

# Six minute strategy UK economic health check

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19 May 2023



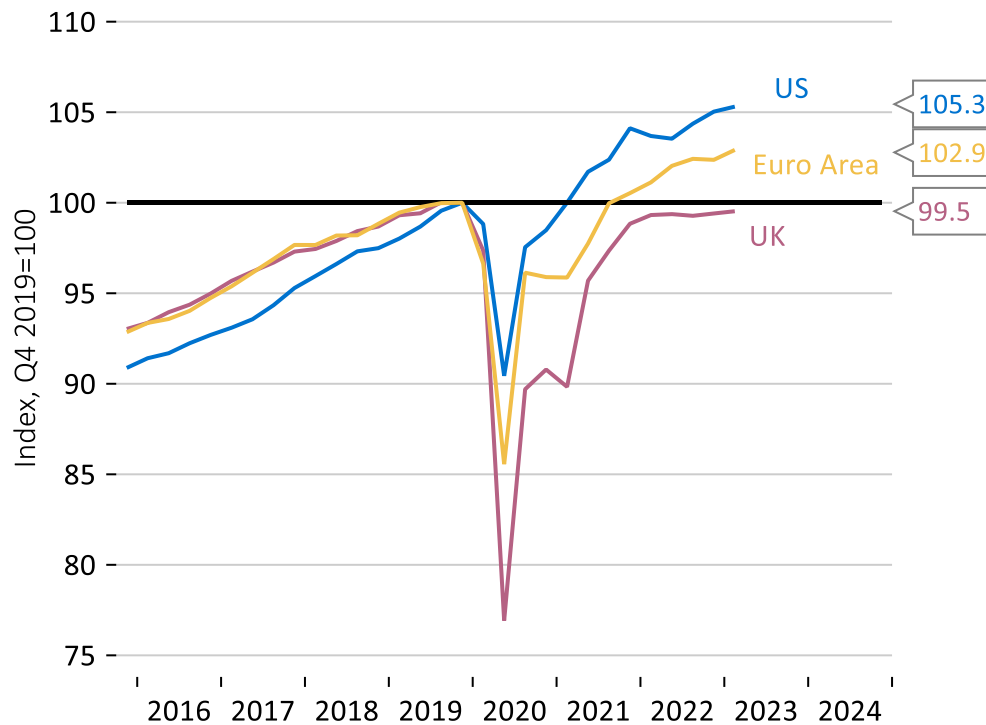
# UK economic recovery has lagged behind its peers

UK still the only G7 economy smaller than it was pre-COVID but UK economic surprise climbing



GDP recovery – only UK still below pre pandemic level

Gross Domestic Product  
(Indexed to 100 at 31/12/2019)

