

Economic outlook, 31<sup>st</sup> March 2022

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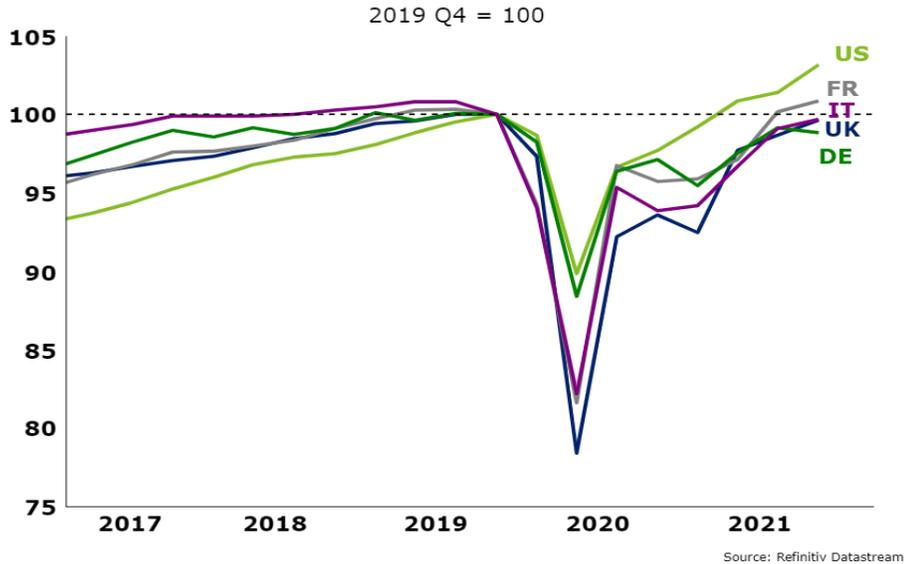


**MAKING AN  
IMPACT THAT  
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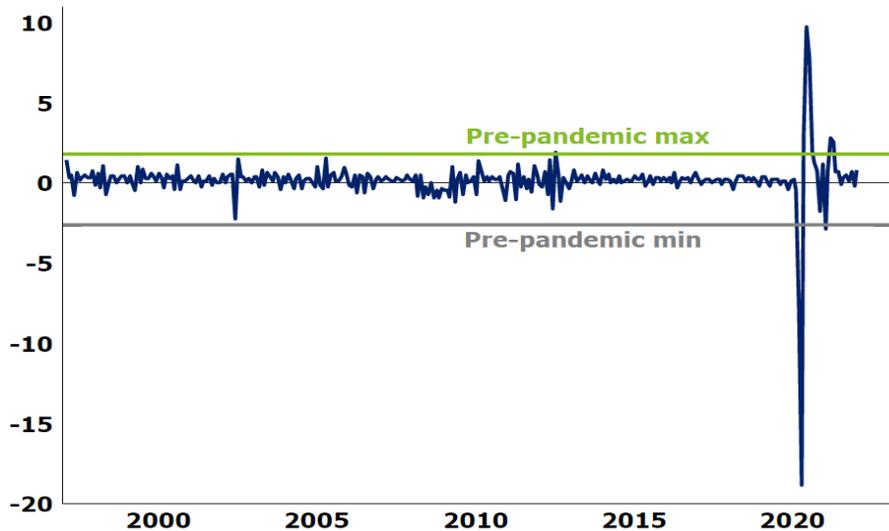
*since 1845*

Prior to the war developed economies were returning to pre-pandemic levels of activity  
 Inflation is at multi-decade highs due to the rapid recovery in demand and disrupted supply chains

