2024 UK Economic and Consumer Forecast

Teneo Economic Insights

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Teneo

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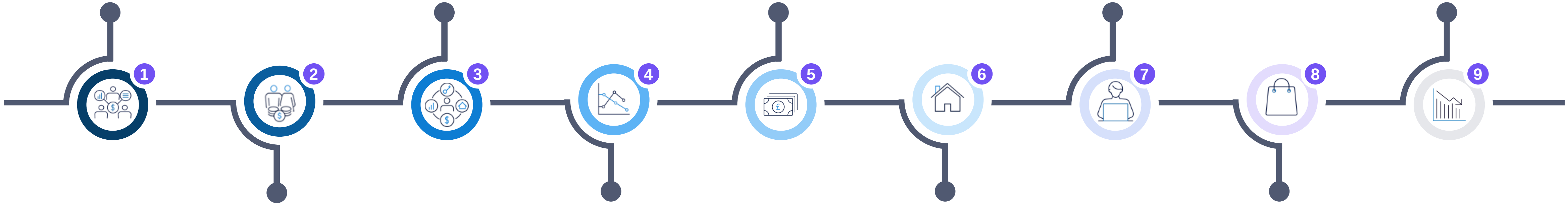
Section 01

Executive summary

Executive summary

Falling inflation and upward wage pressure are resulting in household relief after two years of real wage decline. However, continued pressure from mortgage rates and debt accumulation means we expect consumer spending to remain suppressed.



1. **Slow growth and recessionary pressure are causing the UK labour market to soften** after two years of tight supply and rising demand following COVID
2. Despite the softening labour market, **we expect upward wage pressure to persist into 2024**, albeit at a lower level than observed in 2023
3. Wage pressure is primarily being driven by **minimum wage increases and supply constraints**
4. At the same time, **we have observed inflation falling faster than expected** to 4.0% in Jan 2024
5. Falling inflation combined with upward wage pressure has meant **real wages rose in Q4 2023 for the first time in two years**
6. Despite this increase in real wages, **the household cash position is still worse than in 2021,** with households impacted by rising housing costs, taxation and servicing debt
7. Households are not impacted equally; we are observing that **upper-middle income households with private mortgages are most impacted** (these households are predominately between the ages of 30-49)
8. Continued pressure on household cash – particularly households that have historically accounted for material spending power – will have a knock-on impact on **consumer expenditure, which will continue to be constrained in 2024**
9. The result of this is likely to be continued **low and stagnating growth in 2024** at a GDP level

Section 02

The UK labour market is starting to loosen, leading to increased unemployment in some sectors

What is happening in the UK labour market?

At its simplest, the labour market is dictated by two themes: the number of individuals available to work (supply) and the number of jobs available (demand).

Market factors	Key drivers
Labour market supply How many workers are available?	• Size and growth of the working age population • Migration policy: how many workers are entering and working in the labour market?
Labour market demand How many jobs are available?	• Strength of the economy • Labour and government policy

Source(s): Financial Times; ONS; Teneo research and analysis

2022 and 2023 saw a tight labour market, driven by labour shortages

The **UK saw a decline in the number of available workers** post-COVID.

This low supply resulted in **near-record numbers of vacancies**. The average number of vacancies in 2023 stood at **c.1.1m**.

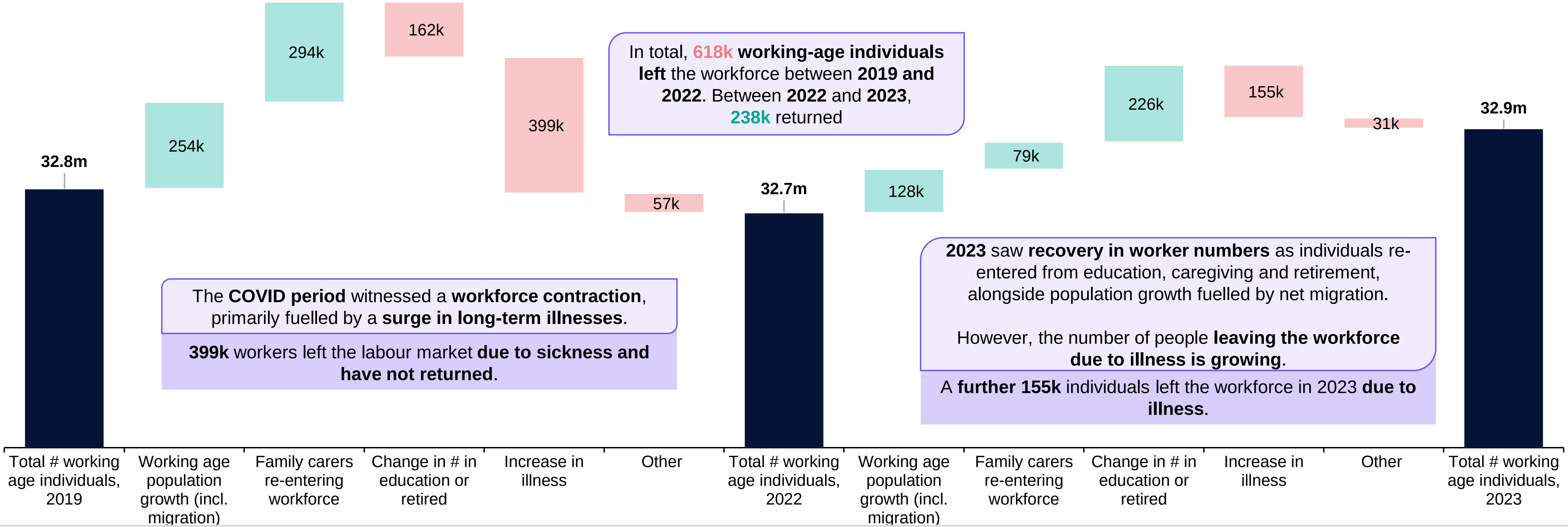
This resulted in upward pressure on wages. Wage growth reached an estimated **6.5% in 2023, one of the largest annual increases** outside the COVID period.

Labour supply: How did the supply change in 2023?

Between 2019 and 2022, we observed a net decrease of 162k workers, putting pressure on workforce supply. This trend reversed in 2023, easing supply shortages. However, we are still seeing growing numbers leaving the workforce due to illness.

A **A decline in economic activity due to long-term illness put significant pressure on the UK labour market between 2019 and 2022…**

B **…this trend has reversed in 2023, driven by a recovery in the number of workers re-entering the workforce and working population growth**

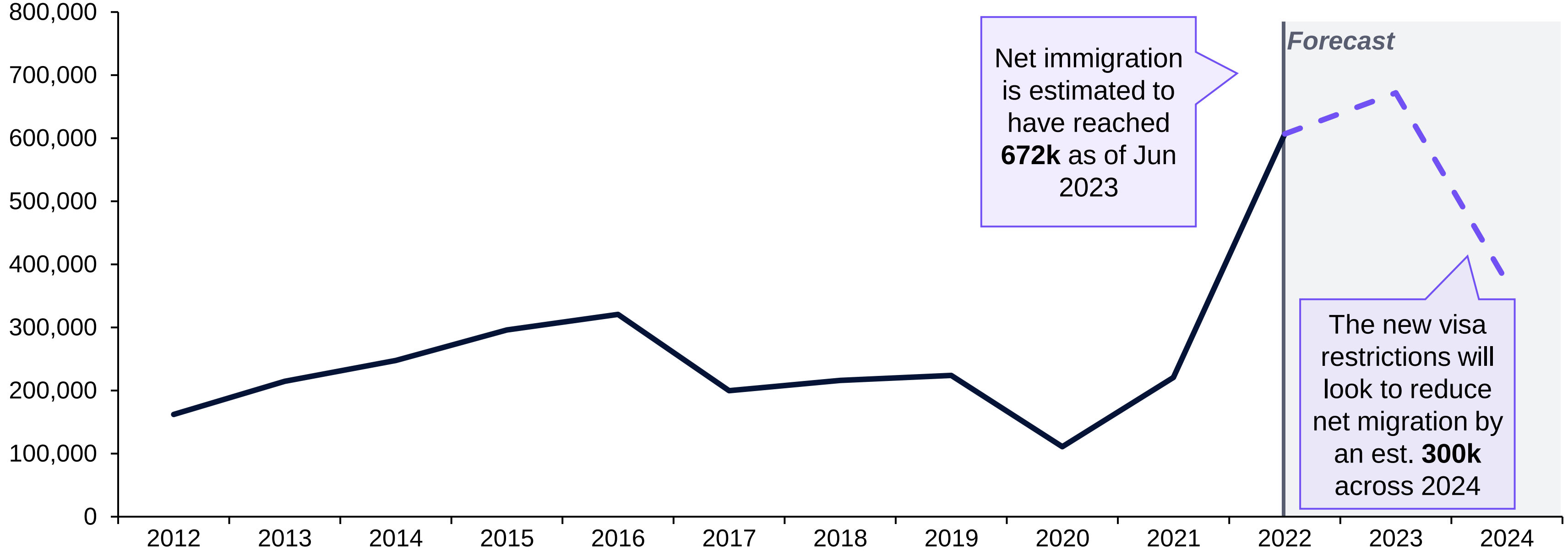


Source(s): ONS; Teneo research and analysis
Note(s): 1. Other includes people who (i) are waiting the results of a job application, (ii) have not yet started looking for work, (iii) do not need or want employment, (iv) have given an uncategorised reason for being economically inactive, or (v) have not given a reason for being economically inactive.

Labour supply: How did net migration impact supply?

Recovery in labour market supply (seen in working age population growth on the previous slide) across 2023 has primarily been driven by net migration, which hit record highs across ‘22 and ’23.

Net migration into and out of the UK for all nationalities
Net migration between 2012-2024e (Jun to Jun) in people



However, recent changes to visa rules are likely to impact net migration in 2024, reducing the number of available workers from outside the UK, constraining supply.

Source(s): ONS; Teneo research and analysis

New visa rules are expected to constrain supply

The **earning threshold** for overseas workers will increase from £26,200 to £38,700.

The **20% going-rate salary discount** for workers filling jobs in industries with labour shortages will be removed.

Foreign care workers will **no longer be able to bring dependants** to the UK as part of their visa.

These rules will combine with the already-announced restrictions on the ability of **students** to bring dependents to the UK.

