December 2024

Monthly Economic Review

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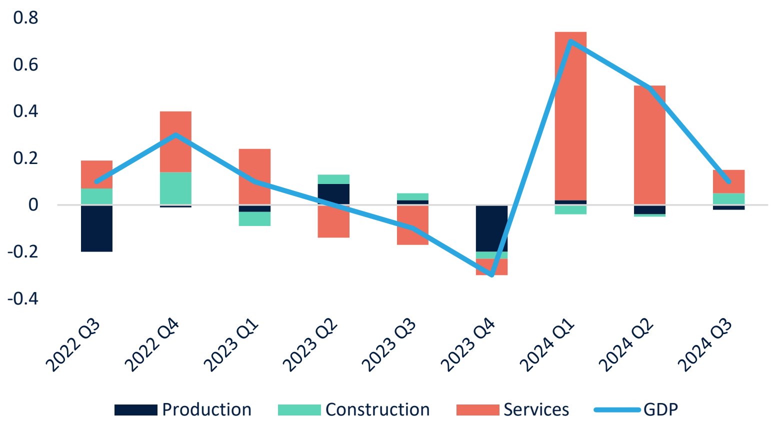
T'is the season of weaker growth and wobblier confidence. We look at what's driving consumer and business sentiment as we close out the year. As well as a few post- (US) election data points and policy announcements.

Growth slows

UK GDP growth fell back in the third quarter after a solid rebound in the first half of the year. The first estimate from ONS shows a modest 0.1 per cent quarter-on-quarter expansion in output (**chart 1**). While economists had expected a slowdown, the data was weaker than forecast. Moreover, the monthly GDP profile indicated growth only in August.

Chart 1. Contributions to GDP growth, percentage points



Source: ONS

A couple of sector developments stand out in the data. Firstly, the material slowdown in services – with growth dropping back from 0.6 per cent in Q2 to 0.1 per cent in Q3. Growth eased in professional, technical and scientific services – this sub-sector had been a significant contributor to the strength in services in the first half of 2024. Output also contracted in finance and business services, and other services. However, consumer-facing services (including retail and accommodation) fared rather better, expanding by 0.5 per cent over the quarter.

The other notable movement was in construction, which posted growth following three consecutive quarters of falling output as higher interest rates, weather and client confidence dampened demand last year. This quarter, there was an upturn in new infrastructure work, but repair and maintenance, particularly in private housing continued to be a weak point in construction activity.

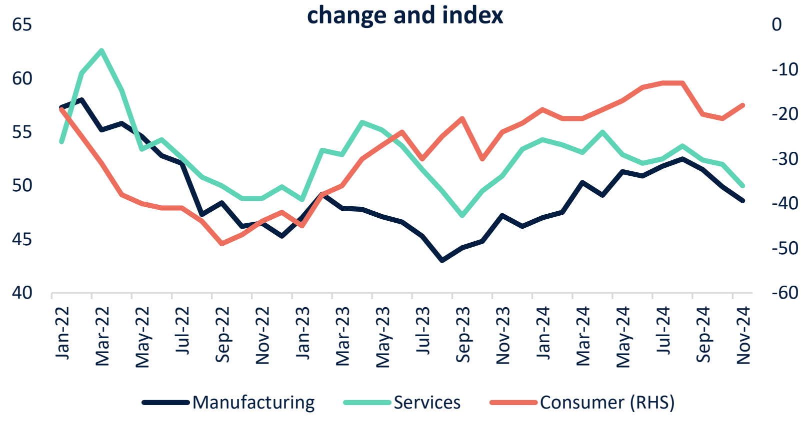
There was a small decline in overall production output, dragged down by declines in utilities output, while manufacturing grew 0.2 per cent. Across manufacturing performance was uneven. Foundation industries (such as chemicals and metals) have seen a solid couple of quarters of growth, but transport equipment has had a tough six months.

Part of this is falling motor vehicle production, and more recent data from the industry trade body SMMT shows further declines in production going into Q4, with production for export showing particularly marked falls. While some of this weakness reflects some disruption as manufacturers retool for production of zero emissions vehicles, a demand slowdown in these markets is a wider industry concern – as is the prospect of tariffs on US imports (more on that later).

Business confidence fades in Q4

The softer growth picture in Q3 was signalled by business surveys. And purchasing managers' indices (PMIs) covering October and November indicate more of the same in Q4 (**chart 2**). Activity across manufacturing and services has been easing since August as speculation about what the new government's first budget might bring ramped up over the

Chart 2. Business and consumer sentiment, PMIs 50 = no change and index



Source: S&P Global and GfK Group

summer. The surveys noted firms reporting that some clients were holding off purchasing decisions ahead of the statement. In addition, the persistence of geopolitical tensions and fragile demand in export markets also weighed on sentiment.

