



Norwich City Council Treasury Management Member Training

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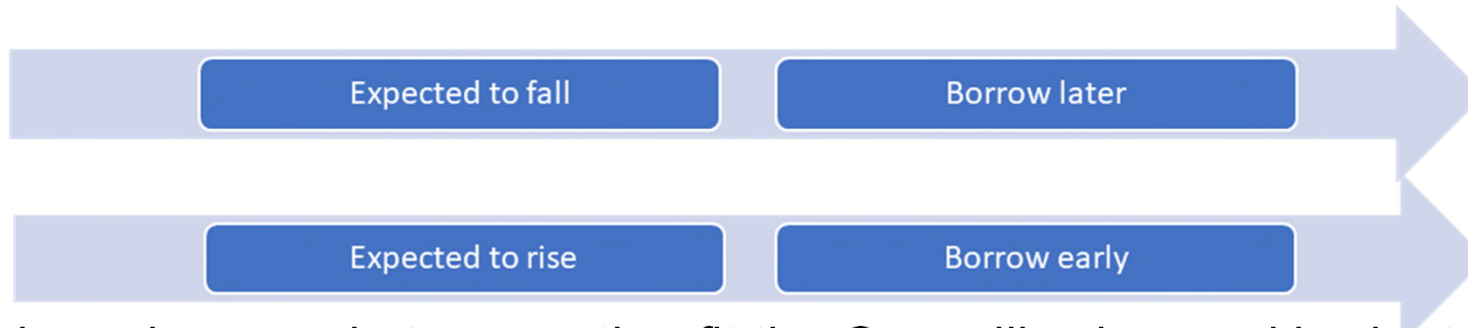
Monday 14th November 2022

Economic outlook & interest rates

Financial Markets / Economy – Why is it important?

Economic view impacts on:

- **Forecast for borrowing interest rates**



But, how does market perception fit the Council's view and budgetary constraints?

- **Forecast for investment interest rates**



But, how does market perception fit the Council's view?