Labour supply: What is the overall supply outlook for 2024?

During 2024, we believe labour supply will remain constrained. While we are seeing UK nationals re-entering the workforce since COVID, illness and restrictions on migration will impact supply.

Key takeaways

Post-COVID workforce recovery	↗	The UK has returned to pre-pandemic levels as individuals opting for education, retiring early and taking on caring responsibilities are returning to the workforce
Rising long-term sick	↘	Post-COVID, long-term sickness rates remain high, potentially exacerbated by sub-optimal access to care, due to growing NHS waiting lists, and the effects of Long COVID
Curbs on net-migration	↘	While UK citizens are re-entering the workforce post-COVID, immigration policies are expected to reduce the number of non-UK nationals entering it

We expect supply to remain broadly flat in 2024

Source(s): Financial Times; UK House of Commons; Teneo research and analysis

"Those who are already economically inactive are becoming sicker, meaning they're less likely to return to work. […] There is a nagging concern that [UK labour shortages] *are the 'shape of things to come.'"*

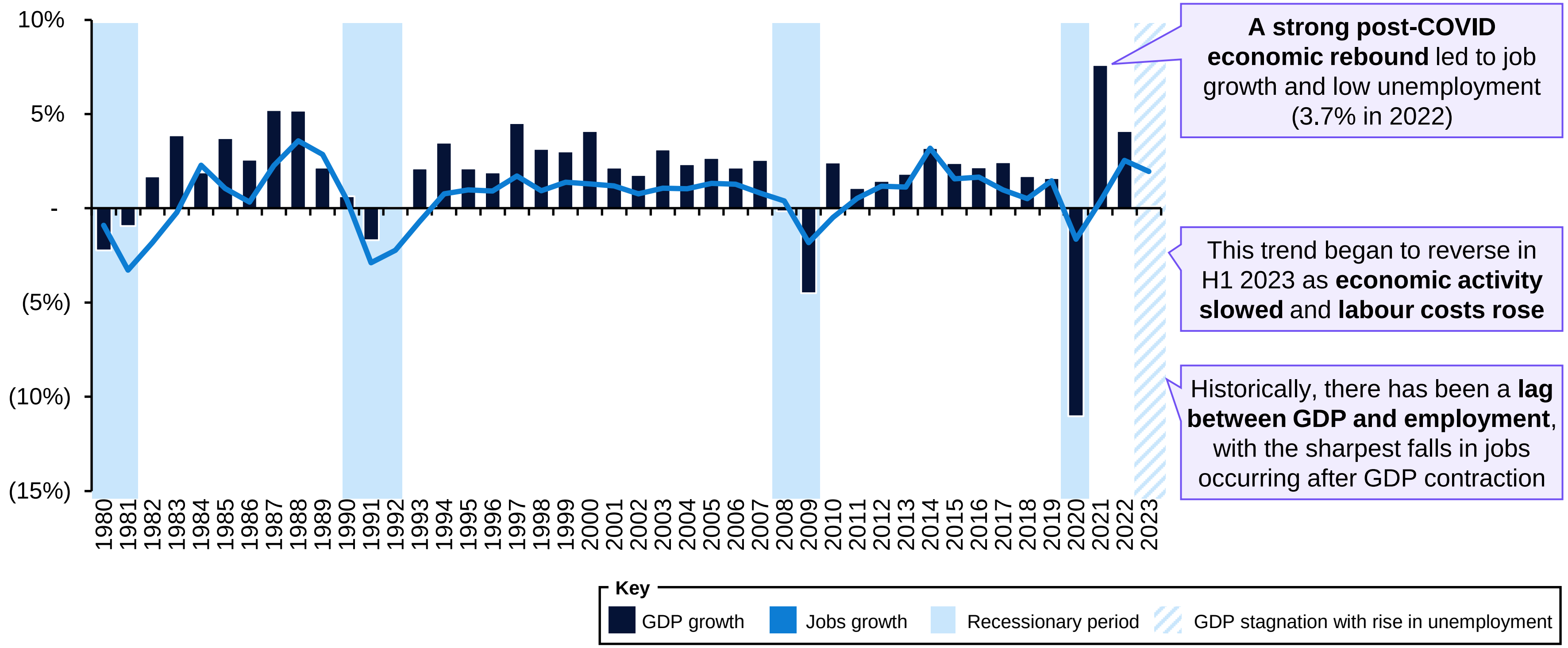
– Lord Bridges of Headley

Labour demand: How is demand linked to economic growth?

Following a period of recovery post-COVID, GDP declined towards the end of 2023. Historically, there has been a strong correlation between the strength of the economy and labour demand.

UK GDP growth and job growth rates

Change in job growth between 1980-2023



Source(s): ONS; WEO; UK Gov; Teneo research and analysis

"The UK's recent experience is an extreme example of a global shift in macroeconomic volatility from demand to supply. On the demand side, there are clearer signs that softening activity is feeding into vacancies."

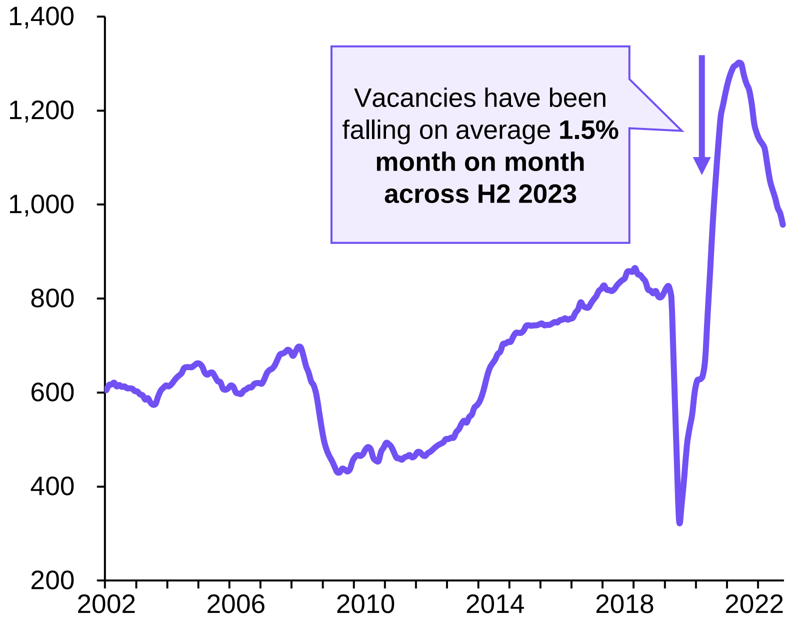
– UK Institute of Fiscal Studies

Labour market demand: What happened to demand in 2023?

We are already observing evidence of declining demand. Vacancies fell across 2023, and we have seen an uptick in unemployment and jobless claims.

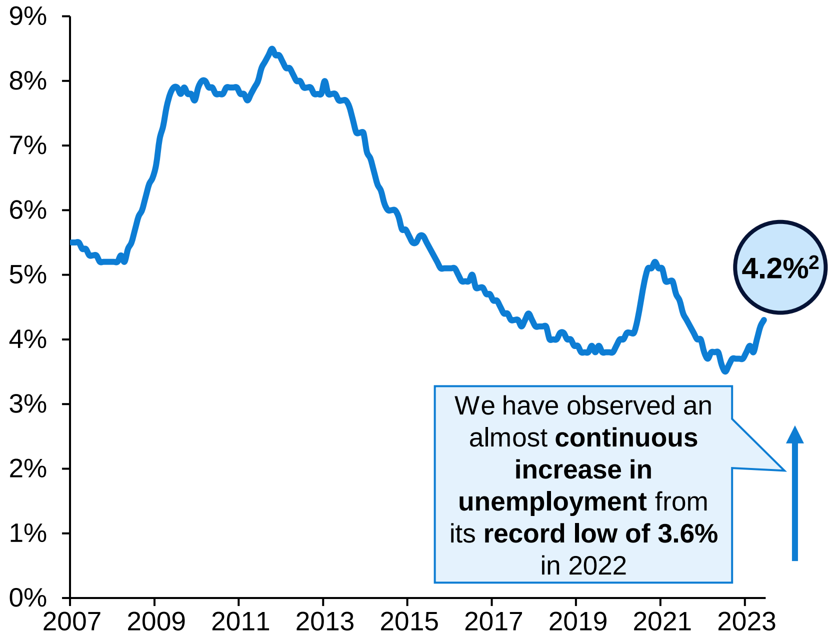
Vacancy rates fell sharply throughout 2023, indicating that labour market demand is contracting…

UK vacancies for all sectors[1] (‘000), 2007-2023



…this fall in vacancy rates appears to be translating to unemployment, which has been rising across 2023

UK unemployment rate seasonally adjusted, aged 16+ (%), 2007-2023



Source(s): ONS; Teneo research and analysis
Note(s): 1.Excludes Agriculture, Forestry and Fishing; 2. August to October 2023

Falling vacancy rates are leading to a rise in unemployment

The number of vacancies has **sharply decreased**, down by **over 25%** since its **peak of 1.3m in Apr 2022**.

Over the same period, the number of unemployment claims has steadily increased, with an **increase of c.5%** since the beginning of **2023**.

This shift signifies a **fall in labour market demand.** Historic precedent suggests that we are likely to see **the trends continue into 2024**.

Labour market demand: What is likely to happen to demand in 2024?

Minimum wage increases coming into effect in April 2024 are expected to put pressure on sectors dependent on low-pay workers. This is likely to reduce demand to accommodate additional costs and therefore further stifle demand in some sectors.

