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Handelsbanken
Wealth & Asset Management

WEEKLY BULLETIN

Little room to manoeuvre in the UK economy

Key takeaways

From stubborn inflation to weak growth, the latest economic news has highlighted the challenges facing the UK government and the Bank of England.

Income tax news rattles government bond prices

The UK government cancelled its reported plans to increase income tax, seemingly following an improved forecast on government finances from the Office for Budget Responsibility. However, UK bond prices fell sharply in response to the news, reflecting concerns about the UK government's approach to its financial responsibilities. Rumours of challenges to Prime Minister Starmer's leadership and threats to Chancellor Reeves' position have held the media headlines in recent weeks. However, Downing Street officials have denied that any changes have been made to the planned Budget (due for release next week) as a result of political turbulence at the top of the Labour party.

UK economic growth remains elusive

UK growth (measured by GDP) fell slightly in September versus August, according to figures released by the Office for National Statistics on Thursday. Economic analysts had expected the economy to have grown by 0% – neither growing nor contracting. Some unusual factors might have shown up in these numbers, including a multi-week shut down for Jaguar Land Rover's highly automated production lines, following a serious cyber attack at the end of August. This emergency pushed September's car production in the UK to its lowest monthly level since the 1950s, according to the Society of Motor Manufacturers and Traders. However, despite unusual circumstances like this in some areas, this negative month of UK economic growth highlights another of the serious challenges facing the UK government.

High prices put the Bank of England in a tricky situation

Inflation figures for September were also released last week, and showed that prices in the UK had risen by 3.8% over the previous year. As a reminder, the Bank of England's goal for inflation is 2%. Above-target inflation would normally lead the Bank to consider raising interest rates, in order to slow down economic activity and take the heat out of pricing pressures. But while the Bank's primary goal is to maintain price stability, it must also support the government's economic growth objectives. Weak economic growth would typically lead the bank to cut interest rates in order to encourage economic activity. Amid this push and pull situation, the Bank held interest rates steady at 4% at its most recent decisionmaker meeting, though the ruling committee was divided on the way forward. The Bank's governor, Andrew Bailey, has signalled a cautious approach to future interest rate cuts while monitoring inflation.

Market moves

It was a bumpy ride for stock market investors last week, as the dominant US market fell sharply due to investor concerns about the high prices afforded to the shares of major tech companies. However, US share prices stabilised as the week drew to a close.

UK government bond markets were weaker, reflecting investor concerns about the outlook for UK government finances.

What to look out for this week

Insightful data due for release this week includes an early look at the latest private sector survey figures, which could provide clues about the situation for manufacturing and service sector businesses around the world.

The latest inflation data for regions including Japan and Europe will also be released.

If you have questions about financial markets, or our investment services, please contact the Marketing team:

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