

Cobra Network
Conference

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KEYNOTE SPEAKER

OUTLOOK FOR THE UK ECONOMY

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The Economy



Near term :

Crises

Inflation

Interest Rates

Recession

Longer term :

Productivity and Labour

Geopolitics



War and Plague

Death, Destruction Debt and Destabilisation



Cost of Covid

Impact GDP:

- Larry Summers “\$16trillion virus”
- IMF “\$12.5trillion estimate and rising”
- Economist “\$10trillion in 2020/21”

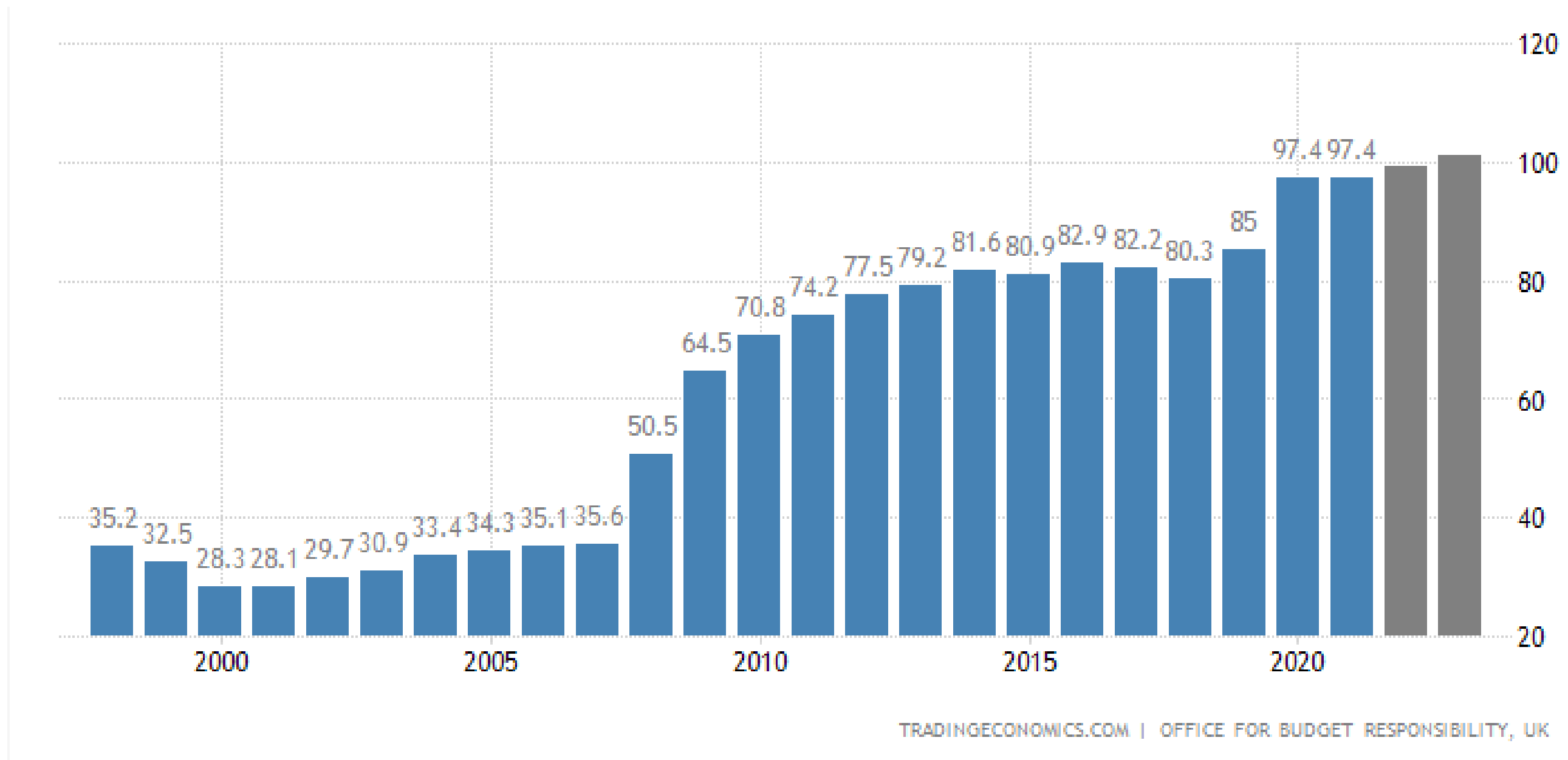
Government debt:

- UK economic government support cost between up to £370bn
- EU recovery package E2.4tn

Business Debt:

- UK company insolvencies rise to 13-year high

Government debt to GDP

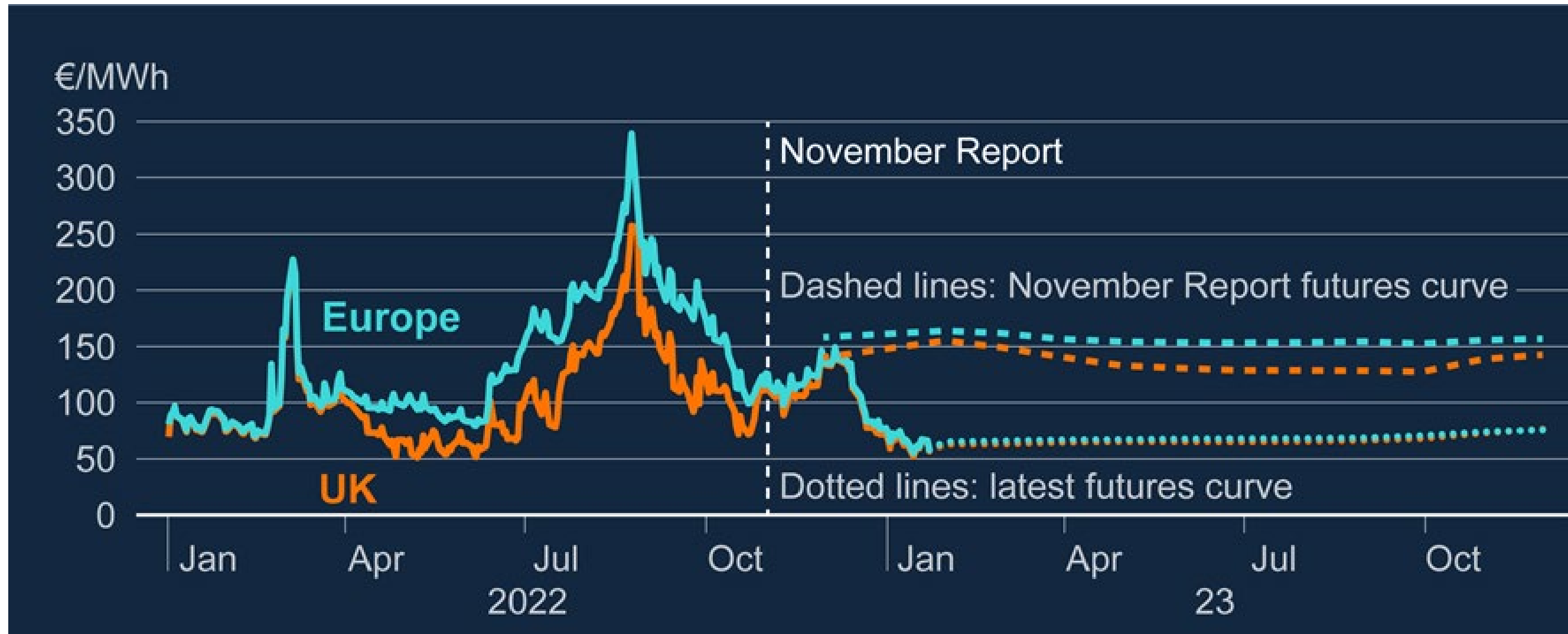


Inflation...



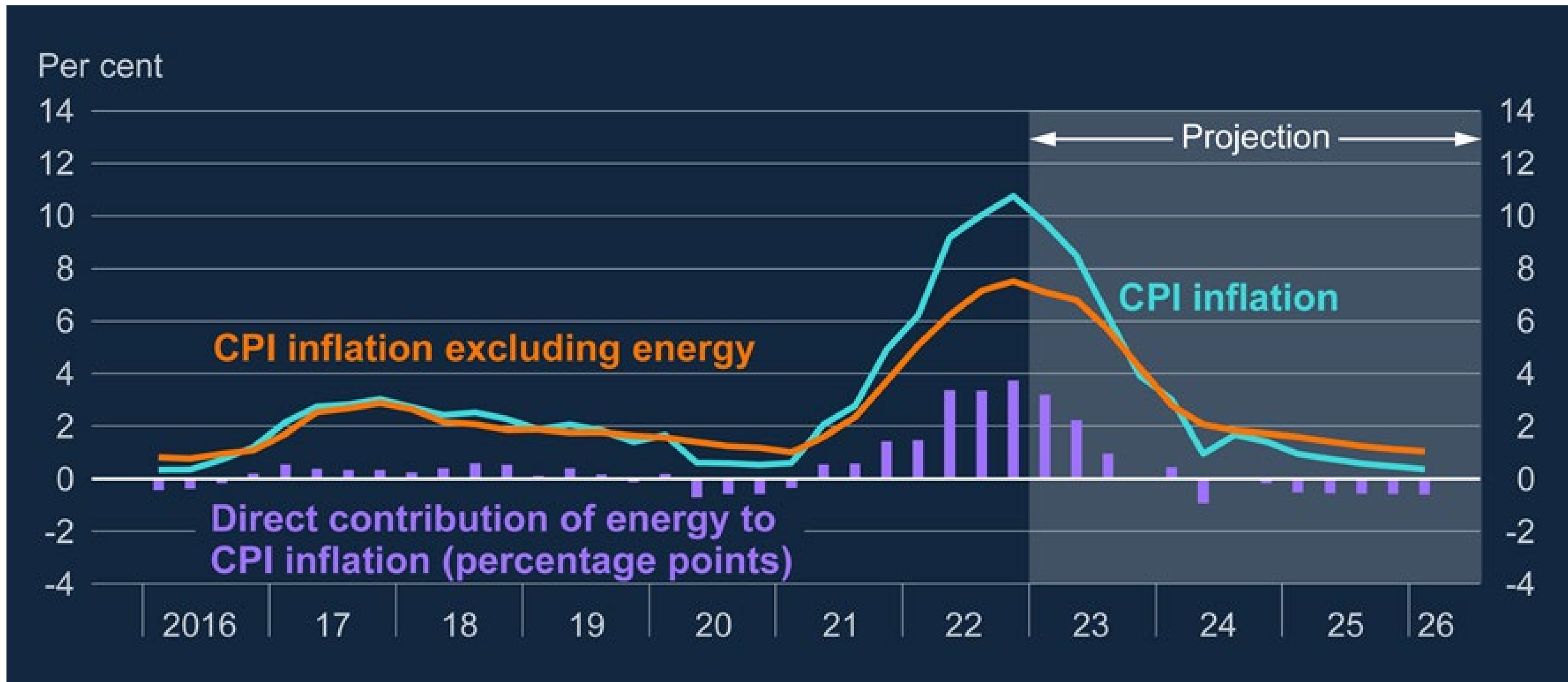
- Russian military control
- Held or regained by Ukraine
- ▨ Limited Russian military control
- Russia annexed Crimea in 2014

