UNITED KINGDOM
2024-2025 SCENARIO

FUTURE LOOKING BRIGHTER?

July 2024

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WORKING EVERY DAY IN YOUR INTEREST AND FOR SOCIETY

GROUP ECONOMIC RESEARCH

SUMMARY – A PROMISING START TO 2024

Scenario highlights

- **Past price shocks and the impact of rate hikes are dissipating.**
- **The recovery in real wages will continue, albeit at a slower pace, and will eventually fuel private consumption.**
- **Future rate cuts and post-election political stability will support private investment.**
- **Inflation is expected to increase slightly in the short term without deviating excessively from the target.**
- **The rigidity of services inflation continues to generate upside risks in monetary policy.**
- **Fiscal policy will remain tight under the Labour government to ensure debt sustainability.**

	2022	2023	2024	2025
% annual change				
GDP	4.3	0.1	0.9	1.4
Household consumption	4.8	0.2	0.6	2.0
Public consumption	2.3	0.5	1.6	1.6
Investment	8.0	2.2	1.9	3.4
Inflation	9.1	7.3	2.7	2.1
Unemployment rate	3.9	4.1	4.6	4.7
contribution to GDP growth, pp				
Domestic demand	4.8	0.0	0.4	2.1
Net exports	-1.7	0.3	0.5	-0.7
Change in inventories	1.0	-0.9	-0.7	0.0

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

UK economic growth was sluggish in 2023, with a slight recession in the second half of the year as tight monetary policy weighed on demand. Economic activity grew strongly in first-quarter 2024, although household consumption remained low.

Domestic demand, and household consumption in particular, is expected to be the main driver of the coming recovery, driven by solid real income growth and future rate cuts. In the short term, households could continue to be overly cautious given past price shocks, high interest rates and an ongoing easing in the labour market. The investment outlook is accompanied by an upward bias thanks to the advent of a period of political stability and Labour's pro-business policy.

Inflation returned to the 2% target in May 2024 (and was stable in June) amid widespread disinflationary pressures. It is expected to return to slightly above the target in the second half of the year on less negative inflation in energy prices.

Given the continued easing in the labour market and the prospect of inflation below the medium-term target, the BoE is expected to start a very gradual cycle of monetary easing on 1 August, though a further postponement is not to be ruled out.

SUMMARY – FUTURE LOOKING BRIGHTER?

THE OUTCOME OF THE ELECTIONS SHOULD BE FAVOURABLE TO THE BUSINESS CLIMATE, BUT ANY FISCAL STIMULUS WILL BE MINIMAL

The outcome of the elections is potentially positive for the growth prospects of the UK economy, as Labour's programme is favourable to business, investment, the relationship with the EU, and budgetary discipline. But the change in government will not work miracles. Budgetary realities are such that the Labour Party lacks the necessary room for manoeuvre to initiate a significant *stimulus*. **Barring extremely positive surprises on growth, rates and inflation, Labour will have a tough equation to solve this autumn.** It will have to make substantial budget cuts in "unprotected" services (i.e. excluding NHS, defence, education, aid and childcare) estimated at nearly GBP20bn over the next five years, raise taxes more than announced or break the budget rule. Whatever the case, the government will be required to lead a highly restrictive fiscal policy in the coming years, with substantial primary surpluses to be generated if it is to stabilise the debt-to-GDP ratio.

As expected, the Labour Party won the UK general election on 4 July, ending 14 years of power for the Conservatives. Labour took 411 seats out of 650 in the House of Commons, up from 202 in the 2019 election. Labour *leader* Keir Starmer is the new Prime Minister. He will benefit from a significant majority of 172 seats in the House of Commons, comparable with that of Tony Blair in 1997 (179).

Labour's extremely comfortable majority will give it full powers to implement all its reforms and election promises on spending. A period of political stability will be positive for the growth outlook, favouring business investment. However, the tight fiscal situation leaves little or no room for additional fiscal *stimulus*. Any additional current expenditure will have to be financed by an increase in taxation. And Labour has promised not to raise income tax, corporate tax, VAT or national insurance contributions (NICs). It has pledged that it will borrow solely to invest and is mindful that any increase in investment expenditure will have to be done sparingly in order to keep the public debt-to-GDP ratio on a downward path over the next five years.

The public spending promised by Labour in its electoral programme actually shows budgetary prudence: An additional GBP4.8bn a year in spending on public services (health and social care, tax collection, schools, working-age benefits, family allowances and planning) financed by anti-tax avoidance measures and tax increases affecting only a minority of the UK population (such as VAT in private schools and higher taxes for non-residents).

Labour's main objective is to achieve the strongest GDP growth in the G7 by stimulating investment, particularly in green industry through its *Green Prosperity Plan*. As part of the latter, Labour wants to invest an additional GBP4.7bn a year (compared with GBP8bn currently). It aims to accelerate the green transition (with an objective of zero internal-combustion cars by 2030, versus 2035 for the Conservatives) and create 650,000 jobs in green industries. This supplementary spending will be financed in part by the exceptional tax on the profits of oil companies (extended for five years and increased by three percentage points) and in part by borrowing.

SUMMARY – FUTURE LOOKING BRIGHTER?

UNCERTAINTY MAY CONTINUE TO UNDERMINE CONFIDENCE

The risks to the economic and fiscal outlook are mostly external. 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, Labour could be forced to increase taxes by more than announced during the election campaign, especially if growth and rates surprise unfavourably this year and further extend the budget deficit. Consumer confidence could take longer than expected to make a lasting recovery and support final consumption. The inflation rate could surprise on the upside and slow future monetary easing, which in turn would undermine domestic demand.

In the medium term, although the Labour Party's programme focuses on labour market reforms to promote participation and employment, uncertainty remains over the supply side. Particular issues in this respect include the large number of people economically inactive for health reasons, the migratory balance and population projections, and productivity growth, which remains meagre.

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	3.2	2.9	2.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
United States GDP (y/y, q/q, annualised, %)	1.9	2.5	2.0	0.4	-2.0	-0.6	2.7	2.6	2.2	2.1	4.9	3.4	1.4	1.7	0.5	-0.8	-0.5	1.1	1.4	2.0
Eurozone GDP (y/y, q/q, %)	3.4	0.4	0.8	1.5	0.6	0.8	0.5	0.0	0.6	0.1	0.0	-0.1	0.3	0.3	0.5	0.4	0.3	0.4	0.3	0.3
China GDP (y/y, q/q, %)	3.0	5.2	4.7	4.2	0.4	-2.1	4.0	0.8	1.8	0.8	1.5	1.2	1.5	0.7	0.4	0.4	0.3	0.4	0.3	0.3
ECB deposit rate (end of period, %)	2.00	4.00	3.25	2.50	-0.50	-0.50	0.75	2.00	3.00	3.50	4.00	4.00	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
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	1.09	1.08	1.06	1.05	1.07	1.09	1.10	1.12
Brent (average, USD/barrel)	99.1	82.3	84.2	88.0	98.0	112.1	97.7	88.6	82.2	77.9	85.9	83.0	81.9	85.0	83.0	87.0	85.0	87.0	90.0	90.0

Sources: BoE, ECB, Eurostat, IMF, Refinitiv, Federal Reserve, Crédit Agricole S.A./ECO.

CYCLICAL DEVELOPMENTS

GROWTH SURPRISES ON THE UPSIDE, INFLATION BACK ON TARGET

Data on economic activity have been encouraging thus far in 2024. The economy emerged from the H223 recession with a higher-than-expected rise in GDP in Q124, up 0.7% QoQ (revised from 0.6% in the preliminary estimate). But the breakdown of spending by component is less impressive. Domestic demand contributed just 0.1pp and inventory changes weighed 0.6pp, while household consumption increased modestly (+0.4% QoQ) and total investment rose by 0.9% QoQ. Business investment slowed in Q1 2024 to +0.5% QoQ, after +1.4% QoQ in Q4 2023, and residential investment rebounded (+3.2% QoQ) after five consecutive quarters of decline. The trade balance made the biggest contribution to growth (+0.6pp) as imports (-2.7% QoQ) decreased more than exports (-1% QoQ).

Economic data for Q224 suggest that *momentum* remains robust. Real GDP recovered by 0.4% MoM in May after holding steady in April. Real GDP has grown 0.9% in the three months to May compared with the three months to February 2024, its highest pace since January 2022. The main contributor to growth over the period was the services sector, up a strong 1.1%, while industrial production was stable and construction fell 0.7%. The carry-over effect for GDP growth in Q224 comes out at 0.6pp, implying upside risks for our growth forecast of 0.3% QoQ.