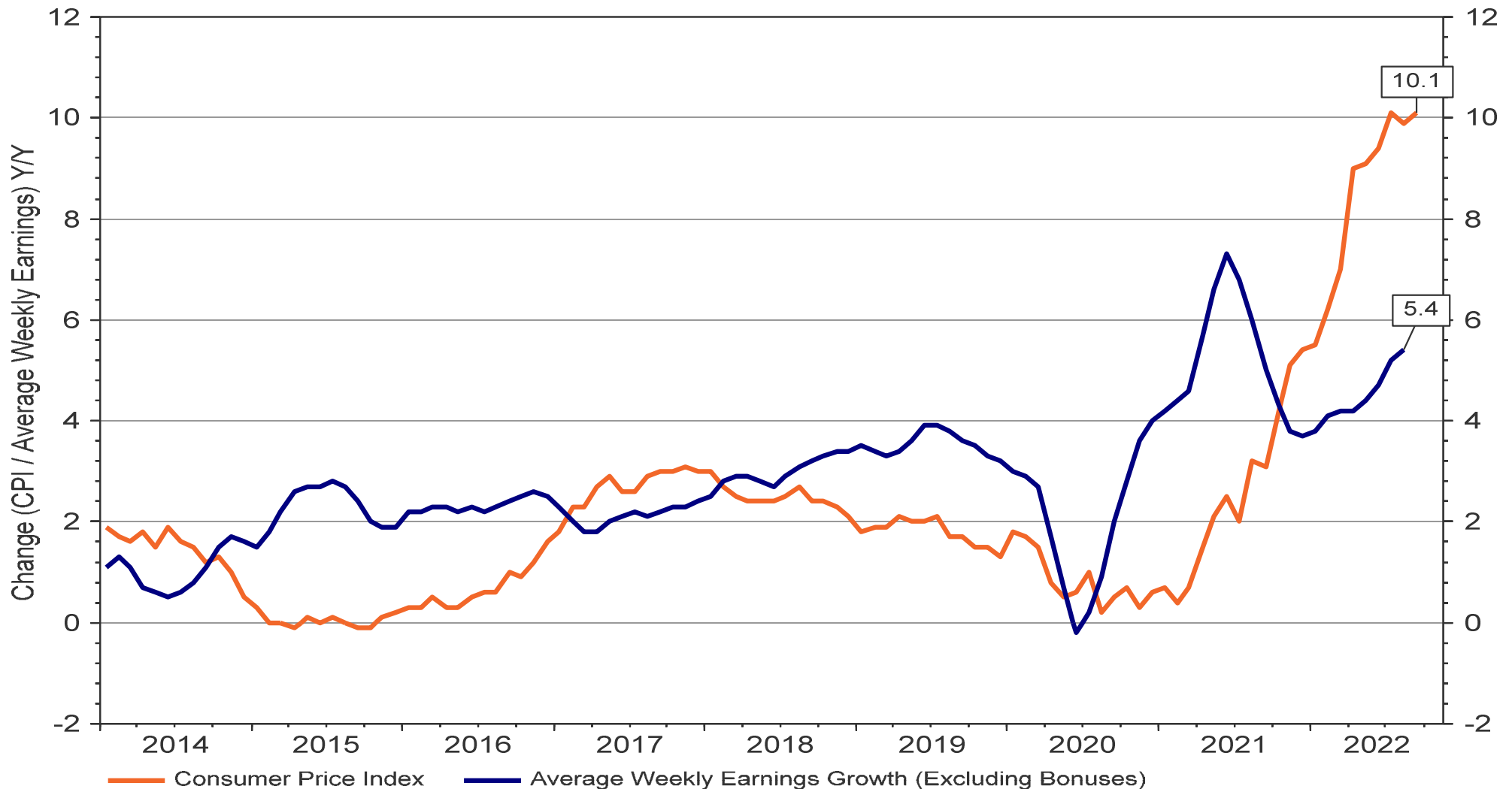
- **Credit environment**

- What levels of risk are there in the economy?
- If banking position fragile, invest in higher quality

Key economic indicators comparison

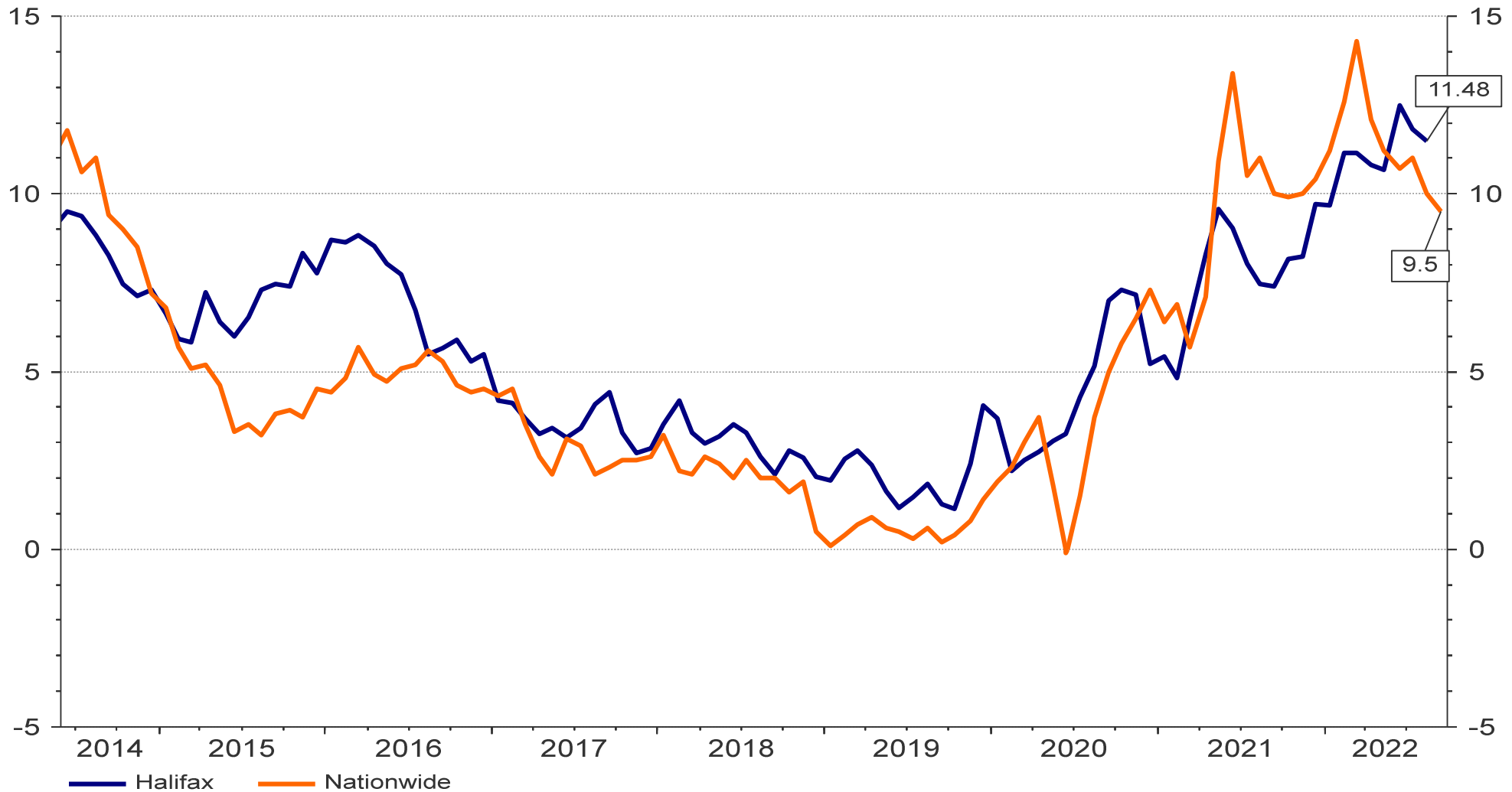
	UK	EZ	US
Bank Rate	3%	0.75%	3.75% - 4%
GDP	+0.2% q/q Q2 (4.4% y/y)	+0.8 q/q Q2 (4.1% y/y)	-0.6% Q2 annualised
Inflation	10.1% y/y (Sept)	9.9% y/y (Sept)	8.2% y/y (Sept)
Unemployment Rate	3.5% (Sept)	6.6% (Aug)	3.7% (Oct)

