

Opening plenary - assessing the state of
the UK economy

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2024: central view

Negatives

1. Full impact of rate hikes still to be felt
2. Near term stagnation/recession risk
3. Economic stress set to rise
4. Corporate focus: cash, costs

Positives

1. Any recession likely to be mild
2. Falling inflation
3. Resilience
4. Return to growth 2024H2

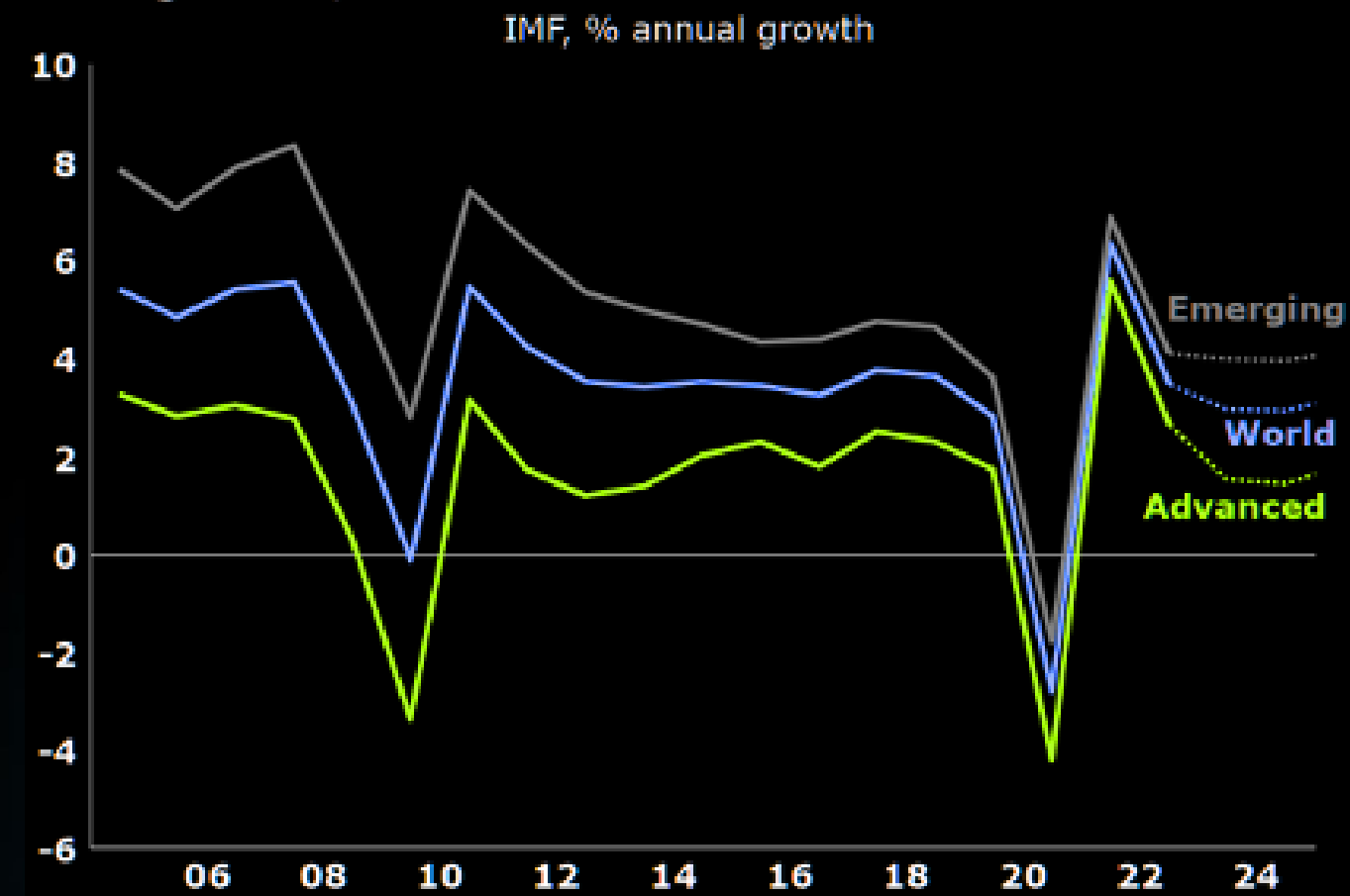


But...range wide range of possible outcomes...from material Western recessions to soft landings and swift recoveries

Advanced economy drove the 2023 slowdown: mainly a Europe problem

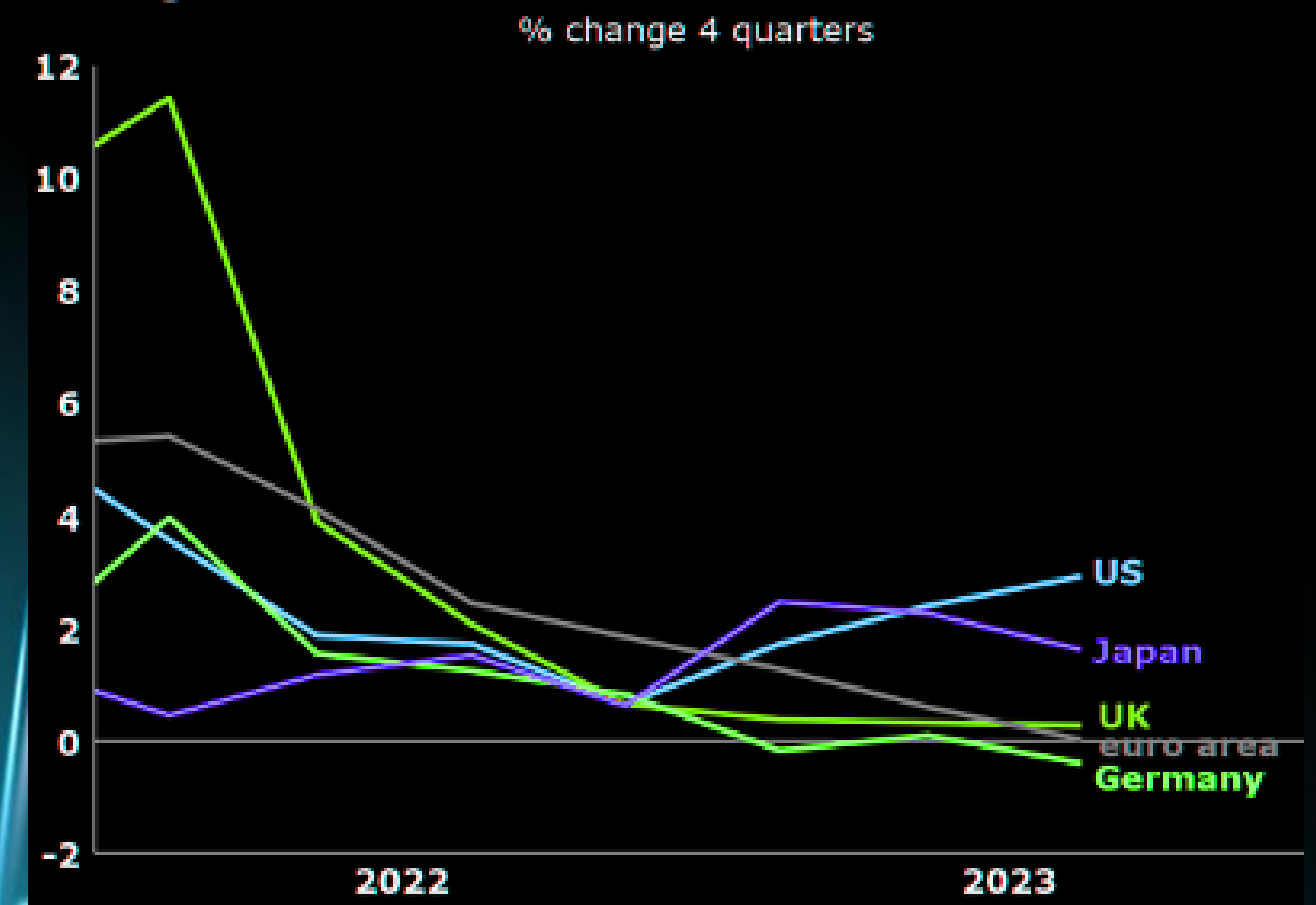
2023: pace of growth slowed in advanced economies – but not emerging economies

