



University of
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UK Economic Outlook

MBD Leaders

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7 November 2024

Inflation

Inflation fell below the 2% BoE target in September.

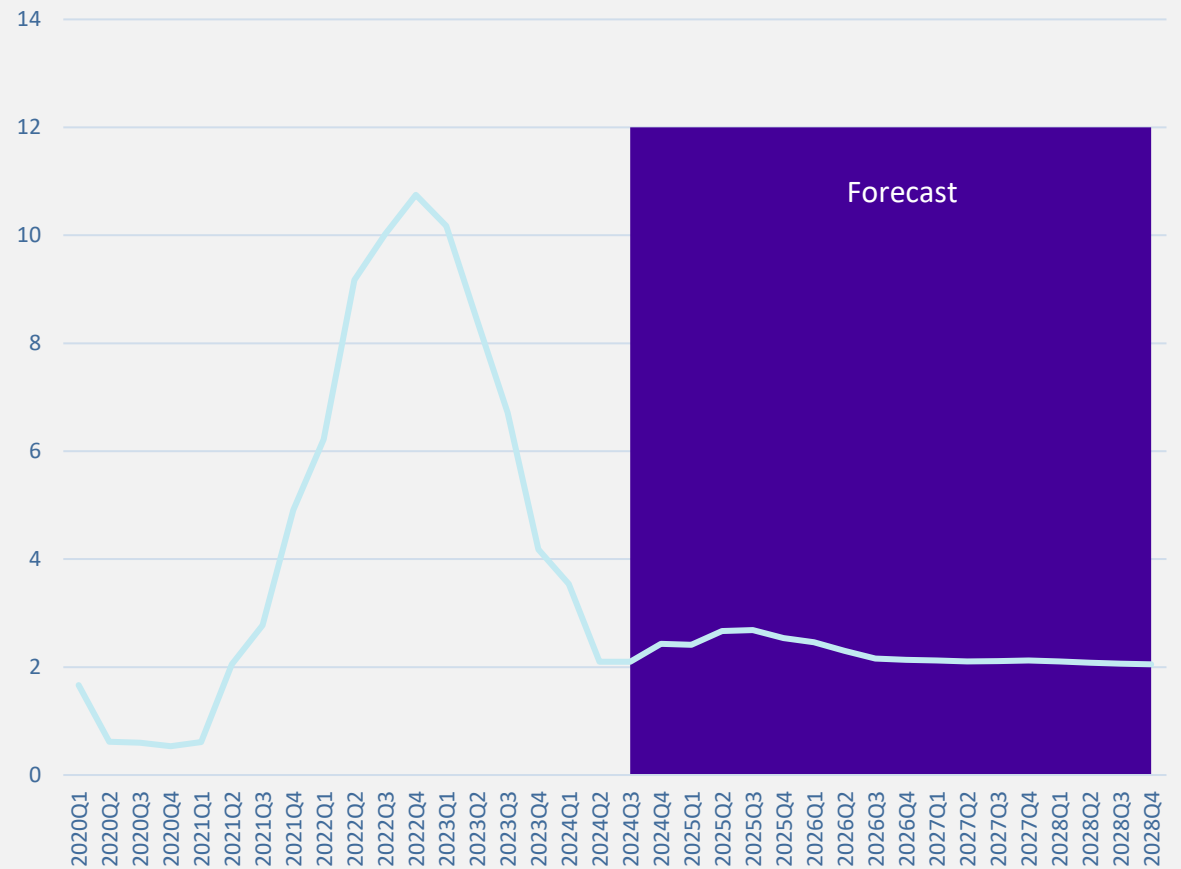
Inflationary pressures:

- Increasing gas and electricity prices
- Public spending

Deflationary pressures:

