UK inflation jumped to 3.2% while the pace of US consumer prices cooled off slightly in July. The UK's recovery stalled in July as the Delta variant roamed. Meanwhile, job creation remained strong in August as the end of furlough approaches. The future direction of the recovery remains unclear and soaring inflation puts pressure on the Bank of England's response (which insists that rising inflation will be transitory). Interesting to see Governor Bailey's response this week and what they intend to do to tame inflation.

Step up. In August the Consumer Prices Index (CPI) rose by 3.2% on a 12-month basis, up from 2.0% in July. The increase of 1.2ppts in one month is the largest ever recorded. But the strongest inflationary pressures are temporary. The largest contribution to the increase was from the base effect – as a result of the government's "Eat Out to Help Out" scheme – and reductions in VAT in hospitality sector. Interestingly, football admissions became available last month, meaning that there are no more items in the basket identified as unavailable because of lockdown restrictions.

Tightening. The UK’s demand and supply mismatch widened further in the three months to August, with job vacancies surpassing the 1 million mark for the first time. This was one of many indicators pointing to a tightening labour market. Unemployment fell to an 11-month low of 4.6% in the three-months to July with the South West (3.3%) and London (6.0%) bookending the other regions. Meanwhile a 241,000 monthly increase in payrolls in August took the total to 29.1 million employees. That’s back to pre-pandemic levels (Feb-20). All regions bar London, Scotland and the South East are now back above pre-coronavirus levels. But remember this is flattered by 1.6 million still on the soon-to-expire furlough scheme.

Mixed messages. Local payrolls rose for the ninth successive month adding 3,500 jobs in August and taking the total to 764,339 employees. That’s a fresh record high and over 11,200 (+1.5%) above pre-pandemic levels. The bad news is NI’s unemployment rate jumped from 3.0% in the three-months to April 2021 to 4.0% for the period May – July 2021. That represents the highest rate in almost three years but is still historically low. Other indicators remain below pre-COVID-19 peaks. Private sector employment in Q2 was 11,000 (2.0%) below Q4-2019 while the public sector’s headcount is approaching an 8-year high. Meanwhile only 60% of the fall in total hours worked has been recovered so far. Recovery remains a work in progress.

Closing in. Looking at Northern Ireland output it would appear that both industrial production and services output (private sector) are closing in on pre-pandemic levels. Following quarterly growth in Q2, manufacturing output was less than 1% below its pre-pandemic level while services output was just over 1% adrift of the same benchmark. That means between 95% (services) and 97% (manufacturing) of the pandemic induced slump in output has been recovered so far. But this improvement at an aggregate level conceals contrasting fortunes at a sub-sectoral level. In manufacturing, the Textiles and Transport Equipment sectors are at opposite ends of the performance table. Output in these sectors was 27% above (Textiles) and 44% below (Transport Equipment) pre-pandemic levels.

And breathe. After months of rampant growth, fuelled by a frenzy of homebuying activity, UK house prices underwent something of a correction in July; dropping 4% according to official data. The annual rate of growth slowed from a frothy 13% in June to an above-average 8%. Is the market now set for a slowdown? Timely measures certainly indicate a weakening of homebuyer demand as support from the Stamp Duty holiday is phased-out. But properties remain in short supply, mortgage rates are trending downwards, and employment is up. This may yet prove a pause for breath rather than the end of the performance.

Cooling off. UK Retail sales, dropped by 0.9% in August following a steeper 2.8% fall in July, leading to a fourth consecutive month of contraction. Although sales volumes remain 4.6% higher than their pre-pandemic levels (Feb 2020). One of the main drivers was food store sales, which fell by 1.2% when compared to July. This is linked with the easing of pandemic restrictions and the switch of consumer spending from supermarkets to restaurants. Elsewhere, non-food stores dipped by 1.0% in August driven by a 3.7% decline in department stores sales and 1.2% drop in other stores indicating a weaker demand for goods like sports equipment and computers. As retailers enter the busiest season of the year, supply chain issues and labour shortages also weighed heavily on the retail sector. According to the ONS, 6.5% of retailers reported that they were not able to secure the materials and goods they needed in August.

Sweeping Slowdown. The latest monthly UK regional PMI survey revealed a drop to 54.8 in August from 59.2 in July. Business confidence diminished across all UK regions, apart from Scotland (58.1 in August from 57.5 in July). The weakest increases in output were recorded in the North East (51.7), East Midlands and Northern Ireland (both 52.1). Labour shortages and supply chain issues seem to be weighing down on companies, resulting in the sharp slowdown. Hiring improved in a majority of UK regions, led by London as firms respond to mounting capacity pressures (London employment index is 60.3 from 57.3). A temporary cool-off of the housing market caused by partial withdrawal of a tax break coupled with sluggish tourism and Brexit trade frictions has resulted in the disquiet in the already slowly recovering economy.

Mixed bag. Real time indicators on consumption declined further in the second week of September, building upon last week's hangover of UK's Summer Bank Holiday. Card spending, seated diner reservations and retail footfall were down by 4-5% compared to the week before. Meanwhile, the growth picture for firms is evolving. On the one hand, they continue to struggle with supply shortages, both goods and labour, but strong consumer demand has enabled them to pass on higher costs. ONS survey shows that 8% of the firms reported higher than normal prices in the two weeks to 22nd August. On the labour market front, 6% of workers are still on furlough, the share being notably higher for the high contact services.

Everybody knows. It's common knowledge that how Covid has affected your finances depends a lot on your job, age and ethnicity. Echoing Lenond Cohen (and Shelly), the rich get rich, and the poor stay poor. Lower income workers were more likely to experience an income fall (42% vs 31% for the richest). Their jobs tend not to be home work-able, and, unlike many office-based workers, they didn't get paid if they couldn't work. Spending went the other way (the richest seeing the steepest fall). Hence while rich workers tended to increase savings, poorer ones used theirs. So there's longer term wealth effects.

Softer. US CPI printed a 0.3% MoM increase in August compared to July's hefty 0.5% MoM rise, below market expectations. The core CPI also surprised on the downside last month, edging up 0.1% MoM (0.3% July). Used car prices dropped -1.5% following recent strong increases. The rising Delta variant took its toll on hotel room rates and particularly airline fares, down 2.9% MoM and 9.1% mom respectively in August. Owners’ equivalent rent, which accounts for around 30% of the core CPI registered a 0.3% MoM increase last month, in line with the pre-pandemic trend. Meanwhile, August retail sales chalked up a healthy 0.7% MoM increase, highlighting the resilient household sector.