

Article

Quarterly economic commentary: January to March 2023

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

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Table of contents

1. [Main points](#)
2. [National accounts](#)
3. [Balance of payments](#)
4. [Labour market](#)
5. [Prices](#)
6. [Related links](#)
7. [Cite this article](#)

1 . Main points

- Gross domestic product (GDP) increased by 0.1% in Quarter 1 (Jan to Mar) 2023, leaving the economy 0.2% larger than a year earlier, as higher inflation and a tightening in financial conditions have led to a slowing in the UK economy in recent quarters.
- The UK had a current account deficit of 1.7% of GDP in Quarter 1 2023, where there has been some narrowing in the goods trade deficit recently, reflecting the fall in the price of natural gas from the highs in the middle of last year.
- The labour market remained tight by historical standards as broader measures of labour market availability are currently at one of their lowest recorded rates, which helps explain the annual 7.2% increase in regular nominal earnings in the three months to April 2023.
- Annual Consumer Prices Index (CPI) inflation remained at 8.7% in May 2023, which remains high by international standards, while core inflation was 7.1% in the year to May, which is its highest rate since March 1992.

2 . National accounts

Higher food and energy prices have led to higher consumer price inflation and a tightening in financial conditions, which have weighed on the UK economy over the last year.

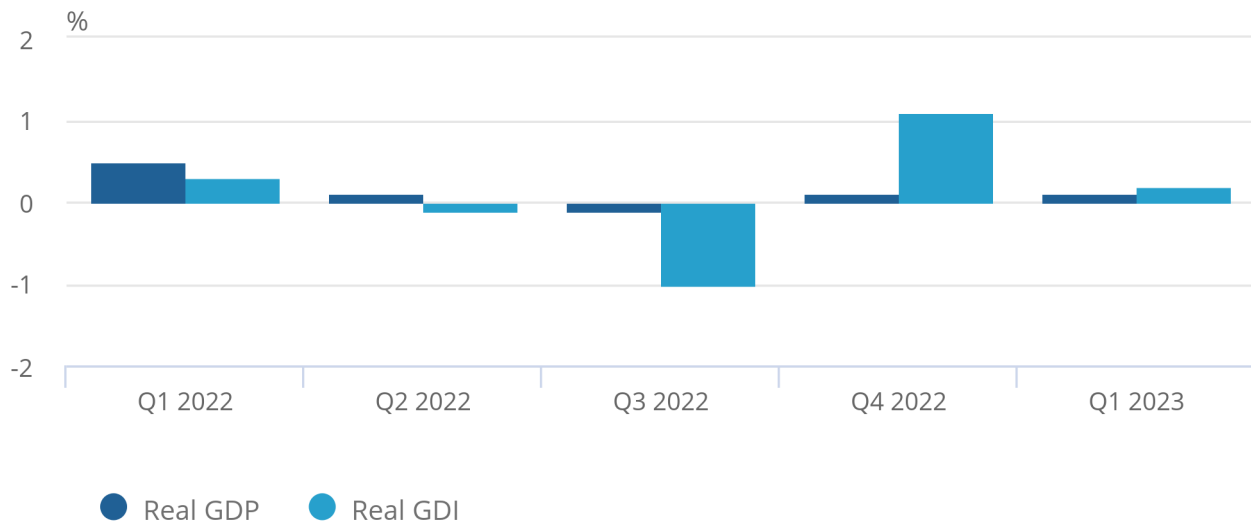
Gross domestic product (GDP) increased by 0.1% in Quarter 1 (Jan to Mar) 2023, leaving the economy only 0.2% larger than a year earlier (Figure 1). The implied price of GDP increased by 6.5% in the year to Quarter 1 2023, primarily reflecting the higher price of household consumption expenditure, which remains elevated. GDP increased by 0.1% in the three months to April 2023.

Figure 1: The economy has slowed over the last year

Quarterly change in UK GDP and UK GDI, Quarter 1 2022 to Quarter 1 2023

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Quarterly change in UK GDP and UK GDI, Quarter 1 2022 to Quarter 1 2023



Source: GDP quarterly national accounts from the Office for National Statistics

Notes:

1. Real GDI is a measure that adjusts real GDP to reflect changes in purchasing power that arise from movements in the terms-of-trade, which capture the ratio of export prices to import prices.

