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By: HSBC Economists and Strategists

Going Platinum

The UK's 70 years of change

2022 marks the Platinum Jubilee of Queen Elizabeth II

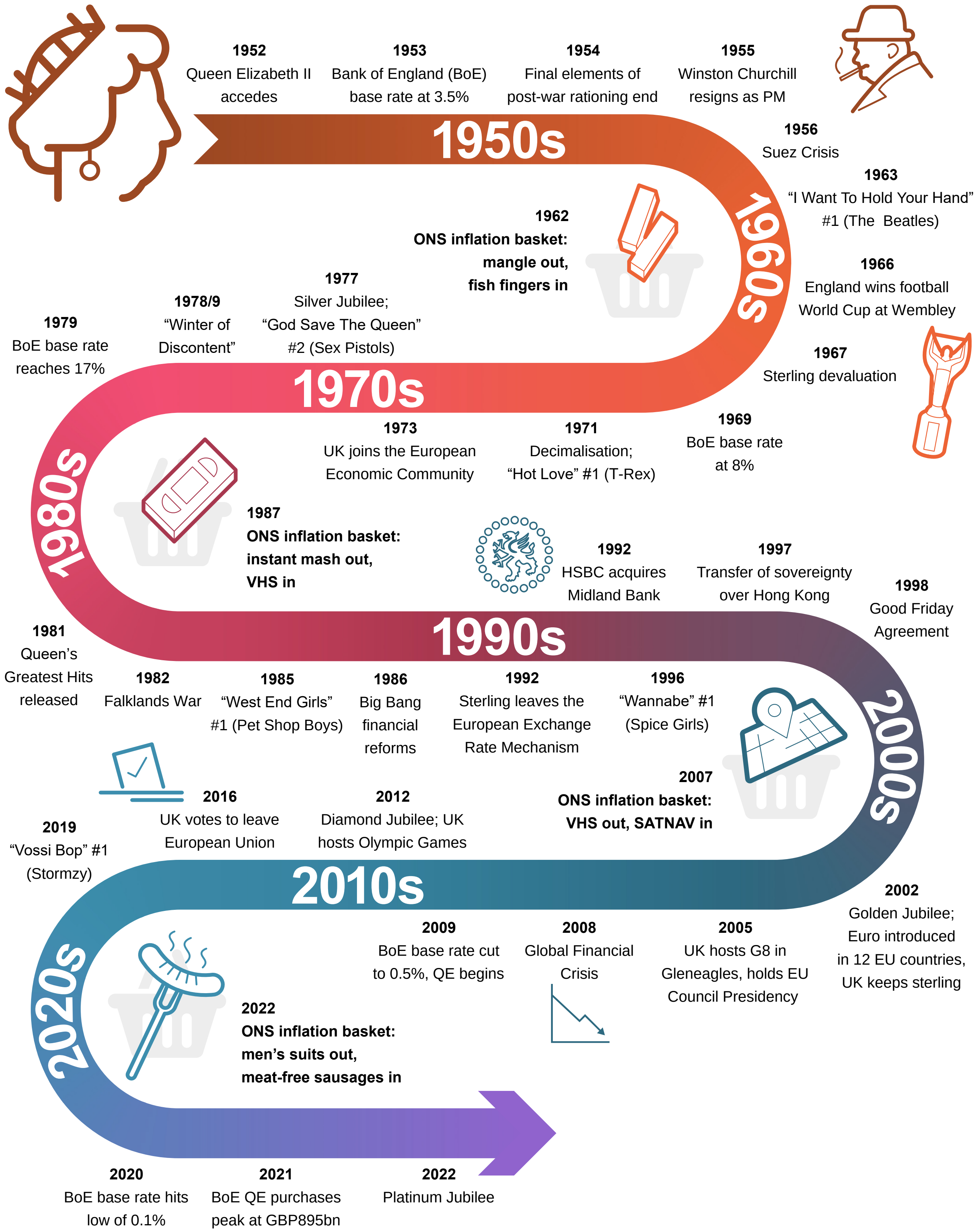
We look at how the UK economy and markets have (or have not) changed over the past 70 years...

...and what this might mean for the decades ahead

This is an abridged version of a report by the same title published on May 2022. Please contact your HSBC representative or email AskResearch@hsbc.com for more information.

Play video with Simon Wells

Elizabeth line: 70 years of change



Source: BBC, ONS, Bank of England, HSBC

Executive Summary

Simon Wells
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Going Platinum

Now and then: cautious consumers, rising costs

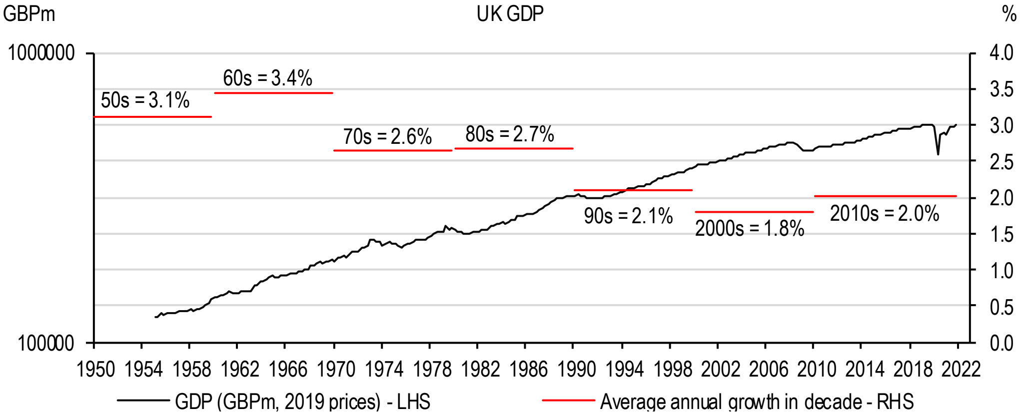
The FT headline read: "Retail Sales at low levels. Public reluctant to buy. Stores face rising costs." But this wasn't the response to weak prints from February and March 2022, as rising inflation started to weigh on spending. This was the top story from the front page on 6 February 1952, the day that the then Princess Elizabeth became monarch. As her subjects celebrate Queen Elizabeth's 70th year on the throne with a long weekend of festivities, it seems some things haven't changed.

Cautious consumers, rising costs, the falling purchasing power of the pound and even the long hours worked by bankers feature in that February 1952 edition of the FT. But many other things have changed – from the structure of British industry to the drinks with which people will be charging their glasses. This report looks briefly at the highs and lows of that 70-year journey.

Seven decades of economic growth

The Platinum Jubilee takes place against a difficult economic backdrop for UK consumers, given the squeeze in real-term incomes and the rising cost of living. But Queen Elizabeth II has presided over seven decades of improvement in British living standards – even though the pace of that improvement has slowed as time has gone on. The rate of economic growth has fallen through her reign – had GDP continued to grow at the same average pace over the past 50 years as it did in the first 20 years of the Queen's reign, UK GDP would now be over 80% higher than it is today – but real GDP per capita has still more than tripled since 1952 (Chart 1).

1. UK Real GDP growth has been slowing over the course of the Elizabethan era



Source: ONS, BoE

The economy in 2022 shares some similarities with the economy of the 1950s. Prime Minister Harold MacMillan noted in 1957 that everyone was fully employed with "if anything, a shortage of labour … bringing a danger of renewed inflation". At 3.7% in Q1 2022, the unemployment rate hasn't been lower since 1974, even if it remains some way above the sub-2% rates achieved in the early years of the Queen's reign. But, at 9%, CPI inflation is at a 40-year high and almost back to the double-digit levels seen in early 1952. This is despite the fact that the UK now has an independent central bank that targets 2% inflation. The UK has had numerous monetary regimes over the past 70 years – from exchange rate targets to money supply control – and the current one is now arguably facing its toughest test.

Suits booted

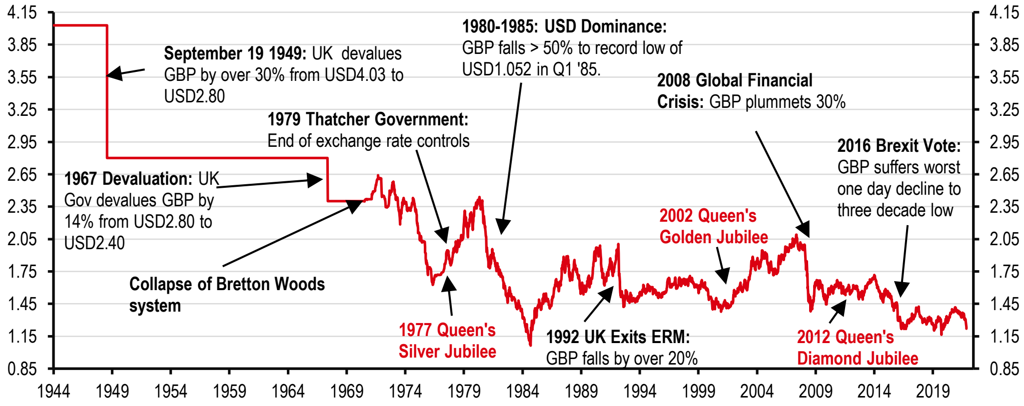
The structure of the economy has changed enormously. Manufacturing has fallen from 36% of output in 1952 to less than 10% in 2022. Over the same period, financial and business services have gone from 10% to 34%. Consumption patterns have changed too. In 1952, the price of a washing mangle still featured in the UK's inflation basket, while in 2022 shifts in working patterns and attire meant men's suits dropped out. It would be interesting to know what a bowler-hatted 1952 foreign exchange trader would have made of that.

A sterling history

The past 70 years have seen numerous seismic events for FX markets to deal with. At the start of the Queen's reign, one pound would have bought you USD2.80 and sterling was still reeling from a major 30%+ devaluation in 1949. But following another big devaluation in 1967 and weakness in the early 1970s and 1980s, GBPUSD almost reached parity in 1985 (Chart 2).

Further bouts of volatility were to follow, with big depreciations following the Global Financial Crisis and Brexit referendum, and in September 1992 when sterling crashed out of the European Exchange Rate Mechanism. On 'Black Wednesday', battered and bruised FX traders could at least indulge in some escapism by listening to The Shamen's Ebeneezer Goode, which was the UK's Number 1 on 16 September 1992.

2. Sound as a pound?



Source: HSBC, Weforum, Guardian News & Media

Trading places: from imperial preference to Europe

Change has been particularly evident in the UK's trading patterns. 70 years ago, the UK had strong trading links with Empire/Commonwealth economies. Since then, its foray into the EU (and its various pre-cursors) has seen the UK's share of trade with Commonwealth countries decline from 37% in 1952 to 8%, while its trade with the EU has surged from 27% to 46%.

While services trade has flourished, the UK has fallen from 2nd to 14th in terms of its share of world goods exports. Most notably, Britain's share in global passenger car exports fell from 25-30% in the 1950s – when it was the world's top car exporter – to under 4% today. Even innovations like the square steering wheel on the Austin Allegro failed to turn the British car industry's fortunes around….

As Britons look to celebrate over the Jubilee weekend, the UK's share of global tea imports has declined from over 60% in the early 1960s to 8%. Its share of beer imports has also fallen, while imports of wine have remained steady at around 15%. But this still amounts to importing USD4.8bn of wine. Cheers.

A 0.568l of lager and a packet of crisps, please

Drinking habits have certainly changed since 1952. Based on the products in the UK's inflation basket, drinking in 1952 was a straight-up choice between beer and whisky. In 2022, bitter, lager, stout, cider, whisky, vodka, wine, liqueurs, spirit-based drinks, mixers and gin all feature in the 'typical' consumer basket. And while pub sales may have declined, the measures sold haven't. 1970s' fears that metrication and European rules would mean pub-goers would soon have to order 0.568 litre of beer were not well-founded and the traditional pint has prevailed (although, unlike in 1952, you'll probably be greeted with blank faces if you go to your local and ask for 1/6 gill of whisky).

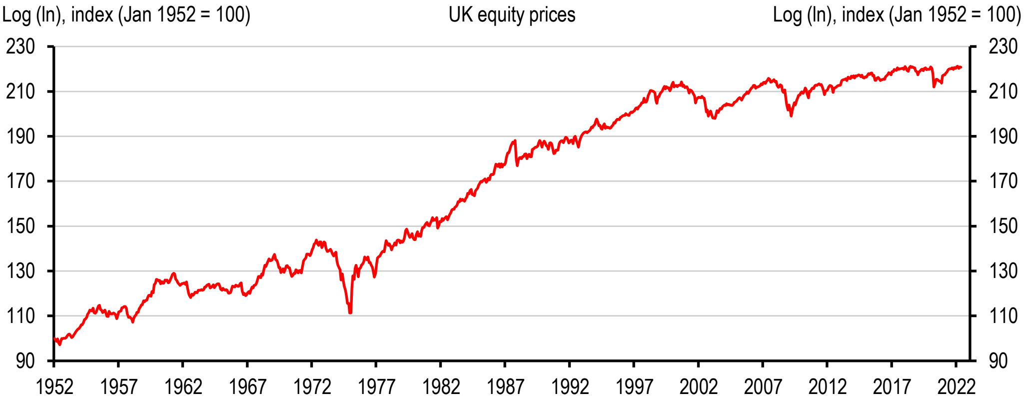
UK equities: can't cut out the sugar or the cigarettes

Since 1952, UK equity prices have risen by around 10,000%, with 'Black Monday' in 1987 proving to be just a blip on the upward trend (Chart 3). But the 21st century has been slower going. Equities in 2022 are just 28% above that post-millennium peak, some 22 years later.

Looking at the FT 30, which goes back to 1935, three companies survive from 1952. Imperial Tobacco, called British American Tobacco from about 1976, continues to produce cigarettes. Tate and Lyle continues to make food ingredients and sweeteners, but sold its eponymous sugar cane refining business in 2010, and Guest Keen and Nettlefolds has been abbreviated to GKN, but it remains a manufacturer of automotive and aerospace components.

Today's FT 30 index constituents reflect seven decades of technological advancement. In 1952, people would most likely find the whole concept of mobile telephony the stuff of science fiction. Ironically, the concept of home-delivered groceries would probably be quite familiar to someone from 1952, but Ocado's online business model and robotic warehouses would not. However, the majority of the companies in the index today would still be recognisable in broad terms; reassuring perhaps when thinking ahead to 2092.

3. If only you'd bought in 1975 and sold in 2000



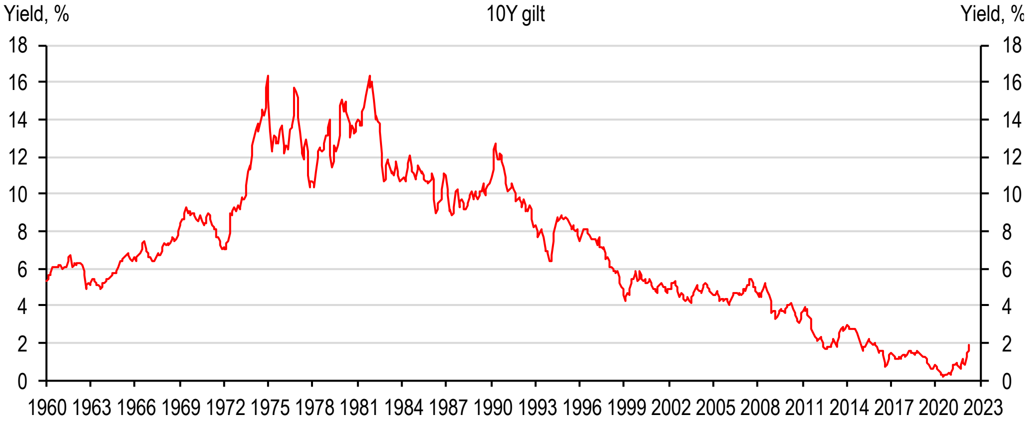
Source: Bank of England, Refinitiv Datastream

Sovereign bond markets: a reign of two halves

If the past 25 years weren't quite as spectacular in equity prices as the previous quarter century, that is not the case in rates markets. From 1981 to 2020, 10-year gilt yields fell from more than 16% to around 0.2% – a near 40-year bull market for bonds (Chart 4). However, with inflation rising and monetary policy tightening, yields have picked up again, and with the Bank of England now shrinking its portfolio of gilts bought under quantitative easing (QE), other buyers will need to step up to prevent further reversion towards average levels over the Elizabethan age.