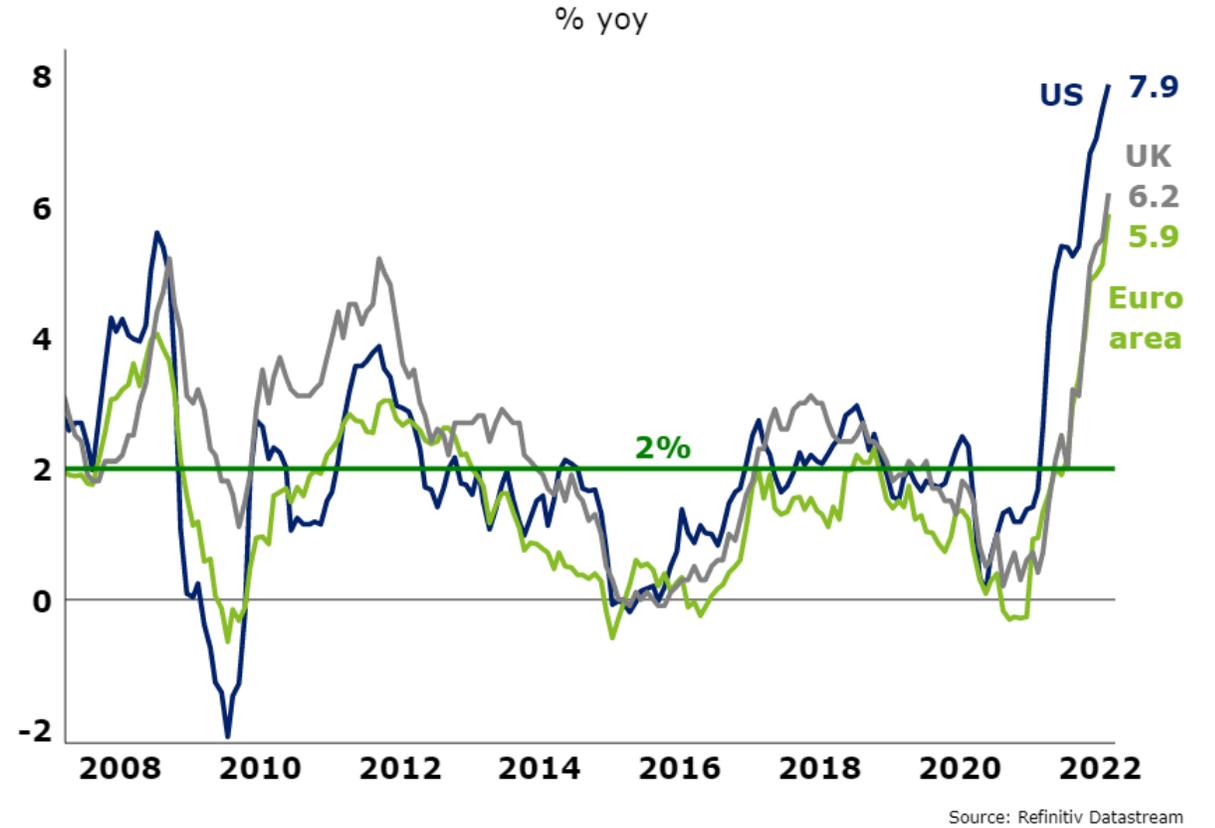
### GDP levels



### UK GDP: % change m/m

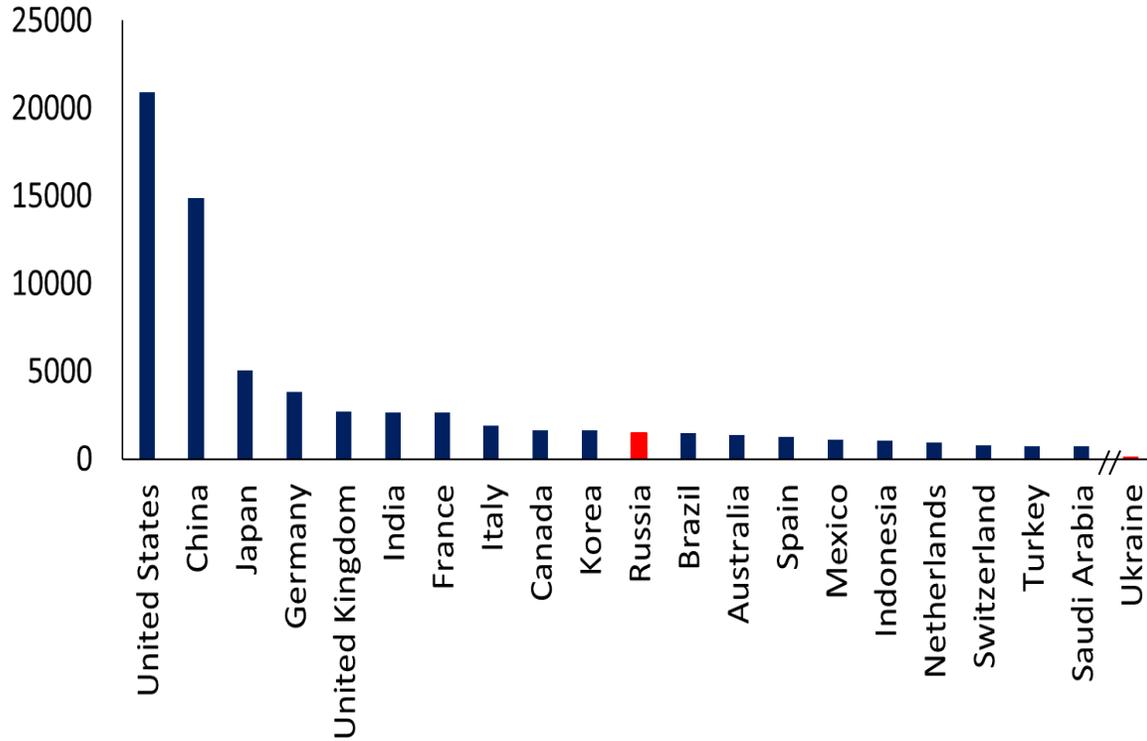


### Consumer price inflation



Russia and Ukraine are relatively small in GDP