- Fiscal drag
- Employer NIC contributions

Inflation, % change YoY



Data: OBR

Interest rate

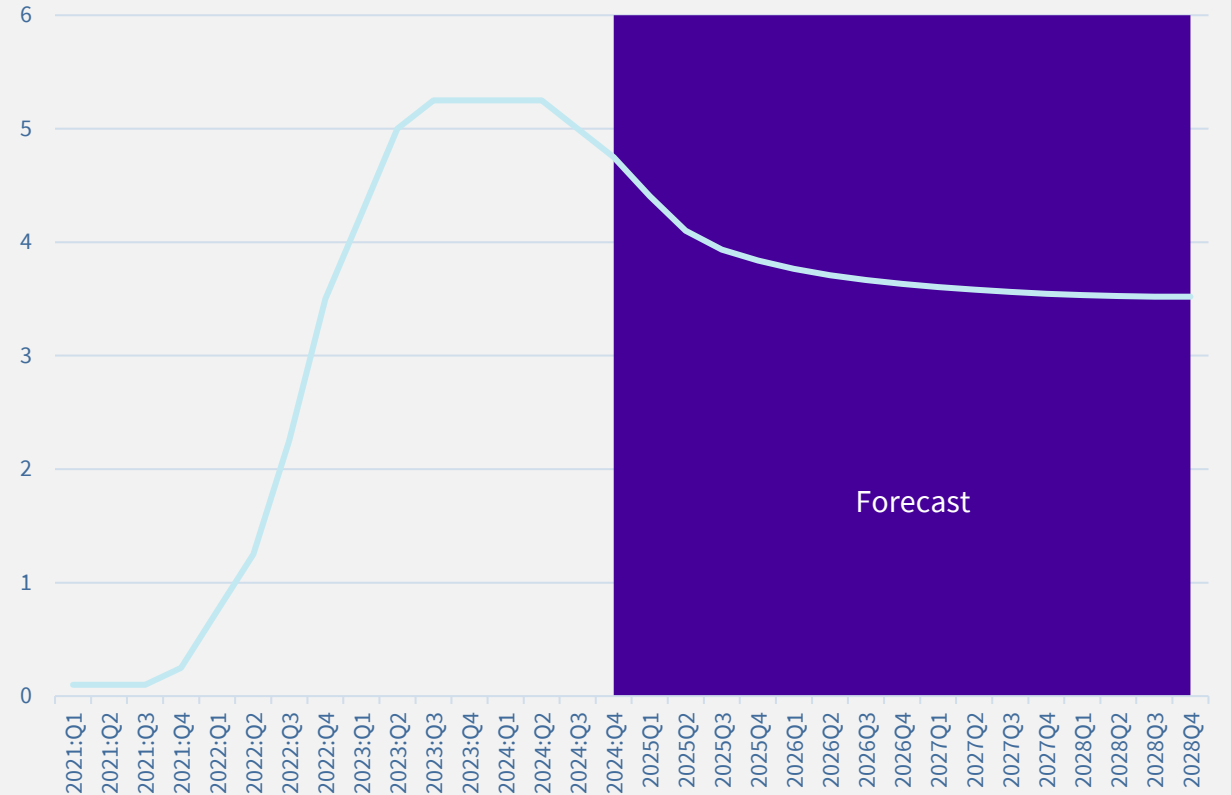
The budget should not have been *too much* of a surprise for the MPC.

Expect policy rate to be cut to 4.75% today.

But the frequency of cuts in 2025 may be lower than expected pre-budget.

Policy rate forecast to dip below 4% by 2025:Q3.

