

Briefing – Knowledge leaders

Economic focus

10 November 2022



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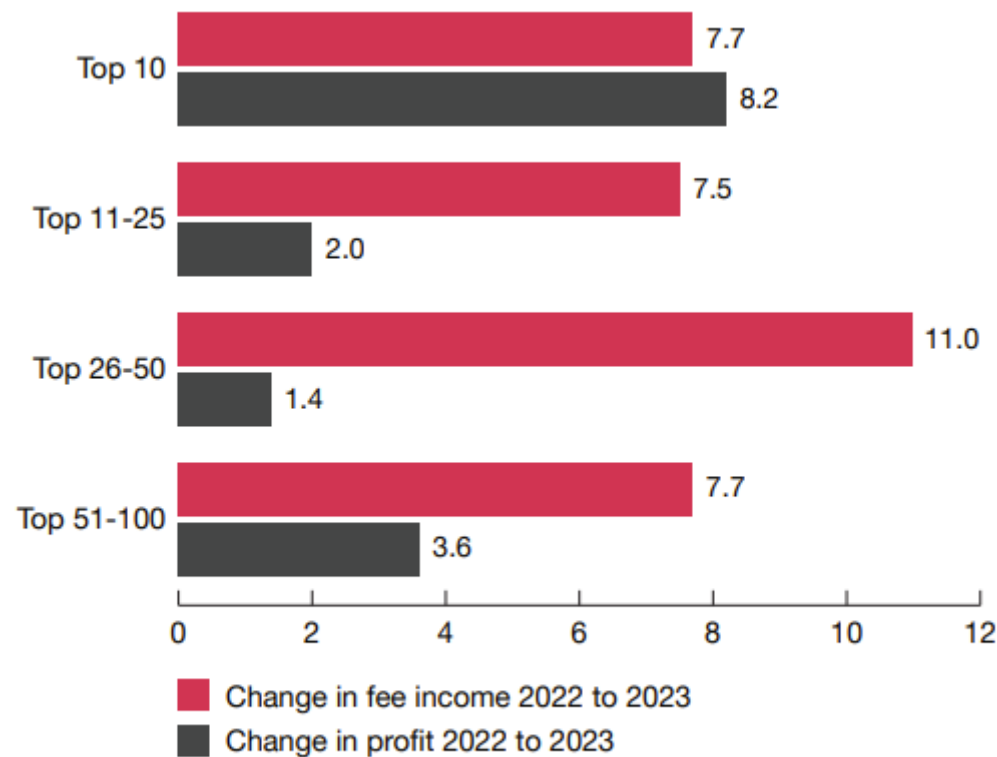


Legal industry performance

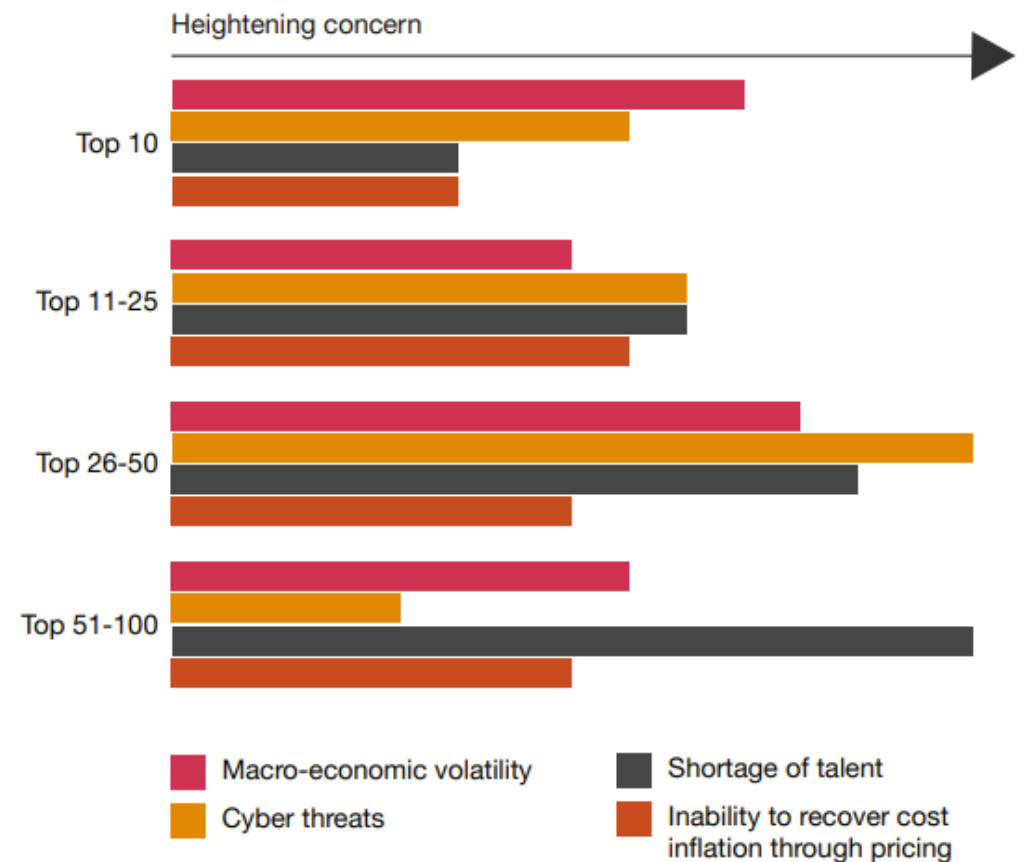
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The UK legal industry is still growing strong, but macroeconomic concerns are rising

Growth in revenue and profit, % (2023-2023)



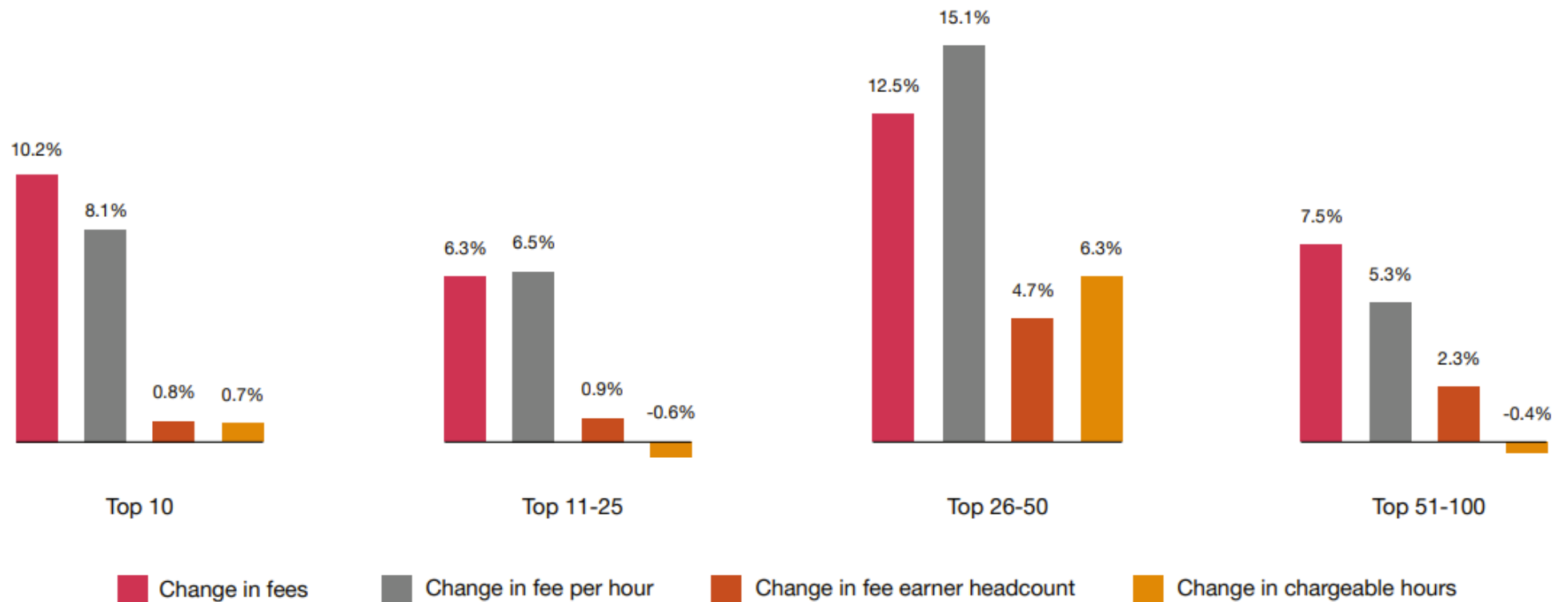
Legal industry concern factors



Sources: PwC Law Firms' Survey 2022 (<https://www.pwc.co.uk/industries/legal-professional-business-support-services/law-firms-survey.html>)