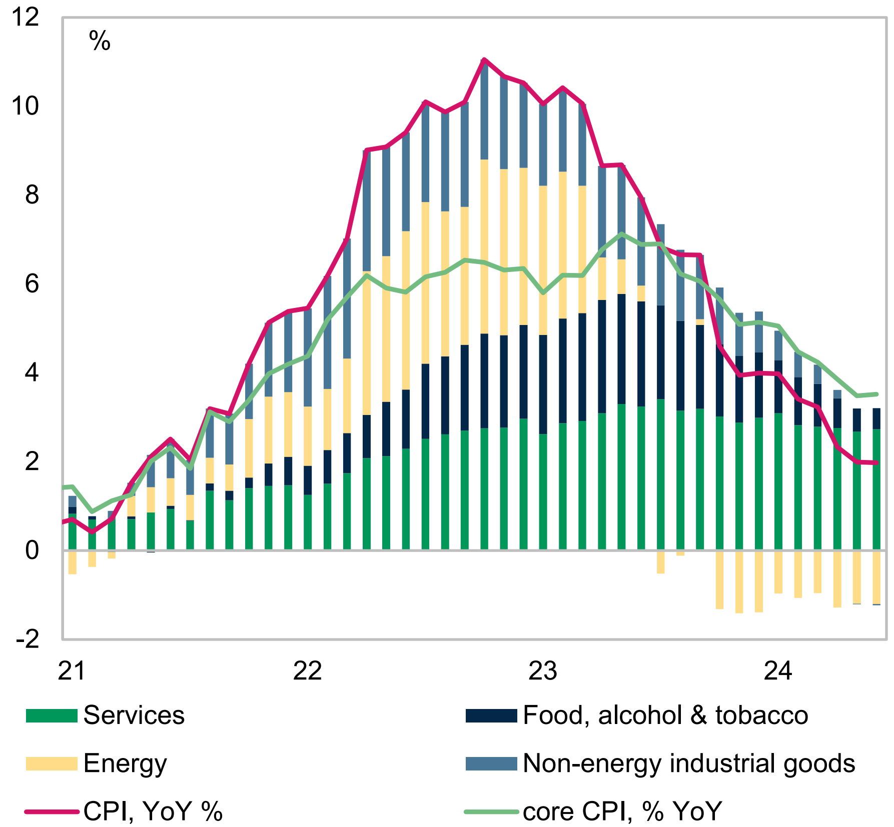
Business surveys, including PMIs, were weaker than actual activity data. The services PMI fell to 52.1 in June from 55 in April, while the manufacturing PMI continues to hover around 50, the threshold between expansion and contraction. But it would appear that this slowdown in part reflects uncertainty over the results of the 4 July general election. This uncertainty looks to have weighed on domestic demand, particularly in services, with growth slowing to its lowest level since November 2023. However, this effect is likely to be short lived and we should see an improvement in July. Meanwhile, the composite PMI remains solid (52.3 in June after 54.1 in April), suggesting that any slowdown is likely to be limited.

The consumer price inflation rate reached the 2% target in May (after 2.3% YoY in April and 3.2% YoY in March), driven down by deflation in energy prices and core industrial goods prices as well as food price disinflation. Service inflation however remains elevated. It fell to 5.7% YoY in May (after 5.9% YoY in April and 6% YoY in March) and held steady in June. Core inflation (CPI excluding energy, food, alcohol and tobacco) stood at 3.5% YoY for the second consecutive month. Upwards pressure on the inflation rate in June was due to prices in the food and accommodation and the transport sectors. Prices in restaurants and hotels continued to rebound strongly month-on-month (by an average 0.9% in the past five months), their inflation rate reaching 6.3% YoY, a high since January. The inflation rate in transport rose to 0.9% YoY in June, resulting primarily from the trend in used car prices, which fell less sharply in June 2024 than in June 2023, but the inflation rate of which remained in negative territory for the 11th consecutive month.

LATEST ECONOMIC NEWS

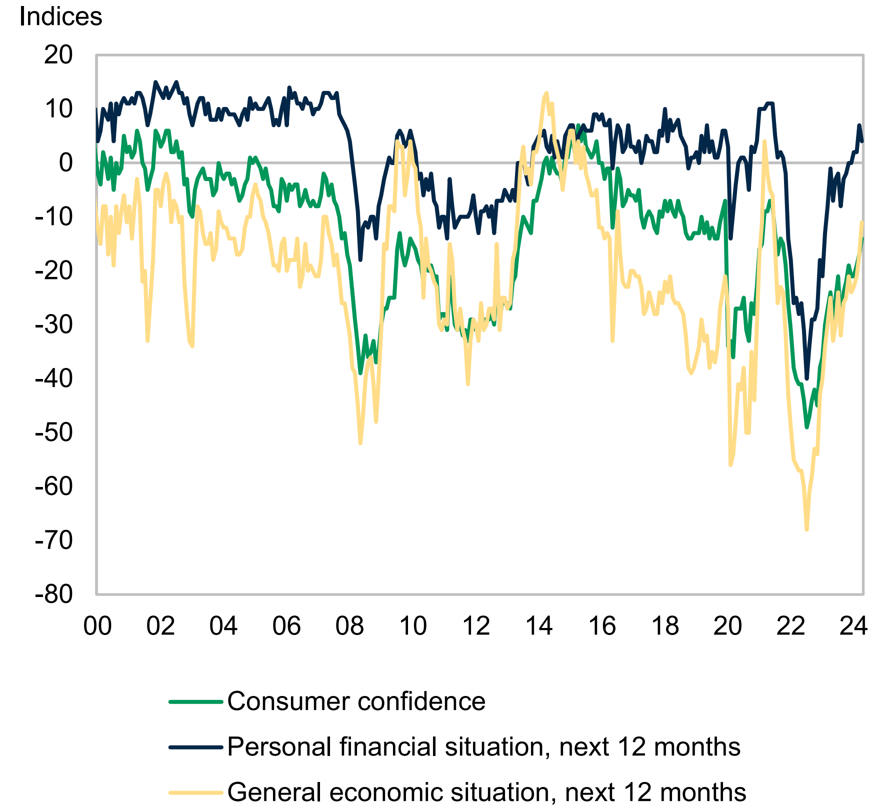
CONSUMER CONFIDENCE RETURNS AS INFLATION DIPS

CPI inflation was 2% for the second consecutive month in May



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

Consumer confidence is recovering



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

HOUSEHOLDS

WHILE UNCERTAINTY REMAINS, HOUSEHOLDS ARE SAVING

Confidence is lacking. Household confidence continues to recover, having reached its highest level since November 2021 according to the Gfk indicator, but remains lower than before COVID. Households are more optimistic about their future financial situation and more positive about the overall economic situation. But they believe that this is not yet the time to make major purchases. Retail sales contracted each month between February and April before rebounding in May (+2.8% MoM, +1.2% YoY). Consumers have been showing a degree of caution and have been increasing their savings rate. The latter reached 11.1% in Q124.

Household consumption grew slightly in Q124 (+0.4% QoQ, -0.2% YoY) after two quarters of contraction. It is still 1.7% lower than before COVID. In Q124, a decline in final consumption linked to tourism weighed on total household consumption, while purchases of durable goods (+1% QoQ in real terms), non-durable goods (0.7% QoQ) and services (0.6% QoQ) increased overall in line with their long-term historical averages.

Household consumption should continue to improve in the coming months, although caution could persist. First, households probably expect a further rise in the unemployment rate as the labour market has continued to ease (see page 9). Second, they may well be waiting to see the results of the initial government's Budget (expected in the autumn), to ensure that Labour is not going to tighten taxes more than announced during the election campaign. Third, some households have still to experience an increase in their debt-servicing cost after the rise in rates. According to the BoE, one-third of the GDP impact of past rate hikes has not yet occurred. The borrowing costs of some households with fixed-rate mortgages will increase when they have to renew their loans at higher rates once they reach their term.

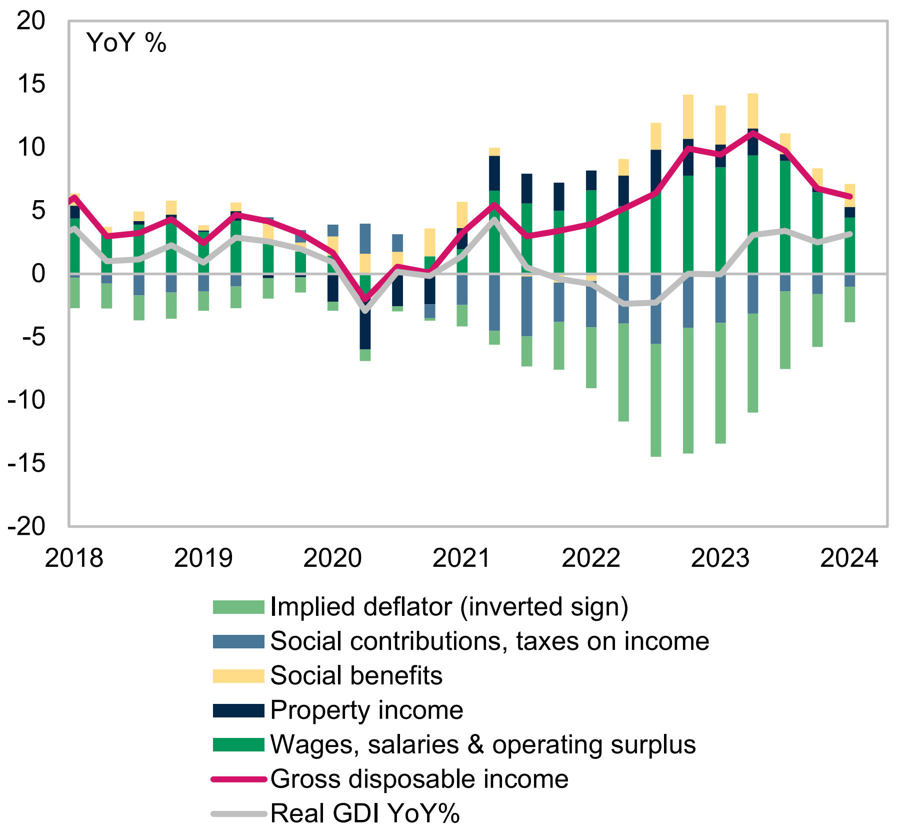
Real disposable income continued to grow strongly, gaining 3.1% YoY in Q124. After falling by 2.8% between Q321 and Q322, it is now 1.8% higher than in Q221. The recovery stems primarily from strong growth in earnings and the decline in inflation. Income growth is decelerating but remains high (5% YoY in Q124 vs. a high of 10.6% in Q223), while the growth rate of the implicit consumption deflator has dipped to 2.8%. **Real disposable income should slow in the coming quarters as inflation is expected to rise in H224 and wage growth continues to moderate.**

Given these contrasting factors, we expect household consumption to firm up only gradually, with average annual growth remaining low this year (+0.6% in 2024) before accelerating to 2% in 2025.

