



# ***Winter is coming: An economic perspective from ICAEW***

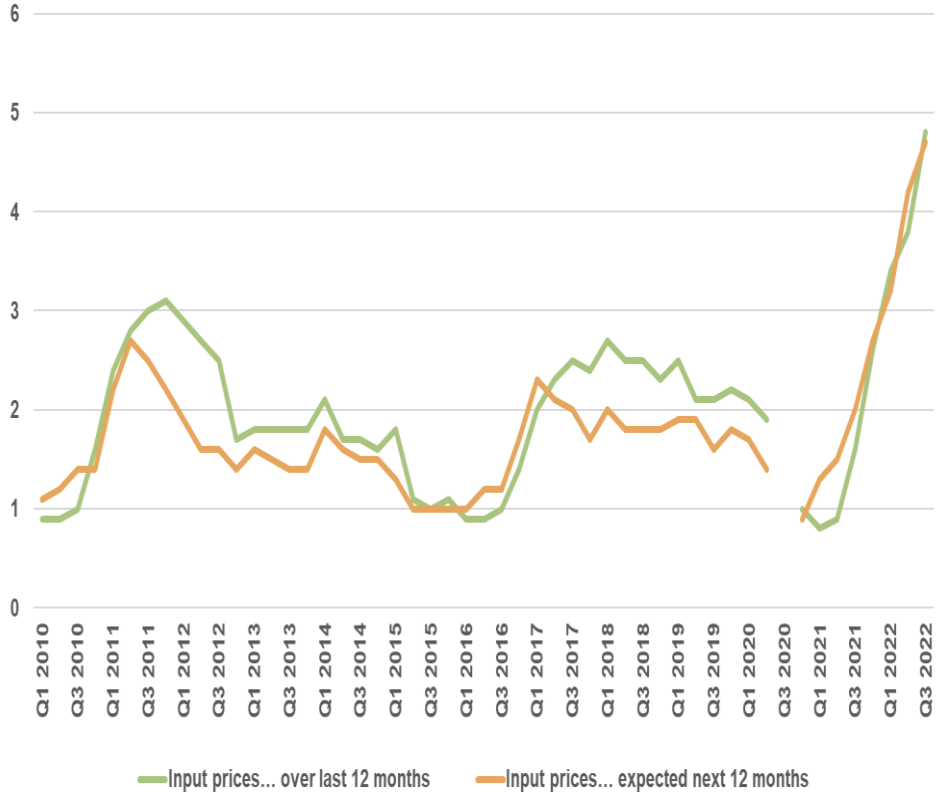
27 OCTOBER 2022

SUREN THIRU

ECONOMICS DIRECTOR, ICAEW

# Eye-watering inflation returns...

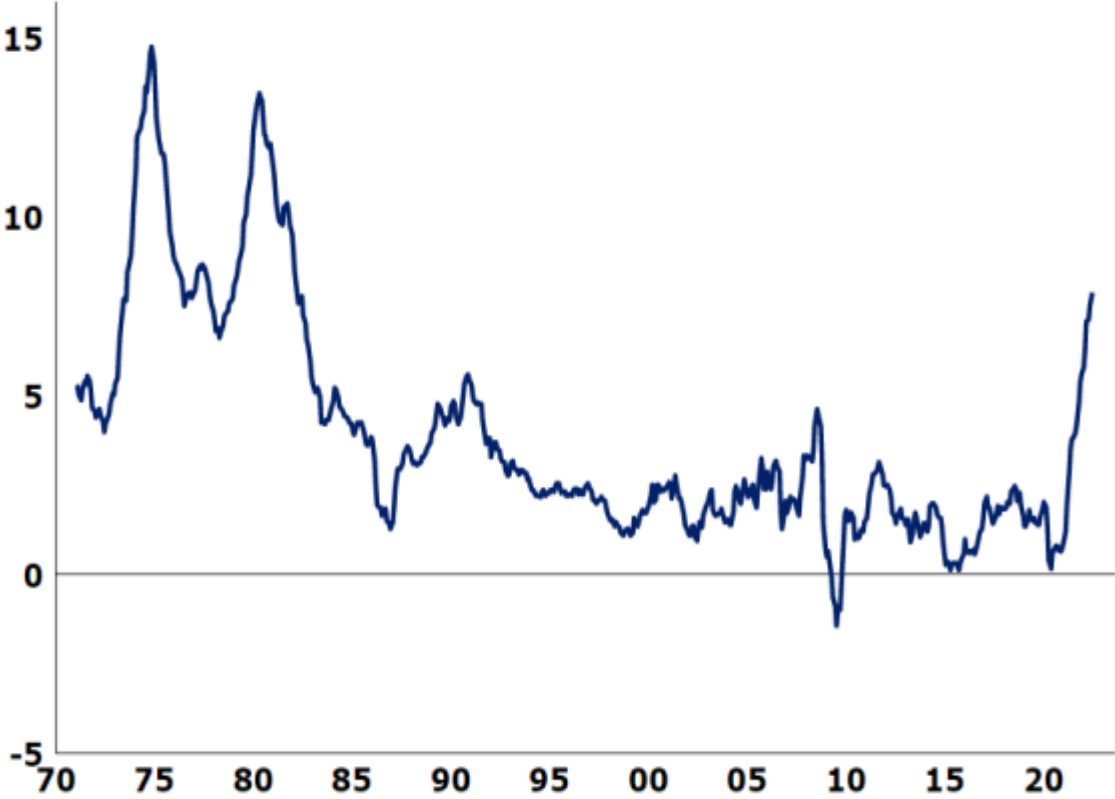
*Input prices, annual percentage change  
Over the last 12 months and for the next 12 months*