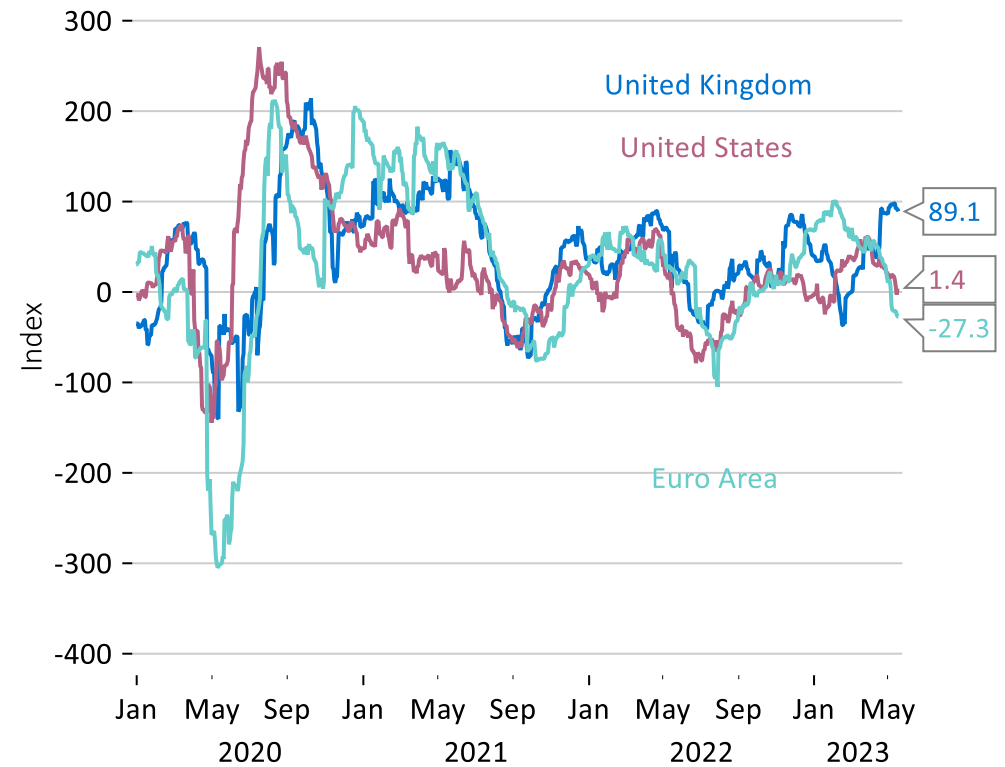


Source: Macrobond, 18.05.23



UK economic surprises in last 3 months are clear

Leading Indicators, Citi, Economic Surprise Index



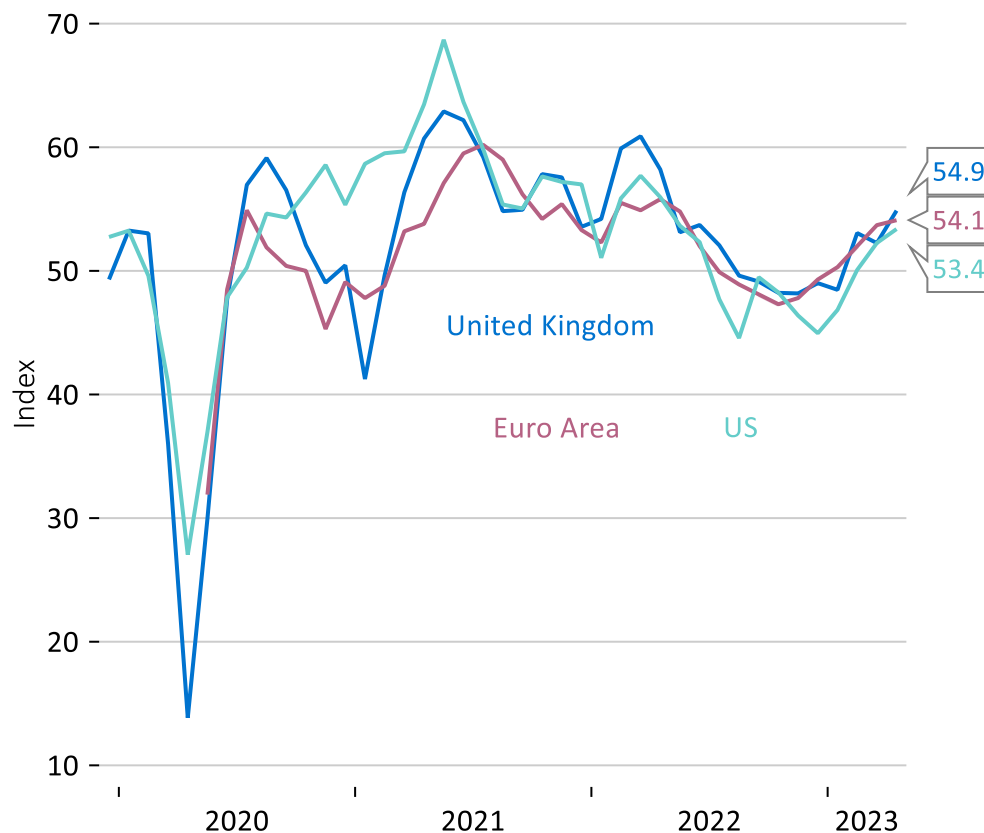
Source: Macrobond, 18.05.23

# UK: Recent economic performance is more encouraging...

Business surveys (especially services) are robust while consumer confidence is improving