GDP growth, actual & IMF forecasts



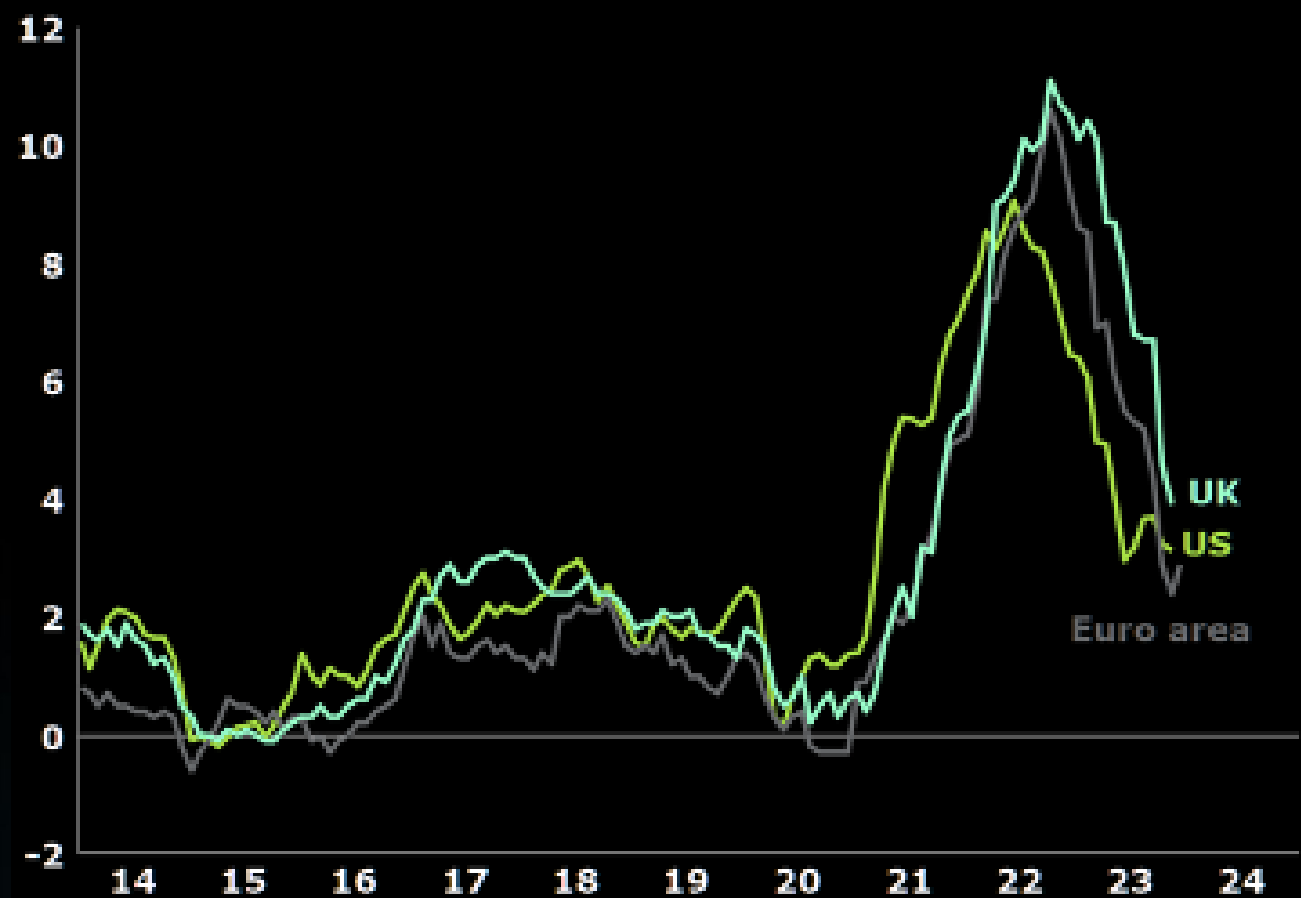
But US and Japanese growth accelerated in 2023

GDP growth

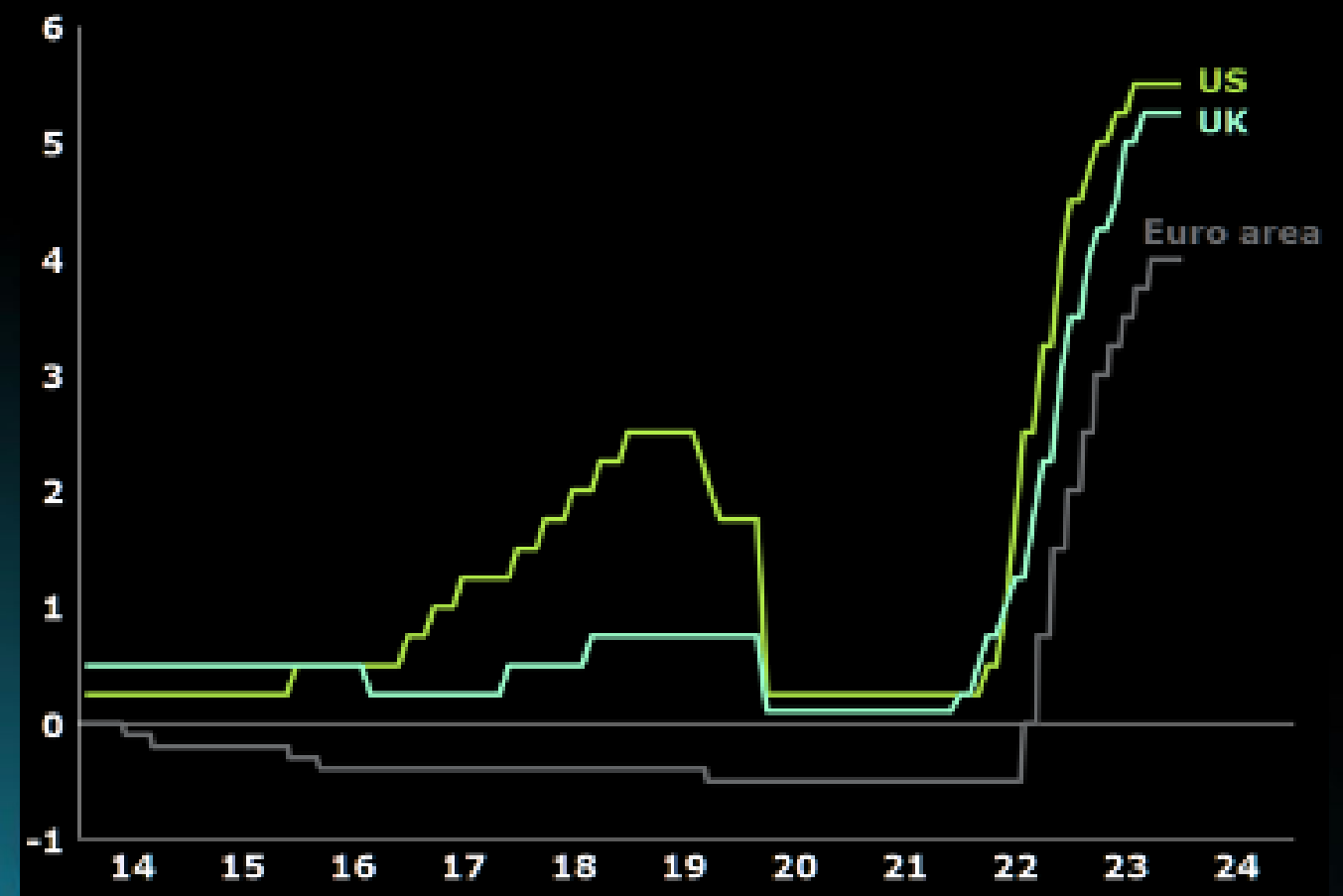


The story of 2024: falling inflation, falling interest rates?

