

## Our 3 calls for the UK

A recession looks virtually inevitable in the UK but the jobs market could prove more resilient than in past downturns. Inflation should begin to fall more noticeably from the spring



British Prime Minister, Rishi Sunak, pictured with his wife Akshata Murty, will be hoping for less political turbulence this year

### 1 A recession looks virtually inevitable

We now expect a cumulative hit to GDP of 1.7%, with a trough next summer. Both hospitality and retail are being impacted as consumers rein in spending, and less generous energy support next year points to further weakness in these areas.

History also offers clues; in the 1990s and 2008 recessions, construction and (in the latter case) manufacturing took a fair share of the hit, and there are some parallels this time. A weaker housing market and high interest rates pose an issue for the former sector, while falling new orders, high inventory and elevated energy costs are a constraint on the latter.

Still, our forecasts are a tad more optimistic than the Office for Budget Responsibility and the Bank of England's, which can be partly explained by our expectation that monetary policy will be less tight than markets expect (Bank Rate peaks at 4%).

### 2 Jobs market to stay more resilient than in past recessions

With a recession looming, it's hard to see how the jobs market can stay this tight. An

unemployment rate of 3.5% looks like a trough. Equally, worker shortages are proving much more persistent than expected and so far there are few signs of overt weakness other than a modest reduction in vacancy numbers.

Those shortages are partly linked to higher rates of long-term sickness, which has drawn workers out of predominantly lower-paid consumer service roles. The UK is unique in seeing rates of inactive workers increase – most countries have seen a resumed downtrend post-Covid. This is partly linked to healthcare delays – and waiting lists are expected to continue growing – so we expect this trend to continue. Reduced numbers of EU workers in the UK labour market have also amplified shortages, albeit non-EU employment has increased dramatically.

So while we expect the unemployment rate to drift higher – we suspect towards the 4.5% area next year – there is a stronger incentive than usual for firms to "hoard" labour.

### 3 Inflation unlikely to get back to target in 2023

It looks like 11.1% in October marked the UK's inflation peak, though we're unlikely to see the headline rate drop out of double digits until the spring. There are compelling reasons to expect inflation to fall thereafter, especially for durable goods, where Covid-19 price pressures are cooling rapidly on lower commodity and shipping prices, weaker consumer demand and rising inventory. But with wage growth likely to prove a little stickier in the face of ongoing skill shortages, services inflation is expected to slow more gradually. We think inflation will end the year around 4% before heading more-or-less back to target in 2024.

#### Author

##### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

#### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.