

## **Back to the real world**

May 2023 brings a triple header of bank holidays. Or, for many revellers, a triple bank holiday headache. Of course, two of these days happen every year, but the addition of a third is still important, even on a one-off basis. The cost to the UK economy as measured by the hit to GDP is likely to come in at around £1bn even after accounting for the significant boost to the hospitality sector, as well as the less meaningful contributions from heightened sales of tupperware and err... bunting.

It is not that informative to say the economy loses steam when we all get the day off. But it does open a side avenue on productivity generally. The same source (PwC) shows that we'd have been better off if the Bank Holiday had not been on a Monday. This is because the overall average hit to the economy on a Monday bank holiday last year was £877m (or c£982m if we adjust for a year of 10% inflation and a bit of real GDP growth). By comparison, a Friday bank holiday is estimated to cost a net £786m (or c£880m if we make the same adjustments to bring us up to date).

To explain the £100m+ differential, two obvious candidates stand out. Friday is the most popular day off for those on a 4 day week, and it is also the day when people are most distracted by the weekend. If the powers that be insisted on having the coronation bank holiday on a Monday, the first one in February would have been best. That's because it's the most popular sick day in the calendar. The cost of heating Westminster Abbey might have offset any benefit though.

This is all relevant because the country is grappling with productivity issues like never before. The latest release was very underwhelming. We've long lagged behind the Americans, Germans and even the French in terms of GDP per hour worked, and the annualised rate of UK productivity growth has been well under 1% since the 2008 financial crisis. That compares to an average over 1974-2008 of 2.3% a year. What's the solution?

Super-fast broadband and high speed rail should, all else being equal, create benefits. But infrastructure spending can often prove a particularly thorny political issue by going over budget. Perhaps an easier option is to encourage people back into the office more regularly. Office-owning landlords certainly hope others follow JPMorgan's example and demand people get back in more regularly. That too comes with pitfalls – taking away flexibility risks losing your best staff to more 'accommodating' employers. I could go on. But in the interests of moving on and addressing the things this column is meant to address, I best not. Let's just say that the answer to the question 'what's the solution?' is quite often 'the next problem'.

Last week's central bank announcements went largely as expected, with some more incremental increases from the ECB and Federal Reserve. The BoE is likely to follow suit. The main market mover this week will be the US inflation data tomorrow. The market is pricing in around 5% as the rate of annual increase. That is a 0.3-0.4% increase to the core month-on-month rate. Anything much higher risks rocking the boat. The Fed removed the line "some additional policy firming may be appropriate" from its last statement. Instead, we hear that the extent to which more firming is needed "hinges on the economy". That was taken as a victory for those that had been backing a summer peak and cuts later in the year. While lower rates would be welcomed by markets, the worry is that the Fed has hardly

closed off the possibility of a rate reacceleration. That means for the increasingly dovish consensus around the latter half of 2023 to remain, upcoming inflation reads will likely need to be favourable.

On a brighter note, there is of course room for a positive surprise too. That would follow on from what has been a more than reasonable first quarter earnings season. The majority of large US companies have now issued results, and on average earnings have been comfortably ahead of expectations. Strangely, that's usually the case – but this year it's by a greater margin than usual. It was particularly encouraging to hear the major banks and payment processors talk of a resilient consumer, and many industrial groups (especially those in the UK and Europe) describe how supply chain congestion is easing and inflationary headwinds continue to abate. Long may that continue.

Well done to those of you that knew that it was King's yearning heart Jim was asking after. So to speak. For this week – let's straddle the themes of a weekend away and commuting with one from the late 90s. Who was amusingly going "where the air is free", and how were they getting there?

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All charts and data sourced from FactSet

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