terms, but are significant commodity exporters  
 Global energy, agricultural and metals prices have risen sharply over recent weeks

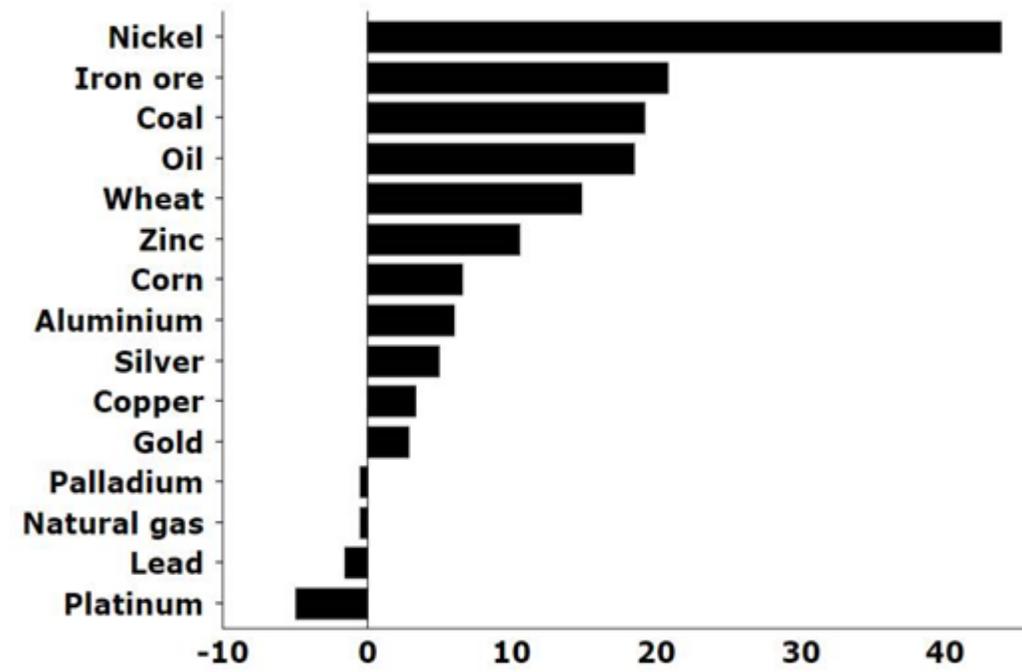
### Size of economy (\$bn, IMF, 2020)



