

Sefton Economic Forum

Economic Update

Q4 2023

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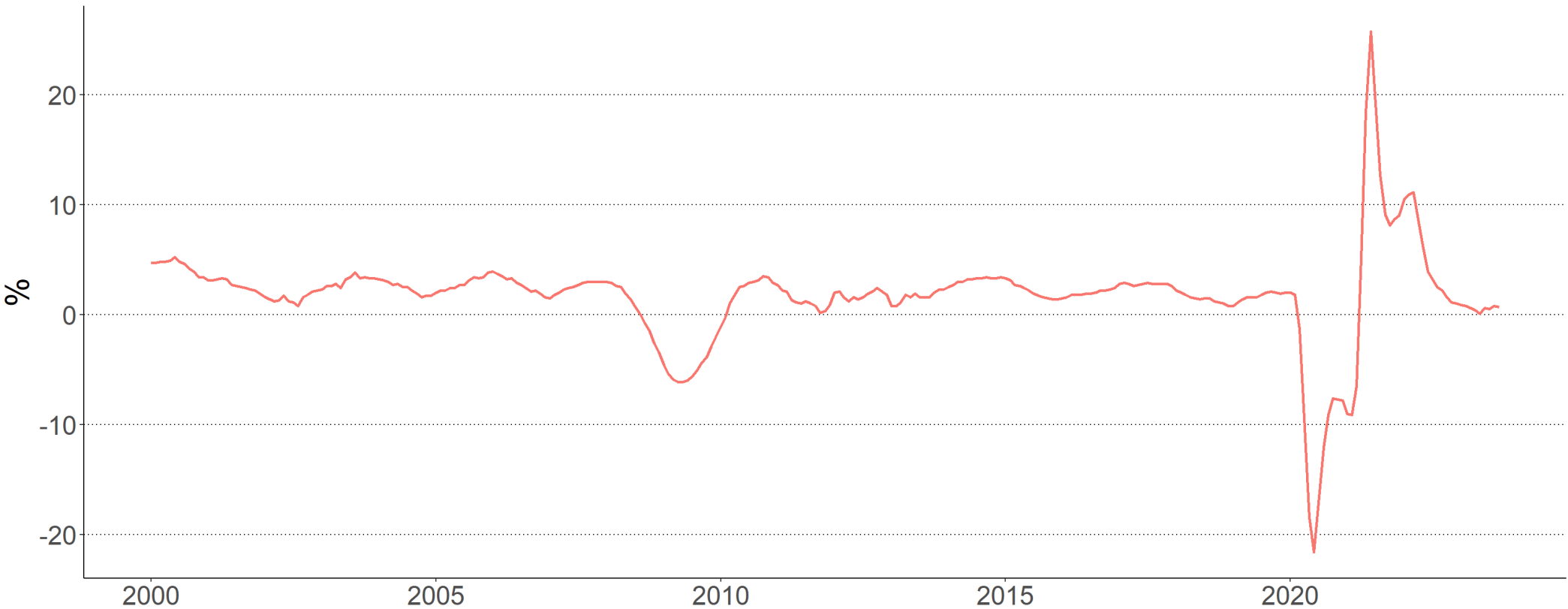
- UK GDP and Demand
- Labour Market
- Costs & Prices
- Trade & Investment
- Currencies and interest rates
- Insolvencies & Loans
- Mortgages & approvals
- Forecasts

UK GDP and Demand

UK GDP

UK GDP growth
Growth rates remains low

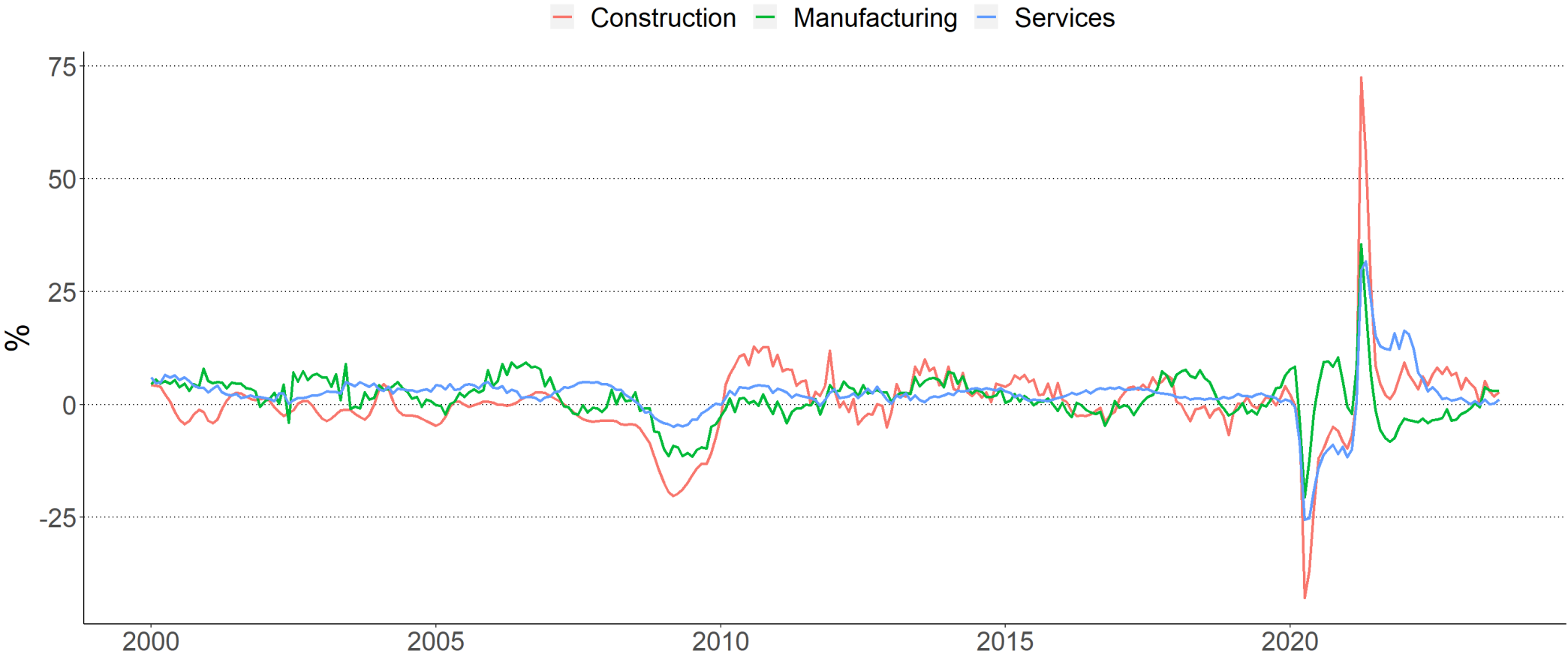
GDP (rolling quarter annual)



Source: ONS Monthly GDP

UK GDP

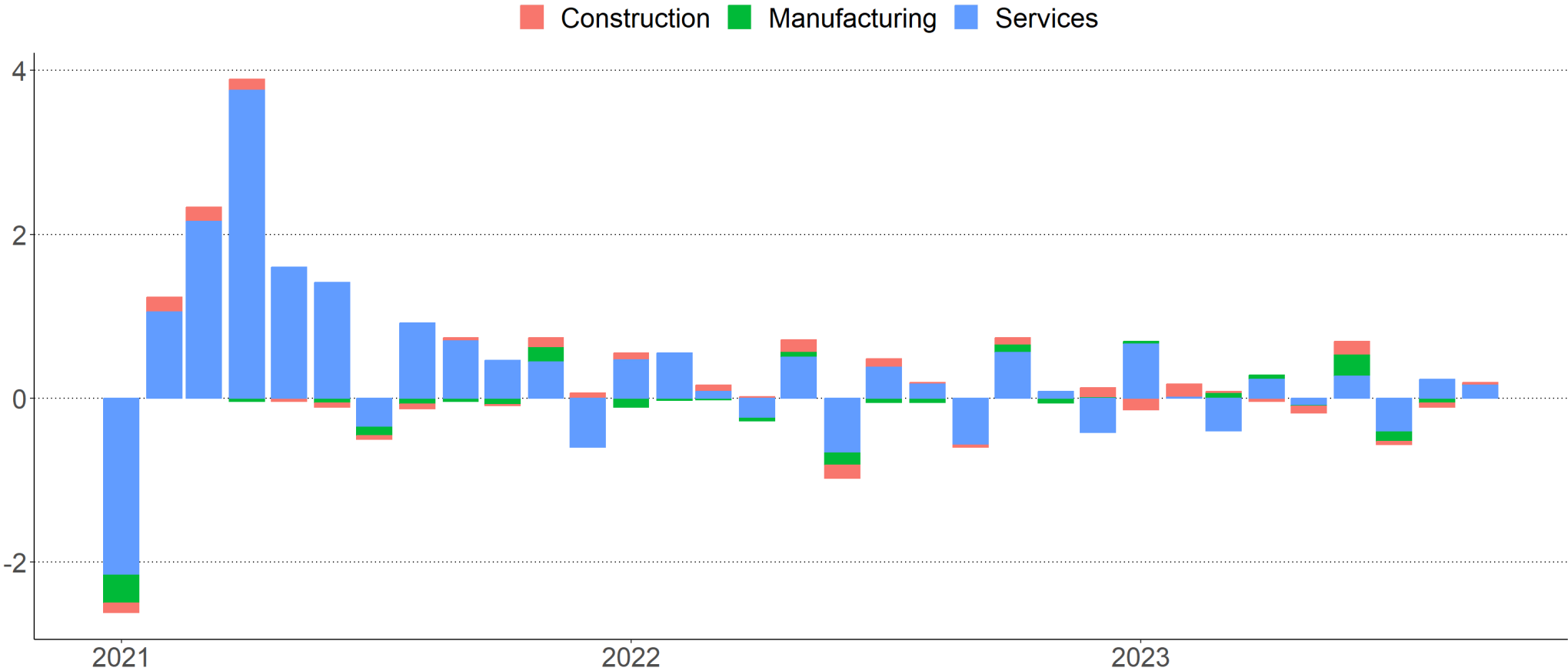
GDP growth by sector
All sectors look weak



Source: ONS Monthly GDP

GDP sector monthly contributions

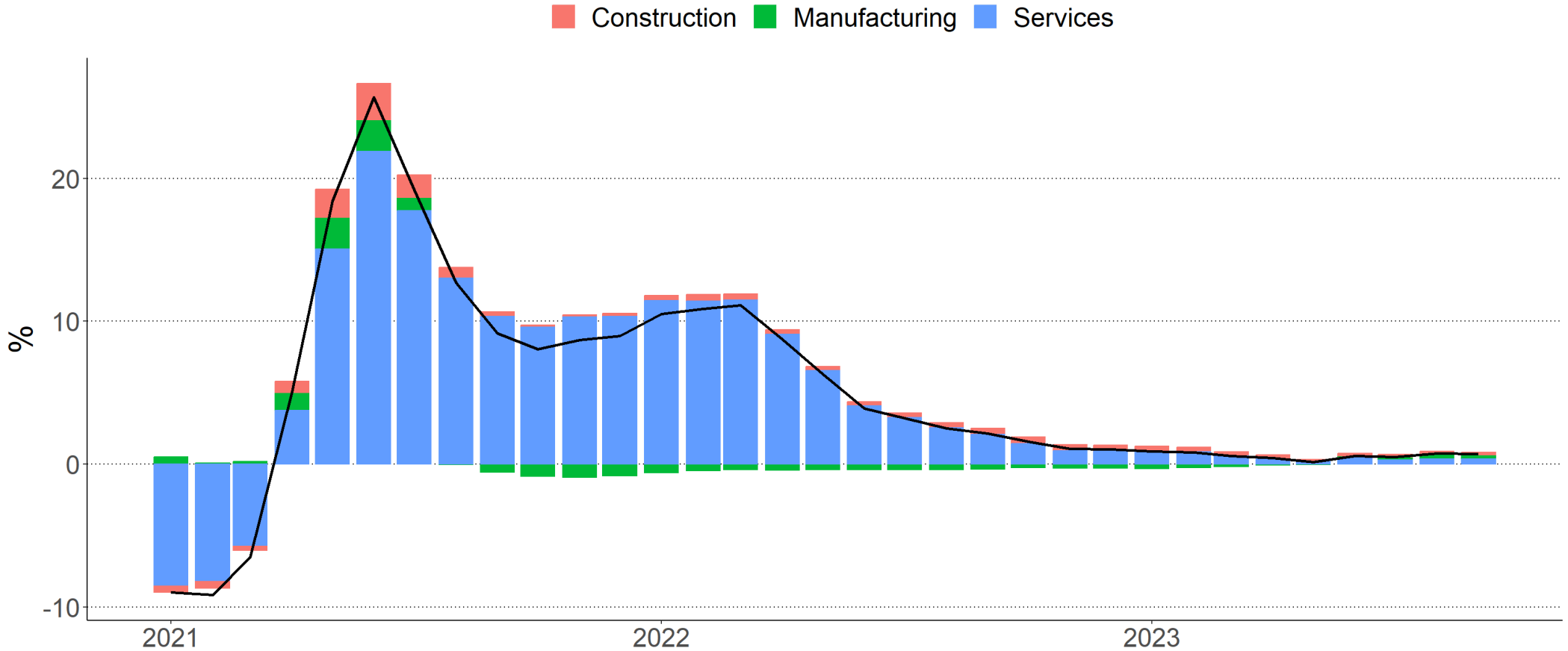
Sector contributions to monthly GDP
Low levels of growth cause volatility in the monthly data



Source: ONS Monthly GDP statistics

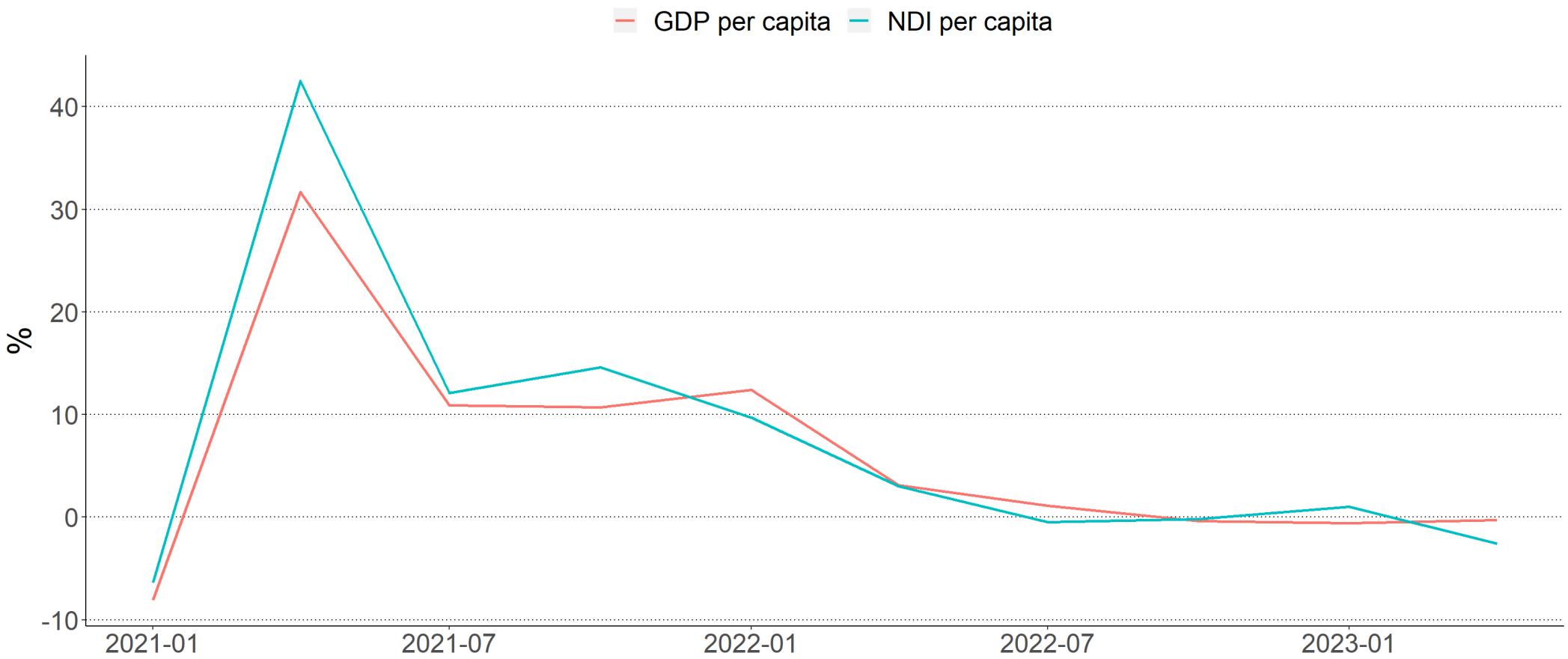
GDP Rolling 3m sector contributions

Rolling 3-monthly contributions to GDP growth
Stable and low growth is made clearer



