

Market Outlook

The new prime
minister's in-tray

July 2022



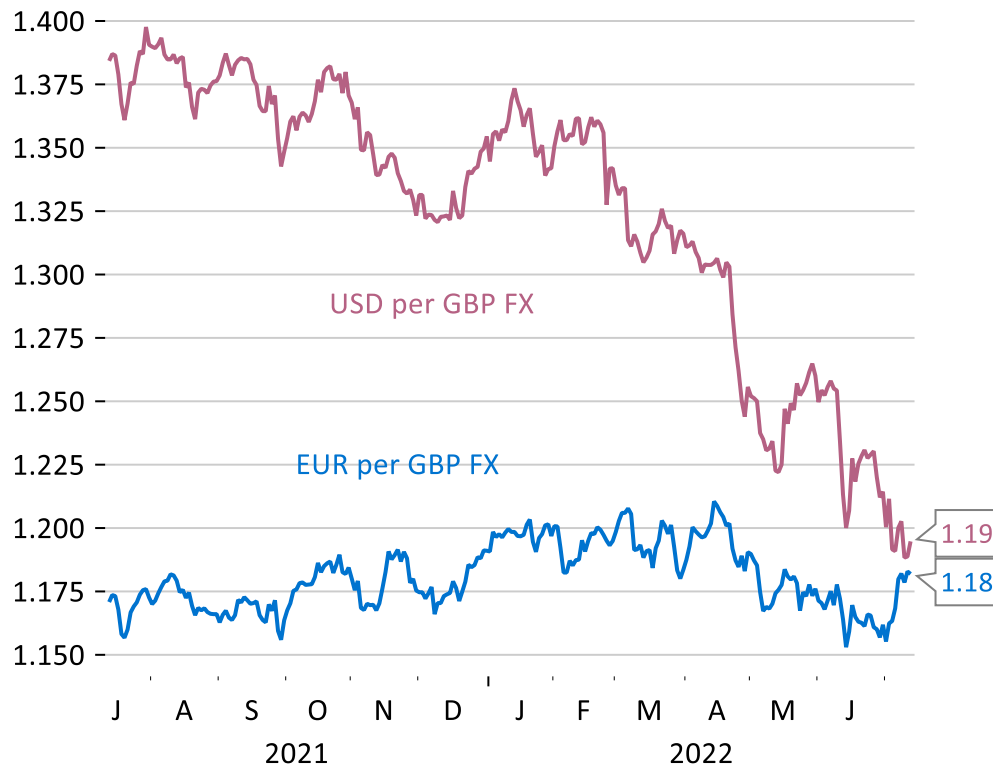
The challenges for the new Prime Minister

