An Economic Update from Will Hobbs, Chief Investment Officer at Barclays Wealth Management

The UK economy would appear to be in a tough spot. Sharp rises in central bank policy rates have put huge pressure on important parts of the economy in the fight against inflation. Here at Barclays, we recognise how challenging it has been for our intermediary partners and their clients over the past 12 months and in the wake of lingering uncertainly in a largely subdued marketplace. With this in mind, we recently invited our Chief Investment Officer, Will Hobbs, onto an expert-led intermediary partner webinar to share his thoughts on the current economic outlook.

Here's what he had to say.

There is never a shortage of doom mongers when it comes to the outlook for the UK economy. The moment we are in is no different. After a prolonged period of very slow growth, commentators seem determined to see, at best, more of the same.

However, we need to remember that for most of modern economic history, the UK and global economy has been better off seen as innocent until proven guilty. More often than not, growth is the norm not the exception. That is generally because, most of the time, new technology is constantly being assimilated into the economy, helping to improve the productivity of our workforce.

That is not to suggest that the moment we are in is without danger or challenge. The battle to contain inflation has seen central bankers raise policy rates sharply and painfully for many households. Inflationary pressures do seem to be unevenly ebbing around the world, the UK included. However, oil prices remain a wild card, capable of reinserting some inflationary heat if the supply situation worsens from here.

In spite of this, there are a few reasons for cautious optimism. The household excess savings arsenal, accrued during the pandemic thanks to restricted spending opportunities in services and government support, has dwindled but not disappeared. There is potentially a helpful match-up between which households have these savings, and those still to digest a big uptick in mortgage costs.

Furthermore, the ebbing of inflationary pressure combined with the still strong employment backdrop means that wage growth is now moving into positive inflation adjusted territory on a year on year basis. That is a significant and underplayed positive when it comes to the outlook for the UK.

Finally, much of the slow growth of the last few decades can be chalked up to an absence of the kind of technological change that generally spurs productivity growth. There are of course other factors to consider in this, but that period may well be over with the arrival of large language models.

House prices

House prices in the UK and elsewhere are heterogeneous, meaning we should be wary of the idea that there is one indicator out there that will tell us the direction of house prices from this point. Often there will be factors on a particular street that could dominate.

There is nonetheless some evidence to show that higher inflation adjusted interest rates can be associated with lower house prices over time. However, there are certainly other factors to consider beyond interest rates. Broadly speaking, we are operating in a buyers' market and there is underlying stability which should provide confidence for buyers and sellers to make decisions. When it comes to the intermediary market, the support in making these decisions remains crucial and the value of the advice process has arguably never been greater.

How is the UK faring in comparison with other economies?

If you look at the UK compared to other countries, we are a little different from a housing market perspective. This is especially apparent compared to the US where much of their mortgage-linked borrowing has a 30-year duration, making this quite fixed, quite stable whereas we have much shorter-term increments and therefore households potentially have greater sensitivity to base rate changes.

More broadly though we need to remember that despite some of the convulsions of the last few years, we have world respected institutions. This can get lost in the hurly burly of the media debate of course. However, a predictable and well-established rule of law, robust democratic institutions and minimal corruption are just some of the factors that are more important than we might think in the eternal battle to attract international investment.

Is there anything to be worried about?

There are always things to worry about. Soaring policy rates across much of the world this last year and a half will be putting enormous strain on some households and businesses. If past is prologue, some of that strain will only become visible with the benefit of hindsight.

China's incredible economic transformation this last few decades is now running into more difficult territory. The deliberate, but messy, deflation of a giant property bubble is likely to continue to make for a precarious tight rope walk for policy makers.

Meanwhile, we should remember that with the number of people now sharing this planet with us there will simply always be enough bad or shocking news to fill a 24 hour news feed. That is obviously particularly the case with the shocking scenes of the last week.

However, as noted above, economic growth is driven by new inventions and innovations and how these are assimilated into the world economy. The UK kickstarted sustained economic growth back in the 18th and 19th centuries after thousands of years of global economic stagnation. The changes in life expectancy, living standards, poverty rates and almost every measure of human welfare has changed unrecognisably over that period. That won't stop many continuing to argue that the outlook is grim.

It's amazing how confidence can impact the economy and behaviours. And how brokers provide their clients with the confidence to make the right property-related decision which matches their short, medium and longer-tern needs remains key to the ongoing performance of not only the housing and mortgage markets, but also for the UK economy as a whole.