

**Chancellor Jeremy Hunt has vowed to use the Budget on March 15<sup>th</sup> to set Britain on the “hard road” to becoming one of Europe’s richest countries. The focus is likely to be on tax breaks to encourage investment, measures to get people back to work, and to ease the cost-of-living crisis. But adherence to fiscal discipline means big tax cuts will have to wait.**



**Show me the money.** Ahead of the Spring Budget on March 15<sup>th</sup>, the Resolution Foundation’s budget preview has focused on investment in three policy areas. Public sector pay (having fallen in real terms by 3.4% since February 2020) getting a raise of 3.5% has been deemed ‘affordable’ but would be £5.6bn more than budgeted. Labour market participation for women has increased by c.5% since 1999. Introducing measures such as extending free childcare hours to 1-2-year-olds, costing £3-6bn, will be critical in further reducing economic inactivity and boosting growth. With lower wholesale energy prices, the

cost of the Energy Price Guarantee is c.90% lower than expected last Autumn, with a widely expected three-month delay for the increase set to cost c. £3bn.

**Flash in the pan?** UK economy started the year with an upbeat 0.3% monthly growth in January, above the consensus of 0.1%. But the boost came from the reversal of largely one-off factors that kept services output depressed in December. Output in the recreation sector rebounded as Premier League football matches resumed at a higher-than-usual frequency, following the hiatus after the World Cup. But there is still underlying weakness in the economy; manufacturing emerged as the largest negative contributor, reflecting the drag from weak household demand alongside higher borrowing costs for firms. There are few sustainable drivers of growth at the moment and a quarterly GDP drop in Q1 is still on the cards.

**Ouch.** Higher interest rates continue to reverberate through the housing market. Mortgage payments on a typical semi jumped 61% in the year to December. Buyers with a £1,000pcm budget are now able to afford a semi in less than one-third of local authorities; half as many as last year. County Durham is now the sole local authority in Great Britain where that budget will stretch to a detached house (was 119 LAs just last year). But Londoners are seeing the biggest jump in mortgage payments: up £930 on the average (pricey) terraced house there. Spare a thought for the 1.4 million households due to re-mortgage in 2023.

**Mind the gap.** Since the 2010s, the UK has become one of the world's most regionally unequal economies. Regional inequality is less about lower employment rates and more about different rates of productivity. This underperformance is largely driven by underperforming cities outside of the capital and the South East. Low shares of university graduates in lagging regions are no longer a constraint nor is a lack of finance. But weak transport infrastructure and lack of innovation support are holding these regions back. Costly housing is also a barrier to migration from low productivity areas to London and the

South East.

**A very British scandal.** But London's also lost her economic lustre according to a recent Centre for Cities report, which places it at the heart of the UK's 'productivity puzzle'. If London had grown like Paris or New York since 2007, she would have added an extra £54bn to the economy in 2019 alone. While the financial crisis hit London hard it's not the only cause. High real estate costs suck up money that could be used for innovative investment and deters prospective talent (our houses are expensive, cold and small). But while the report raises valid points, the story applies across these lands (see Cambridge!).

**Strike One, Two and Three.** The UK lost 2.5m working days due to industrial action from Jun-Dec '22. Of these, 79% came from workers in transport, storage, information and communication industries, including rail and postal services. In December alone, these industries contributed to 725k lost days - 86% of the total that month. The education sector came in second, peaking at 174k days in November (38% of that month's total). As the cost-of-living crisis worsened, the number of days lost each month grew, with December reporting the highest monthly total since November 2011, at 843K days lost. The impacts were felt far and wide: almost 1 in 5 people experienced travel disruptions from rail strikes, 59% of parents were affected by school closures, and nearly 150k NHS appointments and procedures were rescheduled.

**A glimmer of hope.** Real-time data indicators showed broad based increase in UK spending activity in comparison to the previous week, with one ONS measure of debit card spending showing a rise of 12 ppts. This marks the fourth consecutive week where all spending categories are above their pre-pandemic baseline. The average wholesale price of gas remained unchanged, while electricity prices increased 15% in comparison to the previous week, a small bump in the road, considering wholesale prices have been trending downwards since mid-December. While the overall fall is welcome, prices remain vastly

higher than their pre-pandemic levels, with gas prices 4x higher and electricity prices 3.5x higher. So, it comes as no surprise that survey results show energy prices (19%) held the number one spot for business concerns for March, followed by inflation (15%).

**Mixed bag.** Job figures, inflation and spending are the key data releases that the Fed would be scrutinizing to determine whether to opt for a jumbo-sized interest rate increase at their next policy meeting on March 21st-22nd. The US economy added 310k new jobs in Feb, beating forecasts of 220k, suggesting that labour market is still tight. Despite strong hiring, the unemployment rate increased to 3.6% in Feb, but is still close to record lows. Yet, there were signs of cooling in wage growth - average hourly wages rose at a muted pace of 0.2% m/m, suggesting less pressure from wages on inflation. While faster job growth may sound good, for policymakers it's a challenge as the Fed struggles to cool the US economy.

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