Londoners brace for blockbuster economy week with interest rate hike and inflation data

Londoners are facing a blockbuster week for the economy, one which will set the tone for homeowners, consumers and investors alike into 2023.

We will find out if there is hope that inflation may have peaked in the run up to Christmas during a cost-of-living crisis with interest rates poised to go up, and there will also be numbers on joblessness and average earnings.

The Bank of England is top of the bill, with its December announcement on interest rates at high noon on Thursday. A hike is all but certain and will pile pressure on mortgage holders, with policymakers determined to tame double-digit inflation.

City experts agree that the only question is how big the Monetary Policy Committee's hike will be after it voted for 0.75% last time, which took base rates to 3%. Andrew Goodwin, chief UK economist at Oxford Economics predicts a "pivot back to a 0.50% rise," adding:

"There's a good chance a minority of members will support a smaller rise or even keeping rates unchanged, which would support our view that investors remain too bullish on how high rates will peak." Markets currently expect the BoE's base rate to top out between 4.5% and 4.75% as the MPC tries to bring inflation down toward its 2% target

Its nine members will have plenty to discuss before their rate vote from a slew of important numbers due out earlier in the week.

First up is the monthly number on the size of the economy. Due on Monday at 7 a.m., the gross domestic product reading tracks the value of all the goods and services produced in the UK and will shed further light on whether it is already in recession.

The widely accepted recession definition kicks in with two consecutive quarters of contraction. After a decline in the third quarter, the data won't take the UK past that line until the end of December. But the October numbers will offer another signpost on the journey, with many economists already convinced recession has arrived, while the Bank of England itself says it is on the way.

READ MORE

- Bank of England predicted to hike interest rates further to 3.5%
- House prices record biggest monthly fall since 2008 in November
- Londoners now spend 75 per cent of their income on their mortgage
- Chancellor's post-Brexit City reforms risk a "race to the bottom"

According to forecasts from Deutsche Bank, October GDP will rise by 0.4%, bouncing back from a drop of 0.6% in September, which was largely driven by the public holiday held for the funeral of Queen Elizabeth II.

Sanjay Raja, chief UK economist at Deutsche, predicts that when fourth quarter data arrives, it will indicate recession, which he expects "to last four quarters, with GDP shrinking by around 1.5% peak-to-trough." He adds: "The ongoing cost of living crisis, elevated economic uncertainty, and rising cost pressures all point to a deteriorating outlook in the months ahead."

So far, the jobs market has been resilient during the downturn. Employment data, out on Tuesday at 7 a.m., is expected to show a relatively low jobless rate at 3.6%. Average earnings data will be paid close attention by the BoE as it fights inflation. HSBC estimates that the weekly rise in pay will reach 6.2%

Wednesday will also be a busy day, bringing headline inflation data for November. HSBC expects it ease back slightly to 10.9% from 11.1% in October. But that will leave it significantly above the BoE's official target of 2%, leaving the way wide open for rate hikes.

But James Hughes, chief analyst at Scope Markets said: "It's vital to remember that the inflation we saw a year ago has not been sustained. Wheat and crude oil are now back at level seen before the Russian invasion of Ukraine, suggesting that some significant contraction will be seen here in the next few months."

By the end of a stellar week for economic data, Londoners should have a clearer picture of where they stand in terms of recession, the cost-of-living crisis and the outlook for interest rates and mortgage costs.