

United Kingdom



David Wright, Director General, UKLA

According to Pricewaterhouse Coopers, the United Kingdom economy is expected to achieve real GDP growth of between 2.8% and 3.8% in 2022. This is a long way short of the Organisation for Economic Cooperation and Development (OECD) growth forecast of 6.1% in December 2021.

This year the advent of the Ukraine war and the aftermath of global economic lockdowns are leading to rising energy, food and fuel prices which are expected to contribute to an expected inflation rate of between 8-11%, and a corresponding fall in real wages of around 2%.

Energy prices have risen significantly with standard variable gas and electricity prices increasing by 54% in April 2022 compared with 4% in France, reflecting the UK's lack of energy self-sufficiency and the move away from nuclear. The UK currently generates 15% of its electricity from nuclear compared with 75% in France reflecting an energy policy that prioritises reducing carbon emissions over security of supply or cost.

Comparing economic growth with the Eurozone, in March Fitch Ratings cut its world GDP growth forecast for 2022 by 0.7% to 3.5%, with the Eurozone cut by 1.5% to 3.0% and the US by 0.2% to 3.5%, reflecting the drag from higher energy prices and a faster pace of US interest rate hikes than anticipated. Correspondingly Fitch lowered its forecast for world growth in 2023 by 0.2% to 2.8%.

Since January 2022, Brent crude has risen from \$84 a barrel at the start of the year to \$128 in March and more recently settling back to around \$102 a barrel in early April due to the release of strategic stocks by IEA members and the United States.

Over the same period diesel rose from £1.48 to £1.77 a litre, and unleaded from £1.45 to £1.63 a litre, causing

Chancellor Rishi Sunak to cut fuel duty by 5 pence per litre in his spring statement in March although plans to increase National Insurance by 1.25% were implemented in April.

The UK unemployment rate for December 2021 to February 2022 decreased by 0.2 percentage points on the quarter to 3.8%, according to the Office for National Statistics. Over the same period job vacancies rose from 298,000 to around 1.2 million causing upward pressure on wages. According to Eurostat, vacancy rates in the Eurozone were around 2.6% in December 2021.

The levels of vacancies in the UK has caused short staffing in some sectors and disruption to service levels at ports and airports causing delays as the economy returns to near normal output levels while resourcing lags behind.

The impact of the cost of living has led to a slowdown in UK retail sales in March and the sharpest drop in consumer confidence since the 2008 financial crisis. The British Retail Consortium reported total sales rose by 3.1% in March compared with the same month a year earlier, significantly down on the 6.7% increase in February and 12-month average growth rate of 10.3%.

Comparing March with the same month in 2019 before the Covid pandemic spread, total sales rose by 5.4%, as retailers warned rising inflation was beginning to hurt consumer spending.

LINK
www.ukla.org.uk