks could spark a resurgence in inflation, leading to higher-for-longer rates. Second, the US election and possibility of a new trade war (should Trump win a second term) are likely to weigh on global trade and UK exports, while increasing inflation.

On the domestic front, the Labour Party is on track to win the upcoming UK general election, taking a large majority in the House of Commons. This could turn out to be marginally positive for UK growth prospects, as Labour is in favour of closer ties with the EU. There is no reason to expect a major change in fiscal policy, however, no matter which party wins, given the fiscal constraints set to be inherited: under the main fiscal rules, the winner will have leeway of just 0.3% of GDP. There is a cross-partisan consensus on the need to reduce public debt, making additional fiscal stimulus measures unlikely. Medium-term supply conditions are still a bit murky, particularly given the labour market situation, the migration balance and productivity growth.

International background assumptions

	2022	2023	2024	2025	2022				2023				2024				2025			
					T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4	T1	T2	T3	T4
World GDP y/y, q/q, %	3.5	2.8	2.6	2.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
United States GDP y/y, q/q, %	1.9	2.5	1.8	0.4	-2.0	-0.6	2.7	2.6	2.2	2.1	4.9	3.2	1.5	1.1	0.5	-0.8	-0.5	1.1	1.4	2.0
Eurozone GDP y/y, q/q, %	3.4	0.5	0.7	1.5	0.6	0.8	0.5	0.0	0.0	0.1	-0.1	-0.1	0.2	0.3	0.4	0.4	0.3	0.4	0.3	0.3
China GDP y/y, q/q, %	3.0	5.2	4.4	4.2	0.6	-2.1	4.0	0.6	0.0	0.1	-0.1	-0.1	0.2	0.3	0.4	0.4	0.3	0.4	0.3	0.3
ECB refinancing rate end of period, %	2.50	4.50	3.40	2.65	0.00	0.00	1.25	2.50	3.50	4.00	4.50	4.50	4.50	4.25	3.65	3.40	3.15	2.90	2.65	2.65
Federal Reserve funds rate end of period, %	4.50	5.50	5.00	3.50	0.50	2.50	3.25	4.50	5.00	5.50	5.50	5.50	5.50	5.50	5.25	5.00	4.50	4.00	3.50	3.50
Exchange rate average, EUR/USD	1.05	1.08	1.07	1.10	1.12	1.06	1.01	1.02	1.07	1.09	1.09	1.08	1.08	1.07	1.06	1.05	1.07	1.09	1.10	1.12
Exchange rate average, GBP/USD	1.24	1.24	1.26	1.31	1.34	1.26	1.18	1.18	1.22	1.25	1.27	1.24	1.27	1.26	1.26	1.25	1.27	1.30	1.33	1.35
Brent average, USD/barrel	99.1	82.3	85.0	88.0	98.0	112.1	97.7	88.6	82.2	77.9	85.9	83.0	83.0	85.0	85.0	87.0	85.0	87.0	90.0	90.0

Sources: Crédit Agricole S.A./ECO

RECENT ECONOMIC NEWS

ECONOMIC RECOVERY ON THE HEELS OF A SHORT RECESSION

Year-to-date data on economic activity have been encouraging. The economy is emerging from the recession of H2 2023, with a cumulative increase in activity of 0.4% in January and February. This recovery is driven by the services sectors (up 0.4% between end-December and end-February), while the manufacturing sector has also made progress (+1.1% over the same period).

Business surveys confirm the improvement in the outlook that began in late 2023, though without encouraging too much optimism. The S&P Global/CIPS UK Composite Output PMI averaged 52.9 in Q1 2024, reaching its highest level since Q2 2023, but still remains below its long-term average. It fell slightly in March, however, underscoring the hesitant nature of the recovery. Over the quarter, it points to an acceleration in demand and stabilisation in employment.

In March, for the first time since July 2022, the climate in industry climbed back above 50, crossing the line that separates expansion from contraction. Production is increasing for the first time since February 2023. Though still modest, the uptick in domestic demand is fuelling a recovery in consumer goods sectors, offsetting the repeated downturns in the intermediate products and capital goods sectors. On the other hand, export orders are still weak, declining for the twenty-sixth consecutive month, although the pace of this decline is the lowest recorded since April 2023.

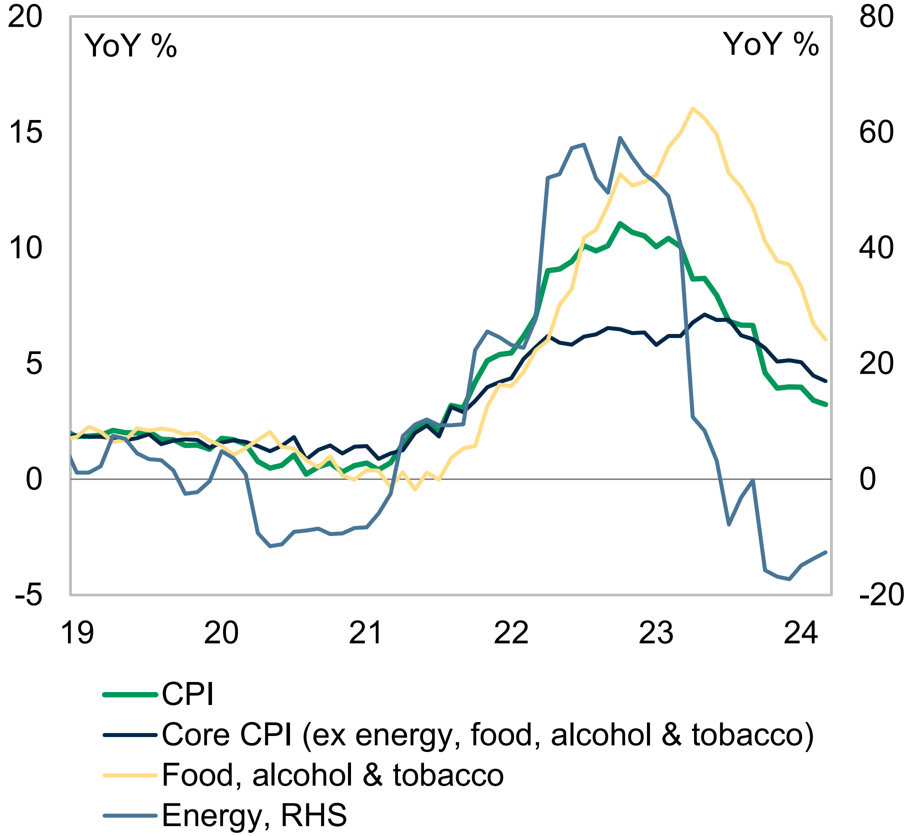
In services, after reaching its highest level since May 2023 in January, the PMI survey points to a slowdown in the pace of economic expansion in February and March. Demand continues to grow (orders are up for the fifth month in a row), but at the same time the components relating to inflationary pressures hover at worrying levels. The trend towards moderation that began nearly two years ago was halted over the past six months, even managing to reverse somewhat in terms of output prices. Companies put the blame on high wage costs and rising transport costs. Nevertheless, for Q1 2024 as a whole, the services PMI suggests that growth is at its highest level since Q2 2023.

Consumer confidence improved slightly over the quarter, but remained low compared to its long-term historical average. Households are more optimistic about their future personal situation for the first time in more than two years, which goes hand in hand with their assessment of the overall future economic situation. On the other hand, they believe it is too soon to commit to any major purchases. Although disinflation is ongoing, high prices are keeping consumers cautious.

RECENT ECONOMIC NEWS

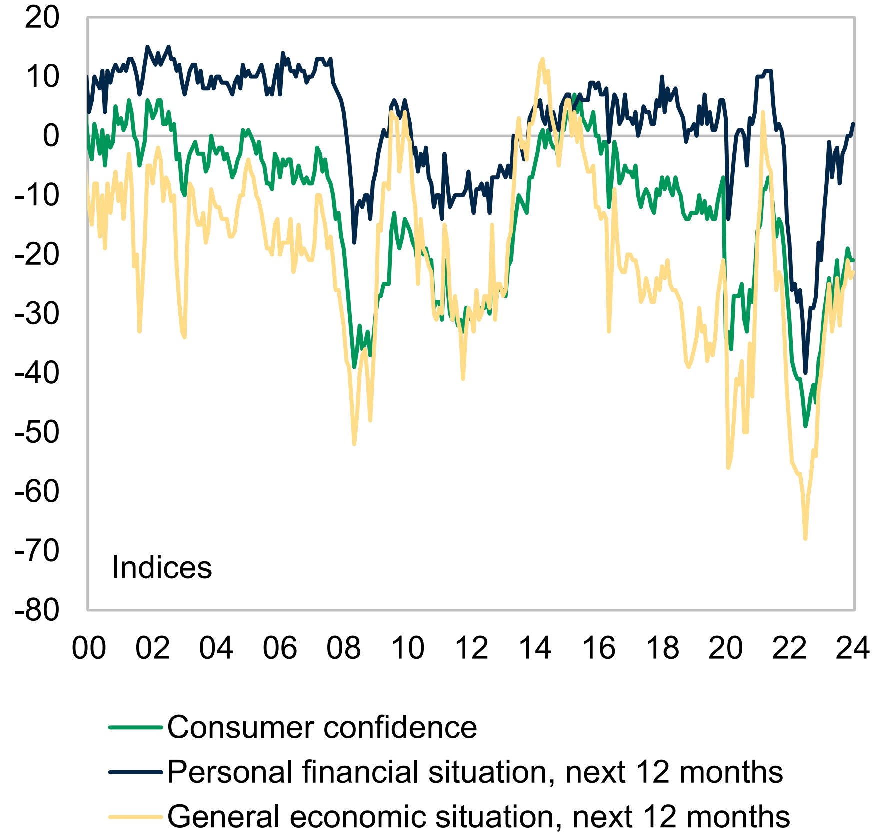
PERSISTENT DISINFLATION, CONSUMER SENTIMENT MAKING A HESITANT RECOVERY

Consumer price index



Sources: ONS, Crédit Agricole S.A./ECO

Consumer confidence index



Sources: ONS, Crédit Agricole S.A./ECO

HOUSEHOLDS

THE WORST SHOULD BE BEHIND US

Household consumption slowed sharply in 2023 (+0.4% annual average, vs. +4.3% in 2022). After holding up well in the first half of the year, household consumption ultimately lost ground in the second half (-1% in Q4 vs. Q2). Household consumption mainly fell in the services sector (-1.8% in Q4 vs. Q2). Households also reduced car purchases (-1.2%), while consumption of durable goods (4.3%) increased in the second half.

