The Monetary Policy Committee kept official interest rates unchanged last week, as expected. The big determinant of when they do move will be the the labour market reaction to the end of the furlough scheme. In the meantime, soaring energy prices, rising inflation and worker shortages are continuing. The challenges to the recovery are mounting. But adults in Northern Ireland will have £100 from the High Street Voucher Scheme to soften the blow.

Will they, won’t they? The Bank of England kept interest rates unchanged at 0.1% last week, but they signalled more willingness to raise them in future. The MPC is grappling with rapidly rising inflation, now up above 3% and expected to reach 4% by the end of the year. It recognises these price rises are predominantly temporary, which it would normally seek to ignore. But seeing inflation expectations edge up and signs that wage pressure is rising too makes them think that rate rises might soon be warranted. With furlough yet to end and supply chain constraints growing in significance it will be harder than usual to get a clear indication of what the best policy for the economy is, but in its communications the MPC clearly wants to keep its options wide open.

Compound problems. Despite a strong showing for tax receipts and muted government spending, UK public sector borrowing was a consensus-busting £20.5 billion in August, taking the total since April to £94bn. The culprit? Debt interest payments. At £6.4bn, interest payments were nearly double their level one year ago. Higher inflation is pushing up the cost of servicing index-linked gilts; a pressure unlikely to abate soon. With the national debt standing at 97.6% of GDP and one-quarter of it inflation-linked, expect the upcoming budget to emphasise the importance of balancing the books in the not-too-distant future.

Sluggish. Intelligence gathered by the Bank of England's Agents between mid-July and early September shows that output continued to rise but the pace of increase was limited by materials and labour shortages in some sectors. Consequently, spending too was constrained particularly for furniture, new cars, and electrical items. There were two notable exceptions. Both hospitality and leisure reported record level demand over the summer. Labour shortages became more widespread and acute, pushing up the pay settlements slightly. Against a backdrop of strong consumer demand, they have successfully passed on rising costs to their selling prices.

Softer. The UK Composite PMI fell for the fourth consecutive month, to 54.1 in September from 54.8 in August. Manufacturing PMI slowed down to 56.3 from 60.0 in August – the lowest level since February. The services PMI was more resilient, dropping from 55 to 54.6, with businesses reporting an improved consumer confidence fuelled by staycations. Just like the BoE Agents' survey drags to economic activity are coming from supply chain constraints and labour shortages. Manufacturers' new orders eased to a seven-month low, while their suppliers' delivery times lengthened further.

Redirection. Goods exports from Northern Ireland to the Republic of Ireland increased by almost one-third in July relative to the same month last year. That means goods valued at €2.1bn have moved in that direction since January. That represents a 61% y/y rise and is up almost one-half relative to the corresponding pre-Brexit period in 2019. Goods moving in the opposite direction – South to North – rose by 45% or almost €600m relative to January - July last year and by 31%, or €450m, relative to the same period in 2019. This N-S trade surge has accompanied a slump in East-West trade. GB exports to the RoI during the first seven months of the year have fallen by €4bn or 39% relative to the same period in 2019. All-Island supply chains are clearly being reconfigured as firms adapt to the realities of Brexit.

Parks and Recreation. As the Covid glacier recedes (for now) it's revealing a landscape both familiar and yet importantly different. The UK economy is humming, with job adverts up again by 3% to 133% of pre-pandemic level. So supply mismatch is intensifying. And yet footfall remains down by a fifth. Maybe some of it is home-working related. But 65% of workers travelled to work, up 8% on the week. It seems the physical shopping experience has changed forever. Shopping centres and high streets remain out of favour, whereas retail parks are positively chic le freak. Just follow the coffee shops. Whodathought that?

Cooling off. It's not just the UK where the PMIs are softening. Te Eurozone composite PMI dropped sharply to 56.1 in September from 59.0 in August signalling the slowest growth since April. The manufacturing PMI fell back to 58.7 from 61.4 in August, while services dipped to 56.3 from 59.0 in August. In services, input cost inflation is at the highest and firms pass higher input costs to the customers. In manufacturing new export orders have fallen to the lowest level since February and manufacturers stated the slowest production gain since February.

Past the peak. US firms ended the third quarter with business activity expanding at its weakest pace in a year. September’s composite PMI slipped to 54.5, down from 55.4 in August. That still marked a respectable rate of growth but a far cry from the record highs in the second quarter. Services firms were the main drag on growth with the manufacturing PMI remaining in the 60s signalling robust expansion. But supply chain disruption, capacity constraints and inflation continue to present headwinds. Cost inflation rose to its second highest reading on record with manufacturers passing on price increases at a record rate. US firms also saw backlogs of work rise at near record rates. The demand-supply mismatch continues.

Split. At its latest policy meeting the Federal Reserve stated that “if progress continues broadly as expected, the Committee judges that a moderation in the pace of asset purchases may soon be warranted”. So barring another weak US labour market report in October, a Fed taper is likely at November’s Fed meeting. The Fed’s new dot plot revealed that two more members now expect the first rate hike in 2022, signalling the Fed is now divided 50/50 between raising rates in 2022 or 2023. The Fed upgraded its 2021 inflation projection (3.0% to 3.7%), but marked down this year’s growth forecast to 5.9%, from 7% in June, whilst upgrading the 2021 unemployment rate projection to 4.8% (4.5%).