From April 2024, the National Minimum Wage threshold will **increase by 9.8% to £11.44**

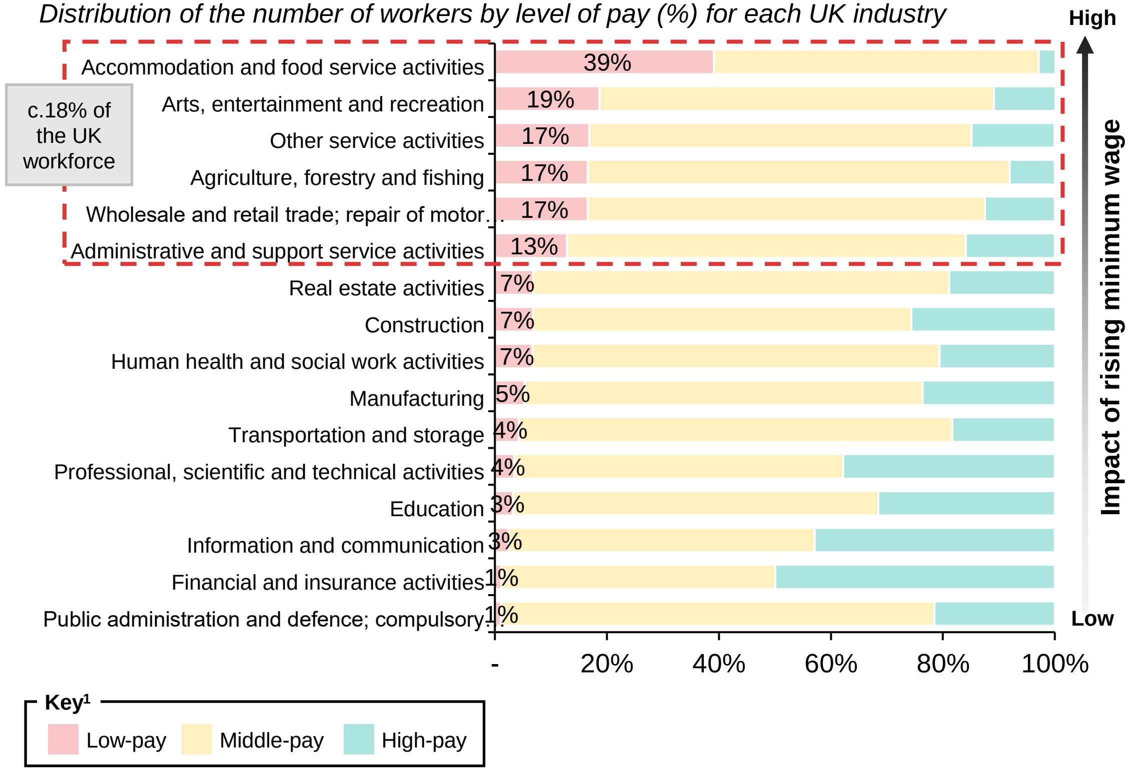
While raising the UK minimum wage will help further reduce income inequality, this shift is expected to put **further pressure on businesses** dependent on low-pay workers in 2024

The most impacted sectors which are expected to experience increasing labour costs are those with the **lowest-pay workers**

We expect the net effect will be a **reduction in labour demand in the most impacted sectors** to accommodate cost increases

Workforce split by level of pay, by industry, 2023

Distribution of the number of workers by level of pay (%) for each UK industry



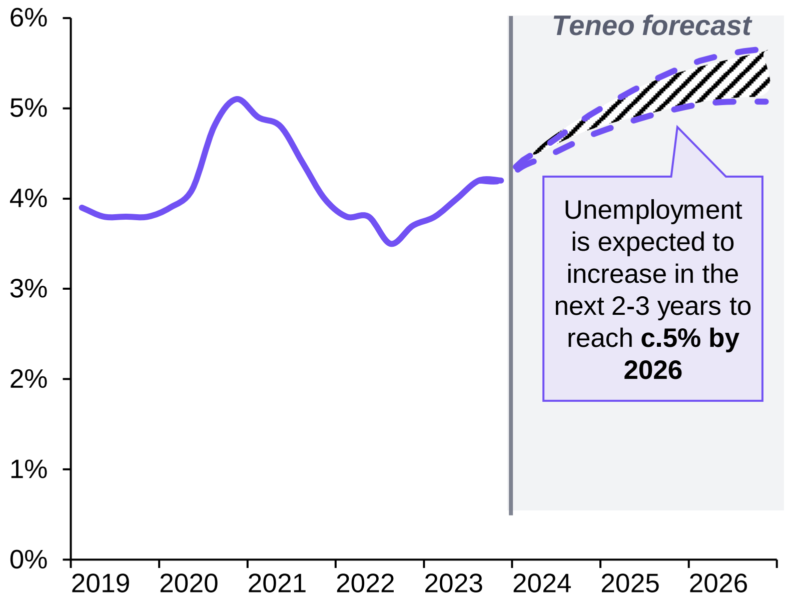
Source(s): ONS; Financial Times; Teneo research and analysis
Note(s): 1. Based on hourly pay, low pay is defined as the value that is two-thirds of median hourly earnings and high pay is defined as the value that is 1.5 times median hourly earnings; estimates for 2023 data are provisional

Net-impact on the labour market in 2024

We expect labour demand to fall further during H1 2024, resulting in some small rises in unemployment. Continued supply constraints, combined with minimum wage increases, are expected to keep wage growth high.

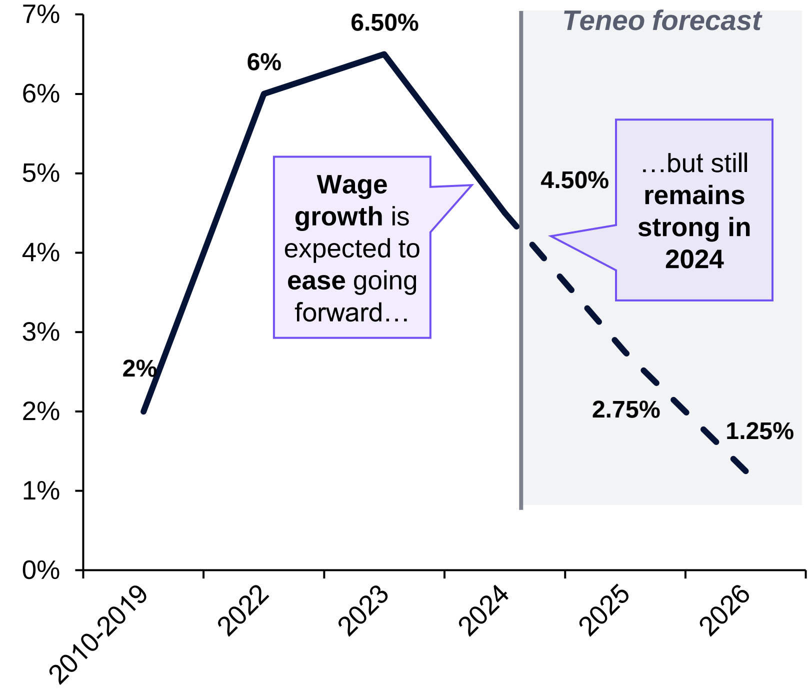
Labour market outlook 2024

Unemployment rate projection (%) 2019-2026E



Wage outlook 2024

Average weekly earnings growth[1] (%), Nov 2023 estimates



Continued supply constraints and minimum wages keep wage growth high

Continued **pressure on supply** due to cuts in net migration and long-term illness…

…means that despite falling demand, **a significant increase in unemployment is not expected**.

Wage growth is expected in 2024 (albeit lower than 2023) driven by **minimum wage policies** and **supply shortages**.

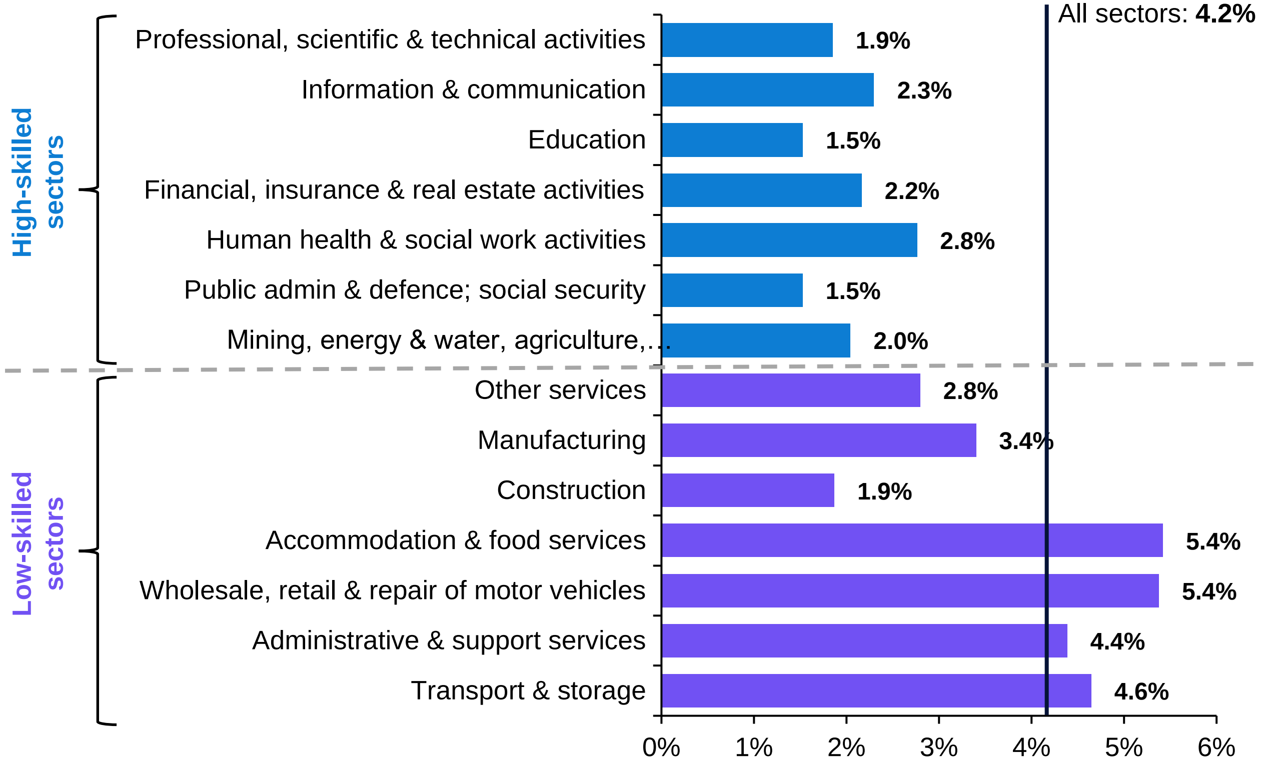
Source(s): ONS; UK Parliament; House of Commons; Bank of England; Teneo research and analysis

Note(s): 1. Excludes bonuses, calculated as the four-quarter growth in whole-economy total pay in Q4

Net impact on the labour market in 2024

Overall, unemployment is set to rise slightly in 2024, with variations across different industries. Supply constraints will limit increases in high-skilled sectors, while falling demand, largely due to wage factors, will drive unemployment in low-skilled sectors.