1. A new Conservative leader needs to target the twin deficits and revive sterling



Sterling falls sharply vs Dollar, steady against Euro

Sterling exchange rates

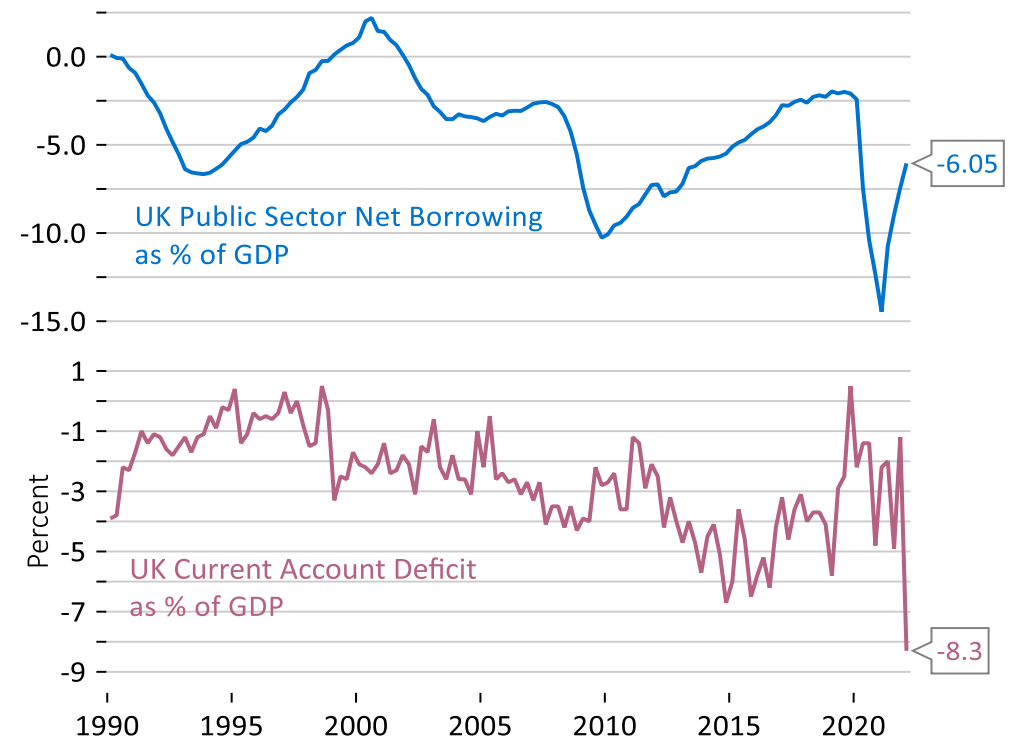


Source: Macrobond, 14.07.22



Widest current account deficit in 60 years...

