

Article

Quarterly economic commentary: July to September 2022

Economic commentary for the latest quarterly national accounts, prices and labour market indicators.

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Release date:
22 December 2022

Next release:
To be announced

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1 . Main points

- Gross domestic product (GDP) contracted by a revised 0.3% in Quarter 3 (July to September); real household disposable income has now fallen for four consecutive quarters reflecting the effects of higher price inflation.
- There has been sharp narrowing in how much the UK has been borrowing from the rest of the world (3.1% of GDP), although much of the narrowing reflects volatile movements in non-monetary gold.
- Labour demand is still high compared with historical levels, but there are some tentative indications of a loosening in the labour market including a slight increase in the unemployment rate to 3.7% in the three months to October 2022, and a further fall in vacancies from record highs.
- Consumer Prices Index (CPI) inflation was 10.7% in the year to November, primarily reflecting higher electricity, gas, and other fuels prices seen throughout 2022, which remains among the highest it has been in around 40 years; core inflation remains elevated.

2 . National Accounts

Gross domestic product (GDP) contracted by a revised 0.3% in Quarter 3 (July to September), as businesses and households continued to face cost and price pressures. There has been a further slowing in the services industries compared with the previous quarter, while there was a broad-based decline in the output produced by the production industries (Figure 1). Inflationary pressures reflected in domestic and international prices have fed through to the economy, including a continued fall in the UK terms of trade. Looking through the recent volatility, [economic output](#) declined by 0.3% in the three months to October. There was a further contraction in underlying retail sales volumes in November 2022, as consumer confidence remains low by historical standards.

Figure 1: There has been a further slowing in services output in Quarter 3 2022, while production and construction output contracted in the latest quarter

Change in UK output, per cent, Quarter 1 2022 to Quarter 3 2022

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Change in UK output, per cent, Quarter 1 2022 to Quarter 3 2022



Source: Office for National Statistics – Quarterly National Accounts

Notes:

1. Quarter 1 refers to January to March, Quarter 2 refers to April to June, Quarter 3 refers to July to September, Quarter 4 refers to October to December

The latest analysis by the [Organisation for Co-operation and Development](#) show the expected effects of the energy crisis, in particularly the effects of high inflation being persistent as the global economy is expected to slow this year and next year. There are still concerns around potential energy shortages and if enforced rationing is imposed, while higher policy interest rates could also be a challenge.

Real household disposable income declined by 0.5% in Quarter 3 2022. This has now fallen for four consecutive quarters, as higher price inflation continues to erode disposable incomes (Figure 2). This has weighed on the volume of household consumption expenditure, which also fell on the quarter.

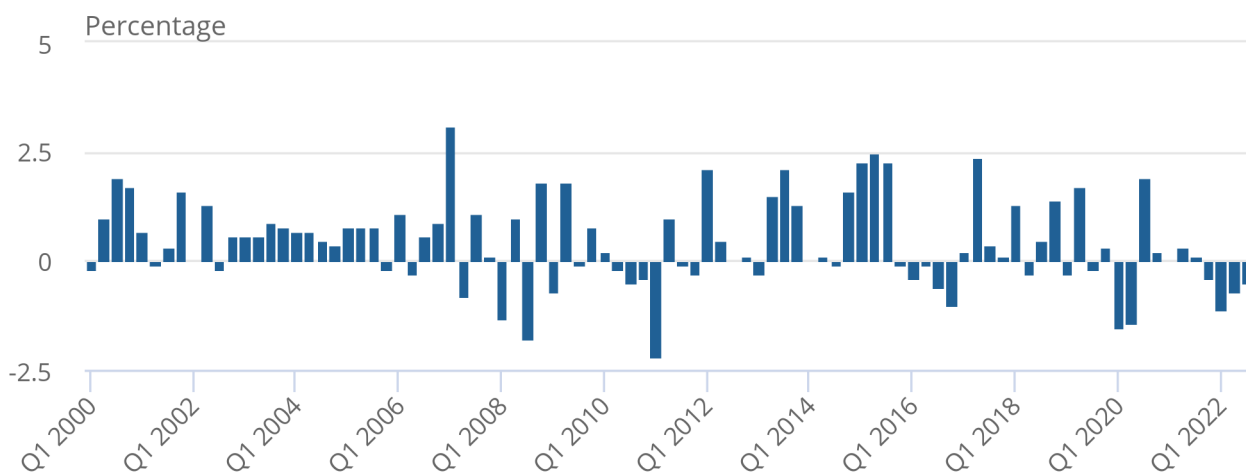
"Forced" savings over the pandemic led to higher levels of accumulated savings, which might give some scope for consumption smoothing over the coming year, although inflation is eroding their real value. There was an increase in the saving ratio in Quarter 3 (9.0%), although this increase might not reflect a change in savings and consumption behaviour. The saving ratio captures the disposable income that is not spent on consumption, but also changes in the equity that households have in pension funds. Movements in financial markets, particularly the price and yield of UK government bonds, have an impact on income earned on these pension funds. However, this tends not to be observed by households as part of their current income. Our [recent findings](#) from the Opinions and Lifestyle Survey (OPN) show that households are spending less on non-essentials and using less fuel in their homes in response to the squeeze on real incomes.

