UK, US, and Eurozone central banks will announce the year’s final policy interest rates this week, most likely holding steady. They want to see further evidence of disinflation and labour markets cooling – and to assess the lagged impact of monetary tightening. Price stability may be at the top of central bankers’ Christmas wish lists, but economists generally will also be asking for decent productivity growth, uninterrupted global supply chains and progress on decarbonisation in the months and years ahead.

Improvement. According to the latest Financial Stability Report,the global growth outlook remains subdued. Several risks could weaken growth further, including persistent inflation, higher interest rates, and geopolitical tensions. While financial markets are not expecting policy rate hikes, rates will likely need to stay high for some time to ensure that disinflation continues. In the UK, the full effect of higher rates has yet to come through, posing ongoing challenges to households and businesses. Since July, however, household income growth has been a bit stronger than expected and new mortgage rates have fallen slightly. This means a reduction in the share of households with high cost-of-living adjusted debt-servicing ratios. Moreover, the share spending a high proportion of their income on mortgage payments is now expected to be lower than previously thought.

Stay Cautious. Households’ latest view of the current rate of inflation stands at 7.5%, down 1.1ppt from August, according to the Bank of England’s latest survey. Directionally the same as the recent decline in the CPI rate, albeit nearly 3ppts higher. Median expectations for the coming year declined a little further, to 3.3%. So far, so good. However, when asked about the longer-term inflation outlook response was 3.2%, up from 2.9% in August. That comes despite growing public awareness of higher interest rates. Just 11% of respondents think rates should rise further, whereas 40% think the opposite, and 26% are content with rates staying as they are. Eyes remain on the Bank as they look to discuss rates later this week.

Less for more. All categories of recorded household expenditure increased over the Q4’21 to Q2’23 period, according to the ONS household expenditure release. Parallel indicators corroborate this finding; the CHAPS card aggregate index, for instance, rose 11.4% over this period. But high inflation has meant that households got less items in return. The discrepancy is particularly stark for non-discretionary spends, primarily because items like food and energy saw sharper price rises. Discretionary spend was less adversely affected thanks to softer inflation for those items, as well as some stimulus from the higher savings ratio during the pandemic (when most discretionary activities were suspended).

Will it end? The Resolution Foundation’s Economy 2030 Inquiry states that the twin challenges Britain faces – low growth and high inequality – together create a toxic combination. So, what's to be done? To take advantage of its 'services superpower' status, the UK should pioneer new services trade agreements with the likes of Japan, Australia, and Canada. Turning around our second cities (Birmingham and Manchester) is critical, but fraught with challenges, requiring an increase in each city's business capital stock by 15 to 20%; over 160k additional high-skilled workers in each city; allowing city centres to expand; and billions of investment in transport networks. That latter is hampered by low and volatile public investment. And even the proposals listed here barely scratch the surface of ending the UK's stagnation.

Dirty work. Someone's got to do it, but who? When it comes to UK greenhouse gas emissions, over 80% come from just five industries: energy, manufacturing, transport, farming and waste management. One in five workers in the Midlands labours in these 'dirty' industries, with South Holland and Boston having the highest shares (27-28%). In contrast, just 1 in 12 Londoners do. The high-emission workforce is male-dominated (three-quarters of the total), has fewer qualifications (almost twice as likely to have none) and is older than average. So, what kind of jobs are at the forefront of the Net Zero transition? Most common are drivers: of lorries, vans, busses & taxis.

At loggerheads. The question of the future of fossil fuels has become the defining issue of COP28, generating geopolitical tensions. The IEA forecasts that fossil fuel demand must fall by a quarter by the end of this decade for the world to limit warming to 1.5C, yet the Decarbonisation Charter, signed by almost 130 countries and 50 oil producers, only closes the gap between the current trajectory and a 1.5C scenario by about a third. Meanwhile, OPEC argues that oil demand will be about 15% higher by 2045. The summit is supposed to close tomorrow, but the agreement is still not in sight.

American dream. Strengthening the 'soft landing' theory, the latest non-farm payroll report estimates that the US economy added 199k jobs in November (above expectations).

The context is a growing labour supply (both immigration and participation are doing their bit) and moderating wage growth (reassuring from an inflation management perspective), but without the pain of rising unemployment (which in fact dropped slightly to 3.7%). Bond traders celebrated the good news by adjusting their bets on how much rate cutting will occur next year, slightly dialling back their distrust of the central bankers’ cautious ‘higher for longer’ messaging.

Stubbornly low. China’s deflation journey continues, with the latest figures showing that consumer prices fell 0.5% y/y in November, following a fall of 0.2% in October. The latest print was the steepest decline since 2020. What’s more, producer prices also fell 3.0% y/y, compared to 2.6% in October, remaining in negative territory. Weak consumer demand, following a disappointing reopening earlier this year, exerts downward pressure on prices. Underscoring the structural challenges facing the world’s second largest economy – a property slump, ongoing demographic pressures, and weak exports – most forecasters expect a subdued growth print for next year, below 5%, as the gains from the reopening fade further.

Share this:

- Twitter
- Facebook
- LinkedIn
- Email