The decline in household consumption can be attributed to a series of factors, including :

- the past purchasing power crisis (real disposable income shed 1.4% in 2022, due to the sharp rise in prices, before rebounding 2.2% in 2023);

- monetary tightening by the BoE (key policy rate up from 0.1% in December 2021 to 5.25% in August 2023);

- withdrawal of government aid implemented in response to the energy crisis;

- a persistently restrictive tax policy (due to the ongoing freeze on income tax thresholds, in particular), despite successive easing over the past year;

- lastly, the deterioration in the housing market (a highly sensitive factor for UK households) also undoubtedly had a negative impact on household confidence and consumption.

Consumer spending decreased at a time when real incomes were already recovering. Over the past three quarters, real disposable income has grown an average of 3% YoY, offering some hope that the worst is already behind us. This view is confirmed by the sharp YTD increase in retail sales (+3.7% in February compared to December). With retail sales growth carry-over coming out at 1.7% over the quarter, household consumption may even surprise on the upside in Q1. The labour market is holding up well: the unemployment rate remains low (3.9% on average over the three months to end-January) and wage growth is high (6.1% YoY), although demand for labour is declining (job vacancies are at their lowest level since May 2021). Upcoming monetary easing and the recent rebound in housing prices (+1.2% YoY in February for the Nationwide index, +1.7% for the Halifax index) should also support household confidence.

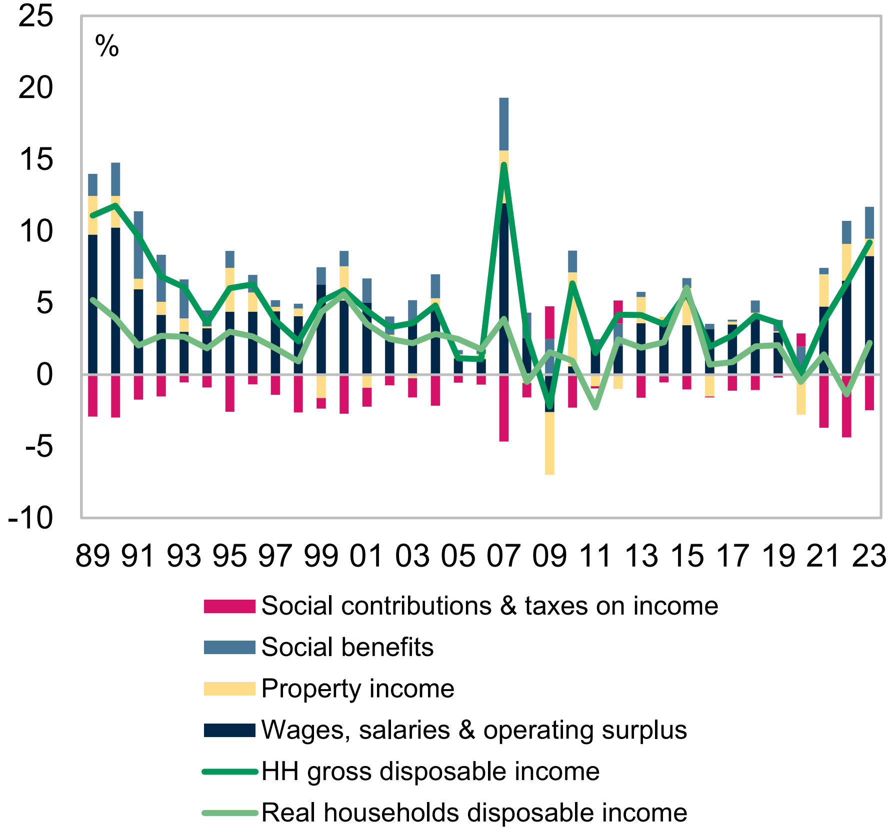
Growth rates are likely to remain weak, however. According to the BoE, one-third of the impact of monetary tightening on GDP is yet to come. Some households with fixed-rate mortgages will see an increase in borrowing costs if they have to renew their loans at higher rights once they reach their term. The savings rate increased over the last three quarters to 10.5% in Q4 2023, due in part to expectations of higher borrowing costs and a likely upturn in precautionary savings.

We expect private consumption to post average annual growth of 0.9% in 2024 and 2% in 2025.