UK Budget Balance and Current Account as % GDP



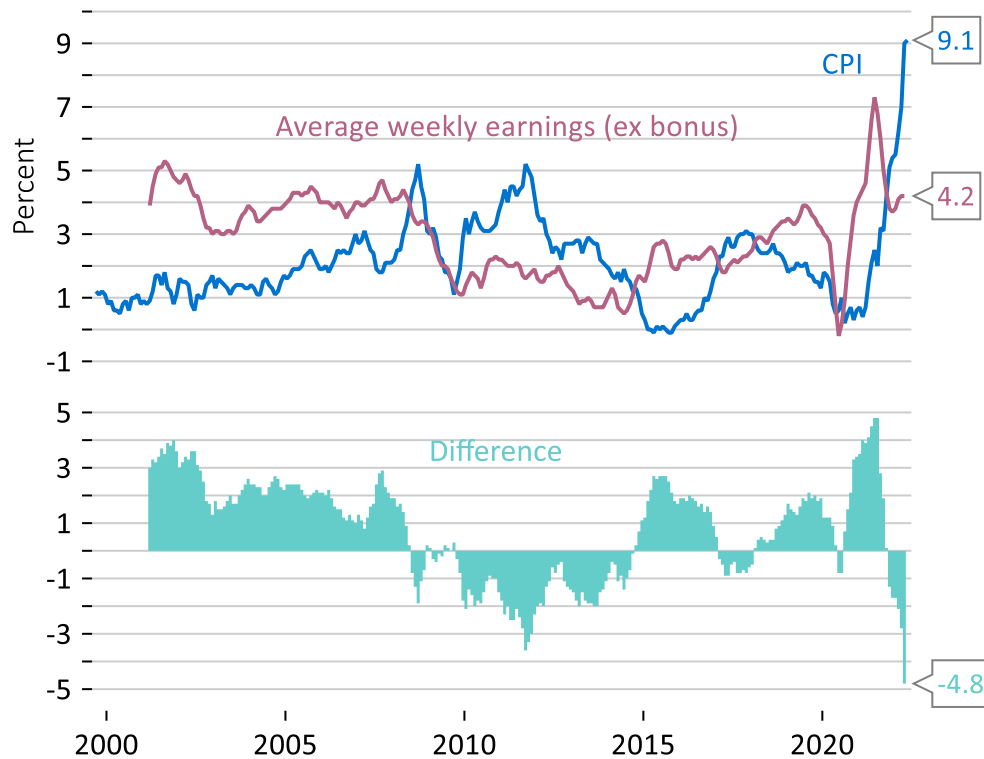
Source: Macrobond, 14.07.22

2. Tight labour markets and negative real wage growth a recipe for industrial action



Squeeze on wages continues

Average weekly earnings and Inflation

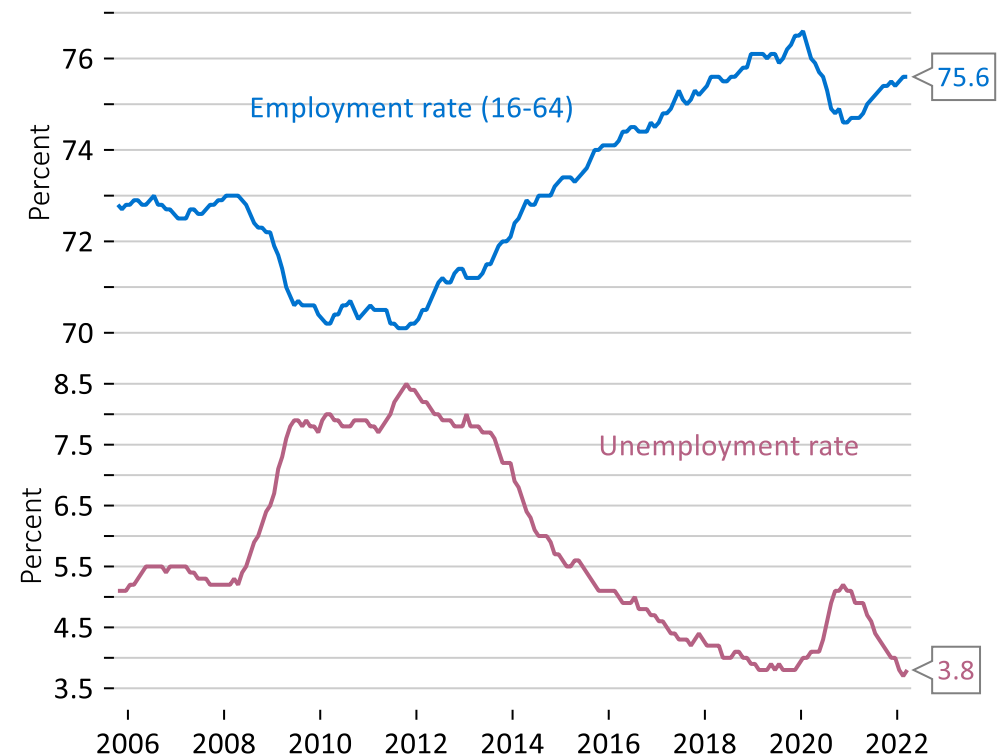


Source: Macrobond, 14.07.22



UK labour tight - labour supply only slowly recovering

UK Labour Markets