Inflation rates



Central bank interest rates



Inflation down sharply, not yet tamed

Positives

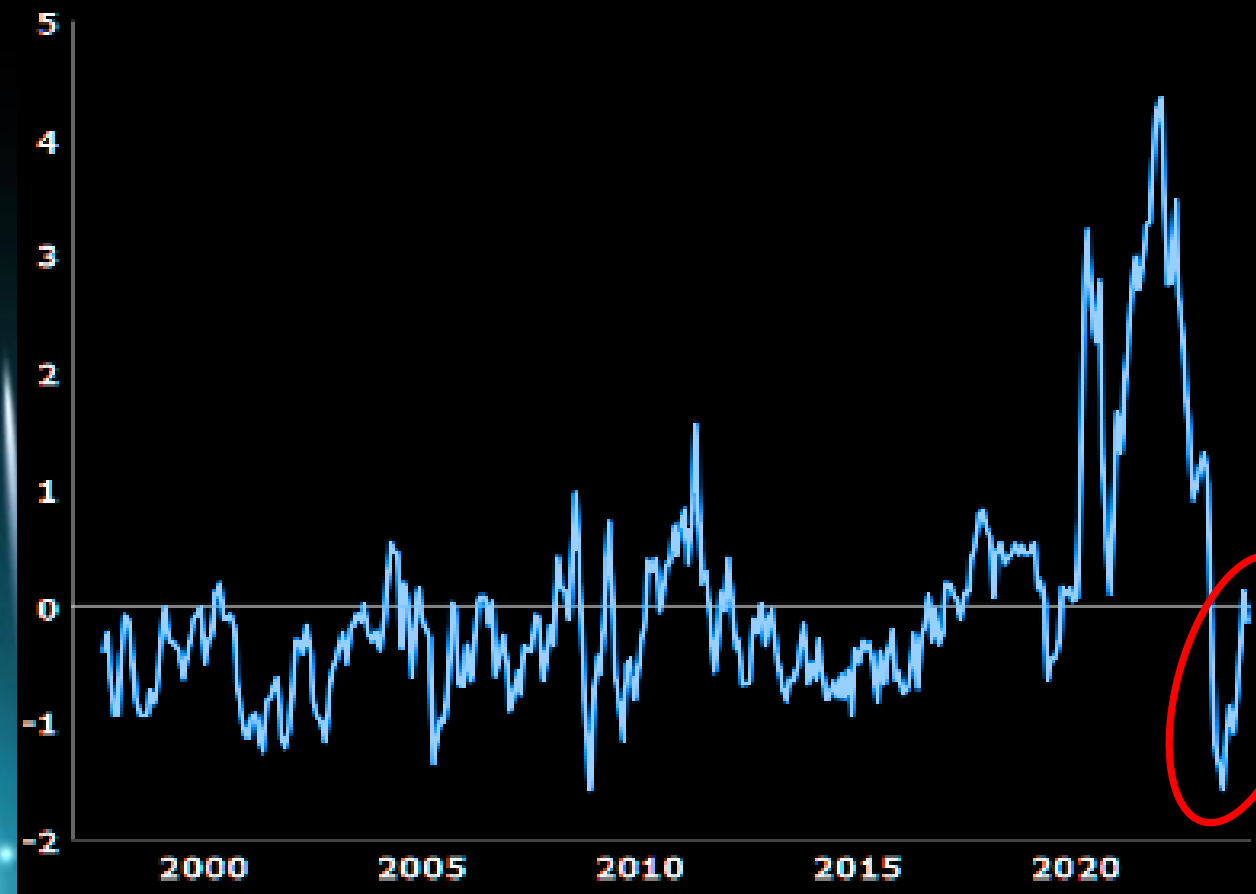
- Energy, food price inflation has peaked
- Higher inventory levels
- Softer demand
- Supply problems have eased but...

Worries

- Elevated core or underlying inflation
- Limited spare capacity
- Tight labour markets
- Strong wage growth

Global supply chains pressure index

World



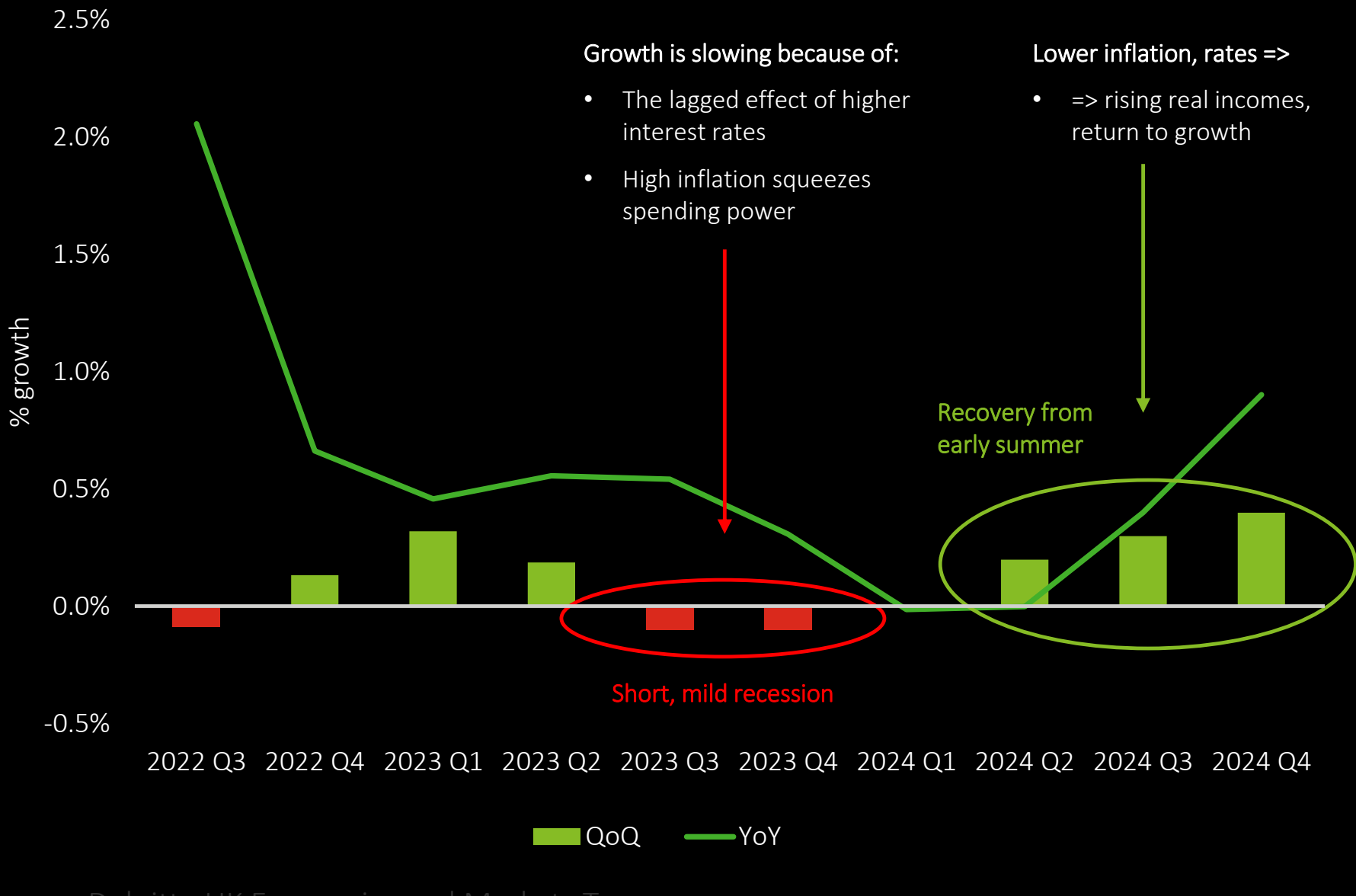
Markets anticipate rate cuts later this year

UK bank rate and market expectations from OIS forwards



UK: We foresee a weak start to 2024 with growth starting to come back in the second quarter