UK unemployment rate by sector[1]
Skill level by sectors, May-Jul 2023



Labour market impact	Key implications
Supply constrained *Unemployment expected to remain low*	Sectors with highly skilled workers will be most impacted by the **new visa rules**, constraining supply, and are likely to see **upwards wage pressure** to attract talent
Decreasing Demand *Unemployment expected to increase*	The sectors with a higher share of lower-pay workers will likely be impacted by **rising minimum wages**, **increasing labour costs** and resulting in falling demand

Source(s): ONS; Teneo research and analysis
Note(s): 1.Based on ONS Qualification index score for workers in each sector, England and Wales, 2021 (highly skilled sectors have a score of greater than 3.00)

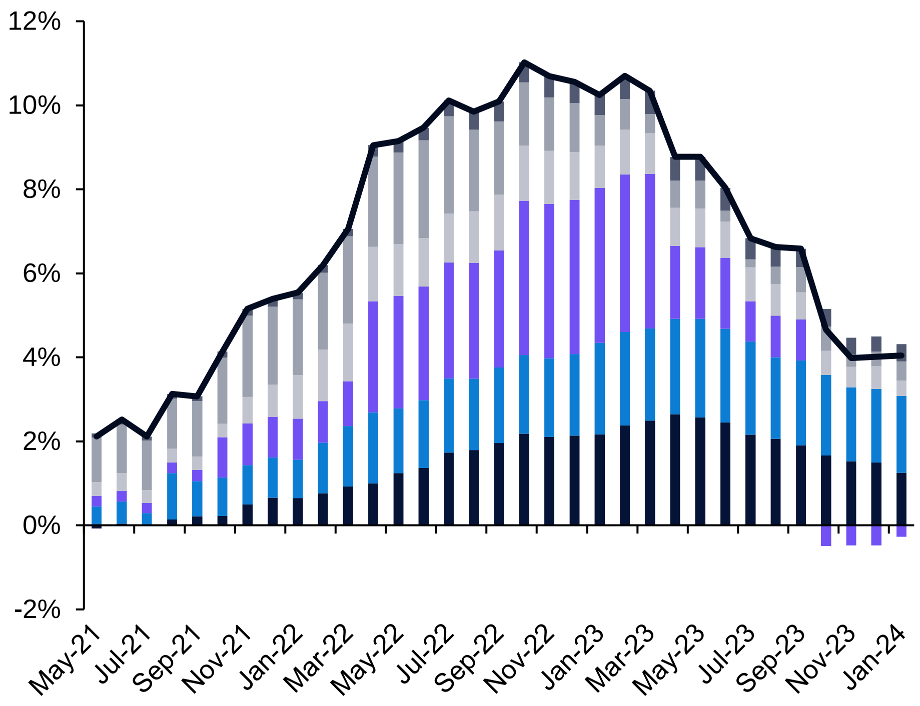
Section 03

UK inflation will continue to fall, but we expect it to bottom out above the 2% Bank of England target

UK inflation

UK inflation dropped faster than expected during the second half of 2023, driven by a decline in housing and energy costs. Gas and electricity prices have been at their lowest levels over the past two years during Q4 2023.

Historical UK CPI by category
Change in percentage, May 2021 - Dec 2023



Inflation category	Contribution to Jan-24 inflation	Trending contribution to inflation in last 6 months	Commentary
Miscellaneous[1]	0.4%	↓	*The contribution to inflation of miscellaneous goods and services have been continuing to decrease since Mar 2023*
Other services[2]	0.4%	↗	*The contribution to inflation of services prices has increased slightly vs. 6 months ago*
Consumer groups[3]	0.4%	↓	*Continued fall in input costs, including energy, has driven a steady decrease in inflation contribution of consumer groups' products*
Housing and energy[4]	(0.3%)	↓	*Energy price contribution peaked in early Q1 2023, and pressures have reduced significantly throughout the rest of the year*
Recreational services[5]	1.8%	↘	*Recreational services are directly linked to energy prices, with a considerable lag, but have started falling MoM since May 2023*
Food and beverages[6]	1.3%	↓	*Global agriculture prices have continued falling, driven by lower bread and cereal prices in Q4 2023*
Total	**4.0%**	↓	

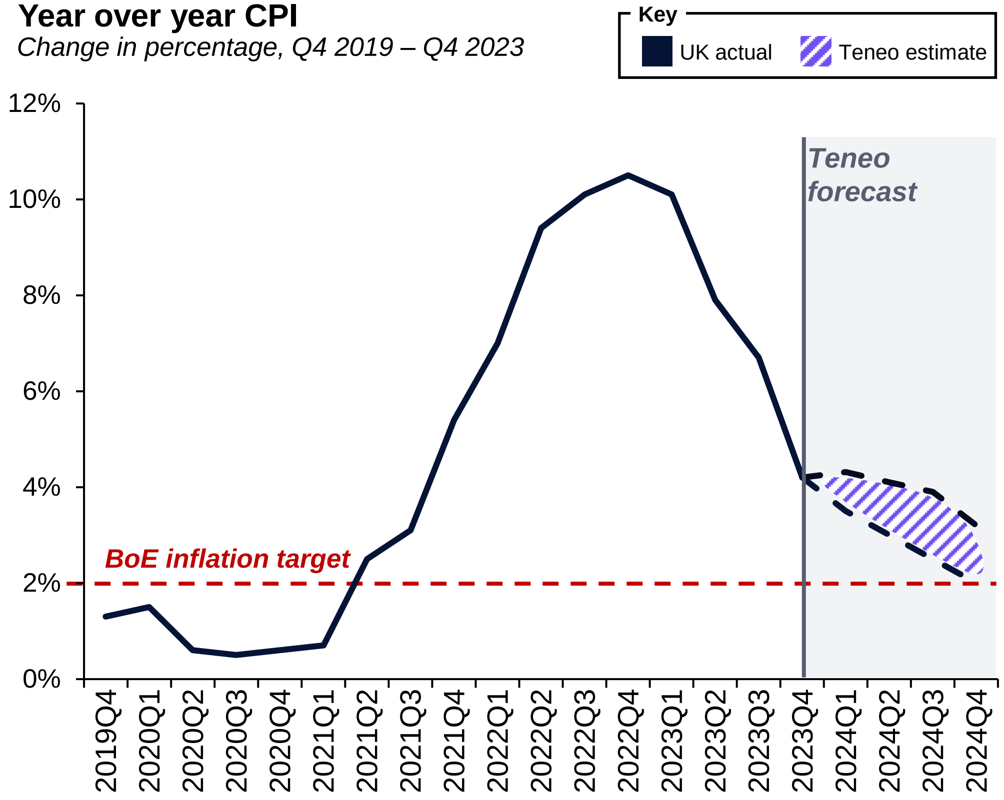
Source(s): ONS; Teneo research and analysis

Note(s): 1. Miscellaneous goods and services; 2. Health, Transport, Communication, Education; 3. Clothing and footwear, furniture, household equipment and maintenance; 4. Housing and energy; 5. Recreation and culture, Restaurants and hotels; 6.Food and non-alcoholic beverages, alcoholic beverages and tobacco

Forecast inflation

We forecast that inflation will continue on a downwards trajectory in 2024. This will primarily be driven by falling commodity and agriculture prices.

Year over year CPI
Change in percentage, Q4 2019 – Q4 2023



Reasons for decrease	Description	Materiality
Decreasing oil & gas prices	• Wholesale prices for natural gas have been falling since the start of 2023 and have **fallen by c. 60% YoY** as of Dec 2023 • Decrease typically takes 6-12 months to impact consumer prices; we expect benefits to continue reaching the consumer in 2024	H
Decreasing agriculture prices	• Global agriculture prices were down **9% YoY in Q3 2023** • The S&P GCSI Agricultural Index (a key leading indicator of UK food prices) has food price inflation falling to **0% by the start of 2024**	H
Arithmetic point	• YoY inflation is always measured **in relation to the previous year** • There have been no shocks in 2023 of the same scale as 2022, and none are expected in 2024 (e.g., natural gas wholesale prices peaking in August 2022)	M
Slowing price rises	• Companies have already begun to reduce the speed of price increases • According to BoE estimates, output price inflation in the coming year will fall to **4.6%**; this marks the lowest reading since March 2022	M
Decreasing money supply	• UK's M2 money supply growth has fallen from **14.5%** in Jan 2021 to **3.5% YoY** • Historically, every major deceleration has been followed by a fall in core CPI, such as in 1992, when a **18% YoY M2 decline** led to a **6% decline in core CPI**	L

Source(s): ONS; Bank of England; Teneo research and analysis

Medium and long-term inflation prospects

In the medium and long-term, we believe UK inflation is set to remain elevated at a range of 2.5 - 4% due to inherent structural factors that are likely to persist.

Deglobalisation and protectionism

- Recent worldwide **supply chain disruptions** caused many governments to reexamine their interdependencies
- New protective legislation, such as the **US Inflation Reduction Act** and the **EU Green Deal**, have led to increased production costs

Workforce constraints post Brexit

- After Brexit, **c.5%** of low-skilled EU workers left the UK; new migration rules have limited the ability for these individuals to be replaced by other non-UK workers
- **Fewer international students** at UK universities will also reduce annual workforce entries

Ageing population and low replacement rate

- The UK's **aging population** is putting pressure on workforce growth
- The **total fertility rate**[1] in the UK is **1.7**, which is below the replacement rate, contributing to a reduced workforce in the longer term

Decreasing rate of productivity growth

- Since 2008, **UK productivity** has remained largely stagnant, trailing peer countries such as the US and France
- Since the pandemic and emergence of Gen Z in the workforce, **productivity growth has trended downward**, increasing unit labour costs

Climate challenges

- **Climate change** and **recent extreme heatwaves** in Europe may significantly reduce the food supply
- This will particularly affect **food-importing countries**, such as the UK

Source(s): ONS; Bank of England; Teneo research and analysis
Note(s): 1. The average number of children born to a woman over her lifetime

"Based on the drivers of medium and long-term inflation, there is a question as to whether monetary policy in isolation can still be used to drive down rising prices.