Source: Macrobond, 14.07.22

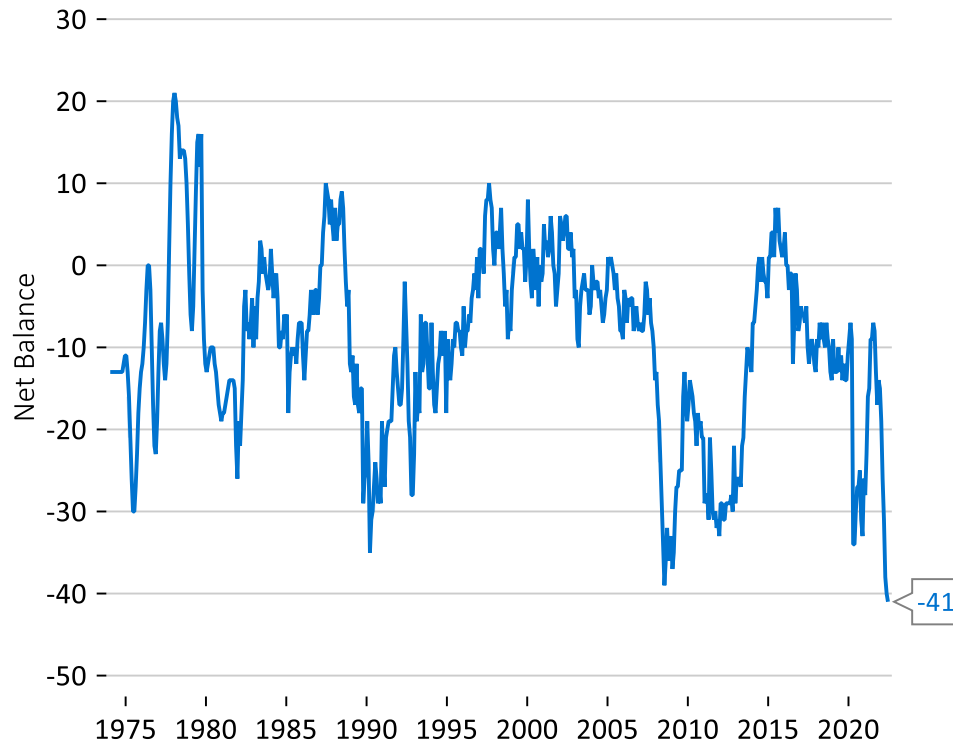
3. Support needed for low income groups

Consumer confidence at record lows - rises in food and energy outside of government control



Consumer budgets under pressure

UK Consumer Confidence



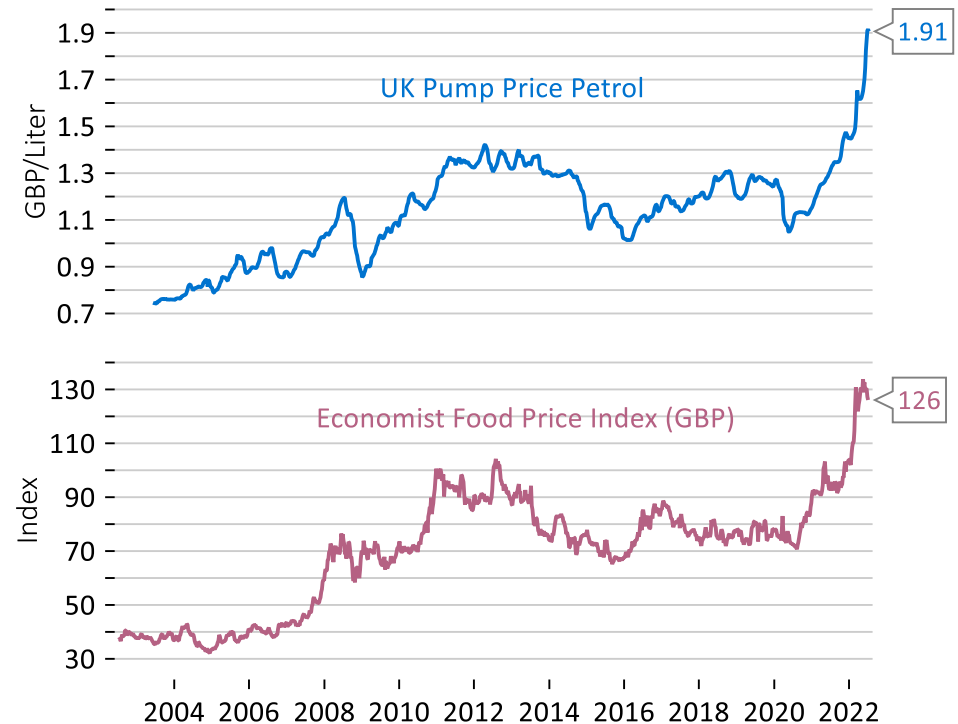
Source: Macrobond, 14.07.22

Source: World Bank, June 2022



International factors dominate consumer costs

UK Petrol and Food Costs (£)



