ECONOMIC BRIEFING FOR MANAGERS

Inflation July 2022

Price increases for households and businesses remain at their highest level since February 1982 and the highest in the G7 at 9.4% in the 12 months to June 2022.

Inflation has been driven by climbing food and energy prices, and an 8.8% surge in petrol prices between May and June 2022. Inflation is expected to remain high but stabilise over the coming months, reaching double-digit highs in the Autumn, as a 42% increase in Ofgem's recently revealed energy price cap kicks in, thereafter declining absent new external shocks. In the near-term energy prices coupled with increases in the bank rate will dent household incomes further. Household incomes are expected to drop by the largest amount in six decades- the cost of engines and energy are set to contract consumer spending.

Unemployment remains at a near 50-year low. Households and businesses now expect inflation to persist, potentially encouraging increased pay claims which is likely to result in further public sector action. Companies may be left with no choice but to compensate staff with higher pay or risk losing key talent. However, as business momentum slows, pay bands can only be stretched so far before they break. Slowing business activity will likely soften hiring, reducing consumer spending in the process.

The UK's soaring inflation and anaemic growth rates indicate that stagflation may be approaching. If left unaddressed, the economic outlook looks grim.The economy has little momentum, and although the government has responded to the cost of living crisis, households will still continue to face a squeeze in their finances.

The Bank of England will factor in its peers' more aggressive movements to get inflation back to target, but must bear in mind abrupt movements could hurt growth. However, remedies for weakening inflationary forces and declining growth, caused by the costs of changes in well-known supply chains, changes in the labour market, declining real wages, Russia's invasion of Ukraine and new expectations may require more than a temporary fiscal and monetary response. Supply-side policies to strengthen the UK's productive capacity will be required.

Government must invest to support education and training of employees, including managers, to navigate through these uncertain and unprecedented times. Policymakers and employers must also consider incentives for older workers to return whilst ensuring a route for life-long learning to attract and retain a relevant workforce.