HOUSEHOLDS

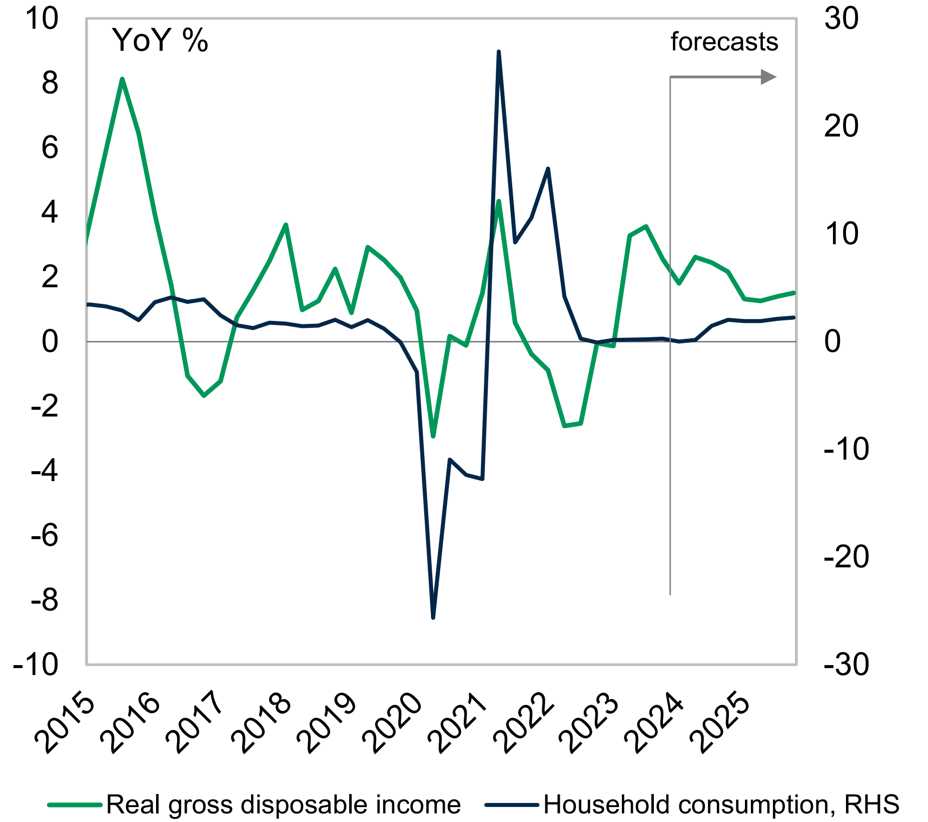
SHARP RISE IN PURCHASING POWER

Household disposable income and real disposable income



Sources: ONS, Crédit Agricole S.A./ECO

Household consumption and real disposable income

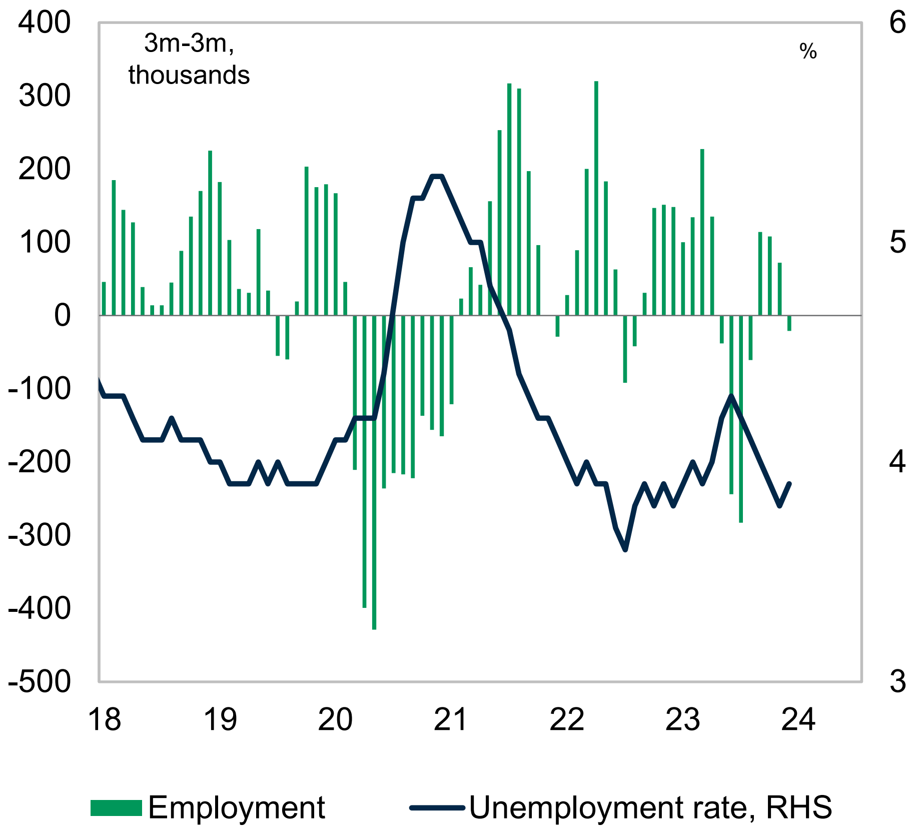


Sources: ONS, Crédit Agricole S.A./ECO

HOUSEHOLDS

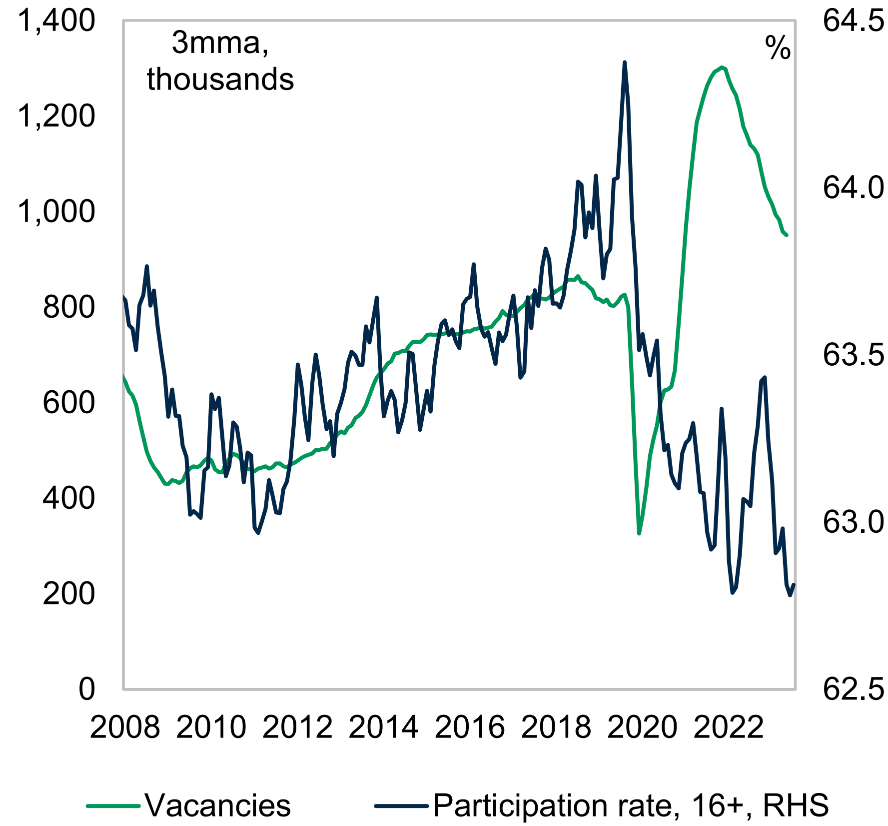
THE LABOUR MARKET IS EASING BUT REMAINS TIGHT

Employment and unemployment rate



Sources: ONS, Crédit Agricole S.A./ECO

Job vacancies and participation rate



Sources: ONS, Crédit Agricole S.A./ECO

BUSINESSES

SURPRISINGLY RESILIENT INVESTMENT

Business investment grew despite the sharp rise in interest rates: +1.4% QoQ in Q4 2023 and +5.5% annual average in 2023, vs. +9.6% in 2022. Gross fixed capital formation also increased (+2.2% in 2023, vs. +8% in 2022), driven mainly by productive investment and, to a lesser extent, by public investment (+7.7%), while investment in dwellings was the only negative contributor (-6.1%). In terms of asset classes, the main contributor to annual GFCF growth was investment in transportation equipment, followed by smaller contributions from other asset classes.

While companies have favoured productive investment, they have reduced their inventories: changes in inventories shaved 0.9 percentage points off 2023 GDP growth and were the main contributor to the virtual stagnation of 2023 GDP.

Temporary support factors played a role in investment growth. The March 31st expiry of the generous tax incentives referred to as the “super deduction” appears to have given a boost to investment early in the year, as companies moved up their plans to get ahead of the deadline. Other factors included a temporary increase in notoriously volatile aircraft purchases, in addition to car purchases by rental companies that closed the backlog of orders built up since the pandemic.

The apparent resilience of investment overshadowed a sharp deterioration in the corporate financial situation. Private companies recorded a decline in gross operating income in each of the last three quarters of the year. The profit margin (measured by the ratio of gross operating surplus to value added) of private non-financial companies and self-employed entrepreneurs fell to 43.8%, its lowest level since end-2020. Bankruptcies climbed to a record level since 1993 in Q4 2023 led by the accommodation and food services. The bankruptcy rate picked up (53.7% of active companies) but remains lower end-2009 levels (at 94.8%).

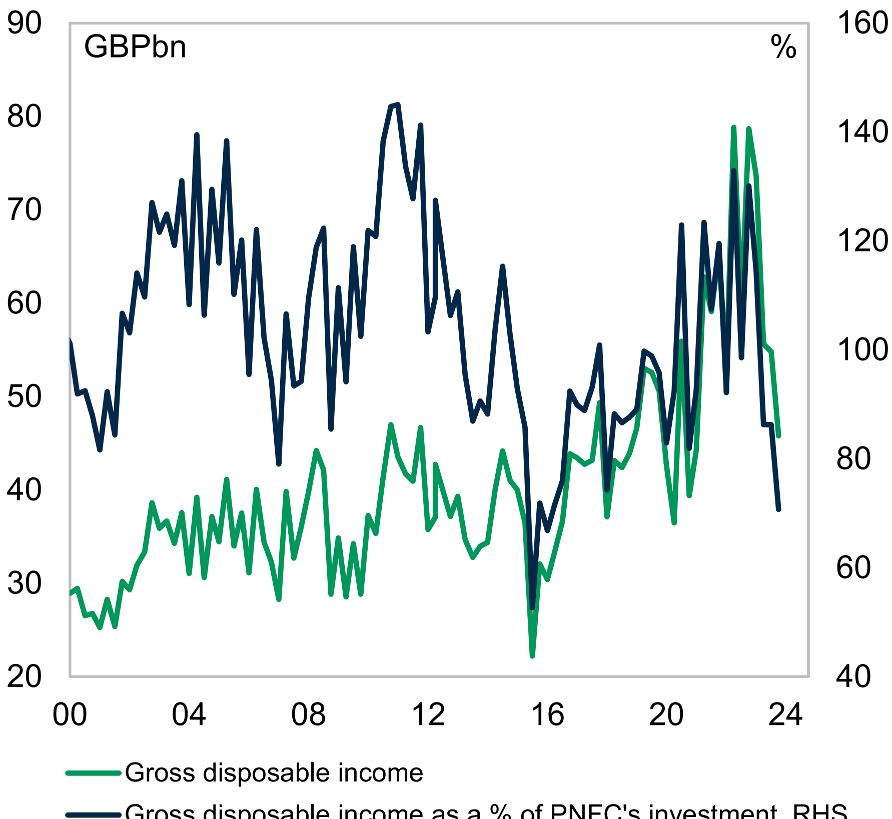
Although recent business surveys proved encouraging, the environment is still unsupportive. Industrial output fell for the third year in a row (-0.3% annual average in 2023, with -1% QoQ in Q4 2023) and, though a modest recovery in demand is on the horizon, order books are still weak, especially for exports.

Against this backdrop, we expect GFCF to slow this year (to 1.1%, vs. 2.2% in 2023) before accelerating in 2025 driven by upcoming monetary easing. While productive investment may remain weak in the short term, we may see real estate make an early recovery, as suggested by the rebound in mortgage aapprovals over the past several months.