Source: Macrobond, 14.07.22

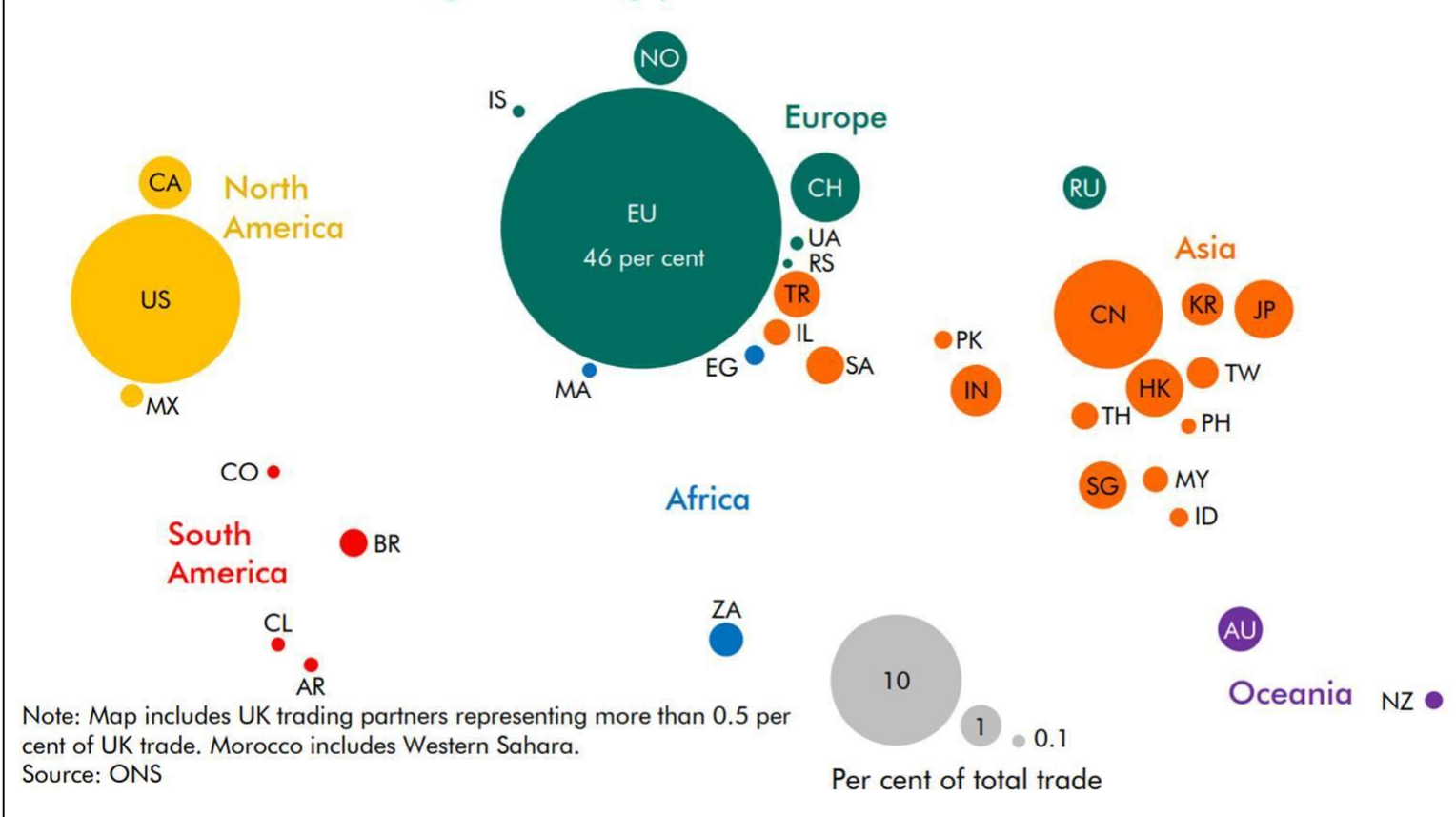
Source: World Bank, June 2022

4. EU and the US central to our foreign trade ambitions

Genuinely new trade deals signed since leaving EU only cover 1.4% of UK trade

 EU makes up almost half of UK trade– reduced trade friction with EU & US urgently needed