The gilt market has also evolved over the past seven decades. One of the most notable trends in the gilt market in recent years has been the prolonged increase in the volume of issuance as the public sector borrowing requirement has risen and the nominal value currently stands at just over GBP2trn. In 1981, the UK was one of the first developed economies to issue index-linked bonds. More recently, in 2014, the UK issued sovereign Sukuk bonds. And in 2021/22, it introduced two 'green' gilts and there are plans to build out a green gilt curve in the coming years.

4. Gilts: 30 years of bear, 40 years of bull



Source: HSBC, Bloomberg

Seventy years of credit

When the Queen ascended the throne in 1952, the sterling corporate bond market was a very different beast, particularly in size. In the early 1960s, the amount of marketable GBP corporate debt outstanding was around GBP5bn, equivalent to approximately GBP82bn in today's money, versus the GBP400bn market it is today. The 1970s brought a drought of bond issuance among UK corporates, owing to the recession of 1973, and the sharp increases in inflation and nominal interest rates. But the 1980s were a time of renewal for the sterling corporate bond market. By 1985, foreign corporates were increasingly turning to the sterling market for their borrowing needs and this set the foundation for the GBP corporate bond market that we know today. Barely half of GBP corporate bonds are from British firms today, which leaves the sterling spread less domestically exposed and more aligned with the international economic outlook.

An Englishman's home is his castle

House prices seem to have become a national obsession, as home ownership has risen. So, let's give the housing market the last word. In 1952, 30% of English housing was owner occupied. This has risen to almost 65%. Over the same period, the average UK house price has soared from around GBP2,000 (or GBP60,000 in today's prices), to almost GBP250k today, with prices more than quadrupling in real terms over the past 70 years.

Whether your home is a castle or a cottage, with a corgi or a cat, we wish everyone celebrating a happy, healthy and prosperous Jubilee. And cross our fingers for that most rare and precious UK phenomenon: good weather on a bank holiday.

Seven decades of growth

- The Queen has presided over numerous economic booms and busts during her 70-year reign
- The period has seen dramatic structural changes, like the decline of manufacturing and rise of services…
- …but despite the turbulence and recessions, living standards have increased threefold over the Platinum period

Elizabeth Martins
Senior Economist
HSBC Bank plc

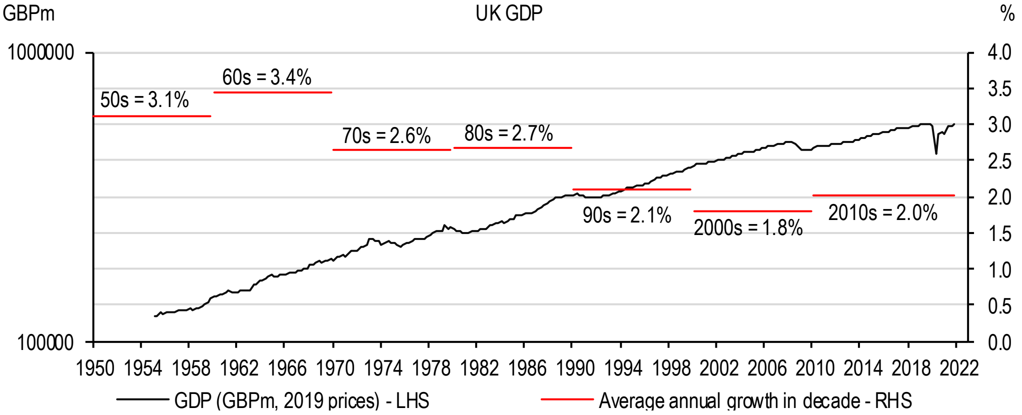
GDP over the decades

Growth in the second Elizabethan era

The Queen has reigned over the UK and its economy through good times and bad: she has presided over booms and busts – including seven recessions – and numerous crises. Indeed, if anything, volatility has only increased as time has gone on: both the weakest year for GDP growth of her reign and the strongest (2020 and 2021, respectively) have been in recent times – the result, of course, of the pandemic and lockdowns. And the year of her Platinum Jubilee looks no less eventful. The aim of this section is to briefly take a whistle-stop tour of UK economic growth – and contraction – through the second Elizabethan era.

The end of the Platinum period looks as eventful as its beginning

5. UK Real GDP growth has been slowing over the course of the second Elizabethan era



Source: ONS, BoE

1950s and 1960s: the post-war investment boom

An investment boom in the early years

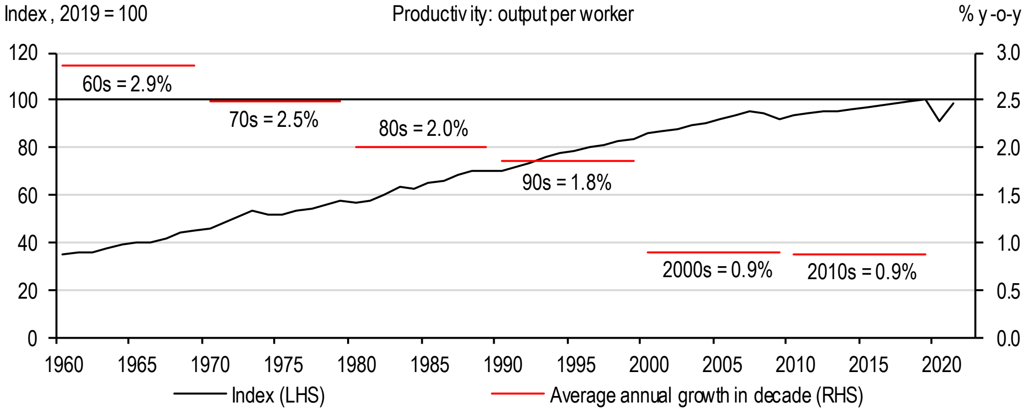
When the Queen came to the throne, the UK economy was still in its post-war boom period: the Labour government led by Clement Atlee, which created the NHS and welfare state that survives today, had just lost power, but the Conservative administration that followed it seemed no less willing to spend money. In fact, public sector net investment averaged 5.4% over the first two decades of the Queen's reign. (For comparison, recall the fanfare around the current government's pledge to increase investment from 2% to 3% of GDP ahead of the 2019 election).

UK living standards rose in the 1950s and 1960s… but trouble was brewing

That public sector net investment helped to drive overall GDP growth averaging 3.1% a year in the 1950s and 3.4% in the 1960s. Indeed, gross fixed capital formation averaged 8% a year over 1952-1972: as we note elsewhere (see Housing section), part of this consisted of a huge housebuilding programme. Consumption also saw decent growth around this time – of around 3% a year on average – but this was a growth era primarily characterised by investment. By the end of it, UK living standards – at least, as measured by GDP per capita – had risen 59%.

Unfortunately, though, the imbalances that would fuel the inflation pressures of the 1970s were already building. Supply had not risen as much as demand: as Chart 6 shows, productivity was stronger than it is these days, but even then, it was weaker than GDP growth. Essentially, the rise of the welfare state and high levels of government investment had increased living standards and lifted people out of poverty, but not created a strong, competitive private sector. That would have major repercussions by the 1970s.

6. Productivity growth has slowed



Source: ONS, BoE

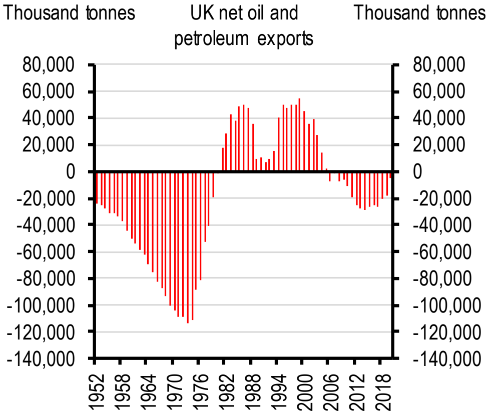
1970s: oil miracle arrives a little too late

The UK's oil boom was significant… but ultimately short-lived

There was one supply side miracle around that time: in 1970, British Petroleum made its first discovery of commercial oil in the large Forties Field. That would ultimately lead to the UK – for a time at least – recording net trade surpluses, with the government raking in the tax revenues (Chart 8). But oil was not produced until 1976, and the UK did not become a net exporter of oil until 1981. And of course, it did not last: mining and quarrying accounted for 3.7% of GDP when the Queen came to the throne, rose to a peak of 6.5% in 1985, and then fell back, standing at 1.1% in 2020.

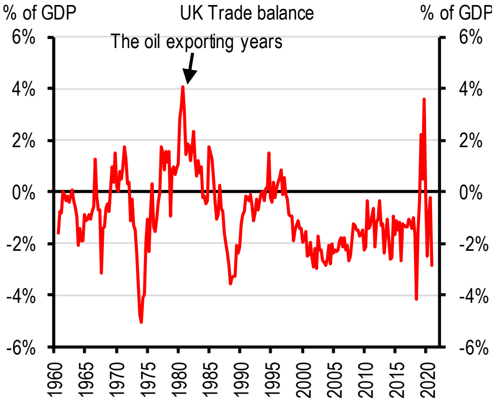
In any case, the monetisation of the UK's newfound oil reserves came too late to cushion the blow to the UK from the Arab-Israeli war and the global oil crisis. The latter pushed up on already material upside inflation pressures – caused by the supply-demand imbalances that had been building throughout the 1960s – and this led real incomes and consumption to fall back and the country to enter recession. Overall GDP fell by 3.2% between Q2 1973 and Q1 1974, but the misery was not over: after a brief period of recovery, the economy re-entered recession in 1975 and again in 1977. Chart 10 below shows the trajectory of various UK recessions: the 1970s stand out – alongside the Global Financial Crisis – as particularly persistent.

7. The UK's discovery of oil was transformative… but short-lived



Source: Department for Business, Energy and Industrial Strategy

8. The trade balance has rarely been in surplus since that time



Source: ONS

The Thatcher years: a Big Bang for financial services

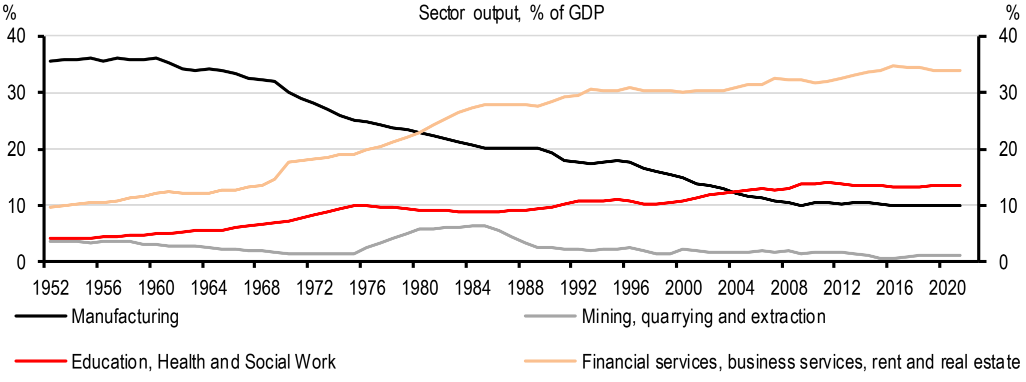
This tumultuous decade with all of its economic woes culminated in a landslide victory in the 1979 election for the Conservative Party with Margaret Thatcher at the helm. This meant the UK not only had a Queen as head of state, but also its first woman Prime Minister. And Mrs Thatcher promised drastic economic reform.

The Thatcher years were bookended by recessions... with a boom in between

Over the course of her tenure the UK economy managed respectable average GDP growth of 2.5%. But that masked some significant variation: the first two years of her government saw deep recession (GDP fell 2.0% in 1980 and 0.8% in 1981). Those years were followed by a boom through the middle of the 1980s, as deregulation stimulated strong growth in the financial sector in particular. The boom also saw consumption grow by 5% a year on average through 1983-1989, despite the fact that unemployment continued to rise over that period. But eventually, credit-fuelled consumption sucked in imports and pushed the current account deficit to unsustainably wide levels. The period ended, as it had begun – with a recession.

But as well as being bookended by recessions, this period also saw huge structural change, namely the reduction of the role of the state: public sector net investment fell steadily from 2.5% of GDP when Mrs Thatcher took power, to -0.2% a decade later. Meanwhile, government expenditure grew by on average just 0.8% a year, down from 2.5% in the preceding decade.

9. The 70 years of the Queen's reign have seen the UK turn from an industrial to a services economy



Source: ONS, BoE

The shift from manufacturing to services accelerated in the 1980s

It is easy to see Mrs Thatcher as the architect of the shift from industry to services: certainly, manufacturing fell from 23% of the economy to 19% in the years she was in power, while financial and business services increased from 22% to 28%. But as Chart 9 shows, these changes began before she came to power and continued after she left, though her policies may have accelerated that shift.

Things can only get better (and then worse)

Migration was the big news for growth in the 1990s

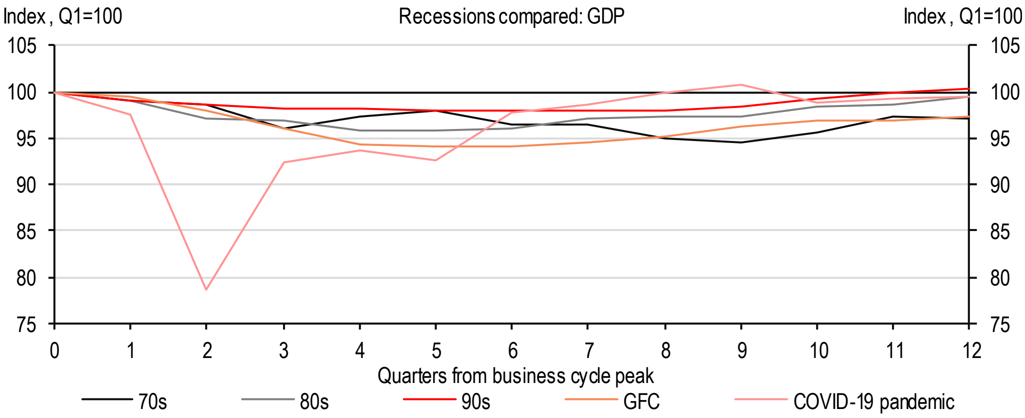
The 1990s started with a recession – the bust after the 1980s boom. But by 1993, the economy was growing again. Both overall GDP growth and productivity had slowed, but unemployment fell steadily, and the decade was, by the standards of the ones that preceded and followed it, blissfully uneventful. The election of Tony Blair's New Labour in 1997 heralded an increase in government spending and a bit of a lift for confidence more broadly: in the first year of his government, GDP grew by 5% - its fastest rate in a decade and one that would not be matched until 2021 (when of course the bounce back from the pandemic flattered the numbers).