Per capita

Per capita
Growth appears even weaker

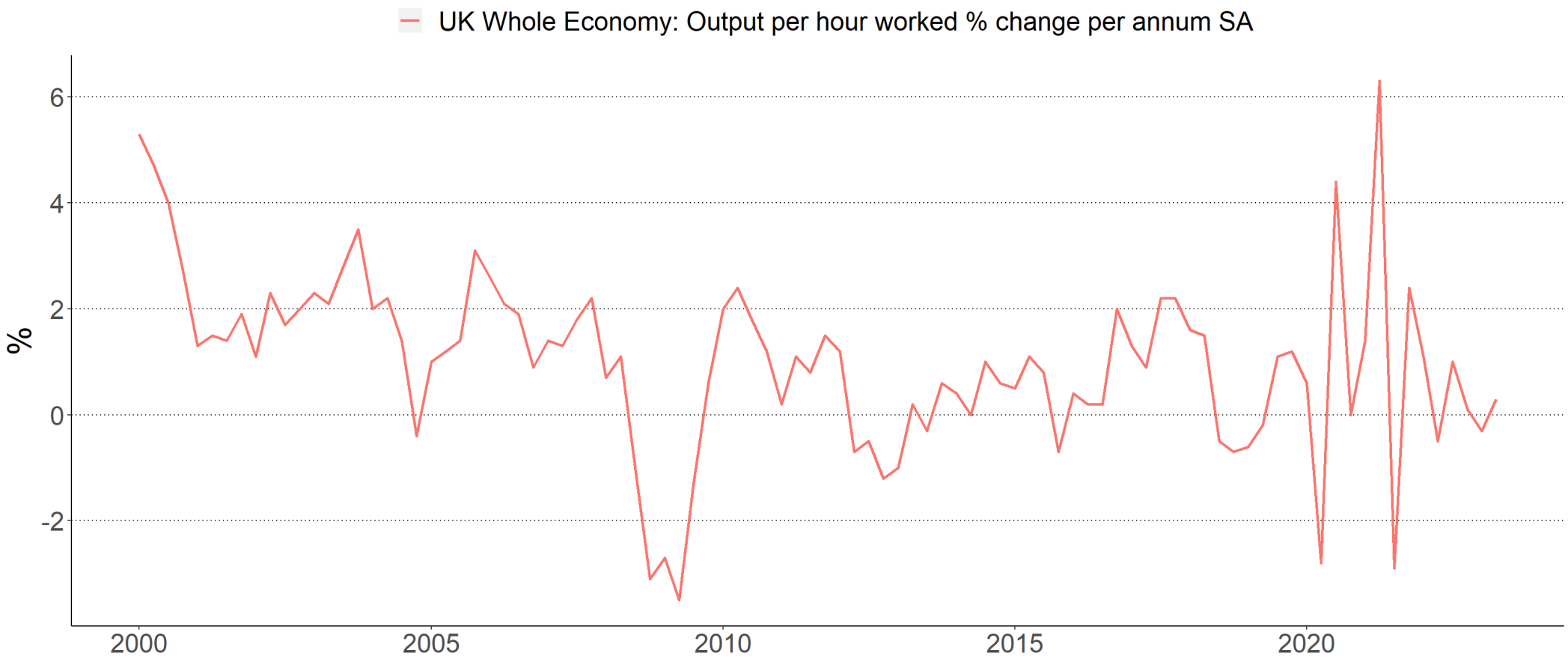


Source: ONS UK Economic Accounts

Labour productivity

Productivity

Productivity growth continues to disappoint

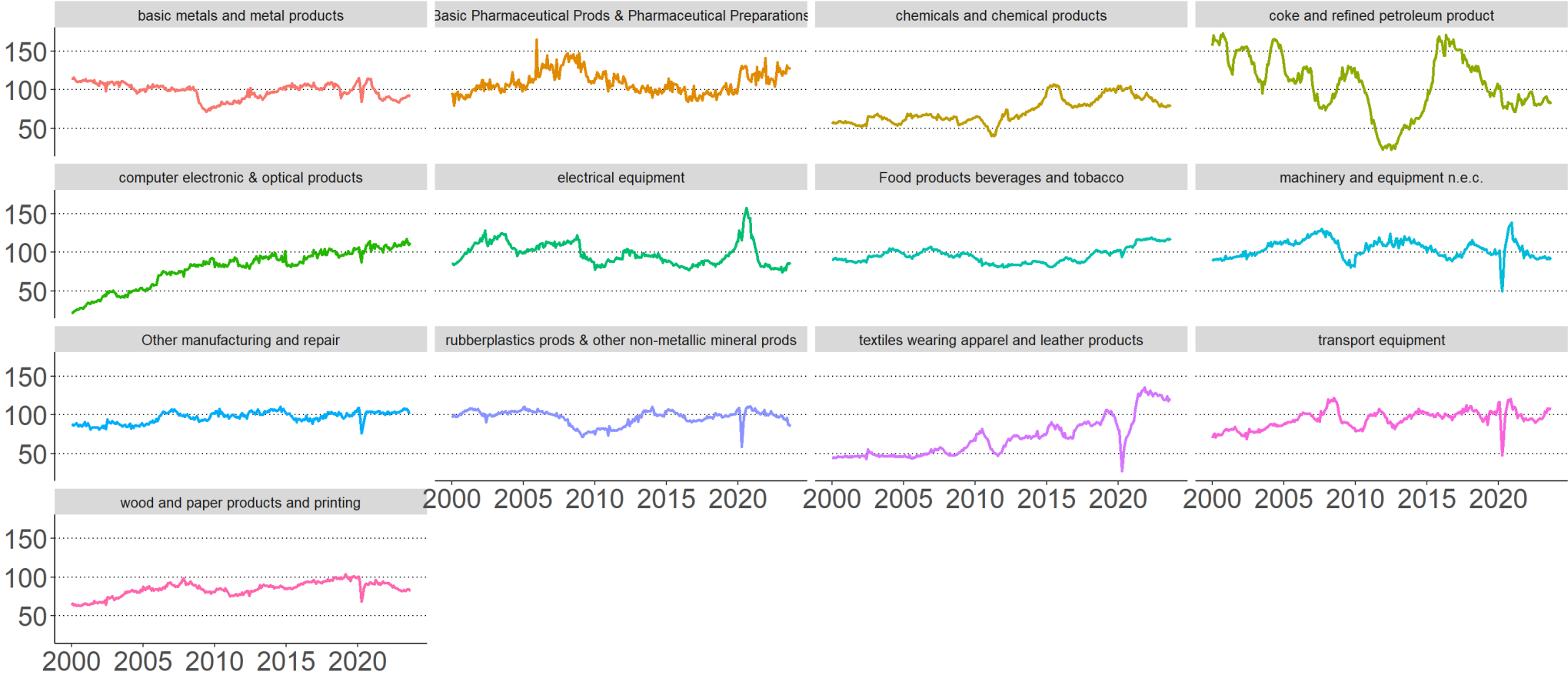


Source: ONS Productivity Statistics

Output (manufacturing detail)

Manufacturing sub-sectors

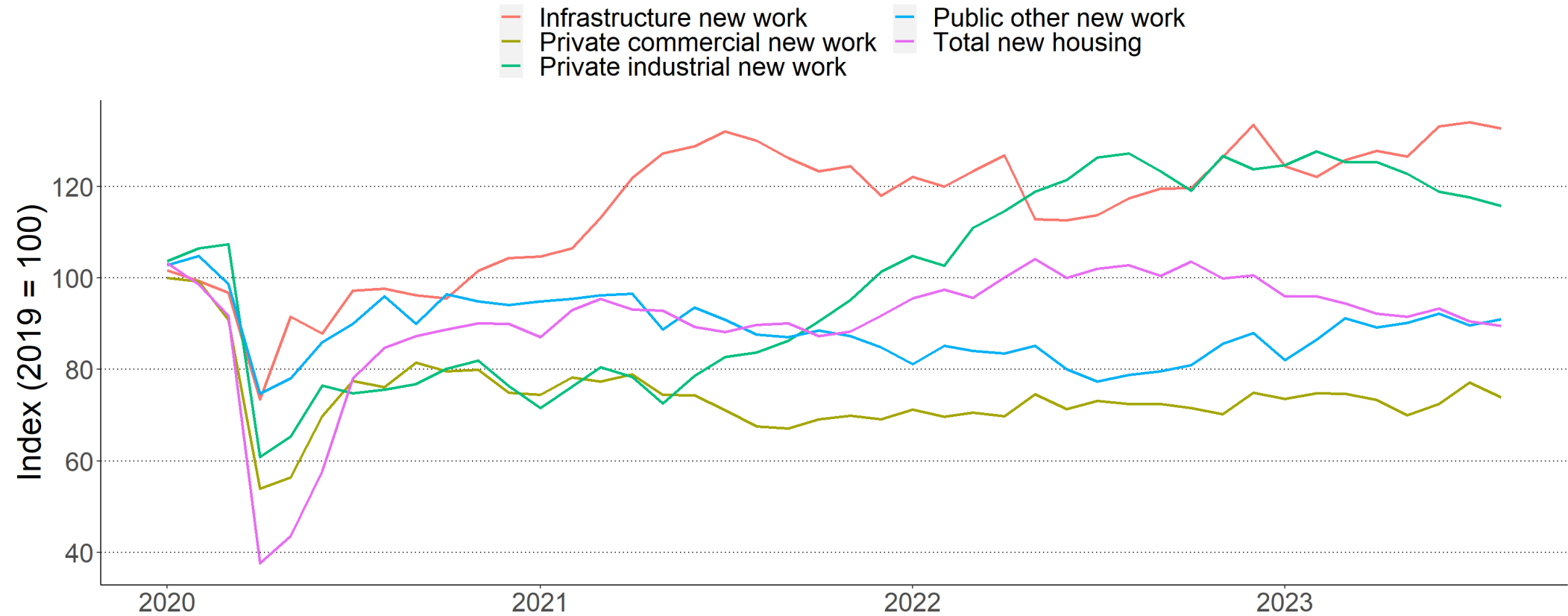
Pharmaceuticals, food, electronics and textiles most resilient



Source: ONS Index of Production DIOP

Output (construction)

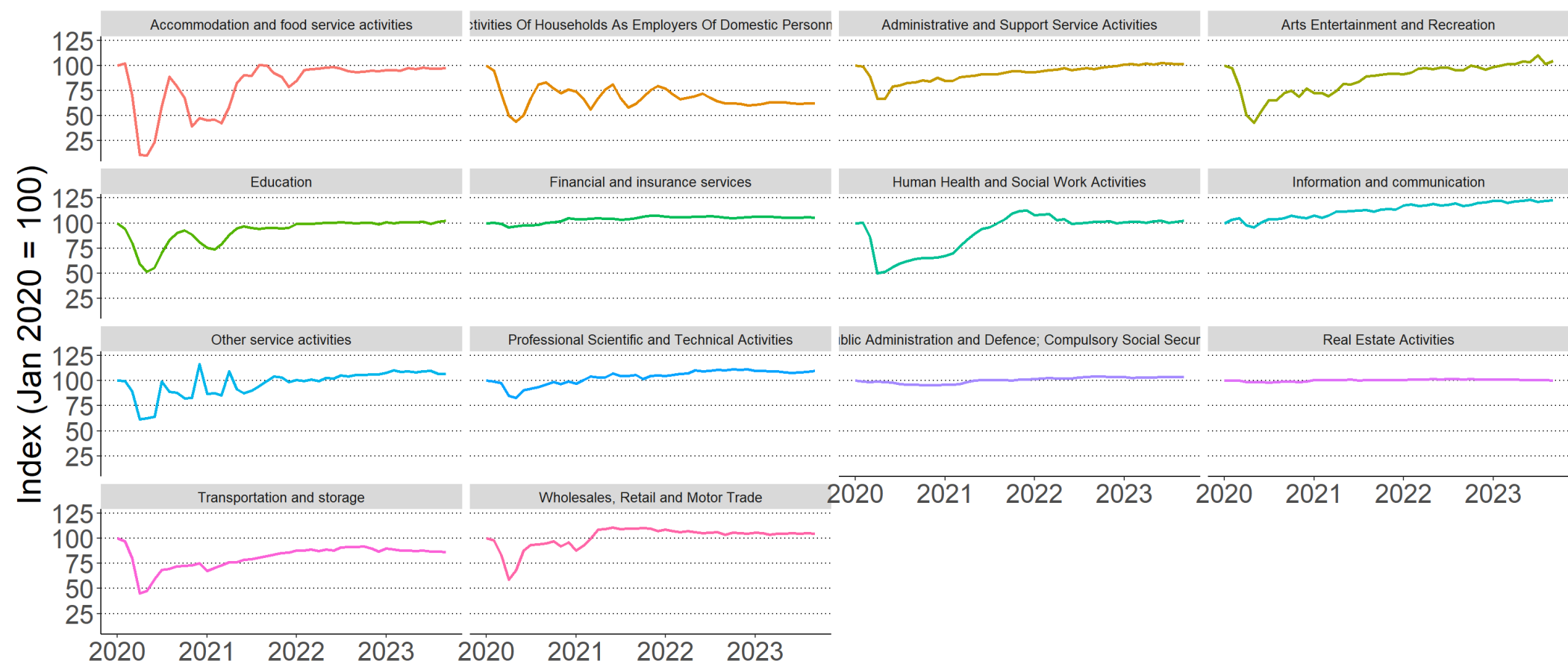
Infrastructure and industrial are driving the growth in construction output
Housing output continues to weaken



Source: ONS Output in the Construction Industry

Output (services)

