

Sefton Economic Forum

Economic Update

Q2 2023

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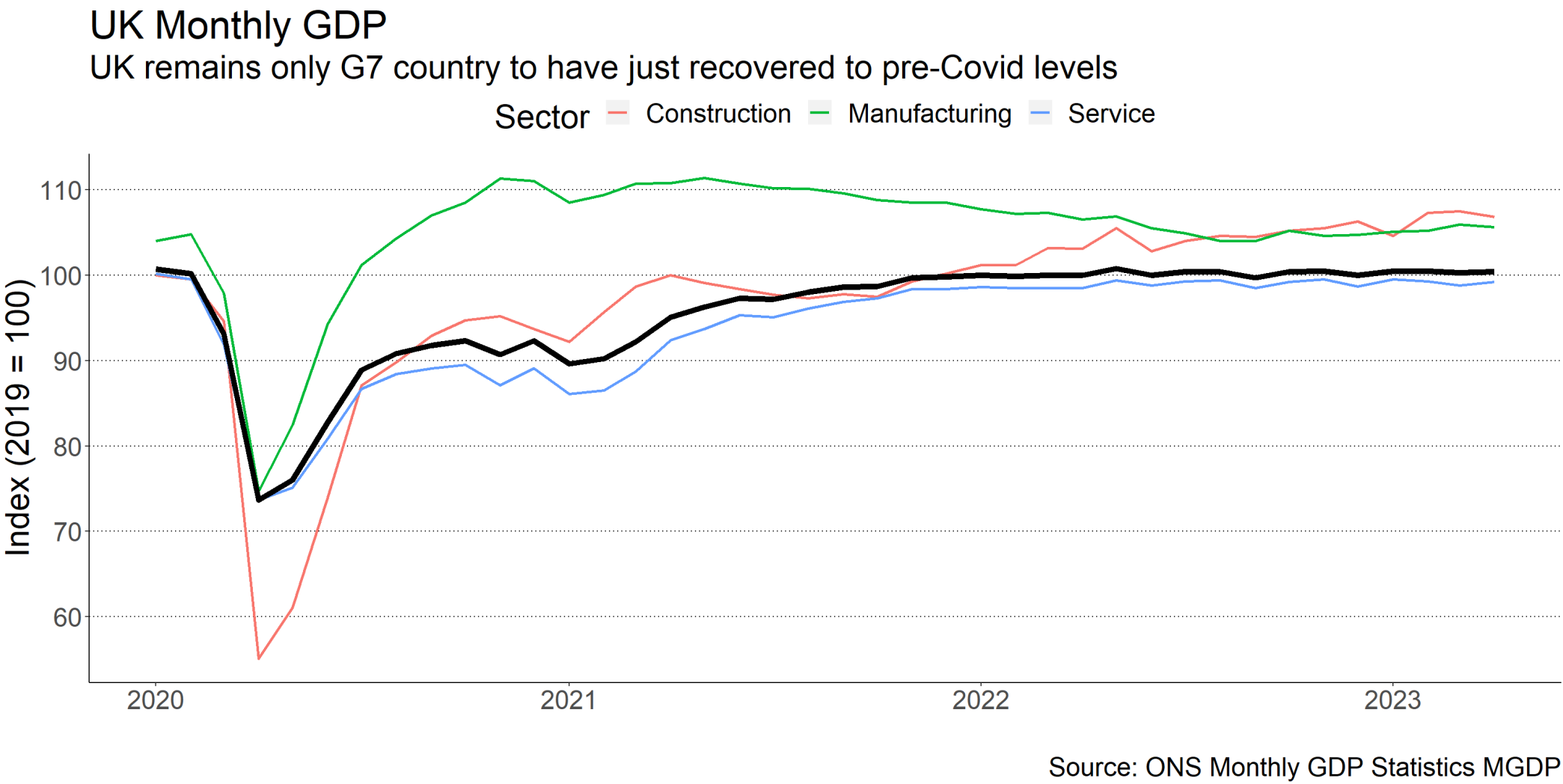
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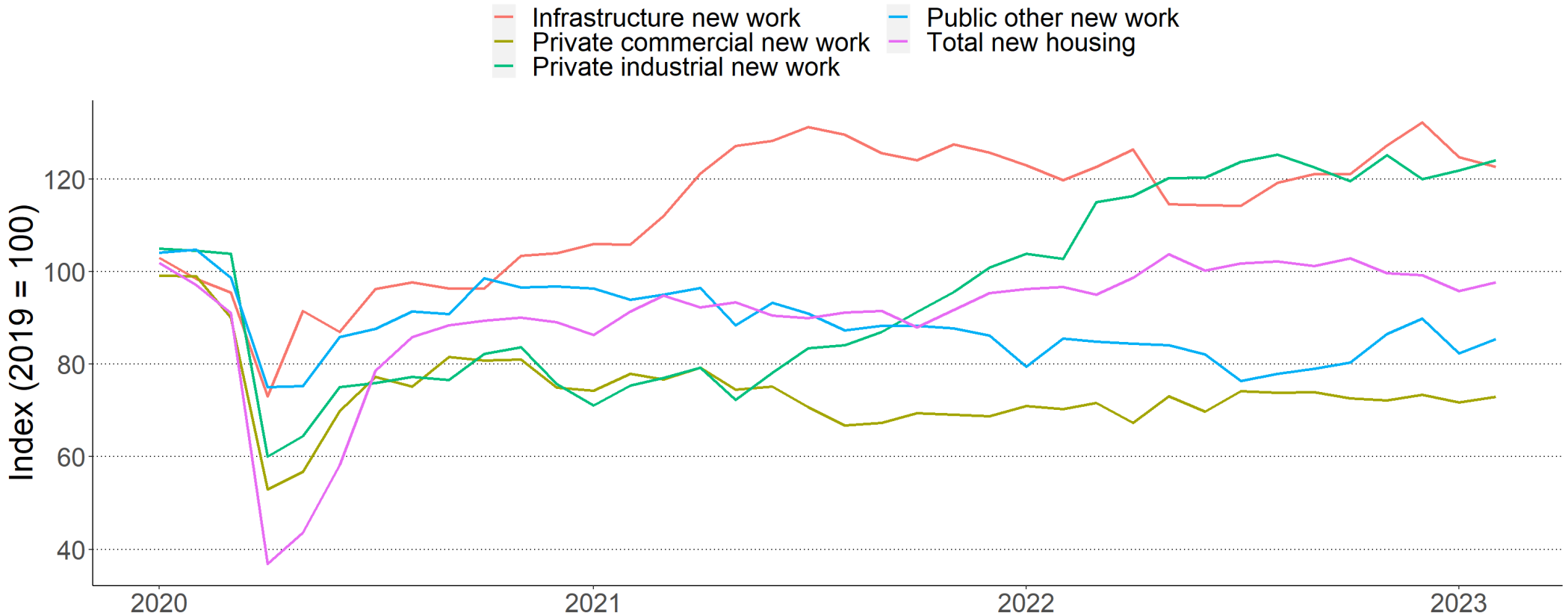
- UK GDP and Demand
- Labour Market
- Prices & Wages
- Trade & Terms of Trade
- Currencies and interest rates
- Insolvencies
- Mortgages & approvals
- Forecasts

UK GDP



Output (construction)

Infrastructure and industrial are driving the growth in construction output
Housing output has fallen back since 2022

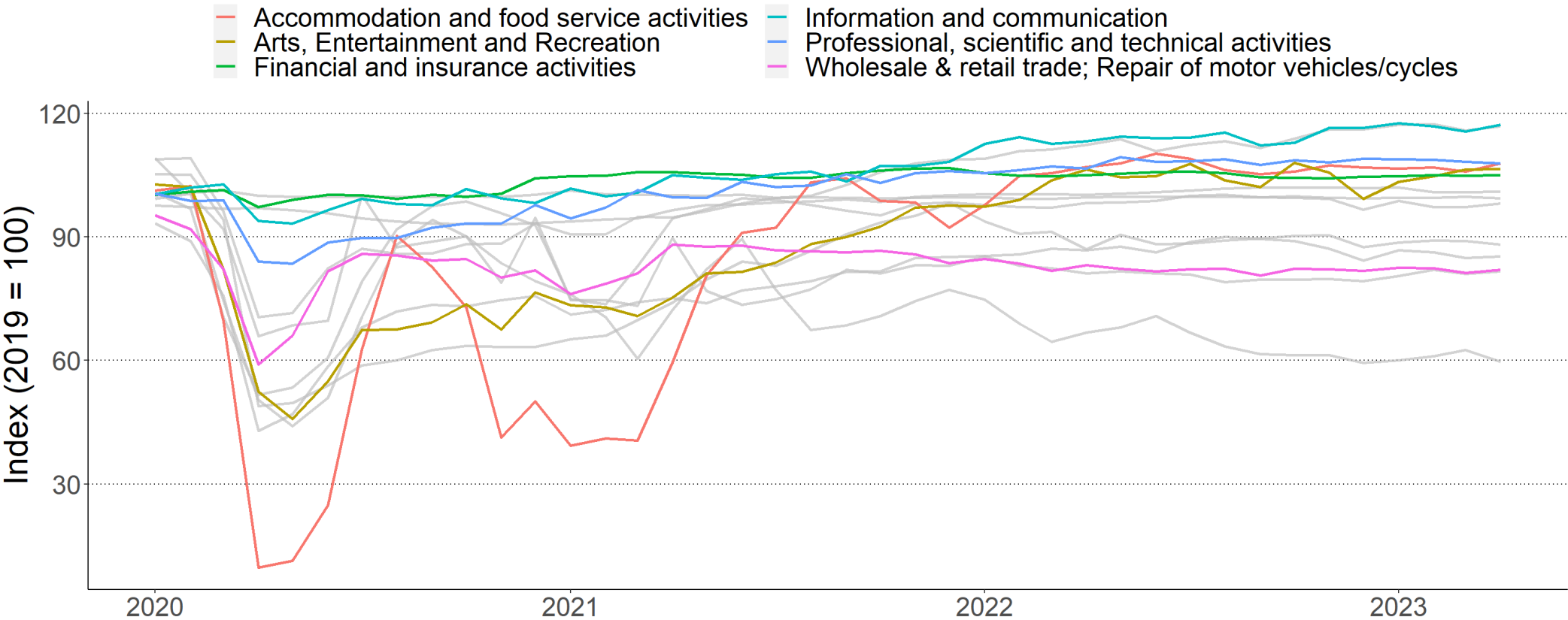


Source: ONS Output in the Construction Industry

Output (services)

UK GDP (Services)

B2B continues to perform well, though non-retail consumer services are increasingly looking strong

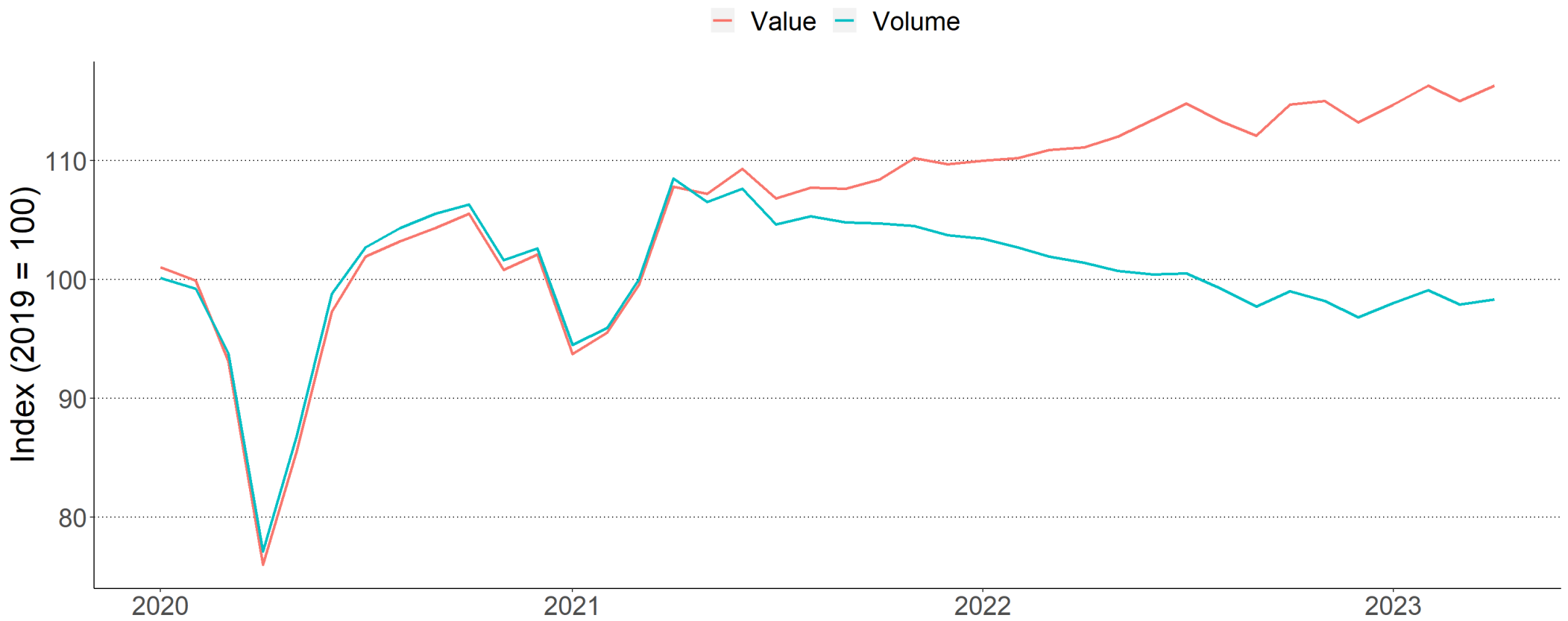


Source: ONS Monthly GDP (MGDP)