The big news for the economy in the 1990s was that migration began to take off, and took over as the main driver of population growth. The population of the UK increased by on average 0.15% in the 1980s, 0.28% a year in the 1990s and then 0.59% in the 2000s – undeterred by the Global Financial Crisis.

Unlike the US, France and Germany (among others) the UK avoided recession in the early 2000s. The Guardian newspaper reported in late 2001 that this was thanks to higher household spending. But the newspaper also quoted an HSBC report at the time: "the growth is down to the consumer but it's being achieved by people getting into bigger and bigger debt. It's not a problem now but if interest rates keep coming down I think we are going to be storing up a big problem for the future". [1]

Indeed, consumer debt was building up rapidly at that time: debt as a proportion of household income rose from 85% in 1997 to 148% at its peak in early 2008. By that time, the Global Financial Crisis had given rise to the UK credit crunch – when high debt did indeed become a "big problem" – with huge consequences for the economy: private consumption fell 0.2% in 2008, 2.7% in 2009 and then – after a recovery in 2010 – by a further 0.2% in 2011.

10. The 1970s and the Global Financial Crisis recessions stand out for their persistence



Source: ONS, HSBC

[1] See The Guardian, UK economy sidesteps global recession, 20 December 2001

Productivity puzzle dominates the 2010s

The productivity puzzle came to the fore post-GFC… and has still not been resolved

The recovery from that recession, the largest in the second Elizabethan era until the COVID-19 pandemic, was slow – partly as a result of the austerity era ushered in by the new coalition government that won the election in 2010, and continued corporate deleveraging, weighing on growth. And by 2012, there were genuine concerns about productivity.

In fact, a decade later, the waters are muddied by the impact of the pandemic, but it is not clear that we have seen any improvement at all in underlying productivity. The most recent reading for output per hour was +0.7% y-o-y in Q4 2021. What is clear is that early explanations such as labour hoarding can no longer be considered valid ones: the UK now has more vacancies in the labour market than unemployed people. The labour market has been tightening for years – albeit with a pause in the pandemic – but this has not yet driven productivity growth.

Other explanations offered over the years include the difficulty of measuring productivity, increased regulation in, for example, financial services, low real wage costs, and a lack of investment. Plenty of ink has been spilled on the reasons elsewhere. Perhaps the high wage growth we are seeing now will finally drive an improvement in productivity.

But with business investment still around 10% below pre-pandemic levels, it is hard to say with any confidence that this is about to change. And while Brexit might lead to a period of deregulation like we saw in the 1980s, we have not seen any concrete plans that might prove game changers – yet.

A turbulent end to the Platinum period

The pandemic resulted in the weakest and strongest years for GDP in the second Elizabethan era

Our readers will be all too familiar with the most recent phase of UK economic growth: suffice it to say that the recession brought on by the COVID-19 lockdowns was the largest in the second Elizabethan era, with GDP falling 21.5% peak-to-trough. The bounce-back has exceeded many expectations, but the recovery has been an uneven one. As of Q1 2022, GDP was 0.7% above its pre-pandemic level, but this was led by government spending (+6.7%), while business investment was still 9.1% lower, and exports were 19.9% below.

Indeed, exports have seen by far the weakest recovery, which might be partially – though not completely – a reflection of the UK's decision to leave the EU. Indeed, we were surprised that amidst the uncertainty of the pandemic, the UK government did not avail itself of the option to extend the post-Brexit transition period. Instead, it officially left the EU at the start of 2020, with the transition period coming to an end a year later. That has likely contributed to the UK's weaker recovery in exports than we have seen for some its neighbours, and may also account for some of the supply and inflationary pressures the economy is experiencing.

Conclusions

This too shall pass… eventually

It may not feel like it right now for many, but, by and large, Queen Elizabeth II has presided over seven decades of improvement in British living standards – albeit the pace of that improvement has slowed as time has gone on. Harold Macmillan told Brits in 1957 that they had "never had it so good". An economist sitting down in 1952, with a new monarch, a new welfare state, a brand new affordable home and a fresh post-war optimism might have felt much the same way.

Had GDP continued to grow at the same average pace over the past 50 years as it did in the first 20 years of the Queen's reign, UK GDP would now be over 80% higher than it is today. Even so, real GDP per capita has more than tripled since 1952. All of the economic phases highlighted in this brief summary have had their ups and downs. But even the worst recessions have been temporary – and the trajectory for living standards in the long term has only been in one direction. Times are hard for now, but if there is a lesson from this roller coaster we have just examined, it is the following: this too shall pass.

Inflation and monetary policy

- The UK has moved from exchange rate to inflation targeting…
- …but the latter now faces its sternest ever test, with inflation at its highest level for over 40 years
- Despite their share of the consumer basket declining since 1952, food and energy are of increasing importance for the cost of living

Chris Hare
Senior Economist
HSBC Bank plc

Inflation is a big deal again

From fixed exchange rates to inflation targeting

UK monetary policy has moved through a number of radically different regimes over the past 70 years (Chart 11)[2].

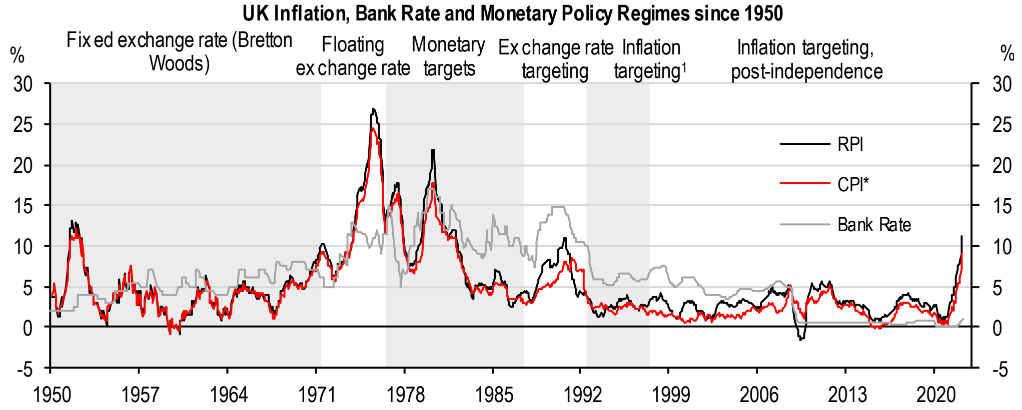
- From 1948 until 1971, the UK ran a fixed exchange rate under the Bretton Woods system set up after World War II, though that was punctuated by sterling crises and devaluations in 1949 and 1967.
- From 1971 to 1976, sterling was allowed to float (though with some intervention). But there was no clear 'nominal anchor' (such as a formal currency peg or inflation targeting). Energy crises in the 1970s saw inflation climb to around 25%, and 1976 saw a sterling crisis, with the government forced to ask for an IMF bailout package.
- After the 1976 bailout and into the 1980s, the UK adopted a policy aimed at controlling a variety of different monetary targets. This culminated in the Medium-Term Financial Strategy of 1980. But a lack of stability in the velocity of money meant targeting the money supply failed to control inflation, and monetary targets were sidelined in the late 1980s, in favour of a policy of 'Deutschemark shadowing' from May 1987.
- In 1989, the UK joined the Exchange Rate Mechanism, keeping sterling within a certain range against the Deutschemark. But these arrangements required sharp interest rate rises to try to stave off a sterling depreciation. The UK crashed out of the mechanism in 1992.
- From 1992, inflation targeting was adopted (initially with an aim to keep inflation between 1% and 4%). In 1997, the Bank of England was given operational independence.

The UK has adopted inflation targeting for the past 30 years

Gradually then, inflation became increasingly important for monetary policymaking, with explicit inflation targeting under an independent central bank having become the global norm. But in April 2022, UK CPI inflation reached 9%. It's 40 years since the UK last saw this rate of price increases, which is roughly the median age of its population. So, half of UK residents celebrating the Jubilee have never experienced inflation this high. Inflation targeting is therefore arguably facing its sternest ever test.

2 For a summary, see 'Review of the monetary policy framework', HM Treasury, March 2013

11. The UK has seen a number of monetary policy regimes over the past 70 years



Note: *Pre-1997 data are model-based estimates produced by the ONS; (1) Inflation targeting conducted by the Treasury, pre-BoE independence.
Source: ONS, Bank of England

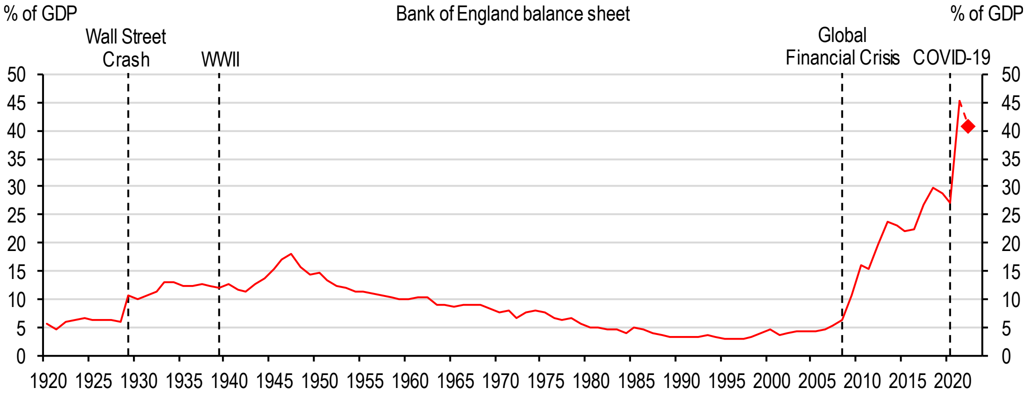
Policy back to the future? Not yet

Following the Global Financial Crisis, and the COVID-19 downturn, in order to try to meet the inflation target, the Bank of England slashed interest rates and conducted large-scale asset purchases (quantitative easing). The BoE's balance sheet has therefore ballooned above anything seen before (Chart 12).

Interest rates and the size of the balance sheet are still a long way from 'normal'

Now that policy is starting to tighten again, will interest rates, and the BoE's balance sheet, move back to levels seen through much of the Queen's reign? This seems unlikely for a while, in our view. Aside from the cyclical headwinds facing the UK, such as the real income squeeze, it's likely that long-run 'equilibrium' interest rates are materially lower than they were through much of the 20th century. That partly explains why BoE's base rate is just 1% in mid-2022 rather than the double-digits seen the last time inflation was this high. Another reason, which central bankers would surely contend, is that under inflation targeting, inflation expectations should be much better anchored now than, say, in the 1970s. So a return to average levels of policy rates experienced over the past 70 years still seems a very long way off to us.

12. The Bank of England's balance sheet has ballooned since 2008



Note: Diamond shows indicative HSBC estimate for 2022, based on 2021 nominal GDP growth and the non-reinvestment of a cGBP30bn gilt redemption in March 2022.
Source: Bank of England Annual Reports, ONS (for nominal GDP)

Structural changes matter too

Of course, the swings in inflation shown in Chart 11 tend to reflect cyclical factors and the monetary policy regime. But, of course, the measurement of inflation has seen huge structural changes over the past 70 years, not least in the composition of the inflation basket.

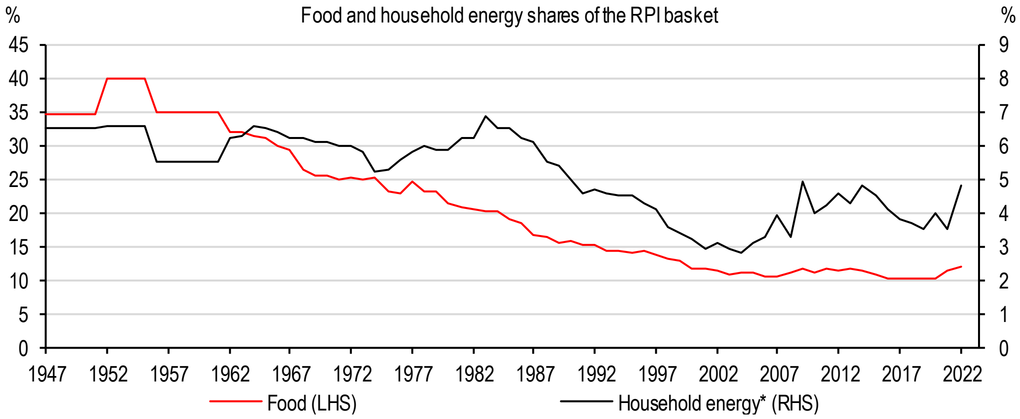
Back in 1952, the Retail Price index (RPI) included a number of now-less-popular items ranging from gramophone records to washing mangles. Electric washing machines were not added to the basket until 1956, fridges were not added until 1962, and meat-free sausages made their first appearance in 2022. Over the past 70 years, a number of items have come and gone (personal CD players 1997-2006, personal mp3 players 2006-2009). And, interestingly, men's suits dropped out of the basket in 2022.

With food and energy bills rising again, cost-of-living concerns are back

Changes in the basket are often a source of fun news stories every March when each new basket is announced. But they can also have more profound implications for how we think about the cost of living. Indeed, back in 1952, food made up over a third of the consumer basket. With rising household incomes and more spare cash to spend money on other things, that share now stands at just above 10%. Households also spend less on energy than they used to (Chart 13).

But in the latest (April 2022) estimates, RPI food inflation climbed to 6.5% and 'fuel and light' inflation rose to 76.9%. Because the share of household spending on food and, in particular, utilities, has a good chance of rising over the next year or two, so should their weights in the inflation basket. And with food and energy possibly set to play a bigger role in the inflation story, cost-of-living concerns might be starting to look more like much earlier periods of the Queen's reign. Hopefully, this time, the policy response will prove more effective.

13. Food and energy are smaller shares of the inflation basket, but could we see a reversal?



Note: *Specifically, the 'fuel and light' category of RPI.
Source: ONS

Trade

- UK trade has changed dramatically over the past 70 years…
- …as flows reoriented from the Commonwealth to Europe…
- …and the UK's role in global textiles and autos exports diminished, although it remains a large services trader

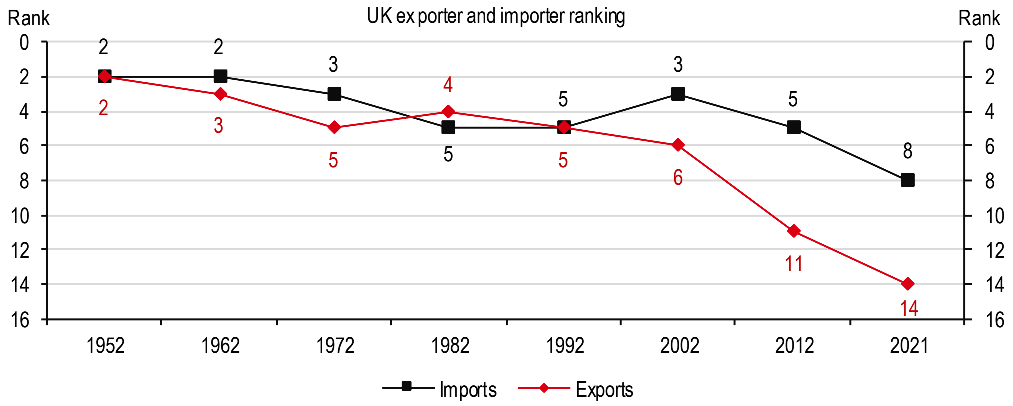
Shanella Rajanayagam
Trade Economist
HSBC Bank plc

From Empire to Europe to EU-exit

A great trading nation

International trade has always played an important role in Britain's economic history, but the UK's role in global trade and its relationships with trading partners have varied considerably over the past 70 years. By 1952, the value of British goods exports had rebounded to around five times that of its pre-war level, while imports were more than 3.5 times what they were in 1938. During this time, the UK stood as the world's 2nd largest goods exporter and importer, accounting for 11% and 13% of total world exports and imports, respectively. In fact, in 1952, the UK's goods exports were worth more than exports from France, the Netherlands, Italy and Spain combined (compared with less than one-fifth today).

