For now, low inflation is propelling real income gains. That looks set to change over the course of the next year.

Still fair…. For the last two years or so, UK households have been in the midst of a consumer sweet spot. Low inflation aided by a sustained period of falling food, fuel and petrol prices. But times are changing. The annual rate of inflation reached 1% in September, up from 0.6% in August and the highest reading since November 2014. This is still low by historical standards. But sterling’s decline will be working its way into consumer prices through 2017. Inflation is set to overshoot the Bank of England’s 2% inflation target. By how much remains to be seen.

…but looking unsettled. The recent plunge in sterling has provided a shot in the arm for exporters’ price competitiveness. But it is worth remembering that the UK imports more goods than it exports. Manufacturers input costs rose 7.2% y/y last month with the price of imported materials up 9%. Double-digit price rises are evident in crude oil (+14%) and metals imports (+19%). The latter marks a five-year high. Meanwhile factory gate inflation accelerated to a three-year high last month of 1.2% y/y. Whilst still quite modest, the cost pressures already in the pipeline suggest more to come.

Bargain hunting. UK consumers filled their boots at the shops in September, taking home 4% more goods than a year ago. That splurge was boosted by falling prices, down 1.4% compared to 12 months ago, meaning customers only needed to hand over 2.5% more cash to pay for their bargains. The trend of shop price deflation has been with us since mid-2014 and has played its part in the 10% rise in sales volume over that period. But as the broader CPI measure of inflation shows, prices are on the rise. Bargains are likely to get more difficult to find.

Active. UK unemployment stayed at a steady 4.9% in August, unchanged for the last four months but still 0.5% lower than this time last year. The job creation behind this improvement is still clear to see – 106,000 new jobs in the past three months and over half a million in the last year. Part-time work accounts for around 40% of this rise. Some people might see that as a bad thing, 1.1 million part-timers would like full-time work. But it has also helped people who might not otherwise be working. Only 36.2% of people aged 16+ were neither in work nor looking for a job, inactivity hasn't been lower for 25 years.

Jobs for the girls. The latest batch of NI labour market statistics was littered with highs and lows of the positive variety. Of particular note were the record high in Northern Ireland's employment rate and the record low in the economic inactivity rate. These improvements were due to a notable improvement in female participation in the labour market. Other notable highlights included a record number of people in employment (847,000) in the three months to August 2016. Encouraging trends were also evident with regard to unemployment too. The unemployment rate fell to 5.5% – its lowest rate in almost 8 years.

Upcoming squeeze. UK wage growth was 2.4% in the year to August, not stellar, but with inflation having kept so low recently it still meant real pay was up 1.8%. That looks unlikely to last though. Higher inflation means real pay rises could be close to zero by this time next year. All that could change if nominal wage growth were to pick up. But wages yet haven't responded to the recent falls in unemployment, so it seems unlikely that big pay rises are round the corner. The UK weathered a six year real pay squeeze between 2008 and 2014. These last two years of relief may be the exception rather than the norm.

Half time report. We're halfway through the government's fiscal year and its half time financial report card makes uncomfortable reading for the new Chancellor. Borrowing in the first half of the year has been £45.5bn, just a couple of billion lower than the same time last year. In other words there's been no material improvement in the government's finances.

So in one month's time Philip Hammond will take to the despatch box to explain his plan for balancing the budget. One thing we know already, he won't be continuing George Osborne's promise to reach a surplus by 2020.

Tweak. European Central Bank President Mario Draghi signalled the Bank stands ready to adjust its quantitative easing programme in December. There's a scarcity of available assets to purchase so eligibility criteria need changed. The programme is also likely to be extended (it's currently due to end in March 2017). Lacklustre growth inflation are to blame.

Our turn. China's credit growth remains robust. All forms of new credit into China's economy grew 15.7%y/y in September, down marginally from the 15.9%y/y in August. Of particular note in recent months has been the rise in lending to households, which hold little debt in comparison with households in other countries. As the strains of burgeoning debt stocks begin to show on China's corporate landscape, the under-leveraged household sector may be picking up the baton.

Downside. China's economy grew 6.7%y/y in Q3 – exactly the same as the first two quarters of the year. The property sector and seemingly never-ending strong credit growth propped up activity. Putting aside the usual doubts over the validity of the data, it's fair to say the economy has stabilised in 2016. So what about the next year? The government has taken to addressing some of the speculative activity in the property market and sales and construction growth levels have cooled. A slowdown looks to be on the way. A fair prediction is that the official figures will proclaim it to be modest.

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