Retail sales

UK Retail Sales

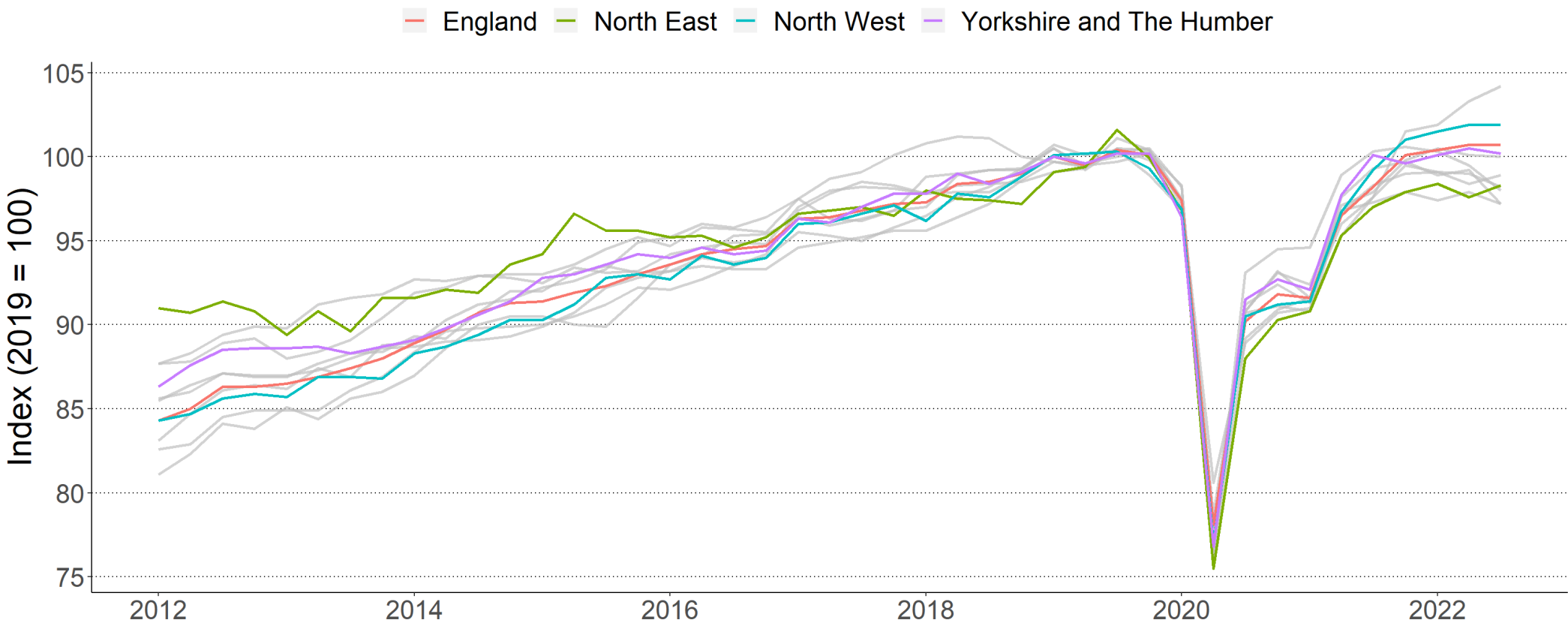
Consumer demand is relatively weak in the face of rising prices



Source: ONS Retail Sales Index

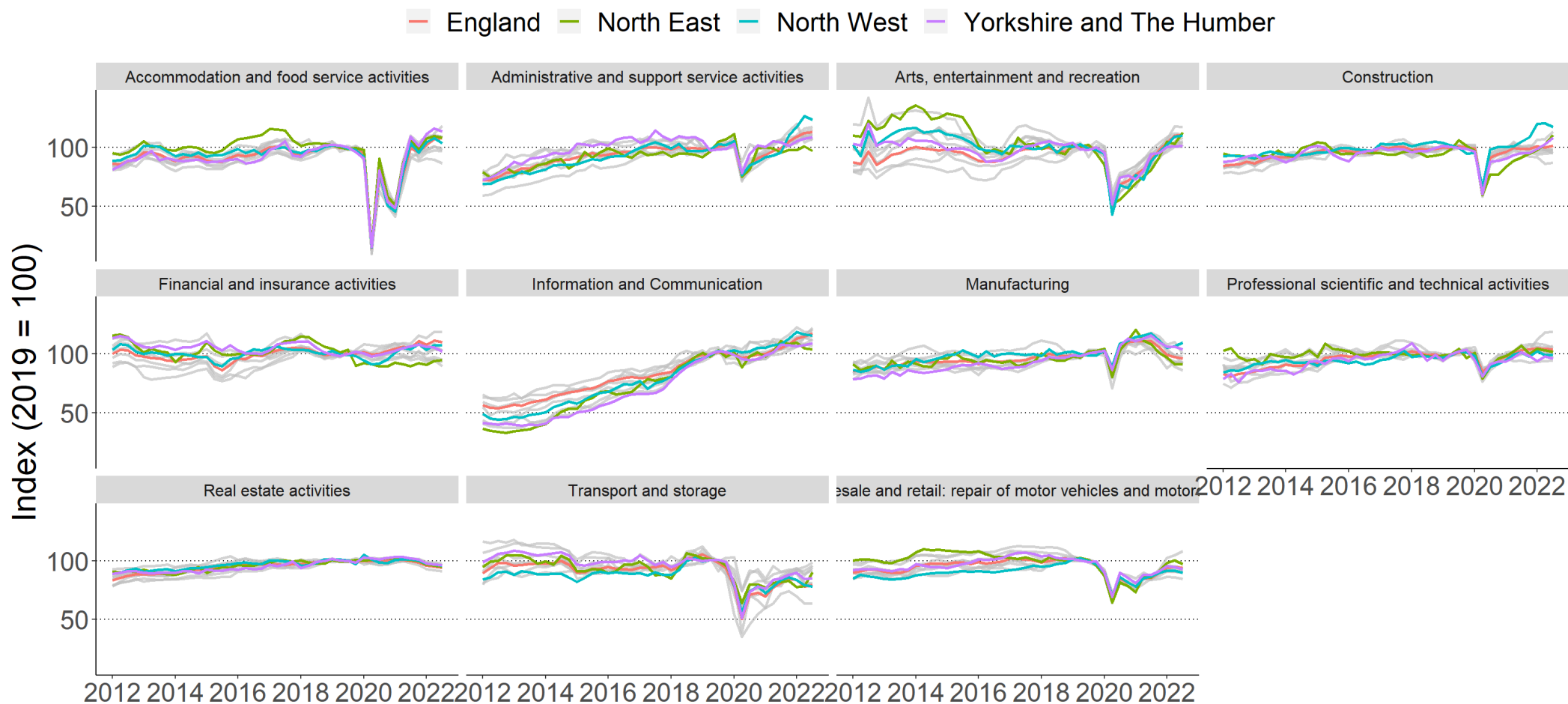
Regional GDP

North West is the second most improved region since Covid
Yorkshire and the Humber around average, North East one of the slowest



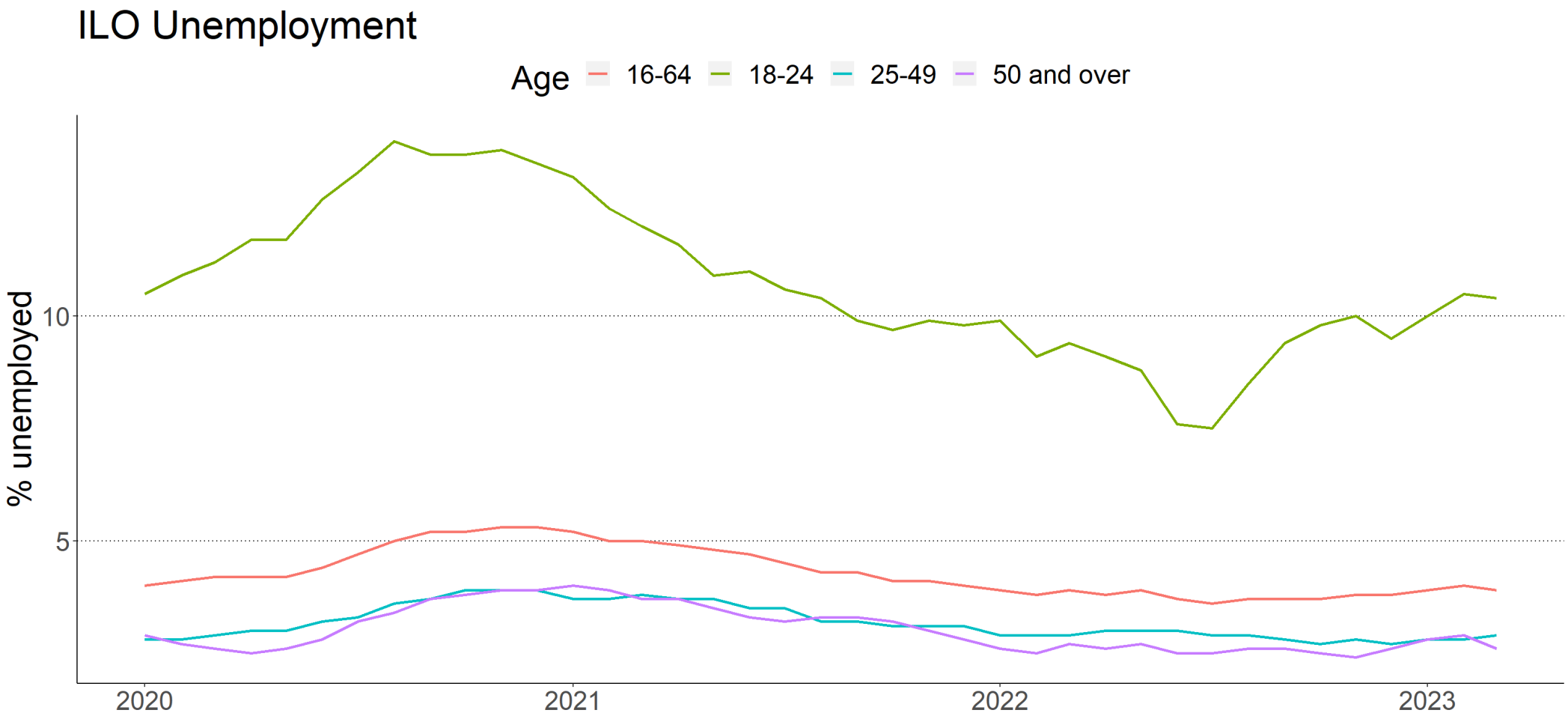
Source: ONS Quarterly country and regional GDP

Regional GDP (sectoral)