HOUSEHOLDS

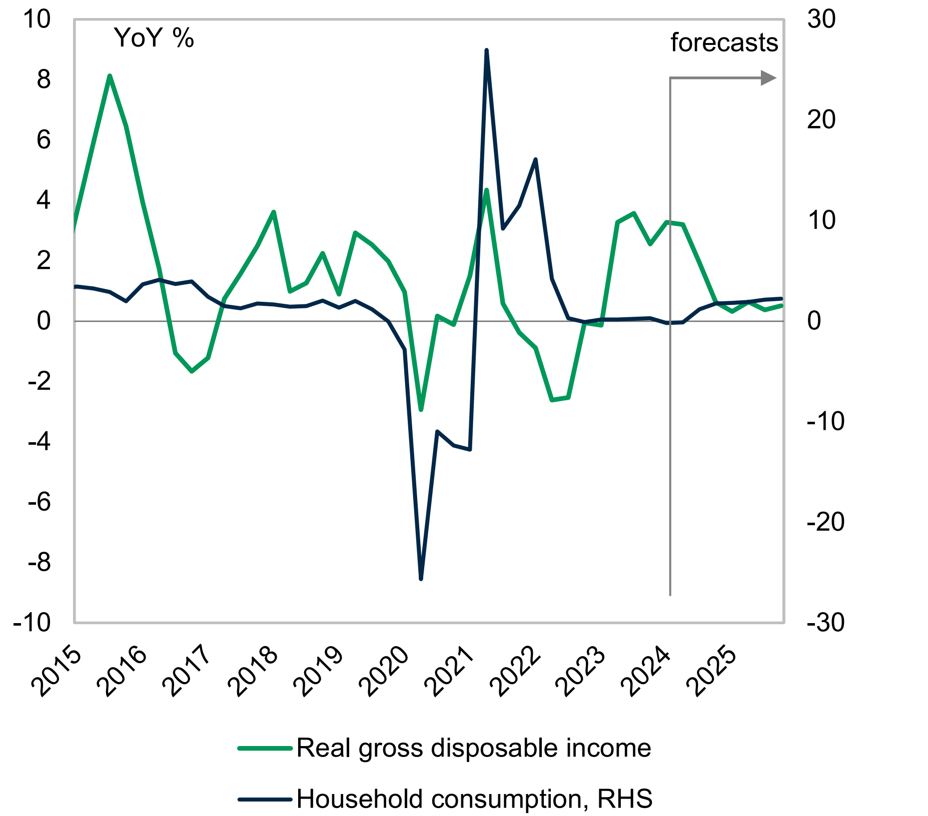
SHARP RISE IN PURCHASING POWER

Gross disposable income has grown by over 3% YoY in the last four quarters



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

Household consumption has been weaker than suggested by growth in real disposable incomes



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

LABOUR MARKET

LESS TIGHT

The labour market has continued to ease, bringing dovish news for the BoE. The unemployment rate rose 4.4% in the three months to end-May (vs. 4.2% in the three months to end-February), approaching its medium-term equilibrium level (estimated at 4.5% by the BoE). Employment has fallen since the start of the year (-175,000 between the three months to end-December and the three months to end-May with a growth rate at -0,9% YoY). The employment rate has fallen to 74.4% (of the population aged 16 to 64). This is the lowest such rate in nearly three years, down 0.6pp since December and 1.1pp a year ago.

The number of vacancies has continued to decline, down 3.3% QoQ in Q2 to 889,000, which is still higher than before the pandemic (by 11.6%, or 93,000). The ratio of the unemployed to job vacancies – a key indicator of the degree of easing in the labour market – is now akin to that of 2019. The ratio currently stands at 1.7 unemployed people per vacancy, compared with one-for-one at its lowest in H122. Similarly, recruitment difficulties have eased considerably but have not fallen back to pre-pandemic levels, notably as concerns the need for skilled labour in industry.

The relationship between the unemployment rate and the job vacancy rate (known as the Beveridge curve) has come back to a situation similar to that observed before 2020, when a drop in the job vacancy rate was accompanied by an increase in the unemployment rate. This suggests that any further easing of the labour market in the coming months will result in higher unemployment. We expect the unemployment rate to continue to rise in the coming months, to around 4.8% at the end of 2024.

The inactivity rate in the UK has been abnormally high since COVID and has continued to rise, having increased 389,000 YoY to 22.1% of the population aged between 16 and 64. This trend is attributed to an increase in long-term illnesses and the number of students. Movements in the composition of the population (and the age pyramid in particular) also appear to be contributing to the increase in the non-working and unemployment rates. The low unemployment rate can be explained in part by the low participation rate, as people leaving the labour market are obviously not counted as unemployed. *Brexit* has not helped in this respect. The exit from the single market has generated a labour shortage in some activity sectors that an increase in non-EU immigration has failed to offset, thereby putting extra pressure on wages.

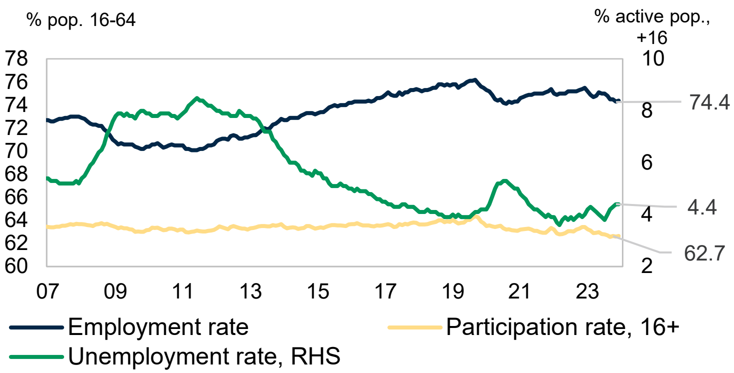
The rebalancing of labour demand and supply, as well as diminishing inflation expectations (which are trending in line with actual inflation), have resulted in a moderation in wage growth. Although the unemployment rate was stable in May compared with April, wage growth slowed to 5.7% in the three months to end-May after holding steady at 6% between December and April. Wage growth slowed more in the private sector (to 5.6% in the three months to end-May from 5.9% in the three months to end-April) but remains strong owing to persistent pressure from past price shocks (second-round effects). Individuals are seeking to offset price (and interest-rate) shocks to maintain their living standards by renegotiating pay increases. Wages have grown the most in manufacturing and finance (6.7%) and in the public sector (6.5%).

With the job market continuing to ease, this moderation in wage growth should reassure the BoE as to the outlook for inflation in services. It may also encourage some Monetary Policy Committee members to join the "*dovish*" camp in August and vote for an initial rate cut. Yet the stabilisation of service inflation in June poses the risk of a further delay in monetary easing.

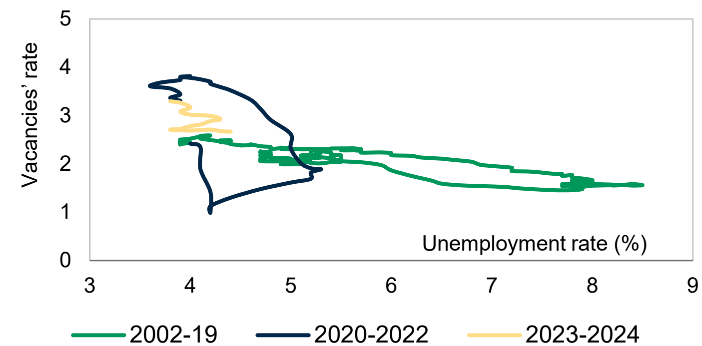
LABOUR MARKET

EASING CONTINUES, BUT WAGE GROWTH REMAINS HIGH

The unemployment rate is rising while the participation rate is falling

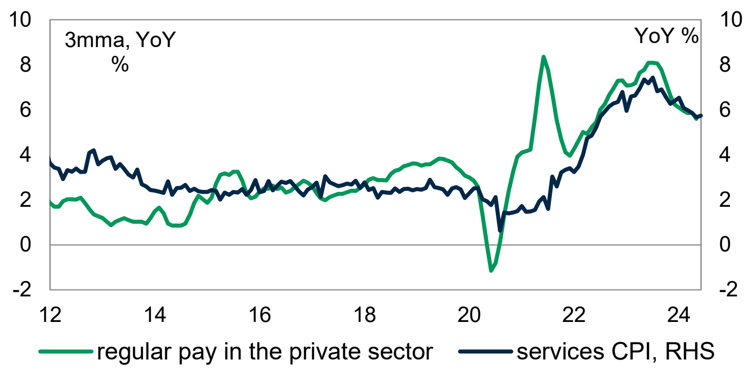


The Beveridge curve: towards a further rise in unemployment

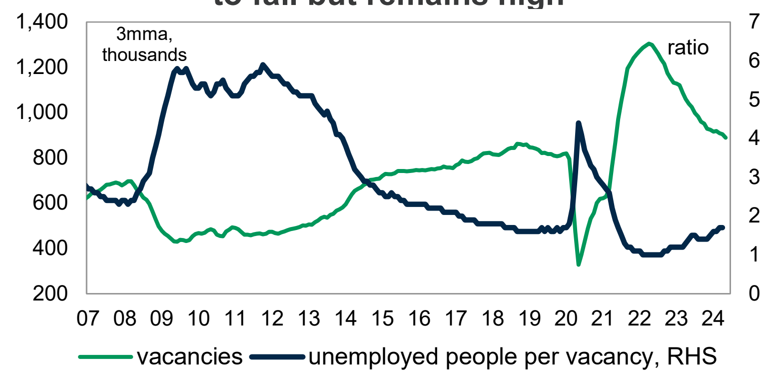


Note: The vacancy rate is calculated as the ratio between the number of vacancies and the sum between employment and the number of vacancies in a given period.