Inflation (10.1% CPI) has raced past the pace of wage increases (5.4% excl. bonuses). Real earnings will be sharply negative in 2022 and 2023. Cost of living squeeze is the biggest in a generation.



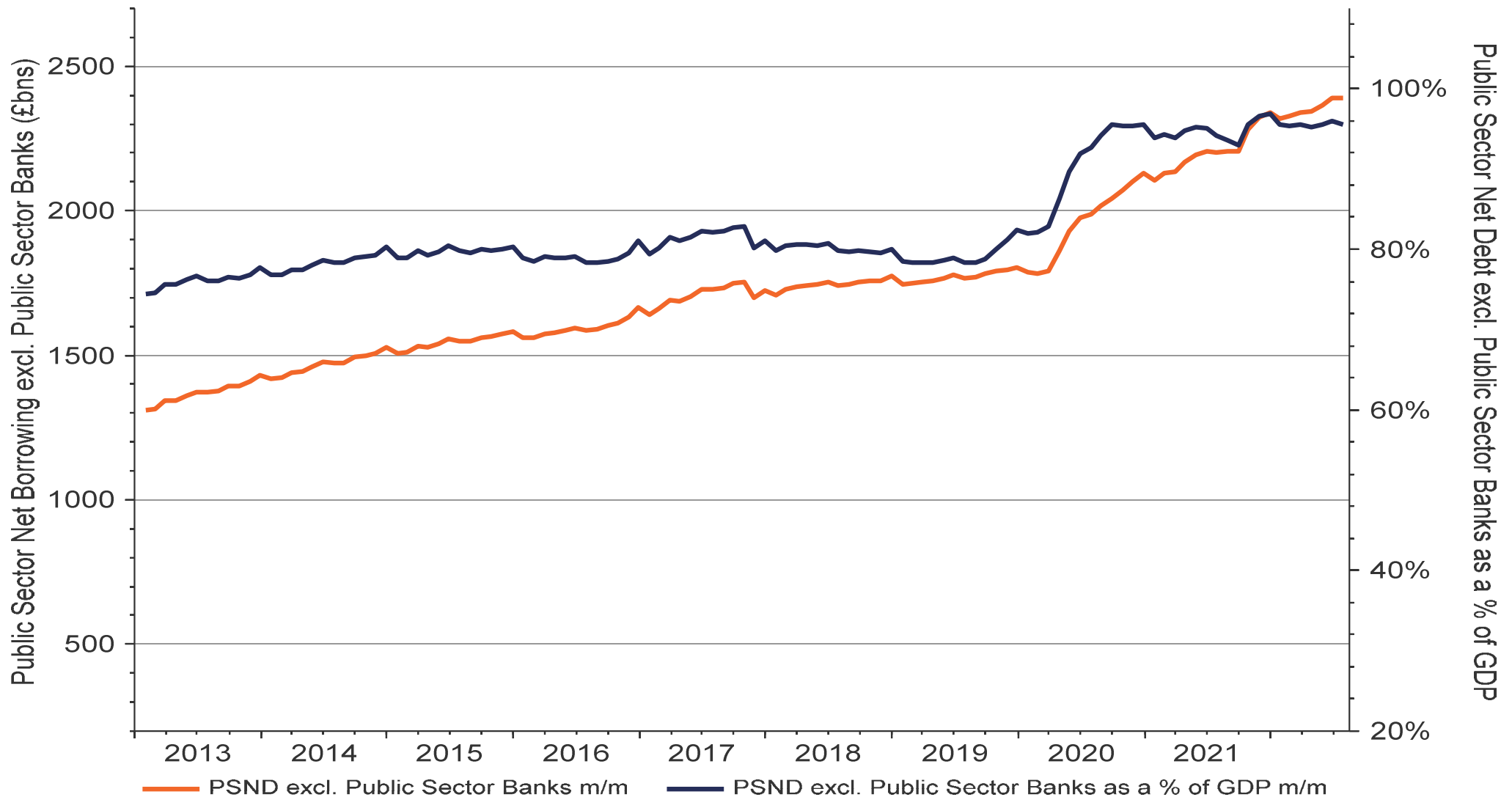
Source: Refinitiv Datastream

The UK housing market is still exhibiting strong, positive sentiment. Mortgage approvals are moderating, but house prices are remarkably up by c10% y/y. However, the benefit of Stamp Duty cuts will be swamped by higher mortgage rates.



Source: Refinitiv Datastream

The UK national debt is c£2.4 trillion. Debt : GDP ratio is 95.5% (highest since 1960s). Hence the discussions of late as to what is affordable.



Source: Refinitiv Datastream

Monetary policy is tightening dramatically. Markets need reassuring that inflation will not become entrenched in a wage spiral. Weak £ won't help.



Bank Rate														
	NOW	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Link Group	3.00%	3.50%	4.25%	4.50%	4.50%	4.50%	4.00%	3.75%	3.50%	3.25%	3.00%	2.75%	2.50%	2.50%
Capital Economics	3.00%	3.75%	4.75%	5.00%	5.00%	5.00%	4.75%	4.25%	3.75%	3.25%	-	-	-	-
5yr PWLB Rate														
	NOW	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Link Group	4.34%	4.30%	4.30%	4.20%	4.10%	4.00%	3.90%	3.80%	3.60%	3.50%	3.40%	3.30%	3.20%	3.10%
Capital Economics	4.34%	4.50%	4.30%	4.10%	4.00%	3.80%	3.70%	3.60%	3.60%	3.50%	-	-	-	-
10yr PWLB Rate														
	NOW	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Link Group	4.53%	4.50%	4.50%	4.40%	4.30%	4.20%	4.00%	3.90%	3.70%	3.60%	3.50%	3.40%	3.30%	3.20%
Capital Economics	4.53%	4.30%	4.20%	4.10%	4.00%	3.80%	3.80%	3.70%	3.60%	3.60%	-	-	-	-
25yr PWLB Rate														
	NOW	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Link Group	4.75%	4.70%	4.70%	4.60%	4.50%	4.40%	4.30%	4.10%	4.00%	3.90%	3.70%	3.60%	3.50%	3.50%
Capital Economics	4.75%	4.30%	4.30%	4.20%	4.20%	4.10%	4.00%	4.00%	3.90%	3.90%	-	-	-	-
50yr PWLB Rate														
	NOW	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
Link Group	4.30%	4.30%	4.40%	4.30%	4.20%	4.10%	4.00%	3.80%	3.70%	3.60%	3.40%	3.30%	3.20%	3.20%
Capital Economics	4.30%	4.20%	4.20%	4.10%	4.10%	4.10%	4.00%	3.90%	3.90%	3.80%	-	-	-	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction from the new Standard Loan rate of 100bps over Gilts effective as of the 26th November 2020.

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