NIESR Business Conditions Forum

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.

On Thursday 19th February, NIESR hosted the BCF. The themes which were discussed were largely around Wages, GDP, Regional Outlooks and the Housing Market.

For GDP and wages, it was discussed that though there would likely be downward revisions for the GDP forecast, there would be overall growth for 2023. The disparity between public and private sector wages is declining, and median pay settlements had increased by 1 per cent from April to December in 2022. It was discussed that Real Total Pay has fallen by 2.6 per cent, yet as a result of this households are not tightening spending as much as initially expected.

On the manufacturing side of things, Quarter 4 of 2022 showed that order books were still strong and manufacturers were making use of fixed tariffs for now. Over December, retail distribution surveys showed higher spending, however this could be due to having the first Christmas without Covid restrictions and also for hospitality, the World Cup also likely increased consumer spending. It was suggested that the squeeze on real incomes will see household spending fall over 2023.

Banking and lending figures are showing that on the consumer side, credit card transactions are up by 10 per cent, and debit card transactions are up by 6 to 8 per cent. This however is not necessarily indicative of the need to borrow money, as interest charges are not reflecting this – arrears do not seem to be increasing. Saving reserves currently remain high for businesses and most consumers do currently have some head room to ride out short term changes. For the former it seems that investment will remain low. Whilst there has been applications for loans, businesses are then ‘sitting’ on the loans.

When looking at the regional outlook, there are mounting mortgage repayments, and going into debt with energy providers seem to be the only levers left to allow low-income households to survive the real income squeeze. Businesses have viewed the universal support schemes to cope with these economic pressures as largely unhelpful.

There was talk of how the definition of ‘recession’ can be problematic, as currently employment and wages remain high, and a strong Quarter 4 for a year will always make for contractions within Quarter 1 in the following year. It seems that mortgage rates will add pressure to wages, and whilst the inflation in wages might be growing rapidly, it is still not enough to mount up against the mortgage pressures.