



**Cranfield**  
School of  
Management

# UK and Global Economic Update

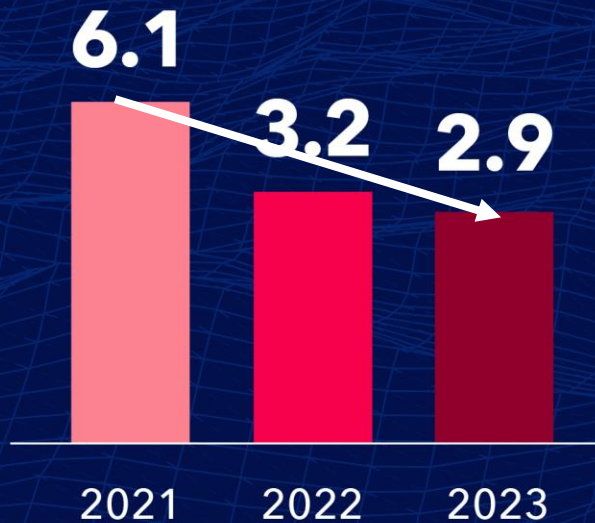
**Professor Joe Nellis**

Professor of Global Economy

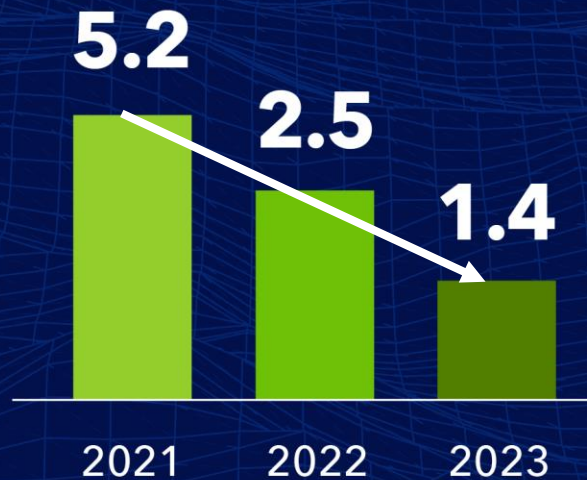


# IMF GROWTH PROJECTIONS (July 2022)

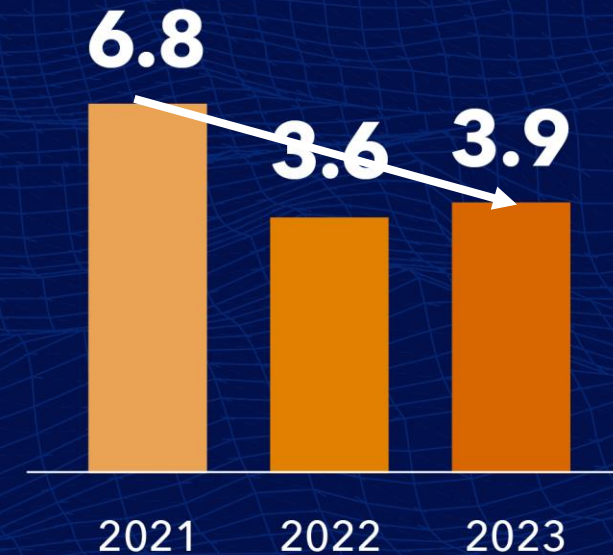
## GLOBAL ECONOMY



## ADVANCED ECONOMIES



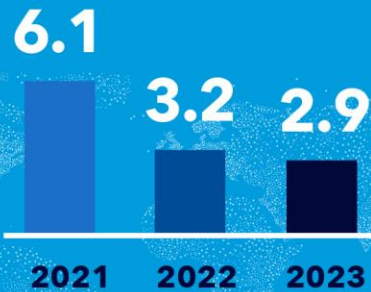
## EMERGING MARKET & DEVELOPING ECONOMIES





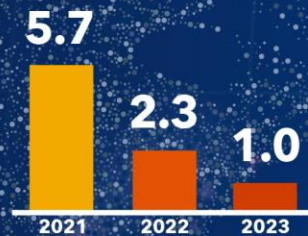
# GROWTH PROJECTIONS BY REGION (July 2022)

## World

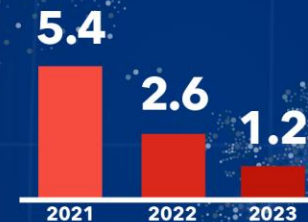


(real GDP growth, percent change)

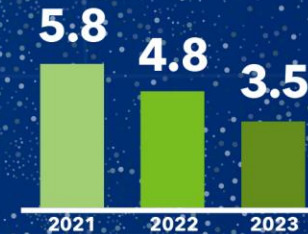
## UNITED STATES



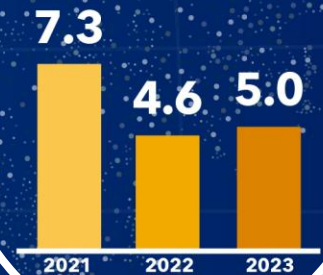
## EURO AREA



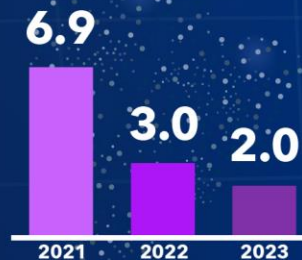
## MIDDLE EAST AND CENTRAL ASIA



## EMERGING AND DEVELOPING ASIA



## LATIN AMERICA AND THE CARIBBEAN



## SUB-SAHARAN AFRICA



Source: IMF, *World Economic Outlook Update*, July 2022.

Note: Order of bars for each group indicates (left to right): 2021, 2022 projections, and 2023 projections.

