



Economic Outlook 2022

Philip Shaw
Chief Economist, Investec

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Global Covid-19 infections

Cases increase markedly across the world

Sources: Macrobond, Investec

A brief history of Covid-19

>350m

Global infections

5.6m

Global deaths

Omicron by far the biggest wave of cases

Over 100 million cases reported in the last ten weeks alone.

But, but, but: is it milder?

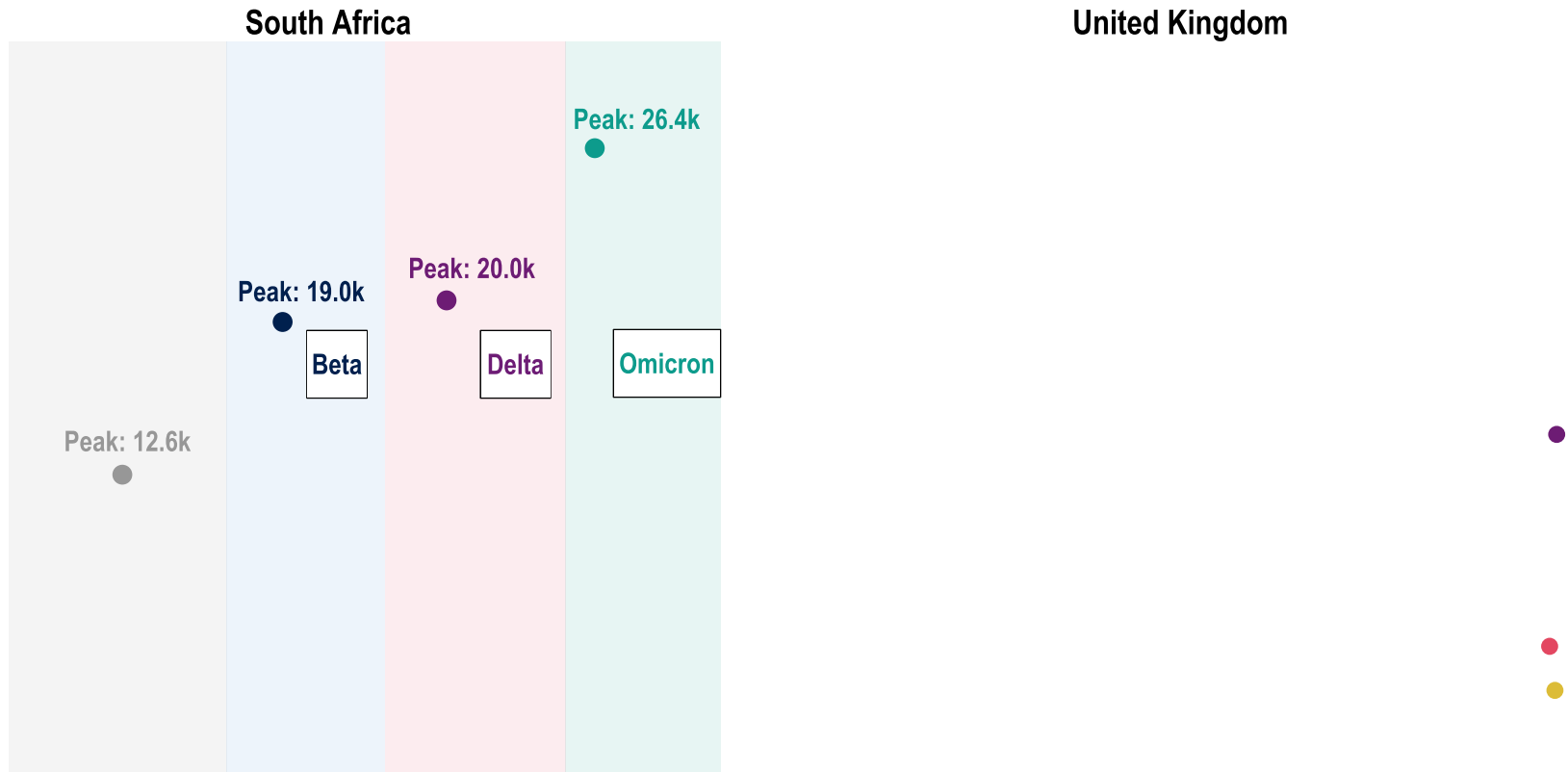
South African numbers suggest so. Symptoms milder and hospital stays shorter. Helped by immunity from vaccination and prior infection.