There was a fall in the saving ratio to 8.7% in Quarter 1 2023. One unknown is the extent to which there will be a change in precautionary saving over the rest of the year, if any, in response to any change in the outlook for employment and income. Real disposable incomes continue to be eroded by higher inflation, as household consumption expenditure has slowed over much of the last year.

One feature of the coronavirus (COVID-19) pandemic was the prevalence of "[forced savings](#)", which was reflected in large cash deposits by households at times of restrictions. This has led to there being some scope for these savings being run down, given the hit to real incomes. In Quarter 1 2023, there was a withdrawal of deposits by households for the first time, which could be indicative of how households are responding to the tightening of financial conditions.

There has also been a fall in secured lending to households in the first quarter, reflecting the slowdown in mortgage transactions. More timely figures show that there was [a further decline in the borrowing of mortgage debt in April 2023](#), including a fall in gross mortgage lending. This also shows that there has been a decline in net mortgage approvals for house purchases, which points to a further fall in future mortgage borrowing, and that there was an increase in the interest rate paid on newly drawn mortgages and the stock of mortgages in April.

Private non-financial corporations (PNFCs) continued to be net lenders in the first three months of the year, as there was an increase in their profits, although some of this reflected higher energy subsidy payments. There was also an increase in fixed capital expenditure in Quarter 1 2023, though this might be a timing effect as businesses bring forward their investment in response to the [expiry of capital allowances](#) on 31 March. There is some evidence that investment intentions are still subdued amid higher investment costs and uncertainty about the economic outlook. The latest findings show that there was [an increase in the average cost of new borrowing by PNFCs in April 2023](#). These tighter financial conditions might have an impact upon investment.

Public sector net borrowing excluding public sector banks (PSNB ex) was £20.0 billion in May 2023, which was the second-highest May borrowing over the last 30 years. The increase in PSNB ex on the year in part reflected higher spending on pay, including the non-consolidated part of the recent NHS pay agreement. There was also an increase in subsidy payments, including the [Energy Price Guarantee \(EPG\)](#) for households and the [Energy Bill Discounts Scheme \(EBRS\)](#) for businesses.

Debt interest spending remains high by historical standards, reflecting the size of the stock of public sector net debt (PSND ex), the increase in interest rates on government bonds and higher inflation on payments on index-linked gilts. Early estimates show that PSND ex was 100.1% of gross domestic product (GDP) in May 2023. This is the first time in over 60 years that PSND ex has been larger than the size of the economy, although early estimates are prone to revision [note 1].

Notes for National accounts

This should be treated as a provisional estimate, which is likely to be revised in future publications because it partly relies on GDP estimates based on the latest forecasts produced by the Office for Budget Responsibility. For example, we previously reported that the debt-to-GDP ratio exceeded 100% during the coronavirus (COVID-19) pandemic. We subsequently revised it down when the provisional forecast of GDP used for this period of economic uncertainty was replaced by outturns.

For example, we previously reported that the debt-to-GDP ratio exceeded 100% during the coronavirus (COVID-19) pandemic in the summer of 2020. We subsequently revised it down when the provisional forecast of GDP used for this period of economic uncertainty was replaced by outturn data.

3 . Balance of payments

The UK was a net borrower from the rest of the world, running a current account deficit of 1.7% of gross domestic product (GDP) in Quarter 1 (Jan to Mar) 2023 (Figure 2). As the UK is a net importer of food and energy, the increase in these import prices over the last year has contributed to the fall in the UK terms-of-trade and the widening of the underlying goods trade deficit last year.

There has been some narrowing in the goods trade deficit recently, particularly in other fuels, reflecting the fall in the price of natural gas from the highs in the middle of last year. The Organisation for Economic Co-operation and Development show how [survey indicators point to a subdued outlook for global trade](#), pointing to the effects of tighter monetary policy, slowing industrial production and high inventory levels.

