QuantMetriks

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The Reevecession?

“The Retched Reeves Recession” – Under the economically ‘wrong’ circumstances, that surely must become the alliterative headline of choice. Yet can we be certain it will ever be printed?

With the caveat never say never, I can’t see it. To my mind, this Chancellor will have to work much harder to tip the UK into a REAL recession.

Don’t get me wrong, her dire pronouncements on occupying No.11, and inaugural Budget, were such that one might suspect Reeves had a flutter on ‘25 being a year in which the UK recorded a TECHNICAL recession. For given the anachronism in UK GDP measurement, two slight, sequential Q-on-Q declines anytime soon, shouldn’t surprise. Then again neither would subsequent upwards revisions to one or both negative Qs. Of course, by the time the phantom recession had been airbrushed away, the airwaves would have been filled with the initial misdiagnosis, and little attention given to its annulment.

So yes, a technical UK recession might soon be mis-recorded and put down (*sic*) squarely, to Rach the Ruinous Reeves.

To repeat, please do not consider my expression of confidence in the UK economy anything close to endorsing a Chancellor whose performance thus far, has been nothing short of dire. And YET, I will say it again, not poor ENOUGH (to date) to trip the UK into a REAL RECESSION.

Table 1: Forecasts for a new normal monetary future - higher YES, alarmingly so, NO

Metric	Q4 '98 - Q4 '07 average (%)	Q4 '08 - Q1 '22 average (%)	Now	'25 - '29 forecasts (%)
UK Base rate	4.9	0.5	4.75	3.50 - 4.50
US Fed rate	3.6	0.6	4.75	5.00 - 6.00
UK Real Interest rate	3.3	-1.7	2.70	0.00 - 2.50
US Real Interest rate	1.0	-1.3	2.15	0.00 - 2.75
5 Year Gilt yield	4.9	1.2	4.31	3.00 - 3.50
10 Year Gilt yield	4.8	1.9	4.44	3.25 - 3.75
5 Year Treasury yield	4.4	1.5	4.28	5.00 - 6.00
10 Year Treasury yield	4.8	2.3	4.42	5.50 - 6.50
UK 5 yr fixed rate mortgage*	5.7	3.2	4.89	4.00 - 4.50
UK House prices, yoy	12.9	3.0	2.84	2.00 - 5.50
UK CPI	1.6	2.3	2.30	3.00 - 4.25
UK Goods CPI**	-0.1	1.7	-0.30	2.00 - 4.00
UK Services CPI**	3.7	2.9	5.00	4.00 - 5.50
UK Rent CPI**	2.9	1.2	7.40	3.50 - 5.50
US CPI	2.7	1.9	2.60	4.00 - 5.50
UK Real GDP growth yoy	2.0	1.9	1.00	1.80 - 2.10
UK Implied Deflator GDP yoy	4.3	2.2	2.40	3.00 - 3.30
UK Nominal GDP growth yoy	6.4	4.0	3.40	4.80 - 5.40
UK Wage growth***	4.3	2.3	4.20	3.50 - 5.50
US Wage growth	3.1	3.0	3.80	4.25 - 5.75
UK Unemployment	5.3	5.9	4.30	4.00 - 4.50
$/£	1.69	1.46	1.27	1.60 - 1.70
€/£	1.52	1.19	1.20	1.30 - 1.40
UK Construction wage inflation***	4.8	2.0	6.60	3.30 - 4.70
UK Construction materials cost inflation:				
New housing		3.5	0.33	(1.80) - 1.20
CRE/Infra		3.9	-1.85	(2.80) - 0.20
Repair and Maintenance		3.8	0.20	(1.90) - 1.10
All Work		3.7	-0.71	(2.30) - 0.70

The simple fact is that a REAL recession needs one of the 3 economic pistons to fail; the UK labour market, or its property and banking versions (one doing so, ensuring the others misfire in turn). So yes, were the job market to shed labour of such nature and large numbers, that those involuntarily remaining out of work rose alarmingly, a UK recession would be certain. Assured if joblessness increased to such a degree that rents and mortgages went into arrears, and as such hit residential and commercial property markets, and triggered impairment charges for the UK banks that have secured lending therein.

Dr. Savvas Savouri

So then, has the Chancellor's amateurish mishandling of ENIC ensured the UKs suffers a jobs, property and in turn banking crisis? Well, to my mind very UNLIKELY. RR took office at a time of elevated vacancies, extremely low residential LTV's, and well capitalised/provisioned banks. This "Tory Backdrop" has largely ensured the hit to the UK's labour market she most certainly caused, will be absorbed in lessened hiring, NOT outright layoffs. Of those who are sadly dismissed, expect a quick return to work, in very much like for like, sadly rather menial roles.

Somehow, the way Reeves has done her level-best to fuel UK wage inflation has been lost on the MPC. For it has 'gifted' her (and the UK economy) 2 rate cuts, when barely one was warranted. Not warranted under the circumstances of UK CPI heading back to a 3 handle (chart 1). An "elevated rate" one should expect it to remain sticky at thru a combination of the gifting of well above inflation public sector pay rises and higher ENI costs, part passed through to consumer prices, a feedback loop of old.

Returning to Reeves "being gifted", I'd not be surprised if the MPC presents her with more very underserving, rate cut presents.