Bank of England Policy Rate



Data: OBR

Housing market

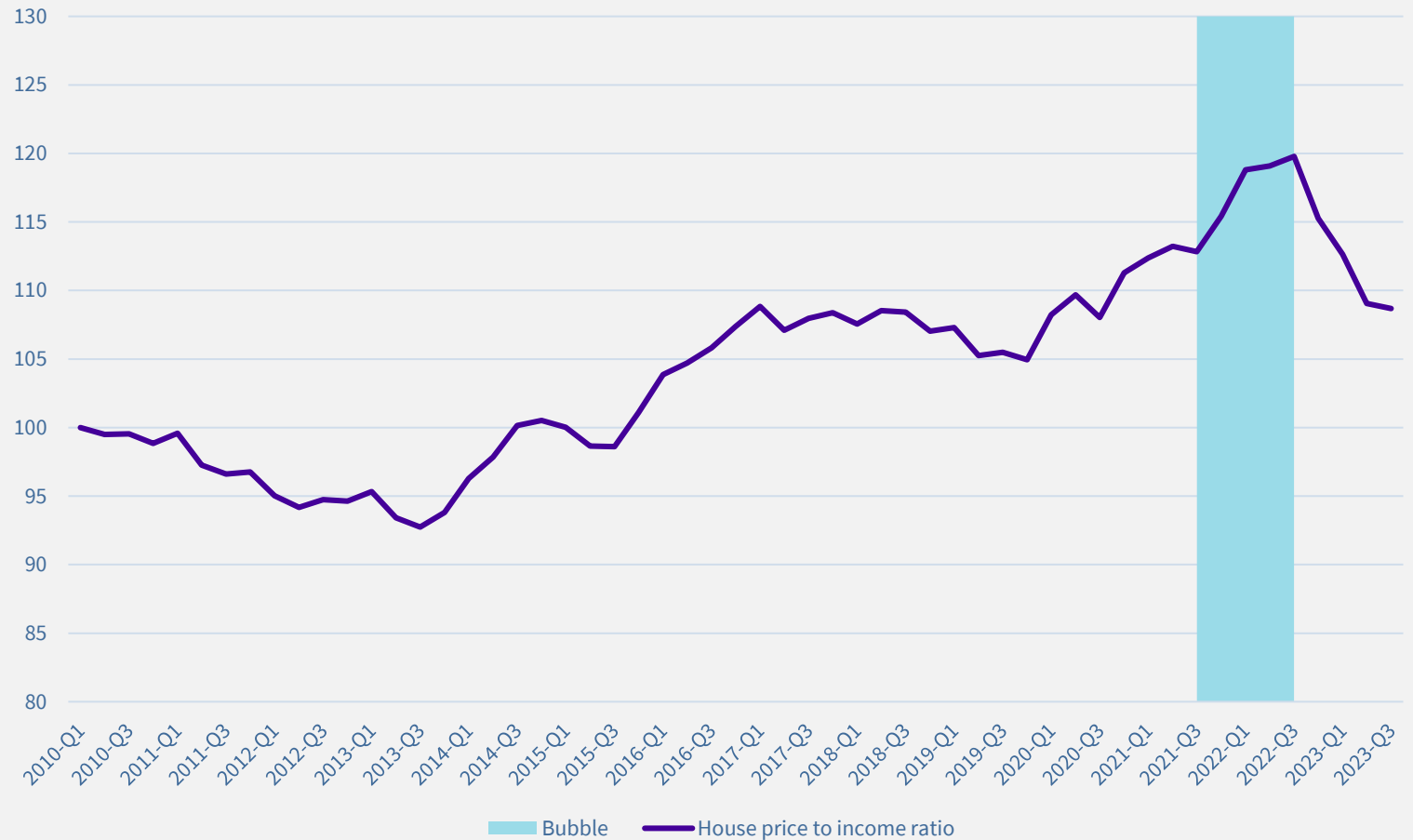
Strong house price growth during the Covid-19 pandemic.

Monitoring the house price to income ratio, we detect signs of a bubble in 2021:Q3 with the onset of a crash in 2022:Q3.

Many fixed mortgage accounts agreed prior to 2021:Q4 are yet to refinance.

Effect of higher interest rates will take time to transmit through to house prices.

House price to income ratio



Housing market

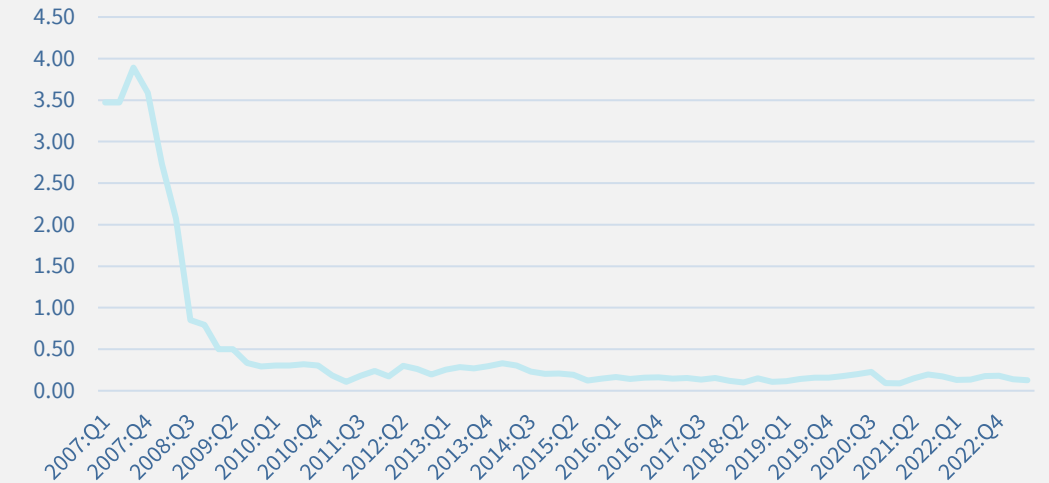
Approximately 30% of UK households have a mortgage.