Source: IMF

### Commodity markets and the war in Ukraine

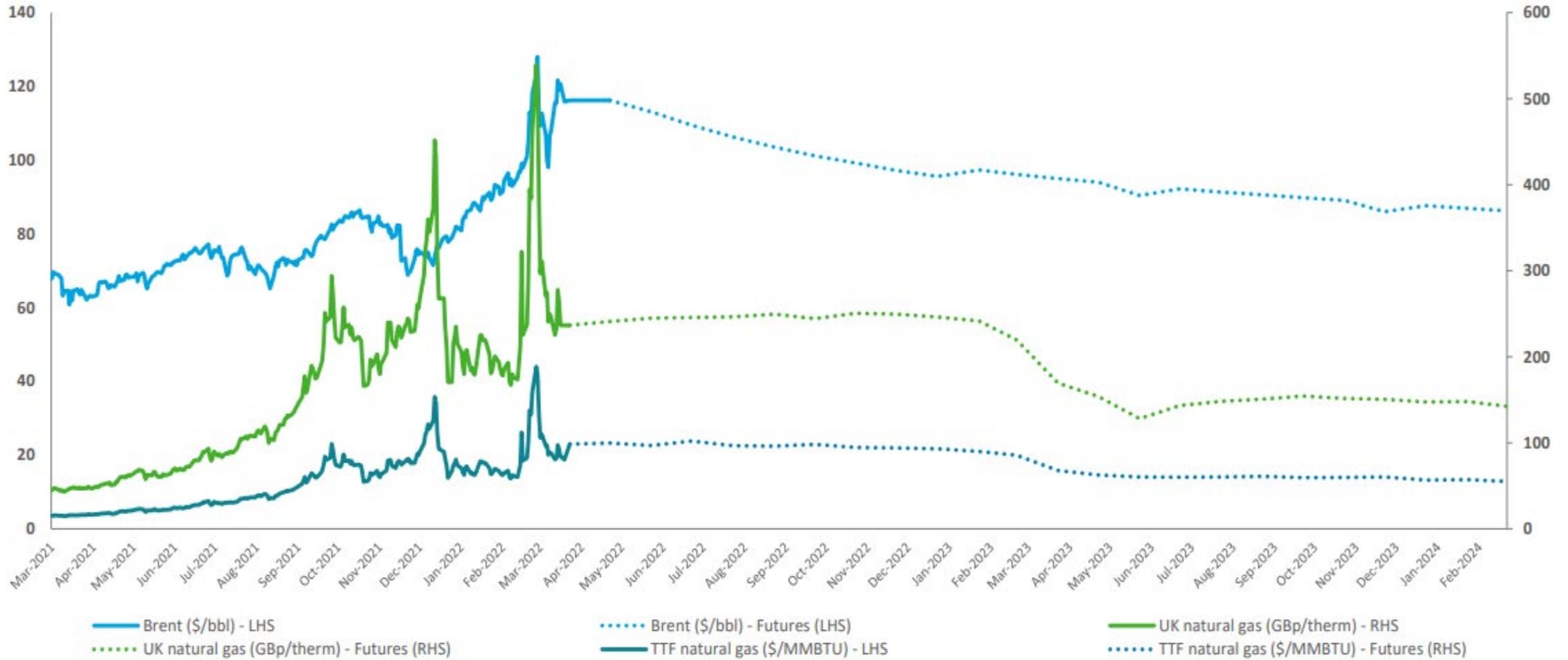
Percentage change from 18/02/22 to 28/03/22



# Energy prices to remain elevated

Futures contracts show oil and gas prices are expected to remain above pre-invasion levels well into next year