Wage growth continues to decline gradually



Demand for labour continues to fall but remains high

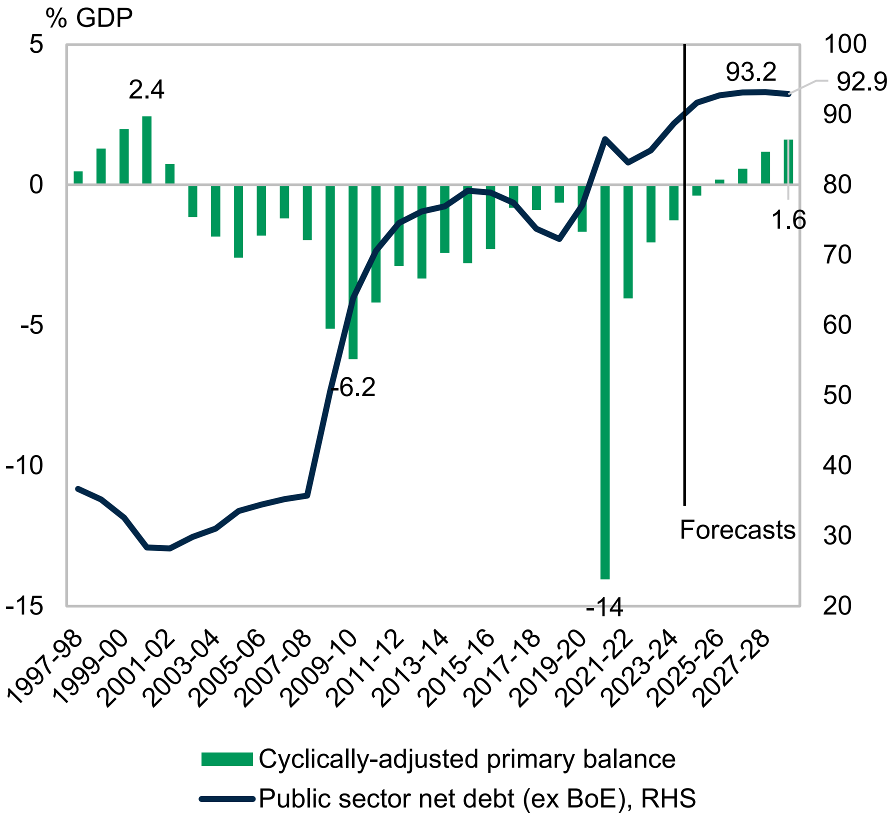


Sources: ONS, Crédit Agricole S.A./ECO.

PUBLIC FINANCES

A COMPLICATED BUDGETARY SITUATION

Stabilising the debt ratio requires primary surpluses of 1.5% in the long term



Sources: OBR EFO March 2024, Crédit Agricole S.A./ECO.

Labour has committed to the previous government's budgetary rule according to which the debt-to-GDP ratio (measured by public sector net debt ex BoE) has to be reduced by the fifth year of the forecast horizon. It has also promised to fund any increase in the day-to-day public expenditure through additional tax revenues and to borrow solely to finance an increase in public investment.

According to the latest OBR forecast in March, public sector net debt ex BoE will decline only in the last year of the forecast (FY2028/29), to 92.9% of GDP, after peaking at 93.2% of GDP in FY2027/28, for a decrease of GBP9bn. Furthermore, this implies substantial efforts in terms of tax increases and cuts in public spending. The cyclically-adjusted primary balance will have to exceed 1.5% of GDP over the long run, something which the UK has not observed since FY2000/01.

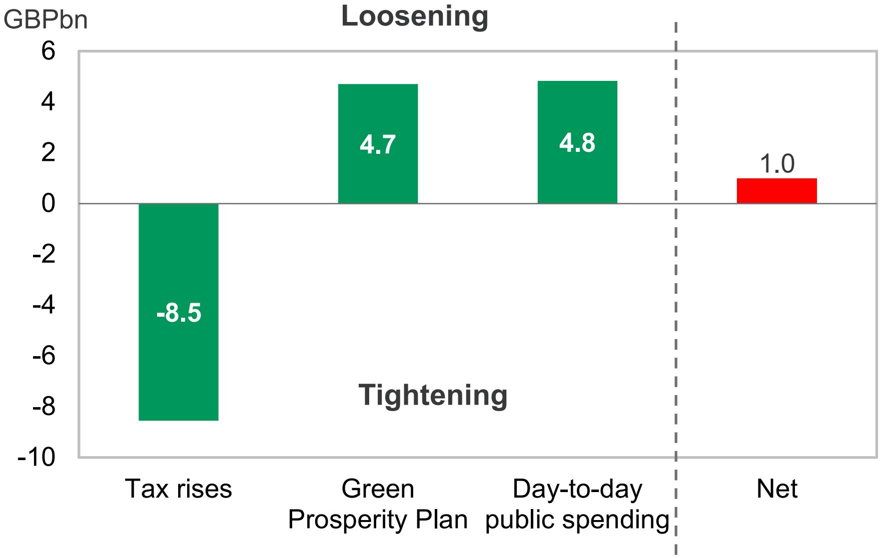
Room for manoeuvre has rarely been so tight since 2010. Moreover, several factors are likely to erode it, potentially putting the debt-to-GDP ratio on upward path:

- The debt servicing cost will be revised upwards owing to higher-than-expected inflation and higher interest rate expectations than expected last March.
- The OBR's productivity growth forecasts (1.1% per year vs. an average of 0.6% per year in the ten years before COVID) may be revised downwards.
- Additional costs have become clearer since the OBR's March forecast, inc one-off compensation of the victims of infected blood products (~GBP10bn) and increased spending on asylum applications and migration policies (GBP4bn/year).
- Labour plans to borrow GBP17.5bn over the next five years for the green transition.

PUBLIC FINANCES

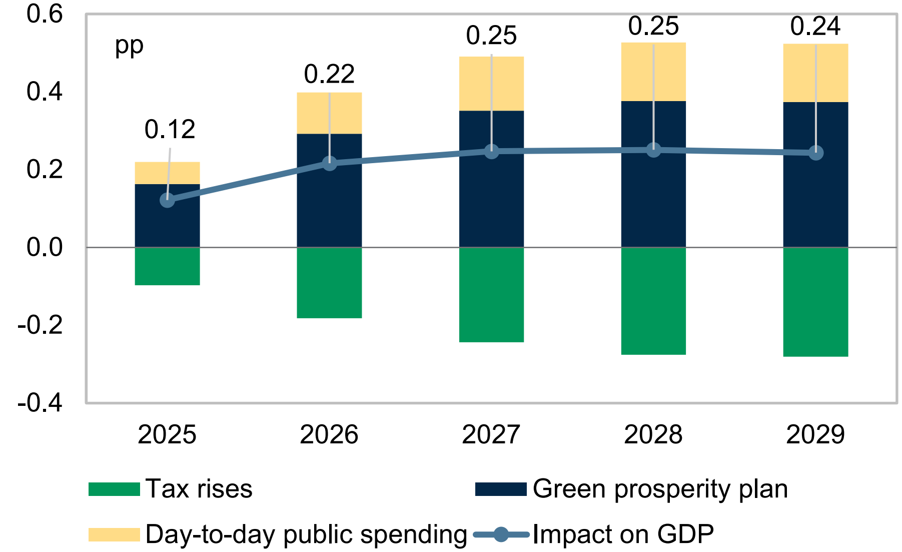
THE NEW GOVERNMENT FOCUSES ON FISCAL DISCIPLINE

Labour measures: impact on the budget deficit by 2028/29



Sources: Labour Party Manifesto, Crédit Agricole S.A./ECO calculations.