Compared to 2007:

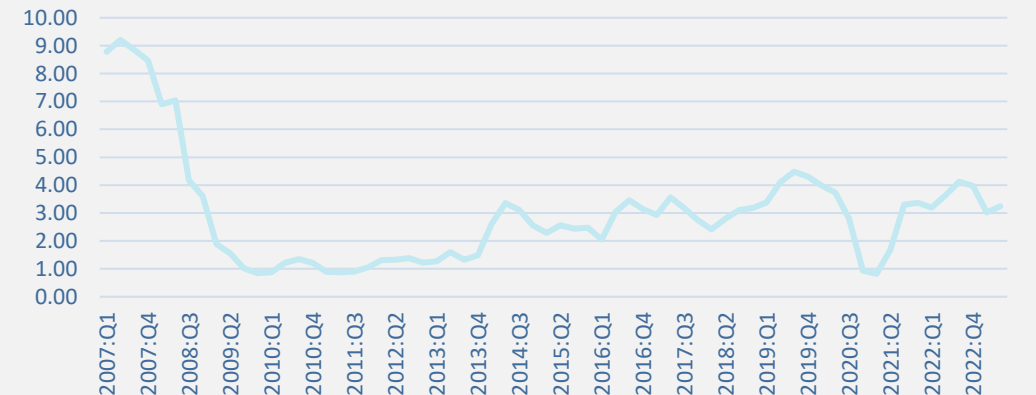
- Tighter lending standards
- Higher proportion of fixed-rate mortgages (85% vs 50% - OBR)

Stamp duty changes announced in budget may reduce demand for housing, but likely to be offset by reduction in mortgage rates which should have larger impact.

Proportion of mortgages over 95% LTV



Proportion of mortgages over 90% LTV with income multiples of more than 3.50x (single) or 2.75x (joint)



GDP growth

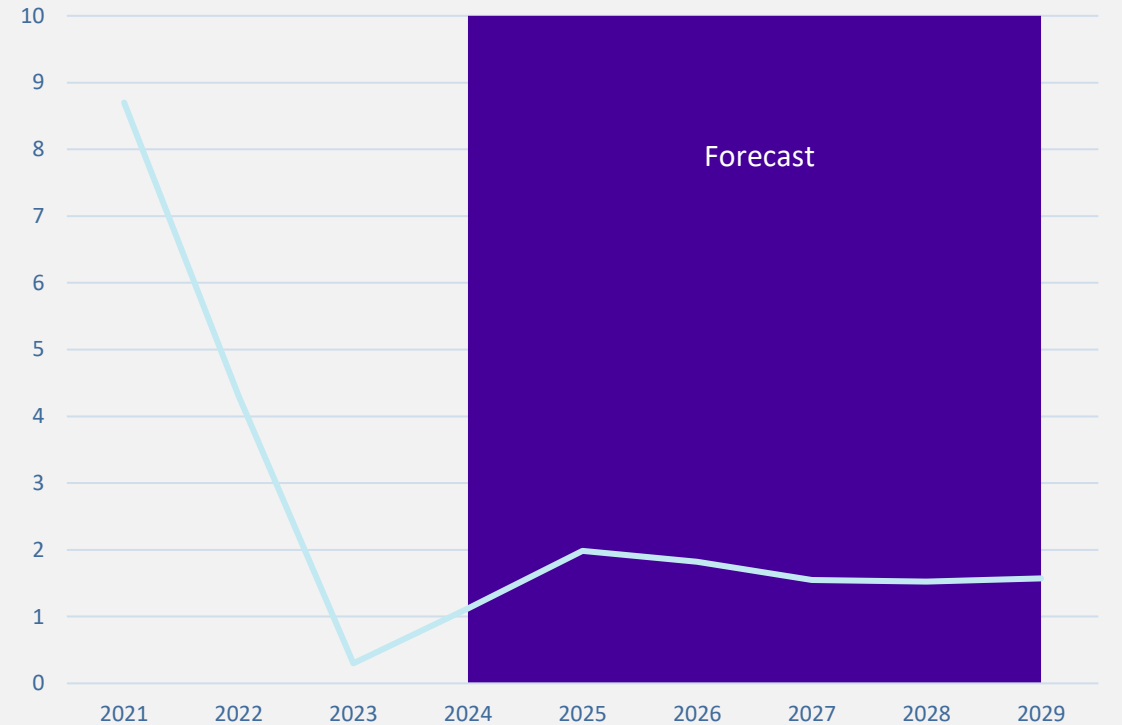
GDP growth in 2024 has been stronger than predicted.