## UK business surveys still surprisingly robust (PMI)

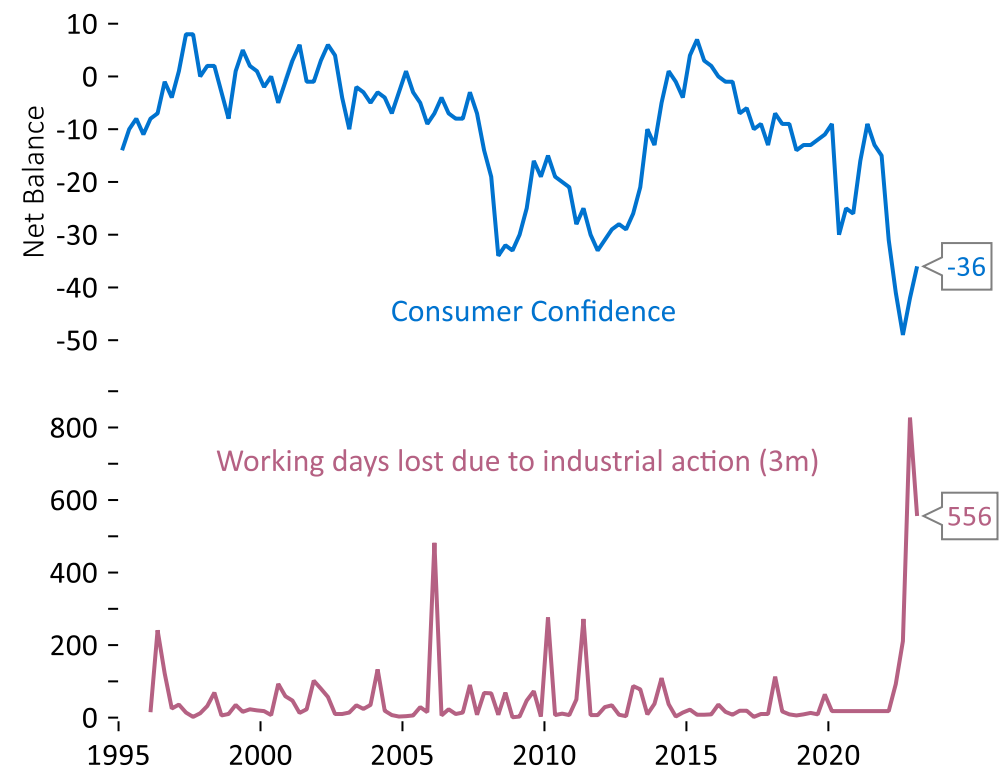


Source: Macrobond, 18.05.23



## UK Economic surprise index encouraging

### UK Consumer Confidence & Labour Diputes



Source: Macrobond, 18.05.23



# Risk 1: Higher mortgage effects not felt yet...

The *effective rate* on existing mortgages has only risen by 70 basis points so far



Many mortgagors have yet to experience higher rates...



Fixed rates form 85% of all UK mortgage product

**Chart A: Rates on the stock of mortgages have risen by much less than quoted rates on new mortgages**

Quoted interest rates on new two-year 75% LTV mortgages, effective rate on new lending and effective rate on existing stock of mortgages (a)

