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News in Review

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'The global economy is starting to turn the corner'



Last week the Organisation for Economic Co-operation and Development (OECD) released its latest forecast, which outlines global growth prospects of 3.2% both this year and next. In its interim economic outlook, the well renowned think tank concluded, 'The global economy is turning the corner as growth remained resilient through the first half of 2024, with declining inflation.'

There are expectations that inflation will align with central bank targets in the majority of G20 economies by the end of next year. Easing to 2.7% this year, core inflation in G20 advanced economies, is expected to temper to 2.1% in 2025.

With robust trade growth evident, inflation easing and an uptick in accommodative monetary policy in many regions, prospects are improving. Mathias Cormann, Secretary-General of the OECD, commented on the latest findings, "At 3.2%, we expect global growth to remain resilient both in 2024 and 2025. Declining inflation provides room for an easing of interest rates, though monetary policy should remain prudent until inflation has returned to central bank targets."

He continued, "Decisive policy action is needed to rebuild fiscal space by improving spending efficiency, reallocating spending to areas that better support opportunities and growth, and optimising tax revenues. To raise medium-term growth prospects, we need to reinvigorate the pace of structural reforms, including through pro-competition policies, for example by reducing regulatory barriers in services and network sectors."

The OECD did caution that 'significant risks remain,' specifically geopolitical tensions in the Middle East and the Russia / Ukraine conflict, which could cause another uptick

in inflation, impacting global activity. In addition, the potential impact of tighter monetary policy. Meanwhile, growth in real wages could support consumer spending and confidence.

From a regional perspective, for the world's largest economy, GDP growth in the US is expected to temper from 2.6% this year, to 1.5% in 2025. In China, restrained consumer demand and the continuing correction in the real estate sector are expected to cause an easing in growth from 4.9% this year to 4.5% next year. GDP in the euro area is predicted to pick up to 1.3% in 2025, from 0.7% this year due to recovery in real incomes and credit availability.

UK growth expectations

On home shores, the OECD upgraded UK GDP growth expectations from 0.4% and 1.0%, to 1.1% in 2024 and 1.2% in 2025. The upward revision places Britain's growth rate close to most other Group of Seven (G7) countries this year and next. UK consumer prices are predicted to increase by 2.7% this year and 2.4% next, a faster rate than other G7 nations. Chancellor Rachel Reeves, commented on the data, "Faster economic growth figures are welcomed, but I know there is more to do and that is why economic growth is the number one mission of this government."

The latest GDP data released from the Office for National Statistics (ONS) on Monday showed the UK economy grew less than previously estimated in Q2. The economy expanded by 0.5%, down from an initial estimate of 0.6%, as construction and manufacturing output fell more than expected.

Average household income continues downward trend

New data has shown a decline in UK

disposable household income. For 2023, the median household figure is £34,500, a 2.5% reduction on the previous year, according to ONS. For the richest fifth of households, the disposable income decreased by 4.9% to £68,400, over 4% below pre-pandemic levels. Meanwhile, for the poorest fifth of the population, household disposable income increased by 2.3% in 2023 to £16,400. This can be partly attributed to government cost of living support measures.

Car production – "the sector remains optimistic about a return to growth"

According to the latest car statistics from the Society of Motor Manufacturers and Traders (SMMT), during the month of August, UK car production fell by 8.4%. Typically, a lower output month due to summer shutdowns, the reduction equated to 3,781 less units, with a total of 41,271 new cars being manufactured in the month. As factories reduce production of key models and retool for electric vehicle production, the decline in August is a continuing trend.

With record levels of investment in UK auto manufacturing announced last year, Mike Hawes, SMMT Chief Executive, looks ahead, "The sector remains optimistic about a return to growth... Realising those investments and securing more depends on the UK industry maintaining its competitiveness so we look forward both to the Chancellor's Autumn Budget and the government's proposed Industrial Strategy as critical opportunities to demonstrate that it backs auto."

Here to help

Financial advice is key, so please do not hesitate to get in contact with any questions or concerns you may have.

***The value of investments can go down as well as up and you may not get back the full amount you invested.
The past is not a guide to future performance and past performance may not necessarily be repeated.
All details are correct at time of writing (2 October 2024)***