Budget will lead to significant increase in Government investment and consumption.

Household disposable income expected to fall, but effect on GDP will be smaller.

GDP growth forecast to increase in 2025 to 2%.

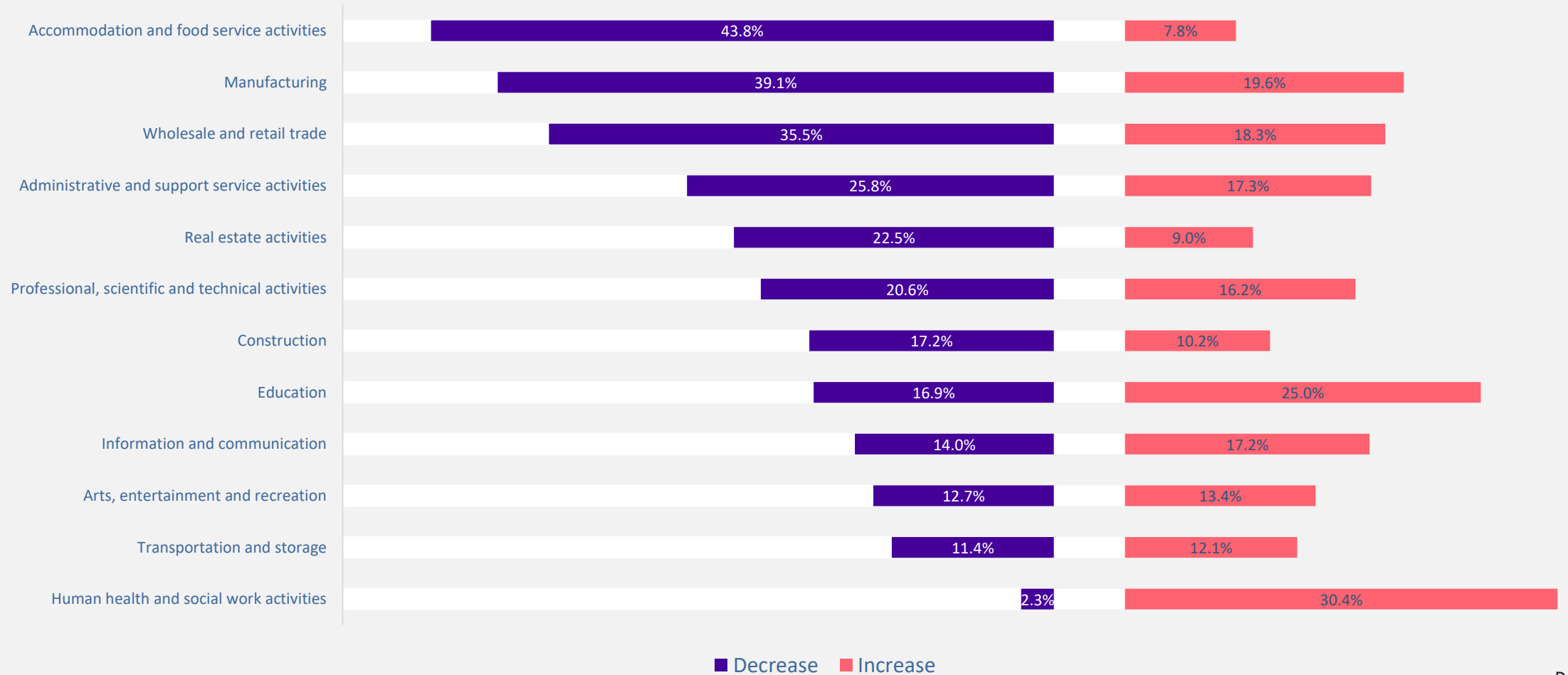
GDP growth, annual % change



Data: OBR

Industry sector performance

Proportion of firms whose turnover increased or decreased in Sep 2024 relative to Aug 2024