Are we now 'living with the virus'?

The UK looks to be following the path trodden by South Africa, and restrictions are being relaxed. Have we transitioned from pandemic to endemic?

Trends in SA and the UK

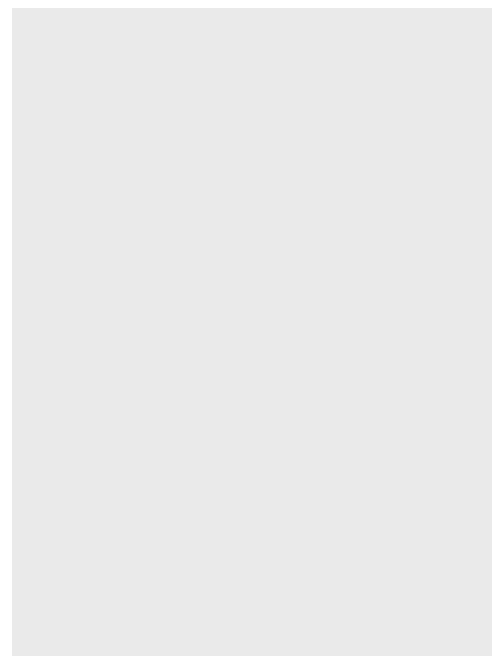
The way down looks to be as fast as the way up was



Sources: Macrobond, Investec

UK quarterly GDP (q/q)

Unprecedented volatility over the pandemic



Sources: Macrobond, Investec

UK monthly GDP (level)

Above pre-pandemic level but below 'counterfactual'

Sources: Macrobond, Investec

UK economy – general points

Economy became more resilient to lockdowns through each successive wave as businesses and restrictions adapted. Plan B this time a bump in the road, but won't derail the recovery.

Tight labour market may restrict growth going forwards.

Economy will miss health spending. Health GVA is 12% above pre-pandemic levels.

Excess savings may help cushion impact of higher utility bills and taxes.

7.3%

2021 GDP growth

4.5%

2022 GDP growth

4.1%

Unemployment

£162bn

Excess savings

Excess household savings

£162bn of pent up demand waiting to be released?

Sources: Macrobond, Investec

UK inflation



CPI inflation at 30-year high

Annual inflation of +5.4% in December a 30-year high and likely to go higher. Price pressures becoming more broad-based.



Second-hand car prices spike

Semi-conductor shortages caused car production to stall. So second-hand car prices spiked. Up 28.6% (yoy) in December.



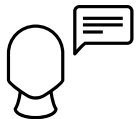
Food price pressure coming through

As a sign of broader inflationary pressures, food prices are starting to rise markedly. Food prices rose by 1.4% (mom) in December.



Utilities take centre-stage in 2022

Natural gas prices have rocketed. Investec analysis suggests 'mechanical' energy price cap rise of 49% in April. Govt to step in...

