Boris Johnson fired the starting pistol for a major jab fest over the next three weeks in what could be dubbed the jab before the storm. It comes at a time when the UK’s recovery appears to have stalled in October as firms struggled with supply chain problems and staff shortages even pre-Omicron. Reintroduction of restrictions to curb spread of Omicron, will hit travel and hospitality sectors the hardest again. October’s slowdown will further complicate monetary policy dilemma, and the prospects of a delaying a rate hike this week are strengthening.

Worrying. In October UK GDP rose by just 0.1% m/m, below consensus expectations of 0.4%. While the gap to pre-pandemic level is now down to 0.5%, there are areas of concern. Similar to September, the thrust to GDP came from the health sector with rising number of face-to-face GP visits. Output in production fell for a second consecutive month, while manufacturing remained flat. Construction output too fell by 1.8%, biggest drop since

April’20, amid supply side shortages. Growth in services eased as pick up in wholesale/retail trade was partially offset by decline in hospitality. And this before the consumers began to pull back their social spending in the face of the new Omicron variant. Choppy waters ahead!

To raise or not to raise. That is the question the Monetary Policy Committee (MPC) members will be asking themselves again this week. Considering that the inflation rate was over 4% in October and is predicted to surpass 5% by the end of April, the decision might seem easy. But Dr Broadbent, a member of the MPC, in his recent speech argues that it is not as simple. Delays in policy response, transitory nature of some price increases and unusually tight labour market – all contribute to the difficulty of that choice. Add to this mix Omicron, and the decision gets event tougher.

Losing the share. The UK net trade deficit reduced to £2.0bn in October compared to £2.8bn in previous month mainly as goods export increased and goods import decreased, by £0.4bn each. But the good news ends there. While it is difficult to disentangle Brexit from COVID, the former continues to play a key role. UK trade with non-EU countries continued to be higher than with EU countries for 10 consecutive months. In volume terms, the overall trade remained lower by c. 14% compared to pre-Brexit 2018. And although COVID related supply chain strains could be partly to blame, the trade data for peer countries is showing comparatively much smaller scars.

Positive but cautious. To counterweigh some of the gloom, latest real time data from the Office of National Statistics has been full of positives last week. Small business sales were 9% higher in October compared to pre-pandemic levels. Strong levels of spending since the Omicron variant was discovered. Card spending was 21% above pre-pandemic levels in the week ending December 2 – the highest since COVID hit the UK. However, tougher government restrictions with Christmas parties already cancelled and return to homeworking, means that the hospitality sector is already seeing a sharp fall in activity as average estimate of UK seated diners fell by 6 percentage points compared to previous week. Although, there is a clear pressure on the economy to retain the positives over the holidays, high uncertainty looms over the next months.

Boost. Northern Ireland's health budget is to receive an injection of its own. The Finance Minister has proposed a 10% increase over the next three financial years. That sounds a lot, but with inflation accelerating the value of this cash increase will be quickly eroded. Still it is better than the 2% cuts (plus inflation) facing all other departments. The good news is Stormont finally has a budget, or at least a draft one, lasting more than one year. A big improvement on the stop-start budgeting of the past. Domestic households and businesses will also benefit from a one-year freeze in the regional rate, which makes up part of their rates bills.

Subdued. November brought some improvement in UK new car registrations which rose 1.7% y/y for the first time in four months (NI = -14% y/y). This was driven by rising demand for electric vehicles, which sales have doubled since October as consumers starting to switch to more environmental modes of transport. While the edging up was encouraging, overall car sales remain far below their pre-pandemic levels. Supply disruptions and global shortages of semiconductors coupled with weak demand continues to put pressure on carmakers. Drop in real disposable income fuelled by higher inflation and withdrawal of government support, will continue to hold back car sales in 2022.

Lowballing. Inflation has been regularly in the headlines lately. But how tuned into inflation are the UK public? Responding last month, the median answer for the current rate of inflation was 3.7%. Considering 4.2% y/y is the latest published figure that is not bad. But looking 12 months ahead public attitudes diverge more with the economists. Several MPC members have publicly stated CPI to exceed 5% y/y next Spring before easing. That projection would yield an annual inflation rate of between four and five per cent. Only 1 in 3 of the public are anticipating such a rate with the median expectation of 3.2%. So, two-thirds could be in for a surprise.

Breakneck. US consumer prices are rising at the fastest rate in nearly 40 years. The CPI measure of inflation hit 6.8% last month, accelerating from 6.2% in October. Even ‘core’ inflation, which excludes volatile food and energy prices, rose to 4.9%. There’s no getting away from it: the greenback is shedding purchasing power at the fastest rate since Volcker was at the helm of the Federal Reserve, in 1982. Despite projections that inflation will moderate over the coming year, there’s a growing risk that price rises become entrenched. Don’t be surprised if the Fed opts to taper its bond-buying programme sooner than planned at next week’s meeting.

Cooling. Latest monthly Chinese inflation data suggests price pressures are diminishing. Producer prices edged down to 12.9% y/y in November 2021, from 13.5% y/y in October 2021. The main drivers were a stabilisation of commodity prices and recent government intervention in coal, metals, and energy markets. In contrast, consumer prices posted a 2.3% increase in the year to November 2021, up from 1.5%% y/y in October 2021, the highest rate since August 2020, but still relatively low compared to the US, UK, and Euro area. An amelioration of inflation pressures, if sustained, would allow scope for further targeted easing by the People’s Bank of China (PBOC). Witness the 0.5% in the reserve requirements ratio, boosting long-term liquidity for financial companies.

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