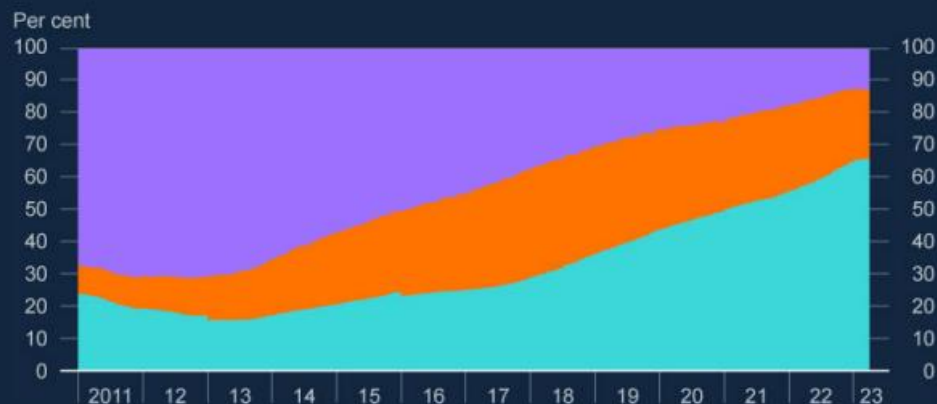


(a) The latest data points are March 2023. The Bank's quoted and effective rates series are weighted averages of rates from a sample of banks and building societies with products meeting the specific criteria, such as being widely accessible. The data are sterling-only monthly averages and are not seasonally adjusted.

**Chart C: The share of fixed-rate mortgages has increased over time**

Distribution of mortgages by type of product (a)

■ Fixed rate, more than two years ■ Floating rate  
■ Fixed rate, two years or less



(a) Share of value of outstanding mortgage stock. Data from January 2016 are for individuals and individual trusts only. Latest data points are March 2023.

# Risk 2: The risk of a wage-price spiral is still there

Labour markets are tight - wage growth may be peaking - disposable income still falling