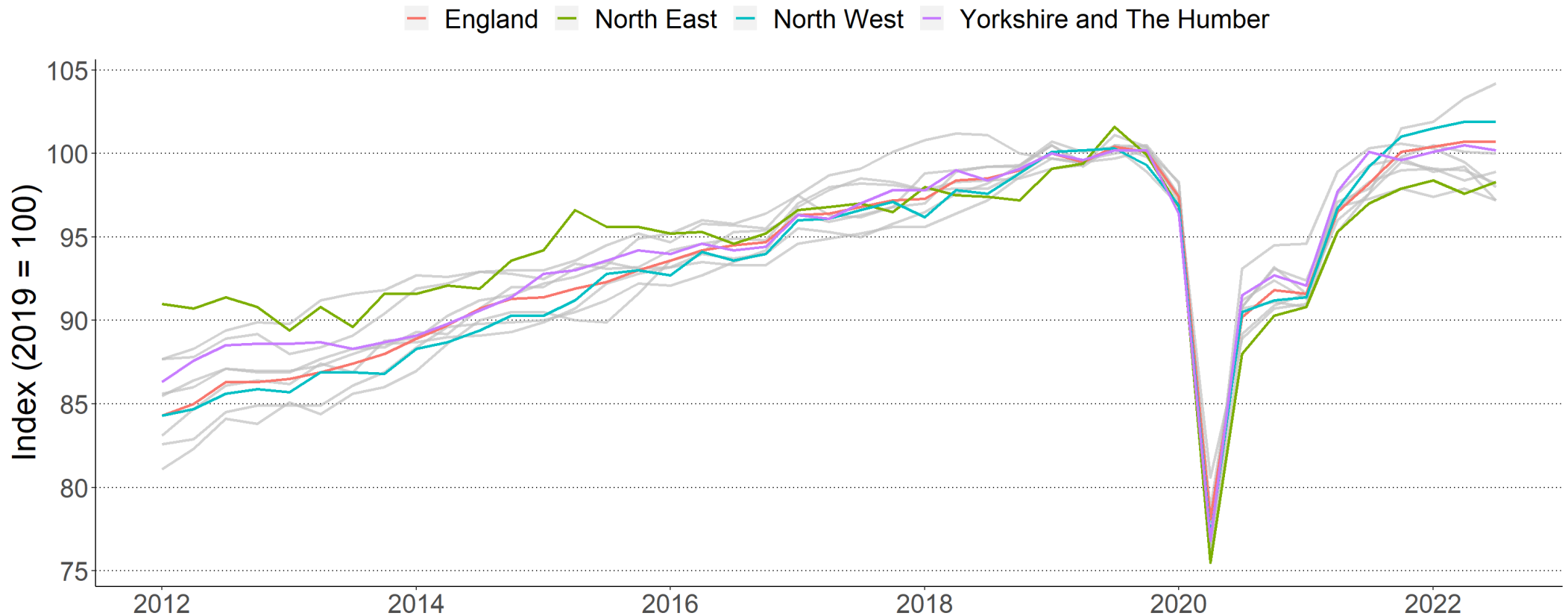
Service sector growth increasingly weak



Source: ONS Index of Services

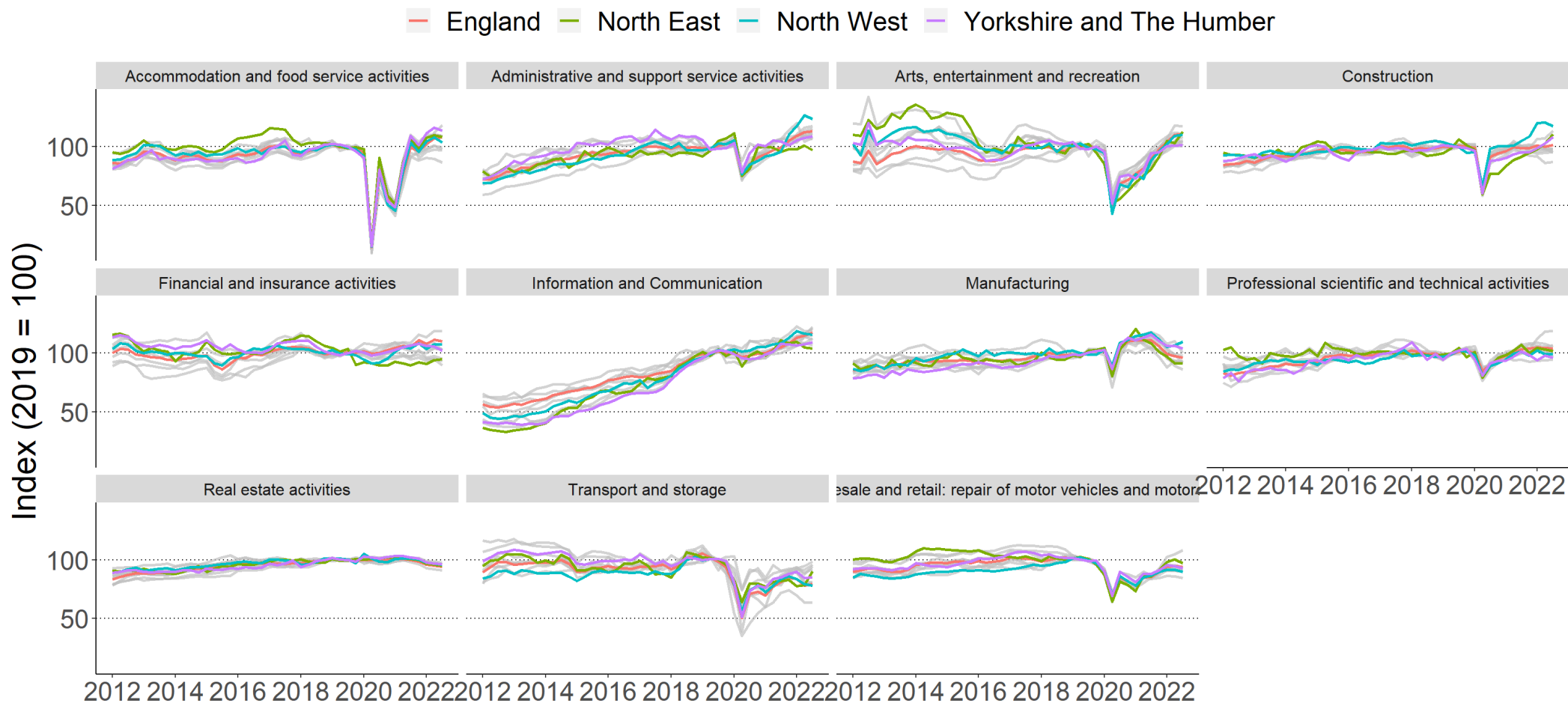
Regional GDP

North West is one of the most improved regions
London remains the fastest growing region



Source: ONS Quarterly country and regional GDP

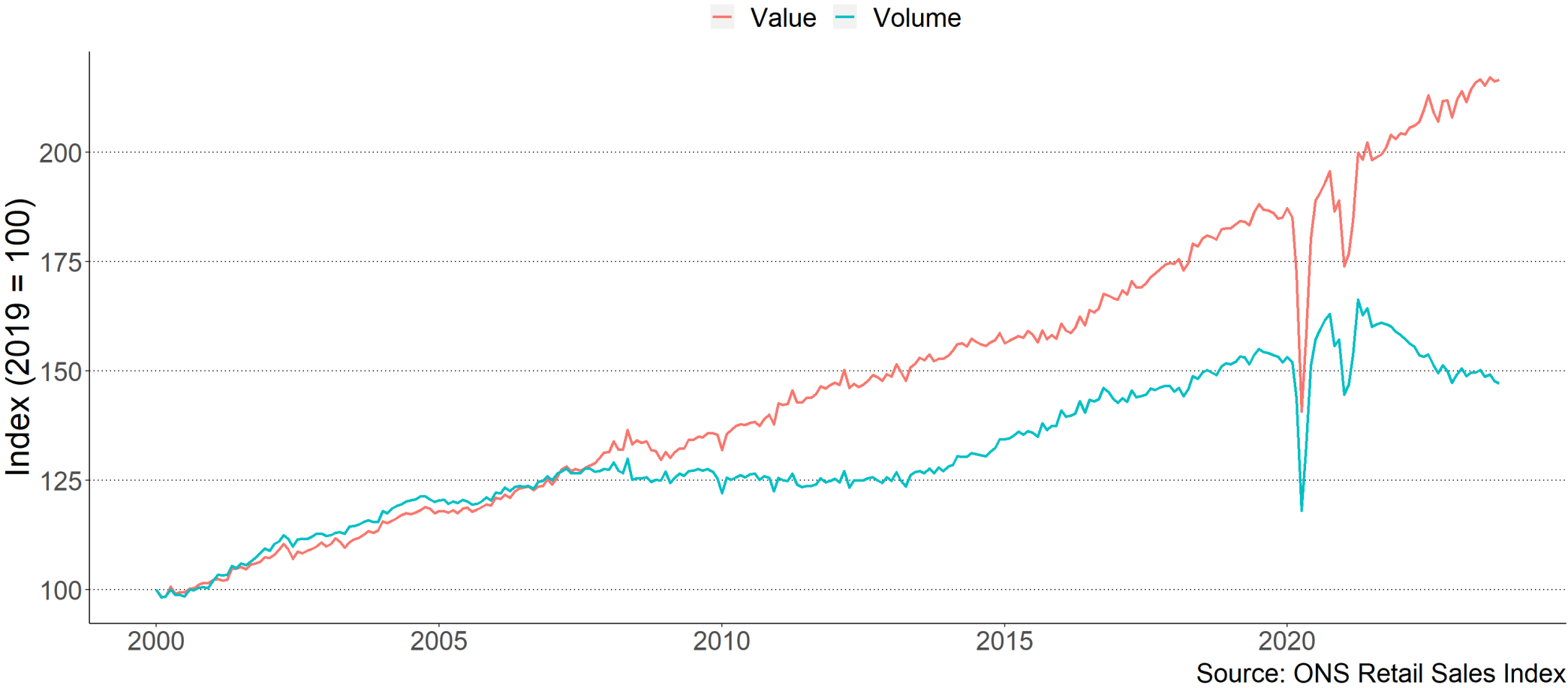
Regional GDP (sectoral)



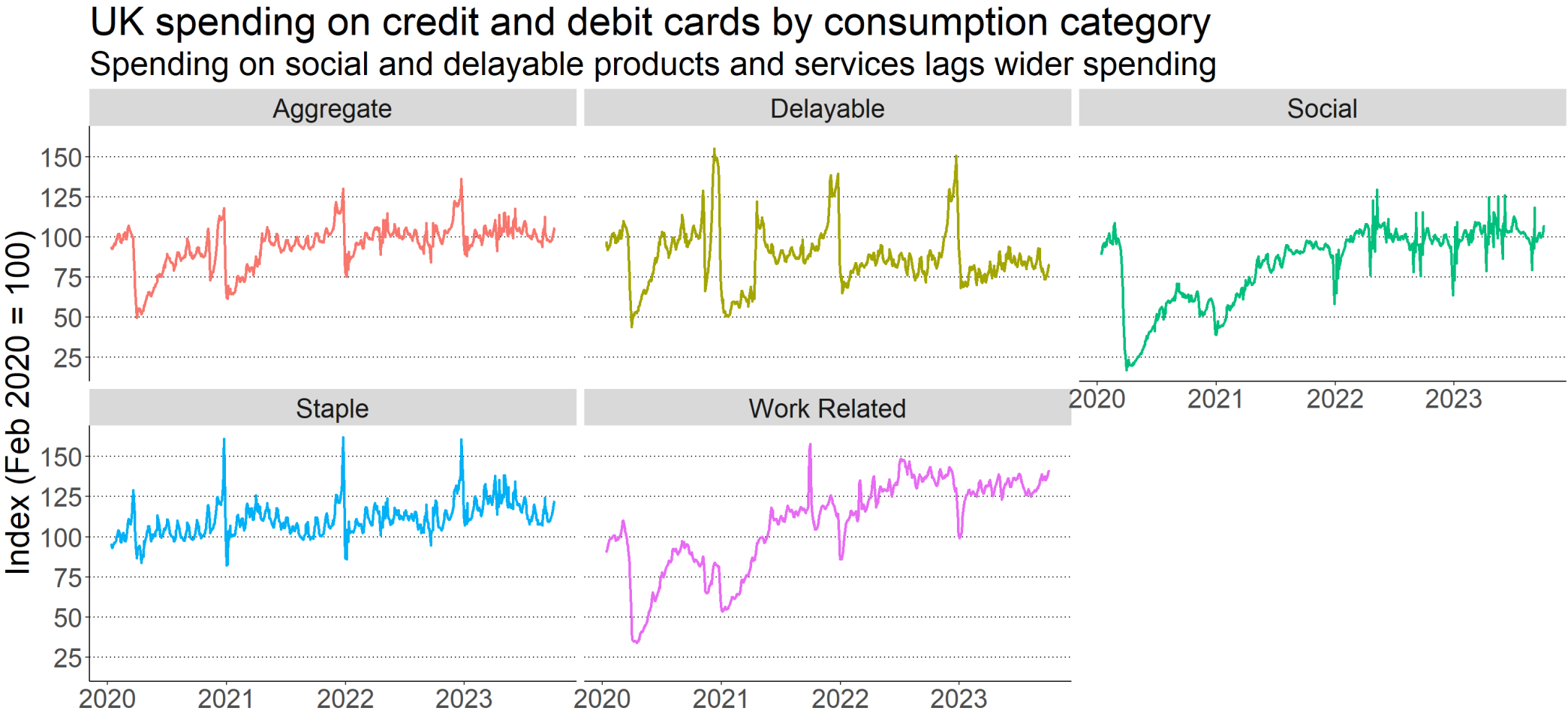
Source: ONS Quarterly country and regional GDP