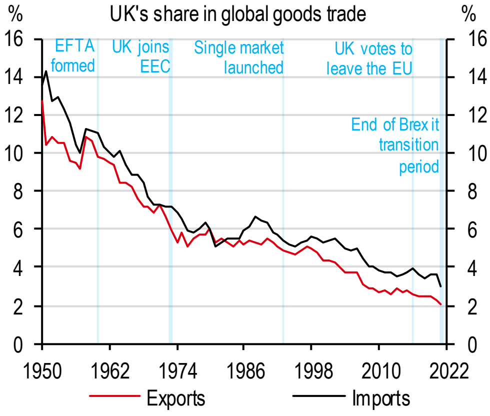
14. The UK has declined in importance as a global goods trader…



Source: IMF DOTS, HSBC. Note: Based on goods trade only.

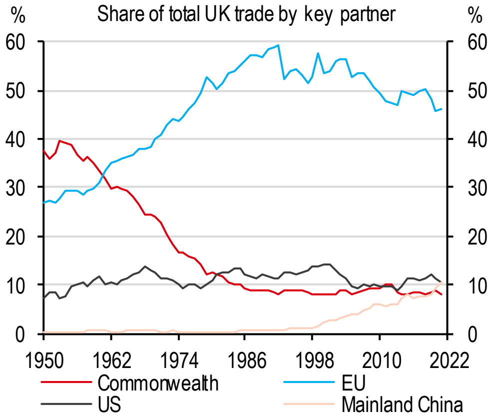
But the UK's role in world goods trade has diminished since then as emerging lower-cost economies have opened up to foreign trade and supply chains have become more globalised and complex. Indeed, since 1952, the UK's share in world goods trade has fallen by 9ppt, with the UK now accounting for just 2% of world goods exports and 3% of imports (down from 11% and 13%, respectively).

15. …in terms of both exports and imports



Source: IMF DOTS

16. The UK's trading relationships have shifted over time…



Source: IMF DOTS, HSBC. Note: Based on total goods trade (exports plus imports). Based on the current composition of Commonwealth and EU countries.

70 years ago, the UK still enjoyed strong trading links with Empire/Commonwealth economies, supported in part by Britain's system of imperial preferences, which awarded (mutual) preferential access to exports from colonies. During this time, Canada, Australia and New Zealand were top import partners for the UK – accounting for over one-fifth of the UK's total imports and 18% of its total exports (compared with just 2% and 3.3%, respectively, today).

17. …away from the Commonwealth and towards Europe

	UK export partners		UK import partners	
UK trade partner ranking	**1952 (%)**	**2021 (%)**	**1952 (%)**	**2021 (%)**
1	Australia (8.6)	US (13.7)	Canada (9.6)	Mainland China (14.3)
2	US (7)	Germany (8.9)	US (9.5)	Germany (11.3)
3	South Africa (5.7)	Netherlands (7.8)	Australia (6.8)	US (8.3)
4	Canada (5.1)	Ireland (6.8)	New Zealand (5)	Netherlands (6.5)
5	New Zealand (4.5)	France (5.8)	Denmark (3.5)	Norway (5.4)
6	India (4.4)	Switzerland (5.5)	India (3.4)	France (4.8)
7	Ireland (3.6)	Mainland China (5.1)	Sweden (3.3)	Belgium (4.8)
8	Sweden (3.3)	Belgium (4.8)	Nigeria (3.3)	Italy (3.7)
9	Netherlands (3)	Italy (2.7)	Netherlands (3.1)	Spain (3)
10	France (2.8)	Spain (2.4)	Belgium (3)	Ireland (2.9)

Source: IMF DOTS. Note: Data in parentheses are share of total UK exports or imports each year. Data for goods trade only.

However, the UK was coming under increasing pressure to do away with these preferences and it was a key sticking point in negotiations with the US during the formation of the post-war General Agreement on Tariffs and Trade (GATT) – the predecessor to the World Trade Organization. Although the UK was able to maintain these preferences once the GATT was established, it wasn't long before the lowering of trade barriers globally and the UK's entry into the European Economic Community (EEC) in 1973 (after applying twice previously in 1961 and 1967) led to the end of imperial preferences.

Indeed, the UK had already started to pivot away from the Commonwealth when it established the European Free Trade Association (EFTA) in 1960 (along with Austria, Denmark, Norway, Portugal, Sweden and Switzerland), prior to joining the EEC and as a means of liberalising goods trade without necessarily pursuing political integration with European economies. This, coupled with the establishment of the European Single Market in 1993 which aimed to facilitate the free movement of goods, services, capital and labour within the bloc, saw the UK's share of trade with Commonwealth countries decline from 37% in 1952 to 8% today, while its trade with the EU surged from 27% to 46% over the same period (Chart 16 and Table 17).

Other economies too have risen in prominence for UK trade over the past 70 years, with mainland China surpassing Germany to become the UK's top import partner in 2021, up from 65th in 1952 and 7th in 2002, while the US has long-remained an important trading partner for the UK.

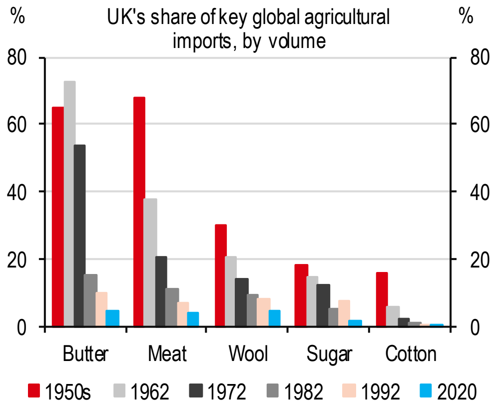
The composition of UK trade also evolved during this time in terms of both agriculture and manufactured goods. For example, the UK's share of key agricultural imports such as butter and wool has fallen, from 60% and 30%, respectively in the 1950s to less than 5% today.

In terms of exports, UK textiles (mainly cotton cloth) – once Britain's leading exported good – was already in decline by the 1950s due to a combination of World War I, India's boycott of imported Lancashire cotton amid its campaign for independence, and the rise of Japan's cotton manufacturing industry. And despite a brief resurgence in the UK's cotton industry in the 1950s, cotton mills across Lancashire closed at a rate of almost one per week during the 1960s and 70s, resulting in the UK's share of global textiles exports falling from 21% in 1953 to 2% in 2021 (source: BBC, 24 September 2014).

Similarly, Britain's share of global passenger car exports fell from 25-30% in the 1950s – when it was the world's second-largest auto manufacturer and top car exporter – to under 4% today (SMMT, 10 June 2016). The UK is now the 16th largest auto manufacturer globally, although cars are the UK's top exported product (excluding gold). Around 80% of cars produced in the UK are exported abroad, while a similar share of cars purchased in the UK are imported (SMMT, 2021).

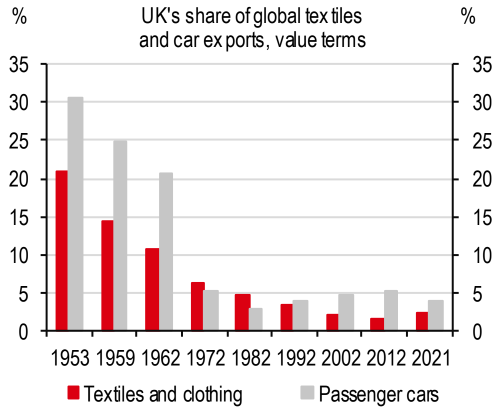
On the other hand, services have become an important source of export revenue for the UK. Today, services bring in just under half of total UK export receipts (up from one-quarter in 1952), with the UK ranking as the 2nd largest services exporter globally behind the US. It now accounts around 7% of total world services exports and 14.6% of global financial services exports.

18. The UK's share in agri trade has declined over time…



Source: USDA, FAO, and J.Singleton and P. Robertson, "Britain, Butter, and European Integration, 1957-1964", 1997. Note: 1950s data for all commodities except butter for 1952 year, while data for butter are for 1954.

19. …as has its share in key manufactured exports



Source: GATT, WITS. Note: 1953 and 1959 data sourced from GATT and shown as a share of economies that data were collected for.

So, as we reflect on the past 70 years of British trade, the UK is in some ways back to where it was. Once again outside the EU's single market, only time will tell how its trade flows in terms of both product and partner mix might evolve post-Brexit and as it pursues new trade deals with Commonwealth members such as Australia, New Zealand, Canada and India.

And, as Britons look to celebrate over the Jubilee weekend, readers might be interested to know that the UK's share of global tea imports has declined from over 60% in the early 1960s to 8% today. Beer imports have fallen from 27% to 5% over the same period, while imports of wine have remained around 15%. But this doesn't mean the UK is getting more abstemious – it still amounts to importing USD4.8bn of wine, making it the second largest importer after the US. So, whatever your celebratory beverage of choice…pinkies up!

GBP: 7 charts in 70 years

- Sterling has been buffeted by many events over the past 70 years…
- …from the collapse of Bretton Woods, to “Black Wednesday” and Brexit
- We track sterling’s evolution in seven key charts

Dominic Bunning
Head of European FX Research
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Charlotte Ong
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HSBC Bank plc

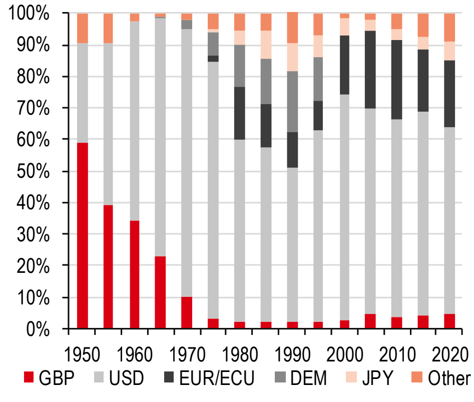
A sterling history

The 70 years since Queen Elizabeth II’s coronation have seen several watershed moments for GBP. We capture the currency’s evolution through 7 charts covering those 70 years. Chart 26 shows the overall trend of GBP-USD, and highlights the key events in that time.

1940 – 1969: Ticket to slide

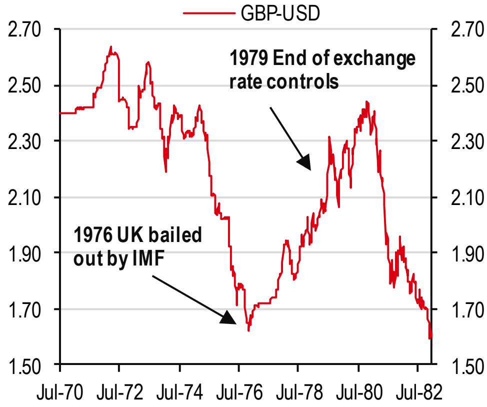
Although GBP reigned as the undisputed reserve currency of the world for many years, this changed with the Bretton Woods agreement in 1944. As part of the agreement, countries were required to peg their currencies to the USD, which was in turn pegged to the price of gold. This, coupled with the US economy’s increasingly dominant global position, gradually tilted the scales towards the dollar, which has become the reserve currency of the world (Chart 20).

20. After Bretton Woods, GBP declined in reserve currency status



Source: IMF, Eichengreen (2014), HSBC

21. GBP weakness in the early 1970s led the UK to approach the IMF for a bailout



Source: Bloomberg, HSBC

But the agreement brought more than just a shift in reserve currency status. It also brought about a fixed peg of GBP-USD at 4.03. However, with the UK saddled with war debt, rising trade deficits and declining productivity, maintaining GBP’s value became a major challenge. The UK government was forced to devalue GBP twice, in 1949 by around 30% and in 1967 by a further 14%. On the latter occasion, Prime Minister Harold Wilson defended the decision by famously stating that the “pound here in Britain, in your pocket or purse” had not been devalued – neglecting to mention that a weaker GBP would lead to higher import costs. This period also saw the imposition of a number of currency controls aimed at limiting currency weakness.

1970s: With a little help from my friends

Meanwhile, the US was also struggling to defend the dollar peg. The Bretton Woods agreement increased global demand for dollars that far outpaced what the US could convert to gold. Eventually, in 1971, the Bretton Woods agreement collapsed and sterling became a free-floating currency. The collapse of the agreement sadly heralded a grim period of British economic history. The first oil crisis followed shortly after in 1973, and the UK slid into recession from 1973-1975. During this time, the UK faced weakening growth, rising unemployment but also high rates of inflation – CPI peaked at 22.6% in 1975, its highest on record.

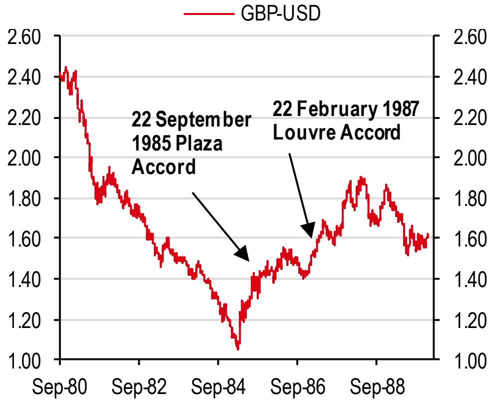
The poor economic backdrop coupled with deeply negative real yields (nominal rates at 10.8% in 1975) pressured sterling lower and GBP-USD fell 15.5% by the end of 1975 from the start of the decade. GBP's drastic depreciation sparked concerns that inflation may worsen further, and in 1976, the UK government approached the IMF for a bailout of nearly USD4bn.

Although the currency did strengthen on the back of the IMF bailout (Chart 21), the UK government consequently faced another problem – weak export competitiveness. Caught between high inflation and declining competitiveness, the authorities tried to address the latter by removing exchange controls in 1979, weakening GBP and helping to alleviate some of their economic troubles.

1980s: Going underground

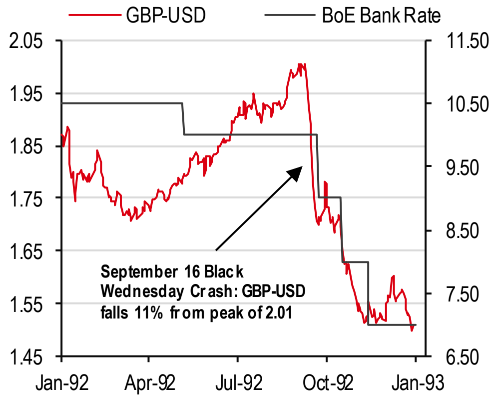
The inflationary woes of the late 1970s in the UK were also seen across the Atlantic, as US inflation reached 14.5% in 1980. Determined to bring down prices, the Fed embarked on a steep hiking cycle that saw interest rates at 20% in the same year. Unsurprisingly, this tight monetary policy boosted the greenback and GBP-USD hit an all-time low of 1.052 in Q1 1985 (Chart 22).

