Kush Kapoor
10/01/2021

RAMBLER INVESTMENT FUND

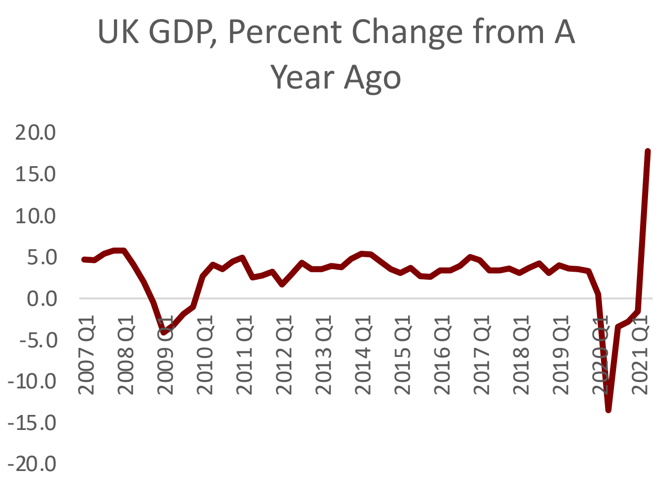
United Kingdom Macroeconomic Overview

Economic Profile

Country	**United Kingdom**
Currency	**Pound (GBP)**
Population	**68.10 million**
Economy	**Developed**
GDP	**$2710.97 billion**
GDP PPP	**$44,117**
Largest Trading Partner	**European Union**

Market Outlook

Point in Economic Cycle	**Right-of-Trough**
Outlook	**Bullish**



GDP Growth of the United Kingdom, Percent Change from Year Ago, Prev 14 Years (Source: St. Louis Federal Reserve)

Macroeconomic Thesis:

After doing research on a multitude of lagging, leading, and coincidental economic indicators, I believe that the United Kingdom is to the right of its trough in the current business cycle. My outlook for the near future is bullish and although the whole world is struggling to recover from the global pandemic, the United Kingdom has continued to push for strong economic growth, providing for a positive outlook.

I chose to focus on the United Kingdom because it has the fifth largest nominal GDP in the world, and therefore, has a significant influence on the global economy. Furthermore, the UK is home to one of the largest stock exchanges in the world, the London Stock Exchange.

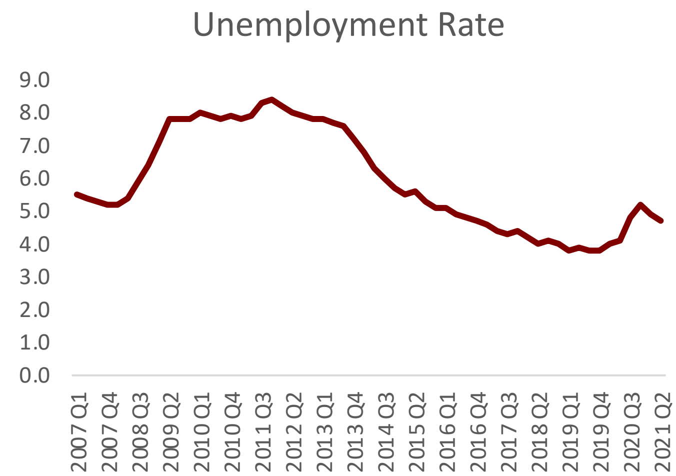
After researching economic data such as unemployment, private consumption, inflation, housing starts, the production index, and gross domestic product (GDP), I support a positive outlook on the British economy. Unemployment continues to remain low compared to other world powers, private consumption expenditure has recovered robustly, and housing starts have returned to pre-pandemic levels. British GDP has also significantly grown and has increased over 15% from a year ago in Q2 2021. Overall, I have an optimistic outlook in a bullish economy for the near future, even though the world continues to struggle with the COVID-19 pandemic.