Chart 2.21: The UK's largest trading partners



Source: OBR Fiscal Risks and Sustainability July 2022

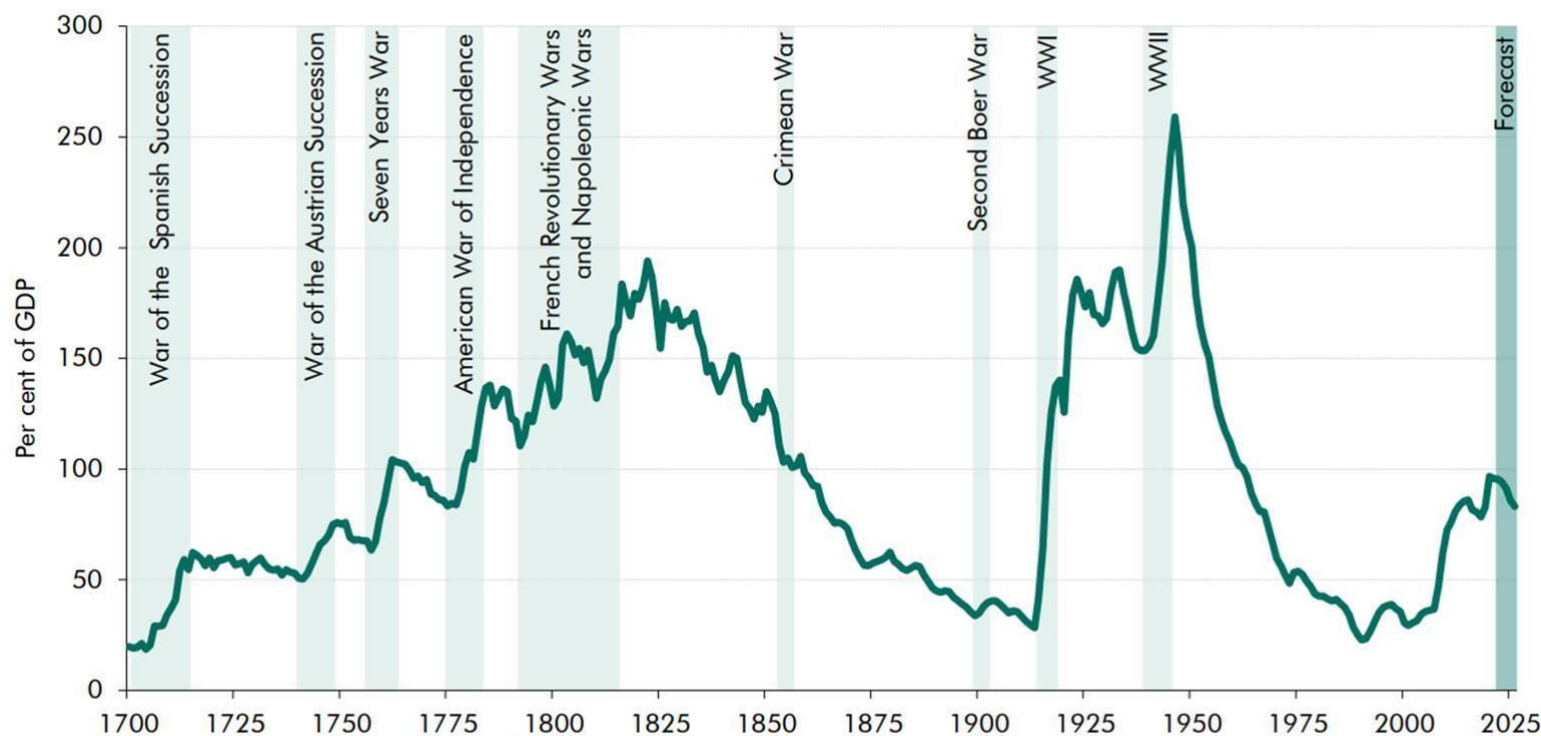
5. Defence funding increase likely for the longer term

Armed conflicts have been the most important drivers of fiscal outcomes in the UK



In all major conflicts borrowing exceeded 10% of GDP and added 70% of GDP to the stock of debt – declines in spend are gradual

Chart 2.1: Public sector net debt during periods of conflict and peace



Note: Financial year data used from 2016-17. Highlighted periods represent conflicts where annual central government borrowing exceeded 2 per cent of GDP in any one year.

Source: Bank of England, OBR

Source: OBR Fiscal Risks and Sustainability July 2022

UK comparison with high performing 'Sovereign' nations

If we really want Brexit to be a success then we need a more robust, balanced economy



Average of high performing 'sovereign' nations show strong economic and financial fundamentals

Successful Sovereign Countries	Current-Account Balance % GDP	Budget Balance % GDP	Consumer Prices % Latest	Bond Rating
Canada	1.2	-3.5	7.7	AA+
Norway	16	8.7	4.8	AAA
Switzerland	6.3	0	3.4	AAA
South Korea	3.1	-2.4	6	AA-
Japan	1.4	-6	2.4	A+
Singapore	18	-0.9	5.6	AAA
Average	7.7	-0.7	5.0	AA
UK	-8.3	-5.8	9.1	AA-

Source: The Economist/Macrobond July 2022

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