



WEEKLY BULLETIN

High wages and pricey food: an unhappy UK pairing

Key takeaways

High food prices have been blamed for stubbornly elevated inflation in the UK, while a labour shortage is helping to push UK wages higher. The central bank has a lot to contend with...

- UK inflation data released last week showed that pricing pressures remain elevated, and are falling more slowly than in the US. Headline inflation (which includes volatile priced items like food and fuel) was 10.1% in March, according to the Consumer Price Index, or CPI. This was lower than February's reading of 10.4%, but much higher than financial markets or the central bank had expected. The high (and still rising) price of food has been blamed. It's worth noting that the cost of food production peaked in October 2022, but a lag of anywhere between three and nine months is normal before these lower production costs show up in shop prices.
- Still high inflation will be concerning for policymakers at the Bank of England, especially given last week's employment market data. The latest figures showed that the unemployment rate is rising – an intended consequence of the Bank's efforts to slow economic activity and lower inflation by raising interest rates – but probably not quickly enough for policymakers' tastes. Many workers have not returned to the workforce following the COVID-19 pandemic, creating labour shortages which are more pronounced in the UK than in the US. With workers able to demand higher wages due to a lack of other options for employers, the most recent UK wage data shows continuing upwards (inflationary) pressure on wages. These wage pressures will weigh on policymakers minds as their next interest rate decision approaches.
- Moving to the global picture, the latest private sector survey data (Purchasing Managers' Index, or PMI) suggested that the global economy is so far coping with materially higher interest rates. The figures, released last week, suggested that weakness is currently centred on the manufacturing sector. However, given that central bank policies like interest rate rises tend to have a delayed impact on the real economy, we would expect to see PMI data weakening from here. As a result, we continue to be wary about potentially overoptimistic expectations for company earnings ahead.
- Turning to China, there are signs that economic growth is picking up in the aftermath of Chinese authorities' zero-tolerance approach to managing the pandemic. Given that China is the world's second-largest economy, this is broadly helpful for the global growth picture. However, much of China's recent economic activity has been focused on consumer spending, representing the release of pent-up lockdown demand; while this is positive news for domestic Chinese growth (including luxury goods manufacturers), it is less helpful for areas like infrastructure, commodities and other economically-sensitive sectors.

Market moves

Global share prices outperformed bond markets last week, with emerging markets playing the laggard.

Bond yields (which move in the opposite direction to bond prices) continued to rise in response to expectations for higher interest rates.

Commodity prices were weak across the board, but particularly oil.

What to look out for this week

The latest corporate earnings season continues apace, with large US-listed businesses reporting on their most recent results and providing outlooks for the period ahead. This week investors can expect to hear from an array of household names including Microsoft, Google and Amazon.

Market performance (as at 21 April 2023)

	Index Levels	Last Week	Month to Date	Year to Date
Equity				
MSCI United Kingdom	2,272.4	0.5%	4.1%	7.4%
MSCI United Kingdom Mid Cap	1,274.8	1.4%	3.1%	14.2%
MSCI United Kingdom Small Cap	373.5	0.5%	2.7%	4.5%
MSCI World (GBP)	2,196.6	0.3%	1.0%	6.0%
S&P 500 (GBP)	4,133.5	0.3%	0.4%	5.0%
MSCI Japan (GBP)	1,237.2	0.4%	0.3%	3.8%
MSCI Europe ex-UK (GBP)	1,661.9	0.6%	3.4%	12.8%
MSCI Pacific ex-Japan (GBP)	1,645.1	-0.6%	0.8%	0.2%
MSCI Emerging Markets (GBP)	59,060.1	-1.6%	-1.1%	0.1%
Bonds				
BoA Merrill Lynch Conventional Gilts	1,012.1	-1.0%	-2.1%	0.1%
BoA Merrill Lynch Index-Linked Gilts	429.7	-1.3%	-3.9%	0.3%
BoA Merrill Lynch £ Corporate	385.2	-0.1%	-0.3%	2.2%
Commodities				
Oil (West Texas Intermediate, GBP)	\$77.9	-5.4%	2.6%	-5.8%
Gold (GBP)	\$1973.7	-1.9%	-0.6%	5.6%
S&P / GSCI (GBP)	3,346.6	-3.1%	0.4%	-7.1%

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