22. USD strength was a key focus in the 1980s



Source: Bloomberg, HSBC

23. "Black Wednesday" saw the UK withdrawing GBP from the ERM



Note: Although the BoE raised rates from 10% to 12% on 16 September 1992, it was reversed by the next day and is not reflected on this chart.
Source: Bloomberg, HSBC

As was the case in the UK, the US became concerned with USD strength, recognising that it was hurting exports and contributing to its current account deficit. In 1985, the US signed the Plaza Accord with France, Germany, Japan and the UK, with members agreeing to intervene in currency markets to depreciate the USD. As it turned out, the Plaza Accord might have been too successful in its aim. Barely two years later, in February 1987, the original signees, along with Canada, signed the Louvre Accord to halt the dollar's decline. By this point, GBP-USD had risen 8.1% from the time of the Plaza Accord, a period also coinciding with a stronger UK economy.

1990s: Panic on the streets of Threadneedle

Towards the late 1980s, the UK enjoyed the "Lawson Boom" – a period of rapid economic growth named after the Chancellor of the time, following significant financial market liberalisation. This culminated with UK GDP growing 5.4% in 1987, for example. But ultimately this proved unsustainable, and saw inflation rise from 3.2% in 1987 to 7% in 1990. In a bid to tamp down inflation, the Bank of England (BoE) raised rates from 9.4% to 13.9% over the same period. Against this backdrop, the UK government also decided to join the European Exchange Rate Mechanism (ERM). The ERM sought to keep European currencies stable against each other within a fluctuation band, and policymakers believed that joining the ERM would not only lead to currency stability but also lower inflation in the longer term, primarily due to the monetary discipline that membership ensured.

> **"All I can say is that it is necessary to get us back on track – to restore the conditions for sustainable non-inflationary growth…and I am confident that we will be helped in this by the discipline of the ERM…"**
>
> **Bank of England Quarterly Bulletin (1990 Q4)**

In 1990, the UK joined the ERM, pegging GBP-DEM at 2.95 with a fluctuation band of 6%. By this time, UK GDP growth had fallen to just 0.7%, while inflation was around 7%. But the benefits that the UK envisaged with ERM entry did not materialise. In the same year, the German reunification saw an inflationary economic expansion, to which the Bundesbank responded by hiking rates. However, the UK was unable to match the rate hikes due to its economic situation and GBP-DEM started falling. By September 1992, GBP-DEM was hovering at 2.79, dangerously close to the lower bound of 2.77.

At this juncture, many currency traders believed that the UK would be unable to maintain GBP within the band and started building short positions. On 15 September 1992, currency traders started to sell sterling which the BoE had to purchase to ensure the exchange rate remained within the band. But the traders were selling GBP much faster than the BoE could buy, even with the bank buying up to GBP2bn per hour (source: The Guardian, 2012).

In retaliation, the government hiked rates from 10% to 12% the next day, and later promised to hike to 15%. The higher interest rates did little to deter the speculative attack, and by the evening of 16 September, the government was forced to withdraw GBP from the ERM (Chart 23). This day became known as "Black Wednesday". This ultimately saw GBP-USD fall from over 2.00 versus the USD to around 1.50 by late 1992 as the UK went into another recession.

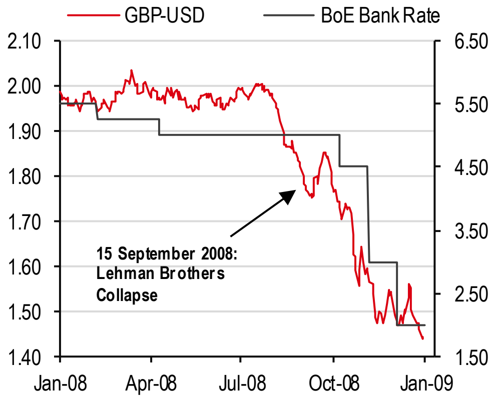
> **"…our membership of the ERM had forced us to adopt an unbalanced mix between monetary and fiscal policy, a mix dictated by the consequences of German unification…"**
>
> **Bank of England Quarterly Bulletin (1992 Q4)**

2000-2020s: Rolling in the deep

Post 2000, GBP saw two defining moments: the Global Financial Crisis in 2008 and the Brexit vote to leave the EU in 2016. After a period of strong, synchronised global growth in the early 2000s, some cracks had started to emerge in the US housing and mortgage market by late 2007. But it was only in early 2008 that the UK started to see the impact. UK lender Northern Rock faced a bank run which required the bank to be nationalised. This coincided with the BoE cutting rates twice in early 2008 to try to ease tightening credit conditions.

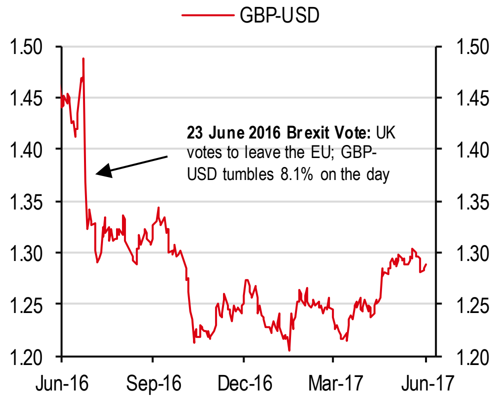
But as the global fallout became more widespread, much more aggressive rate cuts were delivered and the UK fell into a long and deep recession, with five consecutive quarters of negative growth from Q2 2008 – Q3 2009. By March 2009, the BoE had slashed rates to 0.5%. During this period, GBP-USD fell 29% as the toll on the UK economy as a financial services-driven economy was even more evident than many of the UK's peers (Chart 24).

24. The Global Financial Crisis saw a dramatic fall in GBP and Bank Rate



Source: Bloomberg, HSBC

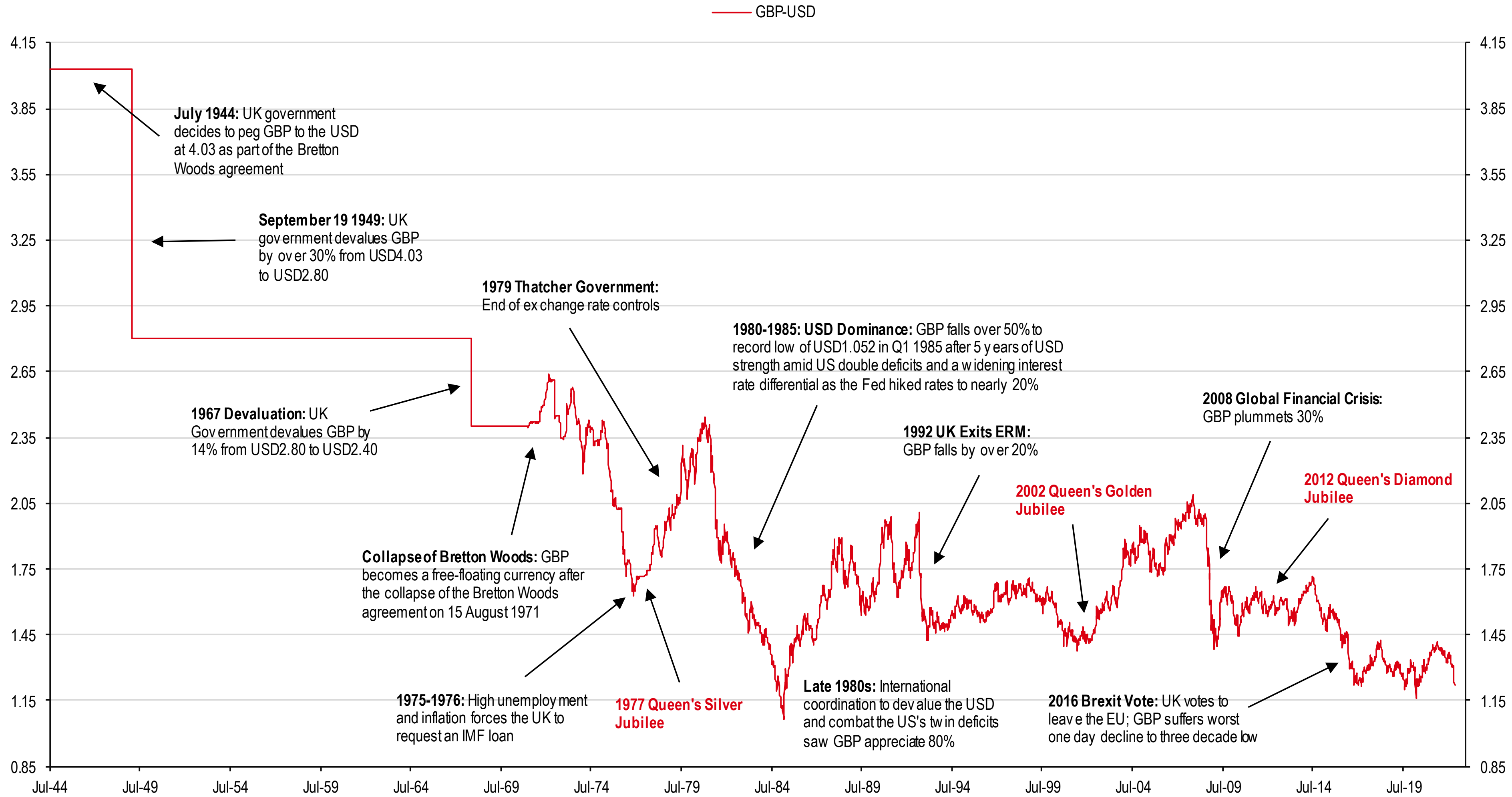
25. GBP plunged in the aftermath of the Brexit vote



Source: Bloomberg, HSBC

The other key event of this millennium for GBP was the 2016 Brexit referendum vote. On 23 June 2016, the UK voted to leave the EU, with 52% in favour of leaving. The result took many by surprise and GBP-USD slid 8.1% on the day, the largest one-day decline since Black Wednesday (Chart 25). GBP weakened further in October 2016 as financial markets worried about the risk of a "hard" Brexit – whereby the UK could leave the EU without a trade deal to fall back on. GBP-USD traded briefly around 1.20 for the first time since the mid-1980s.

26. GBP's history over the past 70 years



Source: HSBC, Weforum, Guardian News & Media

Stock market evolution

- FT30: The only index in 1952
- Some constituents are still going strong, others have been acquired and a few serve as cautionary tales
- Today's constituents attest to 70 years' of technological advancement but a surprising number are reassuringly familiar

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FT 30: Where are they now?

Stockbroking in 1952 was a lot simpler. Stock exchange opening hours were shorter, lunches were longer and there was only one index to worry about – the FT 30, which was set up in 1935. The FT Actuaries All Share index was only created in the early 1960s and the FTSE 100 index didn't come along until 1984. Uncovering what has happened to the constituents of the FT 30 in 1952 since then is an interesting way of bringing to life 70 years of economic history in this country. We see them falling into four broad categories.

FT 30 constituents in 1952

Stock	Modern sector*	Stock	Modern sector*
Still going strong		**Still here if you look**	
Guest Keen and Nettlefolds	Aerospace & Defence	Blue Circle	Construction & Materials
Imperial Tobacco	Tobacco	Courtaulds	Personal Goods
Tate and Lyle	Food producers	Distillers	Beverages
Returning to the fold		Dunlop Rubber	Automobiles & Parts
Coats	Personal Goods	Harrods	General Retailers
Rolls Royce	Aerospace & Defence	Hawker Sidley	Aerospace & Defence
No longer here		ICI	Chemicals
British Motor Corporation	Automobiles & Parts	Lancashire Cotton	Personal Goods
EMI	Media	London Brick	Construction & Materials
General Electric Company	General Industrials	Murex	Industrial Metals & Mining
Leyland Motors	Automobiles & Parts	Patons and Baldwins	Personal Goods
Swan Hunter	Industrial Transportation	P&O+	Industrial Transportation
Turner and Newall	Automobiles & Parts	Pinchin Johnson	Chemicals
FW Woolworth	General Retailers	Spillers	Personal Care, Drug and Grocery Stores
		Vickers	Industrial Transportation
		Watney	Beverages
		William Cory	Waste and Disposal Services

Source: Investors Chronicle *HSBC estimates +Full name - The Peninsula and Oriental Steam Navigation Company

Still going strong

Three very different companies

Barring a couple of name changes, three companies have not gone away. Imperial Tobacco, called British American Tobacco from about 1976, continues to produce cigarettes. Tate and Lyle continues to make food ingredients and sweeteners, but sold its eponymous sugar cane refining business in 2010 and Guest Keen and Nettlefolds has been abbreviated to GKN, but it remains a manufacturer of automotive and aerospace components.

Returning to the fold

The cycle of private equity ownership

There are two more companies that look as if they have never been away, but they have in fact absent for some of the time. Coats is a conventional story. It grew by acquisition, including Patons and Baldwins, another 1952 constituent, was eventually taken private in 2003 by a private equity investor and was re-listed in 2015.

Nationalisation of the means of production…

The fate of Rolls Royce, however goes to the heart of competing industrial strategies of the 1970s and 1980s. The company went into liquidation in 1971, brought down by the development costs of the ultimately very successful RB211 commercial jet engine. However, the nationally important jet engine business was immediately nationalised. During the 1970s many other strategically significant, and sometimes troubled, businesses were also taken into state ownership. Aside from Rolls Royce, four other 1952 FT 30 constituents were nationalised: British Motor Corporation, by then part of Leyland Motors, Hawker Siddley, the aerospace company and Swan Hunter the ship builder.

…and the 1980s privatisation boom

Rolls Royce was then privatised in 1987 preceded by British Aerospace in 1981, which by then included most of the hitherto fragmented aerospace industry in the country. FT 30 constituents today include many other companies listed in the privatisation boom of the 1980s including BT, BP, British Airways (now part of IAG), and National Grid.

Still here if you look

M&A has swallowed more than half of 30 original stocks

As might be expected there are also plenty of examples M&A activity. Eighteen of the 30 constituents in 1952 were subsequently acquired by other businesses. In the UK, Tube Investments is now a division of Smiths Group – a 2022 FT 30 member. Vickers is now owned now by Rolls Royce. A number of building materials, chemical and iron and steel stocks such as Blue Circle, ICI, Murex Courtaulds and Pinchin Johnson have ended up with European listed companies such as Akzo Nobel and Lafarge. Harrods is very much as it was in 1952, but is now owned by Qatari investors. P&O is also recognisable, but the cruise business is now owned by Carnival Corporation in the US and the ports and ferry operation is owned by DP World in Dubai.

No longer here

Sunset industries

Finally, there are the companies that suffered from changing consumer trends and weak competitive positions, and whose demise was helped along the way by a dose of weak management. The collapse of the British motor industry is well documented. BMC and Leyland Motors, which eventually merged to become the nationalised British Leyland, were part of that story. Ship building is another industry that has largely died in the UK and Swan Hunter called in the receivers in 1993. The demise of Woolworths and the break-up of a financially distressed EMI, the record company, speak to changing retail habits and the advent of digital music. Turner and Newall's legacy asbestos liabilities eventually led its new US owner to file for Chapter 11 bankruptcy.