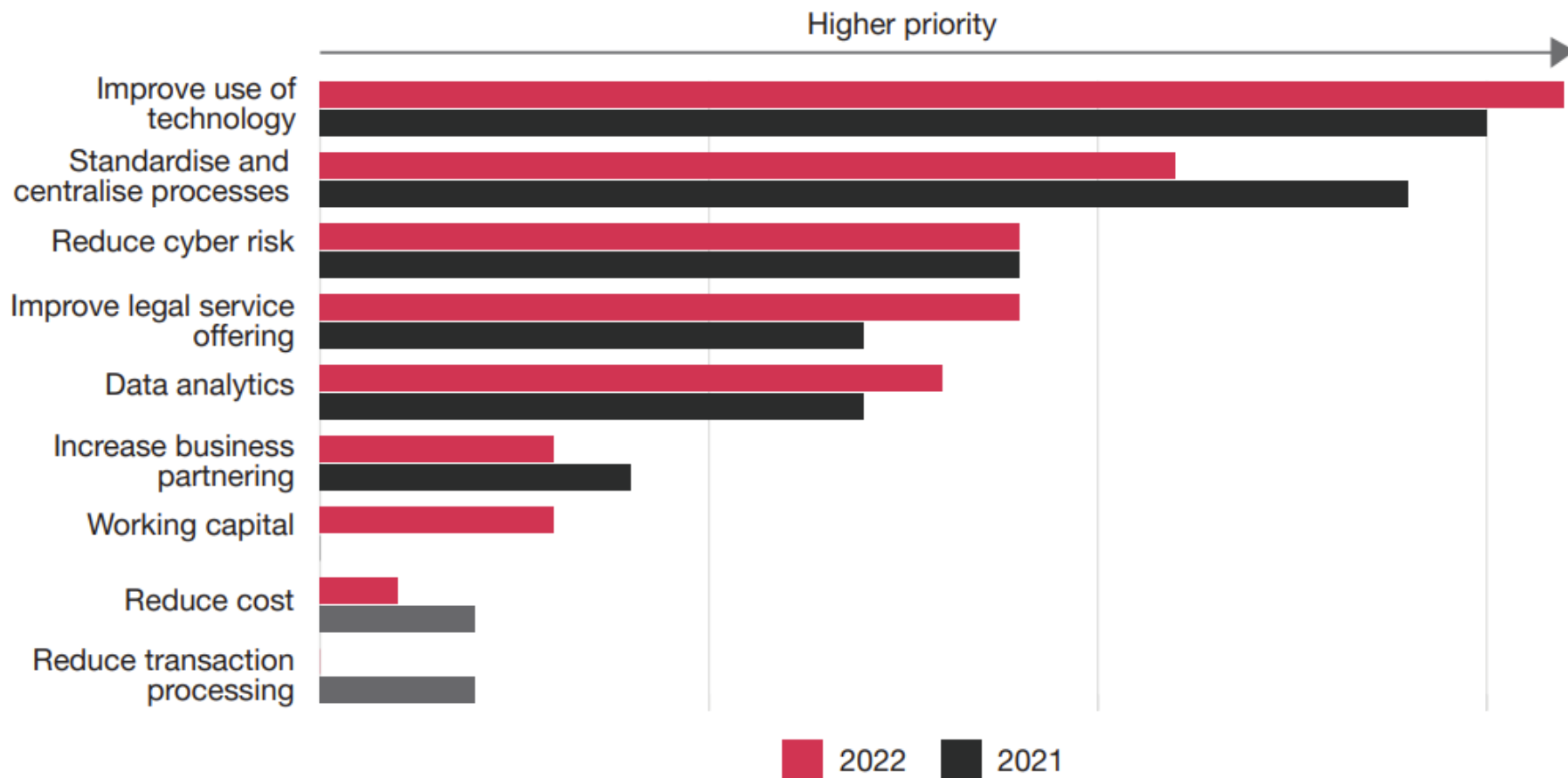
Law firms are driving improved revenue through charge out rates

Change in UK fees, fee per hour, fee earner headcount and fee earner chargeable hours (2021-22)



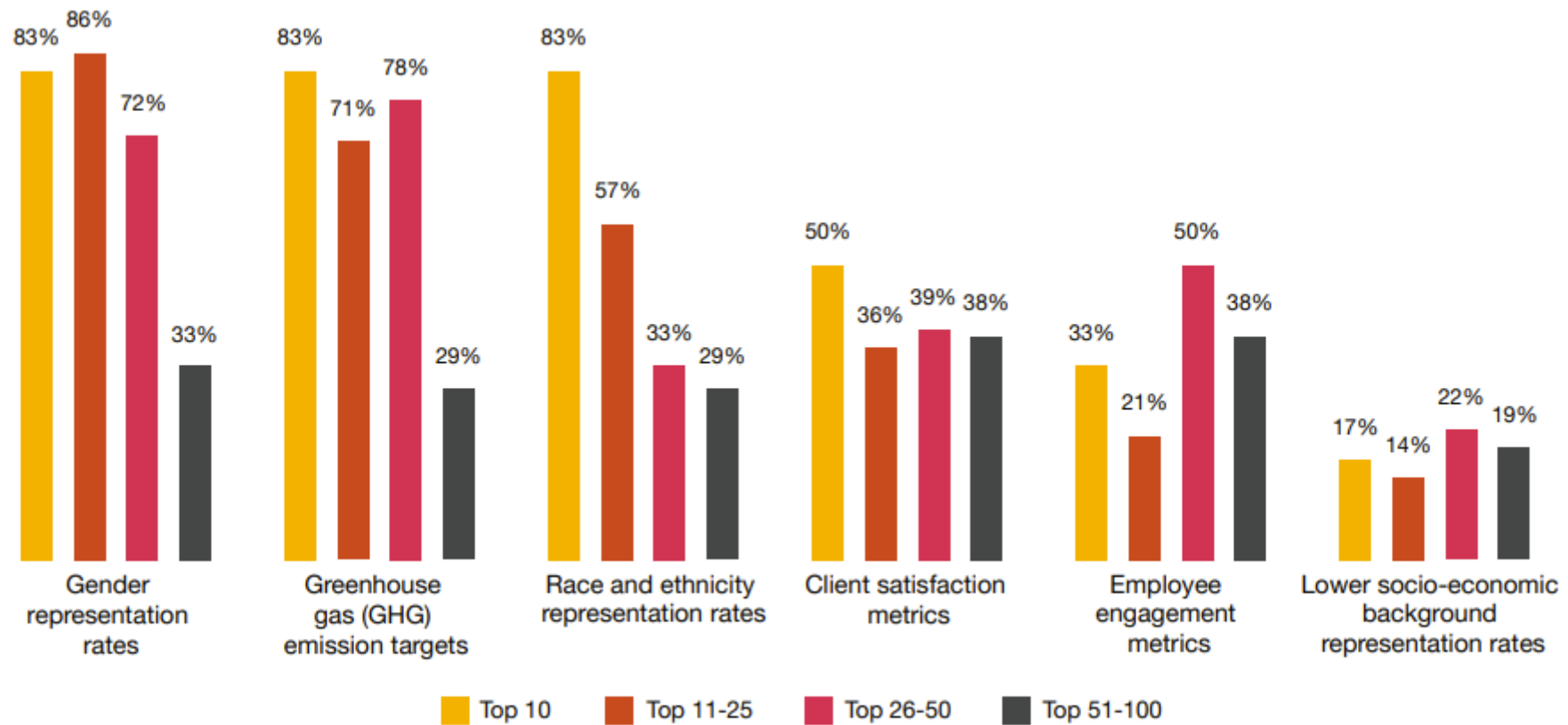
Legal services priorities remain operational improvements