Source: ICAEW BCM

# G7 inflation rate

Group of Seven major industrialised nations, % change over 12 months

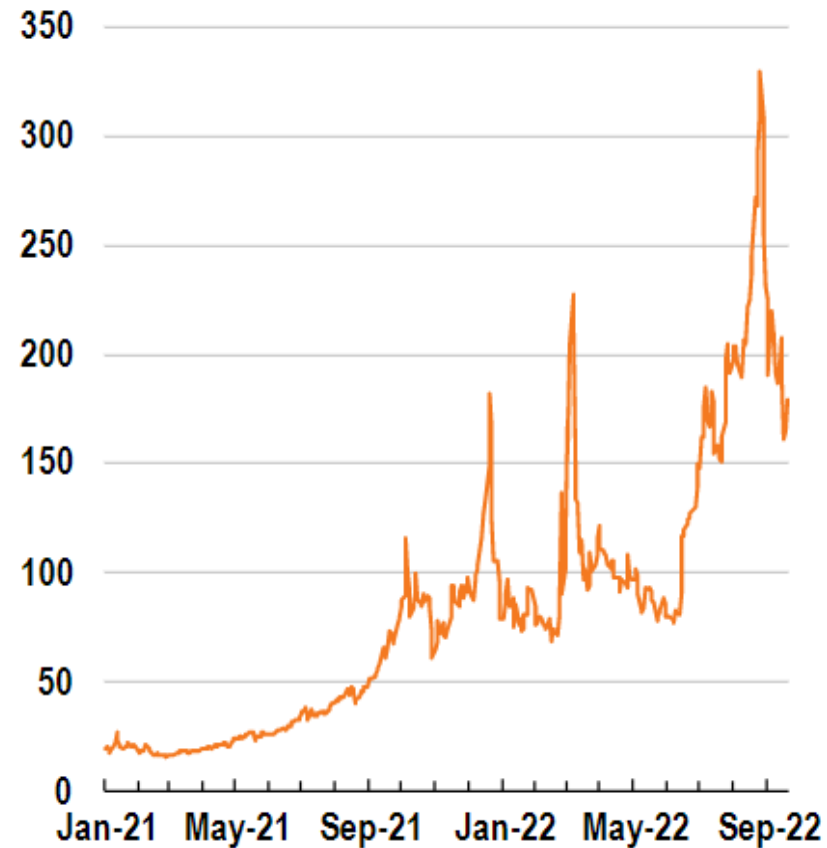


Source: Refinitiv Datastream

...mainly driven by soaring energy prices...