Cumulative impact on real GDP of measures announced in Labour's programme

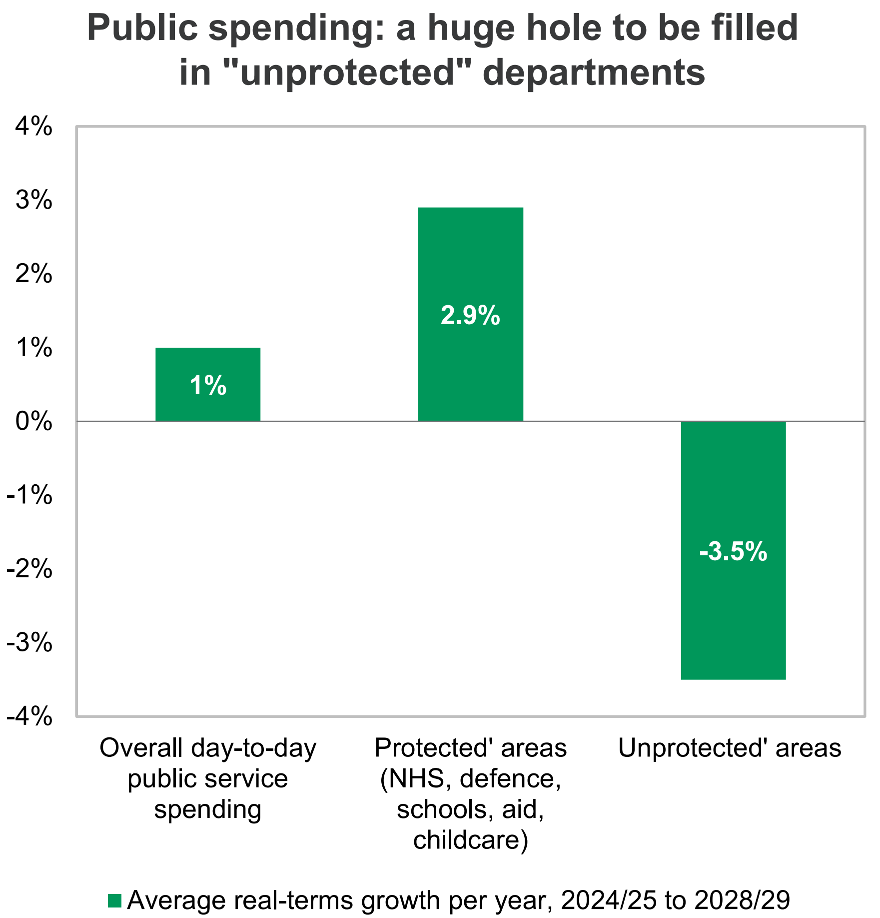


Sources: Labour Party Manifesto, OBR tax multipliers, INSEE, Crédit Agricole S.A./ECO calculations.

By pledging to fund any additional current public spending with additional tax revenues and to reduce the public debt ratio within five years, Labour has opted for a politically cautious stance whereby **any additional fiscal easing it may announce in the short term is likely to be limited**. While Labour's electoral programme clearly supports growth, stability and the EU, the constrained fiscal framework limits the scope for strong fiscal stimulus. The risk here is that tax increases may be larger than those announced before the elections, with a view at the very least to avoiding sharp cuts in "unprotected" ministries (Transport, Justice and the Home Office). **We estimate that all Labour policies combined will have an impact of 0.25pp** (using OBR's tax multipliers) on real GDP by 2028, with an impact of 0.12pp in its first year back in power. This impact is modest but could be amplified by an increase in private investment if Labour succeeds in pulling off its gamble of "unlocking" private investment by fostering a stable political and institutional environment, a closer relationship with the EU, and strategic partnerships between the state and private investors.

PUBLIC FINANCES

TOUGH DECISIONS HAVE TO BE MADE IN TERMS OF PUBLIC SPENDING AND TAXES



Sources: OBR EFO March 2024, Crédit Agricole S.A./ECO.

The spending plans in Labour's manifesto are consistent with the commitment to fiscal discipline: GBP4.8bn of extra spending per year on public services (including health and social care, tax collection, education, childcare, family allowances and planning) to be more than fully financed by anti-tax avoidance measures (GBP5.2bn per year) and a few tax increases affecting a minority only (such as VAT in private schools and higher taxes for non-residents).

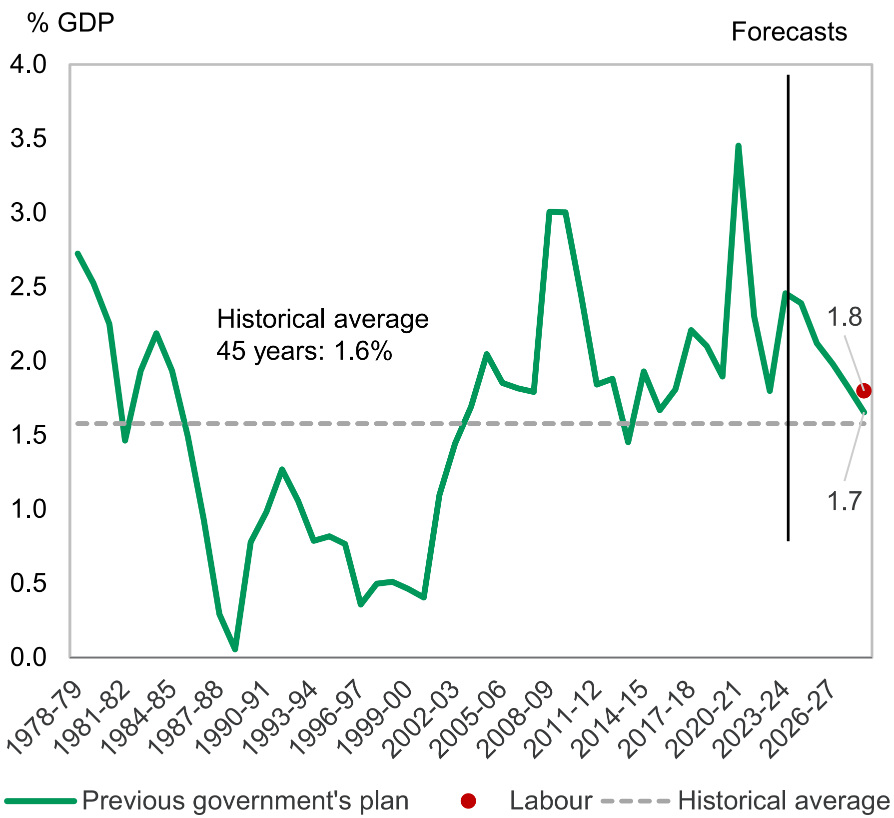
However, Chancellor of the Exchequer Rachel Reeves will have some difficult decisions to make. In particular, she has yet to explain how she intends to solve the problem with the considerable cuts to be made in "unprotected" services (estimated at between 1.9% and 3.5% per year in real terms by 2028/29, or between GBP10bn and GBP20bn by 2028/29) stemming from the public expenditure plans left behind by the previous government. These cuts will be extremely difficult to implement. The Chancellor has three options:

- agree to implement the cuts in public spending planned by the outgoing government;
- increase taxes by more than planned, bearing in mind that Labour has ruled out any future increase in key taxes such as income tax, *National Insurance contributions*, VAT (except on education in private schools) and the main corporate tax rate;
- borrow more, which would most certainly mean breaching the budget rule.

Ms. Reeves will probably have no choice but to increase spending, financed by an increase in taxes and duties exceeding the increase announced during the election campaign. She may for example announce an increase in capital gains tax or in wealth tax. **In this case, the fiscal burden (measured by the ratio of tax revenues to GDP) would exceed the post-war record of 37.2% of GDP.**

MAJOR INVESTMENT IN THE GREEN TRANSITION, BUT TO THE DETRIMENT OF OTHER SECTORS

Net public investment set to continue falling between 2024/2025 and 2028/2029



Sources: OBR EFO March 2024, Institute for Fiscal Studies, Crédit Agricole S.A./ECO.

A key thrust of Labour's programme is accelerating the green transition, the aim being to achieve zero-carbon energy by 2030. To that end, Labour plans to invest an additional GBP4.7bn a year on average through 2028/29 in industries that fight against global warming. This would represent a genuine boost to public investment compared to existing plans (GBP8bn per year).

Labour intends to introduce three key initiatives:

- "*Great British Energy*", a new government investment body dedicated to clean energy, with a capitalisation of GBP8.3bn
- "*National Wealth Fund*", with GBP7.3bn initial size (public and private funds) to "invest in ports, hydrogen and industrial clusters in every corner of the country" and "support the most energy intensive sectors to decarbonize".
- "*Warm Homes Plan*", to insulate old homes

These investments will be financed in part by the exceptional tax on oil company profits (extended for five years and increased by 3pp), which Labour says will raise an average GBP1.2bn a year, and also by borrowing (GBP3.5bn a year).

According to IFS estimates, the capital investment spending promised by Labour will not suffice to reverse the downward trend in net public investment. In the absence of additional investment in "non-green" industries, total public investment will continue to decline in real terms and as a share of national income.