## Energy prices

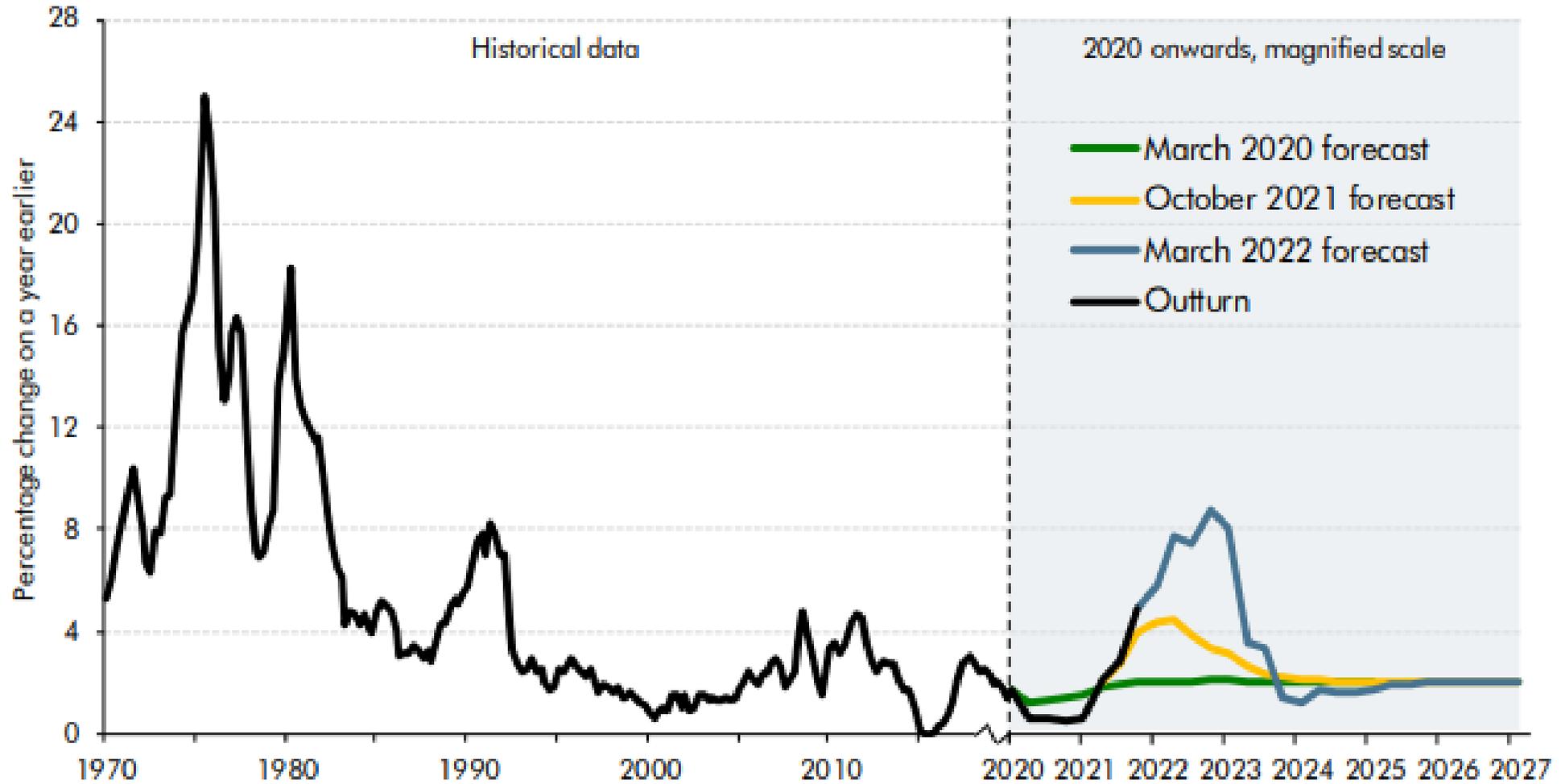


Source: Bloomberg

# OBR - UK inflation to average 7.4% this year

Inflation will peak at 8.7% in Q4, a 40-year high

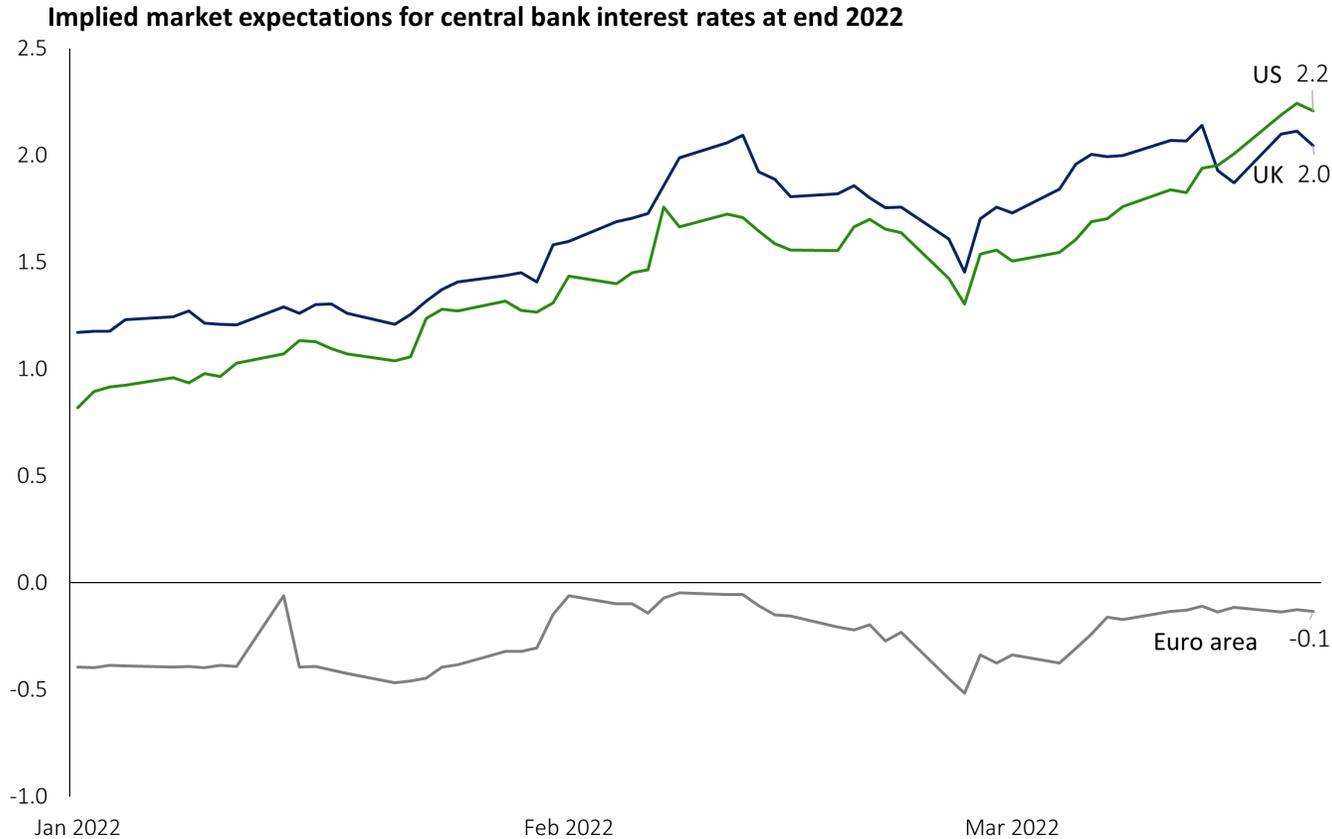
## CPI forecast - OBR



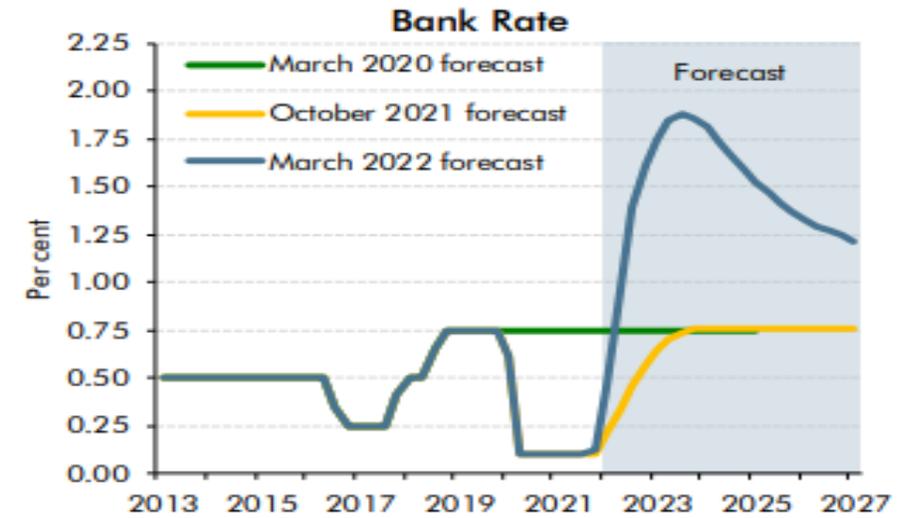
Note: 1970 to 1989 from the Bank of England's *A Millennium of macroeconomic data*, outturn from 1989 onwards from the ONS.  
Source: Bank of England, ONS, OBR

