What's In-Store for the UK Economy?

By Sophie Oldman

Over the past two years, the UK economy has changed beyond measure. After COVID ushered in another recession, several furlough schemes, inflation and the rising of interest rates, it's safe to say that the economy has seen some turbulence.

While this has put downward pressure on almost all areas of the economy – apart from the property market seemingly – it has also forced most industries to adapt and most importantly, think outside of the box. Whether it was al dente dining or the shift to working from home, UK industries have shown more flexibility than ever before.

Now, as we continue to 'live with COVID' and see a full economic recovery to pre-pandemic levels, we're slowly but surely seeing more changes across the landscape. Sophie from Joseph Mews, a property investment company in Birmingham, discusses how the economic landscape is changing and what the future holds for the UK.

What's Changed So Far?

2022 held many possibilities for the UK – were we finally going to experience the full effects of Brexit? Were we going to see a sharp market correction in the property industry? It was unchartered territory and one of the more unexpected outcomes soon emerged – a rise in inflation.

While we all knew it was a very realistic possibility for 2022, the rate in which inflation increased was the most shocking part. Towards the end of January, the Bank of England announced that inflation has reached its highest point in around 30 years. With prices rising at 5.4%, the rate of inflation is outpacing the growth of UK income.

According to economists, rising inflation has been on the horizon for the best part of 30 years, with the global pandemic putting additional pressure on the economy and catalysing this increase. When combined with the recent rise in interest rates, the wider effects of the pandemic are only becoming more apparent.

In an attempt to compensate for Covid-related losses, the Bank of England dropped the interest rate to 0.1% during the height of the pandemic. While the initial rise saw it reach 0.25% at the start of the year, this was quickly increased to 0.5% – the rate it stands at today. An increase in interest rates was expected by the majority of the UK, especially those who experienced the financial crisis. That said, it still remains at one of its lowest points ever and right now, there's still uncertainty around the impact it could have going forward.

The Economy

When it comes to the economy, rising inflation and interest rates are double-edged swords. Inflation can have both positive and negative effects on the economy. The immediate effects, however, are not usually beneficial for consumers. If inflation is controlled at lower rates, the economy will grow organically and prosper, but if it rises too much, too quickly, it usually has adverse effects on the economy.

With inflation reaching its highest peak in 30 years, the dramatic rise in living costs means that many households across the UK are struggling as a result. That said, the UK government has been advised to introduce additional measures to minimise these effects going forward.

Rising interest rates could also have consequences for the wider economy. Lower interest rates over the past two years offered more incentive for people to spend their money as opposed to saving, which was a significant contributor to the economy's recovery.

However, with interest rates now reaching 0.5%, the incentive to save money is slowly but surely returning. Subsequently, this results in a less lucrative economy, and interest rates are only set to increase further. Professionals expect that these two rises are just a glimpse of what is yet to come, with the possibility of a 1.25% interest rate by the end of the year. While this may seem like a big increase, the effects of this should be minimised, providing the interest rate grows gradually.

The Property Market

The last two years have taught us many things, one being the resilience of the UK property market. During the UK's recession, there was more market activity in the market than ever before and property prices reached new highs, buoyed up by the government's tax incentives and pent-up demand.

Although a sharp market correction wasn't looking likely at the start of 2022, both the rise in inflation and the increase in interest rates could catalyse several changes throughout the UK property market.

The rise in interest rates could have more notable impacts on the property market, but it's crucial to remember that the current interest rate is lower than it was before the pandemic. Standing at 0.75% in March 2020, the interest rate was 0.25% higher than it currently is, meaning property remains a fairly accessible asset, whether you're a homebuyer or investor.

While further rises will inevitably make purchasing a property more expensive, the Bank of England has (so far) stood by its claims to increase this rate incrementally, instead of imposing abrupt increases. This means that in combination with the forecasted 4.5% increase in property values, should see the market remain buoyant for the foreseeable future, which in turn, should sustain the UK economy to a certain extent.

Over the past two years, we've experienced many firsts – a 0.1% bank rate, the first time the average UK asking price surpassed £300,000 and, for many of us, the country's first recession. In one way or another, the global pandemic was at the root of these, and to compensate for this, we're gradually seeing more changes throughout the economy.

While rising inflation and increasing interest rates pose many possibilities for both the economy and UK property market, the gradual increases we're seeing – especially in interest rates – should subside the wider impacts on society.