Inflation continued to tick up in January and reached its highest level in 30 years. Last month’s increase is consistent with the Bank of England view that inflation will surpass 7% this spring, which would drive a deep squeeze on living standards. Despite labour shortages, wage growth can’t keep pace with price increases. But soaring inflation and the potential for it to push wages higher will bolster the case for further rate hikes.

The Bank of England, Threadneedle Street, London, England, United Kingdom.

Higher and higher. UK inflation reached 5.5% in January, up from 5.4% in December and the highest reading since March 1992! Core inflation, which excludes energy, food, alcohol, and tobacco — goods with the more volatile prices — rose to 4.4% in January, up from 4.2% in December. The squeeze on living standards is intensifying, and it will get even worse in

April, with further energy prices and tax increases come in. A third policy rate hike by the Bank of England next month wouldn’t be surprising. Some even think it might be a heftier 0.50%, rather than the customary 0.25%.

Must try harder. The UK labour market earned a mixed report card in late 2021. Creating new jobs was its strongest subject. Paid employee numbers hit another record high in Q4 (28.2M), while timely estimates of 108K payroll jobs growth and 1.3M unfilled vacancies (also a record) in January point to continued strong hiring. Notable blemishes came from self-employment— declining 100,000 last quarter, to 17% below the pre-pandemic peak — and higher inactivity levels, with long term sickness rising. Another poor mark came in the pay department. Despite annual earnings growth of 4.3% in Q4, high inflation meant real pay actually declined 0.1%.

High. Despite the return of the threshold for Stamp Duty Land Tax to £125K in October and the emerging squeeze on households’ real incomes, UK average house prices increased by 10.8% in the 12 months to December – sustaining the historically high levels. Good luck if you are a first-time buyer trying to get on the property ladder: house prices jumped by 3.8% quarter-on-quarter in Q4, the fastest growth since 2005. Low borrowing costs and the race for space are the main drivers. As household finances come under pressure and rates clamber higher, the pandemic-inspired housing boom will likely cool in 2022.

Spending from Home. Working from home was more expensive than going to the office for almost 1 in 5 workers last month. Almost 90% of workers highlighted rising utility bills in their new pandemic lifestyle with a quarter reporting increased broadband costs. Although the pandemic has still been good for the personal finances for 46% of workers who have spent less while working from home. Of those citing lower costs, half identified lower car parking and fuel bills as key savings, with 40% spending less on public transport. 2020 was the WFH sweet spot from a cost perspective. But soaring energy bills will make it a more expensive lifestyle choice. Might it just prompt a little more of us to return to the office.

Recovering. UK retail sales rebounded in January, registering the largest monthly increase since April – boosted by demand for home improvement and petrol. Retail sales volumes rose by 1.9% between December and January, following a sharp contraction in December (-4.0%) due to earlier than usual Christmas gift buying and concerns over Omicron. January’s pick up was mainly driven by an increase in spending at non-food stores (3.4% m/m) such as household goods and garden centres. Automotive fuels rose 4.1%, following a fall of 5% in December, as people returned to the office. Despite the recovery in January, the outlook is a little overcast, given that households’ real disposable income is set to fall as the cost-of-living crisis intensifies fuelled by tax rises and interest rate hikes.

Not all rosy. The UK economy contracted in December as Omicron hit but ultimately fared better than expectations. High-frequency data gives a front-run of GDP and indicates that the rebound got underway last month. Business turnover data points to recovering demand. So too retail footfall and seated diner statistics. However, the economic picture is not entirely favourable – the unwavering upward pressure on goods and energy prices continue to put pressure on household budgets with 76% of adults reporting their cost of living had increased over the last month.

Room to ease. While high inflation ravages real incomes over here, in China it’s a different story altogether. Inflation cooled in January, registering a pace of just 0.9% y/y from December’s 1.5%. And with a third straight month of core price inflation clocking in at 1.2% y/y, it’s clear price pressures are subdued. Good news on the one hand, but it also speaks to the weakness in demand. Factory-gate inflation meanwhile, although high, is at least in retreat, falling for the third month in a row to 9.1% y/y. That’s potentially some good news for broader global inflationary concerns, as it reduces pressure to pass on costs.

Ready to move. The Fed was on hold in the first meeting of the year. But it certainly does not plan to stay pat for much longer. Against a backdrop of tighter labour market conditions and shooting inflation prints, the officials set plans into motion to begin raising rates and shrink their balance sheet. Market participants are projecting that the Federal Reserve’s net asset purchases would end by mid-March and assign a 70% probability of a rate hike in March. The hawkish tone of some members became louder, some hoping for a faster conclusion of the asset purchase programme. Inflation continued to dominate the macro concerns, having surfaced 73 times in the summary! The latest concern is inflation is beginning to spread beyond the pandemic affected sectors into the broader economy, let aside being higher and more persistent than expected.