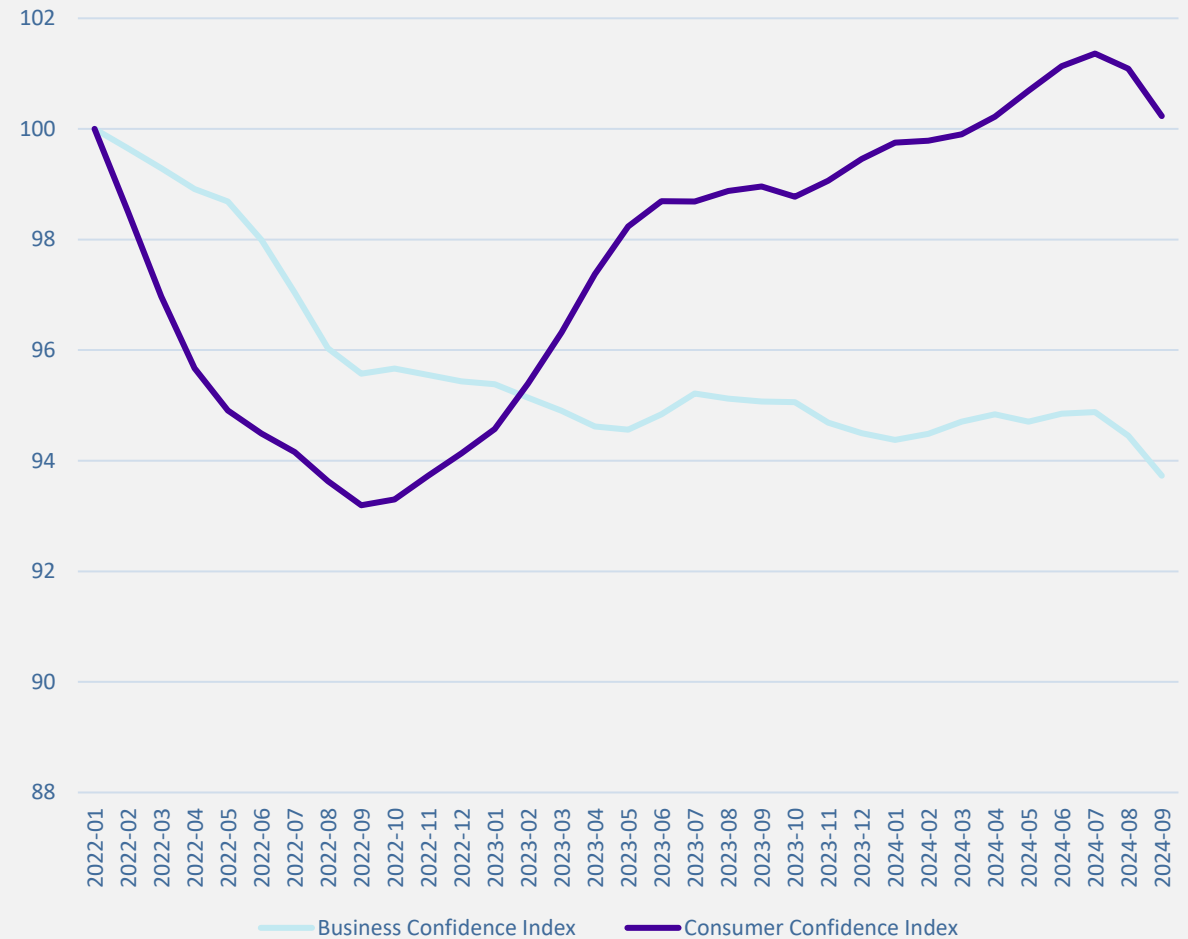
A difficult budget for business?