Taking a look at geopolitical factors, the most variable factor is COVID-19, specifically the Delta variant. The UK has considerably reduced cases and are beginning to return to some sense of normalcy, especially with the distribution of vaccines across the nation. However, the threat of this new variant could result in higher case counts, which could possibly make the UK return into a lockdown. Vaccination rates, however, have significantly grown in the United Kingdom, which support my optimistic outlook. Prime Minister Boris Johnson is also optimistic about his vaccine distribution plan, which could be the deciding factor in the progression towards a pre-pandemic economy.

Economic Indicators

Unemployment Rate:

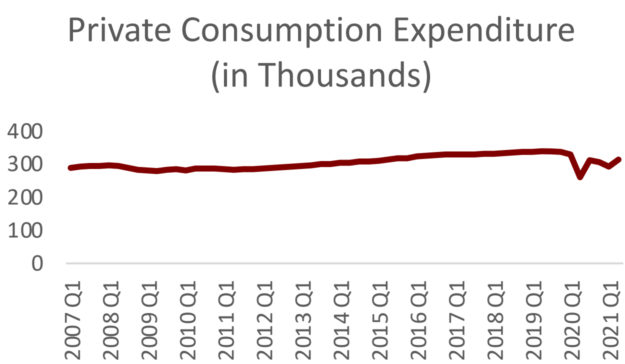
As one of the most standard economic indicators, the United Kingdom's current unemployment rate is far better than many of its European counterparts. The United Kingdom's unemployment rate peaked at over 8% after the Great Recession, then fell to just under 4% in 2019. The pandemic increased unemployment to around 6%, but not increase to the extent that other world powers did. This was mainly due to a generous furlough scheme that paid the wages of workers who otherwise would have been laid off. The unemployment rate, however, never raised to the level of the financial crisis and that helped the United Kingdom to not drastically lose economic traction as the rest of the world came to a standstill.



Unemployment Rate, Prev 14 Years (Source: U.K. Office of National Statistics)

Private Consumption Expenditure:

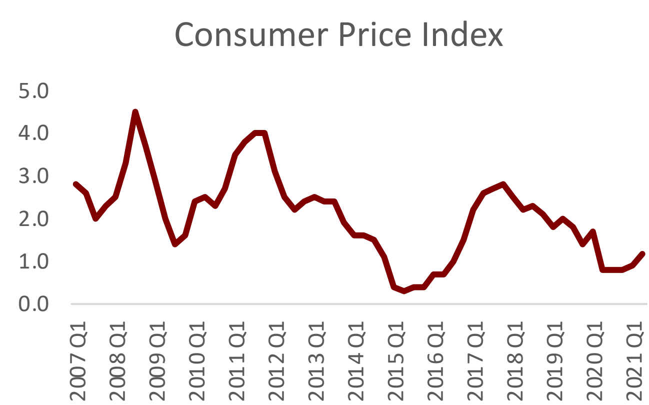
Private consumption expenditure (PCE), measures consumer spending on goods and services. Private consumption includes all purchases made by consumers, such as food, rent, energy, clothing, health, leisure, education, communication, transport as well as hotels and restaurant services. It also includes durable goods (such as cars), but not households' purchases of dwellings. Since private consumption accounts for the largest part of GDP, it is the key engine that drives economic growth. From the graph, you can see that PCE drastically fell and has since recovered. Although it is not pre-pandemic levels, it is recovering as the economy continues to strengthen. Consumption will only continue to grow as lockdowns ease throughout the country.



Private Consumption Expenditure in the United Kingdom, Prev 14 Years (Source: UK Office of National Statistics)

Consumer Price Index (CPI):

The Consumer Price Index compares the prices of goods year to year by using a specific basket of goods, which is a measure of inflation. The recent decrease in CPI can be attributed to the pandemic and its impact on consumer spending. CPI fell in the latter stages of 2020 to around 1% change from the previous year but since risen due to the large fiscal stimulus passed by Parliament. The Bank of England is aiming for a rate of about 2%, which has already been surpassed. ONS's basket of goods did not reflect grocery purchases or streaming subscriptions until recently. Many economists see this rise in inflation as a correction, but it can take several months before there is a sense of understanding of the situation.