# 'Spheres of Influence' Continue to Change



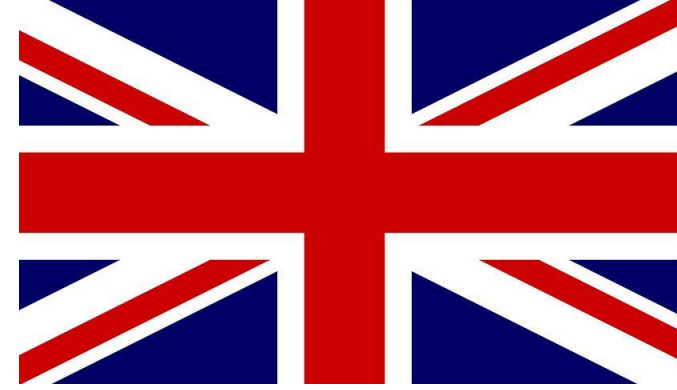
**USA**

**EU**

**China  
& Russia**

**Implications for:  
Balance of power?      Trade relationships?**

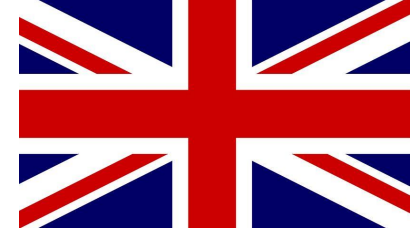
# Update on the UK Economy



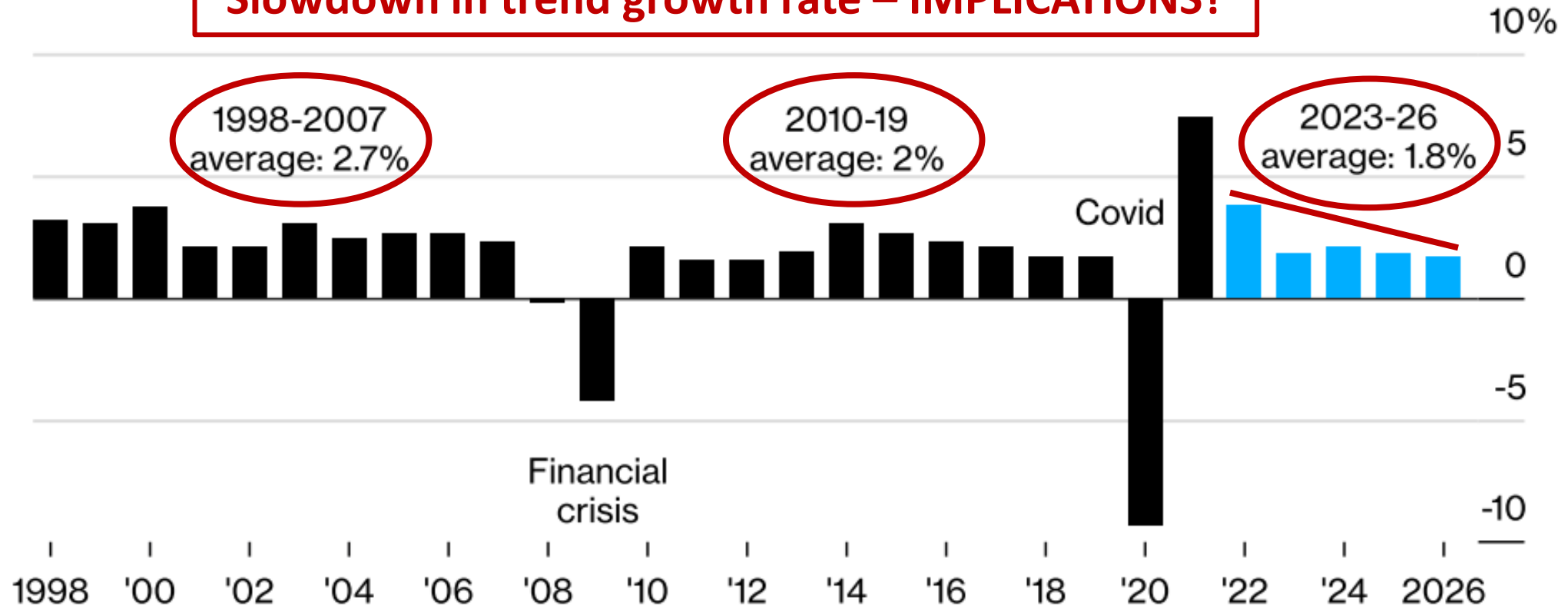
- 2021 saw a V-shaped rebound after the 2020 fall
  - GDP growth of 7.5% – fastest growth rate since WWII
  - Economy is now just above pre-pandemic situation
  - 2 years of lost growth
- But ‘bleak’ economic outlook for the next few years

**Impact of Ukraine Crisis?  
How long will the crisis continue?**

# UK GDP Growth (annual, %)

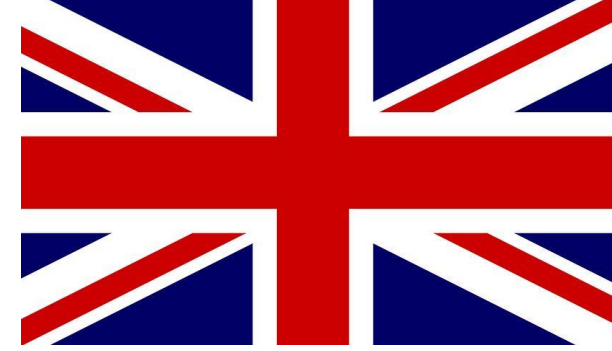


Slowdown in trend growth rate – IMPLICATIONS?