Figure 2: Real disposable income has declined for four consecutive quarters

Change in UK real disposable income, per cent, Quarter 1 2000 to Quarter 3 2022

Figure 2: Real disposable income has declined for four consecutive quarters

Change in UK real disposable income, per cent, Quarter 1 2000 to Quarter 3 2022



Source: Office for National Statistics – Quarterly Sector Accounts

Notes:

1. Inflation is captured by the implied price movements in household consumption expenditure
2. Quarter 1 refers to January to March, Quarter 2 refers to April to June, Quarter 3 refers to July to September, Quarter 4 refers to October to December

In Quarter 3, there was a small increase in loans secured on dwellings. Figures for [October 2022](#) from the Bank of England show that there was a fall in net borrowing of mortgage debt, reflecting an increase in gross repayments. There was an increase in the interest rate paid on newly drawn mortgages and the stock of mortgages, while there was a fall in approvals for house purchases in October.

Private non-financial corporations (PNFCs) continue to be net borrowers in Quarter 3 2022. The increase in their borrowing reflected lower dividend incomes received, and lower foreign direct investment income for UK owners of foreign businesses. There was an offsetting fall in underlying inventories from higher levels of stockpiling this year, which likely reflected the supply chain disruptions in the global economy. Concerns around the slowing in demand, tighter financial conditions and uncertainty has led to a weakening in [investment intentions](#). More [timely figures](#) from The Bank of England show that there was an increase in net repayments of loans by businesses, while there was an increase in cost of borrowing by PNFCs.

Public sector net borrowing excluding public sector banks (PSNB ex) was £22.0 billion in November 2022, which was the highest November borrowing on record. There was higher government expenditure on the year, in part reflecting an increase in payments to households and businesses under the energy support schemes. There was also an increase in cost-of-living payments. Interest payable on public sector net debt (PSND) was also higher on the year. Many of these debt payments are index-linked, so that the high rate of change in the Retail Prices Index is feeding through into higher interest payable.

PSNB ex was £105.4 billion in the financial year to November 2022. The latest forecasts produced by the [Office for Budget Responsibility](#) show that PSNB ex is expected to fall back as a share of GDP by 2027/28, in part reflecting the temporary nature of energy support to households and businesses and the recent tax and spending policies announced.

3 . Balance of Payments

The UK has historically relied on net financial inflows to finance its expenditure. There has been sharp narrowing in how much the UK has been borrowing from the rest of the world (Figure 3). In Quarter 3 (June to September) 2022, the UK had a current account deficit of 3.1% of GDP, although much of the narrowing reflects volatile movements in non-monetary gold. As a store of value, the latest movements might reflect any heightened economic and financial uncertainty.

There has been an underlying widening of the goods trade deficit in recent quarters, as higher energy prices in response to the conflict in Ukraine have increased the value of oil and other fuels goods imports. This has also been reflected in a fall in the UK's terms of trade, as import prices have increased more than export prices over the last year. There is [some evidence](#) that supply-chain problems have continued to ease, although delivery times had not yet normalised, which might have some impact on international trade flows.

Cross-border income flows have also been affected by the energy crisis, where the holding of foreign assets in the oil industry had previously produced higher returns in response to higher oil prices. However, there was a decline in the UK's net investment income flows in Quarter 3, where the UK paid more income to foreign investors on their holdings of financial assets in the UK. There was a fall in net earnings on foreign direct investment (FDI), in part reflecting lower net income on foreign assets in the oil industry.