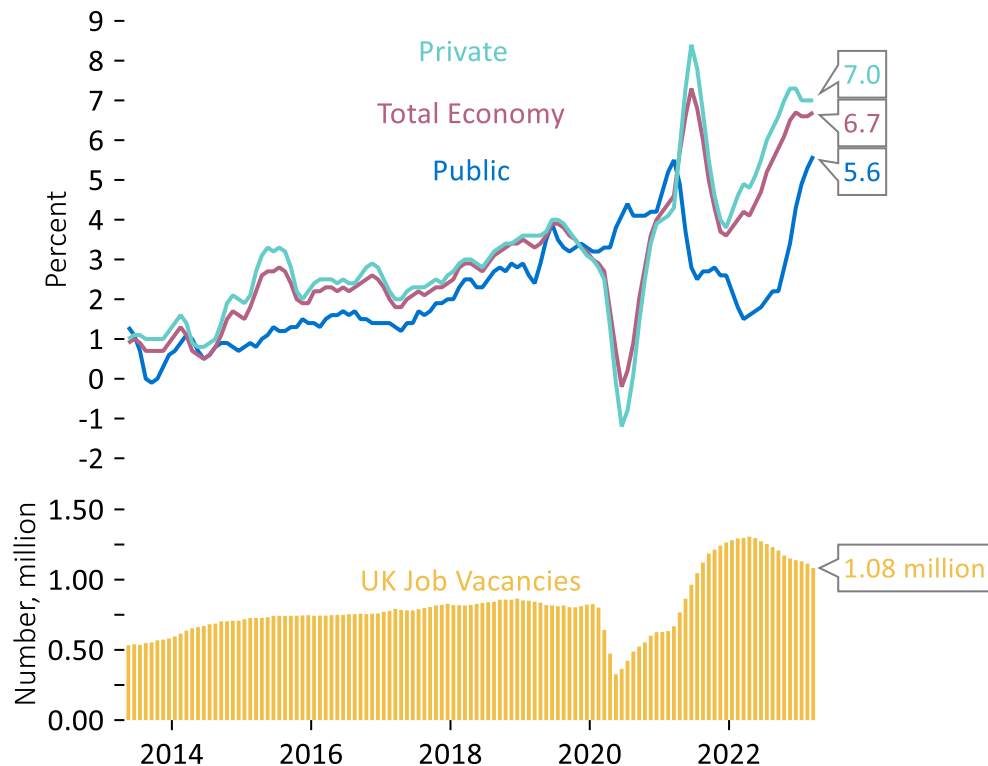


UK wage growth may have peaked – vacancies falling



Disposable incomes back to the levels of five years ago

UK Change in Av. Weekly Earnings & Job Vacancies



Source: Macrobond, 18.05.23

ASDA, Weekly Income Tracker



Source: Macrobond, 18.05.23

The **Asda Income Tracker** is a measure of weekly 'disposable income' reflecting the amount left after subtracting essentials such as groceries, electricity, gas, transport and mortgage payments or rent.

# Risk 3. UK inflation stickier than in the US or Eurozone

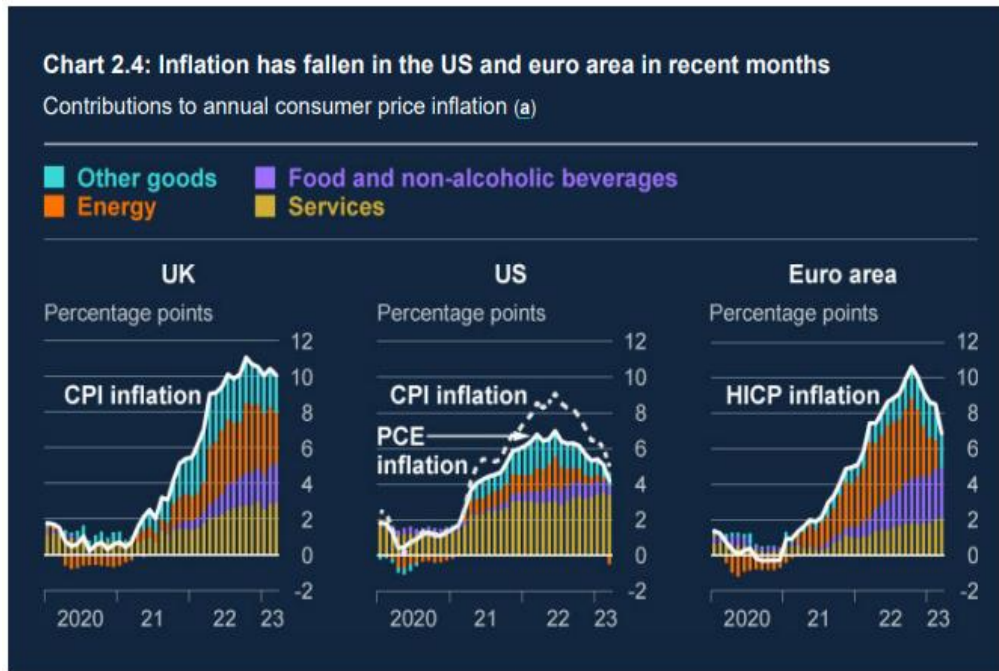
Energy price rises in the euro area were earlier while more price frictions in the UK