Source: Office for National Statistics, Office for Budget Responsibility

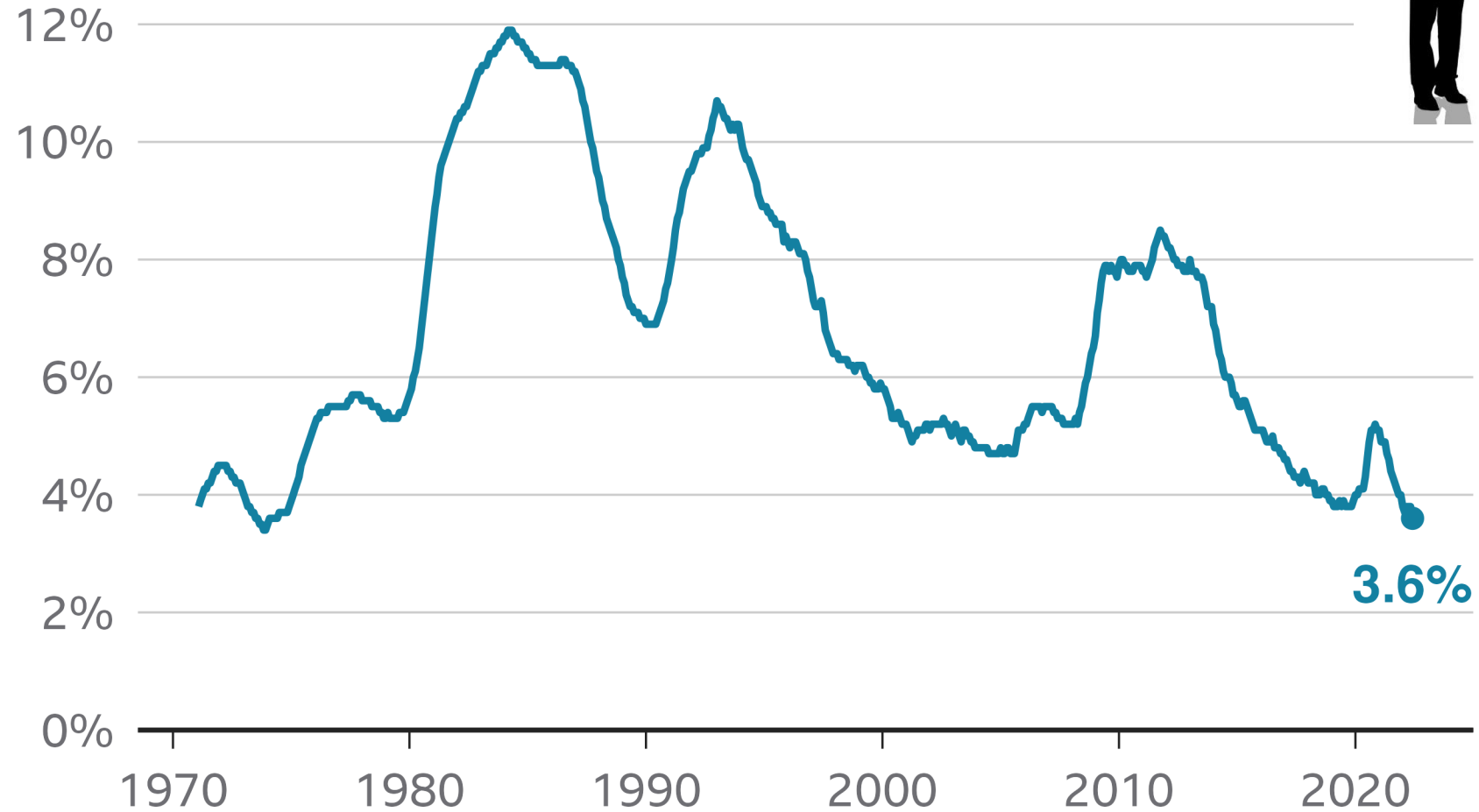
# Update on the UK Economy



- Unemployment is now at a record low 3.6% - below pre-pandemic level
- But labour shortages in many sectors creating challenges:
  - Job vacancies (almost) at record high
  - Employment rate at 75.5% is still below pre-pandemic levels
  - Limited capacity to satisfy recovery in demand
  - Adding to inflationary pressures (danger of a wage-price-wage spiral...?)

# UK Unemployment Rate

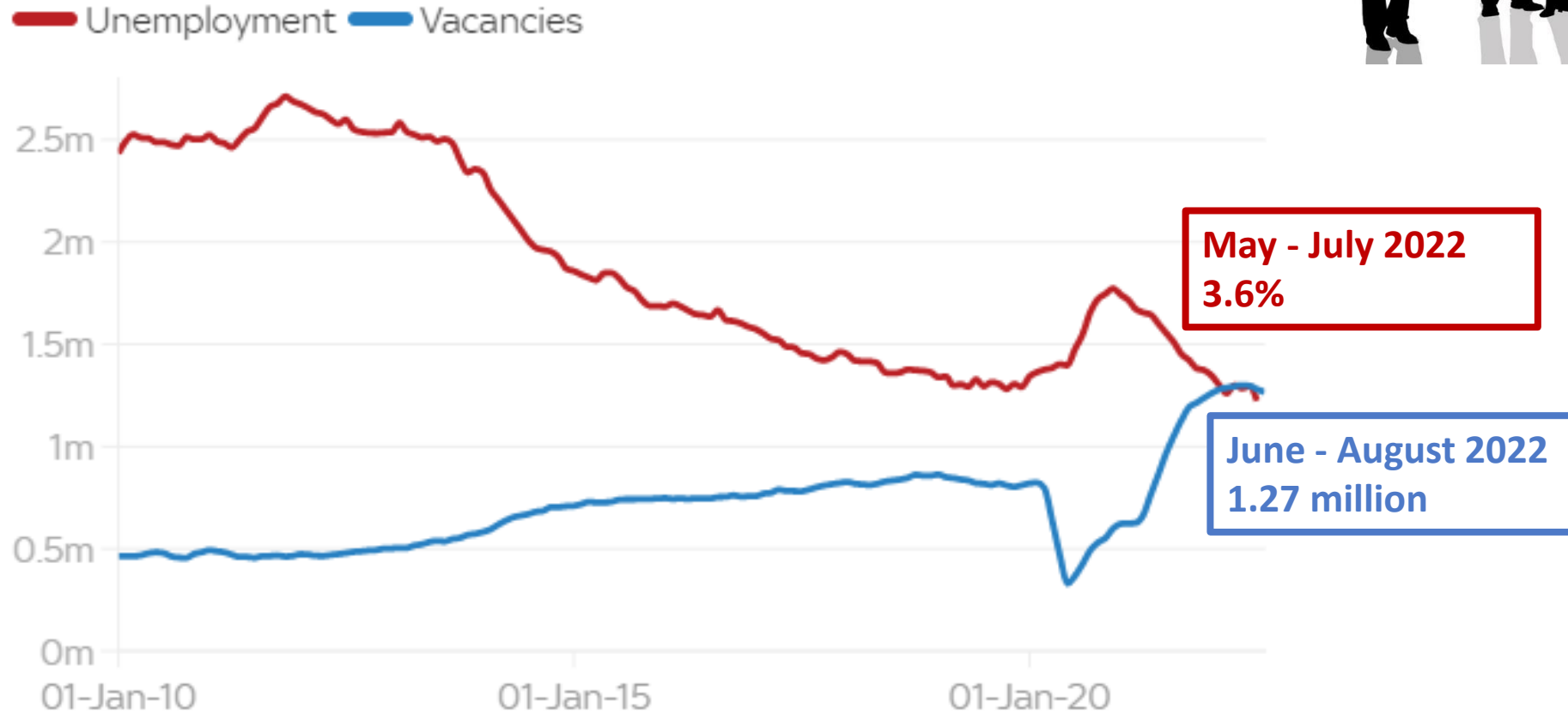
(Percentage of economically active people aged 16+)