Balance sheet efficiency, sometimes it doesn't work out

However, perhaps the most interesting story is that of GEC, a cautionary tale about how the pursuit of balance sheet efficiency doesn't always work out, especially when combined with poor management decisions. The company was for decades run by the legendary industrialist Arnold Weinstock. In 1984 it was the third largest stock in the new FTSE 100 index and by the mid-1990s it was famed as much for its GBP3.0bn in net cash as it was for its profitability. Weinstock's successor, under pressure from shareholders to make the balance sheet more efficient, embarked on a series of acquisitions in the US in the late 1990s that were largely unsuccessful, leaving the company in debt and unprofitable. British Aerospace acquired the electronic systems business in 1999 and the rump telecoms business, renamed Marconi, foundered in the dot com crash in the early 2000s.

FT 30 constituents today

Today's FT 30 index constituents reflect seven decades of technological advancement. The average person on the Clapham omnibus in 1952 would most likely find the whole concept of mobile telephony the stuff of science fiction and Vodafone would be a mystery, while the unusual spelling would probably raise eyebrows too. Credit reference services (Experian), online gambling (Flutter Entertainment) and software solutions (Wise) would also confuse. Ironically the concept of home delivered groceries would probably be quite familiar to someone from 1952, but Ocado's online business model and robotic warehouses would not. However, the majority of the companies in the index today would still be recognisable in broad terms; reassuring perhaps when thinking ahead to 2092.

FT 30 constituents in 2022

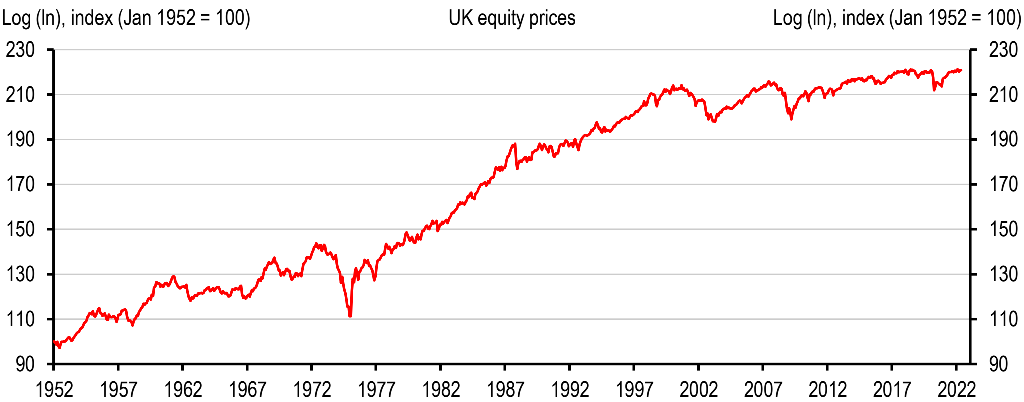
Stock	Modern sector	Stock	Modern sector
3I Group	Investment Banking, Brokerage	Legal & General Group	Life Insurance
Aberdeen	Investment Banking, Brokerage	Lloyds Banking Group	Banks
Associated British Foods	Food Producers	Man Group	Investment Banking, Brokerage
BAE Systems	Aerospace and Defence	Melrose Industries	General Industrials
BP	Oil, Gas and Coal	National Grid	Gas, Water and Multi-utilities
BT Group	Telecommunications	NatWest Group	Banks
Burberry Group	Personal Goods	Next	Retailers
Compass Group	Consumer Services	Ocado Group	Personal Care, Drug and Grocery Stores
Diageo	Beverages	Reckitt Benckiser	Personal Care, Drug and Grocery Stores
Experian	Industrial Support Services	Smiths Group	General Industrials
Flutter Entertainment	Travel and Leisure	Tate & Lyle	Food Producers
GlaxoSmithKline	Pharmaceuticals and Biotechnology	Tesco	Personal Care, Drug and Grocery Stores
IAG	Travel and Leisure	Vodafone Group	Telecommunications Service Providers
ITV	Media	Wise	Industrial Support Services
Land Securities Group	Real Estate Investment Trusts	WPP	Media

Source: Refinitiv Datastream, FTSE Russell

Share price performance over the past seven decades

Using data from the Bank of England until 1962 and the FTSE All Share thereafter, we can plot UK equity prices back to 1952 (Chart 27). Share price appreciation was fairly consistent from around the mid-1970s to the end of the century. Black Monday in 1987 registers as a mere blip, with the crisis in the early 1970s being far more severe. Since the start of this century, progress has been more muted, with UK equities up a mere 28% from their post-millennium high in September 2000. However, since 1952, UK equities are up by around 10,000%.

27. UK equity prices are up by around 10,000% since 1952



Source: Refinitiv, Bank of England, HSBC

Travel & Leisure

- Consumers now have a much wider array of leisure choices at their disposal than ever before
- Although there have been changes to the ways leisure is consumed, the fundamental desire for communal “experiences” remains
- We think that, after two years of pandemic restrictions, the sector has some clear tailwinds

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Changes in leisure patterns

The changing way that people spend their leisure time is conveniently captured in the Retail Price Index (RPI) basket. In 1952, there were just three “entertainment services” included -- cinema admissions, football admissions and radio licenses -- while drinking habits seemed a straight-up choice between beer and whisky. By 2022, not only was the choice of drinks seemingly much larger, but the breadth of leisure spend was, too. Exercise classes, bowling and wall climbing are notable additions since the index was first put together. The table shows, in bold, where new alcoholic drinks or entertainment services have been added to the basket.

A broadening of leisure and entertainment consumed since the coronation

Contents of the inflation basket over time: new items are in bold

	Alcohol	Entertainment services
1952	Beer Whisky	Wireless licences Admissions to cinemas and football matches
1977	Beers: bitter, lager, mild and stout, ale, barley wine Others: whisky, gin, sherry	TV and radio licences Admissions to cinema, dance halls, football matches, historical monuments, national trust subscriptions
2002	On sales: bitter, lager, stout, cider On sales: whisky, **vodka, wine, liqueurs, spirit based drink, mixer and soft drink**	TV licences, **TV subscriptions, TV, DVD and video related rental**, other (eg satellite dish and digital connection fee related) **Foreign and UK holidays & accommodation** Admissions to cinema, dancing, football matches, historic monuments**, leisure centre related activities, gym membership and exercise related, bowling, theatres**
2012	On sales: bitter, lager, stout, cider, On sales: whisky, vodka, wine, liqueurs, spirit based drink, mixer, **champagne**	TV licences, TV subscriptions, TV rental, **DVD rental internet subscriptions** Foreign and UK holidays & accommodation Admissions to cinema, **live music**, football matches, historic monuments, leisure centre related activities, gym membership and exercise related, bowling, theatres, **golf, night clubs, horse racing, livery charges**
2022	On sales: bitter, lager, stout, cider On sales: whisky, vodka, wine, liqueurs, spirit based drink, mixer, **gin**	TV licences, TV subscriptions, TV rental, DVD rental internet subscriptions Foreign and UK holidays & accommodation Admission to cinema, live music, football matches, historic monuments, leisure centre related, gym membership and exercise related, bowling, theatres, golf, night clubs, horse racing, livery charges, **climbing walls, soft play** **Games consoles online subscription, music streaming**

Source: HSBC, ONS

It's interesting that there haven't been many outright removals. These are not shown in the table but were: radio licences (abolished February 1971), National Trust subscriptions, video rental and "admissions to dancing-related activities". The leisure customer has stuck with old favourites, while demanding more over time.

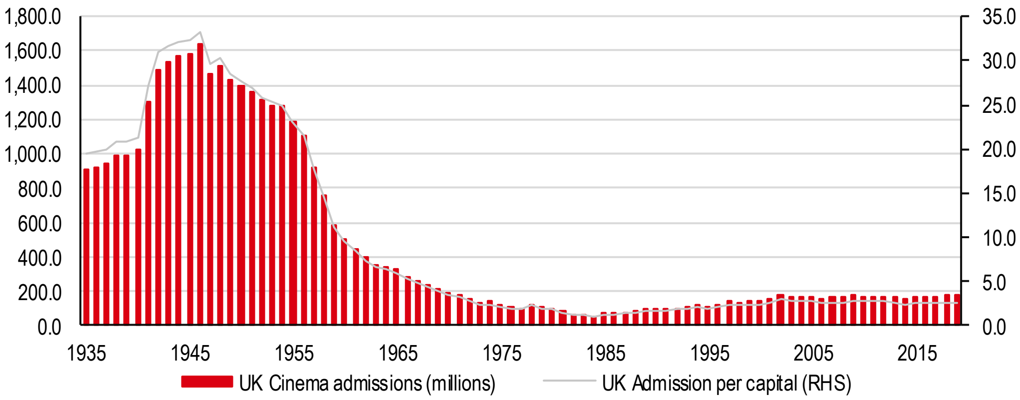
The death of leisure is much overstated

A theme that often crops up is that more leisure time is being spent in the home, rather than in the community, a reflection of society's atomisation. Why would someone want to sit next to a stranger when, instead, they can use their wide screen-TV with surround sound from the comfort of their armchair?

That misses the point, though, as we see it. Some (though admittedly not all) changes are driven by other things. For the cinema, it is more about changes to media consumption: people can now get their news from a variety of devices. They go to the pictures for the "experience" and the truth is that, despite improvement in home entertainment, cinema visits have been steady in recent years, and well up on where they were at the time of the Silver Jubilee. Never has this been more evident as cinema admissions recover post COVID and moviegoers want to experience content, not simply consume it.

Cinema admissions have recovered from lows in 1984, as going to the cinema becomes a leisure experience vs a desire to consume content, as it was in the past

28. Cinema admissions (millions)/admissions per head

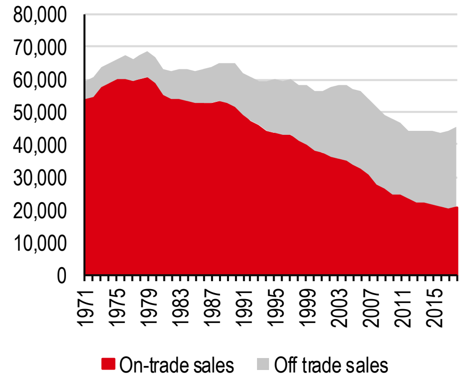


Source: HSBC, UK Cinema Association

For the pubs, it's true that drinking out has been in decline. On trade UK beer volumes are down 61% from 1971-2018 with the off trade up +327%, as can be seen in Chart 29 below. Some of it is because of a change in consumption habits: although beer has become less popular, wine, cider and perry have become more popular, with spend up 330% in real terms between 1980 and 2018.

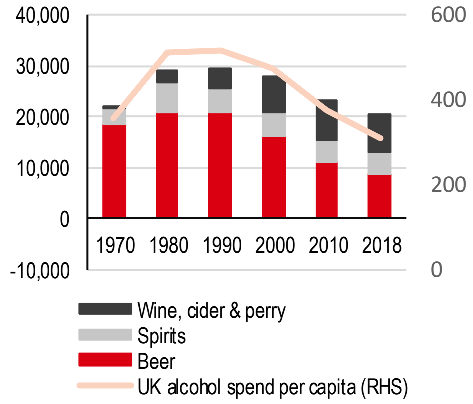
But in the case of pubs, that partly reflects a change in lifestyle priorities: gym membership, for example, wasn't even in the RPI basket at the time of the Silver Jubilee (not that the population is any more abstemious now: alcohol consumption per head per annum has been broadly flat since 1980). And, among the pubs that we cover, food spend has been growing aggressively while liquor sales have tailed off.

29. UK beer sales (thousand hectolitres) by trade



Source: HSBC, BBPA

30. Real alcohol expenditure at pubs, hotels & restaurants (GBP, 2006 prices)



Source: HSBC, ONS, BBPA

Reason to be upbeat on the sector more broadly

This leaves us upbeat around the prospects for the leisure sector more broadly. It's in high demand and, after two years of people being stuck at home, unable to mingle with the wider world, we suspect that spending on experiences will be well supported, especially if there is a backlog of savings to run down.

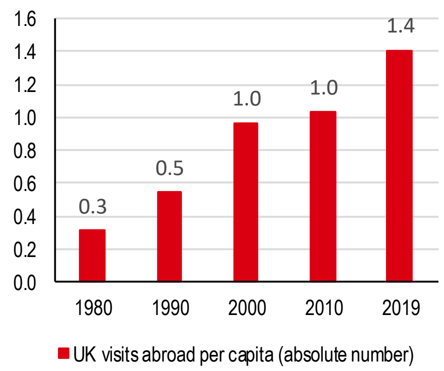
Where now?

While we don't claim 2040 vision, we can see what the immediate trends are in front of us and one of the areas that it's clear has significant pent up demand is holidays abroad. As Charts 31 and 32 show, by the onset of the pandemic we had begun taking more than one trip abroad per year: there's a clear structural uptrend. By 2010, 211m passengers passed through UK airports, up 100-fold since 1950.

Tour operators and hotel operators are one of the areas of Leisure currently seeing strong booking trends as people look to resume old ways. It should have knock-on benefits to concessions catering and the transport sector. And it's clear that pubs and restaurants are shrugging off consumer fears with young people especially keen to enjoy a night out, spending more per head on premium products, even if the older cohort is yet to be tempted back.

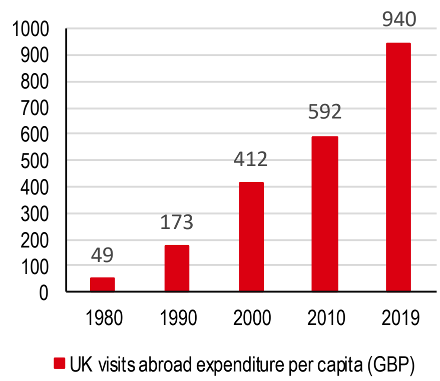
Demand for travel continues to grow and even coming out of COVID-19, pent up demand is high with summer 2022 expected to be close to summer 2019 levels

31. UK visits abroad per person



Source: HSBC, ONS

32. UK expenditure abroad per person (current prices)



Source: HSBC, ONS

Gilts

- The gilt market has seen radical change during Queen Elizabeth II's reign
- Yields have fallen to historical lows in spite of record supply, while the Bank of England has emerged as the biggest holder of gilts
- But as we reflect on the past 70 years, the drawbacks of having a huge debt pile are becoming more apparent

Daniela Russell
Head of UK Rates Strategy
HSBC Bank plc

Supply high but yields low

The gilt market has developed significantly during Queen Elizabeth II's reign, evolving in terms of size, yield level and investor base. But gilts pre-date our current monarch – and by quite some distance! The first issuance was back in 1694 to King William III who needed to borrow GBP1.2m to fund a war against France. At the time, the Bank of England had been newly created and was the one that was able to issue the money. The debt was not called a 'gilt' back then; this was a term that only became used from the late 19th century.

Throughout history, gilts have been the means by which various UK governments have borrowed money when tax revenue alone was not enough. They have been used to finance spending on various wars as well as supporting economic recovery afterwards. Many of the earliest debt issues were perpetual – and so had no fixed maturity date – and were later referred to as Consols. Fresh faces in the gilt market will also recognise these since the last of them were only redeemed in 2015.

Index-linked gilts are 25% of today's total stock

The majority of the outstanding gilts in the market today are conventional bonds which offer a fixed coupon and have a set maturity date. However, index-linked debt is a significant proportion and constitutes almost a quarter of the total. In addition to this, the UK has looked to diversify its investor base by supplementing gilt issuance with other debt instruments in recent years. For example, it has issued a total of GBP700m in sovereign Sukuk since its first launch in 2014. Then in 2021/22, the DMO introduced two green gilts which raised a total of GBP16.1bn, and there are plans to build out a green gilt curve in the coming years.