Huge increase in energy costs abating



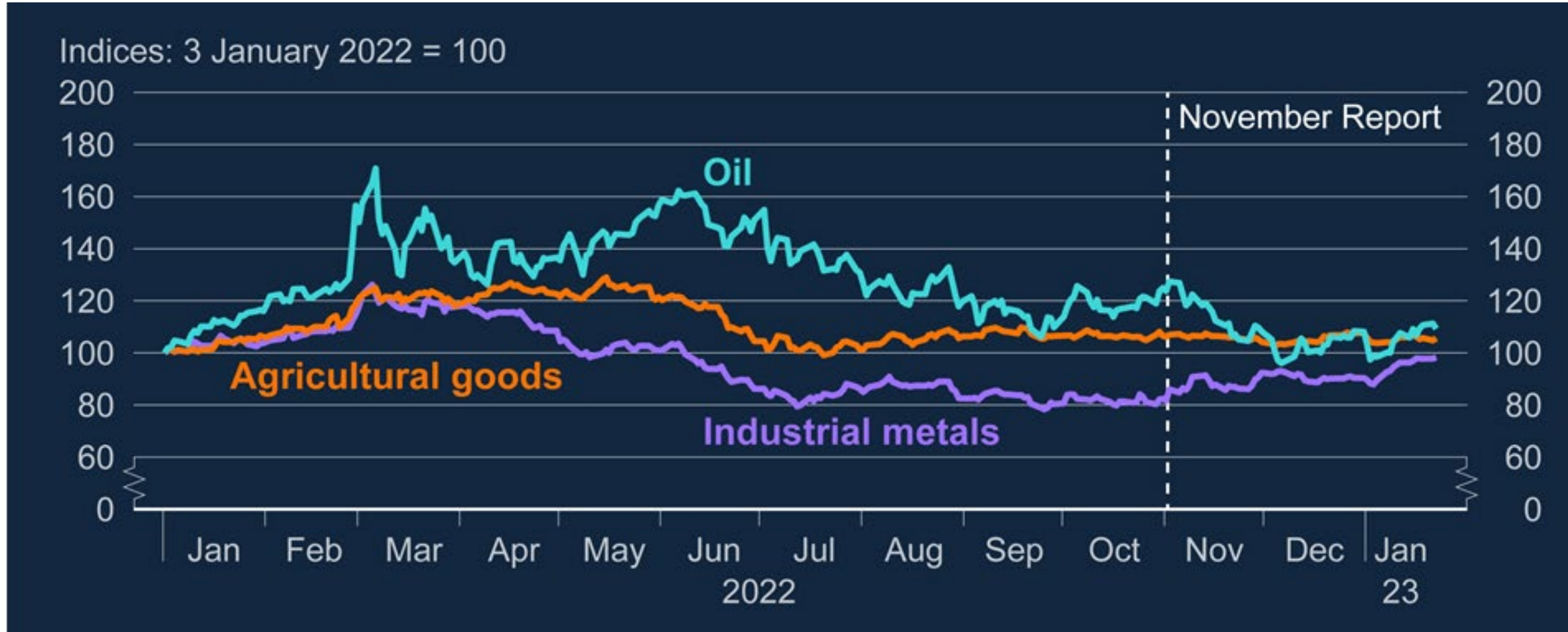
Source: Bank of England

Impact of Energy on Inflation



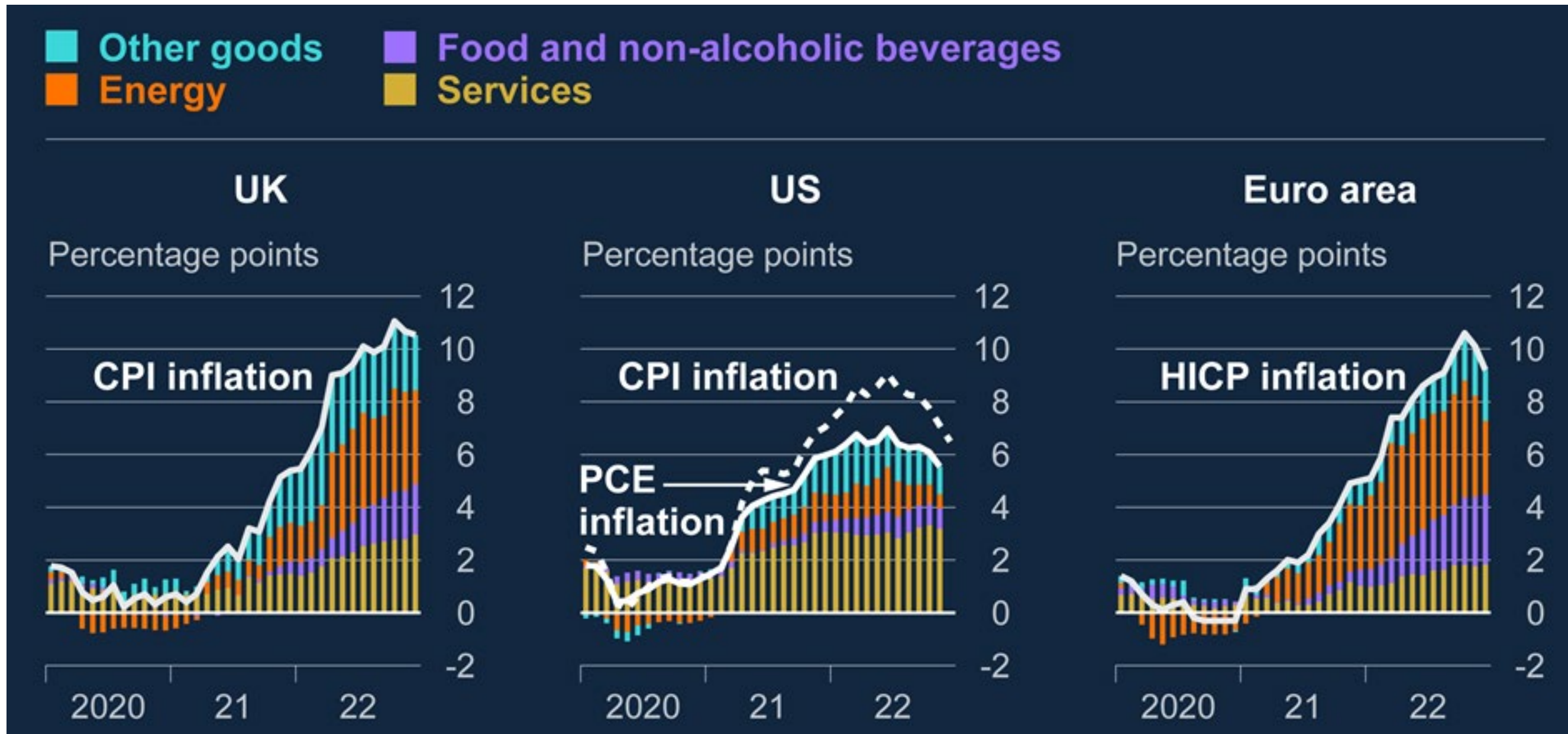
Source: Bank of England

Not just energy



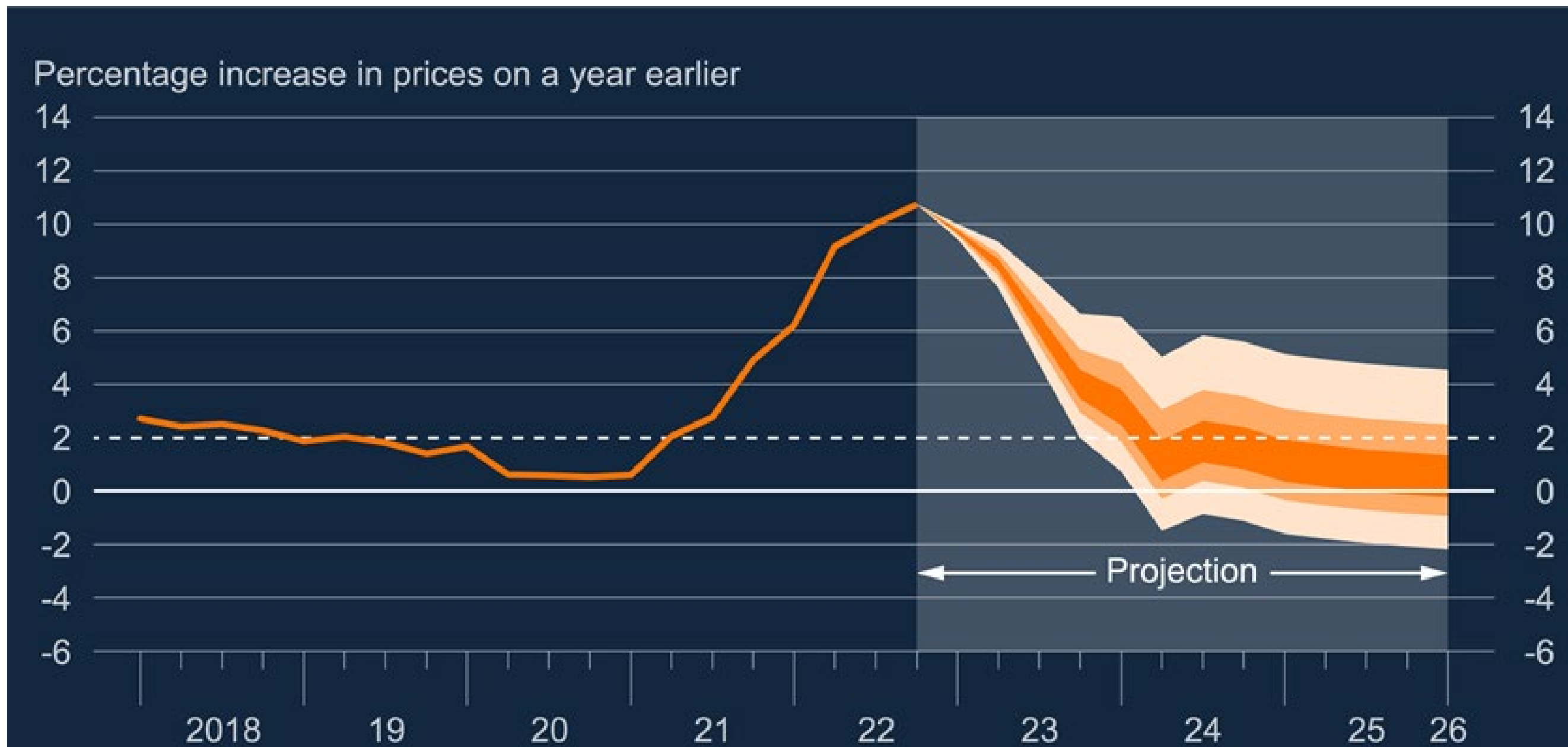
Source: Bank of England

Inflation falling ...