Source: Office for National Statistics



# UK Unemployment v Vacancies (aged 16+)



Source: Office for National Statistics

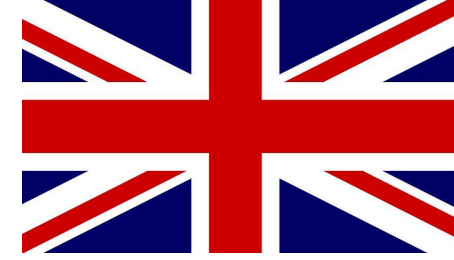
## But...Real Wage Stagnation (figures to June 2022)



Note: Inflation = CPI, Wages = pay excluding bonuses, three month average

Source: Office for National Statistics

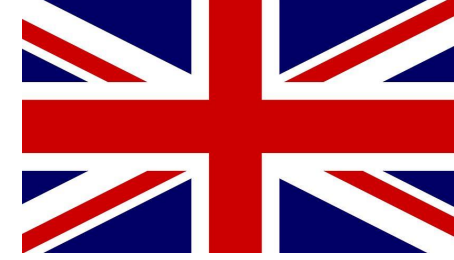
# UK Productivity Gap – ‘Levelling Up’ Agenda



■ Output per hour relative to median region

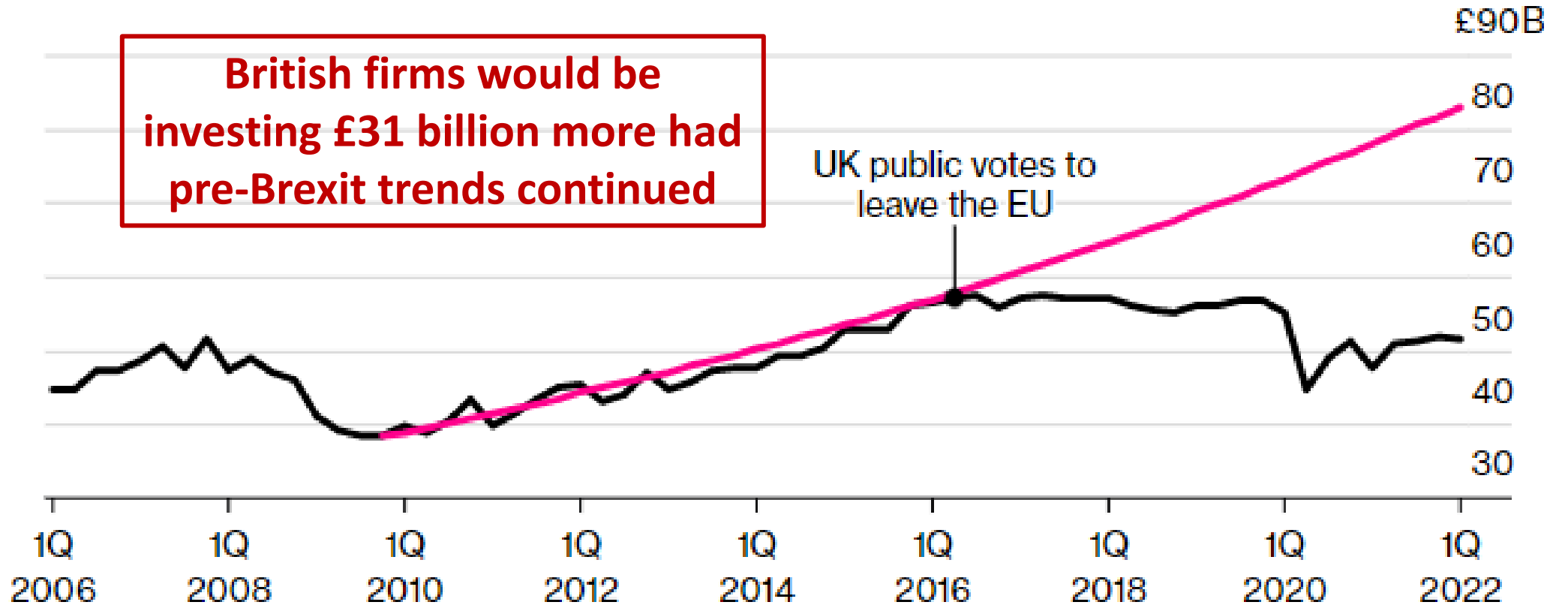


Source: office for National Statistics  
Note: Figures for 2020



# Business Investment and Brexit

/ UK business investment 
 / 2010 to Brexit trend

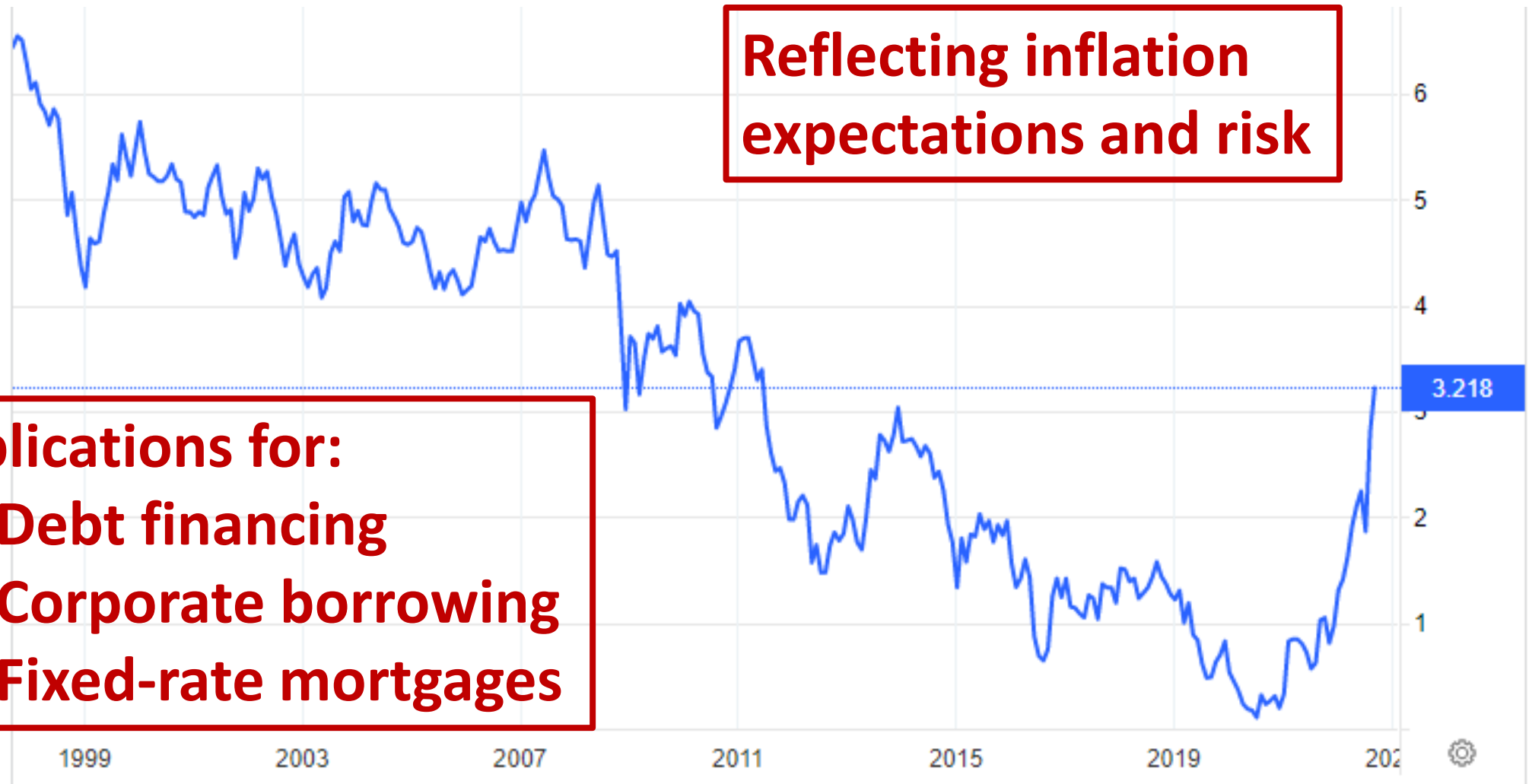


Source: Bloomberg analysis of Office for National Statistics data  
 Note: Chained volume measure, seasonally adjusted

# Government Finances

## 10-year Government Bond Yields at 14/9/2022

– Highest since 2011



# Monetary Policy

- **Monetary policy supported post-COVID recovery with:**
  - **QE (pushing down bond yields) and record low interest rates**
- **But... interest rates are now rising**
  - **Six rises in 8 months – and more to come**
  - **Up from 0.5% to 1.75% on 4 August – highest since December 2008**
- **Fine balance between inflation v economic recovery**
  - **Bank of England expects inflation to reach 13% this year**
  - **Highest inflation rate for 40 years**
  - **A prolonged Ukraine crisis could push inflation even higher**



# Causes of Inflation Today

1. Global supply chain bottlenecks
  - Consequence of the pandemic, both during and after
2. Shift in demand towards goods v services
  - For example, boom in second-hand car sales!
3. Aggregate stimulus and post-pandemic recovery
  - Overhang of fiscal support packages during the pandemic
  - Drawdown of household savings
4. Labour supply-side shock
  - Lower post-pandemic participation rate
  - Lifestyle choices!
5. Global supply shocks to energy and food
  - Russian invasion of Ukraine