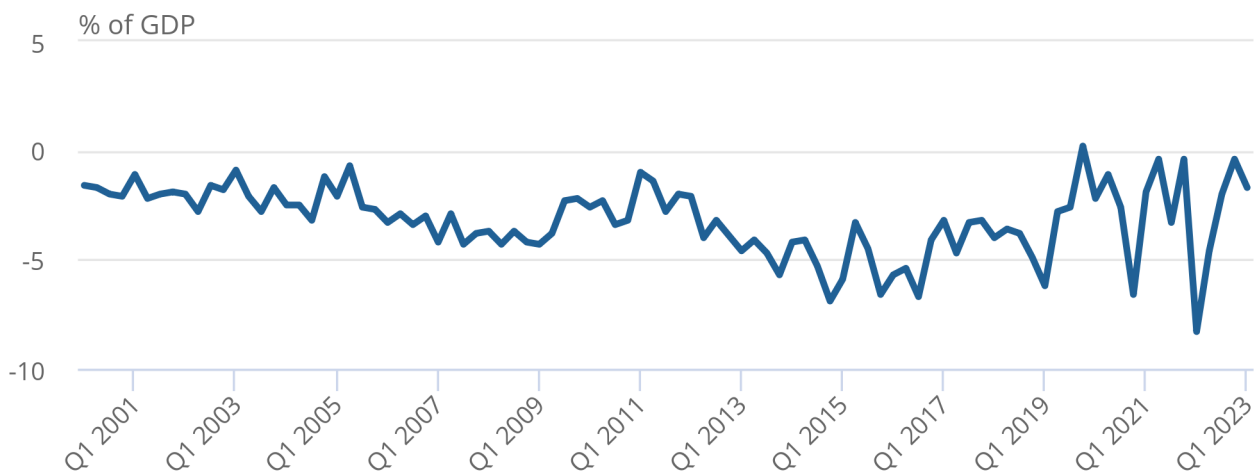
The UK has recorded a surplus on its net investment income over the last year. Cross-border income flows have been affected by the commodity price movements over the last year, which have fed through to the returns on the holdings of assets in the oil and gas industry. The recent tightening in financial conditions has also likely had some impact on the returns on international investments, particularly the effect of higher global interest rates on these income flows.

Figure 2: The UK ran a current account deficit of 1.7% in Quarter 1 2023

UK current account balance, Quarter 1 2000 to Quarter 1 2023

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UK current account balance, Quarter 1 2000 to Quarter 1 2023



Source: Balance of payments from the Office for National Statistics

Notes:

1. The current account balance includes previous metals.

International financial flows tend to be volatile, particularly in time of heightened uncertainty. This is most evident in the most mobile forms of capital, such as loans and deposits. There were large disinvestments of these types of investments held by UK and foreign investors towards the end of 2022. However, there has been a large net inflow of other investment in Quarter 1 2023.

4 . Labour market

There was little spare capacity in the labour market, as nominal earnings increased at one of their highest rates on record. Broader measures of [labour market availability](#) were still low by historical standards (Figure 3). The unemployment rate remained close to record lows at 3.8% in February to April 2023, while the employment rate was at its highest since the coronavirus (COVID-19) pandemic.

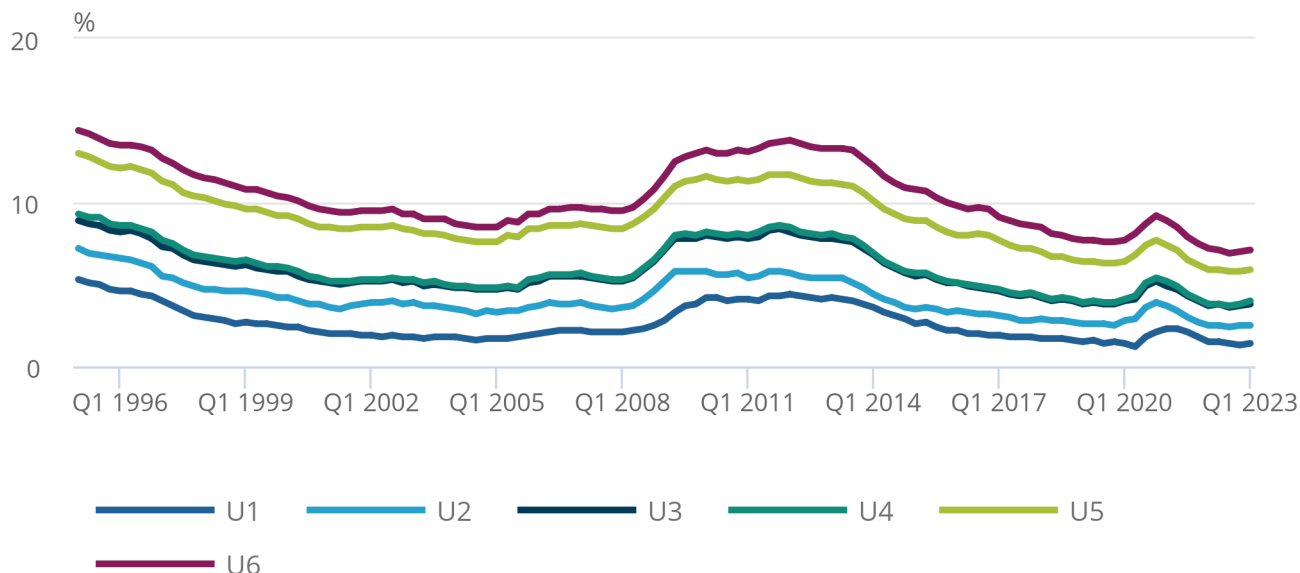
There has been a fall in labour demand, where the three-month change in vacancies has now declined for 11 consecutive months, albeit from historically high levels. There is some evidence that [economic uncertainty is having some impact on labour demand](#), as survey respondents continue to cite economic pressures as a factor in holding back on recruitment. That said, there has not been a marked increase in the redundancy rate, while timelier HR1 (redundancy form) notifications do not show any increase in May 2023. The unemployment-to-vacancy ratio was still low, which helps explain recent survey findings around [recruitment difficulties](#) (PDF, 1.02 MB).