Retail sales

Retail sales held back by inflation
Volumes similar to 2019



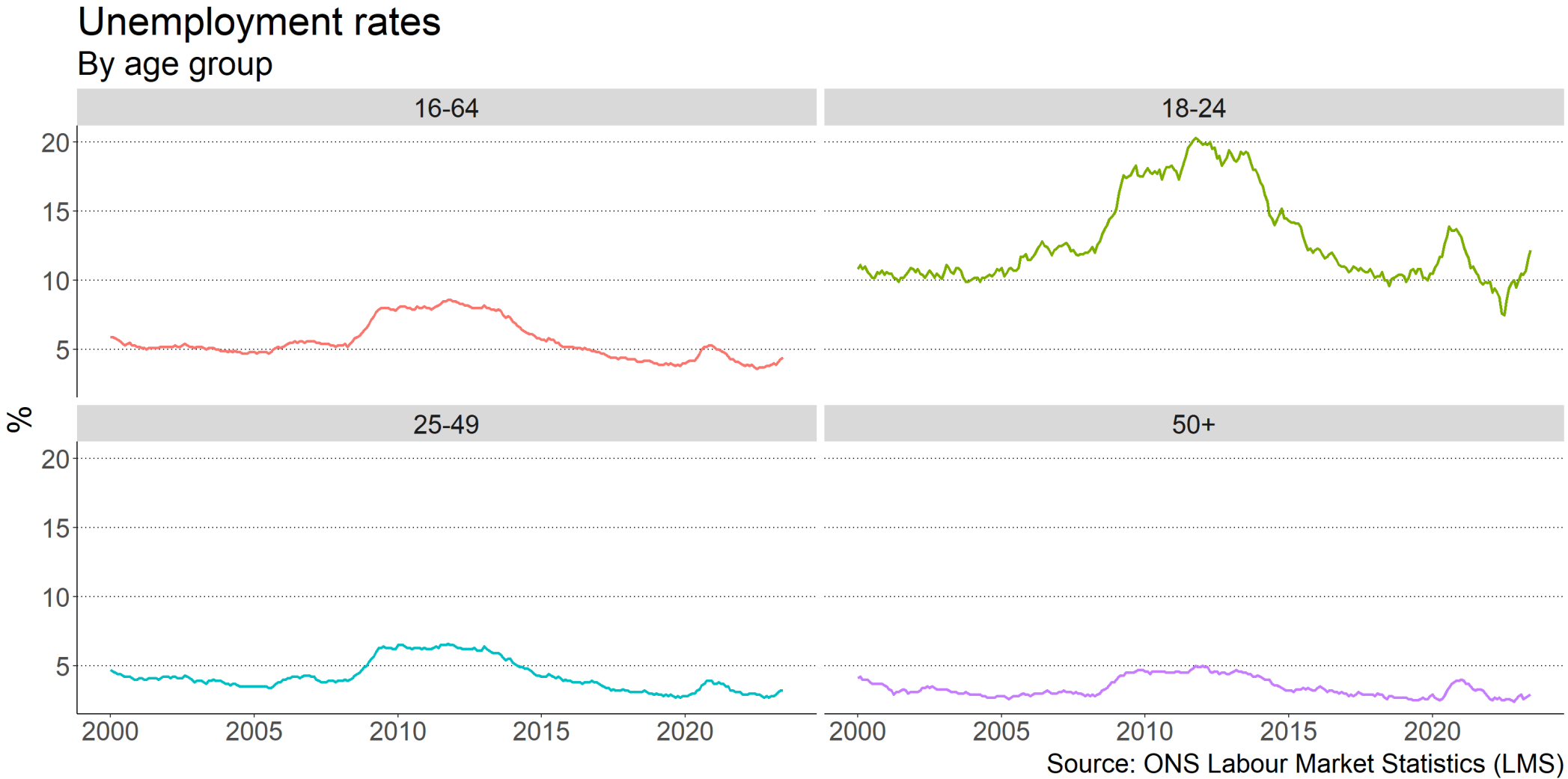
Spending on credit and debit cards



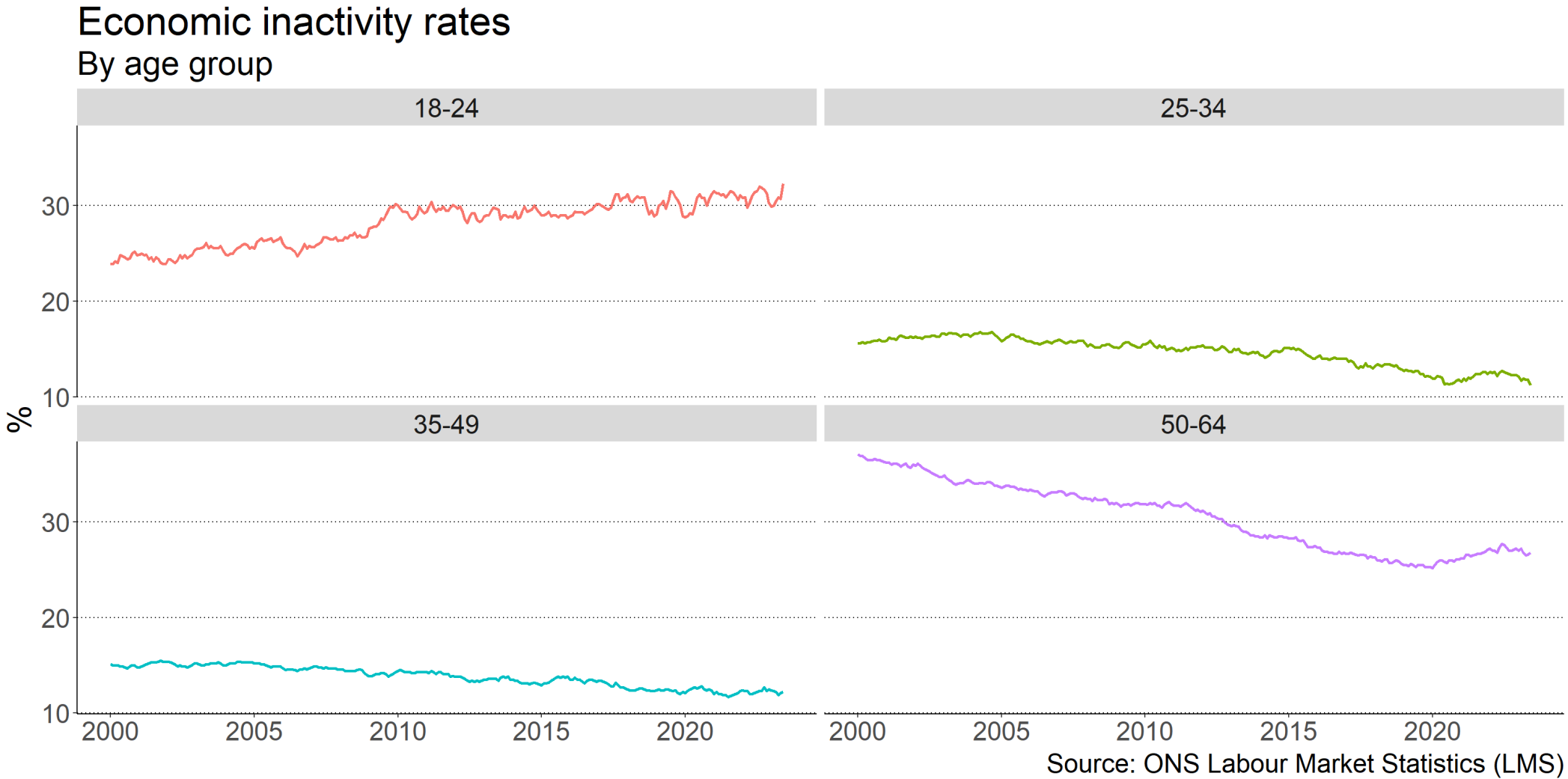
Source: Office for National Statistics

Labour market

Labour market: unemployment

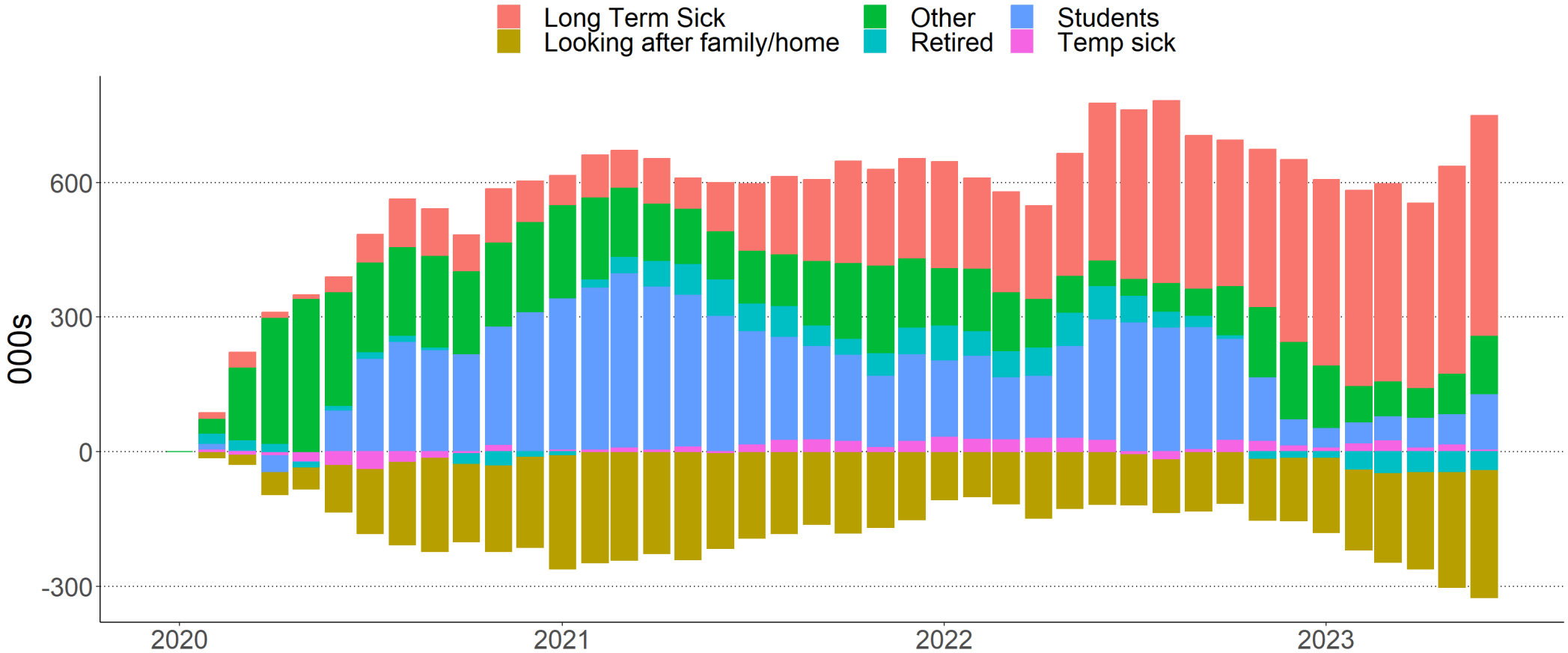


Labour market: economic inactivity



Labour market: inactivity reasons

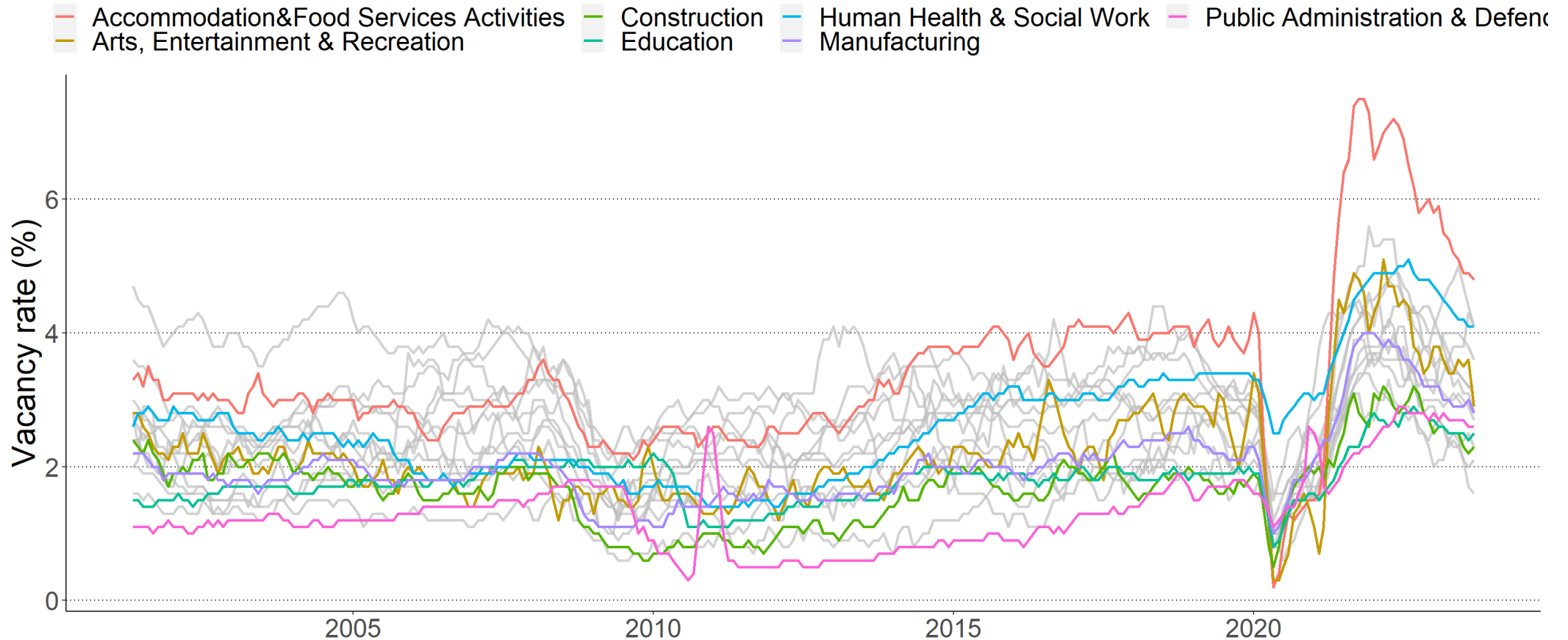
Economic inactivity by reason
Cumulative change since January 2020



Source: ONS Labour Market Statistics

Labour market: vacancies

Job vacancies ratio
Per 100 employees



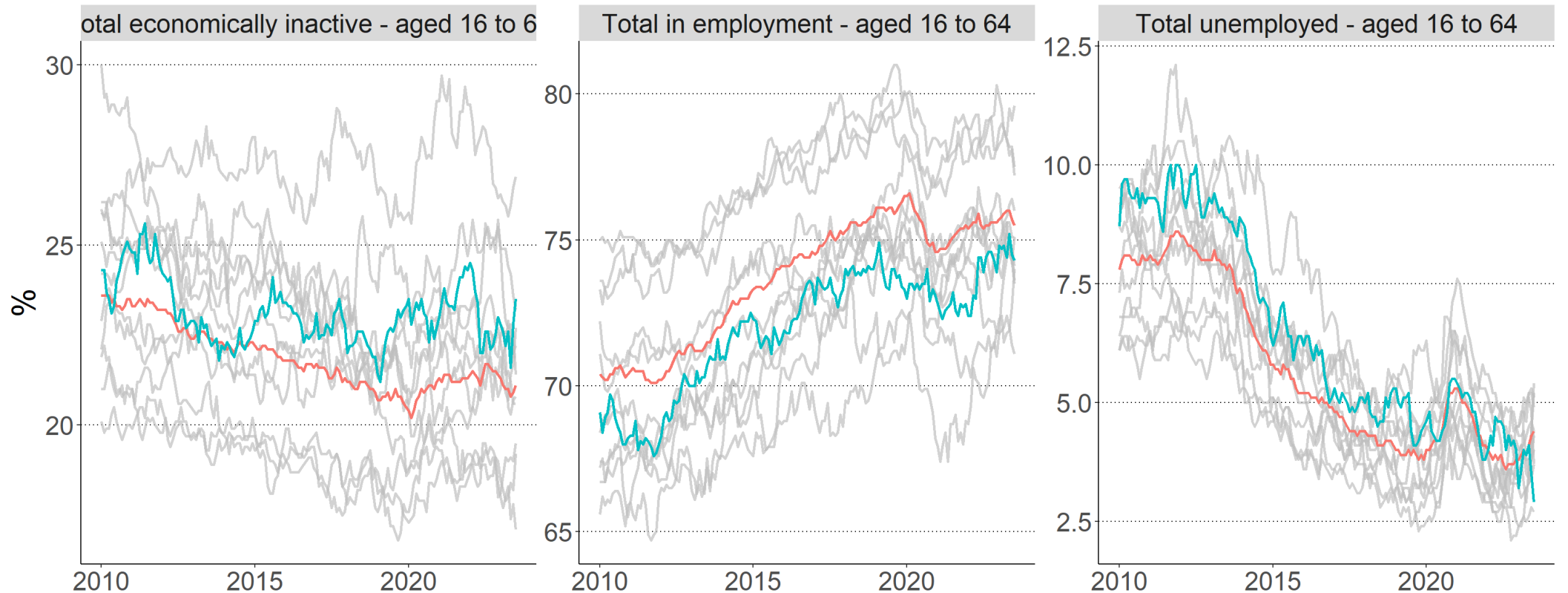
Source: ONS Labour Market Statistics

Labour market (regional)

Regional economic activity status

North West remains around the middle of the pack of UK regions

— United Kingdom — Yorkshire and The Humber



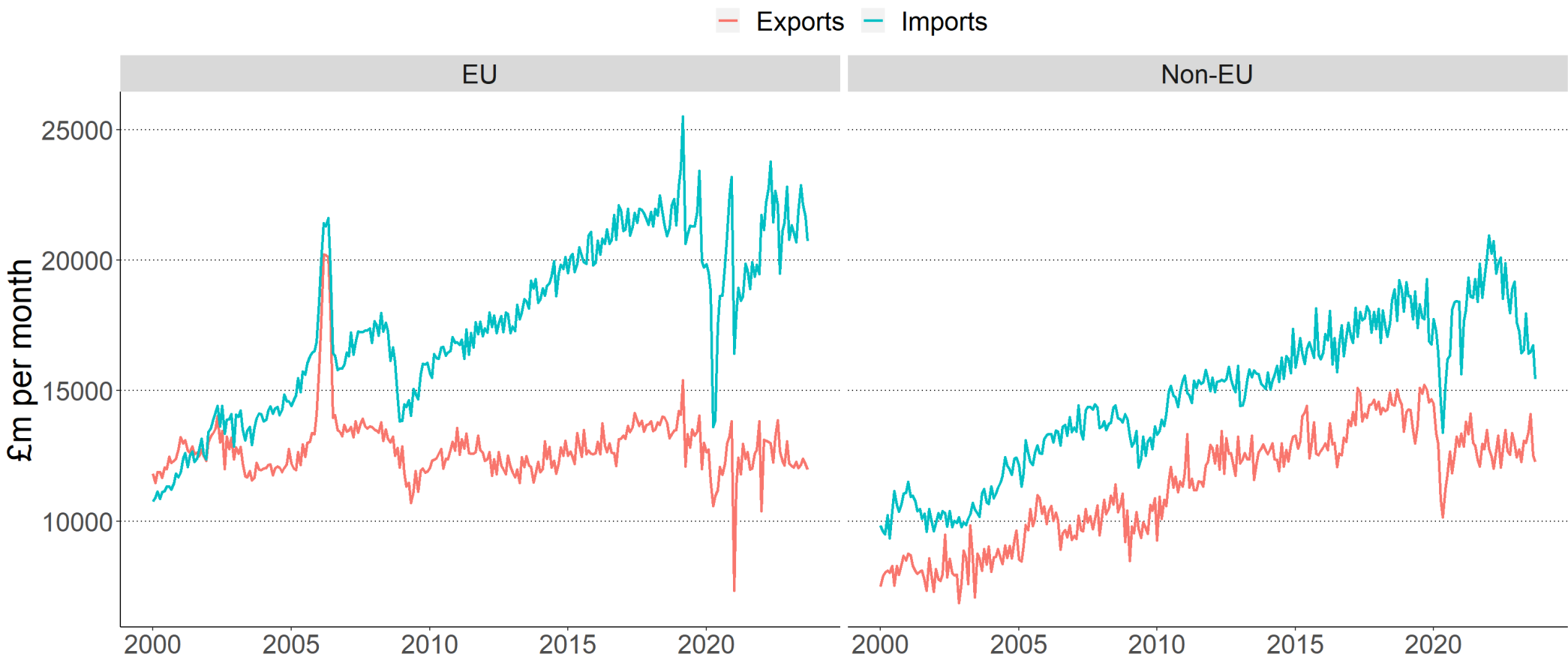
Source: ONS Labour Force Survey

Trade & Investment

UK Trade

UK Trade in Goods (minus erratics)