Inflation peak earlier in the US and Euro Area than UK



'Greedflation' may be contributing to stickier inflation

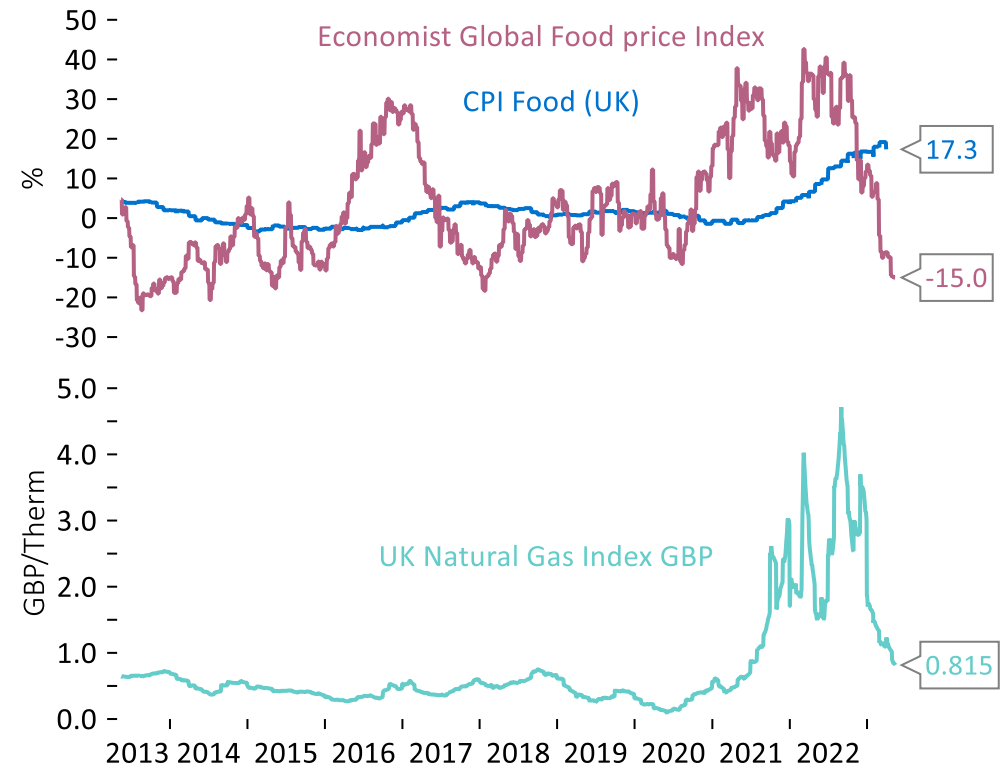


Sources: Eurostat, ONS, Refinitiv Eikon from LSEG, US Bureau of Economic Analysis, US Bureau of Labor Statistics and Bank calculations.

CPI Inflation set to fall to 7% by mid-2023  
Bank of England

Source: Bank of England May 2022

## UK CPI Food Inflation & Gas Prices



Source: Macrobond, 18.05.23

# Conclusion 1: UK corporate bond yields attractive

With the UK likely to avoid recession and inflation decelerating - UK corporate bonds attractive



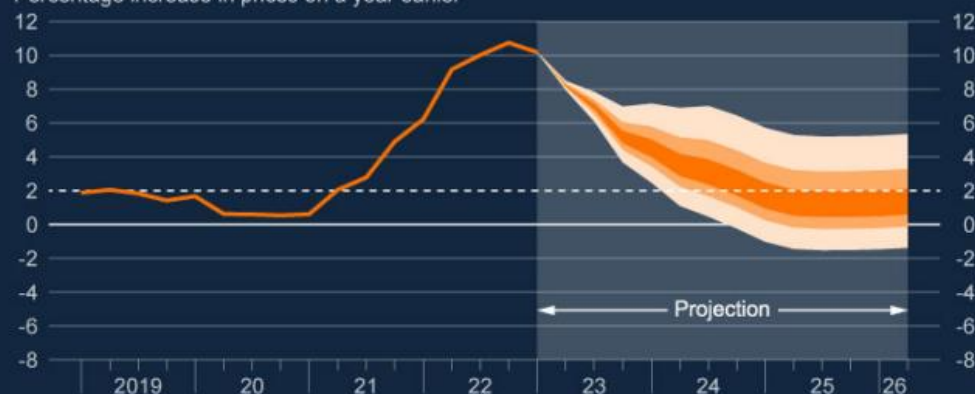
UK inflation set to fall below 3% in 2024 Q3



UK corporate bonds attractive as inflation normalises

Chart 1.4: CPI inflation projection based on market interest rate expectations, other policy measures as announced