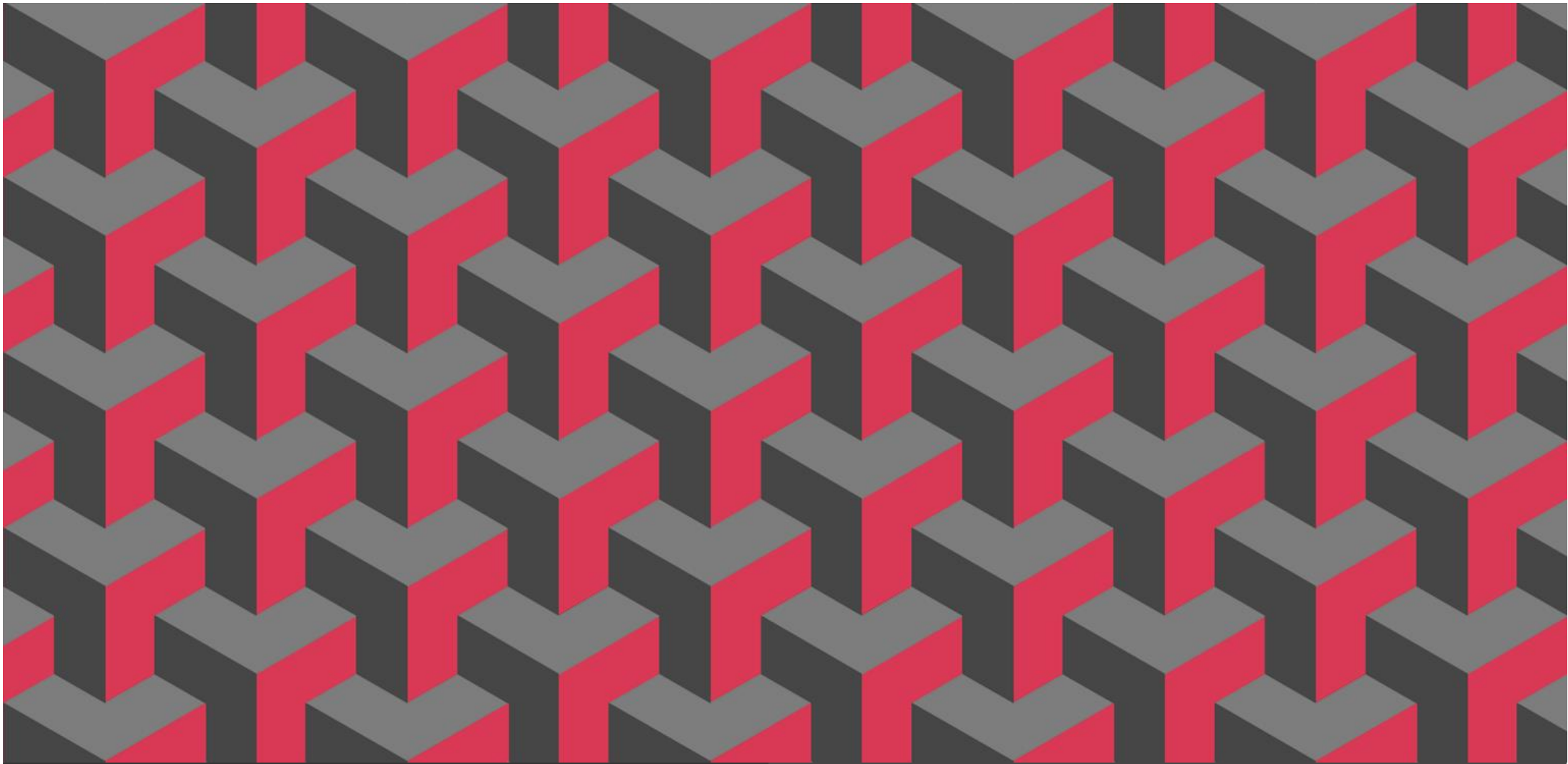
Top priorities for business support over the next twelve months (Top 100 firms)



Good progress on ESG...but further to go

Areas where firms have set specific and measurable ESG targets



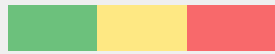


Peaking inflation

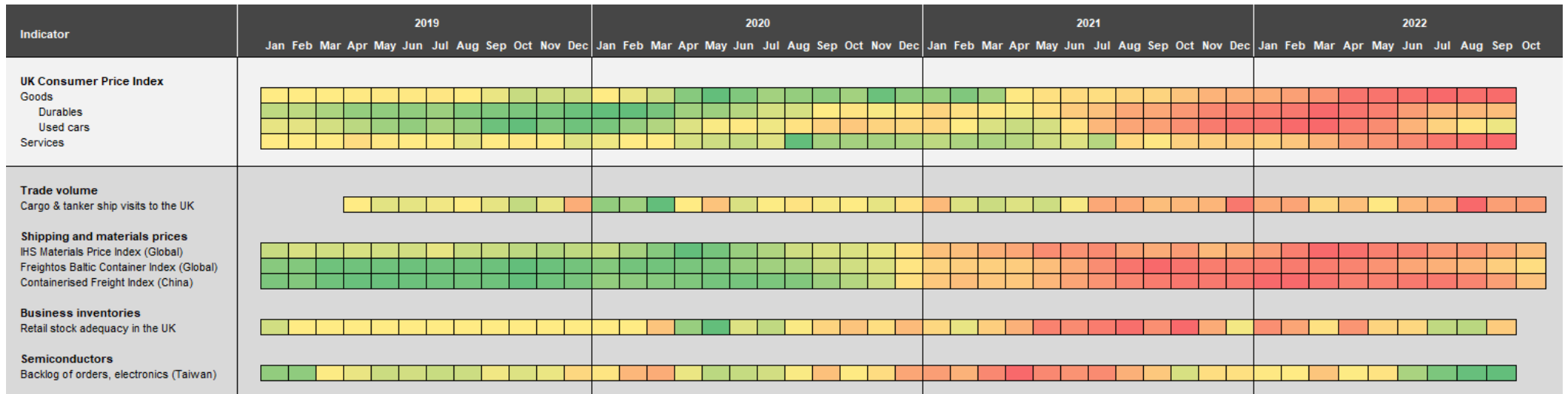


There are tentative signs that supply chain pressures are easing as global demand slows, enabling suppliers to start catching up

Normal supply chain pressures

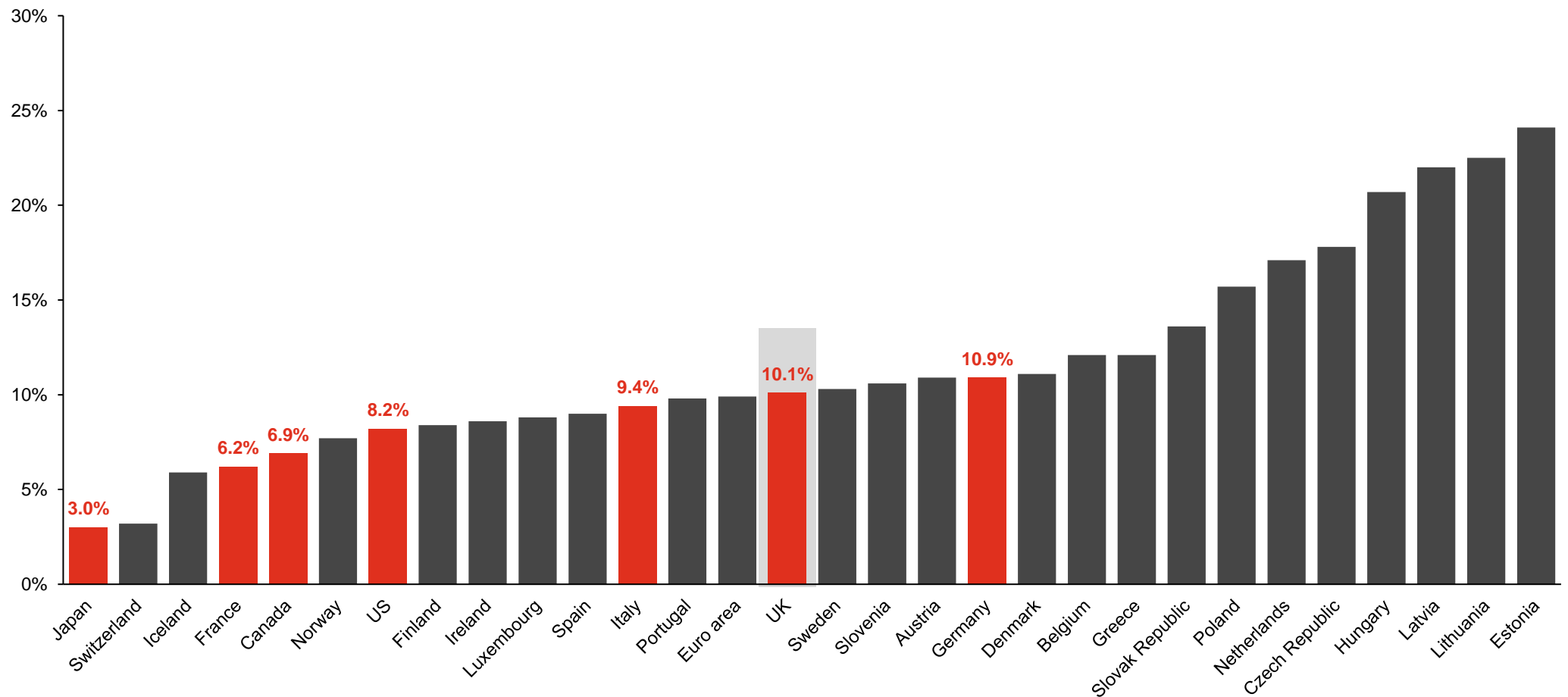


Severe supply chain pressures



The UK now faces the second highest harmonised rate of inflation amongst the G7 economies after Germany

Annual inflation rate of European & G7 economies, harmonised index of consumer prices, September 2022