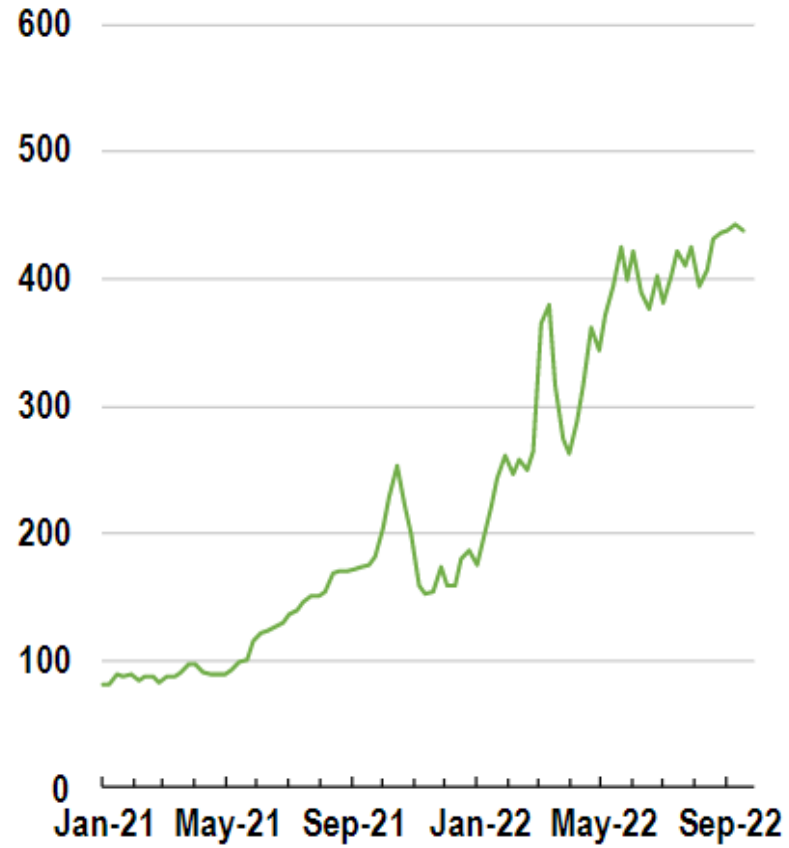
### Gas

*Dutch TTF, EUR/MWh*



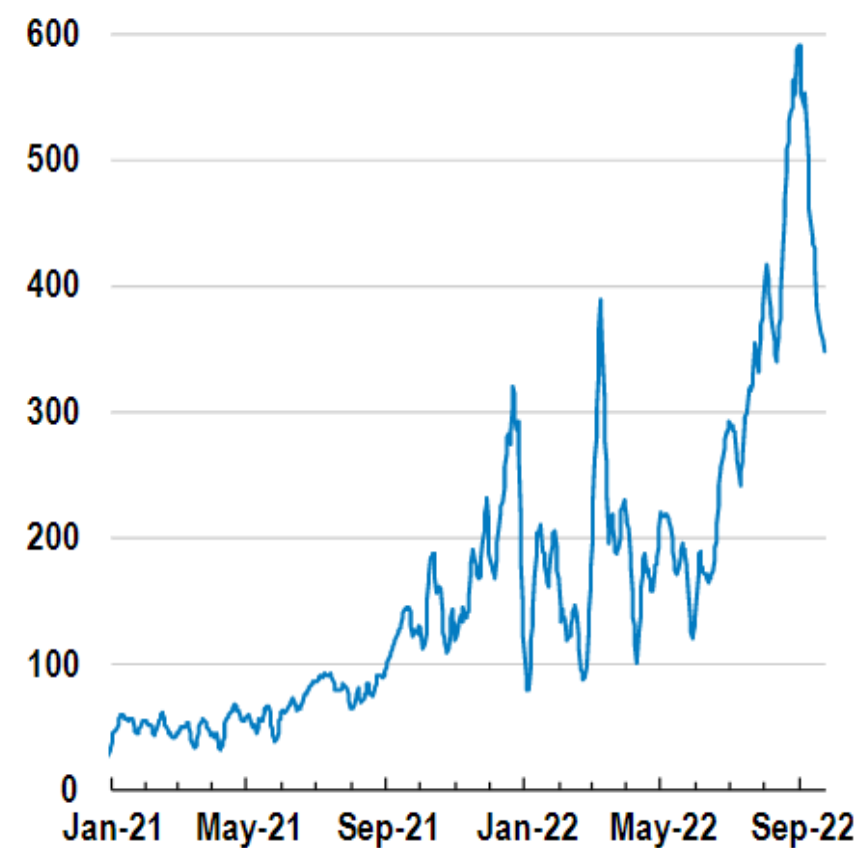
### Coal

*Newcastle (FOB), USD/Mt*



### Electricity

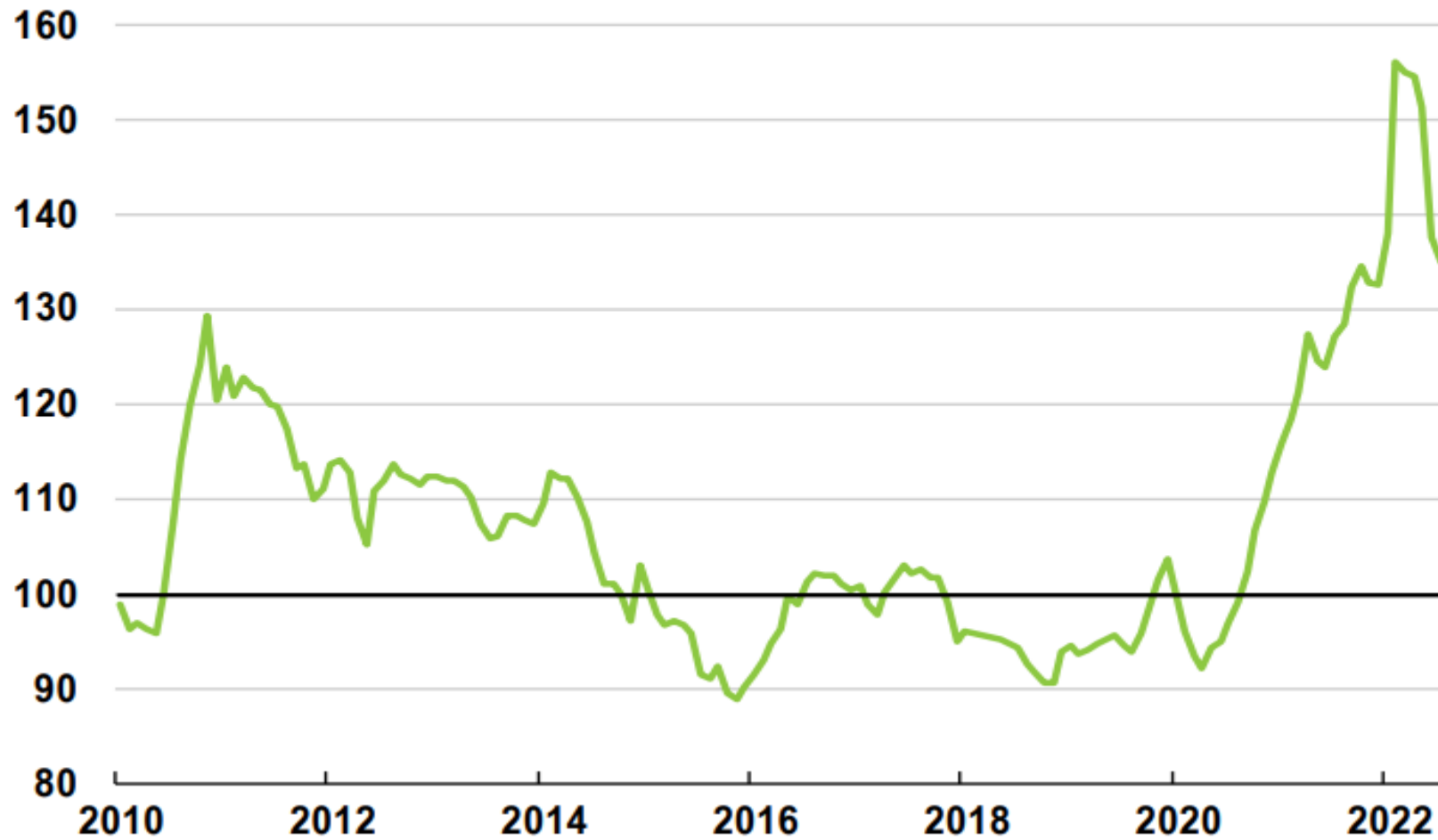
*Germany, EUR/MWh*



...and rising food prices...