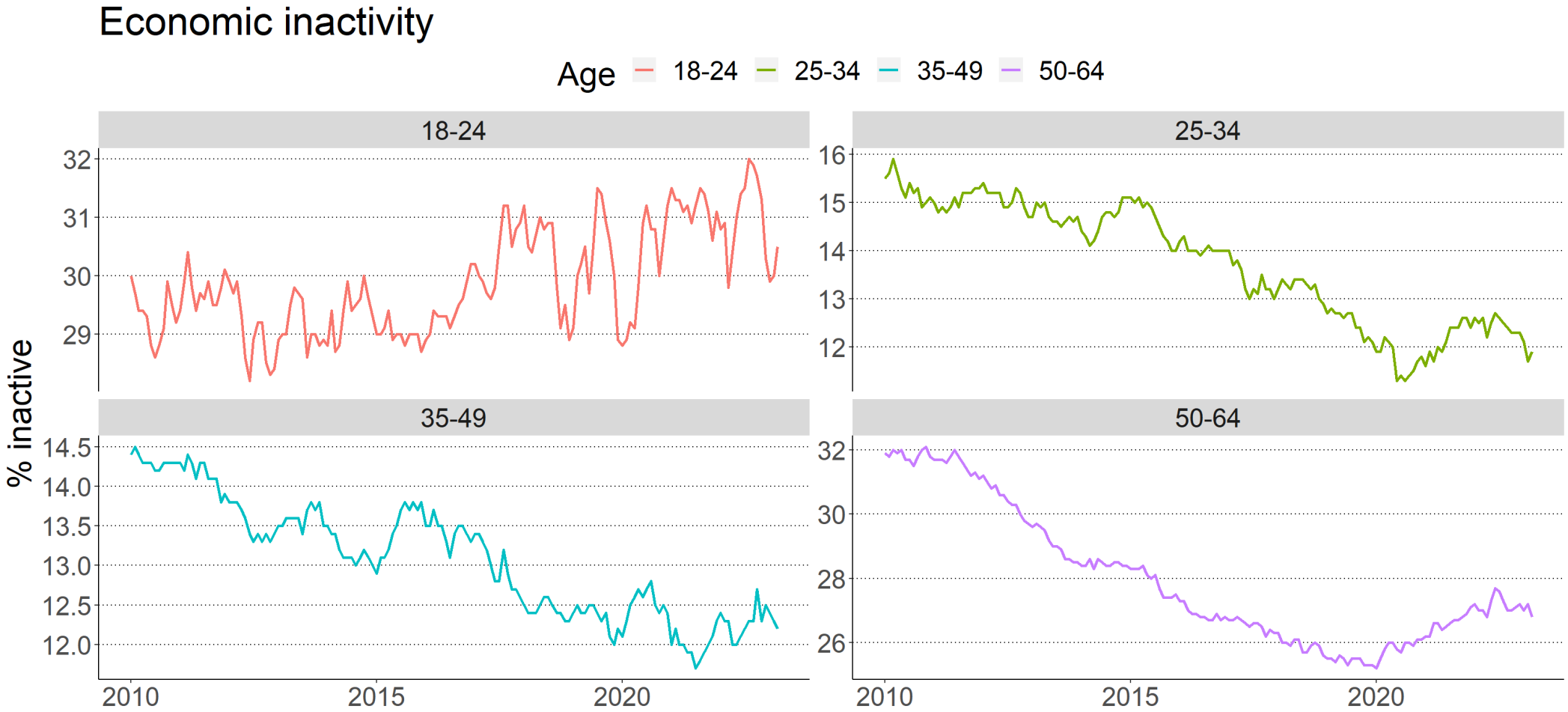
Source: ONS Quarterly country and regional GDP

Labour market



Source: ONS Labour Market Statistics (LMS)

Labour market: inactivity

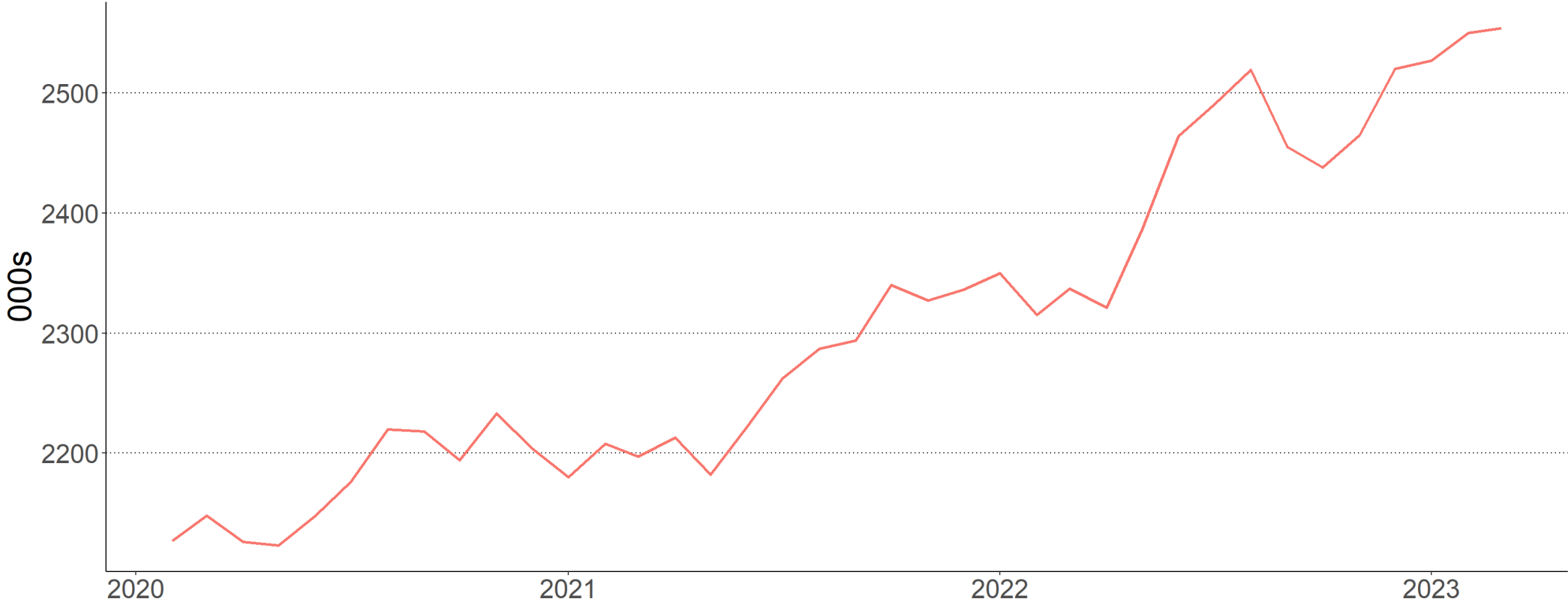


Source: ONS Labour Market Statistics (LMS)

Labour market: inactivity reasons

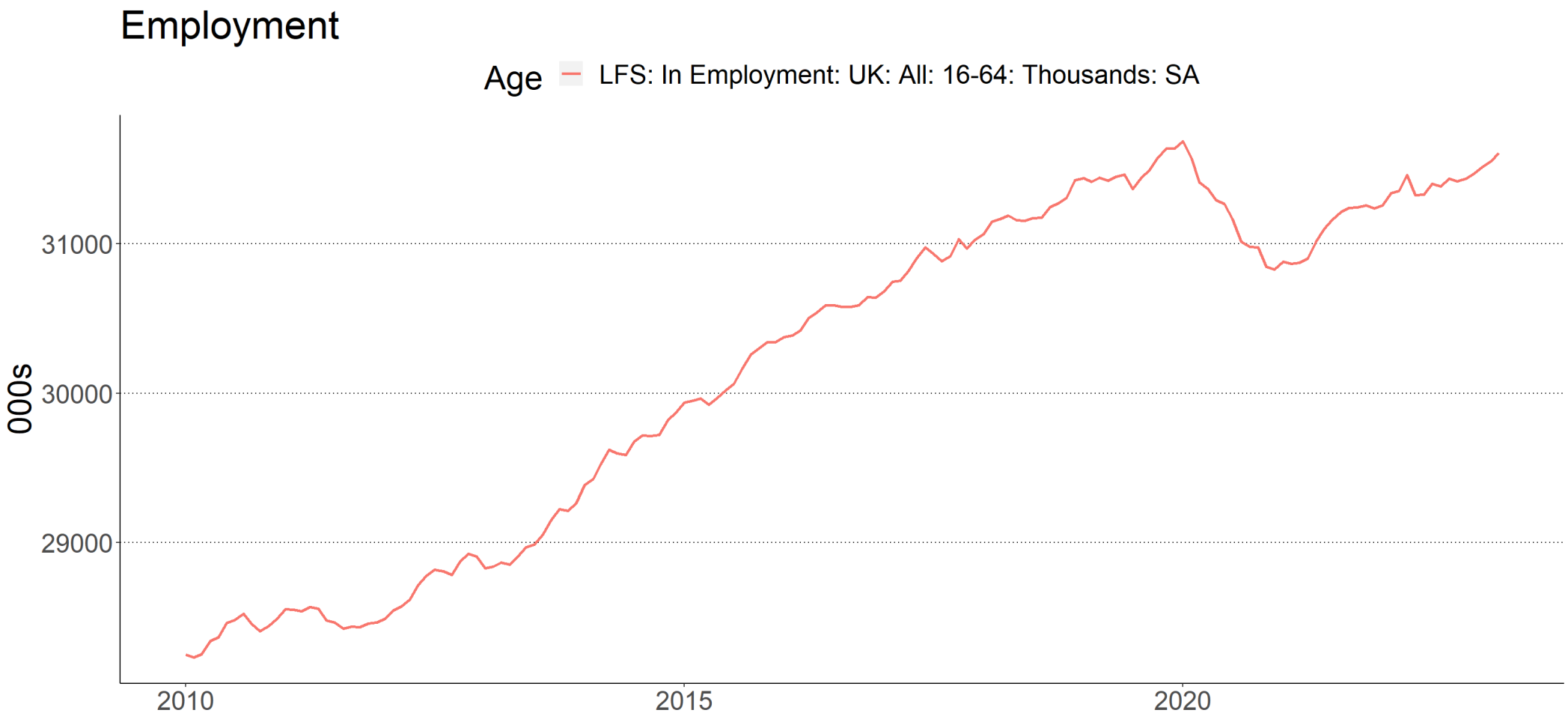
Inactivity from ill health

Long Term Sick: UK: 16-64:000s:SA



Source: ONS Labour Market Statistics (LMS)