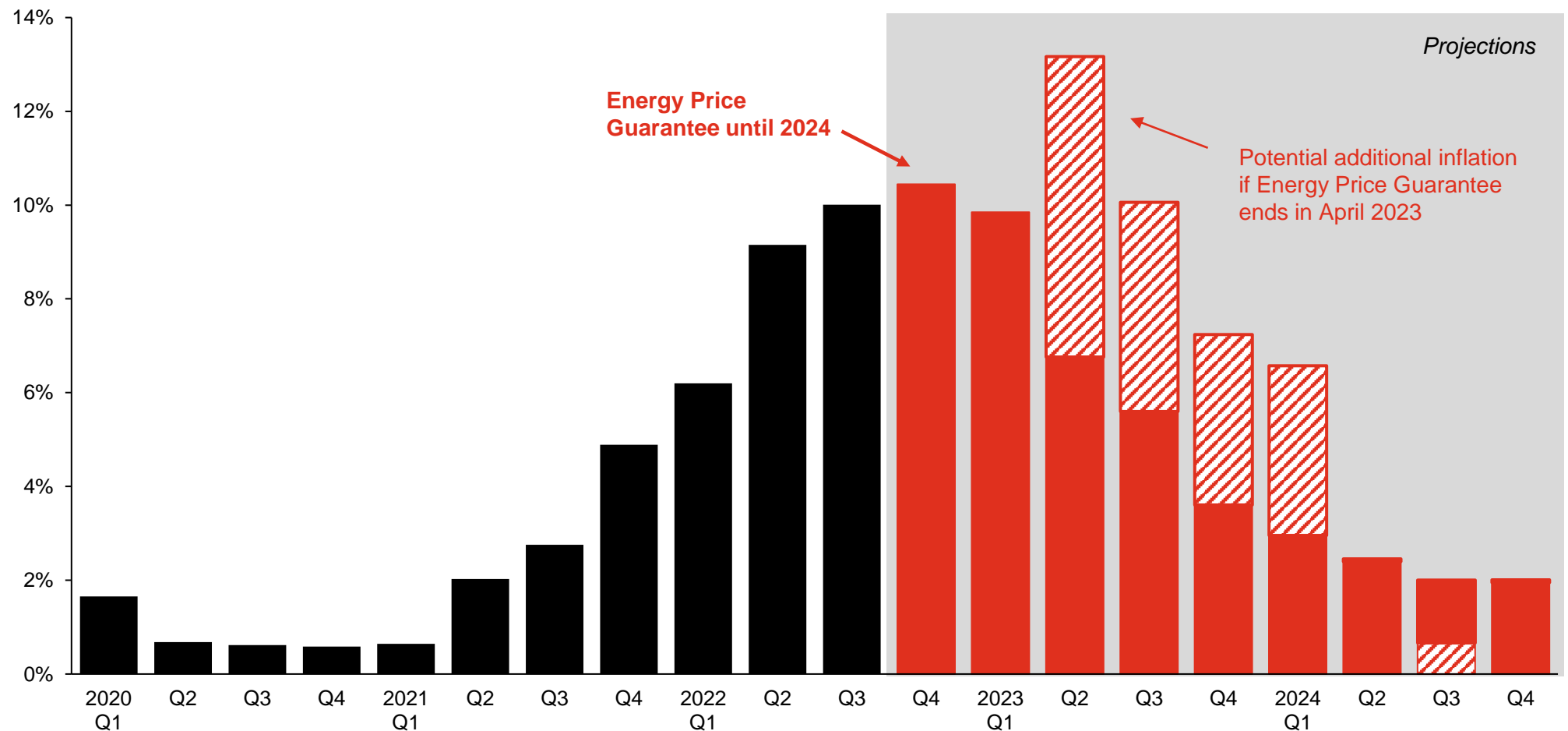


Sources: Eurostat, ONS, PwC analysis

PwC Notes: CPI inflation rates have been used for the UK, US, Canada and Japan. Turkey's inflation rate (83.4%) has been excluded for presentation purposes.

Inflation could peak at around 13% or higher if the Energy Price Guarantee ends in April 2023

Projections for UK CPI inflation (% annual change)



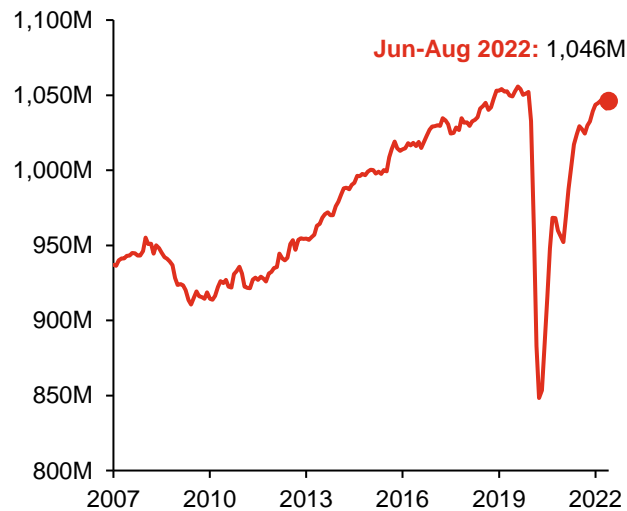


Cooling labour market

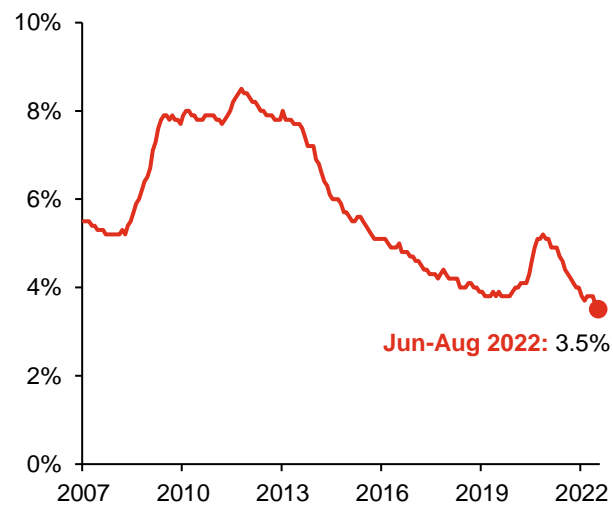
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Headline measures suggest the UK labour market remains tight though there are signs it is starting to turn

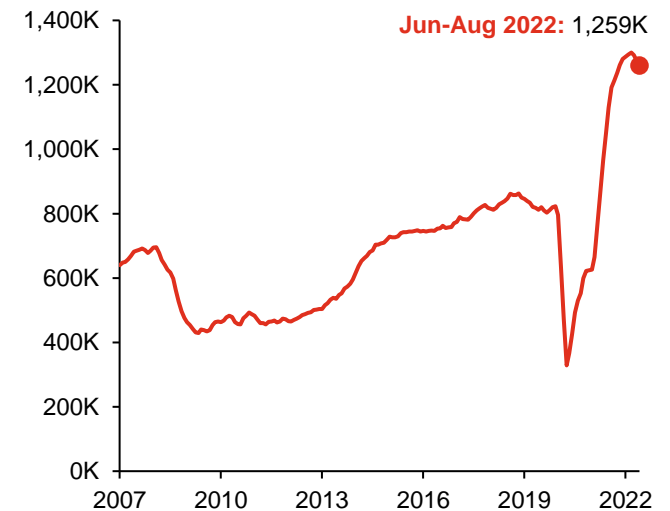
Hours worked per week (millions)



Unemployment rate (%)