## Food price index

100 = 2014-2016 average



# .... labour markets shrinking post-covid...

## Unemployment rates

%

◆ 2022Q2

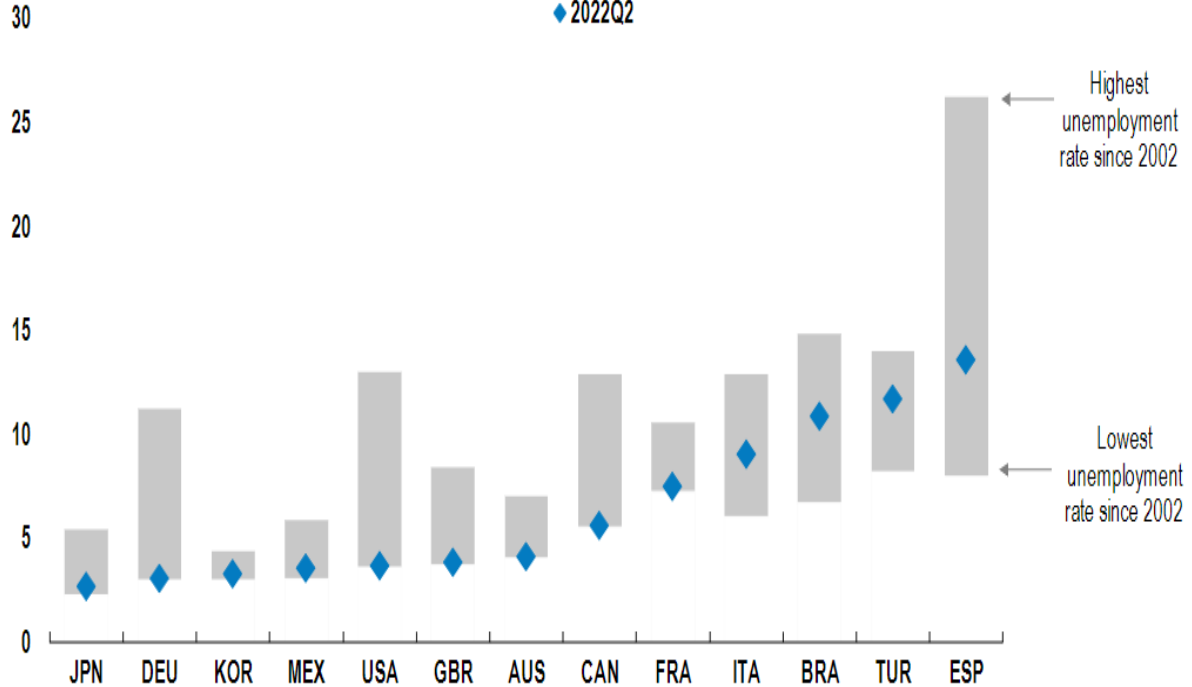
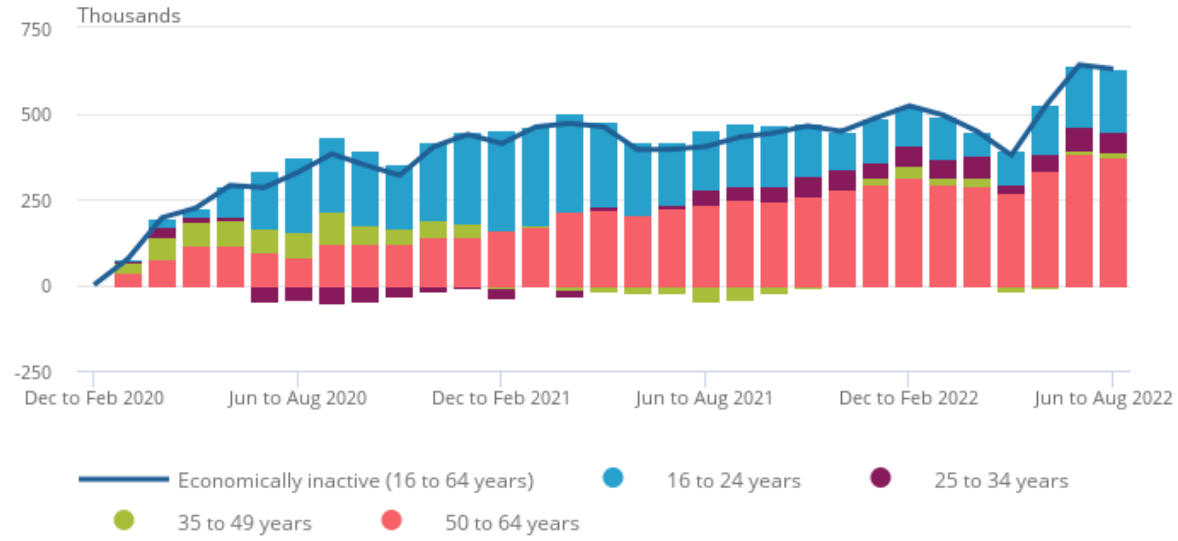


Figure 7: The increase in economic inactivity during the latest three-month period was driven by those aged 50 to 64 years and those aged 16 to 24 years

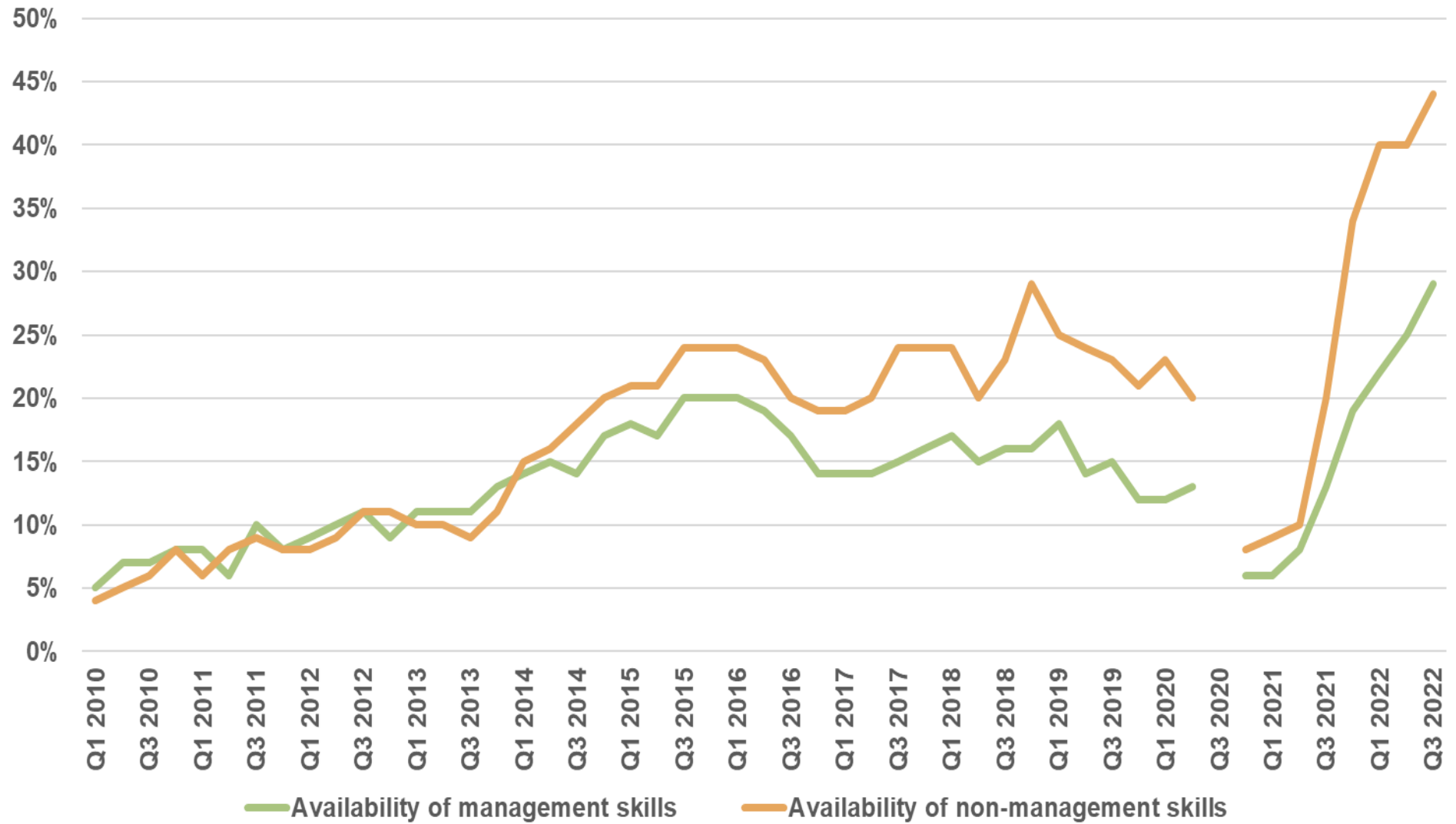
UK economic inactivity by age, people aged 16 to 64 years, seasonally adjusted, cumulative change from December 2019 to February 2020, for each period up to June to August 2022