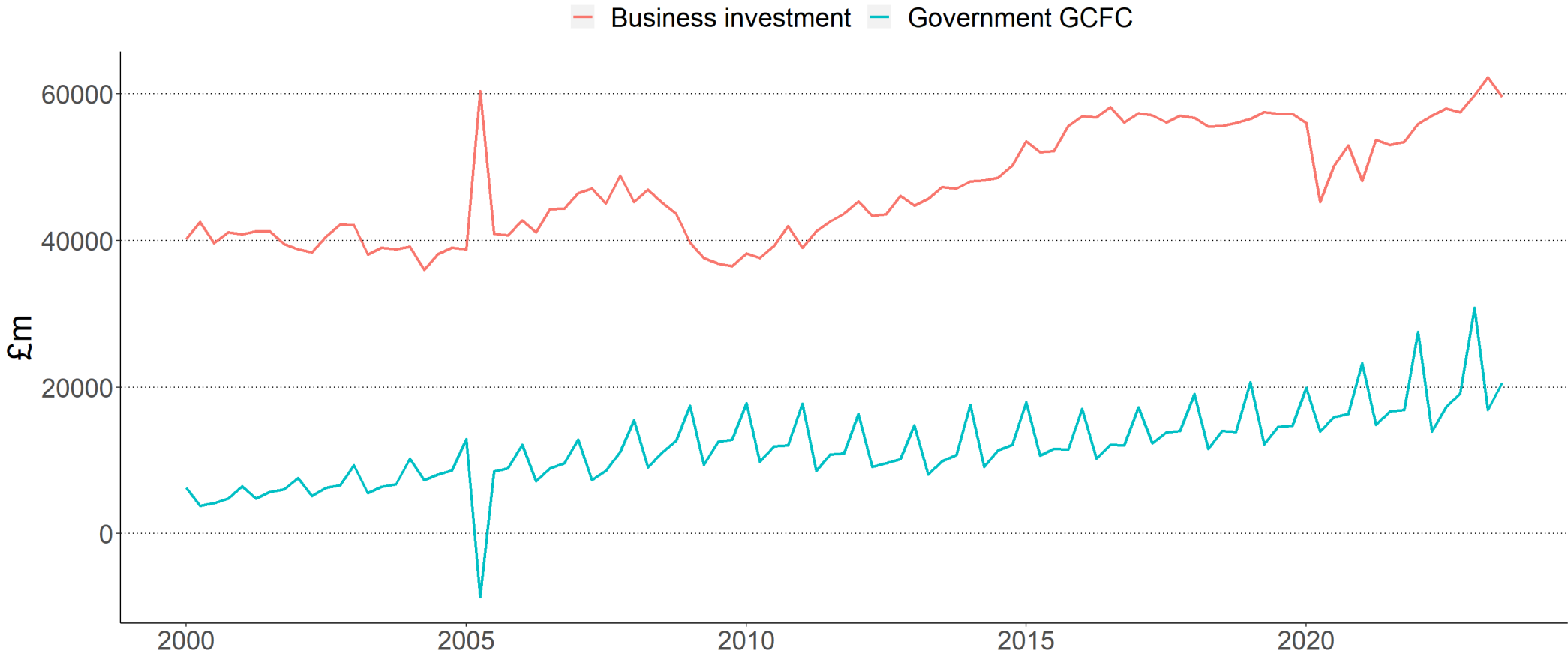
Chart subtitle



Source: Office for National Statistics MRET

Investment

Investment level growth remains weak
Challenge to future potential growth



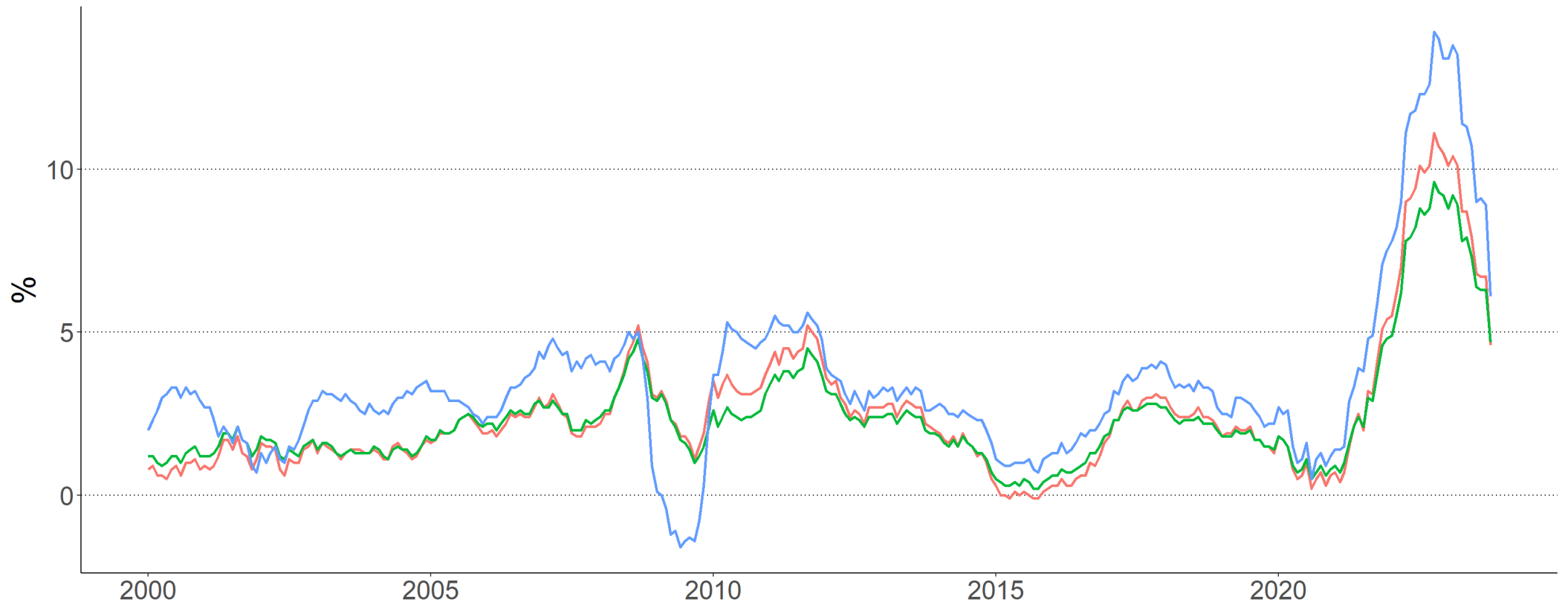
Source: ONS Investment Statistics

Costs & Prices

Inflation

Inflation is cooling
Increased concerns about future path

— CPI — CPIH — RPI



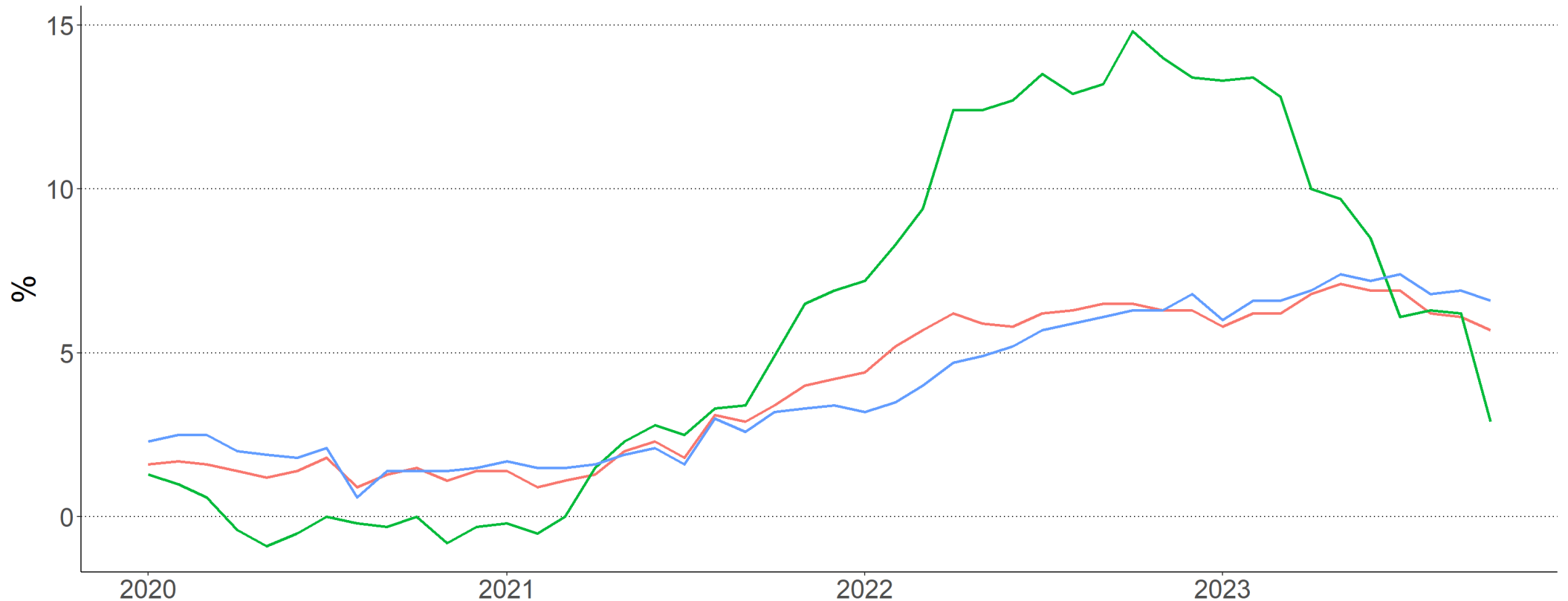
Source: ONS Consumer Prices Inflation

Inflation: goods and services

Goods inflation is falling back quickly

Though persistence of core and services inflation remains a concern

Core Goods Services

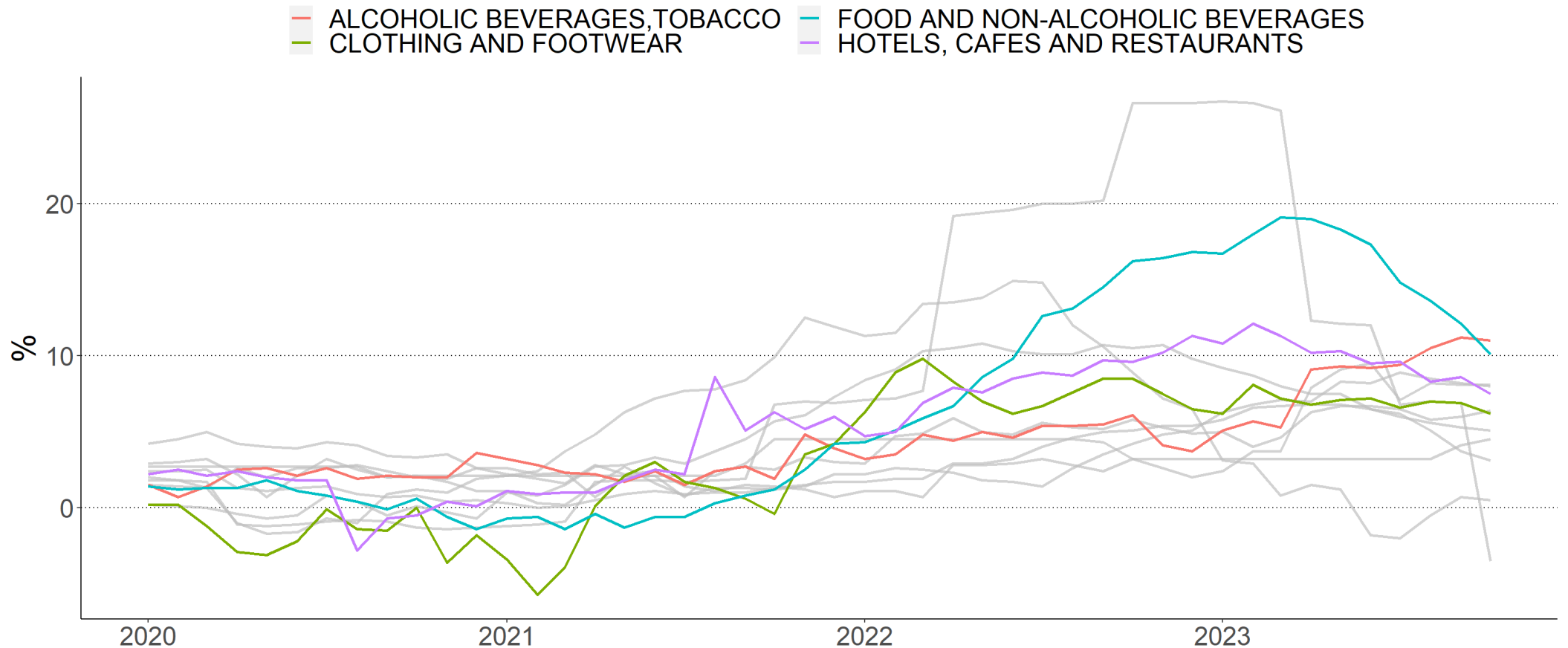


Source: ONS Consumer Prices Index (MM23)

Inflation: a closer look

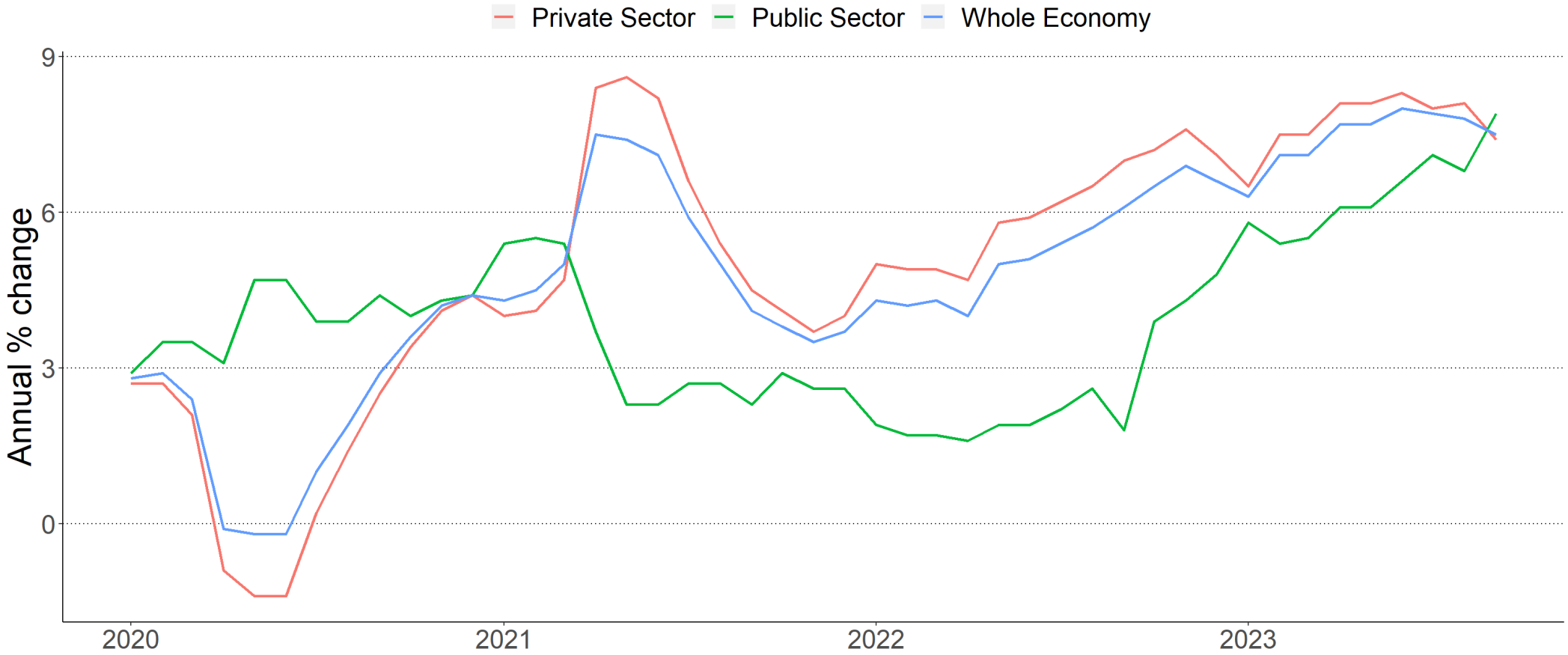
Consumer-facing sectors show higher inflation