PUBLIC FINANCES

LABOUR PROGRAMME

Politics	Headline commitments
Taxes	Close tax loopholes for non-domiciled persons (raising an estimated GBP5.2bn per the manifesto) and on carried interest for pr ivate equity (GBP565mn).
	Applying VAT and business rates to private schools (GBP1.5bn)
	Windfall tax on large oil and gas firms (GBP1.2bn)
	Commitment to not raise headline tax rates
Workforce	Introduce legislation within 100 days of entering government including "banning exploitative zero hours contracts; ending fire and rehire; and introducing basic rights from day one to parental leave, sick pay, and protection from unfair dismissal."
Immigration	Reform the points based immigration system so that it is fair and properly managed, with appropriate restrictions on visas, and by linking immigration and skills policy.
	Create a new Boarder Security Command, funded by the cancellation of the Rwanda scheme
Energy/Green transition	Zero carbon energy by 2030, "accelerating net zero"
	Not issue new licenses for North Sea oil & gas exploration but honour existing ones
	Ban internal combustion engine cars by 2030 (vs 2035 under Conservative party policy)
	Invest in the green transition via the Green Prosperity Plan, creating 650,000 jobs by 2030, funded by extending the energy profits levy until the end of the next parliament and increasing the rate on the levy by 3pp.
	By 2030: double onshore wind, triple solar power, quadruple offshore wind.
	Establish Great British Energy, capitalised with GBP8.3bn over the next parliament, to co invest in new technologies.
	Mandate UK regulated financial institutions to "develop and implement credible transition plans that align with the 1.5 C goal of the Paris Agreement."
Health & social care	Eliminate elective waiting times above 18 weeks by the end of the next parliament.
	Deliver the NHS Long Term Worforce Plan and the New Hospitals Programme.
	Additional GBP1.8bn/year by 2028/29 for the NHS (covers previously announced policies including doubling the number of CT and MRI scanners in the NHS and recruiting 8,500 new mental health staff). This additional spending is worth less than 1% of the GBP192bn spent on health and social care in England this financial year.
Infrastructure & Housing	Develop a ten year infrastructure strategy.
	Reform the planification system: simplify processes and remove red tape.
	Target of 1.5mn homes a year in the next parliament. Restore mandatory house building targets. Plan the next generation of New Towns.
Defence	Conduct a strategic defence review within the first year in government and set out a path to spending 2.5% of GDP on defence.
	Seek a new UK EU security pact.
Trade	Build on trade ties with the EU via specific agreements in areas such as veterinary agreements, touring artists, and seek mutual recognition of professional qualification, but ruling out returning to the single market or customs union.

Sources: BMI, Labour Party Manifesto, Crédit Agricole S.A./ECO.

RISK OF A FURTHER POSTPONEMENT OF MONETARY POLICY EASING DUE TO STICKINESS IN SERVICES INFLATION

The BoE maintained the *status quo* on the key rate (at 5.25%) at its last meeting in June, but there was a clear *dovish* shift in the Monetary Policy Committee (MPC).

In June, two MPC members, Swati Dhingra and Dave Ramsden, voted for a 25bp cut for the second time in a row, with **some MPC members finding the decision "well balanced"**. For other, less accommodative members, the surprises stemming from services inflation mean that second-round effects will be more persistent on core inflation. They believe that "more evidence of diminishing inflation persistence was needed before reducing the degree of monetary policy restrictiveness". Three more MPC members will need to vote in favour of a rate cut if those favouring monetary easing are to form a majority.

CPI inflation reached the BoE target in May (2.0%) and was stable in June, slightly above the BoE's forecast (2.0% on average for the quarter vs. 2.1% actual). Services inflation held steady at 5.7% YoY in June relative to May (when the BoE expected a drop to 5.3% YoY) and thus remains excessive. This rigidity is a product of the elevated wage growth, but it also results in part from rises in the regulated and indexed components of the basket (such as phone and broadband tariffs), which have no impact on inflation in the medium term. Among dovish developments, inflation on non-energy industrial goods (-0.1% YoY in May and June) has been lower than expected while leading indicators continue to suggest diminishing pressure on production costs.

Wage inflation, another key indicator in monetary policy owing to its relationship with services inflation, stabilised at 6.0% YoY in the three months to end-April before falling to 5.7% YoY in May, which is still too high to be compatible with the BoE's inflation target. In the private sector, wage growth continued to gradually moderate, declining to 5.6% YoY in the three months to end-May. The increase in the National Living Wage in April (by 9.8% to 11.44 £ for workers aged 21 and over) played a role in wage and price growth, albeit probably temporary. After a strong rebound in April, in May the input price component of the services PMI fell back to close to its historical average. Furthermore, household inflation expectations have continued to moderate, mostly returning to levels close to historical averages. Because inflation expectations play an important role in wage agreements, this development bodes well for continued wage moderation, especially as the unemployment rate has risen since the beginning of the year.

Given the continued easing in the labour market and the prospects of below-target inflation in the medium term (2.6% in Q4 2024, 2.3% in Q4 2025 and 1.6% in Q4 2026 according to the BoE's May forecasts), **our central scenario is for an extremely gradual cycle of monetary policy easing, to begin on 1 August, though the likelihood of a further postponement of the initial rate cut is significant.** The BoE remains dependent on data and the latest inflation and wage figures are probably still too high for some MPC members.

CENTRAL SCENARIO: START OF A SLUGGISH GROWTH CYCLE

Downside risks to activity

Tail-risks linked to the majority Labour government: slippage in budgetary discipline (leading to a fresh crisis on the gilt markets) or, on the contrary, excessive austerity

Escalation of geopolitical conflicts and new inflation spike

Persistently strict financing conditions

Weaker-than-expected global growth

Upside risks to activity

The promise of political stability with Labour's majority government prompts a swift recovery in confidence and private investment

A decline in geopolitical risks

No recession in the US

No shock to global trade

THE SCENARIO IN FIGURES

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	0.9	1.4	0.2	0.0	-0.1	-0.3	0.7	0.3	0.4	0.4	0.3	0.4	0.4	0.4
household consumption	0.2	0.6	2.0	0.9	0.4	-0.9	-0.1	0.4	0.4	0.4	0.5	0.5	0.5	0.6	0.6
public consumption	0.5	1.6	1.6	-0.8	2.2	1.1	0.1	0.0	0.2	0.4	0.4	0.4	0.4	0.4	0.4
investment	2.2	1.9	3.4	2.2	-1.2	-1.4	0.9	0.9	1.0	0.8	0.8	0.8	0.8	1.0	1.0
change in inventories*	-0.9	-0.7	0.0	-0.2	0.0	-0.5	0.2	-0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
net exports*	0.3	0.5	-0.7	-1.8	-0.6	0.6	-0.2	0.6	0.0	-0.1	-0.1	-0.2	-0.2	-0.2	-0.2
Unemployment rate (ILO)	4.1	4.6	4.7	3.9	4.3	4.0	4.0	4.4	4.5	4.6	4.8	4.8	4.7	4.6	4.6
Inflation (CPI, YoY%)	7.3	2.7	2.1	10.2	8.4	6.7	4.2	3.5	2.1	2.4	2.7	2.5	2.2	1.9	1.8
Core CPI (YoY%)	6.2	3.7	2.3	6.1	6.9	6.4	5.3	4.6	3.6	3.2	3.4	3.2	2.2	1.9	1.8
Current account (% GDP)	-3.3	-1.4	-2.0	-3.2	-4.1	-2.7	-3.1	-3.1	-	-	-	-	-	-	-
General gov. balance, % GDP	-5.9	-3.8	-2.8	-	-	-	-	-	-	-	-	-	-	-	-
Public debt % GDP	101.3	103.6	105.7	-	-	-	-	-	-	-	-	-	-	-	-
Bank rate**	5.25	4.75	3.75	4.25	5.00	5.25	5.25	5.25	5.25	5.00	4.75	4.50	4.25	4.00	3.75