BUSINESSES

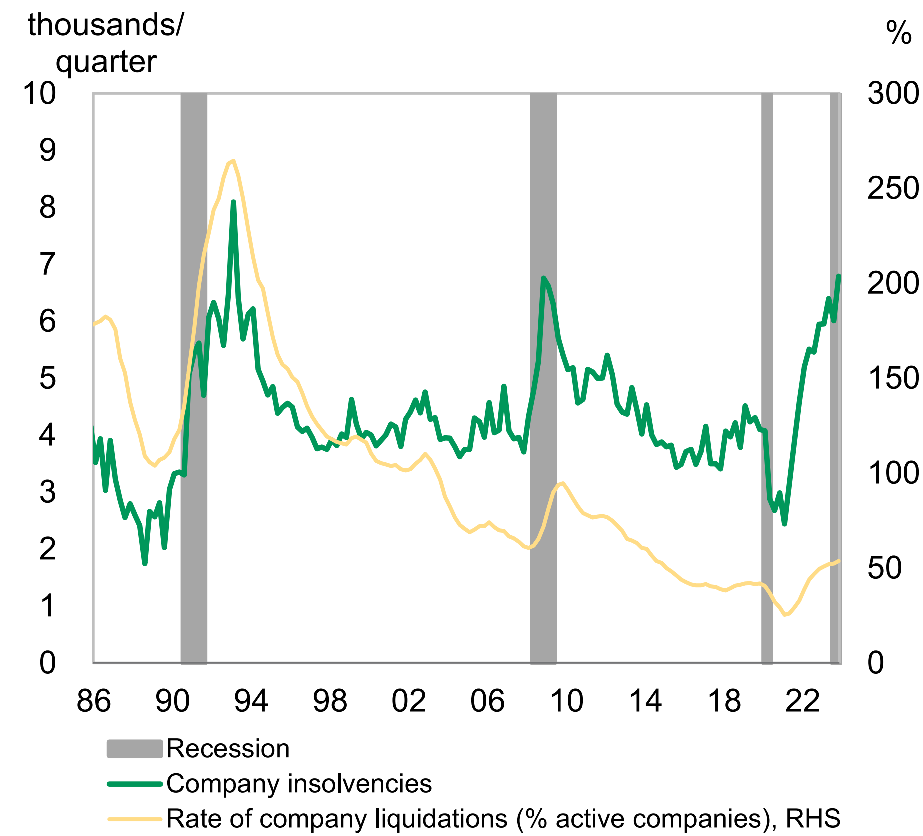
A DETERIORATED FINANCIAL SITUATION

Gross Disposable Income and Cash Flow



Cash flow: ratio of disposable income of private non-financial enterprises to capital expenditure
Sources: ONS, Crédit Agricole S.A./ECO

Business failures and bankruptcy rates



Sources: ONS, Crédit Agricole S.A./ECO

INTERNATIONAL TRADE

WEAKENED COMPETITIVENESS

In general, net exports contribute negatively to UK GDP growth. This is especially the case during recovery phases, with domestic demand recovering faster than external demand. In 2023, while GDP broadly stagnated and even contacted in H2 2023, foreign trade contributed 0.3 percentage points to annual growth, with exports (-0.2%) declining less than imports (-0.5%). This came after two years of sharply negative contributions (-0.4 and -1.7 pp in 2021 and 2022 respectively), marked by the post-Covid recovery.

With activity expected to accelerate both this year and the next, foreign trade should once again contribute negatively to GDP growth. There are multiple factors weighing on the outlook for UK exports, both external and internal. We have seen a structural decline in global trade for several years with the return of protectionism in the United States and a tense international environment. In addition, the UK's two main trade partners, namely the United States and Germany (16% and 9%, respectively, of exported goods), are dealing with weaker economic outlooks.

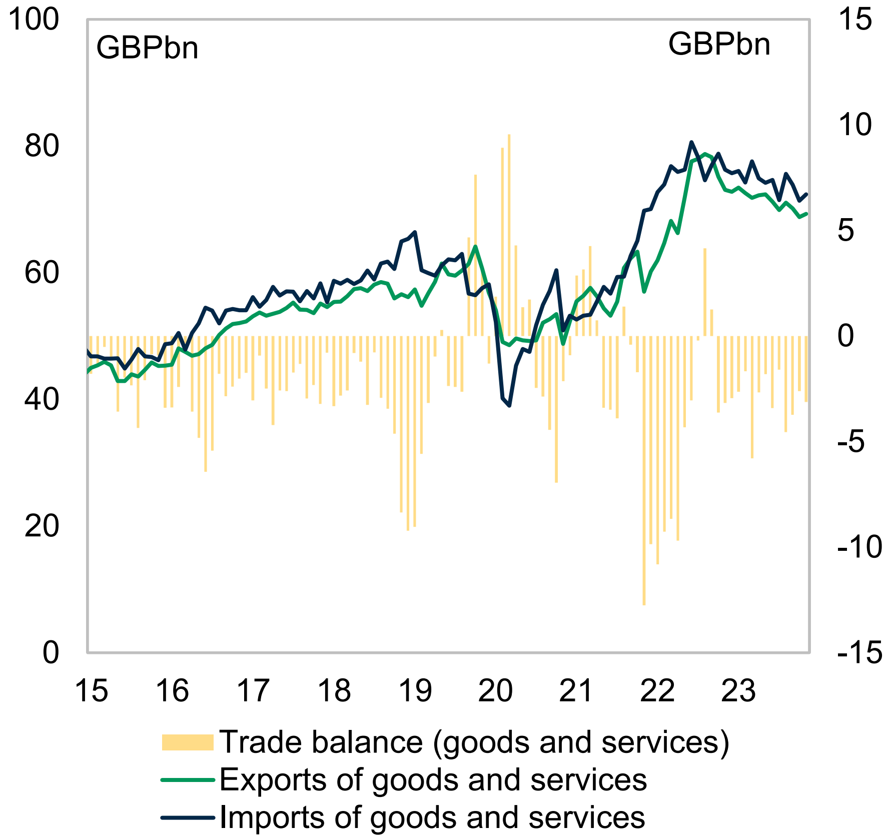
Furthermore, Brexit introduced barriers to trade with the European Union in goods and services alike, thus steeply reducing the EU's share in total UK trade. Exports with the EU now account for less than half, i.e. 47% of total exports of goods, compared with 54% on average over the twenty years preceding Brexit. On the other hand, the United Kingdom still imports heavily from European countries, with imports of goods even climbing significantly over the past year to 56% of total imports (compared to 54% on average for the 2000-2020 period). The government has repeatedly delayed customs checks on imports of goods from the EU to avoid exacerbating the already high level of inflation, which may have contributed to the trend. The rise in imports from the EU over the past two years is primarily attributable to imports of machinery and transport equipment (cars and aircraft) from Germany.

Although Brexit undermined the competitiveness of UK products on European markets, domestic inflationary pressures - relatively stronger than in other developed countries - have negatively impacted the competitiveness of UK goods and services in general. Unit labour costs rose nearly 6% YoY in Q2 2023 (latest data available), compared with an average of 2% between 2000 and 2020. Competitiveness is also suffering from the sharp appreciation of the GBP: its trade-weighted exchange rate has climbed more than 6% since end-2022 and nearly 12% since its low point in September 2022 (during the turbulence caused by the Liz Truss “mini-budget”).

INTERNATIONAL TRADE

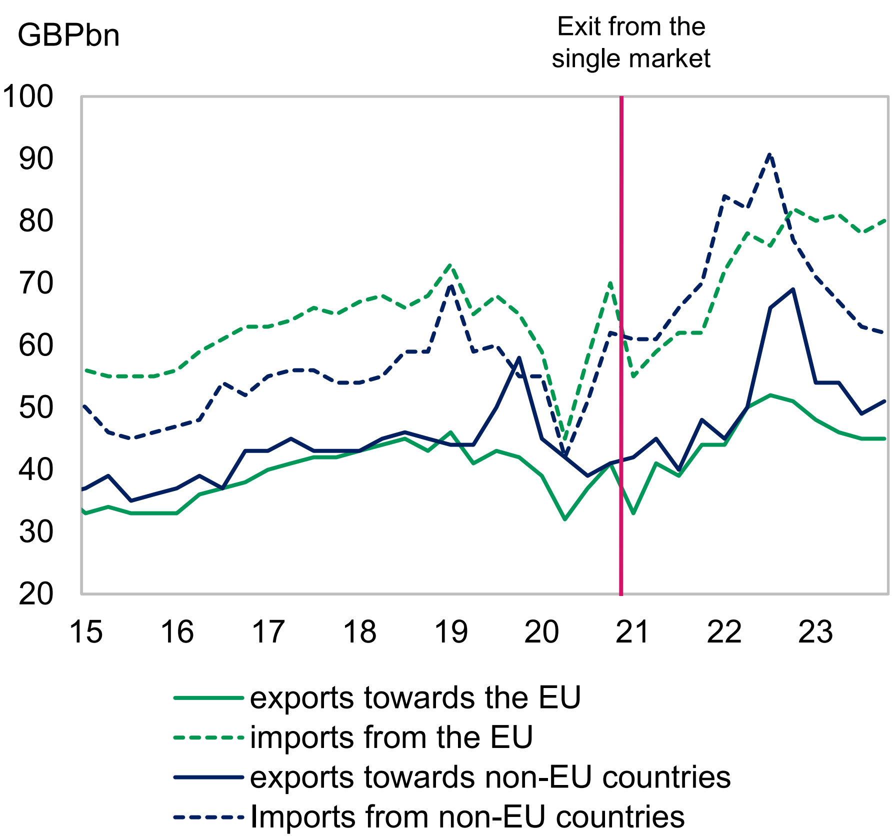
A GROWING TRADE DEFICIT WITH THE EU

Foreign trade in goods and services



Sources: ONS, Crédit Agricole S.A./ECO

Trade in goods: EU and non-EU



Sources: ONS, Crédit Agricole S.A./ECO

PUBLIC FINANCES

ADDITIONAL FISCAL EASING IN THE MARCH 2024 BUDGET

In the run-up to the general election, the Chancellor announced a number of tax measures in the March 2024 Spring Budget, aimed at supporting long-term growth, in particular by stimulating investment and participation in the labour market.