Source: Office for National Statistics – Labour Force Survey

# ... as challenges surrounding skill availability at record highs.

Has factor become a greater or lesser challenge to your organisation's performance? % Greater:

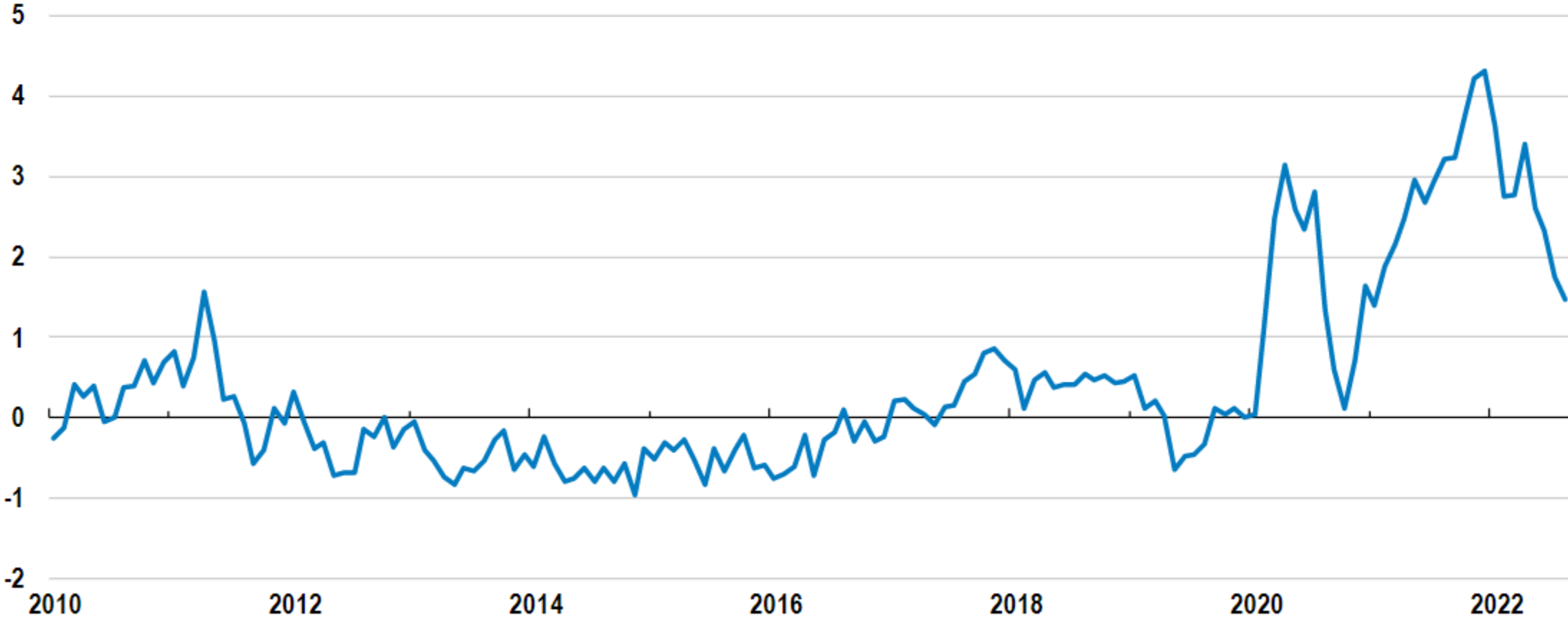


\* = data unavailable for Q3 2020

# Encouragingly, supply chains pressures have eased...

## NY Fed Global Supply Chain Pressure Index

*Standard deviations from average value*



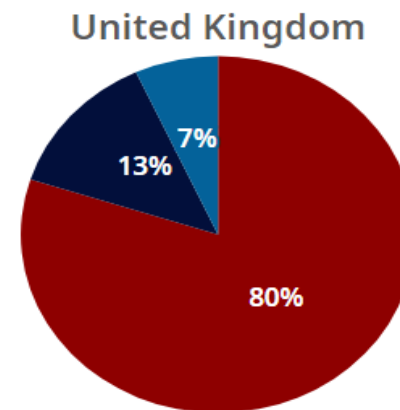
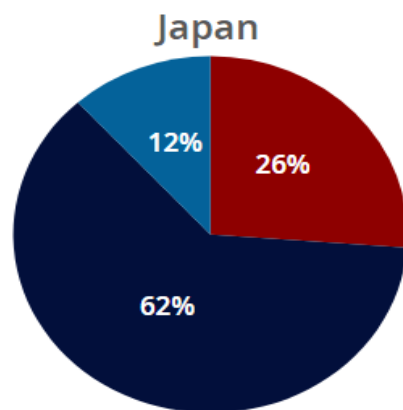
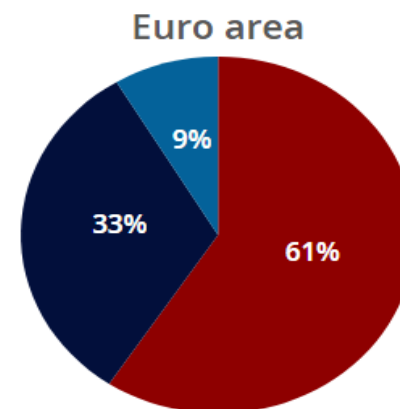
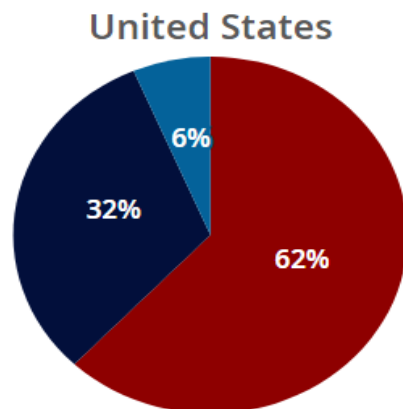
Source: Federal Reserve Bank of New York

...but inflation has become more broad based...

