

UK economic momentum slows further but budget boost is coming

UK GDP fell again in October, though that probably exaggerates the extent of the recent slowdown in economic momentum. Growth is likely to outpace much of Western Europe next year following the recent budget, though the downside risks are more obvious than the upside



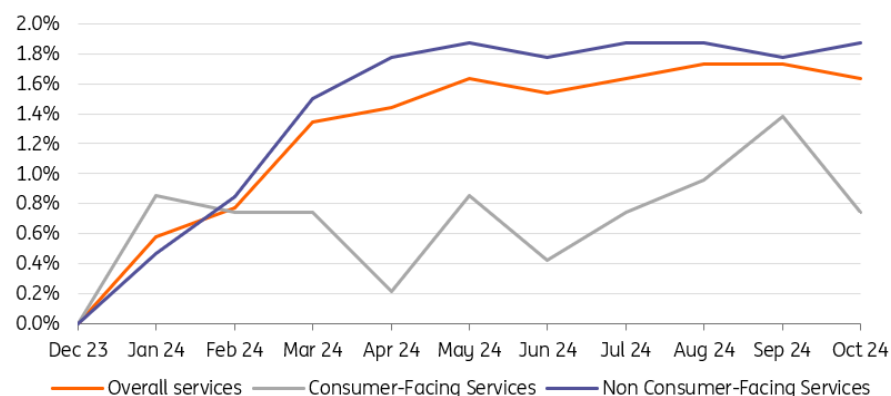
Source: Shutterstock

The UK economy has been on quite the journey this year, at least if the GDP figures are to be believed. Having started the year with an eyewatering – and indeed eyebrow-raising – 0.7% quarterly growth figure for 1Q, momentum has slowed considerably in the second half of the year. October's monthly GDP saw activity fall for the second consecutive month, albeit only by a marginal 0.1%. Overall fourth-quarter GDP is likely to be flat, we think.

In reality, the story is more nuanced than that. Much of that early 2024 strength was concentrated in sectors that are less tangible and typically not consumer-facing. Service sectors with a clear consumer focus and more intrinsically linked to underlying economic fundamentals actually performed more strongly over the summer when the broader economy appeared to be slowing – albeit we did see a sizable drop in activity in these areas during October.

Our conclusion from this is that the economy has probably slowed down, but neither the initial boost nor the more recent sluggishness is likely to have been as extreme as this year's monthly GDP data indicates.

Consumer-facing services saw activity plunge in October



All of this of course is history anyway. We still think that the UK economy is poised to outpace most of Western Europe next year, judging by our [2025 annual GDP forecasts](#). That perhaps says more about the health of other parts of the continent, but it also heavily reflects the recent fiscal stimulus.

Public spending was increased by some £60bn – or more than 2% of GDP – relative to budget plans inherited from the previous Conservative government. Some of that might not materialise and we're sceptical that the planned, sudden increase in public investment can readily find its way into shovel-ready projects straight away. But the majority of the spending increase is going to government departments in day-to-day funds, much of which will end up in wages. And thus the fiscal multiplier – or the passthrough to wider economic growth – is likely to be pretty high.

Having said all of that, the risks are clearly tilted downwards. The UK is often singled out as being less affected by an impending US trade war, and that is true. But America still buys 20% of UK exports, even if the majority of that is in services which are not impacted by tariffs.

Then there's the jobs market. The official data is of dubious quality right now. But a range of indicators suggest hiring appetite has cooled materially this year and payroll-based data suggests that employment, outside of government-heavy sectors, has fallen by almost 1% since the end of 2023. We suspect this gradual cooling will continue into 2025, and risks being amplified by recent tax hikes on employers. Around half of Chief Financial Officers who responded to a recent Bank of England survey suggested they'd deal with those tax rises by reducing employee numbers.

However, unless growth materially disappoints, and that's not our base case, the Bank of England is going to remain laser-focused on inflation. With services inflation stuck around 5%, next week's meeting is likely to be a bit of a non-event, with policymakers opting to keep rates on hold again until February.

Author

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.