UK GDP: actual & Deloitte base case forecast



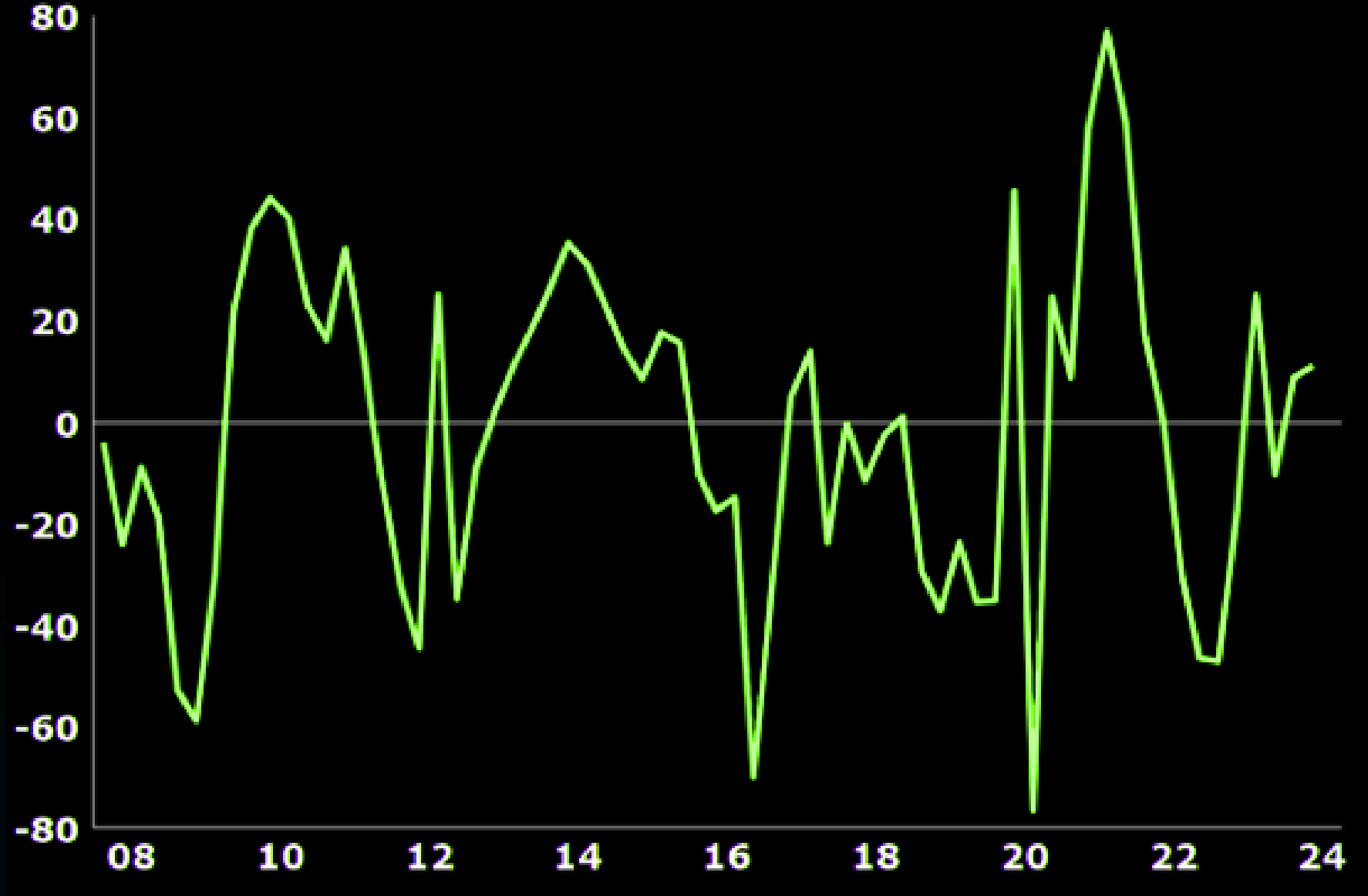
Deloitte growth scenarios: GDP effects, % change

	Peak to trough decline in GDP	Growth rate in 2024Q4
Base case	-0.2	0.9%
Upside	-	2.0%
Downside	-3.0	-2.1%

UK CFOs more positive

Deloitte CFO Survey: Business optimism

Net % of CFOs more optimistic about business prospects than 3 months ago



Business leaders are increasingly optimistic about Britain's prospects for 2024, survey finds

The financial chiefs of the UK’s largest firms are optimistic about prospects for their own businesses as they enter 2024, according to Deloitte. Sentiment among finance leaders has risen for the second consecutive quarter – to well above average levels – with a net 11 per cent of CFOs more optimistic about the financial prospects of their business than they were three months ago as inflation worries and interest rate expectations ease.



MONDAY 08 JANUARY 2024 6:00 AM
CFOs are more confident – but the UK’s low productivity is a growing concern

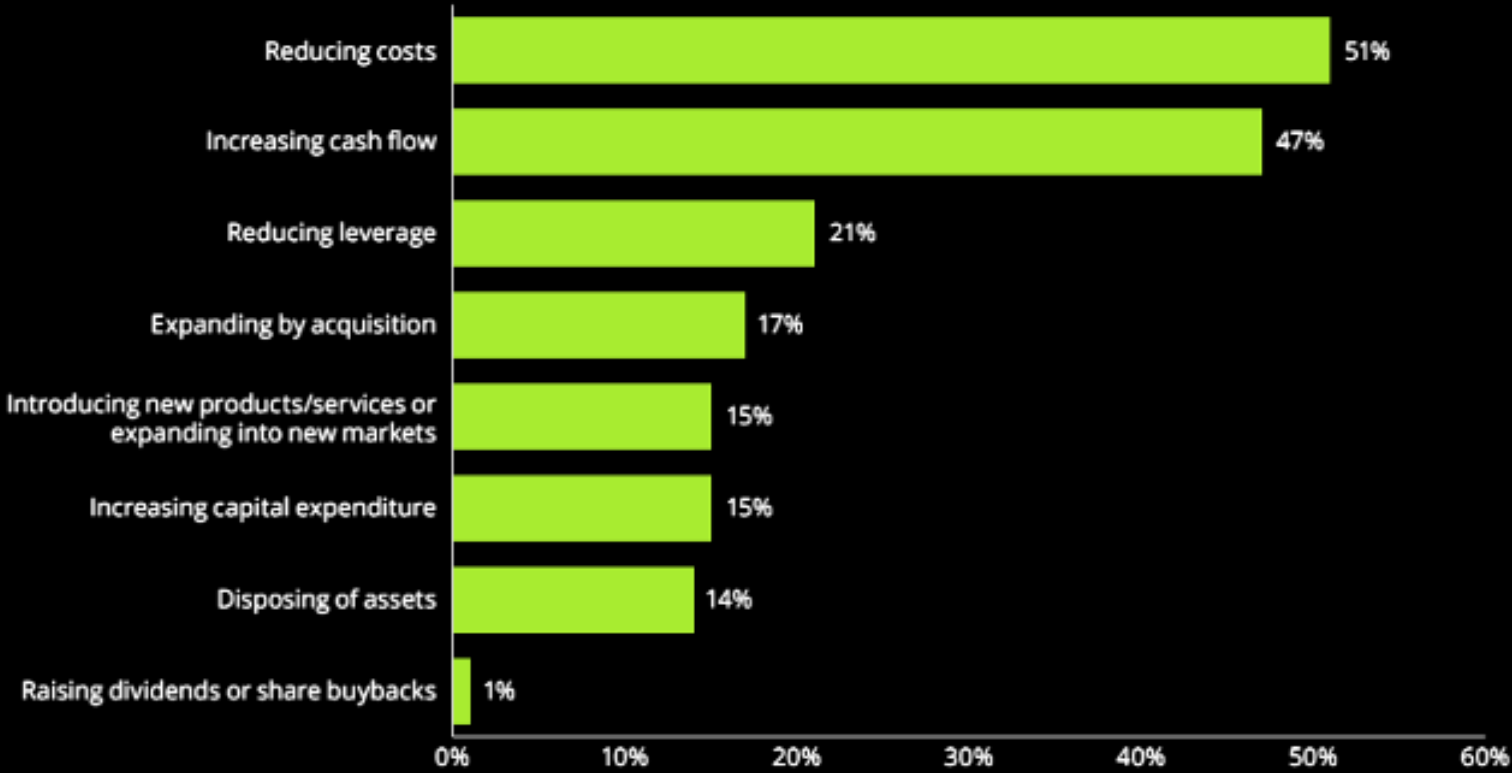
Research from the accountancy firm Deloitte found optimism was rising among the chief financial officers (CFOs) of the UK’s largest companies. According to its latest quarterly CFO survey, which is monitored by the Bank of England for early warning signs from the economy, a net 11% of finance leaders were more optimistic about the prospects for their business than three months earlier – significantly above average levels.