# Interest rates to rise further

Markets expect rates to rise by a further 1.25 percentage points this year



Source: Bloomberg



Source: Bank of England, Bloomberg, OBR

Central Bank	Current policy rate (%)	Current implied interest rate by end 2022 (%)	Consensus Economics (%)
Bank of England	0.75	2.0	1.2
ECB	-0.5	-0.1	0.1
US Federal Reserve	0.5	2.2	1.5

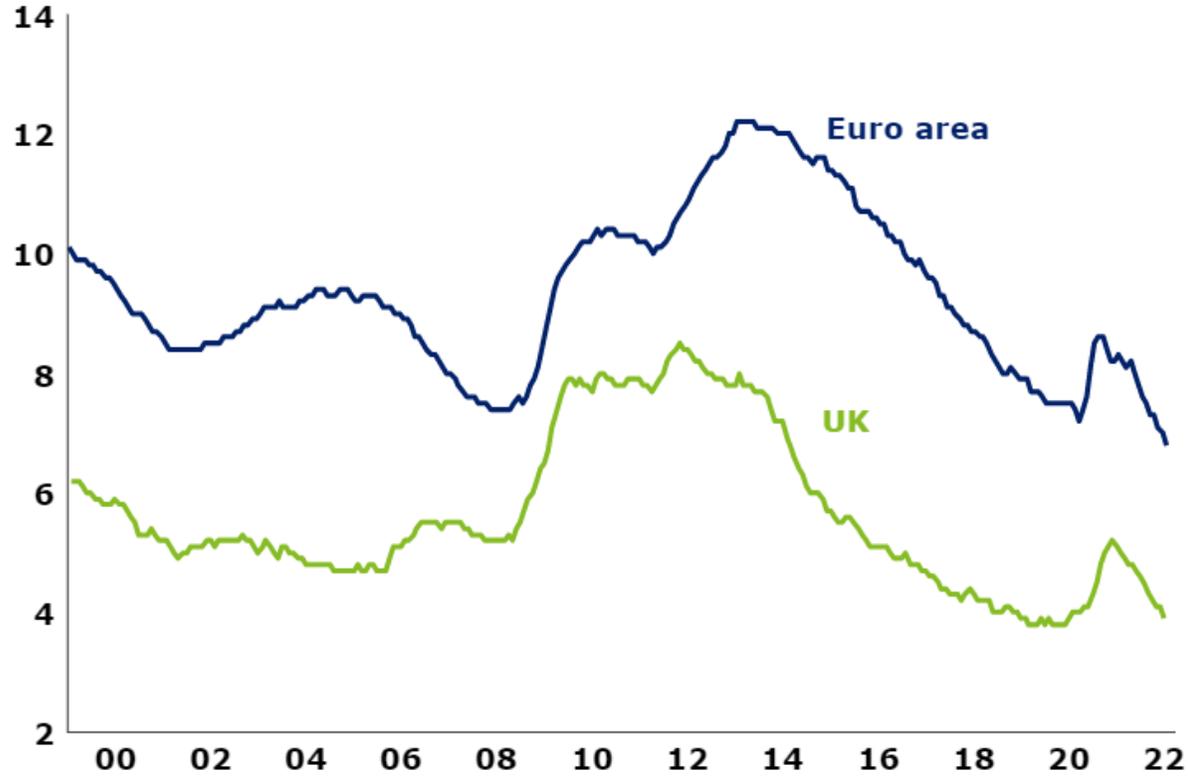
Future policy rates implied by forward OIS contracts