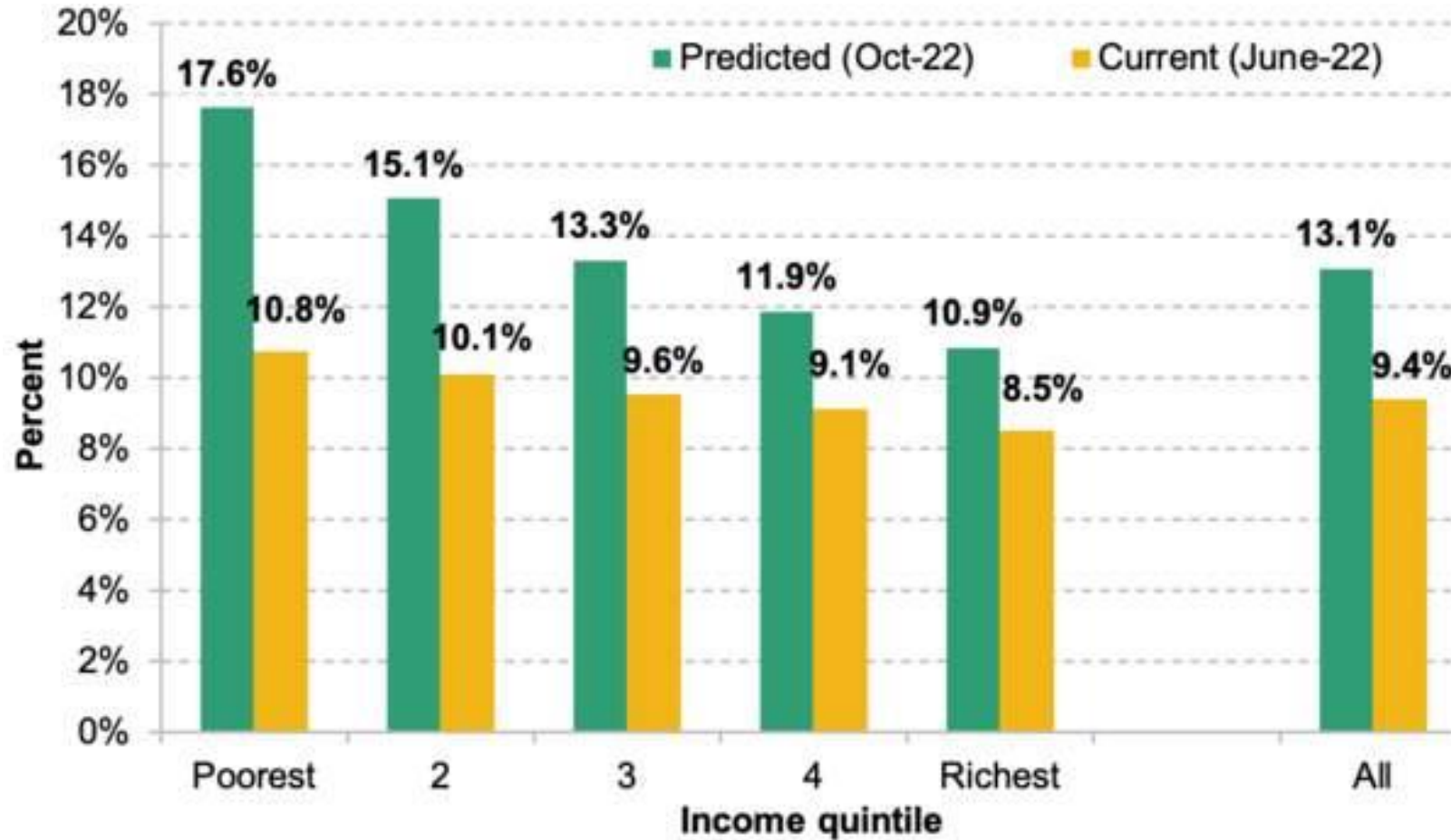
# UK Inflation - Consumer Prices Index



Source: Office for National Statistics

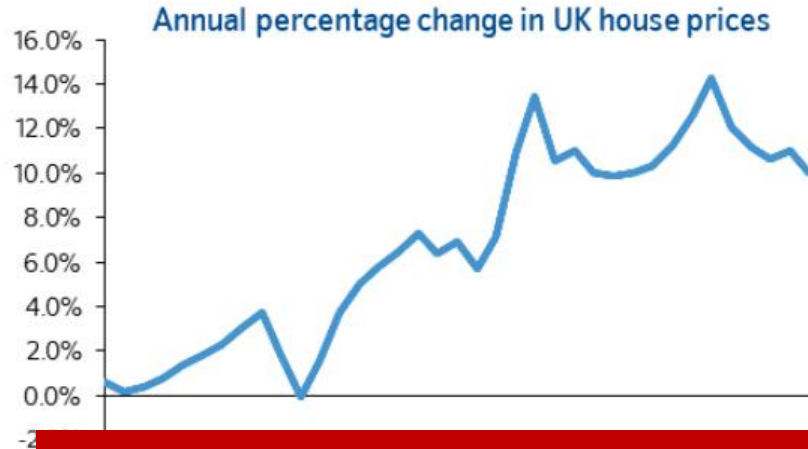


# Inflation – Poorest Being Hit Hardest



Source: Institute of Fiscal Studies