Business confidence has been declining since Jan 2022, but consumer confidence has recovered.

Fiscal drag: reduces aggregate demand and consumer spending.

Employer NIC increases: **low-wage, labour intensive businesses will be hit hardest.**

Business and Consumer Confidence Indices (Jan 2022 = 100)



Risks: Commercial property market

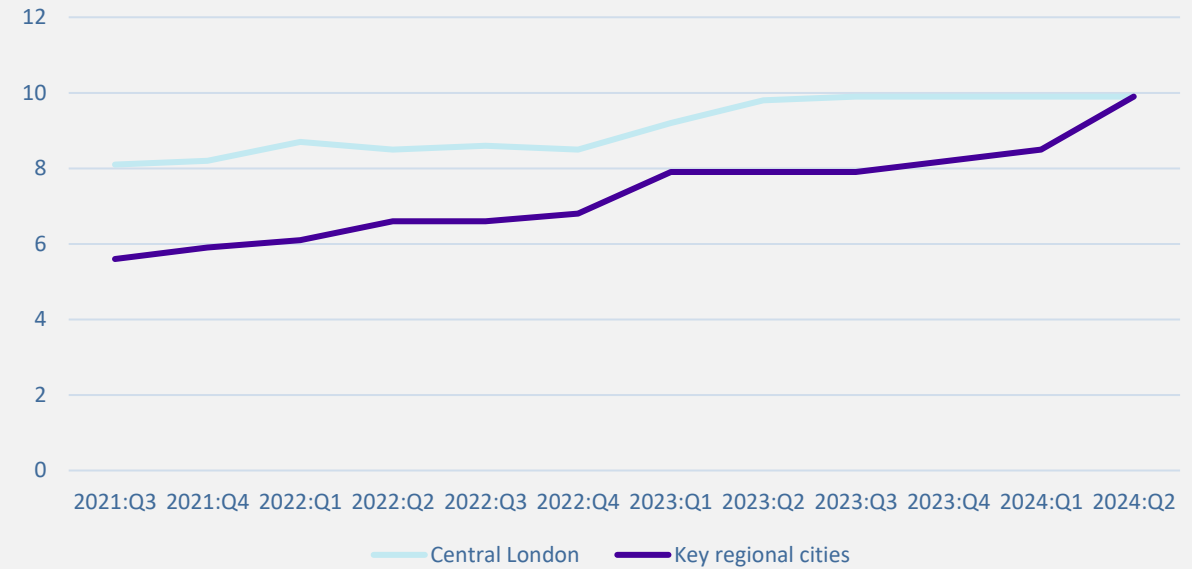
Shift to work from home, induced by Covid pandemic, may be permanent rather than temporary.

Office vacancy rates continue to trend upwards.

Reduced demand due to change in worker behaviour, plus end to cheap lending, could lead to a collapse in the commercial property market.

Empty office spaces in city centres have knock on effect for retail property, exacerbating the collapse.

Office Vacancy Rates



Data: Cluttons Research

Key regional cities: Birmingham, Bristol, Leeds and Manchester

Risks: Middle-East Conflict & Russia-Ukraine

Geopolitical uncertainty:

- Negative impact on consumer and business confidence.
- Businesses delay investment decisions.
- Consumers cut non-essential spending.

Energy prices:

- Disruptions to oil supply increase energy prices, with impact on inflation, interest rates and GDP growth.

Supply chain disruption:

- Rerouting commercial shipping from the Red Sea.
- Increased shipping costs.

Risks: United States Election – President Trump

Proposed tariffs

- 10% or 20% on all foreign-made goods
- 60% on Chinese goods
- 100% on all imported cars

Likely to be inflationary, leading to Fed Reserve interest hikes.

Uncertainty over NATO. Additional pressure on UK public funding to increase defence spending.

More Government control over monetary policy? More uncertainty.

Deregulation of oil and gas production, boosting output, reducing energy prices (in the short term).