Tight labour market driving wage growth, but increases will be outstripped by inflation

Inflation to average 7.4% this year, average earnings growth of 5.3%

## Unemployment rate

% workforce



Source: Refinitiv Datastream

## UK wages vs. CPI

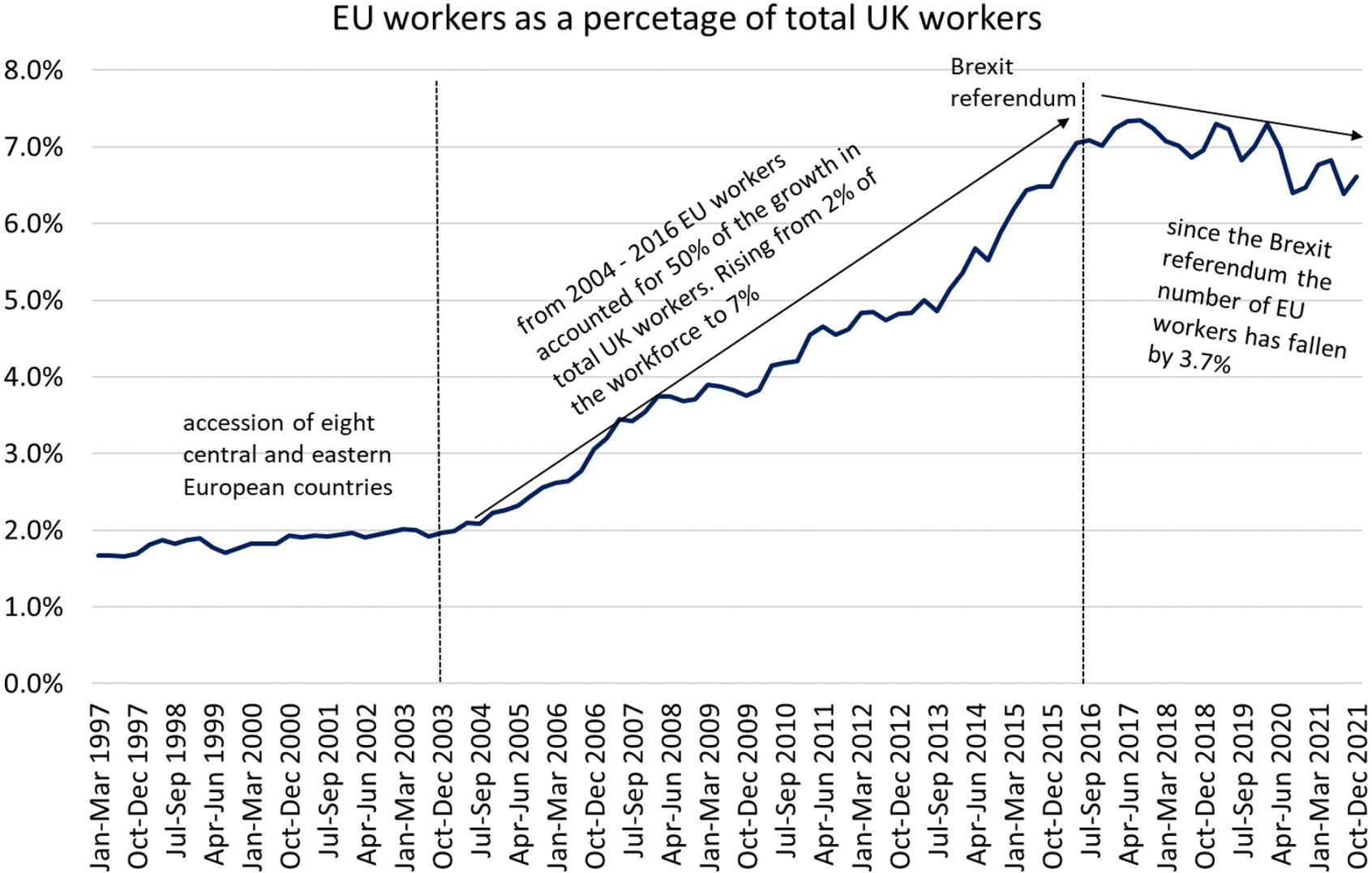
(% change YoY)