The budget's flagship measure is another cut in National Insurance Contributions or NICs from 10% to 8% starting in April 2024. The NIC rate was successively lowered from a high of 13.25% in November 2022. The measure is accompanied by a reduction in self-employed national insurance from 8% to 6%. The objective of the government is to increase labour supply in a market continuously plagued by a lack of capacity since the pandemic due to a chronically weak workforce. According to the OBR, these measures are expected to bring the equivalent of 200,000 full-time workers back to the labour market by 2028-2029. Other tax measures have also been announced, such as extending the freeze on fuel and alcohol taxes for another year, raising the tax threshold for affluent households receiving family benefits and lowering the marginal rate of the property gains tax.

Overall, the Chancellor announced tax cuts averaging GBP12.6bn per year by FY 2028-2029, partly offset by tax increases (of GBP6.6bn per year). Averaging around GBP6 bn per year, i.e. 0.2% of GDP, the net fiscal easing thus proved much lower than announced in November 2023 (0.6% of GDP) due to the extremely limited fiscal leeway available. On the plus side, tax cuts are being implemented almost immediately and should support demand at the margin in the short term.

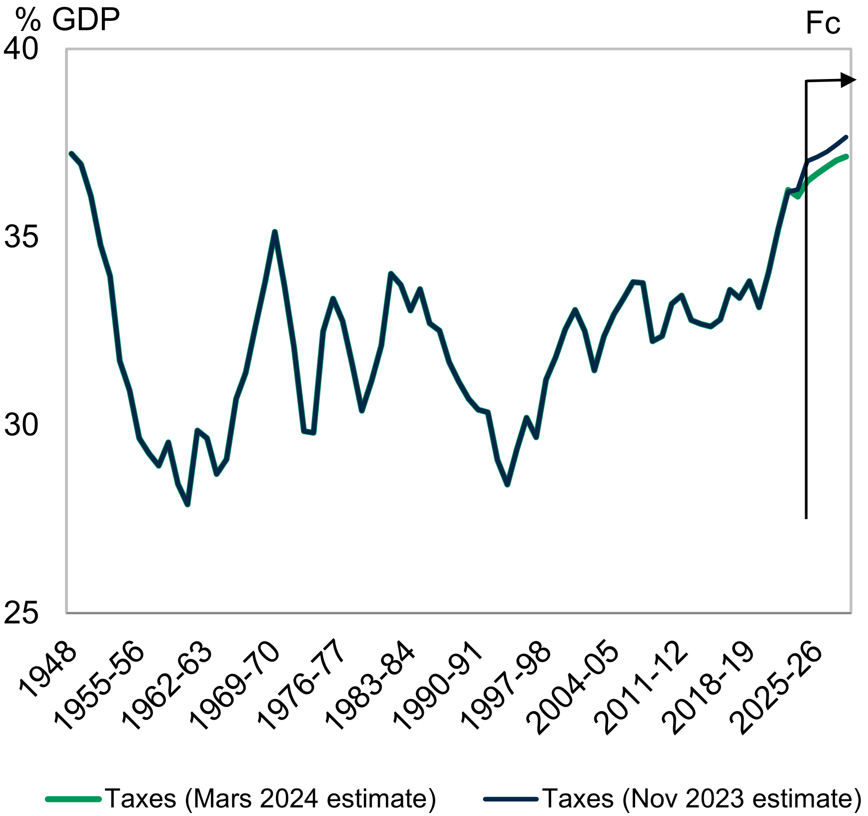
It is important, however, to view this tax relief in the context of a persistently restrictive budgetary policy in light of the fiscal tightening announced in previous years, and particularly the freezing of household tax thresholds. Since Covid, the UK government has raised the fiscal burden to levels not seen since the early 1950s (around 36% of GDP). It is set to continue climbing in the coming years, reaching 37.1% of GDP in FY 2028-2029, i.e. lower than previously expected but still 4 percentage points above pre-pandemic levels.

At the same time, public expenditure will continue to decline in the coming years as a share of GDP, from 44.5% in 2024 to 42.5% in FY 2028-2029, albeit 3 points higher than before Covid.

PUBLIC FINANCES

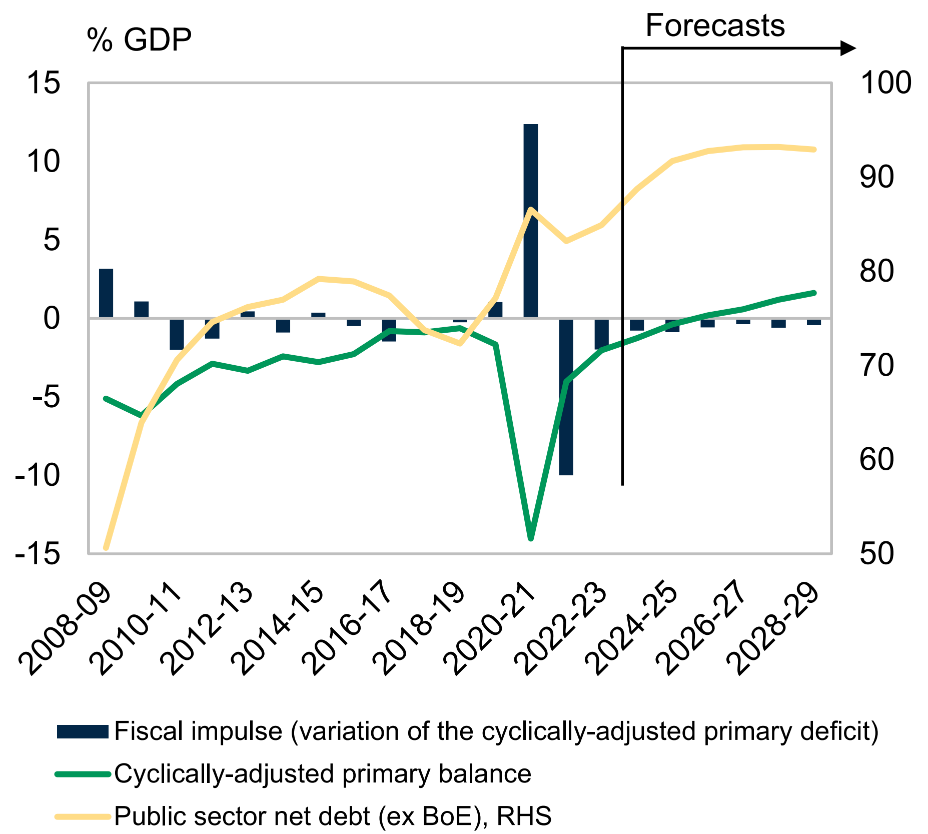
FISCAL POLICY TO REMAIN TIGHT DESPITE EASING

Taxes as a % of GDP and forecasts: flirting with 1950s highs



Sources: OBR Economic and Fiscal Outlook – November 2024, Crédit Agricole S.A./ECO

Fiscal stimulus to remain negative in the coming years in a bid to stabilise the debt ratio



Sources: OBR Economic and Fiscal Outlook – November 2024, Crédit Agricole S.A./ECO

MONETARY POLICY

AN INITIAL RATE CUT IN JUNE AND GRADUAL EASING THEREAFTER

The BoE recently adopted a more dovish tone on the back of weaker-than-expected CPI inflation and the ongoing easing of the labour market. The first rate cut, though not imminent, looks set to occur earlier than planned three months ago.

First, the upward bias in the forward guidance was abandoned in February: the BoE no longer deems it necessary, or even possible, to continue raising rates. Along with the gradual easing of the labour market, risks related to pressures on domestic prices and wages were seen as “more balanced”, as opposed to “trending upward” in previous forecasts. Monetary policy is now considered “restrictive”, raising the question of how long the key rate should be kept at its current level of 5.25% before being lowered.

Second, at the last MPC meeting in March, when rates were maintained as-is for the fifth meeting in a row, votes showed a fairly clear dovish turning point: the top two hawks, Catherine L. Mann and Jonathan Haskel, joined the status quo camp, while Swati Dhingra continued to vote for a rate cut.

Third, the MPC also for the first time “recognised that the stance of monetary policy could remain restrictive even if the Bank Rate were to be reduced, given that it was starting from an already restrictive level”. It may therefore not be necessary to wait for domestic inflationary pressures to normalise (particularly service inflation and wage growth) before lowering rates. In that regard, the MPC appears less than reassured about the momentum of domestic inflationary pressures. Though still at elevated levels, high-frequency measures of core inflation in services, short-term inflation expectations and wage growth measured by various indicators have continued to moderate.

Lastly, the MPC will not necessarily wait for a meeting where it publishes new economic forecasts to take action: it signalled that the degree of policy restrictiveness will be assessed “at each meeting”. The BoE has already demonstrated in the past that it can take key measures at meetings without publishing a Monetary Policy Report, as was the case in December 2021 with the first rate hike in the current cycle.

We are moving up our forecast for the first rate cut from August to June and still expect one rate cut per quarter: the Bank Rate should end 2024 at 4.50% and 2025 at 3.50%.