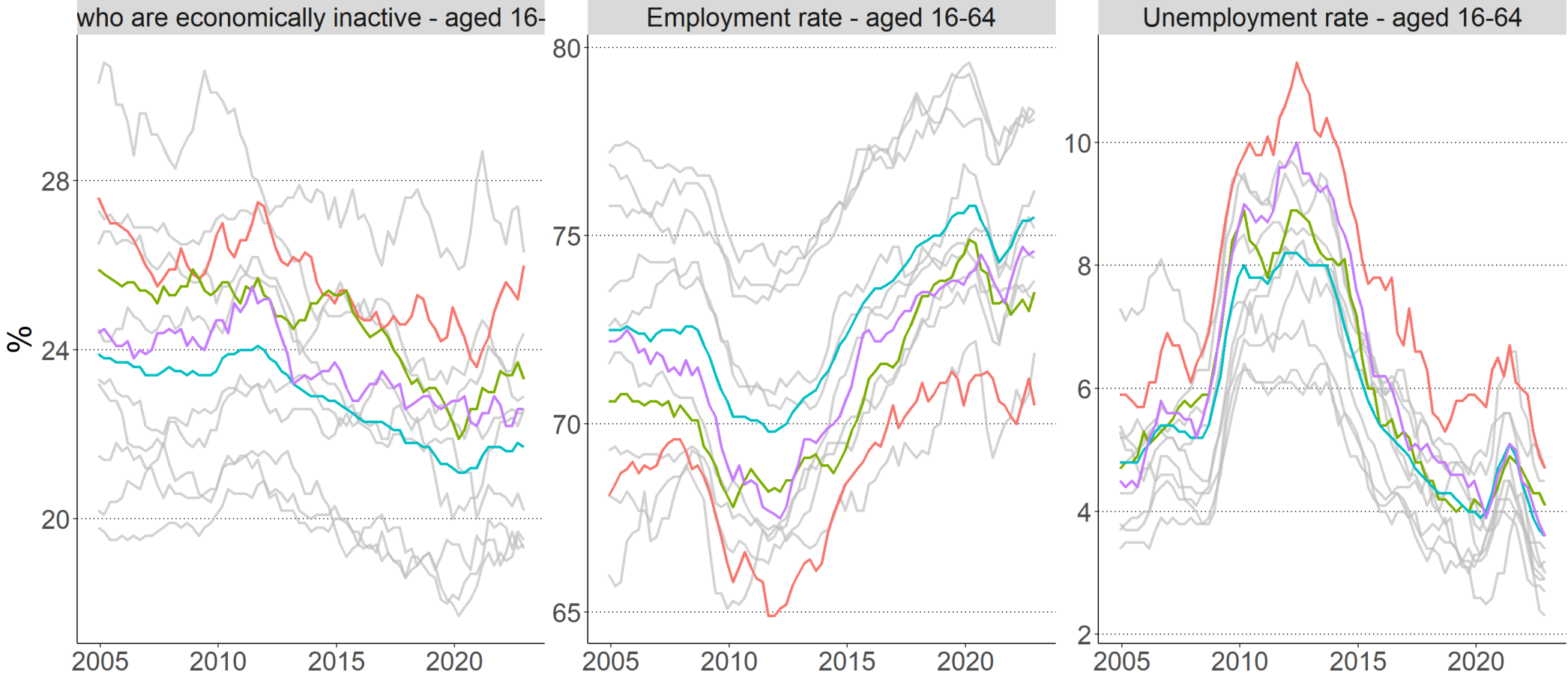
Labour market: employment



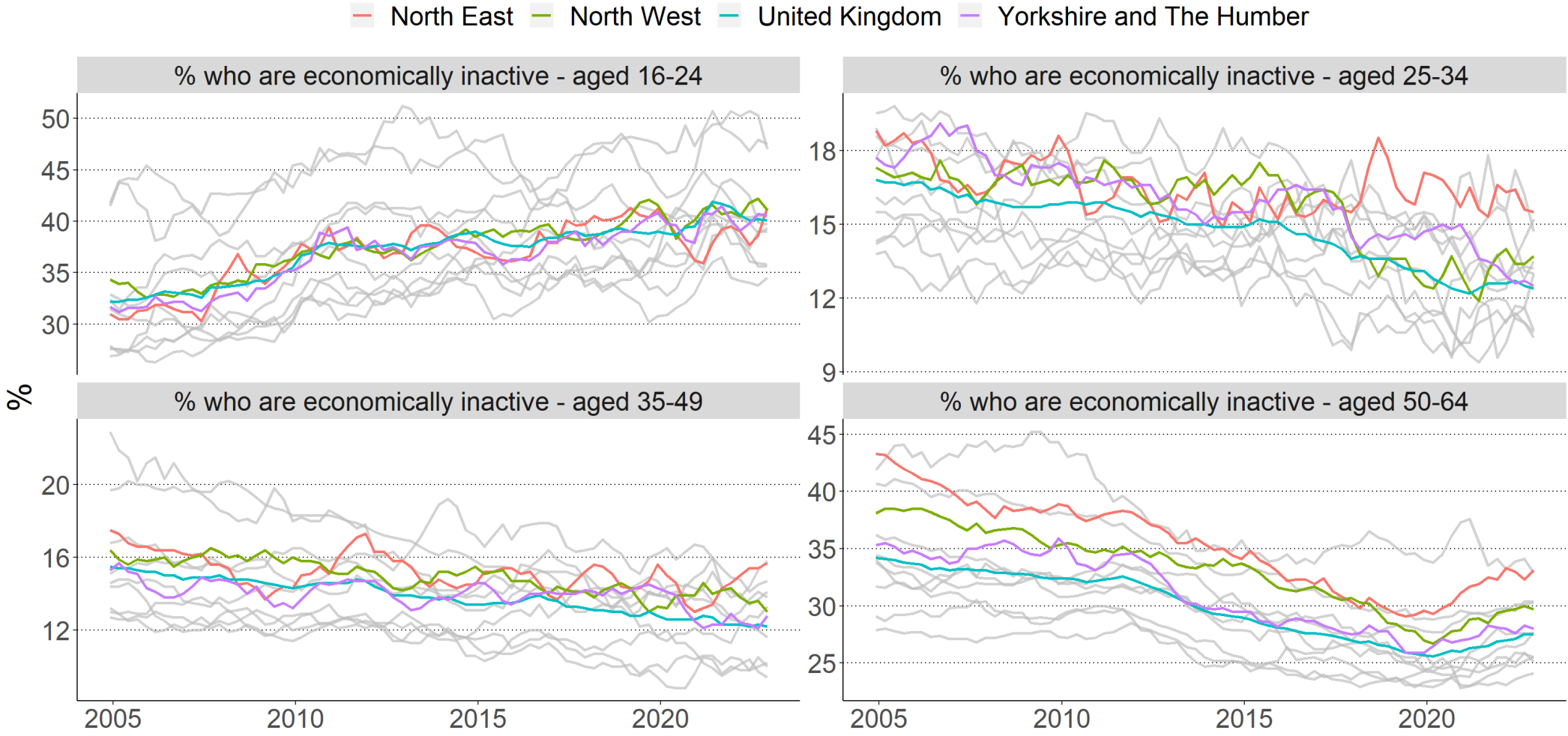
Source: ONS Labour Market Statistics

Regional labour market: summary

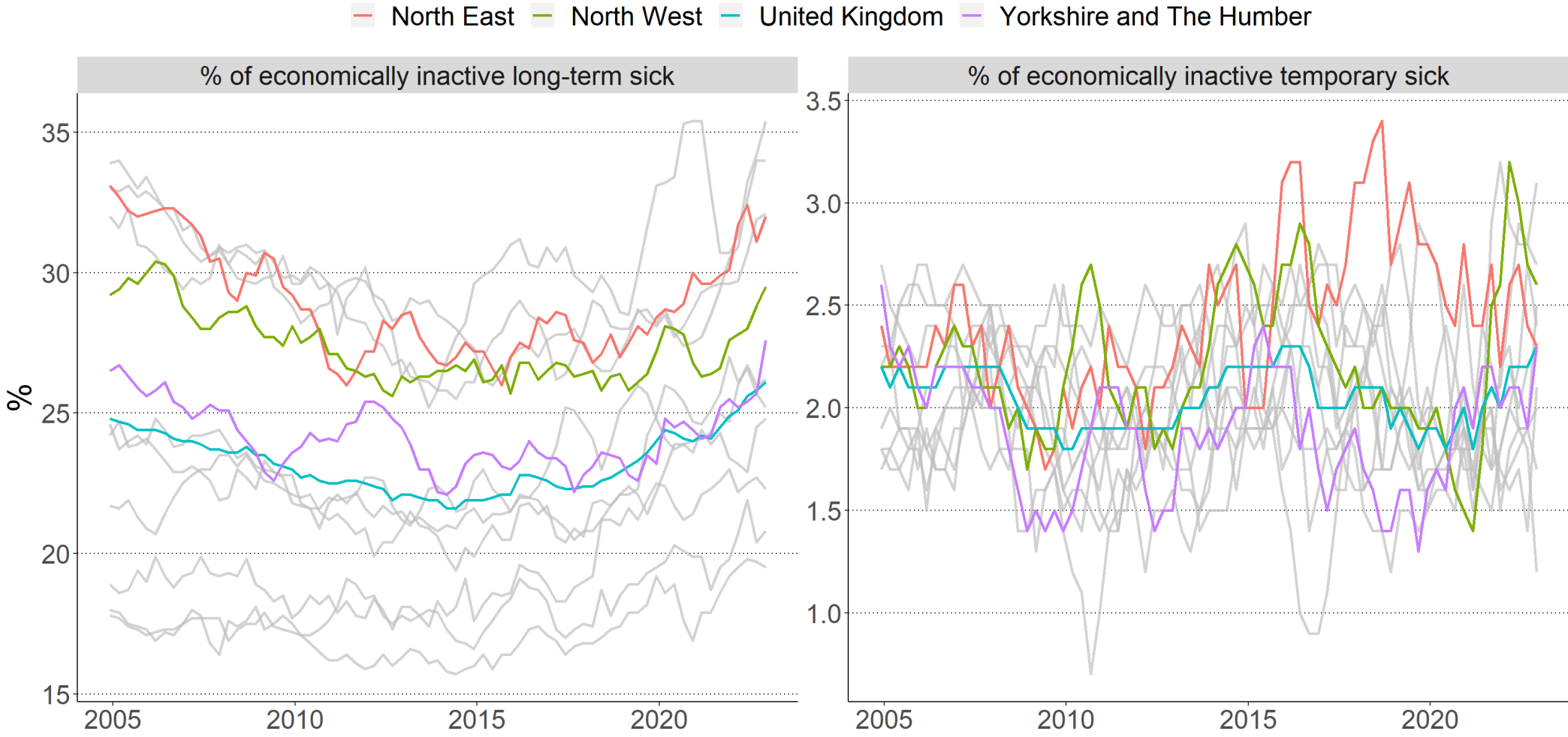
North East North West United Kingdom Yorkshire and The Humber



Regional labour market: inactivity



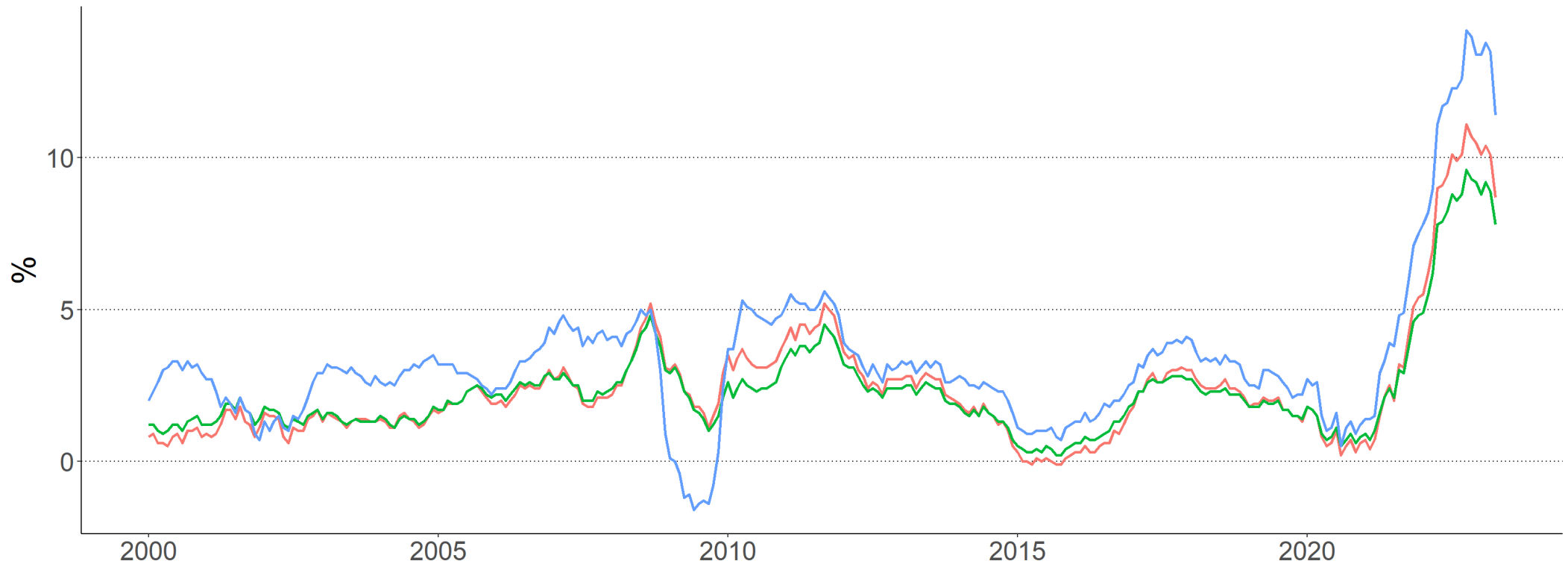
Regional labour market: ill health



Inflation

Inflation is falling more slowly than expected
Food inflation and services are driving prices higher

Index — CPI — CPIH — RPI



Source: ONS Consumer Prices Index (MM23)