Bank will be concerned about pass through



Earnings growth

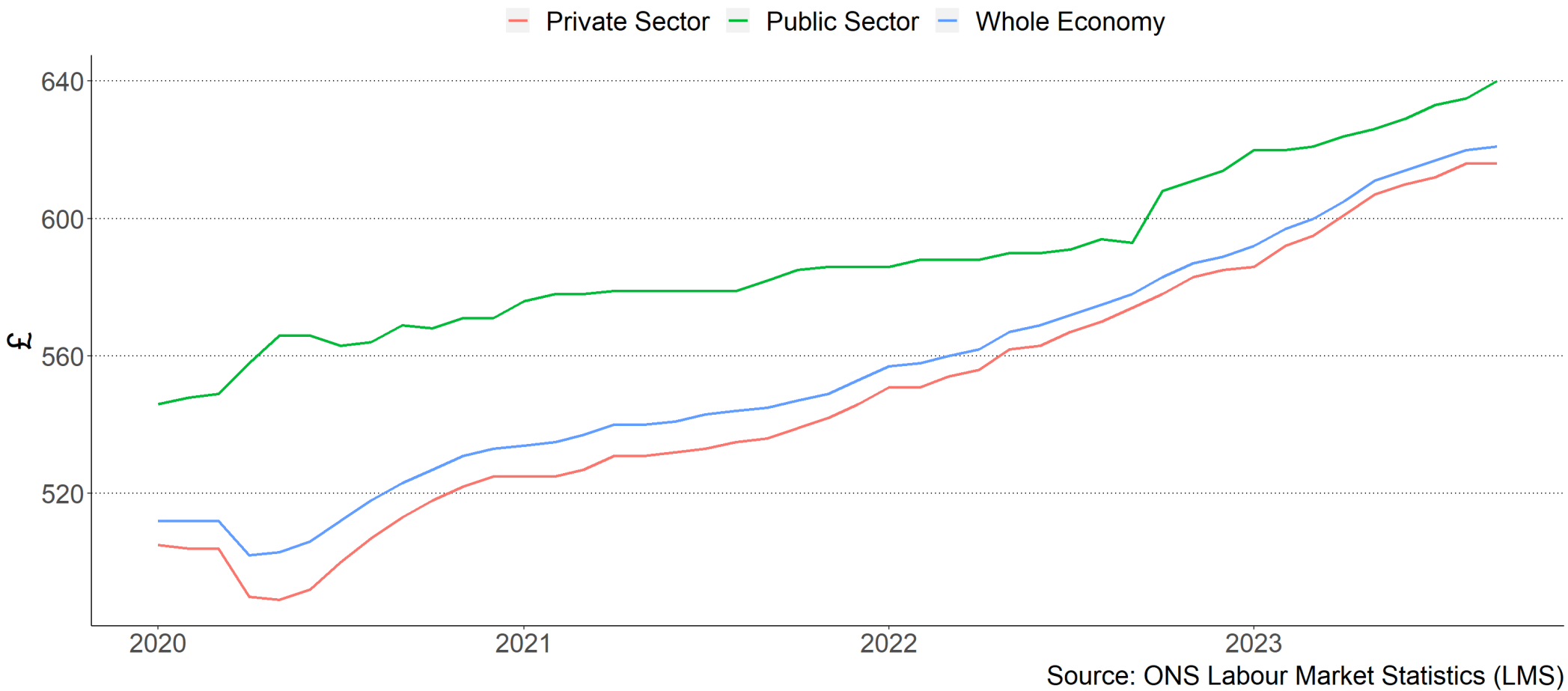
Average weekly earnings growth
Seasonally Adjusted Regular Pay Excluding Arrears



Source: ONS Labour Market Statistics (LMS)

Earnings level

Average weekly earnings level
Seasonally Adjusted Regular Pay Excluding Arrears

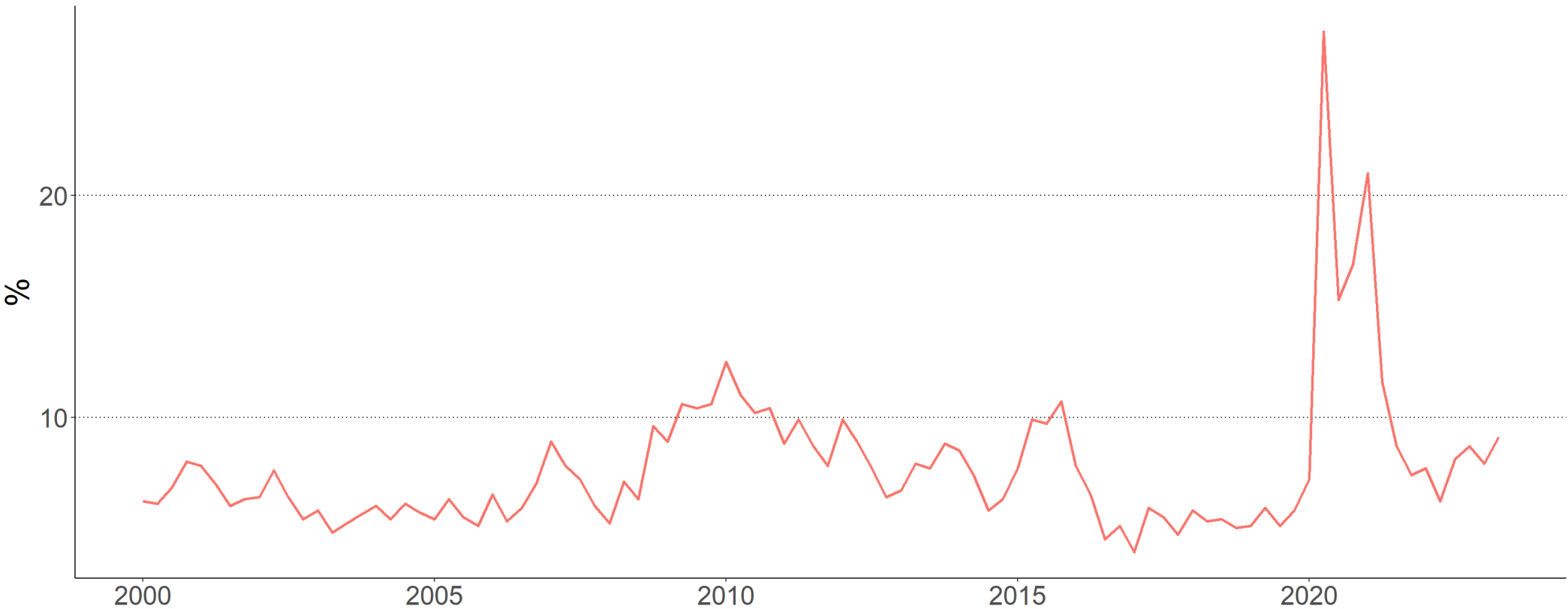


Savings ratio

Households' saving ratio

Key question: do people continue to save and reduce their spending?

— Saving ratio

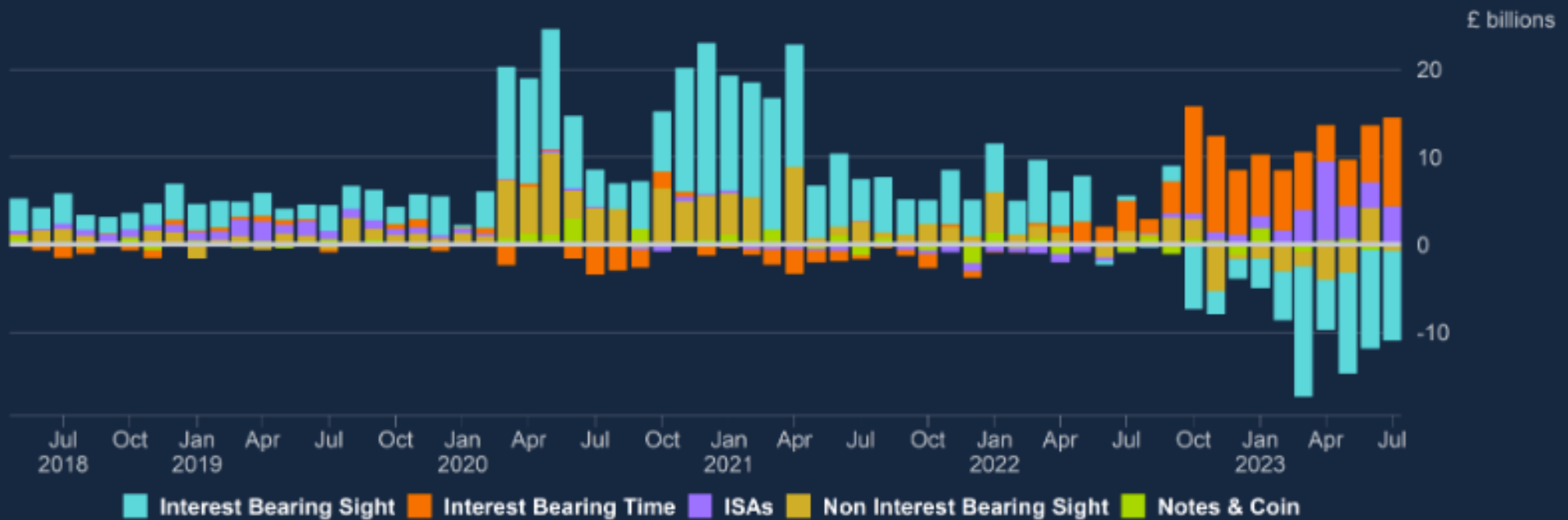


Source: ONS UK Economic Accounts

Household M4 deposits

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

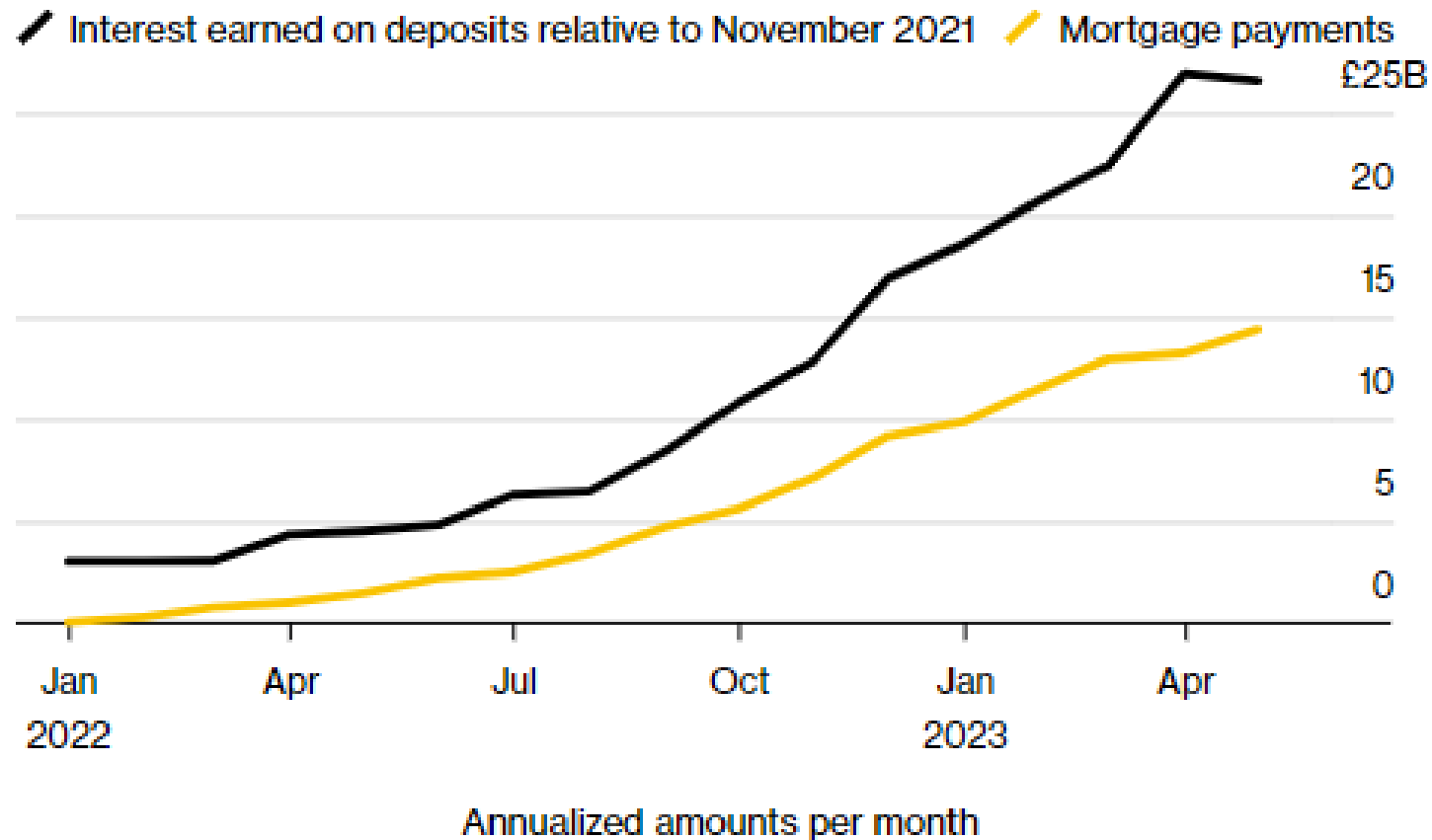
Seasonally adjusted net flow



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

Interest on savings and mortgages

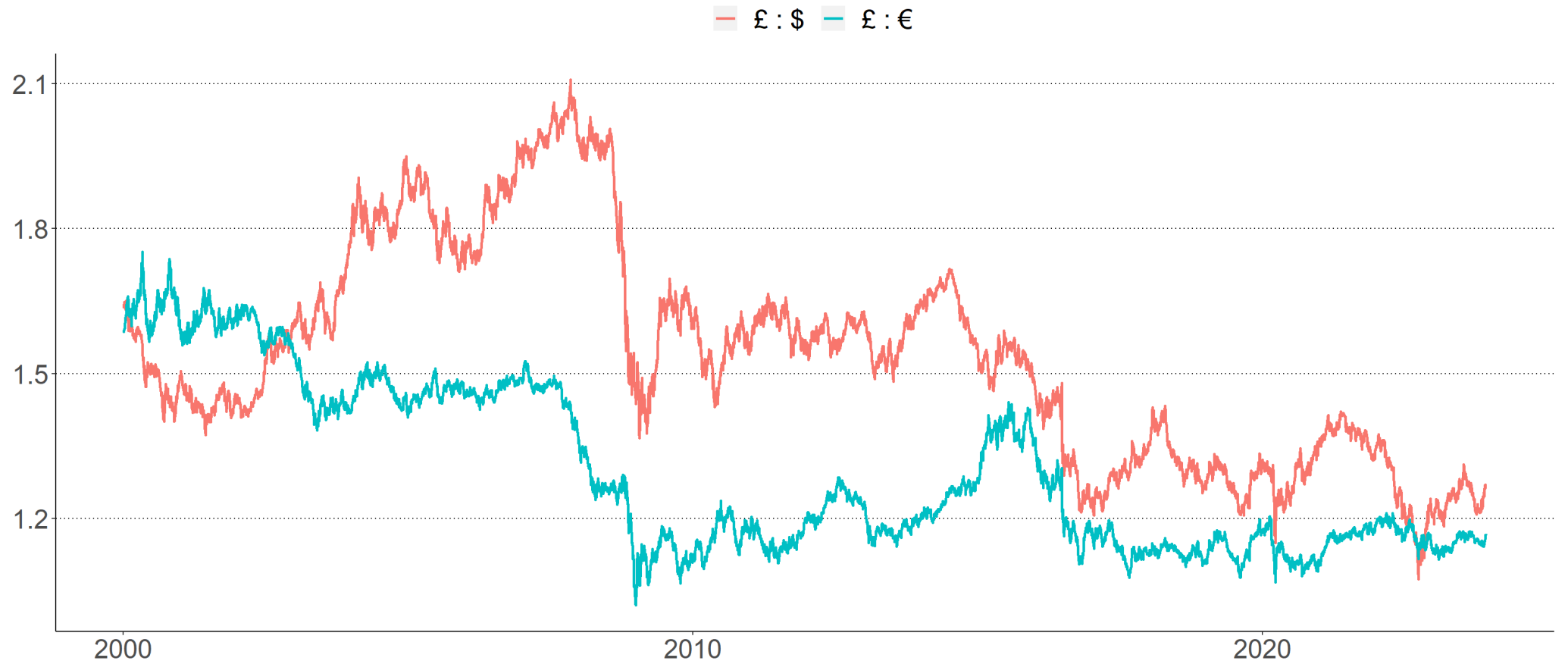
Savings Income Is Rising Faster Than Mortgage Costs