RISKS

CENTRAL SCENARIO: START OF A SLUGGISH GROWTH CYCLE

Downside risks to activity

Escalation of geopolitical conflicts and new inflation spike
Persistently strict financing conditions
Erosion of revenues and profits
Decline in the asset quality of vulnerable players
Weaker-than-expected global growth

Upside risks to activity

Lower-than-expected inflation
Greater easing of financing conditions
No recession in the US
Dissipated geopolitical risks
No shock to global trade

THE SCENARIO IN FIGURES

KEY ECONOMIC FORECASTS

	annual average, %			quarterly variation, %											
United Kingdom	**2023**	**2024**	**2025**	**2023**				**2024**				**2025**			
				Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
GDP (%)	0.1	0.5	1.4	0.2	0.0	-0.1	-0.3	0.3	0.4	0.4	0.4	0.3	0.4	0.4	0.4
household consumption	0.2	0.9	2.0	0.9	0.4	-0.9	-0.1	0.6	0.5	0.4	0.5	0.5	0.5	0.6	0.6
public consumption	0.5	1.8	1.6	-0.8	2.2	1.1	0.1	0.2	0.2	0.4	0.4	0.4	0.4	0.4	0.4
investment	2.2	1.1	3.3	2.2	-1.2	-1.4	0.9	0.5	0.5	0.8	0.8	0.8	0.8	1.0	1.0
change in inventories*	-0.9	-0.1	0.0	-0.2	0.0	-0.5	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
net exports*	0.3	-0.4	-0.7	-1.8	-0.6	0.6	-0.2	-0.2	-0.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
Unemployment rate (ILO)	4.0	4.0	3.9	3.9	4.3	4.0	3.9	4.0	3.8	4.0	4.0	4.0	3.9	3.9	3.8
Inflation (CPI, YoY%)	7.3	2.3	1.9	10.2	8.4	6.7	4.2	3.5	1.7	1.9	2.1	2.0	2.0	1.9	1.8
Core CPI (YoY%)	6.2	3.0	2.0	6.1	6.9	6.4	5.3	4.6	2.8	2.3	2.4	2.3	2.1	1.9	1.8
Current account (% GDP)	-3.3	-2.4	-3.1	-3.2	-4.1	-2.7	-3.1	-	-	-	-	-	-	-	-
General gov. balance, % GDP	-5.2	-3.6	-3.0	-	-	-	-	-	-	-	-	-	-	-	-
Public debt % GDP	96.7	99.8	102.5	-	-	-	-	-	-	-	-	-	-	-	-
Bank rate**	5.25	4.50	3.50	4.25	5.00	5.25	5.25	5.25	5.00	4.75	4.50	4.25	4.00	3.75	3.50

** Contributions to GDP growth*

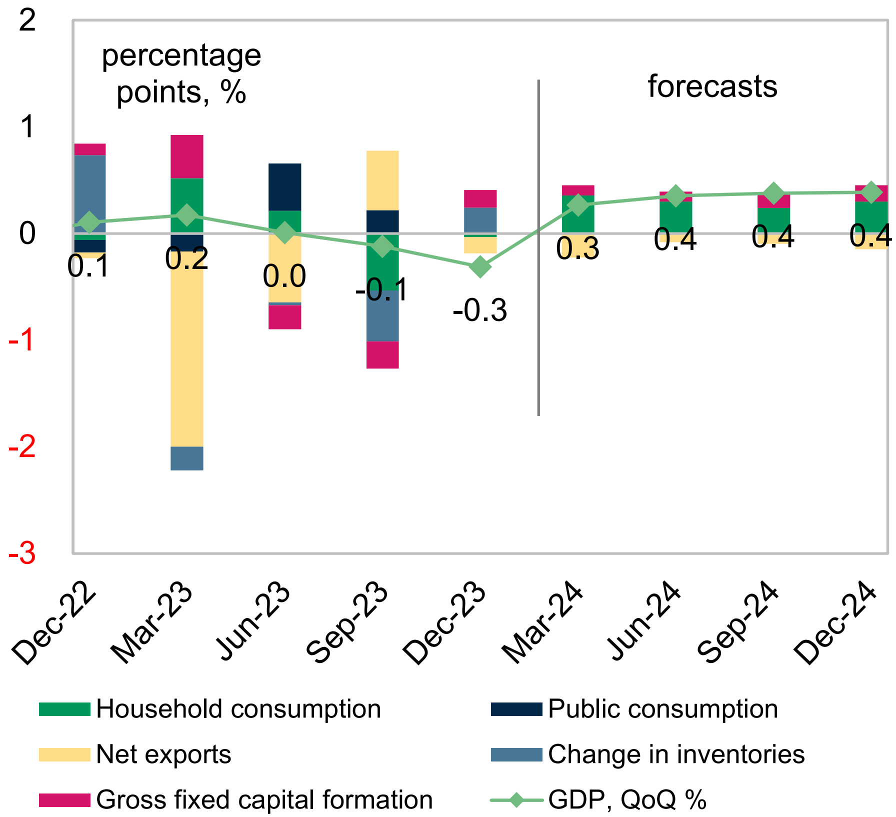
*** End of period*

Sources: ONS, BoE, Crédit Agricole S.A./ECO

THE SCENARIO IN PICTURES

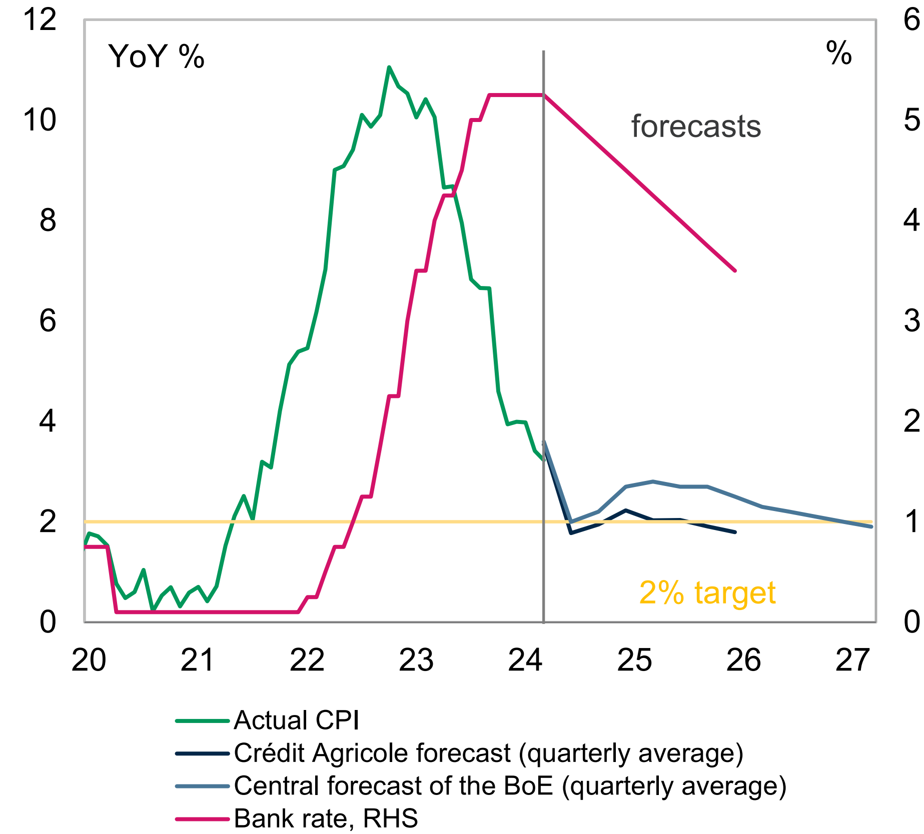
START OF A SLUGGISH GROWTH CYCLE

Growth likely to be driven by households and investment…



Sources: ONS, Crédit Agricole SA/ECO forecasts

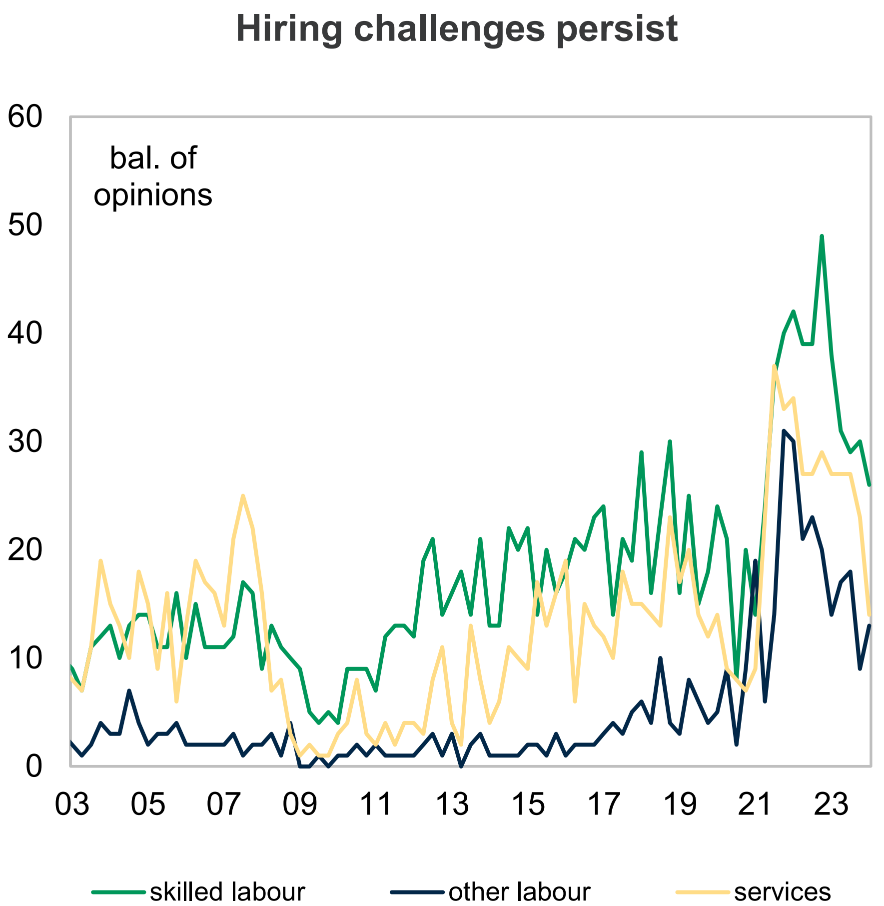
… thanks to falling inflation and upcoming key rate cuts



