UK in recession? Feels pinch of biggest rate hikes in 33 yrs

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The UK's economy is shuddering to a halt under the weight of the biggest increases in borrowing costs in more than three decades, with concern that rates are headed higher still.

Economists and investors expect the UK central bank to raise its benchmark lending rate by three-quarters of a percentage point to 3 per cent on November 3. That would mark the biggest single increase in 33 years.

Households already are paying more for new mortgages, and businesses are complaining about the rising cost of credit. The government is scrambling to cut spending after a surge in market interest rates sent its debt servicing costs soaring. Together, those forces mean the UK probably has already entered a recession.

"We're in for a fairly nasty recession," said Innes McFee, managing director of Oxford Economics "The macro response is still set to tighten as we head into a very difficult winter."It marks the biggest tightening cycle since the period from 1988 to 1990, which brought rates to a peak of 15 per cent.

UK mortgage rates have surged close to peaks last seen in the 2008 financial crisis. Liz Truss roiled markets during her brief spell as prime minister with promises to boost borrowing and slash taxes, a package that since has been reversed after Sunak took over.

The cost of a two-year fixed-rate mortgage is now 6.48 per cent, near the highest in 14 years and up from 2.34 per cent in December, according to Moneyfacts Group. At that price, those who borrow about £200,000 will spend at least £10,000 more over the course of two years than they would have at the end of last year.

Those figures will weigh on what buyers can afford in the housing market. Lloyds Banking Group expects house prices to fall 7.9 per cent next year and sees one scenario where the drop could be as sharp as 18 per cent.

Analysts at Credit Suisse say that house prices "could easily fall 10 per cent to 15," and others including Niraj Shah of Bloomberg Economics predict double-digit declines. Analysts at HSBC have predicted falls of 7.5 per cent nationally and 15 per cent in London Small Business

UK companies are having trouble with high interest rates.

About half of small and medium-sized businesses said the pricing and availability of loans was "poor" in the three months through September, according to a poll by the Federation of Small Businesses. That's the lowest in seven years.

Some firms are priced out of investments they would've been eligible for just a few months ago.

The worry is that many will be forced into insolvency if rates climb above 5 per cent. Begbies Traynor, a consultancy, predicts more than 28,000 companies could go bust next year.

"We are now in an environment that we have not seen for many years, with a dangerous mix of rapidly rising inflation, escalating interest rates and crumbling consumer confidence," said Julie Palmer, partner at Begbies Traynor.

Sunak and Chancellor of the Exchequer Jeremy Hunt are working on plans to fill a £35 billion hole in the public finances with room to spare, which could entail tax rises and spending cuts totaling as much as £50 billion.

Goldman sees Fed rates peaking at 5% in Mar

Goldman Sachs Group economists said the US Federal Reserve could bump up interest rates to as high as 5 per cent by March 2023, 25 basis points (bps) above its earlier predictions, *Bloomberg News* reported on Sunday.

Goldman Sachs Chief Executive Officer David Solomon last week said the U.S. Federal Reserve could hike rates beyond 4.5-4.75 per cent if it does not see "real changes in behaviour." Federal Reserve's next meeting could shed light on how long it will stick to the aggressive monetary policies.

ON THE CARDS

- **Increase of 75 bps** this week
- **Increase of 50 bps** in December
- **Increase of 25 bps** in February and March 2023

The report said Goldman cited three reasons for expecting the Fed to hike beyond February – an "uncomfortably high" inflation, the need to cool the economy as fiscal tightening ends and price-adjusted incomes climb, and avoiding a premature easing of financial conditions. The central bank is expected to raise rates by 75 bps for a fourth straight time at the conclusion of its next policy meeting on November 1-2.

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