Size of the gilt market has surged

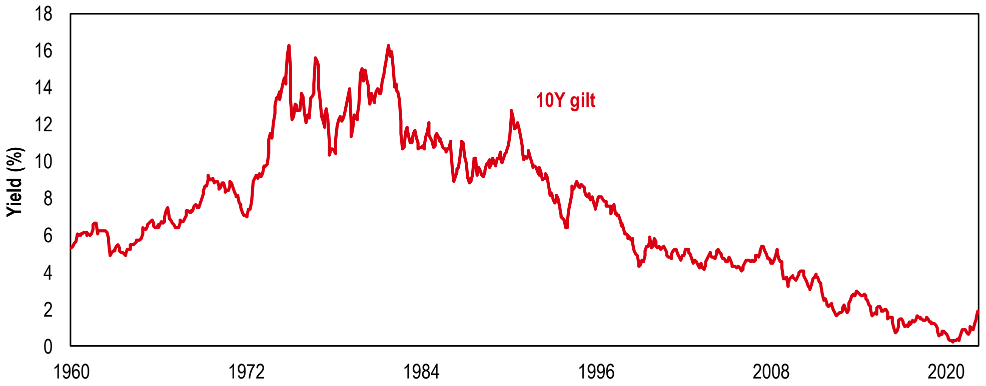
One of the most noticeable trends in the gilt market in recent years has been the prolonged increase in the volume of issuance as the public sector borrowing requirement has risen. During the most recent part of Queen Elizabeth II's reign, we have seen two separate periods of surging gilt supply: first, in response to the global financial crisis and second, to finance the war-like spending due to the COVID-19 pandemic. In the decade or so before the GFC, it was typical for the gilt remit to be in the region of GBP50bn a year. When supply needs soared to a level in excess of GBP200bn at the height of the GFC, it was seen as a one-off. However, faced with financing the government's fiscal response to the COVID-19 pandemic, borrowing needs escalated again to a new record of nearly GBP500bn in 2020/21.

The size of the gilt portfolio has increased over four-fold since before the financial crisis and the nominal uplifted value currently stands at GBP2,164bn (as of end December 2021). Supply pressure has eased from its peak but the annual gross issuance requirement is still forecast to stay at an elevated level of around GBP200bn over the coming years.

Multi-decade decline in gilt yields

Despite the huge increase in the size of the gilt market, yields sit close to the lowest levels seen during Queen Elizabeth II's reign (Chart 33). There has been a persistent decline in bond yields as the currency stabilised compared with the volatility seen in the 1970s and interest rates have been on a multi-decade downtrend.

33. Gilt yields have been on a multi-decade downtrend



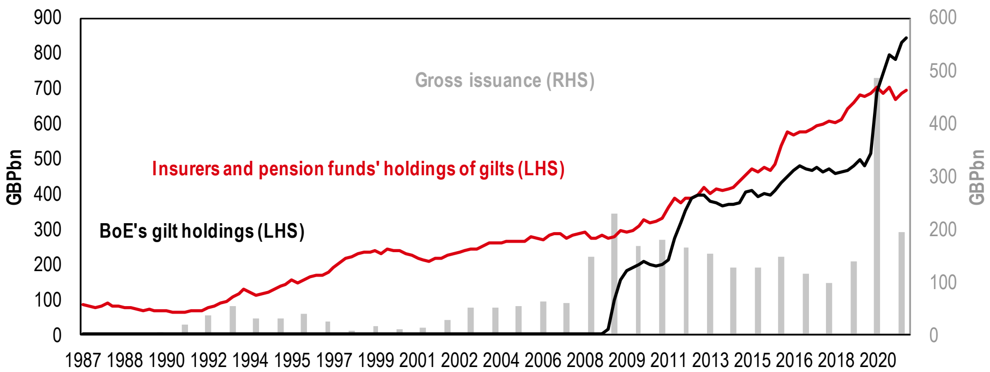
Source: HSBC, Bloomberg

As interest rates reached new lows, global central banks have undertaken quantitative easing in order to ease monetary policy even further in recent years. QE purchases from the Bank of England have seen its gilt holdings rise to GBP875bn. The Bank has recently begun the process of shrinking the size of its balance sheet, but its holdings are still GBP847bn.

There are three main owners of gilts

Chart 34 shows that the Bank of England has absorbed a substantial portion of the increase in gilt supply in recent years and it currently holds a third of all outstanding debt. Alongside the Bank, domestic insurance companies and pension funds have been a reliable source of demand and hold c28%, while a similar proportion is owned by overseas investors.

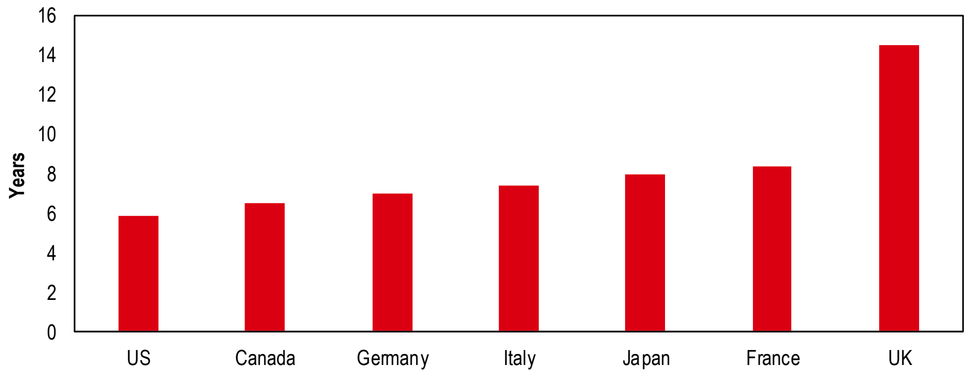
34. QE purchases helped to absorb a substantial portion of gilt supply



Source: HSBC, DMO

The strength of the demand from domestic pension schemes has enabled the UK to lengthen the average life of the maturing debt while supporting increased index-linked debt issuance. Consequently, the UK is far less exposed to financing risk than its international peers (Chart 35).

35. The UK benefits from a long average maturity of its outstanding debt



Source: HSBC, DMO

The benefits and drawbacks of index-linked gilts

In spite of having a high post- Great Financial Crisis debt pile, net debt interest spending has been falling in recent years due to the historically low level of interest rates for new issuance and the relatively low level of RPI inflation. Indeed, issuing index-linked gilts has historically brought cost advantages for the government as inflation has been low. However, with interest rates and inflation now on the rise, debt interest payments are forecast by the Office for Budget Responsibility to increase to GBP83bn in 2022/23. In the past, tying debt interest payments to RPI helped to underscore the credibility of the government's commitment to low and stable inflation. Now, the significant drawbacks of having such a large stock of index-linked debt are being felt.

Looking ahead, gilt supply is set to stay high but the government can no longer rely upon the support of the Bank's QE purchases to help absorb it. In fact, the BoE may even add yet further to the net supply of gilts when it starts to sell some of its holdings later this year. It will then be up to overseas and domestic investors to step up.

Other buyers of gilts need to step up

Overseas investors have been strong buyers of gilts in recent years, increasing their holdings by GBP170bn since before the pandemic. Meanwhile, pension funds are likely to remain a reliable buyer, but the strength of their demand could begin to wane in the coming years. The Pensions Act of 2004 caused explosive growth in the demand for long-dated gilts and linkers from UK defined benefit pension (DB) schemes. This stricter regulation placed greater scrutiny on pension trustees and increased the pressure on scheme sponsors to provide cash injections into pension schemes to reduce deficits and lower funding volatility. This has driven a secular reallocation away from equities and into fixed income over the last decade and helps to explain the low level of long-dated gilt yields.

But the funding positions of schemes have improved impressively in recent years and so many more schemes have moved closer towards their end games. With hedge ratios now higher, the pool of unhedged liabilities is gradually declining. This does not mean that demand for gilts will suddenly disappear. After all, the aggregate funding deficit of the DB universe was still GBP615bn at end-2021 (on a full buy-out basis). Nevertheless, over the coming years we expect more pension schemes to look to increase their allocations to corporate bonds as their focus shifts beyond funding ratio stability towards adopted income generating investments that help to meet pension payments.

Sterling credit since 1952

- The GBP corporate bond market in 1952 was dominated by industrial debentures from the Sterling Area
- The 1980s saw rapid growth and internationalisation as foreign issues flocked to issue in sterling
- This leaves GBP credit in its modern form less exposed to the domestic economic outlook than its USD and EUR counterparts

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How sterling credit became "not UK" credit

One of the defining features of the sterling corporate bond market is its international issuer base. Around 50% of currently outstanding bonds were issued by non-UK firms, compared to 29% of the USD Investment Grade market that is non-American and 35% of the EUR market that comes from outside continental Europe. But it hasn't always been this way.

1950s-1960s – a market for the Sterling Area

When the Queen ascended the throne in 1952, the sterling corporate bond market was a very different beast. For starters, it was much smaller. The earliest record we can find dates back to 1962. Back then, the amount of marketable GBP corporate debt outstanding was around GBP5bn[3], equivalent to approximately GBP82bn in today's money, versus the GBP400bn market it is today. A typical issue is around GBP10-15m, equivalent to GBP165-245mn today.

The market was dominated by debentures, which are bonds issued mainly by industrial companies secured against physical assets – a reflection perhaps of the greater weight of manufacturing industries in the British economy then. The few foreign issuers stemmed from Commonwealth countries within the Sterling Area. In other words, GBP credit was by and large the UK's corporate bond market.

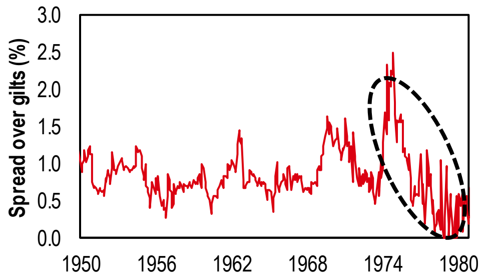
Drought of issuance in the seventies

The 1970s brought with it a drought of bond issuance among UK corporates. The immediate cause of this is the recession of 1973, and the sharp increases in inflation and nominal interest rates. As the Bank of England's base rate rose from 5% in June 1972 to 13% in November 1973, 20-year debenture yields climbed to 14% by the end of 1973. The stagflationary economic climate, alongside significant uncertainty around the future trajectory of interest rates, deterred many companies from tapping the corporate bond market.

Meanwhile, institutional investors' interest in fixed income assets shifted dramatically towards gilts and away from corporate bonds. Pricing was the key issue. Yields on debentures did not climb as fast as the BoE's base rate, or gilts, which led to a narrowing of credit spreads from the mid-1970s (Chart 36). That was poor compensation given the macroeconomic uncertainty and falling real profits. As a result, institutional investors became net sellers of corporate bonds by the late 1970s (Chart 37).

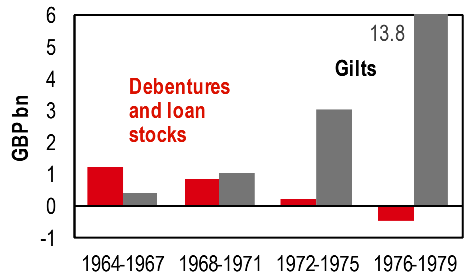
3 Estimated size of the sterling bond market (gilts and corporates) is around GBP20bn in 1962, as per the Bank of England Quarterly Bulletin (Q2 1963). The size of marketable gilts is around 53% of the national debt, which is GBP15bn, according to a parliamentary records from 4 July 1962 (Hansard). This leaves around GBP5bn as the size of the non-gilt market.

36. Credit spreads narrowed in the 1970s despite stagflationary headwinds



Source: HSBC calculations, BoE

37. Pension funds and insurers became net sellers of corporate bonds in the late 70s

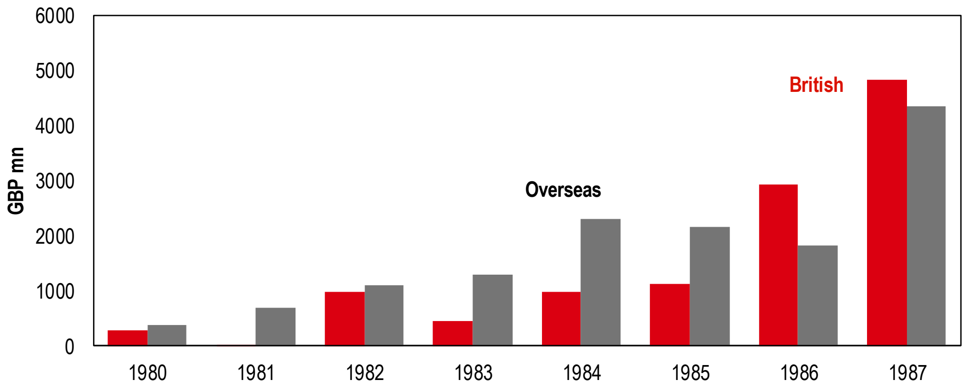


Source: HSBC calculations, BoE Quarterly bulletin. Note: purchase volume in nominal terms

1980s onwards – revival and internationalisation

The 1980s was a time of renewal for the sterling corporate bond market. By 1985, foreign corporates were increasingly turning to the sterling market for their borrowing needs and this set the foundation for the GBP corporate bond market that we know today.

38. Overseas firms represented more than half of sterling issuance for much of the 1980s



Source: HSBC calculations, BoE archives. Note: issuance volume in nominal terms

As the headwinds to the sterling bonds such as high inflation and interest rates started to fade from the early 1980s, issuance picked up. Unlike the 1960s, overseas borrowers played a large role in the growth of the GBP credit market (Chart 38). The abolition of exchange controls in 1979 allowed overseas corporates to participate in the sterling corporate bond markets in size for the first time since the Second World War. London was already the centre of international (Eurobond) bond issuance and was well placed to facilitate the growth of non-UK borrowers in sterling. Between 1980 and 1987, UK domiciled firms issued GBP11.6bn worth of bonds, compared to GBP14.1bn by foreign firms. By 1987, it was already a misnomer to label the GBP corporate bond market as the UK's credit market!

Fast forward to the Queen's Golden Jubilee in 2002, German and Dutch firms were major issuers of GBP debt and by the Diamond Jubilee in 2012, 17% of GBP credit was from American firms. Barely half of GBP corporate bonds are from British firms today, which leaves the sterling credit market less domestically exposed and more aligned with the international economic outlook.