But not positioning for an immediate recovery

CFOs in defensive mode

% of CFOs who rate each of the following as a strong priority for their business in the next 12 months



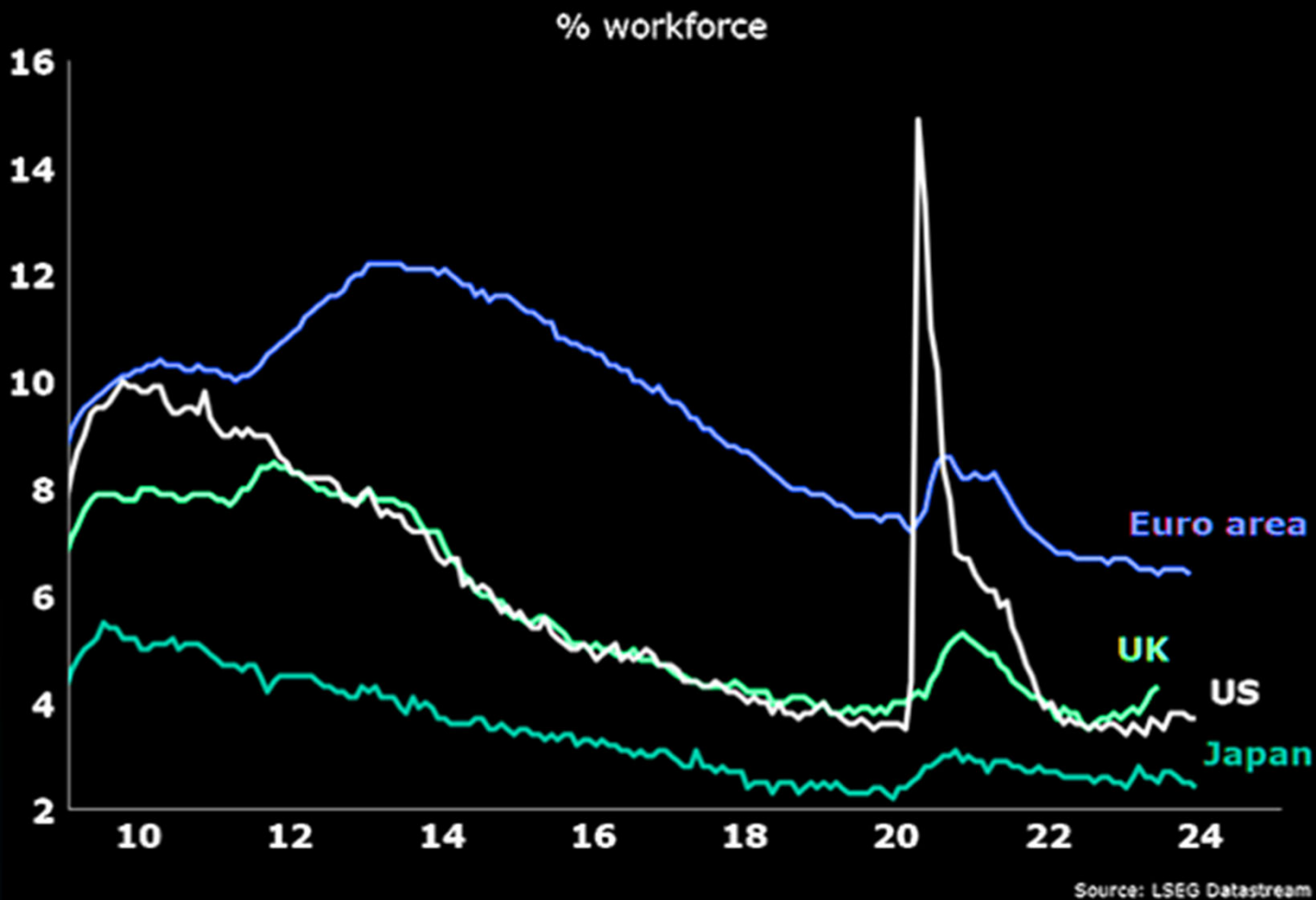
Arithmetic average of the % of CFOs who rate expansionary and defensive strategies as a strong priority for their business in the next 12 months



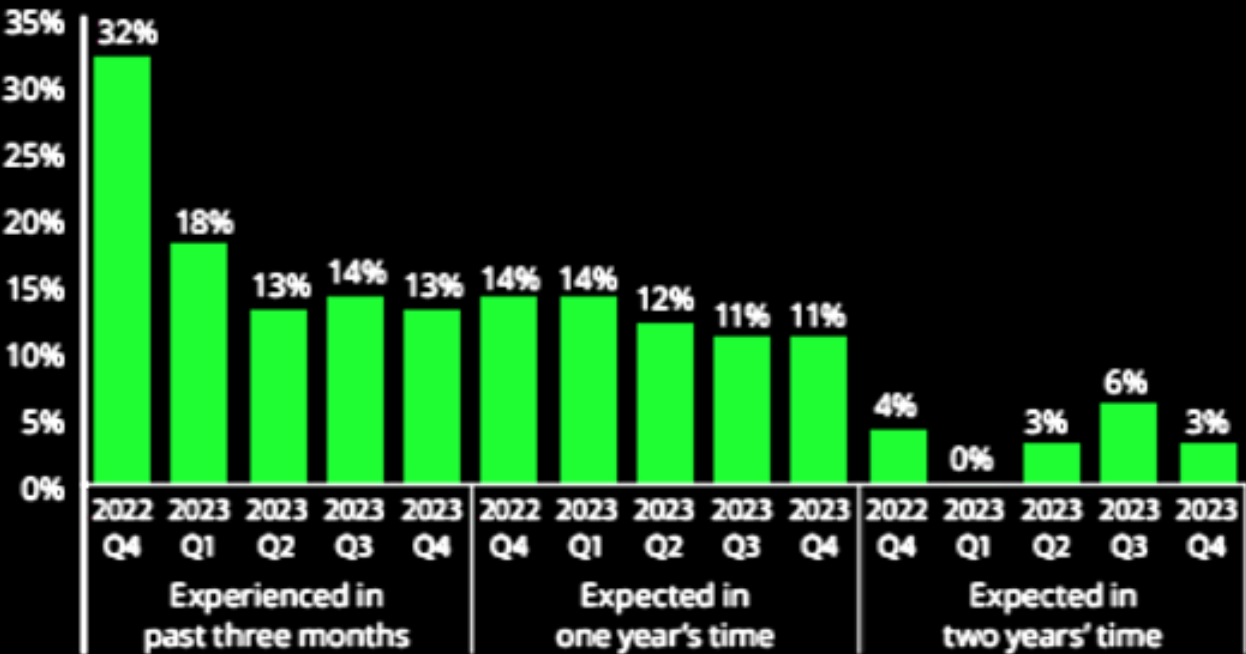
* Expansionary strategies are introducing new products/services or expanding into new markets, expanding by acquisition and increasing capital expenditure. Defensive strategies are reducing costs, reducing leverage and increasing cash flow.

