APPENDIX H2

SUMMARISED COMMENTARY FROM TREASURY ADVISORS (LINK)

Economics update

- The third quarter of 2022/23 saw:
- A 0.5% rise in GDP in October; however signs of economic activity losing momentum as households faced cost of living increases;
- CPI inflation fall to 10.5% in December after peaking at 11.1% in October;
- A small loosening in the labour market which pushed the unemployment rate up to 3.7% in November;
- Interest rates rising to 3.50% in December;
- Reduced volatility in UK financial markets.
- Crucially, wage growth remained resilient but is likely to slow gradually in the coming months as the labour market loosens further but if extensive strike action is successful in achieving large pay increases, then wage growth could be a bit stronger for longer.
- The Chancellor's Autumn Statement on 17th November stabilised financial markets. The largest fiscal support was the extension of the Energy Price Guarantee for another 12 months, until April 2024, although at a higher price cap of £3,000 from April 2023 rather than £2,500.
- Nevertheless, there is a great deal of uncertainty as to which direction markets will move in 2023 and at what pace. Continued volatility is anticipated.
- A multitude of strikes across several public services and the continued cost-of-living squeeze is going to make for a difficult backdrop to maintain fiscal rectitude without pushing the economy into anything worse than a mild recession.
- What happens in Ukraine will also impact the global economy, but particularly in Europe. The search for alternative providers of energy, other than Russia, will take both time and effort. The weather will also play a large part in how high energy prices stay and for how long.

MPC meeting 1st February 2023

- On 1st February, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 50 basis points to 4.00%.This followed a 0.50% increase in December 2022.

Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast, made on 6th February, sets out a view that both short and long-dated interest rates will be elevated for some time, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is also providing a limited package of fiscal loosening to try and protect households and businesses from wholesale gas and electricity prices.

Interest Rate Forecasts								
Bank Rate	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Link	4.25%	4.50%	4.50%	4.50%	4.00%	3.75%	3.50%	3.25%
Cap Econ	4.25%	4.50%	4.50%	4.50%	4.25%	4.00%	3.50%	3.00%
5Y PWLB RATE								
Link	4.20%	4.20%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%
Cap Econ	3.75%	3.65%	3.60%	3.50%	3.45%	3.35%	3.30%	3.25%
10Y PWLB RATE								
Link	4.40%	4.40%	4.30%	4.10%	4.00%	3.90%	3.80%	3.60%
Cap Econ	3.80%	3.70%	3.65%	3.55%	3.50%	3.40%	3.35%	3.30%
25Y PWLB RATE								
Link	4.60%	4.60%	4.50%	4.40%	4.20%	4.10%	4.00%	3.90%
Cap Econ	4.13%	4.00%	3.93%	3.80%	3.75%	3.65%	3.60%	3.55%
50Y PWLB RATE								
Link	4.30%	4.30%	4.20%	4.10%	3.90%	3.80%	3.70%	3.60%
Cap Econ	3.80%	3.80%	3.80%	3.80%	3.75%	3.65%	3.60%	3.55%

Summary overview of the future path of bank rate

- Our central forecast for interest rates was most recently updated on 6th February and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened but the Government's policy of emphasising fiscal rectitude will probably mean Bank Rate will not need to increase to further than 4.5%.

- Further down the road, we anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but that timing will be one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

- The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.5%). Despite the cost-of-living squeeze that is still taking shape, the Bank will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but the on-going conflict between Russia and Ukraine. (More recently, the heightened tensions between China / US also have the potential to have a wider and negative economic impact.)

- On the positive side, consumers are still estimated to be holding over £160bn of excess savings left over from the pandemic so that will cushion some of the impact of the above challenges. However, many families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is to the downside.

Risks include: -

- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity

- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly and for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project or even necessitates a further series of increases in Bank Rate.

- **The Bank of England acts too quickly**, or too far, over the next year to raise Bank Rate and causes UK economic growth to be weaker than we currently anticipate.

- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out remaining issues.

- **Geopolitical risks,** for example in Ukraine/Russia, China/US, and Middle Eastern countries.

- **The pound weakens** because of a lack of confidence in the UK fiscal policies