Other policy measures will likely need to be introduced to prevent inflation from persisting in the upcoming decade."

– Gee Lefevre, Senior Managing Director, Teneo

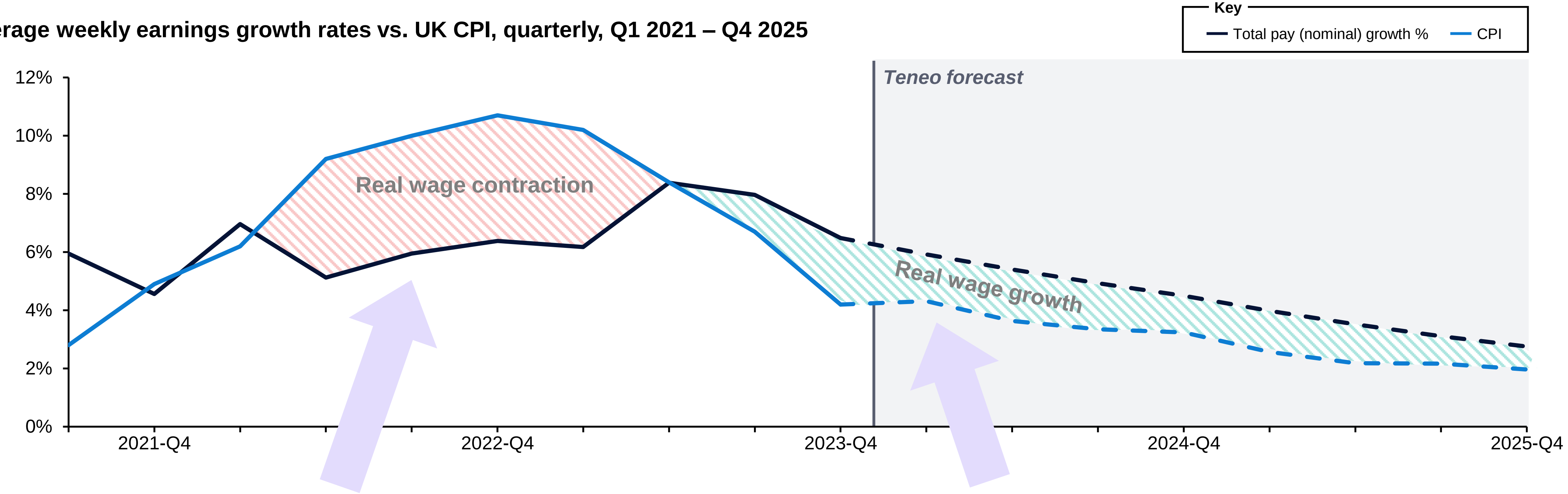
Section 04

Continued wage growth will provide some household relief, but expenditure remains constrained

Real wage impact

Declining inflation coupled with growing wages has resulted in real wage growth for the first time since 2021. This trend is expected to continue across 2024 and 2025.

Average weekly earnings growth rates vs. UK CPI, quarterly, Q1 2021 – Q4 2025



A For every point where nominal wage growth trailed inflation, an equivalent period of the inverse is required for **real wages to recover to 2021 levels**

B This recovery in real wages to 2021 levels is not expected to occur until the **end of 2024** at the very earliest, **despite real wage growth** throughout the year

Source(s): ONS; OECD; RSM; Teneo research and analysis

Household income

While rising real wages are a positive sign, it does not necessarily imply increases in household wealth levels, which are impacted by rising housing costs, taxation and servicing debt.

Real wage impact

Income ↗

Inflation of goods and services ↘

Household income is determined by additional factors that are expected to have a negative impact

Housing costs ↑ — Households with private mortgages continue to be affected by **elevated housing costs**.

Debt costs ↑ — **Many households have accumulated debt** over the last few years and will need to serve these debts while interests have increased.

Taxation ↗ — National Insurance Contributions (NICs) have decreased from **12% to 10%** from Jan 2024. However, with tax bands unchanged, we will see a '**stealth tax**,' where an equivalent real income will be taxed at a higher rate.

Savings ↘ — Savings are set to decrease due to **higher debt servicing costs** on household mortgages and **less disposable income after tax**, despite rising real wages.

The net household position is more negative than real wage calculations would suggest, as they do not consider housing, taxation, or savings

Source(s): Teneo research and analysis

Household net cashflow

Teneo's household net cashflow analysis considers costs that are not included in real wage calculations to give a true reflection of the relative cash position of a household.

- We developed a comprehensive financial model to **assess UK households' net financial position** over time between Sep 2021 and June 2024.
- The model provides an overview of **households' historical net cashflow** by **decile** and **age group** by taking into consideration eight key metrics (see righthand side).
  - We consider **wage growth** and **CPI, housing costs, taxation**, as well as **current** and **announced government policies** likely to impact households' disposable income and net cashflow.
- This analysis allows for a more accurate depiction of the true household position.

Teneo's household net cashflow equation

Household net cashflow
is equal to:

Disposable income − **Spending**

Gross earnings − **Mandatory deductibles**

Necessity spend + **Other expenses**

1. *Gross income*
2. *Wage growth*
3. *Income tax*
4. *National insurance*
5. *Housing*
6. *Debt costs*
7. *Discretionary spend*
8. *Expense inflation*

Source(s): Teneo research and analysis

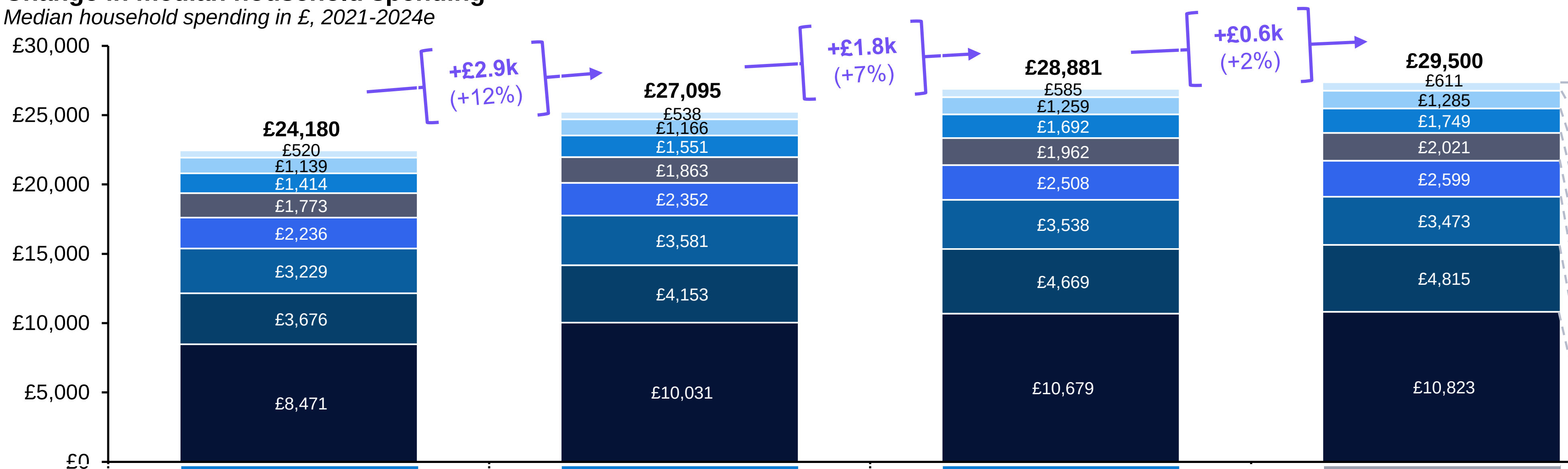
Household net cashflow

Household net cashflow *is equal to:* **Disposable income** — **Spending**

While real wages are rising and growth is expected to remain above inflation in 2024, households' cash position will be below 2021 levels due to rising mortgage costs and income tax band freezes, which pushes households into higher tax brackets.

Change in median household spending[1]

Median household spending in £, 2021-2024e



Spend category	CAGR (21-24)
Health	5.5%
Communication	4.1%
Restaurants & Hotels	7.3%
Misc.goods / services	4.5%
Recreation	5.1%
Transport	2.5%
Food & Beverage	9.4%
Housing	8.5%

	September 2021	September 2022	November 2023	June 2024
Median disposable household income[2]	£31,718	£33,580	£35,521	£36,669[3]
Overall impact vs. September 2021	-	(£1,000)	(£900)	(£369)

+£1.9k (+6%) → +£1.9k (+6%) → +£1.1k (+3%) →

With declining inflation forecasts, households are set to see **real wage increases** in 2024 vs. 2023

Source(s): ONS; Bank of England; Teneo research and analysis

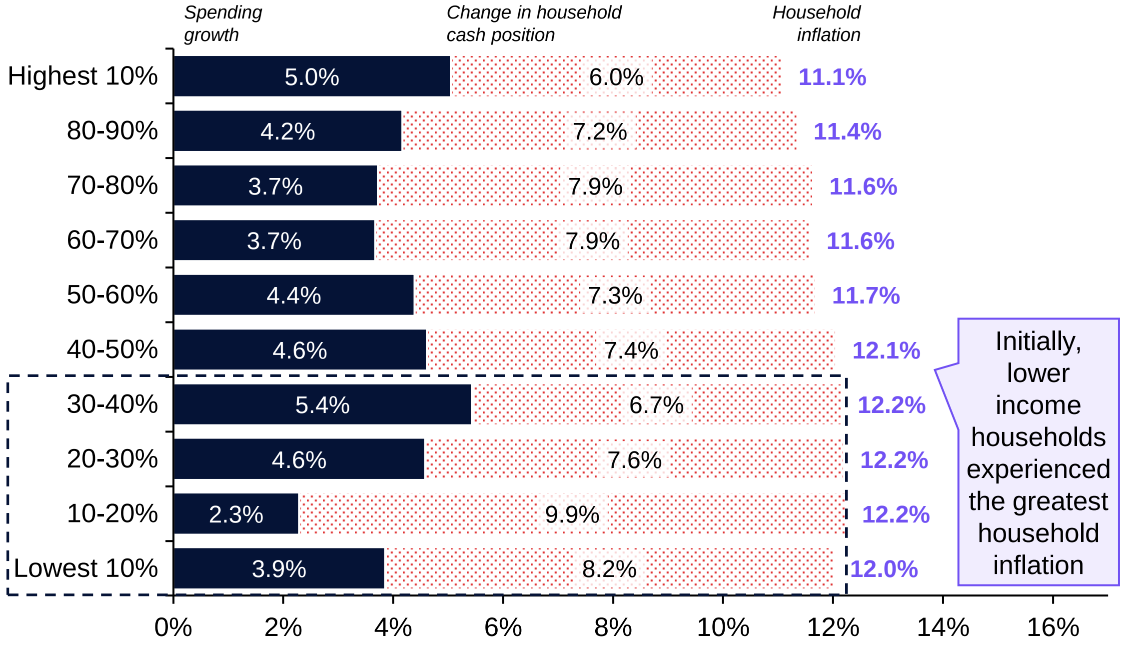
Notes(s): 1. Education, consumer debt and clothing spend omitted from graph, but included in total (to aid legibility); 2. Median disposable income is after tax; 3. Forecast