Labour markets remains tight

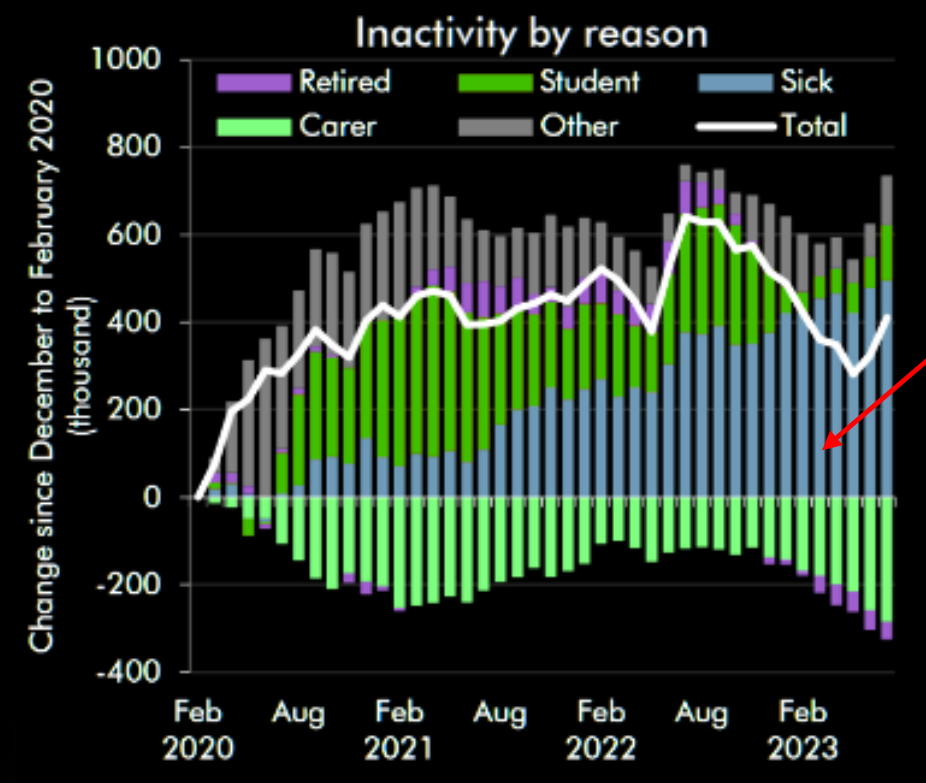
Unemployment rates



% of CFOs who report significant or severe levels of recruitment difficulties or labour shortages experienced by their business over the last three months and those expecting similar levels of disruption in one year's and two years' time



Getting growth back = getting people back to work

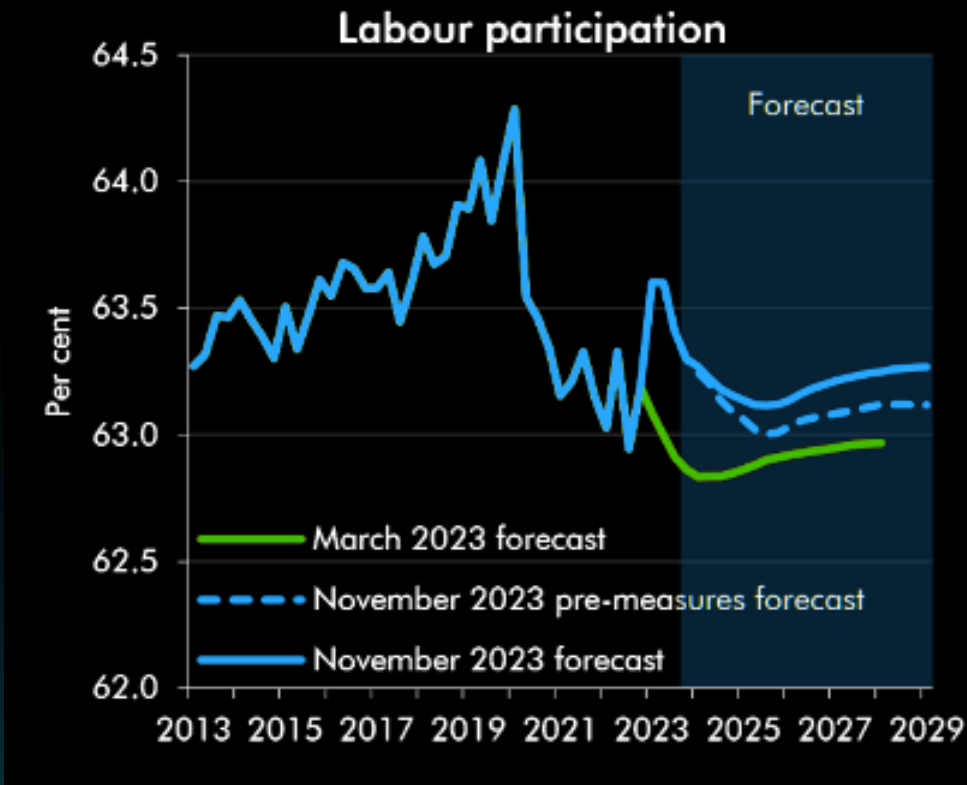


Big rise in sickness & disability in the UK...