# UK House Prices – Still Going Strong!



**Is a 'correction' to house prices likely?**

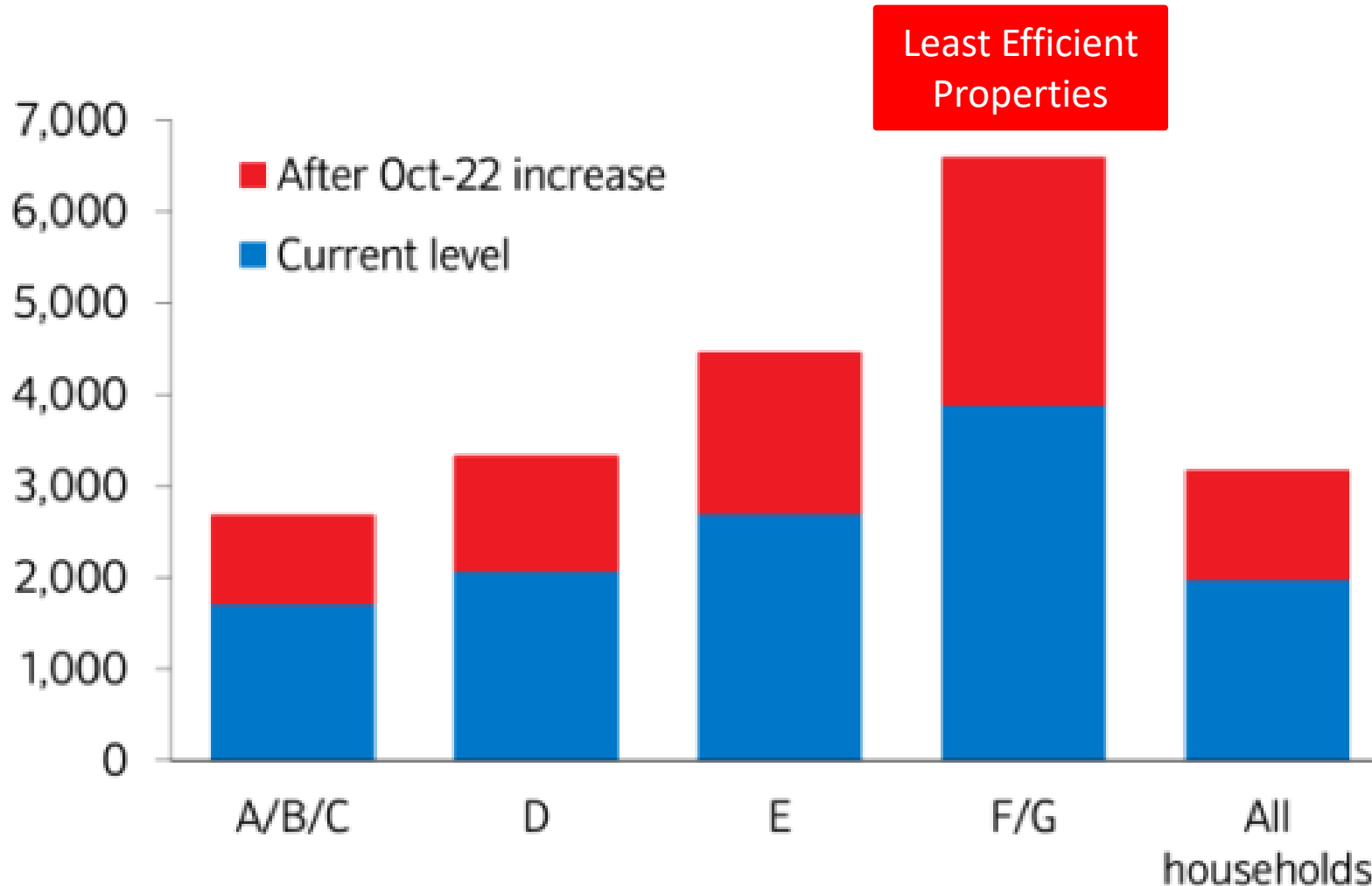


Source: Nationwide Building Society, August 2022

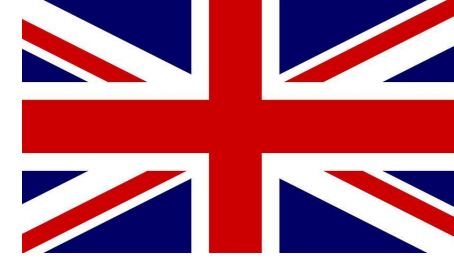
# The Consumer is King....But Facing Crises!