Inflation: goods and services

Goods inflation is off its recent highs

Though core and services inflation is of greater concern

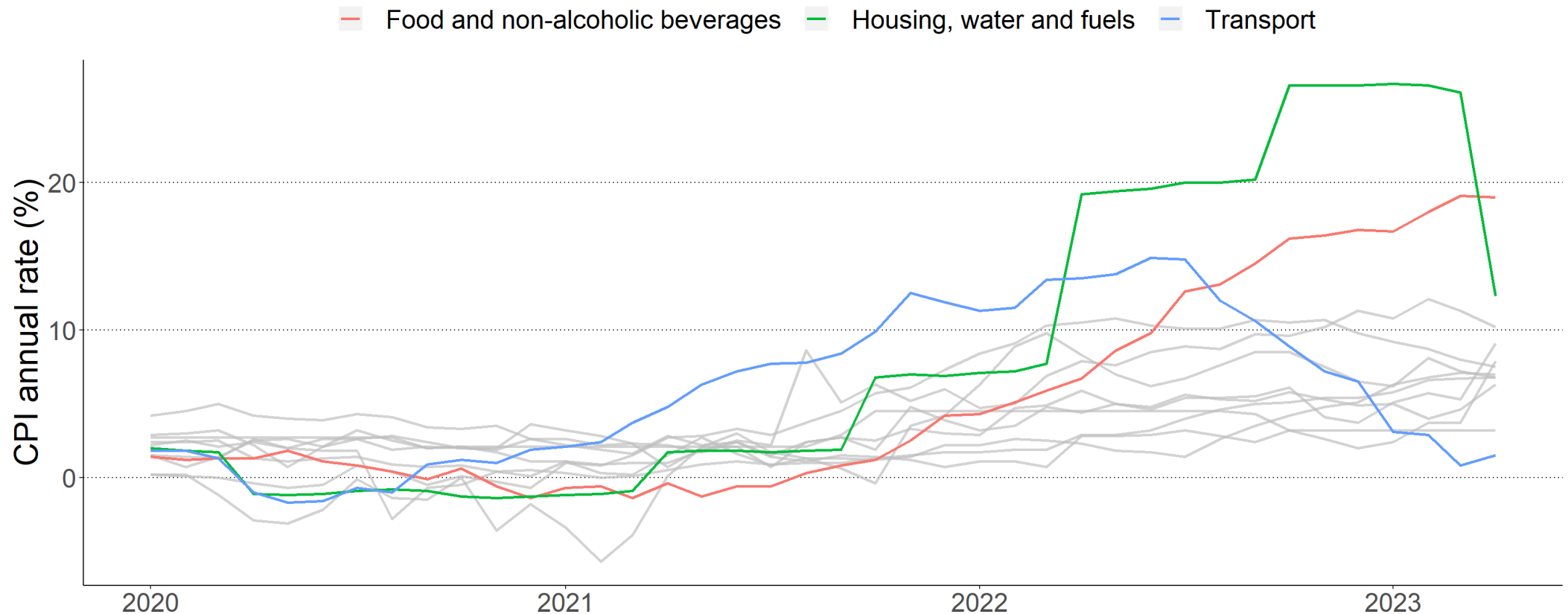


Source: ONS Consumer Prices Index (MM23)

Inflation: a closer look

Food inflation has surprised to the upside

Household energy inflation effects are delayed through policy

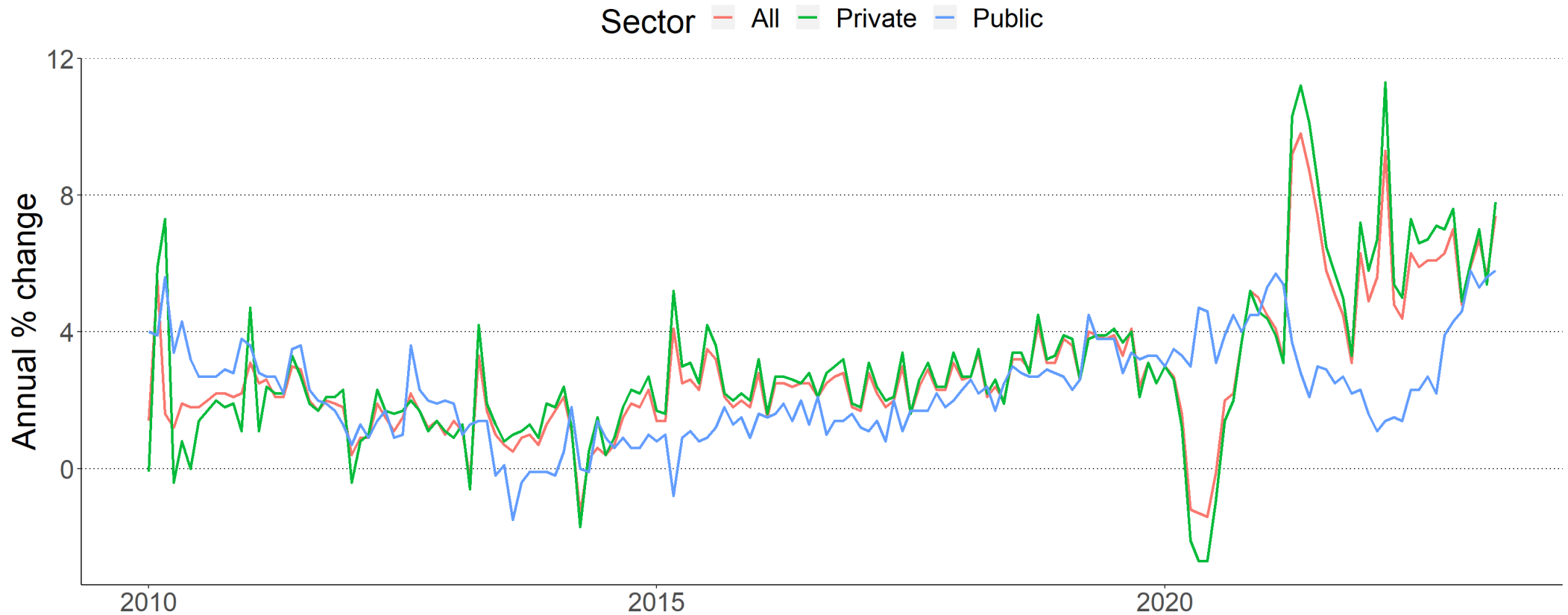


Source: ONS Consumer Prices Inflation MM23

Earnings

Average weekly earnings (total pay)

Public sector pay has strengthened as unions agree deals

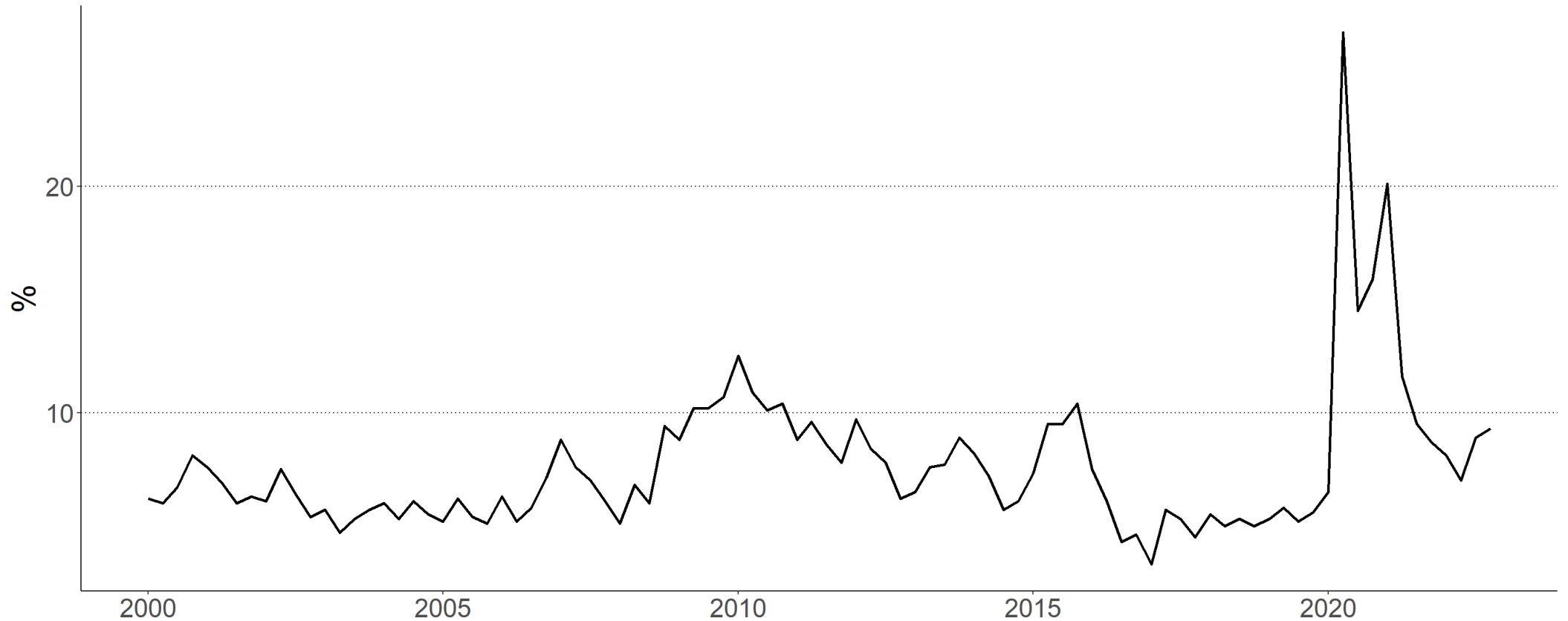


Source: ONS Labour Market Statistics (LMS)

Savings ratio

Households' saving ratio

Key question: will this increased stock be drawn down to maintain spending?