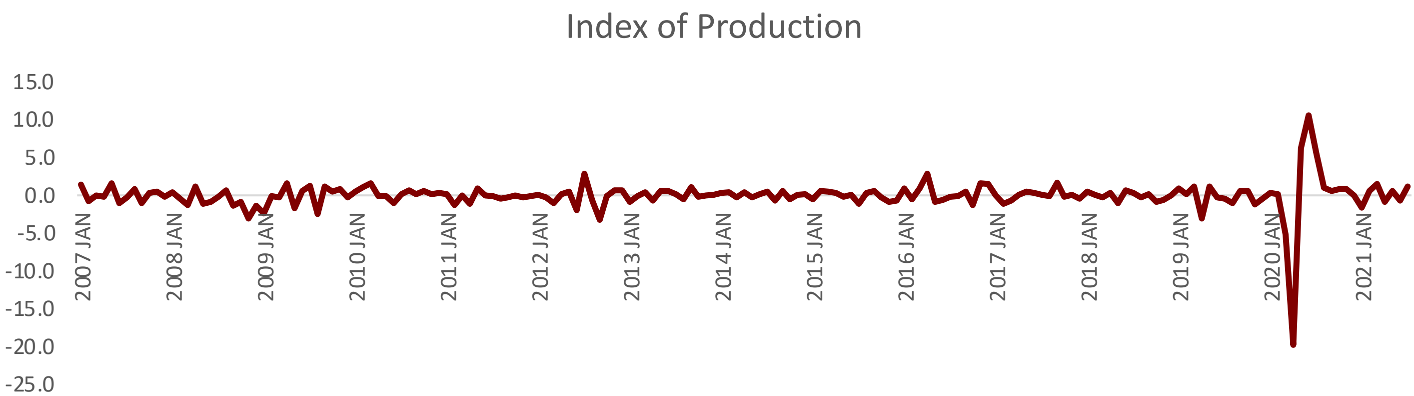


Consumer Price Index, Prev 14 Years (Source: UK Office of National Statistics)

Economic Indicators

Index of Production:

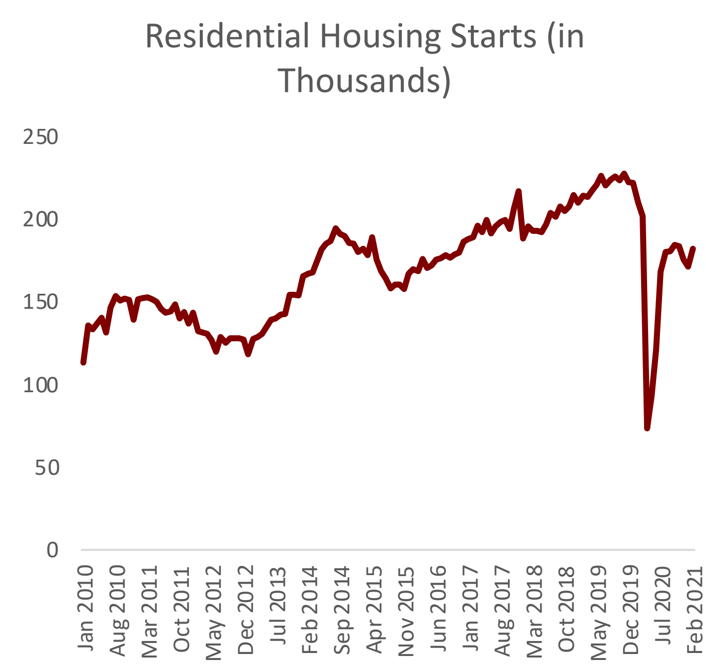
The United Kingdom Industrial Production Index provides information on the movements in the volume of production for the UK production industries: manufacturing, mining and quarrying, energy supply, and water and waste management. Capacity utilization is a useful indicator of the strength of demand. Low-capacity utilization, or overcapacity, signals weak demand. High-capacity utilization, on the other hand, can act as a warning that the economy is overheating, suggesting the risk of price rises and asset bubbles. This index has tanked nearly 20 points in 2020 due to the pandemic and has since risen to pre-pandemic levels. Continued strength in this index will aid in the recovery of the economy and the return to pre-pandemic conditions. Although there have been worldwide supply chain issues, this drastic increase came from an increase of over 30% in mining and quarrying, specifically extraction of crude petroleum and natural gas, after falling off due to the COVID-19 pandemic.