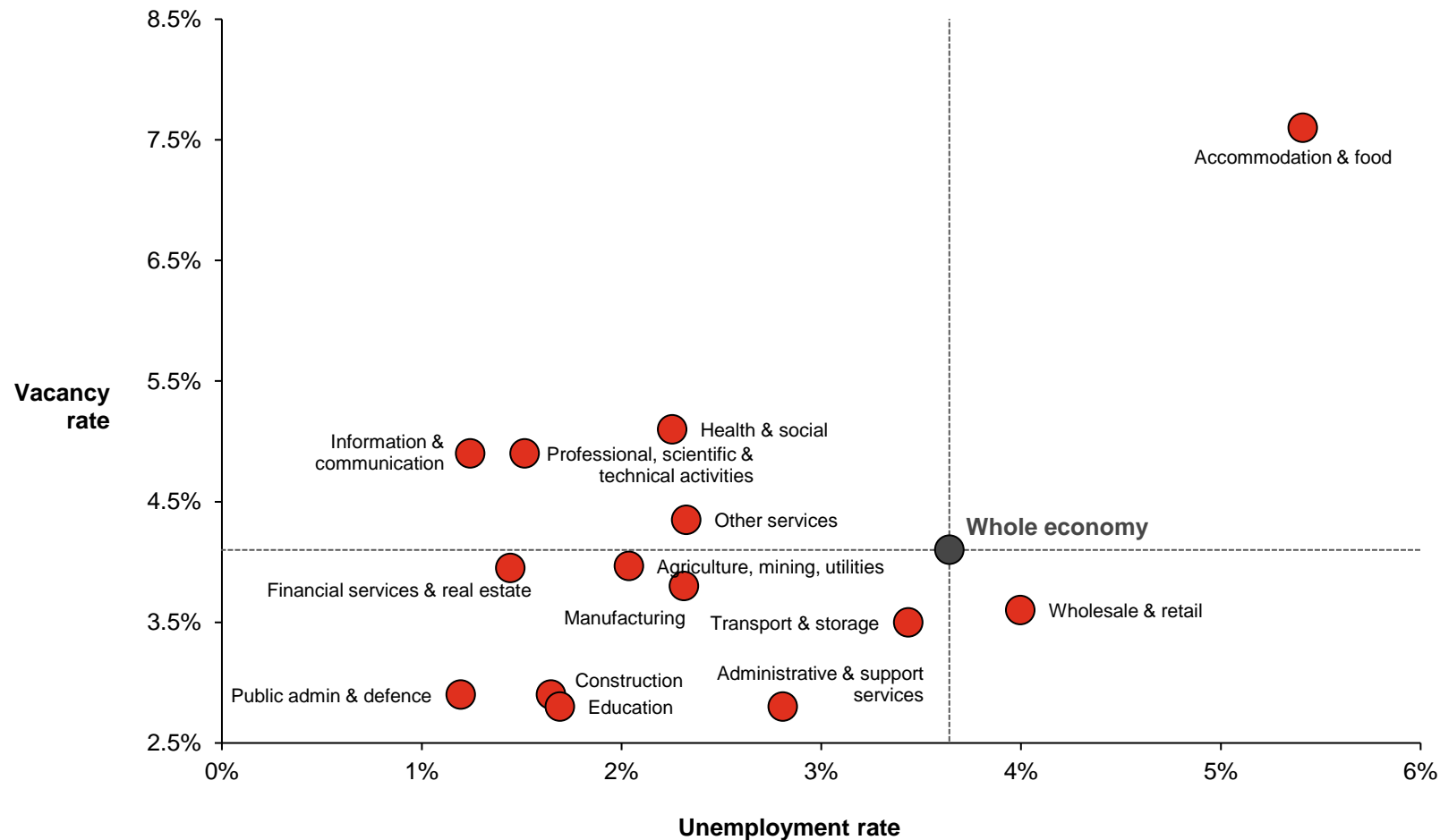


Vacancies (thousands)



High-skilled industries are likely to experience acute labour shortages in the short to medium term

Unemployment rate (%) and vacancies per 100 by industry, June-August 2022

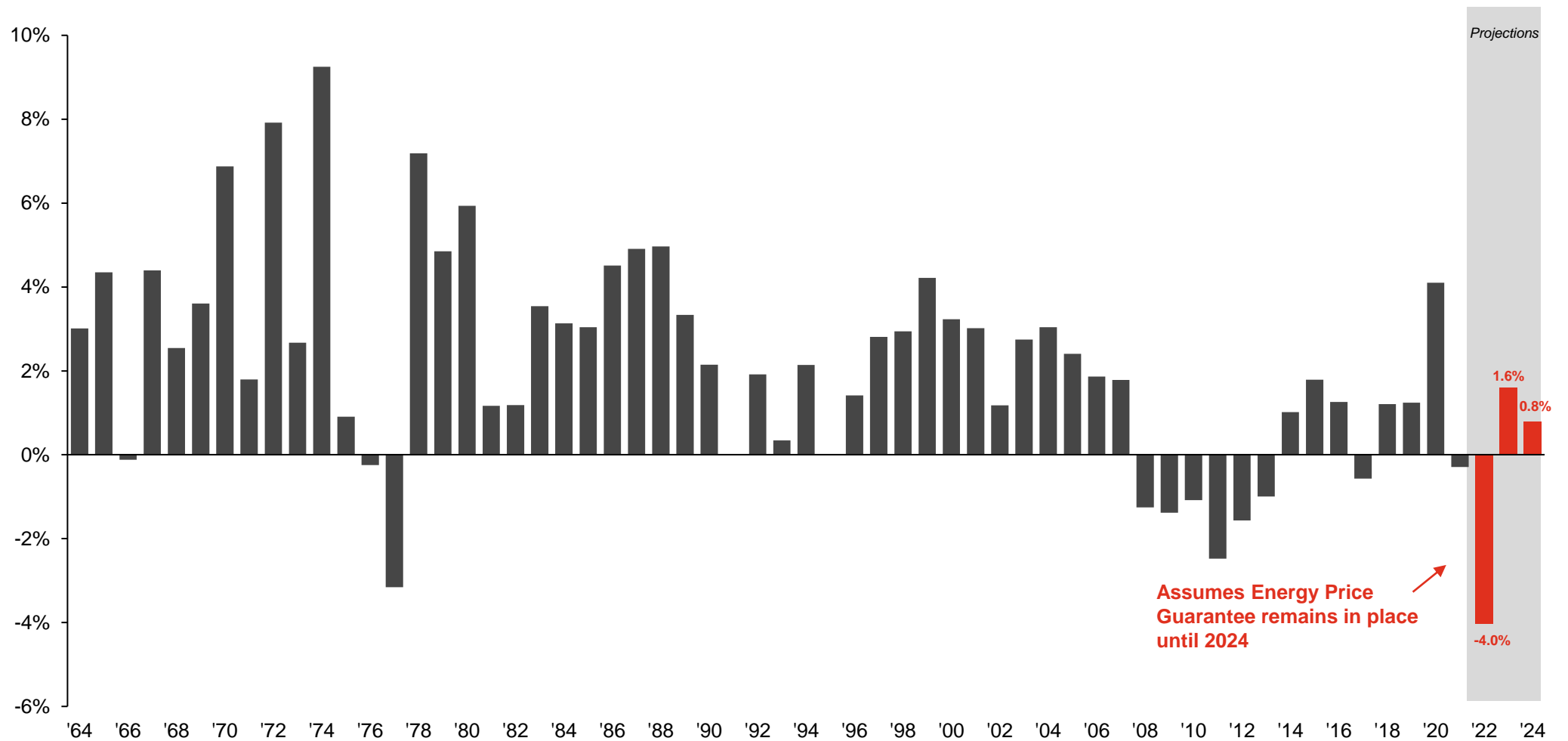


Sources: ONS, PwC analysis

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Workers could experience the sharpest fall in real wages on record this year

