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News in Review

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"The UK economy is holding up but remains in a precarious state"



The most recent data from the Office for National Statistics (ONS) highlighted a modest 0.2% expansion in August, following a sharp 0.6% reduction in July. The monthly growth was in line with expectations from a Reuters poll of economists.

Contributors to the growth experienced in August included a 0.4% rise in services output, which offset a decline in manufacturing, and the adverse effect of the US TV and film writers' strike, which has impacted elements of the British film industry.

The return to growth has fuelled expectations that Bank Rate may be held unchanged at the next Monetary Policy Committee in early November. Jeremy Hunt said the data demonstrated that the UK economy *"is more resilient than expected."*

The bigger picture remains one of sluggish growth, with Head of Research at the British Chambers of Commerce David Bharier, commenting on the data, *"The UK economy is holding up but remains in a precarious state."* He continued, *"The production sector in particular has seen worrying data revisions showing stark monthly falls in growth."*

"We're above the Bank of England estimate"

During the annual World Bank and International Monetary Fund (IMF) conference in Marrakech last week, the IMF outlined its latest forecast, which showed the UK would be the slowest-growing Group of Seven (G7) nation in 2024. They predict the UK economy will grow by 0.5% this year, surpassing a

previous estimate of a 0.3% reduction. However, the IMF expects the UK will have the highest inflation and slowest growth next year of any G7 economy, lagging Japan, Canada, Italy, USA, France and Germany.

The Treasury felt the IMF's assessment was too pessimistic, saying that recent revisions to UK growth had not been factored into the IMF's report. Pierre Olivier Gourinchas, Chief Economist at the IMF responded, *"We're above the Bank of England estimate [for growth] for next year, so I don't think we are particularly pessimistic. I think we're trying to be honest interpreters of the data."*

'Navigating Global Divergences'

The IMF bi-annual outlook entitled *'Navigating Global Divergences'* retained its global growth forecast for 2023 at 3.0%, lowering to 2.9% for next year. These levels of growth come in under the historical (2000–19) annual average of 3.8%. As policy tightening measures weigh, the IMF expects advanced economies to slow to 1.5% this year and 1.4% next, while developing economies and emerging markets are expected to record growth of 4% this year and next.

The report highlights that although signs of economic resilience presented earlier in the year, efforts to reduce inflation continue to *'cool economic activity.'* Regional divergences to global growth prospects remain, as many areas struggle to return to pre-pandemic output levels.

"A new cloud"

Referring to the conflict in Israel and Gaza, Kristalina Georgieva IMF Managing Director said the organisation was keeping

a close eye on the fast-evolving situation. And although it's premature to fully quantify the impact of the conflict, it was *"a new cloud on not the sunniest horizon for the world economy."* She continued, *"We are experiencing severe shocks that are now becoming the new normal for a world that is weakened by weak growth and economic fragmentation."*

A crucial quarter for retail

As the *'Golden Quarter'* for retailers gets underway, data from the British Retail Consortium (BRC) has shown a slowdown in volumes during September (2.2% versus growth of 2.7% in August). Below the 12-month average of 4.2%, it seems that the warmer weather during September deterred shoppers from stocking up on new autumnal attire.

Pay overtakes inflation

Average pay growth has risen above inflation for the first time in almost two years, signalling a possible easing to the squeeze on living costs. According to official figures from ONS, wages rose by 7.8% between June and August, which is higher than average inflation over the same three months. There continues to be a gap between public and private sector pay – wage growth for public sector workers reached 6.8% between June and August, the biggest increase since comparable records began in 2001; whereas the average pay rise for private sector employees was 8%.

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 (18 October 2023)***