It could be said that we have a Ketchup bottle economy at the minute. Shake a ketchup bottle and nothing happens. But eventually we will get covered in red sauce as the blockage is worked free. Something similar is happening in global supply chains at present and this is impacting on all of our lives.

Indeed, inflation has been the buzzword in recent weeks around the world. Households are experiencing a pick-up in both consumer prices and house prices. With the opening up of hospitality, we are now being charged prices we've never seen before. Social media has been set alight by the price of drinks, including one example of a Diet Coke costing a whopping £4. Being a designated driver might not save you money anymore. But some tap and pay customers might not realise until they check their bank statements.

Meanwhile businesses are reporting soaring input costs such as increased freight costs and rising raw material prices.

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The United States posted its biggest rise in inflation since 2008 with consumer prices rising by 4.2% in the twelve months to April. The UK saw the same measure jump from 0.7% y/y in March to 1.5% y/y in April. That represents the largest monthly increase since 2009.

Overall, the price rises in the UK of 1.5% are still relatively tame (for now at least), relative to the US. Part of the reason for this is that last year’s temporary reduction in VAT has lowered UK consumer prices temporarily.

If changes to taxation are ignored, UK consumer prices rose by 3.2% year-on-year in April. Marking the highest rate of inflation using that specific measure in NINE years.

Inflation rate conceals steeper increases in some items

The UK’s current ‘modest’ rate of CPI conceals some steeper increases in certain items. For example, home heating oil has jumped 40% year-on-year. Meanwhile the cost of a haircut has risen by over 9% and the price of a new bicycle has increased by 14% over the last 12 months. Motorised transport costs are going up too.

The price of a litre of diesel has recently climbed above 130 pence per litre. That is almost 20 pence higher than in May last year. Meanwhile petrol prices have risen by 22 pence per litre – or more than one-fifth – over the same timeframe.

It is not just the price of goods and services that are rising, most asset prices bar Bitcoin are too. Some parts of Northern Ireland have recorded annual house price increases of 11% in the first quarter.

According to Ulster Bank’s Northern Ireland PMI, private sector firms reported their fastest rise in input costs in the survey’s nineteen-year history. And firms are passing these costs onto their customers by raising their prices at record rates too.

While manufacturing and services firms have experienced even higher rates of inflation before. Construction firms and retailers have not. But Northern Ireland businesses are not alone. Construction industries around the world are in the same boat. For example, the UK construction PMI survey reported its sharpest rise in input cost inflation in a generation.

How will central banks respond?

The Bank of England expects consumer price inflation to rise above 2.5% later this year – and therefore temporarily above the Monetary Policy Committee’s 2% inflation target – before coming back down again.

The Federal Reserve shares a similar view that the US inflationary spike is transitory. If this is correct, neither central bank will need to respond by raising interest rates too quickly. Indeed, earlier this month the Fed’s Chair, Jerome Powell, said the Fed is “not even thinking about thinking about raising interest rates.”

Remember record low interest rates, coupled with unprecedented amounts of fiscal stimulus, are together providing a massive tailwind for the economic recovery.

The recent rise in inflation is largely due to two factors. First, last year saw big falls in the oil price which fed through to cuts in electricity & gas bills alongside petrol and diesel. The robust global economic recovery has just seen this trend go into reverse. The big increases are relative to last year's low base. For example, the oil price in sterling terms has trebled relative to April 2020's low but prices are only back to pre-pandemic levels. What we have seen is a V-shaped recovery in the price level.

Similarly, when the temporary cut in VAT for the hospitality sector expires the year-on-year increase will be comparing prices with different tax rates.

Havoc in supply chains

The second source of inflationary pressures is the disruption to global supply chains from the pandemic. The switching on and off of the economy has played havoc with supply chains.

With global consumers unable to spend money in areas such as services (holidays, hospitality etc) they have splurged on consumer goods – everything from garden furniture to dumbells.

There has been a surge in demand and an inability for supply chains to meet it. That has led to shortages in a range of global commodities or key items such as semiconductors and timber. There is a shortage of shipping containers with the price of shipping goods from China to the US trebling.

The US economic boom is driving a housing boom which is consuming a huge amount of building materials. This has seen the price of timber surge by 83% in a year.

Tughans and Manufacturing NI's recent survey reported that 37% of local manufacturers say that disrupted supply chains are their biggest barriers to growth in 2021.

Limited housing supply and strong demand

In the construction industry, my concern is that supply chain disruption will impact on housebuilding or lack of. Limited housing stock and strong demand means continued upward pressure on prices.

Even Mr Whippy has been caught off guard with demand exceeding the supply of flakes. It’s clear that Mr Whippy has 99 problems but Brexit ain’t actually one of them. It has been more a case of not anticipating the level of demand.

But, moving from Flakes back to ketchup. As I said at the outset, supply chain blockages are expected to unblock in a big dollop. And related to this, inflation should be transitory.

Central banks will tolerate a period of transitory inflation but how long is transitory? In the meantime, even this kind of inflation will have impacts, including causing havoc with NI’s construction industry. A range of projects have started but some fixed cost contracts will now look undeliverable in terms of timescale and cost within the current environment.

Unfortunately, the new costs associated with Brexit are not transitory though. We heard that M&S incurred £30m of new costs associated with the NI protocol. Shaking the NI Protocol bottle vigorously to get the ketchup – or trade – out faster will make minimal difference. The harsh reality is that the trade ketchup will never move as smoothly as it did before Brexit.

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