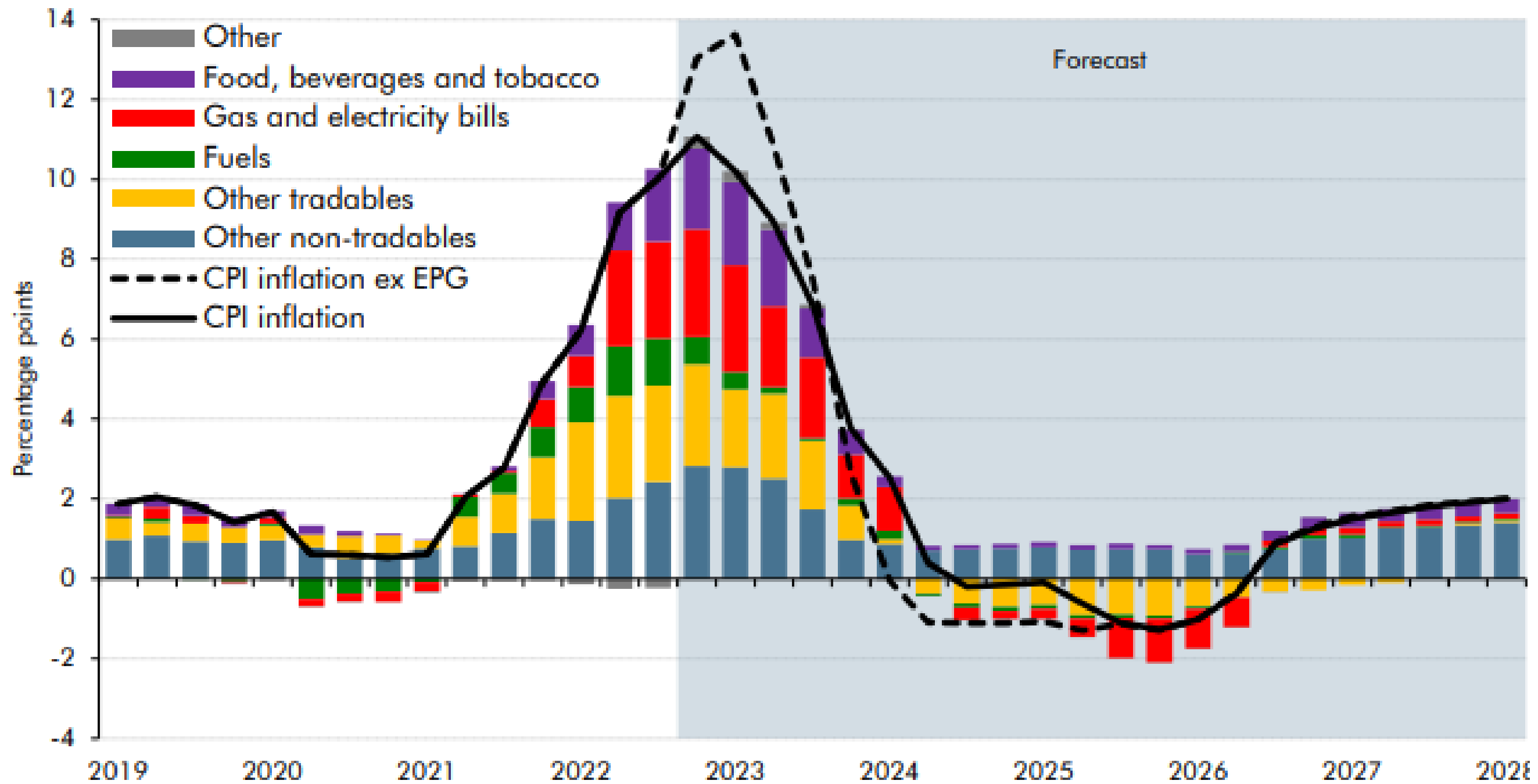
Source: Bank of England

Bank of England forecast – Inflation to fall rapidly



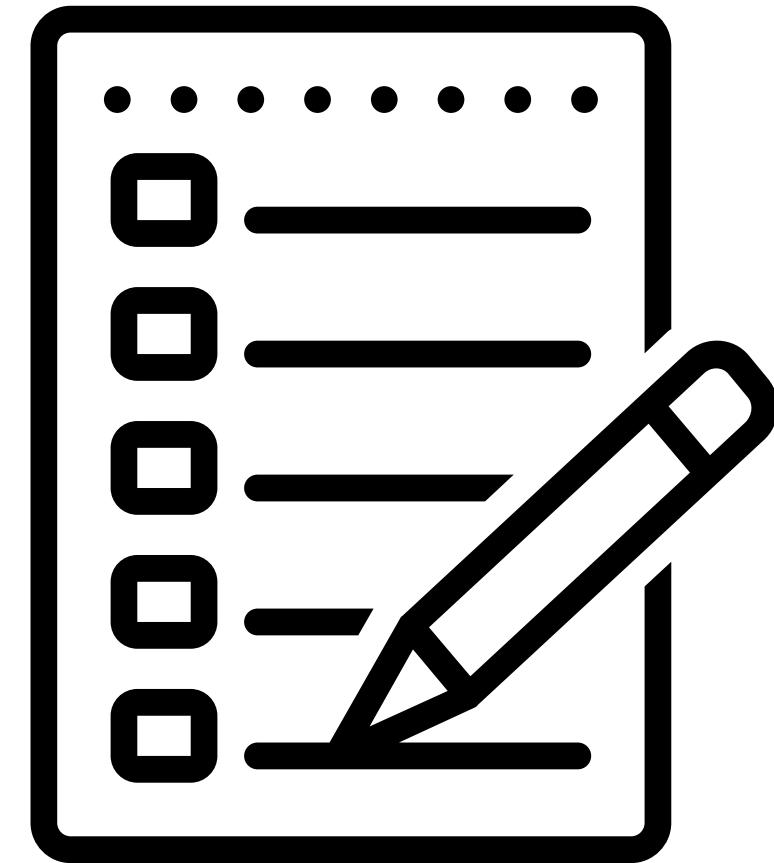
Source: Bank of England

Inflation embedded all areas?

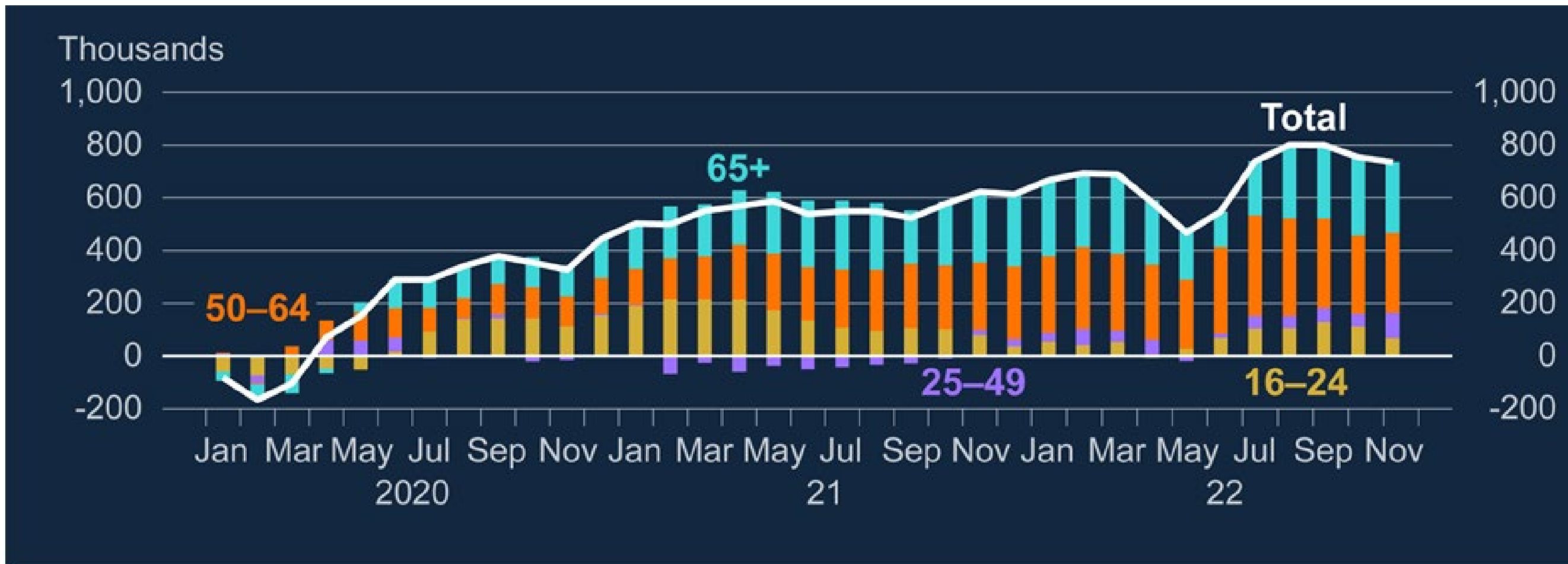


Survey - Inflation

- <2% (very low inflation)
- 2-3% (controlled and back on target)
- >4% (inflation is back)



Since covid over 50s left the labour force..