Figure 3: All measures of underutilised labour are currently at one of their lowest recorded rates over this period

Measures of labour market availability, U-1 to U-6, Quarter 1 1995 to Quarter 1 2023

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Measures of labour market availability, U-1 to U-6, Quarter 1 1995 to Quarter 1 2023



Source: Labour Force Survey from the Office for National Statistics

Notes:

1. U-3 refers to the headline unemployment rate.
2. Narrower measures (U-1 and U-2) reflect the implications of unemployment may be harder for some than others, such as those who are long-term unemployed and those who were previously employed rather than a new entrant to the labour market.
3. Broader measures (U-4, U-5, and U-6) reflect that official unemployment figures may understate the full extent of labour availability. For example, by excluding inactive persons who want a job and those in employment but working fewer hours than desired.

There has also been a fall in labour supply in recent years, which has also led to tightness in the labour market. There are 348,000 more people (aged 16 to 64 years) who are economically inactive than before the pandemic. That said, labour force participation has increased over the last three months and there was a record high net flow out of economic inactivity in Quarter 1 (Jan to Mar) 2023. However, the number of people economically inactive because of long-term sickness is at record highs.

The tightness of the labour market and high inflation help explain the annual 7.2% increase in regular nominal earnings in the three months to April 2023, which is one of the highest rates on record. These wage pressures have implications for underlying inflation in the economy. However, there was still a fall in real nominal earnings over the same period, as the cost-of-living challenge has impacted living standards.

5 . Prices

Annual Consumer Prices Index (CPI) inflation remained at 8.7% in May 2023, which remains high by international standards (Table 1).

In recent months, there has been a slowing in CPI inflation reflecting lower energy price inflation, because of falling fuel prices and base effects in which the increase in utility bills in April 2022 has fallen out of the annual comparison. Food and non-alcoholic beverages price inflation edged lower in May, albeit these prices are still increasing at a considerable rate. [One-year ahead inflation expectations](#) have fallen more recently (3.5%), while five-year ahead inflation expectations remain at 3.0%.

Table 1: UK CPI inflation is high by international standards
Annual CPI, per cent, March 2023 to May 2023, G7

	Canada	France	Germany	Italy	Japan	UK	USA
March 2023	4.3	5.7	7.4	7.6	3.2	10.1	5
April 2023	4.4	5.9	7.2	8.2	3.5	8.7	4.9
May 2023	3.4	5.1	6.1	7.6	3.2	8.7	4

Source: Consumer price inflation from the Office for National Statistics

Notes

1. UK figures are based on CPI inflation. Figures for other countries are based on the national measures of consumer price indices as reported by the Organisation for Economic Cooperation and Development (OECD).