Percentage increase in prices on a year earlier

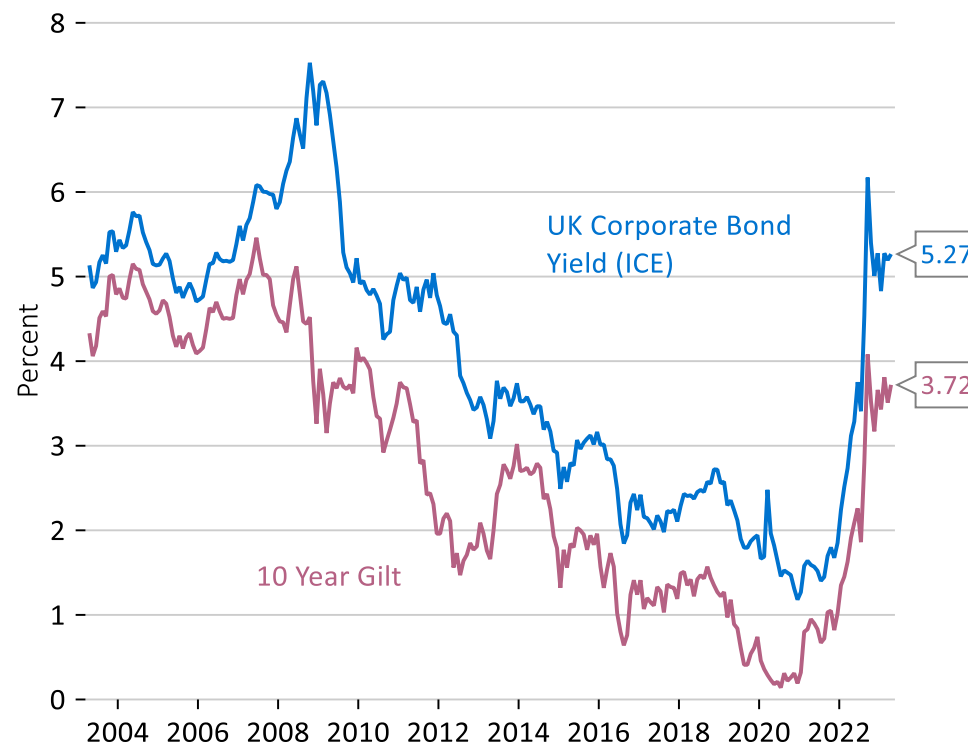


Bank of England CPI Projections

	2024 Q3	2024 Q4	2025 Q1	2025 Q2
CPI inflation	2.9	2.3	1.5	1.1

Source: BoE May 2023

## UK Bond Yields



Source: Macrobond, 18.05.23

# Conclusion 2: Sterling to continue recent upward appreciation

A weaker dollar, higher UK rates & economic stability argue for sterling appreciation