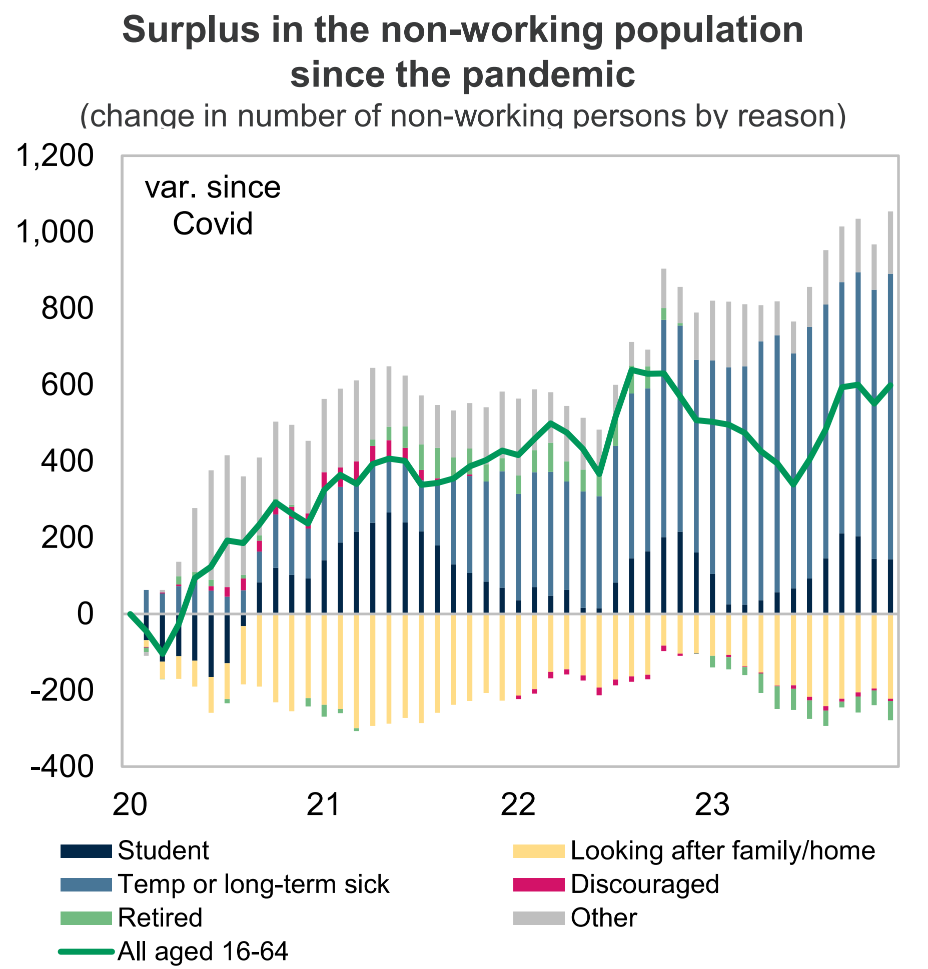
Sources: ONS, BoE Monetary Policy Report Feb 2024, Crédit Agricole SA/ECO (forecasts at end-2025)

THE SCENARIO IN PICTURES

LABOUR MARKET CONDITIONS REMAIN TIGHT



Sources: CBI, Crédit Agricole S.A./ECO



Sources: ONS, Crédit Agricole S.A./ECO

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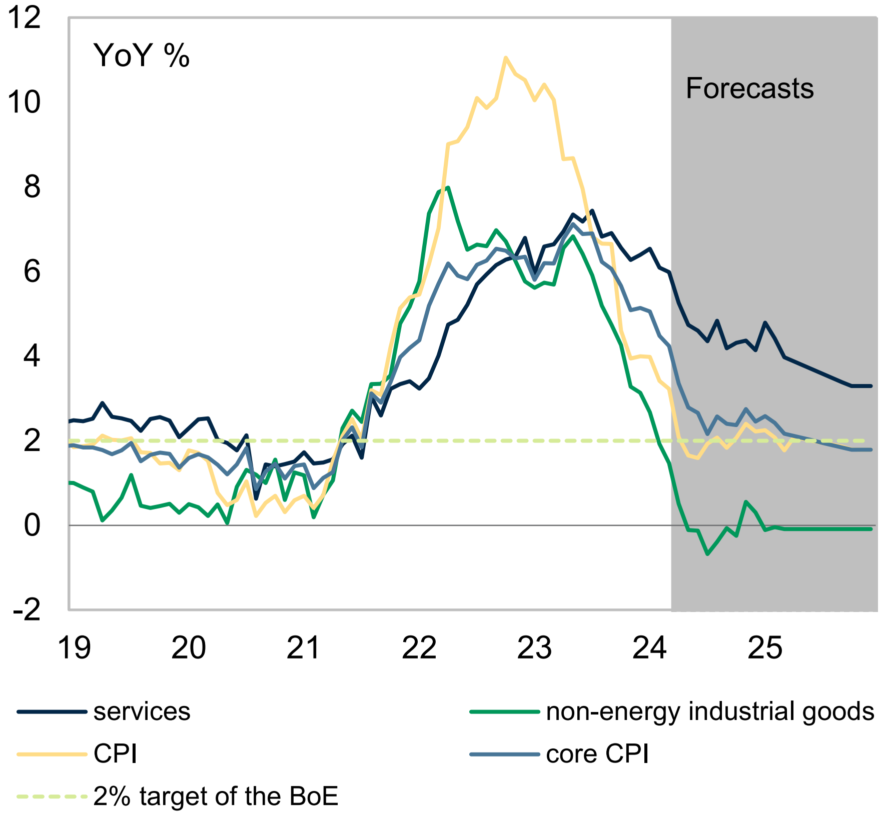
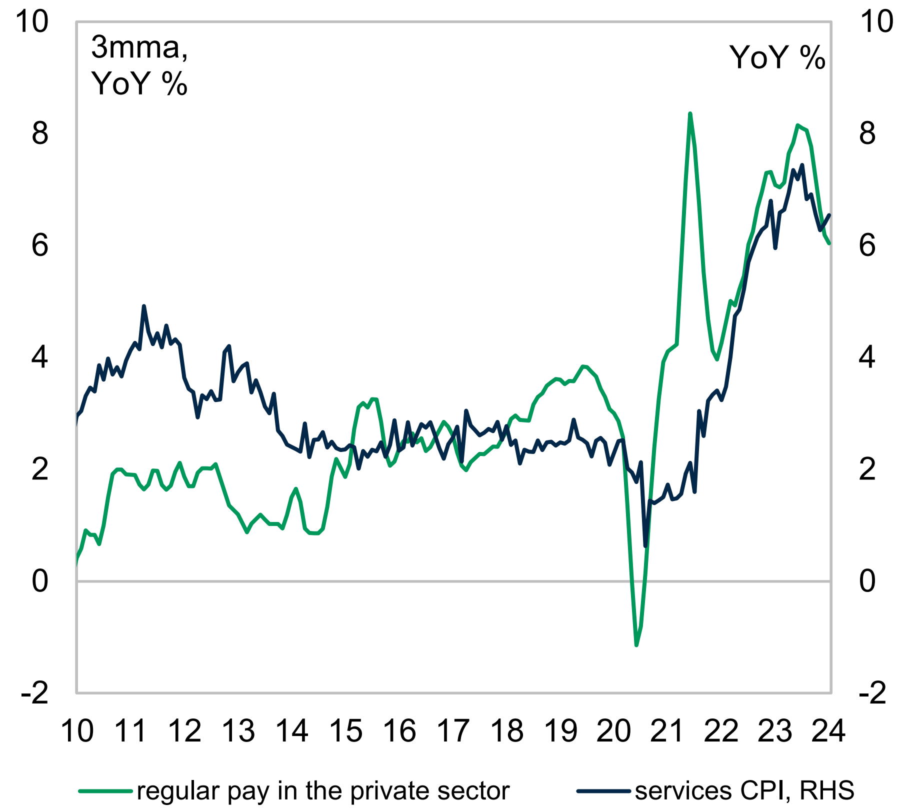
INFLATION: TARGET LEVEL WITHIN REACH