Exchange rates

Sterling's long-term performance is weak

Strength of US performance has softened Sterling recently

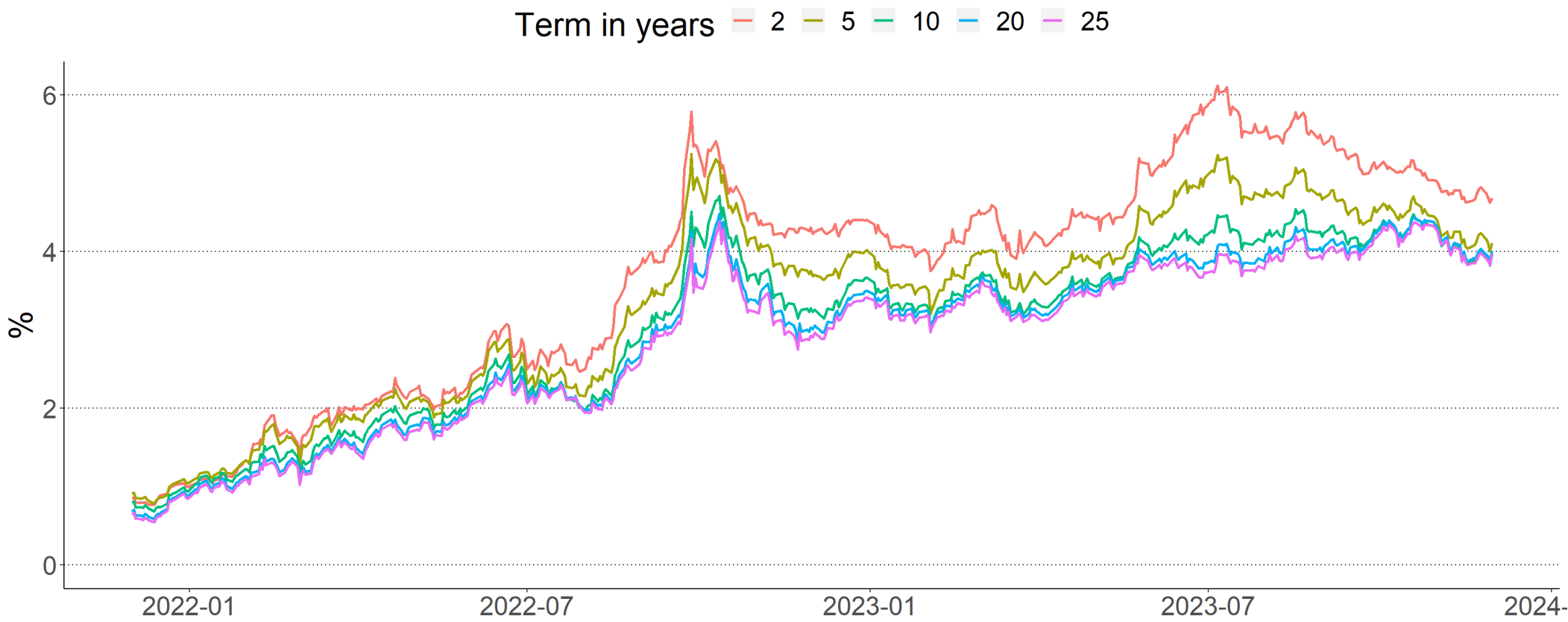


Source: Bank of England

OIS Rates

Overnight index swap rates

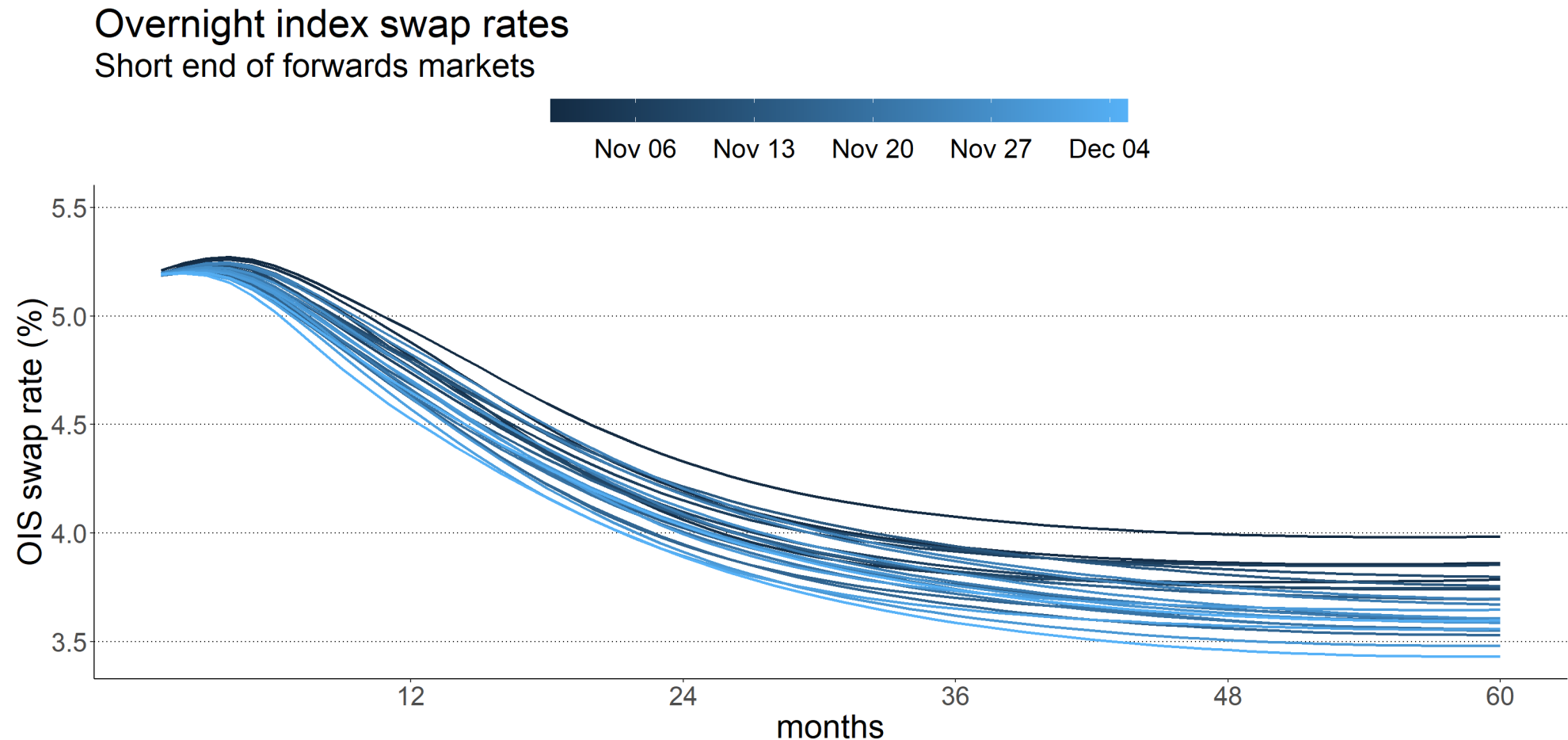
Market expectations of medium-term bank rate have been increasing



Source: Bank of England

Market expectations of Bank Rate

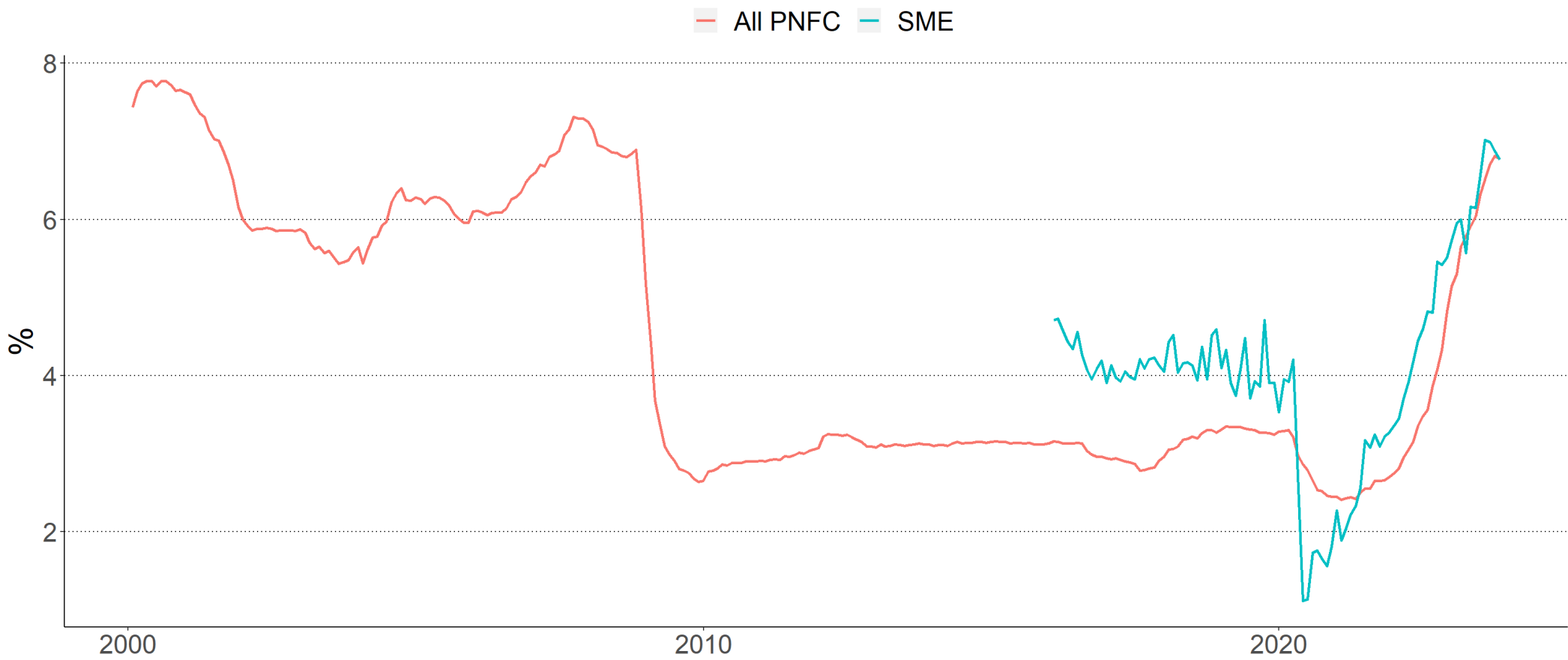
Q: Is this compatible with “higher for longer”?