Figure 3: There has been a narrowing in the UK's net borrowing from the rest of the world in Quarter 3 2022, although this reflects volatile movements in non-monetary gold

UK Current account balance, % of GDP, Quarter 1 2000 to Quarter 3 2022

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UK Current account balance, % of GDP, Quarter 1 2000 to Quarter 3 2022



Source: Office for National Statistics – Balance of Payments

Notes:

1. Quarter 1 refers to January to March, Quarter 2 refers to April to June, Quarter 3 refers to July to September, Quarter 4 refers to October to December

International financial flows tend to be volatile. In recent months, there have been large movements in financial markets reflecting domestic and global factors, potentially including some investor uncertainty around the economic outlook. The [Bank of England](#) explained that "there were signs that foreign investor demand for UK assets weakened in September and early October, but this has since reversed". In Quarter 3, there was a decline in the foreign holding of portfolio investment in the UK, including in UK government debt. This was partially offset by UK investors also reducing their holdings of portfolio investment in the rest of the world.

4 . Labour market

Labour demand is still high compared to historical levels, implying limited spare capacity in the labour market. However, as the economy is now slowing, there are some tentative indications of a loosening. There was a slight increase in the unemployment rate to 3.7% in the three months to October 2022, driven by people who have been unemployed for up to 6 months. There was a further fall in vacancies from record highs, including in the wholesale and retail and accommodation and food industries. Survey evidence points to how [uncertainty](#) over the economy impacted recruitment in November. There was also a small increase in redundancy levels.

The number of working days lost due to industrial action in October was the most days lost in a single month since 2011. Inactivity rates are still elevated to prior to the coronavirus pandemic. [Recent analysis](#) shows that the UK is one of a few countries that still have a relatively higher inactivity rate as of Quarter 2 (April to June) 2022. The latest figures show there are 565,000 more people in inactivity than the three-month period of December 2019 to February 2020. However, there was a slight decline in inactivity amongst those aged 50 to 64 years and amongst the long-term sick and early retirees in the latest three months. [New findings](#) show that financial considerations are important for those considering returning to the labour force.

Regular nominal earnings increased by an annual rate of 6.1% in the three months to October 2022. Excluding the pandemic period, this is the highest rate of wage inflation on record, reflecting the tightness of the labour market and higher inflation expectations. The gap between public and private pay growth is at its largest on record, excluding the pandemic period. However, real regular earnings fell by 2.7% over the same period, reflecting the squeeze of current inflationary pressures (Figure 4). [New findings](#) show that the outlook for pay settlements next year is more uncertain, in part reflecting the effects of current high inflation but also weaker labour market.

Figure 4: High inflation continues to bite on real regular earnings

Annual change in real and nominal regular earnings, January to March 2001 – August to October 2022, per cent

Figure 4: High inflation continues to bite on real regular earnings

Annual change in real and nominal regular earnings, January to March 2001 – August to October 2022, per cent



Source: Office for National Statistics – Labour Market Overview

Notes:

1. Quarter 1 refers to January to March, Quarter 2 refers to April to June, Quarter 3 refers to July to September, Quarter 4 refers to October to December

5 . Prices

[Consumer price inflation](#) remains among the highest it has been in around 40 years, reflecting the increases in global energy and tradable goods prices over the last year. Our [recent analysis](#) has highlighted that the common trend in global inflation of late is relatively high, reflecting how energy components are of high importance for all economies and have relatively inelastic demand, while prices are typically set globally so most economies are subject to price shocks at the same time. [Survey evidence](#) from The Bank of England highlights that input cost inflation remains high, although it was becoming more challenging for businesses to increase prices.

Consumer Prices Index (CPI) inflation was 10.7% in the year to November, primarily reflecting higher electricity, gas, and other fuels prices seen throughout 2022. The introduction of the [Energy Price Guarantee](#) (EPG), which caps annual energy prices for the typical household, has limited the extent to which the CPI inflation would have increased. The price of food and non-alcoholic beverages was also 16.4% higher over this 12-month period. There was a slowing in the 12-month rate of consumer price inflation from October to November, which largely reflected downward effects from motor fuels and second-hand cars.

