



INVICTUS
Independent Financial Advice

Invictus IFA
Minster Gardens,
Nottingham,
NG16 2AT

T: 0115 88 00 244
M: 07793 323027
E: info@invictusifa.co.uk
www.invictusifa.co.uk

News in Review

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"What we need is a plan"



Last week's release by the Office for National Statistics (ONS) of its quarterly gross domestic product (GDP) estimate for July to September painted a picture of a shrinking UK economy.

GDP fell by 0.2% in the third quarter, slightly less than predicted by some City economists, but enough to push the UK a step closer to recession. The Bank of England has forecast a 'prolonged' downturn, potentially the longest on record.

The Q3 economy slowed in output terms, with the services, production and construction industries all stalling. Notably, production fell by 1.5%, with all 13 sub-sectors of the manufacturing sector negative for the quarter.

Meanwhile, real household expenditure fell by 0.5%. High inflation has caused many households to cut back on spending, which in turn creates a drag on the economy.

Chancellor Jeremy Hunt said, *"I am under no illusion that there is a tough road ahead – one which will require extremely difficult decisions to restore confidence and economic stability... What we need is a plan that shows how we are going to get through this difficult period."*

Autumn Statement – what's in store?

In response to these difficult economic conditions, the government is expected to announce around £35bn of spending cuts and £20bn of tax rises in the Autumn Statement, due to be delivered on Thursday.

Speaking last Sunday, Mr Hunt stressed that, *"I've been explicit that taxes are going*

to go up." Analysts predict that the extra tax revenue will be generated by freezing tax thresholds.

A decision on pensions is expected too. New Prime Minister Rishi Sunak has not yet confirmed whether the Triple Lock, which ensures the State Pension rises each year in line with the highest of either inflation, average earnings or 2.5%, will remain in place.

The NHS, schools and police could all be affected by spending cuts, with budgets allocated in 2021 expected to be frozen until 2025.

US midterms

Democrats have kept control of the Senate in a better-than-anticipated midterms performance for the ruling party. The Senate success is a significant moment for Joe Biden's presidency, which will put a spring in his step going into the second half of his term. The Republicans, meanwhile, are on the verge of securing the House of Representatives.

COP27 enters its final days

The UN's annual climate summit continued in Egypt, with more tough talking from politicians and stakeholders. Fresh from his election success, Mr Biden delivered a speech in which he said, *"The climate crisis is about human security, economic security, environmental security, national security and the very life of the planet."*

The key outcomes of the conference remain to be agreed, however, as the two-week event enters its final days. Perhaps most importantly, discussions are ongoing about watering down the target of limiting the average global temperature

rise to 1.5 degrees Celsius. This is the level, according to climate scientists, above which the worst consequences of climate change will be felt.

Employment data

The UK unemployment rate rose slightly to 3.6% in the three months to September, Office for National Statistics data revealed on Tuesday. The Bank of England has already warned that unemployment will nearly double by 2025 as the UK enters recession.

Wages rose by 5.7% in the year to September, the fastest rate (excluding the pandemic) in more than 20 years. Adjusted for rising prices, however, the picture looks less rosy, with real wages falling by 2.7%.

London stock market loses top spot

London has lost its crown as Europe's biggest stock market to Paris as economic growth concerns weigh on UK assets. Paris has taken the top spot after the combined market capitalisation of its major share exchanges overtook those in the UK capital. According to data from Bloomberg the combined value of British shares is now around \$2.821trn (£2.3trn), while France's are worth around \$2.823trn.

This marks a huge reversal of fortunes for the London Stock Exchange, which was worth about \$1.4trn more than its French rival back in 2016.

Here to help

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

***The value of investments can go down as well as up and you may not get back the full amount you invested.
The past is not a guide to future performance and past performance may not necessarily be repeated.
All details are correct at time of writing (16 November 2022)***