- An uplift in consumer spending helped post-COVID recovery –
  - **More than £200bn in extra household savings during the pandemic**
  - **Some spent as economy tries to return to normal – a ‘multiplier effect’**
- **BUT...many households are now facing a ‘cost-of-living crisis’**
- **As well as an energy price crisis**
  - **Energy Price Guarantee should take 4 to 6 percentage points off headline inflation**
- **Consumers are now very worried....**
  - **As home-grown inflationary pressures pick up momentum**
  - **Food price inflation in August is the highest since 1995**

# Energy Price Crisis - Before Govt's Energy Price Guarantee (based on energy price cap increase & energy rating of properties)

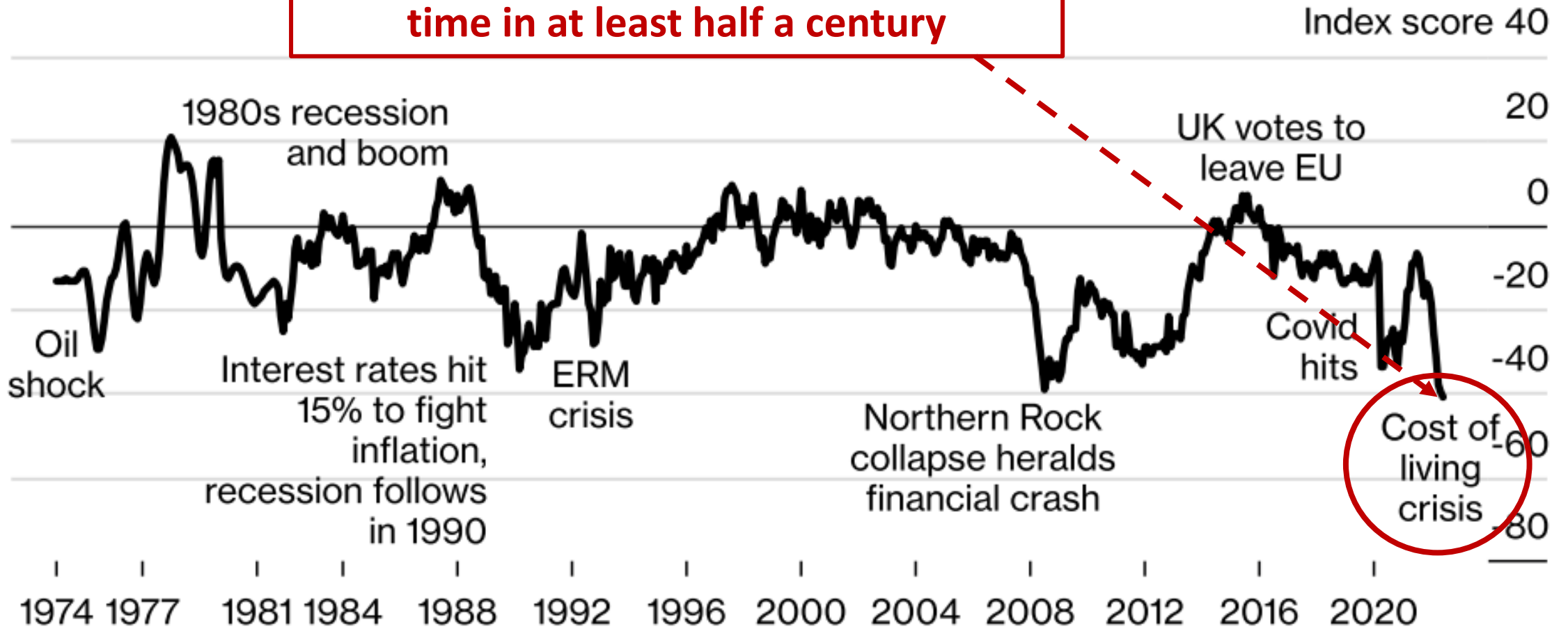


Source: ONS, Nationwide Building Society



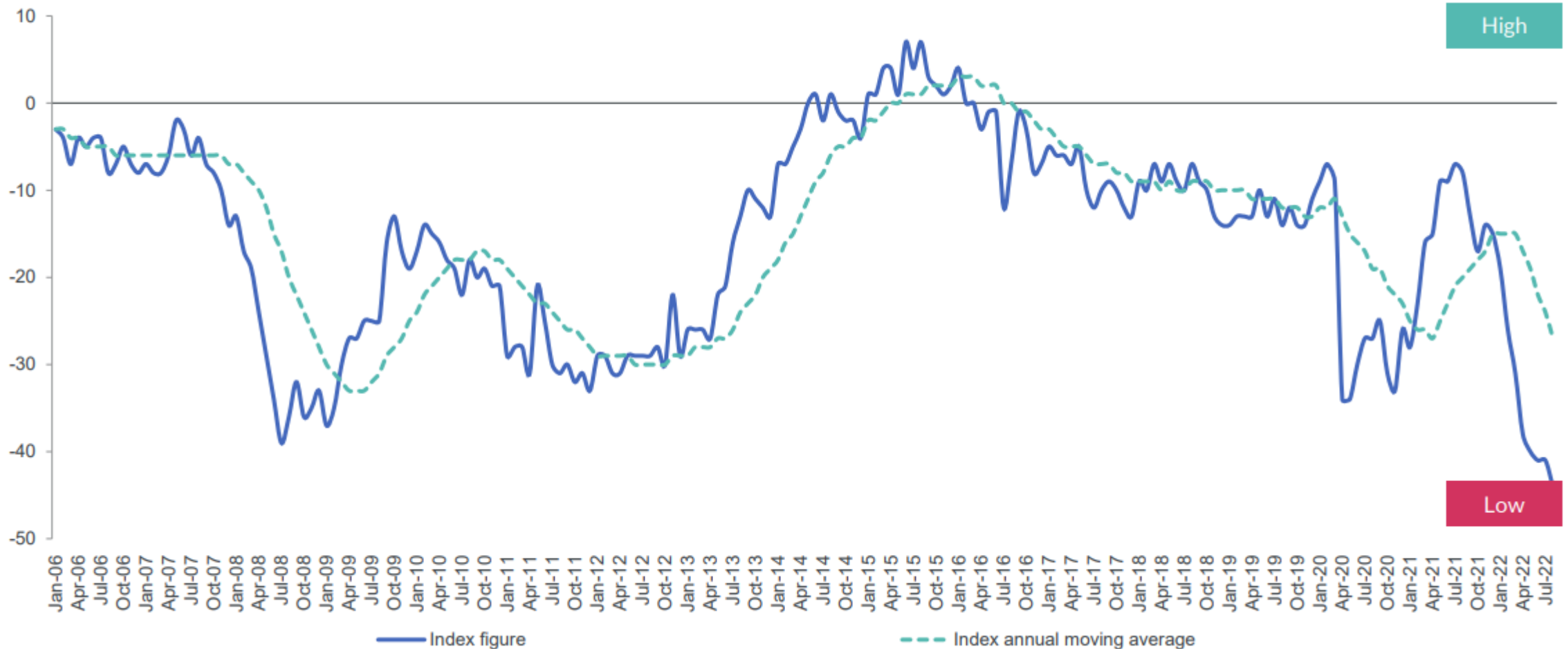
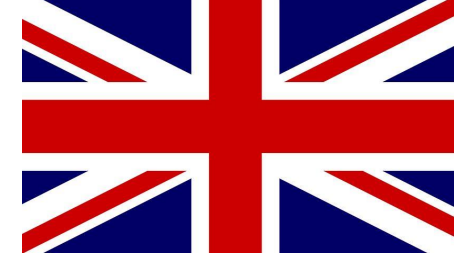
# GfK Consumer Confidence Barometer