Risks: Unreliable employment data

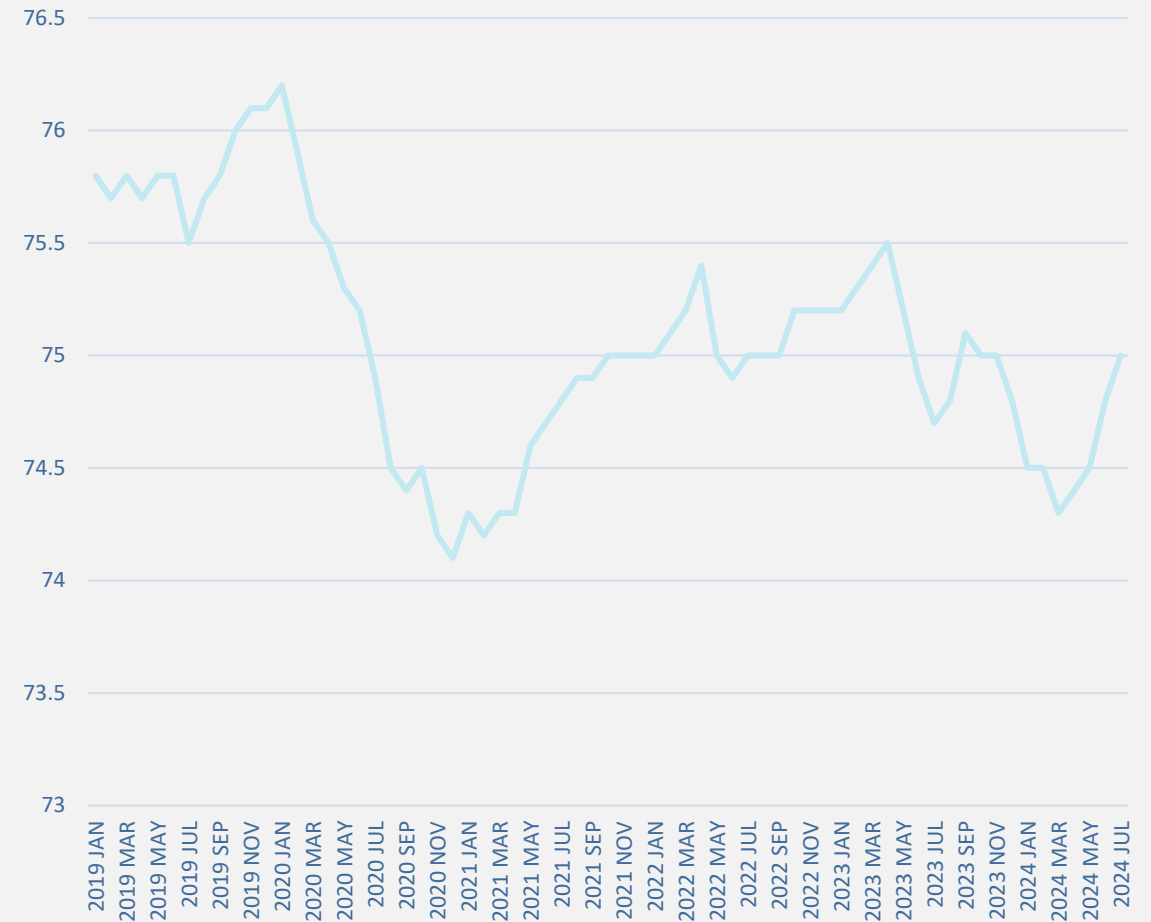
UK (un)employment data produced by ONS using the Labour Force Survey:

- Low response rates, exacerbated by Covid, make the data unreliable.
- Not clear if reported changes to unemployment are reflecting actual changes in the labour market or sampling variability.
- Especially the case for regional or age breakdowns.

Discrepancy between ONS data and other employment indicators.

Reliable data necessary for monetary and fiscal policy decisions and evaluating impact of these policies.

Employment rate (age 16-64): ONS data



Opportunities

Defence

Conflicts in Middle East, Russia-Ukraine and increasing pressure from the US for Europe to increase defence spending.

MoD issuing greater number of contracts competitively (to wider pool of suppliers).

Rheinmetall to start producing gun barrels in UK from 2027 using Sheffield Forgemasters' steel.

Green / Renewable Energy

Government to invest £100bn in capital spending over the next 5 years.

UN climate conference next week: some more announcements from UK Government to come?