The budget announcements (**which we summarised last month**) appear to have done little to restore confidence. Novembers' flash PMIs showed that '*total new business growth across the private sector economy was the weakest since the current phase of expansion began in December 2023.'* In manufacturing there were worries about the outlook for demand, with automotive called out as a particular weak point.

Services firms noted concerns in the wake of the Budget, reiterating comments from business groups that the increase in employer National Insurance Contributions (NICs) will lead to businesses cutting back growth and recruitment plans. Separately, the latest ONS BICS survey reported a sharp increase in business concern about the level of taxation (14 per cent report this as a business challenge up from six per cent a year ago).

Also of note in the recent PMIs is the continuing pressure on costs, primarily from wage demands in the service sector. Some firms reported raising prices to maintain margins ahead of the NICs increase in April 2025. Adding weight to the OBR forecast of higher near-term inflation and supporting a more gradual approach to cutting Bank Rate.

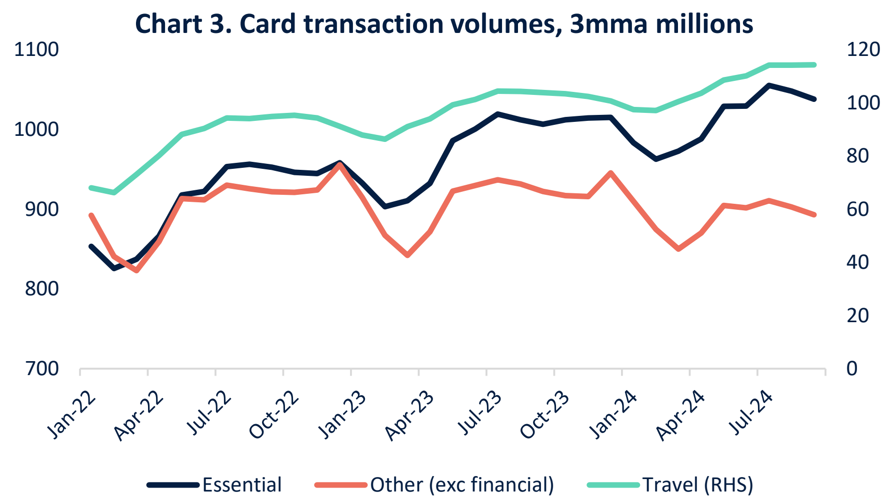
While budget realities have weighed on business confidence, consumer confidence – which also wavered over the summer, edged higher in November. Another interest rate cut as well as no increase in personal taxes in the budget led to an improvement in all components of the GfK index, with a bounce in major purchase intentions – perhaps some brighter news ahead for retailers ahead of Christmas.

Consumers spend on essentials (& travel)

UK Finance data on card spending, provides a breakdown of spending in the UK on credit and debit cards by merchant category code. Our data over the past year highlight the diverging trends in transaction volumes between essential spend categories (such as supermarkets, bus travel, petrol and telecoms), other transactions (excluding financial) and travel. The latter of which appears to have defied gravity, despite cost-of-living pressures (**chart 3**).

In the three months to September the total volume of card transactions was broadly flat compared with a year ago. Transactions in essential spend categories were up three per cent over the same period – steady, but slightly down on last year's growth rate.

Meanwhile, transactions in non-essential categories were three per cent lower year-on-year. We can observe larger falls in furniture and household appliance sectors – consistent with surveys pointing to some reticence to make major purchases as well as the sluggish housing market this year. Spending on clothing, and in pubs and restaurants was also lower than a year ago.



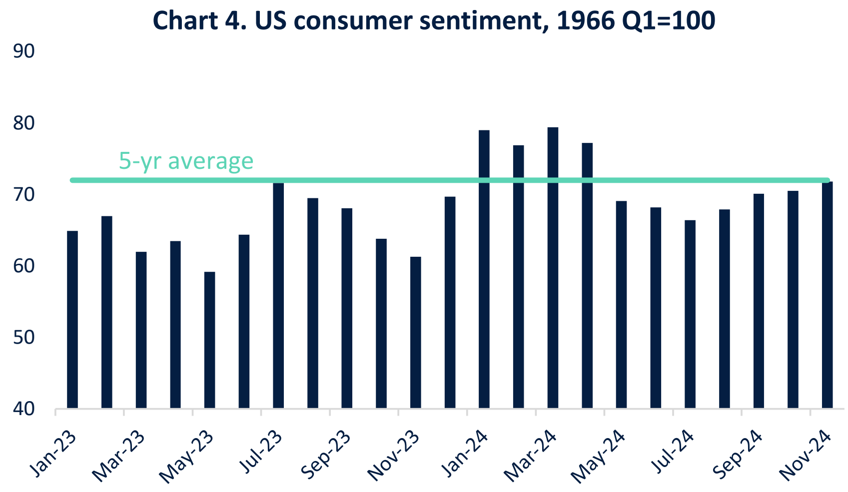
Source: UK Finance

Consumers may be indicating more of an appetite to splash the cash, having seen a more sustained period of real income growth and with more interest rate cuts in prospect. However, overall confidence remains fragile and reports of businesses reviewing hiring plans may prompt labour market concerns and keep a lid on spending in the key festive period.