Household net cashflow

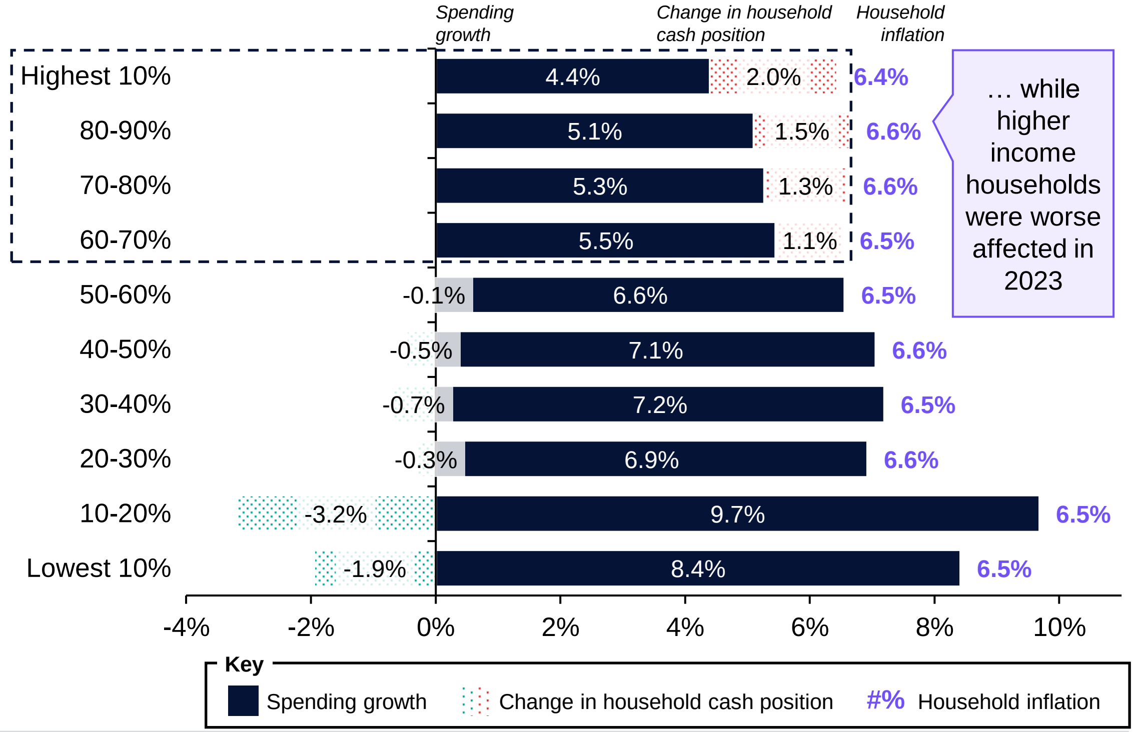
Household net cashflow *is equal to:* **Disposable income** — **Spending**

2023 saw higher income households facing the greatest amount of household cash pressure, and while lower-income households saw some relief, this was not enough to counteract the significant reduction seen across 2022.

Spending growth and household inflation in 2021 – 2022



Spending growth and household inflation in 2022 – 2023



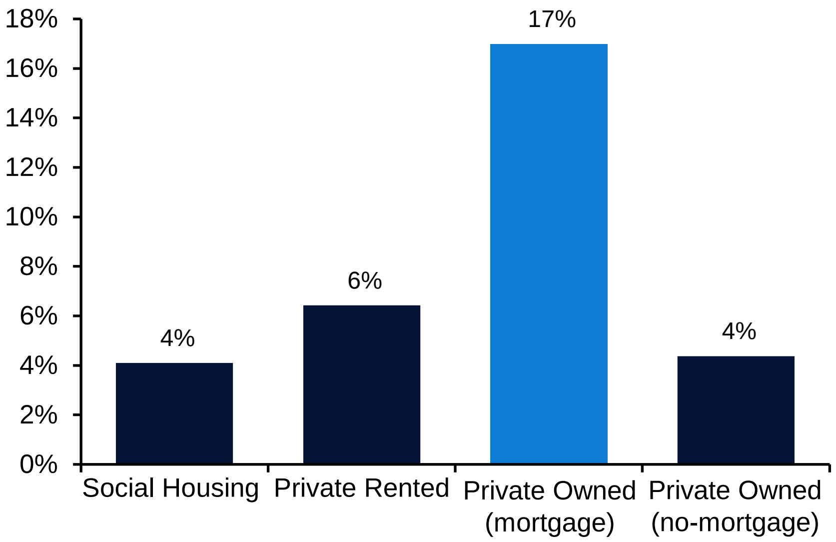
Source(s): ONS; Bank of England; Teneo research and analysis
Note(s): 1. Elevated mortgage payments are modelled into household expenditure

Household net cashflow

Household net cashflow *is equal to:* **Disposable income** — **Spending**

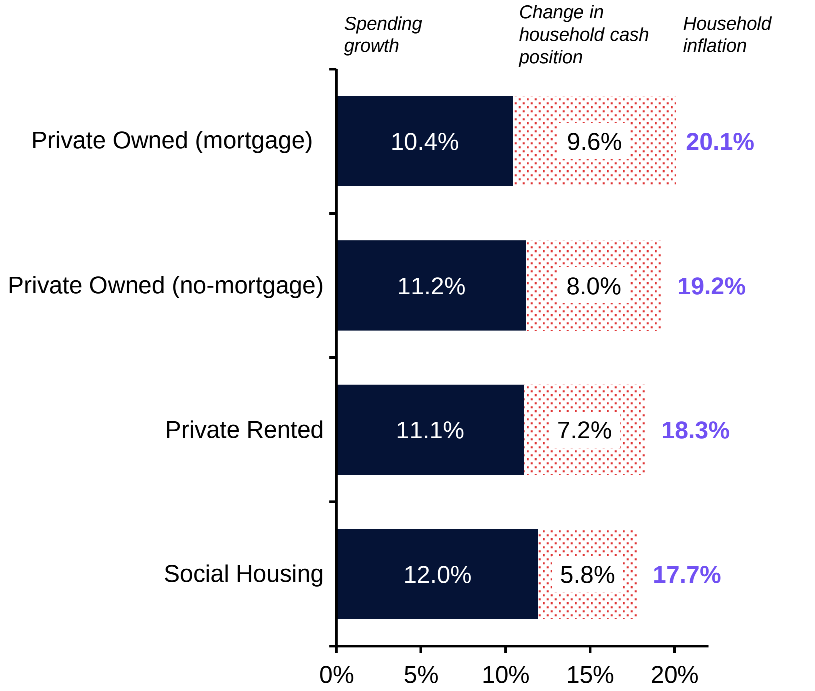
Pressure on higher income households has been driven by increasing mortgage costs, with private mortgage holders seeing their housing costs increase by an avg. of 17% p.a.

Change in monthly housing expenditure
Change percentage between Sept 2022 – 2023



Total UK households [1]	Social Housing	Private Rented	Private Owned (mortgage)	Private Owned (no-mortgage)
	4.1m	5.2m	9.0m	10.1m

Change in median household inflation by housing type
Housing type between Sept 2021 – Nov 2023



Source(s): ONS; Bank of England; Regulator of Social Housing; Teneo research and analysis

Key takeaways

Rising interest rates have significantly **increased repayments** for variable and expiring fixed rate mortgages, driving **elevated household inflation.**

Mortgage holders typically occupy the **higher tax brackets**, adding additional pressure through **reduced wage growth**.

Social housing renters remain less affected due to capped annual price increases (typically CPI of the previous FY + 1%), though **steeper increases may be seen next year**.

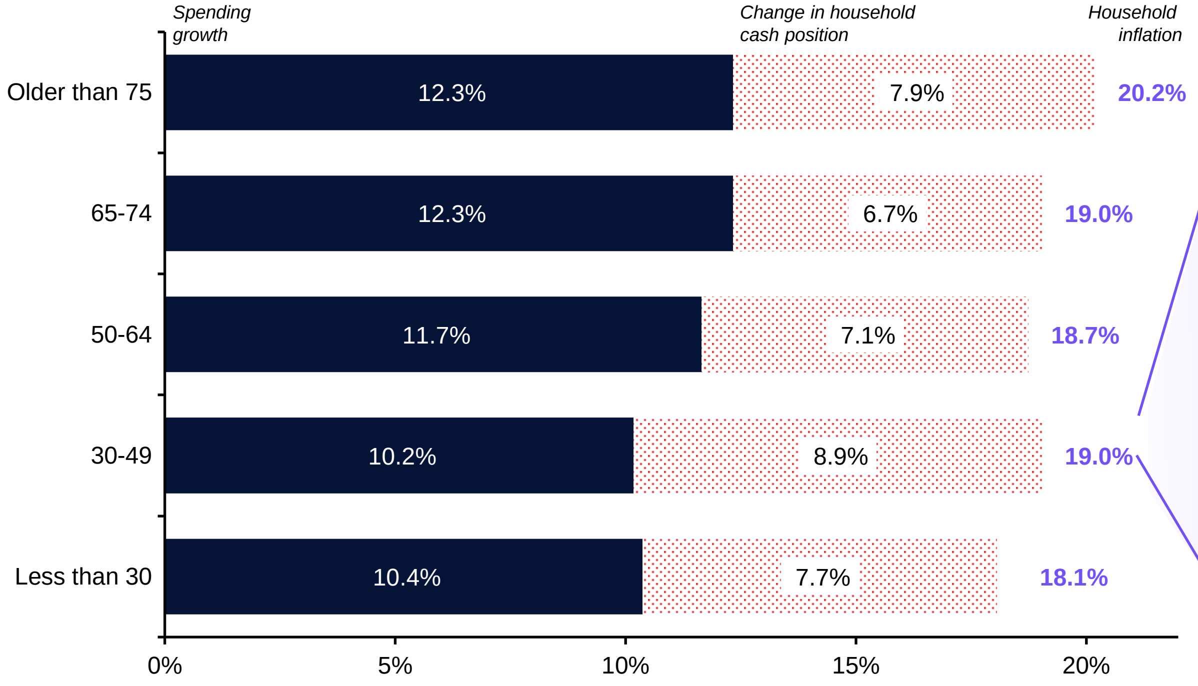
Household net cashflow

Household net cashflow *is equal to:* **Disposable income** — **Spending**

The level of exposure to inflationary pressures seems to be higher amongst the 30-49 year old demographic, largely due to rising mortgage costs and limited increases in disposable income.

