

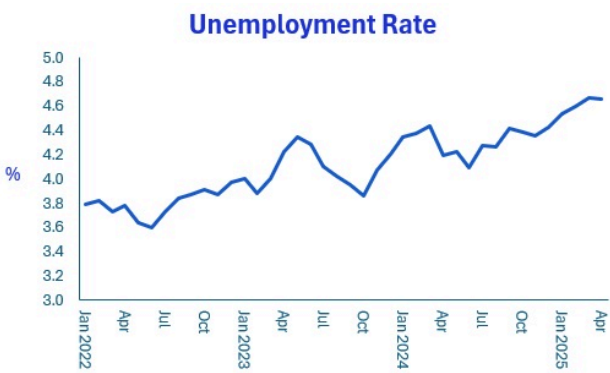


UK Labour Market Loosens Further, Q2 GDP Growth Exceeds Expectations

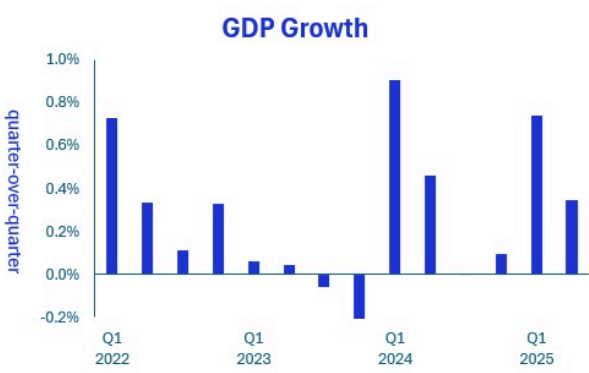
*This week the ONS published labour market and GDP data for Q2. Unemployment came in at 4.7%, up from 4.5% in Q1, reflecting ongoing subdued jobs growth, while pay growth decelerated further. The GDP data surprised slightly on the upside – most analysts were expecting a quarterly gain of only 0.1% in Q2 while in the end it came in at +0.3%. However, the composition was perhaps a bit softer than the headline figure suggests, with consumption growth subdued and business investment down. Overall, the data will not have surprised the Bank of England – they released new forecasts with their Monetary Policy Report last week which envisage GDP growth of 1.25% this year, with unemployment projected to rise to just under 5% in early 2026. The market is now not expecting another 25bp rate cut until February next year on foot of recent signs inflation is proving somewhat more persistent than hoped.*

**Labour market continues to loosen:** The data for Q2 showed the unemployment rate at 4.7%, unchanged from the March-May period, though up from 4.4% in Q4 last year and 4.5% in Q1 this year. This was in line with Bank of England projections. Earnings gains decelerated further, with total pay growth for Q2 coming in at 4.6%, down from 5.6% in Q1, while private sector pay growth fell to 4.7% in Q2 from 5.5% in Q1. However, the data continues to send contradictory signals in relation to employment growth. The Labour Force Series (LFS), a survey based measure, continues to point to robust employment growth, while the payrolls data, which is based on tax returns, points to ongoing declines in employment. While the payrolls data is somewhat less comprehensive than the LFS data it is more timely and may capture short term fluctuations more accurately. Overall, in light of this and given the steady though gradual rise in unemployment it seems likely jobs growth is close to flat of late.

**Output growth surprises on the upside in Q2:** GDP growth came in at 0.3% quarter-on-quarter in Q2, a touch higher than expectations (0.1%) and following on from a 0.7% quarterly gain in Q1. On a monthly basis output was up 0.4% in June, a stronger than anticipated rebound - with services, production and construction output all expanding on the month. In annual terms output was up 1.2% in Q2, with consumer spending up 1.3%, government consumption up 1.7%, investment up 1.3%, exports up 3% and imports up 3.3%. However, the details of the quarterly gain were perhaps a little softer than the headline figure of +0.3% suggests, with growth driven by government spending and volatile components such as inventories, while consumer spending growth was more muted (+0.1%) and business investment fell on the quarter (though following a strong gain in Q1). Overall, we remain comfortable with our forecast for moderate below trend growth this year, picking up a bit next year, though there are now slight upside risks to our 2025 growth projection of 1.1%.



Source: ONS



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