The UK economy grew by 7.5% last year – the fastest annual growth since the WWII – despite falling slightly back in December as the Omicron variant dented consumer spending. A much smaller than expected Omicron hit to output was coupled with weak export performance, which continues to lag behind many of our main competitors. In the US meanwhile, inflation keeps rising, putting extra pressure on Fed to speed up its monetary policy tightening.

Impeding Inflation. December GDP fell 0.2% m/m, which was less than half the feared decline. Monthly setbacks in output of this magnitude were reasonably frequent in the pre-Covid era, underlining the economy's increased ability to adapt to Covid outbreaks. Unsurprisingly, the hit to growth came from the impact on the retail and hospitality sector. Despite December's setback, the economy grew by 1% in the 3 months to December and is now just a whisker away from pre-pandemic levels. There are push and pull factors on the horizon. Pushing up will be returning spending habits on things like commuting, travelling, recreation etc. Pulling down will be inflation, eating into disposable income levels.

One Year On. Since the introduction of Trade and Cooperation agreement, the UK is now trading much less with the EU. In December imports from non-EU countries remained higher than from EU countries for the 11th consecutive month and the gap is growing over time. This is partially driven by rising imports of gas and other fuels. For the year as a whole

EU imports fell around 30% relative to non-EU imports. And UK weak export performance relative to its peers continues – real goods exports were 10.9% below their 2018 average, while for advanced economies they were 3.8% above in November. Services trade is also struggling and has flatlined at a level around 10% below its pre-pandemic levels.

Steady handed. This is how the Chief Economist of the Bank of England, Huw Pill, described the approach of himself and his fellow Monetary Policy Committee members to setting Bank Rate earlier this month, when they opted raise it by 0.25% to 0.50%. Given the data and structural uncertainties facing monetary policy, he prefers a measured rather than activist approach to policy decisions and acknowledges the importance of considering the potential for difficult trade-offs between inflation and the volatility of output created by some shocks. But he admits, that given the current economic situation, the outlook for Bank Rate beyond the coming months is uncertain.

The fear. When folks say that productivity is very nearly everything, you could argue they really mean investment is very nearly everything. Sadly, the UK’s a perennial under-investor. And Covid hasn’t exactly improved matters. So, despite rising 0.9% in the final quarter, business investment fell by 0.7% in 2021, following a 11.4% drop in 2020. Now, government investment has risen sharply, up 11.9%, so total national investment rose by 5.3% in 2021. That’s welcome. But business investment hasn’t exceeded 0.9%y/y since (ahem!) 2016. Firms need to find their investment mojo, and fast.

What now? Nothing’s ever easy, is it? Even as the proportion of businesses that are actively trading continues rising (now 93%), and turnover grows (2% more firms cite increases), new challenges abound. Wage pressures are just the latest to emerge. Almost 1 in 10 firms reported wages were higher than usual last month, up 1ppt since December. Larger employers (10+ staff) are feeling the pinch the most, with one-quarter citing upward movements. Pressures are most acute in the hospitality sector where 15% of businesses report higher pay rates for existing staff, rising to 24% when it comes to new hires.

Here for a good time? Retail footfall, credit and debit card purchases and eating out were all up in the week ending 5th of February (+3%, +6% and +6% week on week respectively). As were online job adverts, by 3% (vs last week) and the largest increase was seen in “travel and tourism” (+10%). The average number of daily flights were up by 17%, indicating more travel as the government plans to remove restrictions for fully vaccinated people. Moreover, despite the fact that households will face a 54% increase in energy costs in April and the likelihood of further rate hikes in coming months, real time data suggest that UK consumer are not afraid to spend for the time being at least, as it heads into a building real income squeeze.

Losing momentum. Chinese service activities grew meagerly in January, while manufacturing showed a fall. The Composite PMI fell to 50.1 from the 53.0 in the previous month. The service PMI fell to 51.4 from 53.1 in the previous month as Covid containment measures bit. The employment component fell the most since February 2021. Covid surges abroad meant that the foreign sales decreased by the most in 20 months. There were signs of inflationary pressures too with inputs costs rising at sharper rates and with companies passing on some of those costs.

A 40-year high! US consumer prices continued to surge ahead, rising 7.5% in January y/y. On a monthly basis, both headline and core rose at a similar pace, the increase in latter driven by rents. This was in turn driven by shooting home prices, rapid wage gains and low vacancy rate for rental properties. Increases were also seen for clothing, home furnishings and health care services. Phew! Looking for signs of respite? New vehicle prices remained unchanged for the first time in eight months as increasing chips supply helped to build inventory. This indeed is a welcome development as vehicles account for 10% of the core index and is likely to help cool down inflation in the months ahead.

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