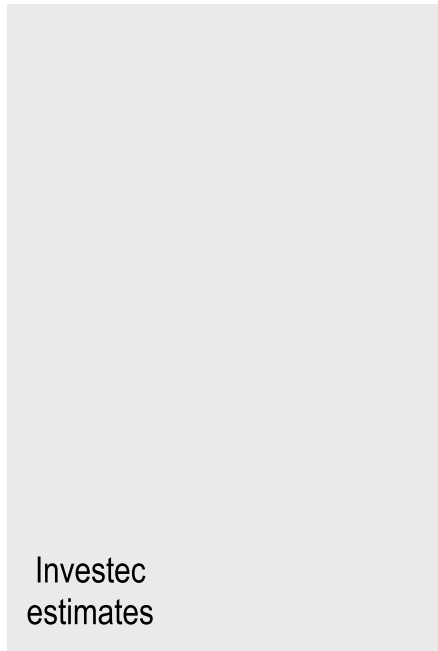


Feed through to wages

Key to the m-t outlook (& for the Bank of England) is whether rising cost of living leads to higher wage demands (and awards).

Utility prices and inflation

CPI inflation to jump with the energy price cap in April



Sources: Macrobond, Investec

Labour market – in a word, ‘tight’

4.1%

Unemployment

▲ +0.1%pt vs Feb 2020 ▲

Almost at pre-pandemic lows - resilient to furlough ending

32.5m

Employed

▼ -598k vs Feb 2020 ▼

But excluding self-employed, gain of 271k. Monthly HMRC payroll data very strong

21.3%

Inactivity rate

▲ +1.0%pt vs Feb 2020 ▲

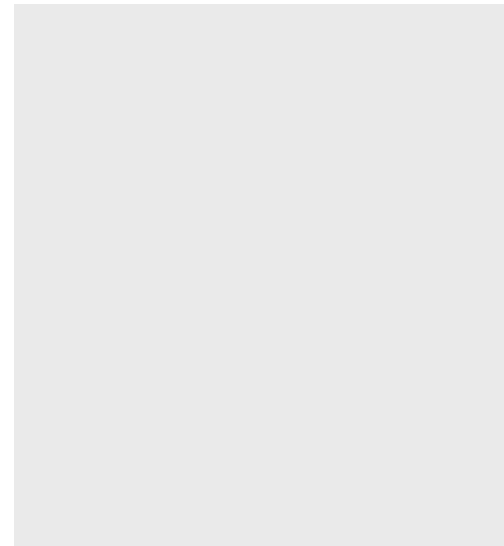
Participation (16-64s) fallen since pandemic – lost 410k workers: sickness, students...

Inactivity (and Brexit?) contributing to tightness.

Are wages beginning to shift up? Anecdotal evidence says yes, but the current ONS measure of earnings isn't great. Compensation looks to be the main threat to inflation over the medium-term.