Change in household inflation by age group

Age group between Sept 2021 – Nov 2023



Key

Spending growth | Change in household cash position | #% Household inflation

30-49 year olds faced the largest decline in cash position, driven by high housing **mortgage costs**, which dominated their spending and **lower disposable income growth** vs. other age groups. This is because they are typically among the highest earners, who experienced lower gross wage growth coupled with their income being fully taxable and subject to higher tax rates.

Source(s): ONS; Bank of England; Teneo research and analysis

Note(s): Absolute spend by those 'Older than 75' is lower than others but the proportion that they spend on food is the highest. Food has experienced a 30% inflation in the period and is driving inflation within this age group.

Section 05

Despite small increases in real wages, we expect consumer spending to be constrained

What is likely to happen to spending in 2024?

Despite the recovery in household incomes expected for 2024, we do not anticipate this to translate into significant increases in consumer spending.

	Details	Future outlook
Consumer spending remained stronger than expected despite real wage decline	Retail sales remain strong, driven by **higher prices;** however, we are observing falling volumes	C.60% of adults are **spending less on non-essentials**; with real household incomes falling, no major improvement is expected in 2024
Consumer confidence remains low	The **cost-of-living crisis** has significantly damaged consumer confidence; however, with inflation falling, the Jan '24 consumer confidence index reached levels not seen since Jan '22	Despite this improvement, **consumer confidence is expected to remain low** due to uncertainty around elections, inflation, interest rates and geopolitics
Household real income remains below 2021 levels	Despite real wage growth, households' cash position will be below 2021 levels due to **rising mortgage costs** and **income tax band freezes**	Amid real wage growth, real household incomes are forecasted to grow, but will likely remain **below 2021 levels** until H2 2024 at the earliest
Many private mortgage holders are still anticipating rate increases	In 2023, average **monthly mortgage repayments rose by c.60%** for mortgages up for renewal, leading to a reduction in spend of 50p for every £1 increase[1]	Around **1.5m borrowers** are due to come to the **end of their fixed rate deal** in 2024, with significant increases on their current rates expected
Many households have accumulated debt	Unsecured debt increased by **c.7.5% YoY in 2023**, with default rates spiking at the end of 2023	This trend is expected to continue in the medium term, with **household unsecured debt forecasted to rise by 11%** in 2024, before reaching record levels in 2026
2024 elections will contribute to greater consumer uncertainty	Upcoming elections may unsettle consumers due to **potential policy decisions** (e.g. Labour planning to charge VAT on private school fees)	The Spring budget is expected to include **tax cuts**, potentially providing some respite for consumers

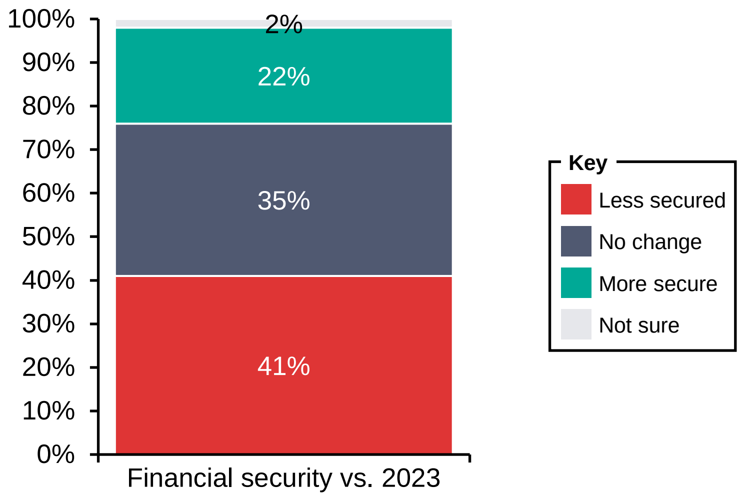
While some increases in spending are expected, we do not expect this to be significantly above the levels observed in 2023

Source(s): ONS; OBR; Bank of England; Guardian; TUC; Teneo research and analysis
Note(s): 1. Based on "How are households adjusting to rising mortgage costs?" insights as part of the biannual survey held by the Bank of England between 30th August and 19th September 2023

Consumer spending and behaviour changes

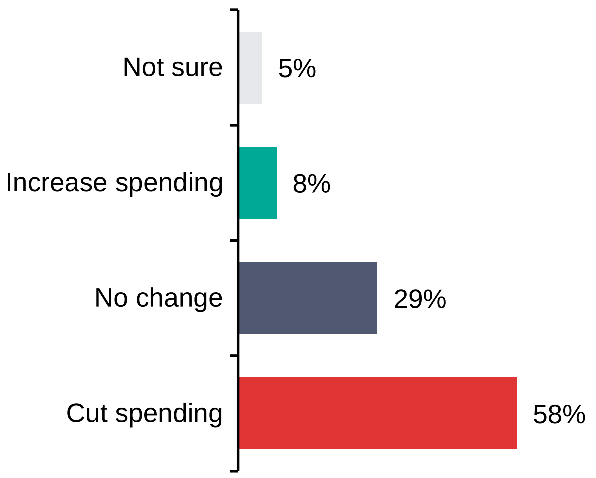
Consumers have indicated that they expect to spend less on eating out, clothing and leisure travel, and the majority are feeling less secure financially as they enter 2024 vs. 2023.

Sense of financial security in 2024 vs. 2023[1]



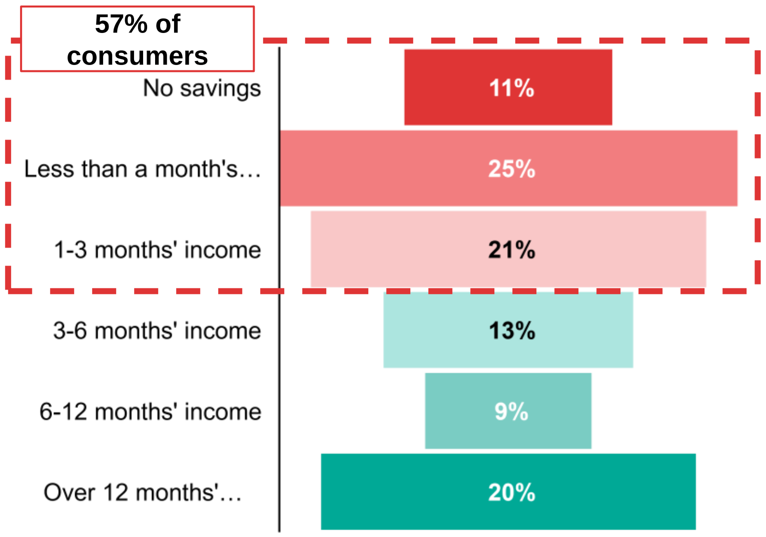
41% of consumers are feeling **less secure in their finances** as they enter 2024 compared to 2023

Expected level of spending vs. 2024[1]



58% of consumers anticipate **cutting their spending** in 2024, planning to save on eating out, clothing, leisure travel and experiences

Level of savings going into 2024[1,2]



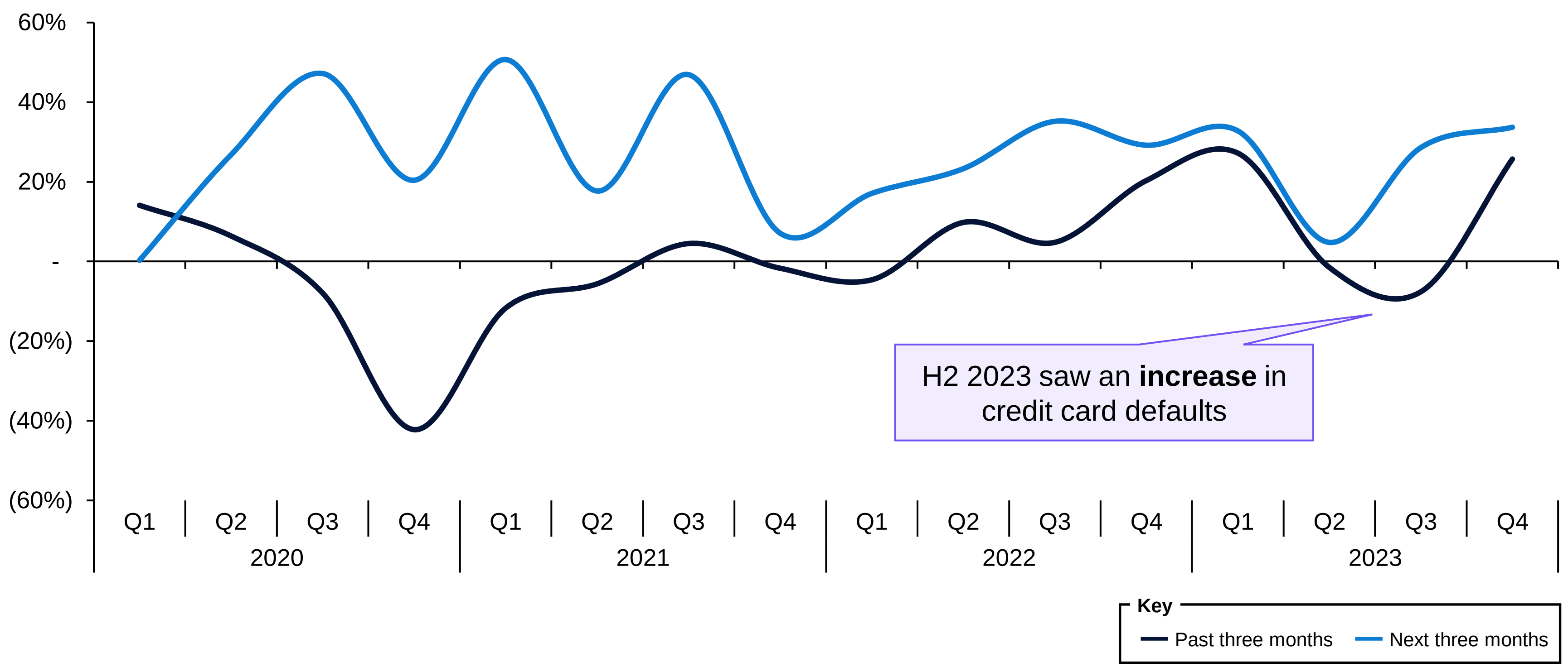
c.60% of consumers expect to enter 2024 with **less than 3 months' income savings**, and, of those, c.20% with no savings at all