**Britons are more pessimistic than at any time in at least half a century**



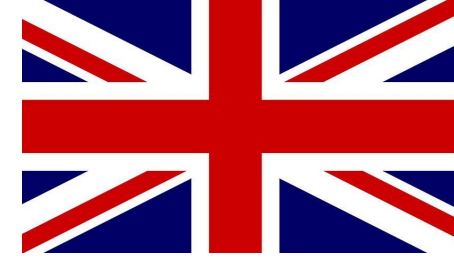


# GfK Consumer Confidence Barometer - UK Index August 2022



Source: Growth for Knowledge (GfK), August 2022

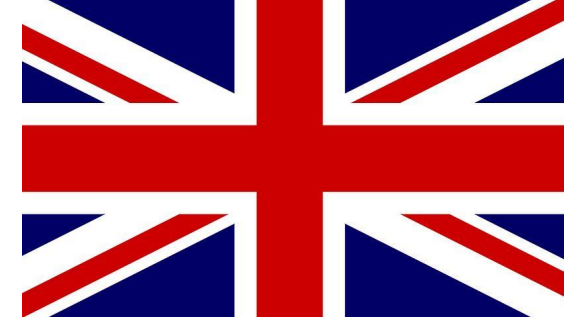
# State of the UK Economy – A Summary....



- **Slower trend growth ahead**
- **Mild recession expected – and to last for more than a year**
- **Historically low unemployment – but labour shortages in many sectors**
- **Record high job vacancies**
- **Real wage stagnation – wage demands up!**
- **Low productivity – with wide regional disparities**
- **Low business investment – Brexit impact?**
- **Rising inflation – international & domestic**
- **Rising national debt (100%+ of GDP) & bond yields (3%+)**
- **Rising interest rates**
- **Soaring house prices – pressure on affordability**
- **Cost-of-living crisis for millions**
- **Record low consumer confidence**

**Major challenges ahead!**

# Major Challenges Ahead....



NHS &  
Social Care  
Costs

Improving  
productivity

Normalising  
relationships  
with the EU

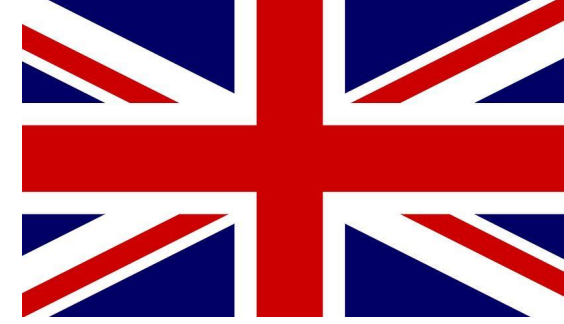
Dealing with  
the cost-of-  
living crisis

‘Levelling up’  
agenda

Forging  
international  
trade &  
investment  
deals



# And Major Opportunities....



Sterling is at  
37-year low  
against the  
US\$....

Inward  
Corporate  
Investment

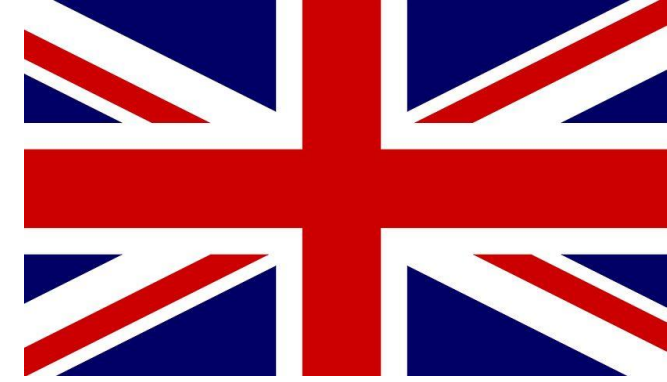
Property  
Investment

Exports from  
the UK

UK Tourist  
Industry

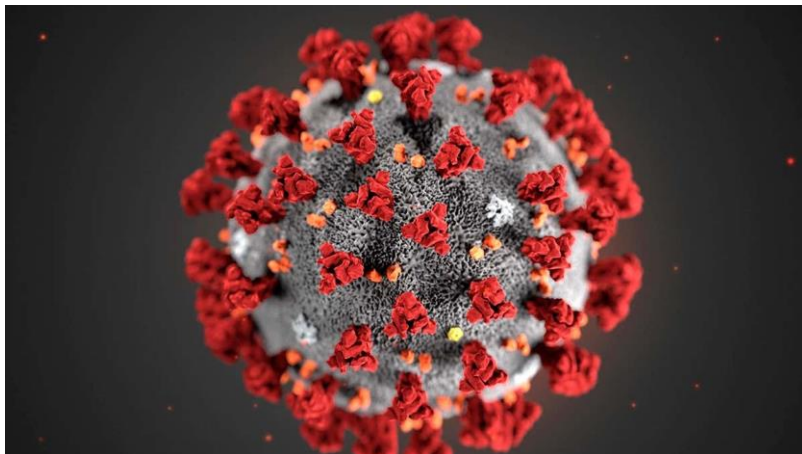
Acceleration of  
Digital Skills  
and  
Businesses

## In Conclusion....



**‘Adjustment to a post-COVID, post-BREXIT  
(and post-Ukraine war) new normal will have  
economic costs that last into the long term’**

Institute for Fiscal Studies





# Q&A

