

Equity Research; Autumn Statement



Research Report

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Key Risks to Price Target

Not applicable

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Overall premise is to boost UK productivity and help grow UK economy

The Chancellor has announced a series of targeted measures to boost UK productivity primarily via private sector incentives alongside policies to lift GDP growth without triggering higher borrowing or higher inflation.

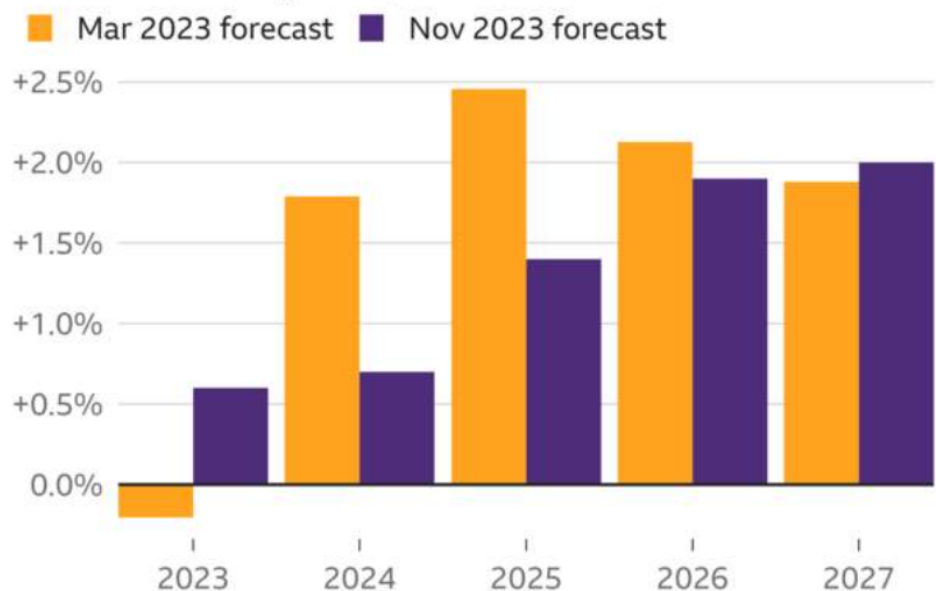
The UK needs a 'more productive state not a bigger state'. The Chancellor wants to increase UK productivity by 0.5% p.a. and ensure public sector growth is always lower than UK GDP growth.

Government forecasts revised but promises kept

The Chancellor expects UK GDP growth of 0.6% in 2023 rising to 0.7% in 2024 and hitting 1.5% in 2025 – an increase in respect of 2023 which was originally forecast to see a contraction in the UK GDP. In respect of next year the forecast has been cut from 1.8% growth.

UK economy to grow 0.6% this year

Annual real GDP growth, OBR forecasts



Source: Office for Budget Responsibility, Office for National Statistics



On UK inflation the targeted 2% rate is now expected to be hit in Q2 2025, a year later than forecast in March 2023.

On debt/GDP the Chancellor expects the debt to decline to 92.8% of GDP by 2029 from current levels approaching 100%.

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The Chancellor will maintain the 2% GDP NATO defence spending commitment and commented that this is a time of 'global threats to the international order'.

The Local Housing Allowance will rise to provide for private renters on the lowest income by increasing average support by £800 p.a.

The Chancellor has kept in place **the 'triple lock'** and has honoured its terms – the basic state pension will increase 8.5% to £221.20 per week equating to a rise of c. £900 p.a.

In keeping with previous commitments to defend the real value of the national living wage, the **Chancellor has agreed a 9.8% increase to £11.44 /hour in the pay rate**, or £1,800 p.a. pay rise for its 1.6m workers.

Focus on business investment

The UK government is to make permanent 'full expensing'.

- i) For every £1 invested in IT, plant and equipment a business can claim back 25p in corporation tax.

Whilst clearly benefiting profitable companies and capital intensive industries the cost of making this relief permanent is estimated at £11bn p.a.

- ii) £4.5bn for UK manufacturing including £975m for aerospace, £520m for life sciences, £960m for green energy with further additional measures by 2030.
- iii) £500m funding for Artificial Intelligence specifically to fund more 'innovation centres'
- iv) £150m Investment Opportunity Fund for freeports and investment zone tax reliefs.
- v) Procurement Act requires companies to keep to 30 day payment terms – from April 2024 a company bidding for government work can be required to show its invoices as having been paid by at the latest 54 days.

National Insurance cut is significant

From 6th January 2024 the Chancellor will cut 2% off National Insurance from 12% to 10% for the £12,571 - £50,271 income bracket saving workers c. £450 p.a. The 2% National Insurance above this bracket will remain. This move will impact 27m working people.

Furthermore for the self employed, Class 2 National Insurance has been abolished saving £3.45 per week and from next April the rate of Class 4 National Insurance will be cut to 8% from 9% saving around £350 p.a.

There is relatively little on personal finance other than:

- i) Chancellor wants to sell a portion of the UK governments remaining NatWest shares to the public via a 'Sid' type offer within the next year.
- ii) Chancellor to consult on giving employees the right to request their employer to direct their pension payments

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into their specific pension as opposed to the company pot. This measure is aimed at simplifying the number of pension pots that are accumulated during the average person's working life.

- iii) ISAs – UK residents will be allowed to open more than one ISA in a year.

Tobacco duty has been increased by 10% however alcohol has been frozen.

'The sting in the tail'

The Chancellor pointed out the challenge to productivity given the issue that the UK workforce has shrunk since 2019 due to the slow returning of people to work.

Of the 7m people able to work, but not doing so, there are c. 1m job vacancies. Hunt has proposed an 18 month work placement scheme for those still out of work after 1 year on benefits. If the out of work individual does not participate in the scheme, after 6 months the unemployed person would lose their benefits.

Conclusion

Taken together the Chancellor wants to, (to borrow from JFK) 'get the country moving again'. This is easier said than done, and the UK cannot afford another debt fuelled tax cut binge, as we quickly learnt from the experience of the former PM. The move to retain full expensing ensures capital investment does not immediately grind to a halt.

Hunt was hired to be careful and ensure the capital markets are kept onboard. This he has achieved and that is no small feat. The approach taken is careful and nuanced with something for everybody and a useful tax cut from January to help with the continued challenge of high financial costs and c. 35k people per week coming off their fixed rate mortgage.

Overall this Autumn Statement scores highly on confidence building and picking up momentum from current slow conditions. Investors should welcome the consumer lift – which will help consumer facing businesses, other than tobacco.

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