Source: Bank of England

Shortage of Labour...

- Estimated potential participation in November 2021
- Estimated potential participation in February 2023
- Actual participation



Source: Bank of England

Wage growth

London bus drivers end strike action after securing 18% pay increase

Nurses' union suggests Government meet it halfway on 19% pay rise demand

The union could be willing to accept a pay rise of about 10%.

The NASUWT has confirmed to governments and employers in England, Scotland and Wales that we are in dispute over their failure to pay all teachers a minimum 12% pay award this year.



The jobs with inflation-busting pay rises

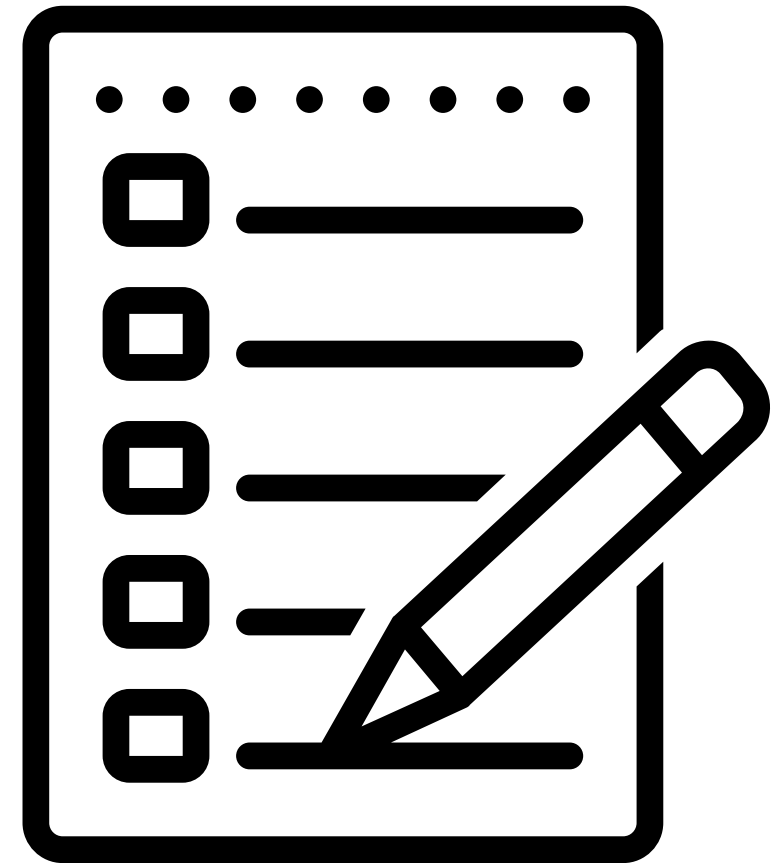
Most salaries are failing to keep pace with the soaring cost of living, but a few occupations stand out

- Sales (+20%)
- Nightclub bouncer (+15%)
- Chef (+15%)
- HGV driver (+14%)
- Recruiter (+13%)



