

NIESR Business Conditions Forum – July 2022

'The Medium-Term Outlook for Activity and Inflation: Is Stagflation Back?'

The National Institute of Economic and Social Research hosted the Business Conditions Forum on Wednesday 6th July 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 for funding the BCF.

It was discussed that inflation is high and rising and policy makers have to balance reducing this against not pushing the economy into recession. The median wage settlement has risen but still lags inflation, and wage growth is currently being dwarfed by inflation.

Some feedback from participants suggested that groups of employers are planning to increase wages to compensate for rising inflation, while others suggested that rising wage settlements reflected tight labour markets rather than headline inflation. Workers overall do not have any expectations that wages will keep up with inflation.

A lot of attention was paid to the increase in inactivity, but a question was raised whether this was normal for economic downturns, or particularly high as a result of COVID; some attendees suggested that the rise of inactivity may not be any greater than in at least some previous recessions.

House price inflation has increased because of remote working, the stamp duty holiday and increased household savings in the pandemic, though this varies between areas and types of dwelling. It was also pointed out that more mortgages are taken out at fixed rates, but it is not clear how long these fixed rate mortgage products are locked in for. However, rates are only rising gradually therefore the threat of unaffordable repayments is low; providers are mandated by the FPC to do an affordability check on loans, which test whether the borrower can still afford their loan if rates rose by 3 per cent. There has been a large increase in double-income households. Separately, one measure of the probability of a deep recession is now 45 per cent, a dramatic rise from three months earlier, but NIESR research suggested that this was unlikely to lead to a house price crash imminently.

The cost-of-living crisis was discussed, with specific reference to NIESR's Spring Outlook regarding the hardest hit households seeing food and energy bills greater than their disposable income.