Eligible UK Finance members can access the detail card expenditure data on [the My UK Finance portal]

US consumers feeling chipper

The long (and dramatic) build up to the US election also appeared to have a negative impact on consumer confidence (**chart 4**). For much of the last two years, growth across the US economy has been decent – certainly relative to other developed economies (not that this appeared to get much airtime in the election debate). The labour market has been resilient and consumers spending has been fairly healthy.



Source: University of Michigan

But it's inflation not growth that has been weighing on sentiment. With US consumers also expressing a bit of an allergic reaction to election-related uncertainty over the summer and early autumn.

The improvements in the past couple of months, including November's seven-month high, are linked to expectations of lower inflation in the year ahead and strengthening income prospects. While the election result was clear cut at least, Trump's victory didn't tip the index either way, with the survey noting *'ultimately, substantial uncertainty remains over the future implementation of Trump's economic agenda, and consumers will continue to re-calibrate their views in the months ahead.'*

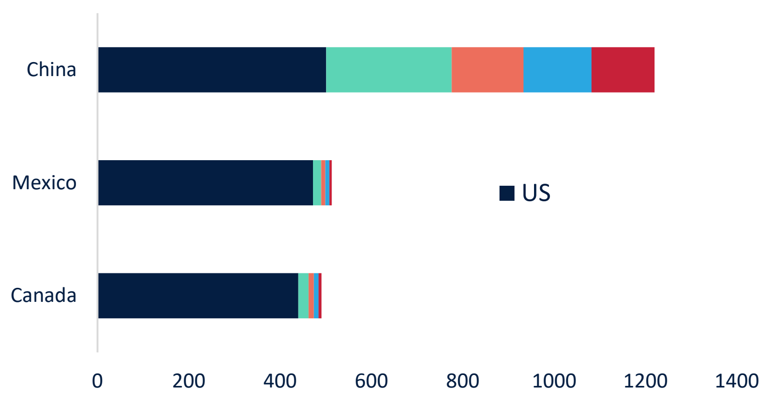
Tariffs take 2

The future Trump government is beginning to take shape, from a personnel point of view, but policy detail will take time to emerge. Except for trade policy, which was announced on social media last month. President elect Trump announced plans to impose a 25 per cent tariff on all imports from Canada and Mexico, along with an additional ten per cent tariff on imports from China on day one in office. This is intended to spur action on migrant border crossings and the supply of drugs into the US.

Unlike the imposition of tariffs under the previous Trump administration, the prospect of action on trade was at least **signalled during the election campaign** (though it may have come as more of a surprise to Canada). If this is the first shot in a four-year trade war, there is plenty of analysis to suggest this will hit growth everywhere (including the US), risk an inflation resurgence and make policy making more difficult for central banks.

With China, Mexico and Canada first in the firing line, **chart 5** looks at the relatively importance of the US as a trading partner to these economies. By value, Chinese imports accounted for the greatest value in 2023, but proportionally, the US market is much more important for Canada and Mexico.

Chart 5. Value of merchandise trade to 5 biggest partners, $ bn



Source: UNCTAD

Expect negotiations over the next month with all sides making the case for carve outs. For US consumers there are likely to be knock on consequences on all manner of goods and services – from energy prices to car insurance.

In the meantime, US ports are gearing up for a busy few months ahead as businesses pull forward orders or stockpile (assuming, as was the case last time, that goods in transit will be exempt from tariffs).

The bigger question is still whether this will happen at all. There is no shortage of hot takes on whether the tariff announcement is part of a bigger play, or intended to extract other concessions, or something else entirely. Guess we'll find out in January.

ICYMI and coming up…

[Quarterly arrears and possessions data](#) was published on 7th November.

Next up is our Household Finance Review on **4th December** and the Business Finance Review on **12th December.** Annual Mortgage forecasts will be released on w/c **16th December.**

Key indicators

Indicator	Period	Value	Change	2025 Forecast
GDP	Q3 2024	0.5%	↓	1.3%
CPI inflation	Oct 2024	2.3%	↑	2.3%*
Unemployment rate	Sep 2024	4.3%	↑	4.5%*
Average earnings	Sep 2024	4.3%	↑	3.4%
Brent crude	Oct 2024	$75.63	↑	-
$ Exchange rate	Nov 2024	$1.28	↓	-
Bank Rate	Nov 2024	4.75%	↓	3.8%*

Source: ONS, HM Treasury, Bank of England, EIA

*Q4 2025