Annual change in real wages, Q4 on Q4, 1964 to 2024



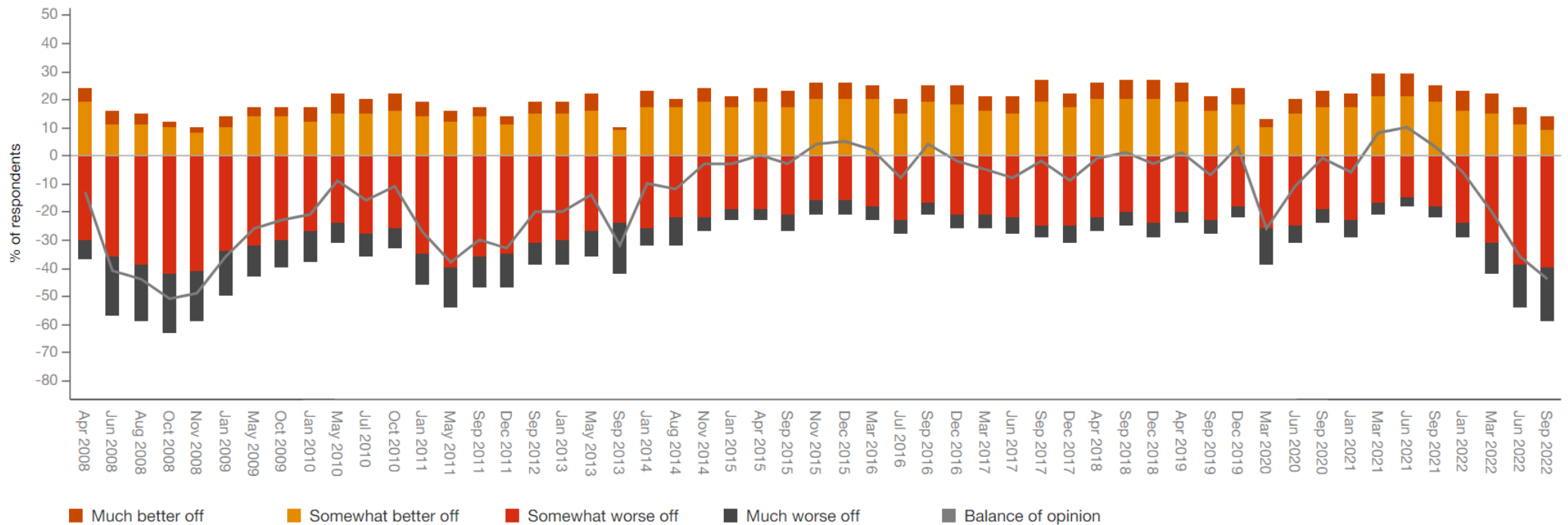


Weak consumer outlook

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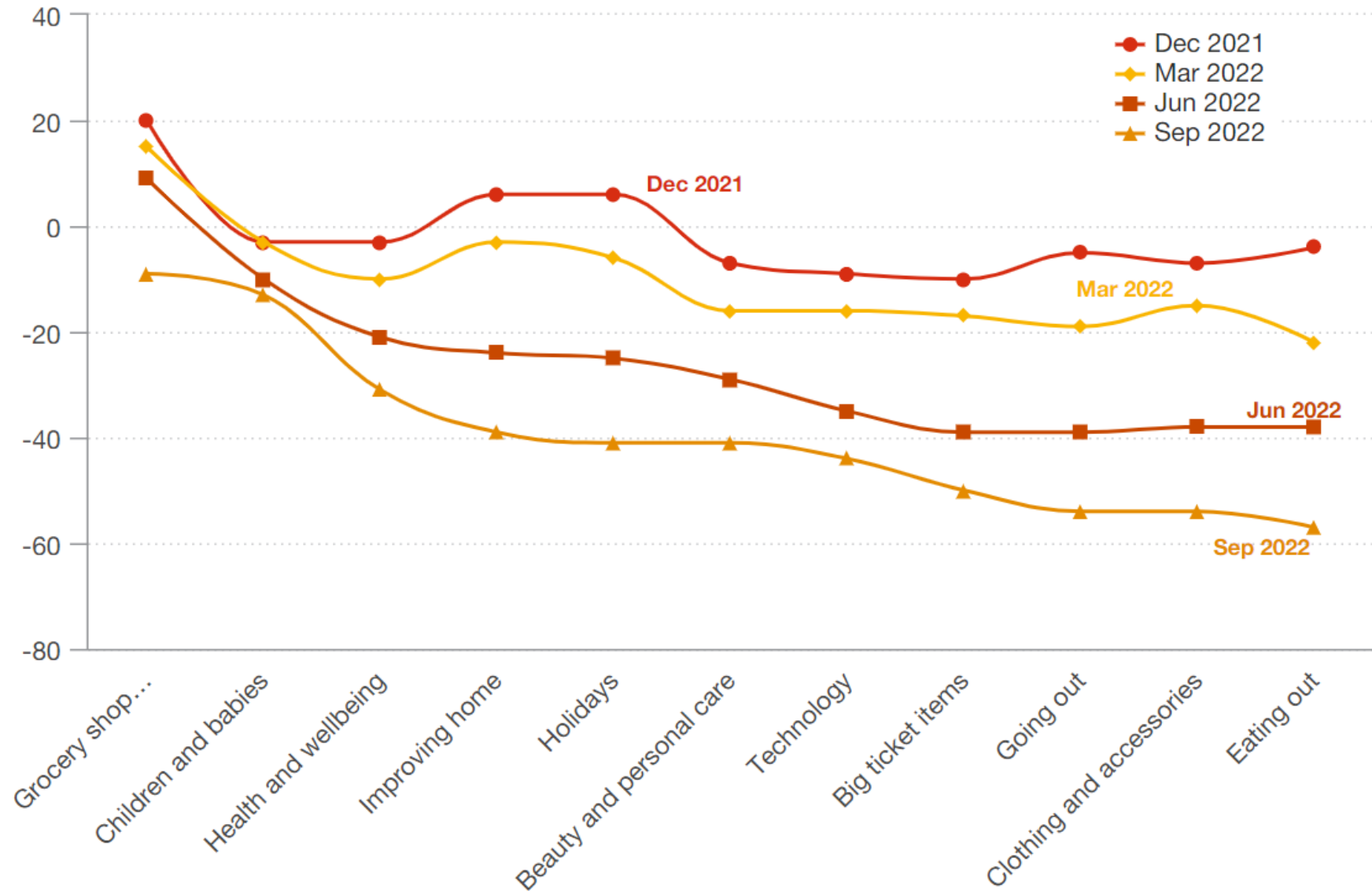
UK consumer confidence is hitting multi-decade lows

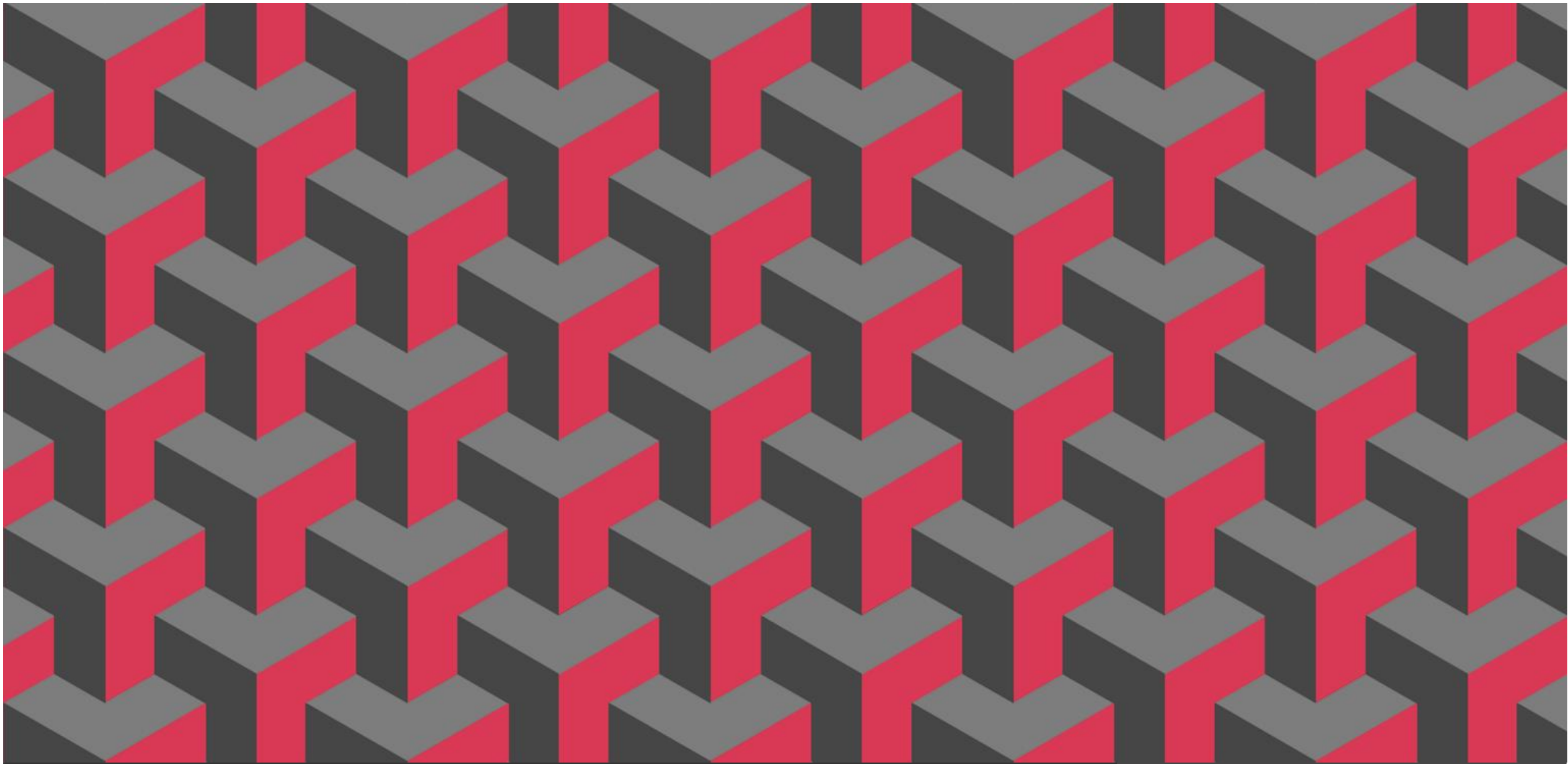
Consumer outlook for change in financial position in the year ahead



Spending in 'big ticket' items is set to fall or be pushed out

Net spending intentions over the next 12 months





Strong \$



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A strong US\$ exports inflation and hits those with US\$ debt

Nominal Broad U.S. Dollar Index (Jan 2019=100), daily. Higher index value indicates a stronger US Dollar