CPI inflation is expected to fall below target in Q2 and remain close thereafter



Sources: ONS, Crédit Agricole S.A./ECO

The moderation of wage growth is bringing down inflation in services



Sources: ONS, Crédit Agricole S.A./ECO

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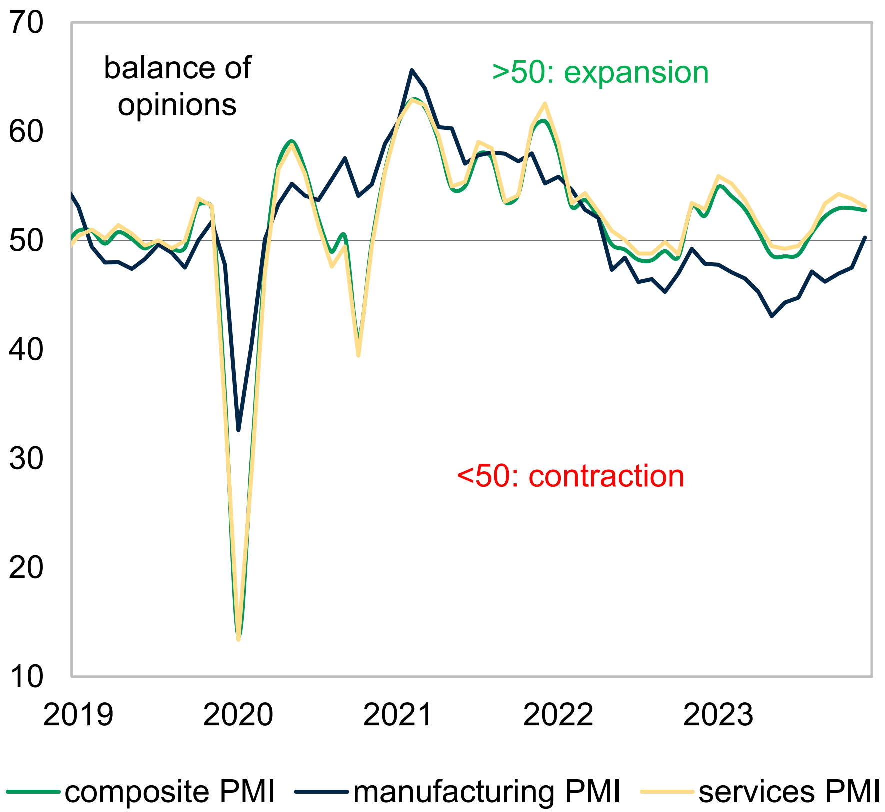
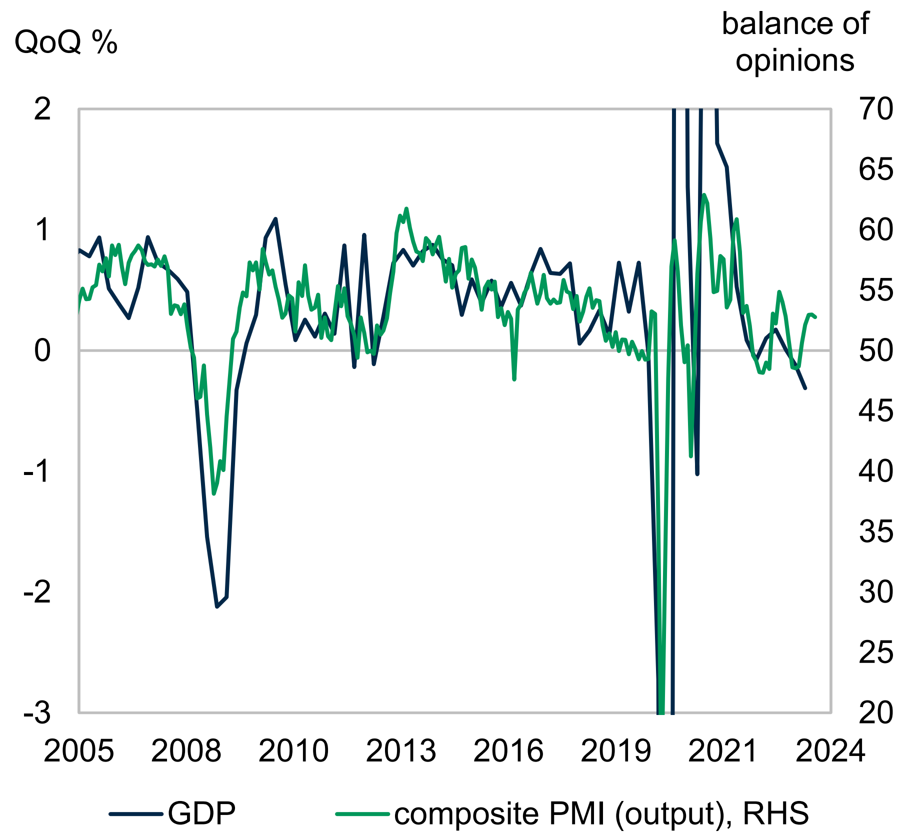
PERSISTENTLY TIMID RECOVERY IN BUSINESS SENTIMENT

The composite PMI points to an expansion in Q1 Industry is back above 50



Sources: S&P Global, Crédit Agricole S.A./ECO

GDP growth on track to reach 0.3% over the quarter according to PMIs



Sources: ONS, S&P Global, Crédit Agricole SA/ECO

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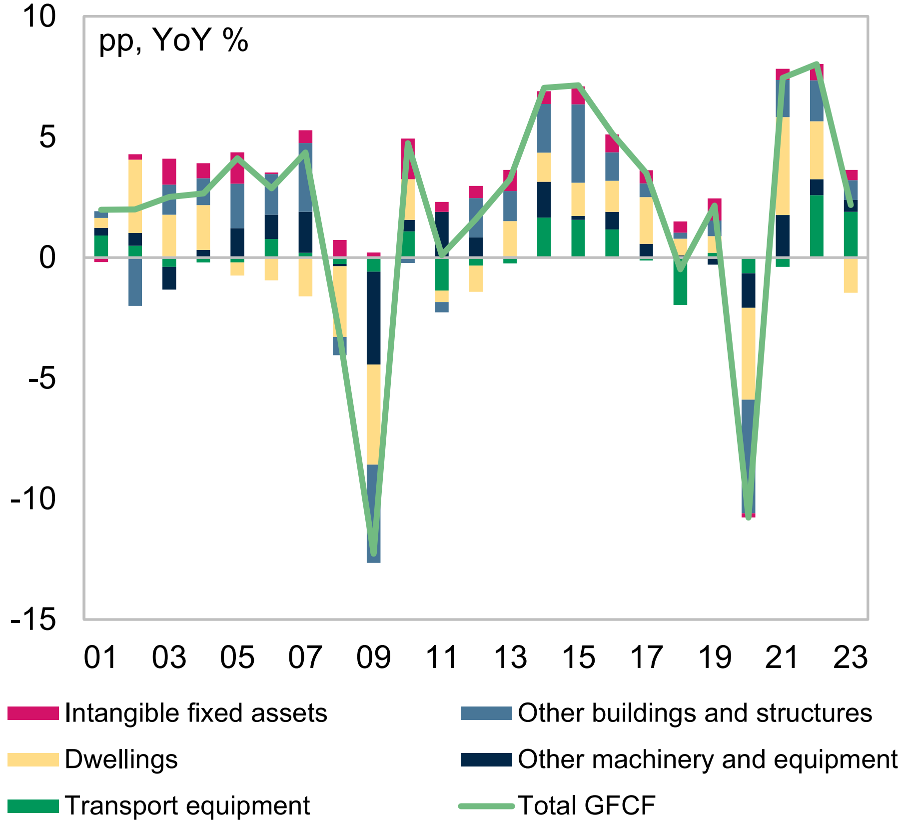
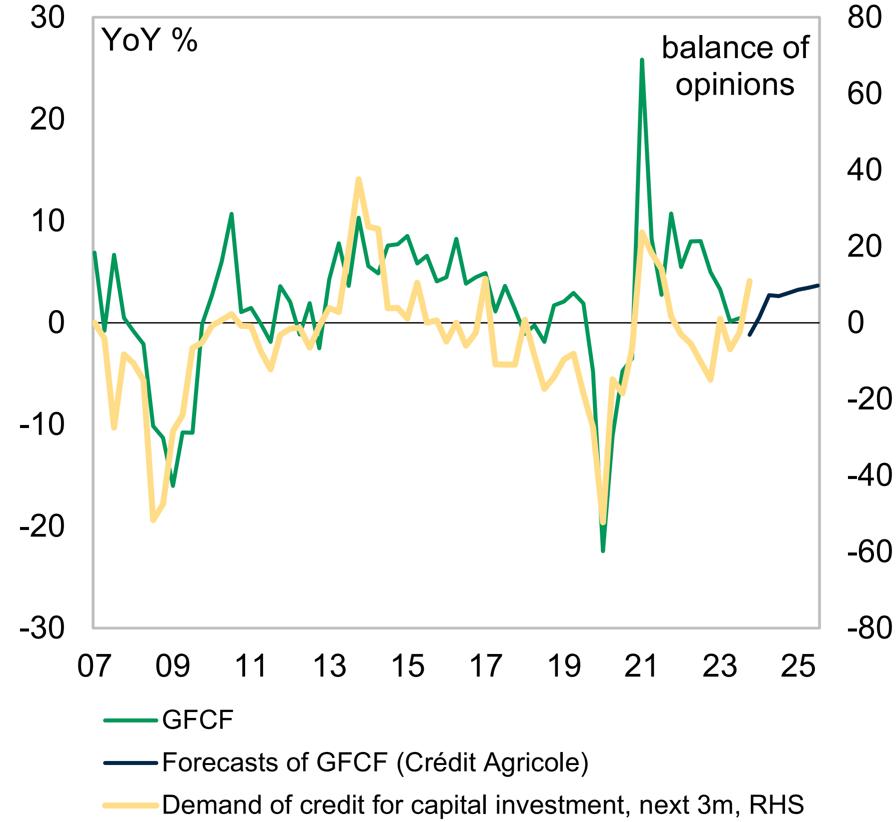
INVESTMENT SHOULD ACCELERATE AS INTEREST RATES FALL

Investment components (gross fixed capital formation)



Sources: ONS, Crédit Agricole S.A./ECO

Investment and credit demand for capital investment purposes



Sources: ONS, BoE Credit Conditions Survey, Q4 2023, Crédit Agricole S.A./ECO

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