** Contributions to GDP growth*

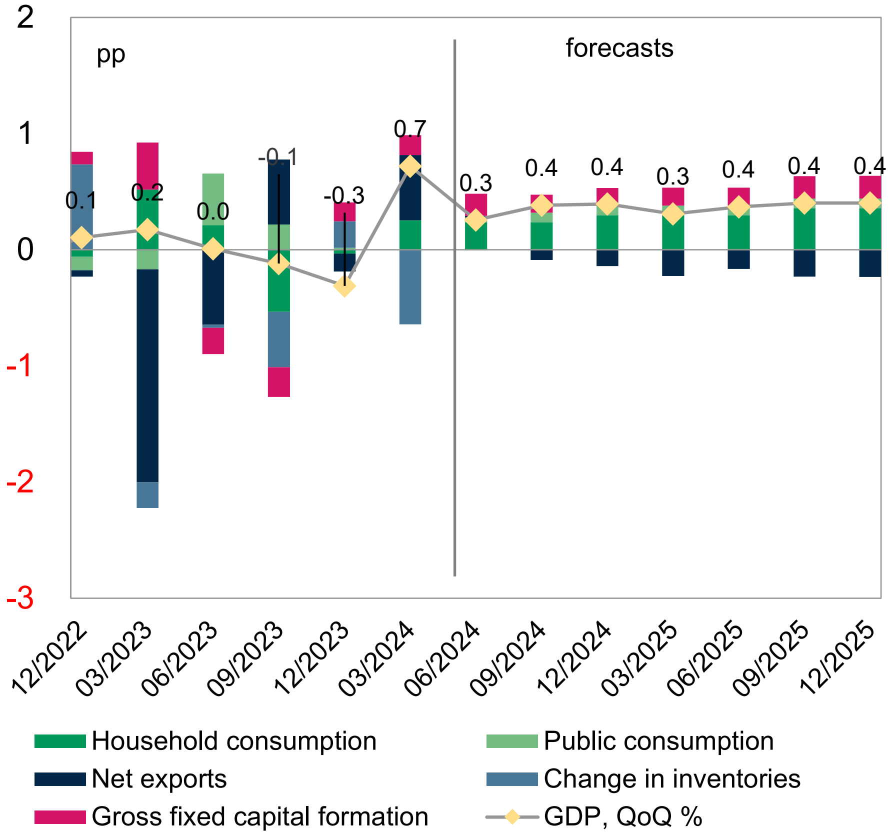
*** End of period*

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

THE SCENARIO IN PICTURES

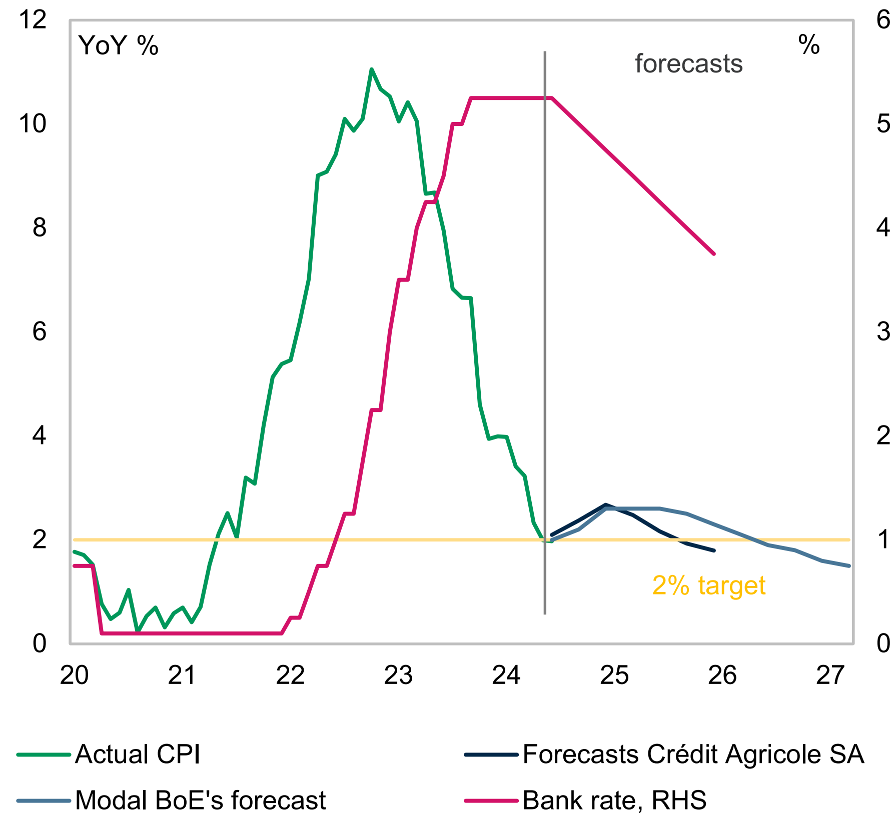
SLOWDOWN IN THE SHORT TERM AFTER A STRONG START TO THE YEAR

Growth to be driven by households and private investment…



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

… thanks to the fall in inflation and upcoming cuts in the key rate

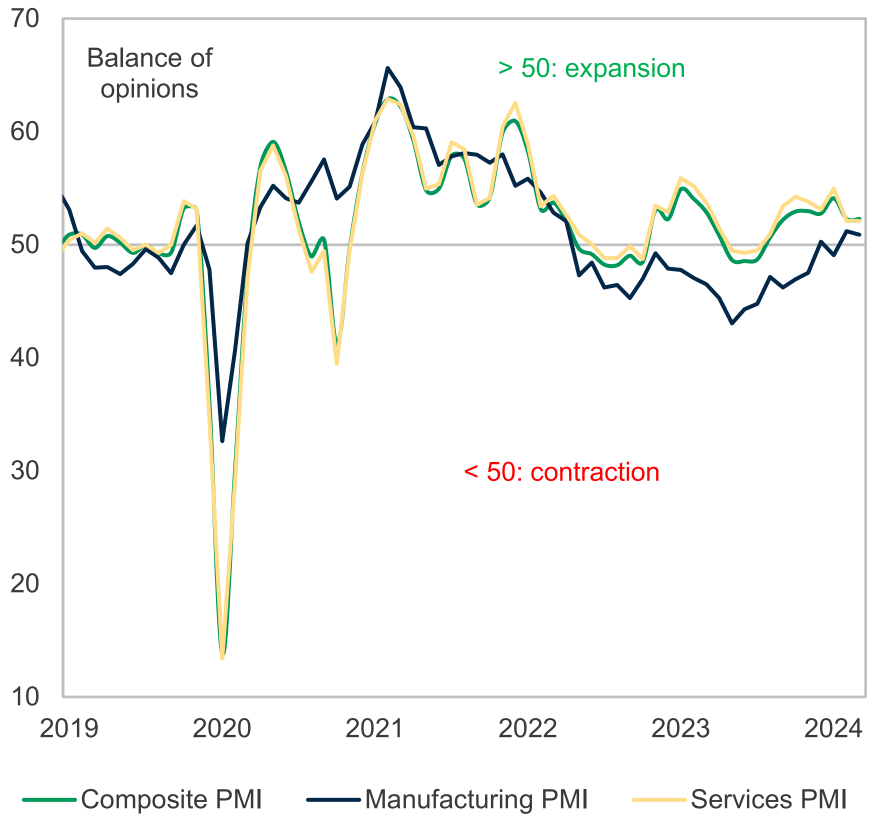


Sources: ONS, BoE Monetary Policy Report of May 2024, Crédit Agricole S.A./ECO (forecasts for end-2025).

THE SCENARIO IN PICTURES

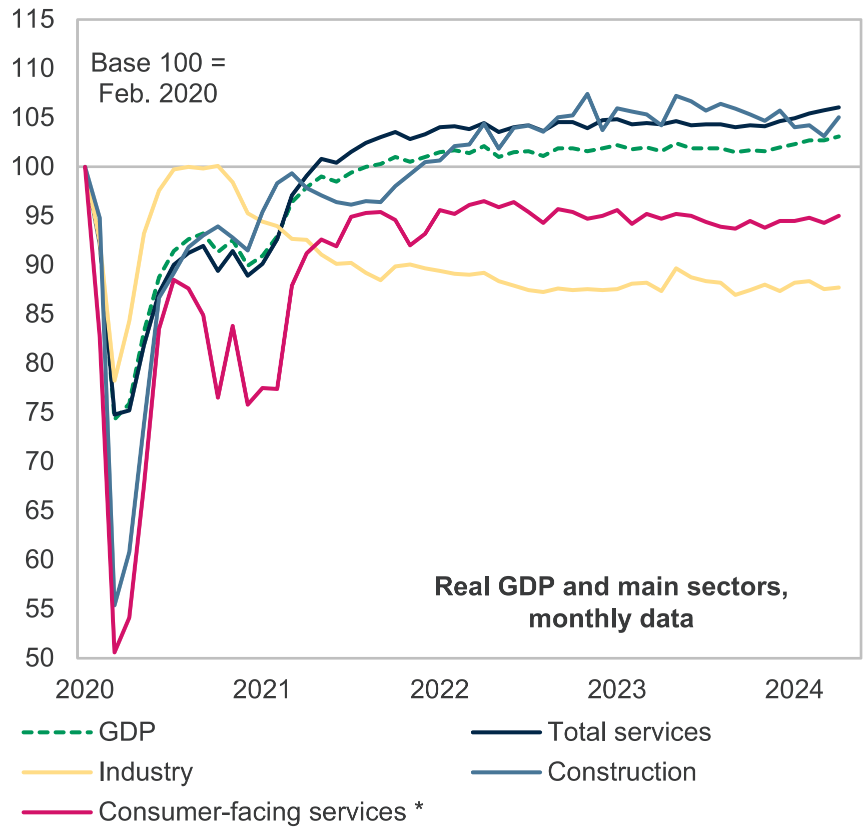
GROWTH DRIVEN BY SERVICES

Business confidence surveys suggest a slight slowdown in the short term



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

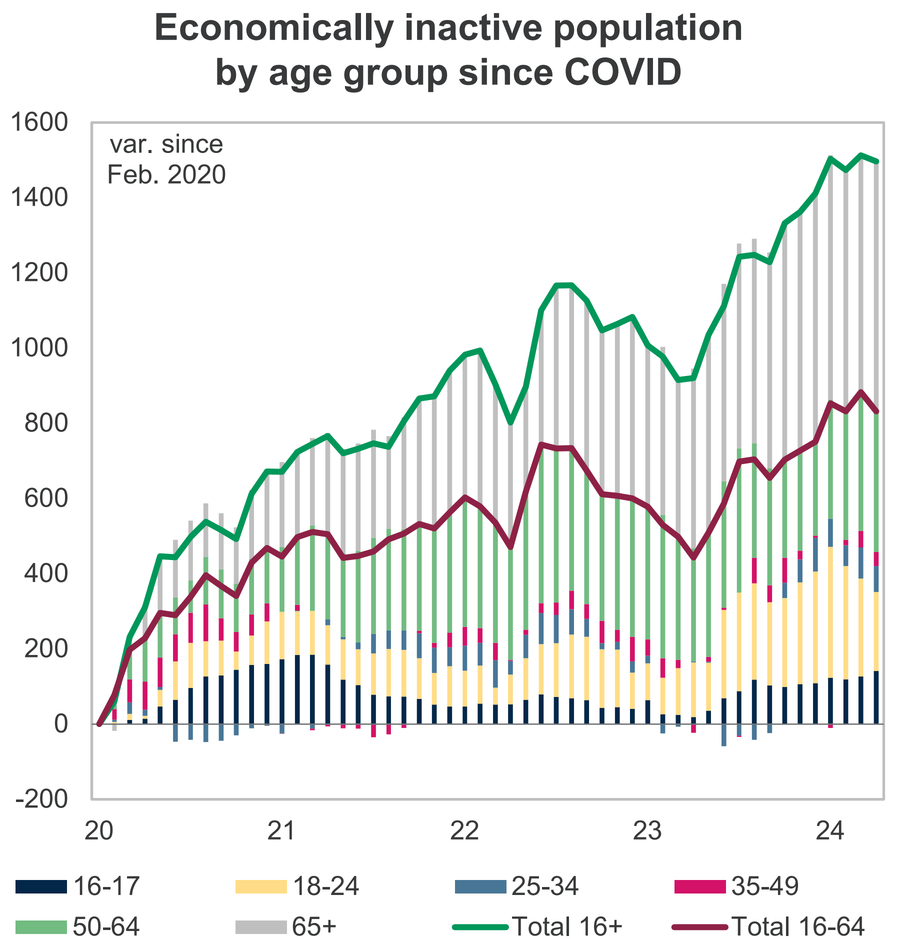
GDP data at end-May surprised on the upside



