Rising prices are once again the hot topic, with inflation surging to 4.2% in October, ahead of expectations. Labour market data were also stronger than expected, with employment rising despite the end of furlough. Pressure is building for the Bank of England to tame rising inflation, which points towards a pre-Christmas hike next month.

Re-Energised. Last month's UK CPI inflation print jumped to a near 10-year high of 4.2% y/y, up from 3.1% previously. Energy represents just 6% of the CPI basket but accounts for nearly one-third of current inflation. Ofgem's price cap hike saw gas and electricity prices climb 11.9% m/m, taking the annual increase to almost 23%. Second-hand car prices rose by a similar amount. 'Old school' inflation aficionados will have noted that the RPI measure hit 6.0%, its highest since 1991. CPI and RPI are set to exceed 5% and 7% respectively next Spring. Together with more favourable labour market data, a December BoE interest rate hike seems eminently possible for the first time since 1994.

Going Strong. A continued area of strength in the UK’s post-pandemic recovery is the labour market. New data show it is still capable of surprising on the upside. In the three months to September, all labour market parameters improved. Employment was up (0.4 pp), unemployment down (-0.5 pp), average total pay up (+5.8%), and job vacancies reached a new record level of almost 1.2M. Most significantly, it looks like most of the one-million-plus people who remained on furlough at the end of September were still in employment come October. This is all great news! The only fly in the ointment is labour productivity…

Old issue re-emerges. Now that the furlough scheme has come to an end and done such a spectacularly good job at keeping jobs alive, we’re starting to see an old issue raise its head: productivity. In Q3, output per hour worked was 0.5% above its pre-pandemic levels. Unfortunately, even this meagre progress in 18 months is misleading. Throughout Q3 more than a million people were on furlough, strongly concentrated in lower productivity sectors and occupations. As those employees return to work we’ll see the full impact, likely to drag output per hour in Q4 down compared to pre-Covid levels, probably by around 1%. That gap matters because productivity is intrinsically linked to living standards and may yet be the most direct measure of long-term damage from the twin shocks of both Covid and Brexit.

Mixed. Latest regional labour market data are a mixed bag. Eight out of eleven UK regions saw a rise in employment in the three months to September 2021, led by the South West. However, hiring dropped in three UK regions: Wales, Eastern England and in particular the North East of England. Over the period January 2020 to September 2021, the only UK regions eking out employment gains were Wales, closely followed by the East of England. London saw the biggest rise in the unemployment rate between January 2020 and September 2021, up 1.1% to 5.6%. This largely reflects its exposure to consumer-facing service industries, particularly leisure and hospitality.

So far so good. It is early days but October's data suggests that Northern Ireland's labour market, like the rest of the UK, could be in for a 'soft landing' following the end of the furlough scheme. The number of people claiming unemployment related benefits fell for the eighth month running while employees on local payrolls hit yet another record high of 768,188. The latter represented a 2.1% increase above pre-pandemic levels which is more than double the corresponding rise for the UK. NI's unemployment rate of 4.0% for Q3 is now below the latest inflation rate of 4.2% y/y. According to HMRC payrolls data this is the same rate of wage inflation for October. But pay is not expected to keep up with inflation much longer.

Final Vantage. September marked the last month for homebuyers to benefit from the Stamp Duty break, tapered-off since June. And buyers grabbed at it; resulting in the UK's average house price rising by 11.8%, to a record high of £270,000, in the year to September. That's up from 10.2% in August. The "race for space" has been a major contributor, with people opting to move to larger, more pricey properties amid an increase in remote/hybrid working. Housing supply, however, remains limited. With the withdrawal of the tax incentive and a likely rise in mortgage rates, we wait to see if demand will cool-off in coming months.

Double-digit – Northern Ireland's Residential Property Price Index reported its tenth successive quarter of growth in Q3 2021 with price declines occurring in only two of the last 34 quarters. During the three months to September local prices increased by 3.0% quarter-on-quarter, taking the standardised price of a local residential property to £159,109 – a 13-year high. Standardised prices have increased by 10.7% y/y, which is on a par with the Republic of Ireland and above the UK (+9.8% y/y). Since the onset of the pandemic local residential property prices have increased by 13.1% or £235 per week. We have perhaps become blasé again in thinking that prices can only go one way. It is worth remembering though, prices may be above pre-pandemic levels but they are still 29% below Q3 2007's freak peak.

In Flux. Many parts of the UK economy face ongoing upheaval. Amidst reports of driver shortages, the proportion of transport and storage firms trading fell 20 percentage points, to just 74% in early November. For most that will be temporary, but pessimism over survival prospects is growing: 6% of all businesses doubt their ability to survive the next three months. That rises to 13% amongst the likes of hairdressers and beauticians. New working arrangements are being thrashed-out too. Half of firms have now brought staff back to the workplace. Yet 1 in 6 plans to stick with hybrid working models, and 1 in 10 never expect their workforce to return.

Holidays are coming. UK retail sales picked up in October, rising 0.8% after five months of consecutive falls. Sales volumes were 5.8% higher than pre-pandemic levels. The pick-up was due to 4.2% surge in non-food stores sales such as department stores, second hand, and toy shops. Early Christmas shopping – amid concerns about product availability – may have played a supporting role. Clothing sales jumped by 6.2%, while fuel sales fell back sharply, returning to more typical levels after panic buying in September. Food and online sales also fell, however remain above pre-pandemic levels. Consumer confidence has recovered some ground too: GFK’s composite index rose 3 points to minus 14 in November, however is still below-average.

Cautious. Consumer spending in the UK slowed down slightly the week ending 13 November as aggregate credit and debit card purchases decreased by 4ppt to 101% of February 2020’s average. Spending on ‘staples’, ‘socials’ and ‘delayable’ all decreased, whereas work-related expenditure saw a minor rise (+1ppt). More people are returning to the office; transactions volumes at Pret a Manger continued their upward trend too. Despite the holiday season approaching, footfall in retail stores rose by only 1% and remains 15% below its pre-pandemic level. Rising inflation coupled with a growing tax burden and likelihood of rising interest rates may dent consumer spending further in the near term.

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