Source: Bank of England

Corporate Lending Rates

Interest rates on commercial loans
Now averaging 7%

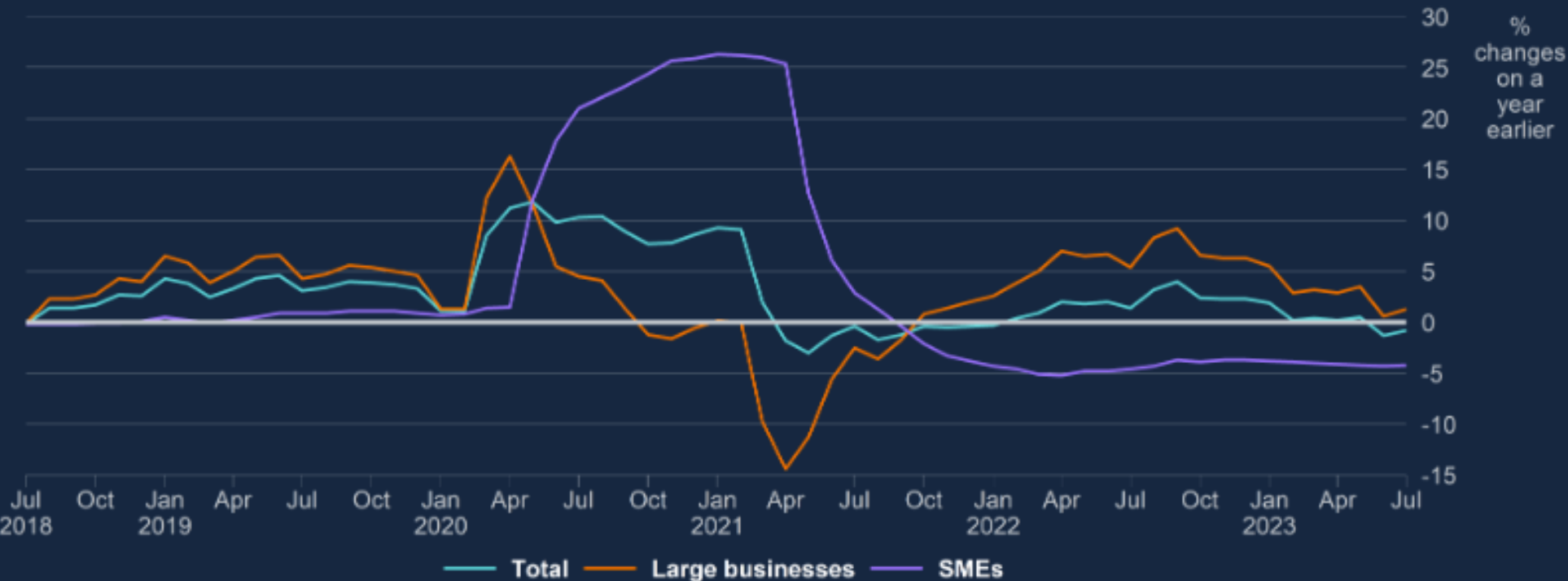


Source: Bank of England

Corporate Lending Volumes

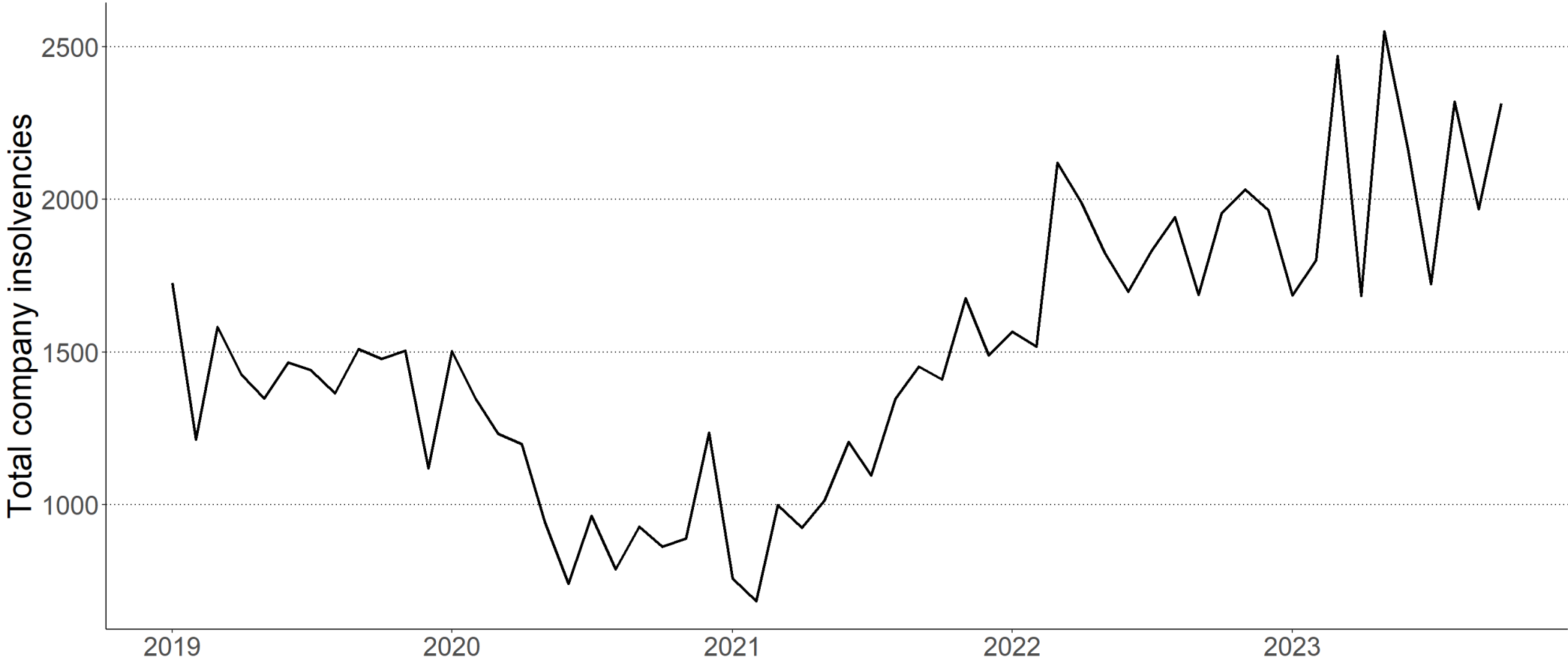
Chart 5: Annual growth of lending to SMEs and large businesses

Seasonally adjusted



Insolvencies

Company insolvencies remain elevated
Construction and retail remain dominant

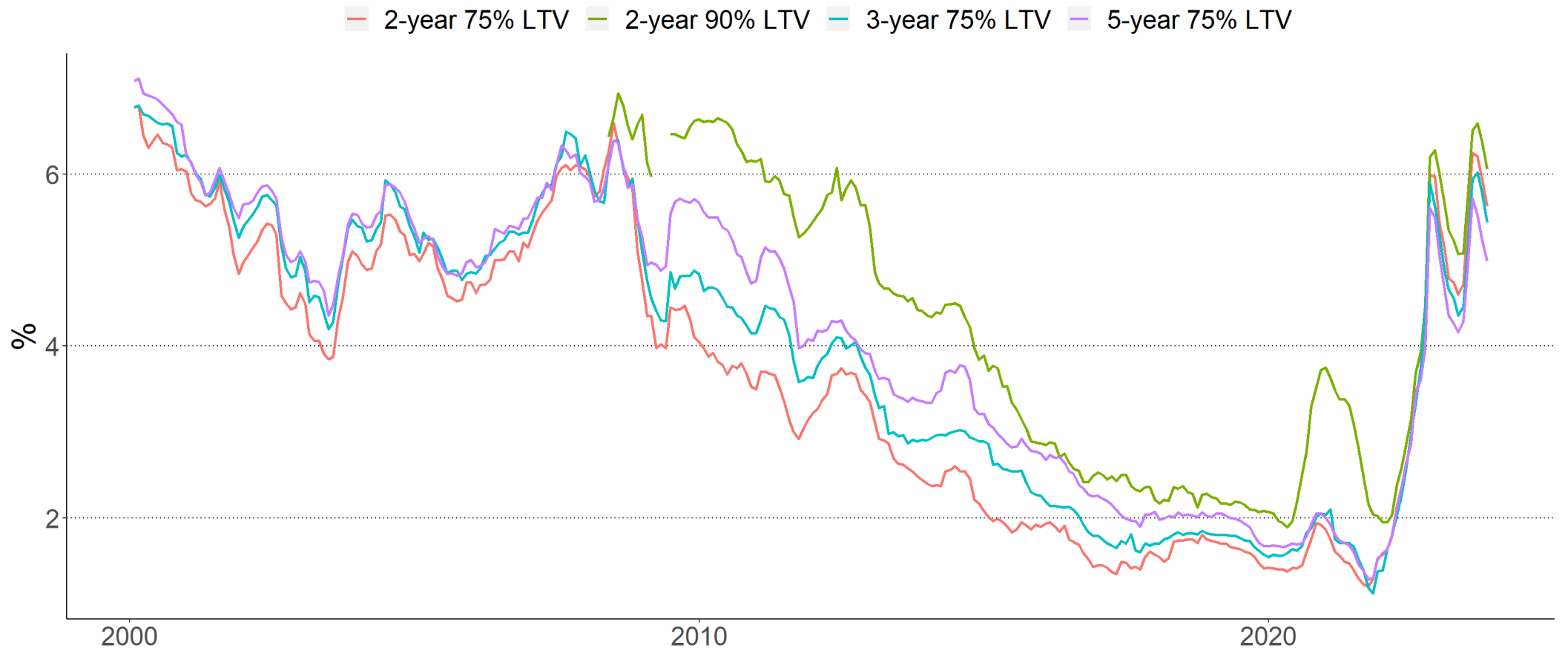


Source: Insolvency Service

Mortgages

Mortgage rates have eased slightly

90% LTV remain high; sign of pressure of falling prices

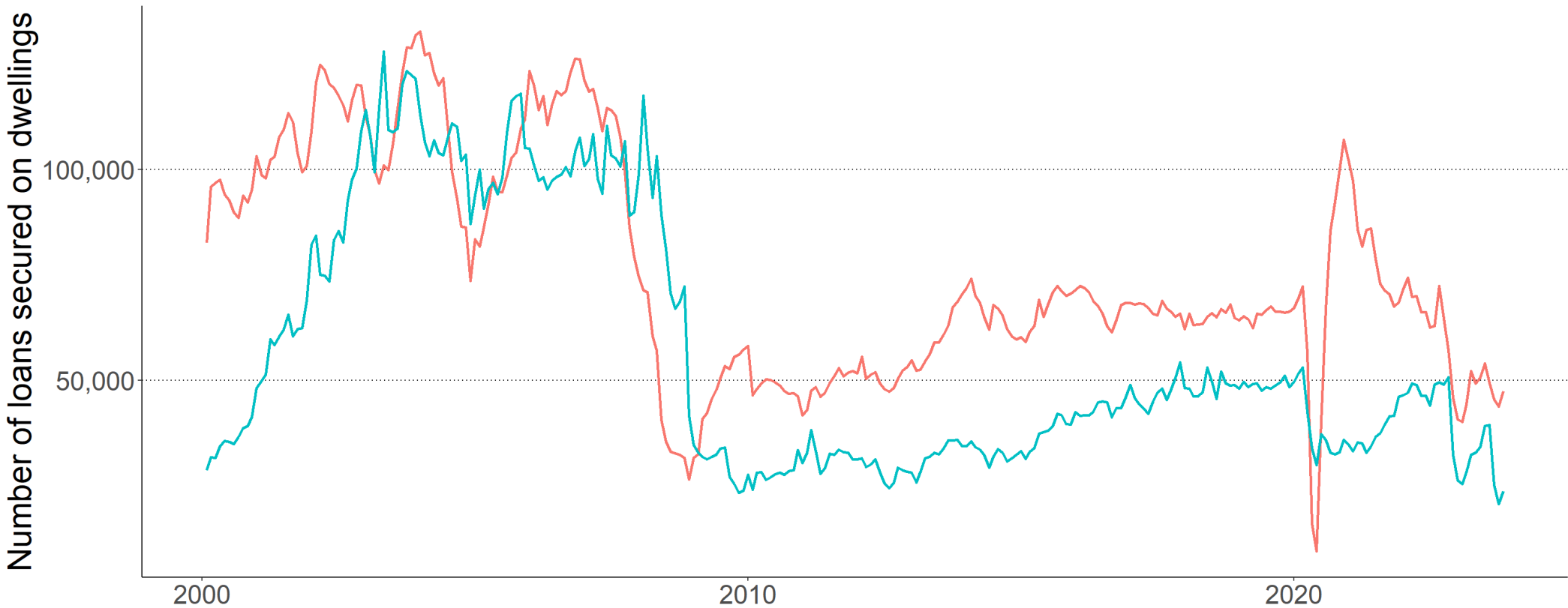


Source: Bank of England

Mortgage approvals

Mortgage approvals have fallen sharply
Remortgaging at financial crisis levels

House purchase Remortgaging



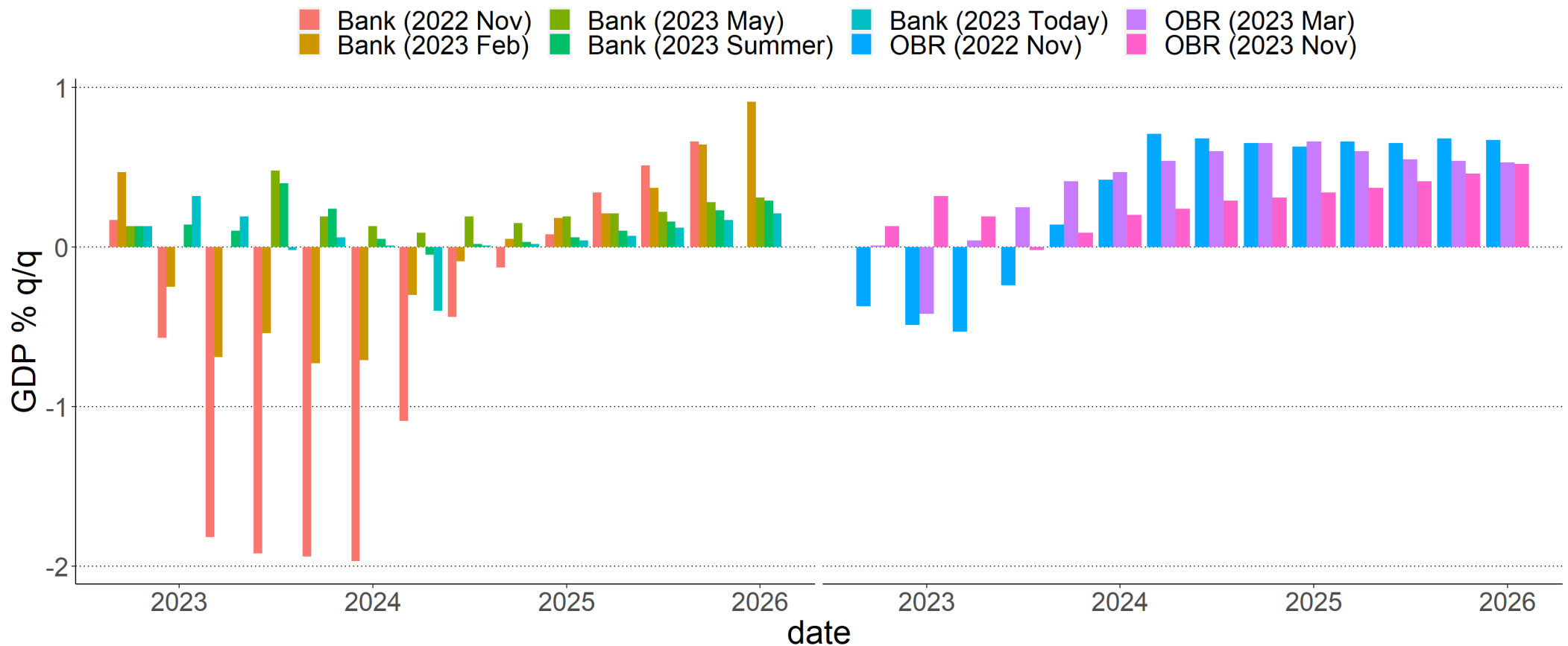
Source: Bank of England

Forecasts

OBR and Bank of England forecasts

Latest revisions are upside for 2023

but more pessimistic in the short to medium term



Summary

- Short term demand is weak though 2023 has surprised to the upside
- UK stuck between a very strong US market and a weaker Eurozone
- Increased oil and energy prices may slow fall of inflation in 2023/24
- Bank Rate likely at peak, but markets may be underpricing medium-term rates
- Some signs labour market *may* be starting to loosen, but some concerns that statistics may be understating strength
- Pay growth remains strong, perhaps too strong for the Bank
- Increased pressure on household disposable income into 2024
- Corporate insolvencies remain strong and finance costs continue to increase
- Expectations for GDP growth are close to zero for next two years, but no recession expected
- There are large regional and sectoral differences, so don't be too gloomy!

Appendix

Latest Bank of England Decision

- MPC votes 6-3 in favour of holding rates at 5.25% (5-4 in September)
- Joins both US Fed and ECB in holding steady
- Markets increasingly confident that this is the peak
- Inflation expected to fall to 4.75% by end of 2023
- But not to reach 2% target until 2025 Q4
- Markets imply 5.25% until 2024 Q3, 4.25% by 2026 Q4
- Growth to close to flat with 0.4% total for next two years; 1.1% in 2026

Latest Bank of England Decision

- Continues to emphasise expectations for medium-term rates

Rates are expected to remain at current levels for “an extended period”

Some concern that the public wrongly expects rate cuts to follow inflation rate falls

Autumn Statement 2023

Autumn Statement (taxes)

- Full expensing for plant and machinery investments against Corporation Tax made permanent (was due to expire March 2026)
- 2p cut in employee Class 1 National Insurance from 6 January 2024
- 1p cut in self employed Class 4 and abolition of Class 2 National Insurance from April 2024
- These only partially offset the freeze in personal allowance, higher rate threshold and lower earnings limit, so taxes continue to rise
- But there are good improvements here in terms of reducing the difference between earned and unearned income, and between employment and self-employment

Autumn Statement (spending)

- National Living Wage increased to £11.44ph (+9.8%) (£21-24k pa) and applies to 21-23-year-olds
- Working age benefits uprated by 6.7%
- State pension triple lock uprates by 8.5%
- Local Housing Allowance reset to 30% rents (but then frozen again)
- Benefit reforms to support economically inactive back to work

Autumn Statement (investment)

- Pensions reform
- Investment into quantum computing, advanced healthcare, AI, low carbon and net zero
- New investment zones (inc health sciences in West Yorkshire)
- Planning reform to speed up decisions and improve National Grid access for new connections, including backlog in Leeds
- Capital market reforms
- R&D tax reforms
- Additional creative industries reliefs

Autumn Statement (devolution)

- New deals agreed in Hull & East Yorkshire, North Lincolnshire (level 3); Lancashire (level 2)
- New level 4 devolution framework, equivalent to Greater Manchester and West Midlands trailblazers; North East in scope
- Extension of investment zone tax reliefs from 5 to 10 years
- Round 3 levelling-up fund allocations

Autumn Statement (macro picture)