Manufacturing and Production Industry Index, Prev 14 Years (Source: U.K. Office of National Statistics)

Housing Starts:

Usually, more houses being constructed leads to a better economy. This is because many materials are required in the construction of a new home, but these materials are not being bought at previous rates. Due to social distancing rules, it has been difficult for construction projects to be initiated or continued, and as a result, housing starts have greatly declined. The number of residential housing starts was around 225,000 in late 2019, an 11 year high, and has drastically fallen ever since. This plummeting number can also be attributed to the fact that millennials prefer to live in apartments rather than houses due to the fear of taking out mortgages with student loans, but the main source of the decrease is a result of the ongoing Coronavirus pandemic. This number, however, has begun to rise again as the UK economy recovers. Housing starts may not return to pre-pandemic levels, but signs are showing of strong recovery.



Output of the Construction Industry and Several of its Outputs, Prev 10 Years (Source: Statista)

Geopolitical Factors

COVID-19 and the Delta Variant

Nearly two years after the first ever reported case of COVID-19, the global pandemic has continued to ravage, even with the distribution of life-saving vaccines. Even though the United Kingdom has vaccinated over 67% of its population, it only ranks 17th in the world in total population vaccinated. The UK continues to average around 32,000 positive tests per day, lower than its peak but higher than what Boris Johnson would like it to be. AstraZeneca and the British government reached a deal earlier in 2021, which was expected to make the UK a prioritized market but has not reached its full potential. Even with nationwide lockdowns over and people heading back to work, the economy has continued to have a stagnant economic recovery. With the new Delta variant, cases are expected to go back up as the upcoming flu season approaches. Many countries have already introduced lockdowns as this “super variant” spreads uncontrollably across the globe. However, Great Britain is continuing to push vaccine efforts and has continued to reopen parts of the economy as it gains a stronghold over the variant. This will lead to strong economic growth as people go back to work and continue to contribute to economic recovery efforts.

Federal Stimulus and Social Care

British Parliament has long promised an overhaul of social-care funding, and media reports suggest that Rishi Sunak, Chancellor of the Exchequer, will raise national insurance payments made by some 25 million taxpayers to pay for it. While a 1 percentage-point increase would raise 13 billion pounds, it would hurt young workers and wage earners the most. It recommends extending the tax hike to working pensioners, increasing the threshold for paying the levy to 10,000 pounds and raising dividend and capital gains tax to help fund the policy. The combined impact of those changes would generate an extra 1.1 billion pounds, it estimates. Over 20 billion pounds of stimulus were already given out during the height of the pandemic and increased government spending could drive up inflation, which would have a negative affect on an already-slow economy. Increased inflation may be important for economic growth, however, and as long as CPI does not go out of control, it is important to have slight inflation to inflate the economy. Parliament has some important decisions to make as the year comes to a close.

Brexit

The United Kingdom, on January 31, 2020, left the European Union. Many thought that this would result in catastrophic consequences on the British economy. Although the British economy is still intact, there is no doubt that the economy has been hammered after Brexit. The most important area where Brexit effects became visible quickly was in the trade in goods. After stockpiling in December, the additional customs and safety checks that were introduced from January 1 caused trade to fall sharply in the first month of the year before it recovered some of the lost ground. After the one-off effects from the introduction of barriers, the question for the years ahead will be the degree to which supply chains crossing the English Channel rupture and the UK becomes a less attractive place to invest in. The other key change so far has been the movement of workers, with new restrictions introduced limiting the rights of EU citizens to come to the UK and work, raising concerns about labor shortages. The UK has rapidly rolled over many trade agreements with countries that already had deals with the EU and is close to signing with other nations such as Australia. Although this is a great sign for the British economy, it is nowhere close to the economic impact that the EU had. As the United Kingdom continues to function without the European Union, only time will tell if the UK is able to continue to make up for its lost trade with other world powers.