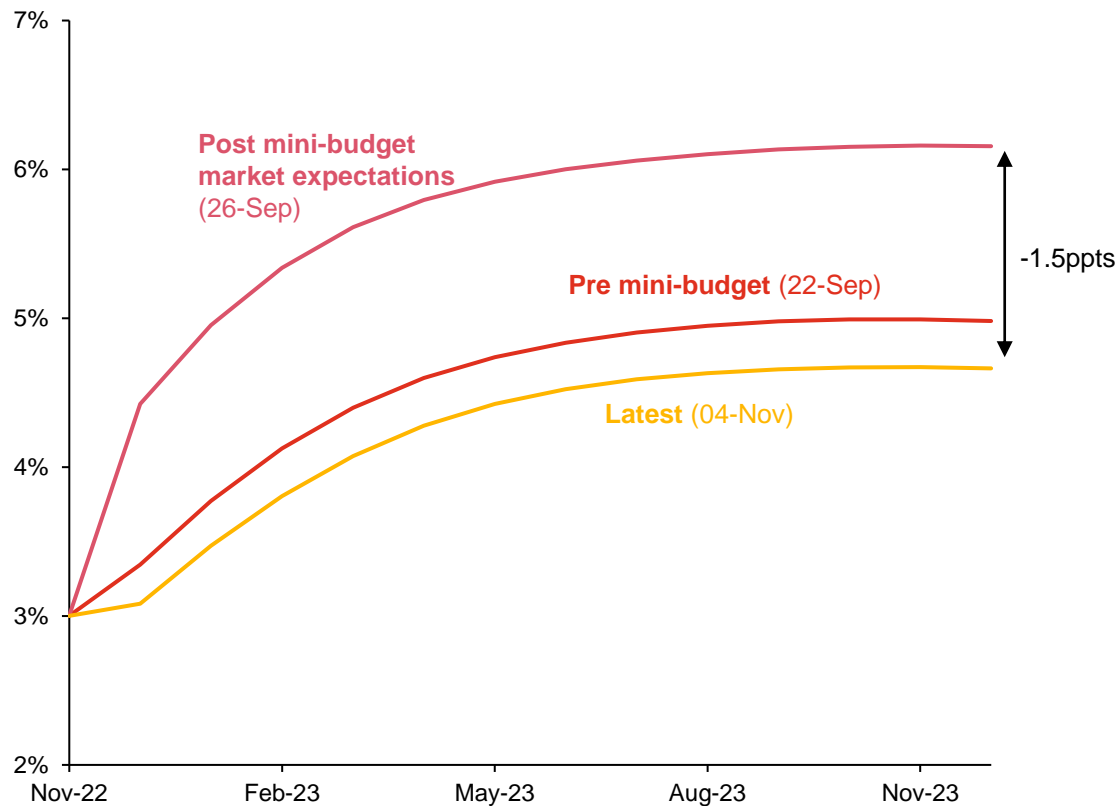


Interest rate shock

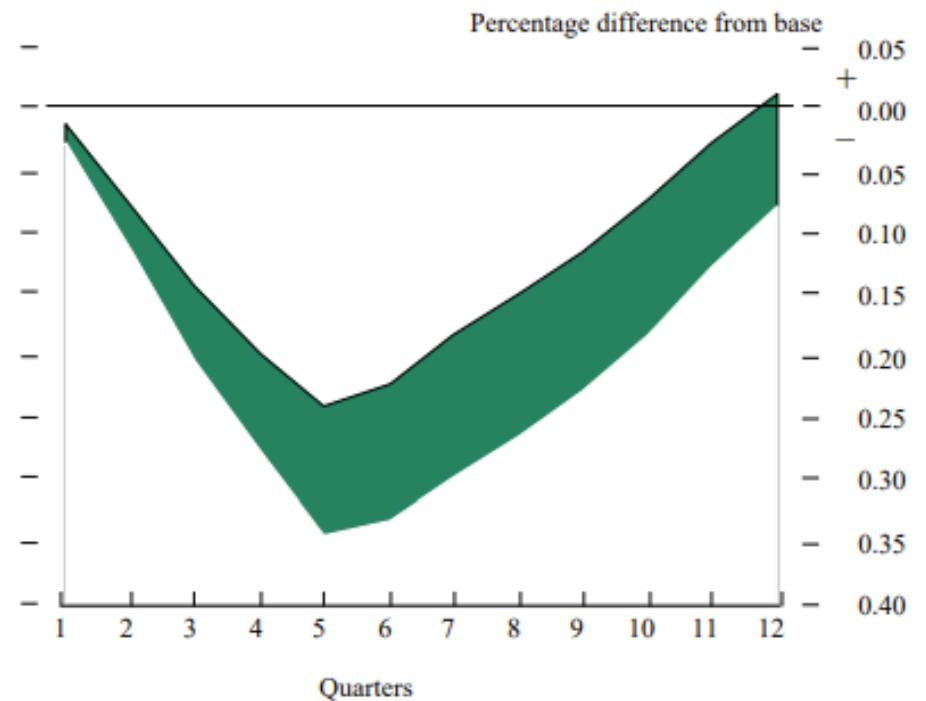
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Interest rates are expected to rise further but not as highly as initially feared after the mini-budget

Vintages of market-implied of future Bank of England Base Rate, %

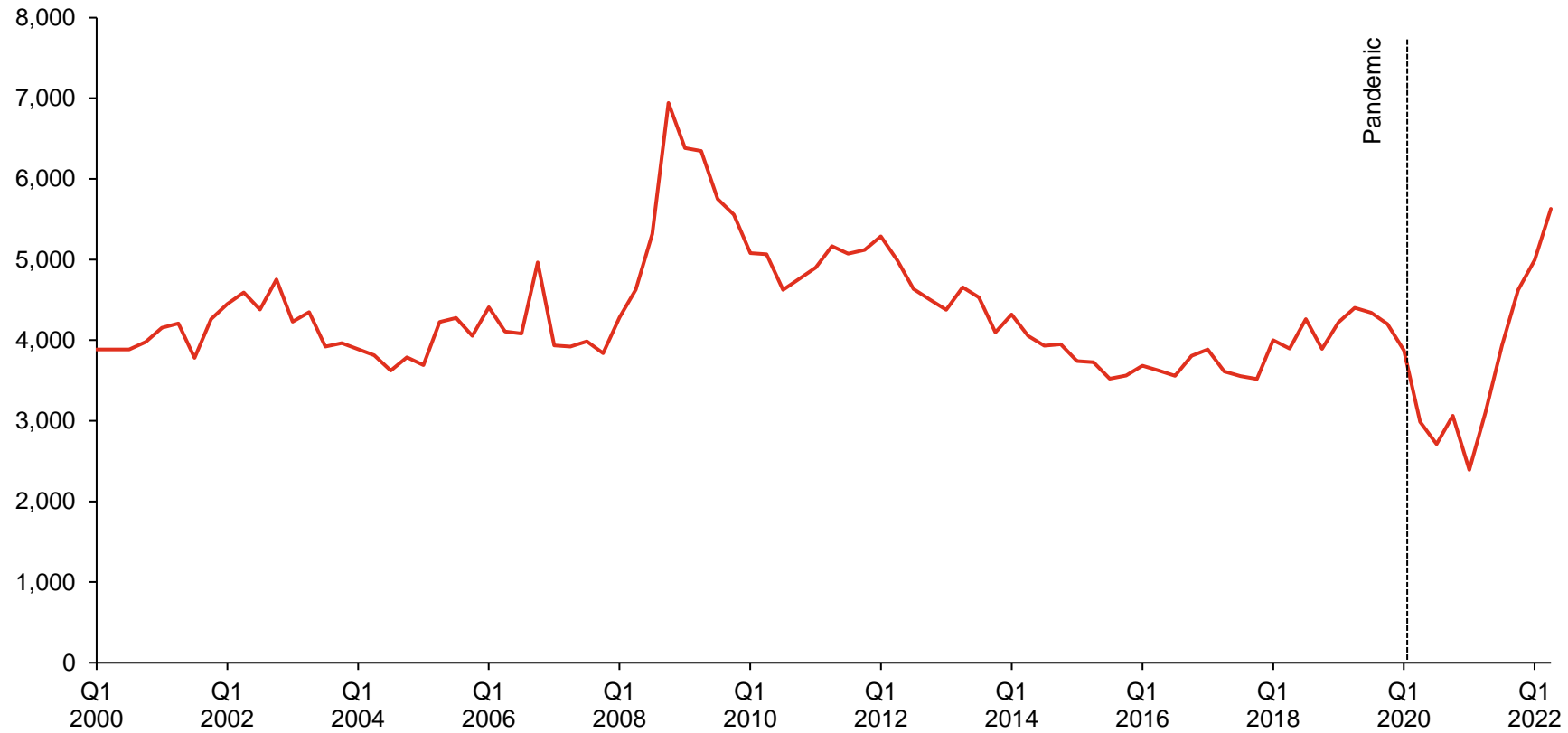


Effect on real GDP, relative to base, of 100 basis point increase in the official rate maintained for one year, %



Heavily indebted firms look set to struggle

Total UK company insolvencies, seasonally adjusted (000s)