Housing

- Real house prices have more than quadrupled in the past 70 years, with gains punctuated only by sharp rises in interest rates and/or joblessness
- House price-to-income ratios appeared to take a permanent leg up in the early 2000s, partly as a result of weak supply
- It remains to be seen whether the government will achieve its aim – echoing a pledge made in 1950 – of building 300k homes per year

Chris Hare
Senior Economist
HSBC Bank plc

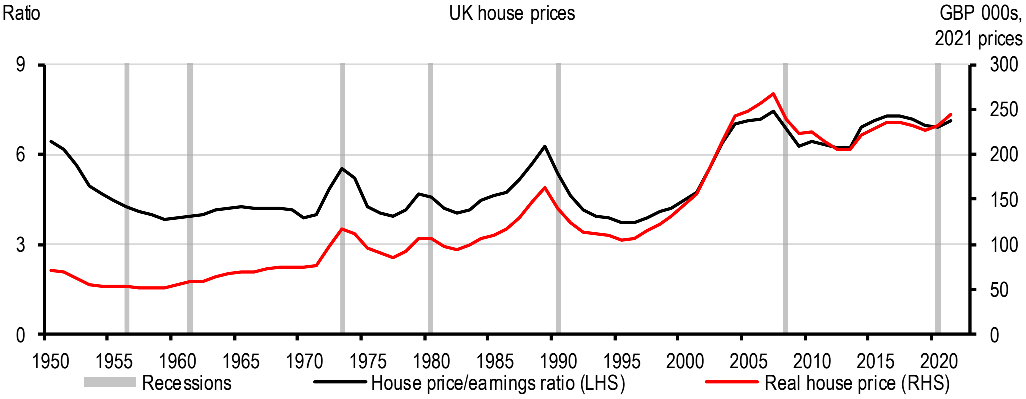
A roller-coaster route to high price trends

Real house prices have more than quadrupled over the past 70 years…

Not a lot of money in those days

Back in 1952, the average UK house price stood at around GBP2,000. At 2021 consumer prices, that equates to around GBP60,000. The average UK house is now worth almost GBP250k, so prices have more than quadrupled in real terms over the past 70 years (Chart 39)[4].

39. After a steady three decades, the house price-to-income ratio took a step up in the noughties



Note: For house prices, we use the Nationwide measure back to 1953. Before 1953, we use BoE historical estimates. For real house prices, we deflate by RPI. For earnings, we use the ONS 'compensation of employees' data.
Source: Nationwide, ONS, Bank of England, HSBC calculations.

…punctuated by downturns driven by higher rates and/or higher joblessness

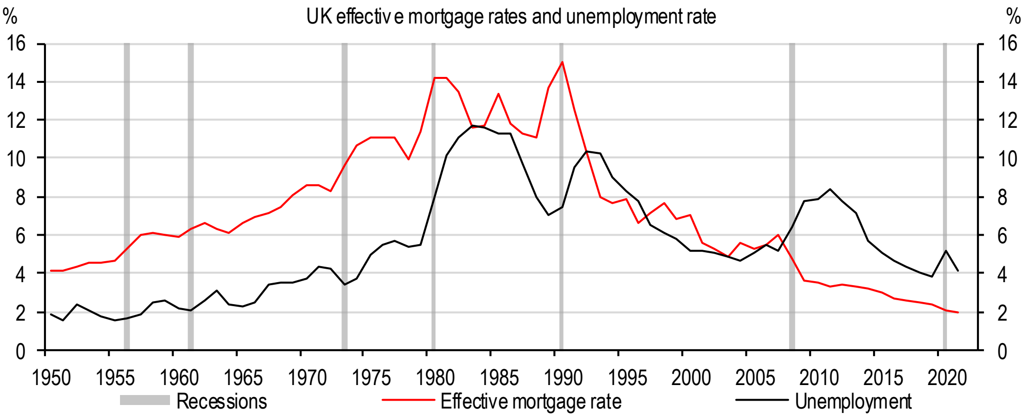
From boom and bust…

House price trends across the first 20 years of the Queen's reign saw little drama, given the fairly benign business cycle and a large-scale housebuilding programme (discussed below).

4 For house prices, we use the Nationwide measure back to 1953. Before 1953, we use estimates from the Bank of England's 'Millennium of Macroeconomic Data' dataset. For real house prices, we deflate by RPI. For earnings, we use compensation of employees.

But the following 20 years were characterised by boom and bust. In particular, a number of major recessions were often preceded by sharp house price gains, followed by slumps. Significant falls in house prices have tended to be driven by large and sustained rises in mortgage rates and/or unemployment (Chart 40). The absence of both can go a long way towards explaining housing market resilience following the outbreak of COVID-19.

40. Job losses and higher rates helped fuel house price slumps between the mid-1970s and early 1990s



Note: For pre-1999 interest rates and pre-1971 unemployment, we use the Bank of England's 'Millennium of Macroeconomic Data' dataset.
Source: Bank of England, ONS

…to high price trends

Even through the periods of boom and bust, though, house prices tended to grow in line with incomes over the longer term, such that the house price-to-earnings ratio reverted back to its long-run average.

From the late-1990s, however, house prices really started to shoot upwards. The recovery from the early-1990s recession, which was particularly hard on the housing market, led to a period of low and stable interest rates, ongoing economic growth and an increased availability of mortgages. This brought the house price-to-income ratio up to significantly higher prevailing levels. The ratio fell back during the credit-impaired aftermath of the Global Financial Crisis, but it has since recovered to hit new highs.

House prices surged ahead of incomes in the 2000s, leading to an affordability crisis

While this may be good news for anyone who bought a house in 1952 – or 2002, for that matter – it may provide scant consolation to those young people who are struggling to get onto the property ladder. Indeed, according to Nationwide, average house prices for first-time buyers in London are almost ten times average incomes. So for many, the prospect of home ownership is a long way off. The boom-and-bust housing crises of the past have given way to a longer-term affordability crisis. That said, it is worth noting that real house prices, and the house price-to-earnings ratio, are at similar levels to what they were in the mid-2000s.

Supply: return of the Mac?

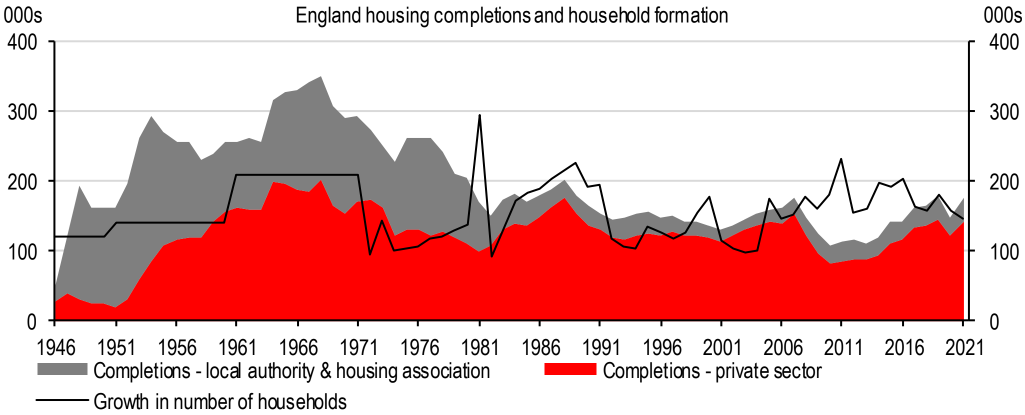
In an environment of low interest rates, issues on the supply side have often been to blame for worsening house price affordability. Indeed, housebuilding has been muted in recent decades, often running behind the increase in the number of households being formed (Chart 41).

This is not the first time the UK has faced a housing supply crisis. Indeed, after World War II, large swathes of the housing stock had been damaged and housebuilding was struggling to recover. Then, in its 1950 election manifesto, the Conservative Party pledged to build 300,000 houses per year. Under Housing Minister and future Prime Minister Harold Macmillan, that goal was broadly achieved, mostly through the building of social housing (Chart 41).

Echoing a pledge from 1950, the government has pledged to build 300k homes per year

Housing historians might have gotten a sense of déjà vu when the Conservative Party pledged, in its 2019 manifesto, to build… 300,000 houses per year in England. However, there is little sign of that pledge being met in the near future. The current government does not share Macmillan's focus on public housebuilding, and just last month, the current Housing Minister Michael Gove appeared to soften the government's pledge to raise housebuilding above 300k, while flagging the possibility of local referenda on new developments (BBC, 11 May).

41. Housebuilding has run much lower over the second half of the Queen's reign



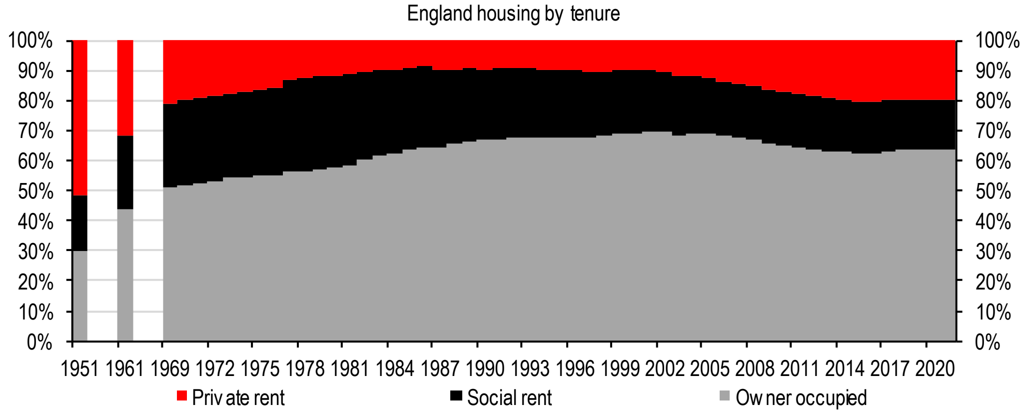
Note: Pre-1971 data show average annual growth in each decade, as only observations for the start of each decade are available.
Source: Department for Communities and Local Government, ONS

(Partially) back to the future, not in a good way

Home ownership is off its peak, but not nearly as low as in 1952

With the supply side remaining sticky, and affordability constraints likely to continue, from here we might see an entrenchment of the – partial – unwinding in the rise in home ownership over the second half of the 20th century. We are also likely to see private renters making up a much higher share of households than they did through the 1980s and 1990s. However, a return to the housing tenure of the early 1950s, where more than half of households were renting privately, seems very unlikely (Chart 42).

42. Private renting rates are running at early-1970s levels, but much lower than in the early 1950s



Source: Department for Communities and Local Government, ONS

Jobs and the Jubilee

- In terms of wage growth and the unemployment rate, 2022 doesn't look too different to 1952
- But the shape of the labour market has changed drastically, reflecting the move to a service sector economy…
- …and social and legal changes that have made the labour market more inclusive

The life, death and re-birth of the Phillips Curve

Chris Hare
Senior Economist
HSBC Bank plc

It wasn't until 1958 that the economist William Phillips published a paper describing an inverse relationship between UK wage growth and unemployment rate, but this 'Phillips Curve' trade-off was already having a profound influence on economic policy when the Queen came to the throne.

The "problem of inflation" was evident in the 1950s…

Prime Minister Harold MacMillan noted in 1957 that everyone was fully employed, with "if anything, a shortage of labour" being a problem. But, he noted, this brought "a danger of renewed inflation". At 3.7%, today's unemployment rate is the lowest it has been since 1974, even if it remains some way above the sub-2% rates achieved in the early years of the Queen's reign (Chart 43). But, at 9%, inflation is once again a big problem.

…and severe by the 1970s

It is well known that the Phillips Curve relationship broke down spectacularly in the 1970s, as rampant wage inflation and high unemployment co-existed. As the then Prime Minister, James Callaghan, said to the 1976 Labour Party conference: "We used to think that you could spend your way out of a recession, and increase employment by cutting taxes and boosting Government spending. I tell you in all candour that that option no longer exists, and that in so far as it ever did exist, it only worked … by injecting a bigger dose of inflation into the economy, followed by a higher level of unemployment as the next step." It wasn't really until the 1990s that stable wage-price dynamics returned (Chart 44).

The post-crisis flattening

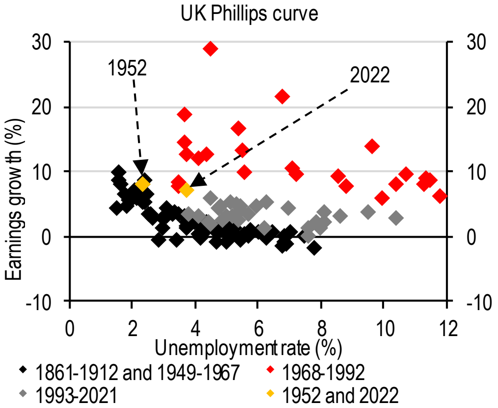
Despite the experience of the 1970s, the idea of a short-term relationship between labour market slack and inflation still underpins central bank economic analysis. But in the years between the Global Financial Crisis and the pandemic, the Phillips Curve was seen to have flattened. No matter how much unemployment fell, it didn't seem to generate much inflation. Post-pandemic, aided by two enormous global supply shocks, that now appears less of a problem.

On the Phillips Curve, 2022 (so far at least) and 1952 don't look so different. But with headline wage growth hitting 7% 3m/yr in March – the highest since 1992 (barring last year's exceptional pandemic rebound that flattered the annual comparison) – and the 'natural' rate of unemployment likely to be higher than in the 1950s, it is no wonder some economists and policymakers are worried we could move vertically up Chart 44, 1970s-style.

43. The unemployment rate is low, but not back to early 1950s levels

Source: ONS, Bank of England

44. The Phillips Curve was 'discovered' shortly after the Queen took the throne



Note: World wars and inter-war years excluded. 2022 dot reflects latest available data.
Source: Bank of England, ONS, HSBC

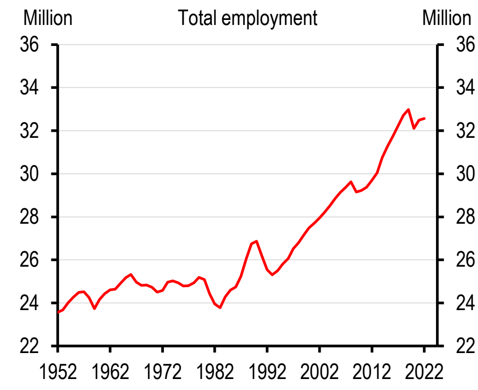
From heavy industry to high finance

Employment trends reflect the shift in the structure of the economy detailed above. In 1952, manufacturing employed 29% of the workforce, with a further 4% in mining. Today, mining has all but disappeared and just 8% of workers are in manufacturing. By contrast, the service sector has gone from employing just over half of the workforce to 84% of it.

Higher employment, narrower gender gap

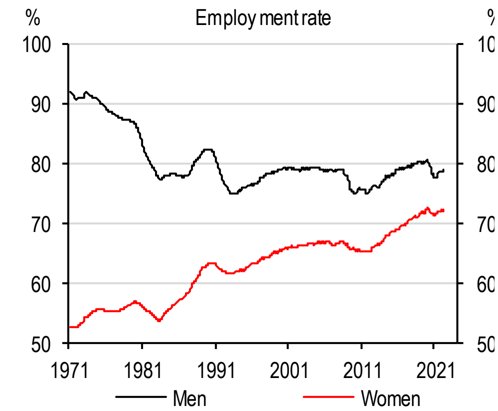
Although the unemployment rate is still above 1950s levels, the fact that it is at a 40-year low demonstrates starkly that technological advance does not destroy jobs in the long run. Meanwhile, total employment has soared (Chart 45). While that primarily reflects population growth, it is also down to changes in labour participation. The Equal Pay Act, which prohibited any less favourable treatment between men and women in terms of pay, was introduced in 1970. From 1971 to Q1 2022, the female employment rate rose from 52.8% to 72.3%, implying a net injection of workers, despite male employment falling from 92.1% to 79.0% (Chart 46). The gender gap is still wide, but it has narrowed significantly, as one might hope, in the 70-year reign of the UK's female head of state.

45. UK employment has grown significantly since the mid-1990s



Source: Bank of England

46. The female employment rate has risen over the past forty years



Source: ONS

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