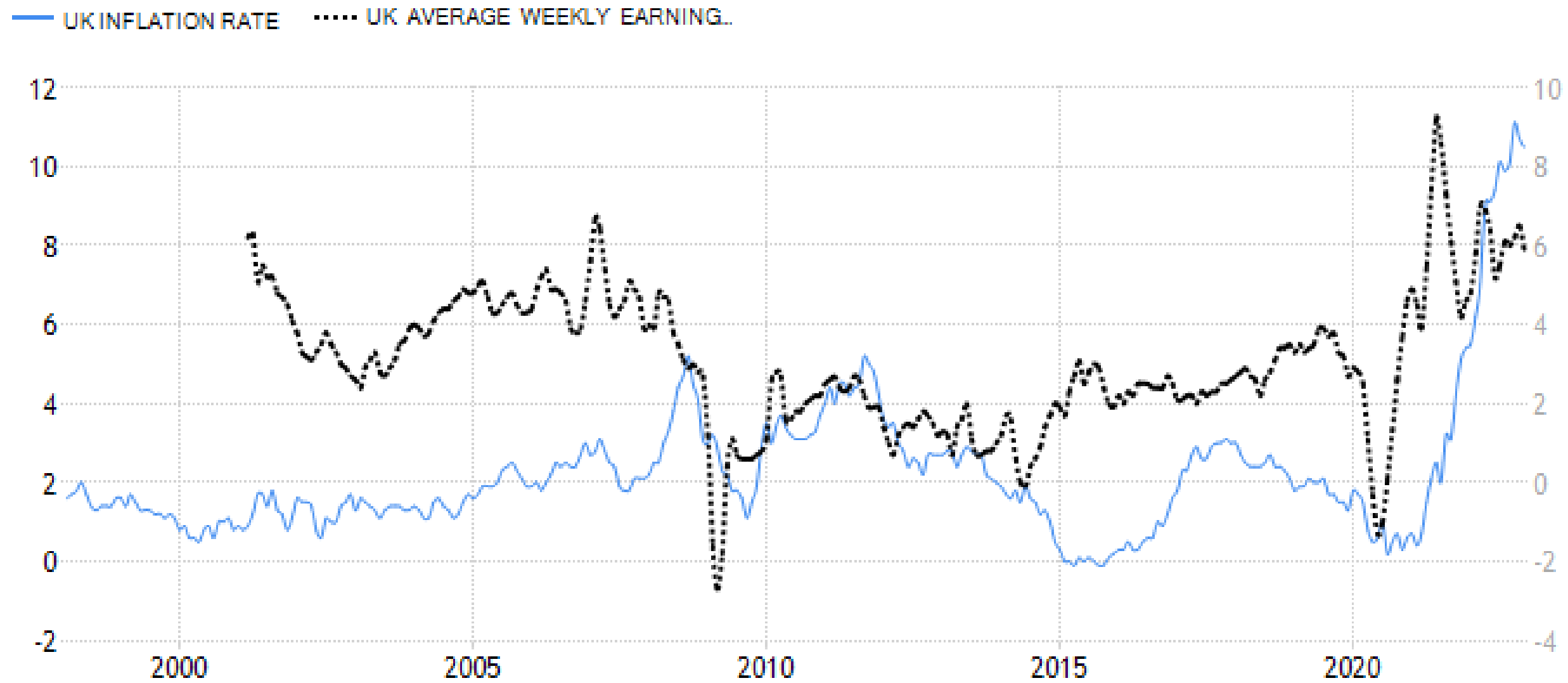
Survey

- 0-5% wage growth
- 5-10%
- >10%



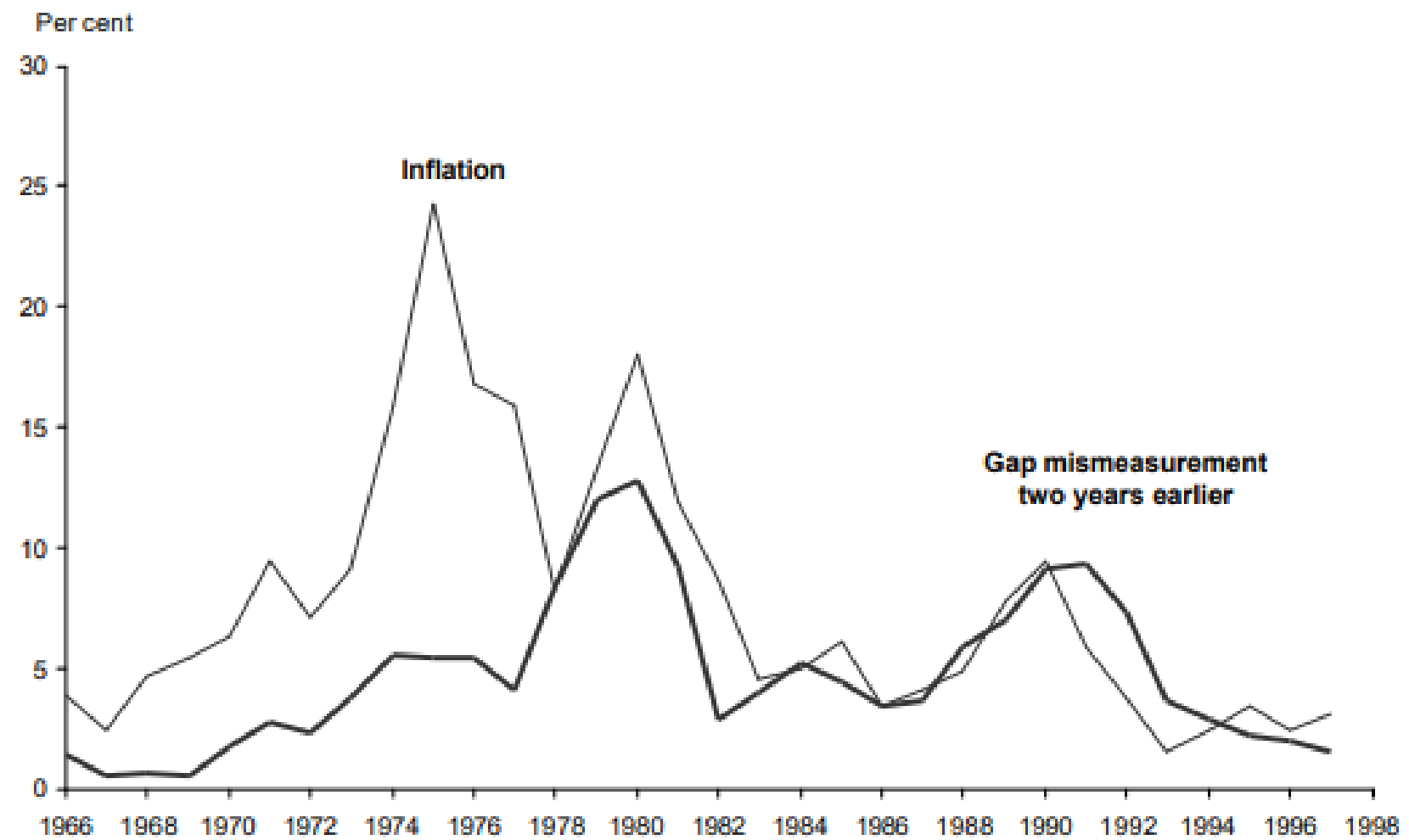
Wage growth and inflation

Wage Growth

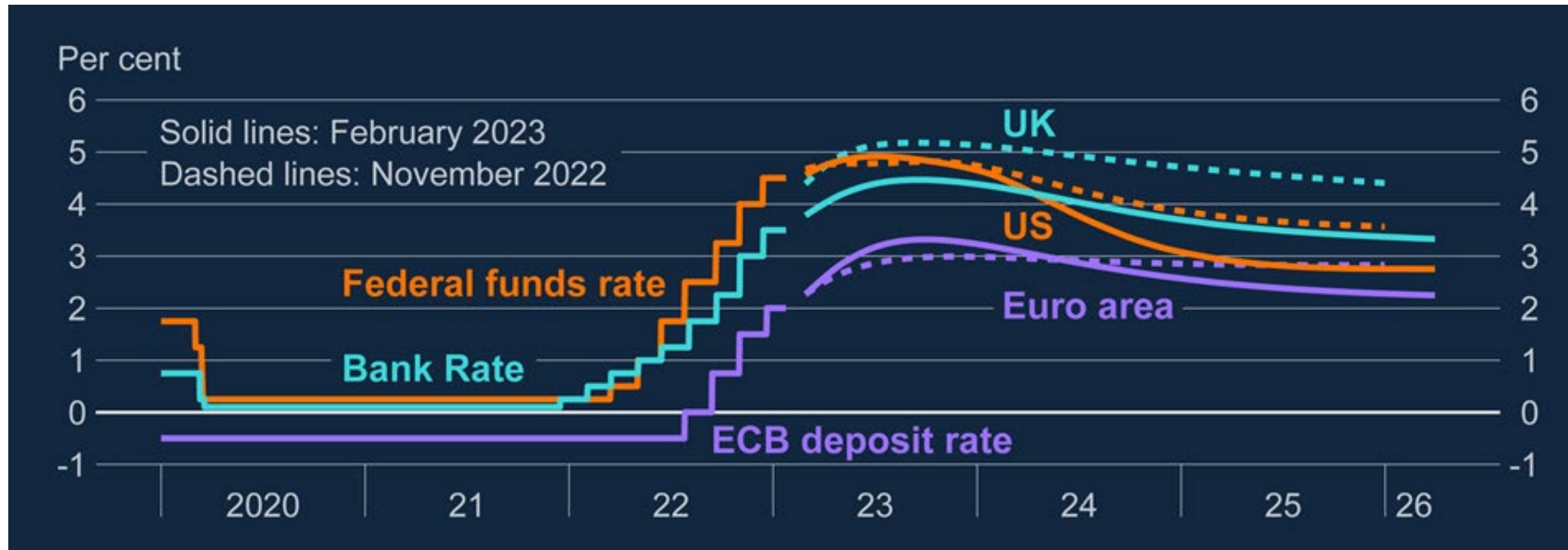


Back to the 70's?

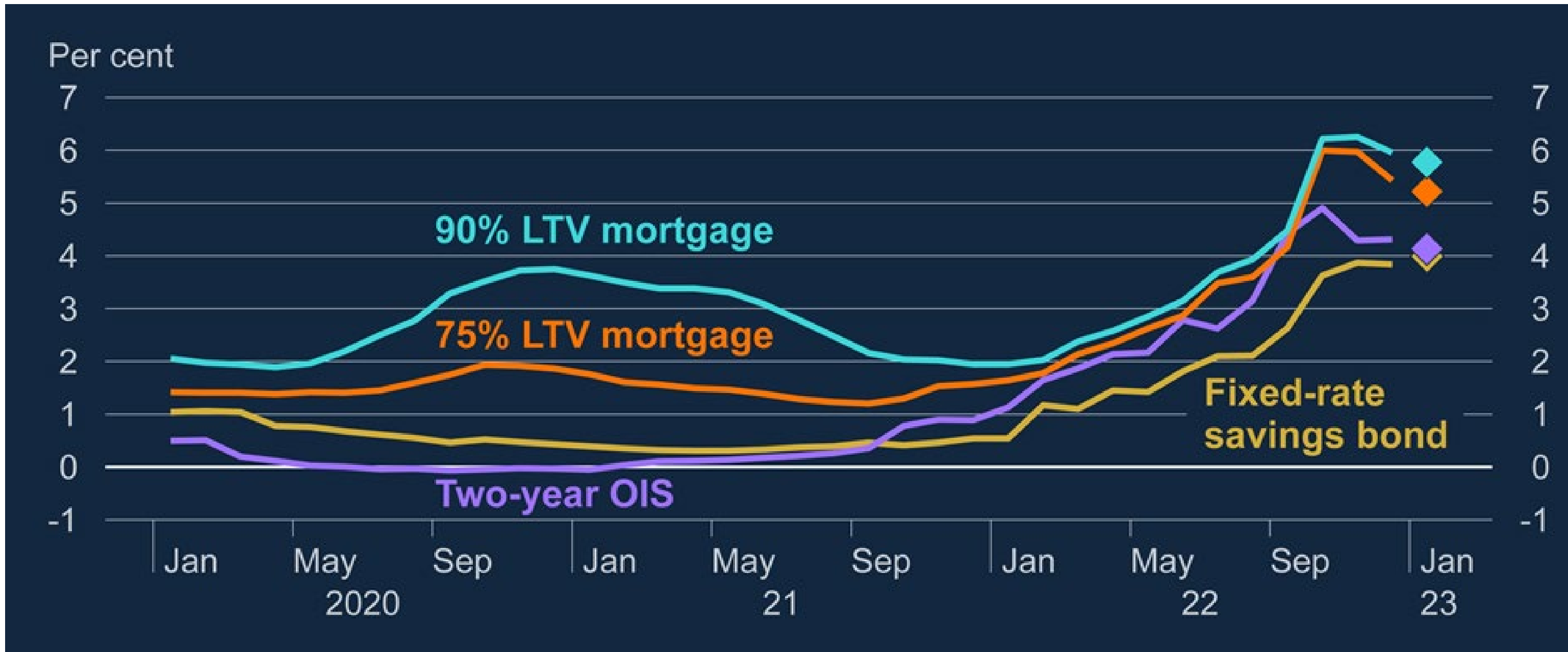
Chart 6: RPI inflation against output gap mismeasurement two years earlier, 1966-97



Expectations of rate rises to come



Mortgage rates fallen since "Trussonomics" debacle



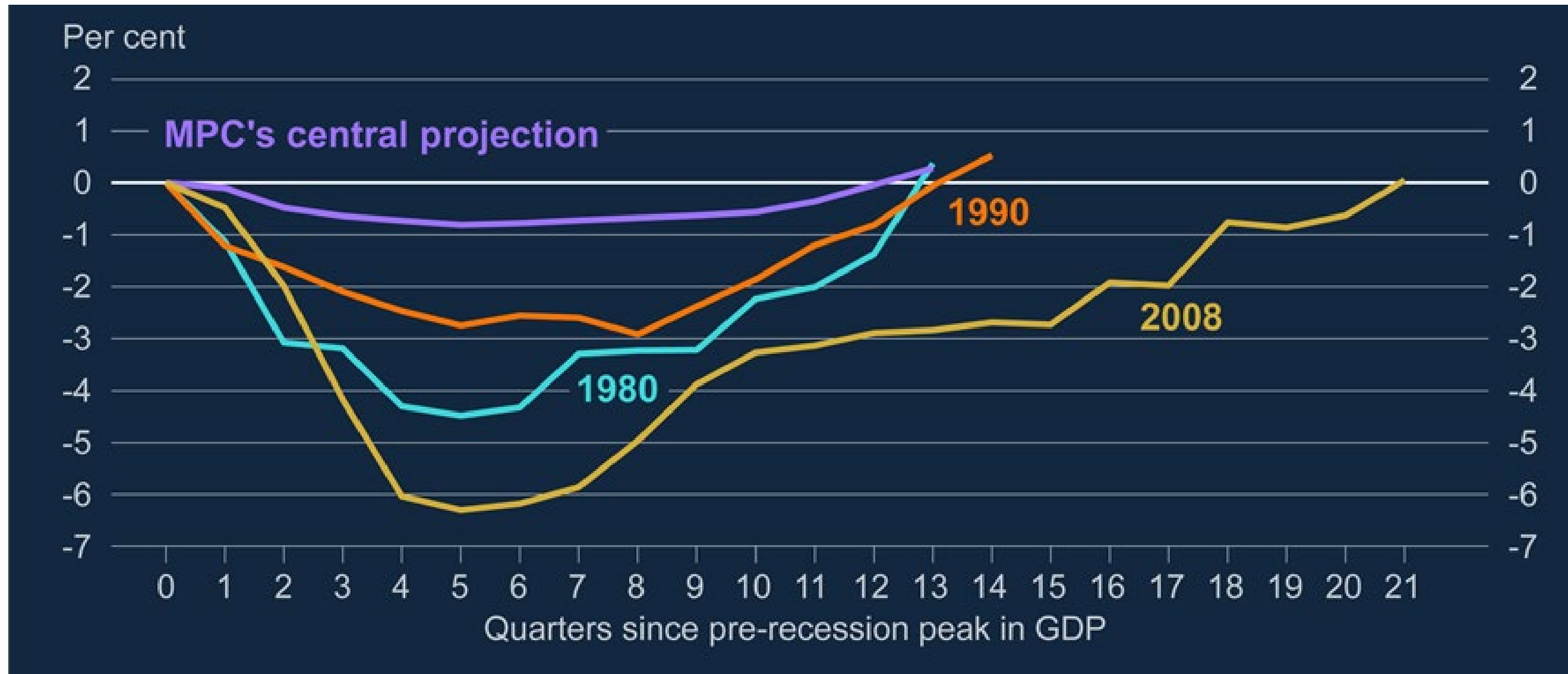
Rates are 'normalising' after 15yrs of ZIRP

	Average 1998-2007	Average 2010-2019
Bank Rate	5%	0.5%

Independent forecasts:

	2022	2023	2024	2025
Base rate	2.8%	4.4%	3.7%	3.4%

Slump ...