Core inflation was 7.1% in the year to May 2023, which is a better indicator of the underlying rate of inflation, and is at its highest rate since March 1992. In the year to May 2023, 57 of the 85 CPI classes have recorded inflation of at least 5%. Our new [trimmed-mean inflation measure](#) also indicates that there are broader inflationary pressures in the economy, picking up by 7.0% in the year to May (Figure 4). There was also a 7.4% rise in services prices over the last year – a proxy of domestic inflation – which is also at its highest rate in around 30 years.

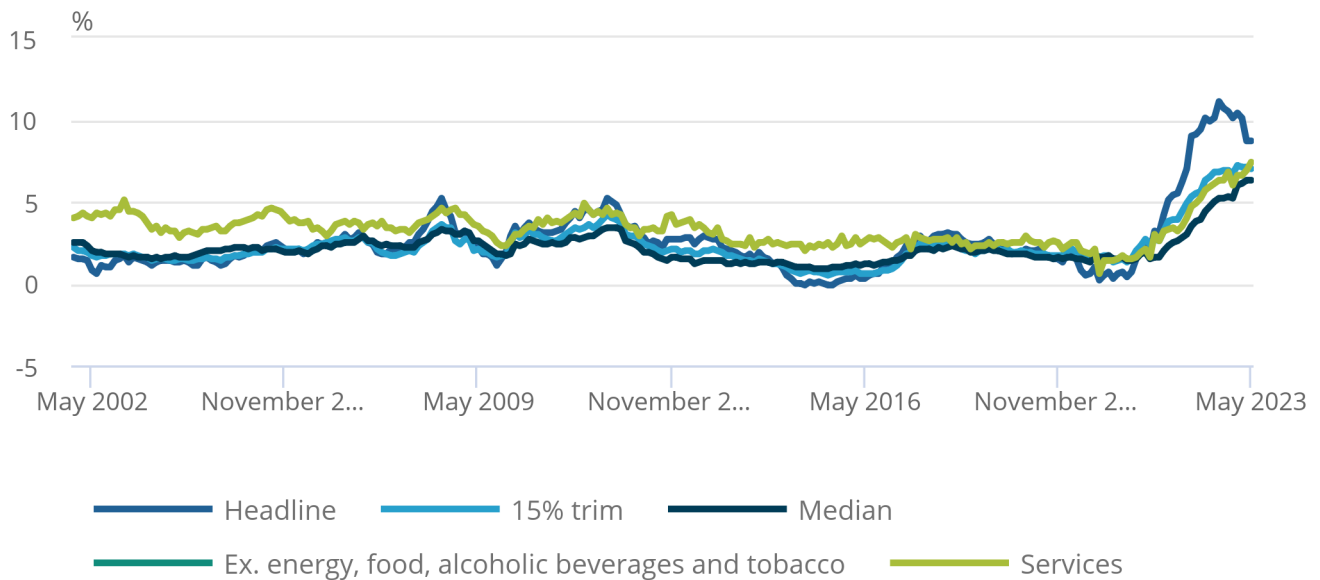
There is evidence of [an easing of cost pressures at preliminary stages of supply chains](#). Producer price inflation (PPI) has been slowing since the second half of last year. This decline was initially led by lower crude oil and wholesale gas prices. More recently, the food industry is also showing some signs of deceleration in cost pressures, with PPI inflation edging lower for home-produced and imported food materials. There is some uncertainty around the timing and extent to which lower costs pass through to consumer prices.

Figure 4: Core inflation was 7.1% in the year to May 2023

Annual rates of Consumer Prices Index (CPI) and core CPI inflation, January 2002 to May 2023

Figure 4: Core inflation was 7.1% in the year to May 2023

Annual rates of Consumer Prices Index (CPI) and core CPI inflation, January 2002 to May 2023



Source: Consumer price inflation from the Office for National Statistics

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

[GDP quarterly national accounts, UK: January to March 2023](#)

Bulletin | Released 30 June 2023

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: January to March 2023](#)

Bulletin | Released 30 June 2023

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: May 2023](#)

Bulletin | Released 21 June 2023

How the relationship between UK public sector monthly income and expenditure leads to changes in deficit and debt.

[Labour market overview, UK: June 2023](#)

Bulletin | Released 13 June 2023

Estimates of employment, unemployment, economic inactivity, and other employment-related statistics for the UK.

[Consumer price inflation, UK: May 2023](#)

Bulletin | Released 21 June 2023

Price indices, percentage changes and weights for the different measures of consumer price inflation.

7 . Cite this article

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