

News in Review

15 June 2022



The war has set the global economy on a course of slower growth'

The release of the latest Economic Outlook from the Organisation for Economic Co-operation and Development (OECD) last week, highlighted that global GDP is now projected to slow this year to around 3%, remaining at a similar pace next year. This is a downgrade following estimates of 4.5% global growth this year, made last December. Outlining the situation, the OECD deduce 'The war has set the global economy on a course of slower growth and rising inflation - a situation not seen since the 1970s.'

Aptly entitled 'The Price of War,' the report outlines the far-reaching impact of the invasion in Ukraine and its role in triggering a global cost-of-living crisis. Before the war, the global economy was on track for a strong, although uneven, recovery from the pandemic. According to the report, inflation projections currently stand at almost 9% for OECD countries this year, double previous projections. The new projections from the international think tank detail the impact the war is having on inflation, which has already reached 40-year highs in the UK, US and Germany. In fact, data from the US last week pointed to surging levels of inflation, potentially paving the way for a series of aggressive interest rate hikes.

UK GDP is expected to grow by 3.6% this year, before stagnating in 2023. The OECD expect continuing high energy prices, labour and supply shortages to

push inflation to a peak of 10% towards the end of the year, reducing to around 4.7% in Q4 2023. In response to the OECD projection for the UK growth forecast, a spokesperson from HM Treasury responded, "While we can't insulate the UK from global pressures entirely, our economy is in a strong position to deal with these challenges. We have a plan for growth, and we are supporting people with the cost of living." It is expected that a tight labour market will support consistently low unemployment statistics.

Data from the Office for National Statistics (ONS) released this week showed that UK GDP shrank by 0.3% in April, the first month that all main sectors (manufacturing, construction and services) contributed negatively to GDP since January 2021. The decline was primarily triggered by the reduction of the NHS Test and Trace programme, which fell by 70% in April as tests ceased to be free.

Accelerating the energy transition

In the report, OECD Chief Economist and Deputy Secretary-General, Laurence Boone outlined his thoughts on the need for governments to 'shift gear' to speed up the energy transition, 'Limiting Russia's ability to finance the war, as is intended by an embargo on Russian oil exports, is essential for speeding up an end to this devastating conflict.' He continued, 'The emergency response to a possible energy crisis has turned out to be a stark scramble for alternative sources of fossil fuels and

to increase coal use. This can only be temporary as it is the opposite of what the world needs, which is a rapid increase in investment in, and consumption of, cleaner energy.'

Central banks - time to decide

The World Bank has cautioned that a period of high inflation and tepid growth is threatening to 'derail what is now a precarious recovery,' citing it would be 'hard' for many countries to avoid recession. The warning comes as the European Central Bank has signalled an end to its pandemic-era money-printing programme, paving the way for the first interest rate hike in eleven years. This week the Bank of England and the US Federal Reserve will conclude their latest monetary policy meetings. It's time to decide whether they too should lift interest rates even higher to tame inflation or resist as the economy slows.

UK housing market records 10.5% annual price growth

The Halifax House Price Index has shown that average house prices have risen 10.5% in the year to May, to a new record of £289,099. Although the eleventh consecutive month of increases, the pace of growth has started to moderate, from the 10.8% (in the year) recorded in April.

Here to help

Financial advice is key, so please do not hesitate to get in contact with any questions or concerns you may have.