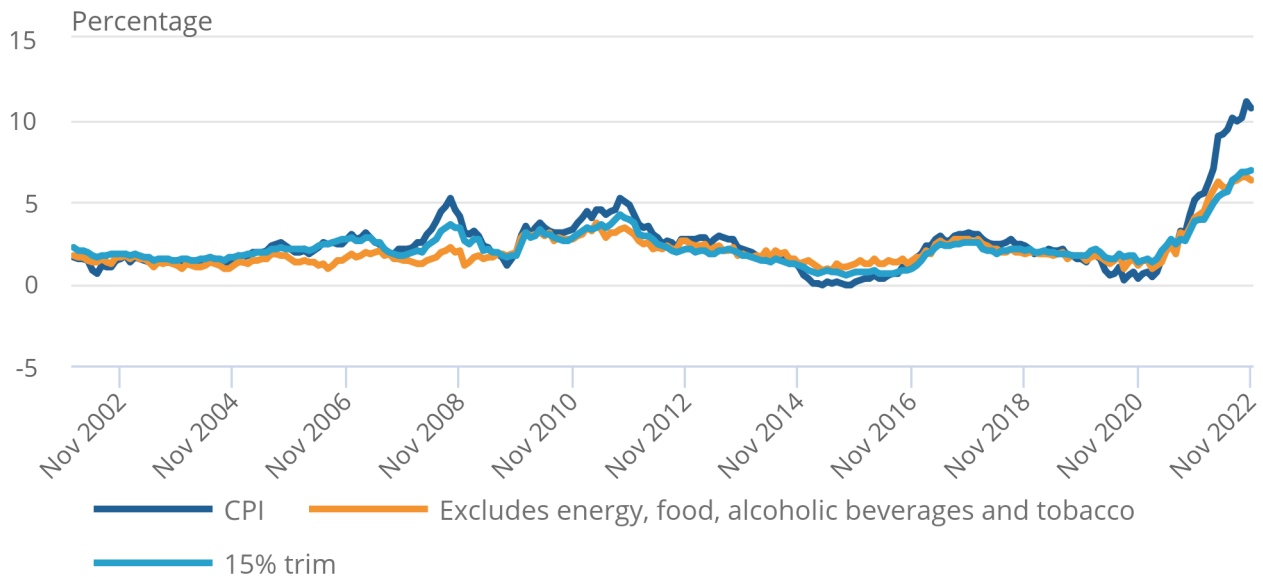
Core inflation is often a better indicator of the underlying rate of inflation. Figure 5 shows that the official core inflation, which removes the price movements of energy, food, alcoholic beverages, and tobacco, is still elevated at 6.3%. Our new [trimmed-mean measure](#) of core inflation removes those goods and services that record the most volatile price changes at any point in time. This also indicates that there are broader inflationary pressures in the economy (6.9%). The [latest estimates](#) from the Bank of England show that one-year ahead inflation expectations remain high by recent historical standards (4.8%), while five-year ahead inflation expectations are at 3.3%.

Figure 5: Consumer Prices Index (CPI) inflation remains elevated in November 2022

Annual change in real and nominal regular earnings, January to March 2001 to August to October 2022, per cent

Figure 5: Consumer Prices Index (CPI) inflation remains elevated in November 2022

Annual change in real and nominal regular earnings, January to March 2001 to August to October 2022, per cent



Source: Office for National Statistics – Consumer Price Inflation

Notes:

1. The official core CPI inflation measure excludes energy, food, alcoholic beverages, and tobacco.
2. The alternative trimmed mean core inflation measure removes the top 15% and bottom 15% of the distribution of CPI item price changes in every month.

6 . Related links

[Coronavirus \(COVID-19\)](#) Web page | Updated as and when data are available Our latest data and analysis on the impact of the coronavirus (COVID-19) on the UK economy and population. This is the hub for all special coronavirus-related publications, including the fortnightly Business Insights and Conditions Survey (BICS).

[GDP quarterly national accounts, UK: July to September 2022](#) Bulletin | Released 22 December 2022 Revised quarterly estimate of gross domestic product (GDP) for the UK. Uses additional data to provide a more precise indication of economic growth than the first estimate.

[Balance of payments, UK: July to September 2022](#) Bulletin | Released 22 December 2022 A measure of cross-border transactions between the UK and rest of the world. Includes trade, income, capital transfers and foreign assets and liabilities.

[Public sector finances, UK: November 2022](#) Bulletin | Released 21 December 2022 How the relationship between UK public sector monthly income and expenditure leads to changes in deficit and debt.

[Labour market overview, UK: December 2022](#) Bulletin | Released 13 December 2022 Estimates of employment, unemployment, economic inactivity, and other employment-related statistics for the UK.

[Consumer price inflation, UK: November 2022](#) Bulletin | Released 14 December 2022 Price indices, percentage changes and weights for the different measures of consumer price inflation.

7 . Cite this article

Office for National Statistics (ONS), released 22 December 2022, ONS website, article, [Quarterly economic commentary: July to September 2022](#)