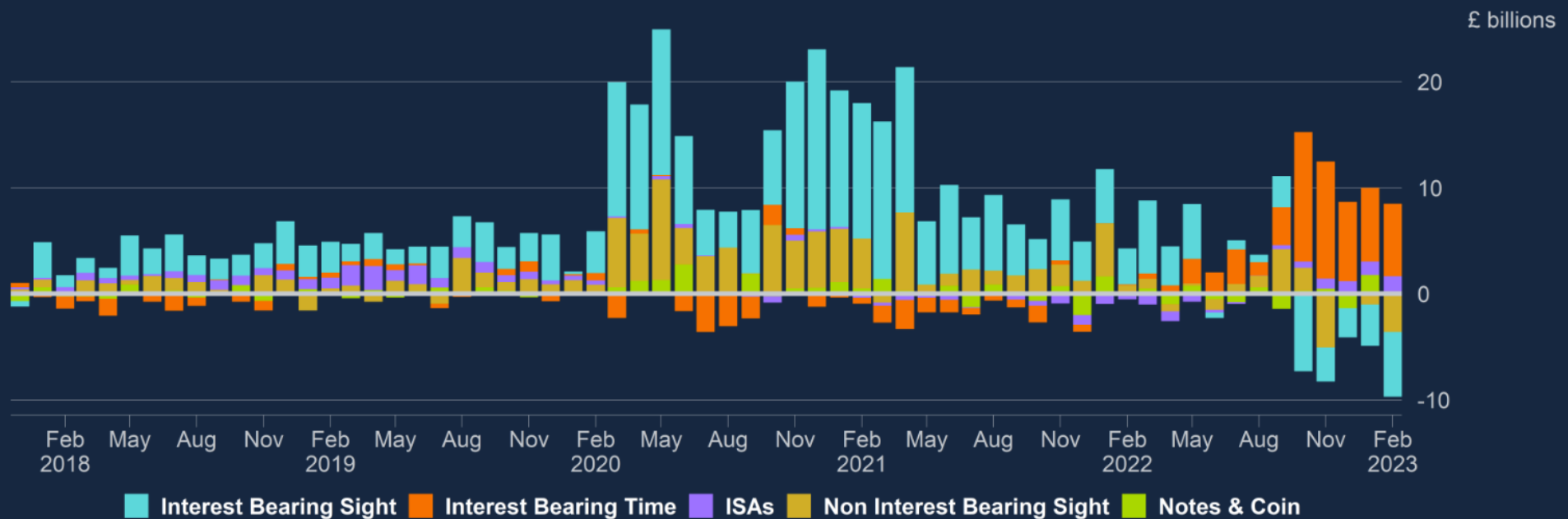


Source: ONS UK Economic Accounts

Household M4 deposits

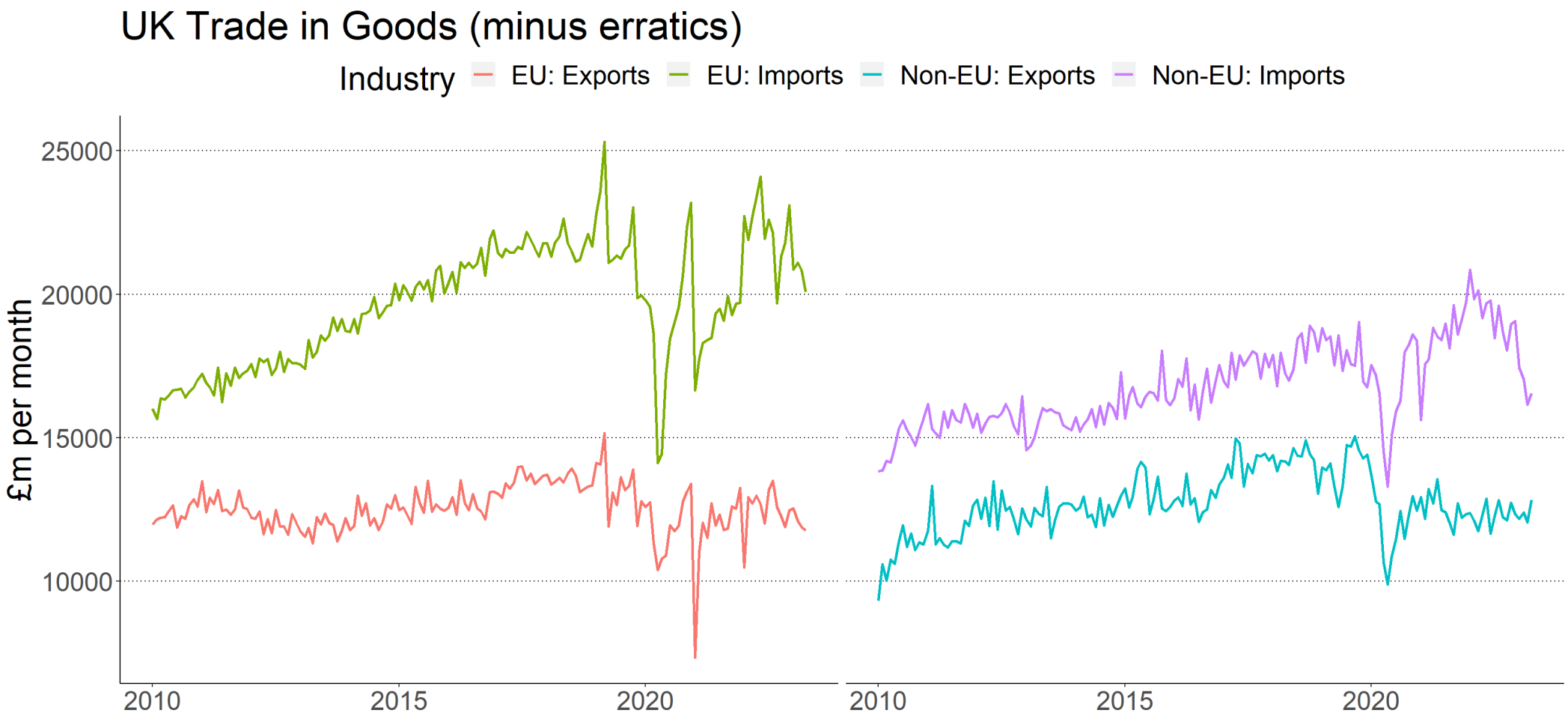
Chart 3: Breakdown of households' deposits (Household M4)

Seasonally adjusted net flow



There is a discrepancy between household M4 and its components due to the seasonal adjustment methodology.

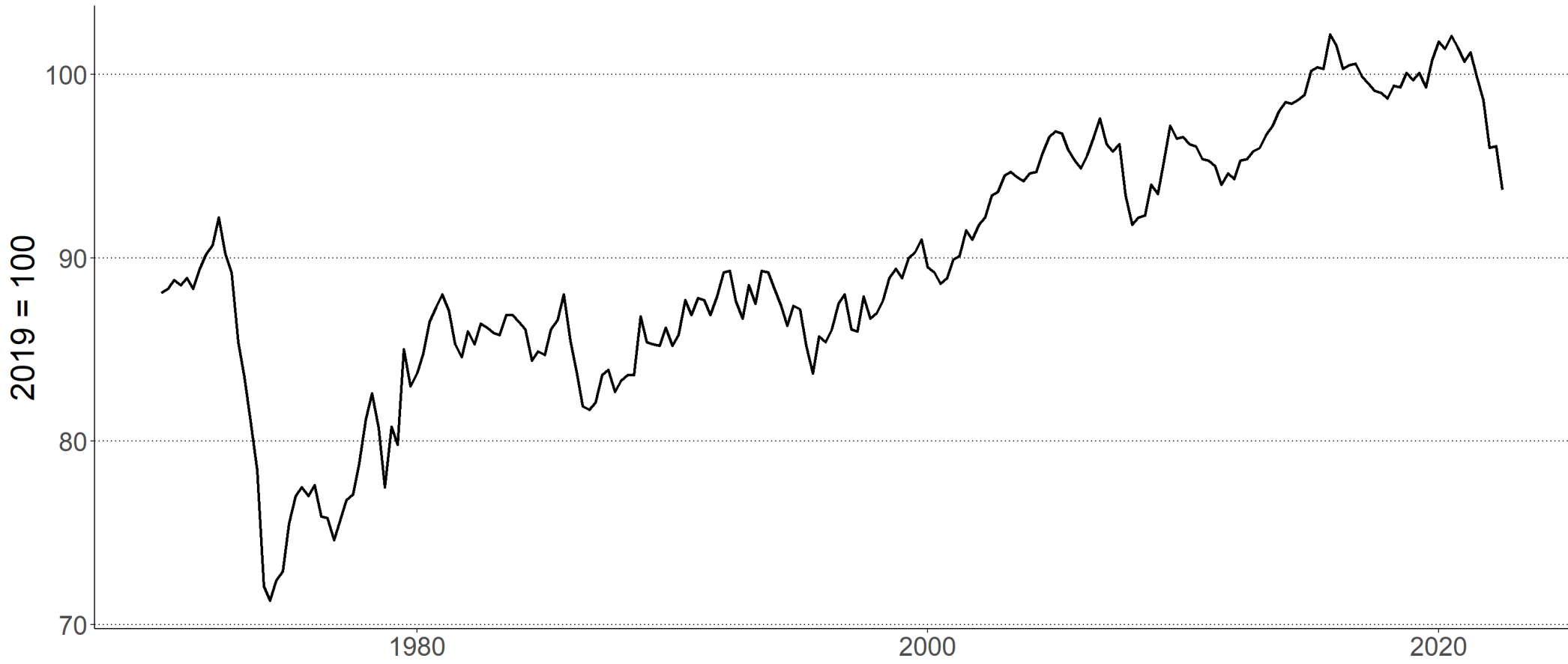
UK Trade



Source: Office for National Statistics MRET

Terms of trade 1

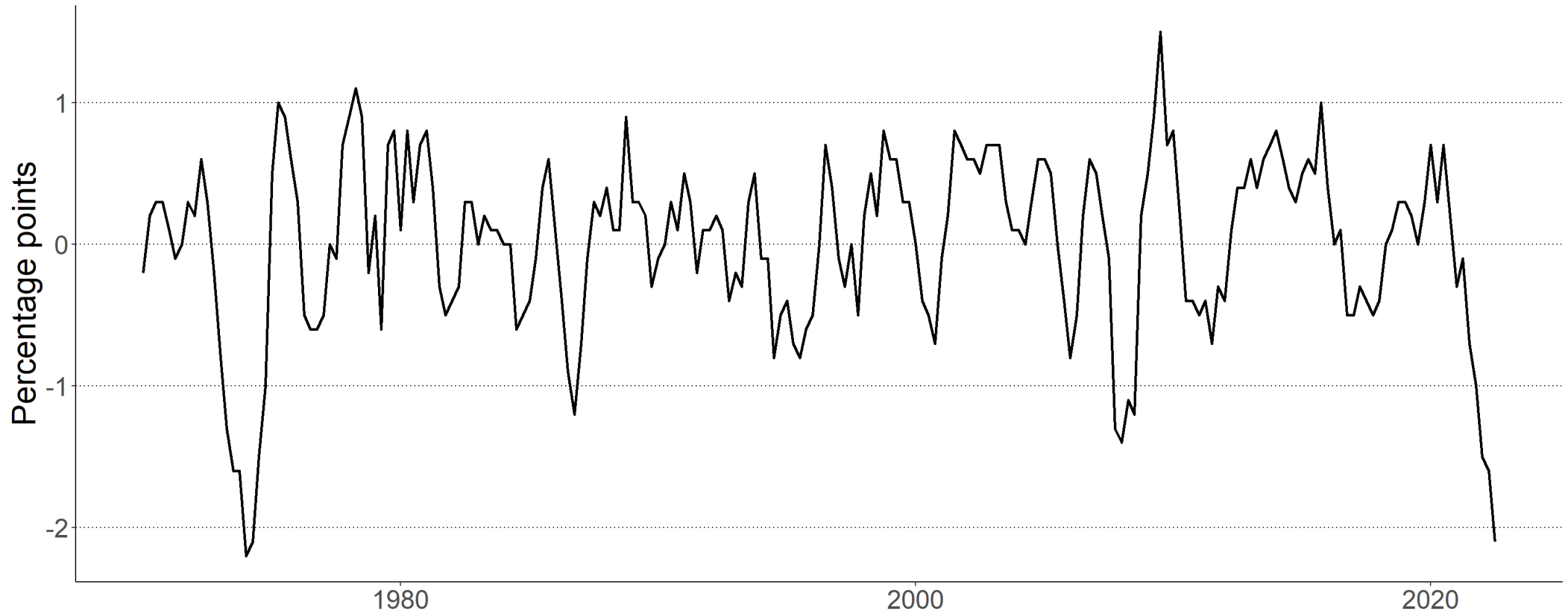
There has been a recent decline in the UK terms-of-trade over the last year
Ratio of export prices to import prices, Q1 1970 to Q3 2022



Terms of trade 2

The UK is currently experiencing its largest negative terms-of-trade effect since the mid-1970s

Percentage point difference in four-quarter growth rates of UK real GDI and real GDP

