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News in Review

8 December 2021

'The global recovery is strong but imbalanced'

Last week saw the Organisation for Economic Co-operation and Development (OECD) publish its latest appraisal of world economic prospects. In a relatively upbeat assessment, the Paris-based soothsayer predicted that global growth will hit 5.6% this year before moderating to 4.5% in 2022 and 3.2% in 2023. However, the OECD did warn of potential risks suggesting *'the global recovery is strong but imbalanced.'*

Perhaps unsurprisingly, a key area of concern relates to the Omicron COVID variant which OECD Chief Economist Laurence Boone said could pose *"a threat to the recovery, delaying a return to normality or something even worse."* However, while the forecasting agency did warn that the new variant threatens to intensify the imbalances that are slowing growth and raising inflationary pressures, it also advised monetary policymakers to be '*cautious*,' stating that the most pressing policy requirement was currently to accelerate the vaccine roll-out programme globally.

UK growth forecasts

In terms of the UK economy, the OECD increased its 2021 growth forecast to 6.9%, 0.2 percentage points higher than previously expected. This upgrade propelled the UK to the top of this year's G7 growth rankings, although looking further ahead the OECD did warn that *'a prolonged period of acute supply and labour shortages could slow down the recovery.'*

Similar themes also featured in Monday's updated forecasts released by the Confederation of British Industry (CBI) and accounting firm KPMG. The CBI said it now expects growth of 6.9% this year and 5.1% in 2022, downgrades from previous predictions of 8.2% and 6.1%, which largely reflect weaker-than-anticipated data released since its June forecast. KPMG issued a more pessimistic prediction; its 'best-case' scenario forecasts a growth rate of 4.2% next year, with any additional disruption due to the Omicron strain expected to dampen the recovery further.

Rate rise in the balance

The economic impact of the new virus strain is also inevitably featuring in Bank of England (BoE) policymakers' deliberations. In a speech on Friday, Michael Saunders, one of two Monetary Policy Committee (MPC) members to vote in favour of a rate hike last month, cast doubts on whether he will take a similar stance at next week's meeting. Mr Saunders said, *"At present, given the new Omicron COVID variant has only been detected quite recently, there could be particular advantages in waiting to see more evidence on its possible effects on public health outcomes and hence on the economy."*

On Monday, however, comments made by another MPC member highlighted the dilemma currently facing the Bank's policymakers. BoE Deputy Governor Ben Broadbent said inflation could *"comfortably exceed 5% when the Ofgem cap on retail energy prices is next adjusted in April"* and suggested the tight labour market risked becoming a more persistent source of inflation. Following both sets of comments, analysts suggested a December rate rise very much hangs in the balance.

No sign of labour squeeze easing

Data released last Friday found the shortage of workers that is hampering UK businesses shows no signs of abating. According to figures from the Recruitment & Employment Confederation (REC), the number of job adverts continued to grow rapidly last month, with a further 210,000 new adverts posted during the week of 22-28 November. This took the total number of active job postings to over 3.5 million, a 16% increase since the end of October. REC Chief Executive Neil Carberry commented, *"The growth in job adverts shows no signs of slowing as we reach the Christmas peak. Firms need to think about how they will attract staff facing greater competition than ever before."*

House prices continue to rise

Two house price indices were released in the last seven days, with both showing a continuation of the recent surge in prices. The Halifax index posted a fifth consecutive monthly rise, with prices in November 8.2% above year-earlier levels, which the mortgage lender said reflected a shortage of available properties, strong jobs market and low borrowing costs. Nationwide reported annual house price growth of 10% in November, although the building society described the outlook as '*uncertain*', with concerns expressed over the impact of the Omicron variant on the wider economy.

Here to help

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