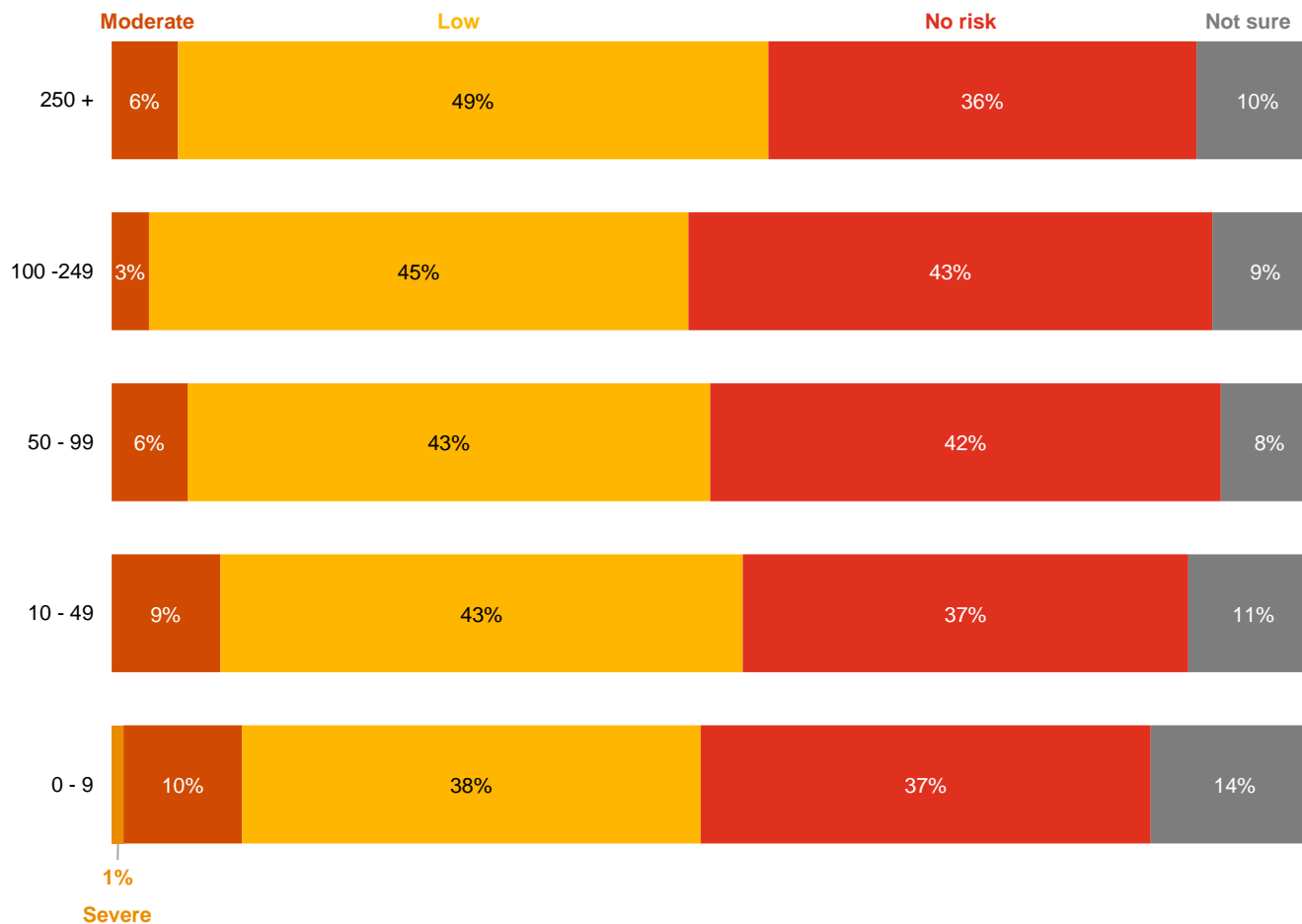


Source: PwC analysis, ONS

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Smaller businesses are marginally more likely to be at risk of insolvency, though the differences are relatively small

Q: What is your business's risk of insolvency? [By size of firm, employees, August 2022]



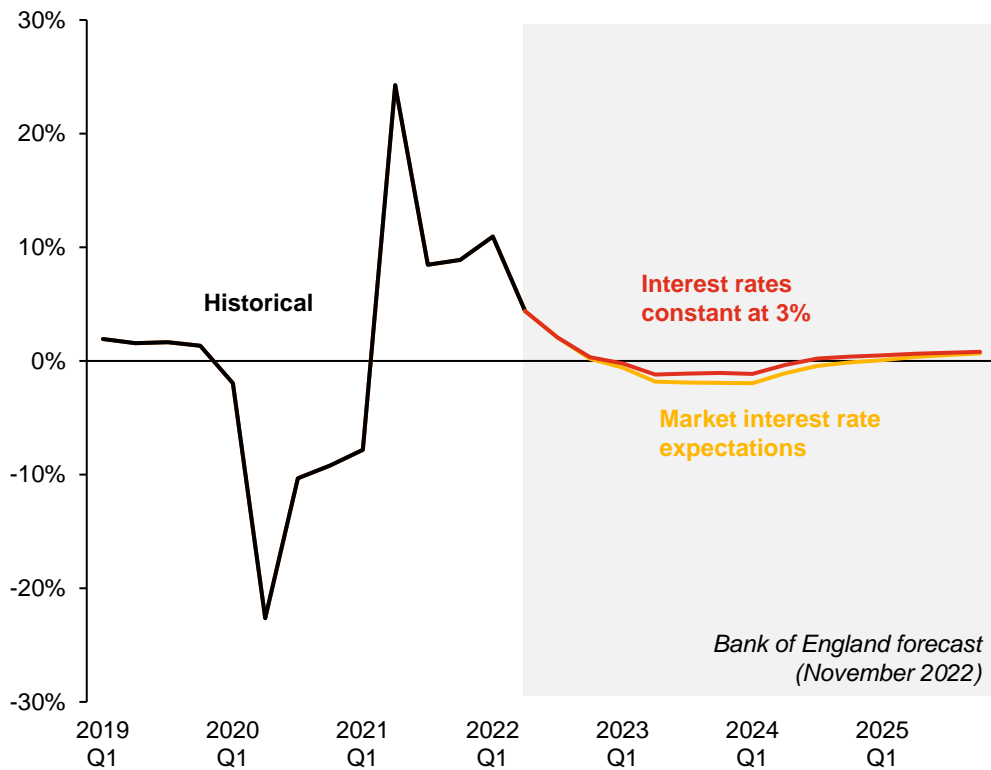


UK in recession

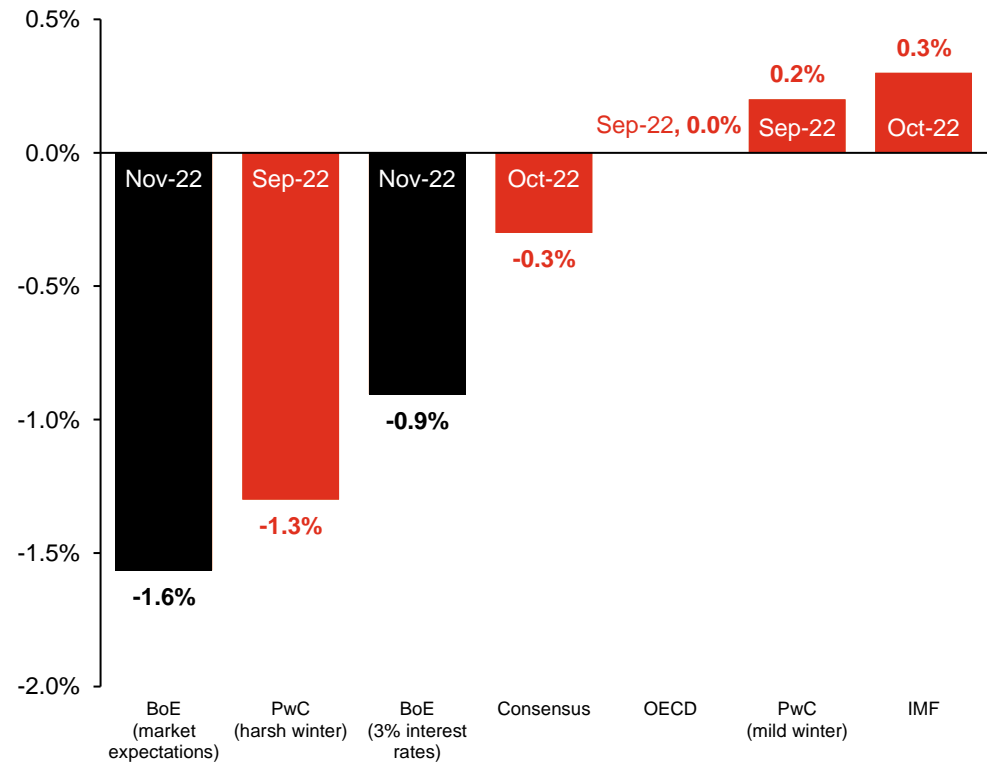
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The Bank of England expects the UK economy to remain in recession throughout 2023 and the first half of 2024

Annual real GDP growth, quarterly



Annual real GDP growth, 2023 projections



Sources: PwC analysis, Bank of England, Consensus Economics, OECD, IMF

Where can growth come from?

- 1** Embracing the full benefits of the digital age
- 2** Boosting business investment for sustainable growth
- 3** Improving performance of poor performing firms
- 4** Reducing the economic inactivity rate
- 5** Boosting healthcare investment

- 6** Promoting a high-skilled economy through higher education
- 7** Taking a step closer to closing regional income imbalances
- 8** Accelerating progress on trade agreements
- 9** Reshoring critical parts of the supply chain
- 10** Accelerating the net zero progress for a more sustainable future



Conclusion

The economic outlook is weak, but this a 'normal' economic cycle.

- 1 Recession is coming...but it's the shape which matters
- 2 Inflation impacts everyone. Interest rate rises have a far more concentrated impact (and Govt can't help).
- 3 This is a cycle. Normal cycle behaviours will play out. There are opportunities at all stages of the cycle for agile legal firms
- 4 Don't confuse cyclical factors for structural change. Trends around net zero, demographic change and adoption of new technology won't go away.

PwC UK Economics

PwC UK Economics provides a range of services:

- **Macroeconomic scenarios and stress tests** – for business plans, market entry strategy
- **Policy advice and business cases** – using Green Book principles
- **Behavioral economics** – using nudges to improve customer transformation outcomes
- **Regulatory economics** – using regulatory economics to design the ways industries operate
- **Economic impact assessment** – of Government policy, company, investment, social impact etc
- **Competition economics** – how firms win in the market, and avoid antitrust in the process
- **Client workshops, presentations and briefings**

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