The Autumn Statement

November 2022

Following September's disastrous 'mini-budget', the Autumn statement was always deemed, and designed, to be a signal that the adults were back in charge. There is a lot to digest here, and whilst both budgets put growth as a key part of the agenda, Chancellor Hunt's approach is not to cut taxes but instead ensure that those who can afford it bear the largest burden. So, rather than (largely unfunded) fiscal generosity, he is proposing to raise around £25bn more in taxes and cut spending by £30bn, some of the key announcements were:

- Threshold for the top rate of tax (45%) lowered to £125,140 (from £150,000).
- Income tax personal allowances and higher rate thresholds have been frozen for a further two years (until April 2028); as have national insurance and inheritance tax thresholds.
- Tax-free allowances for dividend and capital gains tax are to be cut next year and in 2024.
- Household energy cap extended for one year beyond April 2023 and it has been increased to £3,000 from £2,500.
- Windfall taxes on oil & gas firms have been extended to 2028 and increased from 25% to 35%, and 45% temporary taxes announced on electricity producers.
- Public spending will continue to increase but, importantly, at a slower rate.
- National living wage increased from £9.50 to £10.42 an hour.
- Households on means-tested benefits to receive £900 support payments next year, £300 payments to pensioner households and £150 for individuals on disability benefits.
- Triple-lock remains in place with pensions increasing in line with inflation, at 10.1%.
- NHS budget in England increased by £3.3bn a year and spending on schools by £2.3bn. This will mean larger payments to the devolved governments in Scotland, Wales and Northern Ireland.
- Investment in energy efficiency of homes and industry doubled by £6bn from 2025.
- New nuclear power plant at Sizewell C confirmed.

Taking a step back from all the facts and figures, the outlook is not a particularly rosy one for the UK, although there is at least some honesty in admitting this. The UK is in recession, inflation will remain high, taxes are going up, government borrowing and interest costs increasing, unemployment will rise and house prices fall. The squeeze on households, already significant, is not going to let up anytime soon, with real household disposable income per person falling the most in the 2022-2023 fiscal year since records began in 1956-57.

However, none of this will really be a surprise to anyone and markets are, for the moment, reacting fairly calmly. Markets are, to a degree at least, forward looking and it is important to note that the more sensitive elements of the UK's markets are already reflecting a rather poor outlook. For example, market indices of medium and smaller sized companies, which are more exposed to the UK's domestic economy compared to their larger FTSE 100 peers, have fallen by around 20% this year; this was closer to 30% last month. An index for the prices of UK government bonds has also fallen 20%, and yields subsequently risen to levels we have not seen for years. Finally, after cratering at record levels versus the US dollar following the last budget, sterling has recovered ground and, for now at least, appears more stable. Whilst there will be bumpy times ahead it is important to focus on the slightly longer term, to a world of higher growth, lower inflation and lower mortgage rates. The Office for Budget Responsibility is predicting inflation of 7.4% in 2023 and economic growth of 1.3% in 2024 and 2.6% in 2025. A recession and higher taxes, although painful, should help get us there, for it will slow demand and cool the economy.

Source: FE fundinfo; Data as at 17th November 2022

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