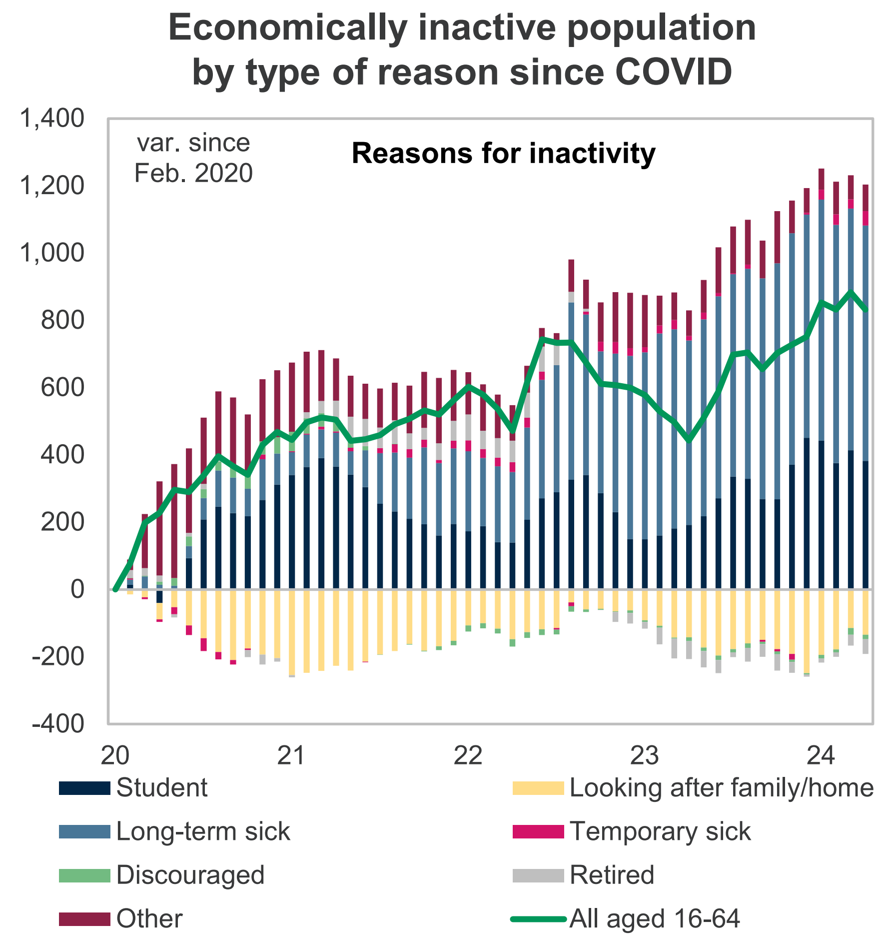
Sources: ONS, S&P Global, Crédit Agricole S.A./ECO.

THE SCENARIO IN PICTURES

LABOUR MARKET: LOW SUPPLY DUE TO AN EXCESS OF INACTIVE WORKERS



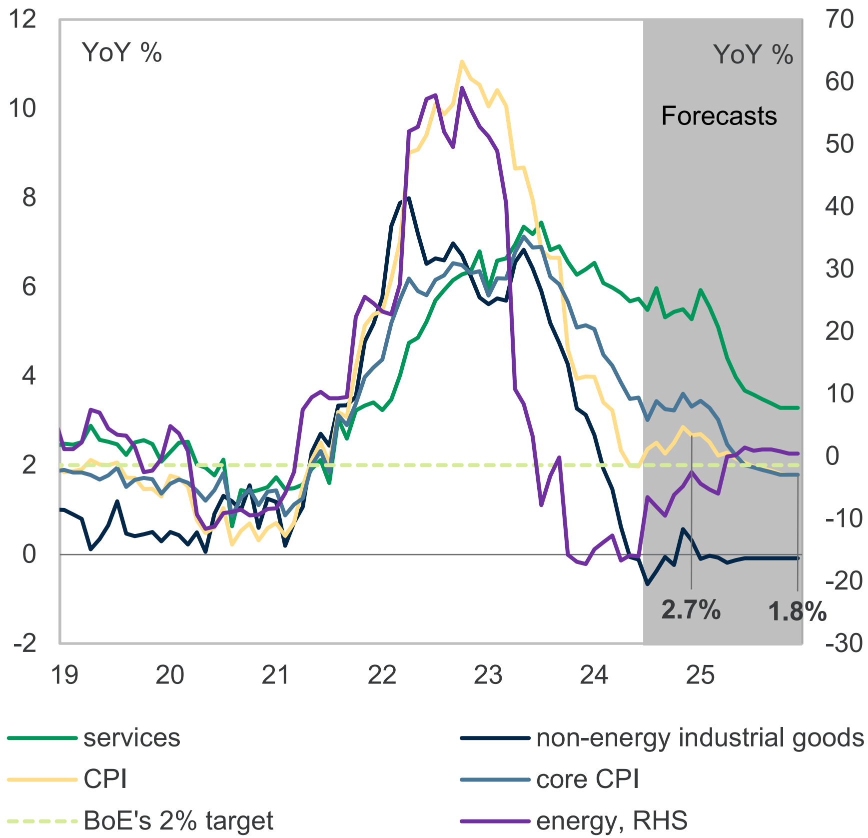
Sources: ONS, Crédit Agricole S.A./ECO.



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

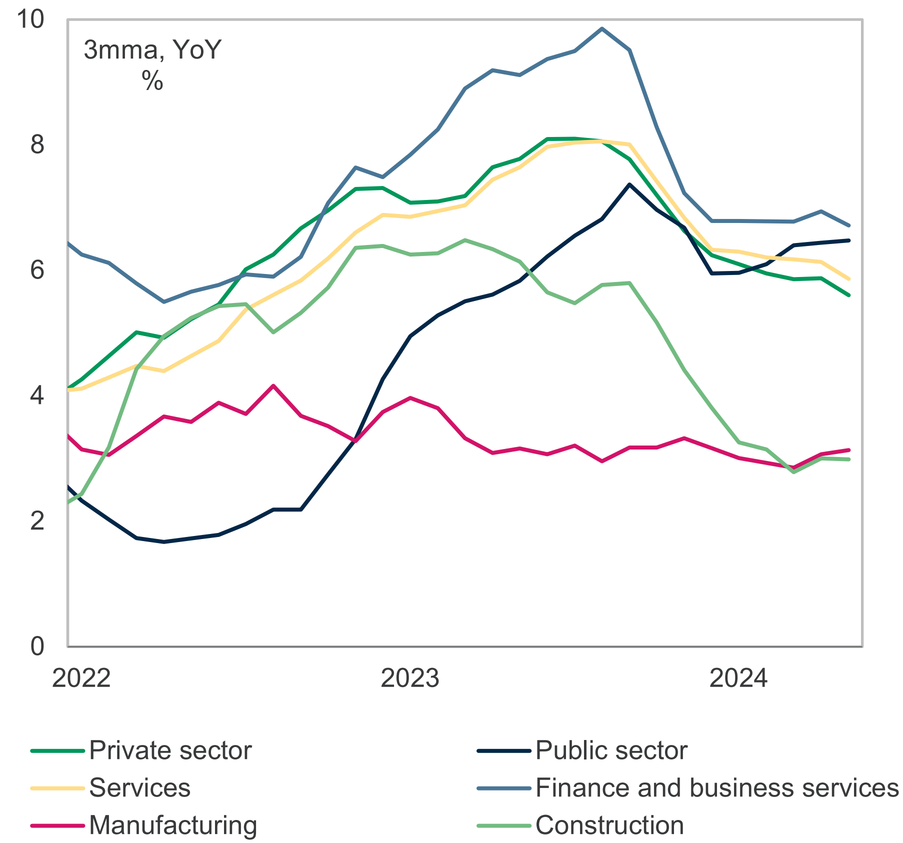
INFLATION: RETURNING TO THE TARGET WILL NOT SUFFICE TO DRIVE RATES DOWN

Inflation (2% in May and June) is expected to accelerate in the short term



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

Wage growth is the highest in services, particularly in finance



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

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