Consumption comes to the rescue

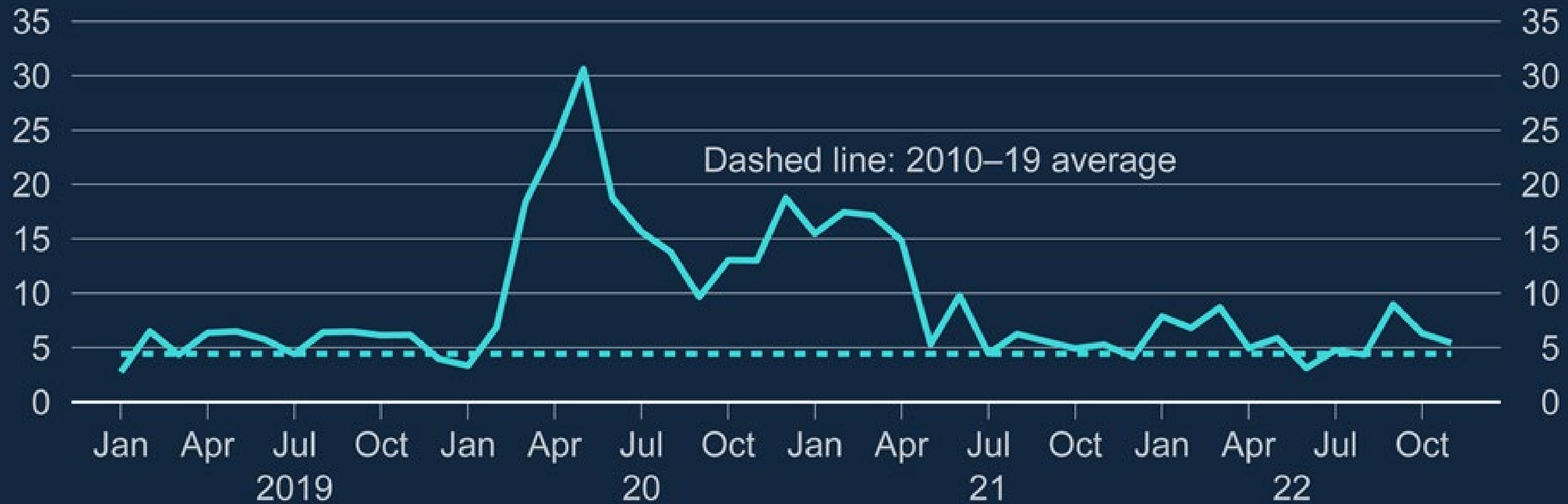
“Too many of us now tend to worship self indulgence and consumption.”

Jimmy Carter

ONS forced saving during covid approximately £140bn.

Flow of money into household savings...(in

£ billions



Consumer Confidence

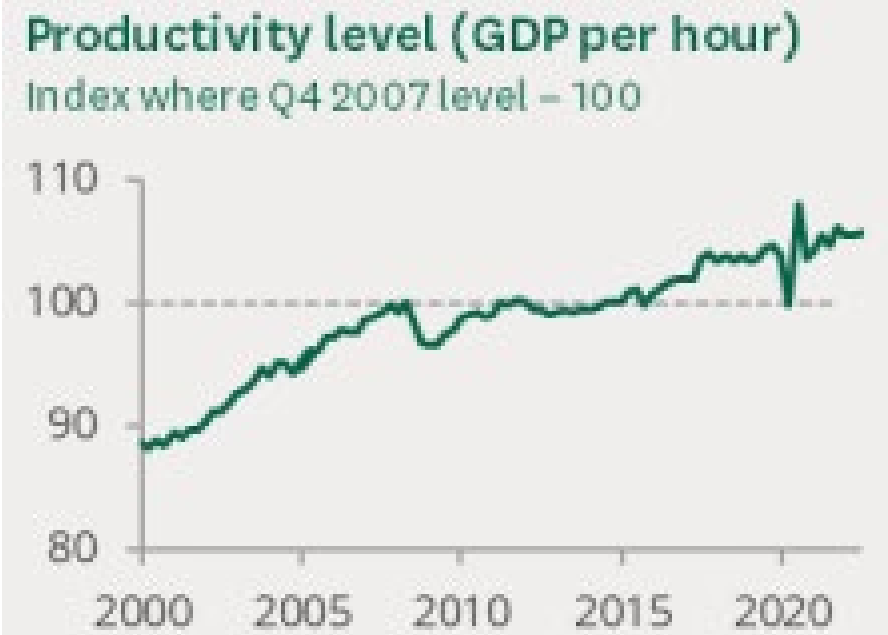


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GDP Forecasts

	Averages			Projections			
	1998– 2007	2010– 19	2020– 21	2022	2023	2024	2025
World GDP (UK-weighted) ^(c)	3	2½	¾	3 (2¾)	1 (1)	1¾ (1½)	2 (2)
World GDP (PPP-weighted) ^(d)	4	3¾	1½	3¼ (3)	2¼ (2¼)	3¼ (3)	3¼ (3¼)
Euro-area GDP ^(e)	2¼	1½	-½	3½ (3¼)	0 (0)	½ (0)	1½ (1¼)
US GDP ^(f)	3	2¼	1½	2 (1¾)	¾ (¾)	1¼ (1¼)	1¾ (2)
Emerging market GDP (PPP-weighted) ^(g)	5½	5	2¼	3½ (3½)	3¼ (3½)	4¾ (4½)	4¼ (4½)
of which, China GDP ^(h)	10	7¾	5¼	3 (3¼)	3¾ (4½)	6 (5)	4¾ (5)
UK GDP ⁽ⁱ⁾	2¾	2	-1¾	4 (4¼)	-½ (-1½)	-¼ (-1)	¼ (½)

