There is an annual cycle in consumer finances. January, February and March are generally lean months for spending as wallets and purses recover from Christmas. The second quarter of the year sees preparation for the holidays, before a post-summer recovery. Spending then accelerates again, due to the end of year festivities, before the cycle repeats.

But there is also a multi-annual cost of living cycle that needs to be considered too. This saw consumers squeezed after the recession in the 'cost of living crisis'. The latter, which covered the four-year period from 2010-2013, saw CPI inflation average 3.3% – double the rate of average UK wage growth. The subsequent three years , dubbed a consumer sweet spot saw inflation drop to an average of just 0.7% – close to one-third of earnings growth. Inflation accelerated once again in 2017, driven by the weakening of sterling after the EU referendum. This resulted in more expensive imports which pushed up prices more quickly than earnings.

On the face of it, we’re now back out the other side and into territory where we want to be of above inflation wage increases. However, the key question is how long this will last. Consumers may only start to feel the benefits before things turn again.

To give this some context, the latest UK wage growth figures show 3.4 percent increases year-on-year, whereas CPI inflation has been below 2 percent so far in 2019. When it comes to food prices, these are currently rising at just 0.7 percent, whilst clothing and footwear are prices are down 2 percent in the last year. Coffee, tea and cocoa 2.6 percent lower than they were in February 2018, and petrol prices are down 1.5 percent.

But whilst the rate of increase in the price of goods has been slowing (i.e. inflation is easing) and the cost of some items actually falling the same can’t be said for the price of consumer services, such as railway fares, hairdressing, or restaurants and cafes. The inflation rate for services is almost double that of goods, at 2.5 percent. Wage pressures are clearly a big factor here in industries where people are the biggest overhead. Demand for labour remains strong against a backdrop of skills shortages across most sectors of the economy. These conditions are contributing to wage pressure.

Interestingly, one exception to the rule is perhaps undertaking. The cost of funeral services has been falling, although this is a relatively recent phenomenon. The cost of funeral services has risen by 6 percent annually over the past 14 years, twice the inflation rate in this period. Competition, or a lack of, seems to be the key factor here, and the Competitions and Markets Authority (CMA) has triggered an investigation.

In Northern Ireland we’ve also recently heard about a range of price increases to come which are above the current rate of inflation. This includes rise in domestic rates and an increase in Translink’s fares for bus and rail. In addition, businesses also face rises in the National Living Wage as well as increases in water charges of 3 percent. This will impact consumers in the months to come as firms try to pass on as much of these costs as possible.

And when we look at the potential impacts of Brexit, the cost of living cycle could soon start to turn towards another squeeze. Depending on what form the exit from the EU takes, we could see another depreciation in sterling – the more disorderly the Brexit, the bigger the potential fall in the currency. This would lead to the cost of imports rising again and the purchasing power of the pound would go down (i.e. more expensive holidays in the Eurozone).

This is before we even talk about potential tariffs which could add considerably to the price of everyday items in the consumer’s shopping basket. And then there is the wider issue of rules and regulations which could restrict or stop some trade altogether. This impact on supply would only see prices go one way – everyone knows the basic economic law of supply and demand.

The Northern Ireland consumer is arguably already in a worse state than consumers elsewhere in the UK, with signs of weak consumer confidence reflected in new car sales figures which have been flat or falling here for the past four years. And Northern Ireland and its consumers are more vulnerable to Brexit than most other UK regions. Government reports identified that the local economy will be one of the worst hit. This is because of the twin exposure to both the GB and Irish economies, as well as NI’s exposure to the agri-food industry and the potential for that sector to be impacted by trade restrictions and tariffs. Clearly businesses will be affected and the extent to which remains to be seen.

In terms of the Northern Ireland consumer, they will also face a significant impact, albeit that they don’t have the same capacity to prepare as businesses, aside from perhaps stockpiling food. For starters, if the economy and its key sectors here are hit hard, this will impact on jobs and wages. Northern Ireland consumers also have lower earnings than the UK average and spend a higher proportion of their income on necessities such as food, so any rise in food prices – link to trade restrictions and tariffs – would be disproportionately felt by people in Northern Ireland.

No doubt there will also be impacts that we haven't even foreseen. But the direction of travel certainly appears to be for the onset of a consumer squeeze. As consumers get set for the next stage of the annual consumer cycle, the next phase of the Brexit cycle is just beginning. That is a move from political debate and business uncertainty to the pockets of consumers. The latter have not yet priced in the implications of Brexit.

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