## Inflation levels of consumer goods and services

% of consumer basket items

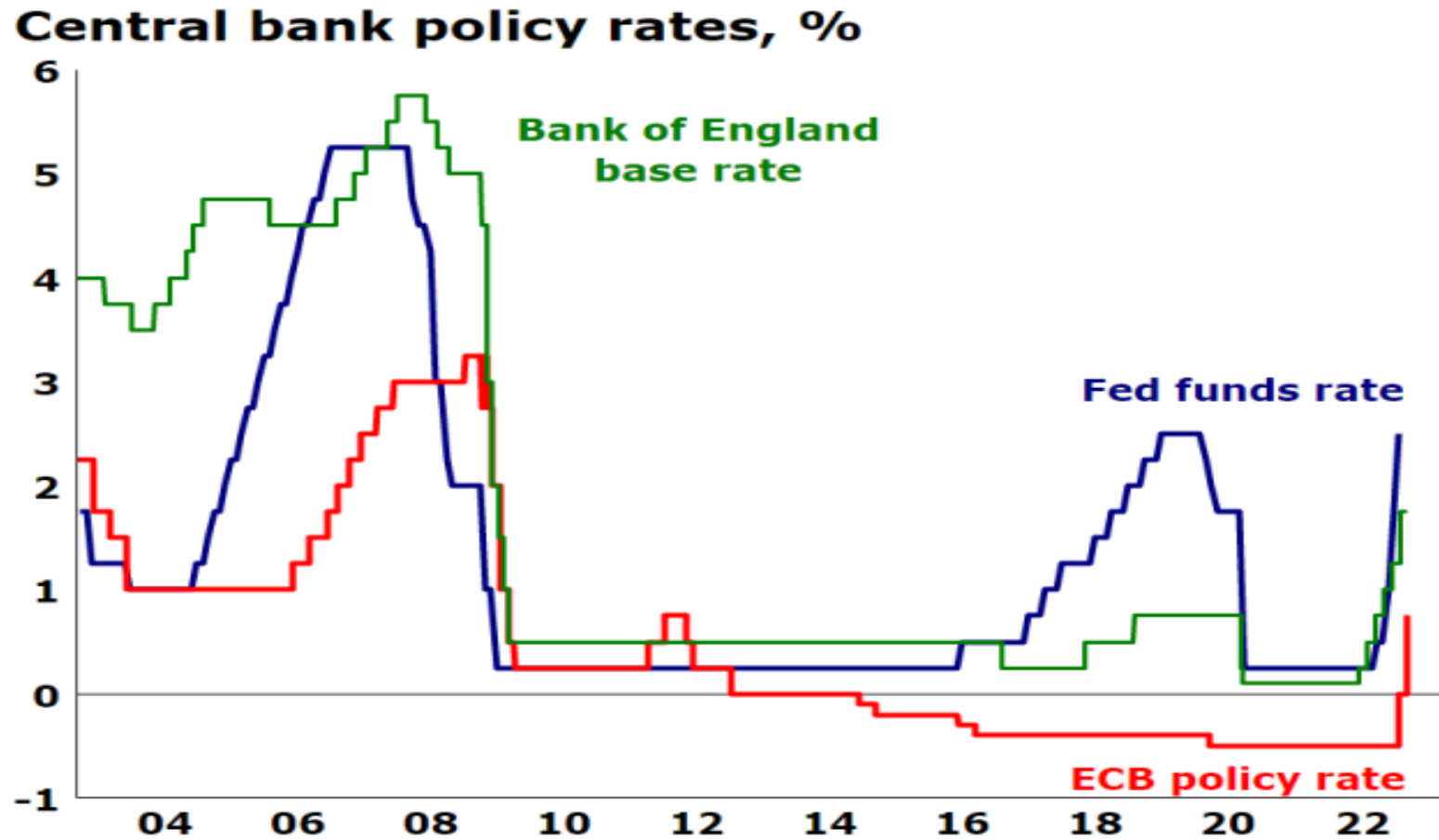
Inflation: ■ < 0% ■ 0% - 4% ■ > 4%



Data refers to July 2022 for United States and August 2022 otherwise.  
Source: [OECD Economic Outlook, Interim Report September 2022](#)



...pushing central banks into sharply raising interest rates...