Source(s): KPMG; Teneo research and analysis
Note(s): 1. Survey based on 3,000 UK consumers from across UK regions and age and income groups were surveyed online by One Poll from December 1 to 11 2023. They consisted of: 30% homeowner, mortgaged; 31% homeowner, no mortgage; 33% renter; 6% live with parents;14% with children,13% with pets; 2. Reproportioned to exclude 'Prefer not to say category'

Credit card default rate

Alongside reductions in spending, we are beginning to see rising credit card defaults indicating that consumers are still repaying historical purchases and potentially postponing new purchases.

Change in credit card default rate (past/next 3 months)
Change in % of total defaults



Source(s): BoE; Teneo research and analysis

Credit card users experience financial difficulty

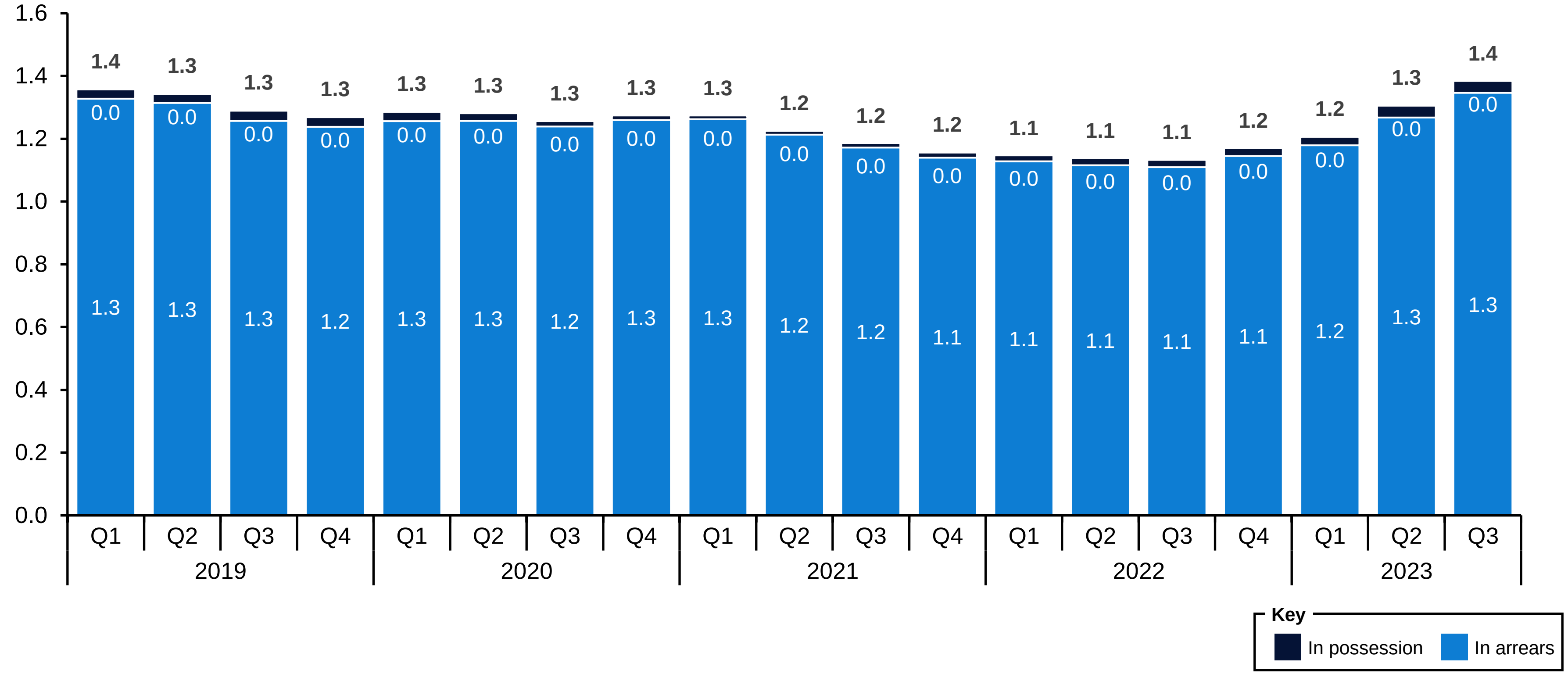
c.32% of UK credit card users always **only pay the minimum amount**. While this group generally has a low credit card limit, they are prone to getting into financial difficulty.

Buy Now Pay Later (BNPL) use is rising, with c.48% of UK adults using it in 2023. Of those who missed or made a late payment in the last 12 months, **c.29% borrowed money to make repayments**, generating further debt.

Mortgage default rate

Mortgage arrears are rising, highlighting the pressure some households are facing to keep up with repayments. Large increases in arrears across the market may trigger upticks in repossessions.

Arrears and repossessions on residential loans to individuals
% of total number of loans



Source(s): BOE; FCA; Teneo research and analysis

Mortgage arrears will continue to rise with more homeowners needing to refix their rates.

The number of **mortgages in arrears is expected to increase by approximately 8%** between Q1'24 and Q4'25. This is due to the growing number of homeowners that will need to refix their interest rate since the rate rises.

The Bank of England is expected to start reducing interest rates in 2024, causing the first lenders to reduce mortgage rates towards the end of 2023. **For 2024, the rates are expected to drop below 5%**, but this is still significantly **higher than the December 2021 average of 2.24%**.

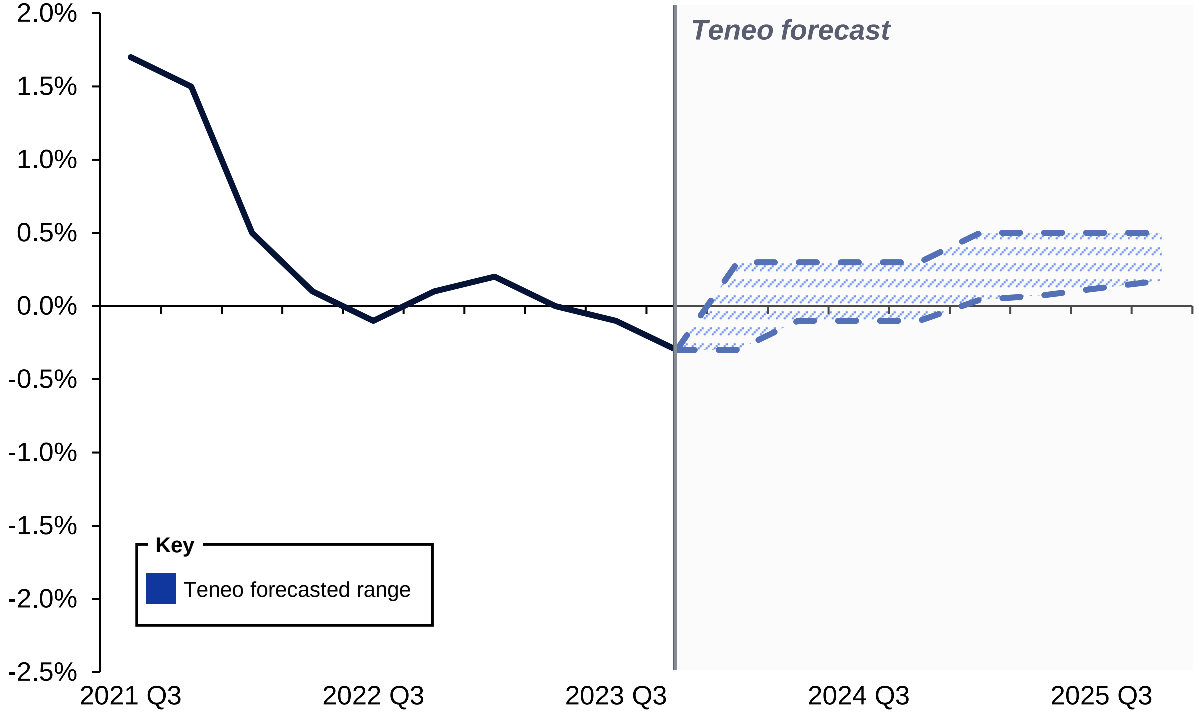
Section 06

What does this mean for H1 2024?

GDP forecast

Pressure on household spending is impacting GDP, partly causing the technical recession in Q4’23. We expect low and stagnating growth to continue in 2024.

Real GDP quarterly growth 2021-2025



Driver	Impact on GDP	Materiality	Description
Consumer spending	↘	M	*Although consumer spending has held up for longer than anticipated, we expect a* ***fall in Q1 2024,*** *thereafter remaining low throughout the year*
Household cash position	→	M	*Despite a small increase in UK household financial positions, UK households will still be* ***worse off than in 2021***
Housing market	→/↘	H	*With interest rates thought to have peaked and mortgage approvals on the rise, the housing market is expected to* ***remain relatively flat****, with predictions around* ***-1.5 to 1%***
Chinese economy	→	L	*China’s GDP growth, though still strong, slowed in 2023 with a* ***similar outlook for 2024***
Investment outlook	→	M	*Businesses are shifting from a period of excess demand to one of* ***excess supply*** *with high costs of capital due to higher interest rates; business investment is set to* ***fall in the near term***

Source(s): ONS; Teneo research and analysis

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