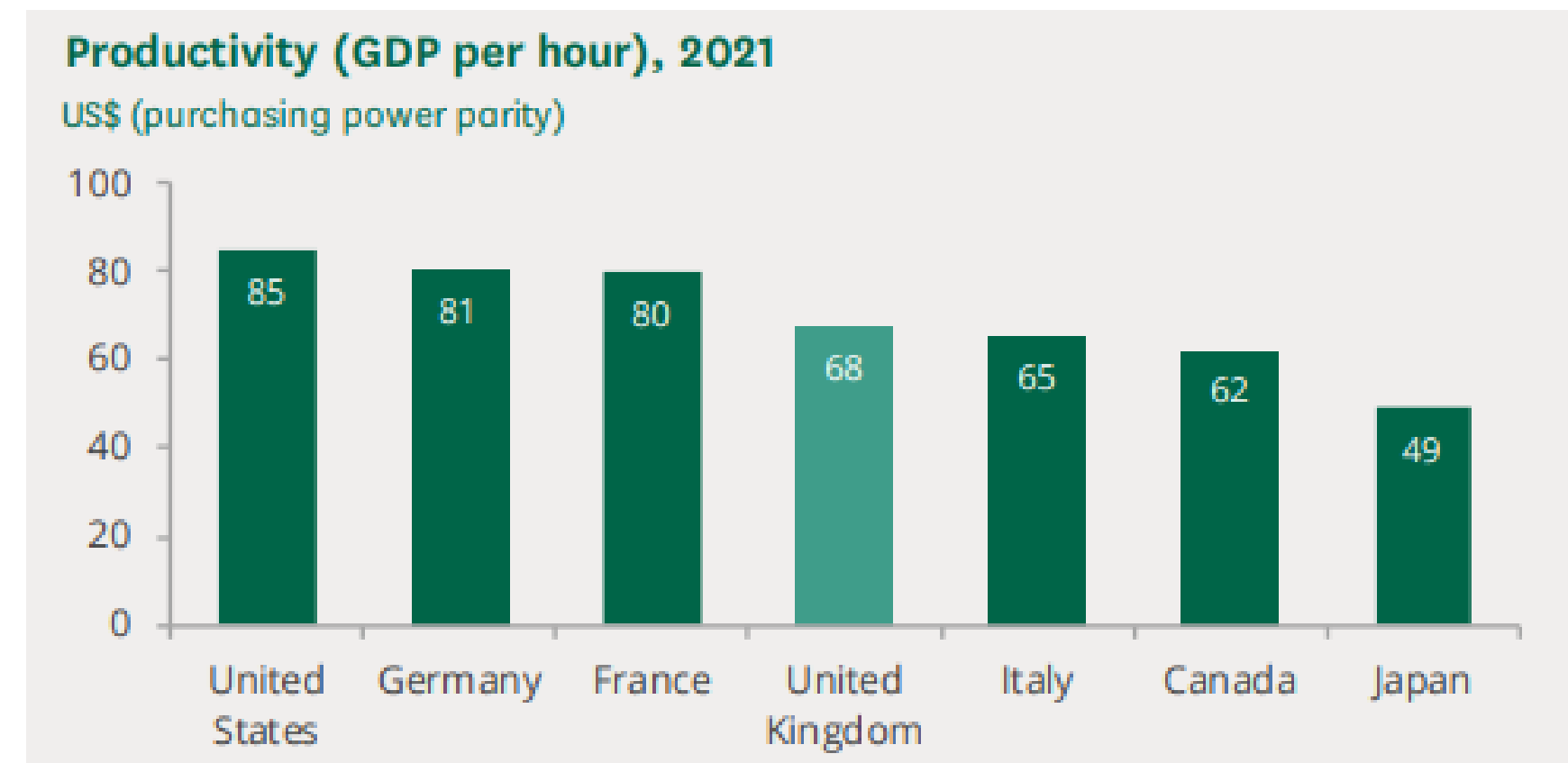
Productivity



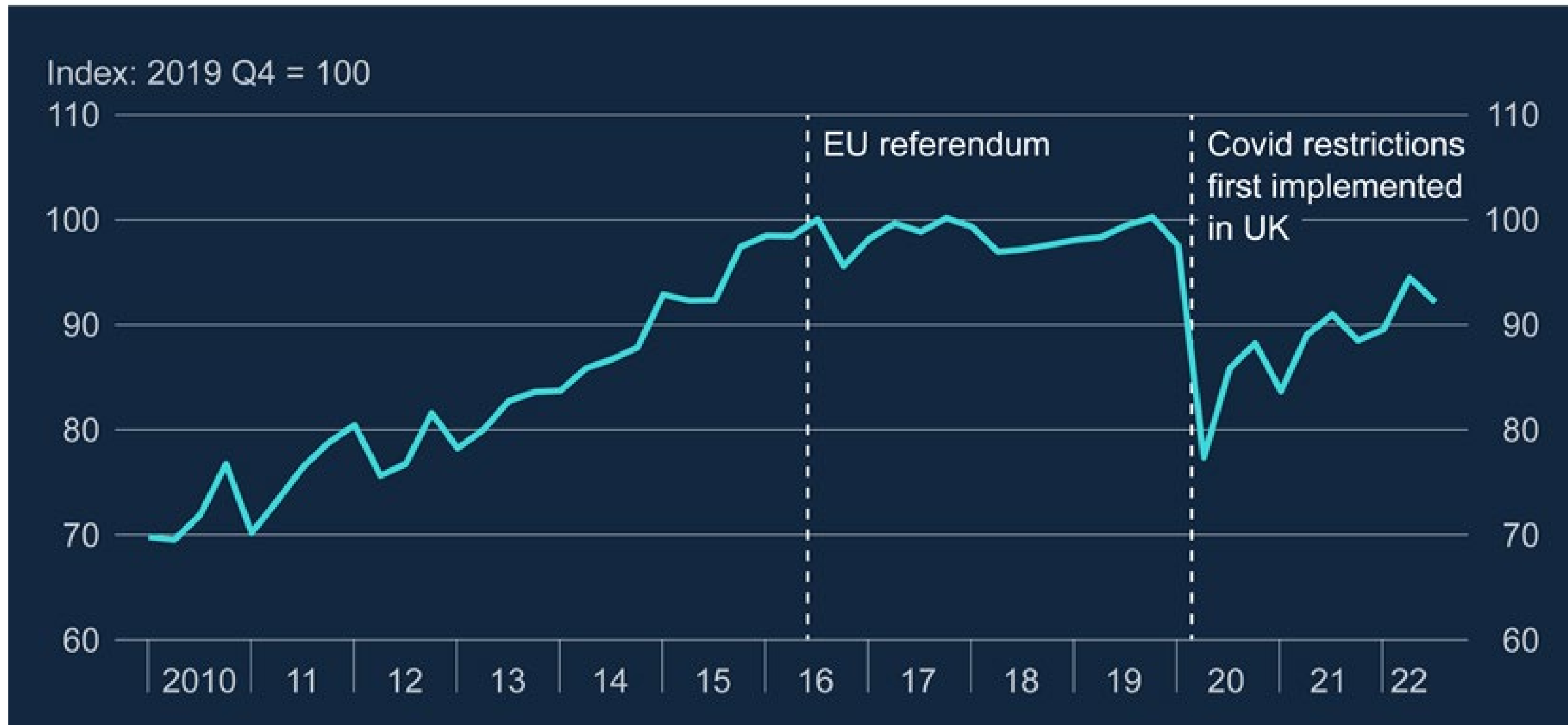
Historically, UK labour productivity has grown by around 2% per year but since the 2008/2009 recession it has risen more slowly

International comparisons

In 2021, ranked on [GDP per hour worked](#), the UK came fourth highest out of the G7 countries, with the US top and Japan bottom. UK productivity was around 20% below the US.



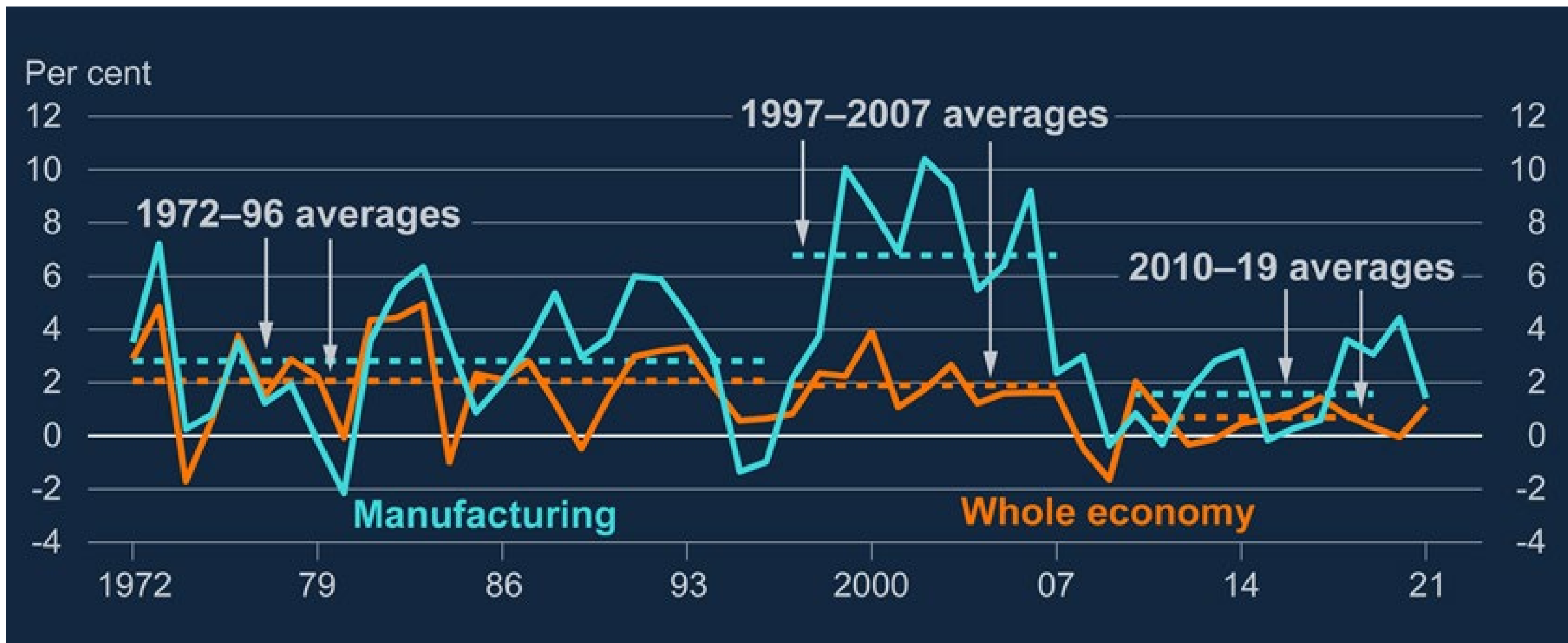
Under investment...



Short Term investment intentions muted...



The UK's Productivity Problem

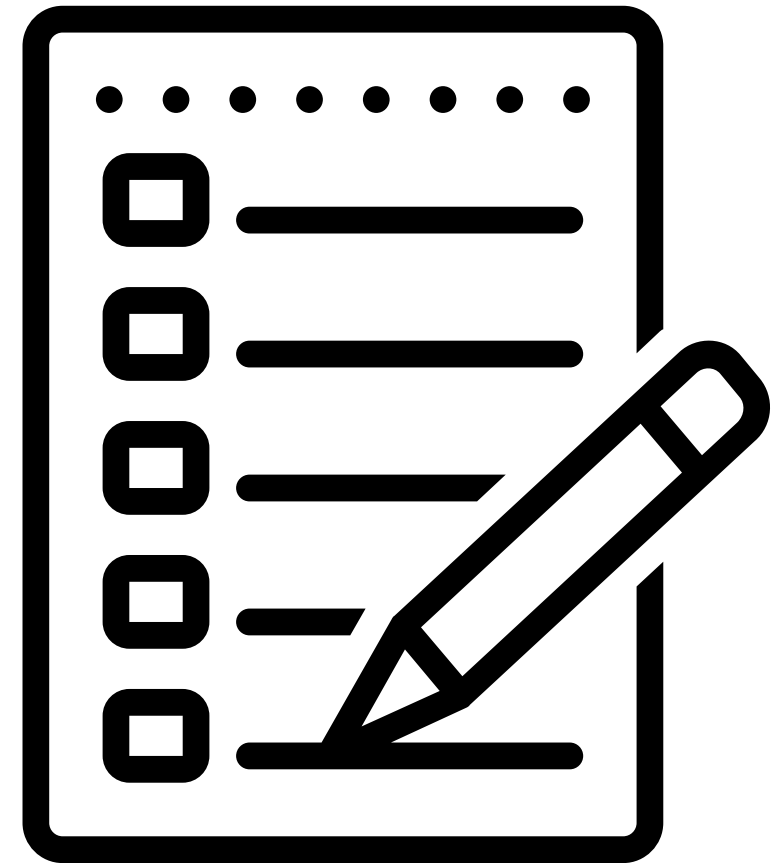


Education

- OECD PISA report:
- Reading: UK ranks 14th behind China, South Korea, Sweden, Poland and the US
- Maths: UK ranks 18th behind China, south Korea, Netherlands, Swizerland
- Science: UK ranks 14th behind China, Japan, South Korea, Canada.

Survey

- 0-5% wage growth
- 5-10%
- >10%



Geopolitics



The world is going to become increasingly polarised with China/ Russia / Iran? On one side and the Western countries on the other.
Microchips are the coal and steel of any future conflict.

Britain wargames a crash far worse than...

Britain Wargames a Crash Far Worse Than Covid If Chip Supplies Are Shut Off

Everything from energy security to medical treatment would be at risk — and Brexit has left the UK with fewer options than other western countries.

