

**Whether the Bank of England's monetary tightening cycle has ended is yet unclear. Sure, the Bank has more upbeat views about the UK's economic future. But there are still some unknowns. The full impact of high interest rates is yet to be felt. Firms haven't paused hiring but are making cautious changes in types of staff hired. And while there is still some momentum left in growth, how long would it last?**



**Just one more... maybe.** The MPC voted to raise Bank Rate by 0.25% to 4.5% last week, the 12th increase in this hiking cycle. This rise was widely anticipated, in part because inflationary pressure has remained stronger than the Bank projected. March's rate of 10.1% is almost a percentage point higher than the MPC had expected. But the forecasts show inflation falling reasonably swiftly towards the end of the year, averaging 5% in Q4. Will this be enough? We're probably close to the peak in interest rates but both markets and the MPC appear to expect more monetary tightening will be needed over the summer should surprises emerge.

**Harry Houdini.** The UK economy now has a little more in common with the best-known

escape artist of all time: after sweeping upgrades, it's predicted to escape a once-widely-forecast recession. New Bank of England projections see GDP growing by 0.4% this year and 0.7% next (from -0.5% and -1% previously). Unemployment is expected to remain historically low too: just 4.3% in late 2024. That truly is a “materially stronger” outlook than forecast in February. Lower energy prices, fiscal giveaways and stronger household confidence all play a role in this great escape act. Now, can the UK shake off more ties and improve on those modest growth expectations?

**Flame's not out.** So far, there have been little signs to that end. After no growth in Feb 2023, monthly GDP fell by 0.3% in March but underlying momentum was still intact as quarterly GDP grew by 0.1% in Q1. But it still fares at the bottom of the G7's recovery story. The culprit? Impact of strikes on the provision of public services. Meanwhile, production and construction output both increased. Headwinds still persist as impact of high interest rates start to penetrate the economy. However, compared to late last year or even earlier this year, a more positive outlook is on the horizon. Consumer energy prices look set to fall by about 20% in July, which should alleviate pressures on households.

**Peep Show.** The iconic comedy couldn't be made today. Housing's too expensive. A loan manager wouldn't be able to afford the accommodation to support his unemployed friend, or the friend afford the rent. So it's zero surprise that between 2011 and 2021, the number of grown-up children living with their parents rose 14.7%. It's particularly acute in London, where 26.8% of grown-up kids have yet to fly. We need to build. So, it's doubly depressing that while total construction output rose 0.7%q/q in Q1, new house building fell 4.5% and new orders by 18.5%. Britain's inability to build stretches all the way to sitcoms.

**Mixed signals.** Ongoing economic uncertainty has resulted in a more cautious hiring policies, as per the KPMG and REC UK Report on Jobs survey for April. There was a clear preference for short-term staff, which pushed up temporary billings' growth to a seven-

month high, while permanent staff appointments contracted at the fastest pace in over two years. But there was an clear trend of sharp rise in starting pay. Details from the survey suggest more workers seeking higher paid roles due to the cost-of-living crisis and firms willing to pay higher wages to attract and retain suitably skilled staff. This is likely to keep the pay pressures alive in the near term, thereby adding to the stickiness of core inflation.

**The History Boys.** A new study into 200 historic banking crises suggests recent bank failures have been relatively well mitigated. Where cumulative bank equity price falls have been limited to less than 30%, the typical impact has amounted to just 0.4% of GDP on average over five years. This suggests that recent bank failures will not have the drastic consequences seen in the 2008 Global Financial Crisis amongst others. One important reason is the adoption of prudential policies, whereby countries have adopted capital-based measures like counter-cyclical buffers, and borrower-based measures. Prudential policies have historically reduced the prevalence of serious banking crises by as much as four-fifths when tightened ahead of the first policy rate hike. Perhaps the best lessons really are learnt in the classroom.

**Warming up.** Did you notice that over the past decade there has been a 28% increase in the annual average number of “summer days” (25+ C) and 16% reduction in the number of “icing days” (<0 C) compared with the 1991-2020 period. And it’s not always a good thing. The ONS found 3,271 excess deaths during the “heat-periods” last year. Between 10 and 25 July, when the Met Office recorded temperatures above 40 C for the first time, the excess deaths were 10.4% above the five-year average. So, it is not surprising that almost two-thirds (64%) of adults in Great Britain said they were worried about the impact of climate change in the past 12 months.

**Predictable.** US inflation eased again to 4.9% YoY in April from 5.0% in March, the lowest level since April-21. That is certainly good news for both households and policymakers. Food

and energy shocks are coming down in western countries and that is reflected in the falling headline prints. In US, lower airline fares helped bring down the headline in Apr. Rent prices - the most cyclical part of underlying inflation - rose 0.5% for the second straight month, smaller than over the last year on average. While core services inflation is also showing signs of moderation, what is not being particularly encouraging is that the core rate has been higher than the overall rate for two months now. But Fed signalled that it is approaching the end of rate rises.

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