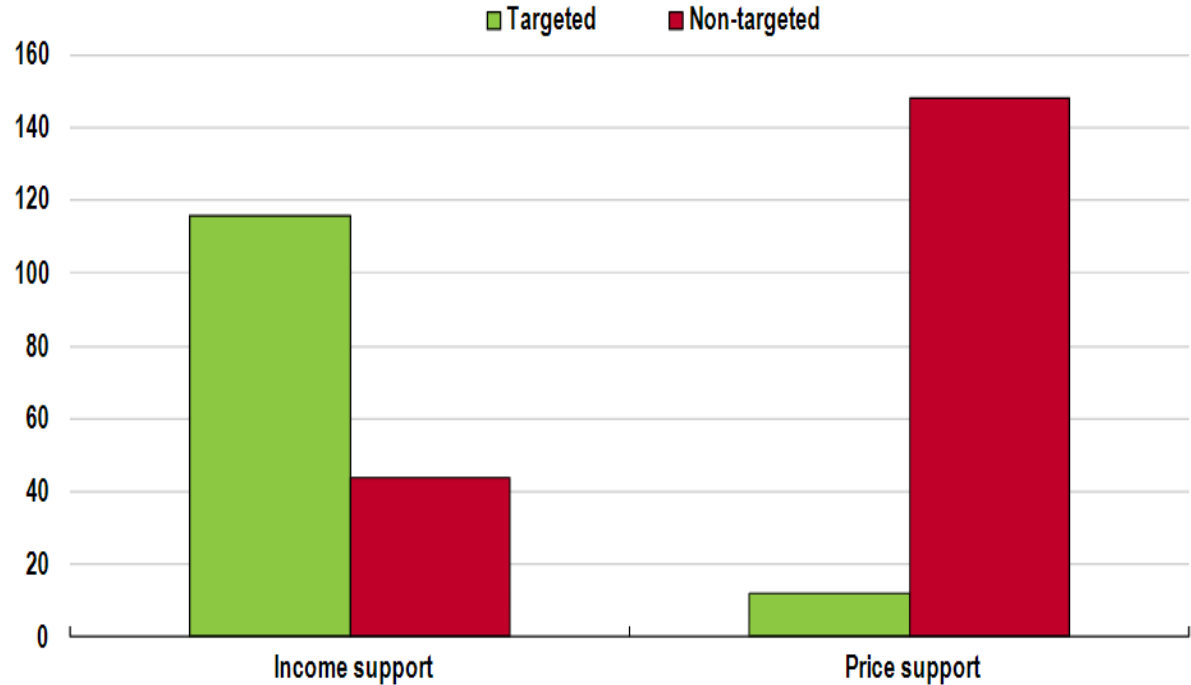


# ...and governments offer fiscal support, but at some cost...

## Policies adopted in response to recent energy price increases

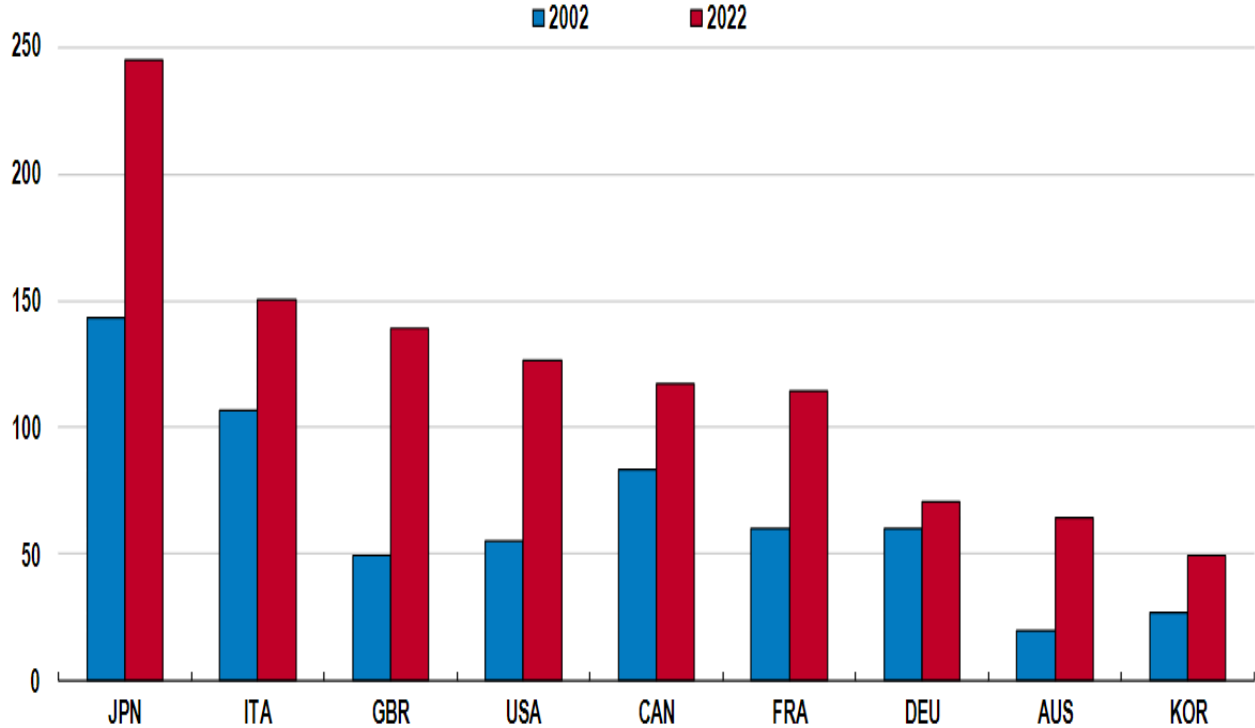
Oct 2021 – Dec 2022

USD billions



## Public debt levels

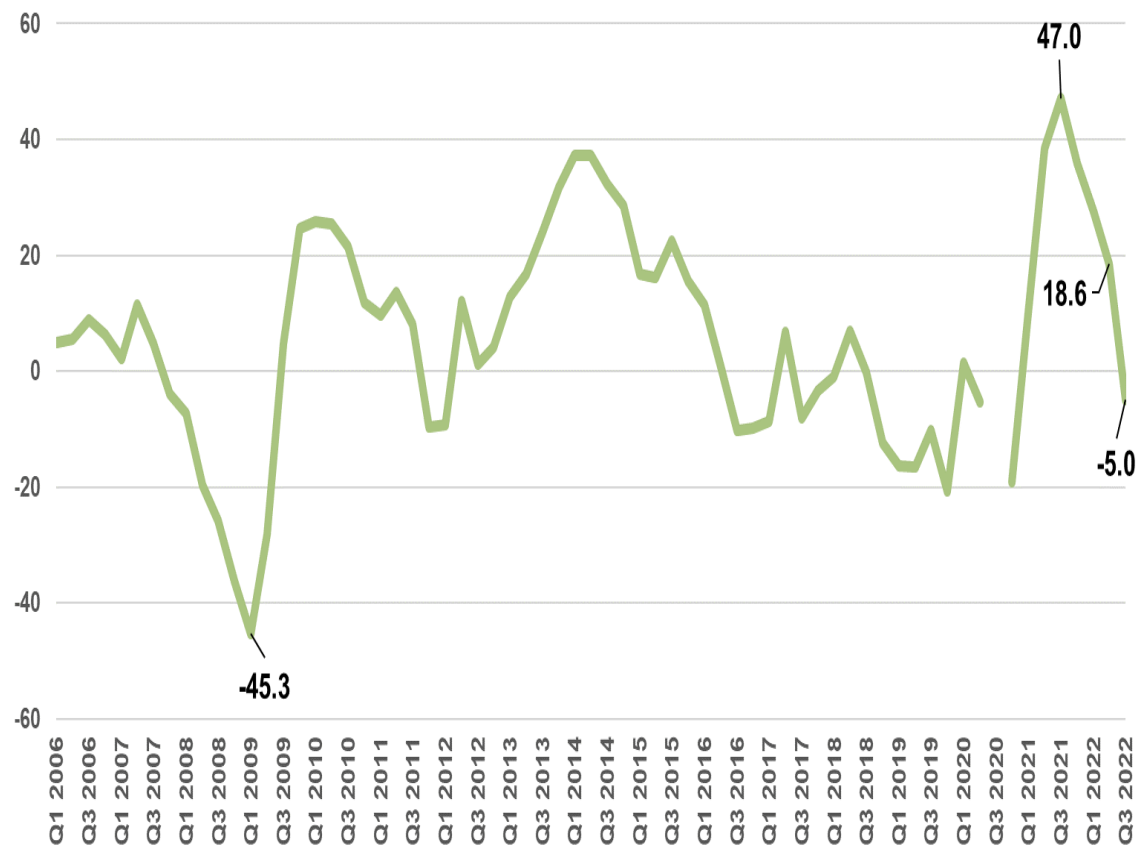
% of GDP



Source: OECD Outlook database

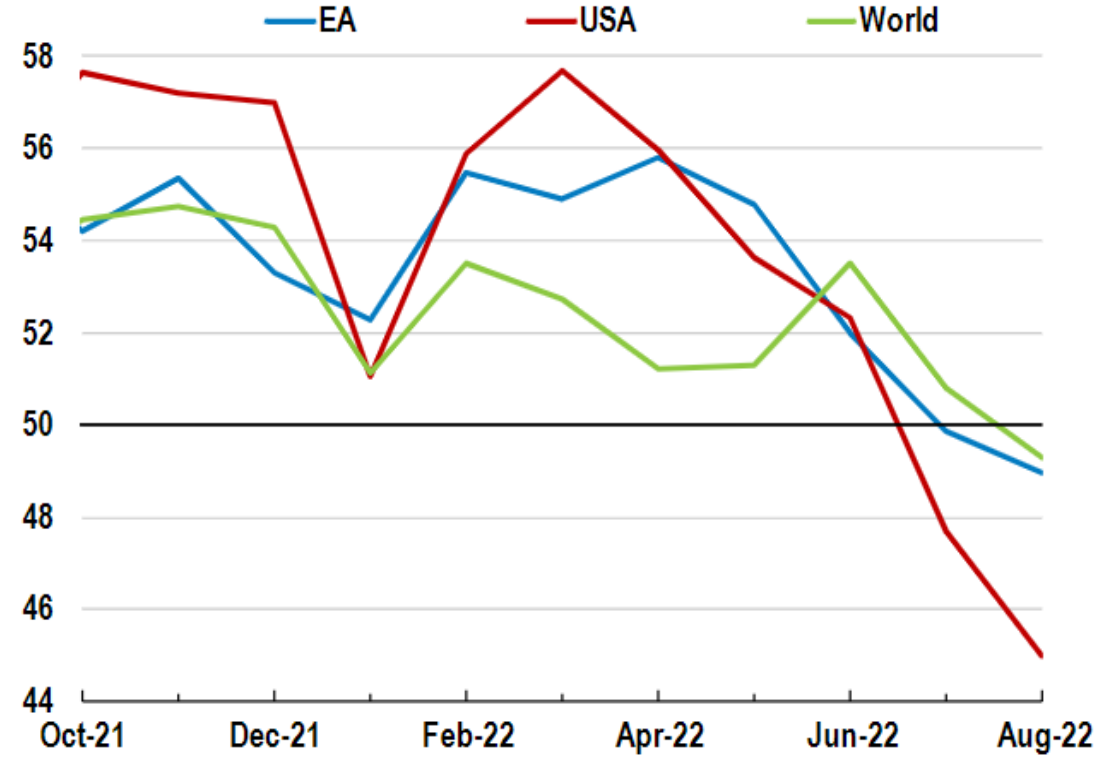
# ...as indicators point to recession...

**ICAEW Business Confidence Index**



**Composite output PMI**

Values below 50 suggest decreasing activity



Sources: ICAEW, OECD Outlook database

# Lessons from previous recessions suggest a challenging period ahead.

UK recessions since 1970 to 2020: key features

2022 column shows actual change in oil & rates to date & Deloitte forecasts for depth and duration of expected contraction in GDP

Indicator	Unit	1973 -1975	1979 - 1981	1990 - 1992	2008 - 2009	2020 - 2020	2022
<b>Recession driver</b>		<b>Inflation</b>	<b>Inflation</b>	<b>Inflation</b>	<b>Finance</b>	<b>Pandemic</b>	<b>Inflation</b>
Brent crude	<i>change 12 months prior to recession</i>	+328%	+202%	+133%	+113%	+13%	+40%
Base rate	<i>change: trough to peak</i>	+800bp	+1200bp	+750bp	+130bp	+50bp	+420bp
Recession duration	<i>quarters</i>	9	7	8	5	2	3
GDP	<i>recession contraction</i>	-5.4%	-5.3%	-2.1%	-5.9%	-21.5%	-1.6%
CPI	<i>change during recession</i>	47.6%	17.3%	13.0%	4.2%	0.0%	7%
Unemployment rate	<i>change trough to peak</i>	+2.4pp	+6.9pp	+4.7pp	+2.6pp	+3.6pp	+1.6pp
Household consumption	<i>Peak to trough contraction</i>	-2.6%	-4.2%	-1.2%	-5.4%	-20.1%	-0.9%

# *Summary*



1. **Warning lights of global recession flashing red** on most economic indicators in the UK, Europe and US.
2. **Downturns likely to be less severe than GFC**, more like the 1990-92 downturn if Inflation eases in 2023.
3. **Risks skewed to the downside** - further energy disruptions could hit growth and raise inflation.
4. **Central Banks likely to continue to tighten monetary policy** despite looming recession, as they try to fight inflation.
5. **Universal energy support packages are a double-edged sword for inflation.** While it cuts the peak through keeping energy bills down, it risks keeping inflation higher for longer by stoking consumer demand through universally increasing household incomes.



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