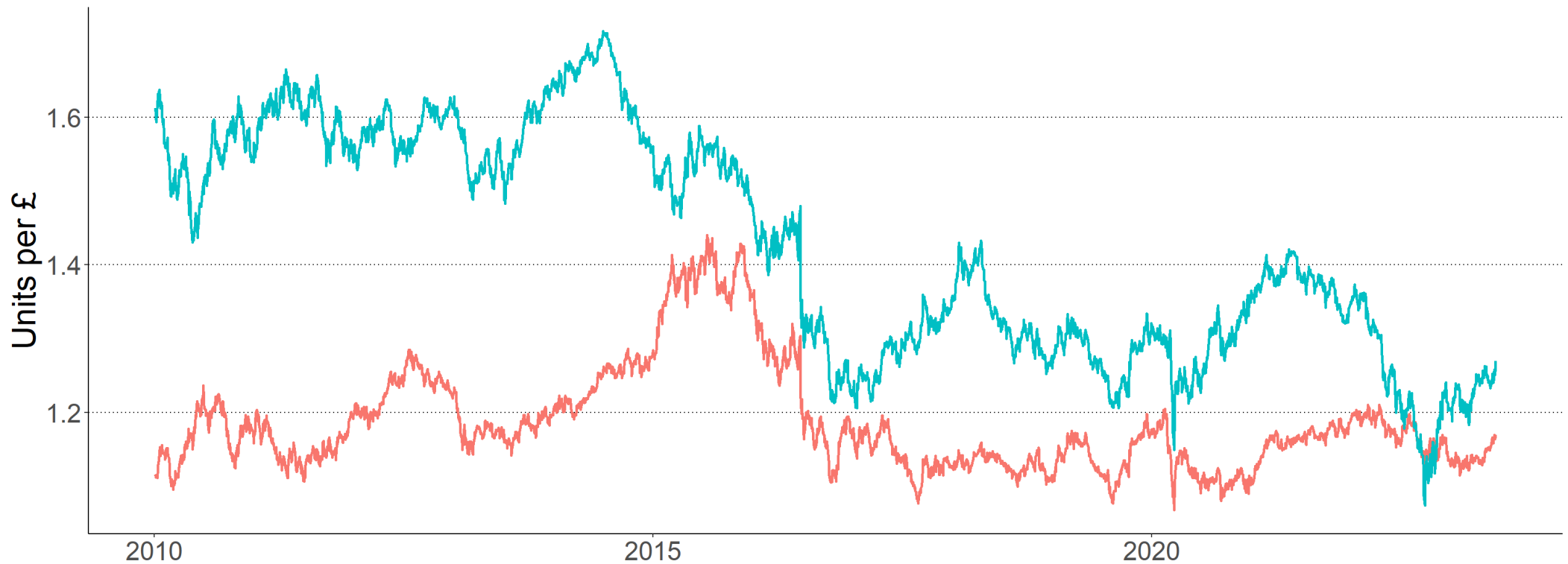


Exchange rates

Sterling Exchange Rates

Sterling holding strength against the dollar as Fed Rate increases slow down

— GBP:EUR — GBP:USD

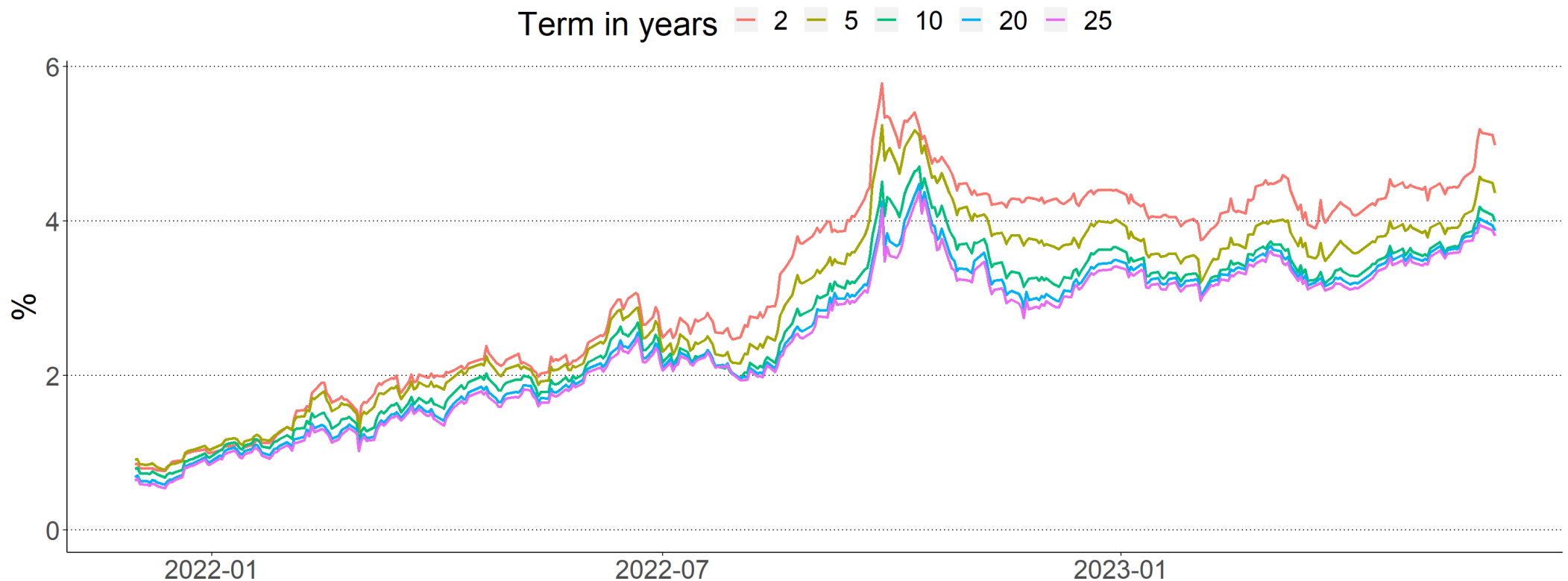


Source: Bank of England

OIS Rates

Overnight index swap rates

The 'moron premium' has subsided though rate rise expectations have increased with latest inflation and employment data

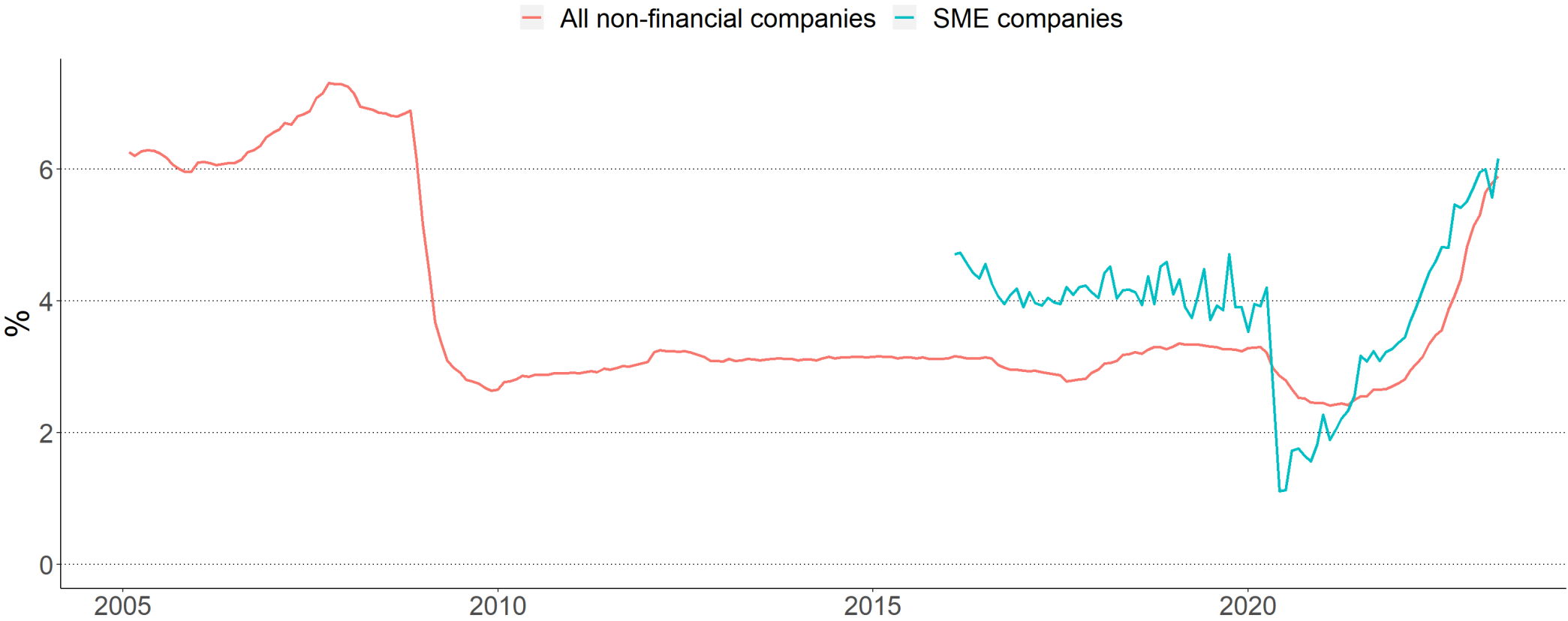


Source: Bank of England

Corporate Lending Rates

New fixed-rate loan rates

Rates rising for all firms, though large company vs SME spread has narrowed

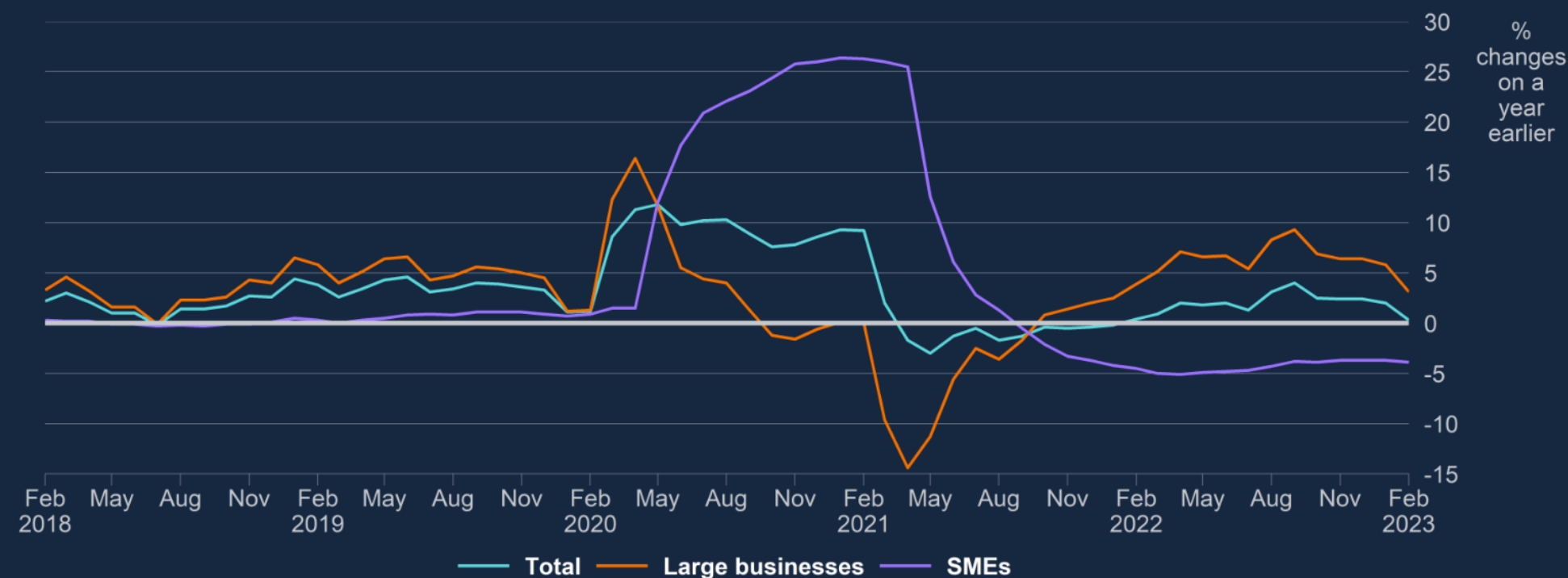


Source: Bank of England

Corporate Lending Volumes

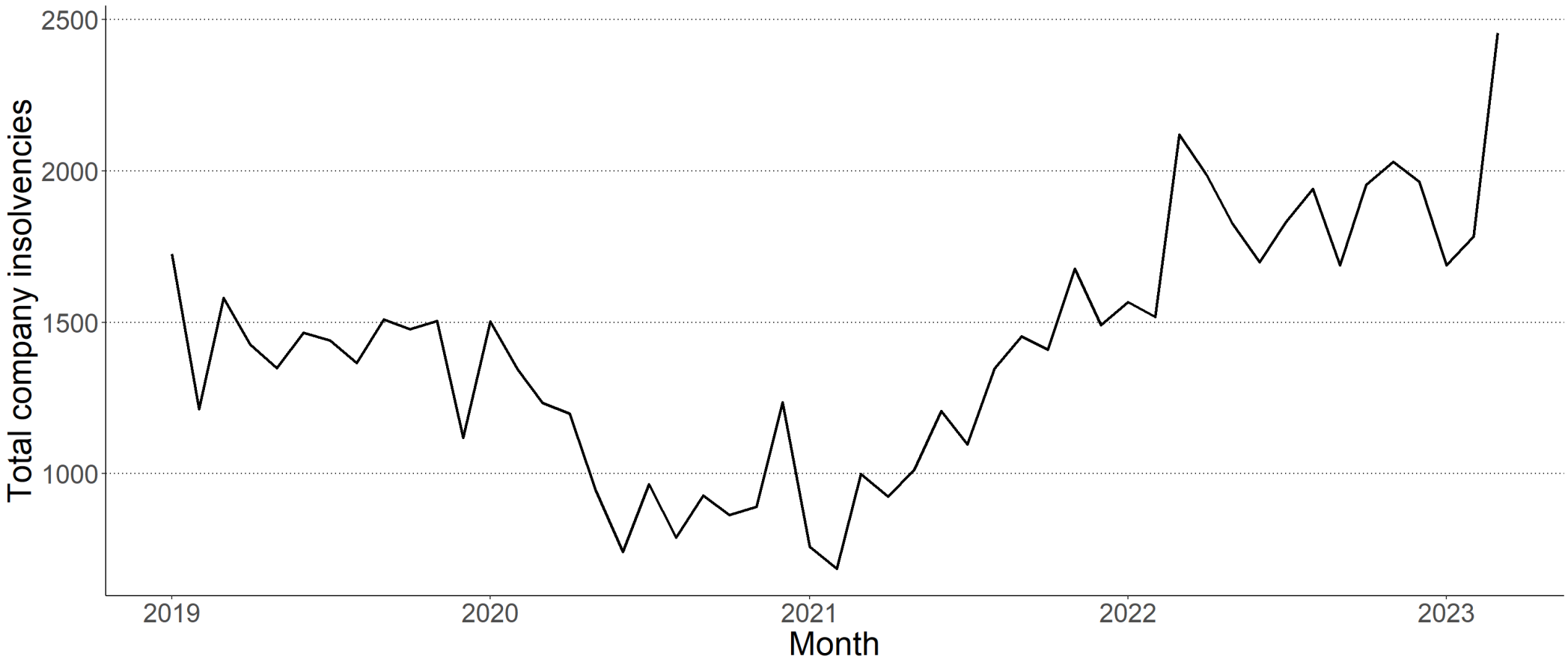
Chart 4: Annual growth of lending to SMEs and large businesses