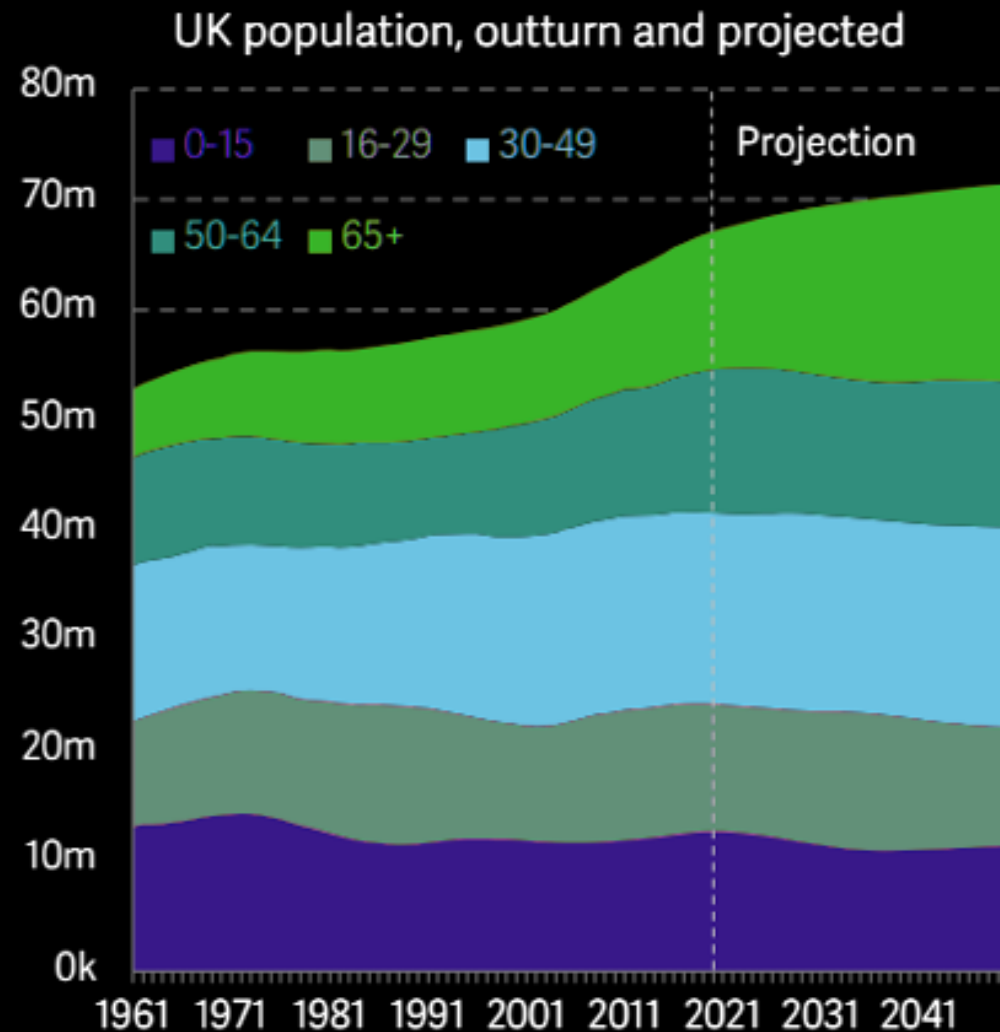
The US has got this right



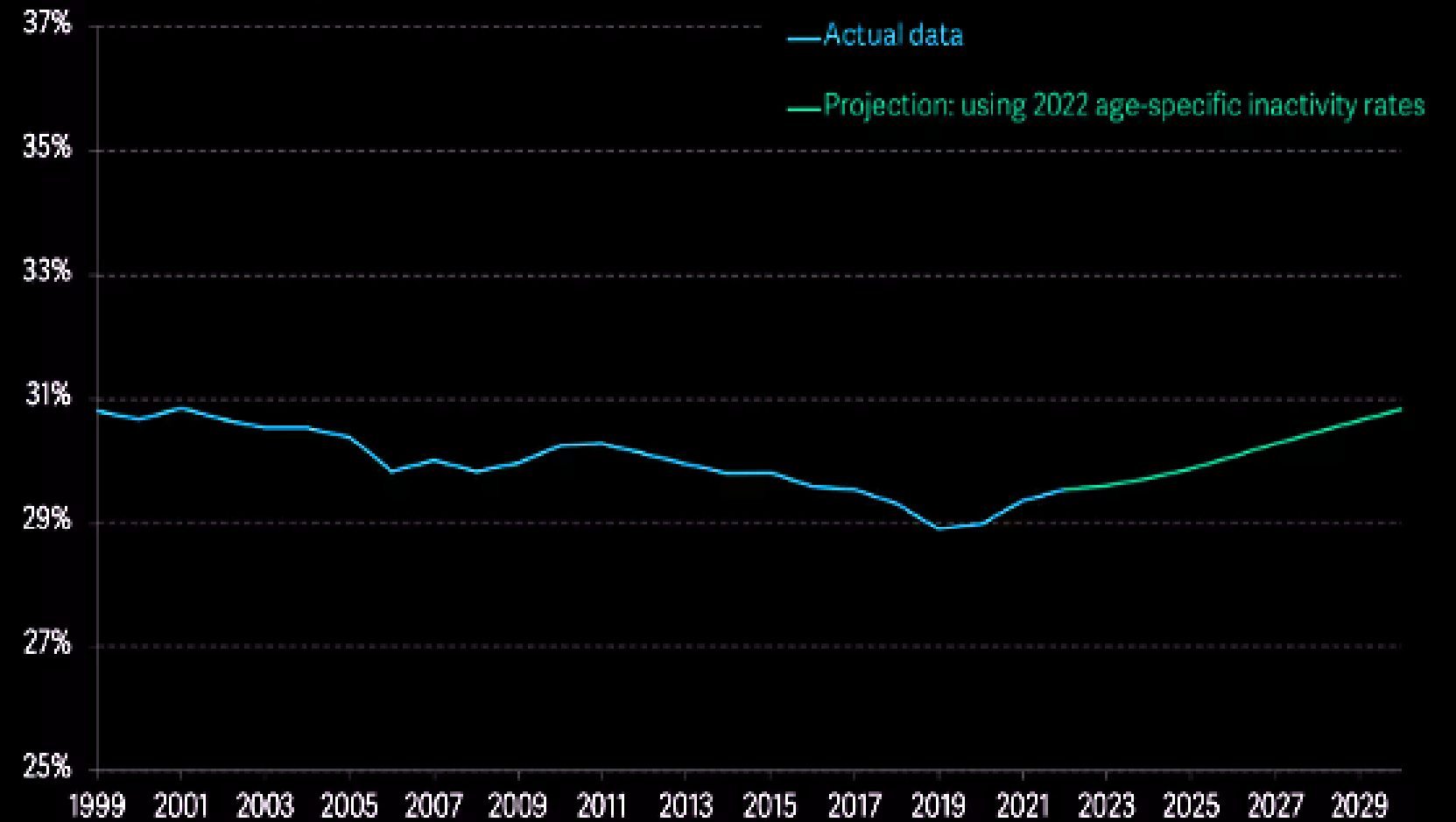
Government aims to follow



The UK's ageing population poses an additional challenge

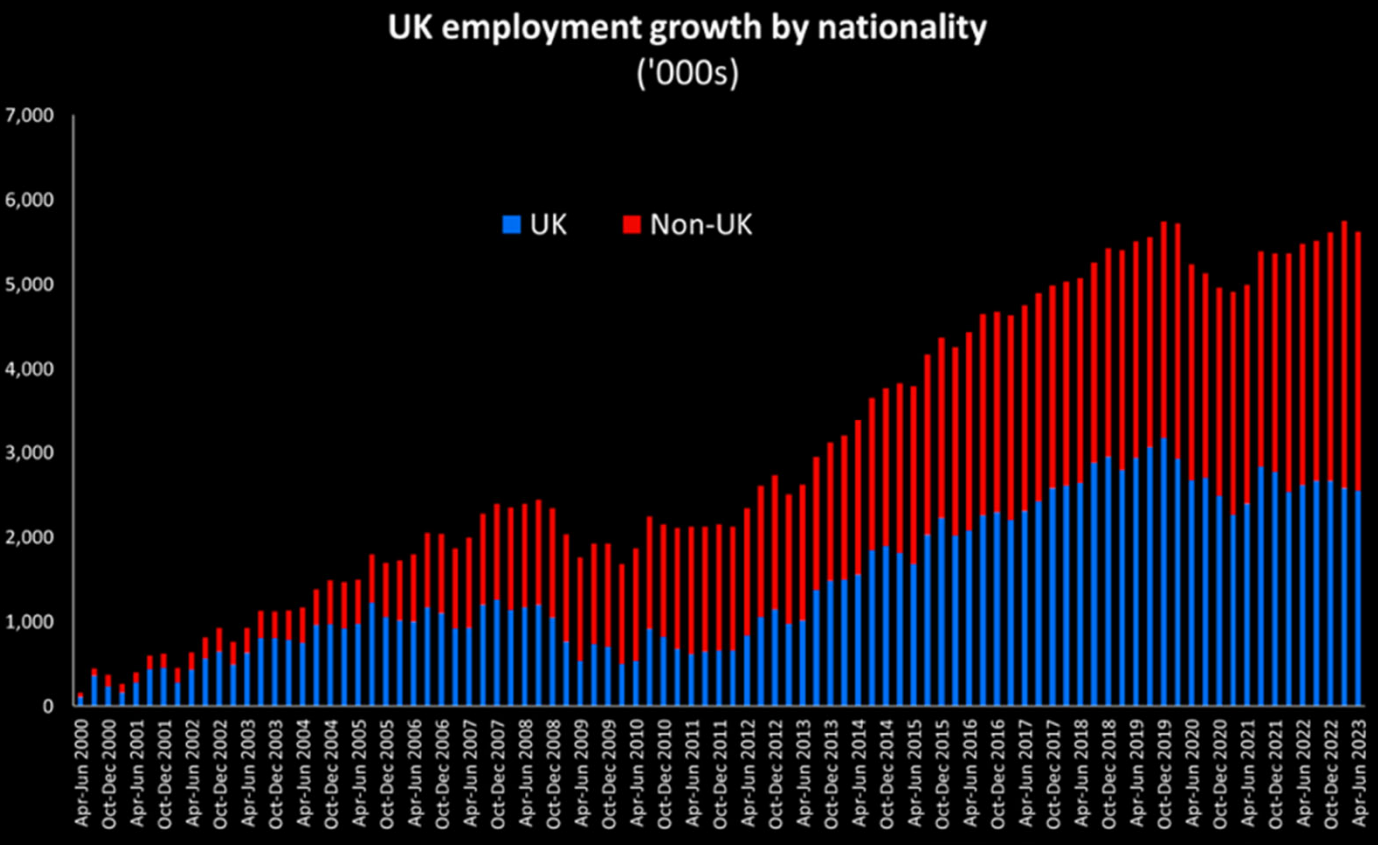


Economic inactivity rates for adults aged 15-75, under various scenarios: UK

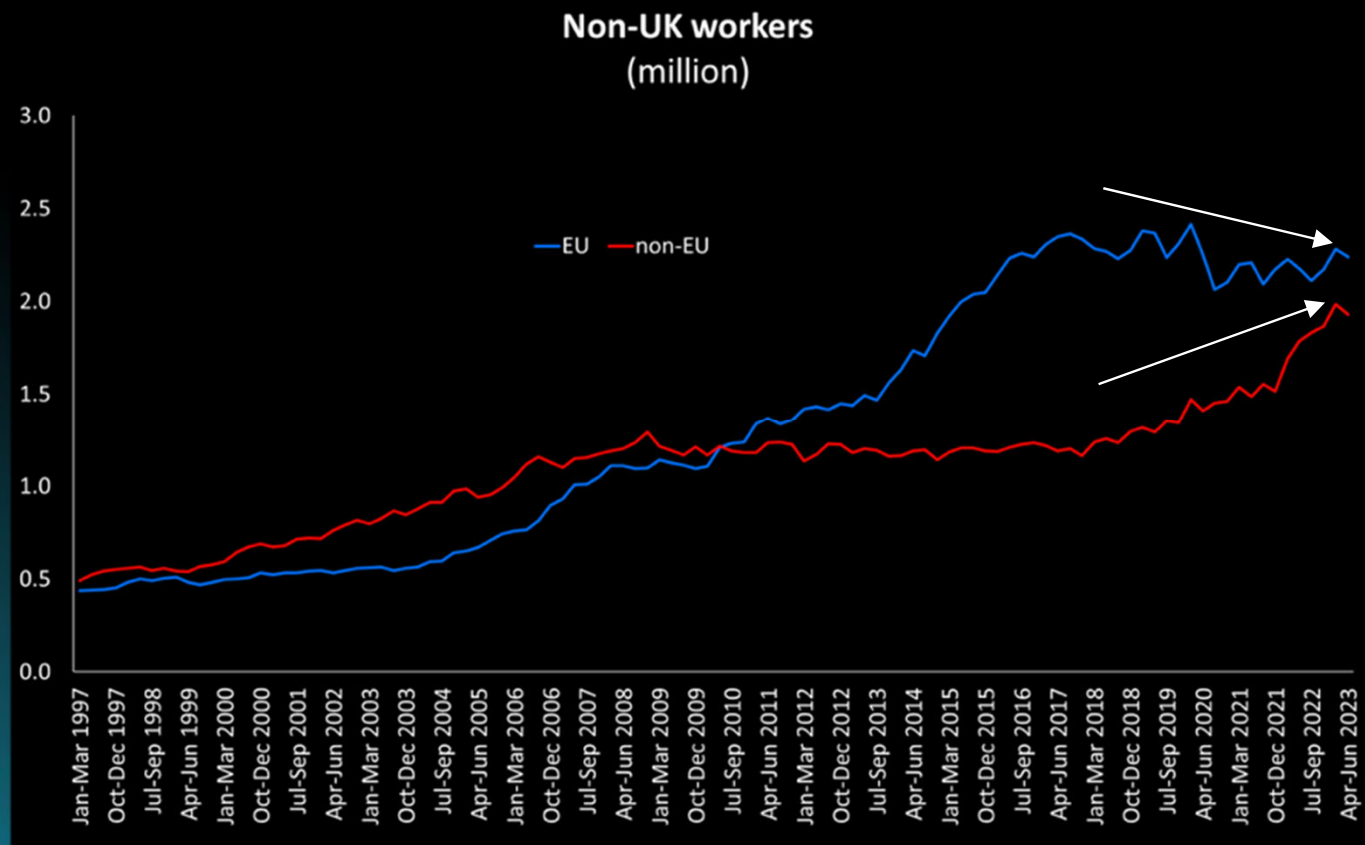


Foreign workers have driven UK employment growth over the last decade

Foreign workers have accounted for 55% of employment growth over the last 23 years

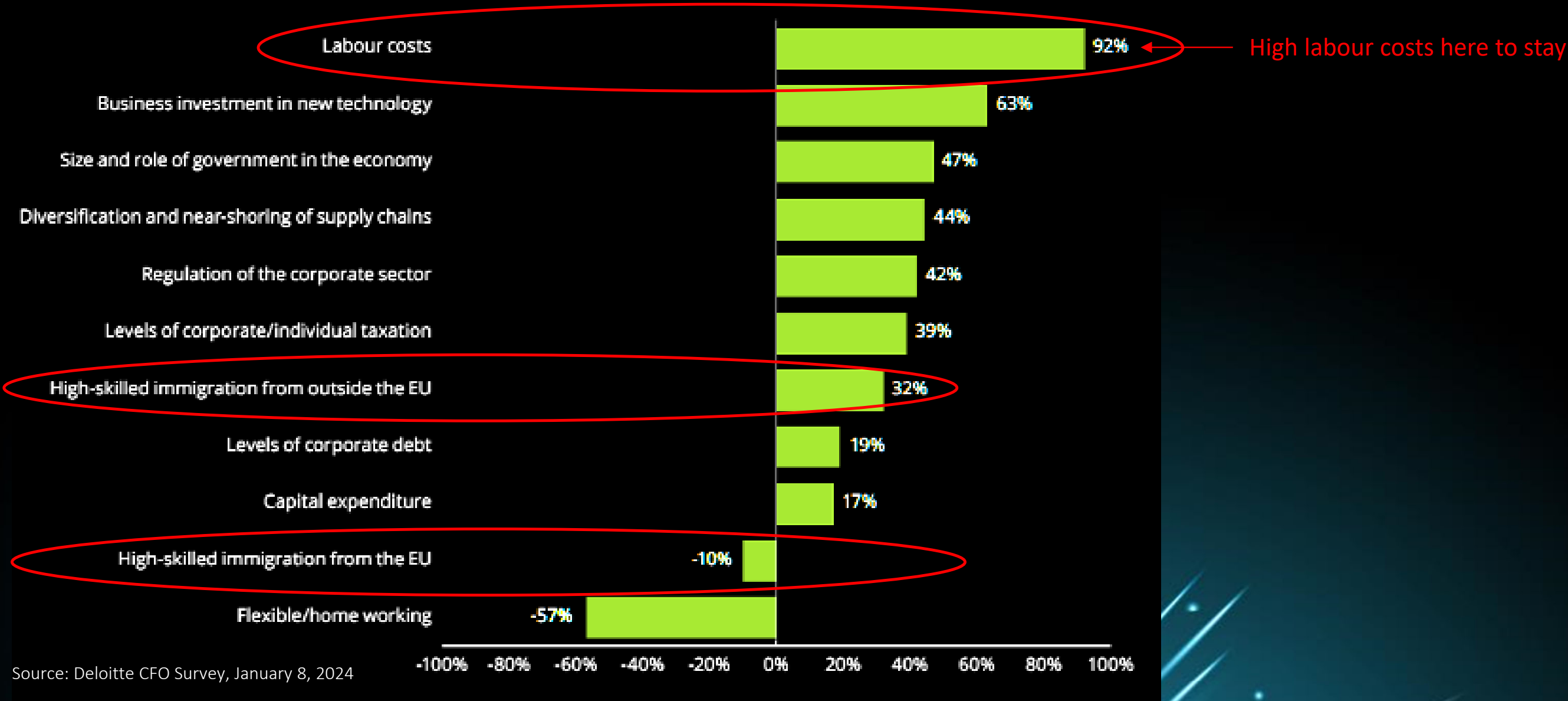


More recently, non-EU employment growth has accelerated while the number of EU workers has declined



Long term themes: CFOs' views

Net % of CFOs who expect an increase in the following over the long term compared to 2023



Foreign workers have driven UK employment growth over the last decade

Conclusions

1. Emerging markets outperform developed world
2. UK stagnation/recession near term
3. Inflation down
4. Rate cuts by mid-year
5. Return to modest growth in 2024H2
6. Risks skewed to the downside

Labour market

1. Low unemployment
2. Participation challenge
3. Immigration shift
4. Labour costs expected to rise over the long term



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