

NIESR Business Conditions Forum April 2022 Minutes

The National Institute of Economic and Social Research hosted the Business Conditions Forum (BCF) on Wednesday 13th April 2022. The aim of the BCF is to have informed and analytical discussions of data and surveys to better understand the current state of the UK economy. The discussions are under Chatham House Rules to encourage free and open discussion. NIESR is grateful to the ESRC and the Impact Accelerator Award (IAA) for funding the BCF.

Agenda

The discussion at this meeting focused around global inflationary pressures and the UK economy, with specific focus on the economic impact of the war in Ukraine, the UK labour market, and UK inflation.

Main Discussion Points

Economic Impact of the War in Ukraine

In our [Policy Paper](#), NIESR researchers used NiGEM to look at various different factors to try and capture the Economic Impact of the War in Ukraine. The conflict has led to higher energy prices, higher political risk for neighbouring countries, migration, exchange rate moves as well as effects on trade. The conclusions drawn were that GDP growth will slow, and inflation is likely to continue to rise as a result of higher energy prices and wages.

There was discussion on how the war has had immediate effects on supply chains, as well as how neither monetary policy nor fiscal policy is responding sufficiently to the shock which the conflict is having. It was also highlighted that despite the negative impacts the war is having on the economy, businesses are still seeing high consumer confidence and the real risk to the economy would be if we saw demand begin to stutter. It was also discussed whether it is likely that government spending on defence will increase.

Wages and the UK Labour Market

Average weekly earnings are currently growing at 5.4%. NIESR's [latest wage tracker](#) predicts that average weekly earnings will grow at 6.2% in the second quarter of 2022. The tracker also suggests that growth in private-sector regular pay will remain unchanged in the second quarter of 2022.

There was discussion that wage decisions take a while to change, and there would likely continue to be pay restraint in the public sector. The Public Sector Pay Remit was suggesting a headline increase of 2%, with a potential further increase of 1% if accompanied by efficiency savings.

Discussions around the public sector focused on there being a large number of pay freezes while those around the private sector focused on there being a lag between wages and inflation. However there is a trend of average weekly earnings going upwards. It was also raised that there is a change in consumer lifestyle which the labour market will have to contend with; there is a desire to no longer work full-time and in-person.

CPI Inflation and Monetary Policy Dilemmas

There was discussion around monthly inflation rates being around 1% for the past two months, as well as around inflation being unlikely to drop to below 7.5% by the end of the year. It was noted that there is a delay in the official price statistics, which were not keeping pace with intra-business changes.

It was raised that the Monetary Policy Committee have never faced the kinds of problems they are facing now, and if they wanted to bring inflation down, then interest rates would have to be raised, though this could potentially lead to a recession.

Final discussions were around how much people predicted interest rates would rise to, with the general consensus being between 1.5% and 2.25%.