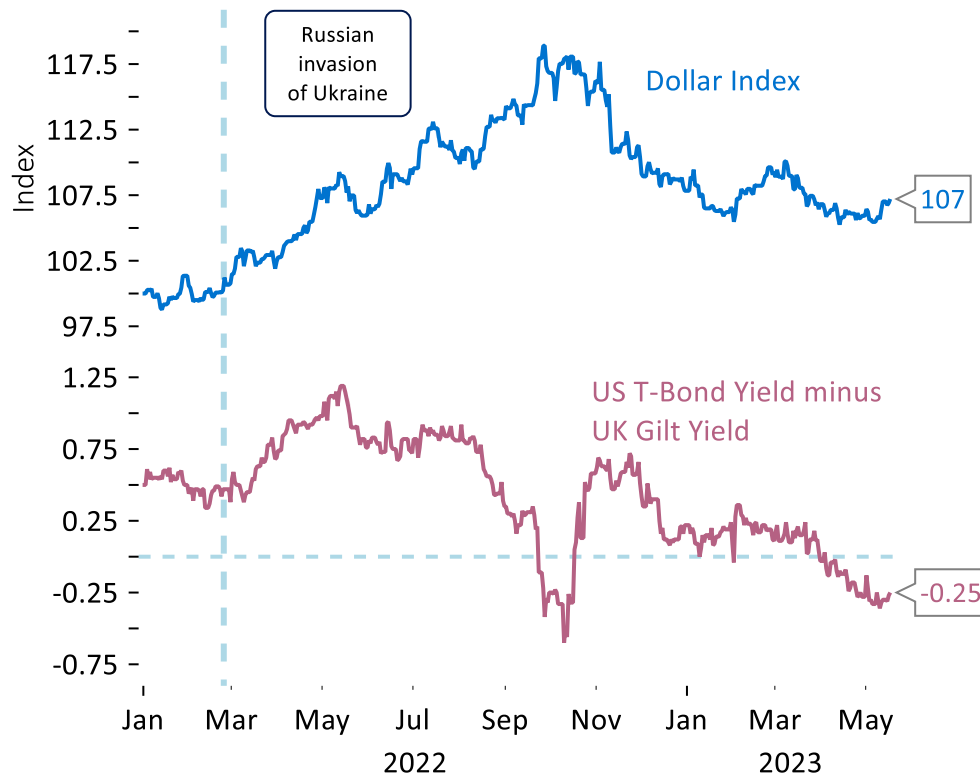


US dollar index continues steady decline



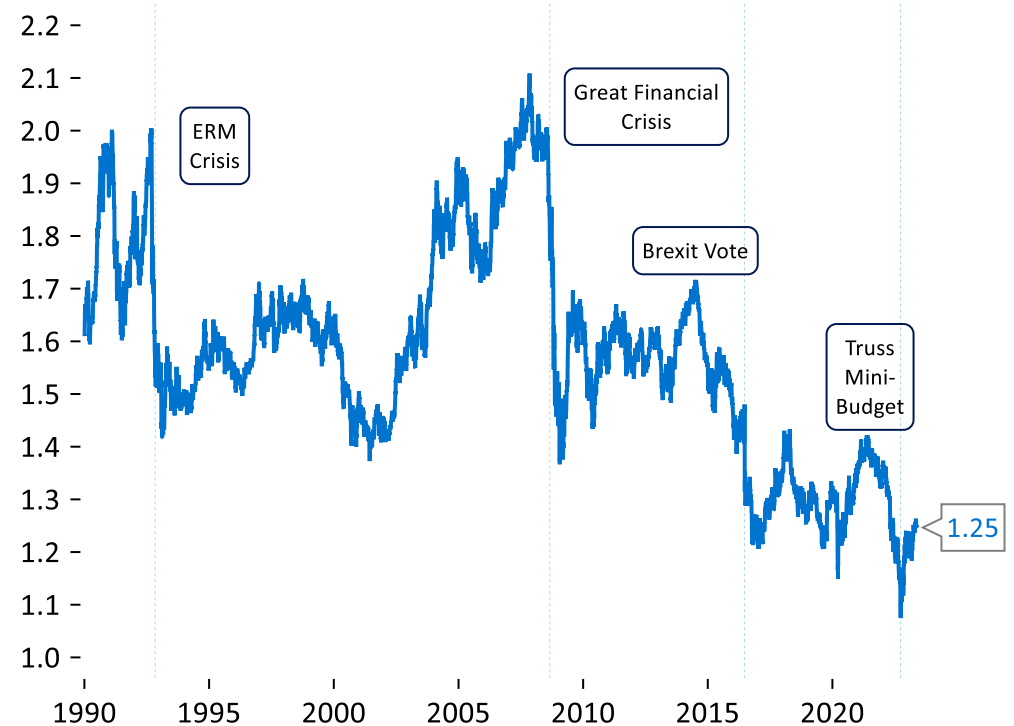
Sterling tends to fall in political crisis & then slowly rally

## US Dollar (DXY)



Source: Macrobond, 18.05.23

## US Dollar/Sterling FX Rate & UK Crises



Source: Macrobond, 18.05.23



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