Seasonally adjusted



Insolvencies

Company insolvencies continue to rise compared to pre-COVID
Mostly voluntary, though compulsory liquidations have doubled in the past year

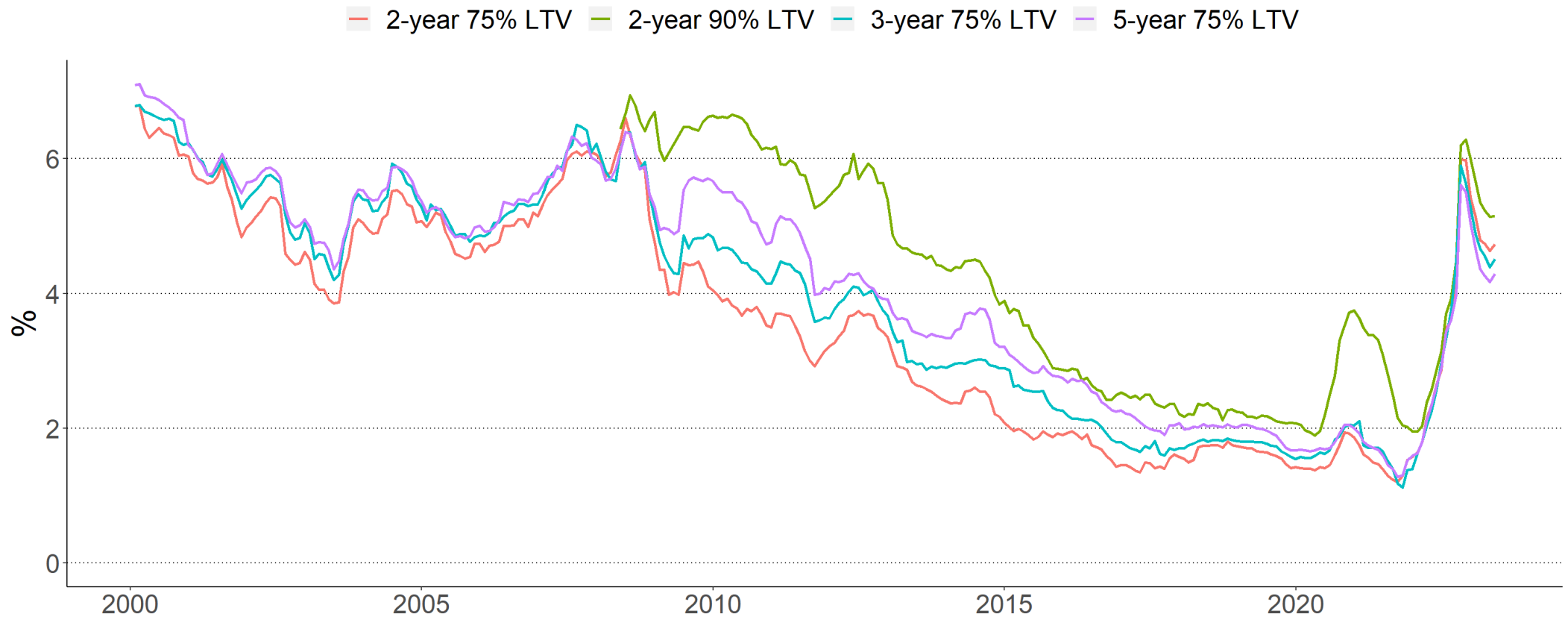


Source: Insolvency Service

Mortgages

Selected mortgage rates

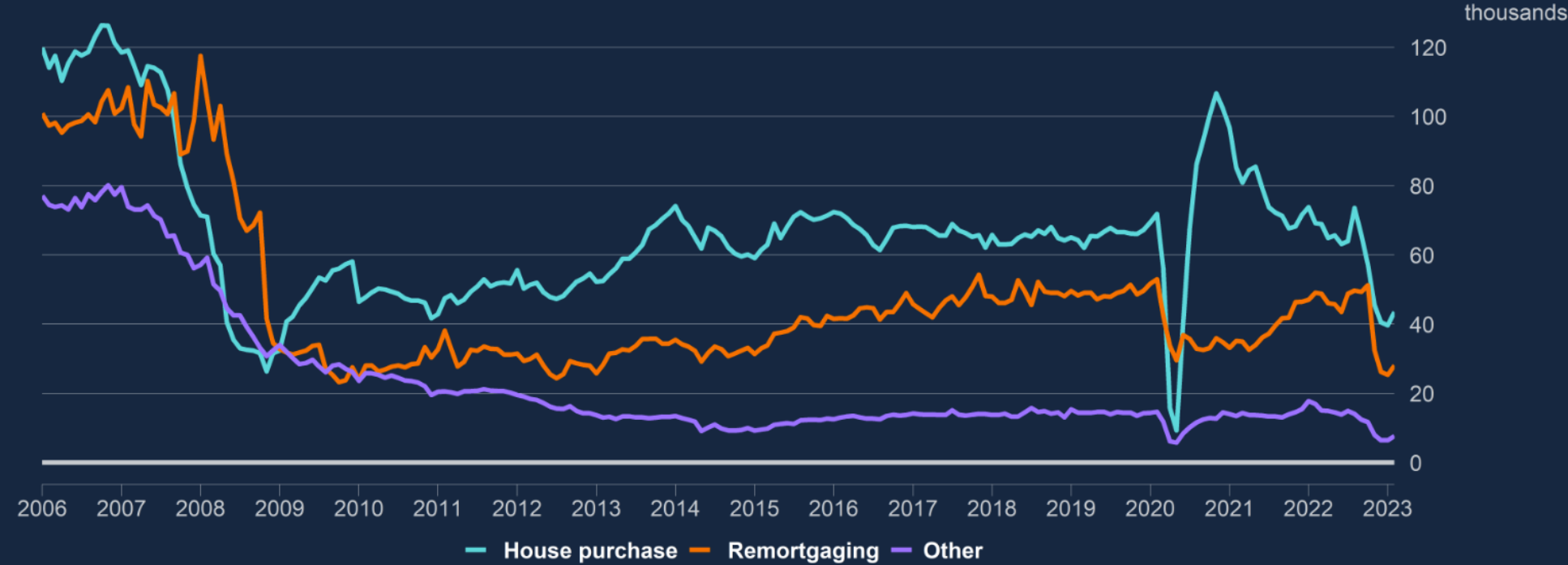
Falling off recent highs, though spreads remain wider on LTV ratios



Source: Bank of England

Mortgage approvals

Chart 1: Mortgage approvals
Seasonally adjusted



Budget 2023 (1/3)

Trailblazer devolution deals

- Greater Manchester and West Midlands Combined Authorities
- “Single pot” settlement; treated more like a government department
- Cover a variety of policy and spending areas
- Begin at SR2025/26

Budget 2023 (2/3)

Childcare reform

- Phased improvements of childcare support
- Welcome view of childcare as economic infrastructure
- Presumes that the market will provide

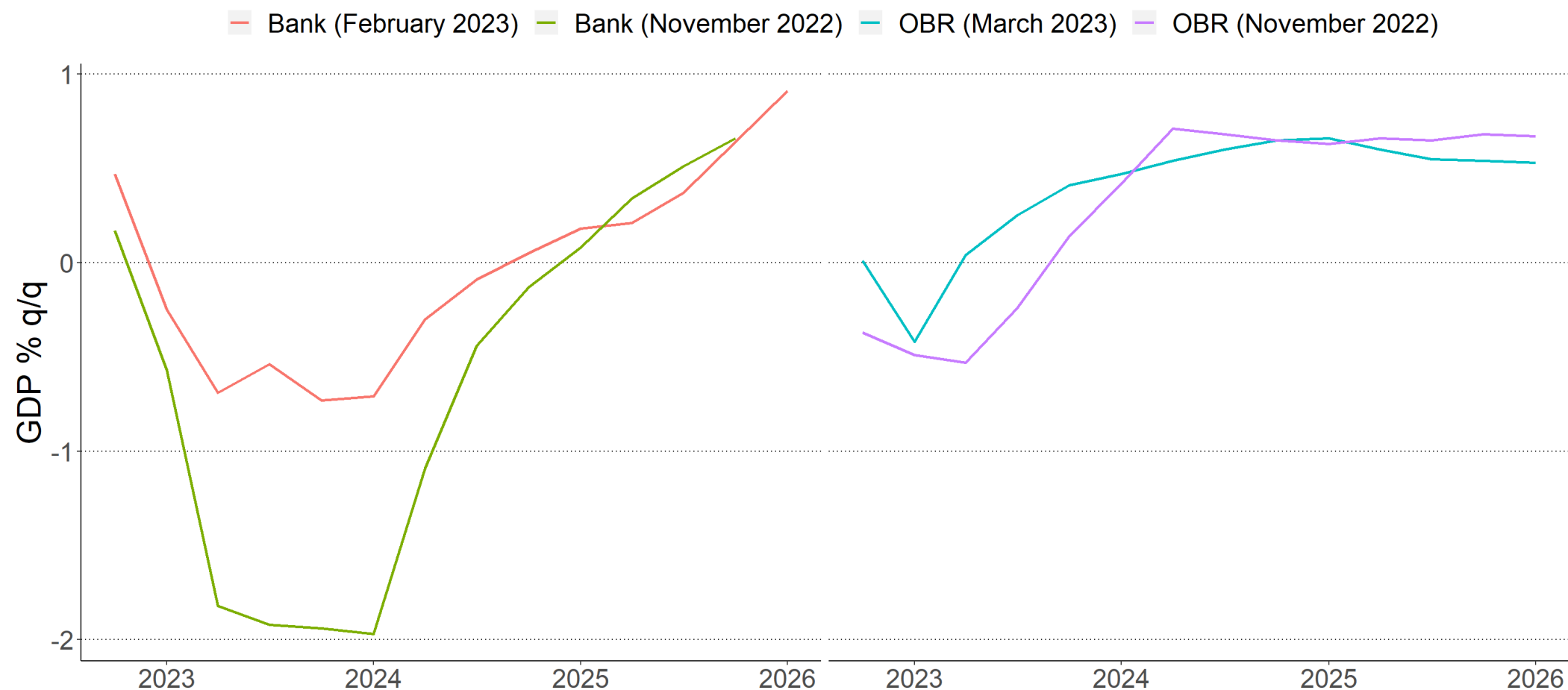
Budget 2023 (3/3)

Full expensing for corporation tax

- Welcome introduction of a substantial reform to business expenses within tax system
- Effect is blunted due to its time-limited nature
- Perhaps some problems down the road due to debt-equity treatments within tax system

Forecasts

OBR and Bank of England forecasts



Summary

- Overall, demand remains weak, though we have generally been surprised to the upside
- Inflation, though stickier than expected, will fall sharply over the coming months as the regulated price caps falls in April and July. However, energy prices remain (and are forecast to remain) above their long-run average
- Upside surprises to demand, inflation, employment and wages mean Bank Rate is now (4.5%) likely to increase over the coming months
- The labour market remains tight, but immigration is supporting recruitment, particularly in London
- Household disposable income, household spending and savings withdrawals remain our largest area of uncertainty in the outturn for the coming year
- Corporate insolvencies are rising, lending is flat (negative for SMEs) and refactoring continues to get more expensive
- Aggregate growth will be weak, but there are large sectoral differences