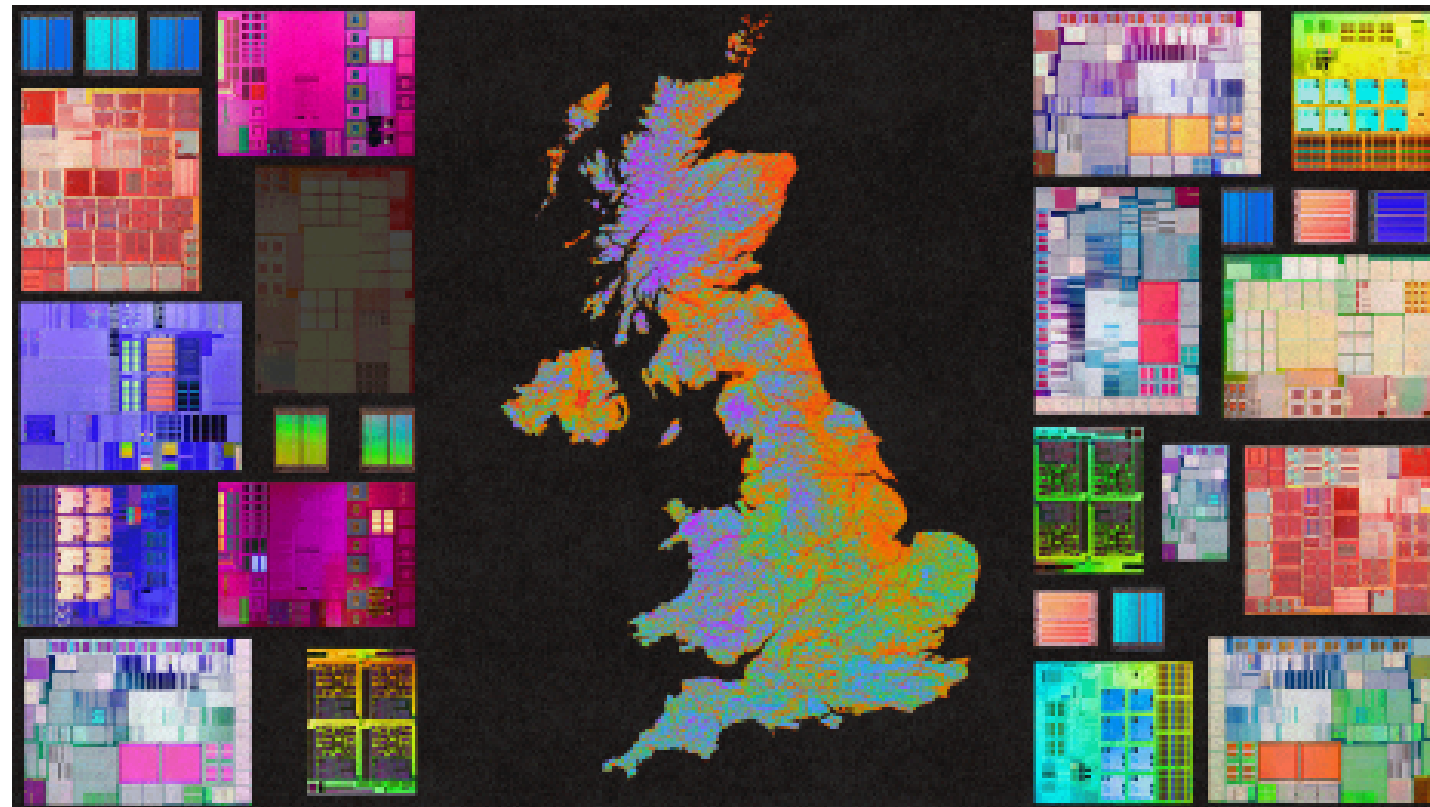


Illustration by Steph Davidson

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Summary

Short Term

- Negative Risk: that inflation remains persistently high
- Positive Surprise: that the economy is stronger than expected (due to strong consumption)
- Both mean higher interest rates

Long Term

- Interest rates normalised
- Debt overhang
- Stagnant economy
- Shortage Labour
- Investment and Productivity
- UK vulnerable
- Geopolitical risk

Summary

Chart 3.6: Goods trade with the EU has been weak

Trade in goods (a)

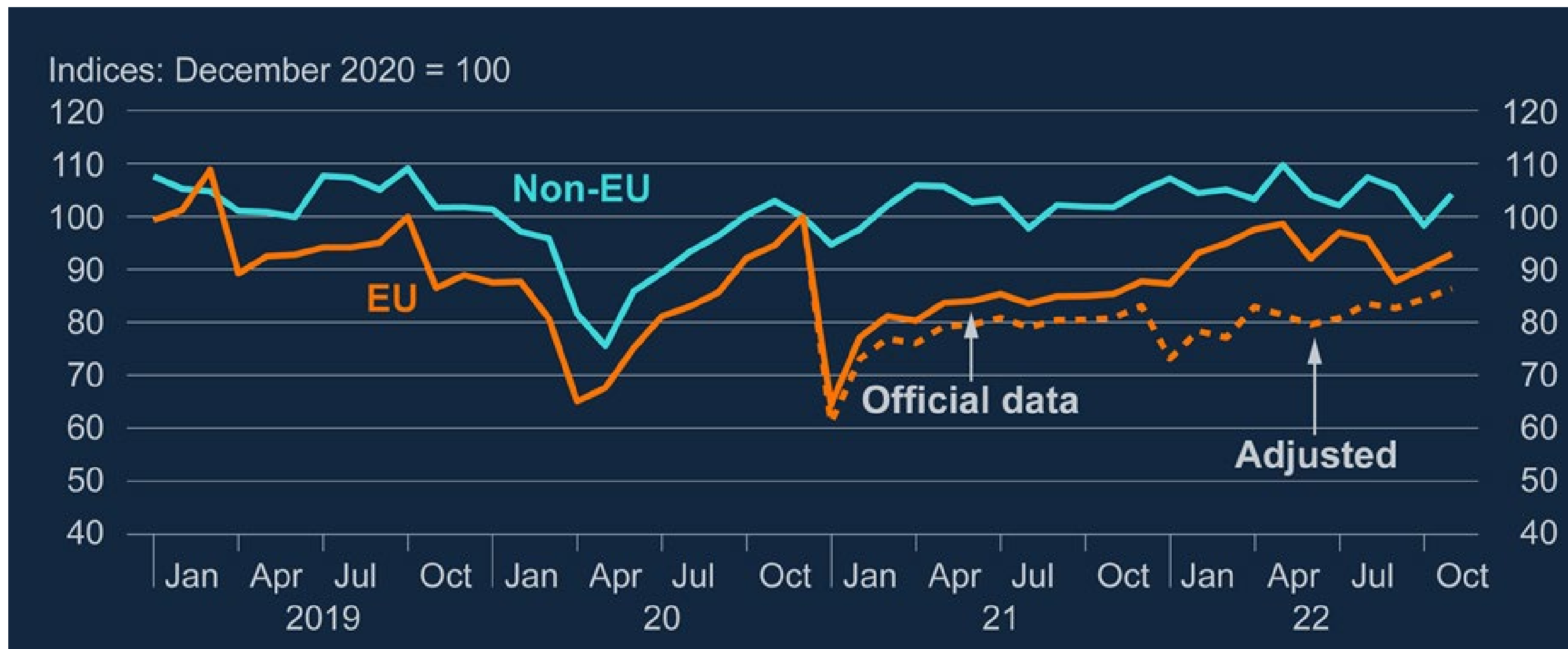
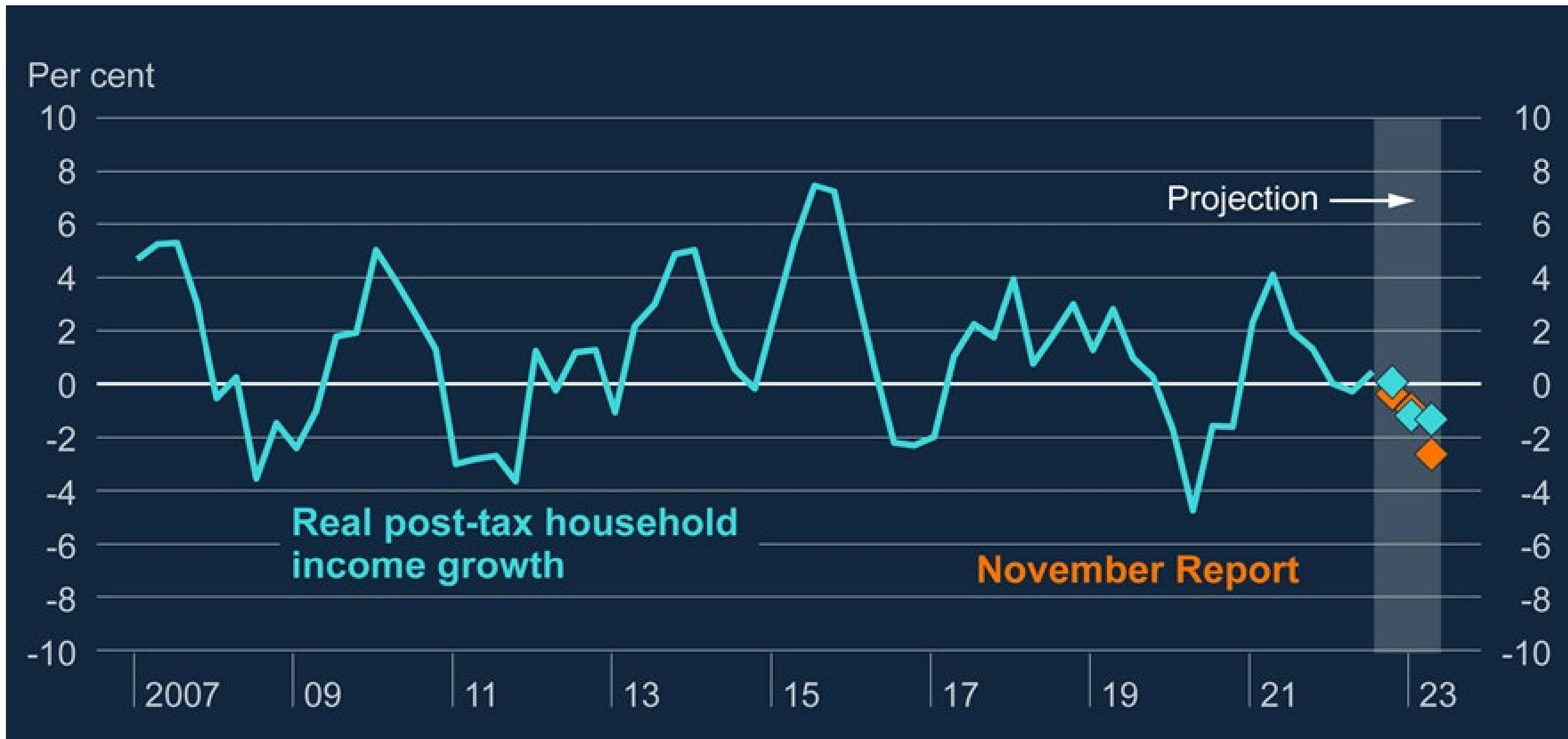


Table 1 Averages of other forecasters' central projections ^(a)									
		2024 Q1		2025 Q1		2026 Q1			
CPI inflation ^(b)		3.9		2.20		2.0			
GDP growth ^(c)		0.1		1.6		1.9			
LFS unemployment rate		4.6		4.5		4.3			
Source: Projections of outside forecasters as of 20 January 2023.									
<p>(a) For 2024 Q1, there were 22 forecasts for CPI inflation, 22 for GDP growth and 22 for the unemployment rate. For 2025 Q1, there were 16 forecasts for CPI inflation, 16 for GDP growth and 15 for the unemployment rate. For 2026 Q1, there were 11 forecasts for CPI inflation, 11 for GDP growth and 11 for the unemployment rate.</p>									
<p>(b) Twelve month rate.</p>									
<p>(c) Four -quarter percentage change.</p>									

Real income hit by inflation



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