Through all sorts of "policy initiatives' this Government will ensure that far from its real GDP going into decline, the UK's nominal GDP will come in higher than it has for some considerable time. There is after all its generosity towards those already comfortably looked after across the public sector. Alongside this we see a zealot like push in public sector home building. Added to these "boosts", we know there will a greater accommodating towards EU nationals wishing to work in the UK. I could go on but suffice it to say the UK's 'top line' economic growth will be spurred on by a combination of a higher deflator – i.e. inflation, something seemingly lost on the MPC - and yes, positive real GDP growth (see Table 1). No doubt her supporters in the press will be swift to print the headline "Reeves the Remarkable", concerning THUS FAR, a very much remarkably poor Chancellor.

Chart 1: CPI of 'goods' & 'staff' ('services') vs overall & fcsts

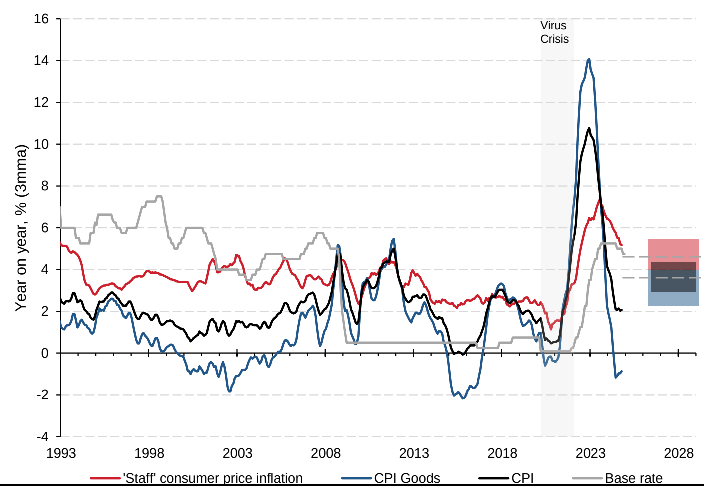


Chart 2: Consumer 'staff' CPI vs 'Staff' wage growth

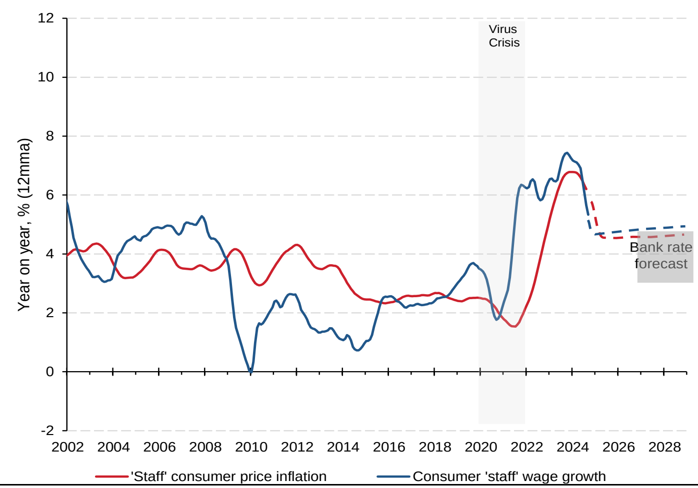


Chart 3: % of dwellings in England owned outright vs owned with a mortgage

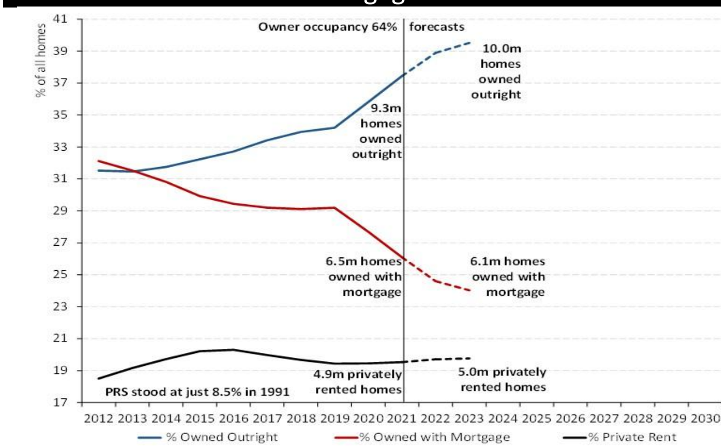
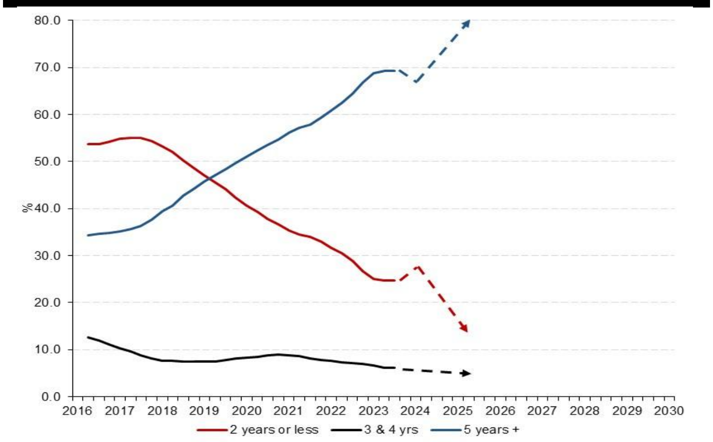


Chart 4: Of the stock of fixed-rate UK mortgages, how long is the fixed rate term?



Source: ONS, BoE

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