Source: Refinitiv Datastream

# Structural shift in the labour supply

EU workers accounted for half of total UK jobs growth from 2004 - 2016

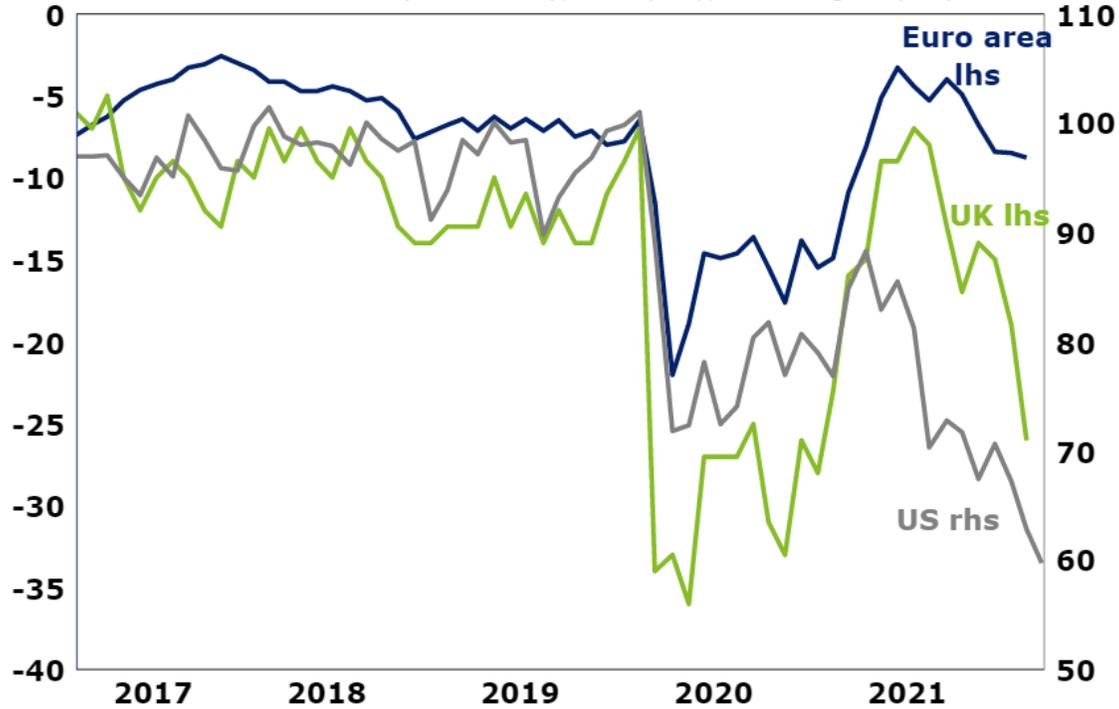


Real income squeeze, but large savings should maintain (lower) spending growth

Spending will support continued, but slower, economic recovery, risks to the downside

### Consumer confidence

EU Commission (Euro area), GfK (UK), U Michigan (US)



Source: Refinitiv Datastream

### Household savings rates

UK % of disposable income



Source: Refinitiv Datastream

## Conclusion – lower growth, more inflation, higher rates

- Economies were recovering strongly before the war
- Soaring commodities prices and disruption to supply will add significantly to already high inflation rates
- Central banks are tightening
- Tight labour market driving wages higher, structural change
- Households face real income squeeze. But strong savings should maintain (lower) spending growth
- We expect continued, but lower growth, impact much less than pandemic in GDP terms
- Much uncertainty, risks skewed to the downside, recession risks have risen
- Long-term: higher defence spending, hit to globalisation, restructure of European energy markets