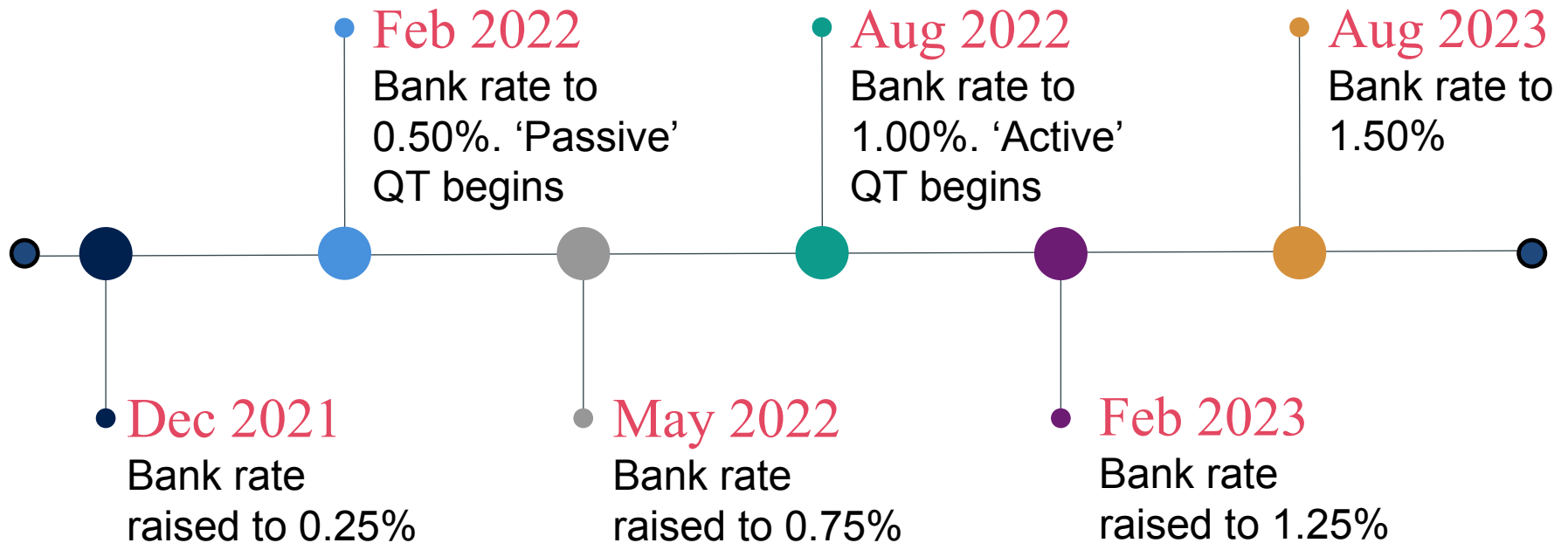
Bank rate projections

Swift tightening in the face of elevated inflation?



Sources: Macrobond, Investec

Monetary policy forecasts...



PM under investigation

MATT



*'I'm trying to organise an
airlift to get Boris out
of Westminster before
something awful happens'*

UK opinion polls (averages)

‘Partygate’ and cost of living put Tories under pressure

Sources: Macrobond, Britain Elects, Investec

UK politics

Boris under pressure

'Partygate', 'Wallpapergate' and cost of living headlines grim reading for PM. 2019 intake unhappy despite levelling up agenda.

What's the alternative?

If the PM does go, who replaces him? Sunak? Truss? A N Other?

Spring Statement

Employees' NICs hike to be scrapped? Help on utility bills? Other measures?

Other tensions

Brexit negotiations ongoing – NI protocol still a key issue. Indyref2 on backburner for now? NI Assembly elections.



US roundup

Build Back Better... back, better?

Biden's flagship \$1.8trn bill has not been passed due to moderate Democrat Senators. Restructuring? Voting rights bill struggling too. Midterm elections key.

Strong recovery to continue

We forecast GDP growth of 3.9% this year and 2.4% next. Production should strengthen as supply chain issues ease. Labour market strong, but participation rate low.

Fed: sooner and faster

Three 25bp hikes in 2022 and three more in 2023. Fed funds target range 1.50-1.75% end-2023.

Quantitative Tightening to begin this year too. Much sooner than 2017 QT round. More short-term redemptions too.



Fed Treasuries runoff schedule

Greater volume maturing at the short-end this time
n.b. excludes agency bonds (!!)

Sources: Macrobond, New York Federal Reserve, Investec

Global monetary policy

Central banks raise interest rates across the globe

Sources: Macrobond, Investec

Conclusions



Moving from pandemic to endemic?

Cases at record levels, but vaccinations and natural immunity helping. Healthcare systems better placed for future waves.



Robust recovery to continue

Derailing avoided and global supply disruptions fading should allow growth to continue above trend this year and next.



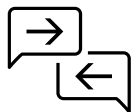
Inflation to rise higher, but fall over 2022

Supply chain pressures easing and tightening monetary policy should control inflation. Wages to add more pressure?



QE to QT, PDQ

Central banks begin raising interest rates and then reducing balance sheet size just months after finishing QE.



Political tensions everywhere

How long will Boris last? Can Biden pass agenda? Elections in Italy, France. New German govt. Ukraine/Russia a risk?

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Thank you

Philip Shaw
Chief Economist,
Investec

