April brings an acute squeeze on UK living standards with households facing a 54% rise in energy bills. And that's far from the end of it. Higher national insurance contributions also start this month. And that's with inflation already at a 30-year high! Hard to find good news amidst all that. But if there's some it's that momentum leading up to the squeeze is a little better than thought: GDP rose 1.3% in the final quarter as opposed to 1% as initially estimated.

Nudging up. The UK economy seems to have withstood yet another storm, namely the ongoing Russia-Ukraine conflict alongside surge in Covid cases, better than expected. High frequency indicators such as CHAPS cards spend, retail footfall and dinner reservations show that consumer spending continued to improve in March vs February, but momentum eased. Meanwhile, labour market conditions continued to tighten. Job adverts were still 35% above their pre-pandemic level in the week ending 25th March and firms lowered their intentions to render their workforce redundant by 7% in the latest round of ONS business survey. But the outlook is less rosy from here on!

Squeeze. Have you heard about cost-of-living crisis? If not, you are in the absolute minority. 83% of adults reported an increase in their cost of living at the beginning of last month. Some 90% blamed the price of food, followed by energy bills (79%) and fuel (71%). And 29% of adults reported that their household could not afford an unexpected, but necessary, expense of £850. People on the lowest incomes, renters, those with no formal qualifications, parents of dependent children, divorced or separated and disabled people were most likely unable to afford this unexpected expense. And according to pundits, the crisis is expected to worsen.

Grim. Inflation is making a dash to drag on the economy and the squeeze is showing up. Unsecured borrowing rose by £1.9bn in February, the highest in almost four years. It suggests that some households are turning to debt to maintain their standard of living. But for many, healthy balance sheets are another reason. Savings piles grew by £5.1bn, roughly the same as the pre-Covid pace. In other words, little sign yet that those Covid savings piles are being run down. However, the worst of inflation is yet to come, and it has a cumulative effect, rather than an instantaneous one. In other words, those savings piles are likely to come in handy amidst the squeeze. To add to the sombre mood, mortgage approvals fell in February to 71k, from 74k in January, which might just indicate the roaring housing market is beginning to cool.

Middling income. Median disposable household income in the UK was £31,400 in the financial year ending 31 March 2021. That was a 2% annual increase during the first year of the pandemic. But those in the top and bottom fifth of the income profiles saw declines of 1% and 2% respectively. These were driven by a loss of original income (think wages) with those at the bottom of the income distribution more likely to have availed of the furlough scheme. The temporary £20 per week uplift in Universal Credit provided some offset to this income loss. Retired households saw their median incomes rise by 7% y/y, some 7 times the increase amongst non-retired households. 2022 will be much worse across the income distribution.

Still cautious. As inflation rose to 30-year high of 6.2%, Bank of England Governor Bailey warned that the squeeze on incomes this year would be higher than in any single year in 1970s. A decade synonymous with high inflation. Governor Bailey said that surging energy prices would have a direct bearing on demand and growth. It makes his job, and that of his colleagues, even more tricky. Risks of stagflation – slowing economic growth and soaring inflation – has made monetary policy particularly challenging, but he sees the risks to the Monetary Policy Committee’s (MPC) inflation projections as two-sided and reiterated the MPC’s recent cautious stance on further tightening.

Ouch. Euro area inflation leapt to a new record high of 7.5% in March, up 1.6ppts in just one month, according to flash estimates. The headline rate was propelled higher by spiralling energy prices – up 45% over the past year – as the fallout from Russia’s war in Ukraine spreads. Food prices also climbed steeply, up 5% in 12 months. Multi-decade inflationary highs were recorded across Germany, France, Italy and Spain. The scale of the supply shock now hitting the bloc’s economy adds to the European Central Bank’s complex balancing act as it seeks to restore price stability without derailing growth.

Tight on. Labour market tightness continues for the world’s largest economy. The jobless rate fell to 3.6%, down 0.2% from February and the lowest level since the pandemic begun. While the participation rate edged up 0.1% to 62.4%, it’s still below pre-pandemic levels. Hiring continues, albeit at a cooler pace. Non-farm payroll increased by 431k in March following an upward revised figure of 750k rise in February. While unemployment falls, hiring difficulties continues to put pressure on wages. Average hourly earnings registered a

0.4% rise suggesting that hourly wages climbed 5.6% in 12 months. There is no question that labour market is running hot, giving the Fed more cover to hike rates to tame inflation.

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